

**CREDIT OPINION**

16 October 2024

Update

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**RATINGS**

**Banque Cantonale Vaudoise**

Domicile	Lausanne, Switzerland
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Aa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# Banque Cantonale Vaudoise

## Update to credit analysis

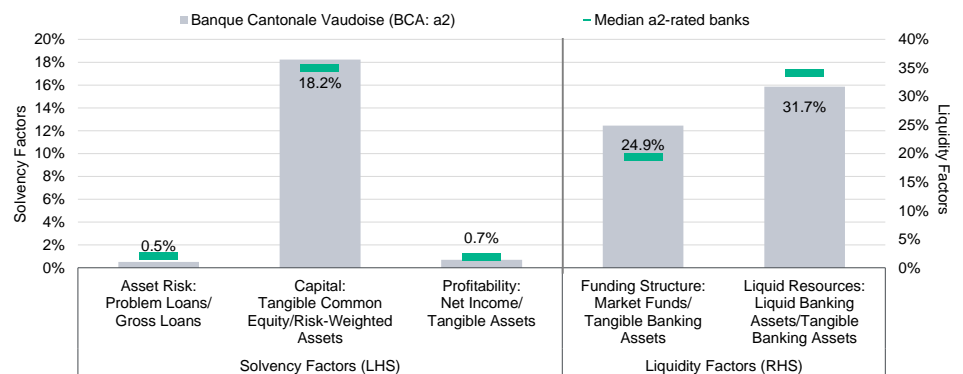
**Summary**

[Banque Cantonale Vaudoise's](#) (BCV) Aa2 deposit ratings reflect the bank's a2 Baseline Credit Assessment (BCA), one notch of rating uplift from affiliate support, because of the majority ownership by the Canton of Vaud, and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which indicates a very low loss given failure and results in two notches of rating uplift. We do not incorporate any additional rating uplift from government support because of the bank's small domestic market share and low importance to the Swiss banking system.

BCV's a2 BCA reflects the bank's resilient and very stable solvency profile, displaying a strong and growing capital base and a continued sound asset quality. The BCA also takes account of the bank's high profitability and meaningful and growing dependence on confidence-sensitive wholesale funding, which is mitigated by solid liquid resources as well as its access to covered bonds and a fairly granular deposit base. BCV's BCA, however, remains constrained by potential asset quality challenges stemming from its narrow geographical footprint in the Lake of Geneva region, as well as relatively high exposures to mostly regional small and medium sized enterprises (SMEs) as well as some trade finance transactions.

Exhibit 1

**Rating Scorecard Banque Cantonale Vaudoise - Key financial ratios**



Source: Moody's Ratings and company filings

## Credit strengths

- » Strong capitalisation provides substantial buffers against downside risks
- » Very high and stable profitability, supported by sizeable wealth management activities
- » Solid liquid resources and granular deposits mitigate potential outflow risks

## Credit challenges

- » Asset concentration risks from corporate lending and regionally-focused mortgage loan concentrations which may face tail risks under prolonged adverse economic conditions
- » Moderately increasing wholesale funding dependence, mitigated by access to Switzerland's well-established covered bond market
- » Low capital generation ability reflecting BCV's high dividend payout ratios

## Outlook

- » The stable outlook on BCV's long-term deposit ratings reflects our expectation of the bank maintaining its current solvency and liquidity profile. The stable outlook also takes into account our expectation that BCV will maintain sufficient volumes of bail-in-able liabilities safeguarding the currently assigned rating uplift resulting from our Advanced LGF analysis.

## Factors that could lead to an upgrade

- » An upgrade of BCV's long-term deposit ratings could be triggered by an upgrade of the bank's a1 Adjusted BCA, or from additional rating uplift as a result of our Advanced LGF analysis, for example because of significant issuance of instruments ranking below senior unsecured debt.
- » BCV's a2 BCA could be upgraded following a significant and sustained strengthening of its solvency and liquidity profile that could result from a combination of materially reduced concentration risks, a significantly higher profitability, and an improved combined liquidity profile.

## Factors that could lead to a downgrade

- » A downgrade of BCV's long-term deposit ratings could be triggered following a downgrade of the bank's BCA or a material deterioration of the canton's creditworthiness. The bank's deposit ratings could also be downgraded in case of a sustained decline in senior unsecured debt volumes, which could lead to a lower result from our Advanced LGF analysis.
- » A downgrade of BCV's a2 BCA could result from the bank continuing to grow its dependence on market funding alongside its growth strategy or if it shrinks the level of liquid resources relative to its tangible banking assets. The BCA could further be downgraded if BCV's capital buffers decline meaningfully; its asset risk deteriorates, leading to meaningfully and sustainably higher problem loans and related loan loss charges; or its profitability deteriorates to levels well below the average of the past three years.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Banque Cantonale Vaudoise (Consolidated Financials) [1]

	06-24 <sup>2</sup>	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (CHF Billion)	60.5	58.9	59.4	56.0	53.2	3.8 <sup>4</sup>
Total Assets (USD Billion)	67.4	69.9	64.2	61.2	60.2	3.3 <sup>4</sup>
Tangible Common Equity (CHF Billion)	3.7	3.9	3.7	3.6	3.6	1.1 <sup>4</sup>
Tangible Common Equity (USD Billion)	4.1	4.6	4.0	4.0	4.0	0.6 <sup>4</sup>
Problem Loans / Gross Loans (%)	0.5	0.5	0.6	0.5	0.8	0.6 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	18.2	19.9	19.4	18.9	19.4	19.2 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.1	4.7	5.6	5.1	7.1	5.5 <sup>5</sup>
Net Interest Margin (%)	1.0	1.0	0.8	0.9	0.9	0.9 <sup>5</sup>
PPI / Average RWA (%)	2.6	2.8	2.3	2.3	2.1	2.4 <sup>6</sup>
Net Income / Tangible Assets (%)	0.7	0.8	0.7	0.7	0.6	0.7 <sup>5</sup>
Cost / Income Ratio (%)	55.9	53.1	56.9	57.2	59.5	56.5 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	26.6	24.9	22.4	19.7	21.1	23.0 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	31.1	31.7	33.9	32.5	32.9	32.4 <sup>5</sup>
Gross Loans / Due to Customers (%)	107.6	104.2	95.6	93.4	95.9	99.3 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

## Profile

BCV is Switzerland's second-largest cantonal bank, with total assets of CHF60.5 billion and 2,060 full-time equivalent employees as of 30 June 2024. The bank was established in 1845 by the Vaud Cantonal Parliament as a corporation organized under public law.

BCV has a corporate mandate to contribute to the economic development of its home region, the Canton of Vaud, and to provide mortgage financing there. Other than operating in its traditional areas of business, including retail banking (deposit-taking and lending) and wealth management, the bank is engaged in corporate banking and select trade financing operations in commodities. Through these activities, the bank is also exposed to other cantons in Switzerland and, to a limited extent, overseas markets.

As of 31 December 2023, the Canton of Vaud held a 67.0% stake in the bank. Unlike most Swiss cantonal banks, BCV does not benefit from an explicit guarantee of the canton.

## Weighted Macro Profile of Strong (+)

BCV is focused on the Swiss market and its Weighted Macro Profile is therefore Strong (+), in line with the [Macro Profile](#) of Switzerland. Because of the bank's trade finance franchise, the bank also has limited exposures to the European Union, North American and other overseas markets.

## Detailed credit considerations

### Very strong and stable asset quality, yet regional and sector concentrations may pose tail risks

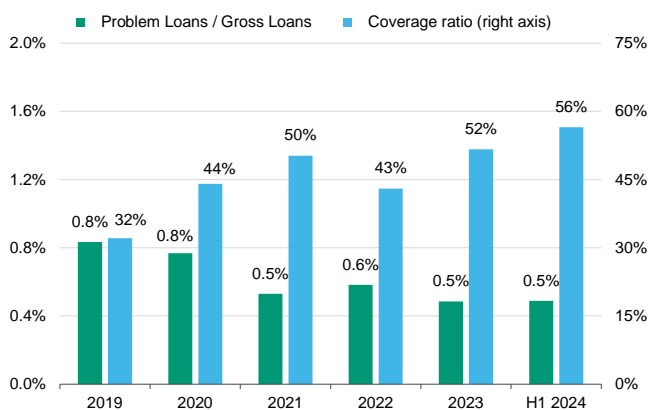
We assign an a2 Asset Risk score to BCV, three notches below the aa2 initial score. The negative adjustment reflects the bank's narrow geographical footprint in a region with elevated house prices, exposures to small and medium-sized enterprises (SMEs), moderate risks from trade finance activities, as well as heightened interest rate risks in its banking book.

BCV's lending is focused on Switzerland's Vaud region which exhibits elevated property prices but also benefits from strong demographical factors. However, we consider the bank susceptible to shocks potentially emanating from the domestic real estate market or during a prolonged period of adverse economic conditions.

This vulnerability is, however, mitigated by BCV's conservative lending criteria and solid risk management, as demonstrated by an average loan-to-value ratio for its residential mortgage book of around 50%. Our assessment is further underpinned by the bank's very low non-performing loan (NPL) ratio which has gradually improved from 1.5% in 2013 to 0.8% in 2020. Since 2021, BCV's NPL ratio further decreased and stood at 0.5% as of 30 June 2024 (Exhibit 3). This latest improvement, however, mainly reflects 11% cumulative growth of gross loan balances while NPLs were almost unchanged and stood at CHF193 million as of 30 June 2024. Similarly, BCV managed to keep its coverage ratio above 50% since 2021, with a small increase to around 56% as of June 2024, driven by around 15% additions to loan-loss reserves to CHF109 million.

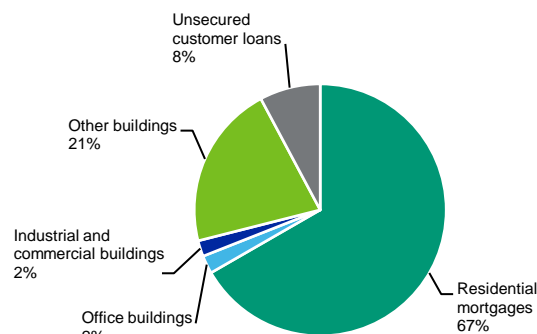
At the end of 2023, BCV's loan book was comprised of CHF 25.3 billion highly collateralised residential mortgages and CHF4.8 billion of other mortgage loans, which are mostly secured by land, as well as CHF1.7 billion commercial real estate (CRE) loans, which relate to offices and commercial buildings of regional SMEs and larger corporates. In addition, BCV had provided CHF6.2 billion of other customer loans, of which CHF3.2 billion were secured and CHF3.0 billion were unsecured (Exhibit 4). We further believe that the bank's trade finance book of CHF1.1 billion could be a source of asset risk given potential dislocations in commodity prices or fraudulent activities, as witnessed in 2020.

Exhibit 3  
BCV's problem loan ratio remains very low  
Data in %



Source: Moody's Ratings and company filings

Exhibit 4  
BCV's loan book breakdown as of year-end 2023  
Data in %



Source: Moody's Ratings and company filings

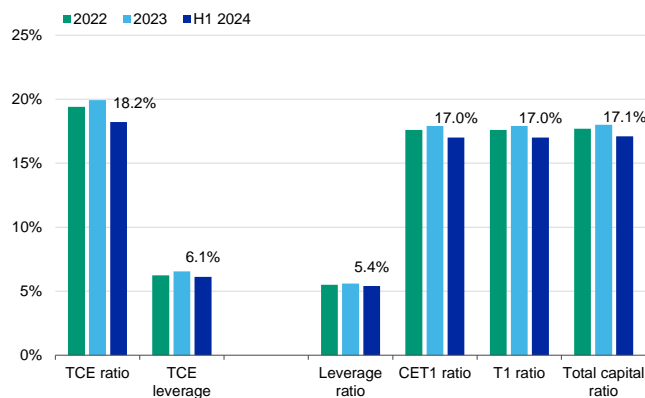
### Robust capitalisation balanced by limited earnings retention

We assign an aa2 Capital score to BCV, in line with the initial score. The assigned score reflects our expectation of a moderate decline in the bank's capital ratios as the bank continues to grow, leading to higher risk-weighted assets (RWA) over time. Furthermore, BCV's relatively high dividend payout ratio, which ranged between 79%-94% in 2020-24, has limited earnings retention and the subsequent support of its tangible common equity (TCE).

As of 30 June 2024, BCV's TCE as a percentage of RWA was 18.2%, a decline from 19.9% at the end of 2023 (Exhibit 5). Over the same period, the bank's Common Equity Tier 1 (CET1) also mildly declined to 17.0% from 17.9%, mainly reflecting around 5.1% higher RWA over that period. Our TCE ratio is higher than the bank's CET1 ratio because we include expected dividends in our capital metric

until payout, while dividends are immediately deducted from regulatory capital. We nevertheless expect that BCV will maintain its strong capital adequacy ratios and keep significant buffers above its long-term CET1 ratio target of 13.0% as well as its regulatory requirements as a Category 3 institution.<sup>1</sup>

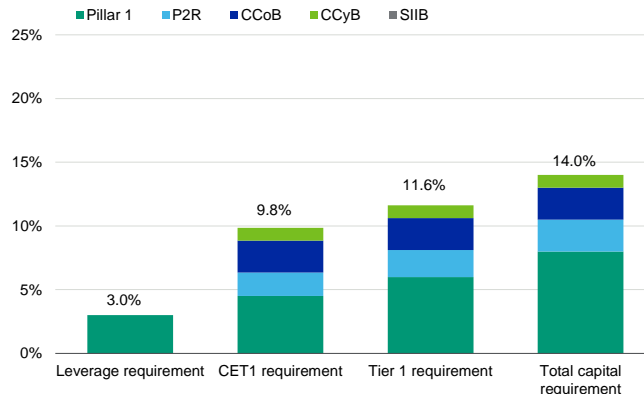
Exhibit 5  
**BCV comfortably exceeds its capital requirements**  
 Data in %



TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1 capital; T1 = Tier 1 capital

Source: Moody's Ratings and company filings

Exhibit 6  
**BCV's regulatory capital requirements**  
 Data as of 30 June 2024



CCoB = Capital conservation buffer; CCyB = Countercyclical capital buffer; SIIB = Systemically important institutions buffer

Source: Moody's Ratings and company filings

### BCV's strong and stable profitability is supported by wealth management and solid operating efficiency

We assign a Profitability score of baa2 to BCV, in line with the initial score. Our assessment reflects the bank's strong and stable profitability, which compares favorable to its regional and cantonal banking peers, and benefits from meaningful wealth management activities as well as solid operational efficiency.

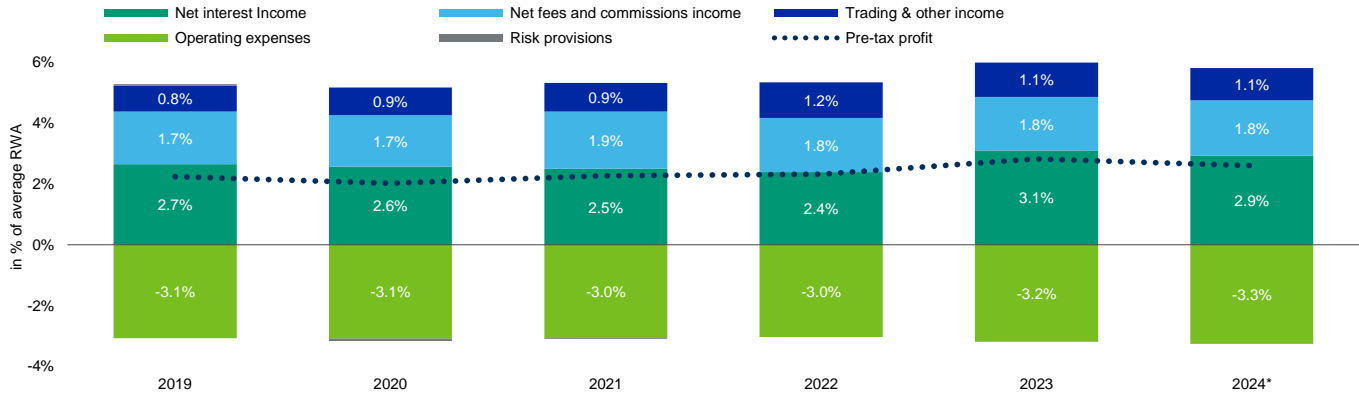
Over more than a decade, BCV's annual net income to tangible assets ratio (NI/TA, our measure of return on assets or ROA) was around 70 bps, a high level compared with peers. It also displayed limited volatility over the 2013-22 period with a range of 62-75bps. We believe that BCV's sizable wealth management activities are a key driver for its strong earnings generation because it adds meaningful fee and commission income to its overall revenues. For the years 2021-23, BCV's wealth management segment accounted for around 43% of revenues and pretax profits, based on Assets under Management of between CHF108 to CHF113 billion over that period (1H24: CHF117 billion).

In 2023, and similar to other banks with large retail deposits, BCV benefited from higher short-term interest rates which triggered a 29% year-over-year increase in net interest income and helped to report an ROA of 80bps. Our assigned Profitability score reflects our expectation that the bank will be able to generate a ROA between 50-75bps in 2024 and most likely beyond.

In 1H 2024, BCV reported a slightly lower Moody's-adjusted net income under Swiss GAAP of CHF221 million, compared with a record-high of CHF239 million in 1H 2023. The moderate decline was mainly driven by a CHF17.2 million or 5.6% increase in operating expenses, resulting in a higher cost-to-income ratio of 56% in 1H 2024 (1H 2023: 53%). Net interest income increased by only 1% to CHF291 million over the same period, reflecting the balance of lower short-term policy rates since March 2024 and positive lending dynamics (5.7% year-over-year growth in gross loans), while net fee and commission income increased by 7.4% to CHF181 million supported by favorable market trends and high personal-banking transaction volumes.

Exhibit 7

**BCV's very solid and stable profitability benefits from wealth management activities which adds to net fees and commission income**  
 Data in percent of average risk-weighted assets (RWA)



\*Annualized 1H 2024 financials  
 Source: Moody's Ratings and company filings

**Moderately increasing wholesale funding dependence, mitigated by Switzerland's well-established covered bond market**

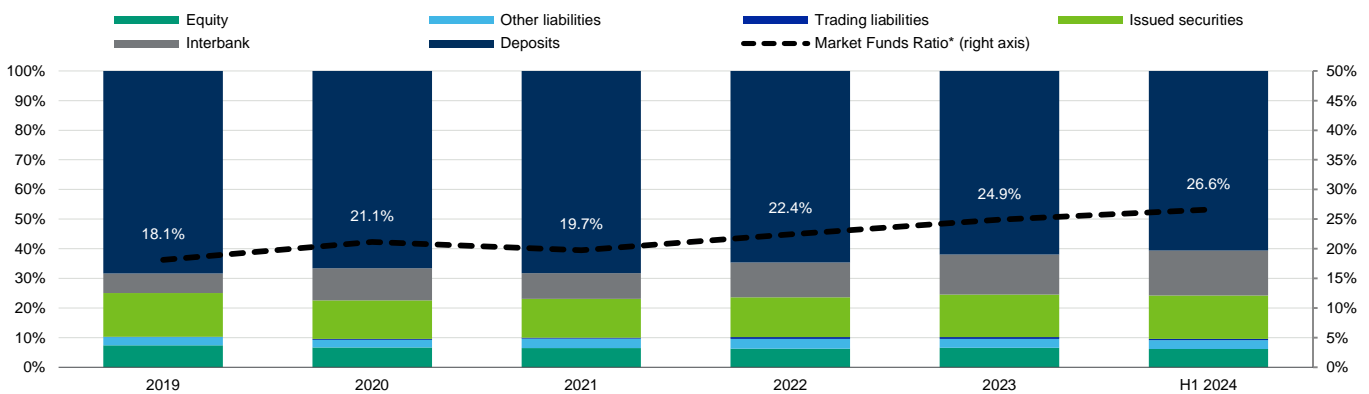
We assign a baa1 Funding Structure score to BCV, in line with the initial score. Our assessment takes into account BCV's strong and granular deposit franchise as well as access to Switzerland's well-established covered bond market via Pfandbriefzentrale, which allows the cantonal bank to issue covered bonds with medium- to long-term tenures to reduce refinancing risks.

Since 2019, BCV's market funding dependence has somewhat increased, as expressed by our market funds ratio of 26.6% as of 30 June 2024, up from 24.9% in 2023 and 18.1% in 2019. The higher dependence is driven by the bank's declining share of deposits, which have decreased to 61% as percent of total liabilities in 1H24, compared with 62% and 68% over the same periods, respectively. At the same time, the interbank liabilities have gradually increased to 15% of total liabilities, from 7% in 2019.

Supporting BCV's growth plans, we expect a rising share of covered bonds (1H24: CHF7.0 billion or 11% of total liabilities) and senior unsecured debt (1H24: CHF1.25 billion, 2%), leading to a gradually rising market funding dependence. BCV has also issued structured products with an outstanding volume of CHF2.0 billion as of 30 June 2024. These liabilities have accounted for a relatively stable share of liabilities, around 3% since 2018, and rather reflect the investment appetite of the bank's customers.<sup>2</sup>

Exhibit 8

**Since 2019, BCV's market funding dependence has gradually increased**  
 Data in %



\*Market funds ratio = Market funds / Tangible banking assets  
 Source: Moody's Ratings and company filings

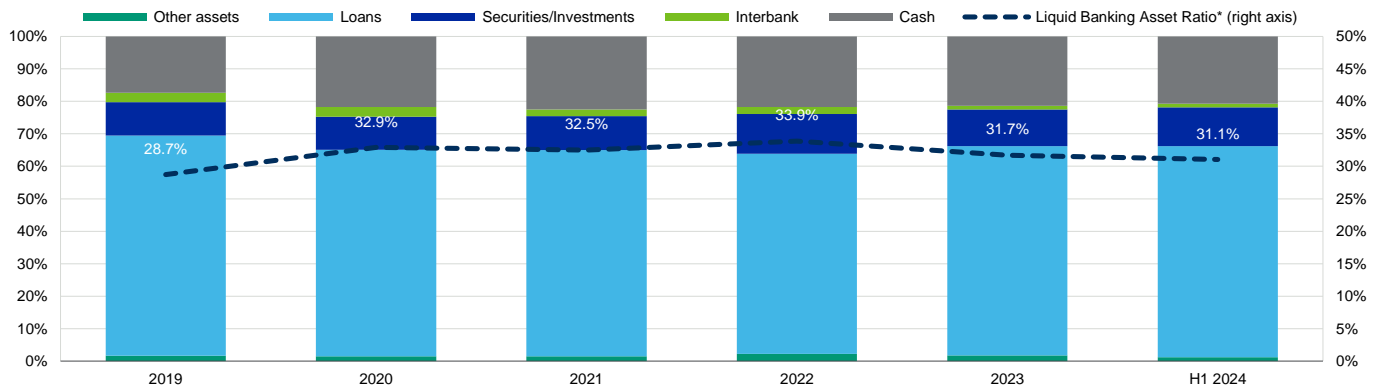
**Solid liquid resources which exceed market funding**

BCV's assigned Liquid Resources score is a2, in line with the initial score. The assigned score considers the bank's solid liquid resources, which we expect to somewhat decrease over the next 12-18 months as the bank continues to grow and invest into loans and a moderate level of asset encumbrance. In our assessment we also reflect that the bank could source additional liquidity at short notice, in case of need, by pledging additional mortgages to Pfandbriefzentrale.

Over the last decade, BCV's liquid resources have constantly exceeded its market funding. Since 2019, the bank's liquid banking assets ratio remained broadly stable at around 31% (Exhibit 9), with very little change over that period, even during times when the SNB offered the opportunity to deposit additional funds in order to generate carry income.<sup>3</sup>

As of 30 June 2024, BCV's liquid banking assets included CHF12.6 billion of cash, CHF5.3 billion of high-quality financial securities which are mostly repo-eligible, CHF0.7 billion of interbank assets, and CHF0.3 billion of trading assets. During the second quarter of 2024, the bank's HQLA amounted to CHF12.9 billion, which resulted in a Liquidity Coverage Ratio of 127%, compared with 129% at the end of 2023.

Exhibit 9  
**BCV exhibits stable liquid resources which exceed market funding**  
 Data in %

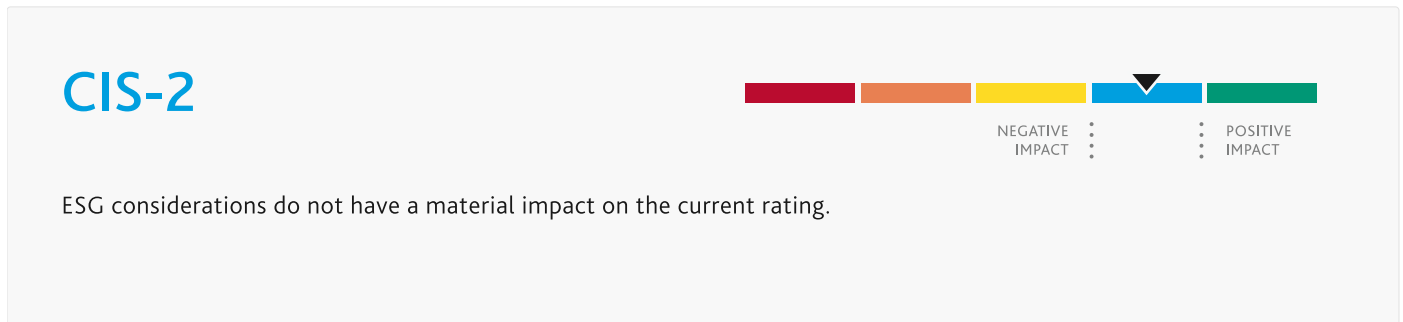


\*Liquid banking assets ratio = Liquid assets / Tangible banking assets  
 Source: Moody's Ratings and company filings

**ESG considerations**

**Banque Cantonale Vaudoise's ESG credit impact score is CIS-2**

Exhibit 10  
**ESG credit impact score**

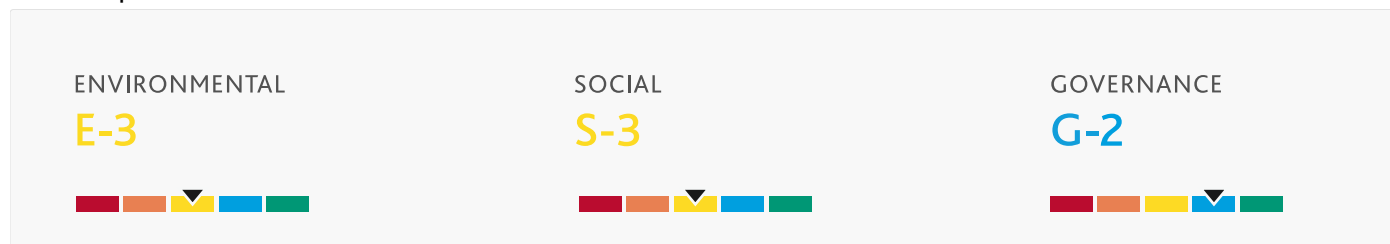


Source: Moody's Ratings

BCV's **CIS-2** indicates that ESG considerations have no material impact on the current ratings.

Exhibit 11

## ESG issuer profile scores



Source: Moody's Ratings

### Environmental

BCV faces moderate exposure to environmental risks primarily because of its loan portfolio exposure to carbon transition risks as a diversified regional banking group. Carbon transition risks relate mostly to its corporate loan book, which represents about a third of the bank's lending portfolio, with the remainder comprising residential real estate. In line with its peers, BCV is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

### Social

BCV faces moderate social risks related to customer relations and associated regulatory risks and exposure to litigation and it is required to meet high compliance standards. The bank's strong conduct track record demonstrates the effective management of conduct risks by developed policies and procedures as well as its focus on simple financial products and services for its domestic clientele. Further, the bank's long track record of handling sensitive customer data as well as technology solutions and organizational measures to prevent data breaches and business disruption help to manage high cyber and personal data risks

### Governance

BCV faces low governance risks, and its risk management, policies and procedures are in line with industry best practices and commensurate with its universal banking model. Also, even though the bank is 67% owned by the Canton of Vaud, all seven members of its board of directors are considered independent, despite four of them being appointed by the cantonal government.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Affiliate support

BCV benefits from parental support from the Canton of Vaud. Parental support materially reduces the probability of default, as it would be available to stabilise a distressed bank and not just compensate for losses in resolution.

We consider a high level of support, reflecting that the Canton of Vaud owns 67% of the share capital of BCV, which, combined with the bank's economic and social role as a cantonal bank in the region, provides an incentive for the canton to inject capital into BCV prior to failure, in case of need. Because of a lack of an explicit guarantee to support the bank, we limit the parental support to one notch of rating uplift from the a2 BCA, leading to an a1 Adjusted BCA.

### Loss Given Failure analysis

BCV is subject to Swiss banking regulation, which we consider an operational resolution regime (ORR). Thus, we apply our Advanced Loss Given Failure (LGF) analysis, using our standard assumptions, assigning a 100% probability that deposits are being preferred to senior unsecured debt, reflecting depositor preference by law in Switzerland.

Our LGF analysis indicates that deposits are likely to face very low loss-given-failure, resulting in a two-notch uplift from the bank's a1 Adjusted BCA.

### Government support

Because of the BCV's low nationwide market share, we do not consider BCV to be of domestic systemic importance and therefore only assume a low likelihood of government support, which results in no rating uplift.



## Methodology and scorecard

### Methodology

The principal methodology we used in rating BCV was [Banks Methodology](#), published in March 2024.

### About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard 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 methodology and scorecard factors

Exhibit 12

### Rating Factors

Macro Factors							
Weighted Macro Profile		Strong +	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.5%	aa2	↔	a2	Geographical concentration	Quality of assets	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	18.2%	aa2	↔	aa2	Risk-weighted capitalisation	Capital retention	
Profitability							
Net Income / Tangible Assets	0.7%	baa2	↔	baa2	Return on assets	Expected trend	
Combined Solvency Score		aa3		a2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	24.9%	baa1	↔	baa1	Extent of market funding reliance	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	31.7%	a2	↔	a2	Stock of liquid assets	Quality of liquid assets	
Combined Liquidity Score		a3		a3			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				a1 - a3			
Assigned BCA				a2			
Affiliate Support notching				-			
Adjusted BCA				a1			
Balance Sheet		in-scope (CHF Million)	% in-scope	at-failure (CHF Million)	% at-failure		
Other liabilities		17,600	29.9%	22,158	37.6%		
Deposits		36,477	62.0%	32,756	55.6%		
Preferred deposits		26,993	45.9%	25,643	43.6%		
Junior deposits		9,484	16.1%	7,113	12.1%		
Senior unsecured bank debt		3,027	5.1%	2,190	3.7%		
Equity		1,766	3.0%	1,766	3.0%		
Total Tangible Banking Assets		58,870	100.0%	58,870	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned LGF	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	6.7%	6.7%	6.7%	6.7%	0	0	0	0	0	a1
Counterparty Risk Assessment	6.7%	6.7%	6.7%	6.7%	1	1	1	1	0	aa3 (cr)
Deposits	18.8%	6.7%	18.8%	6.7%	2	2	2	2	0	aa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	0	0	a1	0	A1	A1
Counterparty Risk Assessment	1	0	aa3 (cr)	0	Aa3(cr)	
Deposits	2	0	aa2	0	Aa2	Aa2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 13

Category	Moody's Rating
<b>BANQUE CANTONALE VAUDOISE</b>	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)

Source: Moody's Ratings

## Endnotes

- 1 According to the FINMA definition, BCV must maintain a CET1 ratio of 9.8%, a Tier 1 ratio of 11.6%, and a Total Capital ratio of 14.0% (Exhibit 6). The introduction of a [2.5% countercyclical capital buffer \(CCyB\) requirement](#) for domestic real estate loans effective 30 September 2022 has resulted in an additional capital-add on of 100 basis points (bps) for BCV. Since 2016, FINMA's Pillar 2 requirements also include a 100 bps add-on for BCV's heightened interest rate risk.
- 2 Issued structured products with and without an interest-rate component.
- 3 With the increase in interest rates since 2022, bank had the opportunity to generate carry income from holding sight deposits at 0% at the SNB while sourcing funding in the capital market at negative rates.

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