Banque Cantonale Vaudoise

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Table Of Contents

Banque Cantonale Vaudoise

Major Rating Factors

Counterparty Credit Rating
AA-/Stable/A-1+

Strengths:

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

Weaknesses:

- Limited growth potential in its home market, mitigated by a diversified business profile
- Exposure to local SMEs and regional real estate markets
- Limited potential for efficiency gains

Rationale

Our long-term counterparty credit rating on Banque Cantonale Vaudoise (BCV) factors in two notches of support above the bank's current stand-alone creditworthiness, which 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 Ratings Services' methodology. It maintains strong links 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.

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's diversified business profile stands as a mitigating factor.

We expect BCV's profitability to remain satisfactory, despite results set to be durably lower than 2005-2007 figures inflated by large net reversals of provisions. The effects of the global financial crisis on trading activities and some reduced fee income could continue to weigh on 2009 revenues. We expect BCV's core businesses to counterbalance at least to some extent these negative trends. Also factored into our ratings are BCV's strategic information technology investments, which will limit efficiency gains in the next few years.

BCV's capitalization is robust. We expect that the bank's intended reduction of its equity base will be gradual and not detrimental to its financial strength--and that postponing could be possible if necessary.

We believe that BCV's upgraded credit risk management should prevent provisioning needs from increasing sharply. Our ratings on BCV account for a cost of risk of 30 basis points on average, which is sustainable in our opinion. Cost of risk in 2009 could slightly exceed this average, owing to dim economic prospects for local small and midsize enterprises (SMEs) and trade finance, and slowing real estate markets. However, nonperforming loans (NPLs) are set to decline further. We view BCV's liquidity position as favorable, and market risk set to significantly decrease throughout 2009.

The Swiss fiscal administration requires BCV to pay Swiss franc (CHF) 150 million in taxes related to some of its previous equity derivative activities. BCV contests this request. While the financial outcome of a potential litigation process--despite uncertainty at this stage--could materially affect the bank's net income, it would not alter BCV's ability to generate recurrent earnings and would not dramatically damage the bank's capital position.

Outlook

The stable outlook reflects our belief that BCV will continue to benefit from the implicit support of the Canton of Vaud. The canton's possible reduction of its stake to 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.

We could lower the ratings if the bank's stand-alone credit profile deteriorates, or if it unexpectedly loses the canton's majority ownership, or if we lower our rating on the canton. A positive rating action on the bank is unlikely at this stage.

Profile: Second-Largest Cantonal Bank In Switzerland

As is typical for cantonal banks, BCV has a corporate mandate to contribute to the economic development of its home region. Consequently, BCV's activities are largely concentrated in the Canton of Vaud. Vaud is Switzerland's third-largest canton, when measured by its contribution to Swiss revenues, and exhibits a wealthy economy oriented toward services in diversified sectors, with an increasing focus on export-oriented and value-added activities.

We consider BCV's core activities to be retail banking, commercial banking, and wealth management, which together generated 92% of 2008 consolidated revenues. The bank also conducts some trading activities, although these are much more limited in size and set to decline further.

- Asset and wealth management businesses are a major contributor to BCV's revenues. This division serves onshore and offshore clientele, mainly in private banking (partly via subsidiary Banque Piguet & Cie. S.A.), institutional asset management, and investment fund management (through subsidiary Gérifonds S.A.). Supported by favorable market conditions, this segment was among the most dynamic of BCV's businesses in terms of revenues until 2007. After a fading performance in 2008 attributable to a difficult operating environment, we expect difficult business conditions to persist in 2009.
- Retail- and commercial-banking activities are concentrated in BCV's home market, where the bank enjoys a strong franchise. Commercial banking includes not only lending to SMEs and Swiss corporations, but also trade finance activities. There, BCV is a niche player in metals and agribusiness, almost exclusively handling transaction financing. Retail banking and lending to SMEs highly depend on local economic conditions. BCV's business expansion is therefore likely to remain constrained by the canton's moderate economic prospects in 2009.
- Trading activities, both for own-account and for asset and wealth management purposes, encompass investments and hedging products. Foreign exchange and structured products generate the vast majority of trading revenues. The bank is in the process of closing its proprietary trading of equity derivative products, considered as generating too much volatility on revenues.

As BCV's strategy is to focus on strengthening its three core businesses, we do not expect any major change in the bank's profile other than an intended reduction of market risk exposure.

Support And Ownership: A Decline In The Canton of Vaud's Stake To A Level Still Above 50% Would Have No Rating Impact

The canton directly owns 66.95% of BCV's share capital; the remainder is listed on the Swiss stock exchange.

We view BCV as having moderate systemic importance in Switzerland's banking system, given the bank's major local franchise and very important economic role. We classify Switzerland a "supportive" country, meaning that the government relies on prudential policies to maintain a sound banking sector. We consider BCV, due to its cantonal ownership, as a GRE under our methodology, belonging to the commercial institutions category. The ratings on BCV stand two notches above the bank's current stand-alone creditworthiness.

BCV was founded by cantonal government decree in December 1845 as a limited liability company ("corporation organized under public law"). Unlike most Swiss cantonal banks, BCV does not benefit from a full statutory government guarantee. We believe, however, that the Canton of Vaud would likely provide extraordinary support to BCV in case of need--as was the case in past times of stress, when the canton demonstrated its commitment to the bank through massive capital injections in 2002 and 2003.

The announced potential decrease in the canton's stake in BCV to 50.12% would not change our perception of the likelihood for extraordinary support to BCV in case of need, and would not change our rating approach. Although Vaud cantonal law regulating BCV has never imposed a minimum shareholding in the bank on the cantonal government, Swiss federal banking law requires it to retain at least a minimum 33.33% stake if it wishes to maintain a recognized cantonal bank. In a public referendum held in September 2001, the canton proposed a law under which it could have effectively reduced its stake in BCV to the minimum requirement. Because a majority of the Vaud population voted against this law, it is politically difficult for the canton to decrease its stake in the bank to below the 50.12% that it held at the time.

Strategy: Ensuring Sound And Recurrent Profitability

BCV's strategy is to focus on improving the performance of its core businesses to ensure sound and recurrent profitability.

Operating in a wealthy but mature and small market, BCV intends to increase its regional market shares--particularly in mortgage lending--and enhance efficiency across its branch network to offset limited growth prospects in cantonal activities.

Meanwhile, BCV is selectively expanding outside the Canton of Vaud, focusing on the following businesses:

- Institutional asset management in Switzerland through diversified asset management products, and on- and off-shore wealth management;
- Issuance and sale of high-margin structured products; and
- Trade finance, where BCV focuses on profitability rather than on business expansion due to tightened acceptance criteria.

To lower earnings volatility, BCV is reducing activities it considers too risky or noncore to its cantonal bank profile, namely proprietary trading of equity derivatives. Suffering from adverse volatility conditions in the Swiss equity markets, proprietary trading of equity derivatives generated a CHF74 million loss in the first half of 2008. This loss was almost offset over the full year by this activity's CHF64 million positive performance in the second half of 2008. We understand BCV aims to significantly reduce its proprietary trading activities throughout 2009, while strengthening the development of client-induced structured products.

BCV's financial targets include a cost-to-income ratio after amortization costs at below 60%, and an annual increase in net operating income before loan loss provisions to between 5% and 8%. We consider this target as ambitious, given the maturity of BCV's markets and the constrained revenue growth in its core businesses.

Risk Profile And Management: Aiming To Maintain Adequate Risk Management

Following severe asset quality problems in the early 2000s, BCV achieved a vast reduction of its credit risk profile. The bank withdrew from businesses and locations it deemed noncore, while also upgrading its credit risk management. We consider that the bank exhibits strong liquidity fundamentals, and we see the interest rate risk on the banking book as satisfactorily covered. As part of the bank's strategy to lower earnings volatility, trading risk is set to continue to decline throughout 2009.

Enterprise risk management: Adequate

Given past troubles in credit risk evaluation and unfavorable asset-liability management positions, BCV has strongly focused on rebuilding appropriate risk management tools and teams, while redefining the bank's risk culture and appetite. The bank's strategy and risk appetite is regularly reassessed in each of its business lines, in light of the overall group profile.

Credit risk: BCV's largest risk exposure, despite substantial reductions in recent years

As of Dec. 31, 2008, 85% of BCV's balance-sheet was concentrated on Switzerland. Most of BCV's foreign exposure is generated by its trade finance activities. Real estate loans represented 76% of BCV's total net loan book, split into residential mortgage loans granted to individuals and nonresidential loans concentrated on SMEs in the Vaud canton, including commercial property developers that often carry substantially higher risk than residential mortgages. Commercial lending does not exhibit any particular business concentration.

BCV has adopted the Basel II foundation internal ratings-based (IRBF) approach, unlike its cantonal banking peers that all will adopt the standard approach. To meet IRBF standards, the bank has upgraded its credit risk management and now applies more sophisticated tools and tightened underwriting practices and provisioning criteria. As a result, we believe that the bank is well positioned to face potentially rising economic risk.

Amid deteriorating economic conditions, we understand that BCV is tightening its lending criteria for unsecured lending, and is more conservative in trade finance. In 2008, trade finance generated substantially higher provisioning needs than in the past few years. While we expect credit risk charges in 2009 to stand above the very low levels exhibited in 2006 and 2007, we believe in BCV's long-term ability to contain gross credit risk charges to about 30 basis points on average, thanks to a healthy balance sheet and enhanced credit risk monitoring tools.

Improved business conditions have contributed to a faster-than-expected rundown of legacy assets. Although still higher than the average for rated Swiss cantonal peers, outstanding NPLs declined to 2.86% of customer loans as of Dec. 31, 2008, from 12% at year-end 2003. The sharp reduction in problem loans in a context of supportive real estate markets enabled BCV to recapture loan loss reserves (LLRs) no longer deemed necessary, while keeping their coverage of NPLs excluding delinquencies at 62.6% as of Dec. 31, 2008. Taking into account the presence of collateral, specific reserves' coverage of these NPLs is close to 90%.

BCV's counterparty exposure to the financial crisis has been very limited so far.

Market risk: Declining exposure set to continue throughout 2009

BCV covers interest rate risk on its banking book through the use of hedging products (mainly swaps) and by limiting dependence on market resources to finance mortgage lending. The bank's sensitivity to a 100-basis point parallel shift in the yield curve represented a single-digit percentage of economic capital at Sept. 30, 2008.

On its trading book, BCV manages market risk through the use of value-at-risk (VAR) limits, stress scenarios, and Greek sensitivity measures. Started in early 2008, BCV targets full withdrawal from proprietary trading of equity derivative instruments by year-end 2009. While this strategy is set to reduce trading revenues by about one-third, it also stands to significantly reduce BCV's market risk exposure.

Funding and liquidity risk: Strong fundamentals

Amid troubled financial markets, BCV's liquidity position remains satisfactory. The bank has so far encountered neither weakened access to funding nor loss of confidence.

BCV's liquidity position is primarily underpinned by an ample customer deposit base, which represented almost 71% of the bank's funding base at year-end 2008. In the fourth quarter of 2008, BCV benefited from substantial savings inflows, resulting from altered customers' confidence in some of BCV's competitors. The bank considered these inflows as highly volatile and does not view them as recurrent long-term funding sources.

In addition, the bank has stable and cheap access to mortgage-backed bond funding through the Central Mortgage Bond Issuing Body ("Centrale des Lettres de Gages"), which financed almost 20% of BCV's loan book as of Dec. 31, 2008.

Liquidity is further supported by repoable and, if needed, easily realizable proceeds on BCV's long-term investment portfolio.

Profitability: Back To More Sustainable Levels, With Bottom-Line Possibly Declining Further In 2009

BCV's core profitability remains in line with the average for rated Swiss cantonal banks, despite the 43.5% decline in 2008. Down by 25% in 2008 from 2007, BCV's net income was altered by distressed market conditions in trading activities and lower fee income from asset and wealth management. Besides, lower reversals of reserves--after massive write-backs recorded in the past few years--further contributed to lowering BCV's bottom-line profitability. We believe that the persistence of a difficult operating environment in 2009 will likely maintain revenues under pressure. Coupled with expected rising credit risk charges, BCV's earnings generation will likely stand at a lower level than in 2008, albeit remaining satisfactory.

BCV's revenues are more diversified than the average for rated Swiss cantonal peers. The importance of asset and wealth management activities, which generated about 40% of consolidated revenues in 2008--of which 58% in the form of fees and commissions--explains the comparatively lower weight of net interest income (only 54% of revenues).

Adjusted for changes in the consolidation scope, BCV's operating revenues declined by 9% in 2008 (see table 1). While interest margins marginally improved, revenues suffered from a distressed operating environment in asset, wealth management, and trading activities. Our ratings factor in flat or low-single-digit growth in operating revenues in 2009: we expect difficult economic conditions and conservative business growth to continue to constrain revenues, whereas the benefits from BCV's commercial strategy might take more time to materialize.

Table 1

Banque Cantonale Vaudoise Variation In P&L Adjusted For Changes In Consolidation Scope

	Reported			Adjusted for changes in consolidation scope*	
(Mil. CHF)	**2008**	**2007**	**% change 2008 versus 2007**	**2007**	**% change 2008 versus 2007**
Operating revenues	927.9	1,087.5	(14.7)	1,023.7	(9.4)
Noninterest expenses¶	(581.4)	(643.7)	(9.7)	(589.0)	(1.3)
Net operating income before loan loss provisions	346.5	443.8	(21.9)	434.7	(20.3)
Loan loss provisions	(16.1)	(9.6)	67.7	(9.2)	75.0
Net operating income after loan loss provisions	330.4	434.2	(23.9)	425.5	(22.4)
Cost-to-income ratio (%)	62.6	59.0	N/A	57.5	N/A

*Excluding disposals of stakes to Unicible (BCV's former IT subsidiary) and A&G. ¶According to S&P's calculations, noninterest expenses include amortization costs. P&L--Profit and loss. CHF--Swiss franc. N/A--Not applicable. Source: Banque Cantonale Vaudoise.

Declining revenues have more than offset BCV's shrinking cost base and weakened operating efficiency, as reflected in the deterioration of the cost-to-income ratio to 62.7% in 2008 from 57.5% one year earlier (adjusted for consolidation scope effects). We do not expect any efficiency gains in 2009. Although we believe that the bank will remain committed to maintaining cost discipline, strategic information technology investments--after the failed partnership with Zuercher Kantonalbank (AAA/Stable/A-1+)--will likely limit efficiency gains in the next few years.

At 0.6% in 2008, BCV's ratio of core earnings to average adjusted assets stands at a satisfactory level. Although additional reversals of provisions--which we do not include in our computation of core earnings--are possible in 2009, in line with further reduction of NPLs, we no longer expect massive positive effects on BCV's bottom-line profitability like those recorded between 2004 and 2007. Consequently, combined with an expected rise in new provisioning needs--particularly in trade finance and corporate lending--we expect 2009 net income to decline from the 2008 figure. We estimate BCV's recurrent net income potential over the long run at between CHF250 million and CHF300 million.

Capital: Strong And Set To Remain Adequate Despite The Bank's Intention To Reduce Its Equity Base

With a ratio of adjusted total equity to risk-weighted assets of 15.5% at Dec. 31, 2008, we consider BCV's capitalization to be strong. Despite the bank's announced intention to reduce its equity base, factored into our ratings is our expectation that eroding capitalization will be gradual and not detrimental to the bank's financial strength, and will even be postponed if needed. BCV's objective is to maintain a sound capital base in light of its risk profile, targeting 12% Tier 1 and 14% total regulatory capital ratios (under Basel I).

Table 2

Banque Cantonale Vaudoise Balance Sheet Statistics										
	--Year ended Dec. 31--					Breakdown as a % of assets (adj.)				
(Mil. CHF)	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
Assets										
Cash and money market instruments	8,356	6,817	5,676	5,598	4,674	23.77	19.34	15.58	16.10	14.52
Securities	2,079	3,536	2,853	2,697	2,590	5.91	10.03	7.83	7.75	8.04
Trading securities (marked to market)	607	2,046	1,405	1,270	1,131	1.73	5.80	3.85	3.65	3.51
Nontrading securities	1,472	1,490	1,448	1,427	1,459	4.19	4.23	3.97	4.10	4.53
Customer loans (gross)	23,192	22,975	22,876	22,859	23,610	65.96	65.18	62.77	65.72	73.32
Residential real estate loans	13,642	13,228	12,862	12,198	11,931	38.80	37.53	35.29	35.07	37.05
Total real estate loans	1,134	1,129	10	40	70	3.23	3.20	0.03	0.11	0.22
Commercial real estate loans	2,507	2,431	3,613	3,617	3,739	7.13	6.90	9.91	10.40	11.61
All other loans	5,909	6,187	6,391	7,005	7,870	16.81	17.55	17.54	20.14	24.44
Loan loss reserves	358	496	817	1,174	1,498	1.02	1.41	2.24	3.38	4.65
Customer loans (net)	22,834	22,479	22,059	21,685	22,112	64.94	63.77	60.53	62.35	68.67
Earning assets	33,082	32,976	31,084	30,872	30,475	94.09	93.55	85.30	88.76	94.64
Equity interests/participations (nonfinancial)	82	82	84	85	86	0.23	0.23	0.23	0.24	0.27
Intangibles (nonservicing)	79	89	94	95	93	0.23	0.25	0.26	0.27	0.29
Fixed assets	533	558	576	603	629	1.52	1.58	1.58	1.73	1.95
Accrued receivables	240	273	250	211	188	0.68	0.77	0.69	0.61	0.58
All other assets	1,035	1,503	4,945	3,901	1,922	2.94	4.27	13.57	11.22	5.97
Total reported assets	35,239	35,337	36,537	34,875	32,295	100.23	100.25	100.26	100.27	100.29
Less nonservicing intangibles+ I/O strips	(79)	(89)	(94)	(95)	(93)	(0.23)	(0.25)	(0.26)	(0.27)	(0.29)
Adjusted assets	35,159	35,248	36,442	34,780	32,202	100.00	100.00	100.00	100.00	100.00
						Breakdown as a % of liabilities + equity				
	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
Liabilities										
Total deposits	23,936	23,025	20,525	19,690	18,170	67.93	65.16	56.18	56.46	56.26
Noncore deposits	2,335	2,472	2,088	2,040	1,196	6.63	7.00	5.71	5.85	3.70
Core/customer deposits	21,601	20,552	18,437	17,650	16,974	61.30	58.16	50.46	50.61	52.56
Mortgage pfandbriefe	4,482	3,916	3,495	3,668	4,144	12.72	11.08	9.57	10.52	12.83
Other borrowings	2,052	3,027	3,192	3,321	3,449	5.82	8.57	8.74	9.52	10.68
Other credit reserves	374	543	1,004	1,381	1,758	1.06	1.54	2.75	3.96	5.44
Other liabilities	1,217	1,601	4,903	3,587	1,854	3.45	4.53	13.42	10.28	5.74
Total liabilities	32,062	32,112	33,118	31,647	29,375	90.98	90.87	90.64	90.74	90.96
Total shareholders' equity	3,177	3,225	3,419	3,229	2,920	9.02	9.13	9.36	9.26	9.04
Minority interest-equity	13	15	14	13	12	0.04	0.04	0.04	0.04	0.04
Common shareholders' equity (reported)	3,164	3,210	3,405	3,217	2,908	8.98	9.08	9.32	9.22	9.00
Share capital and surplus	258	538	997	1,252	1,382	0.73	1.52	2.73	3.59	4.28
General banking risk reserves	704	704	564	442	332	2.00	1.99	1.54	1.27	1.03

Table 2

Banque Cantonale Vaudoise Balance Sheet Statistics (cont.)										
Reserves (incl. inflation revaluations)	1,844	1,491	1,309	1,066	858	5.23	4.22	3.58	3.06	2.66
Retained profits	358	477	534	457	337	1.02	1.35	1.46	1.31	1.04
Memo: Dividends (not yet distributed)	(258)	(400)	(80)	(69)	(62)					
Total liabilities and equity	35,239	35,337	36,537	34,876	32,295	100.00	100.00	100.00	100.00	100.00
Equity Reconciliation Table										
Common shareholders' equity (reported)	3,164	3,210	3,405	3,217	2,908					
+ Minority Interest (equity)	13	15	14	13	12					
- Dividends (not yet distributed)	(258)	(400)	(80)	(69)	(62)					
- Nonservicing Intangibles	(79)	(89)	(94)	(95)	(93)					
Adjusted common equity	2,840	2,736	3,244	3,065	2,765					
Adjusted total equity	2,840	2,736	3,244	3,065	2,765					

Year-end financial statements are consolidated, audited, and prepared according to Swiss GAAP. CHF--Swiss franc.

Table 3

Banque Cantonale Vaudoise Profit And Loss Statement Statistics										
	--Year ended Dec. 31--					Adj. avg. assets (%)				
(Mil. CHF)	**2008**	**2007**	**2006**	**2005**	**2004**	**2008**	**2007**	**2006**	**2005**	**2004**
Profitability										
Interest income	1,066	1,064	895	846	838	3.03	2.97	2.51	2.52	2.53
Interest expense	562	559	414	385	414	1.60	1.56	1.16	1.15	1.25
Net interest income	504	505	481	461	424	1.43	1.41	1.35	1.38	1.28
Operating noninterest income	424	583	621	577	520	1.20	1.63	1.74	1.72	1.57
Fees and commissions	340	385	367	324	298	0.97	1.07	1.03	0.97	0.90
Equity in earnings of unconsolidated subsidiaries	5	6	5	4	6	0.01	0.02	0.01	0.01	0.02
Trading gains	37	74	94	103	84	0.11	0.21	0.27	0.31	0.25
Other noninterest income	42	119	155	147	131	0.12	0.33	0.43	0.44	0.40
Operating revenues	928	1,088	1,101	1,038	944	2.64	3.03	3.09	3.10	2.84
Noninterest expenses	581	642	654	641	628	1.65	1.79	1.84	1.91	1.89
Personnel expenses	310	348	379	364	365	0.88	0.97	1.06	1.09	1.10
Other general and administrative expense	194	211	187	188	181	0.55	0.59	0.52	0.56	0.54
Depreciation	76	83	89	89	82	0.22	0.23	0.25	0.27	0.25
Net operating income before loss provisions	347	446	447	397	316	0.99	1.24	1.26	1.18	0.95
Credit loss provisions (net new)	74	21	13	36	70	0.21	0.06	0.04	0.11	0.21
Net operating income after loss provisions	273	425	434	361	246	0.78	1.19	1.22	1.08	0.74
Nonrecurring/special income	188	294	249	231	200	0.53	0.82	0.70	0.69	0.60
General banking risk provisions	0	140	122	111	81	0.00	0.39	0.34	0.33	0.24
Nonrecurring/special expense	1	1	2	2	3	0.00	0.00	0.00	0.01	0.01
Amortization of goodwill and intangibles	1	2	2	2	4	0.00	0.01	0.01	0.01	0.01
Pretax profit	459	576	558	477	359	1.30	1.61	1.57	1.42	1.08
Tax expense/credit	101	99	23	20	22	0.29	0.27	0.07	0.06	0.07
Net income before minority interest	358	477	534	457	337	1.02	1.33	1.50	1.36	1.01
Minority interest in consolidated subsidiaries	1	4	4	3	2	0.00	0.01	0.01	0.01	0.01

Table 3

Banque Cantonale Vaudoise Profit And Loss Statement Statistics (cont.)										
Net income before extraordinaries	356	473	530	454	335	1.01	1.32	1.49	1.36	1.01
Net income after extraordinaries	356	473	530	454	335	1.01	1.32	1.49	1.36	1.01
Core Earnings Reconciliation										
Net Income (before Minority Interest)	358	477	534	457	337					
- Nonrecurring/Special Income	(188)	(294)	(249)	(231)	(200)					
+ Nonrecurring/Special Expense	1	1	2	2	3					
+/- Tax Impact of Adjustments	41	50	10	10	12					
+ Amortization/ Impairment of Goodwill/ Intangibles	1	2	2	2	4					
+ General banking risk provisions	0	140	122	111	81					
- Preferred dividends	0	0	(20)	(31)	(37)					
Core earnings	213	377	402	319	200	0.60	1.05	1.13	0.95	0.60
	2008	**2007**	**2006**	**2005**	**2004**					
Asset Quality										
Nonperforming assets	663	839	1,161	1,689	2,300					
Nonaccrual loans	573	735	1,030	1,399	1,750					
Loans in arrears but accruing	91	104	131	290	550					
Average balance sheet										
Average customer loans	22,656	22,269	21,872	21,899	22,660					
Average earning assets	33,029	32,030	30,978	30,673	31,502					
Average assets	35,288	35,937	35,706	33,585	33,273					
Average total deposits	23,480	21,775	20,107	18,930	18,342					
Average interest-bearing liabilities	30,219	28,589	26,945	26,221	26,585					
Average common equity	3,187	3,307	3,311	3,062	2,726					
Average adjusted assets	35,204	35,845	35,611	33,491	33,189					
Other data										
Number of employees (end of period)	1,914	2,045	2,390	2,349	2,423					
Number of branches	N.A.	N.A.	70	69	69					
Total assets under management	8,763	10,926	10,460	9,731	8,714					
Assets under administration	66,800	63,572	60,955	54,423	47,387					
Off-balance-sheet credit equivalents	2,118	1,884	1,493	999	704					

Year-end financial statements are consolidated, audited, and prepared according to Swiss GAAP. CHF--Swiss franc.

Table 4

Banque Cantonale Vaudoise Ratio Analysis					
	--Year ended Dec. 31--				
	2008	**2007**	**2006**	**2005**	**2004**
ANNUAL GROWTH (%)					
Customer loans (gross)	0.94	0.44	0.07	(3.18)	(5.86)
Loss reserves	(29.48)	(42.92)	(28.74)	(21.53)	(19.10)
Adjusted assets	(0.25)	(3.28)	4.78	8.01	(5.78)
Customer deposits	5.10	11.48	4.46	3.98	1.09

Table 4

Banque Cantonale Vaudoise Ratio Analysis (cont.)					
Total equity	(1.49)	(5.66)	5.87	10.60	13.94
Operating revenues	(14.68)	(1.24)	6.12	9.91	0.11
Noninterest expense	(9.57)	(1.88)	2.03	2.10	(6.67)
Net operating income before provisions	(22.04)	(0.31)	12.74	25.41	16.98
Loan loss provisions	260.68	62.20	(64.72)	(48.35)	(10.02)
Net operating income after provisions	(35.74)	(2.14)	20.47	46.27	27.83
Pretax profit	(20.27)	3.25	16.89	33.08	106.13
Net income	(25.06)	(10.68)	16.99	35.73	114.06
	2008	**2007**	**2006**	**2005**	**2004**
PROFITABILITY (%)					
Interest Margin Analysis					
Net interest income (taxable equiv.)/avg. earning assets	1.53	1.58	1.55	1.50	1.35
Net interest spread	1.37	1.37	1.35	1.29	1.10
Interest income (taxable equiv.)/avg. earning assets	3.23	3.32	2.89	2.76	2.66
Interest income on loans/avg. total loans	4.29	4.17	3.42	3.18	3.04
Interest expense/avg. interest-bearing liabilities	1.86	1.96	1.54	1.47	1.56
Interest expense on deposits/avg. deposits	1.39	1.44	0.77	0.64	0.56
Revenue Analysis					
Net interest income/revenues	54.33	46.44	43.65	44.40	44.93
Fee income/revenues	36.64	35.38	33.31	31.17	31.61
Market-sensitive income/revenues	3.99	6.76	8.57	9.91	8.90
Noninterest income/revenues	45.67	53.56	56.35	55.60	55.07
Personnel expense/revenues	33.44	31.98	34.37	35.11	38.65
Noninterest expense/revenues	62.56	59.03	59.41	61.79	66.51
Noninterest expense/revenues less investment gains	62.56	59.03	59.41	61.79	66.51
Net operating income before provision/revenues	37.44	40.97	40.59	38.21	33.49
Net operating income after provisions/revenues	29.43	39.08	39.44	34.74	26.10
New loan loss provisions/revenues	8.01	1.89	1.15	3.47	7.38
Net nonrecurring/abnormal income/revenues	20.14	14.03	11.39	11.42	12.30
Pretax profit/revenues	49.48	52.95	50.64	45.98	37.97
Tax/pretax profit	22.09	17.11	4.18	4.25	6.13
Core Earnings/Revenues	22.95	34.62	36.46	30.75	21.18
	2008	**2007**	**2006**	**2005**	**2004**
Other Returns					
Pretax profit/avg. risk assets (%)	2.46	3.10	3.12	2.74	2.01
Revenues/avg. risk assets (%)	4.98	5.86	6.16	5.96	5.29
Net operating income before LLP/LLP	467.56	2163.11	3519.69	1101.39	453.60
Net operating income before loss provisions/avg. risk assets (%)	1.86	2.40	2.50	2.28	1.77
Net operating income after loss provisions/avg. risk assets (%)	1.47	2.29	2.43	2.07	1.38
Net income before minority interest/avg. adjusted assets	1.02	1.33	1.50	1.36	1.01
Net income/employee (currency unit)	183,530	219,751	225,485	193,806	139,298

Table 4

Banque Cantonale Vaudoise Ratio Analysis (cont.)					
Non-interest expenses/average adjusted assets	1.65	1.79	1.84	1.91	1.89
Personnel expense/employee (currency unit)	159,210	160,129	159,705	154,561	151,045
Core earnings/average risk-weighted assets	1.14	2.03	2.25	1.83	1.12
Core earnings/average adjusted assets	0.61	1.05	1.13	0.95	0.60
Core earnings/ Average ACE (ROE)	7.64	12.59	12.73	10.95	7.71
	2008	**2007**	**2006**	**2005**	**2004**
FUNDING AND LIQUIDITY (%)					
Customer deposits/funding base	70.89	68.58	67.75	66.16	65.88
Total loans/customer deposits	107.36	111.79	124.08	129.51	139.10
Total loans/customer deposits + long-term funds	74.07	74.80	80.16	82.03	85.90
Customer loans (net)/assets (adj.)	64.94	63.77	60.53	62.35	68.67
Parent Only Analysis					
	2008	**2007**	**2006**	**2005**	**2004**
CAPITALIZATION (%)					
Adjusted common equity/risk assets	15.52	14.43	17.88	17.40	16.05
Internal capital generation/prior year's equity	3.06	2.16	14.00	13.23	10.72
Tier 1 capital ratio	16.20	16.30	18.30	17.80	16.50
Regulatory total capital ratio	16.40	16.30	18.50	18.50	17.40
Adjusted total equity/adjusted assets	8.08	7.76	8.90	8.81	8.59
Adjusted total equity/adjusted assets + securitizations	8.08	7.76	8.90	8.81	8.59
Adjusted total equity/risk assets	15.52	14.43	17.88	17.40	16.05
Adjusted total equity plus LLR (specific)/customer loans (gross)	13.79	14.07	17.75	18.54	18.06
Common dividend payout ratio	72.41	84.50	11.79	9.10	8.57
	2008	**2007**	**2006**	**2005**	**2004**
ASSET QUALITY (%)					
New loan loss provisions/avg. customer loans (net)	0.33	0.09	0.06	0.16	0.31
Loan loss reserves/customer loans (gross)	1.55	2.16	3.57	5.14	6.34
Credit-loss reserves/risk assets	4.01	5.48	10.04	14.51	18.90
Nonperforming assets (NPA)/customer loans + ORE	2.86	3.65	5.08	7.39	9.74
NPA (excl. delinquencies)/customer loans + ORE	2.47	3.20	4.50	6.12	7.41
Net NPA/customer loans (net) + ORE	1.34	1.52	1.56	2.37	3.63
NPA (net specifics)/customer loans (net specifics)	1.34	1.52	1.56	2.37	3.63
Loan loss reserves/NPA (gross)	54.02	59.16	70.33	69.51	65.13

Year-end financial statements are consolidated, audited, and prepared according to Swiss GAAP.

Ratings Detail (As Of April 30, 2009)*	
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+

Ratings Detail (As Of April 30, 2009)*(cont.)	
05-Oct-2007	A+/Stable/A-1
27-Jan-2006	A/Stable/A-1
21-Dec-2004	A-/Stable/A-2
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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