FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Banque Pictet at 'AA-'; Outlook Stable

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Fitch Ratings - London - 28 Jul 2023: Fitch Ratings has affirmed Banque Pictet & Cie SA's (BPSA) Long-Term Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook, and Viability Rating (VR) at 'aa-'.

A full list of rating actions is provided below.

KEY RATING DRIVERS

BPSA is the Geneva-based main operating bank of the Pictet Group (Pictet), and its ratings are driven by the group's strong financial profile, as well as its conservative risk profile and stable business model.

Stable and Diversified Business Model: Pictet is one of Switzerland's largest wealth managers. Its business model, which also has an established asset management franchise, has continued to perform well in recent years. While the business model is confidence-sensitive, Pictet's long operational record, sound financial profile and strong liquidity demonstrate its ability to manage this risk extremely well.

Inherently High Operational Risk: Operational risk is inherently high in private banking due to reputational, legal and regulatory risks, which are Pictet's largest risk exposures. For example, the group has yet to resolve outstanding legacy issues with the US Department of Justice related to accounts potentially linked to tax-related offences. The timing and cost of any potential settlement is uncertain, but we expect that the bank's earnings and capitalisation will provide a sufficient buffer to absorb most outcomes.

Very Low Credit Risk: The group's risk profile and risk appetite are very conservative. Credit risk is low and largely relates to Lombard loans, which are secured against clients' investment portfolios and historically have not had material credit losses, even during periods of high market volatility. Pictet's securities portfolio, which represented 44% of total assets at end-2022, is predominantly invested in highly rated sovereign, public-sector and supranational debt. Market risk is managed within low limits.

Resilient Earnings: Pictet's strong and consistent earnings reflect its business model, which is focussed on maintaining a strong franchise and has allowed the group to maintain pricing discipline. Pictet's operating profit as a proportion of risk-weighted assets (RWAs) fell slightly to 7.5% in 2022 from 7.9% in 2021 as a result of decreasing assets under management (AuM) from market movements. Earnings remained overall stable, strong and well diversified.

High Capitalisation: The group's consolidated common equity Tier 1 (CET1) ratio of 27.1% at end-2022 was comfortably in excess of regulatory requirements. BPSA's risk-adjusted capitalisation is also well in excess of requirements, and we expect capital and liquidity to remain fungible among the group's subsidiaries, subject to meeting local regulatory requirements. The strong earnings profile and high capital ratios provide a first buffer against unexpected losses.

Liability-Driven Balance Sheet: Funding needs are low with customer loans representing less than 20% of Pictet's total assets at end-2022. Central bank placements and a portfolio of high-quality debt securities represented over 50% of total assets at end-2022 and reflect the group's conservative liquidity management. Private banking deposit flows can change quickly during periods of market volatility, and we therefore expect liquidity to continue to be managed conservatively. We expect the loans/deposits ratio to increase from the 28% level reported at end-2022 but to remain well below 50%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A structural deterioration in earnings, for instance through a loss of franchise and pricing power, or through cost pressures, such as higher spending requirements for technology, compliance or retention of employees, without a clear plan to improving efficiency over the medium term, could result in negative rating action.

Outsized operational losses or more aggressive capital management, which could be indicated by Pictet's CET1 ratio falling below 20%, could also result in negative action given the confidence-sensitive nature of private banking relationships, as could an increase in credit risk appetite, which we do not expect.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Scope for positive rating action is limited by BPSA's high ratings. However, considerably increased scale and profitability without a material increase in risk appetite, resulting in a stronger business profile, could be positive for the ratings in the long term.

GSR: BPSA's GSR of 'no support' (ns) reflects Fitch's view that senior creditors cannot rely on extraordinary support from the Swiss authorities in the event the bank becomes non-viable given its low systemic importance and the advanced stage of resolution legislation in Switzerland, which would require senior creditors to participate in losses in a resolution. The group caters to an affluent international client base and does not have a retail deposit franchise in Switzerland.

Should BPSA require extraordinary support, we believe that it might be provided from the partners' private wealth, but such support cannot be reliably assessed and is not factored into our ratings.

An upgrade of the GSR is unlikely given the presence of resolution legislation in Switzerland.

VR ADJUSTMENTS

No VR adjustments have been made.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Banque Pictet & Cie SA	LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
	ST IDR	F1+	Affirmed	F1+
	Viability	aa-	Affirmed	aa-
	Government Support	ns	Affirmed	ns

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 07 Sep 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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