

• **SwissBanking**

Media conference

Banking Barometer 2018

Zurich | 30 August 2018 | Dr. August Benz & Dr. Martin Hess



Welcome

Michaela Reimann

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Overview

Part 1: The banking sector in a political and regulatory context

Dr. August Benz, Deputy CEO SBA, Head Private Banking & Asset Management

Part 2: Economic environment and trends in the banking sector

Dr. Martin Hess, Chief Economist SBA

The banking sector in a political and regulatory context

August Benz,
Deputy CEO SBA, Head Private Banking & Asset Management

Economic policy-related challenges faced by the banks in Switzerland

- **International trends fuelling uncertainty**
 - Geopolitical uncertainties and international trade tensions as well as increasing protectionism
 - Growing political and legal uncertainties in the wake of Brexit
- **Financial sector in particular faces additional challenges**
 - Ongoing period of low interest rates
 - Rising regulatory costs
 - Structural realignment of the financial sector with shrinking margins due to increasing regulation, strong competition and the advancement of digitalisation

Current regulatory issues in Switzerland

Equivalence of legislation

- Automatic exchange of information with foreign authorities (AEOI & FATCA)
- Basel III final: revision of Capital Adequacy Ordinance
- FinSA, FinIA
- Recognition of equivalence of the Swiss Stock Exchange

New regulations in the digitalisation segment

- Sandbox and introduction of a fintech licence
- Amendments to the outsourcing circular
- FINMA ICO guidelines adopted

Relevant future tax issues on the agenda

- Tax proposal 17
- Abolition of stamp duty
- Amendment of withholding tax
- Digital tax



Innovation and digitalisation an opportunity for sustainable growth

- Banks and fintech companies are increasingly working together and taking advantage of potential for synergies.
- As a location, Switzerland offers banks and fintech companies excellent advantages, and has developed into one of the leading global fintech centres for blockchain.
- The new digital technologies are also changing job profiles in the banking sector.

But:

- With the ongoing digitalisation of business processes in the banking sector, the risk of cyber criminality is also rising.

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In particular, asset management and sustainable investments have high growth potential

Asset management

- Key pillar of Swiss financial centre
- Strong potential for global growth
- Rise in assets managed by the asset management industry of 13 % in 2017 compared to the previous year

Sustainable investments

- Strong growth expected in Switzerland
- Rise in sustainable investments in Switzerland of 82 % in 2017
- Account for a share of around 8.7 % of overall Swiss fund market

Economic environment and trends in the banking sector

Martin Hess

Chief Economist SBA



Overview

- Net income & balance sheet business: banks well-equipped for structural change
- Wealth management: new record in assets under management since financial crisis
- Employment trend: employment at banks slightly declining
- Focus topic: strong growth in asset management



Banks addressing the challenges, showing good development and taking advantage of opportunities presented by digitalisation

- Uncertain political environment, but global growth in 2017
- Brisk investment activity and good consumer sentiment in Switzerland
- Expansive monetary policy remains unchanged in international context, low interest rate regime
- Digitalisation holds opportunities but also increased level of competition
- Competitiveness under pressure; change in business models and in competition between locations

Banks equipped for structural change and report solid net income

Net income by banking activity

in CHF bn



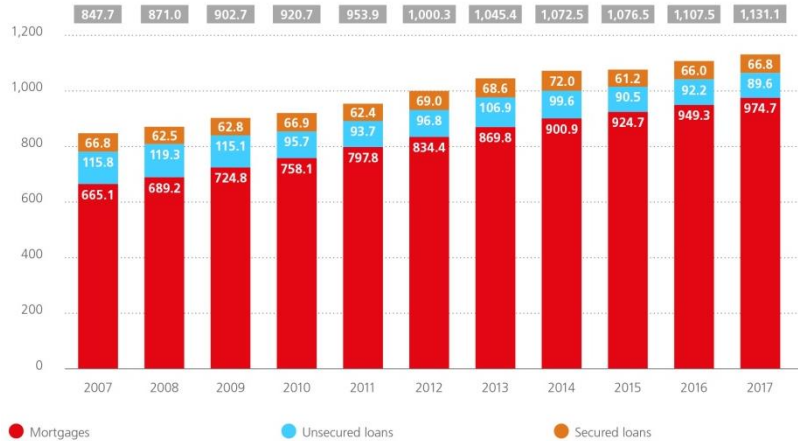
Source: SNB

- Decrease of 8 in the **number of banks** for a total of 253 institutions
- **Aggregate operating net income** stable at CHF 62.5 bn
- Rise in **gross profit** of 11.9 % to CHF 18.5 bn
- Increase in **annual profit** by 24.1 % to CHF 9.8 bn
- **Income taxes and taxes on earnings** stable at CHF 2.2 bn

Mortgage loans as the most important asset of banks

Trends in the credit volume in Switzerland

in CHF bn



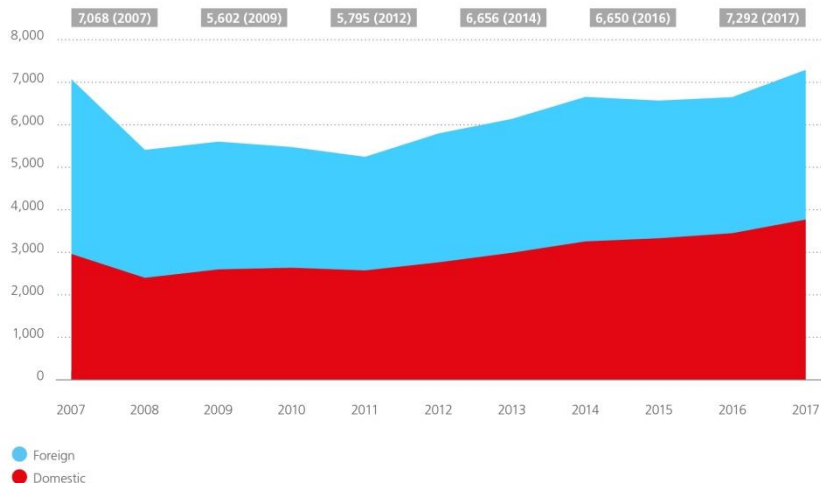
Source: SNB

- Increase in **total assets** by 4.8 % to a total of CHF 3,249 bn
- **Mortgage loans** are the **most important asset** for banks in Switzerland in 2017, at around 30.6 %
- Continued growth in **domestic credit volume** by 2.7 % to around CHF 975 bn
- According to the SNB, the **risks** in the real estate and mortgage market were **substantially reduced** by the stabilizing measures

Switzerland the leading international location for wealth management

Assets under management in Switzerland by customer origin

in CHF bn



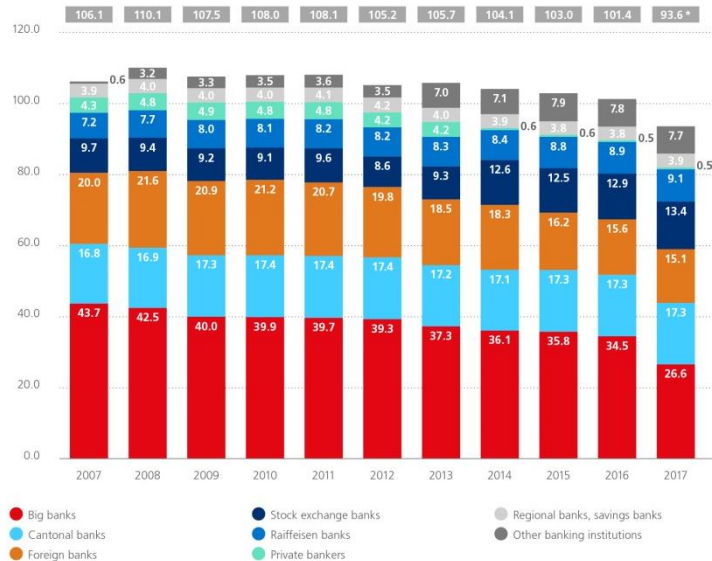
Source: SNB

- **New record** in assets under management since financial crisis
- Rise in **assets under management** of 9.6 % to a total of CHF 7,292 bn
- Share of domestic and **foreign customer assets** almost unchanged at 51.7 % and **48.3 %** respectively
- Despite stricter regulatory framework conditions and the low interest rate environment, Switzerland also remains the world leader in **global cross-border wealth management** with a **market share of 27.5 %**



Number of employees at banks in 2017 slightly declining

Staff levels at the banks in Switzerland (domestic)
in thousands full-time equivalents

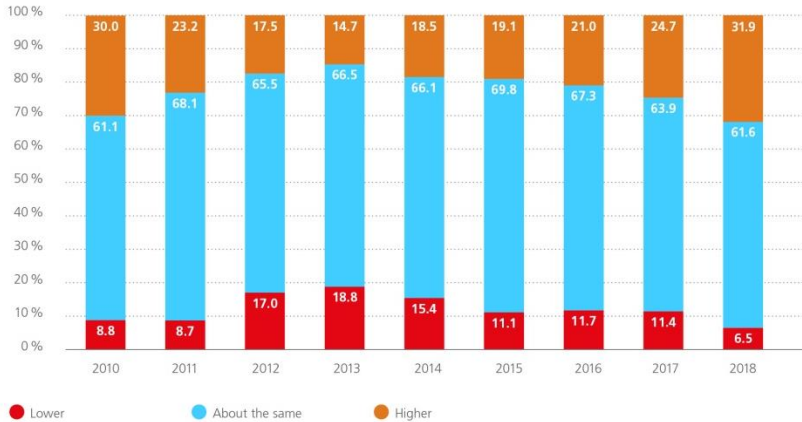


- Decrease in employment levels in the banking sector in 2017 of 7.7 % to a total of **93,554 in full-time equivalents (FTEs)**
- Decline primarily due to the **transfer of central services** from parent company of a big bank to intrabank service companies
- Adjusted for the **one-off effect, slight decline** of 0.9 %
- Below average **unemployment rate of 2.8 %** in the banking sector at the end of 2017
- According to a survey conducted by the SBA, the number of employees remained **stable** in the **first half of 2018**

For the second half of 2018, the majority of banks surveyed expect employment situation to remain at least flat or even improve

Survey results for employment expectations 2018

Shares as a percentage of all responses



NB: Number of responses 2018: 138

Source: SBA survey (2018)

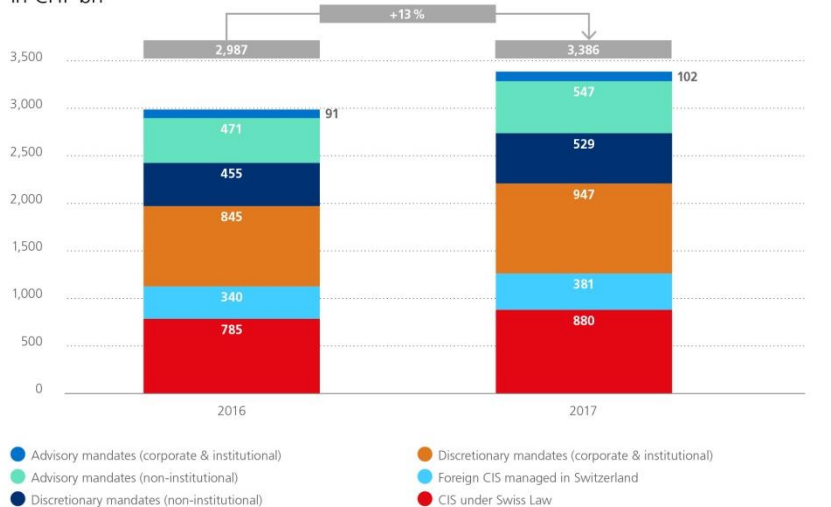
- Over 60 % of the banks surveyed expect the employment situation to remain flat, while almost **one-third** expect it to **improve in the second half** of 2018
- For **private banking** in particular, over 20 % of the banks surveyed expect to see an increase in staff in the second half of 2018
- This is the highest value in the last 8 years



Focus topic: strong growth in asset management

Institutionally managed assets in Switzerland

in CHF bn



Sources: SBA, IFZ/AMP and BCG

- **Asset management** is of high economic relevance for Switzerland
- As an **intermediary**, the asset manager plays an important role between investors and a broad investment universe
- **Secular growth** has been observed in Asset Management over the past few years (+ 13 % in 2017)
- In total, the assets under management equal **four times the total pension fund assets** of Switzerland
- For the future, it is important to **set the right course** (e.g. abolition of stamp duty, adaptation of investment guidelines)

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