

Banque Cantonale Vaudoise

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Banque Cantonale Vaudoise

Major Rating Factors

Strengths:

- Strong market position and franchise in the Canton of Vaud.
- Satisfactory risk management.
- Strong capitalization.

Weaknesses:

- Limited growth potential in the bank's home market.
- Exposure to regional real estate markets.
- Limited potential for efficiency gains.

Counterparty Credit Rating

AA-/Stable/A-1+

Rationale

Standard & Poor's Ratings Services' long-term counterparty credit rating on Switzerland-based Banque Cantonale Vaudoise (BCV) factors in two notches of support above the bank's current stand-alone creditworthiness. This reflects implicit support from its main shareholder, the Swiss Canton of Vaud (AA+/Stable/--), despite the absence of a full statutory guarantee.

The second-largest cantonal bank in the Swiss Confederation (Switzerland; AAA/Stable/A-1+), BCV is a government-related entity (GRE) according to Standard & Poor's methodology. It maintains a "very strong" link with the Canton of Vaud and plays a "very important" role in the local economy, reflected in its public policy role in the canton's economic development. A law passed in March 2010 stipulates that the canton will keep the majority of the capital in the bank. In our opinion, it is very likely that the canton would provide extraordinary support in case of need, as it did in the early 2000s.

The bank's strong market position in the canton, satisfactory risk management, and strong capitalization underpin the ratings. BCV's geographic concentration in its mature and highly competitive regional market constrains the bank's growth potential, however, as do limited expansion opportunities outside its home market. Still, BCV has a diversified profile of retail and commercial banking, including trade finance and asset and wealth management, which is a mitigating factor.

Due to much smaller extraordinary reversals of credit risk provisions, after-tax profit retreated to Swiss franc (CHF) 301.4 million in 2009 from 2005-2008 levels. However, BCV's profitability remained satisfactory: net operating income was CHF470 million, up 11% from 2008. All business lines delivered strong results. In particular, the asset management and wealth division benefited from CHF3.1 billion in net new money, with an additional 1.3 billion in the first quarter of 2010, reflecting the franchise's strength.

In 2010, because of currently very low interest rates, we expect the net interest margin to weaken, especially on the liability side. Net interest income accounts for about 52% of revenues. Revenues should increase steadily, however, because of strong volumes of new residential real estate loans.

We believe that BCV's adequate credit risk management should prevent provisioning needs from increasing sharply.

Cost of risk in 2009 remained very low under 10 basis points, with trade finance accounting for about half of new provisioning needs in a context of high price volatility for commodities. Outstanding nonperforming loans (NPLs) decreased to 2.4% of customer loans (from 12% on Dec. 31, 2003), still higher than for other cantonal banks, though. NPLs are set to decline further in 2010.

Market risk has decreased significantly following the exit of equity derivatives proprietary trading at the end of 2009 and some trading losses in the first half of 2008. The trading desks are now focused mainly on client-driven trades, whether that means hedging in-house structured products sold to retail and institutional clients or providing customers with hedging solutions.

We view BCV's liquidity position as favorable with an ample customer deposit base representing more than 74% of the bank's funding base on Dec. 31, 2009. Moreover, the bank demonstrated a cautious approach to liquidity during the crisis by maintaining a strong cushion of cash at the Swiss central bank.

Despite BCV having given back CHF267 million to shareholders on 2009 results, the bank's capitalization remains robust with a Standard & Poor's risk-adjusted capital ratio of 13.4% after diversification adjustments on Dec. 31, 2009. We expect that the bank's intended reduction of its equity base will be gradual and not detrimental to its financial strength.

Outlook

The stable outlook reflects our belief that BCV will continue to benefit from the implicit support of the Canton of Vaud, despite the absence of a full statutory guarantee. The canton's possible reduction of its stake to its historical level of 50.12% from the current 66.95% would have no impact on the ratings. The stable outlook also factors in our belief that BCV's enhanced underlying financial position is sustainable and that capitalization, albeit set to erode, will remain strong.

Given our GRE methodology, a one-notch upgrade of the canton would translate into a one-notch upgrade for the ratings of BCV. A one-notch downgrade of the canton would have no impact on the ratings of BCV.

We could raise the ratings on BCV if the stand-alone credit profile improves, that is, if capitalization remains at the current strong levels, if cost of risk remains low, and if the bank can preserve its franchise in the asset and wealth management business line. In our opinion, a negative action on the ratings is a very remote scenario at this stage.

Table 1

Banque Cantonale Vaudoise Risk-Adjusted Capital Data						
(Mil. CHF)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)	
Credit risk						
Government and central banks	1,673	88	5	50	3	
Institutions	6,855	1,238	18	1,281	19	
Corporate	14,276	9,400	66	10,634	74	
Retail	13,450	2,400	18	3,028	23	
Of which mortgage	11,883	1,738	15	2,226	19	
Securitization	0	0	0	0	0	
Other assets	791	775	98	1,187	150	

Table 1

Banque Cantonale Vaudoise Risk-Adjusted Capital Data (cont.)					
Total credit risk	37,045	13,900	38	16,179	44
Market risk					
Equity in the banking book¶	250	625	370	1,154	462
Trading book market risk	--	350	--	525	--
Total market risk	--	975	--	1,679	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	1,725	--	2,993	--
	Basel II RWA			Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments					
RWA before diversification		16,600		20,851	100
Total adjustments to RWA		--		609	3
RWA after diversification		16,600		21,461	103
	Tier 1 capital		Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		2,951.0	17.8	2,870.0	13.8
Capital ratio after adjustments§		2,951.0	17.8	2,870.0	13.4

*Exposure at default. ¶Exposure and Standard & Poor's 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, 2009, Standard & Poor's.

Table 2

(%)	--Year-ended Dec. 31--			
	2009	2008	2007	2006
Gross nonperforming assets/customer loans plus other real estate owned	2.4	2.9	3.6	5.1
Net nonperforming assets/customer loans plus other real estate owned	1.3	1.3	1.5	1.6
Loan loss reserves/gross nonperforming assets	45.0	54.0	59.2	70.3
Loan loss reserves/customer loans	1.1	1.5	2.2	3.6
New loan loss provisions/average customer loans	0.1	0.3	0.1	0.1
Net charge-offs/average customer loans	N.M.	N.M.	N.M.	N.M.
Customer deposits/funding base	74.1	70.9	68.6	67.8
Total loans/customer deposits	105.0	107.4	111.8	124.1
Total loans/customer deposits plus long-term funds	75.1	74.1	74.8	80.2
Customer loans (net)/assets (adjusted)	68.2	64.9	63.8	60.5

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Banque Cantonale Vaudoise Loan Portfolio				
	--Year-ended Dec. 31--			
(Mil. CHF)	2009	2008	2007	2006
Public Sector/Government	N/A	0.0	0.0	0.0
Residential real estate loans	14,784.0	13,642.2	13,228.1	12,862.2
Other consumer loans	5,806.3	0.0	N/A	N/A
Commercial real estate loans	2,802.9	2,506.7	2,431.0	3,613.0
Commercial/corporate loans	1,183.0	0.0	N/A	N/A
Total real estate loans	N/A	1,134.1	1,129.1	9.9
Leases	N/A	0.0	0.0	0.0
Foreign loans	N/A	0.0	N/A	N/A
Other loans	N/A	5,908.9	6,187.2	6,390.6
Nonperforming loans not included in above	N/A	0.0	0.0	0.0

CHF--CHF-Swiss Franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Banque Cantonale Vaudoise Profitability Ratios				
	--Year-ended Dec. 31--			
(%)	2009	2008	2007	2006
Net interest income/average earning assets	1.5	1.5	1.6	1.6
Net interest income/revenues	52.0	54.3	46.4	43.7
Fee income/revenues	33.7	36.6	35.4	33.3
Market-sensitive income/revenues	10.1	4.0	6.8	8.6
Personnel expense/revenues	32.4	33.4	32.0	34.4
Noninterest expenses/revenues	59.8	62.6	59.0	59.4
New loan loss provisions/revenues	1.2	8.0	1.9	1.2
Net operating income before loan loss provisions/loan loss provisions	3,241.3	467.6	2,163.1	3,519.7
Net operating income after loan loss provisions/revenues	38.9	29.4	39.1	39.4
Pretax profit/revenues	39.9	49.5	52.9	50.6
Tax/pretax profit	22.6	22.1	17.1	4.2
Core earnings/revenues	30.2	23.0	34.6	36.5
Core earnings/average adjusted assets	0.8	0.6	1.1	1.1
Noninterest expenses/average adjusted assets	1.6	1.6	1.8	1.8
Core earnings/average risk-weighted assets	3.2	1.1	2.0	2.2
Core earnings/average adjusted common equity	10.3	7.6	12.6	12.7
Pretax profit/average common equity (%)	12.2	14.4	17.4	16.8

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Banque Cantonale Vaudoise Capital Ratios				
	--Year-ended Dec. 31--			
(%)	2009	2008	2007	2006
Adjusted common equity/risk assets (%)	N.M.	15.5	14.4	17.9
Tier 1 capital ratio	17.8	16.2	16.3	18.3

Table 5

Banque Cantonale Vaudoise Capital Ratios (cont.)				
Adjusted total equity/adjusted assets	7.8	7.8	7.5	8.7
Adjusted total equity/managed assets	7.8	7.8	7.5	8.6
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	12.4	13.4	13.7	17.4
Common dividend payout ratio	88.8	72.4	84.5	11.8

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

Banque Cantonale Vaudoise Summary Balance Sheet				
	--Year-ended Dec. 31--			
(Mil. CHF)	2009	2008	2007	2006
Assets				
Cash and money market instruments	6,960.7	8,356.4	6,817.4	5,676.4
Securities	3,211.6	2,079.3	3,536.0	2,852.6
Trading securities (marked to market)	397.2	607.0	2,046.0	1,404.6
Nontrading securities	2,814.4	1,472.3	1,490.0	1,448.0
Mortgage-backed securities included above	0.0	0.0	0.0	0.0
Loans to banks (net)	0.0	0.0	0.0	0.0
Customer loans (gross)	24,576.5	23,191.9	22,975.4	22,875.7
Loan loss reserves	264.7	358.4	496.1	816.6
Customer loans (net)	24,311.8	22,833.5	22,479.3	22,059.1
Earning assets	33,344.4	33,081.9	32,975.7	31,084.2
Equity interests/participations (nonfinancial)	0.0	0.0	0.0	0.0
Investments in unconsolidated subsidiaries (financial companies)	80.8	82.0	82.0	84.0
Intangibles (nonservicing)	84.6	79.4	88.9	94.3
Interest-only strips	N/A	0.0	N/A	N/A
Fixed assets	517.3	533.3	557.6	576.2
Derivatives credit amount	N/A	0.0	N/A	N/A
Accrued receivables	219.5	240.3	272.5	249.7
All other assets	346.7	1,034.5	1,503.4	4,944.8
Total assets	35,733.0	35,238.5	35,336.9	36,536.6
Intangibles (nonservicing)	84.6	79.4	88.9	94.3
Minus insurance statutory funds	0.0	0.0	0.0	0.0
Adjusted assets	35,648.4	35,159.1	35,248.0	36,442.3
Liabilities				
Total deposits	25,470.1	23,936.2	23,024.5	20,524.5
Noncore deposits	2,064.8	2,335.1	2,472.3	2,088.0
Core/customer deposits	23,405.3	21,601.1	20,552.2	18,436.5
Acceptances	N/A	0.0	0.0	0.0
Repurchase agreements	N/A	N/A	N/A	N/A
Other borrowings	1,659.6	2,051.6	3,026.9	3,191.8
Other other borrowings	0.0	0.0	0.0	0.0
Other credit reserves	290.0	374.4	543.1	1,004.0
Other liabilities	635.5	1,217.4	1,601.3	4,902.7

Table 6

Banque Cantonale Vaudoise Summary Balance Sheet (cont.)				
Total liabilities	32,511.2	32,061.6	32,111.8	33,118.0
Total equity	3,221.8	3,176.9	3,225.1	3,418.6
Mandatorily convertible securities	N/A	0.0	0.0	0.0
Limited life preferred and quasi equity	0.0	0.0	0.0	0.0
Enhanced trust preferred	N/A	0.0	0.0	0.0
Minority interest-equity	13.6	12.6	15.3	13.8
Common shareholders' equity (reported)	3,208.2	3,164.3	3,209.8	3,404.8
Share capital and surplus	172.1	258.2	537.9	997.4
Revaluation reserve	N/A	0.0	0.0	0.0
Retained profits	301.4	357.7	477.3	534.4
Other equity	N/A	0.0	0.0	0.0
Total liabilities and equity	35,733.0	35,238.5	35,336.9	36,536.6

CHF--CHF-Swiss Franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 7

Banque Cantonale Vaudoise Equity Reconciliation Table				
	--Year-ended Dec. 31--			
(Mil. CHF)	2009	2008	2007	2006
Common shareholders' equity (reported)	3,208.2	3,164.3	3,209.8	3,404.8
Plus minority interest (equity)	13.6	12.6	15.3	13.8
Minus dividends (not yet distributed)	(267.0)	(258.0)	(400.0)	(80.0)
Minus revaluation reserves	0.0	0.0	0.0	0.0
Minus nonservicing intangibles	(84.6)	(79.4)	(88.9)	(94.3)
Minus interest-only strips (net)	0.0	0.0	0.0	0.0
Minus tax loss carryforwards	0.0	0.0	0.0	0.0
Minus postretirement benefit adjustment	0.0	0.0	0.0	0.0
Minus other adjustments	N/A	0.0	0.0	0.0
Adjusted common equity	2,870.2	2,839.5	2,736.2	3,244.3
Plus admissible preferred and hybrids	0.0	0.0	0.0	0.0
Plus general reserves	0.0	0.0	0.0	0.0
Plus unrealized gains	N/A	0.0	0.0	0.0
Minus equity in unconsolidated subsidiaries	(80.8)	(82.0)	(82.0)	(84.0)
Minus capital of insurance subsidiaries	N/A	0.0	0.0	0.0
Minus adjustment for securitized assets	0.0	0.0	0.0	0.0
Adjusted total equity	2,789.4	2,757.5	2,654.2	3,160.3

CHF--CHF-Swiss Franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 8

Banque Cantonale Vaudoise Profit And Loss				
	--Year-ended Dec. 31--			
(Mil. CHF)	2009	2008	2007	2006
Net interest income	507.5	504.1	505.0	480.7
Interest income	834.5	1,066.3	1,064.4	895.1

Table 8

Banque Cantonale Vaudoise Profit And Loss (cont.)				
Interest expense	327.0	562.2	559.4	414.4
Operating noninterest income	468.4	423.8	582.5	620.5
Fees and commissions	328.6	340.0	384.8	366.8
Net brokerage commissions	276.6	298.9	356.0	336.7
Trading gains	98.6	37.0	73.5	94.4
Other market-sensitive income	N/A	0.0	N/A	N/A
Net insurance income	0.0	0.0	0.0	0.0
Equity in earnings of unconsolidated subsidiaries	7.8	5.0	5.5	4.6
Other noninterest income	33.4	41.8	118.7	154.7
Operating revenues	975.9	927.9	1,087.5	1,101.2
Noninterest expenses	583.7	580.5	641.9	654.2
Personnel expenses	316.4	310.3	347.8	378.5
Other general and administrative expense	189.2	194.3	210.7	186.6
Net operating income before loss provisions	392.2	347.4	445.6	447.0
Credit loss provisions (net new)	12.1	74.3	20.6	12.7
Net operating income after loss provisions	380.1	273.1	425.0	434.3
Nonrecurring/special income	10.7	187.7	293.8	249.2
Nonrecurring/special expense	0.3	0.8	1.3	1.7
Amortization of intangibles	0.9	0.9	1.8	2.0
Impairment of intangibles	N/A	0.0	0.0	N/A
Pretax profit	389.6	459.1	575.8	557.7
Tax expense/credit	88.2	101.4	98.5	23.3
Net income (before minority interest)	301.4	357.7	477.3	534.4
Minority interest in consolidated subsidiaries	0.8	1.4	3.9	4.2
Net income before extraordinaries	300.6	356.3	473.4	530.2
Net income after extraordinaries	300.6	356.3	473.4	530.2

CHF--CHF-Swiss Franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 9

Banque Cantonale Vaudoise Core Earnings Reconciliation Table				
	--Year-ended Dec. 31--			
(Mil. CHF)	2009	2008	2007	2006
Net income (before minority interest)	301.4	357.7	477.3	534.4
Minus nonrecurring/special income	(10.7)	(187.7)	(293.8)	(249.2)
Plus nonrecurring/special expense	0.3	0.8	1.3	1.7
Plus or minus tax impact of adjustments	2.4	41.3	50.0	10.3
Plus amortization/impairment of goodwill/intangibles	0.9	0.9	1.8	2.0
Minus preferred dividends	0.0	0.0	0.0	(19.8)
Plus or minus other earnings adjustments	N/A	0.0	0.0	N/A
Core earnings	294.3	213.0	376.5	401.5

CHF--CHF-Swiss Franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Related Criteria And Research

Enhanced Methodology For Rating Government-Related Entities, June 29, 2009

Ratings Detail (As Of July 30, 2010)*	
Banque Cantonale Vaudoise	
Counterparty Credit Rating	AA-/Stable/A-1+
Certificate Of Deposit	AA-/A-1+
Counterparty Credit Ratings History	
02-Dec-2008	AA-/Stable/A-1+
05-Oct-2007	A+/Stable/A-1
27-Jan-2006	A/Stable/A-1
Sovereign Rating	
Swiss Confederation	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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