17 DEC 2021

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

Fitch Ratings - London - 17 Dec 2021: Fitch Ratings has affirmed Banque Pictet & Cie SA's Long-Term Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook, Short-Term IDR at 'F1+' and Viability Rating (VR) at 'aa-'.

Fitch has withdrawn Banque Pictet's Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor', as they are no longer relevant to Fitch's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. Fitch has assigned Banque Pictet a Government Support Rating (GSR) of 'No Support' ('ns').

Key Rating Drivers

Banque Pictet is the Geneva-based main operating bank of the Pictet Group, and its ratings are driven by the group's strong financial profile as well as its conservative risk profile and stable business model, which has become more diversified in recent years.

Pictet is one of Switzerland's largest wealth managers, and its business model has performed well since the start of the pandemic. Assets under management (AuM) or custody increased 20% to CHF690 billion between end-2019 and end-1H21. While the group's franchise has historically focused on wealth management, its asset management division has seen significant growth and is now similar in size to the wealth management division, providing diversification of earnings.

The group's conservative risk profile reflects the very low credit risk of Lombard loans, which are secured against clients' investment portfolios and historically have not seen material credit losses even during periods of high market volatility. Pictet's securities portfolio, which represented about one-third of total assets at end-1H21, is predominantly invested in highly rated sovereign, public sector and supranational debt. Market risk is managed within low limits.

Operational risk is Pictet's main risk exposure, which reflects the reputational, legal and regulatory risks inherent to the private banking business model. The group has yet to resolve outstanding 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 provide a sufficient buffer to absorb most outcomes.

Pictet's strong and consistent earnings reflect its business model, which is focused on maintaining a strong franchise and has allowed the group to maintain pricing discipline. Earnings benefit from increasing AuM and the group benefits from economies of scale, particularly in light of increasing compliance and technology costs, and earnings diversification has improved as the asset management division has seen strong growth.

The group's consolidated CET1 ratio of 22.0% at end-1H21 was comfortably in excess regulatory capital requirements. Banque Pictet's risk-adjusted capitalisation also remains comfortably in excess of regulatory minimums, and we expect capital and liquidity to remain fungible among the group's subsidiaries, subject to regulatory limits.

Large inflows of deposits since the start of the pandemic have reduced the group's consolidated leverage ratio, as observed across the sector, but it remains adequate at 5.3%. In our view, large deposit inflows do not present a risk to capitalisation because the excess deposits are conservatively placed with central banks or invested in high-quality liquid assets.

Funding needs are low given that customer loans represented only 22% of Pictet's total assets at end-1H21. Central bank placements and a high-quality securities portfolio represented half of total assets, which reflects 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.

GSR

Pictet's GSR 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 case of a resolution. The group caters to an affluent international client base and does not have a retail deposit franchise in Switzerland.

Should Banque Pictet 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.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

- Structural deterioration in earnings, such as 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 improve efficiency over the medium term.

- Outsized operational losses or more aggressive capital management, which could be indicated by Pictet's CET1 ratio falling below 20%.

- An increase in credit risk appetite, which we do not expect.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Upside remains limited given Banque Pictet'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.

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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Banque Pictet & Cie SA	LT IDR	AA-	Affirmed		AA-
	ST IDR	F1+	Affirmed		F1+
	Viability	aa-	Affirmed		aa-
	Support	WD	Withdrawn		5
	Support Floor	WD	Withdrawn		NF
	Government Support	ns	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.12 Nov 2021) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Banque Pictet & Cie SA	UK Issued, EU Endorsed

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