

## Bank Cler AG

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# Bank Cler AG

## Rating Score Snapshot

### Issuer Credit Rating

A/Stable/--

SACP: a-



Support: +1



Additional factors: 0

Anchor	a-	
Business position	Constrained	-2
Capital and earnings	Very strong	+2
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	0
Group support	+1
Sovereign support	0

Issuer credit rating
<b>A/Stable/--</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

Very strong capitalization.

Digital banking profile helps attract new customers.

Potential for extraordinary support from parent Basler Kantonalbank (BKB) if needed.

#### Key risks

Small scale and concentration in Swiss retail mortgages.

Relatively weak profitability from the balancing of physical and digital growth.

**We anticipate that Bank Cler would receive extraordinary support from BKB in most foreseeable circumstances if needed.** We consider Bank Cler as a strategically important subsidiary. We grant the bank an additional notch of group support, which lifts the long-term issuer credit rating (ICR) on the bank to 'A', one notch above its stand-alone credit profile (SACP) of 'a-'.

**We expect that Bank Cler will maintain very strong capitalization as its key rating strength.** We forecast that Bank Cler's risk-adjusted capital (RAC) ratio will increase above 25% over the next 24 months, which is very high, compared with global banks. Bank Cler's improving efficiency supports high capital ratios because it increases synergies with BKB and supports a strict cost discipline. Therefore, we forecast that the bank will improve its cost-to-income ratio to 63% by 2025, after 66% at year-end 2022, offsetting inflationary cost increases. The bank's return on equity (ROE) was relatively low at 3.2% as of mid-year 2023, which we expect to remain relatively stable until 2025. We anticipate that

Bank Cler will defend its market position as a small universal bank operating across Switzerland, with a small branch network and a strong digital footprint.

**We expect Bank Cler to sustain solid asset quality.** The bank is highly concentrated in Swiss residential mortgages. Our related concerns are mitigated because Bank Cler demonstrates sound risk management and very high collateralization, and we anticipate that the robust Swiss economy will continue to weather the slowdown in the global macroeconomic environment. We forecast the Swiss housing market will remain healthy, not least because the risks of higher interest rates will be limited.

## Outlook

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

### Downside scenario

We consider a negative rating action to be remote because any weakening in Bank Cler's stand-alone creditworthiness would likely be offset by support from BKB, as long as BKB maintains its stand-alone strengths and no doubts arise as to the likelihood of support. We would need to revise down Bank Cler's SACP by three notches before it resulted in us lowering our ICR. However, if we saw materially rising credit losses in Bank Cler's mortgage book that eroded its profitability and indicated weaker asset quality than we currently assess, we could revise the SACP down, which would likely lead us to lower the junior subordinated debt ratings.

### Upside scenario

We consider an upgrade to be remote given the already very high rating.

## Key Metrics

### Bank Cler AG--Key ratios and forecasts

(%)	--Fiscal year ending Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	(0.5)	0.0	1.8-2.2	2.3-2.9	1.6-2.0
Growth in customer loans	(0.8)	2.9	1.8-2.2	1.8-2.2	1.8-2.2
Growth in total assets	3.0	(7.9)	1.5-1.9	1.6-1.9	1.6-1.9
Net interest income/average earning assets (NIM)	1.1	1.1	1.1-1.2	1.1-1.2	1.1-1.2
Cost to income ratio	69.2	65.8	61.7-64.8	61.9-65.1	62.0-65.2
Return on average common equity	3.2	3.1	2.5-2.7	2.6-2.9	2.7-3.0
New loan loss provisions/average customer loans	(0.0)	(0.0)	0.0-0.0	0.0-0.0	0.0-0.0
Gross nonperforming assets/customer loans	0.3	0.3	0.3-0.3	0.3-0.4	0.3-0.4

**Bank Cler AG--Key ratios and forecasts (cont.)**

(%)	--Fiscal year ending Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
Risk-adjusted capital ratio	24.2	24.2	26.2-27.5	26.3-27.6	26.5-27.8

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

## Anchor:'a-' For A Retail Bank Only Operating In Switzerland

Our anchor for banks operating mainly in Switzerland, such as Bank Cler, is 'a-'. We consider the trend for economic and industry risk in Switzerland as stable.

The Swiss private sector has proven its resilience against multiple external stress scenarios. Despite the worsening economic outlook, we expect Swiss households and corporates to maintain credit strength. 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 higher rates. We also expect the stagnation in real house prices should remain manageable for Swiss banks' mortgage exposures. This is because banks' existing stocks of mortgage loans are predominately fixed-rate and underwriting standards already integrate much higher interest rates into affordability assessments. We think that a strong Swiss labor market, tight and inelastic supply in housing, and ongoing high demand due to persistently high immigration support house prices.

Despite the failure of Credit Suisse, our view of industry risk in Switzerland encompasses the stability of the domestic banking sector. We do not observe a loss in general customer confidence in Swiss banking because many domestic banks profited from inflows of assets under management and deposits from Credit Suisse after outflows escalated in 2023. We think supervision of non-systemically important institutions has generally been effective. The country's regulatory requirements for gone-concern capital exceed international norms. Money laundering and the threat of additional sanctions remain tail risks for the Swiss banking sector, especially for smaller private banks.

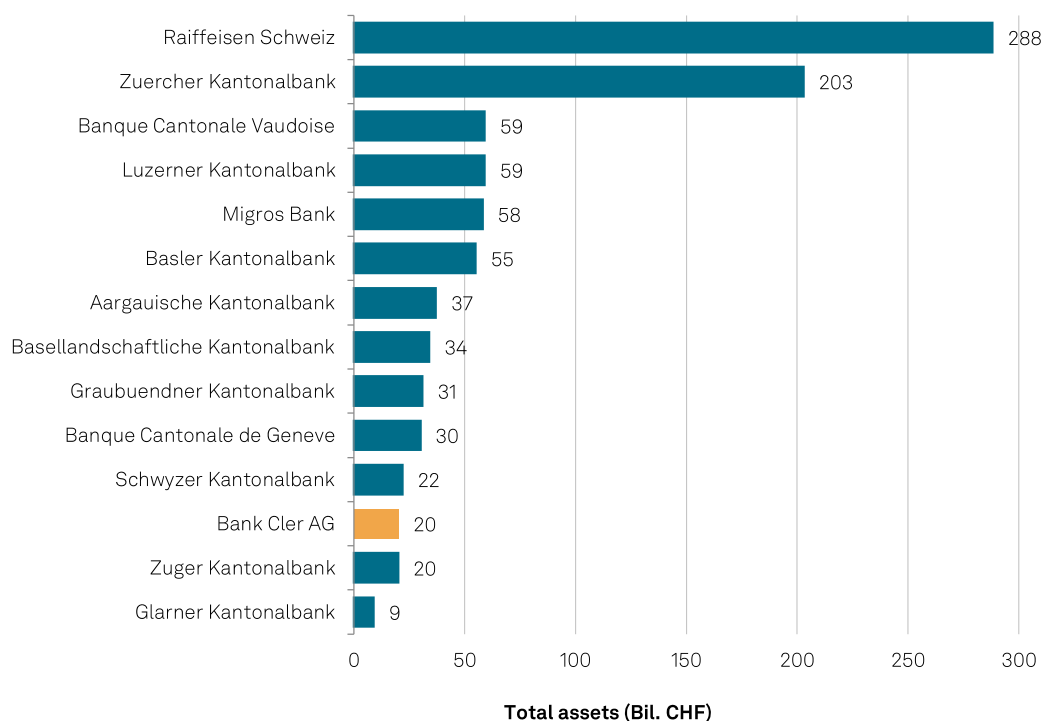
## Business Position: Constrained By Scale And Concentration On Mortgage Lending

Our view of Bank Cler's business strength is limited by its small size and market share, and its concentration on Swiss mortgage lending. This could make the bank less resilient in downturns, compared with larger and better-diversified peers. As of June 2023, Bank Cler had total assets of Swiss francs (CHF) 19.9 billion. It is therefore considered small, compared with other Swiss banks (see chart 1). As part of the bank's strategic refocusing, in 2022 Bank Cler started to exit the business with institutional clients, custodians, and corporates. Most of the business was transferred to the parent, BKB. As a result, total assets and assets under management declined relative to year-end 2021.

## Chart 1

**Bank Cler is relatively small compared with other Swiss banks**

Total assets as of end-June 2023 (Bil. CHF)



Source: S&amp;P Global Ratings.

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Bank Cler operates across Switzerland through a small network of 25 branches and the banking app Zak, with more than 60,000 customers. The bank has an expanding range of digital products, including free accounts and cards. Digital products will likely remain a customer acquisition tool for the bank, enabling it to cross-sell more complex and profitable mortgage and wealth-management products via its branch network.

While Bank Cler has a relatively small market share, its strong retail focus generates stable interest from its residential mortgage lending. This also makes it susceptible to margin pressure from strong competition in lending products. Net interest income accounts for about 76% of the bank's operating revenues, while fee income from wealth-management activities accounts for approximately 19% as of June 2023. Bank Cler's asset-liability management is focused on keeping the net interest income stable over the cycle. We anticipate that the bank's ROE will remain relatively low at 3.2% as of mid-year 2023 but note that Bank Cler's earnings are stable and credit risk cost is low.

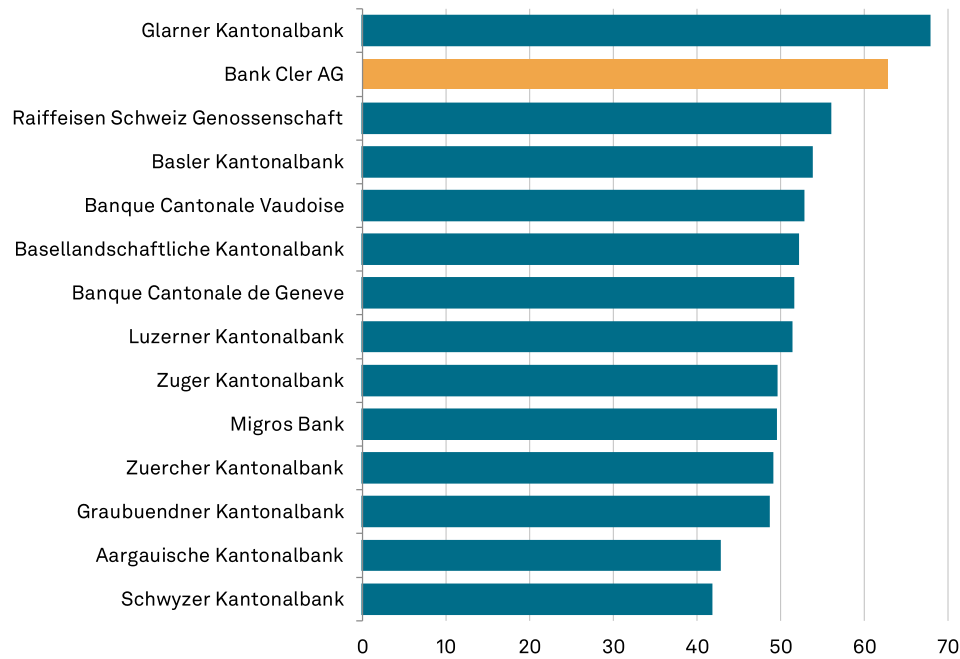
The bank's low efficiency is a rating weakness and limits our view of its business strength, compared with peers. Despite recent improvements, the bank continues to operate with below-average efficiency (see chart 2). The bank's cost-to-income ratio of about 63% as of mid-2023 reflects the balancing of its physical and digital presence. We anticipate that this ratio will improve gradually by 2025, but we expect the bank will remain a negative outlier among peers for several years until its digitalization strategy plays out. Under its new strategy "2022+", Bank Cler aims to

achieve a cost-to-income ratio of 55% and ROE of at least 6% by 2025.

**Chart 2**

**Operating efficiency is below average**

Cost to income ratio (%) as of end-June 2023



Cost to income ratio - Noninterest expenses / Operating revenues. Source: S&P Global Ratings.  
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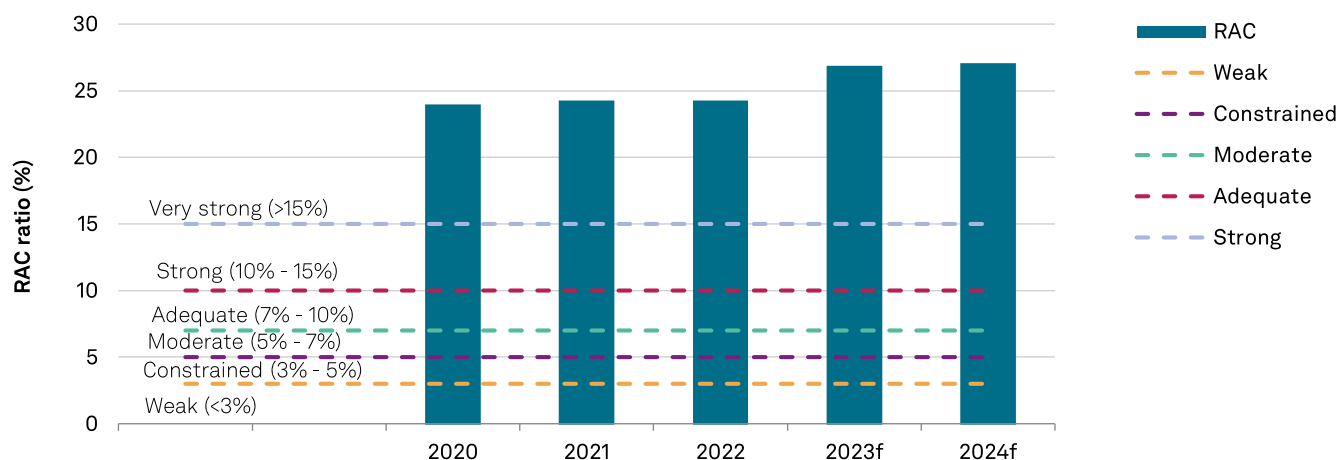
**Capital And Earnings: A Key Strength**

We anticipate that Bank Cler's capitalization will remain its key rating strength. This is indicated by our RAC ratio of 27.0% over 2023-2025, up from 24.2% as of year-end 2022.

## Chart 3

## Very strong capitalization is a key rating strength

RAC ratio from 2020 to 2024f



f--Forecast. Source: S&amp;P Global Ratings.

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For the next two years, we forecast moderate loan growth of 2% annually, gradual growth in operating income from rising fees, and the gradual reduction in operating costs from synergies and automation. This should allow Bank Cler to uphold its very strong capital base while paying a constant dividend of CHF30 million.

## Risk Position: Resilient Customers And Sound Risk Management Balance Concentration In Swiss Real Estate

We expect Bank Cler's asset quality to remain robust, considering its prudent risk management and cautious lending standards. We anticipate limited risk to the bank's significant exposure to residential real estate, which accounted for 99% of the bank's customer loans in mid-2023 because it is highly collateralized by mainly lower risk residential real estate. The bank's asset quality also benefits from the affluence of Swiss customers, the strong Swiss labor market, and the high, inelastic, and ongoing demand for housing due to steady immigration flows.

However, Bank Cler's inherent concentration in Swiss residential mortgages makes it susceptible to weaker economic prospects. The bank's high geographical concentration, focus on residential mortgage lending, and the single-name concentration in its corporate are higher compared with many international peers.

Bank Cler has a highly collateralized loan book and benefits from the stable Swiss housing market. Real house prices have not declined notably since the beginning of 2022. After the Swiss National Bank (SNB) increased interest rates, house prices in Switzerland increased slightly in 2023, following a steep rise in 2022.

We note that Bank Cler's nonperforming loan (NPL) ratio stood at 0.3% at year-end 2022 and the cost of risk has been

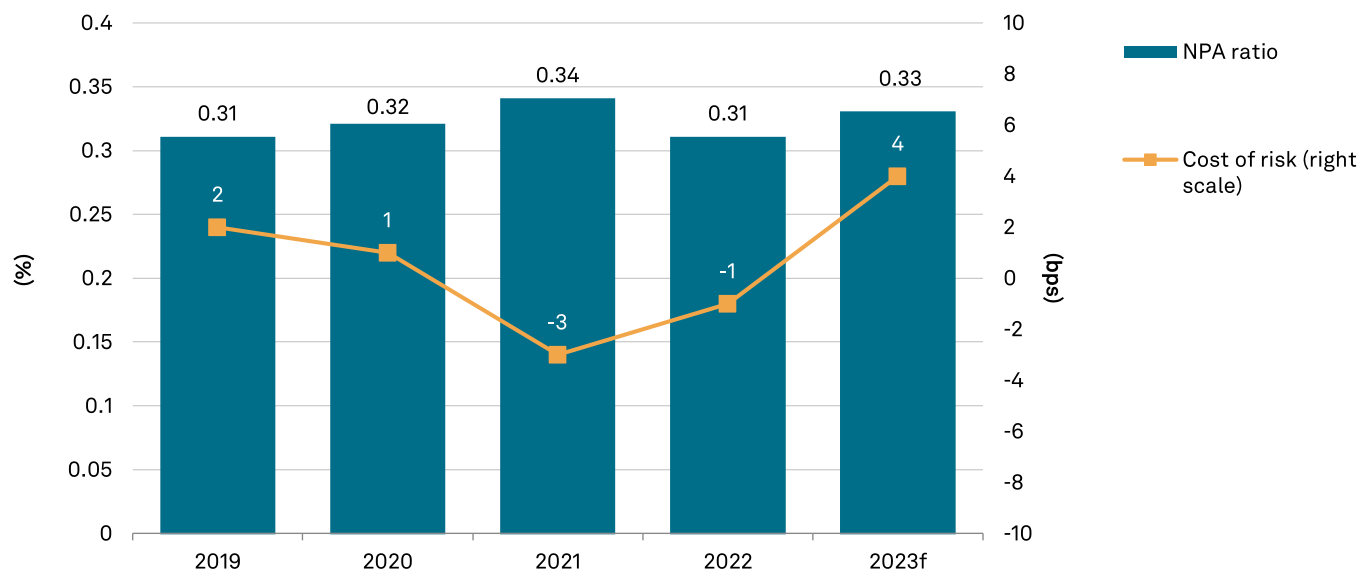


below five bps over many years. Both are very low in the broader European context (see chart 4).

#### Chart 4

##### Low risk costs combined with very good asset quality

Evolution of NPA ratio (%) and cost of risk (bps) since 2019



Cost of risk--New loan loss provisions / average customer loans. NPA--nonperforming assets. Bps--Basis point. f--Forecast. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

## Funding And Liquidity: Stable Deposit Franchise With Contingent Liquidity Support From BKB

We expect Bank Cler will retain a sound funding and liquidity profile, benefiting from a stable customer franchise and low dependence on wholesale funding. The bank is largely deposit-funded, with a high share of short-term current account and saving deposits, complemented by long-term covered bonds and some minor senior unsecured bonds. Its customer-loans-to-customer-deposits ratio of 122% and stable funding ratio of 106% as of June 2023 are largely in line with peers'. We expect Bank Cler to maintain its prudent liquidity management and favorable liquidity position. This would, in our view, enable it to endure more than 12 months of no access to market funding. Its liquidity ratio was 1.9x of broad liquid assets to short-term wholesale funding in mid-year 2023. To manage liquidity risk, the bank also performs regular stress tests for an idiosyncratic, market-wide, and combined stress scenario.

We think that Bank Cler could rely on BKB as a contingent funding source in times of short-term liquidity pressure. We expect BKB will preserve its ability to support Bank Cler thanks to its strong liquidity. We assume BKB's liquidity would weather times of stress, given that BKB would likely benefit from its cantonal guarantee and flight to quality

amid a market-wide stress.

## Support: One Notch Of Uplift From Parental Support

BKB bought a majority share in Bank Cler in 2000 and became the 100% owner in 2019, after acquiring Swiss retailer group Coop's stake. Through its full control, BKB benefits from Bank Cler's digital know-how and investments. At the same time, BKB diversifies Bank Cler's concentrated footprint with business growth outside of its restricted home canton. We see Bank Cler as a strategically important subsidiary and would expect some extraordinary support from BKB if needed. This expected support would act as a buffer to our rating on Bank Cler if its SACP weakened. We reflect this in our one notch of group support, which leads us to rate Bank Cler at 'A'. The group support is capped at one notch below our 'a+' SACP for BKB, while the maximum rating uplift would be three notches. We use BKB's SACP and not its ICR to assess the extraordinary support potential. This is because we do not expect that cantonal support to BKB would extend to Bank Cler if needed. Although BKB would have a strong interest in supporting its subsidiary, there could be political implications of support that would reduce BKB's stand-alone capitalization. Since Bank Cler does not fall under the cantonal guarantee that benefits BKB, we would expect political discussions to potentially limit the extent and timeliness of such support.

## Environmental, Social, And Governance

We consider the bank's environmental, social, and governance standards in line with those of peers in the banking industry. The bank's governance standards are comparable with wider practices in Switzerland.

## Group Structure, Rated Subsidiaries, And Hybrids

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 BKB to be supportive of its strategically important subsidiary in most circumstances, we think that extraordinary support would not be extended to Bank Cler's hybrid capital instruments. We therefore deduct four notches from the SACP, which is currently one notch below the ICR.

## Key Statistics

**Table 1**

Bank Cler AG--Key figures					
	--Year ended Dec. 31--				
(Mil. CHF)	2023*	2022	2021	2020	2019
Adjusted assets	19,947.6	18,890.6	20,507.2	19,905.4	18,811.7
Customer loans (gross)	16,690.9	16,531.4	16,065.9	16,188.3	16,025.9
Adjusted common equity	1,339.7	1,298.9	1,258.1	1,237.0	1,209.1
Operating revenues	127.8	244.5	244.4	245.7	241.0
Noninterest expenses	80.3	160.9	169.0	175.3	183.6

Table 1

Bank Cler AG--Key figures (cont.)					
	--Year ended Dec. 31--				
(Mil. CHF)	2023*	2022	2021	2020	2019
Core earnings	40.1	72.5	68.8	55.7	43.8

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

Table 2

Bank Cler AG--Business position					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	127.8	244.7	245.8	246.0	241.2
Commercial & retail banking/total revenues from business line	96.5	96.1	96.1	96.3	95.8
Trading and sales income/total revenues from business line	3.5	3.9	3.9	3.7	4.2
Investment banking/total revenues from business line	3.5	3.9	3.9	3.7	4.2
Return on average common equity	3.2	3.1	3.2	3.2	3.2

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

Table 3

Bank Cler AG--Capital and earnings					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	N/A	18.1	18.0	17.6	16.1
S&P Global Ratings' RAC ratio before diversification	N/A	24.2	24.2	23.9	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	14.5	13.5	13.8	N/A
Adjusted common equity/total adjusted capital	100.0	93.5	93.3	93.2	100.0
Net interest income/operating revenues	75.6	72.1	72.5	73.4	71.6
Fee income/operating revenues	19.1	22.5	22.2	21.1	23.0
Market-sensitive income/operating revenues	3.5	3.9	3.9	3.7	4.2
Cost to income ratio	62.8	65.8	69.2	71.4	76.2
Preprovision operating income/average assets	0.5	0.4	0.4	0.4	0.3
Core earnings/average managed assets	0.4	0.4	0.3	0.3	0.2

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

Table 4

Bank Cler AG--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	1,888,699.2	45,678.6	2.4	3,648.8	0.2
Of which regional governments and local authorities	77,158.3	45,678.5	59.2	2,777.7	3.6
Institutions and CCPs	280,539.7	39,553.0	14.1	32,530.1	11.6
Corporate	826,125.9	427,955.0	51.8	543,339.4	65.8
Retail	15,877,964.9	6,591,952.5	41.5	4,368,966.7	27.5

Table 4

Bank Cler AG--Risk-adjusted capital framework data (cont.)					
Of which mortgage	14,109,834.5	5,120,265.1	36.3	3,270,218.5	23.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	25,651.3	17,934.6	69.9	28,038.1	109.3
Total credit risk	18,898,981.0	7,123,073.7	37.7	4,976,523.1	26.3
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	2,800.0	--	0.0	--
<b>Market Risk</b>					
Equity in the banking book	36,587.6	54,881.4	150.0	274,407.4	750.0
Trading book market risk	--	23,267.4	--	34,901.0	--
Total market risk	--	78,148.8	--	309,308.5	--
<b>Operational risk</b>					
Total operational risk	--	379,449.9	--	460,633.1	--
	<b>Exposure</b>	<b>Basel III RWA</b>	<b>Average Basel II RW (%)</b>	<b>S&amp;P Global Ratings RWA</b>	<b>% of S&amp;P Global Ratings RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification	--	7,701,383.4	--	5,746,464.7	100.0
Total diversification/ Concentration adjustments	--	--	--	3,853,748.9	67.1
RWA after diversification	--	7,701,383.4	--	9,600,213.6	167.1
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global Ratings RAC ratio (%)</b>
Capital ratio					
Capital ratio before adjustments		1,393,124.0	18.1	1,389,690.0	24.2
Capital ratio after adjustments‡		1,393,124.0	18.1	1,389,690.0	14.5

\*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

Bank Cler AG--Risk position					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	1.9	2.9	(0.8)	1.0	3.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	67.1	79.0	73.1	N/A
Total managed assets/adjusted common equity (x)	14.9	14.5	16.3	16.1	15.6
New loan loss provisions/average customer loans	(0.0)	(0.0)	(0.0)	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.3	0.3	0.3	0.3
Loan loss reserves/gross nonperforming assets	N/A	83.0	90.5	73.1	83.8

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

Table 6

Bank Cler AG--Funding and liquidity					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	67.1	68.9	70.1	71.0	71.1
Customer loans (net)/customer deposits	134.6	137.8	120.3	123.5	128.7
Long-term funding ratio	93.0	94.1	92.3	92.9	93.7
Stable funding ratio	106.2	103.0	113.1	109.7	105.9
Short-term wholesale funding/funding base	7.5	6.4	8.3	7.6	6.8
Regulatory net stable funding ratio	N/A	132.3	139.5	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	1.9	1.6	2.5	2.3	1.9
Broad liquid assets/total assets	13.0	9.3	19.0	15.9	12.2
Broad liquid assets/customer deposits	20.9	14.6	29.3	24.3	18.4
Net broad liquid assets/short-term customer deposits	9.8	5.4	17.7	14.0	9.0
Regulatory liquidity coverage ratio (x)	N/A	157.0	158.9	N/A	N/A
Short-term wholesale funding/total wholesale funding	22.8	20.3	27.3	25.8	23.5
Narrow liquid assets/three-month wholesale funding (x)	3.1	2.6	2.9	4.5	3.7

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

### Bank Cler AG--Rating component scores

Issuer Credit Rating	A/Stable/--
SACP	a-
Anchor	a-
Economic risk	1
Industry risk	3
Business position	Constrained
Capital and earnings	Very strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	0
GRE support	0
Group support	+1
Sovereign support	0
Additional factors	0

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

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Banking Industry Country Risk Assessment: Switzerland, Aug. 18, 2023
- Select Swiss Banks Affirmed After Review Of Banking Sector; BICRA Group Remains '2', July 24, 2023

### Ratings Detail (As Of December 4, 2023)\*

#### Bank Cler AG

Issuer Credit Rating	A/Stable/--
Junior Subordinated	BB+

#### Issuer Credit Ratings History

22-Sep-2022	A/Stable/--
19-Oct-2020	A-/Stable/--

#### Sovereign Rating

Switzerland	AAA/Stable/A-1+
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#### Related Entities

##### Basel-City (Canton of)

Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured	AAA

##### Basler Kantonbank

Issuer Credit Rating	AA+/Stable/A-1+
Junior Subordinated	BBB
Senior Unsecured	AA+

\*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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