BCV

Banque Cantonale Vaudoise

Press release

2007 full-year results

BCV posts net profit of CHF 477 million

BCV's solid 2007 results mark the second best performance in the Group's history. With revenues stable at CHF 1.1bn and gross profit of CHF 529m, net profit was down 11% YoY to CHF 477m as expected, due to a higher tax burden. Management has also outlined the Group's new financial strategy for the coming years, including a plan to optimize shareholders' equity. As part of this new strategy, at the next Shareholders' Meeting the Board of Directors will recommend doubling the dividend and reimbursing over half of the par value of BCV shares. These two operations would return CHF 400m to shareholders.

Banking revenues rise

Revenues held practically stable at CHF 1.1bn (-1%) in spite of the transfer of IT subsidiary Unicible's operations to IBM on 1 June 2007. Excluding the effects of the Unicible transfer, banking revenues would have been up 4%. In a highly competitive environment, the Group was able to increase net interest income by 5% to CHF 505m. Despite difficult stockmarket conditions, particularly in the second half of 2007, fee and commission income increased 5% to CHF 385m. However, trading income declined by 22% to CHF 73m. Other ordinary income was down 22% to CHF 124m, due mainly to the Unicible transfer.

Stable gross profit

Total operating expenses fell 1% to CHF 559m. The main downward factor was the Unicible transfer, while increased business volumes and the development of strategic projects had an upward impact. Excluding the Unicible transfer, total operating expenses would have risen 5%. Personnel costs declined by 8% to CHF 348m, while other operating expenses rose 13% to CHF 211m. This essentially reflects a reclassification of personnel costs to operating expenses following the outsourcing of IT services. Gross profit, at CHF 529m (-1%), held close to the record achieved in 2006 thanks to a stable trend in both revenues and expenses. Excluding the effect of the Unicible transaction, gross profit would have risen 3%. The cost/income ratio was unchanged at 59%.

Higher tax charge weighs on net profit

Depreciation and write-offs declined 6% to CHF 85m, while value adjustments, provisions and losses remained stable at CHF 10m. As in previous years, the Bank continued its policy of reducing the level of impaired loans and optimizing recoveries. It was therefore able to release provisions, driving extraordinary income up 16% to CHF 283m. However, the total tax burden increased by CHF 75m to CHF 99m, as the tax credits relating to losses posted in 2001 and 2002 have now been used up. As in 2006, the Group opted to bolster its reserves for general banking risks with an allocation of CHF 140m. In spite of this charge against income, net profit amounted to CHF 477m (11% below the record achieved in 2006). This figure is still extremely high thanks to extraordinary income, which is expected to decrease significantly in the years ahead.

Total assets rise 7%

Total assets increased by 7% to CHF 35.3bn, fueled mainly by a rise in customer deposits and growth in lending and trading activities.

Among items on the assets side, mortgage lending expanded by CHF 303m (+2%) to CHF 16.8bn; excluding the reduction in impaired mortgages, this item would have been up 3% (+CHF 483m). Business lending rose 2% (or CHF 117m); excluding impaired-loan reductions, this item would have been up 7% (or CHF 413m). Trading portfolio assets increased by CHF 641m thanks to stronger trading and financial market activities.

On the liabilities side, customer accounts rose 11% to CHF 21bn. Savings deposits declined 4% to CHF 8.1bn. Other funds due to customers rose 25%, the result of a fresh influx of funds and of customer interest in other forms of investment such as time deposits.

Growth in assets under management

The Group's assets under management grew by 4% to CHF 84.3bn, with net new funds amounting to CHF 2.8bn.

New financial targets

All the financial targets set in 2003 have now been achieved. In formulating its new targets for the next three to five years, BCV has three main goals: to continue to fulfill its legally mandated mission, to create sustainable value for shareholders and to remain among the top cantonal banks in terms of performance. With this in mind, Management has set a return-on-equity (ROE) target of 13-14%. The new cost/income objective is 57-59%, reflecting the Group's intention to maintain a firm grip on costs despite upward pressure on expenses related to business development and investments in the IT project.

Shareholders' equity strategy and dividend policy

Given the significant improvement in the Group's risk profile and its strong capitalization, Management has decided to optimize shareholders' equity. It is targeting an SFBC capital adequacy ratio of 145% (Group level) in the long run. This corresponds to a BIS Total Capital Ratio of around 14% and a Tier 1 ratio of around 12%. These targets reflect Management’s intention to optimize the equity base over the coming years; equity not needed for business development at BCV will be returned to shareholders as a function of the Bank’s financial capacity.

This strategy will be implemented with all due caution and may take several forms, including a reduction in the par value of shares, a share buyback or an extraordinary dividend. Moreover, BCV has not ruled out the possibility of repurchasing shares as part of the partial divestment project recently announced by Vaud Canton, the Group's majority shareholder.

With regard to future dividend policy, BCV has decided to target a payout ratio of 60-80% over the long term, given the completion of the P-C capital buyback program last year.

Proposal to distribute CHF 400m to shareholders by doubling the dividend and reimbursing over 50% of the share's par value

As an immediate consequence of the new shareholders' equity strategy, the Board of Directors will recommend an increase in the dividend from CHF 7 to CHF 14 per registered share at BCV's Annual Shareholders' Meeting on 24 April together with a par-value repayment CHF 32.50 per share. The Group thus proposes to distribute CHF 400m to shareholders, or the equivalent of CHF 46.50 per share.

Financial outlook

Following the crisis years of 2001 and 2002 and their repercussions, BCV's financials will return to normal in 2008. Extraordinary income is projected to drop significantly and the Group will no longer benefit from loss-related tax credits. Barring changes in the economic climate and the financial markets this year, BCV expects a similar level of gross profit to that of 2007 and a decrease in net profit.

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Note to editors:

This press release is being issued outside the trading hours of the SWX Swiss Exchange in order to comply with the principles of ad hoc disclosure pursuant to the SWX listing rules.

The above text is a translation of the original French document entitled "Près d'un demi-milliard de bénéfice net pour le Groupe BCV"; only the French version is authoritative.

BCV GROUP

Consolidated balance sheet

(in CHF millions)	31.12.2007	31.12.2006		Change absolute	Change as %
Cash and cash equivalents	353.1	320.5		32.6	10
Money-market instruments	100.1	711.7		-611.6	-86
Due from banks	6 364.2	4 644.2		1 720.0	37
Loans and advances to customers	5 691.1	5 574.0		117.1	2
Mortgages	16 788.2	16 485.1		303.1	2
Trading portfolio assets	2 046.0	1 404.6		641.4	46
Financial investments	1 589.1	1 586.1		3.0	0
Non-consolidated holdings	81.8	83.5		-1.7	-2
Tangible fixed assets	634.8	653.9	1)	-19.1	-3
Intangible assets	11.7	16.6	1)	-4.9	-30
Accrued income and prepaid expenses	272.5	249.6		22.9	9
Other assets	1 404.3	1 300.8	2)	103.5	8
Assets	**35 336.9**	**33 030.6**	2)	**2 306.3**	**7**
Total subordinated assets	6.7	13.5		-6.8	-50
Total claims on non-consolidated holdings and significant shareholders	26.5	41.8		-15.3	-37
of which claims on Vaud Canton	*15.8*	*29.6*		*-13.8*	*-47*
Money-market paper issued	5.0	3.3		1.7	52
Due to banks	2 472.3	2 088.0		384.3	18
Customer savings and investment accounts	8 120.1	8 472.7		-352.6	-4
Customer accounts, other	12 432.1	9 963.8		2 468.3	25
Medium-term notes	404.7	288.9		115.8	40
Bonds and mortgage-backed bonds	6 533.2	6 394.6		138.6	2
Accrued expenses and deferred income	368.5	260.4		108.1	42
Other liabilities	1 205.4	1 091.7	2)	113.7	10
Value adjustments and provisions	570.5	1 048.6		-478.1	-46
Liabilities	**32 111.8**	**29 612.0**		**2 499.8**	**8**
Reserves for general banking risks	704.0	564.1		139.9	25
Equity capital	537.9	997.4		-459.5	-46
Capital reserve	352.8	347.9		4.9	1
Own equity securities	-7.6	-7.2		-0.4	-6
Retained earnings	1 145.4	968.2		177.2	18
Minority interests - equity	15.3	13.8		1.5	11
Net profit before minority interests	477.3	534.4		-57.1	-11
Minority interests	*3.9*	*4.2*		*-0.3*	*-7*
Shareholders' equity	**3 225.1**	**3 418.6**		**-193.5**	**-6**
Total liabilities and shareholders' equity	**35 336.9**	**33 030.6**	2)	**2 306.3**	**7**
Total subordinated liabilities	231.9	381.4		-149.5	-39
Total liabilities to non-consolidated holdings and significant shareholders	893.2	240.0		653.2	272
of which liabilities to Vaud Canton	*660.6*	*205.7*		*454.9*	*221*

Consolidated Off-Balance-Sheet Transactions

(in CHF millions)	31.12.2007	31.12.2006	Change absolute	Change as %
Contingent liabilities	1 325.7	971.0	354.7	37
Irrevocable commitments	421.3	365.0	56.3	15
Liabilities for calls on shares and other equity securities	111.1	114.9	-3.8	-3
Confirmed credits	25.9	42.3	-16.4	-39
Fiduciary transactions	2 368.4	1 244.7	1 123.7	90
Derivative financial instruments				
Positive replacement values	4 398.3	4 528.3	-130.0	-3
Negative replacement values	4 086.6	4 287.2	-200.6	-5
Values of underlyings	148 694.1	150 773.7	-2 079.6	-1

New accounting treatment

1) Following changes to the directives of the Swiss Federal Banking Commission (SFBC directives), taking effect on 1 January 2007, computer programs are no longer carried under "Intangible assets". They are now carried under "Tangible fixed assets".

2) Beginning with the 2007 reporting period, positive and negative replacement values of derivative financial instruments have been netted. As a result of this accounting treatment, which is in line with the SFBC directives,"Other assets" and "Other liabilities" declined by CHF 3.2bn at 31 December 2007 and by CHF 3.5bn at 31 December 2006.

To facilitate like-for-like comparisons, the items "Tangible fIxed assets", "Intangible assets","Other assets" and "Other liabilities" in the 2006 financial statements have been adjusted. Consequently, total assets at 31 December 2006 decreased from CHF 36.5bn (published) to CHF 33.0bn (adjusted).

BCV GROUP

Consolidated income statement

(in CHF millions)	2007	2006		Change absolute	Change as %
Interest and discount income	1 024.1	855.5		168.6	20
Interest and dividend income from financial investments	40.3	39.6		0.7	2
Interest expense	-559.4	-414.4		145.0	35
Net interest income	**505.0**	**480.7**		**24.3**	**5**
Fees and commissions from lending operations	41.9	35.8		6.1	17
Fees and commissions from securities and investment transactions	356.0	336.7	1)	19.3	6
Fees and commissions from other services	71.2	73.6		-2.4	-3
Fee and commission expense	-84.3	-79.3	1)	5.0	6
Net fee and commission income	**384.8**	**366.8**		**18.0**	**5**
Net trading income	**73.5**	**94.4**	1)	**-20.9**	**-22**
Profit on disposal of financial investments	54.4	26.5		27.9	105
Total income from holdings	5.5	4.6		0.9	20
Real-estate income	8.6	6.8		1.8	26
Miscellaneous ordinary income	56.9	121.4		-64.5	-53
Miscellaneous ordinary expenses	-1.2	-		1.2	
Other ordinary income	**124.2**	**159.3**		**-35.1**	**-22**
Total income from ordinary banking operations	**1 087.5**	**1 101.2**		**-13.7**	**-1**
Personnel costs	-347.8	-378.5		-30.7	-8
Other operating expenses	-210.7	-186.6		24.1	13
Operating expenses	**-558.5**	**-565.1**		**-6.6**	**-1**
Gross profit	**529.0**	**536.1**		**-7.1**	**-1**
Depreciation and write-offs on fixed assets	-85.2	-91.1		-5.9	-6
Value adjustments, provisions and losses	-9.6	-7.7		1.9	25
Profit on ordinary banking operations before extraordinary items and taxes	**434.2**	**437.3**		**-3.1**	**-1**
Extraordinary income	282.8	244.2		38.6	16
Extraordinary expenses	-141.2	-123.8		17.4	14
Taxes	-98.5	-23.3		75.2	323
Net profit before minority interests	**477.3**	**534.4**		**-57.1**	**-11**
Minority interests	-3.9	-4.2		-0.3	-7
Net profit	**473.4**	**530.2**		**-56.8**	**-11**

[1] **New accounting treatment of income from primary market (issuance) transactions and trading transactions**
Beginning with the 2007 reporting period, commission income generated by and placement fees (“retrocessions”) charged to BCV’s issuance activities are netted and recognized under “Trading income". Previously, these items had been booked as income and expense, respectively, under the heading “Fee and commission income”. In addition, commission expenses directly related to nostro trading transactions are henceforth recognized under “Trading income". Previously, these expenses had also been booked under the heading “Fee and commission income”. The new accounting treatments of these items are in line with applicable SFBC financial reporting standards.

To facilitate like-for-like comparisons, these two items have been reclassified in the 2006 statements provided above. Following this operation, which involves an amount of CHF 8.4m for 2006, "Fee and commission income" has risen from CHF 358.4m (published) to CHF 366.8m (adjusted), while "Trading income" has declined from CHF 102.8m to CHF 94.4m. This reclassification has no effect on gross profit at 31 December 2006.