

# Pictet Group

## Annual report 2018



**CONTENTS**

Key figures	3
2018 and perspectives	4
Consolidated balance sheet	7
Consolidated income statement	8
Consolidated cash flow statement	9
Statement of changes in equity	11
Pictet Group governance at 31 december 2018	12
Notes	24
Accounting principles	24
Risk management	33
Hedge accounting	40
Events after the balance sheet date	41
Notes to the balance sheet	42
Notes to off-balance sheet positions	65
Notes to the income statement	68
Report of the auditor	74

**KEY FIGURES**

CHF thousand	2018	2017
Consolidated income statement		
Operating income	2 693 761	2 522 652
Total expenses before tax	1 931 142	1 786 608
Operating result	762 619	736 044
Consolidated profit for the year	595 936	572 497
Cost/income ratio	72%	71%

CHF thousand	31.12.2018	31.12.2017
Consolidated balance sheet		
Total assets	38 474 184	37 287 778
Total equity	2 945 769	2 847 839
Basel III CET1 solvency ratio	21.1%	20.2%
Basel III Total solvency ratio	21.1%	20.2%
Liquidity coverage ratio (LCR)	164%	144%
Return on equity	20.6%	21.1%
Leverage ratio	5.4%	5.3%

Other indicators		
Assets under management or custody (CHF bn)	496	522
Staff (in FTE)	4 358	4 220
in Switzerland	2 702	2 659
abroad	1 656	1 561
Banque Pictet & Cie SA's rating FitchRatings/Moody's	AA-/Aa2	AA-/Aa2

## 2018 AND PERSPECTIVES

It is my pleasure to present the Pictet Group's annual report for the year 2018, again a record in terms of net income. At 31 December 2018, we reported a 6.8 per cent rise in operating income to CHF 2.694 billion and a 4.1 per cent increase in consolidated net profit to CHF 596 million. Our assets under management or custody amounted to CHF 496 billion—slightly lower than at 31 December 2017. At the end of 2018, the number of full-time equivalent employees stood at 4,358.

This is the last occasion on which I shall comment on our Group's annual results, since I have decided to retire from the partnership at the end of August 2019, after almost 29 years as a Managing Partner. I shall, however, remain Chairman of the Board of Banque Pictet & Cie SA, the Swiss bank of the Group, and join the supervisory board of Pictet & Cie Group SCA, the Group's managing entity, from 1 September 2019.

My successor, by custom the next most senior partner, is Renaud de Planta, who joined Pictet as a Managing Partner in 1998. He has spent much of his career at Pictet building and leading Pictet Asset Management.

A second change in the partnership this year is the appointment of Sébastien Eisinger, Deputy CEO and Head of Investments at Pictet Asset Management, who joined the Board of Partners on 1 April 2019. Together with Laurent Ramsey, Managing Partner, he now holds joint responsibility for Pictet Asset Management. Sébastien entered Pictet Asset Management in 1999 as an investment manager on the fixed income team.

Despite a particularly challenging year of volatile equity markets that unsettled investors, we have announced important new developments and projects. The fact that we have embarked on such projects reflects Pictet's long-term thinking: preparations for the future that have been long in the making.

Among the highlights, I should mention the merger of the IT function and the operational activities of our custody services. While it represents a major human and logistical challenge, we are already seeing the benefits in terms of administrative efficiency and strategic coherence.

I should also make reference to a major new project to raise a 22-storey building on the Acacias site we are impatient to see rise out of the ground, anticipating future growth and ensuring that we can house substantially all our Geneva-based employees in our own premises.

At both PWM and PAM, there is a renewed and sharper focus on geographical and product areas in which we can deliver the highest value to clients. At PWM, the aim is to build in particular front line strength in emerging markets.

We also have decided to increase our offering in private assets. We have launched a direct investing real estate fund for sophisticated investors. The fund invests in European real estate assets and related companies across sectors such as offices, residential assets, student and senior accommodation as well as light industrial assets. Another initiative in this area is the team specialising in distressed debt we have built at PAM.

In both wealth and asset management we have made significant progress in integrating ESG (environmental, social and governance) factors into our investment processes and products. Recently PAM led a move to encourage index providers to exclude controversial weapons producers from their mainstream indices, supported by 170 institutions managing over USD 7 trillion in assets.

How does our growth strategy align with our long-established principle of steady, organic expansion? In our modern history, Pictet has been able to stay ahead because we have actively targeted promising regions and products, committing fresh talent and the supporting infrastructure. We are much larger today, and so our commitments are correspondingly larger—and the competitive forces greater. But we have no intention to depart from the five fundamental principles on which our success is founded: independence, long-term thinking, partnership, responsibility and entrepreneurial spirit.

Our principle of responsibility is strongly rooted in our business but also in our philanthropic action. Ten years ago, we set up the Pictet Group Charitable Foundation. Since, it has donated more than CHF 40 million to charities operating both locally and abroad. In the coming years, the partners intend to give even greater weight to the Group's philanthropic activities, with an increased focus on the environment.

The great human strength of Pictet is that we are a community, united in wanting the best for our clients, our business and the wider world. We intend to keep this unique spirit—to be and to stay different. Growth and profitability are important too, because they ensure our independence. But they are merely the consequence of bringing value to our clients.

I would like to take the opportunity to thank our clients for their loyalty and our employees for their commitment and their contribution to Pictet as it stands today. Looking longer term, there have never been greater opportunities—or challenges—for us. As we meet and take advantage of such challenges, I am certain we can envisage a promising future.

Nicolas Pictet

Senior Partner

**CONSOLIDATED BALANCE SHEET**

<b>Assets (CHF thousand)</b>	<b>Notes</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Liquid assets		14 528 429	16 258 114
Amounts due from banks	10	1 604 059	1 322 792
Amounts due from securities financing transactions	1	1 906 000	619 108
Amounts due from customers	2;16	8 586 560	8 360 086
Trading portfolio assets	3	63 923	79 453
Positive replacement values of derivative financial instruments	4	1 075 119	1 059 140
Other financial instruments at fair value	3	817 432	529 280
Financial investments	5;10	8 787 957	7 972 585
Accrued income and prepaid expenses		410 864	434 081
Non-consolidated participations	6;7	5 956	6 950
Tangible fixed assets	8	446 109	459 051
Other assets	9	241 776	187 138
<b>Total assets</b>		<b>38 474 184</b>	<b>37 287 778</b>
Total subordinated claims		1 856	629
<b>Liabilities (CHF thousand)</b>	<b>Notes</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Amounts due to banks		1 334 286	882 388
Liabilities from securities financing transactions	1	240 565	1 332 492
Amounts due in respect of customer deposits	11;16	30 648 822	29 368 778
Trading portfolio liabilities	3	11 732	943
Negative replacement values of derivative financial instruments	4	1 045 221	1 049 731
Liabilities from other financial instruments at fair value	3;13	893 575	566 202
Accrued expenses and deferred income		869 032	797 182
Other liabilities	9	245 765	219 328
Provisions	14	239 417	222 895
<b>Total equity</b>		<b>2 945 769</b>	<b>2 847 839</b>
Equity owners' contribution	15;17	638 386	684 922
Capital reserve		11 664	11 664
Retained earnings reserve		1 713 853	1 595 842
Currency translation reserve		(14 070)	(17 086)
Consolidated profit for the year		595 936	572 497
<b>Total liabilities</b>		<b>38 474 184</b>	<b>37 287 778</b>
Total subordinated liabilities		-	-

**Consolidated off-balance-sheet transactions**

<b>CHF thousand</b>	<b>Notes</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Contingent liabilities	2;23	5 742 264	5 584 718
Irrevocable commitments	2	19 262	21 264

**CONSOLIDATED INCOME STATEMENT**

CHF thousand	Notes	2018	2017	Change
Interest and discount income	27	203 482	177 712	
Interest and dividend income from financial investments		80 672	68 881	
Interest expense	27	7 586	9 960	
Gross result from interest operations		<b>291 740</b>	<b>256 553</b>	<b>14%</b>
Changes in value adjustments for default risks and losses from interest operations	14	49	1 076	
Subtotal net result from interest operations		<b>291 789</b>	<b>257 629</b>	<b>13%</b>
Commission income from securities trading and investment activities		2 972 104	2 771 114	
Commission income from lending activities		4 440	4 309	
Commission income from other services		23 210	21 769	
Commission expenses		(777 429)	(729 475)	
Subtotal result from commission business and services		<b>2 222 325</b>	<b>2 067 717</b>	<b>7%</b>
Result from trading activities and the fair value option	26;27	<b>173 519</b>	<b>191 178</b>	<b>-9%</b>
Income from other non-consolidated participations		3 889	3 753	
Result from real estate		2 008	2 305	
Other ordinary income		231	71	
Other ordinary expense		-	( 1)	
Subtotal other result from ordinary activities		<b>6 128</b>	<b>6 128</b>	<b>0%</b>
Personnel expenses	28	(1 319 799)	(1 274 505)	
General and administrative expenses	29	(540 382)	(430 823)	
Subtotal operating expenses		<b>(1 860 181)</b>	<b>(1 705 328)</b>	<b>9%</b>
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	6;8	(44 399)	(48 510)	
Changes to provisions and other value adjustments and losses	30	(26 562)	(32 770)	
Operating result		<b>762 619</b>	<b>736 044</b>	<b>4%</b>
Extraordinary income	30	682	390	
Extraordinary expenses	30	(424)	( 20)	
Taxes	32	(166 941)	(163 917)	
Consolidated profit of the period		<b>595 936</b>	<b>572 497</b>	<b>4%</b>



**CONSOLIDATED CASH FLOW STATEMENT**

CHF thousand	2018		2017	
	CASH INFLOWS	CASH OUTFLOWS	CASH INFLOWS	CASH OUTFLOWS
Cash flow from operating activities (internal financing)				
Consolidated result of the year	595 936	-	572 497	-
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	44 399	-	48 510	-
Provisions and other value adjustments	36 446	19 924	47 537	7 786
Change in value adjustments for default risks and losses	-	49	-	1 076
Accrued income and prepaid expenses	23 217	-	-	104 340
Accrued expenses and deferred income	71 850	-	188 559	-
Other items	-	28 201	-	23 084
Previous year's dividends	-	455 609	-	226 296
<b>Subtotal</b>	<b>771 848</b>	<b>503 783</b>	<b>857 103</b>	<b>362 582</b>
Cash flow from shareholders' equity transactions				
Share capital/participation capital/endowment capital, of which, equity owners' contribution	-	46 536	-	80 619
Recognised in reserves	4 139	-	-	3 807
<b>Subtotal</b>	<b>4 139</b>	<b>46 536</b>	<b>-</b>	<b>84 426</b>
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Participations	994	-	1 556	110
Other tangible fixed assets	-	31 457	-	29 859
<b>Subtotal</b>	<b>994</b>	<b>31 457</b>	<b>1 556</b>	<b>29 969</b>

CHF thousand	2018		2017	
	CASH INFLOWS	CASH OUTFLOWS	CASH INFLOWS	CASH OUTFLOWS
Cash flow from banking operations				
Medium- and long-term business (>1 year)				
Amount due from customers	-	9 480	17 432	-
Financial investments	-	1 294 693	-	269 098
Short-term business (<1 year)				
Amount due to banks	451 898	-	-	353 006
Liabilities from securities financing transactions	-	1 091 927	555 969	-
Amounts due in respect of customer deposits	1 280 044	-	-	1 443 451
Trading portfolio liabilities	10 789	-	-	8 121
Negative replacement values of derivative financial instruments	-	4 510	-	470 492
Liabilities from other financial instruments at fair value	327 373	-	-	14 708
Amount due from banks	-	281 267	445 739	-
Amount due from securities financing transactions	-	1 286 892	377 892	-
Amount due from customers	-	216 945	-	679 631
Trading portfolio assets	15 530	-	-	370
Positive replacement values of derivative financial instruments	-	15 979	467 189	-
Other financial instruments at fair value	-	288 152	38 562	-
Financial investments	479 321	-	3 026 345	-
Liquidity				
Liquid assets	1 729 685	-	-	2 071 933
Subtotal	<b>4 294 640</b>	<b>4 489 845</b>	<b>4 929 128</b>	<b>5 310 810</b>
<b>Total</b>	<b>5 071 621</b>	<b>5 071 621</b>	<b>5 787 787</b>	<b>5 787 787</b>

## STATEMENT OF CHANGES IN EQUITY

CHF thousand	EQUITY OWNERS' CONTRIBUTION	CAPITAL RESERVE	RETAINED EARNINGS RESERVE	CURRENCY TRANSLATION RESERVES	RESULT OF THE PERIOD	TOTAL
Equity at 1.1.2018	684 922	11 664	1 595 842	( 17 086)	572 497	2 847 839
Other contributions/other capital paid in	( 46 536)	-	1 174	-	-	( 45 362)
Currency translation differences	-	-	-	3 016	-	3 016
Dividends and other distributions	-	-	-	-	( 455 609)	( 455 609)
Other allocations to (transfers from) the other reserves	-	-	116 837	-	( 116 888)	( 51)
Consolidated profit	-	-	-	-	595 936	595 936
Equity at 31.12.2018	638 386	11 664	1 713 853	( 14 070)	595 936	2 945 769

**PICTET GROUP GOVERNANCE  
AT 31 DECEMBER 2018**

### **Structure and ownership of the Pictet Group**

The Pictet Group is a privately owned leader in wealth and asset management. As an investment-led service company, the Pictet Group offers wealth management, asset management and related asset services. The Group does not engage in investment banking, nor does it extend commercial loans.

The Pictet Group comprises all the entities over which the partners of the Pictet & Cie Group SCA have joint control. These entities are listed in note 7 “Main legal entities of the Group”. The holding entities are listed in the accounting principles section.

The Group's equity comprises contributions from the equity owners, that is the partners and other holders of equity capital in the companies that, in combination, control the Pictet Group.

The significant equity owners are the partners: Nicolas Pictet, Renaud de Planta, Rémy Best, Marc Pictet, Bertrand Demole, Laurent Ramsey and Boris Collardi.

### **Pictet Group governing bodies**

The two main governing bodies are the Board of Partners and the Supervisory Board of Pictet & Cie Group SCA.

The Board of Partners is made up of the Partners of Pictet & Cie Group SCA. It is responsible for the highest level of management of the Group. It defines the Group's strategy, supervises its implementation, sets the Group's risk appetite and exercises consolidated supervision of the Group's activities.

The Supervisory Board acts as an independent body that oversees the management of the Pictet Group by the Board of Partners. The Supervisory Board acts as the audit committee and risk committee.

### **Risk management**

The ‘risk management’ note to the Annual Report of the Pictet Group describes the Group's risk policy and the risk profile, as well as the oversight, controlling and management of the risks incurred by the Pictet Group.

## Supervisory Board

### Members

Shelby du Pasquier, Chairman\*

Hans Isler\*

Charles Pictet\*

Jacques de Saussure\*

\*Independent members

### Organisation

The Supervisory Board is made up of at least three people elected by the annual general meeting of Pictet & Cie Group SCA. The composition of the Supervisory Board meets the independence criteria imposed by FINMA.

The members of the Supervisory Board are elected for a term of one year and may be re-elected. The members of the Supervisory Board may not be partners or employees of the Pictet Group.

The Supervisory Board meetings are called at least four times per year by its chairman.

### Responsibilities

As the body with oversight over the Board of Partners, the Supervisory Board verifies that the measures taken by the Board of Partners comply with law, regulations and the articles of the association. In this context the Supervisory Board oversees the risk controls and the following tasks, among others:

- monitoring the existence of a risk management framework and policy that reflect the strategy and risk profile of the Pictet Group,
- critically assessing the main risks and ensuring that the Board of Partners responds to them,
- checking that the level of equity is in line with the strategy and risk profile of the Pictet Group,
- monitoring the adequacy of the organisation of the Pictet Group's control functions.

The Supervisory Board also exercises a control function over the internal and external audit. In this capacity, it examines and approves the annual audit plan and reviews the work carried out by internal and external audit and the measures that have to be taken. It evaluates the integrity of the financial statements of the Group.

At least once a year, the Supervisory Board informs the Board of Partners of its findings relating to supervision and the controls performed.

## Backgrounds of the members of the Supervisory Board

### Shelby du Pasquier

#### *Education*

- Columbia University School of Law, New York City (LL.M.)
- University of Geneva, School of Law (Bachelor's)
- University of Geneva School of Economics and Social Sciences (Bachelor's)

#### *Professional experience*

- Since 1988: Lenz & Staehelin, Geneva (partner since 1994)

#### *Appointments*

- Member of the International Bar Association, Swiss Bar Association, Geneva Bar Association
- Member of the Bank Council of the Swiss National Bank
- Member of the Board of Directors of SGS SA
- Member of the Board of Directors of Stonehage Fleming Family and Partners Limited, Stonehage Fleming S.A., Neuchâtel

### Hans Isler

#### *Education*

- Swiss Certified Public Accountant
- Master's in Economics, University of St. Gallen

#### *Professional experience*

- Since 2014: member of the Board of Directors of Banque Pictet & Cie SA
- Since 2012: independent Board Member
- 2002 – 2011: Ernst & Young SA, Switzerland, Partner and member of the Board of Directors
- 1980 – 2002: Arthur Andersen SA, Switzerland, partner (from 1994 to 2002) and member of the Board of Directors
- 1978 – 1980: Delegate to the International Committee of the Red Cross

#### *Appointments*

- Vice-chairman of the Board of Directors of Leonteq AG, Zurich
- Chairman of the Board of Directors of Banque Thaler SA, Geneva
- Member of the Board of Directors of Banque du Léman SA, Geneva
- Chairman of the Board of Directors of Valcourt SA, Geneva
- Board Member of MKS (Switzerland) SA and its subsidiary, PAMP SA, Castel-San-Pietro, Chairman of the Audit Committee of MMTC-Pamp India Pvt. Ltd, Delhi
- Member of the finance committee of Doctors Without Borders Switzerland, Geneva

## Charles Pictet

### *Education*

- Master’s in Economics, University of St. Gallen

### *Professional experience*

- 2005 – 2012: member of the Federal Banking Commission (CFB), then member of the Board of Directors of the Financial Market Supervisory Authority (FINMA)
- 1969 - 2005: Pictet Group (partner from 1979 to 2005)

### *Appointments*

- Member of the Council of Europa Nostra, The Hague

## Jacques de Saussure

### *Education*

- MIT Sloan School of Management, Boston;
- Degree in applied Mathematics and Computing, Ecole Polytechnique de Lausanne;

### *Professional experience*

- 1980 – 2016: Pictet Group (partner from 1986 to 2016)
- 1978 – 1979: Intersec Research

### *Appointments*

- Vice-Chairman of the Board of Directors of Banque Pictet & Cie SA
- Chairman of the Board of Directors of Eurosite Power Inc., Waltham (USA)
- Member of the Board of Salt Mobile SA, Renens
- Member of the Board of the Mary’s Mercy Foundation, Rapperswil
- Treasurer of the FIFDH Foundation (International Film Festival and Forum on Human Rights), Geneva
- Member of the Council of Europa Nostra, The Hague



## Board of Partners

### Composition

Nicolas Pictet  
 Renaud de Planta  
 Rémy Best  
 Marc Pictet  
 Bertrand Demole  
 Laurent Ramsey  
 Boris Collardi

### Organisation

The Board of Partners meets as often as business requires, at least twice per month, and is chaired by the senior partner. It works by consensus.

### Responsibilities

The Board of Partners is the most senior level of management of the Pictet Group and its business activities. It defines and implements the Group's strategy and objectives, sets the acceptable level of risks and takes all decisions laying down the general framework of the Group's business activities. The Board of Partners also carries out the consolidated supervision of the activities of the Pictet Group.

The responsibilities of the Board of Partners include:

- determining and following up on the strategy, objectives and budget of the Pictet Group,
- monitoring the internal control system and the compliance policy,
- setting the human resources policy,
- appointing and dismissing the Head of Internal Audit and the auditor of the Pictet Group on advice of the Supervisory Board,
- determining the principles to be used for accounting and financial controlling,
- reviewing and approving the interim and annual consolidated financial statements of the Pictet Group,
- allocating equity and determining the cash management principles for the Pictet Group as a whole.

The Board of Partners is responsible for implementing the internal audit, risk management and compliance functions related to the consolidated supervision of the Pictet Group. These functions are carried out by resources provided by certain entities of the Group.

Apart from their collegiate responsibility, the members of the Board of Partners assume individual and reporting responsibilities for corporate functions or business lines of the Pictet Group. These responsibilities are decided by the Board of Partners.

## Backgrounds of the members of the Board of Partners

### Nicolas Pictet

#### *Education*

- Law degree and bar exam, Geneva

#### *Professional experience*

- Since 2016: senior partner of the Pictet Group
- Since 1984: Pictet Group (partner since 1991)
- 1982 – 1984: Oppenheimer & Richard Butler, London
- 1978 – 1982: Schellenberg Wittmer Avocats, Geneva

#### *Appointments\**

- Treasurer Pro Natura, Geneva
- Member of various Boards of charitable foundations

### Renaud de Planta

#### *Education*

- PhD in Financial Economics, University of St. Gallen
- MBA in Finance, University of Chicago
- Master's in Economics, University of St. Gallen

#### *Professional experience*

- Since 1998: partner of the Pictet Group
- 1988 - 1998: Global Head of Equity Derivatives, UBS Warburg, London
- Head of Hong Kong and Northern Asia region
- Head of Interest Rate Derivatives

#### *Appointments\**

- Member of the Global Advisory Board of the University of Chicago – Booth School of Business, USA
- Member of various Boards of charitable foundations

### Rémy Best

#### *Education*

- Law degree and bar exam, Geneva
- MBA, INSEAD, Paris

#### *Professional experience*

- Since 1997: Pictet Group (partner since 2003)
- 1991 – 1997: McKinsey & Company, New-York, Geneva and Zurich
- 1988 – 1990: Lalive, Budin & Partners, Geneva

#### *Appointments\**

- Member of the Board of Directors of INSEAD
- Chairman, INSEAD Campaign Board
- Président, Domus Antiqua Helvetica, Geneva

## Marc Pictet

### *Education*

- MBA, Boston University
- International Management Program, Kobe
- Bachelor of Science, Bryant College, Smithfield, Rhode Island

### *Professional experience*

- Since 2002: Pictet Group (partner since 2011)
- 2001 – 2002: Sal. Oppenheim, Cologne
- 1997 – 2000: Prudential Investments, Newark

### *Appointments\**

- Vice-president, Board of the Geneva Financial Center
- Member of the Advisory Committee of Fondation Luxembourg
- Member of the Board of the Fondation pour Genève

## Bertrand Demole

### *Education*

- MBA, INSEAD, Paris
- Bachelor's in Finance and Economics, Babson College, Boston

### *Professional experience*

- Since 2001: Pictet Group (partner since 2011)
- 1999 – 2001: Soditic Asset Management, London
- 1996 – 1998: Moore Capital Management, New-York

### *Appointments\**

- Member of the Committee of the Association of Swiss Private Banks
- Member of the Young Presidents' Organization

## Laurent Ramsey

### *Education*

- Certified Portfolio Manager and Financial Analyst (CFPI), Lausanne
- Master's in International Management, HEC Lausanne
- Bachelor's in Business Administration, HEC Lausanne

### *Professional experience*

- Since 1995: Pictet Group (partner since 2016)

### *Appointments\**

- No other appointments

## Boris Collardi

### *Education*

- Executive Program, IMD Lausanne
- Centre d'enseignement supérieur secondaire de l'Ouest, Nyon

*Professional experience*

- Since 2018: Pictet Group (partner since 2018)
- 2006-2017: Julius Bär, Zurich
- 1993-2006: Crédit Suisse, Zurich and Singapore

*Appointments\**

- Member of the foundation board of IMD Lausanne
- Member of the Strategic Advisory Board of the EPFL Lausanne
- Member of the Private Banking International Advisory committee of the Wealth Management Institute Nanyang Technological University, Singapore
- Member of the Board of the Swiss Bankers Association, Basel

*\* Appointments outside the Pictet Group*

## Remuneration

### Board of Partners

The members of the Board of Partners receive a fixed remuneration and receive the fee conditions and other benefits offered to staff.

No part of the remuneration of the members of the Board of Partners changed in 2018.

### Supervisory Board

All members of the Supervisory Board receive a fixed remuneration.

The members of the Supervisory Board who used to be partners or employees of the Pictet Group receive the preferential fee conditions for transactions carried out within the Pictet Group. They do not receive other special conditions offered to staff.

The members of the Supervisory Board are not under any contract with the Pictet Group entitling them to compensation at the end of their appointment.

No part of the remuneration of the members of the Supervisory Board changed in 2018.

## Auditors

### External audit

The external audit is an integral part of the governance. The auditor of the consolidated financial statements of the Pictet Group is PricewaterhouseCoopers SA (PwC), Suisse. The existing appointment was renewed for 2018. Christophe Kratzer has been the auditor in charge since 2016.

PwC presents the planning of the audit work and their reports to the Supervisory Board.

Note 29 ‘Other operating expenses’ of the Annual Report of the Pictet Group details the fees paid to the auditor in 2018, including a breakdown between auditing fees and consulting fees. The latter related to assignments that do not impair the independence of the auditors.

### **Internal audit**

The internal audit unit of the Group provides Pictet & Cie Group SCA's Supervisory Board and Board of Partners with independent assurances on the operations and the control and governance process of the Pictet Group. In addition, it provides independent and objective advice and points of view, in order to create added value and improve the management of the Group.

To ensure the independence of this department, it only reports to the Chairman of the Supervisory Board and the Senior Partner of the Board of Partners.

## NOTES

## ACCOUNTING PRINCIPLES

## Consolidated accounts at 31 december 2018

*Name and legal status of the Group*

The Pictet Group's accounts comprise the financial statements of all companies in which the partners of the Pictet Group owned, either directly or indirectly, over 50% of the capital or voting rights at 31 December 2018.

The Group's scope of consolidation therefore covers a number of corporate entities that are either linked in business combinations between themselves or consolidated into one or more of the business combinations. The combination link stems from the fact these entities come under the common control of the partners of Pictet & Cie Group SCA.

Those entities that are directly controlled by the partners are: Pictet & Partners, Cologny; Pictet Holding LLP, Singapore; Pictet Capital SA, Cologny; Sopafin (Luxembourg) SA, Luxembourg; Pictet Canada LP, Montreal; and Sopafin SA, Cologny.

*Accounting principles and valuation method*

The Group's consolidated financial statements have been drawn up in accordance with the provisions of the Swiss Federal Law on Banks and Savings Banks, its relevant implementing ordinance and the guidelines on the accounting principles to be applied in the banking sector as stipulated by the Swiss Financial Market Supervisory Authority FINMA (Circular 2015/1).

The financial statements have been compiled to present a true and faithful picture of the Group's assets, financial position and results.

This report should be read in conjunction with the 'Pictet Group capital adequacy and liquidity disclosure at 31 December 2018' (in accordance with the Circular 2008/22).

The main accounting methods applied are described below.



### *General valuation principles*

Assets and liabilities, together with off-balance-sheet business recognised under the same accounting heading, are valued on an individual basis.

### *Recording of transactions*

Transactions are recorded and valued in accordance with generally accepted principles. As a rule, they will be recognised in the balance sheet as of the settlement date or the trade date in the case of trading and cash-management transactions.

### *Consolidation*

Entities either directly or indirectly controlled by the Group or over which the Group exercises a dominant influence are consolidated according to the full consolidation method. This means that the assets, liabilities, off-balance-sheet transactions, income and costs of fully consolidated companies are included in the Group's financial statements. All material business relations between consolidated companies are eliminated from assets, liabilities, costs and income. Net assets of Group companies are consolidated according to the purchase method. In the case of combined entities, the combination is an amalgamation of the accounts, performed in keeping with the same rules as described above.

If a significant influence is exercised over an entity, the equity method is used for consolidation purposes.

If the consolidated companies' accounts are closed on a date other than 31 December, interim financial statements will be drawn up.

Entities are consolidated as from the date effective control over them passed to the Group; they are removed from the scope of consolidation as from the date such control ceases.

### *Foreign-currency translation*

Costs and income denominated in foreign currencies for each Group company are converted in the individual company accounts at the exchange rate prevailing on the transaction date. Assets and liabilities in foreign currencies are converted at the exchange rate applicable on the period-closing date. Currency gains and losses resulting from

translation are included in the respective income statements of the individual companies.

Upon consolidation, the assets and liabilities of Group companies are converted into Swiss francs at the exchange rate on the period-closing date. Group companies' equity is converted at the historical exchange rate. Income and costs are converted at the exchange rate averaged over the reporting period.

Exchange differences resulting from conversion into Swiss francs of individual financial statements are recognised in equity ('Currency translation reserve').

The main exchange rates used to convert foreign currencies into Swiss francs are as follows:

	31.12.2018	31.12.2017	AVERAGE EXCHANGE RATE
EUR	1.1269	1.1702	1.1521
USD	0.9858	0.9745	0.9767
JPY	0.0090	0.0087	0.0088
GBP	1.2555	1.3183	1.3010

### *Liquid assets*

Cash and sight deposits with central banks are booked in the balance sheet at nominal value.

### *Amounts due from banks and from customers*

Amounts due from banks and from clients are booked in the balance sheet at nominal value, with due account being taken of any requisite value adjustments.

### *Value adjustments for default risk*

Impaired loans/receivables, i.e. those receivables for which the debtor appears unlikely to be in a position to honour future obligations, are valued on an item-by-item basis. Off-balance-sheet transactions, such as firm commitments, guarantees and derivatives, are also included in this valuation. Any value impairment charge is covered by individual value adjustments to reflect the disparity between the book value of the receivable and the amount expected to be received as reimbursement.

A loan/receivable is deemed to be impaired when telltale signs make future contractual payments due in the form of capital and/or interest unlikely or, at the latest, when any such payments are in arrears for over 90 days.

*Disclosures concerning the treatment  
of past due interest*

Interest due and in arrears by over 90 days is regarded as being past due. The Group decides not to recognise in the income statement any past due interest or interest from impaired loans/receivables; instead, these items are booked under ‘Value adjustments for default risks’.

*Methods applied for identifying  
default risks and assessing whether value  
adjustments need to be made*

When a liability commitment of a client or a group exceeds the limit accorded, when a current account is overdrawn without an authorised overdraft limit or when the value of collateral pledged falls below the drawdown limit applicable, the Credit Risk Control team immediately notifies the Client Relationship Manager who must take remedial steps subject to oversight by the Group’s Credit Committee.

If it becomes unlikely the debtor will be able to honour their obligations, an individual value adjustment will be made on a case-by-case basis as decided by the relevant bodies and on the grounds of a proper valuation of any collateral security.

*Valuation of collateral security for credit,  
in particular significant criteria  
applied to assess current economic values  
and the values of pledged assets*

Granting credit to clients comes second to the management or custody of clients’ assets, which constitute the Pictet Group’s core business. The credit facilities granted are primarily Lombard loans, i.e. credit that is secured by the collateral pledged by the borrower.

Collateral accepted as security for Lombard loans are, as a priority, accounts in credit with Group companies, fiduciary deposits with accredited correspondent banks, precious metals and selected negotiable securities.

Current economic values of such assets are based on their ongoing market value. Loan-to-value ratios are conservative, varying depending on the amounts, quality, volatility and liquidity of the assets to be accepted as collateral security.

#### *Securities financing transactions*

The Group undertakes repurchase and reverse repurchase (repo/reverse repo) transactions for the purposes of its cash management, as well as securities lending/borrowing transactions on its clients' behalf.

Cash amounts exchanged and accrued interest are recognised in the balance sheet at nominal value. An item is only recognised in the balance sheet for securities where the transferring party also transfers economic control.

In cases where securities are lent or borrowed, those transactions in which the Group acts as principal are recognised in the balance sheet. Such transactions undertaken for clients, with the Group acting as agent, are treated in compliance with rules for fiduciary transactions.

#### *Trading portfolio assets and trading portfolio liabilities*

Equities, bonds, precious metals, investment funds and derivatives not acquired as long-term investments or for the purpose of covering client purchases of securities certificates issued by the Group are included under 'Trading portfolio assets/liabilities'. Trading positions are valued at fair value on the balance-sheet date. Securities not traded on regular markets are valued at their acquisition cost subject to any requisite write-down of value (principle of the lower of cost or market value).

Interest and dividend income from trading portfolios are booked under 'Income from trading activities and the fair value option'. The refinancing costs of the trading portfolios are offset directly under 'Income from trading activities and the fair value option'. Unrealised income stemming from the valuation, as well as realised income, are booked under 'Income from trading activities and the fair value option'.

*Derivative financial instruments  
and their replacement values*

– *Trading portfolios*

Derivative financial instruments ('derivatives') recorded on the balance-sheet date are marked to market ('fair value'). Positive and negative replacement values are recognised in the balance sheet under 'positive replacement values of derivative financial instruments' or 'negative replacement values of derivative financial instruments'.

For derivative contracts traded on clients' behalf on stock exchanges, only that portion of replacement values exceeding the margin calls is recognised in the balance sheet

– *Hedging transactions*

The Group may use derivatives to hedge interest-rate and currency risks for the purposes of its asset/liability management. Hedging transactions are valued according to the same principles as those for the underlying transactions being hedged. Income/losses on hedging transactions are booked under the same item under which the result from the underlying asset being hedged is booked.

*Other financial instruments  
at fair value and liabilities from financial  
instruments at fair value*

The Group enables its clients to purchase certificates corresponding, in the main, to shares in equity baskets.

The amount of investments by clients in such certificates is recognised as a liability in the balance sheet under 'Liabilities from other financial instruments at fair value'. Amounts corresponding to the underlying financial assets are recorded on the assets side of the balance sheet under 'Other financial instruments at fair value'.

The difference between the amounts invested by clients, shown under liabilities, and positions held to cover the certificates, shown on the assets side, is essentially due to a cash component recorded under 'Cash and balances with central banks' on the assets side of the balance sheet.

*Financial investments*

Debt securities intended to be held to maturity are valued on the basis of amortised cost. Gains/losses resulting from

fixed-income transactions sold prior to maturity or reimbursed early are accrued over the remaining term to the scheduled maturity date of the sold or reimbursed security. Negative value adjustments are, in principle, booked under ‘Other ordinary expenses’, positive revaluations being recorded under ‘Other ordinary income’. In cases where value adjustments are broken down into components related to default risk and market conditions, that portion related to default risk is recognised under ‘Changes in value adjustments for default risks and losses from interest operations’.

Precious metals are valued at market value on the balance sheet date. They serve, primarily, as hedges for clients’ ‘Metal’ accounts recorded under ‘Amounts due in respect of client deposits’ on the liabilities side of the balance sheet. Value adjustments are booked under ‘Other ordinary expenses’ or ‘Other ordinary income’, as appropriate.

Equities intended to be held as long-term investments are valued at the lower of their acquisition cost or market value on the balance-sheet date.

#### *Non-consolidated participations*

Non-consolidated participations are valued at their acquisition cost, less any required write-down of their value.

#### *Tangible fixed assets*

Tangible fixed assets include buildings, IT and telecommunications equipment as well as furniture, fixtures and fittings. Tangible fixed assets are valued at their acquisition cost, less accumulated depreciation computed according to the straight-line method over the estimated useful lifetimes of the assets.

Depreciation charges are booked under ‘Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets’ in the income statement.

#### *Scheduled useful lifetimes*

– Buildings for own use:	50 years
– Other buildings:	50 years
– Software:	3 years
– IT equipment:	3 years
– Other equipment and furniture:	3-5 years

### *Provisions*

A provision is set aside for any probable obligation, based on a past event, whose amount and/or due date is uncertain, but can be reliably estimated.

#### *Liabilities relating to pension schemes*

The Pictet Group has set up several occupational pension schemes for its staff and employees in Switzerland and abroad.

Contributions paid into schemes are presented as ‘Personnel expenses’ in the income statement for the financial year to which they apply.

Every year, the Group examines whether, from its standpoint, there are economic benefits (overfunding) or obligations (underfunding) with regard to the pension schemes. Any difference with the corresponding value for the previous reporting period is booked under ‘Personnel expenses’ in the income statement.

The annual examination is undertaken on the basis of contracts, annual financial statements (for which the period closing date is not longer than 12 months earlier) drawn up in accordance with Swiss GAAP FER 26 for Swiss pension schemes, and any other calculations.

An economic benefit may be booked, if it is permissible and intended to use the surplus to lower future employer contributions, to reimburse it to the employer or to utilise it outside of the benefits as provided for in the scheme’s rules. This benefit (surplus) will appear under ‘Other assets’ in the balance sheet and will be booked in the income statement under ‘Personnel expenses’. The obligation (shortfall) will be registered in the same way in the income statement. It will, however, be booked under ‘Provisions’ in the balance sheet.

### *Taxes*

Current taxes on income and capital are booked as an expense for the reporting period during which the income was generated.

Deferred taxes, stemming from temporary timing differences between the taxable and accounting values of assets and liabilities, are booked as deferred taxes under ‘Provisions’ on the liabilities side of the balance sheet.

### *Change in accounting principles*

There were no changes in accounting principles in 2018.

### *Restatement of previous year’s figures*

Some figures relating to the previous year have been restated to make allowance for assets under custody funded through Lombard loans without the latter being deducted and for assets held by Group employees and pensioners. These restatements pertain to Note 25 to the financial statements (under “other effects” of the table detailing the change in assets under management or custody).



## RISK MANAGEMENT

### Risk policy

#### *General provisions*

Risk management forms a cornerstone of the Pictet Group's corporate strategy and governance. The Pictet Group's Management defines the Group's general risk policy, which is applied to all companies in the Pictet Group and is intended to cover all types of major risk to which the Group is exposed.

Specific factors related to the various categories of risk are covered in specific risk policies or in-house directives or guidelines. The risk policy is implemented at several different levels:

- The Pictet Group's Management ratifies and oversees implementation of general risk policy;
- The Executive Committees of Pictet Group companies supervise the proper implementation of the policy and put operational measures into practice to apply it;
- Specific committees are responsible for managing risks in their respective fields;
- The individual business units are responsible for managing risks specific to them.

In addition, the Pictet Group strives to foster a corporate culture in which risk management is given a high priority and made an integral part of all management activities. As such, risk management (for all risk categories) must be perceived by every member of staff as being one of their responsibilities as well.

#### *Monitoring of overall risk profile*

The Pictet Group's Risk Department compiles a consolidated report on overall risk exposure for the Pictet Group's management bodies on a quarterly basis. This report presents an impartial overview of the overall situation and level of risk for the Pictet Group.

#### *Attitude to and appetite for risk*

Considering the nature of the Pictet Group's business, risks cannot be entirely eliminated. Risks associated with the Group's business activities are accepted, in compliance with legal or internal regulations, provided they do not exceed the Group's risk appetite (including in so-called

‘stress’ situations) and can be monitored and controlled thanks to documented processes in keeping with the Group’s general risk policy.

Any new business activity, product or major change within an area of business is subject beforehand to a risk analysis. The Pictet Group’s Management is required to give its formal approval.

The appetite for market, credit, interest-rate and liquidity risks at the Group level is translated into quantified limits, and the appetite for other categories of risk, such as operational and business risks, is translated into qualitative as well as quantified limits. These limits on risk are sub-divided into sub-limits where deemed necessary. These limits are regularly reviewed by the Pictet Group’s Management.

Risks that do not come under the heading of risks related to the Pictet Group’s business activities or which exceed the limits laid down are avoided, lessened or transferred. Similarly, business activities on which the risks are not adequately rewarded are avoided.

### *Credit risk*

Credit risk arises out of the possibility of a counterparty defaulting on their financial obligations to the Pictet Group. It covers settlement risks and risk factors associated with a particular country. All forms of credit obligations involving non-banking clients, banks or organised markets constitute a credit risk. Credit risk management is monitored by the Chief Credit Officer.

#### – *Clients*

Granting credit to clients comes second to the management or custody of assets on behalf of third parties, which constitute the Pictet Group’s core business. Credit facilities granted are primarily Lombard loans, i.e. credit that is secured by the collateral pledged by the borrower.

Risks are limited by stringent criteria in terms of the quality, liquidity, valuation and diversification of assets pledged as collateral, as well as by the application of conservative loan-to-value ratios, differentiated by asset class.

All liabilities stemming from credit granted are reviewed in a quarterly report submitted to the Pictet Group's management bodies. Such reports may be compiled more frequently in the event of high market volatility or in the case of credit obligations calling for special monitoring.

– *Banking counterparties*

The Pictet Group selects top-tier correspondent banks and banking counterparties. In addition to diversification criteria, risks are reduced by resorting to legal or contractual compensation, guarantees, credit derivatives or hedging taking the form of different financial assets. Settlement risk is limited through recourse to centralised settlement systems of the Continuous Linked Settlement (CLS) type.

Banking counterparties selected by the Treasury Committee are approved on a quarterly basis by the Pictet Group's Management. All limits are set according to a formal process under the Chief Credit Officer's responsibility. Limits on trading and settlement, bank deposits, fiduciary deposits and clearing limits are set on an individual basis for each counterparty.

Management and monitoring of banking counterparty risk are the responsibility of the Treasury Committee, which draws on the support of the following bodies and persons:

- the Banking Risk Committee (BRC), comprising Pictet Group financial analysts specialised in banks, gives an impartial assessment to the Treasury Committee;
- the Counterparty Risk Committee (CRC) examines requests for changes to existing limits or for new limits for banking counterparties;
- the Chief Credit Officer permanently monitors and controls the quality of banking counterparties;
- the Credit Risk Control team checks compliance with limits for each banking counterparty.

A quarterly report on the status of contracted obligations is compiled and presented to the Pictet Group's Management.

– *Financial investments*

The Pictet Group invests in top-quality financial assets, mainly including bonds or similar debt securities meeting very stringent criteria. These investments are intended to diversify the Pictet Group's liquidity in medium-term investments and to deliver regular returns.

The choice of investment vehicle is devolved to the Treasury Department in conformity with the investment grid authorised by the Treasury Committee. This grid, reviewed and revised depending on developments, stipulates those instruments, types of issuers and countries that are authorised, the minimum credit ratings to be met, as well as limits and sub-limits by segment, issuer and maturity date.

*Market risk*

Market risk lies in the Pictet Group's exposure to any adverse movements in market conditions. The main risk factors relate to interest rates, prices of equity-type securities, exchange rates and prices of precious metals.

– *Trading operations for its own account (trading portfolio)*

The Board of Partners lays down the overall appetite for market risks. This is then broken down into sub-limits under the supervision of the Group Market Risk Committee. The senior management of Pictet Trading & Sales (PTS) is responsible for organising 1st level market risk controls, both on the trading desks and also by a permanent control carried out by the unit set up to monitor the risks of PTS (internal limits). Second-level controls (independent and based on own funds) are carried out by Group Risks, which has an unlimited right to inspect the 1st level risk monitoring.

The Pictet Group Policy for Managing, Controlling and Monitoring Market Risk sets out the organisational framework and underlying principles with regard to managing market risks.

Trading activities for the Group's own account are aimed essentially at mitigating risk resulting from client orders. It is not the Pictet Group's prime vocation to take large directional positions for its own account with respect to its own funds. Such proprietary trading is undertaken subject to a strict framework of limits and is geared towards

accumulating a more thorough understanding of markets in which the Pictet Group is active.

Proprietary trading is used primarily on currency, equity and bond markets.

Limits attached to such trading activities are formulated in three ways: as a delta or direct exposure (in-house limits), as stress tests (internal limits) and in terms of equity in accordance with FINMA rules relating to calculating capital adequacy requirements for market risks (formulated in Circular 2008/20).

– *Structural balance-sheet management (bank portfolio)*

The Pictet Group Liquidity Management Policy sets out the organisational framework and the fundamental principles of structural balance sheet management.

The purpose of managing the balance sheet, generally referred to as Asset & Liability Management (ALM), is to estimate and achieve a balance between liabilities (inflows) and assets (outflows) in light of the Pictet Group's appetite for risk, subject to the constraints of achieving a desired level of profitability and adherence to a clearly-delineated regulatory framework. The Treasury Committee analyses liquidity risk and interest-rate risk; it ensures that ratios imposed by FINMA are complied with. The Finance Department is responsible for organising the 1st level market risk controls stemming from treasury management activities and including the stress tests. The 2nd level controls (independent) are performed by the Group Risk Department.

The purpose of the Pictet Group's policy is to keep interest-rate risk at a modest level. This policy is reflected in corresponding risk limits.

The Treasury Department is responsible for implementing the defined strategy at the operational level. The use of interest-rate derivatives for the purposes of hedging or managing durations is allowed as being in line with efficient cash management.

*Operational risk*

Operational or business risk can be defined as the risk of losses or damage resulting from inadequacies or shortcomings in in-house processes, staff or systems, or

stemming from external events. Operational risk also covers legal and compliance risks.

The Pictet Group Operational Risk Policy sets out the organisational framework and the fundamental principles of operational risk management. The policy requires that the responsibilities are clearly defined for each significant risk. These responsibilities are broken down into three categories: owning the risk, controlling the risk and monitoring the risk.

Management teams for each business line are responsible for identifying, assessing, managing, monitoring and controlling those operational risks specific to their area of business. They are assisted in this by risk managers working directly with the various business lines. These risk managers also act as liaisons between Management and the Pictet Group's Risk Department.

A process of identifying and assessing operational risks throughout the Pictet Group is performed on a regular basis. If deemed necessary, action plans are instigated to lessen risks that are assessed to exceed limits set according to the appetite for risk.

Key risk indicators (KRIs) are defined and regularly analysed. These KRIs measure the level of risk resulting from business activities, systems, processes, etc.

All operating incidents and potentially resultant financial losses are logged so as to have an overall quantifiable view of incidents that have occurred and to ensure that plans to mitigate risk levels or extra checks and controls can be put in place in the event of a major incident.

The Pictet Group has instituted robust corporate governance geared towards anticipating risk. This involves active exchanges of information with business lines and regular efforts to emphasise to staff their responsibilities and heighten their awareness about the direct and indirect impact that the Pictet Group's activities (for example, changes in the political or regulatory climate) might have on its reputation as well as on that of its clients and its staff. Effective management of communications, both in-house and to the outside world, is crucial in safeguarding the Pictet Group's good name and reputation. Group Corporate Communications is responsible for effective image management of the Group. It monitors articles published about the Group and will contact the media as soon as the

Group's reputation might be at stake. Measures aimed at limiting risk to the Group's image and reputation include notably analysing and pinpointing any areas of vulnerability, internal analysis and escalation procedures as well as rules of conduct applicable to staff. Group Corporate Communications works closely together with the Risks, Compliance and Legal Departments. Reputational risk, coupled with the monitoring and appropriateness of measures, are included in the consolidated report on overall risk submitted to Pictet Group's Management.

The Pictet Group has formulated a crisis-management process to enable it to take effective and swift action to cope with a variety of crisis events. A crisis-management plan has been drawn up. Members of staff appointed as 'Crisis Coordinators' have been trained. Operating procedures and communications plans have been compiled.

Business Continuity Management is geared towards safeguarding the sustainability of the Pictet Group and protecting its clients' assets. Contingency solutions have been devised, deployed and kept operational for each Pictet Group company in keeping with the risks incurred, statutory and regulatory requirements, and need in terms of safeguarding the continuity of operations. To this end, emergency off-site workplaces and IT/technical infrastructures are available and regularly tested.

#### *Change in risk policy*

In accordance with FINMA circular 2017/1, a risk-management framework was implemented in 2018.

## HEDGE ACCOUNTING

### Equity of consolidated companies

Fixed forward contracts are used to hedge exchange-rate risk related to the equity of consolidated companies. The results of hedging contracts are booked in the same way as results for the underlying hedged item, i.e. under ‘Currency translation reserves’.

How effective hedging contracts are, is gauged whenever the hedging is renewed or rolled over by comparing the results achieved by the hedging instrument and the hedged item. Hedging transactions that no longer or only partially fulfil their hedging purpose are equated, for their ineffective portion, to trading transactions and are treated as such.

### Treasury management

The Pictet Group invests its surplus liquidity from clients’ deposits in a portfolio geared to a long-term strategy. This portfolio comprises holdings in bonds intended to be held to maturity although, in particular circumstances (such as a downgrading of an issuer’s creditworthiness), the debt securities may be sold before term. Depending on market rates, excess treasury amounts may also be invested in short-term investments.

In order to protect against interest-rate risk that might have an adverse impact on the portfolio’s value, the Group makes use of derivatives (in the form of interest-rate swaps). The risk measures used are Basis Point Values (BPV), which indicate how sensitive the portfolio’s market value is to a parallel change of 100 basis points in the yield curves of different currencies. This risk is monitored daily.



**EVENTS AFTER THE BALANCE SHEET DATE**

No significant events that might affect the consolidated 2018 annual accounts have occurred since the year-end closing date.

**NOTES TO THE BALANCE SHEET****1. BREAKDOWN OF SECURITIES FINANCING  
TRANSACTIONS (ASSETS AND LIABILITIES)**

CHF thousand	31.12.2018	31.12.2017
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions*	1 906 000	619 108
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions*	240 565	1 332 492
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	240 676	1 345 887
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	1 907 483	619 042

\*Before netting agreements

**2. PRESENTATION OF COLLATERAL FOR LOANS/RECEIVABLES AND OFF-BALANCE-SHEET TRANSACTIONS, AS WELL AS IMPAIRED LOANS/RECEIVABLES**

CHF thousand	TYPE OF COLLATERAL			
	SECURED BY MORTGAGE	OTHER COLLATERAL	UNSECURED	TOTAL
Loans (before netting with value adjustments)				
Amounts due from clients	97 642	8 415 762	73 471	8 586 875
<b>Total loans (before netting with value adjustments)</b>				
<b>31.12.2018</b>	<b>97 642</b>	<b>8 415 762</b>	<b>73 471</b>	<b>8 586 875</b>
<b>31.12.2017</b>	<b>64 223</b>	<b>8 122 372</b>	<b>173 855</b>	<b>8 360 450</b>
<b>Total loans (after netting with value adjustments)</b>				
<b>31.12.2018</b>	<b>97 642</b>	<b>8 415 762</b>	<b>73 156</b>	<b>8 586 560</b>
<b>31.12.2017</b>	<b>64 223</b>	<b>8 122 372</b>	<b>173 491</b>	<b>8 360 086</b>
Off-balance sheet				
Contingent liabilities	49	5 707 999	34 216	5 742 264
Irrevocable commitments	-	-	19 262	19 262
<b>Total off-balance sheet</b>				
<b>31.12.2018</b>	<b>49</b>	<b>5 707 999</b>	<b>53 478</b>	<b>5 761 526</b>
<b>31.12.2017</b>	<b>5 855</b>	<b>5 555 306</b>	<b>44 821</b>	<b>5 605 982</b>

**Impaired loans/receivables**

CHF thousand	GROSS DEBT AMOUNT	ESTIMATED LIQUIDATION VALUE OF COLLATERAL	NET DEBT AMOUNT	INDIVIDUAL VALUE ADJUSTMENTS
31.12.2018	315	-	315	315
31.12.2017	364	-	364	364

The total amount of impaired loans corresponds to 0.004% of the total amounts due from clients at 31 December 2018 (at 31 December 2017 their share was 0.004%).

**3. BREAKDOWN OF TRADING PORTFOLIOS  
AND OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE  
(ASSETS AND LIABILITIES)**

ASSETS (CHF thousand)	31.12.2018	31.12.2017
Trading portfolio assets	63 923	79 453
Debt securities, money market securities/transactions	25 369	42 742
<i>of which</i> , listed	25 148	42 547
Equity securities	38 554	36 711
Other financial instruments at fair value	817 432	529 280
Equity securities	804 777	516 011
Precious metals	12 655	13 269
<b>Total assets</b>	<b>881 355</b>	<b>608 733</b>
<i>of which</i> , determined using a valuation model	7 932	10 563
LIABILITIES (CHF thousand)	31.12.2018	31.12.2017
Trading portfolio liabilities	11 732	943
Debt securities, money market securities/transactions	2 961	-
<i>of which</i> , - of which, listed	2 961	-
Equity securities	8 771	943
Other financial instruments at fair value	893 575	566 202
Structured products (certificates)	893 575	566 202
<b>Total liabilities</b>	<b>905 307</b>	<b>567 145</b>
<i>of which</i> , determined using a valuation model	253	567

The Pictet Group enables its clients to purchase certificates corresponding, in the main, to shares in equity baskets. The section detailing the accounting principles of this report describes how these certificates are treated.

#### 4. PRESENTATION OF DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS AND LIABILITIES)

CHF thousand	TRADING INSTRUMENTS			HEDGING INSTRUMENTS		
	POSITIVE REPLACEMENT VALUES	NEGATIVE REPLACEMENT VALUES	CONTRACT VOLUME	POSITIVE REPLACEMENT VALUES	NEGATIVE REPLACEMENT VALUES	CONTRACT VOLUME
Interest-rate instruments						
Swaps	10 518	8 533	3 523 939	53 000	95 491	21 366 490
Futures	7	30	2 931 904	-	-	-
Options (exchange-traded)	79	-	477 182	-	-	-
Foreign exchange/precious metals						
Forward contracts	156 170	191 518	46 991 109	1 543	1 346	298 646
Combined interest rate/currency swaps	567 816	544 558	92 861 610	59 079	29 617	7 402 373
Futures	4	78	64 303	-	-	-
Options (OTC)	73 583	80 862	11 361 444	-	-	-
Equity securities/indices						
Swaps	120	120	26 220	-	-	-
Futures	5 529	1 893	2 142 978	-	-	-
Options (OTC)	121 396	87 974	3 001 898	-	-	-
Options (exchange-traded)	26 237	3 163	1 540 701	-	-	-
Credit derivatives						
Credit default swaps	38	38	14 530	-	-	-
<b>Total before netting agreements:</b>						
<b>31.12.2018</b>	<b>961 497</b>	<b>918 767</b>	<b>164 937 818</b>	<b>113 622</b>	<b>126 454</b>	<b>29 067 509</b>
of which, determined using a valuation model	931 450	915 397	157 979 348	113 622	126 454	29 067 509
<b>31.12.2017</b>	<b>953 490</b>	<b>917 245</b>	<b>146 700 796</b>	<b>105 650</b>	<b>132 485</b>	<b>30 595 604</b>
of which, determined using a valuation model	949 573	907 737	144 565 607	105 650	132 485	30 595 604

Derivative financial instruments result mainly from transactions on behalf of clients in which Pictet Group entities contract with counterparties on the market.

Furthermore, hedging transactions are mentioned in the section on hedge accounting.

*– Total after netting agreements*

CHF thousand	POSITIVE REPLACEMENT VALUES (CUMULATIVE)	NEGATIVE REPLACEMENT VALUES (CUMULATIVE)
31.12.2018	1 075 119	1 045 221
31.12.2017	1 059 140	1 049 731

*– Breakdown by counterparty*

POSITIVE REPLACEMENT VALUES (AFTER NET- TING AGREEMENTS) (CHF thousand)	CENTRAL CLEARING HOUSES	BANKS AND SECURITIES DEALERS	OTHER CUSTOMERS
31.12.2018	-	757 999	317 120
31.12.2017	-	747 952	311 188

## 5. BREAKDOWN OF FINANCIAL INVESTMENTS

CHF thousand	BOOK VALUE		FAIR VALUE	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Debt securities	8 301 357	7 359 199	8 376 191	7 422 269
<i>of which, intended to be held to maturity</i>	8 301 357	7 359 199	8 376 191	7 422 269
Equity securities	172 921	172 921	198 722	200 369
Precious metals	313 679	440 465	313 679	440 465
<b>Total</b>	<b>8 787 957</b>	<b>7 972 585</b>	<b>8 888 592</b>	<b>8 063 103</b>
<i>of which, securities eligible for repo transactions in accordance with liquidity requirements</i>	5 998 799	5 197 368	6 062 666	5 250 197

### *– Breakdown of counterparties by rating*

CHF thousand	FAIR VALUE	
	31.12.2018	31.12.2017
AAA	6 109 207	5 909 970
AA+	1 296 668	820 541
AA	299 067	149 509
AA-	653 509	535 840
A+	12 778	6 409
A	4 962	-
<b>Total</b>	<b>8 376 191</b>	<b>7 422 269</b>

The Pictet Group uses the specific ratings of three agencies (Standard & Poor's, Moody's and Fitch), assigned to the instruments it holds. Ratings are based on Standard & Poor's rating scale. When three ratings are available, the median value is taken. When two ratings are available, the more prudent one is taken. In the absence of a specific rating, Standard & Poor's long-term rating of the issuer is used.

## 6. NON-CONSOLIDATED PARTICIPATIONS

CHF thousand	ACQUISITION COST	ACCUMULATED VALUE ADJUSTMENTS AND CHANGES IN BOOK VALUE (VALUATION USING THE EQUITY METHOD)	BOOK VALUE AT 31.12.2017	RECLASSIFICATIONS	ADDITIONS	DISPOSALS	BOOK VALUE AT 31.12.2018	MARKET VALUE
Other participations								
with market value	2 900	( 2 900)	-	-	-	-	-	3 840
without market value	9 948	( 2 998)	6 950	( 100)	114	( 1 008)	5 956	131 129
<b>Total participations</b>	<b>12 848</b>	<b>( 5 898)</b>	<b>6 950</b>	<b>( 100)</b>	<b>114</b>	<b>( 1 008)</b>	<b>5 956</b>	<b>134 969</b>



## 7. MAIN LEGAL ENTITIES OF THE GROUP

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)	HELD DIRECTLY	HELD INDIRECTLY
Bank Pictet & Cie (Asia) Ltd, Singapore	Bank	CHF	77 000	100	100	-	100
Banque Pictet & Cie SA, Carouge	Bank	CHF	90 000	100	100	-	100
Bayside Pictet Ltd, Nassau	Real estate company	CHF	7	100	100	-	100
Finance 1805 SA, Carouge	Financial company	CHF	100	100	100	-	100
FundPartner Solutions (Europe) SA, Luxembourg	Fund management	CHF	6 250	100	100	-	100
FundPartner Solutions (Suisse) SA, Carouge	Fund management	CHF	10 000	100	100	-	100
Pictet & Cie (Europe) S.A., Luxembourg	Bank	CHF	70 000	100	100	-	100
Pictet & Cie Group SCA, Carouge	Financial company	CHF	148 500	100	100	-	100
PICTET & PARTNERS, Cologny	Financial company	CHF	300 000	100	100	100	-
Pictet Advisory Services (Overseas) Ltd, Nassau	Investment advisory	CHF	150	100	100	-	100
Pictet Alternative Advisors SA, Carouge	Wealth management	CHF	3 000	100	100	-	100
Pictet Alternative Advisors (Europe) SA, Luxembourg	Wealth management	EUR	525	100	100	-	100
Pictet Alternative Advisors Holding SA, Carouge	Financial company	CHF	2 700	100	100	-	100
Pictet Asia Pte Ltd, Singapore	Financial company	SGD	1 216	100	100	-	100
Pictet Asset Management (Europe) SA, Luxembourg	Asset Management	CHF	8 750	100	100	-	100
Pictet Asset Management (Hong-Kong) Ltd, Hong-Kong	Asset Management	HKD	30 000	100	100	-	100
Pictet Asset Management (Japan) Ltd, Tokyo	Asset Management	JPY	200 000	100	100	-	100
Pictet Asset Management (Singapore) Pte Ltd, Singapore	Asset Management	SGD	2 500	100	100	-	100
Pictet Asset Management Ltd, London	Asset Management	GBP	45 000	100	100	-	100

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)	HELD DIRECTLY	HELD INDIRECTLY
Pictet Asset Management Holding SA, Carouge	Financial company	CHF	40 000	100	100	-	100
Pictet Asset Management Inc., Montreal	Asset Management	CAD	250	100	100	-	100
Pictet Asset Management SA, Carouge	Asset Management	CHF	21 000	100	100	-	100
Pictet Bank & Trust Ltd, Nassau	Bank	CHF	102 000	100	100	-	100
Pictet Canada S.E.C., Montreal	Brokerage	CAD	94 500	100	100	100	-
Pictet Capital S.A., Cologne	Financial company	CHF	90 000	100	100	66	34
Pictet Europe SA, Luxembourg	Financial company	CHF	12 500	100	100	-	100
Pictet Global Markets (UK) Ltd, London	Wealth management	GBP	500	100	100	-	100
Pictet Holding LLP, Singapore	Financial company	CHF	61 000	100	100	100	-
Pictet Life Insurance Advisors (France) SAS, Paris	Financial company	EUR	500	100	100	-	100
Pictet Life Insurance Advisors SA, Luxembourg	Financial company	EUR	500	100	100	-	100
Pictet (London) Ltd, London	Financial company	GBP	7 000	100	100	-	100
Pictet North America Advisors SA, Carouge	Wealth management	CHF	500	100	100	-	100
Pictet Overseas Inc., Montreal	Brokerage	USD	10 000	100	100	-	100
Pictet Sice Ltd, Taiwan	Asset Management	TWD	70 000	100	100	-	100
Pictet Technologies SA, Luxembourg	IT services	EUR	500	100	100	-	100
Pictet Wealth Management (Israel) Ltd, Tel Aviv	Wealth management	ILS	1 000	100	100	-	100
Sopafin Luxembourg SA, Luxembourg	Financial company	CHF	11 200	100	100	100	-
Sopafin Suisse SA, Cologne	Financial company	CHF	57 140	100	100	26	74

The entities listed above are consolidated according to the full consolidation method. Investments in companies that are not significant for the financial reporting are excluded from the consolidation perimeter.

Pictet Investment SA, Cologne, was amalgamated, via merger, into Sopafin SA, Cologne, during the year 2018.

– *Significant non-consolidated participations at 31.12.2018*

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	BOOK VALUE (in thousand CHF)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)
Euroclear Plc, London	Financial company	EUR	3 147	1 893	1	1
Pictet International Ltd	Financial company	CHF	655	1 585	100	100

The Pictet Group does not have any significant position in equity securities of companies recorded in the assets of the balance sheet under ‘Financial investments’ (2017: none).

There are no commitments to purchase or dispose of shares (2017: none).

The stake in Gabriel Fiduciaria S.r.l. was liquidated during the year 2018.

Non-consolidated participations are deemed significant if their value recorded on the balance sheet exceeds CHF 1 million or equivalent. All non-consolidated participations are subject to an equity requirement (risk weighted assets).

## 8. TANGIBLE FIXED ASSETS

CHF thousand	ACQUISITION COST	ACCUMULATED DEPRECIATION	BOOK VALUE AT 31.12.2017	ADDITIONS	TRANSLATION DIFFERENCES	DEPRECIATION	BOOK VALUE AT 31.12.2018
Buildings for own use	503 160	( 165 773)	337 387	-	-	( 7 575)	329 812
Other real estate	52 715	( 23 463)	29 252	-	-	( 725)	28 527
Separately acquired software	69 717	( 59 537)	10 180	7 104	12	( 7 107)	10 189
Other tangible fixed assets	209 918	( 127 686)	82 232	24 769	( 428)	( 28 992)	77 581
<b>Total tangible fixed assets</b>	<b>835 510</b>	<b>( 376 459)</b>	<b>459 051</b>	<b>31 873</b>	<b>( 416)</b>	<b>( 44 399)</b>	<b>446 109</b>

**9. BREAKDOWN  
OF OTHER ASSETS AND OTHER LIABILITIES**

CHF thousand	OTHER ASSETS		OTHER LIABILITIES	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Compensation account	22 494	8 365	-	-
Deferred income taxes recognised as assets	12 105	11 447	-	-
Indirect taxes	128 703	96 119	41 307	30 752
Clearing accounts	55 369	49 306	186 530	160 552
Other	23 105	21 901	17 928	28 024
<b>Total</b>	<b>241 776</b>	<b>187 138</b>	<b>245 765</b>	<b>219 328</b>

Provisions for deferred taxes (liabilities) are shown in note 14.

**10. DISCLOSURE OF ASSETS PLEDGED OR ASSIGNED  
TO SECURE OWN COMMITMENTS AND OF ASSETS  
UNDER RESERVATION OF OWNERSHIP**

CHF thousand	BOOK VALUES		EFFECTIVE COMMITMENTS	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Due from banks	201 065	219 854	201 065	219 854
Financial investments	1 725 341	1 724 989	1 725 341	1 724 989

Assets pledged with banking counterparties correspond to deposits for margin calls associated with transactions in derivatives.

## 11. DISCLOSURES ON PENSION SCHEMES

The Pictet Group has set up, for the various companies in the Group, pension schemes designed to make provision for their employees and former employees against the economic consequences of retirement, incapacity and death. These pension schemes may differ depending on national legislation on occupational pensions applicable to the various Group companies and customary market practices.

In the case of employees in Switzerland, the Pictet Group's pension fund is an independent occupational pension scheme registered with the Supervisory Authority for the Canton of Geneva. This pension plan is a defined contributions scheme. The last set of audited annual accounts shows the funding ratio for the scheme stood at 116.0% as at end-December 2018. The value fluctuation reserve is funded up to 16.0% of pension liabilities.

The audited annual accounts for the Pictet Group's Fondation de Prévoyance Complémentaire pension plan show its funding ratio stood at 100% as at end-2018. Reassurance cover for death and invalidity risks has been taken out by the pension schemes with an insurance group.

Staff employed abroad are insured via occupational pension funds in the form of collective foundations or collective insurance contracts with life assurance companies or via State-run pension plans in the country of domicile. No economic benefits or liabilities arise out of this array of pension plans other than those that would be recognised in the balance sheet.

### – *Liabilities relating to pension schemes at 31.12.*

LIABILITIES RELATING TO OWN PENSION SCHEMES (CHF thousand)	31.12.2018	31.12.2017
Amounts due in respect of client deposits	160 784	58 672

**12. DISCLOSURE ON THE ECONOMIC SITUATION  
OF OWN PENSION SCHEMES**

– *Employer contribution reserves (ECR)*

There are no employer contribution reserves with the pension schemes relating to the current year or the previous year.

– *Economic benefit/obligation and the pension expenses at  
31 December*

CHF thousand	OVERFUNDING/ UNDERFUNDING AT 31.12.2018	CONTRIBUTIONS PAID FOR 2018	PENSION EXPENSES IN PER- SONNEL EXPENSES	
			2018	2017
Employer sponsored funds/employer sponsored pension schemes	-	2 000	2 000	2 500
Pension plans without overfunding/underfunding	-	29 702	32 063	32 290
Pension plans with overfunding	16.0%	86 729	86 729	82 154

The governing bodies consider that any overfunding, as defined by the FINMA circular 2015/1 (margin no. 502), would be deployed for the benefit of the members of the pension scheme, so there would be no economic benefit accruing to the Pictet Group.

As at 31 December 2018, there was no economic benefit or obligation to be booked in the Pictet Group's balance sheet or income statement.

**13. PRESENTATION OF ISSUED STRUCTURED PRODUCTS  
(BOOK VALUE)**

UNDERLYING RISK OF THE EMBEDDED DERIVATIVE (CHF thousand)	VALUED AS A WHOLE		VALUED SEPARATELY		TOTAL
	BOOKED IN TRADING PORTFOLIO	BOOKED IN OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE	VALUE OF THE HOST INSTRUMENTS	VALUE OF THE DE- RIVATIVE	
Equity securities					
With own debenture component (oDC)		880 920	-	-	880 920
Without oDC		-	-	-	-
Commodities/precious metals					
With own debenture component (oDC)		12 655	-	-	12 655
Without oDC		-	-	-	-
<b>Total 31.12.2018</b>		<b>893 575</b>	<b>-</b>	<b>-</b>	<b>893 575</b>

The Pictet Group enables its clients to purchase certificates corresponding, in the main, to shares in equity baskets. The section detailing the accounting principles of this report describes how these certificates are treated.



**14. PRESENTATION OF VALUE ADJUSTMENTS,  
PROVISIONS AND CHANGES THEREIN  
DURING THE CURRENT YEAR**

CHF thousand	BALANCE AT 31.12.2017	USE IN CONFORMITY WITH DESIGNATED PURPOSE	RECLASSIFICA- TIONS	CURRENCY DIFFERENCES	NEW CREATIONS CHARGED TO INCOME	RELEASES TO INCOME	BALANCE AT 31.12.2018
Provisions for deferred taxes	134 384	-	-	-	10 000	-	144 384
Provisions for other business risks	85 217	( 7 943)	72	( 86)	23 908	( 7 057)	94 111
Other provisions	3 294	( 4 669)	( 72)	( 106)	2 730	( 255)	922
<b>Total provisions</b>	<b>222 895</b>	<b>( 12 612)</b>	<b>-</b>	<b>( 192)</b>	<b>36 638</b>	<b>( 7 312)</b>	<b>239 417</b>
<b>Value adjustments for default and country risks</b>	<b>364</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>( 49)</b>	<b>315</b>
<i>of which, value adjustments for default risks in respect of impaired loans/receivables</i>	364	-	-	-	-	( 49)	315

‘Provisions for other business risks’ are intended to cover a variety of risks relating to litigation, including any associated legal expenses. Provisions for deferred taxes result mainly from provisions set aside in the individual accounts of Banque Pictet & Cie SA that are not recognised in the consolidated accounts of the Pictet Group.

In October 2012, the Swiss Financial Market Supervisory Authority (FINMA) notified Banque Pictet & Cie SA (formerly known as Pictet & Cie) that the US Department of Justice had lodged a general request for information pertaining to its wealth-management business with US clients. Banque Pictet & Cie SA is in ongoing discussions with the US Department of Justice and is cooperating fully with it in compliance with applicable legislation. At this juncture, it is not feasible to judge what the extent of any financial implications for Banque Pictet & Cie SA might be, which explains why no provision had been set aside as at 31 December 2018.

### 15. BREAKDOWN OF FINANCIAL INVESTMENTS

The Group's equity comprises contributions from the equity owners, namely the partners and other holders of equity capital in the companies who, in combination, control the Pictet Group.

Other owners of capital than the partners, namely the Group directors, do not have voting rights.

The Pictet Group does not issue participatory ownership rights or options on such rights, and there is no share ownership scheme.

### 16. DISCLOSURE OF AMOUNTS DUE FROM/TO RELATED PARTIES

CHF thousand	AMOUNTS DUE FROM		AMOUNTS DUE TO	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Holders of qualified participations	1 983	18 038	1 050 288	1 030 321
Linked companies	-	-	2 353	2 570

Transactions with related parties are concluded at going market rates.

### 17. DISCLOSURE OF HOLDERS OF SIGNIFICANT PARTICIPATIONS

The partners of Pictet & Partners – Messrs Nicolas Pictet, Renaud de Planta, Rémy Best, Marc Pictet, Bertrand Demole, Laurent Ramsey and Boris Collardi – are significant equity owners.

Decisions are taken by the partners on a consensus basis, at the level of the holding companies.

## 18. MATURITY STRUCTURE OF FINANCIAL INSTRUMENTS

CHF thousand	AT SIGHT	CANCELLABLE	DUE				TOTAL
			WITHIN 3 MONTHS	WITHIN 3 TO 12 MONTHS	WITHIN 12 MONTHS TO 5 YEARS	AFTER 5 YEARS	
Assets/financial instruments							
Liquid assets	14 528 429	-	-	-	-	-	14 528 429
Amounts due from banks	1 592 413	-	11 646	-	-	-	1 604 059
Amounts due from securities financing transactions	-	-	1 906 000	-	-	-	1 906 000
Amounts due from customers	24 518	5 448 156	2 106 133	761 517	243 736	2 500	8 586 560
Trading portfolio assets	63 923	-	-	-	-	-	63 923
Positive replacement values of derivative financial instruments	1 075 119	-	-	-	-	-	1 075 119
Other financial instruments at fair value	817 432	-	-	-	-	-	817 432
Financial investments	486 599	3	784 960	1 149 400	3 918 140	2 448 855	8 787 957
<b>Total 31.12.2018</b>	<b>18 588 433</b>	<b>5 448 159</b>	<b>4 808 739</b>	<b>1 910 917</b>	<b>4 161 876</b>	<b>2 451 355</b>	<b>37 369 479</b>
<b>Total 31.12.2017</b>	<b>20 425 332</b>	<b>4 979 111</b>	<b>3 396 494</b>	<b>2 090 563</b>	<b>3 703 630</b>	<b>1 605 428</b>	<b>36 200 558</b>

CHF thousand	AT SIGHT	CANCELLABLE	DUE				TOTAL
			WITHIN 3 MONTHS	WITHIN 3 TO 12 MONTHS	WITHIN 12 MONTHS TO 5 YEARS	AFTER 5 YEARS	
Debt capital/financial instruments							
Amounts due to banks	1 334 286	-	-	-	-	-	1 334 286
Liabilities from securities financing transactions	-	-	240 565	-	-	-	240 565
Amounts due in respect of customer deposits	29 731 917	100 149	731 183	85 573	-	-	30 648 822
Trading portfolio liabilities	11 732	-	-	-	-	-	11 732
Negative replacement values of derivative financial instruments	1 045 221	-	-	-	-	-	1 045 221
Liabilities from other financial instruments at fair value	893 575	-	-	-	-	-	893 575
<b>Total 31.12.2018</b>	<b>33 016 731</b>	<b>100 149</b>	<b>971 748</b>	<b>85 573</b>	<b>-</b>	<b>-</b>	<b>34 174 201</b>
<b>Total 31.12.2017</b>	<b>31 643 212</b>	<b>80 890</b>	<b>1 476 432</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33 200 534</b>

**19. PRESENTATION OF ASSETS AND LIABILITIES BY DOMESTIC AND FOREIGN ORIGIN IN ACCORDANCE WITH THE DOMICILE PRINCIPLE**

Assets (CHF thousand)	31.12.2018		31.12.2017	
	SWISS	FOREIGN	SWISS	FOREIGN
Liquid assets	13 620 098	908 331	15 076 969	1 181 145
Amounts due from banks	683 009	921 050	464 995	857 797
Amounts due from securities financing transactions	1 866 000	40 000	585 000	34 108
Amounts due from customers	768 305	7 818 255	774 093	7 585 993
Trading portfolio assets	1 023	62 900	21 570	57 883
Positive replacement values of derivative financial instruments	268 573	806 546	281 701	777 439
Other financial instruments at fair value	81 262	736 170	77 790	451 490
Financial investments	2 297 149	6 490 808	2 692 881	5 279 704
Accrued income and prepaid expenses	114 015	296 849	123 207	310 874
Non-consolidated participations	1 921	4 035	2 021	4 929
Tangible fixed assets	423 175	22 934	432 796	26 255
Other assets	144 661	97 115	136 095	51 043
<b>Total assets</b>	<b>20 269 191</b>	<b>18 204 993</b>	<b>20 669 118</b>	<b>16 618 660</b>

  

Liabilities (CHF thousand)	31.12.2018		31.12.2017	
	SWISS	FOREIGN	SWISS	FOREIGN
Amounts due to banks	846 546	487 740	552 015	330 373
Liabilities from securities financing transactions	240 565	-	842 209	490 283
Amounts due in respect of customer deposits	8 312 704	22 336 118	8 156 765	21 212 013
Trading portfolio liabilities	1 132	10 600	311	632
Negative replacement values of derivative financial instruments	197 120	848 101	246 454	803 277
Liabilities from other financial instruments at fair value	868 373	25 202	558 207	7 995
Accrued expenses and deferred income	399 598	469 434	381 677	415 505
Other liabilities	173 125	72 640	155 552	63 776
Provisions	237 312	2 105	218 620	4 275
Total equity	2 592 133	353 636	2 528 714	319 125
Equity owners' contribution	638 386	-	684 922	-
Capital reserve	11 664	-	11 664	-
Retained earnings reserve	1 713 853	-	1 595 842	-
Currency translation reserve	(14 070)	-	(17 086)	-
Consolidated profit for the year	242 300	353 636	253 372	319 125
<b>Total liabilities</b>	<b>13 868 608</b>	<b>24 605 576</b>	<b>13 640 524</b>	<b>23 647 254</b>

**20. BREAKDOWN OF TOTAL ASSETS  
BY COUNTRY (DOMICILE PRINCIPLE)**

Assets (CHF thousand)	31.12.2018		31.12.2017	
	ABSOLUTE	SHARE AS %	ABSOLUTE	SHARE AS %
Switzerland	20 269 191	52%	20 669 118	55%
Europe	9 915 797	26%	9 225 665	25%
The Americas	6 457 752	17%	5 463 916	15%
Asia	1 420 286	4%	1 486 275	4%
Africa and Oceania	411 158	1%	442 804	1%
<b>Total assets</b>	<b>38 474 184</b>	<b>100%</b>	<b>37 287 778</b>	<b>100%</b>

**21. BREAKDOWN OF TOTAL ASSETS BY CREDIT RATING  
OF COUNTRY GROUPS (RISK DOMICILE VIEW)**

RATING ACCORDING TO FINMA MAP- PING TABLES	NET FOREIGN EXPOSURE 31.12.2018		NET FOREIGN EXPOSURE 31.12.2017	
	CHF THOUSAND	SHARE AS %	CHF THOUSAND	SHARE AS %
1 & 2	13 731 553	82%	11 703 436	78%
3	953 637	6%	745 067	5%
4	1 103 171	7%	1 314 577	9%
5	28 814	0%	91 820	1%
6	26 362	0%	79 108	0%
7	4 418	0%	24 625	0%
Unrated	857 351	5%	983 314	7%
<b>Total</b>	<b>16 705 306</b>	<b>100%</b>	<b>14 941 947</b>	<b>100%</b>

*– Comments on the rating system used*

The Pictet Group uses credit ratings provided by FINMA in its rating concordance ('mapping') tables to calculate capital-adequacy requirements. The lowest rating assigned by Moody's, Standard & Poor's or the OECD is the one taken for each country.

**22. PRESENTATION OF ASSETS AND LIABILITIES BROKEN DOWN BY MOST SIGNIFICANT CURRENCIES  
(AT 31 DECEMBER 2018)**

Currencies (CHF thousand)	CHF	EUR	USD	GBP	JPY	OTHERS	TOTAL
<b>Assets</b>							
Liquid assets	13 615 746	904 797	1 485	296	16	6 089	14 528 429
Amounts due from banks	103 874	345 433	844 238	33 534	66 532	210 448	1 604 059
Due from securities financing transactions	1 906 000	-	-	-	-	-	1 906 000
Amounts due from customers	724 256	4 060 772	2 574 811	626 828	223 689	376 204	8 586 560
Trading portfolio assets	4 396	6 867	49 485	558	96	2 521	63 923
Positive replacement values of derivative financial instruments	805 444	66 940	101 120	7 261	40 021	54 333	1 075 119
Other financial instruments at fair value	66 726	60 348	576 870	28 359	25 916	59 213	817 432
Financial investments	2 201 985	2 683 588	3 006 615	317 141	-	578 628	8 787 957
Accrued income and prepaid expenses	158 804	129 211	75 286	16 697	25 293	5 573	410 864
Non-consolidated participations	4 450	-	965	31	-	510	5 956
Tangible fixed assets	429 566	5 038	-	4 075	3 342	4 088	446 109
Other assets	148 099	63 969	9 904	5 051	11 367	3 386	241 776
<b>Total assets shown in the balance sheet</b>	<b>20 169 346</b>	<b>8 326 963</b>	<b>7 240 779</b>	<b>1 039 831</b>	<b>396 272</b>	<b>1 300 993</b>	<b>38 474 184</b>
Delivery entitlements from spot exchange, forward forex and forex options transactions	148 770 848	82 565 899	117 519 839	15 059 860	8 176 221	12 470 687	384 563 354
<b>Total assets</b>	<b>168 940 194</b>	<b>90 892 862</b>	<b>124 760 618</b>	<b>16 099 691</b>	<b>8 572 493</b>	<b>13 771 680</b>	<b>423 037 538</b>

Currencies (CHF thousand)	CHF	EUR	USD	GBP	JPY	OTHERS	TOTAL
<b>Liabilities</b>							
Amounts due to banks	146 695	356 735	632 253	23 649	23 018	151 936	1 334 286
Liabilities from securities financing transactions	-	78 884	147 870	13 811	-	-	240 565
Amounts due in respect of customer deposits	7 626 915	11 894 715	7 679 320	1 449 557	473 307	1 525 008	30 648 822
Trading portfolio liabilities	1 138	637	8 411	-	-	1 546	11 732
Negative replacement values of derivative financial instruments	785 296	55 451	96 596	7 016	39 838	61 024	1 045 221
Liabilities from other financial instruments at fair value	111 263	65 149	603 214	28 811	25 889	59 249	893 575
Accrued expenses and deferred income	446 317	249 574	33 347	85 909	19 064	34 821	869 032
Other liabilities	132 762	-	-	-	113 003	-	245 765
Provisions	236 185	3 232	-	-	-	-	239 417
<b>Total equity</b>	<b>2 945 769</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 945 769</b>
Equity owners' contribution	638 386	-	-	-	-	-	638 386
Capital reserve	11 664	-	-	-	-	-	11 664
Retained earnings reserve	1 713 853	-	-	-	-	-	1 713 853
Currency translation reserve	( 14 070)	-	-	-	-	-	( 14 070)
Consolidated profit for the year	595 936	-	-	-	-	-	595 936
<b>Total liabilities shown in the balance sheet</b>	<b>12 432 340</b>	<b>12 704 377</b>	<b>9 201 011</b>	<b>1 608 753</b>	<b>694 119</b>	<b>1 833 584</b>	<b>38 474 184</b>
Delivery obligations from spot exchange, forward forex and forex options transactions	156 554 547	78 123 676	115 573 477	14 476 122	7 870 873	11 964 659	384 563 354
<b>Total liabilities</b>	<b>168 986 887</b>	<b>90 828 053</b>	<b>124 774 488</b>	<b>16 084 875</b>	<b>8 564 992</b>	<b>13 798 243</b>	<b>423 037 538</b>
<b>Net position per currency</b>	<b>( 46 693)</b>	<b>64 809</b>	<b>( 13 870)</b>	<b>14 816</b>	<b>7 501</b>	<b>( 26 563)</b>	<b>-</b>



**NOTES TO OFF-BALANCE SHEET POSITIONS****23. BREAKDOWN AND EXPLANATION OF  
CONTINGENT ASSETS AND LIABILITIES**

CHF thousand	31.12.2018	31.12.2017
Guarantees to secure credits and similar	5 742 264	5 584 718
<b>Total contingent liabilities</b>	<b>5 742 264</b>	<b>5 584 718</b>
Contingent assets arising from tax losses carried forward	306	1 678
<b>Total contingent assets</b>	<b>306</b>	<b>1 678</b>

‘Contingent liabilities’ encompass guarantees issued on clients’ behalf and liabilities arising out of commitments contracted by clients in private-equity transactions. These liabilities are secured by client assets pledged as collateral, in compliance with internal regulation.

**24. BREAKDOWN OF FIDUCIARY TRANSACTIONS**

CHF thousand	31.12.2018	31.12.2017
Fiduciary investments with third-party companies	18 714 794	17 015 534
Fiduciary transactions arising from securities lending and borrowing, which the bank conducts in its own name for the account of customers	1 197 929	1 215 454
<b>Total fiduciary transactions</b>	<b>19 912 723</b>	<b>18 230 988</b>

**25. BREAKDOWN OF ASSETS  
UNDER MANAGEMENT OR CUSTODY**

*– Breakdown of assets under management or custody*

CHF billion	31.12.2018	31.12.2017
Assets in collective investment schemes managed by the bank	161.2	179.4
Assets under discretionary asset management agreements	99.5	109.2
Other assets under custody	370.3	373.2
<b>Total assets under management or custody (incl. double counting)</b>	<b>631.0</b>	<b>661.8</b>
<i>of which, double counting</i>	135.2	139.8
<b>Total managed assets excl. double counting</b>	<b>495.8</b>	<b>522.0</b>

*– Change in assets under management or custody (including double counting)*

CHF billion	2018	2017
Total assets under management or custody - beginning of year	661.8	576.7
+/- Net new money inflow or net new money outflow	(0.2)	5.1
+/- Price gains/losses, interest, dividends and currency gains/losses	(30.6)	54.3
+/- Other effects	-	25.7
<b>Total assets under management or custody - end of year</b>	<b>631.0</b>	<b>661.8</b>

The nature of the services provided to clients and the reason for clients holding assets at the Bank determine how the assets are classified. As such, assets under management or custody include the assets of clients for which value-added services are provided. Said services are mainly investment advice and discretionary asset management. Pictet funds and third-party funds not managed by the Group are also included in this category.

Assets are classified at the individual account level. As such, only the assets for which value-added services are provided are included in this category.

In contrast, the assets of clients for which the Pictet Group provides only basic safekeeping services are not counted

when calculating assets under management or held in custody.

If the nature of a client's relationship with the Pictet Group changes, the classification of the client's assets is systematically reviewed. This change may, if necessary, result in net new money inflows or net new money out-flows being acknowledged.

If different types of services are provided for the same assets, the assets will be counted twice. Practically speaking, these are assets under custody or discretionary management agreements that are invested in collective investment schemes managed by the Bank.

Net new money inflows are made up of a combination of several factors:

- Inflows of funds resulting from the acquisition of new clients, new funds from existing clients as well as cashflows and investments relating to client loans.
- Outflows, subtracted from total inflows, comprising partial or total withdrawals of existing clients' assets.

Changes in the classification of existing clients' assets are also taken into account in these inflows and outflows. The calculations are based on the direct method and include deposits and withdrawals in cash and financial assets (mainly securities or precious metals). Changes in the value of assets caused by market effects (particularly fluctuations in prices or exchange rates or interest or dividend payments) or interest charges, fees or expenses debited from clients are not included in the calculation of net inflows/outflows.

## NOTES TO THE INCOME STATEMENT

### 26. BREAKDOWN OF THE RESULT FROM TRADING ACTIVITIES AND THE FAIR VALUE OPTION

#### *– Breakdown by business area*

CHF thousand	2018	2017
Trading for the account of the customers	115 040	132 292
Trading for own account	58 479	58 886
<b>Trading activity total</b>	<b>173 519</b>	<b>191 178</b>

Trading activities for the Group's own account are aimed essentially at mitigating risk resulting from client orders.

#### *– Breakdown by underlying risk and based on the use of the fair value option*

CHF thousand	2018	2017
Result from trading activities from:		
Interest-rate instruments (incl. funds)	2 436	4 302
Equity securities (incl. funds)	8 826	9 296
Foreign currencies/precious metals/commodities	162 257	177 580
<b>Total result from trading activities</b>	<b>173 519</b>	<b>191 178</b>
<i>of which, from fair value option</i>	5 743	5 854
<i>of which, from fair value option on assets</i>	5 743	5 854

**27. DISCLOSURE OF MATERIAL REFINANCING UNDER  
‘INTEREST AND DISCOUNT INCOME AS WELL AS  
MATERIAL NEGATIVE INTEREST’**

– Refinancing income

The refinancing costs of the trading portfolios are offset directly under ‘Income from trading activities and the fair value option’.

– Negative interest

CHF thousand	2018	2017
Negative interest on lending business (decrease in interest and discount income)	73 098	71 878
Negative interest on borrowing business (decrease in interest expense)	33 124	30 697

**28. BREAKDOWN OF PERSONNEL EXPENSES**

CHF thousand	2018	2017
Salaries	1 061 829	1 026 369
<i>of which</i> , expenses relating to alternative forms of variable compensation	184 560	187 317
Social insurance benefits	222 045	218 648
Other personnel expenses	35 925	29 488
<b>Total</b>	<b>1 319 799</b>	<b>1 274 505</b>

**29. BREAKDOWN OF GENERAL AND ADMINISTRATIVE EXPENSES**

CHF thousand	2018	2017
Office space expenses	71 989	71 867
Expenses for information and communications technology	230 869	188 848
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	14 059	14 051
Professional services	46 640	39 144
Fees of audit firms	5 255	4 964
<i>of which</i> , for financial and regulatory audits	3 700	3 540
<i>of which</i> , for other services	1 555	1 424
Public relations	39 892	35 716
Travel	40 539	36 142
Taxes	24 611	21 634
Other operating expenses	66 528	18 457
<b>Total</b>	<b>540 382</b>	<b>430 823</b>

**30. EXPLANATIONS REGARDING MATERIAL LOSSES,  
EXTRAORDINARY INCOME AND EXPENSES,  
AS WELL AS MATERIAL RELEASES OF HIDDEN RESERVES  
AND VALUE ADJUSTMENTS AND PROVISIONS  
NO LONGER REQUIRED**

CHF thousand	2018	2017
Changes to provisions and other value adjustments, losses	(26 562)	(32 770)
Extraordinary income	682	390
Extraordinary expenses	( 424)	( 20)

The detailed breakdown of value adjustments and provisions is shown in the table presenting value adjustments and provisions in annex 14.

**31. PRESENTATION OF THE OPERATING RESULT  
BROKEN DOWN BY DOMESTIC AND FOREIGN ORIGIN,  
ACCORDING TO THE PRINCIPLE OF  
PERMANENT ESTABLISHMENT**

(CHF thousand)	2018		2017	
	SWISS	FOREIGN	SWISS	FOREIGN
Interest and discount income	153 090	50 392	149 565	28 147
Interest and dividend income from financial investments	46 844	33 828	34 890	33 991
Interest expense	3 435	4 151	4 014	5 946
Gross result from interest operations	<b>203 369</b>	<b>88 371</b>	<b>188 469</b>	<b>68 084</b>
Changes in value adjustments for default risks and losses from interest operations	49	-	1 076	-
Subtotal net result from interest operations	<b>203 418</b>	<b>88 371</b>	<b>189 545</b>	<b>68 084</b>
Commission income from securities trading and investment activities	1 474 975	1 497 129	1 385 630	1 385 484
Commission income from lending activities	2 553	1 887	3 173	1 136
Commission income from other services	22 406	804	24 201	(2 432)
Commission expenses	(217 581)	(559 848)	(224 959)	(504 516)
Subtotal result from commission business and services	<b>1 282 353</b>	<b>939 972</b>	<b>1 188 045</b>	<b>879 672</b>
Result from trading activities and the fair value option	<b>125 101</b>	<b>48 418</b>	<b>138 748</b>	<b>52 430</b>
Income from other non-consolidated participations	3 889	-	3 753	-
Result from real estate	1 784	224	1 842	463
Other ordinary income	73	158	71	-
Other ordinary expenses	-	-	( 1)	-
Subtotal other result from ordinary activities	<b>5 746</b>	<b>382</b>	<b>5 665</b>	<b>463</b>
Personnel expenses	(879 698)	(440 101)	(837 137)	(437 368)
General and administrative expenses	(365 749)	(174 633)	(283 826)	(146 997)
Subtotal operating expenses	<b>(1 245 447)</b>	<b>(614 734)</b>	<b>(1 120 963)</b>	<b>(584 365)</b>
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	(32 678)	(11 721)	(36 417)	(12 093)
Changes to provisions and other value adjustments and losses	(20 232)	(6 330)	(30 756)	(2 014)
Operating result	<b>318 261</b>	<b>444 358</b>	<b>333 867</b>	<b>402 177</b>
Extraordinary income	682	-	390	-
Extraordinary expenses	-	( 424)	( 20)	-
Taxes	(76 643)	(90 298)	(80 865)	(83 052)
Consolidated profit of the year	<b>242 300</b>	<b>353 636</b>	<b>253 372</b>	<b>319 125</b>



**32. PRESENTATION OF CURRENT TAXES,  
DEFERRED TAXES AND DISCLOSURE OF TAX RATE**

CHF thousand	2018	2017
Provisions for deferred taxes	9 342	13 365
Current tax expenses	157 599	150 552
<b>Total taxes</b>	<b>166 941</b>	<b>163 917</b>
<b>Average tax rate</b>	<b>21.9%</b>	<b>22.3%</b>



# *Report of the auditor*

*to the Board of Partners of Pictet & Cie Group SCA*

*Carouge*

## ***Report of the auditor on the consolidated financial statements of Pictet Group***

On your instructions, we have audited the consolidated financial statements of Pictet Group, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 7 to 11 and 24 to 73), for the year ended 31 December 2018.

### ***Board of Partners' responsibility***

The Board of Partners is responsible for the preparation of the consolidated financial statements in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Partners is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements for the year ended 31 December 2018 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and comply with Swiss law.



## ***Report on other legal requirements***

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Partners.

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

PricewaterhouseCoopers SA

A blue ink signature of Christophe Kratzer, appearing as a cursive scribble.

Christophe Kratzer  
Audit expert  
Auditor in charge

A blue ink signature of Emmanuel Genequand, appearing as a stylized 'N.G.' followed by a horizontal line and a vertical line.

Emmanuel Genequand

Geneva, 29 April 2019

---

This report is available in English and French. The French version is the authoritative version.

© 2018

All rights reserved

Pictet Group head office  
Route des Acacias 60  
1211 Geneva 73, Switzerland