
Future of the PC-capital of BCV Group

Conference call with financial analysts

21.12.2004



Participation certificates: a historical background



Situation as of 2002

- Increase in provisions and value adjustments (CHF 850m)
- Increase in reserves (CHF 400m) in order to meet regulatory requirements

Recapitalization in feb. 2003

- Capital issue in form of participation certificates amounting to CHF 1'250m
- 99.84% of PCs' in the hands of the State of Vaud

Feb. 2003: Main strategic and organizational measures



Strategy

- Divestment of non cores activities
- Revitalization of core businesses
- Stringent costs reductions
- Reduction of impaired loans

Organization and processes

- Streamlining of structure
- Strengthening of skills (management, specialists)
- In depth review and complete overhaul of credit processes
- Review of internal directives
- Improvement of risk and balance sheet management

BCV at year end 2004



Improved and simplified organization

Back to profitability

Optimized and improved balance sheet

Risk profile reduced

Renewed trust

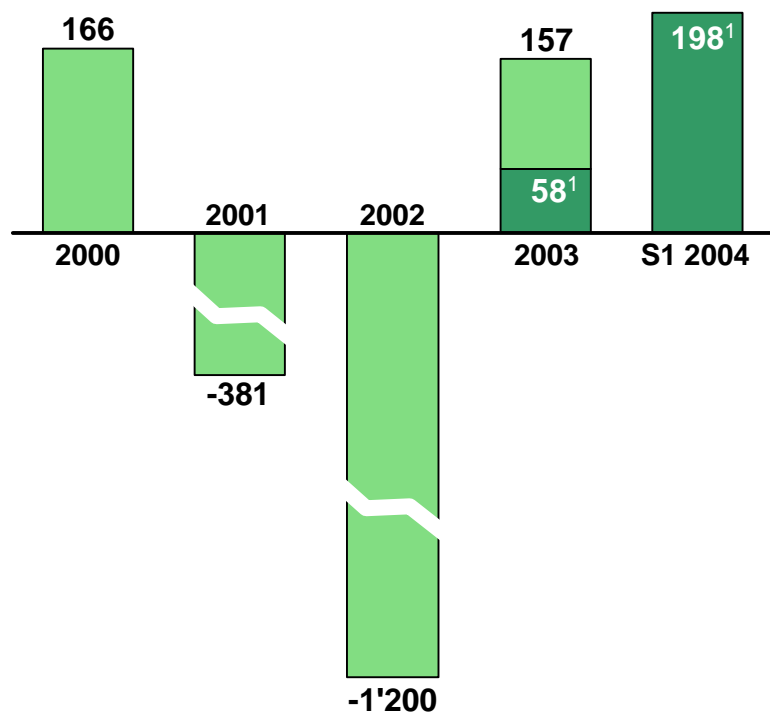
BCV on track

- **Operational**
- **Financial**

Improved financial situation



Net profit before minorities at BCV Group (CHFm)



Renewed profitability

	31.12.02	31.12.03	30.06.04
Net int. margin	1.20%	1.21%	1.23%
Cost/income	75%	71%	68%
ROE	n/a	6.5%	15.1%

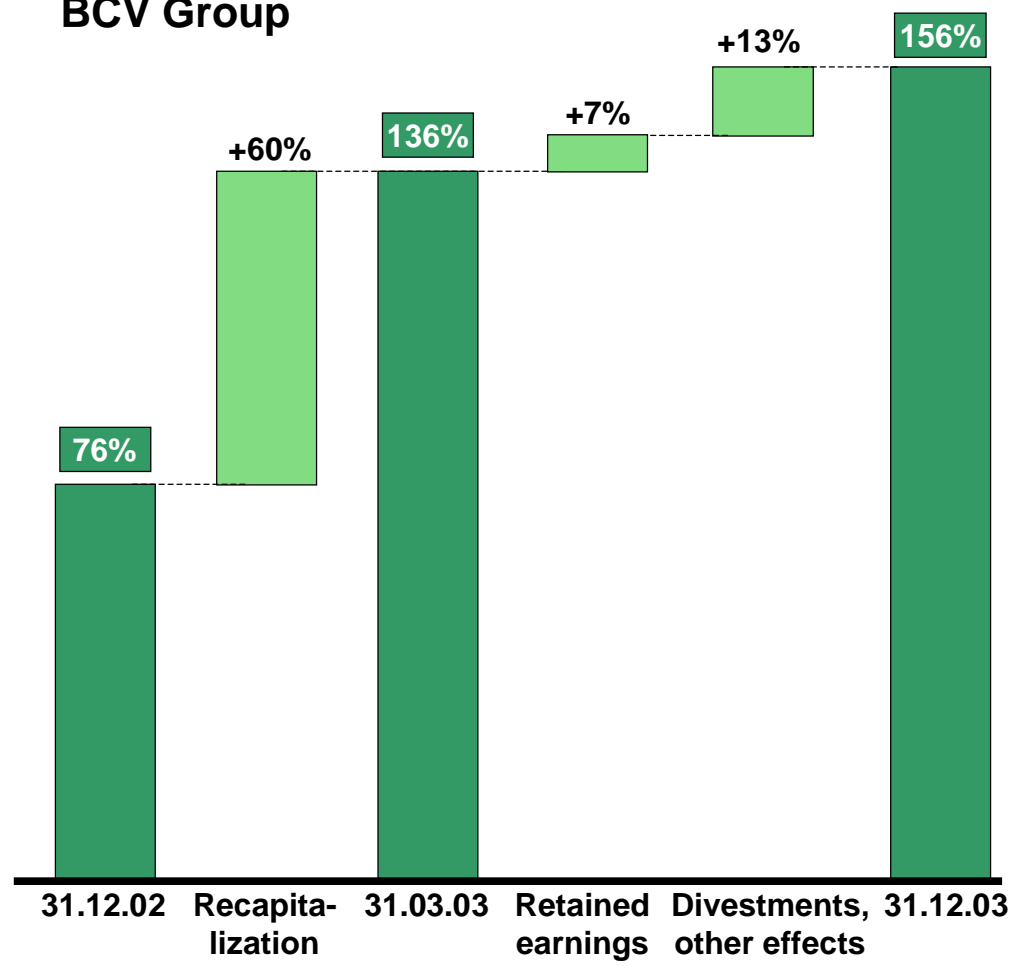
Improved key ratios

¹ Net profit as of 30.06

Improvement of the SFBC equity ratio



BCV Group




- Adequate equity levels
- In line with the average of Cantonal Banks (158%¹)
- In light of the many challenges facing BCV prudent management is required


¹ Source: SNB statistics as of 31.12.03

Many challenges still lie ahead



- Revitalize growth and profitability in core businesses
- Pursue the successful reduction of impaired loans
- Continue the optimization of the Group's cost base
- Improve and simplify the Group's processes
- Improve the credit rating from S&P
- Continue BCV's efforts to improve the long term trust from clients and shareholders
- Finance long term corporate investments (e.g. IT)

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- In depth transformation process **on-going**
 - **Gradual** improvement in overall performance



**Sound and prudent
management of the
Group's equity base**

Reasons for the transaction ?



- Marked improvement in the Bank's financial situation allowing the Group to face the future with confidence
- The uncertainty surrounding the future of the participation-certificate capital has led to numerous questions from shareholders and potential investors...
- ... thus weighing on the share price
- The State's intention to gradually scale back its stake in the Group's capital base as stated at the time of the recapitalization

Capital structure of BCV



Nominal value (rounded)

Nb of securities

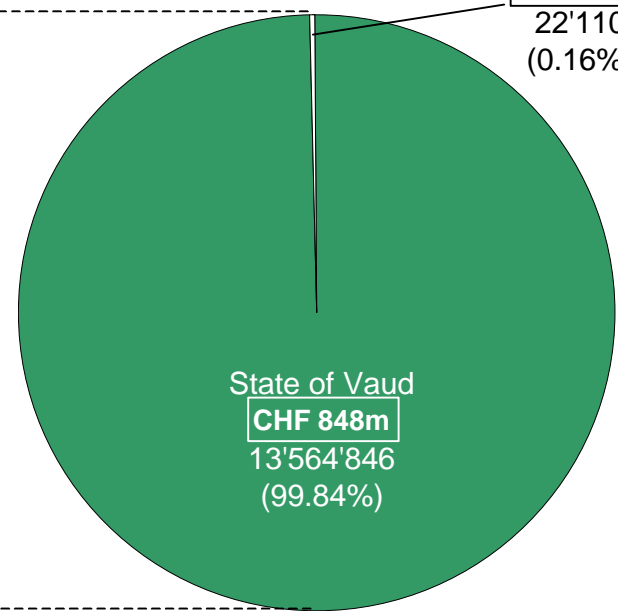
- Nominal value of shares and PCs': CHF 62.50
- Issue price of PCs': CHF 92.00 (agio CHF 29.50)

CHF 1'382m
22'105'036

PCs'
CHF 849m
13'586'956
(61.5%)

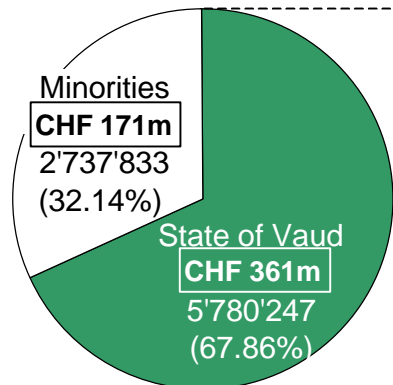
Shares
CHF 532m
8'518'080
(38.5%)

CHF 849m
13'586'956



Minorities
CHF 1.4m
22'110
(0.16%)

CHF 532m
8'518'080



Minorities
CHF 171m
2'737'833
(32.14%)

State of Vaud
CHF 361m
5'780'247
(67.86%)

Main characteristics of participation-capital



- Preferred dividend payment set at 2.92% of the issue price ("financial neutrality")
- No right to any higher dividend beyond that fixed level
- No voting rights
- Not listed (illiquid)

- No reimbursement schedule
- Dividend is not guaranteed and is non cumulative
- (Convertible in share)



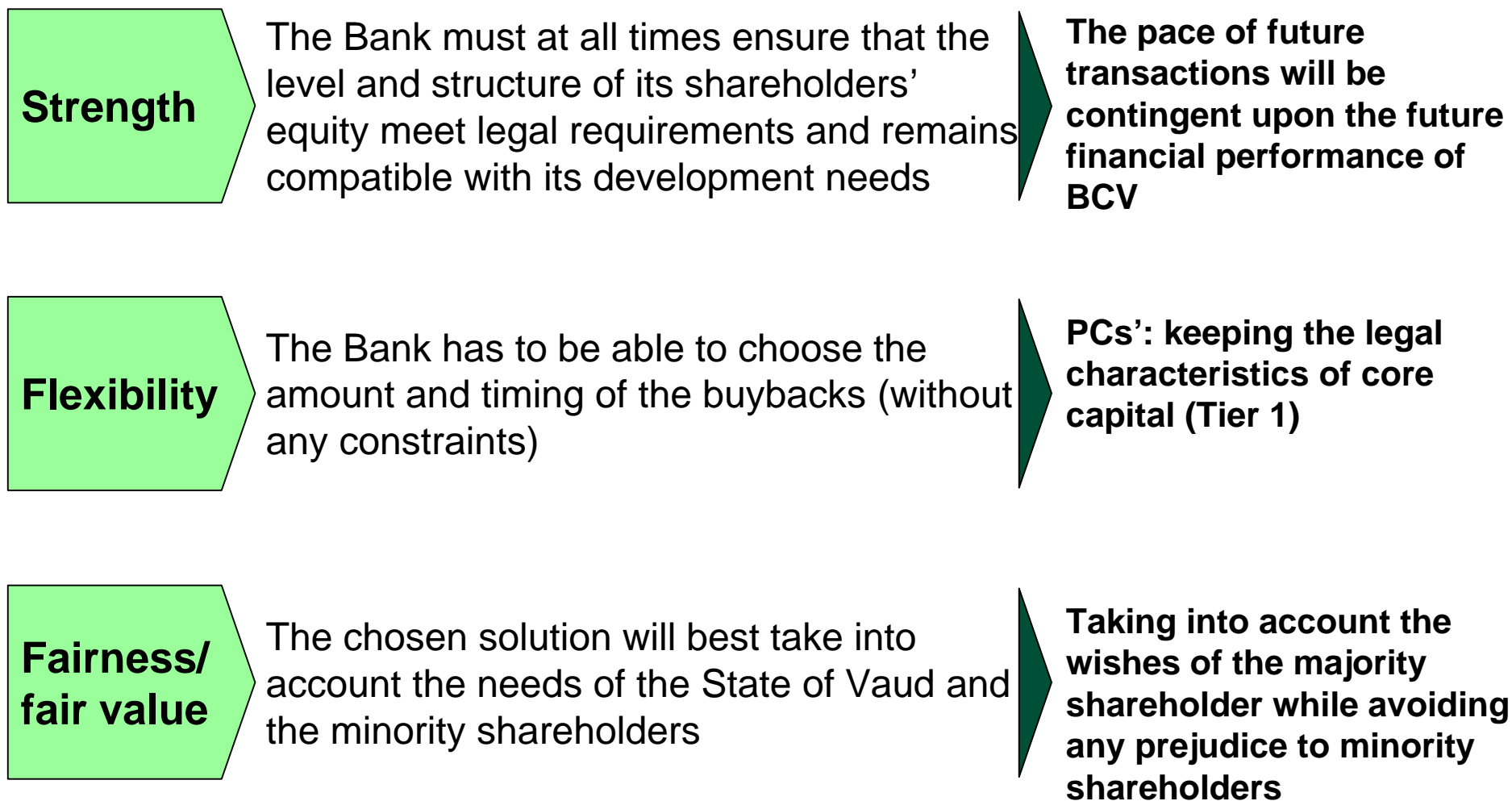
Characteristics are close to those of debt
Economically considered as debt

Hybrid characteristics defined during the recapitalisation



Legally considered core equity/Tier 1 (SFBC, S&P)

Main principles



- 1. Conversion in registered shares (1:1) of the participations certificates held by minority shareholders**
- 2. BCV will gradually buy back the participation certificates held by the State depending upon the Bank's financial situation at a price consisting of the issue price of CHF 92 per certificate plus an annual (compounded) risk premium of 2%**

Reasons behind the proposal



BCV will gradually buy back the PCs' held by the State depending upon the Bank's financial situation, at a price consisting of the issue price of CHF 92 plus an annual (compounded) risk premium of 2%

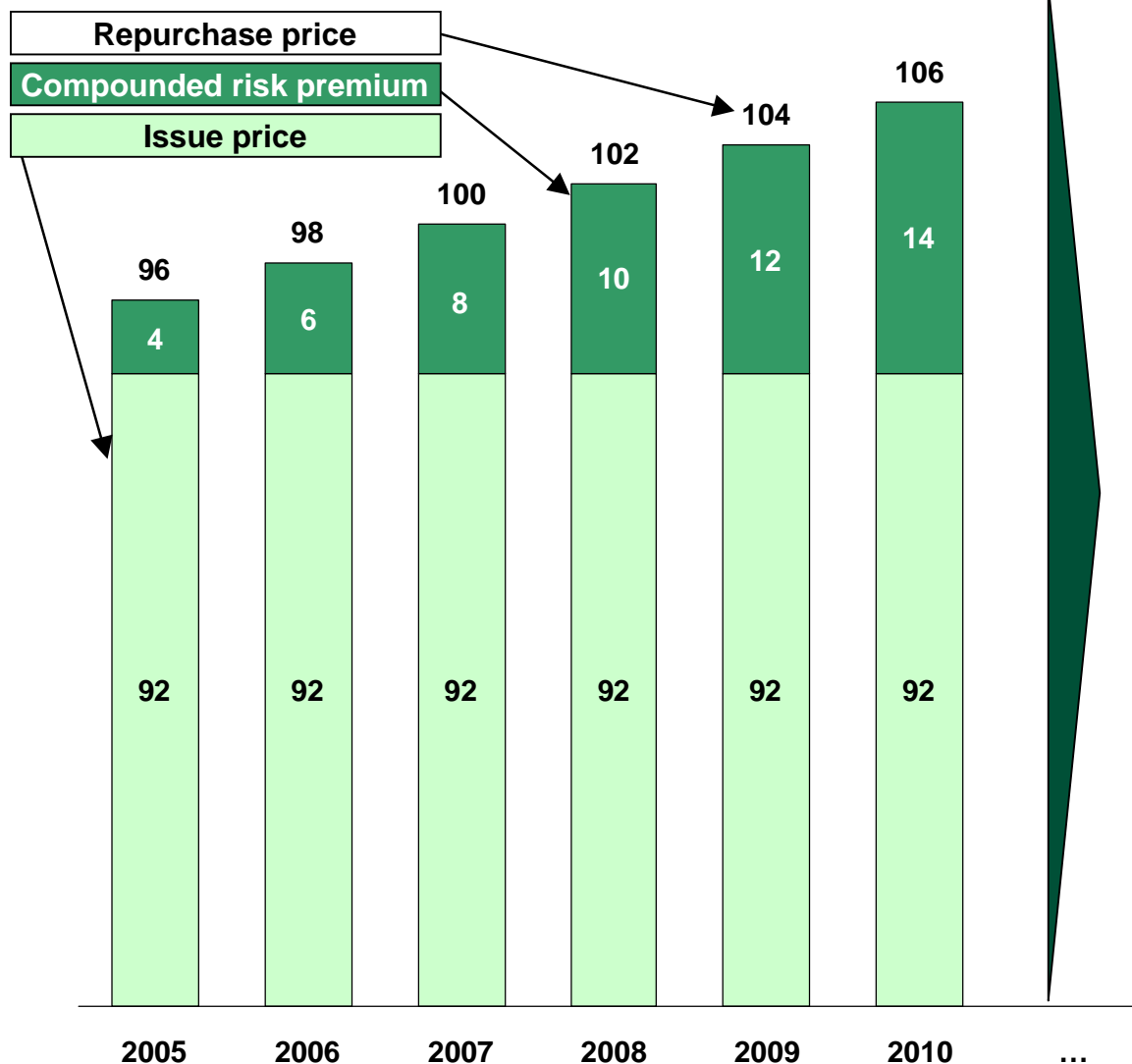
- Intention of the State to gradually reduce its stake
- Coherence with the initial intention
- Gradual buybacks based on BCV's financial situation
- Compensation for the investment risk incurred by the State

Conversion in registered shares (1:1) of the participations certificates held by minority shareholders

- Simplified transaction
- Negative consequences of a repurchase from minority PC holders
 - Taxes
 - Purchase potentially with intention of conversion
- Negligible economic impact for the other parties (0.16% of the PC-capital)

PC-risk premium: details

CHF per participation certificate (rounded)



Mechanism

- Increased repurchase price over time
- The different tranches are all bought at potentially different prices

Level

- Estimates made by the Bank as well as an external expert: range between 1.23% and 1.93% on the basis of subordinated debt¹
- In view of the level of risk taken by the State, set at 2%

¹ Feb. 2003 until June 2004

Advantages of an annual risk premium



- This solution is fair and economically sound (compensation of the risk incurred at the time of the recapitalization)
- The increase of the repurchase price over time is an incentive for the Bank to proceed at a sustained pace (contingent upon an adequate level of equity). This would also meet the State's expectations
- A purchase price increasing over time takes into account the absence of a buyback schedule (timing, volume) thus reflecting the length of the investment period for the State

Implementation principles



Complying with external and regulatory constraints

- Compliance with regulatory requirements set by the SFBC with respect to the structure and level of the Group's equity
- Level and structure of the equity base in line with the requirements of rating agencies (e.g. S&P)
- No constraints (timing, volume) for the Bank

The transaction should be carried out within a reasonable time frame

- Based on the normal state of business, the Bank should be able to repurchase the total of the PC-capital within the next two legislative periods

The Bank's intent (no commitment)

- Coherence with the spirit of the recapitalization (decreasing the stake of the State in the capital of the Group)
- Intent to use capital not necessary for its development for the repurchase of the PC-capital as a priority
- Wishes to make the first repurchase during the current legislative period

Advantages of the transaction for all parties concerned



All

- Potential favourable impact on the share's price as a result of the end of the uncertainty and the structure of the transaction

State of Vaud

- Gradual decrease of its stake
- Adequate compensation for the risk incurred
- Contribution to the reduction of the debt burden and debt levels

Minority shareholders

- No dilution effect
- Positive gesture from the majority shareholder (in line with its initial intention)

Minority PC-holders

- Sizeable gain on their investment (but the impact on the overall transaction remains negligible)

Bank

- Flexibility with implementation of the transaction
- Equity is maintained at adequate levels in line with prudent and sound management principles