

The Pictet Group financial solidity, and other protections for client assets



Financial solidity is a core pillar supporting Pictet's longevity, stability and reputation as well as the security the Group can provide for client assets, counterparties and employees.

FINANCIAL SOLIDITY – A PROTECTIVE LAYER FOR CLIENTS, COUNTERPARTIES AND EMPLOYEES

The reaction of markets, clients, counterparties, central banks, public authorities and governments to either the war in Ukraine or COVID-19 have not compromised Pictet's financial position or its day-to-day operations.

The Group's financial solidity means it has the necessary buffers to weather even extraordinary circumstances, which is crucial to be able to provide security for clients, counterparties and employees in an uncertain world. This strength is a result of a consistent, carefully managed strategy, rigorous risk management and contingency planning, as well as operational excellence. Pictet's conservative approach shows in its strong liquidity and capital, the excellent quality of assets and high credit ratings. Additionally, Pictet's technical and organisational infrastructure secure operational and business continuity.

The strong 2022 result of the Pictet Group further underlines its financial solidity. The firm has not reported an accounting loss for at least the past half-century, despite the various crises that have shaken financial markets in that time period.

Pictet's business focusses on the safekeeping of client assets coupled with leading investment services. It is structured in four complementary business lines: wealth management, asset management, alternative assets and asset services, which are all structurally profitable.

DESCRIPTION OF PICTET'S FINANCIAL SOLIDITY

Pictet maintains a first-class financials profile

The assessment of a bank's financial solidity is primarily guided by the shape of its balance sheet. The Pictet Group's balance sheet reflects excellent liquidity, outstanding asset quality and high capitalisation:

- The Group's liquidity coverage ratio was 176% as at 31 December 2022, considerably above the 120% internal minimum target and the 100% regulatory minimum.
- Pictet holds minimal illiquid assets and its loan quality is excellent, with high levels of strong collateral.
- The total capital ratio as at 31 December 2022 was 27.4%, well above the already stringent 12% requirement stipulated by the Swiss Financial Market Supervisory Authority (FINMA) for banks of Pictet's size and profile.

In addition, Pictet's business profile provides the Group with resilient, recurring profits, which act as the first buffer against any financial shocks.

High credit ratings underscore Pictet solidity

FitchRatings and Moody's Investors Service both award Banque Pictet & Cie SA some of the highest possible deposit ratings. FitchRatings has maintained Pictet's AA- Issuer Default Rating (IDR) since awarding it in 2005. The AA- rating was last reaffirmed with a stable outlook by FitchRatings in August 2022. Moody's Investors Service confirmed Banque Pictet & Cie SA's long-term deposit rating of Aa2, with a stable outlook in December 2022.

Although the ratings are assigned to Banque Pictet & Cie SA, both agencies assess the consolidated Group. As a consequence, the financial strength of the whole Group is reflected in the ratings. The strengths that the two agencies highlight for Pictet include:

- Resilient business model and franchise.
- Very low credit risk.

- Comfortable capitalisation.
- Conservative approach to liquidity management with a high amount of high quality liquid assets.
- Strong and consistent earning.

PICTET GROUP'S CONSOLIDATED KEY FIGURES

Assets under management or custody:
CHF 612 billion as at 31 December 2022.

Assets under management or custody include assets of private and institutional clients managed and/or custodied by the Pictet Group. The above number excludes double counting within and between business lines.

Operating income: CHF 3,191 million in 2022.

Consolidated net profit: CHF 768 million in 2022.

Total capital ratio: 27.4% as at 31 December 2022.

The total capital ratio measures total regulatory capital against risk-weighted assets. This ratio is commonly used to gauge the strength of a financial institution by weighing its loss-absorbing capacity against the riskiness of its assets and operations. The Pictet Group's regulatory capital is high and is composed almost fully of the best quality Common Equity Tier 1 capital (CET1).

Liquidity coverage ratio: 176% as at 31 December 2022.

The liquidity coverage ratio is the ratio of high-quality liquid assets to short-term liabilities. This ratio measures a financial institution's ability to meet its short-term liquidity needs. Pictet's excellent liquidity position is due to sizeable cash positions held at central banks and a large portfolio of very highly rated bonds.

COUNTERPARTY MANAGEMENT REINFORCES FINANCIAL SOLIDITY AND SAFETY OF CLIENT ASSETS

Low counterparty risk

Several integral principles within Pictet's conservative risk approach lessen the Group's counterparty risk exposure. These include:

- No proprietary trading.
- Client lending that consists of Lombard loans, i.e. lending that is wholly secured by quality assets of the client.
- Ample liquidity. Pictet holds sizeable amounts of cash at central banks and high quality banks and investments in very highly rated short- and mid-term bonds.
- Carefully selected network of bank counterparties as subcustodians, clearers, correspondent banks, etc., that mirror Pictet's high credit quality as closely as possible.

Low-risk counterparties - a protective layer for client assets

Pictet has three key principles for counterparty management:

- Counterparty management is considered a key pillar supporting Pictet's financial strength.
- Pictet strives to use counterparties that are as close as possible to its own quality.
- Selection and monitoring practices are identical whether the counterparty is meant for clients' or for Pictet's own use.

The ultimate responsibility for the Group's banking counterparties and the limits related to activities with those counterparties resides with the Counterparty Risk Committee (CRC), which meets every six weeks or more frequently if need be.

The Counterparty Risk Committee consists of at least one Managing Partner and several C-level executives. It works closely with two subcommittees:

- The Weekly Counterparty Committee (WCC) assesses requests for new banking counterparties or limits for purposes of trading, cash transactions, treasury placements, custody of assets and fiduciary exposures. The WCC consists of diverse experts across the Group. Their decisions are presented to and reviewed by the CRC. As the name implies, the WCC meets weekly, or more frequently when necessary.
- The Banking Risk Committee (BRC) reviews the fundamental creditworthiness of Pictet's most important bank counterparties, ensuring they meet quality standards. Each bank counterparty is assigned an internal, forward-looking score. The BRC is composed of all the bank analysts within Pictet Group, who meet quarterly, or more frequently when necessary.

Additional criteria must be assessed when selecting custody and clearing providers. This includes assessing procedures, practices and systems as well as the experience of the operational teams at the counterparties. Importantly Pictet always acquires in-depth knowledge of the local infrastructure and regulatory environment to ensure the best possible level of asset protection. The provider's standard of service, the market infrastructure and local regulations are monitored on an ongoing basis by Pictet's teams and during regular due-diligence visits.

Additional layer of protection for client assets

A number of legal and regulatory provisions protect client assets in the unlikely event that a custodian or a bank counterparty files for bankruptcy. These include:

- Client securities held at Pictet are fully segregated from Pictet's own assets. As such, the securities are safeguarded against bankruptcy, i.e. they cannot be used to pay Pictet's creditors, but will be returned to the client as part of the liquidation procedure.

- Client securities held with custodians are segregated from Pictet's own assets and are deposited in compliance with local regulations: a) in a segregated account in the name of the client, b) in a nominee account in the name of Pictet, or c) in a nominee account in the name of the custodian. Whatever the segregation type, the clients' securities are legally excluded from the bankruptcy estate of the custodian.
- Deposits at Pictet banks are first and foremost protected by the Pictet Group's strong financial profile, which has always been a strategic priority for the Group. In addition, they may be covered under the deposit guarantee scheme in place in each country.
- Fiduciary deposits are legally segregated from Pictet's assets at the fiduciary counterparty, i.e. the fiduciary counterparty may not use the clients' assets to offset any claim that it may have against Pictet. As such, the client's rights are protected in the very unlikely event of default. Conversely, the client bears the risk of the fiduciary counterparty.
To ensure the safety of client assets held in fiduciary deposits, Pictet carefully selects the fiduciary deposit counterparties it recommends, always applying identical criteria to those used in selecting its own counterparties.

Disclaimer

This document provides general information about the financial solidity of the Pictet Group ("Pictet"). It is not intended for and shall neither be provided to nor used by persons who are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision or use would violate current laws and regulations.

This document is issued for information purposes only, does not constitute a solicitation to subscribe to products or services of Pictet, is not designed to give exhaustive or accurate information on this subject matter and its content may change without further notice. Pictet is not liable for the information and data furnished in this document.

The content of this document may be read and/or used only by the intended recipient. Pictet is not responsible for the use, transmission or exploitation of the information contained in this document. In consequence, any form of reproduction, copying, disclosure, modification and/or publication of the content is the sole responsibility of the intended recipient of this document and Pictet is released from all liability. The intended recipient of this publication agrees to adhere to the laws and regulations applicable in the jurisdictions in which he/she may use the information set out herein.

This document is issued by Pictet. All rights reserved. Copyright 2023.

pictet.com