



**LOMBARD ODIER**  
LOMBARD ODIER DARIER HENTSCH

# 2017 Financial Report Lombard Odier Group



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# Message from the Senior Managing Partner

We are pleased to present significantly improved results for our Group in 2017.

In a strongly bullish market, characterised by solid net new money and low volatility, Lombard Odier's total client assets rose by 17% to CHF 274 billion. Asset growth and sustained client activity helped boost our net profit by 17%. This increase bears witness to the continuous improvement of our client offering and to our market-leading technology. It also reflects our long-term strategy of providing services to our international clientele by means of a targeted and diversified offering.

Our balance sheet remains solid, liquid and conservatively invested. With a CET1 ratio of 26.5%, the Group remains strongly capitalised. The liquidity coverage ratio stands at 187%. Finally, we have maintained our Fitch rating of AA-, which is the best possible rating for a bank of our size.

In line with our “Rethink Everything” philosophy, we wanted to continue to offer fresh investment opportunities to our clients during the year. Our investment teams showed agility in the development of strategies enabling clients to benefit from favourable market conditions. They created innovative solutions to anticipate trends in segments as diverse as high-yield bonds, emerging market debt, sustainable investment (global responsible equity) and climate bonds.

During 2017, we also strengthened our dedicated client service teams to build on the relationships of trust, which are already firmly established. We also invested in the development of our sales teams to expand the distribution of our products and services. The Group has benefited from technology developed in-house to maintain its edge in a changing regulatory environment, while improving the banking experience for our clients and strengthening data security.

Our private bank launched its Advisory investment offering, expanded its range of local tax-efficient solutions and increased the efficiency and availability of its credit offering. In Asset Management, we successfully integrated an alternative investment team specialised in listed UK small and mid caps. Meanwhile, the operational teams of our technology for banking unit completed the onboarding of a major European bank onto our platform.

In 2017, two new Managing Partners were nominated to reinforce our independent ownership model: Denis Pittet, previously Deputy Head of our Private Clients unit, and Annika Falkengren, former President and CEO of Skandinaviska Enskilda Banken (SEB). These appointments highlight our commitment to promoting exceptional people, who not only personify the culture and values of our Group but also offer a wealth of international experience in the banking sector.

We are also delighted to have been named “Western Europe's Best Bank for Wealth Management” at the prestigious Euromoney Awards for Excellence 2017, a distinction conferred each year by industry professionals. Moreover, our award for “Best Domestic Private Bank” at the WealthBriefing Swiss Awards 2018 reflects the importance that we attach to our Swiss roots.

Based on our macroeconomic and economic outlook for 2018, we are betting on continuity. Progress in the normalisation of monetary policy by central banks will give rise to increased volatility during the year but financial conditions are likely to remain favourable and global growth is set to continue. However, we will remain vigilant in our monitoring of the markets, innovative in our analyses, and agile in our investment decisions.

The decision to build our new global headquarters on a unique site in Bellevue, Switzerland, by 2021, shows our confidence in the future of our Group and our activities. It will provide us with a dynamic work environment that stimulates teamwork, creativity, professionalism and performance. This new headquarters will be an exceptional place to receive our clients, who will enjoy all our services and expertise under one roof.

Our priority for 2018 will be to maintain a customised, high-quality service for our clients, while pursuing profitable growth that will enable us to continue to invest in improving our services and infrastructure for the future. By doing this, we will ensure that we can maintain the positive and balanced growth momentum of our business lines.

We would like to express our gratitude to our clients for the trust they have placed in us, and to the management and employees of our Group for the entrepreneurial spirit that they demonstrate in carrying out their duties.



Patrick Odier – Senior Managing Partner



# Corporate governance

## 1. Group structure and shareholding

### Group structure

Compagnie Lombard Odier SCmA is the parent company of the Lombard Odier Group. Directly or indirectly, it controls all companies in the Lombard Odier Group.

A detailed list of firms in the Lombard Odier Group can be found in note 1.7: 'Disclosure of companies in which the bank holds a permanent direct or indirect significant participation' (page 33). None of the Group's firms are listed and there is no cross-shareholding.

### Important shareholders

The Managing Partners of Compagnie Lombard Odier SCmA directly or indirectly hold almost all the capital stock of the Compagnie.

At 31 December 2017, the seven Managing Partners of Compagnie Lombard Odier SCmA were Mr Patrick Odier, Mr Christophe Hentsch, Mr Hubert Keller, Mr Frédéric M. Rochat, Mr Hugo Bänziger, Mr Denis Pittet and Mrs Annika Falkengren.

## 2. Supervisory Board (SB)

### Members

The Supervisory Board is made up of three members who are all independent in the sense of marginal number 17 ff of the FINMA Circular 17/1 'Corporate governance – banks'. Its members are elected for a renewable period of three years.

The members of the Supervisory Board are:

#### Jacques Rossier

Mr Jacques Rossier has been the Chairman of the Supervisory Board of the Lombard Odier Group since 2014.

He holds a law degree from the University of Zurich and an MBA from Harvard Business School. He began his career at McKinsey & Co in Zurich in 1964 before becoming a Partner in 1970.

In 1976, he joined Guyerzeller Bank in Zurich as Executive Vice-President.

From 1979 to 1988, he was Executive Vice-President at Société de Banque Suisse (Swiss Bank Corporation) in Basel and Geneva.

In 1989, Mr Rossier became Managing Partner of the Lombard Odier Group, then, from 2006 to 2009, Partner of the Holding Privé Lombard Odier & Cie SCmA.

He was Chairman of Geneva Financial Center Foundation from 1999 to 2002 and a member of the Executive Committee and Board of Directors of the Swiss Bankers Association from 2005 to 2009.

He also chaired the Louis-Jeantet Foundation for medicine from 2006 to 2010.

#### Jean A. Bonna

Mr Jean Bonna has been a member of the Supervisory Board of the Lombard Odier Group since 2014.

He graduated from the University of Geneva with a law degree and began his career with internships between 1968 and 1970 in New York, at Morgan Guaranty Trust (today JP Morgan Chase & Co) and at US Trust Co, and in London, at Baring Brothers.

In 1971, he joined the Lombard Odier Group and became a Managing Partner in 1983. Until 2007, he held positions of responsibility in wealth management and was the Partner in charge of Financial Services, the Tax, Compliance and Legal Department, and all issues relating the Lombard Odier Group structure.

Mr Bonna was a member of the Committee of the Swiss Private Bankers Association from 1987 to 1997, holding the position of Chairman from 1993 to 1996.

From 1988 to 2002, he was a member of the Committee of the Board of Directors of the Swiss Bankers Association.

He represented the Lombard Odier Group in the Groupement des Banquiers Privés Genevois from 1987 to 2004. During this period, he was Chairman of this organisation on several occasions.

#### Klaus Jenny

Mr Klaus Jenny has been a member of the Supervisory Board since 2014.

He holds an economics degree (specialising in Banking) and an economics PhD from the University of St. Gallen, as well as a lawyer's certificate (Canton of Glarus). He also completed the Program for Senior Executives from the Massachusetts Institute of Technology.

He began his career at Crédit Suisse in 1972 and became a member of General Management in 1987. He then successively held responsibilities as a member of the Committee of General Management, then as a member of the Executive Board of the Crédit Suisse Group and as Chief Executive Officer of Crédit Suisse Private Banking.

Since 1999, he has carried out independent activities in finance.

## Other activities and mandates

(situation at 01.03.2018)

### Jean Bonna

- Chairman of the Association Internationale de Bibliophilie
- Director of the Louvre Endowment Fund
- Honorary Trustee of the Metropolitan Museum of Art (New York).

### Klaus Jenny

- Member of the Board of Directors of Maus Frères SA
- Member of the Board of Directors of Téléverbier SA
- Member of the Board of Directors of Assivalor AG
- Member of the Board of Directors of Edmond de Rothschild Holding SA
- Member of the Board of Directors of Edmond de Rothschild (Suisse) SA
- Member of the Board of Directors of Stellaria Holding SA

## 3. Internal organisation

### Allocation of tasks within the Supervisory Board

The positions held by the members of the Supervisory Board are stated in paragraph 2 of this section of the financial report. Moreover, the Supervisory Board acts in corpore as the Lombard Odier Group's Audit Committee and Risk Committee. A member of the Supervisory Board is appointed 'guarantor' for overseeing the Audit Committee function and another is appointed 'guarantor' for overseeing the Risk Committee function.

### Working methods

The Supervisory Board meets as often as required, but at least once every quarter. It makes decisions based on an absolute majority of votes cast by its members present. In the event of voting being equally split, the Chairman's vote takes precedence. For a decision to be valid, the majority of members of the Supervisory Board must be present.

The Chairman of the Supervisory Board prepares the agenda for each meeting or, if they are unavailable, the Vice-Chairman performs this task. They inform the members of the Supervisory Board of the dates and agenda at least ten days before each meeting. Any member of the Supervisory Board can ask the Chairman of the Supervisory Board to organise an extraordinary

meeting. Third parties may be invited for all or part of the meeting. Each Supervisory Board meeting is the subject of minutes sent to all members of the board.

### Powers of the Supervisory Board and the Administration (*Konzernleitung*) – the Partners

The Supervisory Board (SB) is responsible for checking that management is compliant with the law, regulations and the articles of association (including objects of association).

Its tasks are as follows:

- Checking that the Group's internal control system is working properly, including:
  - Checking the Group's risk management policies.
  - Checking the appropriateness and effectiveness of the Group's compliance system.
  - Checking the appropriateness and effectiveness of the Group's Internal Audit.
- Assessing the reports drawn up by the Group's Internal Audit and External Audit.
- Checking the Group's financial results.
- Appointing the head of the Group's internal audit, in principle based on the Administration's suggestion.

General management and supervision of the Group (*Konzernleitung*) is provided by the Partners (*Collège des Associés*). They define the Group's vision and strategy. They are also in charge of the consolidated supervision of the Group.

The Partners have the following duties and powers in particular:

- Defining the Group's strategy and managing the Group's business.
- Determining the Group's organisational structure.
- Defining the accounting and financial control principles of the Group.
- Determining the Human Resources policy.
- Defining the principles and architecture of the Group's internal control system.
- Determining the general framework of the Group's risk and compliance policies.



## Information and control mechanisms

The SB and its members receive the following reports in particular:

- Audit Reports (internal and external).
- Half-Yearly Risk Reports
- Annual Risk Compliance Assessment Report
- Annual Budget of the Group and its main entities

Any member of the SB can ask, through the Chairman of the SB, for additional information from the Administration.

## Group's Internal Audit

The Group's Internal Audit reports directly to the Supervisory Board.

It acts entirely independently and in compliance with regulatory requirements. It coordinates its activities according to the annual audit schedule approved by the Supervisory Board. It has meetings with the Supervisory Board every quarter, especially to discuss the internal audit reports issued since the previous period as well as coordination with the external audit firm, and to provide a follow-up on points for attention and priority recommendations.

## Risk management

Additional information on the coordination, control and management of risk is included on page 13 of this financial report.

## 4. Administration (*Konzernleitung*) – the Partners

### Partners

The Administration is the Lombard Odier Group's management body. It consists of seven Partners with unlimited liability for Compagnie Lombard Odier SCmA, who together form the Partners.

The Partners are:

#### Patrick Odier (Senior Managing Partner)

Patrick Odier has been a Managing Partner of the Lombard Odier Group since 1986 and a Senior Managing Partner since 1 July 2008. He has been Chairman of the Board of Directors of Bank Lombard Odier & Co Ltd. since 1 January 2014.

Mr Odier holds an economics degree from the University of Geneva and an MBA in finance from the University of Chicago.

He joined the Lombard Odier Group in 1982 and completed his training in Zurich, New York and Montreal before becoming a Managing Partner. Mr Odier has devoted most of his career to the strategic management of the Group and the development of business relationships with both private and institutional clients as well as external management companies.

Patrick Odier was Chairman of the Swiss Bankers Association from 2009 to 2016.

He is a member of the Board Group of *economiesuisse* (Swiss Business Federation).

He chairs Fondation Lombard Odier and the Dr Henri Dubois-Ferrière Dinu Lipatti Foundation. He is also a board member of the Louis-Jeantet Foundation and the Brocher Foundation in addition to many other Swiss and international philanthropic organisations and academic institutions.

#### Christophe Hentsch

Christophe Hentsch has been a Managing Partner of the Lombard Odier Group since 2004.

He holds an economics degree from the University of St. Gallen (HSG).

He started his career with Hewlett-Packard in 1984. In 1985, he joined the Corporate Finance division at Kleinwort Benson in London and then Geneva.

In 1991, Mr Hentsch moved to the Société Générale d'Affichage, where he was CFO and a member of senior management.

He joined the Lombard Odier Group in 1999, where he managed several departments in the Private Clients Unit before assuming responsibility for activities connected with the Group's IT and operational platform. He currently oversees the Compliance, Legal and Human Resources Unit.

From 1996 to 1999, he was a member of the Board of Directors of the Swiss Electronic Stock Exchange.

Mr Hentsch is a member of the Boards of the Geneva Financial Centre Foundation and the Swiss Finance Institute.

#### Hubert Keller

Hubert Keller has been a Managing Partner of the Lombard Odier Group since 2006.

After graduating in business administration (HEC) from the University of Lausanne, Mr Keller started his career in derivatives trading at Compagnie Financière Tradition in

Lausanne. He then joined the Corporate Finance division of the SG Warburg Group in London in 1991.

In 1995, he moved to Deutsche Bank in London, where he was involved in building up the convertible bonds sector and, subsequently, corporate finance activities in Europe. He then assumed global responsibility for Equity Capital Markets. In 2004, he became a member of the Executive Committee of the Global Banking division at Deutsche Bank.

On 1 January 2006, Mr Keller joined the Lombard Odier Group as a Managing Partner, where he was primarily responsible for the Institutional Clients business line.

He is currently in charge of the activities of Lombard Odier Investment Managers for the Group.

#### **Frédéric M. Rochat**

Frédéric Rochat has been a Managing Partner of the Lombard Odier Group since 2012.

Mr Rochat, who holds an economics and business administration degree from the University of St. Gallen (HSG), spent the first part of his career, working for the investment banking arm of Goldman Sachs Group in London and New York.

In this capacity, he advised a number of banks, insurers, asset managers and other financial services firms on topics relating to asset hedging, financing, equity recapitalisation, debt restructuring, and mergers and acquisitions.

Mr Rochat joined the Lombard Odier Group in October 2010 to head up its private client activities based in London.

He was appointed a Managing Partner of the Lombard Odier Group on 1 January 2012; he is co-head, together with Denis Pittet, of the Group's Swiss and international private clients activity.

#### **Hugo Bänziger**

Hugo Bänziger has been a Managing Partner of the Lombard Odier Group since 2014.

He holds a doctorate in history from the University of Berne. He began his career in 1983 with the Swiss Federal Banking Commission in Berne before joining Credit Suisse Group, in 1985, in Zurich and then London.

In 1996, he moved to Deutsche Bank, where, from 2006, he served as the Chief Risk Officer and a member of the Deutsche Bank Group's Management Board.

He joined the Lombard Odier Group in 2014, where he was primarily responsible for Risk Management and Compliance.

He currently oversees the Group's Risk Management, the Marketing, Branding and Communication Unit, as well as activities relating to the Group's IT and operational platform.

Mr Bänziger has previously chaired the Board of Directors of Eurex Group and had numerous responsibilities in European inter-bank working groups. He is also a visiting professor at the London School of Economics and the University of Chicago Booth School of Business.

Mr Bänziger is a member of the International Committee of the Red Cross and sits on the Board of the philanthropic organisation John D. V. Salvador Foundation.

#### **Denis Pittet**

Denis Pittet has been a Managing Partner of the Lombard Odier Group since 2017.

Mr Pittet, a qualified lawyer, holds a master's degree in law and a master's degree in economics from the University of Geneva. He has spent his entire career at the Lombard Odier Group. He joined the Group in 1993 as a lawyer, taking over responsibility for the Group's Legal, Tax & Wealth Advisory Unit in 1999.

In 2015, he joined the Private Clients Unit, which he co-manages with Frédéric Rochat. Within this Unit, he focuses on supervising the External Asset Managers and Wealth Planning departments.

Mr Pittet is Chairman of Fondation Philanthropia. He is also a member of the committee of the Association of Swiss Private Banks.

#### **Annika Falkengren**

Annika Falkengren has been a Managing Partner of the Lombard Odier Group since August 2017.

Mrs Falkengren holds a Bachelor of Science in Business Administration and Economics from the University of Stockholm.

She was formerly President and CEO of Skandinaviska Enskilda Banken (SEB), one of the major financial groups in Scandinavia, where she spent her career from 1987 to 2017. She held several positions of responsibility, such as Head of Global Trading & Capital Markets, Head of Merchant Banking and Deputy Group Chief Executive, before being appointed Chief Executive Officer in 2005.

Annika Falkengren joined the Lombard Odier Group on 1 August 2017 and primarily manages the Group's Finance Unit.

Mrs Falkengren was a member of the Board of Directors of the Swedish Bankers' Association from 2010 to 2017 and its Chairman for four years. She has also been a member of the Boards of Directors of several large international companies.

She is a member of the Royal Swedish Academy of Engineering Sciences and a member of the Foundation Board of the International Institute for Management Development (IMD).

### **Other activities and mandates**

(situation at 01.03.2018)

#### **Patrick Odier**

- Chairman of the Board of Directors of Banque Lombard Odier & Cie SA
- Chairman of the Administration of Compagnie Immobilière Lombard Odier SCmA
- Chairman of the Board of Directors of LO Holding SA
- Member of the Board of Directors of Lombard Odier Valeurs mobilières (Canada) Inc.
- Member of the Board of the patronage pension institution Fondation patronale Lombard Odier & Cie
- Chairman of the Dr Henri Dubois-Ferrière Dinu Lipatti Foundation for the fight against leukaemia and blood diseases
- Member of the Executive Board of economiesuisse
- Member of the Board of the Brocher Foundation and of the Louis-Jeantet Foundation

#### **Christophe Hentsch**

- Member of the General Management of Banque Lombard Odier & Cie SA
- Chairman of the Board of Directors of Lombard Odier & Cie (Bahamas) Limited
- Chairman of the Board of Directors of Lombard Odier & Cie (Gibraltar) Limited
- Member of the Board of the employee pension institution Fondation de prévoyance du groupe Lombard Odier
- Member of the Board of the complementary employee pension institution Fondation complémentaire de prévoyance du groupe Lombard Odier
- Member of the Board of Directors of LO Holding SA
- Member of the Administration of Compagnie Immobilière Lombard Odier SCmA

- Member of the Board of Geneva Financial Center Foundation
- Member of the Foundation Board of the Swiss Finance Institute (SFI)

#### **Hubert Keller**

- Member of the Board of Directors of Lombard Odier Asset Management (Switzerland) SA
- Member of the Board of Directors of Lombard Odier Asset Management (Europe) Limited
- Member of the Board of Directors of Lombard Odier Asset Management (USA) Corp
- Member of the Board of Directors of Lombard Odier (Singapore) Ltd
- Member of the Board of Directors of Lombard Odier (Hong Kong) Limited
- Member of the Board of Directors of Lombard Odier Trust (Japan) Limited
- Chairman of the Board of the employee pension institution Fondation de prévoyance du groupe Lombard Odier
- Chairman of the Board of the complementary employee pension institution Fondation complémentaire de prévoyance du groupe Lombard Odier
- Chairman of the Board of the patronage pension institution Fondation patronale Lombard Odier & Cie

#### **Frédéric M. Rochat**

- CEO of Banque Lombard Odier & Cie SA
- Chairman of the Board of Directors of Lombard Odier (Europe) SA
- Chairman of the Board of Directors of Lombard Odier Gestion (España) S.G.I.I.C. S.A.
- Member of the Board of the employee pension institution Fondation de prévoyance du groupe Lombard Odier
- Member of the Board of the complementary employee pension institution Fondation complémentaire de prévoyance du groupe Lombard Odier
- Member of the Board of the patronage pension institution Fondation patronale Lombard Odier & Cie

#### **Hugo Bänziger**

- Chairman of the Board of Directors of Lombard Odier Asset Management (Switzerland) SA
- Member of the Board of Directors of Lombard Odier Asset Management (Europe) Limited

- Chairman of the Board of Directors of Lombard Odier Asset Management (USA) Corp
- Member of the Board of Directors of Lombard Odier (Singapore) Ltd
- Member of the Board of Directors of Lombard Odier (Hong Kong) Limited
- Member of the Board of Directors of Lombard Odier Trust (Japan) Limited
- Member of the Board of Directors of LO Holding SA
- Member of the Board of Directors of TBI (Europe) SA
- Chairman of the Board of Directors of Bershield Insurance Limited
- Chairman of Eurex Clearing AG
- Vice-Chairman of Eurex Zürich AG
- Vice-Chairman of Eurex Frankfurt AG
- President of the EABH (European Association for Banking and Financial History)
- Member of the Assembly of the International Committee of the Red Cross

#### **Denis Pittet**

- Member of the General Management of Banque Lombard Odier & Cie SA
- Member of the Board of Directors of Lombard Odier (Europe) SA
- Chairman of the Board of Directors of Lombard Odier Trust (Bermuda) Limited
- Chairman of the Board of Directors of LO Patrimonia SA
- Member of the Board of the Andre & Cyprien Foundation and of the Pro Victimis Foundation

#### **Annika Falkengren**

- Member of the Board of Directors of LO Holding SA
- Member of the Foundation Board of IMD (International Institute for Management Development)

## **5. Compensation and shareholding programs**

The members of the Supervisory Board and the Administration only receive fixed yearly pay. They receive no variable pay and take part in no shareholding program.

## **6. Auditors**

### **Duration of audit mandate and duration of the position of head auditor**

The ordinary general meeting of 27 April 2017 designated, for the financial period 2017, the company PricewaterhouseCoopers SA, which has held this position since 27 July 2001, as the external auditors. The mandate head is Mr Beresford Caloia, who has held this position since the 2015 financial period.

### **Audit fees**

The audit fees paid in 2017 by the Lombard Odier Group amounted to CHF 3.0 million.

### **Additional fees**

In 2017, the Lombard Odier Group paid fees for other services that amounted to CHF 0.9 million.

### **Supervision and control mechanisms relating to the auditors**

The reports drawn up by the audit entity, as well as the assessment of risks and the scheduling of audits that result from this, are dealt with by the Audit Committee and discussed with the head auditor.

The members of the external audit entity have access, at all times, to the members of the Supervisory Board, the Partners (Collège des Associés) and the Internal Audit, with whom working sessions are regularly held.

# Information on risk management

## Global risk management

By their very nature, the banking and financial industries involve direct and indirect risk-taking. The Lombard Odier Group is fully aware of this and makes every effort to take only risks that are in line with its business policy.

Risk management is an integral part of the Group's strategy; it contributes to the preservation of its financial interests and reputation, and ensures the continuity and durability of its business.

The Group's global risk management is valued not just as a means of continually improving its activities and services, but also as a way of differentiating it from its competitors.

## Governance and main responsibilities with regard to risk management

- The Supervisory Board (SB) acts in corpore as the Risk Committee. The SB is notified by the Administration of the risk profile of the Group and its entities, the state of the Group's equity capital, and of any major event that may alter the Group's risk profile, on a quarterly basis.
- The Administration is responsible for defining the principles and architecture of the Group's internal control system (ICS), supervising its implementation and monitoring its efficiency. It defines the general risk policy framework and regularly check its suitability. It approves the overall limits for liquidity, market risk, credit risk and counterparty risk on an individual and consolidated basis.
- The Finance, Risk & Due Diligence Committee has decision-making powers and is responsible for establishing the Group's risk policy and proposing it to the Partners. It monitors the Group's risk profile to ensure that it is consistent with the defined policy and oversees the good governance of its internal control system. The Committee ensures that appropriate measures are taken and implemented when the risk profile deviates from the fixed framework. The Committee immediately informs the Partners and the Supervisory Board of any major event that could alter the Group's risk profile.
- The Chief Risk Officer (CRO) implements the Administrations' decisions on managing and controlling the risks. More specifically, the CRO establishes a suitable organisation for risk management. He or she proposes to the relevant governing bodies all measures necessary for consistent management of the Group's risks and monitors the changes in those risks. He or she sets up the management tools and methodologies necessary to manage the Group's risks.

The CRO immediately informs the Partners of any event that might alter the Group's risk profile.

- Risk Management unit, under the supervision of the CRO, reports regularly to management and to the governing bodies the level of risk compared to applicable limits.
- The Compliance Unit is tasked with ensuring that business is carried out in a manner that is compliant with our regulatory environment, is fair and equitable, and is in the overriding interests of clients and in compliance with market conduct rules. As a second line of defence function, the Compliance Unit helps to ensure that the Group has a proper internal control system in place which adequately measures and manages the risks of non-compliance that it faces. Under the supervision of the Group Chief Compliance Officer, the primary responsibilities of the Unit are: the supervision of financial crime risks (including Anti-Money Laundering, compliance with international financial sanctions, measures against internal and external frauds, etc), compliance with the requirements of corporate governance, segregation of duties and the prevention of conflicts of interest, monitoring of trading activities and the adaptation of the internal organisation based on new requirements identified thanks to regulatory monitoring. The Group Chief Compliance Officer regularly reports to governing bodies in charge of management risk and compliance and draws their attention to any situation of non-compliance while proposing areas for improvement.

## Market risk

Market risk is the risk of loss due to fluctuations in the value of a position resulting from a change in the factors that determine its price, such as exchange rates, interest rates, equity prices, etc. It impacts the Group's results mainly through the balance sheet positions derivative contracts. The framework for risk management is defined in the market risk policy of the Lombard Odier Group.

Limits are defined for the banking book and the trading book at global level; they are reviewed at least annually. For the latter sub-limits are defined for each trading activity. Market risk associated with trading activities is managed and controlled by the bearer of the risk (trading desks for a 1<sup>st</sup> level control), and then independently controlled by the Risk Management unit through daily and intraday 2<sup>nd</sup> level controls. The Risk Management unit identifies, measures and monitors market risk.

Currency risks are centralised in the Swiss bank entity of the Group whilst only minimal positions are allowed for the foreign entities.

Within the banking book, interest rate risks (i.e. potential risks relating to net interest income and variations in the economic value of own capital due to interest rate fluctuations) are managed in a centralised manner for the entire Group, taking into account the banking book as a whole.

## Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its payment obligations at any time, for any of its entities and in any currency and without cost that would affect the Group survival. Maintaining comfortable liquidity levels is one of the Group's primary objectives. The framework for liquidity risk management is set out in the Group's liquidity risk policy.

In the event of conflict between liquidity objectives and other commercial objectives, particularly with regard to profitability, measures aimed at ensuring a healthy liquidity position take precedence. Liquidity risks are monitored in accordance with the applicable regulatory provisions, as well as internal requirements.

The Group has adopted a centralised approach to cash and balance sheet management, which falls within the remit of the Treasury/ALM Department. Accordingly, uninvested client assets are placed conservatively, in line with clearly established constraints. The liquidity consumption of the loan book is monitored against the stable funding capacity from clients' deposits. The Risk Management unit carries out independent analysis. The liquidity approach is outlined in the Group's liquidity investment policy.

## Credit risk

Credit risk is the risk of loss arising from the failure by a client or counterparty to meet their contractual payment obligations. The framework for risk management is outlined in the Group's credit risk policy.

### Client credit risk

The Group's client credit risk is generated through two forms of activity both secured by a pledge of high quality, negotiable securities:

- 1) Lending, which is essentially limited to cash credit (loans and overdrafts) granted to clients (also known as "Lombard Credit").
- 2) Other credit exposure, which may include credit commitments (bank guarantees and subscriptions on behalf of clients to Private Equity or other investment

vehicles employing capital calls) and trading positions that require a margin such as derivatives and any other financial instruments.

Pledged portfolios are analysed in depth by the Credit Risk Department, and a conservative lending value is assigned to each pledged position based on relevant indicators of credit risk, and market risk, as well as liquidity and country risk of the investment. Currency risk and concentration risk by issuer and by country are systematically taken into consideration with regard to each collateral portfolio.

The credit exposure amount, market value and lending value of the pledged assets are revalued and monitored on a daily basis. Where coverage is insufficient or a limit is overrun, margin calls are made, and the Group may sell the pledged assets if needed to repay loans or cover other credit exposure.

It is not the Group's policy to grant mortgages or commercial loans.

### Counterparty credit risk

Counterparty risk is defined as the potential loss for the Group should its financial counterparties (banks or counterparties to transactions in its course of business) fail to meet their payment obligations.

The Group's risk policy restricts the choice of institutional counterparties in line with a cautionary approach, long-term vision and the objective of providing clients with a high-quality service. Institutions that play a major – or even systemic – economic role in their country or internationally are preferred.

Over-the-counter (OTC) derivatives are traded exclusively on a collateralised basis: reverse repos and repos are used for liquidity management purposes, and all derivatives transactions in which the Group is principal are governed by standard collateralisation agreements with strict parameters for margin calls and eligible collateral.

All new counterparties are investigated thoroughly, analysed and approved independently by the Risk Management Unit. The eligibility, financial health and limits of counterparties are reassessed at least once a year.

Counterparty risk is managed through a combination of limits that cover the various instrument types arising from the Group's activities.

Limits are set where the Group acts as principal towards counterparties (direct risk) but also where it acts as agent on its clients' behalf (indirect risk).

The Group applies a maximum financial risk for each counterparty, which limits the total amount of acceptable exposure across all of its activities. The limits per activity and the maximum total amount authorised vary according to the counterparty's creditworthiness.

The Risk Management unit monitors the change in the quality of service of counterparties, their financial soundness and the macroeconomic situation. It proposes changes to the limits wherever necessary. Counterparty limits are monitored daily by both the first line (traders and treasurers) and the second line of defence (Risk Management Unit).

### Settlement risk

Settlement risk is defined as the potential loss arising from the non-delivery of instruments following payment.

Settlements are generally executed on the basis of delivery versus payment (DvP). Limits are defined for each counterparty in order to manage the potential replacement risk should the instrument need to be purchased from another source. The limits are monitored on a daily basis.

### Operational risk

Operational risk is defined as the risk of loss arising from inadequacy or failure on the part of internal processes, people or systems, or following external events due to intentional, accidental or natural causes. It includes legal, fiscal, regulatory and compliance risks.

Operational risk is inherent in the business activities of the Group. Operational risk may take various forms and have many causes, ranging from unintentional human error to fraudulent acts and external events.

The Group is prepared to accept operational risks on the strict condition that they are in line with the implementation of its strategy and business policy, and that compliance with the regulations and laws of the markets in which it operates is ensured at all times. The Group has issued a statement regarding operational risk appetite that enables the Partners to supervise and manage the operational risk profile at any time.

The Group believes that operational risk management is the responsibility of all employees and that it requires the commitment of managers at all levels, as well as a strong operational risk prevention culture within the Group.

In practice, this means that each business unit must take ownership of its operational risks as a first line of defence with respect to the identification, evaluation and management of

these risks, and the proactive implementation of improvement measures.

The second line of defence, represented in particular by Risk Management and Compliance, is responsible for the supervision and monitoring of operational risk. They also offer specialist training and support to the units with regard to the implementation of the Group's risk management framework and the management of specific types of risk. Legal risks associated with potential litigation are assessed individually by the Legal department and Partners, with the assistance of external expert lawyers if necessary.

The Group has defined principles and processes for the identification and evaluation of prevalent operational risks, their management and mitigation, the surveillance and reporting of operational risks within the Group, and the promotion of a strong operational risk culture.

The Group's operational risk management framework complies with the standards defined by the Basel Committee and adopted by FINMA.

An independent assessment of the internal control system for back-office and IT activities is conducted annually on the basis of an external audit in order to obtain a Type II assurance opinion based on ISAE 3402 (SSAE 16) and ISAE 3000 standards.

Operational incidents trigger notifications that undergo a validation and escalation process. Such incidents are reported and analysed to ensure that suitable corrective and preventive measures can be taken to reduce the frequency and gravity of potential risk events in the future.

With regard to its business continuity plan, the Group believes that, in the event of an accident or major disaster, its ability to maintain and rapidly recover its critical activities is crucial to minimising the impact of such events on its operations. The Business Continuity Manager is responsible for the methodology and the setup of a Crisis Management team to handle matters if such an event were to occur.

The Group also tests its business continuity plan at least once a year to ensure that it is suitable, especially as regards its sensitive activities (technological infrastructure, information system, access to markets, and executing and booking of orders). The Group abides by the Swiss Bankers Association's Recommendations for Business Continuity Management and applies the self-regulation recognised as a minimum standard by FINMA (FINMA Circ. 08/10).

Finally, with respect to cyber security, the Group has set up the cyber risk management framework according to FINMA's requirements and in line with the NIST cyber security framework. Processes and controls are implemented within the organization to ensure the identification of potential threats, the protection of the technology infrastructure, the timely detection of security incidents based on systematic monitoring and the reaction and quick recover of normal activities in case of events. The Chief Information Security Officer is responsible for the operational security. Risk management is responsible for the supervision and monitoring of the cyber risk profile.

### **Reputational risk**

Reputational risk refers to a negative perception of the Group's business practices or internal controls that could have a financial impact on its operations. The Group considers reputation to be one of its key pillars, which is why reputational risk forms a separate risk category. This approach attests to the Group's determination to define pro-active measures wherever possible to minimise that risk.



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# Consolidated balance sheet

		31.12.2017	31.12.2016
		In thousands	In thousands
	Notes	CHF	CHF
<b>Assets</b>			
Liquid assets		7'367'976	7'338'546
Amounts due from banks	1.10	1'054'671	562'859
Amounts due from securities financing transactions	1.1	48'724	203'997
Amounts due from customers	1.2, 1.10	4'102'262	3'156'188
Trading portfolio assets	1.3	981	1'362
Positive replacement values of derivative financial instruments	1.4	306'935	500'418
Other financial instruments at fair value	1.3	469'268	480'511
Financial investments	1.5, 1.10	2'942'616	3'661'430
Accrued income and prepaid expenses		170'384	139'080
Non-consolidated participations	1.6, 1.7	2'047	1'877
Tangible fixed assets	1.8, 1.10	244'044	173'656
Other assets	1.9	160'498	163'948
<b>Total assets</b>		<b>16'870'406</b>	<b>16'383'872</b>
<b>Liabilities</b>			
Amounts due to banks		1'283'437	540'793
Amounts due in respect of customer deposits		13'194'275	13'230'214
Negative replacement values of derivative financial instruments	1.4	277'976	489'976
Liabilities from other financial instruments at fair value	1.3, 1.13	504'024	534'858
Accrued expenses and deferred income		330'398	303'769
Other liabilities	1.9	113'922	104'841
Provisions	1.14	127'125	134'228
<b>Total liabilities</b>		<b>15'831'157</b>	<b>15'338'679</b>
Reserves for general banking risks	1.14	237'766	233'206
Share capital	1.16	73'710	98'010
Retained earnings reserve		596'445	608'021
Foreign currency translation reserve		(14'767)	(18'548)
Consolidated profit		146'095	124'504
<b>Total equity</b>		<b>1'039'249</b>	<b>1'045'193</b>
<b>Total liabilities and equity</b>		<b>16'870'406</b>	<b>16'383'872</b>
Total subordinated liabilities		53'823	51'831
- of which with conversion obligation and/or debt waiver		5'883	2'831
<b>Off-balance sheet transactions</b>			
Contingent liabilities	1.2, 2.1	338'031	283'715
Irrevocable commitments	1.2	767'405	588'162

# Consolidated profit and loss account

		31.12.2017	31.12.2016
		In thousands	In thousands
	Notes	CHF	CHF
Interest and discount income	3.2	66,278	56,863
Interest and dividend income from financial investments		36,212	37,974
Interest expense	3.2	0	0
<b>Gross result from interest operations</b>		<b>102,490</b>	<b>94,837</b>
Changes in value adjustments for default risks and losses from interest operations		0	0
<b>Net result from interest operations</b>		<b>102,490</b>	<b>94,837</b>
Commission income from securities trading and investment activities		989,293	928,634
Commission income from lending activities		1,918	1,617
Commission income from other services		107,469	88,260
Commission expense		(191,504)	(182,859)
<b>Result from commission business and services</b>		<b>907,176</b>	<b>835,652</b>
<b>Result from trading activities and the fair value option</b>	3.1	<b>88,976</b>	<b>100,053</b>
Result from the disposal of financial investments		236	393
Income from participations		2,737	4,500
- of which from other non-consolidated participations		2,737	4,500
Result from real estate		4,612	4,136
Other ordinary expense		(99)	(9)
<b>Result from ordinary activities</b>		<b>7,486</b>	<b>9,020</b>
<b>Total operating income</b>		<b>1,106,128</b>	<b>1,039,562</b>
Personnel expenses	3.3	(693,175)	(652,311)
General and administrative expenses	3.4	(210,168)	(209,736)
<b>Total operating expenses</b>		<b>(903,343)</b>	<b>(862,047)</b>
Value adjustments on participations and depreciation of tangible fixed assets	1.6, 1.8	(6,311)	(9,669)
Changes to provisions and other value adjustments, losses	1.14	(4,596)	(17,027)
<b>Operating result</b>		<b>191,878</b>	<b>150,819</b>
Extraordinary income	3.5	2,188	13,428
Extraordinary expenses		(317)	(204)
Change in reserves for general banking risks	1.14	(4,560)	0
Taxes	3.7	(43,094)	(39,539)
<b>Consolidated profit</b>		<b>146,095</b>	<b>124,504</b>

# Cash flow statement

	31.12.2017		31.12.2016	
	Source of funds	Use of funds	Source of funds	Use of funds
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Profit of the period	146,095		124,504	
Change in reserves for general banking risks	4,560		5,700	5,700
Value adjustments on participations and depreciation of tangible fixed assets	6,311		9,669	
Provisions and other value adjustments	7,856	14,959	14,694	6,915
Accrued income and prepaid expenses		31,304	7,150	
Accrued expenses and deferred income	26,629			140,900
Other assets	3,450			7,979
Other liabilities	9,081			16,311
Dividend and others distributions		145,558		188,655
<b>Cash flow from operating activities</b>	<b>203,982</b>	<b>191,821</b>	<b>161,717</b>	<b>366,460</b>
Shareholder reimbursement		24,300		7,675
Other contribution	9,478		22,744	
Foreign currency translation differences	3,781		107	
<b>Cash flow from shareholder's equity transactions</b>	<b>13,259</b>	<b>24,300</b>	<b>22,851</b>	<b>7,675</b>
Non consolidated participations		185	4,000	
Real estate		71,668	720	934
Other tangible fixed assets		5,016	79	6,102
<b>Cash flow from investment activities</b>	<b>0</b>	<b>76,869</b>	<b>4,799</b>	<b>7,036</b>
<b>Cash flow from banking operations</b>				
Amounts due in respect of customer deposits	3,500			116,000
Amounts due from customers		62,816	189,724	
Financial investments	925,882			342,964
<b>Medium to long-term operations (&gt; 1 year)</b>	<b>929,382</b>	<b>62,816</b>	<b>189,724</b>	<b>458,964</b>
Amounts due to banks	742,644			32,281
Amounts due in respect of customer deposits		39,439	424,761	
Negative replacement values of derivative financial instruments		212,000	145,169	
Liabilities from other financial instruments at fair value		30,834		92,505
Amounts due from banks		491,812		167,837
Amounts due from securities financing activities	155,273		136,704	
Amounts due from customers		883,258		475,071
Trading portfolio assets	381			1,362
Positive replacement values of derivative financial instruments	193,483			120,381
Other financial instruments at fair value	11,243		129,005	
Financial investments		207,068		64,587
<b>Short-term operations</b>	<b>1,103,024</b>	<b>1,864,411</b>	<b>835,639</b>	<b>954,024</b>
<b>Liquidity</b>				
Liquid assets		29,430	579,429	
<b>Balance</b>	<b>2,249,647</b>	<b>2,249,647</b>	<b>1,794,159</b>	<b>1,794,159</b>

## Statement of changes in equity

	Share capital	Retained earnings reserve	Reserves for general banking risks	Foreign currency translation reserve	Profit of the period	Total
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Shareholders' equity as at the beginning of the reporting period	98,010	608,021	233,206	(18,548)	124,504	<b>1,045,193</b>
Capital increase/decrease	(24,300)					<b>(24,300)</b>
Other contributions		9,478				<b>9,478</b>
Foreign currency translation differences				3,781		<b>3,781</b>
Dividends and others distributions		(21,054)			(124,504)	<b>(145,558)</b>
Other allocations to the reserves for general banking risks			4,560			<b>4,560</b>
Profit of the period					146,095	<b>146,095</b>
<b>Shareholders' equity at the end of the reporting period</b>	<b>73,710</b>	<b>596,445</b>	<b>237,766</b>	<b>(14,767)</b>	<b>146,095</b>	<b>1,039,249</b>

# Notes to the consolidated financial statements

## Name, legal form and registered office of the Group

The ultimate parent company of the Lombard Odier Group is Compagnie Lombard Odier SCmA, a partnership limited by shares with its office in Geneva.

## Headcount

At the end of 2017, the Group employed 2,347 full-time equivalents (FTEs), compared with 2,249 at the end of 2016.

## Accounting principles for the preparation of the consolidated financial statements

### Basic principles

These financial statements are the consolidated financial statements of the Lombard Odier Group (hereinafter “the Group”) and give a true and fair view of the net assets, financial position and results of operations of the Group. They are presented in accordance with the Swiss Code of Obligations, the Swiss Banking Act, the Swiss Banking Ordinance and the Swiss Accounting rules for banks, securities dealers, financial groups and conglomerates (FINMA Circular 15/1).

### Basis of consolidation

#### General information

The Managing Partners of Compagnie Lombard Odier SCmA hold all Lombard Odier Group companies either directly or through structures belonging to them.

#### Scope and consolidation method

The Lombard Odier Group’s consolidated financial statements comprise the financial statements of companies which are directly or indirectly controlled by the Group, or over which it exercises a controlling influence. The consolidated Group companies and investments accounted for using the equity method are presented in Note 1.7 “Companies in which the Group permanently holds direct or indirect equity interest of significance”. The companies directly or indirectly controlled by the Group or over which it exercises a controlling influence are fully consolidated. Capital is consolidated using the purchase method.

Non-controlling interests of 20% to 50% are accounted for in the consolidated financial statements using the equity method. Interests of less than 20% and those that are less significant in terms of capital and returns or which are not strategic in nature are not consolidated, but reported in the balance sheet at cost less depreciation over their useful economic lives.

Subsidiaries are consolidated with effect from the date on which the Group effectively obtains control and are no longer consolidated once control has ceased.

The period used for consolidation purposes corresponds to the calendar year.

## Accounting and valuation principles

### Currency translation

The financial statements of consolidated companies prepared in foreign currencies have been translated into Swiss francs at the rate applicable on the reporting date, with the exception of capital, which is converted at historical rates. Income statements are converted at the average monthly exchange rates.

Currency translation differences resulting from consolidation are recognised in the “Foreign currency translation reserve”.

The exchange rates used to convert the main foreign currencies are as follows:

	31.12.2017	31.12.2016
USD	0.9745	1.0164
EUR	1.1701	1.0720
GBP	1.3182	1.2559

### Liquidity, amounts due from banks, amounts due from customers and liabilities

These items are reported in the balance sheet at their nominal value. The receivables deemed to be doubtful are subject to value adjustments deducted directly from the assets side of the balance sheet.

### Securities financing transactions

Securities that are purchased with an obligation to resell them in the future (reverse repurchase agreements) and borrowed securities are only reported in the balance sheet if the Group acquires beneficial ownership of the rights associated with the securities transferred. The cash exchanged to purchase these securities or provided as collateral in the case of securities borrowing are recognised in the balance sheet under “Amounts due from securities financing transactions”.

Securities that are sold with an obligation to repurchase them in the future (repurchase agreements) and securities lending are reported in the balance sheet for as long as the Group retains beneficial ownership of the rights associated with the securities transferred.

The cash received in return for the sale of securities or as collateral in the case of securities lending is recognised in the balance sheet under “Liabilities from securities financing transactions”.

The interest income and expenses resulting from the amounts receivable and payable are accrued over the transaction period.

The securities lending and borrowing activities largely relate to securities lending transactions entered into as an agent acting on behalf of clients. The resulting revenue and expenses are therefore recognised in net commission income.

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

Securities and precious metals held for trading are measured and reported in the balance sheet at fair value. Gains and losses on portfolios held for trading are recognised in the income statement under “Results from trading activities and the fair value option”.

The interest and dividend income from the portfolios held for trading is recognised under “Interest and dividend income from trading activities”.

#### **Derivative financial instruments**

##### ***Trading and cash management activities***

All derivative financial instruments are measured at fair value. Positive and negative replacement values are reported in the balance sheet. The fair value is either the market price (if the instrument is traded on an efficient and liquid market) or the price quoted by market makers.

Realised and unrealised income from derivative financial instruments used for trading purposes or for the account of customers is recognised under “Results from trading activities and the fair value option”. Interest income from currency swaps included within cash management is reported under “Interest and discount income” and recognised using the accrual method.

##### ***Hedging transactions***

The Group uses derivative financial instruments to manage interest rate and foreign exchange risk.

Hedging transactions are measured on the same basis as the underlying hedged transactions.

Gains/losses from hedges are reported in the same income statement item as the corresponding gains/losses from the underlying transaction.

Changes in value are entered in the offset accounts if no value adjustment is recorded for the underlying transactions.

The Group uses hedge accounting if the hedging effects and the strategic aims of the hedging transactions with regard to interest rate and foreign exchange risk are documented when the transactions are entered into and the effectiveness of the hedges is periodically verified.

Hedges that fail to fulfil, no longer fulfil or only partially fulfil their hedging function are deemed to be trading transactions – either in full or in proportion to the excess portion – and treated as such.

#### **Other financial instruments at fair value**

Certificates issued by the Group which represent a fraction of a basket of underlyings are reported in the balance sheet under “Liabilities from other financial instruments at fair value”. Debt and equity instruments and investment funds held in connection with these certificates are reported under “Other financial instruments at fair value”.

The difference between the amount of certificates issued, in liabilities, and the hedging positions, in assets, is mainly due to the replacement values of derivatives financial instruments acquired as part of the certificates investment strategy and has a ‘cash’ component included in the liquidities.

Any changes in the value of the certificates and underlyings, as well as any interest accruals, are recognised under “Results from trading activities and the fair value option”.

#### **Financial investments**

Debt securities to be held to maturity are recognised in the balance sheet on an amortised cost basis. Gains and losses resulting from an early sale or redemption are recorded proportionally up to the initial maturity date of the transaction under the items “Other assets” and “Other liabilities”. Value adjustments in connection with default risk are recorded immediately under “Changes in value adjustments for default risks and losses resulting from interest operations”.

Debt securities not to be held to maturity are measured according to the principle of the lower of cost or market. The remaining value adjustments are reported under “Other ordinary expense” or “Other ordinary income”. Revaluation up to a maximum of the acquisition cost is recognised if the market price, which had fallen below the acquisition cost, subsequently rose again.

Value adjustments related to default risk are recorded under “Changes in value adjustments for default risks and losses resulting from interest operations”.

### **Non-consolidated participating interests**

Non-consolidated participating interests are individually measured at cost less any economically necessary value adjustments.

### **Tangible fixed assets**

Expenditure on new tangible fixed assets which are used for more than one accounting period and exceed the minimum value for capitalisation are recognised in the balance sheet at cost and depreciated on a straight-line basis. Depreciation is carried out on a scheduled basis over the expected useful life of the fixed asset. The accuracy of the valuations is reviewed on an annual basis. If this assessment reveals a change in the useful life or a reduction in the value of the fixed asset, the residual carrying amount is depreciated according to the new expected useful life or supplementary unscheduled depreciation is recognised.

Scheduled as well as supplementary unscheduled depreciation is recognised in the income statement in “Value adjustments on participations and depreciation of tangible fixed assets”.

The depreciation rates and periods expected and applied to the acquisition cost of the different categories of tangible fixed assets are as follows:

- Buildings used for own use: 1% to 5%
- Other buildings: 2% to 5%
- Work to fit-out buildings: up to 5 years
- Fixtures, machinery, large items of furniture: up to 5 years
- Technological equipment (IT, telecommunications) and software: up to 3 years

Gains and losses from the disposal of tangible fixed assets are reported under “Extraordinary income” and “Extraordinary expenses”, respectively.

### **Accrued income and prepaid expenses/accrued expenses and deferred income**

With the exception of services that have been received and invoiced but not yet paid for, which are reported in the balance sheet as “Other assets” or “Other liabilities”, all of the assets and liabilities resulting from the accrual of interest and other types of income and expenses on asset and liability items, and other accruals are disclosed in “Accrued income and prepaid expenses”/“Accrued expenses and deferred income”.

### **Taxes**

Taxes include taxes on the income and capital of Group companies and allocations to provisions for deferred taxes. Current income taxes are recognised on the liabilities side of the balance sheet under “Accrued expenses and deferred income”.

The tax implications of temporary differences between the balance sheet value and tax value of the assets and liabilities are entered in the balance sheet under “Provisions”, if the amounts are taxable, or under “Other assets”, if the amounts are tax deductible.

Claims resulting from tax losses carried forward are only recorded if they are likely to be realised in the future through the existence of sufficient taxable profits. Deferred taxes are determined annually based on the actually expected tax rates or, if these are not yet known, on the tax rates in force at the time the balance sheet is prepared. Deferred tax income and expenditure are recognised in the income statement.

### **Provisions and value adjustments**

Provisions or value adjustments are recognised for all foreseeable risks and unrealised losses in accordance with the principle of prudence.

Individual value adjustments are charged directly to the corresponding line items on the assets side of the balance sheet. Provisions for other risks are recognised in the balance sheet under “Provisions”.

### **Reserves for general banking risks**

The Group recognises “Reserves for general banking risks” as a preventive measure to cover the risks inherent in the banking business which are not covered by specific provisions. These reserves form part of equity and are subject to tax or deferred tax.

### **Pension fund obligations**

Pension fund obligations are all plans, institutions and arrangements that provide benefits for retirement, death or disability.

An annual review is carried out to determine whether an economic benefit (excess assets) or economic obligation (shortfall) other than the contribution benefits and related adjustments arises from each pension fund. In Switzerland, this review is conducted on the basis of contracts, the annual financial statements of the pension funds (prepared in accordance with Swiss GAAP RPC 26), and other calculations that give a true and fair view of each fund’s financial situation, excess cover or underfunding.



Obligations are recognised in the balance sheet under “Provisions”, while economic benefits are reported under “Other assets”. The difference compared with the corresponding value in the prior period is recognised for each pension fund in “Personnel expenses”.

### **Contingent liabilities, irrevocable commitments, liabilities for unpaid share capital and additional capital contributions**

These items are presented at their nominal value in off-balance sheet transactions. The Group recognises provisions on the liabilities side of the balance sheet for foreseeable risks.

### **Notes to the annual financial statements**

Notes that are not required or which do not provide any information are not presented.

### **Comparative figures**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

### **Changes in accounting and measurement policies**

From 1 January 2017, technological equipment (IT, telecommunications) and software are depreciated over their duration of use, up to 3 years. Previously, they were fully amortized upon acquisition. The technological equipment acquired in 2017 amount to CHF 2.3 million and their depreciation to CHF 0.6 million.

### **Recording of transactions**

All transactions are recorded on a trade-date basis and valued as of that date for the purposes of determining the result. All spot transactions entered into but not yet settled are recognised in the balance sheet according to the trade-date principle.

### **Explanations on the methods used for identifying default risk and determining the need for value adjustments**

Given the pledge rate required for lombard loans to be granted, the risk of default for this lending category is low. The credit exposure amount, the market value and the loan to value ratio of pledge assets are revalued and monitored on a daily basis. If it becomes unlikely that the borrower will be able to meet its obligations, the loan is considered doubtful. In such situations, the Partners and/or the Group Risk Committee decides whether a specific provision should be recognised on a case-by-case basis, taking into account detailed evaluation of any sureties.

### **Explanations on the valuation of collateral, in particular key criteria for the calculation of current market value and lending value**

The lending business is essentially limited to lombard loans. The collateral provided is accepted as pledged at a percentage of its market value. This pledge rate depends on the nature, solvency, currency and tradability of the securities.

### **Policy on the use of derivative financial instruments**

The Group does not issue options or any other kind of derivative product for its own account. Most of the derivatives trading activity relates to foreign exchange transactions (forward transactions and options) and options on securities, stock market indices carried out on clients' behalf. The use of derivatives in discretionary portfolio management is restricted to the transactions authorised by the Swiss Bankers' Association guidelines and in accordance with the Group's investment policy.

In certain cases, the Group uses derivative financial instruments as part of its activities, primarily to manage its exposure to interest rate and foreign currency risks. In this context, it mainly uses forward currency transactions or currency options and interest rate swaps. These transactions are mostly recognised as micro and macro hedges in accordance with hedge accounting principles (see “Accounting and valuation principles”).

### **Specific events and events after the end of the reporting period**

#### **Specific events**

Like hundreds of other establishments, legal proceedings have been initiated against Bank Lombard Odier & Co Ltd (the Bank) in New York (i) by the liquidators of the Fairfield Sentry Ltd and Fairfield Sigma Ltd (“Fairfield”) funds on the one hand for the restitution of the amounts received from the funds Fairfield on behalf of certain clients and (ii) by Bernard L. Madoff Investments Securities LLC (BLMIS) on the other hand for the restitution of the amounts received from the funds Fairfield and Kingate Global USD on behalf of certain clients. These proceedings are still ongoing.

From the outset, the Group has considered the risk resulting from these proceedings to be impossible to quantify. The development of the proceedings in New York has so far been favourable to the defendants (including the Bank), such that it can reasonably be assumed that the risk has declined since 2010. Consequently, no provisions were recognised as at 31 December 2017, apart from those required to meet the cost of the Bank's legal defence.

### **Events after the end of the reporting period**

There were no events after the end of the reporting period capable of impacting the financial statements as at 31 December 2017.

# 1. Information on the balance sheet

## 1.1 Breakdown of securities financing transactions (assets and liabilities)

	Current year	Previous year
	In thousands	In thousands
	CHF	CHF
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	48'724	203'997
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	0	0
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	17'610	19'745
- of which with unrestricted right to resell or pledge	17'610	19'745
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	66'779	224'707
- of which repledged securities	0	0
- of which resold securities	0	0

## 1.2 Presentation of collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans / receivables

		Type of collateral		Total
		Secured by other collateral	Unsecured	
		In thousands CHF	In thousands CHF	In thousands CHF
<b>Loans (before netting with value adjustments)</b>				
Amounts due from customers		4,089,213	13,049	4,102,262
<b>Total loans (before netting with value adjustments)</b>	<b>Current year</b>	<b>4,089,213</b>	<b>13,049</b>	<b>4,102,262</b>
	Previous year	2,987,936	168,252	3,156,188
<b>Total loans (after after netting value adjustments)</b>	<b>Current year</b>	<b>4,089,213</b>	<b>13,049</b>	<b>4,102,262</b>
	Previous year	2,987,936	168,252	3,156,188
<b>Off-balance sheet</b>				
Contingent liabilities		262,789	75,242	338,031
Irrevocable commitments		744,557	22,848	767,405
<b>Total off-balance sheet</b>	<b>Current year</b>	<b>1,007,346</b>	<b>98,090</b>	<b>1,105,436</b>
	Previous year	767,173	104,704	871,877

### Impaired loans/receivables

As at 31 December 2017, the Group has no impaired loan or receivables (2016: none).

### 1.3 Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)

	Current year	Previous year
	In thousands	In thousands
	CHF	CHF
<b>ASSETS</b>		
<b>Trading portfolio assets</b>		
Debt securities, money market securities / transactions	981	1,362
- of which listed	981	1,362
<b>Total trading portfolio assets</b>	<b>981</b>	<b>1,362</b>
<b>Other financial instruments at fair value</b>		
Debt securities	74,373	84,570
Equity securities	362,687	366,171
Structured products	32,208	29,770
<b>Total other financial instruments at fair value</b>	<b>469,268</b>	<b>480,511</b>
<b>Total assets</b>	<b>470,249</b>	<b>481,873</b>
- of which determined using a valuation model	0	0
- of which securities eligible for repo transactions in accordance with liquidity requirements	705	0
<b>LIABILITIES</b>		
<b>Other financial instruments at fair value</b>		
Certificates	504,024	534,858
<b>Total liabilities</b>	<b>504,024</b>	<b>534,858</b>
- of which determined using a valuation model	0	0

## 1.4 Presentation of derivative financial instruments (assets and liabilities)

	Trading instruments			Hedging instruments			
	Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume	
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	
<b>Interest-rate related instruments</b>							
Swaps	876	876	148,119	2,931	1,775	431,390	
Options (OTC)							
<b>Foreign exchange/Precious metals</b>							
Forward contracts	231,901	223,193	37,191,724	2,321	10,037	374,805	
Combined interest rate/currency swaps	31,800	5,737	4,061,866				
Options (OTC)	24,873	24,250	2,719,695				
<b>Equity securities/Indices</b>							
Options (OTC)	9,711	9,711	820,406				
Futures			26,917				
Options (exchange traded)	394	266	96,807				
<b>Credit derivatives</b>							
Credit default swap	2,128	2,131	57,032				
<b>Total before netting agreements</b>							
	<b>Current year</b>	<b>301,683</b>	<b>266,164</b>	<b>45,122,566</b>	<b>5,252</b>	<b>11,812</b>	<b>806,195</b>
	<i>- of which, determined using a valuation model</i>	<i>301,289</i>	<i>265,898</i>	<i>-</i>	<i>5,252</i>	<i>11,812</i>	<i>-</i>
	Previous year	496,048	479,411	42,912,887	4,370	10,565	788,279
	<i>- of which, determined using a valuation model</i>	<i>495,674</i>	<i>479,411</i>	<i>-</i>	<i>4,370</i>	<i>10,565</i>	<i>-</i>
<b>Total after netting agreements</b>							
	<b>Current year</b>		<b>161,040</b>			<b>136,778</b>	
	Previous year		308,194			143,742	
<b>Breakdown by counterparty:</b>							
				<b>Central clearing houses</b>	<b>Banks and securities dealers</b>	<b>Other customers</b>	
				In thousands CHF	In thousands CHF	In thousands CHF	
<b>Positive replacement values (after netting agreements)</b>				<b>398</b>	<b>37,591</b>	<b>123,051</b>	

## 1.5 Breakdown of financial investments

	Current year		Previous year	
	Book value	Fair value	Book value	Fair value
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Debt securities	2,941,849	2,930,471	3,656,021	3,647,999
- of which intended to be held to maturity	2,941,849	2,930,471	3,656,021	3,647,999
- of which not intended to be held to maturity	0	0	0	0
Equity securities	767	1,079	5,409	6,049
<b>Total financial investments</b>	<b>2,942,616</b>	<b>2,931,550</b>	<b>3,661,430</b>	<b>3,654,048</b>
- of which securities eligible for repo transactions in accordance with liquidity requirements	982,263	-	1,101,549	-

### Breakdown of counterparties by rating

	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Lower than B-	No rating
Debt securities at book value	2,721,823	220,026	0	0	0	0

The Group uses the ratings of the three rating agencies Standard & Poor's, Moody's and Fitch. If each of the external agencies issues an instrument with a rating, the median is used, and if only two ratings are issued, the Group uses the more conservative value. In the absence of a specific rating for the instrument, the Group uses the Standard & Poor's long-term issuer rating.

## 1.6 Presentation of non-consolidated participations

	<b>Acquisition cost</b>	<b>Accumulated value adjustments and changes in book value (valuation using the equity method)</b>	<b>Book value previous year end</b>	<b>Investments</b>	<b>Disposals (including foreign exchange differences)</b>	<b>Value adjustments</b>	<b>Changes in book value in the case of participations valued using the equity method / depreciation reversals</b>	<b>Book value as at end of current year</b>	<b>Market value</b>
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
<b>Non-consolidated participations</b>									
Other participations									
- without market value	2,110	(233)	1,877	185	0	(15)	0	2,047	-
<b>Total non-consolidated participations</b>	<b>2,110</b>	<b>(233)</b>	<b>1,877</b>	<b>185</b>	<b>0</b>	<b>(15)</b>	<b>0</b>	<b>2,047</b>	<b>0</b>



## 1.7 Disclosure of companies in which the bank holds a permanent direct or indirect significant participation (1/2)

Company name	Registered office	Business activity	Share capital	Proportion of holding/voting rights (in %)		Direct/indirect ownership		
				Current year	Previous year	Current year	Previous year	
<b>Fully consolidated participating interests</b>								
Compagnie Lombard Odier SCmA	Geneva	Holding company	CHF	73,700,100	100	100	direct	direct
Banque Lombard Odier & Cie SA	Geneva	Bank	CHF	100,000,000	100	100	indirect	indirect
Cité Gestion SA	Geneva	Portfolio management	CHF	11,000,000	0	100	-	indirect
Compagnie Immobilière Lombard Odier SCmA	Geneva	Real estate company	CHF	2,700,000	10/53	10/53	indirect	indirect
			CHF	24,300,000	90/47	90/47	indirect	direct
			CHF	98	0/0	0	indirect	-
			CHF	2	0/0	0	direct	-
Germinal IV SA	Geneva	Fiduciary company	CHF	200,000	0	100	-	indirect
Laspère SA	Geneva	Fiduciary company	CHF	250,000	100	100	indirect	indirect
LO Patrimonia SA	Geneva	Fiduciary company	CHF	1,000,000	100	100	indirect	indirect
LO Holding SA	Geneva	Holding company	CHF	34,110,000	100	100	indirect	indirect
LO IP SA	Geneva	Service company	CHF	700,000	100	100	indirect	indirect
LO Participations SA	Geneva	Holding company	CHF	12,000,000	0	100	-	indirect
Lombard Odier Asset Management (Switzerland) SA	Geneva	Investment advisory comp.	CHF	26,000,000	100	100	indirect	indirect
Lombard Odier Asset Management (Europe) Limited	London	Investment advisory comp.	GBP	59,000,000	100	100	indirect	indirect
Lombard Odier (Europe) S.A.	Luxembourg	Bank	EUR	40,000,000	100	100	indirect	indirect
Lombard Odier Funds (Europe) S.A.	Luxembourg	Distributor of CIS	CHF	3,000,000	100	100	indirect	indirect
Lombard Odier Investment Managers Private Equity SARL	Luxembourg	Distributor of CIS	EUR	12,500	100	100	indirect	indirect
TBI (Europe) SA	Luxembourg	Banking and IT services	EUR	5,000,000	100	100	indirect	indirect
Lombard Odier Gestión (España), SGIIC, S.A.	Madrid	Portfolio management	EUR	1,188,000	100	100	indirect	indirect
Codati Limited	Gibraltar	Service company	GBP	100,000	100	100	indirect	indirect
Lombard Odier & Cie (Gibraltar) Limited	Gibraltar	Bank	CHF	2,260,000	100	100	indirect	indirect
LO Delta explorer GP Limited	Jersey	Distributor of CIS	CHF	100,000	100	100	indirect	indirect
Lombard Odier (Jersey) Limited	Jersey	Distributor of CIS	CHF	500,000	100	100	indirect	indirect
Lombard Odier Infrastructure fund GP Limited	Jersey	Distributor of CIS	CHF	100,000	100	100	indirect	indirect
Lombard Odier (Hong Kong) Limited	Hong Kong	Investment advisory comp.	HKD	790,000,000	100	100	indirect	indirect
Lombard Odier (Singapore) Ltd.	Singapore	Bank	CHF	29,255,000	100	100	indirect	indirect
Lombard Odier Trust (Japan) Limited	Tokyo	Portfolio management	JPY	300,000,000	100	100	indirect	indirect
Lombard Odier Services Inc.	Montreal	Service company	CAD	4,999,244	100	100	indirect	indirect
Lombard Odier Valeurs mobilières (Canada) Inc.	Montreal	Broker dealer	CAD	3,700,000	100	100	indirect	indirect
Lombard Odier Transatlantic Limited	Montreal	Broker dealer	USD	9,478,957	100	100	indirect	indirect
Lombard Odier Asset Management (USA) Corp.	New York	Investment advisory comp.	USD	2,000	100	100	indirect	indirect
Lombard Odier (Panama), Inc.	Panama City	Investment advisory comp.	USD	500,000	100	100	indirect	indirect
Lombard Odier (Uruguay) S.A.	Montevideo	Investment advisory comp.	USD	103,986	100	0	indirect	-
Bershield Insurance Limited	Bermuda	Insurance company	CHF	216,000	100	100	indirect	indirect
Lombard Odier Trust (Bermuda) Limited	Bermuda	Trust company	CHF	1,350,000	100	100	indirect	indirect

## 1.7 Disclosure of companies in which the bank holds a permanent direct or indirect significant participation (2/2)

Company name	Registered office	Business activity	Share capital	Proportion of holding/voting rights (in %)		Direct/indirect ownership		
				Current year	Previous year	Current year	Previous year	
<b>Fully consolidated participating interests</b>								
1798 Global Partners (Cayman Island) L	Cayman	Management company	USD	10,001	100	100	indirect	indirect
1798 Global Partners LLC	Delaware	Distributor of CIS	USD	500,000	100	100	indirect	indirect
Lombard Odier & Cie (Bahamas) Limite	Nassau	Bank	CHF	4,000,000	100	100	indirect	indirect

Company name	Registered office	Business activity	Share capital	Proportion of holding/voting rights (in %)		Direct/indirect ownership		
				Current year	Previous year	Current year	Previous year	
<b>Non-consolidated participating interests</b>								
SIX Group AG	Zurich	Financial services	CHF	19,521,905	2	2	indirect	indirect

The Group does not have any significant position in equity securities of undertakings recognised under financial investments (2016: none).

In addition, there are no commitments to purchase further shares or to dispose of shares (2016: none).

## 1.8 Presentation of tangible fixed assets

	Acquisition cost	Accumulated depreciation	Book value previous year end	Reclassification	Additions	Disposals (including foreign exchange differences)	Depreciation	Book value as at end of current year
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Bank buildings	309,972	(138,990)	170,982	35	71,578	47	(3,692)	238,950
Other real estate	14,800	(14,588)	212	226	35	8	(50)	431
Software	10,750	(10,750)	0	0	1,558	0	(876)	682
Other tangible fixed assets	73,715	(71,253)	2,462	(261)	3,358	100	(1,678)	3,981
<b>Total tangible fixed assets</b>	<b>409,237</b>	<b>(235,581)</b>	<b>173,656</b>	<b>0</b>	<b>76,529</b>	<b>155</b>	<b>(6,296)</b>	<b>244,044</b>

## 1.9 Breakdown of other assets and other liabilities

	Current year	Previous year
	In thousands CHF	In thousands CHF
<b>Other assets</b>		
Amount recognised as assets in respect of employer contribution reserves	102,546	102,546
Settlement accounts	12,758	18,537
Coupons	1,838	8,525
Indirect taxes	12,790	4,682
Compensation account	7,426	6,361
Other assets	23,140	23,297
<b>Total other assets</b>	<b>160,498</b>	<b>163,948</b>
<b>Other liabilities</b>		
Settlement accounts	25,753	36,628
Coupons	14,300	1,073
Indirect taxes	26,937	22,093
Compensation account	773	466
Other liabilities	46,159	44,581
<b>Total other liabilities</b>	<b>113,922</b>	<b>104,841</b>

## 1.10 Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

	Current year		Previous year	
	Book value of pledge	Actual liabilities	Book value of pledge	Actual liabilities
	In thousands	In thousands	In thousands	In thousands
	CHF	CHF	CHF	CHF
<b>Pledged assets</b>				
Amounts due from banks	35,299	33,967	235,763	150,389
Amounts due in respect of clients deposits	3,329	5,184	2,111	2,187
Financial investments	407,166	180,657	418,495	251,330
Real estate	90,819	44,300	91,931	44,300

## 1.11 Disclosure of liabilities relating to own pension schemes, and number and nature of equity instruments of the bank held by own pension schemes

	Current year	Previous year
	In thousands	In thousands
	CHF	CHF
Amounts due in respect of customer deposits	66,125	288,312
<b>Total liabilities to own pension funds</b>	<b>66,125</b>	<b>288,312</b>

## 1.12 Disclosures on the economic situation of own pension schemes (1/2)

Employer contribution reserves (ECR)	Nominal value at current year end	Waiver of use at current year end	Net amount at current year end	Net amount at previous year end	Influence of the ECR on personnel expenses	
					Current year	Previous year
					In thousands CHF	In thousands CHF
Patronage pension institution:						
Fondation patronale Lombard Odier & Cie	102,546	0	102,546	102,546	0	0

Presentation of the economic benefit/obligation and the pension expenses	Overfunding / underfunding at end of current year	Economic interest of the Group	Change in economic interest (economic benefit / obligation) compared to previous year	Contributions paid for the current period	Pension expenses in personnel expenses	
					Current year	Previous year
					In percentage	In thousands CHF
Pension plans with overfunding:						
Fondation de prévoyance du groupe Lombard Odier	110.9%	0	0	23,399	23,399	23,706
Fondation complémentaire de prévoyance du groupe Lombard Odier	109.5%	0	0	11,343	11,343	10,721

The Group's governing bodies consider that any surplus in pension institutions will be used for the benefit of the employees and that, as a result, there will be no economic benefit for the Group. At 31 December 2017, there was no economic benefit or economic obligation to be recognised in the Group's balance sheet or income statement.

The governing bodies of the pension funds evaluated the funding ratio at 31 December 2017, on the basis of the non-audited financial statements, to be 110.9% for the Pension Foundation and 109.5% for the Supplementary Pension Foundation.

## 1.12 Disclosures on the economic situation of own pension schemes (2/2)

### Pension funds

#### Pension Foundation of Lombard Odier Group

All employees whose activity is based in Switzerland must be affiliated to the Pension Foundation of Lombard Odier Group (Art. 5 of the regulations). The Foundation's objective is to protect all affiliated employees from the economic consequences of old age, disability and death; it is entered in the Register of Occupational Pensions Plan kept by the Supervisory Authority of the Canton of Geneva, pursuant to Article 48 LPP. Through this registration, the Foundation undertakes to satisfy the requirements of the LPP. Employees are free to choose their retirement age between 58 and 65 years.

#### Supplementary Pension Foundation of Lombard Odier Group

The Supplementary Pension Foundation's objective is to protect affiliated executives and employees from the economic consequences of old age, disability and death, supplementing the benefits they receive from the Pension Foundation of Lombard Odier Group. Members are free to choose between two options for their contribution rate, without any impact on the employer contribution. Employees can freely choose when their retirement benefits become due, between their 58<sup>th</sup> and 65<sup>th</sup> year.

## 1.13 Presentation of issued structured products

Underlying risk of the embedded derivative		Book value				Total
		Valued as a whole		Valued separately		
		Booked in trading portfolio	Booked in other financial instruments at fair value	Value of the host instrument	Value of the derivative	
		In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Equity securities	with own debenture component	-	431,099	0	0	431,099
	without own debenture component	0	0	0	0	0
Interest-rate instruments	with own debenture component	-	72,925	0	0	72,925
	without own debenture component	0	0	0	0	0
<b>Total</b>		<b>0</b>	<b>504,024</b>	<b>0</b>	<b>0</b>	<b>504,024</b>

## 1.14 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

	Balance at previous year end	Use in conformity with designated purpose	Foreign exchange differences	Changes in the scope of consolidation	Past due interest, recoveries	New creations charged to income statement	Releases to income statement	Balance at current year end
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Provisions for deferred taxes	104,407	0	0	0	-	1,692	0	106,099
Provisions for other business risks	24,958	(5,138)	15	(7,331)	0	2,142	(936)	13,710
Other provisions	4,863	(1,013)	7	0	0	4,000	(541)	7,316
<b>Total provisions</b>	<b>134,228</b>	<b>(6,151)</b>	<b>22</b>	<b>(7,331)</b>	<b>0</b>	<b>7,834</b>	<b>(1,477)</b>	<b>127,125</b>
<b>Reserves for general banking risks</b>	<b>233,206</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>4,560</b>	<b>0</b>	<b>237,766</b>
<b>Value adjustments for default and country risks</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

## 1.15 Disclosure of amounts due from / to related parties

	Current year		Previous year	
	Amounts due from	Amounts due to	Amounts due from	Amounts due to
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Holders of qualified participations	1,389	359,322	143	391,085
Transactions with members of governing bodies	2	8,486	307	2,406

The balance sheet and off-balance sheet transactions with related parties were concluded at arm's length.

## 1.16 Information on own equity shares and composition of own equity capital

The Group and its subsidiaries did not hold own equity securities during the reporting period and had no contingent liabilities for the sale or purchase of own equity securities.

### Information on transactions with holders of participations in their capacity as holders of participations

The Group carries out transactions with holders of participations in its normal course of business. They notably include advance payments, deposits and transactions in financial instruments (currency transactions, security transactions, etc.). All transactions are carried out at the conditions prevailing on the market at the time they are initiated.

## 1.17 Presentation of the maturity structure of financial instruments

	At sight	Callable	Residual term				Total
			within 3 months	between 3 and 12 months	between 12 months and 5 years	after 5 years	
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
<b>Assets/financial instruments</b>							
Liquid assets	7,367,976	-	-	-	-	-	7,367,976
Amounts due from banks	1,049,311	0	5,360	0	0	0	1,054,671
Amounts due from securities financing transactions	0	0	48,724	0	0	0	48,724
Amounts due from customers	818,070	215,518	1,721,261	1,101,973	245,440	0	4,102,262
Trading portfolio assets	981	-	-	-	-	-	981
Positive replacement values of derivatives financial instruments	306,935	-	-	-	-	-	306,935
Other financial instruments at fair value	469,268	-	-	-	-	-	469,268
Financial investments	80,479	0	86,348	476,293	1,872,895	426,601	2,942,616
<b>Total current year</b>	<b>10,093,020</b>	<b>215,518</b>	<b>1,861,693</b>	<b>1,578,266</b>	<b>2,118,335</b>	<b>426,601</b>	<b>16,293,433</b>
Total previous year	9,248,187	241,322	1,879,525	1,128,167	2,692,161	715,949	15,905,311
<b>Liabilities/financial instruments</b>							
Amounts due to banks	1,263,437	0	0	0	20,000	0	1,283,437
Amounts due in respect of customer deposits	12,684,712	107,023	351,640	47,400	3,500	0	13,194,275
Negative replacement values of derivatives financial instruments	277,976	-	-	-	-	-	277,976
Liabilities from other financial instruments at fair value	504,024	-	-	-	-	-	504,024
<b>Total current year</b>	<b>14,730,149</b>	<b>107,023</b>	<b>351,640</b>	<b>47,400</b>	<b>23,500</b>	<b>0</b>	<b>15,259,712</b>
Total previous year	14,390,566	107,283	228,992	49,000	20,000	0	14,795,841



## 1.18 Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle

	Current year		Previous year	
	Domestic	Foreign	Domestic	Foreign
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
<b>Assets</b>				
Liquid assets	7,356,450	11,526	7,329,892	8,654
Amounts due from banks	710,002	344,669	240,819	322,040
Amounts due from securities financing transactions	0	48,724	77,425	126,572
Amounts due from customers	1,301,436	2,800,826	864,947	2,291,241
Trading portfolio assets	522	459	0	1,362
Positive replacement values of derivatives financial instruments	121,065	185,870	212,411	288,007
Other financial instruments at fair value	24,798	444,470	21,939	458,572
Financial investments	417,029	2,525,587	420,652	3,240,778
Accrued income and prepaid expenses	74,662	95,722	87,256	51,824
Non-consolidated participations	2,046	1	1,876	1
Tangible fixed assets	240,008	4,036	169,611	4,045
Other assets	129,246	31,252	127,302	36,646
<b>Total assets</b>	<b>10,377,264</b>	<b>6,493,142</b>	<b>9,554,130</b>	<b>6,829,742</b>
<b>Liabilities</b>				
Amounts due to banks	950,305	333,132	334,338	206,455
Amounts due in respect of customer deposits	4,679,008	8,515,267	3,919,194	9,311,020
Negative replacement values of derivatives financial instruments	120,040	157,936	162,947	327,029
Liabilities from other financial instruments at fair value	253,064	250,960	276,102	258,756
Accrued expenses and deferred income	210,280	120,118	198,249	105,520
Other liabilities	70,970	42,952	78,638	26,203
Provisions	122,272	4,853	131,065	3,163
Reserves for general banking risks	237,766	0	233,206	0
Share capital	73,710	0	98,010	0
Retained earnings reserve	596,445	0	608,021	0
Foreign currency translation reserve	(14,767)	0	(18,548)	0
Consolidated profit	119,263	26,832	98,908	25,596
<b>Total liabilities</b>	<b>7,418,356</b>	<b>9,452,050</b>	<b>6,120,130</b>	<b>10,263,742</b>

## 1.19 Breakdown of total assets by country or group of countries (domicile principle)

	Current year		Previous year	
	Amount	Share	Amount	Share
	In thousands CHF	In percentage	In thousands CHF	In percentage
Switzerland	10,377,264	62	9,554,130	58
Other European countries	2,840,786	17	2,882,570	18
North America	1,916,962	11	2,496,016	15
The Caribbean and South America	689,531	4	726,135	4
Asia and Middle East	905,909	5	601,734	4
Australia/Oceania	85,463	1	76,046	0
Africa	54,491	0	47,241	0
<b>Total assets</b>	<b>16,870,406</b>	<b>100</b>	<b>16,383,873</b>	<b>100</b>

## 1.20 Breakdown of total assets by credit rating of country groups (risk domicile view)

	Net foreign exposure / current year end		Net foreign exposure / previous year end	
	Amount	Share	Amount	Share
	In thousands CHF	In percentage	In thousands CHF	In percentage
<b>S&amp;P</b>				
AAA	1,391,722	27	1,296,993	24
AA+ – AA-	2,970,821	58	3,451,923	64
A+ – A-	261,285	5	211,774	4
BBB+ – BBB-	179,415	3	123,507	2
BB+ – BB-	26,842	1	39,849	1
B+ – B-	52,160	1	37,055	1
CCC+ – D	613	0	466	0
No rating	260,832	5	223,468	4
<b>Total</b>	<b>5,143,690</b>	<b>100</b>	<b>5,385,035</b>	<b>100</b>

## 1.21 Presentation of assets and liabilities broken down by the most significant currencies for the Group

	CHF	EUR	USD	Other
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
<b>Assets</b>				
Liquid assets	7,352,906	14,049	620	401
Amounts due from banks	78,409	231,718	503,714	240,830
Amounts due from securities financing transactions	0	0	48,724	0
Amounts due from customers	1,296,902	1,361,647	1,033,445	410,268
Trading portfolio assets	522	459	0	0
Positive replacement values of derivatives financial instruments	143,704	13,463	117,017	32,751
Other financial instruments at fair value	27,789	46,649	287,883	106,947
Financial investments	407,280	688,595	1,836,098	10,643
Accrued income and prepaid expenses	77,769	36,575	42,976	13,064
Non consolidated participations	2,046	1	0	0
Tangible fixed assets	239,674	1,828	809	1,733
Other assets	123,394	14,323	11,735	11,046
<b>Total balance sheet assets</b>	<b>9,750,395</b>	<b>2,409,307</b>	<b>3,883,021</b>	<b>827,683</b>
Delivery entitlements from spot exchange transactions, foreign exchange forwards and foreign exchange options	11,542,036	11,155,089	14,778,773	8,373,246
<b>Total assets</b>	<b>21,292,431</b>	<b>13,564,396</b>	<b>18,661,794</b>	<b>9,200,929</b>
<b>Liabilities</b>				
Amounts due to banks	858,399	167,392	131,573	126,073
Amounts due in respect of customer deposits	3,387,933	4,369,144	3,986,296	1,450,902
Negative replacement values of derivatives financial instruments	118,591	36,918	84,322	38,145
Liabilities from other financial instruments at fair value	22,115	64,388	309,952	107,569
Accrued expenses and deferred income	224,596	23,527	23,890	58,385
Other liabilities	38,458	23,247	39,579	12,638
Provisions	126,498	468	159	0
Reserves for general banking risks	237,766	0	0	0
Share capital	73,710	0	0	0
Retained earnings reserve	596,445	0	0	0
Foreign currency translation reserve	(14,767)	0	0	0
Consolidated profit	146,095	0	0	0
<b>Total balance sheet liabilities</b>	<b>5,815,839</b>	<b>4,685,084</b>	<b>4,575,771</b>	<b>1,793,712</b>
Delivery obligations from spot exchange transactions, foreign exchange forwards and foreign exchange options	15,570,424	8,820,358	14,064,316	7,394,046
<b>Total liabilities</b>	<b>21,386,263</b>	<b>13,505,442</b>	<b>18,640,087</b>	<b>9,187,758</b>
<b>Net position by currency</b>	<b>(93,832)</b>	<b>58,954</b>	<b>21,707</b>	<b>13,171</b>

## 2. Information on off-balance sheet transactions

### 2.1 Breakdown and explanation of contingent assets and liabilities

	<b>Current year</b>	<b>Previous year</b>
	In thousands	In thousands
	CHF	CHF
Irrevocable guarantees	338,031	283,715
<b>Total contingent liabilities</b>	<b>338,031</b>	<b>283,715</b>
Contingent assets arising from tax losses carried forward	18,518	17,359
<b>Total contingent assets</b>	<b>18,518</b>	<b>17,359</b>

### 2.2 Breakdown of fiduciary transactions

	<b>Current year</b>	<b>Previous year</b>
	In thousands	In thousands
	CHF	CHF
Fiduciary investments with third-party companies	6,657,745	7,068,952
Fiduciary transactions arising from securities lending and borrowing, which the Group conducts in its own name for the account of customers	1,240,618	1,789,372
<b>Total</b>	<b>7,898,363</b>	<b>8,858,324</b>

## 2.3 Breakdown of managed assets and presentation of their development

	Current year	Previous year
	In millions	In millions
	CHF	CHF
<b>Breakdown of managed assets</b>		
Assets in collective investment schemes managed by the Group	46,845	38,173
Assets under discretionary management agreements	66,677	62,552
Other managed assets	60,406	58,115
<b>Total managed assets (including double-counting)</b>	<b>173,928</b>	<b>158,840</b>
<i>- of which double-counted</i>	<i>32,728</i>	<i>26,192</i>
<b>Presentation of the development of managed assets</b>		
Total managed assets (including double-counting) at the beginning of the year	158,840	160,105
+/- Net new money inflow/outflow	5,574	(1,909)
+/- Market price impact, interest, dividends and currency development	14,549	3,136
+/- Other impacts	(5,035)	(2,492)
<b>Total managed assets (including double-counting) at the end of the year</b>	<b>173,928</b>	<b>158,840</b>

Managed assets comprise all assets held or managed for investment purposes. As a result, assets held by the Group as part of its services as a global custodian are not shown in the figures above.

Assets under discretionary management agreements also comprise assets with an advisory mandate.

Interest, fees and expenses debited from managed assets and investment performance are not included in the inflows/outflows.

### 3. Information on the income statement

#### 3.1 Breakdown of the result from trading activities and the fair value option

	Current year	Previous year
	In thousands	In thousands
	CHF	CHF
<b>Breakdown by business area</b>		
Trading for own account	20,351	24,604
Trading for the account of the customers	68,625	75,449
<b>Total trading results</b>	<b>88,976</b>	<b>100,053</b>

	Current year	Previous year
	In thousands	In thousands
	CHF	CHF
<b>Breakdown by underlying risks and based on the use of the fair value option</b>		
Trading results from:		
- foreign exchange	83,397	92,617
- equity securities	3,519	4,022
- precious metals	2,060	3,414
<b>Total trading results</b>	<b>88,976</b>	<b>100,053</b>
- of which from the fair value option	834	1,640

#### 3.2 Disclosure of material refinancing income in the item Interest and discount income as well as material negative interest

	Current year	Previous year
	In thousands	In thousands
	CHF	CHF
<b>Negative interest on lending business</b>		
Negative interest on lending business (decrease in interest and discount income)	(39,588)	(40,854)
<b>Negative interest on deposits</b>		
Interest expense paid	(12,451)	(13,059)
Negative interest on deposits (decrease in interest expense)	17,803	16,286
Positive balance reported in interest and discount income	(5,352)	(3,227)
<i>Interest expenses</i>	<i>0</i>	<i>0</i>

### 3.3 Breakdown of personnel expenses

	<b>Current year</b>	<b>Previous year</b>
	In thousands	In thousands
	CHF	CHF
Salaries	566,401	535,003
Social insurance obligations	106,951	98,821
Other personnel expenses	19,823	18,487
<b>Total</b>	<b>693,175</b>	<b>652,311</b>

The compensation system includes programs for deferred payment of variable compensation for a period of up to five years, based on the amount of the variable portion of the salary, in a move to retain employees. For 2017, the amount of deferred payments amounted to CHF 28.7 million (2016: CHF 27.4 million).

### 3.4 Breakdown of general and administrative expenses

	<b>Current year</b>	<b>Previous year</b>
	In thousands	In thousands
	CHF	CHF
Expenses relating to premises	33,040	34,906
Expenses relating to information and communication technologies	36,647	36,362
Expenses relating to financial information	26,369	23,908
Travel and entertainment expenses	22,189	22,218
Professional services	29,459	32,106
Fees of audit firm	3,838	3,633
- of which for financial and regulatory audits	2,967	2,831
- of which for other services	871	802
Taxes and indirect taxes	14,652	14,910
Office, telecommunications and insurance premium costs	13,753	13,968
Communications and sponsorship expenses	26,728	25,207
Other operating expenses	3,493	2,518
<b>Total</b>	<b>210,168</b>	<b>209,736</b>

### 3.5 Explanations regarding material losses, extraordinary income and expenses, material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required

In 2016, extraordinary income essentially consists of a gain from the sale of a participation in the amount of CHF 11.0 million.

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

	Current year		Previous year	
	Domestic	Foreign	Domestic	Foreign
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Net result fom interest operations	90,889	11,601	84,106	10,731
Result from commission business and services	616,941	290,235	594,721	240,931
Result from trading activities and the fair value option	80,705	8,271	84,863	15,190
Result from ordinary activities	6,190	1,296	7,139	1,881
<b>Total income</b>	<b>794,725</b>	<b>311,403</b>	<b>770,829</b>	<b>268,733</b>
Personnel expenses	(477,711)	(215,464)	(472,361)	(179,950)
General and administrative expenses	(150,196)	(59,972)	(156,619)	(53,117)
<b>Total expenses</b>	<b>(627,907)</b>	<b>(275,436)</b>	<b>(628,980)</b>	<b>(233,067)</b>
Value adjustments on participations and depreciation of tangible fixed assets	(4,936)	(1,375)	(8,462)	(1,207)
Changes to provisions and other value adjustments, losses	(1,846)	(2,750)	(14,086)	(2,941)
<b>Operating result</b>	<b>160,036</b>	<b>31,842</b>	<b>119,301</b>	<b>31,518</b>



### 3.7 Presentation of current and deferred taxes with indication of the tax rate

	<b>Current year</b>	<b>Previous year</b>
	In thousands	In thousands
	CHF	CHF
Creation of provisions for deferred taxes	1,692	1,803
Release of provisions for deferred taxes	0	(1,800)
Current year tax expense	41,402	39,536
<b>Total income tax expense</b>	<b>43,094</b>	<b>39,539</b>

Average tax rate on the basis of consolidated profit before tax 22.8% 24.1%

The effect of the use of losses carried forward that were not previously used on the total amount of taxes for the current year amounts to CHF 7.0 million (2016: CHF 4.0 million).

The Group considered the tax dispute resolution signed in 2015 with the US Department of Justice (DOJ) as fiscally deductible and has not recognised any provision for this purpose.

# ***Report of the statutory auditor to the General Meeting of Compagnie Lombard Odier SCmA***

***Geneva***

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

As statutory auditor, we have audited the accompanying consolidated financial statements of Compagnie Lombard Odier SCmA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 13 to 49), for the year ended 31 December 2017.

### ***Group Executive Management's responsibility***

The Group Executive Management is responsible for the preparation of the consolidated financial statements in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Group Executive Management 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 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 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and comply with Swiss law.

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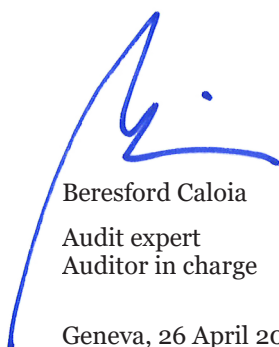
## ***Report on other legal requirements***

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

In accordance with article 728a paragraph 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 Group Executive Management.

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

PricewaterhouseCoopers SA



Beresford Caloia  
Audit expert  
Auditor in charge

Geneva, 26 April 2018



Marie-Eve Fortier  
Audit expert

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It is also available in PDF format for download from our website, [www.lombardodier.com](http://www.lombardodier.com).

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