

CREDIT OPINION

14 January 2021

Update

✓ Rate this Research

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

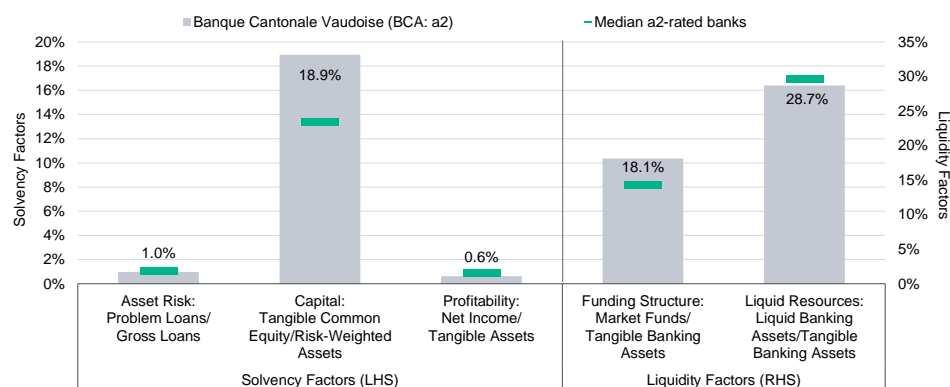
We assign Aa2(stable)/P-1 deposit ratings to [Banque Cantonale Vaudoise](#) (BCV). We also assign an a2 Baseline Credit Assessment (BCA), an a1 Adjusted BCA, and A1/P-1 Counterparty Risk Ratings.

BCV's Aa2 deposit ratings reflect its a2 BCA, one notch rating uplift from affiliate support, because of the majority ownership by the Canton of Vaud and the bank's important role in the region, and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities. We do not incorporate rating uplift from sovereign government support for BCV's deposit ratings due to the bank's low nationwide market share and low systemic importance to the Swiss banking system.

BCV's a2 BCA reflects its strong capitalization and its earnings generation capacity, which surpasses that of its Swiss regional banking peers. BCV is exposed to confidence-sensitive market funding, but its stock of high-quality liquid assets adequately mitigates this risk. Asset quality challenges continue to mainly stem from the bank's narrow geographical footprint in a region with elevated housing prices, as well as exposures to small and medium-sized enterprises (SMEs) and some trade finance transactions. Our view on the bank's BCA could change if the coronavirus credit shock led to a sustained erosion of BCV's solvency strengths.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » BCV has strong capital adequacy ratios, which provide a substantial buffer against downside risks
- » The bank generated stable earnings in recent years, which exceeded that 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 real estate market with elevated price levels, although its real estate loan book growth has slowed down
- » Exposures to corporates and trade finance could cause material write-downs given the more challenging operating environment caused by the coronavirus crisis
- » 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, or 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 concentrations 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 to be 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 result from 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 book, increases as reflected in sustainably higher problem loans, combined with lower cushions from its capital ratios and depressed profitability. Furthermore, a deteriorating liquidity profile could exert downwards rating pressure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Banque Cantonale Vaudoise (Consolidated Financials) [1]

	06-20 ²	12-19 ²	12-18 ²	12-17 ²	12-16 ²	CAGR/Avg. ³
Total Assets (CHF Billion)	50.3	48.4	47.9	45.4	44.1	3.8 ⁴
Total Assets (USD Billion)	53.1	49.9	48.6	46.6	43.4	5.9 ⁴
Tangible Common Equity (CHF Billion)	3.4	3.6	3.5	3.4	3.4	0.2 ⁴
Tangible Common Equity (USD Billion)	3.6	3.7	3.6	3.5	3.3	2.3 ⁴
Problem Loans / Gross Loans (%)	1.0	0.8	1.0	0.9	1.0	1.0 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	18.9	19.0	19.1	18.9	19.3	19.1 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.0	7.5	8.9	7.8	9.0	8.4 ⁵
Net Interest Margin (%)	1.0	1.1	1.1	1.1	1.1	1.1 ⁵
PPI / Average RWA (%)	2.1	2.2	2.2	2.2	2.2	2.2 ⁶
Net Income / Tangible Assets (%)	0.6	0.7	0.7	0.7	0.7	0.7 ⁵
Cost / Income Ratio (%)	59.8	58.9	58.6	59.0	60.1	59.3 ⁵
Market Funds / Tangible Banking Assets (%)	25.6	18.1	20.8	18.4	18.9	20.4 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	30.4	28.7	30.4	29.7	28.5	29.5 ⁵
Gross Loans / Due to Customers (%)	99.0	99.4	101.5	99.4	102.3	100.3 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 CHF 50.3 billion and 1,896 full-time equivalent employees as of 30 June 2020. 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 30 June 2020, 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 BCV's most recent [Issuer Profile](#) and 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.

Recent developments

The coronavirus pandemic causes an unprecedented shock to the global economy. The full extent of the economic downswing will be unclear for some time; however, most G-20 economies, as well as [Switzerland](#) (Aaa stable), will have contracted in 2020. In Switzerland, the coronavirus outbreak adds to late-cycle risks for Swiss banks and the recession in 2020 will weigh on the banks' asset quality and profitability. We expect fiscal policy measures implemented by the Swiss sovereign and the Swiss cantons during the first and second waves of the pandemic to mitigate the economic contraction caused by the outbreak.

During the first wave, on 4 May 2020, the Swiss Parliament extended the coronavirus relief package, which, among other measures, increased the guarantee framework for liquidity loans to small and medium-sized enterprises (SME) to CHF 40 billion from the CHF 20 billion that were approved on [23 March 2020](#). Under the guarantee framework, the Swiss government guaranteed 100% of loans amounting to CHF 0.5 million or less, while loans ranging from CHF 0.5 million to CHF 20 million were 85% guaranteed¹. Switzerland's

banks are also supported by the country's reduced working-hour scheme, which has softened the increase in the unemployment rate, as well as by regulatory forbearance measures, such as the revocation of the 2% countercyclical capital buffer for domestic residential mortgage exposures and the temporary exclusion of central bank cash holdings from the leverage ratio². During the second wave of the pandemic, the Swiss government has so far approved CHF 2.5 billion of support to be provided to the economy, with the Swiss cantons shouldering about a quarter of it.

In the current coronavirus-induced recession and its aftermath, capital levels will be a key differentiator of credit profiles among banks. Generally, banks are facing a sharp deterioration in asset quality and reductions in profitability from already low levels, while central banks are providing extraordinary levels of liquidity and governments have strong incentives to support banking systems to foster an eventual recovery. Thus, when comparing a bank to its peers, the level of capital with which it entered this recession and its ability to retain capital throughout the next several years take on particular importance.

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 housing prices, exposures to small and medium-sized enterprises (SMEs) and trade finance transactions, as well as interest rate risk in the banking book.

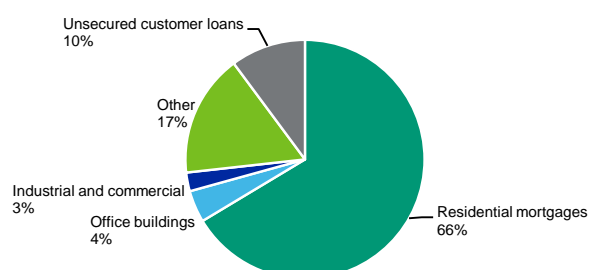
BCV's asset quality remained at sound levels over the past years, reflecting the bank's strong focus on credit risk and its conservative credit risk management. The problem loan ratio ticked up to 1.0% as of 30 June 2020 from 0.8% as of year-end 2019, when it had reached a bottom after a continuous decline in nonperforming loans since 2010. The increase in problem loans during the first half of 2020 to CHF 319 million from CHF 274 million was mainly due to defaults by two trade-finance counterparties following market dislocations during the coronavirus crisis.

BCV's loan book remains concentrated in the dynamic Vaud region, which is supported by strong demographical factors, but also exhibits elevated housing prices. 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's mortgage book grew at a lower rate than that of its competitors, and the average loan-to-value ratio of BCV's residential real estate loan exposures stands at around 50% and thus at the lower end compared to its Swiss cantonal banking peers, the bank nonetheless remains susceptible to shocks potentially emanating from the domestic real estate market or during a prolonged period of weaker economic growth as a result of the coronavirus crisis.

In addition to the bank's CHF 21.8 billion residential real estate exposures as of year-end 2019, BCV had CHF 3.0 billion of other mortgage loans, which are mostly secured by land, as well as CHF 2.3 billion of commercial real estate exposures on its books, which represent loans to SMEs and large corporates, which are secured by offices and other commercial and industrial collateral. Moreover, the bank had extended CHF 5.8 billion of other customer loans, of which CHF 2.5 billion were secured and CHF 3.3 billion were unsecured. Despite the mostly secured nature of the bank's loan book and government-guaranteed liquidity loans for SMEs that were

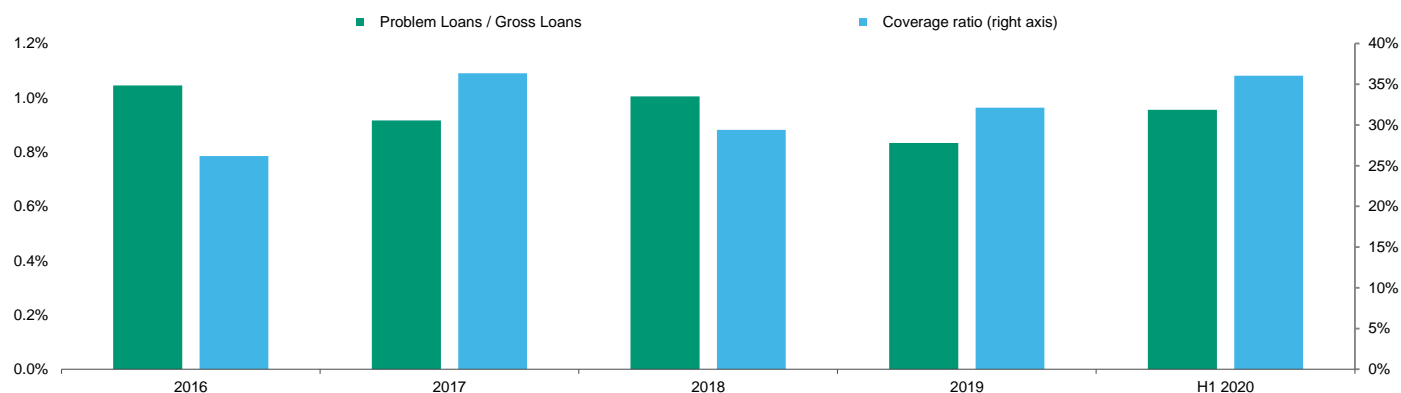
Exhibit 3

BCV's loan book breakdown as of year-end 2019



Source: Company reports, Moody's Investors Service

Exhibit 4

BCV's problem loan ratio has ticked up in the first half of 2020

Problem loan ratio in accordance with our definitions; since 2018, according to IFRS 9 reporting standards.

Source: Company reports, Moody's Investors Service

extended until July 2020, the current economic slowdown could result in a material increase of corporate defaults and, hence, a material rise in problem loans at BCV. In addition, the bank's trade finance book of CHF 1.3 billion as of 30 June 2020 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 persistent low yield environment. We reflect this market risk in our assigned Asset Risk score.

Solid capital adequacy ratios are a strong mitigant

We assign an 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, given potential risk-weighted-asset (RWA) inflation because of rating migrations during the coronavirus crisis, as well as BCV's high dividend payout ratio, which will likely be maintained in the future and adds some volatility to our tangible common equity (TCE) measure.

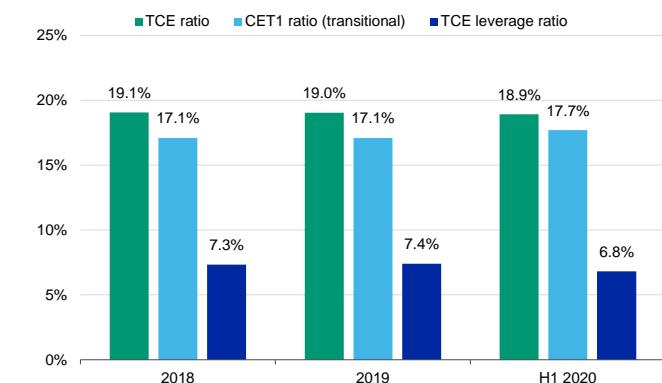
TCE as a percentage of RWA stood at 18.9% as of 30 June 2020 (19.0% as of year-end 2019), while the bank's regulatory Common Equity Tier 1 (CET1) and total capital ratios reached 17.7% and 17.9%, respectively (17.1% and 17.3% as of year-end 2019, respectively). The difference between our TCE ratio and 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. In May 2020, CHF 310 million or 85% of the 2019 net profit was distributed to shareholders, which resulted in a drop in TCE, while regulatory capital remained virtually unchanged. The improvement in the regulatory capital ratios was driven by a 3.5% decline in RWA due to a reduction in BCV's trade finance portfolio. For year-end 2020 and beyond, we expect BCV to maintain its strong capital adequacy ratios and thus a significant buffer over and above its announced 13.0% long-term minimum CET1 capital ratio target. Nonetheless, with profitability likely subdued in the second half of 2020 and in 2021, and the bank's commitment to high dividend payouts, RWA might grow somewhat faster than capital in the medium term. As a result, our TCE ratio will likely decline somewhat from the current level, but should stay well above 16.0%, which is commensurate with an 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 has required since January 2016 to take into account the bank's interest rate risk exposure in the low yield environment. No longer included in these requirements is the countercyclical buffer requirement for residential mortgage exposures, which was revoked by the Swiss National Bank and FINMA in March 2020 and which had resulted in a 0.8% add-on for BCV in recent years.

Although BCV utilizes an internal ratings-based approach to compute credit risk RWA, the bank's 6.1% regulatory leverage ratio as of 30 June 2020 indicates that the chosen model approach is conservative, not pushing risk-weights to an excessively low level. The

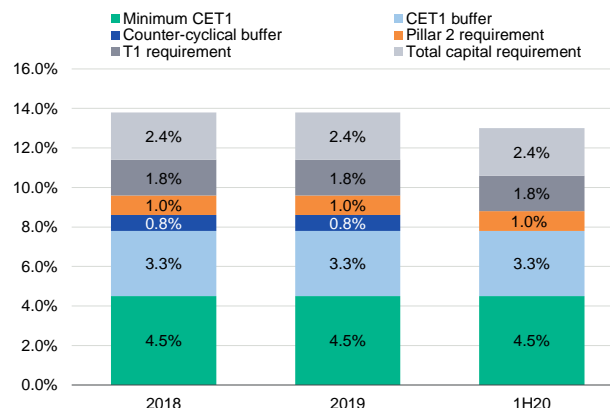
bank's risk-density (RWA over tangible assets) stood at 36.1% as of 30 June 2020, which we expect to increase somewhat, because of negative rating migrations during the coronavirus crisis.

Exhibit 5

BCV comfortably exceeds its capital requirements

TCE = Tangible common equity (our calculation); CET1 = Common Equity Tier 1 capital
Source: Company reports, Moody's Investors Service

Exhibit 6

BCV's capital requirements

Source: Company reports

Above-average profitability and efficiency metrics persisted despite a difficult market environment

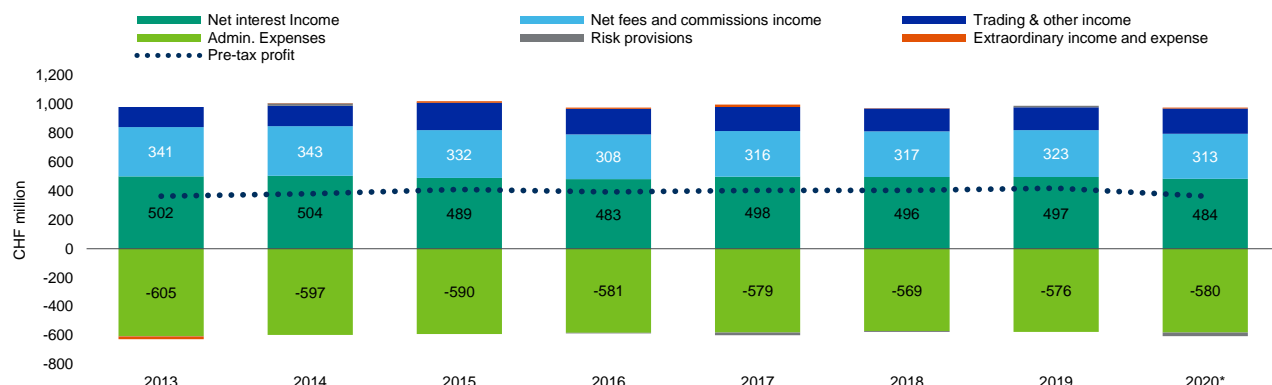
BCV's baa2 assigned Profitability score, in line with the initial score, reflects the bank's stronger profitability than that of its regional banking peers in Switzerland and the stability of its earnings in recent years. However, in the next few years, the bank's profitability might come under pressure due to the persistent low interest environment and potentially higher provisioning requirements because of the coronavirus crisis.

In the first half of 2020, BCV generated a Moody's-adjusted return on assets of 0.6%, 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, with BCV having been able to offset pressure on interest income with lower funding costs, while its net fee and commission income, as well as its trading income, contributed to the stable results, too. As expected, the bank's earnings in the first half of 2020 were slightly below the average of recent years, and we expect earnings generation capacity to remain somewhat subdued in the medium-term future since the bank might not be able to substantially lower funding costs further, while asset-margin pressures continue in the low interest rate environment. In addition, higher defaults among corporate customers could result in substantially higher provisioning requirements than seen in recent years. Overall, though, we would expect the bank to continue generate a return on assets above 0.5%, which corresponds to a baa2 Profitability score.

BCV's Moody's-adjusted net income under Swiss GAAP declined to CHF 158 million in the first half of 2020 (1H20), from CHF 182 million in the corresponding 2019 period. The weaker result was almost entirely driven by loan loss and other provisions of CHF 21 million in 1H20 compared to CHF 1 million in 1H19 mostly due to the aforementioned trade finance exposures, as well as an CHF 7 million lower result from equity participations. On a pre-provision basis, BCV's result was resilient because a CHF 11 million decline in net interest income to CHF 242 million and a CHF 5 million decline in net fee and commission income to CHF 156 million was almost entirely offset by a CHF 13 million stronger trading result, which increased to CHF 73 million, while operating costs stayed almost flat at CHF 290 million. As a result, BCV's cost-income-ratio, according to our definition, reached 59.8% in 1H20, which compares favourably with that of its peers.

The weakening of BCV's net fee and commission income was driven by a 2% decline in its assets under management to CHF 95.9 billion as of 20 June 2020 from CHF 97.8 billion as of year-end 2019. The decline was the result of a transfer of Swisscanto funds of CHF 1.1 billion to [Zuercher Kantonalbank](#) (ZKB; Aaa(stable)/Aaa(stable), a1³) following the acquisition of Swisscanto by ZKB, while negative market performance also led to a reduction of CHF 1.7 billion. Net money inflow, meanwhile, remained positive at CHF 0.9 billion.

Exhibit 7

BCV displays a relatively diverse earnings split

*Annualized 1H2020 financials

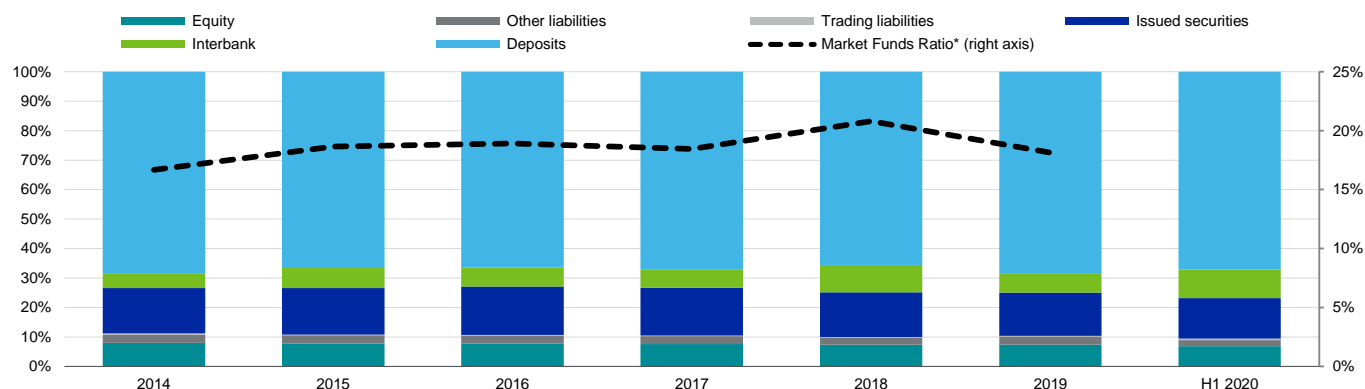
Source: Company reports, Moody's Financial Metrics, Moody's Investors Service estimates

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 June 2020, CHF 33.7 billion or 67% of BCV's balance sheet had been funded by customer deposits. The bank augmented this stable funding base with market funding, which at year-end 2019 amounted to CHF 5.3 billion of covered bonds, CHF 1.0 billion of senior unsecured bonds, and CHF 0.8 billion of structured notes. In addition, the bank had sourced CHF 3.2 billion through the interbank markets at that time. As a result, our market funding ratio reached 18.1% as of year-end 2019. The first half of 2020 saw a broadly stable funding profile, albeit with a marked increase in interbank funding including repo transactions, which rose to CHF 4.9 billion following the increase in the amount of sight deposits that banks can place with the Swiss National Bank (SNB) at a 0% interest rate, which was raised to 30x the minimum reserve requirement from 25x previously on 1 April 2020. For the second half of 2020 and 2021, we expect market funding to decline further with continued deposit inflows and reduced demand for non-guaranteed loans during the coronavirus crisis.

Exhibit 8

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

Market fund ratio = Market funds / Tangible banking assets

Source: Company reports, Moody's Investors Service

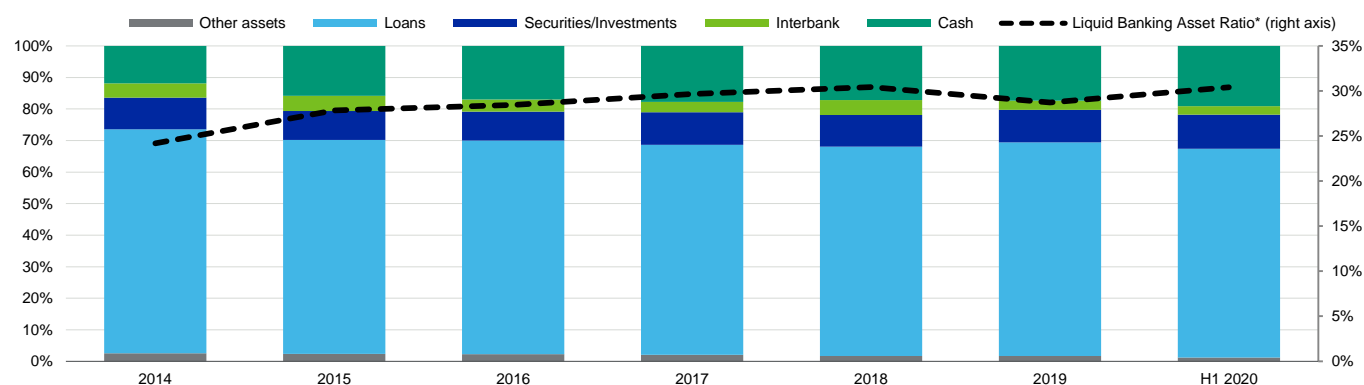
BCV's liquid resources exceed confidence-sensitive market funding resources

We assign an a3 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.

CHF 9.6 billion of cash as of 30 June 2020, CHF 4.1 billion of mostly repo-eligible financial investments and CHF 1.3 billion of interbank assets mitigate potential funding risks. The bank's liquid asset ratio of 30.4% of tangible banking assets, which improved from 28.7% as of year-end 2019 due to the above-mentioned increase in the 0% interest rate threshold at the SNB, still significantly exceed its market funding dependence. While BCV's stock of High-Quality Liquid Assets (HQLA) of CHF 9.7 billion as of 30 June 2020 stood below our calculation of liquid assets, the bank's Liquidity Coverage Ratio (LCR) of 130% during the second quarter of 2020 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 (CHF 8.1 billion of the bank's CHF 27.0 billion mortgage book had been pledged as of year-end 2019).

Exhibit 9

BCV's liquid resources exceed its market funding reliance



Liquid banking assets ratio = Liquid assets / Tangible banking assets

Source: Company reports, Moody's Investors Service

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 risk heatmap⁴](#) 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 risk heatmap⁵](#)). This includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety and deteriorating global economic outlook, creating a severe and extensive credit shock across many sectors, regions and markets.

Governance is highly relevant for BCV, as it is to all players in the banking industry. Governance risks are largely internal rather than externally driven, and for BCV we do not have any particular governance concern⁶. 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. 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 domestic 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

Counterparty Risk Ratings (CRR) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

BCV's CRR are positioned at A1/P-1

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

Counterparty Risk Assessment

The Counterparty Risk Assessment (CR Assessment) is an opinion of how counterparty obligations are likely to be treated if a bank fails and is distinct from debt and deposit ratings in that it (1) considers only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and (2) applies to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

BCV's CR Assessment is positioned at 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.

Methodology and scorecard

Methodology

The principal methodology we used in rating BCV was [Banks Methodology](#), published in November 2019.

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	1.0%	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	0.6%	baa2	↔	baa2	Return on assets	Expected trend
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	18.1%	a3	↔	a3	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.7%	a3	↔	a3	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 is not applicable.

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

Instrument Class	Loss Given	Additional	Preliminary Rating	Government	Local Currency	Foreign
	Failure notching	notching	Assessment	Support notching	Rating	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

- The liquidity loan programs were terminated on 31 July 2020.
- Banks paying a dividend in 2020 are required to reduce this relief by the amount of the dividend divided by 3%. Since the amount of BCV's dividend divided by 3% exceeds the amount of the deposits it held at the SNB, BCV did not apply this relief to its leverage ratio exposure measure.
- The ratings shown are ZKB's deposit and issuer ratings and their respective outlooks, and its Baseline Credit Assessment (BCA).
- 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.
- 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.
- 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.

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REPORT NUMBER

1250180