Pictet Group Annual report 2016

PICTET
1805

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KEY FIGURES

CHF thousands	2016	2015
Consolidated income statement		
Operating income	2 176 811	2 123 846
Total expenses before tax	1 634 397	1 560 624
Operating result	542 414	563 222
Consolidated profit for the year	422 063	451 708
Cost/income ratio	75%	73%

CHF thousands	31.12.2016	31.12.2015
Consolidated balance sheet		
Total assets	38 561 408	41 277 708
Total equity	2 586 064	2 604 448
Basel III CET1 solvency ratio	20.4%	22.1%
Basel III Total solvency ratio	20.4%	22.1%
Liquidity coverage ratio (LCR)	166%	195%
Return on equity	16.3%	17.8%
Leverage ratio	5.1%	4.1%
Other indicators		
Assets under management or custody (CHF bn)	462	437
Staff (in FTE)	4 130	3 934
in Switzerland	2 645	2 541
abroad	1 485	1 393
Banque Pictet & Cie SA's rating FitchRatings/Moody's	AA-/Aa2	AA-/Aa2

2016 AND PERSPECTIVES

I am pleased to present the annual report of the Pictet Group for the year ended 31 December 2016. Having served for 26 years as a Managing Partner, it is an honour to make this statement as the twenty-first Senior Partner of the Pictet Group.

I take the opportunity to thank Jacques de Saussure for his remarkable contribution over the past 29 years, the last six of which he presided as Senior Partner. He played a leading role in making our Group stronger in more ways than I could mention. Indeed, with assets under management of over CHF 460 billion and 4,130 full-time equivalent employees at 31 December 2016, we are surely among the foremost international wealth and asset management firms worldwide.

The year 2016 was marked by profound change, both political and technological. First, change in the field of geopolitics, beginning with Brexit, then the presidential election in the US, and in 2017 important elections in France, the United Kingdom and Germany. Still, I should add that we do see signs that the new US administration may bring positive economic change.

Second, the digital revolution is here. It affects every aspect of our business, from client relations to investment management. Automation and digitalisation are changing how we communicate and work in ways that would have been unimaginable just a few years before.

These changes will certainly test us in the years ahead. Nonetheless, I have no doubt that we have the talent, the resources and the services to take advantage of whatever opportunities will accompany these challenges.

At the Group level, operating income increased by 2% to CHF 2.177 billion and net new money inflows reached CHF 12.4 billion (excluding double counting). Consolidated profit was CHF 422 million, down 7% from 2015. Regulatory core tier 1 equity, the strongest form of equity, stood at CHF 2.16 billion. This translates into a capital ratio of 20.4%—the minimum requirements of Basel III and the Swiss regulator, FINMA, are 4.5% and 7.8% respectively.

Turning to our three core businesses, we have reported the following results:

Assets under management at Pictet Wealth Management (Pictet WM) rose by 8% to CHF 184 billion. Inflows mainly arose from clients in Germany, Italy, Russia, Latin America, the Middle East and Asia. 2016 was marked by significant steps to expand the wealth management investment offering, and to raise further the quality of services offered to private clients. Just one example is the opening of a London booking centre in October 2016 to meet growing demand from international private clients.

2016 was a good year for Pictet Asset Management (Pictet AM). Assets under management rose 8% to CHF 163 billion at the year end. Our net new assets figure placed Pictet AM as one of Europe's leading investment managers in terms of net sales. Inflows came from many geographical sources and flowed into a broad range of products. Among the strong areas were the retail and wholesale segments, with very good results in Italy, North America and Germany. In terms of performance, 72% of the assets managed on behalf of clients have achieved 3-year returns above the median for PAM's peer group.

Meanwhile, Pictet Asset Services (Pictet AS) has seen its assets held in custody rise by 5% to CHF 421 billion at the end of 2016. A great deal of operational development lies ahead in 2017, not least of which is preparation for MiFID II, a major piece of European regulation that takes effect in January 2018.

Pictet has great strengths to build on. We are able to stand out from our competitors on account of our expertise and the pool of talent and knowledge that we have in-house. All these elements encourage me to be confident in Pictet's future. I believe that we are ready to turn them to our advantage by making the most of our accumulated investments in people, resources and infrastructure, focusing on where we can best add value for clients.

I would like to take this opportunity to thank our clients for their continued loyalty and our employees for their dedication and commitment.

Nicolas Pictet

Senior Partner

CONSOLIDATED BALANCE SHEET

Assets (CHF thousand)	Notes	31.12.2016	31.12.2015
Cash and balances with central banks		14 186 181	6 728 599
Due from banks	10;16	1 768 531	2 277 371
Due from securities financing transactions	1	997 000	1 904 000
Due from clients	2;16	7 696 811	6 171 300
Trading portfolio assets	3	79 083	136 102
Positive replacement values of derivative financial instruments	4	1 526 329	1 961 511
Other financial instruments at fair value	3	567 842	860 418
Financial investments	5;10	10 729 832	20 109 897
Accrued income and prepaid expenses		329 741	376 255
Non-consolidated participations	6;7	8 396	7 920
Fixed assets	8;10	477 702	473 900
Other assets	9	193 960	270 435
Total assets		**38 561 408**	**41 277 708**
Total subordinated loans		475	367

Liabilities (CHF thousands)	Notes	31.12.2016	31.12.2015
Due to banks	16	1 235 394	1 796 987
Liabilities from securities financing transactions	1	776 523	778 356
Amounts due in respect of client deposits	11;16	30 812 229	31 992 063
Trading portfolio liabilities	3	9 064	34 118
Negative replacement values of derivative financial instruments	4	1 520 223	1 990 877
Liabilities from other financial instruments at fair value	3;13	580 910	871 606
Accrued expenses and deferred income		608 623	634 232
Other liabilities	9	249 234	405 140
Provisions	14	183 144	169 881
Total equity		2 586 064	2 604 448
Equity owners' contribution	15;17	765 541	1 012 938
Capital reserve		11 664	11 664
Retained earnings reserve		1 394 565	1 127 384
Currency translation reserve		(7 769)	754
Consolidated profit for the year		422 063	451 708
Total liabilities and equity		**38 561 408**	**41 277 708**
Total subordinated debt		-	-

Consolidated off-balance-sheet positions

CHF thousands	Notes	31.12.2016	31.12.2015
Contingent liabilities	2;23	4 474 851	3 811 688
Irrevocable commitments	2	21 696	25 597

CONSOLIDATED INCOME STATEMENT

CHF thousand	Notes	2016	2015	Change
Interest and discount income	27	69 277	45 359	
Interest and dividend income from financial investments		132 280	96 981	
Interest expense	27	(2 917)	(10 643)	
Gross interest income		**198 640**	**131 697**	**51%**
Changes in value adjustments for default risks and losses from interest operations	14	(958)	338	
Net interest income		**197 682**	**132 035**	**50%**
Fees from securities trading and investment activities		2 403 324	2 494 997	
Fees from lending activities		4 463	3 743	
Fees from other services		17 044	13 790	
Commission expenses		(637 327)	(729 578)	
Net fee and commission income		**1 787 504**	**1 782 952**	**0%**
Income from trading activities and the fair value option	26;27	**185 581**	**186 561**	**-1%**
Result from the disposal of financial investments		-	9 820	
Income from other non-consolidated participations		4 066	9 904	
Result from real estate		1 890	2 384	
Other ordinary revenues		88	190	
Other ordinary income		**6 044**	**22 298**	**-73%**
Personnel expenses	28	(1 129 964)	(1 091 746)	
General and administrative expenses	29	(443 675)	(425 265)	
Operating expenses		**(1 573 639)**	**(1 517 011)**	**4%**
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	6;8	(44 395)	(41 596)	
Changes to provisions and other value adjustments, losses	30	(16 363)	(2 017)	
Operating result		**542 414**	**563 222**	**-4%**
Extraordinary income	30	1 551	4 406	
Extraordinary expenses	30	(130)	(2)	
Taxes	32	(121 772)	(115 918)	
Consolidated profit for the year		**422 063**	**451 708**	**-7%**

CONSOLIDATED CASH FLOW STATEMENT

CHF thousand	2016		2015	
	CASH INFLOWS	CASH OUTFLOWS	CASH INFLOWS	CASH OUTFLOWS
Cash flow from operating activities (internal financing)				
Consolidated profit for the year	422 063	-	451 708	-
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	44 395	-	41 596	-
Provisions and other value adjustments	23 521	10 258	18 899	21 949
Change in value adjustments for default risks and losses	1 000	82	40	378
Accrued income and prepaid expenses	46 514	-	-	39 629
Accrued expenses and deferred income	-	25 609	673	-
Other items	120 569	-	-	155 687
Previous year's dividends	-	176 068	-	281 729
Subtotal	**658 062**	**212 017**	**512 916**	**499 372**
Cash flow from shareholders' equity transactions				
Share capital/participation capital/cantonal banks' endowment capital etc.	-	247 397	-	40 404
Recognised in reserves	-	16 982	14 113	-
Subtotal	**-**	**264 379**	**14 113**	**40 404**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Participations	1 057	1 533	-	140
Real estate	-	-	-	150
Other tangible fixed assets	457	48 654	70	35 862
Mortgages on own real estate	-	200 000	-	-
Subtotal	**1 514**	**250 187**	**70**	**36 152**

CHF thousand	2016		2015	
	CASH INFLOWS	CASH OUTFLOWS	CASH INFLOWS	CASH OUTFLOWS
Cash flow from banking operations				
Medium- and long-term business (>1 year)				
Due from clients	-	78 440	-	99 289
Financial investments	10 566 892	-	-	1 658 788
Short-term business (<1 year)				
Due to banks	-	561 593	318 033	-
Liabilities from securities financing transactions	-	1 833	728 673	-
Amounts due in respect of client deposits	-	1 179 834	1 983 869	-
Trading portfolio liabilities	-	25 054	-	25 643
Negative replacement values of derivative financial instruments	-	470 654	-	473 619
Liabilities from other financial instruments at fair value	-	290 696	-	157 830
Due from banks	508 840	-	282 712	-
Due from securities financing transactions	907 000	-	-	1 804 635
Due from clients	-	1 447 989	-	536 885
Trading portfolio assets	57 019	-	36 089	-
Positive replacement values of derivative financial instruments	435 182	-	521 706	-
Other financial instruments at fair value	292 576	-	141 307	-
Financial investments	-	1 186 827	-	1 057 285
Liquid assets	-	7 457 582	1 850 414	-
Subtotal	**12 767 509**	**12 700 502**	**5 862 803**	**5 813 974**
Total	**13 427 085**	**13 427 085**	**6 389 902**	**6 389 902**

STATEMENT OF CHANGES IN EQUITY

CHF thousand	EQUITY OWNERS' CONTRIBUTION	CAPITAL RESERVE	RETAINED EARNINGS RESERVE	CURRENCY TRANSLATION RESERVES	RESULT OF THE PERIOD	TOTAL
Equity at 1.1.2016	1 012 938	11 664	1 127 384	754	451 708	2 604 448
Capital increase/decrease	(247 397)	-	-	-	-	(247 397)
Currency translation differences	-	-	-	(8 523)	-	(8 523)
Dividends and other distributions	-	-	275 640	-	(451 708)	(176 068)
Other allocations to (transfers from) the other reserves	-	-	(8 459)	-	-	(8 459)
Consolidated profit	-	-	-	-	422 063	422 063
Equity at 31.12.2016	765 541	11 664	1 394 565	(7 769)	422 063	2 586 064

PICTET GROUP GOVERNANCE

Supervisory Board

Shelby du Pasquier, Chairman*

Claude Demole*

Charles Pictet*

Board of Partners

Jacques de Saussure (until 30 June 2016)

Nicolas Pictet

Renaud de Planta

Rémy Best

Marc Pictet

Bertrand Demole

Laurent Ramsey

Pictet Group Auditors

PricewaterhouseCoopers SA

*Independent Supervisory Board members

ANNEXES

ACCOUNTING PRINCIPLES

Consolidated accounts at 31 december 2016

Name and legal status of the Group

The Pictet Group's accounts comprise the financial statements of all companies in which the partners of the Pictet Group owned, either directly or indirectly, over 50% of the capital or voting rights at 31 December 2016.

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

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

Accounting principles and valuation method

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

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

This report should be read in conjunction with the 'Pictet Group capital adequacy disclosure at 31 December 2016' (in accordance with the Circular 2008/22).

The main accounting methods applied are described below.

General valuation principles

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

Recording of transactions

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

Consolidation

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

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

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

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

Foreign-currency translation

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

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

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

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

	31.12.2016	31.12.2015	AVERAGE EXCHANGE RATE
EUR	1.0720	1.0874	1.0892
USD	1.0164	1.0010	0.9873
JPY	0.0087	0.0083	0.0091
GBP	1.2559	1.4754	1.3280

Cash and balances with central banks

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

Amounts due from banks and from clients

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

Value adjustments for default risk

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

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

Disclosures concerning the treatment of past due interest

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

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

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

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

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

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

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

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

Securities financing transactions

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

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

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

Trading portfolio assets and trading portfolio liabilities

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

Interest and dividend income from trading portfolios are booked under 'Income from trading activities and the fair value option'. Refinancing costs are debited, at going market rates, from 'Income from trading activities' and credited under 'Interest and discount income'. Unrealised income stemming from the valuation, as well as realised income, are booked under 'Income from trading activities and the fair value option'.

Derivative financial instruments and their replacement values

– *Trading portfolios*

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

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

– *Hedging transactions*

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

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

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

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

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

Financial investments

Debt securities intended to be held to maturity are valued on the basis of amortised cost. Gains/losses resulting from fixed-income transactions sold prior to maturity or reimbursed early are accrued over the remaining term to the scheduled maturity date of the sold or reimbursed security. Negative value adjustments are, in principle, booked under 'Other ordinary expenses' (positive revaluations being recorded under 'Other ordinary income'). In cases where value adjustments are broken down into components related to default risk and market conditions, that portion related to default risk is recognised under 'Changes in value adjustments for default risks and losses from interest operations'.

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

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

Non-consolidated participations

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

Tangible fixed assets

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

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

Scheduled useful lifetimes

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

Provisions

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

Liabilities relating to pension schemes

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

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

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

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

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

Taxes

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

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

Change in accounting principles

There were no changes in the accounting principles in 2016.

RISK MANAGEMENT

Risk policy

General provisions

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

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

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

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

Monitoring of overall risk profile

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

Attitude to and appetite for risk

Considering the nature of the Pictet Group's business, risks cannot be entirely eliminated. Risks associated with the Group's business activities are accepted, in compliance with legal or internal regulations, provided they do not exceed the Group's risk capacity (including in so-called 'stress' situations) and can be monitored and controlled thanks to documented processes in keeping with the Group's general risk policy.

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

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

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

Credit risk

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

– *Clients*

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

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

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

– *Banking counterparties*

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

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

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

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

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

– *Financial investments*

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

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

Market risk

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

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

Trading activities for the Group's own account are aimed essentially at mitigating risk resulting from client orders. Such proprietary trading is undertaken subject to a strict framework of limits and is geared towards accumulating a more thorough understanding of markets in which the Pictet Group is active.

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

Limits attached to such trading activities are formulated in two ways: as a delta or direct exposure (in-house limits) and in terms of equity in accordance with FINMA rules relating to calculating capital adequacy requirements for market risks (according to the standard approach).

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

The purpose of managing the balance sheet, generally referred to as Asset & Liability Management (ALM), is to estimate and achieve a balance between liabilities (inflows) and assets (outflows) in light of the Pictet Group's appetite for risk, subject to the constraints of achieving a desired level of profitability and adherence to a clearly-delineated regulatory framework. The Treasury Committee analyses liquidity risk and interest-rate risk; it ensures that ratios imposed by FINMA are complied with.

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

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

Operational risk

Operational or business risk can be defined as the risk of losses or damage resulting from inadequacies or shortcomings in in-house processes, staff or systems, or stemming from external events. Operational risk also covers legal and compliance risks.

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

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

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

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

The Pictet Group has instituted robust corporate governance geared towards anticipating risk. This involves active exchanges of information with business lines and regular efforts to emphasise to staff their responsibilities and heighten their awareness about the direct and indirect impact that the Pictet Group's activities (for example, changes in the political or regulatory climate) might have on its reputation as well as on that of its clients and its staff. Effective management of communications, both in-house and to the outside world, is crucial in safeguarding the Pictet Group's good name and reputation. Group Corporate Communications is responsible for effective image management of the Group. It monitors articles published about the Group and will contact the media swiftly as soon as the Group's reputation might be at stake. Measures aimed at limiting risk to the Group's image and reputation include analysing and pinpointing any areas of vulnerability, internal analysis and escalation procedures, rules of conduct applicable to staff, as well as, for example, publishing press releases or compiling Q&A factsheets. Group 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 consolidated report on overall risk assessment and are closely monitored by Pictet Group's Management.

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

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

HEDGE ACCOUNTING

Equity of consolidated companies

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

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

Financial investments

The Pictet Group invests its surplus liquidity from clients' deposits in a portfolio geared to a long-term strategy. This portfolio comprises holdings in bonds intended to be held to maturity although, in particular circumstances (such as a downgrading of an issuer's creditworthiness), the debt securities may be sold before term.

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

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have taken place since 1 January 2017.

NOTES TO THE BALANCE SHEET

1. BREAKDOWN OF SECURITIES FINANCING TRANSACTIONS (ASSETS AND LIABILITIES)

CHF thousand	31.12.2016	31.12.2015
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions*	997 000	1 904 000
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions*	776 523	778 356
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	775 746	775 060
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	997 321	1 904 566

*Before netting agreements

2. COLLATERAL FOR LOANS AND OFF-BALANCE-SHEET TRANSACTIONS, AS WELL AS IMPAIRED LOANS

CHF thousand	TYPE OF COLLATERAL			
	SECURED BY MORTGAGE	OTHER COLLATERAL	UNSECURED	TOTAL
Loans (before netting with value adjustments)				
Amounts due from clients	61 464	7 460 378	176 409	7 698 251
Total loans (before netting with value adjustments)				
31.12.2016	**61 464**	**7 460 378**	**176 409**	**7 698 251**
31.12.2015	**61 019**	**5 942 263**	**168 540**	**6 171 822**
Total loans (after netting with value adjustments)				
31.12.2016	**61 464**	**7 460 378**	**174 969**	**7 696 811**
31.12.2015	**61 019**	**5 942 263**	**168 018**	**6 171 300**
Off-balance sheet				
Contingent liabilities	-	4 342 096	132 755	4 474 851
Irrevocable commitments	-	-	21 696	21 696
Off-balance sheet total				
31.12.2016	**-**	**4 342 096**	**154 451**	**4 496 547**
31.12.2015	**-**	**3 685 256**	**152 029**	**3 837 285**

Impaired loans

CHF thousand	GROSS DEBT AMOUNT	ESTIMATED LIQUIDATION VALUE OF COLLATERAL	NET DEBT AMOUNT	INDIVIDUAL VALUE ADJUSTMENTS
31.12.2016	1 440	-	1 440	1 440
31.12.2015	522	-	522	522

The total amount of impaired loans corresponds to 0.02% of the total amounts due from clients at 31 December 2016 (at 31 December 2015 their share was 0.01%).

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

ASSETS (CHF thousand)	31.12.2016	31.12.2015
Trading portfolios	79 083	136 102
Debt securities, money market securities/transactions	28 486	17 173
of which, listed	28 486	16 835
Equity securities	50 597	118 929
Other financial instruments at fair value	567 842	860 418
Equity securities	554 648	846 865
Precious metals	13 194	13 553
Total assets	**646 925**	**996 520**
of which, determined using a valuation model	10 804	67 785

LIABILITIES (CHF thousand)	31.12.2016	31.12.2015
Trading portfolios	9 064	34 118
Equity securities	9 064	34 118
Other financial instruments at fair value	580 910	871 606
Structured products (certificates)	580 910	871 606
Total liabilities	**589 974**	**905 724**
of which, determined using a valuation model	2 706	44 439

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

The amount of investments by clients in such certificates is recognised as a liability in the balance sheet. Amounts corresponding to the underlying financial assets are recorded on the assets side of the balance sheet.

The difference between 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.

4. 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	926	1 804	220 554	38 449	95 494	13 783 839
Futures	31	21	201 404	-	-	-
Foreign exchange/precious metals						
Forward contracts	255 877	391 404	35 113 578	2 949	192	265 041
Combined interest rate/currency swaps	836 294	713 998	68 674 940	208 452	136 026	25 754 098
Options (OTC)	166 211	165 286	10 340 027	-	-	-
Equity securities/indices						
Swaps	76	76	23 793	-	-	-
Futures	828	774	201 771	-	-	-
Options (OTC)	13 170	11 201	887 032	-	-	-
Options (exchange-traded)	3 066	3 947	719 051	-	-	-
Total before netting agreements:						
31.12.2016	**1 276 479**	**1 288 511**	**116 382 150**	**249 850**	**231 712**	**39 802 978**
of which, determined using a valuation model	**1 273 328**	**1 284 535**	**115 413 329**	**249 850**	**231 712**	**39 802 978**
31.12.2015	**1 775 687**	**1 782 839**	**178 638 316**	**185 824**	**208 038**	**34 102 098**
of which, determined using a valuation model	**1 773 391**	**1 779 999**	**178 460 262**	**185 824**	**208 038**	**34 102 098**

Derivative financial instruments result mainly from transactions 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)
31.12.2016	1 526 329	1 520 223
31.12.2015	1 961 511	1 990 877

– *Breakdown by counterparty*

POSITIVE REPLACEMENT VALUES (AFTER NETTING AGREEMENTS) (CHF thousand)	CENTRAL CLEARING HOUSES	BANKS AND SECURITIES DEALERS	OTHER CUSTOMERS
31.12.2016	2 997	957 780	565 552
31.12.2015	1 813	808 606	1 151 092

5. BREAKDOWN OF FINANCIAL INVESTMENTS

CHF thousand	BOOK VALUE		FAIR VALUE	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Debt securities	9 961 285	19 462 489	10 083 881	19 591 289
of which, intended to be held to maturity	9 961 285	19 462 489	10 083 881	19 591 289
Equity securities	172 917	172 920	200 731	172 920
Precious metals	595 630	474 488	595 630	474 488
Total	**10 729 832**	**20 109 897**	**10 880 242**	**20 238 697**
of which, securities eligible for repo transactions in accordance with liquidity requirements	5 530 589	6 068 332	5 637 345	6 157 804

– Debt securities, breakdown of counterparties by rating

CHF thousand	FAIR VALUE	
	31.12.2016	31.12.2015
AAA	7 467 829	13 963 864
AA+	1 173 225	2 660 267
AA	735 746	930 327
AA-	441 624	1 374 594
A+	265 457	303 130
A	-	300 371
A-	-	58 736
Total	**10 083 881**	**19 591 289**

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

6. NON-CONSOLIDATED PARTICIPATIONS

CHF thousand	ACQUISITION COST	ACCUMULATED VALUE ADJUSTMENTS AND CHANGES IN BOOK VALUE (VALUATION USING THE EQUITY METHOD)	BOOK VALUE AT 31.12.2015	ADDITIONS	DISPOSALS	BOOK VALUE AT 31.12.2016	MARKET VALUE
Other participations							
with market value	6 024	(4 131)	1 893	-	-	1 893	5 696
without market value	7 794	(1 767)	6 027	1 533	(1 057)	6 503	44 966
Total participations	**13 818**	**(5 898)**	**7 920**	**1 533**	**(1 057)**	**8 396**	**50 662**

7. MAIN LEGAL ENTITIES OF THE GROUP

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)	HELD DIRECTLY	HELD INDIRECTLY
Bank Pictet & Cie (Asia) Ltd, Singapore	Bank	CHF	40 000	100	100	-	100
Banque Pictet & Cie SA, Carouge	Bank	CHF	90 000	100	100	-	100
Bayside Pictet Ltd, Nassau	Real estate company	CHF	7	100	100	-	100
FundPartner Solutions (Europe) SA, Luxembourg	Fund management	CHF	6 250	100	100	-	100
FundPartner Solutions (Suisse) SA, Carouge	Fund management	CHF	10 000	100	100	-	100
Pictet & Cie (Europe) S.A., Luxembourg	Bank	CHF	70 000	100	100	-	100
Pictet & Cie Group SCA, Carouge	Financial company	CHF	148 500	100	100	-	100
PICTET & PARTNERS, Cologny	Financial company	CHF	300 000	100	100	100	-
Pictet Advisory Services (Overseas) Ltd, Nassau	Investment advisory	CHF	150	100	100	-	100
Pictet Alternative Advisors SA, Carouge	Wealth management	CHF	3 000	100	100	-	100
Pictet Asia Pte Ltd, Singapore	Financial company	SGD	1 216	100	100	-	100
Pictet Asset Management (Europe) SA, Luxembourg	Asset Management	CHF	8 750	100	100	-	100
Pictet Asset Management (Hong-Kong) Ltd, Hong Kong	Asset Management	HKD	30 000	100	100	-	100
Pictet Asset Management (Japan) Ltd, Tokyo	Asset Management	JPY	200 000	100	100	-	100
Pictet Asset Management (Singapore) Pte Ltd, Singapore	Asset Management	SGD	2 500	100	100	-	100
Pictet Asset Management Ltd, London	Asset Management	GBP	45 000	100	100	-	100
Pictet Asset Management Holding SA, Carouge	Financial company	CHF	40 000	100	100	-	100
Pictet Asset Management Inc., Montreal	Asset Management	CAD	250	100	100	-	100

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)	HELD DIRECTLY	HELD INDIRECTLY
Pictet Asset Management SA, Carouge	Asset Management	CHF	21 000	100	100	-	100
Pictet Bank & Trust Ltd, Nassau	Bank	CHF	102 000	100	100	-	100
Pictet Canada S.E.C., Montreal	Brokerage	CAD	99 000	100	100	100	-
Pictet Capital S.A., Cologny	Financial company	CHF	90 000	100	100	82.5	17.5
Pictet Europe SA, Luxembourg	Financial company	CHF	15 000	100	100	-	100
Pictet Global Markets (UK) Ltd, London	Wealth management	GBP	500	100	100	-	100
Pictet Holding LPP, Singapore	Financial company	CHF	61 000	100	100	100	-
Pictet Investment SA, Cologny	Financial company	CHF	30 000	100	100	100	-
Pictet Life Insurance Advisors (France) SAS, Paris*	Financial company	EUR	500	100	100	-	100
Pictet Life Insurance Advisors SA, Luxembourg**	Financial company	EUR	125	100	100	-	100
Pictet (London) Ltd, London	Financial company	GBP	7 000	100	100	-	100
Pictet North America Advisors SA, Carouge	Wealth management	CHF	500	100	100	-	100
Pictet Overseas Inc., Montreal	Brokerage	USD	10 000	100	100	-	100
Pictet Sice Ltd, Taiwan	Asset Management	TWD	70 000	100	100	-	100
Pictet Technologies SA, Luxembourg**	IT services	EUR	500	100	100	-	100
Pictet Wealth Management (Israel) Ltd, Tel Aviv	Wealth management	ILS	1 000	100	100	-	100
Sopafin Luxembourg SA, Luxembourg	Financial company	CHF	11 200	100	100	87.5	12.5
Sopafin Suisse SA, Cologny	Financial company	CHF	28 600	100	100	50.3	49.7

* previously: Bastions Conseils SAS, Paris

** joined the consolidation perimeter on 1 January 2016

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

– *Significant non-consolidated participations at 31.12.2016*

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	BOOK VALUE (in thousand CHF)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)
Euroclear Plc, London	Financial company	EUR	3 228	1 893	1	1
Gabriel Fiduciaria S.r.l	Financial company	EUR	900	1 153	100	100
Pictet Holding Corporation, Panama	Financial company	CHF	266	1 386	100	100
Pictet International Ltd	Financial company	CHF	655	1 585	100	100

The Pictet Group does not have any significant position in equity securities of companies recorded in the assets of the balance sheet under 'Financial investments' (2015: none).

There are no commitments to purchase or dispose of shares (2015: none).

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

8. TANGIBLE FIXED ASSETS

CHF thousand	ACQUISITION COST	ACCUMULATED DEPRECIATION	BOOK VALUE AT 31.12.2015	ADDITIONS	DISPOSALS	TRANSLATION DIFFERENCES	DEPRECIATION	BOOK VALUE AT 31.12.2016
Buildings for own use	503 160	(150 623)	352 537	-	-	-	(7 575)	344 962
Other real estate	52 715	(22 012)	30 703	-	-	-	(725)	29 978
Separately acquired software	84 367	(73 333)	11 034	7 972	-	4	(6 941)	12 069
Other tangible fixed assets	220 493	(140 867)	79 626	40 682	(54)	(407)	(29 154)	90 693
Total tangible fixed assets	**860 735**	**(386 835)**	**473 900**	**48 654**	**(54)**	**(403)**	**(44 395)**	**477 702**

9. BREAKDWN OF OTHER ASSETS AND OTHER LIABILITIES

CHF thousand	OTHER ASSETS		OTHER LIABILITIES	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Compensation account	34 470	62 711	-	-
Deferred income taxes recognised as assets	10 859	12 819	-	-
Non-bank debt	-	-	-	200 000
Taxes	79 547	93 568	36 720	34 597
Internal banking operations	40 445	76 238	197 189	137 536
Misc. assets and liabilities	28 639	25 099	15 325	33 007
Total	**193 960**	**270 435**	**249 234**	**405 140**

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

CHF thousand	BOOK VALUES		EFFECTIVE COMMITMENTS	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Due from banks	469 436	218 836	469 436	218 836
Financial investments	1 737 588	1 785 269	1 737 588	1 785 269
Fixed assets	-	271 560	-	200 000

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

At 31 December 2015, the tangible assets item incorporates the book value of the building in Route des Acacias in Geneva, provided as collateral security for a mortgage loan.

11. DISCLOSURES ON PENSION SCHEMES

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

In the case of employees in Switzerland, the Pictet Group's pension fund is an independent occupational pension scheme registered with the Supervisory Authority for the Canton of Geneva. This pension plan is a defined contributions scheme. The last set of audited annual accounts shows the funding ratio for the scheme stood at 119.5% as at end-December 2016. As a result, the value fluctuation reserve is fully funded up to its maximum target level of 15.9% of pension liabilities, in line with the Foundation Board's objectives.

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-2016. Reassurance cover for death and invalidity risks has been taken out by the pension schemes with an insurance group.

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

– *Liabilities relating to pension schemes at 31.12.*

LIABILITIES TOWARDS OWN PENSION SCHEMES (CHF thousand)	31.12.2016	31.12.2015
Amounts due in respect of client deposits	70 432	27 947

12. 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 31.12.2016	CONTRIBUTIONS PAID FOR 2016	PENSION EXPENSES IN PERSONNEL EXPENSES	
			2016	2015
Employer sponsored funds/employer sponsored pension schemes	-	2 000	2 000	1 500
Pension plans without overfunding/underfunding	-	21 893	22 398	24 971
Pension plans with overfunding	19.5%	79 644	79 644	74 800

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

As at 31 December 2016, there was no economic benefit or obligation to be booked in the Pictet Group's balance sheet or income statement.

13. 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	
Equity securities					
With own debenture component (oDC)		567 716	-	-	567 716
Without oDC		-	-	-	-
Commodities/precious metals					
With own debenture component (oDC)		13 194	-	-	13 194
Without oDC		-	-	-	-
Total 31.12.2016		**580 910**	**-**	**-**	**580 910**

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

The amount of investments by clients in such certificates is recognised as a liability in the balance sheet. Amounts corresponding to the underlying financial assets are recorded on the assets side of the balance sheet.

The difference between 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.

14. VALUE ADJUSTMENTS, PROVISIONS AND CHANGES DURING THE CURRENT YEAR

CHF thousand	BALANCE AT 31.12.2015	USE IN CONFORMITY WITH DESIGNATED PURPOSE	CURRENCY DIFFERENCES	PAST DUE INTEREST, RECOVERIES	NEW CREATIONS CHARGED TO INCOME STATEMENT	RELEASES TO INCOME STATEMENT	BALANCE AT 31.12.2016
Provisions for deferred taxes	107 931	-	-	-	12 500	-	120 431
Provisions for other business risks	52 841	(7 044)	-	(27)	10 786	(375)	56 181
Other provisions	9 109	(2 727)	-	(85)	235	-	6 532
Total provisions	**169 881**	**(9 771)**	**-**	**(112)**	**23 521**	**(375)**	**183 144**
Value adjustments for default and country risks	**522**	**-**	**(40)**	**-**	**1 000**	**(42)**	**1 440**
of which, value adjustments for default risks in respect of impaired loans/receivables	522	-	(40)	-	1 000	(42)	1 440

'Provisions for other business risks' are intended to cover a variety of risks relating to litigation, including any associated legal expenses.

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. The programme set up by the US authorities for Swiss banks to settle their litigation over tax matters is not open to banks already under investigation. Banque Pictet & Cie SA received notification from the US Department of Justice confirming that the Bank fell into this category of banks (Category One). 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 2016.

15. BREAKDOWN OF FINANCIAL INVESTMENTS

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

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

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

16. AMOUNTS DUE FROM/TO RELATED PARTIES

CHF thousand	AMOUNTS DUE FROM		AMOUNTS DUE TO	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Holders of qualified participations	60 497	26 900	1 167 029	1 324 605
Linked companies	26	-	3 940	4 571

Transactions with related parties are concluded at going market rates.

17. HOLDERS OF SIGNIFICANT PARTICIPATIONS

The partners of Pictet & Partners – Messrs Jacques de Saussure (up to 30 June 2016), Nicolas Pictet, Renaud de Planta, Rémy Best, Marc Pictet, Bertrand Demole and Laurent Ramsey – are significant equity owners.

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

18. MATURITY STRUCTURE OF FINANCIAL INSTRUMENTS

CHF thousand	AT SIGHT	CANCELLABLE	DUE				TOTAL
			WITHIN 3 MONTHS	WITHIN 3 TO 12 MONTHS	WITHIN 12 MONTHS TO 5 YEARS	AFTER 5 YEARS	
Assets/financial instruments							
Cash and balances with central banks	14 186 181	-	-	-	-	-	14 186 181
Due from banks	1 701 533	-	66 998	-	-	-	1 768 531
Due from securities financing transactions	-	-	997 000	-	-	-	997 000
Due from clients	10 699	4 929 480	1 822 305	680 139	185 508	68 680	7 696 811
Trading portfolio assets	79 083	-	-	-	-	-	79 083
Positive replacement values of derivative financial instruments	1 526 329	-	-	-	-	-	1 526 329
Other financial instruments at fair value	567 842	-	-	-	-	-	567 842
Financial investments	768 549	-	2 801 309	2 356 770	4 298 099	505 105	10 729 832
Total 31.12.2016	**18 840 216**	**4 929 480**	**5 687 612**	**3 036 909**	**4 483 607**	**573 785**	**37 551 609**
Total 31.12.2015	**12 614 906**	**4 270 341**	**4 749 090**	**2 969 017**	**13 836 984**	**1 708 860**	**40 149 198**

CHF thousand	AT SIGHT	CANCELLABLE	DUE				TOTAL
			WITHIN 3 MONTHS	WITHIN 3 TO 12 MONTHS	WITHIN 12 MONTHS TO 5 YEARS	AFTER 5 YEARS	
Debt capital/financial instruments							
Due to banks	1 235 394	-	-	-	-	-	1 235 394
Liabilities from securities financing transactions	-	-	776 523	-	-	-	776 523
Amounts due in respect of client deposits	30 654 516	-	157 713	-	-	-	30 812 229
Trading portfolio liabilities	9 064	-	-	-	-	-	9 064
Negative replacement values of derivative financial instruments	1 520 223	-	-	-	-	-	1 520 223
Liabilities from other financial instruments at fair value	580 910	-	-	-	-	-	580 910
Total 31.12.2016	**34 000 107**	**-**	**934 236**	**-**	**-**	**-**	**34 934 343**
Total 31.12.2015	**36 644 981**	**-**	**818 100**	**926**	**-**	**-**	**37 464 007**

19. BALANCE SHEET ACCORDING TO SWISS AND FOREIGN ORIGIN ACCORDING TO THE DOMICILE PRINCIPLE

Assets (CHF thousand)	31.12.2016		31.12.2015	
	SWISS	FOREIGN	SWISS	FOREIGN
Cash and balances with central banks	13 319 101	867 080	6 583 113	145 486
Due from banks	455 579	1 312 952	841 878	1 435 493
Due from securities financing transactions	997 000	-	1 824 000	80 000
Due from clients	788 287	6 908 524	591 926	5 579 374
Trading portfolio assets	26 146	52 937	42 443	93 659
Positive replacement values of derivative financial instruments	371 504	1 154 825	521 702	1 439 809
Other financial instruments at fair value	85 842	482 000	110 125	750 293
Financial investments	2 932 781	7 797 051	3 399 369	16 710 528
Accrued income and prepaid expenses	109 446	220 295	103 902	272 353
Non-consolidated participations	3 306	5 090	2 201	5 719
Fixed assets	448 500	29 202	451 030	22 870
Other assets	121 617	72 343	170 701	99 734
Total assets	**19 659 109**	**18 902 299**	**14 642 390**	**26 635 318**

Liabilities (CHF thousand)	31.12.2016		31.12.2015	
	SWISS	FOREIGN	SWISS	FOREIGN
Due to banks	501 628	733 766	877 820	919 167
Liabilities from securities financing transactions	775 267	1 256	778 356	-
Amounts due in respect of client deposits	8 542 189	22 270 040	8 961 871	23 030 192
Trading portfolio liabilities	3 740	5 324	6 857	27 261
Negative replacement values of derivative financial instruments	211 525	1 308 698	485 163	1 505 714
Liabilities from other financial instruments at fair value	568 121	12 789	773 750	97 856
Accrued expenses and deferred income	308 459	300 164	331 501	302 731
Other liabilities	195 522	53 712	354 334	50 806
Provisions	176 152	6 992	160 180	9 701
Total equity	2 200 959	385 105	2 207 358	397 090
Equity owners' contribution	613 350	152 191	873 600	139 338
Capital reserve	10 861	803	10 861	803
Retained earnings reserve	1 394 565	-	1 127 384	-
Currency translation reserve	(7 769)	-	754	-
Consolidated profit for the year	189 952	232 111	182 259	269 449
Total liabilities and equity	**13 483 562**	**25 077 846**	**14 924 690**	**26 353 018**

20. ASSETS BY COUNTRY (DOMICILE PRINCIPLE)

Assets (CHF thousand)	31.12.2016		31.12.2015	
	ABSOLUTE	SHARE AS %	ABSOLUTE	SHARE AS %
Switzerland	19 659 110	51%	14 642 390	35%
Europe	10 674 027	28%	14 871 771	36%
The Americas	6 260 769	16%	8 763 166	21%
Asia	1 395 477	4%	1 924 851	5%
Africa and Oceania	572 025	1%	1 075 530	3%
Total assets	**38 561 408**	**100%**	**41 277 708**	**100%**

21. BREAKDOWN OF ASSETS ACCORDING TO THE CREDIT RATING OF COUNTRY GROUPS (RISK DOMICILE VIEW)

RATING ACCORDING TO FINMA MAPPING TABLES	NET FOREIGN EXPOSURE 31.12.2016		NET FOREIGN EXPOSURE 31.12.2015	
	CHF THOUSAND	SHARE AS %	CHF THOUSAND	SHARE AS %
1 & 2	14 317 544	80%	20 465 721	84%
3	641 459	4%	529 451	2%
4	1 523 548	9%	1 457 393	6%
5	134 073	1%	174 513	1%
6	44 284	0%	703 615	3%
7	23 675	0%	55 547	0%
Unrated	1 022 070	6%	1 018 346	4%
Total	**17 706 653**	**100%**	**24 404 586**	**100%**

– *Comments on the rating system used*

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

This table is compiled on the basis of the countries of risk domicile of clients, banking counterparts and issuers. 2015 figures have been restated in line with this approach.

22. ASSETS AND LIABILITIES BROKEN DOWN BY MOST SIGNIFICANT CURRENCIES (AT 31 DECEMBER 2016)

Currencies (CHF thousand)	CHF	EUR	USD	GBP	JPY	OTHERS	TOTAL
Assets							
Cash and balances with central banks	13 314 955	868 584	1 702	413	13	514	14 186 181
Due from banks	156 910	680 928	595 497	27 018	45 365	262 813	1 768 531
Due from securities financing transactions	997 000	-	-	-	-	-	997 000
Due from clients	798 332	3 155 936	2 939 150	475 442	108 395	219 556	7 696 811
Trading portfolio assets	28 705	17 839	31 833	568	106	32	79 083
Positive replacement values of derivative financial instruments	1 320 845	19 078	64 869	2 958	2 319	116 260	1 526 329
Other financial instruments at fair value	72 667	45 243	381 399	34 172	2 931	31 430	567 842
Financial investments	2 569 347	2 157 155	4 300 891	431 418	149 709	1 121 312	10 729 832
Accrued income and prepaid expenses	137 780	75 892	63 927	22 776	22 338	7 028	329 741
Non-consolidated participations	6 878	-	965	31	-	522	8 396
Fixed assets	458 504	5 553	-	4 894	3 521	5 230	477 702
Other assets	71 856	62 541	31 446	5 782	9 544	12 791	193 960
Total assets shown in balance sheet	**19 933 779**	**7 088 749**	**8 411 679**	**1 005 472**	**344 241**	**1 777 488**	**38 561 408**
Delivery entitlements from spot exchange, forward forex and forex options transactions	127 653 733	69 741 509	95 601 954	14 732 148	8 154 643	10 864 422	326 748 409
Total assets	**147 587 512**	**76 830 258**	**104 013 633**	**15 737 620**	**8 498 884**	**12 641 910**	**365 309 817**

Currencies (CHF thousand)	CHF	EUR	USD	GBP	JPY	OTHERS	TOTAL
Liabilities							
Due to banks	238 183	411 357	322 509	24 805	19 663	218 877	1 235 394
Liabilities from securities financing transactions	-	107 200	367 918	301 405	-	-	776 523
Amounts due in respect of client deposits	7 303 745	7 754 899	12 608 724	1 574 525	259 452	1 310 884	30 812 229
Trading portfolio liabilities	3 740	145	4 693	-	486	-	9 064
Negative replacement values of derivative financial instruments	1 259 268	46 058	88 485	5 221	2 072	119 119	1 520 223
Liabilities from other financial instruments at fair value	77 713	46 090	388 053	34 338	2 887	31 829	580 910
Accrued expenses and deferred income	323 997	153 959	5 452	79 370	12 102	33 743	608 623
Other liabilities	204 171	18 247	-	402	10 292	16 122	249 234
Provisions	175 080	8 064	-	-	-	-	183 144
Total equity	2 586 064	-	-	-	-	-	2 586 064
Equity owners' contribution	765 541	-	-	-	-	-	765 541
Capital reserve	11 664	-	-	-	-	-	11 664
Retained earnings reserve	1 394 565	-	-	-	-	-	1 394 565
Currency translation reserve	(7 769)	-	-	-	-	-	(7 769)
Consolidated profit for the year	422 063	-	-	-	-	-	422 063
Total liabilities and equity shown in the balance sheet	**12 171 961**	**8 546 019**	**13 785 834**	**2 020 066**	**306 954**	**1 730 574**	**38 561 408**
Delivery obligations from spot exchange, forward forex and forex options transactions	135 419 147	68 237 325	90 218 095	13 748 375	8 184 367	10 941 100	326 748 409
Total liabilities	**147 591 108**	**76 783 344**	**104 003 929**	**15 768 441**	**8 491 321**	**12 671 674**	**365 309 817**
Net position per currency	**(3 596)**	**46 914**	**9 704**	**(30 821)**	**7 563**	**(29 764)**	**-**

NOTES TO OFF-BALANCE SHEET POSITIONS

23. BREAKDOWN OF CONTINGENT ASSETS AND LIABILITIES

CHF thousand	31.12.2016	31.12.2015
Guarantees to secure credits and similar	4 474 851	3 811 688
Total contingent liabilities	**4 474 851**	**3 811 688**
Contingent assets arising from tax losses carried forward	2 822	4 695
Total contingent assets	**2 822**	**4 695**

‘Contingent liabilities’ encompass guarantees issued on clients’ behalf and liabilities arising out of commitments contracted by clients in private-equity transactions. As is the case with Lombard loans, these liabilities are secured by client assets pledged as collateral.

24. BREAKDOWN OF FIDUCIARY TRANSACTIONS

CHF thousand	31.12.2016	31.12.2015
Fiduciary investments with third-party companies	14 472 876	14 789 848
Fiduciary transactions arising from securities lending and borrowing, which the bank conducts in its own name for the account of customers	1 200 900	1 229 625
Total fiduciary transactions	**15 673 776**	**16 019 473**

25. BREAKDOWN OF ASSETS UNDER MANAGEMENT OR CUSTODY

– *Breakdown of assets under management or custody*

CHF billion	31.12.2016	31.12.2015
Assets in collective investment schemes managed by the bank	148.9	137.9
Assets under discretionary asset management agreements	86.9	82.5
Other assets under custody	340.9	322.7
Total assets under management or custody (incl. double counting)	**576.7**	**543.1**
of which, double counting	114.8	106.2
Total managed assets excl. double counting	**461.9**	**436.9**

– *Change in assets under management or custody*

CHF billion	2016	2015
Total assets under management or custody (including double counting) - beginning of year	543.1	537.3
+/- Net new money inflow or net new money outflow	16.3	20.2
+/- Price gains/losses, interest, dividends and currency gains/losses	17.3	(14.4)
Total assets under management or custody (including double counting) - end of year	**576.7**	**543.1**

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

NOTES TO THE INCOME STATEMENT

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

– Breakdown by business area

CHF thousand	2016	2015
Front	134 323	130 274
Trading activity/client facilitation	46 496	48 829
Corporate	4 762	7 458
Trading activity total	**185 581**	**186 561**

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

CHF thousand	2016	2015
Result from trading activities from:		
Interest-rate instruments (incl. funds)	2 493	2 807
Equity securities (incl. funds)	7 985	14 724
Foreign currencies/precious metals/commodities	175 103	169 030
Total result from trading activities	**185 581**	**186 561**
of which, from fair value option	6 379	6 458
of which, from fair value option on assets	6 379	6 458

27. DISCLOSURE OF MATERIAL REFINANCING UNDER 'INTEREST AND DISCOUNT INCOME AS WELL AS MATERIAL NEGATIVE INTEREST'

– Refinancing income

Refinancing costs for trading portfolios totalled CHF 248 thousand in 2016 (CHF 159 thousand in 2015). They are calculated at market rates and charged against 'Income from trading activities and the fair value option'.

– Negative interest

CHF thousand	2016	2015
Negative interest on lending business (decrease in interest and discount income)	24 436	22 292
Negative interest on borrowing business (decrease in interest expense)	22 112	11 282

28. BREAKDOWN OF PERSONNEL EXPENSES

CHF thousand	2016	2015
Salaries	906 003	874 554
of which, expenses relating to variable compensation	125 201	136 091
Social insurance benefits	190 855	186 088
Other personnel expenses	33 106	31 104
Total	**1 129 964**	**1 091 746**

29. GENERAL AND ADMINISTRATIVE EXPENSES

CHF thousand	2016	2015
Office space expenses	70 567	60 897
Expenses for information and communications technology	184 340	171 806
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	15 493	15 899
Fees of audit firms	5 019	4 552
of which, for financial and regulatory audits	3 637	3 964
of which, for other services	1 382	588
Public relations	41 702	39 406
Travel	37 101	37 983
Taxes	21 326	23 790
Other operating expenses	68 127	70 932
Total	**443 675**	**425 265**

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

CHF thousand	2016	2015
Changes to provisions and other value adjustments, losses	(16 363)	(2 017)
Extraordinary income	1 551	4 406
Extraordinary expenses	(130)	(2)

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

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

(CHF thousand)	2016		2015	
	SWISS	FOREIGN	SWISS	FOREIGN
Interest and discount income	44 898	24 379	33 498	11 861
Interest and dividend income from financial investments	101 970	30 310	66 473	30 508
Interest expense	(7 061)	4 144	(12 856)	2 213
Gross interest income	**139 807**	**58 833**	**87 115**	**44 582**
Changes in value adjustments for default risks and losses from interest operations	(958)	-	338	-
Net interest income	**138 849**	**58 833**	**87 453**	**44 582**
Fees from securities trading and investment activities	1 243 071	1 160 253	1 258 675	1 236 322
Fees from lending activities	2 963	1 500	2 879	864
Fees from other services	22 758	(5 714)	21 939	(8 149)
Commission expenses	(209 497)	(427 830)	(236 977)	(492 601)
Net fee and commission income	**1 059 295**	**728 209**	**1 046 516**	**736 436**
Income from trading activities and the fair value option	**129 273**	**56 308**	**133 799**	**52 762**
Result from the disposal of financial investments	-	-	9 820	-
Income from other non-consolidated participations	4 066	-	9 904	-
Result from real estate	1 395	495	1 972	412
Other ordinary revenues	52	36	69	121
Other ordinary income	**5 513**	**531**	**21 765**	**533**
Personnel expenses	(749 209)	(380 755)	(743 921)	(347 825)
General and administrative expenses	(288 156)	(155 519)	(275 756)	(149 509)
Operating expenses	**(1 037 365)**	**(536 274)**	**(1019 677)**	**(497 334)**
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	(32 769)	(11 626)	(31 463)	(10 133)
Changes to provisions and other value adjustments, losses	(12 901)	(3 462)	(82)	(1 935)
Operating result	**249 895**	**292 519**	**238 311**	**324 911**
Extraordinary income	223	1 328	493	3 913
Extraordinary expenses	(423)	293	-	(2)
Taxes	(59 743)	(62 029)	(56 545)	(59 373)
Consolidated profit for the year	**189 952**	**232 111**	**182 259**	**269 449**

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

CHF thousand	2016	2015
Provisions for deferred taxes	14 460	5 983
Current tax expenses	107 312	109 935
Total taxes	**121 772**	**115 918**
Average tax rate	**22.5%**	**20.4%**

AUDITOR'S REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
OF PICTET GROUP
(FREE TRANSLATION OF THE FRENCH ORIGINAL)

Report of the auditor

to the Board of Partners of Pictet & Cie Group SCA

Carouge

Report of the auditor on the consolidated financial statements

On your instructions, we have audited the consolidated financial statements of Pictet Group, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 6 to 60), for the year ended 31 December 2016.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting rules for banks and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers Ltd

Christophe Kratzer — Emmanuel Genequand

Audit expert
Auditor in charge

Geneva, 27 April 2017

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

Pictet Group head office
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