MOODY'S
INVESTORS SERVICE

Credit Opinion: Banque Cantonale Vaudoise

Global Credit Research - 18 Nov 2011

Lausanne, Switzerland

Ratings

Category	**Moody's Rating**
Outlook	Stable
Bank Deposits	A1/P-1
Bank Financial Strength	C
Baseline Credit Assessment	A3
Adjusted Baseline Credit Assessment	A3

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Key Indicators

Banque Cantonale Vaudoise (Consolidated Financials)[1]

	[2]**6-11**	[2]**12-10**	[2]**12-09**	[3]**12-08**	[3]**12-07**	**Avg.**
Total Assets (CHF million)	**37,340.8**	**35,361.7**	**35,452.0**	**34,872.5**	**34,803.8**	[4]**1.8**
Total Assets (EUR million)	**30,588.0**	**28,279.1**	**23,903.0**	**23,570.5**	**21,026.1**	[4]**9.8**
Total Assets (USD million)	**44,347.7**	**37,937.7**	**34,294.6**	**32,764.1**	**30,741.3**	[4]**9.6**
Tangible Common Equity (CHF million)	**3,098.1**	**3,253.0**	**3,203.6**	**3,158.8**	**3,198.1**	[4]**-0.8**
Tangible Common Equity (EUR million)	**2,537.8**	**2,601.5**	**2,160.0**	**2,135.1**	**1,932.1**	[4]**7.1**
Tangible Common Equity (USD million)	**3,679.5**	**3,490.0**	**3,099.0**	**2,967.8**	**2,824.8**	[4]**6.8**
Net Interest Margin (%)	**1.4**	**1.5**	**1.5**	**1.5**	**1.5**	[5]**1.5**
PPI / Avg RWA (%)	**--**	**2.4**	**2.3**	**1.8**	**2.4**	[6]**2.4**
Net Income / Avg RWA (%)	**--**	**1.9**	**1.8**	**1.9**	**2.6**	[6]**1.9**
(Market Funds - Liquid Assets) / Total Assets (%)	**5.8**	**5.0**	**1.9**	**-1.1**	**0.2**	[5]**2.3**
Core Deposits / Average Gross Loans (%)	**94.3**	**95.6**	**99.6**	**95.3**	**92.2**	[5]**95.4**
Tier 1 Ratio (%)	**17.5**	**17.6**	**17.8**	**16.4**	**16.3**	[6]**17.6**
Tangible Common Equity / RWA (%)	**--**	**20.0**	**19.3**	**17.3**	**16.9**	[6]**19.7**
Cost / Income Ratio (%)	**62.3**	**59.8**	**60.4**	**63.0**	**59.5**	[5]**61.0**
Problem Loans / Gross Loans (%)	**--**	**2.3**	**2.4**	**2.9**	**3.7**	[5]**2.8**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**--**	**17.0**	**16.8**	**18.7**	**22.3**	[5]**18.7**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Basel I; LOCAL GAAP [4] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [5] LOCAL GAAP reporting periods have been used for average calculation [6] Basel II & LOCAL GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a standalone C bank financial strength rating (BFSR) to Banque Cantonale Vaudoise (BCV), which maps to A3 on the long-term scale. The rating derives from BCV's (i) well established franchise in the canton of Vaud and in Switzerland; (ii) strong capitalisation; (iii) sound liquidity and funding profile; and (iv) improved risk-management systems and moderate risk appetite. BCV's BFSR also reflects its exposure to the real-estate markets in the Lake Geneva area, which Moody's believes are subject to some "overheating" (i.e., price inflation).

BCV's A1/Prime-1 long-term and short-term global local currency (GLC) deposit ratings reflect the bank's importance in the local economy and its majority ownership and proven support (although not explicitly guaranteed) by the Canton of Vaud. Under Moody's Joint Default Analysis (JDA) methodology, Moody's assesses the probability of both regional local government (RLG) and systemic support for BCV in the event of distress as high, which results in a two-notch uplift in the deposit ratings to A1/Prime-1 from the A3 long-term scale. Switzerland is regarded as a medium support country.

Credit Strengths

- Good profitability and asset quality indicators

- Solid local franchise in corporate and SME banking, wealth management, mortgage lending and retail deposit taking

- Ample capitalisation, underpinned by strong internal capital generation ability

- Majority shareholding and tested support of the Canton of Vaud

Credit Challenges

- Exposure to the real-estate markets in the Lake Geneva area, which may be subject to some "overheating" (i.e., price inflation)

- Credit concentration to large corporates and financial institutions

- Exposure of CHF2 billion to higher-risk trade finance activities

- Challenging macro-economic conditions which may, over time, put pressure on asset quality

Rating Outlook

At the C BFSR level, the improvements in BCV's intrinsic fundamentals are well balanced with its risk exposure, a balance that is reflected in the stable outlook. The stable outlook on BCV's debt and deposit ratings additionally reflect the Canton of Vaud's long-standing majority ownership, albeit without explicit statutory guarantee.

What Could Change the Rating - Up

Currently, BCV's C BFSR is positioned one notch below the C+ outcome of the Moody's bank financial strength scorecard - as a result BCV's intrinsic strength and improved risk management culture and systems may exert additional upward pressure on the bank's BFSR over time. Moreover, upward pressure could be exerted on the banks ratings as a result of a further sustained reduction of non-performing loans, and through a sustained improvement of efficiency and profitability. However, BCV's BFSR currently remains constrained by its exposure to the real-estate markets in the Lake Geneva area, which Moody's believes are subject to some "overheating" (i.e., price inflation).

Any further upgrade of BCV's BFSR would also exert upward pressure on the banks debt and deposit ratings. Moreover, the banks debt and deposit ratings could be upgraded if the Canton of Vaud were to give its full guarantee to the bank. Additionally, a further improvement 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 negatively affected if a deterioration of the economic environment or real estate market in the Canton of Vaud were to lead to a weakening of the bank's asset quality. 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 or face reputational issues that hamper the banks private wealth business.

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 quality, likelihood or strength of regional local government or systemic support in Switzerland. Additionally, rating pressure could materialise if legislative discussions on Swiss bank resolution regimes are be extended to mid-sized regional banks.

Recent Results and Company Events

On 12 October 2011, Moody's upgraded BCV's BFSR to C from C- reflecting the banks regional franchise as well as improvements in asset quality, risk appetite as well as strong capitalisation. Concurrently, the A1 bank deposit ratings were affirmed.

For the first-half 2011, BCV reported net income of CHF154 million (up 6% year-on-year) after CHF314 for FY2010 and CHF300 for FY2009. BCV shows a healthy distribution between net interest income and fee and commission income: Net interest income was the largest and most stable contributor to total revenues (in 1H2011: CHF 255 million, FY2010: CHF511 million, FY2009: CHF508 million), while net fee and commission income proved resilient, albeit more volatile (1H2011: CHF178 million, 2010: CHF392 million, 2009: CHF329 million).

In common with all other Swiss banks offering wealth management services, assets under management is the main driver for net fee and commission income. Over the past years, BCV's assets under management generally recovered from the market-value-driven meltdown in 2008 (with a 20% decline) to reach CHF78.2 billion at 1H2011, mainly driven by the strong net new money generation which amounted to CHF0.7 billion in 2010, CHF3.1 billion in 2009 and CHF0.4 billion in 2008.

BCV's operating costs of CHF269 million for 1H2011 appear well-contained - despite a 4% increase year-on-year. Also 2010 operating costs at CHF593 were still significantly below the 2007 level (CHF643 million). In terms of business lines, in 2010 BCV's wealth management business was (at CHF114 million) the major contributor to net profit, followed by corporate banking (CHF99 million) while retail banking (CHF35.1 million) took a less prominent role.

BCV operates in some geographic regions in the Canton of Vaud (especially in the regions around Lake Geneva) which are highlighted as real estate "hot spots" - however the banks appears to be fully cognisant of this potential exposure. As a result, BCV did not report elevated risk provisioning at years-end 2010. In fact, loan-loss provisions were reported at a five-year low of CHF5.2 million in 2010; this reduction was mainly driven by releases of previously accumulated provisions. Impaired loans in 2010 stood at CHF488 million (2009: CHF589 million), down 17% year-on-year.

In 2010, BCV acquired Banque Franck Galland & Cie, which will be merged with BCV's Banque Piguet to support the private banking activities of the group going forward.

Located in Lausanne, BCV reported total assets of CHF37.6 billion at half-year 2011 (2010: CHF35.9 billion). Given that BCV is classified as a Category 3 bank in accordance with the draft circular of the Swiss Financial Market Supervisory Authority (Finma), the bank will be expected to maintain a total capital ratio of 12%. However, BCV's BIS Tier-1 ratio of 17.6% at year-end 2010 (2009: 17.8%) was already well above those limits.

DETAILED RATING CONSIDERATIONS

Detailed considerations for BCV's currently assigned ratings are based on the latest full-year financial statements at year-end 2010, while the trends reflect Moody's own expectations.

Bank Financial Strength Rating

Moody's assigns a standalone C BFSR to BCV, which maps to A3 on the long-term scale. The rating derives from its strong corporate banking, wealth management and retail position in the Canton of Vaud (unrated) and its solid financials over recent years. The rating also incorporates the bank's exposure to the regional real estate market 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+, one notch above BCV's BFSR. The scorecard reflects the improving financial fundamentals in the recent years, but does not take into account the potential impact on the bank's financial fundamentals of the challenging operating economic environment in the Canton of Vaud (which we regard susceptible to price inflation in the real estate market) and Switzerland, where elevated exchange rate levels may burden economic activity.

Qualitative Factors (50%)

Factor: Franchise Value

Trend: Neutral

Located in Lausanne, BCV's main area of operation is in the French-speaking Canton of Vaud in western Switzerland. The Canton of Vaud has around 700,000 inhabitants, an unemployment rate of 4.6%, and a diversified economy with the secondary sector (industrial production) amounting to 27% of total production, and the tertiary sector amounting to 76% (thereof 10% to the financial sector). BCV ranks as the fifth-largest bank in Switzerland by assets. As a cantonal bank, BCV plays an important role in the Canton. Article 4 of the `Cantonal Act Governing the Organisation of Banque Cantonale Vaudoise' (referred to locally as 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 has historically built-up a very strong and defensible franchise in retail deposit taking, mortgage lending and corporate banking in Vaud, where 57% of its credit exposure is located. BCV also benefits from a solid private-wealth management franchise, which provides income diversification, albeit being susceptible to capital-market volatility.

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 corporate, however, we note that the small size of the bank's home market is a significant constraint to its franchise value. Its main local competitors are the Raiffeisen network, UBS, Credit Suisse and the PostFinance. 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 share. 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 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 re-price and contain risks on its trade finance activities.

BCV's most prominent subsidiaries are (i) Banque Piguet & Cie SA (together with the new acquisition, Banque Franck Galland & Cie) for the group's private banking activities, and (ii) Gérifonds SA, a provider of investment fund products.

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: Neutral

Moody's recognises that BCV has substantially improved its risk-management systems and procedures and that it has wound down its proprietary trading activities in 2008/2009, reflecting lower risk appetite. We also favourably note, that BCV introduced an internal ratings based (IRB) approach which was used to calculate 74% of capital requirements for credit risk as at 1H2011. Nonetheless, BCV's rating remains constrained by its exposure to the regional real-estate markets around Lake Geneva, which Moody's considers to be higher-risk, compared with other areas in Switzerland. While the total retail and private banking loan exposure is around CHF12.1 billion, another CHF5 billion relates to real-estate professionals. We will continue to closely monitor the potential impact on the Canton of Vaud's residential property market, which is core to BCV's activity.

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.

We note positively, that the bank has taken measures to contain and reduce risks on its trade finance activities; we, however, caution that the bank continues to manage important trade finance activities which we regard as inherently risky, especially in the current environment. Apart from credit risk, market price risk (especially interest rate risk) is the second-largest source of variation with respect to regulatory capital. Value at risk' (VaR) related to interest rates in BCV's trading book is negligible; however, the bank is exposed to interest rate risk in the banking book. As per the bank's simulations, as per year-end 2010 a hike of 100bp would result in an economic loss of CHF195 million (2009: CHF167 million).

BCV prepares yearly audited and unaudited half-year financials according to Swiss GAAP and also discloses Pillar 3 reports according to Basel II on a half-yearly basis.

Moody's scorecard generates a C- score for risk management reflecting 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, published June 2011, to obtain a detailed discussion on Regulatory Environment.

Factor: Operating Environment

Trend: Neutral

In general, this factor is common to all Swiss banks. Please refer to Moody's latest Banking System Outlook for Switzerland, published in June 2011, 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 other European countries. BCV's net interest margin was relatively stable at 1.5% over the years 2007 to 2010 - also risk-weighted recurring earnings power (pre-provision-income / average risk weighted assets) stood at healthy 2.46% in 2010 (2009: 2.31%) and 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.

The main revenue contributors are retail, corporate (SMEs) banking, private banking and asset management, with trade finance and market activities representing a marginal proportion. Given the predominance of BCV's commercial banking activities, 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.

The bank's net revenues predominantly stem from net interest income (51% of net revenues in FY 2010), fees and commission income (35%), while trading income and other income account for the remainder (10% and 4%, respectively). We expect the bank's mix of income to remain unchanged over the medium term, given the bank's strategic re-focus on its core activities.

The C+ score generated by Moody's scorecard gives a fair estimate of the bank's current profitability.

Factor: Liquidity

Trend: Neutral

Moody's recognises the resilience of BCV's funding franchise in the Canton of Vaud - 88% of BCV's customer funding base is reportedly domiciled in Switzerland, while foreign deposits grew by moderate CHF340 million, (13% year-on-year). As a result, BCV's loan-to-deposit is sound, at around 100% over the past years (2010: 98.9%, 2009: 95.5%).

Similar to other banks in Switzerland, BCV experienced notable inflows of safe-haven-seeking funds. As per the June 2011 unaudited interim results, its deposit base stood at CHF24.5 billion, up from CHF20.6 billion in 2007. As a result, BCVs core loan book is deposit funded and its average loan-to-deposit ratio stood at 104% at year-end 2010. BCV's liquidity position is supported by CHF4.5 billion of cash, SNB Bills and highly rated securities, which are repo-eligible with the Swiss National Bank.

Moody's believes that due to the persistently low interest rate environment in Switzerland, average deposit funding maturities appear to have come down significantly whereby short-term and callable deposits are invested in longer-term, albeit highly liquid repo-eligible securities. Longer-term market borrowings were reported at CHF5.6 billion compared to CHF6.9 billion in 2007. Taking a multi-period perspective, BCV's funding profile changed - making it less dependent on market funding - albeit with the caveat of shorter-term funding horizons. In the current environment, we deem BCV to be an institution with excess liquidity which leads to pressure to invest in income-yielding assets. Against that backdrop, we regard their deposit franchise, albeit shortening in maturity, as predominantly local and therefore sticky and resilient in nature.

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

Factor: Capital Adequacy

Trend: Neutral

As a category 3 institution according to the Swiss Financial Market Authority (FinMa), BCV must maintain a total capital ratio of 12%, going forward. With both the total capital ratio and Tier 1 ratio at 17.6% (according to BIS standards) as per unaudited interim half-year 2011 results, BCV already satisfies those requirements. Moody's notes that BCVs sound capital position is also supported by the strong internal generation capacity, which is an additional credit-positive factor.

Moody's notes favourably that following the buyback of the participation certificates in July 2007, the structure of BCV's shareholder equity has changed. As a result, the bank does not have any outstanding hybrid instruments and the Tier 1 capital is therefore solely composed of Core Tier 1 capital.

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

Factor: Efficiency

Trend: Neutral

In recent years, BCV's operating costs improved thanks to a stabilisation of operating expenses and growth of net banking income. Moody's notes that the low cost of risk also supported the improvement of the bank's efficiency. This improvement partly results from the reversal of the loan loss provisions as the bank cleaned up its legacy loans.

BCV's Cost-Income-Ratio (CIR) stood at 59.8% at year-end 2010 (2009: 60.4%, 2008: 63%) - admittedly, this is explained by the bank's business mix focusing retail banking which increases branch network costs. The bank's strategic plan aiming at maximising commercial performance is also expected to result in a slight improvement of efficiency.

We, however, caution that the current challenging macro-economic environment might affect the bank's profitability and therefore its efficiency, as it is difficult to adjust operating expenses in a retail network. However, in contrast to internationally operating Swiss private banks, BCV appears less vulnerable to a rising cost base, as the majority of income streams are denominated in Swiss francs.

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: Neutral

BCV's asset quality was significantly damaged by the 2001/2003 crisis. At that 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). Moody's notes that BCV's asset quality has steadily improved, as the bank has recovered or written off legacy impaired loans. As of year-end 2010, problem loans accounted for 1.9% of gross loans compared to 2.4% and 2.9% for the years 2009 and 2008, respectively. We believe the strong improvement in the recent years reflects the bank's strong focus on credit risk and the bank's conservative credit risk management. Against that backdrop, Moody's does not expect BCV to compromise on its lending standards

BCV operates in some geographic regions in the Canton of Vaud (especially in the regions around Lake Geneva) which are highlighted as real estate "hot spots". However, the banks appear to be cognisant of this potential exposure. In fact, loan-loss provisions were reported at a five-year low of CHF5.2 million in 2010; this reduction was mainly driven by releases of previously accumulated provisions. Also, in 2010 problem loans bottomed at CHF488 million (2009: CHF589 million), down 17% year-on-year. Although demand for new loans appears to be intact when using undrawn credit commitments as an early indicator (2010: CHF1.1 billion, 2009: CHF0.8 billion, 2008: CHF0.7 billion, 2007: CHF0.4 billion), BCV's gross loan growth has not been overly excessive in recent years (2010: 4.85%, 2009: 6.47%, 2008: 1.57%).

In line with our Banking System Outlook on Switzerland, published in June 2011, we expect the residential property market in Switzerland to remain under pressure in 2011, against the background of the challenging macro-economic environment. We will therefore 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 re-price and reduce risks on its trade finance activities, but caution that the bank continues to manage sizeable trade finance activities which we regard as inherently risky, especially in the current environment.

Moody's scorecard generates a score of C+ for asset quality - which 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 BCV.

The GLC deposit rating is supported by (i) the bank's A3 standalone credit strength, (ii) a high probability of regional local government support by the Canton of Vaud and (iii) Switzerland's Aaa local currency deposit ceiling. The bank receives a two-notch uplift from its standalone credit strength, 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 BCV's importance to the local economy in the Canton of Vaud.

Foreign Currency Deposit Rating

BCV's foreign currency deposit rating is not constrained by the Aaa foreign currency ceiling of Switzerland and is at the same level as the GLC rating, 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						**C-**	**Neutral**
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**	**Neutral**
Economic Stability	**x**						
Integrity and Corruption	**x**						
Legal System	**x**						
Financial Factors (50%)						**C+**	
Factor: Profitability						**C+**	**Neutral**
PPI / Average RWA - Basel II			2.37%				
Net Income / Average RWA - Basel II		1.86%					
Factor: Liquidity						**C**	**Neutral**
(Mkt funds-Liquid Assets) / Total Assets			1.90%				
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio - Basel II	17.70%						
Tangible Common Equity / RWA - Basel II	19.67%						
Factor: Efficiency						**C**	**Neutral**
Cost / Income Ratio			61.07%				
Factor: Asset Quality						**C+**	**Neutral**
Problem Loans / Gross Loans			2.55%				
Problem Loans / (Equity + LLR)		17.51%					
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