



2017 Annual Report



BCV at a glance

2017 highlights

We delivered very solid results despite the ongoing negative-interest-rate environment

- Volumes continued to expand, and gross revenues edged up 1.5%.
- Operating profit increased 1% to CHF 387m, driven by firm cost control, lower depreciation and amortization, and a decrease in other provisions.
- Net profit came in at CHF 320m (+3%), consistent with previous years.

New members were appointed to the Executive Board and Board of Directors

- The Vaud Cantonal Government appointed Jacques de Watteville to succeed Olivier Steimer as the Chairman of BCV's Board of Directors starting on 1 January 2018.
- Two new members joined BCV's Executive Board: Christian Meixenberger as head of the Business Support Division and Andreas Diemant as head of the Corporate Banking Division.

BCV's credit ratings were reaffirmed, underscoring our financial solidity

- Standard and Poor's reaffirmed our AA rating for the sixth year in a row, and Moody's reaffirmed our Aa2 rating, both with a stable outlook. BCV is one of the best rated banks in the world without an explicit government guarantee.

We added more new services and features to our digital banking line-up

- Customers can now open an account or take out a mortgage loan entirely online.
- We rolled out our BCV TWINT app – a digital wallet for making in-store and online purchases in Switzerland and transferring money to friends.

We paid out CHF 284m to our shareholders

- BCV paid an ordinary dividend of CHF 23 per share and distributed CHF 10 per share out of paid-in reserves, thus returning a total CHF 284m to our shareholders. This payout, together with the appreciation in our share price, equates to a total return of 19.1% in 2017.

We extended our distribution policy for another five years beginning with the 2018 reporting period

- In light of the planned reduction in Vaud Canton's corporate tax rates, the Bank intends to pay an ordinary dividend of CHF 34–38, barring significant changes in the economic or regulatory environment or in the Bank's situation.

Key figures – 5-year overview

Balance sheet ¹ (in CHF millions)	2013	2014	2015	2016	2017
Total assets	40 177	41 819	43 418	44 085	45 415
Advances to customers	28 729	29 720	29 457	29 849	30 233
Customer deposits	27 557	28 532	28 877	29 245	30 512
Shareholders' equity	3 322	3 341	3 397	3 420	3 457

Assets under management (in CHF millions)

Assets under management	83 850	86 382	87 972	85 382	86 490
<i>cash and cash equivalents</i>	24 469	24 547	24 900	26 009	26 977
<i>investment funds</i>	18 120	20 064	21 164	19 812	21 807
<i>shares</i>	20 831	22 223	22 891	21 588	19 871
<i>bonds</i>	15 207	14 182	13 156	11 029	9 764
<i>other</i>	5 223	5 366	5 861	6 945	8 071

Headcount

Full-time equivalents	1 987	1 946	1 947	1 943	1 922
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Income statement¹ (in CHF millions)

Total income	999	1 010	1 026	967	967
Operating expenses	520	518	514	509	508
Depreciation and amortization of fixed assets and impairment on equity investments	86	80	76	72	70
Other provisions and losses	41	34	37	3	1
Operating profit	353	379	399	383	387
Net profit	280	296	336	310	320

Liquidity and capital ratios²

Liquidity Coverage Ratio (LCR)	n/a	105%	111%	113%	121%
Leverage Ratio	n/a	6.8%	6.7%	6.6%	6.5%
Tier 1 capital ratio ³	18.1%	17.7%	18.3%	17.5%	17.1%
Total capital ratio ³	18.2%	17.9%	18.4%	17.6%	17.3%

Income ratios

Operating profit/average shareholders' equity	10.8%	11.5%	12.0%	11.4%	11.4%
Cost/income ratio ⁴	60.6%	59.6%	57.2%	59.4%	58.3%
Operating profit per employee (in CHF thousands)	180.5	192.2	205.5	197.1	201.6
ROE	8.5%	9.0%	10.1%	9.1%	9.4%

Credit ratings

Standard & Poor's

Long term	AA / stable				
Short term	A-1+	A-1+	A-1+	A-1+	A-1+

Moody's

Long term	A1 / stable	A1 / stable	Aa2 / stable	Aa2 / stable	Aa2 / stable
Short term	Prime-1	Prime-1	Prime-1	Prime-1	Prime-1

- 1) As of the 2015 financial year, the financial statements are presented in accordance with the new Swiss accounting rules for banks; the figures for the previous years have been adjusted to facilitate like-for-like comparison
- 2) More detailed information on Group and parent company liquidity and capital ratios can be found in the Basel III Pillar 3 report, which is available at www.bcv.ch and on the BCV Investor Relations iPad app
- 3) Ratios have been recalculated without subtracting the countercyclical buffer from regulatory capital in accordance with FINMA Circular 2016/1, "Disclosure - banks"
- 4) Excluding goodwill amortization and write-downs

BCV Solidarity

Starting in 2011, we decided to replace the end-of-year gift to our 2,000 employees with a donation on their behalf to a humanitarian project somewhere in the world. A group of around ten employee volunteers chosen every year selects the projects and follows up on them.

The first organization to receive funding under this initiative, known as BCV Solidarity, was the Swissclinical Foundation in La Tour-de-Peilz. Thanks to our donation in 2012, the Foundation was able to purchase a building and equipment for making orthopedic implants for poor handicapped children in Stara Zagora, Bulgaria.

In 2013, our donation went to the Nyon-based charity Friends of India to help build a new school in Tirunelveli, in the southern Indian state of Tamil Nadu. The school – named BCV International School in recognition of the Bank – was inaugurated in 2014. Today it provides an English-language education to 480 students between the ages of 3 and 16. The students include both boys and girls and are drawn from a variety of castes, in order to promote tolerance.

In 2014, BCV Solidarity helped Lausanne-based charity Achalay refurbish a small farm in San Andrés, Peru. The farm is home to some fifty underprivileged 4 to 18 year-olds (orphans, abuse victims, and handicapped children) from the surrounding areas.

In 2015, the employee volunteers chose to support Les Enfants de l'Arc-en-Ciel charity in Lausanne. Thanks to our donation, the charity was able to expand its school in Cabrera, Dominican Republic, which provides an education to more than 200 disadvantaged children. A fourth schoolhouse has been constructed to supplement the existing facilities and make enough space for pupils to complete all 12 classes necessary to prepare for university.

In 2016, our employees selected a project run by the Morija Association, which is based in Le Bouveret. The funds were put towards helping the association to expand the Kaya Center for the Handicapped in Burkina Faso. As a result, two new buildings were inaugurated on 7 October 2017: one is a hospital offering another 30 beds on top of the 74 currently available, and the other comprises a laboratory, pharmacy, and storage area.

Last year we provided support to a project in Niger run by agro-sans-frontiere.ch. This Swiss association involves active and retired experts, including agronomists, in activities guided by a policy of sustainable development. Our employees chose to support the construction of a cold storage facility for potatoes in the capital Niamey. This facility, with a capacity of 150 metric tons, can keep potatoes fresh for up to five months. The project is expected to provide two main benefits: it will reduce loss and waste through improved storage; and it will allow farmers to supply the market with high-quality potatoes over a longer period of time and thus fetch higher prices. In the long run, the farmers should become more financially independent.

The new facility will provide 200 more farms with access to cold storage, more than doubling the current figure of 150. It was inaugurated on 1 March 2018 in the presence of a small group of BCV employees.

The photos in this year's annual report were taken during our employees' visit to Niamey. Page 6: Michel Knobel, dormant accounts manager, Viviane Ruchet, administrative head of our training center, and Nathalie Laurent, branch manager. Page 20: Maria Paredes Murcia, assistant private banking advisor. Page 48: Karine Desire, bank advisor, Nathalie Laurent, Viviane Ruchet, Maria Paredes Murcia, and Guillaume Lerude, market risk specialist.

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Letter from the Chairman and the CEO

Stable results in a persistently difficult environment

The global economic recovery that started in spring 2016 continued last year in advanced and emerging countries alike. In Switzerland, interest rates remained very low as inflation stayed weak, and Vaud, like the rest of the country, experienced moderate growth. The economic outlook is favorable, especially since the Vaud government set a date for implementing the Canton's corporate tax reform, dispelling some of the uncertainty that arose when Swiss voters rejected the federal government's proposed corporate tax plan. Starting in 2019, all Vaud-based companies will be taxed at a lower, 13.8% flat rate.

Here at BCU, our 2017 results were in line with those of 2016. Revenues were stable at CHF 967m. Operating profit rose 1% to CHF 387m as operating expenses held steady

and depreciation and amortization declined. Net profit grew 3% to CHF 320m.

Staying focused on our customers

We have been working to expand our online services as customers increasingly migrate to digital channels for their banking needs. Our aim is for them to be able to conduct almost all of their day-to-day banking through the channel of their choice. For several years now, they have been able to make payments and check account balances from a computer or mobile device. But today they can also open an account and apply for, renew, or transfer a mortgage loan online, as well as speak with a BCU advisor via videoconferencing. We also launched the BCU TWINT app – Switzerland's digital wallet.



Pascal Kiener
CEO

Jacques de Watteville
Chairman of the Board of Directors

Enhancing all aspects of customer service remains the cornerstone of our strategy, and we continue to roll out initiatives – both large and small – aimed at improving the BCV customer experience.

Changes within the Executive Board and Board of Directors

Jacques de Watteville became Chairman of the Board of Directors on 1 January 2018 after being appointed by the Vaud Cantonal Government in February 2017. He succeeded Olivier Steimer, who had reached his tenure limit. On the Executive Board, Christian Meixenberger took over responsibility for the Business Support Division on 1 January 2017, replacing Aimé Achard, who retired. And on 1 September 2017, Andreas Diemant joined the Bank as the new Head of Corporate Banking following the retirement of Jean-François Schwarz.

BCV share delivers a strong return

We seek to provide stability for our shareholders by delivering a high dividend yield – which exceeded 5% in 2017 – combined with a moderate risk profile. This strategy paid off last year as our share price rose by 14%. Factoring in the dividend payout, the total return to our shareholders was 19.1% in 2017.

Capital and liquidity ratios exceed regulatory requirements

BCV ranks among the most solid banks in the world. Our diversified revenue streams, together with our high profitability and strong capital base relative to our risk profile, were highlighted by Standard & Poor's and Moody's as they reaffirmed our AA and Aa2 ratings, respectively, both with a stable outlook. With a Common Equity Tier 1 (CET1) ratio of 17.1% and a leverage ratio of 6.5%, we comfortably meet regulatory requirements. We also ended the year with a Basel III liquidity coverage ratio (LCR) of 121% – well above the 80% regulatory minimum.

Proposed payout of CHF 33 per share

In keeping with previous years, the Board of Directors will recommend an ordinary dividend of CHF 23 per share and, for the last time, a special distribution of CHF 10 per share out of paid-in reserves. This payout will be put

to shareholders for approval at the Annual Meeting on 26 April 2018. If it is accepted, we will distribute a total of CHF 284m to our shareholders.

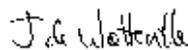
Dividend policy extended with a higher range

In line with the approach adopted over the last decade, we decided in early 2018 to extend our distribution policy for another five years beginning with the 2018 reporting period. In light of the planned reduction in Vaud Canton's corporate tax rates, we intend to pay an ordinary dividend of CHF 34–38, barring significant changes in the economic or regulatory environment or in the Bank's situation.

Acknowledgements

We wish to close by expressing our warmest, most sincere thanks to Olivier Steimer for the unfailing commitment, in-depth knowledge of the banking industry, and great human skills he brought to bear during his tenure as Chairman of the Board. He led BCV through the turbulent years of the early 2000s, the Bank's subsequent turnaround, and the changes we made as the banking business evolved in the wake of the 2008–2009 financial crisis.

We would also like to thank our customers for their trust, and our shareholders for their support as we implement our strategy. Last but not least, we are immensely grateful to our employees, who work hard day in and day out to deliver top-quality products and services to our customers.



Jacques de Watteville



Pascal Kiener





Who We Are

Overview of BCV

Our legal status

Banque Cantonale Vaudoise (BCV) was founded on 19 December 1845 by the Vaud Cantonal Parliament (Grand Conseil Vaudois) as a *société anonyme de droit public* (i.e., a corporation organized under public law). The Canton of Vaud is BCV's majority shareholder, with 66.95% of the Bank's share capital. BCV is listed in the Vaud Commercial Register and is subject to all applicable legislation. Its legal status is defined in the Cantonal Act Governing the Organization of Banque Cantonale Vaudoise (LBCV) of 20 June 1995, as amended on 25 June 2002, 30 January 2007 and 2 March 2010. BCV's commitments are not underwritten by the Canton. However, customer deposits are covered by a nationwide system of investor protection concerning Swiss banks and securities dealers. This system insures deposits of up to CHF 100,000 per person and per bank. In addition, a limited cantonal guarantee applies to deposits with Caisse d'Épargne Cantonale Vaudoise, a savings institution managed by the Bank.

Our core businesses

With revenues of CHF 967m in 2017 and total assets of CHF 45.4bn, we rank among Switzerland's top five universal banks by total assets. BCV is the country's second-largest cantonal bank and the largest bank in Vaud, with a network of over 60 staffed branches and more than 230 ATMs throughout the Canton. The Bank's organizational structure is based on four client-oriented divisions: Retail Banking, Private Banking, Corporate Banking and Asset Management & Trading. We offer a comprehensive range of financial services to all client segments. BCV Group had 1,922 full-time-equivalent employees at 31 December 2017. At that date, in addition to the parent company, BCV Group comprised the private bank Piguët Galland & Cie SA and two fund management firms, Gêrifonds SA and GEP SA (*société pour la gestion de placements collectifs*). The full scope of consolidation at 31 December 2017 is described on page 129.

Our missions

Pursuant to Article 4 of the LBCV, BCV's corporate mandate is to offer a comprehensive range of banking services to the local community and to contribute to the development of all sectors of the Vaud economy and to the financing of the Canton's public-sector institutions and entities. Also, as part of our community focus, we provide mortgage financing in Vaud. The LBCV also stipulates that BCV is to be guided by the principles of economically, environmentally, and socially sustainable development. More generally, our missions are to create value for our shareholders and clients, to be a benchmark employer, and to be a good corporate citizen.

Our recent history

Since the Bank was founded in 1845, it has considerably expanded its business in the Canton. In the 1990s, the banking industry in Vaud underwent major consolidation. BCV acquired Banque Vaudoise de Crédit in 1993 and merged with Crédit Foncier Vaudois in 1995. From 1996 to 2000, we moved to diversify our operations, particularly in international trade finance, offshore wealth management, and trading. Total assets more than doubled between 1990 and 2000 as a result. In 2001 and 2002, following an in-depth assessment of loan-book quality, BCV Group carried out two recapitalizations, in 2002 and 2003. The Canton provided most of the funds raised on both occasions.

From 2003 to 2005, we successfully refocused operations on our four core businesses while remaining active in selected niche activities offering strong potential in terms of both growth and profitability. From 2005 to 2008, we implemented the second phase of that strategy, the *CroisSens* growth project, with the aim of taking full advantage of our unrivaled presence in our local market, the Canton of Vaud. That project included the reorganization of our local distribution structure into nine regions in order to strengthen ties with customers.

In 2007, the Bank repurchased the final tranche of the participation-certificate capital created in the 2003 recapitalization. On 15 April 2008, the Vaud Cantonal Parliament voted to authorize the Cantonal Government to reduce the Canton's stake in our share capital from 66.95% to 50.12%. The Cantonal Government's decision not to sell any shares, first announced on 25 November 2008 and reaffirmed on 16 July 2010, remains unchanged.

From the end of 2008 to the end of 2013, we implemented our *BCVPlus* strategy, which took a clearly defined and differentiated approach based on the business model of a universal bank with solid local roots. That strategy was a great success: almost all of the Bank's business lines grew, and through a series of internal initiatives we instilled a performance-based corporate culture and promoted ongoing skills development. In addition, since operational excellence is a key factor in setting ourselves apart from the competition and driving our success, we introduced measures to simplify our processes, improve customer service, and revitalize our sales and marketing approach. Active equity capital management was also a part of *BCVPlus*, with an attractive distribution policy for our shareholders.

As part of the growth strategy for the onshore wealth management business, BCV Group acquired Banque Franck Galland & Cie SA in 2011. This bank was merged with Banque Piguet & Cie SA, a BCV subsidiary since 1991, creating Piguet Galland & Cie SA, a major wealth manager in French-speaking Switzerland.

In 2013, the Board of Directors and Executive Board once again conducted an in-depth review of the Bank's strategy and trends in the banking sector in general. Management confirmed that the next phase of our strategy – *stratégie2018* – would continue on the same course as *BCVPlus*. In addition, we are aiming to make impeccable service quality our differentiating factor, looking for new ways to improve our internal operations, and taking account of changes in the regulatory environment and customer expectations.

Our strategy

Our business strategy is guided by our ultimate goal of creating value for shareholders, clients and employees. Our business model is that of a universal bank with solid local roots, and we believe that this is the best way to ensure profitable growth going forward. Our operations are focused on the Bank's four core businesses, but we remain active in selected niche activities offering potential in terms of both growth and profitability. Our risk profile is moderate, and we take an active approach to equity capital management.

In 2014 we began implementing the current phase of our strategy, *stratégie2018*. Like the previous phase, *stratégie2018* aims primarily to continue developing all of the Bank's business lines. We are also seeking to make impeccable service quality our differentiating factor, further improve our internal operations, and adjust our business-line strategies to take account of rapid changes in the regulatory environment. In addition, we are working to better meet our customers' changing needs and expectations, by achieving greater integration among our various distribution channels – our branches, ATMs, call centers, website, and apps for tablets and smartphones.

We aim to keep up the positive trend in our various businesses. In particular, we are targeting:

- At-or-above market-rate growth in the retail banking and SME segments
- Above-market growth in onshore private banking
- Selected niche growth drivers in asset management, structured products, and trade finance
- Continued development of our other business lines.

We are also working to improve our internal processes and sharpen our focus on the customer experience. This involves:

- Improving customer-service quality through a series of targeted initiatives
- Expanding multi-channel access to our products and services
- Embarking on various projects to enhance our internal operations
- Pressing ahead with our human resources strategy to continue developing our employees' skill sets.

In early 2013, we adjusted our key financial objectives. In the prevailing low-interest-rate environment, the Group aims to achieve sustainable growth, with revenues and operating profit trending along the same lines as in recent years. We have set targets of 12–13% for ROE, 57–59% for the cost/income ratio, and 13% for Common Equity Tier 1 (CET1) – or 13.7% as calculated under FINMA Circular 2016/1 "Disclosure – banks." These targets should be viewed from a long-term perspective.

In line with the approach adopted over the last decade, BCV decided in early 2018 to extend its distribution policy for another five years beginning with the 2018 reporting period. In light of the planned reduction in Vaud Canton's corporate tax rates, the Bank intends to pay an ordinary dividend of CHF 34–38, barring significant changes in the economic or regulatory environment or in the Bank's situation.

Our values

We have defined four values that are central to our strategy and culture: responsibility, performance, professionalism, and close ties with our customers and the broader community. We believe that a key to long-term success is ensuring that all our employees share a common culture built around core values. The values described below underpin all our actions – as well as our interactions with customers and colleagues.

Close ties

As a Swiss cantonal bank, BCV maintains a deep connection with the local community that goes back a century and a half. Our employees use their on-the-ground presence in Vaud Canton and knowledge of the local community to fully appreciate and understand the needs and expectations of BCV's customers.

Professionalism

Every employee is committed to delivering the best possible service to customers. To achieve this, our people draw on the best practices in their respective fields of expertise and constantly seek to expand their skills and knowledge.

Performance

At BCV, we set ourselves ambitious goals across the board. Our people are results-oriented. They systematically seek pragmatic and effective solutions to the challenges that arise every day.

Responsibility

BCV employees demonstrate responsible professional behavior. This includes taking responsibility for their actions, being conscientious in their work, and being loyal to the company.

Given the importance that we ascribe to our core values, we have put in place a long-term employee information and training program. Our values are also an integral part of employee performance reviews.

Who We Are

Corporate Responsibility: BCV's Missions

In accordance with the Cantonal Act Governing the Organization of Banque Cantonale Vaudoise (LBCV) and our role as a modern company mindful of our duties and obligations, we have defined a series of objectives in the area of corporate social responsibility:

1. Contributing to the development of all sectors of the economy of our home region, the Canton of Vaud, and to the financing of public-sector entities, and helping to meet demand for mortgage lending in the Canton.
2. Meeting our clients' needs with high-quality financial products and services.
3. Paying particular attention to the principles of economically, environmentally, and socially sustainable development.
4. Creating lasting value for shareholders.
5. Being a benchmark employer.
6. Playing an active role in the community.

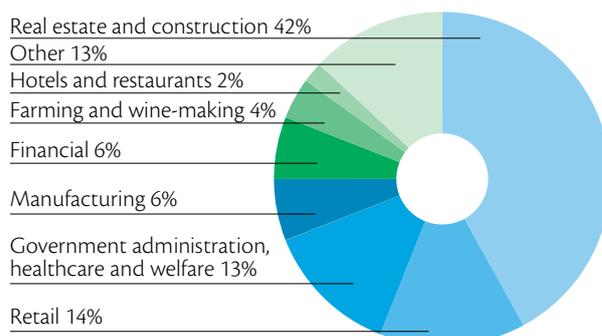
1. Contributing to the economic development of the Canton of Vaud

We are the leading bank in Vaud. The surveys and studies we regularly conduct to assess our market position, along with the fact that half of the Canton's people and companies bank with us, show that we are an integral part of life in Vaud. Thanks to our concerted and ongoing efforts to improve service quality, and despite increasingly fierce competition, BCV is perceived as solid, reliable, and competent. Indeed, since the 2008–2009 financial crisis we have witnessed a significant influx of new funds as a result of expanded business with existing customers and the arrival of many new customers.

Our strong market position in the Canton is the result of several factors: our extensive on-the-ground presence, our understanding of the needs of both individual and business customers, our know-how, our professionalism, and our responsible approach to banking. As the leading bank in Vaud Canton and in accordance with Article 4 of the LBCV, we are committed to contributing to the development of all sectors of the economy across our home region and to the financing of public-sector entities, as well as to helping meet demand for mortgage lending in the Canton.

As part of our *BCVPlus* strategy, we adopted several concrete initiatives between 2009 and 2013 to align ourselves more closely with the needs of our individual and corporate clients. This includes ongoing improvements to our products and services. These efforts continued with our *stratégie2018*, which began in 2014. In 2017, for example, we enhanced our wealth management advisory services offering in the personal banking segment and, for our business customers, we continued to simplify the process for granting and managing loans. And as part of our ongoing drive to deliver top-quality service, we rolled out a number of other initiatives both large and small, such as improving the way we welcome customers at our branches.

Business loans by sector



Source: BCV

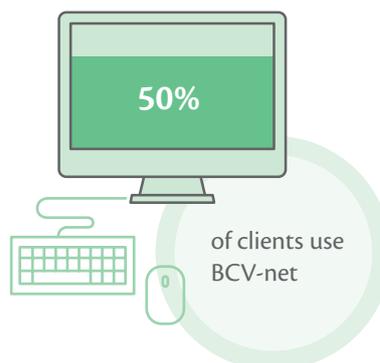
Close ties with our customers

Our local presence is of key strategic importance. We are the Canton's top employer in banking and the most widely accessible bank in Vaud thanks to our dense retail network, which includes nine regional centers of expertise and over 60 branch offices across the Canton (see our retail map and list of branch addresses on pages 192–195). We also offer automated services through our more than 230 ATMs in over 120 locations around Vaud. Most are next-generation machines featuring touch screens for greater ease of use. In 2017, around 10 million transactions were carried out via our ATMs

We believe that our branch footprint effectively aligns with the needs of the dynamic and diversified community and economy that we serve. And we continue to enhance our network each year to meet those needs. Between 2006 and 2013, most of our branch offices were partially or totally renovated, with the aim of making them more comfortable and user-friendly for our customers. This program came to an end with the refurbishment of our head office at Place Saint-François in Lausanne. Since then, we have carried out several smaller-scale projects. In 2017, our Aigle branch was completely renovated, and our Lausanne-Chailly branch re-opened after the building that houses it was rebuilt. Being close to our customers also means being increasingly accessible and in step with changing lifestyles. This is reflected in the convenient opening hours of our branches, with appointments for financial advice available Monday through Friday from 8am to 7pm and on Saturday mornings in some of our shopping center branches. Individuals and businesses can also contact us by telephone or email. Our Customer Service Center is available every weekday from 7:30am to 7:30pm. In 2017, it handled more than 380,000 incoming calls and over 135,000 emails. Our business banking hotline for Vaud companies and the self-employed is available between 8am and 6pm, Monday to Friday. This service handled more than 92,000 enquiries in 2017.

We also provide 24/7 access to our services through our BCV-net e-banking platform and our network of ATMs. BCV-net is very popular: 50% of our customers use it, and more than eight out of every ten payments are made via this platform. In addition, the use of our BCV Mobile app for smartphones and tablets is on the rise. The mobile app allows customers to view balances and transactions

on current accounts, securities accounts, and debit and credit cards, and to make all types of payments. In 2017, our mobile app was used by individual customers for half of their e-banking sessions.



We added new features to BCV-net in 2017, including a fully online mortgage loan renewal process and a section in e-statements just for tax documents to make it easier for customers to fill out their tax return. In addition, BCV-net now features a videoconferencing function – a service that is still rare in Switzerland. Customers can use it to discuss investments or mortgage loan options with a BCV advisor from the comfort of their own home.

We also significantly upgraded our BCV Mobile app and gave it a new interface. Customers can now log in by scanning their fingerprint, manage their e-billing, make payments to non-Swiss accounts, and even run an investment simulator. We are continuing to close the gap between our BCV Mobile and BCV-net services, and our clients can do the majority of their banking anytime, anywhere. 2017 also marked the successful launch of BCV TWINT. An increasing number of customers are using this app to pay for in-store and online purchases, transfer money to other TWINT users, and enjoy store discounts.

We upgraded our website on several fronts. It is now possible to open a BCV account entirely online using an electronic signature and to take out or transfer a mortgage using our new Hypo-net service – all without having to go to one of our branches. On top of that, we created an instant messaging service so that customers can receive real-time responses to their questions.

BCV's TradeDirect platform remains one of the most

competitively priced online trading services in Switzerland. The *tradedirect.ch* website provides access to 25 stock exchanges and over 100,000 investment vehicles, and has powerful market-tracking, search, and analytical tools. An app for smartphones is also available. With this app, users can enter orders, manage their portfolios, track individual stocks, stay up to date with the latest market news, and view ratings and analyses provided by research firm *TheScreener*. Real estate listings website *newhome.ch*, used by BCV and 17 other cantonal banks, saw greater volumes of web traffic, with the number of visits up 10%. On *newhome.ch*, potential buyers can not only view photos but also take a virtual tour of the properties they are interested in. These various physical and digital distribution channels allow us to offer rapid, practical, and efficient services that can be accessed anywhere and at any time depending on our customers' needs.

81% of our lending is local

Our loan book covers all areas of the Canton, with the people and businesses of Vaud accounting for 81% of total lending volumes.

At end-2017, 53% of our outstanding customer loans were to individuals, and 47% to companies across all sectors of the economy as well as public-sector entities. The dedication and enthusiasm of our staff enabled us to maintain our market share despite increasingly stiff competition.

Working with clients in difficulty

In line with our mission, we aim to continue our relationship for as long as possible with individuals and businesses that, for one reason or another, run into temporary difficulties. Specialized staff work with these clients in order to find solutions that will help them restore their financial stability.

Naturally, continuing the business relationship is only possible if the company or individual can be reasonably expected to return to a sustainably sound financial position without any distortion of competition. Our procedures in this respect follow clearly defined rules that meet the highest ethical standards. We have shown that we can manage difficult cases effectively by looking for constructive solutions and working proactively on a case-by-case basis.

2. Meeting our clients' needs

We constantly strive to satisfy the changing needs of our customers – individuals, businesses, pension funds and public-sector entities. Through our various digital and physical channels, we provide products and services that cover the full range of banking requirements.

We offer a comprehensive selection of products and services to Retail Banking customers, who can select the banking pack that best fits their daily banking needs. They

Comparison of mortgage loans, other loans, and workforce distribution, by region

	Broye	Lavaux	Nord Vaudois	Nyon	Morges	Riviera	Chablais	Gros- de-Vaud	Lausanne
Mortgages	4%	11%	14%	17%	11%	11%	7%	9%	15%
Other loans	5%	7%	18%	14%	11%	8%	11%	12%	14%
Workforce distribution	3%	4%	11%	10%	9%	9%	5%	5%	43%

Sources: BCV; Statistique Vaud
 Mortgages: real-estate lending including fixed-term loans secured by a mortgage
 Workforce distribution: Structural Business Statistics, 2015

can also turn to us for their home financing needs and use our asset allocation funds or third-pillar individual retirement accounts to invest their savings for the long term.



1 out of every 3 new homes

All individual customers, regardless of their wealth, can also receive comprehensive financial planning advice and wealth management services. In Wealth Management, we offer a full range of banking and investment solutions and advisory services. Our regional footprint means we have advisors throughout the Canton; clients appreciate knowing that our specialists are close by when they want to sit down and talk over their financial situation or the larger economic picture. In addition, every year we hold four roundtable discussions called “Les Rendez-vous de la Finance” that attract hundreds of private investors looking for insights into key business and market trends.

In Corporate Banking, BCV offers a comprehensive range of products and services, including financing, treasury management, hedging, occupational pension solutions, and advisory services at all stages of a company's life, from start-up to succession. That means we can meet the needs of a very diverse clientele, from artisans serving the local market to multinationals conducting business the world over. Since 2016, some 630 newly created firms have taken advantage of our offer of a year's worth of no-fee services, designed to help them get off the ground.



1 out of every 2 SMEs

In Asset Management & Trading, investors can take advantage of BCV's proven expertise through our comprehensive range of advisory and other services together with investment products, from investment funds and structured products to management mandates

and asset allocation funds in both specific and global investment universes. 2017 was marked by persistently low interest rates – yields on Swiss bonds up to a maturity of ten years were in negative territory for most of the year – and by political events that triggered bouts of market volatility. But BCV's funds and other investment products generated good returns despite the turmoil, both in absolute terms and relative to their benchmark indices.



7 out of every 10 pension funds

Given the current and upcoming regulatory changes affecting financial products, we are adapting our service model and product range accordingly. Our aim is to ensure that all individual and corporate customers are well informed, protected and provided with high-quality service

Corporate Social Responsibility at BCV

We published our 2016–2017 Social Responsibility Report in 2018. Through interviews with people working in all segments of the economy, this sixth edition looks at the impacts of the Bank's activities across Vaud Canton, from financing the handover of a family-owned business to supporting a housing cooperative that builds residences and providing various forms of aid for innovation and startups. The report gives concrete examples of how BCV fulfills its mission as a cantonal bank serving the local economy.

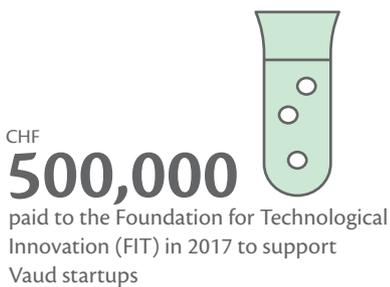
across all our physical and digital distribution channels.

3. Acting on the principles of sustainable development

Sustainable development is one of the core principles framing our activities. Article 4 of the LBCV stipulates that BCV must pay particular attention to the three pillars of sustainable development: economic development, social development, and environmental protection. We are therefore mindful of the impact that our activities may have, and we have a longstanding commitment to these principles. Both our Social Responsibility Report, which we publish every two years, and our current corporate communications campaign highlight the impact of our activities on the Canton.

Economic development is, of course, fundamental for a bank. As part of that, BCV works with companies through every stage of their development: from start-up and growth to maturity and succession. Our partnerships with growing and mature businesses are well known, but our role in business creation and succession is less so. In 2017, we provided around CHF 32m in financing to get 57 startups off the ground in Vaud Canton.

In addition, BCV joined Innovaud, the Vaud Cantonal Government's platform for promoting innovation in Vaud Canton. As part of the Innovaud project, we have committed CHF 500,000 in financing per year for 10 years to the Foundation for Technological Innovation (FIT).



To help encourage budding entrepreneurs in Vaud, for the fifth year in a row BCV organized the Silicon Valley Startup Camp in association with the University of Lausanne (UNIL), the Swiss Federal Institute of Technology in Lausanne (EPFL), the Canton's universities of applied sciences, the Vaud Chamber of Commerce and Industry

(CVCI) and the FIT. Ten students from these local colleges and universities were given the chance to spend a week soaking up the atmosphere of Silicon Valley. They followed a packed schedule of university visits, meetings, and workshops, all organized by Swissnex, a Swiss organization based in San Francisco whose mandate is to strengthen ties between Switzerland and North America in the areas of science, education, art, and innovation. The students learned the basics of starting a business and were given first-hand exposure to the entrepreneurial mindset that is so pervasive in Silicon Valley.

These activities are part of an initiative launched several years ago. In 2011, we published a guide to setting up a business, in collaboration with the CVCI. We also conducted a series of seminars for new business owners of all ages, in collaboration with the CVCI, SAWI (a marketing and communications organization) and GENILEM (a startup support organization). The success of these endeavors has shown that we are meeting a real need.

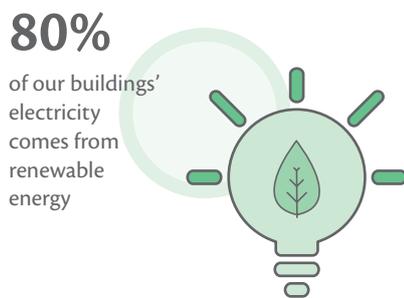
In order to achieve our objective of contributing to the economic development of Vaud Canton, we must ensure that our foundations are solid and that our vision for BCV leads to steady profitability going forward. In keeping with this mission, our strategy targets sustainable growth and a low risk profile.

This approach benefits all our stakeholders. In 2017, for example, we paid out CHF 247m to our majority shareholder (the Canton of Vaud) and to Vaud municipalities. This amount comprised a dividend and cantonal and municipal taxes.

The principles of sustainable development and corporate social responsibility (CSR) are intrinsically linked to our solid presence in all sectors of the Canton's economy. However, these principles are about more than just business and the economy. At BCV, they have an impact across our entire organization. Beyond the ways in which we serve individuals and businesses in Vaud, a commitment to CSR underpins actions like those we take to enable employees to reach their full potential. A further example of this multidimensional approach is our involvement with the local community.

We continued our efforts to reduce our environmental footprint in 2017. We commission an environmental

assessment every year in order to quantify our impact and suggest targeted mitigation measures. While we regularly take steps to reduce our consumption of paper and other supplies and to make our IT system more energy-efficient, most of the potential savings are to be found in our infrastructure, an area we have been investing in for several years. We cut our energy consumption 15% in just five years by installing new electrical equipment. And in 2017, we began renovating the building that houses our Nyon branch to qualify the building for the "Minergie" energy-efficiency certification.



In addition, BCV earned a B grade from the Carbon Disclosure Project (CDP) survey; B is the third-highest of eight grades ranging from A to D-. The Bank has been taking part in the CDP, which measures the greenhouse gas emissions of companies, since 2010.

4. Creating lasting value for shareholders

At BCV, we are committed to creating lasting value for our shareholders. In keeping with this mission, our strategy targets sustainable growth and a low risk profile. We have therefore adopted a dividend policy aimed at generating attractive returns for all our shareholders over the long term.

We paid out a total of CHF 2.9bn to our shareholders for the 2007 to 2016 financial years. We distributed ten ordinary dividends, the first three of CHF 14, CHF 20, and CHF 21, the next five at CHF 22 per share, and the last two at CHF 23 per share, amounting to a total of CHF 1.8bn. We also made ten special distributions, which were tax free for shareholders. The first distribution was CHF 32.50 per share and the following nine were each CHF 10 per share, representing a total of CHF 1.1bn. The first three payments were in the form of par-value reimbursements, while the

following seven were distributions out of paid-in reserves.

Our financial strength, solid market position, and status as a cantonal bank have won recognition from the rating agencies. Standard & Poor's maintained our AA rating for the sixth year running, and Moody's reaffirmed our long-term rating of Aa2 for the third year in a row. Both agencies' ratings are accompanied by a stable outlook. Our ratings attest to the Bank's ongoing efforts in recent years, in terms of both strategy and operations. All of the rating agencies' credit opinions can be found in the Investor Relations section of our website, bcv.ch, or via the free BCV Investor Relations iPad app.

5. Being a benchmark employer

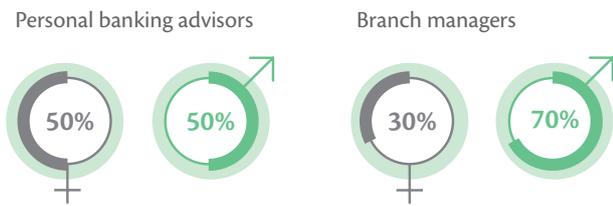
BCV is one of Vaud's leading employers and the largest employer in the Canton's banking sector. We consider our dynamic human resources policy crucial to both our mission and our strategy. Alongside missions and objectives, skills development is a key employee performance factor. We encourage training as a driver of staff motivation and knowledge management. Moreover, we are dedicated to creating workplace equality, promoting diversity, and offering the same opportunities to all staff.

A common corporate culture is an integral part of our human resources policy, which was revised as part of our *BCVPlus* strategy. At the heart of this culture are BCV's four core values: responsibility, performance, professionalism, and close ties with our customers and the broader community. These values are also central to the ethical principles and code of conduct in force within the Group. This code, which is available on our website, was reviewed and expanded in 2013.

Staff

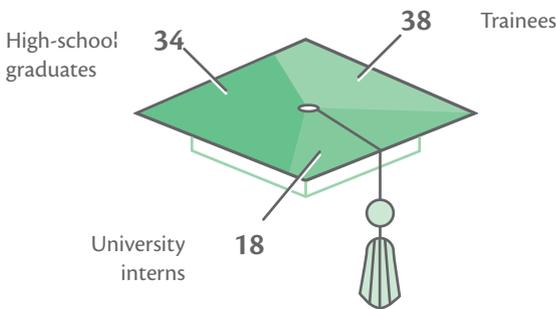
At the end of 2017, BCV Group had 1,922 employees on a full-time-equivalent (FTE) basis, down slightly from the prior year. The parent company accounts for the largest share of the workforce, with a total of 1,916 employees, or 1,724 FTEs. In 2017 we filled 272 positions: there were 150 outside hires, 90 internal transfers, and 32 people we kept on after they had completed BCV internships or training programs. Average staff turnover was 10.5% in 2017. In terms of gender equality, the parent company had 801 female employees (42% of the workforce) at the

end of 2017. Women accounted for 27% of employees with signing authority (254 positions) and 8% of all senior managers (20 positions). In addition, we have 13 women serving as branch managers, where they play a key role in running our retail network. There were 396 women (49% of the Bank's female staff) working part time at the end of the year.



Focus on training

In 2017 BCV provided job training for 104 entry-level employees, including 38 trainees, 34 high-school graduates, 18 university interns and 14 women taking part in the "Rejoignez-nous" training program.



BCV is one of the Canton's main providers of professional training. We have our own training center with around 250 instructors, more than three-quarters of whom work elsewhere within the Bank.

In 2017, the training center focused on skills development for all of the Bank's employees. Client advisors in particular require regular training to be able to keep pace with constant changes in client needs and the regulatory environment. To that end, we adopted a certification system used by several other banks that is in line with the ISO 17024 standard and recognized by the Swiss Association for Quality (SAQ). Several client advisors were certified after passing their exams in 2017.

The participants in BCV's 2017–2018 Micro MBA program, offered in collaboration with the Entrepreneurship and Business Development program at the University of Geneva's Business School, began the program in March. The 23 participants, eight of whom are women, will develop interdisciplinary and project management skills. In addition, 15 BCV employees received post-secondary degrees from outside institutions in 2017, with BCV's support. Through these actions, we are laying the groundwork to fill future leadership roles within the Bank.

Employee benefits

BCV Group provides its employees with comprehensive pension cover well in excess of the minimum legal requirements. The staff pension fund is run as a defined-contribution plan for purposes of retirement benefits, and as a defined-benefit plan for purposes of death and disability benefits.

At the end of 2017, pension fund members comprised 2,036 employees, 1,835 of whom were working at the parent company, and 1,287 pension recipients, including 1,008 retirees.

BCV takes several kinds of action in the interest of employees' health. Our focus is on prevention, for instance by providing flu shots and financing a sports association.

6. Playing an active role in the community

Our local community is important to us, and we take our responsibilities as a corporate citizen in Vaud Canton seriously. In addition to the purely economic aspects of our mission, we provide support for cultural and sporting activities as well as outreach initiatives.

19

disadvantaged Vaud youth received financial aid from the "Mimosa du Bonheur" initiative



Cultural activities are a fundamental part of life in Vaud and a key component of our sponsorship policy. Last year we supported the following cultural events and organizations:

the Paléo Music Festival, Rock Oz'Arènes, the Théâtre du Jorat, the Théâtre de Beausobre, the Cully Jazz Festival, the Tous en Choeur not-for-profit choir, the Maison d'Ailleurs science-fiction museum, the Fondation Bex & Arts open-air exhibition, the Fondation Vaudoise pour la Culture, the Venoge Music Festival, the Fondation du Conservatoire de Lausanne music school, the MUDAC modern art museum, the Fondation de Soutien à la Plate-forme Pôle Muséal (i.e., the Plateforme10 project to convert a railway site into a new arts district), Lausanne-Pully Museum Night, the Théâtre Benno Besson in Yverdon, and the Red Pigs Festival in Payerne.

We also support a number of outreach initiatives, which help bring together the local community. In 2017 these included: Société Vaudoise d'Utilité Publique (an association of social-service institutions), La Paternelle (a not-for-profit mutual insurance company for orphans), the Vaud Red Cross, Ma Vie Ton Sang, the Association Vaudoise des Samaritains (a first-aid training organization), the Fair Play sports organization for the handicapped, and the Fondation Compétences Bénévoles (an organization that provides support services to charities).

The future of Vaud is taking shape in its schools. Last year we presented prizes at schools across the Canton (including primary schools, secondary schools, and universities) and provided support for Lausanne's Centre Sports-Etudes for school-age athletes. Sports activities are also a key part of the social fabric of Vaud and are central to our sponsorship policy. Last year we sponsored a number of sports clubs and events, including: Lausanne 20K, FC Lausanne-Sport, the Fondation Foot Avenir, the Association Cantonale Vaudoise de Football, the Lausanne Hockey Club, the International Hot Air Balloon Festival in Château-d'Oex, the Fondation d'Aide aux Sportifs Vaudois, the Montreux-Les Rochers-de-Naye mountain race, the Mérite Sportif Vaudois, the Nyon Triathlon, and the Leysin Tobogganing Park.

We also support various other important initiatives in the Canton, including the Forum de l'Economie Vaudoise, the Forum des 100, the 20th edition of the Schubertiade music festival in Yverdon-les-Bains, and the Vevey Festival of Images.



For over 10 years we have had links with programs that allow staff members to take part in humanitarian and environmental initiatives in association with non-governmental organizations. In 2017 we supported the following programs: Don du Sang, a blood-donation program; the sale of oranges by the NGO Terre des Hommes; and the Red Cross flower-selling initiative Mimosa du Bonheur. Another initiative close to our heart is BCV Solidarity. Starting in 2012, we decided to replace the end-of-year gift to employees with an annual donation in our employees' name to a humanitarian project somewhere in the world. Every year, a different project is chosen by a working group selected from a pool of volunteers. In 2017, BCV Solidarity supported a project run by agro-sans-frontière.ch, a local association based in Buchillon, to build a cold storage facility in Niamey, Niger, for farmers to store potatoes. And, exceptionally in 2017, BCV funded a second association – Lausanne-based Association d'Entraide Vietnam Hue Suisse – which works with orphans and impoverished children from the region of Hue in Vietnam. Thanks to BCV's donation, the association will be able to build two bridges to provide safe access to nearby schools.

In addition, BCV supports its employees' involvement in the community, thereby contributing to their personal development. In 2017, some 200 staff members were actively involved in a variety of societies, associations and other organizations of a social, political, cultural, or sporting nature. However, BCV has a policy to not provide any type of formal support to any political party or organization.

More detailed information about the Bank's contributions to our community can be found in BCV's Social Responsibility Report (available in French only) on our website, bcv.ch.





Year in Review

Economic Environment

The global economy improved in 2017. Growth accelerated from 3.2% in 2016 to 3.7% in 2017, driven by both developed and emerging economies. In particular, the upturn continued in the eurozone – Switzerland's main trading partner – and that caused the euro to rally against the main currencies.

However, despite the upbeat global economy, growth eased in Switzerland and Vaud Canton. In Vaud, growth slowed from 1.7% in 2016 to 0.8% in 2017, and for the country as a whole it slowed from 1.4% to 1.0%, because of weak momentum in the tertiary sector in the first half of the year. On the plus side, the euro's rally against the Swiss franc and the strong global economy provided a boost to manufacturing, ensuring that economic growth remained positive in both Vaud and Switzerland as a whole.

Improving global economy

After several disappointing years, global growth bounced back from 3.2% in 2016 to 3.7% in 2017 according

to the International Monetary Fund's (IMF) World Economic Outlook Update in January 2018. There was an improvement in developed economies – particularly the US and the eurozone – and in emerging markets, primarily Russia and Brazil, which had suffered badly from the weak commodity prices in recent years. In addition, unlike in previous years, growth forecasts and estimates saw more upgrades than downgrades.

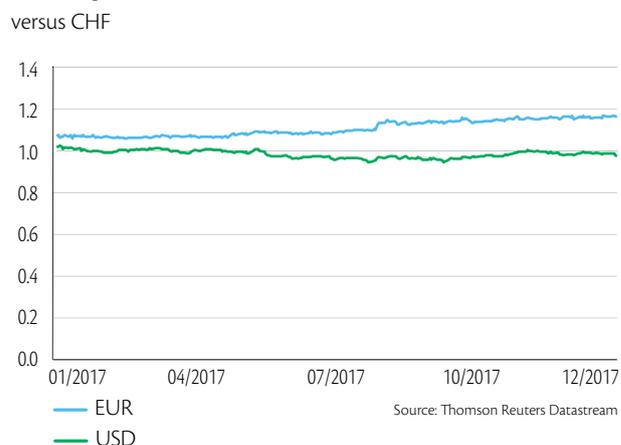
In the US, the world's largest economy, growth accelerated from 1.5% in 2016 to 2.3% in 2017. The US Federal Reserve decided that the economy was strong enough for it to raise interest rates another three times, after hiking rates once in 2015 and once in 2016. In addition, the US economy did not suffer from the discord surrounding the new president's policies. The other major developed economies also saw growth accelerate in 2017, except for the UK, which was held back by uncertainty surrounding the Brexit negotiations. Eurozone GDP grew 2.4% last year versus 1.8% in 2016.

The brighter global economy led to higher commodity prices and renewed impetus in global trade. That benefited

GDP growth around the world



Exchange rates



emerging economies, which grew 4.7% in 2017 as opposed to 4.4% in 2016. Although China saw only a modest acceleration – from 6.7% to 6.8% – other countries like Brazil and Russia were able to pull out of recession.

Vibrant financial markets

The upbeat economic climate set the scene for good stock market performance in 2017, with some share-price indices moving close to record highs or setting new ones. The Swiss Market Index (SMI), made up of the largest companies listed on the SIX Swiss Exchange, rose 14.1% and approached the 9,500 level first crossed in 2007. In the US, the S&P 500 was up 19.4% and broke through 2,600 for the first time in its history. The MSCI Emerging Markets Index (USD) jumped 34.3%, taking it close to its 2007 peaks. The Euro Stoxx 50 eurozone blue-chip index, meanwhile, saw a more modest gain of 6.5% and remained well below its all-time highs.

Bond yields moved sideways in 2017. The yield on 10-year Swiss government bonds moved within a range of –0.31% to 0.04%, starting the year at –0.20% and ending it at –0.13%. In Germany, movements in the 10-year Bund yield were similar, going from 0.20% at the start of January to 0.42% at the end of December, with a year low of 0.18% and a year high of 0.57%. In the US, the 10-year Treasury yield fluctuated between 2.05% and 2.61%, falling slightly in the spring and summer before rising again in the fall. Having started 2017 at 2.45%, it ended the year at 2.41%.

There was little movement in short-term interest rates. The Swiss National Bank (SNB) maintained an interest rate of –0.75% on sight deposits in excess of a given exemption threshold. The European Central Bank left its deposit facility rate at –0.4%, while the US Federal Reserve, after hiking rates once in 2015 and once in 2016, raised the fed funds target range a further three times from 0.5%–0.75% to 1.25%–1.5%.

Inflation remained low around the world. In Switzerland, however, it rose back into positive territory, reaching 0.5% on the back of higher rent and energy prices. Prices rose 1.4% in the eurozone and 2.1% in the US.

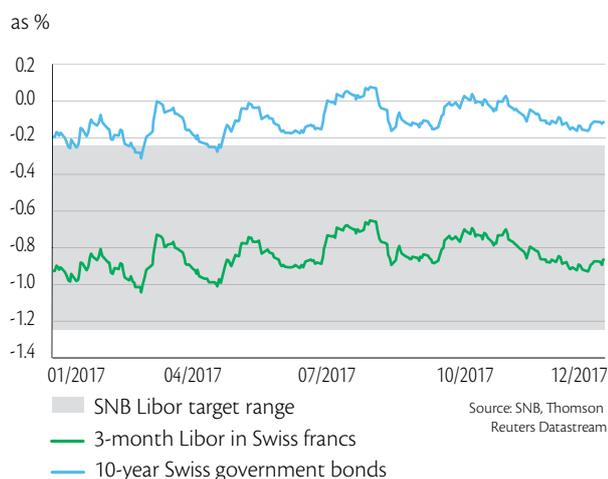
The price of gold edged upward, but remained well below its 2013 highs. Gold ended the year up 12.7% at USD 1,291 per ounce or CHF 40,515 per kilo (+6.3%).

In the forex market, the euro gained 8.9% against the Swiss franc, rising from CHF 1.07 to CHF 1.17. However, the dollar slipped 4.3%, from CHF 1.02 to CHF 0.97.

Slower Swiss growth

According to figures published by the State Secretariat for Economic Affairs (SECO) in December 2017, Swiss GDP growth weakened from 1.4% in 2016 to 1.0% in 2017, despite the strong global economy. The slowdown was caused by weaker growth in the tertiary sector in the first half of the year. However, that did not signal the start of

Interest rates



Stock market indices in local currency terms



a major economic downturn. Although growth slowed, Switzerland’s economic expansion continued and leading indicators remained high.

Manufacturers benefited throughout the year from the weaker Swiss franc and the stronger global economy. Accordingly, Swiss exports rose 4.7% in nominal terms to CHF 220.4bn, a new record.

The job market was also solid. Unemployment fell slightly, slipping from an average of 3.3% in 2016 to 3.2% in 2017. In the fourth quarter of 2017, secondary- and tertiary-sector jobs were up 0.6% year on year, totaling 3.9m (on a full-time-equivalent basis). Employment rose 0.8% in the secondary sector to 1.0m, after falling in 2015 and 2016, and grew by 0.6% in the tertiary sector to 2.9m.

Slight pause in Vaud Canton

The Vaud economy similarly paused for breath in 2017. The Canton’s growth slowed from 1.7% in 2016 to 0.8% in 2017, according to January 2018 figures from the CREA Institute. As in the Swiss economy as a whole, the slowdown was due to sluggish growth in the tertiary sector and a high comparison basis caused by upgrades to 2016 figures. But

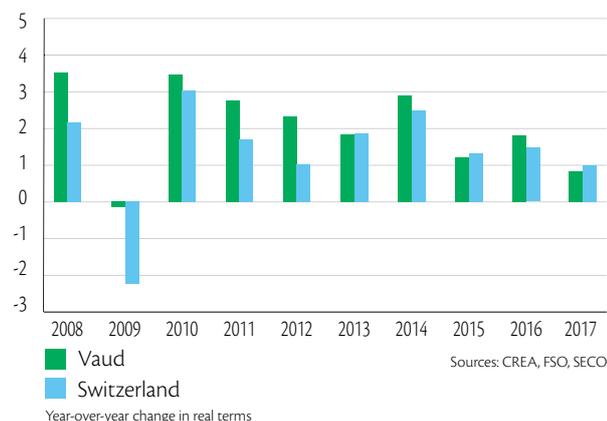
again, like Switzerland as a whole, Vaud did not experience a major economic downturn, as shown by indicators published by the Commission Conjoncture Vaudoise (CCV) and by the Vaud Chamber of Commerce and Industry (CVCI) fall survey. In the survey, 35% of companies said they found business trends either good or excellent, while a further 48% found them satisfactory.

Like their peers elsewhere in the country, Vaud’s manufacturers benefited from the weaker Swiss franc and the dynamic global economy. As a result, Vaud’s exports rose 5.5% in nominal terms to an all-time high of CHF 13.9bn. They were driven by stronger demand for pharmaceutical and food products, along with precision instruments and watches. Europe accounted for most of the increase in export sales, well ahead of Asia and North America.

The Vaud job market was also firm. The number of jobs (on a full-time-equivalent basis) in the Canton was up 0.9% year on year in the fourth quarter of 2017, driven by a 3.9% increase in the secondary sector. Tertiary-sector jobs saw more-limited growth of 0.2%. As in Switzerland as a whole, the local unemployment rate fell, from an average of 4.7% in 2016 to 4.5% in 2017. However, that figure masks significant regional differences. Unemployment was below the Vaud Canton average in Gros-de-Vaud (2.9%), Lavaux-Oron (3.3%), Morges (3.6%), and Nyon (3.7%), while it was close to the average in Jura-Nord Vaudoise (4.5%) and Broye-Vully (4.6%). Unemployment was above average in Riviera-Pays-d’Enhaut (4.8%), Aigle (4.9%), West Lausanne (5.3%), and Lausanne (5.8%). The Lausanne region saw the sharpest fall in unemployment, with a 0.5-point decrease.

Vaud and Swiss GDP growth

as %



Soft landing in the real-estate market

The Vaud real-estate market continued the soft landing that began in 2013. According to figures from Wüest Partner, prices of owner-occupied housing rose slightly after falling for several years, but remained below their all-time highs. House prices increased 4.7% in 2017, but remained 4.2% lower than in 2014. Apartment prices were up 4.1%, yet 1.4% below their 2015 levels.

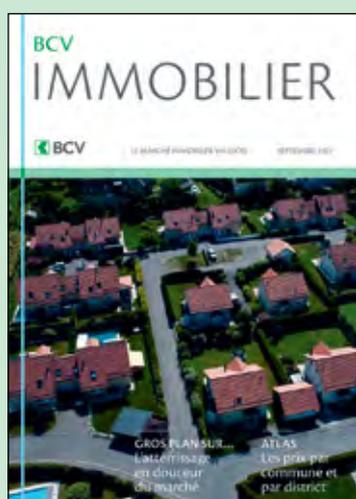
High prices, stringent criteria for homebuyers, and weaker population growth limited the number of potential buyers. However, low interest rates continued to stimulate the housing market. In certain cases, such as apartments in

Lausanne and West Lausanne and houses in Broye-Vully and Jura-Northern Vaud, prices hit new highs in 2017. In addition, some buyers decided to focus on more basic or smaller properties, and prices in that category did not decrease.

Nevertheless, the market for owner-occupied housing slowed, as reflected in the falling number of new residences being built in that segment. Vaud Canton has seen around 5,000 new homes per year since 2013, but the proportion intended for owner-occupiers has fallen from around two thirds on average between 2005 and 2014 to around half in 2017. The housing market is also becoming less stretched.

Since hitting a low of 0.4% in 2009, the vacancy rate has been rising, reaching 0.9% in 2017, and rents have fallen by 13.7% overall in Vaud since 2013.

However, the investment real-estate market remains strong, for both institutional investors and individuals seeking alternatives to putting their money in bonds. Prices rose and spending on rental property construction increased sharply in 2017, suggesting that the rental market will continue to ease. Some observers are concerned that there will eventually be a correction in this market, caused by a combination of high prices, large-scale construction activity, and slower population growth.



Launch of BCV Immobilier

In the fall of 2017, BCV published the first edition of BCV Immobilier, a new half-yearly report on the Vaud real-estate market. Although no substitute for advice from a real-estate professional, the 24-page guide provides valuable information to prospective buyers, homeowners, individuals, and businesses wanting to keep up to date with market developments. In this first edition, BCV Immobilier focuses on the slowdown in the Vaud real-estate market since 2014–2015, along with its causes.

The report (in French only) can be downloaded from the BCV website at bcv.ch

Vaud Canton and Switzerland in figures

	Vaud	Switzerland
Area	3,212 km ²	41,285 km ²
Population (end-2017 est.)	790,700 inhabitants	8,480,500 inhabitants est.)
Population density	246 inhabitants/km ²	205 inhabitants/km ²
Working population (2016)	414,566	4,612,897
Number of companies ¹	57,925	675,506
Primary sector	6.7%	8.3%
Secondary sector	13.6%	14.3%
Tertiary sector	79.7%	77.5%
Jobs	434,853	5,078,915
Primary sector	3.0%	3.2%
Secondary sector	16.8%	21.4%
Tertiary sector	80.2%	75.4%
Unemployment rate (2017 average)	4.5%	3.2%
GDP (2017 est.)	CHF 53.1bn	CHF 659.0bn
GDP/inhabitant	CHF 67,150	CHF 77,710

¹A company or part of a company (e.g., a workshop or factory) located in a given place

Sources: Structural Business Statistics 2014, FSO, SECO, CREA

Outlook

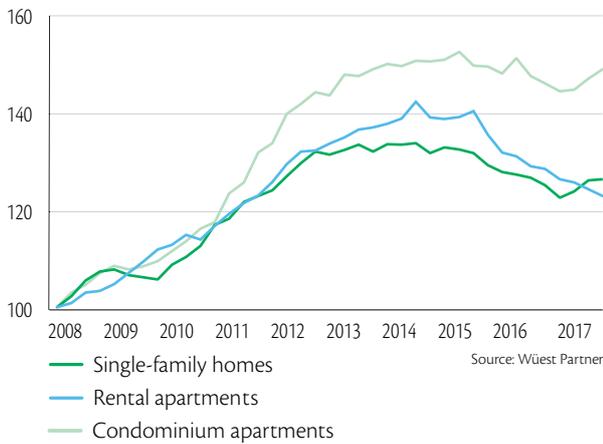
Economic forecasts published in late 2017 and early 2018 are relatively positive. In January 2018, the IMF projected a slight acceleration in global growth to 3.9%, with conditions similar to 2017. Growth is likely to be robust in the US, the eurozone,

and other industrialized economies, while it should continue to accelerate slightly in emerging markets. However, a number of uncertainties remain. For example, the outcomes of the Brexit process, monetary-policy normalization in the US, and the upcoming normalization in the eurozone are hard to predict. In addition, there are various sources of geopolitical tension throughout the world.

In both Switzerland and Vaud, forecasts are suggesting that economic growth will rebound significantly. SECO expects the Swiss franc to continue weakening and GDP growth to rise to 2.3% in 2018. In Vaud, CREA expects GDP to expand 2.4%. As is the case worldwide, however, many risks remain. Unexpectedly weak global growth or a rise in the Swiss franc could cause economic conditions to deteriorate in Vaud and Switzerland as a whole. At the national level, Switzerland faces some uncertainty about its relationship with the European Union. In Vaud, the Cantonal Government has confirmed that the Vaud corporate tax reform will come into force in 2019, which is good news for the Canton's economy.

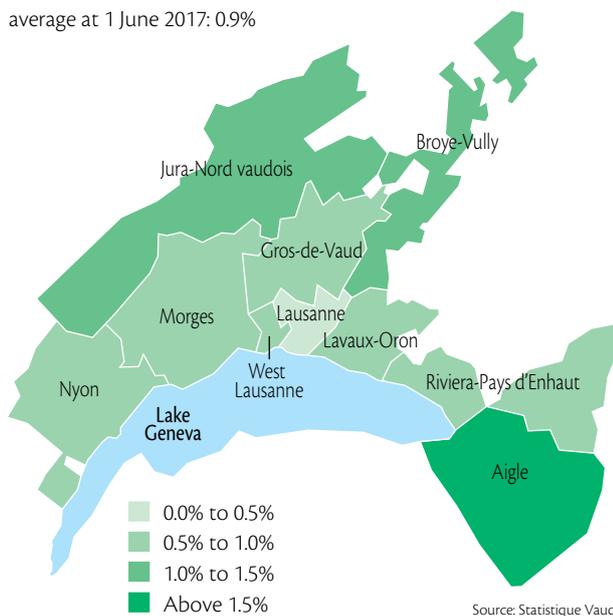
Real-estate prices in Vaud

indices, base of 100 in Q1 2008



Housing vacancy rates in Vaud

average at 1 June 2017: 0.9%



Further population growth

The number of people who reside permanently in Vaud Canton rose in 2017 by around 8,250 (+1.0%) to 794,384, according to estimates from Statistique Vaud. This marks yet another year of deceleration, and Vaud's population growth in 2017 was its lowest in more than 10 years.

Since 2001, the average increase had been around 10,000 per year, with peaks in 2008 (16,300) and 2011 (13,400) as a result of high net immigration. The number of residents has risen more quickly in Vaud than in Switzerland as a whole since 2003, although the population growth gap between Vaud and Switzerland has narrowed since 2014 against a backdrop of weaker economic growth.

Interest rates are unlikely to rise substantially in Europe – including Switzerland – over the next twelve months.

Economic sectors in the Canton

Vaud Canton has a highly diversified economy, which enabled it to endure the difficult years of the global economic crisis and maintain healthy growth rates, cope fairly well with the impact of the SNB's decision to scrap the euro/Swiss franc exchange-rate floor in 2015, and stage a recovery since then. Most of the Canton's main economic sectors held up relatively well in 2017, although to varying degrees.

Primary sector

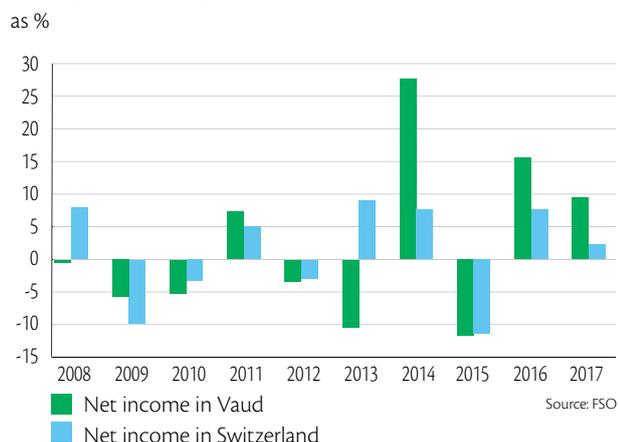
2017 continued the positive trend set in 2016 for Vaud farmers. Data from the Federal Statistics Office (FSO) show that the value of farming output rose 2.6% to CHF 1.2bn in 2017, while total farm income was up 9.4% to CHF 388m. Vaud's fruit crops were less affected than other crops by the

mid-April frosts, which came after a mild start to the spring. Major crops enjoyed better weather conditions than in 2016 and yields increased, while livestock production was relatively stable.

Wine harvests were affected by the frosts, which hit several wine-growing regions in Vaud, and new wine production fell 12.0% to 26.7 million liters. However, weather conditions in late spring and summer were warm and dry, resulting in a high quality of grapes harvested according to Vaud's Department for Agriculture and Winegrowing. In regions not affected by the frosts, yields were close to quota limits. In addition, weather conditions meant that there was relatively little pest damage.

Vaud is a major contributor to Swiss farming output (11% by value), second only to Bern. The Canton accounts for the largest share (19%) of the country's crop production. It is Switzerland's leading producer by value of grain, industrial crops, potatoes, and fresh vegetables, but is less active in the production of livestock and feed crops.

Change in farming income



2017 growth by economic segment in Vaud

Growth above 2%

Chemicals, pharmaceuticals, rubber, glass, metallurgy, etc.
Hotels and restaurants
Machinery, instruments, watches, etc.

Growth of 0.5% to 2%

Finance and insurance
Real estate, business services, etc.
Construction

Growth of -0.5% to 0.5%

Government administration, healthcare, education, sports, etc.
Primary sector
Water and electricity production and distribution
Transport, postal services, telecommunications, publishing
Wholesale and retail distribution, repairs, etc.
Food, textiles, leather, wood, paper

Source: CREA, FSO, SECO

Secondary sector

2017 was a better year for industrial activity, which was boosted by the healthier global economy and the Swiss franc's decline against the euro. According to the CVCI fall 2017 survey, more than 80% of companies found business trends at least satisfactory. Domestically oriented firms, particularly those operating in the construction industry, benefited from Switzerland's robust domestic economy.

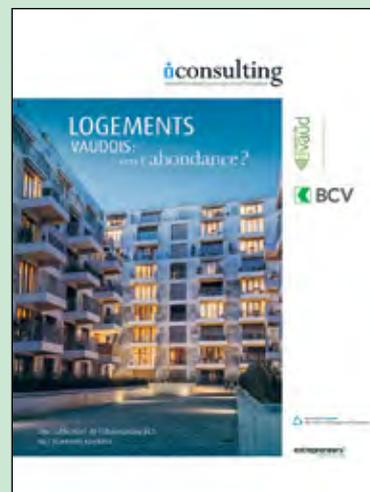
Manufacturing

According to the CCV's December 2017 survey of manufacturing business conditions, Vaud's manufacturers ended 2017 on a positive note, with 23% of those surveyed reporting higher business levels and only 11% reporting a decrease. The indicator of manufacturing business conditions moved back into positive territory, with 80% of respondents saying that business conditions were at least satisfactory – including 21% saying they were good – while nine out of ten reported that their foreign order books were healthy. Although the effects of the Swiss franc's sharp rise in early 2015 (after the Swiss National Bank removed the exchange-rate floor) had not been fully erased, the situation in late 2017 was less difficult than in previous years. Vaud manufacturers took full advantage of the stronger euro and the improvement in the global economy. The CCV saw a pick-up in all areas of manufacturing: chemicals, plastics, electronics, optics, precision instruments, metals, metalworking, wood, and other non-metallic products.

Vaud's exports were strong, rising 5.5% in nominal terms to a new record of CHF 13.9bn, driven by stronger demand for pharmaceutical and food products, along with precision instruments and watches. Europe accounted for most of the increase in export sales, well ahead of Asia and North America.

Construction

The construction industry benefited from a large number of rental housing projects. The CCV's indicator of construction business conditions remained positive overall, with respondents more optimistic about the outlook in structural works, civil engineering, and non-structural and technical fit-out work. Overall, prices remained under substantial pressure and the number of people working in construction rose 2.0% to 27,220.



“Housing in Vaud: abundant supply in the pipeline?”

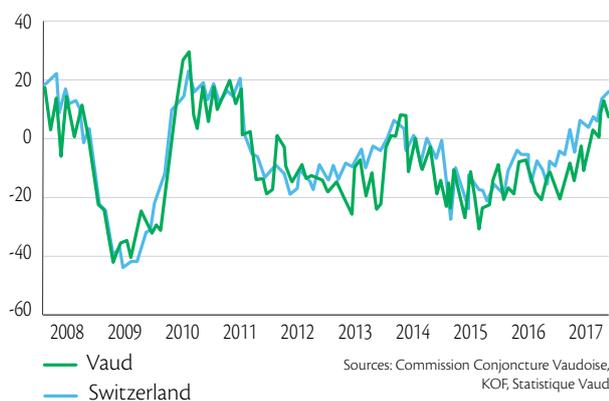
This study is the fourth in a series looking at Vaud's housing shortage, and shows that the 2013 amendment to Switzerland's regional planning act has slowed the easing of the Vaud housing market, without stopping it entirely. The Canton's housing shortage looks set to end in 2020. The study also raises a new issue: the need to match the supply of housing with households' aspirations in a market that is more balanced and could even become oversupplied. The study, published by the Observatoire BCV de l'Economie Vaudoise (an economic think-tank housed at BCV), was produced by iConsulting with editorial, logistical, and financial support from the Canton of Vaud, BCV, the Fédération Vaudoise des Entrepreneurs (Vaud federation of entrepreneurs), and the Association Romande des Maîtres d'Ouvrage d'Utilité Publique (association of public-interest project owners in French-speaking Switzerland).

The report (in French only) can be downloaded from the BCV website at www.bcv.ch.

Structure of the Vaud economy

Sectors and segments	Share of Vaud GDP (2017)	Full-year growth (2008-2017)	Jobs (2015)	Share of total jobs (2015)
Primary sector	0.9%	-1.3%	13,231	3.0%
Agriculture, forestry, hunting, fishing	0.9%	-1.3%	13,231	3.0%
Secondary sector	20.4%	1.7%	72,967	16.8%
Food, textiles, leather, wood, paper	2.3%	-0.3%	1,374	2.6%
Chemicals, pharmaceuticals, rubber, glass, metallurgy, etc.	8.7%	7.4%	11,453	2.6%
Machinery, instruments, watches, etc.	4.3%	-2.2%	17,892	4.1%
Water and electricity production and distribution	1.4%	-3.5%	4,039	0.9%
Construction	4.2%	1.9%	28,209	6.5%
Tertiary sector	75.7%	2.0%	348,655	80.2%
Wholesale and retail distribution, repairs, etc.	15.9%	3.1%	54,339	12.5%
Hotels and restaurants	1.6%	-0.1%	20,699	4.8%
Transport, postal services, telecommunications, publishing	5.1%	1.0%	18,132	4.2%
Finance and insurance	7.2%	0.8%	30,736	7.1%
Real estate, business services, etc.	21.4%	1.6%	75,230	17.3%
Government administration, healthcare, education, sports, etc.	23.3%	2.5%	142,966	32.9%
Other (including rental values)	1.1%	0.6%	6,553	1.5%
Total Vaud GDP (after adjustments)	100.0%	1.9%	434,853	100.0%

Sources: CREA, FSO

Composite index of business sentiment in manufacturing
net positive responses

Change in exports by year

as %

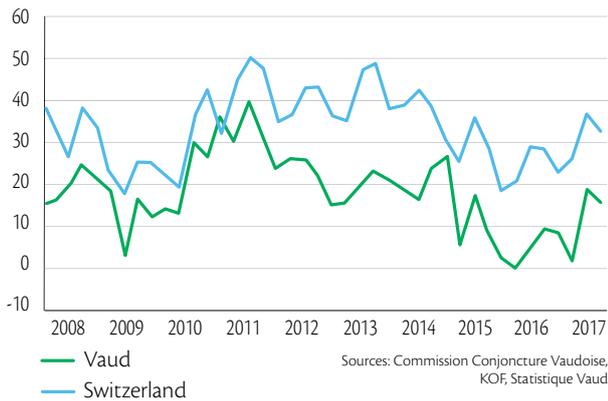


Tertiary sector

The tertiary sector went through a rough patch in the first half of 2017. In particular, retailers and providers of some business services saw slower growth. However, there was no major economic downturn, and more than eight out of ten tertiary-sector companies surveyed by the CVCI last fall were at least satisfied with current business trends. Hotels and restaurants also saw improved conditions.

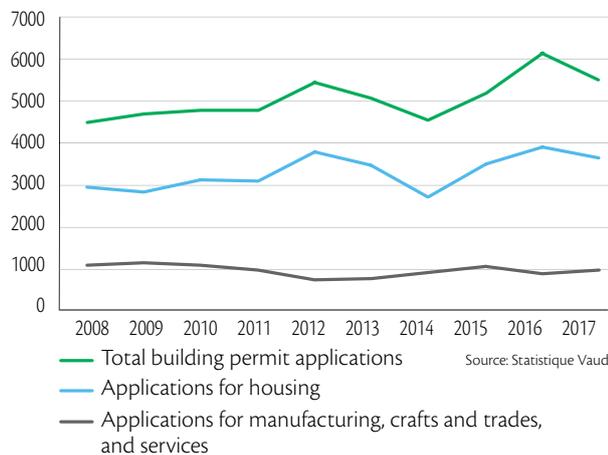
Business sentiment in construction

net positive responses



Value of work from building permit applications in Vaud

in CHF millions



Wholesale and retail distribution

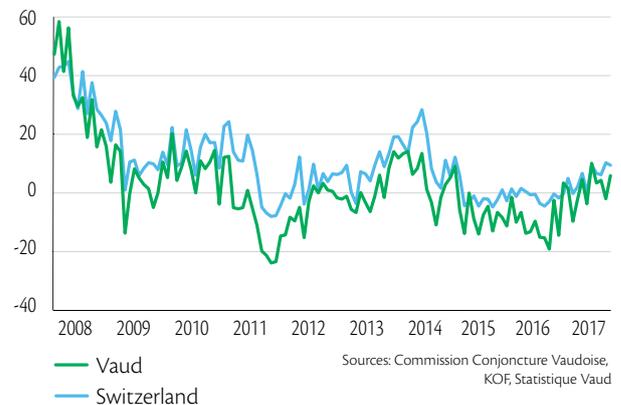
2017 was another difficult year for this sector. Although consumer spending improved, it remained relatively weak, and retailers were not helped by pressure on prices, competition from e-commerce, and Swiss consumers continuing to shop abroad as the franc remained overvalued against the euro. In Switzerland, retail sales fell by 0.5% in real terms, although that was less than the 1.8% decline seen in 2016. Although food sales were relatively stable, spending on clothing, footwear, and cultural and leisure activities was lower. Small and medium-sized companies in the sector suffered more than large retailers. In Vaud, the CCV survey showed weaker business levels and margins until the summer, followed by an improvement in the second half of the year. The survey's indicator regarding selling prices also rose during 2017.

Hospitality services

Hotels and restaurants saw improved conditions. The number of overnight hotel stays maintained the upturn that began in 2015, rising by 3.4%. Overnight stays by Swiss guests rose, but the increase was mainly driven by guests from abroad; i.e., the US, Germany, China, other

Business sentiment in the retail sector

net positive responses



Asian countries, and the Middle East. This growth partly reflected the weaker Swiss franc and the stronger global economy. Overnight stays in mountain hotels were hit by poor snowfall in the 2016–2017 winter season, but those same hotels benefited from good snow conditions in December 2017. Hotel occupancy was also firm in the Lausanne region. For restaurants, the situation improved as consumers regained confidence. Although margins remained weak, restaurant owners were less negative about revenues than they were in 2016.

Services

Business and personal services, which cover a variety of activities and form a large part of the Vaud economy, were supported by firm domestic demand. The business trend indicator remained in positive territory in 2017, although it was lower than in previous years, showing weaker momentum.

Regional roundup

The broad trends discussed in the previous pages were reflected in the various regions of Vaud Canton. However, each region has specific points worth mentioning.

Broye

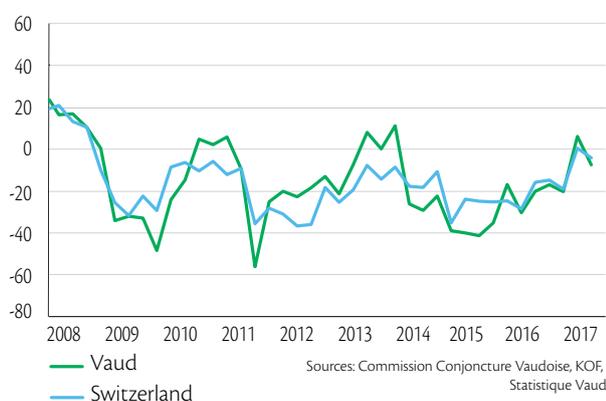
Although prices of single-family homes hit new records in 2017 according to Wüest Partner figures, the large number of new homes coming onto the market meant that the region’s vacancy rate was significantly higher than the cantonal average, and it took longer than in other regions to find tenants for vacant homes. That resulted in a slight slowdown in construction activity. Farming fared well in 2017, with normal yields and high-quality crops.

Chablais/Vaud Alps

Mountain resorts had a difficult start to the year because of the Swiss franc’s continuing strength against the euro and a lack of snow, and so the number of overnight stays remained low. The situation improved during the year because of a good summer and a promising start to the 2017–2018 winter season. The real-estate market was calm in the Vaud Alps. Away from the mountains, the proportion of residential properties lying vacant increased, while construction activity slackened and house prices eased. Manufacturers’ margins remained under pressure, although slightly less so than in 2016.

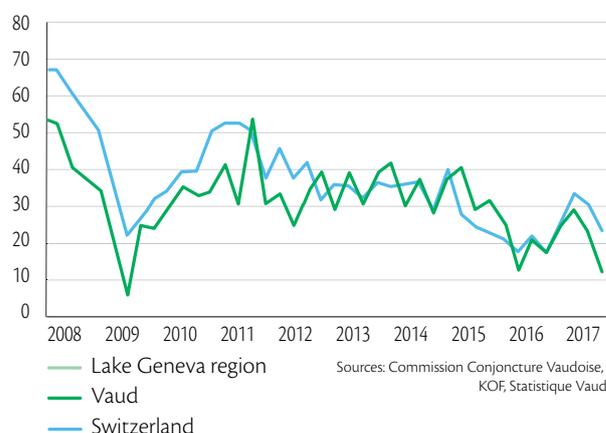
Sales index in the hotel and restaurant industry

net positive responses



Sales index in the services sector

net positive responses



Gros-de-Vaud

Demographic trends continued to support business levels. Construction activity remained robust, although certain projects took some time to come to fruition. Like elsewhere in the Canton, prices remained under pressure in the construction industry. The region's manufacturers were resilient, even though competition remained tough.

Lausanne

Lausanne's tertiary sector, which accounts for 90% of jobs in the region, had a good 2017, although there were a few exceptions. Retailers suffered from ongoing subdued consumer spending and competition from e-commerce, although they were a little more resilient than those in smaller towns. Hotel occupancy was good, although prices remained under pressure. Economic activity was supported by large numbers of housing and infrastructure construction projects.

Lavaux

The downturn in the real-estate market in the southern part of the region – and in Pully and Lutry in particular – was also seen in towns farther away from Lake Geneva such as Oron and Jorat-Mézières. Although construction order books remained strong, profitability and cash management were still issues for the industry. Close to Lake Geneva, there was a trend towards knocking down individual homes and replacing them with small rental developments in order to maximize returns from land, which remained very expensive.

Morges

Construction of rental homes made up for weaker growth in construction for owner-occupiers. Several major projects should help ease the pressure on the market's vacancy rate in the next two to three years. Construction companies therefore had a good year, despite reduced visibility caused by smaller order books. For manufacturers, the restrictive impact of the strong Swiss franc faded as the currency weakened. Business hubs, particularly Littoral Parc in Étoy and the industrial estate in Aclens, saw a slower pace of development, and retail and office space remains available.

Nord Vaudois

Watchmakers suffered from weak foreign sales in early 2017. However, the improved outlook in the fourth quarter led to higher order intake. Manufacturers in segments like machinery, precision instruments, and plastic injection, which are focused on exports or work for customers that themselves sell abroad, benefited from the weaker franc. The Y-Parc technology park continued to grow, and several major businesses announced plans to move there. The real-estate market remained relatively stable in terms of both prices and demand in Yverdon-les-Bains, Orbe, Chavornay, and Grandson.

Nyon

The rental real-estate market clearly started to ease in 2017 as many new homes came onto the market. There was a downturn in commercial property as the influx of foreign companies into the region slowed. Hotels enjoyed improved conditions because of the weaker Swiss franc, although restaurants saw lackluster business levels.

Riviera

Hotels continued to experience an increase in overnight stays, driven by the region's tourist appeal. Trends were also positive for private schools and clinics. Retailers' business models were increasingly disrupted by changing consumer habits. The real-estate market remained brisk, but the high level of construction activity means that the market could become oversupplied.

Economic structure by BCV region

	Broye	Chablais	Gros-de-Vaud	Lausanne	Lavaux	Morges	Nord Vaudois	Nyon	Riviera
Population at end-2017	33,154	50,236	63,593	234,097	60,661	76,575	92,863	99,579	83,626
Population growth in 2017	+2.1%	+0.5%	+1.4%	+1.3%	+1.1%	+0.7%	+1.0%	+1.0%	+0.3%
Proportion of Canton's population	4.2%	6.3%	8.0%	29.5%	7.6%	9.6%	11.7%	12.5%	10.5%
Jobs (2015)	14,830	22,095	23,997	185,725	20,724	38,857	46,965	43,439	38,221
Proportion of Canton's jobs	3.4%	5.1%	5.52%	42.7%	4.8%	8.9%	10.8%	10.0%	8.8%
Jobs in the primary sector	10.2%	7.5%	6.4%	0.2%	6.0%	5.7%	5.4%	3.6%	1.5%
Jobs in the secondary sector	26.3%	22.5%	31.2%	10.3%	16.5%	20.9%	32.2%	15.0%	11.2%
Jobs in the tertiary sector	63.5%	70.0%	62.3%	89.5%	77.5%	73.4%	62.4%	81.3%	87.3%
Average unemployment in 2017	4.6%	4.7%	3.2%	5.8%	3.3%	3.6%	4.4%	3.7%	4.8%
Change in unemployment in 2017	-0.3%	-0.3%	-0.3%	-0.4%	+0.0%	-0.0%	+0.1%	-0.1%	-0.2%

Sources: Statistique Vaud, FSO, SECO

Year in Review

BCV in 2017

We delivered very solid 2017 results despite the negative-interest-rate environment. Total revenues were stable at CHF 967m. Driven by firm cost control and a decrease in depreciation and amortization, operating profit edged up 1% to CHF 387m, and net profit rose 3% to CHF 320m.

In 2017, we pressed ahead with our current strategic phase, *stratégie2018*. As part of our initiative to enhance our online services, we further expanded our digital offering to support customers as they increasingly migrate to digital channels. Our aim is for them to be able to conduct almost all of their day-to-day banking through the channel of their choice. They can now open an account and apply for, renew, or transfer a mortgage online, as well as speak with an advisor via videoconferencing. We also launched the BCV TWINT app – Switzerland's digital wallet. In addition, we made progress on some important behind-the-scenes projects aimed at improving our internal processes and the quality of our services.

A mixed economic environment

The global economic recovery, which began in the spring of 2016, remained on track. Economic output rose in developed economies and emerging markets alike, and growth estimates were revised upwards. In January 2018, the International Monetary Fund estimated global growth at 3.7% in 2017, versus 3.2% in 2016.

The Vaud economy and that of Switzerland as a whole experienced moderate growth. Although GDP growth eased in 2017 in both Switzerland (to 1.0%) and Vaud (to 0.8%), economic indicators and surveys did not identify any major disruptions, just a slowdown in the services sector at the start of the year. And manufacturing in Switzerland was boosted by rising output worldwide and the franc's depreciation against the euro.

In the cross-border banking business, implementation of

the automatic exchange of tax information continued. Switzerland has now signed agreements with a number of jurisdictions, including the European Union, and the first exchanges are due to take place in 2018. At BCV, the realignment of our offshore private banking business on tax-compliant clients in around 15 countries is now complete.

The property market in Vaud Canton continued to stabilize after rising for 15 years. Prices for apartments and single-family homes ticked back up after declining in 2016, but remain broadly below the highs of recent years. In addition, the proportion of new home starts intended for owner-occupied housing declined, dropping from an average of around two-thirds between 2005 and 2014 to approximately half in 2017.

Continued growth in customer-driven business volumes

Mortgage lending rose 1.5%, or CHF 370m, to CHF 25.4bn. Other loans remained stable at CHF 4.8bn. On the liabilities side of the balance sheet, the expansion in customer deposits continued, with a rise of 4% (+CHF 1.3bn) to CHF 30.5bn. Total assets were up 3% to CHF 45.4bn.

The Group's assets under management expanded 1% to CHF 86.5bn. Without the CHF 5.3bn outflow relating to the transfer of Swisscanto funds, AuM grew by CHF 6.4bn (+5%). Net new money totaled CHF 2.3bn.

Financial results

Total revenues were stable at CHF 967m despite higher business volumes. In an environment marked by continued negative interest rates, net interest income before loan impairment charges increased 3% to CHF 498m. Net interest income was flat at CHF 478m owing to new provisions for credit risk. Commission and fee income advanced 3% to CHF 316m. Net trading income, which derives mainly from client forex trading activities, remained solid at CHF 134m (–4%). Other ordinary income dropped 8% to CHF 39m.

Operating expenses were stable at CHF 508m. Personnel costs (CHF 337m) and other operating expenses (CHF 171m) were both unchanged. Depreciation and amortization decreased 3% to CHF 70m. Driven by continuing firm cost control, operating profit edged up 1% to CHF 387m, attesting to the Group's earnings stability.

Extraordinary income came in at CHF 17m, up CHF 10m on the 2016 figure. This increase is due mainly to a non-core real-estate disposal, which will also positively impact the Bank's results in 2018, by CHF 27m. Net profit was up 3% to CHF 320m.

Our cost/income ratio went from 59% to 58%. In an environment marked by negative interest rates, our net interest margin stood at 1.12%, up slightly on the 2016 figure (1.11%). Shareholders' equity rose 1% to CHF 3.5bn. The Group's Common Equity Tier 1 (CET1) ratio at 31 December 2017 was 17.1%, and the leverage ratio was 6.5%. Finally, our return on equity stood at 9.4%.

Business sector overview

Retail Banking

Retail Banking recorded firm business growth in 2017. Customers continued to enjoy historically low interest rates on their mortgage loans without being charged negative interest on their deposits. Against this backdrop, the mortgage book expanded by 2% to CHF 7.9bn and customer deposits were up 4% to CHF 8.3bn. Sector revenues fell by 1% to CHF 170m following the end of a partnership with PostFinance in online brokerage. Excluding this factor, revenues grew by 2.7%. Operating profit rose 5% to CHF 28m thanks to firm cost control. Retail Banking continued to enhance its services and adapt to customers' changing needs, particularly by expanding its digital offering.

Corporate Banking

Corporate Banking saw solid business growth in 2017. Vaud SMEs had a good year overall, the Trade Finance business expanded, and the Large Corporates business saw a continuation of the high volatility experienced in recent years. Lending and commitments climbed 4% to CHF 16.4bn, while deposits grew 4% to CHF 9.0bn. The Sector's revenues rose 7% to CHF 259m, and operating

profit was up 9% to CHF 148m. The corporate loan book remained healthy despite new provisioning needs.

Wealth Management

The Wealth Management Sector experienced firm growth across its various segments in 2017. In private wealth management, the positive trend seen in recent years continued, and institutional wealth management recorded growth in German-speaking Switzerland while maintaining its market share in the French-speaking part of the country. The Sector's assets under management remained stable at CHF 64.1bn. Net new money of CHF 2.0bn and the positive market trend offset the transfer of Swisscanto funds (–CHF 5.3bn) in the first half of the year. The mortgage book expanded by 1% to CHF 7.5bn. The Sector's revenues rose 7% to CHF 353m, and operating profit was up 22% to CHF 130m.

Trading

Revenues from currency trading, which account for more than 70% of the Sector's total revenues, remained solid but came in below 2016 levels. Issuance of structured products was down slightly in 2017. Trading revenues fell 13% to CHF 53m, and operating profit decreased 28% to CHF 22m. Risk levels stayed low, as BCV's trading activities are focused primarily on customer-driven transactions.

Highlights of the year

Dividend payment and special distribution

In 2017, we maintained our distribution policy for the tenth consecutive year, with an ordinary dividend of CHF 23 per share and a special distribution of CHF 10 per share. In May, we distributed CHF 198m to shareholders in the form of an ordinary dividend and made a special distribution of CHF 86m out of paid-in reserves. The Canton of Vaud received CHF 190m of the CHF 284m paid out to shareholders in 2017. For the 2007 to 2016 financial years, we returned a total of over CHF 2.9bn to our shareholders.

Distribution policy extended

In line with the approach adopted over the last decade, we decided in early 2018 to extend our distribution policy for another five years beginning with the 2018 reporting

period. In light of the planned reduction in Vaud Canton's corporate tax rates, the Bank intends to pay an ordinary dividend of CHF 34–38, barring significant changes in the economic or regulatory environment or in the Bank's situation.

Credit ratings

Standard & Poor's maintained our long-term rating of AA, with a stable outlook, a rating we were first assigned in 2011. Moody's reaffirmed our long-term rating of Aa2, also with a stable outlook.

New Chairman of the Board of Directors

The Vaud Cantonal Government appointed Jacques de Watteville as the new Chairman of BCV's Board of Directors. He took up his position on 1 January 2018, succeeding Olivier Steimer, the Bank's Chairman from 2002 to 2017. Mr. de Watteville served as State Secretary for International Financial Matters in the Federal Department of Finance from 2013 to 2016 and as Switzerland's chief negotiator with the European Union from 2015 to 2017.

Two new members of the Executive Board

In 2016, BCV's Board of Directors appointed Christian Meixenberger to the Bank's Executive Board as head of the Business Support Division. Mr. Meixenberger took up his position on 1 January 2017, replacing Aimé Achard, who retired after serving in that role from 2006 to 2016. Mr. Meixenberger was a member of the Executive Board and head of the Services Division of Banque Cantonale de Fribourg from 2000 to 2016.

In 2017, BCV's Board of Directors appointed Andreas Diemant to the Bank's Executive Board as head of the Corporate Banking Division. Mr. Diemant, who worked at UBS as head of the Swiss institutional clients unit and member of the management board for corporate and institutional clients from 2012 to 2017, joined BCV on 1 September 2017. He replaced Jean-François Schwarz, who had been in charge of corporate banking at BCV since 2003 and who retired in 2017.

Key projects and investments

Stratégie2018

The Bank's current strategic phase – *stratégie2018* – aims to continue developing all of the Bank's business lines. We are working to improve our internal processes, making impeccable service quality our differentiating factor and ensuring our business lines keep pace with the fast-changing regulatory environment. In response to new trends in consumer behaviors, we are also seeking enhanced integration among our distribution channels – our branch offices, ATMs, call centers, online banking, and apps for smartphones and tablets.

In 2015, we provided all BCV employees with a full day of training to help instill a bank-wide culture and vision geared towards excellence in customer service. The training was organized in partnership with EHL, the renowned Lausanne school of hotel management. Such initiatives continued in 2017, with a number of internal measures both large and small – and even the smallest are designed to improve the service we offer customers. Other achievements included shortening the time it takes to process mortgage applications. For our business customers, we simplified the process for granting and managing loans, and for our bank operations as a whole, we adopted a faster, more systematic process for handling customer claims. In addition, we made progress on some important behind-the-scenes projects aimed at improving our internal processes and the quality of our services.

We have been working to expand our online services as customers increasingly migrate to digital channels for their banking needs. Our aim is for them to be able to conduct almost all of their day-to-day banking through the channel of their choice. For several years now, they have been able to make payments and check account balances from a computer or mobile device. But now, they can also open an account and apply for, renew, or transfer a mortgage online, as well as speak with an advisor via videoconferencing. We also launched the BCV TWINT app – Switzerland's digital wallet.

Investments

In each of the past three years, we invested between CHF 50m and CHF 70m in infrastructure, equipment, and IT maintenance and development.

Outsourcing of services

We once again entrusted the IBM banking IT center in Lausanne to carry out activities that include data storage, operating and maintaining databases, operating IT systems, and printing and mailing banking documents. This form of IT systems management meets the legal requirements relative to outsourcing. The maintenance and development of our Osiris banking platform are handled in-house.

In addition, BCV uses valuation models supplied by Wüest Partner (hedonic valuation functions for private residential properties and a capitalization valuation model for income-producing real estate). Our contract with Wüest Partner complies with the legal requirements for the outsourcing of data storage.

Strategy and outlook

We aim to keep up the positive trend in our various businesses, even as the environment remains challenging for banks.

For the business lines, we are targeting:

- At-or-above market-rate growth in the retail banking and SME segments
- Above-market growth in onshore private banking
- Selected niche growth drivers in asset management, structured products, and trade finance
- Continued development of our other business lines.

With *stratégie2018*, we are also working to improve our internal processes and sharpen our focus on the customer experience. This involves:

- Improving customer-service quality through a series of targeted initiatives

- Expanding multi-channel access to our products and services in line with our customers' changing expectations
- Embarking on various projects to enhance our internal operations
- Pressing ahead with our human resources strategy to continue developing our employees' skill sets to keep pace with increasing customer needs.

In addition, the focus on service quality and our core values reflects our belief that a common culture shared by all employees is one of the key success factors for our strategy. From this foundation, we intend to generate sustainable growth and stable earnings going forward.

Financial targets

In today's low-interest-rate environment, we are seeking sustainable growth, with revenues and operating profit trending along the same lines as in recent years. Our targets include an ROE of 12–13%, a cost/income ratio of 57–59%, and a Common Equity Tier 1 (CET1) ratio of 13% – or 13.7% as calculated under FINMA Circular 2016/1 "Disclosure – banks." These targets should be viewed from a long-term perspective.

In line with the approach adopted over the last decade, we decided in early 2018 to extend our distribution policy for another five years beginning with the 2018 reporting period. In light of the planned reduction in Vaud Canton's corporate tax rates, the Bank intends to pay an ordinary dividend of CHF 34–38, barring significant changes in the economic or regulatory environment or in the Bank's situation.

Business trends at the main subsidiaries

Piguet Galland & Cie SA

Piguet Galland & Cie SA is a private bank with its head office in Yverdon-les-Bains and main branch in Geneva. It serves the needs of private and institutional clients across French-speaking Switzerland, offering a personalized approach to wealth management and tailor-made investment solutions. In 2017, Piguet Galland & Cie SA continued its expansion in French-speaking Switzerland by acquiring new advisory agreements and delegated management mandates.

Net profit for the year stood at CHF 2m, while AuM rose CHF 358m to CHF 5.8bn.

Gérifonds SA

Gérifonds SA is the fund administrator for BCV and nine other fund distributors. In 2017, assets of funds under management rose CHF 2.0bn (+17%) to CHF 13.6bn – another record level. This improvement was driven in nearly equal parts by rising markets and by net inflows of capital into both new and existing funds. At end-2017, Gérifonds managed 115 funds, 71 of which were registered in Switzerland and 44 in Luxembourg.

Gérifonds' 2017 revenues increased 8% to CHF 14.1m, while net profit rose 15% to CHF 2.9m.

GEP SA

GEP SA manages the Fonds Immobilier Romand (FIR), a Swiss-registered real-estate fund launched in 1953 and open to private investors. FIR has a portfolio of close to 3,800 properties situated in prime, mainly urban, locations across French-speaking Switzerland.

At end-2017, total assets were CHF 1.2bn (+5%) and rental income stood at CHF 68m (+1%). FIR delivered a full-year return of 4%. At the end of last year, the fund carried out a CHF 110m capital increase that was fully subscribed. The proceeds will be used to finance two major construction projects in Fribourg and Lausanne – for a total of 166 new residences – and to grow the fund.

Year in Review

Business Sector Reports

Retail Banking

- Retail Banking experienced steady business development in 2017. Customers continued to enjoy historically low interest rates on their mortgage loans without being charged negative interest on their deposits.
- Against this backdrop, the mortgage book expanded by 2% to CHF 7.9bn and customer deposits were up 4% to CHF 8.3bn.
- Sector revenues fell by 1% to CHF 170m following the end of a partnership with PostFinance in online brokerage. Excluding this factor, revenues grew by 2.7%. Operating profit rose 5% to CHF 28m thanks to firm cost control.
- Retail Banking continued to enhance its services and adapt to customers' changing needs, particularly by expanding its digital offering.

Business and strategy

In 2017, Retail Banking employed 358 people. They serve the banking needs of around 370,000 individuals with assets of up to CHF 250,000 or mortgages of up to CHF 1.2m. In addition to current accounts, savings accounts, credit cards, and home loans, BCV offers a full range of banking products such as investments, financial planning services, and trading via our online platform, TradeDirect, which is available at tradedirect.ch.

Most of BCV's customers first came to the Bank for retail banking services. We offer a comprehensive range of distribution channels: more than 60 branch offices providing dense coverage of Vaud, a network of over 230 ATMs across the Canton, a highly efficient call center, and an internet banking platform, BCV-net, that can also be accessed using mobile devices such as smartphones and

tablets. BCV-net is used by 50% of our customers, and eight out of every ten payments are made via this platform. Our retail banking operations are an integral part of our image as the bank of choice for the people of Vaud. We provide advice to customers in all phases of their lives, offering ongoing support through our broad array of products and services.

Retail Banking's experienced management and wide product range also make it a key training ground for BCV's staff. Many employees working in BCV's other business areas started their careers as trainees, interns, or employees in Retail Banking. Retail continues to fulfill this role and frequently transfers staff to BCV's other divisions.

2017: business report

Swiss interest rates changed little in 2017, remaining mostly in negative territory throughout the year. However, this did not directly affect Retail Banking customers, as BCV does not charge negative interest on their current or savings accounts. This should not change, barring any major deterioration in market conditions.

The euro gained 8.9% against the Swiss franc over the year, which made it less appealing for Vaud residents to make purchases in euros and do their shopping across the border in France.

Selling prices on houses and apartments in Vaud ticked back up in 2017 after moving mostly downwards since 2014. The increase was partly due to a reduction in the supply of owner-occupied housing and a concomitant increase in the supply of rental properties.

Retail Banking maintained the momentum recorded in recent years, with further growth in business volumes. The mortgage book expanded by 2% to CHF 7.9bn, and customer deposits were up 4% to CHF 8.3bn.

Sector revenues fell by 1% to CHF 170m following the end of a partnership with PostFinance in online brokerage. Excluding this factor, revenues grew by 2.7%. Operating profit rose 5% to CHF 28m thanks to firm cost control.

Retail Banking added several new features and products to its range of digital banking services in response to customers' changing needs and lifestyles. Customers can now apply for, renew, or transfer a mortgage from another bank online. It is also possible to become a BCV customer and open an account through the BCV website. New functions, such as e-billing, were added to the BCV Mobile banking app, enabling customers to conduct most of their everyday banking transactions from their smartphone. Additionally, the BCV TWINT app – Switzerland's digital wallet for sending money to other users and making payments in stores and online – was launched in 2017 and is growing in popularity.

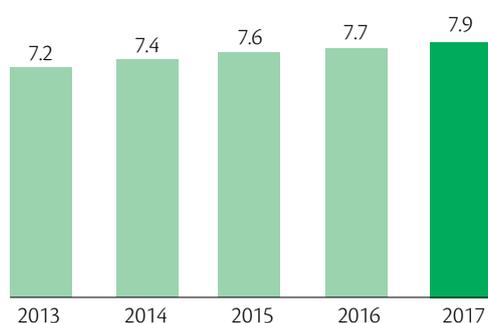
Objectives and outlook

Over the next few years, Retail Banking will continue implementing various initiatives to deliver an improved customer experience embracing all distribution channels. Through our close ties with customers and highly professional approach, we aim to maintain our position as the bank of choice for the people of Vaud, while continuously adapting to customers' changing behaviors and market trends. Our advisors, both at branches and in our call center, will be even more proactive. We are in the process of developing our multi-channel banking services significantly.

2013–2017 financial data

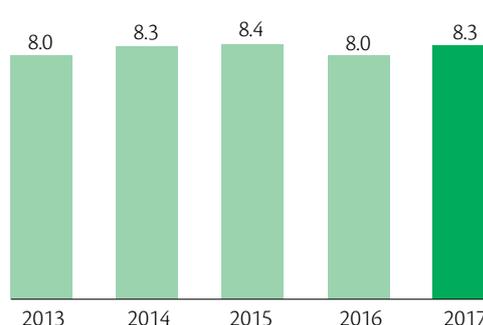
Mortgage loans

in CHF billions



Customer deposits

in CHF billions



Key figures

	2017	2016
Total revenues (CHF millions)	170.1	171.4
Operating profit (CHF millions)	27.5	26.1
Cost/income ratio (excluding goodwill amortization and write-downs)	81.6%	82.9%
ROE (based on net profit)	8.7%	9.1%
Headcount	358	372

2016 figures were adjusted to facilitate like-for-like comparison

Corporate Banking

- Corporate Banking saw solid business growth in 2017. Vaud SMEs had a good year overall, the Trade Finance business expanded, and the Large Corporates business saw a continuation of the high volatility experienced in recent years.
- Lending and commitments climbed 4% to CHF 16.4bn, while deposits grew 4% to CHF 9.0bn.
- The Sector's revenues rose 7% to CHF 259m, and operating profit was up 9% to CHF 148m.
- The corporate loan book remained healthy despite new provisioning needs.

Business and strategy

The Corporate Banking Sector comprises three front-line departments: SMEs, Large Corporates, and Trade Finance. The product range covers all financing needs (e.g., construction loans, financing of production equipment, working capital, and international trade finance) and provides cash-management services along with instruments for hedging exchange-rate and interest-rate risk.

Corporate Banking is continuing to expand its SME customer base in order to consolidate its already-strong presence in the Vaud economy. More than half of the Canton's SMEs bank with BCV, and BCV has relationships with most of Vaud's major corporations. The Sector's Large Corporates Department offers a broad range of services to companies elsewhere in French-speaking Switzerland and, on a more selective basis, in German-speaking areas of the country. The Lake Geneva region is a global center for commodities trading and is home to a large number of trading firms. BCV has recognized strengths in serving these companies, particularly in the key markets in which we specialize, such as metals and softs, and is working to grow its business in refined petroleum products. The Sector focuses on certain key markets and systematically monitors all of its trade finance transactions.

2017: business report

While the global recovery continued, the economies of Vaud and Switzerland as a whole experienced weaker growth in 2017, primarily due to a lackluster services sector. Vaud GDP growth slowed from 1.7% in 2016 to 0.8% in 2017, according to the latest estimates from the CREA Institute.

The Swiss franc lost ground against the euro throughout the year, making Swiss exports more competitive. This was particularly beneficial to the manufacturing industry.

The ongoing negative-interest-rate environment also caused significant churn in the large corporate segment, as we charged some of these companies interest on their cash deposits.

The rise in oil prices that began in 2016 continued in 2017, fueled by an agreement reached by OPEC countries to cut production levels; this agreement was extended for a further nine months in November 2017. In addition, base metals prices were lifted by global growth and China's output restrictions on metals such as aluminum and zinc.

Business volumes rose in 2017, with lending and commitments up 4% to CHF 16.4bn. Deposits grew 4% to CHF 9.0bn.

Lending in the SME segment continued to expand (+4%). In the Large Corporates segment, there was a move away from bank borrowing and into bond issues, leading to a 2% decline in lending and commitments. Trade Finance business volumes rose, with average lending and commitments up 14% in 2017, thanks to an upturn in both transaction volumes and commodity prices.

The Sector's revenues rose 7% to CHF 259m, and operating profit was up 9% to CHF 148m. Although new credit-risk provisions were set aside in 2017, the Sector's provisioning needs remained low compared with the last five reporting periods.

Objectives and outlook

Growth is trending back upwards but economic conditions are likely to remain tough, with interest rates staying low. Corporate Banking will seek to increase its presence among local SMEs and ensure maximum responsiveness to their needs, continuing to stand with them in still-uncertain economic times.

The Trade Finance and Large Corporate businesses will maintain their approach, based on maximizing profitability in line with the Bank's risk profile.

2013–2017 financial data

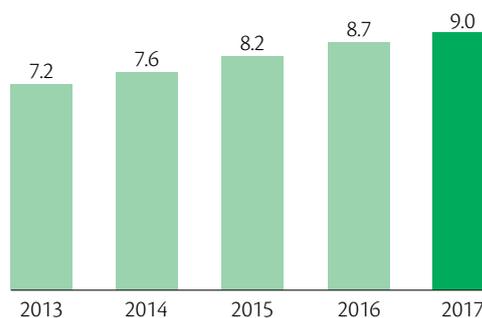
Lending and off-balance-sheet commitments

in CHF billions



Customer deposits

in CHF billions



Key figures

	2017	2016
Total revenues (CHF millions)	258.8	241.7
Operating profit (CHF millions)	148.1	135.4
Cost/income ratio (excluding goodwill amortization and write-downs)	36.1%	37.0%
ROE (based on net profit)	8.8%	8.3%
Headcount	184	186

2016 figures were adjusted to facilitate like-for-like comparison

Wealth Management

- The Wealth Management Sector had a strong year in 2017. In private wealth management, the positive trend seen in recent years continued, and institutional wealth management recorded growth in German-speaking Switzerland while maintaining its market share in the French-speaking part of the country.
- The Sector's assets under management remained stable at CHF 64.1bn. Net new money of CHF 2.0bn and the positive market trend offset the transfer of Swisscanto funds (–CHF 5.3bn) in the first half of the year. The mortgage book expanded by 1% to CHF 7.5bn.
- The Sector's revenues rose 7% to CHF 353m, and operating profit was up 22% to CHF 130m.

Business and strategy

BCV Group's wealth management business comprises the activities of the parent company and those of its subsidiaries Piguët Galland & Cie SA, G rifonds SA, and GEP SA. Within the parent company, wealth management is shared by two divisions. The Private Banking Division serves affluent and high-net-worth individuals, whereas the Asset Management & Trading Division works with institutional clients. With 506 employees in wealth management, BCV Group has a major regional presence in private banking. We are also the Canton of Vaud's leading institutional asset manager.

In light of the Vaud region's strong potential in private banking, the Wealth Management Sector is maintaining the growth strategy initiated in 2009. Because BCV operates in all areas of banking, efforts to attract private clients can be coordinated with other business sectors, creating valuable synergies. For example, the Bank's private banking business benefits from a steady stream of high-potential referrals from Retail Banking, whose client base includes over half the 780,000+ people living in the Canton, and from Corporate Banking, which is very active on the local business scene. BCV is already the leading institutional asset manager in Vaud Canton. We are now pressing ahead with our strategy to grow this business elsewhere in Switzerland. To achieve this, we are capitalizing on the occupational

pension expertise we have gained through Fondation BCV Deuxi me Pilier, which has around 550 member companies. Another strength lies in the discretionary management agreements we offer to pension funds. Having traditionally focused our activities in French-speaking Switzerland, we have sought, with some success, to expand our business in the German-speaking part of the country in order to maximally leverage our investment expertise and our ability to create high-value-added financial products.

Piguët Galland & Cie SA is a 99.7%-owned subsidiary of BCV. It was created following the merger between Banque Piguët & Cie SA and Banque Franck Galland & Cie SA, which BCV acquired in 2011. It operates out of Geneva, Lausanne, Yverdon-les-Bains, Nyon, and Neuch tel. Piguët Galland & Cie SA aims to be one of the leading wealth managers in French-speaking Switzerland, offering an exclusive, high-end service.

G rifonds SA, which is a wholly owned subsidiary, provides BCV and other partners with valuable expertise in creating, distributing, managing, and administering investment funds. Its expertise and leading position in the fund market in French-speaking Switzerland have enabled it to build a solid and rapidly expanding portfolio of clients outside BCV Group.

GEP SA, founded in 1953, is a wholly owned subsidiary of BCV. It has unique expertise in real-estate fund management. It manages Fonds Immobilier Romand (FIR), a Swiss-registered real-estate fund listed on the SIX Swiss Exchange that invests exclusively in residential properties in French-speaking Switzerland.

2017: business report

Despite heightened geopolitical and macroeconomic uncertainty, stock markets had an excellent year as the global recovery gained traction. The SMI index of Swiss blue-chip stocks gained more than 14% and reached almost 9,500 points. The S&P 500 broke through the 2,600 mark for the first time, and the MSCI Emerging Markets Index (USD) rallied 34.3%.

Thanks to the vibrant stock markets, Wealth Management posted solid results, with firm growth across all segments. In private wealth management, the trend seen in recent years continued, and institutional wealth management recorded

growth in German-speaking Switzerland while maintaining its market share in the French-speaking part of the country.

The Sector's assets under management remained stable at CHF 64.1bn. Net new money of CHF 2.0bn and the positive market trend offset the transfer of Swisscanto funds (–CHF 5.3bn) in the first half of the year. The mortgage book continued to expand but at the slower pace of 1%, reaching CHF 7.5bn.

Wealth Management's revenues and operating profit rose to CHF 353m (+7%) and CHF 130m (+22%), respectively.

Objectives and outlook

We will press ahead with the growth strategy that we implemented several years ago in onshore wealth management, with the aim of becoming the market leader in Vaud Canton.

In institutional asset management, we aim to continue growing our business in Vaud and the rest of French-speaking Switzerland, as well as in the German-speaking part of the country through our representative office in Zurich. As a creator and distributor of investment products,

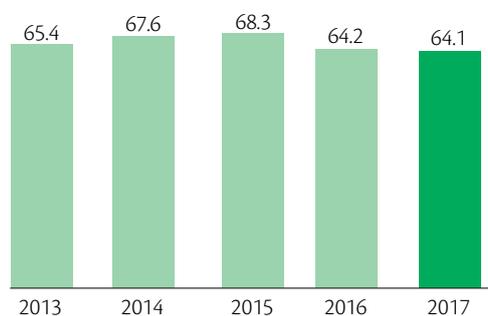
Asset Management will continue to design its investment strategies with a sharpened focus on the risk/return profile. We will keep developing our product range in line with client needs and new investment styles.

Piguet Galland & Cie SA is aiming to grow its business in French-speaking Switzerland's wealth management market and will continue to generate synergies with BCV, capitalizing fully on work done at the parent company.

2013–2017 financial data

Assets under management

in CHF billions



Mortgage loans

in CHF millions



Key figures

	2017	2016
Total revenues (CHF millions)	353.0	330.1
Operating profit (CHF millions)	129.6	106.0
Cost/income ratio (excluding goodwill amortization and write-downs)	63.3%	65.9%
ROE (based on net profit)	29.3%	25.0%
Headcount	506	519

2016 figures were adjusted to facilitate like-for-like comparison

Trading

- Revenues from currency trading, which account for more than 70% of the Sector's total revenues, remained solid but came in below 2016 levels. Issuance of structured products was down slightly in 2017.
- Trading revenues fell 13% to CHF 53m, and operating profit decreased 28% to CHF 22m.
- Risk levels stayed low, as BCV's trading activities are focused primarily on customer-driven transactions.

Business and strategy

We aim to meet our customers' trading needs and to offer them a broad array of products and services. To achieve this, we have one of the largest trading floors in French-speaking Switzerland. Our traders operate directly on the following exchanges: SIX Swiss Exchange and Eurex. Our Trading Sector focuses on investment and hedging products (currencies, equities, bonds, derivatives, and structured products) that are denominated primarily in Swiss francs and aimed at clients based mainly in Switzerland. More than a third of customers who trade currencies directly through BCV's trading floor use our e-Forex platform.

Our trading floor focuses on client transactions. This means that the Bank's risk levels are low.

The Sector's activities come under the Asset Management & Trading Division, which encompasses asset management, investment policy, and the trading floor. This combination enables us to make the most of synergies between the trading floor and the Asset Management Department, helping us to provide investment products that are responsive to customer needs and consistent with our investment policy.

2017: business report

Stock markets had a bumper year in 2017, with indices posting well-above-average gains. Cyclical markets like the eurozone, Japan, and emerging markets – particularly Southeast Asia – fared especially well. However, volatility was much lower than in previous years.

In 2017, most bond markets posted modest returns that were close to yield to maturity, since medium- and long-term interest rates moved unevenly. High-yield bonds were the only ones to see yields dip slightly amid a stream of upbeat economic data.

In the forex market, the euro gained a substantial 8.9% against the Swiss franc, rising from CHF 1.07 to CHF 1.17. However, the US dollar lost 4.3%, sliding from CHF 1.02 to CHF 0.97. Volatility in the forex markets was also lower than in previous years.

Against this backdrop, revenues from currency trading remained solid but came in below 2016 levels. Issuance of structured products decreased slightly in 2017.

Trading revenues as a whole fell 13% to CHF 53m, and operating profit was down 28% to CHF 22m.

The Sector's risk profile remained very low, with an average VaR (1-day, 99%) of CHF 0.2m over the course of the year.

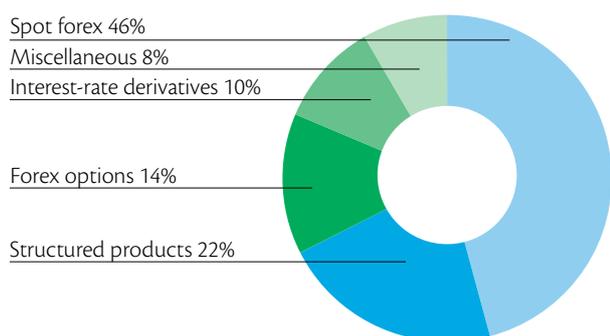
Objectives and outlook

In the coming years, our trading floor will further develop its range of services to focus on customers' core trading needs. Our products for both hedging and investment purposes will continue to meet strict transparency criteria.

In forex and structured products, the Sector will seek to win new customers and build on existing relationships by offering excellent service and products.

2017 financial data

Breakdown of trading income by market segment



Exchange rates

versus CHF



Key figures

	2017	2016
Total revenues (CHF millions)	53.1	61.1
Operating profit (CHF millions)	22.3	30.9
Cost/income ratio (excluding goodwill amortization and write-downs)	55.3%	47.1%
ROE (based on net profit)	18.1%	23.4%
Headcount	58	57

2016 figures were adjusted to facilitate like-for-like comparison





Risk Management

1. Risk Management

1.1 Objectives

The business of banking is to take on strategic and business risk, market risk, and credit risk in order to create economic profit. Indirectly, this entails exposure to operational risk. BCV manages these risks in an integrated and coherent manner, using a process that encompasses all of the Bank's activities. The goals of the risk management process at BCV are to ensure that:

- BCV's risk exposure is evaluated, monitored, and reported in a manner that is appropriate to the economic and regulatory environment
- BCV's risk-taking capacity is in line with its risk profile
- BCV earns optimal returns on the risks that it takes and hence on the equity capital committed.

1.2 Principles

Risk management at BCV is based on the following ten principles:

1. BCV takes on strategic and business risk, credit risk and market risk with the aim of generating economic profit.
2. BCV seeks to minimize its exposure to the operational risk it is exposed to as a result of its activities.
3. Every risk that BCV takes must fall clearly within the purview of the Bank's businesses and be in line with the targeted risk profile.
4. The level of risk taken by BCV is in keeping with its risk tolerance with regard to net profit fluctuations and the targeted level of share capital.
5. BCV takes and maintains positions only when it knows the risks and is able to manage them.
6. BCV assesses and monitors all risks for their potential financial impact (decreases in profit and/or in share capital), regulatory impact (that could lead to restrictions on the right to conduct business), and impact on the Bank's reputation.
7. The same definitions, the same methodological approaches, and the same organizational principles are applied in managing risk bank-wide.
8. BCV continually refines its methods and its risk assessment and monitoring processes, selecting the most appropriate approach for each set of risks taken.
9. BCV pursues a culture of risk management and aims to be highly skilled in this field. The Bank follows industry best practices and the recommendations of the Basel Committee.
10. BCV strives for full in-house expertise in all the risk management models and tools that it uses.

1.3 Classification of risks

BCV monitors four categories of risk in all of its activities:

- **Strategic and business risk**, which arises from economic or regulatory changes that could have an adverse effect on the Bank's strategic choices in the case of strategic risk, or from competitive changes that could have an adverse effect on business decisions for a given strategy in the case of business risk.
- **Credit risk**, which arises from the possibility that a counterparty may default. Credit risk exists before and during the unwinding of a transaction.
- **Market risk**, which arises from potential adverse changes in market parameters, particularly prices, implied volatility, and other market base effects (e.g., correlation between asset prices and market liquidity). Liquidity risk, both in terms of possible difficulties with the structural funding of activities and potential problems with short-term liquidity management, is also deemed to be a component of market risk.
- **Operational risk**, which arises from a possible inadequacy or failure relating to processes, people and/or information systems within and outside the Bank. Operational risk includes the risk of non-compliance, i.e., the risk of the Bank breaching legal requirements, standards, and regulations.

BCV analyzes and manages these risks on the basis of their potential impact. Three kinds of impact are considered:

- The financial impact, that is, a decrease in the Bank's net profit, the book value of its capital, and/or the economic value of its capital.
- The regulatory impact, that is, intervention by the regulators in the form of inquiries, sanctions, increased monitoring, or a restriction on banking activities.
- The reputational impact on the image that the Bank projects to the outside world.

1.4 Governance

All risks in all areas of the Bank are managed according to the same basic principles of governance and organization. The main responsibilities in the area of risk management may be summarized as follows:

- The Board of Directors establishes BCV's fundamental risk management principles and decides the strategy it will pursue in taking on risk.
- The Audit and Risk Committee ensures that risk management at BCV is implemented and operational, as decided by the Board of Directors.
- The Executive Board is responsible for ensuring that risk-management procedures are implemented and operational, and for monitoring the Bank's risk profile. It monitors strategic and business risk and supervises the Executive Board Risk Management Committee in monitoring and reporting these risks. The committee is chaired by the Chief Financial Officer (CFO) and includes the CEO, other division heads, and the head of the Risk Management Department.
- Division heads are responsible for conducting and monitoring the activities of their divisions, regardless of whether the division has a front-line, steering, or business-support role. They have initial responsibility for overseeing, identifying, and managing the strategic, business, credit, market, and operational risks arising from the activities of their divisions.
- The CFO also assumes the role of Chief Risk Officer. The CFO, with the support of the Risk Management Department, which reports to the CFO, puts forward risk-management policy and strategy, monitors the Bank's aggregate risk profile, is responsible for capital adequacy, and helps foster a culture of risk management among staff.
- The Credit Management Division, under the Chief Credit Officer (CCO), is responsible for analyzing risk for all types of credit risk assumed by the Bank and, up to the limit of its approval authority (see below), for credit decisions, as well as for monitoring risk exposures on a counterparty basis.

1.5 Risk Management Department

The Risk Management Department's mission is to develop and continually improve the Bank's methods and principles for managing credit, market, and operational risk, to enhance the Bank's internal control system, to monitor the Bank's risk profile, and to oversee and execute risk reporting. The Risk Management Department ensures that the Bank's internal control system is properly implemented and in keeping with the Bank's needs; the Department is also in charge of submitting all risk reports to the Bank's governing bodies. Finally, the Department is responsible for the overnight monitoring of market risk for BCV's trading floor.

1.6 BCV risk profile - key indicators

The main indicators of the Bank's risk profile are summarized in the table below.

2. Managing credit risk

2.1 Customer credit risk

Managing credit risk is a core competence at BCV. Each phase of the business of extending credit calls for particular expertise in managing risk.

- First, the lending decision involves processes and methods for analyzing credit risk that ensure an objective and factual assessment while still meeting the operational imperatives of the business.
- Second, outstanding loans are continuously monitored, not just on an individual basis but also at the level of the loan portfolio as a whole. This approach allows the credit-risk profile to be monitored to ensure that it remains consistent with strategic objectives, and makes early detection of increases in risk possible.
- Third, impaired loans are managed differently, following clearly defined procedures which are designed to assist the debtor in distress as much as possible and thereby protect the interests of the Bank, as well as those of its depositors, creditors and shareholders.

The three phases of customer credit activities are described in more detail below.

BCV risk profile

		31/12/14	31/12/15	31/12/16	31/12/17
BCV Group capital adequacy ¹	• Risk-weighted assets (CHF billions)	16.8	16.6	17.6	18.2
	• Total capital ratio	17.9%	18.4%	17.6%	17.3%
	• Tier 1 capital ratio	17.7%	18.3%	17.5%	17.1%
Non-impaired loans (parent company)	• Customer loans, on and off balance sheet ² (CHF billions)	30.8	30.3	31.2	31.8
	• Expected loss ratio (relative to amount drawn)	13 bps	14 bps	14 bps	13 bps
Impaired loans (parent company)	• Impaired loans ³ (CHF billions)	0.2	0.2	0.2	0.2
	• As a % of total customer loans and due from banks	0.7%	0.6%	0.6%	0.6%
	• Specific provisioning ratio	34%	36%	39%	46%
Market risk on the trading book (parent company)	• Trading Dept.: VaR ⁴ (CHF millions, 1-day, 99%)	0.2	0.3	0.3	0.2
	• Asset mgt. nostro portfolio: VaR ⁴ (CHF millions, 180-day, 99%)	0.8	0.8	0.9	0.7
Market risk on the banking book (parent company)	• Sensitivity of capital to a 100-bp rise in interest rates (CHF millions)	-347.9	-403.1	-371.2	-363.4
Operational risk (parent company)	• New provisions and direct losses (CHF millions) ⁵	26.8	20.6	2.7	0.8

¹⁾ Determined according to Basel III since 2013. Ratios have been recalculated without subtracting the countercyclical buffer from regulatory capital in accordance with FINMA Circular 2016/1, "Disclosure - banks"

²⁾ Excluding financial investments (bonds)

³⁾ Net commitments (commitments to impaired borrowers for which the provision is above 0)

⁴⁾ Average VaR for the year

⁵⁾ Including gains and changes in provisions

2.1.1 The lending decision

Risk strategy and credit policy

Loans to customers represent the Bank's largest asset position. BCV takes on credit risk with the aim of building a quality loan portfolio, primarily by lending to counterparties in Vaud Canton. For each of the various customer segments, the Bank sets limits in terms of maximum exposure, types of credit services offered, and targeted average quality expressed in terms of expected loss and required capital. The risk strategy and credit policy are reviewed regularly.

Separation of powers and lending authority

Sales (i.e., front-office) functions are kept strictly separate from credit analysis and approval functions. Employees in front-office departments are responsible for developing customer relationships, loan products, and loan-product pricing, whereas credit analysis and approval are the domain of the Credit Management Division, headed by the CCO. Analysis of credit risk is based on tools (rating models) developed by the Risk Management Department, and on assessments by credit analysts. Some low-risk forms of lending, such as standard mortgage loans, are directly approved by the front office on the basis of scores obtained from rating models defined by the Risk Management Department.

Approval limits for customer lending are based on the amount of the loan and the level of expected loss. Depending on the magnitudes of these two factors, a loan may require the approval of an analyst, a sector credit committee, the CCO, the Executive Board Credit Committee or the Board of Directors. Approval limits are specified in the Bank's lending policy rule book, which is validated by the Board of Directors.

Analysis of default risk

Assessing a counterparty's default risk is the centerpiece of credit-risk analysis. Each counterparty is assigned an internal default rating that reflects its probability of default. The Bank applies seven main ratings, which are divided into a further 16 clearly defined sub-ratings. Default-risk assessment consists of applying a rating model and supplementing this evaluation with analysts' assessments, which are based on established guidelines and criteria. Different rating models are used for counterparties with different characteristics, but the choice of rating model for a particular counterparty is governed by strictly defined considerations. The main rating models are those for individuals, SMEs, real-estate professionals, trade finance, large corporations, municipalities within

Vaud, and banks. The models are "scoring" models and use both financial and qualitative variables. They are based on statistical techniques and meet the requirements of the Basel III Accord for Internal Ratings-Based (IRB) approaches. The models are under the responsibility of the Risk Management Department and are subject to independent validation and continuous improvement.

Analysis of collateral

For any loan, the calculated loan-to-value ratio and expected loss given default depend directly on the valuation of the collateral. Collateral is valued according to current market conditions and the assessments of real-estate experts. The valuation is reviewed at predetermined intervals and whenever certain clearly defined events occur. The Bank determines the value of real estate in accordance with the recommendations of the Swiss Bankers Association. Single-family homes are valued using a hedonic method. Multi-unit residential and commercial properties are valued on the basis of their revenue yield. When a loan is granted, the loan-to-value ratio and expected loss given default are established on the basis of the current value of the collateral. The Bank applies loan-to-value criteria that are in line with common practice in the Swiss banking industry.

Expected loss and risk-adjusted pricing

For all loan products, interest rates are determined individually, taking into account the cost of the loan and the Bank's ROE objectives. The cost of the loan includes the funding or replacement cost, the administrative cost, and the expected loss. Expected loss is determined as a function of the counterparty's probability of default (i.e., its internal counterparty default rating) and the loss given default. The loss given default depends in turn on the amount exposed to credit risk and the value of the collateral.

In trade finance, expected loss is calculated for each transaction in accordance with a model based on the Basel III slotting criteria. This approach enables the Bank to price all loans in a way that best reflects the quality of each transaction.

2.1.2 Credit monitoring

Monitoring

A system of alerts and internal renewal reviews is used to detect individual situations in which risk has increased. The system of alerts is based on close monitoring of exceeded limits and on other factors (including automatic

re-ratings) that may indicate situations of increased risk or even impairment. Whenever instances of exceeded limits are detected, specific actions are taken by BCV's credit advisors and analysts. The system of internal renewal reviews sets a maximum time interval between credit analyses for positions of a given size and for counterparties for which no intervention has been required because no alert has been triggered. This time interval is set according to the nature of the credit and the type of counterparty.

Analyzing the loan portfolio

The risk profile of the loan portfolio is reviewed quarterly. For each customer segment, credit-risk exposures, risk-weighted assets, expected loss (amount and rate), provisioned commitments, value adjustments, and risk concentration indicators are analyzed and compared with prior years. Changes in the exposures on specific portfolios are also analyzed. The results of these analyses are reported to management. Every year, the Bank evaluates the potential impact of adverse economic scenarios in order to assess its capital adequacy. This type of evaluation is also applied to specific loan portfolios so as to better understand their risk profiles.

2.1.3 Managing impaired loans

Credit recovery management policies

Impaired loans are managed by the Credit Recovery Management Department within the Credit Management Division. Each case is handled according to a strategy that has been developed using criteria which, for business borrowers, take into account the possibility of successful turnaround as well as the borrower's willingness to collaborate actively with the Bank.

Provisioning

The Bank establishes specific provisions for each impaired loan. The need for provisions is determined individually for each impaired loan based on an analysis performed according to a clearly defined procedure. In this analysis, collateral is taken at its liquidation value. This is the net amount that the Bank could expect to obtain by liquidating the collateral at current market conditions, after deducting the expenses of realizing the transaction and any costs of owning the collateral. The liquidation value is obtained by applying a haircut.

2.2 Interbank credit risk

2.2.1 Risk strategy and lending policy

Credit-risk exposure on other banks arises mainly from treasury management, from BCV's trading activities in over-the-counter derivatives, from securities and payment transactions (unwinding), and from bank guarantees on trade-finance operations. The Bank reviews the limits applicable to each bank counterparty at least once a year.

2.2.2 Lending authority and monitoring

Authority to approve bank-counterparty limits is expressed in terms of limits on exposures before settlement and maximum settlement exposure. Depending on the magnitude of the limit, interbank credit lines may require the approval of the Board of Directors, the Executive Board Credit Committee, or the Bank-Counterparty Committee. Approval limits are specified in the Bank's lending policy rule book approved by the Board of Directors.

The Corporate, Trade Finance, Country, and Bank Credit Analysis Department, which reports to the CCO, is responsible for analyzing interbank credit risk and monitoring drawdowns on interbank credit limits.

2.2.3 Collateral management

BCV has entered into collateral management agreements with most of its bank counterparties that cover all its trading activities in over-the-counter derivatives. These agreements significantly reduce the Bank's exposure to credit risk.

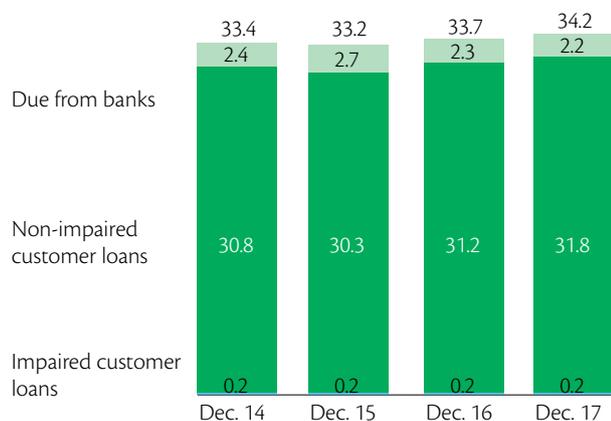
2.3 Exposure to credit risk

The parent company's total credit-risk exposure amounted to CHF 34.2bn at 31 December 2017, a year-on-year increase of 1.4%. At CHF 2.2bn, bank-counterparty lending represented 6% of total credit-risk exposure.

For non-bank-counterparty lending, the Bank's business is largely with customers located in Vaud Canton and accounts for 81% of this type of lending. BCV's corporate loan book reflects the economic structure of the Canton, albeit with a somewhat larger exposure to real estate and construction (42%).

Customer loans and amounts due from banks

CHF billions, on and off balance sheet, for the parent company¹



¹ Excluding financial investments

Customer loans by geographical zone

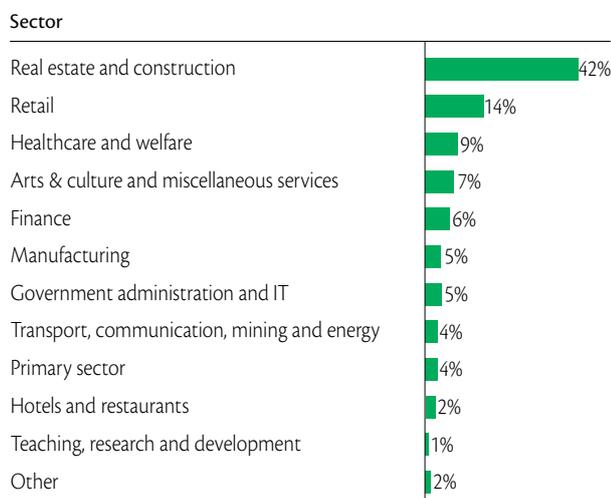
as a % of on-balance-sheet customer loan exposure, for the parent company¹

Client domicile	31/12/2016	31/12/2017
Vaud Canton	81%	81%
Rest of Switzerland	13%	13%
European Union + North America	2%	2%
Other	5%	5%

¹ Excluding financial investments

Corporate loans by economic sector

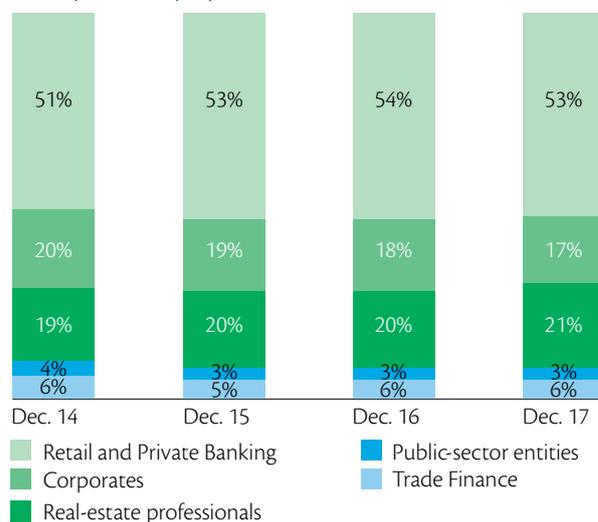
as a % of on-balance-sheet corporate loan exposure, for the parent company,¹ at 31 December 2017



¹ Excluding financial investments

Customer loans by segment

as a % of total non-impaired customer loan exposure, for the parent company



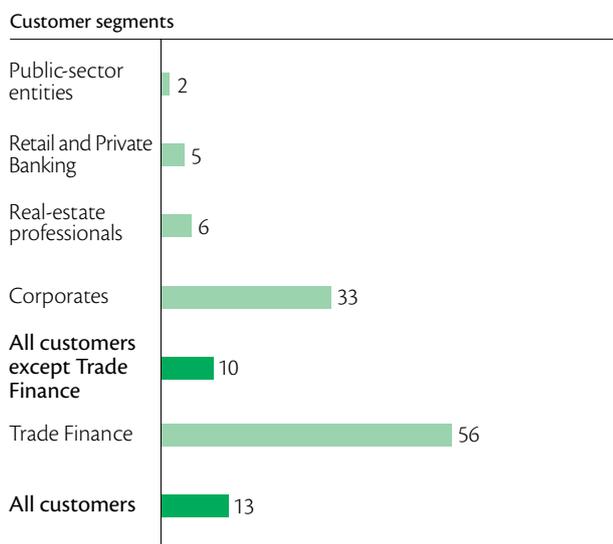
The 2017 breakdown by sector was generally stable compared with 2016. Retail and private banking clients remained the largest sector in total non-impaired loan-book exposures, at 53% at end-2017.

The low expected loss ratio and impaired loan level attest to the quality of the Bank's loan book. The expected loss ratio on drawn loans reflects counterparty quality, the degree of credit coverage and the amount of undrawn limits. For non-impaired customer loans as a whole, the expected loss ratio was 13 basis points, or 10 basis points excluding trade-finance exposures. Impaired loans were CHF 213m and represented 0.6% of total exposures.

The Basel III Pillar 3 Report, available on the BCV Investor Relations iPad app and the Bank's website, www.bcv.ch, contains more detailed information on the risk profile of the Bank's loan portfolio.

Expected loss rate

expressed in basis points of drawn customer loans, including OTC derivatives, at 31 December 2017



3. Market risk

BCV takes on market risk in conducting its trading activities and also in managing its interest-rate risk on the banking book. With appropriate risk management, the Bank can expect to earn a return commensurate with the risk that it takes.

3.1 Market risk on the trading book

3.1.1 Risk strategy and trading policy

All trading activities are managed within the Asset Management & Trading Division. A distinction is made between the trading portfolio, which includes all the Trading Department’s positions, and the financial-management nostro (i.e., proprietary) portfolio, which is managed by the Asset Management Department.

The Trading Department carries out market transactions primarily in equities, fixed-income instruments, forex and precious metals on behalf of clients. It has also acquired expertise in structured products. The Trading Department

is active along the entire structured product value chain, from issuing to market-making.

The Asset Management Department is responsible for the financial-management nostro portfolio, which is used to assist in the creation of new asset management funds and to maintain a certain amount of liquidity, while keeping risk-taking to a minimum.

3.1.2 Organization

All new products and instruments issued by the Asset Management & Trading Division are validated by the Division’s Product and Instrument Committee (PIC), which is chaired by the Executive Board member in charge of the Asset Management & Trading Division and includes the Division’s department heads, the head of the Risk Management Department and the head of the Back Office Department. This process ensures that before a product is launched, all requirements in the areas of risk management, ALM, treasury management, back offices, legal, compliance, and IT have been met.

For all trading positions, overnight monitoring of market risk is under the responsibility of the Market Risk Unit within the Finance & Risks Division’s Risk Management Department. This ensures that control of market risk is performed independently of the Asset Management & Trading Division. The Market Risk Unit also defines the risk control measures and monitors the appropriateness of risk control for new trading products.

3.1.3 Exposure to market risk on the trading book

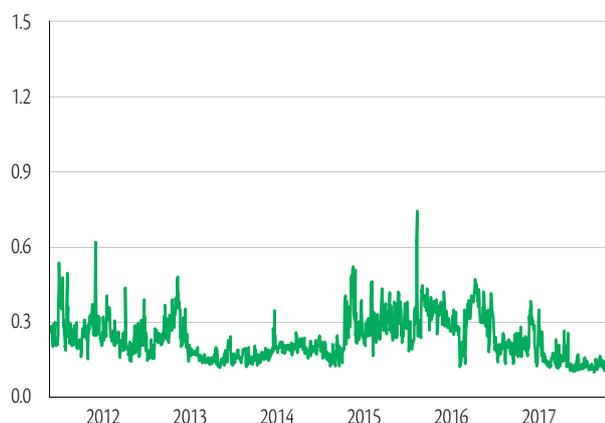
Various techniques are used to measure market-risk exposure within the Trading Department’s trading portfolio:

- Historical overnight value-at-risk (VaR) with a one-day time horizon and a confidence level of 99%
- Analysis of potential losses using static stress tests
- Sensitivity metrics such as delta, gamma, vega, theta, and rho.

Limits have been established for each of the metrics currently in use. Limit utilization is monitored and reported daily by the Market Risk Unit.

VaR on the trading portfolio (1-day, 99%)

in CHF millions



Throughout 2017, VaR for the trading book remained low, at an average of around CHF 0.2m.

3.2 Market risk on the banking book

The main components of market risk on the banking book are interest-rate risk and liquidity risk.

3.2.1 Interest-rate risk on the banking book

Exposure to interest-rate risk on the banking book arises from differences between the size and term maturities of assets and liabilities. Movements in the yield curve and changes in customer behavior give rise to interest-rate risk, which has a direct effect on the Bank's interest income and the economic value of its equity capital.

The strategy and limits for interest-rate risk are defined by the Executive Board's Asset and Liability Management Committee (ALCO) and then approved by the Board of Directors. The ALM and Financial Management (ALM-FM) Department of the Finance & Risks Division is responsible for operational management of interest-rate risk on the banking book.

Here, the goal is to control the interest margin and the duration of equity.

Exposure to interest-rate risk is measured in terms of equity duration, yield-curve sensitivity of the economic value of

equity capital, and loss of interest margin under interest-rate and client-behavior stress scenarios.

3.2.2 Liquidity risk on the banking book

Exposure to liquidity risk arises from the Bank's obligation to honor its commitments to its clients and counterparties, meet regulatory requirements, and ensure that it can continue funding its activities. Liquidity risk is addressed through short-term liquidity management and long-term funding management. BCU's strategy is to minimize liquidity risk using these two dimensions. The Bank limits its exposure to liquidity risk by ensuring that it has a sound balance sheet, including a liquidity reserve to cover the impact of a major liquidity outflow, as well as a sustainable and diversified long-term funding structure so that it can expand its activities. This involves maintaining the safety margins set by the Board of Directors relative to regulatory requirements and balance sheet ratios.

The framework for liquidity management is drawn up by the Executive Board's ALCO and approved by the Board of Directors. The ALM-FM Department, which includes the Bank's treasury management team, is responsible for operational management of long-term funding and short-term liquidity.

Exposure to liquidity risk is calculated using a broad spectrum of indicators, including components of the liquidity reserve, market indicators, regulatory ratios, and simulations of funding needs based on several scenarios.

4. Operational risk

The Bank's operational-risk management concept is based on the Basel Committee's principles of best practice. It is designed to mitigate operational risk factors by identifying areas for improvement and strengthening the Bank's operational and management control systems.

Operational risk factors are grouped into categories; each factor represents a potential threat to the Bank's operations. The factors are the following:

- Erroneous or malicious actions taken by employees, suppliers, bank counterparties, customers or other parties external to the Bank
- Inadequacies of information systems, infrastructure and/or the Bank's organization

Risk Management

- External factors such as the risks of natural disasters, pandemics and social unrest.

Reviews are carried out periodically to anticipate the main operational risks. These are supplemented by ad-hoc reviews, for instance if a potential new threat emerges or a major risk materializes at another bank. These reviews are carried out by management and business-line experts with the support of the Operational Risk Unit within the Risk Management Department. The reviews aim to identify possible improvements to the Bank's operational and management control systems.

In addition, the Bank systematically collects data on the main operational risk incidents that occur, and carries out an exhaustive analysis in each case.

If an important operational-risk event occurs, the Bank bases its response on clearly defined incident management measures, such as the Business Continuity Plan (BCP).

5. Compliance

The activities and operations of a full-service bank must meet a large number of legal and regulatory requirements. Various entities within the Bank, depending on the scope of their authority, are responsible for incorporating these requirements into the Bank's directives and other internal procedures and for independently overseeing their application. Regulations concerning dealings with clients, the fight against money laundering and the financing of terrorism, financial market supervision, and institutional transparency all fall under the remit of the Compliance Department, which reports directly to the CFO. Other entities with a compliance role include the Risk Management, Financial Accounting, IT Systems Management, Human Resources and Security departments.

The role of Compliance is to ensure that the Bank operates in accordance with the requirements that fall within Compliance's purview. Compliance aims to limit the risk that strategic choices, business decisions, procedures and day-to-day operations will be non-compliant.

Accordingly, Compliance has four key objectives:

- **To monitor regulations on two levels:** Compliance

coordinates the monitoring of all changes in banking and financial legislation. It also detects, analyzes, and informs the governing bodies of any changes in requirements concerning dealings with clients, the fight against money laundering and the financing of terrorism, financial market supervision, and institutional transparency

- **To adapt internal regulations:** Compliance adapts internal regulations within its purview (directives and other procedures) to new requirements
- **To provide support for the Bank's business lines:** drawing on its extensive knowledge of the Bank's different businesses, Compliance contributes to preventing situations of non-compliance
- **To conduct level-two oversight and reporting:** Compliance ensures that the rules within its purview are being applied. It reports its findings to the Bank's governing bodies and auditors; this report contains a thorough assessment of the risk factors that may lead to non-compliance and also identifies potential improvements.

Internal control system (ICS)

The Bank's internal control system (ICS) was developed in accordance with the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Basel Committee, and pursuant to FINMA Circulars 2017/1 and 2008/21 and Swiss auditing standard No. 890. The purpose of the ICS is to ensure that the Bank's activities are in line with its overall objectives. More specifically, the ICS enables the Bank to:

- Achieve its performance objectives both in terms of profit and controlling profit fluctuations
- Provide reliable information both internally and externally
- Comply with legal, regulatory and self-regulatory requirements.

The ICS is an integrated bank-wide system. It covers all functions and all hierarchical levels. In addition to the Bank's front-line activities, the system also applies to business-support, steering, and monitoring functions as well as to external service providers, particularly those falling under the scope of FINMA Circular 2008/7 on outsourcing.

BCV works to foster a culture of oversight among its staff so that each employee understands his or her role in the ICS. Oversight is thus part of employee performance assessment and skills development.

The Bank's ICS comprises three levels. The Executive Board is responsible for the first two levels, while the Board of Directors oversees the third level.

- Level one: operational oversight by employees and managerial oversight by their superiors
- Level two: controlling the appropriateness and effectiveness of level-one oversight by entities independent of the chain of command. This oversight is carried out by functional skills centers, including the Compliance, Risk Management, Financial Accounting, Business Controlling, IT Systems Management, Human Resources and Security departments
- Level three: a periodic review of levels 1 and 2 by the Internal Audit Department.

The Operational Risk Unit within the Risk Management Department reviews the appropriateness and effectiveness of the ICS annually; its findings are submitted to the Bank's governing bodies and the external auditor.





Corporate Governance

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General principles

BCV is aware of its responsibilities and meets corporate governance requirements. It strives to:

- Communicate transparently. The information provided in this chapter complies with the information-disclosure requirements contained in the Corporate Governance Directive issued by the SIX Swiss Exchange.¹
- Apply the principal standards of corporate governance. BCV follows the recommendations contained in the Swiss Code of Best Practice for Corporate Governance² whenever they are compatible with its status as a corporation organized under public law.
- Carry out regular reviews of its organization with regard to the Bank's present needs and future growth, and ensure that all members of management are involved in its operational procedures.
- Materially and continuously improve the information it publishes, in particular by means of its annual report and a separate report on corporate social responsibility, which is issued every two years.

This chapter explains how the Bank puts these principles into practice. Additional information can be found in the Articles of Incorporation and the Cantonal Act of 20 June 1995 Governing the Organization of Banque Cantonale Vaudoise ("LBCV"), both of which are available on the BCV website.³

¹⁾ See the English translation of this text on the SIX website: https://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/directives/06_16-DCG_en.pdf

²⁾ An English translation of this text, by Prof. Peter Böckli, may be found at www.economiesuisse.ch

³⁾ www.bcv.ch

As a public-sector entity within the meaning of Article 763, paragraph 2, of the Swiss Code of Obligations, BCV is not subject to the Ordinance against Excessive Compensation in Publicly Listed Companies (ORAb), which went into effect on 1 January 2014. Nevertheless, in the interest of good governance and given that BCV is publicly listed on the SIX Swiss Exchange, the Board of Directors decided to incorporate the principles of the ORAb into the Articles of Incorporation insofar as they were compatible with BCV's specific status and without amending the LBCV. These changes were approved at the Shareholders' Meeting held on 1 May 2014. Although the ORAb provisions on the election and term of office of members of the Board of Directors were not incorporated into the Articles of Incorporation, many others were adopted. These include the principles regarding the Independent Proxy (Article 18a of the Articles of Incorporation); electronic voting (Article 18a, paragraph 5, of the Articles of Incorporation); the maximum number of board positions outside BCV that may be held by members of the Board of Directors (Article 23 of the Articles of Incorporation) and the Executive Board (Article 29 of the Articles of Incorporation); the duties of the Compensation, Promotions and Appointments Committee (Article 30a of the Articles of Incorporation); the length of the employment contracts of the members of the Executive Board (Article 28, paragraph 2, of the Articles of Incorporation); the compensation structure (Article 30b of the Articles of Incorporation); the approval of compensation (Article 30c of the Articles of Incorporation); and unauthorized compensation (Article 30d of the Articles of Incorporation). In addition, as BCV is not subject to the ORAb, it is required to continue providing compensation reports in the form of a section of its Annual Report (Article 30e of the Articles of Incorporation).

1. Group structure and shareholders

1.1 Group structure

1.1.1 Group operational structure (at 31 December 2017)

Details of all BCV Group companies are shown in note 10.7 (Consolidated holdings) on page 129 of the consolidated financial statements. BCV is the only listed company included in the Group's scope of consolidation.

1.1.2 Listed companies included in the scope of consolidation

Company name	Banque Cantonale Vaudoise
Legal status	Corporation organized under public law, established on 19 December 1845 by Council Decree of the Vaud Cantonal Parliament (Grand Conseil vaudois) and governed by the Act of 20 June 1995, as amended on 25 June 2002, 30 January 2007 and 2 March 2010
Registered office	Place Saint-François 14, 1003 Lausanne, Switzerland
Stock exchange listing	BCV shares are listed on the SIX Swiss Exchange
Market capitalization	At 31 December 2017, the value of BCV's listed shares with a par value of CHF 10 was CHF 6.3bn
Security number	1.525.171
ISIN code	CH0015251710

1.1.3 Unlisted companies included in the scope of consolidation (at 31 December 2017)

The parent company's Board of Directors and Executive Board also serve as the Board of Directors and Executive Board of the Group, which is not a holding company. Furthermore, relations between the Bank and its subsidiaries are governed by a Group directive.

At the operational level, each of the subsidiaries reports to a BCV division according to the type of business in which it engages.

In principle, each head of division is also a member and/or chair of the board of directors of each subsidiary attached to his or her division.

The share capital of BCV's subsidiaries and the holdings of the parent company are shown in note 10.7 on page 129 of the consolidated financial statements.

1.2 Major shareholders

At 1 January 2018, the Canton of Vaud held 66.95% of the Bank's share capital. No other shareholder is known to hold an interest of 5% or more in either the voting rights or capital. BCV Group is currently unaware of any shareholders' pacts. Registered shareholders other than the Canton of Vaud represented 21.86% of the Group's capital at 31 December 2017.

1.3 Cross-shareholdings

There are no cross-shareholdings between the Bank and any other company which exceed the limit of 5% of either the voting rights or capital.

2. Capital structure

Share capital (registered shares)	CHF 86,061,900
Authorized capital	None
Conditional capital	None
Employee stock options	None

2.1 Share capital

Information on the Bank's share capital and changes in 2015, 2016, and 2017 may be found in notes 3 and 5.12 to the parent company financial statements (pages 163 and 171). Additional information on the Group's capital is shown on page 111 of the consolidated financial statements.

At 31 December 2017, the Bank's share capital stood at CHF 86,061,900 and consisted of 8,606,190 registered shares with a par value of CHF 10.

2.2 Authorized and conditional capital

There was no authorized or conditional capital at 31 December 2017.

2.3 Capital structure at the end of the 2015, 2016, and 2017 financial years

There were no changes in the capital structure over the past three financial years.

Number of shares

Share capital	31/12/2015	31/12/2016	31/12/2017
Share capital (fully paid-in registered shares)	8,606,190	8,606,190	8,606,190

Equity – Group

CHF millions

Equity	31/12/2015	31/12/2016	31/12/2017
Share capital (fully paid-in)	86	86	86
Capital reserves and retained earnings	2,607	2,633	2,670
Reserves for general banking risks	704	701	701
Minority interests in shareholders' equity	0	0	0
Total	3,397	3,420	3,457

2.4 Shares and participation certificates

Registered shares at 31 December 2017

Number of shares	8,606,190
Proposed ordinary dividend	CHF 23
Distribution out of paid-in reserves	CHF 10
Par value	CHF 10
Stock exchange listing	SIX Swiss Exchange
Voting rights	One voting right per share

2.5 Dividend-right certificates

BCV has not issued any dividend-right certificates.

2.6 Restrictions on transfers and registration of nominees

The terms governing transfers of registered shares are set out in Article 13 of BCV's Articles of Incorporation.

2.6.1 Restrictions on transfers

Excerpt from the Articles of Incorporation:

Article 13 – Transfers of registered shares

The transfer of any registered share and its entry in the share register shall be subject to approval by the Board of Directors. (...) If the Board of Directors does not reject the request within twenty days, the acquirer shall be recognized as a shareholder with voting right.

The Board of Directors may refuse to register an acquirer as a shareholder with voting rights:

- a) in respect of a shareholding exceeding 5% of the Bank's share capital held by a single shareholder or group of shareholders as defined by the Federal Act on Stock Exchanges and Securities Trading. (...) That limit shall not apply to the Canton of Vaud or any third party to which the Canton of Vaud sells part of its shareholding, or to the takeover of a company or part of a company;

- b) if a shareholder does not expressly state, when requested to do so, that he/she has acquired the shares in his/her own name and for his/her own account;

- c) if and so long as his/her recognition could prevent the Bank from furnishing proof of the shareholder base required under Swiss law.

End of excerpt from the Articles of Incorporation.

2.6.2 Exemptions granted during the financial year

No exemptions were granted during the financial year.

2.6.3 Registration of nominees

The Board of Directors may refuse the registration of an acquirer as a shareholder with voting rights unless he/she expressly states, when requested to do so, that he or she has purchased the shares in his/her name and for his/her own account.

2.6.4 Privileges under the articles and transfer restrictions

At any Shareholders' Meeting convened to vote on the removal of a clause relating to restrictions on the transfer of registered shares, such removal shall be decided by an absolute majority of votes attached to the shares represented, where each share shall entitle the holder to one vote (Article 11, paragraphs 3 and 4, of the LBCV), in compliance with the rules applicable to any resolution of the Shareholders' Meeting.

2.7 Convertible bonds and options

At 31 December 2017, there were no outstanding convertible bonds, warrants, structured products or OTC options involving the BCV share and issued by BCV.

3. Board of Directors

3.1 Members of the Board of Directors

At 31 December 2017, the Board of Directors comprised only non-executive members. The Chairman and members of the Board perform no other functions within BCV Group, and have not done so during the past three years. They maintain normal business relations with BCV and Group companies.

In accordance with Article 12, paragraph 2bis, of the LBCV and Article 21, paragraph 3, of the Bank's Articles of Incorporation, the Vaud Cantonal Government (VCG) gives an appointment letter to the members that it appoints to the Board of Directors. The VCG appoints four of the seven members of the Board; its appointees in 2017 were Olivier Steimer, Peter Ochsner, Luc Recordon, and Paul-André Sanglard. The purpose of this appointment letter is to describe the general framework of the mission entrusted to these members as VCG appointees to the Board and to define the full extent of their relationship with the Canton of Vaud in this regard. It addresses, in particular, the issues of loyally safeguarding the interests of both BCV and the Canton, complying with BCV's legal mandate, and exercising the VCG's power to appoint certain members of the Bank's governing bodies. The letter sets out the various factors that must be considered with respect to the governing bodies' organization, operation, and composition, as well as BCV's mission and strategy. Board members are called upon to ensure the implementation of a strategy that will allow the Bank to carry out its mandate under the best possible conditions, while generating a sufficient return to guarantee its financial soundness over the long term, and to contribute to defining objectives that take into account both its mission and its profitability (see also Article 24, paragraph 2, of the Bank's Articles of Incorporation). It also states what the VCG expects in terms of communication with Vaud Canton, BCV's shareholders, the financial community, and the public, bearing in mind the information-exchange agreement pursuant to the above Act and the Bank's Articles of Incorporation (see in particular Article 24, paragraph 2). The Audit and Risk Committee includes two Board members appointed by the VCG (Mr. Ochsner, Committee Chairman, and Mr. Sanglard) – who therefore hold such appointment letters – and one elected by shareholders (Reto Donatsch). The Board members are assigned to the various committees

on the basis of their personal and professional abilities and their preferred fields, the aim being to protect the interests of the Bank, its shareholders, and all of its partners.

The seven members of the Board of Directors are independent members within the meaning of FINMA Circular 2017/1 "Corporate governance – banks." Three members are elected by shareholders and four are appointed by the VCG. Although the four members appointed by the VCG are given appointment letters, they are independent members in that they receive compensation for any BCV board-related activities from the Bank alone and do not receive any specific instructions from the VCG.

Jacques de Watteville, who was appointed by the VCG pursuant to Article 12, paragraph 1, letter a of the LBCV, replaced Olivier Steimer as Chairman of the Board of Directors on 1 January 2018. He has also been given an appointment letter.

Name, year of birth and nationality	Education	Career experience
Olivier Steimer, 1955, Swiss citizen	Law degree from Lausanne University	Appointed Chairman of the Board of Directors on 30 October 2002. After completing his university studies and a number of banking and finance internships, Mr. Steimer joined Credit Suisse where, from 1983 onwards, he was appointed to progressively increasing levels of responsibility as Head of the Nyon branch office and then Head of Investment Advisory Services in Lausanne. He held various positions in Los Angeles, New York, and Zurich, thereby gaining experience in the credit, wealth management, and domestic and international banking businesses. In 1995, Mr. Steimer was given overall responsibility for Credit Suisse's Geneva region and was appointed member of the Executive Board of Credit Suisse Private Banking at its Zurich headquarters in 1997. In 2001, he was named CEO of the Private Banking International Division and joined the Executive Board of Credit Suisse Financial Services. The following year, he was appointed member of the Credit Suisse Group Executive Board. On 31 December 2017, Mr. Steimer stepped down from the Board of Directors, having served the maximum term under the LBCV.
Jacques de Watteville, 1951, Swiss citizen	Business degree and doctorate in law from Lausanne University, and member of the Bar of Vaud Canton	Chairman of the Board of Directors since 1 January 2018. After serving as a Delegate of the International Committee of the Red Cross in Lebanon, he began his career in diplomacy when he entered the diplomatic service of the Swiss Federal Department of Foreign Affairs (FDFA) in 1982. Mr. de Watteville served as Switzerland's official representative to several countries as well as the European Union, and in the late 1990s was named Head of the FDFA's Economic and Financial Affairs Division where he worked on a number of international issues relating to Switzerland's financial services sector and played an important role in resolving various tax disputes. Mr. de Watteville became State Secretary for International Financial Matters in 2013, and from 2015 until June 2017 led Switzerland's negotiations with the EU, most notably on matters related to the free movement of persons, tax issues, and bilateral agreements.
Paul-André Sanglard, 1950, Swiss citizen	PhD in economics with a specialization in political economy from the University of Geneva	Mr. Sanglard joined the Board of Directors on 30 October 2002 and was appointed Vice Chairman of the Board on 21 April 2016. After working as an assistant in the Department of Political Economy at the University of Geneva, Mr. Sanglard was employed as an economist in the Swiss Federal Office of External Economic Affairs. From 1978 to 1979, he was a Research Fellow at Stanford University and the Massachusetts Institute of Technology. In 1979, he was appointed Head of Jura Canton's public revenue office. He became a lecturer in public finance at the University of Geneva in 1982, and between 1984 and 1989 he was a member of the World Economic Forum Executive Committee. Mr. Sanglard has been a freelance economist since 1989.
Jack G. N. Clemons, 1966, Dual Swiss and British citizen	Master's degree from Cambridge University and MBA from INSEAD, France	Mr. Clemons was elected by shareholders at the Annual Shareholders' Meeting held on 21 April 2016 and joined the Board of Directors on that date. He started his career in auditing and subsequently became a partner at Deloitte. He then served as Chief Operating and Financial Officer for a pan-European internet group. In 2006, Mr. Clemons joined Lausanne-based Bata, a leading global manufacturer and retailer of footwear, as Chief Financial Officer; he was later appointed Chief Executive Officer, a position he held until 2015. Since then, he has served on the boards of several companies and foundations.

<p>Ingrid Deltenre, 1960, Dual Swiss and Dutch citizen</p>	<p>Degree in humanities from the University of Zurich</p>	<p>Ingrid Deltenre was elected at the Annual Shareholders' Meeting on 1 May 2014 and joined the Board on that date. After graduating from the University of Zurich with a humanities degree, Ms. Deltenre held various executive positions in publishing before becoming CEO of Publisuisse in 2000. She was appointed to head up Schweizer Fernsehen (SF), the leading public TV broadcaster in German-speaking Switzerland, in 2004, and held this position for six years. From 2010 until 2017, Ms. Deltenre was Director General of the Geneva-based European Broadcasting Union (EBU), an organization with close to 400 employees.</p>
<p>Reto Donatsch, 1950, Swiss citizen</p>	<p>Degree in economics from the University of Geneva</p>	<p>After completing his studies and two banking internships, Reto Donatsch started his career in the wealth management business at Credit Suisse in 1978. He first worked at the head office in Zurich, where he stayed for ten years and reached the rank of Deputy Director. In 1989, he was promoted to Director and head of the Finance Department of Credit Suisse Geneva. He joined Bank Leu AG, Zurich, in 1993 and became CEO in 1996. He also served on the Executive Board of Credit Suisse Private Banking from 1997 to 2001, representing the Group's independent banks. From 2004 to 2007, he was Vice Chairman of the Board of Directors of Bank Leu AG. Since then, Mr. Donatsch has served on the boards of several companies and foundations. He was elected to the BCV Board of Directors at the Annual Shareholders' Meeting on 5 May 2011 and served as interim Chairman of the Audit and Risk Committee from 21 April 2016 to 30 June 2016.</p>
<p>Peter Ochsner, 1956, Swiss citizen</p>	<p>Degree in business economics from ESCEA Management School, Zurich Swiss-Certified Accountant</p>	<p>Mr. Ochsner was appointed by the Vaud Cantonal Government and joined the Board on 1 July 2016. He also became Chairman of the Audit and Risk Committee on that date. Mr. Ochsner joined PricewaterhouseCoopers S.A. in 1982 after gaining experience in the Internal Audit & Organization Department of the Swiss National Bank. He served on PwC's management board, and headed the firm's auditing practice in Switzerland from 2006 to 2014. Mr. Ochsner is a Swiss-Certified Accountant and, while at PwC, was a lead bank auditor. He has extensive experience with clients in the banking and insurance industries, both in Switzerland and internationally. Mr. Ochsner retired from PwC in 2014.</p>
<p>Luc Recordon, 1955, Swiss citizen</p>	<p>Doctorate in law from Lausanne University and member of the Bar of Vaud Canton Master's degree in physics and a certificate in business management, both from the Swiss Federal Institute of Technology in Lausanne (EPFL)</p>	<p>Mr. Recordon was appointed by the Vaud Cantonal Government on 1 February 2002 and became Chairman of the Compensation, Promotions and Appointments Committee on 21 April 2016. He worked as a lawyer for the Federal Office for Spatial Planning from 1980 to 1981 and spent the next two years as a sales engineer with Granit SA in Lausanne before setting up his own legal and technical consultancy. Mr. Recordon was admitted to the Bar in 1989 after two years as a trainee lawyer and was subsequently made a partner in a Lausanne law firm.</p>

3.2 Other activities and business relations (at 1 March 2018)

Olivier Steimer (at 31 December 2017)	<ul style="list-style-type: none"> • Vice Chairman of the Bank Council of the Swiss National Bank, Bern and Zurich • Member of the Board of Directors of Allreal Holding AG, Baar • Member of the Board of Directors of Chubb Limited, Zurich • Board member of the following foundations: Aide sportive suisse (Vice Chairman) and the Centre for Humanitarian Dialogue, Geneva
Jacques de Watteville	<ul style="list-style-type: none"> • Member of the Board of the BCV Foundation, Lausanne • Member of the Board of Fondation Leenaards, Lausanne • Member of the Executive Council and Vice President of the Jean Monnet Foundation for Europe, Lausanne
Paul-André Sanglard	<ul style="list-style-type: none"> • Chairman of the Board of Directors of Groupe Vaudoise Assurances, Lausanne • Vice Chairman of the following boards of directors: QNB Banque Privée (Suisse) SA, Geneva; Société Générale Private Banking (Suisse) SA, Geneva; and Banque Heritage SA, Geneva. • Member of the following boards of directors: TSM Insurance Company, La Chaux-de-Fonds; Edmond de Rothschild Asset Management (Suisse) SA, Geneva; Pury Pictet Turrettini & Cie SA, Geneva; Baader Helvea SA, Zurich; and Millennium Banque Privée BCP (Suisse) SA, Geneva • Member of the following foundation boards: CODECO, Porrentruy; the Finance and Investment Commission of Swiss Solidarity, Geneva; and Observatoire de la Finance, Geneva
Jack G. N. Clemons	<ul style="list-style-type: none"> • Fellow of the Institute of Chartered Accountants in England and Wales • Member of the International Board and of the Audit Committee of the World Wide Fund for Nature (WWF), Gland • Member of the Board of Directors of the Peter Scott Wildlife Endowment Fund, Gland
Ingrid Deltenre	<ul style="list-style-type: none"> • Member of the Board of Directors of Givaudan SA, Vernier • Member of the Board of Directors of Agence France-Presse, Paris • Member of the University of Zurich's Executive MBA advisory board • Member of Aufsichtsrat Deutsche Post/DHL, Bonn
Reto Donatsch	<ul style="list-style-type: none"> • Member of the Board of Directors of Constellation Capital AG, Freienbach • Member of the Investment Committee of the Bern Canton Pension Fund, Bern • Board member of the Swiss Red Cross Humanitarian Foundation, Bern
Peter Ochsner	<ul style="list-style-type: none"> • Head of Finance and Accounting for the Festival of Zurich Foundation, Zurich • Member of the Board of the Professor Dr. Max Cloëtta Foundation, Zurich
Luc Recordon	<ul style="list-style-type: none"> • Chairman of the Board of Directors of the Coopérative Tunnel-Riponne, Lausanne • Member of the following boards of directors: Clavel SA, Bern, and NECC SA, Lausanne • Consultant for the municipality of Jouxteins-Mézery, for CTR and for ASIGOS • Chairman of the following committees: Verein Energieallianz, Solothurn, and Association Pro AI Vaud, Lausanne • Chairman of the following foundation boards: Fondation du Théâtre Boulimie, Lausanne, and Fondation 50e of the Centre Social Protestant, Lausanne • Honorary Chairman of Institut Biosphère, Geneva • Chairman of the committee of the Association romande pour le développement et l'intégration des médecines complémentaires (RoMédCo), Lausanne • Chairman of the general meeting of AVDEMS, Pully • Chairman of the committee of the Association des Amis du Peintre André Gasser, Lausanne • Committee member of the following organizations: Lausanne section of the Swiss Tenants' Association (ASLOCA), Lausanne; the Vaud Section of the Swiss Transport and Environment Association (ATEVD), Lausanne; E-Changer, Partenaires dans l'échange et pour le changement, Fribourg; NiceFuture, Lausanne; Dachverband Komplementärmedizin (Dakomed), Bern; Agile.ch, Bern; and Centre pour l'action non-violente (CENAC), Lausanne • Member of the Foundation Board of Fondation intégration pour tous (IPT), Lausanne • Local councilor for Jouxteins-Mézery • Member of the Committee of the Board of Directors and Chairman of ASIGOS, Prilly • Member of the Advisory Board of the Swiss Centre of Expertise in Human Rights (SCHR), Bern • Member of the Vaud Green Party Committee • Independent counsel

Jacques de Watteville
Chairman of the Board of Directors



Paul-André Sanglard
Vice Chairman of the Board of Directors



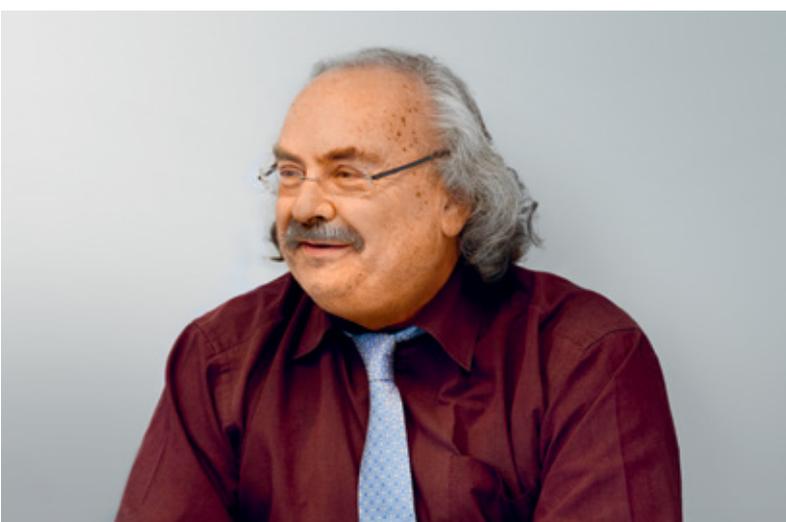
Reto Donatsch
Member of the Board of Directors



Peter Ochsner
Member of the Board of Directors



Ingrid Deltenre
Member of the Board of Directors



Luc Recordon
Member of the Board of Directors



Jack G. N. Clemons
Member of the Board of Directors

3.3 Election and term of office

3.3.1 Principles

Pursuant to the Articles of Incorporation, the Board of Directors is composed of seven, nine, or eleven members. The Chairman and half of the other members are appointed by the Vaud Cantonal Government (Article 12, paragraph 1, of the LBCV departs from the ORAb on this point). The remaining members are elected individually by shareholders at the Annual Shareholders' Meeting, with the Cantonal Government abstaining from voting.

Pursuant to Article 12, paragraph 5, of the LBCV and in derogation of the ORAb, the Chairman and other members of the Board of Directors are appointed for a period of four years. Their term of office may be renewed, but the total term may not exceed 16 years. They are required to step down at the end of the calendar year in which they reach the age of 70.

3.3.2 First election and term of office

The table below shows the terms of office of the current members of the Board.

3.4 Internal organization

3.4.1 Allocation of tasks

Olivier Steimer served as the Chairman of the Board of

Directors until 31 December 2017, when he stepped down after having reached the term limit for serving on the Board, as specified in BCV's Articles of Incorporation and the law governing BCV. He was succeeded by Jacques de Watteville, who was appointed by the Vaud Cantonal Government and joined the Board of Directors as the new Chairman on 1 January 2018. The Vice Chairman is Paul-André Sanglard. The other members are Ingrid Deltenre, Jack G. N. Clemons, Reto Donatsch, Peter Ochsner, and Luc Recordon.

Pursuant to the Articles of Incorporation and the by-laws, the Board of Directors may delegate some of its responsibilities to committees drawn from among its members, except as otherwise provided by law.

The Board of Directors has set up an Audit and Risk Committee and a Compensation, Promotions and Appointments Committee. In principle, neither committee has decision-making powers. Their responsibility is to prepare Board resolutions and submit opinions. The Board of Directors may create other special committees to deal with matters that are submitted to the Board.

3.4.2 Committees: composition and terms of reference

Audit and Risk Committee

In 2017, the Audit and Risk Committee was made up of Peter Ochsner (Chairman), Reto Donatsch, and Paul-André Sanglard.

Members of the Board of Directors	Year of birth	Date of first election	Latest possible expiration of term of office	Appointed by
Jacques de Watteville (Chairman)	1951	1 January 2018	2021	Vaud Government
Paul-André Sanglard (Vice Chairman)	1950	30 October 2002	2018	Vaud Government ¹
Jack G. N. Clemons	1966	21 April 2016	2032	Shareholders' Meeting
Ingrid Deltenre	1960	1 May 2014	2030	Shareholders' Meeting
Reto Donatsch	1950	5 May 2011	2020	Shareholders' Meeting ²
Peter Ochsner	1956	1 July 2016	2026	Vaud Government
Luc Recordon	1955	1 February 2002	2018	Vaud Government ¹

¹ Term of office renewed by the Vaud Cantonal Government, until the 2018 Annual Shareholders' Meeting

² Term of office renewed for four years at the 2015 Annual Shareholders' Meeting

The Audit and Risk Committee is tasked with ensuring the application and operation of risk control and management at BCV. It assists the Board of Directors in assessing the various types of risk faced by BCV, and in structuring and organizing the Bank's risk management and control processes. It draws up opinions and recommendations for the Board after conducting a critical examination on a regular or case-by-case basis of the Group's main risks, the risk management policy and strategy, reports on risks, and compliance with regulatory capital requirements.

The Committee reviews the Chief Risk Officer's report every quarter, and the Bank's financial data and the reports from the Head of Internal Audit, the Chief Compliance Officer and the Head of the Legal Department every six months. It has no decision-making authority and submits its conclusions to the Board of Directors.

The Committee supervises the work of both the internal and external auditors. Together with the external auditors' representative, it examines the external auditors' recommendations concerning BCV's organization and risk-assessment policy, and gives its opinion on the qualifications of the internal auditors and the cooperation of Bank units in audit procedures. The Head of Internal Audit also briefs the Committee on matters pertaining to BCV's organization and operations, and provides a risk analysis. Furthermore, the Committee gives its own appraisal of the Internal Audit Department and reviews the status of litigation involving BCV.

The Committee meets for at least one full day every quarter to accomplish its duties, which are set out in detail in an Audit and Risk Committee Charter (available on BCV's website), and to review other matters related to its activities. An additional meeting is dedicated essentially to the closing of the annual accounts.

The Head of Internal Audit, representatives of the external auditor, and the CFO attend all Committee meetings, with exceptions for certain specific subjects. Depending on the agenda, the meetings are also attended by other members of the Executive Board, the Head of the Risk Management Department, the Chief Compliance Officer, the Head of Accounting and the Head of the Legal Department.

In addition to its risk-related role described above, the main task of the Audit and Risk Committee is to assist

the Board of Directors in carrying out its supervisory duties and ensuring the integrity of the consolidated financial statements and financial reports. Furthermore, the Committee is responsible for ensuring the quality and independence of the work performed by both the internal and external auditors. It discusses the contents of the parent company's audit reports, together with those of the subsidiaries, as part of a consolidated review. It oversees implementation of the auditors' recommendations. The Committee agrees on the annual and six-year audit plans for the internal auditor and is informed of the external auditor's prudential and financial audit strategy.

Apart from its regular duties, the Audit and Risk Committee attended a one-day training seminar in 2017 that focused on a number of risk-related topics.

Once a year, the Audit and Risk Committee conducts a detailed evaluation of the internal (see also 3.6 below) and external auditors as well as a self-assessment.

Compensation, Promotions and Appointments Committee

In 2017, the Compensation, Promotions and Appointments Committee, which is expressly provided for in the Articles of Incorporation (Article 30a), consisted of Luc Recordon (Chairman), Ingrid Deltenre, and Jack G. N. Clemons. The Chairman of the Board and the CEO take part in an advisory capacity.

The Committee provides significant support to the Board of Directors, particularly relating to human resources strategy and employee transition management. It helps in defining profiles and selecting and proposing candidates for senior management and board positions.

The Committee, which has no decision-making authority, thus defines the profile required for the Chairman and the other members of the Board of Directors, as well as for the CEO and the other members of the Executive Board. It draws up and prioritizes proposals for the selection and hiring of the Bank's senior executives and examines the Board of Directors' compensation system. It also prepares and prioritizes recommendations for the Board of Directors and the Shareholders' Meeting on decisions concerning the compensation of the Chair of the Board of Directors (in his or her absence), the CEO, and the Executive Board members. It also makes recommendations to the Board of Directors on

the compensation of the Head of Internal Audit, and on the Bank's overall compensation policy and level.

In addition, it assesses the performance of the CEO and reviews the CEO's assessment report on members of the Executive Board.

It makes recommendations on executive appointments and promotions.

Finally, the Committee has the additional tasks of handling matters related to corporate social responsibility and of preparing and prioritizing recommendations for the Board of Directors on decisions concerning rules of good governance, including assignments entrusted to external consultants by the governing bodies.

3.4.3 Operational procedures of the Board of Directors and its committees

In 2017, the Board of Directors held 11 ordinary plenary meetings. Each meeting generally lasted a half day, with the exception of three full-day meetings. The Board of Directors also went on two 2-day retreats, in part with the Executive Board. The retreats provide the Board of Directors with the opportunity to address strategic topics in greater depth, including the Bank's overall strategy and its strategies in the areas of human resources, finance, IT, and risk management.

The Board committees meet whenever required by the business at hand. In 2017, the Audit and Risk Committee met seven times (four full-day meetings and three meetings that lasted a few hours) and took part in a full-day training seminar; the Compensation, Promotions and Appointments Committee met six times (for an average of three hours each time) and held several meetings related to changes in Board membership.

Board members receive the minutes and all documents provided to the committees. The chair of each committee informs members at Board meetings of important issues addressed by the committees and answers any questions raised by them. See section 3.4.2 above for information on the committees' operational procedures.

The CEO attends all regularly scheduled Board meetings and retreats. Executive Board members attend whenever issues relating to their divisions are on the agenda.

Where necessary, outside specialists are invited to attend Board or committee meetings to present a specific topic.

The Board of Directors has adopted an operational procedure for working with the Executive Board, with a subject-by-subject description and schedule of the tasks to be performed. This *modus operandi*, which is periodically reviewed, establishes the frequency with which matters are handled by the two Boards, including their committees, and in which form. The objective is good governance by ensuring that all pertinent issues are addressed at the right level, that the time available to the Boards and committees is allocated optimally, and that their involvement is fully consistent with their responsibilities (see also section 3.6). Since 2009, the Board of Directors has delegated more matters to the committees. In principle, decision-making authority nevertheless rests with the Board.

3.4.4 Performance appraisal of the Board of Directors

Pursuant to Article 30b, paragraph 2, of the Articles of Incorporation, the Board of Directors sets itself annual objectives, taking into account the goals set forth in the Articles, as well as the Bank's strategy and risk policy. The Board carries out an analysis every six months to determine whether these objectives have been achieved, and also reviews and improves its procedures on a regular basis.

Furthermore, the Board meets once a year without the Chairman to evaluate his or her performance. In 2016, the Board decided, and the Chairman agreed, to cancel the latter's performance-based compensation with effect from the 2016 financial year, and to incorporate it into the fixed compensation.

3.5 Powers

The Board of Directors establishes the Bank's general policy. It directs the Bank's affairs at the highest level and issues the necessary instructions. It also supervises the Bank's management and those entrusted with it. In addition, it verifies the accomplishment of BCV's corporate mandate, as defined in Article 4 of the LBCV.

The Board of Directors exercises the inalienable powers described in Article 24, paragraph 4, of the Articles of Incorporation and carries out all duties that have not been

assigned to BCV's other governing bodies pursuant to the LBCV, the Articles of Incorporation, or the by-laws.

It also has the following responsibilities:

The Board of Directors determines which companies belong to BCV Group, in accordance with the legal provisions applicable to the scope of consolidated supervision. Subject to the non-transferable and inalienable powers of the subsidiaries, it exercises the same powers relative to the Group, through the directives that BCV issues and the instructions that BCV gives its representatives within the Group.

It decides on the creation, acquisition, sale, and liquidation of subsidiaries, branches, and retail banking offices, and of representative offices abroad. It validates the Bank's investment and growth policy, and reviews it periodically. It ensures that systems for the preparation of financial statements and for financial planning are implemented and maintained, and that these systems meet regulatory requirements and those related to internal and external audits.

The Board of Directors regulates, establishes, maintains, supervises, and regularly validates the internal control system (ICS). The relevant internal framework directive has been implemented. The Board regularly discusses its assessment of the appropriateness and effectiveness of the ICS with the Executive Board.

In terms of appointments, the Board of Directors has a number of responsibilities that fall outside the powers defined in Article 24, paragraph 4, of the Articles of Incorporation. In agreement with the Vaud Cantonal Government, it determines the conditions governing the appointment of its Chair. It appoints and removes the Head of Internal Audit along with all executives in that department with the rank of lead auditor or equivalent, and appoints and removes Bank executives with signing authority. It proposes its own compensation, together with that of its Chairman and the Executive Board, to the Shareholders' Meeting (new Article 30c of the Articles of Incorporation). It sets the Bank's overall compensation level and the compensation of the Head of Internal Audit. The Board also validates the conditions applicable to the Executive Board. It determines the method of signing used by the Bank, i.e., the joint signature of two persons.

The Board of Directors determines the organization

and defines terms of reference by means of by-laws, the organization chart for divisions and departments, other regulations, and tables of terms of reference. In particular, it draws up the quantified terms of reference assigned to the Executive Board. It approves the Bank's lending policy upon the recommendation of the Executive Board, and the technical standards and regulations governing lending authority upon the recommendation of the Executive Board's Credit Committee. It also decides on the granting of loans to members of the Board of Directors and Executive Board.

It reviews the external auditor's annual reports and the activity reports submitted by the Internal Audit Department. It prepares the reports, accounts, and other documents and proposals to be presented to the Shareholders' Meeting, and approves the strategic development and investment plans. Finally, it approves the budget and the objectives defined by the Executive Board.

The Board of Directors determines the Bank's financial strategy and risk-management policy and strategy, and reviews their appropriateness periodically. In this way, it sets out the overall framework for balance-sheet and risk management for the Executive Board. It monitors implementation of balance-sheet and risk-management policy, in particular by reviewing periodic risk-assessment reports prepared in accordance with its instructions, as well as those required by the regulatory authorities.

For all other matters, refer to the operational procedure set up by the Board of Directors and described in section 3.4.3.

The Executive Board is responsible for managing and directly monitoring the Bank's business. Its powers include drawing up the terms and procedures of operations listed in Article 4 of the Articles of Incorporation, as defined in Article 4 of the LBCV. It has the power to institute legal proceedings and represent the Bank in a court of law; it keeps the Board of Directors informed of any such situation.

Furthermore, the Executive Board implements the decisions made by the Board of Directors. It ensures that the organization and internal audit procedure in place at BCV meet FINMA requirements on the supervision and internal control of banks and the relevant framework directive issued in this regard by the Board of Directors; to this effect, the Executive Board issues the necessary directives

and exercises appropriate oversight. It has adopted the ICS implementing directive.

The Executive Board draws up the Bank's financial strategy through the CFO, the risk-management policy and strategy through its Risk Management Committee, and the lending policy through its Credit Committee. It is responsible for preparing periodic risk-assessment reports in accordance with the instructions of the Board of Directors and prepares all documents that will be used in the decision-making and monitoring processes relative to operations and business dealings that involve special risks. It is responsible for overall risk management within the framework set by the Board of Directors, regularly verifies compliance with disclosure and reporting requirements defined by the regulatory authorities, and monitors compliance with risk exposure limits set by the Board of Directors.

The Executive Board publishes the financial statements after they are approved by the Board of Directors. It then prepares the cash-flow and shareholders' equity statements, which it publishes in accordance with current regulations. It draws up the budget of foreseeable revenues and expenses and submits it to the Board of Directors. It sets the rates and conditions applicable to the Bank's various types of operations. It also coordinates the activities and processes of the divisions and the strategic units.

It may issue or decide to participate in public or private bond offerings for the Bank's own account, buy, sell, equip, or renovate buildings within the limits set by the Board of Directors and carry out other own-account operations within the criteria specified by the Board of Directors. It may approve the outsourcing of activities in compliance with the FINMA directive.

Subject to the powers of the Board of Directors, it hires and dismisses employees, whose rights, obligations, and responsibilities are defined in the employee handbook. It appoints and removes senior executives in accordance with the powers granted to it under the by-laws. It makes recommendations on the Bank's overall compensation level to the Board of Directors, through the Compensation, Promotions and Appointments Committee.

3.6 Monitoring the Executive Board

The Board of Directors supervises the Executive Board

with the support of the Internal Audit Department, the external auditors, and the Board of Directors' committees in accordance with the operational procedures described in section 3.4.3, the objective of which is to ensure good governance.

The CEO attends all meetings of the Board of Directors, including retreats. The CFO is always present when there are items on the agenda concerning the financial statements, risks, asset and liability management (ALM), compliance, and legal matters. In principle, Executive Board members attend whenever issues relating to their division are under discussion. Executive Board members in charge of front-office divisions present a business review to the Board of Directors twice a year. In addition to approving the half-year and full-year financial statements provided by the Financial Accounting Department and presented in detail to both the Audit and Risk Committee and the Board of Directors, the Executive Board sends (and in some cases presents) quarterly reports on the following issues to the Board of Directors: risks, ALM, equity, investor relations, human resources, and investment policy. It also provides half-yearly reports on compliance and legal matters. The Board of Directors also reviews the parent company and consolidated financial statements for the first and third quarters.

The "Risk Management" section (pages 50–59) provides a summary of BCV's risk management procedures and an overview of its risk profile. Note 7 of the financial statements (pages 119–122) explains the principles applied by the Bank in assessing and managing risk. The Bank publishes its Basel III Pillar 3 Report, which is updated every six months and can be found in the Investor Relations section of the BCV website (www.bcv.ch).

A Management Information System (MIS) was approved by the Board of Directors to monitor and steer performance across the Bank, broken down by segment. Monthly reports are sent to each manager of a specific segment and presentations are made to the Executive Board each month. The MIS contains information not only on financial performance but also on business activity, margins, risk, operational indicators, and human resources. In addition, it includes market watches. The CEO provides the Board of Directors with

budget reports and regular updates on business trends based on the MIS reports, including a summary report every six months.

No member of the Board of Directors belongs to the Executive Board or exercises any management function whatsoever at the Bank or its subsidiaries, in compliance with the principle of independence stipulated in Swiss banking regulations.

Internal Audit Department

The Internal Audit Department is a constituent entity of BCV pursuant to Article 14 of the Articles of Incorporation. It reports directly to the Board of Directors. It performs regular audits of all the Bank's operations and has an unlimited right to access information for this purpose. Its organization, sphere of operations, procedures, and cooperation with the external auditors are defined in its regulations. The Department is independent of the Executive Board. Its responsibilities extend to all entities directly or indirectly controlled by the Bank in the areas of banking, finance, and IT.

The Head of the Internal Audit Department draws up a six-year plan, which is reviewed annually and coordinated – insofar as regulatory constraints allow – with the external auditor. It is discussed with the executive boards of the parent company and BCV Group companies, approved by the Audit and Risk Committee, and submitted for information purposes to the Board of Directors. The one-year plan results from this medium-term planning process. It may be changed during the year by the Head of the Internal Audit Department, subject to approval by the Audit and Risk Committee.

On the basis of the one-year plan, the Internal Audit Department enjoys complete freedom in preparing and executing its tasks and presenting its conclusions. After completing its work, the Department submits detailed audit reports to the Executive Board, the Audit and Risk Committee, and the Board of Directors, and provides copies to the external auditor, with which it shares all of its conclusions. It also draws up half-yearly activity reports, which include an overview of all ongoing auditing activities within BCV Group. The report is intended for the Audit and Risk Committee and is also discussed at meetings of the Executive Board and the Board of Directors.

Supervision and regular evaluations of the Internal Audit Department are delegated to the Audit and Risk Committee. Every year the Committee assesses the Department's cooperation with the external auditor, decides whether the Department is efficient and has the necessary resources and appropriate skills, and ensures that it performs its activities independently and objectively. The Audit and Risk Committee also has an objective external audit carried out at least once every five years, in accordance with international standards. This audit looks at all of the Internal Audit Department's systems and activities; the most recent one was conducted in 2016 and found that the Bank is in compliance with the standards issued by the Institute of Internal Auditors (IIA) and with the requirements of FINMA Circular 2017/01.

The Head of the Internal Audit Department attends all meetings of the Audit and Risk Committee, as well as meetings of the Executive Board and Board of Directors when required.

4. Executive Board

4.1 Members of the Executive Board

Information about members of the Executive Board can be found on the following pages (NB: pursuant to Article 27 of the Articles of Incorporation, only the CEO is appointed by the Vaud Cantonal Government, while the other members are appointed by the Board of Directors).

Name, year of birth and nationality	Position and start date	Education	Career experience
Pascal Kiener, 1962, Swiss citizen	CEO since 1 May 2008 and CFO from 1 June 2003 until 31 December 2008	MSc in mechanical engineering from the Swiss Federal Institute of Technology in Lausanne (EPFL) in 1985. MBA from INSEAD in Fontainebleau in 1992.	Between 1985 and 1991, Mr. Kiener worked as an engineer for Fides Informatics in Zurich and Hewlett Packard in Geneva. In 1993, he joined the consulting firm McKinsey & Company. In 2000, he was made partner and a member of the Management Committee of McKinsey Switzerland. He acquired experience in financial services, and in banking in particular, during these years as an advisor for leading financial institutions in Switzerland and other European countries. He managed large projects involving strategy, risk management, controlling, and business process re-engineering. Mr. Kiener joined BCV as CFO on 1 June 2003 and was appointed CEO on 1 May 2008.
Stefan Bichsel, 1955, Swiss citizen	Member of the Executive Board with responsibility for the Asset Management & Trading Division since 1 May 2009	Admitted to the Bar of Bern Canton in 1982. Master of Laws (LL.M) from Georgetown University in Washington DC in 1986. Admitted to the bars of New York and Connecticut in 1987. Advanced Management Program at the Wharton Business School, Philadelphia, in 1994.	Following law studies in Lausanne and Bern, Mr. Bichsel started his career at UBS. He was admitted to the bars of New York and Connecticut, before working for Pictet & Cie in Geneva. In 1994, he was appointed as the first CEO of Swissca Holding AG (now Swisscanto). From 1998 to 2001, he served as Chairman of the Board of the Swiss Funds Association (SFA). In 2002, Mr. Bichsel was named to the Management Board of Robeco Group (Rotterdam), where he was put in charge of the company's operations outside the Netherlands. From 2003 to 2005, he was Chairman of the Board of the European Fund and Asset Management Association (EFAMA) in Brussels. He joined Lombard Odier Darier Hentsch Group (LODH) in 2006 as a partner in the holding group and member of Group Management. He joined BCV as a Member of the Executive Board with responsibility for the Asset Management & Trading Division on 1 May 2009.
Andreas Diemant, 1968, Swiss citizen	Member of the Executive Board with responsibility for the Corporate Banking Division since 1 September 2017	BSc in business administration from the Bern University of Applied Sciences and an Executive MBA from the Universities of Bern and Rochester.	Mr. Diemant began his career in insurance, working for Zürich Versicherungs-Gesellschaft and subsequently for La Suisse Assurances in Lausanne. He moved into banking in 1994 when he took a position at UBS in corporate banking for Switzerland's Mittelland region. Mr. Diemant then rose through the ranks across all corporate segments to reach the position of Head of Institutional Clients, Switzerland & Global Asset Servicing. On 1 September 2017, he joined BCV's Executive Board as head of the Corporate Banking Division.
G�rard Haeberli, 1961, Swiss citizen	Member of the Executive Board with responsibility for the Private Banking Division since 1 July 2009	Degree in economics (with a specialization in business administration) from the Business and Economics Faculty of Lausanne University in 1983. Certificates from the International Bankers School in New York, Harvard Business School in Boston and IMD in Lausanne.	Mr. Haeberli joined Credit Suisse in 1985, where he spent his career until 30 June 2009. From 1987, he held responsibilities in private banking in Yverdon-les-Bains and then worked in Zurich before being transferred to the United States, where he worked in New York and Miami. In 1994 he was transferred to Lausanne, where he took over responsibility for an international desk for Credit Suisse Private Banking. In 1998 he was put in charge of the Vaud region, and became head of Private Banking for all of French-speaking Switzerland in 2000. His responsibilities were extended in 2006 to include all of Credit Suisse's business lines in French-speaking Switzerland. He joined BCV's Executive Board with responsibility for the Private Banking Division on 1 July 2009.

Christian Meixenberger, 1960, Swiss citizen	Member of the Executive Board with responsibility for the Business Support Division since 1 January 2017	Degree in electronic engineering from the University of Neuchâtel in 1987. MBA from the University of Lausanne in 1993.	From 1987 to 1993, Mr. Meixenberger worked as a software engineer at the Swiss Center for Electronics and Microtechnology (CSEM) in Neuchâtel before joining Credit Suisse in Geneva, where he was in charge of business processes and IT. In 1997, he became head of IT at Banque Cantonale de Fribourg. He was then appointed to that bank's Executive Board as head of the Services Division in 2000. He took up his position as head of BCV's Business Support Division on 1 January 2017.
Thomas W. Paulsen, 1965, Swiss citizen	CFO, member of the Executive Board with responsibility for the Finance & Risks Division since 1 January 2009	Degree in economics from the Business and Economics Faculty of Lausanne University in 1988. MSc in economics from the London School of Economics (LSE) in 1989. PhD in economics from Lausanne University in 1992.	Mr. Paulsen started his career in energy trading at EGL. In 1995, he joined the consulting firm McKinsey & Company, where he was elected Principal Associate in 2000. During his time at McKinsey, he managed a large number of strategic projects for financial institutions and major energy companies in Switzerland and throughout Europe, focusing particularly on the risk management aspects. Mr. Paulsen joined BCV in July 2002 as Chief Risk Officer (CRO), and in this capacity created and led the Risk Management Department. He was named CFO and Head of the Finance & Risks Division on 1 January 2009.
Bertrand Sager, 1966, Swiss citizen	CCO, member of the Executive Board with responsibility for the Credit Management Division since 15 February 2010	Master of Law from Lausanne University in 1990. Advanced Management Certificate from INSEAD in Fontainebleau in 2007.	Mr. Sager began his career at Credit Suisse in 1991, where he was involved in various lending activities. He joined BCV in 1998 and was appointed to lead BCV's Credit Recovery Management Department in 2003. In this position, he played a key role in strengthening the Bank's balance sheet by reducing the volume of impaired loans. In addition, as a member of the Executive Board's Credit Committee since 2008, he has acquired a thorough understanding of BCV's lending activities. Mr. Sager was named Chief Credit Officer and appointed to the Executive Board with responsibility for the Credit Management Division as of 15 February 2010.
Jean-François Schwarz, 1955, Swiss citizen	Member of the Executive Board with responsibility for the Corporate Banking Division from 1 March 2003 until his retirement on 30 June 2017	Degree in economics (with a specialization in business administration) from the Business and Economics Faculty of Lausanne University in 1976.	Mr. Schwarz joined BCV's Commercial Division in 1976. He subsequently became assistant to the Head of Division and, later on, client advisor for business loans, trade finance and export credits. From 1986 onwards, he worked for Credit Suisse in Lausanne, New York, Zurich, Geneva, and Sion. He was in charge of five regions for Credit Suisse as Head of Corporate Clients for French-speaking Switzerland before returning to BCV in 2003. He was a member of the Executive Board with responsibility for the Corporate Banking Division from 1 March 2003 until 30 June 2017.
José François Sierdo, 1963, Swiss citizen	Member of the Executive Board with responsibility for the Retail Banking Division since 3 March 2014	Degree in economics and business administration from the Business and Economics Faculty of Lausanne University in 1992. MBA from IMD in Lausanne in 2001.	Mr. Sierdo began his banking career in 1993 in retail banking at UBS. He went on to do project finance in New York and lending in Zurich, before working at Lombard Odier & Cie from 1998 to 2002. He then returned to UBS, where he held key managerial positions in retail, private, and corporate banking, including: Head of Private Banking for French-speaking Switzerland, CEO of UBS Luxembourg, and Head of Corporate Clients for Switzerland. Before becoming a banker, he was a military pilot and a member of the Swiss Air Surveillance Wing. He joined BCV's Executive Board as Head of the Retail Banking Division on 3 March 2014.

Pascal Kiener
CEO



Christian Meixenberger
Member of the Executive Board,
Head of Business Support



Stefan Bichsel
Member of the Executive Board,
Head of Asset Management & Trading



Bertrand Sager
Member of the Executive Board,
Head of Credit Management



Thomas W. Paulsen

Member of the Executive Board,
CFO, Head of Finance & Risks



Andreas Diemant

Member of the Executive Board,
Head of Corporate Banking



Gérard Haerberli

Member of the Executive Board,
Head of Private Banking



José F. Sierdo

Member of the Executive Board,
Head of Retail Banking

4.2 Other activities and business relations (at 1 March 2018)

Executive Board members also perform the following functions:

Pascal Kiener	<ul style="list-style-type: none"> • Member of the Board of Directors of the Swiss Bankers Association • Member of the Board of Directors and the Board Committee of the Union of Swiss Cantonal Banks • Member of the Board of Directors and the Steering Committee of the Vaud Chamber of Commerce and Industry • Chairman of the “Fonds de prévoyance en faveur du personnel de la BCV” • Member of the Board of the BCV Foundation • Member of the Geneva Financial Center Foundation • Member of the Foundation Board of the Swiss Finance Institute, Zurich • Member of the Strategic Advisory Board of the Swiss Federal Institute of Technology in Lausanne (EPFL) and member of the Foundation Board of EPFL Plus • Member of the Foundation Board of Foot Avenir, Paudex
Stefan Bichsel	<ul style="list-style-type: none"> • Chairman of the Board of Directors of GEP SA, Lausanne • Chairman of the Board of Directors of Gérifonds SA, Lausanne • Member of the Board of Directors of Banque Cantonale du Jura SA, Porrentruy • Member of SIX Securities Services Ltd – Strategic Advisory Board, Zurich • Member of the International Orientation Committee of EDHEC, Lille and Nice • Chairman of the Pro Aventico Association, Avenches
Andreas Diemant	<ul style="list-style-type: none"> • Member of the Board of Directors of Würth Finance International B.V., Amsterdam
Gérard Haerberli	<ul style="list-style-type: none"> • Chairman of the Board of Directors of Piguët Galland & Cie SA • Member of the Board of the Institute for Studies in Finance and Banking (ISFB)
Christian Meixenberger	<ul style="list-style-type: none"> • Member of the Board of Directors of Aduno Holding SA • Member of the IT Commission of the Canton of Fribourg
Thomas W. Paulsen	<ul style="list-style-type: none"> • Member of the Board of Directors and the Audit and Risk Committee of Piguët Galland & Cie SA • Chairman of the Swiss Cantonal Bank Issuing Committee • Member of the Board of Directors of the Swiss Cantonal Banks’ Central Mortgage Bond Institution • Member of the Foundation Board of the “Caisse de pensions de la Banque Cantonale Vaudoise” • Member of the Board of the “Fonds de prévoyance en faveur du personnel de la BCV” • Member of the Foundation Board of ISREC (the Swiss Experimental Research Institute for Cancer)
Bertrand Sager	<ul style="list-style-type: none"> • Committee member of the Chambre Vaudoise Immobilière • Member of the Board of Directors of GEP SA • Member of the Board of the “Caisse de pensions de la Banque Cantonale Vaudoise” • Member of the Board of the “Fondation de prévoyance en faveur de l’encadrement supérieur de la BCV” • Member of the Board of the “Fonds de prévoyance en faveur du personnel de la BCV” • Judge for property disputes at the Eastern Vaud District Court • Member of the Management Committee of the “Fonds cantonal de lutte contre la précarité”
José F. Sierdo	<ul style="list-style-type: none"> • Member of the Board of Directors of newhome.ch AG • Member of the Board of Directors of TWINT AG and TWINT Acquiring AG • Member of the Board of Directors and Treasurer of the Vaud Banking Association (AVB) • Member of the Board of Directors and Treasurer of the Vaud Foundation for Banking Education (FVFB)

Internal organization of the Executive Board

The Executive Board may delegate its powers and duties as provided in the by-laws, subject to applicable laws, Swiss Bankers Association agreements, circulars issued by FINMA and other supervisory authorities, and directives of the Board of Directors.

In particular, the Board may appoint committees to prepare and implement its decisions, make decisions, and oversee various matters.

The Executive Board has set up several committees, each of which consists of a chairman and members appointed for an indefinite period by the Board and drawn from its own ranks or among senior executives.

In accordance with BCV's by-laws, the CEO has a right of veto, which must be duly recorded when used. In such cases, the CEO must inform the Chairman of the Board of Directors.

4.3 Management contracts

The Bank has not entered into any management contracts.

Committee name, composition (at 1 March 2018)

Main roles

Risk Management Committee

Thomas W. Paulsen (Chairman)
Pascal Kiener
Stefan Bichsel
Andreas Diemant
Bertrand Sager
Maxime Mermier

- Submits risk management policy and strategy proposals to the Executive Board for approval by the Board of Directors
- Ensures risk management and control processes are implemented and updated for the entire Bank and for all risk categories
- Monitors the Bank's overall risk profile
- Steers all the Bank's risk management projects

Asset and Liability Management Committee (ALCO)

Pascal Kiener (Chairman)
Thomas W. Paulsen
G rard Haerberli
Andreas Diemant
Jos  Fran ois Sierdo
Christopher Cherdel
Michel Aubry
Fernando Martins da Silva

- Examines the exposure of the banking book to interest-rate risk and exchange-rate risk, as well as the Bank's exposure to liquidity risk
- Manages interest-rate-risk exposure on the balance sheet
- Manages the Bank's liquidity and funding

Credit Committee

Bertrand Sager (Chairman)
Pascal Kiener
Andreas Diemant
Jos  Fran ois Sierdo
Christian Z nd
Laurent Michel

- Submits proposals concerning the Bank's lending policy, technical standards and regulations governing lending authority to the Executive Board for approval by the Board of Directors
- Makes decisions on the granting of lending authority
- Makes decisions regarding the granting and renewing of major lending facilities, within the limits of its powers
- Monitors the Bank's loan portfolio, particularly the sector breakdown
- Oversees credit-limit and overdraft management

Information Technology Committee

Christian Meixenberger (Chairman)
Pascal Kiener
Thomas W. Paulsen
Jos  Fran ois Sierdo
Fr d ric Le Hellard
Serge Messin

- Submits IT strategy proposals to the Executive Board for approval by the Board of Directors
- Submits proposals on the budgetary framework and the medium-term plan for high-priority projects
- Monitors the implementation of IT projects
- Obtains information on major IT incidents and corrective measures taken

5. Compensation, shareholdings, and loans

5.1 Content and procedure for determining compensation levels and share-ownership programs

The Board of Directors approved new compensation regulations on 5 March 2010, which were amended on 7 November 2014 to take account of changes to BCV's Articles of Incorporation that were approved at the Shareholders' Meeting held on 1 May 2014. The regulations were again amended in 2016 following the decision to extend the minimum lock-up period for shares granted as annual performance-based compensation from three years to five years. These regulations govern the compensation-related roles and responsibilities of the Shareholders' Meeting, the Board of Directors, the Compensation, Promotions and Appointments Committee, the Executive Board, and Human Resources. They also provide a detailed description

of the various components of the compensation system and their related rules of application.

In order to define its compensation policy, the Bank participates in two salary surveys carried out by specialized institutes Hostettler & Co and Willis Towers Watson every year. The main employers in the financial sector nationwide take part in these surveys, which provide BCV with an overview of market trends for virtually all positions. Furthermore, for the Executive Board, the Bank draws on comparisons with reference groups that include companies in banking and in other sectors that are relatively comparable (particularly in terms of market capitalization, revenues, earnings, and/or staff numbers).

The current compensation system at BCV aims to promote individual and team performance, skills development, and professionalism.

	Base salary	Annual performance-based compensation		Long-term performance-based compensation	Share-ownership plan
Board of Directors	2017: 100% cash except for the Chairman ¹ From 2018: 100% cash for all Board members				
Executive Board²	100% cash	Maximum: 100% of base salary		From 0%-100% of total approved by shareholders	Maximum 100 BCV shares
		70% cash	30% in BCV shares with at least a 5-yr lock-up period	100% in BCV shares paid at the end of the 3-yr plan	100% in BCV shares with a 3-yr lock-up period
Department heads²	100% cash	70% cash	30% in BCV shares with at least a 5-yr lock-up period	100% in BCV shares paid at the end of the 3-yr plan	100% in BCV shares with a 3-yr lock-up period
All other employees²	100% cash	100% cash. 30% of annual performance-based compensation in BCV shares with a 3-yr lock-up period if that performance-based compensation is > CHF 21,000			100% in BCV shares with a 3-yr lock-up period

¹ In 2017, the Chairman of the Board of the Directors received a portion of his compensation in BCV shares with a lock-up period of at least 5 yrs.

² All fees and other amounts received by employees representing BCV are remitted to the Bank.

The components of the system are the base salary, annual performance-based compensation, and the employee share-ownership plan. In addition, the Executive Board and senior management are eligible for long-term performance-based compensation. No stock-option plans are offered as part of compensation.

Detailed compensation figures can be found in the tables on page 177.

Board of Directors

The Board of Directors receives only fixed compensation composed of fees, compensation for sitting on the various committees, and expenses.

Only the Chairman of the Board receives a portion of his fees in the form of BCV shares with a lock-up period of five to ten years paid in April or, if the Chairman steps down, with the last salary. As of 2018, the Chairman will receive his entire compensation in cash.

Members of the Board do not receive separate annual variable performance-based compensation.

Members of the Board do not participate in the employee share-ownership plan.

The compensation of all members of the Board, except the Chairman, is set by the full Board of Directors upon the recommendation of the Compensation, Promotions and Appointments Committee. The Chairman's compensation is set by the Board of Directors (excluding the Chairman), upon the recommendation of the Vice Chairman (see also section 3.4.4 on page 74).

Overall fixed compensation (comprising fees, compensation for sitting on the various committees, and expenses) between one Shareholders' Meeting and the next is subject to approval at the Shareholders' Meeting.

Executive Board

The compensation of the members of the Executive Board is based on the degree to which they meet their unweighted qualitative and quantitative objectives. For members, these objectives are set and evaluated by the CEO; for the CEO, they are set and evaluated by the Board of Directors. The overall compensation for the Executive Board is set by the Board of Directors on the recommendation

of the Compensation, Promotions and Appointments Committee. The fixed compensation (base salary, taxable entertainment expenses, seniority bonuses, and employee share-ownership plan) from one Shareholders' Meeting to the next, as well as the annual performance-based compensation for the previous calendar year, are subject to approval at the Shareholders' Meeting. At each Meeting, shareholders also approve the maximum number of shares that may be made available as long-term performance-based compensation under the multi-year plan beginning in the current year. More details are given on page 177.

Base salary

The base salary of each member of the Executive Board is set according to the job description, in line with current market practice.

Annual performance-based compensation

All members of the Executive Board are eligible for annual performance-based compensation. An overall level of annual performance-based compensation is set for the Bank and allocated to members of the Board individually, based on each member's performance.

The overall level of annual performance-based compensation is calculated on the basis of the Bank's financial performance, which is measured by return on equity and adjusted to reflect the degree of achievement of the Bank's strategic objectives, implementation of key projects, operational excellence, and customer satisfaction. The overall level is then broken down by division based on each division's results.

Each Executive Board member is evaluated by the CEO; the CEO is evaluated by the Board of Directors. These evaluations are based on the degree to which the individual's objectives – which are set at the start of the period and stem directly from the Bank's strategy – are met. The individuals are given a final evaluation on a scale of 1 to 5, which is used to determine the level of performance-based compensation for that year. For Executive Board members, this level can vary from 0 to 100% of their base salary.

30% of the performance-based compensation for Executive Board members must be taken in BCV shares with a lock-up period of at least five years, and up to ten years, according to each Executive Board member's choice.

For the 2017 financial year, these shares will be allocated at the closing price on 7 May 2018, subject to shareholder approval of Executive Board compensation at the Annual Meeting.

Long-term performance-based compensation

The purpose of long-term performance-based compensation is to further the Bank's long-term strategic development by generating lasting shareholder value. Objectives are set through three-year plans, with a new plan starting each year. These objectives have a financial, strategic, and qualitative component.

The financial component is measured in terms of economic profit. Economic profit is defined as profit generated after deducting the cost of equity using an approach that factors in the Bank's risk level. The financial component is then adjusted to reflect the extent to which strategic and qualitative objectives have been achieved. These objectives are set with the Board of Directors and relate to implementing the Bank's strategy and driving change within its operations.

Long-term performance-based compensation is paid exclusively in BCV shares. The number of shares can range between 0% and 100% of the total approved by shareholders at the Annual Meeting, and their value cannot exceed CHF 1.2 million for the entire Executive Board at the

time the plan begins.

The cost of the plan is spread over the entire period. The cost is recalculated in line with the objectives achieved and the number of remaining participants, and adjusted accordingly. The cost of the plans is spread over the relevant financial years.

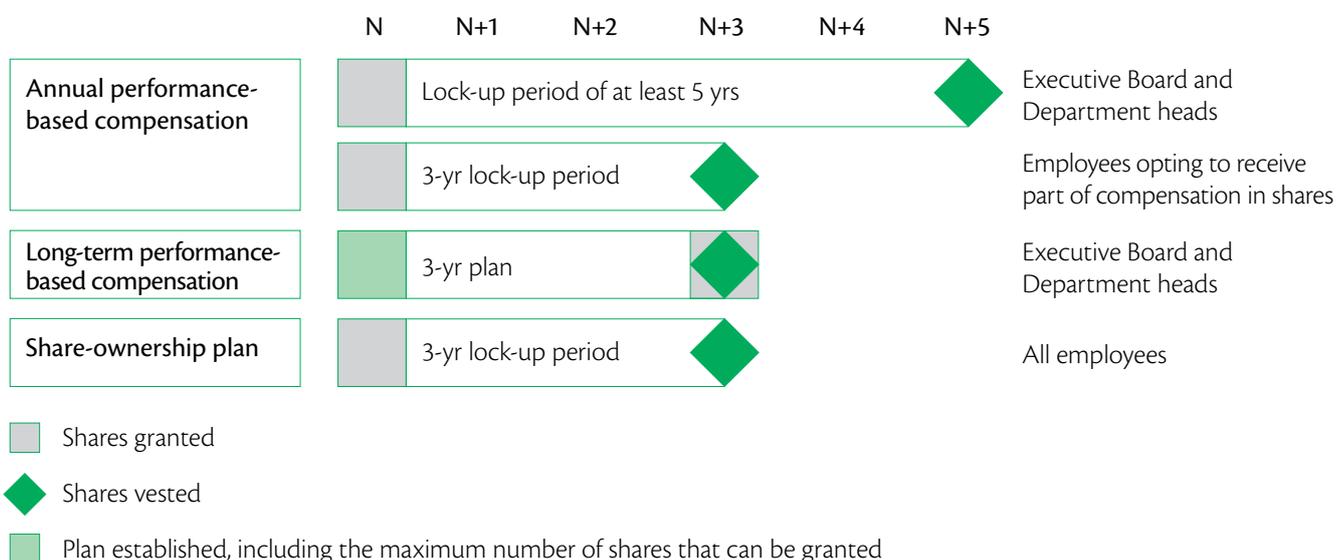
All proceeds and dividends from shares acquired for the plans are paid to the Bank.

The 2015–2017 plan, which ended on 31 December 2017, was based on the Bank's actual cumulative economic profit and the following strategic and qualitative objectives:

- Implementation of the Bank's multi-channel strategy and launch of new online and mobile-banking services;
- Rollout of customer-service enhancements both Bank-wide and at a department level;
- Implementation of the re-engineered commercial lending process;
- Growth in the retail banking business in line with Vaud's expanding population;
- Improvements to the internal control system, including the installation of a new IT application.

Economic profit reached 114% of the objective. In addition, the Board of Directors determined that the strategic and qualitative objectives were achieved.

BCV share grants, lock-up periods, and vesting



Overview of long-term performance-based compensation plans for the Executive Board

Starting year	Performance period	Year distributed	Number of shares set aside	Average cost per share	Initial cost of the plan for the Bank	Number of shares distributed	Market value (per share)	Market value of distributed shares
2012	2012 to 2014	2015	3,912	481.00	1,881,672	2,268	549.00	1,245,132
2013	2013 to 2015	2016	3,554	464.00	1,649,056	2,125	654.00	1,389,750
2014	2014 to 2016	2017	3,612	521.00	1,881,852	2,372	690.50	1,637,866
2015	2015 to 2017	2018	2,735	548.50	1,500,148	1,786	796.00	1,421,656

For the plan ending on 31 December 2017, 2,735 shares were set aside for the members of the Executive Board, corresponding to a value of CHF 1,500,148 on the date on which the Board of Directors made its decision. After assessing the degree to which the objectives were achieved, 1,786 shares were distributed, equal to 65% of the total number approved at the 2015 Annual Shareholders' Meeting.

A new three-year plan, for which 1,738 shares have been set aside, began in 2017. Objectives have been set relating to *stratégie2018* – namely improved customer service, continued implementation of the multi-channel strategy, and improved operational processes.

Employee share ownership

Executive Board members have the right to subscribe at most 100 shares at a reduced price. The subscription price is set every year by the Board of Directors. With the aim of promoting a medium-term vision, the shares are subject to a three-year lock-up period.

Other compensation

Compensation also includes taxable incidental expenses.

In accordance with the employee handbook, a seniority bonus equivalent to a month's salary is payable to employees when they complete 10, 20, 30, or 40 years' service at BCV. Employees may opt to take extra vacation, i.e., 20 days for full-time staff, instead of the bonus

Other employees

Compensation for non-executive employees follows the

same principles as that of Executive Board members and includes the following components:

- Base salary;
- Annual performance-based compensation;
- Long-term performance-based compensation (only for department heads);
- Employee share-ownership plan.

Base salary

The base salary of each employee is set according to the job description and in line with current market practice. Salary increases depend on the extent to which skills-development objectives have been achieved.

Annual performance-based compensation

All employees are eligible for annual performance-based compensation, provided their contracts have not been terminated. The overall level of annual performance-based compensation is broken down by division and then by department. Each employee then receives annual performance-based compensation based on the extent to which his or her performance objectives stemming from the Bank's strategy are met.

The amount of annual performance-based compensation that individual employees receive is determined according to an evaluation process. At the beginning of the year, employees sit down with their supervisors to set annual performance objectives, which stem from the Bank's strategy and action plans. A final evaluation at the end of the year assesses the degree to which these objectives have been met; this is then used to determine the exact amount of performance-based compensation to be paid.

For department heads, 30% of annual performance-based compensation must be taken in BCV shares with a lock-up period of five to ten years. Other employees receiving annual performance-based compensation of CHF 21,000 or more may opt for full payment in cash, or 70% in cash and 30% in BCV shares with a lock-up period of three years. In the latter case, BCV increases the amount paid in shares by 30%.

For the 2017 financial year, these shares will be allocated at the closing price on 22 March 2018. All other employees receive full payment of their annual performance-based compensation in cash.

Long-term performance-based compensation

Department heads, provided they are still in office at the time the compensation is granted, receive long-term performance-based compensation on the same terms as Executive Board members.

Employee share ownership

Management considers employee share ownership to be an essential element in staff loyalty and identification. An in-house subscription program entitles all BCV employees to subscribe shares at a reduced price. The number of shares that may be purchased under this program is determined by the level of responsibility inherent in an employee's position and can range from 10 to 100 shares. The subscription price is set every year by the Board of Directors. With the aim of promoting a medium-term vision, the shares are subject to a three-year lock-up period.

Contracts

The CEO and other members of the Executive Board work under an employment contract with a 12-month notice period.

Application of the Ordinance against Excessive Compensation in Publicly Listed Companies

As stated above, because BCV is a public-sector entity within the meaning of Article 763, paragraph 2, of the Swiss Code of Obligations, it is not subject to the Ordinance against Excessive Compensation in Publicly Listed Companies (ORAb). Nevertheless, the Bank decided to incorporate the principles of the ORAb into the Articles of Incorporation insofar as they were compatible with the LBCV (see Articles 30a et seq. of the BCV Articles of

Incorporation on compensation). Accordingly, at the 2018 Shareholders' Meeting, a vote will be taken on the fixed compensation of the Board of Directors and the Executive Board for the period between the 2018 and 2019 Meetings. There will also be votes on the 2017 annual performance-based compensation for the entire Executive Board and on the number of shares available as long-term performance-based compensation under the plan beginning in 2018. As BCV is not subject to the ORAb, it is required to continue providing compensation reports in the form of a section in its annual report (Article 30e of the Articles of Incorporation – see note 5.17 on page 175).

5.2 Transparency concerning compensation, shareholdings and loans by issuers with their registered office abroad

This point does not apply to BCV.

6. Shareholders' rights

Article 18 of the Articles of Incorporation – Voting Rights

Each share entitles the holder to one vote. No shareholder shall be entitled to vote at a Shareholders' Meeting either personally or by proxy, or to exercise associated rights, unless entered in the shareholder register. Shareholder status and the right to appoint a proxy shall be determined on the basis of the share register on the twentieth day prior to the Shareholders' Meeting.

6.1 Restrictions on voting rights and shareholder proxies

6.1.1 Restrictions on voting rights

Restrictions on voting rights are set out in Articles 12 and 13 of the Articles of Incorporation, the main provisions of which are described below.

Article 12 – Shareholder register

The Bank shall recognize as shareholders only those persons validly entered in the shareholder register. Only those whose names appear in the register may exercise the rights attached to BCV shares, subject to the restrictions provided herein.

Shareholders without the right to vote may not exercise such a right or any other associated right. Shareholders with the right to vote may exercise all rights attached to the shares.

Article 13 – Transfers of registered shares

The transfer of any registered share and its entry in the share register shall be subject to approval by the Board of Directors. (...) If the Board of Directors does not reject the request within twenty days, the acquirer shall be recognized as a shareholder with voting rights.

The Board of Directors may refuse to register an acquirer as a shareholder with voting rights:

- a) in respect of a shareholding exceeding 5% of the Bank's share capital held by a single shareholder or group of shareholders as defined by the Federal Act on Stock Exchanges and Securities Trading. (...) That limit shall not apply to the Canton of Vaud or any third party to which the Canton of Vaud sells part of its shareholding,

or to the takeover of a company or part of a company;

- b) if a shareholder does not expressly state, when requested to do so, that he/she has acquired the shares in his/her own name and for his/her own account;
- c) if and so long as his/her recognition could prevent the Bank from furnishing proof of the shareholder base required under Swiss law.

Under Article 16 of the Articles of Incorporation (convening a Shareholders' Meeting – see section 6.4 below for the text of the article), one or more shareholders together representing no less than one tenth of the share capital may also request the convening of a Shareholders' Meeting. Shareholders representing shares with an aggregate par value of thirty thousand Swiss francs may request that an item of business be entered on the agenda. The calling of a Shareholders' Meeting and the inclusion of an item of business on the agenda must be requested in writing, stating the business to be discussed and motions to be submitted.

Any individual motion requiring a vote shall be submitted to the Chairman of the Board of Directors in writing at least forty-five days prior to the Meeting.

At any Shareholders' Meeting convened to vote on the removal of a clause relating to restrictions on the transfer of registered shares, such removal shall be decided by an absolute majority of votes attached to the shares represented, where each share shall entitle the holder to one vote (Article 11, paragraphs 3 and 4, of the LBCV), in compliance with the rules applicable to any resolution of the Shareholders' Meeting.

6.1.2 Exemptions granted during the financial year

During the 2017 financial year, no departure from the above restrictions was made.

The rules governing attendance at Shareholders' Meetings are set forth in Articles 16 and 18 of the Articles of Incorporation, the main provisions of which are shown in sections 6.3, 6.4, and 6.5 below.

6.2 Quorum provisions

Provisions for quorums are set out in Article 19 of the Articles of Incorporation.

Article 19 – Quorum provisions; resolutions

The Shareholders' Meeting shall have the power to transact business irrespective of the number of shares represented.

Resolutions put to the vote shall be decided by an absolute majority of votes attached to the shares represented, and in the event of a tie, the Chairman shall have the casting vote. Shares held by the Canton do not vote on the election of members of the Board of Directors carried out pursuant to Article 15(b).

6.3 Convening shareholders' meetings

Article 16 – Meetings

Shareholders' Meetings shall be convened by the Board of Directors at least once a year.

The Annual Meeting shall take place within six months of the close of the financial year at the headquarters of the Bank or at any other place in Vaud Canton as may be determined by the Board of Directors.

Special Shareholders' Meetings may be convened as often as required. (...)

A Shareholders' Meeting may, if necessary, be convened by the Auditors.

6.4 Agenda

Article 16 (excerpt) – Meetings

One or more shareholders together representing no less than one tenth of the share capital may also request the convening of a Shareholders' Meeting. Shareholders representing shares with an aggregate par value of thirty thousand Swiss francs may request that an item of business be entered on the agenda. The calling of a Shareholders' Meeting and the inclusion of an item of business on the agenda must be requested in writing, stating the business to be discussed and motions to be submitted.

Any individual motion requiring a vote shall be submitted to the Chairman of the Board of Directors in writing at least

forty-five days prior to the Meeting.

6.5 Shareholder registration

Article 18, paragraph 2, of the Articles of Incorporation stipulates that shareholder status and the right to appoint a proxy shall be determined on the basis of the shareholder register on the twentieth day prior to a Shareholders' Meeting.

Pursuant to paragraph 1 of the same Article, the right to vote at the Meeting shall be exercised by the shareholder registered in the share register or by his or her proxy, who may not necessarily be a shareholder. At the Meeting held on 27 April 2017, Christophe Wilhelm, a Lausanne-based attorney, was elected to be the Independent Proxy until the end of the Meeting to be held on 26 April 2018. Pursuant to the new Article 18a, paragraph 5, of the Articles of Incorporation, BCV will offer shareholders an electronic means of providing their instructions to the Independent Proxy for the Meeting.

7. Takeovers and defense measures

7.1 Obligation to make a bid

The Articles of Incorporation do not contain an opting-out or opting-up clause based on Article 125 of the Financial Market Infrastructure Act (FMIA).

7.2 Takeover clauses

There are no agreements or programs that would benefit members of the Board of Directors or the Executive Board or other BCV executives in the event of a takeover.

8. Auditors

8.1 Term of audit and length of service of lead auditor

The Board of Directors chose KPMG SA in Geneva as its external auditor, within the meaning of the FINMA law and the Swiss Banking Act, for the 2017 financial year. At the Annual Shareholders' Meeting on 27 April 2017, BCV shareholders approved the Board's recommendation to appoint KPMG SA as the Bank's external auditor for 2017. The lead auditor is Oliver Gauderon, an audit expert licensed by the Federal Audit Oversight Authority and by FINMA.

8.2 Audit fees

Fees invoiced by KPMG SA for its audits of the parent company and consolidated financial statements, its statutory audit pursuant to the Federal Act on Banks and Savings Institutions and the Federal Act on Stock Exchanges and Securities Trading (including audit-related work required by FINMA), certificates required under local law, and its audit of BCV as a custodian bank for investment funds amounted to CHF 2,017,950 for the 2017 financial year.

Fees invoiced by KPMG SA in Switzerland and abroad for financial and statutory audits of other BCV Group companies were CHF 516,560 for the 2017 financial year.

Total fees invoiced by KPMG SA for audit services supplied to all the companies which make up BCV Group therefore amounted to CHF 2,534,510 in the reporting year.

8.3 Additional fees

Fees invoiced by companies within the KPMG SA group for other auditing and assurance services totaled CHF 166,320 for the parent company.

Consulting fees, including but not limited to fees for tax advice, amounted to CHF 2,025 for the parent company and CHF 34,985 for other BCV Group companies.

Total additional fees for the 2017 reporting period invoiced by KPMG SA in Switzerland and abroad for all BCV Group companies therefore amounted to CHF 203,330.

Full compliance with regulations concerning the independence of auditors has been verified by the Audit and Risk Committee.

8.4 Monitoring of external auditors

The Audit and Risk Committee scrutinizes the work of the external auditors. In particular, it monitors their independence and performance on behalf of the Board of Directors so that the Board can make an informed recommendation to the Shareholders' Meeting on whether to extend the appointment of the auditors. The external auditors submit a half-yearly activity report to the Audit and Risk Committee, which reviews the report at a meeting

in the presence of representatives of the external auditors. Furthermore, the Audit and Risk Committee conducts a detailed evaluation of the external auditors once a year.

The Audit and Risk Committee advises the Board of Directors on whether to approve the external auditors' fees on the basis of a retainer letter which is reviewed every year. It also discusses how the audit should be planned and approached, as well as risk-evaluation procedures and coordination between the Bank's internal and external auditors. Non-auditing assignments are submitted for prior approval to the Audit and Risk Committee, which, together with the external auditors, verifies compliance with the rules of independence.

The Chairman of the Board of Directors and the Chairman of the Audit and Risk Committee receive copies of all the reports, certifications and opinions issued by the external auditors in the course of their duties. Every year, the Audit and Risk Committee reviews the parent company's financial statements and regulatory reports and a summary of the reports submitted by the subsidiaries. The external auditors are regularly invited to attend Audit and Risk Committee meetings to discuss the results of their work, make recommendations on internal audit procedures and be informed of reports by other persons invited to the meetings. In 2017, representatives of the external auditors partially attended three meetings of the Board of Directors and all ordinary meetings of the Audit and Risk Committee.

The Chairman of the Board of Directors meets with the auditor in charge of the audit approximately once every quarter to see whether the work is proceeding as planned; the Chairman of the Audit and Risk Committee attends once a year. The Chairman of the Audit and Risk Committee also holds regular meetings with the auditor, at least once per quarter. A summary report is then submitted to all members of the Board of Directors, the Audit and Risk Committee, and the Executive Board.

9. Disclosure policy

9.1 Transparency

Pursuant to paragraphs 8 and 9 of Article 24 of the Bank's Articles of Incorporation, the Board of Directors shall see that it is kept informed. It shall also see that shareholders are properly and fairly informed about the Bank's situation

to the greatest extent possible, consistent with legitimate compliance with business and banking confidentiality and securities laws. In particular, it shall reach an agreement governing disclosure of information to the Canton of Vaud.

9.2 Information-exchange agreement

BCV and the Canton of Vaud entered into an initial information-exchange agreement on 13 September 2004, which was followed by a second agreement on 7 October 2009. In 2015, the two parties negotiated a new information-exchange agreement, which was signed on 16 December 2015 and took effect on 1 January 2016.

This agreement commits the parties to increased transparency. In particular, it:

- Sets out the content and frequency of information exchanges and the procedures for providing information, together with the type and frequency of meetings between representatives of the Canton and BCV
- Defines the confidentiality rules governing these exchanges
- Designates the persons who are to provide and receive information on behalf of the Bank and the Canton
- Prohibits each party from exploiting for its own purposes the information received and provided
- Specifies the legal principles that shall apply, in particular the obligation to make public any information that may affect the price of BCV shares.

9.3 Other information

Regular publications intended for shareholders are the annual report (published in April) and the interim report at 30 June (published in August). Printed versions of both are available upon request from the following address: BCV, Publications, Post Office Box 300, 1001 Lausanne, Switzerland.

Information is provided to the public soon after the consolidated financial statements are approved by the Board of Directors, by means of a press release and press

conference. In 2015, the Bank began publishing its financial statements in accordance with the new Swiss accounting standards for banks. As a result of these new accounting rules, the Bank now reports its financial results on a half-yearly rather than a quarterly basis, which means that only results at 30 June and 31 December are released. The information-exchange agreement between the Bank and the Vaud Cantonal Government has been revised to take account of this change; the new version took effect on 1 January 2016.

BCV also issues special press releases on important developments and business trends at the Bank as often as necessary.

The annual report, interim report and press releases are all posted on the BCV website (www.bcv.ch) and are available via the free BCV Investor Relations iPad app. The annual report and interim report are published in French and English, while press releases are normally available in French, English and German.

Basel III Pillar 3 reports, which are published half-yearly, and other data of particular interest to investors may also be consulted in the Investor Relations section of the BCV website (www.bcv.ch) as well as via the free BCV Investor Relations iPad app.

BCV publishes notice of its Annual Shareholders' Meeting approximately sixty days in advance in the FOOSC (Feuille officielle suisse du commerce). The invitation and the agenda of the Meeting are also published in the FOOSC and several local daily newspapers. In addition, shareholders listed on the shareholder register at least twenty days before the Annual Meeting receive a personal letter of invitation.

10. Contacts

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2018 corporate calendar

26 April	Annual Shareholders' Meeting
30 April	Ex-dividend date ¹
2 May	Dividend record date ¹
3 May	Dividend payment ¹
23 August	2017 first-half results

¹⁾ Total distribution comprising an ordinary dividend of CHF 23 per share and CHF 10 per share drawn from paid-in reserves, subject to approval at the Annual Shareholders' Meeting.





The BCV Share

The positive macroeconomic trend that began in the spring of 2016 became a synchronized global expansion last year, with economic data beating expectations in the eurozone and Asia, including China. Central banks maintained their accommodative monetary policies although they announced they would gradually start on the path of normalization. In this favorable climate, stock markets around the world rose significantly. The Dow Jones gained 25.1% to end the year at 24,719 points; the S&P 500 climbed 19.4% to close at 2,674 points; and in Europe, the Euro Stoxx 50 added 6.5%, the DAX 12.5%, and the CAC40 9.3%. Switzerland's SMI ended the year 14.1% higher, at 9,382 points.

The BCV share also rose substantially in 2017, gaining nearly 14% to close at CHF 735. It was lifted in part by the Vaud Cantonal Government's announcement that a flat tax rate of 13.8% would go into effect starting in 2019 for all Vaud-based companies, regardless of the outcome of the proposed reform at a federal level. The appreciation in the share price, coupled with the 5.1% dividend yield for

2017, brought the BCV share's total return to 19.1%.

Rising stock markets also helped boost transaction volumes. The SIX Swiss Exchange saw an 8.2% increase in total volumes and a 6.9% increase in the number of transactions versus 2016. However, BCV share trading volumes were down slightly, with an average of CHF 3.3m changing hands per day.

Standard & Poor's and Moody's maintained their ratings for BCV of AA and Aa2, respectively, both with a stable outlook. This attests to the Bank's financial solidity. The ratings agencies pointed in particular to the Bank's diversified revenue streams compared with other cantonal banks and strong capital base relative to its risk profile. At just two notches short of a triple A rating, BCV remains one of the best rated banks in the world without a formal government guarantee.

Total shareholder return¹

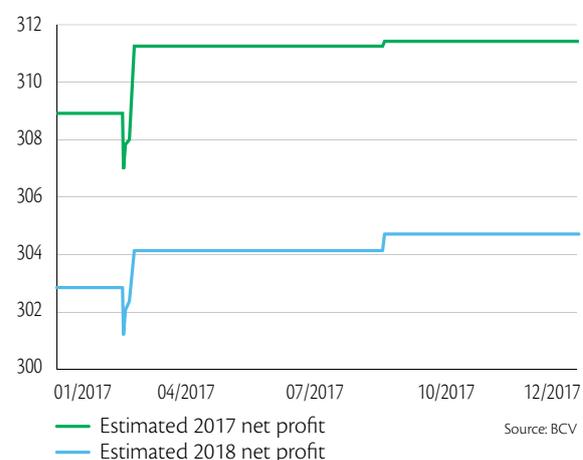


¹) Stock market performance over the period plus dividends and capital distributions

Listed on: SIX Swiss Exchange
 Par value: CHF 10
 Swiss security number: 1 525 171
 ISIN code: CH0015251710
 Ticker symbols: Bloomberg: BCVN
 Telekurs: BCVN
 Reuters: BCVN.S

Analyst consensus

in CHF millions, at 31 December 2017



	2013	2014	2015	2016	2017
Number of shares outstanding (in thousands)	8 606	8 606	8 606	8 606	8 606
Period-end share price (in CHF)	486.50	539.00	636.50	645.00	735.00
Share price high / low (unadjusted, in CHF)					
– high	559.50	541.00	640.00	694.00	764.50
– low	445.00	472.75	510.50	582.00	644.00
EPS ¹ (in CHF)	32.5	34.4	39.1	36.0	37.2
Adjusted EPS ² (in CHF)	32.5	34.4	39.1	35.6	37.2
Dividend per share (in CHF)	22.0	22.0	23.0	23.0	23.0 ³⁾
Dividend yield ⁴ (in %)	4.5	4.1	3.6	3.6	3.1
Total payout ⁵ (in CHF)	32.0	32.0	33.0	33.0	33.0 ³⁾
Total payout yield ⁵ (in %)	6.6	5.9	5.2	5.1	4.5
S&P long-term credit rating	AA / stable	AA / stable	AA / stable	AA / stable	AA / stable
S&P short-term credit rating	A-1+	A-1+	A-1+	A-1+	A-1+
Moody's long-term credit rating	A1 / stable	A1 / stable	Aa2 / stable	Aa2 / stable	Aa2 / stable
Moody's short-term credit rating	Prime-1	Prime-1	Prime-1	Prime-1	Prime-1

¹⁾ Based on net profit after minority interests

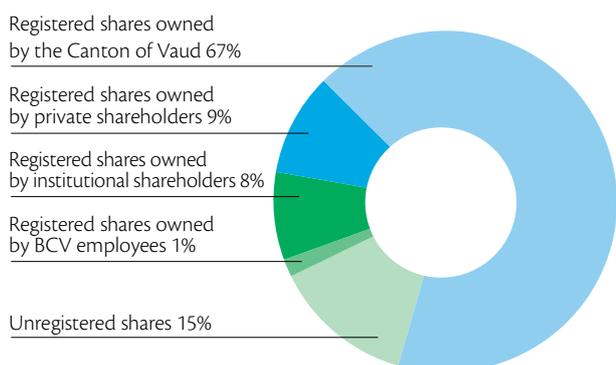
²⁾ Based on net profit after minority interests, excluding an allocation to the reserves for general banking risks

³⁾ Dividend to be proposed at the Shareholders' Meeting on 26 April 2018

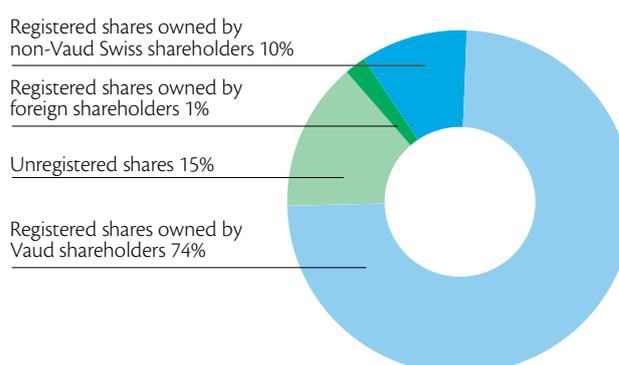
⁴⁾ Relative to the period-end share price

⁵⁾ Total amount distributed to shareholders in the form of an ordinary dividend together with a distribution drawn from paid-in reserves

Share ownership structure



Share ownership by geographical zone







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Financial Statements

Report on the Consolidated Financial Statements

Balance sheet growth

1. Assets

Total assets expanded 3% (+CHF 1.3bn) year on year, amounting to CHF 45.4bn at 31 December 2017.

Cash and cash equivalents, which consist primarily of deposits held with the Swiss National Bank, increased 7% (+CHF 0.5bn) to CHF 8.0bn.

Amounts due from banks and reverse repurchase agreements fell 10% (–CHF 166m) to CHF 1.5bn.

Total loans outstanding rose CHF 384m year on year to CHF 30.2bn: mortgage lending grew 1.5% (+CHF 370m) to CHF 25.4bn, while other loans were flat at CHF 4.8bn.

Financial investments rose 16% (+CHF 519m) to CHF 3.8bn, primarily due to an increase in holdings of top-tier bonds for the liquidity reserve.

Total impaired loans were stable at CHF 231m. Impaired loans accounted for 0.7% of total lending, testifying to the quality and resilience of the Bank's loan book.

Assets

in CHF billions



Impaired loans

in CHF billions



2. Liabilities

Liabilities amounted to CHF 42.0bn at 31 December 2017, a year-on-year increase of 3% (+CHF 1.3bn).

Amounts due to banks and repurchase agreements declined 4% (–CHF 114m) to CHF 2.7bn.

Customer deposits were up 4% (+CHF 1.3bn) to CHF 30.5bn.

Long-term borrowings rose 2% (+CHF 125m) to CHF 7.4bn, primarily as a result of two CHF 150m bond issues during the year.

3. Shareholders' equity

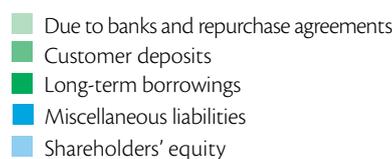
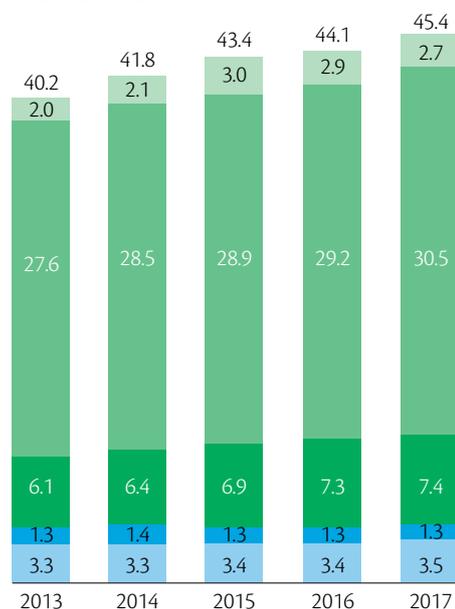
Total shareholders' equity edged up to CHF 3.5bn. The allocation of CHF 320m in net profit for the year was offset by the distribution of CHF 284m approved at the Annual Shareholders' Meeting in April 2017.

At year-end, the CET1 ratio was at a comfortable level of 17.1% and the total capital ratio was 17.3%. These ratios, calculated according to the Internal Ratings-Based (IRB) approach, attest to the Bank's financial solidity.

The leverage ratio stood at 6.5% at 31 December 2017, markedly above the regulatory requirement of 3%.

Liabilities and shareholders' equity

in CHF billions



Capital ratio¹⁾

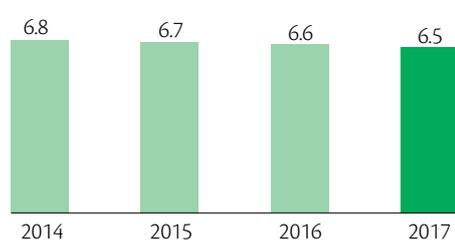
total capital as a %



¹⁾ Ratios have been recalculated without subtracting the countercyclical buffer from regulatory capital in accordance with FINMA Circular 2016/1 "Disclosure - banks"

Leverage ratio

as a %

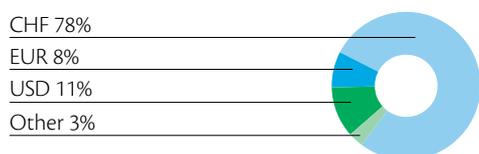


Continued new fund inflows

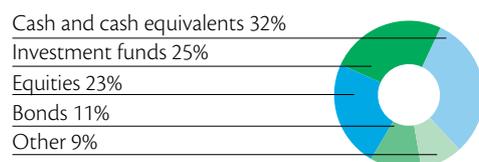
4. Assets under management

The Group's assets under management rose 1% to CHF 86.5bn. Without the CHF 5.3bn outflow relating to the transfer of Swisscanto funds, AuM grew by CHF 6.4bn. Net new money totaled CHF 2.3bn.

Assets under management by currency



Assets under management by investment type



Revenues stable in an unfavorable environment

5. Revenues

Total revenues were stable year on year, at CHF 967m.

The various revenue streams contributed as follows:

- In an environment marked by continued negative interest rates, net interest income before loan impairment charges increased 3% to CHF 498m. Net interest income was flat at CHF 478m owing to new provisions for credit risk.

Assets under management

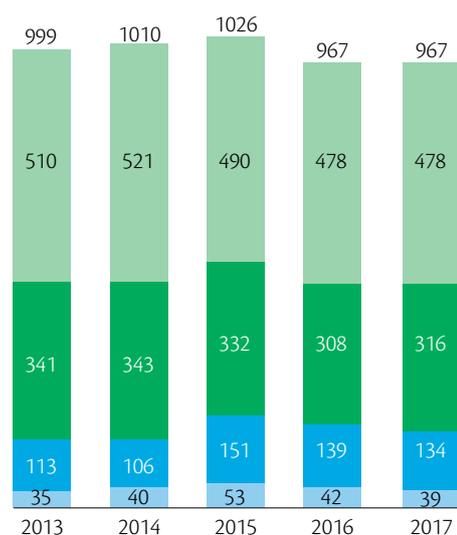
in CHF billions



■ Parent company, GÉRIFONDS, GEP
■ PIGUET GALLAND & CIE SA

Revenues

in CHF millions



■ Net interest income
■ Net fee and commission income
■ Net trading income and fair-value adjustments
■ Other ordinary income

- Fee and commission income grew 3% (+CHF 8m) to CHF 316m, due mainly to favorable trends in financial markets and a rebound in the trade finance business.
- Trading income, which comes primarily from customer-driven activities, declined 4% (–CHF 5m) to CHF 134m.
- Other ordinary income decreased 8% (–CHF 3m) to CHF 39m.

Revenues

breakdown as a %



Continued firm cost control

6. Operating expenses, depreciation, and amortization

Total operating expenses were unchanged at CHF 508m.

Personnel costs and other operating expenses were both flat at CHF 337m and CHF 171m, respectively.

Depreciation and amortization of fixed assets declined 3% (–CHF 2m) to CHF 70m.

The cost/income ratio, which compares the sum of operating expenses, depreciation, and amortization (excluding goodwill amortization) with total income (excluding loan impairment charges/reversals), declined from 59% to 58%.

Operating expenses, depreciation, and amortization

in CHF millions



7. Operating profit

As a result of the stable revenues and continuing firm cost control, operating profit edged up 1% to CHF 387m.

8. Net profit

Net profit rose 3% to CHF 320m, against CHF 310m in 2016.

Extraordinary income came in at CHF 17m, up CHF 10m on the 2016 figure. This increase is due mainly to the reversal of an impairment charge recognized in 2002 and 2003 on a piece of non-core real estate whose sale was finalized in early 2018.

The Group's tax burden was unchanged at CHF 83m.

Operating and net profit

in CHF millions



Financial Statements

Consolidated Financial Statements

1. Balance sheet (in CHF millions)

	Notes ¹	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Cash and cash equivalents		8 044	7 496	549	7
Due from banks		1 013	1 373	- 360	- 26
Reverse repurchase agreements	10.1	499	306	194	63
Loans and advances to customers	10.2	4 826	4 812	14	0
Mortgage loans	10.2	25 407	25 037	370	1
Trading portfolio assets	10.3	186	153	33	21
Positive mark-to-market values of derivative financial instruments	10.4	282	281	1	0
Other financial assets at fair value	10.3	653	630	23	4
Financial investments	10.5/10.7	3 753	3 234	519	16
Accrued income and prepaid expenses		91	107	- 15	- 14
Non-consolidated holdings	10.6/10.7	70	70	0	0
Tangible fixed assets	10.8	519	517	2	0
Intangible assets	10.9	12	16	- 3	- 22
Other assets	10.10	57	54	3	6
Assets	10.20/10.21/10.22/10.24	45 415	44 085	1 329	3
Total subordinated assets		0	0	0	0
<i>of which subject to mandatory conversion and/or conditional write-off</i>		0	0	0	0
Due to banks		1 398	1 070	328	31
Repurchase agreements	10.1	1 350	1 791	- 442	- 25
Customer deposits		30 512	29 245	1 267	4
Negative mark-to-market values of derivative financial instruments	10.4	205	244	- 40	- 16
Other financial liabilities at fair value	10.3/10.14	812	771	41	5
Medium-term notes		15	21	- 7	- 31
Bonds and mortgage-backed bonds	10.14/10.15	7 392	7 267	125	2
Accrued expenses and deferred income		172	184	- 11	- 6
Other liabilities	10.10	87	56	30	54
Provisions	10.16	15	16	- 1	- 7
Liabilities	10.20	41 958	40 666	1 292	3
Reserves for general banking risks	10.16	701	701	0	0
Share capital		86	86	0	0
Capital reserve		121	207	- 86	- 41
Retained earnings		2 249	2 137	112	5
Currency translation reserve		- 1	- 2	0	- 10
Own shares		- 19	- 19	0	- 2
Minority interests in equity		0	0	- 0	- 6
Net profit		320	310	11	3
<i>of which minority interests</i>		0	0	- 0	0
Shareholders' equity		3 457	3 420	37	1
Total liabilities and shareholders' equity	10.21/10.24	45 415	44 085	1 329	3
Total subordinated liabilities		0	0	0	0
<i>of which subject to mandatory conversion and/or conditional write-off</i>		0	0	0	0

¹⁾ The notes are on pages 125-142

Off-balance-sheet transactions (in CHF millions)	Notes ¹	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Contingent liabilities	10.2/11.1	1763	1573	190	12
Irrevocable commitments	10.2	1481	1261	220	17
Commitments relating to calls on shares and other equity securities	10.2	177	178	- 1	- 0
Confirmed credits	10.2/11.2	18	77	- 59	- 77

¹⁾ The notes are on pages 125 and 143

2. Income statement (in CHF millions)

	Notes ¹	2017	2016	Change absolute	Change as %
Interest and discount income		576.4	599.0	-22.6	-4
Interest and dividend income from financial investments		34.7	40.3	-5.6	-14
Interest expense		-113.3	-156.7	-43.4	-28
Net interest income before loan impairment charges/reversals	12.1	497.8	482.5	15.2	3
Loan impairment charges/reversals		-20.2	-4.7	15.4	327
Net interest income after loan impairment charges/reversals (NII)		477.6	477.8	-0.2	-0
Fees and commissions on securities and investment transactions	12.2	250.3	241.5	8.8	4
Fees and commissions on lending operations		44.6	42.2	2.4	6
Fees and commissions on other services	12.3	71.8	75.2	-3.5	-5
Fee and commission expense		-50.3	-51.0	-0.7	-1
Net fee and commission income		316.4	307.9	8.5	3
Net trading income and fair-value adjustments	12.4	133.9	139.2	-5.4	-4
Gains/losses on disposals of financial investments		2.5	6.4	-3.9	-61
Income from equity investments <i>of which other non-consolidated holdings</i>		6.2	5.5	0.7	13
Real-estate income		10.9	11.0	-0.1	-1
Miscellaneous ordinary income		20.0	21.6	-1.5	-7
Miscellaneous ordinary expenses		-0.9	-2.3	-1.4	-61
Other ordinary income		38.7	42.1	-3.4	-8
Total income from ordinary banking operations		966.6	967.1	-0.5	-0
Personnel costs	12.5	-337.0	-338.0	-0.9	-0
Other operating expenses	12.6	-171.4	-170.7	0.7	0
Operating expenses		-508.4	-508.7	-0.3	-0
Depreciation and amortization of fixed assets and impairment on equity investments	12.7	-70.4	-72.4	-2.0	-3
Other provisions and losses	12.8	-1.2	-2.7	-1.4	-54
Operating profit	12.11	386.5	383.4	3.2	1
Extraordinary income	12.9	16.8	6.7	10.1	150
Extraordinary expenses		-0.0	-0.0	0.0	n/a
Change in reserves for general banking risks		0.0	3.0	-3.0	n/a
Taxes	12.10	-83.1	-83.5	-0.4	-0
Net profit		320.3	309.6	10.6	3
Minority interests		-0.0	-0.0	-0.0	0
Net profit attributable to BCV shareholders		320.2	309.6	10.6	3

¹⁾ The notes are on pages 145-148

3. Cash flow statement (in CHF millions)

	Notes ¹⁾	Source of funds	2017 Use of funds	Net cash inflow / outflow	Source of funds	2016 Use of funds	Net cash inflow / outflow
Net profit for the year		320			310		
Reserves for general banking risks						3	
Depreciation and amortization of fixed assets and impairment on equity investments	12.7	70			72		
Provisions and other impairment charges/reversals	10.16	2	2		5	3	
Loan impairment charges/reversals	10.16	40	19		21	16	
Accrued income and prepaid expenses		15				1	
Accrued expenses and deferred income			11			35	
Extraordinary income: impairment reversals on fixed assets and sale of equity holdings			14			5	
Dividend for the previous year			198			198	
Cash flow from operations		447	244	203	408	261	146
Distribution drawn from paid-in reserves			86			86	
Own shares		32	32		36	36	
Change in scope of consolidation, minority interests, and currency translation differences							
Cash flow from equity transactions		33	118	-85	36	122	-85
Non-consolidated holdings	10.6		1		5	22	
Real estate	10.8		4		24	6	
Computer programs	10.8	1	44			39	
Other tangible fixed assets	10.8		8			7	
Intangible assets	10.9				3		
Cash flow from investments		1	56	-55	32	73	-41
Cash flow from banking operations							
Due to banks						100	
Customer deposits			22			12	
Medium-term notes			7			19	
Long-term borrowings	10.15	1 578	1 452		1 523	1 130	
Other liabilities		28			18		
Due from banks						0	
Loans and advances to customers			158			169	
Mortgage loans			368			513	
Financial investments			642			171	
Other receivables			3		2		
Medium- and long-term operations (over 1 year)		1 606	2 653	- 1 047	1 543	2 114	- 571
Due to banks		328				54	
Repurchase agreements			442		53		
Customer deposits		1 289			380		
Negative mark-to-market values of derivative financial instruments			40			87	
Other financial liabilities at fair value		41			105		
Due from banks		360			437		
Reverse repurchase agreements			194			26	
Loans and advances to customers		123			286		
Trading portfolio assets			33		2		
Positive mark-to-market values of derivative financial instruments			1		62		
Other financial assets at fair value			23			49	
Financial investments		123			77		
Short-term operations		2 265	732	1 533	1 402	216	1 186
Cash and cash equivalents			549	- 549		635	- 635
Total		4 352	4 352	0	3 421	3 421	0

¹⁾ The notes are on pages 128-147

A net positive amount represents a cash inflow, while a net negative amount represents a cash outflow.

4. Statement of changes in equity (in CHF millions)

	Share capital	Capital reserve	Retained earnings	Reserves for general banking risks	Currency translation reserve	Own shares	Equity - minority interests	Net profit for the year	Total equity
Status at 1 January 2015	86	106	2 163	704	- 1	- 13	0	296	3 341
2014 dividend								- 189	- 189
Special dividend		- 86							- 86
Retained earnings			107					- 107	0
Purchases of own shares (at cost)						- 46			- 46
Disposals of own shares (at cost)						41			41
Gain on disposals of own shares and dividends		1							1
Effect of exchange-rate differences					- 1				- 1
Transfer from retained earnings to capital reserve		271	- 271						0
Changes in scope and/or minority interests			0						0
Net profit for the year							0	336	336
Status at 31 December 2015	86	292	1 999	704	- 2	- 18	0	336	3 397
2015 dividend								- 198	- 198
Special dividend		- 86							- 86
Retained earnings			138					- 138	0
Purchases of own shares (at cost)						- 37			- 37
Disposals of own shares (at cost)						36			36
Gain on disposals of own shares and dividends		1							1
Effect of exchange-rate differences					0				0
Change in reserves for general banking risks				- 3					- 3
Changes in scope and/or minority interests			0				- 0		0
Net profit for the year							0	310	310
Status at 31 December 2016	86	207	2 137	701	- 2	- 19	0	310	3 420
2016 dividend								- 198	- 198
Special dividend		- 86							- 86
Retained earnings			112					- 112	0
Purchases of own shares (at cost)						- 29			- 29
Disposals of own shares (at cost)						29			29
Gain on disposals of own shares and dividends		0							0
Effect of exchange-rate differences					0				0
Change in reserves for general banking risks									0
Changes in scope and/or minority interests			- 0				- 0		- 0
Net profit for the year							0	320	320
Status at 31 December 2017	86	121	2 249	701	- 1	- 19	0	320	3 457

5. Company name, operations, and headcount

5.1 Company name, legal status, and head office

Banque Cantonale Vaudoise (BCV) was founded on 19 December 1845 by the Vaud Cantonal Parliament as a *société anonyme de droit public* (i.e., a corporation organized under public law). Its legal status is defined in the Cantonal Act Governing the Organization of Banque Cantonale Vaudoise (LBCV) of 20 June 1995, and its head office is in Lausanne.

5.2 Overview of operations

BCV operates as a full-service bank with a community focus. Its corporate mandate is to contribute to the economic development of its home region, the Canton of Vaud.

It offers a full range of services in retail banking, wealth management, corporate banking and trading. Along with its traditional areas of business (savings & loans and wealth management), BCV engages in large-corporate financing and selected trade-financing operations in commodities (primarily softs and metals). It offers a broad portfolio of financial-market services, including equity and derivatives trading and fixed-income instruments. The Bank is also active in foreign-exchange trading and in developing and issuing structured products.

BCV is the parent company of a banking and financial group, which encompasses a private bank and two fund management companies. The Bank also has a branch in Guernsey (Banque Cantonale Vaudoise Guernsey Branch), which is active in structured products and fiduciary investments.

5.3 Headcount

Full-time equivalents	31 / 12 / 17	31 / 12 / 16
Group	1 922	1 943
of which parent company	1 725	1 739

6. Accounting principles for the consolidated financial statements

6.1 Basis of preparation of consolidated financial statements

The consolidated financial statements of BCV Group have been prepared in accordance with the Swiss Federal Act of 8 November 1934 on Banks and Savings Institutions, the corresponding Ordinance of 30 April 2014 and the Swiss Accounting Rules for Banks, Securities Dealers, Financial Groups and Conglomerates of 27 March 2014 (FINMA Circular 2015/1). The financial statements give a true and fair view of the assets, financial position and results of BCV Group.

The consolidated financial statements are based on Group companies' full-year accounts, which are prepared in accordance with generally accepted accounting principles. The accounts are closed at 31 December of every year.

6.2 Scope of consolidation

Companies over which BCV has control and companies in which it has significant influence over their operations are fully consolidated. Significant influence is generally recognized by BCV when it makes a profit on and bears the risks of a company's operations.

Companies over which BCV has significant influence but no outright control (holdings of 20%-50%) are accounted for using the equity method.

The following companies are not included in the scope of consolidation:

- Holdings of no material significance in terms of financial reporting and risk
- Significant holdings not acquired for strategic purposes and intended to be sold or liquidated within 12 months.

6.3 Basis of consolidation

Equity is consolidated using the acquisition method. The acquisition cost of a holding is offset against the equity existing on the date on which control is transferred. Goodwill is carried on the balance sheet under “Intangible assets” and amortized on a straight-line basis over its estimated useful life (maximum of ten years).

6.4 Accounting and valuation principles

6.4.1 Cash and cash equivalents

Cash and cash equivalents comprise ordinary coins and banknotes and assets held with the Swiss National Bank and clearing houses; they are carried at nominal value.

6.4.2 Due from banks

Amounts due from banks are carried at nominal value less any impairment, as set out in note 7.2 under “Risk-assessment and risk-management principles.”

6.4.3 Reverse repurchase agreements

Receivables from cash collateral related to reverse repurchase agreements are carried at nominal value.

Reverse repurchase agreements are not recognized on the balance sheet unless the ownership rights pass to the Group.

6.4.4 Loans and advances to customers and Mortgage loans

Loans and advances to customers and Mortgage loans are carried at nominal value less any impairment, as set out in note 7.2 under “Risk-assessment and risk-management principles.”

6.4.5 Trading portfolio assets

Trading portfolio assets include positions in equity securities, debt securities and precious metals and are held in order to take advantage of market-price fluctuations.

These positions are carried at fair value with reference to the prices quoted on the most representative market.

6.4.6 Positive mark-to-market values of derivative financial instruments

Derivative financial instruments recorded at the balance-sheet date are carried at fair value with reference to the prices quoted on the most representative market. For positions that are not traded on sufficiently liquid markets, fair value is determined using a valuation model. Any resulting positive mark-to-market values are recognized under this item.

Positive mark-to-market values relating to transactions with the same counterparty and hedged by a netting agreement are carried on the balance sheet at net value.

6.4.7 Other financial assets at fair value

Securities needed to hedge structured products issued by BCV and recorded as a liability are carried under this line item. These positions are carried at fair value with reference to the prices quoted on the most representative market. For positions that are not traded on sufficiently liquid markets, fair value is determined using a valuation model.

6.4.8 Financial investments

Financial investments include securities and precious metals acquired for medium- and long-term investment purposes, as well as equity securities held neither for trading nor as a long-term investment. Available-for-sale real estate acquired in connection with lending operations is also carried under this item.

Held-to-maturity interest-bearing securities are carried at cost, with premiums or discounts amortized over the remaining term of the instrument using the accrual method. Gains and losses arising from their sale or early redemption are recorded proportionally up to the initial maturity date of the securities. Any related loan impairment charges or reversals are recorded on the income statement under the corresponding line item.

Interest-bearing securities not intended to be held until maturity, as well as equity securities and available-for-sale real estate, are carried at the lower of cost or market value. As a general rule, impairment charges and reversals on these assets are recorded under “Miscellaneous ordinary expenses” or “Miscellaneous ordinary income.” Where impairment can be broken down into loan impairment and market-related impairment, loan impairment charges and reversals are recorded on the income statement under the corresponding line item.

6.4.9 Accrued income and prepaid expenses

This item mainly consists of accrued interest and other transitory assets.

6.4.10 Non-consolidated holdings

Non-consolidated holdings comprise equity securities that are held as a long-term investment, irrespective of voting rights. They also include the Group’s infrastructure-related holdings, particularly joint ventures. They are carried at cost less any impairment.

These holdings are reviewed for impairment at each balance-sheet date, based on whether there is an indication of a loss in value. If there is such an indication, the Group determines the realizable value of each asset.

The realizable value is the higher of the net fair value and the value in use. The asset is written down if its carrying value exceeds its realizable value. In this case, the carrying value is reduced to the realizable value and the difference is charged to the income statement under “Depreciation and amortization of fixed assets and impairment on equity investments.”

6.4.11 Tangible fixed assets

Tangible fixed assets are carried at cost. Software developed by the Bank for in-house use is carried at direct production cost, and the corresponding income is recorded under “Miscellaneous ordinary income.”

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives within the following limits:

- Fifty years for real estate
- Ten years for technical facilities
- Five years for machinery, furniture, and fittings
- Five years for computer software and hardware.

Any depreciation recorded over an asset’s remaining estimated useful life or additional write-downs made subsequent to impairment reviews are charged to the income statement for the period, under “Depreciation and amortization of fixed assets and impairment on equity investments.”

These assets are reviewed annually for impairment. If there is a decline in value or a change in the useful life, the carrying value of the asset is written down and the written-down value is depreciated over the remaining estimated useful life of the asset.

6.4.12 Intangible assets

Goodwill is carried on the balance sheet and amortized on a straight-line basis over its estimated useful life (maximum of ten years).

Goodwill is reviewed for impairment at each balance-sheet date, based on whether there is an indication of a loss in value. In this case, the carrying value is reduced to the realizable value and the difference is charged to the income statement under “Depreciation and amortization of fixed assets and impairment on equity investments.”

6.4.13 Other assets

This item mainly comprises coupons, indirect taxes to be recovered, and any positive offset account balances.

6.4.14 Due to banks

Amounts due to banks are carried at nominal value.

6.4.15 Repurchase agreements

Commitments from cash collateral related to repurchase agreements are carried at nominal value.

Repurchase agreements are carried on the balance sheet and valued in the same way as Financial investments, provided that the Group continues to be the beneficial owner.

6.4.16 Customer deposits

This item comprises all amounts due to non-bank customers, carried at nominal value.

6.4.17 Trading portfolio liabilities

Trading portfolio liabilities result from short positions in debt and equity securities that are established in order to take advantage of market price fluctuations. They are carried at fair value with reference to the prices quoted on the most representative market.

Securities borrowed to establish short positions are not recorded on the balance sheet insofar as BCV Group does not take ownership of the attached rights.

6.4.18 Negative mark-to-market values of derivative financial instruments

Derivative financial instruments recorded at the balance-sheet date are carried at fair value with reference to the prices quoted on the most representative market. For positions that are not traded on sufficiently liquid markets, fair value is determined using a valuation model. Any resulting negative mark-to-market values are recognized under this line item.

Negative replacement values relating to transactions with the same counterparty and hedged by a netting agreement are carried on the balance sheet at net value.

6.4.19 Other financial liabilities at fair value

This item includes structured products without an interest rate component that are issued by the Bank, including participation products (fractions of equity baskets) and yield-enhancement products. They are carried at fair value with reference to a quoted market price or a valuation model. Subsequent revaluations are recognized under “Net trading income and fair-value adjustments.”

6.4.20 Medium-term notes

Medium-term notes issued by the Bank for a term of between two and eight years are carried at nominal value.

6.4.21 Bonds and mortgage-backed bonds

This item consists of borrowings from the Central Mortgage-Bond Institution of Swiss Cantonal Banks, as well as bonds issued by the Bank. They are carried at nominal value; any discount or premium is recorded under accrued or deferred items and amortized over the term of the instrument under “Interest expense.”

This line item also includes yield-enhancement, participation and capital-protection structured products issued by the Bank and containing an interest-rate component.

For these structured products, the host instrument and the embedded derivatives are treated separately. The host instrument is recorded under this line item at nominal value as a debt issued by the Bank. Embedded derivatives are carried as either positive or negative mark-to-market values. Subsequent variations are recognized under “Net trading income and fair-value adjustments.”

Interest accrued in the interest-rate component is recorded under “Interest expense” using the accrual method.

Positions in bonds and structured products issued by BCV are deducted from this item.

6.4.22 Accrued expenses and deferred income

This item mainly consists of accrued interest, taxes due on Group companies' earnings and capital, and other transitory liabilities.

Direct tax is calculated in accordance with the matching principle and is recognized in the income statement under "Taxes."

6.4.23 Other liabilities

This item mainly comprises coupons, indirect taxes to be paid, and any negative offset account balances.

6.4.24 Provisions

This line item includes provisions necessary for business operations, provisions for hedging tangible and latent risks of loss, credit-risk provisions for off-balance-sheet transactions, and provisions for deferred taxes.

Deferred taxes are calculated based on differences between tax values and book values. They are recognized in the income statement under "Taxes."

6.4.25 Reserves for general banking risks

To cover risks inherent in the banking business which are not already covered by specific provisions, the Group sets aside "Reserves for general banking risks." These reserves are part of shareholders' equity and are taxed or subject to a deferred tax (see note 10.16 below).

6.4.26 Share capital

This line item consists of the Bank's share capital.

6.4.27 Capital reserve

The capital reserve comprises additional paid-in capital obtained through the issue of equity securities and the exercise of conversion rights and options, along with gains and losses realized and dividends received on own shares.

6.4.28 Retained earnings

This line item represents capital accrued by the Group; it consists primarily of appropriated retained earnings and the effect of changes in the scope of consolidation.

6.4.29 Currency translation reserve

Exchange-rate differences resulting from the translation of Group company accounts denominated in foreign currencies are recorded under this line item and not through profit or loss.

6.4.30 Own shares

Own shares (i.e., registered shares of Banque Cantonale Vaudoise) are deducted from shareholders' equity at cost. Dividend payments and gains and losses on disposals are allocated directly to the capital reserve.

6.4.31 Contingent liabilities

Contingent liabilities mainly comprise commitments to secure credits, issued in the form of bills of exchange, surety bonds and guarantees, including irrevocable letters of credit, endorsements of re-discounted bills, advance payment guarantees and similar facilities such as pledges in favor of third parties.

This type of liability is contingent if, when the transaction is entered into, the main debtor has no debt towards a third party but may incur such debt at a later date.

6.4.32 Irrevocable commitments

This line item includes commitments to grant loans and other services that are unused but firm and irrevocable at the balance-sheet date, together with payment commitments relative to depositor protection schemes.

6.4.33 Commitments relating to calls on shares and other equity securities

This line item includes commitments relating to calls on shares and other equity securities.

6.4.34 Confirmed credits

Commitments arising from deferred payments, as well as from acceptances and other confirmed credits, are included under this line item.

6.4.35 Pension-fund liabilities

Pension-fund liabilities are understood to mean obligations arising under pension plans and pension funds which provide retirement, death and disability benefits.

When preparing its year-end accounts, the Group determines, for each pension fund, whether there are any assets (benefits) or liabilities (obligations) other than the contribution benefits and related adjustments. This assessment is based on the financial situation of the pension funds as shown in their interim accounts at 30 September.

Any liabilities are carried on the balance sheet under "Provisions," while any economic benefit is carried under "Other assets." Any changes from the corresponding value in the previous financial year are recognized for each pension fund under "Personnel costs."

Adjusted contributions for the period are also carried under "Personnel costs."

An economic liability arises if the Group decides or is obliged to participate in the financing of an underfunded pension fund, while an economic benefit arises if there is a potential positive effect on future cash flows as a result of pension-fund overfunding. Moreover, in the case of overfunding, an economic benefit exists if there is a lawful intention to use the overfunding to reduce the employer's contributions, to refund the contributions to the employer by virtue of local legislation, or to use them for any economic purpose of the employer other than regulatory benefits.

6.5 Changes to accounting principles

No changes were made to the accounting principles in 2017.

6.6 Registration of business transactions

All transactions concluded up until the balance sheet date are recorded on the date they are concluded and are valued according to the above accounting principles.

6.7 Foreign-currency translation

Transactions in foreign currencies during the year are translated at the exchange rates prevailing on the transaction date.

Assets and liabilities held in foreign currencies at the close of the financial year are translated into Swiss francs at the exchange rates prevailing on that date, provided that they are not valued at their historical rates.

Foreign-exchange gains and losses, including unrealized gains and losses on forward foreign-exchange contracts open at the balance-sheet date, are carried in the income statement. Balance-sheet items and off-balance-sheet transactions of foreign holdings are translated at year-end exchange rates set for the Group, with the exception of shareholders' equity invested in these holdings, which is translated at historical rates.

Income-statement items are translated at the average annual exchange rates set for the Group. Differences arising from the translation of shareholders' equity and the income statement are recorded directly in shareholders' equity.

Major currencies in CHF	2017		2016	
	Close	Average	Close	Average
Euro	1.1702	1.1126	1.0720	1.0890
U.S. dollar	0.9745		1.0164	

6.8 Refinancing of trading positions

The cost of refinancing securities held in the trading portfolios is netted against interest and dividend income from these portfolios, and recorded under "Net trading income and fair-value adjustments."

6.9 Rounding

The figures contained in the tables have each been properly rounded depending on the number of significant digits used for the table; this may result in discrepancies between listed column and row totals and the sum of individual column or row items.

7. Risk-assessment and risk-management principles

7.1 Introduction

The Board of Directors periodically analyzes the Bank's main risks. The analyses are based on the risk-management processes and methods in place, and contain a forward-looking evaluation of the risks to which BCV is exposed. In these analyses, the Board of Directors takes into account the Bank's existing control system for managing and mitigating risks.

BCV's risk-management objectives and approach are presented in the risk management chapter. This section explains in more detail the principles that the Bank applies in assessing risks.

7.2 Credit risk

7.2.1 Exposure to credit risk

Credit risk arises from the possibility that a counterparty might default on its financial obligations to the Bank. It corresponds to the default risk set out in FINMA Circular 2015/1 and includes settlement risk. All forms of credit commitments to bank and non-bank counterparties, whether on or off the balance sheet, represent a credit risk for the Bank.

The Bank distinguishes five types of exposure to credit risk:

- Financial exposures, which are characterized by an outflow of funds
- Off-balance-sheet commercial exposures, stemming from guarantees given by the Bank or obtained in respect of counterparties
- Exposures resulting from bilateral derivatives contracts with positive mark-to-market values
- Exposures resulting from repos/reverse repos and securities lending/borrowing transactions
- Settlement exposures, which result from a time lag between when funds or securities are sent and when funds or securities are received in exchange.

Every position that entails credit risk is clearly assigned to one of these exposure categories. The Bank uses clearly defined methods for determining exposure levels by exposure category. Overall or specific limits are set for financial, off-balance-sheet commercial, and OTC derivatives exposures. Limits are likewise set for settlement exposures to bank counterparties. When positions are unwound through a simultaneous settlement system, such as CLS (Continuous Linked Settlement), settlement risk is not considered.

For trade-finance activities, credit risk is closely linked to country risk in emerging markets. In order to monitor this type of risk, the Bank analyzes and limits both its financial exposure (financial transfer risk) and non-financial exposure (risk that a physical transaction will not be unwound), particularly with respect to emerging markets.

7.2.2 Internal counterparty default ratings

The Bank considers a counterparty to be "in default" if one or more criteria are met (see definition of "in default" in note 7.2.5). Each counterparty is assigned a default rating based on clearly defined models. Each default rating is defined by an interval of default probabilities. Seven main ratings and 17 sub-ratings are used to classify counterparties according to their risk of default.

7.2.3 Loss given default and expected loss

Loss given default is the amount that the Bank stands to lose on a loan at the time that the counterparty defaults. Loss given default is determined for each form of credit granted by taking into account the credit limit and the coverage ratio, which is the value of the risk mitigants expressed as a percentage of the limit. For this purpose, collateral is taken at market value (see note 7.2.4).

For unimpaired loans (see note 7.2.5), the Bank estimates the amount that it expects to lose in an "average" year. This amount is called the expected loss. For credit exposures not relating to trade finance, the expected loss is determined by the probability of default (reflected in the counterparty default rating) and the loss given default. For trade-finance exposures, the expected loss is estimated for each transaction, using an approach based on Basel slotting criteria.

7.2.4 Market value of collateral

The Bank measures collateral on the basis of its market value, provided a suitable market exists. Various valuation methods are used, depending on the characteristics of the collateral and the sources of information about it. Each item of collateral is clearly assigned to a valuation method.

More specifically, the market value for a real-estate asset is the estimated price at which the asset would be likely to change hands on the measurement date, between knowledgeable, willing parties in an arm's length transaction, after an appropriate marketing process.

Provided their value is below a set amount, single-family homes, condominium apartments and income-generating real estate are valued using hedonic pricing models or capitalization pricing models in collaboration with experts. Other types of real estate and real estate with values above the set amount are valued by experts.

7.2.5 Impaired loans

A loan is impaired when the counterparty is unlikely to be able to meet its future credit obligations. The counterparty is then "in default" and all its debts to the Bank are considered "non-performing."

A counterparty is "in default" when it is more than 90 days past due on any material credit obligation to the Bank or when the Bank considers that the counterparty is unlikely to pay its credit obligations to the Bank in full.

7.2.6 Overdue-interest loans

A loan is considered to be an "overdue-interest" loan when at least one of the following three criteria is met:

- Advances and mortgage loans: interest and fees are more than 90 days past due
- Current-account credits: the agreed credit limit has been exceeded owing to insufficient payments in respect of interest and fees for more than 90 days
- The credit has been called in by the Bank.

"Overdue-interest" loans are in principle impaired.

7.2.7 Provisions for credit risk

The purpose of credit-risk provisions is to recognize, at the balance-sheet date, the expected loss on impaired loans and on unimpaired loans with latent risks.

Provisions for impaired loans are determined individually for each counterparty. The provision calculation takes into account total credit exposures to the counterparty on and off the balance sheet, the liquidation value of the collateral, market conditions, the quality of the counterparty's management, and the counterparty's ability and willingness to honor its commitments.

The liquidation value is the estimated net realizable value of the asset. It is calculated on the basis of the current market value of the asset, taking into account sell-by objectives, current market conditions, and selling costs (including any costs of holding the asset until sale and transaction-related costs).

Provisions for latent risks are recognized for counterparties representing a heightened credit risk. Heightened credit risks are identified for counterparties that are "reputed to be in financial difficulty" and for country risk.

A counterparty is classified as "reputed to be in financial difficulty" when the criteria for "in default" are not met, but when the Bank considers there to be a high risk that part of its exposure to credit risk on the counterparty will not be recovered, or when a significant breach of contract on any of the forms of credit extended to the counterparty by the Bank has occurred and has not been remedied without a temporary or permanent exemption being granted. These loans are not impaired because the Bank deems that the counterparty is still likely to be able to meet its future credit obligations.

Provisions for country risk are intended to cover potential losses from financial or non-financial exposures – relating to the unwinding of transactions – in high-risk countries.

7.2.8 Regulatory capital requirements for credit risk

BCV has been applying the Foundation Internal Ratings-Based (FIRB) approach to determine the regulatory capital requirements for a large part of its credit-risk exposure since 2009, having obtained approval from FINMA in December 2008. The scope of this approach is detailed in the Bank's Basel III Pillar 3 Report. The international Standard Approach (SA-BIS) is used for the remaining credit-risk exposure.

7.3 Market risk on the trading book

Market risk arises from the possibility of losses on the Bank's trading book as a result of changes in market parameters, in particular the price and price volatility of the underlying security. Trading positions are positions in equities, fixed-income instruments, currencies and precious metals. Positions in underlying instruments are classified as "simple" positions, whereas positions in futures contracts, swaps, or options are classified as "derivative" positions.

Each trading position is valued at the price quoted on a reference market or on the basis of price information calculated using a valuation model that incorporates observable market parameters.

The Bank manages its market risk on the trading book by setting limits in terms of net portfolio value, value-at-risk (VaR), stress loss, and sensitivity measures (Greeks).

VaR is a statistical measure. It is calculated with a 99% confidence interval. For a given time horizon, VaR represents the distribution of results by showing the best result among the worst 1% of possible results. It is measured at the portfolio and sub-portfolio levels. It is calculated on the basis of complete revaluations of positions by subjecting them to past changes in the various market parameters. For trading positions, the liquidation horizon is one day. For the nostro (i.e., proprietary) portfolio managed by the Asset Management Department, the liquidation horizon is six months.

Stress-loss analyses are used to measure potential losses that are not taken into account by VaR analysis. Stress scenarios seek to model the most adverse possible movements in risk factors. Scenarios are determined for all trading positions taken together as well as for the various sub-portfolios.

For all trading positions, the Bank uses static-portfolio stress scenarios to model short-term stress. Six-month scenarios are used for the nostro portfolio managed by the Asset Management Department, analyzing cumulative results over that period.

Sensitivity measures are used to monitor local exposure to risks arising from trading positions (i.e., marginal variations in risk factors). For trading book portfolios, the main sensitivity measures used are delta, gamma, vega, theta, and rho.

The Bank determines its capital requirements for market risk using the Standard Approach (SA-BIS).

7.4 Market risk on the banking book

The Bank assesses market risk on positions in the banking book by measuring interest-rate risk and liquidity risk.

7.4.1 Interest-rate risk on the banking book

Interest-rate risk on the banking book arises from mismatches between the size and terms (dates on which interest rates are fixed) of asset and liability positions. It is attributable to movements in the yield curve and changes in customer behavior. These variations directly affect the Bank's interest income and the economic value of its share capital. For variable-rate positions (adjustable-rate mortgages, traditional savings deposits with no fixed term, and sight deposits), models are used to reproduce as faithfully as possible the pace and magnitude of changes in customer interest rates according to the market rate.

The Bank monitors two measures of loss arising from interest-rate risk on the balance sheet:

- Loss of interest margin, which is both an economic loss and an accounting loss; and
- Loss of economic value of share capital, which by definition is not reflected in the accounts.

Every month, the Bank calculates various measures of interest-rate risk, which enable it to monitor the impacts on the interest margin and the economic value of share capital:

- Static indicators: to monitor the economic value of share capital, the Bank calculates the duration of share

capital and the sensitivity of share capital to an interest-rate shock. To monitor the net interest margin, the Bank calculates interest-rate gaps by residual maturity.

- Dynamic indicators: every month, the Bank prepares scenarios regarding interest rates and business volumes, combined with various hedging strategies. These dynamic simulations take into account customer behavior with respect to interest rates in order to simulate the interest margin and potential losses in circumstances that lie between a probable scenario and a stress scenario. For each scenario, indicators showing the duration and value of share capital are calculated for several future dates to measure the future exposure of share capital to interest-rate risk. These dynamic simulations are carried out for a three-year horizon.

7.4.2 Liquidity risk

Liquidity risk arises from the possibility that the Bank does not have the resources on hand to deal with the potential outflow of funds that could occur at any time in view of the liabilities that it holds and changes in its assets. This risk is determined by the pace of withdrawals, the concentration of liabilities, the Bank's ability to raise funds, and prevailing terms and conditions in the interbank and capital markets.

The Bank monitors its exposure to liquidity risk in the medium/long term, as well as in the short term, by preparing maturity schedules for on-balance-sheet exposures, by calculating balance-sheet ratios, and by modeling the future structure of its balance sheet using dynamic simulations. When conducting these simulations, the Bank also calculates regulatory ratios – i.e., the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) – at different time horizons. These simulations enable the Bank to determine its long-term approach to funding, particularly as regards raising funds from the Central Mortgage-Bond Institution and on the bond market, as well as the size and composition of its liquidity reserve. The Bank also stress-tests its regulatory liquidity ratios.

7.5 Operational risk

Operational risk arises from inadequacies or failures relating to processes, people, and information systems within or external to the Bank. It is a risk inherent in banking activities and results from:

- Erroneous or malicious behavior of employees, suppliers, bank counterparties, customers, or other parties external to the Bank
- Inadequate IT systems (applications, interfaces, and hardware) or communication systems (telephone, fax, etc.)
- Inadequate infrastructure
- Inadequate organization in terms of processes (methods, procedures, organizational structure, etc.) or governance (rules, policies, directives, manuals, etc.)
- External incidents.

The Bank monitors its exposure to operational-risk events using a classification with seven categories:

- Internal fraud
- External fraud
- Incidents related to human resources, including workplace safety
- Incidents linked to customer relations and commercial practices
- Losses of operating resources
- Failure of information systems
- Incidents related to transaction and process management.

An operational-risk event that has occurred is booked directly as an outright loss. Provisions are recognized for the additional costs expected but not yet incurred. The Bank determines its regulatory capital requirements for operational risk according to the Standard Approach.

8. Use of hedge accounting

The Group uses derivatives as part of its asset- and liability-management strategy, primarily to hedge interest-rate risk. These transactions are recognized as macro and micro hedges, and net gains or losses after interest are recorded under “Interest and discount income” or “Interest expense.” Changes in the fair value of hedging instruments are recognized in the offset accounts under “Other assets” or “Other liabilities.”

Whenever derivatives are used for hedging purposes, records are kept of the transactions, the objectives and strategies of the Bank’s unit in charge of managing market risk on the balance sheet, and the system used to monitor the effectiveness of the hedge.

The hedging instruments used are almost exclusively interest-rate swaps (IRS), in which the Bank may be either the payer or the receiver; the large majority of these IRS is denominated in Swiss francs. Receiver IRS are all micro hedges, and in most cases the hedged items are the Bank’s long-term borrowings (i.e., its own bond issues or issues made through the Central Mortgage-Bond Bank). Payer IRS can be either micro or macro hedges, and the hedged items are either fixed-term mortgages or financial investments.

Micro hedges are used to reduce the risk on a clearly defined underlying position. The hedges have the same nominal value and the same maturity as the hedged position, although a large underlying position may require several hedges.

Most macro hedges are used to hedge mortgage loans. The hedging instruments mature during the same month that the terms of the underlying mortgage loans end.

In order to prevent any over-hedged positions, the nominal value of the underlying positions must be 10% higher than that of the hedging instrument in order to take account of any depreciation, impairment, early redemption or repayment. When entering into a hedging relationship, the Bank draws up documents stipulating the designation of the hedging instrument and the underlying transaction or group of transactions, together with their main features. The type of risk hedged and the system for assessing the effectiveness of the hedge are also provided.

As the Bank uses linear hedging, there is a very close economic relationship between the underlying positions and the hedging instruments. For mortgage loans, the main difference between the hedging instrument and the underlying position is the interest rate, as the rate on the mortgage loans includes the Bank’s margin.

Hedges are tested for their effectiveness every quarter. The main aim of the test is to ensure that the nominal value of the underlying positions is still at or above the nominal value of the hedging instrument. A forward-looking assessment of the hedging relationship is also conducted by measuring how the economic value of the hedging instrument and the hedged positions would be affected by a 100bp rise or fall in interest rates. To qualify as a hedge, the change in the value of the hedging instrument must offset the change in value of the underlying positions by between 80% and 125%.

Given that linear hedging is used, the hedges are unlikely to be ineffective. In the event of an over-hedged position, the excess portion of the derivative financial instrument is treated as a trading portfolio asset and recorded under “Net trading income and fair-value adjustments.”

9. Significant events and events taking place after the closing date

9.1 Significant events

As well as legal proceedings brought by the trustee of the Fairfield Sentry feeder fund against Banque Piguet & Cie SA (now Piguet Galland & Cie SA) and BCV in the USA in August 2010, the trustee for Bernard L. Madoff Investment Securities LLC (BLMIS) filed another claim in the USA on 6 June 2012 against BCV and other financial institutions in Switzerland and abroad for USD 9.7m with regard to investors that redeemed their shares in Madoff funds via BCV. The Madoff trustee is seeking to recover funds transferred by BLMIS to the Fairfield Sentry feeder fund from investors who had received refunds in the two years prior to BLMIS' bankruptcy. As both these legal actions overlap, there is no additional financial or legal risk. Consequently, and as stated in previous annual reports, no provision has been set aside except to cover BCV's defense costs.

9.2 Events taking place after the closing date

To the Group's knowledge, there was no event liable to have a material influence on the Group's financial statements as of 8 March 2018, when the writing of this annual report was completed.

10. Notes to the consolidated balance sheet

10.1 Repurchase and reverse repurchase agreements (in CHF millions)

	31 / 12 / 17	31 / 12 / 16
Book value of claims arising from cash collateral pledged in connection with securities borrowing or reverse repurchase agreements ¹⁾	499	306
Book value of liabilities arising from cash collateral received in connection with securities lending or repurchase agreements ¹⁾	1 350	1 791
Book value of securities held for own account, lent or transferred as collateral in connection with securities borrowing or repurchase agreements	1 298	1 653
<i>of which those that can be sold or repledged without restriction</i>	1 298	1 653
Fair value of securities received as collateral in connection with securities lending and those received in connection with securities borrowing and under reverse repurchase agreements, which can be sold or repledged without restriction	522	339
<i>of which securities repledged as collateral</i>	0	0
<i>of which sold securities</i>	0	0

¹⁾ Before netting agreements

10.2 Risk mitigants for loans and off-balance-sheet transactions

Impaired loans (in CHF millions)

		Type of risk mitigant			Total
		Mortgage	Other	Unsecured	
Loans and advances to customers		457	1 553	2 911	4 921
Mortgages		25 412		2	25 414
<i>Residential real estate</i>		21 410		2	21 412
<i>Office and business premises</i>		2 649			2 649
<i>Commercial and industrial property</i>		1 335			1 335
<i>Other</i>		18			18
Loans (before impairment charges/reversals)	31 / 12 / 17	25 869	1 553	2 913	30 334
	31 / 12 / 16	25 498	1 402	3 032	29 931
Loans (after impairment charges/reversals)	31 / 12 / 17	25 862	1 553	2 818	30 233
	31 / 12 / 16	25 489	1 402	2 958	29 849
Contingent liabilities		4	473	1 286	1 763
Irrevocable commitments		487	22	973	1 481
Commitments relating to calls on shares and other equity securities				177	177
Confirmed credits				18	18
Off-balance-sheet transactions	31 / 12 / 17	491	495	2 454	3 440
	31 / 12 / 16	275	447	2 367	3 089

		Gross receivables	Realization value of risk mitigants	Net receivables	Individual impairment charge/reversal
Impaired loans	31 / 12 / 17	231	- 114	117	101
	31 / 12 / 16	227	- 129	97	79
Change (absolute)		4	- 15	20	23
Change (as %)		2	- 12	20	29

10.3 Trading portfolio assets and liabilities

Other financial assets and liabilities at fair value (in CHF millions)

Assets	31 / 12 / 17	31 / 12 / 16
Debt securities	88	40
<i>of which listed</i>	88	40
Equity securities	0	1
Commodities and precious metals	98	112
Trading portfolio assets	186	153
Debt securities	15	126
Structured products	0	0
Other	639	504
Other financial assets at fair value	653	630
Total	839	783
<i>of which determined using a valuation model</i>	0	0
<i>of which securities eligible for repurchase agreements in accordance with liquidity regulations</i>	74	36

Liabilities	31 / 12 / 17	31 / 12 / 16
Debt securities	0	0
Structured products	812	771
Other	0	0
Other financial liabilities at fair value	812	771
<i>of which determined using a valuation model</i>	56	69

10.4 Derivative financial instruments (in CHF millions)

	Trading instruments			Hedging instruments		
	Positive mark-to-market value	Negative mark-to-market value	Value of underlying asset	Positive mark-to-market value	Negative mark-to-market value	Value of underlying asset
Swaps	32	49	1 709	195	126	6 120
Futures			137			
Interest-rate instruments	32	49	1 846	195	126	6 120
Forward contracts and swaps	302	317	36 758			
Options (OTC)	53	15	3 166			
Foreign currencies and precious metals	355	332	39 924	0	0	0
Futures			26			
Options (OTC)	27	26	231			
Equity securities and indices	27	26	257	0	0	0
Total	31 / 12 / 17	415	40 727	195	126	6 120
<i>of which determined using a valuation model</i>		81	41	–	–	–
	31 / 12 / 16	447	450	230	191	6 750
<i>of which determined using a valuation model</i>		128	98	–	–	–
			Positive mark-to-market value	Negative mark-to-market value		Value of underlying asset
Breakdown						
Trading instruments			415	407		42 027
Hedging instruments			195	126		6 120
Total before netting agreements	31 / 12 / 17		610	533		48 147
	31 / 12 / 16		678	641		47 491
Total after netting agreements	31 / 12 / 17		282	205		48 147
	31 / 12 / 16		281	244		47 491
Change		absolute	1	– 40		656
		as %	0	– 16		1

Breakdown by counterparty

	Central clearing houses	Banks and securities dealers	Other clients
Positive mark-to-market value (after netting agreements)	3	200	79

10.5 Financial investments (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Book value	Fair value	Book value	Fair value
Debt securities	3 671	3 792	3 179	3 329
<i>of which securities intended to be held until maturity</i>	3 661	3 782	3 161	3 311
<i>of which securities available for sale</i>	10	10	18	18
Equity securities	30	79	28	78
<i>of which significant holdings (minimum of 10% of capital or voting rights)</i>	6	6	4	4
Available-for-sale real estate	52	55	27	28
Financial investments	3 753	3 926	3 234	3 435
<i>of which securities eligible for repurchase agreements in accordance with liquidity regulations</i>	3 641	–	3 144	–

Counterparty breakdown by rating

	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Not rated	Total
Book value of debt securities	3 464	6	7	1		193	3 671

The rating categories are based on Standard & Poor's ratings; they are used for the specific instruments to which the Bank has subscribed. If an instrument is not rated by Standard & Poor's, then a rating from another agency is used. Where there is no specific rating for a given instrument, the issuer's long-term rating is used, with the same order of rating agencies.

The Bank's unrated positions (that is, where neither the instrument nor the issuer has a rating) are in investment-grade debt securities issued by Swiss public-sector entities or by Switzerland's housing-construction bond issuer (EGW/CCL).

10.6 Non-consolidated holdings (in CHF millions)

	Cost	Accumulated impairment charges/ reversals	Book value at year-end	Changes in allocation or scope	Additions	Disposals	Impairment charges/ reversals	Book value at year-end	Market value
	2016							2017	2017
Holdings accounted for using the equity method	–		–					–	–
Other equity holdings, unlisted	76	–6	70		1	0	–1	70	–
Non-consolidated holdings	76	–6	70	0	1	0	–1	70	–

10.7 Companies in which the Group has a significant long-term direct or indirect holding

With the exception of the parent company, none of the Group companies is listed on a stock exchange.

Fully consolidated Group companies

Company name and headquarters	Main business	Capital in millions	31 / 12 / 17			
			% of share capital held as %	% of voting rights held as %	% of stake held directly /indirectly as %	
Piguet Galland & Cie SA, Yverdon-les-Bains (Switzerland)	Private bank	CHF 24.4	99.7	99.7	99.7 / 0	
Gérifonds SA, Lausanne	Fund management	CHF 2.9	100	100	100 / 0	
Gérifonds (Luxembourg) SA, Luxembourg	Fund management	EUR 0.1	100	100	0.8 / 99.2	
Société pour la gestion de placements collectifs GEP SA, Lausanne	Fund management	CHF 1.5	100	100	100 / 0	

The scope of consolidation did not change relative to end-2016.

No companies are accounted for using the equity method.

Main non-consolidated holdings

Company name and headquarters	Main business	Capital in millions	31 / 12 / 17			
			% of share capital held as %	% of voting rights held as %	% of stake held directly /indirectly as %	
Aduno Holding Ltd, Zurich	Purchase, sale, and management of equity holdings	CHF 25.0	4.8	4.8	4.8 / 0	
Caleas AG, Zurich	Leasing company	CHF 0.8	4.7	4.7	4.7 / 0	
Central Mortgage-Bond Institution of Swiss Cantonal Banks Ltd, Zurich <i>of which CHF 1.3bn unpaid</i>	Central mortgage-bond institution	CHF 1 625.0	13.6	13.6	13.6 / 0	
newhome.ch AG, Zurich	Property listing website	CHF 0.1	8.6	8.6	8.6 / 0	
SIX Group Ltd, Zurich	Swiss stock exchange operator and provider of payment and other services	CHF 19.5	2.5	2.5	2.4 / 0.1	
Société vaudoise pour le logement (SVL) SA, Crissier (Switzerland)	Property developer for low-income housing	CHF 2.0	45.0	45.0	45 / 0	
Swiss Bankers Prepaid Services Ltd, Grosshöchstetten (Switzerland)	Development and sale of prepaid cards	CHF 10.0	3.2	3.2	3.2 / 0	
TWINT Ltd, Zurich	Swiss mobile payment system	CHF 10.2	4.0	4.0	4.0 / 0	

VDCapital was liquidated in early 2017, so it has been removed from the list of main non-consolidated holdings.

As the Bank's holding in SVL is not material in terms of the consolidated financial statements, it is not included in the scope of consolidation. At end-2016, SVL had total assets of CHF 12m and equity of CHF 5m.

Main equity security positions held under “Financial investments”

Company name and headquarters	Main business	Capital in millions	31 / 12 / 17		
			% of share capital held as %	% of voting rights held as %	% of stake held directly /indirectly as %
Banque Cantonale du Jura SA, Porrentruy (Switzerland)	Bank	CHF 42.0	4.8	4.8	4.8 / 0
Romande Energie Holding SA, Morges (Switzerland)	Purchase, sale, and management of equity holdings in the energy sector	CHF 28.5	3.1	3.1	3.1 / 0

10.8 Tangible fixed assets (in CHF millions)

	Cost	Accumulated depreciation and write-offs	Book value at year-end	Changes in allocation or scope	Additions	Disposals	Depreciation and write-offs	Reversals ¹	Book value at year-end
			2016						2017
Group premises	393	– 153	240	0	3		– 9	1	234
Other real estate	315	– 142	173	– 0	2		– 7	12	180
Furniture and fixtures	50	– 28	22		6		– 7		20
Computer programs	111	– 44	67	– 0	44	0	– 38		73
Other tangible fixed assets	200	– 185	15	0	2		– 5		12
Tangible fixed assets	1070	– 552	517	0	55	0	– 66	13	519

¹⁾ The impairment charge recognized on a piece of real estate in 2002 and 2003 was fully reversed in 2017 following an improvement in the property market. This real estate was sold in 2018.

10.9 Intangible assets (in CHF millions)

	Cost	Accumulated amortization and impairment	Book value at year-end	Changes in allocation or scope	Additions	Disposals	Amortization and impairment	Reversals	Book value at year-end
			2016						2017
Goodwill	47	– 31	16				– 3		12

10.10 Other assets and liabilities (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Other assets	Other liabilities	Other assets	Other liabilities
Offset accounts	0	60	0	36
Indirect taxes	21	9	21	9
Coupons/coupons and securities due	5	5	4	1
Settlement accounts	5	4	13	3
Miscellaneous assets and liabilities	25	9	16	8
Other assets and liabilities	57	87	54	56

10.11 Assets pledged or assigned as collateral for own liabilities, and assets with reservation of title (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Amount or book value of pledge	Real liability	Amount or book value of pledge	Real liability
Assets pledged or assigned to the Swiss National Bank	182	0	181	0
Mortgages pledged or assigned to the Central Mortgage-Bond Institution of Swiss Cantonal Banks	7278	5561	7354	5612
Other	299	290	286	277
Total assets pledged or assigned	7758	5851	7821	5889
Assets with reservation of title	0	0	0	0

10.12 Commitments relating to own occupational pension funds

BCV shares held by own occupational pension funds (in CHF millions)

	31 / 12 / 17	31 / 12 / 16
Customer deposits	184	151
Other liabilities	0	0
Total	184	151

BCV's own occupational pension funds held no BCV shares at 31 December 2017.

10.13 Economic situation of own occupational pension funds (in CHF millions)

There were no employer contribution reserves at end-2017 or end-2016.

Economic benefit/liability and pension expenses	Surplus / deficit	Economic benefit/liability			Contributions adjusted for the period	Pension expenses included in "Personnel costs"	
		31 / 12 / 17	31 / 12 / 16	Change		2017	2017
Employer-financed pension funds:							
“Fonds de prévoyance en faveur du personnel de la BCV” ¹⁾	47.4	0	0	0	0.0	0.0	0.0
Pension funds with no surplus or deficit: “Caisse de pensions de la BCV”		0	0	0	38.2	38.2	38.0
Pension funds with surpluses:							
“Fondation de prévoyance complémentaire en faveur de l'encadrement supérieur de la BCV”	0.8	0	0	0	1.4	1.4	1.4
Total	48.2	0	0	0	39.6	39.6	39.4

¹⁾ Since the intention is not to apply the surpluses to reduce or refund the employer's contributions, or for the employer to use them for any economic purpose other than regulatory benefits, there is no identifiable economic benefit to be recognized on the balance sheet

The surplus or deficit of a pension fund is based on its unaudited interim accounts at 30 September 2017.

Pension funds

BCV Group employees are members of the “Caisse de pensions de la Banque Cantonale Vaudoise (CP BCV).” Its purpose is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension-fund regulations. It is a provider of the compulsory insurance introduced under the Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (LPP), and provides coverage in excess of the minimum LPP requirements.

Senior executives insured with the CP BCV are also members of the “Fondation de prévoyance complémentaire de la Banque Cantonale Vaudoise,” the purpose of which is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension-fund regulations.

The “Fonds de prévoyance en faveur du personnel de la BCV” is an employer-operated fund that assists BCV employees in dealing with the economic consequences of old age, disability, illness and early retirement.

10.14 Issued structured products (in CHF millions)

Underlying risk of embedded derivative	Carrying value				Total	
	Single treatment		Separate treatment			
	Recognized in trading portfolio liabilities	Recognized in other financial liabilities at fair value	Value of the host instrument	Value of the derivative		
Interest-rate instruments	–	9	0	0	9	
Equity securities	–	752	836	– 14	1574	
Foreign currencies	–	51	11	0	62	
Commodities and precious metals	–	0	0	0	0	
Total	31 / 12 / 17	– 812	847	– 14	1645	
	31 / 12 / 16	–	771	966	– 46	1691

All structured products issued by the Bank have a debenture component.

Single accounting treatment

Structured products without an interest rate component, i.e., participation structured products (representing a fraction of an equity basket) and yield-enhancement structured products, issued by the Bank are each treated as a single position. They are recognized under “Other financial liabilities at fair value,” and their fair value is based on a quoted market price or a valuation model. Subsequent revaluations are recognized under “Net trading income and fair-value adjustments.”

Separate accounting treatment

Yield-enhancement, participation, and capital-protection structured products issued by the Bank and containing an

interest rate component are each treated as two separate positions.

For these structured products, the host instrument and the embedded derivative(s) are treated separately. The host instrument is recorded under “Bonds” at nominal value as a debt issued by the Bank. Embedded derivatives are carried as either positive or negative mark-to-market values. Subsequent variations are recognized under “Net trading income and fair-value adjustments.”

Interest accrued in the interest-rate component is recorded under “Interest expense” using the accrual method.

10.15 Bonds and mortgage-backed bonds (in CHF millions)

Rate	Year of issue	Nominal value	Maturity	Group-held	31 / 12 / 17 Amount outstanding	31 / 12 / 16
2.500%	2010	200	25.03.2020	43	157	
1.625%	2011	125	30.11.2026	30	95	
1.500%	2014	135	28.03.2024	3	132	
0.500%	2016	150	13.12.2028	0	150	
0.400%	2016	150	07.04.2031	0	150	
0.500%	2017	150	12.07.2029	0	150	
0.250%	2017	150	28.11.2025	0	150	
Bond issues by BCV Lausanne¹		1 060		77	983	688
<i>of which subordinated bonds</i>		0		0	0	0
Structured products issued by BCV Lausanne or the Guernesey branch (value of the host instrument)					847	966
Central Mortgage-Bond Institution of Swiss Cantonal Banks					5 561	5 612
Long-term borrowings					7 392	7 267

¹⁾ None of these issues can be called in for redemption before the maturity date

Long-term borrowings by maturity

	2018	2019	2020	2021	2022	2023-2031	Total	31 / 12 / 17 Average rate
Bond issues			157			827	983	1.1%
Structured products	390	320	102	14	8	13	847	-0.4%
Central Mortgage-Bond Institution of Swiss Cantonal Banks	307	539	184	474	189	3 868	5 561	1.4%
Total	697	859	443	488	197	4 708	7 392	

	Status at year-end 2016	New issues	Redemptions	Net change in own securities	Status at year-end 2017
Bond issues	688	300		- 5	983
Structured products	966	849	- 1 040	73	847
Central Mortgage-Bond Institution of Swiss Cantonal Banks	5 612	361	- 412	0	5 561
Total	7 267	1 510	- 1 452	68	7 392

10.16 Provisions

Reserves for general banking risks (in CHF millions)

	Status at year-end	Used as allocated	Changes in scope of consolidation	Currency translation differences	Recoveries, overdue interest	New provisions charged to income statement	Releases credited to income statement	Status at year-end
	2016							2017
Provisions for deferred taxes	2						- 0	2
Provisions for credit risk	1						- 0	1
Other provisions	13	- 6		0	5	2	- 1	12
Total provisions	16	- 6	0	0	5	2	- 2	15
Reserves for general banking risks¹	701							701
Provisions for credit risk and country risk	82	- 11	0	0	10	40	- 19	102
<i>of which provisions for impaired loans</i>	79	- 11		0	10	40	- 16	101
<i>of which provisions for latent risks</i>	4						- 3	0

¹⁾ Reserves for general banking risks are taxable

10.17 Stock options and shares granted to members of the Board of Directors, Executive Board members and other employees
Employee share-ownership plans

	2017		2016	
	Shares (in units)	Value (in CHF)	Shares (in units)	Value (in CHF)
Members of the Board of Directors	188	136 613	132	90 667
Executive Board members	3 539	2 153 002	3 584	1 897 890
Other employees	27 592	10 571 343	29 209	10 175 602
Total	31 319	12 860 958	32 925	12 164 159

No stock options have been granted to members of the Board of Directors, Executive Board members, or other employees.

Employee share ownership

Annual performance-based compensation

The Chairman of the Board of Directors receives a portion of his fixed salary in shares with a lock-up period of five to ten years. The last share-based compensation was paid in December 2017. The new Chairman of the Board of Directors does not receive any share-based compensation.

For Executive Board members and department heads, 30% of their annual performance-based compensation must be taken in BCV shares with a lock-up period of five to ten years.

Other employees receiving annual performance-based compensation of CHF 21,000 or more may opt for full payment in cash, or 70% in cash and 30% in BCV shares with a lock-up period of three years. In the latter case, BCV increases the portion of shares by 30%.

Executive Board members are allocated their shares subject to approval at the Shareholders' Meeting. The number of shares allocated will be calculated based on the closing market price on 7 May 2018, rounded up to the nearest whole number.

Other employees will receive their shares at the end of April 2018. The number of shares allocated will be calculated based on the closing market price on 22 March 2018, rounded up to the nearest whole number. These employees have until 4 April 2018 to make their decision.

As their decision was not known at the time this report was published, the amount shown in the above table corresponds to the maximum amount payable in the form of shares.

The market prices used to calculate the number of shares will be those on 22 March 2018 and 7 May 2018 (see above), so they were not known at the time this report was published. As a result, the number of shares was calculated based on the closing market price on 8 March 2018, the date of the Board of Directors' final decision on this compensation.

Share-ownership plan

The Executive Board and other Group employees, with the exception of employees of Piguët Galland & Cie SA, were given the opportunity to subscribe to the share-ownership plan in April 2017 on the following terms:

- The number of shares that may be purchased is determined by the level of responsibility inherent in the employee's position.
- The subscription period ran from 16–28 March 2017.
- The subscription price was set at CHF 530 per share, and the market price used was CHF 688 (closing price on 16 March, the first day of the subscription period).

The amount shown in the above table corresponds to the number of shares subscribed multiplied by CHF 158, which is the difference between the market price of CHF 688 and the subscription price of CHF 530.

Long-term performance-based compensation

At the beginning of each three-year share-ownership plan, participants are informed of the number of shares that will be allocated if all objectives are met in full. At the end of each plan, the Bank informs participants of the extent to which objectives have been met based on the Bank's financial results and strategic and qualitative performance. The number of shares initially allocated is multiplied by the level of attainment of the objectives in order to determine the number of shares allocated to each participant.

The amounts shown in the table on the previous page correspond to the expense recorded in 2017 for the various plans in progress.

Free shares

The Bank awards three BCV shares to trainees and university interns who successfully complete their training and are then hired by BCV.

The number allocated and their value, based on the market price on the last business day of the month before the shares are awarded, are also shown in the table.

10.18 Receivables and commitments with respect to related parties (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Receivables	Commitments	Receivables	Commitments
Canton of Vaud - significant shareholder	1	2 391	7	2 243
Affiliated companies	82	334	116	471
Governing bodies	23	10	33	12

Corporations organized under public law in Vaud Canton and public-private entities in which Vaud Canton has a qualified holding are considered affiliated companies. Transactions with members of the Board of Directors were

conducted on market terms. Receivables and commitments with respect to Executive Board members were granted on the standard terms for BCV employees. Transactions with related parties were conducted on market terms.

10.19 Own shares

Number of shares (in units)	Average transaction price	Total	Own shares
Status at 1 January 2017		8 606 190	32 244
<i>of which shares reserved for long-term performance-based compensation</i>			16 076
Purchases	690		41 486
Sales	665		-43 686
Status at 31 December 2017		8 606 190	30 044
<i>of which shares reserved for long-term performance-based compensation</i>			15 248

Own shares were traded at market prices. The proceeds of the sale of own shares were recognized under "Capital reserve."

10.20 Maturity structure of financial instruments (in CHF millions)

	Sight	Callable	Maturity				Fixed assets	Total	
			up to 3 months	3 to 12 months	12 months to 5 years	over 5 years			
Cash and cash equivalents	8044							8044	
Due from banks	508		374	132				1013	
Reverse repurchase agreements		322	178					499	
Loans and advances to customers	65	1480	1390	320	853	718		4826	
Mortgage loans	909	172	2577	1980	11844	7925		25407	
Trading portfolio assets	186							186	
Positive mark-to-market values of derivative financial instruments	282							282	
Other financial assets at fair value	653							653	
Financial investments	49		88	114	1713	1736	52	3753	
Current assets									
	31 / 12 / 17	10696	1974	4607	2546	14410	10380	52	44664
	31 / 12 / 16	9865	2175	4920	3267	12813	10254	27	43322
Due to banks	842		526	30				1398	
Repurchase agreements			1290	60				1350	
Customer deposits	11777	17589	1028	54	25	40		30512	
Negative mark-to-market values of derivative financial instruments	205							205	
Other financial liabilities at fair value	812							812	
Medium-term notes			2	6	7			15	
Bonds and mortgage-backed bonds			237	460	1987	4708		7392	
Borrowed funds									
	31 / 12 / 17	13636	17589	3082	610	2019	4748		41683
	31 / 12 / 16	13282	16588	3367	894	1988	4291		40410

10.21 Breakdown of assets and liabilities by Swiss and foreign domicile (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Swiss	Foreign	Swiss	Foreign
Cash and cash equivalents	8 041	3	7 487	8
Due from banks	393	620	505	869
Reverse repurchase agreements	90	409		306
Loans and advances to customers	4 198	628	4 194	618
Mortgage loans	25 407	0	25 037	0
Trading portfolio assets	173	13	153	
Positive mark-to-market values of derivative financial instruments	133	148	195	86
Other financial assets at fair value	282	371	219	411
Financial investments	2 636	1 118	2 365	869
Accrued income and prepaid expenses	89	2	104	2
Non-consolidated holdings	70	1	70	1
Tangible fixed assets	519	0	517	
Intangible assets	12		16	
Other assets	53	4	51	3
Assets	42 097	3 318	40 912	3 174
Total as %	93	7	93	7
Due to banks	663	735	815	255
Repurchase agreements	1 350		1 556	235
Customer deposits	28 468	2 044	27 065	2 179
Negative mark-to-market values of derivative financial instruments	131	73	129	116
Other financial liabilities at fair value	669	143	621	150
Medium-term notes	15		21	
Bonds and mortgage-backed bonds	7 245	147	7 000	266
Accrued expenses and deferred income	171	2	182	2
Other liabilities	87		56	
Provisions	15		16	
Reserves for general banking risks	701		701	
Share capital	86		86	
Capital reserve	121		207	
Retained earnings	2 249		2 137	
Currency translation reserve	- 1		- 2	
Own shares	- 19		- 19	
Minority interests in equity	0		0	
Net profit	320		310	
Total liabilities and shareholders' equity	42 270	3 145	40 882	3 203
Total as %	93	7	93	7

10.22 Breakdown of assets by country/country group based on domicile (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Absolute value	as % of total	Absolute value	as % of total
Europe	2 597	6	2 323	5
United Kingdom	610	1	594	1
France	593	1	414	1
Luxembourg	329	1	305	1
Germany	274	1	260	1
Netherlands	206	0	209	0
Austria	179	0	176	0
Other	405	1	364	1
Asia	439	1	437	1
Latin America, the Caribbean	57	0	99	0
United States, Canada	87	0	206	0
Other	137	0	108	0
Foreign assets	3 318	7	3 174	7
Switzerland	42 097	93	40 912	93
Assets	45 415	100	44 085	100

10.23 Breakdown of assets by solvency of the country group in which the risk is domiciled (in CHF millions)

Internal country rating	Standard & Poor's rating	31 / 12 / 17		31 / 12 / 16	
		Absolute value	as % of total	Absolute value	as % of total
1	AAA to AA-	2 973	84	2 641	81
2	A+ to A-	178	5	175	5
3	BBB+ to BBB-	101	3	88	3
4	BB+ to BB-	98	3	143	4
5 to 7	B+ to B-	128	4	114	3
8	CCC+ to C	42	1	54	2
Not rated	Not rated	34	1	29	1
Net foreign exposure		3 554	100	3 243	100

Rating categories are based on Standard & Poor's ratings.

10.24 Breakdown of assets and liabilities by currency (in CHF millions)

	CHF	EUR	USD	Other	Total
Cash and cash equivalents	8 002	38	2	2	8 044
Due from banks	248	198	368	200	1 013
Reverse repurchase agreements	90	234	175		499
Loans and advances to customers	3 163	520	1 125	18	4 826
Mortgage loans	25 403	4			25 407
Trading portfolio assets	186				186
Positive mark-to-market values of derivative financial instruments	247	-4	38	0	282
Other financial assets at fair value	284	175	134	60	653
Financial investments	3 099	654	0	0	3 753
Accrued income and prepaid expenses	83	8	1	0	91
Non-consolidated holdings	70		1		70
Tangible fixed assets	519	0			519
Intangible assets	12				12
Other assets	52	2	2	1	57
Positions carried as assets	41 459	1 827	1 848	282	45 415
Delivery claims arising from spot and forward transactions and options	14 994	8 792	13 449	2 216	39 452
Assets	31 / 12 / 17	56 453	10 619	2 498	84 867
	31 / 12 / 16	51 491	7 656	2 863	76 185
Due to banks	504	232	618	44	1 398
Repurchase agreements	50	831	341	128	1 350
Customer deposits	26 416	1 613	2 025	459	30 512
Negative mark-to-market values of derivative financial instruments	183	21	1	0	205
Other financial liabilities at fair value	485	171	152	4	812
Medium-term notes	15				15
Bonds and mortgage-backed bonds	7 258	93	38	3	7 392
Accrued expenses and deferred income	164	5	3	0	172
Other liabilities	60	11	14	2	87
Provisions	14	1	0	0	15
Reserves for general banking risks	701				701
Share capital	86				86
Capital reserve	121				121
Retained earnings	2 249				2 249
Currency translation reserve	-1				-1
Own shares	-19				-19
Minority interests in equity	0				0
Net profit	320				320
Positions carried as liabilities	38 606	2 978	3 191	640	45 415
Delivery commitments arising from spot and forward transactions and options	17 918	7 653	12 046	1 815	39 432
Total liabilities and shareholders' equity	31 / 12 / 17	56 524	10 630	2 456	84 847
	31 / 12 / 16	51 557	7 684	2 803	76 170
Net position by currency	31 / 12 / 17	-71	-11	60	20
	31 / 12 / 16	-67	-28	50	16

11. Notes to off-balance-sheet transactions

11.1 Contingent liabilities

Contingent receivables (in CHF millions)

	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Irrevocable and similar guarantees	1 247	1 098	149	14
Other guarantees	516	475	41	9
Contingent liabilities	1 763	1 573	190	12
Contingent receivables	0	0	0	0

11.2 Confirmed credits (in CHF millions)

	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Commitments arising from deferred payments	18	77	- 59	- 77

11.3 Fiduciary transactions (in CHF millions)

	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Fiduciary investments with third parties	320	310	10	3
Fiduciary loans	1	1	- 0	- 0
Fiduciary transactions	321	311	10	3

11.4 Assets under management (in CHF millions)

Breakdown	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Assets held by collective investment vehicles under own management	21 235	23 639	- 2 404	- 10
Assets under discretionary management agreements	15 057	14 184	873	6
Other assets under management	50 199	47 559	2 640	6
Total assets under management (incl. double-counted)	86 490	85 382	1 109	1
<i>of which double-counted</i>	<i>7 838</i>	<i>6 932</i>	<i>906</i>	<i>13</i>

Change	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Initial total assets under management (incl. double-counted)	85 382	87 972	- 2 591	- 3
Net fund inflows/outflows	2 256	2 349	- 93	- 4
Changes in prices, interest, dividends and exchange rates	4 159	1 641	2 518	153
Other changes ¹⁾	- 5 306	- 6 580	1 274	- 19
Final total assets under management (incl. double-counted)	86 490	85 382	1 109	1

¹⁾ Transfer of Swisscanto funds following the 2015 sale of BCV's stake in Swisscanto to ZKB

As BCV Group is not required to disclose these figures, they are provided voluntarily and only on a consolidated basis.

Definitions

All customer assets held or managed for investment purposes are included under "Assets under management." As defined in the new Swiss accounting rules for banks, assets under management mainly comprise customer deposits in the form of savings and investments and term accounts, together with fiduciary investments and all duly valued assets in custody accounts. Assets held for investment purposes by institutional investors, companies, and individual customers, along with investment fund assets, are included unless they are custody-only assets for which the Group provides only safekeeping and corporate-action services. Deposits for which additional services are provided (such as investment management, advice and fund administration) also come under "Assets under management."

Net new money

Net new money, which is determined in accordance with the same scope as assets under management, is the sum of inflows from new customers, outflows from departing customers, and movements in the assets of existing customers during the financial year. Changes in assets under management resulting from price fluctuations, exchange-rate movements, interest and dividend payments, and commissions and fees are not part of the net new money calculation. Nor does it include changes in assets under management resulting from the acquisition, disposal, or closure of companies or complete business lines.

12. Notes to the consolidated income statement

12.1 Net interest income before loan impairment charges/reversals (in CHF millions)

	2017	2016	Change absolute	Change as %
Banks and reverse repurchase agreements	-1.2	0.4	-1.6	-403
Customers	571.1	594.4	-23.4	-4
Interest and dividends on financial investments	34.7	40.3	-5.6	-14
Other interest income	6.5	4.2	2.4	57
Total interest income	611.1	639.3	-28.2	-4
Banks and repurchase agreements	5.4	5.7	-0.2	-4
Customers	-2.3	10.9	-13.2	-121
Medium-term notes and bonds	87.6	98.4	-10.8	-11
Other interest expense	22.5	41.7	-19.2	-46
Total interest expense	113.3	156.7	-43.4	-28
Net interest income before loan impairment charges/reversals	497.8	482.5	15.2	3

Negative interest paid by the Bank on its assets is deducted from interest and discount income. This negative interest totaled CHF 5.1m in 2017, against CHF 3.9m in 2016, and relates mainly to deposits held with the Swiss National Bank, interbank positions, and to a lesser extent funding transactions for trading positions.

Negative interest received by the Bank on its liabilities is deducted from interest expense. This negative interest totaled CHF 32.0m in 2017, against CHF 15.5m in 2016, and was earned on interbank positions, customer deposits, and transactions related to structured product issuance.

12.2 Fees and commissions on securities and investment transactions (in CHF millions)

	2017	2016	Change absolute	Change as %
Securities administration	40.8	42.1	-1.3	-3
Brokerage	36.5	41.4	-4.8	-12
Income from new issues	16.2	9.5	6.7	71
Management fees	48.8	44.4	4.4	10
Investment-fund operations	105.5	101.1	4.4	4
Other	2.4	3.0	-0.6	-19
Total	250.3	241.5	8.8	4

12.3 Fees and commissions on other services (in CHF millions)

	2017	2016	Change absolute	Change as %
Payment cards, ATMs, transfers, and checks	20.6	20.6	-0.0	-0
Administrative services for institutional clients, and statements	18.0	17.7	0.3	2
Account management fees	19.9	21.2	-1.3	-6
Document collection fees and bancassurance	7.7	9.4	-1.7	-18
Safe rentals, numbered accounts and mail holding services	5.6	6.4	-0.8	-12
Total	71.8	75.2	-3.5	-5

12.4 Net trading income and fair-value adjustments (in CHF millions)

	2017	2016	Change absolute	Change as %
Breakdown by business sector				
Retail Banking	17.7	18.6	-0.9	-5
Corporate Banking	9.8	9.8	0.0	0
Wealth Management	20.8	21.6	-0.8	-4
Trading	52.2	59.3	-7.2	-12
Corporate Center	33.4	29.9	3.5	12
Total	133.9	139.2	-5.4	-4
Trading income and fair-value adjustments				
Fixed-income instruments (including funds)	2.3	3.2	-0.9	-28
Equity securities (including funds)	20.7	20.6	0.1	1
Currencies and precious metals	117.6	122.0	-4.5	-4
Total trading income and fair-value adjustments	140.6	145.8	-5.2	-4
<i>of which fair-value adjustments</i>	20.5	20.3	0.2	1
<i>of which fair-value adjustments on assets</i>	144.2	47.3	97.0	205
<i>of which fair-value adjustments on liabilities</i>	-123.7	-26.9	96.8	359
Trading fee expense	-6.7	-6.5	0.2	2
Net trading income and fair-value adjustments	133.9	139.2	-5.4	-4

12.5 Personnel costs (in CHF millions)

	2017	2016	Change absolute	Change as %
Fixed and variable compensation	255.7	256.9	-1.2	-0
<i>of which charges related to share-based compensation and other variable compensation (including the portion paid in cash)</i>	36.3	34.6	1.6	5
Employee benefits	25.8	25.5	0.3	1
Contributions to staff pension funds	39.6	39.4	0.2	1
Other personnel expenses	15.9	16.2	-0.3	-2
Total	337.0	338.0	-0.9	-0

12.6 Other operating expenses (in CHF millions)

	2017	2016	Change absolute	Change as %
Premises	23.0	23.1	-0.1	-1
IT	75.2	74.4	0.8	1
Machinery, furniture, vehicles, etc.	3.6	3.8	-0.2	-6
Office supplies	1.2	1.3	-0.0	-3
Telecommunications and shipping	7.7	8.0	-0.3	-3
Marketing and communications, gifts and subscriptions	18.0	18.5	-0.6	-3
Financial information	13.7	13.6	0.2	1
Auditor fees	2.7	2.1	0.6	27
<i>of which for financial and prudential audits</i>	2.5	2.0	0.6	28
<i>of which for other services</i>	0.2	0.2	0.0	15
Other professional fees	4.1	4.4	-0.3	-8
Payment transactions	10.7	10.7	0.0	0
Issuing fees	1.8	1.4	0.4	26
Miscellaneous operating expenses	9.7	9.3	0.4	4
<i>of which charges for the guarantee by the Canton of Vaud¹⁾</i>	0.3	0.4	-0.0	-8
Total	171.4	170.7	0.7	0

¹⁾ Limited guarantee by the Canton of Vaud for deposits with the Caisse d'Épargne Cantonale Vaudoise, and managed by BCV

12.7 Depreciation and amortization of fixed assets and impairment on equity investments (in CHF millions)

	2017	2016	Change absolute	Change as %
Real estate	23.3	23.6	-0.3	-1
Computer programs	37.8	38.5	-0.8	-2
Other investments	5.3	6.4	-1.1	-17
Holdings	0.5	0.0	0.5	n/a
Goodwill	3.4	3.8	-0.3	-9
Total	70.4	72.4	-2.0	-3

12.8 Other provisions and losses (in CHF millions)

	2017	2016	Change absolute	Change as %
Miscellaneous provisions	0.1	1.3	-1.1	-90
Miscellaneous losses	1.1	1.4	-0.3	-20
Total	1.2	2.7	-1.4	-54

12.9 Extraordinary income (in CHF millions)

	2017	2016	Change absolute	Change as %
Disposals of equity holdings	0.8	5.0	-4.1	-83
Disposals of tangible fixed assets	1.1	1.2	-0.1	-5
Impairment reversals on fixed assets ¹⁾	12.9		12.9	n/a
Other extraordinary income	2.0	0.6	1.4	231
Total	16.8	6.7	10.1	150

¹⁾ The impairment charge recognized on a piece of real estate in 2002 and 2003 was fully reversed in 2017 following an improvement in the property market. This real estate was sold in 2018.

12.10 Taxes (in CHF millions)

	2017	2016	Change absolute	Change as %
Direct federal tax	26.1	24.9	1.2	5
Cantonal and municipal taxes	57.0	57.6	-0.6	-1
Deferred taxes	-0.1	0.9	-1.0	-109
Total	83.1	83.5	-0.4	-0
Weighted average tax rate, based on operating profit	22%	22%		

12.11 Breakdown of operating profit by Swiss and foreign origin (in CHF millions)

	2017		2016	
	Swiss	Foreign	Swiss	Foreign
Net interest income	477.4	0.2	477.7	0.1
Net fee and commission income	300.0	16.4	291.0	16.9
Net trading income	131.2	2.6	135.6	3.6
Other ordinary income	38.7	-0.0	42.1	0.0
Total income from ordinary banking operations	947.4	19.2	946.5	20.6
Personnel costs	336.2	0.8	337.3	0.6
Other operating expenses	169.9	1.5	169.3	1.4
Operating expenses	506.1	2.3	506.6	2.1
Depreciation and amortization of fixed assets and impairment on equity investments	70.4	0.0	72.4	0.0
Other provisions and losses	1.2		2.7	0.0
Operating profit	369.6	16.9	364.8	18.5

12.12 Earnings per share

	2017	2016
Net profit attributable to BCV Group shareholders (CHF millions)	320.2	309.6
Weighted average number of registered shares during the period (thousands)	8 606	8 606
Basic earnings per share (CHF)	37.21	35.97

There are no ongoing financial transactions that would dilute earnings per share.

13. Other information

13.1 Regulatory capital requirements (in CHF millions)

	31 / 12 / 17	31 / 12 / 16
Common Equity Tier 1 (CET1) capital¹	3 118	3 079
Instruments and reserves	3 192	3 155
Regulatory adjustments	-74	-76
Additional Tier 1 (AT1) capital	0	0
Instruments	0	0
Regulatory adjustments	0	0
Tier 2 (T2) capital	22	22
Compulsory reserves in equities and general provisions	22	22
Regulatory adjustments	0	0
Total eligible capital	3 140	3 101
Risk-weighted assets		
Credit risk	15 407	14 754
Non-counterparty-related assets	680	647
Market risk	324	413
Operational risk	1 789	1 788
BIS required capital	18 199	17 602
BIS ratios¹		
CET1 ratio	17.1%	17.5%
T1 ratio	17.1%	17.5%
Total capital ratio	17.3%	17.6%
Leverage ratio	6.5%	6.6%
Liquidity ratios		
Liquidity Coverage Ratio (LCR)	121%	113%
Net Stable Funding Ratio (NSFR) ²	126%	121%

¹⁾ Ratios have been recalculated without subtracting the countercyclical buffer from regulatory capital, in accordance with FINMA Circular 2016/1 "Disclosure – banks"

²⁾ Ratio provided on a voluntary basis and calculated according to FINMA's most recent directives

In December 2008, the Bank obtained approval from FINMA to use the Basel Foundation Internal Ratings-Based approach to determine regulatory capital requirements for credit risk. It began applying this approach in 2009.

In accordance with Basel III Pillar 3 disclosure requirements, the Bank publishes a report containing information on its capital adequacy, risk-assessment methods, and the level of risk taken. The report also gives information on the Group and parent-company leverage and liquidity ratios.

The report is available in the Investor Relations section of the BCV website.

13.2 Business sector information

13.2.1 Methodology

Results by business sector are presented at BCV Group level and are broken down according to the Bank's activities.

Retail Banking covers operations with retail customers who have up to CHF 250,000 in assets or a mortgage loan worth up to CHF 1.2m.

Corporate Banking handles SMEs (including micro-businesses), large corporations, public-sector enterprises and trade finance.

Wealth Management addresses the needs of private and institutional clients. This sector also includes custody activities and the subsidiaries Piguet Galland & Cie SA, G erifonds SA and GEP SA.

Trading encompasses financial market transactions (forex, equities, fixed-income instruments, metals, options, derivatives, and structured products) conducted by the Bank for its own account and on behalf of customers, as well as custody activities.

The Corporate Center comprises the Board of Directors, executive management, the Human Resources Department, the Strategy & Organization Department, the Corporate Communications Department, the Finance & Risks Division (Risk Management, Financial Accounting, Controlling, ALM & Financial Management, Compliance, Legal, and Tax and Wealth Planning), the Credit Management Division (Credit Analysis, Credit Analysis Support and Credit Recovery Management), and the Business Support Division (IT Development, IT Systems Management, Facility Management & General Services, Back Office, and Security).

As a general rule, revenue is allocated to the sector to which the client or his/her advisor is attached.

For sectors dealing with clients, "Net interest income before loan impairment charges/reversals" corresponds to the gross commercial margin, i.e., the difference between the customer rate and the money-market rate, taking into account the nature and duration of the transaction (Funds Transfer Pricing, or FTP, method).

In an environment marked by continued negative interest rates, commercial margins on accounts in Swiss francs are calculated with a minimum of zero for our retail, private banking, and corporate clients (except Large Corporates and Trade Finance).

For the Corporate Center, net interest income before loan impairment charges/reversals comprises the net gain/loss on asset and liability management, on interbank activities, and on fixed assets as well as gross interest on impaired loans handled by the Credit Recovery Management Department.

Loan losses correspond to expected losses for sectors dealing with clients. The difference between new provisioning needs and expected loan losses, together with loan impairment charges/reversals, changes in existing provisions, and recoveries on repaid loans, is booked to the Corporate Center.

Income from customer-driven forex and structured-products trading is allocated to Trading, which reallocates part of this income to the business sector to which the client is attached. Income from securities trading is broken down by portfolio and allocated to the sector to which the portfolio manager is attached.

"Other income" is allocated account by account, depending on the nature of the item.

Operating expenses and depreciation and amortization are allocated in two stages. The first of these involves charging direct expenses to the sector that uses the resources (personnel, premises, IT, etc.). In the second stage, indirect expenses are allocated on the basis of services provided among sectors.

Taxes are calculated per sector according to the tax rates in effect.

Balance-sheet and off-balance-sheet volumes reflect client-related business. In general, following the same rule used for income, business volumes are allocated to the sector to which the client or his/her advisor is attached.

The definition of assets under management can be found in note 11.4 to the consolidated financial statements.

Shareholders' equity is allocated to the various types of business within each sector at 13.7%. Surplus equity is booked to the Corporate Center.

	Retail Banking		Corporate Banking	
	2017	2016	2017	2016
13.2.2 Customer business volumes by sector (in CHF millions)				
Loans and advances to customers	84	114	4 037	3 967
Mortgage loans	7 861	7 733	9 230	9 115
Total customer loans	7 945	7 847	13 267	13 082
Customer deposits	8 312	7 998	9 042	8 697
Off-balance-sheet commitments	62	56	3 095	2 663
Assets under management (including double-counted)	9 781	9 274	12 278	11 506

13.2.3 Results by business sector

 (in CHF millions)

Net interest income before loan impairment charges/reversals	108.1	102.3	221.2	206.0
Loan impairment charges/reversals ¹	- 3.5	- 3.2	- 29.5	- 28.5
Net interest income after loan impairment charges/reversals	104.6	99.1	191.7	177.5
Net fee and commission income	46.5	50.4	52.8	49.7
Net trading income	17.7	18.6	9.8	9.8
Other income	1.3	3.3	4.5	4.7
Revenues	170.1	171.4	258.8	241.7
Personnel costs	- 44.8	- 46.1	- 31.2	- 31.6
Operating expenses	- 45.0	- 44.1	- 12.0	- 12.1
Depreciation, amortization, and write-offs	- 13.8	- 13.5	- 1.9	- 2.2
Interdivisional billing	- 38.2	- 41.0	- 59.0	- 54.2
Other provisions and losses	- 0.9	- 0.7	- 6.7	- 6.3
Operating profit	27.5	26.1	148.1	135.4
Extraordinary income and expenses	0.0	0.0	0.0	0.0
Taxes ² and minority interests	- 5.8	- 5.7	- 31.2	- 29.8
Net profit	21.7	20.3	116.9	105.6

13.2.4 Indicators

Average shareholders' equity (in CHF millions) ³	250	223	1 331	1 273
ROE (%)	8.7	9.1	8.8	8.3
Cost/income ratio (%) ⁴	81.6	82.9	36.1	37.0
Average headcount	358	372	184	186

2016 figures were adjusted to facilitate like-for-like comparison.

- ¹ Expected loan losses are allocated to the business sectors. The difference between new provisioning needs and expected loan losses is booked to the Corporate Center
- ² Taxes are calculated per business sector according to the tax rates in effect
- ³ Equity is allocated to the business sectors at 13.7%; surplus equity is booked to the Corporate Center
- ⁴ Costs used for calculating the cost/income ratio per sector comprise: personnel costs; operating expenses; depreciation, amortization, and write-offs; and interdivisional billing. Income comprises income before loan impairment charges

Wealth Management		Trading		Corporate Center		BCV Group	
2017	2016	2017	2016	2017	2016	2017	2016
625	636	0	0	79	94	4826	4812
7526	7432	0	0	790	757	25407	25037
8151	8068	0	0	869	851	30233	29849
12770	12186	2	3	386	361	30512	29245
60	55	11	11	212	304	3440	3089
64082	64246	0	0	348	357	86490	85382
116.3	104.2	2.1	2.4	50.1	67.6	497.8	482.5
-43	-3.7	0.0	0.0	17.2	30.7	-20.2	-4.7
112.0	100.5	2.1	2.4	67.3	98.3	477.6	477.8
217.8	205.3	-1.1	-0.7	0.3	3.2	316.4	307.9
20.8	21.6	52.2	59.3	33.4	29.9	133.9	139.2
2.4	2.8	0.0	0.0	30.6	31.3	38.7	42.1
353.0	330.1	53.1	61.1	131.5	162.7	966.6	967.1
-102.4	-103.9	-14.2	-14.2	-144.5	-142.2	-337.0	-338.0
-38.0	-37.4	-10.1	-9.7	-66.3	-67.4	-171.4	-170.7
-13.6	-14.6	-1.5	-1.6	-39.7	-40.5	-70.4	-72.4
-68.6	-67.8	-3.7	-3.3	169.3	166.2	0.0	0.0
-0.8	-0.4	-1.5	-1.4	8.7	6.1	-1.2	-2.7
129.6	106.0	22.3	30.9	59.0	85.0	386.5	383.4
0.1	0.0	0.0	0.0	16.7	9.7	16.8	9.7
-28.2	-24.7	-4.7	-6.8	-13.2	-16.5	-83.1	-83.5
101.5	81.3	17.6	24.1	62.5	78.2	320.2	309.6
347	326	97	103	1366	1434	3391	3359
29.3	25.0	18.1	23.4	0	0	9.4	9.1
63.3	65.9	55.3	47.1	0	0	58.3	59.4
506	519	58	57	812	811	1918	1945

13.3 Consolidated income statement – 5-year overview (in CHF millions)

	2013	2014	2015	2016	2017
Interest and discount income	672.7	652.5	628.7	599.0	576.4
Interest and dividend income from financial investments	56.3	54.2	47.4	40.3	34.7
Interest expense	-227.0	-202.4	-186.9	-156.7	-113.3
Net interest income before loan impairment charges/reversals	502.0	504.3	489.2	482.5	497.8
Loan impairment charges/reversals	8.2	16.3	0.9	-4.7	-20.2
Net interest income after loan impairment charges/reversals (NII)	510.2	520.6	490.1	477.8	477.6
Fees and commissions on securities and investment transactions	285.4	280.0	263.3	241.5	250.3
Fees and commissions on lending operations	44.5	44.9	42.7	42.2	44.6
Fees and commissions on other services	76.7	82.5	80.9	75.2	71.8
Fee and commission expense	-65.3	-64.0	-54.6	-51.0	-50.3
Net fee and commission income	341.3	343.4	332.3	307.9	316.4
Net trading income and fair-value adjustments	112.8	106.4	150.5	139.2	133.9
Gains/losses on disposals of financial investments	1.8	3.2	11.4	6.4	2.5
Income from equity investments	9.6	4.3	15.3	5.5	6.2
<i>of which other non-consolidated holdings</i>	9.6	4.3	15.3	5.5	6.2
Real-estate income	11.5	11.0	10.7	11.0	10.9
Miscellaneous ordinary income	15.2	21.9	22.1	21.6	20.0
Miscellaneous ordinary expenses	-3.1	-0.8	-6.8	-2.3	-0.9
Other ordinary income	35.0	39.6	52.7	42.1	38.7
Total income from ordinary banking operations	999.3	1010.0	1025.6	967.1	966.6
Personnel costs	-337.3	-339.0	-337.2	-338.0	-337.0
Other operating expenses	-182.6	-178.9	-177.0	-170.7	-171.4
Operating expenses	-519.9	-517.9	-514.2	-508.7	-508.4
Depreciation and amortization of fixed assets and impairment on equity investments	-85.7	-79.7	-75.6	-72.4	-70.4
Other provisions and losses	-40.8	-33.8	-37.1	-2.7	-1.2
Operating profit	352.9	378.6	398.7	383.4	386.5
Extraordinary income	11.2	2.6	28.6	6.7	16.8
Extraordinary expenses	-0.1	0.0	0.0	-0.0	-0.0
Change in reserves for general banking risks				3.0	0.0
Taxes	-83.9	-85.1	-91.0	-83.5	-83.1
Net profit	280.1	296.1	336.3	309.6	320.3
Minority interests	0.0	0.0	0.0	-0.0	-0.0
Net profit attributable to BCV Group shareholders	280.1	296.1	336.3	309.6	320.2

As of the 2015 financial year, the financial statements are presented in accordance with the new Swiss accounting rules for banks; the figures for the previous years have been adjusted to facilitate like-for-like comparison.

13.4 Consolidated balance sheet – 5-year overview (in CHF millions)

	31 / 12 / 13	31 / 12 / 14	31 / 12 / 15	31 / 12 / 16	31 / 12 / 17
Cash and cash equivalents	4 669	4 960	6 861	7 496	8 044
Due from banks	1 073	1 482	1 810	1 373	1 013
Reverse repurchase agreements	536	415	280	306	499
Loans and advances to customers	5 372	5 675	4 935	4 812	4 826
Mortgage loans	23 357	24 045	24 522	25 037	25 407
Trading portfolio assets	360	194	155	153	186
Positive mark-to-market values of derivative financial instruments	239	433	343	281	282
Other financial assets at fair value	416	485	581	630	653
Financial investments	3 146	3 259	3 140	3 234	3 753
Accrued income and prepaid expenses	195	117	106	107	91
Non-consolidated holdings	50	54	48	70	70
Tangible fixed assets	602	577	558	517	519
Intangible assets	32	27	23	16	12
Other assets	130	96	56	54	57
Assets	40 177	41 819	43 418	44 085	45 415
Due to banks	1 103	1 156	1 224	1 070	1 398
Repurchase agreements	860	960	1 738	1 791	1 350
Customer deposits	27 557	28 532	28 877	29 245	30 512
Negative mark-to-market values of derivative financial instruments	303	446	331	244	205
Other financial liabilities at fair value	537	564	666	771	812
Medium-term notes	81	57	40	21	15
Bonds and mortgage-backed bonds	6 064	6 439	6 873	7 267	7 392
Accrued expenses and deferred income	225	217	219	184	172
Other liabilities	74	44	35	56	87
Provisions	51	63	18	16	15
Liabilities	36 855	38 478	40 021	40 666	41 958
Reserves for general banking risks	704	704	704	701	701
Share capital	86	86	86	86	86
Capital reserve	192	106	292	207	121
Retained earnings	2 072	2 163	1 999	2 137	2 249
Currency translation reserve	- 1	- 1	- 2	- 2	- 1
Own shares	- 11	- 13	- 18	- 19	- 19
Minority interests in equity	0	0	0	0	0
Net profit	280	296	336	310	320
Shareholders' equity	3 322	3 341	3 397	3 420	3 457
Total liabilities and shareholders' equity	40 177	41 819	43 418	44 085	45 415

As of the 2015 financial year, the financial statements are presented in accordance with the new Swiss accounting rules for banks; the figures for the previous years have been adjusted to facilitate like-for-like comparison.



Statutory Auditor's Report

To the General Meeting of Banque Cantonale Vaudoise, Lausanne

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banque Cantonale Vaudoise and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 107 to 148) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Credit risk identification methods and valuation of the related loan impairment charges

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Credit risk identification methods and valuation of the related loan impairment charges

Key Audit Matter

Lending operations are one of the bank's main activities and represent approximately two thirds of its consolidated balance sheet as at 31 December 2017. The valuation of a counterparty's default risk relies largely on the use of rating methods developed by the bank. The valuation of the related loan impairment charges relies on an analysis method that takes into account various elements such as market factors, the client's estimated willingness to repay and financial capacity or the estimation of the collateral's value.

The identification of risks and the valuation of the related loan impairment charges thus rely on models and analyses that imply an element of judgement by the Board of Directors and management. Exposures that create greater uncertainty are typically those that result from unsecured loans or those that are subject to a collateral's loss of value.

For further information on the credit risk identification methods and the valuation of the related loan impairment charges, refer to the following notes to the consolidated financial statements of Banque Cantonale Vaudoise as at 31 December 2017:

- Note 7.2 "Credit risk" (p. 119 to 121 of the Annual Report)
- Note 10.2 "Risk mitigants for loans and off-balance-sheet transactions, impaired loans" (p. 125 of the Annual Report)

Our response

Our procedures consisted in particular in assessing and testing the key controls related to the granting, recording and monitoring of loans as well as the methodology used for the identification of default risk and the valuation of the loan impairment charges.

For a sample of non-impaired exposures, we assessed the debtors' capacity to fulfil their obligations. We compared our findings with the assessment of the default risk performed by the bank using its counterparty rating process.

Regarding receivables that are considered as impaired or as presenting latent risks, our procedures consisted, among others, of assessing the evolution of the relation between the loan impairment and the concerned receivables as a whole. For a sample of individual receivables that are considered as impaired or as presenting latent risks, we assessed the debtors' financial standing as well as the valuation of collaterals and we compared our findings with the assumptions and factors taken into account by the bank when calculating the required loan impairment charges.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG SA

A handwritten signature in blue ink, appearing to read 'Olivier Gauderon', written over a light blue circular stamp.

Olivier Gauderon
Licensed Audit Expert
Auditor in Charge

A handwritten signature in blue ink, appearing to read 'Philippe Ruedin', written over a light blue circular stamp.

Philippe Ruedin
Licensed Audit Expert

Geneva, 9 March 2018

KPMG SA, Rue de Lyon 111, CH-1203 Geneva

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Financial Statements

Parent Company Financial Statements

1. Balance sheet (in CHF millions)

	Notes ¹	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Cash and cash equivalents		7 835	7 302	533	7
Due from banks		1 032	1 360	- 328	- 24
Reverse repurchase agreements	5.1	499	306	194	63
Loans and advances to customers	5.2	4 654	4 645	9	0
Mortgage loans	5.2	24 889	24 548	342	1
Trading portfolio assets	5.3	186	153	33	21
Positive mark-to-market values of derivative financial instruments	5.4	286	283	3	1
Other financial assets at fair value	5.3	653	630	23	4
Financial investments	5.5	3 731	3 207	523	16
Accrued income and prepaid expenses		87	103	- 16	- 15
Holdings		177	175	1	1
Tangible fixed assets		484	479	5	1
Other assets	5.6	52	48	4	7
Assets	5.18	44 565	43 240	1 326	3
Total subordinated assets		0	0	0	0
<i>of which subject to mandatory conversion and/or conditional write-off</i>		0	0	0	0
Due to banks		1 430	1 127	303	27
Repurchase agreements	5.1	1 350	1 791	- 442	- 25
Customer deposits	5.19	29 684	28 403	1 282	5
Negative mark-to-market values of derivative financial instruments	5.4	202	240	- 38	- 16
Other financial liabilities at fair value	5.3/5.10	812	771	41	5
Medium-term notes		15	21	- 7	- 31
Bonds and mortgage-backed bonds		7 392	7 267	125	2
Accrued expenses and deferred income		160	172	- 12	- 7
Other liabilities	5.6	91	63	28	44
Provisions	5.11	9	10	- 1	- 12
Liabilities		41 144	39 865	1 279	3
Reserves for general banking risks	5.11	701	701	0	0
Share capital	5.12/5.15/5.16	86	86	0	0
Regulatory capital reserve		93	179	- 86	- 48
<i>of which tax-exempt paid-in capital</i>		93	179	- 86	- 48
Regulatory retained earnings		86	86	0	0
Optional retained earnings		2 145	2 027	117	6
Own shares		- 19	- 19	0	- 2
Profit for the year		329	315	14	4
Shareholders' equity		3 421	3 375	46	1
Total liabilities and shareholders' equity		44 565	43 240	1 326	3
Total subordinated liabilities		0	0	0	0
<i>of which subject to mandatory conversion and/or conditional write-off</i>		0	0	0	0

¹⁾ The notes are on pages 165-180

Off-balance-sheet transactions (in CHF millions)	Notes ¹	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Contingent liabilities	5.2	1766	1575	191	12
Irrevocable commitments	5.2	1475	1251	224	18
Commitments relating to calls on shares and other equity securities	5.2	177	178	- 1	-0
Confirmed credits	5.2	18	77	-59	-77

¹⁾ The notes are on page 165

2. Income statement (in CHF millions)

	Notes ¹	2017	2016	Change absolute	Change as %
Interest and discount income		567.7	590.4	-22.7	-4
Interest and dividend income from financial investments		34.6	40.2	-5.6	-14
Interest expense		-111.1	-154.5	-43.4	-28
Net interest income before loan impairment charges/reversals		491.2	476.0	15.2	3
Loan impairment charges/reversals	7.1	-19.2	-4.3	15.0	349
Net interest income after loan impairment charges/reversals (NII)		471.9	471.7	0.2	0
Fees and commissions on securities and investment transactions		165.1	162.6	2.5	2
Fees and commissions on lending operations		44.5	42.1	2.4	6
Fees and commissions on other services		68.2	70.7	-2.5	-3
Fee and commission expense		-21.7	-24.5	-2.8	-11
Net fee and commission income		256.1	250.9	5.2	2
Net trading income and fair-value adjustments	7.2	122.5	127.6	-5.1	-4
Gains/losses on disposals of financial investments		2.3	5.9	-3.6	-61
Income from equity investments		23.1	18.9	4.2	22
Real-estate income		10.5	10.6	-0.1	-1
Miscellaneous ordinary income		20.5	22.0	-1.5	-7
Miscellaneous ordinary expenses		-0.9	-2.3	-1.3	-58
Other ordinary income		55.5	55.1	0.3	1
Total income from ordinary banking operations		905.9	905.3	0.6	0
Personnel costs	7.3	-295.6	-295.8	-0.2	-0
Other operating expenses	7.4	-154.9	-154.4	0.5	0
Operating expenses		-450.5	-450.2	0.4	0
Depreciation and amortization of fixed assets and impairment on equity investments		-62.2	-63.5	-1.3	-2
Other provisions and losses	7.5	-0.8	-2.2	-1.4	-64
Operating profit		392.3	389.3	3.0	1
Extraordinary income	7.6	16.7	6.1	10.5	172
Extraordinary expenses		-0.0	-0.0	-0.0	0
Taxes	7.7	-79.7	-80.3	-0.6	-1
Profit for the year		329.3	315.2	14.1	4
Appropriations	8.1				
Profit for the year		329.3	315.2		
Profit shown on the balance sheet		329.3	315.2		
Appropriation of profit					
- Allocation to optional retained earnings		131.3	117.2		
- Allocation to regulatory retained earnings		0.0	0.0		
- Distribution from distributable profit		197.9	197.9		
Other distributions	8.2				
Distribution drawn from paid-in reserves		86.1	86.1		

¹⁾ The notes are on pages 182-184

3. Statement of changes in equity (in CHF millions)

	Share capital	Capital reserve	Regulatory retained earnings	Reserves for general banking risks	Optional retained earnings	Own shares	Profit/loss for the year	Total equity
Status at 1 January 2015	86	351	84	701	1 735	- 13	319	3 263
Allocation to other reserves					130		- 130	0
2014 dividend							- 189	- 189
Distribution out of paid-in reserves		- 86						- 86
Purchases of own shares						- 45		- 45
Disposals of own shares						40		40
Gain on disposals of own shares and dividends		0	1					1
Profit/loss for the year							361	361
Status at 31 December 2015	86	265	85	701	1 865	- 18	361	3 345
Allocation to other reserves					163		- 163	0
2015 dividend							- 198	- 198
Distribution out of paid-in reserves		- 86						- 86
Purchases of own shares						- 37		- 37
Disposals of own shares						36		36
Gain on disposals of own shares and dividends		0	1					1
Profit/loss for the year							315	315
Status at 31 December 2016	86	179	86	701	2 027	- 19	315	3 375
Allocation to other reserves					117		- 117	0
2016 dividend							- 198	- 198
Distribution out of paid-in reserves		- 86						- 86
Purchases of own shares						- 28		- 28
Disposals of own shares						29		29
Gain on disposals of own shares and dividends		0	0					0
Profit/loss for the year							329	329
Status at 31 December 2017	86	93	86	701	2 145	- 19	329	3 421

4. Parent company name and accounting principles

4.1 Company name, legal status, and head office

Banque Cantonale Vaudoise (BCV) was founded on 19 December 1845 by the Vaud Cantonal Parliament as a *société anonyme de droit public* (i.e., a corporation organized under public law). Its legal status is defined in the Cantonal Act Governing the Organization of Banque Cantonale Vaudoise (LBCV) of 20 June 1995, and its head office is in Lausanne.

4.2 Accounting principles for the parent company financial statements

BCV's financial statements have been prepared in accordance with the Swiss Federal Act of 8 November 1934 on Banks and Savings Institutions, the corresponding Ordinance of 30 April 2014 and the Swiss Accounting Rules for Banks, Securities Dealers, Financial Groups and Conglomerates of 27 March 2014 (FINMA Circular 2015/1). The financial statements give a true and fair view of the Bank's financial position that would enable a third party to form an accurate opinion of the Bank's financial situation.

4.3 Accounting and valuation principles

The valuation principles used to draw up the parent company financial statements are the same as those used for the consolidated financial statements, with the exception of the following items:

4.3.1 Holdings

This line item comprises shares and other equity securities held as long-term investments. They are carried at cost less any impairment.

4.3.2 Own shares

Dividend payments on own shares and gains and losses on own-share disposals are allocated directly to regulatory retained earnings, while for the consolidated financial statements they are allocated directly to the capital reserve.

4.4 Changes to accounting principles

No changes were made to the accounting principles in 2017.

4.5 Risk-assessment and risk-management principles

Risk-assessment and risk-management principles for the parent company are the same as those for the Group; they are detailed in note 7 to the consolidated financial statements.

4.6 Use of hedge accounting

Information on the use of hedge accounting by the parent company is the same as for the Group; it is provided in note 8 to the consolidated financial statements.

4.7 Events taking place after the closing date

To the parent company's knowledge, there was no event liable to have a material influence on the financial statements as of 8 March 2018, when the writing of this annual report was completed.

5. Notes to the balance sheet

5.1 Repurchase and reverse repurchase agreements (in CHF millions)

	31 / 12 / 17	31 / 12 / 16
Book value of claims arising from cash collateral pledged in connection with securities borrowing or reverse repurchase agreements ¹⁾	499	306
Book value of liabilities arising from cash collateral received in connection with securities lending or repurchase agreements ¹⁾	1 350	1 791
Book value of securities held for own account, lent or transferred as collateral in connection with securities borrowing or repurchase agreements	1 298	1 653
<i>of which those that can be sold or repledged without restriction</i>	1 298	1 653
Fair value of securities received as collateral in connection with securities lending and those received in connection with securities borrowing and under reverse repurchase agreements, which can be sold or repledged without restriction	522	339
<i>of which securities repledged as collateral</i>	0	0
<i>of which sold securities</i>	0	0

¹⁾ Before netting agreements

5.2 Risk mitigants for loans and off-balance-sheet transactions

Impaired loans (in CHF millions)

		Type of risk mitigant			Total
		Mortgage	Other	Unsecured	
Loans and advances to customers		449	1 390	2 906	4 745
Mortgages		24 896			24 896
<i>Residential real estate</i>		20 906			20 906
<i>Office and business premises</i>		2 638			2 638
<i>Commercial and industrial property</i>		1 335			1 335
<i>Other</i>		16			16
Loans (before impairment charges/reversals)	31 / 12 / 17	25 345	1 390	2 906	29 641
	31 / 12 / 16	25 000	1 248	3 024	29 273
Loans (after impairment charges/reversals)	31 / 12 / 17	25 338	1 390	2 815	29 543
	31 / 12 / 16	24 992	1 248	2 953	29 193
Contingent liabilities		11	467	1 288	1 766
Irrevocable commitments		487	22	966	1 475
Commitments relating to calls on shares and other equity securities				177	177
Confirmed credits				18	18
Off-balance-sheet transactions	31 / 12 / 17	498	489	2 449	3 436
	31 / 12 / 16	275	440	2 365	3 080

		Gross receivables	Realization value of risk mitigants	Net receivables	Individual impairment charge/reversal
Impaired loans	31 / 12 / 17	213	- 99	113	98
	31 / 12 / 16	206	- 111	95	76
Change (absolute)		6	- 12	18	21
Change (as %)		3	- 11	19	28

5.3 Trading portfolio assets and liabilities

Other financial assets and liabilities at fair value (in CHF millions)

Assets	31 / 12 / 17	31 / 12 / 16
Debt securities	88	40
<i>of which listed on a recognized stock exchange</i>	88	40
Equity securities	0	1
Commodities and precious metals	98	112
Trading portfolio assets	186	153
Debt securities	15	126
Structured products	0	0
Other	639	504
Other financial assets at fair value	653	630
Total	839	783
<i>of which determined using a valuation model</i>	0	0
<i>of which securities eligible for repurchase agreements in accordance with liquidity regulations</i>	74	36

Liabilities	31 / 12 / 17	31 / 12 / 16
Debt securities	0	0
Structured products	812	771
Other financial liabilities at fair value	812	771
<i>of which determined using a valuation model</i>	56	69

5.4 Derivative financial instruments (in CHF millions)

	Trading instruments			Hedging instruments			
	Positive mark-to-market value	Negative mark-to-market value	Value of underlying asset	Positive mark-to-market value	Negative mark-to-market value	Value of underlying asset	
Swaps	40	49	1 823	195	126	6 120	
Futures			137				
Interest-rate instruments	40	49	1 960	195	126	6 120	
Forward contracts and swaps	303	319	36 990				
Options (OTC)	53	15	3 166				
Foreign currencies and precious metals	356	334	40 156	0	0	0	
Futures			26				
Options (OTC)	27	26	231				
Equity securities / indices	27	26	257	0	0	0	
Total	31 / 12 / 17	424	409	42 373	195	126	6 120
<i>of which determined using a valuation model</i>		81	41	–	–	–	–
	31 / 12 / 16	458	454	41 025	230	191	6 750
<i>of which determined using a valuation model</i>		128	98	–	–	–	–
Breakdown				Positive mark-to-market value	Negative mark-to-market value	Value of underlying asset	
Trading instruments				424	409	42 373	
Hedging instruments				195	126	6 120	
Total before netting agreements	31 / 12 / 17			618	535	48 493	
	31 / 12 / 16			688	646	47 775	
Total after netting agreements	31 / 12 / 17			286	202	48 493	
	31 / 12 / 16			283	240	47 775	
Change		absolute		3	– 38	719	
		as %		1	– 16	2	

Breakdown by counterparty

	Central clearing houses	Banks and securities dealers	Other clients
Positive mark-to-market value (after netting agreements)	3	207	76

5.5 Financial investments (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Book value	Fair value	Book value	Fair value
Debt securities	3 652	3 772	3 161	3 311
<i>of which securities intended to be held until maturity</i>	3 652	3 772	3 161	3 311
<i>of which securities available for sale</i>	0	0	0	0
Equity securities	28	76	26	74
<i>of which significant holdings (minimum of 10% of capital or voting rights)</i>	6	6	4	4
Available-for-sale real estate	52	54	21	22
Financial investments	3 731	3 902	3 207	3 408
<i>including securities eligible for repurchase agreements in accordance with liquidity regulations</i>	3 641	–	3 144	–

Counterparty breakdown by rating

	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Not rated	Total
Book value of debt securities	3 460					192	3 652

The rating categories are based on Standard & Poor's ratings; they are used for the specific instruments to which the Bank has subscribed. If an instrument is not rated by Standard & Poor's, then a rating from another agency is used. Where there is no specific rating for a given instrument, the issuer's long-term rating is used, with the same order of rating agencies.

The Bank's unrated positions (that is, where neither the instrument nor the issuer has a rating) are in investment-grade debt securities issued by Swiss public-sector entities or by Switzerland's housing-construction bond issuer (EGW/CCL).

5.6 Other assets and liabilities (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Other assets	Other liabilities	Other assets	Other liabilities
Offset accounts	0	68	0	46
Indirect taxes	21	8	21	8
Coupons/coupons and securities due	5	5	4	1
Settlement accounts	5	3	13	2
Miscellaneous assets and liabilities	21	8	11	6
Other assets and liabilities	52	91	48	63

5.7 Assets pledged or assigned as collateral for own liabilities, and assets with reservation of title (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Amount or book value of pledge	Real liability	Amount or book value of pledge	Real liability
Assets pledged or assigned to the Swiss National Bank	182	0	181	0
Mortgages pledged or assigned to the Central Mortgage-Bond Institution of Swiss Cantonal Banks	7 278	5 561	7 354	5 612
Other	290	290	277	277
Total assets pledged or assigned	7 749	5 851	7 812	5 889
Assets with reservation of title	0	0	0	0

5.8 Commitments relating to own occupational pension funds

BCV shares held by own occupational pension funds (in CHF millions)

	31 / 12 / 17	31 / 12 / 16
Customer deposits	184	151

BCV's own occupational pension funds held no BCV shares at 31 December 2017.

5.9 Economic situation of own occupational pension funds (in CHF millions)

There were no employer contribution reserves at end-2017 or end-2016.

Economic benefit/liability and pension expenses	Surplus / deficit	Economic benefit/liability			Contributions adjusted for the period 2017	Pension expenses included in "Personnel costs"	
		31 / 12 / 17	31 / 12 / 16	Change		2017	2016
Employer-financed pension funds: "Fonds de prévoyance en faveur du personnel de la BCV" ¹⁾	47.4	0	0	0	0.0	0.0	
Pension funds with no surplus or defi- cit: "Caisse de pensions de la BCV"		0	0	0	33.5	33.2	
Pension funds with surpluses: "Fondation de prévoyance complé- mentaire en faveur de l'encadrement supérieur de la BCV"	0.8	0	0	0	1.1	1.2	
Total	48.2	0	0	0	0	34.4	

¹⁾ Since the intention is not to apply the surpluses to reduce or refund the employer's contributions, or for the employer to use them for any economic purpose other than regulatory benefits, there is no identifiable economic benefit to be recognized on the balance sheet

The surplus or deficit of a pension fund is based on its unaudited interim accounts at 30 September 2017.

Pension funds

BCV Group employees are members of the "Caisse de pensions de la Banque Cantonale Vaudoise (CP BCV)." Its purpose is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension-fund regulations. It is a provider of the compulsory insurance introduced under the Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (LPP), and provides coverage in excess of the minimum LPP requirements.

Senior executives insured with the CP BCV are also members of the "Fondation de prévoyance complémentaire de la Banque Cantonale Vaudoise," the purpose of which is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension-fund regulations.

The "Fonds de prévoyance en faveur du personnel de la BCV" is an employer-operated fund that assists BCV employees in dealing with the economic consequences of old age, disability, illness and early retirement.

5.10 Issued structured products (in CHF millions)

Underlying risk of embedded derivative	Carrying value				Total	
	Single treatment		Separate treatment			
	Recognized in trading portfolio liabilities	Recognized in other financial liabilities at fair value	Value of the host instrument	Value of the derivative		
Interest-rate instruments	–	9	0	0	9	
Equity securities	–	752	836	– 14	1574	
Foreign currencies	–	51	11	0	62	
Commodities and precious metals	–	0	0	0	0	
Total	31 / 12 / 17	– 812	847	– 14	1645	
	31 / 12 / 16	–	771	966	– 46	1691

All structured products issued by the Bank have a debenture component.

Single accounting treatment

Structured products without an interest rate component, i.e., participation structured products (representing a fraction of an equity basket) and yield-enhancement structured products, issued by the Bank are each treated as a single position. They are recognized under “Other financial liabilities at fair value,” and their fair value is based on a quoted market price or a valuation model. Subsequent revaluations are recognized under “Net trading income and fair-value adjustments.”

Separate accounting treatment

Yield-enhancement, participation, and capital-protection structured products issued by the Bank and containing an interest rate component are each treated as two separate positions.

For these structured products, the host instrument and the embedded derivative(s) are treated separately. The host instrument is recorded under “Bonds” at nominal value as a debt issued by the Bank. Embedded derivatives are carried as either positive or negative mark-to-market values. Subsequent variations are recognized under “Net trading income and fair-value adjustments.”

Interest accrued in the interest-rate component is recorded under “Interest expense” using the accrual method.

5.11 Provisions

Reserves for general banking risks (in CHF millions)

	Status at year-end	Used as allocated	Changes in scope of consolidation	Currency translation differences	Recoveries, overdue interest	New provisions charged to income statement	Releases credited to income statement	Status at year-end
	2016							2017
Provisions for credit risk	1						-0	1
Other provisions	9	-1			0	1	-0	8
Total provisions	10	-1	0	0	0	1	-1	9
Reserves for general banking risks¹⁾	701							701
Provisions for credit risk and country risk	80	-10	0	0	9	38	-19	98
<i>of which provisions for impaired loans</i>	76	-10			9	38	-16	98
<i>of which provisions for latent risks</i>	4						-3	0

¹⁾ Reserves for general banking risks are taxable

5.12 Share capital (in CHF millions)

	2017		2016	
	Number of shares (in units)	Total par value	Number of shares (in units)	Total par value
Share capital				
Registered share, fully paid-in		Par value		CHF 10.00
Status at 1 January	8 606 190	86	8 606 190	86
No movement	0	0	0	0
Status at 31 December	8 606 190	86	8 606 190	86
<i>of which share capital qualifying for dividends</i>		86		86

Participation certificate capital

BCV does not have any participation certificate capital.

Conditional capital

BCV does not have any conditional capital.

Authorized capital

BCV does not have any authorized capital.

5.13 Stock options and shares granted to members of the Board of Directors, Executive Board members, and other employees Employee share-ownership plans

	2017		2016	
	Shares (in units)	Value (in CHF)	Shares (in units)	Value (in CHF)
Members of the Board of Directors	188	136 613	132	90 667
Executive Board members	3 539	2 153 002	3 584	1 897 890
Other employees	26 960	10 475 106	28 596	10 086 235
Total	30 687	12 764 721	32 312	12 074 792

No stock options have been granted to members of the Board of Directors, Executive Board members, or other employees.

Employee share ownership

Annual performance-based compensation

The Chairman of the Board of Directors receives a portion of his fixed compensation in shares with a lock-up period of five to ten years. The last share-based compensation was paid in December 2017. The new Chairman of the Board of Directors does not receive any share-based compensation.

For Executive Board members and department heads, 30% of their annual performance-based compensation must be taken in BCV shares with a lock-up period of five to ten years.

Other employees receiving annual performance-based compensation of CHF 21,000 or more may opt for full payment in cash, or 70% in cash and 30% in BCV shares with a lock-up period of three years. In the latter case, BCV increases the portion of shares by 30%.

Executive Board members are allocated shares subject to approval at the Shareholders' Meeting. The number of shares allocated will be calculated based on the closing market price on 7 May 2018, rounded up to the nearest whole number.

Other employees will receive their shares at the end of April 2018. The number of shares allocated will be calculated based on the closing market price on 22 March 2018, rounded up to the nearest whole number. These employees have until 4 April 2018 to make their decision. As their decision was not known at the time this report

was published, the amount shown in the above table corresponds to the maximum amount payable in the form of shares.

The market prices used to calculate the number of shares will be those on 22 March 2018 and 7 May 2018 (see above), so they were not known at the time this report was published. As a result, the number of shares was calculated based on the closing market price on 8 March 2018, the date of the Board of Directors' final decision on this compensation.

Share-ownership plan

The Executive Board and other BCV employees were given the opportunity to subscribe to the share-ownership plan in April 2017 on the following terms:

- The number of shares that may be purchased is determined by the level of responsibility inherent in the employee's position.
- The subscription period ran from 16–28 March 2017.
- The subscription price was set at CHF 530 per share, and the market price used was CHF 688 (closing price on 16 March, the first day of the subscription period).

The amount shown in the table above corresponds to the number of shares subscribed multiplied by CHF 158, which is the difference between the market price of CHF 688 and the subscription price of CHF 530.

Long-term performance-based compensation

At the beginning of each three-year share-ownership plan, participants are informed of the number of shares that will be allocated if all objectives are met in full. At the end of each plan, the Bank informs participants of the extent to which objectives have been met based on the Bank's financial results and strategic and qualitative performance. The number of shares initially allocated is multiplied by the level of attainment of the objectives in order to determine the number of shares allocated to each participant.

The amounts shown in the table on the previous page correspond to the expense recorded in 2017 for the various plans in progress.

Free shares

The Bank awards three BCV shares to trainees and high-school graduates who successfully complete their training and are then hired by BCV.

The number allocated and their value, based on the market price on the last business day of the month before the shares are awarded, are also shown in the table.

5.14 Receivables and commitments with respect to related parties (in CHF millions)

	31 / 12 / 17		31 / 12 / 16	
	Receivables	Commitments	Receivables	Commitments
Canton of Vaud - significant shareholder	0	2 391	6	2 243
Group companies	43	60	14	83
Affiliated companies	82	334	116	471
Governing bodies	22	5	32	5

Corporations organized under public law in Vaud Canton and public-private entities in which Vaud Canton has a qualified holding are considered affiliated companies. Transactions with members of the Board of Directors were

conducted on market terms. Receivables and commitments with respect to Executive Board members were granted on the standard terms for BCV employees. Transactions with related parties were conducted on market terms.

5.15 Significant shareholder

	31 / 12 / 17			31 / 12 / 16		
	Number of shares (in units)	Total par value	Stake	Number of shares (in units)	Total par value	Stake
Voting rights						
Vaud Canton, direct interest	5 762 252	57.6	66.95%	5 762 252	57.6	66.95%

5.16 Own shares and breakdown of share capital

Number of shares (in units)	Average transaction price	Total	Own shares
Status at 31 December 2016		8 606 190	32 244
<i>of which shares reserved for long-term performance-based compensation</i>			16 076
Purchases	690		41 486
Sales	665		– 43 686
Status at 31 December 2017		8 606 190	30 044
<i>of which shares reserved for long-term performance-based compensation</i>			15 248

The breakdown of share capital is provided in note 5.12, page 171.

Own shares were traded at market prices. The proceeds of the sale of own shares were recognized under “Capital reserve.”

Non-distributable reserves

If the combined total of regulatory retained earnings and the regulatory capital reserve does not exceed half the amount of the Bank’s share capital (i.e., CHF 43m), these line items can be used only to cover losses or for measures designed to sustain the company in the event of an operating loss. There are no regulatory restrictions on how optional reserves can be used.

The Bank must set part of its reserves aside in order to meet regulatory capital requirements.

5.17 Compensation and loans granted to members of the Board of Directors and Executive Board

5.17.1 Compensation and loans granted to current members of the Board of Directors and the Executive Board

Compensation breakdown (see page 177)

Members of the Board of Directors

For 2017, the seven members of the Board of Directors in office at 31 December 2017 were accorded total compensation of CHF 1,668,283. This includes annual fixed compensation of CHF 136,613 for the Chairman that was paid in April and December 2017 in the form of BCV shares with a lock-up period of five to ten years. The number of shares allocated was calculated based on the closing market prices on 24 March and 30 November 2017. Benefit expense resulting from compensation to the Board of Directors totaled CHF 130,284 for occupational pensions and CHF 172,755 for other benefits (social security, unemployment insurance, accident insurance, and family allowances).

Compensation comprises fees, remuneration, and expenses.

The Vice Chairman receives additional fixed compensation of CHF 20,000. For the members of the Board committees – the Audit and Risk Committee and the Compensation, Promotions and Appointments Committee – annual compensation was set as follows: CHF 40,000 for the chairman and CHF 20,000 for the other members of the Audit and Risk Committee; and CHF 20,000 for the chairman and CHF 10,000 for the other members of the Compensation, Promotions and Appointments Committee.

The average compensation of Board members, excluding the Chairman, amounted to CHF 128,333.

Since 1 November 2002, serving members of the Board of Directors have not been granted any preferential terms for banking services.

Members of the Executive Board

For 2017, the nine members of the Executive Board in office in 2017 were accorded total compensation of CHF 7,885,583. This includes annual performance-based compensation for an aggregate amount of CHF 3,490,000, subject to approval at the Shareholders' Meeting on 26 April 2018. If approved, this amount will be paid in May 2018 in two parts: CHF 2,488,000 in cash and the remaining CHF 1,002,000 in the form of shares locked up for between five and ten years. Benefit expense resulting from compensation to the Executive Board totaled CHF 1,331,229 for occupational pensions and CHF 761,086 for other benefits (social security, unemployment insurance, accident insurance, income replacement, and family allowances), subject to approval of the proposed annual performance-based compensation at the Shareholders' Meeting.

Allocation of shares during 2017

Members of the Board of Directors

For 2017, only the Chairman of the Board received a portion of his annual performance-based compensation in the form of 188 locked-up BCV shares, of an amount equal to CHF 136,613. As of 2018, the Chairman of the Board will receive his entire compensation in cash. No other member of the Board of Directors is eligible for any type of share allocation.

Members of the Executive Board

For 2017, Executive Board members in office at 31 December 2017 will receive a number of locked-up BCV shares equivalent to 30% of their annual performance-based compensation. The number of shares will be determined in accordance with the closing share price on 7 May 2018. They also subscribed to 650 locked-up shares under the employee share-ownership program. They paid a subscription price of CHF 530, while the share price at the time of purchase was CHF 688. Every year the Board of Directors determines the subscription price based on the current share price and sets the number of shares to which the Executive Board may subscribe.

Under the 2015-2017 long-term performance-based salary plan, 1,786 shares were allocated to Executive Board members (see page 87 in section 5 of the Corporate Governance chapter).

Other fees and compensation

Members of the Board of Directors and Executive Board received no fees or other compensation from BCV that are not included in the above compensation. Moreover, all fees and other amounts received by Executive Board members representing BCV on the boards of directors of other companies are remitted to the Bank. In 2017, such payments to the Bank amounted to CHF 368,208.

Loans to members of the Board of Directors and Executive Board

Serving members of the Board of Directors are not accorded preferential terms on loans granted to them. For members of the Executive Board, as well as for all employees, the interest on variable-rate first mortgages was 1.9% at 31 December 2017. The interest charged on Libor mortgage loans and on medium- and long-term fixed-rate loans was between 0.25% and 0.85% above market rates, depending on the term of the loan.

Share ownership

Members of the Board of Directors

Under a resolution adopted by the Board of Directors on 7 October 2002, each director is required to own a minimum of 100 BCV shares.

At 31 December 2017, directors and their close relations held a total of 6,634 BCV shares.

Members of the Executive Board

At 31 December 2017, Executive Board members and their close relations held 19,971 BCV shares.

Compensation of members of the Board of Directors for the 2017 financial year (in CHF)

	Olivier Steimer	Paul-André Sanglard	Jack Clemons	Ingrid Deltenre	Reto Donatsch	Peter Ochsner	Luc Recordon	Total	Average compensation
	Chairman	Vice Chairman	Member	Member	Member	Member	Member		Excluding Chairman
Fees	792 000	115 000	95 000	95 000	95 000	95 000	95 000	1 382 000	98 333
Committee-related compensation		20 000	10 000	10 000	20 000	40 000	20 000	120 000	20 000
Share-based compensation ¹	76 283							76 283	0
Other	30 000	10 000	10 000	10 000	10 000	10 000	10 000	90 000	10 000
Total	898 283	145 000	115 000	115 000	125 000	145 000	125 000	1 668 283	128 333
<i>Previous year</i>								1 490 161	108 866
Occupational pension	130 284							130 284	
Other benefits ²	74 537	15 462	16 360	14 599	12 845	21 034	17 918	172 755	16 370
<i>Previous year</i>									
<i>Occupational pension</i>								130 284	
<i>Other benefits²</i>								145 899	13 473

¹⁾ The number of shares was calculated based on the market prices on 24 March 2017 and 30 November 2017, and rounded up to the nearest unit. The value of the shares (in Swiss francs) is discounted according to the duration of the share lock-up period.

²⁾ Social security, unemployment insurance, accident insurance, and family allowances

Compensation of members of the Executive Board for the 2017 financial year (in CHF)

	Total		Pascal Kiener CEO	
	Shares (in units)		Shares (in units)	
Fixed salary		4 655 076		960 000
Annual performance-based compensation paid in cash ¹		2 488 000		420 000
Annual performance-based compensation paid in shares ^{1,2}		671 129		100 510
Shares acquired under employee share-ownership program ³	650	30 978	0	0
Stock options (BCV has no employee stock-option plan)	0	0	0	0
Other		40 400		6 000
Total		7 885 583		1 486 510
<i>Previous year</i>		7 890 335		
2015-2017 long-term performance-based compensation plan				
Shares allocated at CHF 796 per share ⁴	1 786	1 421 656	254	202 184
<i>Previous year</i>	2 372	1 637 866		
Total		9 307 239		1 688 694
<i>Previous year</i>		9 528 207		
Occupational pension		1 331 229		221 229
Other benefits ⁵		761 086		135 538
<i>Previous year</i>				
<i>Occupational pension</i>		1 303 106		
<i>Other benefits⁵</i>		773 634		

¹⁾ Subject to approval at the 2018 Annual Shareholders' Meeting

²⁾ The number of shares will be calculated based on the market price on 7 May 2018, and rounded up to the nearest unit. The value of the shares (in Swiss francs) is discounted according to the duration of the share lock-up period

³⁾ Difference between the subscription price (CHF 530) and the market price on 16 March 2017 (CHF 688) at its discounted value

⁴⁾ Market price on 8 March 2018

⁵⁾ Social security, unemployment insurance, accident insurance, income replacement, and family allowances

Loans to members of governing bodies (in CHF)

	Position	Nominal	Secured	Unsecured	31 / 12 / 17 Drawn down
Board of Directors					
Olivier Steimer	Chairman	3 200 000	3 200 000	0	3 200 000
Paul-André Sanglard	Vice Chairman	0			0
Jack Clemons	Member	417 000	417 000	0	417 000
Ingrid Deltenre	Member	0			0
Reto Donatsch	Member	0			0
Peter Ochsner	Member	0			0
Luc Recordon	Member	0			0
Total		3 617 000	3 617 000	0	3 617 000
Previous year		3 640 000	3 640 000	0	3 640 000
Executive Board					
Total		28 682 000	28 682 000	0	27 738 000
Previous year		30 519 000	30 519 000	0	29 002 000
Jean-François Schwarz ¹⁾	Member	8 950 000	8 950 000	0	8 600 000

¹⁾ Largest individual loan granted to an Executive Board member

No loans were granted to close relations (i.e., persons living under the same roof) of the members of the Board of Directors and Executive Board on terms not in keeping with market practice.

Loans to companies with links to members of governing bodies (in CHF)

No loans were granted to companies with links to members of governing bodies.

Share and option ownership

		31 / 12 / 17	31 / 12 / 16
		Shares (in units)	Shares (in units)
Board of Directors			
Olivier Steimer	Chairman	5 685	5 864
Paul-André Sanglard	Vice Chairman	100	500
Jack Clemons	Member	100	100
Ingrid Deltenre	Member	174	174
Reto Donatsch	Member	100	100
Peter Ochsner	Member	300	300
Luc Recordon	Member	175	175
Total		6 634	7 213
Executive Board			
Pascal Kiener	CEO	3 801	3 237
Stefan Bichsel	Asset Management & Trading	4 250	4 003
Andreas Diemant ¹⁾	Corporate Banking	0	
G�rard Haeberli	Private Banking	2 009	2 023
Christian Meixenberger	Business Support	69	0
Thomas W. Paulsen	CFO	1 023	1 222
Bertrand Sager	Credit Management	3 512	3 404
Jean-Fran�ois Schwarz	Corporate Banking	3 967	3 448
Jos� Fran�ois Sierdo	Retail Banking	1 340	803
Total		19 971	18 140

¹⁾ Not a member of the Executive Board in 2016

Members of the Board of Directors and Executive Board held no options at 31 December 2017.

5.17.2 Compensation and loans granted to former members of the Board of Directors and Executive Board

Retired Executive Board members continue to receive preferential terms that are identical to those of employees and in line with current market practice for the banking industry.

Compensation of former members of the Board of Directors and Executive Board for the 2017 financial year

A former member of the Board of Directors received 170 BCV shares, representing the prorata allocation under the 2015-2017 long-term performance-based compensation plan.

Loans granted to former members of the Board of Directors and Executive Board

Since 1 November 2002, serving members of the Board of Directors have not been granted any preferential terms for banking services, while former members who held office prior to this date continue to receive preferential terms that are identical to those of employees and in line with current market practice for the banking industry.

5.18 Breakdown of assets by solvency of the country group in which the risk is domiciled (in CHF millions)

Internal country rating	Standard & Poor's rating	31 / 12 / 17		31 / 12 / 16	
		Absolute value	as % of total	Absolute value	as % of total
1	AAA to AA-	2 923	84	2 593	82
2	A+ to A-	178	5	173	5
3	BBB+ to BBB-	90	3	72	2
4	BB+ to BB-	94	3	140	4
5 to 7	B+ to B-	127	4	112	4
8	CCC+ to C	42	1	53	2
Not rated	Not rated	21	1	15	0
Net foreign exposure		3 475	100	3 158	100

The rating categories are based on Standard & Poor's ratings.

5.19 Special "Caisse d'Epargne Cantonale Vaudoise" account (in CHF millions)

Guaranteed by the Canton of Vaud and managed by Banque Cantonale Vaudoise, by decree of 20 June 1995

	2017	2016
Capital on deposit at 1 January	210.4	227.0
Movements:		
Net payment surplus during the financial year	- 13.7	- 16.6
Capitalization of net interest at 31 December	0.0	0.0
Net change	- 13.7	- 16.6
Total capital on deposit at 31 December	196.7	210.4
<i>of which guaranteed by the Canton of Vaud</i>	<i>126.2</i>	<i>138.0</i>

	31 / 12 / 17	31 / 12 / 16	Change
Breakdown by type of service			
Registered savings books and accounts	137.0	142.0	- 5.0
Senior citizens' savings books and accounts	34.5	39.7	- 5.2
Bearer savings books	24.2	27.4	- 3.2
Youth savings books and accounts	1.0	1.3	- 0.2
Total	196.7	210.4	- 13.7

6. Notes to off-balance-sheet transactions

6.1 Fiduciary transactions (in CHF millions)

	31 / 12 / 17	31 / 12 / 16	Change absolute	Change as %
Fiduciary investments with third parties	78	98	- 20	- 20

6.2 Assets under management

As BCV is not required to disclose these figures, they are provided voluntarily and only on a consolidated basis (see note 11.4 to the consolidated financial statements).

7. Notes to the income statement

7.1 Refinancing of trading positions

Negative interest

	2017	2016	Change absolute	Change as %
Banks and reverse repurchase agreements	- 1.1	0.5	- 1.6	- 294
Customers	562.2	585.7	- 23.4	- 4
Interest and dividends on financial investments	34.6	40.2	- 5.6	- 14
Other interest income	6.5	4.2	2.4	57
Total interest income	602.3	630.5	- 28.3	- 4
Banks and repurchase agreements	5.6	6.1	- 0.6	- 9
Customers	- 2.3	10.9	- 13.2	- 122
Medium-term notes and bonds	87.6	98.4	- 10.8	- 11
Other interest expense	20.2	39.1	- 18.8	- 48
Total interest expense	111.1	154.5	- 43.4	- 28
Net interest income before loan impairment charges/reversals	491.2	476.0	15.2	3

Negative interest paid by the Bank on its assets is deducted from interest and discount income. This negative interest totaled CHF 5.1m in 2017, against CHF 3.8m in 2016, and relates mainly to deposits held with the Swiss National Bank, interbank positions, and to a lesser extent funding transactions for trading positions.

Negative interest received by the Bank on its liabilities is deducted from interest expense. This negative interest totaled CHF 32.0m in 2017, against CHF 15.5m in 2016, and was earned on interbank positions, customer deposits, and transactions related to structured product issuance.

7.2 Net trading income and fair-value adjustments (in CHF millions)

Breakdown by business sector	2017	2016	Change absolute	Change as %
Retail Banking	17.7	18.6	- 0.9	- 5
Corporate Banking	9.8	9.8	0.0	0
Wealth Management	9.7	10.2	- 0.5	- 5
Trading	52.2	59.3	- 7.2	- 12
Corporate Center	33.0	29.6	3.4	11
Total	122.5	127.6	- 5.1	- 4

Trading income and fair-value adjustments

Fixed-income instruments (including funds)	2.3	3.2	- 0.9	- 28
Equity securities (including funds)	20.7	20.6	0.1	1
Currencies and precious metals	106.6	110.7	- 4.1	- 4
Total trading income and fair-value adjustments	129.6	134.5	- 4.9	- 4
<i>of which fair-value adjustments</i>	20.5	20.3	0.2	1
<i>of which fair-value adjustments on assets</i>	144.2	47.3	97.0	205
<i>of which fair-value adjustments on liabilities</i>	- 123.7	- 26.9	96.8	359
Trading fee expense	- 7.1	- 6.9	0.2	3
Net trading income and fair-value adjustments	122.5	127.6	- 5.1	- 4

7.3 Personnel costs (in CHF millions)

	2017	2016	Change absolute	Change as %
Fixed and variable compensation	224.6	224.8	-0.2	-0
<i>of which charges related to share-based compensation and other variable compensation (including the portion paid in cash)</i>	31.9	30.5	1.4	4
Employee benefits	22.3	22.2	0.1	1
Contributions to staff pension funds	34.7	34.4	0.3	1
Other personnel expenses	14.0	14.3	-0.3	-2
Total	295.6	295.8	-0.2	-0

7.4 Other operating expenses (in CHF millions)

	2017	2016	Change absolute	Change as %
Premises	19.5	19.4	0.0	0
IT	71.1	70.4	0.7	1
Machinery, furniture, vehicles, etc.	3.5	3.8	-0.2	-6
Office supplies	1.0	1.0	-0.0	-3
Telecommunications and shipping	7.4	7.6	-0.2	-3
Marketing and communications, gifts and subscriptions	16.8	17.2	-0.4	-2
Financial information	11.8	11.7	0.1	1
Auditor fees	2.2	1.7	0.5	32
<i>of which for financial and prudential audits</i>	2.0	1.5	0.5	31
<i>of which for other services</i>	0.2	0.1	0.0	42
Other professional fees	3.5	3.7	-0.2	-6
Payment transactions	10.7	10.7	0.0	0
Issuing fees	1.6	1.4	0.2	12
Miscellaneous operating expenses	5.8	5.7	0.1	2
<i>of which charges for the guarantee by the Canton of Vaud¹⁾</i>	0.3	0.4	-0.0	-8
Total	154.9	154.4	0.5	0

¹⁾ Limited guarantee by the Canton of Vaud for deposits with the Caisse d'Epargne Cantonale Vaudoise, and managed by BCV

7.5 Other provisions and losses (in CHF millions)

	2017	2016	Change absolute	Change as %
Miscellaneous provisions	-0.1	0.9	-0.8	-84
Miscellaneous losses	1.0	1.3	-0.4	-28
Total	0.8	2.2	-1.4	-64

7.6 Extraordinary income (in CHF millions)

	2017	2016	Change absolute	Change as %
Disposals of equity holdings	0.8	5.0	– 4.1	– 83
Disposals of tangible fixed assets	1.1	0.6	0.5	82
Impairment reversals on fixed assets ¹⁾	12.9	0.0	12.9	n/a
Other extraordinary income	1.8	0.5	1.3	237
Total	16.7	6.1	10.5	172

¹⁾ The impairment charge recognized on a piece of real estate in 2002 and 2003 was fully reversed in 2017 following an improvement in the property market. This real estate was sold in 2018.

7.7 Taxes (in CHF millions)

	2017	2016	Change absolute	Change as %
Direct federal tax	25.2	24.4	0.8	3
Cantonal and municipal taxes	54.5	55.9	– 1.4	– 2
Total	79.7	80.3	– 0.6	– 1
Weighted average tax rate, based on operating profit	20%	21%		

8. Proposals by the Board of Directors

At the Annual Shareholders' Meeting to be held on 26 April 2018, the Board of Directors will recommend the following appropriation of profit and distributions:

8.1 Appropriation of profit

The proposed allocation of available earnings of CHF 329.3m is as follows:

	Dividend in CHF per registered share	Number of shares (in units)	Appropriation (in CHF millions)
Payment of an ordinary dividend	23.00	8 606 190	197.9
Allocation to regulatory retained earnings			0
Allocation to optional retained earnings			131.3
			329.3

If this resolution is adopted, the dividend will be payable, after deduction of Swiss withholding tax, at the Bank's head office and branches beginning on 3 May 2018.

8.2 Other distributions

In addition, a distribution of CHF 86.1m drawn from tax-exempt paid-in capital will be proposed:

	Amount in CHF per registered share	Number of shares (in units)	Distribution (in CHF millions)
Distribution drawn from tax-exempt paid-in capital	10.00	8 606 190	86.1
			86.1

If this resolution is adopted, the distribution – which will not be subject to Swiss withholding tax – will be payable at the Bank's head office and branches beginning on 3 May 2018.



Statutory Auditor's Report

To the General Meeting of Banque Cantonale Vaudoise, Lausanne

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the financial statements of Banque Cantonale Vaudoise, which comprise the balance sheet as at 31 December 2017, the income statement and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 160 to 184) for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Credit risk identification methods and valuation of the related loan impairment charges

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Credit risk identification methods and valuation of the related loan impairment charges

Key Audit Matter

Lending operations are one of the bank’s main activities and represent approximately two thirds of its balance sheet as at 31 December 2017. The valuation of a counterparty’s default risk relies largely on the use of rating methods developed by the bank. The valuation of the related loan impairment charges relies on an analysis method that takes into account various elements such as market factors, the client’s estimated willingness to repay and financial capacity or the estimation of the collateral’s value.

The identification of risks and the valuation of the related loan impairment charges thus rely on models and analyses that imply an element of judgement by the Board of Directors and management. Exposures that create greater uncertainty are typically those that result from unsecured loans or those that are subject to a collateral’s loss of value.

Our response

Our procedures consisted in particular in assessing and testing the key controls related to the granting, recording and monitoring of loans as well as the methodology used for the identification of default risk and the valuation of the loan impairment charges.

For a sample of non-impaired exposures, we assessed the debtors’ capacity to fulfil their obligations. We compared our findings with the assessment of the default risk performed by the bank using its counterparty rating process.

Regarding receivables that are considered as impaired or as presenting latent risks, our procedures consisted, among others, of assessing the evolution of the relation between the loan impairment and the concerned receivables as a whole. For a sample of individual receivables that are considered as impaired or as presenting latent risks, we assessed the debtors’ financial standing as well as the valuation of collaterals and we compared our findings with the assumptions and factors taken into account by the bank when calculating the required loan impairment charges.

For further information on the credit risk identification methods and the valuation of the related loan impairment charges, refer to the following notes to the consolidated financial statements of Banque Cantonale Vaudoise as at 31 December 2017:

- Note 7.2 “Credit risk” (p. 119 to 121 of the Annual Report)
- Note 10.2 “Risk mitigants for loans and off-balance-sheet transactions, impaired loans” (p. 125 of the Annual Report)

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company’s articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings (page 185) complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG SA

A handwritten signature in blue ink, appearing to read 'Olivier Gauderon', written over a light blue circular stamp.

Olivier Gauderon
Licensed Audit Expert
Auditor in Charge

A handwritten signature in blue ink, appearing to read 'Philippe Ruedin', written over a light blue circular stamp.

Philippe Ruedin
Licensed Audit Expert

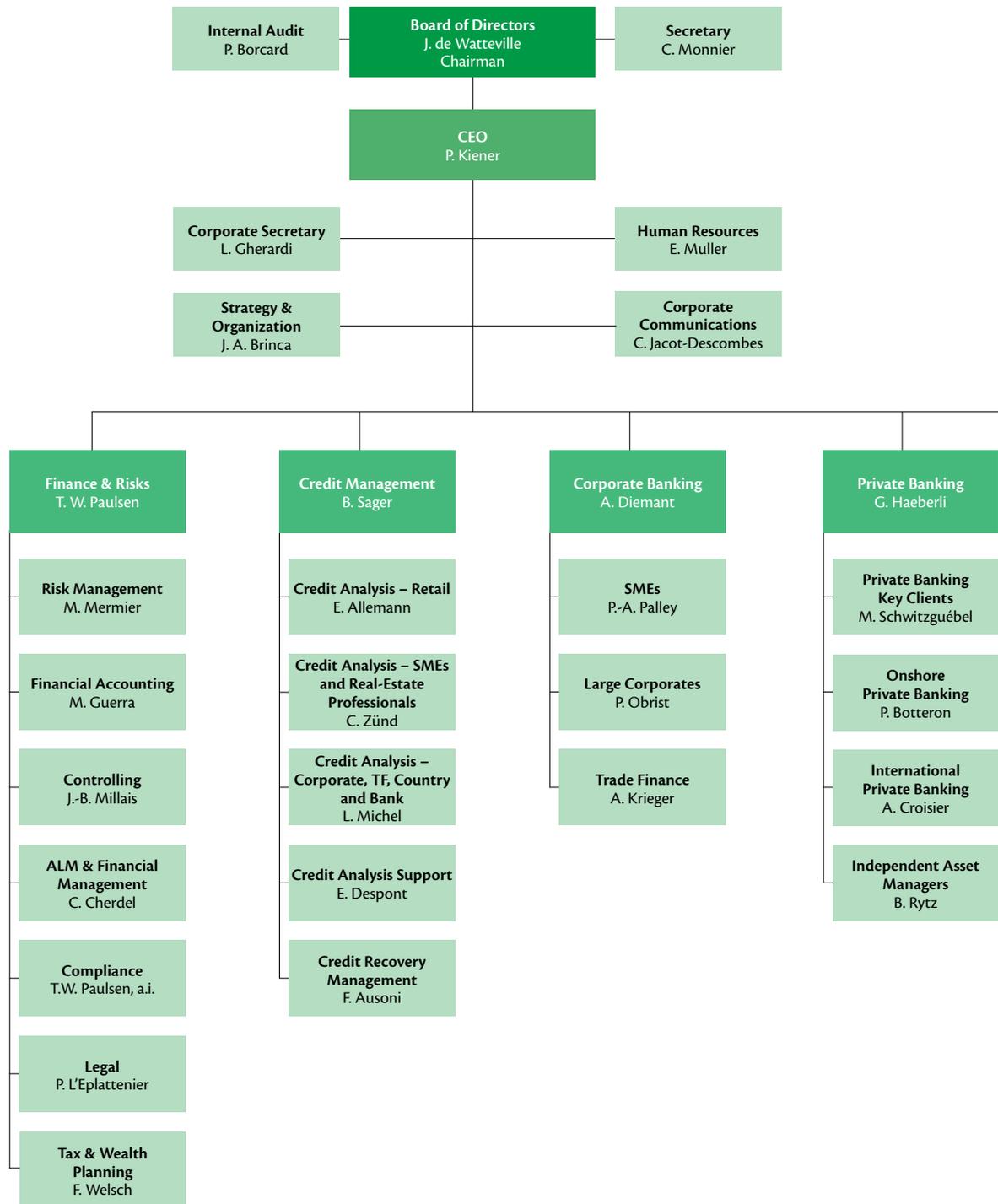
Geneva, 9 March 2018

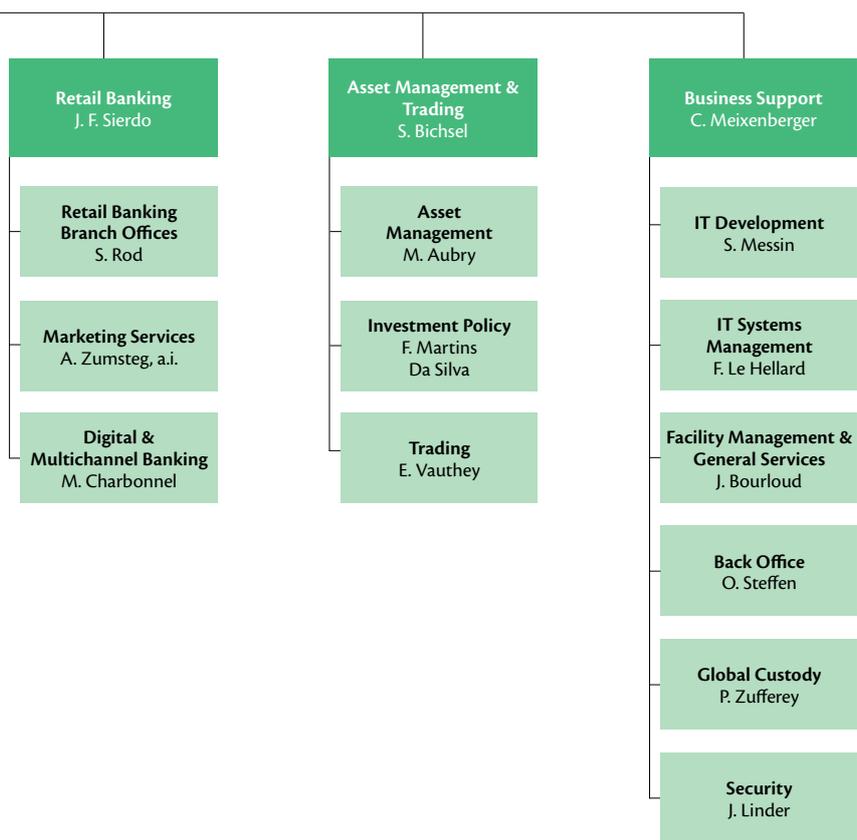
KPMG SA, Rue de Lyon 111, CH-1203 Geneva

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Organization Chart

As of 1 March 2018





Retail Network

As of 1 March 2018



Regional Managers

As of 1 March 2018

Broye region

Retail banking Patrick Balzli
Private banking André Cherbuin
SME Fabrice Chollet

Morges region

Retail banking Philippe Diserens
Private banking Daniel Vuffray
SME Patrick Blanc

Chablais / Vaud Alps region

Retail banking Éric Barroud
Private banking Vincent Mottier
SME Sébastien Roduit

Nord vaudois region

Retail banking Steve Magnenat
Private banking Adrian Kocher
SME Alexandre Berthoud

Gros-de-Vaud region

Retail banking Pascal Udry
Private banking Pierre-Yves Zimmermann
SME Stéphane Binggeli

Nyon region

Retail banking Jean-Daniel Dreifuss
Private banking Jean-Michel Isoz
SME Jean-Daniel Gebhard

Lausanne region

Retail banking Thierry Magnin
Private banking Pascal Aubry
SME Henri-Pierre Monney

Riviera region

Retail banking Pierre-Alain Favre
Private banking Christophe Millius
SME Didier Muller

Lavaux region

Retail banking David Platel
Private banking Olivier Engler
SME Cédric Ottet

Branch Offices

As of 1 March 2018

Broye region

Avenches

Rue Centrale 4
Case postale 47
1580 Avenches

Lucens

Avenue de la Gare 4 A
Case postale 69
1522 Lucens

Payerne

Rue du Temple 9
Case postale 64
1530 Payerne

Chablais / Vaud Alps region

Aigle

Rue du Collège 2
Case postale 449
1860 Aigle

Bex

Rue Centrale 5
Case postale 62
1880 Bex

Château-d'Oex

Grand-Rue 82
Case postale 172
1660 Château-d'Oex

Les Diablerets

Les Ormonts 7
Case postale 28
1865 Les Diablerets

Leysin

Place du Marché
Case postale 83
1854 Leysin

Villars

Avenue Centrale 119
Case postale 7
1884 Villars

Villeneuve

Grand-Rue 1
Case postale 27
1844 Villeneuve

Gros-de-Vaud region

Cheseaux-sur-Lausanne

Rue du Pâquis 1
Case postale 68
1033 Cheseaux-sur-Lausanne

Cugy

Centre commercial Migros
Route de Bottens 1
Case postale 8
1053 Cugy

Echallens

Place de la Gare 7
Case postale 31
1040 Echallens

Moudon

Rue du Temple 10
Case postale 32
1510 Moudon

Penthalaz

Place Centrale 3
Case postale 7
1305 Penthalaz

Romanel

Centre commercial Romanel
en Félezin
Case postale 105
1032 Romanel

Lausanne region

Bellevaux

Route Aloys-Fauquez 116
1000 Lausanne 8

Bergières

Avenue Bergières 42
Case postale 60
1000 Lausanne 22

Bussigny

Chemin du Parc 6
Case postale 44
1030 Bussigny

Chauderon

Place Chauderon 8
Case postale 300
1001 Lausanne

CHUV

Rue du Bugnon 46
Case postale 8
1011 Lausanne

Crissier

Centre MMM
Case postale 210
1023 Crissier

Écublens

Chemin du Croset 3
Case postale 47
1024 Écublens

Épalinges

Place de la Croix-Blanche 17
Case postale 119
1066 Épalinges

La Sallaz

Route d'Oron 2
Case postale 32
1000 Lausanne 10

Lausanne - Cour

Avenue de Cour 38 A
Case postale 163
1000 Lausanne 3

Lausanne - Gare

Place de la Gare 10
Case postale 192
1001 Lausanne

Ouchy

Avenue d'Ouchy 76
1006 Lausanne

Prilly

Route de Cossonay 21
Case postale 48
1008 Prilly

Renens

Rue du Midi 15
Case postale 608
1020 Renens

UNIL

Internef - Dorigny
Case postale 125
1015 Lausanne

Lausanne - St-François

Place St-François 14
Case postale 300
1001 Lausanne

Lavaux region

Chailly

Pont-de-Chailly
Case postale 79
1000 Lausanne 12

Cully

Place de l'Hôtel de Ville 7
Case postale 16
1096 Cully

Lutry

Route de Lavaux 166
Case postale 265
1095 Lutry

Mézières

Rue du Théâtre 2
Case postale 41
1083 Mézières

Oron-la-Ville

Le Bourg 16
Case postale 103
1610 Oron-la-Ville

Pully

Rue de la Poste 8
Case postale 62
1009 Pully

Savigny

Place du Forum 2
Case postale 120
1073 Savigny

Morges region

Aubonne

Chemin du Mont-Blanc 2
Case postale 37
1170 Aubonne

Cossonay

Rue des Etangs 5
Case postale 35
1304 Cossonay-Ville

Denges

Route de Genève 107 B
Case postale 74
1026 Denges

Morges Hôtel-de-Ville

Place de l'Hôtel-de-Ville 2
Case postale 144
1110 Morges 1

St-Prex

Route de Rolle 2
Case postale 24
1162 St-Prex

Nord vaudois region**Chavornay**

Route d'Yverdon 2
Case postale 62
1373 Chavornay

Grandson

Place du Château 8
Case postale 24
1422 Grandson

Le Sentier

Grand-Rue 36
Case postale 62
1347 Le Sentier

Orbe

Place du Marché 9
Case postale 27
1350 Orbe

Ste-Croix

Rue Neuve 2
Case postale 17
1450 Ste-Croix

Vallorbe

Rue de l'Horloge 1
Case postale 36
1337 Vallorbe

Yverdon-les-Bains

Rue des Remparts 17
Case postale 256
1400 Yverdon-les-Bains 1

Nyon region**Coppet**

Rue Froide 1
Case postale 30
1296 Coppet

Gland

Avenue du Mont-Blanc 14 A
Case postale 338
1196 Gland

Nyon

Rue Perdtemps 6
Case postale 1048
1260 Nyon 1

Rolle

Grand-Rue 60
Case postale 1208
1180 Rolle

Signy

Centre Commercial
Rue des Fléchères 7A
Case postale 245
1274 Signy-Centre

Riviera region**Blonay**

Route du Village 7
Case postale 91
1807 Blonay

Chexbres

Grand-Rue
Case postale 113
1071 Chexbres

Clarens

Avenue Vinet 15
Case postale 51
1815 Clarens

La Tour-de-Peilz

Grand-Rue 38
Case postale 64
1814 La Tour-de-Peilz

Montreux

Grand-Rue 50
Case postale 1026
1820 Montreux

Vevey - Gare

Place de la Gare
Case postale 160
1800 Vevey 1

Vevey - Nestlé

Avenue Nestlé 55
Case postale 353
1800 Vevey 1

Thanks

BCV would like to thank its employees as well as the various external service providers involved in preparing this document.

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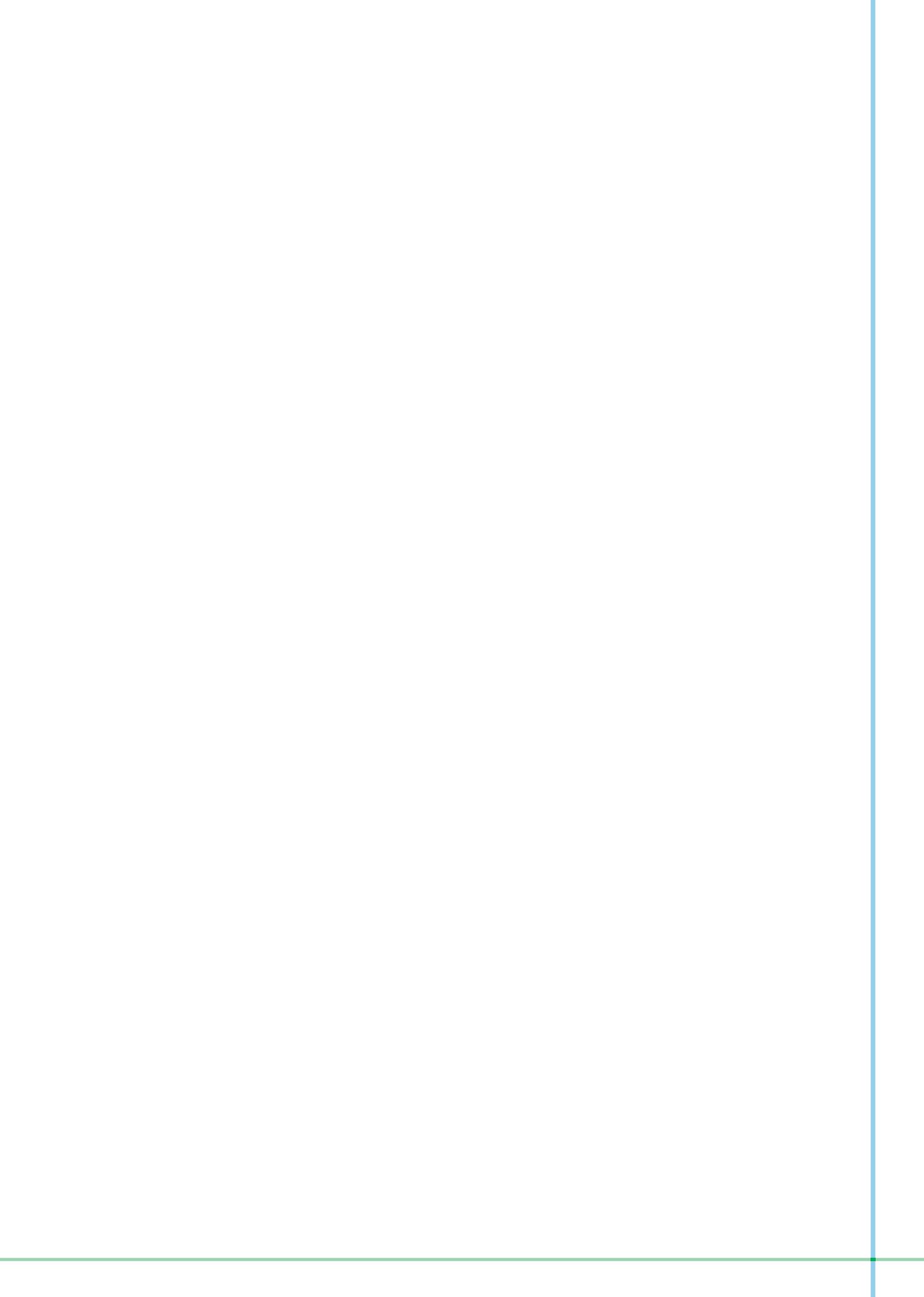
Rosie Wells

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