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Research Update:

Basler Kantonalbank Outlook Revised To Positive On Guarantor Outlook Change; Ratings Affirmed

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Rationale

On May 30, 2008, Standard & Poor's Ratings Services revised its outlook on Switzerland-based Basler Kantonalbank (BKB) to positive from stable, following the outlook revision to positive from stable on the Swiss Canton (state) of Basel-City. At the same time, we affirmed the 'AA+' long-term and 'A-1+' short-term counterparty credit ratings on BKB.

Because the state provides a statutory guarantee for the bank, the rating action on the bank solely reflects the outlook revision on its guarantor and is not related to a change in BKB's underlying financial and business profile.

The ratings on Basel-City are supported by its very good budgetary performance, strong economy, contribution to the Swiss fiscal equalization system, and declining net financial liabilities. These positive factors are offset by the exposure of tax revenues to cyclical developments, combined with sector concentration in chemicals and pharmaceuticals and a tax-payer concentration for corporate taxes.

The ratings on BKB continue to be based on the statutory guarantee provided by Basel-City, which legally obliges the state to guarantee all liabilities incurred by the bank, excluding its capital participation certificates (Partizipationsscheine) and the liabilities of its subsidiaries, for example, Bank Coop (BC; not rated). Although this guarantee does not ensure timely repayment, we believe the state government would respond quickly to maintain investor and creditor confidence and preserve the solvency of the bank in the unlikely event that BKB were to suffer losses.

BKB's sound stand-alone risk profile is underpinned by its very good profitability, sound asset quality, and already very strong capitalization. The acquisition of BC, which operates nationwide, has helped BKB to diversify its regional focus and reduce concentration risks in its lending operations. However, we expect BC to reduce the performance gap between it and its parent slowly and steadily.

Outlook

The positive outlook on BKB reflects that on Basel-City because rating actions on the guarantor have a direct impact on the ratings and outlook on BKB. In addition, we expect BKB to maintain its sound financial and risk profiles.

The outlook also reflects our view that neither the current guarantee mechanism and creditor protection nor BKB's legal status and ownership structure will alter materially in the short to medium term. If changes to state law lead to a privatization of the bank, BKB's existing obligations

would be grandfathered under the state guarantee. Any fundamental changes to the status quo with respect to either BKB's ownership structure or the state guarantee could put pressure on the ratings.

The positive outlook on Basel-City reflects our expectation that the state will continue to achieve a sustainable budgetary performance. It is likely to report sound operating surpluses and be close to breakeven after capital expenditure results, despite the more challenging cyclical environment and the impending tax reform in 2009. The rating could be raised if the state manages to reduce debt further or proves resilient to tax revenue changes due to the planned tax reform.

The outlook could be revised to stable should the state's financial performance weaken considerably after tax reforms are implemented or should the economy slow down.

Ratings List

	To	From
Basler Kantonalbank		
Counterparty credit rating		
	AA+/Positive/A-1+	AA+/Stable/A-1+
Certificate of deposit		
	AA+/A-1+	
Senior unsecured debt		
	AA+	
Canton of Basel-City		
Issuer credit rating		
	AA+/Positive/A-1+	AA+/Stable/A-1+

NB: This list does not include all ratings affected.

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