The banks in Switzerland 1996

Press release of July 1997

At the end of 1996, 403 (1995: 413) banks submitted their financial statements to the Swiss National Bank (SNB). The loss of 19 banks was offset by nine newly established institutions. The continued restructuring process under way in 1996 caused the number of institutions to decrease by 10. Particularly hard hit were regional banks. The takeover of the cantonal bank of Appenzell-Ausserrhoden by Union Bank of Switzerland - which brought the number of cantonal banks down to 24 - received considerable public attention.

In 1996 the number of bank offices including branches, agencies and sub-branches (but not including cash-receiving offices) in Switzerland declined by 123 (155) to 3 543 (3 666). The "Raiffeisen" banks diminished by 72 (52) institutions as a result of mergers, the regional banks closed down 14 (17) and the big banks 10 (16) offices.

Bank offices maintained abroad decreased by three to 102 after having expanded by four in the previous year.

For the first time, all the banks reported their data in compliance with the new accounting rules. The possibility of comparing the figures under both sets of rules was ensured for important sections of the balance sheet: the values of the respective balance sheet items according to the old rules were combined so as to comply with the new rules. The new accounting rules introduced some substantial changes in the recording of various banking transactions. As regards derivative financial instruments, for example, gross positive and negative values must be disclosed separately; this major innovation has led to a strong rise in "Other assets and liabilities" and the balance sheet total respectively. Since primarily the big banks, which already drew up their 1995 balance sheets in compliance with the new accounting rules, engage in derivatives business, this has hardly impeded comparison with the previous year's figures.

Balance sheet business

General developments

The balance sheet total of the 403 reporting banks rose by 13% (2.8%[1)) to Sfr 1 495 (1 323) billion in 1996. This development was considerably influenced by foreign banking business and securities transactions. At the same time, credits to foreign nonbanks (without mortgage claims, which carry little weight in the case of foreign customers) also rose by leaps and bounds. On the other hand, the banks exercised considerable restraint in extending credit to domestic nonbanks (including mortgages).

Business activity in the various currencies was likewise patchy. Strong rises, both within the country and abroad, were recorded in foreign currency holdings (approximately 30%), while Swiss franc holdings - with a 2% growth - were close to stagnating.

The proportion of the balance sheet total accounted for by foreign assets increased from 39% to 44%, that of foreign liabilities from 33% to 38%. The decline of the Swiss franc also contributed to the expansion. Moreover, this shift of banking business to other countries was probably due in part to the sluggish economic development in Switzerland with its adverse effect mainly on credit business.

Measured by the balance sheet total, the cantonal banks' share diminished from 19.8% to 17.8%. The big banks' share, by contrast, rose from 55.2% to 58.1%. The regional banks' share also declined somewhat. The other categories of banks only recorded minor shifts.

Interbank business [2)]

Claims vis-à-vis other banks grew by 16.8 (3.5)% to Sfr 248 (213) billion, and liabilities vis-à-vis other banks by 15.8 (-1.6)% to Sfr 274 (237) billion. In international business, claims vis-à-vis other banks rose by 24.2 (2.9)% to Sfr 201 (162) billion and liabilities by 19.9 (-3.1)% to Sfr 195 (162) billion. 81% of all claims and 71% of all liabilities in interbank business thus concerned banks in other countries. Interbank business resulted in a surplus of liabilities over claims to the amount of Sfr 26.0 (24.2) billion.

Customer business [2)]

Credits to nonbanks (including mortgage claims) both in Switzerland and abroad lost somewhat in significance. The share of the overall balance sheet total accounted for by credits declined from approximately 56 % to barely 53% within a year. In the domestic sector, credit business, amounting to 75% of the balance sheet total for Switzerland, is still predominant, though its development was again muted in the year under review. Mortgage claims exhibited a rise of close to 4%, remaining lendings to customers a decline of approximately 2%. By contrast, foreign credit business was fairly brisk: claims vis-à-vis foreign customers increased by Sfr 38 billion, i.e. 30%, to Sfr 164.1 billion.

Liabilities vis-à-vis customers increased within a year by 10.7% to Sfr 877 billion. Sight and time deposits rose by 19.6% and 20.1% respectively to Sfr 110 billion and Sfr 276 billion respectively, thus representing a larger share than previously of the balance sheet total and total liabilities vis-à-vis customers. Customer deposits in the form of savings and investments expanded by 7.1% to Sfr 299 (279) billion. The average interest rate on Swiss franc liabilities in the form of savings and investments was at a historically low level of 2.5% and 2.3% respectively.

Securities

Securities holdings (trading portfolio and financial assets) rose by Sfr 35 billion, i.e.

27.3%, to Sfr 165 billion. A somewhat smaller proportion than in the previous year was again accounted for by borrowed securities.

Securities lending and borrowing as a whole showed extremely rapid development. Borrowed securities soared by 56.5% to Sfr 58.9 billion, lendings by 86.8% to Sfr 52 billion. Borrowed securities stemmed mainly from other countries. In the previous year they had come more or less in an equal proportion from Switzerland and abroad. The bulk (92%) of lendings, however, is accounted for by customers or banks in other countries.

Off-balance sheet business

At the end of 1996, fiduciary business exceeded the previous year's level by 20.5 (-9.2)%; it amounted to Sfr 297 (247) billion. 18% of all fiduciary funds, i.e. Sfr 53 (46) billion, originated in Switzerland. By contrast - as in previous years - at 0.9%, only a small part of all fiduciary deposits was invested in Switzerland. Marked shifts from the currency composition in 1995 were observable: in particular, the US dollar gained considerably in significance at the expense of the Swiss franc and the D-mark. At the end of 1996, the dollar accounted for 55.7% of all fiduciary balances and liabilities, compared to 51.4% at the end of 1995. The respective figures in the case of the Swiss franc were 10.6 (13.1)% and in the case of the D-mark 10.4 (12.2)%.

At the end of 1996, for the first time ever, all the banks participated in a survey of open derivative financial instruments. This survey provides information on the contract volume and the positive and negative replacement values. The contract volume of derivative financial products totalled Sfr 8 866 billion. The positive and negative replacement values amounted to Sfr 140 billion and Sfr 143 billion respectively. Interest rate instruments and foreign currency instruments account for the largest share of the contract volume, i.e. 51.2% and 42.3% respectively. Contracts involving equities account for a mere 5%, those involving precious metals 1.3%. Classified by type of contract, forward contracts head the list with 34.2%, followed by OTC option trades, which represent 27.4%.

The results of the survey also show that the market for derivative products is concentrated on a few banks only. The sole category of big banks, for example, has a market share of more than 90%.

Income statement

The new accounting rules have considerably altered the presentation of the income statement. Some detailed information is now available which the banks formerly were not required to disclose.
The restructuring process which the Swiss banking system is currently undergoing also left its mark clearly on the 1996 income statement. The annual profit of all the banks combined fell from Sfr 6.1 billion to Sfr 3.4 billion. The annual losses of all the banks

combined rose from Sfr 0.1 billion to Sfr 2.8 billion. A full Sfr 2.7 billion were accounted for by the big banks. This development is due to the fact that provisions for covering risks were created by applying an actuarial method.

Income from interest differential business totalled Sfr 16.2 billion (previous year: 15.7). Commissions and services added Sfr 15.3 billion and trading Sfr 7.2 billion to gross profit.

Depreciation of tangible assets amounted to Sfr 3.4 billion. Valuation adjustments, provisions and losses totalled almost Sfr 10 billion, of which the considerable proportion of Sfr 6.8 billion was accounted for by the big banks. Personnel expenses grew significantly by Sfr 1.3 billion.

Capital resources

The banks (bank categories 1.00 - 5.00) held a somewhat higher level of capital and reserves than in the previous year. At the end of 1996, they exhibited capital resources totalling Sfr 96.7 billion (95.8); (legally prescribed amount: Sfr 74 [72] billion).

According to the Banking Ordinance (Art. 12), the capital resources that count towards the capital ratio must at all times amount to at least 8% of the risk-weighted positions (after valuation adjustments). According to the Basle Committee on Banking Supervision, the core capital must amount to at least 4% of the risk-weighted positions.

In 1996 all the categories of banks exceeded both the 8% and the 4% limit. The ratio between the capital resources that count towards the capital ratio and total risk-weighted positions amounted to 10.3 (10.5)% and that between the core capital and total risk-weighted positions to 9.2 (9.6)%. The key figures have thus deteriorated somewhat compared to the previous year but are still clearly above the lower limits. In 1996, the risk-weighted positions of all the banks combined reached a level of Sfr 942 (912) billion. 78 (79)% of the risks attached to balance sheet business, 9 (6)% to risks from securities (default risks) and only 2 (2)% to forward contracts and purchased options.

Solvability coefficients

	Chargeable capital resources		Chargeable core capital	
	1995	1996	1995	1996
All banks	10,5	10,3	9,6	9,2
Cantonal banks	9,4	9,5	8,6	8,7
Big banks	8,9	8,5	8,1	7,3
Regional banks	10,5	10,7	9,3	9,4
"Raiffeisen" banks	8,3	10,1	5,3	6,8
Trade banks	13,1	12,8	11,9	12,3
Brokerage banks	26,1	24,7	24,9	22,7

Consumer credit institutions	12,2	11,6	10,8	11,2
Other banks	16,1	17,6	14,2	15,0
Foreign-controlled banks	21,4	20,1	20,8	20,0

Liquidity

Liquidity of the banking system - available funds and easily realisable assets - increased by Sfr 24 billion to Sfr 149 billion. Available liquidity in excess of required liquidity amounted to Sfr 53 (47) billion.

Number of personnel

The banks' total staff diminished slightly by 209 to 119 771. In Switzerland itself the number of employees declined by 2 024 from the previous year's level while rising by 1 815 to 11 678 abroad. Most of this increase was accounted for by the big banks.

In Switzerland the "Raiffeisen" banks (+162), the regional banks (+133) and private bankers (+22) all increased their staff levels. The strongest decrease was recorded by the cantonal banks (-881), the big banks (-678) and the trade banks (-508). Solely male employees were affected by staff cuts in Switzerland; their number was down by 2 103 from the previous year's level while female staff increased slightly by 79 persons.

[1] After adjustment of the increase in "Other assets" and "Other liabilities" resulting from the fact that numerous banks, notably big banks, had already drawn up their balance sheets in compliance with the new accounting rules at the end of 1995.

[2] Without precious metals business and securities lending and borrowing.