

# Banque Pictet & Cie SA

## Annual report 2018



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**BALANCE SHEET**

<b>Assets (CHF thousand)</b>	<b>Notes</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Liquid assets		13 621 216	15 077 905
Amounts due from banks	7;13	1 670 431	2 098 802
Amounts due from securities financing transactions	1	1 906 000	619 108
Amounts due from customers	2;13	4 837 859	4 492 561
Trading portfolio assets	3	59 179	73 076
Positive replacement values of derivative financial instruments	4	1 066 143	1 072 310
Other financial instruments at fair value	3	772 198	489 515
Financial investments	5;7	5 437 009	4 605 467
Accrued income and prepaid expenses		117 988	115 712
Participations		2 049	2 049
Tangible fixed assets		341 827	351 969
Other assets	6	70 399	61 176
<b>Total assets</b>		<b>29 902 298</b>	<b>29 059 650</b>
Total subordinated claims		4 856	3 629
<b>Liabilities (CHF thousand)</b>	<b>Notes</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Amounts due to banks	13	4 672 374	4 365 704
Liabilities from securities financing transactions	1	1 226 617	1 332 492
Amounts due in respect of customer deposits	8;13	19 979 053	19 693 452
Trading portfolio liabilities	3	11 632	943
Negative replacement values of derivative financial instruments	4	1 049 422	1 073 416
Liabilities from other financial instruments at fair value	3;10	828 279	527 372
Accrued expenses and deferred income		240 154	234 597
Other liabilities	6	123 474	133 205
Provisions	11	552 928	504 236
<b>Total equity</b>		<b>1 218 365</b>	<b>1 194 233</b>
Bank's capital	12	90 000	90 000
Statutory capital reserve		865 000	865 000
Statutory retained earnings reserve	12	45 000	45 000
Profit carried forward		127 813	105 676
Profit of the period		90 552	88 557
<b>Total liabilities</b>		<b>29 902 298</b>	<b>29 059 650</b>
Total subordinated liabilities		300 000	300 000
<i>of which, subject to mandatory conversion and/or debt waiver</i>		300 000	300 000

**OFF-BALANCE-SHEET TRANSACTIONS**

<b>Off-balance-sheet (CHF thousand)</b>	<b>Notes</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Contingent liabilities	2;16	6 105 744	5 948 805
Irrevocable commitments	2	19 262	21 264

## INCOME STATEMENT

CHF thousand	Notes	2018	2017	Change
Interest and discount income	20	168 910	161 381	
Interest and dividend income from financial investments		46 844	34 890	
Interest expense	20	(38 576)	(31 976)	
Gross result from interest operations		<b>177 178</b>	<b>164 295</b>	<b>8%</b>
Changes in value adjustments for default risks and losses from interest operations	11	49	76	
Subtotal net result from interest operations		<b>177 227</b>	<b>164 371</b>	<b>8%</b>
Commission income from securities trading and investment activities		1 018 955	958 222	
Commission income from lending activities		3 351	3 183	
Commission income from other services		98 665	109 292	
Commission expenses		(244 899)	(232 827)	
Subtotal result from commission business and services		<b>876 072</b>	<b>837 870</b>	<b>5%</b>
Result from trading activities and the fair value option	19;20	<b>124 672</b>	<b>137 254</b>	<b>(9%)</b>
Income from participations		3 889	3 753	
Result from real estate		6 596	4 707	
Other ordinary income		62	61	
Other ordinary expense		-	( 1)	
Subtotal other result from ordinary activities		<b>10 547</b>	<b>8 520</b>	<b>24%</b>
Personnel expenses	21	(643 686)	(625 902)	
General and administrative expenses	22	(330 823)	(285 711)	
Subtotal operating expenses		<b>(974 509)</b>	<b>(911 613)</b>	<b>7%</b>
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		(32 608)	(36 417)	
Changes to provisions and other value adjustments and losses	11;23	(59 635)	(80 499)	
Operating result		<b>121 766</b>	<b>119 486</b>	<b>2%</b>
Extraordinary income	23	699	330	
Extraordinary expenses		-	( 20)	
Taxes	24	(31 913)	(31 239)	
Profit of the period		<b>90 552</b>	<b>88 557</b>	<b>2%</b>

**STATEMENT OF CHANGES IN EQUITY**

CHF thousand	BANK'S CAPITAL	CAPITAL RESERVE	RETAINED EARNINGS RESERVE	VOLUNTARY RETAINED EARNINGS RESERVES AND PROFIT/LOSS CARRIED FORWARD	RESULT OF THE PERIOD	TOTAL
Equity at 1.1.2018	90 000	865 000	45 000	105 676	88 557	1 194 233
Dividends and other distributions	-	-	-	-	( 66 420)	( 66 420)
Other allocations to (trans- fers from) the other reserves	-	-	-	22 137	( 22 137)	-
Profit/Loss (result of the period)	-	-	-	-	90 552	90 552
Equity at 31.12.2018	90 000	865 000	45 000	127 813	90 552	1 218 365

**BANQUE PICTET & CIE SA GOVERNANCE  
AT 31 DECEMBER 2018**

**Board of Directors**

Nicolas Pictet, Chairman  
Jacques de Saussure, Deputy Chairman  
Jürg Brun\*  
Hans Isler\*  
Barbara Lambert  
Romain Marti\*

**Audit Committee and Risk Committee**

Jacques de Saussure, Chairman  
Hans Isler\*  
Romain Marti\*  
Jürg Brun\* (Risk Committee only)

**Credit Committee**

Nicolas Pictet, Chairman  
Jürg Brun\*  
Hans Isler\*

\*Independent Directors

**Executive Committee**

- Rémy Best,  
Chairman
- Xavier Barde,  
Deputy Chairman and Chief Risk Officer
- Marc Briol,  
Head Asset Services
- Paul-Marie Dacorogna,  
Head Trading Services
- Jean-Philippe Nerfin,  
General Counsel
- Grégory Petit,  
Chief Financial Officer
- Bernd Uhe,  
Head of Human Resources
- Peter Wintsch,  
Chief Technology & Operations Officer

**Internal audit**

–Laurent Gaye  
Head of Internal Audit

**Auditors**

PricewaterhouseCoopers SA

The Pictet Group governance is described in the 2018 Pictet Group annual report, which is available at [www.group.pictet](http://www.group.pictet).

**NOTES****ACCOUNTING PRINCIPLES****Financial statements at 31 December 2018  
Banque Pictet & Cie SA, Geneva***Accounting principles and valuation method*

The financial statements of Banque Pictet & Cie SA have been drawn up in accordance with the provisions of the Swiss Federal Law on Banks and Savings Banks, its relevant implementing ordinance and 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 statutory financial statements have been drawn up in such a manner that third parties are able to form a reliable opinion. The annual accounts may contain hidden reserves.

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*

All 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.

*Foreign-currency translation*

Costs and income denominated in foreign currencies are converted 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.



The main exchange rates used to convert the value of 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 liabilities, 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. Banque Pictet & Cie SA 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 Bank'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 Bank'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*

Banque Pictet & Cie SA 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 Banque Pictet & Cie SA 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 Banque Pictet & Cie SA 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 ‘Result 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 operations*

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 ex-

ceeding the margin calls is recognised in the balance sheet.

– *Hedging transactions*

Banque Pictet & Cie SA 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*

Banque Pictet & Cie SA 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 and units of investment funds 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.

#### *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 life-times 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*

Banque Pictet & Cie SA has set up several occupational pension schemes for its staff and employees. These schemes are based on the defined-contribution system.

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

Every year, Banque Pictet & Cie SA 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 accounts (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.

#### *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 18 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 Banque Pictet & Cie SA'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 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. Risk policy is implemented at several different levels:

- The Board of Directors of Banque Pictet & Cie SA ratifies and oversees implementation of general risk policy;
- The Executive Committee supervises the proper implementation of the policy and puts operational measures into practice to apply it;
- Specific committees are responsible for managing risks in their respective fields;
- The individual business units of Banque Pictet & Cie SA are responsible for managing risks specific to them.

In addition, Banque Pictet & Cie SA 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 Group's Risk Department compiles a consolidated report on overall risk exposure for the management bodies of Banque Pictet & Cie SA on a quarterly basis. This report presents an impartial overview of the overall situation and level of risk for the Bank.

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

Considering the nature of Banque Pictet & Cie SA's business, risks cannot be entirely eliminated. Risks associated with the Bank's business activities are accepted, in com-

pliance with legal or internal regulations, provided they do not exceed the Bank'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 Bank's Management is required to give its formal approval.

The appetite for market, credit, interest-rate and liquidity risks at the Bank 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 Bank's governing bodies.

Risks that do not come under the heading of risks related to Banque Pictet & Cie SA'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 results from the possibility that a counterparty may default on its financial obligations towards the Group. It includes settlement risk and risk factors linked to a 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 clients' assets, which constitute the Bank'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 management bodies of the Bank. 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*

Banque Pictet & Cie SA 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. 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 governing bodies.

– *Financial investments*

Banque Pictet & Cie SA invests in top-quality financial assets, mainly including bonds or similar debt securities meeting very stringent criteria. These investments are intended to diversify Banque Pictet & Cie SA'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 Banque Pictet & Cie SA'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 Administration 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 directional positions for its own account. Proprietary trading

is undertaken subject to a strict framework of limits and is geared towards accumulating a more thorough understanding of markets in which Banque Pictet & Cie SA is active. As a result, proprietary trading accounts for a fraction of all trading operations undertaken by Banque Pictet & Cie SA.

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 Group's appetite for risk transposed at the Bank level, 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 Bank'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. 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, 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 Group's Risk Department.

A process of identifying and assessing operational risks throughout the Bank 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.

Banque Pictet & Cie SA 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 Bank'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 Banque Pictet & Cie SA's good name and reputation. Corporate Communications is responsible for effective image management of the Bank. It monitors articles published about the Bank and will contact the media as soon as the Bank's reputation might be at stake. Measures aimed at limiting risk to the Bank'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. Corporate Communications works closely together with the Risks, Compliance and Legal Departments. Reputational risk, coupled with the monitoring and appropriateness of measures, are covered in a specific section of the report on overall risk assessment and are closely monitored by Banque Pictet & Cie SA's Management.

The Group has formulated a crisis-management process, transposed at the level of Banque Pictet & Cie SA, 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 Bank and protecting its clients' assets. Contingency solutions have been devised, deployed and kept operational 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

### Treasury management

Banque Pictet & Cie SA 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 credit-worthiness), 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 Bank 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 Banque Pictet & Cie SA's 2018 accounts have occurred since the year-end closing date.

**NOTES TO 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*	1 226 617	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	1 228 161	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	4 680 290	60 242	4 838 174
<b>Total loans (before netting with value adjustments)</b>				
<b>31.12.2018</b>	<b>97 642</b>	<b>4 680 290</b>	<b>60 242</b>	<b>4 838 174</b>
<b>31.12.2017</b>	<b>64 223</b>	<b>4 268 953</b>	<b>159 749</b>	<b>4 492 925</b>
<b>Total loans (after netting with value adjustments)</b>				
<b>31.12.2018</b>	<b>97 642</b>	<b>4 680 290</b>	<b>59 927</b>	<b>4 837 859</b>
<b>31.12.2017</b>	<b>64 223</b>	<b>4 268 953</b>	<b>159 385</b>	<b>4 492 561</b>
Off-balance-sheet				
Contingent liabilities	49	6 074 665	31 030	6 105 744
Irrevocable commitments	-	-	19 262	19 262
<b>Total off-balance-sheet</b>				
<b>31.12.2018</b>	<b>49</b>	<b>6 074 665</b>	<b>50 292</b>	<b>6 125 006</b>
<b>31.12.2017</b>	<b>5 855</b>	<b>5 914 223</b>	<b>49 991</b>	<b>5 970 069</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 0.01% of the total amounts due from clients at 31 December 2018 (at 31 December 2017 their share was 0.01%).



**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	59 179	73 076
Debt securities, money market securities/transactions	25 369	42 742
<i>of which</i> , listed	25 148	42 547
Equity securities	33 810	30 334
Other financial instruments at fair value	772 198	489 515
Equity securities	759 543	476 246
Precious metals	12 655	13 269
<b>Total assets</b>	<b>831 377</b>	<b>562 591</b>
<i>of which</i> , determined using a valuation model	7 768	9 026
LIABILITIES (CHF thousand)	31.12.2018	31.12.2017
Trading portfolio liabilities	11 632	943
Debt securities, money market securities/transactions	2 961	-
<i>of which</i> , listed	2 961	-
Equity securities	8 671	943
Other financial instruments at fair value	828 279	527 372
Structured products (certificates)	828 279	527 372
<b>Total liabilities</b>	<b>839 911</b>	<b>528 315</b>
<i>of which</i> , determined using a valuation model	253	567

Banque Pictet & Cie SA 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	52 584	80 646	20 327 660
Futures	7	30	2 931 904	-	-	-
Options (exchange-traded)	79	-	477 182	-	-	-
Foreign exchange/precious metals						
Forward contracts	109 354	105 356	24 422 830	-	-	-
Combined interest rate/currency swaps	615 493	639 902	117 443 633	51 168	34 604	8 301 009
Futures	4	78	64 303	-	-	-
Options (OTC)	73 737	80 862	11 379 564	-	-	-
Equity securities/indices						
Futures	5 528	1 892	2 142 779	-	-	-
Options (OTC)	121 396	94 318	3 172 834	-	-	-
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>Total 31.12.2018</b>	<b>962 391</b>	<b>934 172</b>	<b>167 114 199</b>	<b>103 752</b>	<b>115 250</b>	<b>28 628 669</b>
of which, determined using a valuation model	932 384	930 841	160 170 260	103 752	115 250	28 628 669
<b>Total 31.12.2017</b>	<b>953 034</b>	<b>923 329</b>	<b>147 251 553</b>	<b>119 276</b>	<b>150 087</b>	<b>33 039 190</b>
of which, determined using a valuation model	949 116	913 821	145 113 364	119 276	150 087	33 039 190

Derivative financial instruments result mainly from transactions concluded on behalf of clients, in which Banque Pictet & Cie SA contracts 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	1 066 143	1 049 422
31.12.2017	1 072 310	1 073 416

*– Breakdown by counterparty*

POSITIVE REPLACEMENT VALUES (AFTER NETTING AGREEMENTS) (CHF thousand)	CENTRAL CLEARING HOUSES	BANKS AND SECURITIES DEALERS	OTHER CUSTOMERS
31.12.2018	-	841 904	224 239
31.12.2017	-	845 376	226 934

## 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	4 968 380	4 010 152	5 014 951	4 047 578
<i>of which, intended to be held to maturity</i>	4 968 380	4 010 152	5 014 951	4 047 578
Equity securities	172 921	172 921	198 722	200 369
Precious metals	295 708	422 394	295 708	422 394
<b>Total</b>	<b>5 437 009</b>	<b>4 605 467</b>	<b>5 509 381</b>	<b>4 670 341</b>
<i>of which, securities eligible for repo transactions in accordance with liquidity requirements</i>	3 356 957	2 703 729	3 394 475	2 733 765

## – Breakdown of counterparties by rating

CHF thousand	FAIR VALUE	
	31.12.2018	31.12.2017
AAA	3 871 428	3 403 190
AA+	534 789	337 980
AA	161 810	33 384
AA-	446 924	273 024
<b>Total</b>	<b>5 014 951</b>	<b>4 047 578</b>

Banque Pictet & Cie SA uses the specific ratings of three agencies (Standard & Poor's, Moody's and Fitch), assigned to the instruments that have been invested in. 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. 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	10 930	6 591	-	-
Indirect taxes	41 951	31 300	29 584	24 841
Clearing accounts	17 511	23 278	88 028	106 282
Other	7	7	5 862	2 082
<b>Total</b>	<b>70 399</b>	<b>61 176</b>	<b>123 474</b>	<b>133 205</b>

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

PLEDGED/ASSIGNED ASSETS (CHF thousand)	BOOK VALUES		EFFECTIVE COMMITMENTS	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Due from banks	196 919	217 892	196 919	217 892
Financial investments	1 593 229	1 611 448	1 593 229	1 611 448

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

## 8. DISCLOSURES ON PENSION SCHEMES

Pension schemes have been set up to make provision for employees and former employees against the economic consequences of retirement, incapacity and death.

In the case of employees of Banque Pictet & Cie SA, the 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.

### – *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	160 750	58 560

**9. 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 PERSONNEL EXPENSES	
			2018	2017
Employer sponsored funds/employer sponsored pension schemes	-	2 000	2 000	2 500
Pension plans without overfunding/underfunding	-	19 630	21 387	21 335
Pension plans with overfunding	16.0%	54 305	54 305	53 057

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 Bank.

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

**10. 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 DERIVATIVE	2018
Equity securities					
With own debenture component (oDC)		815 624	-	-	815 624
Without oDC		-	-	-	-
Commodities/precious metals					
With own debenture component (oDC)		12 655	-	-	12 655
Without oDC		-	-	-	-
<b>Total 31.12.2018</b>		<b>828 279</b>	<b>-</b>	<b>-</b>	<b>828 279</b>

Banque Pictet & Cie SA 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.



**11. PRESENTATION OF VALUE ADJUSTMENTS,  
PROVISIONS, RESERVES FOR GENERAL BANKING RISKS,  
AND CHANGES THEREIN DURING THE CURRENT YEAR**

CHF thousand	BALANCE AT 31.12.2017	USE IN CONFORMITY WITH DESIGNATED PURPOSE	CURRENCY DIFFERENCES	NEW CREATIONS CHARGED TO INCOME	RELEASES TO INCOME	BALANCE AT 31.12.2018
Provisions for other business risks	74 236	( 7 943)	( 43)	23 735	( 7 057)	82 928
Other provisions	430 000	-	-	40 000	-	470 000
<b>Total provisions</b>	<b>504 236</b>	<b>( 7 943)</b>	<b>( 43)</b>	<b>63 735</b>	<b>( 7 057)</b>	<b>552 928</b>
<b>Value adjustments for default and country risks</b>	<b>364</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

‘Other provisions’ include an unallocated provision to cover operational risks. This provision was further increased by CHF 40 million in 2018.

‘Provisions for other business risks’ are intended to cover a variety of risks relating to litigation, including any associated legal expenses. In 2018, new legal and operational risks required CHF 23.7 million in provisions.

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.

## 12. PRESENTATION OF THE BANK'S CAPITAL

CHF thousand	31.12.2018			31.12.2017		
	TOTAL PAR VALUE	NUMBER OF SHARES	CAPITAL ELIGIBLE FOR DIVIDEND	TOTAL PAR VALUE	NUMBER OF SHARES	CAPITAL ELIGIBLE FOR DIVIDEND
Bank's capital						
Share capital/cooperative capital	90 000	90 000	90 000	90 000	90 000	90 000
of which, paid up	90 000	90 000	90 000	90 000	90 000	90 000
<b>Total bank's capital</b>	<b>90 000</b>	<b>90 000</b>	<b>90 000</b>	<b>90 000</b>	<b>90 000</b>	<b>90 000</b>

Pictet & Cie Group SCA holds the capital in its entirety.

Banque Pictet & Cie SA does not issue participatory ownership rights or options on such rights to employees or governing bodies, and there is no share ownership scheme of Banque Pictet & Cie SA.

The share capital is divided into 90 000 registered shares with a par value of CHF 1 000 each. The share capital has been entirely paid up. The shares all enjoy the same rights and privileges and there are no restricted shares. At 31 December 2018, there were no distribution restrictions beyond the rules stemming from the code of obligations. Banque Pictet & Cie SA does not hold any share of its own capital.

CHF thousand	31.12.2018	31.12.2017
Non-distributable statutory reserves	45 000	45 000
Non-distributable voluntary reserves	-	-
<b>Total non distributable reserves</b>	<b>45 000</b>	<b>45 000</b>

## 13. 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	515 288	495 321
Pictet Group companies	483 740	1 203 772	5 677 065	4 729 413
Transactions with members of governing bodies	150	1	89 073	279 261

Transactions with related parties are concluded at going market rates.

#### 14. DISCLOSURE OF HOLDERS OF SIGNIFICANT PARTICIPATIONS

HOLDERS OF SIGNIFICANT PARTICIPATIONS AND GROUPS OF HOLDERS OF PARTICIPATIONS WITH POOLED VOTING RIGHTS		31.12.2018		31.12.2017	
		NOMINAL	% OF EQUITY	NOMINAL	% OF EQUITY
With voting rights	Pictet & Cie Group SCA	100%	100%	100%	100%
Without voting rights	-	-	-	-	-

The indirect holders of this participation are the partners of Pictet & Partners: Messrs Nicolas Pictet, Renaud de Planta, Rémy Best, Marc Pictet, Bertrand Demole, Laurent Ramsey and Boris Collardi.

In Pictet & Partners, decisions are taken on the basis of consensus.

#### 15. BREAKDOWN OF TOTAL ASSETS BY CREDIT RATING OF COUNTRY GROUPS (RISK DOMICILE VIEW)

RATING ACCORDING TO FINMA MAPPING TABLES	NET FOREIGN EXPOSURE 31.12.2018		NET FOREIGN EXPOSURE 31.12.2017	
	CHF THOUSAND	SHARE AS %	CHF THOUSAND	SHARE AS %
1 & 2	7 356 895	83%	5 370 581	78%
3	441 811	5%	387 353	6%
4	318 279	4%	288 888	4%
5	15 278	0%	66 282	1%
6	11 626	0%	33 548	1%
7	4 414	0%	20 242	0%
Unrated	662 977	8%	704 968	10%
<b>Total</b>	<b>8 811 280</b>	<b>100%</b>	<b>6 871 862</b>	<b>100%</b>

– *Comments on the rating system used:*

Banque Pictet & Cie SA applies the ratings provided by FINMA in its rating concordance ('mapping') tables used 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.

## NOTES TO OFF-BALANCE-SHEET POSITIONS

### 16. CONTINGENT LIABILITIES

“Contingent liabilities” encompass guarantees issues 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.

### 17. BREAKDOWN OF FIDUCIARY TRANSACTIONS

CHF thousand	31.12.2018	31.12.2017
Fiduciary investments with third-party companies	15 371 493	13 758 692
Fiduciary investments with group companies and linked companies	598 363	47 926
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>17 167 785</b>	<b>15 022 072</b>

### 18. 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	5.3	8.4
Assets under discretionary asset management agreements	46.2	49.7
Other assets under custody	294.2	304.6
<b>Total assets under management or custody (incl. double counting)</b>	<b>345.7</b>	<b>362.7</b>
<i>of which, double counting</i>	62.4	59.4
<b>Total assets under management or custody (excl. double counting)</b>	<b>283.3</b>	<b>303.3</b>

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

CHF billion	2018	2017
Total assets under management or custody - beginning of year	362.7	329.1
+/- Net new money inflow or net new money outflow	(3.0)	(16.1)
+/- Price gains/losses, interest, dividends and currency gains/losses	(14.0)	32.3
+/- Other effects	-	17.4
<b>Total assets under management or custody - end of year</b>	<b>345.7</b>	<b>362.7</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 outflows 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 INCOME STATEMENT

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

*– Breakdown by business area*

CHF thousand	2018	2017
Trading for own account	72 694	79 791
Trading for the account of the customers	51 978	57 463
<b>Trading activity total</b>	<b>124 672</b>	<b>137 254</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	113 410	123 656
<b>Total result from trading activities</b>	<b>124 672</b>	<b>137 254</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

**20. MATERIAL REFINANCING INCOME 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)	72 067	70 935
Negative interest on borrowing business (decrease in interest expense)	23 726	22 429



**21. BREAKDOWN OF PERSONNEL EXPENSES**

CHF thousand	2018	2017
Salaries	505 675	490 027
<i>of which</i> , expenses relating to alternative forms of variable compensation	112 782	108 683
Social insurance benefits	122 122	122 947
Other personnel expenses	15 889	12 928
<b>Total</b>	<b>643 686</b>	<b>625 902</b>

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

CHF thousand	2018	2017
Office space expenses	33 635	34 575
Expenses for information and communications technology	169 327	141 443
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	12 073	12 284
Fees of audit firms	1 645	1 749
<i>of which</i> , for financial and regulatory audits	921	913
<i>of which</i> , for other services	724	836
Public relations	19 382	18 928
Travel	17 751	15 957
Taxes	9 875	9 417
Other operating expenses	67 135	51 358
<b>Total</b>	<b>330 823</b>	<b>285 711</b>

**23. EXPLANATIONS REGARDING MATERIAL LOSSES,  
EXTRAORDINARY INCOME AND EXPENSES, AS WELL AS  
MATERIAL RELEASES OF HIDDEN RESERVES, RESERVES  
FOR GENERAL BANKING RISKS, AND VALUE  
ADJUSTMENTS AND PROVISIONS NO LONGER REQUIRED**

CHF thousand	2018	2017
Changes to provisions and other value adjustments, losses	(59 635)	(80 499)
Extraordinary income	699	330
Extraordinary expenses	-	(20)

The details of value adjustments and provisions are presented in the table relating to the balance sheet in note 11.

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

CHF thousand	2018	2017
Current tax expenses	31 913	31 239
<b>Total taxes</b>	<b>31 913</b>	<b>31 239</b>
<b>Average tax rate</b>	<b>26.2%</b>	<b>26.1%</b>

**PROPOSAL OF THE BOARD OF DIRECTORS  
CONCERNING THE APPROPRIATION OF EARNINGS**

The following proposal is made to the General Meeting of shareholders on 24 April 2019:

– Net profit for 2018	CHF 90 552 226
– Profit carried forward	CHF 127 812 895
– Distributable profit	CHF 218 365 121

Appropriation of profit:

– CHF 755 per share	
– to the 90 000 registered shares	
– Dividend payment	CHF 67 950 000
– Allocation to statutory retained earnings reserve	—
– New amount carried forward	CHF 150 415 121

**KEY METRICS (KM1)**  
**(FINMA CIRCULAR 2016/1)**

(UNAUDITED FIGURES)

<b>AVAILABLE CAPITAL (CHF thousand)</b>	<b>31.12.2018</b>
1 Common Equity Tier 1 (CET1)	1'124'813
2 Tier 1 (T1)	1'424'813
3 Total capital	1'424'813
<b>RISK-WEIGHTED ASSETS (RWA) (CHF)</b>	
4 Total Risk-weighted amounts (RWA)	6'612'702
4a Minimum capital requirements	529'016
<b>RISK-BASED CAPITAL RATIOS AS A PERCENTAGE OF RWA</b>	
5 Common Equity Tier 1 ratio	17.0%
6 Tier 1 ratio	21.5%
7 Total capital ratio	21.5%
<b>ADDITIONAL CET1 BUFFER REQUIREMENTS (AS % OF RWA)</b>	
8 Capital conservation buffer requirements (2.5% from 2019)	1.9%
11 Total of Bank CET1 specific buffer requirements	1.9%
12 CET1 available after meeting the Bank's minimum capital requirements (%)	12.5%
<b>CAPITAL RATIO REQUIREMENTS IN ACCORDANCE WITH ANNEX 8 OF THE CAO</b>	
12a Capital buffer as per Annex 8 of the CAO (%)	4.0%
12c CET1-target ratio (in %) as per Annex 8 of the CAO plus the countercyclical buffer as per art. 44 and 44a CAO	7.8%
12d T1-target ratio (in %) as per Annex 8 of the CAO plus the countercyclical buffer as per art. 44 and 44a CAO	9.6%
12e Total capital target ratio (in %) as per Annex 8 of the CAO plus the countercyclical buffer as per art. 44 and 44a CAO	12.0%
<b>BASEL III LEVERAGE RATIO</b>	
13 Total Basel III leverage exposure measure	34'916'845
14 Basel III leverage ratio	4.1%

<b>LIQUIDITY COVERAGE RATIO (LCR)</b>	<b>Q4 2018 average*</b>	<b>Q3 2018 average*</b>	<b>Q2 2018 average*</b>	<b>Q1 2018 average*</b>
15 Total HQLA	16'810'107	17'025'163	16'661'933	17'733'526
16 Total net cash outflow	11'387'232	11'993'464	12'101'345	12'275'941
17 LCR ratio (%)	148%	142%	138%	144%

\*The quarterly Liquidity Coverage Ratios (LCR) are based on month-end averages.

The 2018 Pictet Group Capital adequacy and liquidity disclosure is available on the Pictet Group website ([www.group.pictet](http://www.group.pictet)).



## ***Report of the statutory auditor to the General Meeting of Banque Pictet & Cie SA***

***Carouge***

### ***Report of the statutory auditor on the financial statements***

As statutory auditor, we have audited the financial statements of Banque Pictet & Cie SA, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 3 to 5 and 8 to 43), for the year ended 31 December 2018.

#### ***Board of Directors' responsibility***

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.



## ***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 financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Two handwritten signatures in blue ink. The signature on the left is for Christophe Kratzer, and the signature on the right is for Emmanuel Genequand.

Christophe Kratzer

Emmanuel Genequand

Audit expert  
Auditor in charge

Geneva, 24 April 2019

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

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Banque Pictet & Cie SA  
Route des Acacias 60  
1211 Geneva 73, Switzerland