

# RatingsDirect®

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## Graubundner Kantonalbank

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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	<table border="1"> <tr> <th colspan="2">Issuer credit rating</th> </tr> <tr> <td colspan="2" style="text-align: center; vertical-align: middle;"> <b>AA/Stable/A-1+</b> </td> </tr> </table>	Issuer credit rating		<b>AA/Stable/A-1+</b>	
Issuer credit rating									
<b>AA/Stable/A-1+</b>									
Business position	Adequate	0	GRE support	+2					
Capital and earnings	Very strong	+2	Group support	0					
Risk position	Adequate	0	Sovereign support	0					
Funding	Adequate	0							
Liquidity	Adequate	0							
CRA adjustment	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.
Very strong capitalization and retained earnings capacity.	Limited growth potential in its home market.
A relatively low reliance on net interest income compared with its peers due to revenue diversification.	

*We expect that Graubündner Kantonalbank will uphold its long-standing franchise, and we expect it to continue diversifying into private banking and asset management.* Graubündner Kantonalbank (GKB) predominantly operates in its home region, Graubünden, which accounts for 73% of its outstanding mortgage portfolio. It focuses on residential mortgage and small and midsize enterprise (SME) lending, with a 50% share of the canton's market.

The bank's investments in BZ Bank AG, Privatbank Bellerive AG, and Albin Kistler AG strengthen its position as a provider of professional institutional investment solutions and advisory services, in our view. At the same time, we remain aware of the stability risk and other risks that come with GKB's acquired business and Switzerland-wide targeting.

*The bank's capitalization will remain a rating strength, in our view.* We expect that GKB will maintain its capital and earnings position as a key rating strength. Our risk-adjusted capital (RAC) ratio for GKB was 30.4% as of Dec. 31, 2023, and we project that it will climb to 32.2%-32.8% over the next two years.

We believe GKB's capitalization will remain superior to that of other cantonal banks and most of the other banks we rate globally.

*We anticipate that, if it's necessary, 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.

## Outlook

The stable outlook reflects our view that GKB will continue to benefit from its status as a government-related entity (GRE) and its strong ties to its majority owner, the Swiss canton of Graubünden. We believe there's 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 that the bank will maintain its robust and superior loss-absorption capacity thanks to its high capital and earnings buffer, even if the economic cycle were to worsen materially over our two-year forecast horizon.

### Downside scenario

The likelihood of a downgrade over the next two years 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 stand-alone credit profile, the potential for extraordinary support from the canton would provide a buffer.

### Upside scenario

It's unlikely that we would consider an upgrade in the next 12-24 months. That said, all else remaining equal, we could raise the ratings on GKB if the canton's ability to support the bank during times of financial stress were to strengthen.

## Key Metrics

Graubündner Kantonalbank--Key ratios and forecasts					
	--Fiscal year ended Dec. 31--				
(%)	2022a	2023a	2024f	2025f	2026f
Growth in operating revenue	(1.5)	17.5	(0.8)-(0.6)	1.7-2.1	2.4-2.9
Growth in customer loans	5.7	6.3	2.5-3.1	2.7-3.3	3.2-3.9
Net interest income/average earning assets (NIM)	1.1	1.3	1.2-1.3	1.2-1.3	1.2-1.3
Cost-to-income ratio	51.9	51.0	51.6-54.2	52.2-54.9	52.6-55.3

## Graubuendner Kantonalbank--Key ratios and forecasts (cont.)

(%)	--Fiscal year ended Dec. 31--				
	2022a	2023a	2024f	2025f	2026f
Return on average common equity	7.1	7.7	7.1-7.8	6.9-7.6	6.7-7.5
Gross nonperforming assets/customer loans	0.1	0.0	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	28.0	30.4	32.3-32.8	32.4-32.9	32.3-32.8

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 Graubuendner Kantonalbank, 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 banks to maintain their strong asset quality, given the superior financial strength of Swiss households and corporations as well as banks' prudent underwriting standards, amid a difficult global economic outlook. We anticipate the country's GDP to expand by 1.5% in 2025.

Overall, we see limited risks to Swiss banks' mortgage exposures as real estate prices are supported by structural factors such as immigration, the scarcity of building land, and higher commodity prices over the coming years.

Our view of industry risk in Switzerland encompasses the stability of the country's multi-tiered banking system with government-guaranteed credit institutions viewed as safe havens. Proposals by the regulator and parliament could strengthen banks' corporate governance and supervision as well as their access to liquidity during crises.

Tech disruption poses a moderate risk for the Swiss market, in our opinion. A lack of economies of scale in retail banking makes the country less attractive for international banks. Swiss customers generally do not demand pure online retail banking products, and digital banks have yet to establish full alternatives to traditional banks, in our view.

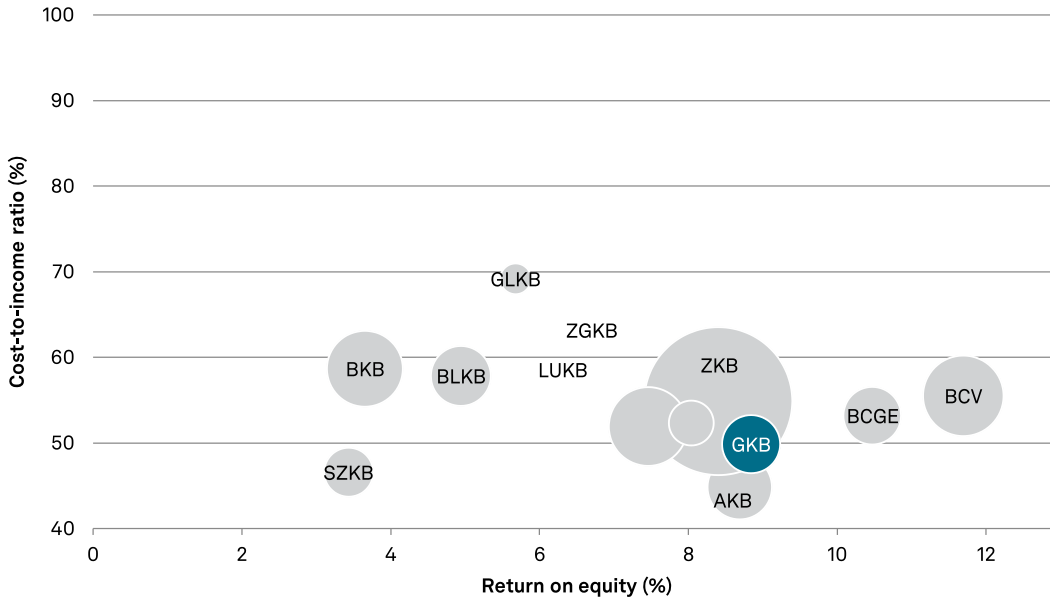
## Business Position: The Strength Of The Regional Franchise Offsets Concentration Risks

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 Swiss franc (CHF) 31.8 billion as of June 30, 2024.

As a leading commercial bank in its home canton, GKB has high, stable market shares in retail and corporate banking (over 55% market share with respect to business customers and a roughly 45% share with respect to retail customers). We believe that GKB's strong local franchise and the exceptional resilience of its customers offset risks related to the bank's local concentrations.

**Chart 1**

**Sound profitability at GKB at an extraordinarily high capitalization**



Data as of the first half of 2024. The size of an individual bubble in this chart represents total assets.  
 AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise.  
 BKB--Basler Kantonalbank. BLKB--Basellandschaftliche Kantonalbank. GKB--Graubündner Kantonalbank.  
 GLKB--Glerner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZGKB--Zuger  
 Kantonalbank. ZKB--Zürcher Kantonalbank. Source: S&P Global Ratings.  
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GKB predominantly operates in its home region, Graubünden, which accounts for 73% of its outstanding mortgage portfolio; that portfolio focuses on residential mortgage and SME lending. In addition, GKB engages selectively in corporate syndicated lending across Switzerland, and it acts as a partner to larger cantonal or commercial banks, mainly large, highly rated Swiss corporate entities.

GKB's private banking operations complement its lending activities. The private banking operations focus mainly on domestic customers, but the bank also has some cross-border business with German and Italian clients owing to their geographic proximity.

Total assets under management increased to CHF50.8 billion as of June 2024. We think this supports the bank's strategy of strengthening its position as a provider of professional institutional investment solutions and advisory services. At the same time, there's risk to the stability of GKB's business outside its home canton, which we view as more volatile, especially given its focus on investment advisory activities.

The cost-to-income ratio at GKB was 49.9% as of June 30, 2024, by our calculation, and so we consider GKB's efficiency to be on par with the efficiency of its cantonal bank peers. But we also believe material investments in IT infrastructure and human resources are needed for GKB to keep up with its competitors across Switzerland and for

GKB to secure its position in the contested local labor market.

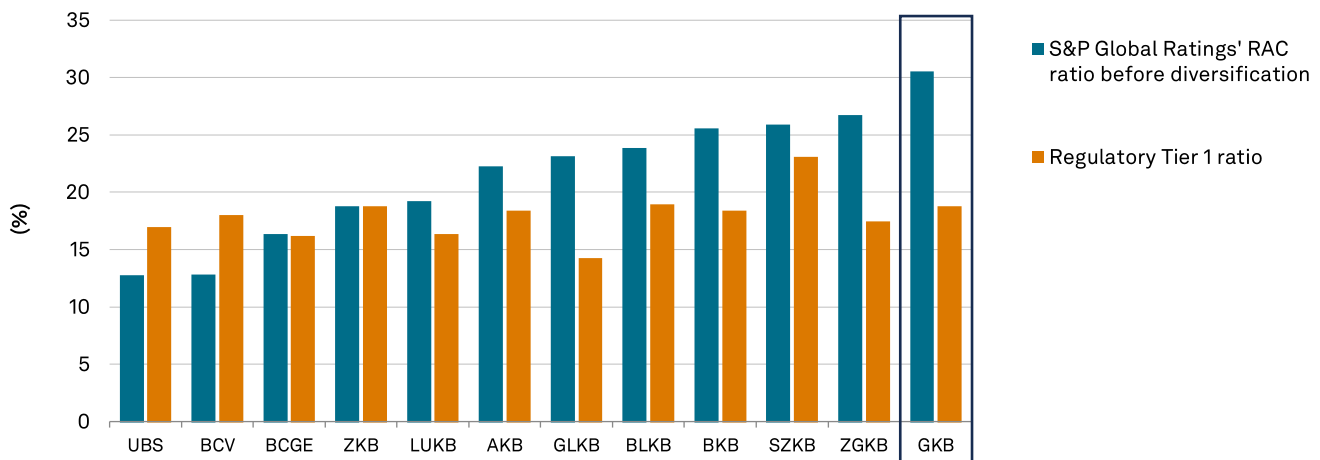
## Capital And Earnings: One Of The Highest Capitalization Buffers Globally

We think GKB's capitalization will remain a rating strength. At year-end 2023, our RAC ratio for GKB was 30.4%, and we expect it to improve to 33.0%–33.5% by 2026 with support from sound profit retention (which we expect will outpace strong growth targets).

Our view is that GKB's earnings are predictable and stable. We estimate that GKB's three-year average earnings buffer is roughly 215 basis points over our measure of its risk-weighted assets, which also indicates the sound capacity of GKB's earnings to cover normalized losses. We don't assume any changes to the bank's strategic dividend payout ratio of 50%-70% in the medium term.

### Chart 2

GKB has some of the highest capitalization levels globally



Data as of year-end 2023. RAC--Risk-adjusted capital. UBS--UBS Group AG. BCV--Banque Cantonale Vaudoise. BCGE--Banque Cantonale de Geneve. ZKB--Zuercher Kantonalbank. LUKB--Luzerner Kantonalbank. AKB--Aargauische Kantonalbank. GLKB--Glarner Kantonalbank. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. SZKB--Schwyzer Kantonalbank. ZGKB--Zuger Kantonalbank. GKB--Graubündner Kantonalbank. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Because of its initiatives to diversify its revenue sources toward fees and commissions, GKB is generally the least reliant on interest income of anyone in its cantonal bank peer group, which is positively reflected in our assessment. The contribution of net interest income to operating revenue was stable at 62.4% as of June 30, 2024, and we expect it to climb in coming years.

Our expectation is that the canton would adjust its dividend requirement to allow GKB's common equity Tier 1 ratio to stay above the owner's target. The bank hasn't issued any hybrid securities, resulting in high quality of capital.

## Risk Position: Low, Stable Risk Costs Through The Cycle

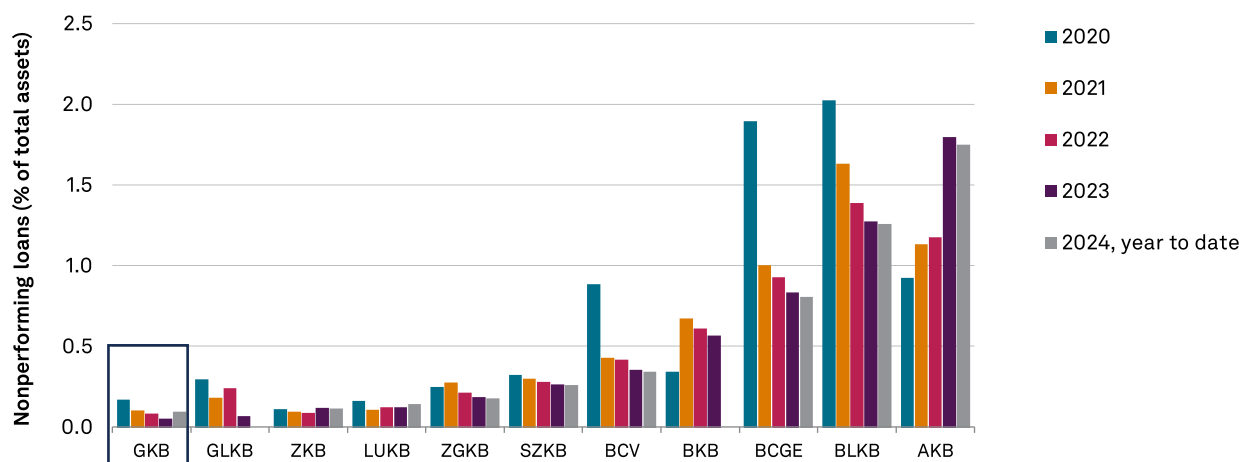
We expect GKB's risk profile to remain robust because of its focus on low-risk, highly collateralized residential mortgage lending--73% of its loan book as of year-end 2023. In our opinion, the bank will maintain its prudent underwriting standards, which we see as a supportive factor for the risk assessment.

We see loan growth at GKB at roughly 2.8% in 2024, improving to 3.0% in 2025, reflecting cautious underwriting standards amid the currently uncertain operating environment. Our concerns about regional concentration risks are balanced by the high granularity and adequate collateralization of GKB's loan portfolio, with a 55.7% loan-to-value ratio, on average, as of year-end 2023.

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 nonperforming loans remained at a low 0.09% of total assets as of June 30, 2024, comparable to peers'. In addition, GKB had loan loss reserves for inherent default risks of about CHF320 million at year-end 2023--substantially higher than the level at other Swiss banks, acting as a second layer of defense.

### Chart 3

#### GKB has sound asset quality metrics



Data as of the first half of 2024. GKB--Graubuendner Kantonalbank. GLKB--Glarner Kantonalbank. ZKB--Zuercher Kantonalbank. LUKB--Luzerner Kantonalbank. ZGKB--Zuger Kantonalbank. SZKB--Schwyzer Kantonalbank. BCV--Banque Cantonale Vaudoise. BKB--Basler Kantonalbank. BCGE--Banque Cantonale de Geneve. BLKB--Basellandschaftliche Kantonalbank. AKB--Aargauische Kantonalbank. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

To diversify its loan book geographically and by sector, GKB participates in syndicated corporate loans, mainly across Switzerland. We don't believe that this activity, which today represents less than 5% of GKB's loan book, will provide any significant diversification benefit; we also don't think this activity, at its current magnitude, will increase GKB's



credit risk to an extent where it would impair its risk profile.

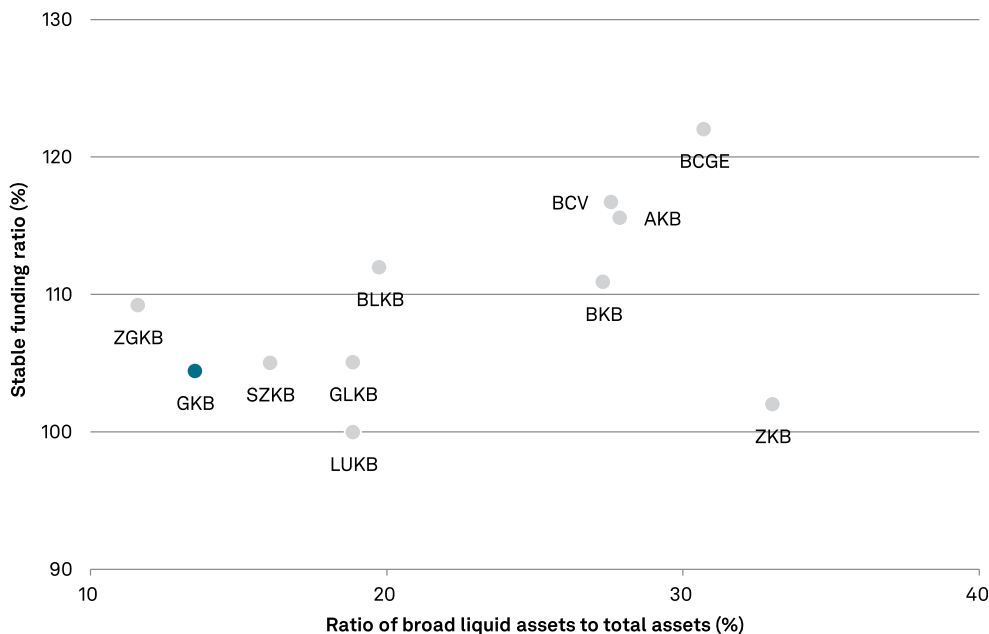
## Funding And Liquidity: A Strong Retail Deposit Franchise, With Low Reliance On Wholesale Funding And Adequate Liquidity

We believe that GKB's combined funding and liquidity position will remain comfortable and on par with those of its peers. GKB's funding benefits from a large and reliable customer deposit base accounting for 70.0% of its total funding base in mid-2024. GKB had a stable funding ratio of 104.4% as of mid-2024, and in our view, that ratio will roughly maintain its level over the next few years.

We'd expect that GKB's deposits would 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 supports GKB's access to low-cost, long-term, wholesale funding (20.1% of its total funding base) as well as its ability to issue covered bonds.

### Chart 4

GKB's funding and liquidity are in line with those of its peers



Data as of the first half of 2024. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BKB--Basler Kantonalbank. BLKB--Basellandschaftliche Kantonalbank. GKB--Graubündner Kantonalbank. GLKB--Glarner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZGKB--Zuger Kantonalbank. ZKB--Zürcher Kantonalbank. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

We expect that GKB's liquidity position and management will remain in line with those of other domestic banks. This is underpinned by our assessment of its broad liquid assets-to-total assets ratio--it was 13.55% as of June 30, 2024,

indicating a good buffer to cover an extended period without access to market funding in an adverse scenario. Broad liquid assets to short-term wholesale funding was 1.5x as of midyear 2024. These ratios are in line with most domestic peers'.

## Support: Two Notches Of Uplift Due To An Extremely High Likelihood Of Extraordinary Support

We believe that GKB will remain a GRE, and we think there's an extremely high likelihood it would receive timely and sufficient extraordinary support from Graubunden, if it's 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, because of the canton's majority ownership of GKB and its possession of 100% of the voting rights, as well as its provision of a statutory guarantee for GKB.
- The bank's very important role in the canton. This is 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. GKB benefits from Graubunden's statutory guarantee, which ultimately covers all of its liabilities, excluding those of subsidiaries BZ Bank, Privatbank Bellerive, and Albin Kistler; its subordinated liabilities; and its nonvoting participation certificate (Partizipationskapital).

The guarantee doesn't ensure timely repayment, per our definitions, but we believe 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

Environmental, social, and governance factors have no material influence in 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 figures				
--Fiscal year ended Dec. 31--				
(Mil. CHF)	2024*	2023	2022	2021
Adjusted assets	31,762	32,742	33,219	32,782
Customer loans, gross	24,438	24,285	22,840	21,610
Adjusted common equity	2,837	2,792	2,725	2,698
Operating revenue	268	530	451	458
Noninterest expenses	133	270	234	228

Table 1

**Graubündner Kantonalbank--Key figures (cont.)**

(Mil. CHF)	--Fiscal year ended Dec. 31--			
	2024*	2023	2022	2021
Core earnings	130	252	213	220

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

Table 2

**Graubündner Kantonalbank--Business position**

	--Fiscal year ended Dec. 31--			
	2024*	2023	2022	2021
Total revenue from business line (currency in millions)	271.7	533.1	455.4	460.2
Other revenue/total revenue from business line (%)	100.0	100.0	100.0	100.0
Return on average common equity (%)	8.8	7.7	7.1	N/A

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

Table 3

**Graubündner Kantonalbank--Capital and earnings**

(%)	--Fiscal year ended Dec. 31--			
	2024*	2023	2022	2021
Tier 1 capital ratio	18.1	18.7	19.3	20.3
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0
Net interest income/operating revenue	62.4	63.5	59.9	56.9
Fee income/operating revenue	31.6	30.1	33.6	36.8
Market-sensitive income/operating revenue	3.9	4.0	4.9	5.0
Cost-to-income ratio	49.9	51.0	51.9	49.7
Provision operating income/average assets	0.8	0.8	0.7	N/A
Core earnings/average managed assets	0.8	0.8	0.6	N/A

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

Table 4

**Graubündner Kantonalbank--Risk-adjusted capital framework data**

(CHF000s)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
<b>Credit risk</b>					
Government and central banks	7,009,438	316,881	5	212,990	3
Of which: Regional governments and local authorities	691,759	316,881	46	24,893	4
Institutions and central counterparty clearinghouses	4,574,096	1,600,430	35	532,896	12
Corporate	3,553,474	3,012,017	85	2,286,796	64
Retail	17,827,100	7,981,403	45	4,080,629	23
Of which: Mortgage	15,976,575	6,774,096	42	3,224,073	20
Securitization§	0	0	0	0	0

Table 4

Graubuendner Kantonalbank--Risk-adjusted capital framework data (cont.)						
Other assets†	216,018	219,684	102	193,721	90	
Total credit risk	33,180,125	13,130,415	40	7,307,032	22	
<b>Credit valuation adjustment</b>						
Total credit valuation adjustment	--	269,427	--	0	--	
<b>Market risk</b>						
Equity in the banking book	123,771	270,795	219	824,350	666	
Trading book market risk	--	36,764	--	55,146	--	
Total market risk	--	307,559	--	879,496	--	
<b>Operational risk</b>						
Total operational risk	--	890,111	--	985,267	--	
	<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	--	14,597,512	--	9,171,795	100	
Total diversification/concentration adjustments	--	--	--	5,138,149	56	
RWA after diversification	--	14,597,512	--	14,309,944	156	
			<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global Ratings' RAC ratio (%)</b>
<b>Capital ratios</b>						
Capital ratio before adjustments		2,728,715	18.7	2,792,020	30.4	
Capital ratio after adjustments‡		2,728,715	18.7	2,792,020	19.5	

\*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 the Tier 1 ratio are additional regulatory requirements (for example, 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, 2023) and S&P Global Ratings.

Table 5

Graubuendner Kantonalbank--Risk position				
	--Fiscal year ended Dec. 31--			
(%)	2024*	2023	2022	2021
Growth in customer loans	1.3	6.3	5.7	N.M.
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	56.0	78.3	80.9
Total managed assets/adjusted common equity (x)	11.2	11.7	12.2	12.2
New loan loss provisions/average customer loans	0.0	0.0	(0.0)	N/A
Net charge-offs/average customer loans	N.M.	(0.0)	0.0	N/A
Gross nonperforming assets/customer loans plus other real estate owned	0.1	0.0	0.1	0.1
Loan loss reserves/gross nonperforming assets	N/A	2,804.7	1,535.1	1,091.7

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

Table 6

Graubündner Kantonalbank--Funding and liquidity				
	--Fiscal year ended Dec. 31--			
(%)	2024*	2023	2022	2021
Core deposits/funding base	70.0	67.5	67.7	65.6
Customer loans, net/customer deposits	122.7	120.6	110.7	109.4
Long-term funding ratio	91.0	87.7	86.3	81.2
Stable funding ratio	104.4	106.5	110.5	119.7
Short-term wholesale funding/funding base	9.9	13.5	15.0	20.5
Regulatory net stable funding ratio	N/A	134.0	140.0	140.0
Broad liquid assets/short-term wholesale funding (x)	1.5	1.5	1.7	1.7
Broad liquid assets/total assets	13.5	18.3	22.6	32.6
Broad liquid assets/customer deposits	21.6	30.2	36.8	54.7
Net broad liquid assets/short-term customer deposits	7.6	10.4	15.0	23.8
Regulatory liquidity coverage ratio (%)	N/A	132.2	153.9	203.2
Short-term wholesale funding/total wholesale funding	33.0	41.5	46.3	59.7
Narrow liquid assets/three-month wholesale funding (x)	2.3	1.9	1.9	2.0

\*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	Adequate
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 | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- 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

- Three Swiss Cantonal Bank Ratings Affirmed; Outlooks Stable; Liquidity Revised To Adequate From Strong, Oct. 25, 2024
- Banking Industry Country Risk Assessment: Switzerland, July 30, 2024

### Ratings Detail (As Of December 23, 2024)\*

#### Graubündner 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+

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