



Swiss banking, a new era ?

18 April 2013

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A unique position

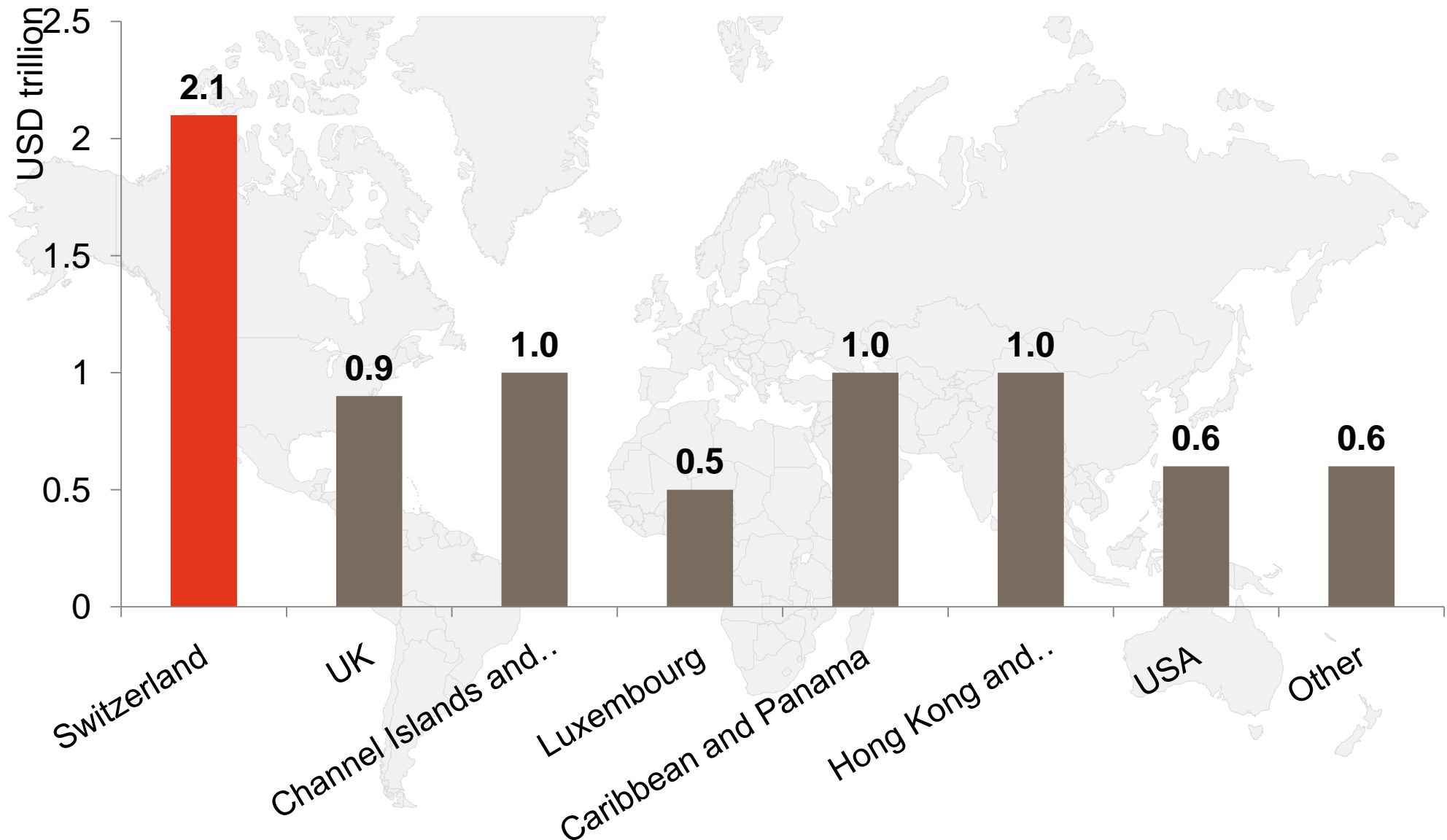
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Switzerland as an offshore centre (1/2)

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Private offshore financial assets in Switzerland in 2011, in USD tr



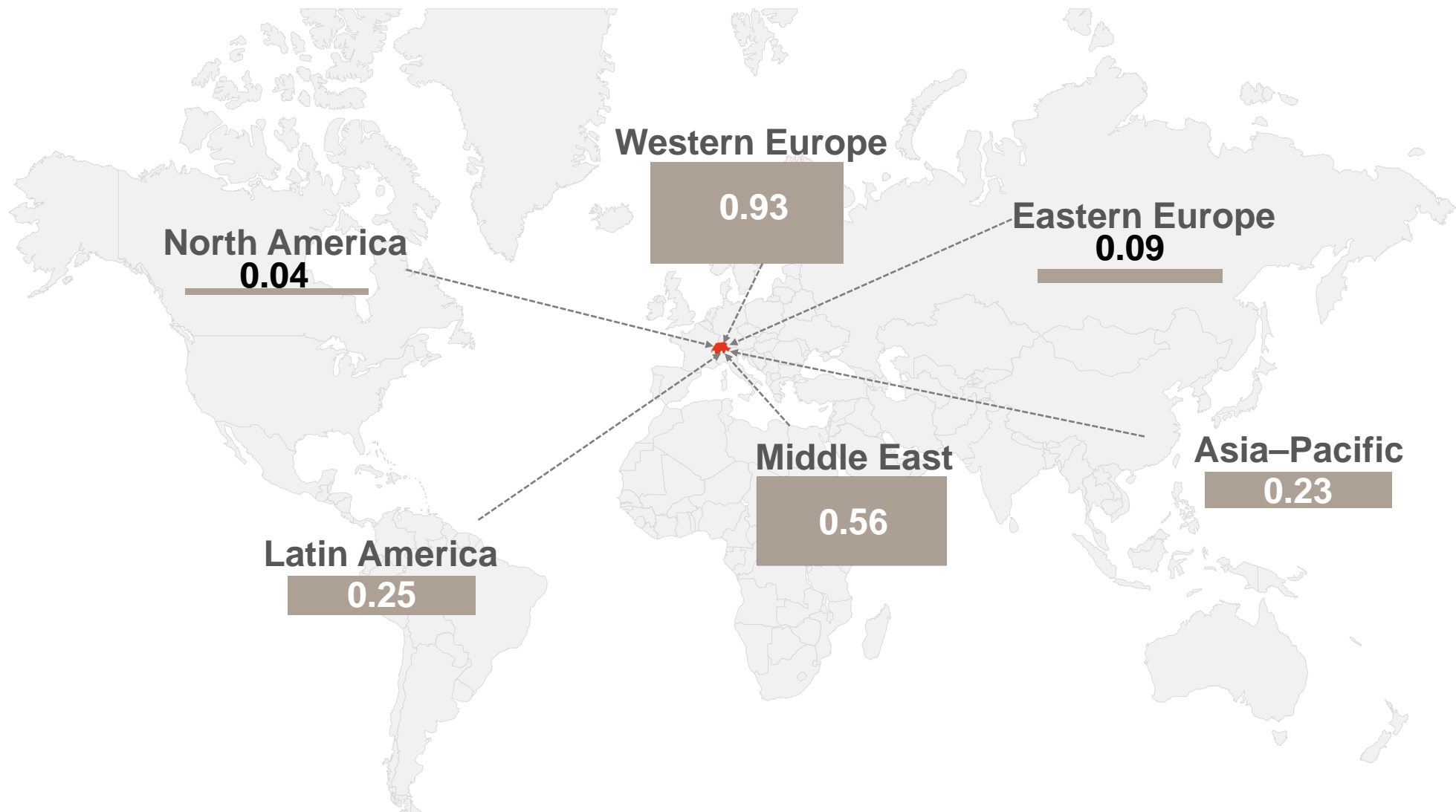
Source: BCG

Note: "Other" includes Dubai and Monaco

Switzerland as an offshore centre (2/2)

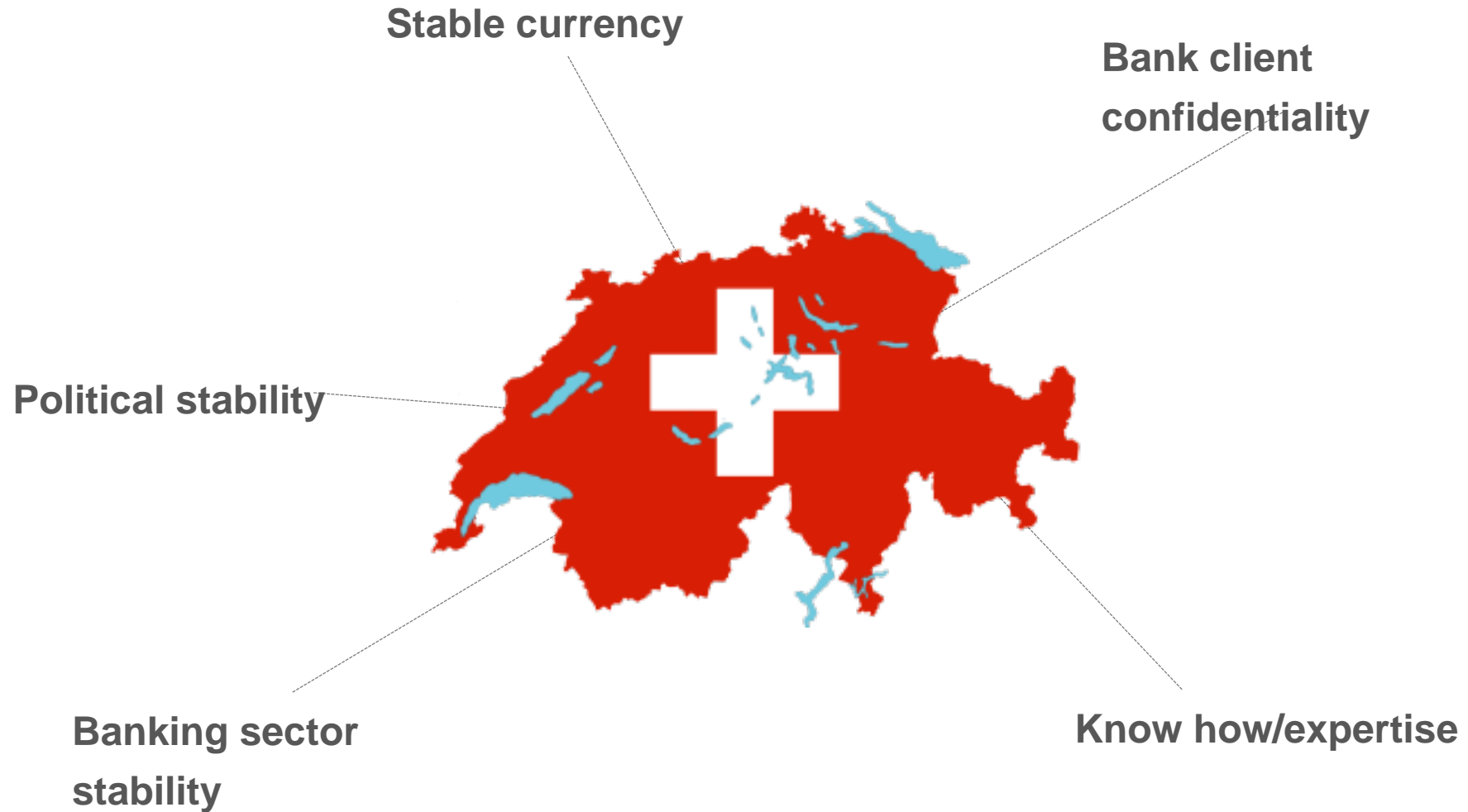
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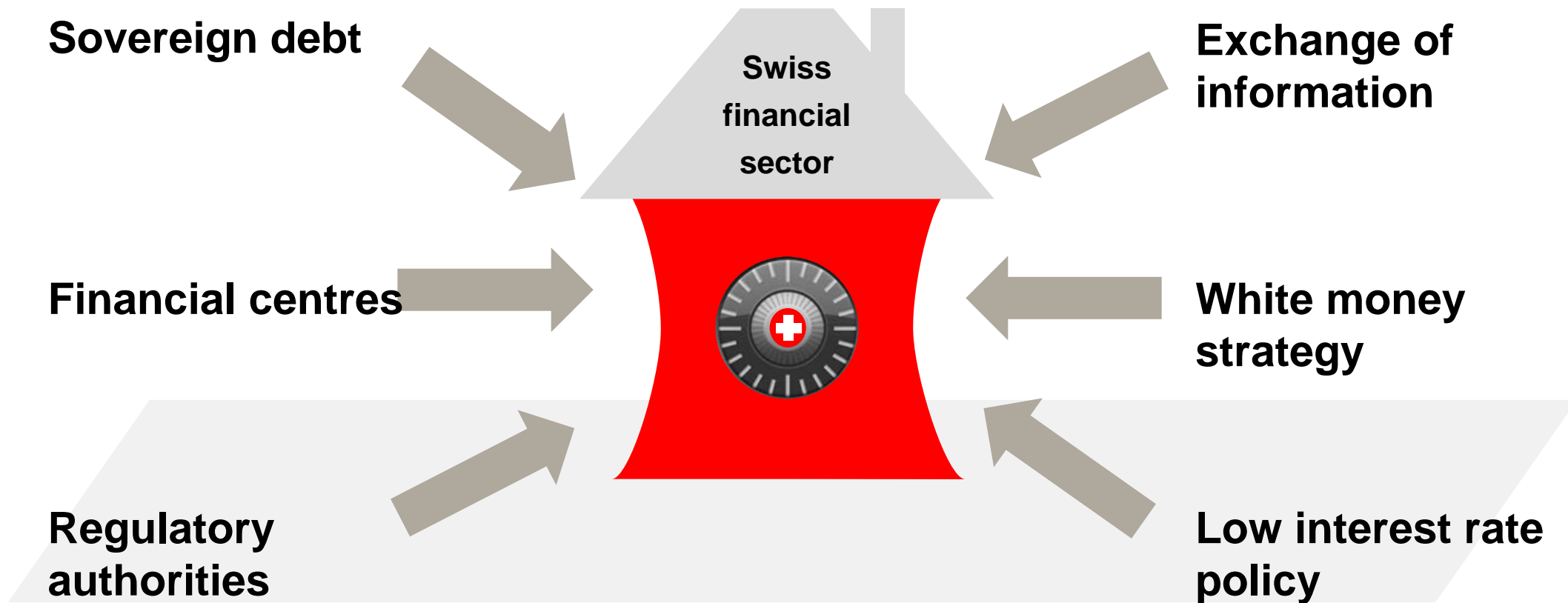
Swiss financial sector: traditional advantages

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Politics and regulation at home and abroad exert enormous pressure on the Swiss financial sector

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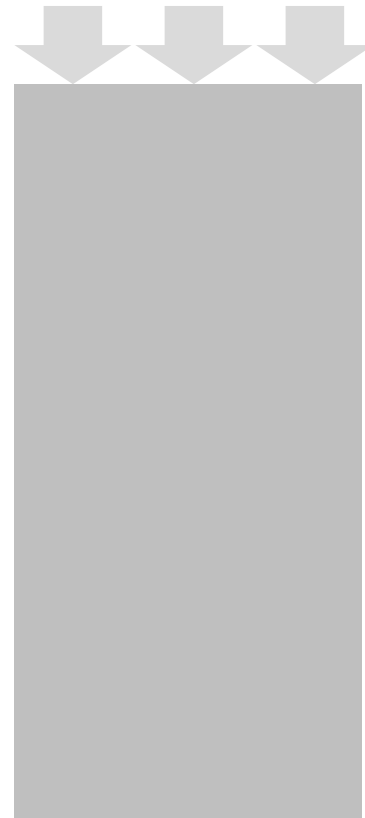
The private banking industry is under particularly heavy pressure (1/2)

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Market situation in private banking

Pressure on income

- Low interest margin
- Rising (price) competition for Swiss clients
- Outflows of assets in cross-border business
- Retrocessions waived or repaid
- Declining trading activities/commissions



Income

Higher costs unavoidable

- Stricter domestic and foreign regulatory requirements
- Increase in risk management and internal controls
- Clients more often have special requests

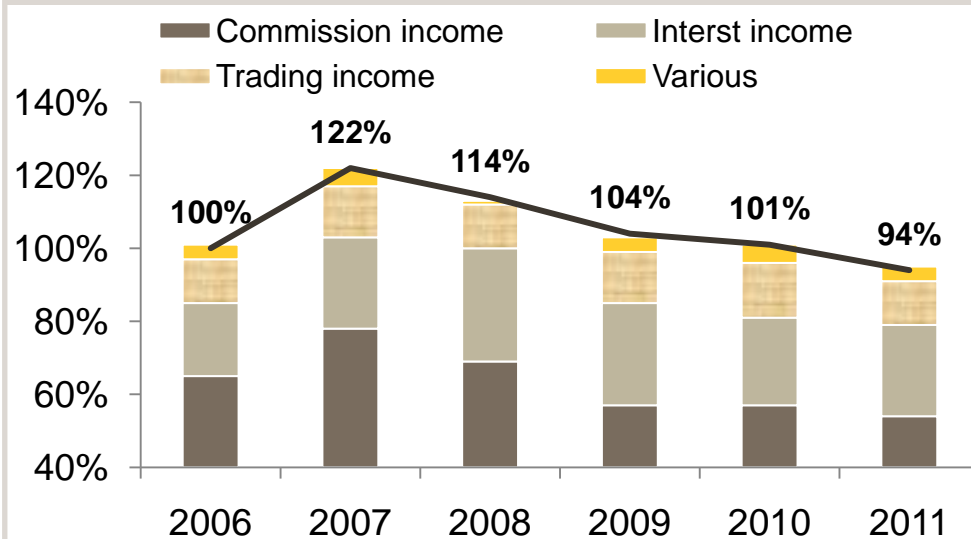


Costs

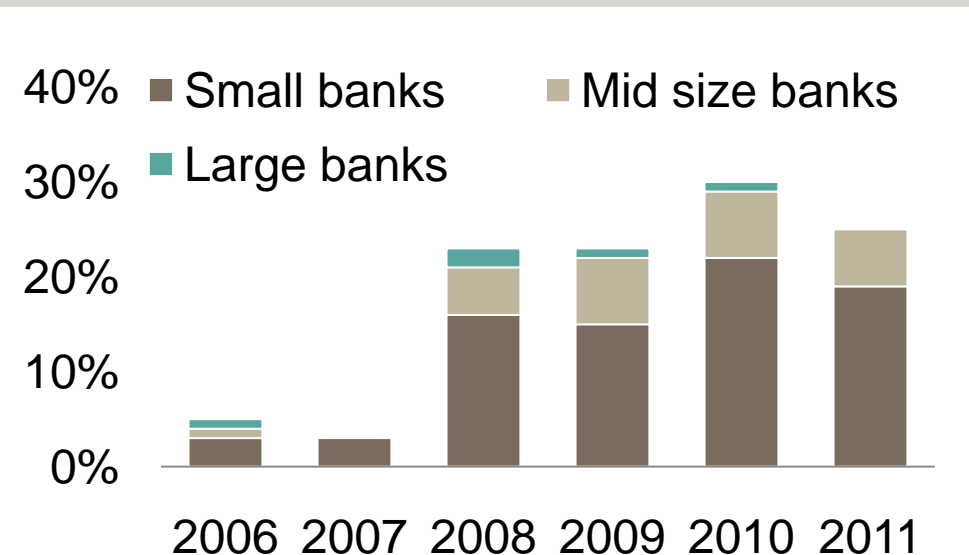
The private banking industry is under particularly heavy pressure (2/2)

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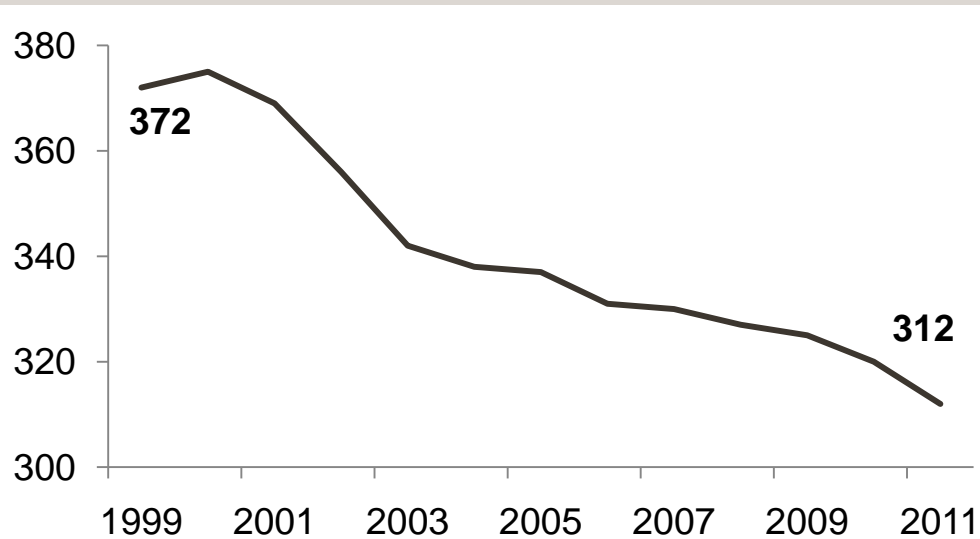
Growth in net income, all private banks



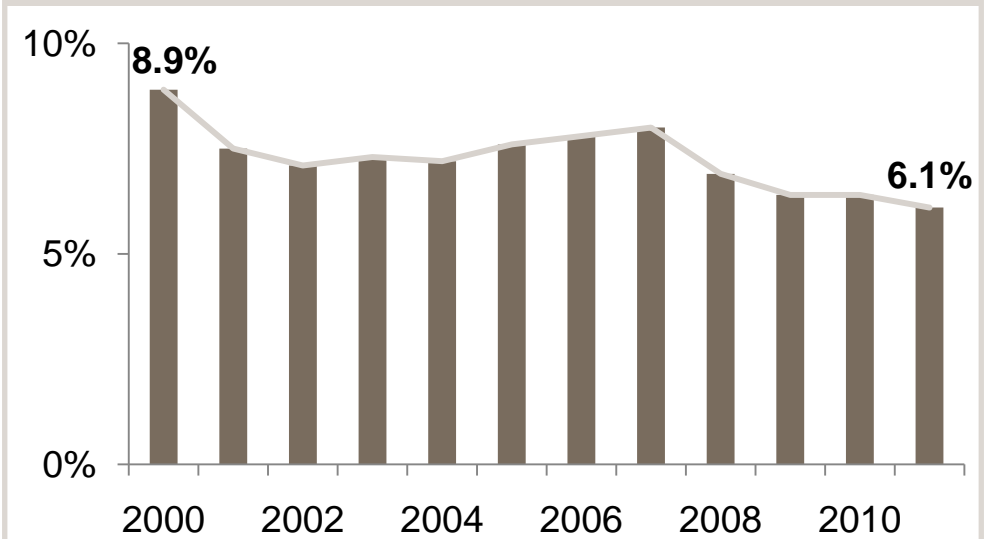
Share of private banks reporting losses



Number of banks falling steadily



Declining share of nominal gross value creation in Switzerland



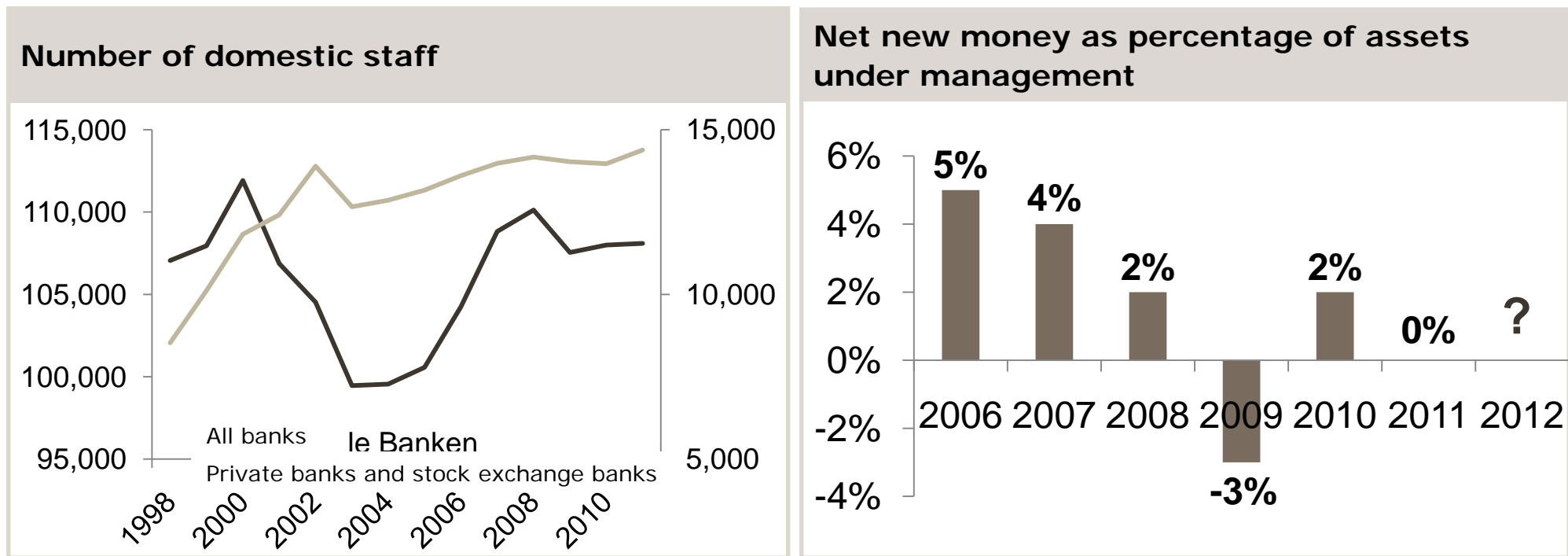
Consequences

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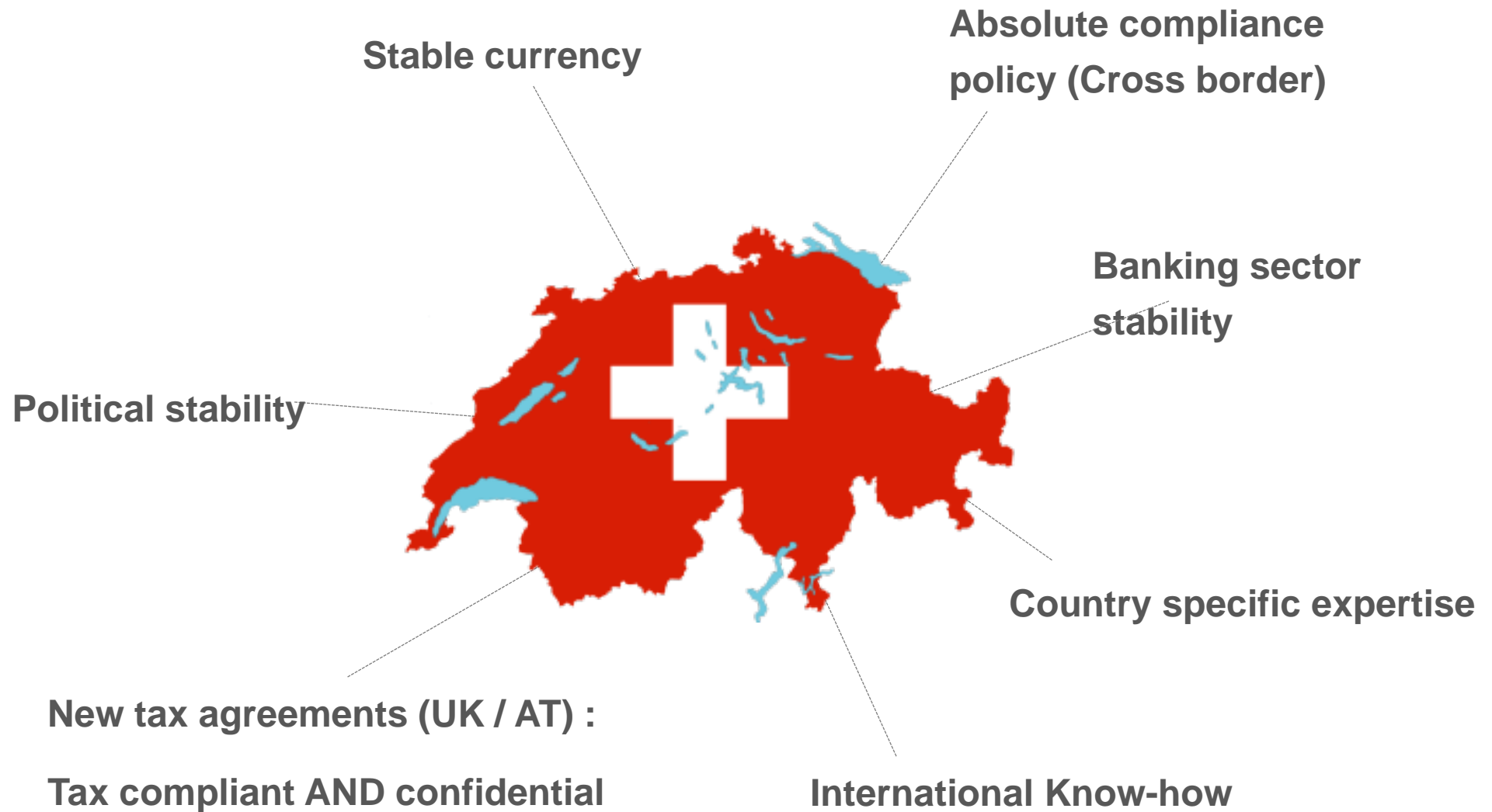
Surprising elements

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Swiss financial sector: new key factors

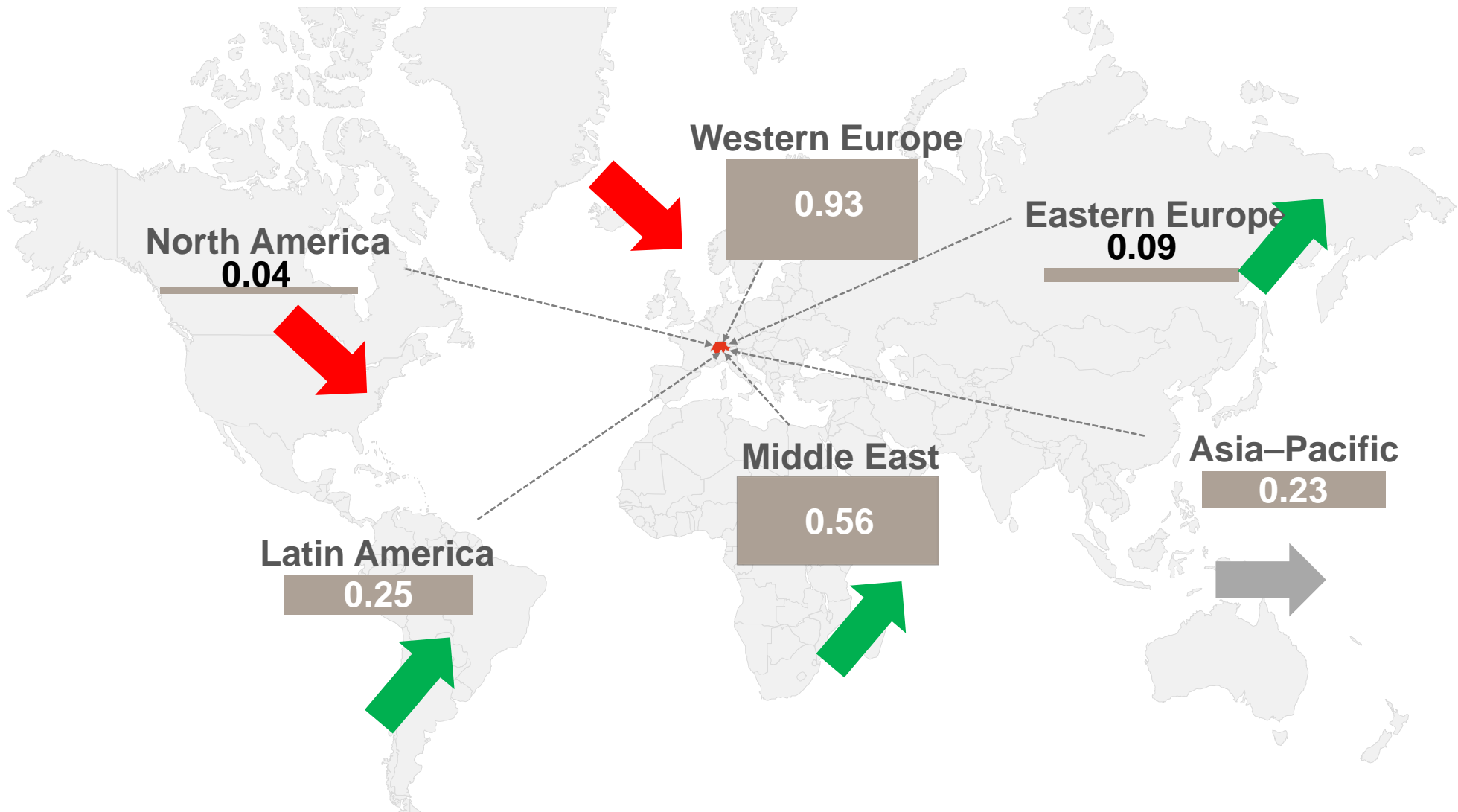
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Expected asset flows

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Private offshore financial assets in Switzerland in 2011, in USD tr



"Our aim is to become one of the
best three private banks in
Switzerland in asset management."



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Notenstein: solid results in peer-group comparison

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Swiss private banks (2011)

95% report a return on equity
of less than 12%

25% are in the red

50% report a cost-income ratio
greater than 81%



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Return on equity of **14%**

Gross profit of CHF **46 million**

Cost-income ratio of **75%**

Summary... and discussion opener for your table !

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Challenges

- Appetite from indebted States (international pressure)
- Increased competition among financial centres / banks
- Structural change/consolidation in the Swiss banking market
- Outflows from undeclared assets (mainly from developed countries)
- Low interest rate policy from Central Banks
- Increasingly strict regulatory requirements
- Market access (cross-border rules)
- On-going pressure on banks' profitability

Opportunities

- Political and financial stability of the country
- Unique International know-how and country specific expertise
- New tax agreements protecting privacy
- Inflows from declared assets
- Swiss reputation (especially in the Emerging Markets)

And of course.... Notenstein's brilliant 1st year results !



Tough questions...



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Cyprus

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What happened ?

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Cypriot Specificities

- Banking sector hypertrophy
- High exposure to Greek Debts
- Very high level of bank deposits (cash)
- Very high level of offshore assets
- Suspicions towards the origin of the assets deposited
- Weak State finance
- Extremely small economy within the Eurozone
- Industry represents only 6% of GDP

What happened ?

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The problem

- Funds needed to recapitalize the banking sector : 17 bn EUR
- Too much for the Cypriot State
- If fully financed from loans, debt level > 180 % GDP



What happened ?

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The "solution"

- 10 bn EUR lent for recapitalisation of the banking sector, excluding the two largest banks
- All deposits above 100'000 EUR at the biggest bank (Bank of Cyprus) are frozen and will be affected by an "haircut" to help recapitalize the bank
- Cyprus's second largest bank, Laiki Bank, will be closed down. All deposits below 100'000 EUR are moved to Bank of Cyprus. Bigger deposits are frozen and will be affected by an "haircut" to contribute to the bailout (funds needed : 5.8 bn)



- Capital control is introduced :
 - Max. daily withdrawing = 300 EUR
 - Max capital allowed on a foreign trip = 1'000 EUR
 - Max transfer to credit / debit cards = 5'000 EUR/month

Who's paying ?

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The Eurogroup • The "EuroGroup", what's that ??

European Stability Mechanism

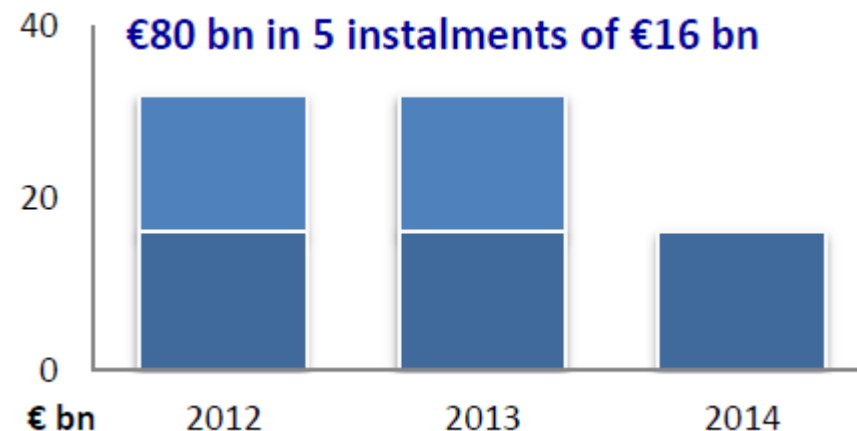


- providing loans to countries experiencing or threatened by severe financing problems
- financing recapitalisations of financial institutions through loans to governments including in non-programme countries.

Firepower :

Authorized capital stock of €700 billion divided into:

- €80 billion in paid-in capital
- €620 in committed callable capital



**Limited financial and economical implications
and relevance...
... except for the Cypriots !**

**Potentially important political implications :
Setting a precedent which might be used as a
template for future bail-outs**

-> Uncertainty !

Gold

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USA – debt without end?

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Professor Laurence J. Kotlikoff, our partner in the *Notenstein Dialogue*



*"The US is broke. It's not broke
in 30 years or 15 years or 5 years.
It's broke today."*



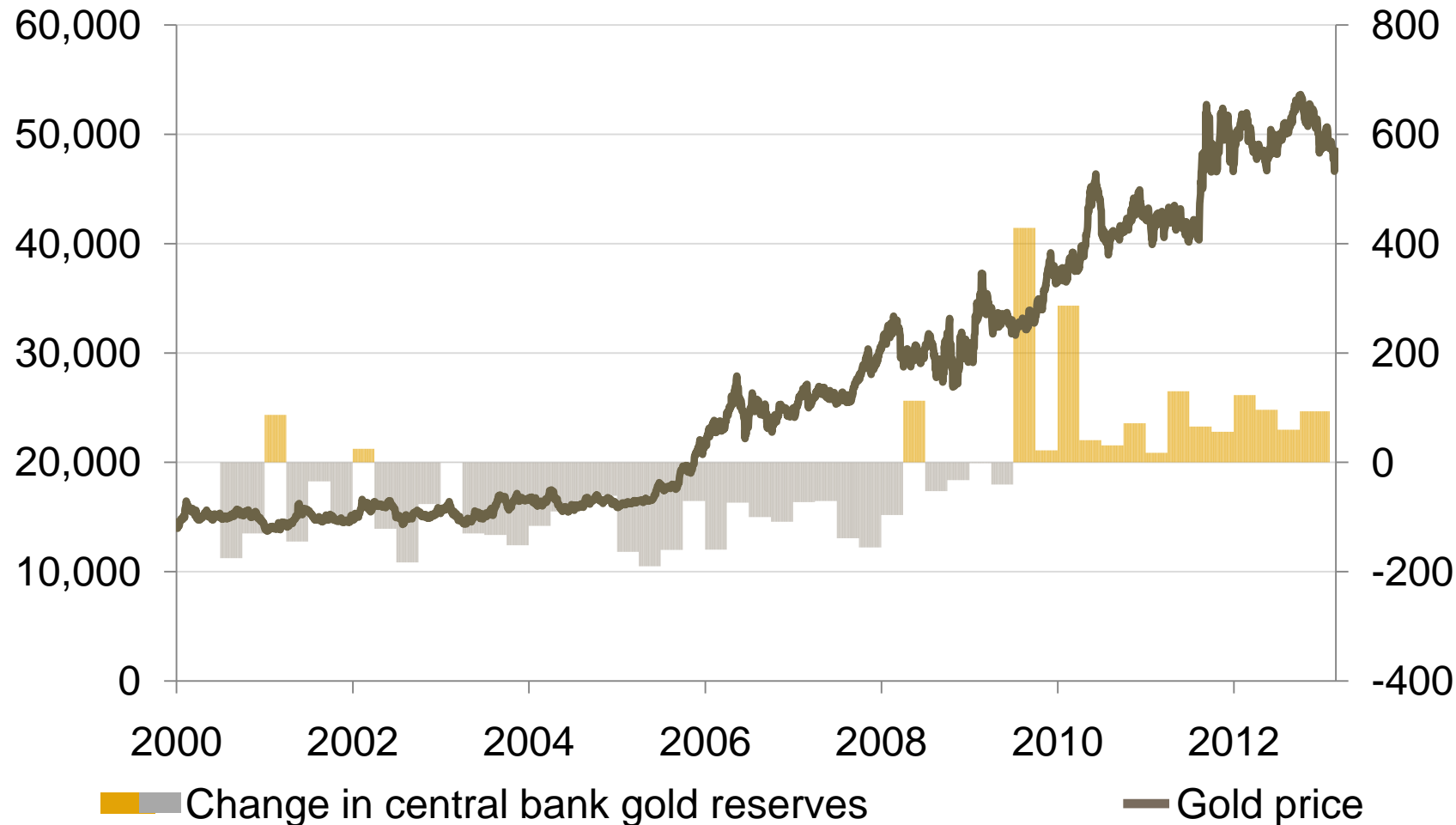
Gold – an important portfolio component

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Central banks also appreciate the diversification effect supplied by gold

Gold price in CHF per kg

Change in gold reserves*



* Quarterly data, in metric tonnes
Source: Bloomberg, IMF, Notenstein analysis