Banks in Switzerland – key developments in 2010

This publication contains data on banks' (parent companies) individual financial statements as required by law. In the case of big banks, in particular, these statements may differ from group financial statements.[1]

1. Balance sheet business

Balance sheet total

In 2010, the aggregate balance sheet total for all banks in Switzerland rose by 1.7% to CHF 2,714.5 billion. Balance sheet totals increased at banks with a domestic business focus, such as cantonal banks (4.5%), Raiffeisen banks (5.5%) and regional and savings banks (4.1%). Domestic balance sheet items rose accordingly – both for assets and liabilities. Assets were up by 5.2% to CHF 1,262.7 billion, while liabilities increased by 3.0% to CHF 1,288.8 billion. In the case of foreign balance sheet items, the situation on the two sides of the balance sheet differed. Although assets again declined (by 1.1% to CHF 1,451.8 billion), liabilities rose slightly (by 0.6% to CHF 1,425.7 billion). Foreign balance sheet items were strongly affected by currency movements. About 90% of these items are held in foreign currencies, half of them in US dollars and one-quarter in euros. In 2010, the US dollar depreciated by 9.0% against the Swiss franc, while the euro was 15.7% down against the Swiss currency.

Assets

Domestic *mortgage claims* were up by 4.6% to CHF 758.2 billion; in 2009 they had risen by 5.2%. The fact that mortgage rates remained exceptionally low contributed to this growth. A particularly high increase in mortgage claims was recorded by cantonal banks (5.8%), regional and savings banks (5.1%) and Raiffeisen banks (8.1%). In the domestic market, other loans granted to private households and non-financial corporations rose slightly. In total, however, *claims against domestic customers* declined by 8.7% to CHF 162.5 billion.[2] *Claims against foreign customers* fell by 4.2% to CHF 354.8 billion.

Claims against banks rose by 1.1% to CHF 601.8 billion. Although *claims against foreign banks* decreased by 1.2% to CHF 517.8 billion, *claims against domestic banks* rose by 17.9% to CHF 84.1 billion. Investment in *money market instruments* issued by domestic borrowers rose considerably (by CHF 25.2 billion to CHF 50.4 billion), an increase that was attributable to purchases of SNB Bills by banks. By contrast, holdings of *money market instruments* issued by foreign borrowers dropped by CHF 39.1 billion to CHF 92.8 billion. In total, investment in *money market instruments* declined by 8.8% to CHF 143.3 billion. *Liquid assets* were up by 13.9% to CHF 106.1 billion. This advance was due to an increase in US dollar holdings by foreign central banks: overall, these rose by CHF 13.1 billion to CHF 41.4 billion.

1 'Individual financial statements as required by law' relate to the business conducted by the banks' head offices in Switzerland and their legally dependent domestic and foreign branches. 'Consolidated financial statements', however, also include business conducted by the banks' legally autonomous subsidiaries in Switzerland and in other countries (banks and non-banks). Further information on the data collection conventions may be found in 'Explanatory notes on the banking statistics'.

2 Due to the merger of a bank with a subsidiary, the following items have been substantially affected: *Domestic claims against customers*, *Other liabilities towards customers – domestic*, *Participating interests*, *Depreciation of tangible assets* and *Total eligible capital*. Cf. '8. Comments on the historical comparability of the statistics' in 'Explanatory notes on the banking statistics'.

Trading portfolios rose by 0.6% to CHF 207.0 billion and *financial investments* increased by 11.9% to CHF 146.4 billion. *Participating interests* were up by 39.7% to CHF 61.1 billion.[3]

Liabilities

Since 2007, interest rate considerations have been causing customers to deposit more of their funds in savings and sight deposits and to reduce their time deposits. Once again, in 2010, *liabilities towards customers in the form of savings and deposits* increased (by 7.2% to CHF 456.7 billion), as did *sight* deposits (by 2.7% to CHF 571.2 billion). *Time* deposits declined further, amounting to CHF 360.8 billion at the end of 2010.[4] As in 2009, liabilities in the form of *medium-term bank-issued notes* decreased (–18.7% to CHF 36.1 billion), with cantonal banks again recording a sharp decline (–30.2%), as did the Raiffeisen banks (–17.0%). However, liabilities arising from *medium-term bank-issued notes* increased at the big banks (by 5.5%).

Liabilities towards banks were down by 0.9% to CHF 500.9 billion, with *liabilities towards domestic banks* dropping by 7.9% to CHF 92.1 billion and *liabilities towards foreign banks* almost unchanged, increasing by 0.8% to CHF 408.9 billion. *Bonds and loans by central mortgage bond institutions* rose by 6.7% to CHF 360.0 billion. Outstanding *bonds* increased for both domestic business (by 21.0% to CHF 42.0 billion) and foreign business (by 4.2% to CHF 248.6 billion). Liabilities arising from *money market instruments* issued domestically rose by CHF 0.5 billion to CHF 2.2 billion, while the corresponding foreign liabilities were up by CHF 28.1 billion to CHF 89.2 billion. In total, liabilities arising from *money market instruments* increased by CHF 28.6 billion to CHF 91.4 billion.

2. Derivative financial instruments and off-balance-sheet transactions

Derivative financial instruments

At CHF 49.4 trillion, the contract volume of derivative financial instruments was almost unchanged from 2009. Derivative financial instruments are divided into trading and hedging instruments. The first category is clearly dominant with a share of over 99%. With a share of 96.5%, the big banks are the major players in the derivative financial instrument business.

In terms of contract volume, *interest rate derivatives* are the most important category of derivative financial instruments. In 2010, their contract volume remained more or less unchanged (–0.6% to CHF 35.4 trillion). Their *positive replacement values* decreased by 3.8% while the *negative replacement values* were down by 2.8%. The contract volume for the second-largest category, *foreign exchange derivatives*, was also relatively steady, with a 1.0% increase to CHF 10.4 trillion. However, *positive replacement values* rose by 26.9%, while *negative replacement values* soared by 32.3%. In the case of *credit derivatives*, the contract volume fell by 8.2% to CHF 2.6 trillion, with both *positive replacement values* and *negative replacement values* dropping by about 30%. The contract volume and replacement values for derivatives on *equity/index-related products* moved in different directions – while the contract volume rose significantly (by CHF 298.5 billion to CHF 767.3 billion), *positive replacement values* were down by 12.3% and *negative replacement values* by 12.7%.

3 Cf. footnote 2.
4 Cf. footnote 2.

Fiduciary business

Fiduciary funds managed by banks declined by 19.1% to CHF 201.8 billion. This was due, on the one hand, to exchange rate developments. On the other hand, persistently low money market interest rates affected customer investment behaviour. Fiduciary funds invested in both Swiss francs and euros declined by more than 30%, while those in US dollars fell by some 14%. The currency breakdown altered accordingly, with the share of funds invested in euros decreasing significantly to 28.9% at the end of 2010, compared to 33.8% at the end of 2009. The share of fiduciary funds invested in Swiss francs was down from 7.7% to 6.1%, while that in US dollars rose from 44.6% to 47.2%.

The drop was recorded for both domestically-sourced fiduciary funds (–23.4%) and those originating from abroad (–18.1%). The decline in fiduciary funds from advanced economies was just as pronounced (–21.8%) as that from offshore financial centres (–18.0%) and emerging economies (–20.0%).

Securities held in custody accounts

In 2010, customer holdings of securities in bank custody accounts declined by 1.3% to CHF 4,452.9 billion, compared to 2009, when a substantial increase had been recorded (12.4%). Although most share prices rose, this only partially offset the fall in the valuation of foreign currency securities holdings due to exchange rate developments. Overall, investments in US dollars fell by 0.3% and those in euros by 14.5%. By contrast, securities holdings in Swiss francs recorded a 2.9% increase. The share of securities held in euros amounted to some 21%, as did that in US dollars; about half of the holdings were in Swiss francs.

The holdings of *bonds* declined (by 5.5% to CHF 1,227.3 billion), as did those of *structured products* (by 8.3% to CHF 208.5 billion). Investments in *shares*, by contrast, increased (by 0.8% to CHF 1,539.8 billion), as did those in *collective investment schemes* (by 1.7% to CHF 1,327.3 billion). The most significant growth was recorded in *money market instruments* (up 6.2% to CHF 121.2 billion). Although holdings of *money market instruments* issued by foreign borrowers declined considerably (by CHF 39.2 billion to CHF 66.9 billion), those issued by domestic borrowers were up substantially (by CHF 46.3 billion to CHF 54.3 billion). This increase was attributable to purchases of SNB Bills by domestic and foreign investors. At 34.6% of the total, *shares* remained the most important category of securities.

Resident custody account holders held 46.3% of securities, while *non-resident custody account holders* held 53.7%. The holdings of *resident custody account holders* were up by 1.9% to CHF 2,063.1 billion, while their non-resident counterparts declined by 3.8% to CHF 2,389.9 billion. In the case of *resident custody account holders*, the *institutional customers*, in particular, recorded a particularly strong increase (by 4.4% to CHF 1,306.9 billion). Where *non-resident custody account holders* are concerned, *commercial customers* experienced a significant drop in their holdings (by 9.5% to CHF 163.4 billion), while those of *private customers* also fell substantially (by 9.4% to CHF 672.8 billion). Securities held by *non-resident institutional customers* were only slightly down (by 0.6% to CHF 1,553.6 billion). *Institutional customers* were less affected by exchange rate developments due to the fact that a relatively large proportion of their holdings was invested in Swiss francs.

3. Income statement

Annual profit and annual loss

Of the 320 banks covered, 267 recorded an annual profit (2009: 276) and 53 an annual loss (2009: 49). The total annual profit for all the banks rose by CHF 5.1 billion to CHF 13.8 billion, while the total annual loss amounted to CHF 3.1 billion (CHF 6.3 billion in 2009). Both the total annual profit and the total annual loss for all the banks were affected to a major degree by the results of the big banks. An increase in annual profits was achieved by cantonal banks (+10.9%), private bankers (+4.2%) and the other banking institutions category (+22.9%), in particular.

Gross profit

Profit from ordinary banking operations (gross profit) increased by CHF 6.2 billion to CHF 18.9 billion. The increase is attributable to *net trading income* for the big banks category. While *net interest income* rose slightly, *net income from commission business and services* again declined.

Net interest income

Net interest income rose by 1.7% to CHF 19.8 billion. Although *interest and discount income* again decreased (by 16.8% to CHF 38.8 billion), as did *interest and dividend income* from trading portfolios (by 9.1% to CHF 5.9 billion), *interest expenses* also declined significantly (by 23.8% to CHF 27.6 billion). Together with the rise in *interest and dividend income* from financial investments (up by 5.8% to CHF 2.7 billion), this resulted in higher *net interest income* overall.

Net income from commission business and services

Once again *net income from commission business and services* was down, by 3.5% to CHF 24.9 billion in 2010, continuing the declining trend that had commenced in 2007. The fall in *commission income from securities trading and investment business* (–3.4% to CHF 25.2 billion), in particular, contributed to this development. *Commission income from other services* also decreased (by 2.4% to CHF 3.2 billion), while *commission income from lending business* rose slightly (by 2.2% to CHF 1.9 billion). *Commission expenses* fell by 0.6% to CHF 5.3 billion.

Net trading income

Net trading income rose by CHF 8.3 billion to CHF 11.8 billion. This was attributable to the big banks category, where *net trading income* increased significantly. For all other bank categories, *net trading income* was down on the previous year's result.

Other ordinary net income

In 2010, *other ordinary net income* fell by 9.8% to CHF 5.0 billion. The two major items within *other ordinary net income – income from participating interests* and *miscellaneous ordinary net income* – moved in opposite directions. While *income from participating interests* rose (by CHF 0.7 billion to CHF 3.0 billion), *miscellaneous ordinary net income* fell (by CHF 1.3 billion to CHF 5.5 billion). Both of these trends were dominated by the big banks.

Staff expenses and general overheads

Staff expenses rose by 3.2% to CHF 29.2 billion. The branches of foreign banks recorded particularly strong increases (7.7%), as did big banks (5.6%) and private bankers (4.3%). *Wages and salaries* were up by 4.0%; staff numbers climbed by 1.7%. Both in Switzerland and abroad, *wages and salaries* rose faster than staff numbers. In Switzerland, *wages and salaries* were up by 1.5% while personnel rose by 0.4%. Abroad, *wages and salaries* increased by 12.1% and staff numbers by 7.9%.

General overheads remained almost unchanged, increasing by 0.7% to CHF 13.3 billion.

Consequently, in 2010, *administrative expenses* rose by 2.4% to CHF 42.5 billion.

Depreciation, value adjustments and provisions

Depreciation of tangible assets rose by CHF 4.5 billion to CHF 9.4 billion. The substantial increase is attributable to one big bank.[5] The v*alue adjustments*, *provisions and losses* item fell considerably by CHF 3.1 billion to CHF 1.7 billion.

Extraordinary income

Extraordinary income doubled from CHF 3.2 billion to CHF 6.2 billion, an increase that was partly attributable to the cancellation of value adjustments on participating interests.

4. Equity and liquidity

Equity

Both *required capital and eligible capital* declined in 2010. While *required capital* fell by 3.2% to CHF 73.9 billion, *eligible capital* dropped by 6.3% to CHF 159.7 billion.[6] Consequently, *excess capital* was down by 8.9% to CHF 85.8 billion.

Liquidity

In the fourth quarter of 2010, the required liquid funds amounted to CHF 232.8 billion (Q4 2009: CHF 199.4 billion); the available liquid funds came to CHF 434.0 billion (CHF 463.1 billion), thereby reducing the *excess cover* from CHF 263.7 billion to CHF 201.2 billion. The *liquidity ratio* declined from 232.2% to 186.5%.

5. Offices

In 2010, the number of banks in Switzerland (excluding institutions with a special field of business) declined from 325 to 320. Ten banks were taken over by other banks and one bank was wound up. Six new banks were established. Takeovers and new establishments mainly involved stock exchange banks, foreign-controlled banks and branches of foreign banks. Three banks were reallocated to another bank category. Within the regional and savings banks category, five banks withdrew from RBA Holding.

6. Number of staff

In terms of full-time equivalents, staff numbers were up by 2,206 (1.7%) to 132,013. In particular, recruitment of staff abroad increased (up 1,751 or 7.9% to 24,013). This increase was almost entirely attributable to the big banks. However, in Switzerland, the big banks reduced personnel. A rise in the number of employees in Switzerland was recorded by the cantonal banks and the other banking institutions category, in particular. Overall, staff numbers in Switzerland were up by 454 (0.4%) to 108,000 employees. The number of employed men rose by 1,087 (1.3%), while the number of women in employment was up by 1,119 (2.3%). The proportion of female employees was 37.9%.

[5] Cf. footnote 2.
[6] Cf. footnote 2.

7. Average rate of interest and distribution by rate of interest

At the end of 2010, the *average rate of interest on domestic mortgage claims* in Swiss francs, weighted by the holdings,[7] was 2.6%, corresponding to a fall of 22 basis points. The rate of interest decreased for all bank categories, with the decline ranging between 18 and 23 basis points. The average *rate of interest on claims against domestic customers* in Swiss francs rose by 5 basis points to 2.7%. This increase is attributable to the big banks, the only bank category where the average rate of interest on claims against customers increased – by 21 basis points to 1.8%. The other bank categories recorded decreases ranging between 16 and 39 basis points. The average rate of interest lay between 2.5% and 4.7%.

For liability items in Swiss francs, the *average rate of interest on liabilities in the form of savings and deposits*, weighted by the holdings, fell by 12 basis points to 0.7%. Decreases were recorded for all bank categories, with the big banks registering the greatest decline, at 30 basis points. The *average rate of interest on sundry liabilities towards domestic customers* remained almost unchanged, at 0.4%. A significant decline was recorded for the *rate of interest on liabilities arising out of medium-term bank-issued notes*, which dropped by 37 basis points to 2.1%. The *average rate of interest on liabilities arising out of bonds*, *warrant issues and convertible bonds* also fell substantially, by 60 basis points to 2.4%.

There were diverging developments in the *rate of interest on claims against domestic banks* and that on *liabilities towards domestic banks*, weighted by the holdings. While the *average rate of interest on claims against domestic banks* declined by 13 basis points to 0.4%, the *rate of interest on liabilities towards domestic banks* was up by 7 basis points to 0.6%.

[7] Not comparable with the reference interest rate for tenancies. For the reference rate for tenancies, only banks in Switzerland whose domestic mortgage claims in Swiss francs exceed a total amount of CHF 300 million are required to report data.