

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Berner Kantonalbank AG's Aa2 deposit and A2 senior unsecured ratings; outlook remains stable

04 Oct 2024

Frankfurt am Main, October 04, 2024 -- Moody's Ratings (Moody's) has today affirmed Berner Kantonalbank AG's (BEKB) Aa2 long-term deposit and A2 senior unsecured ratings; the outlook on these ratings remains stable. At the same time, we affirmed the bank's long-term and short-term Counterparty Risk Ratings (CRR) at A1/P-1, its short-term deposit ratings at P-1, and its subordinate rating at A2.

Concurrently, we affirmed BEKB's Baseline Credit Assessment (BCA) at a2, its Adjusted BCA at a1, and its long-term and short-term Counterparty Risk Assessment (CR Assessment) at Aa3(cr)/P-1(cr).

RATINGS RATIONALE

-- AFFIRMATION OF THE BASELINE CREDIT ASSESSMENT

The affirmation of BEKB's a2 BCA reflects the bank's sound capitalisation and asset quality in recent years, but it also considers regional and residential real estate concentration risks within the bank's loan book. In addition, the affirmation of the a2 BCA incorporates the bank's strengthened profitability in the higher interest-rate environment, which we expect to be largely maintained. Furthermore, the a2 BCA takes into account BEKB's strong deposit franchise, its low dependence on confidence-sensitive market funding, the favourable term structure of its market funding instruments that are mostly comprised of covered bonds, and the bank's sound level of liquid resources.

-- AFFIRMATION OF RATINGS

The affirmation of BEKB's ratings follows the affirmation of the bank's a2 BCA and a1 Adjusted BCA, the latter incorporating our unchanged assumption of a high affiliate support from its majority owner, the Canton of Berne, resulting in one notch of rating uplift for the bank's Adjusted BCA. The affirmation further reflects the unchanged result of our Advanced Loss Given Failure (LGF) analysis, which takes into account

the severity of loss in resolution for BEKB's different liability classes and continues to yield two notches of rating uplift for deposits, one notch of rating uplift for the CR Assessment, no rating uplift for the CRR, and a one notch deduction for senior unsecured and subordinated debt from the bank's a1 Adjusted BCA.

The ratings do not benefit from further rating uplift from our unchanged assumption of low sovereign government support because of the bank's low nationwide market share in loans and deposits and its limited systemic importance to the Swiss payment system.

OUTLOOK

The stable outlook on BEKB's long-term deposit and senior unsecured ratings reflects our expectation of a stable financial profile and a broadly unchanged liability structure.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of BEKB's long-term ratings could be triggered by an upgrade of its BCA or by higher rating uplift as a result of our Advanced LGF analysis, which would require significant issuance of debt instruments that are subordinated to deposits.

An upgrade of BEKB's BCA is unlikely but it could be triggered by a contemporaneous reduction of its regional and residential real estate concentration risks, further improved capitalisation and profitability, a materially lower reliance on market funding, and higher liquid resources.

A downgrade of BEKB's ratings could be triggered by a downgrade of its BCA. The bank's deposit ratings, CRR, and CR Assessment could also be downgraded if our Advanced LGF analysis returned a lower rating uplift resulting from a lower volume of senior unsecured and subordinated debt outstanding relative to the bank's tangible banking assets.

BEKB's BCA could be downgraded as a result of declining asset quality, an unexpected weakening of the bank's capital position and profitability, and due to an increase in market funding or due to a decline in liquid resources.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis,

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