

PICTET GROUP

The Pictet Group Financial Solidity ...and other protections for client assets

DECEMBER 2023

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 recent geopolitical events have not compromised Pictet's financial position or its day-to-day operations.

Pictet has recently reached a resolution with the US Department of Justice regarding its wealth management business with US clients. The solution has no notable impact on the Group's fundamentals, which remain characterised by high capital, ample liquidity and steady recurring profitability.

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 1H 2023 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 Financial Profile

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

- The Group's liquidity coverage ratio was 178.9% as of 30 June 2023, 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 30 June 2023 was 29.3%, 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's 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 its initiation in 2005. The AA- was last reaffirmed with a stable outlook by FitchRatings in August 2023. Moody's Investors Service confirmed Banque Pictet & Cie SA's long-term deposit rating of Aa2, with a stable outlook in August 2023.

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 earnings.

PICTET GROUP'S CONSOLIDATED KEY FIGURES

Assets under management or custody: CHF638 billion as of June 2023.

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: CHF1,621 million in 1H 2023.

Consolidated net profit: CHF366 million in 1H 2023.

Total capital ratio: 29.3% as of 30 June 2023.

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. 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: 178.9% as of 30 June 2023

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;
- maintaining ample liquidity. Pictet holds sizeable amounts of cash at central banks, high quality banks and investments in very highly rated short- and mid-term bonds.
- carefully selected network of bank counterparties as sub-custodians, 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 sub-committees:

- 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 their continuous quality. 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 assessments are required for the selection of custody and clearing providers. These include the evaluation of procedures, practices, systems and the experience of the operational teams at the counterparties. Importantly Pictet always builds a knowledge 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.

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 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 benefit from 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 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 it recommends, always applying identical criteria to those used in selecting its own counterparties.

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