

Research Update:

# Switzerland-Based Bank Cler Upgraded To 'A' On Parent's Improved Risk Profile; Outlook Stable

September 22, 2022

## Overview

- On Sept. 22, 2022, we revised upward the stand-alone credit profile (SACP) of Bank Cler's parent, Basler Kantonalbank (BKB), to 'a+' from 'a', reflecting its improved risk profile.
- Improved financial health of the parent increases its capacity to support Bank Cler, in case of need.
- At the same time, we see Bank Cler being well on track to further improve its efficiency based on the enhancement of synergies in the wider group, while upholding its very strong capitalization and asset quality.
- As a result, we upgraded Bank Cler to 'A' from 'A-'.
- The stable outlook reflects our view that Bank Cler will be able to further improve efficiency, while retaining its very strong capital buffer over the coming 12-24 months.

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## Rating Action

On Sept. 22, 2022, S&P Global Ratings raised its long-term issuer credit rating on Bank Cler AG to 'A' from 'A-'. The outlook is stable.

At the same time, we affirmed our 'BB+' ratings on Bank Cler's junior subordinated debt.

## Rationale

**The upgrade of Bank Cler follows our rating action on its parent, BKB.** We revised upward our assessment of BKB's SACP to 'a+' from 'a' on the back of an improved risk position, which we now assess as adequate in line with BKB's cantonal bank peers (see "Basler Kantonalbank 'AA+' Rating Affirmed; Stand-Alone Credit Profile Revised To 'a+' On Improved Risk Position," published Sept. 22, 2022). This mainly reflects BKB's focus on low-risk collateralized residential mortgage lending, very robust asset quality, and a reduction of concentration risks in BKB's lending book.

**The parent's improved financial health increases its capacity to support Bank Cler, in case of need.** As a result of BKB's improved stand-alone creditworthiness, we now apply one notch of group support in our issuer credit rating on Bank Cler. Given Bank Cler's importance to BKB and partial integration in the parent group, we consider Bank Cler a strategically important subsidiary and would expect some extraordinary support if needed. For potential extraordinary support, we can add up to three notches of rating uplift, capped at one notch below our SACP for BKB. To estimate the extraordinary support potential, we look to our SACP on BKB and not the ICR, since we do not expect that cantonal support to BKB would extend to Bank Cler in case of need.

**We expect Bank Cler will further improve its efficiency, while upholding its very strong capitalization and asset quality.** We expect Bank Cler will strengthen its cost savings through continued enhancement of synergies with BKB. The bank's very strong capitalization remains a key rating strength, and we expect its risk-adjusted capital (RAC) ratio to remain at about 24% over the coming two years. We also note that Bank Cler is not directly exposed to any risks stemming from the Russia-Ukraine war. In our base case, we expect the indirect impact to be very limited.

**We affirmed our issue ratings on Bank Cler's junior subordinated debt, since we do not expect parental support for Bank Cler's subordinated issuance.** Our 'BB+' ratings on Bank Cler's junior subordinated debt (additional Tier 1) reflect our analysis of the instruments and our assessment of Bank Cler's SACP at 'a-'. Although we consider parent BKB to be generally supportive to its strategically important subsidiary in most foreseeable circumstances, we believe that extraordinary support would not be extended to Bank Cler's subordinated issuance. We therefore deduct four notches from the SACP, which is currently one notch below the issuer credit rating, to arrive at the issue rating.

## Outlook

The stable outlook reflects our view that the Swiss economy in general and its residential housing market in particular will be able to weather the current economic turmoil without any material adverse shock. It also reflects our expectations that Bank Cler will be able to improve efficiency, while retaining its very strong capital buffer over the coming 12-24 months.

## Downside scenario

We consider a negative rating action as remote, since we would likely offset weaker stand-alone creditworthiness with support from BKB, so long as BKB maintains its stand-alone strengths, and no doubts arise as to the likelihood of support. We would need to revise downward our assessment of Bank Cler's SACP by three notches, before it resulted in us lowering the issuer credit rating. However, if we were to see materially rising credit losses in Bank Cler's mortgage book that would erode its profitability and indicate weaker asset quality than we currently assess, we could revise downward the SACP, which is likely to result in a downgrade of the junior subordinated debt ratings.

## Upside scenario

We consider an upgrade as remote, given the already very high rating.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Stable/-	A-/Stable/-
SACP	a-	a-
Anchor	a-	a-
Business position	Constrained (-2)	Constrained (-2)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	(0)	(0)
Support	(+1)	(0)
ALAC support	(0)	(0)
GRE support	(0)	(0)
Group support	(+1)	(0)
Sovereign support	(0)	(0)
Additional factors	(0)	(0)

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

## ESG credit indicators: E-2, S-2, G-2

### Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Basler Kantonalbank 'AA+' Rating Affirmed; Stand-Alone Credit Profile Revised To 'a+' On Improved Risk Position, Sept. 22, 2022
- Banking Industry Country Risk Assessment: Switzerland, May 30, 2022
- Swiss and Liechtenstein Bank Ratings Affirmed Under Revised FI Criteria, Feb. 8, 2022
- Bank Cler, Dec. 1, 2022

## Ratings List

### Ratings Affirmed

#### Bank Cler AG

Junior Subordinated BB+

### Upgraded

To	From
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#### Bank Cler AG

Issuer Credit Rating	To	From
	A/Stable/--	A-/Stable/--

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