



# Switzerland's Financial Center

Transformation of an important industry

Governmental Affairs



September 2018

Section 1

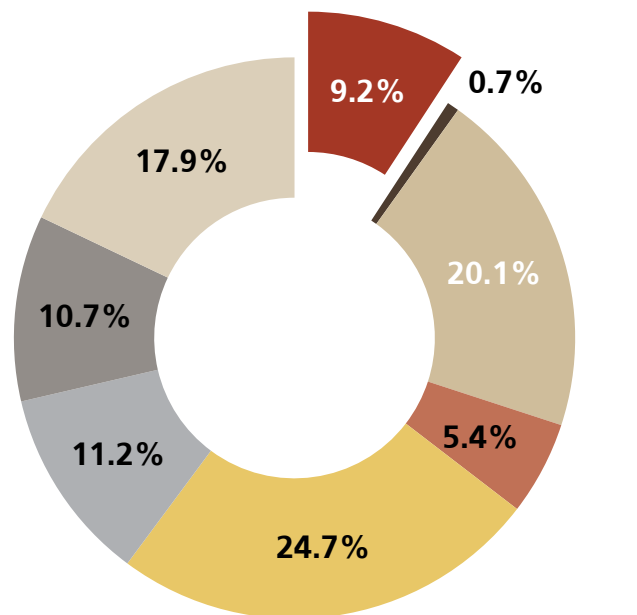
# Overview of the Swiss financial center

# The financial center is an important pillar of our economy

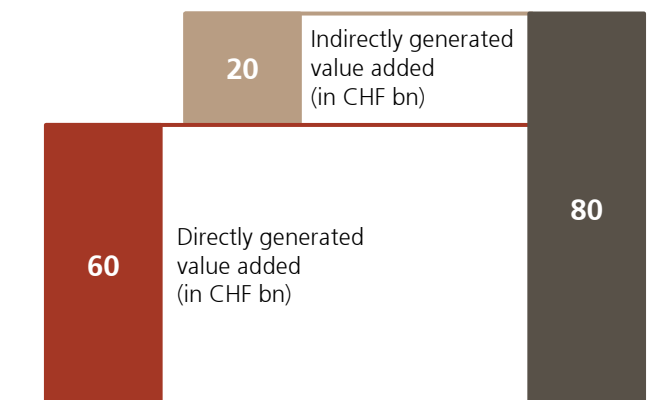
The financial center generates high added value. Its contribution to Switzerland's Gross Domestic Product (GDP) amounts to almost 10 percent.

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

**Contribution to Swiss GDP (direct)**  
In percent, year end 2017



**Gross value added**  
In CHF billion, 2016



- 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).

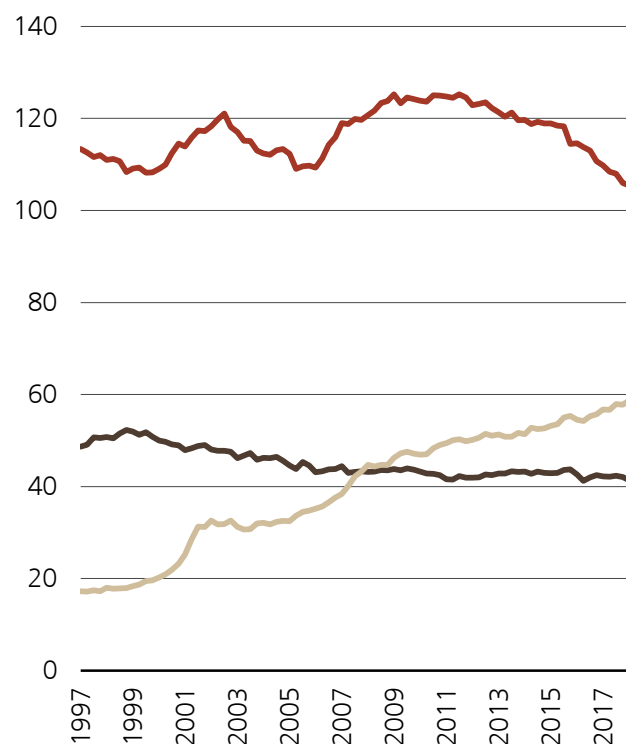
# The financial center is an important employer

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.

## Development of the number of employees in the financial sector

(in thousand FTEs, 1997-2017)



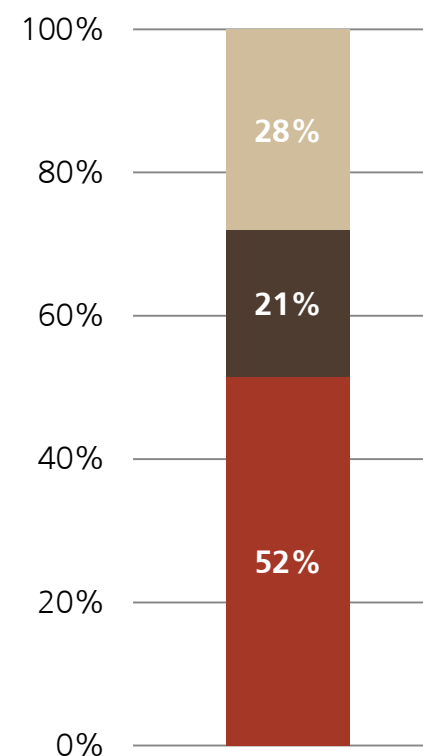
 Banks

 Insurance

 Other financial services (e.g. fund management, securities brokers))

## Distribution of employees within the financial sector

(2017)

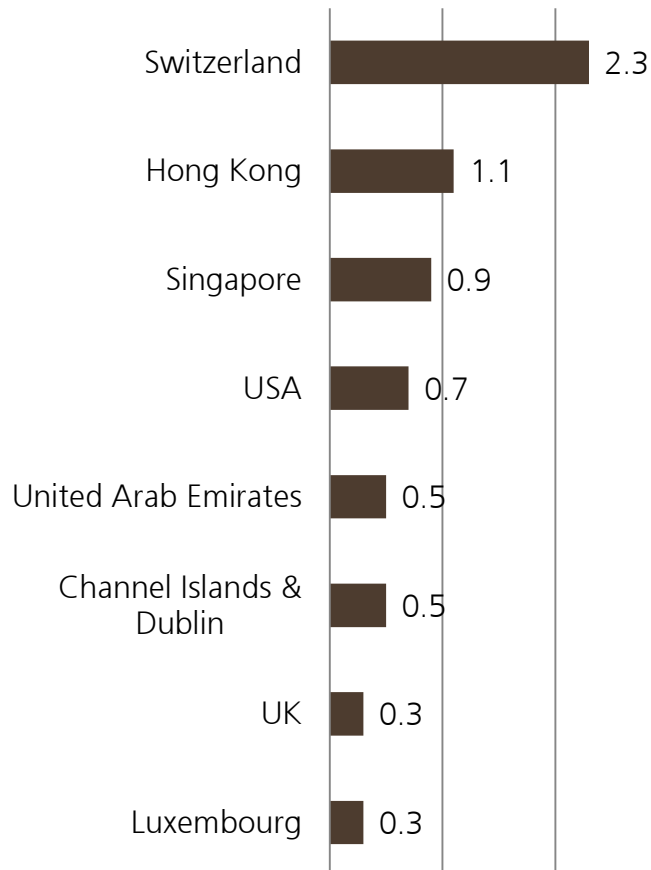


# Switzerland is the premier location for wealth management

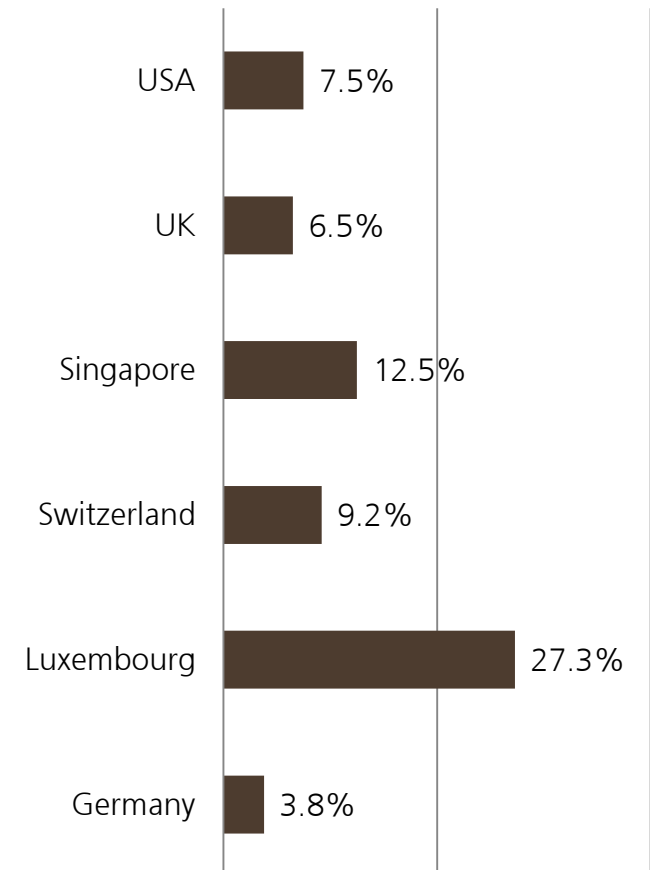
Switzerland tops the list of the leading locations for cross-border wealth management. When compared to other large international financial centers, the Swiss financial center also generates an above average contribution to GDP.

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)



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



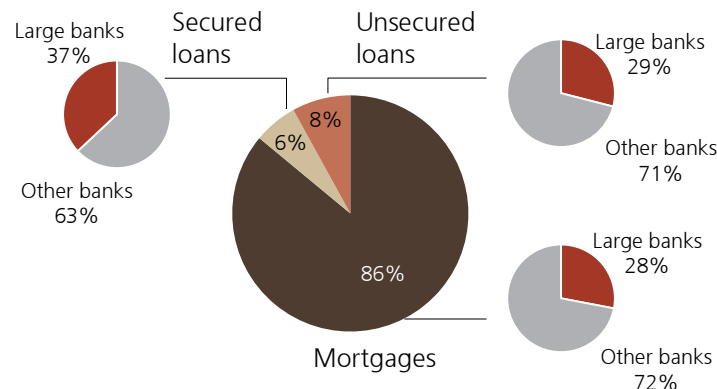
# Close ties between the financial and industrial sectors

## Corporate lending

Banks supply the economy with loans

### Loans to companies in Switzerland

Total value of corporate loans in Switzerland: CHF 1093 bn (2016)



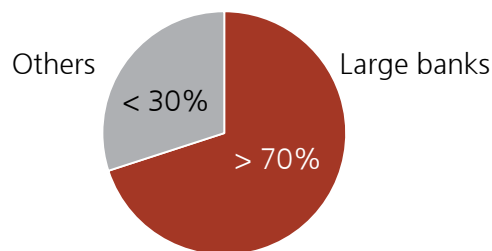
- More than 90% of corporate lending goes to small and medium-size enterprises.
- Almost 30% of unsecured loans are granted by the two large banks, since they have the necessary risk capacity thanks to their size and know-how.

## Export financing

Banks are partners of the export industry

### Sources of export financing

In percent



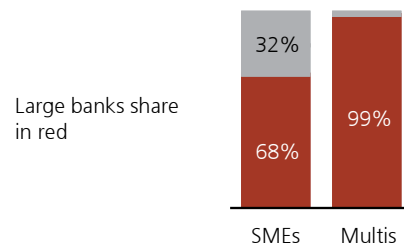
- The export-oriented industrial sector depends on a smooth and efficient financing process.
- Over 70% of export financing of Swiss enterprises is granted by large banks.
- Higher capital requirements significantly increase the refinancing costs for large banks.

## Capital markets

Viable thanks to large banks

### Capital market transactions

In percent



- 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.

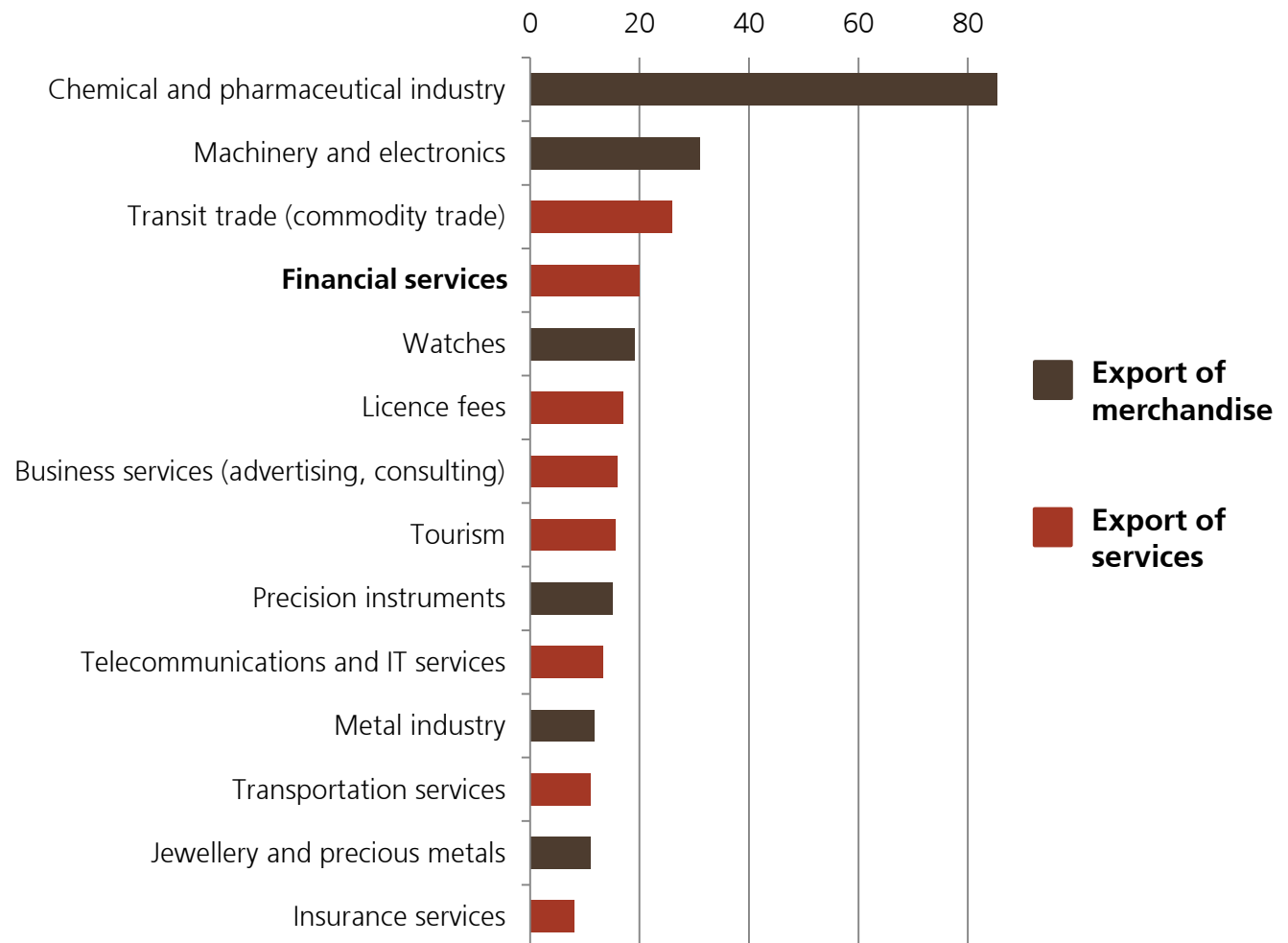
# Banks play an important role in the export economy

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

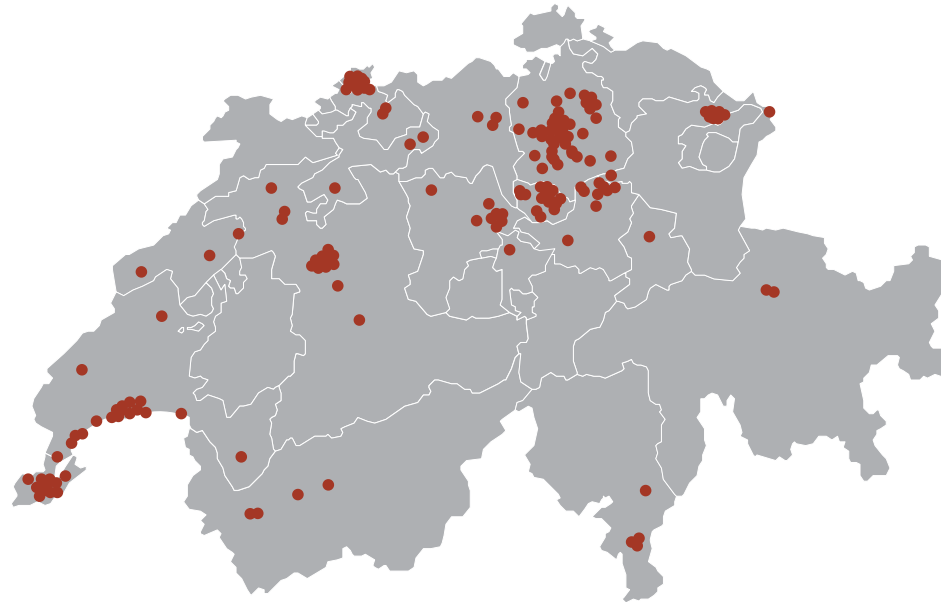


# Fintech in Switzerland

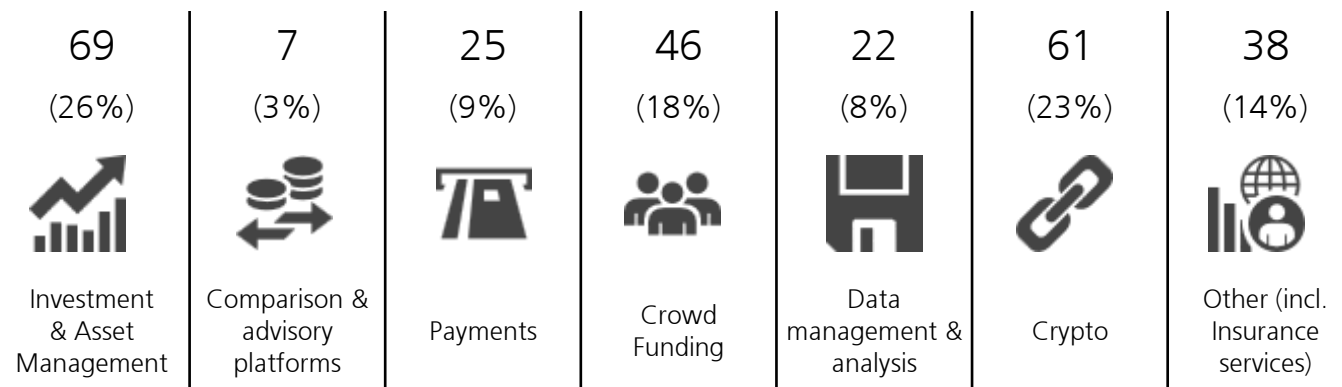
Since 2010 the number of fintech start-ups in Switzerland has increased more than tenfold.

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 930m that were invested in startups in Switzerland in 2017 only about CHF 75m were invested in fintechs.

Geographical distribution of the more than 270 Swiss Fintech companies



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



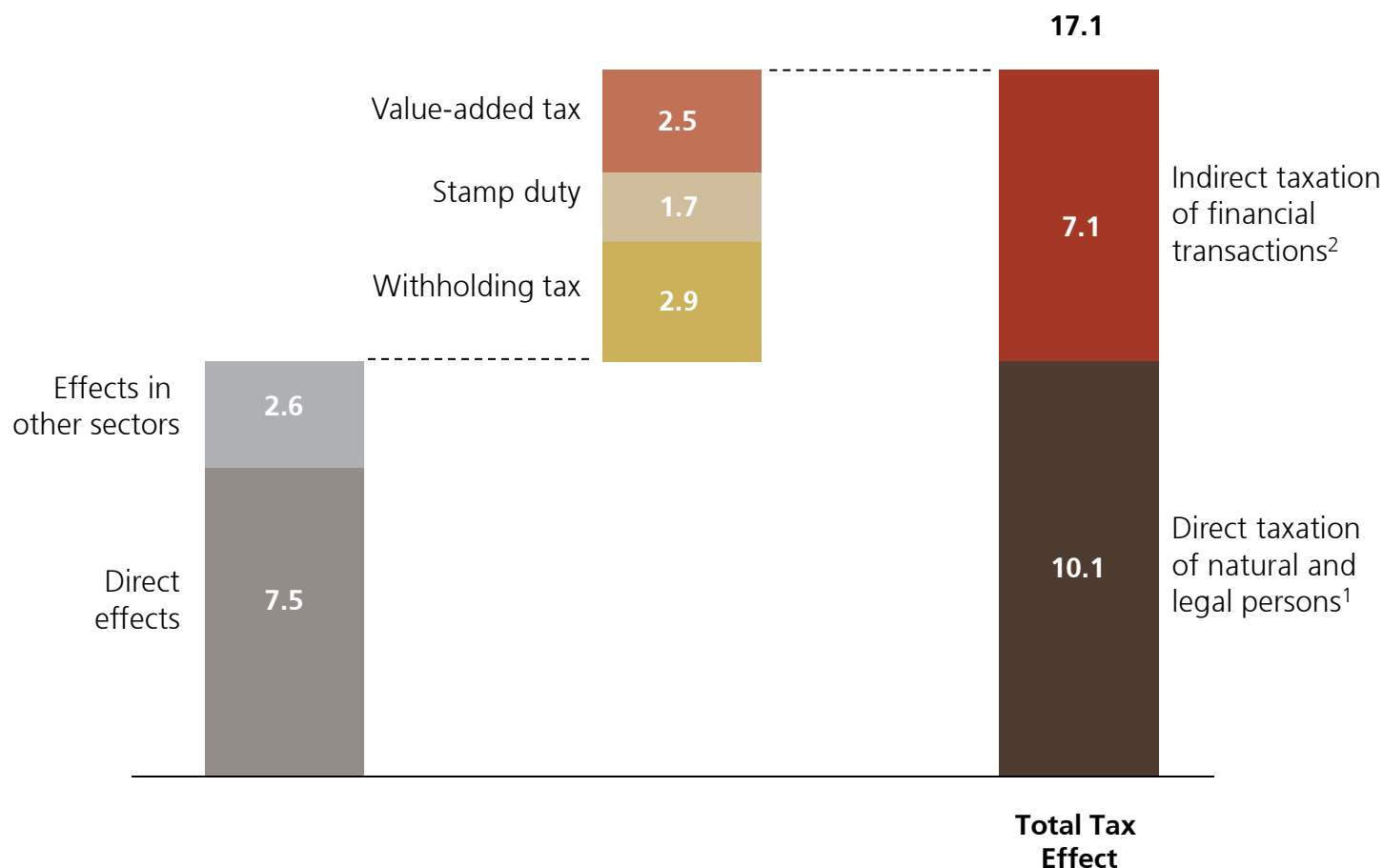


# The financial sector pays about 1/7 of total tax revenue

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)



Source: Polynomics (2017)

<sup>1</sup> 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.

<sup>2</sup> Financial market related taxes: fiscal effects resulting from the indirect 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

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Continuing to execute a clear and consistent strategy

2011 2012 2013 2014 2015 2016 2017

**2018 and beyond**

## 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 – Global leader in wealth management

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<sup>1</sup>

## UBS is the largest global wealth manager

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

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

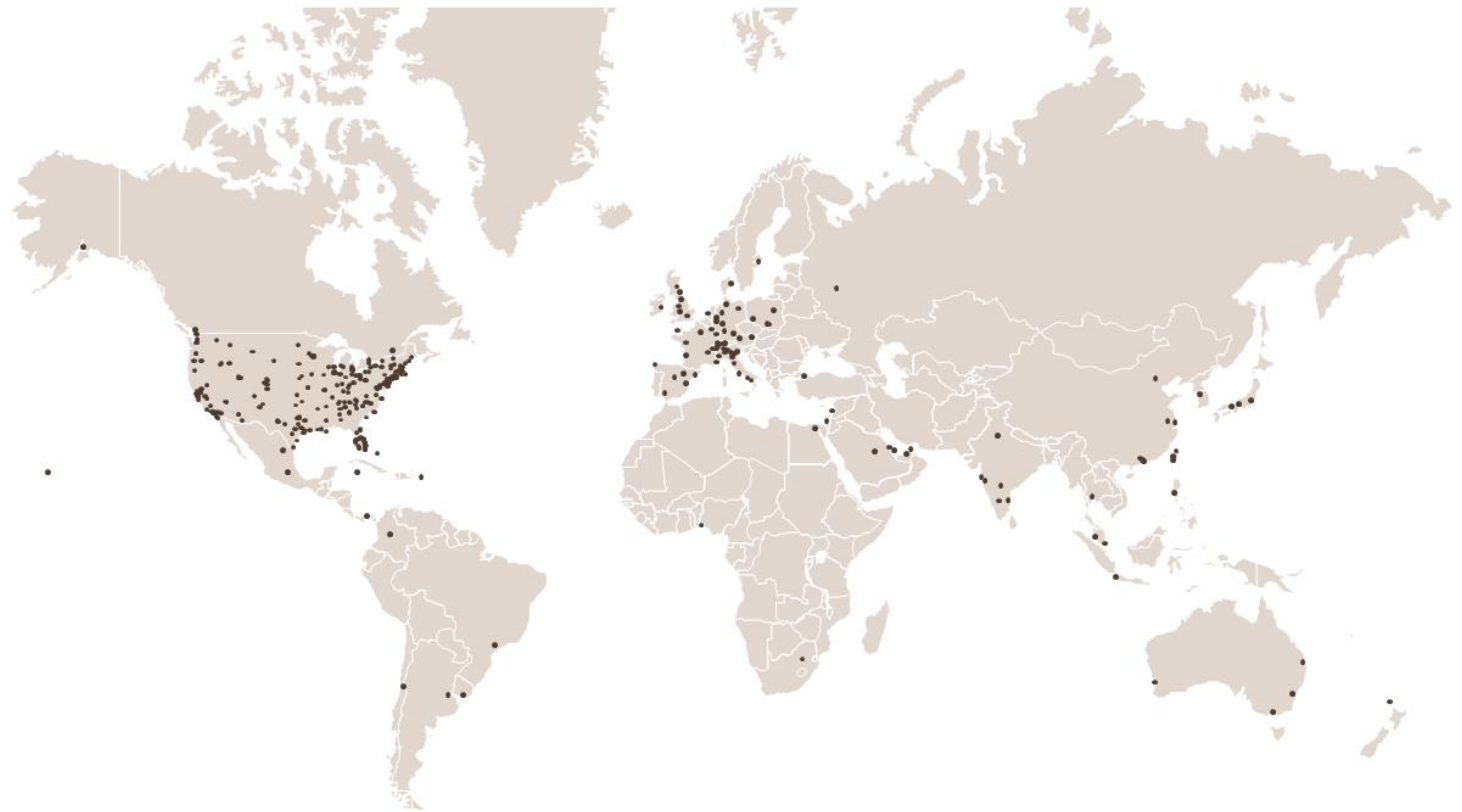


# UBS – Globally present with a world-wide network of correspondent banks

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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.

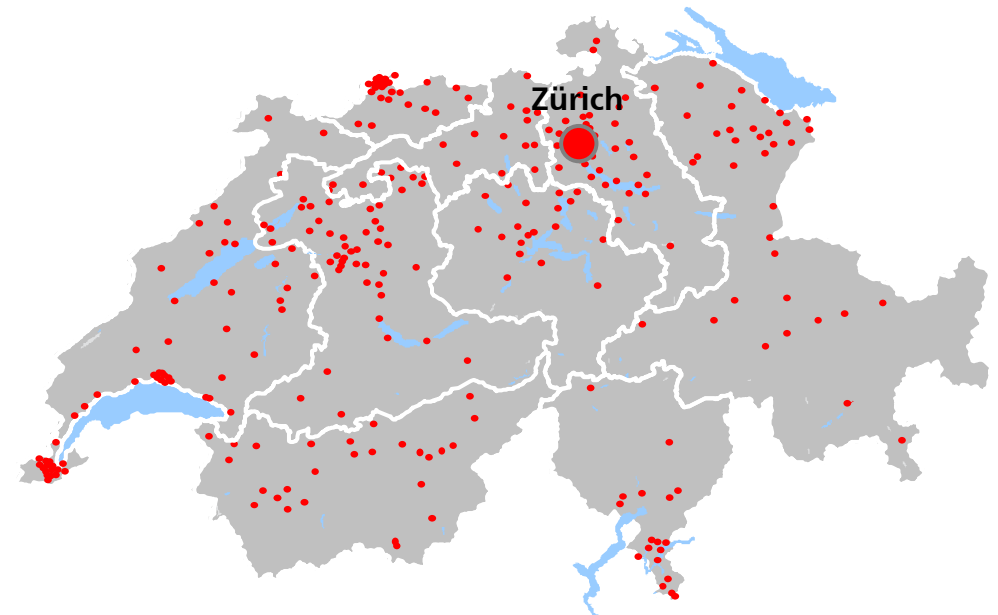
# UBS – Leading universal bank in Switzerland

## UBS in Switzerland

<b>Personal Banking</b>	<b>Wealth Management Switzerland</b>	<b>Corporate &amp; Institutional Clients</b>	<b>Investment Bank Switzerland</b>	<b>Asset Management Switzerland</b>
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### 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<sup>1</sup>
- 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

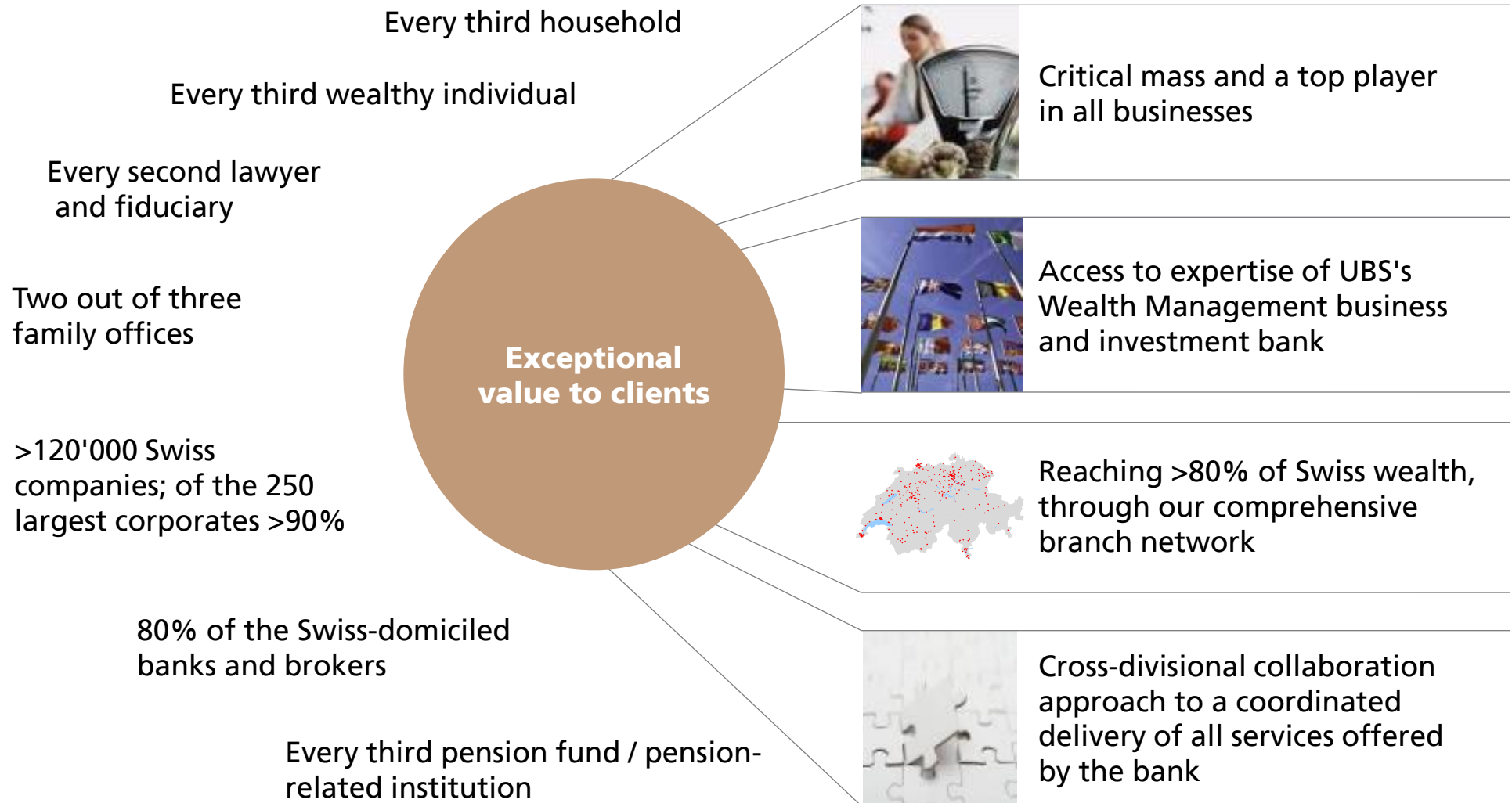


Leading innovator of digital bank services



<sup>1</sup> Incl. Bancomat (withdrawals), Bancomat Plus (deposits and withdrawals), Multimat (account information and payments)

# UBS Region Switzerland – Well positioned in the home market



# 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**



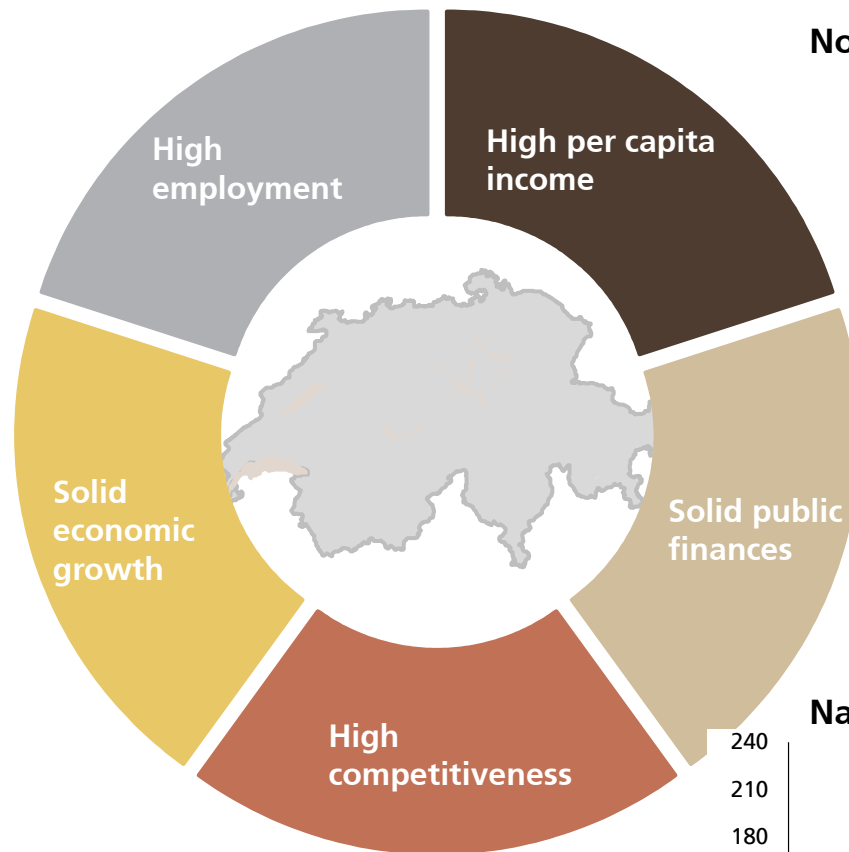
Section 3

# Changing framework conditions in Switzerland

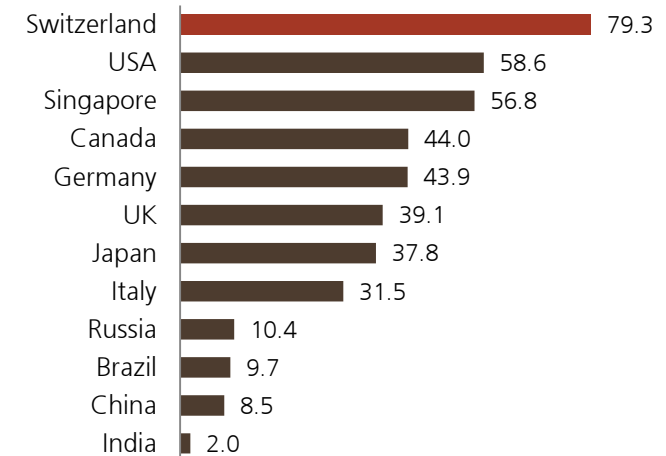
# Attractiveness of Switzerland as a business location

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.**

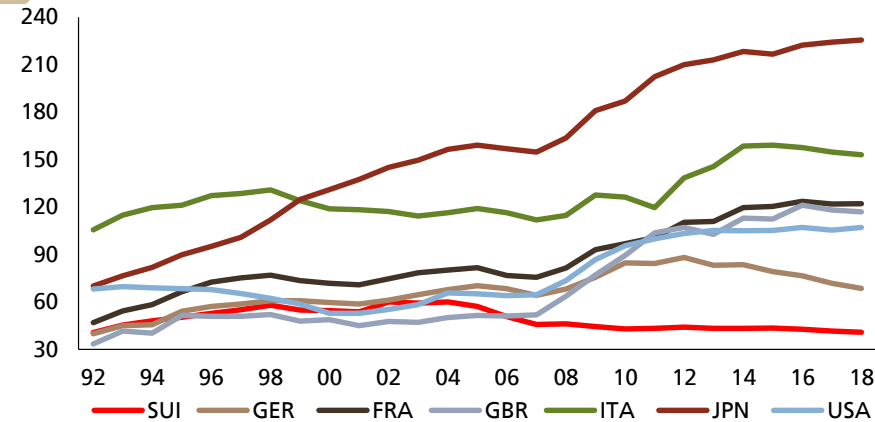


**Nominal GDP per capita in 1000 CHF (2017)**



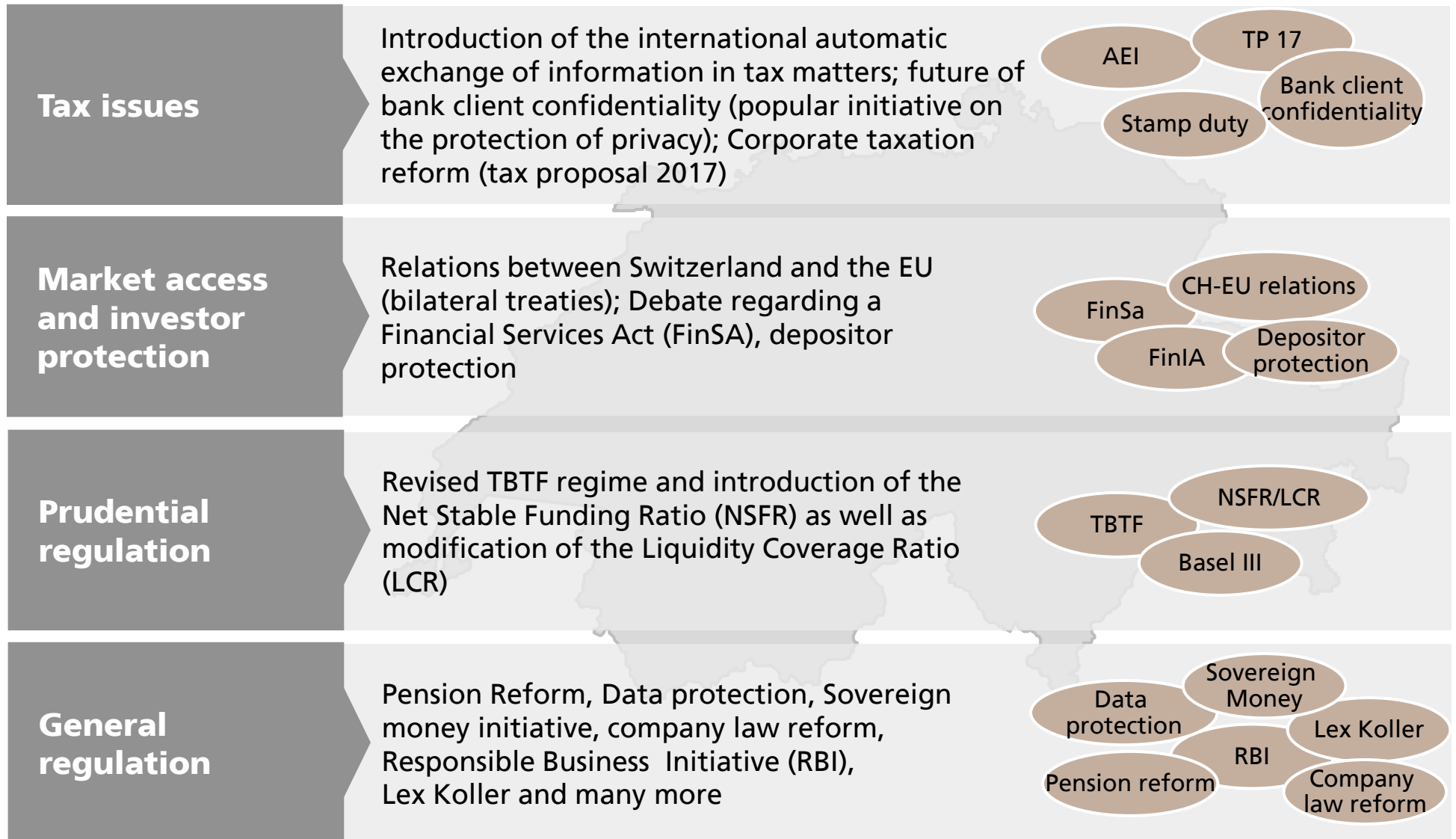
Sources: IMF, Bloomberg, UBS

**National debt in % of GDP**

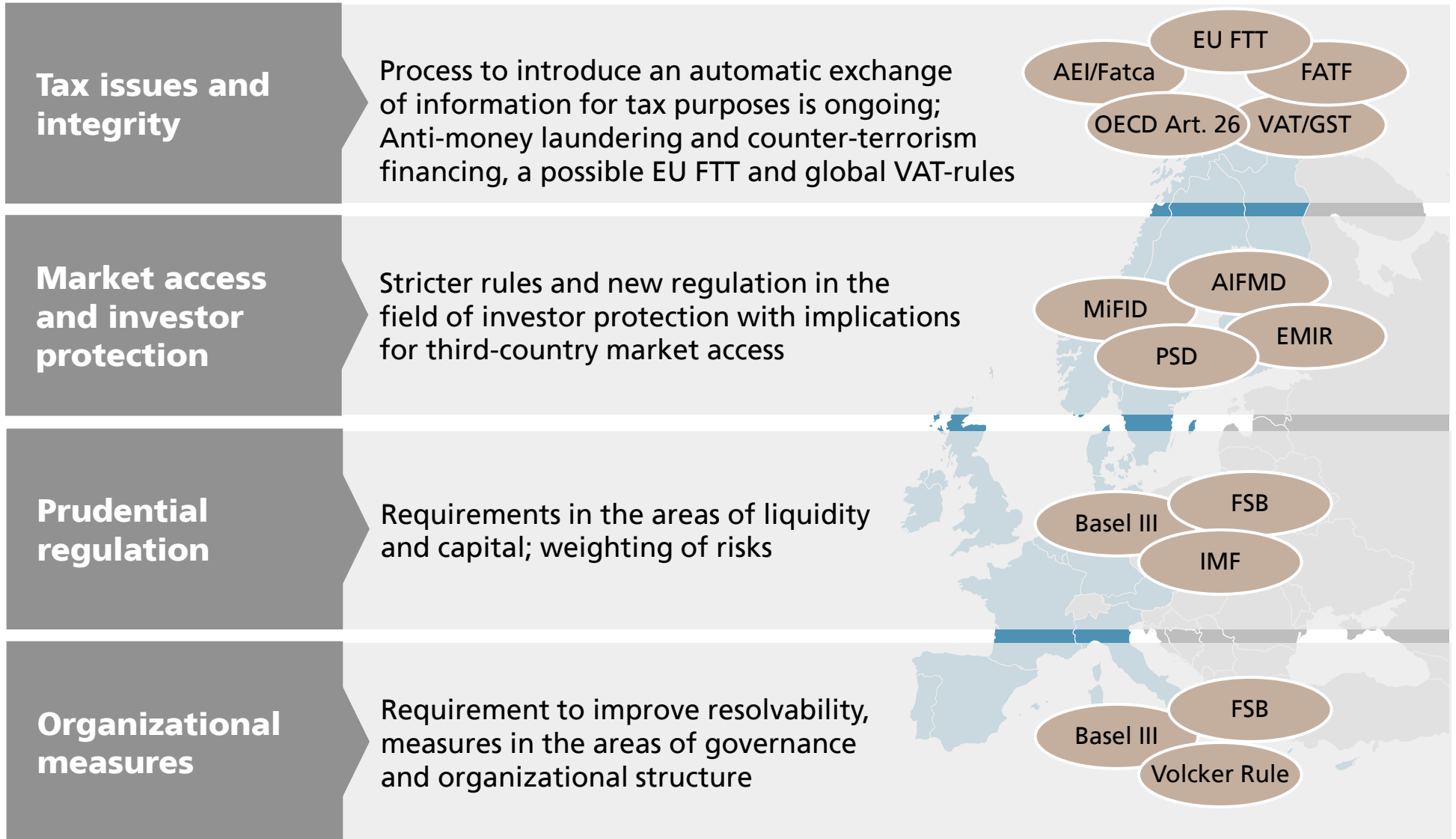


Sources: OECD, UBS

# Internal view: Numerous issues relevant to the financial center



# External view: International standards challenge Switzerland



# Cautionary statement regarding forward-looking statements

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These factors include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA), including to counteract regulatory-driven increases, leverage ratio denominator, liquidity coverage ratio and other financial resources, and the degree to which UBS is successful in implementing changes to its wealth management businesses to meet changing market, regulatory and other conditions; (ii) continuing low or negative interest rate environment, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and geopolitical tensions on the financial position or creditworthiness of UBS’s clients and counterparties as well as on client sentiment and levels of activity; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC); (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose, or result in, more stringent capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these would have on UBS’s business activities; (v) uncertainty as to the extent to which the Swiss Financial Market Supervisory Authority (FINMA) will confirm limited reductions of gone concern requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements, including changes in legal structure and reporting required to implement US enhanced prudential standards, completing the implementation of a service company model, and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, to proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, and the extent to which such changes will have the intended effects; (vii) the uncertainty arising from the timing and nature of the UK exit from the EU and the potential need to make changes in UBS’s legal structure and operations as a result of it; (viii) changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including recently enacted and proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA; (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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