STANDARD
&POOR'S

RatingsDirect®

May 14, 2009

Graubuendner Kantonalbank

Primary Credit Analysts:
Dirk Heise, Frankfurt (49) 69-33-999-163; dirk_heise@standardandpoors.com
Michael Teig, Frankfurt (49) 69-33-999-244; michael_teig@standardandpoors.com

Secondary Credit Analysts:
Thomas Fischinger, Frankfurt (49) 69-33-999-243; thomas_fischinger@standardandpoors.com
Volker von Kruechten, Frankfurt (49) 69-33-999-164; volker_vonkruechten@standardandpoors.com

Table Of Contents

721933 | 300025082

Graubuendner Kantonalbank

Major Rating Factors

Counterparty Credit Rating
AA/Stable/A-1+

Strengths:

- Statutory guarantee provided by the Canton of Graubuenden
- Leading position in its home market
- Sound risk profile, underpinned by very strong capitalization, strong asset quality, and sound profitability
- The canton's still-sound budgetary performance and moderate debt
- The canton's strong liquidity and almost fully financed pension fund

Weaknesses:

- Limited growth potential in a saturated home market
- Regional concentration risks
- Relatively weak economic profile of the canton in the Swiss context
- The canton's increasing dependence on the Swiss national financial equalization system

Rationale

The ratings on Switzerland-based Graubuendner Kantonalbank (GKB) reflect the statutory guarantee of the bank's majority owner, the Canton of Graubuenden (AA/Stable/A-1+), which legally obliges the canton to guarantee the bank's liabilities, with the exception of subordinated debt and participation certificates. The ratings are also supported by what Standard & Poor's Ratings Services regards as the bank's very strong capitalization, strong asset quality, and sound profitability. The ratings are constrained by GKB's limited growth potential and regional concentration risks in its saturated home market.

Graubuenden holds 88% of GKB's share capital and 100% of the voting rights. The remaining 12% of share capital is held by owners of publicly quoted nonvoting participation certificates. The canton's stake might decrease to 80% as a result of the conversion of Swiss franc (CHF) 20 million of the bank's endowment capital into participation certificates until 2014. GKB intends to convert additional endowment capital into participation certificates with the help of another convertible bond, based on a legal minimum of 67% share capital held by the canton under the cantonal law. However, we consider fundamental changes to the bank's legal status unlikely in the foreseeable future. Such a change would generally be subject to a referendum.

Although the statutory guarantee does not stipulate the timely repayment of the bank's obligations, we believe that it is in the canton's interest to honor any claims from existing obligations promptly, owing to the bank's importance for the local economy. The ratings on GKB therefore reflect the credit quality of Graubuenden. Since 2003, GKB has voluntarily reimbursed the canton for payments made under the guarantee. However, compensation became mandatory in 2005, after amendments to the law, and generally depends on the level of GKB's capitalization.

The ratings on Graubuenden are supported by the canton's sound budgetary performance, with operating surpluses averaging 22.9% between 2006 and 2008 (after capital expenditures, an average of 13.0%). In 2009 and, in particular, in 2010, we expect a declining budgetary performance, owing to tax cuts and the rapid deterioration of economic growth. Nevertheless, we believe the canton can weather this downturn because of its strong liquidity. Graubuenden has relatively low financial liabilities, following the recapitalization of its pension fund, and direct debt was low at 31.8% of operating revenues in 2008. The cantonal pension fund had a cover ratio of 92.8% at year-end 2008, down from 104.4% in 2007, because of weak financial markets. Graubuenden also had sizable liquid assets and bond investments totaling about CHF900 million, equal to 45% of total revenues for 2008. Debt maturities until 2015 largely match maturing bond investments.

The ratings are constrained by the canton's relatively weak economic profile in the Swiss context, which depends on tourism, and by wealth levels below the national average. GDP in 2007 was estimated at 84% of the Swiss average. Further constraints are the canton's high dependence on funds from the national fiscal-equalization system. Graubuenden is one of the weakest cantons in the financial resource index, with a value of 80.5 in 2009 (81.6 in 2008); the average value is 100. This qualifies Graubuenden to receive funds from other cantons and the Swiss Confederation (AAA/Stable/A-1+). We understand that in 2009, the canton will receive CHF251.6 million (CHF244.4 million in 2008) from the national equalization system, equivalent to 13.1% of 2008 operating revenues.

With total assets of CHF15.6 billion, adjusted total equity of CHF1.63 billion, 47 branches, and 858 employees at year-end 2008, GKB is a midsize cantonal bank in Switzerland. Like many other cantonal banks, GKB has a regional focus, and mortgage lending dominates its activities. Margins remain under pressure from intense competition, but GKB plans to exploit its strong regional franchise and core competencies to reinforce its dominant market position and increase lending business with SMEs. To balance its dependence on regionally sourced interest income, GKB also engages in mass-affluent and private-banking business, mainly in the canton's major tourist centers, but also in Zurich through its 60% participation in Privatbank Bellerive (not rated). Moreover, in 2008, GKB increased its stake in Private Client Bank, a small Zurich-based family-run bank with about CHF3 billion in assets under management, to 50% from 25%.

We believe that GKB has so far taken limited levels of risk, which indicates to us the bank's generally prudent approach to managing credit and market risk. Operational risks are adequately addressed, in our view.

The bank's regional concentration on a canton whose economy relies considerably on the cyclical tourism sector, we believe, represents the key risk to its lending activities. This risk is mitigated by what we view as substantial collateralization, a well-provisioned retail mortgage portfolio, and relatively diversified commercial exposures, bearing in mind that about 36% of the loan portfolio consists of commercial loans.

GKB was able to again release loan loss reserves in 2008, thanks to its conservative provisioning policy. However, we believe that the current recession may cause risk costs to increase gradually to more normal levels of about 30 basis points of total customer loans in the coming years. Overall, we expect GKB to be able to maintain its strong asset quality. GKB's funding and liquidity benefits from significant customer deposit inflows and the still-high quality of its securities portfolio.

We consider profitability to be sound because GKB has one of the highest net interest margins among the rated cantonal banks, extremely low risk costs, and shows effective cost containment. Although we expect overall earnings to remain stable, net interest income is likely to decrease slightly because asset growth may no longer compensate for declining margins. Moreover, we don't expect rising inflows from fee-generating businesses to offset the decline because private-banking activities originated by GKB's subsidiaries have so far not materially contributed to earnings. We expect GKB to see cost savings from the implementation of its new information-technology (IT) platform, particularly because the costs of the IT migration have already been charged off.

Capitalization is a key strength, in our view, in light of GKB's low risk profile. Higher payouts to Graubuenden are likely to limit future capital growth, but we believe the bank's strong internal capital generation should continue to comfortably support limited risk growth.

Outlook

The stable outlook on GKB reflects that on the canton, and Standard & Poor's believes that neither the current guarantee mechanism nor GKB's legal status and ownership structure will be materially altered in the medium term. Nevertheless, any fundamental changes to the current status quo could put pressure on the ratings.

If future changes to the cantonal law were to lead to a privatization of the bank, we believe that any outstanding obligations will be grandfathered until maturity.

We expect GKB to maintain its sound financial profile, favorable risk profile, and strong capitalization.

Graubuendner Kantonalbank--Financial Statistics

	--Year ended Dec. 31--				
(Mil. CHF)	**2008**	**2007**	**2006**	**2005**	**2004**
Key data					
Adjusted assets	15,521	14,286	13,815	13,217	12,772
Risk adjusted assets (regulatory definition)	9,592	9,075	9,083	8,979	8,671
Customer loans (net)	12,568	11,923	11,500	11,148	10,742
Core/customer deposits	10,454	9,062	8,727	8,061	7,480
Adjusted common equity	1,634	1,552	1,466	1,466	1,365
Operating revenues	367	390	380	366	338
Noninterest expenses	187	195	203	189	177
Net income after extraordinaries	125	105	89	75	61
Balance sheet composition (% of adjusted assets)					
Cash and money market instruments/adjusted assets	0.99	1.03	1.06	0.76	2.19
Securities/adjusted assets	6.22	5.12	4.79	4.58	4.29
Loans (net)/adjusted assets	80.98	83.46	83.24	84.35	84.11
Profit and loss composition (% of revenues)					
Net interest income/revenues	68.92	64.01	65.75	67.12	68.40
Fee income/revenues	25.65	27.83	26.40	24.27	25.57
Market-sensitive income/revenues	2.83	4.81	4.10	3.75	4.17
Noninterest expense/revenues	50.94	49.85	53.34	51.75	52.53
New loan loss provisions/revenues	(2.51)	(4.97)	(0.68)	0.04	3.35
Net income/revenues	33.56	26.85	23.61	20.60	18.09
Profitability (%)					
Net interest income (taxable equivalent)/average earning assets	1.76	1.85	1.92	1.98	1.92
Noninterest expenses /average adjusted assets	1.25	1.38	1.50	1.46	1.41

Graubuendner Kantonalbank--Financial Statistics (cont.)					
Net operating income before loss provisions/average risk assets	1.93	2.16	1.96	2.00	1.89
Net operating income after loss provisions/average risk assets	2.03	2.37	1.99	2.00	1.76
Net income/average risk assets	1.32	1.15	0.99	0.85	0.72
Core earnings/average tangible common equity (ROE)	11.30	13.59	11.67	11.98	10.87
Funding and liquidity (%)					
Customer deposits/funding base	79.30	74.76	74.79	73.00	70.36
Total loans/customer deposits	133.86	144.04	144.29	150.49	153.86
Customer loans (net)/assets (adj.)	80.98	83.46	83.24	84.35	84.11
Capitalization (%)					
Adjusted common equity/adjusted assets	10.53	10.86	10.61	11.09	10.69
Adjusted common equity/customer loans (net)	13.00	13.01	12.74	13.15	12.70
Adjusted common equity/risk assets	17.03	17.10	16.14	16.33	15.74
Adjusted total equity/risk assets	17.03	17.10	16.14	16.33	15.74
Asset quallity (%)					
New loan loss provisions/average customer loans (net)	(0.08)	(0.17)	(0.02)	0.00	0.11
Net charge-offs/avg. customer loans (net)	0.07	0.12	0.25	0.21	0.33
Loan loss reserves/customer loans (gross)	1.96	2.20	2.50	2.88	3.21
Nonperforming assets (excluding delinquencies)/customer loans + ORE	0.49	0.69	0.84	1.32	1.66
Net nonperforming assets (NPA)/customer loans (net) + ORE	(1.50)	(1.54)	(1.70)	(1.62)	(1.61)
Loan loss reserves/NPA (gross)	401.22	316.98	297.83	219.24	193.93

Ratings Detail (As Of May 14, 2009)*	
Graubuendner Kantonalbank	
Counterparty Credit Rating	AA/Stable/A-1+
Certificate Of Deposit	AA/A-1+
Counterparty Credit Ratings History	
02-Sep-2002	AA/Stable/A-1+
Sovereign Rating	
Swiss Confederation	AAA/Stable/A-1+
Related Entities	
Graubuenden (Canton of)	
Issuer Credit Rating	AA/Stable/A-1+
Senior Unsecured (4 Issues)	AA

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com