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Financial report 2014
Pictet Group

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CONTENTS

KEY FIGURES

	CHF thousand
Consolidated income statement 2014	
Operating income	2 056 096
Total expenses before tax	1 505 730
Operating profit	550 366
Consolidated profit	459 311
Cost / income ratio	73%
Consolidated balance sheet at 31.12.2014	
Total assets	38 809 900
Equity (including consolidated profit for 2014)	2 460 760
Basel III CET1 solvency ratio	21.3%
Basel III Total solvency ratio	21.3%
Liquidity coverage ratio (LCR)	238%
Return on equity	19.7%
Leverage ratio	4.7%
Other metrics	
Assets under management or custody (CHF bn)	435
Staff (in FTE)	3 715
in Switzerland	2 398
in other countries	1 317
Rating Fitch / Moody's	AA- / Aa3

2014 AND PERSPECTIVES

As the Pictet Group approaches the 210th anniversary of its foundation on 22 July 1805, I have the honour and the pleasure to introduce the first annual report in our long history. It comes at the end of a spectacular decade of growth but also of convulsions in economic and financial markets which have tested us and our competitors to the limit.

During these past ten years, we have more than doubled our assets under management or custody from CHF 205 billion to CHF 435 billion. Such has been the growth of our institutional asset management business that it now matches the scale of our wealth management business, not only in terms of assets but also in revenues and in profits. This expansion has gone hand in hand with the development of our asset servicing capability.

Throughout this period, and especially since the financial crisis which broke out in 2007, our growth has been accompanied by a succession of industry-wide challenges, including greatly increased regulation – not least the end of the era of banking secrecy – the sovereign debt crisis in the Eurozone and most recently the Swiss National Bank's decision in January to abandon its floor against the Euro. On each occasion we have shown that we are solid enough to withstand such challenges. Internally, we have had to confront the reality of today's environment by changing our Swiss bank, Pictet & Cie, into a limited company and the holding structure from a general partnership to a corporate partnership.

Yet I look forward to the future with confidence. We have continued to grow and our results for the second half showed an improvement on those of the first half. For the full year ended 31 December 2014, the Pictet Group had an operating income of CHF 2 056 million and a consolidated net profit of CHF 459 million. Assets under management or custody amounted to CHF 435 billion (up CHF 44 billion from 1 January 2014), while net new money reached CHF 17 billion.

The core tier 1 capital ratio is 21.3% (based on CHF 2 billion of core tier 1 equity, which is the strongest form of equity), while the liquidity coverage ratio is 238%, both at 31 December 2014. Pictet's ratios compare with the minimum 4.5% core tier 1 capital ratio and the 100% liquidity coverage ratio stipulated by the Basel III regulations (Pictet's Swiss regulator FINMA requires a minimum core tier 1 capital ratio of 7.8%). The Group's equity capital of close to CHF 2.5 billion (including profits) again confirms the solidity of our balance sheet.

We operate in an industry that has stood the test of time and for which there will always be a place. Our business is at the heart of economic activity. And despite the criticism that our industry has attracted and the major changes it has undergone, the future for the financial sector looks bright. I believe that Pictet has come through each of the recent crises stronger than it was before because of our cautious approach and our risk management.

Another reason to be optimistic is our business model. Pictet is built on three core businesses, each of which complements the other, and this structure provides great stability.

Pictet Wealth Management (PWM) is acknowledged as one of the global leaders in wealth management. I should therefore like to take this opportunity to pay special thanks to our partner, Philippe Bertherat, who led PWM for seven years until his retirement at the end of 2014, for the major contribution he made to transformation of the business during this period.

PWM's strength is borne out by the results for 2014, with total assets up 11% to CHF 166 billion at 31 December 2014, of which CHF 7.6 billion represented net new money (NNM and the balance of around CHF 9.4 billion accounted for by a positive market effect.

Over the course of time, we have acquired a remarkable range of trusting relationships that accounts for the longevity of our client base. Moreover, with the demise of a number of competitors, new opportunities have opened up for PWM in Europe, but also in Asia and in Latin America.

For Pictet Asset Management (PAM) the potential for growth is considerable. PAM aims to be recognised as a leading European participant in terms of performance, expertise, service and reliability. There are also opportunities to be seized with both institutional and retail clients in Asia and the US. In 2014, assets rose by 13% to CHF 157 billion, including around CHF 4.7 billion in NNM and CHF 13.7 billion from positive market effects.

Meanwhile, Pictet Asset Services (PAS) more than held its ground against a small number of much larger competitors. One measure of PAS's success is that its client portfolio has grown from CHF 7 billion in 1984 to more than CHF 150 billion today In the financial year 2014, assets rose by 10%, with CHF 4.8 billion in NNM and a positive market effect of CHF 8.7 billion. Furthermore, around CHF 2 billion in new assets that have already been subscribed have not yet been transferred. The strategy of gradually focusing on higher value-added activities, such as fund administration, has borne fruit. Our position as a niche player opens up some very attractive opportunities, and we firmly believe that asset servicing has a strong future – especially in providing services to complement wealth and asset management.

Major opportunities also exist for our Independent Asset Managers business, where market practice is becoming increasingly professional and the number of quality service providers is dwindling.

The Trading Division's results were boosted by good volatility between September and December 2014. The ex-custody clients business also performed solidly, rising by nearly 30% in 2014. In building up our trading activities, we aim to make the most of our reputation for integrity – especially in the wake of recent events such as the LIBOR scandal – for efficiency, for the quality of the services we provide and for our discretion.

We are fortunate at Pictet to have a well-balanced business structure that gives us stable and recurring sources of revenues upon which we can plan, adapt and invest for the long term. As a privately owned business we are not subject to the short-term external pressure faced by quoted, shareholder-owned enterprise. With seven owner-managers and only forty partners over our entire 210-year history, we enjoy a continuity of management and a distinctive culture that contribute to a sense of common enterprise and entrepreneurship.

These characteristics place Pictet among a very small number of distinctive asset and wealth management groups worldwide and reinforce the trust and responsibility towards our clients and employees.

At the same time, we remain constantly vigilant and sensible towards the challenges we face with the continuous evolution of the financial and economic environment. As our traditional sources of business diminish, new opportunities open up, and, with more than a third of our total average full-time employees of 3 617 in 2014 already based overseas, we expect significant international expansion relative to our home base of Switzerland in the coming years.

JACQUES DE SAUSSURE
Senior Managing Partner

CONSOLIDATED BALANCE SHEET
at 31 December 2014

ASSETS	CHF thousand
Cash and balances with central banks	8 579 013
Due from banks	2 560 083
Due from securities financing transactions	99 365
Due from clients	5 534 788
Trading portfolio assets	172 191
Positive replacement values of derivative financial instruments	2 483 217
Other financial instruments at fair value	1 001 725
Financial investments	17 393 824
Accrued income and prepaid expenses	336 626
Non-consolidated participations	8 195
Fixed assets	479 139
Other assets	161 734
Total assets	**38 809 900**
Total subordinated loans	2 491

LIABILITIES	CHF thousand
Due to banks	1 478 954
Liabilities from securities financing transactions	49 683
Amounts due in respect of client deposits	30 008 194
Trading portfolio liabilities	59 761
Negative replacement values of derivative financial instruments	2 464 496
Liabilities from other financial instruments at fair value	1 029 436
Accrued expenses and deferred income	633 559
Other liabilities	452 126
Provisions	172 931
Total equity	2 460 760
Equity owners' contribution	1 053 342
Capital reserve	11 664
Retained earnings	940 887
Currency translation reserve	(4 444)
Consolidated profit	459 311
Total liabilities and equity	**38 809 900**

CONSOLIDATED OFF-BALANCE SHEET POSITIONS
at 31 December 2014

	CHF thousand
Contingent liabilities	2 714 571
Irrevocable commitments	28 028

CONSOLIDATED INCOME STATEMENT 2014

	CHF thousand
Interest & discount income	66 190
Interest & dividend income from financial investments	65 547
Interest expense	(8 064)
Gross interest income	123 673
Changes in value adjustments for default risks and losses from interest operations	60
Net interest income	**123 733**
Fees from securities trading and investment activities	2 393 238
Fees from lending activities	2 710
Fees from other services	20 379
Commission expenses	(681 295)
Net fee and commission income	**1 735 032**
Income from trading activities and the fair value option	**179 039**
Result from the disposal of financial investments	721
Income from other non-consolidated participations	14 794
Result from real estate	2 726
Other ordinary revenues	51
Other ordinary income	**18 292**
Personnel expenses	(1 057 600)
General and administrative expenses	(396 253)
Operating expenses	**(1 453 853)**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	**(39 436)**
Changes to provisions and other value adjustments, losses	**(12 441)**
Operating result	**550 366**
Extraordinary income	**5 963**
Taxes	**(97 018)**
Consolidated profit	**459 311**

CONSOLIDATED CASH FLOW STATEMENT 2014

CHF thousand	CASH INFLOWS	CASH OUTFLOWS
Cash flow from operating activities (internal financing)		
Consolidated profit	459 311	—
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	39 436	—
Provisions and other value adjustments	14 429	7 220
Change in value adjustments for default risks and losses	—	60
Accrued income and prepaid expenses	—	50 276
Accrued expenses and deferred income	120 608	—
Other items	180 172	74 467
Subtotal	**813 956**	**132 023**
Cash flow from shareholders' equity transactions		
Share capital / participation capital / cantonal banks' endowment capital / etc.	213 040	—
Recognised in reserves	—	232 803
Subtotal	**213 040**	**232 803**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets		
Participations	—	1 970
Other tangible fixed assets	1 005	35 023
Subtotal	**1 005**	**36 993**

CHF thousand	CASH INFLOWS	CASH OUTFLOWS
Cash flow from banking operations		
Medium- and long-term business (> 1 year)		
Amounts due to banks	—	939
Amounts due in respect of client deposits	—	42 166
Amounts due from clients	10 671	—
Financial investments	—	4 949 771
Short-term business (< 1 year)		
Amounts due to banks	—	680 363
Liabilities from securities financing transactions	49 683	—
Amounts due in respect of client deposits	2 392 898	—
Trading portfolio liabilities	—	14 903
Negative replacement values of derivative financial instruments	1 000 061	—
Liabilities from other financial instruments at fair value	—	282 056
Amounts due from banks	457 842	—
Amounts due from securities financing transactions	19 822	—
Amounts due from clients	—	258 402
Trading portfolio assets	—	23 842
Positive replacement values of derivative financial instruments	—	996 068
Other financial instruments at fair value	290 527	—
Financial investments	—	1 189 136
Liquidity		
Liquid assets	3 589 960	—
Subtotal	**7 811 464**	**8 437 646**
Total	**8 839 465**	**8 839 465**

STATEMENT OF CHANGES IN EQUITY
31 December 2014

CHF thousand	EQUITY OWNERS' CONTRIBUTION	CAPITAL RESERVE	RETAINED EARNINGS RESERVE	CURRENCY TRANSLATION RESERVES	RESULT OF THE PERIOD	TOTAL
Equity at 1.1.2014	840 302	11 664	1 169 246	—	—	2 021 212
Capital increase / decrease	213 040	—	—	—	—	213 040
Currency translation differences	—	—	—	(4 444)	—	(4 444)
Other allocations to (transfers from) the other reserves	—	—	(228 359)	—	—	(228 359)
Consolidated profit	—	—	—	—	459 311	459 311
Equity at 31.12.2014	1 053 342	11 664	940 887	(4 444)	459 311	2 460 760

PICTET GROUP GOVERNANCE

Supervisory Board

Shelby du Pasquier, Chairman*
Claude Demole*
Charles Pictet*

Board of Partners

Jacques de Saussure
Nicolas Pictet
Philippe Bertherat (until 31 December 2014)
Jean-François Demole
Renaud de Planta
Rémy Best
Marc Pictet
Bertrand Demole

Pictet group auditors

PricewaterhouseCoopers SA

*Independent Supervisory Board members

ANNEXES

ACCOUNTING PRINCIPLES

CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2014

Name and legal status of the Group

The Pictet Group's accounts comprise 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 as at 31 December 2014.

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 management 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 guidelines for accounting principles to be applied in the banking sector 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.

The main accounting methods applied are described below.

Changes to accounting principles and valuation method

Since 1 January 2014, the Group's financial results have been presented according to the 'settlement date' accounting principle (until then, the 'trade date' accounting principle had been applied).

Furthermore, the Pictet Group opted to implement FINMA's new Accounting Rules for Banks ("Prescriptions comptables pour les banques" – PCB), as set out in FINMA Circular 2015/1, ahead of the deadline as from 1 January 2014 as this corresponded to the start-date for the first full financial year for which the Group was obliged to report its financial accounts publicly.

Transformation of the Group's legal structures also led to changes in the balance sheet and income statement.

Owing to all of these changes, comparisons with previous financial years are not feasible.

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 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 end-date for consolidated companies' accounts is not 31 December, interim financial statements are compiled.

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 individual companies.

On consolidation, the assets and liabilities of Group companies are converted into Swiss francs at the exchange rate on the period-closing date. 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 the value of foreign currencies into Swiss francs are as follows:

	1.1.2014	31.12.2014	2014 AVERAGE EXCHANGE RATE
EUR	1.22548	1.20237	1.21246
USD	0.88935	0.99365	0.91927

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 and provisions 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 telltales 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.

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 his/her 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 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 of the borrower's assets.

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 operations on its clients' behalf.

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

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

Trading portfolio assets and trading portfolio liabilities

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

Interest and dividend income from trading portfolios are booked under 'Income from trading activities and the fair value option'. 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') open on the balance-sheet date are marked to market ('fair value'). Positive or negative replacement values are recognised under the corresponding asset/liability items in the balance sheet.

For derivative contracts traded on stock exchanges and on clients' behalf, 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 valuer

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 that is not yet invested, but 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 initially scheduled maturity date. 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 life-times

–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.

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 'Changes in value adjustments for default risks and losses from interest operations'.

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'. Recognition of an 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.

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. 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 proper implementation of the policy and put operational measures into practice to apply it;
- Individual business units bear responsibility for managing risks specific to them.

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

Monitoring of overall risk profile

The Pictet Group's Risk Department compiles, on a quarterly basis a consolidated report on overall risk exposure for the Pictet Group's corporate management bodies. This report presents an impartial overview of the position 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 are accepted that are related to the Group's business activities, in compliance with legal or in-house regulations, which do not exceed the Group's risk capacity (including in so-called 'stress' situations) and which can be monitored and controlled courtesy of documented processes in keeping with the Group's general risk policy.

Any new strategy, 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.

Appetite for risk at Group-wide level is translated into quantified limits for market, credit, interest-rate and liquidity risks and into qualitative limits for other categories of risk, such as operational and business risks. 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.

— *Client credit*

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 of the borrower's assets.

Risks are limited by exacting 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 corporate 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 formalised 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 position with contracted obligations is compiled and presented by the Chief Credit Office to the Pictet Group's Management.

— *Financial investments*

Pictet Group invests in top-quality financial assets, most notably bonds or similar debt securities fulfilling 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 basically at underpinning client funds flow. 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.

Operational application of the defined strategy is undertaken by the Treasury Department. 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 inappropriateness or shortcomings in in-house processes, staff, 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 activity. 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 assessed to be exceeding 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 loss are logged so as to build up an overall and 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 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 run, 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 swing of 100 basis points in yield curves of a range of different currencies. This risk is monitored daily.

EVENTS AFTER THE BALANCE SHEET DATE

As from 1 April 2015, the two Group companies Pictet Funds and Pictet Asset Management merged. The purpose behind this intrinsically technical merger is to reduce the number of legal entities – it does not imply any shift in strategy. This change has no impact whatever on the operations and revenues of the Pictet Group in 2014.

BALANCE SHEET RELATED INFORMATION

BREAKDOWN OF SECURITIES FINANCING TRANSACTIONS (ASSETS AND LIABILITIES)
at 31 December 2014

	CHF thousand
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions*	99 365
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions*	49 683
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	49 420
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	98 975

*Before netting agreements

COLLATERAL FOR LOANS AND OFF-BALANCE SHEET TRANSACTIONS, AS WELL AS IMPAIRED LOANS
at 31 December 2014

CHF thousand	TYPE OF COLLATERAL			
	SECURED BY MORTGAGE	OTHER COLLATERAL	UNSECURED	TOTAL
Loans (before netting with value adjustments)				
Amounts due from clients	38 114	5 361 127	136 407	5 535 648
Total loans (before netting with value adjustments)	**38 114**	**5 361 127**	**136 407**	**5 535 648**
Total loans (after netting with value adjustments)	**38 114**	**5 361 127**	**135 547**	**5 534 788**
Off-balance sheet				
Contingent liabilities	—	2 625 645	88 926	2 714 571
Irrevocable commitments	—	—	28 028	28 028
Off-balance sheet total	**—**	**2 625 645**	**116 954**	**2 742 599**

IMPAIRED LOANS
at 31 December 2014

CHF thousand	GROSS DEBT AMOUNT	ESTIMATED LIQUIDATION VALUE OF COLLATERAL	NET DEBT AMOUNT	INDIVIDUAL VALUE ADJUSTMENTS
2014	860	—	860	860

The total amount of impaired loans corresponds to less than 0.02% of total amounts due from clients.

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

at 31 December 2014

ASSETS		CHF thousand
Trading portfolios		172 191
	Debt securities, money market securities/transactions	37 756
	of which listed	37 756
	Equity securities	134 435
Other financial instruments at fair value		1 001 725
	Equity securities	982 864
	Precious metals	18 861
Total assets		**1 173 916**

LIABILITIES		CHF thousand
Trading portfolios		59 761
	Equity securities	59 761
Other financial instruments at fair value		1 029 436
	Certificates	1 029 436
Total liabilities		**1 089 197**

The Pictet 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. 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 that is not yet invested, but recorded under 'Cash and balances with central banks' on the assets side of the balance sheet.

PRESENTATION OF DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS AND LIABILITIES)

at 31 December 2014

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	3 409	2 006	8 664 935	26 718	90 799	11 580 116
Futures	6	40	1 421 207	—	—	—
Options (OTC)	37	37	702 090	—	—	—
Foreign exchange / precious metals						
Forward contracts	1 270 043	1 262 539	85 083 444	—	4 712	163 054
Combined interest rate / currency swaps	929 629	922 932	73 291 725	105 840	38 964	8 477 116
Options (OTC)	122 385	119 118	27 243 724	—	—	—
Equity securities / indices						
Swaps	1 424	1 433	27 406	—	—	—
Futures	25	116	25 451	—	—	—
Options (OTC)	16 734	16 298	1 042 829	—	—	—
Options (exchange traded)	7 306	4 494	402 711	—	—	—
Credit derivatives						
Credit default swaps	1 005	1 005	40 631	—	—	—
Other						
Futures	—	2	107	—	—	—
Total before netting agreements	**2 352 004**	**2 330 021**	**197 946 260**	**132 558**	**134 475**	**20 220 286**

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 at 31 December 2014:

CHF thousand	POSITIVE REPLACEMENT VALUES (CUMULATIVE)	NEGATIVE REPLACEMENT VALUES (CUMULATIVE)
2014	2 480 430	2 458 898

—Breakdown by counterparty at 31 December 2014:

CHF thousand	CENTRAL CLEARING HOUSES	BANKS AND SECURITIES DEALERS	OTHER CUSTOMERS
Positive replacement values (after netting agreements)	4 378	1 169 904	1 306 148

BREAKDOWN OF FINANCIAL INVESTMENTS
at 31 December 2014

CHF thousand		BOOK VALUE	FAIR VALUE
Debt securities		16 931 894	17 108 496
of which	intended to be held to maturity	16 931 894	17 108 496
Equity securities		170 200	170 200
Precious metals		291 730	291 730
Total		**17 393 824**	**17 570 426**
of which	securities eligible for repo transactions in accordance with liquidity requirements	5 077 647	5 167 521

— Breakdown by counterparty rating at 31 December 2014

CHF thousand	FAIR VALUES
AAA	11 304 825
AA+	2 774 713
AA	1 296 881
AA-	996 503
A+	334 119
A	202 647
A-	198 808
Total	**17 108 496**

We use the specific ratings of 3 agencies (Standard & Poor's, Moody's and Fitch), assigned to the instruments we subscribe to.

Ratings are based on Standard & Poor's rating scale. When 3 ratings are available, we take the median value. When 2 ratings are available, we use the more prudent one.

In the absence of a specific rating, we use Standard & Poor's long-term rating of the issuer.

PRESENTATION OF PARTICIPATIONS

CHF thousand	ACQUISITION COST	ACCUMULATED VALUE ADJUSTMENTS AND CHANGES IN BOOK VALUE (VALUATION USING THE EQUITY METHOD)	BOOK VALUE AT 1.1.2014	RECLASSIFICATIONS	ADDITIONS	DISPOSALS	AMORTISATIONS	BOOK VALUE AT 31.12.2014	MARKET VALUE
Other participations									
with market value	6 024	(3 381)	2 643	—	—	—	—	2 643	4 799
without market value	5 413	(1 356)	4 057	1 392	490	88	(475)	5 552	—
Total participations	**11 437**	**(4 737)**	**6 700**	**1 392**	**490**	**88**	**(475)**	**8 195**	**4 799**

MAIN LEGAL ENTITIES OF THE GROUP
at 31 December 2014

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in 000)	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
Bastions Conseils SAS, Paris	Financial Company	EUR	500	100	100	—	100
Fund Partner Solutions (Europe) SA, Luxembourg	Fund management	CHF	6 250	100	100	—	100
Fund Partner Solutions (Suisse) SA, Geneva	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 (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	13 250	100	100	—	100
Pictet Asset Management Holding SA, Carouge	Financial Company	CHF	40 000	100	100	—	100

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in 000)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)	HELD DIRECTLY	HELD INDIRECTLY
Pictet Asset Management Inc., Montreal	Asset Management	CAD	250	100	100	—	100
Pictet Asset Management SA, Carouge	Asset Management	CHF	11 000	100	100	—	100
Pictet Bank & Trust Ltd, Nassau	Bank	CHF	30 000	100	100	—	100
Pictet Canada S.E.C., Montreal	Brokerage	CAD	56 000	100	100	100	—
Pictet Capital S.A., Carouge	Financial Company	CHF	15 000	100	100	50	50
Pictet Europe SA, Luxembourg	Financial Company	CHF	17 500	100	100	—	100
Pictet Funds (Europe) SA, Luxembourg	Fund management	CHF	8 750	100	100	—	100
Pictet Funds S.A., Carouge	Fund management	CHF	10 000	100	100	—	100
Pictet Global Markets (UK) Ltd, London*	Wealth management	GBP	500	100	100	—	100
Pictet Global Selection Fund Management (Lux), Luxembourg	Fund management	CHF	650	100	100	—	100
Pictet Holding Corporation, Panama	Financial Company	CHF	266	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 (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

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in 000)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)	HELD DIRECTLY	HELD INDIRECTLY
Pictet Wealth Management (Israel) Ltd, Israel	Wealth management	ILS	1 000	100	100	—	100
Rhone Trust and Fiduciary Services SA, Carouge	Trust services	CHF	3 000	100	100	—	100
Rhone Trustees Bahamas Ltd, Nassau	Trust services	CHF	1 310	100	100	—	100
Rhone Trustees Singapore Ltd, Singapore	Trust services	SGD	1 000	100	100	—	100
Sopafin Luxembourg SA, Luxembourg	Financial Company	CHF	11 200	100	100	87	13
Sopafin Suisse SA, Cologny	Financial Company	CHF	28 600	100	100	49	51

*formerly "Pictet Investment Company Ltd", London

The companies that were included in the consolidated results over the course of 2014 are:

– Bastions Conseils SAS, Paris
– Pictet Alternative Advisors SA, Carouge (created in 2014 – previously this activity fell within Banque Pictet & Cie SA)

PRESENTATION OF TANGIBLE FIXED ASSETS
at 31 December 2014

CHF thousand	ACQUISITION COST	ACCUMULATED DEPRECIATION	BOOK VALUE AT 1.1.2014	ADDITIONS	DISPOSALS	TRANSLATION DIFFERENCES	DEPRECIATION	BOOK VALUE AT 31.12.2014
Buildings for own use	503 010	(135 473)	367 537	—	—	—	(7 575)	359 962
Other real estate	36 275	(4 121)	32 154	—	—	—	(725)	31 429
Separately acquired software	147 157	(135 806)	11 351	5 212	—	(19)	(5 500)	11 044
Other tangible fixed assets	568 317	(495 278)	73 039	29 649	(1 005)	182	(25 161)	76 704
Total tangible fixed assets	**1 254 759**	**(770 678)**	**484 081**	**34 861**	**(1 005)**	**163**	**(38 961)**	**479 139**

BREAKDOWN OF OTHER ASSETS AND OTHER LIABILITIES
at 31 December 2014

CHF thousand	OTHER ASSETS	OTHER LIABILITIES
Compensation account	56 814	—
Non-bank debt	—	200 000
Taxes	53 378	40 248
Internal banking operations	24 466	176 632
Misc. assets and liabilities	27 076	35 246
Total	**161 734**	**452 126**

DISCLOSURE OF ASSETS PLEDGED OR ASSIGNED TO SECURE OWN COMMITMENTS AND OF ASSETS UNDER RESERVATION OF OWNERSHIP
at 31 December 2014

PLEDGED / ASSIGNED ASSETS (CHF thousand)	BOOK VALUES	EFFECTIVE COMMITMENTS
Due from banks	413 207	413 207
Financial investments	1 758 473	—
Fixed assets	279 135	200 000

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

The tangible assets item incorporates the book value of the building in route des Acacias in Carouge, provided as collateral security for a mortgage loan.

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 122.7% as at end-December 2014. 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-2014. 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 December 2014

LIABILITIES TOWARDS OWN PENSION SCHEMES	CHF thousand
Amounts due in respect of client deposits	48 199

ECONOMIC SITUATION OF OWN PENSION SCHEMES
at 31 December 2014

— *A) Employer contribution reserves (ECR)*

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

— *B) Presentation of the economic benefit/obligation and the pension expenses at 31 December 2014*

CHF thousand	OVERFUNDING / UNDERFUNDING AT 31.12.2014	CONTRIBUTIONS PAID FOR 2014	PENSION EXPENSES IN PERSONNEL EXPENSES 2014
Pension expenses in personnel expenses	—	1 500	1 500
Pension plans without overfunding / underfunding	—	20 688	23 107
Pension plans with overfunding	122.7%	71 202	71 202

The governing bodies consider that any overfunding, as defined by the SWISS GAAP FER 16 norm, would be deployed for the benefit the members of the pension scheme, so there would be no economic benefit accruing to the Pictet Group.

As at 31 December 2014, there was no economic benefit or obligation to be booked in the Pictet Group's balance sheet or income statement.

PRESENTATION OF THE VALUE ADJUSTMENTS, PROVISIONS AND CHANGES DURING THE CURRENT YEAR

CHF thousand	BALANCE AT 1.1.2014	USE IN CONFORMITY WITH DESIGNATED PURPOSE	CURRENCY DIFFERENCES	NEW CREATIONS CHARGED TO INCOME STATEMENT	RELEASES TO INCOME STATEMENT	BALANCE AT 31.12.2014
Provisions for deferred taxes	87 456	—	—	7 975	—	95 431
Provisions for other business risks	49 673	(16)	(37)	4 000	(420)	53 200
Other provisions	28 593	(1 224)	(153)	2 454	(5 370)	24 300
Total provisions	**165 722**	**(1 240)**	**(190)**	**14 429**	**(5 790)**	**172 931**
Value adjustments for default and country risks	**920**	—	—	—	**(60)**	**860**
of which value adjustments for default risks in respect of impaired loans / receivables	920	—	—	—	(60)	860

'Other provisions' cover aspects relating to the bilateral tax agreement between Switzerland and the United Kingdom.

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

In October 2012, Banque Pictet & Cie SA (formerly known as Pictet & Cie) was notified by the Swiss Financial Market Supervisory Authority FINMA that the US Department of Justice had lodged a general request for information pertaining to its wealth-management activities for US clients. Banque Pictet & Cie SA is in ongoing discussions with the US Department of Justice, cooperating fully with it in compliance with legislation in force. The programme put forward by the US authorities to Swiss banks to settle their litigation over tax matters is not an option available to those banks already subject to investigation. Banque Pictet & Cie SA received notification from the US Department of Justice confirming that the Bank fell into this particular category (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 2014.

Own shares and breakdown of equity capital at 31 December 2014

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.

AMOUNTS DUE FROM / TO RELATED PARTIES at 31 December 2014

CHF thousand	AMOUNTS DUE FROM	AMOUNTS DUE TO
Holders of qualified participations	18 048	1 410 532

Transactions with related parties are concluded at going market rates.

Holders of significant participations at 31 December 2014

The partners of Pictet & Partners – Messrs Jacques de Saussure, Nicolas Pictet, Philippe Bertherat (up to 31 December 2014), Jean-François Demole, Renaud de Planta, Rémy Best, Marc Pictet and Bertrand Demole – are significant equity owners.

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

MATURITY STRUCTURE OF FINANCIAL INSTRUMENTS
at 31 December 2014

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	8 579 013	—	—	—	—	—	8 579 013
Amounts due from banks	2 516 458	—	—	43 625	—	—	2 560 083
Amounts due from securities financing transactions	—	—	99 365	—	—	—	99 365
Amounts due from clients	25 451	3 222 264	1 233 810	976 804	75 221	1 238	5 534 788
Trading portfolio assets	172 191	—	—	—	—	—	172 191
Positive replacement values of derivative financial instruments	2 483 217	—	—	—	—	—	2 483 217
Other financial instruments at fair value	1 001 725	—	—	—	—	—	1 001 725
Financial investments	461 932	—	1 202 239	2 018 345	12 567 840	1 143 468	17 393 824
Total	**15 239 987**	**3 222 264**	**2 535 414**	**3 038 774**	**12 643 061**	**1 144 706**	**37 824 206**

CHF thousand	AT SIGHT	CANCELLABLE	DUE				TOTAL
			WITHIN 3 MONTHS	WITHIN 3 TO 12 MONTHS	WITHIN 12 MONTHS TO 5 YEARS	AFTER 5 YEARS	
Debt capital / financial instruments							
Amounts due to banks	1 478 954	—	—	—	—	—	1 478 954
Liabilities from securities financing transactions	—	—	49 683	—	—	—	49 683
Amounts due in respect of client deposits	29 980 640	—	15 780	11 774	—	—	30 008 194
Trading portfolio liabilities	59 761	—	—	—	—	—	59 761
Negative replacement values of derivative financial instruments	2 464 496	—	—	—	—	—	2 464 496
Liabilities from other financial instruments at fair value	1 029 436	—	—	—	—	—	1 029 436
Total	**35 013 287**	—	**65 463**	**11 774**	—	—	**35 090 524**

BALANCE SHEET
ACCORDING TO SWISS AND FOREIGN ORIGIN
ACCORDING TO THE DOMICILE PRINCIPLE
at 31 December 2014

ASSETS (CHF thousand)	SWISS	FOREIGN
Cash and balances with central banks	8 508 632	70 381
Due from banks	921 393	1 638 690
Due from securities financing transactions	99 365	——
Due from clients	497 415	5 037 373
Trading portfolio assets	52 087	120 104
Positive replacement values of derivative financial instruments	725 646	1 757 571
Other financial instruments at fair value	140 452	861 273
Financial investments	2 609 111	14 784 713
Accrued income and prepaid expenses	81 859	254 767
Non-consolidated participations	2 201	5 994
Fixed assets	452 740	26 399
Other assets	139 272	22 462
Total assets	**14 230 173**	**24 579 727**

LIABILITIES (CHF thousand)	SWISS	FOREIGN
Due to banks	762 145	716 809
Liabilities from securities financing transactions	49 683	——
Amounts due in respect of client deposits	8 798 552	21 209 642
Trading portfolio liabilities	19 278	40 483
Negative replacement values of derivative financial instruments	675 175	1 789 321
Liabilities from other financial instruments at fair value	915 593	113 843
Accrued expenses and deferred income	376 291	257 268
Other liabilities	403 054	49 072
Provisions	144 372	28 559
Total equity	2 068 594	392 166
Equity owners' contribution	933 100	120 242
Capital reserve	10 861	803
Retained earnings	940 887	——
Currency translation reserve	(4 444)	——
Consolidated profit	188 190	271 121
Total equities and liabilities	**14 212 737**	**24 597 163**

ASSETS BY COUNTRY (DOMICILE PRINCIPLE)
at 31 December 2014

ASSETS (CHF thousand)	ABSOLUTE	Share as %
Switzerland	14 230 173	36.7%
Europe	14 287 520	36.8%
The Americas	7 682 345	19.8%
Asia	1 751 476	4.5%
Africa and Oceania	858 386	2.2%
Total assets	**38 809 900**	**100.0%**

BREAKDOWN OF ASSETS ACCORDING TO THE CREDIT RATING OF COUNTRY GROUPS (RISK DOMICILE VIEW)
at 31 December 2014

RATING ACCORDING TO THE FINMA MAPPING TABLES	NET FOREIGN EXPOSURE 31.12.2014	
	in CHF thousand	Share as %
1 & 2	34 987 437	90.1%
3	158 673	0.4%
4	2 048 421	5.3%
5	100 790	0.3%
6	138 762	0.4%
7	850 267	2.2%
Unrated	525 550	1.3%
Total	**38 809 900**	**100.0%**

— *Comments on the rating system used:*
We use 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 domicile of clients, banking counterparts and issuers. Collateral received is not included in the amounts due from clients

ASSETS AND LIABILITIES BROKEN DOWN BY MOST SIGNIFICANT CURRENCIES
at 31 December 2014

CURRENCIES (CHF thousand)	CHF	EUR	USD	GBP	JPY	OTHERS	TOTAL
Assets							
Cash and balances with central banks	8 502 971	72 920	1 912	371	18	821	8 579 013
Due from banks	272 753	868 711	760 691	59 741	118 331	479 856	2 560 083
Due from securities financing transactions	—	—	99 365	—	—	—	99 365
Due from clients	574 110	2 510 400	1 716 656	533 189	102 570	97 863	5 534 788
Trading portfolio assets	52 350	49 289	60 375	4 650	1 675	3 852	172 191
Positive replacement values of derivative financial instruments	2 233 170	147 490	96 182	324	2 316	3 735	2 483 217
Other financial instruments at fair value	162 812	201 143	632 894	—	4 876	—	1 001 725
Financial investments	2 430 623	2 656 980	9 522 243	1 063 538	242 906	1 477 534	17 393 824
Accrued income and prepaid expenses	115 646	78 120	78 682	34 456	23 367	6 355	336 626
Non-consolidated participations	5 900	—	1 005	19	—	1 271	8 195
Fixed assets	468 135	2 725	—	2 049	2 982	3 248	479 139
Other assets	90 785	56 805	14 144	—	—	—	161 734
Total assets shown in balance sheet	**14 909 255**	**6 644 583**	**12 984 149**	**1 698 337**	**499 041**	**2 074 535**	**38 809 900**
Delivery entitlements from spot exchange, forward forex and forex options transactions	34 510 463	42 310 987	67 529 714	5 912 753	4 678 274	23 122 993	178 065 184
Total assets	**49 419 718**	**48 955 570**	**80 513 863**	**7 611 090**	**5 177 315**	**25 197 528**	**216 875 084**

CURRENCIES (CHF thousand)	CHF	EUR	USD	GBP	JPY	OTHERS	TOTAL
Liabilities							
Due to banks	125 333	571 325	483 956	46 763	47 540	204 037	1 478 954
Liabilities from securities financing transactions	—	—	49 683	—	—	—	49 683
Amounts due in respect of client deposits	8 547 621	6 939 640	12 024 910	1 240 216	206 868	1 048 939	30 008 194
Trading portfolio liabilities	19 278	12 093	26 865	—	—	1 525	59 761
Negative replacement values of derivative financial instruments	2 259 720	64 513	118 199	3 396	2 164	16 504	2 464 496
Liabilities from other financial instruments at fair value	172 294	203 952	648 372	—	4 818	—	1 029 436
Accrued expenses and deferred income	402 217	108 165	7 341	66 659	20 940	28 237	633 559
Other liabilities	237 233	—	—	85 124	127 649	2 120	452 126
Provisions	164 068	8 863	—	—	—	—	172 931
Equity owners' capital	1 053 342	—	—	—	—	—	1 053 342
Capital reserve	11 664	—	—	—	—	—	11 664
Retained earnings	940 887	—	—	—	—	—	940 887
Currency translation reserve	(4 444)	—	—	—	—	—	(4 444)
Consolidated profit	459 311	—	—	—	—	—	459 311
Total liabilities and equity shown in the balance sheet	**14 388 524**	**7 908 551**	**13 359 326**	**1 442 158**	**409 979**	**1 301 362**	**38 809 900**
Delivery obligations from spot exchange, forward forex and forex options transactions	35 139 156	40 992 955	67 088 538	6 185 466	4 763 361	23 895 708	178 065 184
Total liabilities	**49 527 680**	**48 901 506**	**80 447 864**	**7 627 624**	**5 173 340**	**25 197 070**	**216 875 084**
Net position per currency	**(107 962)**	**54 064**	**65 999**	**(16 534)**	**3 975**	**458**	—

OFF-BALANCE SHEET RELATED INFORMATION

BREAKDOWN OF CONTINGENT ASSETS AND LIABILITIES
at 31 December 2014

	CHF thousand
Guarantees to secure credits and similar	2 714 571
Total contingent liabilities	**2 714 571**
Contingent assets arising from tax losses carried forward	50 320
Total contingent assets	**50 320**

'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.

BREAKDOWN OF FIDUCIARY TRANSACTIONS
at 31 December 2014

	CHF thousand
Fiduciary investments with third-party banks	16 000 392
Fiduciary transactions arising from securities lending and borrowing, which the bank conducts in its own name for the account of customers	1 189 159
Total fiduciary transactions	**17 189 551**

BREAKDOWN OF ASSETS UNDER MANAGEMENT OR CUSTODY

— A) *Breakdown of assets under management or custody*

	CHF BILLION
Assets in collective investment schemes managed by the bank	139.9
Assets under discretionary asset management agreements	90.9
Other assets under management or custody	306.5
Total assets under management or custody	**537.3**
of which double counting	102.4
Total managed assets excl. double counting	**434.9**

— B) *Presentation of the development of assets under management or custody*

	CHF BILLION
Total assets under management or custody (including double counting) – beginning of year	**474.1**
+/– net new money inflow or net new money outflow	28.8
+/– Price gains / losses, interest, dividends and currency gains / losses	34.3
+/– other effects	0.0
Total assets under management or custody (including double counting) – end of year	**537.3**

The Pictet Group offers different types of service depending on the needs of clients, whether they are private individuals or institutional investors. These can be sub-divided into the following categories:

– 'Assets under discretionary asset-management agreements' cover assets for which the client has signed a management agreement with the Pictet Group. Similarly, own-managed collective investment schemes correspond to those investment funds whose management has been entrusted to a corporate entity in the Pictet Group.
– 'Other managed assets' encompass assets for which the client has not signed a discretionary asset-management agreement with the Pictet Group.
– The net new money inflow in 2014 is made up of a combination of several factors. Firstly, the acquisition of new clients and the departure of existing clients. Secondly, inflows and outflows of existing clients' assets. Fees from the various services provided to clients are not included in net inflows/outflows.

INCOME STATEMENT RELATED INFORMATION

BREAKDOWN OF THE RESULT OF TRADING ACTIVITIES AND THE FAIR VALUE OPTION IN 2014

— A) Breakdown by business area Income statement related

	CHF thousand
Front	124 657
Trading activity / client facilitation	52 191
Corporate	2 191
Trading activity total	**179 039**

— B) Breakdown by underlying risk and based on the use of the fair value option

			CHF thousand
Result from trading activities from:			
	Interest rate instruments (incl. funds)		2 119
	Equity securities (incl. funds)		17 667
	Commodities / precious metals		159 253
Total result from trading activities			**179 039**
of which	from fair value option		10 975
	of which	from fair value option on assets	10 975

Disclosure of material refinancing under 'Interest and discount income as well as material negative interest'

Refinancing costs for trading portfolios totalled CHF 269 534 and were charged, at market rates, against 'Income from trading activities and the fair value option'.

BREAKDOWN OF PERSONNEL EXPENSES

		CHF thousand
Salaries		851 372
of which	expenses relating to variable compensation	134 809
Social insurance benefits		174 727
Other personnel expenses		31 501
Total		**1 057 600**

GENERAL AND ADMINISTRATIVE EXPENSES

		CHF thousand
Office space expenses		64 089
Expenses for information and communications technology		158 684
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses		14 582
Fees of audit firms		4 599
of which	for financial and regulatory audits	3 984
	for other services	615
Public relations		35 527
Travel		36 261
Taxes		19 533
Other operating expenses		62 978
Total		**396 253**

EXPLANATIONS REGARDING MATERIAL LOSSES, EXTRAORDINARY INCOME AND EXPENSES, AS WELL AS MATERIAL RELEASES OF HIDDEN RESERVES, RESERVES FOR GENERAL BANKING RISKS, AND VALUE ADJUSTMENTS AND PROVISIONS NO LONGER REQUIRED IN 2014

	CHF thousand
Changes to provisions and other value adjustments, losses	(12 441)
Extraordinary income	5 963

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

Extraordinary income' comprises primarily releases of provisions no longer deemed necessary and shown in the table presenting value adjustments and provisions.

Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment in 2014

INCOME STATEMENT (CHF thousand)	SWISS	FOREIGN
Interest & discount income	51 123	15 067
Interest & dividend income from financial investments	50 491	15 056
Interest expense	(7 547)	(517)
Gross interest income	94 067	29 606
Changes in value adjustments for default risks and losses from interest operations	60	—
Net interest income	**94 127**	**29 606**
Fees from securities trading and investment activities	1 231 445	1 161 793
Fees from lending activities	2 174	536
Fees from other services	20 729	(350)
Commission expenses	(235 671)	(445 624)
Net fee and commission income	**1 018 677**	**716 355**
Income from trading activities and the fair value option	**129 754**	**49 285**
Result from the disposal of financial investments	721	—
Income from other non-consolidated participations	3 959	10 835
Result from real estate	2 260	466
Other ordinary revenues	50	1
Other ordinary income	**6 990**	**11 302**
Personnel expenses	(713 753)	(343 847)
General and administrative expenses	(266 784)	(129 469)
Operating expenses	**(980 537)**	**(473 316)**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	**(29 600)**	**(9 836)**
Changes to provisions and other value adjustments, losses	**(8 073)**	**(4 368)**
Operating result	**231 338**	**319 028**
Extraordinary income	**5 963**	—
Taxes	**(49 111)**	**(47 907)**
Consolidated profit	**188 190**	**271 121**

PRESENTATION OF CURRENT TAXES, DEFERRED TAXES, AND DISCLOSURE OF TAX RATE IN 2014

	CHF thousand
Provisions for deferred taxes	7 975
Current tax expenses	89 043
Total taxes	**97 018**
Average tax rate	17.4%

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

In accordance with the engagement that you give us, we have audited the consolidated financial statements of Pictet Group, which comprise the balance sheet, income statement, statement of cash flows and notes (pages 6 to 56), for the year ended 31 December 2014.

— *Board of Partners' responsibility*

The Board of Partners is responsible for the preparation of the consolidated financial statements in accordance with accounting guidelines for banks, securities dealers, financial groups and conglomerates and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an inter fnal 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 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting guidelines for banks, securities dealers, financial groups and conglomerates 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 incompat-ible with our independence.

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

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

PricewaterhouseCoopers SA

PHILIPPE BOCHUD	OMAR GROSSI
Audit expert	Audit expert
Auditor in charge	

Genève, 22 April 2015

This report is published in French and English. In the event of divergence between the English and the original French, the French text shall prevail.

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