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## Graubundner Kantonalbank

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# Graubündner Kantonalbank

## Rating Score Snapshot

### Issuer Credit Rating

AA/Stable/A-1+

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/Stable/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

### Overview

#### Key strengths

An extremely high likelihood of support from the bank's owner, the canton of Graubünden.

Market leader in the region of Graubünden, with a strong franchise.

Very strong capitalization with low reliance on net interest income due to revenue diversification compared with peers.

#### Key risks

Concentration risk in its home region from residential real estate lending.

Limited growth potential in its home market due to Graubünden's small size and low population growth.

*We expect that the bank will continue to diversify its revenues and increase its footprint outside of Graubünden.* In June 2022, Graubündner Kantonalbank (GKB) acquired a majority stake in BZ Bank, a Switzerland-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 offset its limited growth potential in the canton of Graubünden. Despite an increase in clients' investment volumes and additional fee revenues, we remain aware of the stability and other risks that come with GKB's newly acquired business and Switzerland-wide targeting. However, the bank's strategy proved to be successful in the first half of 2023, when it recorded a material increase in operating profits.

**Capitalization will remain a rating strength, in our view.** We expect that GKB will maintain its capital and earnings position as key rating strength. GKB's risk-adjusted capital (RAC) ratio stands at 30.38% as of Dec. 31, 2022. We project GKB's RAC ratio to increase to around 31%-33% 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.

**We anticipate that, if necessary, GKB would receive extraordinary support from its majority owner, the canton of Graubuenden.** 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.

## 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 Graubuenden. 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 Graubuenden, 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--				
	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	11.8	(1.5)	8.0-9.7	(0.3)-(0.4)	1.5-1.9
Growth in customer loans	3.3	5.7	1.0-1.2	1.9-2.3	3.2-3.9
Growth in total assets	4.4	1.4	(4.9)-(5.9)	2.5-3.0	3.4-4.1

**Graubündner Kantonalbank--Key ratios and forecasts (cont.)**

(%)	--Fiscal year ended Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
Net interest income/average earning assets (NIM)	1.1	1.1	1.3-1.4	1.2-1.3	1.2-1.3
Cost to income ratio	49.7	51.9	44.8-49.8	46.3-51.4	46.9-52.1
Return on average common equity	6.7	7.1	7.5-8.1	6.9-7.5	6.7-7.3
Gross nonperforming assets/customer loans	0.1	0.1	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	29.5	30.4	29.0-32.2	29.4-32.7	29.8-33.1

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

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

Our anchor for banks operating mainly in Switzerland, like GKB, is 'a-'. We consider the trend for economic and industry risk in Switzerland to be stable.

The Swiss private sector has proven its resilience against multiple external stress scenarios. We expect Swiss households and corporates to maintain credit strength despite the worsening economic outlook. This reflects the superior financial strength of Swiss households and corporations, and banks' prudent underwriting standards (which focus on collateralized lending, mainly residential mortgages or Lombard loans). Overall, we see limited risk to Swiss households on debt servicing capacity from rising rates. At the same time, we believe the deceleration in house price rises should remain manageable for Swiss banks' mortgage exposures. This is because banks' existing stock of mortgage loans are predominately fixed-rate and underwriting standards already integrate much higher interest rates into affordability assessments. In any case, we believe that a strong Swiss labor market, tight and inelastic supply in housing, and ongoing high demand due to persistently high immigration support house prices.

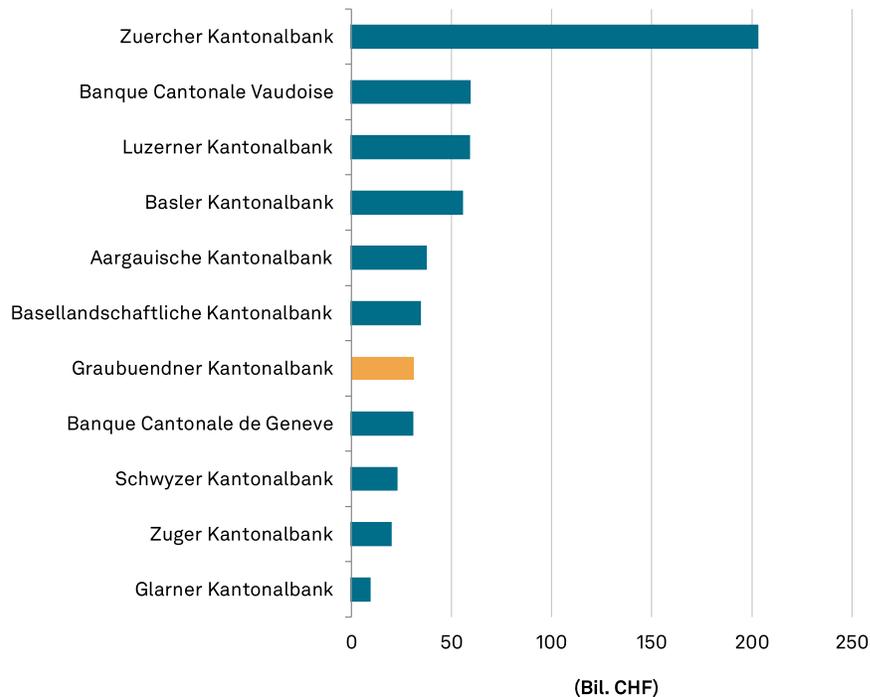
Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector, despite the failure of Credit Suisse. In general, we do not observe a loss in customer confidence in Swiss banking, as many domestic banks profited from inflows of assets under management and deposits from Credit Suisse after outflows escalated in 2022. We believe supervision of non-systemically important institutions has been generally effective. Also, the country's regulatory requirements with respect to gone-concern capital exceed international norms.

## 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 CHF31.1 billion as of June 30, 2023. 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****Graubuendner Kantonalbank is among the midsize rated cantonal banks**

By total assets, H1 2023



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

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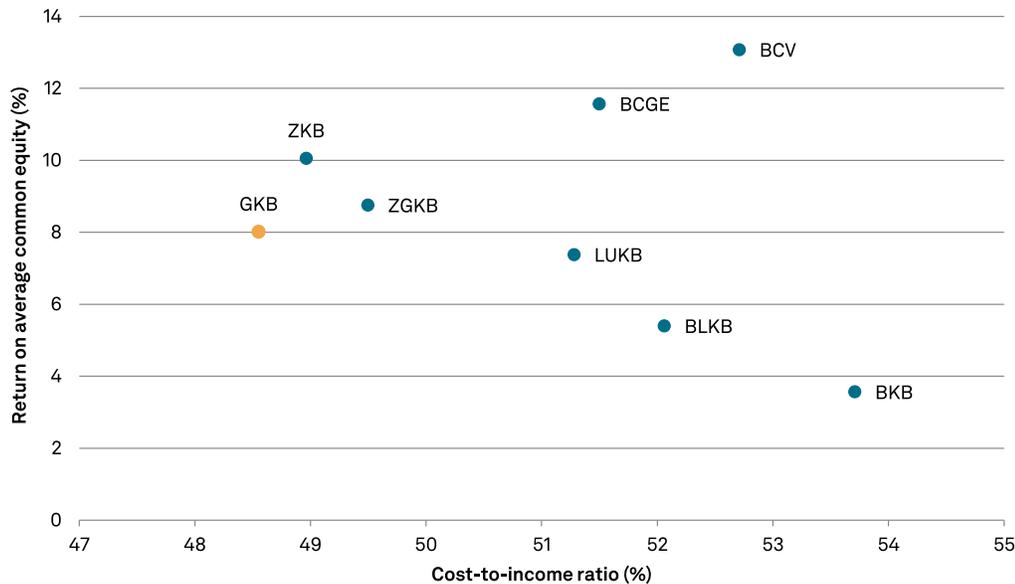
GKB operates predominantly in its home region, Graubunden, which represents 73% of its outstanding mortgage portfolio, focusing on residential mortgage and SME lending. In addition, GKB engages selectively in corporate syndicated lending across Switzerland and acts as a partner to larger cantonal or 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.

The acquisition of a 28% and 70% stake, respectively, in Swiss Twelve Capital and BZ Bank in 2022, along with its existing business partnerships with Privatbank Bellerive and Albin Kistler, resulted in growth of 20.4% year on year in total assets under management to CHF48.8 billion as of June 2023. 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 risk to stability 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 2023)



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. Source: S&P Global Ratings.  
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With a cost-to-income ratio of 48.5% (S&P Global Ratings calculation) as of June 30, 2023, 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: GKB Has One Of The Highest Capitalization Buffers Globally

We think GKB's capitalization will remain a rating strength. At year-end 2022, GKB's RAC ratio stood at 30.38%. and we expect it to improve to about 32% until 2025, supported by sound profit retention, strong balance sheet growth, and overall lower economic risk.

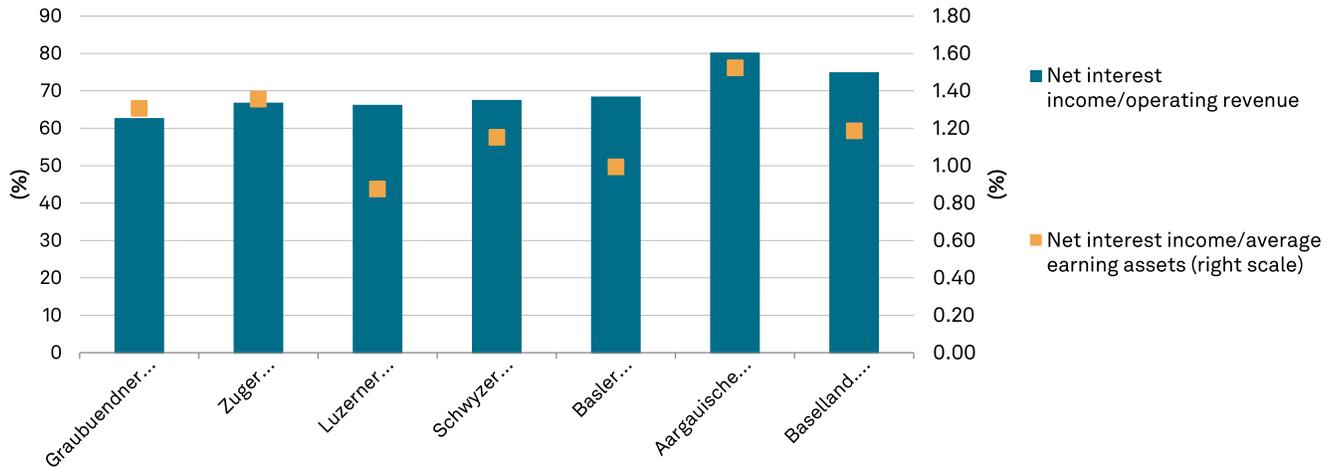
In our view, GKB's earnings are predictable and stable. We estimate GKB's three-year average earnings buffer at roughly 190 basis points (bps) to 200 bps over our risk-weighted assets, which also indicates a sound capacity for earnings to cover normalized losses in a tough economic cycle. We do not assume any changes to the bank's dividend policy of distributing slightly more than CHF100 million per year, and a strategic payout ratio of about 50%-70% in the

medium term to its home canton and other shareholders.

**Chart 3**

**GKB with lowest reliance on net interest income**

... and sound interest margins (as of June 2023)



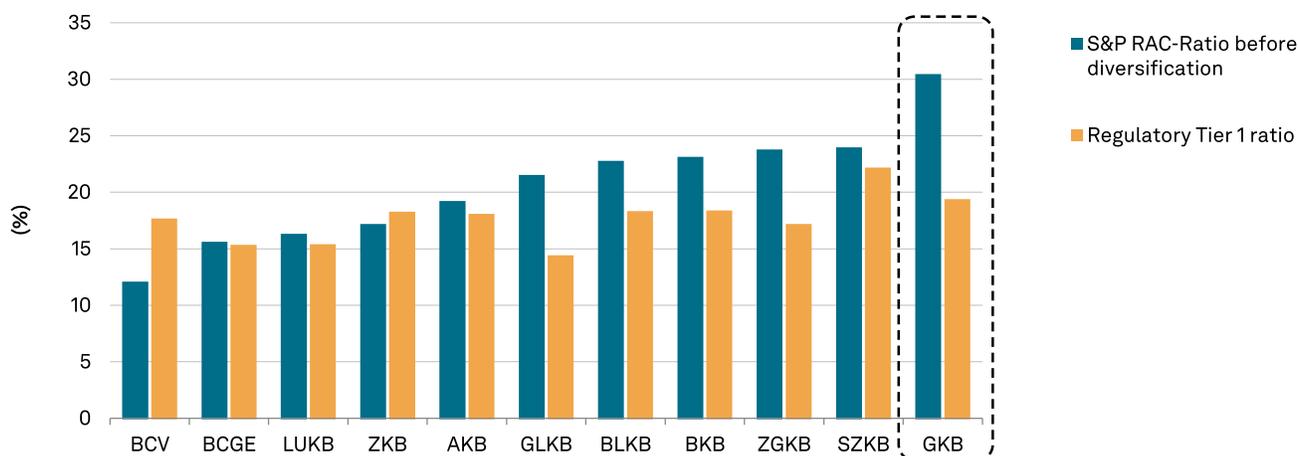
Source: S&P Global Ratings.  
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Due to initiatives to diversify its revenue sources toward fees and commissions, GKB generally exhibits the lowest interest income dependencies among its cantonal bank peers. Following interest rate hikes driven by SNB and because of its sound margins, the contribution of net interest income to operating revenue increased to 62.5% as of June 30, 2023, and is expected it to further increase in the coming years.

We expect the canton would adjust its dividend requirement to allow GKB's common equity Tier 1 ratio to stay above its target. The bank has not issued any hybrid securities, resulting in a high quality of capital.

**Chart 4****GKB's one of the highest capitalization buffers globally**

...with top S&P's RAC ratio amongst Cantonal Banks peers (as of December 2022)



Source: S&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—73% of its loan book as of year-end 2022. In our opinion, the bank will maintain its prudent underwriting standards, which we see as a supportive factor for the risk assessment.

We expect GKB's loan growth at around 2.8% in 2023 and further improving to 3.5% in 2024, reflecting cautious underwriting standards amid the currently uncertain operating environment. 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 as of year-end 2022. 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 0.09% as of June 30, 2023, 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

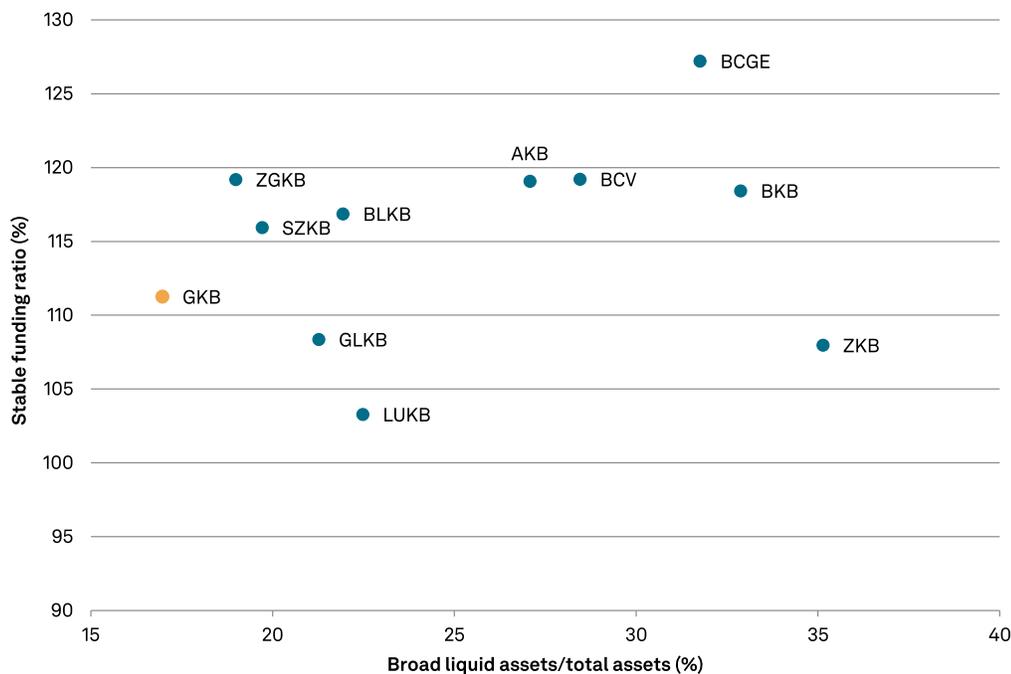
We believe that GKB's combined funding and liquidity position will remain comfortable and on a par with peers. GKB's funding is expected to benefit from a large and reliable customer deposit base which increased as a result of rising interest rates, accounting for 71% of its total funding base in mid-2023. GKB had a stable funding ratio of 111.2% as of mid-2023. 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 (21.4% 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 2023)



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 29% as of year-end 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 Due to 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 Graubunden if necessary. We base our assessment on the bank's:

- Integral link with the canton. We expect Graubunden 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 Graubunden'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 factors have no material influence on our credit rating analysis of Graubuendner Kantonbank. 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 Kantonbank--Key figures					
--Fiscal year ended Dec. 31--					
(Mil. CHF)	2023*	2022	2021	2020	2019
Adjusted assets	31,111	33,219	32,782	31,406	28,489
Customer loans (gross)	23,131	22,840	21,610	20,924	20,239
Adjusted common equity	2,764	2,725	2,698	2,638	2,630
Operating revenues	263	451	458	409	410
Noninterest expenses	128	234	228	219	205
Core earnings	132	213	220	183	194

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

Table 2

Graubündner Kantonalbank--Business position					
	--Fiscal year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	265.2	455.4	460.2	411.5	414.2
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	8.0	7.1	6.7	6.4	6.5

\*Data as of June 30.

Table 3

Graubündner Kantonalbank--Capital and earnings					
	--Fiscal year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	18.8	19.3	20.3	20.4	20.9
S&P Global Ratings' RAC ratio before diversification	N/A	30.4	29.5	31.0	31.3
S&P Global Ratings' RAC ratio after diversification	N/A	16.7	16.3	17.3	18.6
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	62.5	59.9	56.9	62.4	60.1
Fee income/operating revenues	30.0	33.6	36.8	31.3	32.7
Market-sensitive income/operating revenues	4.2	4.9	5.0	4.7	4.7
Cost to income ratio	48.6	51.9	49.7	53.6	50.0
Preprovision operating income/average assets	0.8	0.7	0.7	0.6	0.7
Core earnings/average managed assets	0.8	0.6	0.7	0.6	0.7

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

Table 4

Graubündner 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	8,849,799.1	278,553.9	3.1	271,315.9	3.1
Of which regional governments and local authorities	970,316.0	278,553.9	28.7	34,931.4	3.6
Institutions and CCPs	3,226,462.7	731,070.3	22.7	347,346.0	10.8
Corporate	3,852,908.3	3,439,438.8	89.3	2,426,345.5	63.0
Retail	16,856,120.5	7,850,827.2	46.6	3,923,664.9	23.3
Of which mortgage	15,554,785.3	6,727,370.6	43.2	3,138,955.7	20.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	278,030.2	285,049.2	102.5	250,227.2	90.0
Total credit risk	33,063,320.7	12,584,939.5	38.1	7,218,899.4	21.8
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	55,340.4	--	0.0	--

Table 4

Graubuendner Kantonalbank--Risk-adjusted capital framework data (cont.)					
<b>Market Risk</b>					
Equity in the banking book	125,447.0	278,954.4	222.4	832,690.9	663.8
Trading book market risk	--	42,889.5	--	64,334.3	--
Total market risk	--	321,844.0	--	897,025.2	--
<b>Operational risk</b>					
Total operational risk	--	815,593.7	--	855,347.3	--
	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	--	13,777,717.6	--	8,971,271.8	100.0
Total diversification/ Concentration adjustments	--	--	--	7,380,636.7	82.3
RWA after diversification	--	13,777,717.6	--	16,351,908.6	182.3
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		2,657,529.6	19.3	2,725,278.0	30.4
Capital ratio after adjustments†		2,657,529.6	19.3	2,725,278.0	16.7

\*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. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2022 and S&P Global Ratings.

Table 5

(%)	--Fiscal year ended Dec. 31--				
	2023*	2022	2021	2020	2019
Growth in customer loans	2.5	5.7	3.3	3.4	1.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	78.3	80.9	78.6	68.5
Total managed assets/adjusted common equity (x)	11.3	12.2	12.2	11.9	10.8
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	0.1	0.1	0.1	0.2	0.2
Loan loss reserves/gross nonperforming assets	N/A	1,535.1	1,091.7	578.3	320.1

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

Table 6

(%)	--Fiscal year ended Dec. 31--				
	2023*	2022	2021	2020	2019
Core deposits/funding base	71.3	67.7	65.6	63.5	65.2
Customer loans (net)/customer deposits	115.9	110.7	109.4	114.5	120.3
Long-term funding ratio	93.4	86.3	81.2	79.1	82.9

Table 6

Graubündner Kantonalbank--Funding and liquidity (cont.)					
--Fiscal year ended Dec. 31--					
(%)	2023*	2022	2021	2020	2019
Stable funding ratio	N/A	120.6	119.7	115.5	113.1
Short-term wholesale funding/funding base	7.3	15.0	20.5	22.9	18.9
Regulatory net stable funding ratio	N/A	N/A	140.0	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	N/A	2.1	1.7	1.5	1.6
Broad liquid assets/total assets	N/A	29.0	32.6	31.9	27.2
Broad liquid assets/customer deposits	N/A	47.3	54.7	55.3	46.4
Net broad liquid assets/short-term customer deposits	N/A	25.7	23.8	19.8	17.9
Regulatory liquidity coverage ratio (LCR) (x)	N/A	N/A	203.2	N/A	N/A
Short-term wholesale funding/total wholesale funding	25.5	46.3	59.7	62.8	54.5
Narrow liquid assets/3-month wholesale funding (x)	N/A	2.4	2.0	1.7	2.2

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

### Graubündner Kantonalbank--Rating component scores

Issuer Credit Rating	AA/Stable/A-1+
SACP	a+
Anchor	a-
Economic risk	1
Industry risk	3
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, Aug. 18, 2023
- Graubuendner Kantonalbank: Dec. 6, 2022

### Ratings Detail (As Of December 1, 2023)\*

#### Graubuendner Kantonalbank

Issuer Credit Rating AA/Stable/A-1+

#### 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+

\*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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