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Research Update:

Outlook On Banque Cantonale Vaudoise Revised To Stable On Upgrade Of The Canton Of Vaud; Ratings Affirmed At 'AA/A-1+'

Primary Credit Analyst:

Thierry Grunspan, Paris (33) 1-4420-6739; thierry.grunspan@standardandpoors.com

Secondary Contact:

Francois Moneger, Paris (33) 1-4420-6688; francois.moneger@standardandpoors.com

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Overview

- We raised our long-term rating on the Swiss Canton of Vaud to 'AAA' from 'AA+' on June 14, 2013.
- We believe that there is still a very high likelihood that the Canton of Vaud would provide timely and sufficient extraordinary support to Banque Cantonale Vaudoise (BCV) in the event of financial stress.
- We are revising our outlook on BCV to stable from negative and affirming our 'AA/A-1+' ratings on the bank.
- The stable outlook reflects our expectation that BCV will maintain its strong liquidity, adequate capital base, and strong earnings capacity.

Rating Action

On June 18, 2013, Standard & Poor's Ratings Services revised its outlook on Swiss regional bank Banque Cantonale Vaudoise (BCV) to stable from negative. At the same time, we affirmed our 'AA/A-1+' long- and short-term counterparty credit ratings on BCV.

Rationale

Our revision of the outlook on BCV to stable follows our raising of the long-term rating on the Swiss Canton of Vaud to 'AAA' from 'AA+', on June 14, 2013. This upgrade reflected our expectations of a very moderate debt burden and very strong liquidity for Vaud (see "Swiss Canton of Vaud Upgraded To 'AAA' On Expected Very Moderate Debt Burden And Very Strong Liquidity; Outlook Stable," published June 14, 2013, on RatingsDirect).

Our stand-alone credit profile (SACP) for BCV is unchanged at 'a+'. It reflects the bank's 'a' anchor, an "adequate" business position, "strong" capital and earnings, "adequate" risk position, "average" funding, and "strong" liquidity.

We view BCV as playing a "very important" role in the local economy and as having a "very strong" link with the canton. We therefore believe that there is a "very high" likelihood that Vaud will continue to provide timely and sufficient extraordinary support to BCV in the event of financial stress, as it did in the early 2000s. As a consequence, the long-term rating is two notches above the SACP.

Outlook

The outlook is stable, as a weakening of the SACP on BCV by up to two notches over the next two years would have no impact on the issuer credit rating on the bank. We view a lowering of the SACP by more than two notches as a remote possibility in the current environment, as we expect BCV to keep its adequate capital base, strong liquidity, and strong earnings capacity (with net profit of Swiss franc 311 million in 2012).

We could raise the long-term rating on BCV if our concerns on fast-increasing residential house prices in the canton of Vaud (and more generally in Switzerland), and their potential impact on the bank's asset quality, alleviated, and in addition, if BCV were to improve its capital position, as measured by our risk-adjusted capital ratio, to a sustainable level of well above 15% (from a current 14.6% at year-end 2012).

We see a downgrade of BCV as a remote possibility over the next two years.

Ratings Score Snapshot

Issuer Credit Rating	AA/Stable/A-1+
SACP	a+
Anchor	a
Business Position	Adequate [+0]
Capital and Earnings	Strong [+1]
Risk Position	Adequate [+0]
Funding And Liquidity	Average And Strong [+0]
Support	+2
GRE Support	+2
Group Support	0
Sovereign Support	0
Additional Factors	0
Holding Co. Notching	0

Related Criteria And Research

- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Banque Cantonale Vaudoise Counterparty Credit Rating	AA/Stable/A-1+	AA/Negative/A-1+

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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