2003 Annual Report

BCV
Our commitment: your trust

contents

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key figures

Key Figures

	1999	2000	2001	2002	2003
Balance sheet (in CHF millions)					
Total assets	34 978	37 963	36 104	35 138	34 252
Advances to customers	25 678	26 038	25 985	25 026	23 208
Customer deposits and bonds	26 244	27 700	27 499	27 208	25 683
Shareholders' equity	2 627	2 664	1 499	1 167	2 563
Income					
Net interest income	367	413	436	429	419
Net fee and commission income*	297	354	325	302	288
Net trading income	160	89	–18	60	109
Other ordinary income*	50	122	97	67	127
Total income	**874**	**978**	**840**	**858**	**943**
Operating expenses	451	505	510	538	554
Gross profit	**423**	**474**	**330**	**320**	**389**
Depreciation and write-offs	94	97	101	108	151
Value adjustments, provisions and losses	187	220	1 226	1 184	77
Net profit / loss	**152**	**166**	**–381**	**–1 200**	**157**
Assets under management**	60 811	63 104	55 295	54 845	60 248
Total number of staff*** (full-time equivalent)	2 178	2 243	2 393	2 679	2 483
Ratios (%)					
Shareholders' equity/Total assets	7.5	7.0	4.2	3.3	7.5
BIS ratios: – Tier 1	10.1	10.1	6.4	5.5	13.4
– Tier 2	12.4	11.9	8.7	7.5	15.1
Gross income/Shareholders' equity	16.1	17.8	22.0	27.4	15.2
Expenses****/Income	62	61	72	75	71
Gross profit per employee (in CHF)	194 139	211 184	137 789	119 434	156 640
ROE	6.1	6.6	–	–	6.5
Stock market data					
High (adjusted, in CHF)	502	632	575	295	143.75
Low (adjusted, in CHF)	412	465	228	79	62
Number of shares (in thousands)	4 700	4 716	4 716	8 488	8 488

NB: The change in consolidation method concerning BCV's IT subsidiary Unicible, whose financial results were fully consolidated for the first time in the 2003 Group Financial Statements, did not significantly influence the Group's net profit. It did however affect some items on the Income Statement. For more information see page 53.

* Figures for 1999, 2000, 2001, and 2002 have been adjusted to facilitate like-for-like comparisons.
** 2002 and 2003 figures have been adjusted to take account of the new Swiss DEC-CFB financial statement presentation standards.
*** Including Unicible staff for 2002
**** Incl. depreciation and write-offs (except goodwill impairment charges)

letter from the Chairman of the Board of Directors

For BCV, 2003 was a year of renewal. First of all, the Bank's financial base was brought back onto a steady footing. Management and staff then joined together in a drive to implement the strategy defined in spring, making the most of all organizational resources to optimize operations. At the same time, a new corporate-governance framework was designed and put in place.

Today, BCV is ready to build for the future. At times painful but necessary choices have been made to cut costs and control risk. The strategic re-alignment on our core businesses – retail and commercial banking, wealth management, and trading – has allowed us to lay the foundations for tomorrow's BCV.

But although we have successfully overcome a crisis, much remains to be done. Many new challenges await us. And for BCV to remain on course for lasting value-creation and profitability, there must be no letup in our efforts to streamline organization, hold down costs and ensure effective risk control.

Greater operational efficiency will naturally help us earn and keep the trust of our business partners and all our stakeholders. But we will also be judged on our ability to harness banking expertise for continuing progress over the longer term, which means demonstrating our capacity to stay in step with a fast-moving environment and, most importantly, create value.

Management is thus looking ahead to identify and define new ways to enhance efficiency. In this, an important priority is to ensure that we take full advantage of all the potential synergies between our various areas of business.

Two fundamental goals underpin our strategy for the longer term: enhancing efficiency to better fulfill our corporate mandate in support of Vaud Canton's economic development, and aiming for the highest professional standards at all times. Our commitment to these values will enable us to consistently generate earnings and reward our shareholders for their trust.

Steimer

Olivier Steimer
Chairman of the Board of Directors

Olivier Steimer, Chairman of the Board of Directors (left)
Alexandre Zeller, C.E.O. (right)

letter from the C.E.O.

A year ago in these pages, I emphasized that there was a solid basis for progress at BCV, a foundation on which we could together build the future of our Bank. Throughout 2003, we drew on these strengths to consolidate the Bank's position over the near term through rigorous reorganization and decisive action to control costs and risks. These initiatives were presented to the Extraordinary Meeting of the Shareholders on 2 February and to the AGM on 22 May.

Managing change was thus the fundamental priority for the year. BCV is now back on a steady footing, and we have begun moves to sharpen focus on our core businesses. The reorganization of the Group has already come a long way. And we are building on the trust of our clientele and the committed efforts of our staff to restore the Bank's image.

These positive factors, coupled with the beginnings of an economic upturn in the second half, were behind a return to profitability for the financial year and an overall improvement in financial performances.

Clearly, these are the signs of operational excellence at BCV.

But considerable challenges remain: our aim over the next three years is to reinforce BCV's position as the leading universal bank in Vaud Canton.

To achieve this, we must:

– consolidate the loyalty of those who already choose to bank with BCV, and earn the trust of potential new customers;

– meet ambitious earnings targets, which will entail tight management of costs and risks, as well as prompt and orderly reductions in the volume of impaired loans;

– offer innovative products and services tailored to our customers' needs, keeping in mind that our customers are our *raison d'être,* the focus of all our efforts to set BCV apart from its competitors;

– attract talented professionals, with a corporate culture of quality customer relationships, individual responsibility and scope for personal initiative, combined with a commitment to constructive dialog underpinning BCV's status as a preferred employer;

– found our operational and financial performances on the following key values: a commitment to service, overall excellence, differentiating ourselves from the competition, strict management standards, team spirit, innovation and responsiveness.

Support for the economic development of Vaud Canton and the creation of lasting value for our shareholders remain the overriding priorities that guide all our strategic planning. The action taken so far is bearing fruit. And we intend to continue, reinforcing the foundations essential to our future growth.

Alexandre Zeller
C.E.O.

management

The Executive Board

Left-hand page: **Jean-François Schwarz** Corporate Banking | **Philippe Sauthier** Logistics | **Pascal Kiener** C.F.O., Finance & Risks | **Alexandre Zeller** C.E.O.

Right-hand page: **Christopher E. Preston** Private Banking and Asset Management | **Olivier Cavaleri** Trading | **Jacques R. Meyer** Retail

business report

Divisions and Subsidiaries in 2003

For the Bank and BCV Group, 2003 saw the implementation and first concrete results of the strategic decisions made early in the reporting period.

This chapter looks at the performances of the Group's divisions and main subsidiaries. The comments are based on the rules and principles applicable at the start of the year under review, and on the organizational structure in place at 31 December 2003 (see also the organization chart on page 96).

Finance & Risks Division

The Finance & Risks Division comprises the departments in charge of strategic planning, financial controlling, financial accounting, asset and liability management (ALM), risk management, and special affairs (impaired loans or loans considered as such as defined in the financial reporting directives issued by the Swiss Federal Banking Commission). The reporting period saw the appointment of a new Chief Financial Officer (CFO), who took over responsibility for the Division at the beginning of June. The CFO played an important part in implementing the Bank's strategy for the coming years, and stepped up contacts with investors and financial analysts.

The Finance & Risks Division enhanced the professionalism of risk management and ALM at the Bank by hiring highly qualified people for these departments. In addition, it launched several projects to improve risk-management procedures and tools within the Bank.

Throughout the year, work also went ahead on bringing risk-management structures and processes at BCV into line with "Basle II", the new guidelines advocated by the Basle Committee.

In the area of special affairs, the focus was on devising a strategy to reduce the large volume of impaired loans or loans considered as such. The net decrease of CHF 700 million in these lendings may be regarded as a very encouraging sign.

Accounting procedures were fully updated to comply with the Swiss Federal Banking Commission's latest "DEC" financial reporting directives. Procedures governing the preparation of consolidated financial statements were also reviewed and improved.

Corporate Banking Division

In 2003, the former commercial and international divisions were merged to form the new Corporate Banking Division. The reporting period was marked mainly by the implementation of the strategic decisions concerning the simplification of line management, the refocusing of operations on companies based in Vaud Canton, the orderly withdrawal from international trade finance activities in oil and shipping and risk control.

Strategic withdrawals from oil-trade financing and ship financing totalled roughly CHF 2 billion. The withdrawal from these two sectors was made on excellent terms, thanks to favourable market conditions, firm commodity prices and strong staff commitment.

BCV also closed its representative office in Zurich without any negative repercussions on relations with customers in German-speaking Switzerland. In fact, our major corporate customers fully understood the need to refocus on Vaud Canton. Business volume and deposits in this segment remained stable, and follow-up was improved thanks to specially targeted campaigns.

Finally, in a further move to simplify its operational structures, the Bank transferred corporate finance operations to its subsidiary, Défi Gestion SA, and Dimension Corporate Finance SA was hived off to its management.

Loan demand on the SME (small business) market in Vaud Canton, where BCV is the market leader with 13,000 customers, remained sluggish in 2003. One of the reasons for this was the uncertain economic environment, which led companies to postpone their investments. Low interest rates were not enough to spur demand. However, several marketing campaigns and special offers by the Bank helped to consolidate customer loyalty in this segment.

These moves were aimed particularly at the largest local SMEs and those which operate in the real-estate sector, where BCV has a substantial market share. Accordingly, the Bank lowered its mortgage rate again in July. Throughout the year, it also gave customers the opportunity to convert their floating-rate mortgages into fixed-rate loans, so that they could benefit from historically low market rates. At the end of 2003, the volume of floating-rate mortgages accounted for only about 26% of total mortgage lendings, compared with 53% at the start of the year.

Use of the Internet and BCV-net by business customers increased further in the reporting period. At the end of 2003, more than two out of three small-business customers were equipped for this service, and 53% of them used it in their day-to-day dealings with the Bank, i.e. 15% more than in 2002.

After having introduced new evaluation standards for credit risks and pricing in 2002, the Bank pushed ahead with a major project to improve the efficiency of loan management and authorization procedures. The objective is to enhance its expertise in this field, optimize customer service and improve risk control.

Due to the implementation of the Bank's strategic re-alignment, the Corporate Banking Division saw a decline in business volume last year. Its gross income from banking operations contracted by over CHF 30 million. But the Division nevertheless confirmed its key role at BCV, with its gross income of CHF 282.6 million accounting for 30% of overall Group income in 2003. Gross profit amounted to CHF 197.1 million, which was CHF 31.4 million less than in 2002.

Private Banking and Asset Management Division

Financial markets started to recover in early 2003. The Group's wealth-management services for private and institutional clients generally showed their ability to adapt to this trend effectively. Gross income from private banking and asset management operations rose by 6% to CHF 260.2 million, while gross profit was up 15% at CHF 123.2 million. This was due to greatly improved results in institutional asset management and an increased contribution from Banque Piguet & Cie SA.

Turning to the parent company, several factors drove a solid performance in 2003. For one thing, the volume of assets under management was unchanged over the year. This shows that the quality and consistency of performance achieved by BCV-managed portfolios were much appreciated by our private clients, whose assets increased. Clients also benefited from the Bank's advisory services, which helped them take advantage of the opportunities provided by the upturn in financial markets. Finally, they were very receptive to the state-of-the-art solutions offered by our account managers, particularly in the area of tax and estate planning.

In addition, independent financial advisors brought in new business for the Bank. These professional investment specialists are convinced of the high quality of BCV services and products. Finally, despite keen competition, institutional asset management activities expanded considerably in 2003.

The unflagging efforts to enhance our services for private and institutional clients were, therefore, crowned with success in the year under review.

This hands-on approach by the Division's employees underscores the importance they attach to being in close contact with their clients, particularly those in Vaud Canton. Our clients were particularly interested in the new investment funds launched by the Asset Management Department during the year, and the open-architecture Smartfund and SmartPlayer private-banking solutions. Smartfund and SmartPlayer enable BCV to develop tailor-made solutions for clients using the best products available on the market, including third-party products. In the area of tax and estate planning, products designed to keep pace with each client's changing needs also aroused considerable interest.

Assets under management with BCV Group (in CHF billions)

	2002	2003
BCV parent company/Gérifonds/CEPY	50.33	55.67
Banque Piguet & Cie SA	2.17	2.99
Other BCV Group subsidiaries	2.34	1.58
BCV Group	54.84	60.24

The Research Department was restructured to bring its operations into line with the strict criteria laid down by the Swiss Bankers' Association's guidelines on disclosure of financial analysis. Against this backdrop, the Bank strongly upgraded its expertise in the field of product analysis, particularly as regards alternative products. BCV's clientele responded favourably to these moves.

Retail Banking Division

BCV kept the trust of its customers throughout the year in review, as is borne out by the further progress made in terms of customer relationships and operations. Our network of branch offices at end-2003 comprised 72 physical sales points throughout Vaud Canton, in addition to 13 fully automated self-service banks and 140 cash dispensers. Many of these dispensers were replaced by models using state-of-the-art technology in the course of the year.

Our role as a community bank in Vaud Canton prompted us to open a banking boutique at a new shopping centre in Aigle. By the same token, we decided to open our branches in the Canton's mountain resorts on Saturdays during the high season.

We also pressed ahead with the expansion of non-traditional distribution facilities in 2003. Over 14,000 new BCV-net contracts were concluded (+30%) with private customers using the Internet to communicate or do business with us. In addition, 4,000 new customers signed up for the BCV-phone automated telephone service (+10%). The BCV call centre also attracted a growing number of users. The widespread and ever-increasing use of these services is encouraging, as it means more independence for customers and lower overhead for the Bank.

BCV is the leading player in the retail banking market in Vaud Canton, both in savings business with a 45% market share in terms of customer relationships, and mortgage business (38% of the market). Last year, we maintained and even improved our position in the various regions of the Canton.

Customer deposits were up 2% in the reporting period. The volume of traditional savings remained steady, whereas that of preferential savings accounts and current accounts rose strongly. This confirms that the local market still looks to BCV to satisfy its main banking needs.

The mortgage market, in particular for private homes, remained highly competitive. Furthermore, interest rates were still very low last year.

In this environment, BCV launched a major operation in which customers were encouraged to convert their floating-rate mortgages into fixed-rate loans. The attractive terms offered by the Bank went down very well with homeowners. All in all, 65% of our mortgage customers took up the offer.

BCV mortgage loans registered a net volume growth of 4%, after contractual repayments of existing loans and early repayments.

Overall, the Retail Banking Division increased its gross income from banking operations in 2003. It remains a linchpin of BCV Group's parent company, accounting for 26% of gross income from banking operations (CHF 244.8 million) and 37% of gross profit (CHF 145.5 million).

Trading Division

Focused as it is on trading in equities, interest-rate instruments and currencies in Switzerland and abroad, the Trading Division pressed ahead with its operations in an environment which remained generally favourable throughout the reporting year, despite variable trends in some segments.

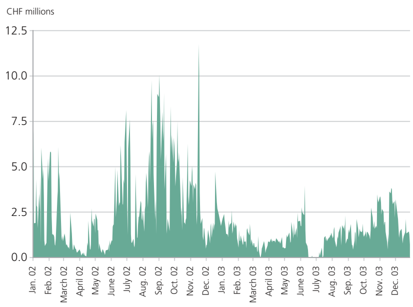
While investor sentiment was still rather low-key early in 2003, the markets recovered in the second half and their volatility was extremely favourable to the Division's business. Trading volume was first driven by professional traders, with private investors starting to show more interest towards the end of the year. The reporting period was also marked by particularly strong trading activity in interest-rate instruments, whereas dealings in equities and derivatives were below year-earlier levels.

Against this backdrop, our trading specialists constantly endeavoured to adapt their strategies to market conditions while exercising tight control over risk exposure. In cooperation with their colleagues in the Retail Banking Division, they also launched BCV-Protec, a capital-protected product on the SMI, and successfully placed it with customers.

PREALPs are another new line of structured products that made their debut in the period under review. PREALPs are similar to exotic options: their yield is tied to the performance of one or more underlying stocks and they offer conditional capital protection. The Division also arranged two bond issues for major companies in Vaud Canton.

As can be seen from the following Value at Risk (VaR) chart for the Trading Division in 2002 and 2003, our policy in this area remains extremely prudent. Our specialists consistently took advantage of market opportunities during those two years, but the risk incurred never represented more than a 1% probability that the cumulative loss would exceed a limit of CHF 12.5 million for ten consecutive days; this limit was extended to CHF 20 million during the 2003 reporting period. The chart shows that this limit was used very sparingly in 2003.

VaR for Trading Division 2002-2003 (99% confidence level, 10 day time horizon)



The Trading Division ended the year with business volume substantially higher than in 2002 (+ 37%). Its gross income from banking operations, at CHF 69.3 million, showed an increase of around 8%. Underlying this performance was the fact that income from interest-rate transactions more than compensated for relative weakness in other portfolios. As personnel costs and other operating expenses were kept under control, the Division's gross profit rose by 14% to CHF 41 million.

BCV branch in Guernsey

The BCV branch in Guernsey (BCVG), which was opened in 2002, expanded its operations in accordance with its business plan and fully achieved its objectives. The purpose of this branch is to take bank deposits and invest them in newly-issued structured products. It has successfully participated in the launch of several structured products denominated in Swiss francs and euros, including instruments similar to the LEMAN reverse convertibles on foreign stocks. At the end of the reporting year, it was managing fiduciary investments denominated in more than ten foreign currencies.

Logistics Division

The Logistics Division provides the various business units of BCV with support in the areas of organization, infrastructure, payment transactions and information technology. In IT, it handles liaison between the Bank and Unicible, the IT company that became a wholly-owned subsidiary of BCV on 1 July 2002.

The reporting period saw a marked reduction in the Bank's portfolio of available-for-sale real estate holdings. In close cooperation with the Finance & Risks Division, over 320 real-estate items were sold off for a total amount of more than CHF 200 million. On the infrastructure side, the real-estate department set up a banking boutique at the new Aigle shopping centre and a cash dispenser zone at Avenches.

Back-office operations picked up strongly in volume terms last year. This was particularly true of the trading back office, where securities transactions reached a level last seen in 2000 (a very good year). In the payments back office, the growing interest of our customers in the Internet was again very much in evidence. Well over half of all payment transactions with BCV are currently made online.

The Division currently has around thirty sizeable IT projects under way. It completed a number of major projects during the year, including E-Forex, an Internet-based currency-trading project for customers which was launched early in 2004. The reporting period also saw the launch or continuation of development programmes that are important for the future of BCV, including those dealing with the management of lending procedures and implementation of decision-making tools.

- e-Services

The Bank's online services expanded strongly in the year under review. The number of BCV-net contracts rose to some 70,000 (+26 %) and Internet payment transactions increased by 16 %. Over half of our small-business (SME) clients now bank online. What is more, over 85 % of payment transactions in major companies are routed through BCV-net. The number of private customers who have opted for BCV-net rose by 30 % in 2003, accounting for 15 % of the total. Customers polled on the quality of this service gave it a very high rating (satisfaction rate of 95 %).

e-Sider.com is the name of BCV's online brokerage service. It offers investors round-the-clock access to six European and American securities exchanges, together with timely information and neutral stock-market recommendations from two specialized online service providers. In addition, customers of e-Sider.com can trade in the Swissca investment funds managed by cantonal banks as well as those of Gérifonds and several other issuers. Helped by the stock market rally, our brokerage service made great strides in 2003. Over a thousand users visit the site every day. It also hosts the the Yellow Trade online platform of the Swiss Post Office, which posted a strong increase in the number of contracts last year.

The e-Services Department was transferred to the Retail Banking Division early in 2004.

Management Services

Supervised by the CEO, Management Services comprise the human resources, strategic projects, legal, compliance (see page 29) and communications departments, as well as the corporate secretary.

In 2003, BCV Group introduced a human resources model which recognizes and evaluates individual performance and teamwork while promoting a success-oriented corporate culture. The Group had 2,483 full-time employees on its payroll at the end of the year, including 119 at foreign subsidiaries. The decline of 196 in total staff numbers compared with 2002 was mainly due to a reduction in the headcount at the parent company.

Full-time-equivalent work units (FTEs) at the parent company numbered 1,863 at end-2003. The net decline in staff was 153 FTEs. This decrease is in line with the parent company's objective of cutting staff numbers by around 10 % compared with 2001. Finally, a total of 6,880 training days were dispensed at the training centre for BCV and the cantonal banks of French- and Italian-speaking Switzerland, and 81 apprentices were trained at the Bank.

During the year, communication and marketing at BCV were thoroughly reorganized with a view to increasing their efficiency. Communication with institutional investors and within the Group itself are under the direct supervision of the CEO, while marketing and sales campaigns for the Bank's various products and services are under the direct responsibility of front-office divisions.

Developments at the main subsidiaries

- Unicible

Having become became a wholly-owned BCV subsidiary in June 2002, Unicible turned in a solid performance for 2003, making the most of its expertise in the area of IT solutions for banks.

Unicible posted gross turnover of CHF 153.5 million, up 3% compared with 2002. It consolidated its position with long-standing customers by expanding its range of services. Its attractive product and service offering also won the company new customers, including CEPY (Caisse d'Epargne et de Prévoyance d'Yverdon-les-Bains SA), the Anker private banking firm and Bobst Group SA.

Thanks to strict financial management, Unicible succeeded in reducing its production and development costs and increasing profitability. Net profit for the reporting year was CHF 9.6 million, or 45% more than in 2002.

The company focused on being even more market-responsive in 2003. With a higher volume of transactions processed than in 2002, Unicible demonstrated its ability to meet the needs of demanding customers efficiently and professionally.

- Caisse d'Epargne et de Prévoyance d'Yverdon-les-Bains SA – CEPY

CEPY saw a change in its organizational structure during the year, with Jacques R. Meyer, who heads the Retail Banking Division at BCV, taking over as Chairman of the Board of Directors. CEPY also decided to entrust Unicible, a company in BCV Group, with its IT operations.

- Banque Piguet & Cie SA

Banque Piguet & Cie SA did very well in 2003. A successful investment strategy and new customers on its traditional markets as well as in the Middle East and Latin America were the main drivers of a significant increase in assets under management and in earnings.

The bank's investment strategy enabled clients to benefit from rising stock markets and take advantage of the opportunities afforded by alternative investments, without being hit too badly by the falling dollar. Assets under management rose by 37.8% to CHF 2.99 billion. With financial markets moving as predicted by its specialists, earnings at Banque Piguet & Cie SA were well above expectations. In addition, good cost control was another element which helped to triple net profits.

Charles de Boissezon was appointed as a new member of the Executive Board. He replaced the late Pierre Déjardin-Verkinder as President of the Board with effect from 1 January 2004.

- Banque Galland & Cie SA

On 1 November 2003, the private banking operations of Banque Galland & Cie SA, Lausanne, were sold to Banque Franck SA, Geneva. All the employees of Banque Galland & Cie SA were offered jobs at BCV and Banque Franck SA.

- BCV Finance (France) SA

  BCV Finance (France) SA operates in the French asset and investment management market. Its services include portfolio management, lombard loans, estate planning, order processing, custodial services and a selection of UCITS from other institutions.

  After a major restructuring programme in 2002, involving the merger-by-acquisition of Ecofi Finance and the takeover of Arpège Finance SA, an investment and consultancy company, BCV Finance (France) SA focused on the clients of independent financial advisors in the year under review.

- A&G (Asesores y Gestores Financieros SA)

  As agreed when BCV first invested in this company in June 2000, BCV's shareholding in Asesores y Gestores Financieros SA, Madrid, the holding company of the A&G Group, was increased from 33.33% to 50% in October 2003.

  A&G is made up of eight companies (seven based in Madrid and a representative office in Barcelona). It offers a comprehensive and personalized investment management service to high-net-worth individuals, as well as institutional clients operating in the Spanish market.

  Its business performance was very satisfactory in 2003, a year in which the volume of assets under management more than doubled.

- Gérifonds

  From end-2002 to end-2003, total assets of the 61 Swiss-registered funds administered by Gérifonds rose by 18.3% to CHF 12.7 billion. Over the same period, total assets of the 37 Swiss- and Luxembourg-registered funds managed by the company showed an even more impressive increase: they were up 38% to CHF 3.8 billion, an all-time high.

  This positive development essentially reflected the favourable trend in stock markets after mid-March 2003, although the successful launch of new investment funds was also a major contributing factor. The spectacular growth in assets under management compares very well with a rise of barely 9% for the whole of the Swiss investment-fund industry during that period.

  In Luxembourg, the encouraging expansion of floor funds continued with the launch of a new segment of BCV DYNAMIC FLOOR FUND. Total assets of the three segments of this fund were up 81% on the year-earlier figure at the end of 2003.

  In Switzerland, BCV launched two equity segments and a third bond segment for the AMC PROFESSIONAL FUND, whose total assets amounted to almost CHF 387 million at 31 December 2003.

  Strong investor interest in alternative funds was very much in evidence last year. Total assets of the three funds of hedge funds launched in June stood at CHF 250.4 million at end-December.

  In addition to the marketing of an alternative fund for Heritage Finance & Trust Company, Geneva, the creation of entities for "private label funds" continued with the launch of BBGI FUND for Bearbull Gestion Institutionnelle, Geneva. This is an umbrella fund with six segments, whose total assets amounted to CHF 145 million at the end of 2003.

  Lastly, a new convertible bond fund, IFP FUND, rounded out the existing range of products early in October. This fund, which is managed by IFP Intermoney Financial Products SA, Pully, had total assets of CHF 19 million at end-2003.

- GEP SA

GEP SA, which specializes in the administration of BCV Group's real-estate investment funds, was founded in 1953 and has a share capital of CHF 1.5 million. It administers the Fonds Immobilier Romand (FIR), whose total assets amounted to some CHF 499 million at year-end. This fund was created in 2002 by the merger of three former funds (FIR, FIR 1970 and CLAIR-LOGIS). FIR is invested exclusively in residential property in the French-speaking part of Switzerland. With over 140 buildings and 2,900 flats on its books, it is a major player in the regional real-estate market.

FIR posted a 10.2% performance in 2003. According to the Micropal rating agency, its five-year performance stands at 37.3%. The main factors driving this strong showing have been the lack of a sustained upward trend on the stock markets and ever-lower interest rates. Their combined effect has been to encourage investors to put their money into real-estate investment funds.

Following a new issue that was launched in June 2003 and an increase in the unit price, FIR's market capitalization rose by 27% to CHF 484 million. Seeking to leverage the chronic shortage of living accommodation in the Lake Geneva rim area with an eye to growing its business, FIR embarked on a major residential building programme in 2003. Subject to pending building permit applications, the capital expenditure involved will be around CHF 100 million in the medium term.

- Sogirom

Sogirom, a real-estate company, has been a wholly-owned subsidiary of BCV since 2002. It operates on the real-estate market in French-speaking Switzerland in the areas of condominium management, property inspections, and planning and supervision of construction work. The company manages approximately 10,500 leases for property in roughly 550 buildings. Last year, in a market where residential units were in short supply, it succeeded in bringing down the vacancy rate despite the difficulty of renting out commercial properties in less attractive areas.

BCV investment funds

	Investment area	Fund assets in CHF millions at 31.12.2003	Year of launch
Luxembourg-registered funds			
BCV Dynamic Floor Fund			
BCV Dynamic Floor Fund – World Expobond (EUR)	Worldwide	188.0	2000
BCV Dynamic Floor Fund – World Expoequity (EUR)	Worldwide	33.0	2000
BCV Dynamic Floor Fund – World Expoequity REP (EUR)	Worldwide	144.8	2003
Sub-total		365.8	
Swiss-registered funds			
Japac Fund	Japan	157.4	1970
Sub-total		157.4	
BCV Emerging Markets Fund			
Seapac Fund	South-East Asia	229.0	1973
Chinac Fund	China	21.2	1994
Latinac Fund	Central and South America	35.9	1995
Euromed Fund	Southern Europe	80.3	1989
Euromac Fund	Europe	23.6	1998
Indiac Fund	Indian Subcontinent	26.5	2000
Sub-total		416.5	
BCV Strategic Funds			
BCV Stratégie Obligation	Worldwide	558.8	1996
BCV Stratégie Revenu	Worldwide	517.3	1996
BCV Stratégie Croissance	Worldwide	472.4	1996 (1991)
BCV Stratégie Dynamique	Worldwide	71.1	1999
BCV Stratégie Actions Suisses	Switzerland	122.0	1997
BCV Stratégie Actions Monde	Worldwide	34.0	1997
Sub-total		1 775.6	
AMC Professionnal Fund			
AMC Pro Europe Equity	Europe	100.0	2003
AMC Pro US Equity	United States	223.7	2003
AMC Pro International Bonds	Worldwide	63.1	2003
Sub-total		386.8	
AMC Alternative Fund			
AMC Defensive Alternative Funds	Worldwide	108.3	2003
AMC Directional Alternative Funds	Worldwide	106.6	2003
Sub-total		214.9	

BCV investment funds

	Investment area	Fund assets in CHF millions at 31.12.2003	Year of launch
Private label funds			
AIT Funds			
AIT Swiss Equity Fund	Switzerland	14.5	1999
AIT European Equity Fund	Europe	20.3	1999
AIT International Bond Fund	Worldwide	8.0	1999
Sub-total		42.8	
BCGE / Synchrony Group funds			
BCGE Rainbow Fund – Diamant	Worldwide	56.3	1990
Sub-total		56.3	
Synchrony Market Fund			
Swiss Equity	Switzerland	96.0	1996
European Equity	Europe	27.1	1996
US Equity	United States	23.7	1997
Swiss Government Bonds	Switzerland	39.2	1996
Sub-total		186.0	
BBGI Fund			
BBGI Tactical Switzerland	Switzerland	16.2	2003
BBGI Tactical European	Europe	29.0	2003
BBGI Tactical World	Worldwide	14.3	2003
BBGI Total Return CHF	Switzerland	39.3	2003
BBGI Total Return EUR	Europe	40.1	2003
BBGI Total Return USD	Worldwide	6.2	2003
Sub-total		145.1	
Heritage Fund			
Heritage Alternative Fund (CHF)	Worldwide	35.5	2003
Sub-total		35.5	
IFP Fund			
IFP Global Convertible Bonds (CHF)	Worldwide	19.1	2003
Sub-total		19.1	
Total BCV funds		**3 801.8**	

Business sector analysis

Methodology

Segmental results are presented at BCV Group level, in accordance with generally accepted accounting principles used for preparing the consolidated financial statements.

Segments are broken down according to the Bank's core businesses:
Retail Banking covers operations with retail customers and micro-businesses.
Private Banking focuses on private and institutional clients.
Corporate Banking deals with major corporations, SMEs, public-sector entities and international financing operations.
Trading encompasses financial-market transactions executed by the Bank for its own account (forex, equities, interest-rate instruments and derivatives).
The Corporate Center comprises the Executive Board and the attached service departments (human resources, communications, compliance and legal), the Finance & Risks Division (ALM, special affairs, financial investments, etc.) and the Logistics Division (back offices, real estate, IT).

Subsidiaries are allocated to the appropriate operating segment.

As a general rule, gross income (including commission income) is allocated to the segment which is responsible for the customer or to which the customer's account manager is attached.

For segments dealing with customers, the "Interest" item represents the Group's net commercial spread, i.e. the difference between the rate charged to the customer and the Swiss-franc rate on the money market, taking into account the nature and duration of the transaction.

For the Corporate Center, net interest income comprises gains/losses on mismatched maturities, as well as the cost of financing fixed assets and receivables in special affairs.

Income from securities and currency trading is determined on a portfolio basis and allocated to the segment to which the portfolio manager is attached.

"Other income" is broken down account-by-account or case-by-case, depending on the nature of the items and the information supplied by the account manager. This item includes gains on disposals of financial assets.

Operating expenses are allocated in two stages. The first of these involves charging direct expenses to the segments that consume the resources (salaries, premises, IT, etc.). In the second stage, indirect or central expenses are allocated on the basis of services provided to other segments (internal invoicing at cost).

The "Value adjustments, provisions and losses" item records the cost of the borrower risk anticipated for each segment. The difference between anticipated risks and actual losses or provisions is allocated to the Corporate Center.

The difference between taxes calculated per segment and taxes actually payable by the Group is booked to the Corporate Center.

Segmental results for the 2003 financial year (in CHF millions)

	Retail Banking	Private Banking	Corporate Banking	Trading	Corporate Center	BCV Group 2003	BCV Group 2002
Interest margin	199.5	49.7	223.1	0.8	(54.4)	418.8	428.7
Net commissions	33.5	178.7	47.9	3.0	25.0	288.1	302.1
Trading income	9.3	26.0	7.6	65.5	0.8	109.2	60.4
Other income	2.5	5.8	3.9	0.0	114.9	127.1	67.2
Gross banking income 2003	**244.8**	**260.2**	**282.6**	**69.3**	**86.3**	**943.1**	
2002*	258.7	245.6	316.8	63.8	(26.3)		858.5
Personnel costs	(53.2)	(87.4)	(53.7)	(14.2)	(164.0)	(372.7)	(346.5)
Operating expenses	(46.1)	(49.6)	(31.7)	(14.1)	(40.1)	(181.5)	(192.0)
Gross profit 2003	**145.5**	**123.2**	**197.1**	**41.0**	**(117.8)**	**388.9**	
2002*	159.2	107.3	228.5	35.9	(210.9)		320.0
Depreciation	(16.6)	(19.3)	(13.5)	(6.0)	(95.7)	(151.0)	(107.6)
Interdivisional billing	(61.2)	(42.9)	(19.6)	(2.9)	126.6		
Gross profit after depreciation and interdivisional billing	**67.7**	**61.0**	**164.0**	**32.1**	**(87.0)**	**237.9**	**212.3**
Value adjustments, losses, provisions, extraordinary income and expenses	(23.0)	(6.6)	(99.6)	(0.3)	65.4	(64.1)	(1 403.9)
Taxes	(10.2)	(14.1)	(15.5)	(7.9)	30.9	(16.7)	(8.0)
Net profit 2003	**34.5**	**40.4**	**49.0**	**24.0**	**9.4**	**157.2**	
2002*	49.1	39.0	58.0	21.6	(1 367.3)		(1 199.7)
Equity allocated	340	250	750	95	965	2 400	2 350
Profitability ratios (%)							
ROE for gross profit after depreciation	19.9	24.4	21.9	33.7		11.3	
2002	24.0	17.4	22.0	28.0			9.3
ROE for net profit	10.1	16.1	6.5	25.2		6.5	
Expenses/Income**	0.72	0.77	0.42	0.54		0.71	0.75
Average staff numbers							
Direct	467	541	386	79	1 086		
Indirect	227	160	70	34	(491)		
Total	**694**	**701**	**456**	**113**	**595**	**2 560**	**2 510**
Data per employee							
Gross banking income	353	371	620	610		368	342
Expenses	–255	–284	–260	–327		–263	–255
Gross profit after depreciation	98	87	360	283		105	
2002*	119	68	384	230			87

* 2002 figures restated to facilitate comparison, in particular following changes in the organization of business units.
** Ratios and indicators do not take account of write-downs on goodwill.

NB: Numbers have been rounded, so totals may not correspond exactly to the sum of individual items.

events

Significant Events in 2003

Extraordinary General Meeting of the Shareholders (5 February 2003)

At the Extraordinary General Meeting of the Shareholders held on 30 October 2002, BCV had reported the results of a comprehensive and in-depth analysis of its risks, and announced its intention to restructure its balance sheet by increasing provisions by CHF 850 million and shareholders' equity by CHF 400 million.

The Extraordinary General Meeting of the Shareholders held on 5 February 2003 was attended by 1,121 shareholders representing 77.25 % of the share capital. The meeting adopted the first resolution, which was to reduce BCV's share capital from CHF 1.061 billion to CHF 530.5 million by lowering the nominal value of shares from CHF 125.00 to CHF 62.50.

The meeting was then asked to approve the issue of 13,586,956 non-voting dividend-right participation certificates with a nominal value of CHF 62.50 and an issue price of CHF 92.00. These certificates carried a preference dividend entitlement of CHF 3.33 for fiscal 2003, contingent on the Bank's results for the period.

The decision to issue participation certificates rather than shares was taken in order to avoid any further increase in Vaud Canton's stake in the Bank relative to that of private shareholders. Unlike shares, the certificates do not carry the right to vote and do not alter the balance between public- and private-sector ownership of BCV's capital.

The subscription period for these certificates ran from 12 to 20 February 2003. Since over 99 % of the certificates issued were bought by the Canton, no request was made to list them on the SWX Swiss Exchange.

Audit certificate issued by the Statutory Auditors to the Board of Directors concerning the increase in capital by the creation of a participation-certificate capital Banque Cantonale Vaudoise, Lausanne

As statutory auditors of Banque Cantonale Vaudoise, we have audited the report on the capital increase of 25 February 2003 as required by law.

This report on the capital increase is the responsibility of the board of directors. Our responsibility is to express an opinion on this report based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the report on the capital increase is free from material misstatement. We have carried out the examinations required by the given circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information contained in the report on the capital increase is complete and accurate and complies with the resolution adopted by the Extraordinary General Meeting of Shareholders on 5 February 2003.

KPMG Fides Peat

Raphaël Jaquet — Mario Castelnuovo
Auditor in Charge

Geneva, 25 February 2003

General Meeting of Shareholders (AGM) of 22 May 2003

The General Meeting of Shareholders of 22 May 2003, attended by 1,076 shareholders representing 81.23% of the share capital, overwhelmingly adopted the recommendations of the Board of Directors, and approved the Annual Report and financial statements for 2002.

The balance-sheet loss of CHF 1,220,304,878 was covered by the withdrawal of an equivalent amount from the general legal reserve, bringing it to CHF 701,876,924 after taking into account the allocations resulting from the decisions of the Extraordinary General Meeting of Shareholders of 5 February 2003 and before deduction of the issuing costs for the participation-certificate capital. KPMG Fides Peat SA was appointed as the Statutory Auditors and Group Auditors for the 2003 financial year.

Participation-certificate capital

Benefiting from favourable capital market conditions, Vaud Canton raised loans totalling CHF 1.25 billion at an average interest rate of 2.92%. These loans ensure the long-term refinancing of the BCV participation-certificate capital acquired by the Canton in February 2003. The Bank's Board of Directors will therefore recommend to the General Meeting of Shareholders of 28 April 2004, and to a special meeting of participation-certificate holders, that the preference dividend to be paid by the Bank from the 2004 financial year onwards, provided that its results allow such payment to be made, be set at CHF 2.69 per certificate, which represents 4.30% of the nominal value of CHF 62.50. The preference dividend for 2003 was set at CHF 3.33, or 5.328% of the nominal value.

Ongoing proceedings

BCV is currently the subject of various proceedings. The Board of Directors has set up an *ad hoc* committee within its ranks to keep track of these developments, in accordance with the Bank's Articles of Association and by-laws.

- Paolo Bernasconi enquiry
  On 8 November 2002, the Vaud Cantonal Government (Conseil d'Etat vaudois) and BCV set up an independent enquiry, conducted by Paolo Bernasconi, into responsibility for the losses at BCV and their late recognition in the Bank's financial statements. Mr Bernasconi published his findings on 29 January 2003, and these were sent on 1 July to the investigating magistrate in charge of the criminal investigation, the parliamentary enquiry committee and the Swiss Federal Banking Commission. On 1 October, the Vaud Cantonal Government decided to publish the report, considering that there were no longer any sufficiently compelling public or private interests to justify withholding publication.

- Criminal investigations
  The findings of the Bernasconi enquiry were sufficiently serious for Vaud Canton and the Bank to file criminal complaints against persons unknown. These complaints follow those previously filed by private shareholders, and the affair is now pending before the Canton's investigating magistrate.

- Parliamentary enquiry
  Early in 2003, the Vaud Cantonal Parliament decided to open its own enquiry into BCV and appointed a parliamentary committee for this purpose.

- Swiss Federal Banking Commission enquiry
  The Swiss Federal Banking Commission decided to open its own enquiry on 27 February 2003. The decision was taken following the findings of the Bernasconi report on BCV and BCV's

governing bodies and representatives of the audit firm Ernst & Young SA concerning events that took place between 1996 and 2000.

- Revocation of dismissal
  On 7 August, the Federal Tribunal, Switzerland's highest court, disallowed the decision of the Vaud Cantonal Government to remove Ralph Ziegler from office. Mr Ziegler was removed from his post as a member of the BCV Executive Board, effective 30 January 2003, and is no longer active at BCV.

Mortgage rate

In response to market trends and with an eye towards maintaining the Bank's competitive pricing structures, the Executive Board eased BCV's terms for floating-rate residential mortgage loans, cutting the rate on existing loans by 0.25% on 1 July 2003. This reduction brought the benchmark mortgage rate for the calculation of rents under federal law from 3.50% to 3.25% on that date.

Rating

In a press release issued at the end of April 2003, the rating agency Standard & Poor's (S&P) announced that it was keeping BCV's rating unchanged at A- for long-term debt and A-2 for short-term borrowings. S&P's decision to maintain this rating and remove BCV from the S&P Watch List was very good news for the Bank. The Watch-List decision was particularly encouraging. These developments showed that S&P recognized the quality of the work that has gone into restructuring the balance sheet, managing all types of risk efficiently and generating fresh impetus by refocusing on core business areas.

Structural realignment

On 15 November 2002, the Executive Board adopted a new organizational structure for the Bank, with the prior approval of the Board of Directors. This new organization was underpinned by three key ideas:

- BCV must refocus on its core areas of expertise, i.e. retail banking, corporate banking, private banking and asset management, and trading.
- The Bank's organizational and operational structures must be efficient, consistent with the Bank's size, and tailored to its main business activities.
- The Bank must fundamentally change its corporate culture with regard to risk management.

This structural realignment gave rise to the following developments in 2003:

Governing bodies

During the reporting period, the Board of Directors addressed itself to supervising the implementation of the new strategy, defining and applying the new rules of corporate governance, and becoming even more thoroughly acquainted with the Bank.

The corporate governance principles adopted at BCV are set out in detail on page 78.

A new set of internal rules was approved pursuant to the Articles of Association. This document specifies the working procedures, tasks and powers of the governing bodies, as well as the Bank's main areas of business.

In the light of the findings of Paolo Bernasconi, the expert appointed by the Vaud Government and the Bank to investigate the causes of losses at BCV, the Board of Directors decided to terminate the employment of two Executive Board members, Pierre Fischer and Ralph Ziegler, and the head of the Compliance Department, Bernard Kraehenbuhl, with immediate effect.

In addition, Jean-Pierre Launaz, Corporate Secretary and Secretary to the Board of Directors, tendered his resignation. Lastly, Jacques Brossard, who was in charge of the Private Banking and Asset Management Division, announced his resignation during the year.

The following appointments were also made:
– Jean-François Schwarz, new head of the Corporate Banking Division and Executive Board member, effective 1 March 2003.
– Patrick Borcard, new head of Internal Audit and senior vice president, effective 12 May 2003.
– Pascal Kiener, Chief Financial Officer, member of the Executive Board and new head of the Finance & Risks Division, effective 1 June 2003.
– Christopher E. Preston, new head of the Private Banking and Asset Management Division and Executive Board member, effective 1 January 2004.

Finally, Christian Monnier was appointed as Secretary to the Board of Directors and its Committees, and Philippe Dieffenbacher was named Secretary to the Executive Board.

Structures

- Management Services

  The Communications Department was reorganized, re-aligning its activities on the Bank's strategic objectives. The Compliance Department was significantly strengthened, in particular by the appointment of a Chief Compliance Officer (see page 29).

- Finance & Risks Division

  The appointment of a new Chief Financial Officer and several talented executives to key posts significantly enhanced the professionalism of this division, in line with its newly-enlarged areas of responsibility. This reflected the Bank's determination to bring about a radical change in its corporate culture by tightening control procedures, stepping up the efficiency of asset and liability management, and ensuring that the risks inherent in the banking business – credit, market and operational risks – are managed even more rigorously and professionally.

- Corporate Banking Division

  A new head of division took over on 1 March 2003. This division's main activities are:

- Developing relations with small- and medium-sized firms (SMEs).
- Expanding business with large corporations.
- Correspondent banking and international financing.
- Credit management and administration.

  The organization of the division was rounded off by filling a number of key executive positions and setting up a marketing department.

- Private Banking and Asset Management Division

  This division oversees all BCV wealth management activities for private and institutional clients, independent financial advisors (i.e., external asset management), the development of BCV Group and relations with foreign subsidiaries. It includes the departments in charge of the Bank's investment policy and financial planning, and also has a marketing department. A new head of division was appointed at the end of 2003 and took up his duties on 1 January 2004.

- Retail Banking Division

  This division focusses on retail customers throughout Vaud Canton. Mirroring the Bank's community-based approach, the division was restructured into five regions, helping BCV stay close to its customers throughout the Canton. The division now has its own marketing department. At the beginning of 2004, the BCV department which handles alternative distribution channels and business outside Vaud Canton, and which includes e-Services, was brought within the division.

- Trading Division

  This recently-reorganized division consists of the equity, fixed income, foreign exchange and marketing departments.

- Logistics Division

  This division encompasses the departments responsible for information systems management, real estate, infrastructure and general services, and the trading and payments back-offices. It also supervises market research.

management

Risk Management at BCV

Core principles and goals

BCV's risk management is intended to help it achieve stable, sustained development by ensuring that its risks are appropriate for its level of capital, which determines its risk-taking capacity. Risk management at BCV may be broken down into three core concepts:

- **a transparent approach to evaluating and disclosing risk-taking capacity:** valuing the Bank's assets and liabilities using clearly-defined, widely-accepted methods which themselves keep apace with recent changes in the regulatory environment. This allows the Bank to determine the value of its capital base from both an economic and a regulatory standpoint, and thus define its risk-taking capacity transparently;
- **a transparent approach to evaluating and disclosing risk exposure:** this concerns the risk exposures resulting from the Bank's various activities;
- **risk appetite:** selecting the Bank's level of risk exposure.

BCV's risk-management policies and their implementation within each division are based on the following principles:

- risk-management policies and strategy are defined by the Executive Board and submitted to the Board of Directors for approval;
- responsibilities for the definition of risk criteria and risk control are separated from entities responsible for risk acceptance, in particular as regards credit risk and market risk;
- business units are responsible for the costs incurred as well as the revenues generated as a result of their risk-taking.

In 2002, BCV set up the Risk Management Department, headed by a Chief Risk Officer (CRO), to implement these principles. In early 2003, BCV set up the Executive Board Risk Committee (EBRC).

Executive Board Risk Committee

The EBRC is one of the five committees of BCV's Executive Board. The committee is chaired by the Bank's CFO (who runs the Finance & Risks Division), and also comprises the CEO, the heads of the Trading and Corporate Banking Divisions and the CRO.

The key points of the EBRC's brief are as follows:

- to put forward proposals concerning the Bank's risk-taking strategy and the principles governing the Bank's risk-management activities to the Executive Board, for subsequent approval by the Board of Directors;
- to examine and approve all proposals regarding the implementation of risk-management policy – in terms of methodology, procedures and organization (all such proposals are first vetted by the CRO);
- to closely monitor the Bank's risk exposure and risk profile based on the CRO's monthly risk reports;
- to monitor all BCV risk-management projects.

The Risk and Return Management Department

The Risk and Return Management Department has the following tasks:

- to put forward proposals concerning the Bank's risk-taking strategy and policy on credit risk, and to validate its risk-taking strategy and policy on other types of risk;
- to design credit-risk management methods and tools as well as validate risk-management methods and tools for other types of risk;
- to verify that all activities involved in credit-risk management comply with the credit-risk management policy regarding organization and procedure, and to monitor the application of credit-risk management methods and tools;
- to provide full reporting on all the Bank's risks.

Credit-risk management within the divisions

Following the re-organization in November 2002, credit-risk management throughout BCV has had the following main objectives:

- to ensure a stricter separation between risk-taking and risk control;
- to ensure that impaired loans are managed separately from non-impaired loans.

Bank-wide guidelines have been drawn up defining levels of authority on loan approvals. They cover each division and set specific approval authorization limits for both secured and unsecured loans. Above these limits, the Executive Board Credit Committee either makes loan approval decisions itself or examines them and submits a recommendation to the Board of Directors, which in turn makes the final decision.

Market-risk management

- Market risks – the Bank's own-account positions

The Trading Division is assigned responsibility for market risks taken on the positions in the trading book. The Private Banking and Asset Management Division has responsibility for the financial management portfolio. The Finance & Risks Division and the Executive Board have responsibility for other longer-term holdings.

The Market-Risks Management Sector monitors market risks on these portfolios. This sector is a back-office unit in the Logistics Division and is therefore separate from the risk-taking divisions.

At portfolio level, market risks are measured using statistical methods known as Value at Risk (VaR), which express the potential loss on the current trading-book portfolio for a given time horizon, along with stress tests for the trading and financial management portfolios.

For the Trading Division's positions in currencies, equities and fixed-income securities, sensitivity analyses (which gauge the sensitivity of the economic value of positions concerned to changes in the value of the underlying) and stress tests (which simulate unlikely but nevertheless plausible "stress" scenarios in which market variables fall or rise very sharply) are conducted. These analyses complement the information provided by the VaR-based methods.

- Interest-rate risks – ALM

The Asset and Liability Management (ALM) Department of the Finance & Risks Division manages interest-rate risk. The Executive Board's ALM Committee develops the overall interest-rate risk strategy and sets interest-rate risk limits in line with the strategic and operational limits set by the Board of Directors and the Executive Board.

The Bank uses several methods of analysis to measure its interest-rate risk. It performs maturity-gap analyses, analyzes the sensitivity of the economic value of equity to variations in interest rates, employs VaR-based methods, and conducts dynamic "stress-test" simulations on the interest margin.

The Bank's current ALM interest-rate risk policy is intended to keep interest-rate risk exposure at a low level.

- Market risks:
  short-term foreign exchange-rate risks
  The Treasury Management Sector of the Trading Division manages the risks resulting from exchange-rate fluctuations for time horizons of less than one year on assets and liabilities denominated in foreign currencies.

  Short-term exchange-rate risks on foreign-currency-denominated transactions are systematically converted to Swiss-franc-denominated interest-rate risks through currency swaps.

The Bank's liquidity risk management

The Treasury Sector handles the Bank's short-term funding and liquidity management, which is conducted in compliance with the liquidity ratios set forth in articles 15 to 20 of the Implementing Ordinance on Banks and Savings Banks via money-market transactions.

- Liquidity Management
  Most excess liquidity is invested in repurchase agreements (REPOs), which diminishes counterparty risks and equity coverage requirements on these transactions. Additional excess liquidity is placed in Swiss Confederation and Swiss cantonal money-market book claims, and remaining liquidities are used to purchase high-grade commercial paper.

- Funding Management
  The Bank uses various methods to raise short-term debt, with funding coming in particular from interbank loans, customer deposits, lombard loans and REPOs.

  The Treasury Sector also uses derivative transactions, essentially short-term rate swaps and forward rate agreements.

Operational risk management

Operational risks are risk exposures that are inherent in banking activities but are incurred indirectly. They include compliance and legal risks as well as technical and processing risks.

The Compliance and Legal Departments are responsible for identifying and monitoring compliance and legal risks. These departments report directly to the CEO.

Until the end of 2003, technical operational risks were managed by the Logistics Division. Since January 2004, they have been managed by the Risk and Return Management Department.

An important new compliance project has been initiated to ensure compliance with new requirements concerning the prevention of terrorist financing and money laundering, pursuant to the Swiss Federal Banking Commission's Implementing Ordinance on Money Laundering, which took effect on 1 July 2003.

compliance

Compliance Office: Activities and Organization

Mission

Compliance-related standards result from legislation, regulation and agreements, banking ethics, in-house rules and the BCV Mission Statement and Code of Best Practice. The Compliance Office provides strategic support for the Executive Board and the Board of Directors in fulfilment of their duty to ensure full implementation of all relevant requirements by all departments of both the parent company and the Group. It also assists these bodies in managing any situations that may place the reputation of the parent company and the Group at risk, and in monitoring their market operations.

The Compliance Office's brief includes prevention, advice, support, monitoring and supervision, but it has no decision-making powers; these belong solely to line management and the Bank's governing bodies. It is responsible for ensuring that effective internal directives are drawn up and that appropriate staff training is provided.

The Office also monitors legal developments and changes in best practice within the banking sector, and revises the BCV Mission Statement, Code of Best Practice and internal directives accordingly.

Position and independence

The Compliance Office is an independent unit that reports directly to the CEO, working closely with the Legal Department and the Internal Audit. The Chief Compliance Officer (CCO) prepares regular reports for the Executive Board and the Board of Directors (which are channelled through the Audit Committee) as well as *ad hoc* reports in important cases.

Resources

The Compliance Office has unrestricted access to all necessary documents, including internal audit reports, within both the parent company and the Group.

Organization

The CCO is in charge of overall compliance at the parent company, particularly with respect to personnel and communications policy, compliance issues at Group level and relations with compliance offices at subsidiaries, as well as compliance-related aspects of corporate governance. He is assisted by two teams of specialists: one handles the specific problems of the various divisions in which its members operate, while the other deals with matters affecting all the divisions and manages key compliance-related projects.

Challenges in 2004

In the current year, the Compliance Office is confronted with the considerable task of implementing the Swiss Federal Banking Commission's new Ordinance on Money Laundering, which took effect on 1 July 2003. This ordinance calls for a major effort by all Swiss banks regarding the identification and treatment of so-called "heightened-risk" customers. BCV therefore embarked on an ambitious data collection and analysis project in 2003, with a view to controlling the legal and reputation-related risks associated with money-laundering. The Compliance Office will also be revising BCV's internal directives and implementing improvements in the processing of customer complaints during the 2004 reporting period.

Compliance at Group level

The Compliance Office of the parent company works closely with Group companies. It provides assistance and support for compliance activities within the subsidiaries, and is empowered to issue Group-wide compliance directives. It may also require compliance units at Group companies to furnish reports, and in important cases to file a report immediately. Finally, it is invested with the monitoring and supervision of compliance activities at Group companies, which allows it access to relevant documentation within the limits prescribed by banking legislation.

What is compliance?

The organizational guidelines issued by the Swiss Bankers Association in 2002 contain the following definition of compliance:
Conformity of a company's activities with the law, regulations and internal rules. One of the basic functions of management is to ensure that laws, articles of association, regulations, directives, etc. are fully observed. The compliance service assists management in accomplishing this task and ensures observance of applicable provisions in order to identify at an early stage the risks associated with regulations which could harm the company's reputation, to avert such risks as far as possible and to guarantee the company's irreproachable business conduct.

comments

Comments on the Consolidated Financial Statements for 2003

Strategic decisions make for an encouraging year

The consolidated annual financial statements at 31 December 2003 confirm that BCV Group is on the road to recovery and continuously improving its performance. Total income increased in the reporting period, despite the impact of the strategic decisions to pull out of some operations and refocus on core business areas. At the same time, expenses were kept well under control on balance. Gross profit was up 21.6%. The Group ended the year with a net profit of CHF 157.2 million, enabling the Board of Directors to recommend an ordinary dividend of CHF 2.00 per share in addition to the preference dividend on the non-voting participation certificates.

Balance sheet: fewer loans outstanding due to strategic refocusing and an encouraging rise in customer deposits

Total assets amounted to CHF 34.3 billion at 31 December 2003, with a decrease of CHF 886.5 million, or 2.5%, reflecting the strategic divestitures decided on at the start of the year.

Loans and advances to customers fell on aggregate by CHF 1.82 billion, or 7%, to CHF 23.2 billion – a decline which was entirely due to the strategic measures implemented in the course of the year, i.e. the withdrawal from shipping finance and petroleum-product trade finance, the refocusing on core businesses and fewer impaired loans.

At CHF 15.90 billion (up 0.8%), total mortgage loans were practically unchanged, as the reduction in the volume of mortgage loans in the special affairs category was more than offset by new business amounting to CHF 350 million. This shows that the Bank was able to expand its mortgage lending in the highly competitive local market. Of total credit facilities extended, 82.4% were secured by mortgage or other collateral at the end of 2003, compared with 80.7% a year earlier. Foreign borrowers accounted for 15.2% of all advances, a proportion significantly smaller than in 2002 (22.5%).

The Bank's own assets, which comprise trading portfolio assets, financial investments, unconsolidated holdings and tangible fixed assets, fell by 5.3% to CHF 3.59 billion.

A decrease in the portfolio of available-for-sale real estate was the reason for the decline in financial investments by 7.4% to CHF 1.77 billion. As in earlier years, there were also changes in "Other assets" and "Other liabilities", which mostly reflected transactions in derivative financial instruments.

Finally, the cash generated by the recapitalization of the Bank at the start of the year and the strategic divestitures was used primarily to redeem maturing bonds. The balance was invested on the interbank market with a view to reducing the Bank's risk exposure. As a result, the "Due from banks" item rose by 53.6% to CHF 4.65 billion.

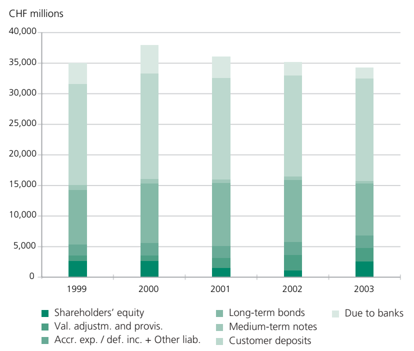
On the liabilities side, customer deposits and long-term borrowings totalled CHF 25.68 billion as at 31 December 2003, showing a decline of CHF 1.52 billion (5.6%) from a year earlier. But this downward movement should nevertheless be seen in perspective: customer

Consolidated Balance Sheet – assets

savings and investment accounts posted an encouraging rise of 4.9 %, or CHF 407.8 million, to CHF 8.75 billion in the reporting period. Customers showed a marked liking for preferential savings accounts (up nearly 10 % overall) as opposed to traditional savings accounts.

Savings held at Caisse d'Epargne Cantonale Vaudoise declined by 9.2 % to CHF 1.3 billion. Consequently, the amount guaranteed by Vaud Canton fell by 9.1 % to CHF 1 billion at the end of the year. This drop is explained by transfers to other savings accounts.

Consolidated Balance Sheet – liabilities



Other funds due to customers were down 1.9 % to CHF 158 million. Sight deposits registered a strong increase of CHF 1.17 billion (23.7 %) to CHF 6.14 billion, whereas term deposits – in particular those with maturities of 12 months or less – contracted sharply (down CHF 1. 34 billion, or 46.8 %, to CHF 1.53 billion).

The decline in medium-term notes observed in previous years continued in 2003, with total volume contracting by CHF 153.8 million, or 26.7 %, to CHF 422.7 million. In line with the general trend of interest rates, the average yield on these notes dropped from 3.29 % as at 31 December 2002 to 3.06 % a year later. Long-term borrowings were down CHF 1.62 billion (16.1 %) to CHF 8.47 billion at the end of the year. The Bank took advantage of its good cash position to redeem a number of high-cost bonds that were about to mature. The proportion of public bond issues was 26.6 % (28.4 % at end-2002). Mortgage-backed bonds accounted for 58.2 % of the total (52.3 %), private issues 13.1 % (15.2 %) and funds raised through the issue of structured products 2.1 % (4.1 %).

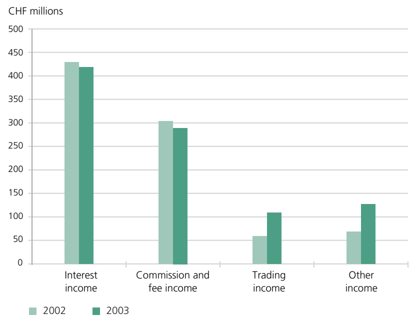
Changes in value adjustments and provisions, which declined by CHF 225 million (9.2 %) to CHF 2.22 billion, reflect the efforts to scale back the portfolio of impaired loans. Shareholders' equity at the end of the year was affected primarily by operations relating to the recapitalization of the Bank in February 2003.

The capital adequacy ratio for BCV Group, calculated in accordance with the rules drawn up by the Swiss Federal Banking Commission, was 156.3 % at the end of the reporting period.

Income statement: net profit of CHF 157 million

Given the overall business and financial climate during much of the year, together with the impact of the strategic refocusing measures, BCV Group's results for 2003 may be considered encouraging. Overall, income rose by 9.9% to CHF 943 million and expenses were well under control. Gross profit was up 21.6% to CHF 389 million. Thanks to sharply lower provisioning requirements (CHF 77 million), the Group posted a net profit of CHF 157 million. This is the result of the strategic measures implemented at BCV last year, renewed customer confidence, a modest upturn of financial markets and a major commitment on the part of our employees.

Changes in income breakdown



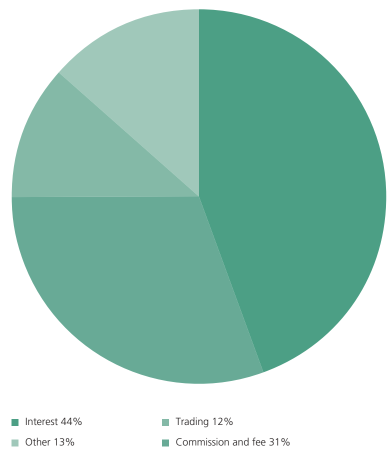
Income up 9.9%

BCV Group's total income amounted to CHF 943 million last year, an increase of 9.9%. On a constant basis of consolidation for Unicible, this increase was 5%.

Net interest income (down 2.3% to CHF 419 million) was very satisfactory, given the downturn in interest rates last year and the substantial reduction in the volume of impaired loans combined with the Bank's strategic refocusing. Thanks to strict control of interest-rate risk, the ratio of the interest spread to total assets held steady at 1.22% during the reporting period.

Net fee and commission income came to CHF 288 million, which was 4.6% below the year-earlier level. This decline was entirely due to the fall in commissions and fees from lending operations in the wake of the Bank's divestitures. On the other hand, commission income from private banking and wealth management operations remained stable. This result shows that the Group continues to have a very solid income base, bearing in mind the uncertain operating environment which prevailed for much of the year.

2003 Income breakdown



Net trading income amounted to CHF 109.2 million. This was due to the excellent results achieved in securities and derivatives trading, good risk management and effective volatility control. Income from securities and derivatives trading was well back in the black last year at CHF 47.1 million, after a small loss of CHF 0.9 million in 2002. Despite the unfavourable environment, income from currency trading rose slightly (1.6%) to CHF 51.4 million over the year.

At CHF 127 million, other ordinary income showed a marked increase of CHF 59.8 million (89%). This was mainly due to the change in the basis of consolidation for Unicible. On a like-for-like basis, this item rose by 16%.

Total income thus grew by 9.9% to CHF 943.1 million in 2003. Subsidiaries accounted for 24.2% of this amount, compared with 18.3% in the previous year.

Operating expenses well under control

Operating expenses were strictly controlled in the year under review. Although they did rise by 2.9% to CHF 554 million, the increase was mostly due to the new basis of consolidation for Unicible. On a constant basis of consolidation, operating expenses were down 2.3%.

Payroll expenses rose by 7.5% to CHF 372.7 million, but declined by 1.1% on a constant basis. This was due to the combined effect of a lower headcount and an increase in the variable component of staff compensation. This component, which is in line with market practice, was larger in 2003 because of the improvement in profits for the year.

The Group's headcount was down 7% to 2,483 (full-time equivalent), including 1,863 employees at the parent company and 119 at the foreign subsidiaries.

Other operating expenses declined by 5.4% to CHF 181.5 million. As in previous years, IT costs accounted for a substantial proportion of this item, even though they did fall by 26% in 2003.

Gross profit up strongly

Rising as it did by 21.6% to CHF 388.9 million, gross profit for the 2003 financial year shows that BCV Group not only held up well in difficult operating conditions but also reaped the benefits of its strategic refocusing. On a constant basis of consolidation, gross profit grew by 17.4%.

The Bank was able to sharply reduce risk exposure and the volatility of its earnings, especially that of returns on securities portfolios, while increasing its gross profit in a period marked by very low interest rates.

The strategic measures also had an impact on the "Depreciation and write-offs on fixed assets" item, as the Bank wrote off goodwill for several of its holdings following its withdrawal from certain areas of business.

"Value adjustments, provisions and losses" were also sharply reduced in the reporting period.

The consolidated income statement shows a net profit of CHF 157.2 million after extraordinary income and expenses, both of which were significantly lower than in 2002.

At the Annual General Meeting of Shareholders to be held on 28 April 2004, the Board of Directors will therefore recommend the distribution of a preference dividend of CHF 3.33 per participation certificate and an ordinary dividend of CHF 2.00 per share.

Outlook for 2004: the watchword is excellence

BCV Group's results for 2003 are most encouraging. Our private and business customers reaffirmed their loyalty to us and readily accepted the strategic refocusing measures implemented during the year. The return to profitability at BCV shows that the Bank's income base is solid and that the measures taken to hold down costs are wholly appropriate.

In 2004, the Group will press ahead with its efforts to refocus on its core areas of expertise, reduce risk exposure and enhance the efficiency of its organization. Helped by an expected improvement in the economic environment, this should again translate into lower total assets, better performance and higher profits.

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Consolidated Financial Statements

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Consolidated Financial Statements

Consolidated Balance Sheet at 31 December

	Notes*	2003 in CHF thousands	2002 in CHF thousands	Change in CHF thousands	Change %
Assets					
Cash and cash equivalents	15	367 979	399 107	–31 128	–7.8
Money market instruments	1/15	264 984	269 684	–4 700	–1.7
Due from banks	15	4 653 195	3 028 475	1 624 720	53.6
Loans and advances to customers	2/15	7 305 188	9 245 914	–1 940 726	–21.0
Mortgages	2/15	15 903 175	15 780 219	122 956	0.8
Trading portfolio assets	3/15	1 094 866	1 107 343	–12 477	–1.1
Financial investments	3/15	1 775 378	1 916 849	–141 471	–7.4
Non-consolidated holdings	3/4	45 588	44 966	622	1.4
Tangible fixed assets	4	677 208	724 750	–47 542	–6.6
Intangible assets	4	74 993	118 336	–43 343	–36.6
Accrued income and prepaid expenses		186 559	196 583	–10 024	–5.1
Other assets	6	1 902 586	2 306 024	–403 438	–17.5
Total assets	5/12/13/14	**34 251 699**	**35 138 250**	**–886 551**	**–2.5**
Total subordinated assets		71 575	119 442	–47 867	–40.1
Total claims on non-consolidated holdings and significant shareholders		144 117	116 153	27 964	24.1
of which claims on Vaud Canton		106 891	71 976	34 915	48.5
Liabilities and shareholders' equity					
Money market paper issued	15	819	1 206	–387	–32.1
Due to banks	15	1 722 370	2 130 900	–408 530	–19.2
Customer savings and investment accounts	15	8 747 419	8 339 669	407 750	4.9
Due to customers, other	15	8 043 926	8 201 937	–158 011	–1.9
Medium-term notes	15	422 746	576 580	–153 834	–26.7
Bonds and mortgage-backed bonds	9/15	8 468 512	10 089 733	–1 621 221	–16.1
Accrued expenses and deferred income		231 703	235 991	–4 288	–1.8
Other liabilities	7	1 828 654	1 947 072	–118 418	–6.1
Value adjustments and provisions	10	2 222 937	2 448 173	–225 236	–9.2
Total liabilities	8	31 689 086	33 971 261	–2 282 175	–6.7
Reserves for general banking risks	10	252 907	253 524	–617	–0.2
Share capital		1 379 690	1 061 010	318 680	30.0
Own equity securities		–9 309		–9 309	–
Capital reserve		334 407	633 862	–299 455	–47.2
Retained earnings		430 013	398 591	31 422	7.9
Minority interests – equity		17 686	19 658	–1 972	–10.0
Net profit/loss		157 219	–1 199 656	1 356 875	–
of which minority interests		3 115	456	2 659	583.1
Total shareholders' equity	11	2 562 613	1 166 989	1 395 624	119.6
Total liabilities and shareholders' equity	13/14	**34 251 699**	**35 138 250**	**–886 551**	**–2.5**
Total subordinated liabilities		600 405	775 000	–174 595	–22.5
Total liabilities to non-consolidated holdings and significant shareholders		105 425	58 057	47 368	81.6
of which liabilities to Vaud Canton		100 579	54 963	45 616	83.0

Off-balance-sheet transactions

	Notes*	2003 in CHF thousands	2002 in CHF thousands	Change in CHF thousands	Change %
Contingent liabilities	2/18	615 038	1 110 663	–495 625	–44.6
Irrevocable commitments	2	193 804	202 798	–8 994	–4.4
Liabilities for calls on shares and other equity securities	2	105 521	111 799	–6 278	–5.6
Confirmed credits	2/19	30 899	28 669	2 230	7.8
Fiduciary transactions	20	1 122 340	1 763 156	–640 816	–36.3
Derivative financial instruments					
Positive replacement values	6/21	1 706 698	2 170 722	–464 024	–21.4
Negative replacement values	7/21	1 280 344	1 366 435	–86 091	–6.3
Underlying value	21	66 880 144	56 264 046	10 616 098	18.9

* The notes can be found on pages 54 to 67.

Consolidated Income Statement

Income and expenses arising from ordinary banking activities

	Notes *	2003 in CHF thousands	2002 in CHF thousands	Change in CHF thousands	Change %
Net interest income					
Interest and discount income		870 574	1 044 782	–174 208	–16.7
Interest and dividend income from financial investments		44 073	45 352	–1 279	–2.8
Interest expense		–495 823	–661 474	–165 651	–25.0
Sub-total: net interest income	23/24/32	418 824	428 660	–9 836	–2.3
Net fee and commission income					
Commissions from lending operations		45 519	59 022	–13 503	–22.9
Commissions from securities and investment transactions		264 074	271 490	–7 416	–2.7
Commissions from other services		49 392	50 012**	–620	–1.2
Commission expense		–70 884	–78 401	–7 517	–9.6
Sub-total: net fee and commission income	32	288 101	302 123	–14 022	–4.6
Net trading income					
Sub-total: net trading income	25	109 157	60 447	+48 710	80.6
Other ordinary income					
Profit on disposal of financial investments		19 438	22 040	–2 602	–11.8
Total income from holdings		6 997	8 431	–1 434	–17.0
of which holdings accounted for using the equity method		4 163	5 226	–1 063	–20.3
of which other non-consolidated holdings		2 834	3 205	–371	–11.6
Real-estate income		17 724	19 072	–1 348	–7.1
Miscellaneous ordinary income		93 520	63 268**	+30 252	47.8
Miscellaneous ordinary expenses		–10 619	–45 573	–34 954	–76.7
Sub-total: other ordinary income		127 060	67 238	+59 822	89.0
Total income from ordinary banking activities		**943 142**	**858 468**	**+84 674**	**9.9**
Operating expenses					
Personnel costs	26/32	–372 663	–346 515	+26 148	7.5
Other operating expenses	27/32	–181 542	–191 989	–10 447	–5.4
Sub-total: operating expenses		–554 205	–538 504	+15 701	2.9
Gross profit		**388 937**	**319 964**	**+68 973**	**21.6**
Depreciation and write-offs on fixed assets	28	–150 954	–107 646	+43 308	40.2
Value adjustments, provisions and losses	10/29	–77 465	–1 184 414	–1 106 949	–93.5
Profit/loss on ordinary banking activities before extraordinary items and taxes		**160 518**	**–972 096**	**+1 132 614**	**–**
Extraordinary income	30	16 627	31 668	–15 041	–47.5
Extraordinary expenses	31	–3 214	–251 268	–248 054	–98.7
Taxes		–16 712	–7 960	+8 752	109.9
Net profit/loss		**157 219**	**–1 199 656**	**+1 356 875**	**–**

* The notes can be found on pages 54 to 67.
** 2002 figures restated to facilitate comparison.

Consolidated Cash Flow Statement

	2003		2002	
	Source of funds	Application of funds in CHF thousands	Source of funds	Application of funds in CHF thousands
Cash flow from operating activities				
Net profit/loss for the year	157 219			1 199 656
Depreciation and write-offs on fixed assets	150 954		107 646	
Value adjustments and provisions (incl. exceptional adjustment on available-for-sale real estate in 2002)	366 360	255 012	1 250 390	1 001
Accrued income and prepaid expenses	10 024		12 622	
Accrued expenses and deferred income		4 288		46 514
Extraordinary income				16 433
Profit/loss (incl. affiliates accounted for with equity method and sale of fixed assets)		12 820		10 153
Reserves for general banking risks	600		250 000	
Dividend for previous year		–		–
	685 157	272 120	1 620 658	1 273 757
Net cash inflow (outflow) from operating activities	**413 037**	**–**	**346 901**	**–**
Cash flow from equity transactions				
Share capital	849 185		471 560	
Net share premium	387 315		156 862	
Own equity securities	22 245	28 524		
Minority interests		2 428		11 843
Change in scope of consolidation	1 847		856	
Effect of exchange rate differences	2 206			3 298
	1 262 798	30 952	629 278	15 141
Net cash inflow (outflow) from equity transactions	**1 231 846**	**–**	**614 137**	**–**
Cash flow from investing activities				
Holdings	1 296	242	20 098	347
Real estate	8 368	1 718	20 106	83 390
Other tangible fixed assets	10 436	30 693	8 065	127 271
Goodwill	12 413	9 060	4 673	15 524
Other intangible assets		38 671		
	32 513	80 384	52 942	226 532
Net cash inflow (outflow) from investing activities	**–**	**47 871**	**–**	**173 590**
Cash flow from financing activities				
Medium- and long-term operations (over 1 year)				
Due to banks		1 338	19 044	
Customer accounts	8 742			49 597
Bond issues		614 466		320 000
Private placements		420 000		150 000
Structured products	203 322	437 577	200 887	287 469
Medium-term notes	38 418	192 252	141 693	190 155
Loans from central mortgage bond institution of Swiss cantonal banks	110 000	365 000	682 000	241 000
Loans from the central issuing office of Swiss mortgage banks		97 500		67 500
Savings and investment accounts	407 750			176 551
Other liabilities		118 418	273 262	
Due from banks		37 561	12 575	
Loans and advances to customers	68 484		164 294	
Mortgages		122 956	87 857	
Value adjustments and provisions as allocated		346 414		357 295
Financial investments	157 260		260 372	
Other receivables	403 438			816 199

Consolidated Cash Flow Statement *(continued from p. 40)*

	2003 Source of funds	2003 Application of funds in CHF thousands	2002 Source of funds	2002 Application of funds in CHF thousands
Short-term operations				
Money market paper issued		387	357	
Due to banks		407 192		1 377 301
Customer accounts		166 753	166 876	
Money market instruments	4 700			167 088
Due from banks		1 587 159	509 846	
Loans and advances to customers	1 872 242		707 224	
Trading portfolio assets	12 477			27 336
Cash and cash equivalents				
Cash	31 128		213 756	
	3 317 961	4 914 973	3 440 043	4 227 491
Increase (decrease) in cash	**–**	**1 597 012**	**–**	**787 448**
	1 644 883	**1 644 883**	**961 038**	**961 038**

Accounting principles

- Overview of operations

Banque Cantonale Vaudoise (BCV) is organized as a public limited company and operates as a universal community bank. Its corporate mandate is to contribute to the economic development of Vaud Canton.

BCV offers a comprehensive range of retail banking services for individual and business customers throughout the Canton, as well as private and investment banking for Swiss and international customers. Along with traditional lending and deposit business, and private and institutional asset management, BCV engages in corporate banking and selected trade financing operations in commodities. It is a major player in the financial markets, where its wide array of services includes financial-engineering consulting, as well as trading in equities, derivatives and interest-rate instruments. It is also active in the field of new issues, bonds and structured products as well as in forex trading.

In order to play a leading role in the financial services industry, BCV has diversified its operations and is now the parent company of a banking and financial group. In Switzerland, BCV Group encompasses a regional bank, one private bank, two fund-management companies, an online trading site, two private-equity companies, a real estate firm and an IT service company. Its main subsidiaries outside Switzerland specialize in asset management, in particular in France, Spain, Italy and Asia.

BCV Group has not signed any outsourcing agreements with third parties in Switzerland or abroad in respect of its core business.

- *English translation*

BCV's Consolidated Financial Statements are prepared and published in French, and only the French text is authoritative. The present text is an English translation of that document; it should by no means be construed as a "reconciliation" to the accounting practices of the US, UK, or other English-speaking countries. Although care has been taken to ensure that the English version corresponds as closely as possible to the original French as used in the context of Swiss GAAP, the terminological choices made in this translation represent one possibility among others, and interpretations should be based exclusively on the original French terms.

- Staff numbers

Full-time equivalents	**31.12.2003**	**31.12.2002**
Group	2,483	2,679
of which parent company	1,863	2,016

- Principles governing the preparation of consolidated financial statements

The consolidated financial statements of BCV Group have been prepared in accordance with the provisions of the Federal Act of 8 November 1934 on Banks and Savings Institutions, its Ordinance of 17 May 1972 and the directives of the Swiss Federal Banking Commission of 14 December 1994, as amended on 18 December 2002.

- Entry into force of new DEC-CFB directives

The amendments of 18 December 2002 to the Swiss Federal Banking Commission's directives on the preparation of financial statements (DEC-CFB) were applied to the financial statements as at 31 December 2003. In accordance with the transitional provisions, the amended regulations are applied on a forward-looking basis, and no change in the figures for the previous year is required.

The main changes for the Group concern the following items:

Own equity securities
Own equity securities are deducted from shareholders' equity. This entails a reduction of CHF 9.3 million in the Group's shareholders' equity.

Pension-fund liabilities
Pension-fund liabilities are now calculated in accordance with the Swiss RPC16 standard.

Other changes
Apart from the changes arising directly from the application of the new DEC-CFB directives, the Group also modified the booking procedure for part of "Other ordinary income" during the 2003 reporting period. Account closure fees and charges for special services, such as holding mail and charges for numbered accounts, are now booked under "Net fee and commission income". This change involves an amount of CHF 25.8 million (CHF 26.0 million in 2002). Figures for the previous year have been adjusted to facilitate comparison.

- Scope of consolidation

All companies operating in the banking and financial sectors, as well as asset-management companies in which BCV directly or indirectly holds a majority of the share capital or voting rights, are fully consolidated.

Finance and service companies in which BCV owns between 20% and 50% of the share capital are treated as affiliates and accounted for using the equity method. Holdings of less than 20%, companies of no material significance, subsidiaries engaged in non-financial business and investments held purely with a view to their subsequent sale are not consolidated. They are stated at cost, less appropriate depreciation.

- Method of consolidation

Equity is consolidated using the purchase method. The acquisition cost of a holding is offset against the equity existing on the date on which control was transferred.

The acquisition date for all holdings acquired before 1992 is taken to be 1 January 1992. Goodwill is carried on the balance sheet and written down over its estimated useful life (maximum 20 years).

Depending on its nature, any negative goodwill is allocated either to retained earnings or to provisions.

- True and fair view

The financial statements give a true and fair view of the assets, financial position and financial results of BCV Group.

The consolidated financial statements are based on the annual accounts of Group companies, which are prepared in accordance with uniform accounting and valuation principles.

- Close of financial year

The accounts are closed at 31 December. Group companies with other closing dates prepare interim financial statements.

- Regular recording of transactions

Results of all transactions concluded on a daily basis are booked on the income statement. Cash transactions not yet executed are carried in the balance sheet at the transaction date.

- Foreign-currency translation

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

Assets and liabilities in foreign currencies are translated into Swiss francs at the rates of exchange prevailing on the balance-sheet date, provided that they are not valued at historical costs.

Forex gains and losses, including unrealized gains and losses on forward currency contracts open at the balance-sheet date, are booked on the income statement.

Balance-sheet items and off-balance-sheet operations of foreign holdings are translated at year-end Group-wide exchange rates 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 as a whole. Differences arising from translation of shareholders' equity and the income statement are recorded directly in shareholders' equity.

Major currencies	Unit	Rate at 31.12.2003
		in CHF
Euro	1	1.555
U.S. dollar	1	1.2325
Pound sterling	1	2.195
Japanese yen	100	1.15

- **Money-market instruments and receivables from banks**

Money-market instruments and receivables from banks are carried on the balance sheet at their face values.

- **Customer loans and advances and mortgages**

Customer loans and advances and mortgages are shown at their face values. Appropriate value adjustments are entered as liabilities under "Value adjustments and provisions".

Customer loans and advances are analysed on an individual basis. In cases where repayment is considered doubtful or where a payment deadline for principal or interest is exceeded by more than 90 days, a provision for impaired loans is booked if the collateral provided is deemed insufficient. Interest overdue by more than 90 days is not entered in the income statement but is booked directly to "Value adjustments and provisions".

Receivables considered as non-recoverable are written off through the appropriate value adjustment account; any recoveries of receivables that have been written off are entered under "Value adjustments and provisions".

For valuation of receivables and calculation of value adjustments, see "Credit risk – counterparty default risk" in the following section on risk management.

- **Trading portfolio assets**

"Trading portfolio assets" comprises positions in equity securities, debt securities and precious metals, held with a view to taking advantage of price fluctuations in their respective markets. These positions are calculated at fair value with reference to quoted market prices or, if the market is illiquid, by using a valuation model.

Gains and losses realized on sales and purchases of these positions, as well as unrealized gains and losses arising from changes in fair value, are reported under "Net trading income". 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".

- **Financial investments**

This item comprises securities and precious metals acquired for medium- and long-term investment purposes, as well as equity securities held neither for trading nor as a permanent investment. Available-for-sale real estate acquired in connection with credit operations is also shown under this heading.

Interest-bearing securities to be held until maturity are carried at cost, taking account of any premiums or discounts (rate components), on an accrual basis. Gains and losses arising on early sale or redemption are recorded proportionally up to the initial maturity date of the securities.

Interest-bearing securities not intended to be held until maturity are valued at the lower of cost or market. The balance after adjustments in value is entered under "Other ordinary expenses" or "Other ordinary income".

Positions in equity securities and available-for-sale real estate are also valued at the lower of cost or market.

Related-party loans *(prêts partiaires)* to real-estate companies are accounted for on a substance-over-form basis and carried on the balance sheet at their net worth, i.e. after deduction of appropriate value adjustments, under "Financial investments".

- Sale and repurchase agreements/ securities borrowing and lending

Securities sold under to a repurchase agreement (repos) and those lent (securities lending) are shown on the balance sheet as trading or investment securities, provided that the Group retains substantially all the risks and rewards of ownership. Cash amounts received for the sale of these securities or as collateral for these loans are included under "Due to customers, other" or "Due to banks". Interest charges relating to these liabilities are booked on the income statement using the accrual method.

Securities acquired under commitments to resell (reverse repos) and those borrowed (securities borrowing) are not recognized on the balance sheet as debt securities where substantially all the risks and rewards do not accrue to the Group. Cash amounts paid for the purchase of these securities or as collateral for these borrowings are entered under "Loans and advances to customers" or "Due from banks". Interest charges relating to these assets are booked on the income statement using the accrual method.

- Tangible fixed assets

Tangible fixed assets are carried at cost and depreciated on a straight-line basis over their estimated useful life within the following limits:
50 years for real estate;
5 years for machinery, furniture and fittings;
5 years for computer hardware.

These assets are periodically reviewed for impairment. If there is a decline in value or a change in the period of use, the carrying values of the fixed assets are written down and the amortized value of the asset is depreciated over its remaining estimated useful life.

Regular depreciations and additional write-downs made subsequent to impairment reviews are charged to the income statement for the period, under "Depreciation and write-offs on fixed assets".

If the factors giving rise to an impairment cease to exist, the assets are revalued in order to fully or partly eliminate any depreciation in value recorded in preceding periods.

- Intangible assets

  Computer software is carried at cost and depreciated on a straight-line basis over its estimated useful life (maximum 5 years).

  Goodwill is carried on the balance sheet and written down over an estimated useful life of not more than 20 years.

- Pension-fund liabilities

  The Group provides pension schemes for all its personnel, which comply with the legislation of the countries where it operates. These schemes have the legal status of defined-contribution plans.

  Most Group employees belong to the parent company's pension scheme. Given the Group's commitment to reduce the actuarial deficit of its main pension fund, the Caisse de pensions de la Banque Cantonale Vaudoise, the main pension fund has been considered as a defined-benefit plan, within the meaning of Swiss-GAAP RPC 16, for the purpose of calculating pension-fund liabilities. Actuarial calculations conducted by independent experts serve as a basis for establishing the liabilities and costs arising from employee benefit schemes. Benefit surpluses are only capitalized to the extent that they allow the employer's future costs to be reduced. However, such surpluses may not be returned to the employer. Benefit deficits resulting from the first application of this standard are written down over the average remaining service life of active members.

- Value adjustments and provisions

  In keeping with prudential accounting, value adjustments and provisions are made for all tangible and potential risks of loss.

  With the exception of value adjustments for related-party loans *(prêts partiaires)* to real-estate companies (offset under assets), these value adjustments are accounted for as liabilities on the balance sheet.

  In addition to individual value adjustments and provisions for credit risks, the Bank has a general provision that takes into account the margin of error associated with the introduction of the new provisioning method.

- Tax

  Tax is calculated on the basis of the results of Group companies and the principle of matching the reference period.

  In accordance with prudential accounting, tax credits resulting from the losses incurred in the 2001 and 2002 reporting periods have not been capitalized. The amount of the loss which can be carried forward and offset against the profits of future years is CHF 2.1 billion; the resulting reduction in tax charges for the 2003 financial year may be estimated at CHF 31.0 million.

- Reserves for general banking risks

  To cover risks inherent in the banking business which are not covered by specific provisions, the Group preventively sets aside "Reserves for general banking risks". These reserves have been duly declared and the tax charge on them has been paid.

- Own equity and debt securities

  Beginning with the 2003 reporting period, own equity securities held by Banque Cantonale Vaudoise (registered shares and bearer participation certificates) are deducted from shareholders' equity at their acquisition value. These securities are held for trading purposes by the parent company in order to guarantee a secondary market for the Bank's shares.

  Positions in own debt securities of BCV are offset by corresponding positions on the liabilities side.

- Derivative financial instruments and hedging operations

  All derivative financial instruments are carried at fair value. For all positions traded in a liquid and efficient market, fair value is determined by the market value. In the absence of such a market, fair value is determined using valuation models.

  Gains and losses (realized or unrealized) on derivatives used for trading purposes are recognized in the income statement under "Net trading income".

  The Group also employs derivatives as part of its asset and liability management strategy, primarily to hedge interest-rate risk. These operations are recognized as macro hedging operations, and net gains or losses are entered under "Interest and discount income". Changes in fair value of hedging instruments are recognized in the "Offset account" under "Other assets" or "Other liabilities".

  In all cases where hedging instruments are used, records are kept of the operations, objectives and strategies of the Bank's risk-management unit, together with the system adopted to monitor the efficiency of these hedging operations.

Risk management

The Risk Committee of the Executive Board was set up in the first half of 2003. Comprising the CEO, the heads of the Finance & Risks Division, the Trading Division, the Corporate Banking Division and the Chief Risk Officer (CRO), this committee is the key risk-management body. Its role is to supervise risk exposure, define risk policy and the framework for risk strategy, and generally oversee risk management.

Based on the decisions taken by the committee, the CRO develops and coordinates risk management.

A risk-reporting system was put in place during the year, under which Management is informed monthly of the Bank's exposure to the different categories of risk.

Risk management at BCV Group covers four main categories: credit risk, market risk, interest-rate and liquidity risk, and operational risk.

Exposure limits are set for the various risk categories.

- Credit risk

  Counterparty-default risk

  The Group monitors its exposure to credit risk by types of business, economic sectors and related counterparty groups. Lending guidelines define credit limits, levels of authority and criteria for loan approvals and renewals. Risk-management procedures have been put in place in order to
  - ensure that risk-analysis methods are developed by entities not involved in risk-taking,
  - promote objective risk analysis,
  - enable strict control of risk-taking,
  - determine appropriate provisioning requirements,
  - draw up recovery procedures.

  The definition of counterparty default complies with the Core Principles developed by the Basle Committee. Methods have been introduced to determine counterparty-default risk, i.e. to assign a counterparty to one of the seven major risk categories (comprising seventeen sub-categories) at parent-company level.

  Risk-analysis methods use quantitative and qualitative modelling tools. These models are based on statistical developments and expert assessments.

  When analysing expected losses associated with credit risk, the Bank assesses the probability of counterparty default based on that counterparty's risk category. It uses different factors to estimate the amount of loss in case of default, the main ones being the cover ratio of a liability and the quality of collateral. The value of collateral is analysed according to defined criteria and methods. The Bank has a specialized unit attached to the credit-management department for valuing real-estate items.

  Lending rates are based on a risk-adjusted pricing approach: target rates are set depending on the expected costs of a loan, as well as a target spread reflecting the Bank's strategy and mission in relation to a given customer segment.

  Impaired and non-performing loans are identified on the basis of criteria fixed by the SFBC's DEC directives of 18 December 2002.

  Provisions for these loans are made after analysing each case. When calculating the provisions, collateral is valued at its liquidation value, taking into account all the costs which the Group would incur in the event of liquidation.

  The reporting year saw further improvements in the Group's rating system and methods of identifying loans for which provisions have to be made.

- Country risk

  Country risk affects overall credit risk. It is monitored by a specialized unit within the Corporate Banking Division. Provisions have been set aside to cover potential country-risk losses, calculated according to the type of exposure involved and the risk-level of the country concerned.

  The Group considers the following types of exposure to country risk:

  a. Financial or transfer exposure.
  b. Off-balance-sheet commercial exposure.
  c. Exposure to withdrawal risk on collateral/goods.
  d. Exposure to performance risk on collateral/goods.
  e. Exposure to transit risk on collateral/goods.
  f. Exposure to carriage risk on collateral/goods.

- **Trading-portfolio market risk**
  Market risk associated with trading portfolios is defined as the loss potential resulting from unfavourable changes in certain factors in financial markets (equity, interest-rate, metals and forex trading).

  BCV Group measures and manages market risk using Value at Risk (VaR), stress testing and sensitivity analyses. The quality of the models employed is regularly validated by back-testing (i.e., comparing projections with the results achieved). Stress simulations are carried out using various scenarios to assess the risk of major losses in the event of a sudden change in market conditions or other unexpected occurrences. The liquidity risk of positions is also factored in.

  The Group improved its middle-office organization during the year, allowing for additional monitoring over and above that done by the front office, and particularly as regards valuations and limits.

  These various procedures comply with the Swiss Bankers' Association's (SBA) Guidelines Concerning Management of Market Risks for Institutions Engaged in Trading Activities, particularly the appendix to SBA Circular No. 1214 D of 15 February 1996 entitled "Guidelines Applicable to Risk Management in Trading and Use of Derivatives".

- **Interest-rate and liquidity risks**
  Interest-rate risk is defined as the potential loss for all balance-sheet and off-balance-sheet positions resulting from a change in the yield curve.

  Liquidity risk is defined as the risk that the Group will have insufficient liquidity to meet its commitments.

  The Group regularly uses modelling tools to measure the structural effects of changes in interest rates, basing the models on an array of possible scenarios. It also conducts stress simulations involving changes in short and/or long rates, refinancing patterns and customer behaviour.

  The Group employs methods such as duration, gap and spread analysis, and VaR based on historical data.

  BCV complies with all statutory and regulatory requirements concerning management of interest-rate and liquidity risks.

- **Operational risk**
  Operational risk reflects the potential loss inherent in the Group's business, and includes legal, compliance and execution risks, as well as those of a technical nature.

  The Group strives to keep operational risks to a minimum by means of employee training, sound control procedures and systems, and a strict security policy. IT tools are regularly updated to keep pace with the market and stay in step with technological progress.

Business operations, banking activities and organizational aspects are covered by procedures and guidelines specifying levels of authority and rules of behaviour.

The Legal and Compliance Departments see that legal requirements, the code of business ethics and the rules governing the acceptance of customers are complied with throughout the Group.

One of the main duties of the Group's internal audit department is to make sure that the control procedures and systems are appropriate and function smoothly. In particular, it verifies that operations are carried out in accordance with established rules and practices, and that they comply with the prudential limits set by the Board of Directors and the Executive Board.

Scope of consolidation

With the exception of the parent company, none of the Group companies is listed on a stock exchange.

Fully consolidated Group companies (status at 31 December 2003)

		Currency	Capital in thousands of units	Stake %
Banking interests held by Banque Cantonale Vaudoise				
Argant SA, Lausanne (formerly Banque Galland & Cie SA)	Switzerland	CHF	2 000	100.00
Banque Piguet & Cie SA, Yverdon-les-Bains	Switzerland	CHF	20 000	65.00
Caisse d'Epargne et de Prévoyance d'Yverdon-les-Bains SA (CEPY), Yverdon-les-Bains	Switzerland	CHF	10 000	100.00
Finance, service and real estate companies held by: Banque Cantonale Vaudoise				
Asesores y Gestores Financieros SA, Madrid	Spain	EUR	92	50.00
BCV Asia Investment Inc., Tortola	Virgin Islands	USD	–	100.00
BCV Corporate Finance Holding SA en liquidation, Lausanne	Switzerland	CHF	6 000	100.00
BCV Finance (France) SA, Paris	France	EUR	33 380	100.00
BCV Investment Asia (Hong Kong) Ltd., Hong Kong	China	HKD	15 000	100.00
BCV Investment Asia (Singapore) PTE Ltd., Singapore	Singapore	SGD	2 700	100.00
BCV Italia S.p.A., Milan	Italy	EUR	3 252	100.00
Defi Gestion SA, Lausanne	Switzerland	CHF	100	51.01
Gérifonds SA, Lausanne	Switzerland	CHF	2 900	100.00
Initiative Capital SA, Lausanne	Switzerland	CHF	320	100.00
Rhonagest SA, Lausanne	Switzerland	CHF	100	100.00
Saparges SA de participations et de gestion, Lausanne	Switzerland	CHF	500	100.00
Société pour la gestion de placements collectifs GEP SA, Lausanne	Switzerland	CHF	1 500	100.00
Sogirom société de gestion immobilière, Lausanne	Switzerland	CHF	500	100.00
Soroges SA, Lausanne	Switzerland	CHF	500	100.00
Unicible, Prilly	Switzerland	CHF	20 000	100.00
Banque Cantonale Vaudoise and Gérifonds SA				
Gerifonds Floor Fund Management Company (Lux.) SA Holding, Luxembourg	Luxembourg	EUR	130	100.00
Banque Piguet & Cie SA				
Piguet Advisory Company SA, Luxembourg	Luxembourg	CHF	125	100.00
Piguet Asset Management SA, Luxembourg	Luxembourg	CHF	210	100.00
Piguet Bank & Trust Ltd, Georgetown	Cayman Islands	USD	1 000	100.00
BCV Finance (France) SA				
BCV Broking & Consulting SA, Paris	France	EUR	38	100.00
BCV Italia S.p.A.				
BCV Gestion SIM S.p.A., Milan	Italy	EUR	1 200	100.00

Principal changes in 2003

In June 2003, Dimension Corporate Finance SA, a wholly owned subsidiary of BCV Corporate Finance Holding SA, was sold to its management. BCV acquired the remaining share capital of BCV Corporate Finance Holding SA, thus increasing its stake from 94.17% to 100%. BCV Corporate Finance Holding SA was put into liquidation in September 2003.

On 1 November 2003, the activities of Banque Galland et Cie SA were taken over by Banque Franck SA, Geneva. The corporate structure of Banque Galland was maintained under the name of Argant SA.

Early in October 2003, BCV increased its shareholding in Asesores y Gestores Financieros, Madrid, from 33.33% to 50%. This group's balance sheet was already fully consolidated on 31 December 2002; the income statement, previously accounted for using the equity method, has been fully consolidated since 1 January 2003.

BCV Asia Trading Inc. and BCV Consultants Asia Inc., Tortola, both dormant companies, were wound up at the end of 2003.

Group companies accounted for using the equity method (status at 31 December 2003)

	Country	Currency	Capital in thousands of units	Stake %
Finance and service companies held by: Banque Cantonale Vaudoise				
Epic Investment Services Firm SA, Athens	Greece	EUR	9 392	25.00
Transatlantic Trust Corporation, Charlottetown	Canada	CAD	417	20.00
VDCapital Private Equity Partners LTD, St Helier	Jersey	CHF	63	25.00
Banque Piguet & Cie SA				
PRS International (Cayman) LTD, Georgetown	Cayman Islands	USD	250	33.33
PRS International Consulting Inc., Miami	United States	USD	1	33.33

No significant changes in 2003

Other holdings (status at 31 December 2003)

	Country	Currency	Capital in thousands of units	Stake %
Finance and service companies jointly owned by the cantonal banks				
Caleas SA, Zurich	Switzerland	CHF	30 000	4.72
Central mortgage bond institution of Swiss cantonal banks, Zurich	Switzerland	CHF	165 000	13.64
Finarbit SA, Zurich	Switzerland	CHF	1 500	8.33
Swiss Canto Finanz in Liquidation, Baar	Switzerland	CHF	24 000	15.42
Swissca Holding SA, Berne	Switzerland	CHF	24 204	8.38
Viseca Card Services SA, Opfikon	Switzerland	CHF	20 000	4.29
Finance and service companies jointly owned by the Swiss banks				
Société Nominee, Geneva	Switzerland	CHF	1 000	13.00
SIS Swiss Financial Services Group AG, Zurich	Switzerland	CHF	26 000	3.46
Telekurs-Holding SA, Zurich	Switzerland	CHF	45 000	2.33
Temporary or insignificant holdings				
Advanced Investment Techniques SA, Geneva	Switzerland	CHF	3 600	16.67
Coopérative vaudoise de cautionnement CVC, Lausanne	Switzerland	CHF	5 273	40.87
Coopérative vaudoise de cautionnement hypothécaire CVCH, Lausanne	Switzerland	CHF	1 078	78.92
Finserve AG, Zurich	Switzerland	CHF	100	13.40
Office Vaudois de Cautionnement Agricole, Lausanne	Switzerland	CHF	1 284	12.23
PRS Latam LLC, Miami	United States	USD	48	16.67
Servigest SA, Lausanne	Switzerland	CHF	500	100.00
Société vaudoise pour la création de logements à loyers modérés (SVLM), Lausanne	Switzerland	CHF	2 000	45.00

Main equity securities positions held under "Financial investments" (companies listed on the SWX Swiss Exchange)		Currency	Capital in thousands of units	Stake %
Baumgartner Papiers Holding SA, Crissier	Switzerland	CHF	13 000	17.28
Bondpartners SA, Lausanne	Switzerland	CHF	5 500	9.00
Société du gaz de la plaine du Rhône SA, Aigle	Switzerland	CHF	10 000	9.61

Comparative consolidated income statement

The change made in the basis of consolidation for Unicible during the 2002 financial year after BCV acquired the minority interests has no material influence on the Group's results, but does affect several items on the income statement.

For information purposes and to facilitate comparison with 2003, the figures in the following income statement for 2002 have been restated on the basis of full consolidation of Unicible for the entire year.

	2003	2002	Change	
	in CHF millions	in CHF millions	in CHF millions	%
Income and expenses arising from ordinary banking activities				
Net interest income	418.8	426.8	−8.0	−1.9
Net fee and commission income	288.1	302.1	−14.0	−4.6
Net trading income	109.2	60.4	+48.8	80.8
Other ordinary income	127.0	109.2	+17.8	16.3
Total income from ordinary banking activities	**943.1**	**898.5**	**+44.6**	**5.0**
Operating expenses				
Personnel costs	−372.7	−376.8	−4.1	−1.1
Other operating expenses	−181.5	−190.3	−8.8	−4.6
Total operating expenses	**−554.2**	**−567.1**	**−12.9**	**−2.3**
Gross profit	**388.9**	**331.4**	**+57.5**	**17.4**
Depreciation and write-offs on fixed assets	−150.9	−117.4	+33.5	28.5
Value adjustments, provisions and losses	−77.5	−1 184.4	−1 106.9	−93.5
Profit / loss on ordinary activities before extraordinary items and taxes	**160.5**	**−970.4**	**+1 130.9**	**–**
Extraordinary income	16.6	32.3	−15.7	−48.6
Extraordinary expenses	−3.2	−251.3	−248.1	−98.7
Taxes	−16.7	−8.4	+8.3	98.8
Net profit / loss	**157.2**	**−1 197.8**	**+1 355.0**	**–**

Notes to the Consolidated Financial Statements

Notes to the Consolidated Balance Sheet

1. Money market instruments (in CHF thousands)

	31/12/03	31/12/02
Bills eligible for central bank refinancing	201 113	207 541

2. Breakdown of collateral for loans and off-balance-sheet transactions (in CHF thousands)

		Secured by mortgage	Other collateral	Unsecured	Total
Loans					
Mortgages		15 903 175			15 903 175
Residential real estate		11 796 610			11 796 610
Office and business premises		2 663 818			2 663 818
Commercial and industrial property		1 396 072			1 396 072
Other		46 675			46 675
Loans and advances to customers		878 626	2 340 062	4 086 500	7 305 188
Total loans	**31/12/03**	**16 781 801**	**2 340 062**	**4 086 500**	**23 208 363**
	31/12/02	17 019 619	3 181 939	4 824 575	25 026 133
Off-balance-sheet transactions					
Contingent liabilities		18 137	212 512	384 389	615 038
Irrevocable commitments		19 716	2 813	171 275	193 804
Liabilities for calls on shares and other equity securities				105 521	105 521
Confirmed credits			30 899		30 899
Total off-balance-sheet transactions	**31/12/03**	**37 853**	**246 224**	**661 185**	**945 262**
	31/12/02	16 153	376 521	1 061 255	1 453 929

Impaired loans	**31/12/03**	**31/12/02**
Gross amount	3 692 593	4 168 538
Estimated realization value of collateral	–1 627 395	–1 864 782
Net amount	**2 065 198**	**2 303 756**
Individual value adjustments	1 874 849	2 064 645

3. Trading portfolio assets (in CHF thousands)
Financial investments and holdings

	31/12/03	31/12/02
Trading portfolio assets		
Debt instruments	164 712	579 947
of which listed	127 261	545 772
of which unlisted	37 451	34 175
of which own bond issues and medium-term notes *	–	222 889
Equity securities	897 232	502 946
of which own equity securities **	–	12 363
Precious metals	32 922	24 450
Total trading portfolio assets	**1 094 866**	**1 107 343**
Financial investments – book value		
Debt securities	1 306 478	1 118 235
of which securities intended to be held until maturity	1 276 586	1 088 529
of which securities carried at lower of cost or market	29 892	29 706
of which own bond issues and medium-term notes *	–	2 540
Equity securities	129 831	207 770
of which significant holdings	34 456	36 271
Available-for-sale real estate	279 235	449 098
Related-party loans for real estate companies	59 834	141 746
Total financial investments – book value	**1 775 378**	**1 916 849**
Financial investments – fair value		
Debt securities	1 350 243	1 191 083
of which securities intended to be held until maturity	1 319 264	1 160 123
of which securities carried at lower of cost or market	30 979	30 960
Equity securities	189 607	254 277
of which significant holdings	43 424	41 670
Available-for-sale real estate	279 235	449 098
Related-party loans for real estate companies	59 834	141 746
Total financial investments – fair value	**1 878 919**	**2 036 204**
Holdings		
Without market value	45 588	44 966
Total holdings	**45 588**	**44 966**

* Effective 31 December 2003, own debt securities are offset by corresponding positions on the liabilities side.
** Effective 31 December 2003, own equity securities are deducted from shareholders' equity at their acquisition value.

4. Tangible fixed assets (in CHF thousands)

	Acquisition cost	Accumulated depreciation	Book value at 31/12/02	Changes in allocation	Additions	Disposals	Depreciation	Reclassifications, results, valuations shown by equity method	Book value at 31/12/03
Holdings accounted for using equity method	4 941	–2 589	2 352			–29		963	3 286
Other holdings	72 926	–30 312	42 614		242	–1 267	–183	896	42 302
Total holdings	**77 867**	**–32 901**	**44 966**	**0**	**242**	**–1 296**	**–183**	**1 859**	**45 588**
Group premises	491 576	–65 647	425 929	–7 753	1 041		–9 337		409 880
Other real estate *	258 926	–40 412	218 514	7 753	677	–8 368	–21 167	864	198 273
Other tangible fixed assets	409 414	–329 107	80 307		30 693	–10 436	–41 629	10 120	69 055
Total tangible fixed assets	**1 159 916**	**–435 166**	**724 750**	**0**	**32 411**	**–18 804**	**–72 133**	**10 984**	**677 208**
Goodwill	81 932	–28 505	53 427		9 060	–12 413	–32 279		17 795
Other intangible assets	214 429	–149 520	64 909		38 671		–46 359	–23	57 198
Total intangible assets	**296 361**	**–178 025**	**118 336**	**0**	**47 731**	**–12 413**	**–78 638**	**–23**	**74 993**
Fire insurance value of real estate			779 251						693 433
Fire insurance value of other fixed assets			266 161						261 024

* Following the periodic review of these assets for impairment, an additional write-down of CHF 14.4 million entered under "Other real estate".

5*a*. Assets pledged or assigned as collateral for own liabilities and assets with reservation of title (in CHF thousands)

	31/12/03	31/12/02
Book value of assets pledged or assigned as collateral	6 894 879	7 455 968
Real liabilities	5 382 157	5 616 434

5*b*. Sale and repurchase agreements / securities lending and borrowing (in CHF thousands)

	31/12/03	31/12/02
Claims arising from cash collateral pledged in connection with securities borrowing or reverse repurchase agreements	368 193	1 315 069
Liabilities arising from cash collateral received in connection with securities lending or repurchase agreements	58 491	137 629
Securities held for own account, lent or transferred as collateral in connection with securities borrowing or repurchase agreements	54 496	42 257
of which those which can be sold or repledged without restriction	–	–
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	1 432 172	1 794 303
of which above securities sold or transferred as collateral to a third party	1 078 237	596 997

6. Other assets (in CHF thousands)

	31/12/03	31/12/02
Positive replacement values	1 706 698	2 170 722
Indirect taxes	22 679	32 962
Other	173 209	102 340
Total other assets	**1 902 586**	**2 306 024**

7. Other liabilities (in CHF thousands)

	31/12/03	31/12/02
Negative replacement values	1 280 344	1 366 435
Debit balance of offset account	212 794	157 440
Indirect taxes	70 476	93 289
Other	265 040	329 908
Total other liabilities	**1 828 654**	**1 947 072**

8. Pension fund liabilities (in CHF thousands)

	31/12/03	31/12/02
	191 364	**150 961**

BCV Group employees, with the exception of Unicible staff, are members of the Bank's pension schemes. These consist of the "Caisse de pensions de la Banque Cantonale Vaudoise" and, for senior management, the "Fondation de prévoyance complémentaire de la Banque Cantonale Vaudoise". In addition, there is a separate employer-operated Fund, the "Fonds de prévoyance en faveur du personnel de la BCV", which provides coverage for employees in particular situations.

Unicible employees are insured with the "Fondation de prévoyance professionnelle Unicible", a defined contribution plan, which is a legally distinct entity. Under the existing system, Unicible has no other legal or implied obligations than the payment of its contractual contributions, which are equivalent to the booked pension costs.

The object of the "Caisse de pensions de la Banque Cantonale Vaudoise" and the "Fondation de prévoyance complémentaire de la Banque Cantonale Vaudoise" is to help members and their survivors cope with the financial consequences of old age, death and disability by guaranteeing statutory pension benefits.

Actuarial valuations and assumptions used by the pension scheme, qualified as a defined benefit plan, are carried out by an independent expert and are as follows:

	31/12/03	31/12/02
Discount rate	4.50 %	4.50 %
Long-term expected rate of return on assets	5.00 %	5.00 %
Interest on savings accounts	3.50 %	3.50 %
Rate of increase for pensions	from 0 to 3 %	from 0 to 3 %
Rate of increase in salaries	0.50 %	0.50 %
Inflation	1.50 %	1.50 %
Mortality table	EVK 2000	EVK 2000

	2003	2002
Based on the above elements, scheme cover is as follows (in CHF millions):		
Pension liabilities	1 105.83	1 140.97
Scheme assets	1 059.25	1 023.93
Surplus/(Deficit)	–46.58	–117.04
Unrecognized actuarial gains and losses	40.78	–
Initial surplus/(deficit)	–104.22	–117.04
Asset surplus	16.86	–

The initial deficit is amortized over the average remaining service life of members, taken as 9.13 years.
An analysis of annual pension charges for this scheme and changes in benefit surpluses is as follows (in CHF millions):

Amount at 1 January	–
BCV current service cost	–34.33
BCV normal contributions	33.19
Exceptional contribution of subsidiaries	18.00
Amount at 31 December	16.86

Contributions to pension plans are paid by both employees and employers in the Group. Employees' contributions are calculated on the basis of insured salary and risk contribution rate. Contributions of Group employers comprise statutory contributions and an exceptional contribution of CHF 18 million for the 2003 financial year, charged to the special provision created in 2002. This amount is paid by the Group as its share in the restructuring plan for the Caisse de pensions de la Banque Cantonale Vaudoise.
The benefit surplus of CHF 16.86 million is not capitalized on the balance sheet.

9. Long-term borrowings (in CHF thousands)

		Year of issue	Nominal value	Group-held securities	31/12/03 Amount outstanding	Redemption Maturity	Optional
Bond issues							
5.750 %		1994	120 000	30 495	89 505	15/12/04	–
3.000 %	subordinated with option	1994	130 000	4 420	125 580	28/02/05	–
5.500 %	former CFV	1995	100 000	9 921	90 079	1/03/05	2004 *
5.000 %	subordinated	1995	120 000	18 140	101 860	25/09/05	–
4.500 %		1995	120 000	9 995	110 005	5/12/05	–
2.500 %	with option	1996	150 000	8 240	141 760	3/06/04	–
4.250 %		1996	150 000	5 475	144 525	12/12/06	–
4.125 %	subordinated	1997	150 000	11 040	138 960	12/03/07	–
4.250 %	subordinated – reopening	1997	100 000	70	99 930	15/10/08	–
3.625 %	reopening	1998	125 000	1 875	123 125	7/07/08	–
4.000 %	reopening	1998	175 000	9 365	165 635	5/02/10	–
3.750 %	reopening	1999	135 000	8 775	126 225	27/09/06	–
4.500 %	reopening	2000	250 000	21 350	228 650	25/09/08	–
4.250 %	reopening	2000	140 000	31 450	108 550	10/02/10	–
5.000 %	reopening	2000	200 000	25 610	174 390	5/05/10	–
4.500 %	subordinated – reopening	2001	135 000	925	134 075	22/03/11	–
4.000 %	reopening	2001	150 000	2 320	147 680	26/09/11	–
Sub-total: bond issues			**2 450 000**	**199 466**	**2 250 534**		
Loans from central mortgage bond institution of Swiss cantonal banks					4 928 000		
Private placements					1 110 000		
Structured products					179 978		
Total long-term borrowings					**8 468 512**		

* Called in for redemption on 1 March 2004

Maturity schedule for long-term borrowings	2004	2005	2006	2007	2008	2009 and after	Total
Bond issues	321 344	337 445	270 750	138 960	451 705	730 330	2 250 534
Central mortgage bond institution	765 000	531 000	622 000	741 000	397 000	1 872 000	4 928 000
Private placements	150 000	150 000	250 000	400 000	160 000		1 110 000
Structured products	114 233	20 869	6 277		38 599		179 978
Total	**1 350 577**	**1 039 314**	**1 149 027**	**1 279 960**	**1 047 304**	**2 602 330**	**8 468 512**

10. Value adjustments and provisions
Reserves for general banking risks (in CHF thousands)

	Balance at 31/12/02	Releases and reversals according to their purpose	Restatements, reclassifications *	Recoveries, doubtful interest, forex differences	New provisions charged to income statement	Reversals credited to income statement	Balance at 31/12/03
Value adjustments and provisions for default risks (collection and country risks)	2 381 410	–346 414	–18 090	76 045	278 124	–217 758	2 153 317
Value adjustments and provisions for other operating risks	3 348	–161	–360	4	280	–259	2 852
Other provisions	114 115	–28 071	12 491	6	11 901	–8 763	101 679
Total value adjustments and provisions	**2 498 873**	**–374 646**	**–5 959**	**76 055**	**290 305**	**–226 780**	**2 257 848**
Less: value adjustments directly netted with assets	–50 700						–34 911
Total value adjustments and provisions shown in balance sheet	**2 448 173**						**2 222 937**
Reserves for general banking risks	**253 524**		**–1 217**		**600**		**252 907**
			+7 176 to Retained earnings				

* Reserves for general banking risks were reallocated during the year in accordance with the true and fair view principle applied to all Group subsidiaries.

11. Movements in shareholders' equity

		Number (in units) Total	Own	2003 in CHF thousands	2002 in CHF thousands
Share capital	Registered shares (CHF 125.00 nominal value)	8 488 080		1 061 010	589 450
Capital reserve				633 862	477 000
Retained earnings				401 735	757 725
Exchange adjustments				–3 144	
Reserves for general banking risks				253 524	29 000
Net profit/loss				–1 199 656	–381 453
Minority interests – equity				19 658	27 262
Total shareholders' equity at beginning of year		**8 488 080**		**1 166 989**	**1 498 984**
Capital decrease/increase during year				–530 505	471 560
Creation of participation certificate capital		13 586 956		849 185	
Net share premiums				387 315	156 862
Allocation to capital reserve (decrease in capital)				530 505	
Withdrawals from capital reserve and retained earnings				–1 200 112	–385 692
Exchange adjustments				2 206	–3 298
Change in scope of consolidation				1 847	856
Allocation to reserves for general banking risks				600	250 000
Release from reserves for general banking risks				–1 217	–25 476
Change in retained earnings				7 176	29 000
Coverage of 2002/2001 losses				1 200 112	385 692
Net profit/loss				157 219	–1 199 656
Change in minority interests				–2 428	–11 843
Own shares at 1 January 2003			156 468	–12 788	
Purchases of own shares (at cost)			186 254	–15 736	
Sales of own shares (at cost)			–226 251	19 215	
Profit/loss on disposal of own shares				3 030	
Total shareholders' equity at end of year		**22 075 036**	**116 471**	**2 562 613**	**1 166 989**
Share capital	Registered shares (CHF 62.50 nominal value)	8 488 080	114 309	530 505	1 061 010
Participation certificate capital	Bearer participation certificates (CHF 62.50 nominal value)	13 586 956	2 162	849 185	
Own equity securities				–9 309	
Capital reserve				334 407	633 862
Retained earnings				430 951	398 591
Exchange adjustments				–938	
Reserves for general banking risks				252 907	253 524
Net profit/loss				157 219	–1 199 656
Minority interests – equity				17 686	19 658

12. Breakdown of assets by country/country group (in CHF thousands)

	31/12/03 Absolute value	31/12/03 % Share	31/12/02 Absolute value	31/12/02 % Share
Switzerland	29 933 391	87.4	30 795 731	87.6
European Union	2 455 051	7.2	1 770 094	5.0
France	378 848	1.1	415 429	1.2
Italy	99 595	0.3	108 888	0.3
Germany	594 851	1.7	426 532	1.2
United Kingdom	389 424	1.1	439 422	1.3
Other	992 333	3.0	379 823	1.0
United States	251 566	0.7	761 996	2.2
Other	1 611 691	4.7	1 810 429	5.2
Total assets	**34 251 699**	**100.0**	**35 138 250**	**100.0**

13. Breakdown of assets and liabilities by Swiss and foreign origin (in CHF thousands)

	31/12/03 Switzerland	31/12/03 Foreign	31/12/02 Switzerland	31/12/02 Foreign
Assets				
Cash and cash equivalents	367 041	938	398 011	1 096
Money market instruments	264 954	30	269 632	52
Due from banks	1 952 596	2 700 599	1 248 334	1 780 141
Loans and advances to customers	6 194 732	1 110 456	7 166 328	2 079 586
Mortgages	15 900 822	2 353	15 777 264	2 955
Trading portfolio assets	845 226	249 640	916 529	190 814
Financial investments	1 534 270	241 108	1 640 474	276 375
Non-consolidated holdings	41 574	4 014	42 023	2 943
Tangible fixed assets	673 757	3 451	720 472	4 278
Intangible assets	74 626	367	118 336	
Accrued income and prepaid expenses	182 846	3 713	194 212	2 371
Other assets	1 900 947	1 639	2 304 116	1 908
Total assets	**29 933 391**	**4 318 308**	**30 795 731**	**4 342 519**
Liabilities and shareholders' equity				
Money market paper issued	819		1 206	
Due to banks	1 058 996	663 374	1 446 377	684 523
Customer savings and investment accounts	8 288 326	459 093	7 965 813	373 856
Due to customers, other	7 211 872	832 054	7 203 539	998 398
Medium-term notes	422 746		576 580	
Bonds and mortgage-backed bonds	7 437 283	1 031 229	9 009 733	1 080 000
Accrued expenses and deferred income	224 728	6 975	233 512	2 479
Other liabilities	1 828 157	497	1 942 584	4 488
Value adjustments and provisions	2 222 747	190	2 443 068	5 105
Reserves for general banking risks	252 907		253 524	
Share capital	1 379 690		1 061 010	
Own equity securities	–9 309			
Capital reserve	334 407		633 862	
Retained earnings	430 013		398 591	
Minority interests – equity	15 165	2 521	15 890	3 768
Net profit/loss	157 219		–1 199 656	
Total liabilities and shareholders' equity	**31 255 766**	**2 995 933**	**31 985 633**	**3 152 617**

14. Currency structure of balance sheet (in CHF thousands)

		CHF	USD	EUR	Other	Total
Assets						
Cash and cash equivalents		325 074	2 310	39 104	1 491	367 979
Money market instruments		241 006	10 931	13 047		264 984
Due from banks		2 900 929	955 030	528 559	268 677	4 653 195
Loans and advances to customers		5 825 552	1 112 736	209 780	157 120	7 305 188
Mortgages		15 903 175				15 903 175
Trading portfolio assets		849 218	48 749	184 314	12 585	1 094 866
Financial investments		1 645 484	4 282	124 928	684	1 775 378
Non-consolidated holdings		41 835	1 964	1 493	296	45 588
Tangible fixed assets		675 583		1 171	454	677 208
Intangible assets		74 626		292	75	74 993
Accrued income and prepaid expenses		182 891	559	3 082	27	186 559
Other assets		1 900 257	893	1 177	259	1 902 586
Total positions carried as assets		**30 565 630**	**2 137 454**	**1 106 947**	**441 668**	**34 251 699**
Receivables/Delivery claims arising from spot and forward transactions and options		5 652 253	5 713 933	3 385 588	1 559 691	16 311 465
Total assets	**31/12/03**	**36 217 883**	**7 851 387**	**4 492 535**	**2 001 359**	**50 563 164**
Liabilities and shareholders' equity						
Money market paper issued		819				819
Due to banks		778 456	710 926	128 634	104 354	1 722 370
Customer savings and investment accounts		8 713 079	24 190	10 150		8 747 419
Due to customers, other		6 310 154	698 088	833 444	202 240	8 043 926
Medium-term notes		422 746				422 746
Bonds and mortgage-backed bonds		8 421 898		46 614		8 468 512
Accrued expenses and deferred income		224 724	122	6 515	342	231 703
Other liabilities		1 827 921	305	323	105	1 828 654
Value adjustments and provisions		2 222 745		192		2 222 937
Reserves for general banking risks		252 907				252 907
Share capital		1 379 690				1 379 690
Own equity securities		–9 309				–9 309
Capital reserve		334 407				334 407
Retained earnings		430 013				430 013
Minority interests – equity		17 686				17 686
Net profit		157 219				157 219
Total positions carried as liabilities		**31 485 155**	**1 433 631**	**1 025 872**	**307 041**	**34 251 699**
Deliverables/Delivery commitments arising from spot and forward transactions and options		4 681 716	6 435 183	3 391 002	1 713 427	16 221 328
Total liabilities and shareholders' equity	**31/12/03**	**36 166 871**	**7 868 814**	**4 416 874**	**2 020 468**	**50 473 027**
Net position by currency	**31/12/03**	**51 012**	**–17 427**	**75 661**	**–19 109**	**90 137**

15. Maturity structure of current assets and borrowed funds (in CHF thousands)

		Sight	Callable	Residual life up to 3 months	Residual life 3 to 12 months	Residual life 12 months to 5 years	Residual life over 5 years	Fixed assets	Total
Current assets									
Cash and cash equivalents		367 979							367 979
Money market instruments		2 096		194 370	59 860	8 658			264 984
Due from banks		1 189 225	551	2 999 193	423 445	40 781			4 653 195
Loans and advances to customers		40 010	3 707 236	1 771 163	1 215 252	531 544	39 983		7 305 188
Mortgages		113 906	5 537 795	513 770	2 143 725	6 999 378	594 601		15 903 175
Trading portfolio assets		1 057 415	37 451						1 094 866
Financial investments		132 805	79	22 204	151 445	754 350	375 425	339 070	1 775 378
Total current assets	**31/12/03**	**2 903 436**	**9 283 112**	**5 500 700**	**3 993 727**	**8 334 711**	**1 010 009**	**339 070**	**31 364 765**
	31/12/02	3 270 380	14 590 436	5 268 848	2 574 007	4 850 682	597 771	595 467	31 747 591
Borrowed funds									
Money market paper issued		819							819
Due to banks		910 087		444 516	228 714	139 053			1 722 370
Customer savings and investment accounts			8 747 419						8 747 419
Due to customers, other		6 144 187	14 135	1 232 785	281 690	303 500	67 629		8 043 926
Medium-term notes				48 908	94 555	274 643	4 640		422 746
Bonds and mortgage-backed bonds				249 866	1 009 008	4 607 308	2 602 330		8 468 512
Total borrowed funds	**31/12/03**	**7 055 093**	**8 761 554**	**1 976 075**	**1 613 967**	**5 324 504**	**2 674 599**		**27 405 792**
	31/12/02	5 872 102	8 343 063	3 667 539	1 614 698	6 140 334	3 702 289		29 340 025

16. Loans to governing bodies (in CHF thousands)

	31/12/03	31/12/02
Loans used	7 190	9 455
Contingent liabilities	155	–

Up to and including 2002, loans to governing bodies were granted on uniform terms below market rates and identical to those enjoyed by all BCV employees. Some former members of the Board of Directors still benefit from the preferential terms obtained at the time their loans were approved.

Under a Board of Directors resolution of 18 December 2002, loans to its members are no longer granted on preferential terms.

17. Receivables and commitments in respect of affiliated companies (in CHF thousands)

	31/12/03	31/12/02
Receivables	**80 595**	**123 654**
Loans and advances to customers	56 065	94 981
Mortgages	24 530	28 673
Commitments	**244 978**	**228 867**
Due to customers, other	244 978	228 867

Transactions with affiliated companies are conducted on market terms.

Notes to off-balance-sheet transactions

18. Contingent liabilities (in CHF thousands)

	31/12/03	31/12/02
Irrevocable and similar guarantees	262 504	427 804
Acceptances and endorsements	343 944	670 771
Irrevocable commitments	8 590	1 961
Other contingent liabilities		10 127
Total contingent liabilities	**615 038**	**1 110 663**

19. Confirmed credits (in CHF thousands)

	31/12/03	31/12/02
Commitments arising from deferred payments	30 899	28 669

20. Fiduciary transactions (in CHF thousands)

	31/12/03	31/12/02
Fiduciary deposits with other banks	1 122 340	1 762 583
Fiduciary loans and other fiduciary financial transactions		573
Total fiduciary transactions	**1 122 340**	**1 763 156**

21. Open positions in derivative financial instruments (in CHF thousands)

	Trading instruments			Hedging instruments		
	Positive replacement values	Negative replacement values	Value of underlying	Positive replacement values	Negative replacement values	Value of underlying
Interest rate instruments						
Forward contracts, incl. FRAs						
Swaps	82 396	44 676	3 856 197	218 899	827	4 001 122
Futures			724 837			
Options (OTC)	1 443	1 976	401 350	12 588		640 300
Sub-total: interest rate instruments	**83 839**	**46 652**	**4 982 384**	**231 487**	**827**	**4 641 422**
Foreign exchange and gold						
Forward contracts	419 423	320 639	14 088 442			
Combined interest rate and currency swaps				2 334	4 292	33 288
Options (OTC)	55 377	63 431	4 546 613			
Sub-total: foreign exchange and gold	**474 800**	**384 070**	**18 635 055**	**2 334**	**4 292**	**33 288**
Precious metals						
Forward contracts	248	90	12 195			
Options (OTC)	20	20	2 415			
Sub-total: precious metals	**268**	**110**	**14 610**	**0**	**0**	**0**
Equity securities / Indices						
Futures			106 758			
Options (OTC)	133 327	82 568	3 378 871			
Options (exchange traded)	780 643	761 825	35 087 756			
Sub-total: equity securities / indices	**913 970**	**844 393**	**38 573 385**	**0**	**0**	**0**
Total 31/12/03	**1 472 877**	**1 275 225**	**62 205 434**	**233 821**	**5 119**	**4 674 710**

	Positive replacement values cumulative	Negative replacement values cumulative
Total replacement values		
31/12/03	**1 706 698**	**1 280 344**
31/12/02	2 170 722	1 366 435

22. Customer assets (in CHF millions)

	31/12/03	31/12/02
Type of customer assets		
Assets held by funds under own management	12 937	10 676
Assets under management mandates	9 030	8 791
Other assets	38 281	35 378
Total customers assets (incl. double-booked)	**60 248**	**54 845**
of which double-booked	6 005	5 292

Notes to the Consolidated Income Statement

23. Interest income (in CHF thousands)

	2003	2002
Loans and advances to banks and customers	865 793	1 036 781
Bills of exchange and money-market paper	4 781	8 001
Interest and dividends on financial investments	44 073	45 352
Total	**914 647**	**1 090 134**

24. Interest expense (in CHF thousands)

	2003	2002
Interest on subordinated bonds	32 640	35 263
Debit interest	463 183	626 211
Total	**495 823**	**661 474**

25. Net trading income (in CHF thousands)

	2003	2002
Foreign currency	51 420	50 594
Banknotes and precious metals	10 603	10 774
Securities (less refinancing costs) and derivatives	47 134	–921
Total	**109 157**	**60 447**

26. Personnel costs (in CHF thousands)

	2003	2002
Salaries and bonuses	280 236	257 698
Contributions to staff pension funds	40 492	36 541
Other personnel expenses	51 935	52 276
Total	**372 663**	**346 515**

27. Other operating expenses (in CHF thousands)

	2003	2002
Premises	27 375	24 501
IT	38 506	52 553
Machinery, furniture, vehicles, etc.	3 472	3 077
Miscellaneous operating expenses	112 189	111 858
Total	**181 542**	**191 989**

28. Depreciation and write-offs on fixed assets (in CHF thousands)

	2003	2002
Real estate	30 504*	17 113
IT hardware and software	55 635	50 162
Other investments	32 353	31 529
Holdings	183	3 085
Goodwill	32 279	5 757
Total	**150 954**	**107 646**

* Following the periodic review of these assets for impairment, an additional write-down of CHF 14.4 million was booked to "Other real estate".

29. Value adjustments, provisions and losses (in CHF thousands)

	2003	2002
Value adjustments, loan losses, contingent liabilities	61 279	985 637
Value adjustments on available-for-sale real estate		40 000
Value adjustments on financial investments		25 799
Value adjustments on holdings and goodwill		18 033
Miscellaneous provisions	13 635	109 668
Other losses	2 551	5 277
Total (after offsetting against recoveries)	**77 465**	**1 184 414**

30. Extraordinary income (in CHF thousands)

	2003	2002
Reversal of provision for deferred taxes and other provisions	9 022	16 550
Other extraordinary income	7 605	15 118
Total	**16 627**	**31 668**

31. Extraordinary expenses (in CHF thousands)

	2003	2002
Allocation to reserves for general banking risks	600	250 000
Other extraordinary expenses	2 614	1 268
Total	**3 214**	**251 268**

32. Income and expenses arising from ordinary banking activities (in CHF thousands)

	2003		2002	
	Switzerland	Foreign	Switzerland	Foreign
Income				
Net interest income	418 453	371	427 871	789
Net fee and commission income	271 063	17 038	289 802	12 321
Total	**689 516**	**17 409**	**717 673**	**13 110**
Expenses				
Personnel costs	359 495	13 168	334 457	12 058
Other operating expenses	172 351	9 191	182 791	9 198
Total	**531 846**	**22 359**	**517 248**	**21 256**

The geographical breakdown of income is not representative insofar as international business generates income in Switzerland.

Additional information

	31/12/03	31/12/02
Major shareholder	Vaud Canton	Vaud Canton
Stake	67.89 %	67.89 %

Report of the Group Auditors to the General Meeting of Banque Cantonale Vaudoise

As group auditors, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes, pages 38 to 67) of Banque Cantonale Vaudoise for the year ended 31 December 2003.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and cash flows in accordance with the provisions governing the preparation of financial statements for banks and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Fides Peat

Raphaël Jaquet	Olivier Gauderon
Swiss-certified accountant	Swiss-certified accountant
Auditor in Charge	Auditor

Geneva, 15 March 2004

statements

Company Financial Statements

Balance Sheet at 31 December (in CHF thousands)

	Notes *	2003	2002	Change	%
Assets					
Cash and cash equivalents		358 161	387 882	–29 721	–7.7
Money market instruments		264 914	269 599	–4 685	–1.7
Due from banks		4 586 299	2 813 963	1 772 336	63.0
Loans and advances to customers		7 225 330	9 178 208	–1 952 878	–21.3
Mortgages		15 612 006	15 496 061	115 945	0.7
Trading portfolio assets		1 395 470	1 057 735	337 735	31.9
Financial investments		1 738 262	1 868 716	–130 454	–7.0
Holdings		217 003	291 096	–74 093	–25.5
Tangible fixed assets		590 436	633 248	–42 812	–6.8
Accrued income and prepaid expenses		172 130	182 449	–10 319	–5.7
Other assets		1 876 508	2 298 676	–422 168	–18.4
Total assets	1	**34 036 519**	**34 477 633**	**–441 114**	**–1.3**
Total subordinated assets		72 575	116 942	–44 367	–37.9
Total claims on Group companies and significant shareholders		126 404	227 430	–101 026	–44.4
of which claims on Vaud Canton		106 162	71 275	34 887	48.9
Liabilities and shareholders' equity					
Money market paper issued		818	1 050	–232	–22.1
Due to banks		1 815 968	2 117 604	–301 636	–14.2
Customer savings and investment accounts	5	8 586 557	8 203 498	383 059	4.7
Due to customers, other		7 744 447	7 849 022	–104 575	–1.3
Medium-term notes		406 626	555 181	–148 555	–26.8
Bonds and mortgage-backed bonds		8 826 397	10 089 733	–1 263 336	–12.5
Accrued expenses and deferred income		183 451	227 780	–44 329	–19.5
Other liabilities		1 809 676	1 921 423	–111 747	–5.8
Value adjustments and provisions	4	2 210 492	2 430 775	–220 283	–9.1
Total liabilities		31 584 432	33 396 066	–1 811 634	–5.4
Reserves for general banking risks	3/4	250 000	250 000	–	–
Share capital	2/3	1 379 690	1 061 010	318 680	30.0
General legal reserve	3	688 377	990 862	–302 485	–30.5
Balance brought forward	3	–	936	–936	–100.0
Net profit/loss for financial year	3	134 020	–1 221 241	1 355 261	–
Total shareholders' equity		2 452 087	1 081 567	1 370 520	126.7
Total liabilities and shareholders' equity		**34 036 519**	**34 477 633**	**–441 114**	**–1.3**
Total subordinated liabilities		635 000	775 000	–140 000	–18.1
Total liabilities to Group companies and significant shareholders		143 743	168 600	–24 857	–14.7
of which liabilities to Vaud Canton		100 579	54 963	45 616	83.0

Off-balance-sheet transactions (in CHF thousands)

	2003	2002	Change	%
Contingent liabilities	608 007	1 100 275	–492 268	–44.7
Irrevocable commitments	186 788	201 448	–14 660	–7.3
Liabilities for calls on shares and other equity securities	111 470	114 926	–3 456	–3.0
Confirmed credits	30 899	28 669	2 230	7.8
Fiduciary deposits with third-party banks	977 598	1 368 460	–390 862	–28.6
Derivative financial instruments				
Positive replacement values	1 703 898	2 170 597	–466 699	–21.5
Negative replacement values	1 276 506	1 366 446	–89 940	–6.6
Underlying values	66 322 019	55 625 872	10 696 147	19.2

* The notes can be found on pages 72 to 75.

Income statement

Income and expenses arising from ordinary banking activities

	Notes *	2003 in CHF thousands	2002 in CHF thousands	Change in CHF thousands	Change %
Net interest income					
Interest and discount income		859 023	1 026 590	–167 567	–16.3
Interest and dividend income from financial investments		42 343	43 836	–1 493	–3.4
Interest expense		–488 738	–651 458	–162 720	–25.0
Sub-total: net interest income		412 628	418 968	–6 340	–1.5
Net fee and commission income					
Commissions from lending operations		45 317	58 745	–13 428	–22.9
Commissions from securities and investment transactions		189 816	208 512	–18 696	–9.0
Commissions from other services		44 300	45 787**	–1 487	–3.2
Commission expense		–61 725	–73 842	–12 117	–16.4
Sub-total: net fee and commission income		217 708	239 202	–21 494	–9.0
Net trading income					
Sub-total: net trading income	6	101 531	55 027	+46 504	84.5
Other ordinary income					
Profit on disposal of financial investments		19 378	21 758	–2 380	–10.9
Income from holdings		7 086	7 362	–276	–3.7
Real estate income		16 202	17 570	–1 368	–7.8
Miscellaneous ordinary income		9 406	10 747**	–1 341	–12.5
Miscellaneous ordinary expenses		–8 517	–42 543	–34 026	–80.0
Sub-total: other ordinary income		43 555	14 894	+28 661	192.4
Total income from ordinary banking activities		**775 422**	**728 091**	**+47 331**	**6.5**
Operating expenses					
Personnel costs		–269 555	–267 061	+2 494	0.9
Other operating expenses		–161 151	–163 824	–2 673	–1.6
Sub-total: operating expenses		–430 706	–430 885	–179	0.0
Gross profit		**344 716**	**297 206**	**+47 510**	**16.0**
Profit/loss for financial year					
Gross profit		344 716	297 206	+47 510	16.0
Depreciation and write-offs on fixed assets		–136 731	–92 880	+43 851	47.2
Value adjustments, provisions and losses	4	–75 613	–1 178 752	–1 103 139	–93.6
Profit/loss on ordinary activities before extraordinary items and taxes		**132 372**	**–974 426**	**+1 106 798**	**–**
Extraordinary income		51 784	6 305	+45 479	721.3
Extraordinary expenses		–43 311	–250 092	–206 781	–82.7
Taxes		–6 825	–3 028	+ 3 797	125.4
Profit/loss for financial year		**134 020**	**–1 221 241**	**+1 355 261**	**–**
Appropriations					
Net profit/loss for financial year		134 020	– 1 221 241		
Retained earnings brought forward		–	936		
Profit/loss shown in balance sheet		134 020	–1 220 305		
Appropriation of profit/coverage of loss					
– Allocation to/withdrawal from general legal reserve		71 799	–1 220 305		
– Distribution of dividend on share capital		62 221	–		

* The notes can be found on pages 72 to 75.
** 2002 figures restated to facilitate comparison.

Accounting and Valuation Principles

- **Overview of operations**
  See first section of "Accounting principles" on page 42.

- **Basis of preparation of company financial statements**
  The company financial statements have been prepared in accordance with the provisions of the Swiss Code of Obligations, the Federal Act on Banks and Savings Institutions and its Implementing Ordinance, and the directives of the Swiss Federal Banking Commission.

- **Valuation principles**
  The valuation principles used to draw up the financial statements of the parent company are the same as those used for the consolidated financial statements, with the exception of the following items:

  Trading portfolio assets
  This item contains positions in own equity securities and own debt securities, which are valued and carried in the balance sheet at fair value.

  Holdings
  This item comprises shares and other equity securities of companies held as long-term investments. They are valued at cost less appropriate write-downs.

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Notes to the Balance Sheet

1. General information (in CHF thousands)

	31/12/03	31/12/02
Assets pledged or assigned as collateral for own liabilities and assets with reservation of title, excluding assets subject to sale and repurchase agreements		
Book value of assets pledged or assigned as collateral	6 811 300	7 446 182
Real liabilities	5 347 562	5 616 434
Sale and repurchase agreements / securities lending and borrowing		
Claims arising from cash collateral pledged in connection with securities borrowing or reverse repurchase agreements	300 000	1 160 000
Liabilities arising from cash collateral received in connection with securities lending or repurchase agreements	–	–
Securities held for own account, lent or transferred as collateral in connection with securities borrowing or repurchase agreements	56 496	42 257
of which those which can be sold or repledged without restriction	–	–
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	1 432 172	1 794 303
of which above securities sold or transferred as collateral to a third party	1 078 237	596 997
Liabilities to own pension funds	**190 474**	**149 213**

See "Pension fund liabilities" section on page 46 and note 8 on page 57.

	31/12/03	31/12/02
Loans to governing bodies		
Loans used	7 190	9 455
Contingent liabilities	155	–

Up to and including 2002, loans to governing bodies were granted on uniform terms below market rates and identical to those enjoyed by all BCV employees. Some former members of the Board of Directors still have the preferential terms on their loans obtained at the time they were approved.

Under a Board of Directors resolution of 18 December 2002, loans to its members are no longer granted on preferential terms.

	31/12/03	31/12/02
Receivables and commitments in respect of affiliated companies		
Receivables	**80 595**	**123 559**
Loans and advances to customers	56 065	94 886
Mortgages	24 530	28 673
Commitments	**244 978**	**228 867**
Due to customers, other	244 978	228 867

Transactions with affiliated companies are conducted on market terms.

	31/12/03	31/12/02
Contingent liabilities		
Joint and several liability to subsidiaries which are members of the BCV VAT group	*nota bene*	–

2. Share capital (in CHF thousands)

	2003 Number of shares (in units)	2003 Total nominal value	2002 Number of shares (in units)	2002 Total nominal value
Share capital				
Type of share	registered		registered from 18.11.2002	
Fully paid-in nominal value	CHF 62.50 from 5 February 2003		CHF 125.00	
Status at 1 January	8 488 080	1 061 010	4 715 600	589 450
increase in share capital			3 772 480	471 560
decrease in share capital		–530 505		
Status at 31 December	**8 488 080**	**530 505**	**8 488 080**	**1 061 010**
of which share capital ranking for dividends		530 505		1 061 010
Participation certificate capital				
Type of participation certificate	bearer			
Fully paid-in nominal value	CHF 62.50			
Status at 1 January	0	0		
creation of participation certificate capital	13 586 956	849 185		
Status at 31 December	**13 586 956**	**849 185**		
of which participation certificate capital with preference dividend entitlement		849 185		
Conditional share capital				
Status at 1 January	96 000	12 000	96 000	12 000
decrease following change in nominal value		–6 000		
conditional share capital issued	0	0	0	0
Status at 31 December	**96 000**	**6 000**	**96 000**	**12 000**

Authorized capital
BCV does not have an authorized capital

	31/12/03 Number of shares (in units)	31/12/03 Total nominal value	31/12/03 Stake	31/12/02 Number of shares (in units)	31/12/02 Total nominal value	31/12/02 Stake
Major shareholders and shareholder groups with voting ties						
Voting rights						
Vaud Canton, direct interest	**5 762 252**	**360 141**	**67.89 %**	**5 762 252**	**720 282**	**67.89 %**

3. Movements in shareholders' equity (in CHF thousands)

		Number in units	2003	2002	2001
Share capital	Registered shares (CHF 125.00 nominal value)	8 488 080	1 061 010	589 450	589 450
General legal reserve			990 862	1 224 000	1 150 000
Reserves for general banking risks			250 000	0	435 000
Profit/loss shown in balance sheet			–1 220 305	–389 064	157 353
Total shareholders' equity at 1 January (before appropriation of profit/coverage of loss)		**8 488 080**	**1 081 567**	**1 424 386**	**2 331 803**
Capital increase/decrease during financial year			–530 505	471 560	0
Creation of participation certificate capital		13 586 956	849 185	0	0
Net share premiums			387 315	156 862	0
Allocation to general legal reserve (decrease in capital)			530 505	0	0
Withdrawal from general legal reserve			–1 220 305	–390 000	0
Dividends and other distributions drawn from profit for previous year			0	0	–82 243
Allocation to/withdrawal from reserves for general banking risks				250 000	–435 000
Coverage of 2002/2001 losses			1 220 305	390 000	0
Profit/loss			134 020	–1 221 241	–390 174
Total shareholders' equity at 31 December (before appropriation of profit/coverage of loss)		**22 075 036**	**2 452 087**	**1 081 567**	**1 424 386**
Share capital	Registered shares (CHF 62.50 nominal value)	8 488 080	530 505	1 061 010	589 450
Participation-certificate capital	Bearer participation certificates (CHF 62.50 nom. value)	13 586 956	849 185	0	0
General legal reserve			688 377	990 862	1 224 000
Reserves for general banking risks			250 000	250 000	0
Net profit/loss shown in balance sheet			134 020	–1 220 305	–389 064

4. Value adjustments and provisions Reserves for general banking risks (in CHF thousands)

	Balance at 31/12/02	Releases and reversals according to their purpose	Recoveries, non-performing, forex differences	Reversals credited to income statement	New provisions charged to income statement	Balance at 31/12/03
Value adjustments and provisions for default risks (Collection and country risks)	2 363 800 *	–354 114	76 048	–217 693	277 464	2 145 505
Other provisions	117 675 *	–25 314		–3 863	11 400	99 898
Total value adjustments and provisions	**2 481 475**	**–379 428**	**76 048**	**–221 556**	**288 864**	**2 245 403**
Less: value adjustments directly netted with assets	–50 700					–34 911
Total value adjustments and provisions shown in balance sheet	**2 430 775**					**2 210 492**
Reserves for general banking risks	**250 000**					**250 000**

* 2002 figures restated to facilitate comparison.

5. Special Caisse d'Epargne Cantonale Vaudoise account (in CHF thousands)

Guaranteed by cantonal government and managed by Banque Cantonale Vaudoise by decree of 20 June 1995

	2003	2002
Capital on deposit at 1 January	**1 378 711**	**1 577 130**
registered the following movements:		
net payment surplus during the financial year	–130 056	–206 319
capitalization of net interest at 31 December	2 828	7 900
representing a net change of	–127 228	–198 419
Total capital on deposit at 31 December	**1 251 483**	**1 378 711**
of which guaranteed by cantonal government	981 056	1 079 178

Breakdown by type of service	31/12/03	31/12/02	Change
Registered savings books and accounts	578 053	612 522	–34 469
Senior citizens' savings books and accounts	275 009	322 935	–47 926
Bearer savings books	359 604	396 504	–36 900
Youth savings books and accounts	38 817	46 750	–7 933
Total	**1 251 483**	**1 378 711**	**–127 228**

Notes to the Income Statement

6. Net trading income by sector (in CHF thousands)

	2003	2002
Foreign currency	44 701	44 468
Banknotes and precious metals	10 403	10 614
Securities and derivatives	46 427	–55
Total	**101 531**	**55 027**

Proposals of the Board of Directors

The Board of Directors will recommend to the General Meeting of Shareholders, to be held on 28 April 2004, appropriation of available earnings of CHF 134,020,598.65 as follows:

Payment of a preference dividend of CHF 3.33 per bearer participation certificate	13 586 956 certificates	CHF	45 244 563.48
Payment of an ordinary dividend of CHF 2.00 per registered share	8 488 080 shares	CHF	16 976 160.00
Allocation to general legal reserve		CHF	71 799 875.17
		CHF	**134 020 598.65**

If this resolution is adopted, the dividends will be payable, after deduction of Swiss withholding tax, at the Bank's head office and branches from 3 May 2004 onwards.

Report of the Statutory Auditors to the General Meeting of Banque Cantonale Vaudoise

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes, pages 69 to 75) of Banque Cantonale Vaudoise for the year ended 31 December 2003.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Fides Peat

Raphaël Jaquet	Olivier Gauderon
Swiss-certified accountant	Swiss-certified accountant
Auditor in Charge	Auditor

Geneva, 15 March 2004

corporate

Corporate Governance

General principles

BCV is aware of its responsibilities and considers itself duty-bound to meet the strictest criteria in terms of corporate governance. In particular, it is committed to the following goals:

- observing the principal standards of corporate governance. BCV complies with the main recommendations contained in the Swiss Code of Best Practice for Corporate Governance [1], insofar as they are compatible with its status as a public limited company;
- reviewing its organization and ensuring that all its executives fully assume their responsibilities. Two committees have been set up within the Board of Directors in order to tighten supervision and heighten professionalism;
- improving relations with shareholders and all other stakeholders by addressing their needs and treating them as partners. BCV is particularly determined to enhance its communications policy, and started publishing consolidated financial data on a quarterly basis in the year under review;
- being as transparent as possible, the information provided in this chapter complies with the new Directive on Information Relating to Corporate Governance introduced by SWX Swiss Exchange on 1 July 2002 [2].

This chapter explains how the Bank is putting these principles into practice. Additional information can be found in the Articles of Association, the BCV Mission Statement and the Cantonal Law of 20 June 1995 governing the organization of Banque Cantonale Vaudoise (hereinafter "the Law"), all of which are published on the Internet at www.bcv.ch.

[1] This text, by Prof. Peter Böckli, may be found on the Internet site of economiesuisse.ch. A direct link to the English translation follows: http://www.economiesuisse.ch/f/content.cfm?upid=C021B640-A048-46AF-9206C810D4EE03D6&type=pdf&filetype=pdf.

[2] For the English translation of this document go to www.swx.com/admission/rlcg_en.pdf

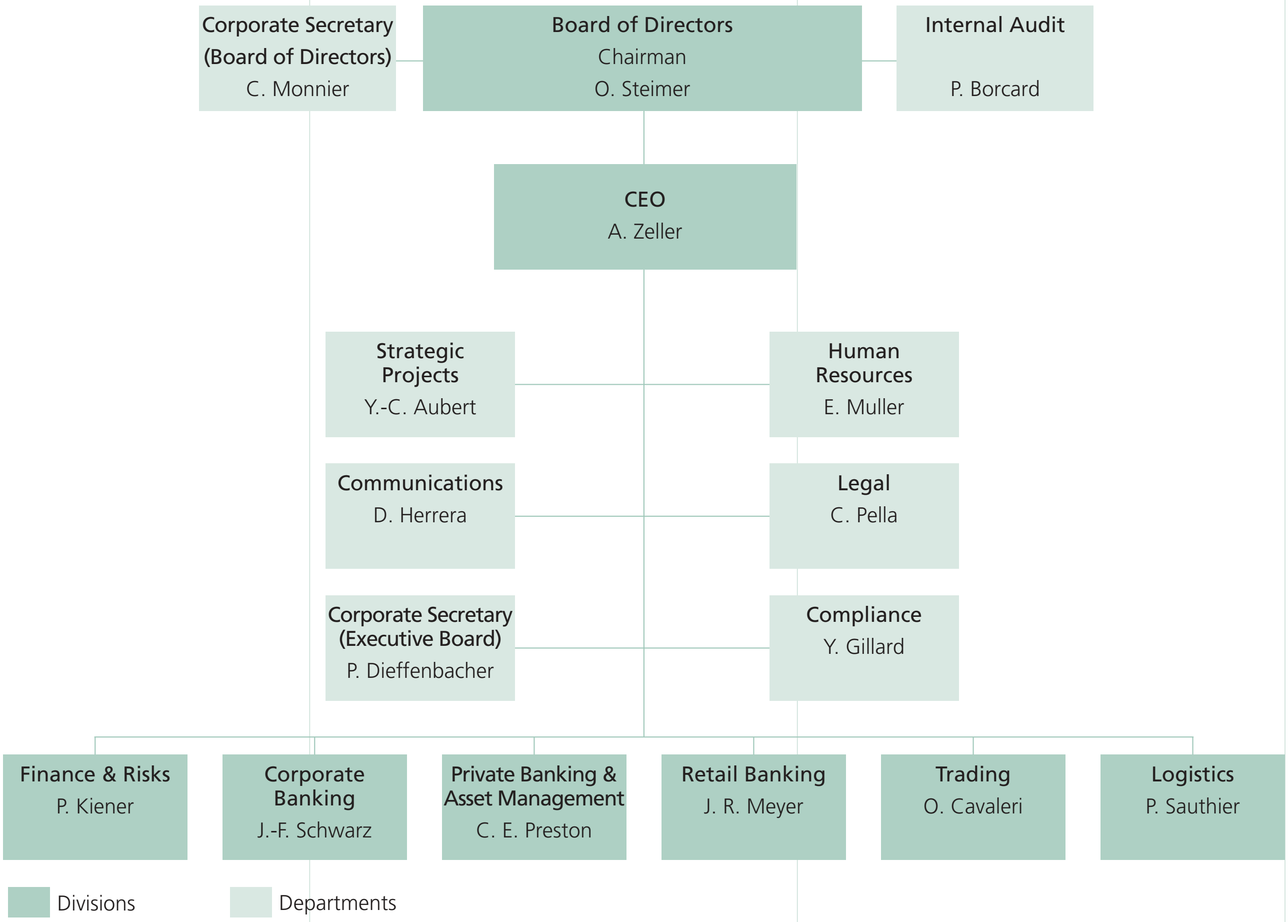
Group structure and shareholder base

BCV is a public limited company, established on 19 December 1845 by Order in Council of the Vaud Cantonal Parliament (Grand Conseil Vaudois). Its legal status is defined in the Law of 20 June 1995 as amended on 25 June 2002, and is listed in the Vaud Commercial Register. Its registered office is at Place Saint François 14, 1003 Lausanne, Switzerland.

- Group structure

Details of all BCV Group companies are shown on page 51 under "Scope of Consolidation" in the notes to the Consolidated Financial Statements. Apart from the parent company, none of the Group companies are listed on the stock exchange.

Group operational structure



- **Group operational structure**

At the operational level, all the principal subsidiaries are attached to a BCV division according to their area of business (see below):

In principle, the Head of a Division is also a member of the Board of Directors of each subsidiary that reports to his/her division. Until 31 December 2003, emoluments received by the Bank's representatives on subsidiaries' boards had to be paid over to the Bank to the extent that they exceeded CHF 3,000 a year for a directorship or CHF 5,000 for a chairmanship. Starting on 1 January 2004, any sum or other consideration received for being the Bank's representative on a subsidiary's board must be paid over to the Bank.

In addition to its operational subsidiaries, the Group has other subsidiaries that are purely legal entities and have no staff of their own. They serve to separate, from a legal point of view, activities which are outside the sphere of traditional banking operations. A case in point is Initiative Capital SA, whose line of business is acquiring holdings in start-up companies in Vaud Canton and other parts of French-speaking Switzerland.

Corporate Banking Division	Private Banking and Asset Management Division	Retail Division	Logistics Division
DEFI Gestion SA, Lausanne, Switzerland	Banque Piguet & Cie SA, Yverdon-les-Bains, Switzerland	Caisse d'Epargne et de Prévoyance d'Yverdon-les-Bains SA, Yverdon-les-Bains, Switzerland	Unicible, Prilly, Switzerland
Initiative Capital SA, Lausanne, Switzerland	Gérifonds SA, Lausanne, Switzerland		Société pour la gestion de placements collectifs GEP SA, Lausanne, Switzerland
	BCV Investment Asia (Singapore) Pte Ltd, Singapore		Sogirom société de gestion immobilière, Lausanne, Switzerland
	BCV Investment Asia (Hong Kong) Ltd, Hong Kong		
	BCV Italia S.p.A., Milan BCV Gestion SIM S.p.A., Milan		
	Assesores y Gestores Financieros SA, Madrid		
	BCV Finance (France) SA, Paris		

- **Stock exchange Listing**

BCV shares are listed on the SWX Swiss Exchange. At 31 December 2003, BCV had a market capitalization of CHF 1,196,819,280.

- **Valor No. and ISIN Code**

Valor No.: 1.525.171
ISIN Code: CH 00015251710

- **Shareholder base**

At 1 January 2004, Vaud Canton directly and indirectly held 67.89% of the Bank's share capital. No other shareholder is known to hold an interest of 5% or more. There are, therefore, no cross-shareholdings above that limit between the Bank and any other company.

Capital structure

- **Share capital**

Information on the composition of the Bank's capital and movements in 2001, 2002 and 2003 can be found in notes 2 and 3 of the Company Financial Statements (pages 73-74).

Amendments to the Articles of Association, which were submitted to the Extraordinary General Meeting on 30 October 2002, included a proposal to replace bearer shares with registered shares in order to achieve more transparency regarding the composition of the Bank's private shareholders. This proposal was approved, and the share exchange was completed in December. In January 2004, approximately 22.5% of the capital was held by registered shareholders other than the cantonal government.

The Extraordinary General Meeting held on 5 February 2003 adopted a proposal to lower the share capital from CHF 1,061 million to CHF 530.5 million by reducing the nominal value of registered shares from CHF 125.00 to CHF 62.50.

- Conditional capital
  The conditional capital is designed to encourage employee share ownership. Every year, some 20,000 shares are offered to all BCV employees at a preferential subscription price. This capital was not used in 2003, however, as shares offered to employees were withdrawn from the Bank's securities portfolio. At 31 December, the conditional capital still consisted of 96,000 shares with a total nominal value of CHF 6 million.

- Participation-certificate capital
  The Extraordinary General Meeting held on 5 February 2003 approved the proposal to create participation-certificate capital consisting of 13,586,956 certificates with a nominal value of CHF 62.50, to be issued at a price of CHF 92.00. The cantonal government owns 99.8% of this participation-certificate capital.

  Each certificate confers the right to a preferential dividend, provided that the General Meeting approves a dividend payment and that earnings are sufficient. The preferential dividend is paid on participation certificates before any payment is made on ordinary shares.

  Participation certificates do not confer voting rights or any other related rights, particularly the right to request the convening of a general meeting, to attend the general meeting, to obtain information, to consult documents or to put forward motions.

- Restrictions on transfer of registered shares
  The terms governing the transfer of registered shares are set out in article 13 of BCV's Articles of Association:

- Article 13 – Transfer of registered shares
  The transfer of any registered share and registration 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 within the meaning of the Federal Law on Stock Exchanges and Trading in Securities. [...] This limit shall not apply to the Canton of Vaud or any third party to whom the Canton of Vaud sells part of its shareholding, or to the takeover of a company or part of a company;

  b) if the shareholder does not expressly state, when requested to do so, that he/she is acquiring 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 providing proof of the composition of shareholders required under federal law.

- **Convertible and warrant issues**
  No bonds convertible into BCV common stock were outstanding at 31 December 2003.

Governing bodies

Board of Directors

- **Olivier Steimer** took up office as Chairman of the Board of Directors on 30 October 2002. He was born in 1955, is a Swiss citizen, and holds a law degree from Lausanne University.

  After completing his university studies and a number of banking and finance internships he joined Credit Suisse. Starting in 1983, he held various positions at Credit Suisse's Los Angeles, New York, and Zurich offices as well as those in French-speaking Switzerland. During this period he was entrusted with progressively increasing levels of responsibility (as Head of the Nyon branch office and then Head of Investment Advisory Services in Lausanne) and worked in the fields of wealth management as well as credit and financing services for both Swiss and foreign clients.

  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 the Zurich headquarters in 1997. He was named CEO of the Private Banking International Division and joined the Executive Board of Credit Suisse Financial Services in 2001. The following year, he was appointed member of the Credit Suisse Group Executive Board, and in June 2003 he joined the Board of Directors of Swiss Federal Railways.

- **Paul Hasenfratz** was appointed Vice-Chairman of the Board of Directors in February 2003. He was born in 1942, is a Swiss citizen, and holds a Swiss Federal Banking Diploma. His long banking career has included several internships with American banks and brokerages, and he has attended management courses for business leaders.

  From 1961 onwards, Mr Hasenfratz spent his entire career at Zurich Cantonal Bank (ZKB). In 1987, he was put in charge of the ZKB Securities Department and appointed Deputy to the Head of the Commercial Division. He was made Head of the Investment Department and member of the Executive Board in 1989, and Chairman of the Executive Board and CEO in 1992.

  Until the end of 2003, under a mandate from the Swiss Confederation, Mr Hasenfratz sat on the management committees of the Swiss nuclear installation decommissioning fund and the Swiss nuclear waste treatment fund. He is Vice-Chairman of the Swiss Banking Ombudsman Foundation and a member of the boards of the Hasler Foundation in Berne and the Max Bircher Foundation in Zurich. He is also a board member of Die Werke Versorgung Wallisellen AG. At the end of 2003, he became Chairman of the "Cercle d'étude Capital et Economie" research group.

- **Beth Krasna** was born in 1953 and has dual Swiss and American citizenship. She holds a degree in chemical engineering from the Federal Institute of Technology in Zurich, and a Masters in Management from the Sloan School of the Massachusetts Institute of Technology.

  After several years at Philip Morris, she joined Comtech SA in Vevey in 1983, where she was responsible for the development and sale of a venture capital project. Beginning in 1986, Ms Krasna was a partner and shareholder of several venture capital firms and worked as a consultant in the areas of mergers and acquisitions, venture capital, technology transfer and licensing. From 1992 to 1996, she ran Valtronic Group, guiding this local company, which specializes in electronic miniaturization, through a major structural realignment. In 1996, she became President and CEO of Symalit AG, a plastic extrusion company located in Lenzburg, and Associate Partner at Triventus AG, the management company of Quadrant Holding, the first publicly listed Swiss private equity company. From 1998 to end-2000, she was Managing Director at Sécheron SA in Geneva, and from 2001 to 2003 she was CEO of the Lausanne-based software company Albert-Inc. SA, which specializes in intuitive information-access software. Ms Krasna is also a member of the ETH Board (governing Switzerland's Federal Institutes of Technology) and a board member of the Swiss Academy of Engineering Sciences.

- André Pugin was born in 1947 and is a Swiss citizen. He holds a degree in civil engineering from the Federal Institute of Technology in Lausanne and a diploma from INSEAD in Paris. He first worked as a project engineer and was responsible for setting up a turnkey production unit in the United States before becoming Head of the Sales Department at Vevey Engineering Works Ltd and then Director of the Technology and Mechanical Engineering Division. Since 1993, Mr Pugin has been President of APCO Technologies in Vevey, which he founded. He maintains normal business relations with the companies in the Group as well as the Bank, which has been APCO Technologies' banking partner since the company was established in 1992.

  He is a board member of CVE Romande Energie in Morges, of the Caisse d'Epargne du District de Vevey, and of TSA in Lausanne. He is also President of the Swiss Association for the Space Industry, and a member of the Federal Commission for Space Affairs, the Swiss Natural Science Association (Committee for Space Affairs), and the Swiss Academy of Technical Sciences.

- Luc Recordon was born in 1955 and is a Swiss citizen. He holds a J.D. from Lausanne University and is a member of the Bar of Vaud Canton. In addition, he has a degree in physical engineering and a certificate in business management, both from the Federal Institute of Technology in Lausanne.

  He worked as a lawyer for the Federal Office for Spatial Development in 1980-1981 and spent the next two years (1981-1982) as a sales engineer with Granit SA in Lausanne before setting up his own legal-technical consultancy. Having been a trainee lawyer between 1987 and 1989, Mr Recordon was admitted to the Bar in 1989 and has subsequently been made a partner in a Lausanne law firm. He is also a member of the committee (and former president) of the Lausanne Section of the Swiss Tenants' Association (ASLOCA), a local councillor for Jouxtens-Mézery, a member of the Swiss Parliament and a member of the Vaud Green Party Committee.

- Paul-André Sanglard was born in 1950 and is a Swiss citizen. He holds a PhD in economics with a specialization in political science from the University of Geneva. In 1978 and 1979, he was a research fellow at Stanford University and the Massachusetts Institute of Technology.

  After working as an assistant in the Department of Political Economy of Geneva University, he worked as an economist in the Swiss federal government's department of external economic affairs from 1977 to 1978. In 1979, he was appointed Head of Jura Canton's public revenue office. In 1982, he became a lecturer on public finance at the University of Geneva, and between 1984 and 1989 he was a member of the World Economic Forum Executive Committee. He has been a freelance economist since 1989.

  Mr Sanglard is a member of the Board of Directors of the insurance company Vaudoise Assurances, and is Chairman of its benefit foundations. He is also Chairman of the Board of Directors of Banque Cantonale du Jura, in

Porrentruy, chairman of Ophthalmology Network Organization in Geneva and member of the Board of Directors of British American Tobacco Switzerland SA, Boncourt.

- Jean-Luc Strohm, born in 1941, is a Swiss citizen who holds degrees in law and economics from the University of Lausanne.

  After completing his studies, he began a long and varied banking career with UBS. He worked as a financial and credit-risk analyst in Zurich from 1966 to 1970, and managed a portfolio of commercial loans in Lausanne from 1970 to 1977. In 1978, Mr Strohm was sent to Los Angeles to set up the UBS branch there, which he headed until 1982. He was then called back to Lausanne to set up and head the International Banking Department of UBS Lausanne. In 1985, he was promoted Head of the Corporate Banking Department of UBS Lausanne. Having been appointed senior advisor at UBS Lausanne in 1992, he left UBS in 1993 to become Director of the Vaud Canton Chamber of Commerce and Industry, based in Lausanne.

  Mr Strohm has been President of the Swiss Chambers of Commerce and Industry since 2000 and Chairman of the Board of Renaissance PME, a Swiss investment foundation in Lausanne, since 1998.

- Other functions and business relations
  The Chair and members of the Board of Directors 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.

- Interdependencies
  None of the members of the Board of Directors holds cross-directorships on the boards of listed companies.

- Election and term of office
  Pursuant to the Articles of Association, the Board of Directors is composed of seven, nine or eleven members. The Chair and half the other members are appointed by the Vaud Cantonal Government. The remaining members are elected by shareholders at the General Meeting, with the Government abstaining from voting.

  The Chair and members of the Board are appointed for a period of four years. They are eligible for re-appointment/re-election, but their total term of office 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.

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

Members of the Board of Directors	Year of birth	Date of 1st election	Latest possible expiry of term of office
M. Olivier STEIMER (Chair)	1955	30 October 2002	2018
M. Paul HASENFRATZ (Vice-Chair)	1942	1 April 2002	2012
Mme Beth KRASNA	1953	30 October 2002	2018
M. André PUGIN	1947	30 October 2002	2017
M. Luc RECORDON	1955	1 February 2002	2018
M. Paul-André SANGLARD	1950	30 October 2002	2018
M. Jean-Luc STROHM	1941	30 October 2002	2011

- **Internal organization**

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

The Board of Directors has set up two committees drawn from among its members: an Audit Committee and a Promotions, Appointments and Compensation Committee, neither of which has decision-making powers. Their remit is to prepare Board resolutions and submit opinions. The Board of Directors may create other *ad hoc* committees to deal with matters that must be submitted to the Board.

The full Board of Directors meets about 20 times a year, while its committees meet as often as is necessary.

- **Audit Committee**

The Audit Committee is made up of Paul Hasenfratz (Chair), André Pugin, Paul-André Sanglard and Jean-Luc Strohm.

This committee regularly reviews the Bank's financial data as well as reports submitted by the Chief Risk Officer and Chief Compliance Officer.

It supervises the activities of both internal and external auditors. Together with the latter's representative, the Committee examines the external auditor's recommendations concerning organization as well as its opinion on the qualifications of the internal auditors and the effective cooperation of Bank bodies in auditing procedures. The Committee also receives briefings from the Head of Internal Audit regarding BCV's organization and operations.

Furthermore, it gives its own appraisal of the Internal Audit and reviews the reports of the Chief Compliance Officer as well as the status of litigation involving BCV.

- **Promotions, Appointments and Compensation Committee**

The Promotions, Appointments and Compensation Committee consists of Olivier Steimer (Chair), Beth Krasna and Luc Recordon. The CEO takes part in an advisory capacity.

The Committee defines the profile required for the Chair 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 proposals for the selection and hiring of the Bank's senior executives and reviews the fee policy for members of the Board of Directors. It also prepares Board decisions concerning remuneration of members of the Executive Board and the Head of Internal Audit, and on the Bank's general compensation policy.

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

- Other committees
  The Board of Directors may set up other temporary committees, appoint members and define their terms of reference. An *ad hoc* committee was appointed by the Board in 2003 to handle all ongoing legal proceedings involving BCV's former governing bodies.

- Powers of Board of Directors and Executive Board
  The Board of Directors establishes the Bank's general policy. It manages the business of the Bank at the highest level and issues the necessary directives. It supervises the management of the Bank and the persons entrusted with such management. In addition, it verifies accomplishment of BCV's corporate mandate, as specified in Article 4 of the Law.

  The Executive Board is responsible for the management and direct supervision of the Bank's business. Within its remit, it defines the terms of operations mentioned in Article 4 of the Articles of Association that are governed by Article 4 of the Law and, in general, is in charge of the Bank's operational management.

- Monitoring of the Executive Board
  In carrying out its supervision of the Executive Board, the Board of Directors is supported by the Internal Audit, which regularly monitors the activities of the Bank and the Group, as well as by the external auditors. It also receives regular reports from the Executive Board, particularly on budget monitoring, risk management and compliance activities.

  The Board of Directors does not have any executive members, in the sense that none of the 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 Article 8 Paragraph 2 of the Implementing Ordinance on Banks and Savings Banks.

- Internal Audit
  The Internal Audit is a constituent body of BCV pursuant to Article 14 of the Articles of Association. It reports to the Board of Directors. It performs regular audits of all the activities of the Bank and has an unlimited right to access information for this purpose. Its organization, area of operations, procedures and cooperation with the independent external auditors are defined in its regulations. These regulations specify that it is independent of the Executive Board. The Internal Audit's activities extend to all entities directly or indirectly controlled by the Bank that operate in the banking and financial sectors.

- Executive Board
  The Executive Board currently consists of the following members, all of whom were appointed by the Vaud Cantonal Government:

- Alexandre Zeller was appointed CEO on 1 November 2002. A Swiss citizen, he was born in 1961 and graduated from the University of Lausanne with a degree in economics in 1982. He joined Nestlé in 1984 as an operational auditor and worked there for three years prior to moving to Credit Suisse. He was with Credit Suisse from 1987 to autumn 2002 and held a variety of positions with the bank, providing him with wide-ranging experience in lending, private banking for both Swiss and foreign clients, and branch office management. Between 1999 and 2002, he was a member of the Executive Board of Credit Suisse Financial Services and CEO of Credit Suisse Private Banking Switzerland.

Mr Zeller is a member of the Boards of Directors and the Board Committees of the Swiss Bankers Association (SBA) and the Union of Swiss Cantonal Banks (UBCS), and a member of the Board of Directors and the Steering Committee of the Vaud Canton Chamber of Commerce and Industry (CVCI). He also sits on the Boards of Directors of Banque Piguet & Cie SA and Renault Finance SA. He is President of the BCV Employee Benefit Fund. He is a member of the Boards of Trustees of BCV Foundation and FAME (an international center for Financial Asset Management and Engineering). He is also a member of the Board of Trustees of Fondation Genève Place Financière (foundation for promoting Geneva as a financial centre).

- Olivier Cavaleri runs the Trading Division. A Swiss citizen, he was born in 1962 and took a degree in electrical engineering from the Federal Institute of Technology in Lausanne in 1985. He was in charge of IT at Bernische Kraftwerke AG from 1986 to 1990, and obtained an MBA from the University of Lausanne in 1989. In 1990, he joined UBS in Zurich to work on new financial instruments. From 1992 to 1997, he was head of fixed-income derivatives, and was then promoted Head of Swiss trading in foreign-currency bonds. He joined BCV in 1998 as Head of the Fixed-Income Department, and took charge of the Trading Division on 1 July 2001 as joint member of the Executive Board. On 1 July 2003, he was made a full member of the Executive Board.

  Mr Cavaleri is Chair of the Swiss Cantonal Bank issuing committee. He is a member of the SBA's commission for the protection of Switzerland's financial interests, representing the Union of Swiss Cantonal Banks, a member of the association for the development of banking skills in Geneva, member of the Board of Trustees of Lausanne University's Economics and Business Administration Faculty. He is also a member of the Board of Directors of the Swiss Cantonal Banks' central mortgage bond institution in Zurich, the Executive Board of BCV's Guernsey branch, the Board of the BCV Executive Pension Fund, the Board of the BCV Employee Benefit Fund, and the Board of Trustees of the Banque Cantonale Vaudoise Pension Fund.

- Pascal Kiener was appointed Chief Financial Officer and member of the Executive Board and put in charge of the Finance and Risks Division on 1 June 2003. He is a Swiss citizen, was born in 1962, and holds a mechanical engineering degree from the Federal Institute of Technology in Lausanne (1985) as well as an MBA from INSEAD in Fontainebleau (1992). Between 1985 and 1991, he worked as an engineer for companies such as Fides Informatics in Zurich and Hewlett Packard in Geneva. In 1993, he joined the consulting firm McKinsey. In 2000 he was made Partner and a Member of the Management Group of McKinsey Switzerland. Mr Kiener has acquired experience in the financial services sector over the last few years as an advisor for leading financial institutions in Switzerland and Europe. In particular, he has managed large projects on topics such as strategy, risk management, controlling, and business process re-engineering.

  Mr Kiener is a member of the Board of Directors of Unicible SA, and a member of the Board of Trustees of the BCV Employee Benefit Fund.

- Jacques R. Meyer took charge of the Retail Banking Division on 15 November 2002, when he became a joint member of the Executive Board. He was made a full member of the Executive Board on 1 July 2003. A Swiss citizen, Mr Meyer was born in 1955 and gained a Swiss Federal Banking Diploma in 1982 as well as diplomas from the Swiss Banking School in 1993 and 2000. He worked for UBS from 1974 to 1989, beginning his banking career as an intern at the main branch and various branch offices of UBS Fribourg. Next, he moved to Zurich to work in the documentary credit department. He returned to Fribourg in 1979 as a management assistant, and was responsible for the Payerne branch from 1983 to 1989. That year, he joined BCV and was appointed Regional Head in charge of the Nyon area. He became Head of BCV West Region when the regional network was restructured in 1998.

Mr Meyer is a member of the Board of Directors of Swissca Holding SA, Berne. He is Chair of the Board of Directors of the Caisse d'Epargne et de Prévoyance d'Yverdon-les-Bains, and a member of the Board of Directors of Beaulieu Exploitation SA, Lausanne. He is a committee member at the Office for the professional integration of handicapped people in French-speaking Switzerland, in Vevey, the Vaud Canton Banking Association, and the Vaud Canton Banking Training Foundation. He also sits on the Board of Directors of Domaine du Mont-d'Or SA, Pont-de-la-Morge, and is a member of the Board of Trustees of the BCV Executive Pension Fund.

- Christopher E. Preston is Head of the Private Banking and Asset Management Division and a member of the Executive Board. He took up his post on 1 January 2004. He was born in 1954, and is a British citizen. He graduated in law from the University of Southampton (UK) in 1975, and obtained an MBA from Cranfield School of Management and INSEAD in 1980. He began his career in 1976 at Camper & Nicholson Ltd, working in the UK and Monaco, before joining the Bank of America Group in 1980. From 1980 to 1993, he worked in London, Zurich and Frankfurt, where his responsibilities spanned a number of areas including lending, capital markets, trading and country management. In 1994, he left Bank of America for Rothschild Bank AG, Zurich, where he was appointed member of the Executive Board, initially Chief Financial Officer and subsequently as Head of the Private Banking Division. He joined Citigroup Private Bank EMEA, Geneva, in 2001, where he held the posts of Chairman of Citigroup Suisse SA and Head of the Wealth Management Division in Europe, the Middle East and Africa. Mr Preston is also Chairman of the Board of Directors of Gérifonds SA, Lausanne and Vice-Chairman of Banque Piguet & Cie SA, Yverdon-les-Bains.

- Philippe Sauthier, who runs the Logistics Division, was born in 1964 and is a Swiss citizen. He took a degree in social science at the University of Lausanne in 1986. After an internship at Credit Suisse in Lausanne in 1988, he became project manager at MIS Trend, a market-research company specializing in customer surveys, in 1989. He joined BCV in 1992 after completing an MBA at Lausanne University, and was marketing manager at the Bank until 1997. That year, he took charge of the Trading Back-Office Department. He was appointed a member of the Executive Board and Head of the Logistics Division as of 1 July 2001.

  Mr Sauthier is also Chair of the Boards of Directors of GEP SA, Lausanne, and Sogirom SA, Lausanne. He is a member of the Boards of Directors of Nominee, Geneva, Odyssey Asset Management Systems SA (OAMS), Luxembourg, Telekurs Finance SA, Zurich, Unicible SA, Lausanne, and Viseca Issuing AG, Glattbrugg. He is also a member of the Investment Committee of the Swissca IFCA Fund, Berne.

- Jean-François Schwarz was appointed a member of the Board of Directors and Head of Corporate Banking on 25 February 2003 and took up his post on 5 March 2003. A Swiss citizen, he was born in 1955 and graduated in 1976 with a degree in economics (specialization in business management) from the Economics and Business Administration Faculty of Lausanne University. In the same year, he joined BCV's Commercial Division.

He subsequently became assistant to the Head of the Commercial Division and later on client advisor for trade and export financing. From 1986 until he returned to BCV in 2003, he worked for Credit Suisse in Lausanne, New York, Geneva and Sion. At the end of his career with Credit Suisse he was in charge of five regions as Head of Corporate Clients for French-speaking Switzerland. Mr Schwarz is also a member of the Boards of Directors of Défi Développement-Finance Holding SA, Lausanne, and Défi Gestion SA, Lausanne.

- Ralph Ziegler vacated his post as a member of the Executive Board on 30 January 2003. Following the federal court's decision on 7 August 2003, revocation proceedings have resumed and are still pending before the Vaud Cantonal Government.

- Internal Organization

  Within the limits imposed by banking legislation, the agreements of the Swiss Bankers Association, the circulars of the Federal Banking Commission and regulatory bodies, and the directives issued by the Board of Directors, the Executive Board may delegate its powers and duties, in accordance with the Bank's by-laws, with the exception of certain non-transferable and inalienable powers.

  In particular, it may appoint committees to prepare and carry out its decisions, take independent decisions and supervise various matters.

  Several committees have been set up within the Executive Board – the Risk Management Committee, the Credit Committee (EBCC/CCDG), the Asset and Liability Management Committee (ALM), the Information Technology Committee, and the Investment Committee. Each consists of a Chair and members appointed for an indefinite period by the Executive Board and drawn from its own ranks or among senior executives.

- The Risk Management Committee, chaired by Pascal Kiener, submits risk-management policy proposals to the Executive Board, for approval by the Board of Directors. It puts forward proposals concerning the Bank's risk-taking strategy and the principles governing the Bank's risk-management activities to the Executive Board, for approval by the Board of Directors. It validates all proposals regarding the implementation of the risk-management policy – in terms of methodology, procedures and organization – previously approved by the CRO. It closely monitors the Bank's risk exposure and risk profile based on the CRO's monthly risk reports. Finally, it monitors all BCV risk-management projects.

- The Credit Committee, chaired by Jean-François Schwarz, makes decisions regarding the granting of loans, within the limits of its powers, and informs the Executive Board of its decisions.

- The Asset and Liability Management Committee, chaired by Pascal Kiener, reviews the Bank's interest-rate-related operations in the light of the Bank's balance-sheet structure and expected interest-rate trends. It submits various policy recommendations (concerning the future development and structure of the balance sheet, financing, and hedging foreign-exchange risk on financial investments and holdings) to the appropriate governing bodies.

- The Information Technology Committee, chaired by Philippe Sauthier, monitors the Bank's principal IT projects.

- The Investment Committee, chaired by Fernando Martins da Silva, head of BCV's investment policy, defines asset-allocation planning and strategy for the Bank's global investment mandates.

- Management contracts

  The Bank has not concluded any management contracts.

Compensation, shareholdings and loans

- Compensation system

The compensation system introduced in 1996, which is currently under review, is designed to strengthen the link between salaries and the Bank's operating results. The following information concerns the compensation system in operation at 31 December 2003.

- Base salary

The base salary is fixed according to the level of responsibility of each position.

- Variable salary and bonuses

In addition to their base salary, all employees of the Bank are entitled to a variable salary. The overall sum allotted for this component of pay depends on the Bank's gross profit, while individual amounts are based mainly on a performance-appraisal system involving a discussion between the employee and his or her superior. The Executive Board received total variable salary equivalent to CHF 370,000 in 2003 for the 2002 financial year.

Under this compensation system, some 20% of employees also receive an annual bonus in March as a reward for special achievements during the previous financial year. With the exception of the first CHF 10,000, which is paid in cash, half of the bonus is paid in BCV shares. The share component of the bonus is increased by 20% to take account of the three-year lock-up period for these shares.

The Executive Board received total bonuses equivalent to CHF 550,000 in 2003 for the 2002 financial year.

- Employee share ownership

The governing bodies encourage employee share ownership, and consider it an essential element of employee loyalty and corporate identity. An employee share subscription programme was therefore introduced in 1987. Until 1995, this programme gave all BCV employees the opportunity to subscribe to participation certificates; these were converted into shares after the merger with Crédit Foncier Vaudois.

The Board of Directors adopted two exceptional measures in 2003, with the aim of allowing employees to participate fully in the Bank's financial recovery.

The first was an increase of almost 50% in individual share-purchase entitlements, and the second an offer of one bonus share for each share subscribed under the employee share ownership programme. This offer will come into effect at the end of the lock-up period, i.e. 31 May 2006, provided that the market price of the shares reaches or exceeds CHF 110 for five consecutive months during the validity period of the 2003 plan. These securities will not be subject to any lock-up period when they are allotted in 2006. All employees who have not terminated their employment contracts at 31 May 2006 can take advantage of this offer, while employees retiring after 1 January 2005 will also qualify.

Employee share-purchase entitlements are set as a function of each staff member's level of responsibility within the Bank's operational structure, and personal performance. Normally the subscription price is half the market price on 31 March of the year in which the shares are subscribed.

With the aim of promoting shareholder loyalty, shares subscribed in this way are subject to a three-year lock-up period from the date of subscription.

At 31 December 2003, Bank employees and members of the Executive Board between them held 1.92 % of the share capital (162,690 shares). Members of the Executive Board do not enjoy any preferential terms as regards BCV shares.

- Remuneration of existing and former members of governing bodies

During 2003, BCV's governing bodies received total remuneration of CHF 4,868,066, including variable remuneration of CHF 920,000.

Board of Directors

As no changes were made during the year, members of the Board of Directors in office at 31 December 2003 received total emoluments of CHF 1,416,505 in 2003. The highest remuneration was CHF 530,004. In 2003, no variable remuneration was paid to members of the Board of Directors in office at 31 December 2003 with respect to 2002.

As from 1 November 2002, directors in office do not enjoy any preferential terms.

Executive Board

Members of the Executive Board received a total remuneration of CHF 3,451,561 in 2003. Since some members of the Executive Board left the BCV during the year, members in office at 31 December 2003 received total remuneration of CHF 2,888,538. These amounts include remuneration from companies in which Executive Board members hold office under specific contracts. They also include employer contributions to the BCV Executive Pension Fund.

The Executive Board received variable remuneration of CHF 920,000 in 2003 with respect to 2002. This included variable salary of CHF 370,000 and bonuses of CHF 550,000, which includes the value of 3,932 BCV shares allotted.

- Share allotments in 2003

Board of Directors

No BCV shares were allotted to members of the Board of Directors in 2003.

Executive Board

In 2003, members of the Executive Board received 3,932 BCV shares as part of their bonus payments.

- Share ownership

Board of Directors

Under a resolution adopted by the Board of Directors on 7 October 2002, directors are required to own a minimum of 100 BCV shares. At 31 December 2003, directors in office together owned 7,380 registered BCV shares, representing 0.09 % of the share capital.

Executive Board

At 31 December 2003, members of the Executive Board together owned 7,472 registered BCV shares, representing 0.09 % of the share capital.

- Stock options

BCV does not have a system of employee stock options.

- Other fees and perquisites

Members of the Bank's governing bodies received no fees or gratuities other than those already mentioned under the above remunerations.

Until 31 December 2003, compensation received by the Bank's representatives on the subsidiaries' boards had to be paid over to the Bank to the extent that they exceeded CHF 3,000 a year for a directorship or CHF 5,000 for a chairmanship. Starting on 1 January 2004, any sum or other consideration received for being the Bank's representative on a subsidiary's board must be paid over to the Bank.

- **Loans to governing bodies**

  At 31 December 2003, the credit limit of loans granted to the Bank's governing bodies – members of the Board of Directors, members of the Executive Board and the Head of Internal Audit – totalled CHF 13,886,000, of which CHF 7,345,000 was being used. The officers using these loans consisted of three directors, the Head of Internal Audit and six members of the Executive Board. It includes guarantees issued by the Bank in their favour. Over 57 % of these loans are secured by mortgages. At end-2003, the interest rate charged on these loans was 2 %.

  Up to and including 2002, loans to governing bodies were granted on uniform terms below market rates and identical to those enjoyed by all BCV employees. As is the case with certain retired BCV employees, some former members of the Board of Directors continue to benefit from the favourable terms obtained at the time their loans were approved.

  By decision of the Board of Directors dated 18 December 2002, new loans to its members are no longer granted on preferential terms.

  Other than the above items, the Bank did not enter into any arrangements with members of the Board of Directors or the Executive Board that were outside the scope of its normal activities or otherwise unusual in form or content.

Shareholders' rights

- **Restrictions on voting rights and shareholder representation**

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

- **Article 12 – Share register**

  The Bank shall only recognize as shareholders those persons entered in the share register. Only those whose names appear in the register may exercise rights attached to BCV shares, subject to the provisions of these Articles.

  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 – Transfer of registered shares**

  The transfer of any registered share and registration 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 within the meaning of the Federal Law on Stock Exchanges and Trading in Securities. [...] This limit shall not apply to the Canton of Vaud or any third party to whom the Canton of Vaud sells part of its shareholding, or to the takeover of a company or part of a company;

  b) if the shareholder does not expressly state, when requested to do so, that he/she is acquiring 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 composition of shareholders required under federal law.

  During the 2003 financial year, no departure from the above restrictions was granted.

The rules governing participation in the General Meeting are laid down in Articles 16 and 18 of the Articles of Association; the main points are shown below.

- Article 16 – Meetings

  The General Meeting of Shareholders shall be convened by the Board of Directors at least once a year.

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

  Extraordinary General Meetings shall be called as often as required.

  One or several shareholders together representing no less than one tenth of the share capital may also request the convening of a General Meeting. Shareholders representing shares with an aggregate nominal value of CHF 1 million may request that an item of business be entered on the agenda. The calling of a General Meeting and inclusion of an item of business on the agenda shall be requested in writing, stating the business to be discussed and motions to be tabled.

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

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

- Article 18 – Voting rights

  Each share entitles the holder to one vote. No shareholder shall be entitled to vote at a General Meeting either personally or by proxy or to exercise associated rights unless registered in the share 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 General Meeting.

- Registration in the share register

  Article 18 Paragraph 2 of the Articles of Association stipulates that 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 General Meeting.

  Pursuant to Paragraph 1 of the same article, the right to vote at the General Meeting shall be exercised by the shareholder registered in the share register or by his or her proxy, who is not necessarily a shareholder. Consequently, BCV is not required to appoint an independent representative.

Takeovers and defensive measures

- Obligation to present an offer

  The Articles of Association do not contain an opting-out or opting-up clause based on Article 22 of the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA).

- Takeover clauses

  No agreement or program exists that would benefit members of the Board of Directors and/or the Executive Board or other BCV executives in the event of a takeover.

Auditors

- Term of audit mandate and length of service of auditor in charge

  On 16 May 2002, the Board of Directors appointed KPMG Fides Peat as BCV's external auditor, as defined by the Federal Law on Banks and Savings Banks, for the 2002 financial year. The Board renewed KPMG Fides Peat's mandate at its meeting of 10 April 2003. This firm was also appointed by the General Meeting of Shareholders on 22 May 2003 as BCV's external auditor as defined by the Code of Obligations, pursuant to Article 24 *e)* of the Articles of Association. Raphaël Jaquet, a partner at KPMG Fides Peat, is the auditor in charge of the audit mandate. He has been in charge of the audit mandate since KPMG Fides Peat was appointed at the General Meeting of 26 June 2002 and his mandate was renewed by the General Meeting of 22 May 2003.

- Audit fees

Total fees invoiced by KPMG Fides Peat for its audits of the parent company and Group financial statements, as well as the statutory audit pursuant to the provisions of the Federal Law on Banks and Savings Banks and the Federal Act on Stock Exchanges and Securities Trading, amounted to CHF 1,497,000 for the 2003 reporting period.

Total fees invoiced by KPMG in Switzerland and abroad for financial and statutory audits of BCV Group companies for the 2003 financial year were CHF 851,000.

Total fees invoiced by KPMG for all auditing services supplied to the various companies which make up BCV Group amounted to CHF 2,348,000.

- Additional Fees

Fees invoiced by companies within KPMG Group for services related to the audits, including but not limited to fees for attestations required contractually or by local law, totalled CHF 295,000 for the parent company and CHF 83,000 for the other companies within the Group.

In 2003, the Bank reorganized its subsidiaries and internal structures. Consulting fees in areas such as due diligence, legal and fiscal matters, and compliance implementation amounted to CHF 595,000 for the parent company and CHF 55,000 for the other companies within the Group.

Total additional fees invoiced by KPMG in Switzerland and abroad for the 2003 reporting period and including all companies of the Group amounted to CHF 1,028,000.

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

- Controls concerning the external auditors

The Audit Committee is, in particular, responsible for monitoring the activities of the external auditors and advising the Board of Directors on their appointment and removal.

Information policy

Regular publications intended for shareholders are the Annual Report (issued in April) and the half-year financial statements (issued in September). These documents are published in French and English, and are available in printed versions, either on request or by subscription, from the following address: BCV, Secteur Edition, Case postale 300, CH-1001 Lausanne, Switzerland.

Since printing these documents can be a fairly lengthy process, information is provided to the public shortly after the Consolidated Financial Statements are approved by the Board of Directors by means of a media release and press conference in the case of the annual and the half-year statements, and a media release for quarterly statements.

BCV also issues *ad hoc* media releases on important developments and business trends at the Bank.

The Annual Report, half-year financial statements and media releases are all posted on the BCV website (www.bcv.ch). The Annual Report and half-year statements are published in French and English, while the media releases are normally available in French, German and English. Data of specific interest to investors can also be consulted in the "Investor Relations" section on the BCV website.

In 2003, the Bank also started reporting quarterly consolidated financial statements, adding first- and third-quarter reports to its existing half-year and full-year reports. It also stepped up communications with shareholders and the financial community in general.

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Up-coming Events

- 28 April 2004
  Annual General Meeting

- 28 May 2004
  Release of 2004 first-quarter financial results (press release only)

- 24 August 2004
  Release of 2004 half-year financial results

- 29 November 2004
  Release of 2004 third-quarter financial results (press release only)

organization

Organizational Structure

BCV is composed of six divisions which report to Alexandre Zeller, CEO:

- The **Finance & Risks Division,** led by Pascal Kiener (CFO), comprises the departments in charge of strategic planning, financial controlling, financial accounting, asset and liability management, risk and return management, and special affairs (impaired loans).

- The **Corporate Banking Division,** headed by Jean-François Schwarz, handles loans for small and medium-sized firms (SMEs), credit management, business with public-sector entities, commercial operations in Vaud Canton, correspondent banking, trade finance activities and lending to large corporations.

- The **Private Banking and Asset Management Division,** which has been managed by Christopher E. Preston since the start of 2004, oversees all BCV wealth management activities for private and institutional clients, external asset management, the development of the BCV Group and relations with foreign subsidiaries. It also includes the departments in charge of the Bank's investment policy and financial planning.

- The **Retail Banking Division,** run by Jacques R. Meyer, serves retail customers throughout the Canton and operates the Bank's alternative distribution channels (including e-services).

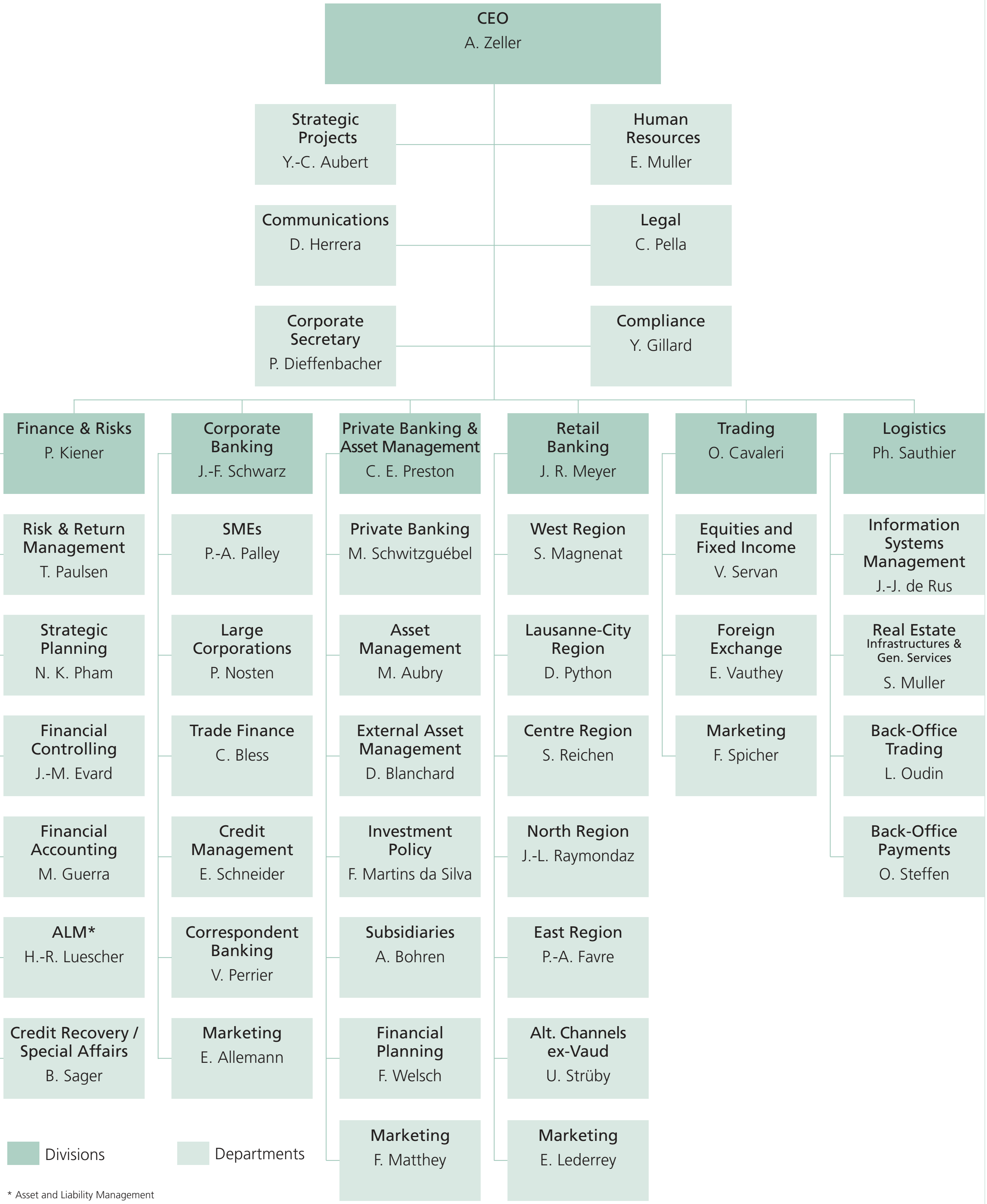
- The **Trading Division,** headed by Olivier Cavaleri, engages in trading activities on the equity, fixed-income and foreign-exchange markets.

- The **Logistics Division,** managed by Philippe Sauthier, is responsible for information-systems management, real-estate, infrastructure and general services, and the trading and payments back-offices. It also supervises market research.

The following chart shows the Bank's organizational structure at 9 March 2004.

organization

Organization Chart



* Asset and Liability Management

abroad

BCV Abroad

Georgetown	Piguet Bank & Trust Limited Piccadily Center PO Box 1557 Georgetown Grand Cayman, BVI	Mr Kaspar Muller Tel. +345/946.13.78 Fax +345/946.13.79
Hong Kong	BCV Hong Kong Representative Office Suite 6303, Central Plaza 18, Harbour Road, Wanchai Hong Kong	Mr Lik Kim Yeo Tel. +852/251.988.36 Fax +852/258.392.77
	BCV Investment Asia (Hong Kong) Ltd Suite 6303, Central Plaza 18, Harbour Road, Wanchai Hong Kong	Mr Leo Wong, Mr Tak Yuen Cheung Tel. +852/251.988.36 Fax +852/258.392.77
Madrid	Asesores y Gestores Financieros SA C/Balbina Valverde, 17 E – 28002 Madrid	Mr Alberto Rodriguez-Fraile Tel. +34/91/590.21.21 Fax +34/91/562.18.00
Miami	PRS International Consulting Inc. 801 Brickell Avenue 16th Floor Miami, Florida 33131 – 2945 U.S.A.	Mr Gonzalo Rodriguez-Fraile Tel. +1/305/381.83.40 Fax +1/305/381.83.34
Milan	BCV Italia SIM S.p.A. Via degli Omenoni 2 I – 20121 Milan	Mr Philippe Dieffenbacher Tel. +39/02/725.972.72 Fax +39/02/869.06.07
	BCV Gestion SIM S.p.A. Via degli Omenoni 2 I – 20121 Milan	Mr Philippe Dieffenbacher Tel. +39/02/725.971 Fax +39/02/725.972.04
Paris	BCV Finance (France) SA Avenue Percier 9 F – 75008 Paris	Mr Gérard Déjardin-Verkinder Tel. +33/1/535.348.10 Fax +33/1/535.348.20
Singapore	BCV Investment Asia (Singapore) Pte Ltd 7 Temasek Boulevard # 32-01 Suntec Tower One Singapore 038987	Mr Olivier Mivelaz Tel. +65/633.865.56 Fax +65/633.875.57
	BCV Singapore Representative Office 7 Temasek Boulevard # 32-01 Suntec Tower One Singapore 038987	Mr Alain Imhof Tel. +65/633.958.85 Fax +65/633.875.57

group Organization Chart

Each of BCV's main subsidiaries reports directly to a member of the Executive Board, as follows:

Corporate Banking
J.-F. Schwarz

- **Défi Gestion SA, Lausanne** – M. Diab
- **Initiative Capital SA, Lausanne**

Private Banking and Asset Management
C. E. Preston

- **Banque Piguet & Cie SA, Geneva** – C. de Boissezon
- **Assesores Gestores Financieros SA, Madrid** – A. Fraile Rodriguez
- **Gérifonds SA, Lausanne** – B. Bochud, C. Beyeler (as of 1 April 04)
- **BCV Investment Asia (Singapore) Pte Ltd** – O. Mivelaz
- **BCV Investment Asia (Hong Kong) Ltd** – Lik Kim Yeo (ad int.)
- **BCV Finance (France) SA, Paris** – G. Déjardin-Verkinder
- **BCV Italia S.p.A., Milan** – P. Dieffenbacher
  - **BCV Gestion SIM S.p.A., Milan**

Logistics
P. Sauthier

- **Unicible, Prilly** – C. Hubschmid
- **GEP SA, Lausanne** – B. de Siebenthal
- **Sogirom SA, Lausanne** – J.-P. Beuque

Retail Banking
J. R. Meyer

- **CEPY SA Yverdon-les-Bains** – C. Miserez

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