

Rating Action: Moody's affirms Banque Pictet's Aa2 long-term deposit ratings, outlook remains stable

04 Feb 2022

Frankfurt am Main, February 04, 2022 -- Moody's Investors Service (Moody's) has today affirmed Banque Pictet & Cie SA's (Banque Pictet) Aa2/P-1 deposit ratings. The outlook on the long-term deposit ratings remains stable. Concurrently, Moody's affirmed the bank's a2 Baseline Credit Assessment (BCA) and a1 Adjusted BCA. The rating agency further affirmed Banque Pictet's long- and short-term Counterparty Risk Ratings at A1/P-1 and its long- and short-term Counterparty Risk Assessment at Aa3(cr)/P-1(cr).

For a list of all affected ratings, please refer to the end of this press release.

RATINGS RATIONALE

-- AFFIRMATION OF BANQUE PICTET'S BCA AND ADJUSTED BCA

The affirmation of Banque Pictet's a2 BCA and a1 Adjusted BCA reflects its very stable and growing global franchise in wealth management, further extended by asset management and asset servicing operations. Through its focus on high net-worth and ultra-high net-worth clients, the bank and the group offer an attractive value proposition within the global wealth and asset management market through dedicated wealth solutions, highly individual advice and asset services. Banque Pictet's and Pictet Group's growing expertise in alternative assets, including private debt and equity, offers investment opportunities in addition to liquid financial assets.

The affirmation of Banque Pictet's a1 Adjusted BCA, which is among the highest Moody's assigns to banks globally, reflects the bank's and the group's low balance-sheet intense business, including very limited lending risks, as well as their continued strong and high-quality capitalisation. This is further complemented by a highly liquid balance sheet and a very limited proportion of market funding, the latter being mostly related to the issuance of wealth management investment products. Further, Pictet Group and the bank generate most of their income from managing their clients' assets and providing related services, generating a high share of recurring revenue. Given its business model - and similar to its peers - the bank and the group remain exposed to operational, market and litigation risks as regulators and legislators globally have increased their scrutiny and control on fighting global financial misconduct; and cyberattacks are not expected to abate.

Moody's overall assessment of Banque Pictet's financial profile takes into account the bank's narrower business focus and lower earnings capacity compared with that of the more diversified Pictet Group. The latter comprises sizeable additional asset management and custody services operations as well as meaningful additional capital resources that could be made available to the bank in case of need. The rating agency captures these benefits through one notch of rating uplift from affiliate support.

-- AFFIRMATION OF LONG-TERM DEPOSIT RATINGS

The affirmation of Banque Pictet's Aa2 long-term deposit ratings follows the affirmation of the bank's a2 BCA and its a1 Adjusted BCA and the unchanged result of Moody's Advanced Loss Given Failure (LGF) analysis.

Banque Pictet's long-term deposit ratings continue to benefit from two notches of rating uplift from the bank's Adjusted BCA, reflecting the high volume of deposits protecting deposit holders in the unlikely event of failure or resolution. This is owing to the substantial volume of deposits reducing their loss severity at failure.

Owing to Banque Pictet's marginal systemic importance to the domestic deposit-taking market and the Swiss payment system, Moody's considers the probability of government support to be 'Low' and therefore does not assign any rating uplift for Banque Pictet from government support.

-- RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation of stable financial profiles for Banque Pictet and the group, with broadly unchanged key financial ratios and largely stable liability structures.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ratings of Banque Pictet could be upgraded following an upgrade of the bank's Adjusted BCA, or as a result of higher rating uplift resulting from Moody's Advanced LGF analysis.

Banque Pictet's BCA and Adjusted BCA could be upgraded if the bank and the group achieve a sustainable and significant improvement in their profitability, without increasing the risk profile, and provided that the level of business diversification at the group level remains unchanged; the bank and the group further improve their capitalisation; and the bank meaningfully reduces risks inherent to its wealth management-oriented business model, in particular litigation risks.

Moody's Advanced LGF analysis could result in higher notches of rating uplift for Banque Pictet's deposit ratings if the bank issued significantly higher amounts of bail-inable senior unsecured debt or subordinated debt instruments.

A downgrade of Banque Pictet's deposit ratings is likely to follow a multi-notch downgrade of the bank's BCA or a downgrade of its Adjusted BCA; or a reduction in the rating uplift resulting from Moody's Advanced LGF analysis.

A multi-notch downgrade of Banque Pictet's BCA could only follow a combination of an unexpected materialisation of operational and litigation risks, specifically if caused by larger-than-anticipated settlement charges in connection with ongoing lawsuits (e.g. tax cases or reputational cases) or IT security issues that are severe enough to threaten the bank's or the group's reputation; capital reductions or outflows that lead to a meaningfully lower capitalisation, in particular a lower leverage ratio; a material, prolonged erosion of assets under management, as well as client or advisor attrition, leading to a significant decline in underlying profitability; or acquisitions that are unduly aggressive from a commercial, financial or operational risk viewpoint.

Moody's Advanced LGF analysis could result in fewer notches of rating uplift for Banque Pictet's deposit ratings if the bank's deposit volumes dropped significantly.

LIST OF AFFECTED RATINGS

Issuer: Banque Pictet & Cie SA

..Affirmations:

....Adjusted Baseline Credit Assessment, Affirmed a1

....Baseline Credit Assessment, Affirmed a2

....Long-term Counterparty Risk Assessment, Affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

....Long-term Counterparty Risk Ratings, Affirmed A1

....Short-term Counterparty Risk Ratings, Affirmed P-1

....Long-term Bank Deposit Ratings, Affirmed Aa2, Outlook remains Stable

....Short-term Bank Deposit Ratings, Affirmed P-1

..Outlook Action:

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Swen Metzler, CFA
VP - Senior Credit Officer
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Michael Rohr
Senior Vice President
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



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