

Research Update:

Basellandschaftliche Kantonalbank Upgraded To 'AA+' On Cantonal Owner's Financial Strength

November 9, 2022

Overview

- On Nov. 4, 2022, S&P Global Ratings raised its long-term issuer credit rating on the Canton of Basel-Country to 'AAA' from 'AA+' on improved economic performance and strong fiscal management.
- We consider Basellandschaftliche Kantonalbank (BLKB) a government-related entity with an extremely high likelihood of support from its majority owner and guarantor Canton of Basel-Country in times of stress.
- Accordingly, we raised our long-term issuer credit rating on BLKB to 'AA+' from 'AA' and affirmed our 'A-1+' short-term rating on the bank.
- The stable outlook mirrors that on Basel-Country.

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Rating Action

On Nov. 9, 2022, S&P Global Ratings raised its long-term issuer credit rating on Switzerland-based Basellandschaftliche Kantonalbank (BLKB) to 'AA+' from 'AA'. At the same time, we affirmed our 'A-1+' short-term issuer credit rating on the issuer. The outlook is stable.

Rationale

The upgrade follows the canton's improved ability to support BLKB in times of stress. Due to solid budgetary performance, conservative debt management, and excellent liquidity policies, S&P Global Ratings raised its long-term issuer credit rating on the Canton of Basel-Country to 'AAA' from 'AA+' on Nov. 4. To reflect the canton's now-improved financial position and capacity to provide support to BLKB, we increased the rating uplift for extraordinary support to three notches from two above BLKB's 'a+' stand-alone credit profile (SACP), leading to a 'AA+' long-term rating on the bank.

We expect BLKB to maintain its integral link to and very important role for the canton of Basel-Landschaft, which is part of Basel-Country.

We continue to consider the bank a government-related entity (GRE). Its regional franchise and mandate focusing on providing basic services to the canton's population and supporting the economic development in the region. In the event of financial stress, we believe there is an extremely high likelihood the canton would provide sufficient and timely support to the bank because a default could severely damage the canton's reputation.

We expect BLKB's business risk profile to remain focused on expanding its retail franchise in Basel-Country and its surroundings, with its capitalization being a rating strength.

At the same time, the bank's 'a+' SACP is unchanged and remains very high in a global comparison. BLKB has defended its market leadership in retail banking with a strong focus on residential mortgage lending constituting almost 90% of the loan book. We consider the bank's stable earnings and exceptional capitalization levels key rating strengths, as indicated by our risk-adjusted capital ratio in the 24.5%-25.5% range over the next 24 months. We consider the bank's liquidity coverage--consisting mainly of securities eligible for repurchase at the Swiss central bank--strong, with only a limited use of wholesale funding. Positively, the bank shows a proactive stance toward digitalization and ecological transformation with the envisaged launch of its new digital subsidiary, Radicant AG.

Outlook

The stable outlook on BLKB mirrors that on Basel-Country and reflects our view that the likelihood of support from the canton will not change in the next two years. Our rating on BLKB remains sensitive to our assessment of the cantonal owners' ability and willingness to support the bank. We consider that there is an extremely high likelihood Basel-Country would provide timely and sufficient extraordinary support to BLKB in the event of financial distress for the foreseeable future. Any indication of a weakening in the canton's support could weigh on BLKB's creditworthiness, for example if the cantonal guarantee were removed or the bank were privatized in the context of Basel-Country's undertaking to reduce potential financial liabilities stemming from the cantonal guarantee in case of distress.

Downside scenario

A weakening in BLKB's role for or link with the canton, or detrimental changes in the statutory guarantee, could lead us to revise down our support assessment of the bank's status as a GRE. At the same time, a deterioration of the SACP would not immediately affect the overall rating, because we expect that the owner's support would compensate for the stand-alone weakness.

Upside scenario

We think it unlikely that we would raise the rating based on an improvement of BLKB's 'a+' SACP, due to the bank's comparatively concentrated business operations.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	AA+/Stable/A-1+	AA/Positive/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	Adequate (0)	Adequate (0)
Funding and	Adequate and	Adequate and
Liquidity	Strong (0)	Strong (0)
Support	(0)	(0)
ALAC Support	(0)	(0)
GRE Support	(+3)	(+2)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

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

Ratings List

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Upgraded

	To	From
Basellandschaftliche Kantonalbank		
Senior Unsecured	AA+	AA

Upgraded; Outlook Action; Ratings Affirmed

	To	From
Basellandschaftliche Kantonalbank		
Issuer Credit Rating	AA+/Stable/A-1+	AA/Positive/A-1+

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on 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; or Stockholm (46) 8-440-5914

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