

## Graubuendner Kantonalbank

**Primary Credit Analyst:**

Lukas Freund, Frankfurt + 49-69-3399-9139; lukas.freund@spglobal.com

**Secondary Contact:**

Anna Lozmann, Frankfurt + 49 693 399 9166; anna.lozmann@spglobal.com

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# Graubündner Kantonalbank

## Ratings Score Snapshot

### Issuer Credit Rating

AA/Stable/A-1+

SACP: a+

Support: +2

Additional factors: 0

Anchor	a-		ALAC support	0	<b>Issuer credit rating</b>  <b>AA/Stable/A-1+</b>
Business position	Adequate	0			
Capital and earnings	Very strong	+2	GRE support	+2	
Risk position	Adequate	0			
Funding	Adequate	0	Group support	0	
Liquidity	Strong				
CRA adjustment		0	Sovereign support	0	

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

## Credit Highlights

### Overview

Key strengths	Key risks
An extremely high likelihood of support from the bank's owner, the canton of Graubünden.	Concentration risk in its home region from residential real estate lending, and some exposure to the volatile tourism sector.
Market leader in the region of Graubünden, with a strong franchise.	Limited growth potential in its home market due to Graubünden's small size and low population growth.
Very strong capitalization with low reliance on net interest income due to revenue diversification compared with peers.	

*We anticipate that, if necessary, Graubündner Kantonalbank (GKB) would receive extraordinary support from its majority owner, the canton of Graubünden.* In our view, GKB will maintain its integral link with, and very important role for, the canton, which is also stipulated by cantonal bank law. We expect that the canton will maintain the existing guarantee, incorporated in the cantonal bank act, for the foreseeable future.

*We anticipate that the bank will continue to diversify its revenues and increase its footprint outside of Graubünden.* In June 2022, GKB acquired a majority stake in BZ Bank, a Swiss-wide securities trading services provider, leading to an increase of Swiss franc (CHF) 6.1 billion in assets under management. This marks another step in the bank's plan to diversify its revenues and to offset its limited growth potential in the canton of Graubünden. Despite an increase in clients' investment volumes and performance-related fees, we remain aware of the stability and other risks that come with GKB's newly acquired business, also due to the use of white-labelling and Switzerland-wide targeting.

**Capitalization will remain a rating strength, in our view.** We expect that GKB will maintain its capital and earnings position as key rating strength. We project GKB's risk-adjusted capital (RAC) ratio at around 30%-31% over the next two years. We believe GKB's capitalization will remain superior to that of other cantonal banks and most other banks we rate globally.

## Outlook

The stable outlook reflects our view that GKB will continue to benefit from its status as a government-related entity (GRE), with strong ties to its majority owner, the Swiss canton of Graubünden. We consider that there is an extremely high likelihood that the canton would provide timely and sufficient extraordinary support to GKB in the event of financial distress. Moreover, we expect the bank to maintain its robust and superior loss-absorption capacity thanks to its high capital and earnings buffer, even if the economic cycle were to worsen more materially over our two-year forecast horizon.

### Downside scenario

The likelihood of a downgrade is very low. A negative rating action could occur if there were a change in GKB's role for, or link with, the canton of Graubünden, or changes in the statutory guarantee, which could lead us to assess GKB's GRE status as less important.

In the event of a moderate deterioration in the bank's stand-alone credit profile (SACP), the potential for extraordinary support from the canton would provide a buffer.

### Upside scenario

We are unlikely to consider an upgrade in the next 12-24 months. That said, all else remaining equal, we could raise the ratings on GKB if our view on the canton's ability to support the bank during times of financial stress had strengthened.

## Key Metrics

### Graubuendner Kantonalbank--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	(0.3)	11.8	(1.0)-(1.3)	0.8-1.0	2.6-3.1
Growth in customer loans	3.4	3.3	2.0-2.4	2.5-3.1	2.8-3.4
Growth in total assets	10.2	4.4	1.6-1.9	1.8-2.2	2.0-2.5
Cost to income ratio	53.6	49.7	50.3-52.9	50.7-53.3	50.6-53.2
Return on average common equity	6.4	6.7	6.4-7.1	6.3-6.9	6.3-6.9
Gross nonperforming assets/customer loans	0.2	0.1	0.2-0.2	0.2-0.2	0.2-0.2
Risk-adjusted capital ratio	31.0	29.5	30.1-31.6	30.3-31.8	30.6-32.1

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

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

Our criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a bank operating mainly in Switzerland is 'a-'. We view the trends for both economic and industry risk as stable.

Despite a weaker economic outlook and further risks to the region's economic trajectory from the unclear consequences of the Russia-Ukraine conflict, we expect Swiss banks will demonstrate robust asset quality and lower credit losses than most peers, close to levels observed pre-pandemic. This resilience stems from the superior financial strength of both the household and corporate sectors, as well as banks' prudent underwriting standards focusing on collateralized lending, mainly in residential mortgages. We do not expect a material constraint on customers' debt service capacity from higher rates, also because banks' existing stock of mortgage loans are predominately fixed-rate with an average remaining life of about five to seven years.

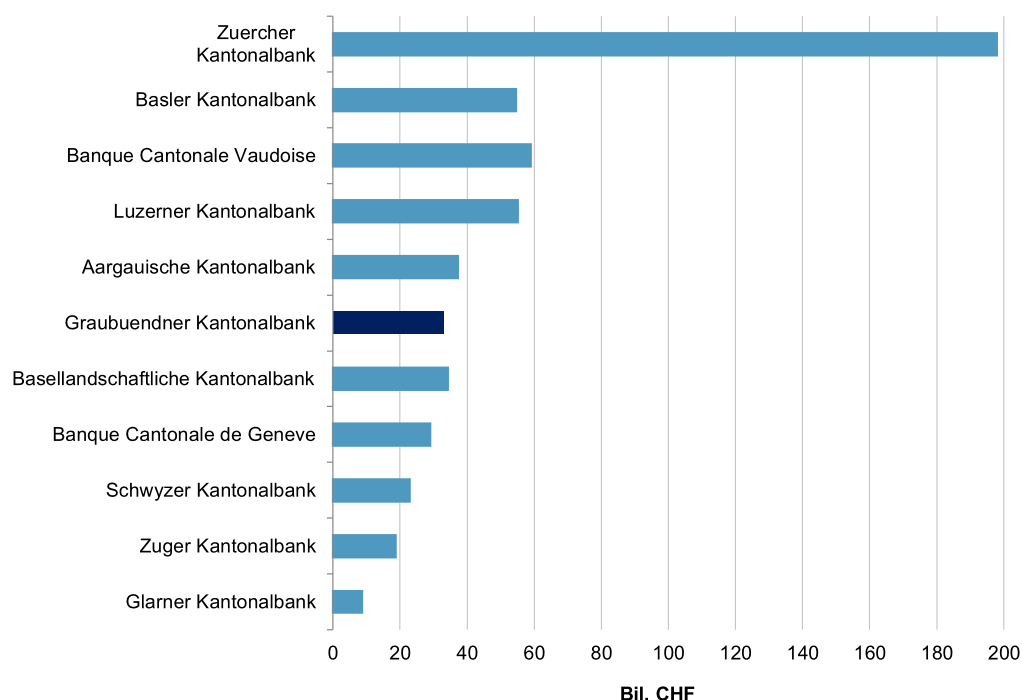
Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector. We view positively that, despite high competition among local players, domestic banks can still earn their cost of capital. We expect that Swiss banks will see a net revenue benefit from rises in policy rates. We also note banks' high capitalization and heavy reliance on stable customer deposits and equity for funding. In our view, the Swiss Financial Market Supervisory Authority is on top of both regulatory oversight and innovations, and overall we think Swiss banks face limited risks from technology disruption.

## **Business Position: Solid Regional Franchise, Complemented By Private Banking And Asset Management Activities**

We consider GKB's business position to be on par with that of its domestically focused Swiss peers. GKB is a midsize cantonal bank, with total assets of CHF32.9 billion as of June 30, 2022. As a leading commercial bank in its home canton, GKB has high and stable market shares in retail and corporate banking (over 60% market share of business customers and a about 50% share of retail customers).

**Chart 1****Graubueendner Kantonalbank Among The Midsize Rated Cantonal Banks**

By total assets, H1 2022



CHF--Swiss Franc. Source: S&amp;P Global Ratings.

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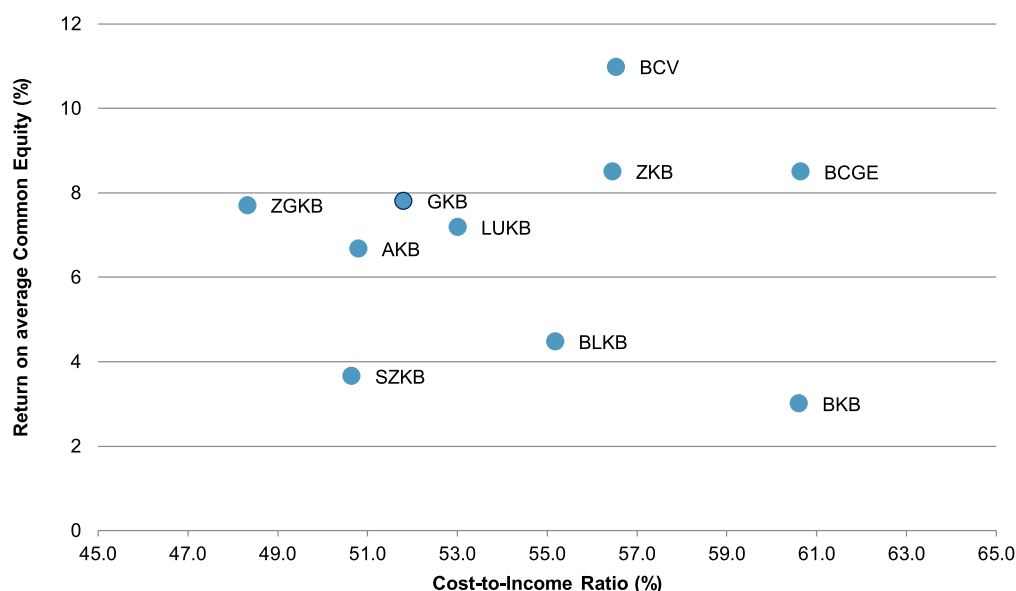
GKB operates predominantly in its home region, Graubuenden, which represents 75% of its outstanding mortgage portfolio, focusing on residential mortgage and SME lending. In addition, GKB engages selectively in corporate syndicated lending across Switzerland and acts as a partner to larger cantonal or commercial banks, mainly highly rated large Swiss corporate entities.

GKB's lending activities are complemented by its private banking operations. These focus mainly on domestic customers, but the bank also has some cross-border business with German and Italian clients owing to their geographical proximity, with total assets under management estimated at CHF40.5 billion.

Besides its existing business partnerships with Privatbank Bellerive and Albin Kistler, GKB also acquired a 28% and 70% stake respectively in Swiss Twelve Capital and BZ Bank in 2022. In our view, this further supports the bank's strategy of strengthening its position as a provider of professional institutional investment solutions and advisory services. At the same time, we note the stability and other inherent risks of GKB's business outside its home canton, which we view as more volatile, especially given its focus on investment advisory activities.

**Chart 2****Sound Profitability At Extraordinary High Capitalization Levels**

... with sound efficiency relative to Cantonal Bank peers (as of June 2022)



Source: S&P Global Ratings. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubuendner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZKB--Zuercher Kantonalbank. ZGKB--Zuger Kantonalbank. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

With a cost-to-income ratio of around 51% (S&P Global Ratings calculation) as of June 2022, we consider GKB's efficiency to be on par with local peers. At the same time, we believe material investments in the bank's IT infrastructure and human resources are needed to keep up with Switzerland-wide competitors and to secure its position in the contested local labor market. We therefore expect GKB's cost-to-income ratio to increase over the coming years.

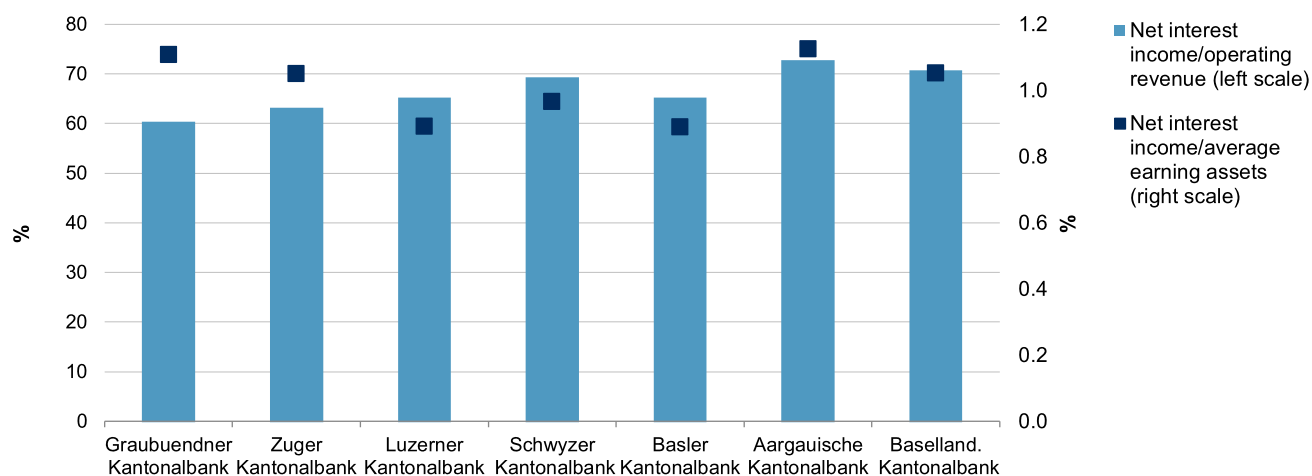
## Capital And Earnings: One Of The Highest Capitalization Buffers Globally

We think GKB's capitalization will remain very strong with a RAC ratio of about 30%-31%, from 29.5% as of year-end 2021. In our view, GKB's earnings are predictable and stable.

We estimate GKB's three-year average earnings buffer at roughly 170 basis points (bps) to 180 bps, which also indicates a sound capacity for earnings to cover normalized losses. We do not assume any changes to the bank's dividend policy of distributing slightly more than CHF100 million per year, a payout ratio of about 55%-60%, to its home canton and other shareholders.

Chart 3

### GKB With Lowest Reliance On Net Interest Income ... and sound interest margins (as of June 2022)



Source: S&P Global Ratings.

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Due to initiatives to diversify its revenue sources toward fees and commissions, GKB exhibits the lowest interest income dependencies among its cantonal bank peers. Following increasing interest rates and because of its sound margins, we expect GKB's net interest income to once again stabilize in the coming years.

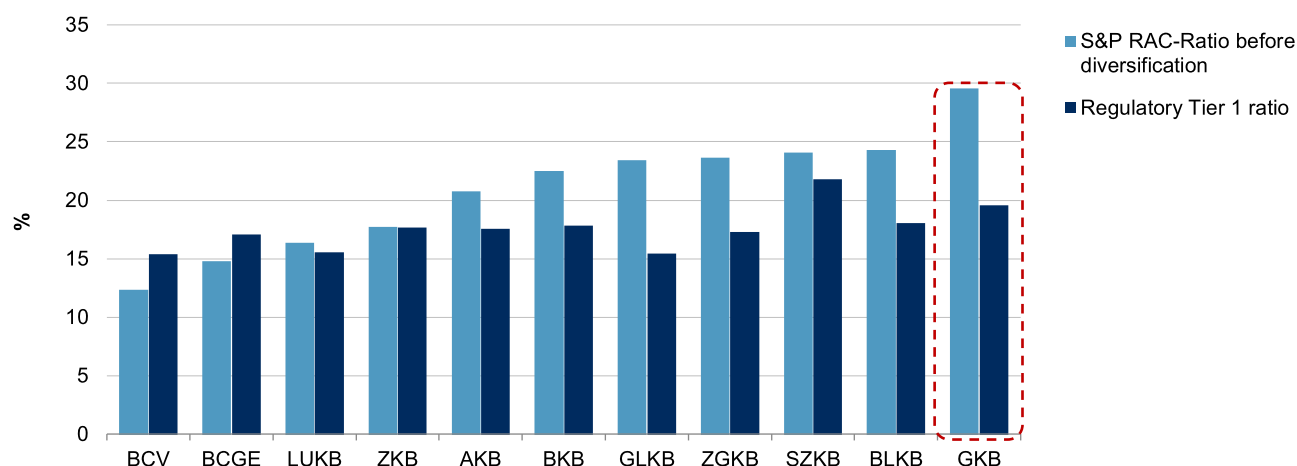
We view GKB's capital as very high quality because it includes only core Tier 1 components. We anticipate that GKB's majority owner, the canton of Graubunden, will remain supportive of the current capitalization buffers.



Chart 4

**GKB's One Of The Highest Capitalization Buffers Globally**

...with top S&amp;P's RAC ratio amongst cantonal banks peers (as of Dec. 2021)



Source: S&amp;P Global Ratings

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## Risk Position: Concentrated Exposure In Swiss Retail Mortgages But Exceptionally Low Loan Losses

We expect GKB's risk profile to remain robust because of its focus on low-risk, highly collateralized residential mortgage lending--76% of its loan book on June 30, 2022. In our opinion, the bank will maintain its prudent underwriting standards, which we see as a supportive factor for the risk assessment.

Our concerns regarding regional concentration risks are balanced by the high granularity and adequate collateralization of GKB's loan portfolio with, on average, a 56% loan-to-value ratio. GKB's sustained prudent risk management and low risk appetite have enabled it to remain resilient to economic stress throughout the cycle, including during the pandemic. Its NPLs, at only 0.10% as of June 30, 2022, are at their lowest for years.

To diversify its loan book geographically and by sector, GKB participates in syndicated corporate loans, mainly across Switzerland. We do not believe that this activity, today representing less than 5% of GKB's loan book, will provide any significant diversification benefit or, at its current magnitude, increase GKB's credit risk to an extent that would impair its risk profile.

## Funding And Liquidity: Strong Liquidity Buffers With Stable Retail Deposit Funding

We believe that GKB's combined funding and liquidity position will remain comfortable and on a par with peers. GKB's funding is expected to benefit from a large and reliable customer deposit base (65% of its total funding base in

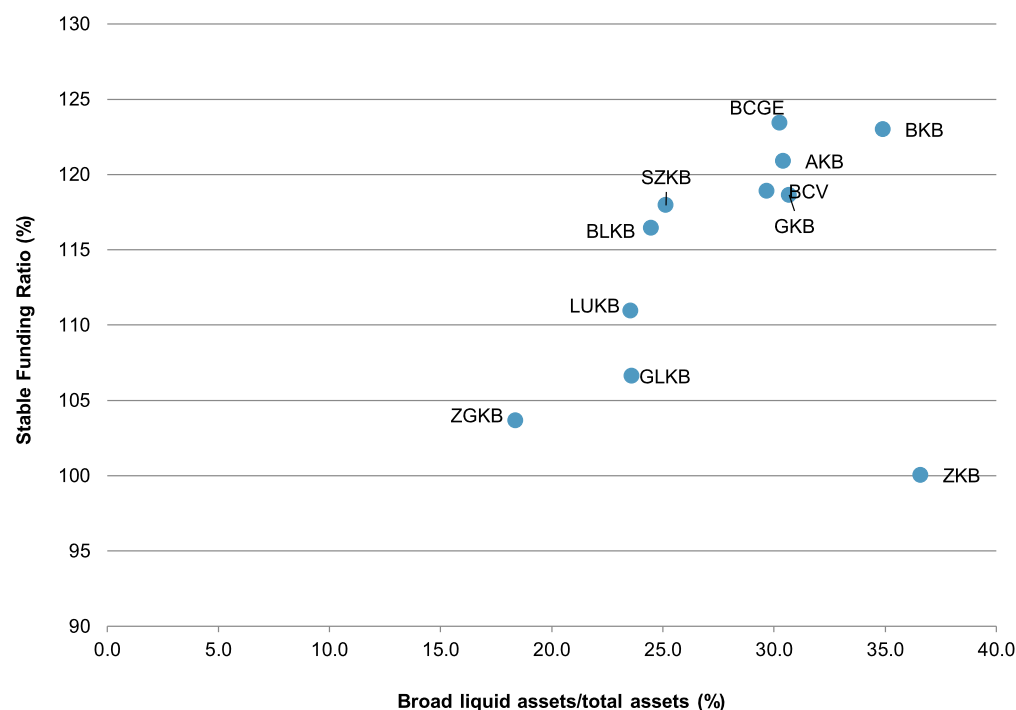
mid-2022). GKB had a stable funding ratio of 118.5% as of June 2022. In our view, the ratio will remain at a similar level over the next few years.

We expect GKB's deposits to remain resilient in times of unexpected and systemic market stress because of the bank's public-sector ownership and the statutory guarantee from the canton of Graubünden. Moreover, the shareholder and guarantee structure support GKB's access to low-cost, long-term, wholesale funding (16% of its total funding base) and its ability to issue covered bonds.

### Chart 5

#### Funding and Liquidity Metrics In Line With Cantonal Bank Peers

... and stable over time (as of June 2022)



Source: S&P Global Ratings.

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Overall, we think that GKB's liquidity will remain a strength, underpinned by our assessment of its one-year ratio of broad liquid assets to total assets of 30% as of June 2022. We consider the bank's liquidity coverage--consisting mainly of securities eligible for repurchase at the Swiss central bank--to be strong. In our view, this indicates the availability of sufficient liquid assets to withstand a lack of access to wholesale funding for more than 12 months and minimizes the risk of a gap in its liquidity profile.

## Support: Two Notches Of Uplift Reflects Extremely High Likelihood Of Extraordinary Support

We believe that GKB will remain a GRE and see an extremely high likelihood that it would receive timely and sufficient extraordinary support from Graubuenden if necessary. We base our assessment on the bank's:

- Integral link with the canton. We expect Graubuenden to provide considerable and timely credit support in all circumstances to GKB, due to the canton's majority ownership of GKB and possession of 100% of the voting rights, as well as its provision of a statutory guarantee for GKB; and
- Very important role in the canton, owing to the large impact of GKB's activities on the local economy.

Because of these factors, we incorporate a two-notch uplift into the long-term rating on GKB. We do not envisage that the bank's GRE status or our view of an extremely high likelihood of extraordinary government support will change in the foreseeable future. GKB benefits from Graubuenden's statutory guarantee, which ultimately covers all its liabilities, excluding those of its subsidiaries BZ Bank, Privatbank Bellerive, and Albin Kistler; subordinated liabilities; and nonvoting participation certificate (Partizipationskapital). The guarantee does not ensure timely repayment, as per our definitions, but we believe that the canton has strong incentives to help GKB meet its obligations on time given the bank's importance to the regional economy.

## 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 alphanumerical 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 no material influence on our credit rating analysis of Graubuendner Kantonalbank. The cantonal bank's franchise and mandate are focused on providing basic services to the canton's population and supporting economic development in the region. However, these environmental and social factors are only marginally supportive of our credit rating analysis.

## Key Statistics

Table 1

Graubuendner Kantonalbank--Key Metrics					
	--Fiscal year end Dec. 31--				
(Mil. CHF)	2022*	2021	2020	2019	2018
Adjusted assets	32,940.4	32,781.9	31,406.2	28,488.6	26,426.4

Table 1

Graubuendner Kantonalbank--Key Metrics (cont.)					
	--Fiscal year end Dec. 31--				
(Mil. CHF)	2022*	2021	2020	2019	2018
Customer loans (gross)	21,917.0	21,610.1	20,923.8	20,239.1	19,863.7
Adjusted common equity	2,697.1	2,698.2	2,638.4	2,629.8	2,530.5
Operating revenues	221.0	457.7	409.3	410.4	389.8
Noninterest expenses	114.5	227.6	219.4	205.3	201.3
Core earnings	103.4	219.7	183.2	194.1	194.1

\*Figures are based on YTD June 2022.

Table 2

Graubuendner Kantonalbank--Business Position					
	--Fiscal year end Dec. 31--				
(%)	2022	2021	2020	2019	2018
Total revenues from business line (currency in millions)	221.0	460.2	411.5	414.2	397.0
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	7.2	6.7	6.4	6.5	7.0

Table 3

Graubuendner Kantonalbank--Capital And Earnings					
	--Fiscal year end Dec. 31--				
(%)	2022	2021	2020	2019	2018
Tier 1 capital ratio	19.5	20.3	20.4	20.9	18.8
S&P Global Ratings' RAC ratio before diversification	N/A	29.5	31.0	31.3	27.4
S&P Global Ratings' RAC ratio after diversification	N/A	16.3	17.3	18.6	18.7
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	60.2	56.9	62.4	60.1	64.6
Fee income/operating revenues	33.1	36.8	31.3	32.7	27.3
Market-sensitive income/operating revenues	5.0	5.0	4.7	4.7	5.7
Cost to income ratio	51.8	49.7	53.6	50.0	51.7
Preprovision operating income/average assets	0.6	0.7	0.6	0.7	0.7
Core earnings/average managed assets	0.6	0.7	0.6	0.7	0.7

N/A--Not applicable.

Table 4

Graubuendner Kantonalbank--Risk-Adjusted Capital Framework Data					
(CHF 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
<b>Credit risk</b>					
Government & central banks	10,077,451.9	284,239.3	2.8	308,375.0	3.1
Of which regional governments and local authorities	1,008,573.8	284,239.3	28.2	36,308.7	3.6
Institutions and CCPs	2,775,631.7	642,039.0	23.1	273,331.9	9.8
Corporate	3,402,910.5	3,115,222.4	91.5	2,316,021.4	68.1

Table 4

Graubuendner Kantonalbank--Risk-Adjusted Capital Framework Data (cont.)					
Retail	16,171,823.7	7,516,829.0	46.5	4,287,814.5	26.5
Of which mortgage	14,914,536.6	6,417,353.2	43.0	3,458,681.0	23.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	298,183.0	315,006.2	105.6	294,988.2	98.9
Total credit risk	32,726,000.8	11,873,335.9	36.3	7,480,531.0	22.9
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	50,909.1	--	0.0	--
<b>Market Risk</b>					
Equity in the banking book	114,062.0	278,712.3	244.4	776,633.2	680.9
Trading book market risk	--	23,655.7	--	35,483.5	--
Total market risk	--	302,368.0	--	812,116.7	--
<b>Operational risk</b>					
Total operational risk	--	789,185.6	--	855,350.4	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
<b>Diversification adjustments</b>					
RWA before diversification	--	13,015,798.6	--	9,147,998.1	100.0
Total Diversification/ Concentration Adjustments	--	--	--	7,403,782.0	80.9
RWA after diversification	--	13,015,798.6	--	16,551,780.1	180.9
	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)	
Capital ratio	Standard & Poor's RWA	Standard & Poor's RWA	Standard & Poor's RWA	Standard & Poor's RWA	
Capital ratio before adjustments	2,640,857.2	20.3	2,698,234.0	29.5	
Capital ratio after adjustments‡	2,640,857.2	20.3	2,698,234.0	16.3	

\*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. CHF -- Swiss Franc. Sources: Company data as of 'Dec. 31 2021', S&P Global Ratings.

Table 5

Graubuendner Kantonalbank--Risk Position					
	--Fiscal year end Dec. 31--				
(%)	2022	2021	2020	2019	2018
Growth in customer loans	2.8	3.3	3.4	1.9	3.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	80.9	78.6	68.5	46.9
Total managed assets/adjusted common equity (x)	12.2	12.2	11.9	10.8	10.5
New loan loss provisions/average customer loans	0.0	(0.0)	0.0	0.0	(0.0)
Net charge-offs/average customer loans	N.M.	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.1	0.2	0.2	0.2
Loan loss reserves/gross nonperforming assets	N/A	1,091.7	578.3	320.1	413.5

N.M.--Not meaningful. N/A--Not applicable.

Table 6

Graubuendner Kantonalbank--Funding And Liquidity					
	--Fiscal year end Dec. 31--				
(%)	2022	2021	2020	2019	2018
Core deposits/funding base	65.8	65.6	63.5	65.2	69.9
Customer loans (net)/customer deposits	111.3	109.4	114.5	120.3	119.2
Long-term funding ratio	82.8	81.2	79.1	82.9	86.7
Stable funding ratio	118.6	119.7	115.5	113.1	111.9
Short-term wholesale funding/funding base	18.7	20.5	22.9	18.9	14.8
Regulatory net stable funding ratio	N/A	140.0	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	1.8	1.7	1.5	1.6	1.7
Broad liquid assets/total assets	30.7	32.6	31.9	27.2	22.4
Broad liquid assets/customer deposits	51.3	54.7	55.3	46.4	35.8
Net broad liquid assets/short-term customer deposits	23.2	23.8	19.8	17.9	15.2
Regulatory liquidity coverage ratio (LCR) (x)	N/A	203.2	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	54.8	59.7	62.8	54.5	49.1
Narrow liquid assets/3-month wholesale funding (x)	3.3	2.0	1.7	2.2	2.0

N/A--Not applicable.

Graubuendner Kantonalbank--Rating Component Scores	
Issuer Credit Rating	AA/Stable/A-1+
SACP	a+
Anchor	a-
Economic risk	2
Industry risk	2
Business position	Adequate
Capital and earnings	Very strong
Risk position	Adequate
Funding	Adequate
Liquidity	Strong
Comparable ratings analysis	0
Support	2
ALAC support	0
GRE support	2
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## 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

- Banking Industry Country Risk Assessment: Switzerland, May 30, 2022
- Swiss and Liechtenstein Bank Ratings Affirmed Under Revised FI Criteria, Feb. 8, 2022

### Ratings Detail (As Of December 6, 2022)\*

#### Graubuendner Kantonalbank

Issuer Credit Rating	AA/Stable/A-1+
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#### Issuer Credit Ratings History

01-Dec-2014	AA/Stable/A-1+
03-Jul-2012	AA+/Negative/A-1+
17-Dec-2010	AA+/Stable/A-1+

#### Sovereign Rating

Switzerland	AAA/Stable/A-1+
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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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