

## Glarner Kantonalbank

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# Glarner Kantonalbank

## Rating Score Snapshot

### Issuer Credit Rating

AA/Stable/A-1+

SACP: a-

Support: +4

Additional factors: 0

|                      |             |    |                   |    |  |
|----------------------|-------------|----|-------------------|----|--|
| Anchor               | a-          |    | ALAC support      | 0  | <b>Issuer credit rating</b><br><br><br><br><br><br><br><br><br><br><b>AA/Stable/A-1+</b> |
| Business position    | Moderate    | -1 |                   |    |  |
| Capital and earnings | Very strong | +2 | GRE support       | +4 |  |
| Risk position        | Adequate    | 0  |                   |    |  |
| Funding              | Moderate    | -1 | Group support     | 0  |  |
| Liquidity            | Adequate    |    |                   |    |  |
| CRA adjustment       |             | 0  | Sovereign support | 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

Sound retail banking franchise in the small Canton of Glarus and a loan book dominated by well-collateralized residential mortgages.

Very strong and sustainably high capitalization.

Extremely high likelihood of receiving extraordinary government support from the canton, if needed.

#### Key risks

Expansion of loan volume outside its home canton of Glarus, which might gradually weaken the stability of its client relationships.

Weaker cost efficiency than that of most rated peers and concentration risk from focus on residential mortgage lending in Glarus and the neighboring cantons.

*S&P Global Ratings considers Glarner Kantonalbank (GLKB) as having a somewhat weaker franchise than other cantonal banks in Switzerland and peers in European markets with a similar industry risk profile, such as Austria and Finland.* This stems from its focus on expanding its loan book outside its home canton. In our view, this results in a more price-sensitive and less stable customer base. Nevertheless, the bank has demonstrated resilience during three challenging years since the pandemic's beginning in March 2020. GLKB has no direct loan or securities exposures affected by the Russia-Ukraine conflict. Therefore, we don't expect immediate repercussions in terms of business volumes or asset quality.

*We expect GLKB's business model to continue, with strong roots in the Canton of Glarus and complementary business activities through online mortgages in German-speaking Switzerland.* In November 2022, the bank has announced an updated strategy with "Fokus 2026", confirming that the strategic direction for 2023-2026 will remain broadly unchanged. After a period of high growth, we understand the bank will continue to focus on digitizing its business model, with the goal to improve client experience on digital platforms.

*The 'AA/A-1+' ratings on GLKB benefit considerably from our view of extremely high likelihood of extraordinary government support from Glarus, if needed.* The uplift for potential extraordinary government support comes on top of the bank's 'a-' stand-alone credit profile (SACP). We expect GLKB to receive timely and sufficient extraordinary support from Glarus if needed. Our assessment is reinforced by the halt of the bank's privatizations plans in May 2022. What's more, the SACP incorporates significant ongoing implicit government support benefits--for example, lower funding costs and a sticky deposit base--which support overall profitability and stability.

## Outlook

The stable outlook reflects our view that GLKB would receive extraordinary support from its majority owner, the Canton of Glarus, if needed. Consequently, the likelihood of a downgrade is remote over the next two years because, in the event of a moderate deterioration of the bank's creditworthiness, we would include additional support from the canton into our ratings, assuming all else remained equal.

### Downside scenario

We could lower the rating if we concluded that GLKB's ties with Glarus had loosened, or if renewed attempts to change the cantonal bank law emerged. However, we consider this scenario unlikely after the people in Glarus voted against the government's proposal to change the cantonal bank law in May 2022. In addition, a negative rating action could occur if we were to lower our assessment of the canton's creditworthiness.

### Upside scenario

A positive rating action on the canton would trigger an upgrade of GLKB. However, improvements in GLKB's SACP would not translate into an upgrade.

## Key Metrics

### Glarner Kantonalbank--Key Ratios And Forecasts

|  | --Fiscal year ended Dec. 31-- |       |          |           |         |
|--|-------------------------------|-------|----------|-----------|---------|
| (%)  | 2020a                         | 2021a | 2022e    | 2023f     | 2024f   |
| Growth in operating revenue                      | 3.7                           | 3.0   | 0.2-0.3  | 13.4-16.3 | 4.7-5.8 |
| Growth in customer loans                         | 4.8                           | 4.6   | 3.6-4.4  | 1.8-2.2   | 2.7-3.3 |
| Growth in total assets                           | 10.1                          | 10.1  | 9.1-11.1 | 1.2-1.5   | 1.9-2.3 |
| Net interest income/average earning assets (NIM) | 1.2                           | 1.1   | 1.1-1.2  | 1.1-1.2   | 1.1-1.3 |

**Glarner Kantonalbank--Key Ratios And Forecasts (cont.)**

|   | <b>--Fiscal year ended Dec. 31--</b> |              |              |              |              |
|---|--------------------------------------|--------------|--------------|--------------|--------------|
| <b>(%)</b>                                      | <b>2020a</b>                         | <b>2021a</b> | <b>2022e</b> | <b>2023f</b> | <b>2024f</b> |
| Cost-to-income ratio                            | 60.6                                 | 68.1         | 69.6-73.1    | 63.0-66.2    | 62.0-65.1    |
| Return on average common equity                 | 7.4                                  | 6.4          | 4.9-5.4      | 6.2-6.8      | 7.1-7.8      |
| Return on assets                                | 0.4                                  | 0.3          | 0.2-0.3      | 0.3-0.3      | 0.3-0.4      |
| New loan loss provisions/average customer loans | 0.1                                  | (0.0)        | 0.0-0.0      | 0.1-0.1      | 0.0-0.0      |
| Gross nonperforming assets/customer loans       | 0.3                                  | 0.2          | 0.2-0.3      | 0.4-0.4      | 0.3-0.3      |
| Risk-adjusted capital ratio                     | 22.6                                 | 23.3         | 22.3-23.5    | 22.5-23.6    | 22.5-23.6    |

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

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

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

Despite a weaker economic outlook and further risks to the economic trajectory from the Russia-Ukraine military conflict, we expect Swiss banks will demonstrate robust asset quality and lower credit losses than most peers, close to levels observed pre-pandemic. Strong resilience stems from the superior financial strength of both the household and corporate sectors, as well as banks' prudent underwriting standards focusing on collateralized lending, mainly in residential mortgages. We also do not expect material constraints on customers' debt service capacity from higher rates, given the dominance of fixed-rate mortgage contracts with an average 10-year interest period. We further see the risk of a severe price correction in the housing market as low, because it would likely require a steep rise in unemployment. However, we think risks in the investment property subsegment is still slightly elevated because prices remain sensitive to immigration levels, construction activity, investment alternatives amid rising rates, and vacancy rates that recently reached a multiyear high.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector. We view positively that, despite high competitive pressure between local players, domestic banks can still earn their cost of capital. We expect Swiss banks will see a net revenue benefit from rises in policy rates, but less so than peers, given that Swiss banks benefit from the central bank's broad exemption for sight deposits being subject to negative rates. We also note banks' high capitalization levels and reliance on stable customer deposits and equity for funding. In our view, the Swiss Financial Market Supervisory Authority (FINMA) remains on top of both regulatory oversight and innovations, and overall, we think Swiss banks face limited risks from technology disruption. We also expect the regulator to effectively limit Swiss banks' sensitivity to financial crime. Strong anti-money-laundering standards and business models and practices that do not rely on customers' undeclared wealth are crucial for the stability and strength of the Swiss banking sector, in our view.

## Business Position: Growth Strategy Outside The Home Canton Weakens The Business Stability

We consider GLKB's banking franchise weaker than that of most rated cantonal banks. This is because it materially relies on the customer base outside Glarus, which we regard as less stable and more price-sensitive.

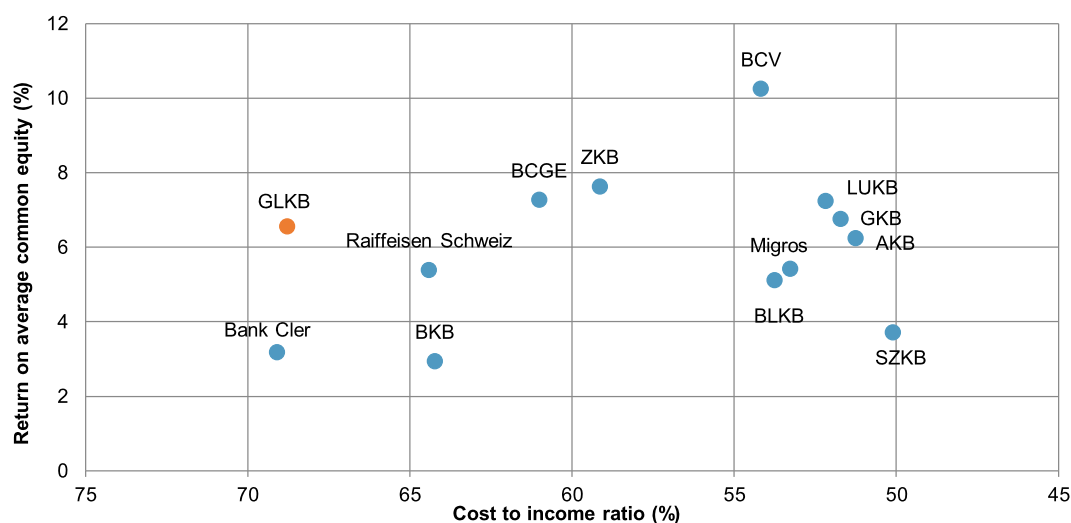
GLKB is a small Swiss cantonal bank and the leading bank for retail and corporate clients in its home canton with a population of roughly 40,000. It focuses on residential mortgage lending near Glarus and online mortgages in German-speaking Switzerland through its online platform, hypomat. Small-scale corporate banking and asset management activities round out GLKB's franchise. The bank generates additional income by offering administration services for mortgage loans to third parties and selling hypomat licenses. Both initiatives support our view that GLKB is proactively executing strategic measures toward full digitalization and, in particular, online platforms.

GLKB has demonstrated adequate profitability with increasing revenue in the past decade, backed by its growth strategy, which we expect to continue. Still, the bank's cost-efficiency remains weaker than for most of its main cantonal peers, which are typically 50%-60%.

### Chart 1

#### GLKB's Cost Efficiency Is A Weakness

Peer comparison of cost-to income ratio and return on average common equity. Average between 2020-2022H1



Cost-to-income ratio is defined as noninterest expense as % of operating revenues. Return on equity for H1-2022 is annualized. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubundner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZKB--Zuercher Kantonalbank. H1--First half. Source: S&P Global Ratings.

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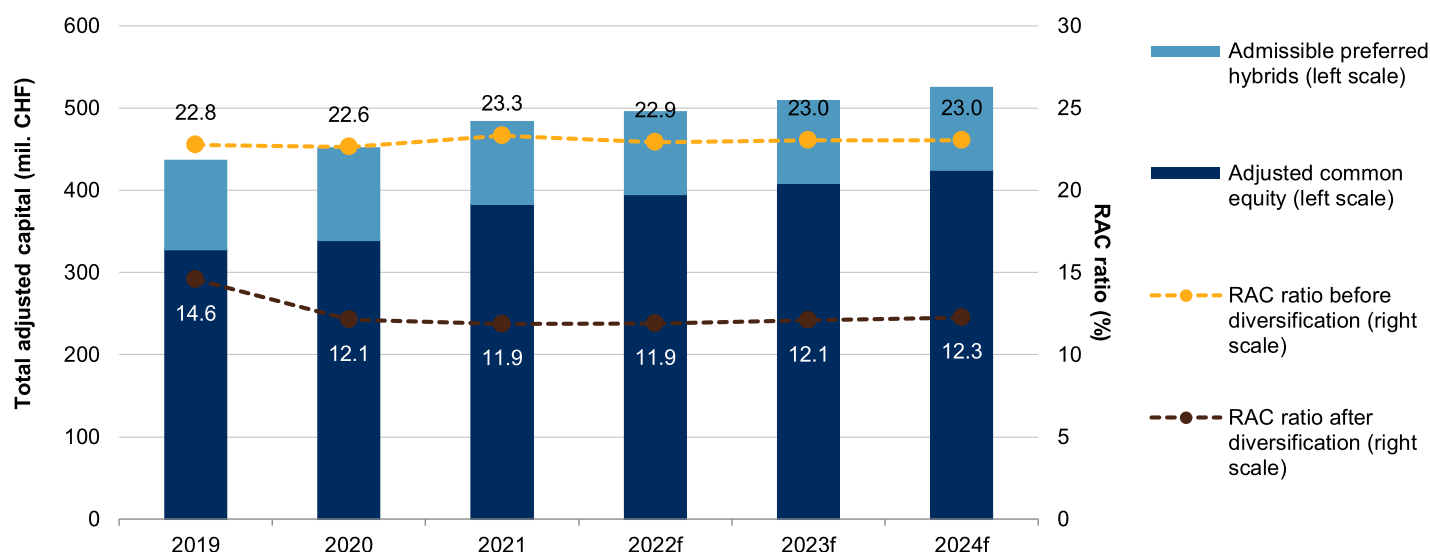
## Capital And Earnings: Solid Capitalization Remains A Key Rating Strength

We expect GLKB to preserve its very strong capital buffer, underlined by our expectation that its risk-adjusted capital (RAC) ratio will remain near 23% over the next 18-24 months, compared with 23.3% as of Dec. 31, 2021.

**Chart 2**

### We Project GLKB's Risk-Adjusted Capital Ratio To Remain Near 23%

Risk-adjusted capital (RAC) developments



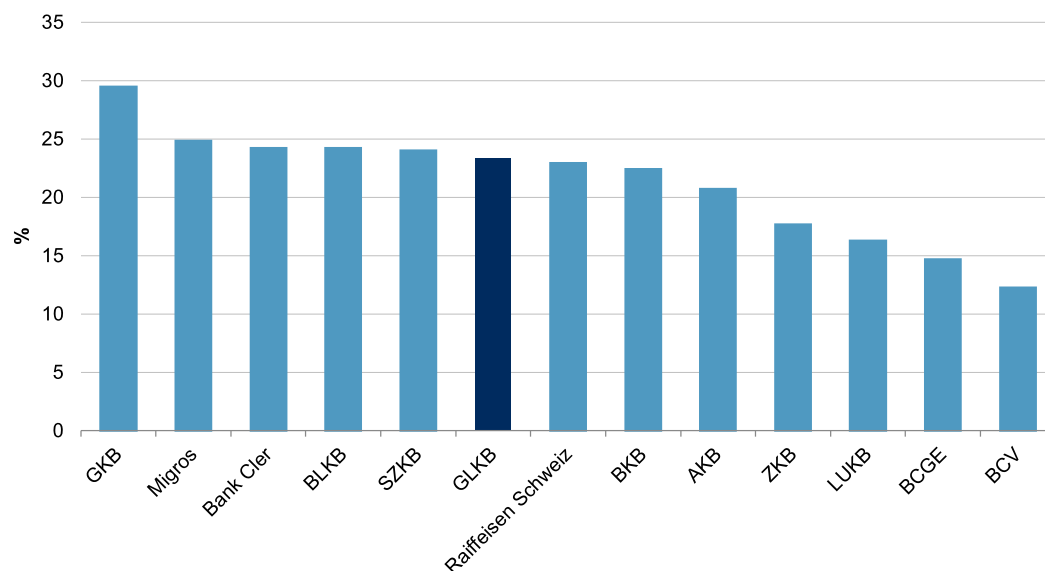
f--Forecast. CHF--Swiss franc. Source: S&P Global Ratings.

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The ratio is stronger than that of many rated banks globally and in line with cantonal banks in Switzerland. GLKB's regulatory Tier 1 ratio was, at 15.5% at Dec. 31, 2021, comparably lower than its RAC ratio because we apply lower risk weights than the Swiss regulator to Swiss retail loans.

**Chart 3****GLKB's Capitalization Is In Line With Swiss Peers**

Peer comparison of risk-adjusted capital (RAC) ratio in 2021



AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise.  
 BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank.  
 GKB--Graubündner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank.  
 ZKB--Zürcher Kantonalbank. Source: S&P Global Ratings.

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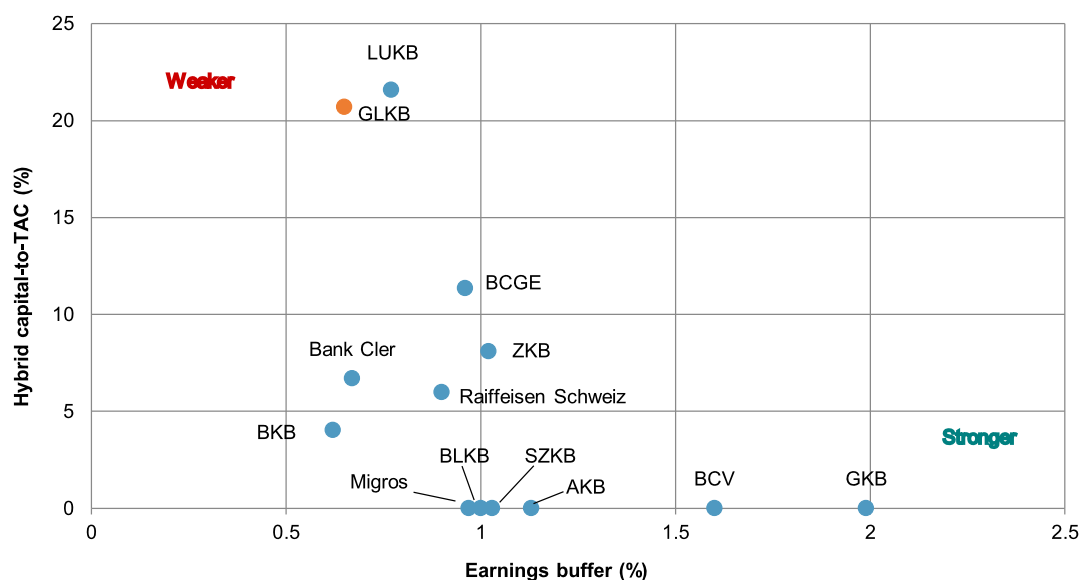
The bank has a Swiss franc (CHF) 100 million additional tier 1 (AT1) instrument that we classify as a component of our total adjusted capital (TAC), S&P Global Ratings' core capital metric. The proportion of hybrid instruments in TAC is higher for GLKB (20%) than most cantonal peers, and we therefore assess the bank's capital quality as weaker than peers'. GLKB's earnings buffer--our metric that measures the capacity of its earnings to cover normalized losses through a full credit cycle--remains also weaker than peers'.



Chart 4

**GLKB's Quality Of Capital And Earnings Capacity Are Weaker Than For Most Peers**

Peer comparison of earnings buffer and share of hybrid capital in 2021



AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubündner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZKB--Zürcher Kantonalbank. TAC--Total adjusted capital. Source: S&P Global Ratings.

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In our base-case scenario, we forecast net income after taxes will be CHF25 million-CHF30 million until 2024 and expect GLKB will maintain its dividend payout ratio at 40%-60%. As part of its updated strategy, the bank targets to maintain a total capital ratio of at least 17% throughout 2023-2026. In addition, the bank aims to increase its pre-tax return on equity to at least 7% while lowering the cost-to-income ratio to below 62%. The management targets are in line with our own projections, so we deem them as realistic.

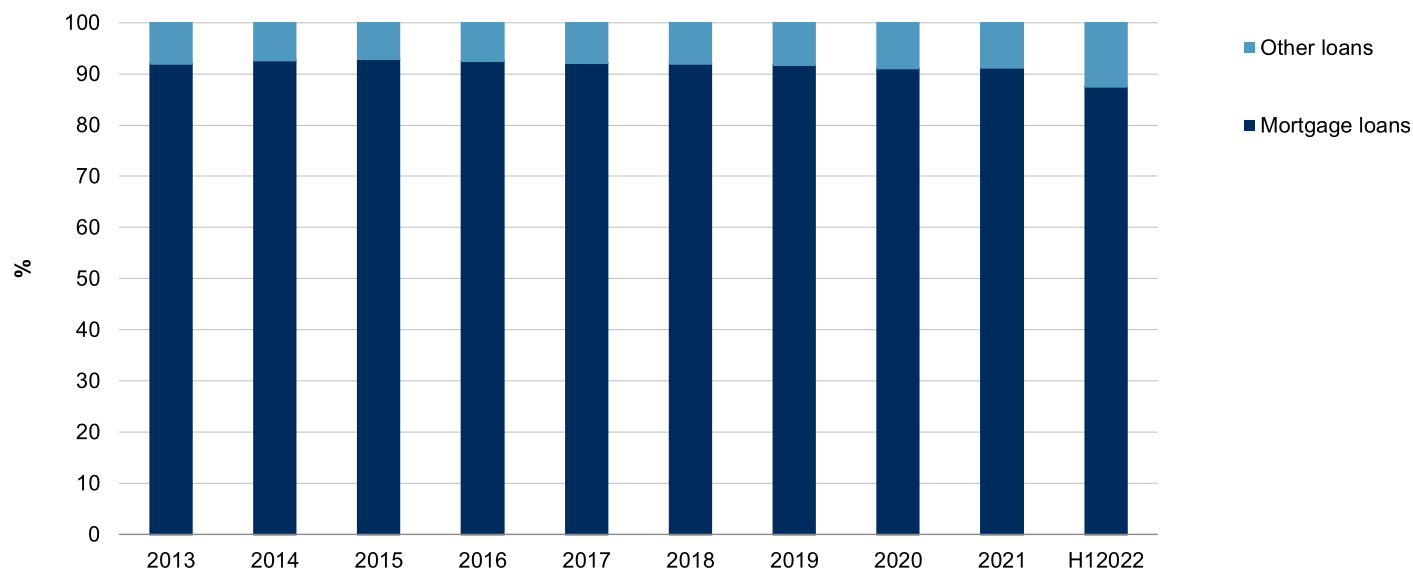
## Risk Position: Sound Collateralization Buffers Concentration In Residential Mortgage Lending

GLKB's business model focuses on well-collateralized lending categories, such as mortgages, small and midsize enterprises, and consumer financing. The bank's risk profile is characterized by concentration risks in its mortgage loan portfolio, mitigated by sound overcollateralization levels.

Despite offering online mortgages nationwide, the bank's regional concentration in mortgage lending remains significant, especially when accounting for exposure to the nearby canton of Zurich and Glarus' direct neighbors. We believe it exposes GLKB to concentration risks. These are partially offset by high collateralization of the mortgage loan portfolio (with the average loan-to-value ratio of about 50% as of June 30, 2022).

**Chart 5**

**Concentration Risk Due To High, But Well-Collateralized, Mortgage Loan Book**  
 GLKB's loan portfolio development



H1--First half. Source: S&P Global Ratings.

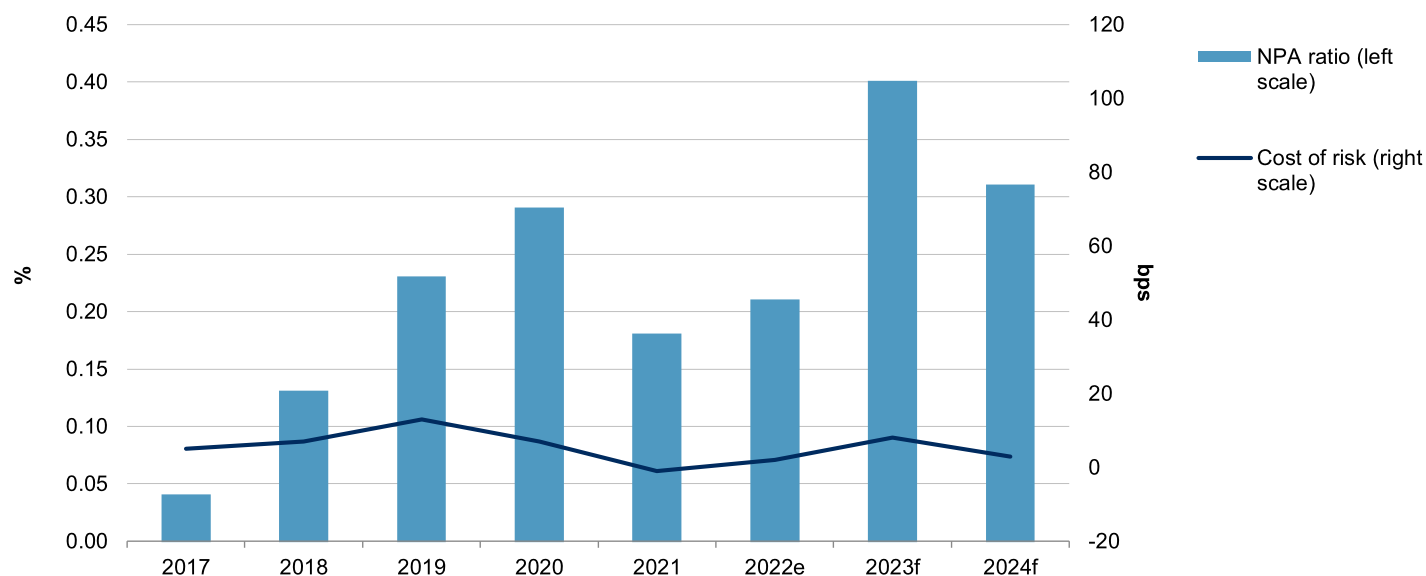
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The bank avoids complex products, and we expect it to maintain its sound underwriting practices in new mortgage lending, helping it continue to report low levels of nonperforming loans (NPLs; 90 days past due) in its loan book (estimated at about 0.2% of the total at Dec. 31, 2022). This supports our estimate that GLKB's cost of risk will increase only moderately over the next two years and will stay below 10 basis points.

Chart 6

### GLKB's Ratio Of Nonperforming Assets And Cost Of Risk Remain Low

NPA ratio and cost of risk from 2017-2024f



bps--Basis points. NPA--Nonperforming asset. e--Estimate. f--Forecast. Source: S&P Global Ratings.

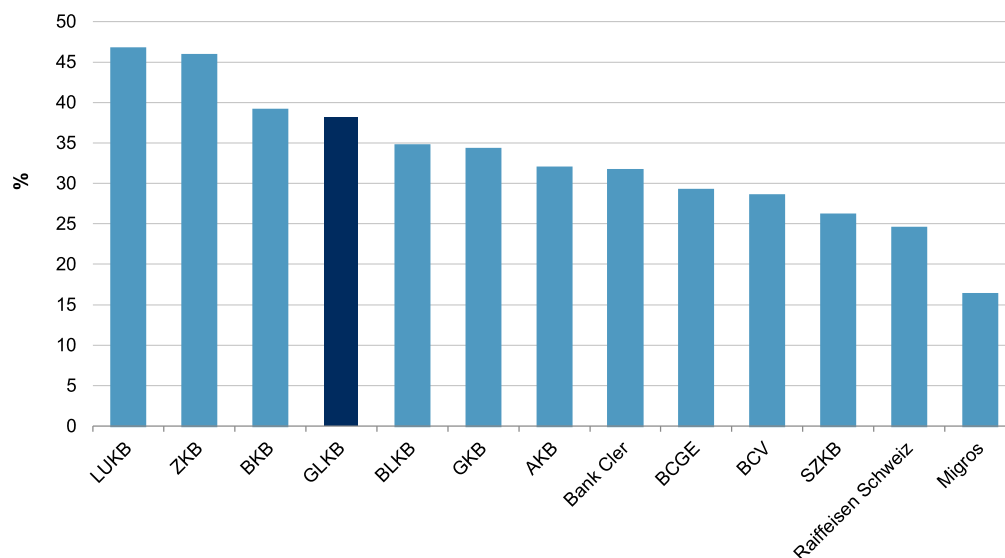
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## Funding And Liquidity: Below-Average Metrics, But Funding Stability Is Aided By Cantonal Ownership

We view GLKB's funding profile as weaker than those of most domestic peers, because the bank has a higher dependency on wholesale funding sources, mainly through interbank and capital market funding. This is owing to a previous lack of sufficient customer deposits to fund the strong balance sheet growth.

**Chart 7****Wholesale Funding Is A Substantial Part Of GLKB's Funding Base**

Peer comparison of total wholesale funding to the funding base (%) as of H1-2022



AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise.

BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank.

GKB--Graubündner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank.

ZKB--Zürcher Kantonalbank. H1--First half. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

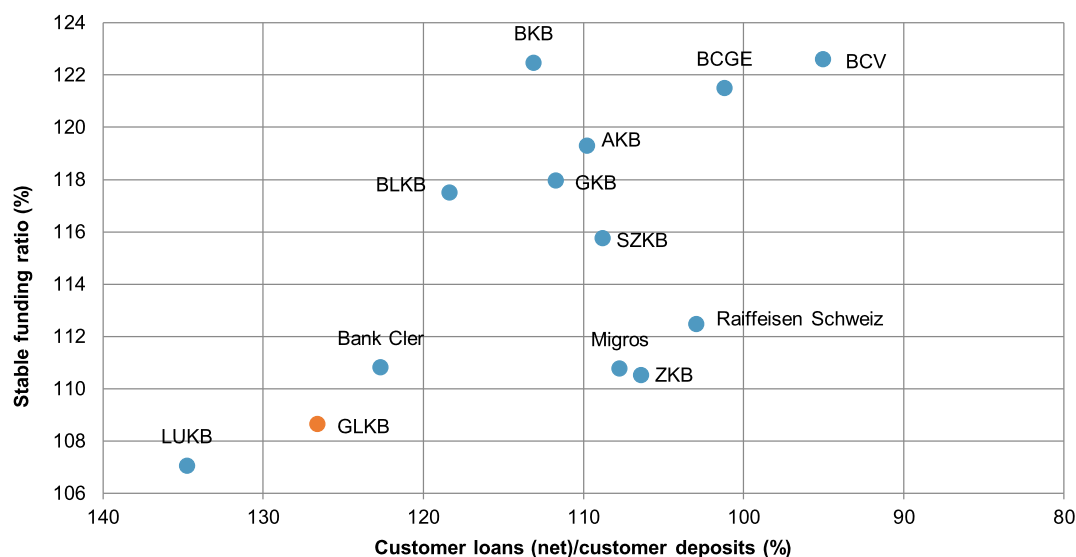
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GLKB's core customer deposits accounted for 63% of its funding base as of June 30, 2022, and due to the cantonal guarantee, we expect this to remain very stable. We expect the bank's stable funding ratio will remain close to 100% over the next years, which remains weaker than most peer banks'. Due to changing interest rates in Switzerland, we expect deposit rates to go up for clients. This might challenge GLKB's ability to attract new depositors outside the Canton of Glarus considering elevated competition from banks in the country.

Chart 8

**GLKB's Funding Metrics Remains Relatively Weak Compared To Swiss Peers**

Customer loans (net)/customer deposits and stable funding ratio (average between 2020-2022H1)



Stable funding ratio (%) = available stable funding / stable funding needs. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubündner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZKB--Zürcher Kantonalbank. H1--First half. Source: S&P Global Ratings.

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GLKB benefits from its close ties with, and being guaranteed by, Glarus. We expect the bank's access to liquidity to potentially benefit from a "flight to quality" effect in more challenging economic conditions. The bank's loyal customer deposit base supports its liquidity, and we do not expect large-scale withdrawals in times of stress.

We expect GLKB to maintain an adequate coverage of short-term wholesale funding sources of total funding by liquid assets (BLAST ratio; 1.0-1.5x). However, most peer cantonal banks demonstrate materially stronger metrics and GLKB's weaker liquidity ratio mirrors the bank's relatively lower cash reserves held at central banks and, in our view, a smaller and less liquid security portfolio than some peers.

## Support: Extremely High Likelihood Of Timely And Sufficient Extraordinary Support From Glarus

We consider GLKB a government-related entity (GRE). The 'AA' long-term rating on the bank reflects our view that there is an extremely high likelihood of timely and sufficient extraordinary support from Glarus, if needed. We base this on our view of the bank's integral link with and very important role for the canton. The halt to GLKB's privatization plans following a vote in May 2022 is a supportive factor for our assessment. Also essential to our assessment is our view of good financial prospects for the bank, reducing the incentive for a potential revival of the discussion. We do

not expect renewed attempts through the government or parliament to change the existing cantonal bank law. This is on the canton's history of direct votes that have been persistent and unchallengeable for the foreseeable future.

## Environmental, Social, And Governance

### ESG Credit Indicators

|     |            |     |     |     |     |            |     |     |     |     |            |     |     |     |
|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|
| E-1 | <b>E-2</b> | E-3 | E-4 | E-5 | S-1 | <b>S-2</b> | S-3 | S-4 | S-5 | G-1 | <b>G-2</b> | G-3 | G-4 | G-5 |
|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis of GLKB. The cantonal bank's franchise and mandate focus on providing basic services to Glarus' population and supporting economic development in the region. Still, GLKB has expanded its mortgage business to regions outside its home canton in recent years. As part of its ESG strategy, the bank excludes some corporate sectors from its business undertakings and commits to sustainability goals.

## Key Statistics

Table 1

| Glarner Kantonalbank--Key Figures |                        |         |         |         |         |
|-----------------------------------|------------------------|---------|---------|---------|---------|
|                                   | --Year ended Dec. 31-- |         |         |         |         |
| (Mil. CHF)                        | 2022*                  | 2021    | 2020    | 2019    | 2018    |
| Adjusted assets                   | 8,772.8                | 7,753.9 | 7,044.4 | 6,400.8 | 5,978.7 |
| Customer loans (gross)            | 6,187.7                | 5,823.9 | 5,566.7 | 5,310.8 | 4,950.5 |
| Adjusted common equity            | 388.1                  | 383.4   | 338.9   | 328.1   | 311.0   |
| Operating revenue                 | 43.1                   | 90.0    | 87.4    | 84.3    | 78.8    |
| Noninterest expense               | 33.4                   | 61.3    | 53.0    | 52.8    | 50.2    |
| Core earnings                     | 11.6                   | 24.4    | 25.9    | 20.9    | 21.3    |

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

Table 2

| Glarner Kantonalbank--Business Position        |                        |       |       |       |       |
|--|------------------------|-------|-------|-------|-------|
|  | --Year ended Dec. 31-- |       |       |       |       |
| (%)  | 2022*                  | 2021  | 2020  | 2019  | 2018  |
| Loan market share in country of domicile       | N/A                    | 0.4   | 0.4   | 0.4   | 0.4   |
| Deposit market share in country of domicile    | N/A                    | 0.4   | 0.4   | 0.3   | 0.3   |
| Total revenue from business line (mil. CHF)    | 43.1                   | 90.0  | 87.4  | 89.4  | 79.5  |
| Other revenue/total revenue from business line | 100.0                  | 100.0 | 100.0 | 100.0 | 100.0 |
| Return on average common equity                | 5.8                    | 6.4   | 7.4   | 7.5   | 6.9   |

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

Table 3

| Glarner Kantonalbank--Capital And Earnings           |                        |      |      |      |      |
|--|------------------------|------|------|------|------|
|  | --Year ended Dec. 31-- |      |      |      |      |
| (%)  | 2022*                  | 2021 | 2020 | 2019 | 2018 |
| Tier 1 capital ratio                                 | N/A                    | 15.4 | 18.0 | 18.5 | 17.9 |
| S&P Global Ratings' RAC ratio before diversification | N/A                    | 23.3 | 22.6 | 22.8 | 23.8 |
| S&P Global Ratings' RAC ratio after diversification  | N/A                    | 11.9 | 12.1 | 14.6 | 15.9 |
| Adjusted common equity/total adjusted capital        | 79.5                   | 79.3 | 75.2 | 75.2 | 75.2 |
| Net interest income/operating revenue                | 85.3                   | 76.7 | 77.1 | 73.1 | 76.0 |
| Fee income/operating revenue                         | 18.8                   | 16.3 | 14.9 | 14.7 | 13.7 |
| Market-sensitive income/operating revenue            | 2.8                    | 6.1  | 6.2  | 8.7  | 8.8  |
| Cost-to-income ratio                                 | 77.6                   | 68.1 | 60.6 | 62.6 | 63.6 |
| Preprovision operating income/average assets         | 0.2                    | 0.4  | 0.5  | 0.5  | 0.5  |
| Core earnings/average managed assets                 | 0.3                    | 0.3  | 0.4  | 0.3  | 0.4  |

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

Table 4

| Glarner 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 and central banks                               | 1,291,873 | 0             | 0.0                     | 0                      | 0.0                               |
| Of which regional governments and local authorities        | 0         | 0             | 0.0                     | 0                      | 0.0                               |
| Institutions and CCPs                                      | 391,946   | 123,567       | 31.5                    | 69,128                 | 17.6                              |
| Corporate  | 274,146   | 146,556       | 53.5                    | 180,806                | 66.0                              |
| Retail   | 5,756,312 | 2,654,800     | 46.1                    | 1,630,038              | 28.3                              |
| Of which mortgage  | 5,066,103 | 2,125,727     | 42.0                    | 1,174,829              | 23.2                              |
| Securitization§  | 0         | 0             | 0.0                     | 0                      | 0.0                               |
| Other assets†  | 0         | 0             | 0.0                     | 0                      | 0.0                               |
| Total credit risk  | 7,714,277 | 2,924,924     | 37.9                    | 1,879,973              | 24.4                              |
| <b>Credit valuation adjustment</b>                         |           |               |                         |                        |                                   |
| Total credit valuation adjustment                          | --        | 20,833        | --                      | 0                      | --                                |
| <b>Market risk</b>   |           |               |                         |                        |                                   |
| Equity in the banking book                                 | 0         | 0             | 0.0                     | 0                      | 0.0                               |
| Trading book market risk                                   | --        | 4,528         | --                      | 6,792                  | --                                |
| Total market risk  | --        | 4,528         | --                      | 6,792                  | --                                |
| <b>Operational risk</b>                                    |           |               |                         |                        |                                   |
| Total operational risk                                     | --        | 155,694       | --                      | 186,346                | --                                |
|  | 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                                 | --        | 3,164,892     | --                      | 2,073,110              | 100.0                             |

Table 4

| Glarner Kantonalbank--Risk-Adjusted Capital Framework Data (cont.) |    |           |    |           |       |
|--|----|-----------|----|-----------|-------|
| Total diversification/<br>Concentration adjustments                | -- | --        | -- | 2,000,594 | 96.5  |
| RWA after diversification  | -- | 3,164,892 | -- | 4,073,705 | 196.5 |
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\*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. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

| Glarner Kantonalbank--Risk Position   |                        |       |       |       |       |
|---|------------------------|-------|-------|-------|-------|
|   | --Year ended Dec. 31-- |       |       |       |       |
| (%)   | 2022*                  | 2021  | 2020  | 2019  | 2018  |
| Growth in customer loans  | 12.5                   | 4.6   | 4.8   | 7.3   | 3.2   |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A                    | 96.5  | 86.6  | 56.2  | 49.3  |
| Total managed assets/adjusted common equity (x)                                 | 22.6                   | 20.2  | 20.8  | 19.5  | 19.2  |
| New loan loss provisions/average customer loans                                 | (0.1)                  | (0.0) | 0.1   | 0.1   | 0.1   |
| Gross nonperforming assets/customer loans + other real estate owned             | N/A                    | 0.2   | 0.3   | 0.2   | 0.1   |
| Loan loss reserves/gross nonperforming assets                                   | N/A                    | 233.3 | 201.7 | 260.2 | 485.3 |

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

Table 6

| Glarner Kantonalbank--Funding And Liquidity          |                        |       |       |       |       |
|--|------------------------|-------|-------|-------|-------|
|  | --Year ended Dec. 31-- |       |       |       |       |
| (%)  | 2022*                  | 2021  | 2020  | 2019  | 2018  |
| Core deposits/funding base                           | 63.1                   | 64.6  | 65.3  | 63.1  | 66.5  |
| Customer loans (net)/customer deposits               | 122.1                  | 125.9 | 131.7 | 144.3 | 136.8 |
| Long-term funding ratio                              | 87.2                   | 89.1  | 87.5  | 86.1  | 89.2  |
| Stable funding ratio                                 | 111.0                  | 110.2 | 104.7 | 98.6  | 102.0 |
| Short-term wholesale funding/funding base            | 13.6                   | 11.7  | 13.5  | 15.2  | 11.8  |
| Regulatory net stable funding ratio                  | N/A                    | 143.3 | N/A   | N/A   | N/A   |
| Broad liquid assets/short-term wholesale funding (x) | 1.9                    | 1.9   | 1.4   | 1.0   | 1.3   |
| Broad liquid assets/total assets                     | 23.5                   | 20.4  | 17.0  | 13.5  | 13.5  |
| Broad liquid assets/customer deposits                | 40.8                   | 34.4  | 28.6  | 23.6  | 22.5  |
| Net broad liquid assets/short-term customer deposits | 20.3                   | 17.1  | 8.3   | (0.6) | 5.1   |
| Regulatory liquidity coverage ratio (LCR) (x)        | N/A                    | 223.5 | N/A   | N/A   | N/A   |
| Short-term wholesale funding/total wholesale funding | 35.5                   | 31.7  | 35.8  | 37.7  | 31.8  |
| Narrow liquid assets/3-month wholesale funding (x)   | 3.3                    | 3.3   | 2.4   | 2.7   | 4.8   |

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



## Glarner Kantonalbank--Rating Component Scores

| Issuer Credit Rating        | AA/Stable/A-1+ |
|-----------------------------|----------------|
| SACP                        | a-             |
| Anchor                      | a-             |
| Economic risk               | 2              |
| Industry risk               | 2              |
| Business position           | Moderate       |
| Capital and earnings        | Very strong    |
| Risk position               | Adequate       |
| Funding                     | Moderate       |
| Liquidity                   | Adequate       |
| Comparable ratings analysis | 0              |
| Support                     | +4             |
| ALAC support                | 0              |
| GRE support                 | +4             |
| 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

- 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: 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, May 30, 2022
- Swiss Glarner Kantonalbank Upgraded To 'AA' On People's Vote To Stop Privatization Plans; Outlook Stable, May 4, 2022

**Ratings Detail (As Of January 26, 2023)\*****Glarner Kantonalbank**

|                      |                |
|----------------------|----------------|
| Issuer Credit Rating | AA/Stable/A-1+ |
|----------------------|----------------|

|              |     |
|--------------|-----|
| Subordinated | BBB |
|--------------|-----|

**Issuer Credit Ratings History**

|             |                |
|-------------|----------------|
| 04-May-2022 | AA/Stable/A-1+ |
|-------------|----------------|

|             |                   |
|-------------|-------------------|
| 11-Dec-2020 | AA-/Negative/A-1+ |
|-------------|-------------------|

|             |                |
|-------------|----------------|
| 09-Mar-2017 | 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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