

September 2011

# Banking Barometer 2011

Economic Trends in the Swiss Banking Industry

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## Economic trends in the Swiss banking industry

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## Executive Summary

In 2010, the main factors that influenced the Swiss banking environment were the economic upswing and the continuing very low interest rates. The domestic mortgage volume increased by 4.6% and the aggregate balance sheet total of all banks in Switzerland rose by 1.7%. Bank profits grew by 13.4% to CHF 61.5 bn. The drivers were income from the interest margin business and the trading business of the big banks. After a decline in employment in 2009, the banks in Switzerland increased the number of employees to 108,000 in 2010. The survey conducted by the Swiss Bankers Association (SBA) indicates a slight rise of 0.4% in employment numbers in Switzerland's banks for the first half of 2011. The employment trend for the second half of the year is expected to be rather flat. The economic outlook for the current year, and especially for 2012, is worsening due to the greater uncertainty surrounding the sovereign debt problem in the Eurozone and the USA, as well as the related appreciation of the Swiss franc.

Higher operating profit,...	The aggregate operating profit <sup>1</sup> of the banks in Switzerland increased in 2010 by 13.4% to CHF 61.5 bn, which can be attributed in particular to the generally positive growth in income from the interest margin business and the trading business of the big banks. Aggregate trading profit tripled in 2010, whereas profit from commission and services fell by 3.5%. There were some big differences in the banking activities of the various bank groups. As a result, in the trading business only the big banks, and in the commission and services business only banks with a domestic focus, exceeded the profits of the previous year.
...higher balance sheet totals...	Swiss bank balance sheet totals grew again for the first time since the outbreak of the financial crisis. They gained 1.7%, reaching a total of CHF 2,714.5 bn. On the assets side, the pattern was heavily influenced by the rise in mortgage lending, which grew by 4.6%. The rates of growth for bank receivables (+0.2%, 2009: -28.2%) and payables (-1.6%, 2009: -31.9%) grew moderately in 2010. They are evidence of the stabilisation of the interbank market compared with the previous year. The number of banking institutions decreased, particularly as a result of takeovers, by five to 320.
...and higher domestic credit volume in 2010	The positive economic trend was also reflected in the banks' domestic credit business in 2010. Credit limits rose by 2.9%, with credit take-up increasing by 2.1% to CHF 898.0 bn. This pattern was principally driven by the 4.6% increase in mortgage lending. The most important borrowers continued to be private households (66.7%). In 2010, the Cantonal banks, accounting for 32.7% of domestic credit volume, became the most significant lenders for the first time.
Slight reduction in securities holdings and interest-related shifts	Securities holdings fell by 1.2% to CHF 4,453.0 bn in 2010. Higher stock-market prices were only able to partially offset the currency losses. As in the previous year, some interest-related shifts were observed in the fiduciary deposits managed by the banks and in balance sheet positions. Overall, banks

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<sup>1</sup> Operating profit is defined as revenues minus expenses in the four business activities of the banks (interest-earning, commission and services, trading and other ordinary profit). Operating profit less staff and operating expenses equals gross profit.

	in Switzerland were managing assets amounting to CHF 5,473 bn at the end of 2010.
Slight increase in security holdings in 2011	In the first five months of 2011, securities holdings grew 0.4%. Shifts due to interest rates continued during 2011. A slight rise in foreign customer deposits can be expected, because foreign customers are looking to diversify outside of their own domiciles.
Employment growth in 2010	After a decline in employment numbers in 2009 caused by the financial crisis, the banks in Switzerland again took on more staff in 2010, with 108,000 employed nationally (+0.4%). Almost all bank groups contributed to this slight increase. Accounting for 36.9% of the workforce, the big banks were again the biggest employers among the banks in Switzerland. The number of female employees rose by 1.9%, whereas the number of male employees decreased by 0.4%. Consequently, the ratio of women working in banks in Switzerland increased overall to 37.2%.
And increased headcount in the first half of 2011	According to the employment survey by the Swiss Bankers Association (SBA), the banks in Switzerland were able to increase the number of persons employed by 0.4% (or 410 full-time equivalents) during the first half of 2011 compared with the level at the start of the year. The banks in Switzerland expect fairly constant employment levels overall during the second half of 2011, with variations, however, between the various bank groups. The latest and somewhat unexpected major upsets on the financial markets, also mean increased uncertainty about the economic outlook and the possibility of differences in relation to the responses given about employment decisions in July 2011.
Greater uncertainty in 2011	With weak equity markets and low securities turnovers, the first two-quarters of 2011 indicate that there are doubts about the sustainability of the global upswing. Because of the worsening of the sovereign debt crisis and the increased uncertainty in the financial markets, the business environment for the Swiss banks will probably remain generally difficult for the year as a whole.

# 1 Macroeconomic trends

The global economy recovered from the 2009 recession in 2010 and grew at a rate of 5.1%. 4.3% growth is forecast for 2011. It will be driven by the emerging Asian economies in particular. China's economy will grow by an estimated 9.0% in 2011. Japan has again gone into recession, due to a natural disaster. In the USA and the Eurozone, weaker economic growth is expected as a result of the public debt problem. Moreover, the outlook for the US labour and real estate markets remains troubled.

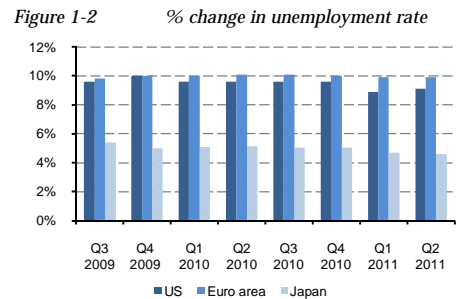
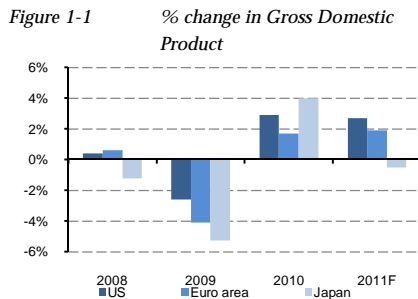
## 1.1 Global economy

After a major slump, In 2010, the global economy recovered from the recession in 2009. According to the International Monetary Fund (IMF) growth was 5.1%. This growth was primarily driven by the developing and emerging economies, which expanded by 7.4%. Slightly weaker global growth of around 4.3% is expected for 2011. Compared with the first quarter, the global economy weakened slightly in the second quarter of 2011. Moreover, the outlook is further threatened by the upsets on the financial markets.

Slightly weaker trend in the USA The expected economic growth for the USA is 2.3% this year, which is slightly below last year's growth rate. The trend in the USA is adversely affected in particular by a relatively high unemployment rate and the still ailing real estate market. Further reasons for uncertainty are the growing national debt problem and the political situation ahead of the elections next year.

Mixed trends in the Eurozone... 1.9% growth is expected for the Eurozone. However, there are still differences in the economic development of the individual countries. For example, the German economy is expected to grow by 3.3% in 2011, whereas Portugal and Greece will shrink at a rate of 2.2% and 4.5% respectively.

...emerging economies in Asia In Asia, Japan had already fallen back into recession in the first quarter of 2011 due to a natural disaster. Overall, negative economic growth of 0.6% is expected for Japan in 2011. Emerging Asian economies, such as China, are driving global economic development. 9.0% growth is expected in China in 2011, for example. During the second quarter of 2011 China grew by 9.5%. Higher commodity prices are a threat, however. In July 2011, 6.5% inflation was recorded in China - the highest rate in three years.



World trade recovery	World trade recovered and grew by 12.4% in 2010 after a 10.8% decline in 2009. For 2011, the IMF expects a slightly weaker growth in world trade of 8.2%.
The debt problem in the Eurozone and the USA still poses risks	There is still no long-term solution to the national debt problem in the Eurozone. The European Commission is expecting an average gross debt of 87.7% in the Eurozone in 2011. The three frontrunners in terms of national debt as a percentage of GDP are Greece with 157.7%, Italy with 120.3% and Ireland with 112.0%. The partly-structural budgetary deficits of some Euro countries and the USA will therefore represent a threat to global economic growth during the next few years.

## 1.2 Swiss economic performance

Recovery after big decline in economic performance in 2009	During 2009, Switzerland experienced the biggest decline in economic performance since 1975. Conversely, in 2010, the Swiss economy performed very well with 2.6% real growth in gross domestic product (GDP). The main drivers were gross fixed capital formation and private consumption, which has always been one of the main contributors to the Swiss economy. In 2010, private consumption grew by 1.7%, after the 1.4% growth of the previous year.
Strength of Swiss franc will check economic growth	The strong Swiss franc did not have any major impact on the economic situation in Switzerland in 2010. Since the beginning of 2010, the currency has appreciated against both the Euro and the US dollar by more than 24%. Economic growth is expected to be weaker in 2011 and especially in 2012 due to the sustained appreciation of the Swiss franc. In June 2011, the State Secretariat for Economic Affairs (SECO) therefore reduced its economic growth forecast for 2012 from 1.9% to 1.5%.
Exports contributed to growth in 2010	After a slump in 2009, exports of goods and services rose significantly again in 2010 with 10.6% and 7.5% growth respectively. Up to the end of June 2011, no serious consequences for exports due to the strength of the Swiss franc had been identified. However, exports are expected to suffer in the future, because the strength of the Swiss franc is adversely affecting the international competitiveness of the Swiss economy.
Further improvement in the labour market	Labour market conditions have improved again. At the end of May 2011, unemployment had fallen to 3.0%. In 2010, the unemployment rate was up to 3.9% on average. For 2011 and 2012, SECO expects an average unemployment rate of 3.1% and 3.3% respectively.
National finances in the black	Compared with most European countries and the USA, Switzerland's national finances are in very good shape. At 38.3% of GDP in 2010, Swiss debt was far below the European average of 84.3%. Whilst the debt percentage in the European monetary community has risen in recent years, it has fallen in Switzerland. This is primarily a consequence of the measures to brake debt. Despite the financial crisis in 2009, Switzerland achieved a surplus of CHF 2.7 bn and in 2010 it even reached CHF 3.6 bn.

### 1.3 Special topic: *Addicted Banks*

Even though more than three years have passed since the outbreak of the financial crisis, its effects on European banks can still be felt. Some institutions are in fact still dependent on financing from the European Central Bank (ECB) because they cannot get funding from the interbank market at reasonable terms. The situation would become even worse if Greece were to go bankrupt, as this would have massive consequences for the stability of the system. In comparison with these “*addicted banks*”, the Swiss institutions have managed to ensure their exit from the crisis.

Massive injection of liquidity by central banks

In addition to the standard instruments (reduction of the main refinancing operations rate by 325 basis points to a record low of 1.0%), the European Central Bank (ECB), from autumn 2008, has also adopted non-standard measures to protect the European monetary community’s banking system from collapse. These include the following five temporary special measures:

- Full allotment in all open market transactions
- Long-term tendering procedure with one-year operations
- Expansion of the collateral framework to non-marketable instruments
- Provision of foreign currency liquidity against collateral
- Bond purchase plan up to EUR 60 bn

Extending the collateral framework to non-marketable securities such as government bonds below “investment grade” and loan receivables meant that securities amounting to EUR 400 bn to back credit transactions were also classified as eligible assets. At the beginning of August 2011, the ECB further decided, in addition to the resumption of the purchase of government bonds issued by at-risk countries, to re-introduce long-term tendering with full allotment and operations of up to six months. The intention was to provide additional liquidity to the European banking sector.

According to the ECB’s annual report, commercial banks deposited marketable and non-marketable financial instruments to the value of EUR 2,010 bn to secure loans in the Eurosystem in 2010. These financial deposits amounted to approximately the same as in 2009, although the demand for liquidity, at EUR 546.7 bn, was lower (2009: EUR 749.9 bn). The value of the non-marketable instruments provided as collateral was higher in comparison with the previous year, however, considerably increasing the ECB’s balance sheet risks. The large amount of securities deposited is evidence of the uncertainty that still prevails with European banks.

State support measures during the financial crisis

During the financial crisis, national measures were adopted by many European countries to support at-risk banks with guarantees or recapitalisation funding or to buy illiquid assets. The support measures<sup>2</sup> pledged in Europe ranged from some 20% of Germany’s gross domestic product (GDP) to as much as 283% of Ireland’s. By comparison, the measures introduced by the Swiss Federal Council in October 2008 to strengthen the Swiss financial system amounted to less than 10% of GDP (recapitalisation by the state and acquisition of illiquid assets by

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<sup>2</sup> Guarantees for loan liabilities, recapitalisations, asset swaps and purchases plus financial support measures by central banks.

the SNB). As early as 2009, the Swiss Confederation was able to terminate its support measures completely. CHF 1.2 bn in gains resulted from its original investment of CHF 6 bn.

Like the ECB, the Swiss National Bank (SNB) also adopted non-standard measures. For example, more longer-term repos were transacted, private debtor bonds denominated in Swiss francs were purchased and large quantities of currencies acquired. As part of the UBS support package, loans were made by the SNB to the SNB StabFund. This fund took over assets amounting to USD 38.7 bn. At the end of July 2011, the loan had been reduced to CHF 8.0 bn. To date, the management and disposal of the assets has been successful. By the end of July 2011, the SNB had managed to consolidate gains of over USD 2.3 bn from the SNB-Stab Fund.

Mixed progress in dismantling support for banks

Even at the end of June 2011, in Germany for example, the financial market stabilisation fund SoFFin was making EUR 17.7 bn capital available to the banks and taking over guarantees amounting to EUR 32.2 bn. Compared with the high of October 2010, when guarantees amounting to EUR 174 bn and equity of EUR 64 bn were outstanding, this is a major reduction in state support.

In Ireland, the National Asset Management Agency (NAMA) - designed as a bad bank - took over toxic property loans from domestic banks. At the end of 2010 the nominal value of the loans taken over by NAMA was still over EUR 71 bn. The dismantling of support for the Irish banks, which are still heavily dependent on the special conditions of the ECB, is proceeding more slowly. As a result, Eurosystem loans to Irish banking institutions stood at EUR 102.3 bn at the end of May 2011. This is a reduction of over EUR 35 bn compared to the peak in November 2010. However, the lending volume is still more than twice the average of the last eight years. Emergency liquidity assistance has reached EUR 55 bn, which represents more than five times the average.

Swiss banks have managed to exit from the crisis

It is noteworthy that the Swiss banks managed to strengthen their equity base to a marked degree on their own. Since the start of 2010, the banks have asked for hardly any additional funds from the National Bank because of their excess liquidity. The SNB has resumed sales of Swiss franc-denominated bonds from the end of 2010. At the end of June 2010, the new liquidity regime for the two big Swiss banks also came into force. The SNB has not renewed various maturing non-standard liquidity instruments and has reduced the potential volume of repo-able securities<sup>3</sup>. It can thus be ascertained that Switzerland has managed to exit the crisis.

In the meantime, numerous banks in the European monetary community that got into great difficulty during the financial crisis continue to be drip-fed by the ECB because they are still unable to find adequate refinancing on the money market. At the fore are the banks in European at-risk countries (PIIGS). For ex-

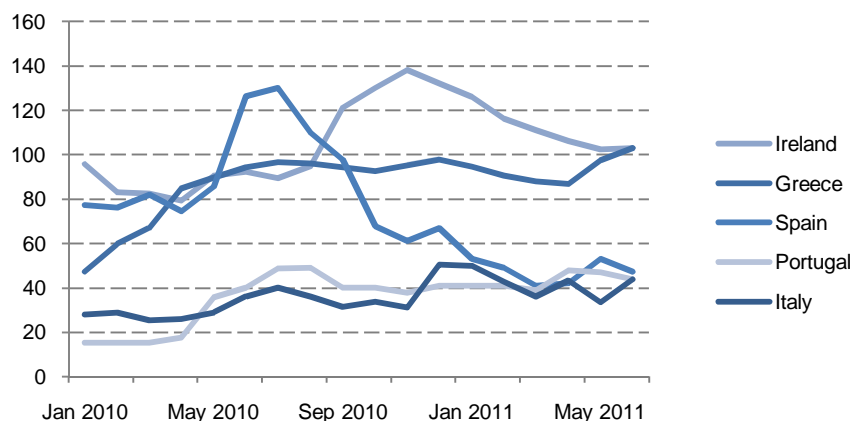
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<sup>3</sup> In order to counter the strength of the Swiss franc, the SNB increased money market liquidity by CHF 30 bn to 200 bn in three stages. But this should not be seen as being linked to any refinancing difficulties banks may have.

ample ECB loans to Greek banks reached a record EUR 103 bn in June 2011 (see Figure 1-3). This is more than twice as high as in mid-2009.

Institutions still heavily dependent on the ECB

Figure 1-3 Refinancing of the banks in PIIGS countries by the ECB, EUR bn



NB: PIIGS countries are Portugal, Ireland, Italy, Greece and Spain. Every European Bank is refinanced through the ECB. But the extent of the refinancing in comparison with earlier periods is extremely high.

Sources: Central Bank of Ireland, Bank of Greece, Banco de España, Banco de Portugal, Banca d'Italia.

Exposure to public debtor solvency risks

A significant risk to the stability of the global banking system is now the national debt crisis in the Eurozone and the USA. According to the European Banking Authority (EBA), Greek institutions, for example, with EUR 54.5 bn, accounted for 67% of outstanding public debt (debentures and loans) in that country at the end of 2010. The Spanish institutions, with almost 81% and EUR 231.7 bn, have an even higher proportion. Greek institutions have a core Tier 1 capital of EUR 22.8 bn and Spanish institutions EUR 139.9 bn. Consequently, sovereign default by Greece or Spain would be life-threatening for their banks. The solvency issues of the peripheral Euro countries are also negatively impacting other European banks. For example, French and German banks, with EUR 10.1 bn and EUR 7.9 bn respectively, have the highest exposure to Greece (figures as per end of 2010).<sup>4</sup> According to a recently published study by the Bank for International Settlements (BIS)<sup>5</sup>, Swiss banks have very high government bond holdings expressed as a percentage of Tier 1 capital (> 200%). But in comparison with Germany, France or Belgium for example, the proportion of bonds from PIIGS countries is extremely low at 2 to 4%.

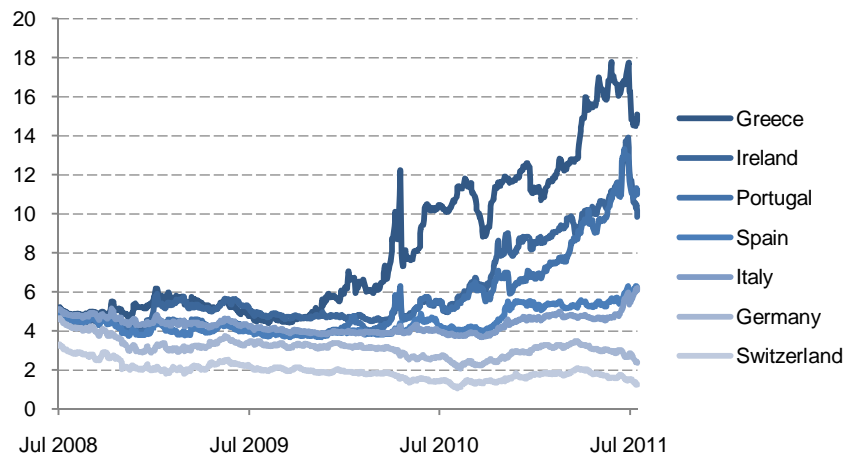
Figure 1-4 shows how difficult it is for at-risk countries to access the capital market. Bond issuing conditions have improved since the Euro crisis summit in Brussels at the end of July 2011. But financing without a rescue fund seems impossible at the moment, especially for Greece.

<sup>4</sup> The figures are based on the European Banking Authority's (EBA) stress test and include only claims on the country concerned. They are different from the statistics of the BIS, which relate to all sectors (public, corporate and private) in the relevant country.

<sup>5</sup> Committee on the Global Financial System: "The impact of sovereign credit risk on bank funding conditions", July 2011.

Countries facing higher refinancing costs since mid-2010

Figure 1-4 10-year government bond yields, %



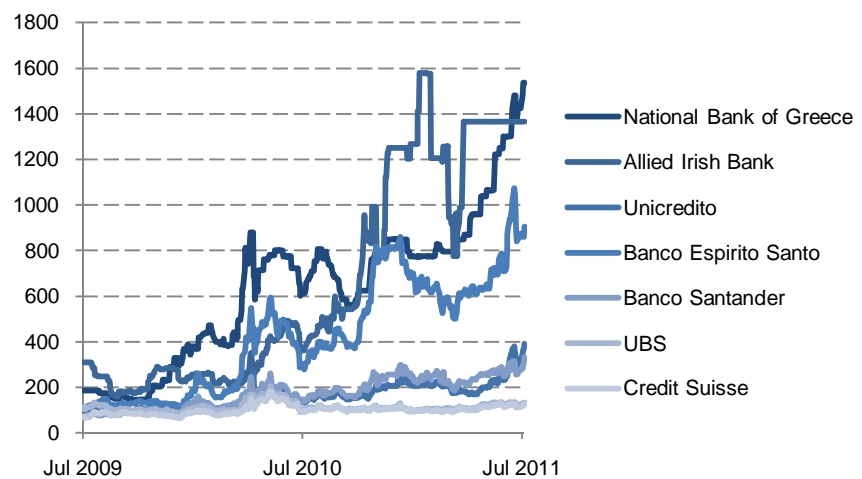
Source: Thomson Datastream

The sovereign default of a member of the Eurozone would constitute a threat to the entire European financial system because of its high exposure and great international interdependency. In addition, risk positions with respect to other countries with debt problems are even far more important.

These risks to the financial system are expressed in the banks' high credit default swap (CDS) spreads. The graph below shows that in comparison with the big Swiss banks, the CDS spreads of selected banks in the European crisis countries are very high. At the end of July 2011, a premium of 1365 basis points had to be paid for hedges against the nationalised Allied Irish Bank for example, and as much as 1426 basis points against the National Bank of Greece.

Massively higher CDS spreads for banks from at-risk countries

Figure 1-5 CDS spreads by institution (5 year-term), basis points



Source: Thomson Datastream

The threats posed directly by the Euro crisis must be considered much larger for European institutions than for Swiss banks. The Swiss banks would not, however, be able to escape the further consequences of any new Lehman Brothers-type systemic crisis, due to the extraordinary degree of interdependency in the financial system.

## 2 Financial markets

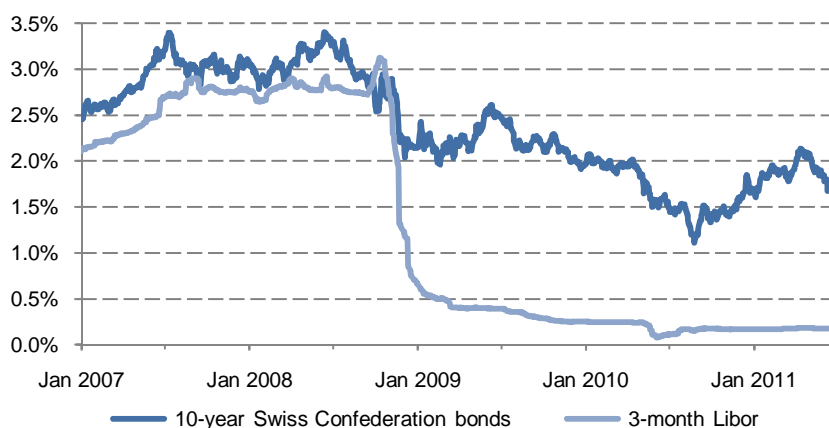
In 2010, the Swiss financial markets were characterised by very low interest rates and a further decline in Confederation bond yields. The 3-month CHF LIBOR and the ten-year Confederation bond yields reached record lows. Moreover, in 2010, despite interventions by the Swiss National Bank (SNB) on the currency market, the Swiss franc continued to appreciate. Its external value grew 7.5% in export-weighted real terms, in particular because of the safe haven effect. In line with European markets, the equity markets in Switzerland trended negatively, whereas Asian stockmarket prices once again rose strongly. There has been increasing uncertainty during the year to date about the way the global economy is developing, which in Switzerland will lead to continuing low interest rates, an even stronger Swiss franc and greater economic risks.

### 2.1 Interest and exchange rates

Interest rates remain low, Confederation bond yields historically low

Swiss interest rates remained at a very low level, also in 2010. The SNB's target range for the (3-month) CHF LIBOR was 0-0.75% from March 2009, and the corresponding market rate did remain at the lower end of that range throughout 2010 (low of 0.077% on 7.6.2010). This pattern was largely determined by the SNB's ongoing expansive monetary policy, intended to support the fragile upswing and to counter deflationary trends. The flight to the Swiss franc and other safe investments was more marked in 2010, borne out by a further decline in Swiss Confederation bond yields. Swiss Confederation ten-year bond yields fell by almost one-third of a percentage point during 2010, reaching a record low of 1.114% in August 2010.

Figure 2-1 Swiss Confederation bond yields and 3-month Libor, %

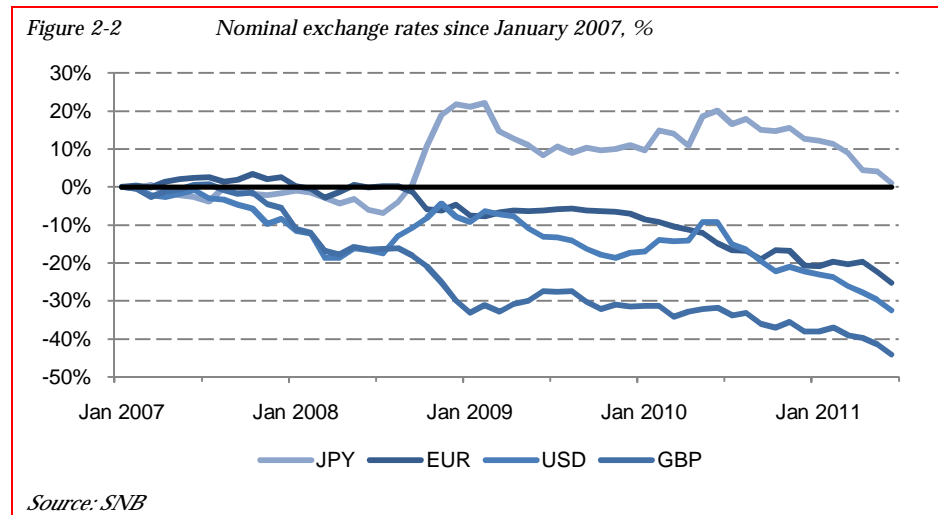


Source: SNB

National debt problem and safe haven effect

In 2010, the Swiss franc continued to appreciate, as it has since the beginning of the financial crisis. It strengthened against most currencies of the country's major trading partners (exception: Japanese yen). Its value increased in export-weighted real terms by 7.5% against the top 40 trading partners. This was in spite of the SNB's currency interventions, particularly during the first half of 2010. The SNB doubled its currency reserves for the year to over CHF 200 bn (quadrupling since the start of 2009). The Swiss franc was in greater demand by

investors because Switzerland's economy had recovered more quickly from the financial crisis on the one hand and because on the other hand, other currencies were suffering from the growing national debt problem. The Swiss franc is considered to be a safe haven currency and was therefore rapidly appreciated because of the growing global aversion to risk and the relatively small volume of money circulation.



2011: sustained low interest rates and strong Swiss franc

The first half of 2011 was marked by a further intensification of the debt crisis in the Eurozone and the first signs of the same in the USA. Switzerland continued to demonstrate political and financial stability, leading to the Swiss franc peaking against the Euro and the US Dollar in 2011. Moreover, Swiss interest rates will remain low or even fall, because the monetary policy will not put any upward pressure on the Swiss franc and will counter deflationary tendencies. In the second half of 2011 some big declines in profits from exports (of which the banks constitute a far from negligible part) and from tourism is expected. This could threaten the Swiss economy because of the country's strong focus on foreign trade.

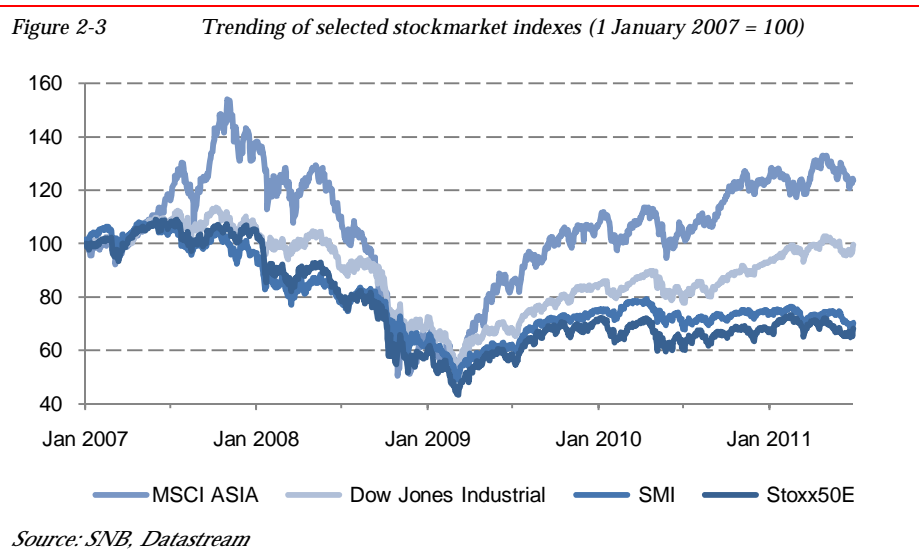
SNB and Federal Council measures to counter strong Swiss franc

In August 2011, the SNB adopted measures to counter the strong Swiss franc. As a result, money market liquidity was massively increased from CHF 30 bn to 200 bn in three stages. In addition, currency swaps, which were last used in autumn 2008, were re-introduced. The aim of these measures was to further ease the already expansive monetary policy and counter the overvaluation of the Swiss franc. The Swiss Federal Council also announced, on 17 August 2011, that it intended to inject CHF 2 bn into the Swiss economy. The funds are to come from the government's forecasted surplus in 2011.

## 2.2 Equity markets

Strong growth in Asia,  
weak equity markets  
in Europe

After a strong equity market recovery in 2009, 2010 was a rather mixed year. The recovery continued during the first quarter of 2010, but during the second quarter the stockmarkets collapsed again (especially in Europe). The third and fourth quarters were marked by flat to slightly improving equity markets in Europe and Switzerland, and by high growth rates in Asia and the USA. Over the year as a whole, the Asian equity markets grew relatively rapidly, one of the reasons being the massive influx of capital (MSCI ASIA: +16.8%). Swiss, European and American stockmarket prices were, however, unable to build on the very positive trend of the previous year (2010: Swiss Market Index (SMI) - 1.7%, STOXX -5.8%, Dow Jones +11.0%). This was primarily due to growing doubts about a sustainable recovery of the global economy and the European debt crisis. Increasing risk aversion and investor uncertainty were also reflected in a demand-driven hike in precious metal prices (e.g. +27.6% for gold and +64.0% for silver, both in USD/ounce).



Growing uncertainty  
in the first half of  
2011

During the first six months of 2011, and especially the second quarter, the falling (and to a certain extent again negative) share price growth rates were evidence that doubts about the sustainability of the economic upswing had taken root (more marked downturn in June 2011). Precious metal prices consequently continued their very positive, high-level trend during the first half of the year. Equity market developments for the remainder of the year therefore seem uncertain and dependent on a few decisive factors. The recovery of the financial system and the stability of economic growth in Asia will be important drivers of corporate earnings and, hence, on the unfolding of the national debt issue.

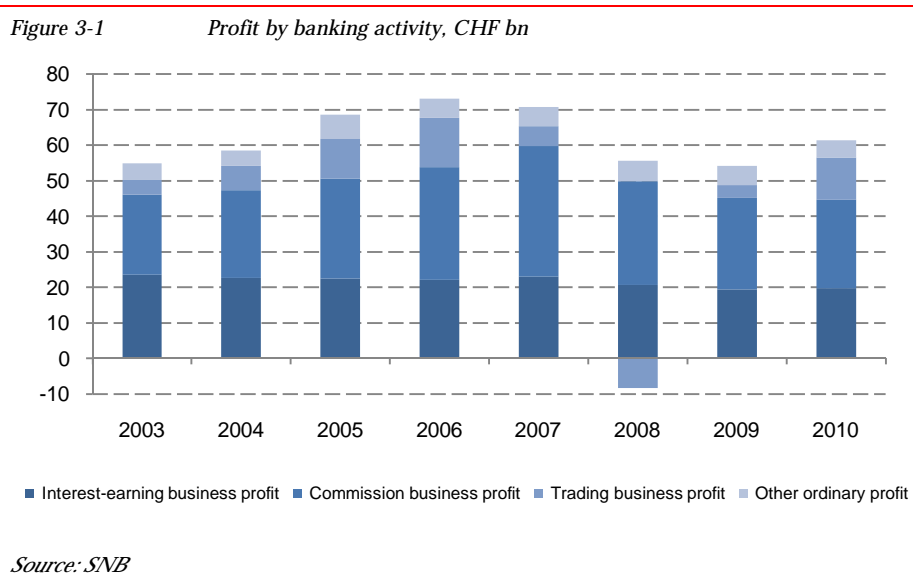
### 3 Bank profits

The aggregate operating profit of the banks in Switzerland rose by 13.4% to CHF 61.5 bn in 2010. Net profit quadrupled to some CHF 10.6 bn. The interest margin business and the trading business of the big banks were the main drivers of growth. Profits from commission and services, at 40.5% still the most important component of Swiss banking profits, fell in aggregate terms by 3.5%. There were important differences between the business activities of the various bank groups. For example, in the trading business only the big banks, and in the commission and services business only the banks with a domestic focus achieved higher profits than in the previous year. The Swiss banks delivered CHF 1.25 bn in income taxes in 2010. In 2011, the profit expectations of the banks in Switzerland have been muted by the appreciation of the Swiss franc, stronger competition and a lower level of trading activity by bank customers due to the economic uncertainties.

#### 3.1 2010 operating profit and net earnings

Increase in operating profit

After a slump in 2008 and an initial recovery (+10.8%) in 2009, the aggregate operating profit<sup>6</sup> of the banks in Switzerland grew in 2010 by 13.4% to CHF 61.5 bn. The increase was due firstly to an increase in interest income (+1.7%) and secondly to the trading business of the big banks. In contrast, aggregate profits from commission and services declined.



Further decline in profit from commission and services

In 2010, the banks in Switzerland again experienced a fall in profits from the commission and services business of 3.5% to CHF 24.9 bn. Income from all sub-categories (securities and investments (-3.4%), credit (-3.0%), other services (-2.4%)) declined as expenses remained approximately the same. However the Cantonal, Raiffeisen and Regional banks in particular, with their domestic focus, were able to increase profits (+5.1%). At 40.5%, the commission and ser-

<sup>6</sup> Based on the 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.

vices business remained the most important contributor to bank profits in Switzerland.

First increase in interest income since 2007

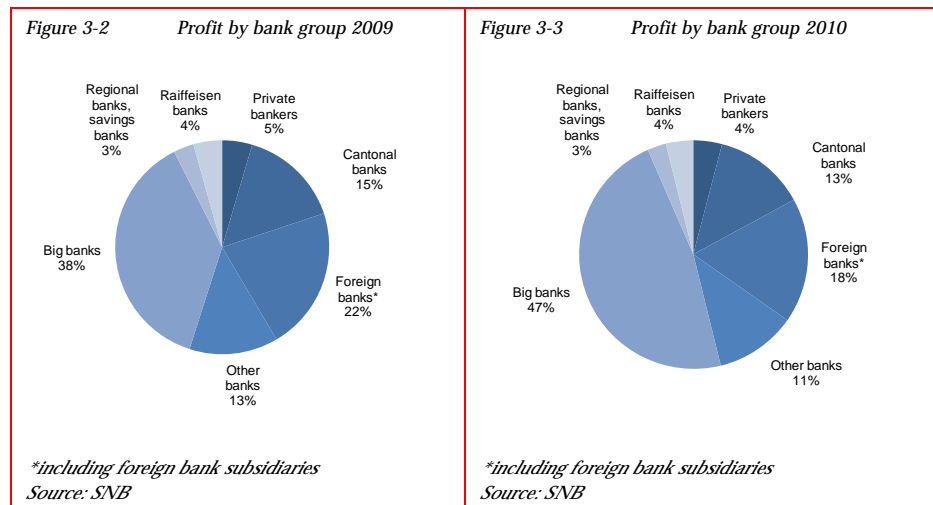
Profits from the interest-earning business grew again in 2010 for the first time since 2007 (by 1.7% to CHF 19.8 bn). Although interest, dividend and discount income fell in all bank groups (-14.9%) due to the low market interest rates and moderate corporate earnings expectations, interest expenses decreased even more (-23.8%). The interest-earning business, accounting for 32.2%, remained the second largest contributor to Swiss bank profits.

Tripling of trading profit

In 2010, the trading business produced mixed results for the various bank groups. Compared with the previous year, the big banks were again in the positive earnings range in 2010 and together achieved trading profits of CHF 8.3 bn. All other bank groups again experienced declining profits from trading. Overall, Swiss bank trading profits tripled to over CHF 11.8 bn.

Big rise in big banks' share of profits

In 2010, the big banks succeeded in increasing their share of total Swiss bank profits from 38% to 47% thanks to the turnaround in the trading business. The foreign banks<sup>7</sup>, Cantonal banks, private bankers and other bank groups slightly lost ground in terms of operating profit. The Raiffeisen and Regional banks, thanks to unchanged profit levels in 2010, were able to maintain their respective market shares.



Total profits: CHF 10.6 bn, income tax: CHF 1.25 bn

In comparison with the previous year, the Swiss banks succeeded in more than quadrupling net profit in 2010 (to a total of CHF 10.6 bn). Of the 320 banks, over 83% made a net profit. Profit performance was positively impacted largely by the big banks, but the "other banks" category (+21.2%), the Cantonal banks (+10.9%) and the private bankers (+8.0%) were also able to considerably increase their earnings. Direct taxes of CHF 1.25 bn were levied on the 2010 profits.

<sup>7</sup> Foreign banks include "banks under foreign control" and "branches of foreign banks".

### 3.2 Current year trend

Swiss franc appreciation puts pressure on annual bank profits	So far, 2011 has been a year characterised by the persistently strong appreciation of the Swiss franc, which is adversely affecting the profits of the banks in Switzerland in numerous ways. On the one hand it is causing exchange losses affecting holdings and interest and dividend income from positions in foreign currencies, and on the other hand income from shareholdings in foreign subsidiaries is falling. Swiss bank costs are, however, still incurred mostly in Swiss francs, which could lead to a deterioration of the cost/income ratio.
Cautious trading by bank customers	The stockmarkets demonstrated increasing uncertainty during the first two quarters of 2011, and therefore rather restrained transaction volumes. In the second quarter especially, securities turnovers declined on the Swiss stockmarkets. The dip in trading activity triggered by a growing risk aversion of bank customers in 2011 could result in rather lower income from commission and services.
Higher credit volume, strong competition	Credit volume grew again slightly in the first five months of 2011. The strong competition among the banks caused by the low interest rates will intensify the pressure on the profit from that business. Combined with the negative exchange rate impact, there could be declining profits from the interest-earning business in 2011.

## 4 Balance sheet business

For the first time since the start of the financial crisis, 2010 brought Switzerland's banks an increase in the balance sheet total, a continuing robust domestic credit business and the stabilisation of the inter-bank market. The consolidated balance sheet total in 2010 grew by 1.7% to CHF 2,714.5 bn, banks with a domestic focus posting the biggest balance sheet expansion. The big banks increased their balance sheet total by 2.6% compared with the previous year. Lending to domestic customers generally developed in line with the economic trend (+2.1% to CHF 898.0 bn), driven especially by the demand for mortgages. In 2010, the Cantonal banks were among the leading lenders in Switzerland for the first time, with 32.7% of the domestic credit volume. Finally, the big decline in interbank market receivables and payables in previous years came to an end in 2010 and the situation stabilised.

### 4.1 Balance sheet trends

Increase in aggregate balance sheet total for the first time since the start of the financial crisis

For the first time since the start of the financial crisis, the aggregate balance sheet total of all the Swiss banks grew again in 2010 by 1.7% to a total of CHF 2,714.5 bn. As in the previous year, there were notable balance sheet expansions in the case of bank groups with a domestic focus (average +4.6%). In addition, the big banks also posted a further increase in their balance sheet total (+2.6%). Domestic positions in particular were strengthened, rising on the assets side by 5.2% and on the liabilities side by 3.0%. The number of institutions in the Swiss banking centre decreased by five to 320 in 2010, mainly as a result of takeovers.

Table 4-1 Balance sheet total by bank group, 2009 and 2010

	Number of banks	Balance sheet total (CHF bn)		Increase/decrease in balance sheet total	
		2009	2010	2009	2010
Cantonal banks	24	403,5	421,5	3,7%	4,5%
Big banks	2	1'444,8	1'482,1	-23,4%	2,6%
Regional and saving banks	69	92,3	96,1	2,6%	4,1%
Raiffeisen banks	1	139,5	147,2	6,0%	5,5%
Other banks	179	525,0	496,8	1,1%	-5,4%
<i>Of which foreign banks</i>	<i>122</i>	<i>327,8</i>	<i>312,7</i>	<i>-1,2%</i>	<i>-4,6%</i>
Branches of foreign banks	32	23,9	24,9	0,7%	4,3%
Private bankers	13	39,2	45,8	-3,6%	16,8%
<b>Total</b>	<b>320</b>	<b>2'668,2</b>	<b>2'714,5</b>	<b>-13,4%</b>	<b>1,7%</b>

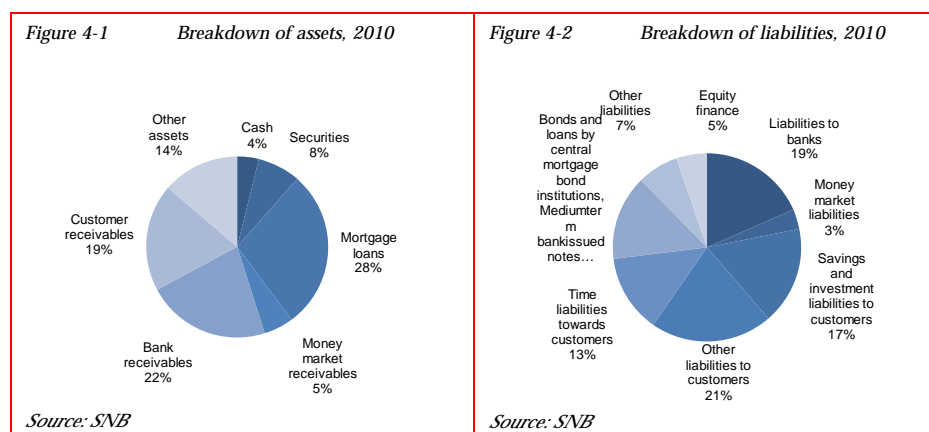
Source: SNB

Assets: higher mortgage receivables, lower customer receivables

The increase in assets was predominantly attributable to the 4.6% expansion of mortgage receivables in 2010. Mortgages, representing 28.3% of the balance sheet total, therefore continued to be the most significant component of Swiss bank assets. There was a similar expansion in liquid assets (+13.9%, previous year: -27.2%) and investments in domestic money market paper (+100%, previous year: +2.1%). This resulted primarily from higher USD balances in foreign central banks and increased investment in SNB bills<sup>8</sup>. Liabilities to customers at home and abroad decreased (-5.6%) to CHF 517.3 bn.

Liabilities: shift in customer deposits

Customer liabilities<sup>9</sup> (at 65.8% of the balance sheet total the most significant item under liabilities) remained more or less constant (+0.2% to CHF 1,785.4 bn), but the interest-related shift, observed since the financial crisis, from longer-term time deposits (-13.4%) and medium-term bonds (-18.7%) to short-term savings and sight deposits (+4.7%) continued.



Stabilised interbank market, low exposure to debtors in PIIGS countries

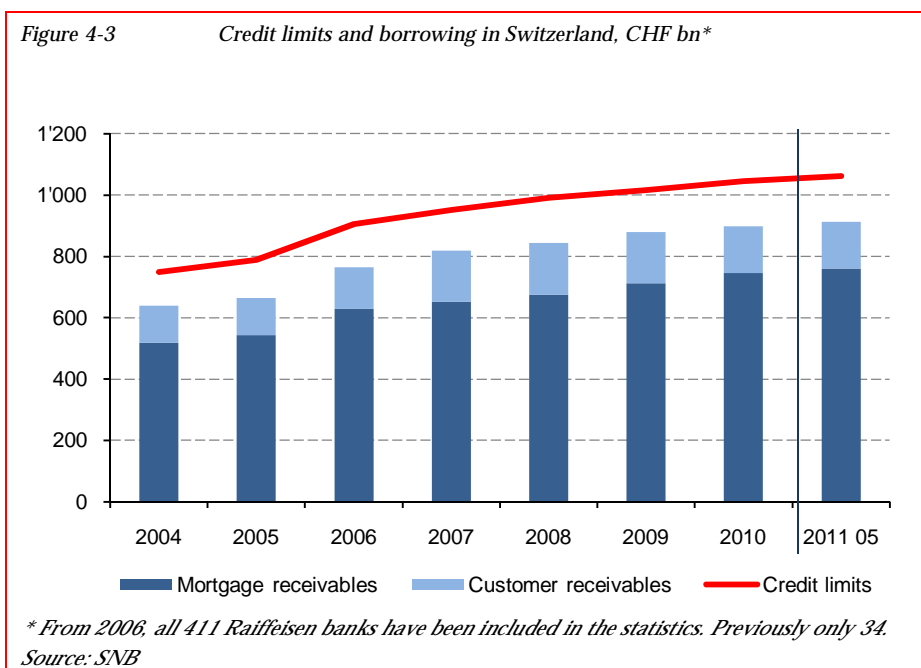
The interbank market stabilised in 2010, as can be seen from the moderate change in the receivables (+0.2%) and liabilities (-1.6%) of Swiss banks in relation to other banks (2009: -28.2% and -31.9% respectively). Moreover, the banks in Switzerland reduced their balance sheet receivables from (private and public) debtors domiciled in PIIGS countries by a further 30% to CHF 25 bn. As a result, at the end of 2010, such debtors accounted for 1.8% of foreign debtor receivables, which constitutes rather low exposure in the international comparison (cf. Section 1.3).

<sup>8</sup> Swiss National Bank's (SNB) own interest-bearing debt certificates, which are used firstly to absorb the liquidity injected into the system after the financial crisis and secondly are intended to allow more flexible control of liquidity on the money market.

<sup>9</sup> Includes customer liabilities in the form of savings and investments, sight and time deposits, bonds, mortgage bank debentures and medium-term bonds.

## 4.2 Credit business in Switzerland

Proportional growth of credit volume take-up The credit business of the banks is of particular importance to Switzerland's economic development. The credit limits granted by the banks rose in 2010 by 2.9%. Borrowing in Switzerland increased by an overall 2.1% to over CHF 898.0 bn. 85.9% of the credit limits (CHF 1,045.4 bn) were used up in 2010.



More mortgages,...

Mortgage receivables, which grew by 4.6% in 2010, were, at 83%, still the main component of credit demand in Switzerland (see Table 4-2). Companies (+6.8%) and the public sector (+5.8%) contributed particularly to this growth. Private households, which with over three-quarters of loans are the biggest category of mortgagees, increased their demand by 4.0%. This increase in mortgage receivables was upheld by the very low interest rates during 2010 and the positive turn taken by the economy.

...but repositionings moderate the risk

At the end of 2010, 92.5% of mortgage receivables in Switzerland belonged to the first, 5.7% to the second and 1.8% to the third loan-to-value ratio group<sup>10</sup>. Since 1996, there has been a constant displacement from the latter loan-to-value ratio groups to the first. In addition, in 2010 the shift from variable to fixed-rate mortgages, which has been going on since the 1990s, was in evidence. All in all, at the end of 2010, 80.4% of mortgages in Switzerland were at fixed interest rates (1996: 42.6%). The shift to the first loan-to-value ratio group and to fixed interest mortgages is leading, via decreasing market risks and interest-rate sensitivity, to decreasing risks of default in the mortgage portfolios of the Swiss banks.

<sup>10</sup> Mortgage receivables are attributed to various loan-to-value ratio groups (LG) 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 in the 1st LG, receivables above that and up to 80% in the 2nd LG, receivables above 80% in the 3rd LG. In general, market risks increase with the LG.

Decreasing demand for bank loans from companies

Other outstanding customer receivables went against the general growth trend and fell by 8.8% (previous year: -1.1%). Companies especially, having been the biggest borrowers in 2010 (accounting for 64.7%), reduced their borrowing by 13.7%. This can be attributed to the stabilising financial market, making it easier for companies to get financing from the capital market.

Table 4-2 Credit volume in Switzerland by sector, CHF m

Credit volume*	Total lending		Mortgages		Claims against customers	
	End 2010 (CHF m)	Change from previous year	End 2010 (CHF m)	Change from previous year	End 2010 (CHF m)	Change from previous year
Private households	599'084	+3,6%	568'230	+4,0%	30'854	-2,5%
<i>Share</i>	<i>66,7%</i>		<i>76,3%</i>		<i>20,2%</i>	
Private companies	259'988	-2,1%	160'963	+6,8%	99'025	-13,7%
<i>Share</i>	<i>29,0%</i>		<i>21,6%</i>		<i>64,7%</i>	
Public sector	38'908	+7,6%	15'765	+5,8%	23'144	+8,8%
<i>Share</i>	<i>4,3%</i>		<i>2,1%</i>		<i>15,1%</i>	
Total	897'980	+2,1%	744'958	+4,6%	153'023	-8,8%

\* Loans taken up according to credit volume statistics

Source: SNB

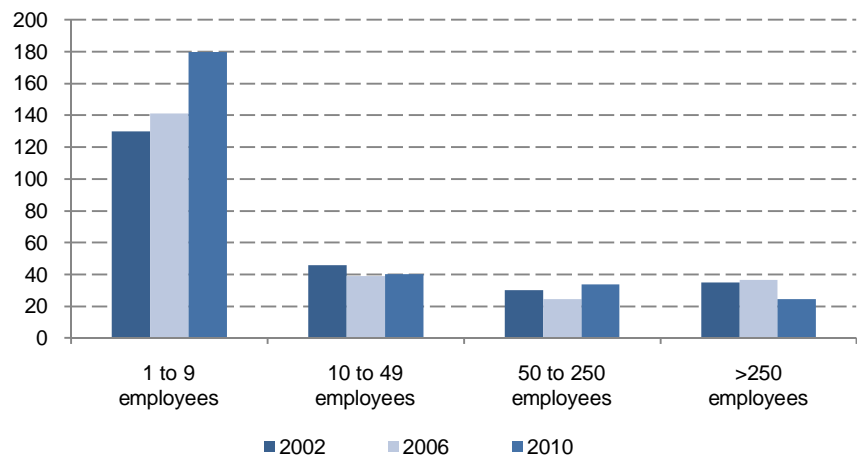
SME the biggest corporate borrowers

91.2% of outstanding corporate credit volume at the end of 2010 was taken out by small and medium-sized enterprises (SME) with up to 250 employees (2006: 84.9%). Compared with the previous year, SMEs reduced their demand for borrowing by 1.7%, and larger companies (over 250 employees) by 2.1%.

The smallest SMEs<sup>11</sup> (fewer than ten employees), which at the end of 2010 accounted for over two-thirds of all corporate borrowing, have shown the biggest growth in borrowing demand for at least a decade.

<sup>11</sup> According to the Swiss Federal Statistical Office (Business census 2008), micro-businesses account for 87.1% of all companies in Switzerland.

Figure 4-4 Credit volume by company size, CHF bn



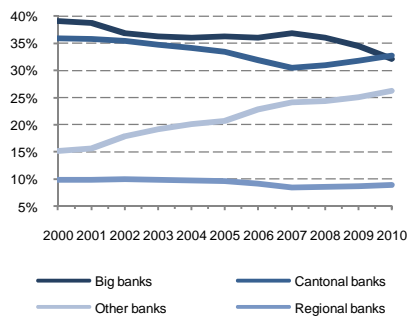
NB: Includes loans to financing and asset management institutions (e.g. trusts or foundations). Between 2006 and 2010, there was a loss of continuity in loans to companies with 1 to 9 employees because of reclassifications.

Source: SNB

For the first time, Cantonal banks are the biggest lenders

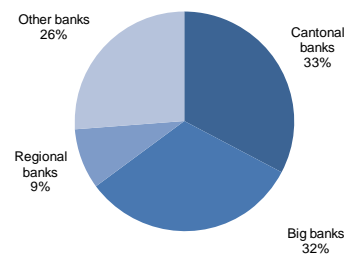
On the lending side, the Cantonal banks (+5.4%, 2010: 32.7%), the Regional banks (+4.5%, 2010: 8.9%) and the other bank groups (+6.9%, 2010: 26.2%) also increased both their credit volume and their market share this year. As a result, in 2010 the Cantonal banks were the biggest lenders to customers in Switzerland for the first time. The big banks reduced their credit volume by 4.7% in 2010.

Figure 4-5 Credit market share trend by bank group



Source: SNB

Figure 4-6 Credit market share by bank group, end 2010



Source: SNB

Credit volume continued to rise until May 2011

The first five months of 2011 showed positive but rather subdued growth in domestic credit volume, compared with the same period the previous year. Loans granted and taken up rose at almost the same rate (+1.7% and +1.6% respectively), the decline in customer receivables being held back (-0.5%) and mortgage receivables continuing to rise (+2.1%).

## 5 Wealth management

After a strong recovery in 2009, securities holdings in client custody accounts declined during 2010 by 1.2% to CHF 4,453 bn. Although there was a moderately positive stockmarket environment in 2010, holdings fell as a consequence of the lower valuation in Swiss francs. Fiduciary deposits continued their downward slide of the previous year due to the ongoing very low interest rates, amounting to CHF 201.8 bn at the end of 2010. Interest-related shifts were also observed in the balance sheet positions. For example time deposits declined by CHF 417 bn to CHF 360.8 bn. Overall, at the end of 2010, the banks in Switzerland were managing assets worth CHF 5,473 bn.

### 5.1 Assets under management in Switzerland in 2010

Definition of “assets under management”

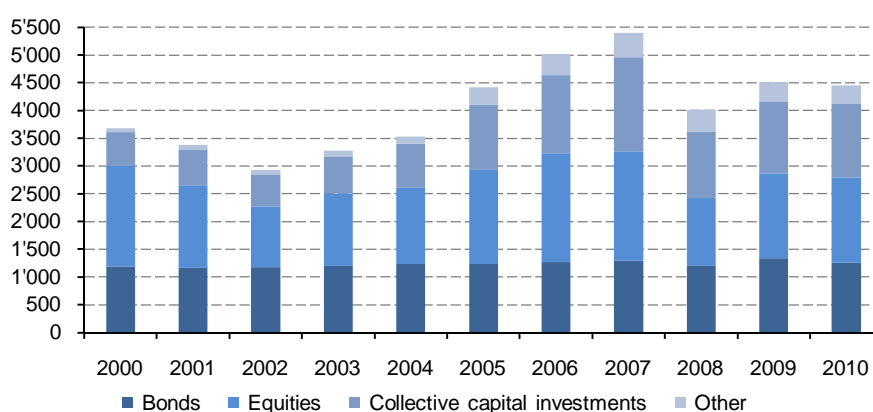
According to the Swiss Financial Market Supervisory Authority (FINMA), assets under management include other positions in addition to securities holdings in client custody accounts. According to its Circular, assets under management comprise all assets for which investment advice and/or wealth management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

Slight decline in securities holdings

After strong growth in 2009, securities holdings declined in 2010 by 1.2% to CHF 4,453 bn. The rather higher stockmarket prices of 2010 were able to only partially offset exchange losses in respect of investments in foreign currencies. Holdings of bonds and structured products declined in particular (-5.8% and -8.3% respectively).

Securities holdings in client custody accounts amounted to CHF 4,453 bn

Figure 5-1 Securities holdings in customer custody accounts by type, CHF bn



Year-end position in every case  
Source: SNB

<sup>12</sup> Cf. FINMA “Circular 2008/2 Accounting - Banks”.

<sup>13</sup> The SNB statistics reporting scope for securities portfolios and fiduciary deposits includes the subsidiaries of the Swiss banks, but not their foreign branches. To that extent, the consolidated figures are representative of the Swiss banking centre in the narrow 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 difference has not been taken into account in the calculation.

Slight rise in equity holdings...

With a slight increase of 0.8%, equity holdings remained at approximately the same level in 2010 as in 2009. At CHF 1,540 bn and a 34.6% share, equities still occupy the leading position in securities holdings. The equity holdings of domestic depositors grew slightly more than the holdings of foreign customers (+1.8% and +0.1% respectively).

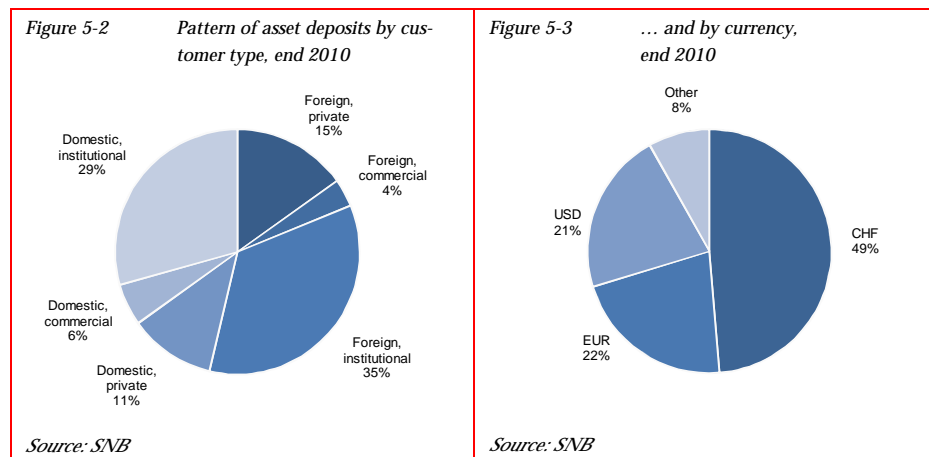
...and in collective capital investments

After strong growth in the previous year, the “Shares in collective capital investments” category (incl. funds) grew 1.4% to CHF 1,327 bn in 2010. The 29.8% share of total securities holdings represented by collective capital investments was about the same as the previous year. The growth of collective capital investments is entirely attributable to domestic customers, a category that increased by 7.3% in 2010. Collective capital investments in foreign customer deposits fell by 4.1%, however.

Bonds declined

Bond holdings were still experiencing strong growth in 2009. In contrast, this position decreased in 2010 by 5.8% and at 28.2% is only the third-largest investment class in client custody accounts. Domestic and foreign private customers in particular reduced their bond holdings by double-digit percentages (-14.1% and -15.2% respectively). The only customers whose bond holdings increased in 2010 were domestic institutional investors.

Foreign customers hold 54% of all deposits



In both the domestic and foreign customer categories, institutional investors also held the largest deposits (29% and 35% respectively) in 2010. After that, foreign private investors with a 15% share were also major players. The Euro as an investment currency lost significance in 2010. This resulted in Euro investments accounting for 22%, down from 25% the previous year.

Further big decrease in fiduciary deposits<sup>14</sup>

The fiduciary deposits managed by the banks in Switzerland decreased by about one-fifth in 2010 to CHF 201.8 bn. This reduction is due in particular to the low interest rates and the strengthening of the Swiss franc. Because fiduciary deposits are mostly invested in money market paper, fiduciary investments were less attractive because of the extraordinarily low interest rates – as was already the case in 2009.

<sup>14</sup> 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.

The biggest decrease concerned fiduciary deposits in Swiss francs and Euros. For example, the Euro share of total fiduciary deposits fell from 33.8% to 28.9% in 2010. Fiduciary services were primarily in demand, as previously, by foreign customers (82% of managed fiduciary deposits). In addition, the fiduciary positions of domestic investors fell more markedly (-23.4%) than those of foreign investors (-18.1%).

Continuing shifts in balance sheet positions      Some interest-related shifts were observed in balance sheet positions in 2010 – as was the case in 2009. Savings and investment liabilities to customers amounted to CHF 456.7 bn at the end of 2010. Compared with the previous year, this corresponds to 7.2% growth. Customer savings and investment deposits include vested benefits accounts (second pillar), and monies related to the tied pension provision (third pillar). One reason for the decline in time liabilities to customers (time deposits) from CHF 417 bn to CHF 360.8 bn is the ongoing low interest rates. Foreign customers accounted for the majority of time deposits (70%).

## 5.2 Performance of assets under management in 2011

Slight recovery of securities holdings      According to the monthly statistics of the Swiss National Bank (SNB), securities holdings grew slightly (+0.4%) in the first five months of 2011. Bonds declined, as they did the previous year (-2.6%). Equities in particular increased during the first months of 2011 (+4.1%), but so did holdings of structured products (+2.0%). One driver of this trend is the slightly bullish stockmarkets. The Swiss Performance Index had increased by 4.0% by May 2011, for example.

Fiduciary deposits continue negative trend      Bank-managed fiduciary deposits continued their downward slide of the last two years and by May 2011 had declined by 7.0%. Fiduciary deposits can only be expected to become more attractive when interest rates rise.

During the first five months of 2011, time deposits continued to plummet (-8.9%) due to the interest rates, whilst customer savings and investment liabilities grew by 2.7%.

## 6 Employment in Switzerland's banks

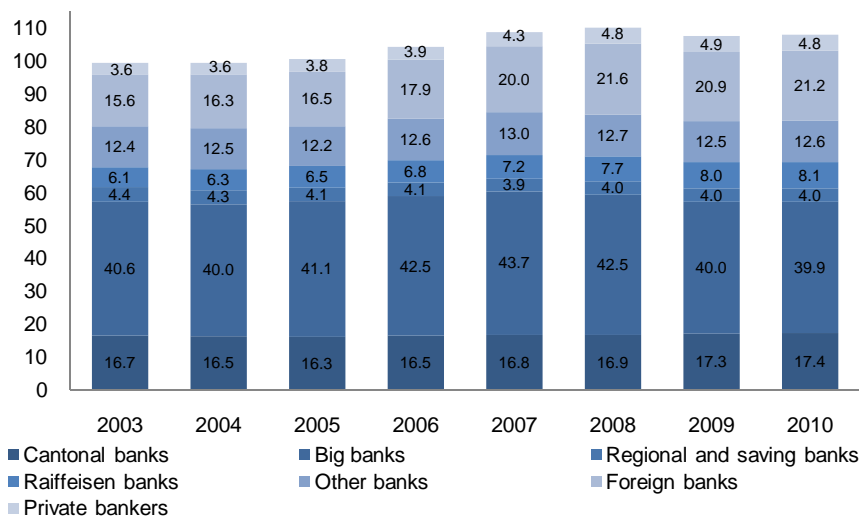
Following the decline in employment in 2009 caused by the financial crisis, 2010 once again saw a rise in the number of people employed by Switzerland's banks. Nationally, employment rose in 2010 by 0.4% to 108,000 employees<sup>15</sup>. The slight rise in staff levels occurred in all bank groups with the exception of the big banks and the private bankers (both -0.3%). The biggest rise was posted by the foreign banks with 302 newly-created full-time equivalent posts (+1.7%). The positive employment trend is primarily attributable to the increase in female personnel (+1.9%), with men accounting for 0.4% fewer full-time equivalent posts. This raised the proportion of women in Switzerland's banks to a total of 37.2%. According to the SBA survey of employment in July 2011, the banks in Switzerland managed to increase their staff levels by 0.4% during the first half of 2011. In the second half, Switzerland's banks expect the numbers employed to stagnate, but with a mix of trends according to business activity.

### 6.1 2010 employment trend

Slightly higher employment level in 2010

At the end of 2010, the banks in Switzerland had a total of 108,000 employees across the country, or just under 3.2% of all employees in Switzerland. Compared with the previous year, this is an increase of 0.4% or 454 full-time posts, and confirms the results of the employment survey in last year's Banking Barometer. Switzerland's banks even increased the numbers employed in their dependent subsidiaries abroad<sup>16</sup> by 7.9% or 1,751 to 24,013 employees<sup>17</sup>. In the banking sector as a whole, i.e. banks plus for example, independent asset managers or securities brokers, there were 141,900 employees at the end of 2010.

Figure 6-1 Employment in Switzerland's banks (domestic), end of year, thousands  
Full-time equivalents



Source: SNB

<sup>15</sup> Full-time equivalents.

<sup>16</sup> Does not include personnel in subsidiaries of Swiss banks, which in 2009 amounted to 80'036 full-time equivalents.

<sup>17</sup> Full-time equivalents.

Employee increase especially in foreign banks

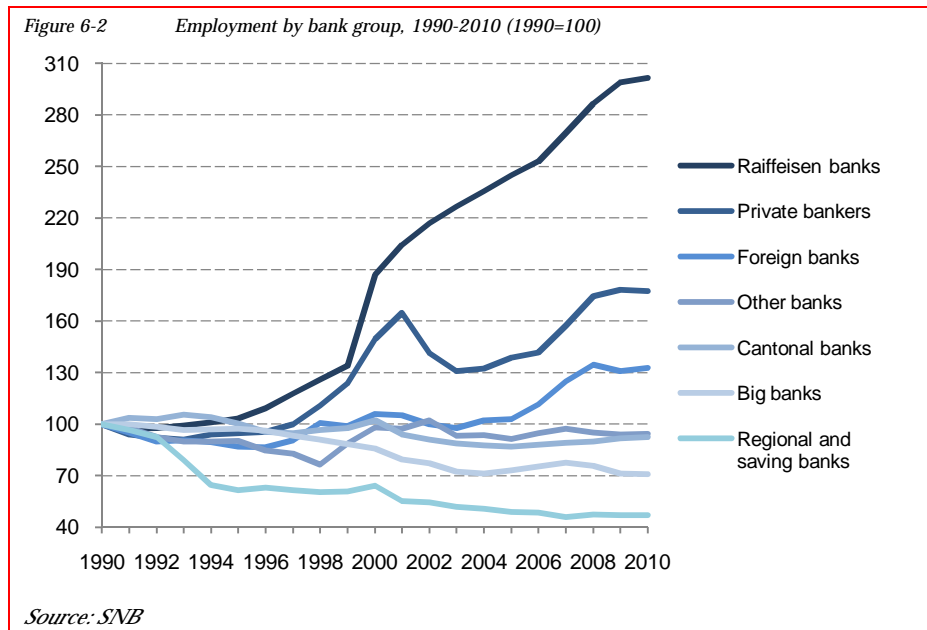
Most bank groups took on more employees nationally. Only the private bankers (-16 or -0.3%) and the big banks (-140 or -0.3%) posted slight decreases in 2010. The biggest expansion of personnel was posted by the foreign banks with 302 additional employees (+1.7%). The Cantonal and Raiffeisen banks may not have been able to return to the high levels of job growth of previous years, but still expanded their workforce by 0.7% (+128) and 0.9% (+69) respectively.

Increasing proportion of women

The banks in Switzerland increased the proportion of female employees in Switzerland to 37.2% in 2010. The rise in total numbers employed in 2010 was in fact mainly due to hiring more female workers (+737 or +1.9%), because male employment decreased by 0.4% (-282).

Big banks the biggest employers, but decreasing in importance

Accounting for 36.9% in 2010, the big banks were also the biggest employers among Switzerland's banks, but they continue to decline in importance (peak 1996: 50%). In comparison, the foreign banks (19.7%) and the Raiffeisen banks (7.5%) increased their share of Swiss bank employees again in 2010. Cantonal banks (16.1%), other banks (11.6%), private bankers (4.5%) and Regional banks (3.7%) managed to maintain their share in 2010 due to a moderate increase in employment.



## 6.2 2011 employment survey of Swiss banks

Slight rise in employment in the first half of 2011...

The annual SBA employment survey of banks in Switzerland for the current year shows a slight rise in the number of employees for the first half of 2011. In Switzerland's banks, the number of full-time equivalents working in the country rose by 410 (+0.4%) between 31 December 2010 and 30 June 2011. This net increase is the result of 4,443 incoming employees and 4,033 outgoing employees (full-time equivalents).

Table 6-1 Staff levels <sup>18</sup> in Switzerland

In full-time equivalents	Position at Dec 31 2010	Position at Jun 30 2011	Incoming staff	Trends in 1st half of 2011		
				Outgoing staff	Increase	as a %
<i>Switzerland</i>	<i>96'530</i>	<i>96'940</i>	<i>4'443</i>	<i>4'033</i>	<i>+410</i>	<i>+0.4%</i>

*NB: Number of responses: 264<sup>19</sup>*

*Source: survey SBA*

...stagnation in the second half of 2011

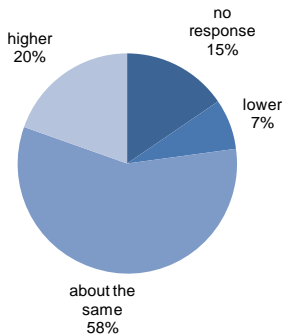
According to the July 2011 survey, a good fifth of Switzerland's banks expect to see higher employment numbers in the second half of 2011, whereas 7% foresee a reduction in their workforce by the end of the year. Small and very small banking institutions across all bank groups in particular are among the 20% of banks that intend to expand their workforce by the end of 2011. Most medium-sized and larger banks, on the other hand, expect the pattern of employment to remain stable through to the end of the year. Given the flat expectations for employment levels of the majority of the banks surveyed (58%), this points to a stagnation in employment for the second half of 2011. The latest, and to a certain extent, unexpected upsets on the financial markets mean, however, that there is potential for different employment decisions to be taken.<sup>20</sup>

<sup>18</sup> Staff levels at the end of 2010 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 and the difference in the timing of the survey. The significance of the responses regarding changes in numbers employed in the first half of 2011 is, however, not affected.

<sup>19</sup> 311 banking institutions in Switzerland were surveyed in July 2011. There was an 84.9% response rate to the question regarding staffing levels and arrivals and departures. These survey results can therefore be regarded as representative. On the question regarding staff levels in the second half in the various business sectors, the response rate was only between 26% and 34% and therefore does not allow us to make any valid assertions overall, but only in relation to the responding banks.

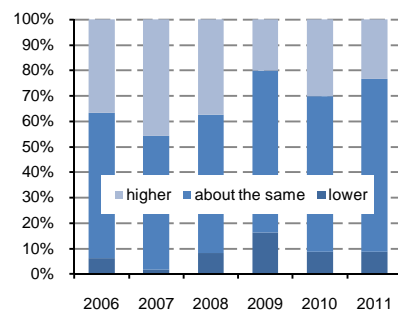
<sup>20</sup> A general comment regarding the survey of employment trends is that the uncertainty of the Swiss banks regarding the economic outlook for the second half of 2011 has grown markedly due to the latest upsets in the financial markets. This could also explain the rather low response rates to the question about employment trends in the individual business sectors.

Figure 6-3 Employment trend to end 2011



Source: survey SBA

Figure 6-4 Employment trend 2006-2011



NB: Percentages from all responses to survey relating to employment trend in second half 2011  
Source: survey SBA

Variable employment trend from one business sector to another

The banks in Switzerland expect the employment trend to vary from one business area to another. In retail banking and private banking, the responding banks expect a slight increase in the workforce during the second half of 2011. Similarly, in retail banking every fifth, and in private banking every fourth bank that responded intends to expand its workforce. In comparison, the trend in the trading business and the institutional business is flat and there is a slight downward employment trend in Logistics and Operations.<sup>21</sup>

Table 6-2 Employment trend during the second half of 2011, by business activity

Total	Retail Banking	Private Banking	Institutional business	Trading business	Logistics and operations
èi	èi	èi	èi	è	èf

NB: Number of responses: between 81 and 107 depending on business activity.  
Trends are derived from the responses weighted by numbers employed  
Source: SBA survey

<sup>21</sup> The business sectors are all characterised by the fact that a majority of the banks that responded expect a flat employment trend for the second half of 2011. The trend has consequently been derived from a comparison of the “higher” and “lower” responses.

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