SwissBanking

September 2013

2013 Banking Barometer

Economic trends in the Swiss banking industry

2013 Banking Barometer

Executive Summary

In 2012 the main features of the economic environment of the banks in Switzerland were, as they already were the previous year, the uncertainty on the financial markets, cautious investors and the tightening of regulations. This led to lower profits from trading and from commission and services. Thanks to a solid performance by the interest-earning business, the total operating profits of the banks in Switzerland remained unchanged at CHF 59 bn. The aggregate balance sheet of all the banks in Switzerland declined by 0.5 percent to CHF 2,778.3 bn. The volume of mortgages in Switzerland increased by 5.8 percent. Staff levels in Switzerland decreased by 2.7 percent to 105,166 employees. The survey of the Swiss Bankers Association (SBA) shows a further decline in employment of -0.7 percent (-654 employees) in the first half of 2013. In the second half, employment by the banks in Switzerland is expected to continue to trend down. The continuing debt crisis in the euro zone and flagging growth in Asia also harbour risks for Switzerland's economic performance this year. The Federal Government's Expert Group on Economic Forecasts expects 1.4 percent growth for 2013. Switzerland, driven by its domestic economy, is still doing well.

Operating profit: no change…

In 2012, the aggregate operating profit[1] of the banks in Switzerland remained unchanged as it had during the previous year. The increase in the interest margin business (+0.5%) and in other profit (+1.5%) was not quite able to offset the decline in profit from the trading business (-1.2%) and from commission and services (-1%). The commission and services business, accounting for around 40 percent, continued however to be the biggest contributor to the profits of the banks in Switzerland.

…balance sheet total down…

After increasing in 2011 (+2.9%) the balance sheet total of the banks in Switzerland decreased last year. It fell by 0.5 percent to a total of CHF 2,778.3 bn. The decrease was due in particular to the wealth management banks (-8.7%) and the big banks (-7%). All the other bank categories posted balance sheet expansion. In 2012, the number of institutions in the Swiss banking centre decreased by 15 to 297.

…and higher domestic credit volume in 2012

The total credit made available by the banks rose in 2012 by 4.7 percent to CHF 1,150 bn, with credit take-up increasing by 5.7 percent to CHF 990.8 bn. That being said, only 86.2 percent of the total credit available was taken up (mortgages and other customer receivables). Mortgages grew by 5.8 percent and, at 83.7 percent, were again the main contributor to the demand for credit in Switzerland. The credit growth was upheld by the continuing very low interest rates again in 2012 and the positive performance of the economy. With 33.4 percent of the market, the significant position of the cantonal banks in the credit business remained practically unchanged (2011: 33.5%).

[1] Operating profit is defined as revenues minus expenses in the four business activities of the banks (interest margin business, commission and services, trading and other ordinary profit). Operating profit less staff and operating expenses equals gross profit.

Rise in security holdings and interest-related shifts in 2012

The predominantly positive stock market environment led to higher security holdings. They increased in 2012 by 8.8 percent to CHF 4,612 bn. As already observed in the previous year, there were some interest-related shifts in the fiduciary deposits managed by the banks and in balance sheet positions. All in all, banks in Switzerland were managing assets of CHF 5,565 bn at the end of 2012. This represents a CHF 320 bn excess over the previous year.

Big increase in security holdings at the start of 2013

Security holdings grew by as much as 7.3 percent in the first five months of 2013. The drivers were the two asset classes of equities (+12.5%) and collective capital investments (+8.6%). The fiduciary deposits managed by the banks, down 1.6 percent, continued the negative trend of recent years, but no longer to the same extent.

Decline in employment in 2012

After a slight increase during the previous year (+0.1%) the banks in Switzerland reduced the number of people employed in 2012. The number of those employed in Switzerland fell by 2.7 percent to 105,166. The private bankers cut their staff levels the most, by 641 or 13.3 percent in fact. The decrease is due to the takeover of the non-US business of Wegelin & Co. Privatbankiers by the Raiffeisen Group. The big banks reduced their staff levels by 423 (-1.1%) and the foreign banks cut 880 posts (-4.2%). Only the Raiffeisen banks and the Regional banks and Savings banks increased their employment levels in 2012.

Staff levels continued down during first half 2013

According to the employment survey of the Swiss Bankers Association (SBA), the banks in Switzerland reduced the numbers employed by 654 full-time equivalents (-0.7%) during the first half of 2013. The banks in Switzerland also expect the numbers employed to continue to fall during the second half of 2013.

Subdued outlook for 2013

Despite the confident mood on the financial markets and increasing value creation in the banking sector at the start of 2013, there is still uncertainty about the way the economy will perform. And the pressure on profit margins – especially in the interest margin business – will continue. In the commission and services business, the higher transaction volumes on the Swiss stock market should have a positive impact.

1 Macroeconomic trends

In 2012 the global economy grew at a rate of 3.1 percent. This year, the growth rate is expected to remain unchanged. The euro zone is still in recession because of the continuing unresolved sovereign debt crisis whereas the pattern of growth has been more positive in the USA for two years. China and Brazil lost some of their dynamic, but other emerging economies were able to pick up speed. Japan's fiscal and monetary expansion had the desired effect at the beginning of 2013 and was largely responsible for stimulating the economy there. The Swiss economy, driven by the domestic economic situation, is still doing well, although the trend has not been quite so clear-cut these last few months.

1.1 Global economy

Slight recovery with more uncertainty

The International Monetary Fund (IMF) expects worldwide economic growth to reach 3.1 percent in 2013, which exactly matches the rate for 2012. In July 2013 the economic growth forecast was reduced for almost every country. The IMF reckons that the developing and emerging economies will grow by 5 percent this year, whereas the developed economies are likely to grow by only 1.2 percent.

Euro zone still in recession

The euro zone has been in a recession since 2012. Although the sovereign debt crisis became somewhat less acute in recent months and risk premiums fell, unresolved problems remain. The IMF expects the gross domestic product (GDP) to shrink by 0.3 percent this year (2012: -0.6%). Growth, at a slight 1.1 percent, is not expected to return before 2014. In May 2013 the unemployment rate in the euro zone was, at 12.2 percent, at an all-time high.

Growth for the USA and Japan

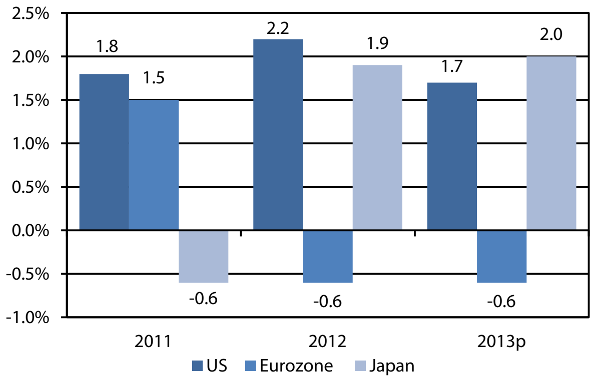
The USA is expected to grow by 1.7 percent this year (2012: 2.2%). Whilst the euro zone continues to experience hard times, the US economy is prospering. But the growth is not high enough to bring down the elevated unemployment rate in the USA. After a dip in 2011 (-0.6%), the Japanese economy grew 1.9 percent in 2012. For 2013, the IMF expects 2 percent growth, due essentially to the fiscal and monetary easing in Japan.

A curb on growth in China and Brazil

The up-and-coming economies in Asia and South America, such as China, India and Brazil, have lost some of their status as global growth drivers. China has not posted double-digit growth for some time, but with growth expected to be 7.8 percent in the current year, China is still one of the world's strongest growing economies. According to the IMF, India will enjoy 5.6 percent growth in 2013, and Brazil's rate of growth will slightly recover after a downturn in the previous year (2012: 0.9%, 2013: 2.5%). In the last few years Brazil's economy profited particularly from the rising raw material prices. In contrast, industrial output is barely competitive internationally.

1-1 GDP in developed markets

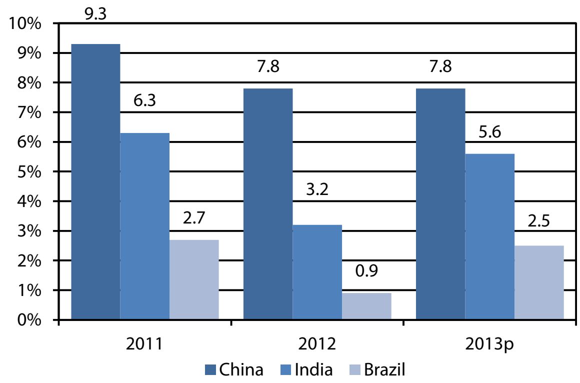
In %



Source: IMF

1-2 GDP in emerging markets

In %



Source: IMF

Slower world trade growth

In 2012 the world trade volume grew by a low 2 percent. This reflects the sluggish pace of global growth and especially the crisis in the euro zone countries. The World Trade Organisation (WTO) expects a 3.3 percent increase in world trade in 2013.

Economic situation burdened by high levels of public debt

The high levels of debt of some euro zone countries and the USA are still burdening the global economy. According to Eurostat, the European statistics authority, the gross debt in the euro zone stands currently at 90.6 percent of GDP.

1.2 Switzerland

Moderate growth in 2012

After a relatively strong rate of growth in 2011 (+2.2%), the Swiss economy grew by 1 percent in 2012. For 2013, the Federal Government's Expert Group on Economic Forecasts expects GDP to grow by 1.4 percent. Driven by the domestic economy, Switzerland is doing well in the midst of a euro zone in recession.

Higher foreign trade despite adverse economic circumstances

Swiss foreign trade was also able to deal with the tough global economic environment in 2012. Exports grew by 1.4 percent to CHF 200.6 bn in 2012. The growth was driven by the watch-making, pharmaceutical and food sectors and was achieved outside Europe. Imports rose by 1.4 percent to CHF 176.8 bn. As a result, the balance of trade posted a record surplus of CHF 23.8 bn.

Limited labour market growth

In view of the fact that GDP rose only slightly, the labour market shows a restrained development and is not expected to ease in the coming months given the already low rate of growth. For 2013 and 2014, the Federal Government's Expert Group on Economic Forecasts expects the unemployment rate to be 3.3 percent. In comparison with our neighbours, however, this is extremely low.

Excellent situation of Swiss public finances

Switzerland's public finances remain excellent. As a result, a surplus was generated both in 2011 (CHF 1.9 bn) and 2012 (CHF 1.3 bn). The gross debt ratio was just 35.3 percent in 2012. This extremely low level of public debt is reflected in the AAA rating that the Swiss Confederation continues to enjoy. It is one of a small group of countries with this rating.

2 Financial markets

In 2012 the Swiss financial markets were again characterised by very low interest rates and extremely low Confederation bond yields. It was only in 2012 that the currency interventions impacted the balance sheet of the Swiss National Bank (SNB). The SNB bought foreign currencies worth CHF 188 bn. In the first quarter of 2013, the Swiss central bank made a CHF 11.2 bn profit on its currency holdings. The equity markets continued to trend positively in 2012. The Asian equity markets in particular posted a strong performance. At the start of 2013 the trend strengthened and spread to the developed markets too, causing various share indexes to reach record highs.

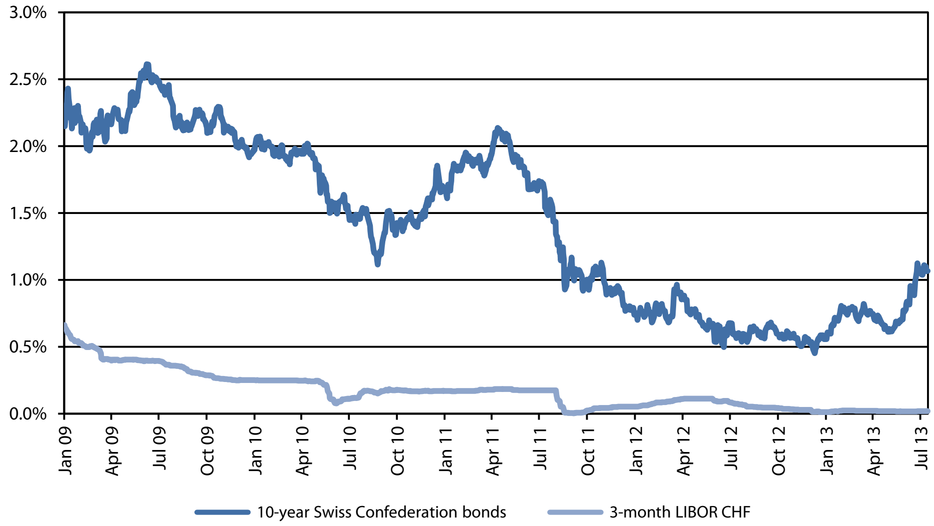
2.1 Interest and exchange rates

Interest rates still low, Confederation bond yields have bottomed out

Interest rates in Switzerland have been exceptionally low for over five years. The last time interest rates were cut by the SNB was in August 2011. Since mid-January 2013 the London Interbank Offered Rate (LIBOR) has been in the 0.02 percent range, thus coming off its 0.01 percent low. Compared with other countries, the Swiss yield curve is still very flat. This means that the financial markets in Switzerland suppose that interest rates will rise less rapidly than in other countries.

Ten-year Swiss Confederation bond yields averaged a very low 0.65 percent in 2012. The yields grew again in the second quarter of 2013, reaching 1.1 percent in July. The rise reflects the positive trend on the financial markets.

2-1 Swiss Confederation bond yields and 3-month CHF LIBOR



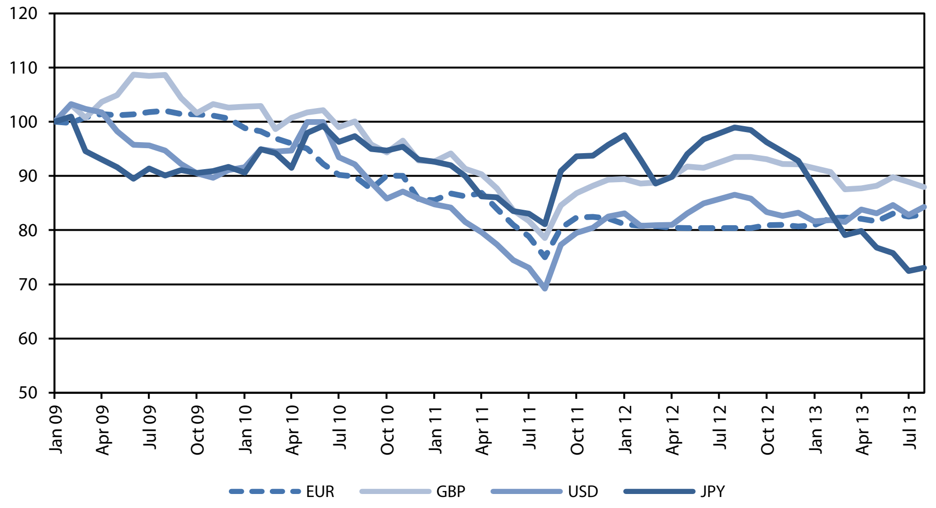
Source: SNB

Slight real depreciation of the Swiss franc

The setting of the lower limit for the EUR-CHF exchange rate in September 2011 made it possible to stabilise the real trade-weighted exchange rate of the Swiss franc against the top 40 trading partners. In 2012 the Swiss franc depreciated by 1.2 percent.

2-2 CHF exchange rates

Indexed, January 2009 = 100



Source: SNB

Higher SNB foreign currency reserves in 2012 and 2013

In 2011, the lower limit of 1.20 EUR/CHF set by the SNB had not yet had any marked effects on the central bank's balance sheet. It was only in 2012 that the SNB had to intervene on the currency markets in order to uphold the lower limit. To do so, the SNB made foreign currency purchases worth CHF 188 bn in 2012. This led to an increase in the currency reserves, which amounted to CHF 448.3 bn at the end of May 2013. They comprise 47.5 percent euro-denominated, 27.2 percent US dollar-denominated and 8.6 percent Japanese yen-denominated investments. Compared with three years ago, the euro share of the foreign currency reserves has been heavily reduced (May 2010: 64.5%). 78 percent of the currency reserves are held in the form of government bonds and 15 percent in equities. 76 percent have an AAA rating. In the first quarter of 2013 the SNB made a CHF 5.8 bn profit on its currency holdings.

Lower inflation in Switzerland produces a falling equilibrium price

Partly due to the variations in pricing, the EUR-CHF exchange rate in terms of purchasing power parity (equilibrium price) is moving down towards the real exchange rate. Consequently, the Swiss franc is now slightly less overvalued and this should rapidly reduce the pressure on the lower exchange rate limit set by the SNB. No rise in central bank interest rates is to be expected in the next few months, either in the euro zone or in Switzerland.

2.2 Equity markets

After a difficult 2011, a positive trend in 2012

After a predominantly negative 2011, stock market prices trended positively in 2012. The Asian markets in particular posted a strong performance (MSCI ASIA ex JP: +18.6%, NIKKEI: +22.9%). One of the drivers was the mid-2012 announcement by the president of the European Central Bank, Mario Draghi, that if necessary the bonds of struggling countries would be bought in unlimited quantities.

Demand for precious metals still high

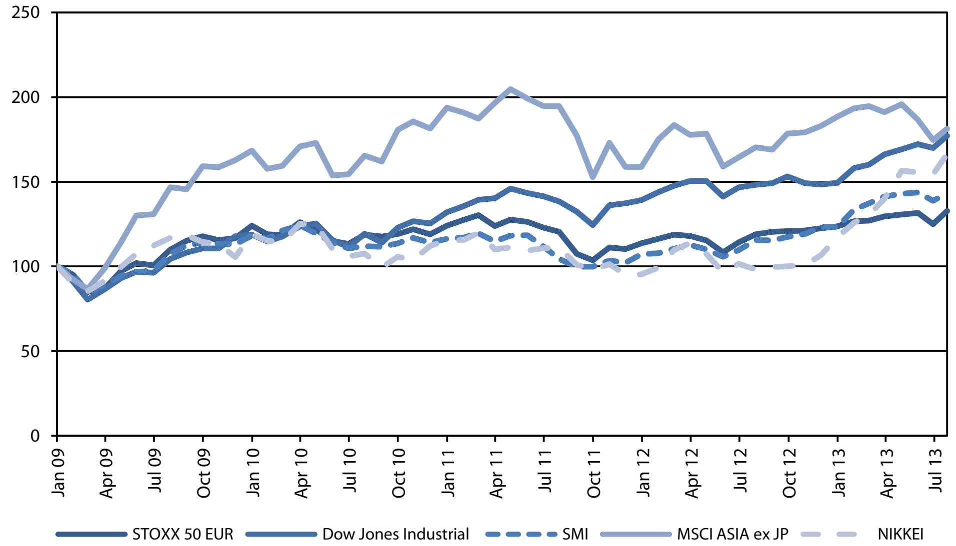
Despite a recovery on the equity markets, demand grew for precious metals as an investment. The price of gold rose by 5.6 percent in 2012 and the price of silver by 6.3 percent (both in USD/ounce). The previous year's high rates of growth were not reached however.

In the first half of 2013, precious metal prices collapsed again, with the price of gold falling by 26.9 percent and the price of silver by as much as 37 percent.

In Switzerland the growth of the Swiss Market Index (SMI) at 14.9 percent in 2012 was slightly above the 13.8 percent of the Swiss Performance Index (SPI), which includes a broader range of companies. The European Blue Chip Index STOXX 50 EUR grew 8.8 percent in 2012. The Dow Jones Industrial and the S&P 500 also grew, by 7.3 percent and by 13.4 percent respectively in 2012.

2-3 Selected stock market indexes

Indexed, 1 January 2009 = 100



Source: SNB, Datastream

Extremely positive trend in the first half of 2013

Most of the stock market indexes rallied in the first half of 2013, reaching or even exceeding the highs of 2007. With a 31.6 percent increase, the Japanese NIKKEI Index was the absolute top performer. One reason was the fiscal and monetary expansion ("Abenomics") launched in Japan in December 2012. The NIKKEI was followed by the USA Dow Jones Industrial index (+13.8%) and the S&P 500 (+12.6%). The European Blue Chip Index STOXX 50 EUR grew by a comparatively modest 1 percent. The Swiss SMI index achieved a substantial performance, growing by 12.6 percent. Only the MSCI ASIA ex Japan was unable to post a positive performance, falling by 7.3 percent.

3 Bank profits

In 2012, the aggregate operating profit of the banks in Switzerland remained flat as it already had in the previous year. The aggregate operating profit was CHF 59 bn, or a slight decrease of 0.2 percent. The increase in interest income (+0.5%) and in other profit (+1.5%) was not quite able to offset the decline in profits from trading (-1.2%) and from commission and services (-1%). At 40 percent, profit from the commission and services business was still the largest component of the profits of the banks in Switzerland. Net profit fell to CHF 186.1 m. The banks in Switzerland paid corporate income tax amounting to CHF 1.54 bn in 2012, or slightly more than the previous year.

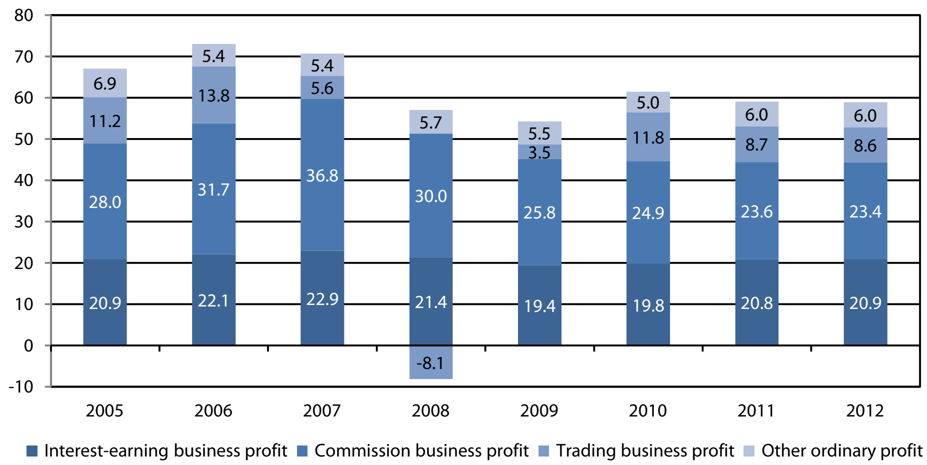
3.1 2012 operating profit and net earnings

Constant level of operating profit

After two years of positive growth (2009: +10.8%, 2010: +13.3%) the aggregate operating profit[2] of the banks in Switzerland remained flat as it already had in the previous year. The aggregate operating profit was CHF 59 bn (-0.2%). The slight decrease is due to the lower profits from trading and from the commission and services business. In contrast, profits from the interest-earning business and other ordinary profit rose by 0.5 and 1.5 percent respectively. These data differ, especially with respect to the big banks, from the figures published in group annual reports, which refer to all the business activities of the group and not just those in Switzerland.

3-1 Profit by banking activity

CHF bn



Source: SNB

[2] Based on data relating to the statutory unconsolidated financial statements of the banks (parent company). The statutory financial statements comprise the operations of the head offices in Switzerland and of the legally dependent subsidiaries in Switzerland and abroad. In the case of the big banks in particular, these figures in the profit and loss account can sometimes vary considerably from the numbers in the consolidated financial statements. Both big banks made a group profit of around CHF 3 bn during the first half of 2013.

Slight reduction in profits from commission and services

The trading activity of customers was lower in 2012, leading to a 13.3% decrease in movements on customer security accounts on the Swiss stock market. As a result, banks in Switzerland experienced a slight fall in income from the commission and services business of 1 percent to CHF 23.4 bn in 2012. The loss of income from the securities and investments sub-category was as high as 4.1 percent. However, commission income from the credit business (+13.8%) and other service-related commission (+2.5%) increased. In the commission and services business, the private bankers (-9%), the cantonal banks (-2%) and the other banks[3] (-11.7%) generated lower profits than in the preceding year. At around 40 percent, the commission and services business was still the biggest contributor to bank profits in Switzerland.

Interest income up again

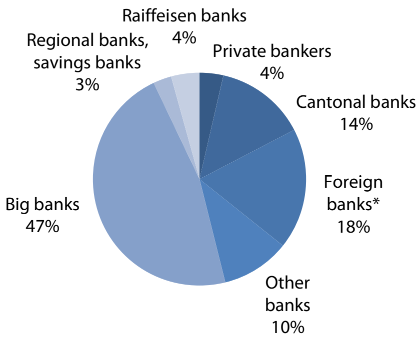
Following a rise in profits from the interest-earning business in 2011 (+5.4%), interest income rose again last year by 0.5 percent to CHF 20.9 bn. Interest expenses decreased by 8.7 percent to CHF 23.7 bn, interest income fell 4.6 percent to CHF 44.6 m. Income declined by less than expenses, so that in 2012 there was an overall increase in profits. After the growth in interest business experienced by most bank groups in the previous year, in 2012 only the big banks (+3.1%), the foreign banks (+2.5%) and the cantonal banks (+0.5%) achieved higher interest income. The interest-earning business, accounting for 35.5 percent, remained the second largest contributor to the profits of the banks in Switzerland.

Trading profits down again in 2012

Having fallen in 2011, trading profit declined again in 2012 (-1.2% to CHF 8.6 bn). This decrease is predominantly due to the lower trading profits of the private bankers (-14.4%), the big banks (-1.7%) and the foreign banks (-0.7%). The Regional banks and Savings banks (+21.3%), the Raiffeisen banks (+8.7%) and the Cantonal banks (+4.3%) posted higher profits however. The trading business accounts for 14.5 percent of the profits of the banks in Switzerland.

No change in profit shares according to bank group

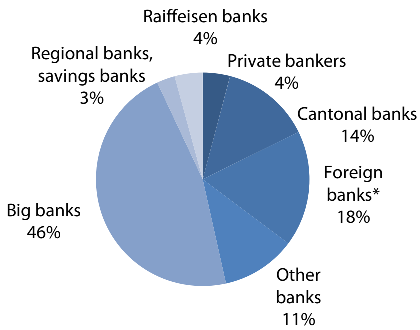
3-2 Profit by bank group 2012



* including foreign bank subsidiaries

Source: SNB

3-3 Profit by bank group 2011



* including foreign bank subsidiaries

Source: SNB

Income taxes still high at CHF 1.54 bn

Gross profits from the business operations of the banks in Switzerland amounted to CHF 17.4 bn in 2012 (2011: CHF 18.7 bn). Income and equity taxes of CHF 1.54 bn were paid in 2012, or slightly more than in the previous year (CHF 1.46 bn).

254 banks post profit for the year

A decrease in annual profits and an increase in annual losses by banks in Switzerland led to a decline in aggregate net profit, which stood at CHF 186.1 m in 2012 (2011: CHF 13 bn). Overall, 254 banks posted a profit for the year and 43 posted a loss. Provisions by the big banks to cover litigation, regulatory matters and the like, high levels of impairment of

[3] "Other banks" include merchant banks, wealth management banks, microfinance institutions and all other banks. Banks in the "all other banks" group do not fit into any of the other categories. They have no particular features in common.

goodwill and other non-financial assets and exceptional items caused by new accounting principles relating to pension funds account in particular for the decline in aggregate net profit.

Accounting variations create differences

It should be pointed out that these data concern the parent banks, which, in contrast to the consolidated financial statements of the banks, do not include their legally independent subsidiaries in Switzerland and abroad. Moreover, the statutory unconsolidated financial statements of the Swiss parent banks use the Swiss accounting standard for banks (FINMA Circular 2008/2), whereas the big banks use the international IFRS or US GAAP standards at group level. Structural variations (parent company/group) and differences in the accounting standards can lead to considerable differences in the recognition and appraisal of corporate situations and therefore also of profit.

3.2 Current year performance

Persistent uncertainty despite recovering financial markets

The consequences of the prolonged financial and debt crisis in Europe are also apparent, in a milder form, in Switzerland. Performance is driven by a robust domestic economy and by exports at a subdued level due to the poor economic situation of some major trading partners. Despite a confident mood on the financial markets in the short term and growing value creation in the banking sector at the start of 2013, there is still uncertainty about how the economy will perform. The pressure on profit margins will also continue – especially in the interest margin business.

Higher stock market trading

In the first half of 2013 in particular, investors renewed their confidence in the stock markets. Transaction volumes on the Swiss stock exchange rose during the first six months compared with the last half of 2012 by 31 percent. Equities and investment funds in particular enjoyed higher transaction volumes in the first half of 2013 (+42.9% and +30.9% respectively).

4 Balance sheet business

After increasing by 2.9 percent in 2011, the balance sheet total of the Swiss banks declined slightly last year. The aggregate balance sheet total fell in 2012 by 0.5 percent to CHF 2 778.3 bn. The wealth management banks and the big banks in particular reduced their balance sheet total in 2012, the former by 8.7 percent, the latter by 7 percent. All the other bank groups posted an expansion of their balance sheets. The factors behind the slightly lower figures were lower bank receivables (-17.1%), lower receivables from money market papers (-28.9%) and the decrease in the holdings of securities and precious metals for trading purposes (-7.1%). In contrast the strong growth of recent years continued for mortgage receivables, which at 30.5 percent constituted the largest item in the aggregate balance sheet total (+4.8%).

4.1 Balance sheet trends

Aggregate balance sheet total up again

Following the rise of the two preceding years (2010: +1.7%, 2011: + 2.9%), the balance sheet total of all the banks in Switzerland fell slightly in 2012 (-0.5%). It declined by CHF 14.7 bn to CHF 2,778.3 bn. The largest balance sheet contraction was posted by the big banks. Compared with the previous year their balance sheet total decreased by CHF 101.9 bn to CHF 1,364.8 bn (-7%), due in particular to a reduction in foreign business. Most of the other bank groups posted an expansion of their balance sheets, with the cantonal and the foreign banks demonstrating particularly high growth (+7.3% and +12% respectively). The number of institutions in the Swiss banking centre fell by 15 to 297 banks in 2012.[4]

4-1 Balance sheet total by bank group

	Number of banks		Balance sheet total (CHF bn)		% change in balance sheet total	
	2012	2011	2012	2011	2012	2011
Cantonal banks	24	24	482.3	449.4	7.3%	6.6%
Big banks	2	2	1346.8	1466.7	-7%	-1%
Regional banks and Savings banks	66	66	104.3	101.1	3.2%	5.3%
Raiffeisen banks	1	1	164.7	155.9	5.6%	5.9%
Other Banks[5]	60	58	194.5	203	-4.2%	10.2%
of which wealth management banks	47	46	125.3	137.3	-8.7%	11.6%
Foreign banks	131	148	406	362.5	12%	7.4%
Private bankers	13	13	61.8	54.4	13.5%	18.8%
Total	**297**	**312**	**2778.3**	**2793**	**-0.5%**	**2.9%**

Source: SNB

[4] Five banks were taken over by other banks, six banks were liquidated and one bank lost its bank status. Insolvency proceedings were opened against one bank and four foreign banks closed their Swiss branches. Two banks were licensed to operate for the first time.
[5] "Other banks" include merchant banks, wealth management banks, microfinance institutions and other banks. Banks in the "other banks" group do not fit into any of the other categories. They have no particular features in common.

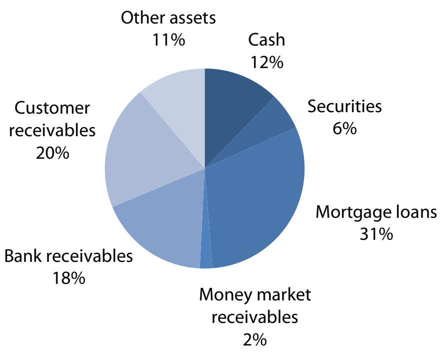
Assets: further increase in cash and mortgage receivables, big decline in receivables from money market papers and bank receivables

Bank receivables, especially in respect of banks abroad, fell heavily in 2012. They declined overall by CHF 102.5 bn to CHF 498.3 bn. In 2012 receivables from money market papers again fell heavily, as they had in 2011, to CHF 55.5 bn (-28.9%). On the one hand banks held fewer papers issued by domestic and foreign institutions, and on the other hand the last SNB bills[6] were due for repayment in 2012. Mortgage receivables increased by 4.8 percent to CHF 847.9 bn. Consequently mortgage loans were still the most significant asset position of the banks in Switzerland, accounting for 30.5 percent of the balance sheet total. Cash assets were heavily expanded (2012: +31.6%, 2011: +144%), due to the steps taken by the SNB to increase money market liquidity as part of the measures to combat the strength of the Swiss franc.

Liabilities: Customer deposits up

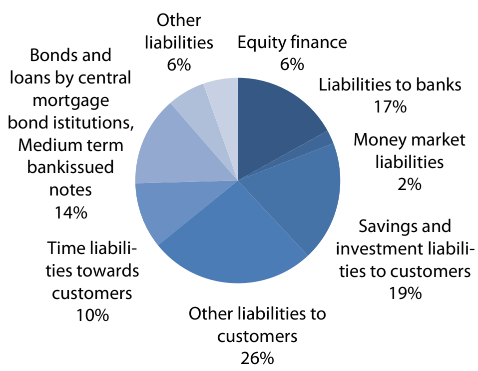
Customer deposits rose as they had already done in the preceding years (+4.1%), which also reflects the higher lending by the banks, as mentioned in section 4.2. Savings and investment liabilities to customers grew by 7.8 percent and other sight liabilities payable to customers by 13.4 percent. In contrast, time deposits and medium-term bonds declined (-14.1% and -12.1% respectively). Interest-related shifts – as in previous years – contributed to this performance. A further decline in liabilities to banks in Switzerland and abroad (-2.1% to CHF 470.4 bn) means that the trend of recent years continues.

4-2 Breakdown of assets 2012



Source: SNB

4-3 Breakdown of liabilities 2012



Source SNB

Higher sight deposits at the SNB, continuing low exposure to debtors in PIIGS countries

In the wake of the measures to combat the strong Swiss franc, the sight deposits of the banks with the SNB were expanded in August 2011 first from CHF 30 to CHF 80 bn and progressively increased to CHF 200 bn during the same month. At the end of 2012 SNB sight deposits amounted to CHF 293.8 bn. Receivables from private and public debtors domiciled in PIIGS countries[7] were again at a low level for the banks in Switzerland, amounting, as before, to 1.8 percent of receivables from all foreign debtors.[8]

[6] SNB bonds, which serve firstly to mop up the liquidity in the system following the financial crisis and secondly are intended to enable a more flexible management of money market liquidity.
[7] The PIIGS countries include Portugal, Italy, Ireland, Greece and Spain.
[8] The Bank for International Settlements (BIS) published a much higher figure (USD 48.7 bn) for 2012 than the Swiss National Bank. One of the reasons for this is the distinction between "banks in Switzerland" and "Swiss banks". The SNB statistics only cover "banks in Switzerland".

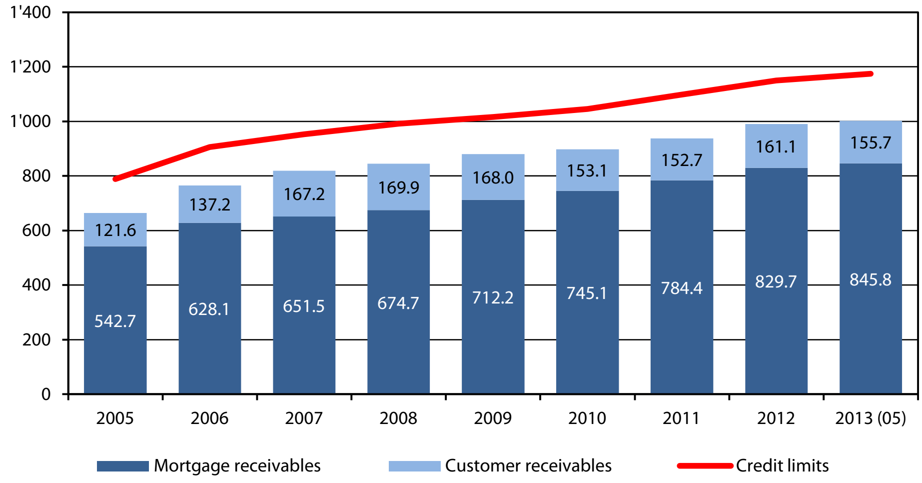
4.2 Credit business in Switzerland

Growth of credit volume take-up

The credit business of the banks is especially important for the Swiss economy. The credit limits granted by the banks rose in 2012 by 4.7 percent (CHF 1,150 bn). Credit take-up increased by 5.7 percent to CHF 990.8 bn. At 86.2 percent, the total credit available was therefore still not fully used in 2012.

4-4 Credit limits and take-up in Switzerland

CHF bn



Source: SNB

Continuing rise in mortgage volume

Domestic mortgage lending, which grew by 5.8 percent in 2012[9], was still the main component of credit demand in Switzerland at 83.7 percent. Companies (+6.1%) and the public sector (+9.1%) demonstrated strong growth. Private households, which were the biggest group of mortgagees with over three quarters of loans, increased their demand by 5.6 percent. This increase in mortgage lending was also upheld by the continuing very low interest rates and the positive performance of the economy in 2012.

New minimum requirements for mortgages

No general overheating of the Swiss real estate market has been seen despite a few "hot spots". However, in order to counter any tendency of the mortgage business to overheat, on 1 July 2012 the Swiss Bankers Association (SBA) issued self-regulatory rules with respect to the minimum requirements for mortgage lending. The banks have thus emphasised their intention of contributing effectively to crisis prevention. The self-regulatory rules require the borrower to contribute a minimum of 10 percent of the total value of the mortgage from his or her own resources. The 10 percent may not come from the assets of the Second Pillar. Moreover, the mortgage debt must be reduced to two thirds of the total value of the loan within 20 years. The Swiss Federal Council agreed to accept these self-regulatory arrangements of the banks and they have Swiss Financial Market Supervisory Authority (FINMA) approval. The guidelines came into effect on 1 July 2012.

Activation of the countercyclical capital buffer

The Swiss Federal Council however did not wish to wait for the effects of the demand-side measures of the banks to become apparent. At the request of the Swiss central bank, the Federal Council activated the countercyclical capital buffer on 13 February 2013. This requires the banks to hold additional equity capital for residential mortgages from 30 September 2013 and increase their capital cushion for these loans.

[9] These figures were taken from the SNB's Monthly Statistical Bulletin and do not correspond to a complete survey. The publication Banks in Switzerland quotes, based on a complete survey, a growth rate of 4.6 percent.

Shift from variable to fixed-rate mortgages

At the end of 2012, 91.2 percent of mortgages in Switzerland belonged to the first lending group, 6.5 percent to the second and 2.3 percent to the third[10]. The continuing shift from variable to fixed-rate mortgages was also manifest during the period under review. Overall at the end of 2012, 85.2 percent of all mortgages in Switzerland were at fixed rates of interest (1996: 42.7%). According to Comparis data, this trend reversed during the first half of 2013, causing the proportion of fixed-interest mortgages to decline.[11]

Bank loans in greater demand from both private households and companies

At 5.8 percent, the growth in the aggregate demand for bank loans was higher than in the previous year (+4.3%). In contrast to the previous year, only mortgage loans fed the credit growth of private households. The other forms of outstanding debt declined by 1.6 percent (2011: +11.3%). Companies, which at 64.9 percent of all loans demonstrated the biggest demand for credit (excluding mortgages), expanded their loan portfolios again for the first time in two years (+8.7%, 2011: -2.8%, 2010: -13.7%).

4-5 Credit volume* in Switzerland by sector

CHF m

	Mortgages		Customer receivables		Total lending	
	End 2012	**Change from previous year**	**End 2012**	**Change from previous year**	**End 2012**	**Change from previous year**
Private households	629,532	5.6%	33,768	-1.6%	663,300	5.2%
2012 share	75.9%		21%		67%	
Companies	181,737	6.1 %	104,459	8.7%	286,195	7%
2012 share	21.9%		64.9%		28.9%	
Public sector	18,428	9.1%	22,665	3%	41,091	5.6%
2012 share	2.2%		14.1%		4.1%	
Total	**829,697**	**5.8%**	**160,892**	**5.5%**	**990,586**	**5.8%**

* Loans taken up according to credit volume statistics

Source: SNB

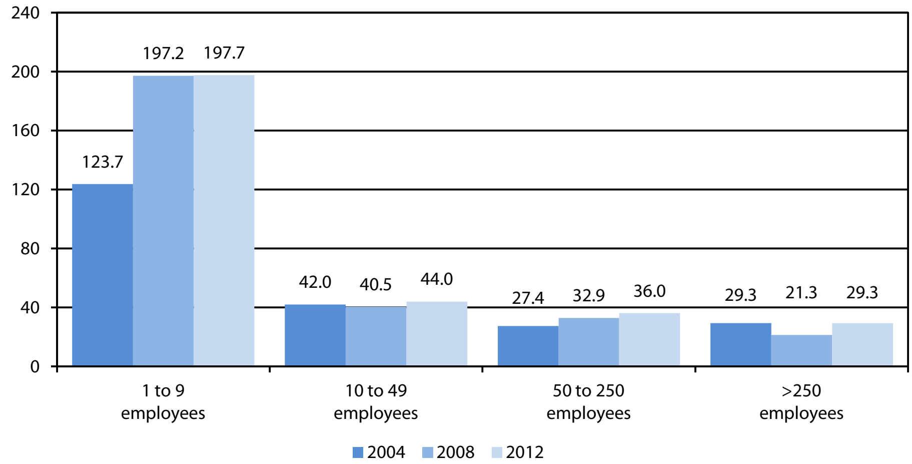
SME the biggest corporate borrowers

At the end of 2012, 90.5 percent of outstanding corporate credit loans had been taken out by small and medium-sized enterprises (SME). In 2004 the proportion of SMEs was only 86.8 percent. Compared with the previous year, the SME demand for borrowing increased by 6.8 percent, and by as much as 10.8 percent in the case of larger companies.

[10] Mortgage receivables are attributed to various lending groups (LG) as soon as they exceed a pre-defined proportion of the market value of the collateral (e.g. real estate: receivables up to 2/3 of the market value are in the 1st LG, receivables above that value and up to 80% are in the 2nd LG, receivables above 80% are in the 3rd LG). In general market risks increase with the LG.
[11] Comparis Mortgage Barometer 2nd Quarter 2013.

4-6 Credit volume by company size

CHF bn



NB: Includes loans to financing and wealth management institutions (e.g. trusts or foundations). Between 2006 and 2010, there was a loss of data continuity concerning loans to companies with 1 to 9 employees due to reclassifications.

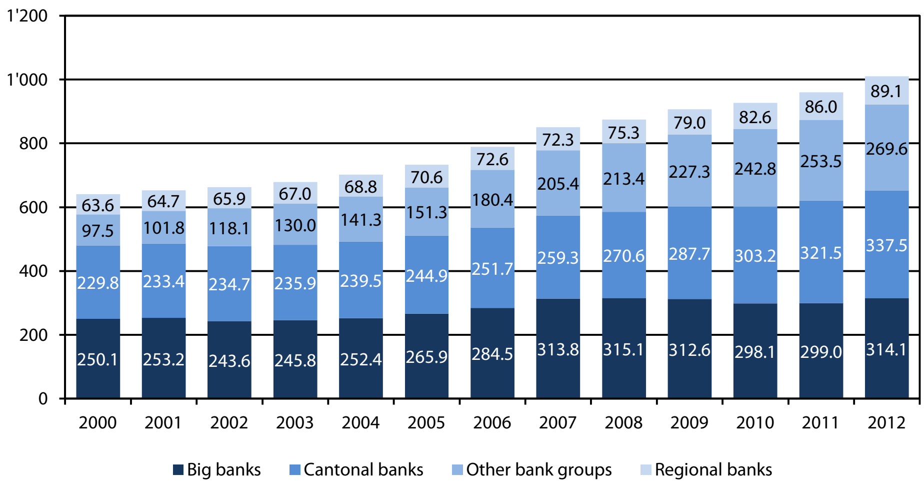
Source: SNB

Rise in credit volumes for all lenders

All lenders increased their credit volumes last year (total +5.3%). The significant position of the Cantonal banks as leading lenders with a market share of 33.4 percent remained practically unchanged (2011: 33.5%). After the minimal growth of 2011 (+0.3%), the credit volume of the big banks rose substantially again in 2012 (+5%). The big banks have the second largest market share with 31.1 percent.

4-7 Swiss lending by bank group

CHF bn



Source: SNB

Slight rise in credit volume in the first five months of 2013

The low interest rates again produced high credit growth. With a 2.1 percent increase compared with December 2012, the first five months of 2013 again posted slightly positive growth in the volume of domestic credit (same period previous year: +1.5%). In May 2013, the take-up of total available credit was CHF 1,001.6 bn or 85.3 percent (December 2012: 86.2%). Mortgage lending went up 1.9 percent between December 2011 and May 2013. Customer receivables decreased by 3.3 percent during the same period.

5 Wealth management

After the decrease in the security portfolios in customer custody accounts in 2010 and 2011, in 2012 they rose by 8.8 percent to CHF 4,612 bn. The driver of the increase in portfolio value was the predominantly positive equity market environment. Customer liabilities in the form of savings and investments rose from CHF 488.5 bn to CHF 526.5 bn. Fiduciary deposits however continued their downward slide of previous years, due, as before, to the extremely low interest rates and at the end of 2012 amounted to CHF 137.7 bn. Interest-related shifts led to a reduction in time deposits from CHF 336.6 bn to CHF 289.1 bn. Overall, at the end of 2012, the banks in Switzerland were managing wealth assets of CHF 5,565 bn. In comparison with the previous year, this is an increase of CHF 320 bn.

5.1 Assets under management in Switzerland in 2012

Definition of "assets under management"

According to the Swiss Financial Market Supervisory Authority (FINMA), assets under management include other positions in addition to security holdings in client custody accounts. According to a FINMA Circular[12], assets under management comprise all assets for which investment advice and/or wealth management services are provided. Consequently the following positions are included in assets under management: security holdings in client custody accounts, fiduciary investments, customer savings and investment liabilities and customer time liabilities.[13]

6.1 percent rise in assets under management

At the end of 2012, the banks in Switzerland were managing assets worth CHF 5,565 bn. In comparison with the previous year, this is an increase of CHF 320 bn. It is based on the growth of the security holdings and customer liabilities in the form of savings and investments. Fiduciary deposits and time liabilities to customers fell however.

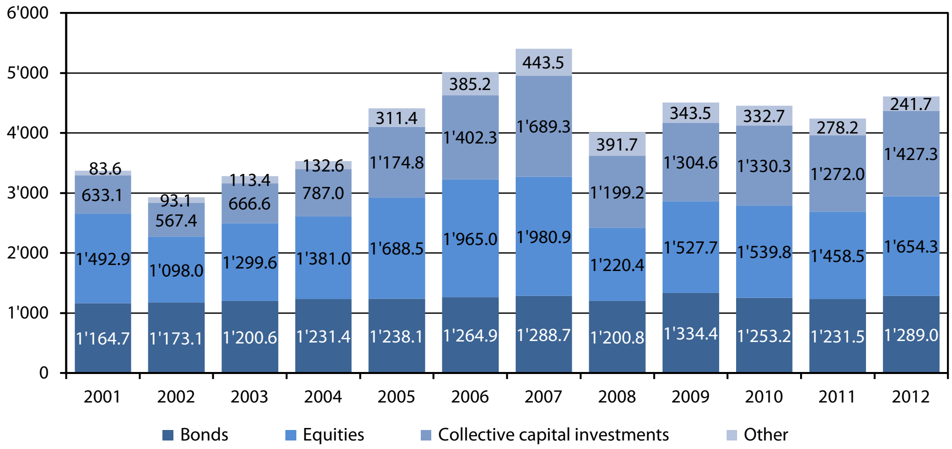
After a decline in the previous two years, security holdings increased in 2012 by 8.8 percent to CHF 4,612 bn. The higher stock market prices of 2012 were a specific cause of this higher level of security holdings.

[12] cf. FINMA Circular 2008/2 Accounting – Banks.
[13] The relevant SNB statistics sampling level for security portfolios and fiduciary deposits includes the subsidiaries of the banks in Switzerland, but not the foreign branches. To that extent, the consolidated figures are representative of the Swiss banking centre in the narrower sense of the term. The definition does not apply however to the customer deposits in the balance sheet, which also include deposits in foreign branches. However, this distinction has not been taken into account in the calculation.

Security holdings in client custody accounts amounted to CHF 4,612 bn

5-1 Security holdings in client custody accounts by type

CHF bn



Source: SNB

Big rise in equity holdings ...

Equity holdings rose by an above-average 13.4 percent, making this category of securities the fastest-growing in 2012. With a total of CHF 1,654 bn and a 35.9 percent share, equities occupy the leading position in security holdings. The equity holdings of foreign customers grew more than those of domestic depositors (+15.9% and +9.8% respectively).

... and also in collective capital investments

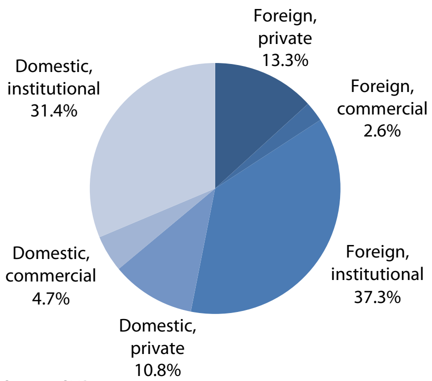
After a decrease during the previous year (-4.4%), the "Shares in collective capital investments" category (e.g. mutual/investment funds) increased in 2012 by 12.2 percent to CHF 1,427 bn. The 30.9 percent share of total security holdings represented by collective capital investments is slightly higher than in the preceding year. Collective capital investments as a proportion of domestic and foreign customer deposits grew at about the same rate (+12.1% and 12.4% respectively).

Rise in bonds

Bond holdings declined in 2010 and 2011 (-6.1% and -1.7% respectively). In 2012, this position grew 4.7 percent to CHF 1,289 bn. At 27.9 percent, bonds nevertheless still represent the third largest asset class in client custody accounts. With a 7.2 percent increase, foreign customers - especially institutional investors (+11%) - accounted for the majority of the growth in bond holdings. The growth of these holdings among domestic customers (+2.6%) is wholly due to institutional investors. Their portfolios increased by 4.4 percent to CHF 545.3 bn.

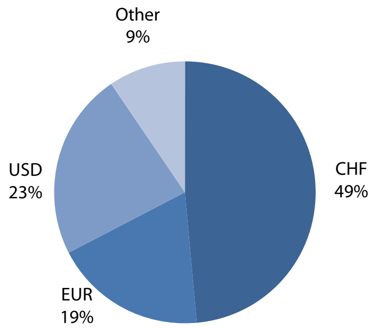
Foreign customers own 53 percent of all deposits

5-2 Pattern of asset deposits by customer type, end 2012



Source: SNB

5-3 By currency, end 2012



Source: SNB

In 2012, institutional investors and domestic and foreign customers again held the largest deposits, each with about a third. After that, foreign private investors, accounting altogether for 13.3 percent, were also particularly big players. The significance of the euro as an investment currency further declined in 2012. As a result, euro-denominated investments accounted for only 19 percent (2010: 22%).

Further big decrease in fiduciary deposits

The fiduciary deposits[14] managed by the banks in Switzerland decreased by 23.7 percent to CHF 137.7 bn in 2012. This decrease is due in particular to the low interest rates. Because fiduciary deposits are mostly invested on the money market, fiduciary investments lost some of their attractiveness as a result of the exceptionally low interest rates - as was already the case in the preceding years.

The biggest decrease (-49.6 percent) was experienced by fiduciary deposits in Euro. The US dollar share of all fiduciary deposits rose in 2012 from 48.1 percent to 54,8 percent. Fiduciary services were primarily in demand, as previously, by foreign customers (82% of managed fiduciary deposits). However, the fiduciary positions of foreign investors decreased slightly more (-24.1 percent) than those of domestic investors (-21.4%).

Continuing shifts in balance sheet positions due to interest rates

Interest-related shifts have been observed in balance sheet positions since 2008. Savings and investment liabilities to customers amounted to CHF 526.5 bn at the end of 2012. Compared with the previous year, this corresponds to 7.8 percent growth. Customer savings and investment deposits include vested benefits accounts (Second Pillar) and assets related to the tied pension provision (Third Pillar). Time liabilities to customers (time deposits) fell, in part due to the persistently low interest rates, from CHF 336.6 bn to CHF 289.1 bn. Foreign customers again accounted for the majority of time deposits with 79 percent.

5.2 Performance of assets under management in 2013

Further rise in security holdings

According to the statistics of the SNB, security holdings grew by 7.3 percent in the first five months of 2013. The drivers were the two asset classes of equities (+12.5%) and collective capital investments (+8.6%). Bonds declined slightly (-0.3%). The equity markets were extraordinarily positive during the first half of 2013, causing security portfolios to appreciate in value. For example, the Swiss Performance Index grew 12 percent and the blue-chip Swiss Market Index, which lists a smaller number of companies, grew 12.6 percent. The Swiss franc depreciated against the US dollar and the euro in the first five months of 2013 (4.6% and 3% respectively), but strengthened against the British pound and the Japanese yen, gaining 2.3 and 11.4 percent respectively.

Fiduciary deposits still trending down

Bank-managed fiduciary deposits continued their downward trend of the last few years, but no longer to the same extent. As a result, fiduciary deposits decreased by 1.6 percent in the period to May 2013 (same period previous year: -5.2%). The decrease is due entirely to domestic customers; the fiduciary deposits of foreign customers have grown again slightly since the start of the year (+0.5%), but are still at a very low level. Fiduciary deposits can only be expected to become more attractive when interest rates are higher.

During the first five months of 2013, time deposits grew slightly again for the first time (+2.5%). Customer savings and investment liabilities grew by 3.2 percent and the increase in sight deposits was as high as 6.4 percent.

[14] Fiduciary deposits are made or granted by the bank in its own name, but on behalf of and for the account of and at the risk of the customer. Fiduciary deposits cover transactions involving for example loans, investments and shareholdings.

6 Employment in Switzerland's banks

Staff levels in Switzerland fell in 2012 by 2.7 percent to 105,166 employees[15]. The Raiffeisen banks increased the numbers employed (+0.6%) and so did the regional banks and savings banks (+0.8%). All other bank categories reduced the numbers employed in Switzerland. The biggest decrease was among the private bankers (-13.3%). They were followed by the foreign banks (-4.2%), the big banks (-1.1%) and the cantonal banks (-0.3%). The proportion of women employees fell slightly from 37.3 percent to 36.9 percent in 2012. The results of the SBA survey show that there was a decline of 654 (-0.7%) in the numbers employed by banks in Switzerland in the first half of 2013. The downward trend in employment is expected to continue into the second half of 2013.

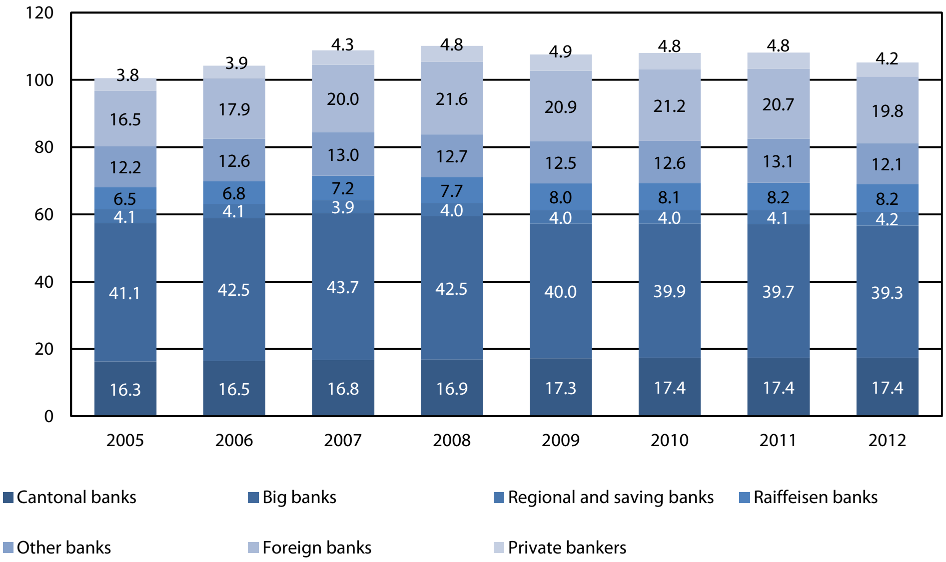
6.1 2012 employment trend

Fall in employment in 2012

At the end of 2012, the banks in Switzerland had a total of 105,166 employees across the country, or just on 3 percent of all employees in Switzerland. Compared with the previous year, this is a reduction of 2.7 percent or 2,932 full-time posts. This confirms the results of the employment survey in last year's Banking Barometer, in which the assumption was that there would be falling levels of employment.

6-1 Employment in the banks in Switzerland (domestic)

Thousands Full-time equivalents



Source: SNB

[15] Full-time equivalents.

Build-up of staff in Regional and Savings banks and in Raiffeisen banks

Apart from the Regional banks and Savings banks, which posted the highest workforce increase with 0.8 percent (32 posts), the Raiffeisen banks also expanded their workforce, by 0.6 percent (+49). The private bankers reduced staff levels the most, by 641 or 13.3 percent in fact. This decline is due to discontinuities in connection with a change in the composition of the bank groups.[16] The big banks reduced their staff by 423 posts (-1.1%). The foreign banks also reduced employment, by 880 posts (-4.2%).

Slightly fewer women

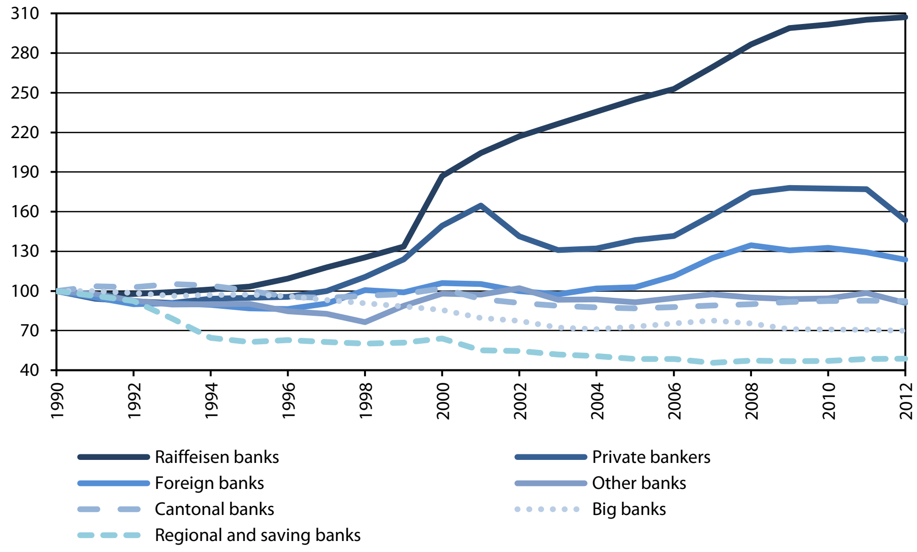
The proportion of female employees in the banks in Switzerland fell from 37.3 percent to 36.9 percent. The Raiffeisen banks, with 48 percent, and the Regional banks and Savings banks, with 45.7 percent, had the highest proportion of female employees, as they already had in the previous year.

Big banks still the most significant employers

Whereas the numbers employed by the foreign banks went down slightly, the big banks and the Cantonal banks expanded their share of employment. Of the banks in Switzerland, the big banks were again the most significant employers in 2012 with 37.3 percent of the total (2011: 36.7%). They were followed by the foreign banks (18.9%) and the Cantonal banks (16.5%).

6-2 Employment in the bank categories

Indexed, 1990 = 100



Source: SNB

6.2 2013 employment survey of the banks in Switzerland

Further decline in employment in the first half of 2013

The annual SBA employment survey of the banks in Switzerland for the current year shows a slight decline in the number of employees for the first half of 2013. The numbers working in the country (full-time equivalents) fell between 31 December 2012 and 30 June 2013 by 657 (-0.7%), and the banks in Switzerland announced that there had been 4,137 outgoing and 3,483 incoming employees.

[16] In 2012 the Raiffeisen group took over the non-US business of the private banker, Wegelin & Co. This business, together with the employees, was transferred to Notenstein Privatbank AG (formerly nettobank AG). The takeover particularly affected the "Private Bankers" category, to which Wegelin & Co belonged. Consequently, comparison with the previous year is only possible for the Private Banker category to a limited extent.

6-3 Staff levels in Switzerland[17]

Full-time equivalents	Position at 31 Dec. 2012	Position at 30 Jun. 2013	Trend during 1st half of 2013			
			Incoming staff	Outgoing staff	Net	%
Switzerland	95 233	94 579	3 483	4 137	-654	-0.7%

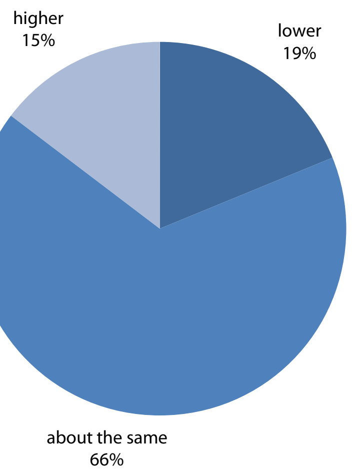
NB: Number of responses: 218[18]

Source: 2013 SBA survey

Decline in employment also expected for the second half of 2013

According to the July 2013 survey, 18.8 percent of respondent banks expect lower numbers to be employed in the second half of 2013, whereas 14.7 percent seeing a rise in their workforce by the end of the year. The majority of banks (66.5%) expect constant employment levels. Because those banks that expect falling employment represent a major proportion of the total numbers employed, the overall employment trend is negative for the second half of 2013.

6-4 Expected employment trend in the second half of 2013

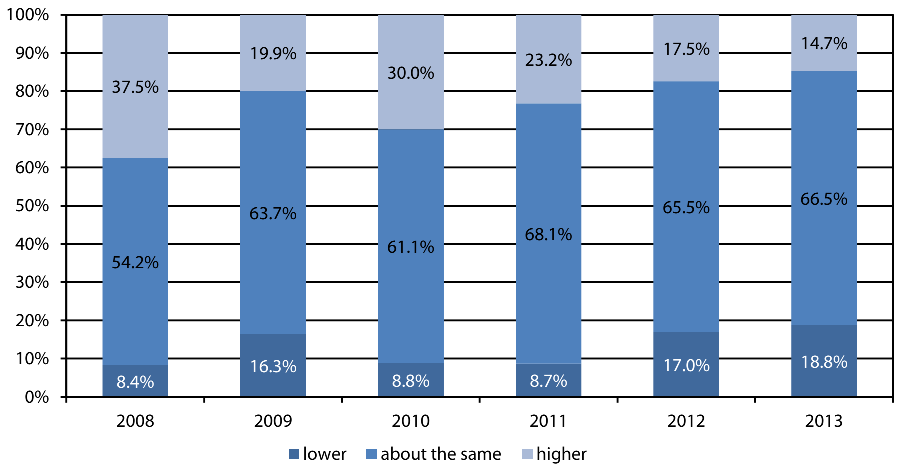


NB: Shares of responding banks in Switzerland (218). 48 banks didn't respond.

Source: 2013 SBA survey

[17] Staff levels at the end of 2012 were lower in the SBA survey than in the SNB statistics (cf. "Banks in Switzerland"). The reasons for the disparity are the lower response rate to this survey. The significance of the responses about changes in numbers employed in the first half of 2013 is however not affected.
[18] The survey concerning numbers employed and of incoming and outgoing employees was carried out in July 2013. 266 banking institutions in Switzerland were surveyed. There was an 82 percent response rate. Respondents account for 90.6 percent of the numbers employed by the banks in Switzerland. On the question about staff levels in the second half in the various business sectors, the response rate was between 36 and 45 percent. This is a high level of participation compared with previous years.

6-5 Respective survey results for the second half of the year, 2008 - 2013



NB: Percentages from all responses to survey relating to employment trend in second half 2013
Source: SBA survey 2013

Downward employment trend expected

The expected employment trend is negative in every banking sector. Whereas the respondent banks assume that there will be a clearly downward trend in retail banking, private banking and logistics, only a slightly negative trend is expected for the institutional and the trading businesses. The downward employment trend will therefore also continue during the second half of 2013.

6-6 Employment trend in the second half of 2013 by business activity

Total	Retail Banking	Private Banking	Institutional business	Trading business	Logistic and Operations
↘	↘	↘	→↘	→↘	↘

NB: Number of responses: between 97 and 120 depending on business activity.
Trends are derived from the responses weighted by numbers employed.

Source: SBA survey 2013

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