

Publications périodiques

Comptes annuels

PUBLICATIONS PERIODIQUESSOCIETES COMMERCIALES ET INDUSTRIELLES
(COMPTES ANNUELS)**PICTET ET CIE (EUROPE) S.A.****Pictet & Cie (Europe) S.A.****Audited annual accounts for the year ended 31 December 2018****15A, Avenue John F. Kennedy L-1855 Luxembourg****R.C.S. Luxembourgeois: B 32 060**

Pictet & Cie (Europe) S.A.

Audit reportTo the Board of Directors of
Pictet & Cie (Europe) S.A.**Report on the audit of the annual accounts****Our opinion**

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Pictet & Cie (Europe) S.A. (the "Bank") as at 31 December 2018, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

What we have audited

The Bank's annual accounts comprise:

- The balance sheet as at 31 December 2018;
- The profit and loss account for the year then ended; and
- The notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Bank and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 19 to the annual accounts.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud).

These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter :

Recognition of commission revenue

The commission revenues of the Bank amounted to CHF 431,978,486 for the year ended 31 December 2018, as detailed in Note 16.2.

We focused on recognition of the commission revenues for the following reasons:

- These commission revenues are generated by a high volume of individual operations and represent a significant part of the total revenue of the Bank;
- The nature of these commissions can be complex due to the various fee arrangements and the non-standardisation of the pricing conditions for some clients. Thus, the set-up of the fee conditions in the system involves manual intervention that could give rise to a risk of error or fraud (i.e.: input error, unauthorised change to approved fee schedules).

How our audit addressed the Key audit matter :

We performed tests on the internal control of the Bank (including IT controls) over the commission revenues as well as substantive testing.

Our test of controls included the following:

- Observation on the system (application where the commissions are set-up) that one user cannot validate his/her own pricing entry and that the system requires a second user for validation;
- Inspection of a sample of reports produced by the Bank in relation with operational incidents on commission revenues;
- Inspection of the controls report (ISAE 3402 - type II report) prepared and issued by an independent external auditor on the relevant controls in relation to the asset custody, safekeeping and fund administration services. These controls are related to the information that serves as a basis for the commissions calculation;
- Test of relevant IT generated controls such as the review of program changes and the access to the program and data.

Our substantive procedures included the following:

- Analysis of the variation of the main commission revenues;
- Verification of the appropriate set-up of the commission fee parameters in the system by comparing those fees to the ones that were agreed with the client and approved by the Bank for a sample of clients;
- Re-performance of commission calculation for a sample of transactions;
- Test of commission fees paid by the Bank and then charged back to the clients based on support documents (i.e: trade tickets, invoices) for a sample of transactions;
- Reconciliation of intercompany commissions.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the directors' report but does not include the annual accounts and our audit report thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit

of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements :

The directors' report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements. We have been appointed as "Réviseur d'Entreprises Agréé" of the Bank by the Board of Directors on 22 February 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 19 years.

PricewaterhouseCoopers, Société Coopérative
Represented by

Luxembourg, 18 April 2019

Roxane Haas

Pictet & Cie (Europe) S.A.
Balance sheet as at 31 December 2018
(expressed in Swiss francs)

	Note(s)	2018 CHF	2017 CHF
ASSETS			
Cash in hand, balances with central banks and post office banks	3.2.1, 4	901 755 033	1 179 825 324
Loans and advances to credit institutions	3.2.1, 5.2		
- repayable on demand		564 569 529	557 084 113
- other loans and advances		<u>2 841 972 765</u>	<u>1 957 046 568</u>
		3 406 542 294	2 514 130 681
Loans and advances to customers	3.2.1, 5.2	3 410 414 074	3 185 463 579
Bonds and other fixed-income transferable securities	3.2.1, 6, 7.1		
- issued by public bodies		1 552 791 777	1 716 106 710
- issued by other borrowers		<u>1 518 569 231</u>	<u>1 441 740 074</u>
		3 071 361 008	3 157 846 784
Shares and other variable-yield transferable securities	3.2.1, 6	29 644 785	25 882 413
Shares in affiliated undertakings	3.2.1, 5.1, 6, 7.1	618 589	642 187
Tangible assets	7.2	8 385 370	8 842 350
Other assets		102 507	106 417
Prepayments and accrued income	6.2, 6.3	<u>153 111 239</u>	<u>112 348 872</u>
Total assets	14	<u>10 981 934 899</u>	<u>10 185 088 607</u>

The accompanying notes form an integral part of these annual accounts.

	Note(s)	2018 CHF	2017 CHF
LIABILITIES			
Amounts owed to credit institutions	3.2.1, 5.2		
- repayable on demand		407 016 159	220 355 781
- with agreed maturity dates or periods of notice		<u>711 054 806</u>	<u>774 006 410</u>
		1 118 070 965	994 362 191
Amounts owed to customers	3.2.1, 5.2		
other debts			
. repayable on demand		9 087 008 832	8 425 221 718
. with agreed maturity dates or periods of notice		<u>30 397 288</u>	<u>22 411 371</u>
		9 117 406 120	8 447 633 089
Debt evidenced by certificates			
- others	3.2.1, 8	47 326 897	38 829 830
Other liabilities	9	11 332 264	25 126 195
Accruals and deferred income	6.2, 6.3	105 515 132	116 345 532
Provisions			
- provisions for taxation	16.5	40 094 469	36 032 490
- other provisions	10	48 309 886	44 722 093
Fund for general banking risks	2.6	1 100 000	1 100 000
Subscribed capital	11, 13	70 000 000	70 000 000
Share premium account	13	30 000 000	30 000 000
Reserves	12, 13	68 070 338	46 739 561
Profit brought forward	12.3, 13	205 008 738	226 349 466
Profit for the financial year	13	<u>119 700 090</u>	<u>107 848 160</u>
Total liabilities	14	<u>10 981 934 899</u>	<u>10 185 088 607</u>

The accompanying notes form an integral part of these annual accounts.

Pictet & Cie (Europe) S.A.

Off balance sheet items as at 31 December 2018 (expressed in Swiss francs)

	Note(s)	2018 CHF	2017 CHF
Contingent liabilities	15.1	320 839 123	271 277 939
<i>of which:</i>			
<i>guarantees and assets pledged as collateral security</i>		320 839 123	271 277 939
Commitments	15.2	2 500 000	2 500 000
Fiduciary transactions		4 247 821 664	3 816 577 958

The accompanying notes form an integral part of these annual accounts.

Profit and loss account for the year ended 31 December 2018

	Note(s)	2018 CHF	2017 CHF
Interest receivable and similar income		133 146 953	111 489 969
Interest payable and similar charges		(59 269 167)	(44 941 531)
Income from transferable securities: <i>income from shares in affiliated companies</i>		1 511 229	-
Commissions receivable	16.2	431 978 486	411 482 929
Commissions payable		(199 273 707)	(196 187 923)
Net profit on financial operations		38 872 563	26 668 668
Other operating income	16.3	16 867 536	12 109 418
General and administrative expenses:			
- staff costs	18	(143 574 764)	(127 170 741)
<i>of which:</i>			
. <i>wages and salaries</i>		(117 411 639)	(104 282 358)
. <i>social security costs</i>		(20 250 269)	(18 545 996)
<i>of which: pension costs</i>		(8 935 324)	(8 452 826)
- other administrative expenses		(60 184 806)	(52 944 974)
Value adjustments in respect of tangible and intangible assets	7.2	(4 528 792)	(5 326 715)
Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	7.1	43 957	5 756 297
Other operating charges	16.4	(4 184 428)	(2 148 578)
Tax on profit on ordinary activities	16.5	<u>(29 390 536)</u>	<u>(28 891 080)</u>
Profit on ordinary activities after tax		122 014 524	109 895 739
Other taxes not shown in the preceding items	17	<u>(2 314 434)</u>	<u>(2 047 579)</u>
Profit for the financial year		<u>119 700 090</u>	<u>107 848 160</u>

The accompanying notes form an integral part of these annual accounts.

Notes to the annual accounts as at 31 December 2018**Note 1 - General**

Banque Pictet Luxembourg S.A. (the "Bank") was incorporated in the Grand-Duchy of Luxembourg on 3 November 1989 as a *société anonyme* governed by Luxembourg Law. Banque Pictet Luxembourg S.A. changed its business name on 30 September 2002 to Pictet & Cie (Europe) S.A.. The Bank is registered with the register of commerce and companies of Luxembourg under No. B 32 060 and its registered office is located at 15A, Avenue J.-F. Kennedy, L-1855 Luxembourg.

Under Luxembourg Law, the Bank is authorised to conduct all banking operations.

The Bank is a fully owned subsidiary of Pictet Group. Since December 2018, the Bank is 100% owned by Pictet & Cie Group SCA, Geneva, whose registered office is at 60, Route des Acacias, CH-1211 Geneva, Switzerland.

The Bank is included in the consolidated accounts of Pictet Group forming the smallest and the largest body of undertakings of which the Bank forms a part of indirect subsidiary undertaking. The consolidated accounts are available at Pictet Group head office at 60, Route des Acacias, CH-1211 Geneva.

Note 2 - Principal accounting methods**2.1 Basis of presentation**

The annual accounts have been prepared in conformity with the accounting principles generally accepted in the banking sector in the Grand Duchy of Luxembourg. The accounting policies and the valuation principles are determined and applied by the Board of Directors, except those which are defined by the amended law of 17 June 1992 relating to the accounts of credit institutions and by the "Commission de Surveillance du Secteur Financier".

As at 31 December 2018, the Bank has six branches, which are established in Frankfurt, Madrid, Paris, Turin, Hong Kong and London. These were opened on the following dates:

- on 17 October 2000 for Frankfurt;
- on 5 December 2002 for Madrid;

- on 16 December 2003 for Paris;
- on 1 January 2007 for Turin;
- on 17 September 2012 for HongKong;
- on 24 April 2014 for London.

As a result, the balance sheet, the off balance sheet and the profit and loss account have been prepared by combining the items from the balance sheets, off balance sheets and profit and loss accounts of the Luxembourg-registered office and the six branches.

Note 2 - Principal accounting methods (cont.)

2.1 Basis of presentation (cont.)

Based on the criteria defined by Luxembourg law, the Bank is not required to prepare consolidated annual accounts and a consolidated Directors' report for the year ended 31 December 2018. Therefore, in accordance with the amended law of 17 June 1992, these annual accounts were presented on an unconsolidated basis for approval by the Annual General Meeting of shareholders.

2.2 Foreign currencies

The Bank prepares its annual accounts in Swiss francs (CHF), the currency in which its capital is expressed.

The Bank has adopted the multi-currency accounting system whereby all transactions other than those expressed in the currency of its capital are recorded in the currencies of these transactions. Income and expenses are translated into CHF at the exchange rate prevailing on the date of the transaction.

2.2.1 Spot transactions

Assets and liabilities denominated in foreign currencies are translated into CHF at the average spot exchange rate effective on the balance sheet date.

However, shares in affiliated undertakings held as financial fixed assets are translated at the lower of the value converted at the historical exchange rate or the spot rate on the balance sheet date. Tangible assets which are not hedged on the spot or forward market are translated into the local reporting currency at the exchange rates prevailing on their acquisition date.

Unsettled spot foreign exchange transactions are translated into CHF at the spot rate prevailing on the balance sheet date.

2.2.2 Forward transactions

Unsettled forward foreign exchange transactions are translated into CHF at the forward rate prevailing on the balance sheet date for the remaining maturity.

For hedged exchange transactions, foreign exchange losses arising on revaluation of the hedged contract are set against profits arising on revaluation of the hedging contract (and vice versa). Provision is made to hedge any net loss position arising.

2.2.3 Foreign exchange gains and losses

Foreign exchange gains and losses resulting from spot transactions hedged by forward transactions or resulting from forward transactions hedged by spot transactions are neutralised through prepayments and accrued income and accruals and deferred income accounts.

Foreign exchange gains and losses resulting from spot transactions not hedged by forward transactions are recorded in the profit and loss account for the financial year. Differences arising due to the gap between spot and forward exchange rates are amortised in the profit and loss accounts on a prorata basis.

Foreign exchange losses on unhedged forward transactions are recorded in the profit and loss account. Foreign exchange gains arising out of these transactions are disregarded.

2.3 Loans and advances

Loans and advances are stated at their acquisition price less any repayments. Accrued interests not yet due are recorded as prepayments and accrued income in the balance sheet.

It is the policy of the Bank to establish specific provisions in respect of doubtful and irrecoverable claims according to the circumstances and for amounts determined by the governing bodies in charge. These provisions are deducted from the appropriate asset account balances and are not maintained if the reasons for which they were recorded no longer exist.

2.4 Valuation of fixed-income and variable-yield transferable securities

For valuation purposes, the Bank has divided its transferable securities into three categories of portfolios:

2.4.1 Investment portfolio of financial assets This portfolio comprises:

- variable-yield securities composed of shares in affiliated undertakings having the characteristics of financial fixed assets. These securities, which are intended to support the Bank's activities over the long term, are valued at the lower of their acquisition cost or their market value;
- fixed-income securities intended to be held on a continuing basis until maturity in the normal course of the Bank's activities.

The fixed-income transferable securities are recorded at historical acquisition cost in their original currency. The acquisition cost includes the costs to purchase the asset. A value adjustment is made where the market value at the balance sheet date is lower than the acquisition cost. This adjustment is made when the Board of Directors considers the depreciation as durable or when the repayment of these debt securities is uncertain.

The positive difference (premium) resulting from the purchase of fixed-income transferable securities held as fixed assets at a higher price than the amount repayable at maturity, is included in the profit and loss account on an amortised basis.

The negative difference (discount) resulting from the acquisition of fixed-income transferable securities held as fixed assets at a lower price than the amount

2.4.2 Trading portfolio

This item comprises fixed-income and variable-yield securities purchased with the intention of selling them in the short term. These securities are traded on a market whose liquidity can be assumed to be certain, and their market price is at all times available to third parties.

The securities in the trading portfolio are stated in the balance sheet at the lower of acquisition cost or market value.

As at 31 December 2018, the Bank does not have any trading portfolio.

2.4.3 Structural portfolio

This item comprises securities purchased for their investment return or yield, or for the purpose of establishing some liquidity in the secondary market. It also includes securities not contained in the other two categories.

The securities are valued at the lower of their acquisition cost or their market value.

Exceptional value adjustments may be made in respect of certain securities, either in accordance with the principle of prudence or under the provisions of Luxembourg tax legislation. They also benefit from the provisions of the "Beibehaltungsprinzip" (under Luxembourg legislation, assets may be stated at a lower value throughout the holding period of the assets concerned).

The Bank also issues structured finance instruments products on behalf of clients. Some of those products consist on issuing basket certificates based on equities. The risk on those position is covered by the acquisition by the Bank of the underlying securities with the aim to reduce volatility. The Bank applies the waiver allowed by the CSSF Circular 08/340 which permits to partially apply IFRS 9 standard. In the framework of its activities, the Bank is booking these products at fair value through profit and loss account.

2.5 Tangible assets

Tangible assets are stated in the balance sheet at their acquisition cost reduced by cumulated value adjustments.

Tangible assets are amortised on a straight-line basis over their estimated useful economic lives:

	Rate of amortisation
Transformation of the building	20% p.a.
Hardware	33.33% p.a.
Software	33.33% p.a.
Other fixtures and fittings, tools and equipment	20% p.a.

Although it is a component of the software, an exception is made for the banking software Avaloq, which is amortised on a 7-year basis (14.29% per year). It is justified by its sustainability and the amount of the investment (CHF 4 750 000). As at 31 December 2018, this investment is fully amortised (net value as at 31 December 2017: CHF 395 833).

2.6 Fund for general banking risks

The Bank created a fund for general banking risks intended to cover particular risks associated with banking operations. Increases or decreases to this fund are determined based on the profit after tax, but before determining the profit for the financial year, and are not subject to any quantitative limitations.

2.7 Lump-sum provision

In accordance with Luxembourg legislation, the Bank has established a lump-sum provision for potential risk exposures. The lump-sum provision calculated on balance sheet items is deducted from the corresponding asset items. As at 31 December 2018, the lump-sum provision amounts to CHF 19 800 000 (2017: CHF 19 800 000).

2.8 Amounts payable

Amounts payable are recorded under the liabilities at the amount of reimbursement.

Some of the debts evidenced by certificates are composed of basket certificates based on equities whose purpose is to replicate the performance of an underlying reference securities basket. According to the waiver allowed by the CSSF circular 08/340 which permits to partially apply IFRS 9 standard with the aim to reduce volatility, these basket certificates are valued at fair-value through profit and loss just like the representative underlying assets.

2.9 Valuation of derivative financial instruments

Margin calls on financial futures traded on a regulated market are recorded on a daily basis. Gains and losses on trading positions are directly recorded in the profit and loss account. Gains and losses on hedging positions are amortised over the same period as the results from the hedged item.

The derivatives on interest rates traded over the counter and unallocated to given assets or liabilities, are market-to-market. The unrealised losses are booked in the profit and loss account whereas unrealised gain are ignored.

The derivatives on interest rates traded over the counter for hedging purposes of the Bank's interest rate positions are not marked-to-market unless they are hedging fixed-income transferable securities included in the investment portfolio valued at the "lower of cost or market".

The Bank issues structured finance instruments products on behalf of clients. The risk on those positions is covered by the acquisition by the Bank of financial instruments with the aim to hedge the position and reduce volatility. The Bank applies the waiver allowed by the CSSF Circular 08/340 which permits to partially apply IFRS 9 standard. In the framework of its activities, the Bank is booking these products at fair value through profit and loss account.

The Bank uses interest rate swaps to hedge its exposure to changes in the fair values of its investment portfolio for prudential reporting purposes. Hedging income is recognised in the income statement symmetrically with the method used to recognise income and expenses on the hedged item; thus, the interest flows of the hedging instrument are spread at the same time as the hedged interest is recognised. With regard to unrealised gains and losses, changes in value are recognised in the income statement in a symmetrical way with the method of recognising income and expenses on this item. Hence, unrealised losses

Note 3 - Analysis of financial instruments**3.1 Risk management objectives and strategy**

The Bank's strategy is to focus on those activities where it can bring added value, which generate higher returns and whose risks are understood and managed.

3.1.1. Credit and counterparty risk

Credit risk is the risk that a third party may not fulfil its obligations within the terms prescribed. Consequently, the risk not only encompasses loans and securities but also guarantees, commitments, inter-bank deposits, forward foreign exchange contracts and other financial instruments.

Credit risk management is governed by an internal guideline which defines the terms under which loans may be granted, the limits and requirements for loans and advances on account as well as the competencies to approve commitments. It should be noted that the Bank does not grant any commercial loans and that customer loans consists mainly of Lombard credits and loans guaranteed by cash deposits or life insurance policies.

The Bank's policy regarding country risks is not to maintain any active relationships with creditors in high-risk countries.

Finally, all the counterparties with which the Bank works are well established first-rate banks, including Group companies. Further, the Bank's Management has set concentration limits per banking counterparty. Compliance with these limits is controlled on a daily basis. The result of this control is sent on a weekly basis to the Bank's Management.

3.1.2. Market and financial instrument risks

Market risks are defined as risks relating to interest rate, foreign exchange or price fluctuations and to illiquidity which may lead to refinancing issues.

Since 2013, the Bank invests in a held-to-maturity bonds portfolio. This initiative is part of the cash management of the Pictet Group and the willingness of the Bank to respond to the Bank's expectations with regards to treasury and liquidity management. The portfolio is composed of highly qualitative liquid assets.

The Bank carries out currency swap transactions for its own account in order to cover future cash flow of some bonds held in portfolio and to manage cash position in foreign currencies.

Transactions conducted on behalf of customers are systematically returned with the sister company (Banque Pictet & Cie SA) and mainly consist in transactions relating to "standard" derivative financial instruments.

3.1.3 Liquidity risk

Liquidity risk may be defined as the risk that a bank may not be able to meet its obligations on maturity due to the mismatches between the cash flows arising from its assets and its liabilities.

The Bank's liquidity risk policy can be compared to its interest rate policy to the extent that the Bank tries to avoid any mismatch between the uses and sources of cash in terms of maturity so as to avoid any major risk.

The Bank invested in a held-to-maturity bonds portfolio with maturities up to 116 months. Each investment is highly liquid and qualitative.

3.1.4 Interest rate and foreign exchange risks

With regard to investments/deposits, the Bank's policy is to seek a perfect match in terms of maturity dates. The Bank does not take any position on the rates or on the maturities but limits itself to reflecting its customers' deposits by ensuring the best possible rates. The interest rate margin generated by the Bank is monitored monthly by the Finance department.

The Bank's policy is to avoid any significant foreign exchange risks. The Bank has set overall limits and currency limits. Compliance with cash and forward positions and the result on these positions are controlled on a daily basis by the Finance department and are reported regularly to the Bank's Management.

3.1.5 Operational risks

The Bank's business focuses on private banking and custodian bank activities.

In order to reduce its risks, the Bank follows a policy of spreading responsibilities, which are split between the various persons in charge of the activities. In addition, the Bank has a procedure manual which governs the Bank's activities and which defines the control levels required for the relevant duties.

The activities are also reviewed by the Internal Audit department which reports to the Bank's Management. Finally, the risk manager has implemented a loss reporting system and an operational loss database subject to a specific follow-up. The risk manager and his team, are also in charge of the oversight of the custodian bank activities.

3.2 Analysis of financial instruments**3.2.1 Information on primary financial instruments**

The table hereafter analyses the Bank's activity level regarding primary financial instruments. The data are broken down by type of financial instrument and by residual maturity.

"Fair value" means the value at which an asset may be exchanged or a liability settled under a standard transaction conducted at arm's length between unrelated qualified parties acting freely, with the exception of forced sales and sales conducted as part of a liquidation.

Analysis of primary non-trading financial instruments (book value)

	Primary non-trading instruments as at 31 December 2018 (book value in CHF)					Total CHF
	Less than 3 months	> 3 months to 1 year	> 1 year to 5 years	More than 5 years	No maturity	
Instrument class (financial assets)						
Cash in hand, balances with central banks and post office banks	901 755 033	-	-	-	-	901 755 033
Loans and advances to credit institutions	3 406 542 294	-	-	-	-	3 406 542 294
Loans and advances to customers	3 187 525 560	188 131 418	34 757 096	-	-	3 410 414 074
Bonds and other fixed-income transferable securities*	448 369 958	756 445 470	1 154 089 178	712 456 402	-	3 071 361 008
Shares and other variable-yield transferable securities	-	-	-	-	29 644 785	29 644 785
Shares in affiliated undertakings	-	-	-	-	618 589	618 589
Total financial assets	7 944 192 845	944 576 888	1 188 846 274	712 456 402	30 263 374	10 820 335 783
Non-financial assets						161 599 116
Total assets						10 981 934 899
* Considering their market value, these securities do not require any impairment as at 31 December 2018 (see note 6.2).						
Instrument class (financial liabilities)						
Amounts owed to credit institutions	919 954 741	85 424 499	112 691 725	-	-	1 118 070 965
Amounts owed to customers	9 117 258 250	147 870	-	-	-	9 117 406 120
Debts evidenced by certificates	-	18 018 371	-	-	29 308 526	47 326 897
Total financial liabilities	10 037 212 991	103 590 740	112 691 725	-	29 308 526	10 282 803 982
Non-financial liabilities						699 130 917
Total liabilities						10 981 934 899

	Primary non-trading instruments as at 31 December 2017 (book value in CHF)					Total CHF
	Less than 3 months	> 3 months to 1 year	> 1 year to 5 years	More than 5 years	No maturity	
Instrument class (financial assets)						
Cash in hand, balances with central banks and post office banks	1 179 825 324	-	-	-	-	1 179 825 324
Loans and advances to credit institutions	2 514 130 681	-	-	-	-	2 514 130 681
Loans and advances to customers	2 964 778 901	190 750 753	29 933 925	-	-	3 185 463 579
Bonds and other fixed-income transferable securities*	627 416 528	660 209 671	1 479 534 997	390 685 588	-	3 157 846 784
Shares and other variable-yield transferable securities	-	-	-	-	25 882 413	25 882 413
Shares in affiliated undertakings	-	-	-	-	642 187	642 187
Total financial assets	7 286 151 434	850 960 424	1 509 468 922	390 685 588	26 524 600	10 063 790 968
Non-financial assets						121 297 639
Total assets						10 185 088 607
* Considering their market value, these securities do not require any impairment as at 31 December 2017.						
Instrument class (financial liabilities)						
Amounts owed to credit institutions	414 456 691	214 468 000	292 350 000	73 087 500	-	994 362 191
Amounts owed to customers	8 447 633 089	-	-	-	-	8 447 633 089
Debts evidenced by certificates	-	12 553 073	-	-	26 276 757	38 829 830
Total financial liabilities	8 862 089 780	227 021 073	292 350 000	73 087 500	26 276 757	9 480 825 110
Non-financial liabilities						704 263 497
Total liabilities						10 185 088 607

3.2.2 Information on derivative financial instruments used

3.2.2.1 Description of derivative financial instruments

As at 31 December 2018, the Bank conducts currency swaps for its own account and forward foreign exchange transactions on behalf of customers which are automatically hedged with the sister company (Banque Pictet & Cie SA).

The tables below provide information on non-trading derivative financial instruments according to the notional amount, the fair value, the residual maturity and the market type.

3.2.2.2 Analysis of derivatives financial instruments used

As at 31 December 2018, the Bank held the following derivative financial instruments:

(CHF)	Less than 3 months	3 to 12 months	1 to 5 years	Total
OTC				
Forward exchange contracts (notional amount)	49 256 966 394	1 916 027 813	66 762 862	51 239 757 069
Currency Swaps (notional amount)	2 674 350 135	342 808 683	290 393 129	3 307 551 947

As at 31 December 2017, the Bank held the following derivative financial instruments:

(CHF)	Less than 3 months	3 to 12 months	1 to 5 years	Total
OTC				
Forward exchange contracts (notional amount)	56 595 284 198	4 293 469 150	21 312 796	60 910 066 144
Currency Swaps (notional amount)	3 025 088 839	20 296 842	8 441 040	3 053 826 721

3.2.2.3 Evaluation of derivative financial instruments

As at 31 December 2018, the fair value of derivative financial instruments held by the Bank amount to:

	Less than 3 months	3 to 12 months	1 to 5 years	Total
OTC				
Forward exchange contracts				
• Positive replacement	171 482 986	13 540 704	2 624 265	187 647 955
• Negative replacement	169 694 938	12 958 154	2 538 746	185 191 838
• Net fair value of contracts	1 788 048	582 550	85 519	2 456 117

	Less than 3 months	3 to 12 months	1 to 5 years	Total
OTC				
Currency Swap				
• Positive replacement values	15 114 856	589 324	17 680 972	33 385 152
• Negative replacement values	10 932 057	3 442 835	-	14 374 892
• Net fair value of contracts	4 182 799	(2 853 511)	17 680 972	19 010 260

As at 31 December 2017, the fair value of derivative financial instruments held by the Bank on behalf of customers amounts to:

	Less than 3 months	3 to 12 months	1 to 5 years	Total
OTC				
Forward exchange contracts				
• Positive replacement values	229 738 903	27 296 169	775 072	257 810 144
• Negative replacement values	228 015 790	26 758 364	763 425	255 537 579
• Net fair value of contracts	1 723 113	537 805	11 647	2 272 565

(CHF)	Less than 3 months	3 to 12 months	1 to 5 years	Total
OTC				
Currency Swap				
• Positive replacement values	17 890 596	1 055 493	525 496	19 471 585
• Negative replacement values	16 173 775	-	-	16 173 775
• Net fair value of contracts	1 716 821	1 055 493	525 496	4 297 810

3.3 Credit risk

3.3.1 Description of credit risk

Credit risk is the risk that a third party may not fulfil its obligations within the terms prescribed.

3.3.2 Credit risk concentration

Geographical analysis (in %)

Geographic zone (by country or zone)	Loans and other balance sheet items 31 December 2018	Commitments 31 December 2018	OTC derivative financial instruments 31 December 2018
Switzerland	46%	7%	50%
European Union	24%	49%	48%
Others	30%	44%	2%
Total	100%	100%	100%

Geographic zone (by country or zone)	Loans and other balance sheet items 31 December 2017	Commitments 31 December 2017	OTC derivative financial instruments 31 December 2017
Switzerland	38%	7%	50%
European Union	31%	51%	48%
Others	31%	42%	2%
Total	100%	100%	100%

Economic sector analysis (in %)

Economic sector	Loans and other balance sheet items 31 December 2018	Commitments 31 December 2018	OTC derivative financial instruments 31 December 2018
Financial sector	65%	49%	55%
Private clients	20%	27%	1%
Others	15%	24%	44%
	100%	100%	100%

Economic sector	Loans and other balance sheet items 31 December 2017	Commitments 31 December 2017	OTC derivative financial instruments 31 December 2017
Financial sector	59%	54%	52%
Private clients	24%	23%	1%
Others	17%	23%	47%
	100%	100%	100%

The Bank has decided not to include the bond portfolio and the currency swaps in the geographical and economic sector breakdowns presented above as the credit risk on these instruments is very limited. Indeed the Bank's bond portfolio includes solely high-quality securities rated, at least, AA by Moody's. Also, the majority of currency swaps are contracted with the sister company (Banque Pictet & Cie SA) which is a financial institution located in Switzerland (see table in note 3.3.3).

3.3.3 Measurement of credit risk exposure related to financial derivative instruments

For financial derivative instruments not traded on a stock exchange, the book value, i.e. the notional value, does not reflect the highest rate of exposure to risk. The Bank calculates the credit risk relating to derivative financial instruments on the basis of the standardised approach in accordance with the provisions of CSSF circulars.

The table below provides information on the Bank's exposure to credit risk according to notional amounts, to the credit risk-equivalent amount and to the net risk exposure.

Credit risk relating to OTC financial derivative instruments (initial risk method) as at 31 December 2018				
	Notional amounts CHF (1)	Credit risk- equivalent amounts CHF (2)	Guarantees CHF (3)	Net weighted risk exposure CHF (4) = (2) - (3)
Forward exchange contracts	51 239 757 069	715 903 495	-	715 903 495
Currency Swaps	3 307 551 947	79 149 241	-	79 149 241

Credit risk relating to OTC financial derivative instruments (initial risk method) as at 31 December 2017				
	Notional amounts CHF (1)	Credit risk- equivalent amounts CHF (2)	Guarantees CHF (3)	Net weighted risk exposure CHF (4) = (2) - (3)
Forward exchange contracts	60 910 066 144	867 941 132	-	867 941 132
Currency Swaps	3 053 826 721	50 348 455	-	50 348 455

The Management has decided to deal on forward foreign exchange contracts exclusively with the sister company (Banque Pictet & Cie SA).

The Bank also conducts currency swaps for its own account in order to hedge future cash flows related to its investment portfolio and its open positions in foreign currencies by using currency swaps.

	31 December 2018		31 December 2017	
Instrument	OECD	Group	OECD	Group
Forward exchange contracts	98%	50%	98%	50%
Currency Swaps	100%	88%	100%	94%

3.4 Market risk

Market risk represents the risk that financial assets in which the Bank invests or in respect of which it conducts short transactions may be subject to market price fluctuations.

The Bank's portfolio includes participating interests in other Group companies and a held-to-maturity bonds portfolio. Since 2016, it also includes securities acquired by the Bank in the frame of its strategy of economic hedging of the basket certificates based on equities issued by the Bank.

The forward foreign exchange contracts agreed with the clients are hedged with the sister company (Banque Pictet & Cie SA).

The Bank conducts currency swaps in order to cover market risk related to some bonds hold in portfolio.

Note 4 - Cash in hand, balances with central banks and post office banks

Effective 1 January 1999, the Luxembourg Central Bank implemented a system of mandatory minimum reserves for all Luxembourg credit institutions.

As at 31 December 2018, the amount maintained by the Bank at the Luxembourg Central Bank was CHF 882 644 636 (2017: CHF 1 164 024 695).

Note 5 - Shares in affiliated undertakings

5.1 Summary of shares in affiliated undertakings

As at 31 December 2018, the Bank holds shares in affiliated undertakings (exceeding 20%) in the following company:

	Head Office	Carrying value	Proportion of capital held (%)	Shareholders' equity 31/12/18 (*)	Profit and loss for the year ended 31/12/18 (*)
		CHF		CHF	CHF
PICTET LIFE INSURANCE ADVISORS (FRANCE) SAS	Paris	619 804	100	2 075 906	726 171
Less lump-sum provision		(1 215)			
		<u>618 589</u>			

(*) Non-audited figures.

Pictet Life Insurance Advisors (France) SAS is not listed on a stock exchange.

The Bank is not required to prepare consolidated accounts. This subsidiary is not consolidated as it represents a minor interest within the meaning of articles 83 (1) and 85 (3) of the amended law of 17 June 1992.

A table summarising the movements of the year is detailed in note 7.1.

5.2 Operations with affiliated undertakings**Loan and advance to affiliated undertakings**

	2018 CHF	2017 CHF
Loans and advances to credit institutions	3 112 587 273	2 184 001 365
Loans and advances to customers	2 109 985	1 343 781

Amounts owed to affiliated undertakings

Amounts owed to credit institutions	995 622 071	931 016 792
Amounts owed to customers	183 431 796	163 105 339

Note 6 - Transferable securities**6.1 Quoted and unquoted transferable securities****6.1.1 Quoted transferable securities**

	2018 CHF	2017 CHF
Bonds and other fixed-income transferable securities:		
- issued by public bodies	1 552 791 777	1 716 106 710
- issued by other borrowers	1 518 569 231	1 441 740 074
Shares and other variable-yield transferable securities	<u>29 644 785</u>	<u>25 882 413</u>
	<u>3 101 005 793</u>	<u>3 183 729 197</u>

6.1.2 Unquoted transferable securities

	2018 CHF	2017 CHF
Shares in affiliated undertaking	618 589	642 187

6.2 Categories of bonds and other fixed-income transferable securities

The bonds and other fixed-income transferable securities are classified as follows:

	2018 CHF	2017 CHF
Bonds and other fixed-income securities	3 071 361 008	3 157 846 784
Premiums (booked as accruals and deferred income)	(53 293 908)	(69 718 341)
Discounts (booked as prepayments and accrued income)	<u>3 165 929</u>	<u>3 093 033</u>
Adjusted book value of bonds and other fixed-income securities	<u>3 021 233 029</u>	<u>3 091 221 476</u>

As at 31 December 2018, the market value of these financial assets amounts to CHF 3 054 973 007 including CHF 17 672 318 of accrued interests booked under 'Prepayments and accrued income' on the asset side of the balance sheet.

Bonds and other fixed-income transferable securities reaching maturity in 2019 amount to CHF 1 207 181 988.

6.3 Amortisation of premiums and discounts on bonds and other fixed-income transferable securities held as financial fixed assets

As at 31 December 2018, the amortised value of premiums and discounts since acquisition date for the financial assets amounts to:

	2018 CHF	2017 CHF
Premiums	53 293 908	69 718 341
Discounts	(3 165 929)	(3 093 033)

7.1 Financial assets

The movements in financial assets during the year may be summarised as follows:

	Shares in affiliated undertakings	Bonds and other fixed-income transferable securities
	2018	2018
	CHF	CHF
Gross value as at 1 January	643 599	3 164 789 986
Additions	-	1 283 501 206
Disposals	-	(1 326 235 294)
Foreign exchange difference	(23 795)	(44 661 967)
Gross value as at 31 December	<u>619 804</u>	<u>3 077 393 931</u>
Less lump-sum provision	<u>(1 215)</u>	<u>(6 032 923)</u>
Net book value as at 31 December	<u>618 589</u>	<u>3 071 361 008</u>

Shares in affiliated undertakings relates to the participating interest of the Bank in Pictet Life Insurance Advisors (France) SAS, an insurance brokerage company located in Paris.

Disposals of bonds and other fixed-income transferable securities held as fixed assets consist of securities that reached maturity during the year 2018 and the sale of securities which did not comply anymore with eligibility criteria defined by the Bank for its investment portfolio (CHF 43 894 000).

7.2 Tangible assets

The movements in tangible assets during the year may be summarised as follows:

	Technical fixtures & fittings and machinery	Other fixtures & fittings, tools & equipment	Total tangible assets 2018	Total tangible assets 2017
	CHF	CHF	CHF	CHF
Gross value as at 1 January	33 443 420	29 029 327	62 472 747	59 427 480
Additions	2 002 712	1 808 654	3 811 366	1 976 154
Disposals/transfers	(3 389 827)	-	(3 389 827)	-
Foreign exchange difference	<u>(216 081)</u>	<u>(395 268)</u>	<u>(611 349)</u>	<u>1 069 113</u>
Gross book value as at 31 December	31 840 224	30 442 713	62 282 937	62 472 747
Cumulated value adjustments as at 31 December (including foreign exchange difference)	(29 186 996)	(24 694 100)	(53 881 096)	(53 610 955)
Less lump-sum provision	<u>(8 420)</u>	<u>(8 051)</u>	<u>(16 471)</u>	<u>(19 442)</u>
Net book value as at 31 December	<u>2 644 808</u>	<u>5 740 562</u>	<u>8 385 370</u>	<u>8 842 350</u>

Note 8 - Debt Securities

During 2016, the Bank started to issue structured finance instruments, including basket certificates based on equities. As at 31 December 2018, total issuance of these instruments amounts to CHF 47 326 897 booked on the liability side of the Bank's balance sheet.

In the frame of its strategy of economic hedging of the equity basket certificates, the Bank has acquired the securities composing the underlying portfolio of these certificates. As at 31 December 2018, the total value of these securities amounts to CHF 29 644 785 booked on the asset side of the Bank's balance sheet.

Note 9 - Other liabilities

As at 31 December 2018, “Other liabilities” consist of the following:

	CHF 2018	CHF 2017
Preferential creditors	10 410 704	23 577 887
Pension plan	<u>921 560</u>	<u>1 548 308</u>
	<u>11 332 264</u>	<u>25 126 195</u>

The amounts owed to preferential creditors mainly relate to taxes to be paid to the Tax Agency of the Italian branch. The pension plan concerns employees of the Italian branch.

Note 10 - Other provisions

As at 31 December 2018, the other provisions are composed of:

	2018	2017
	CHF	CHF
Bonuses and staff costs	46 882 928	41 465 337
AGDL provision	-	1 673 415
Provision for litigation	778 984	633 363
	<u>647 974</u>	<u>949 978</u>
	<u>48 309 886</u>	<u>44 722 093</u>

As at 31 December 2018, the lump-sum provision amounts to CHF 19 800 000. The lump-sum provision is fully calculated on balance sheet items and is deducted from the corresponding assets.

Note 11 - Subscribed capital

As at 31 December 2018, the Bank's subscribed and fully paid capital amounts to CHF 70 000 000 and is represented by:

	No.	Nominal value CHF	Total CHF
Registered shares	56 000	1 000	56 000 000
Preferred shares	<u>14 000</u>	1 000	<u>14 000 000</u>
Total	<u>70 000</u>		<u>70 000 000</u>

Preferred shares are entitled to a preferential and cumulative yearly dividend set at 10% of their nominal value, or CHF 100 per share. They are also entitled to a preferred right to the repayment of the contributed capital.

Note 12 - Reserves**12.1 Legal reserve**

In accordance with Luxembourg law, the Bank must transfer at least 5% of its annual profit to the legal reserve until this reserve equals 10% of the subscribed capital. The legal reserve is not distributable.

12.2 Special reserve

In accordance with the tax law in force since 1 January 2002, the Bank reduced its Net Wealth Tax (“NWT”) burden by crediting it on the amount of the Corporate Income Tax (“CIT”) before deduction of tax credits. To comply with the law, the Bank decided to allocate under non-distributable reserves (a “special reserve” item) an amount that corresponds to five times the amount of the reduced Net Wealth Tax. This reserve is not distributable for a period of five years from the year following the one during which the Net Wealth Tax was credited.

12.3 Retained earnings

The retained earnings represent the earnings from previous years that were affected by the General Meetings of shareholders to this account over the previous years. The retained earnings are distributable and the distribution can take place after approval of shareholders at a General Meeting.

The movements in the Bank's shareholders' equity may be analysed as follows:

	Subscribed capital	Share premium	Legal reserve	Other reserves	Profit or loss brought forward	Profit or loss for the financial year	Total
	CHF	CHF	CHF	CHF	CHF	CHF	CHF
Situation as at 31 December 2017	70 000 000	30 000 000	7 000 000	39 739 561	226 349 466	107 848 160	480 937 187
Allocation to the 2017 Net Wealth Tax reserve	-	-	-	14 440 000	(14 440 000)	-	-
Allocation to the 2018 Net Wealth Tax reserve	-	-	-	14 440 000	(14 440 000)	-	-
Dissolution of the 2012 Net Wealth Tax reserve	-	-	-	(7 549 223)	7 549 223	-	-
Transfer of profit and losses carried forward by the branches in 2017	-	-	-	-	(3 615 650)	-	(3 615 650)
Supported profit and losses carried forward by Luxembourg in 2017	-	-	-	-	3 615 650	-	3 615 650
Distribution of dividends	-	-	-	-	(107 800 000)	-	(107 800 000)
Profit or loss brought forward	-	-	-	-	107 848 160	(107 848 160)	-
Profit or loss as at 31 December 2018	-	-	-	-	-	119 700 090	119 700 090
Foreign exchange difference 2017	-	-	-	-	(128 735)	-	(128 735)
Foreign exchange difference 2018	-	-	-	-	70 624	-	70 624
Situation as at 31 December 2018	70 000 000	30 000 000	7 000 000	61 070 338	205 008 738	119 700 090	492 779 166

The Annual General Meeting of the shareholders held on 7 May 2018 approved the allocation of the profit for the financial year ended 31 December 2017. The meeting resolved to distribute a dividend for an amount of CHF 23 800 000 to preferred shares and CHF 84 000 000 to common shares.

The transfer of branches' profits and losses carried forward for 2017 amounts to CHF 3 615 650 after adjustments for intercompany transactions. The branches' profits and losses for 2017 before adjustments for intercompany transactions can be broken down as follows:

Frankfurt

The 2017 loss amounts to EUR 2 401 057. The exchange value of that amount at the average rate for the year concerned is CHF 2 679 459.

Paris

The 2017 profit amounts to EUR 5 138 963. The exchange value of that amount at the average rate for the year concerned is CHF 5 734 825.

Madrid

The 2017 profit amounts to EUR 1 478 967. The exchange value of that amount at the average rate for the year concerned is CHF 1 650 453.

Hong Kong

The 2017 loss amounts to HKD 18 919 379. The exchange value of that amount at the average rate for the year concerned is CHF 2 377 769.

Turin

The 2017 profit amounts to EUR 5 052 196. The exchange value of that amount at the average rate for the years concerned is CHF 5 637 999.

London

The 2017 loss amounts to GBP 9 083 921. The exchange value of that amount at the average rate for the year concerned is CHF 11 581 699.

Note 14 - Positions in foreign currencies

	2018 CHF	2017 CHF
Total assets denominated in foreign currencies	10 168 307 635	9 199 916 652
Total liabilities denominated in foreign currencies	9 512 503 223	8 661 789 124

Note 15 - Contingent liabilities and commitments**15.1 Contingent liabilities**

As at 31 December 2018, the contingent liabilities reported in the off balance sheet accounts consist of the following:

	2018 CHF	2017 CHF
Guarantees and other direct substitutes for credit	320 839 123	271 277 939

As at 31 December 2018, contingent liabilities with affiliated undertakings amount to CHF 144 384 272 (2017: CHF 126 973 200).

15.2 Other commitments

As at 31 December 2018, the Bank incurred the following commitment which is not recorded either on the balance sheet or on the off balance sheet:

- The building where the Bank operates is rented. The Bank is committed to pay an amount of CHF 15 293 246 until August 2021 in relation to the rented building (2017: CHF 21 503 340).

As at 31 December 2018, the Bank incurred the following commitment which is recorded off balance sheet:

- The Paris branch of Pictet & Cie (Europe) S.A. received two balancing subsidies from Banque Pictet & Cie SA for a total amount of CHF 2 500 000. These subsidies will be repaid as the branch has realised a net profit and the fiscal losses carried forward have been fully offset.

15.3 Luxembourg Resolution Fund ("LRF") and Luxembourg deposit Guarantee scheme ("LGDS")

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes ("the Law"), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on 18 December 2015.

The deposit guarantee and investor compensation scheme previously in place through the "Association pour la Garantie des Depots Luxembourg" (AGDL) has been replaced by a new contribution based system of deposit guarantee and investor compensation scheme. This new system covers eligible deposits of each depositor up to an amount of EUR 100 000 (Luxembourg Deposit Guarantee Scheme) and investments up to an amount of EUR 20 000 (Luxembourg Investors Compensation Scheme). The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100 000 for a period of 12 months.

Provisions which were booked in the annual accounts of the credit institutions throughout the years in order to respect the obligations of the AGDL are reversed in proportion to the contribution paid on the new "Luxembourg Resolution Fund" (LRF) and "Luxembourg Deposit Guarantee Scheme" (LDGS). This expense has been booked versus the use of the former AGDL provision.

The funded amount of the LRF shall reach by the end of 2024 at least 1% of covered deposits, as defined in Article 1 number 36 of the Law, of all authorized credit institutions from all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024 using the previously constituted AGDL provision. 2018 contribution to LRF is EUR 2 819 342 (CHF 3 177 164). CHF 1 673 415 of the total contribution for 2018 has been booked against the use of the former AGDL provision and CHF 1 503 749 has been booked as other operating charges in the profit and loss account.

The target level of funding of the LDGS is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions using the previously constituted AGDL provision. 2018 contribution to LDGS is EUR 889 857 (CHF 1 002 795). This expense has been fully booked as other operating charges in the profit and loss account.

When the level of 0.8% will be reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

15.4 Management and fiduciary services

During the year under review, the Bank provided the following management and fiduciary services to third parties:

- investment management or advice;
- safekeeping and administration of transferable securities;
- custodian bank;
- fiduciary representation.

Note 16 - Profit and loss account**16.1 Breakdown of income by geographic markets**

The Bank mainly conducts its operations with Switzerland and European Union Member States. With regard to the Bank's organisation, there is no difference between these two markets. Therefore, the Bank sees those markets as one single market and does not present the breakdown of the income by geographic market.

16.2 Commissions receivable

As at 31 December 2018, the commissions receivable are composed of:

	2018 CHF	2017 CHF
Securities transactions fees	152 995 333	157 459 672
Custodian bank fees	95 599 203	95 826 505
Central administration fees & pricing fees	64 381 970	56 748 905
Asset management fees	53 527 997	41 884 412
Distribution fees	20 118 303	19 009 663
Other commissions receivable	<u>45 355 680</u>	<u>40 553 772</u>
Commissions receivable	<u>431 978 486</u>	<u>411 482 929</u>

16.3 Other operating income

This caption mainly relates to services charged to other companies of the Group (CHF 10 648 628) and to non-recurrent revenue related to the success fees on refund of withholding tax on dividend paid to UCITS (CHF 5 280 631).

16.4 Other operating charges

This caption mainly relates to the payments made in relation with the “Luxembourg Resolution Fund” and the “Luxembourg Deposit Guarantee Scheme” (CHF 2 506 544) and in relation with operational errors (CHF 1 149 361).

In 2017, the contribution of the Bank to the “Luxembourg Resolution Fund” and to the “Luxembourg Deposit Guarantee Scheme” has been fully booked against the use of the former AGDL provision.

16.5 Tax liability

The Bank is liable for certain taxes on income and capital. The Luxembourg tax authorities issued tax assessment notices up to 2013 in respect for corporate income tax and municipal business tax. Tax provisions are stated out under the balance sheet item “Provisions for taxation”.

Note 17 - Other taxes

As at 31 December 2018, other taxes relate mainly to withholding tax on Swiss bonds held in the investment portfolio of financial fixed assets, miscellaneous taxes on turnover of the French branch and local taxes of the UK branch.

Note 18 - Information relating to staff employed and management**18.1 Personnel employed**

Average number of employees during the financial year is detailed as follows:

	2018	2017
Management	5	5
Executives	64	56
Employees	<u>506</u>	<u>484</u>
	<u>575</u>	<u>545</u>

18.2 Members of the administration, managerial and supervisory bodies

During the financial year, amounts paid to the Bank’s Management, including deputy directors and assistant directors amounted to CHF 26 079 473 (2017: CHF 23 715 862).

The pension commitments incurred with regard to the Bank’s Management, including deputy directors and assistant directors amounted to CHF 1 647 846 (2017: CHF 1 335 256).

The Bank has not granted any loan, guarantee or advance to members of the Management.

The fees of the Bank's independent auditor consist of the following:

	2018	2017
	CHF	CHF
Audit fees	615 266	584 943
Audit-related fees	79 657	39 262
Tax related fees	128 226	102 523
Other fees	<u>5 385</u>	<u>44 317</u>
	<u>828 534</u>	<u>771 045</u>

Note 20 - Return on assets

The return on assets of the Bank for the year ended 31 December 2018 stands to 1.09% (2017: 1.06%). The return on assets is calculated as being the net profit divided by the total balance sheet.

Note 21 - Subsequent events

There are no subsequent events that require adjustment to or disclosure in the annual accounts.