Credit Opinion: Banque Cantonale Vaudoise

Global Credit Research - 19 Nov 2012

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)

Contacts

Analyst	Phone
Michael Rohr/Frankfurt am Main	49.69.707.30.700
Stephane Herndl/Paris	33.1.53.30.10.20
Carola Schuler/Frankfurt am Main	49.69.707.30.700
Tarik Duyme/Frankfurt am Main	

Key Indicators

Banque Cantonale Vaudoise (Consolidated Financials)[1]

	[2]**6-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	[3]**12-08**	**Avg.**
Total Assets (CHF million)	**39,639.0**	**37,697.0**	**35,362.0**	**35,452.0**	**34,872.5**	[4]**3.3**
Total Assets (EUR million)	**33,000.7**	**31,054.6**	**28,279.4**	**23,903.0**	**23,570.5**	[4]**8.8**
Total Assets (USD million)	**41,879.6**	**40,313.3**	**37,938.0**	**34,294.6**	**32,764.1**	[4]**6.3**
Tangible Common Equity (CHF million)	**3,133.0**	**3,246.0**	**3,253.0**	**3,203.6**	**3,158.8**	[4]**-0.2**
Tangible Common Equity (EUR million)	**2,608.3**	**2,674.0**	**2,601.5**	**2,160.0**	**2,135.1**	[4]**5.1**
Tangible Common Equity (USD million)	**3,310.1**	**3,471.3**	**3,490.0**	**3,099.0**	**2,967.8**	[4]**2.8**
Net Interest Margin (%)	**1.4**	**1.4**	**1.5**	**1.5**	**1.5**	[5]**1.5**
PPI / Avg RWA (%)	**--**	**2.4**	**2.4**	**2.3**	**1.8**	[6]**2.4**
Net Income / Avg RWA (%)	**--**	**1.8**	**1.9**	**1.8**	**1.9**	[6]**1.8**
(Market Funds - Liquid Assets) / Total Assets (%)	**3.6**	**6.5**	**4.6**	**1.9**	**-1.1**	[5]**3.1**
Core Deposits / Average Gross Loans (%)	**95.9**	**96.4**	**95.5**	**99.6**	**95.3**	[5]**96.6**
Tier 1 Ratio (%)	**16.8**	**16.8**	**17.6**	**17.8**	**16.4**	[6]**17.2**
Tangible Common Equity / RWA (%)	**--**	**19.2**	**20.0**	**19.3**	**17.3**	[6]**19.5**
Cost / Income Ratio (%)	**61.5**	**60.8**	**59.8**	**60.4**	**63.0**	[5]**61.1**
Problem Loans / Gross Loans (%)	**--**	**1.6**	**1.9**	**2.4**	**2.9**	[5]**2.2**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**--**	**12.9**	**14.0**	**16.8**	**18.7**	[5]**15.6**

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

We assign a standalone C bank financial strength rating (BFSR) to Banque Cantonale Vaudoise (BCV), which is equivalent to a standalone credit assessment of a3.

The rating is based on BCV's (1) well established and deeply entrenched franchise in the Canton of Vaud and in Switzerland; (2) strong and improving capitalisation; (3) sound liquidity and low-risk funding profile; and (4) continuously improving risk-management systems accompanied by a moderate risk appetite. However, BCV's BFSR also reflects its exposure to the real-estate market in Vaud, which recently experienced above-Swiss-average 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 (albeit not explicitly guaranteed) by the Canton of Vaud. Under our Joint Default Analysis (JDA) methodology, we assess the probability of both regional local government and systemic support for BCV in the event of distress as high, resulting in a two-notch uplift from BCV's standalone credit assessment of a3.

Credit Strengths

- BCV's deeply entrenched franchise in the Canton of Vaud is supported by its solid private banking offering

- Profitability is stable at high levels, despite market pressures

- Strong deposit inflows and low market sensitivity safeguard BCV's sound liquidity profile

- Solid asset quality indicators, as expressed by BCV's low overall level of problem loans and a high collateralization of real estate exposures with below-average loan-to-value ratios

- Ample capitalisation, and the implementation of Basel III will likely boost BCV's capital ratio by up to 300bps, according to our calculations

- Majority shareholding and proven support of the Canton of Vaud even without an explicit statutory guarantee

Credit Challenges

- Concentrations in real estate and trade finance represent key risks

- Good efficiency levels have been achieved; scope for further substantial improvement is therefore limited

- Following successful de-risking of legacy exposures, BCV's focus is on maintaining a good quality within its real-estate portfolio

- Increasing international pressure on the Swiss offshore wealth management sector, likely leading to lower growth rates in the offshore segment and higher compliance costs in the medium to long-term

- Business risks generally related to private banking and wealth management including reputational and legal risks

- Challenging macro-economic and market conditions which may, over time, put pressure on asset quality and income generation capacity

Rating Outlook

At the C BFSR level, the improvements in BCV's intrinsic fundamentals are well balanced with its risk exposure, as 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 an explicit statutory guarantee.

What Could Change the Rating - Up

Upwards pressure on the BFSR could result from the bank's improving capitalisation and sustained stable net income at or above prior year levels (approximately CHF300 million) coupled with a stable, conservative risk profile and risk-management culture. Moreover, upwards pressure could be exerted on the bank's ratings as a result of a further sustained low level of non-performing loans , and through a sustained improvement of efficiency and profitability metrics.

Any further upgrade of BCV's BFSR may also exert upwards pressure on the bank's debt and deposit ratings. The bank's debt and deposit ratings could also be upgraded if the Canton of Vaud granted a full guarantee to the bank which, however, we consider unlikely at present. 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 deterioration of the economic environment or real-estate market in the Canton of Vaud were to lead to a significant weakening of the bank's asset quality. The bank's BFSR would also be adversely affected by any impairment to its franchise, i.e., mainly if the bank were to steadily lose market share in the Canton of Vaud or face reputational issues that hamper the bank's private wealth-management business in a substantial manner.

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 (which is unlikely because forbidden by the Law at present), or by any downward change of our perception of quality, likelihood or degree of regional local government or systemic support in Switzerland. Additionally, negative 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

For 9M 2012, BCV reported operating income (under unaudited local GAAP) of CHF364.3 million, up CHF4.5 million or 1% compared to 9M 2011. The result was again driven by solid net interest income and commission income generation, which contributed CHF392.8 million and CHF257.6 million to total income, respectively, in 9M 2012 (9M 2011: CHF394.1 million and CHF255.7 million). We note positively that this income was realised despite pressures on both net interest and commission income resulting from the low interest-rate environment and challenging conditions for asset/wealth management operations in 9M 2012. Trading income was resilient at CHF88.6 million as at 9M 2012 (9M 2011: CHF86.4 million), reflecting continued strong customer-driven forex and structured product activities.

The volume of assets under management continued to increase, and amounted to CHF82.1 billion as of end-September 2012, up CHF5.0 billion versus year-end 2011. Net new money growth was positive at CHF718 million as at 9M 2012, representing an annualised 1.2% growth rate, albeit below the average of the larger pure-play Swiss private banks.

BCV's operating costs decreased to CHF395.6 million in 9M 2012 from CHF400.5 million in 9M 2011, underlining the strict cost discipline the bank applies to its operations in the current market environment.

As BCV operates in the whole Canton of Vaud (where some regions are highlighted as real-estate "hot spots"), we pay particular attention to the developments affecting the bank's P&L. However, the latest available reporting as of end June 2012 shows a net release of provisions for credit risk of CHF4 million, compared with CHF12 million in H1 2011.

In FY2011, BCV reported net releases of CHF4.4 million on credit risks, thereby, in our view, underlining its strict risk-management policy and strict lending criteria that existed well in advance of (1) the global financial crisis; and/or (2) any above-average real-estate market price inflation in the Lake Geneva region.

As a result, impaired loans stood at CHF449 million in FY2011, down from CHF488 million in 2010. In light of the challenging Swiss real-estate market environment and the uncertainty on future price inflation in this sector, we expect a rise in net charges to BCV's P&L from this and larger loan book exposure, albeit remaining well contained in light of BCV's controlled loan book growth (in-line with the market in recent years) as well as its below-average loan-to-value (LTV) ratios.

BCV classifies as a `Category 3' bank in accordance with the draft circular of the Swiss Financial Market Authority (FINMA), therefore the bank is required to maintain a total capital ratio of 12% as of 1 January 2013. As of H1 2012, BCV reported BIS and FINMA Tier 1 capital ratios of 16.8% and 13.3%, respectively. We highlight that these ratios currently contain a BCV-specific multiplier on several risk-weighted asset (RWA) categories which will be abolished as of 1 January 2013 when the Basel III capital regulations are implemented. As a result of the Basel III implementation and the related positive effects to BCV's capital requirements, we expect the FINMA ratio as at 1 January 2013 to be significantly higher than its current level (13.3%) and hence significantly above the minimum requirement of 12%.

DETAILED RATING CONSIDERATIONS

FRANCHISE VALUE - DEEPLY ENTRENCHED IN THE CANTON OF VAUD, AND SUPPORTED BY SOLID PRIVATE BANKING OFFERING

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 720,000 inhabitants, an unemployment rate of 4.4%, and a diversified economy dominated by the tertiary sector amounting to 76% of the total (with the financial sector accounting for 10%). The Canton of Vaud further benefits from an above-average economic growth rate and high population growth through inward migration to one of the most attractive regions in Switzerland.

As a cantonal bank, BCV plays an important role in the Canton of Vaud as expressed by Article 4 of the `Cantonal Act Governing the Organisation of Banque Cantonale Vaudoise' (referred to locally as LBCV). This Article sets forth BCV's corporate mission, 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. As a result, BCV holds dominant market shares in retail deposit taking, mortgage lending and corporate banking in Vaud, which accounts for 42% of its credit exposure. BCV also benefits from a solid private-wealth management franchise, derived from its strong and defensible client franchise that provides income diversification, albeit susceptible to capital-market volatility.

BCV holds the largest banking network in the Canton of Vaud, representing approximately 35% of the mortgage market in Vaud and showing a very high penetration rate among Vaud-based SMEs ; however, we note that the small size of the bank's home market represents a significant constraint to its franchise value . In addition, the bank faced significant difficulties in the early 2000s and had to completely re-define its business model in order to stabilise its market shares. Successive strategic plans launched since 2005 have helped BCV re-establish solid growth of all its businesses through key developments (comprising an aggressive de-risking strategy, a re-segmenting and exit of several highly risky businesses, commercial initiatives including a new corporate logo, a re-positioning of its core businesses whilst also targeting sustained commercial growth). The bank has, however, maintained significant trade finance activities, which we view as more risky than retail banking. We note, however, that the bank has taken measures to contain risks on its trade finance activities, as was the case for many other activities recorded on its balance sheet. The restructuring and re-positioning of BCV has now been concluded, and the bank has regained trust among its customers and market participants.

RISK POSITIONING - CONCENTRATIONS IN REAL ESTATE AND TRADE FINANCE

We recognise that BCV has substantially improved its risk-management systems and procedures, and that it had completely wound down its proprietary trading activities by 2008/2009. Nonetheless, BCV's ratings remain constrained by its exposure to the regional real-estate markets in the Canton of Vaud, which, in our opinion, could contain higher risks, compared with other areas in Switzerland.

As of year-end 2011, BCV's CHF37.9 billion balance sheet comprised mortgage loans totalling CHF22.1 billion, of which approximately two thirds relate to residential real estate loans to retail, private banking and SME clients. In addition, BCV holds exposures of CHF5.0 billion to real-estate professionals that are largely exposed to residential properties in the Canton of Vaud. 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 and may - in an adverse scenario - become a significant driver of loan-loss charges that may negatively affect the bank's P&L.

Despite the retail nature of BCV's activities, the bank displays some risk concentrations in its credit portfolio. We believe this is, to a large extent, inherent to the nature and mission of any relatively small and regionally concentrated bank . Excluding the above-mentioned real-estate market exposures, we note the bank's continued management of important trade finance activities, which we continue to regard as riskier if compared to traditional collateralised retail or corporate finance activities, especially in the current macro-economic environment. BCV's trading book is negligible; however, the bank is exposed to interest-rate risk in the banking book.

PROFITABILITY - STABLE AT A HIGH LEVEL, DESPITE MARKET PRESSURES

We regard BCV's profitability as strong relative to that of its regional peers in Switzerland and in other European countries. In our view, this provides BCV with a substantial cushion against losses potentially arising from adverse developments in its real-estate and/or trade finance books. Over the past three years, BCV realised a pre-provision income (PPI)-to-risk-weighted assets (RWA) ratio of 2.38% on average (2011: 2.39%). This ratio has improved considerably, notwithstanding the onset of the global financial crisis in 2007, due to BCV's successful measures to improve its commercial performance and reduce its risk profile. Furthermore, its net interest margin was relatively stable at around 1.5% during 2007-11.

However, we note the risk 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. On a more positive note, we would not expect the bank's risk profile to become disconnected from the economic cycle in Vaud or Switzerland, and would thus expect the bank to remain profitable at lower, albeit still above-average, PPI levels in a more stressed economic environment.

We also note that the bank generates its revenues mainly from net interest and commission income while `other trading income' accounts for only a low double-digit percentage of total revenues. We expect the bank's mix of income to remain unchanged over the medium term, given the bank's strategic focus on its core activities.

LIQUIDITY - STRONG DEPOSIT INFLOWS AND LOW MARKET SENSITIVITY SAFEGUARD ITS SOUND LIQUIDITY PROFILE

We recognise the resilience of BCV's funding franchise in the Canton of Vaud - 88% of BCV's customer funding base is reportedly domiciled in Switzerland. As a result, BCV's loan-to-deposit ratio is sound, at, or slightly below 100% in recent years (2011: 94%, 2010: 100%, 2009: 99%). Similar to other banks in Switzerland, BCV experienced notable inflows from clients seeking a safe-haven, further reflecting the trust that the bank has successfully regained among its customers and market participants since its restructuring and de-risking programme started in 2003.

As per the June 2012 unaudited interim results, BCV's deposit base grew to CHF26.9 billion (year-end 2011; CHF25.7 billion and year-end 2007: CHF20.6 billion). As a result, BCV's core loan book is fully deposit funded; and its funding requirements are low. Against that backdrop, we regard its deposit franchise, albeit slightly shortening in maturity, as predominantly local and therefore `sticky' (stable) and resilient in nature compared with less traditional, internet-based deposit franchises.

BCV's strong liquidity position is further supported by cash (CHF4.5 billion) and highly-rated securities (CHF3.0 billion) as at June 2012 , which are all repo-eligible with the Swiss National Bank, in the case of need. BCV's strong liquidity position means that it exceeds the regulatory liquidity ratio by almost 100% whilst having set an own medium-term target of 140% coverage. As a result, BCV's expected future loan growth is essentially covered by excess liquidity.

However, in order to maintain a diversified funding base, BCV will continue to issue senior and covered bonds over the next few years. In total, longer-term market borrowings were reported at CHF5.7 billion as at June 2012, and we expect this to remain virtually unchanged over the next 12-18 months. In our view, this funding base demonstrates BCV's status as an institution with excess liquidity and low dependence on market funding; the only caveat being the related pressure on net interest income in the current low-rate environment.

CAPITAL ADEQUACY - BASEL III MAY BOOST CAPITAL RATIOS BY ABOUT 300BPS

As a `Category 3' institution in accordance with the draft circular of the Swiss Financial Market Supervision Authority (FINMA), BCV must maintain a total capital ratio of 12% with effect from 1 January 2013. With both the total capital ratio and the Tier 1 ratio at 13.3% - as per unaudited interim H1 2012 results - BCV already satisfies the aforementioned requirements. In addition, we expect BCV to benefit from the introduction of Basel III, as it is currently adversely affected by multipliers on certain RWA categories that will be abolished by 1 January 2013. As a result, under the Basel III framework, the FINMA Tier 1 capital ratio should be significantly higher than its current level (13.3%), according to our calculations We note that BCV's quality of capital is high, as it only comprises core common equity and is further supported by the strong internal generation capacity.

EFFICIENCY - GOOD LEVELS OF EFFICIENCY HAVE BEEN ACHIEVED; SCOPE FOR FURTHER SUBSTANTIAL IMPROVEMENT IS THEREFORE LIMITED

In recent years, BCV's operating costs improved due to the stabilisation of operating expenses and growth of net banking income. Indeed, low cost of risk supported the improvement of its efficiency ratios, and we expect this trend to normalise over the short to medium term.

BCV's cost-to-income-ratio stood at 60.8% at year-end 2011 (2010: 59.8%, 2009: 60.4%), which reflects the bank's business mix (focused on retail banking) and thus carries related branch network costs. BCV will continue to execute on its strategic plan, aiming at maximising commercial performance, and we therefore consider cost growth to be well contained. Any adverse macro-economic development might, however, affect the bank's profitability and thus its efficiency ratios due to the inherently high fixed-cost nature of any retail-focused banking operation.

However, in contrast to internationally operating Swiss private banks, BCV appears less vulnerable to a deterioration in its efficiency metrics as most of its operating income is denominated in Swiss francs.

ASSET QUALITY - FOLLOWING SUCCESSFUL DE-RISKING OF LEGACY EXPOSURES, THE FOCUS IS ON MAINTAINING A GOOD QUALITY IN THE REAL-ESTATE PORTFOLIO

BCV's asset quality was significantly impaired by its accounting-specific 2002/2003 crisis when problem loans accounted for almost 13% of BCV's gross loans. Since then, BCV's asset quality has steadily improved, as the bank has recovered or written-off legacy loan exposures. As of year-end 2011, problem loans accounted for 1.6% of gross loans (2010: 1.9% and 2009: 2.4%). We believe the strong improvement in recent years reflects the bank's strong focus on credit risk and its conservative credit risk management.

Against that backdrop, we do not expect BCV to compromise on its lending standards in spite of significant growth opportunities marked by the current buoyant real-estate market developments in the Lake of Geneva region. Indeed, the bank has already further tightened its already strict lending criteria and has already accepted that loan growth will have halved during 2012 compared with growth rates of 7%-9% in 2011. Furthermore, coverage was kept at a high level, because CHF200 million of specific loan-loss provisions recorded on balance sheet offset problem loans of CHF449 million as of year-end 2011.

More importantly, the average LTV of BCV's real-estate loan exposures remained at an acceptable level at around 50% in spite of recent real-estate market price inflation. We highlight that BCV only measures LTVs when granting a loan, hence the above-average LTV ratio may understate the cushion that BCV holds against adverse real-estate market developments on its highly collateralised loan portfolio. As such, we would not expect BCV to be immediately adversely affected by negative price movements in the Vaud real-estate market, where it holds most of its exposures (there is no exposure to Geneva itself, as this region is outside the Canton of Vaud).

We expect the residential property market in Switzerland to remain under pressure, following a prolonged period of strong property price increases and against the background of a more challenging macro-economic environment. We will therefore continue to closely monitor the potential impact on BCV's loan portfolio.

In addition, we note the measures that BCV has taken since the end of 2008 to favourably re-price and contain risk exposure on its sizeable trade finance activities.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign a global local-currency (GLC) deposit rating of A1 to BCV. The GLC deposit rating is supported by (1) the bank's a3 standalone credit strength; (2) a high probability of regional local government support from the Canton of Vaud; and (3) 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.

In our view, there is a high probability of systemic (government) support being extended to BCV in the event of a stress situation. We base our assessment 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

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. (“MJKK”) are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, “MIS” in the foregoing statements shall be deemed to be replaced with “MJKK”. MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.