

PICTET GROUP

# The Pictet Group Financial solidity and other protections for client assets

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Financial solidity is a fundamental pillar underpinning Pictet's enduring longevity, stability and reputation. This robust foundation ensures the safety of client assets, fosters trust with counterparties and safeguards the interests of employees.

## FINANCIAL SOLIDITY – PROTECTION FOR CLIENTS, COUNTERPARTIES AND EMPLOYEES

The Group's financial solidity serves as its shield, enabling it to withstand even extraordinary circumstances. This strength is a vital pillar of safety for clients, counterparties and employees in an uncertain world. It is the result of a consistent, carefully managed strategy, rigorous risk management, contingency planning and operational excellence. Pictet's conservative approach is reflected in its robust liquidity and capital, excellent asset quality and high credit ratings, while its technical and organisational infrastructure ensures operational and business continuity.

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

The Pictet Group has maintained a remarkable track record of financial stability, navigating various market crises throughout its history. The firm has not reported an accounting loss for at least the past half-century and once again demonstrated strong performance in the first half of 2024. Furthermore, in December 2023, Pictet successfully resolved a matter with the US Department of Justice related to its wealth management business with US clients, with no notable impact on the Group's solid fundamentals, characterised by high capital, ample liquidity and steady recurring profitability.

## PICTET MAINTAINS A FIRST- CLASS FINANCIAL 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 stood at 198% as at 31 December 2023, considerably above the 100% regulatory minimum. This ratio measures the proportion of high-quality liquid assets to short-term liabilities. The Group's exceptional liquidity position is attributed to substantial cash holdings at central banks and a sizable portfolio of highly rated bonds, ensuring its ability to meet its immediate liquidity needs.
- Pictet holds minimal illiquid assets, does not engage in proprietary trading and maintains excellent loan quality with high levels of strong collateral.
- The total capital ratio as at 30 June 2024 was 28.2%, well above the 12% requirement set by the Swiss Financial Market Supervisory Authority (FINMA) for banks of Pictet's size and profile. The total capital ratio measures total regulatory capital against risk-weighted assets. It is commonly used to gauge the strength of a bank by weighing its loss-absorbing capacity against the risk profile of its assets and operations. In addition to being comfortably high, Pictet's capital is composed almost entirely of the highest quality Common Equity Tier 1 capital (CET1).

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

- Pictet achieved an operating income of CHF 1,570 million in the first half of 2024. The Group recorded a consolidated net profit of CHF 320 million during the same period. These figures highlight Pictet's ability to generate sustainable earnings.

The Group Pictet's financial solidity is evidenced by the consistent growth of assets under its management or custody, reflecting the trust and confidence clients place in its financial strength and expertise.

- As at June 2024, the Pictet Group had total assets under management or custody of CHF 694 billion. Assets under management or custody include assets of private and institutional clients managed and/or held in custody by the Pictet Group. The above number excludes double counting within and between business lines.

### High credit ratings underscore Pictet's solidity

FitchRatings and Moody's Investors Service have consistently assigned some of the highest possible deposit ratings to Banque Pictet & Cie SA. FitchRatings first assigned the AA- Issuer Default Rating (IDR) in 2005, and last reaffirmed it with a stable outlook in July 2024. Moody's Investors Service last confirmed Banque Pictet & Cie SA's long-term deposit rating of Aa2, with a stable outlook in October 2024.

Although the ratings are assigned to Banque Pictet & Cie SA, both agencies assess the consolidated group. Thus, the financial strength of the entire Group is reflected in the ratings. The strengths highlighted by the two agencies for Pictet include:

- Stable and diversified business model and franchise.
- Very low credit risk.
- Strong and consistent earnings.
- Very strong capitalisation.
- Conservative approach to liquidity management with a high amount of high-quality liquid assets.

### COUNTERPARTY MANAGEMENT REINFORCES FINANCIAL SOLIDITY AND SAFETY OF 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.
- The same selection and monitoring practices are applied consistently, whether the counterparty is intended for clients' or for Pictet's own use.

Ongoing fundamental analysis serves as the bedrock for making informed decisions regarding Pictet's bank counterparties. This includes a comprehensive evaluation of both financial statements and qualitative factors. Reviewing the counterparty's financial solidity, strategy, market positioning and management track record provides a

fundamental understanding of their financial position and their ability to navigate risks, adapt to changes and comply with regulations.

In selecting custody and clearing providers, Pictet conducts additional assessments, which include evaluating procedures, practices, systems and the operational teams at the counterparties. Importantly, Pictet also gains an in-depth understanding of the local infrastructure and regulatory environment to ensure the best possible level of asset protection. The standard of service of the provider, market infrastructure and local regulations are monitored on an ongoing basis by Pictet's teams and during regular due diligence visits.

## GOVERNANCE OF BANK COUNTERPARTY-RELATED RISK

The Counterparty Risk Committee (CRC) holds the ultimate responsibility for managing the risks that the Pictet Group is exposed to due to banking counterparties. The CRC meets every six weeks, or more frequently when necessary.

The CRC consists of at least one Managing Partner and several C-level executives. It works closely with three sub-committees:

- The Weekly Counterparty Committee (WCC) assesses requests for new bank counterparties or limits. It also monitors the existing counterparties. The WCC consists of diverse experts across the Group and meets weekly, or more frequently when necessary. The WCC's decisions are reviewed by the CRC.
- The Sovereign Risk Committee (SRC) assesses the level of country risks stemming from the Group's exposures. Each relevant country is assigned an internal, forward-looking score. The SRC is composed of the Pictet Group's economists and meets quarterly, or more frequently when necessary.
- The Banking Risk Committee (BRC) reviews the fundamental creditworthiness of Pictet's most important bank counterparties, ensuring their continuous quality. Each bank counterparty is assigned an internal, forward-looking score. The BRC is composed of all the bank analysts within the Pictet Group and meets quarterly, or more frequently when necessary.

## ADDITIONAL LAYER OF PROTECTION FOR CLIENT ASSETS

A number of legal and regulatory provisions protect client assets in the unlikely event of the bankruptcy of a custodian or a bank counterparty. 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 at the custodian and are legally excluded from the bankruptcy estate of the custodian. Client securities are deposited in compliance with local regulations and they can be held in one of the following ways: 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.

- Deposits at Pictet banks are protected by the Pictet Group's strong financial profile, which has always been a strategic priority for the Group. In addition, they may benefit from the deposit guarantee scheme in place in each country.
- Fiduciary deposits are legally segregated from Pictet's assets at the fiduciary counterparty. Furthermore, the fiduciary counterparty cannot 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 case of failure. 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, always applying the same criteria it uses to select its own counterparties.

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