

26 Jun 2020 | Affirmation

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

Fitch Ratings-London-26 June 2020:

Fitch Ratings has affirmed Banque Pictet & Cie SA's (Banque Pictet) Long- and Short-Term Issuer Default Ratings (IDR) at 'AA-/'F1+' and Viability Rating (VR) at 'aa-'. It has also affirmed Banque Pictet's Support Rating (SR) and Support Rating Floor (SRF) at '5' and 'No Floor', respectively.

The Outlook on the Long-Term IDR is Stable.

Key Rating Drivers

IDRS AND VR

Banque Pictet's ratings are driven by our assessment of the viability of the consolidated Pictet Group, of which Banque Pictet is the Geneva-based banking subsidiary and its main operating entity.

Banque Pictet's ratings are driven by its conservative risk appetite and sound and stable company profile as one of Switzerland's largest pure wealth managers. The group's wealth management franchise is complemented by a profitable asset management division, which is focused on active strategies and benefits from a fairly resilient client base, as well as an asset services division, which provides value-added custody services. The group as a whole had CHF576 billion of assets under management or custody at end-2019, providing it with significant scale.

The Stable Outlook on the Long-Term IDR reflects our expectation that Banque Pictet's wealth management-focused business model will remain resilient to the economic and financial market downturn caused by the coronavirus pandemic, even in a severely stressed scenario. This expectation is primarily driven by the very low credit risk and high liquidity of Banque Pictet's liability-driven balance sheet, as well as strong profitability, which could withstand severe deterioration in revenue before putting pressure on the bank's sound capital ratios

The group's bespoke wealth management services for private banking clients result in fairly stable, high-value-added client relationships that are maintained through market cycles and support recurring fee income. The wealth management franchise is supported by a long presence in Europe, Asia and, to a lesser extent, the Americas, which provides some protection against

deterioration in any one market. However, the group's focus on a limited number of business lines with highly correlated earnings constrains the benefits of diversification and upside to the VR.

We view Banque Pictet's appetite for, and exposure to, credit and market risk as low, and we do not expect material losses as a result of the pandemic. Credit risk arises essentially from Lombard loans, which are conservatively collateralised by clients' securities portfolios. Banque Pictet's securities portfolio is invested in highly rated sovereign, public sector and supranational debt, as a result of the group's strict and low-risk investment policy. Market risk is limited, and trading is essentially on behalf of clients.

Banque Pictet's main risk exposure is to operational risk, particularly reputational, legal and regulatory risks, and the ratings reflect our view that the group has continued to manage these adequately during the pandemic. Banque Pictet has yet to settle with the US Department of Justice on US-related accounts potentially linked to past tax-related offences. The timing and cost of any potential settlement remain uncertain, but our base case assumes that the bank's earnings and capitalisation provide a sufficient buffer against most outcomes.

We expect Banque Pictet to continue to report strong and consistent earnings thanks to the strength of its franchise and scale, which gives it pricing power. In our view, business, client and geographical diversification make the group less vulnerable to revenue challenges than smaller peers. Earnings are likely to be affected by market-driven declines in assets under management, but this is mitigated by the strong starting point, good cost controls, including variable compensation, and disciplined pricing to maintain sustainable margins.

The group's consolidated CET1 ratio of 20.5% at end-2019 was comfortably in excess of regulatory minimums. We expect capital and liquidity to remain fungible within the group, subject to regulatory limits, which we believe are not onerous.

The Basel III leverage ratio was 5.9%, which provides headroom to absorb the leverage ratio impact of large year-to-date deposit inflows seen across the sector as client increase their cash balances during volatile markets. In our view, pressure on the leverage ratio resulting from market-driven deposit inflows is not a risk to capitalisation, because these excess deposits are conservatively invested in central bank placements and other high-quality liquid assets.

Banque Pictet's balance sheet is liability-driven and highly liquid. Customer loans are less than a quarter of the group's consolidated assets. High-quality liquid assets account for over half of the balance sheet, and we expect the group's liquidity management to remain conservative.

SUPPORT RATING AND SUPPORT RATING FLOOR

Banque Pictet's SR and SRF reflect our view that support from the Swiss authorities cannot be relied on. This reflects the group's 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

IDRS AND VR

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

- Structural deterioration in earnings, through cost pressures, loss of franchise or prolonged economic disruption as a result of the pandemic leading to persistently depressed asset prices and a reduced revenue base without offsetting cost measures
- An increase in credit risk appetite, which we do not expect
- A decrease in capital ratios to a level significantly below peers', which could be caused by a large acquisition, which we do not expect, or by large and unexpected operational losses

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

Upside to the ratings remains limited given Banque Pictet's high ratings relative to peers'. However, considerably increased scale and greater earnings without a material increase in risk appetite, resulting in a strengthening of the group's company profile, could be moderately positive for the ratings.

SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of Banque Pictet's SR and an upward revision of the SRF are unlikely given the group's low systemic importance.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions 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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Banque Pictet & Cie SA; Long Term Issuer Default Rating; Affirmed; AA-; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1+
; Viability Rating; Affirmed; aa-
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Dodd-Frank Rating Information Disclosure Form](#)

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