

•SwissBanking

August 2019

Annual Report 2018 / 2019

Foreword from the Chairman

Dear Reader

The world is becoming increasingly fragmented, many changes are underway and new partners are connecting flexibly. Networks are no longer static and rigid. Instead, their strength lies in the well-considered decision to collaborate. A strategic network makes it possible to take action. "Strength in numbers" is both an attitude and a path: it allows us to take the lead and to shape important matters that will be relevant in the future. For Switzerland, for its financial centre and for the Swiss Bankers Association (SBA), networking with a vision and finding solutions together are therefore indispensable for future success.

Networking with a vision

Protectionism and strained trade relations are fuelling uncertainty around the world. In this environment, it is crucial for our country, with its open economy, to network skilfully and uphold multilateralism and free trade.

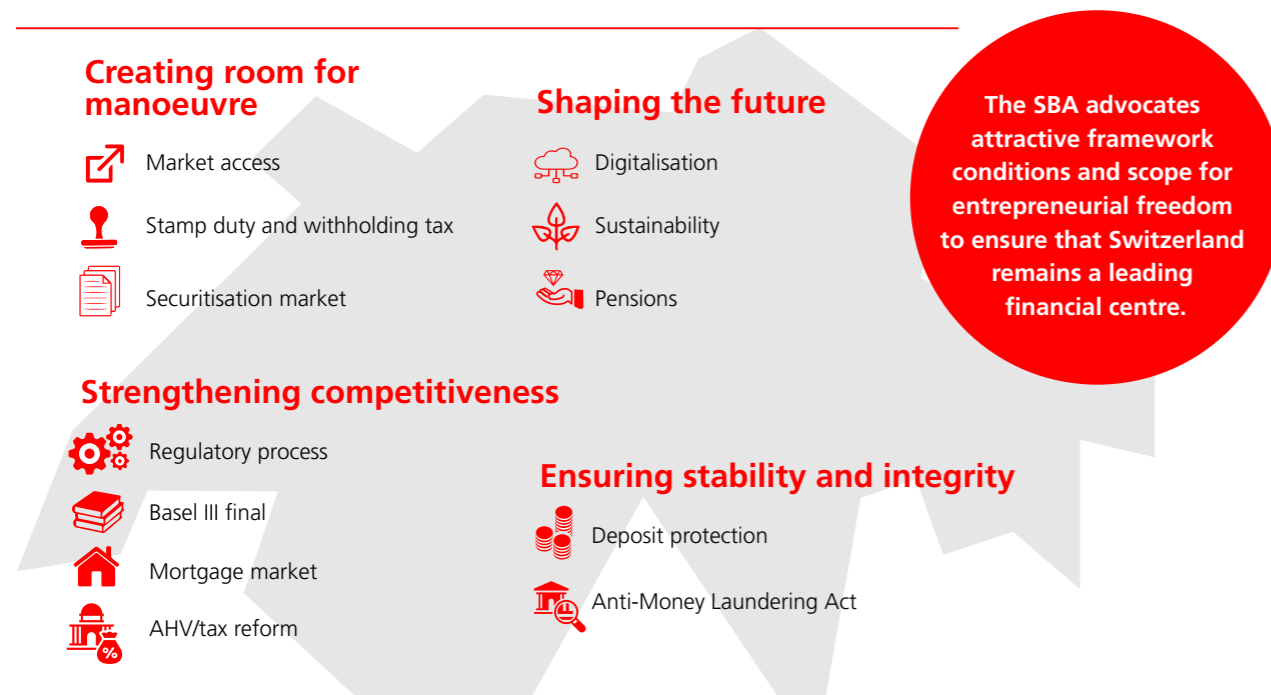
At the same time, digitalisation is giving rise to fundamental changes in business models, processes and value chains – including those of banks. New stakeholders are taking on greater significance, cooperation with fintech companies is increasing and competition is continuously intensifying. Where will the sector's path lead? How is digitalisation influencing banks and their clients? One thing is clear: the ability to cope with change and consistently implement innovative technologies is crucial for the success of every bank. Our survey on the banks in Switzerland, which was fundamentally revised and updated in 2019, shows that Swiss voters feel the sector is capable of this change. More than 90 percent of respondents believe that banks will continue to offer financial services in 20 years' time and will not be replaced by other providers.

Networking with a vision is one of the SBA's core missions. It is particularly important in an election year, and therefore a year of change, to intensify existing relationships and to expand networks. For a country of our size, the dialogue between the sector and government is a guarantee for success. The SBA sees its role in this area as serving as the link between the financial centre and the federal government. With Jörg Gasser, we have since May 2019 had a new CEO who embodies and fosters this kind of strategic networking. With his proven experience in policy and in-depth knowledge of the concerns of our sector, he succeeds in making strength in numbers a reality. In doing so, he strengthens the SBA in its role as a valued partner to our members as well as to the government, business and the public. At the same time, the Swiss Bankers Association is very grateful to Claude-Alain Margelisch for his exceptional accomplishments. Over the last 26 years, of which nine years as CEO, Claude-Alain Margelisch has made a commendable contribution to shaping the SBA.

Creating framework conditions using a liberal compass

The SBA is committed to entrepreneurial room for manoeuvre and open markets, and advocates competitive framework conditions that offer scope for development. Future trends must be anticipated at an early stage and a new, well-founded approach must be taken to future issues. At the end of 2018, for example, the SBA for the first time published a comprehensive overview of investment management, which consists of wealth management and

asset management, as part of the investment hub study. This provides valuable knowledge for banks, but also for society as a whole. This knowledge creates the premise for actively shaping the framework conditions of the future. To this end, our focus this year will be on the following 12 priorities (see figure).



Creating room for manoeuvre

The Swiss financial centre remains the global market leader in cross-border wealth management. To ensure this continues to be the case in the future, banks in and outside Switzerland require room for manoeuvre and the possibility to further develop, also in the digital world. However, market access restrictions are increasingly preventing banks in Switzerland with a strong international focus from doing so. Improving **market access** is therefore also a priority in 2019.

The current political debate in Switzerland about the institutional agreement with the EU (InstA) and the developments surrounding recognition of the equivalence of the Swiss stock exchange demonstrate just how difficult this undertaking is. From the SBA's point of view, the institutional framework agreement with the EU is an important first step towards concretising and implementing market access solutions that are necessary and practicable for the

sector – both in relation to key partner states and at the EU level. For the SBA, the focus here is on concluding finance-specific equivalence procedures, sensible and practicable market access solutions that are less far-reaching than a financial services agreement and a fundamental improvement of the current equivalence regime.

Securing sensible market access for Swiss banks and strengthening the profile of “Swiss Banking” outside the EU is another important priority for the SBA. In recent months, for example, various road shows have taken place together with President of the Swiss Confederation Ueli Maurer in important markets, including Latin America, the Middle East and, most recently, China. These trips provide opportunities to lay the foundations for appropriate market access with the authorities in those markets. We will very consciously press ahead with these campaigns.

An internationally competitive financial centre benefits Switzerland as a whole. Fiscal and legal framework conditions set important guideposts which, however, as in the case of **stamp duty and withholding tax**, can restrict the Swiss banks compared to their competitors abroad, especially with regard to the capital market. We are convinced that a globally attractive financial centre should have a correspondingly attractive capital market.

Shaping the future

Digitalisation offers many opportunities. It is crucial that the financial centre takes advantage of these opportunities in the interests of its clients and in doing so, takes into account the needs of all market participants. With the guidelines on opening corporate accounts for blockchain companies published in September 2018 and the cloud guidelines published at the end of March 2019, the SBA is supporting its members on this path by providing concrete recommendations. In addition, we are actively involved in all important regulatory decisions, be it with regard to blockchain technology or the e-ID.

A market study on **sustainable investments** in Switzerland published by Swiss Sustainable Finance in June 2019 shows just how attractive the financial centre is when it comes to sustainability. In 2018, sustainable investments increased by 83% to a new high of 717 billion francs. Sustainable investing, or sustainable finance, is and remains a strategic priority: in the spring of 2019, for example, the SBA's Board of Directors adopted the key areas of focus for

improving the framework conditions and committed to closer collaboration with Swiss Sustainable Finance. We are convinced that Switzerland should and must play a leading role in sustainable finance. Switzerland can build on its unique expertise and long-standing experience to do so.

Safeguarding **pensions** will be one of the major social and economic challenges of the future. Banks can make an important contribution to this, particularly in the area of occupational pensions. The long-term average shows that over one-third of occupational pensions is generated through investment returns. The SBA's survey published in May 2019 indicates that the respondents also acknowledge the banks' important role in financing retirement. In order for banks to be able to be effective in this role, they require optimal framework conditions. The SBA therefore supports the efforts to modernise the investment guidelines for occupational pension plans in accordance with the prudent investor rule.

Strengthening competitiveness

The SBA is committed to ensuring that the sector is involved in the **regulatory process** at an early stage and on an ongoing basis, and that important principles such as commensurability, proportionality and international competitiveness are taken into account in regulations. We therefore support the new ordinance proposed by the Federal Council for the Financial Market Supervision Act, which was in the consultation stage until July. It focuses on clear competencies and processes for financial market regulation and the establishment of the responsibilities of the Financial Market Supervisory Authority (FINMA) with regard to supervision and regulation.

As far as the implementation of international standards is concerned, the SBA systematically advocates for the coordination of the content and timing thereof with other financial centres. This involves ensuring a level playing field. With a view to the Swiss implementation of the capital requirements of "**Basel III final**", the SBA therefore calls for the competitiveness and future viability of our financial centre to be systematically taken into account. The requirements must be brought into force in conjunction with other relevant financial centres. We will closely watch the concrete work being done on implementation by the responsible national task force.

In view of the situation in the **mortgage market**, the SBA decided in spring 2019 to amend self-regulation with regard to residential investment properties. In this context, we also welcomed the fact that the authorities, for their part, have promised to give priority to effective self-regulation over an amendment to the Capital Adequacy Ordinance. The impact of amending self-regulation is targeted and swift for as long as there is a need for action. This means that the framework conditions remain competitive, while at the same time taking into account the current situation in the residential investment property market.

With the adoption of the "**Tax proposal and AHV financing**" (TRAF) on 19 May of this year, the Swiss electorate voted for a competitive and future-oriented Switzerland. This was one of the SBA's priorities in 2019 and we were therefore very involved in the referendum campaign. The internationally accepted rules on corporate taxation will strengthen legal certainty for our companies.

Ensuring stability and integrity

Ensuring stability and strengthening confidence in the financial centre are and will remain important priorities for our association. In its statement submitted in June, the SBA therefore supported the Federal Council's planned revision of **deposit insurance**. Swiss deposit insurance is based on a solid foundation and has to date stood the test on several occasions. We consider the need for improvement asserted by the Federal Council to be expedient: reducing the deadline for payment to depositors to seven business days is in line with international standards and will further strengthen confidence in the financial system. With the proposed measures, the security and stability of the financial centre can be further improved. In its statement, the SBA also indicated that the revision must be cost-neutral with regard to the capital and liquidity of banks.

In its role as the umbrella organisation for the banks in Switzerland, the SBA published the revised Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 20) in the summer of 2018. The stricter self-regulation is a key element in Switzerland's measures in the fight against money laundering and terrorist financing. The new code of conduct will come into force on 1 January 2020 and reflects the SBA's clear stance and ongoing commitment to a Swiss banking centre with a high level of integrity. Looking ahead, further developments can already be seen on the horizon. For example, the revision of the **money laundering provisions** is intended to take due account of interna-

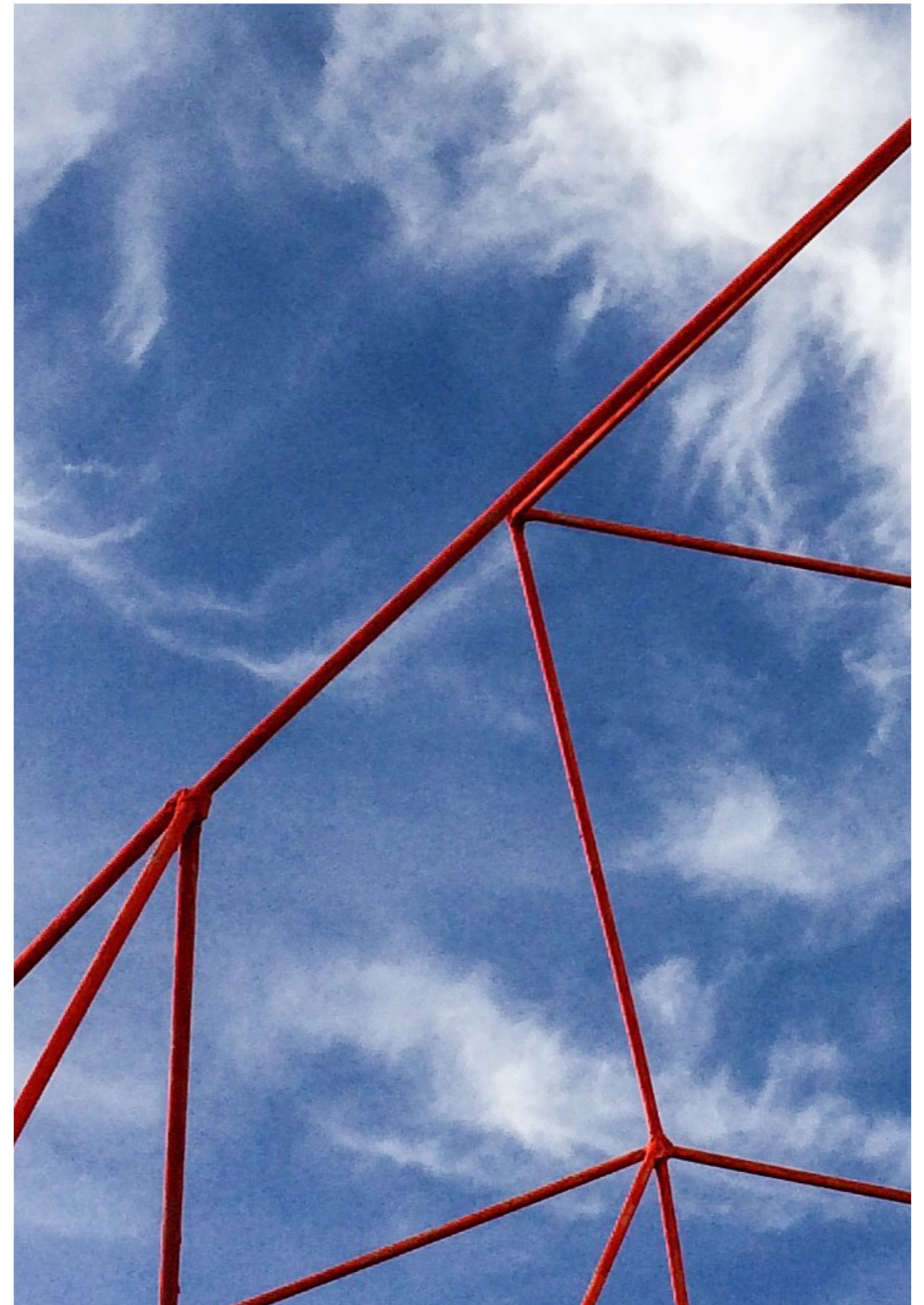
tional requirements. On 26 June 2019, the Federal Council adopted the dispatch on the amendment of the Anti-Money Laundering Act (AMLA). It will now be discussed in Parliament.

The list of issues and the intensity of the individual developments demonstrate that the past months have required and received our full attention. Given our wide variety of members and the large number of issues, finding common positions to which everyone can say “yes” requires a great deal of dedication and the will to engage in respectful discourse. The results ultimately underscore the importance of the often-controversial discussions necessary for reaching a consensus. The willingness of all those involved to compromise makes it possible for the banking sector to speak with one voice. It makes the broadly supported concept of «strength in numbers» possible!

My heartfelt thanks go to all the employees at our offices and to all the bank representatives in the SBA’s various committees, commissions and task forces. We are using their experience and expertise to shape our future and to advance our financial centre and the banks.



Herbert J. Scheidt, Chairman



SBA management report

General business performance

The Swiss Bankers Association (SBA) is a non-profit organisation. It is financed predominantly through membership fees. Amounting to around CHF 21 m, membership fees were slightly lower in 2018 than in the previous year. At the end of the financial year, the SBA had 287 member institutions with 11,650 individual members. In the year under review, three new member institutions joined the SBA. Due to a number of bank mergers, however, the total number nevertheless decreased by five member institutions and 50 individual members compared to the previous year. As a result of the positive operating balance, it was possible to increase the long-term provisions for general risks arising from business activities as well as for ensuring the association's continuity to CHF 24.6 m as at 31 December 2018. The SBA employed an average of 53 staff (in full-time equivalents) during the year under review.

Execution of a risk assessment

The risk assessment produced no new factors, resulting in only isolated adjustments that were adopted by the Audit Committee on 16 April 2019. The assessment of the SBA based on the information currently available is that there are no material, individual risks that could pose a

threat to the Association's existence at present or in the near future. Nor does the total sum of the individual risks pose a threat to the continuity of the SBA.

Research and development activities

The SBA did not conduct any significant research or development projects during the year under review.

Extraordinary events

There were no extraordinary events during the year under review.

Outlook

As a result of the restructuring undertaken in 2017 and the consolidation thereof during the year under review, key competencies within the SBA's strategic areas were further refined, making it possible to strengthen competent, effective communication and lobbying in politics and the public. This is expedient for reaching the strategic thematic objectives and priorities defined by the Board of Directors in 2017, which are being further pursued. Traditionally, the SBA's Bankers Day is held in September. In order to comply with the Code of Obligations art. 958 para. 3, according to which the annual report must be submitted to the Annual General Meeting within six months of the end of the financial year, the SBA's 2019 accounting year will be extended by three months to 31 March 2020 and 31 March will be the new closing date starting from 2020. The SBA's Articles of Association will be amended accordingly as soon as they have been approved by the Annual General Meeting.

I assumed my role as CEO of the SBA on 1 May of this year from long-standing CEO Claude-Alain Margelisch, to whom the SBA is very grateful for his extraordinary contribution. Like for him, strengthening the Swiss financial centre is my top priority.

Basel, 28. August 2019



Jörg Gasser
CEO



Nicolas Hug
Head Operations

Balance Sheet

Assets in CHF	31.12.2018	31.12.2017
Cash and short-term cash equivalents	20,785,697	17,591,806
Trade accounts receivable	2,410,643	5,081,470
Other short-term receivables	54,254	55,637
Prepaid expenses/accrued income	101,023	131,352
Total current assets	23,351,617	22,860,265
Financial assets	12,599,699	12,956,650
Property, plant and equipment	3,700,001	3,700,001
Total non-current assets	16,299,700	16,656,651
Total Assets	39,651,317	39,516,916

Liabilities in CHF	31.12.2018	31.12.2017
Trade payables	800,145	804,182
Other short-term liabilities	866,836	1,138,870
Accrued expenses/deferred income	717,898	727,080
Short-term provisions	1,691,000	1,430,000
Total short-term liabilities	4,075,879	4,100,132
Provisions and similar items foreseen in the law	24,600,000	24,500,000
Total long-term liabilities	24,600,000	24,500,000
Total liabilities	28,675,879	28,600,132
Association capital	6,961,000	6,961,000
Reserves	4,014,438	3,955,784
Total equity capital	10,975,438	10,916,784
Total Liabilities	39,651,317	39,516,916

Income statement

Income statement in CHF	2018	2017
Membership fees	20,885,165	22,357,418
Revenue from sale of goods and services	1,455,015	1,459,896
Total operating income	22,340,180	23,817,314
Goods and services expenses	-7,929,034	-7,808,902
Personnel expenses	-11,717,489	-11,052,916
Other operating expenses	-2,500,792	-2,108,985
Total operating expenses	-22,147,315	-20,970,803
Operating result	192,865	2,846,511
Financial expenses (including unrealised losses)	-460,660	-47,703
Financial income (including unrealised gains)	191,256	490,504
Non-operating income	40,140	40,140
Extraordinary, non-recurring or prior-period expenses	-870,000	-3,225,864
Extraordinary, non-recurring or prior-period income	1,125,449	123,035
Direct taxes	-160,396	-180,243
Profit for the year	58,654	46,380

Cash flow statement

Cash flow statement in CHF	2018	2017
Net profit for the period	58,654	46,380
Price changes in financial investments	413,156	-268,428
Change in current assets	2,702,539	-3,590,147
Change in liabilities	-285,253	-112,777
Change in provisions	361,000	2,619,000
Cash flow from operating activities	3,250,096	-1,305,972
Investments in non-current assets	-56,205	-81,624
Cash flow from investing activities	-56,205	-81,624
Total cash flow	3,193,891	-1,387,596
Balance of cash at beginning of period	17,591,806	18,979,402
Balance of cash at end of period	20,785,697	17,591,806
Total cash flow	3,193,891	-1,387,596

Notes

1. Description of the principles used in the preparation of the financial statement

These financial statements of the Swiss Bankers Association, headquartered in Basel, have been drawn up in accordance with the Swiss law, in particular with the article in the Code of Obligations relating to commercial accounting and financial reporting (Art. 957 to 961).

In preparing the financial statements, the management is required to provide estimates and assessments that could affect the reported amounts of assets and liabilities, but also the expenses and revenues for the reporting period. The management decides at its own discretion how to apply the legal scope for valuation and reporting practices. Pursuant to the principle of prudence, depreciation, value adjustments and reserves that exceed the economically necessary level can be created in the interests of the Association.

In principle, tangible fixed assets are valued at acquisition cost less depreciation and value adjustments. Depreciation of the Association's office premises, with the exception of the land value, is calculated on a straight-line basis. Where indications of overvaluation are present, the book values are reviewed and value-adjusted if necessary.

2. Disclosures, breakdown and explanations of balance sheet and income statement items in CHF

a) Cash and short-term cash equivalents	31.12.2018	31.12.2017
Cash deposits	11,873	13,421
Bank deposits	20,773,824	17,578,385
	20,785,697	17,591,806
b) Financial assets		
Securities at market price	12,395,199	12,752,150
Securities at acquisition cost	204,500	204,500
	12,599,699	12,956,650
c) Property, plant and equipment		
Premises/furniture/IT systems	1	1
Office premises in Basel	3,700,000	3,700,000
	3,700,001	3,700,001
d) Provisions (short and long-term)		
for general risks arising from business operations and to ensure continuity of the Association	26,291,000	25,930,000

3. Explanations of extraordinary, non-recurring or prior-period items included in the income statement in CHF

a) Extraordinary, non-recurring or prior-period expenses	2018	2017
Short-term provisions	770,000	1,430,000
Long-term provisions	100,000	1,280,000
Restructuring costs	0	332,364
Other	0	183,500
	870,000	3,225,864

Additional provisions were created for general risks arising from business activities as well as for ensuring the association's continuity.

b) Extraordinary, non-recurring or prior-period income	2018	2017
Release of provisions	509,000	91,000
Extraordinary income	475,000	0
Other	141,449	32,035
	1,125,449	123,035

Provisions were released to finance various costs that arose in 2018. The extraordinary income is income from the partial liquidation of the US hardship fund.

4. Additional information

a) Personnel (full-time equivalents)

The average number of employees (full-time equivalents) for the year was over 50 both in the year under review as well as the previous year.

b) Assets pledged to secure own commitments

The assets pledged (financial investments) as collateral for own liabilities total CHF 630,000 (previous year CHF 630,000).

c) Fees paid to the auditors in CHF	2018	2017
For audit-related services	22,950	22,680
For other services	103,431	0

5. Significant events after the balance sheet date

There were no material events between the balance sheet date and approval of the financial statements by the Board of Directors' Audit Committee on 16 April 2019 that could affect the information contained in the 2018 financial statements or that would have to be disclosed herein.



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To the General Meeting of Members of
Swiss Bankers Association (Swiss Banking), Basel

Basel, 16 April 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Swiss Bankers Association (Swiss Banking), which comprise the balance sheet, income statement and notes (pages 12 to 19), for the year ended 31 December 2018.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the association's articles of incorporation.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 69b civil code in conjunction with article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 69b civil code in conjunction with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Andreas Blumer
(Qualified
Signature)

Licensed audit expert
(Auditor in charge)



Raphael Ritter
(Qualified
Signature)

Licensed audit expert

•SwissBanking

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