

Canton of Basel-Stadt – High AA, Stable

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Public Sector

Bond ticker: KTBS

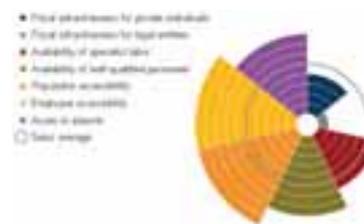
Canton description

With an area of 3,700 hectare, the Canton of Basel-Stadt is the smallest canton in Switzerland. The population counts 187,425 inhabitants generating a GDP of CHF 29.1 bn, thus resulting in a GDP per capita of 193,274 (ranking highest in Switzerland). The canton is dominated by the pharmaceutical industry, which employs over 10% of workers, followed by healthcare (>8%). Both sectors are paving the way for further growth in our view. Given the canton's status as a quasi-city, the financial attractiveness of living is fairly low and population growth has remained well below the Swiss average in recent years. Every day, three times as many people commute into the canton than out. Not counting undeveloped building zones, the average age of existing buildings is well above the national average, with construction activity over the past twenty years being at the lower end. The average house price has increased slightly faster than the Swiss average due to a shortage of offerings, in our view. As such, the price-to-income ratio is relatively high.

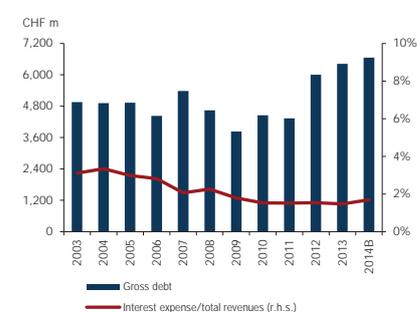
Rating rationale

The rating of the Canton of Basel-Stadt benefits from its strong financial performance in recent years, with excess revenues for ten consecutive years and a self-financing ratio that was again above 100% last year. Capitalization has strengthened, but indebtedness remains rather high, which is not surprising given the infrastructure intensity of a quasi-city canton. The resource index reading supports the rating strongly as it represents the canton's ability to generate tax revenues going forward. In contrast, the canton has to contribute to the financial equalization system, which weighs on costs. The locational quality index reading is the third highest in Switzerland, thanks to the accessibility of employees and inhabitants, as well as the availability of specialist and highly qualified labor. In contrast, the tax attractiveness for both corporates and individuals reads below-average. The Stable outlook reflects our view that the Canton of Basel-Stadt will maintain its solid financials and strong locational quality over the cycle.

Locational quality index



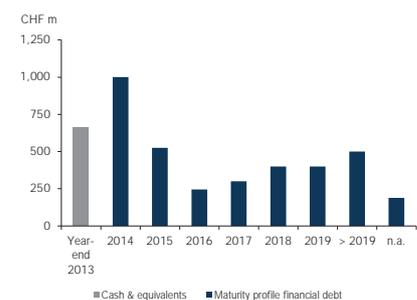
Total debt and interest expense



Degree of self-financing / self-financing ratio



Debt maturity profile



Financial ratios (CHF m)	2010	2011	2012	2013	2014B
Operating account					
Total expenditure operating account	4,903.0	4,688.4	3,846.8	4,012.2	3,974.1
Of which: Interest expense	75.5	70.4	58.6	59.9	63.3
Of which: Depreciation of administrative assets	212.1	172.3	124.9	179.5	139.6
Total revenue operating account	5,180.5	4,905.7	4,029.8	4,097.6	3,976.3
Excess expenditure / revenue	277.5	217.3	183.0	85.4	2.2
Primary operating balance	353.0	287.7	241.6	145.3	65.5
Investment account					
Total expenditure investment account	316.3	347.9	623.8	477.4	386.8
Total revenue investment account	22.9	21.4	51.0	229.8	11.0
Net investment	293.5	326.4	572.8	247.6	375.8
Total revenue	4,953.2	4,637.1	3,840.8	4,085.6	3,759.1
Total expenditure	4,565.5	4,448.7	4,110.2	4,068.3	3,993.1
Financing					
Degree of self-financing	489.6	389.6	307.9	264.9	141.8
Financing deficit / surplus	196.1	63.2	-264.9	17.3	-234.0
Self-financing ratio	166.8%	119.4%	53.8%	107.0%	37.7%
Balance sheet					
Total assets	6,120.9	6,381.8	10,040.9	10,538.8	n.a.
Gross debt	4,449.7	4,328.9	5,998.4	6,419.9	6,653.9 ¹
Equity (+) / balance sheet deficit (-)	1,161.5	1,416.5	3,586.0	3,671.5	3,673.7 ¹
Key ratios					
Primary operating balance/Total revenue	7.1%	6.2%	6.3%	3.6%	1.7%
Financing balance/Total revenue	4.0%	1.4%	-7.1%	0.4%	-6.2%
Gross debt/Total revenue	89.8%	93.4%	156.2%	157.1%	177.0%
Interest expense/Total revenue	1.5%	1.5%	1.5%	1.5%	1.7%
Interest expense/Total expenditure	1.7%	1.6%	1.4%	1.5%	1.6%
Per capita gross debt (in CHF)	24,058.8	23,245.8	32,008.5	33,922.1	35,071.7 ¹

¹ Estimates Credit Suisse
B = Budget

HRM2 as of FY 2013

Financial ratios based on FkF and Swiss Canton data
n.a. = not available

Source: FkF, Federal Statistical Office, Swiss canton data, Credit Suisse

Glossary of financial terms

Adjusted capital expenditures (capex)

Gross capital expenditures (excluding acquisitions) plus depreciation part for operating leases.

Adjusted cash and cash equivalents

Cash and cash equivalents, including investments that can be liquidated in the immediate future, adjusted for cash required for operating activities.

Adjusted CFO

Cash flow from operations (i.e. funds from operations after changes in net working capital) adjusted for the depreciation part from leasing & rental obligations and pension-related charges and contributions.

Adjusted EBIT

Earnings before interest and taxes adjusted for the interest part from leasing & rental obligations and pension-related charges.

Adjusted EBITDA

Earnings before interest, taxes, depreciation and amortization adjusted for leasing & rental charges and pension-related charges.

Adjusted equity

Shareholder's equity (including minorities) minus pension deficit.

Adjusted FCF

Cash flow from operations less gross capital expenditures, excluding acquisition-related investments and dividends, adjusted for leasing & rental depreciation charges and pension-related expenses.

Adjusted FFO

Funds from operations adjusted for the depreciation part from leasing & rental and pension-related expenses and contributions.

Adjusted gross debt

Short- and long-term interest-bearing liabilities adjusted for off-balance-sheet items related to pension deficits, leasing & rental obligations, contingencies and guarantees.

Adjusted gross leverage and adjusted net leverage

Adjusted debt on a gross/net basis in relation to total adjusted equity plus adjusted debt on a gross/net basis.

Adjusted interest expense

Interest expenses adjusted for the interest part from leasing & rental obligations.

Adjusted net debt

Adjusted gross debt less adjusted cash & cash equivalents ("net cash" if cash & cash equivalents exceed gross debt).

Adjusted net gearing

Adjusted net debt in relation to total adjusted equity.

Adjusted total asset base

Reported total assets plus operating leasing debt (operating lease expense x applicable multiple).

Combined ratio

The combined ratio equals expenses and losses divided by revenue from premiums. The result is expressed as a percentage. A value of less than 100% means the company is taking in more premiums than it is paying out via expenses and losses.

Commercial paper (CD)

Short-term debt instruments (up to nine months) that are issued by established corporations in large sums and traded at a discount. They are a central funding tool and an alternative to bank credits.

Comprehensive income

Net profit attributable to shareholders plus other income, i.e. unrealized gains/losses bypassing the P&L, e.g. foreign currency translation gains/losses or unrealized gains/losses on securities held-for-sale.

Core working capital

Core working capital = receivables plus inventories minus payables.

Covenants

Debt covenants form part of credit agreements stipulating ratios and conditions applicable to financial obligations.

Credit metrics

Financial ratios (typically debt- and debt-service related) which are used to assess financial strength including debt service capacity.

Degree of self-financing

Equals excess revenue plus depreciation on administrative property. This figure provides an indication with regard to cash flow of cantons and is comparable to cash from operating activities for corporates.

Foundation for accounting and reporting regulations (FER)

Independent Swiss institution tasked with the further development of accounting standards in Switzerland to improve the quality and comparability of company accounts and to align them with the requirements of international accounting standards.

Goodwill

An asset created when the price to acquire a company exceeds the value of its net assets and identifiable, measurable intangible assets.

HRM1 / HRM2

The harmonized accounting model (HRM) is a public sector accounting manual. The new HRM2 aims to make Switzerland's reporting standards for the public sector compatible with the International Public Sector Accounting Standards (IPSAS) which, in turn, are based on IFRS.

IFRS accounting standards

The IFRS (International Financial Reporting Standards) are a central instrument in the global harmonization of corporate accounting. They are issued by the International Accounting Standards Committee (IASC), an international association established in London in 1973.

Impairment

Impairment is the permanent loss in value on investments, assets or goodwill that is subsequently written off via the P&L statement.

Intangible assets

Non-physical assets other than goodwill, such as patents, licenses, brands, trade names, business secrets (procedures), formulas, supply contracts and customer relationships.

Interest coverage

This ratio shows adjusted EBITDA or EBIT to adjusted gross- or net interest charges.

Net debt/GWh

This ratio is used to measure the efficiency of an electrical utility by comparing the level of debt involved to the amount of electricity produced p.a., which is measured in GWh and serves as a proxy for generation capacity.

Net profit

Net income attributable to shareholders, i.e. profit generated by the company less minority interests.

Primary operating balance

This ratio is calculated as excess revenue plus interest expense. It indicates the success of the operating performance in a single year.

Rating

A rating is an independent opinion with regard to the ability and willingness of an issuer to repay debt and interest in full without delay.

Self-financing ratio

Degree of self-financing divided by net investments. A self-financing ratio of 100% indicates that a canton was able to fully self-finance its net investments in one particular year. A ratio of < 100% indicates that a canton needs other internal or external financing sources.

Solvency

Solvency refers to the ability of an insurer to service debt. Among other factors, this depends on an adequate level of underwriting reserves, internal funds and the extent of reinsurance activities.

Solvency margin

Depending on the volume of business, the minimum amount of unused shareholders' equity required by federal regulations. This serves to cover general business risks that the underwriting reserves do not cover or cover only partially.

Total revenue (public sector)

Total revenues plus total cash inflows from divestments minus internal settlement minus cash inflows from special financing. This figure provides an indication for a sustainable operating revenue figure.

Total expenditure (public sector)

Total costs plus total cash outflows from investments minus depreciation, minus internal settlements, minus cash outflows from special financing. This figure provides an indication for a sustainable operating costs figure.

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