Switzerland's Financial Center

Transformation of an important industry

Governmental Affairs

September 2018
Section 1

Overview of the Swiss financial center
The financial center is an important pillar of our economy

The financial center generates high added value. Its contribution to Switzerland’s Gross Domestic Product (GDP) amounts to almost 10 percent.

In aggregate the direct and indirect value added by the financial sector in 2016 adds up to CHF 80 bn (12% of GDP).

- The financial center directly generates value added worth CHF 60 bn each year. This is equivalent to about 10% of Swiss GDP.
- By placing orders with the manufacturing and services industries the financial sector generates additional indirect effects in other sectors. These effects amount to approximately CHF 20 bn.
- Overall the financial center generates value added worth CHF 80 bn (approx. 12% of GDP).

UBS
Sources: SECO (2018); Polynomics (2018)
The financial center is an important employer

Over 100’000 employees work for banks. Interestingly, the number of employees in other financial services has augmented over the past decade.

The overall number of employees in the financial sector amounted to more than 200’000 individuals at the end of 2017. More than half (52%) of that workforce is employed by banks.

Source: BfS BESTA (2018, revised numbers)
Switzerland is the premier location for wealth management

Switzerland tops the list of the leading locations for cross-border wealth management. When compared to other large international financial centers, the Swiss financial center also generates an above average contribution to GDP.

However, competition among financial centers continues to increase. Hong Kong and Singapore are catching up in the arena of cross-border private banking.

**Market share of cross-border private banking** (in trillion USD, 2017)

<table>
<thead>
<tr>
<th>Location</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>2.3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.9</td>
</tr>
<tr>
<td>USA</td>
<td>0.7</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>0.5</td>
</tr>
<tr>
<td>Channel Islands &amp; Dublin</td>
<td>0.5</td>
</tr>
<tr>
<td>UK</td>
<td>0.3</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.3</td>
</tr>
</tbody>
</table>

**Financial center contribution to GDP** (in percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>7.5%</td>
</tr>
<tr>
<td>UK</td>
<td>6.5%</td>
</tr>
<tr>
<td>Singapore</td>
<td>12.5%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>9.2%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>27.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Sources: BFS/SECO 2018; SIF 2018(Destatis (DE), Statec (LU), Singstat (SG), ONS (UK), BEA (US)) values apply to 2017, US and LU apply to 2016

Source: BCG Global Wealth 2018 values apply to 2017
Close ties between the financial and industrial sectors

Corporate lending
Banks supply the economy with loans

- More than 90% of corporate lending goes to small and medium-size enterprises.
- Almost 30% of unsecured loans are granted by the two large banks, since they have the necessary risk capacity thanks to their size and know-how.

Export financing
Banks are partners of the export industry

- The export-oriented industrial sector depends on a smooth and efficient financing process.
- Over 70% of export financing of Swiss enterprises is granted by large banks.
- Higher capital requirements significantly increase the refinancing costs for large banks.

Capital markets
Viable thanks to large banks

- Nearly 70% of SME capital market transactions and nearly 100% of those of large international companies are executed by large banks.
- With respect to the capital markets, large banks provide key services to enterprises.

Note: "other banks" are around 260 other financial institutions
Revenues resulting from the management of foreign capital are classified as trade in services. Between 2010 and 2015 they amounted to about one fifth of the total revenue resulting from trade in services.

In 2016 alone the financial sector exported services worth CHF 20 bn.

**Comparison of the most important export industries**
Revenue from merchandise and services trade (2016) in CHF bn

<table>
<thead>
<tr>
<th>Industry</th>
<th>Export of merchandise</th>
<th>Export of services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical and pharmaceutical industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery and electronics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transit trade (commodity trade)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watches</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licence fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business services (advertising, consulting)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Precision instruments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecommunications and IT services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metal industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jewellery and precious metals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance services</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: EZV; SNB, 2017
The Swiss fintech sector is concentrated in and around Zürich/Zug and Geneva/Lausanne, which is where a high density of banks meets excellent ETH- and EPFL-trained computer scientists and programmers. Of the more than CHF 950m that were invested in startups in Switzerland in 2017 only about CHF 75m were invested in fintechs.

But things are changing. This value is already 50% higher than in the previous year.

Since 2010 the number of fintech start-ups in Switzerland has increased more than tenfold.

Geographical distribution of the more than 270 Swiss Fintech companies

The financial sector pays about 1/7 of total tax revenue

The financial center is significant for the tax revenues of the public sector. The total tax effect resulting from financial services and transactions amounted to CHF 17.1 bn in 2016.

This is the equivalent of more than 12% or approximately one eighth of the total tax revenue on national, cantonal and community levels.

### Financial sector tax effect
(2016, in.CHF bn)

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct taxation of financial transactions</td>
<td>7.1</td>
</tr>
<tr>
<td>Direct taxation of natural and legal persons</td>
<td>10.1</td>
</tr>
<tr>
<td>Indirect taxation of financial transactions</td>
<td>17.1</td>
</tr>
<tr>
<td>Effects in other sectors</td>
<td>2.5</td>
</tr>
<tr>
<td>Stamp duty</td>
<td>1.7</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>2.9</td>
</tr>
<tr>
<td>Total Tax Effect</td>
<td>2.6</td>
</tr>
<tr>
<td>Value-added tax</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: Polynomics (2017)

1. Financial sector related taxes: taxation of revenue and income, which is directly linked to the economic activity of financial institutes, as well as fiscal effects that are generated indirectly through value creation effects in other sectors.
2. Financial market related taxes: fiscal effects resulting from the indirekt taxation of financial services or financial transactions.
Section 2

UBS - internationally oriented and with a strong home market in Switzerland
2018 and beyond: Unlocking UBS's full potential

Continuing to execute a clear and consistent strategy

**Implement and execute**
- Wealth management businesses at the core of our strategy
- Strategic commitment to be the leading Swiss universal bank
- Transform the Investment Bank
- Reduce balance sheet
- Build capital strength
- Reduce operational risks and strengthen controls
- Implement long-term efficiency and productivity measures

**Unlock full potential**
- Capital strength
- Operational efficiency
- Profitable growth
- Improving returns on capital
- Attractive returns to shareholders
UBS is among the leading banks in the global market for cross-border wealth management. UBS's strong global presence is firmly linked to Switzerland. Many core functions, as well as one third of UBS employees are located in Switzerland.

Open markets and good framework conditions in Switzerland are essential in order to continue to play in the premier league of global financial services competition.

**Awarded "Best Global Private Bank" and "Best Bank in Switzerland" 2017**

**UBS is the largest global wealth manager**

Private banks by assets under management (AuM), in USD bn

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Institution</th>
<th>AuM in USD bn, YE 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UBS</td>
<td>2404</td>
</tr>
<tr>
<td>2</td>
<td>Morgan Stanley</td>
<td>2223</td>
</tr>
<tr>
<td>3</td>
<td>Bank of America</td>
<td>2206</td>
</tr>
<tr>
<td>4</td>
<td>Wells Fargo</td>
<td>1899</td>
</tr>
<tr>
<td>5</td>
<td>RB of Canada</td>
<td>908</td>
</tr>
<tr>
<td>6</td>
<td>Credit Suisse</td>
<td>792</td>
</tr>
<tr>
<td>7</td>
<td>Citi</td>
<td>530</td>
</tr>
<tr>
<td>8</td>
<td>JP Morgan</td>
<td>526</td>
</tr>
<tr>
<td>9</td>
<td>Goldman Sachs</td>
<td>458</td>
</tr>
<tr>
<td>10</td>
<td>BNP Parisbas</td>
<td>437</td>
</tr>
</tbody>
</table>

Source: Scorpio Partnership, Global Private Banking Benchmark 2018
1 Euromoney 2017
Thanks to UBS's presence in 50 countries and a global network of 2200 correspondent banks, UBS can offer comprehensive and individually tailored services to import- and export-oriented companies.

In order to render these services UBS depends on access to the various countries and markets.

Global Presence of UBS (as of 2017)

- The over 120'000 Swiss companies, with which UBS has business relations, have different needs depending on their size and international orientation.
- UBS is able to provide the fitting offer for every client in the areas of payments, foreign exchange, equity, credit and export financing.
- Even smaller Swiss banks that are not able to offer all of the international service themselves make use of UBS's global network.
UBS – Leading universal bank in Switzerland

**Facts and figures**

- Global financial institution with head office in Zurich
- More than 20,000 employees in Switzerland, including about 1,800 trainees
- Around 280 branches (●), including 100 advisory locations for wealthy private clients
- More than 1,250 ATMs\(^1\)
- Customer Service Centers in four locations (Zurich, Lausanne, Basel and Manno)
- e/m-Banking offering with around 1,5 million active agreements
-Executes 260 million payment orders each year
- UBS Investment Bank trades more than 100 currencies for clients

\(^1\) Incl. Bancomat (withdrawals), Bancomat Plus (deposits and withdrawals), Multimat (account information and payments)

Leading innovator of digital bank services
UBS Region Switzerland – Well positioned in the home market

- Critical mass and a top player in all businesses
- Access to expertise of UBS's Wealth Management business and investment bank
- Reaching >80% of Swiss wealth, through our comprehensive branch network
- Cross-divisional collaboration approach to a coordinated delivery of all services offered by the bank

Exceptional value to clients

- Every third household
- Every third wealthy individual
- Every second lawyer and fiduciary
- Two out of three family offices
- >120'000 Swiss companies; of the 250 largest corporates >90%
- 80% of the Swiss-domiciled banks and brokers
- Every third pension fund / pension-related institution

Quellen: UBS interne Analysen
Financial center Switzerland – Trends and implications

**Trends**

- Macro environment
- Political / regulatory environment
- Technological change / Digitalisation

**Implications**

- Changes in customer behavior
- Adaptation of business models

Fundamental structural transformation in the banking sector
Section 3

Changing framework conditions in Switzerland
For decades Switzerland has been characterized by political, economic and social stability. Thanks to liberal and stability-oriented economic policies Switzerland has been able to establish a competitive and attractive business location.

This success cannot be taken for granted and must be re-confirmed time and time again.
Internal view: Numerous issues relevant to the financial center

**Tax issues**
- Introduction of the international automatic exchange of information in tax matters; future of bank client confidentiality (popular initiative on the protection of privacy); Corporate taxation reform (tax proposal 2017)

**Market access and investor protection**
- Relations between Switzerland and the EU (bilateral treaties); Debate regarding a Financial Services Act (FinSA), depositor protection

**Prudential regulation**
- Revised TBTF regime and introduction of the Net Stable Funding Ratio (NSFR) as well as modification of the Liquidity Coverage Ratio (LCR)

**General regulation**
- Pension Reform, Data protection, Sovereign money initiative, company law reform, Responsible Business Initiative (RBI), Lex Koller and many more
External view: International standards challenge Switzerland

- **Tax issues and integrity**: Process to introduce an automatic exchange of information for tax purposes is ongoing; Anti-money laundering and counter-terrorism financing, a possible EU FTT and global VAT-rules
- **Market access and investor protection**: Stricter rules and new regulation in the field of investor protection with implications for third-country market access
- **Prudential regulation**: Requirements in the areas of liquidity and capital; weighting of risks
- **Organizational measures**: Requirement to improve resolvability, measures in the areas of governance and organizational structure
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(xi) the effects on UBS’s cross-border banking business of tax or regulatory developments and of possible changes in UBS’s policies and practices relating to this business; (xii) UBS’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiv) UBS’s ability to implement new technologies and business methods, including digital services and technologies and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; 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