

# Basler Kantonalbank

## Key Rating Drivers

**Support Drives Ratings:** Basler Kantonalbank's (BKB) Long-Term Issuer Default Rating (IDR) and Shareholder Support Rating (SSR) are based on support from its majority owner, the Canton of Basel-Stadt, and reflect Fitch Ratings' view of an extremely high probability of timely support, if needed. The canton owns 86% of BKB and holds 100% of its voting rights.

**Cantonal Guarantee:** The ratings are based on our view of canton's creditworthiness and the cantonal guarantee on all of BKB's non-subordinated liabilities, under a specific cantonal law (BKB Law). The cantonal guarantee applies to BKB as a legal entity and excludes BKB's operating subsidiaries, notably Bank Cler. In practice, however, Fitch believes that the canton would provide some indirect support to Bank Cler.

**Support Likely Manageable:** BKB's consolidated assets (CHF55 billion at end-1H22) are large relative to the canton's GDP (CHF40 billion at end-2021) and budgetary resources, but Fitch believes the bank's stable and resilient business model and its capital buffers mean recapitalisation needs would be manageable for the canton in a realistic stress scenario. This view is underpinned by the canton's strong economic fundamentals, including strong financial flexibility and a low debt burden.

**Universal Cantonal Bank:** BKB's Viability Rating (VR) is based on our assessment of BKB's consolidated profile and reflects its stable and low-risk business model, albeit with concentration on residential real-estate lending in the Basel region and, via Bank Cler, throughout Switzerland. Our assessment benefits from BKB's low levels of impaired loans, strong capitalisation and stable funding. It also reflects the bank's small size, modest nationwide franchise, and adequate but consistent profitability.

**Large Real-Estate Exposure:** We view BKB's asset quality as strong, benefitting from conservative underwriting standards in mostly low-risk mortgage lending, which should protect the bank from a meaningful real-estate price correction. Its impaired loan ratio was a low 0.66% at end-2021. Residential mortgage loans accounted for 74% of the loan book. Non-residential mortgage loans (15%) related mainly to office and commercial spaces, where there are more risks, and industry premises. We do not expect BKB's impaired loan ratio to exceed 1% in 2023.

**Stable Profitability:** BKB's profitability has been stable but remains modest relative to peers', reflected in an operating profit of 1% of risk-weighted assets (RWAs). Net interest income forms around two-thirds of revenues and we expect it to improve this year as interest rates in Switzerland rise. Earnings contribution from fee income will remain broadly stable, while trading income is decreasing due to BKB's new trading strategy. We expect impairment charges to be moderately higher from 2023 due to rising energy costs and interest rates.

**Strong Capitalisation:** BKB's end-1H22 common equity Tier 1 (CET1) ratio was 17.2%, comparable to domestic peers'. The canton expects a dividend pay-out from BKB (total payments to the canton averaged CHF77.7 million over 2018-2021) but has also agreed that the bank would maintain a 3pp-7pp buffer over total capital regulatory requirements for BKB on an unconsolidated basis.

**Stable Funding:** BKB's funding benefits from its stable and granular retail deposit base, with a loan/deposit ratio of 111% at end-1H22. We view the bank's capital-market franchise as weaker than larger Swiss peers', and with some reliance on short-term funding. However, we also believe that funding and liquidity benefit from the bank's cantonal guarantee and perception as a safe haven by investors in times of increased market uncertainty.

## Ratings

### Foreign Currency

|                |     |
|----------------|-----|
| Long-Term IDR  | AAA |
| Short-Term IDR | F1+ |

|                  |   |
|------------------|---|
| Viability Rating | a |
|------------------|---|

|                            |     |
|----------------------------|-----|
| Shareholder Support Rating | aaa |
|----------------------------|-----|

### Sovereign Risk (Switzerland)

|                                |     |
|--------------------------------|-----|
| Long-Term Foreign-Currency IDR | AAA |
| Long-Term Local-Currency IDR   | AAA |
| Country Ceiling                | AAA |

### Outlooks

|  |        |
|--|--------|
| Long-Term Foreign-Currency IDR           | Stable |
| Sovereign Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Local-Currency IDR   | Stable |

## Applicable Criteria

[Bank Rating Criteria \(September 2022\)](#)

## Related Research

[Fitch Rates Basler Kantonalbank 'AAA'; Outlook Stable \(January 2023\)](#)

[Fitch Affirms Switzerland at 'AAA'; Outlook Stable \(November 2022\)](#)

[Western European Banks Outlook 2023 \(December 2022\)](#)

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

BKB's IDRs and SSR are primarily sensitive to adverse changes in our assessment of the canton's ability or propensity to support the bank. A material increase in the canton's contingent liabilities, which are currently dominated by BKB, could put pressure on the canton's, and thus BKB's, IDRs. Contingent liabilities could, for instance, increase because of sustained growth of the bank's balance sheet in excess of the canton's GDP growth or due to a material delay by the canton in promptly addressing a potential capital shortfall at BKB. A deterioration of the canton's creditworthiness would also result in a downgrade of BKB. A downgrade of the Swiss sovereign rating could indirectly also drive a downgrade of BKB's support-driven ratings.

BKB's IDRs and SSR are also sensitive to unfavourable changes in its relationship with the canton, particularly if the BKB Law is amended in a way that would weaken the guarantee's effectiveness or cast doubt on the timeliness of support. This could also negatively affect the VR as both our assessment of BKB's business profile (notably franchise) and funding and liquidity include ordinary support. However, we currently view this scenario as unlikely.

The VR would likely be downgraded on a sharp drop in property prices in Switzerland resulting in significant asset-quality deterioration, with an impaired loans ratio materially and durably above 3%, and a CET1 ratio below 16%. However, Fitch does not expect a significant house price correction in Switzerland over the next six months.

The rating would also come under pressure if profitability deteriorates materially or if BKB increases its risk appetite, which could be indicated by higher loan growth at the expense of underwriting standards.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

As the Long-Term IDR is already at the highest level on Fitch's scale, it cannot be upgraded. An upgrade of BKB's VR would require an improved business profile, in particular a more diverse business model, leading to more diversified revenue, together with a record of strengthened profitability and healthy financial metrics, notably capitalisation.

## Ratings Navigator

### Basler Kantonalbank

ESG Relevance: 

Banks  
Ratings Navigator

|      | Operating Environment | Business Profile | Risk Profile | Financial Profile |                          |                           | Implied Viability Rating | Viability Rating | Shareholder Support | Issuer Default Rating |
|------|-----------------------|------------------|--------------|-------------------|--------------------------|---------------------------|--------------------------|------------------|---------------------|-----------------------|
|      |                       |                  |              | Asset Quality     | Earnings & Profitability | Capitalisation & Leverage |                          |                  |                     |                       |
|      |                       | 20%              | 10%          | 20%               | 15%                      | 25%                       | 10%                      |                  |                     |                       |
| aaa  |                       |                  |              |                   |                          |                           | aaa                      | aaa              | aaa                 | AAA Sta               |
| aa+  |                       |                  |              |                   |                          |                           | aa+                      | aa+              | aa+                 | AA+                   |
| aa   |                       |                  |              |                   |                          |                           | aa                       | aa               | aa                  | AA                    |
| aa-  |                       |                  |              |                   |                          |                           | aa-                      | aa-              | aa-                 | AA-                   |
| a+   |                       |                  |              |                   |                          |                           | a+                       | a+               | a+                  | A+                    |
| a    |                       |                  |              |                   |                          |                           | a                        | a                | a                   | A                     |
| a-   |                       |                  |              |                   |                          |                           | a-                       | a-               | a-                  | A-                    |
| bbb+ |                       |                  |              |                   |                          |                           | bbb+                     | bbb+             | bbb+                | BBB+                  |
| bbb  |                       |                  |              |                   |                          |                           | bbb                      | bbb              | bbb                 | BBB                   |
| bbb- |                       |                  |              |                   |                          |                           | bbb-                     | bbb-             | bbb-                | BBB-                  |
| bb+  |                       |                  |              |                   |                          |                           | bb+                      | bb+              | bb+                 | BB+                   |
| bb   |                       |                  |              |                   |                          |                           | bb                       | bb               | bb                  | BB                    |
| bb-  |                       |                  |              |                   |                          |                           | bb-                      | bb-              | bb-                 | BB-                   |
| b+   |                       |                  |              |                   |                          |                           | b+                       | b+               | b+                  | B+                    |
| b    |                       |                  |              |                   |                          |                           | b                        | b                | b                   | B                     |
| b-   |                       |                  |              |                   |                          |                           | b-                       | b-               | b-                  | B-                    |
| ccc+ |                       |                  |              |                   |                          |                           | ccc+                     | ccc+             | ccc+                | CCC+                  |
| ccc  |                       |                  |              |                   |                          |                           | ccc                      | ccc              | ccc                 | CCC                   |
| ccc- |                       |                  |              |                   |                          |                           | ccc-                     | ccc-             | ccc-                | CCC-                  |
| cc   |                       |                  |              |                   |                          |                           | cc                       | cc               | cc                  | CC                    |
| c    |                       |                  |              |                   |                          |                           | c                        | c                | c                   | C                     |
| f    |                       |                  |              |                   |                          |                           | f                        | f                | ns                  | D or RD               |

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

## VR - Adjustments to Key Rating Drivers

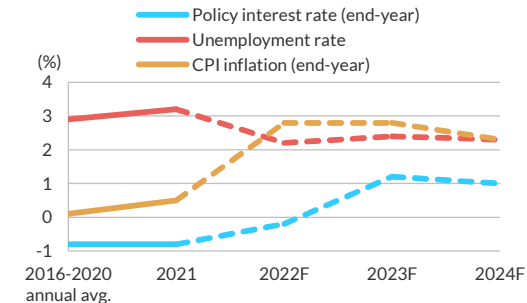
The business profile score of 'a-' has been assigned above the 'bbb' category implied score due to the following adjustment reason: business model (positive). The capitalisation and leverage score of 'a+' has been assigned below the 'aa' category implied score due to the following adjustment reason: capital flexibility & ordinary support (negative).

## Company Summary and Key Qualitative Factors

### Operating Environment

Fitch expects that the ongoing energy crisis will continue to pressure the Swiss economy. Together with lower growth in the eurozone, this has led to a downward revision of the GDP forecast for this year to 0.8%, with the potential for this to be revised lower still. Declining consumer and business confidence, uncertainty on the capital markets and worsening credit conditions are likely to weigh on new business growth for banks. However, the banks' profitability is benefitting from policy rates becoming positive again, and we expect net interest income (NII) and margins to improve further. The pass-through rate from rising policy rates to customer deposits has been low so far, but we expect it to increase, pushing funding costs up. At the same time, weaker economic growth, higher unemployment and interest rates will likely lead to asset quality deterioration, which should be only moderate given prudent underwriting standards and a high share of secured exposures.

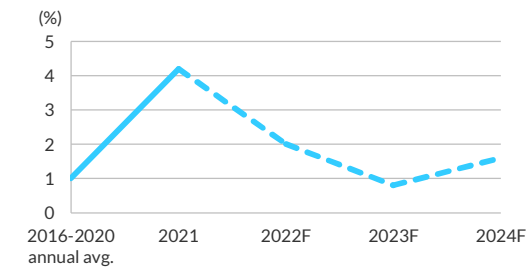
### Switzerland - Macroeconomic Forecasts



Source: Fitch Ratings

### Switzerland - GDP Growth

As in Fitch's December Global Economic Outlook



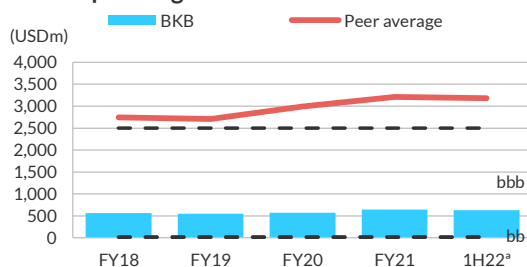
Source: Fitch Ratings

### Business Profile

BKB is Switzerland's fourth-largest cantonal bank and the 10th largest bank in the country (measured by total assets at end-1H22). Its business model, underpinned by its public service mandate outlined in the BKB Law, focuses on providing financial services to retail and commercial customers in the Canton of Basel-Stadt, supporting the regional economy. However, the group is also active throughout Switzerland through its wholly-owned subsidiary Bank Cler, whose activities are exempted from the cantonal guarantee and are thus not governed by the regional public mandate. Bank Cler accounts for over a third of BKB's consolidated assets and is a national retail and SME bank, focusing predominantly on mortgages, as well as other real estate lending. The BKB group is well-established in Basel, with strong regional mortgage market shares. However, the group's national franchise is more modest, with low single-digit market shares in domestic deposits and mortgage loans, reflecting the parent bank's local focus, and Bank Cler's relatively small size.

BKB's strategic objectives are well-articulated and their stability is ensured by BKB's public service mandate. The strategy focuses on sustainability, digitisation, increased efficiencies and process optimisation. The good execution track record includes the full consolidation of Bank Cler.

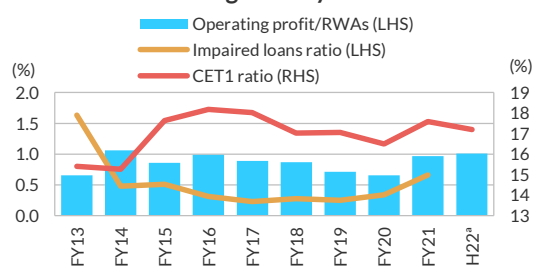
### Total Operating Income



<sup>a</sup> Annualised

Source: Fitch Ratings, Fitch Solutions

### Performance Through the Cycle



<sup>a</sup> Annualised

Source: Fitch Ratings, BKB

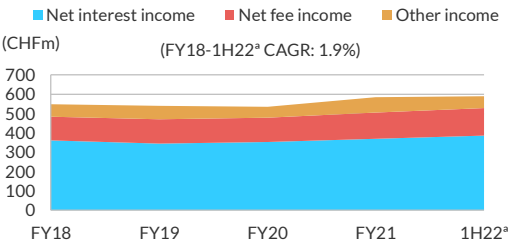
### Risk Profile

We view BKB's underwriting standards as low-risk and conservative. BKB Law requires the bank to avoid excessive risk-taking, which results in broadly stable and sound asset quality metrics. Lending is focused primarily on residential mortgages. Average loan to value ratios are in line with Swiss peers' but high compared to European peers' due to mortgage loans becoming interest-only after the loan's target loan-to-value is reached (typically two-thirds of the loan value). The assumptions used to determine property values are conservative and should effectively protect the bank from losses should there be a meaningful decline in real estate prices. In line with Swiss peers, BKB applies stressed interest rates when calculating loan affordability, which protects it against defaults in the rising interest rate environment.

Loan growth has been driven by mortgage loans in recent years, and drawing of credit lines during the pandemic, but we expect it to slow given the deteriorating economic outlook and consumer and business confidence, as well as the rising interest rates and tightening of credit standards.

Market risk is mainly in the form of structural interest rate risk in the banking book, which is appropriately managed through hedging. Trading assets are moderate in proportion to the balance sheet and the bank no longer engages in proprietary trading, in line with its recently updated strategy.

Revenue Breakdown

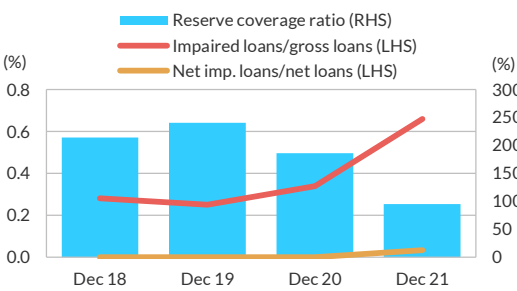


CAGR: compound annual growth rate

<sup>a</sup> Annualised

Source: Fitch Ratings, BKB

Asset Quality Summary



Source: Fitch Ratings, BKB

## Financial Profile

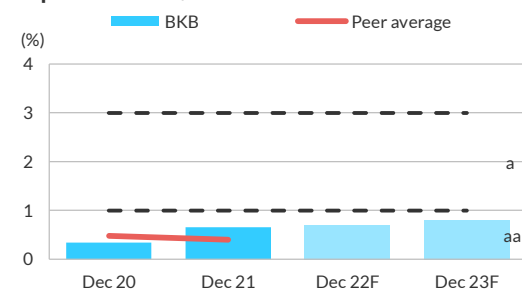
### Asset Quality

BKB's asset quality metrics remained strong and credit losses low throughout the pandemic, due to the bank's focus on low-risk mortgage lending, sound underwriting standards and government support to households and corporates. The impaired loans ratio nearly doubled to 0.66% at end-2021, however, due to the reclassification of impaired loans, following the introduction of expected losses on unimpaired loans for banks that report under Swiss GAAP.

BKB's CHF34 billion loan book is dominated by mortgage loans (90% of end-1H22 gross loans), with about a third of financed properties in the Basel region. Residential mortgage lending, which includes a significant share of buy-to-let, dominates the mortgage book; the remainder is mainly office and commercial properties, which have generally been resilient to structural changes following the pandemic, and industry premises. Other loans are mainly unsecured and relate to corporate and SME borrowers and are diversified by industry.

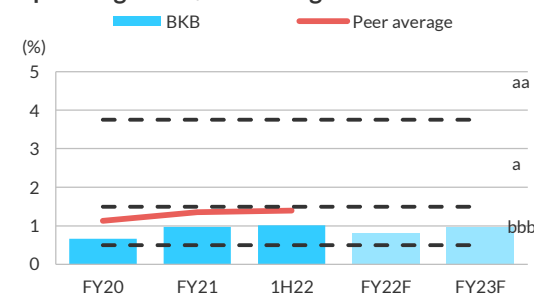
BKB's material real estate exposure means that a sharp drop in prices is a key risk for the bank; we view office and commercial property as more vulnerable to any price correction that could follow potential pandemic-driven structural changes. We believe that a sharp decline in residential property prices is unlikely in the short term – either in the owner-occupied or buy-to-let segments – due to supply shortages, but vacancies could increase and prices could come under pressure if the economic crisis intensifies (which is not our base case), causing a sharp rise in the unemployment rate and lowering immigration.

### Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

### Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

### Earnings and Profitability

BKB's core revenues remained broadly stable in recent years. As for peers, BKB's loan impairment charges (LICs) substantially increased in 2020 – due to the pandemic – although these were then partly reversed in the following quarters. Performance in 2021 was much-improved on the back of the economic recovery after the initial shock of the pandemic. At the same time, net interest margins had been declining due to negative interest rates and competitive pressures in Switzerland; this has now reversed following interest rate hikes by the Swiss National Bank (SNB) in 2022.

BKB's net income was CHF62 million in 1H22, up 15% from 1H21. The group reported NII was up 5.7% due to growth in lending, performance of the securities financing business and favourable refinancing. Net fee and commission income increased as well (+7% yoy) as a result of the economic recovery and new money inflows. This partly compensated the decrease in trading income (-33%), which had been expected due to the group's updated trading strategy, which now focuses on securities financing, supporting client business and issuing of products, such as bonds and structured products. Broadly favourable economic conditions in Switzerland in 1H22 supported the group's risk position and led to a net LIC reversal of CHF0.9 million (including both loan impairment and securities and other credit impairment charges).

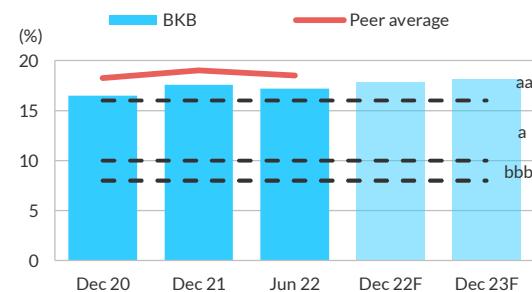
BKB's revenues remain less diversified than that of its closest domestic peer Zuercher Kantonalbank (ZKB, AAA/Stable/a+). We expect trading income contribution to remain modest, in line with the bank's updated strategy and as we expect fee income to remain broadly stable. Discretionary mandates are increasing, but from a low base. BKB's cost/income ratio is high in comparison to European retail banking peers' and we expect certain cost savings, including as a result of natural employees' attrition. However, the bank's public service mandate is likely to keep the cost base heavier and less flexible than that of peers without such a mandate. We expect BKB's operating profit/RWAs ratio to remain around 1% in 2023 and 2024, given our expectation of margin widening and manageable rises in LICs.

## Capital and Leverage

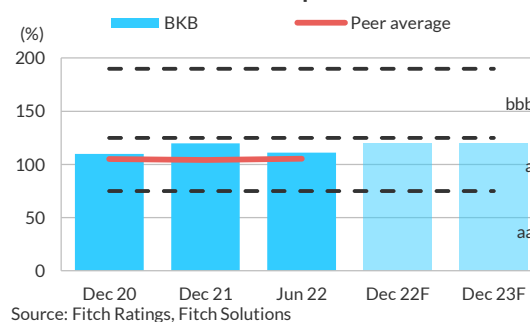
BKB's capital ratios are high compared to European peers' but in line with domestic peers'. This is despite BKB's higher RWA density (43% at end-1H22) due to the bank's standardised approach for calculating credit risk RWAs, which it plans to maintain. BKB's total capital ratio increased to 18.5% at end-2021 on the back of higher regulatory capital and lower credit risk RWAs, and is comfortably above the 12% minimum requirement.

Reserves for general banking risks and retained earnings accounted for almost 90% of BKB's capital at end-1H22. The remaining 10% comprised mainly BKB's CHF304 million endowment capital, provided by the canton for an unlimited time, and CHF50.2 million listed profit participation notes (without voting rights). BKB can draw a further CHF46 million endowment capital from the canton – an arrangement that has been in place since 2000. Any additional increase is subject to the approval of the canton's parliament. The BKB law also states that the participation capital cannot exceed the level of outstanding endowment capital, limiting BKB's ability to raise equity capital on the market.

### CET1 Ratio



### Gross Loans/Customer Deposits



## Funding and Liquidity

BKB's wholesale funding access is predominantly in Swiss francs and benefits from the bank's strong financial profile and the cantonal guarantee covering most of its liabilities. BKB's funding strength is underpinned by its large customer deposit base, which forms more than half of its total liabilities and equity. The parent bank and Bank Cler are funded separately and the amount of intragroup funding is typically small.

BKB's large portfolio of high-quality liquid assets (end-1H22: CHF10.7 billion) mainly comprises SNB sight deposits, cash holdings and Swiss covered bonds held as financial investments. BKB's liquidity coverage ratio remained resilient at above 132% and the NSFR was 122.9% at end-1H22 (vs 100% regulatory requirement).

### Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

Peer average in the Total Operating Income chart includes Zuercher Kantonalbank (VR: a+) and Raiffeisen Group (a+).

## Financials

### Financial Statements

|  | 30 Jun 22                       |                                 | 31 Dec 21                | 31 Dec 20                | 31 Dec 19                | 31 Dec 18                |
|--|---------------------------------|---------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|  | 6 months -<br>interim<br>(USDm) | 6 months -<br>interim<br>(CHFm) | Year end<br>(CHFm)       | Year end<br>(CHFm)       | Year end<br>(CHFm)       | Year end<br>(CHFm)       |
|  | Unaudited                       | Unaudited                       | Audited -<br>unqualified | Audited -<br>unqualified | Audited -<br>unqualified | Audited -<br>unqualified |
| <b>Summary income statement</b>        |                                 |                                 |                          |                          |                          |                          |
| Net interest and dividend income       | 202                             | 193.5                           | 370.4                    | 353.9                    | 346.1                    | 362.0                    |
| Net fees and commissions               | 74                              | 70.7                            | 134.6                    | 125.9                    | 125.2                    | 123.0                    |
| Other operating income                 | 35                              | 33.4                            | 84.8                     | 60.5                     | 80.0                     | 71.3                     |
| Total operating income                 | 310                             | 297.6                           | 589.8                    | 540.3                    | 551.3                    | 556.3                    |
| Operating costs                        | 189                             | 181.2                           | 371.2                    | 372.3                    | 387.5                    | 364.7                    |
| Pre-impairment operating profit        | 121                             | 116.4                           | 218.6                    | 168.0                    | 163.8                    | 191.6                    |
| Loan and other impairment charges      | -1                              | -0.9                            | -3.6                     | 10.7                     | 3.0                      | -2.8                     |
| Operating profit                       | 122                             | 117.3                           | 222.2                    | 157.3                    | 160.8                    | 194.4                    |
| Other non-operating items (net)        | -50                             | -48.1                           | -90.0                    | -35.7                    | -38.5                    | 8.1                      |
| Tax                                    | 8                               | 7.2                             | 11.1                     | 13.3                     | 10.5                     | 12.1                     |
| Net income                             | 65                              | 62.0                            | 121.1                    | 108.3                    | 111.8                    | 190.4                    |
| Other comprehensive income             | n.a.                            | n.a.                            | n.a.                     | n.a.                     | n.a.                     | n.a.                     |
| Fitch comprehensive income             | 65                              | 62.0                            | 121.1                    | 108.3                    | 111.8                    | 190.4                    |
| <b>Summary balance sheet</b>           |                                 |                                 |                          |                          |                          |                          |
| <b>Assets</b>                          |                                 |                                 |                          |                          |                          |                          |
| Gross loans                            | 35,290                          | 33,853.9                        | 33,456.3                 | 32,805.4                 | 31,742.1                 | 30,478.6                 |
| - Of which impaired                    | n.a.                            | n.a.                            | 222.4                    | 110.3                    | 79.4                     | 85.7                     |
| Loan loss allowances                   | n.a.                            | n.a.                            | 211.3                    | 205.2                    | 190.6                    | 183.4                    |
| Net loans                              | 35,290                          | 33,853.9                        | 33,245.0                 | 32,600.2                 | 31,551.5                 | 30,295.2                 |
| Interbank                              | 1,294                           | 1,240.9                         | 554.8                    | 2,522.2                  | 2,647.4                  | 2,569.3                  |
| Derivatives                            | 127                             | 122.1                           | 321.9                    | 513.2                    | 399.5                    | 431.0                    |
| Other securities and earning assets    | 9,326                           | 8,946.1                         | 9,159.1                  | 6,711.8                  | 3,711.6                  | 3,222.7                  |
| Total earning assets                   | 46,037                          | 44,163.0                        | 43,280.8                 | 42,347.4                 | 38,310.0                 | 36,518.2                 |
| Cash and due from banks                | 10,201                          | 9,785.9                         | 9,869.6                  | 11,755.3                 | 6,202.1                  | 7,144.4                  |
| Other assets                           | 761                             | 730.1                           | 319.4                    | 332.8                    | 308.1                    | 368.5                    |
| Total assets                           | 56,999                          | 54,679.0                        | 53,469.8                 | 54,435.5                 | 44,820.2                 | 44,031.1                 |
| <b>Liabilities</b>                     |                                 |                                 |                          |                          |                          |                          |
| Customer deposits                      | 31,780                          | 30,486.9                        | 27,921.8                 | 29,851.5                 | 26,456.2                 | 24,934.8                 |
| Interbank and other short-term funding | 6,962                           | 6,678.4                         | 9,598.0                  | 8,773.1                  | 3,860.4                  | 5,595.2                  |
| Other long-term funding                | 12,956                          | 12,428.5                        | 10,920.5                 | 10,852.4                 | 9,634.2                  | 8,494.4                  |
| Trading liabilities and derivatives    | 793                             | 760.9                           | 605.0                    | 471.9                    | 484.7                    | 598.6                    |
| Total funding and derivatives          | 52,491                          | 50,354.7                        | 49,045.3                 | 49,948.9                 | 40,435.5                 | 39,623.0                 |
| Other liabilities                      | 231                             | 221.3                           | 347.7                    | 520.9                    | 480.1                    | 562.1                    |
| Preference shares and hybrid capital   | n.a.                            | n.a.                            | n.a.                     | n.a.                     | n.a.                     | n.a.                     |
| Total equity                           | 4,277                           | 4,103.0                         | 4,076.8                  | 3,965.7                  | 3,904.6                  | 3,846.0                  |
| Total liabilities and equity           | 56,999                          | 54,679.0                        | 53,469.8                 | 54,435.5                 | 44,820.2                 | 44,031.1                 |
| Exchange rate                          |                                 | USD1 =<br>CHF0.9593             | USD1 =<br>CHF0.9202      | USD1 =<br>CHF0.88985     | USD1 =<br>CHF0.97165     | USD1 =<br>CHF0.9811      |

Source: Fitch Ratings, Fitch Solutions, Basler Kantonalbank



## Key Ratios

|   | 30 Jun 22 | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|-----------|-----------|-----------|-----------|-----------|
| <b>Ratios (annualised as appropriate)</b>   |           |           |           |           |           |
| <b>Profitability</b>                        |           |           |           |           |           |
| Operating profit/risk-weighted assets       | 1.0       | 1.0       | 0.7       | 0.7       | 0.9       |
| Net interest income/average earning assets  | 0.9       | 0.8       | 0.9       | 0.9       | 1.0       |
| Non-interest expense/gross revenue          | 61.3      | 63.4      | 69.5      | 71.6      | 66.5      |
| Net income/average equity                   | 3.1       | 3.0       | 2.8       | 2.9       | 4.9       |
| <b>Asset quality</b>                        |           |           |           |           |           |
| Impaired loans ratio                        | n.a.      | 0.7       | 0.3       | 0.3       | 0.3       |
| Growth in gross loans                       | 1.2       | 2.0       | 3.4       | 4.2       | 5.6       |
| Loan loss allowances/impaired loans         | n.a.      | 95.0      | 186.0     | 240.1     | 214.0     |
| Loan impairment charges/average gross loans | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| <b>Capitalisation</b>                       |           |           |           |           |           |
| Common equity Tier 1 ratio                  | 17.2      | 17.6      | 16.5      | 17.1      | 17.0      |
| Fully loaded common equity Tier 1 ratio     | n.a.      | n.a.      | n.a.      | n.a.      | n.a.      |
| Fitch Core Capital ratio                    | n.a.      | n.a.      | n.a.      | n.a.      | n.a.      |
| Tangible common equity/tangible assets      | 7.5       | 7.6       | 7.3       | 8.7       | 8.7       |
| Basel leverage ratio                        | 6.8       | 6.9       | 8.2       | 7.9       | 8.1       |
| Net impaired loans/common equity Tier 1     | n.a.      | 0.3       | -2.4      | -2.9      | -2.6      |
| Net impaired loans/Fitch Core Capital       | n.a.      | n.a.      | n.a.      | n.a.      | n.a.      |
| <b>Funding and liquidity</b>                |           |           |           |           |           |
| Gross loans/customer deposits               | 111.0     | 119.8     | 109.9     | 120.0     | 122.2     |
| Liquidity coverage ratio                    | 132.0     | 233.6     | 230.4     | 136.6     | 128.1     |
| Customer deposits/total non-equity funding  | 60.9      | 57.1      | 60.0      | 65.7      | 63.3      |
| Net stable funding ratio                    | 122.9     | 125.6     | n.a.      | n.a.      | n.a.      |

Source: Fitch Ratings, Fitch Solutions, Basler Kantonalbank

## Support Assessment

### Shareholder Support

|                             |     |
|-----------------------------|-----|
| Shareholder IDR             |     |
| Total Adjustments (notches) | 0   |
| Shareholder Support Rating  | aaa |

### Shareholder ability to support

|                        |           |
|------------------------|-----------|
| Shareholder Rating     |           |
| Shareholder regulation | Equalised |
| Relative size          | 1 Notch   |
| Country risks          | Equalised |

### Shareholder propensity to support

|                                      |           |
|--------------------------------------|-----------|
| Role in group                        | Equalised |
| Reputational risk                    | Equalised |
| Integration                          | 1 Notch   |
| Support record                       | Equalised |
| Subsidiary performance and prospects | Equalised |
| Legal commitments                    | Equalised |

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

BKB's SSR is based on the support from the Canton of Basel-Stadt, the bank's guarantor and majority owner, and our view of the canton's creditworthiness. The canton guarantees all non-subordinated liabilities of the bank, but the guarantee specifically excludes liabilities of the parent bank to its subsidiaries and the liabilities of those subsidiaries.

The canton's guarantee does not explicitly address the timeliness of support, but Fitch believes that, if necessary, support would be provided in a timely fashion, given BKB's high importance for the region and the potential repercussions of the bank's failure for the regional economy and the Swiss financial sector.

## Environmental, Social and Governance Considerations

|   |                     |   |        |   |  |
|---|---------------------|---|--------|---|--|
| <p>Basler Kantonalbank has 5 ESG potential rating drivers</p> <ul style="list-style-type: none"> <li>➔ Basler Kantonalbank has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.</li> <li>➔ Governance is minimally relevant to the rating and is not currently a driver.</li> </ul> | key driver          | 0 | issues | 5 |  |
|   | driver              | 0 | issues | 4 |  |
|   | potential driver    | 5 | issues | 3 |  |
|   | not a rating driver | 4 | issues | 2 |  |
|   |                     | 5 | issues | 1 |  |

### Environmental (E)

| General Issues   | E Score | Sector-Specific Issues   | Reference   | E Scale |  |
|--|---------|--|---|---------|--|
| GHG Emissions & Air Quality                                | 1       | n.a.   | n.a.  | 5       |  |
| Energy Management  | 1       | n.a.   | n.a.  | 4       |  |
| Water & Wastewater Management                              | 1       | n.a.   | n.a.  | 3       |  |
| Waste & Hazardous Materials Management; Ecological Impacts | 1       | n.a.   | n.a.  | 2       |  |
| Exposure to Environmental Impacts                          | 2       | Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations | Business Profile (incl. Management & governance); Risk Profile; Asset Quality | 1       |  |

**How to Read This Page**  
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

### Social (S)

| General Issues   | S Score | Sector-Specific Issues   | Reference   | S Scale |  |
|--|---------|--|---|---------|--|
| Human Rights, Community Relations, Access & Affordability  | 2       | Services for underbanked and underserved communities; SME and community development programs; financial literacy programs                                  | Business Profile (incl. Management & governance); Risk Profile                        | 5       |  |
| Customer Welfare - Fair Messaging, Privacy & Data Security | 3       | Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)               | Operating Environment; Business Profile (incl. Management & governance); Risk Profile | 4       |  |
| Labor Relations & Practices                                | 2       | Impact of labor negotiations, including board/employee compensation and composition  | Business Profile (incl. Management & governance)                                      | 3       |  |
| Employee Wellbeing   | 1       | n.a.   | n.a.  | 2       |  |
| Exposure to Social Impacts                                 | 2       | Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices | Business Profile (incl. Management & governance); Financial Profile                   | 1       |  |

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

### Governance (G)

| General Issues         | G Score | Sector-Specific Issues   | Reference   | G Scale |  | CREDIT-RELEVANT ESG SCALE  |
|------------------------|---------|--|---|---------|--|--|
| Management Strategy    | 3       | Operational implementation of strategy   | Business Profile (incl. Management & governance)  | 5       |  | 5<br>Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.                         |
| Governance Structure   | 3       | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions | Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage | 4       |  | 4<br>Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.                 |
| Group Structure        | 3       | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership   | Business Profile (incl. Management & governance)  | 3       |  | 3<br>Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| Financial Transparency | 3       | Quality and frequency of financial reporting and auditing processes  | Business Profile (incl. Management & governance)  | 2       |  | 2<br>Irrelevant to the entity rating but relevant to the sector.   |
|                        |         |  |   | 1       |  | 1<br>Irrelevant to the entity rating and irrelevant to the sector.   |

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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