

## Basellandschaftliche Kantonalbank

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Related Criteria

Related Research

# Basellandschaftliche Kantonalbank

SACP: a+



Support: +2



Additional factors: 0

Anchor	a-	
Business position	Adequate	0
Capital and earnings	Very strong	+2
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Strong	
CRA adjustment		0

ALAC support	0
GRE support	+2
Group support	0
Sovereign support	0

Issuer credit rating
<b>AA/Positive/A-1+</b>

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Issuer Credit Rating

AA/Positive/A-1+

#### Key strengths

Close ties with the Canton of Basel-Land, facilitated by majority ownership and statutory guarantee.

Strong local retail banking franchise.

Sound financial profile underpinned by very strong capitalization and stable earnings.

#### Key risks

Concentration risk in residential mortgage lending in its home region.

Limited earnings diversification and subdued growth prospects.

**We expect that Basellandschaftliche Kantonalbank's (BLKB) banking franchise will benefit from its strong position in its home region.** BLKB's business profile is characterized by its regional loan portfolio in the low risk-operating environment of the Canton of Basel-Land and its surroundings. Despite the pandemic-driven recession, BLKB's new loan loss provisions amounted to a low Swiss franc (CHF) 3 million as of June 30, 2021. We expect no material increase in the coming years, considering BLKB's prudent risk management and strong local economy supporting sound asset quality.

**BLKB's capitalization continues to be a rating strength.** We anticipate that BLKB will uphold its superior capitalization, as indicated by its risk-adjusted capital ratio (RAC), our main capital indicator, of 25.5% as of December 2020. We expect BLKB's RAC ratio will remain at about 25.5%-26.5% over the next 24 months.

**BLKB benefits from its strong ties to its full owner, the Canton of Basel-Land.** This provides two notches of uplift to BLKB's stand-alone credit profile (SACP), arriving at the 'AAA' long-term issuer credit rating. The full owner also provides implicit benefits to the bank's SACP, for example, by contributing to the stability of customer deposits.

## Outlook

The positive outlook on BLKB mirrors the outlook on the Canton of Basel-Land and reflects our view that the bank will continue to benefit from being a government-related entity (GRE) over the coming two years. We consider that there is an extremely high likelihood that the canton would provide timely and sufficient extraordinary support to BLKB in the event of financial distress for the foreseeable future. However, any indication of a weakening in the canton's support could weigh on BLKB's creditworthiness if the cantonal guarantee were removed, or the bank were privatized in the context of the canton's undertaking to reduce potential financial liabilities stemming from the cantonal guarantee in case of distress. We understand that the parliament recently unanimously decided not to pursue privatization plans in the medium term.

S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine. Irrespective of the duration of military hostilities, sanctions and related political risks are likely to remain in place for some time. Potential effects could include dislocated commodities markets -- notably for oil and gas -- supply chain disruptions, inflationary pressures, weaker growth, and capital market volatility. As the situation evolves, we will update our assumptions and estimates accordingly. See our macroeconomic and credit updates here: [Russia-Ukraine Macro, Market, & Credit Risks](#). Note that the timing of publication for rating decisions on European issuers is subject to European regulatory requirements.

### Upside scenario

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

### Downside scenario

We would consider revising the outlook to stable following a similar rating action on the canton.

## Key Metrics

### Basellandschaftliche Kantonalbank--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue	1.8	1.8	3.1-3.8	1.7-2.1	3.2-3.9
Growth in total assets	7.7	9.1	5.1-6.2	4.4-5.4	4.6-5.6
Cost to income ratio	53.0	52.7	50.2-52.8	49.9-52.5	48.7-51.2
Return on average common equity	5.6	5.4	4.8-5.3	4.9-5.4	4.9-5.4
Gross nonperforming assets/customer loans	0.0	2.0	1.8-2.0	1.4-1.6	1.0-1.1
Risk-adjusted capital ratio	27.3	25.5	25.1-26.4	25.9-27.2	25.9-27.2

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast.

## **Anchor: 'a-' For Banks Solely Operating In Switzerland**

Our anchor for banks operating mainly in Switzerland is 'a-'. We consider the trend for economic and industry risk in Switzerland to be stable. We view positively the country's very high household income levels, proven stress-resilient corporate sector, and prudent loan underwriting standards and high collateralization of residential mortgage loans in the banking sector, which dominate most banks' customer portfolios.

We also expect that price growth in the owner-occupier real estate segment will remain at moderate levels. However, in our view, the investment property segment remains a particular risk after showing signs of a price correction before the pandemic. Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector and our expectation that damage from the COVID-19 pandemic will remain negligible.

We view positively the banks' high capitalization levels in an international comparison, and low reliance on capital markets for funding. In our view, the Swiss Financial Market Supervisory Authority remains ahead of its peers in terms of both regulatory oversight and innovations. We consider that Swiss banks currently face only limited risks from technology disruption given the small size of the market, with high barriers to entry and technologically well-equipped banks.

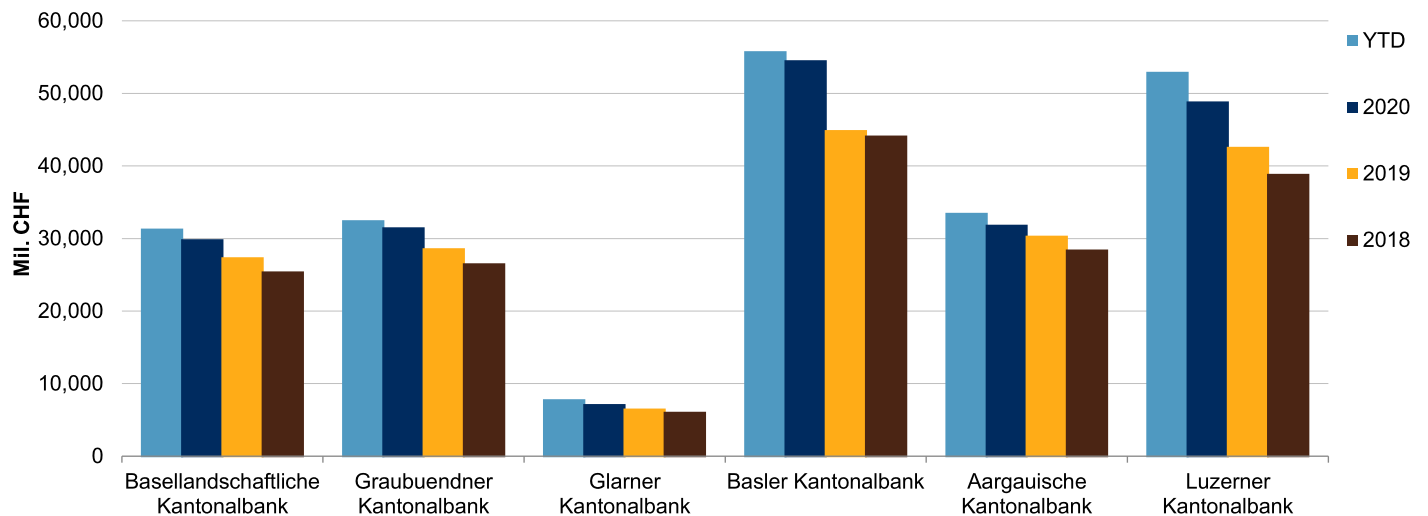
## **Business Position: Well-established Regional Franchise In Canton Of Basel-Land**

We expect BLKB's business profile to remain focused on its strong retail franchise in Basel-Land and its surroundings like Basel-Stadt, Solothurn, and Aargau. Business outside of its former home business area is growing, and now accounts for 20% of total volumes. In Basel-Land, BLKB managed to secure its market leadership in retail banking with a strong focus on residential mortgage lending, which comprises 90% of the loan book. Also, BLKB's solid efficiency with an about 54% cost to income ratio, and its track record of exceptional business stability over the economic cycle, supports our assessment.

Chart 1

**BLKB Is A Midsize Swiss Cantonal Bank**

Total assets from 2018-YTD



CHF--Swiss franc. YTD--Year till date. Source: Company filings.

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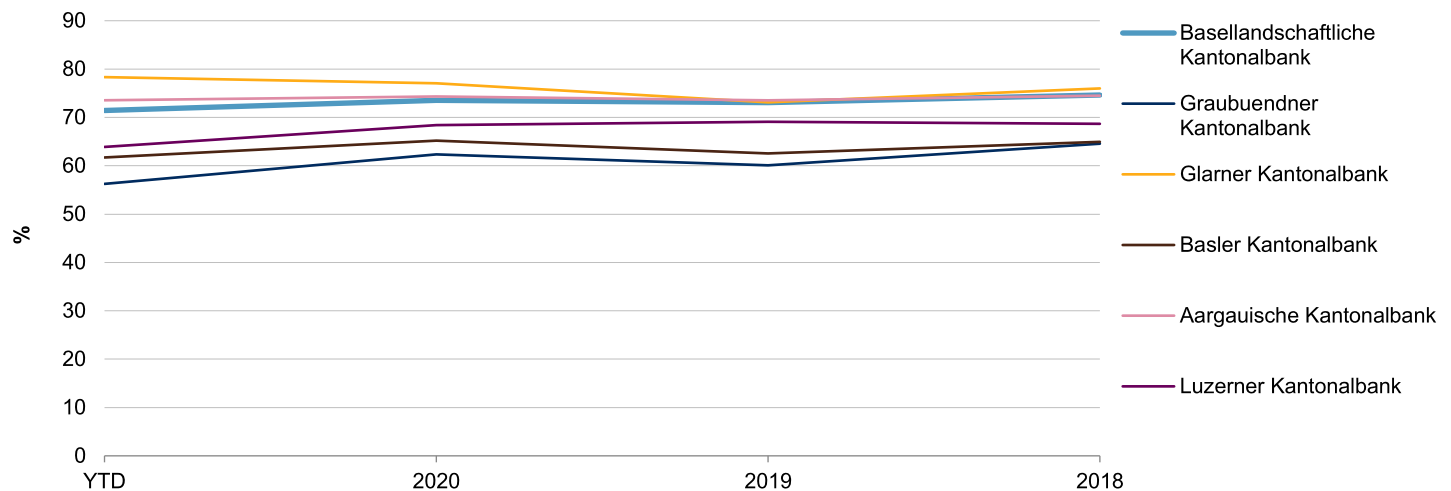
Lending to small and midsize enterprises accounts for about 10% of BLKB's loan portfolio. The bank's remaining business activities are asset management and private banking operations and, to a smaller extent, client-initiated trading activities. However, nonlending operations provide only a modest contribution to earnings diversification, a business model that we do not expect to change in the next few years.

In 2021, BLKB launched its new digital subsidiary Radicant, which offers Swiss-wide personalized, sustainable financial advisory to wealthier clients. While we view Radicant's potential contribution to BLKB's future revenue diversification as positive, it might lack sufficient economies of scale, at least in the initial phase, following its launch in 2022.

Chart 2

**BLKB Has A Higher Reliance On Net Interest Income Than Many Peers**

Net interest income/operating revenue



YTD--Year to date. Source: S&amp;P Global Ratings.

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In our view, BLKB proactively executes strategic initiatives to adapt to the changing banking industry landscape, resulting from ongoing trends such as digitalization and more sustainable banking. BLKB has also built up its own strategic funds focusing on assets that meet sustainability criteria.

## Capital And Earnings: Very Strong Capitalization Supported By Stable Earnings

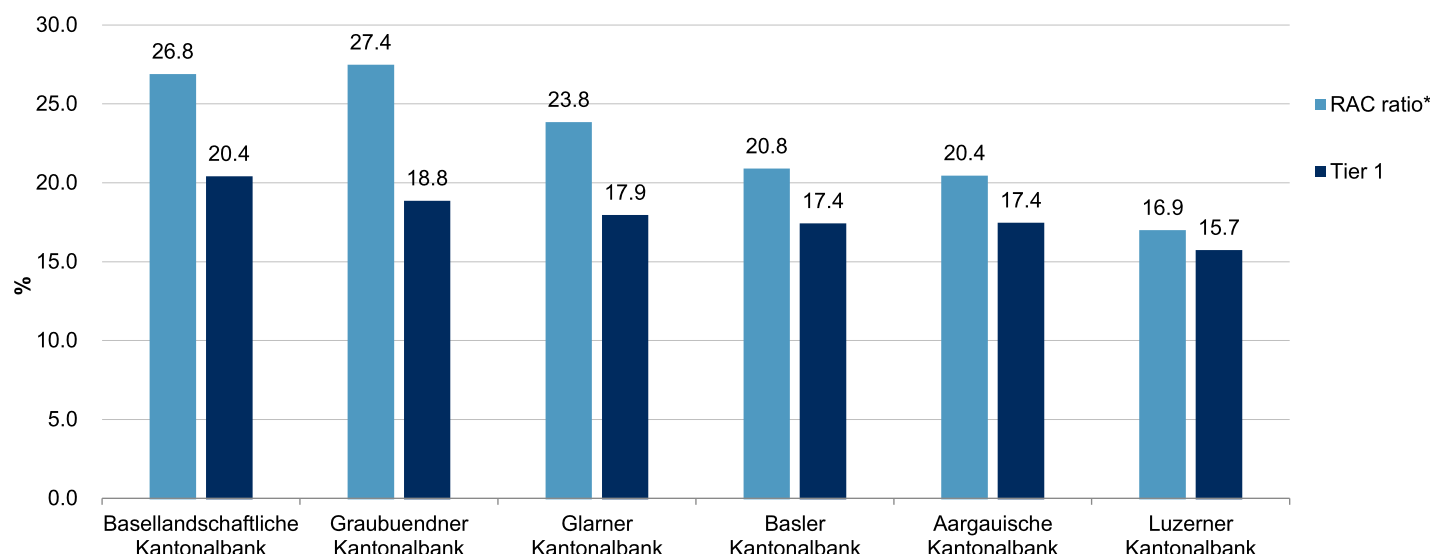
We consider BLKB's stable earnings generation and exceptional capitalization levels to be key rating strengths. We do not anticipate a change in the bank's capital policy, and we expect BLKB's RAC ratio to hover between 25.5%-26.5% over the next 18-24 months, from 25.5% at end-2020. We forecast a moderate increase in lending volumes, as well as risk-weighted assets of about 4%-5% in line with the market average.

We view BLKB's earnings capacity as strong and predictable. BLKB's return figures are slightly below those of domestic peers, but we currently do not consider this a decisive factor given the posting of solid profits over the past years.

Chart 3

**BLKB's Risk-Adjusted Capitalization Is Among The Highest Of Rated Cantonal Banks**

S&amp;P Global Ratings risk-adjusted capital versus tier 1 ratios



\*As of December 2020. RAC--Risk-adjusted capital. Source: S&amp;P Global Ratings.

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Despite some progress in diversifying its revenue sources toward fees and commissions, BLKB exhibits one of the highest interest income dependencies among its cantonal bank peers. Irrespective of the low-interest environment, BLKB has managed to stabilize its net interest income in recent years, owing to sustainably high margins.

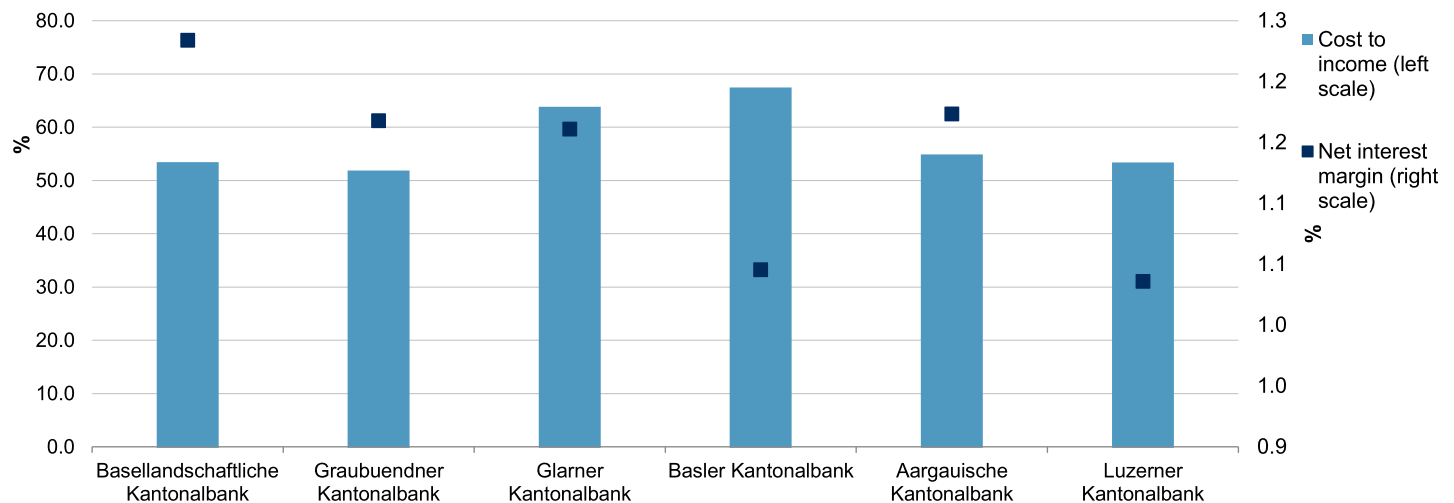
We expect BLKB's three-year average earnings buffer to increase marginally to about 1.3% of our risk-weighted assets figure (an earnings buffer of 1.0% indicates adequate earnings to cover normalized losses). This will support further capital buildup. BLKB's regulatory core equity tier 1 ratio stood at 19.1% as of June 2021. Although very high in a global comparison, this is lower than the bank's RAC ratio, because we apply lower risk weights on Swiss retail loans than on the Swiss regulator.



Chart 4

**BLKB Has Sound Efficiency And Good Margins Compared With Peers**

June 2021 cost to income and net interest margin



Note: Net interest income to average earning assets. Source: S&P Global Ratings.  
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## Risk Position: Concentrated Exposure In Swiss Retail Mortgages

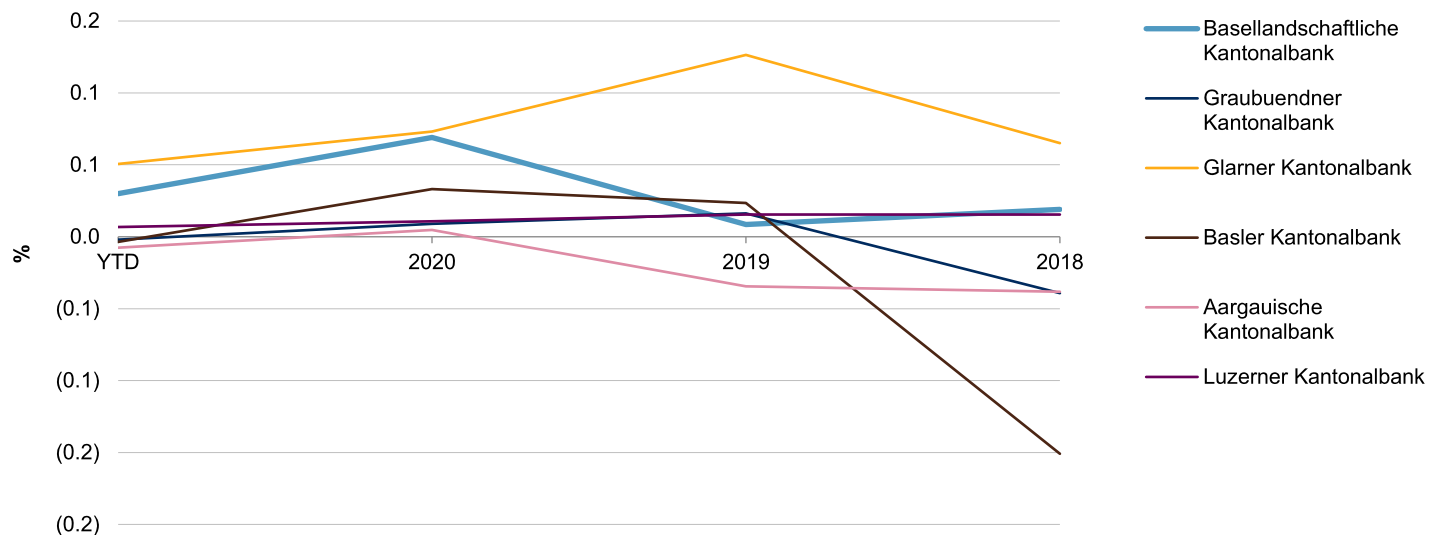
BLKB's business model focuses on low-risk and well-collateralized lending categories, such as mortgages, small and midsize enterprises, and corporates, with only a small exposure to market-sensitive business. Its loan book shows concentration risk stemming from its residential real estate loans in Basel-Land and neighboring cantons.

Like its domestic peers, BLKB remains exposed to risks related to a potential correction in the Swiss residential real estate markets, which we do not see as imminent over the coming years. However, we believe that the bank will maintain its conservative underwriting standards in new mortgage lending, helping it to report low nonperforming loans.

Chart 5

### Despite Economic Developments, BLKB Has Only Marginal Provisioning Needs And Adequate Risk Costs

New loan loss provisions/average customer loans



YTD--Year to date. Source: S&P Global Ratings.

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To diversify its loan book, BLKB selectively participates in syndicated corporate loans to large corporations across Switzerland. However, we do not believe that this activity, which currently represents less than 5% of BLKB's lending and focuses on highly rated corporations, will expose the bank to elevated credit risks that would impair its risk profile.

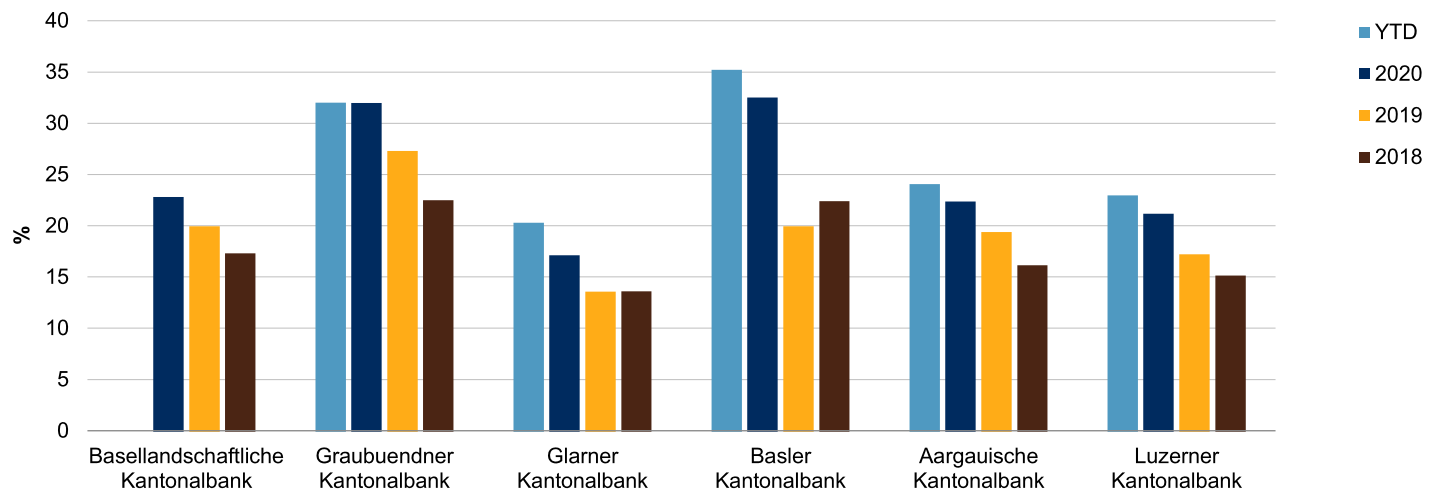
## Funding And Liquidity: Strong Retail Deposit Franchise And High Liquidity Buffers

We expect that BLKB's stable funding ratio will remain comfortable at 115%-120% over the next two years and view the bank's funding profile as in line with domestic peers. BLKB's funding benefits from a high level of core customer deposits, which constituted 70% of the total funding base on June 30, 2021.

Chart 6

**BLKB's Sound Funding Profile Is Comparable With Other Swiss Cantonal Banks**

Net customer loans/customer deposits (%)



YTD--Year to date. Source: S&amp;P Global Ratings.

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At the same time, its loan portfolio continues to exceed the deposit base, as demonstrated by BLKB's customer loans-to-deposits ratio, which has ranged between 115%-120% over the past five years (115% as of June 30, 2021). Consequently, BLKB takes advantage of wholesale funding, mainly covered bonds and unsecured bonds.

Our assessment of BLKB's liquidity as strong mainly reflects our estimate of the bank's one-year liquidity ratio (broad liquid assets to short-term wholesale funding) at almost 3.0x on June 30, 2021. We consider the bank's liquidity coverage--consisting mainly of securities eligible for repurchase at the Swiss central bank--to be strong, indicating the availability of sufficient liquid assets to withstand a lack of access to wholesale funding for more than 12 months.

## Support: Two Notches Of Uplift Due to Extremely High Likelihood Of Extraordinary Support

Our long-term rating on BLKB is two notches higher than the SACP, reflecting our view that its sole owner, the Canton of Basel-Land, will provide timely and sufficient support in case of need. We base our assessment on the bank's integral link with Basel-Land, as well as its significant importance for the local economy, leading to an extremely high likelihood of support. Our assessment is underpinned by the owner's full control of the bank (100% of the voting rights) and its provision of a statutory guarantee for the bank's liabilities. We do not envisage that the bank's GRE status will change in our forecast horizon as the canton has once again approved its ownership strategy.

We expect the existing cantonal guarantees to remain in place in the coming years. However, although beyond our two-year outlook horizon, we consider the risk that future agreements between Switzerland and the EU on preferential

market access might include the removal of cantonal guarantees for all banks.

BLKB benefits from Basel-Land's statutory guarantee, which ultimately covers all of BLKB's liabilities, excluding nonvoting participation certificates ("Partizipationskapital"). However, we note that the guarantee does not explicitly ensure timely repayment, as defined by our criteria. Nevertheless, we believe that the canton has strong incentives to help BLKB meet its obligations on time, owing to the bank's importance to the regional economy and to prevent reputational damage.

## Environmental, Social, And Governance

### ESG Credit Indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	<b>G-2</b>	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis of BLKB. The cantonal bank's franchise and mandate are focused on providing basic services to the canton's population and supporting the economic development in the region of North-Western Switzerland. BLKB is committed to operate as carbon-neutral and considers ESG standards for its lending operations. Also, the bank supports local businesses by fostering innovation and promotes financial literacy initiatives, in line with its mandate. However, these environmental and social factors are only marginally supportive of our credit rating analysis.

## Key Statistics

**Table 1**

Basellandschaftliche Kantonalbank--Key Figures					
--Year-ended Dec. 31--					
(Mil. CHF)	2021*	2020	2019	2018	2017
Adjusted assets	31,218.2	29,759.6	27,272.1	25,334.5	24,203.9
Customer loans (gross)	22,904.1	22,353.6	21,207.9	20,298.6	19,636.1
Adjusted common equity	2,486.1	2,471.8	2,423.1	2,330.0	2,223.4
Operating revenues	194.6	374.6	368.1	361.5	370.3
Noninterest expenses	105.8	197.6	195.2	192.5	194.4
Core earnings	84.6	160.8	169.5	164.4	171.8

\*Data as of June 30. CHF--Swiss franc.

Table 2

Basellandschaftliche Kantonalbank--Business Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Loan market share in country of domicile	N/A	1.8	1.7	1.7	1.7
Deposit market share in country of domicile	N/A	1.4	1.4	1.4	1.4
Total revenues from business line (currency in millions)	194.9	376.0	370.9	381.7	394.0
Commercial and retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	4.4	5.4	5.6	5.7	5.9

\*Data as of June 30. N/A--Not applicable.

Table 3

Basellandschaftliche Kantonalbank--Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	19.1	20.2	20.4	20.4	20.0
S&P Global Ratings' RAC ratio before diversification	N/A	25.5	27.3	26.8	26.1
S&P Global Ratings' RAC ratio after diversification	N/A	18.1	18.5	19.3	19.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	71.4	73.6	73.1	74.6	74.6
Fee income/operating revenues	21.1	19.6	18.4	18.4	17.4
Market-sensitive income/operating revenues	6.6	5.7	7.1	4.7	6.5
Cost to income ratio	54.4	52.7	53.0	53.3	52.5
Preprovision operating income/average assets	0.6	0.6	0.7	0.7	0.7
Core earnings/average managed assets	0.6	0.6	0.6	0.7	0.7

\*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Basellandschaftliche Kantonalbank--Risk-Adjusted Capital Framework Data					
	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
<b>Credit risk</b>					
Government and central banks	6,135,576,652.5	313,683,812.5	5.1	45,735,501.0	0.7
Of which regional governments and local authorities	498,307,150.1	99,113,909.3	19.9	17,939,057.4	3.6
Institutions and CCPs	1,775,232,492.8	361,309,169.1	20.4	276,168,814.5	15.6
Corporate	1,632,497,975.0	1,339,997,028.5	82.1	1,181,657,800.2	72.4
Retail	21,458,700,513.8	9,333,497,251.4	43.5	6,781,243,335.0	31.6
Of which mortgage	17,265,435,819.5	6,568,464,011.0	38.0	4,016,207,576.7	23.3
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	0.0	0.0	0.0	0.0	0.0
Total credit risk	31,002,007,634.1	11,348,487,261.4	36.6	8,284,805,450.6	26.7

Table 4

Basellandschaftliche Kantonalbank--Risk-Adjusted Capital Framework Data (cont.)					
Credit valuation adjustment					
Total credit valuation adjustment	--	12,309,175.0	--	0.0	--
Market risk					
Equity in the banking book	71,728,132.7	154,765,659.5	215.8	476,444,006.7	664.2
Trading book market risk	--	50,648,750.0	--	75,973,125.0	--
Total market risk	--	205,414,409.5	--	552,417,131.7	--
Operational risk					
Total operational risk	--	852,767,500.0	--	872,076,905.8	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
Diversification adjustments					
RWA before diversification	--	12,418,978,346.0	--	9,709,299,488.1	100.0
Total diversification/ Concentration adjustments	--	--	--	3,966,773,803.7	40.9
RWA after diversification	--	12,418,978,346.0	--	13,676,073,291.8	140.9
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		2,481,867,131.2	20.0	2,471,815,000.0	25.5
Capital ratio after adjustments‡		2,481,867,131.2	20.2	2,471,815,000.0	18.1

\*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

Basellandschaftliche Kantonalbank--Risk Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	4.9	5.4	4.5	3.4	2.8
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	40.9	47.6	39.1	37.1
Total managed assets/adjusted common equity (x)	12.6	12.0	11.3	10.9	10.9
New loan loss provisions/average customer loans	0.0	0.1	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	N/A	2.0	0.0	0.1	0.1
Loan loss reserves/gross nonperforming assets	N/A	36.4	N.M.	1,232.6	674.3

\*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful. RWA--Risk-weighted assets.

Table 6

Basellandschaftliche Kantonalbank--Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	70.3	69.6	71.1	73.4	76.8
Customer loans (net)/customer deposits	114.6	118.0	120.4	120.5	116.7
Long-term funding ratio	92.3	91.6	92.3	94.1	96.4
Stable funding ratio	119.7	117.4	114.2	112.8	107.0
Short-term wholesale funding/funding base	8.4	9.1	8.4	6.6	4.0
Broad liquid assets/short-term wholesale funding (x)	3.1	2.7	2.6	2.9	3.0
Broad liquid assets/total assets	23.7	22.7	19.8	17.2	10.6
Broad liquid assets/customer deposits	37.0	35.9	30.9	26.1	15.4
Net broad liquid assets/short-term customer deposits	25.2	23.0	19.3	17.3	10.3
Short-term wholesale funding/total wholesale funding	28.4	30.1	29.2	24.6	17.2
Narrow liquid assets/three-month wholesale funding (x)	6.4	3.0	4.3	7.7	4.1

\*Data as of June 30.

## Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Swiss and Liechtenstein Bank Ratings Affirmed Under Revised FI Criteria, Feb. 08, 2022.
- The Top Trends Shaping European Bank Ratings In 2022, Jan. 31, 2022.
- Basellandschaftliche Kantonalbank Outlook Revised To Positive After Similar Action On Canton; 'AA/A-1+' Ratings Affirmed, Nov. 09, 2021.
- Repeal Of Cantonal Guarantee For Basellandschaftliche Kantonalbank May Hurt Creditworthiness If Approved, Sept. 20, 2021.
- Banking Industry Country Risk Assessment: Switzerland, Jan. 6, 2021.

**Ratings Detail (As Of March 7, 2022)\*****Basellandschaftliche Kantonalbank**

Issuer Credit Rating	AA/Positive/A-1+
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Senior Unsecured	AA
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**Issuer Credit Ratings History**

09-Nov-2021	AA/Positive/A-1+
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01-Dec-2014	AA/Stable/A-1+
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20-Jan-2014	AA+/Negative/A-1+
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**Sovereign Rating**

Switzerland	AAA/Stable/A-1+
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**Related Entities****Basel-Country (Canton of)**

Issuer Credit Rating	AA+/Positive/A-1+
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Senior Unsecured	AA+
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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.



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