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Research Update:

Basler Kantonalbank Outlook Revised To Positive On Similar Action On Canton of Basel-City; 'AA/A-1+' Ratings Affirmed

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Overview

- On Nov. 10, 2017, we revised to positive from stable our outlook on the Swiss Canton of Basel-City.
- We continue to consider Basler Kantonalbank (BKB) to be a government-related entity (GRE) with an extremely high likelihood of receiving extraordinary support from the Canton of Basel-City in times of stress.
- Accordingly, we are revising to positive from stable our outlook on BKB and affirming our 'AA/A-1+' ratings.
- The positive outlook on BKB mirrors the outlook on Canton of Basel-City, and reflects our view that the bank benefits from being a GRE.

Rating Action

On Nov. 13, 2017, S&P Global Ratings revised to positive from stable its outlook on Switzerland-based Basler Kantonalbank (BKB). At the same time, we affirmed our 'AA' long-term and 'A-1+' short-term issuer credit ratings on the bank.

Rationale

The outlook revision follows our similar action on the Canton of Basel-City on Nov. 10, 2017 (see "Canton of Basel-City Outlook Revised To Positive; 'AA+/A-1+' Ratings Affirmed," on RatingsDirect).

We continue to consider BKB to be a government-related entity (GRE) with an extremely high likelihood of receiving extraordinary government support in times of stress. We base this view on BKB's very important role for and integral link with the Canton of Basel-City. This enables a three-notch uplift to our assessment of BKB's stand-alone credit profile (SACP), which we assess at 'a'. In our view, the Swiss bank resolution regime that came into effect on Jan. 1, 2016, does not impede cantonal owners' ability to provide extraordinary support to banks that we regard as GREs, including BKB.

The affirmation reflects the unchanged anchor of 'a-', the starting point of our ratings assessment for banks in Switzerland. We take into account the country's highly diversified and competitive economy, very high household income levels, and banks' prudent loan underwriting standards.

It also reflects that we continue to consider BKB's business profile to be adequate, based on the bank's strong, sustainable, and regionally focused market position as the eighth-largest bank in Switzerland.

Moreover, we forecast the bank's capital position and earnings to remain very strong, as reflected by our projection that its risk-adjusted capital ratio will gradually increase to about 17.0% over the next 24 months thanks to ongoing retention of earnings, from 16.8% at year-end 2016. This is somewhat offset by BKB's moderate risk position, in our view, which balances the bank's generally sound asset quality on its loan portfolio against its higher concentration in commercial real estate lending compared with rated Swiss peers. We recognize that BKB has, to date, made pronounced progress in improving its risk management systems, but we note that these systems have not been tested through a full business cycle.

We continue to assess BKB's funding as average and its liquidity as strong because of its solid base of customer deposits, which we consider as very stable even amid more challenging economic conditions than at present due to the cantonal guarantee, which we expect will remain in place.

Outlook

The positive outlook on BKB mirrors the outlook on the Canton of Basel-City and reflects our view that the bank will continue to benefit from being a GRE over the coming two years. We consider that there is an extremely high likelihood that the Canton of Basel-City would provide timely and sufficient extraordinary support to BKB in the event of financial distress for the foreseeable future. Moreover, we believe BKB's capital and earnings position would sufficiently buffer the bank's overall performance from fines stemming from possible legal prosecution by the U.S. tax authorities because of acceptance of undeclared funds from U.S. clients.

Given BKB's GRE status, we would take a positive rating action on the bank if we were to upgrade the Canton of Basel-City.

We would consider revising the outlook to stable following a similar rating action on the canton. In our view, potential extraordinary support from the canton would even cushion a material deterioration of BKB's stand-alone creditworthiness, although we currently see this as a remote scenario. A negative rating action may occur if there is a change in BKB's role for or link with the Canton of Basel-City or changes in the statutory guarantee, which may lead to a weaker assessment of BKB's status as a GRE. However, we currently consider this scenario very unlikely and would expect BKB's existing obligations to be grandfathered.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	AA/Positive/A-1+	AA/Stable/A-1+
SACP	a	a
Anchor	a-	a-
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Very strong (+2)	Very strong (+2)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and Strong (0)	Average and Strong (0)
Support	(3)	(3)
ALAC Support	(0)	(0)
GRE Support	(3)	(3)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Canton of Basel-City Outlook Revised To Positive; 'AA+/A-1+' Ratings Affirmed, Nov. 10, 2017

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Basler Kantonbank		
Counterparty Credit Rating	AA/Positive/A-1+	AA/Stable/A-1+
Senior Unsecured*	AA	AA
Junior Subordinated	BBB-	BBB-

*Guaranteed by Canton of Basel-City.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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