SwissBanking

September 2014

2014 Banking Barometer

Economic trends in the Swiss banking industry

2014 Banking Barometer

Content

Executive Summary

The banks in Switzerland are an important sector for the Swiss economy, one that accounts for approximately 6 percent of the country's total economic performance.

At the end of 2013 there were 283 banking institutions. This corresponds to a decrease of 14 in the number of institutions compared with the previous year. The reduction is the result of eight acquisitions, one merger, five institutions losing their bank status and one foreign bank branch being closed. The contraction in the number of institutions was offset by a new addition. On June 26 2013, PostFinance was granted a license to operate as a bank and securities dealer. Due to the size of the institution, this new inclusion resulted in a significant jump in some of the Swiss National Bank's (SNB) statistics for 2013.

The trend toward consolidation in the Swiss banking sector in 2013 continued into the first half of 2014. A number of acquisitions were made that are likely to further drive structural change in the banking sector. These tendencies toward consolidation are primarily seen with the foreign banks.

2013 and the first half of 2014 were also characterised by a variety of legal developments in international tax matters. The Swiss Federal Council and the US Department of Justice (DoJ) announced a programme for the settlement of the tax dispute at the end of August 2013. In May 2014, Credit Suisse reached a comprehensive and definitive agreement with the US authorities for its pending legal cases in connection with this tax dispute.

The banks in Switzerland increased their operating net income in 2013 by 3.1 percent to CHF 60.8 bn. This trend is attributable to a rise in interest net income as well as an increase in income from the commission and services business. The other two net income categories – trading net income and other ordinary net income – fell compared with the previous year. The banks in Switzerland contributed CHF 1.93 bn in corporate taxes on earnings in 2013. This represents an increase of 25 percent compared with 2012.

During the first few months of the current year, the transaction volumes on the Swiss stock exchange rose, which positively impacts net income from the commission and services business. Continued low interest rates are to be expected, which means that margins, particularly in the interest-earning business, are not likely to rise anytime soon. Tightened regulation will have a negative effect on the cost side. Uneven global economic developments and the as yet unresolved fiscal issues with the eurozone present additional challenges for the profitability of the banks in Switzerland.

The balance sheet total of the banks in Switzerland rose by 2.6 percent in 2013 to CHF 2,849.2 bn. This increase was due, however, to the first-time inclusion of PostFinance in the SNB's statistics. Without this factor, the balance sheet total would have decreased by 1.7 percent. The foreign banks group posted the largest decrease, at minus 12 percent. This is in most part due to the smaller number of foreign banks. The two big banks reduced their balance sheets by 3.1 percent, while the other bank groups reported a higher balance sheet total.

Bank lending in Switzerland remains intact. The total outstanding inland credit volume amounted to CHF 1,045.4 bn in 2013. Secured and unsecured loans contributed CHF 175.6 bn to this performance, while domestic mortgage lending contributed CHF 869.8 bn. Domestic mortgage lending rose by 4.2 percent in 2013. This marks a smaller increase than in the two previous years and is likely attributable to the amendments made to the banks' self-regulation rules, which prescribe minimum requirements for mortgage lending, and came into effect on July 1 2012. A further tightening of the self-regulation rules came into effect at the beginning of September 2014.

In the first five months of 2014, the aggregate balance sheet total rose 2 percent. The majority of key assets classes continued their trend of last year. There is a noticeable weakening in domestic mortgage lending momentum (+1.4%).

The banks in Switzerland managed a total of CHF 6,136 bn in assets in 2013. Compared with the previous year, this represents an increase of

CHF 340 bn. This is attributable to a rise in securities holdings and customer liabilities in the form of savings and investments. Holdings in fiduciary deposits and time deposits, on the other hand, fell. The banks benefitted from inflows from emerging markets and from strong capital market developments which more than compensated for the decrease in assets under management from Western Europe.

The number of employees in Switzerland (full-time equivalents) rose by 579 jobs in 2013 to 105,735. This increase was a further consequence of the inclusion of PostFinance in the SNB's statistics. Without this factor, there would have been an overall job reduction of 2,840 jobs. The biggest staff reductions took place at the big banks and the foreign banks. While the staff reductions at the big banks are primarily driven by cost-saving measures, the lower staff levels at the foreign banks are attributable to the reduced number of institutions in this bank group.

The banks rely on skilled workers. According to a survey conducted by the Employers Association of Banks in Switzerland (AGV Banken), banks recruited 3,750 individuals from EU/EFTA states in 2013. If quotas are set for the number of foreign employees, this will likely further aggravate the shortage of workers that already exists in the highly skilled segment.

According to the SBA's survey, 66.1 percent of the respondent banks expect their employment levels to remain the same for the second half of 2014. 18.5 percent anticipate higher employment levels, while 15.4 percent of the banks expect a reduction in their employment levels in Switzerland. Because those banks that expect a rise in employee levels account for a larger share of total employment, a slightly positive trend in employment is expected for the second half of 2014. A slightly negative employment trend, however, is expected for private banking and the trading business.

1 The Swiss banking sector

A multi-faceted banking sector …

The Swiss banking sector is a significant contributor to the success of the Swiss financial centre, which is one of the leading global financial centres. Both Zurich and Geneva are ranked among the top-ten most important financial cities.[1] The Swiss banking sector is characterised by its large variety of banking institutions with differing business models, and offers a broad spectrum of services.

… that plays a very important role in the Swiss economy

Accounting for around 6 percent[2] of value creation in Switzerland, the Swiss banking sector generates a considerable share of value creation and as a result, is an important contributor to the prosperity of the Swiss population overall. But the Swiss banking sector is currently undergoing an upheaval. New regulation, the automatic exchange of information in tax matters with countries abroad, and technological developments (digitalisation), combined with shrinking margins, are leading to structural change in the sector – with the opportunities and risks that this brings with it.

Seven bank groups in Switzerland

At the end of 2013, there were 283 banks operating in Switzerland. In 2013, there were 297 (for the reasons behind the decrease, see chapter 1.1.). The SNB divides these banks into seven bank groups according to their characteristics and activities: cantonal banks, big banks, regional banks and savings banks, Raiffeisen banks, foreign banks, private bankers and "Other banks" (which include stock exchange banks and consumer credit banks).

Cantonal banks

There are 24 cantonal banks in Switzerland, 21 of which enjoy an unlimited state guarantee. The cantonal banks conduct their activities primarily in their respective cantons, although in a few cases, they have branches outside their home cantons. The largest Swiss cantonal bank, Zürcher Kantonalbank (ZKB), was classified as a systemically relevant financial group by the SNB as per November 1 2013. As a result, ZKB is now subject to stricter equity and liquidity requirements as set out in the too-big-to-fail package of measures (Swiss Federal Act on Banks and Savings Banks, BA). The requirements for the other cantonal banks are less strict. Systemically relevant institutions must also take organisational measures to ensure that should the threat of insolvency arise, all functions that are important for the economy, such as payment transactions, are guaranteed.

Big banks

Switzerland has two big banks: UBS AG and Credit Suisse AG. Both have been classified as systemically relevant by the SNB. Together, the two big banks have a 46.4 percent share of the aggregate balance sheet total of all of banks in Switzerland. The big Swiss banks conduct their business activities globally, and as universal banks, offer the full range of banking services (retail banking, private banking, corporate banking, investment banking, asset management).

Regional banks and savings banks

Unlike the big banks, the regional and savings banks predominantly focus on the classic savings and mortgage business and operate in a limited geographic area. In Switzerland, there were 64 regional and savings banks at the end of 2013. This is two less than the year before.

Raiffeisen banks

The Raiffeisen group is a collective of Raiffeisen banks organised in the form of a cooperative with locations throughout Switzerland. Its branch network comprised a total of 316 independent Raiffeisen banks with 1,032 branches at the end of 2013. The group of Raiffeisen banks is the third-largest bank group in Switzerland. Their

1 Z/Yen Group Limited (2014)
2 BAKBASEL (2014)

focus is the classic retail business. On 16 June 2014, the SNB issued a decree designating the Raiffeisen Group as a financial group of systemic importance. This leads to tightened regulations in the areas of capital and liquidity. In addition, organisational measures must be taken that ensure that in case of impending bankruptcy businesses of systemic importance can be maintained. Notenstein Private Bank was acquired by the Raiffeisen Switzerland cooperative in 2012 and is now a 100 percent subsidiary thereof. Notwithstanding, the SNB continues to include Notenstein Private Bank in the in the stock exchange bank group in the "Other banks" category.

| Foreign banks

The group of foreign banks comprises the foreign bank branches as well as foreign-controlled banks. Foreign bank branches primarily serve customers abroad and their focus is generally investment banking, although a number of banks also focus on the asset management business for foreign customers. Unlike foreign-controlled banks, the branches of foreign banks are not legal entities in their own right. Instead, they are legally and economically controlled by their parent company. Foreign-controlled banks are organised in accordance to Swiss law, but have a foreign controlling interest of over half of voting shares. Many foreign-controlled banks conduct all types of business activities – some focus on asset management or investment banking.

| Private bankers

Banks in the private bankers group conduct business both in Switzerland and abroad and their primary area of business is asset management. They differ from the other bank groups in particular due to their special legal structure. Under this structure – usually limited partnerships – at least one of the partners is liable with all of his or her private assets. In 2013, there were a total of eleven private bankers remaining (2000: 17, 2005: 14, 2010: 13). Four private bankers (Pictet, Lombard Odier, Mirabaud and La Roche) changed their legal structure on January 1 2014, to what is known under Swiss law as a corporate partnership. This transformation came as a result of the rapidly changing regulatory environment and strong growth, particularly abroad. The change in legal structure facilitates international expansion and accordingly, growth opportunities can be better seized.

| "Other banks"

The "Other banks" group is composed of stock exchange and consumer credit banks as well as "Other banking institutions". Stock exchange banks focus primarily on the stock exchange, securities and asset management business. Consumer credit banks are commercial banks that chiefly provide small loans and consumer credit as well as conducting hire purchase business. The institutions that come under "Other banking institutions" are banks that cannot be classified under any of the other categories. PostFinance has been part of this group since 2013.

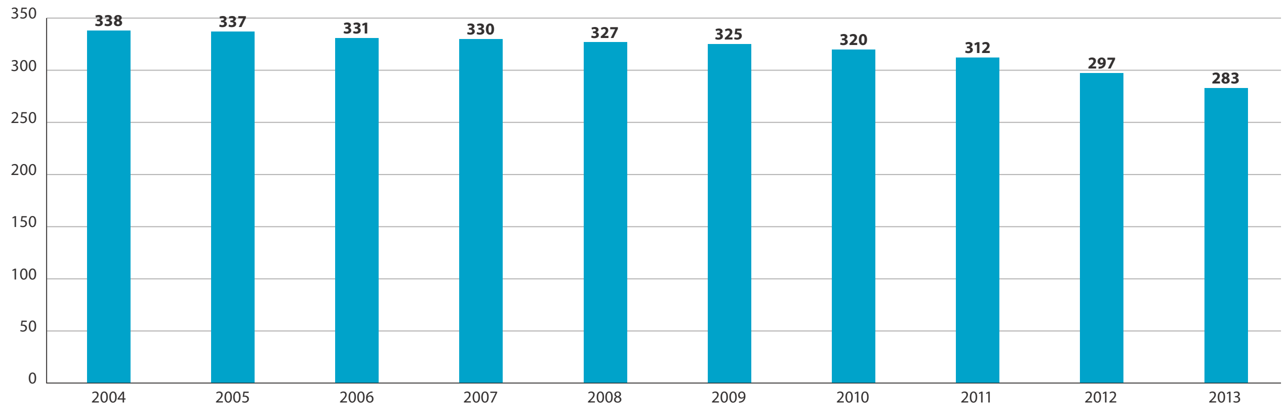
1.1 Trends in 2013

| 283 banks in Switzerland

There were 283 banks in Switzerland at the end of 2013. This represents a decrease of 14 in the number of institutions compared with the previous year. In 2013, there were eight acquisitions and one merger, five institutions lost their bank status and one foreign bank branch was closed. It was primarily the foreign banks that were affected by the reduction in the number of banks. This contraction was offset in the SNB's statistics by the granting of a banking license to PostFinance.

Fig. 1

Number of banks in Switzerland



Source: SNB

PostFinance receives banking license

On June 26 2013, the Swiss Financial Market Supervisory Authority (FINMA) granted PostFinance Ltd. a license to operate as a bank and securities dealer. PostFinance came under the SNB's reporting obligation for banking statistics for the first time as a result. PostFinance is a fully-owned subsidiary of Swiss Post. According to the Postal Organization Act, PostFinance can offer a limited selection of financial services. It can receive customer funds and make investments independently, but cannot grant its own mortgages or loans to third parties. Any such activities must be carried out in collaboration with partners. The inclusion of PostFinance has resulted in certain statistical data exhibiting a structural break. Any such instances in this publication are indicated.

Julius Bär significantly increases number of locations through acquisition of Merrill Lynch (Switzerland)

The biggest acquisitions in 2013 were that of Merrill Lynch (Switzerland) by Bank Julius Bär & Co. and that of Bank Sal. Oppenheim jr. & Cie. (Switzerland) by Deutsche Bank (Switzerland). The Swiss private bank Julius Bär acquired Merrill Lynch's asset management business outside of the US, and in doing so, increased its network of branches and subsidiaries from eight to 50 locations, in particular strengthening its presence in emerging markets. Following the acquisition of the venerable but beleaguered German private bank Sal. Oppenheim jr. & Cie. by Deutsche Bank in 2009 was the completion of the acquisition of the subsidiaries in Switzerland in 2013. The other acquisitions in the Swiss banking sector in 2013 were of minor importance from an overall economic perspective, as they involved smaller institutions.

Sarasin and J. Safra merge

The merger of Bank Sarasin and the Brazilian Bank J. Safra that resulted in the formation of Bank J. Safra Sarasin was successfully completed in June 2013. J. Safra Sarasin is represented in 26 locations around the world.

Structural transformation in the Swiss banking sector

As indicated previously, a possible structural transformation in combination with declining margins will affect the Swiss banking sector in the coming years. It must be expected that, similar to events in recent years, a number of institutions in the Swiss banking centre will shut their doors or will be acquired. In addition, there is a likelihood that the trend of outsourcing certain activities to other vehicles or to external service providers will continue. This could lead to a shrinking of the Swiss banking sector in the coming years, while at the same time providing banks with significant prospects for new opportunities.

Two Swiss banks lost their bank status in 2013 as a result of the tax dispute with the US. After splitting up its businesses and transferring its non-US business to Notenstein Private Bank on the grounds of possible prosecution by the US in 2012, the Swiss Bank Wegelin & Co. discontinued its active banking business altogether in March 2013. Notenstein Private Bank, the business that was split off from what was once the oldest bank in Switzerland, became a 100 percent subsidiary of Raiffeisen Switzerland in 2012. At the end of 2013, a second Swiss bank, the Zurich-based Bank Frey & Co., ceased operations. According to statements made by the bank, this measure was taken for a number of reasons, one of which was the excessive burden arising from the US tax dispute.

Tax dispute with the US claims victims

At the end of August 2013, the DoJ and the Swiss Federal Council announced the programme for the settlement of the tax dispute between the Swiss banks and the US. The programme entails painful consequences for the banks in Switzerland. On the one hand, the fines will likely be at the upper limit of what is legally acceptable and economically sustainable. On the other hand, it is the only remaining solution for the banks that allows them to definitively end their problems with the US and create legal certainty. To that effect, approximately 100 banks had agreed to participate in the programme as part of Category 2 at the end of 2013. The 100 banks are currently in the final phase of negotiations with the DoJ. At present, there is no information available as regards potential fines.

Ramifications of the US programme

1.2 Trends in 2014

In May 2014, Credit Suisse, one of the two big Swiss banks, reached a comprehensive and definitive agreement with the US authorities for its pending legal cases in connection with the tax dispute with the US. The CHF 2.5 bn fine negatively impacted Credit Suisse's results in the second quarter of 2014 in particular. The big bank reported a loss of CHF 700 m as a result.

Credit Suisse ends tax dispute with the US

The trend in recent years toward consolidation, in particular in the foreign banks sector, continued in the first half of 2014. Valartis Bank Switzerland was acquired by Banque Cramer & Cie., and Morgan Stanley (Switzerland) by J. Safra Sarasin. The German bank Deka (Swiss) ceased operations at the end of April 2014. According to statements made by the bank, the Swiss subsidiary of the Liechtenstein Centrum Bank said it will give up its bank license at some point this year. The British Standard Chartered Bank is looking to divest itself of its Swiss private banking business and is currently seeking a buyer. The bank is seeking to further shift its presence from the European continent to the emerging markets in Asia, Africa, and the Middle East. The Ticino-based private bank BSI, which has been in discussions about a possible sale for some time, was acquired by the Brazilian investment bank BTG Pactual in mid-2014. Also, in July 2014, Julius Bär announced the acquisition of the customer base of Israel's Leumi Private Bank (Switzerland). Also in July 2014, significant parts of the Swiss subsidiary of Banco Espirito Santo (Banque Privée Espírito Santo SA) were sold to CBH Compagnie Bancaire Helvétique. The recent wave of new regulations and the expenses that ensue had a particularly significant impact on the foreign banks, which in comparison to other banks in the Swiss market, tend to be smaller.

Trend toward consolidation continues in the first half of 2014

According to the OECD, implementation of the automatic exchange of information in tax matters with countries abroad (AEOI) is planned for 2017. As a result, in future, tax information will be sent annually to the tax authorities of the participating states. Because the banks in Switzerland have been committed to a tax-compliant strategy for some time and AEOI will be implemented globally, little to no implications are expected for assets under management as a result.

Automatic exchange of information in tax matters is well underway

2 Bank net income

The aggregate operating net income of the banks in Switzerland rose by 3.1 percent in 2013 from CHF 59 bn to CHF 60.8 bn. This rise in interest net income (+5.9%) as well as the income from the commission and services business (+4.7%) more than compensated for the decreases in the banks' smaller net income items – net income from the trading business (-2.7%) and other net income (-5%). Net income from commission and services accounted for over 40 percent of the aggregate operating net income and therefore remained the most important component in net income generation for the banks in Switzerland. This was followed closely by the interest-earning business with a share of 37 percent. Net profit rose significantly compared with 2012, to CHF 10.5 bn, as both banks reported a profit again for 2013. The taxes on earnings paid by the banks in Switzerland amounted to CHF 1.93 bn, which corresponds to an increase of 25 percent compared with the previous year. Despite the bull market in the first half of the year, no significant rise in bank net incomes is expected for 2014 due to the continued very low interest margins.

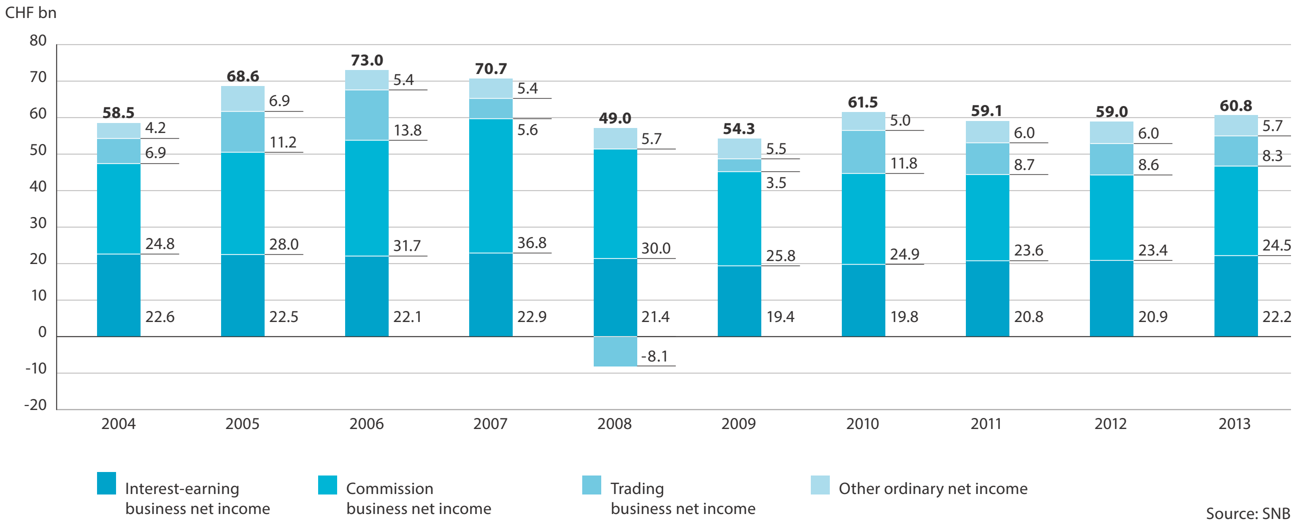
2.1 Trends in 2013

| Increased net income

After stagnating for two years, the aggregate operating net income[3] of the banks in Switzerland rose 3.1 percent in 2013 compared with the previous year to CHF 60.8 bn. The operating net income is calculated on the basis of the four business areas: net income from the commission business, net income from the interest-earning business, net income from the trading business and other ordinary net income. These data differ, especially with respect to the big banks, from the figures published in annual reports, which reflect the performance of the entire group and not only the Swiss business including dependent subsidiaries outside of Switzerland.

Fig. 2

Net income by banking activity



Source: SNB

3 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 2013, net income from the commission and services business rose by CHF 1.1 bn to 24.5 bn (+4.7%). This was the first increase since 2007, and was primarily driven by the rise in trading activity. Movements on customer securities accounts on the Swiss stock exchange increased by 12.5 percent in 2013. Another driver was the rise in assets under management by the banks in Switzerland (see chapter 4). Accordingly, commission income from the securities and investment business, as well as from other service-related business rose by CHF 880 m to CHF 23 bn, and from CHF 840 m to CHF 4.2 bn respectively. Commission income from the lending business, on the other hand, remained practically unchanged at CHF 2.1 bn (-CHF 3 m). Commission expenses rose by CHF 604 m to CHF 4.8 bn. Accounting for 40.3 percent share, the commission and services business remained the most important component of profit generation for banks in Switzerland.

Net income from the commission and services business rises for the first time in years

Compared with the previous year, interest net income rose by CHF 1.2 bn in 2013 to CHF 22.2 bn (+5.9%). PostFinance contributed CHF 0.9 bn to this rise. Interest expenses decreased by 17.4 percent to CHF 19.6 bn. The primary driver was the decrease in debt instruments (bonds and mortgage-backed bonds) and liabilities to banks. The rise in aggregate interest net income in 2013 can primarily be attributed to a strong decrease on the expense side. On the income side, both the interest and discount income (-6.6%), as well as the interest and dividend income from trading portfolios fell (-5.3%). Overall, the income from the interest-earning business has remained relatively constant over the last ten years at an average of CHF 21.5 bn with a standard deviation of CHF 1.2 bn. The interest-earning business slightly increased its share of the banks' total net income, accounting for 37 percent, and thus remained the second largest contributor to net income.

Lower interest expenses lead to increase in interest net income

Trading net income declined in 2013 for the third consecutive year. Year-on-year, it fell by CHF 0.2 bn or -2.7 percent. Without the first-time inclusion of PostFinance, the decline in trading net income would have been double, or CHF 0.4 bn. The decrease was due to the low interest rates and low volatility on the equity markets. The trading business accounted for 13.7 percent of the net income of banks in Switzerland.

Further decline in trading net income

The fourth net income category for banks, other ordinary net income, fell by 5 percent in 2013 to CHF 5.7 bn compared with the previous year. This represents 8.8 percent of the overall net income of banks in Switzerland.

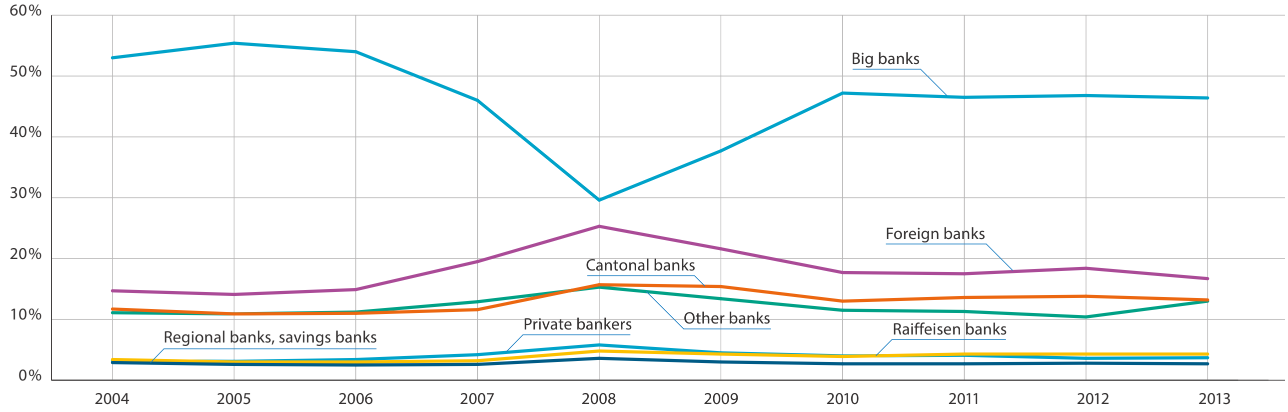
Fall in other ordinary net income

There was no significant change to the share of net income of the bank groups in 2013. The big banks accounted for a 46.4 percent share of net income, the cantonal banks for 13.2 percent, the Raiffeisen banks for 4.3 percent, the private bankers for 3.7 percent, and the regional and savings banks for 2.7 percent. Only the foreign banks suffered a loss of share. With a share of net income of 16.7 percent, their share decreased by 1.7 percent. This is due to the reduction in the number of institutions by eleven to a new total of 120. The share held by the "Other banks" rose by 2.6 percent to 13 percent, which is primarily attributable to the inclusion of PostFinance in the SNB's statistics. Between 2004 and 2013, the Raiffeisen banks had the largest rise in share of net income, although at a relatively low level (+28.3%, from 3.4% to 4.3%). The big banks suffered a decline in share of net income for the same period. Their share fell from 53 percent in 2004 to 46.4 percent in 2013 (-12.4%). Nevertheless, they continue to be the clear leaders in terms of net income. During the financial crisis, from 2007 until 2009, their share of net income decreased temporarily to below 30 percent. This has, however, normalised in the last few years.

Share of net income remains unchanged for bank groups

Fig. 3

Net income by bank group



Source: SNB

Gross profit from the business operations of the banks in Switzerland amounted to CHF 19.5 bn in 2013 (2012: CHF 17.4 bn). The income and capital taxes paid amounted to CHF 1.9 bn, which corresponds to an increase of 25 percent compared with the previous year (CHF 1.5 bn).

Taxes on earnings up by one-quarter

In total, 235 of the 283 banks in Switzerland (83%) reported an annual profit for 2013, compared to 254 of 297 (85.5%) in 2012. While aggregate net profit was CHF 186.1 m in 2012, in 2013 the banks in Switzerland reported an increase to CHF 10.5 bn in 2013. This substantial rise was influenced in particular by one of the two big banks. While in the previous year it reported a loss, in 2013 both big banks posted a profit.

Substantial increase in aggregate net profit

2.2 Trends in 2014

In the first half of 2014, transaction volumes on the Swiss stock market rose 6.5 percent compared with the first half of 2013. The bull market in the first half of the year resulted in a much higher value for securities in customer custody accounts. Compared with the first half of the previous year, the trading volume rose by 10 percent for equities, 3 percent for bonds and 199 percent for investment funds in the first six months of 2014. Only structured products suffered a decrease for the period under review (-16%). These results positively impacted net income from the commission and services business.

Strong trading activity and a stock market boom in the first half of the year

Because low interest rates are expected to remain in place for some time, margins, in particular in the interest-earning business – the second-most important net income item of the banks – are not likely to rise any time soon. Furthermore, overall incomes will fall due to increased competition, which in part will likely be driven by competitors from outside the sector. Stricter regulation will have a negative impact on the cost side. This combination will lead to falling profits for the banks. Additional challenges for the profitability of the banks in Switzerland are the uneven global economic developments and the as yet unresolved fiscal issues with the eurozone.

Continued low interest rate level allows for hardly any widening of margins

3 Balance sheet business

After declining slightly in 2012, the aggregate balance sheet total of all the banks in Switzerland rose by 2.6 percent in 2013 to CHF 2,849.2 bn. This was due to the first-time inclusion of PostFinance, which reported a balance sheet total of CHF 117 bn. Without PostFinance, the aggregate balance sheet total would have decreased by CHF 46.1 bn in 2013 to CHF 2,732.1 bn. This trend reflects the reduction in risk-weighted assets and the reduction of balance sheets. With a share of 31 percent, mortgage loans were once again the most important asset item in 2013. Liquid assets amounted to CHF 399.3 bn at the end of 2013. In 2004, they amounted to only CHF 17.6 bn. The SNB interventions to defend the minimum euro exchange rate can be retraced by taking a close look at the breakdown of assets between 2004 and 2013. The banks' non-interest-bearing sight deposits at the SNB rose when the National Bank bought foreign currency to weaken the Swiss franc and credited the equivalent in francs to the banks. By analysing the breakdown of liabilities during the same period, a trend in interest-related shifts in particular is clearly identifiable. While banks abroad significantly curbed lending during the last financial and economic crisis, the banks in Switzerland continued to support the domestic economy with generous amounts of credit. The total outstanding credit volume in Switzerland was CHF 1,045.4 bn in 2013, which corresponds to a rise of 4.5 percent compared with the previous year. Domestic mortgage loans lost momentum in the first five months of 2014 and grew at 1.4 percent.

3.1 Trends in 2013

3.1.1 Balance sheet trends

Rise in the aggregate balance sheet total as a result of the inclusion of PostFinance

Compared with the previous year, the aggregate balance sheet total of all the banks in Switzerland rose by CHF 70.9 bn in 2013 to CHF 2,849.2 bn (+2.6%). This expansion of the balance sheet is due to the first-time inclusion of PostFinance, which had a balance sheet total of CHF 117 bn and which more than compensated for the decrease experienced by the rest of the banks. Without PostFinance, the aggregate balance sheet total would have diminished by CHF 46.1 bn or 1.7 percent.

Balance sheet reductions for big banks and foreign banks

Since 2008, the big banks' aggregate balance sheet total – with one exception in 2010 – has diminished every year (total: -29.9%). In 2013, the reduction was 3.1 percent and therefore less pronounced than in 2012 (-7%). The second bank group to report a balance sheet reduction in 2013 was the group of foreign banks. Their balance sheet diminished by CHF 48.7 bn to CHF 357.4 bn, which corresponds to a reduction of 12 percent. This is predominantly due to the exit of eleven institutions from this group.

Increased balance sheet total for banks with a stronger domestic focus

In 2013, the cantonal banks, regional and savings banks and Raiffeisen banks, which tend to have a stronger domestic focus, once again reported an increase in their balance sheet totals. The aggregate balance sheet total of the Raiffeisen banks rose by 5.4 percent compared with the previous year. For the cantonal banks the increase was 2.8 percent and for the regional and savings banks it was 2 percent year-on-year. An increase in mortgage loans is the primary reason for the balance sheet expansion of these bank groups, albeit to a lesser extent than last year. PostFinance is part of the "Other banks" category, which explains the sharp increase compared with the previous year (+68.8%).

Fig. 4

Balance sheet total by bank group	Number of institutions		Balance sheet total		Development of balance sheet total	
	2012	**2013**	**2012**	**2013**	**2012**	**2013**
Cantonal banks	24	24	482.3	495.6	7.3%	2.8%
Big banks	2	2	1,364.8	1,322.3	-7.0%	-3.1%
Regional banks, savings banks	66	64	104.3	106.4	3.2%	2.0%
Raiffeisen banks	1	1	164.7	173.6	5.6%	5.4%
Foreign banks	131	120	406.0	357.4	12.0%	-12.0%
Private bankers	13	11	61.8	65.6	13.5%	6.3%
Other banks	60	61	194.5	328.3	-4.2%	68.8%
of which banks in asset management	47	47	125.3	140.0	-8.7%	11.7%
Total	**297**	**283**	**2,778.3**	**2,849.2**	**-0.5%**	**2.6%**

Source: SNB

Mortgage loans remain biggest asset position

Domestic and foreign mortgage loans rose by 4.3 percent in 2013 to CHF 884 bn compared with the year before. As such, mortgage loans remained the most significant asset item for the banks in Switzerland in 2013, accounting for a 31 percent share. With a share of 19.8 percent of total assets, the second largest asset item, (other) customer loans, rose slightly in 2013 by CHF 5.1 bn to CHF 564.7 bn (+0.9%). This can be explained by the rise in domestic lending (primarily attributable to the first-time inclusion of PostFinance) and the slight decrease in foreign lending. Just as in the previous year, bank loans declined in the same period. Overall, this position decreased by CHF 36.9 bn to CHF 461.4 bn (-7.4%). One big bank in particular contributed to this decline through its reduction in foreign bank loans. The rise in liquid assets from CHF 340.8 bn to CHF 399.3 bn (+17.2%) was on the one hand a consequence of the inclusion of PostFinance's sight deposits at the SNB. On the other hand, it was also a consequence of a marked rise in a big bank's sight deposits at foreign central banks. These deposits serve as a crisis financing source for the big bank as part of an unused liquidity facility. The relatively small money market loans item decreased by 30.2 percent in 2013 to CHF 38.7 bn. Since 2009, this asset item has dropped by more than three-quarters (-75.3%), which is primarily attributable to the significant reduction in holdings in securities issued outside of Switzerland – driven by the extraordinarily low interest rates.

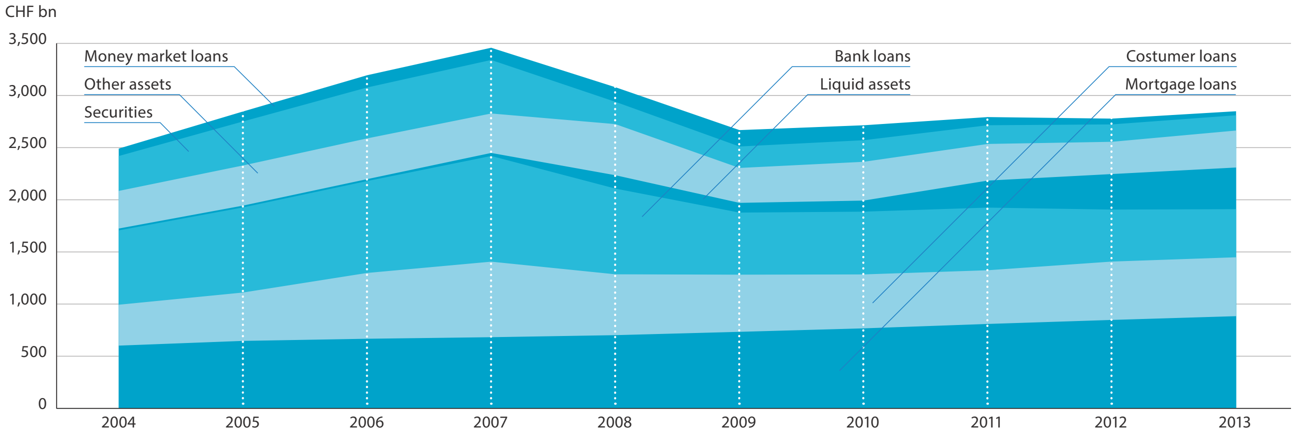
Breakdown of assets has changed over the last nine years

The breakdown of assets underwent interesting changes between 2004 and 2013. Between 2004 and 2013, liquid assets rose enormously. While in 2004, holdings were CHF 17.6 bn, by the end of 2013 they had increased to CHF 399.3 bn. The key driver behind this significant rise was the SNB's intervention aimed at combatting the strong franc. To this end, the SNB had the banks increase their sight deposits in August 2011 from around CHF 30 bn to CHF 80 bn and then again to CHF 200 bn. In a further measure, the SNB no longer renewed repos or SNB Bills that were falling due, and bought back outstanding SNB Bills until the desired level of sight deposits was reached. Further to this, despite the very low interest rate, the banks increasingly parked their excess liquidity at the SNB due to the uncertain economic situation during the financial crisis. Domestic and foreign mortgage loans also rose continuously from 2004 to 2013 (+46.9%, from CHF 601.6 bn to CHF 884 bn). Today they account for a 31 percent share of total assets, up from 24 percent. This can be explained by the persistently low interest rate level and the strong demand for real estate. During the same time period, holdings in securities and precious metals for trading purposes recorded a drop of 56.3 percent (2004: CHF 334.6 bn, 2013: CHF 146.4 bn).

Their share of total assets fell from 13 percent to 5 percent. This steady decrease reflects the strategic direction taken by the banks, which are shortening their balance sheets and reducing their risk-weighted assets. In 2004, bank loans accounted for 29 percent of total assets. In 2013, the share was down to 16 percent (2004: CHF 712.9 bn, 2013: CHF 461.4 bn). This is primarily a result of the banks' conscious efforts to shorten their balance sheets (deleveraging) by reducing their linkages with other banks. In the past, this reduction was driven primarily by the complicated interbank market. Overall, it is evident that the aggregate balance sheet totals of all the banks in Switzerland rose relatively significantly until 2007. In the three years that followed, however, they dropped significantly. In 2013, the aggregate balance sheet total increased as a result of the first-time inclusion of PostFinance.

Fig. 5

Breakdown of assets



Source: SNB

In 2013, the SNB measures against the strong franc were once again reflected by the banks' sight deposits. In 2013, these rose to CHF 302.4 bn (+12.4%), although the increase was less pronounced than in previous years (2011: +359.3%, 2012: +54.2%), and to a large extent influenced by PostFinance's sight deposits with the SNB which were reflected for the first time in the SNB's banking statistics.

Sight deposits with the SNB continue to rise, effect strongly impacted by the inclusion of PostFinance

Aggregate customer assets, which comprise deposits in savings and investment form, sight deposits, and time deposits, rose once again in 2013 (+8.7%). Sight liabilities to customers, which held the largest liabilities position with a share of 29 percent, rose by 14 percent to CHF 827.2 bn. Savings and investment liabilities to customers also increased (+14.3%). In contrast, time deposits, as well as bonds, loans by central mortgage bond institutions, and medium-term notes, declined by 14.9 and 11.5 percent respectively. These interest-related shifts have been observable in recent years. Liabilities to banks continued their longstanding trend and fell by 7.5 percent to CHF 435.2 bn. The decrease was reported both in Switzerland as well as abroad.

Increase in customer assets on the liabilities side

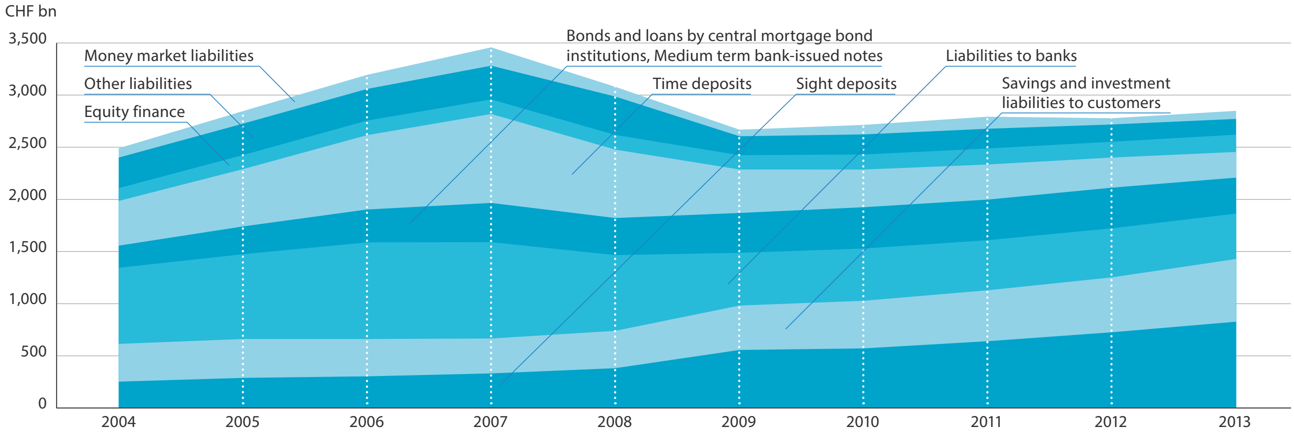
Liabilities to banks, which at 29 percent in 2004 was still the largest liabilities item in terms of its share, decreased by 40.4 percent in 2013 to CHF 435.2 bn. This demonstrates that the linkages between banks – in particular in Switzerland – have decreased. Figure 6 illustrates the shift from time deposits to sight deposits caused by the low interest rate levels. Sight deposits rose from

Breakdown of liabilities over time: trend toward interest-related shifts clearly discernible

CHF 252.4 bn between 2004 and 2013 to CHF 827.2 bn. Their share of total liabilities rose from 10 to 29 percent and it was therefore the biggest asset position at the end of 2013. At the same time, time deposits decreased from 17 percent to 9 percent in the same period.

Fig. 6

Breakdown of liabilities



Source: SNB

3.1.2 Trends in the credit business in Switzerland

Lending remains intact even during the financial crisis

The credit business of the banks is especially important for the economic development of Switzerland. While lending was significantly curbed during the last financial and economic crisis in European countries such as France or England, the banks in Switzerland continued to support the domestic economy with sufficient credit volumes.

Rise in credit volumes in Switzerland

The total outstanding credit volume in Switzerland was CHF 1,045.4 bn in 2013. Of that total, CHF 175.6 bn stemmed from secured and unsecured customer loans (companies, public corporations and consumer credit) and CHF 869.8 bn was attributable to mortgage lending. As illustrated in Figure 7, mortgage lending has been the primary contributor to the steady growth of domestic credit volumes in recent years. Outstanding unsecured loans, which have high volatility, rose by 10.4 percent in 2013. Compared with the previous year, the total volume of credit in Switzerland rose by 4.5 percent in 2013. Domestic mortgage lending growth was 4.2 percent in 2013, which is lower than in the two previous years (2011: 5.2%, 2012: 4.6%).

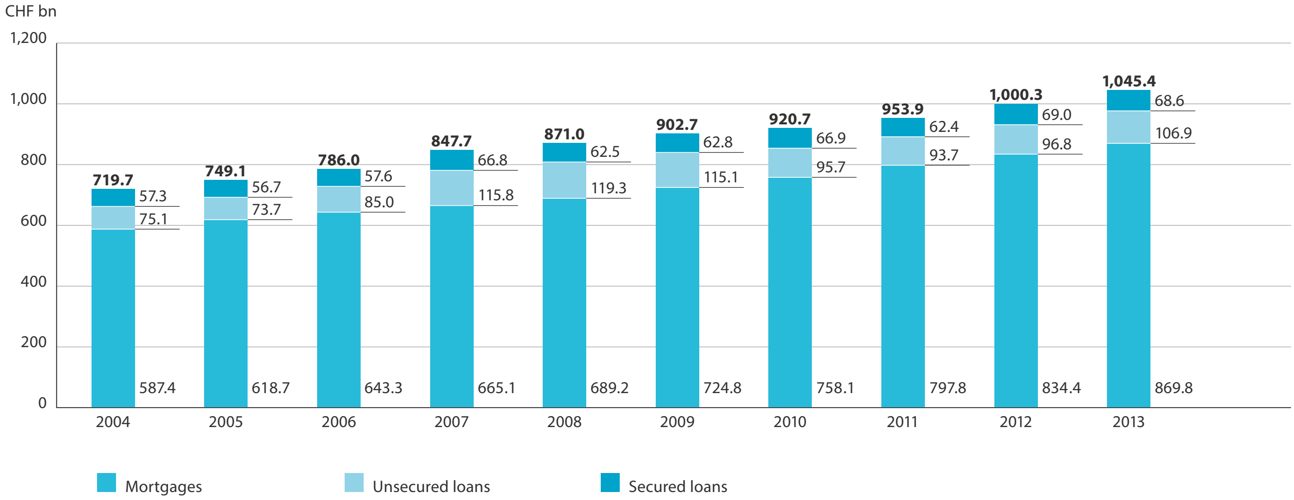
Amendments to self-regulation slow growth in the mortgage lending business

The banks have amended their self-regulation for the mortgage lending business three times in recent years. One of the results thereof is that since 2012, the hard equity requirements have been increased for mortgagees. They are also obliged to amortise their mortgage to two-thirds of the lending value within 20 years. These measures alone have significantly contributed to the calming of the real estate and mortgage lending market. There will be additional calming as a result of a further reduction of the amortisation period to 15 years, the attribution of second incomes only in the case of several liability, as well as the introduction of the "lower of cost or market" principle for the evaluation of mortgages. These measures came into effect in September 2014.[4]

4 SBA (2012) and SBA (2014)

Fig. 7

Credit volume in Switzerland



Source: SNB

Total outstanding mortgage loans rose by 4.3 percent in 2013 to CHF 884 bn. The large majority thereof (CHF 869.8 bn) is attributable to customers in Switzerland. 75 percent of these are mortgages that were granted to private households.[5] As in the previous year, mortgage loans in Switzerland rose (+4.2%). Fixed-rate mortgages accounted for an 86.7 percent share of mortgages in 2013. The persistently low interest rate levels contributed to this rise. The average interest rate for outstanding domestic mortgage loans decreased again in 2013 from 2.18 to 2.02 percent.

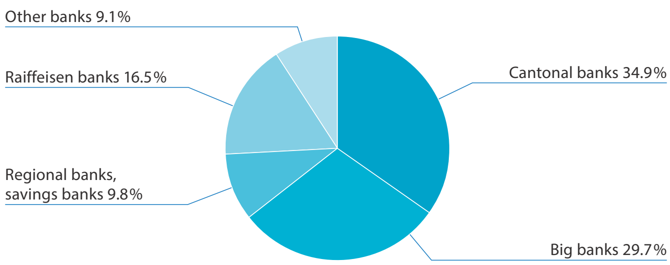
Three-quarters of mortgage loans attributable to private households

The market share of the cantonal banks' domestic mortgage lending volume is slightly more than one-third. They are followed by the two big banks, which have a share of 29.7 percent (see Figure 8). Over the last few years, the Raiffeisen banks and the "Other banks" in particular have gained the most market share in the domestic mortgage lending market while the big banks, and regional and savings banks, in particular have experienced less growth in this area.

Cantonal banks – the biggest market share of domestic mortgages

Fig. 8

Market share Swiss mortgage credit market



Source: SNB

5 According to the SNB's Monthly Statistical Bulletin. An exact breakdown is not possible due to the differing survey methods.

Broken down by lending groups, the share of first mortgages in 2013 was 91.5 percent. That comprises mortgage loans of up to two-thirds of the market value of the respective property. This share was 91.2 percent in the previous year. There are no relevant identifiable differences between the various bank groups. The large share of first mortgages underlines the fact that loans are being granted with caution in the mortgage lending segment.

Large share of first mortgages

Consumer credit continues to be of small importance in Switzerland. In total, there were 547,911 loans with a volume of CHF 7.4 bn outstanding at the end of 2013. Compared with the previous year, this corresponds to a reduction of 12.8 percent.

Consumer credit losing importance

3.2 Trends in 2014

In the first five months of 2014, the aggregate balance sheet total of all the banks in Switzerland rose by 2 percent to CHF 2,991.1 bn[6]. The most important asset items continued last year's trend in the first five months of the current year. Mortgage loans (+1.6%), (other) customer loans (+7.3%) and liquid assets (+1%) rose, and money market loans fell (-14.1%). Bank loans, on the other hand, experienced a trend reversal. They rose by 1.6 percent in the first five months of 2014.

Rise in balance sheet total

On the liabilities side, time deposits, as well as bonds, loans by central mortgage bond institutions, and medium-term notes came out of a long downward trend and rose 1.5 percent and 2.9 percent respectively. This could be due to the SNB's persistently low interest rate policy and the fact that many banks again lowered the interest rates paid on savings accounts as a result. Customers are therefore increasingly seeing time deposits, as well as bonds, loans by central mortgage bond institutions, or medium-term notes as an alternative to a savings account.

Time deposits do a U-turn

Over the first five months of 2014, the total outstanding domestic credit volume rose by 1.6 percent. Secured loans posted the biggest increase, rising by 2.2 percent. This was followed by unsecured loans at 2.1 percent. Domestic mortgage loans lost momentum and grew by only 1.4 percent.

Lower momentum in mortgage loans

Deliberate reductions in risk-weighted assets for strategic reasons, but also a shortening of the overall balance sheet total is likely to continue in the second half of 2014. This is being achieved primarily through the exit of non-core businesses of the respective bank. The Basel III capital requirements on the one hand, and the (non-risk-weighted) leverage ratio on the other hand, are responsible for these developments.

Deliberate shortening of balance sheets due to regulation

6 The data for the current year are taken from a sample survey, which means that not all banks are accounted for and the data are therefore not identical to those from the previous year which are taken from a full survey.

4 Wealth management

The securities holdings in customer custody accounts rose once again in 2013. They increased by 6.7 percent to CHF 5,167.4 bn. The driver behind this trend was the rise in share prices. Savings and investment liabilities to customers rose from CHF 526.5 bn to CHF 601.7 bn (+14.3%). Fiduciary deposits continued their decline of recent years and amounted to only CHF 120.7 bn at the end of 2013 (-12.4%). The reason for this is once again the extraordinarily low interest rate levels. Interest-related shifts in 2013 also resulted in a reduction in time deposits from CHF 289.1 bn to CHF 246.2 bn. Overall, the banks in Switzerland managed CHF 6,136 bn in assets at the end of 2013. This represents an increase of CHF 340 bn compared with the previous year.

4.1 Trends in 2013

Definition of "assets under management"

According to FINMA, assets under management include securities holdings in customer custody accounts as well as other positions. According to a FINMA circular, assets under management comprise all assets for which investment advice and/or wealth management services are provided. Consequently, the following positions are considered assets under management: securities holdings in customer custody accounts, fiduciary investments, customer savings and investment liabilities and customer time liabilities.[7]

CHF 6,136 bn in assets under management

At the end of 2013, the banks in Switzerland managed CHF 6,136 bn in assets. This is an increase of around CHF 340 bn year-on-year and is based on a rise in securities holdings and customer liabilities in the form of savings and investments. In contrast, fiduciary deposits and time deposits fell. 51.3 percent of the assets under management in Switzerland are attributable to foreign customers.

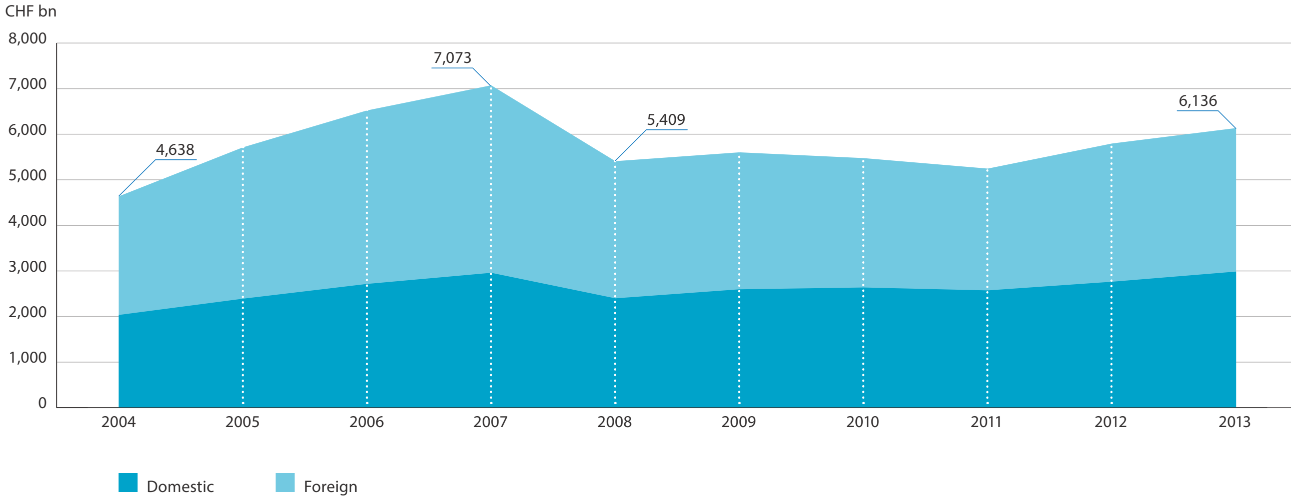
Assets under management over time: on the rise again since 2011

Between 2004 and 2013, the assets under management at the banks in Switzerland rose in total by CHF 1,498 bn (+32%). Managed assets increased sharply until shortly before the outbreak of the financial and economic crisis, and reached their peak of CHF 7,073 bn during the boom in 2007. Due to the collapse of many stock market indices with the onset of the financial crisis in 2008, the securities holdings in customer custody accounts at the banks in particular suffered big losses. This resulted in a rapid decline of 23.5 percent in assets under management to CHF 5,409 bn within the year. Between 2008 and 2011, assets under management stagnated. Since 2011 they have been on the rise again. The share of assets from foreign customers decreased from 56.1 percent to 51.3 percent between 2004 and 2013. This is primarily attributable to the varying composition of assets. Foreign customers have much higher deposit values in euros or US dollars. As a result of the depreciation of these two currencies versus the Swiss franc, these deposits are now valued much lower than several years ago. In addition, the majority of foreign time deposits are held in foreign currency, and these were equally affected by currency fluctuations.

7 The relevant SNB statistics sampling level for securities 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.

Fig. 9

Assets under management in Switzerland



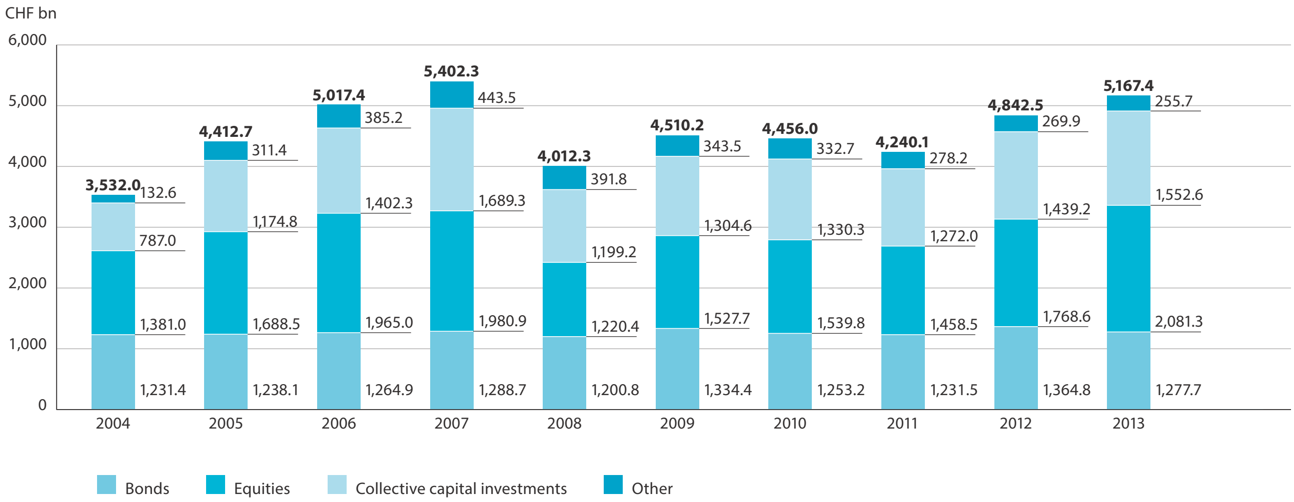
Source: SNB

Securities holdings in customer custody accounts rose by CHF 324.9 bn in 2013 to CHF 5,167.4 bn (+6.7%). Rising stock market prices in particular contributed to this trend. Overall, however, deposits remained under the peak reached in 2007 (CHF 5,402.3 bn).

A 6.7 percent rise in securities holdings

Fig. 10

Securities holdings in customer custody accounts by type



Source: SNB

In 2013, the continued loose monetary policy of the key central banks brought about the biggest share price gains on the Swiss stock market in the last eight years. As in the previous year, equity holdings in customer custody accounts reported an above average rise and accounted for the largest increase of all securities categories (2013: +17.7%, 2012: +21.3%). At the end of 2013, equity holdings were at CHF 2,081.3 bn. With a 40.3 percent share, equities held the most important position among all securities holdings.

Another big rise in equity holdings

With a 30 percent share, collective capital investments (incl. funds) were the second largest category of securities, rising by 7.9 percent in 2013 to CHF 1,552.6 bn. The collective capital investments in customer custody

Collective capital investments on the rise notwithstanding new law accounts in Switzerland rose by 11.4 percent in 2013 and therefore more than the holdings of foreign customers, which rose by 4 percent. In the fall of 2012, the Swiss Parliament decided to revise the Collective Investment Schemes Act (CISA). The partial revisions of CISA and the corresponding Collective Investment Schemes Ordinance (CISO) came into effect on March 1 2013. The aim of this revision was to amend the rules regarding the asset management, safekeeping and distribution of collective investment schemes in line with new international standards, in particular the European Union's AIFM (Alternative Investment Funds Managers) directive. Without this amendment, Swiss asset managers would have been refused access to the European market from mid-2013 onward, which would have had a negative effect on the statistics.

Decline in bonds

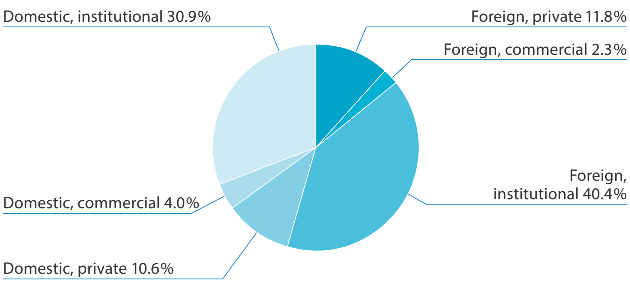
Following a tough two years, bond holdings rose in 2012, only to fall again in 2013. Overall, bond holdings declined from CHF 1,346.8 bn to CHF 1,277.7 bn (-6.4%). There was a stronger reduction in bond holdings by foreign customers than by clients in Switzerland (-10.1% and -3% respectively). The reasons for the decline are the high levels of sovereign debt in many industrialised nations, as well as the expansive monetary policy pursued by the central banks and the resulting low interest rates. Notwithstanding, with a 24.7 percent share, bonds remain the third-largest asset class in customer custody accounts.

Institutional investors hold the largest deposits, euro continues to lose significance

Institutional providers once again had the largest deposits in 2013, both for Swiss customers and foreign clients (30.9% and 40.4% respectively). Next in line were domestic and foreign private investors who were also important players and had almost identical shares (10.6% and 11.8% respectively). The significance of the euro as an investment currency further declined in 2013. Euro-denominated investments accounted for only 18 percent of total securities holdings. In 2009, they accounted for 25 percent. The US dollar remained at the same level as the year before with a 22 percent share. The most important investment currency was the Swiss franc at over 51 percent.

Fig. 11

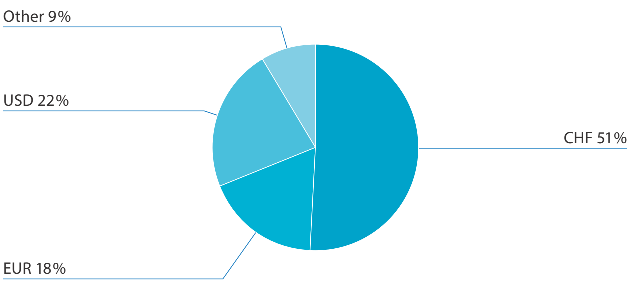
Asset deposits by customer type, end 2013



Source: SNB

Fig. 12

Asset deposits by currency, end 2013



Source: SNB

Savings and investment liabilities and time deposits: interest-related shifts

The persistently low interest rate environment since 2008 led to shifts in the balance sheet positions of customer assets. Savings and investment liabilities to customers amounted to CHF 601.7 bn at the end of 2013. Compared with the previous year, this corresponds to strong growth at 14.3 percent. Around half of this can be attributed to the fact that PostFinance was included in the SNB's statistics for the first time. A total of 92.5 percent of customer savings and investment deposits were held by domestic customers in 2013. These assets include vested benefits accounts (Second Pillar) and assets related to the tied pension provision (Third Pillar). Time liabilities to customers (time deposits) fell by CHF 14.9 bn to CHF 246.2 bn. 75 percent, and thus the majority of time deposits, were held by foreign customers.

The fiduciary deposits[8] managed by the banks in Switzerland decreased by CHF 17 bn to CHF 120.7 bn (-12.4%) in 2013. In 2007, fiduciary deposits still accounted for CHF 482.9 bn. They have been gradually decreasing since that time. Because fiduciary deposits are primarily invested on the money market, they have become much less attractive in recent years as a result of continued low interest rates.

Fiduciary deposits gradually decreasing since 2007

Overall, in 2013 the Swiss banking sector benefitted from inflows from emerging markets and from strong capital market developments, which more than compensated for the decrease in assets under management from Western Europe. The key reason for the decrease in these assets is likely the regularisation of legacy assets and the ensuing tax settlements. The Swiss banking sector was therefore able to defend its position in the global cross-border private banking business and remains the global market leader[9] with a share of 26 percent.

Inflows from emerging markets more than compensate for outflows

4.2 Trends in 2014

At the end of May 2014, the banks in Switzerland managed a total of CHF 6,310 bn in assets, which represents an increase of 3.8 percent compared with the end of 2013.[10] Securities holdings rose further and amounted to CHF 5,308 bn at the end of May 2014, customer liabilities in the form of savings and investments increased to CHF 627 bn and time deposits rose to CHF 255 bn. Fiduciary liabilities fell slightly. At the end of May 2014, they amounted to CHF 120 bn.

Further rise in assets under management

The majority of the banks that have published their half year results for 2014 reported asset inflows. This is in line with the trend seen to date in the SNB's statistics. In future, outflows of customer assets from Western Europe are expected – also as a result of the regularisation of legacy assets – while on the other hand, it is likely that the upward trend of inflows in assets from emerging markets will continue. The new assets are primarily from Latin America and Eastern Europe. Together, these new assets will likely result in rising assets under management.

Asset inflows expected, particularly from emerging markets

The Swiss financial centre remains attractive and the forecasts indicate that Switzerland will maintain its first place ranking in the global cross-border private banking for the medium term. Hong Kong and Singapore, two financial centres that are experiencing rapid growth, will, however, likely challenge this ranking in the longer-term thanks to their geographic proximity to the Asian market, which is experiencing strong growth.

For the medium term, Switzerland remains in first place for cross-border private banking

8 Fiduciary deposits are made or granted by the bank in its own name, albeit 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.
9 The Boston Consulting Group 2014
10 The data for the current year are taken from a sample survey, and are therefore not identical to those from the previous year, which are taken from a full survey.

5 Employment in Switzerland's banks

The number of employees at the banks in Switzerland amounted to 105,735 (full-time equivalents) in 2013. This corresponds to an increase of 579 jobs compared with the previous year. Without the first-time inclusion of PostFinance in the SNB's statistics, staff levels in Switzerland would have decreased by 2,840 jobs. A large portion of this is attributable to the staff reductions at the two big banks (-1,955 or -5%). With a decrease of 1,313 jobs (-6.6%), the foreign banks experienced the second largest staff reductions. Half of these are attributable to the closing and acquisition of foreign banks. Regional and savings banks reduced their staff levels by 164 jobs (-3.9%). According to an SBA survey, 66.1 percent of respondent banks expect their employment levels to remain the same for the second half of 2014. 18.5 percent anticipate higher employment levels, while 15.4 percent of the banks expect a reduction in their employment levels in Switzerland. Because those banks that expect a rise in employee levels account for a larger share of total employment, a slightly positive employment trend is expected for the second half of 2014.

5.1 Trends in 2013

Rise in number of employees as a result of inclusion of PostFinance

As indicated previously, PostFinance was included in the SNB statistics for the first time in 2013. This resulted in a net rise in employment in Switzerland of 579 full-time jobs. Without this effect, employment would have decreased by 2,840 or -2.7 percent. At the end of 2013, the banks employed 105,735 people in Switzerland. The slight increase in the number of employees stands in contrast to the decrease in wages and salaries in Switzerland (minus CHF 1,505 m to CHF 16.5 bn), which reflects the various cost-saving measures taken by the banks.

Significant reductions at the big banks

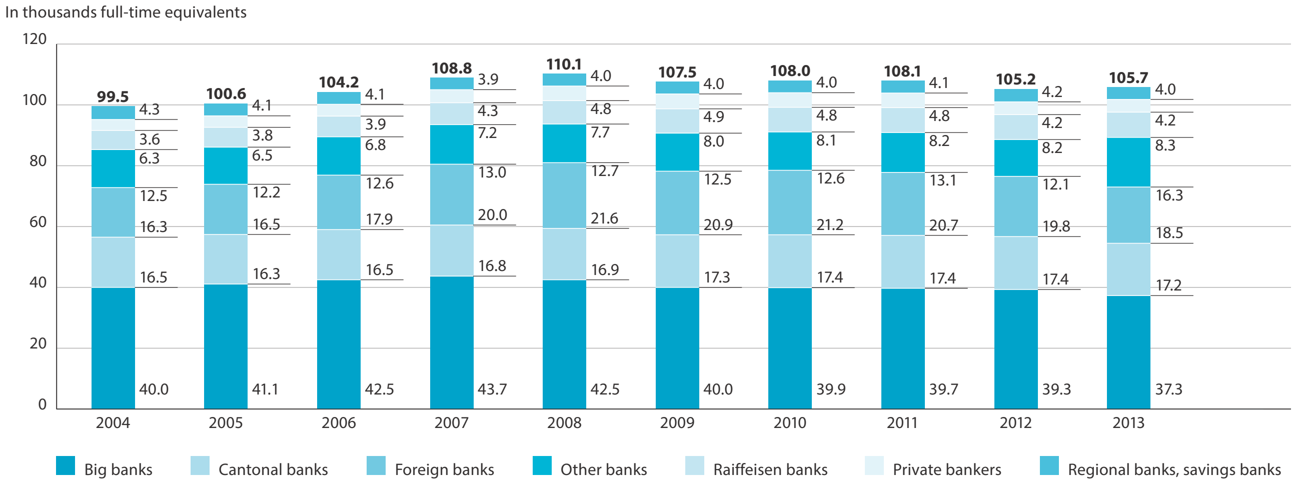
The two big banks reduced their staff levels in Switzerland by 1,955 jobs in 2013. This reduction was part of the cost-saving measures of the big banks. Pressure to cut costs was also felt at the regional and savings banks, which resulted in a decrease of 164 jobs. The employment figures for the foreign banks fell by 1,313 people in 2013, about half of which is attributable to the closing or acquisition of foreign banks. There was a slight reduction of a total of 18 jobs (-0.4%) for the "Private bankers" group. Bearing in mind that the number of private bankers in that group decreased from 13 to eleven, this could also be interpreted as a rise in staff levels.

Rise at the "Other banks" even without PostFinance

Staff levels at the Raiffeisen banks rose by 50 jobs in 2013, which corresponds to an increase of +0.6 percent. As a result of the inclusion of PostFinance, the "Other banks" reported a massive jump (+34.4%). Taken without this new inclusion, the bank group still increased the number of jobs by 751, which corresponds to a rise of 4.6 percent compared with the previous year.

Fig. 13

Staff levels at the banks in Switzerland (domestic)



Source: SNB

Number of female employees rose slightly

Swiss banks employed 39,152 women in Switzerland at the end of 2013, which corresponds to a slight rise from 36.9 percent to 37 percent within one year. As in previous years, the Raiffeisen banks had the highest proportion of female employees (47.3 %), followed by the "Other banks" (46.2%) – buoyed by the inclusion of PostFinance. The regional and savings banks followed with a share of 45 percent.

Comparatively low unemployment rate in the banking sector

On average, the unemployment rate in the Swiss banking sector in 2013 was 2.7 percent and thus half a percentage point below that of the overall economy which was 3.2 percent.

5.2 Trends in 2014

Banks rely on skilled foreign workers

In February 2014, Swiss voters voted in favour of the initiative against mass immigration. This impacts the banking sector, which relies on skilled workers from abroad. According to a survey conducted by AGV Banken, banks recruited 3,750 individuals from EU/EFTA states and 610 individuals from non-EU countries in 2013. The banks expect the number of new recruitments from these areas to remain about the same both this year as well as next. In total, the banks in Switzerland employed around 28,000 foreign employees in 2013 (including cross-border commuters and short-term residents).[11] If quotas are set for the number of foreign employees, this will likely further aggravate the shortage of workers that already exists in the highly skilled segment (higher vocational diploma or university degree). This is reinforced by the fact that not a single bank indicated that potentially lower salaries for employees from the EU/EFTA countries were the reason for recruiting foreigners. A possible lack of foreign experts would have to be addressed short term by outsourcing abroad and for the longer-term, the lack would have to be made up for through increased efforts in the area of training and education.

Fall in the unemployment rate in the banking sector

In the first half of 2014, the unemployment rate for the banking sector fell by just under 2.6 percent on average, while the rate for the overall economy rose slightly (June 2014: 2.9%).

11 Estimate based on statistics from the Swiss Federal Statistical Office.

The annual SBA employment survey of the banks shows a slight reduction in the number of employees in Switzerland for the first half of 2014. According to the survey, domestic employment levels fell by 690 jobs (-0.7%) between the end of 2013 and June 30 2014. The respondent banks reported 3,400 incoming and 4,090 outgoing staff.

Reduced staff levels in the first half of 2014

Fig. 14

Staff levels in Switzerland[12]

Full-time equivalents	Position at Dec. 31 2013	Position at June 30 2014	Staff trend during 1st half of 2014			
		89,884	Incomming	Outgoing	Net	In %
Switzerland	90,574		3,400	4,090	-690	-0.7%

NB: Number of responses: 189

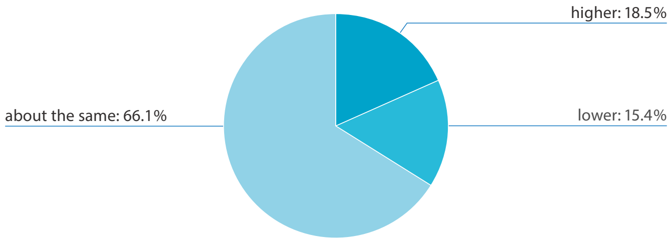
Source: SBA employment survey 2014

According to the July 2014 survey, 66.1 percent of respondent banks expect employment levels to remain the same for the second half of 2014. This was also the case in last year's survey. 18.5 percent anticipate higher employment levels, while 15.4 percent of the banks expect a reduction in their employment levels in Switzerland. Because those banks that expect a rise in employee levels account for a larger share of total employment, a slightly positive trend in overall employment is expected for the second half of 2014.

Slightly positive employment trend expected

Fig. 15

Expected employment trend in the second half of 2014



NB: Proportion of responses: 189

Source: SBA employment survey 2014

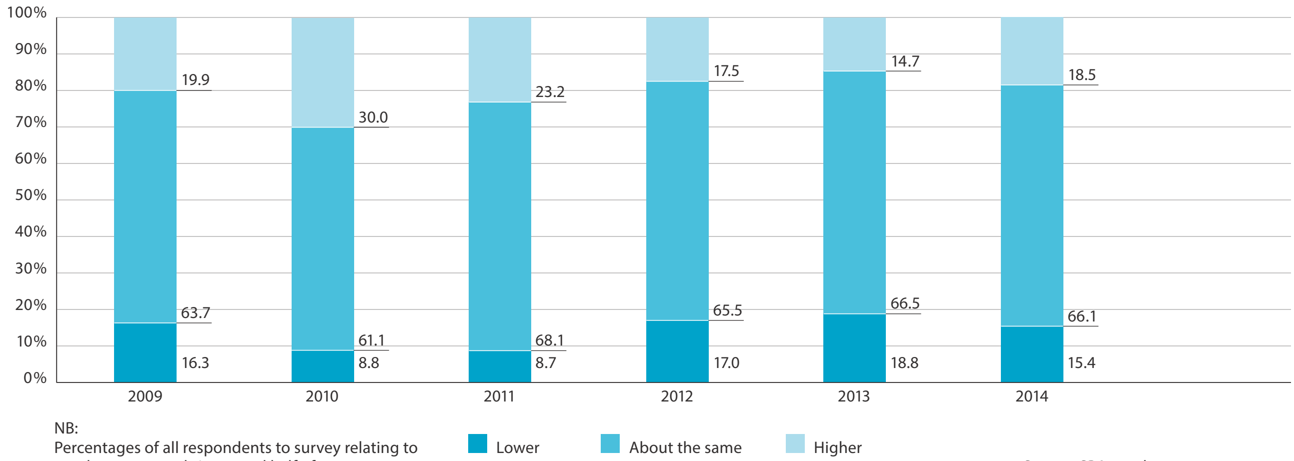
In past surveys regarding employment trends, the "about the same" category dominated. Relevant shifts were seen more in the categories "higher" and "lower".

Unchanged employment levels dominate past surveys

12 Staff levels at the end of 2013 were lower in the SBA survey than in the SNB statistics. The reason for this disparity is the lower response rate to the SBA survey. 266 banks in Switzerland were surveyed. The response rate was 74.4 percent, which accounts for 85.7 percent of staff levels of the banks in Switzerland. On the question about trends in staff levels for the second half of the year in the various business areas, the response rate was between 32 and 38.7 percent.

Fig. 16

Survey results for employment expectations for second half of the year 2014



NB:
Percentages of all respondents to survey relating to employment trends in second half of year 2014.

Source: SBA employment survey 2014

The expected employment trends differ depending on the business activity. A slightly downward trend is expected for private banking and the trading business. For retail banking and institutional asset management, expectations are generally that employment will remain the same. For logistics and operations (back office), the respondent banks expect to see a slight increase, driven primarily by regulatory developments.

Slightly negative trend in private banking and the trading business

Fig. 17

Employment trend in the second half of the year 2014

Total	Retail Banking	Private Banking	Institutional Asset Management	Trading Business	Logistics and Operations (back office)
→ ↗	→	→ ↘	→	→ ↘	→ ↗

NB:
Number of responses: between 85 and 103 depending on business activity. For "total", the number of responses is 189. Because the number of responses for "total" is much higher than for the individual business activities, their significance is limited in some instances. Trends are derived from the responses weighted by numbers employed.

Source: SBA employment survey 2014

6 Topic of focus: The EU banking union

The European Union (EU) is midway into the construction and implementation phase of the largest political and economic project since the introduction of the euro: the "banking union" project. The goal to be achieved through the creation of this banking union is the further integration of the European banking system and to thus break the vicious circle created by the mutually reinforcing bank and sovereign debt crises. The banking union consists of a foundation of uniform rules and three pillars: banking supervision, bank resolution and deposit protection, each with its own mechanism. Although Switzerland is not a member of the EU, the enormous EU banking union project is not without repercussions for the Swiss financial centre.

Banking union in reaction to the crisis

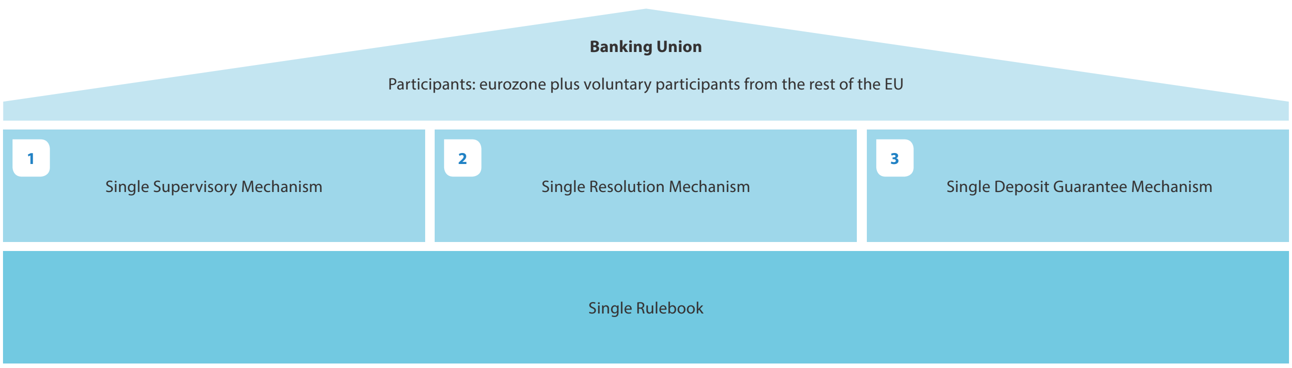
The eurocrisis painfully revealed the vicious circle created by the mutually reinforcing bank and sovereign debt crises. Rising yields on government bonds and the default that often ensues resulted in losses for the banks which negatively impacted their balance sheets. The financing situation of the banks deteriorated as a result and a number had to be bailed out by their country of origin, which in turn worsened the financial situation of these countries. This negative spiral triggered a crisis of confidence which negatively impacted the stability of the entire monetary union. The banking union aims to break this cycle and to prevent the taxpayer from having to pay for liquidity shortages or the insolvency of a bank in future.

One foundation with three pillars

The banking union is the largest political and economic project in Europe since the introduction of the European single currency. The rapid adoption of the banking union is seen as an example of the effectiveness of the political machine in Brussels. The banking union consists of three pillars: supervision, resolution and deposit protection. Each has its own mechanism. These apply for the entire eurozone and on a voluntary basis in the remaining EU countries (possibility to opt-in). The foundation is made up of a uniform, EU-wide set of rules (Single Rulebook), which dictates national implementation for all EU members.

Fig. 18

Banking union set-up



Source: SBA

The Single Rulebook is geared toward all of the 28 EU member states and applies to all financial institutions with activities in the EU's internal market. The following are some of the most important components of the provisions:

Single Rulebook: foundation applies to the entire EU

- The CRD IV/CRR (Capital Requirements Directive and Regulation) package governs the implementation of Basel III standards in the EU.
- The guidelines for the recovery and resolution of banks (EU Bank Recovery and Resolution Directive, BRRD) govern how non-viable banks that must be properly "dismantled" are dealt with.
- The guidelines for deposit guarantee schemes (Deposit Guarantee Schemes Directive, DGSD) define the measures for the protection of bank customer deposits in the case of insolvency.

As dictated by the Single Supervisory Mechanism (SSM), the banking supervisory authority will be centralised within the banking union. The SSM confers the role of central supervisory authority on the European Central Bank (ECB). From November 2014 onward, the ECB will therefore directly supervise the biggest banks[13] (around 130) within the banking union. For the time being, the national supervisory authorities will continue to conduct their supervisory duties for the remaining banks. If need be, the ECB has the right to intervene at any bank within the banking union. The national supervisory authorities have the obligation to consistently report to the ECB and will implement its ordinances, guidelines and general instructions. Approximately 1,000 new jobs will be created at the ECB as a result of its new supervisory function.

Single Supervisory Mechanism: ECB the central banking supervisory authority

In order to uncover and eliminate legacy issues before taking over its supervisory function, the ECB together with the responsible national supervisory authorities began a comprehensive assessment of the directly supervised banks. The assessment consists of three elements: a risk assessment, a balance sheet assessment/asset quality review, and an EU-wide stress test. The balance sheet assessment was finished in August 2014 and consequently the stresstest was started. Results of this comprehensive assessment will be published in the second half of October. Banks that are found to have capital gaps must refinance themselves. This is to be done primarily through the capital market, the retention of profits or the sale of assets. In exceptional cases, national, public funds can be supplied and help can be obtained from the European ESM rescue fund.

Comprehensive assessment to allow for a clean start for the ECB

The Single Resolution Mechanism (SRM) centralises the key competencies for the handling of failing banks within the banking union and implements the guidelines' substantive provisions for the recovery and resolution of banks (EU Bank Recovery and Resolution Directive, BRRD). A bank is then restructured using a complex, multi-stage process, as dictated by this directive:

Single Resolution Mechanism: multi-step process for insolvent banks

1. The ECB reports that a bank is insolvent or is likely to become such.
2. The newly created central resolution committee (Single Resolution Board, SRB) subsequently develops a detailed plan for restructuring in close coordination with the national authorities.
3. The EU Commission (in some cases also the EU Council) adopts the formal resolution.

13 A credit institute is considered big when the balance sheet total is higher than EUR 30 bn or if it accounts for 20 percent of the economic performance (GDP) of the respective home country. In every participating country, however, at least the three most important credit institutions – irrespective of their absolute size – are subject to direct supervision by the ECB. (Source: European Commission)

The SRM provides for the creation of a shared, supranational ex-ante fund for the resolution and restructuring of banks. The fund will be financed through contributions from the banks. Within eight years starting on January 1 2016, the resources available in the fund must amount to at least 1 percent of the secured deposits of all the credit institutions admitted into the banking union (according to current figures, the fund would contain about EUR 55 bn). The contributions of the banks are composed of a flat sum and a risk-adjusted contribution. The resolution committee will begin its activities on January 1 2015. The SRM regulation will come into effect on January 1 2016.

Creation of a supranational ex-ante resolution fund

The third pillar of the banking union is a single deposit guarantee mechanism with a likewise shared, supranational ex-ante fund. Due to political opposition, there is, however, currently no proposal for a cross-border deposit guarantee with a shared ex-ante fund that would represent "true" communitisation. The guidelines for deposit guarantees (DGSD) (part of the Single Rulebook) provides for national ex-ante deposit guarantee funds and paves the way for a voluntary mechanism for reciprocal lending between the deposit guarantee schemes of various EU countries, albeit without obligation.

Single Deposit Guarantee Mechanism: opposition currently obstructing progress on this pillar

As an international financial centre with active relationships in the EU, Switzerland is examining the topic of the European banking union in depth. The introduction of a banking union in the EU/eurozone is likely to increase stability in Europe. The banking union aims to prevent local banking risks from spreading in such a way that could weaken the entire eurozone. Switzerland and its banking sector in particular, will also benefit from the increased stability.

The EU banking union is likely to have a stabilising effect

The banking union will not, however, resolve all problems. It is only one element in the EU's economic framework. More important for economic growth and prosperity in Europe are labour market reforms as well as discipline and closing ranks in fiscal matters. Important for the effectiveness of the European banking union is a full implementation as defined by the legislative authority. Politically opportune dilutions (for example the Maastricht criteria), would entail high risks and a massive loss of trust. The different elements of the banking union are symbiotically connected. The lack of a common deposit guarantee mechanism is stability-diminishing in nature, because in the case of a crisis, money could continue to flow from relatively unstable to relatively stable states.

The banking union is a necessary, but insufficient prerequisite for a successful EU economic framework

In the future, big subsidiaries of foreign banking institutions in the EU will be supervised directly by the ECB. As of fall of 2014, UBS Luxembourg S.A., as the currently only Swiss institution, will be supervised directly by the ECB. The Swiss financial centre will generally benefit from a European banking centre that is regulated homogeneously. For Swiss banks with subsidiaries in a number of states belonging to the banking union, the unification of the banking regulation could result in savings and increased flexibility in the longer-term.

Foreign subsidiaries in the future part of the banking union

Swiss regulation for banking supervision as well as bank resolution and restructuring are predominantly equivalent to those of the banking union. Despite this fact, and despite the tried-and-tested resilience to crisis of the Swiss system of guarantee of deposits, in the future the question could arise whether the creation of an ex-ante fund for bank resolution and/or the deposit guarantee is necessary. The reason for this is the trend toward formal international harmonisation. What is relevant, however, is the material equivalence and the quality of implementation that are in place with Switzerland's current system.

Swiss system (banking supervisory authority, bank resolution and deposit guarantees) equivalent to banking union

For Switzerland, it is doubtful that an ex-ante fund for the resolution and restructuring of banks would bring added value, because the existing legal foundations (BIO-FINMA, too-big-to-fail package of measures) ensure sufficient certainty and stability. A fund would entail high administrative expenses with low marginal benefit. Changing the deposit guarantee system to an ex-ante fund is also unnecessary. The introduction of an ex-ante fund would result in increased bureaucracy without providing added value. The Swiss quasi-fund is similar in size to the EU's ex-ante fund, but overall it keeps the system more streamlined. The total CHF 3 bn of resources available immediately in Switzerland currently account for 0.7 percent of secured deposits[14] (the EU's goal: 0.8% in ten years). The Swiss system should therefore be regarded as equivalent. If necessary, the banks can contribute a further CHF 3 bn from other sources. From an accounting perspective, a transfer from a quasi- to an ex-ante fund would reduce the profit of the bank for the transfer year, which would give rise to new challenges for the banks.

For Switzerland, added value of ex-ante funds low

14 According to esisuisse, secured deposits in Switzerland amounted to CHF 430 bn at the end of 2013.

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