



Light at the end of the tunnel?

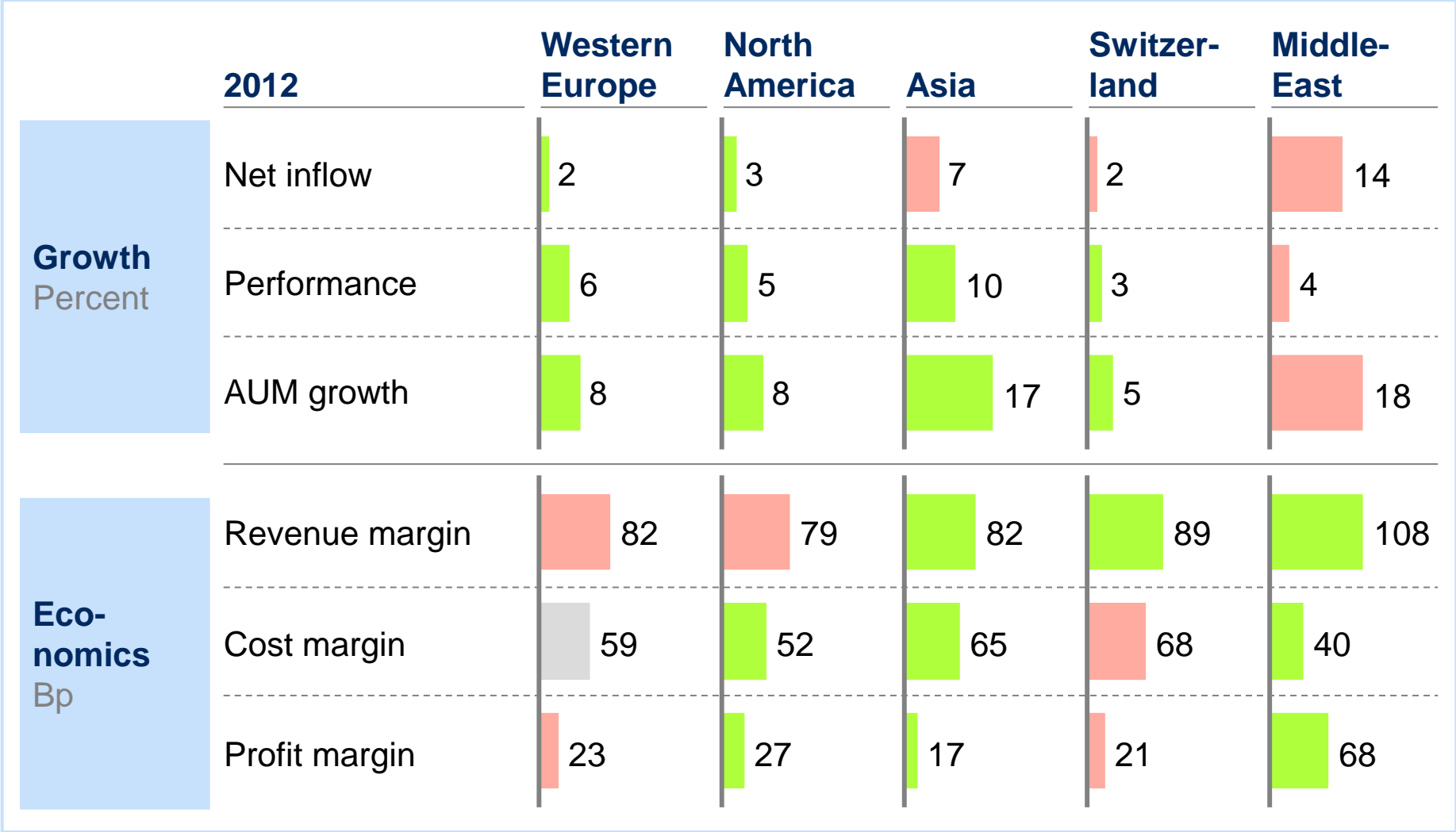
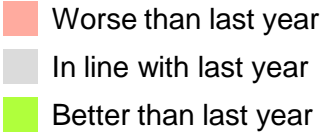
April 8, 2014

Contents

- **Current state of industry – where are we today?**
- What is the health of (Swiss) Private Banking?
- How to cope with long-term challenges?
- Conclusion

Substantial differences in performance between regions

Private Banking industry averages

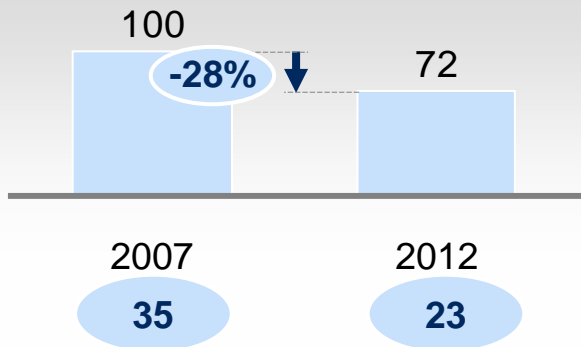


Private Banking has lost attractiveness – Switzerland and UK hit worse than Western Europe and Asia

Western Europe



Profit pool, indexed

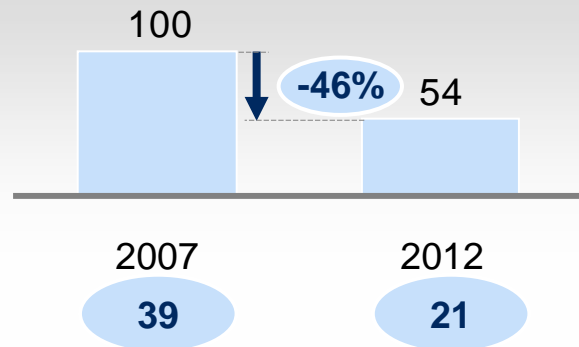


Profit margin Bp



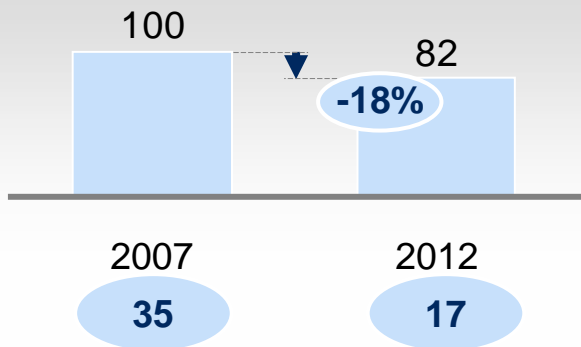
Switzerland

Profit pool, indexed



Asia

Profit pool, indexed

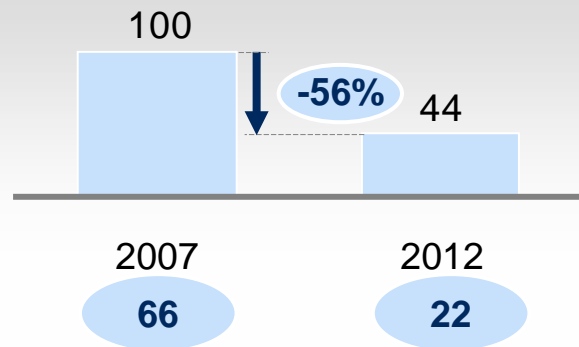


Profit margin Bp



UK

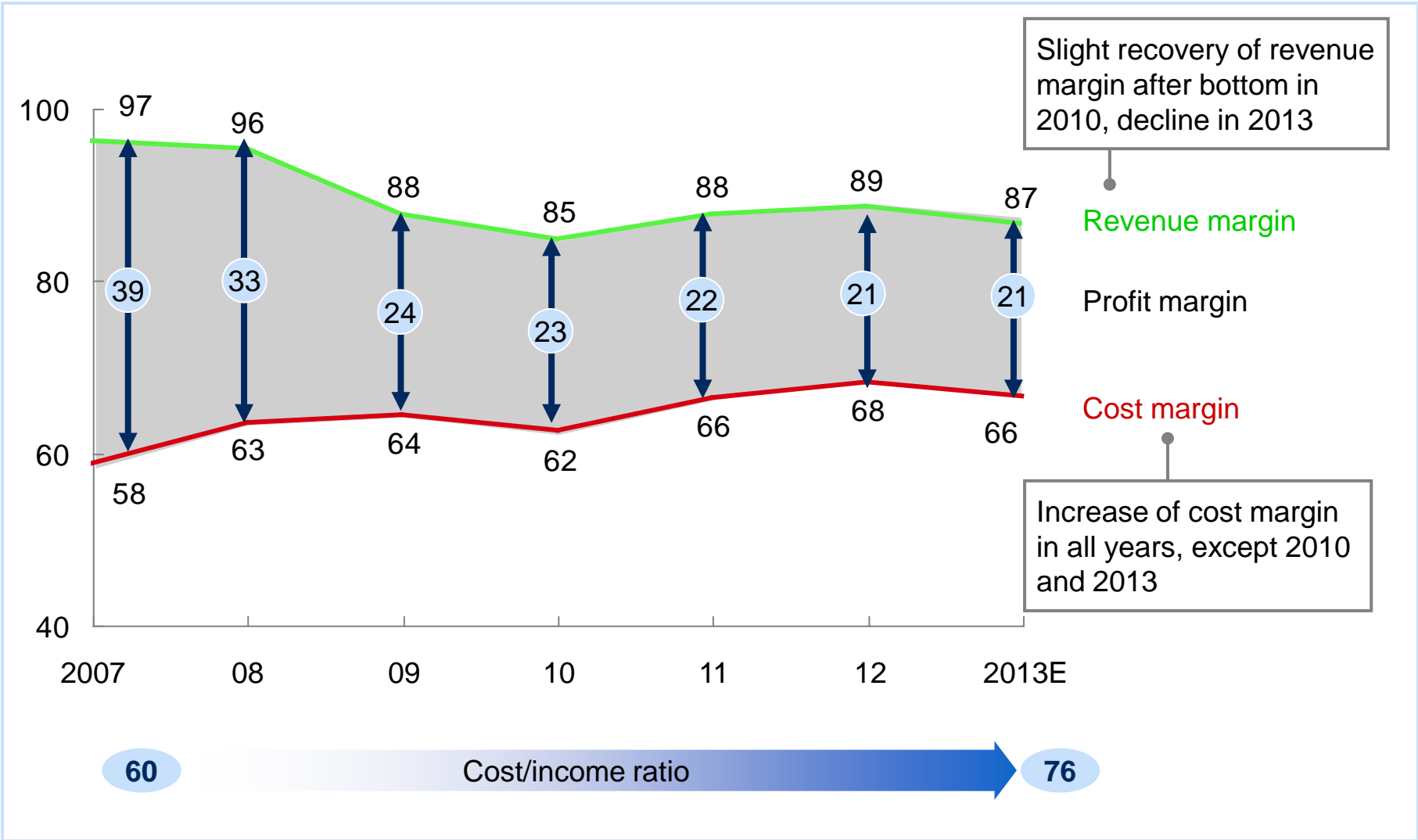
Profit pool, indexed



Decline in profit pool driven by decreasing revenue margins and costs



Margins in Swiss Private Banking, bp

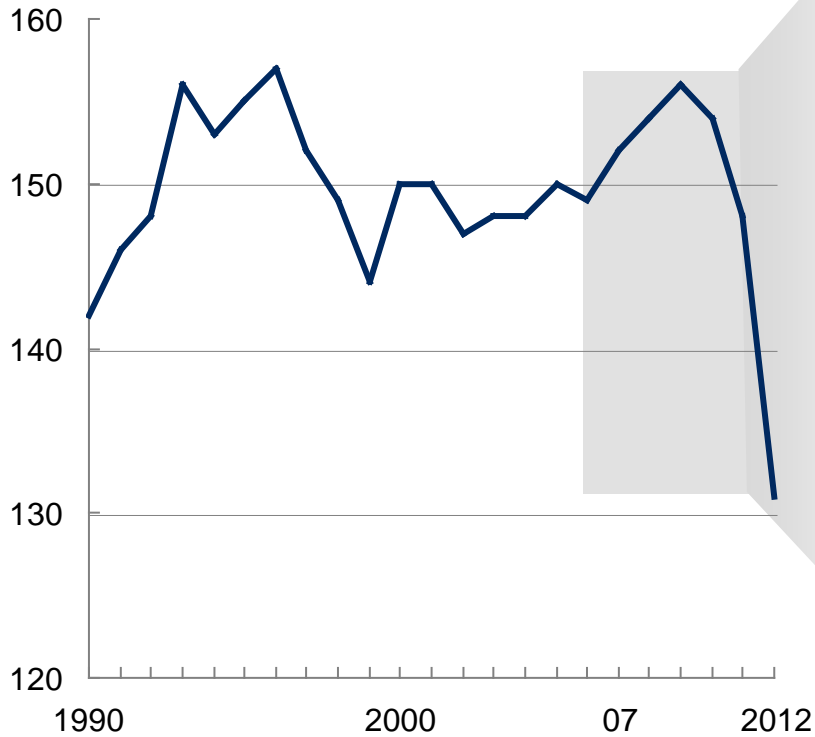




Consolidation has started

Illustrative example: Foreign banks in Switzerland

of players (banks and branches of foreign banks)



Total banks, #

Market exits of foreign banks through sale and closure 2007-2013 (not exhaustive)

Category	Bank/Entity
Sold	Bank of China (中國銀行)
	Dresdner Bank
	Merrill Lynch Wealth Management (Bank of America Corporation)
	COMMERZBANK
	ING PRIVATE BANKING
	ANGLO IRISH BANK
	BANCA GESFID
	AIG Private Bank
	ABN-AMRO Private Banking
	Private Banking (Lloyds TSB)
Liéchtensteiner Landesbank	
UniCredit	
CMB	
Closure	Aareal Bank Group
	MIZUHO
	Svenska Handelsbanken
	J&T BANK
Sydbank (Schweiz) AG	

Traditional Swiss names have also been in talks or completed transactions

WEGELIN & Co.	AAM PRIVATBANK	SARASIN
HYPOSWISS PRIVATE BANK		BSI

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Three questions

1 Are the current revenue margins sustainable given further regulatory pressure?

2 Can growth momentum be restored?

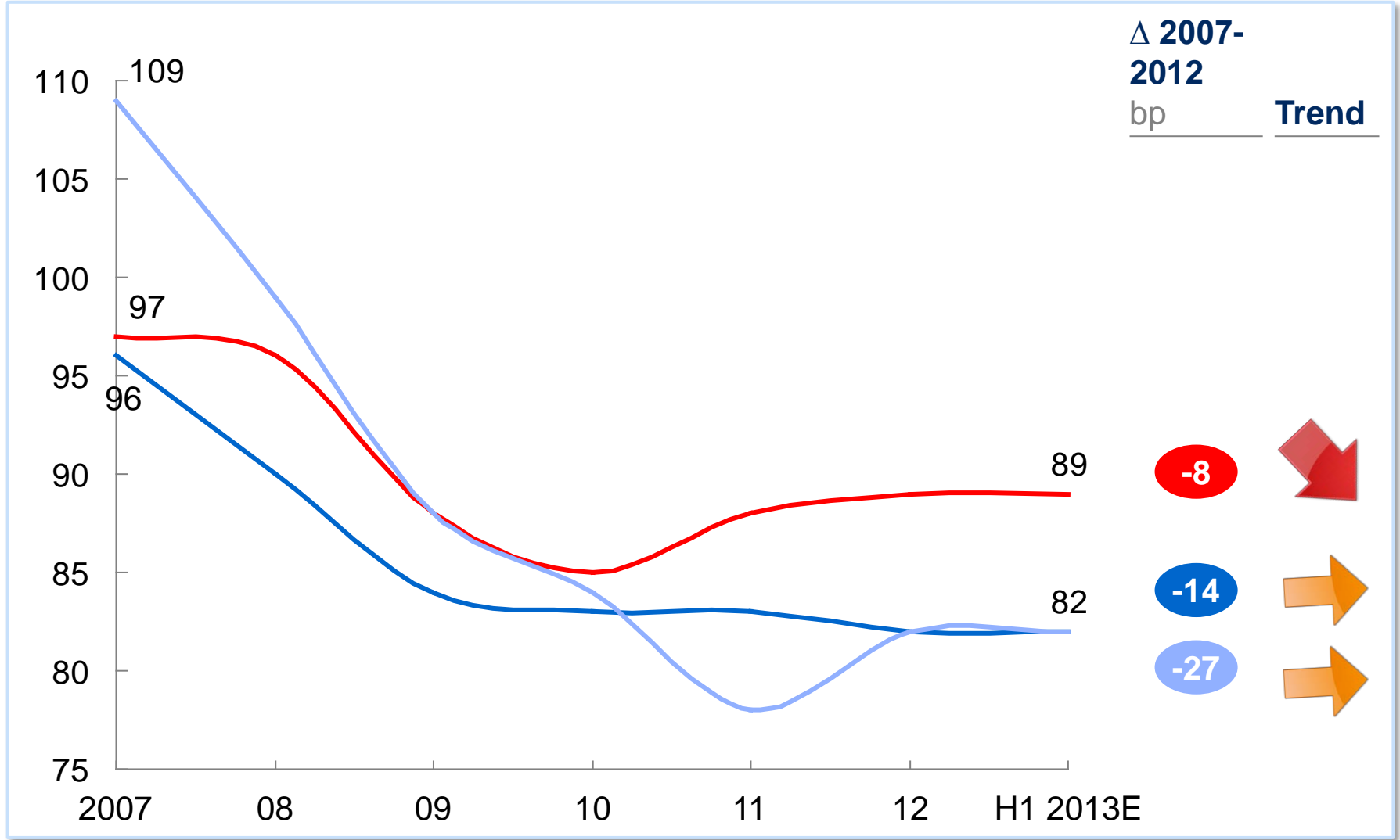
3 Can cost pressures be mitigated?



1 Margins have come under pressure since the financial crisis

Revenue margin, bp

— Switzerland — Western Europe — APAC



1 Different forces affecting revenue margins

■ Focus of today



Negative impact

- a** Ban of retrocessions/inducements
- b** Trend towards lower cost products (especially passive)
- c** Increasing concentration of wealth (UHNWI with lower margins)
 - Competition from low cost digital channels



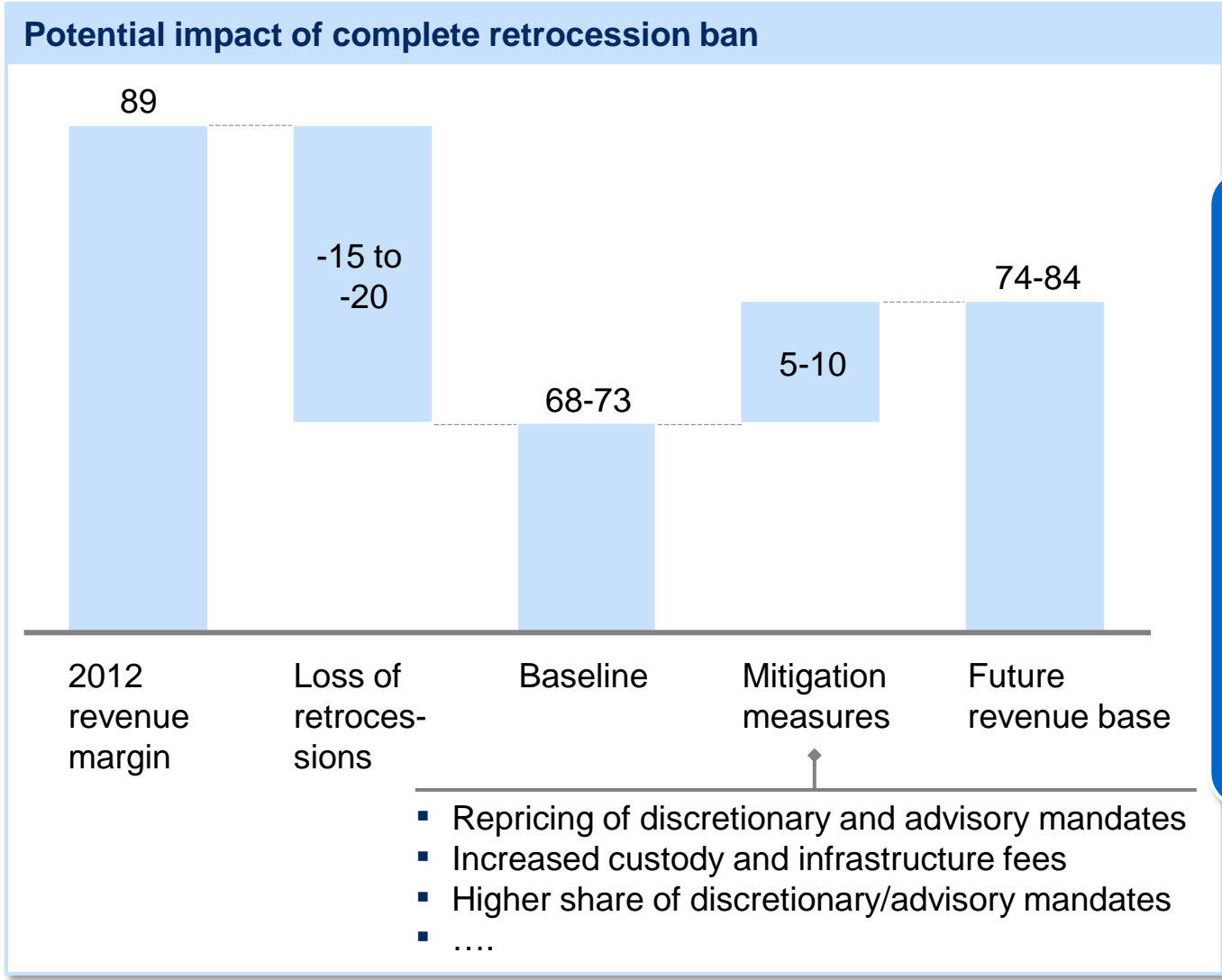
Positive impact

- Stronger trading activity
- Widening interest spreads
- Consolidation and market discipline

a Regulatory developments are likely to reduce revenue margins further

Revenue margin, bp

ROUGH ESTIMATES

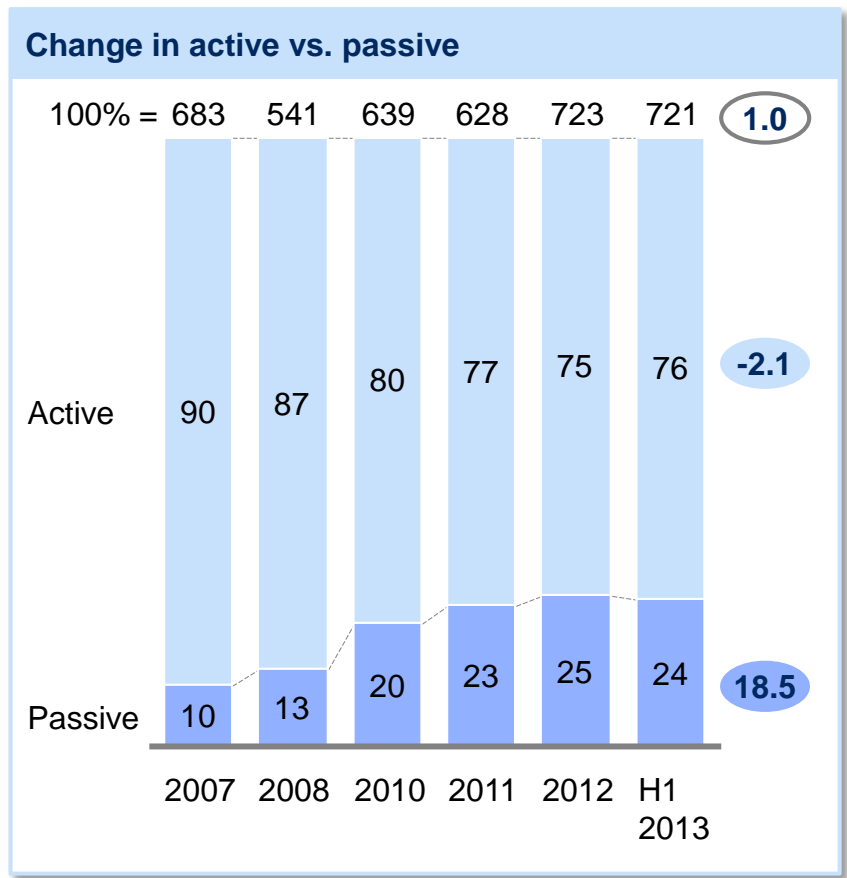
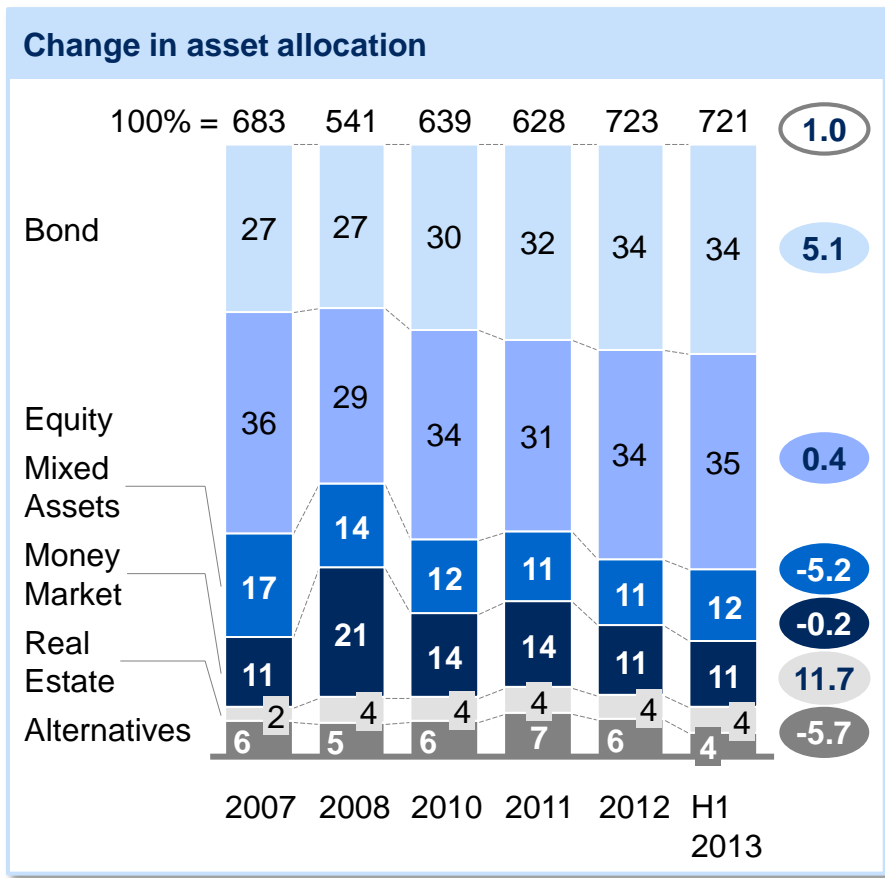


- **Compensating the lost revenues from retrocessions will require banks to price advice (e.g., through advisory mandates)**
- **Early experiences from other markets (NL, UK) hint at customers' reluctance to pay for advice**

b Passive funds show strong growth – equity share slowly recovering

Swiss fund market (excludes inst. mandates)
Percent/CHF billion for 100%

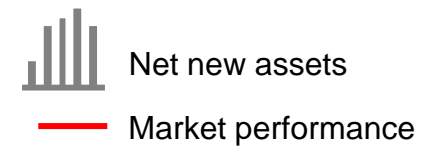
xx CAGR 2007-H1 2013 (%)



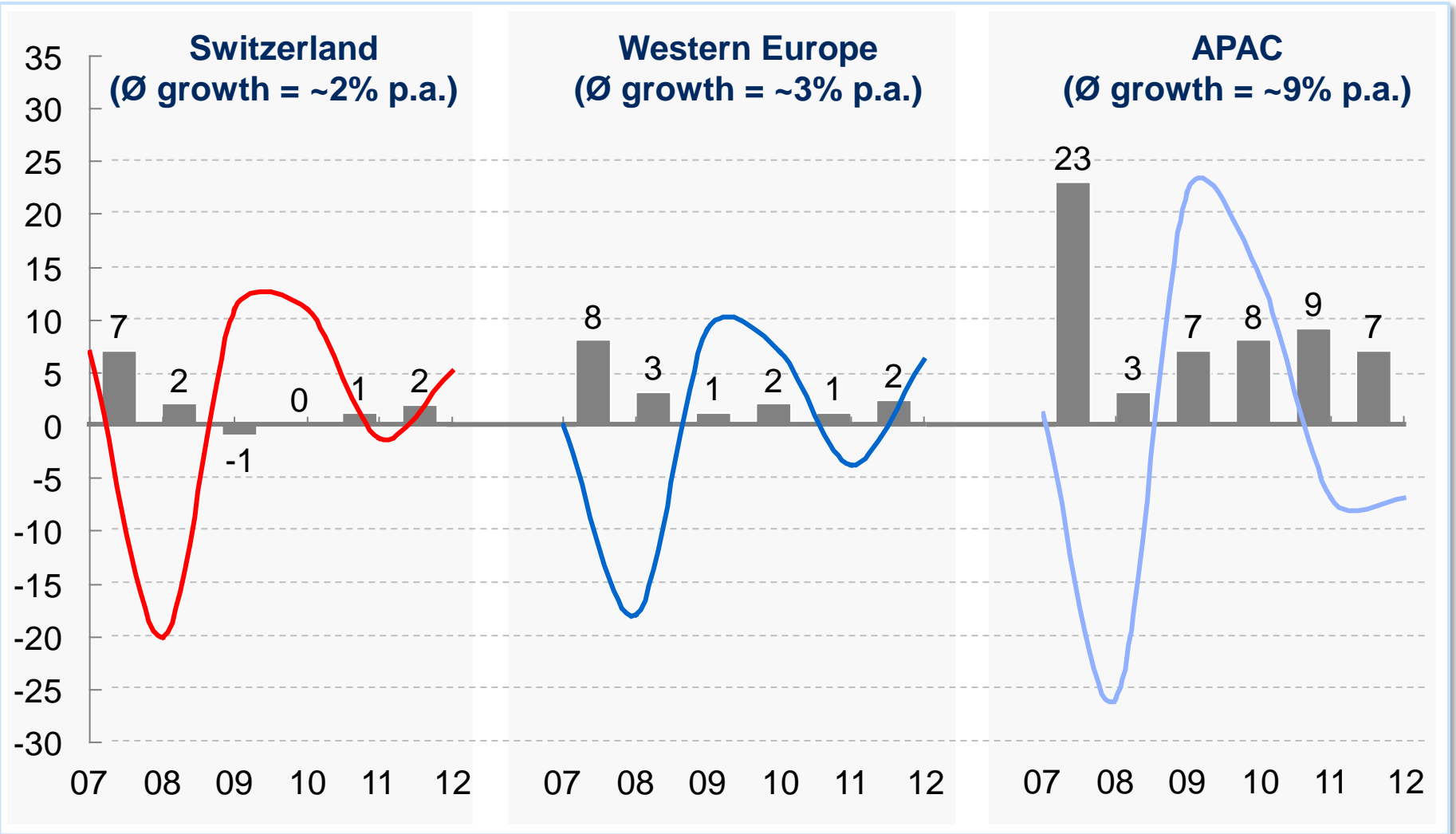
Shift out of mixed assets and alternatives towards bonds and real estate

A clear shift in assets from active to passive funds is visible over the past few years

2 Net new assets remained low in Switzerland and Europe – market effect dominates growth

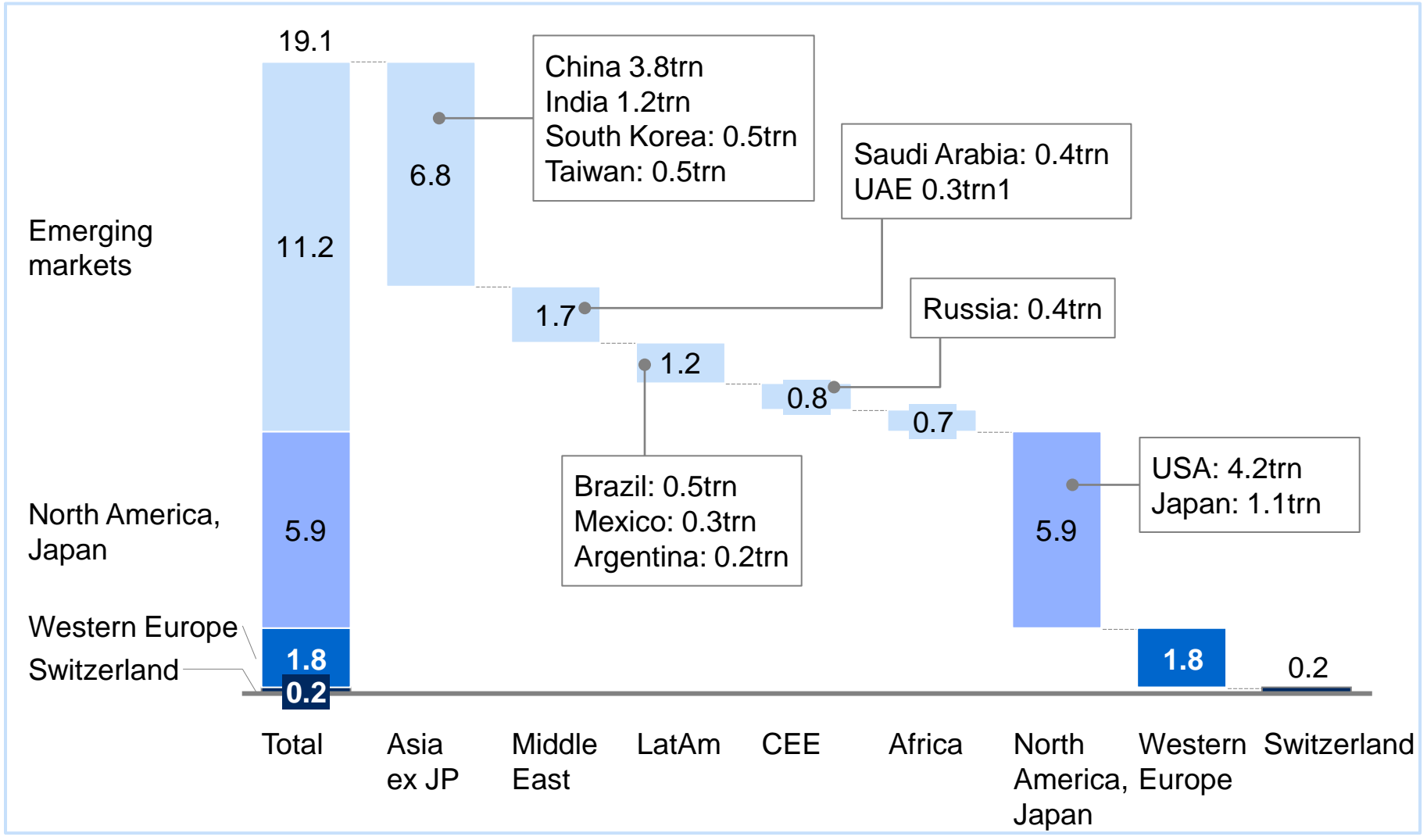


AuM growth, %



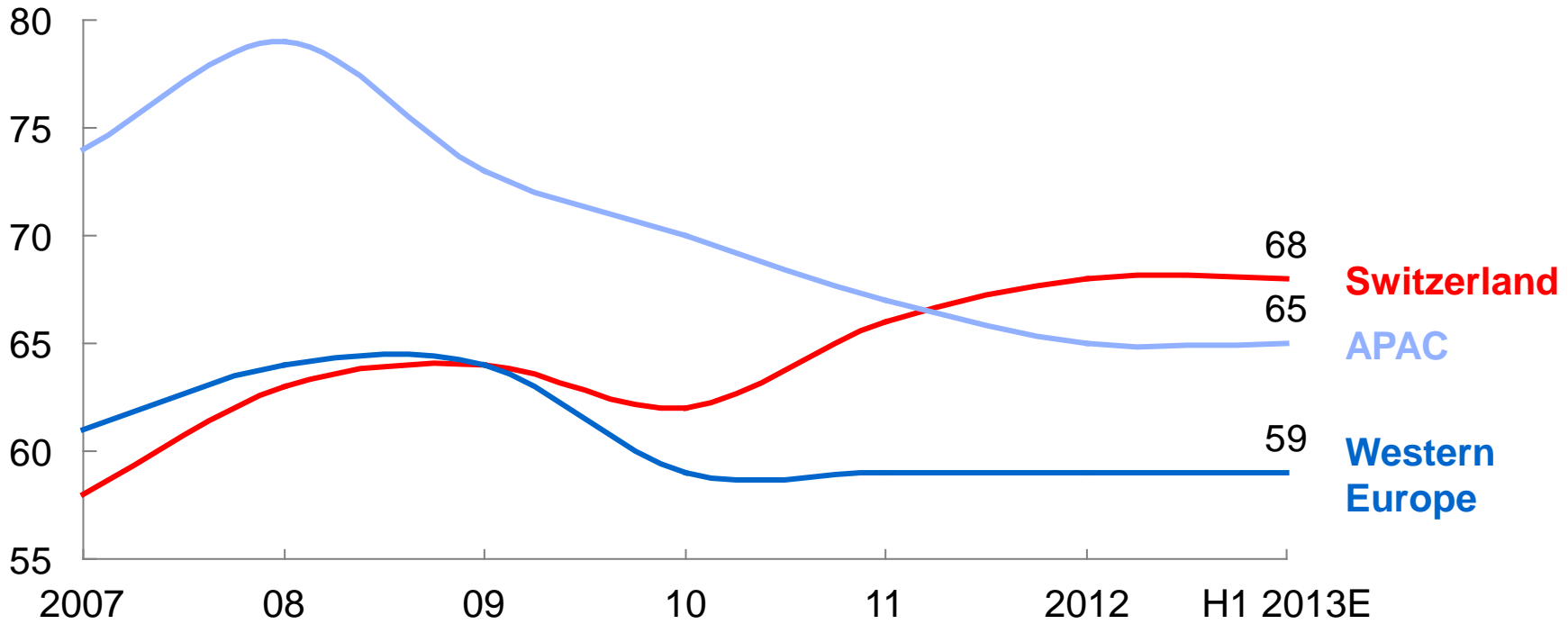
2 Emerging markets with biggest share of wealth creation but USA remains single biggest growth engine

Global HNW wealth creation, 2012 to 2016FC, USD trillion



3 Swiss Private Banks suffer of steadily increasing cost base

Cost Margin, bp

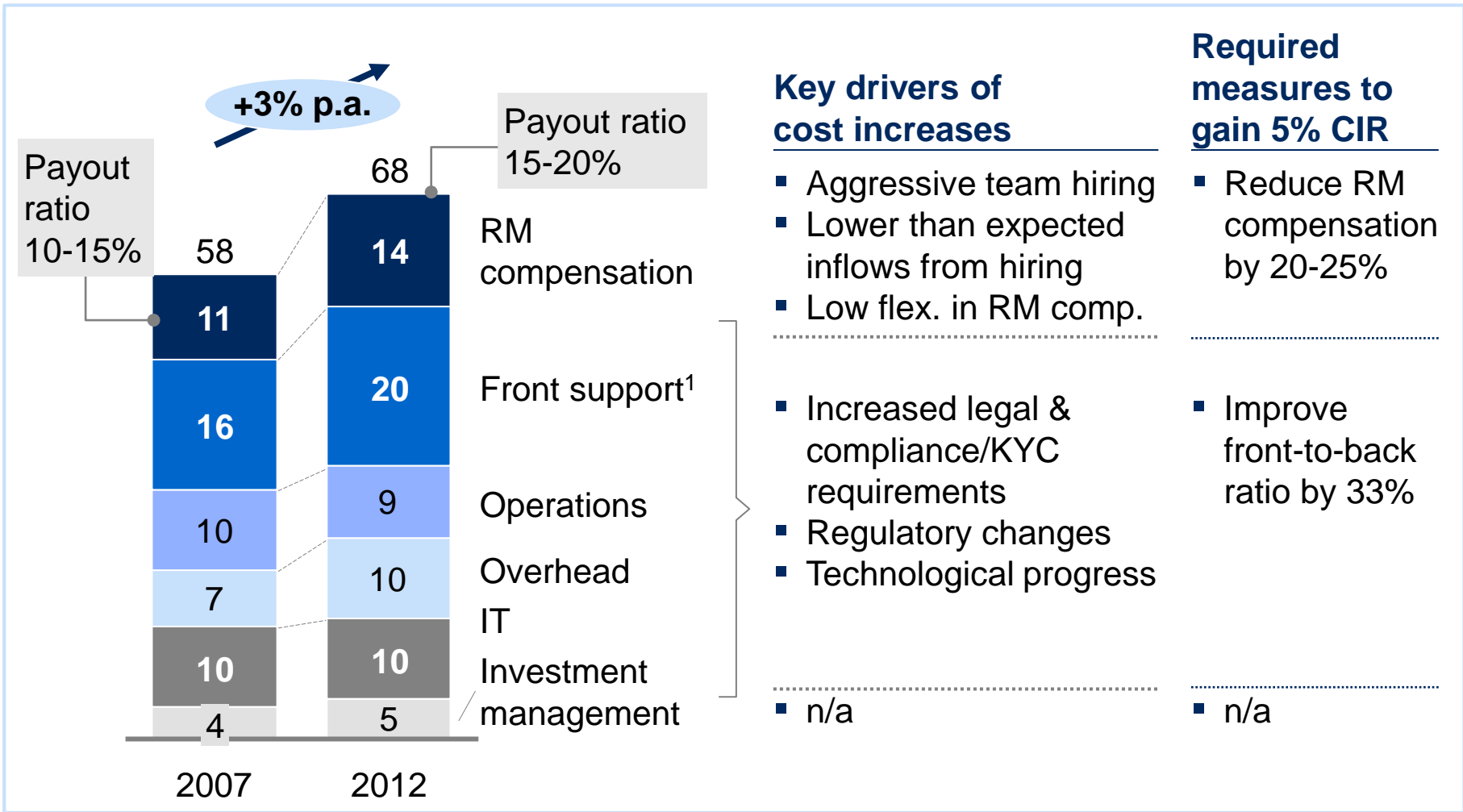


Cost Income Ratio, %



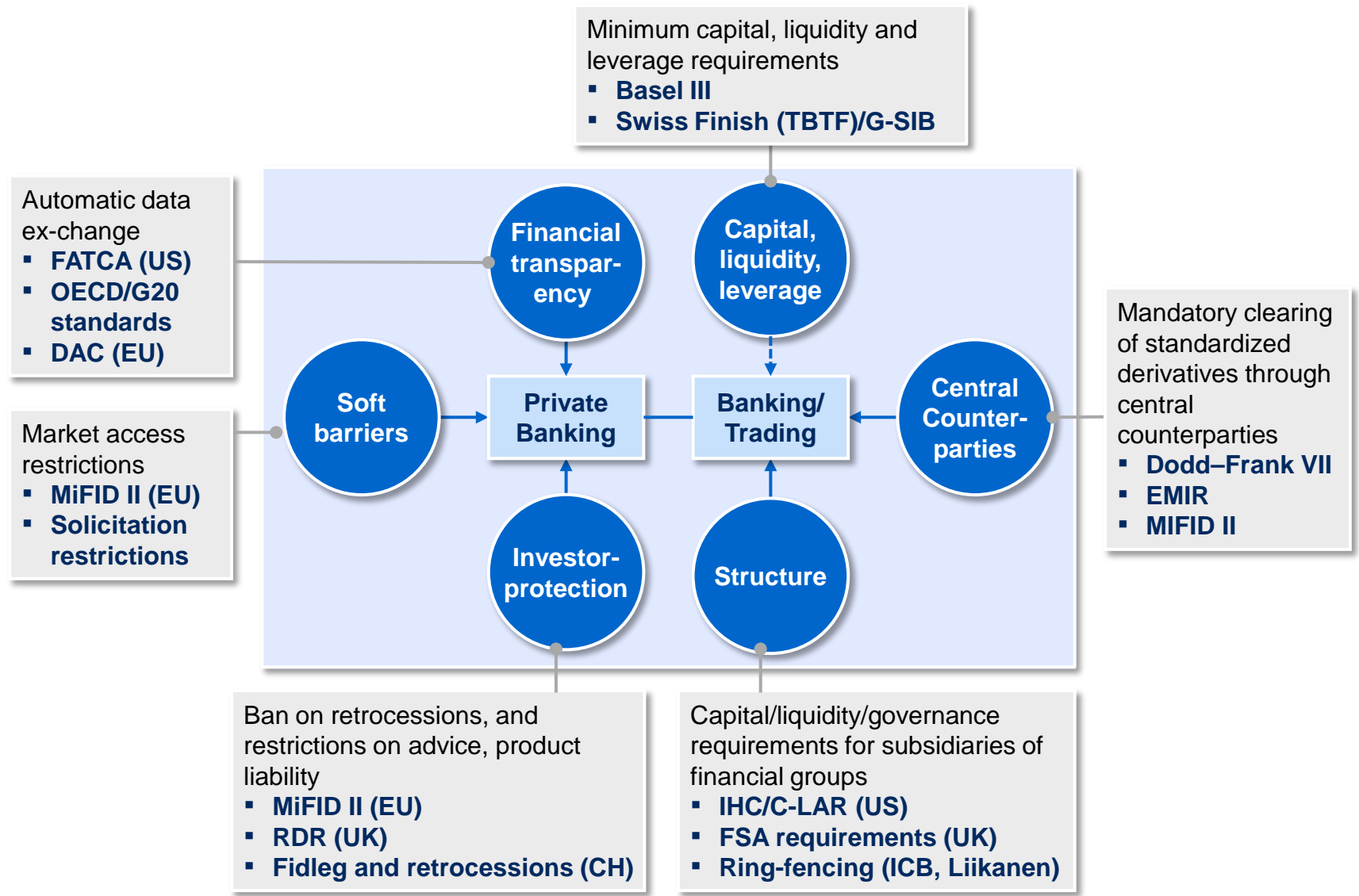
③ Cost margin has been increasing, driven by complexity and desire to grow

Cost margin, Switzerland, bp



¹ RM assistants, specialists, real estate, sales and marketing

3 Regulatory change drives costs in many areas



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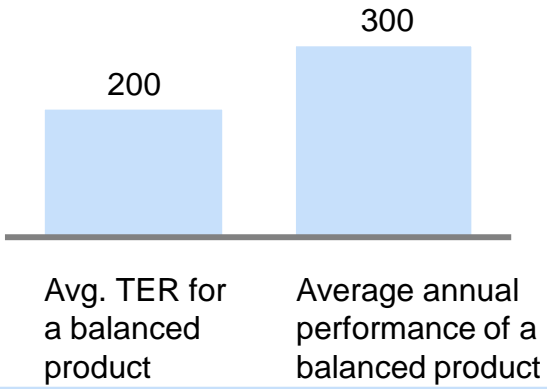
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4 long-term challenges for the Private Banking industry

1 Product performance

Performance after fees fails to match inflation

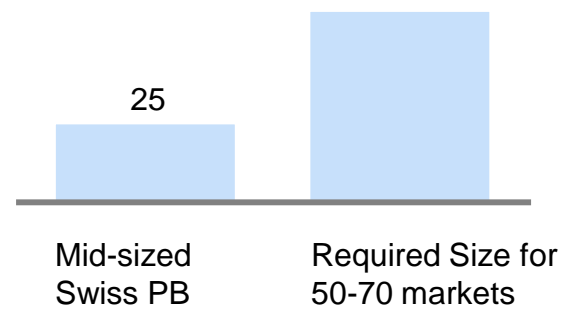
bp



2 Complexity

Most Private Banks lack scale for their market coverage

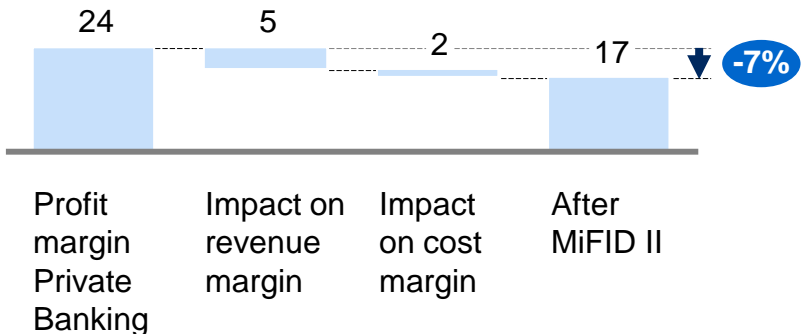
AuM, CHF billions



3 Regulation

Impact of MiFID II on profit margins of Western European banks (based on 2010)

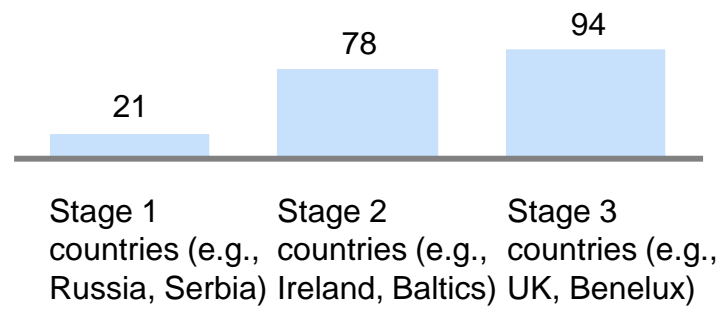
bp



4 Digitalization

Share of payments captured through online channel

Percent

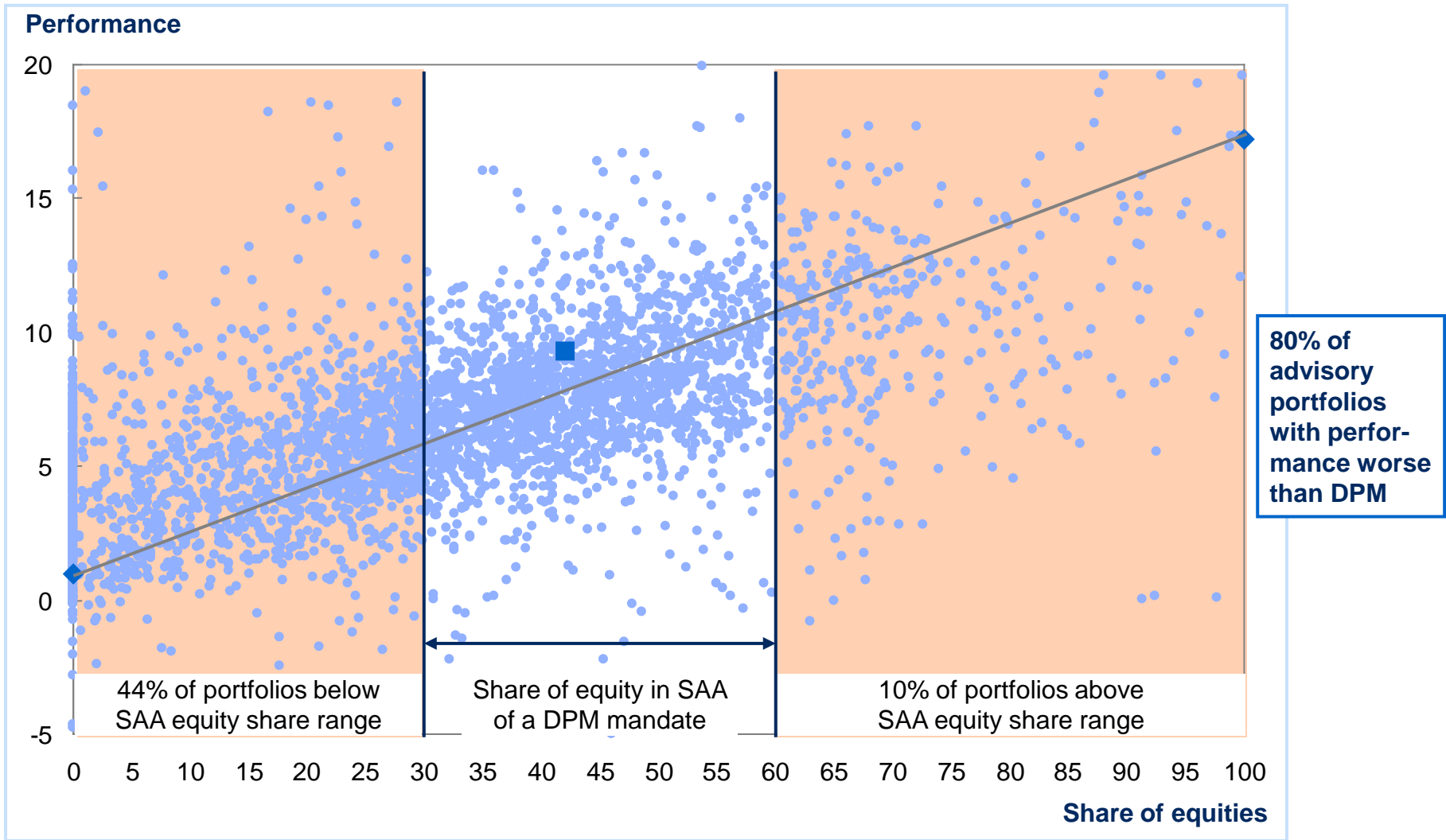


1 Advisory portfolios with often weak performance

Gross performance, 2012, percent

SIMULATED BASED ON HISTORIC PORTFOLIO DATA

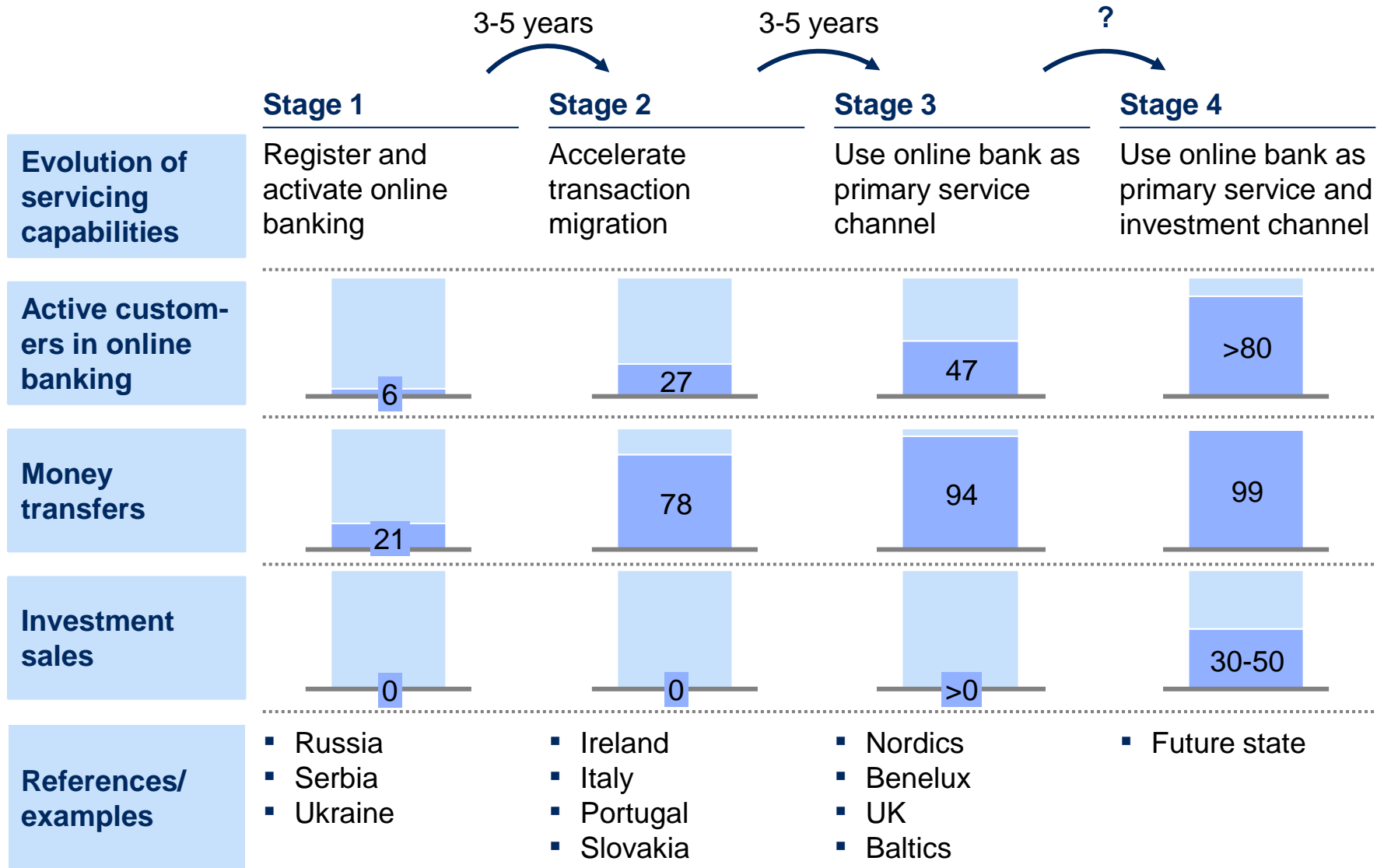
• Advisory ■ DPM mandate ◆ Efficient market¹



¹ Assumption: bond yield 1.0%, 100% equities performance of 17.2% (50:50 SPI TR/MSCI World TR)

4 Evolution of online banking maturing

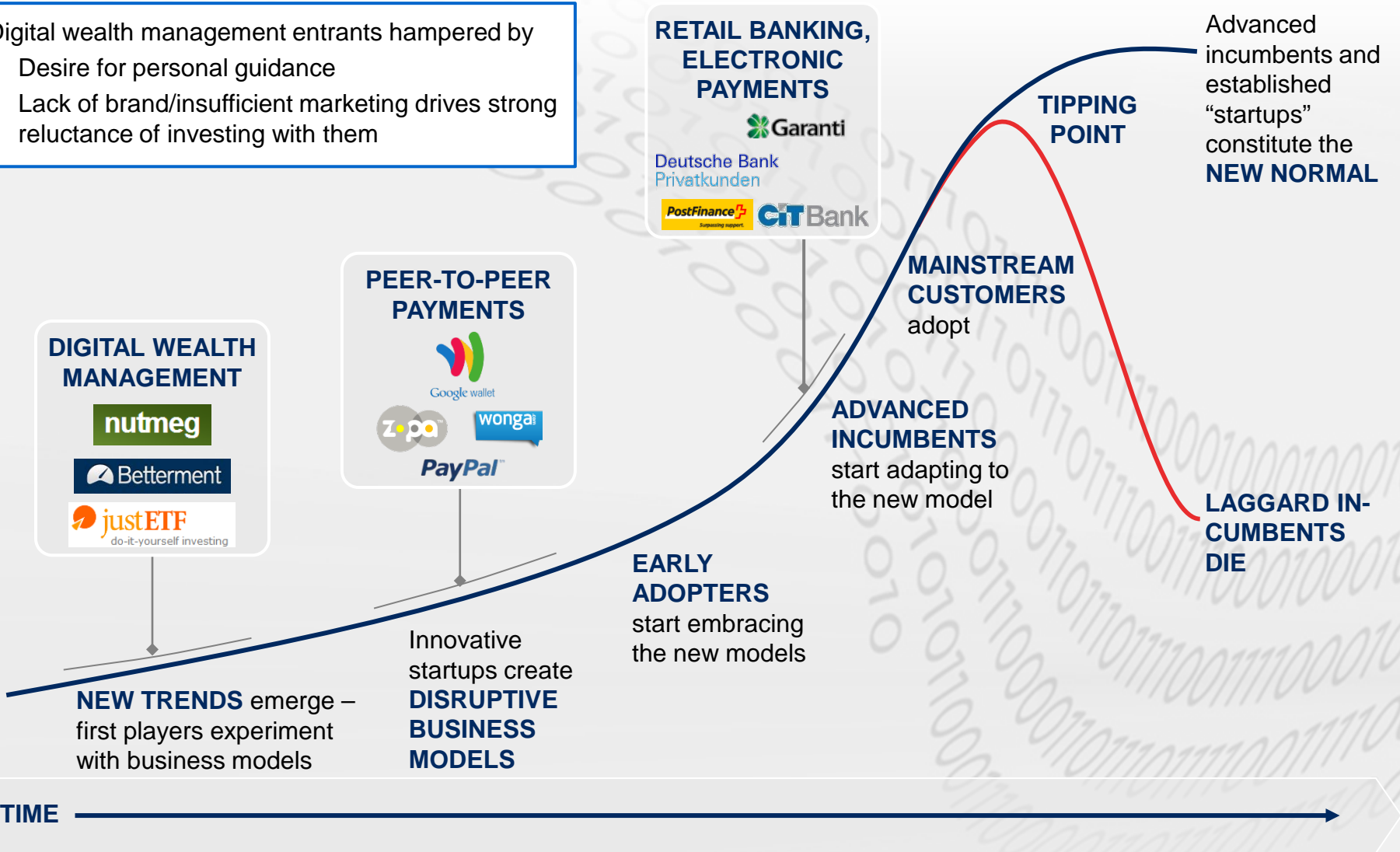
Percent of total activity



4 Digital wealth management offerings nascent, uptake remains low

Digital wealth management entrants hampered by

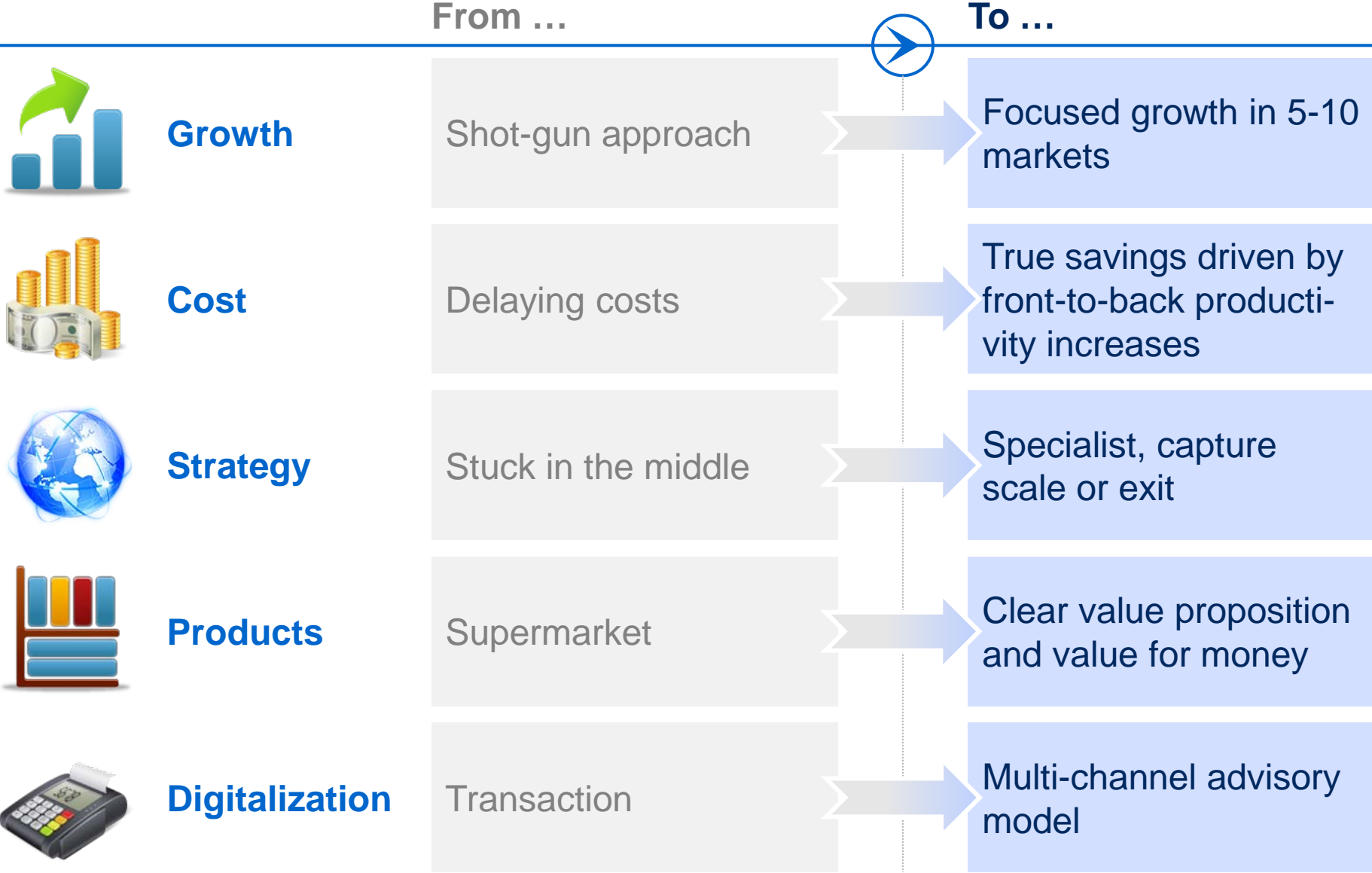
- Desire for personal guidance
- Lack of brand/insufficient marketing drives strong reluctance of investing with them



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Conclusion



McKinsey & Company