Moody's Investors Service

Credit Opinion: Banque Cantonale Vaudoise

Global Credit Research - 05 Mar 2010

Lausanne, Switzerland

Ratings

Category	**Moody's Rating**
Outlook	Stable
Bank Deposits	A1/P-1
Bank Financial Strength	C-

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Key Indicators

Banque Cantonale Vaudoise

	[1]**2009**	**2008**	**2007**	**2006**	**2005**	**Avg.**
Total assets (CHF billion)	**35.44**	**34.86**	**34.79**	**32.03**	**33.49**	[2]**3.02**
Total assets (EUR billion)	**23.90**	**23.56**	**21.02**	**19.90**	**21.55**	**--**
Total capital (CHF billion)	**3.22**	**3.18**	**3.23**	**3.42**	**3.23**	[2]**1.99**
Return on average assets	**0.85**	**1.04**	**1.42**	**1.63**	**1.43**	**1.27**
Recurring earnings power [3]	**1.08**	**0.99**	**1.30**	**1.34**	**1.22**	**1.19**
Net interest margin	**1.56**	**1.55**	**1.59**	**1.59**	**1.56**	**1.57**
Cost/income ratio (%)	**60.60**	**63.31**	**59.54**	**59.84**	**62.18**	**61.09**
Problem loans % gross loans	**1.90**	**2.51**	**3.27**	**5.26**	**7.79**	**4.15**
Tier 1 ratio (%)	**17.80**	**16.39**	**16.29**	**18.29**	**17.80**	**17.31**

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of C- to Banque Cantonale Vaudoise (BCV), which translates into a Baseline Credit Assessment of Baa1. The rating derives from its strong retail position in the Canton of Vaud (unrated) and its improving financials over recent years. The rating also incorporates the bank's past losses on its loan portfolio and equity derivatives trading activities but also the overall improving risk management framework and risk profile of the bank.

BCV's long-term and short-term global local currency (GLC) deposit ratings are at the A1/Prime-1 levels and derive from BCV's importance in the local economy of the Canton of Vaud and its majority ownership and proven support by the Canton of Vaud. Under Moody's Joint Default Analysis (JDA) methodology, Moody's assesses the probability of systemic support for BCV in the event of distress as high, which results in a three-notch uplift in the deposit ratings to A1/Prime-1 from the Baa1 Baseline Credit Assessment. Switzerland is regarded as a medium support country, and BCV is important to the local economy in the Canton of Vaud.

Thus, the deposit ratings of BCV incorporate three main elements:

(1) The bank's BFSR of C- mapping to a Baseline Credit Assessment of Baa1;

(2) Moody's assessment of a high probability of support from the Canton of Vaud authorities; and

(3) The seniority of its deposits and debt.

Credit Strengths

- Majority shareholding and tested support of the Canton of Vaud over the past years

- Improving trend of financial fundamentals over recent years

- Solid local franchise and sound market position

- Ample capitalisation

Credit Challenges

- Improvement of the risk management culture needs to be tested over a prolonged period

- Lack of track record through a cycle to sustain the bank's improved financials

- Weak, albeit improving, efficiency

- Maintain adequate risk/return profile in trade finance activities

- Low granularity of corporate risk and high exposure to the real-estate market in the Canton of Vaud

- Still above average, albeit steadily improving, volume of legacy non-performing loans

- Potential impact of the challenging macro-economic environment on the bank's asset quality

Rating Outlook

The outlook on BCV's BFSR is stable, based on its sound franchise in the Canton of Vaud and its improved financial fundamentals.

The outlook on BCV's deposit rating is stable based on the stable financial strength of the bank, as well as on the Canton of Vaud's long-standing majority ownership.

What Could Change the Rating - Up

BCV's BFSR could be positively impacted by a confirmation - over a prolonged period - of the bank's return to a sound financial position both through further sustained reduction of non-performing loans to a significantly lower level, and through a sustained improvement of efficiency and profitability, at least at the levels already reached in recent years.

BCV's BFSR could also benefit from further improvements to its risk culture and liquidity management, thereby building on the successful reforms that have already taken place in the past few years.

BCV's debt and deposit ratings could be upgraded if the bank's BFSR were to improve or if the Canton of Vaud were to give its full guarantee to the bank.

Additionally, a significant improvement of Moody's perception of the creditworthiness of the Canton of Vaud could also positively impact BCV's debt and deposit ratings.

What Could Change the Rating - Down

BCV's BFSR could be affected by the bank's failure to continue to deliver on its improvements in the long-term, either in terms of financials or in terms of governance, management or risk control and culture issues. The bank's BFSR would also be adversely affected by any damage to its franchise, i.e. mainly if the bank were to steadily lose market shares in the Canton of Vaud.

Moody's would also re-assess its intrinsic opinion on the bank if a deterioration of the economic condition or real-estate market in the Canton of Vaud were to lead to a weakening of the bank's asset quality, thus putting into question the structural nature of the bank's improvements after the 2001/2003 crisis.

The bank's debt and deposit ratings would likely be affected by a decrease of the Canton of Vaud's stake below the 50.1% threshold or by any downward change of Moody's perception of the likelihood of systemic support in Switzerland.

Recent Results and Company Events

In the first half of 2008, BCV announced that its trading activities had experienced a material, negative swing on the equity derivatives activities, which resulted in a pre-tax loss of CHF45 million, of which CHF35 million in Q1 2008 and the remainder in Q2 2008. The trading revenues were positive in the second half of 2008. Following the loss, BCV decided to drastically reduce its exposures to equity derivatives and the bank completely wound down the activities before year-end 2009.

In November 2008, BCV unveiled a new strategy aiming at notably focusing on its core customer bases, i.e. retail and corporates in the Canton of Vaud, and private banking and wealth management. The bank also announced that it would increase its dividend payment over the next 5 to 6 years, and ultimately targets a Tier 1 ratio of 13%.

BCV also announced that it would reorganise its business lines by creating a Private Banking business line and by merging the asset management and trading activities under a common business line. This change was effective in early 2009.

Also in November 2008, the Vaud Cantonal Government announced that it would not reduce its stake in BCV before 2010. In January 2008, the Vaud Cantonal Government had received the authorization by the Parliament to reduce its stake in the bank to 50.12% from 67.08% currently in order to bring the Canton's ownership back to the level prior to the bank's recapitalisation in the early 2000s.

In December 2008, the Swiss federal tax authority asked BCV to reimburse CHF150 million, which corresponds to the deferred tax used from FY2004 to FY2006. In May 2009, BCV made an appeal and is waiting for the tax authority's decision.

In late 2009, BCV announced that it had finalized the recruitment process for its risk management team. The bank's risk management team is now complete (the CFO previously temporarily also assumed CRO position in the interim). Also, in February 2010, BCV appointed a new Chief Credit Officer.

On 01 January 2009, BCV switched to Basel 2 IRB Foundation for its capital adequacy calculation. BCV is the first cantonal bank to obtain such approval from the Swiss regulator.

The figures below are based on Moody's chart of account.

At year-end 2009, BCV's Pre-Provision Income (PPP) stood at CHF383 million, up 12% from CHF342 million at year-end 2008. While net interest income and fees and commissions remained fairly stable, trading income was up 167% to CHF99 million from CHF37 million the year before, mainly as a result of the trading loss on the equity derivatives in the first half of FY 2008 (see above).

At year-end 2009, operating expenses remained flat at CHF590 million (YE 2008: CHF589 million) while loan loss provisions amounted to CHF18 million (YE 2008: CHF 16 million).

Non-recurring items stood at CHF17 million for the year vs. CHF129 million the year-before, as the bank sold part of its investment portfolio.

At year-end 2009, BCV's gross loan portfolio amounted to CHF24.3 billion, 6.5% from CHF22.8 billion at year-end 2008, while Risk-Weighted Assets (RWA) were down by approximately 10%.

DETAILED RATING CONSIDERATIONS

Detailed considerations for BCV's currently assigned ratings are based on the latest full year financial statements at year-end 2009, while the trends reflect Moody's own expectations.

Bank Financial Strength Rating

Moody's assigns a bank financial strength rating (BFSR) of C- to Banque Cantonale Vaudoise (BCV), which translates into a Baseline Credit Assessment of Baa1. The rating derives from its strong retail position in the Canton of Vaud (unrated) and its improving financials over recent years. The rating also incorporates the bank's past losses on its loan portfolio and equity derivatives trading activities but also the overall improving risk management framework and risk profile of the bank.

As a point of reference, Moody's bank financial strength scorecard generates a score of C+, two notches above Moody's BFSR. This score reflects the improving financial fundamentals in the recent years, but fails to take into account the potential impact on the bank's financial fundamentals of the challenging the macro-economic environment in Switzerland.

Qualitative Factors (50%)

Factor: Franchise Value

Trend: Neutral

As a cantonal bank, BCV has an important role to play in the Canton of Vaud. Article 4 of the `Cantonal Act Governing the Organization of Banque Cantonale Vaudoise' (LBCV) sets forth BCV's corporate mandate, which is to contribute to the development of all areas of the private-sector economy, financing of cantonal public-sector entities and mortgage lending within the Canton.

BCV ranks as the fifth-largest bank in Switzerland by assets. Its main market is the Canton of Vaud, where the bank has a strong and defendable franchise. We note however that small size of the bank's home market is a significant constraint to BCV's franchise value.

The bank has a solid franchise in the Canton of Vaud where it is the leading bank for individuals and corporates, including SMEs. BCV has the largest network in the Canton and has approximately 35% of the mortgage market in Vaud. The bank has a very high penetration rate among Vaud-based SMEs and large corporates. Its main competitors locally are the Raiffeisen network, UBS, Credit Suisse and the Post Office. Its local franchise was adversely affected in the late 1990s to early 2000s, but since 2003 the bank has re-defined its strategy and has stabilised its market shares. Successive strategic plans launched since 2005 have helped BCV boost all the bank's businesses through key developments (including a new corporate logo, a re-segmenting of the customers, commercial initiatives, positioning in its core businesses and commercial growth).

The transfer of consumer finance activities to the Aduno Group in 2008 did not have any impact on BCV's franchise, given the bank's modest consumer finance activities and the small proportion of income they represent.

The bank significantly reduced its trading activities by winding down its equity derivatives trading desk through 2008 and 2009. We view positively the bank's decision to reduce the volatility of its earnings stemming from trading activities. That said, the bank maintains important trade finance activities, which we view as more risky than retail banking. We note however that the bank has taken measures to reprice and reduce risks on its trade finance activities.

As a point of reference, Moody's scorecard generates a C- score, which we believe is a fair representation of the bank's franchise value.

Factor: Risk Positioning

Trend: Improving

BCV is majority owned by the Canton of Vaud but governance issues and the relationship between the bank and the Canton have been clarified since the conclusion of the Parliamentary inquiry on the bank was made public in 2002:

- The bank has a corporate mandate in the Canton, as defined in Article 4 of the Cantonal Act governing the institution.

- The government of the Canton appoints 4 of the 7 members of the Board of Directors.

- The CEO is recommended by the Board of Directors and is appointed by the Canton.

- All other Executive Managers are chosen by the CEO but must be approved by the Board of Directors.

- The Canton does not intervene in the management of the bank, the responsibility of which lies with the Executive Directors.

- A number of committees have been set up at the Board of Directors and Management level, including Credit, Risk Management and ALM.

- Regular information meetings take place between the Government and the Board of Directors and CEO.

The CRO (role created in 2002) heads a full team responsible for defining risk policies and processes throughout the bank but not for direct operational risk controls, as each division maintains a risk control function responsible for implementing and controlling group policies. However, the CRO is not a member of the Board of Executives and he does not have a direct reporting line to the Board of Directors but reports to the CFO.

In late 2009, BCV announced that it had finalized the recruitment process for its risk management team. The bank's risk management team is now complete (the CFO previously temporarily also assumed CRO position in the interim).

Moody's notes that:

- Following the trading losses related to heightened levels of volatility on the Swiss equity and equity derivatives markets, BCV significantly reduced its exposures on equity derivatives and reoriented its focus on client-driven activities. The bank completely wound down its proprietary equity derivatives trading activities by year-end 2009. Moody's views BCV's risk culture and appetite as a key determinant in assessing future rating developments.

- Despite the retail nature of its activities, the bank displays risk concentration in its credit portfolio. Moody's believes this is, to a large extent, inherent to the nature and mission of the bank, the activities of which are concentrated in one relatively small region. The bank is particularly exposed to the real estate market in the Canton of Vaud, both through its mortgages and through its lending to real estate developers. In that respect, we note that the macro-economic environment is expected to remain challenging. We will continue to closely monitor the potential impact on the Canton of Vaud's real estate housing market, which is core to BCV's activity.

- The bank has taken measures to reprice and reduce risks on its trade finance activities; we however caution that the bank continues to have important trade finance activities which we consider as inherently risky and especially in the current environment.

The bank has ample capitalisation (over CHF3.2 billion shareholders' equity, at year-end 2009), and is also a net liquidity provider in the Swiss interbank market. In Moody's view the bank recently put a greater emphasis on liquidity management which is a key element of its risk management framework.

Moody's scorecard gives a D+ score for risk management, which reflects the bank's past losses on its loan portfolio and equity derivatives trading activities. The improving trend reflects the overall improving risk management framework and risk profile of the bank.

Factor: Regulatory Environment

This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. Please refer to Moody's latest Banking System Outlook for Switzerland to obtain a detailed discussion on Regulatory Environment.

Factor: Operating Environment

Trend: Weakening

In general, this factor is common to all Swiss banks. Please refer to Moody's latest Banking System Outlook for Switzerland to obtain a detailed discussion on Operating Environment

Quantitative Factors (50%)

Factor: Profitability

Trend: Neutral

BCV's profitability is well positioned relative to that of its regional peers in Switzerland and in the other European countries.

Retail, corporate (SMEs) banking, private banking and asset management are the main revenue contributors. Trade finance and market activities represent a marginal proportion. Given the predominance of commercial banking activities at BCV, its level of profitability is an indication of the Canton of Vaud's retail market growth and of the bank's ability to benefit from its leading position. The bank's profitability is also obviously highly correlated with the Canton's economic performance and, in particular, with the evolution of the local real estate market.

Recurring earnings power has considerably improved over the past years thanks to the bank's successful measures to improve the commercial performance and reduce the risk profile of the bank. We however caution that the evolution of the macro-economic environment in the Canton of Vaud may potentially adversely impact the bank's profitability in the short-to-medium term. Moody's will assess the potential credit losses on the bank's portfolio and how they might negatively affect the bank's capital.

The bank's gross income predominantly stems from net interest income (46.9% of gross income in FY 2009), fees and commission income (33.8%), while trading income and other income account for the remainder (10.1% and 9.2%, respectively). We expect the bank's mix of income to remain similar over the medium term given the bank's strategic re-focus on its core activities.

The C+ score given by Moody's scorecard gives a fair estimate of the bank's profitability as it stands today.

Factor: Liquidity

Trend: Neutral

Despite being primarily a lending institution (CHF24.3 billion of gross loans out of CHF35.4 billion of total assets at year-end 2009), the bank also has significant headroom thanks to over CHF5.3 billion of liquid assets (Moody's estimates, using cash, money-market, net interbank position and securities portfolios).

Banque Cantonale Vaudoise has the following main sources of refinancing:

- Deposits in the Canton of Vaud, of about CHF23.4 billion at year-end 2009. Approximately 58% of the total is demand deposits but, considering the leading position of BCV in the Canton of Vaud, Moody's considers this funding stream to be very stable;

- Medium-term notes sold to the bank's customers (EUR 0.5 billion)

- Bonds and mortgage backed-bonds (CHF5.6 billion), of which EUR 4.5 billion of Swiss mortgage bonds, EUR 0.8 billion of bonds and EUR 0.35 million of structured products

- Interbank (about CHF2.1 billion);

(Moody's defines a bank's funding as the sum of deposits (demand and savings), interbank, market funding and subordinated debt.)

BCV's funding is rather stable since almost 75% of it is carried through customer deposits. Overall, liquidity is not a pressing issue for BCV although the bank will need to pursue its efforts in developing stronger liquidity management going forward.

Moody's believes the scorecard-generated C+ score for liquidity fully reflects this situation.

Factor: Capital Adequacy

Trend: Neutral

At year-end 2009, BCV's shareholder's equity was broken down into:

- Common shares worth CHF172.1 million

- Reserves worth CHF356.9 million

- Retained earnings worth CHF1,681 million

- General banking risk fund worth CHF704 million

- Minority interests worth CHF13.6 million

Following the buyback of the participation certificates in July 2007, the structure of BCV's shareholders' equity has changed. The bank does not have any outstanding hybrid and the Tier 1 capital is therefore solely composed of Core Tier 1 capital.

At year-end 2009, the Basel 2 IRB-Foundation Tier 1 ratio stood at 17.8%, down from 19.2% at year-end 2008 (16.4% under Basel 1). The main driver for the decrease of the ratio is the increase of the loan portfolio in FY 2009 (up 6.5%).

We note that the bank's capital adequacy continues to stand at a high level and continues to score among the best for this factor on a global basis, but we also note that the bank announced its intention to externalise retained earnings over a period of 5 to 6 years and gradually reach a targeted Tier 1 ratio of 13%.

As a reference, Moody's scorecard's gives a score of A, which is fully justified given the current capital adequacy.

Factor: Efficiency

Trend: Neutral

Over the recent years, BCV's operating costs improved thanks to a stabilisation of the operating expenses and a growth of the net banking income. Moody's notes that the low cost of risk also accounted for the improvement of the efficiency. It partly results from the reversal of the loan loss provisions as the bank sorts out its legacy loans.

That said, Moody's believes the bank's efficiency ratio remains at a relatively high level and stood at 60.6% at year-end 2009. As a point of reference, the cost-to-income ratio stood at 63.3% in 2008 (Moody's own calculation). Admittedly, this is explained by the bank's business mix geared towards retail banking which induces branch network costs.

The bank's strategic plan aiming at maximizing commercial performance is also expected to result in a slight improvement of the efficiency.

We however caution that the current challenging macro-economic environment might affect the bank's profitability and therefore its efficiency, as it is more difficult to adjust operating expenses in a retail network.

According to Moody's bank financial strength scorecard, the bank scores C for this factor. This coincides with Moody's view for the bank in the medium-to-long term.

Factor: Asset Quality

Trend: Improving

Banque Cantonale Vaudoise's asset quality was significantly damaged by the 2001/2002 crisis. At the time, BCV made considerable provisions against high levels of problem loans disclosed by the bank (12.9% of gross loans were impaired at year-end 2003).

It is to be noted that asset quality has steadily improved since, as the bank's dedicated team has recovered or written off legacy impaired loans. As of year-end 2009, problem loans accounted for 1.9% of gross loans, of which 63% were provisioned. We believe the strong improvement in the recent years is a reflection of the bank's strong focus on credit risk and the conservative credit risk management which is in place at the bank.

We expect the positive impact on the bank's asset quality metrix of the recovery of legacy loans to gradually level off as the portfolio of legacy non-performing loans reduces.

Furthermore, we expect the real estate housing market in Switzerland to remain under stress in 2010, on the back of the challenging macro-economic environment. We will continue to closely monitor the potential impact on the bank's loan portfolio.

In addition, we note the measures taken by the bank to favourably reprice and reduce risks on its trade finance activities, but caution that the bank continues to have sizeable trade finance activities which consider as inherently risky and especially in the current environment.

Moody's scorecard generates a score of B for asset quality. Although we acknowledge that the stock of legacy impaired loans still remains high, we believe the score is a fair representation of the bank's improving asset quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a global local currency (GLC) deposit rating of A1 to Banque Cantonale Vaudoise.

The GLC deposit rating is supported by Bank's Baseline Credit Assessment of Baa1, as well as by Switzerland's Aaa local currency deposit ceiling (LCDC). The bank receives a three-notch uplift from its Baseline Credit Assessment, bringing the GLC rating to A1.

The probability of systemic support in the event of a stress situation is judged to be high. This is based on Banque

Cantonale Vaudoise's importance to the local economy in the Canton of Vaud.

Foreign Currency Deposit Rating

The Foreign Currency Deposit Rating of Banque Cantonale Vaudoise is not constrained by the Aaa Foreign Currency Ceiling of Switzerland and is at the same level as the GLC, i.e. A1.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's bank financial strength scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model 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 Factors

Banque Cantonale Vaudoise

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C**	
Factor: Franchise Value						**C-**	**Neutral**
Market Share and Sustainability		**x**					
Geographical Diversification				**x**			
Earnings Stability				**x**			
Earnings Diversification [2]							
Factor: Risk Positioning						**D+**	**Improving**
Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity				x			
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management			**x**				
- Risk Management			x				
- Controls			x				
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness		x					
- Quality of Financial Information		x					
Credit Risk Concentration					**x**		
- Borrower Concentration					x		
- Industry Concentration		x					
Liquidity Management			**x**				
Market Risk Appetite			**x**				
Factor: Operating Environment						**A**	**Weakening**
Economic Stability	**x**						
Integrity and Corruption	**x**						
Legal System	**x**						
Financial Factors (50%)						**B-**	

Factor: Profitability						**C+**	**Neutral**
PPP % Avg RWA - Basel I			2.31%				
Net Income % Avg RWA - Basel I		1.81%					
Factor: Liquidity						**C+**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets		-5.78%					
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 ratio (%) - Basel I	17.80%						
Tangible Common Equity / RWA - Basel I	15.06%						
Factor: Efficiency						**C**	**Neutral**
Cost/income ratio			60.60%				
Factor: Asset Quality						**B**	**Improving**
Problem Loans % Gross Loans		1.90%					
Problem Loans % (Equity + LLR)		16.53%					
Lowest Combined Score (15%)						**C+**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C+**	
Assigned BFSR						**C-**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral