S&P Global Ratings

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# Banque Cantonale Vaudoise

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# Banque Cantonale Vaudoise

| SACP | a |
|---|---|
| Anchor | a- | |
| Business Position | Adequate | 0 |
| Capital and Earnings | Strong | +1 |
| Risk Position | Adequate | 0 |
| Funding | Average | 0 |
| Liquidity | Strong | |

\+

| Support | +3 |
|---|---|
| ALAC Support | 0 |
| GRE Support | +3 |
| Group Support | 0 |
| Sovereign Support | 0 |

\+

| Additional Factors | 0 |
|---|---|

| Issuer Credit Rating |
|---|
| AA/Stable/A-1+ |

## Credit Highlights

| Key strengths | Key risks |
|---|---|
| Very high likelihood of support from the Swiss Canton of Vaud in the event of financial distress. | Persistent pressure on revenue from the prolonged low-interest-rate environment. |
| Good franchise in the canton's resilient economy. | High exposure to the real estate market in the Canton of Vaud. |
| More diverse business model than those of traditional Swiss cantonal banks. | Presence in the high-risk, low-granularity trade finance business. |
| Ample liquidity buffer, and a large depositor base, although including a more volatile share from private banking and institutional. | |

***Switzerland-based Banque Cantonale Vaudoise (BCV) displays strong metrics amid the economic slowdown due to the COVID-19 pandemic.*** BCV has strong fundamentals and is the third largest by asset size among the Swiss cantonal banks, just behind Basler Kantonalbank. It achieved a net profit of Swiss Franc (CHF) 331 million and a return on average common equity (ROE) of 9.2% in 2020, one of the highest among its cantonal peers. In first-half 2021, BCV delivered good results with a net profit of CHF173 million, up 10% from a year ago, and a ROE of about 9.7%, showing the resilience of its business model. These good first-half 2021 results were mainly spurred by an increase in fee and commission income (11%) as well as contained cost of risk and operating expenses.

***Strong capitalization and a robust liquidity profile should continue to support the bank.*** This hinges on the risk-adjusted capital (RAC) ratio before adjustments remaining comfortably above 10% over the next 18-24 months. S&P Global Ratings expects BCV to maintain its good liquidity buffers with the Swiss National Bank (SNB).

***BCV's asset quality could be affected if house prices fall.*** BCV has about 70% of its total loan book exposed toward the real estate sector. This ranges from loans to corporates exposed to the real estate to individual mortgages. The high concentration could lead to higher loan losses if house prices trend down.

***BCV's link with the canton and role in the local economy should continue to support its franchise and overall creditworthiness.*** BCV is 66.95% owned by the Canton of Vaud (AAA/Stable/--) and has an important role in contributing to the development of the local economy. In the event of financial stress, we believe there is a very high likelihood that Vaud would provide sufficient and timely support to the bank as a default could severely damage the canton's reputation.

### Outlook: Stable

Our outlook on BCV is stable, reflecting our view of a very high likelihood of support for the bank from the Canton of Vaud in the event of financial stress.

Even if BCV's credit quality changed to the extent that we revised its group stand-alone credit profile (SACP) downward or upward by one notch, we would not raise or lower our long-term rating on the bank, all else being equal. This is because, given our 'AAA' rating on the Canton of Vaud, any one-notch revision of the SACP would be offset by an opposite change in the uplift we attribute for extraordinary government support. All else being equal, a two-notch change in BCV's group SACP, upward or downward, would likely result in a one-notch change (in the same direction) to the issuer credit rating, but we do not consider this a likely scenario in the next two years.

## Key Metrics

**Banque Cantonale Vaudoise--Key Ratios And Forecasts**

| | --Fiscal year ended Dec. 31 -- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2019a** | **2020a** | **2021f** | **2022f** | **2023f** |
| Growth in operating revenue | 1.0 | (3.2) | 1.2-1.4 | 1.1-1.3 | 1.1-1.3 |
| Growth in customer loans | 3.2 | 3.4 | 2.7-3.3 | 2.7-3.3 | 2.7-3.3 |
| Growth in total assets | 1.0 | 10.0 | 1.7-2.1 | 1.7-2.1 | 1.8-2.2 |
| Net interest income/average earning assets (NIM) | 1.3 | 1.2 | 1.1-1.2 | 1.1-1.2 | 1.1-1.2 |
| Cost to income ratio | 53.2 | 53.9 | 52.7-55.4 | 52.1-54.8 | 51.5-54.1 |
| Return on average common equity | 10.2 | 9.2 | 9.2-10.2 | 10.1-11.1 | 10.3-11.3 |
| Return on assets | 0.8 | 0.7 | 0.6-0.7 | 0.6-0.7 | 0.6-0.7 |
| New loan loss provisions/average customer loans | (0.0) | 0.1 | 0.1-0.1 | 0.0-0.0 | 0.0-0.0 |
| Gross nonperforming assets/customer loans | 0.9 | 0.9 | 1.0-1.1 | 0.9-1.0 | 0.8-0.9 |
| Net charge-offs/average customer loans | (0.0) | 0.0 | 0.1-0.1 | 0.0-0.0 | 0.0-0.0 |
| Risk-adjusted capital ratio | 13.0 | 12.6 | 12.0-12.5 | 11.8-12.4 | 11.6-12.2 |

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast.

## Anchor: 'a-' For Swiss Banks Operating Mainly In Switzerland.

Our anchor for a bank operating mainly in Switzerland, such as BCV, is 'a-'. This is based on our assessment of a '2' economic risk score and '2' industry risk score for Switzerland on a scale of 1-10 (where '1' represents the lowest risk and '10' the highest). We consider the trend for economic and industry risk in Switzerland stable.

We expect Switzerland's economy to have contracted materially in 2020 due to the spread of COVID-19, but to fully recover over the coming two years. Under this base case, we think the Swiss banking sector will remain resilient, supported by very high household income levels and a proven stress-resilient corporate sector. We think Swiss authorities' material support measures should cushion the short-term effect on Swiss banks' loan books. Additionally, we view positively banks' prudent loan underwriting standards and high collateralization of residential mortgage loans, which dominate most customer portfolios. Considering these factors, we expect only a limited increase in credit losses, from historical low levels. We also expect that price growth in the owner-occupier segment will remain muted in the wake of the pandemic. However, a particular risk remains in the investment property segment, where we already observed signs of a price correction before the COVID-19 pandemic.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector and our expectation that damage from the COVID-19 pandemic will remain contained. We view positively the limited presence of foreign players, banks' high capitalization levels in an international comparison, and their low reliance on capital markets for funding. In our view, the Swiss regulator remains ahead in terms of both regulatory oversight and innovations. We think the Financial Market Supervisory Authority's (FINMA)'s thorough investigations of past international large-scale money-laundering cases have improved market discipline. We particularly consider compliance with the highest anti-money-laundering standards as crucial for the stability of the banking sector, reflecting the importance of the wealth management industry.

We expect that banks' interest margins will continue to decline gradually in a permanent low-interest-rate environment. However, we expect that repricing of lending products, additional fee income from investment advisory-related activities, and ongoing cost management can offset some of the pressure. We currently consider risk for Swiss banks from tech disruption limited given the small size of the market with high barriers to entry, and technologically well-equipped banks.

## Business Position: Good franchise In Vaud And A More Diverse Business Profile Than Typical Swiss Cantonal Banks

Supporting our assessment is our view of BCV's sustained business stability and consistent approach to growth, demonstrated by its management and strategy. The bank delivered solid financial results in 2020 and first-half 2021 despite the extraordinary conditions created by the COVID-19 pandemic. Notably, the ROE of 9.2% at year-end 2020 and about 9.7% at June 30, 2021, was among the highest of cantonal banks. We continue to expect that the bank will leverage its solid fundamentals, and focus on customer satisfaction, cross-selling opportunities, and digitization to face increased competition from fintech and big-tech companies. The bank's strategic plan, Vista, supports our view.

With total assets of CHF55.6 billion at mid-year 2021, BCV is the seventh-largest banking group in Switzerland and the third-largest Swiss cantonal bank. Total assets have increased 15% since year-end 2019, partially driven by an about 35% increase in cash, securities, and money market instruments, which is atypical compared to past years. BCV has a market share of about 33% and the highest penetration rate (50%) in retail banking and among small and midsize enterprises in Vaud--one of the country's richest and most resilient cantons. Vaud saw a lower GDP decline due to the pandemic than Switzerland in 2020, at 2.0% versus 3.0%. In 2021, We expect a rebound to 3.5% GDP growth in

Switzerland, followed by 3.1% growth in 2022 and 1.7% in 2023 and 2024.

With CHF110.2 billion of assets under management at June 30, 2021, up 7% from year-end 2020, BCV has a good franchise in asset and wealth management, although its market share in private banking is much smaller than that in retail banking.

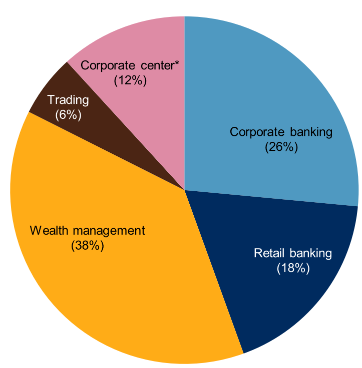
BCV's operational performance remained resilient in 2020 and in first-half 2021 amid the COVID-19 pandemic, showing good continuity and strong resilience of business operations and the operating model. According to our own calculations, operating revenue declined 3.2% to CHF960 million in 2020 versus CHF992 million in 2019, mainly due to a 4.6% decline in net interest income (due to the pandemic and to a lesser extent low/negative interest rates) and a 3.9% decline in fee and commission income. This was partly offset by a 9% increase in trading income as the bank benefitted from foreign exchange market volatility. First-half 2021 results were good with operating revenue up 3% from a year ago, supported by an 11% increase in fee and commission income.

In January 2021, Vaud's Cantonal Government appointed Eftychia Fischer as the new chairman of BCV's board of directors, replacing Jacques de Watteville, who will retire from Dec. 31, 2021. We don't expect any impact on BCV's strategy or business model from this change.

In addition to its traditional activities as a Swiss cantonal bank, BCV has a structured product business (structuring made in-house by the bank) and is one of the main players in French-speaking Switzerland in transaction-based commodity trade finance, which relates mainly to metals, agro-business, and energy products. Apart from issuing structured products, about 70% of the bank's trading business sector revenue is from foreign exchange spot and derivatives transactions to serve clients' needs.

**Chart 1**

**Banque Cantonale Vaudoise--2020 Revenue Split By Business Sector**

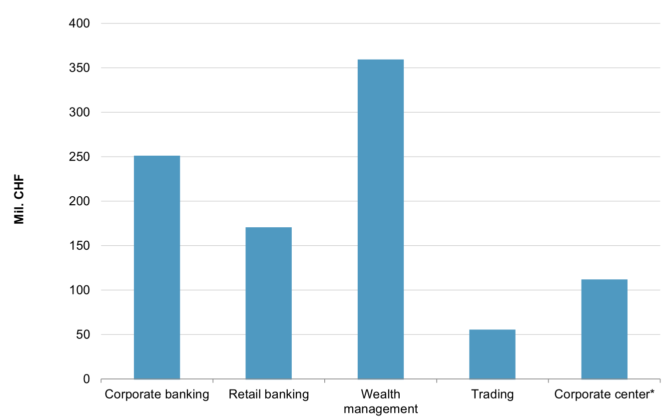



*The corporate center comprises the net gain/loss on asset and liability management, on interbank activities, and on fixed assets as well as gross interest on impaired loans handled by the Credit Recovery Management Department.



**Chart 2**

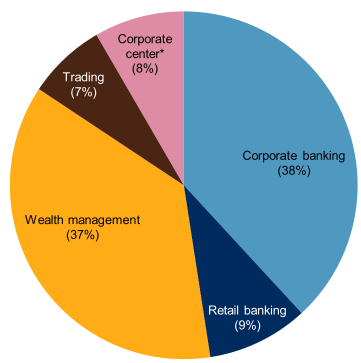
**Banque Cantonale Vaudoise--2020 Revenue Split By Business Sector**




*The corporate center comprises the net gain/loss on asset and liability management, on interbank activities, and on fixed assets as well as gross interest on impaired loans handled by the Credit Recovery Management Department. CHF--Swiss franc.

**Chart 3**

**Banque Cantonale Vaudoise--2020 Operating Profit Split By Business Sector**

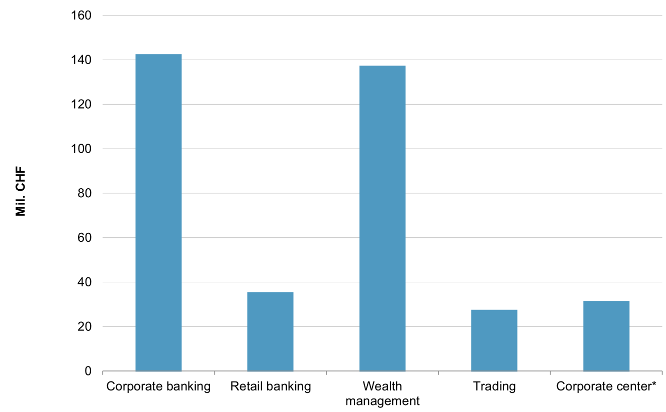



*The corporate center comprises the net gain/loss on asset and liability management, on interbank activities, and on fixed assets as well as gross interest on impaired loans handled by the Credit Recovery Management Department.



**Chart 4**

**Banque Cantonale Vaudoise--2020 Operating Profit Split By Business Sector**




*The corporate center comprises the net gain/loss on asset and liability management, on interbank activities, and on fixed assets as well as gross interest on impaired loans handled by the Credit Recovery Management Department.CHF--Swiss Franc.



## Capital And Earnings: Solid Capital Position

We view BCV's overall capital and earnings as solid. The group's RAC ratio was 12.6% at Dec. 31, 2020. This remained slightly below year-end 2019 because the growth in risk-weighted assets wasn't entirely offset by retained earnings. We expect the RAC ratio to remain at 12.0%-12.5% over the next 18-24 months, broadly in line with current levels. Our forecast is also based on management's stated intention to continue paying high dividends and our expectation of contained exposure growth in the next couple of years. In May 2021, BCV distributed CHF310 million (CHF3.6 per share) to shareholders out of its CHF331 million post-tax net income for 2020. We expect the bank to continue with this annual payout in the coming years.

BCV's quality of capital is high, composed almost entirely of common equity Tier 1 (CET1) capital. The bank had a 17.7% CET1 ratio as of Dec. 31, 2020 (the total capital ratio at the same date was 17.8%), and 17.0% at June 30, 2021. The group targets a minimum 13.0% CET1 ratio, while Swiss regulator FINMA would intervene if the total capital ratio fell below 12%. BCV's CET1 ratio has been broadly stable at or above 17% over the past five years.

Our RAC ratio for BCV is among the lowest of the Swiss cantonal banks, but still high compared to that of other Swiss and international peers. It also has the largest negative gap with the regulatory Tier 1 ratio, which is explained by the use of internal models, leading to an average regulatory risk weight lower than under the standardized approach. Indeed, BCV is the only Swiss cantonal bank, along with Zuercher Kantonalbank (but to a lower extent than BCV), to use internal model approaches. This also reflects the quality of BCV's credit risk management.

Net interest margins remain constrained by the negative interest rate environment in Switzerland and despite the bank's measures to pass negative rates on to some customers (mainly institutional and large corporates, like many other Swiss banks). We expect post-tax profit for 2021 to remain in line with 2020 at slightly above CHF330 million, due to low interest rates and continued high credit loss provisions. That said, we expect a rise to CHF350 million in

2022 and CHF360 million in 2023. This is in line with our expectations of an economic rebound in Switzerland and Europe, and a stable macroeconomic picture. The bank's profitability, adjusted for risk, is strong, with a three-year average earnings buffer of about 1.48% in 2020, indicating adequate capacity for earnings to cover expected losses. We expect the bank to maintain a 1.40%-1.45% earnings buffer in the next two years. BCV is among the best in class compared to peers in terms of profitability with a cost-to-income ratio slightly below 55% and a return on common equity at 9.2% in 2020, based on our calculations (see chart 5). We expect ROE to recover back to nearly 10% by 2022-2023.

To stabilize its net interest income, since January 2015 the bank has pursued the arbitrage between the short-term interest rates in the foreign exchange swap market and the 0% rate applied on the balance below the threshold at the SNB. The total gains from these arbitrages continued to increase in 2020. We expect those gains to increase further in 2021, thanks to the higher threshold amount.

**Chart 5**

**Banque Cantonale Vaudoise--A Strong Performer In Its Peer Group**
Year-end 2020 data

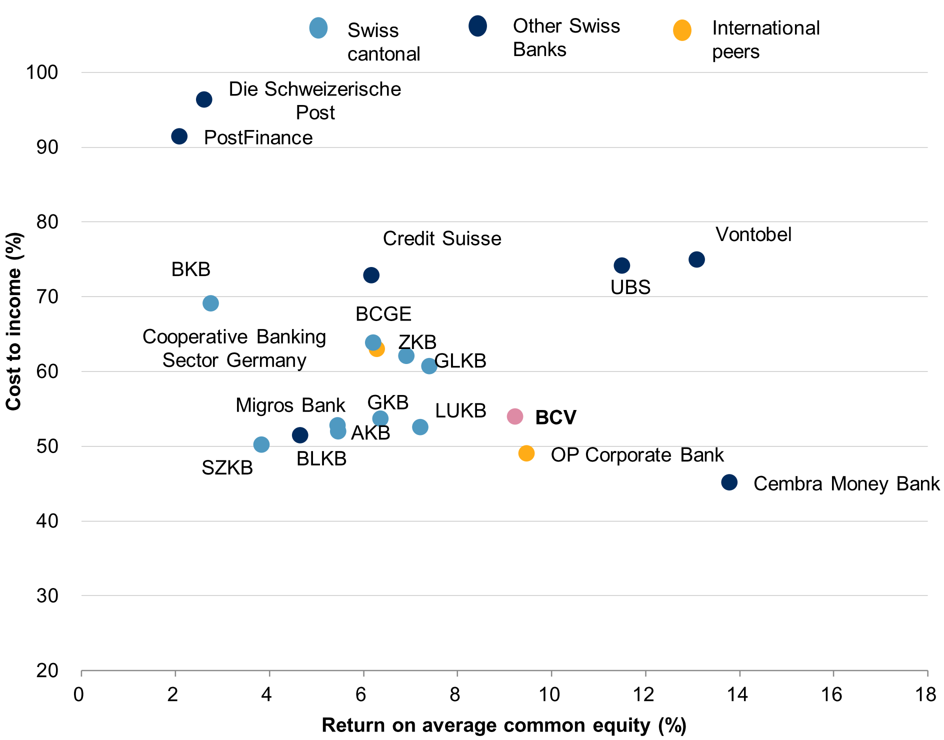
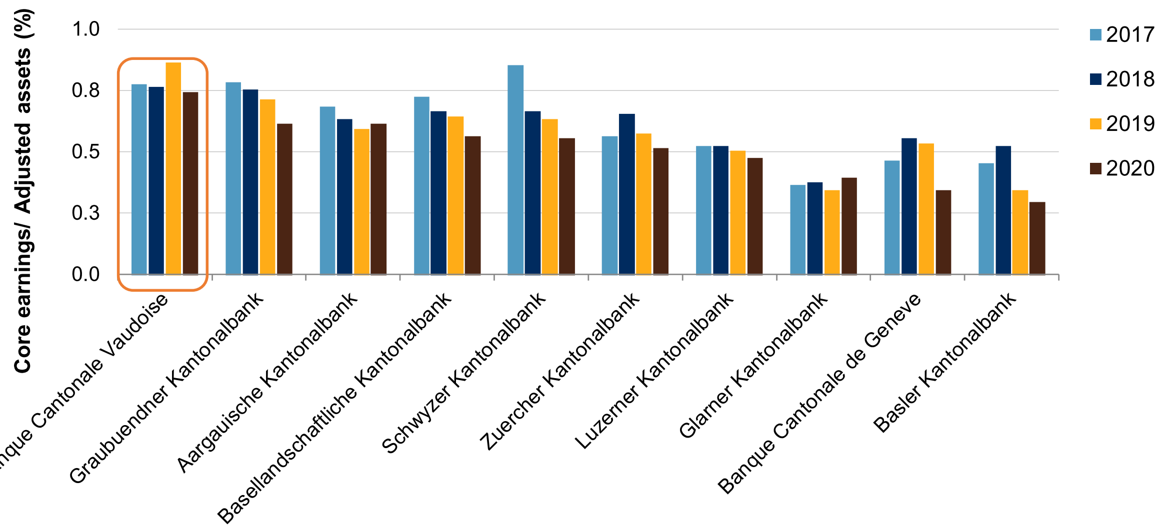


**Chart 6**

**Banque Cantonale Vaudoise--Sustained Strong Performance Compared To Peers**




Source: S&P Global Ratings.



## Risk Position: Concentration Of Risk In Vaud's Real Estate Markets And Sizable Trade Finance Exposures

Our assessment of BCV's risk position as adequate reflects the balance between its high exposure to Vaud's property markets and its good track record of very low cost of risk on real estate exposures. We estimate that 70% of BCV's loans are for owner-occupied mortgages or income-producing real estate (however, these loans traditionally account for only one-third of the bank's total income) and it enjoys a track record of very low cost of risk on its real estate exposures. This also reflects the modest and well managed growth of its activities.

There has been strong cumulative growth in residential real-estate prices and domestic lending in Switzerland over the past few years, particularly mortgage lending. We believe this represents an incremental risk for Swiss banks that have mainly domestic operations and large exposure to the Swiss real estate market. However, we think this risk has lessened due to recent prudential measures to rein in mortgage debt growth. House price increases in Vaud partially reflect above-average economic growth in the canton and strong immigration-led demand compared to limited supply. House prices have been cooling locally since 2014, more particularly for luxury properties, but they remain historically high, in our view. Furthermore, given BCV's significant exposure to residential real estate, we believe that an unexpected deterioration in prices could increase the bank's loan losses. However, we consider that the risk of a sharp correction in property prices is still low despite the pandemic. Also, BCV is not very exposed to the riskier rental housing market, which is dominated by pension funds and other institutional players. We estimate that the bank had about CHF6 billion of exposures in this market at year-end 2020 (about 10% of its total exposures), stable compared to a year before, which is quite significant but represents a very small part of new loan production.

Overall, house prices in Switzerland are likely to rise further in 2021 after the easing of COVID-19 lockdowns and associated economic stress. We forecast stable growth in house prices over the next couple of years (2%), apart from a slight slowdown in 2021 (1.5%) as government support through the pandemic is phased out and labor market developments become less supportive of household income (see "Pandemic Won't Derail European Housing Price Rises," published Oct. 20, 2020, on RatingsDirect).

BCV's underwriting standards support our assessment of its risk position. Loan-to-value ratios on new mortgage lending are capped at 80% for owner-occupied housing (lower levels are applied to buy-to-let). Moreover, the annual cost of borrowing (calculated on a theoretical 7% interest rate) must not exceed one-third of a customer's annual net income. Mortgage business volume increased CHF1 billion (3.8%) in 2020 to CHF28 billion. This was slightly higher than the 3.1% in the overall Swiss market but slightly lower than other cantonal banks' 3.9%. We expect stable loan growth over our outlook horizon, with an annual average increase of about 3.0% in 2021 and 2022.

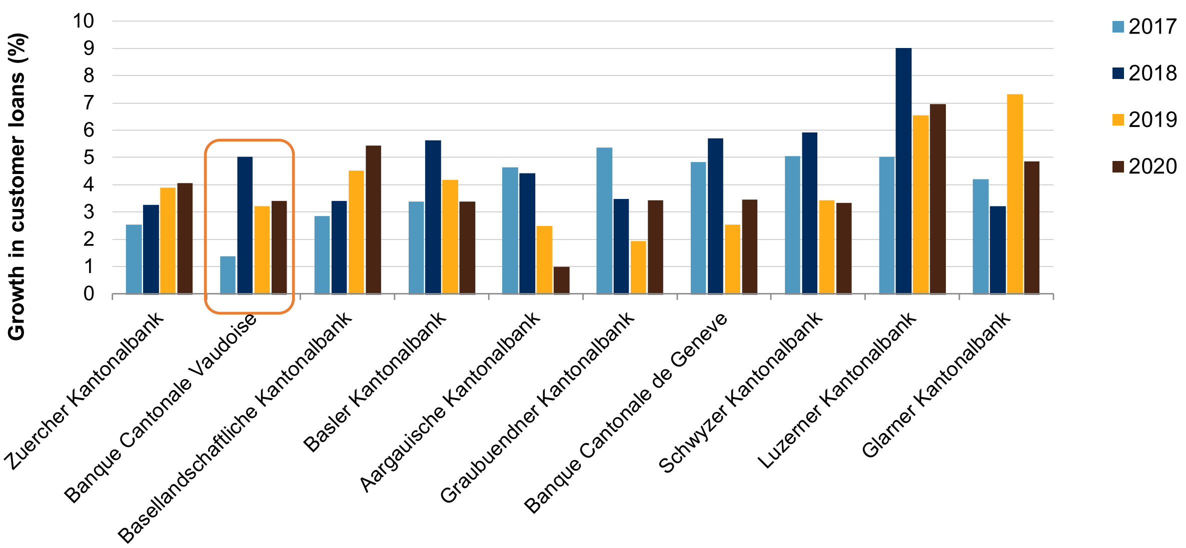
BCV was the first cantonal bank to file its regulatory reporting using the internal ratings-based approach. This reflects, in our view, the quality of its credit risk management. Gross nonperforming loans stood at a low 0.88% of total customer loans at year-end 2020 (0.86% at year-end 2019) and we estimate this will progressively increase to marginally above 1.5% at year-end 2022 and 2023 as a result of the pandemic. The bank's riskiest positions include trade finance exposures, which it voluntarily reduced and were also low due to the global economic slowdown. On average, transaction volumes reduced 21% compared with 2019. Although BCV hedges market risk arising from its structured products and certificates businesses, some residual risk remains, mainly dividend and correlation type risk. Revenue associated with structured products and certificates accounts for just above 1% of total revenue, according to our estimates.

We note that BCV has granted just over CHF700 million of COVID-19 loans to more than 6,000, small and midsize enterprises, but not all have been drawn and some have been reimbursed already. The bank's exposure to sectors most affected by the pandemic--hotels, restaurants, tourism, events, small businesses, and the self-employed--is relatively small. Therefore, it should not be materially affected if defaults materialize in the years to come.

Overall, in 2020 cost of risk remained contained at 6 basis points (bps), based on our calculations (see chart 8), and we expect it will remain at 4 bps-7 bps over the next two years. Importantly, at year-end 2020, the bank created CHF35 million of new provisions for inherent credit risk in nonimpaired loans, drawn directly from its reserves for general banking risks. This comes on top of the calculated 6 bps profit-and-loss charge for 2020. We believe the additional amount should be enough to cover potential losses from COVID-19-related defaults in the years to come.

**Chart 7**

**Banque Cantonale Vaudoise--Modest Growth Over Time Compared To Peers**

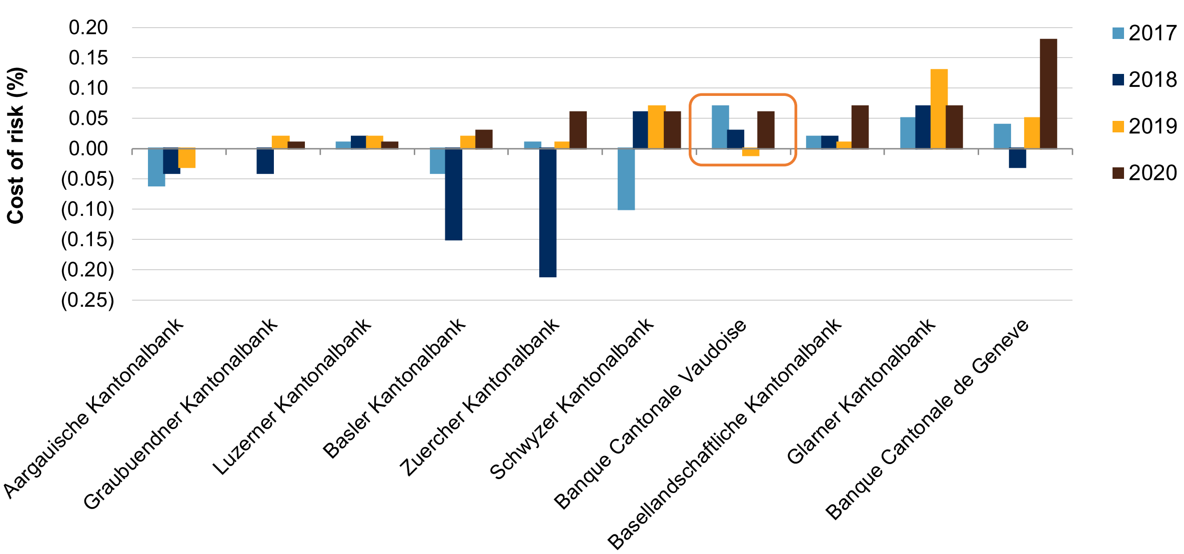



Source: S&P Global Ratings.



**Chart 8**

**Banque Cantonale Vaudoise--Contained Cost Of Risk Over Time**



## Funding And Liquidity: Largely Funded By Deposits, With Strong Cash Liquidity Buffers

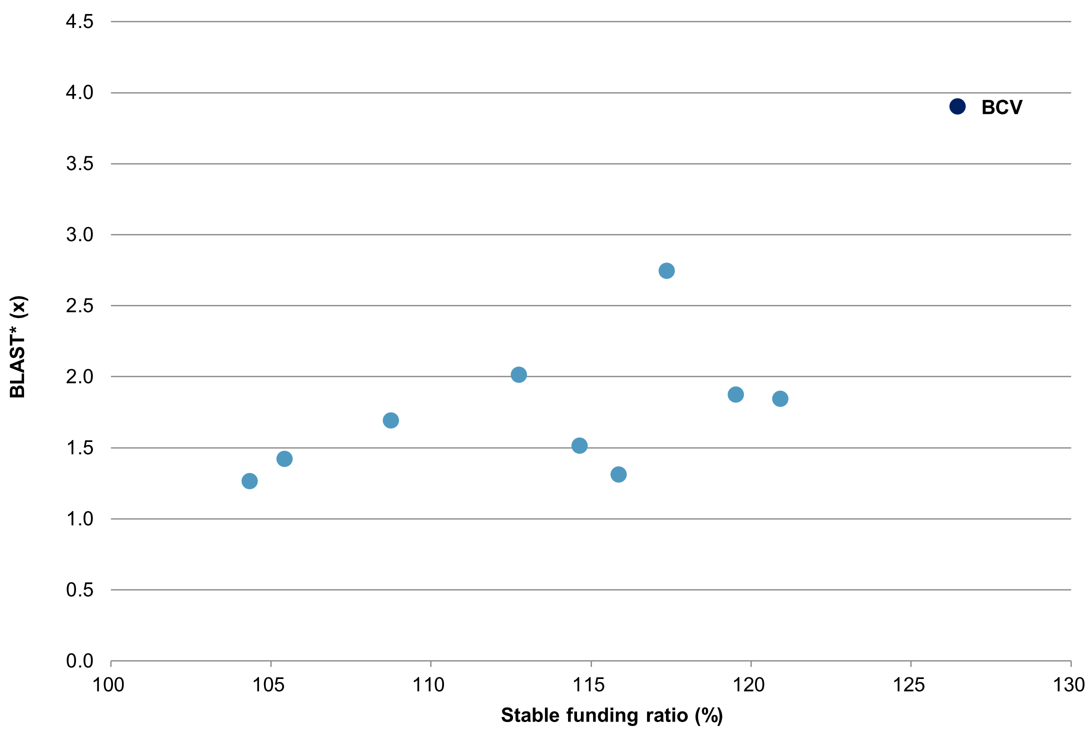
Core customer deposits represented 74% of the funding base on average over 2016-2020, according to our calculations. This is in the upper band compared to Swiss cantonal peers.

Like other cantonal banks, BCV uses covered bonds issued by the Centrale de Lettres de Gage (CLG; the Swiss Cantonal Bank Mortgage Bond Centre) as a financing source. Through this mutualized source of funding, the bank benefits from the excellent creditworthiness of the CLG, which is backed by Swiss cantonal banks and ultimately by most cantons. BCV's stable funding ratio was about 126% at Dec. 31, 2020. This is higher than the levels at domestic cantonal peers, which we also see as having adequate funding. We expect the bank to maintain a broadly similar stable funding ratio.

At year-ends 2019 and 2020, BCV's liquidity buffer included mainly cash held at the SNB. To stabilize its net interest income and reduce the effect of the low interest rate environment, BCV opportunistically deposited cash and reserves totaling just over €10 billion at the central bank (Swiss Interbank Clearing account). In addition, the bank has a pool of bonds that are eligible as collateral with the SNB. BCV's ratio of broad liquid assets to short-term wholesale funding was 3.90x at year-end 2020 (see chart 9). However, a significant portion of the deposit base contains private banking deposits and uninsured institutional investors' deposits, which are more volatile than traditional retail deposits, in our view. We understand that the bank's policy is to exceed the regulatory requirement for the Basel III liquidity coverage ratio (LCR) by at least 10 percentage points. At year-end 2020, BCV achieved a LCR of 136%--far above the minimum requirement set at 100% since Jan. 1, 2019--and 145% in first-half 2021.

**Chart 9**

**Banque Cantonale Vaudoise--Outperforms Other Cantonal Banks**




BLAST--Broad liquid assets over short-term funding. Source: S&P Global Ratings.



## External Support: Three Notches Of Uplift For Government-Related Entity (GRE) Support

We view BCV as a GRE. In accordance with our criteria for GREs, we believe that there is a very high likelihood that Vaud would provide timely and sufficient extraordinary support to BCV in the event of financial stress, as it did in 2001-2003. For this reason, the long-term rating on BCV stands three notches above its SACP.

We base our view of very high likelihood of extraordinary support on our assessment of BCV's:

- Very important role in the local economy, reflecting its public policy role in the canton's economic development and the possibility that a default could damage the canton's reputation; and
- Very strong link with the canton. A law passed in March 2010 stipulates that Vaud will keep a majority stake of at least 50% plus one share in the bank. The canton owns 66.95% of BCV. Unlike some other Swiss cantonal banks, however, the bank does not benefit from a cantonal statutory guarantee.

## Additional Rating Factors

No additional factors affect this rating.

## Environmental, Social, And Governance (ESG)

ESG factors have a neutral impact in our assessment of BCV's creditworthiness. Social and environmental credit factors are in line with those of peers in the banking industry, while the bank's governance standards are comparable with the practice in its home country.

## Key Statistics

**Table 1**

| Banque Cantonale Vaudoise--Key Figures | | | | | |
|---|---|---|---|---|---|
| | | --Year-ended Dec. 31-- | | | |
| **(Mil. CHF)** | **2021*** | **2020** | **2019** | **2018** | **2017** |
| Adjusted assets | 55,479.0 | 53,100.0 | 48,261.0 | 47,769.0 | 45,330.0 |
| Customer loans (gross) | 34,883.0 | 33,967.0 | 32,856.0 | 31,850.0 | 30,335.0 |
| Adjusted common equity | 2,969.6 | 2,946.6 | 2,954.6 | 2,895.2 | 2,856.4 |
| Operating revenues | 502.7 | 960.3 | 992.1 | 982.6 | 986.8 |
| Noninterest expenses | 293.2 | 518.0 | 527.6 | 525.6 | 538.8 |
| Core earnings | 173.2 | 376.2 | 410.7 | 365.2 | 348.2 |

*Data as of June 30.
CHF--CHF-Swiss franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

**Table 2**

| Banque Cantonale Vaudoise--Business Position | | | | | |
|---|---|---|---|---|---|
| | | --Year-ended Dec. 31-- | | | |
| **(%)** | **2021*** | **2020** | **2019** | **2018** | **2017** |
| Loan market share in country of domicile | N/A | N/A | N/A | N/A | N/A |
| Deposit market share in country of domicile | N/A | N/A | N/A | N/A | N/A |
| Total revenues from business line (mil. CHF) | 502.8 | 965.1 | 992.8 | 1,017.5 | 1,003.6 |
| Commercial banking/total revenues from business line | 26.2 | 29.1 | 26.7 | 29.1 | 28.7 |
| Retail banking/total revenues from business line | 17.6 | 18.0 | 17.5 | 17.2 | 17.3 |
| Commercial & retail banking/total revenues from business line | 43.9 | 47.1 | 44.2 | 46.4 | 46.0 |
| Trading and sales income/total revenues from business line | 6.0 | 5.7 | 5.0 | 4.3 | 5.3 |
| Asset management/total revenues from business line | 39.6 | 37.5 | 36.6 | 35.2 | 35.6 |
| Other revenues/total revenues from business line | 10.6 | 9.7 | 14.2 | 14.1 | 13.1 |
| Investment banking/total revenues from business line | 6.0 | 5.7 | 5.0 | 4.3 | 5.3 |
| Return on average common equity | 9.9 | 9.2 | 10.2 | 10.0 | 9.3 |

*Data as of June 30--best estimate. CHF--Swiss franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

**Table 3**

## Banque Cantonale Vaudoise--Capital And Earnings

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2021*** | **2020** | **2019** | **2018** | **2017** |
| Tier 1 capital ratio | 17.0 | 17.7 | 17.1 | 17.1 | 17.1 |
| S&P Global Ratings' RAC ratio before diversification | N/A | 12.6 | 13.0 | 13.0 | 13.3 |
| S&P Global Ratings' RAC ratio after diversification | N/A | 11.1 | 11.6 | 11.6 | 11.8 |
| Adjusted common equity/total adjusted capital | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Double leverage | N.M. | N.M. | N.M. | N.M. | N.M. |
| Net interest income/operating revenues | 47.0 | 49.4 | 50.1 | 50.5 | 50.4 |
| Fee income/operating revenues | 34.5 | 32.3 | 32.5 | 32.3 | 32.1 |
| Market-sensitive income/operating revenues | 14.2 | 14.5 | 12.9 | 13.0 | 13.6 |
| Cost to income ratio | 58.3 | 53.9 | 53.2 | 53.5 | 54.6 |
| Preprovision operating income/average assets | 0.8 | 0.9 | 1.0 | 1.0 | 1.0 |
| Core earnings/average managed assets | 0.6 | 0.7 | 0.9 | 0.8 | 0.8 |

*Data as of June 30--best estimate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful. RAC--Risk-adjusted capital.

**Table 4**

## Banque Cantonale Vaudoise--Risk-Adjusted Capital Framework Data

| **(Mil. CHF)** | **Exposure*** | **Basel III RWA** | **Average Basel III RW(%)** | **S&P Global Ratings RWA** | **Average S&P Global Ratings RW (%)** |
|---|---|---|---|---|---|
| **Credit risk** | | | | | |
| Government & central banks | 14,834.0 | 466.0 | 3.1 | 109.7 | 0.7 |
| Of which regional governments and local authorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Institutions and CCPs | 6,274.9 | 1,088.0 | 17.3 | 1,250.2 | 19.9 |
| Corporate | 16,144.0 | 9,168.0 | 56.8 | 11,478.1 | 71.1 |
| Retail | 20,010.0 | 4,293.0 | 21.5 | 5,457.2 | 27.3 |
| Of which mortgage | 18,155.0 | 3,673.0 | 20.2 | 4,230.5 | 23.3 |
| Securitization§ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets† | 542.0 | 542.0 | 100.0 | 536.2 | 98.9 |
| Total credit risk | 57,804.9 | 15,557.0 | 26.9 | 18,831.5 | 32.6 |
| **Credit valuation adjustment** | | | | | |
| Total credit valuation adjustment | -- | 91.0 | -- | 0.0 | -- |
| **Market Risk** | | | | | |
| Equity in the banking book | 49.4 | 176.0 | 356.2 | 352.5 | 713.5 |
| Trading book market risk | -- | 234.0 | -- | 351.0 | -- |
| Total market risk | -- | 410.0 | -- | 703.5 | -- |
| **Operational risk** | | | | | |
| Total operational risk | -- | 1,743.0 | -- | 3,918.3 | -- |

**Table 4**

| Banque Cantonale Vaudoise--Risk-Adjusted Capital Framework Data (cont.) | Exposure | Basel III RWA | Average Basel II RW (%) | S&P Global Ratings RWA | % of S&P Global Ratings RWA |
|---|---|---|---|---|---|
| **Diversification adjustments** | | | | | |
| RWA before diversification | -- | 18,377.0 | -- | 23,453.3 | 100.0 |
| Total Diversification/ Concentration Adjustments | -- | -- | -- | 2,993.3 | 12.8 |
| RWA after diversification | -- | 18,377.0 | -- | 26,446.6 | 112.8 |
| | | **Tier 1 capital** | **Tier 1 ratio (%)** | **Total adjusted capital** | **S&P Global RAC ratio (%)** |
| **Capital ratio** | | | | | |
| Capital ratio before adjustments | | 3252.0 | 17.7 | 2946.6 | 12.6 |
| Capital ratio after adjustments‡ | | 3252.0 | 17.7 | 2946.6 | 11.1 |

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CHF--Swiss franc. Sources: Company data as of Dec. 31 2020, S&P Global Ratings.

**Table 5**

**Banque Cantonale Vaudoise--Risk Position**

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2021*** | **2020** | **2019** | **2018** | **2017** |
| Growth in customer loans | 5.4 | 3.4 | 3.2 | 5.0 | 1.3 |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A | 12.8 | 12.5 | 12.4 | 12.6 |
| Total managed assets/adjusted common equity (x) | 18.7 | 18.0 | 16.4 | 16.5 | 15.9 |
| New loan loss provisions/average customer loans | 0.0 | 0.1 | (0.0) | 0.0 | 0.1 |
| Net charge-offs/average customer loans | 0.1 | 0.0 | (0.0) | 0.0 | 0.0 |
| Gross nonperforming assets/customer loans + other real estate owned | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 |
| Loan loss reserves/gross nonperforming assets | 39.6 | 39.6 | 31.3 | 28.7 | 32.8 |

*Data as of June 30--best estimate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

**Table 6**

**Banque Cantonale Vaudoise--Funding And Liquidity**

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2021*** | **2020** | **2019** | **2018** | **2017** |
| Core deposits/funding base | 72.0 | 73.7 | 76.2 | 72.8 | 75.0 |
| Customer loans (net)/customer deposits | 93.5 | 95.6 | 99.2 | 101.2 | 99.1 |
| Long-term funding ratio | 90.2 | 92.4 | 95.0 | 92.3 | 95.2 |
| Stable funding ratio | 127.8 | 126.5 | 122.2 | 121.8 | 124.4 |
| Short-term wholesale funding/funding base | 10.4 | 8.1 | 5.4 | 8.3 | 5.2 |
| Broad liquid assets/short-term wholesale funding (x) | 3.1 | 3.9 | 5.0 | 3.5 | 5.5 |
| Net broad liquid assets/short-term customer deposits | 29.9 | 32.1 | 28.4 | 28.3 | 30.9 |
| Short-term wholesale funding/total wholesale funding | 37.2 | 31.0 | 22.8 | 30.6 | 20.7 |

**Table 6**

| Banque Cantonale Vaudoise--Funding And Liquidity (cont.) | | | | | |
|---|---|---|---|---|---|
| | | --Year-ended Dec. 31-- | | | |
| (%) | 2021* | 2020 | 2019 | 2018 | 2017 |
| Narrow liquid assets/3-month wholesale funding (x) | 3.6 | 2.9 | 3.6 | 2.6 | 3.9 |

*Data as of June 30--best estimate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics for Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Switzerland, Aug. 23, 2021
- Economic Outlook Europe Q3 2021: The Grand Reopening, Jun. 24, 2021
- Latest Banking Industry Country Risk Assessment Switzerland Published, Jan. 06,2021
- Vaud (Canton of), Nov. 27, 2020

## Anchor Matrix

| Industry Risk | Economic Risk | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | **2** | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1 | a | a | a- | bbb+ | bbb+ | bbb | - | - | - | - |
| **2** | a | **a-** | a- | bbb+ | bbb | bbb | bbb- | - | - | - |
| 3 | a- | a- | bbb+ | bbb+ | bbb | bbb- | bbb- | bb+ | - | - |
| 4 | bbb+ | bbb+ | bbb+ | bbb | bbb | bbb- | bb+ | bb | bb | - |
| 5 | bbb+ | bbb | bbb | bbb | bbb- | bbb- | bb+ | bb | bb- | b+ |
| 6 | bbb | bbb | bbb- | bbb- | bbb- | bb+ | bb | bb | bb- | b+ |
| 7 | - | bbb- | bbb- | bb+ | bb+ | bb | bb | bb- | b+ | b+ |
| 8 | - | - | bb+ | bb | bb | bb | bb- | bb- | b+ | b |
| 9 | - | - | - | bb | bb- | bb- | b+ | b+ | b+ | b |
| 10 | - | - | - | - | b+ | b+ | b+ | b | b | b- |

## Ratings Detail (As Of September 27, 2021)*

| | |
|---|---|
| **Banque Cantonale Vaudoise** | |
| Issuer Credit Rating | AA/Stable/A-1+ |
| **Issuer Credit Ratings History** | |
| 18-Jun-2013 | AA/Stable/A-1+ |
| 03-Jul-2012 | AA/Negative/A-1+ |
| 05-Dec-2011 | AA/Stable/A-1+ |
| **Sovereign Rating** | |
| Switzerland | AAA/Stable/A-1+ |
| **Related Entities** | |
| **Vaud (Canton of)** | |
| Issuer Credit Rating | AAA/Stable/-- |
| Senior Unsecured | AAA |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.