

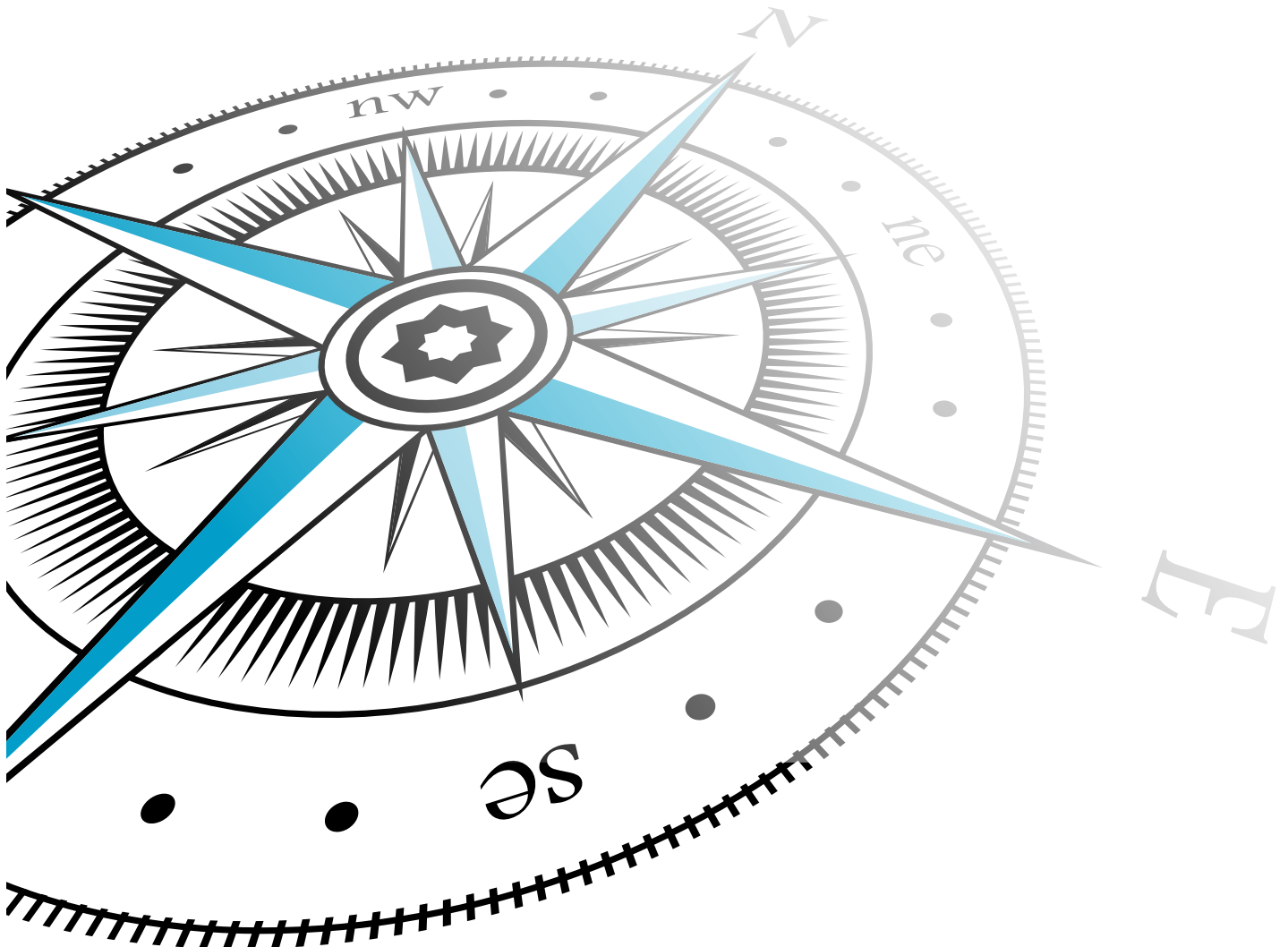


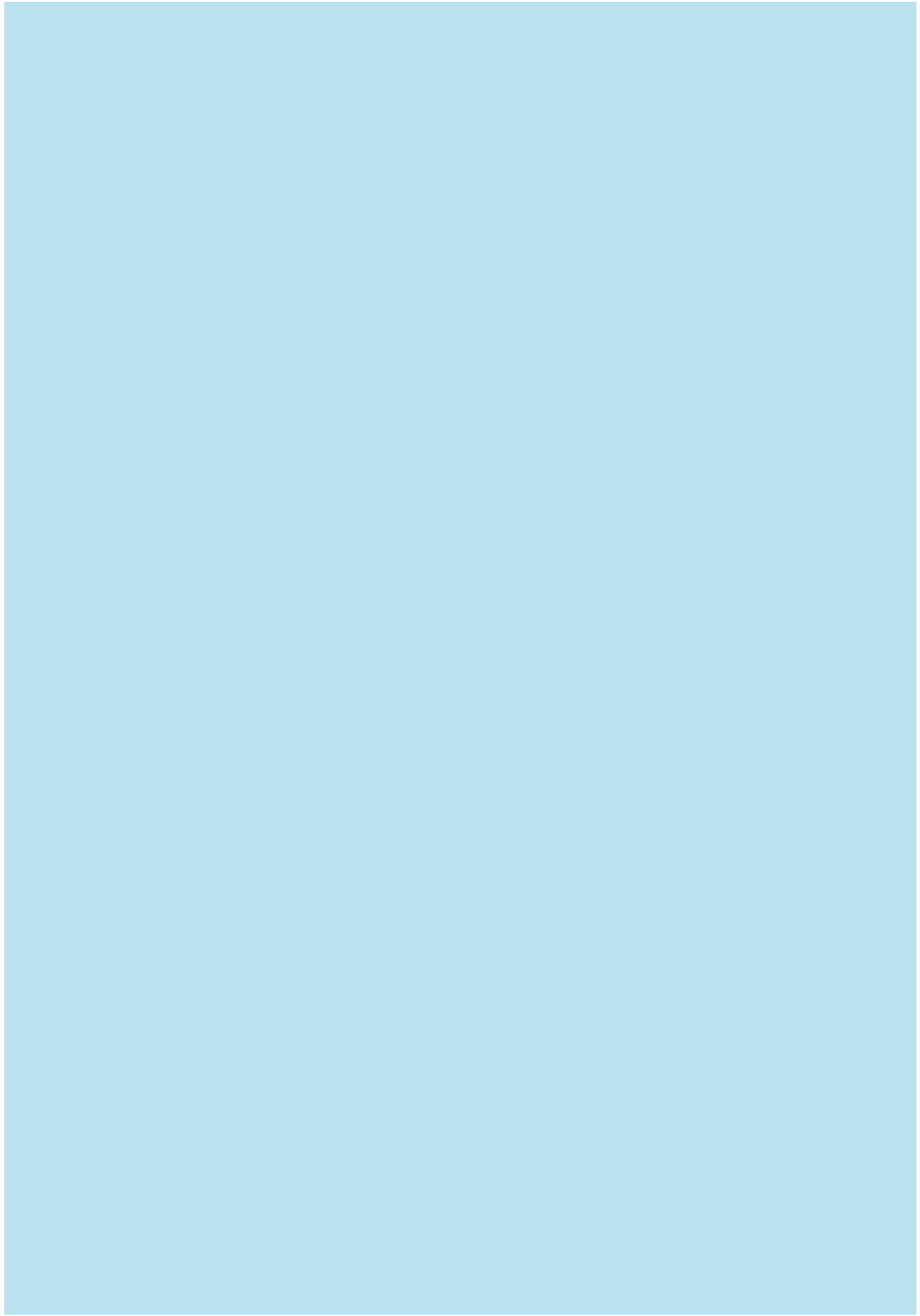
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Department of Banking and Finance

The International Private Banking Study 2013

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Disclaimer

All views expressed herein are those of the authors and not necessarily those of the University of Zurich, the Department of Banking and Finance or the Association of Swiss Commercial and Investment Banks VHV/BCG.

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Executive Summary

The sixth issue of “The International Private Banking Study”

This is the sixth issue of “The International Private Banking Study”, a bi-annual review of Private Banking published since 2003. The study analyzes the recent performance of 190 financial institutions active in private wealth management. The sample contains banks from Austria, the Benelux countries, France, Germany, Italy, Liechtenstein, the UK, the US and, with special focus, Switzerland.

The objective of the study is to compare the relative strengths and the competitiveness of wealth management banks from different countries as measured by key performance ratios such as volume of client assets managed, profitability and efficiency. The international section compares the performance of banks across countries. The section on Switzerland takes an in-depth look into the development of Swiss private banks, with special emphasis on the distinction between small and big banks (less or more than 10bn CHF in assets under management).

Both the international comparison and the analysis of Switzerland lead to conclusions on the current state of affairs and a cautious outlook for the wealth management industry.

Decreasing concentration in private wealth management

Even though most leading wealth managers increased their assets under management in the last two years these did not keep pace with the growth of the worldwide wealth management market. The twenty largest private banks together manage roughly one sixth of the global wealth management market – compared to almost a quarter of the market two years ago.

Most of the 20 largest wealth managers are headquartered in the United States (7), Switzerland (6), or France (3). This comparison tends to underestimate US wealth management markets, as US customers are more likely to use brokerage-oriented relationships than European clients, who more often rely on wealth management mandates. UBS Global Wealth Management and Credit Suisse Private Banking (with Clariden Leu integrated) remain the two largest wealth managers. UBS has overcome a setback after the crisis of 2008, while at Credit Suisse money inflows that were steady in former years slowed down in 2012.

Milder climate for wealth management in 2012

For the international wealth management industry 2012 was a milder year with more homogeneous results than the bleak 2011. The macroeconomic environment was dominated by central banks’ continued efforts to keep interest rates low on both the short and long term end of the maturity spect-

rum. Interest rates in key countries fell to exceptionally low levels. World stock markets, after a setback in 2011, flourished in 2012.

Thanks to the favorable market environment, the downturn in performance measures observed since the financial crisis of 2007-08 came to a halt in 2012. All of the 20 biggest competitors in wealth management managed to increase their volume of managed assets. This is partly due to value effects, i.e., to the favorable performance of stock and bond markets. Yet, it seems that banks also attracted net inflows of new money (measured without considering valuation effects). Banks that report such data show positive net new money figures in 2012. The highest volumes of assets per employee are still managed in Liechtenstein and in Switzerland.

International results more homogeneous, but still below pre-crisis levels

In general, results in 2012 were more homogeneous across countries than in previous years. Gross margins on managed assets stabilized from 2011 to 2012, albeit on levels clearly below 2009 figures. Banks in most countries, however, improved gross margins and revenues on a per employee basis. Yet, banks still struggle with the cost side. Wage levels in 2012 were near the 2009 levels in all countries. In the high wage countries, Switzerland and Liechtenstein, private banks managed to slightly reduce wage cost between 2011 and 2012. Cost/income ratios remained relatively stable in most countries, but in the most important markets, including Switzerland, they seem stuck not far below the critical level of 80%. After a dramatic deterioration over the last few years, cost/income figures also climbed to a critical level for Liechtenstein banks.

Swiss banks: gross margins stabilized — persistent cost pressure

The investigated Swiss portfolio management industry has some 66 banks; yet assets under management are heavily concentrated among the five biggest banks (68%), particularly UBS and Credit Suisse, the biggest two (53%). In the aggregate, Swiss institutions managed a higher volume of assets in 2012 compared to 2011, due to the favorable market environment including stabilization in the USD and EUR exchange rates. At the same time, the erosion of gross margins observed since 2006 came to a halt, smaller banks doing slightly better than the bigger ones. In revenue per employee figures, however, the more personnel intensive smaller banks fell behind their bigger competitors. Bigger banks also show better, i.e., lower cost/income ratios than the small banks with 2012 median values distributed around 80%. However, smaller banks managed to reduce ratios from very critical 2011 levels back towards a viable range.

Coping with cost pressure on both the personnel and the administrative and regulatory cost side will remain a challenge for Swiss (and Liechtenstein) private banks. The considerable disparity of results for 2011 and, to a lesser degree, for 2012, suggests that some consolidation will be unavoidable. Additional costs imposed on banks by international regulatory changes may change the face of the industry and threaten the survival of a number of traditional institutions in Swiss private banking.

International pressure on Swiss banks' business models

The sovereign debt crisis fuelled initiatives against tax fraud and pressure on offshore oriented private banking centers like Switzerland. Data theft, the fear of detection and various tax amnesties persuaded many international clients to disclose their offshore wealth to tax authorities. The loss of mandates from private customers weighs on banks' return figures, as such discretionary mandates normally generate above-average fees. The decision of the Federal Court to limit commission fees is another challenge to Swiss wealth management business models, as are international regulatory developments like FATCA and MIFID II. The 2012 figures do not yet include most of the impact of these developments. Thus the mildly positive year 2012 may give a somewhat optimistic impression. The outlook for the mid-term future remains dim despite a positive longer-term outlook.

Data and Methodology

The sample contains 190 distinct banks and business divisions of universal banks having a substantial part of their activities focused on private banking markets. The following criteria govern the composition of the sample: (1) data availability, (2) observable strategic focus on private banking and (3) fee and commission income amounting to at least one third of total revenue. The sample includes banks from the following countries/regions: Switzerland (66 banks), Austria (10), Benelux (22), France (12), Germany (18), Liechtenstein (16), Italy (17), the UK (16) and the US (13). The sample used differs slightly from those in previous editions as new banks have emerged and others have disappeared from the private banking market. This leads to minor differences in certain figures and tables compared to the 2011 edition but it does not change any of its main statements.

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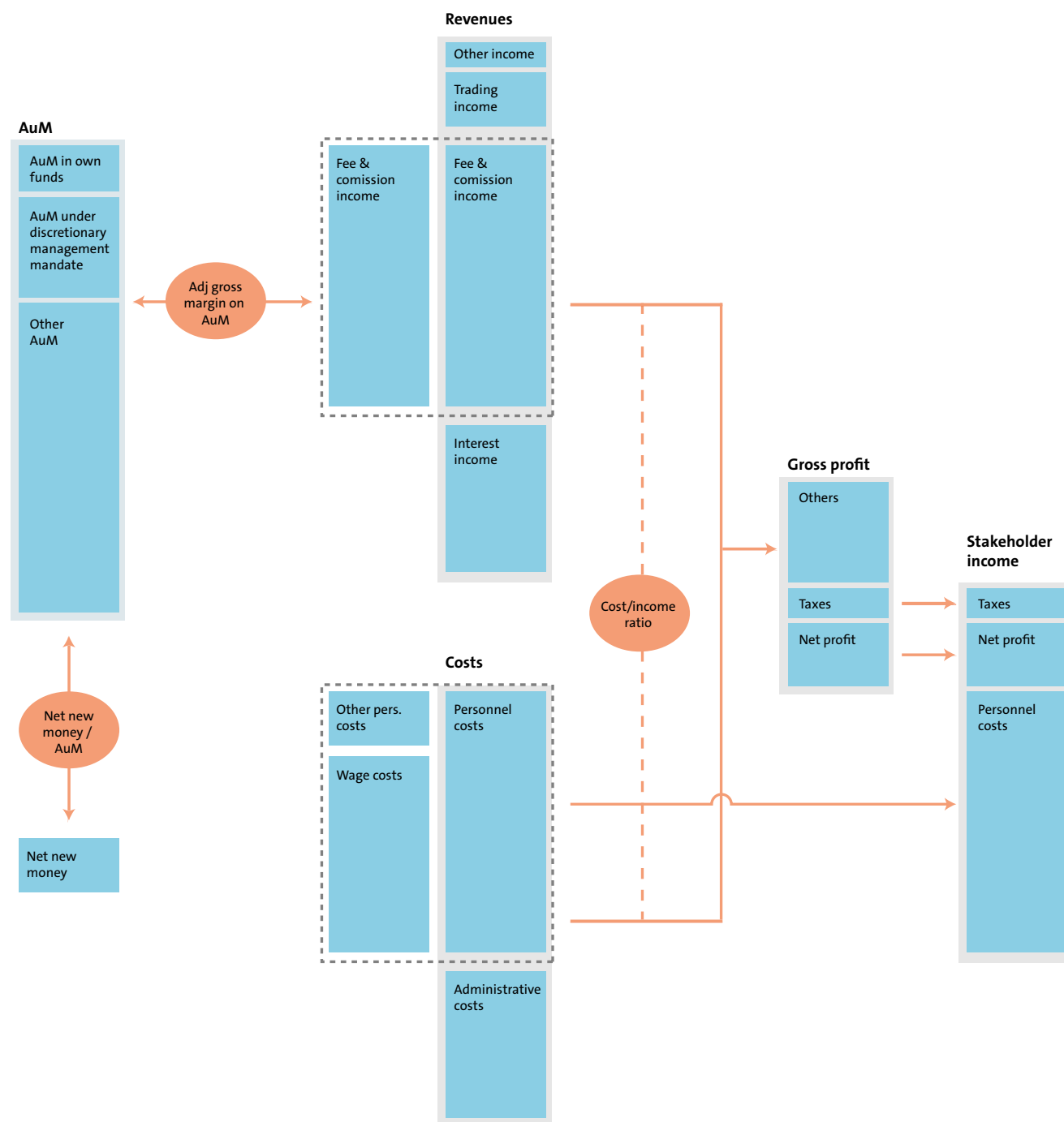
Country summary statements are based on median values, rather than on arithmetical means, for all banks of a country. Given their negligible influence on the median, outliers were not generally excluded. The data set covers the years 2003 through 2012. Accounting figures were extracted from periodical company reports (annual and quarterly reports as well as analyst conference materials). Currency effects may limit the comparability of figures in the section “International Private Banking”.

The analysis conducted in the sections “International Private Banking” and “Focus Switzerland” follows the simplified structural framework illustrated in Figure 1. Private banks generate a majority of their revenue through fees and commissions earned from the discretionary or non-discretionary management of client assets. Fees can be volume, transaction or time based. Trading revenue and interest income play secondary roles.

As wealth management is a human-capital intensive service, personnel expenses, mainly salaries, account for the major share of total costs. The cost/income ratio is used to measure a private bank’s efficiency. Gross profit illustrates the relationship between cost and revenue in absolute terms. Stakeholder income, which is composed of net profit, taxes and personnel cost, is used to measure bottom line results.

The Swiss sample is split into small and large banks, respectively, i.e., into banks having less or more than 10bn CHF in assets under management. The Swiss sample allows a more detailed analysis of some indicators, particularly of net new money figures which are not available for the international sample.

Figure 1: Structural framework of Private Banking performance ratios



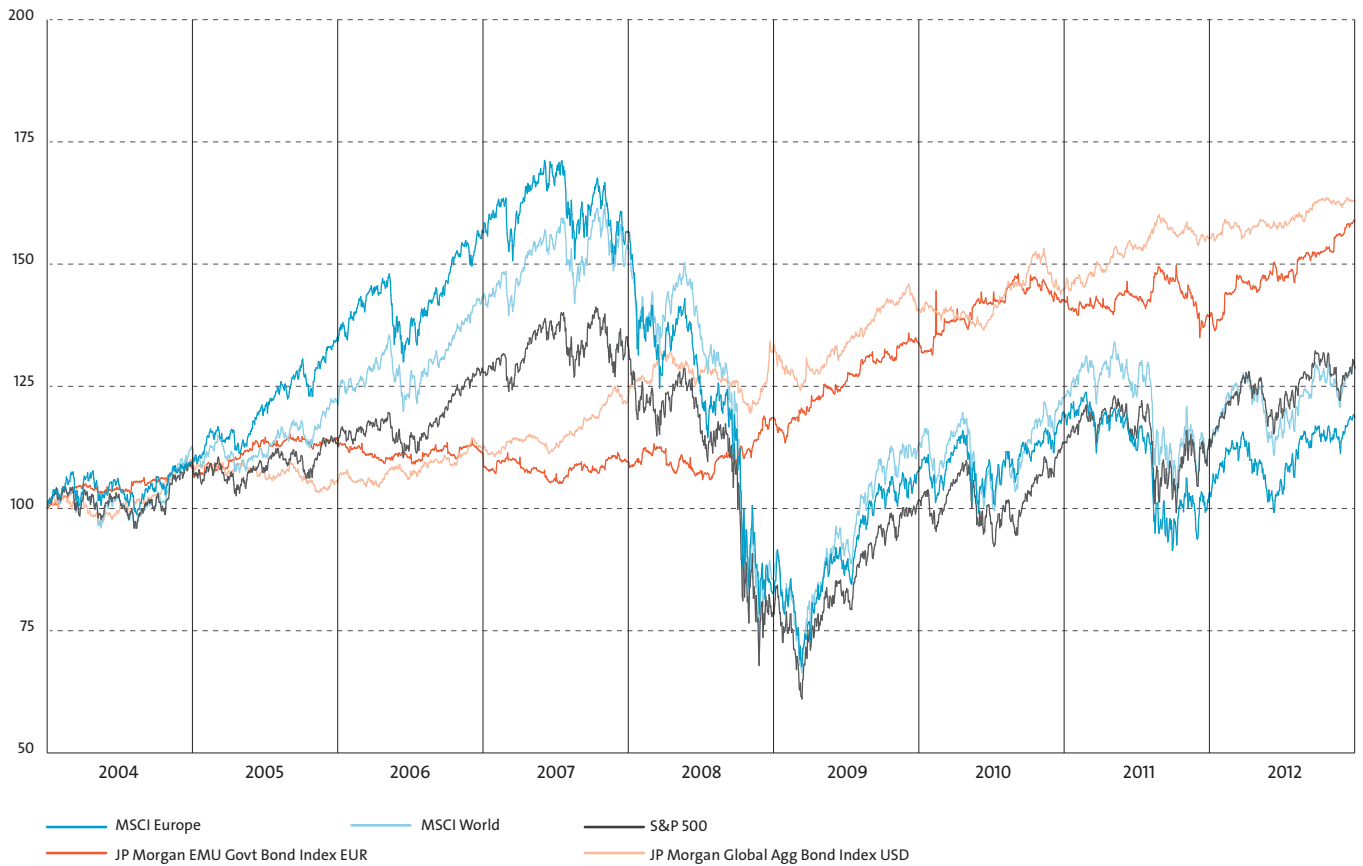
Economic and Political Environment

The performance of the wealth management industry depends on asset volume and transaction-based fees. Therefore, in the short run it is largely driven by the developments on the stock markets as well as currency fluctuations.

Over the course of 2011 and 2012 the leading central banks continued to depress interest rates using unconventional measures to expand market liquidity in an unprecedented manner. Long term government yields reached historic lows. The yield of 10 year Treasury bonds fell to 1.6% by the end of 2012, half the end of 2010 level. At the same time 10 year German government bonds (Bunds) yielded around 1.3% and 10 year Swiss government bonds (Eidgenossen) stood at only around 0.5%. The expansionary policies of central banks ultimately raised investor sentiment and market prices. The MSCI World Index switched from a loss of -4.6% in 2011 to a return of +16.7% in 2012. At the same time, the gold price went up more than 19%, reflecting an increasing uncertainty in global financial markets. Versus the USD the EUR as well as the CHF ended 2012 more or less on end of 2010 levels. Nevertheless, the road was very bumpy as the CHF grew stronger and stronger until the Swiss National Bank set a minimum exchange rate of 1.20 CHF per EUR in September 2011.

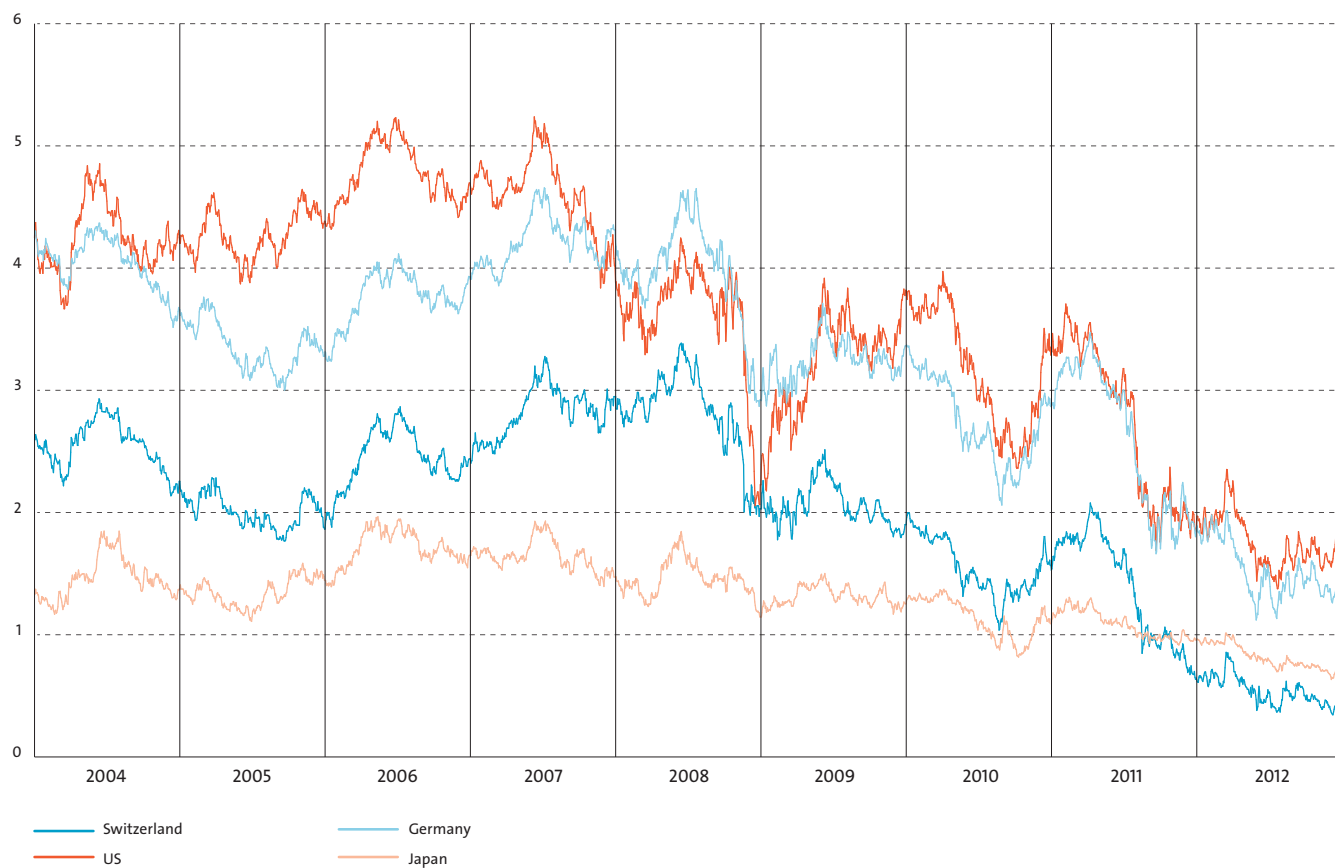
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The sovereign debt crisis helped to promote more resolute actions against tax fraud and seemed a promising way to generate revenues for indebted governments. In an unparalleled and internationally coordinated offensive, national and supranational authorities started to exert pressure especially on offshore oriented private banking centers. Switzerland was among the countries hit hardest by this development. Data theft, the fear of detection and various tax amnesties have persuaded many international clients to disclose their offshore wealth to tax authorities. Swiss authorities have recently been preparing to settle tax disputes with many countries by negotiating new bilateral tax treaties (based on article 26 of the OECD Model Tax Convention on Income and Capital). While the EU and OECD are moving more in the direction of an automatic exchange of information, additional regulatory changes are increasingly diminishing the meaning of Swiss Bank Secrecy for foreign clients. In January 2011 the revised Lugano Convention came into effect, and in July 2012 Switzerland approved group requests based on the OECD standard for tax administrative assistance. The decisions of the federal court to limit commission fees and the revision of the Investment Schemes Act are of additional great significance for the Swiss wealth management business models.

Figure 2: Market performance (readjusted at 100 as of 01.01.2004)

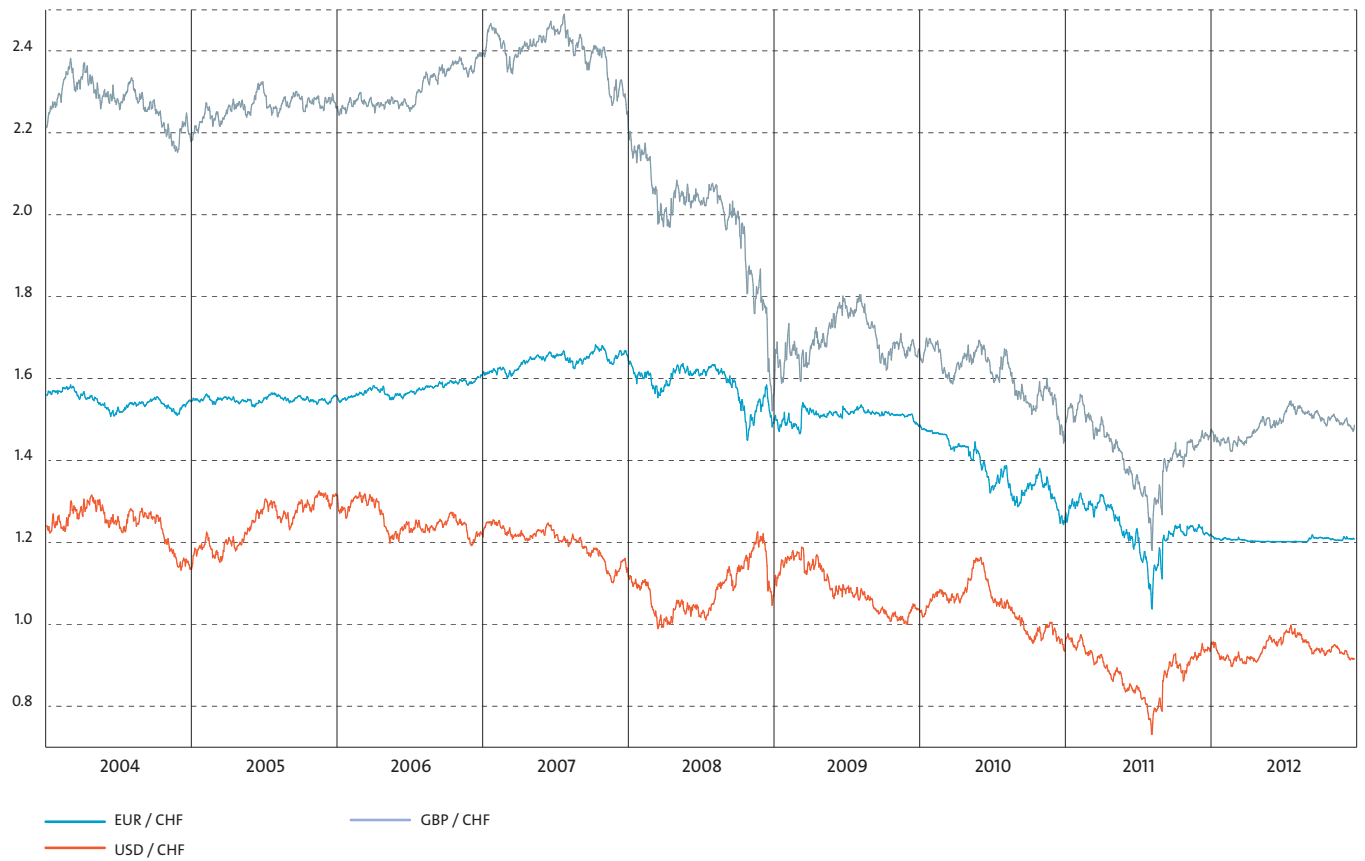
Source: Bloomberg/Datastream

The regulatory environment got more complex not only for Switzerland and other offshore centers, but for virtually all competitors on a global level. Under the name Foreign Account Tax Compliance Act (FATCA), the US created a global framework that significantly intensifies reporting rules pertaining to tax information on US clients. On a European level, regulations such as the UCITS V (Undertakings for Collective Investment in Transferable Securities), the MIFID II (Markets in Financial Instruments Directive) and the AIFMD (Alternative Investment Fund Managers Directive) aim to harmonize financial markets and enhance transparency as well as investor protection.

Figure 3: 10 year government bond yields (in %)

Source: Datastream

The key performance indicator analysis presented on the following pages illustrates in detail how wealth managers in different countries managed to deal with these challenges and reveals the winners and losers of the ongoing structural changes in the international private banking industry.

Figure 4: Currencies

International Private Banking

The international wealth management industry went through a rather bleak year in 2011 followed by a milder and more homogeneous 2012. The main performance figures for the two years are summarized in Table 1 and Table 2. Color coding of cells show the indicator's change since the previous year. Figures with dark (light) blue background improved by more (less) than 10%. Figures with dark (light) grey background deteriorated by more (less) than 10%.¹

Table 1: Summary of key performance ratios for 2011

	Switzerland	Austria	Benelux	France	Germany	Italy	Liechtenstein	UK	US	All Countries
Adjusted gross margin on AuM (bps)	56	n/a	78	n/a	47	77	44	62	60	61
Total revenue per employee (in tsd CHF)	446	261	337	301	273	300	375	322	296	323
Personnel costs per employee (in tsd CHF)	216	112	123	120	119	109	172	111	115	133
Cost/income ratio (before depreciation)	79%	65%	63%	72%	73%	59%	77%	71%	78%	71%
Gross profit per employee (in tsd CHF)	82	95	185	84	69	143	108	85	70	102

Compared to 2010

	Improvement of more than 10%
	Improvement of 0 - 10%
	Deterioration of 0 - 10%
	Deterioration of more than 10%

Figures for 2011 reflect the challenging environment in the international wealth management industry. In 2011 most of the key performance ratios worsened compared to 2010. The tendency of declining revenues observed in 2009 and 2010 persisted. Many banks managed to improve their cost base, yet cost reductions were in general insufficient to offset the decline in revenue. As a result, median cost/income ratios stagnated at best, while gross profit per employee decreased across the entire sample. Banks from Switzerland, Liechtenstein and from the US had the worst cost/income ratio of all countries under review.

1) For adjusted gross margin, total revenue per employee and gross profit per employee, an increase is understood as an improvement of the figure. For cost/income ratio and personnel costs per employee a decrease in the figure is considered as an improvement.

Table 2: Summary of key performance ratios for 2012

	Switzerland	Austria	Benelux	France	Germany	Italy	Liechtenstein	UK	US	All Countries
Adjusted gross margin on AuM (bps)	58	n/a	77	n/a	48	74	42	55	61	59
Total revenue per employee (in tsd CHF)	440	255	356	252	266	289	383	331	335	323
Personnel costs per employee (in tsd CHF)	219	114	136	88	120	106	166	118	122	132
Cost/income ratio (before depreciation)	76%	66%	61%	70%	79%	65%	79%	75%	75%	72%
Gross profit per employee (in tsd CHF)	117	97	204	104	58	141	119	84	75	111

Compared to 2011

	Improvement of more than 10%
	Improvement of 0 - 10%
	Deterioration of 0 - 10%
	Deterioration of more than 10%

The downturn in declining revenues seems to have come to an end in 2012. A favorable market environment throughout the year allowed banks in most countries to improve their gross margins and, on this basis, their revenue per employee. However, banks were still struggling with their personnel costs; per employee these rose slightly almost across the board. One exception were banks from Liechtenstein who operate on the second highest wage level (behind Swiss banks) in the sample. Cost/income ratios remained relatively stable in most countries. Swiss banks managed to improve their cost/income ratio around 80%, the level considered critical for long run viability.

Assets under Management

Table 3 ranks wealth managers according to assets under management. As in previous years, the two largest private banks remain UBS Global Wealth Management and Credit Suisse Private Banking. The two leaders managed to defend their position by positive net new money figures and positive performance on assets under management in a highly dynamic and uncertain environment. Even though most wealth managers managed to increase their assets under management in the last two years they did not keep pace with the growth of the worldwide wealth management market. The twenty largest private banks together manage roughly one sixth of the global wealth management market – two years ago they aggregated to almost a quarter of the market. Most of the largest wealth managers are headquartered in the United States (7 out of 20), Switzerland (6), or France (3). Clariden Leu Private Banking (ranked 20th in the 2011 study) has been unranked after its integration into Credit Suisse in 2011.

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The ranking tends to hide important characteristics of the different wealth management markets. Even though the United States have the largest private banking market in the world, this is not completely reflected in assets under management figures. US customers are more likely to use brokerage-oriented relationships whereas, for example, European clients more often have a preference for wealth management mandates. Self-directed brokerage assets do not appear in assets under management figures. This leads to a downwards biased estimate of the effective wealth management activities of US institutions. Many European wealth managers, on the other hand, have a strategic focus on offshore wealth management that more often consists of wealth management mandates. This is particularly the case for Swiss banks.

Table 3: International ranking of wealth managers by assets under management

Company/Business unit			Assets under management					Net new money			Market share		
Figures in billion US\$			2012	2011	2010	Δ 11-12	Δ 10-11	2012	2011	2010	2012	2011	Δ 11-12 (in bps)
1	(1)	UBS Global Wealth Management ¹⁾	1,743.1	1,552.4	1,548.6	12%	0%	51.3	37.9	-19.3	3.8%	3.7%	0.8
		UBS Wealth Management (ex Americas)	898.3	798.0	816.3	13%	-2%	28.8	25.0	-12.9	1.9%	1.9%	0.4
		Wealth Management Americas	844.7	754.4	732.3	12%	3%	22.5	12.9	-6.5	1.8%	1.8%	0.3
2	(2)	Credit Suisse Private Banking & Wealth Management Clients	873.7	798.2	811.1	9%	-2%	20.8	39.8	43.2	1.9%	1.9%	-0.1
3	(3)	Bank of America Global Wealth & Investment Management ²⁾	698.1	635.6	644.0	10%	-1%	n/a	n/a	n/a	1.5%	1.5%	0.0
4	(4)	Morgan Stanley Global WM Group ³⁾	563.0	482.0	466.0	17%	3%	n/a	n/a	n/a	1.2%	1.1%	0.7
5	(5)	HSBC Global Private Banking	398.0	377.0	390.0	6%	-3%	-7.0	13.0	13.0	0.9%	0.9%	-0.4
6	(6)	Deutsche Bank Private Wealth Management ⁴⁾	361.9	348.4	364.5	4%	-4%	n/a	n/a	n/a	0.8%	0.8%	-0.5
7	(7)	BNP Paribas Private Banking	351.6	316.5	341.3	11%	-7%	n/a	n/a	n/a	0.8%	0.8%	0.1
8	(9)	Banque Pictet & Cie. Private Clients ⁵⁾	322.2	319.0	267.4	1%	19%	n/a	n/a	10.3	0.7%	0.8%	-0.6
9	(8)	JP Morgan Private Banking ⁶⁾	318.0	291.0	284.0	9%	2%	n/a	n/a	n/a	0.7%	0.7%	0.0
10	(10)	Barclays Wealth	300.7	253.8	253.6	18%	0%	n/a	n/a	9.4	0.7%	0.6%	0.5
11	(13)	Citigroup Private Bank ⁷⁾	248.7	235.9	196.0	5%	20%	n/a	n/a	n/a	0.5%	0.6%	-0.2
12	(11)	Goldman Sachs ⁸⁾	240.0	227.0	229.0	6%	-1%	n/a	n/a	n/a	0.5%	0.5%	-0.2
13	(12)	ABN Amro Private Clients	215.6	189.8	219.8	14%	-14%	n/a	n/a	n/a	0.5%	0.5%	0.1
14	(14)	Julius Bär & Co.	207.1	181.2	180.4	14%	0%	10.6	10.9	9.4	0.4%	0.4%	0.2
15	(16)	Northern Trust Personal Financial Services	197.7	173.4	154.4	14%	12%	n/a	n/a	n/a	0.4%	0.4%	0.2
16	(17)	Lombard Odier ⁹⁾	175.0	173.3	152.8	1%	13%	n/a	n/a	n/a	0.4%	0.4%	-0.3
17	(15)	Crédit Agricole Private Banking ¹⁰⁾	174.8	163.6	171.6	7%	-5%	14.7	6.5	9.6	0.4%	0.4%	-0.1
18	(18)	Wells Fargo Wealth ¹¹⁾	128.6	125.9	132.2	2%	-5%	n/a	n/a	n/a	0.3%	0.3%	-0.2
19	(19)	Société Générale Private Banking	111.7	109.7	113.1	2%	-3%	n/a	n/a	4.3	0.2%	0.3%	-0.2
20	(-)	Banque Privée Edmond de Rothschild	111.2	97.2	98.5	14%	-1%	n/a	n/a	n/a	0.2%	0.2%	0.1
Total top 20 wealth managers			7,740.6	7,050.7	7,018.1								
Total market volume ¹²⁾			46,200	42,000	42,700								

(x) Rank in the 2011 issue of «The International Private Banking Study».

¹⁾ UBS does not report Swiss and Global Wealth Management separately anymore. As of 2012 UBS reports AuM and NNM data with a different calculation method.

²⁾ Excludes brokerage assets of USD 975.4bn.

³⁾ The Company's Global Wealth Management Group had USD 1,776bn in client assets (fully consolidating Morgan Stanley Smith Barney Holdings LLC). This ranking only takes the USD 563.0bn in assets under management or supervision into account.

⁴⁾ Due to unavailability of data, 2011/2012 AuM were estimated. Estimates based on the assumption of constant AuM Private Wealth Management / Total AuM.

⁵⁾ Due to unavailability of data, 2011/2012 AuM figures were taken from Bloomberg (figures as of March 31, 2013).

⁶⁾ Private Banking is a combination of previously separated disclosed client segments: Private Bank, Private Wealth Management and JP Morgan Securities.

⁷⁾ Due to unavailability of data, 2011/2012 AuM were estimated. Estimates based on the assumption of constant total income / assets under management margins.

⁸⁾ Only High-net-worth individuals.

⁹⁾ Due to unavailability of data, 2011/2012 AuM figures were taken from Bloomberg (figures as of March 31, 2013).

¹⁰⁾ LCL Banque Privée assets included and excluding assets managed by the Regional Banks and the private banking operations of International retail banking.

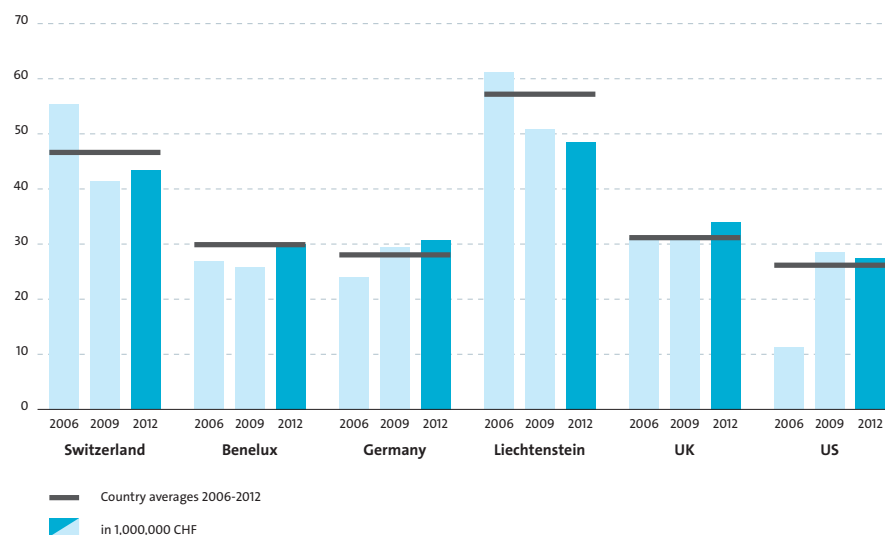
¹¹⁾ Due to unavailability of data, 2011/2012 AuM were estimated. Estimates based on the assumption of constant total income / assets under management margins.

¹²⁾ Source: Capgemini & Merrill Lynch: World Wealth Report 2011/2012/2013.

Assets under management are the very basis of income generated by the wealth management industry. Figure 5 shows the development of assets under management on a per employee basis.² In most countries, assets under management per employee dropped significantly from 2006 to 2009 due to the 2008 market downturn (worldwide AuM decreased by 19.4% during the year 2008 alone). Even though markets recovered considerably in 2009, assets under management per employee remained below longer-term averages for traditional private banking markets such as Switzerland and Liechtenstein.

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Figure 5: Assets under management per employee (median values per country, in mn CHF)



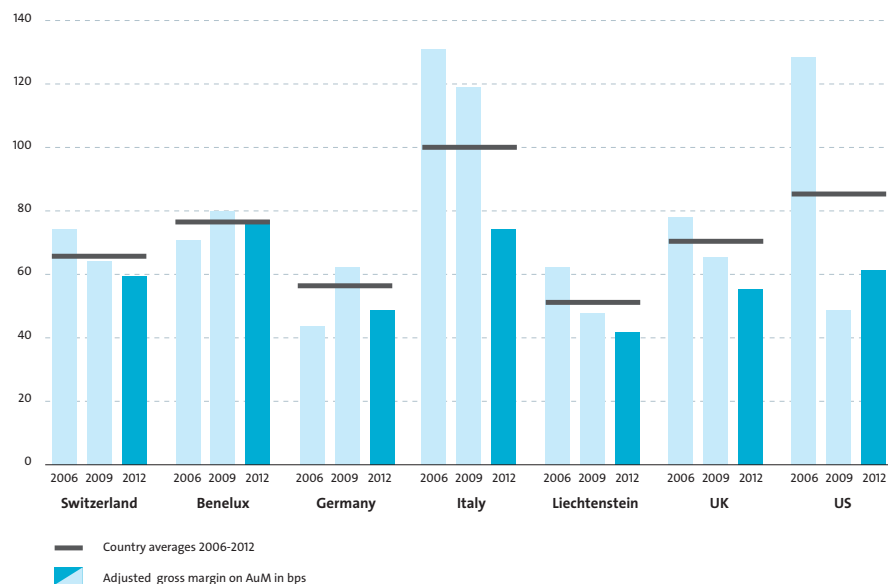
National levels in assets under management per employee still differ remarkably due to international variation in business models and client profiles. The highest volumes of assets per employee are still managed in Liechtenstein (48 mn CHF) and in Switzerland (43 mn CHF).

2) Due to a lack of data, Austria, France, and Italy were not considered.

Profitability

In most countries a lower volume of managed assets per employee and sticky personnel costs (see below) hurt bank profitability in 2012 compared to 2006. This is also true if revenues unrelated to private banking, such as interest income, trading revenue and other revenues are excluded. Adjusted gross margins based on pure wealth management related revenues are illustrated in Figure 6.³ These reflect the intensity of market competition, business and pricing models, and the product and service ranges offered.

Figure 6: Adjusted gross margin on assets und management (median values, in basis points)



As Figure 6 shows, decreasing revenues and the emergence of a new generation of more demanding and performance oriented clients have led to a sharp deterioration of margins in the international wealth management industry. Banks in the US took the strongest hit, their margins falling to half their former level. To a lesser degree, banks from Switzerland, Liechtenstein and the UK suffered similarly as well. For all except the Benelux countries, values for 2012 were below the seven-year average from 2006 to 2012. Swiss banks achieved an adjusted gross margin on AuM of 58 basis points in 2012, somewhat below the values for Italy and Benelux. Besides the margin deterioration observable throughout the whole sample, the data also reveal a global trend towards convergence. As already observed in the Private Banking Study 2011, the gap between the different countries has narrowed over time, suggesting a more level international playing field for the wealth management industry.

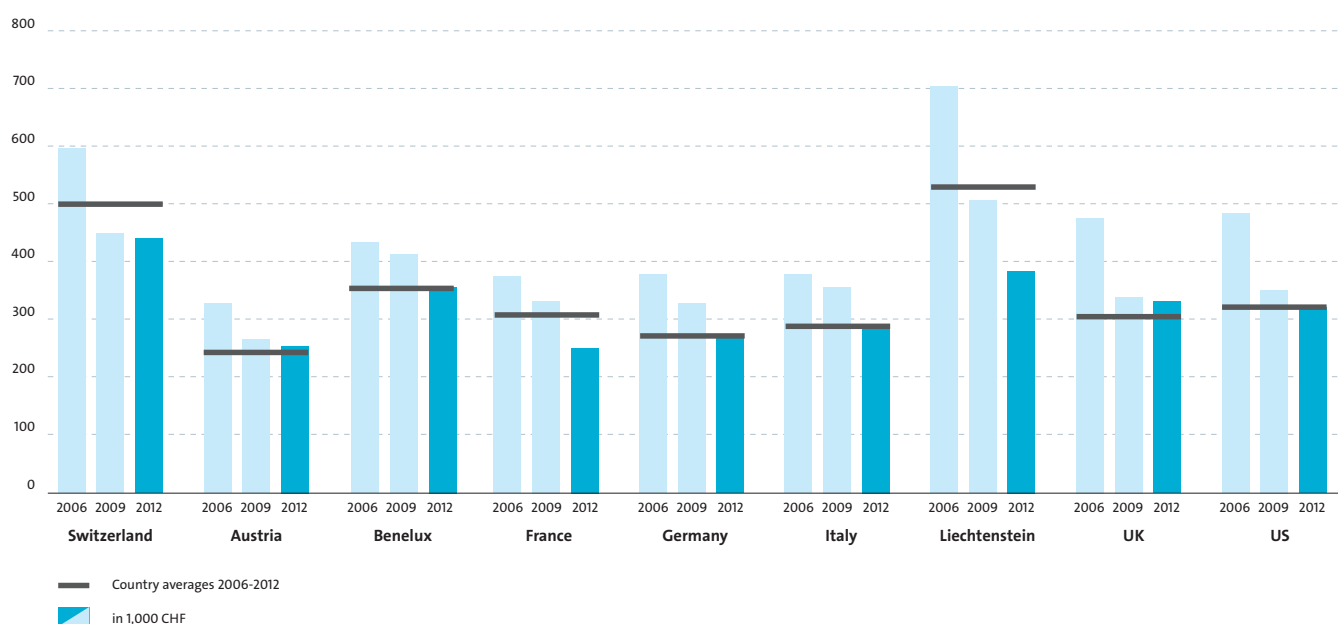
3) Due to a lack of data, Austria and France were not considered.

Revenues

Figure 7 illustrates that Swiss and Liechtenstein banks have lost their strong advantage in per employee revenues. They still rank numbers one and two but only by relatively modest margins. International attempts to fight tax evasion, followed by national endeavors to ward off money with unclear tax history, have left clear marks on the wealth management industry in countries where offshore-oriented practices traditionally predominate. In Switzerland, revenues per employee declined from 593,000 CHF in 2006 to 439,000 CHF in 2012 (-26%). An even sharper decline is observable in Liechtenstein where revenues per employee almost halved between 2006 and 2012.

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Figure 7: Total revenue per employee (median values, in tsd CHF)



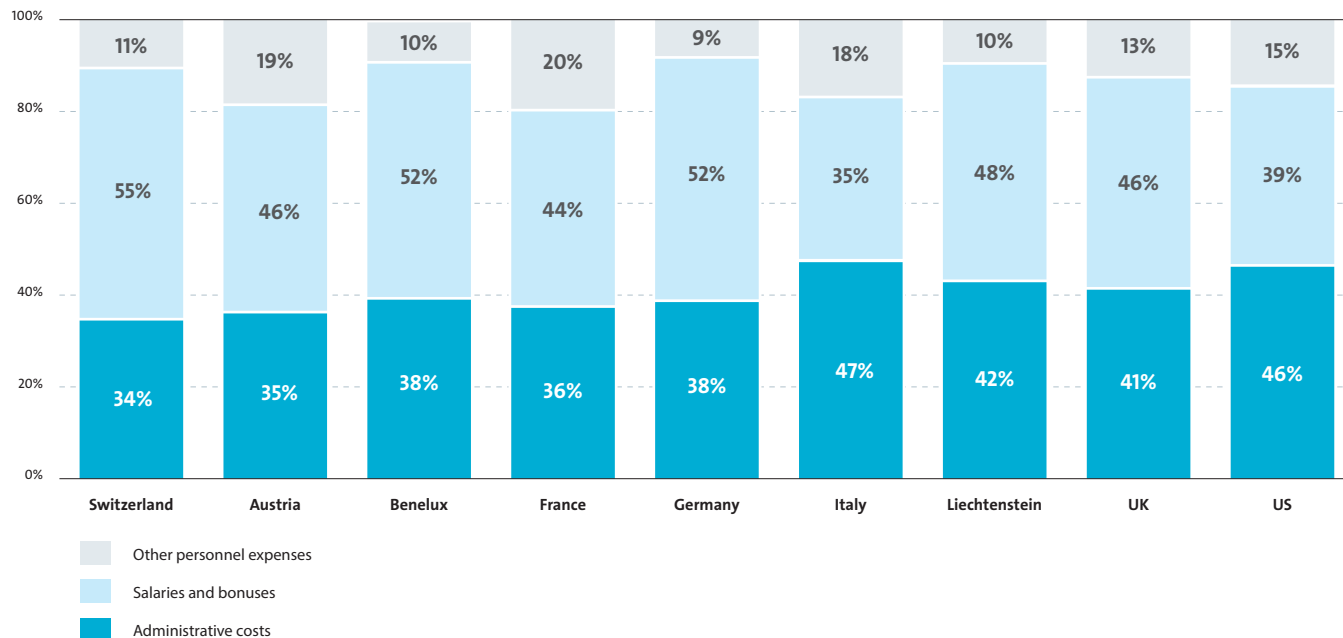
In 2012, for all countries under review bank revenues were at or slightly below the seven-year average. Austrian, French, and German banks showed the weakest figures with only 260,000 CHF in per capita revenue. Furthermore, there was a trend to convergence throughout all the countries. The gap between the most and least successful country in terms of per capita revenues shrunk from 371,000 CHF in 2006 to 188,000 CHF in 2012.

Costs

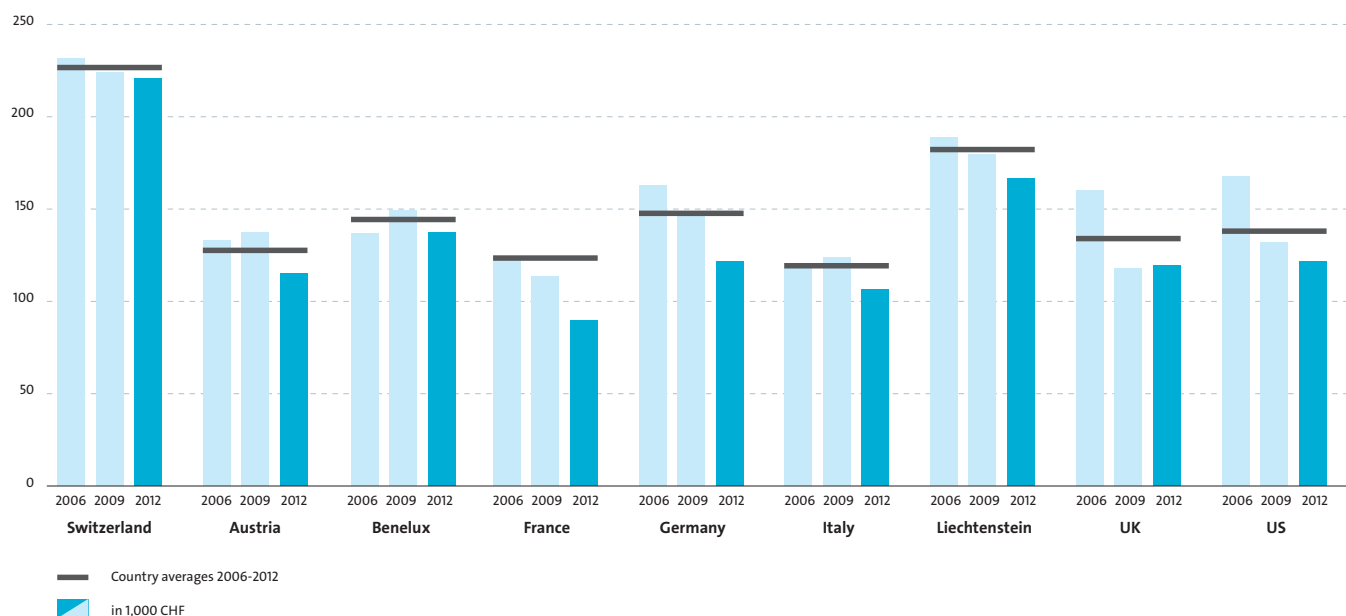
Since private banking is a personnel-intensive business, total operative costs are driven by expenditures on personnel. In most countries under review, personnel costs (salaries and bonuses as well as other personnel expenses) account for almost two thirds of operating costs. The composition of personnel cost varies slightly across countries. In Switzerland, a traditional high-wage country, the share of salaries in personnel cost is relatively high, while its European neighbors (particularly France, Italy, and Austria), exhibit relatively high shares of non-wage personnel costs.⁴

Administrative costs account for the remaining third of operating costs. Switzerland still exhibits the lowest share of administrative costs of all countries under review. Thus cost efficiency at Swiss banks still seems to be relatively high despite increasing pressure from costs of compliance and regulation. Banks with the highest shares of administrative costs out of total costs of private banking are those in Italy and the US, followed by banks in the UK and, remarkably, Liechtenstein.

Figure 8: Distribution of total operative cost components in 2012 (averages)

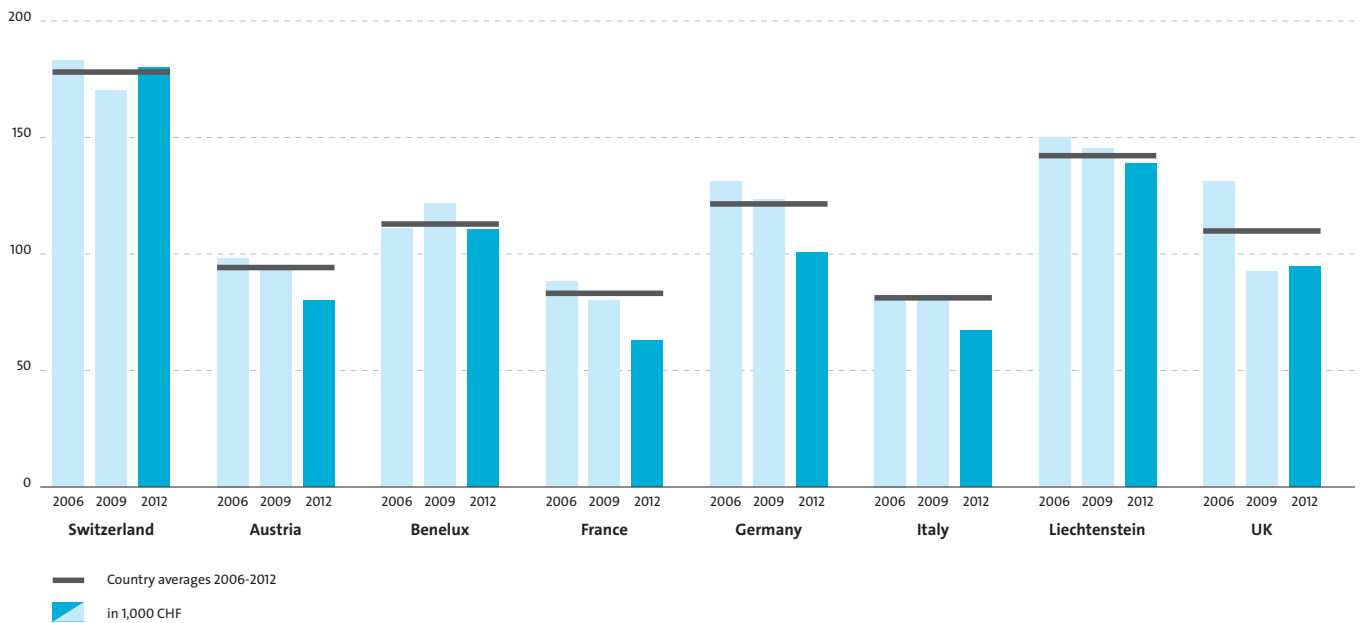


4) This analysis is based on arithmetic averages of the division of costs. Banks that do not distinguish between salaries and bonuses / other personnel expenses are not part of this analysis.

Figure 9: Personnel costs per employee (median values, in tsd CHF)

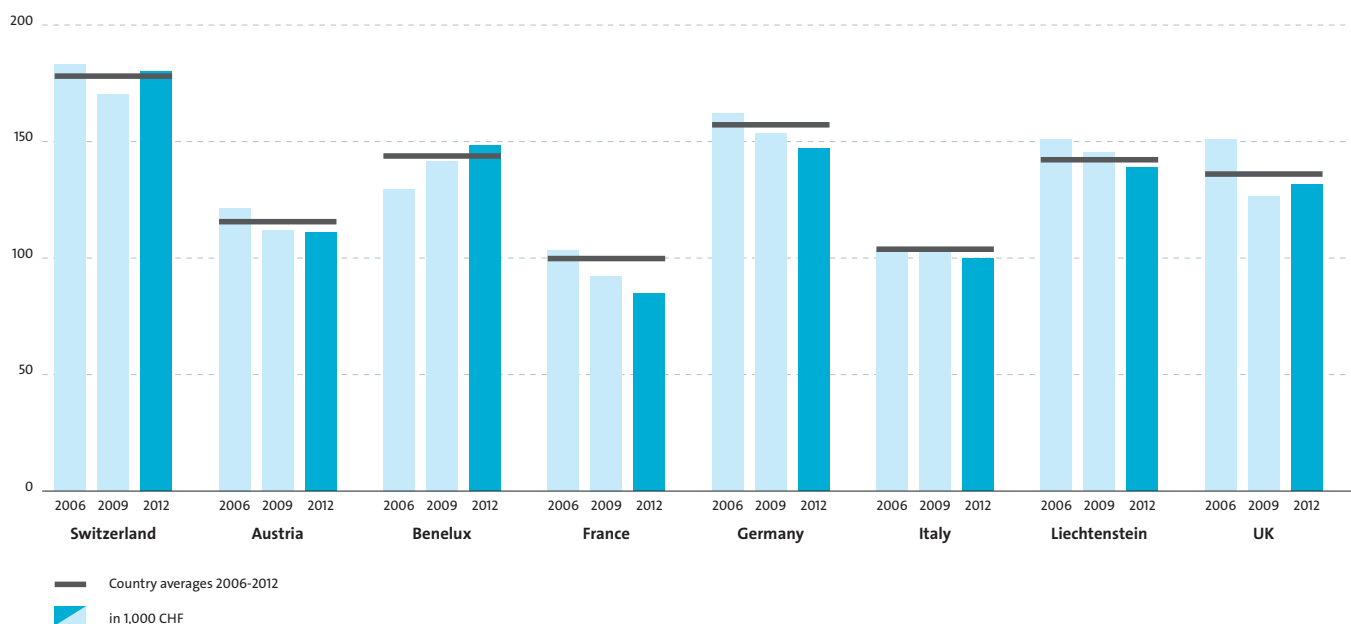
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Personnel costs per employee in almost all surveyed countries fell over the period from 2006-2012. This is in line with a widespread struggle towards efficiency after reduced revenues forced rounds of dismissals of bank employees in countries hit by the financial crisis. In Switzerland and Liechtenstein, however, personnel costs have been more resilient than, e.g., in the US. Switzerland still has the highest level of personnel costs at a median of 215,000 CHF per employee in 2012.

Figure 10: Wage costs per employee (median values, in tsd CHF)

The resilience of personnel costs in Switzerland and Liechtenstein, compared to other countries, is even more pronounced if one looks at the wage cost component (consisting of salaries and bonuses). Absolute wage costs per employee are highest in Switzerland at 176,000 CHF on average. The wage costs in Switzerland did not follow the drop in revenues observed elsewhere. Banks in other countries, e.g. Austria, Germany, and Italy managed to cut wages much more drastically. On average over all analyzed countries the wage costs dropped by 16.9% between 2006 and 2012.⁵

5) Due to a lack of data, the US was not considered.

Figure 11: Wage costs per employee (median values, in tsd CHF, PPP adjusted)

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Nominal wages do not take countries' differing general price levels into account. A price-level-corrected look at wage changes requires the use of purchasing power parity (PPP) adjusted wages. The numbers in Figure 11 have been adjusted using the PPP exchange rate⁶. This analysis highlights the fact that wages, especially in Switzerland, the Benelux countries and the UK did not fall in real terms but actually increased in the post crisis period. In real terms Swiss wealth managers still pay the highest salaries followed by the Benelux countries, Germany, and Liechtenstein.

6) Main Economic Indicators, OECD 2013.

Efficiency

The cost/income ratio (CIR) indicates the fraction of income from wealth management that is consumed by the costs incurred to generate that income. As a rule of thumb, a CIR below 60% is considered comfortable, while a CIR above 80% can become critical for long-term viability.

Figure 12: Cost/income ratio (median values)

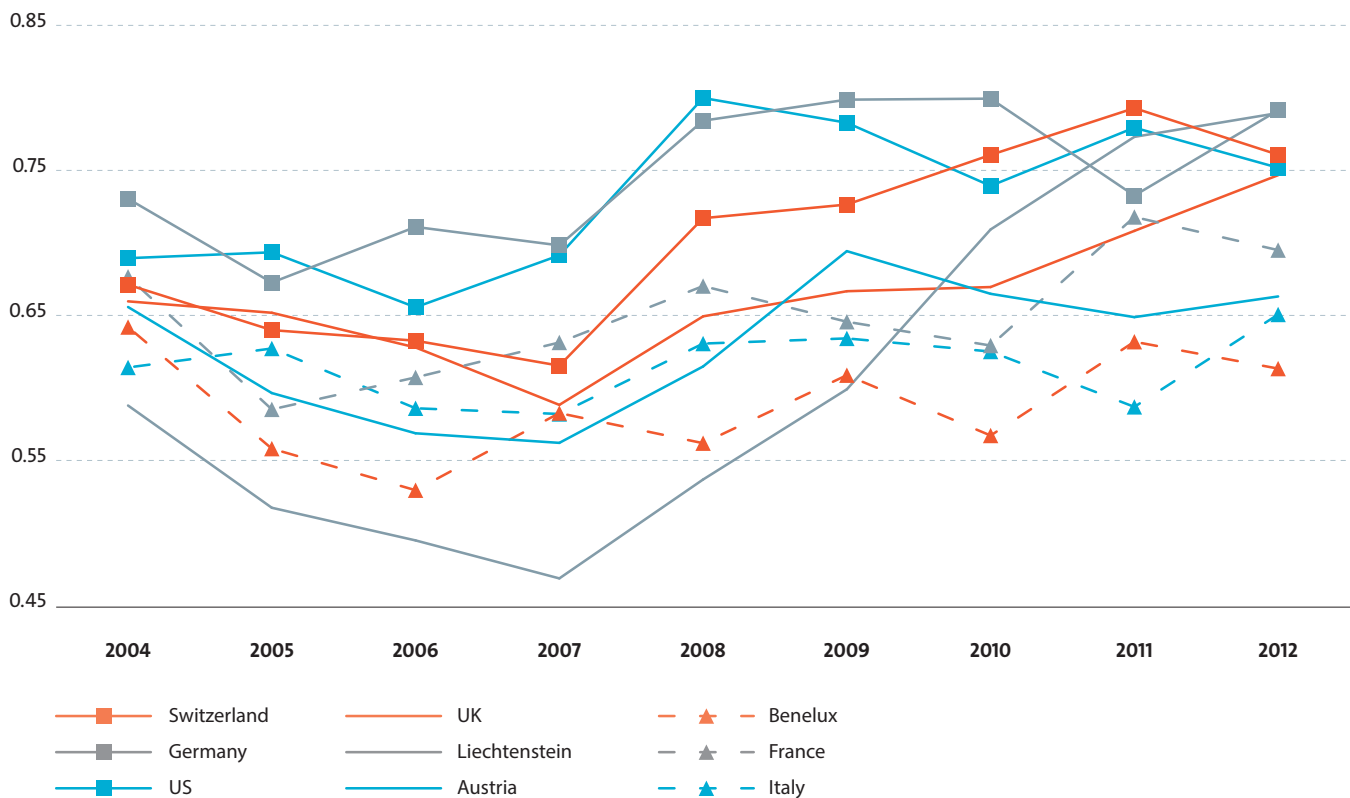


Figure 12 exhibits the development of cost/income ratios since 2004. It clearly illustrates the deterioration of business conditions over the past decade. The favorable environment prior to the crisis in 2008 gave way to rather demanding conditions for wealth management banks in most countries. While banks from all countries were affected, the developments in CIRs also reflect national conditions. Banks from Benelux countries managed to keep their CIRs in check. By contrast, UK banks felt a stronger impact from the financial crisis; their CIRs increased, reaching the level of US banks, which traditionally operate with relatively unfavorable CIRs. Liechtenstein banks suffered from a dramatic increase in CIRs; these moved from traditionally comfortable levels to a median of almost 80%. Private banks in Liechtenstein suffered from the unfavorable combination of plummeting revenues and a fairly inflexible cost structure. Liechtenstein banks are relatively small; fixed

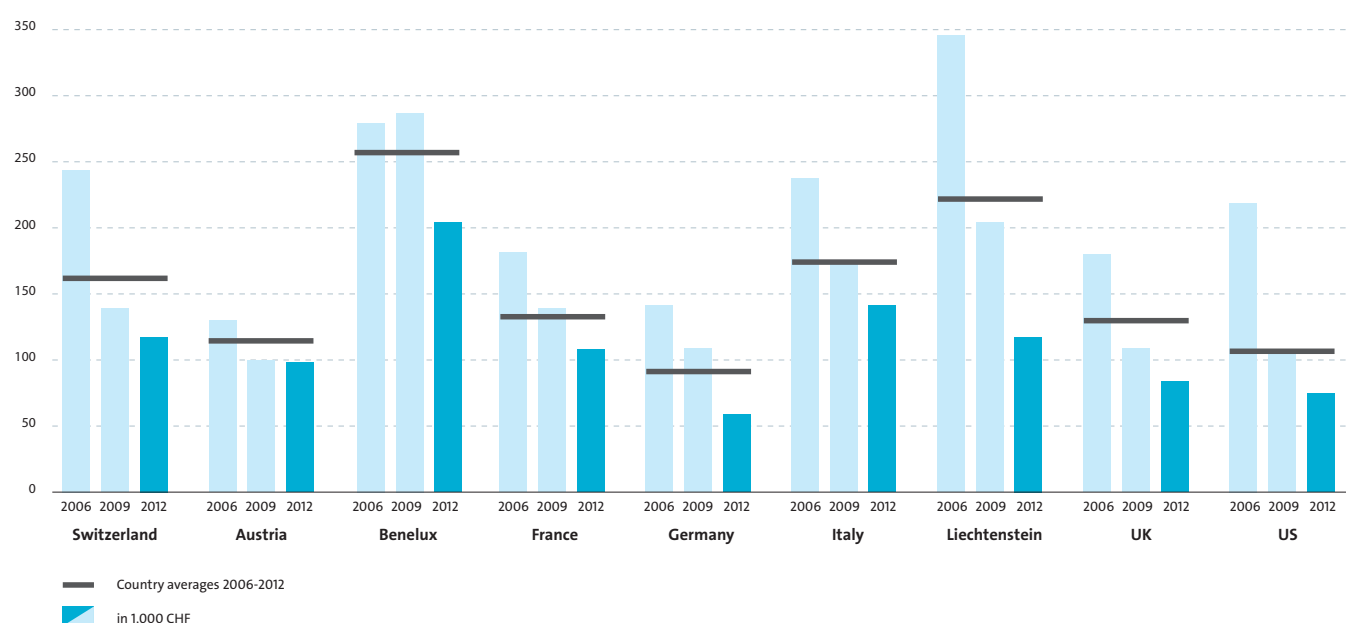
costs for IT and compliance are felt quite strongly. This deterioration does not yet include the full cost of the “white money strategy” directed at warding off money with unclear tax status. Swiss banks went through a similar but less pronounced development; yet, after they saw their CIRs rise to 80% in 2011 they managed to reduce them somewhat in 2012. In Switzerland in particular, the median values for CIRs may mask a deterioration among the very small banks who are facing increasing pressure from regulatory and compliance costs.

Gross Profit and Stakeholder Income

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The problems of the private banking industry are clearly illustrated by the gross profit per employee figures in Figure 13. All countries’ median values are below 2009 levels, and for several countries the fall exceeded 50%. The most profitable banks in 2012 seem those located in the Benelux countries followed by Italy, Liechtenstein and Switzerland. Liechtenstein banks, in line with the rise in their cost/income ratios, experienced the biggest drop between 2006 and 2012. Inter-country variation is relatively high, even though the gap between the highest (Benelux: 204,000 CHF) and the lowest (Germany: 58,000 CHF) value tightened by about 42,000 CHF since 2009.

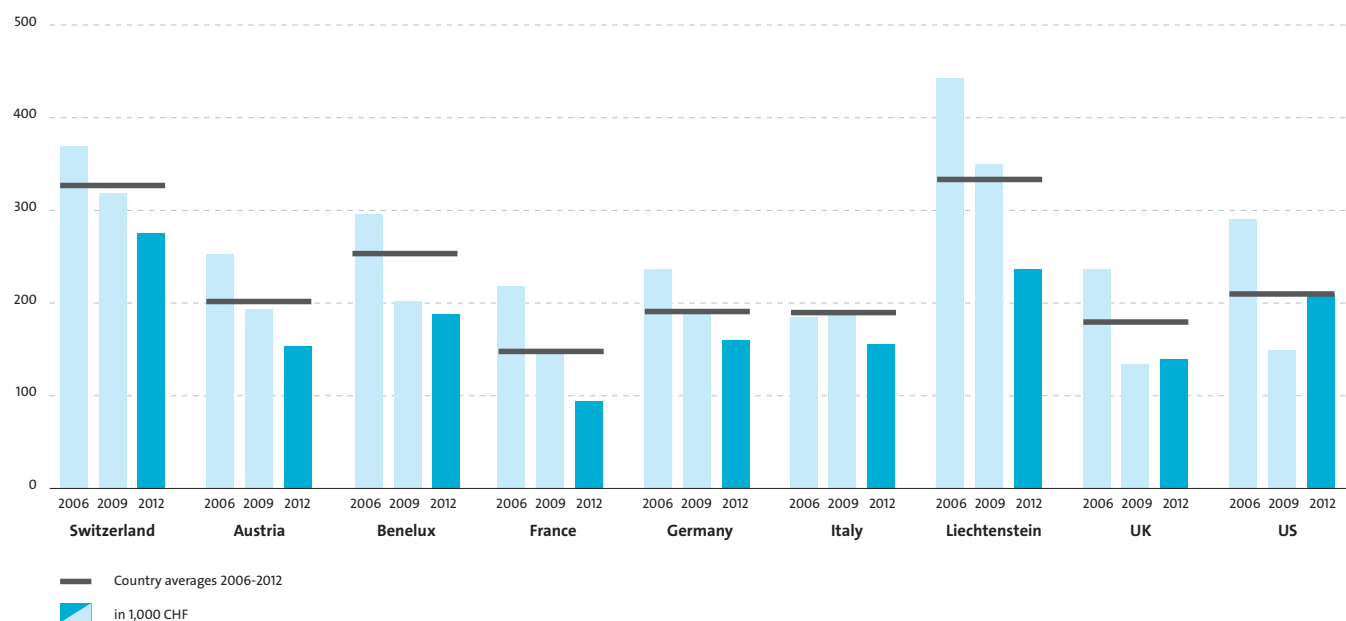
Figure 13: Gross profit per employee (median values, in tsd CHF)



The stakeholder income per employee is the total of personnel costs, fiscal expenses and net profit per employee. Figure 14 shows that Swiss banks created the highest stakeholder income in 2012, followed by those in Liechtenstein and the US. Again, all countries are below their country-specific seven-year averages.

Figure 14: Stakeholder income per employee (median values, in tsd CHF)

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Concluding Remarks on the International Private Banking Industry

The years 2010-2012 have been less turbulent for the wealth management industry than the preceding crisis years 2007-2009. Yet, the financial crisis and the surge in sovereign debt have left their long term imprint on the private banking industry. The financial turmoil of 2008 depressed not only asset values but also turnovers, thus reducing both banks' assets under management as well as fee income from those assets. The partial recovery of stock markets since 2009 has helped to stabilize the volumes of banks' managed assets. However, customers remain risk-sensitive and less prone to trading than prior to the crisis.

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Interest rates, both on short and long-term assets, remain very low due to central banks' efforts to support weak recoveries. On the one hand, the wealth management industry benefits from low interest rates and their favorable impact on bond and stock markets. Yet, on the other hand, low interest rates mean depressed earnings on banks' own funds as well as on clients' deposits. Persistently low interest rates also leave little room for bank fees if customers' net return should remain positive.

Banks' efforts to curb costs in view of bleak income forecasts have met with partial success. The worsening of cost/income ratios since 2006 came to a halt in 2012 (except in Liechtenstein), but ratios seem stuck at a rather unattractive level of almost 80%. The biggest cost driver in the wealth management industry is still wage cost, wage cost per employee having regained (or exceeded) pre-crisis levels in all countries except the US. The continuing pressure of compliance cost and the increasing burden of expenditure on information technology (IT) will make further cost reductions difficult.

The increasing burden of government debt felt not only in peripheral European countries but in industrial countries in general, particularly Japan, but also in the UK and the US, is eroding political tolerance of tax evasion in those countries. The use of bank secrecy for the purpose of hiding taxable income and wealth has thus come under increasing pressure. Such pressure has been felt in traditional private banking countries like Switzerland and Liechtenstein, rather than in the tax havens within jurisdictions with high government debt like the US and the UK.

Should the macroeconomic environment remain unchanged we would expect continued structural pressure on the wealth management industry. Limited income forecasts and ongoing cost pressure will lead some wealth management banks to review their strategies, including radical options like exit or merger. Wealth management banks will thrive if they are able to satisfy customers in an environment with low nominal and perhaps negative real returns if they optimize the fit between cost structure and client structure, or if they benefit from cross-subsidization between commercial, investment, and private banking.

Table 4: Summary

	Average AuM per employee	Adjusted gross margin on AuM	Total revenue per employee	Cost/income ratio	Gross profit per employee	Stakeholder income per employee
Switzerland	2	4	1	7	4	1
Austria	n/a	n/a	8	3	6	7
Benelux	5	1	3	1	1	4
France	n/a	n/a	9	4	5	9
Germany	4	6	7	9	9	5
Italy	n/a	2	6	2	2	6
Liechtenstein	1	7	2	8	3	2
UK	3	5	5	5	7	8
US	6	3	4	6	8	3

The above ranking shows that no country can claim an invincible position in managing clients' wealth. Some countries, like Switzerland, Liechtenstein, and (more recently) Austria, hold top positions in assets under management per employee, but earn relatively meager gross margins. Their handicap is a wage level that is still high (reflected in top positions in stakeholder income per employee). By contrast, the Benelux countries, due to successful cost control, turn mediocre assets per employee and margin figures into quite favorable cost/income and profit per employee results. Italian banks who felt a rather soft impact from the financial crisis managed to defend cost/income figures and profitability, partially by laying off employees.

Focus Switzerland

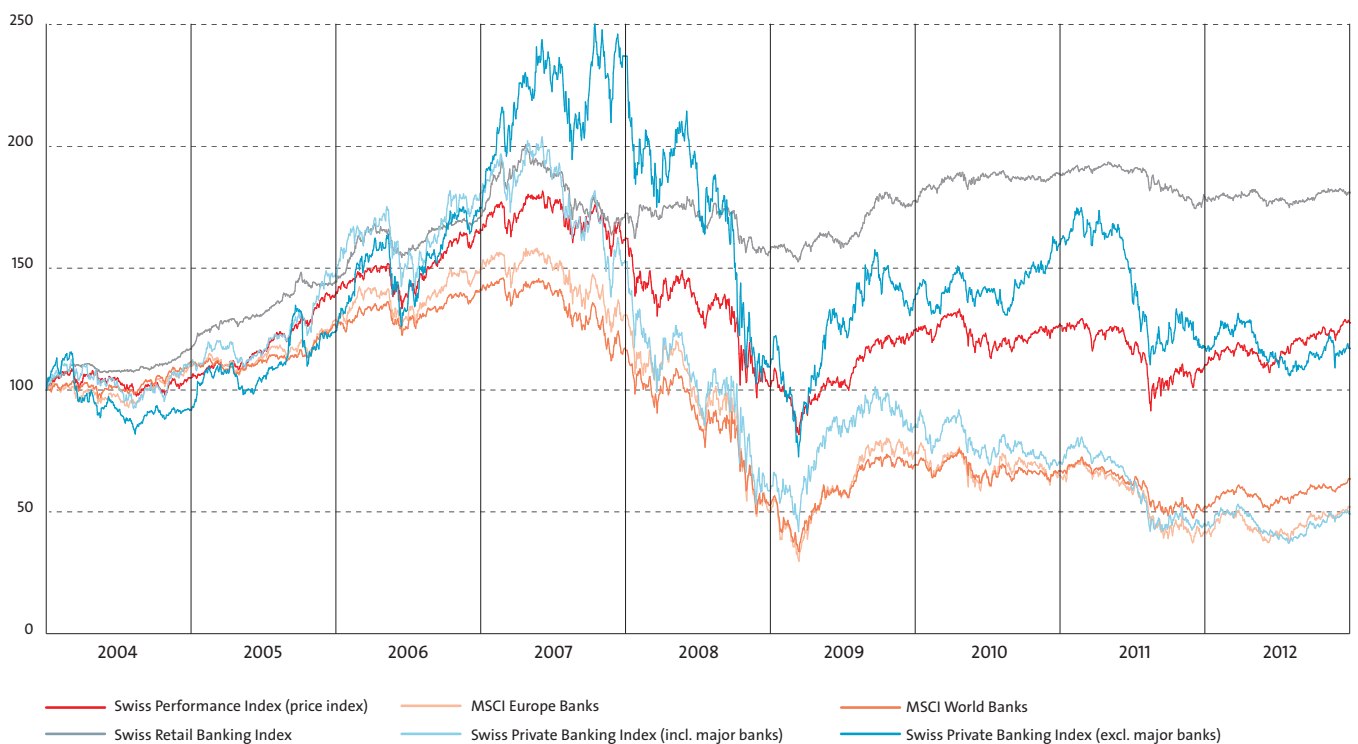
The market value weighted indices in Figure 15 provide a comparison between the performance of the stock market and listed Swiss wealth managers, as well as listed retail banks.

Movements and developments in the Swiss Private Banking Index are strongly driven by the performance of the two major banks UBS and Credit Suisse. The Index moves alongside the international banking index and underperformed the SPI, especially since the financial crisis of 2007-08. Without the two major banks, the Swiss Private Banking Index significantly outperformed the MSCI World Banks Index on a 9-year basis and closes slightly below the broad Swiss Performance Index.

Swiss retail banks, on the other hand, show a less cyclical and more stable performance than Swiss wealth managers, due to their strong focus on the domestic market and their less cyclical business model.

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Figure 15: Swiss Private Banking Index (readjusted at 100 as of 1.1.2004)



Assets under Management and Net New Money

Table 5 provides an overview of the 40 largest private banks in Switzerland measured by assets under management. By the end of 2012, they managed more than 4,000bn CHF in client assets, which is an increase of about 8% compared to 2011.

Assets under management are concentrated among a small number of banks. The top 5 ranked private banks manage approximately 3,050bn CHF (or 72% overall). UBS and Credit Suisse, the two largest wealth managers, jointly manage around 2,400bn CHF (or 56% overall).

UBS attracted strong inflows in the years 2011 and 2012, thereby offsetting about 40% of the outflows suffered from 2008-2010. Credit Suisse attracted steady net new money inflows from 2008 through 2011; only in 2012 did inflows slow down somewhat. The statistical fast climber of the year was Bank Morgan Stanley AG, moving up by no less than 27 positions after integration of its Private Wealth Management businesses in Hong Kong and Singapore.

The increase in AuM in 2012, compared to the post-crisis years 2008-2010, not only reflects favorable asset markets and exchange rates, but also client confidence. This can be read from a breakdown of assets under management into a valuation part and a net inflow part. While assets under management constitute the basis for revenue generation, net new money growth reflects a bank's ability to expand its business. Net new money only includes in- and outflows of customer funds, but not the increase or decrease of managed assets due to changes in the value of assets or exchange rates.

Table 5: Swiss ranking of wealth managers by assets under management

Company/Business unit			Assets under management (AuM incl. double counts)					Net new money (NNM)			NNM/AuM	
Figures in billion CHF			2012	2011	2010	Δ 11-12	Δ 10-11	2012	2011	2010	2012	2011
1	(1)	UBS Global Wealth Management ¹⁾	1,593.0	1,459.0	1,457.0	9%	0%	46.9	35.6	-19.5	2.9%	2.4%
		<i>UBS Wealth Management (ex Americas)</i>	821.0	750.0	768.0	9%	-2%	26.3	23.5	-12.1	3.2%	3.1%
		<i>UBS Wealth Management Americas</i>	772.0	709.0	689.0	9%	3%	20.6	12.1	-6.1	2.7%	1.7%
2	(2)	Credit Suisse Private Banking & WM Clients	798.5	750.2	763.1	6%	-2%	19.0	37.4	40.6	2.4%	5.0%
3	(3)	Banque Pictet & Cie. ²⁾	294.5	299.8	251.6	-2%	19%	n/a	n/a	n/a	n/a	n/a
4	(5)	Julius Baer Private Banking ³⁾	189.3	170.3	169.7	11%	0%	9.7	10.2	9.4	5.1%	6.0%
5	(4)	HSBC Private Bank (Suisse)	171.1	166.4	178.4	3%	-7%	-4.7	2.9	8.1	-2.7%	1.7%
6	(6)	Lombard Odier	164.0	142.6	143.0	15%	0%	n/a	n/a	n/a	n/a	n/a
7	(9)	Banca della Svizzera Italiana BSI	86.3	77.7	76.2	11%	2%	7.5	6.7	3.6	8.7%	8.6%
8	(10)	Union Bancaire Privée (UBP)	80.0	71.7	64.8	12%	11%	5.0	11.2	-5.6	6.3%	15.6%
9	(8)	EFG International Private Clients	72.8	73.7	76.4	-1%	-4%	n/a	n/a	n/a	n/a	n/a
10	(11)	Crédit Agricole (Suisse)	44.9	44.1	48.1	2%	-8%	-1.6	-1.4	2.6	-3.6%	-3.1%
11	(12)	Sarasin Private Banking ⁴⁾	41.5	42.9	46.5	-3%	-8%	n/a	1.0	6.4	n/a	2.3%
12	(39)	Bank Morgan Stanley ⁵⁾	38.5	6.7	7.8	476%	-14%	0.0	-0.6	-0.3	0.1%	-8.9%
13	(14)	BNP Paribas (Suisse)	36.8	37.4	41.0	-2%	-9%	-1.2	-0.7	-2.6	-3.2%	-1.9%
14	(18)	JP Morgan (Suisse)	36.5	29.1	27.9	25%	4%	1.5	2.6	1.2	4.1%	8.8%
15	(13)	RBS Coutts Bank Ltd	34.8	38.5	41.8	-10%	-8%	-0.8	-0.9	-5.0	-2.3%	-2.4%
		Rank 1-15	3,682.5	3,410.1	3,393.3	8%	0%	81.4	103.9	38.9	2%	3%
16	(15)	Deutsche Bank (Suisse)	34.8	33.6	37.1	4%	-9%	-0.3	-1.6	-9.7	-1.0%	-4.8%
17	(16)	Vontobel Private Banking	28.8	28.5	29.6	1%	-4%	0.6	0.3	1.2	2.0%	1.0%
18	(34)	Syz & Co.	25.0	21.2	24.8	18%	-15%	0.9	0.8	0.6	3.8%	3.6%
19	(26)	Mirabaud & Cie. Privatbankiers	25.0	24.0	25.0	4%	-4%	n/a	n/a	n/a	n/a	n/a
20	(19)	Société Générale Private Banking (Suisse)	24.6	25.9	25.0	-5%	3%	-1.2	1.5	0.0	-5.1%	5.9%
21	(17)	St. Galler Kantonalbank Private Banking	24.5	24.3	29.1	1%	-16%	-1.0	0.0	0.8	-3.9%	0.0%
22	(25)	Scobag	19.9	18.0	16.0	10%	12%	-0.4	-0.4	-0.4	-2.2%	-2.2%
23	(-)	Notenstein Privatbank ⁶⁾	19.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
24	(22)	Dreyfus Söhne & Cie. Banquiers	18.3	17.8	18.6	3%	-4%	-0.5	-0.2	0.3	-2.8%	-1.2%
25	(29)	Rothschild Bank	14.4	13.3	12.8	8%	4%	-0.3	1.0	0.7	-1.8%	7.3%
26	(32)	Falcon Private Bank	12.1	11.3	11.9	8%	-5%	0.7	0.9	1.2	5.5%	8.4%
27	(35)	Barclays Bank (Suisse)	11.0	10.4	10.2	6%	2%	0.1	0.1	-4.8	0.9%	0.7%
28	(33)	Bank Hapoalim Switzerland	9.5	9.0	9.7	6%	-7%	0.0	0.0	-0.8	0.0%	0.0%
29	(40)	PKB Privatbank	8.5	7.0	7.4	22%	-5%	1.1	0.0	1.9	13.0%	0.0%
30	(-)	Bank Leumi (Switzerland)	7.6	7.5	5.1	1%	47%	-0.5	-1.2	-0.4	-6.2%	-16.0%
31	(-)	Banque Piquet & Cie.	7.4	7.4	4.7	0%	59%	-0.4	-0.1	0.3	-6.0%	-1.8%
32	(36)	Hyposwiss Privatbank	7.2	8.0	9.6	-10%	-17%	-1.0	-0.7	0.6	-13.8%	-8.4%
33	(-)	Maerki Baumann & Co.	6.4	6.3	6.1	2%	3%	-0.2	0.3	-0.6	-3.2%	5.3%
34	(-)	Schroder & Co. Bank	6.3	6.5	6.5	-3%	-1%	-0.3	0.4	-0.2	-4.5%	5.4%
35	(-)	DZ Privatbank (Schweiz)	6.1	5.9	6.7	4%	-12%	0.1	-0.3	-0.2	1.3%	-4.7%
36	(-)	Compagnie Bancaire Helvétique	4.9	3.2	3.1	55%	1%	1.5	0.3	0.6	30.4%	9.5%
37	(-)	BZ Bank	4.9	4.4	5.7	11%	-22%	-0.5	-1.3	0.1	-9.9%	-29.0%
38	(-)	Privatbank IHAG	3.6	4.0	4.3	-11%	-6%	-0.6	0.2	0.5	-15.9%	4.2%
39	(-)	Banca del Sempione	3.6	3.2	3.2	13%	n/a	0.2	0.1	0.1	5.6%	3.2%
40	(-)	Banque Morval	3.4	3.2	3.5	4%	-7%	-0.1	0.0	0.0	-3.9%	-0.8%
		Rank 16-40	337.3	303.7	315.7	11%	-4%	-2.2	0.0	-8.3	-1%	-1%
		Rank 1-40	4,019.8	3,713.9	3,708.9	8%	0%	79.2	103.9	30.7	0%	1%
		77 private banks under analysis⁷⁾	4,238.0	4,042.0	4,036.0	5%	0%					

(x) Rank in the 2011 issue of «The International Private Banking Study».

¹⁾ UBS does not report Swiss and Global Wealth Management separately anymore. As of 2012 UBS reports AuM and NNM data with a different calculation method.

²⁾ Due to unavailability of data, 2011 / 2012 AuM figures were taken from Bloomberg.

³⁾ Bank Julius Bär & Co. acquired ING Bank (Schweiz) in 2010.

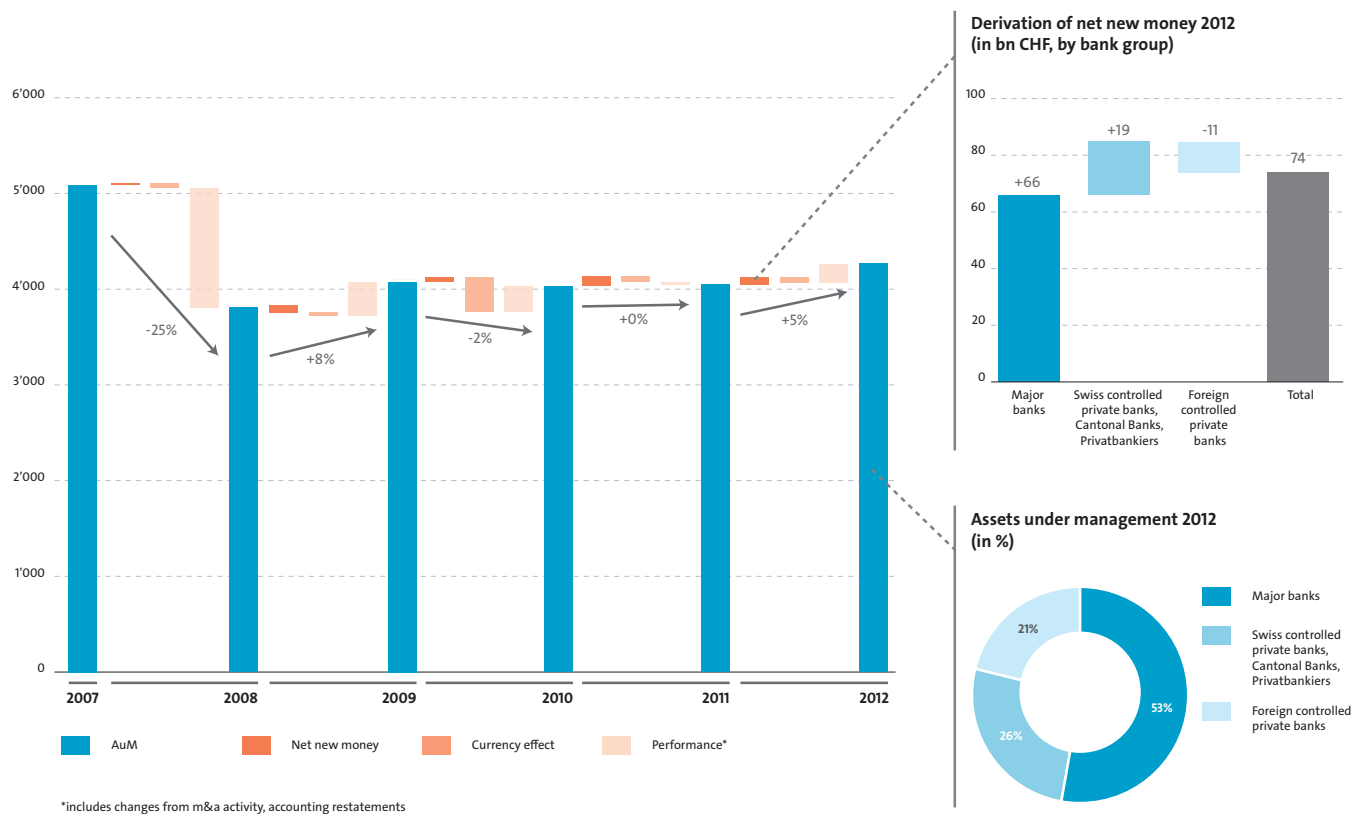
⁴⁾ In 2012 Bank J. Safra merged with Bank Sarasin to build J. Safra Sarasin Holding. The ranking only considers Bank Sarasin Private Banking.

⁵⁾ In 2012, Morgan Stanley integrated the Hong Kong and Singapore units of Morgan Stanley Private Wealth Management as fully locally licensed branches of the Swiss private bank.

⁶⁾ Wegelin & Co. was disintegrated and transformed into Notenstein Privatbank in 2012.

⁷⁾ The overall AuM figures for the 77 private banks contains estimations for those banks which do not disclose the corresponding values. Estimations are based on the assumption that the ratio of the private banking division AuM to total AuM in 2012 (2011) is identical to their respective ratio in 2011 (2010) and 2010 (2009).

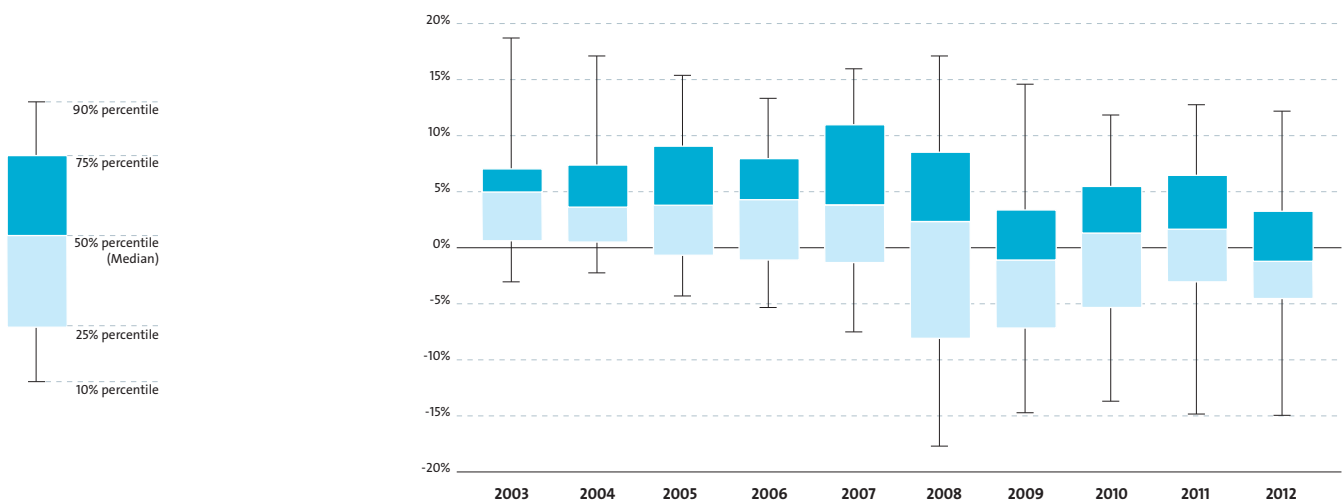
Figure 16: Development of total assets under management 2007-2012 (in bn CHF)



Net new money flowed into Swiss private banks at a relatively steady annual rate of 3-5% of managed assets from 2003 to 2007. Since late 2008, net new money all but stagnated. In 2012, Swiss banks had slightly positive net money inflows in the aggregate. Figure 16 breaks aggregate changes in AuM into their individual drivers. The figure shows that the increase in AuM in 2012 was primarily driven by asset market performance. Portfolio values recovered some of the ground they had lost in the 2007-08 shock. Similarly, currency effects were slightly positive after Swiss National Bank broke the appreciation of the CHF by setting an exchange rate limit of 1.20 CHF to the EUR in September 2011. Yet, most positively, Swiss banks managed to attract net new money on a steady basis in the three years from 2011 to 2013, defying the continued erosion of bank secrecy.

In 2012, banks with Swiss origin withstood the turbulences from international conflicts on tax evasion or tax fraud better than the foreign banks domiciled in Switzerland. While the former received net money inflows (right panel), the foreign controlled banks suffered a net outflow. Net money inflows also favored bigger over smaller banks. As Figure 17 shows, a majority of banks still registered net outflows, suggesting some losses of customer mandates at smaller banks.

Figure 17: Net new money per AuM for all Swiss private banks 2003-2012 (in %)



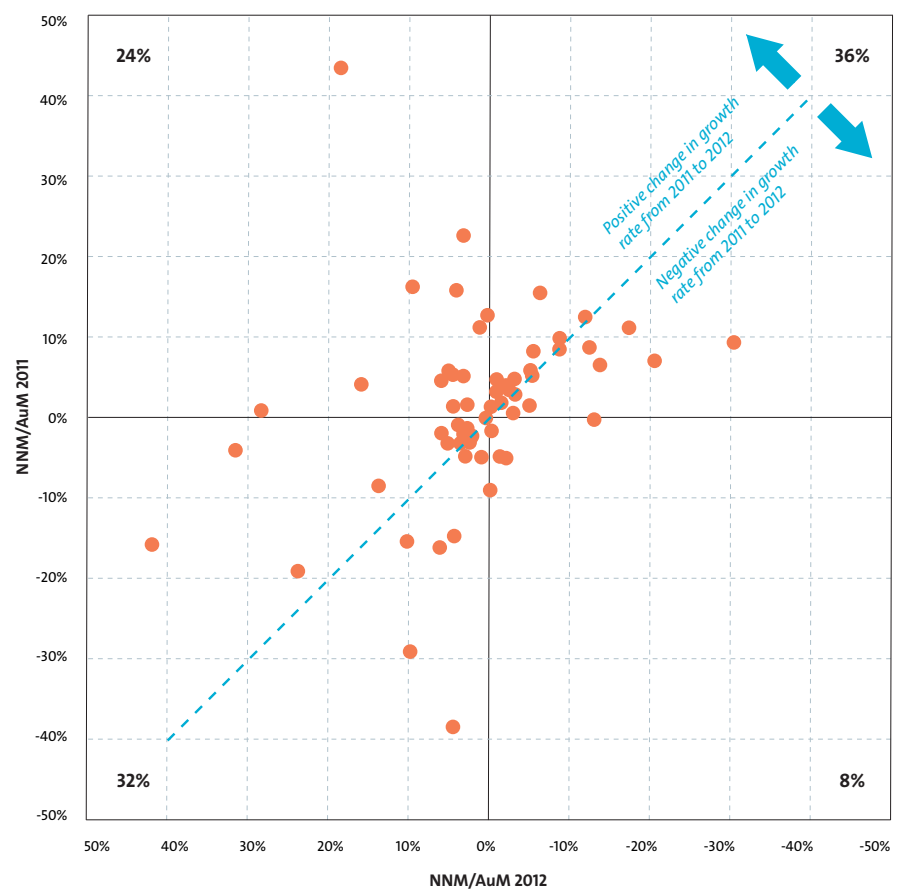
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Figure 18 plots net new money growth rates in the Swiss private banking market in the year 2012 (horizontal axis) against 2011 (vertical axis). The upper right quadrant contains the banks which successfully attracted net new money in both 2011 and 2012. In contrast, banks located in the lower left quadrant suffered net client asset outflows in both years. Banks below (above) the 45-degree axis did better (worse) in 2012 than in 2011.

The majority of points are in the left half of the figure, indicating that most banks have had negative net new money figures. Only 44% of banks attracted new money on a net basis. In 2011 net new money flow was positive, the majority of banks (60%) lying in the upper half of the figure. Not surprisingly, the banks above the 45-degree line (whose attractiveness deteriorated from 2001 to 2012) are somewhat more numerous than those below (whose attractiveness improved).

The scattered data points also illustrate that the correlation of net new money inflows across years is limited. In other words: success in attracting money is not “sticky” but requires continuous effort. Nor is a bank doomed if it has suffered an outflow of managed assets. However, the future may look dim for those six banks that suffered net outflows of money in the range between 30 and 50% of managed assets in the aggregate of 2011 and 2012.

Figure 18: Net new money per AuM: 2011 vs. 2012



Performance and Bank Size Analysis

The negative factors weighing on the Swiss private banking industry in recent years tend to affect smaller banks more than their bigger competitors. Such are the increasing complexities in regulatory rules and frameworks as well as the difficulties with the traditional offshore business model. Investments in information technology, due to both regulatory requirements and the coming-of-age of existing systems put a heavy burden on most smaller banks.

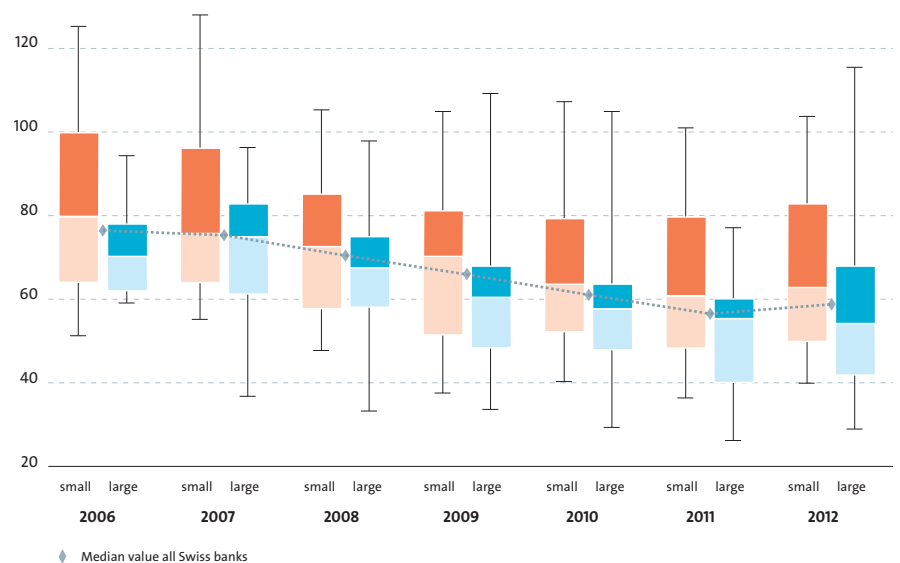
In order to analyze size effects, we split the Swiss bank sample into two distinct groups based on size. Banks showing an average AuM of less than 10bn CHF from 2003 to 2012 were assigned to the group “Small Banks”, whereas institutions showing an average AuM of more than 10bn CHF were assigned to the “Large Banks” group. Our sample includes 39 small and 29 large wealth managers.

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Profitability and AuM composition

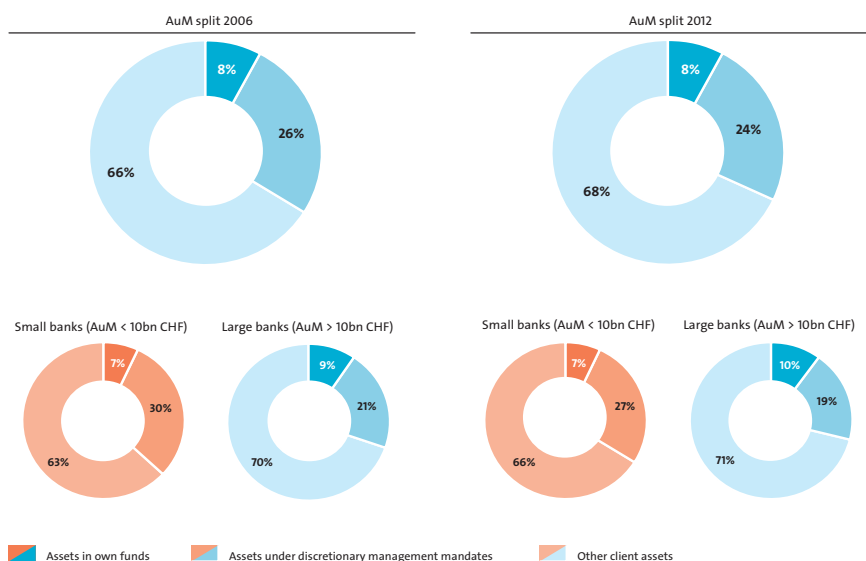
The development of margins is illustrated in Figure 19. The figure shows gross margins on operating costs on an adjusted basis: all revenues not directly related to private banking, such as interest income, trading revenue and other revenues, are excluded. The margins thus measure a bank's ability to generate income from private banking.

Figure 19: Adjusted gross margin on assets under management (in basis points)



In 2012 Swiss banks managed to halt the erosion of margins observed since 2006. Banks achieved an adjusted median gross margin on AuM of 58bp, slightly above the 2011 value, yet still short of its pre-crisis level of 70-80 bp in 2006-07. In an environment of low interest rates and thus low nominal yields banks find it difficult to achieve high margins. This is particularly true at a time when the composition of clients shifts towards more sophisticated, demanding and mobile groups like institutional investors, younger clients and fully tax-compliant clients. The continuous reduction in mandates from clients with tax-problems, particularly from the US and some European countries, is yet only partially reflected in the 2012 figures and will weigh on margins for some time to come. Remarkably, small banks tend to realize somewhat higher margins than larger banks. The difference amounts to 8bp in the year 2012 (4bp in 2011). Smaller banks tend to have a relatively higher (but decreasing) share of discretionary management mandates, which often yield higher margins than advisory assets.

Figure 20: Split of AuM - Assets in own funds, assets under discretionary mandates and other client assets



The composition of assets under management changes only slowly over the course of time. Between 2006 and 2012 the overall composition remained quite stable. As the upper part of Figure 20 shows, the pre- and post-crisis compositions of assets under management do not differ much.

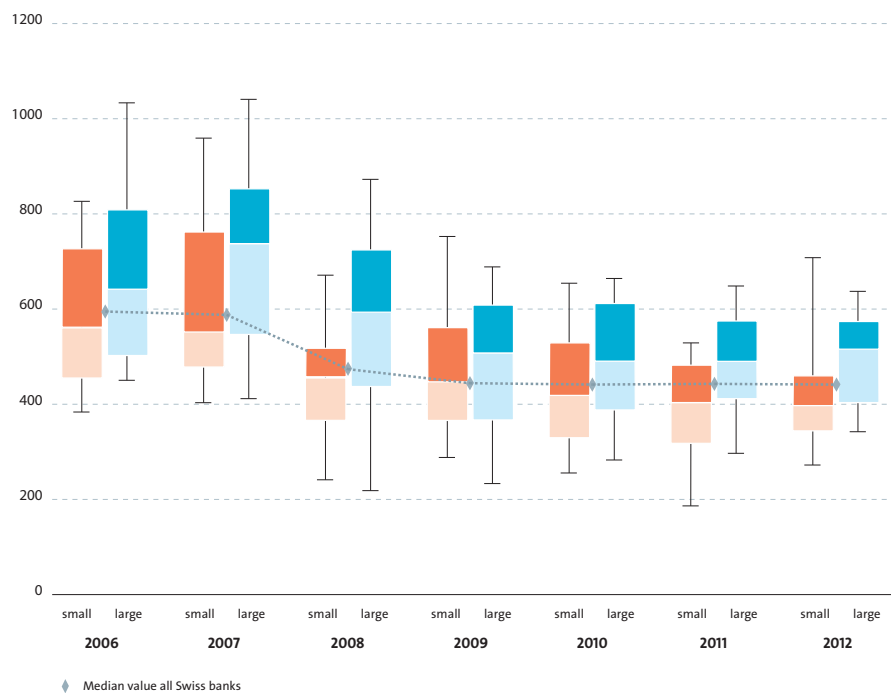
As the lower part of Figure 20 exhibits, in 2006 the average small bank with AuM of less than 10bn CHF managed approximately 30% of clients' assets under a discretionary mandate. From 2006 to 2012 the share of this highly profitable business line decreased to 27%. Large banks managed to stabilize this proportion at a level of around 19%.

Revenues

Revenues generated by wealth management activities are quite sensitive to market movements. Weak stock markets, low turnovers, and low nominal yields after 2008 led to what looks like a structural break in wealth management returns depicted in Figure 21. Revenue per employee fell by about one fifth in a pre-/post-crisis comparison. Smaller banks saw their revenues melt away faster than bigger banks who only settled on a lower revenue level in 2010. In the aggregate of all banks, the median of total revenue per employee stabilized at around 440,000 CHF in 2009, some 20% below pre-crisis levels. Figure 21 also shows that median revenues per employee for small banks remain substantially lower than those of their larger competitors. In 2012, per capita revenue for 50% of small banks fell short of 400,000 CHF, while the large banks group was split in half at a revenue per employee of about 510,000 CHF.

41

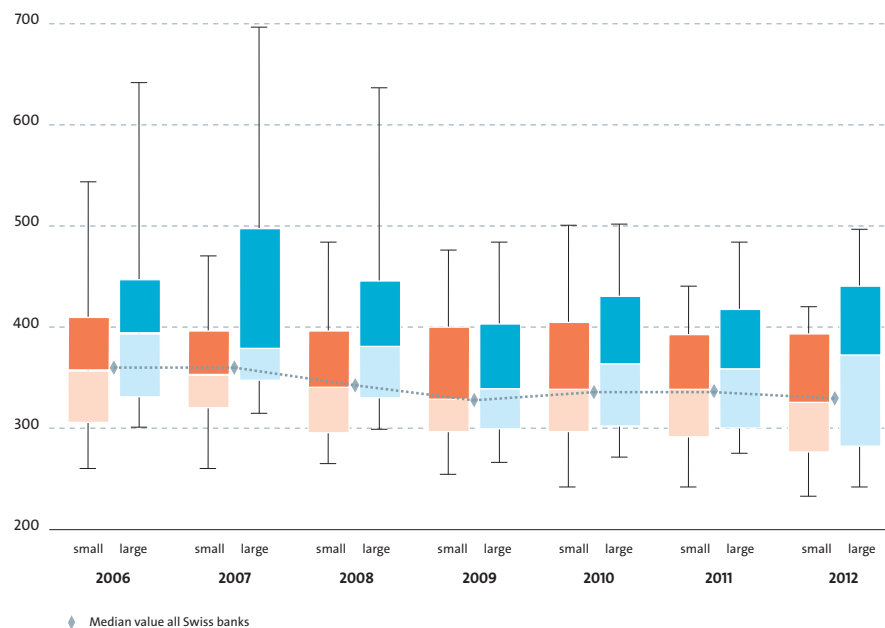
Figure 21: Total revenue per employee (median values, in tsd CHF)



Costs

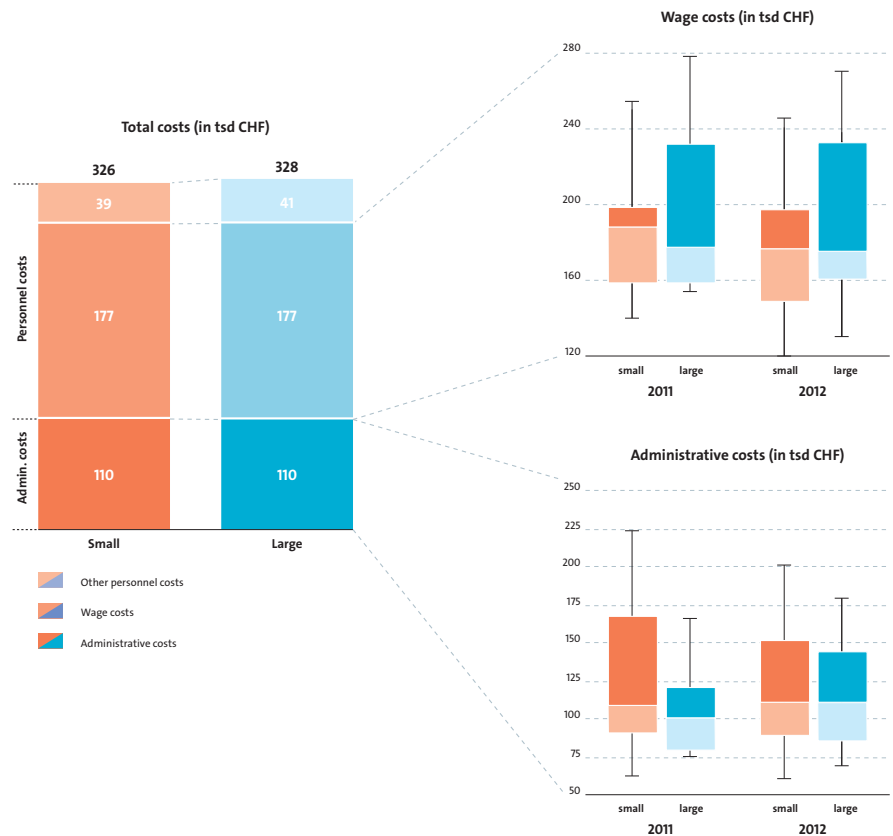
Operative costs look sticky compared to revenues. Five years after the crisis, operative costs per employee at the median banks are down by less than 10%. As Figure 22 shows, costs per employee are back at pre-crisis levels. The figure also shows that small banks operate under slightly lower median costs per employee than larger banks. Since 2009 small banks have improved their cost advantage somewhat year by year. In 2012 the difference between the two subsample medians even reached its highest level since 2003 with approximately 46,000 CHF.

Figure 22: Total operative costs per employee (median values, in tsd CHF)



The rigidity of operative costs stems from both main cost components, wage costs and administrative costs. Banks seem hesitant to reduce either wages per head or the number of employees. Administrative costs, on the other hand, are hard to reduce at a time of increasing regulatory and compliance requirements and the need to investment in information systems. Yet, as Figure 23 shows, both cost components are not only sticky over time, but also quite heterogeneous across banks. In both samples (small and large banks) high- and low-cost banks differ by a factor of two (wage cost) and three (administrative cost).

Figure 23: Cost split (median values, in tsd CHF)



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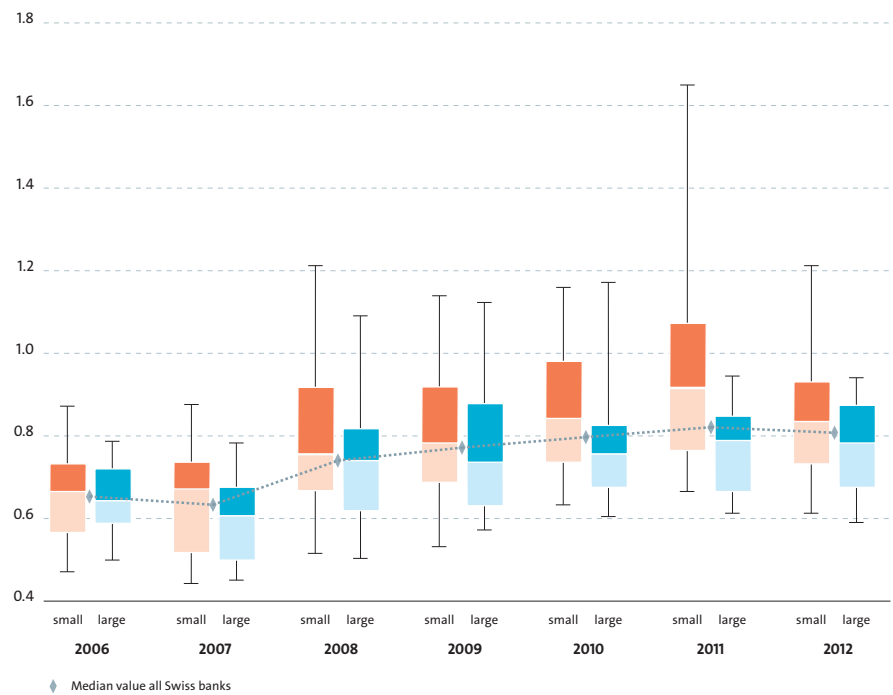
Efficiency

Banks' efficiency can be measured by their overall cost/income ratio. The cost/income ratio is computed as the ratio of total costs plus tangible assets depreciation to total revenues. A ratio below 60% is considered comfortable; ratios above 80% are critical over the long term, while a ratio above 100% is obviously not viable for long.

The cost/income ratios show a structural break in 2008, similar, although inverse, to the one in revenue per employee. Lower revenues and obstinate operative expenses led to an upward jump in the cost/income ratio in the range of 10-15% in the pre-/post-crisis comparison. The mean increase was accompanied by a dramatically widened dispersion, the range between the most and least cost-efficient bank jumping to 60-160% in 2011. In 2012 as a reward of banks' efforts to curb costs, the gap narrowed again, and no bank remained in the "death zone" of ratios above 100%. Still, banks' cost/income ratios differ by a factor of two.

Successful cost reduction in 2012 is mainly an achievement of the smaller banks. Their cost/income ratios, though historically not much different from those at larger banks, considerably increased in the post-crisis years. Almost three quarters of the smaller banks showed ratios above 80% in 2011. Yet, cost-reduction programs bore fruit in 2012. With a few exceptions, small banks are back in the below-100% area, and half of them operate on a cost/income ratio below 85%. Also, the gap between small and bigger banks has narrowed. However, bigger banks' ratios are not satisfactory yet, nor do 2012 figures reflect the full impact of regulatory costs expected from implementation of FATCA, MIFID2 and similar rules.

Figure 24: Cost/income ratio (after depreciation)



Interdependencies of Key Performance Indicators

A bank's gross margin may influence its cost/income ratio in two opposite ways. On the one hand, a high gross margin translates into high income and thus improves, i.e., lowers the cost/income ratio. On the other hand, a comfortable margin may lead the bank to neglect cost control and may thus worsen, i.e., increase its cost/income ratio. In the opposite direction, a high cost/income ratio may reflect a cost-intensive business model leading to (but eating up) relatively thick margins.

Figure 25: Profitability vs. efficiency

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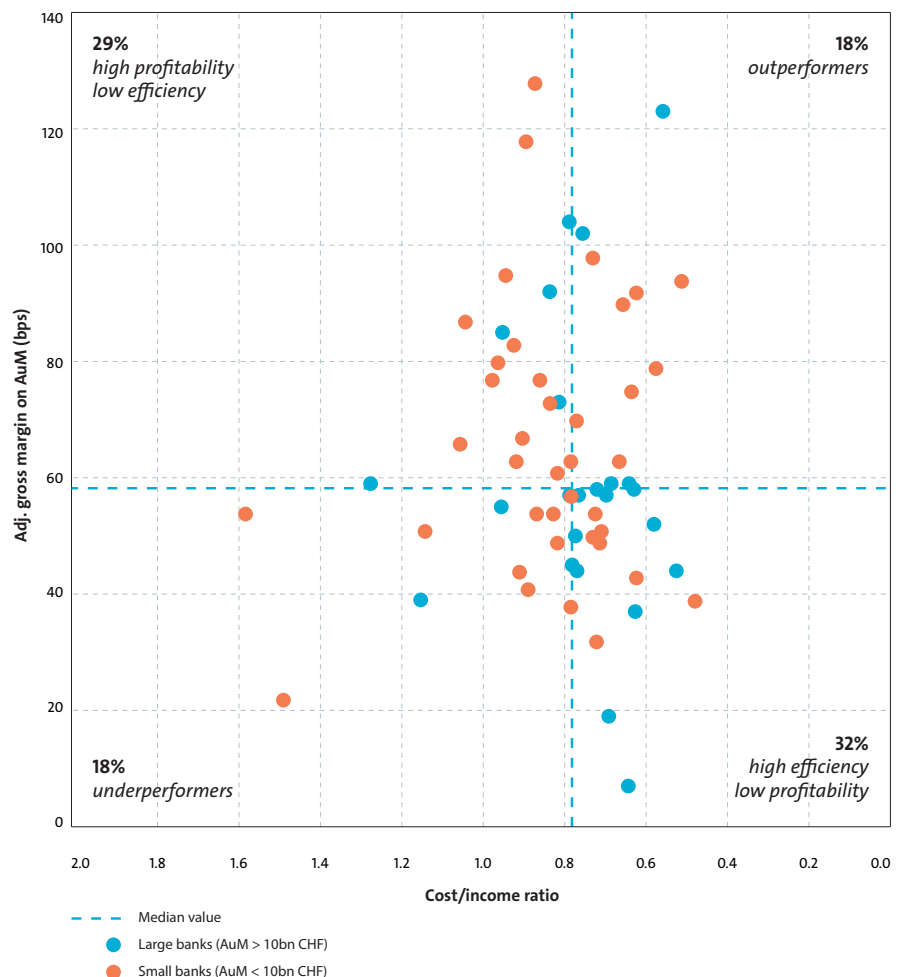
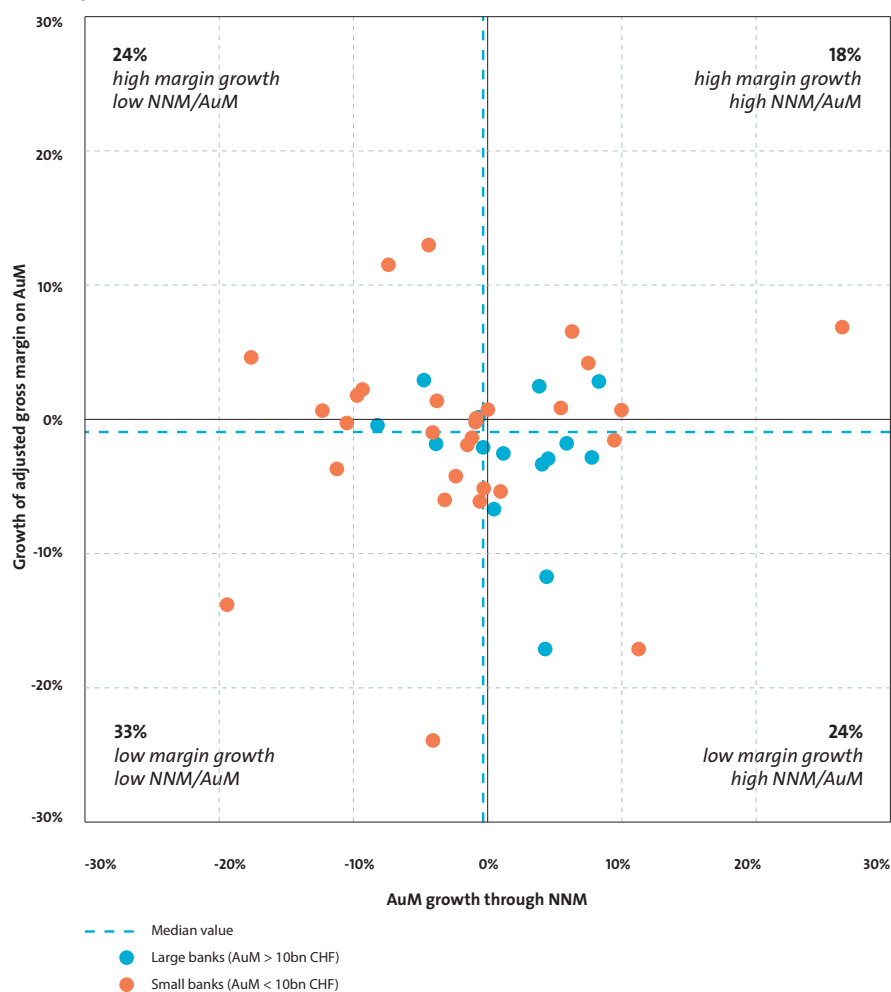


Figure 25 presents some evidence on which effect prevails. The figure plots adjusted gross margin on AuM (“efficiency”; vertical axis) against the (negative) cost/income ratio (“performance”, horizontal axis). Dotted lines indicate the respective median values. The figure shows that the correlation between the two variables is weak at best. The weak relation between performance and efficiency suggests that none of the described effects do-

minates. Yet, the figure also shows that bigger banks tend to perform somewhat better than their smaller competitors in terms of cost/income ratio; most bigger banks lie above the (vertical) dotted median line. Smaller banks seem somewhat more oriented towards, or successful in achieving comfortable gross margins than on low cost products, a result in line with their relatively individualized services.

Figure 26: Margin growth vs. AuM growth through net new money



In a competitive market banks with low gross margins would ceteris paribus attract more new money than banks charging high margins. Conversely, a high gross margin may indicate a bank's service quality or general attractiveness, being positively related to inflows of new money. The respective evidence is presented in Figure 26, plotting margin growth (vertical axis) against growth of assets under management (through net new money; horizontal axis). There is hardly any correlation between the two variables, sug-

gesting that both effects may be equally strong or that omitted influences disturb their relation.

The figure shows, however, that the bigger banks are more likely to have relatively low margin growth, but relatively high inflows of net new money. This would be consistent with price competition by bigger banks. Among the smaller banks, business models and success seem to differ rather wildly.

Concluding Remarks on the Swiss Private Banking Industry

The trends revealed in this key performance analysis clearly reflect the challenges Swiss private banks were faced with over the past few years. The strong political and legal pressure on tax evading clients led to diminished revenues, reduced profitability and ultimately to a profound structural change in the industry. Throughout this transition Swiss private banks were nevertheless able to report positive net new money figures for the last three years.

The traditional offshore model benefited from clients being largely price insensitive. As a result, banks were able to achieve considerable margins at comparable low costs. With clients becoming more tax transparent, overall volume in this highly profitable field of business shrank. In addition to changes in client behavior, increasing risk awareness and a low interest environment led to smaller trading volumes, higher cash buckets and widespread performance sensitivity. With clients as well as regulators requesting more price transparency, a growing avoidance of complex and high margin financial products and the banning of commission payments, margins eroded even further. In 2012 Swiss banks finally managed to halt this trend that had continued since 2006. Banks achieved an adjusted median gross margin on AuM of 58bp, slightly above the 2011 value, yet still short of its pre-crisis level of 70-80 bp in 2006-07. Where the share of assets managed discretionarily at small banks decreased from 30% in 2006 to 27% in 2012, over the last few years large banks stabilized their portion at a level of around 19%.

After 2008 lower revenues and obstinate operative expenses led to an upward jump in the cost/income ratio for the whole industry. Efficiency of small banks worsened significantly compared to their larger competitors. In 2012, on the other hand, small banks were again able to successfully reduce their costs/income ratios, narrowing the gap between small and large private banks. After all, size remains only one of many determinants of success. The question remains as to what parts of the value chain should be serviced in-house and what parts should be drawn from the market. A considerable potential for further cost-oriented optimization remains unexploited.

The 2012 market recovery brought some relief in terms of market figures. The numbers, such as assets under management, profits and costs were finally better than in previous years. Overall, prospects for the Swiss private banking industry are brightening. Many competitors went a long way in adapting their business model to the changing regulatory environment and a more demanding clientele and are now exploring new technological potentials. Some bigger banks are focusing on the huge growth in on-shore emerging markets with an above-average development of wealth and wealthy clients as an alternative to the rather sluggish offshore business. Some competitors focus on more online, real time and interactive service

offerings for the next generation of clients. Virtually all market participants have finally understood that the time of easy and unsophisticated money is over. To survive in the future the business model has to be truly client centric and compliant, real competencies must be brought together in effective teams and operating at lean costs. Clients demand outstanding asset management, which is also a function of cost consciousness, sound risk management and proper investment controlling. Furthermore the future will demand extensive pricing transparency and reduced conflicts of interests.

Along with a clearer regulatory environment, more client base transparency and a separation between competitors successfully adapting to the new realities and those who do not, mergers and acquisitions will pick up again and the number of banks in Switzerland will further diminish. For some smaller banks the surrender of the banking license in combination with becoming a less regulated wealth manager at lower costs will become a viable option. On a political level, full access to the European markets should be a top priority target. Where in the past many offshore clients held a Swiss bank account for regulatory arbitrage reasons and discretion was everything, future success of the Swiss financial center will depend on service quality and on financial performance. Further down the road waits the Swiss bank relationship that, free from the former dingy look of a tax-refuge, will again become the high quality and no-nonsense product it used to be for most of its history.

Appendix

Appendix A: Sample

	Cost/income ratio (before depreciation)	
	2012	2011
Switzerland		
AKB Privatbank	75.2%	72.1%
Arab Bank (Switzerland)	75.9%	79.1%
Arvest Privatbank	68.9%	97.9%
Banca Arner	143.8%	149.9%
Banca del Sempione	65.8%	70.8%
Banca della Svizzera Italiana	77.2%	80.2%
Banca Zarattini & Co SA	87.4%	137.2%
Bank CIC (Schweiz)	81.9%	82.3%
Bank Frey	54.2%	59.0%
Bank Gutenberg	92.0%	107.6%
Bank Hapoalim	72.4%	73.4%
Bank Julius Bär & Co.	68.7%	71.7%
Bank Leumi (Switzerland)	75.7%	93.6%
Bank Morgan Stanley (Switzerland)	90.4%	99.6%
Bank Sarasin & Cie. Private Banking	83.0%	74.0%
Bank Sarasin & Co.	80.6%	75.2%
Bank Thaler (Switzerland)	51.4%	51.6%
Bank Vontobel	71.3%	72.1%
Bank Vontobel Private Banking	81.8%	82.8%
Banque Cantonale Vaudoise	51.9%	52.3%
Banque Cramer & Cie.	89.4%	87.7%
Banque de Dépôts et de Gestion	135.7%	147.8%
Banque Morval	75.2%	77.4%
Banque Pasche	91.5%	104.4%
Banque Piguet & Cie	83.5%	83.5%
Banque Privée Edmond de Rothschild	80.8%	63.2%
Banque Profil de Gestion	90.0%	128.4%
Banque Syz & Co.	78.2%	78.2%
BHF Bank (Schweiz)	n/a	138.9%
BNP Paribas Private Bank (Suisse)	55.5%	57.8%
BZ Bank Aktiengesellschaft	40.0%	72.7%
Compagnie Bancaire Helvetique	51.5%	61.9%
Crédit Agricole (Suisse)	65.2%	62.9%
Credit Suisse	89.4%	84.9%
Credit Suisse Private Banking & WM	76.2%	82.8%
Deutsche Bank (Suisse)	93.4%	95.6%
Dominick Company	88.8%	93.6%
Dreyfus Söhne & Cie. Banquiers	57.3%	57.6%
DZ Privatbank (Schweiz)	82.7%	74.8%
EFG International	77.1%	90.0%
EFG International PB & WM	73.7%	86.9%
F. van Lanschot Bankkiers (Schweiz)	123.3%	96.7%
Falcon Private Bank	99.4%	128.2%
Finter Bank Zürich	100.0%	119.5%
Frankfurter Bankgesellschaft (Schweiz)	76.5%	74.9%
HSBC Private Bank (Suisse)	61.1%	65.7%
Hyposwiss Privatbank	70.8%	78.3%
IDB (Swiss) Bank	89.0%	89.3%
Jyske Bank (Schweiz)	65.0%	137.5%
LGT CH	n/a	n/a
Lienhardt & Partner Privatbank Zürich	66.7%	69.7%
M.M. Warburg Bank (Schweiz)	78.6%	73.1%
Maerki Baumann & Co.	93.3%	89.7%
NBK Private Bank	89.1%	92.5%
Notenstein	74.9%	n/a
PKB Privatbank	60.0%	61.9%
Privatbank IHAG Zürich	66.4%	61.5%

	Cost/income ratio (before depreciation)	
	2012	2011
Switzerland		
Privatbank Von Graffenried	73.1%	73.4%
RBS Coutts Bank	71.7%	83.1%
Rothschild Bank Zürich	80.9%	79.7%
Schroder & Co. Bank	78.7%	76.9%
Scobag Privatbank	63.0%	66.6%
Societa Bancaria Ticinesi	72.0%	97.8%
Société Générale Private Banking	79.0%	76.9%
Trafina Privatbank	69.4%	81.1%
UBS	91.5%	77.3%
UBS Global Wealth Management	62.2%	60.8%
Union Bancaire Privée, UBP	72.9%	66.2%
Vadian Bank	62.8%	70.5%
Valartis	74.2%	129.1%
VP Bank (Schweiz)	93.3%	84.3%
Austria		
Bank Gutmann AG	87.6%	78.2%
Bank Winter & Co.	54.9%	48.8%
Bankhaus Carl Spängler & Co.	73.3%	69.7%
Bankhaus Krentschker	62.1%	58.9%
Bankhaus Schelhammer & Schattera	63.4%	61.4%
Oberbank	50.0%	45.8%
Schöllerbank	66.4%	68.6%
Semper Constantia Privatbank	68.0%	58.9%
Bank Vontobel (Österreich)	n/a	95.3%
Walser Privatbank	77.8%	81.2%
Benelux		
ABN Amro	61.4%	64.1%
ABN Amro Private Clients	80.3%	76.0%
Banque Degroof	62.7%	60.1%
Banque Delen	35.7%	35.5%
Banque LBLux	51.4%	254.1%
Banque Safra Luxembourg	42.7%	67.1%
Banque Privée E. de Rothschild Europe	75.8%	73.6%
DZ Bank International	50.2%	39.0%
Fortis Bank	70.7%	63.3%
Hauck & Aufhäuser Banquiers Lux.	71.0%	50.5%
KBC Bank	59.1%	57.9%
Krediet Bank Luxembourg (KBL)	142.9%	79.9%
Krediet Bank Luxembourg (KBL) WM	101.7%	90.6%
M.M. Warburg Luxembourg	58.4%	52.7%
Norddeutsche Landesbank Luxembourg	39.9%	39.2%
Petercam	96.2%	104.5%
Rabobank	61.7%	60.7%
Rabobank Asset Management	56.8%	64.0%
Société Générale Bank & Trust	32.0%	40.9%
UniCredit Luxembourg	13.4%	11.7%
Van Lanschot Bankiers Belgique	71.7%	69.7%
France		
BLOM France	58.7%	58.8%
BNP Paribas	64.0%	58.1%
Credit Agricole	69.6%	71.9%
Credit Agricole Private Banking	62.2%	58.4%
Credit Agricole S.A. AM, Insur. & PB	46.5%	47.8%
Credit Lyonnais	63.0%	63.1%

	Cost/income ratio (before depreciation)	
	2012	2011
France		
HSBC France	73.3%	87.4%
HSBC France Private Banking	122.2%	85.1%
Oddo & Cie.	75.6%	89.3%
Quilvest	70.7%	105.8%
Quilvest Wealth Management	95.0%	120.8%
Société Générale	67.1%	62.9%
Société Générale Private Banking	82.4%	81.2%
Germany		
Bank Vontobel Europe AG München	122.0%	136.0%
Bankhaus B. Metzler seel. Söhne & Co.	90.4%	77.9%
Bankhaus Hallbaum	73.3%	67.5%
Bankhaus Lampe	81.4%	72.7%
Bankhaus Löffelbecker	146.3%	84.5%
Bankhaus Neelmeyer	93.4%	89.7%
Berenberg Bank	74.5%	74.0%
Commerzbank	68.7%	76.0%
Commerzbank Private Clients	89.9%	86.8%
Deutsche Bank	84.6%	77.6%
Deutsche Bank Wealth Management	82.2%	71.5%
Donner & Reuschel	77.1%	72.5%
Hauck & Aufhäuser Privatbankiers	92.8%	87.8%
HSBC Trinkhaus Burkhardt	66.0%	67.1%
HSBC Trinkhaus Burkhardt PB	70.1%	68.8%
M.M. Warburg	56.5%	52.8%
Merkur Privatbank	61.8%	58.3%
Otto M. Schröder Bank	43.6%	54.9%
Italy		
Banca Aletti WM & Sales	67.8%	55.4%
Banca Carige	57.6%	58.0%
Banca Fideuram	48.8%	56.6%
Banca Generali	47.3%	58.8%
Banca Monte dei Paschi di Siena	72.2%	66.9%
Banca Passadore	69.7%	72.2%
Banca Patrimoni Sella & C.	75.9%	76.5%
Banca Popolare di Bergamo	58.4%	55.7%
Credem	69.0%	71.8%
Credem Wealth Management	n/a	36.1%
Deutsche Bank Italien	69.0%	65.5%
Mediobanca	39.7%	41.1%
Mediobanca Private Banking	75.0%	74.3%
Banca Intesa Sanpaolo	50.2%	57.9%
Banca Intesa Sanpaolo Private Banking	43.1%	52.4%
UBI Banca Private Investment	82.0%	88.4%
Unicredit Private Banking	62.5%	61.6%
Liechtenstein		
Bank Alpinum	83.1%	83.7%
Bank Frick & Co.	65.6%	61.2%
Bank Pasche (Liechtenstein)	97.6%	103.8%
Bank von Ernst (Liechtenstein)	89.4%	77.4%
Centrum Bank	79.1%	75.0%
Kaiser Partner Privatbank	79.8%	80.2%
LGT	76.0%	90.8%
LGT Wealth Management	65.0%	87.2%
LLB	57.9%	70.4%

	Cost/income ratio (before depreciation)	
	2012	2011
Liechtenstein		
Neue Bank	53.6%	51.4%
Raiffeisenbank (Liechtenstein)	87.3%	66.8%
Valartis Bank Liechtenstein	52.7%	57.3%
Volksbank (Liechtenstein)	67.8%	68.6%
Vontobel (Liechtenstein)	85.7%	79.7%
VP Private Banking	129.4%	112.4%
UK		
Barclays	67.6%	53.8%
Barclays Private Banking	80.6%	85.6%
Brewin Dolphin Sec. Ltd	84.5%	87.8%
C. Hoare & Co.	67.3%	66.9%
Charles Stanley & Co. Ltd	93.3%	93.3%
Coutts & Co	74.8%	67.5%
HSBC	55.2%	52.1%
HSBC Private Banking	67.6%	68.8%
Investec	76.6%	73.1%
Investec Private Banking	n/a	159.1%
N M Rothschild & Sons Ltd	86.0%	86.7%
Rathbone Brothers plc	73.4%	71.3%
RBS	81.2%	63.4%
RBS Wealth Management	74.4%	70.6%
Schroders	69.7%	66.1%
Schroders Private Banking	87.5%	79.2%
US		
Alliance Bernstein	91.8%	106.8%
Bank of America	85.0%	80.2%
Bank of New York Mellon	71.4%	69.9%
Boston Private Financial Holdings	73.4%	75.3%
Citigroup Inc.	67.2%	63.2%
JP Morgan Chase	65.7%	63.8%
Legg Mason, Inc.	89.9%	89.1%
Morgan Stanley	98.0%	81.1%
Northern Trust	73.9%	75.1%
UBS Wealth Management Americas	84.2%	87.0%
Wells Fargo	58.1%	61.0%
Wells Fargo Wealth Management	81.4%	81.5%

Appendix B: Country Level Data

	2006	2007	2008	2009	2010	2011	2012
Median assets under management per employee (in mn CHF)							
Switzerland	55	53	39	41	39	42	43
Benelux	27	48	26	25	25	25	30
Germany	24	29	20	30	25	24	31
Liechtenstein	61	67	48	50	47	44	48
UK	31	41	28	32	33	30	32
US	11	29	18	28	27	23	26

	2006	2007	2008	2009	2010	2011	2012
Median adjusted gross margin on assets under management (in bps)							
Switzerland	74	75	69	64	60	56	58
Benelux	70	75	78	80	74	78	77
Germany	43	43	87	62	70	47	48
Italy	131	106	88	119	108	77	74
Liechtenstein	62	61	52	48	46	44	42
UK	78	87	83	65	62	62	55
US	128	120	99	50	57	60	61

	2006	2007	2008	2009	2010	2011	2012
Median total revenue per employee (in tsd CHF)							
Switzerland	593	635	487	447	439	446	440
Austria	321	344	328	267	272	261	255
Benelux	433	500	495	411	445	337	356
France	374	529	495	332	339	301	252
Germany	380	430	344	328	278	273	266
Italy	377	437	341	356	328	300	289
Liechtenstein	693	738	590	500	412	375	383
UK	474	464	356	339	340	322	331
US	482	416	346	351	349	296	335

	2006	2007	2008	2009	2010	2011	2012
Median personnel costs per employee (in tsd CHF)							
Switzerland	230	239	225	222	222	216	219
Austria	131	130	139	136	125	112	114
Benelux	135	159	157	148	144	123	136
France	122	170	140	113	103	120	88
Germany	162	180	170	143	132	119	120
Italy	116	129	134	123	113	109	106
Liechtenstein	187	201	193	178	169	172	166
UK	159	171	131	117	125	111	118
US	166	168	129	131	128	115	122

	2006	2007	2008	2009	2010	2011	2012
Median wage costs per employee (in tsd CHF)							
Switzerland	183	190	182	171	178	182	181
Austria	98	111	101	94	90	82	80
Benelux	111	132	133	122	117	110	112
France	89	118	98	79	78	61	63
Germany	129	149	142	124	113	98	99
Italy	81	88	83	81	73	72	68
Liechtenstein	151	160	151	146	141	131	140
UK	132	147	108	93	95	89	93

	2006	2007	2008	2009	2010	2011	2012
Median wage costs per employee (in tsd CHF, PPP adjusted)							
Switzerland	183	190	182	171	178	182	181
Austria	121	124	116	112	116	114	112
Benelux	132	145	148	142	145	147	149
France	103	129	108	93	98	83	85
Germany	162	175	171	154	153	143	145
Italy	103	104	103	104	100	106	100
Liechtenstein	151	160	151	146	141	131	140
UK	151	152	129	127	134	134	132

	2006	2007	2008	2009	2010	2011	2012
Median gross profit per employee (in tsd CHF)							
Switzerland	243	272	166	137	111	82	117
Austria	128	152	145	98	84	95	97
Benelux	278	353	232	286	254	185	204
France	179	212	72	139	136	84	104
Germany	139	141	58	108	65	69	58
Italy	236	209	158	171	157	143	141
Liechtenstein	344	356	272	203	145	108	119
UK	181	198	139	108	113	85	84
US	218	148	19	106	110	70	75

	2006	2007	2008	2009	2010	2011	2012
Median stakeholder income per employee (in tsd CHF)							
Switzerland	370	428	361	319	288	256	272
Austria	256	264	231	195	165	153	154
Benelux	297	339	258	203	287	207	189
France	220	177	160	149	143	101	93
Germany	245	236	199	190	159	156	159
Italy	187	249	229	192	171	150	157
Liechtenstein	444	421	384	351	270	232	238
UK	237	311	178	135	134	128	141
US	292	272	167	149	199	188	210

Appendix C: Calculation Methods

Breakdown of costs

Percentage of administrative costs against operating costs (in %)
 Percentage of wage costs against operating costs (in %)
 Percentage of other personnel expenses against operating costs (in %)

Administrative costs / operating costs
 (Salaries and bonuses) / operating costs
 (Personnel costs – (wages and bonuses)) / operating costs

Return on assets under management

Adjusted gross margin on AuM (in bps)

Fee and commission revenues / average AuM

Percentage assets under management

Own funds as percentage of assets under management
 Discretionary management mandates as a percentage of assets under management

Own managed funds / average AuM
 Management mandates / average AuM

Per capita analysis

Total Revenue per employee (absolute, in CHF)
 Gross profit per employee (absolute, in CHF)
 Stakeholder income per employee (absolute, in CHF)
 Total operative costs per employee (absolute, in CHF)
 Personnel costs per employee (absolute, in CHF)
 Wage costs per employee (absolute, in CHF)
 Assets under management per employee (absolute, in CHF)

Revenue net / average number of staff
 Gross profit / average number of staff
 Stakeholder income / average number of staff
 Total operative costs / average number of staff
 Personnel costs / average number of staff
 (Wages and bonuses) / average number of staff
 AuM / average number of staff

Cost/income ratio

Cost/income ratio before depreciation

Operating costs / revenue net
 (Operating costs + depreciation) / revenue net

Growth of assets under management

Growth of AuM (in %)
 Growth of AuM by net new money (in %)

$(AuM_{t-1} / AuM_{t-0}) - 1$
 NNM_{t-1} / AuM_{t-0}

