MOODY'S
INVESTORS SERVICE

CREDIT OPINION
2 June 2022

Update

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RATINGS

Banque Cantonale Vaudoise

Domicile	Lausanne, Switzerland
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Aa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Banque Cantonale Vaudoise

Update to credit analysis

Summary

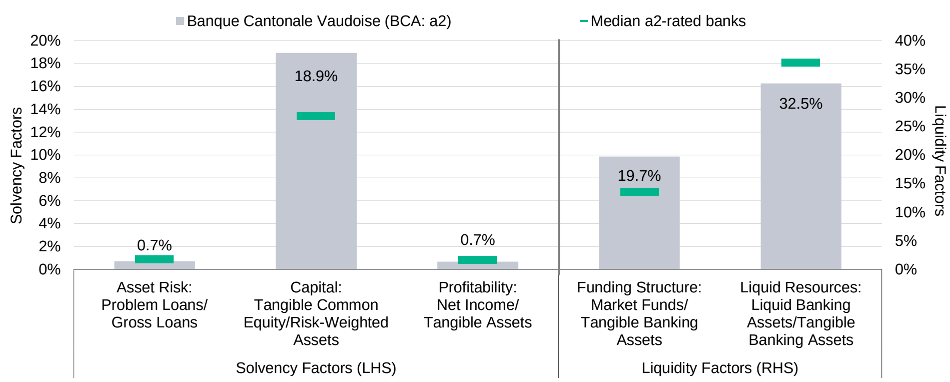
We assign Aa2(stable)/P-1 deposit ratings to Banque Cantonale Vaudoise (BCV). We also assign an a2 Baseline Credit Assessment (BCA), an a1 Adjusted BCA, and A1/P-1 Counterparty Risk Ratings.

BCV's Aa2 deposit ratings reflect its a2 BCA; one notch of rating uplift from affiliate support, because of the majority ownership by the Canton of Vaud; and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which indicates a very low loss given failure and results in two notches of rating uplift. We do not incorporate rating uplift from sovereign government support in BCV's deposit ratings due to the bank's small domestic market share and relatively low importance to the Swiss banking system.

BCV's a2 BCA reflects its strong capitalisation and its above-average earnings generation capacity. The BCA also takes account of its high stock of high-quality liquid assets adequately mitigating risks from its moderate reliance on confidence-sensitive market funding. Although manageable, the BCA remains constrained by potential asset quality challenges stemming from the bank's narrow geographical footprint in the Lake of Geneva region, as well as relatively high exposures to mostly regional small and medium-sized enterprises (SMEs) as well as some trade finance transactions.

Exhibit 1

Rating Scorecard Banque Cantonale Vaudoise - Key financial ratios



Source: Moody's Investors Service and company filings

Credit strengths

» BCV has strong capital adequacy ratios, providing substantial buffers against downside risks

» The bank generated stable earnings in recent years, exceeding the profitability level of its peers

» BCV's adequate liquid resources and stable deposit base safeguard its sound liquidity profile

Credit challenges

» BCV's mortgage loan book remains a key asset risk in a dynamic real estate market with elevated price levels

» Exposures to corporates and trade finance could cause material write-downs in a more challenging operating environment

» The bank's high dividend payout ratio limits its capital generation capacity

Outlook

» The outlook on BCV's ratings is stable because we do not expect a material change in the bank's credit fundamentals and in its liability structure, nor in the bank's ownership.

Factors that could lead to an upgrade

» Although unlikely given the already high level, BCV's ratings could be upgraded if the bank's standalone creditworthiness improves significantly, resulting from a combination of materially reduced concentration risks, significantly higher profitability, an improved combined liquidity profile, and an improvement in the bank's Weighted Macro Profile.

» The bank's long-term ratings could also benefit from higher rating uplift from our Advanced LGF analysis if material volumes of additional senior unsecured or subordinated instruments were issued.

Factors that could lead to a downgrade

» Downward pressure on the bank's ratings could result from a downgrade of the bank's BCA. The bank's long-term ratings could also be downgraded as result of a declining senior unsecured balances outstanding, which could lead to a lower notching uplift as a result of our Advanced LGF analysis.

» The bank's BCA could be downgraded if its asset risk – predominantly from its residential real estate, SME and trade finance lending books – materially increases and leads to sustainably higher problem loans, combined with a meaningfully lower cushion from its capital ratios and profitability. Furthermore, a deteriorating liquidity profile could exert downwards rating pressure.

Key indicators

Exhibit 2
Banque Cantonale Vaudoise (Consolidated Financials) [1]

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (CHF Billion)	56.0	53.2	48.4	47.9	45.4	5.4[4]
Total Assets (USD Billion)	61.2	60.2	49.9	48.6	46.6	7.1[4]
Tangible Common Equity (CHF Billion)	3.6	3.6	3.6	3.5	3.4	1.4[4]
Tangible Common Equity (USD Billion)	4.0	4.0	3.7	3.6	3.5	3.1[4]
Problem Loans / Gross Loans (%)	0.5	0.8	0.8	1.0	0.9	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.9	19.4	19.0	19.1	18.9	19.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.1	7.1	7.5	8.9	7.8	7.3[5]
Net Interest Margin (%)	0.9	0.9	1.1	1.1	1.1	1.0[5]
PPI / Average RWA (%)	2.3	2.1	2.2	2.2	2.2	2.2[6]
Net Income / Tangible Assets (%)	0.7	0.6	0.7	0.7	0.7	0.7[5]
Cost / Income Ratio (%)	57.2	59.5	58.9	58.6	59.0	58.6[5]
Market Funds / Tangible Banking Assets (%)	19.7	21.1	18.1	20.8	18.4	19.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	32.5	32.9	28.7	30.4	29.7	30.9[5]
Gross Loans / Due to Customers (%)	93.4	95.9	99.4	101.5	99.4	97.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

BCV is Switzerland's second-largest cantonal bank, with total assets of CHF56.0 billion and 1,932 full-time equivalent employees as of 31 December 2021. The bank was established in 1845 by the Vaud Cantonal Parliament as a corporation organized under public law.

BCV has a corporate mandate to contribute to the economic development of its home region, the Canton of Vaud, and to provide mortgage financing there. Other than operating in its traditional areas of business, including retail banking (deposit-taking and lending) and wealth management, the bank is engaged in corporate banking and select trade financing operations in commodities. Through these activities, the bank is also exposed to other cantons in Switzerland and, to a limited extent, overseas markets.

As of 31 December 2021, the Canton of Vaud held a 67.0% stake in the bank. Unlike most Swiss cantonal banks, BCV does not benefit from an explicit guarantee of the canton.

For more information, please see our Swiss Banking System Profile.

Weighted Macro Profile of Strong (+)

BCV is focused on the Swiss market and its Weighted Macro Profile is therefore Strong (+), in line with the Macro Profile of Switzerland. Because of the bank's trade finance franchise, the bank also has limited exposures to the European Union, North American and other overseas markets.

Detailed credit considerations

Solid asset quality metrics, but regional and sector concentrations remain

We assign an Asset Risk score of a2 to BCV, three notches below the aa2 initial score. The negative adjustment reflects the bank's narrow geographical footprint in a region with elevated house prices, exposures to small and medium-sized enterprises (SMEs) and trade finance transactions, as well as interest rate risks in its banking book.

BCV's asset quality remained at sound levels over the past years, reflecting the bank's strong focus on credit risk and its conservative credit risk management. The problem loan ratio decreased to 0.53% as of year-end 2021 from 0.77% as of year-end 2020, reaching a new low after a continuous decline in nonperforming loans since 2010. The bank's cash coverage ratio meanwhile improved to 50.3% as of year-end 2021 from 44.1% as of year-end 2020, reflecting a decline in problem loans to CHF189 million from CHF261 million and a decline in loan loss provisions to CHF95 million from CHF115 million. In 2020, the cash coverage ratio had improved by 12 percentage points mainly because BCV for the first time accounted for the expected credit loss on its performing balance sheet and off-balance sheet exposures (following an approach similar to IFRS9)[1].

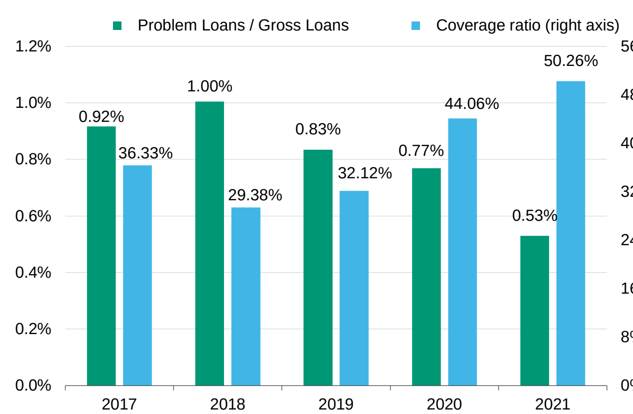
BCV's loan book remains concentrated in the dynamic Vaud region, which is supported by strong demographical factors, but also exhibits elevated house price levels. While we take into account that BCV did not see a rise in problem loans during a decline in housing prices in the 2014-2016 period, the bank nonetheless remains susceptible to shocks potentially emanating from the domestic real estate market or during a prolonged period of weaker economic growth. Mitigating this susceptibility is the bank's below-average loan-to-value ratio of its residential real estate loan exposures of around 50%.

In addition to the bank's CHF23.7 billion residential real estate exposures as of year-end 2021, BCV had CHF3.5 billion of other mortgage loans, which are mostly secured by land, as well as CHF2.2 billion of commercial real estate exposures on its books, which represent loans to SMEs and large corporates secured by offices and other commercial and industrial collateral. Moreover, the bank had extended CHF6.3 billion of other customer loans, of which CHF3.1 billion were secured and CHF3.1 billion were unsecured. Despite the mostly secured nature of the bank's loan book and government-guaranteed liquidity loans that were extended to SMEs during the height of the pandemic, a material slow down in economic activity due to heightened geopolitical risks could result in an increase of corporate defaults and, hence, a rise in problem loans at BCV. In addition, the bank's trade finance book of CHF1.6 billion as of year-end 2021 could be a source of asset risk given dislocations in commodity prices, as was seen during the first half of 2020.

Finally, since January 2016, the Swiss Financial Market Supervisory Authority (FINMA) has included a 1.0% Pillar 2 add-on in BCV's capital requirements to reflect the bank's interest rate risk in the banking book in the persistently ultralow yield environment. We reflect this market risk in our assigned Asset Risk score.

Exhibit 3

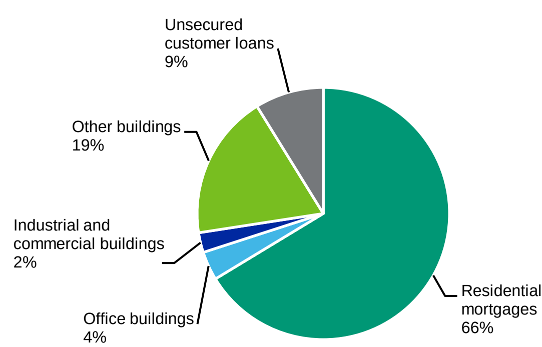
BCV's problem loan ratio continued to decline in 2021, while the coverage ratio improved further



Problem loan ratio in accordance with our definitions; since 2018, according to IFRS 9 reporting standards.
Source: Moody's Investors Service and company filings

Exhibit 4

BCV's loan book breakdown as of year-end 2021



Source: Moody's Investors Service and company filings

Solid capital adequacy ratios are a strong mitigant

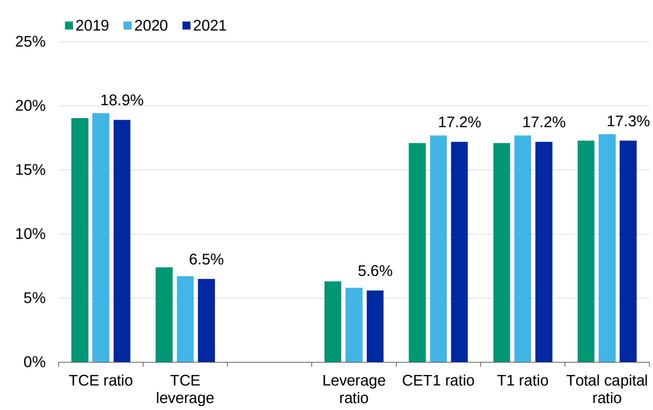
We assign a aa2 Capital score to BCV, in line with the initial score. The assigned score reflects our expectation of a limited decline in the bank's capital ratios in part owing to risk-weighted asset (RWA) growth. Furthermore, BCV's relatively high dividend payout ratio, which will likely be maintained in the future, adds some volatility to our tangible common equity (TCE) measure during the year.

TCE as a percentage of RWA stood at 18.9% as of 31 December 2021 (19.4% as of year-end 2020), while the bank's regulatory Common Equity Tier 1 (CET1) and total capital ratios reached 17.2% and 17.3%, respectively (17.7% and 17.8% as of year-end 2020, respectively). The difference between our TCE ratio and the CET1 ratio mainly stems from the deduction of the expected dividend payment from regulatory capital, which is only reflected in our TCE calculation once the dividend has been paid[2]. The decline in the bank's regulatory capital ratios during 2021 was driven by a 4.5% increase in RWA mainly because the bank selectively increased its trade-finance activities and committed to taking part in a rights offering by the central mortgage-bond institution of Swiss cantonal banks (Pfandbriefzentrale). For 2022 and beyond, we expect BCV to maintain its strong capital adequacy ratios and keep a significant buffer over and above its announced 13.0% long-term minimum CET1 capital ratio target. Nonetheless, given the bank's commitment to high dividend payouts, RWA might grow faster than capital in the medium term. As a result, our TCE ratio might decline from the current level, but should stay well above 16.0%, commensurate with the assigned aa2 Capital score.

BCV's capital requirements stand at 8.8% and 13.0% on a CET1 and total capital ratio basis, respectively. As a Category 3 institution, according to the FINMA definition, these requirements include the minimum and buffer requirements of 7.8% and 12.0% for CET1 and total capital, respectively, as well as a 1.0% Pillar 2 add-on that FINMA requires since January 2016 to take into account the bank's elevated interest rate risk exposure in the ultralow yield environment. No longer included in these requirements is the countercyclical capital buffer (CCyB) requirement for residential mortgage exposures, which was revoked by the Swiss National Bank (SNB) and FINMA in March 2020 and which had previously resulted in a 0.8% add-on for BCV in 2019. In September 2022, the CCyB will be reinstated at 2.5% of banks' RWA backed by domestic residential real estate, which will increase BCV's capital requirements by about one percentage point again.

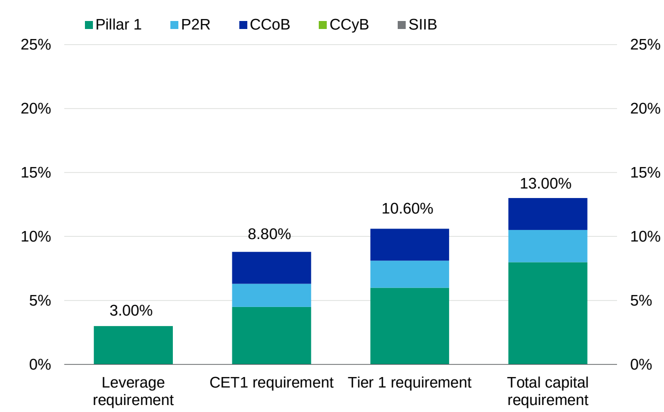
Although BCV utilizes an internal ratings-based approach to compute credit-risk RWA, the bank's 5.6% regulatory leverage ratio as of 31 December 2021 indicates that the chosen model approach is conservative, not pushing risk weights to an excessively low level, which is reflected in the bank's risk density (RWA over tangible assets) of 34.4% as of the same date.

Exhibit 5
BCV comfortably exceeds its capital requirements



TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1 capital; T1 = Tier 1 capital
Source: Moody's Investors Service and company filings

Exhibit 6
BCV's capital requirements



CCoB = Capital conservation buffer; CCyB = Countercyclical capital buffer; SIIB = Systemically important institutions buffer
Source: Moody's Investors Service and company filings

Above-average profitability and efficiency metrics

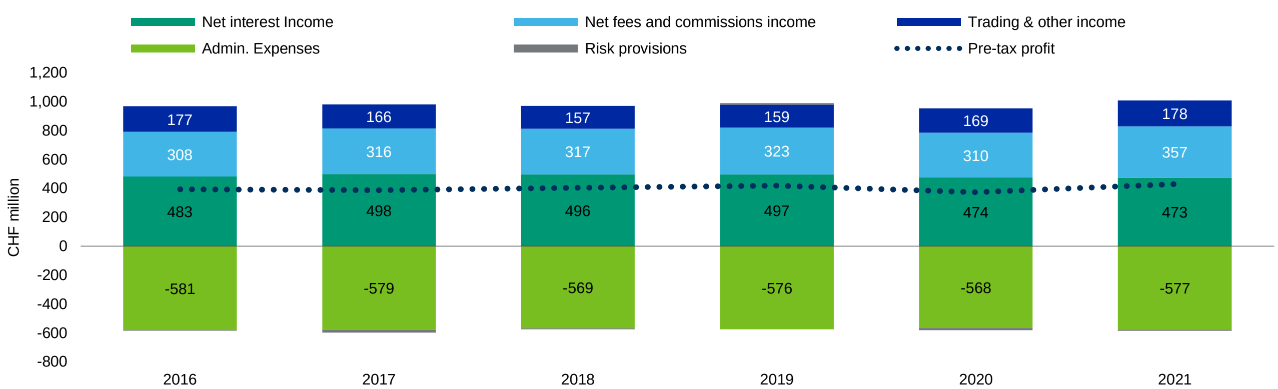
BCV's baa2 assigned Profitability score, in line with the initial score, reflects the bank's stronger profitability than that of its regional banking peers in Switzerland and the stability of its earnings in recent years.

In 2021, BCV generated a Moody's-adjusted return on assets of 0.7%, which continues to provide the bank with a substantial buffer against losses arising from adverse developments. During recent years, the bank has been able to post remarkably stable earnings, offsetting pressure on interest margins with lower funding costs and increased loan volumes, while its net fee and commission income, as well as its trading income, contributed to the stable results, too. In the medium-term future, we expect the bank's earnings generation capacity to remain broadly stable, reflecting a bottoming out of interest margins due to higher market rates, as well as continued loan growth, which will mostly compensate for somewhat weaker net fee and commission income and potentially higher provisioning requirements than those seen in recent years. Hence, we would expect the bank to continue generating a return on assets above 0.5%, commensurate with our assigned baa2 Profitability score.

BCV's Moody's-adjusted net income under Swiss GAAP improved to CHF368 million in 2021, from CHF327 million in 2020. The stronger result was partially driven by CHF13 million lower loan loss charges and other provisions, partially offset by a CHF1 million lower result from equity participations. On a pre-provision basis, BCV's result has also improved because of a CHF47 million acceleration in net fee and commission income to CHF357 million, reflecting buoyant markets and higher trade finance revenues, as well as a CHF9 million increase in trading and other income to CHF174 million. This more than offset a CHF2 million decline in net interest income to CHF473 million and a CHF10 million rise in operating expenses to CHF577 million. As a result, BCV's cost-income-ratio, according to our definition, reached 57% in 2021 (2020: 59%), which compares favourably with that of its peers.

Exhibit 7

BCV displays a relatively diverse earnings split



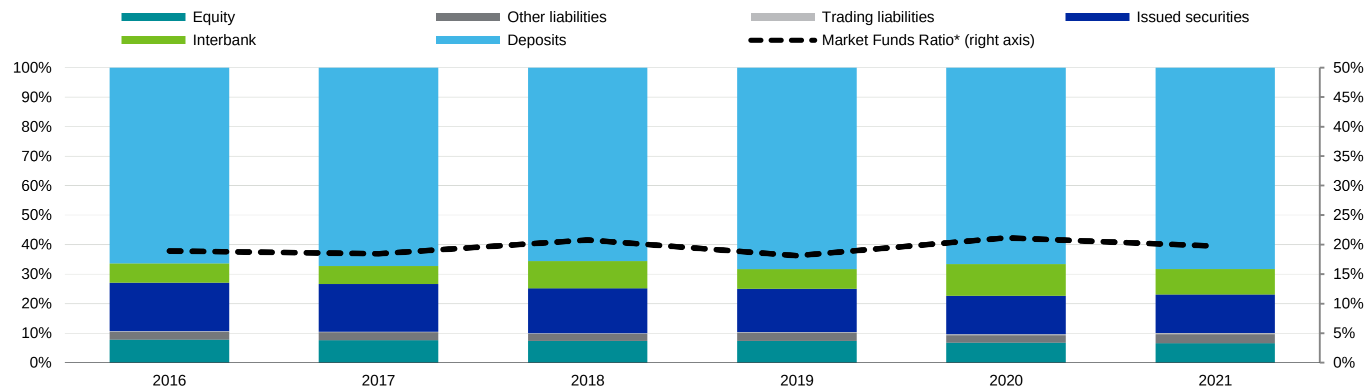
Source: Moody's Investors Service and company filings

BCV's stable deposit base supports its sound funding profile

We assign an a3 Funding Structure score to BCV, in line with the initial score. The assigned score reflects BCV's strong deposit franchise, which results in only moderate market funding needs.

As of 31 December 2021, CHF38.2 billion or 68% of BCV's balance sheet had been funded by customer deposits. The bank augmented this stable funding base with market funding, which as of 31 December 2021 amounted to CHF5.4 billion of covered bonds, CHF1.1 billion of senior unsecured bonds, and CHF2.1 billion of structured notes[3]. In addition, the bank had sourced CHF4.8 billion through the interbank markets at that time, which declined from CHF5.7 billion as of year-end 2020. As a result, our market funds to tangible banking assets ratio reached 19.7%, down from 21.1% as of year-end 2020 (18.1% as of year-end 2019). The increase in the market funds ratio in 2020 was mainly driven by CHF2.5 billion of additional interbank funding, including repo transactions, which funded the increase in the amount of sight deposits that BCV can place with the SNB at a 0% interest rate, which was raised to 30x the minimum reserve requirement from 25x previously on 1 April 2020.

Exhibit 8
BCV has a strong deposit franchise resulting in limited market funding needs



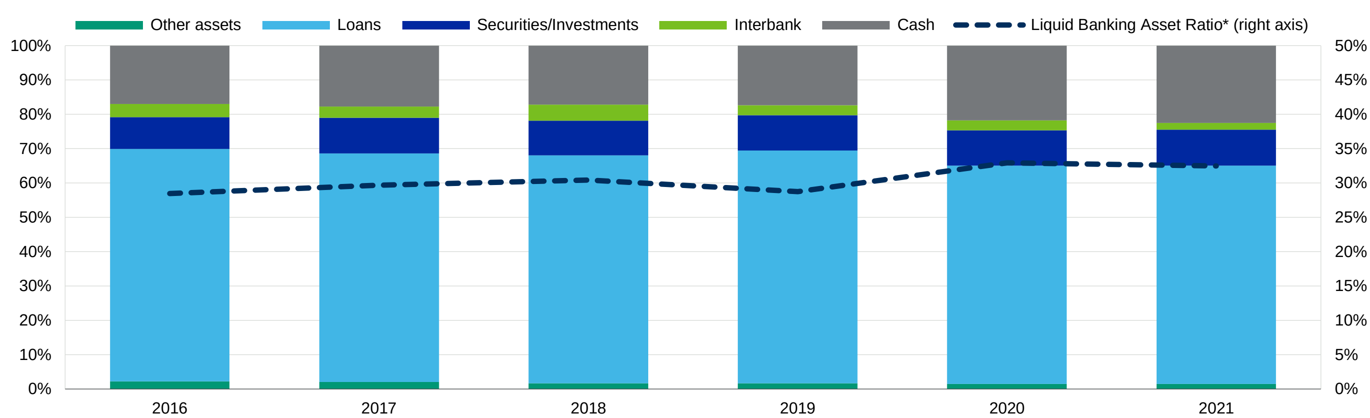
*Market funds ratio = Market funds / Tangible banking assets
Source: Moody's Investors Service and company filings

BCV's liquid resources exceed confidence-sensitive market funding resources

We assign an a2 Liquid Resources score to BCV, in line with the initial score, reflecting the bank's stock of liquid assets, which clearly exceed confidence-sensitive market funding resources.

Mitigating potential funding risks, BCV held CHF12.6 billion of cash on its balance sheet as of 31 December 2021, in addition to CHF4.2 billion of mostly repo-eligible financial investments, CHF1.1 billion of interbank assets, and CHF0.2 billion of trading assets. The resulting liquid asset ratio of 32.5% of tangible banking assets declined slightly from the 32.9% recorded as of year-end 2020 (28.7% as of year-end 2019), with the increase in 2020 having been driven by the aforementioned increase in the 0% interest rate threshold at the SNB. The bank's liquid resources thus continue to significantly exceed the bank's market funding dependence. Furthermore, while BCV's stock of High-Quality Liquid Assets (HQLA) of CHF13.4 billion during Q4 2021 stood below our calculation of liquid assets as of year-end 2021, the bank's Liquidity Coverage Ratio (LCR) of 158% during Q4 2021 points to adequate liquid resources. In addition, BCV could source additional liquidity at short notice by pledging additional mortgage loans to the central mortgage-bond Institution of Swiss Cantonal Banks (CHF8.1 billion of the bank's CHF29.4 billion mortgage book had been pledged as of year-end 2021).

Exhibit 9
BCV's liquid resources exceed its market funding reliance



*Liquid banking assets ratio = Liquid assets / Tangible banking assets
Source: Moody's Investors Service and company filings

Environmental, social and governance (ESG) considerations

In line with our general view on the banking sector, BCV has a low exposure to environmental risks (see our environmental heat map[4] for further information).

For social risks, we also place BCV in line with our general view for the banking sector, which indicates a moderate exposure (see our social heat map[5]). This includes considerations in relation to the coronavirus outbreak, given the substantial implications for public health and safety and the severe and extensive credit shock the pandemic has caused across many sectors, regions and markets.

Governance is highly relevant for BCV, as it is to all participants in the banking industry. Governance risks are largely internal rather than externally driven, and for BCV we do not have any particular governance concern[6]. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support

BCV benefits from parental support from the Canton of Vaud. Parental support materially reduces the probability of default, as it would be available to stabilise a distressed bank and not just compensate for losses in resolution.

We consider a high level of support, reflecting that the Canton of Vaud owns 67% of the share capital of BCV, which, combined with the bank's economic and social role as a cantonal bank in the region, provides an incentive for the canton to inject capital into BCV prior to failure, in case of need. Because of a lack of an explicit guarantee to support the bank, we limit the parental support to one notch of rating uplift from the a2 BCA, leading to an a1 Adjusted BCA.

Loss Given Failure analysis

BCV is subject to Swiss banking regulations, which we consider an operational resolution regime. We therefore apply our Advanced LGF analysis, which takes into consideration the risks faced by the different debt and deposit classes across the liability structure at failure. In our Advanced LGF analysis, we assign a 100% probability to deposits being preferred to senior unsecured debt, thereby reflecting depositor preference by law in Switzerland.

We further assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets. In addition, we assume a 26% share of deposits being “junior” wholesale deposits, for which we factor in a 25% run-off prior to failure, while we assume a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions.

BCV's senior unsecured debt includes structured products, which are a potentially more volatile funding source. The amount incorporated in our Advanced LGF analysis is the lower of the last reported or three-year average structured product volume and we assume a 50% run-off prior to failure.

The results of our Advanced LGF analysis are:

» For deposits, our LGF analysis indicates a very low loss given failure, leading us to position their Preliminary Rating Assessments at aa2, two notches above the a1 Adjusted BCA.

» For the Counterparty Risk Ratings, our LGF analysis indicates a moderate loss given failure, leading us to position their Preliminary Rating Assessments at a1, in line with the a1 Adjusted BCA.

Government support

Because of the BCV's low nationwide market share, we do not consider BCV to be of domestic systemic importance and therefore only assume a low likelihood of (sovereign) government support, not resulting in any rating uplift.

Counterparty Risk Ratings (CRRs)

BCV's CRRs are A1/P-1

The CRRs are positioned in line with the a1 Adjusted BCA, because no uplift is provided by our Advanced LGF analysis.

Counterparty (CR) Risk Assessment

BCV's CR Assessment is Aa3(cr)/P-1(cr)

The CR Assessment is positioned one notch above the a1 Adjusted BCA because of uplift provided by our Advanced LGF analysis.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we used in rating BCV was Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 10
Banque Cantonale Vaudoise

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.7%	aa2	↔	a2	Geographical concentration	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	18.9%	aa2	↔	aa2	Risk-weighted capitalisation	Capital retention
Profitability						
Net Income / Tangible Assets	0.7%	baa2	↔	baa2	Return on assets	Expected trend
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	19.7%	a3	↔	a3	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	32.5%	a2	↔	a2	Stock of liquid assets	Quality of liquid assets
Combined Liquidity Score		a3		a3		
Financial Profile				a2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a1 - a3		
Assigned BCA				a2		
Affiliate Support notching				-		
Adjusted BCA				a1		

Balance Sheet	**in-scope (CHF Million)**	**% in-scope**	**at-failure (CHF Million)**	**% at-failure**
Other liabilities	12,587	22.6%	17,680	31.8%
Deposits	38,197	68.6%	34,301	61.6%
Preferred deposits	28,266	50.8%	26,852	48.2%
Junior deposits	9,931	17.8%	7,448	13.4%
Senior unsecured bank debt	3,209	5.8%	2,012	3.6%
Equity	1,670	3.0%	1,670	3.0%
Total Tangible Banking Assets	55,663	100.0%	55,663	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	6.6%	6.6%	6.6%	6.6%	0	0	0	0	0	a1
Counterparty Risk Assessment	6.6%	6.6%	6.6%	6.6%	1	1	1	1	0	aa3 (cr)
Deposits	20.0%	6.6%	20.0%	6.6%	2	2	2	2	0	aa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	0	0	a1	0	A1	A1
Counterparty Risk Assessment	1	0	aa3 (cr)	0	Aa3(cr)	
Deposits	2	0	aa2	0	Aa2	Aa2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
BANQUE CANTONALE VAUDOISE	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)

Source: Moody's Investors Service

Endnotes

1 The CHF35 million first-time implementation effect of this accounting change was offset against the bank's reserve for general banking risk within shareholders' equity and therefore did not impact the bank's income statement.

2 In May 2020, CHF310 million or 85% of the 2019 net profit was distributed to shareholders, while in April 2021, shareholders approved another CHF310 million dividend payment, representing 94% of 2020 net profit. In May 2022, CHF318 million were distributed to shareholders, which amounted to 84% of 2021 net profit.

3 Issued structured products with and without an interest-rate component.

4 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

5 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

6 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Further factors like specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

REPORT NUMBER 1329183

Moody's INVESTORS SERVICE