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Research Update:

Switzerland-Based Banque Cantonale Vaudoise Affirmed At 'AA/A-1+' Following Government Support Review; Outlook Stable

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Overview

- We consider that Switzerland's bank resolution regime will not affect our view of a very high likelihood of extraordinary government support for Banque Cantonale Vaudoise.
- We are affirming our 'AA/A-1+' counterparty credit ratings on Banque Cantonale Vaudoise.
- The stable outlook reflects our view that the likelihood of extraordinary government support for the bank is unlikely to weaken over the next two years.

Rating Action

As previously announced on April 29, 2014, Standard & Poor's Ratings Services affirmed its 'AA/A-1+' long- and short-term counterparty credit ratings on Switzerland-based Banque Cantonale Vaudoise (BCV). The outlook remains stable.

Rationale

The affirmation follows the completion of our review of potential extraordinary government support for European banks (see "Standard & Poor's To Review Government Support In European Bank Ratings," published March 4, 2014, on RatingsDirect). We observe that the Swiss authorities have taken steps to require creditors rather than taxpayers to bear the burden of the costs of a bank failure (see "Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review," published on April 29, 2014). However, we don't expect these changes to constrain the cantonal government's willingness and ability to provide extraordinary support to BCV.

The Swiss Canton of Vaud currently owns 67% of BCV. Moreover, a law passed in March 2010 stipulates that the canton must keep an absolute majority shareholding in the bank. Unlike some other Swiss cantonal banks, BCV does not benefit from a statutory guarantee from Vaud. However, we classify BCV as a government-related entity, reflecting its role in Vaud's economy, its major local franchise, capital structure, and legal status as a cantonal bank. We consider BCV to have a "very strong" link with the canton and a "very important" role, reflecting its public policy role in the canton's economic development and that a default could damage the canton's reputation. As a result, we see a "very high" likelihood that Vaud would provide extraordinary

support to BCV if needed. In line with our criteria, the long-term rating on BCV is therefore two notches higher than its stand-alone credit profile (SACP), which is at 'a+'.

With effect from November 2012, the Swiss Bank Recovery and Resolution Regime ("Bankeninsolvenzverordnung") has given the authorities wide-ranging powers to deal with a failing institution, including to bail-in senior unsecured creditors. Official statements, such as the Financial Market Supervisory Authority's position paper of August 2013, suggest to us that the authorities will use these powers where doing so would not risk the financial system's stability. That said, we see privately owned banks as the primary focus of these new rules.

By contrast, we perceive no strong intent from Swiss lawmakers to constrain cantons in their support of already publicly owned institutions. Therefore, in our view, the Swiss bank resolution regime would not restrict a cantonal government from granting such support.

We observe that, so far, Vaud has been a proactive and supportive owner, which we expect will continue. For example, the canton injected fresh capital into BCV in the early 2000s after the bank incurred large losses. Consequently, we don't believe the bank resolution regime would meaningfully hinder the canton's willingness and ability to provide extraordinary support to BCV. However, we will keep developments in this area under review.

Outlook

The stable outlook reflects our current view that the Swiss bank resolution regime is unlikely to constrain the cantonal government from providing timely support to BCV. Even if BCV's credit quality weakened, such that we revised our SACP assessment downward by two notches, we would not lower the long-term rating. This is because, according to our criteria, the downward revision of the SACP would be offset by two additional notches of uplift for government support, given our 'AAA' rating on the canton. We view a deterioration of the SACP by more than two notches as a remote possibility in BCV's current operating environment. As a consequence, we see a downgrade of BCV as unlikely over the next two years.

We could raise the long-term rating if the sensitivity of BCV's asset quality to rising real estate prices were to reduce and, at the same time, BCV improved its capital position, as measured by a risk-adjusted capital ratio exceeding 15% on a sustainable basis.

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

Related Criteria And Research

Related Criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014
- Standard & Poor's To Review Government Support In European Bank Ratings, March 4, 2014
- Banque Cantonale Vaudoise, Nov. 29, 2013

Ratings List

Ratings Affirmed

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

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