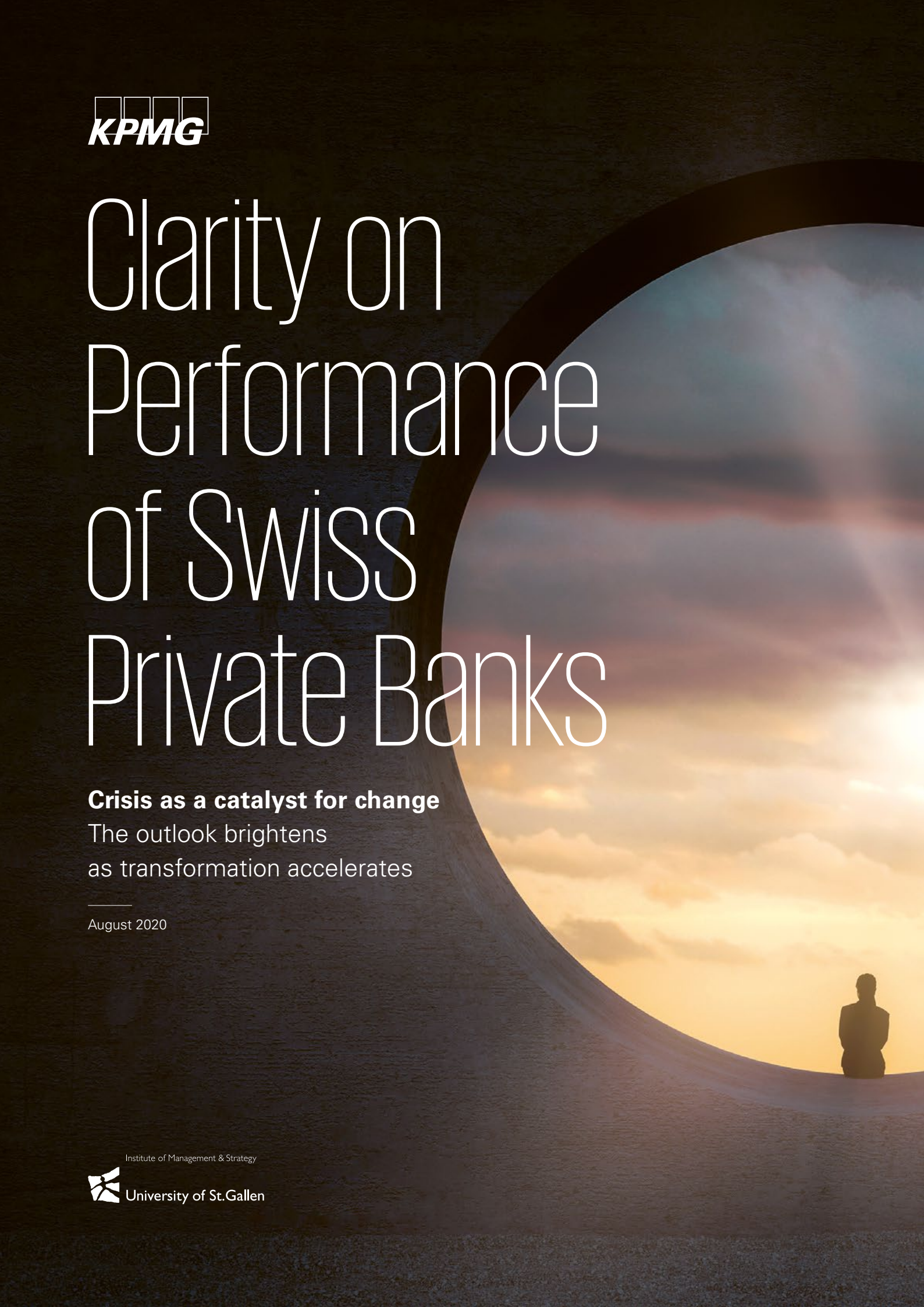
KPMG

Clarity on Performance of Swiss Private Banks

Crisis as a catalyst for change

The outlook brightens as transformation accelerates

August 2020



Institute of Management & Strategy

University of St.Gallen



Crisis as a catalyst for change
The outlook brightens as transformation accelerates

A study by KPMG Switzerland
in cooperation with the Institute of Management & Strategy
at the University of St.Gallen

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Photo by Daniel Hage

Accelerating change for a brighter future

It would not be appropriate to begin without referring to COVID-19. The crisis has been extremely damaging to many industries and communities. So much so that it is natural to ask in this publication what the implications are for private banking too. To augment our own perspective, we spoke to 27 C-level executives (mainly CEOs) from Swiss private banks for their views on how the industry is coping with the crisis and what the longer-term impacts might be.

There is general agreement that, as a result of the COVID-19 related lockdown, banks swiftly implemented crisis management measures. This enabled them to continue serving clients from home offices without significant disruption. Measures include digital tools as well as communication channels such as video calls which allowed banks to stay in close contact with clients.

The crisis came after a period of generally favorable financial markets in 2019, which had already built greater confidence among Swiss banks. AuM had grown to record levels, and banks improved their performance in key areas such as generating NNM. In fact, NNM rose by 3% in 2019 to its highest point in the past ten years. Yet, Weak banks became weaker, with most of these being Small banks for which the future may be in doubt. Even stronger performing banks have allowed costs to rise and are facing margin pressures. More concerted action is needed to manage down costs.

The speed with which change has been implemented following the lockdown – and the benefits this change has already begun to produce – has given banks the confidence that change is possible, and that it can deliver tangible results in a very short timeframe.

Looking ahead, transformation should continue hand-in-hand with steps that build competitive advantage. Offering unique investment opportunities and delivering superior client returns are two ways in which we see banks beginning to differentiate themselves.

There is no doubt that COVID-19 is a terrible event, and that it has been disastrous for many people. But if we may identify a ray of light, it is that it could be a catalyst for change. Banks must not lose momentum. Rather, they must accelerate their transformation if a brighter future is to be secured.



Philipp Rickert
Partner, Head of Financial Services



Christian Hintermann
Partner, Financial Services



Banks avoid significant disruption during the crisis

While CEOs recognize that private banking was less impacted than many other industries by COVID-19, banks proved adaptable: crisis management plans were implemented rapidly and most banks introduced home working within days. Most avoided any significant operational disruption and incurred very few losses on loans. While uncertainty persists, strong performances in the first half of 2020 provide a positive basis for further development.

Digital transformation gains traction

The crisis has shown how quickly banks can effect change, with improvements that had been put off for years being introduced quickly as the COVID-19 lockdown took hold. This has benefited banks through more flexible working, greater efficiency, more intensive client communication through channels such as video calls, and a move towards digital solutions such as online client onboarding and process automation. This initial success has convinced banks of their ability to move further, faster.



Superior client returns build competitive advantage

Client asset performance has emerged as a key differentiator, with returns varying significantly between banks. The contrast between the weakest and the strongest banks is stark. Banks that have delivered the best client returns have also experienced the highest growth. Looking ahead, those that provide unique investment opportunities and superior client returns will continue to build competitive advantage.



AuM growth has become critical to success

Growth is often a differentiating factor between successful banks and those that perform poorly. An ability to attract new clients and deliver superior returns helped banks to achieve significantly lower cost-income ratios and higher RoE compared to those with less AuM growth. In addition, our analysis of the past five years shows that a 10% rise in gross AuM increases a bank's chance of survival by 6%.

Number of banks stabilizes as consolidation is interrupted

Generally high levels of capitalization and less financial pressure meant the number of banks fell only slightly – to 100 by 30 June 2020. The need for consolidation remains, however, due to the high number of poorly-performing banks. CEOs note a greater openness to discussing possible mergers, with two announced in July 2020 reaffirming the trend even among well performing banks.





NNM and AuM reach new highs, but costs must be better controlled

NNM, AuM and annual AuM growth are higher than at any point in the past ten years. Overall industry performance is still mixed, with gross profit and net profit falling and RoE remaining low as Weak banks become even weaker. Banks must do more to manage down costs if recent positive improvements are not to be wasted.

Number of private banks and M&A

Following a historic high of 19 deals in 2018, M&A activity dropped dramatically, with only nine deals in 2019 and five in the first seven months of 2020.

The result was a small reduction in the number of private banks to 100 by June 2020. This signals a 39% fall in the number of banks since 2010.

While private banks posted strong financial performances in the first half of 2020, the economic impact of COVID-19 may herald more challenging years ahead and may see consolidation accelerate.

Exits slowed in 1H 2020 as consolidation deals fell
2019 saw three mergers between Swiss private banks close that were announced between August 2017 and January 2019. In addition to these, two banks entered into liquidation in 2019. Together, five banks exited the market last year.

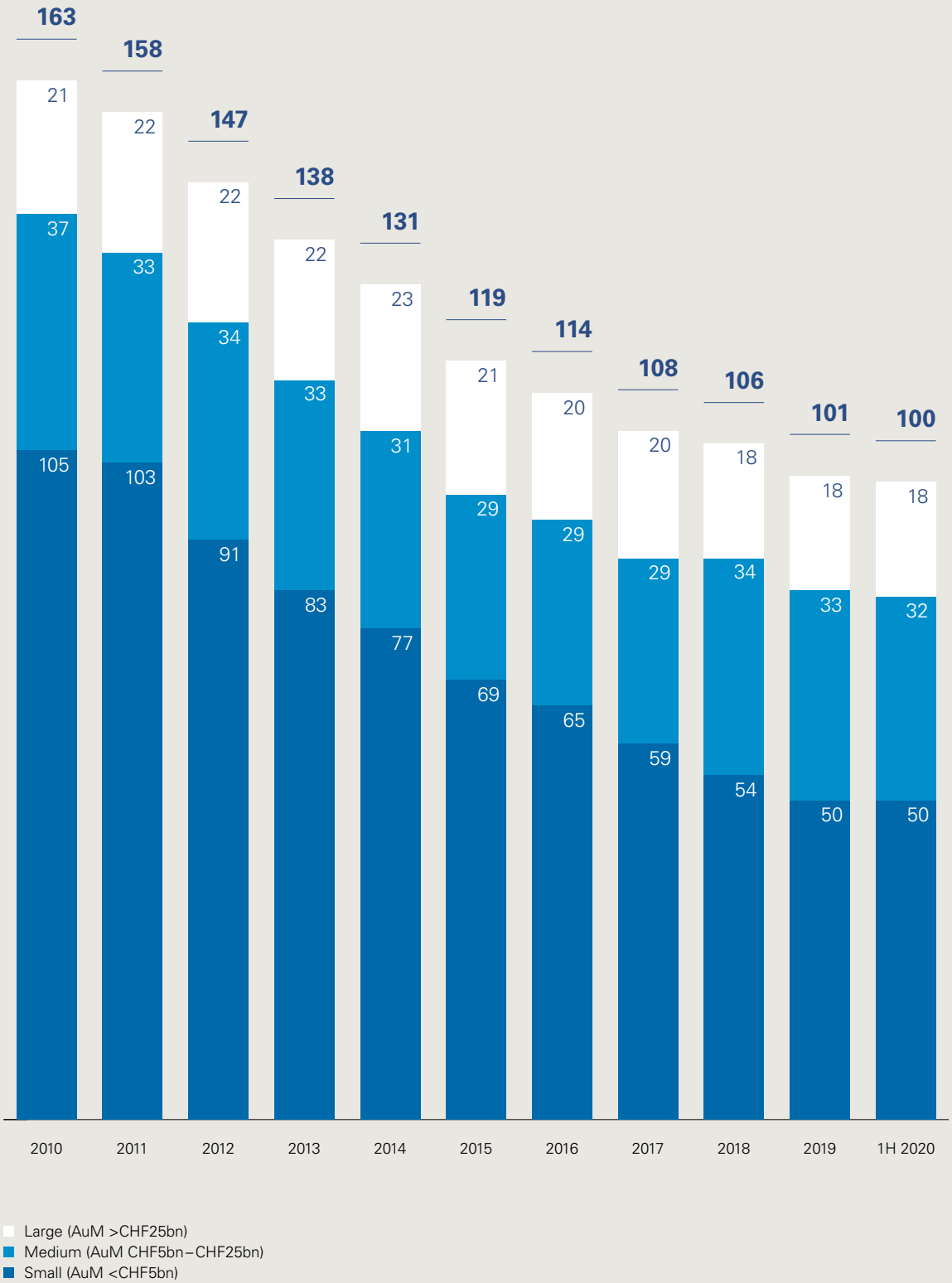
Alpha RHEINTAL's acquisition of Jungholz was announced in November 2019 and closed in the first half of 2020.

With Falcon entering into liquidation in early 2020, and Quintet entering as a new competitor by taking over Bellevue's private banking business, the effect on the number of private banks in Switzerland was a reduction by one bank to 100 banks.

Few exits are expected in 2020
Two further consolidation deals were announced in early July 2020, between ODDO BHF and Landolt, and between Banque Bonhôte and Private Client Partners. The number of private banks is therefore highly likely to fall below 100 by the year end.

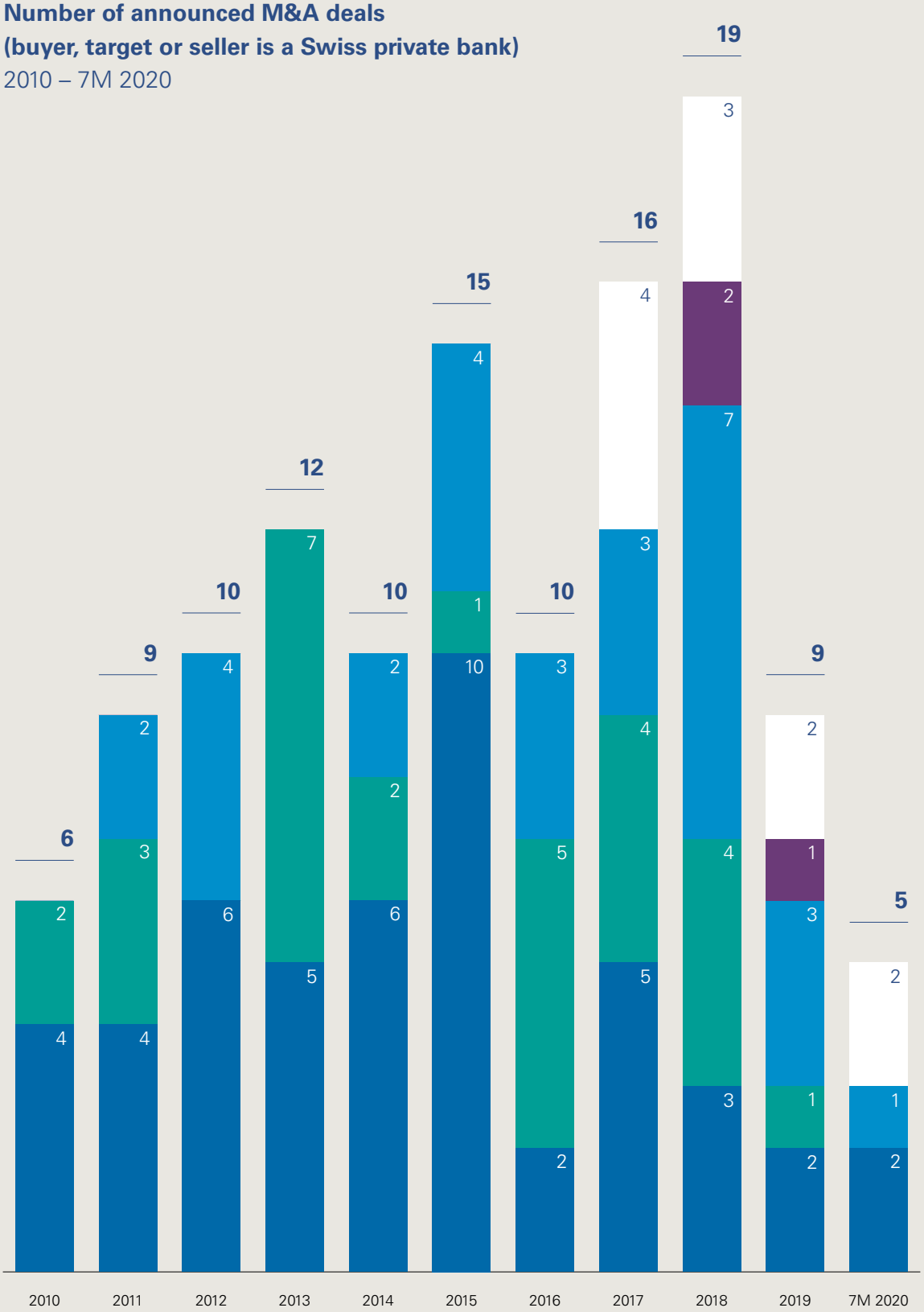
Number of Swiss private banks by AuM

2010 – 1H 2020



Number of announced M&A deals (buyer, target or seller is a Swiss private bank)

2010 – 7M 2020



- Sale outside Switzerland by a Swiss private bank
- Acquisition of a Swiss private bank by a new entrant
- Acquisition outside Switzerland by a Swiss private bank
- Swiss domestic transaction involving a Swiss private bank
- Swiss consolidation transaction involving two Swiss private banks

M&A deal activity has fallen off a cliff since 2018

Led by a wave of strategic transactions to adjust business models and ownership, deal activity hit a record high of 19 in 2018. Deal size remained low, however, with Notenstein being the largest at CHF16bn in AuM.

The number of deals fell to nine in 2019, the lowest in the past eight years. The largest transaction was EFG's acquisition of a 51% stake in Australia-based wealth manager Shaw and Partners (CHF10.9bn in AuM). Quintet meanwhile re-entered the Swiss private banking market with its acquisition of Bank am Bellevue (CHF1.7bn in AuM), and Julius Baer increased its stake in Mexico-based NSC Asesores to 70% (CHF3.0bn in AuM).

Two transactions in 2019 were consolidation deals: these were the merger of Banca Arner into GS Banque and the acquisition of Jungholz by Alpha RHEINTAL Bank. Both transactions were small in terms of AuM.

2020 had a slow start, with only five deals by the end of July. Two were sales of Bahamian subsidiaries by Julius Baer and Syz. One was the acquisition of IMAP M&A Consultants by Frankfurter Bankgesellschaft, through which the bank may broaden its service offering to clients into M&A.

Two more consolidation deals were announced within one week in early July, being between ODDO BHF and Landolt and between Banque Bonhôte and Private Client Partners. Both merged banks will be above CHF5bn in AuM, therefore Medium banks.

This means that four Small banks will disappear and two new Medium banks will be formed. This confirms the trend towards larger banks.

Goodwill multiples ranged widely

Calculated on transactions that closed in 2019 for which relevant data was provided in the annual reports analyzed, goodwill multiples ranged from 1.0% to 2.6%. This covers deals in Switzerland and abroad.

M&A outlook

There is a question whether COVID-19 will be a catalyst for increased deal activity.

As the 1H 2020 financial performance of most Swiss private banks was strong compared to the prior year and/or budget, COVID-19 does not appear to have created any immediate financial pressure. In fact, it may prolong the survival of some banks due to the postponement of early-stage consolidation deals.

While 1H 2020 was generally a good year for private banks, however, the crisis is ultimately likely to accelerate the exit of poorly performing banks. Margin pressure on commission income will continue, interest rates will remain low, and the move to more digitalized approaches will be difficult for smaller players to implement.

The need to provide a broad offering of attractive investment opportunities and to deliver on performance will be a challenge for all banks, but particularly for those with limited means to invest in developing their business.

It is likely that the impacts of the crisis will become visible only in 2021 as delayed deals and the impacts of negative markets materialize over the coming months.

These factors reaffirm our view that there remains a considerable need for consolidation – mainly for smaller banks, but also some mid-sized. The two consolidation deals announced in July 2020 confirm this trend.

Swiss private bank transactions (excluding asset management deals)

2019 and 7M 2020

Announced date	Target	Bidder	Seller	AuM (CHFbn)	Deal type
7M 2020					
Jul 20	Landolt & Cie SA	ODDO BHF (Schweiz) AG	Thierry Lombard, Landolt Holding SA, Landolt Capital SA	3.0	Merger
Jul 20	Private Client Partners AG	Banque Bonhôte & Cie SA	M.M.Warburg & Co.	1.9	Share deal
Apr 20	Julius Baer Bank (Bahamas) Ltd.	Ansbacher (Bahamas) Ltd.	Julius Baer Group Limited	1.0	Share deal
Feb 20	Syz Bank (Bahamas) Limited	Nexos Asset Management Limited	Syz Group	n/d	Share deal
Jan 20	IMAP M&A Consultants AG (75.1% stake)	Frankfurter Bankgesellschaft (Schweiz) AG	IMAP M&A Consultants AG	n/d	Share deal
2019					
Nov 19	Bankhaus Jungholz AG	Alpha RHEINTAL Bank AG	Raiffeisenbank Reutte reg. Gen.m.b.H	0.3	Share deal
Aug 19	Bank am Bellevue AG	KBL European Private Bankers SA (Lux), renamed Quintet in 2020	Bellevue Group AG	1.7	Share deal
Jul 19	ERAAM (France) (34% stake)	Edmond de Rothschild (Suisse) SA	ERAAM	n/d	Share deal
Apr 19	Lombard Odier & Cie (Gibraltar) Limited	J. Safra Sarasin Group	Lombard Odier Group	n/d	Share deal
Mar 19	Shaw and Partners Limited (Australia) (51% stake)	EFG International AG	Shaw and Partners Limited	10.9	Share deal
Mar 19	NSC Asesores, S.C. (Mexico) (stake increase from 40% to 70%)	Julius Baer Group Ltd.	Partners	3.0	Share deal
Feb 19	Falcon Private Wealth Ltd. (UK)	Dolfin Financial (UK) Ltd.	Falcon Private Bank Ltd.	n/d	Asset deal
Jan 19	A.M.&C. Finance SA	Banque Cramer & Cie SA	n/d	n/d	Share deal
Jan 19	Banca Arner SA	One Swiss Bank SA	n/d	n/d	Merger

- Sale outside Switzerland by a Swiss private bank
- Acquisition of a Swiss private bank by a new entrant
- Acquisition outside Switzerland by a Swiss private bank
- Swiss domestic transaction involving a Swiss private bank
- Swiss consolidation transaction involving two Swiss private banks

Impacts of the coronavirus crisis: the C-level perspective

We interviewed 27 C-level executives - mainly CEOs - from banks representing AuM of CHF1.6 trillion, or 55% of our sample. They shared their views on the implications of COVID-19 for the Swiss private banking industry, recognizing how it has provided an overdue impetus for change. We set out their thoughts on the following pages, categorized into the key themes: financial performance, home working, client relationships, and longer-term strategic reflections.



Ahead of budget and prior year performance in 1H 2020

High trading volumes
Volatile markets delivered exceptionally high trading volumes, with some banks seeing two or three times normal volumes. 2Q returned to usual levels, or slow business in some instances.

Increased NNM
Switzerland's safe-haven status was of particular appeal and led to higher NNM at some banks. Those that offer online on-boarding enjoyed an advantage. A lack of travel and face-to-face client contact will negatively impact NNM in 2H, however.

Limited lombard loan losses
Most margin calls were resolved, and losses were limited. Conservative lending paid off.

2H revenues may be hit
Banks will suffer from continued margin pressure on commissions and near-zero interest rates. Banks with commercial and mortgage loans may incur credit losses. Some banks were cautious due to expected negative consequences from a severe global downturn.

"People now understand and accept that decentralized working is possible. This was unthinkable six months ago."



Unforeseen benefits of working from home

Rapid redeployment
Over 90 percent of staff began working from home within one week at many banks (closer to 70 percent at smaller banks), and around half of staff were still working from home at the end of June.

Resilient operations
Most banks cited operations running smoothly and largely uninterrupted.

Efficiency gains
Home offices led to greater efficiency for most banks, as well as a better work-life balance and higher employee satisfaction.

Greater focus
Employees were able to concentrate amid fewer meetings, more efficient approval processes, and a lack of commuting. Some mentioned that while this works well in the short-term, a degree of physical presence will be needed to maintain corporate culture and teamwork.

"The crisis will accelerate trends in our industry such as the reinvention of business models and how we can bring more value to our clients."



Client relationships have intensified

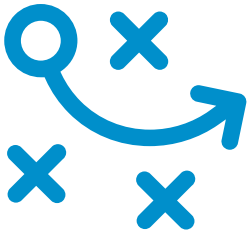
Expanded communication channels
Video conferencing has become accepted among clients as a means of communicating with their bank.

More client contact
CRMs were able to intensify their communication with clients through video conferencing, as clients are more accessible at home. Constructive and frequent conversations enabled banks to increase share-of-wallet.

Face-to-face still in demand
Winning new clients will remain a challenge due to clients wishing to meet in person; this may negatively impact NNM in 2H 2020.

Improved client coverage
CEOs confirmed that higher client coverage must continue, with CRMs appreciating the possibility – and desirability – of being much closer to clients than in the past.

"COVID-19 has changed the mindset. It has become obvious that more agility and innovation is needed ... and that it is possible."



Strategic reflection is underway, with initial thoughts as follows:

Longer-term impact
Banks will be encouraged to emphasize and accelerate actions that deal with long-term industry trends, especially a move towards digital transformation.

New revenue sources
Higher-margin asset classes such as private debt/equity, new revenue streams such as cryptocurrency, lower-wealth client segments, and passing on more negative interest rates will compensate for the margin pressure and the low interest rate environment.

More sustainable finance
ESG and impact investing will be much more relevant as clients look for purpose in their investment approach. This presents an opportunity for active managers.

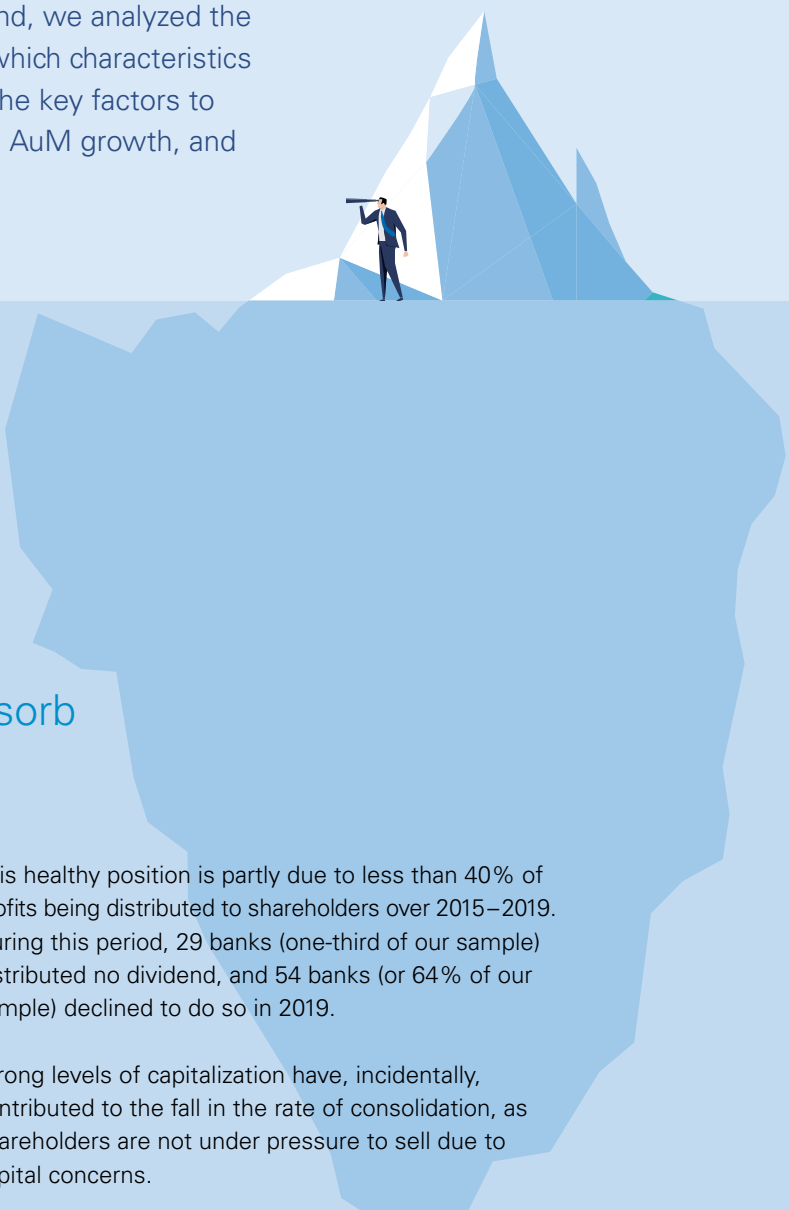
Important ecosystems
Banks recognize they cannot build all competences in-house.

Reduced office space
Banks will be more amenable to employees working from home, thereby also reducing office working space. Cross-border issues must be addressed in terms of HR and regulation, however.

No cost reduction programs
Only a handful of banks have launched cost reduction programs due to COVID-19.

Resilience
Five-year performance and a bank's ability to survive

Understanding what drove historical performance can help indicate a bank's chances of survival going forward. To this end, we analyzed the industry's performance over 2015-2019 to identify which characteristics the better-performing banks displayed. We found the key factors to be overall equity position, returns on client assets, AuM growth, and cost management.



Strong equity enables banks to absorb external shocks

Capital became a key concern for global banks following the financial crisis. Considerable effort was invested in strengthening banks' capital positions.

For the 71 banks for which we have data, the regulatory minimum was CHF9.4bn in 2019. With one exception in 2016, no bank in our sample fell below the minimum required capital in the past five years. Eligible capital at the end of 2019 was CHF30.3bn. Even the bank with the weakest capitalization in 2019 had eligible capital of 1.75 times the minimum required.

The regulatory minimum capital for these banks increased by CHF853m over the five years, while their eligible capital grew by CHF5.7bn.

This healthy position is partly due to less than 40% of profits being distributed to shareholders over 2015–2019. During this period, 29 banks (one-third of our sample) distributed no dividend, and 54 banks (or 64% of our sample) declined to do so in 2019.

Strong levels of capitalization have, incidentally, contributed to the fall in the rate of consolidation, as shareholders are not under pressure to sell due to capital concerns.

Individual banks and the industry overall appear well positioned to absorb significant losses prior to facing difficulties in complying with the regulatory minimum capital requirement.

Higher returns for clients enhance banks' profitability

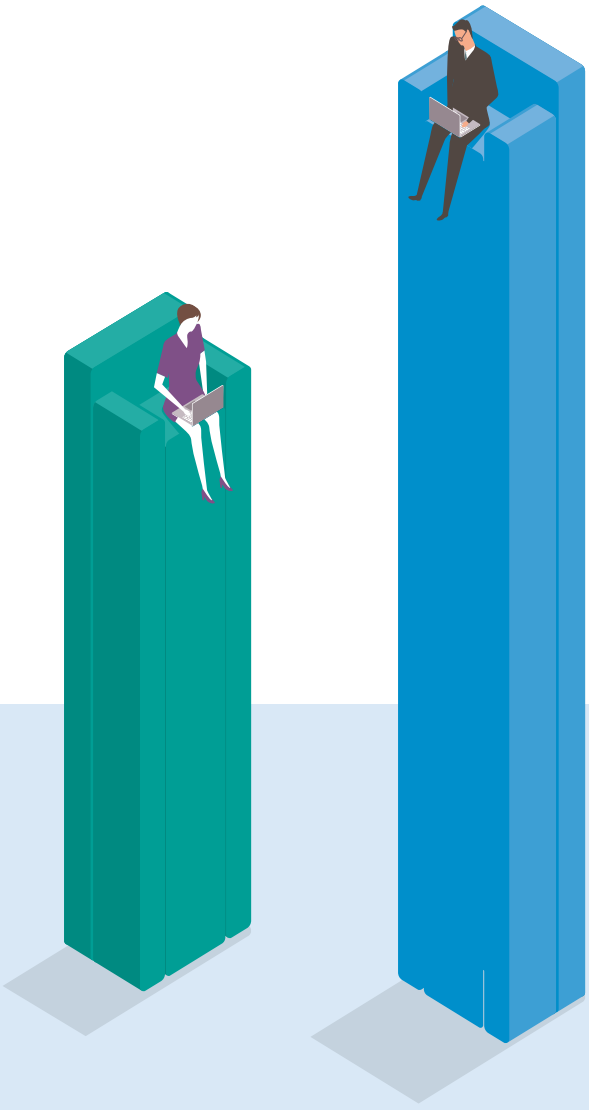
A clear differentiator has become a bank's ability to offer unique investment opportunities and above-average returns on client assets. This was confirmed in our discussions with C-level executives set out earlier in this study.

Variations in client returns are huge, with more than a 10% difference per annum between the top 10 banks and the lowest-performing banks. Cumulatively over the past five years, the range of client returns for the banks in our sample is between +40% and -15%.

This translates directly into banks' own performances and probability of survival. Based on analysis by the University of St.Gallen, banks that delivered positive returns on client assets over the past five years were 25% more likely to survive than those that provided negative returns. The cost-income ratio and RoE at these higher-return banks was also significantly stronger.

The banks that delivered better returns to their clients over the past five years were banks that enjoyed very low cost-income ratios (or significantly improved the ratio). Almost all such banks delivered positive returns to clients, compared to only 50% of those that suffered the highest cost-income ratio rise.

Clients recognize high quality investment advice and performance, and are attracted to banks that deliver these. Superior returns on client assets have become a clear differentiator. They also allow banks to increase their share of wallet for existing clients, and increase or stabilize their revenue margin.



Growth is key to profitability and survival

Quality growth is a key factor that differentiated successful banks from less successful ones over the past five years. Quality growth means avoiding the acquisition of risky clients, not compromising on margins, and not overpaying on M&A, for example.

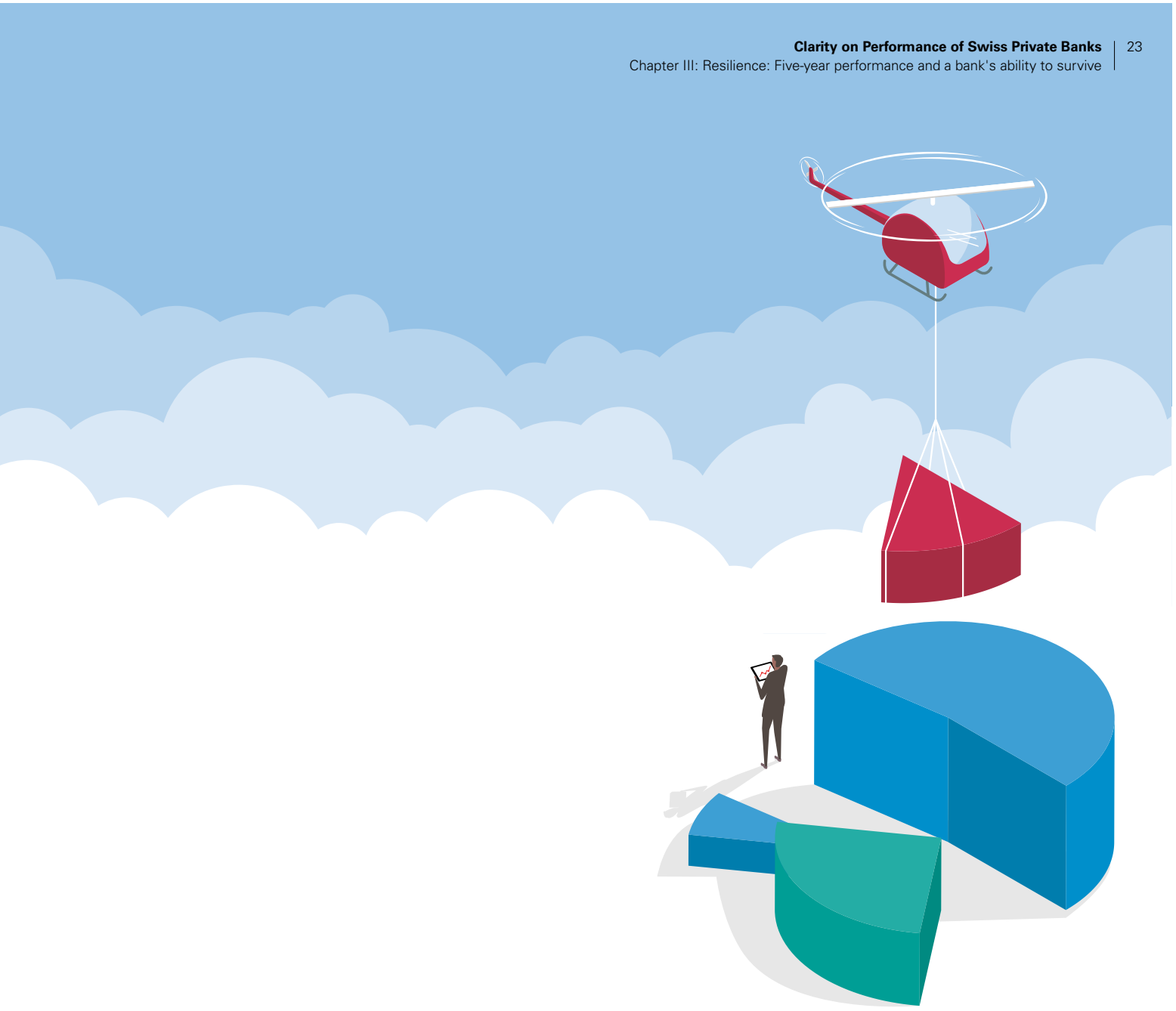
Banks that grew AuM over the past five years had a cost-income ratio of 80% and RoE of 5.6%. This compares to 93% and 1.1% at banks that did not grow.

Over 2015–2019, 80% of banks that reduced their cost-income ratio also increased their AuM by a median 26%. Only one-third of the bottom quartile of banks in terms of cost-income ratio meanwhile grew their AuM, seeing median AuM fall by 11%.

A 10% rise in gross AuM increased the probability of survival by 6% over the five years under review, according to analysis by the University of St.Gallen.

Growth is key to survival, with a rise in AuM having a direct impact on a bank's ability to survive.





Cost management must not be neglected

Moderate cost cutting has enhanced profitability and the chances of survival over the past five years. But extensive cost cutting is typically a sign of desperation, as banks seek to compensate for losing business – this usually occurs when it is already too late.

The strongest performances were delivered by banks that were able to grow while keeping costs under control, such as by focusing on efficiency, according to the University of St.Gallen's analysis. Many well-performing banks appear to get it right while acquiring new clients, but then allow costs to grow in parallel, which hinders further improvements in performance.

An example is personnel expenses per FTE. Of banks that improved their cost-income ratio most, 75% saw personnel expenses per FTE increase and had far higher average personnel expenses than other banks. This is an area of concern if the benefits of growth and/or other improvements are not to be sacrificed.

There is a direct correlation between significant cost reductions and very poor performance. Our interviews with C-level executives demonstrate a recognition that there are efficiency gains to be had in fields such as digitalization, travel, home offices, and management and relationship manager productivity with the current crisis accelerating the industry's transformation.

AuM development

A 10% boost in performance and 3% growth in NNM caused industry AuM to rocket by 14% in 2019. This is a remarkable increase in NNM and is an extremely encouraging sign for the industry, and specificially for the two-thirds of banks that saw positive NNM.

Net AuM growth from M&A activity remained low, however, due to a continued scarcity of large-scale acquisitions.

AuM growth boomed by 14% as 83% of banks grew
A combination of performance growth (CHF238bn or 10%) and NNM (CHF72bn or 3%) caused AuM to grow by 14% last year. In fact, 2019 saw the highest growth in NNM over the past 10 years.

The result was a rise in AuM at 83% of the banks. Direct benefits can be seen on asset-based commission income.

The 'Big 8' private banks – Pictet, Julius Baer, Vontobel, J. Safra Sarasin, Lombard Odier, Edmond de Rothschild, Union Bancaire Privée and EFG – represented 76% of total AuM at the end of 2019.

Asset gains helped performance to contribute 10%
Equity, bond and commodity prices led to significant asset appreciation in 2019. The MSCI world index rose by 24%, for example.

Despite the exceptional market development, five banks posted a negative AuM performance.

Almost two-thirds of banks experienced net inflows, as NNM contributed 3%
The number of banks that recorded positive NNM in 2019 rose to 52 (or 62% of our sample) – the highest in the past four years. NNM for the industry doubled in 2019 from CHF29bn to CHF72bn.

Positive NNM at seven of the Big 8 banks totalled CHF73bn in 2019. Pictet led with CHF26.9bn, being 38% of industry NNM.

M&A's contribution was minor, and was largely due to one significant deal
The impact of M&A on AuM growth remained low, contributing only 0.4% of AuM growth. The largest deal saw EFG close its acquisition of a 51% stake in Shaw Partners. This contributed CHF10.9bn in AuM, which was 69% of the industry's net M&A growth.

Other notable acquisitions closed in 2019 included:
- Julius Baer increasing its controlling stake from 40% to 70% in NSC Asesores in Mexico (CHF3.0bn)
- Intesa Sanpaolo acquiring Banque Morval (CHF2.5bn)
- Union Bancaire Privée acquiring Banque Carnegie Luxembourg S.A. (CHF2.1bn).

'Other' was mainly due to a group restructure
Other AuM in 2019 was primarily due to the transfer of Edmond de Rothschild (France) to Edmond de Rothschild (Suisse), as part of a global restructuring project. This added CHF42.4bn in AuM to Switzerland. The remaining AuM mainly comprised reclassifications to custody assets, which are not considered AuM.

Five-year perspective
Over the past five years, the 84 banks in our constant sample increased their AuM by CHF616bn, or 27%. Almost half of this increase (CHF283bn) arose from performance, mainly from extremely positive markets in 2017 and 2019.

NNM contributed CHF153bn over the five year period. This includes all the NNM gained from hiring new relationship managers, in which many banks have invested a lot of effort and money.

M&A's contribution exceeded that of NNM, at a total of CHF167bn over the five years. This was driven by a few larger deals, being EFG/BSI, UBP/Coutts International, and Vontobel/Notenstein.

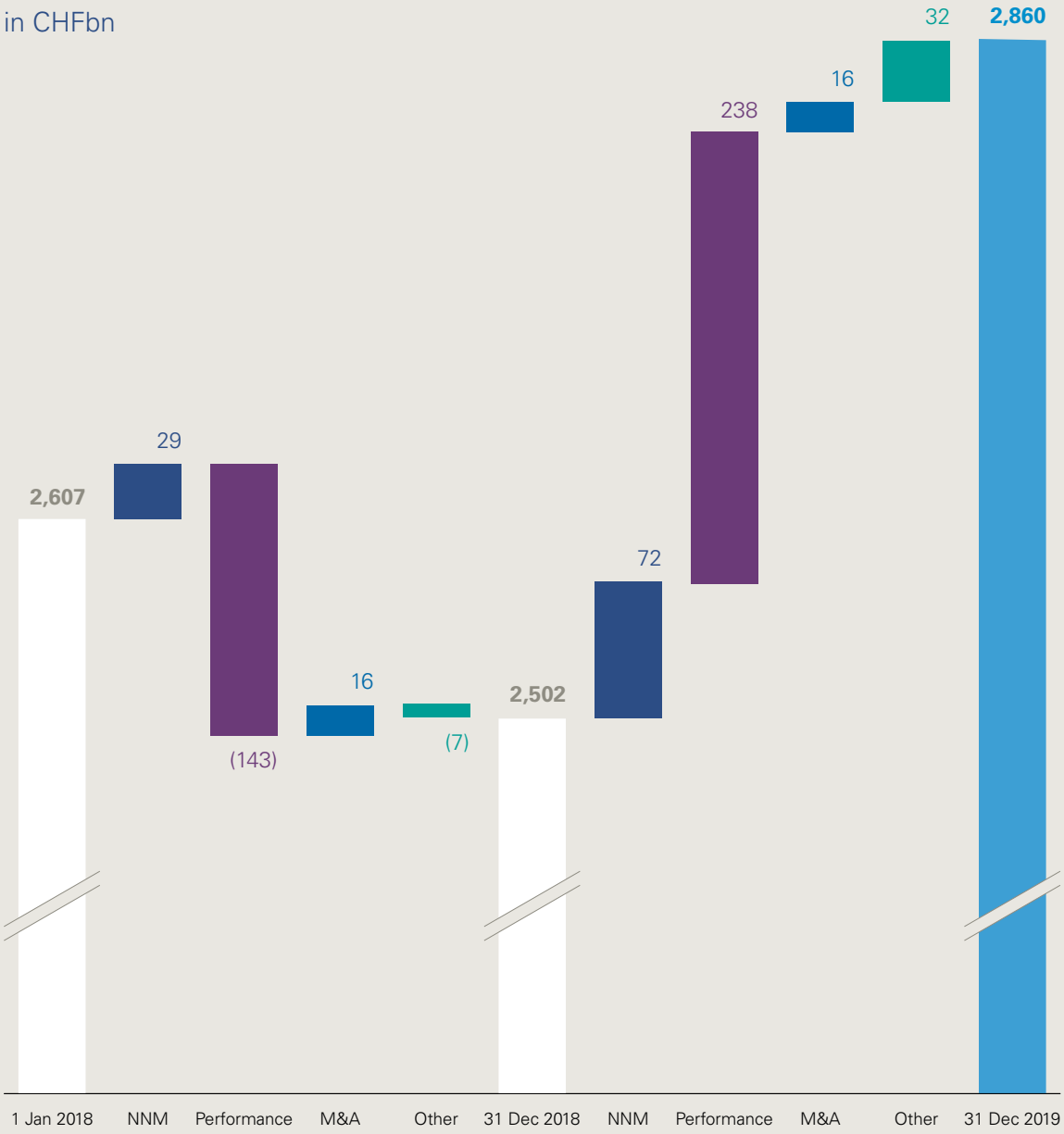
Assets under Management

in CHFbn

31 Dec 2019	2,860
31 Dec 2018	2,502
31 Dec 2017	2,607

AuM development

1 January 2018 – 31 December 2019
in CHFbn



Industry financial statements

Small banks were the only group that saw gross profit rise, as increases in average AuM volume and income margin drove income growth amid limited expense growth. Margins continued to be eroded at Medium and Large banks, which also saw costs to expand at a quicker rate than income, negatively impacting gross profit. Large banks were hit by falling US interest rates that led to a 9% decline in net interest income.

Large banks (16) CHFm	**2018**	**2019**	**Change**
Operating income	15,048	15,111	0.4%
Operating expenses	(11,051)	(11,339)	2.6%
Gross profit	**3,997**	**3,772**	**(5.6)%**
Net profit	**2,823**	**2,384**	**(15.6)%**
KPIs			
Average AuM (CHFbn)	2,196	2,315	5.4%
Average FTEs	30,081	30,637	1.8%
Income margin (bps)	69	65	(4)
o/w Net commission income	43	42	(1)
Gross profit margin (bps)	18	16	(2)
Cost-income ratio	73.4%	75.0%	1.6pp
NNM growth	1.1%	3.1%	2.0pp

Large banks

Expansion costs and lower net interest income hurt gross profit growth

Large banks increased their AuM volume by 15% in 2019, with NNM contributing 3%. Both AuM growth metrics were the highest in the past five years, translating into a 5% increase in average AuM. Despite this, Large banks were unable to generate sufficient incremental income to offset higher operating costs. This resulted in gross profit growth of negative 6% and a 1.6 percentage point increase in the cost-income ratio to 75%.

Operating income was flat as the fall in net interest income (-CHF271m or -8.9%), almost offset the increases in net commission income (+CHF208m or +2.2%), net trading income (+CHF69m or +3.3%) and net other income (+CHF57m or +12.7%).

Personnel expenses increased by CHF99m (+1.3%), from average FTE growth of 556, and G&A expenses increased by CHF189m (+5.8%), representing primarily IT and office expenses.

This increase in operating expenses was the main cause of the 16% drop in net profit to CHF2,384m.

Medium banks

Commission income grew only 0.3% despite 2.3% AuM growth

Three banks were responsible for almost all the CHF44m reduction in Medium banks' gross profit. This was due to a fall in US interest rates, an increase in IT expenses and the number of client advisors, and a large one-off pension charge.

CHF36m or 92% of the CHF39m income growth comprised net other income of CHF25m (+25.9%) and net trading income of CHF11m (+5.7%). These two income streams represented gains from asset sales and proprietary trading, both of which were driven by exceptional asset price increases.

Net commission income grew by only CHF4m (0.3%) driven by a 2% decrease in the net commission margin despite a 2.3% increase in average AuM.

Medium banks hired staff in 2019 to expand their businesses, resulting in an average FTE increase of 79 and an increase in personnel expenses of CHF65m. This accounted for 78% of the total rise in operating expenses.

Net profit of Medium banks fell by 23% to CHF223m, the lowest level in the past five years.

Medium banks (28) CHFm	**2018**	**2019**	**Change**
Operating income	2,322	2,361	1.7%
Operating expenses	(1,864)	(1,947)	4.5%
Gross profit	**458**	**414**	**(9.6)%**
Net profit	**289**	**223**	**(22.8)%**
KPIs			
Average AuM (CHFbn)	268	275	2.3%
Average FTEs	5,095	5,174	1.5%
Income margin (bps)	87	86	(1)
o/w Net commission income	55	54	(1)
Gross profit margin (bps)	17	15	(2)
Cost-income ratio	80.3%	82.5%	2.2pp
NNM growth	1.2%	1.1%	(0.1)pp

Small banks

Gross profit rose by 27%, but almost half of income growth was from volatile income sources

After falls in previous years, Small banks enjoyed a CHF30m, or 27%, increase in gross profit. This was driven by an increase of CHF42m (+4.9%) in operating income which comprised net other income of CHF19m (+100.2%), net commission income of CHF15m (+2.8%) and net interest income of CHF8m (+4.8%).

The largest contributor to income growth was net other income of CHF19m, which comprised special dividends and gains on asset sales, and which was driven by 2019's exceptional asset price increases. This helped boost income margin by 3bps to 97bps and improve the cost-income ratio by 2.7 percentage points to 84.0%.

The NNM growth rate doubled in 2019 to 1.5%, which is the best growth rate since 2016. Personnel expenses rose by CHF13m (2.8%), of which 60% was from higher personnel costs per employee as average FTEs rose by only 1.1%.

Due to high non-operating expenses, Small banks saw net profit fall to a very low CHF15m compared to CHF103m in 2015.

Small banks (40) CHFm	**2018**	**2019**	**Change**
Operating income	846	888	4.9%
Operating expenses	(734)	(746)	1.6%
Gross profit	**112**	**142**	**27.0%**
Net profit	**44**	**15**	**(65.9)%**
KPIs			
Average AuM (CHFbn)	90	91	1.5%
Average FTEs	2,251	2,276	1.1%
Income margin (bps)	94	97	3
o/w Net commission income	58	59	1
Gross profit margin (bps)	12	16	4
Cost-income ratio	86.7%	84.0%	(2.7)pp
NNM growth	0.7%	1.5%	0.8pp

Performance clusters

Performances polarized further as the number of Strong and loss-making banks both increased by more than one-fifth. Meanwhile, two of the seven banks that were loss-making over the last three years were recently sold.

The number of Strong banks rose by 21%
Favorable AuM growth from positive market conditions, and high NNM growth, enabled a net of four banks to become Strong performers, growing the cluster by 21%.

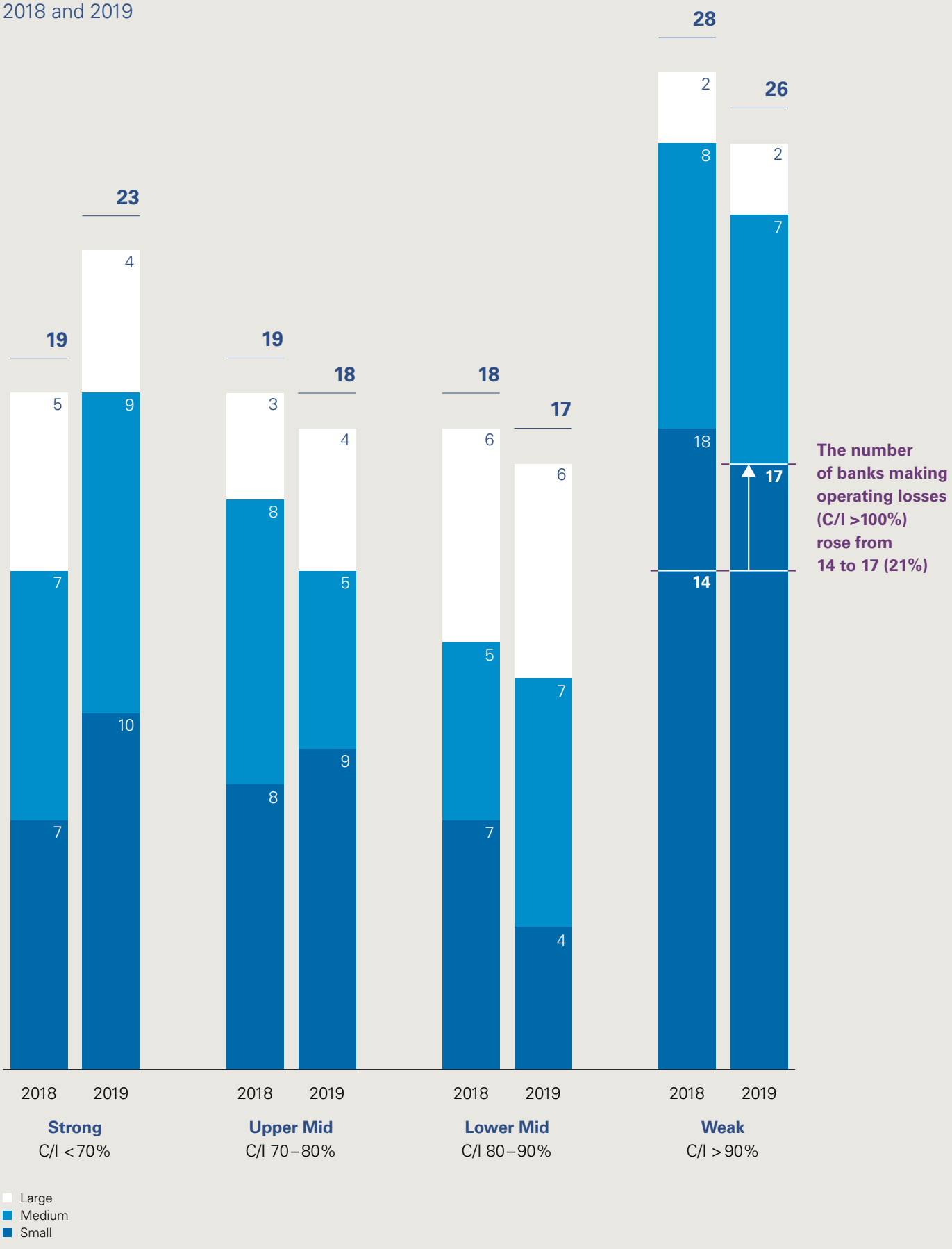
The number of loss-making banks also rose by 21%
Despite 2019's positive performance environment, the number of banks with cost-income ratios (C/I) in excess of 100% (i.e. those generating an operating loss) rose by three to 17. This is a 21% YoY increase and means 65% of all Weak banks are loss-making.

Eleven of the 17 loss-making banks had cost-income ratios in excess of 100% over the past two years, and seven over the past three years. Of those seven banks, two were recently acquired by other banks.

Cost-income ratio as a profitability metric
C/I is the key profitability metric we use to determine the performance clusters. As the inverse of gross profit/operating income, C/I measures gross profitability. Compared to RoE, it has the advantage of being less impacted by one-off income statement items and free of influence from differing capital levels.

Number of private banks by performance cluster

2018 and 2019

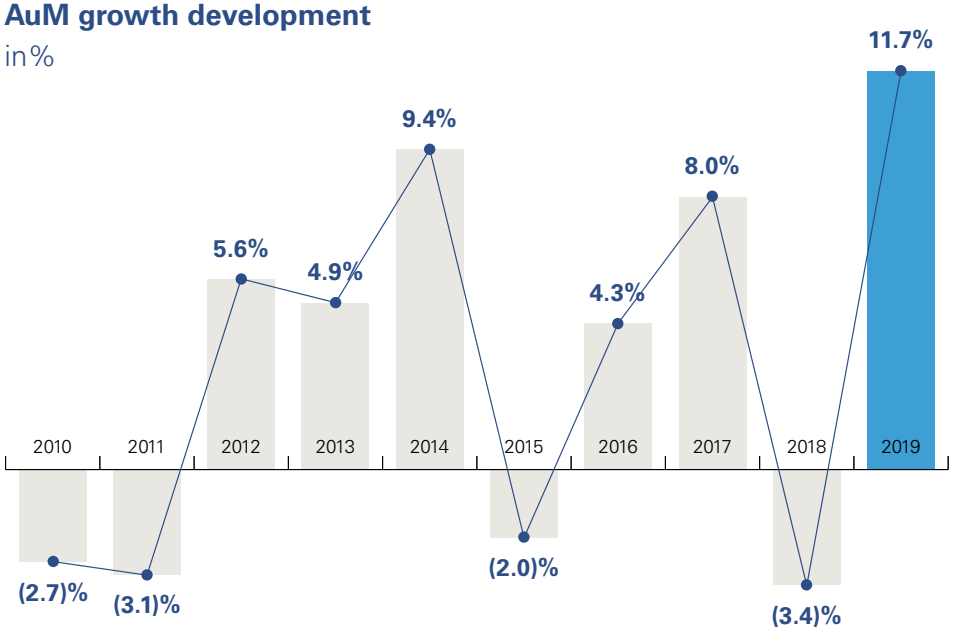


Median bank performance

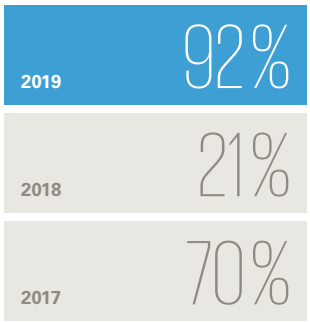
AuM increased at a record level in 2019, with 83% of banks growing their AuM and median AuM growth reaching 11.7%. Median NNM also jumped significantly as more banks successfully acquired new clients.

The development of some key ratios remains poor, however, as Weak banks get even weaker. While the cost-income ratio bounced back due to a favorable market environment, margin pressure is still intense, costs are rising and RoE is stubbornly low.

AuM growth development
in %



Percentage of banks that improved their AuM growth

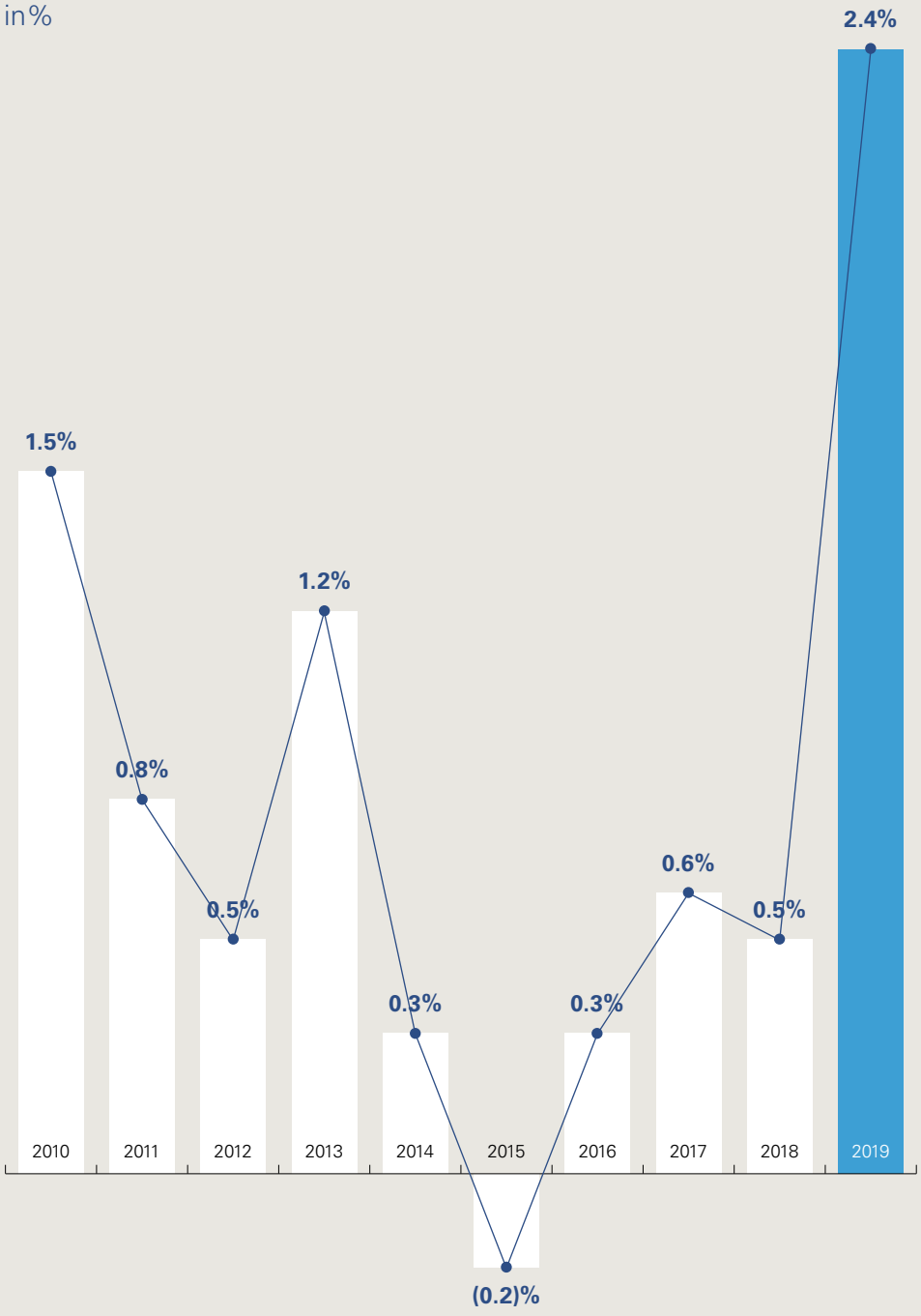


AuM growth exploded; 92% of banks improved

Extremely favorable price increases across securities and commodities markets, coupled with exceptional NNM growth, enabled 83% of banks to increase their levels of AuM. AuM growth at individual banks rose to push 2019 median AuM growth to 11.7% – the highest in the past ten years.

NNM growth development

in %



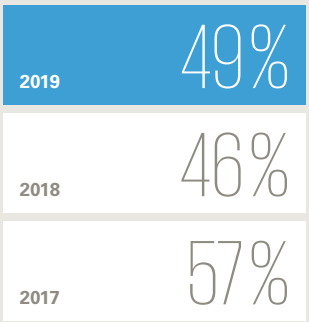
Exceptional NNM growth was the highest on record

At 2.4%, NNM grew at its highest level for the past ten years. This was driven by Weak performers and Small banks which eventually managed to generate positive NNM following years of dealing with regulatory changes and cleaning up client portfolios.

NNM growth at Strong players meanwhile remained healthy at 4.2%.

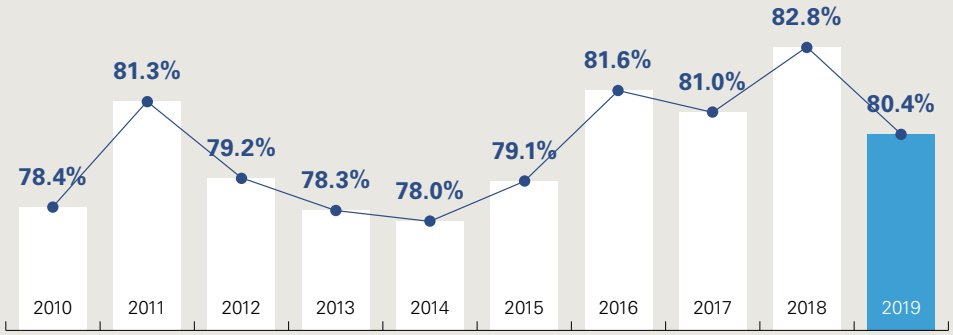
Weak performers generated positive median NNM growth for the first time, at 2.1%, after outflows of 1.0–5.5% in each of the past ten years.

Percentage of banks that improved their Net New Money growth



Cost-income ratio development

in %

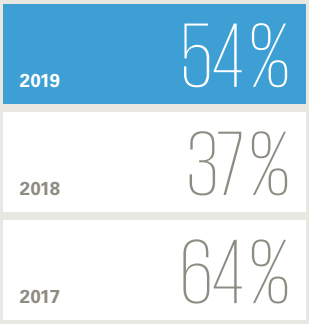


Cost-income ratio fell to 80%

The lower median operating expense margin was driven by higher AuM. Combined with the slightly higher median operating income margin, it produced an improvement in the median cost-income ratio, which hit its lowest level for four years. At 80%, this is still higher than 2012–2015, however, as cost reductions have failed to offset declining income margins.

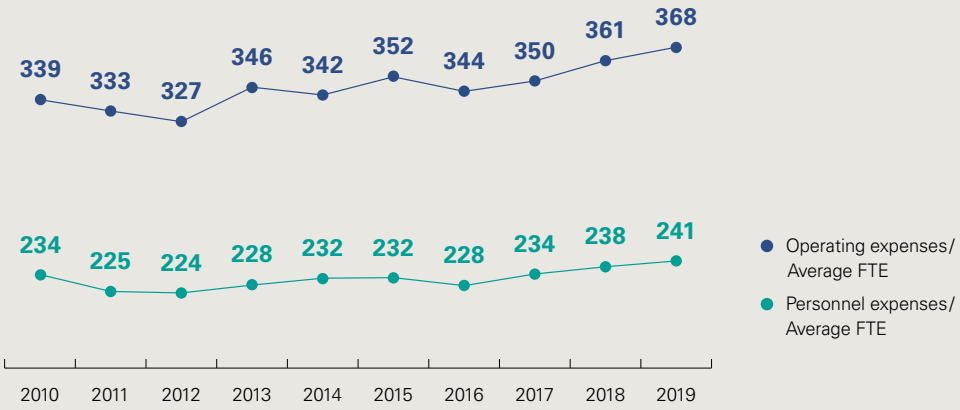
A key driver of this trend is an improvement in Small banks' cost-income ratio by 4.1 percentage points to 83.3%. This was largely on the back of a 4.9% increase in operating income, which was due to higher other income and commission income.

Percentage of banks that improved their cost-income ratio

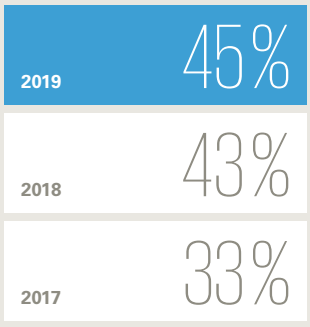


Operating and personnel expense per FTE development

in CHFk



Percentage of banks that improved their operating expense per FTE



Operating expense per FTE reaches new heights

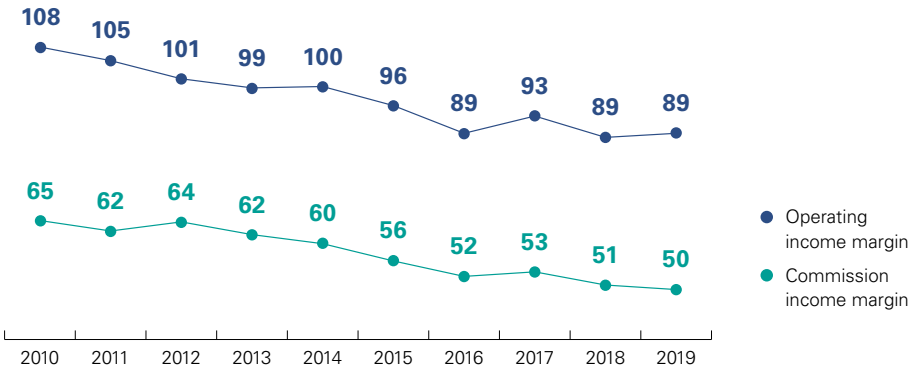
The median operating expense per FTE rose further in 2019, hitting CHF368k due to higher personnel expense per FTE and IT expense per FTE.

IT expense has grown by 65% since 2016 as banks enhance their IT and digital platforms. The proportion of IT expense within general and administrative expenses rose from 23% to 32% over this same period.

Personnel expenses per FTE continue to rise, reaching a new high in 2019.

Operating income and commission income margin development

in bps



Percentage of banks that improved their operating income margin

2019	44%
2018	37%
2017	58%

Higher AuM led to stable operating income margin

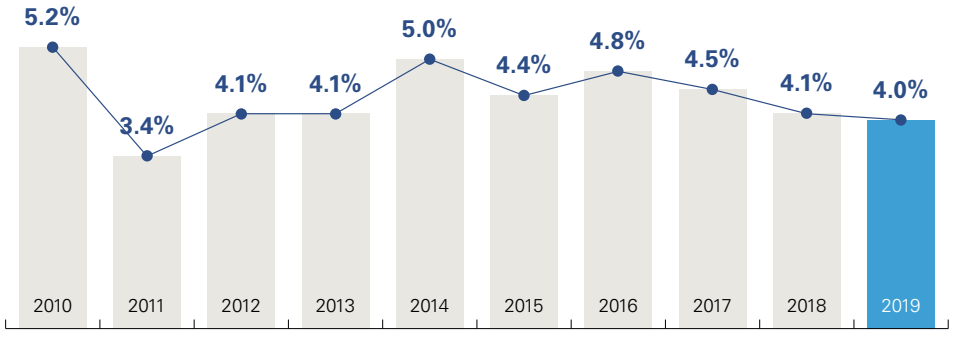
Despite being dampened by falling interest rates, increases in asset prices helped commission, trading and other income to rise to 89.4bps in 2019.

Banks also relied more on commission income, which rose as a share of total income from 59% in 2010 to 64% in 2019.

Despite favorable markets, only 44% of banks were able to increase their operating income and commission margin. This shows that while the median margin has stabilized, margin pressures persist.

RoE development

in%



Percentage of banks that improved their Return on Equity

2019	49%
2018	48%
2017	64%

RoE remains stagnant at a low level

Despite an improved cost-income ratio, banks were unable to improve RoE due to lower net profits and higher equity. Banks held excess capital of CHF25.6bn at the end of 2019: an increase of CHF3.3bn or 15% since 2016. This is helped by the fact that more than half of banks paid no dividend in the past two years.

A decline in net profit was due mainly to lower extraordinary income, higher value adjustments, depreciation and amortization.

Strong performers led RoE at 7.4% from 6.7% in 2018 while Weak performers were negative at -1.4%, from 0.5% in 2018.

Basis of preparation

Our analysis of the past five years covers 84 Swiss private banks, representing 83% of the private banking population.

Our definition of a Swiss private bank

For the purpose of this study, a private bank is defined as a Swiss private bank that holds a full FINMA bank license and for which a significant proportion of its business is private wealth management. There were 101 such private banks as at 31 December 2019.

Only survivor banks are included in our analysis

We have excluded those banks that disappeared in the past ten years in order to show only the performance of banks that are still in existence as at the publication date.

Banks specifically excluded from our study

We have excluded the following banks from our study:

- UBS and Credit Suisse as, if included, the extremely large size of their businesses would distort the results and make the analysis overall less meaningful.
- Fourteen banks whose financial statements are not available.
- One bank that announced it would enter into liquidation in 2020 and accordingly produced their 2019 annual financial statements on a liquidation, rather than a going concern, basis.

84 banks analyzed for the past five years

We analyzed the annual financial statements of Swiss private banks.

Our 'Industry performance' section analyzes 84 banks over the past two years, while our 'Median bank performance' section analyzes the 84 banks for the five years 2015–2019. Our analysis of the period 2010–2014 is based on 74 banks as some banks began to publish their financial statements only in 2015.

Taking aggregate and median perspectives

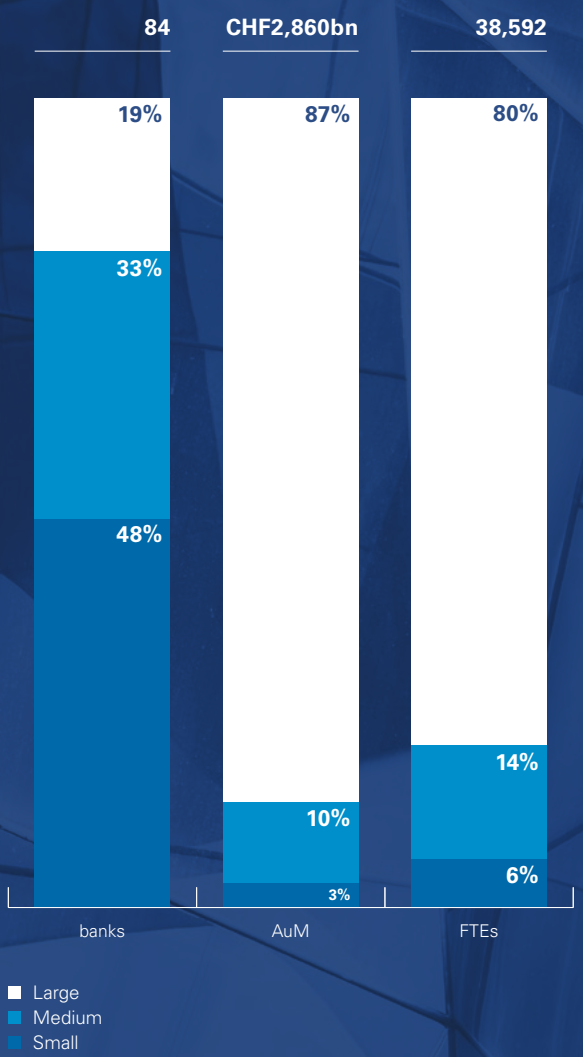
Our performance analysis is presented in two views:

- aggregate (by AuM size), contained in the "Industry performance" section, and
- median, contained in the "Median bank performance" section.

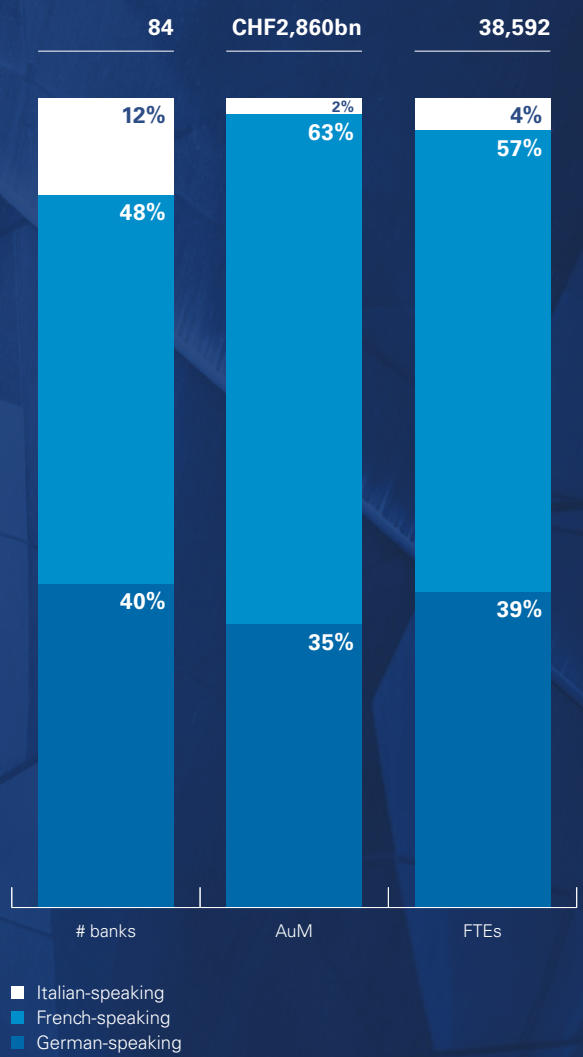
The aggregate view sums up individual banks' financial information by level of AuM – Large (AuM > CHF25bn), Medium (AuM CHF5–25bn) and Small (AuM < CHF5bn). It is dominated by the Large banks.

The median view takes the middle bank's KPI value. It better represents the number of banks in the industry, which is dominated by Small and Medium banks (81% of the banks in our sample).

Key statistics by bank size
31 December 2019, in%



Key statistics by region
31 December 2019, in%

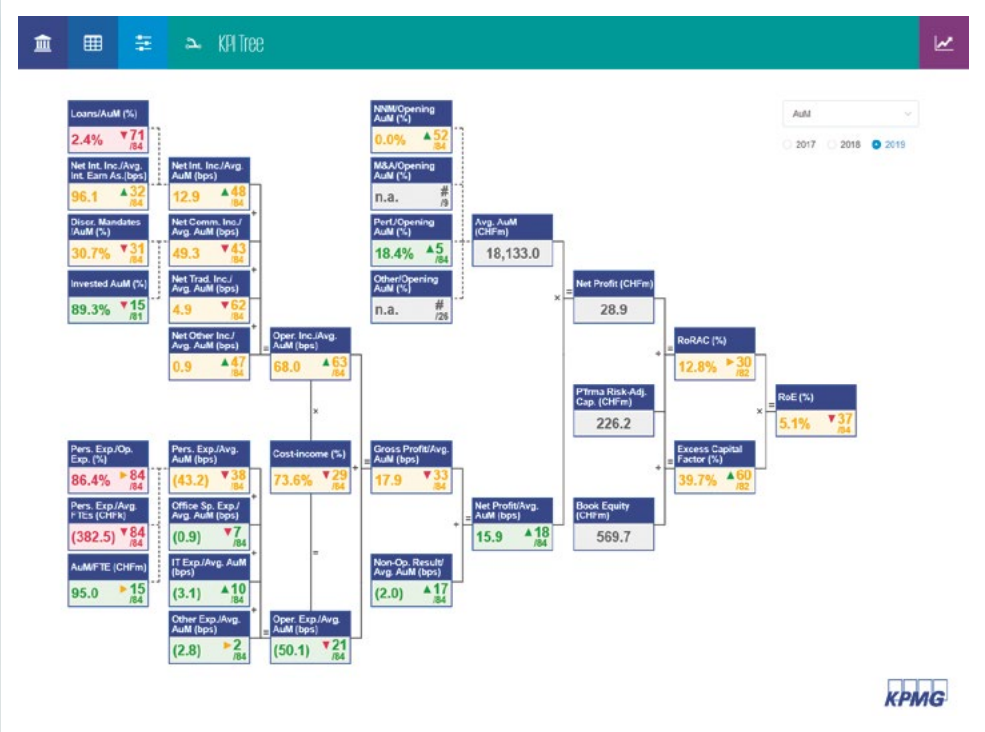


Glossary

1H, 2H	First half, second half of the year
7M	First seven months of the year
AuM	Assets under Management
bps	Basis points (1/100th of 1%)
CHF	Swiss Franc
COVID-19	Coronavirus disease 2019
C/I	Cost-income ratio
FTEs	Full-Time Equivalents
k/m/bn	Thousand/Million/Billion
M&A	Mergers & Acquisitions
n/d	Not disclosed
NNM	Net New Money
pp	percentage points
Q	Quarter
RoE	Return on Equity

KPMG Digital Benchmarking Tool

Our proprietary digital benchmarking tool contains data from 96 private banks: 84 Swiss and 12 Liechtensteiner. Banks can use the tool to undertake a detailed comparison with their peers using unique KPI drill-down capabilities. Our experts are pleased to help you identify areas of performance enhancement for your bank and how they can be delivered practically and efficiently.



- Our KPI tree contains more than 50 KPIs across three performance perspectives.
- Each KPI is individually ranked so you can see exactly where you stand against your peers and the overall market.
- Color coding enables you to immediately identify for which KPIs you are better, comparable or worse than the peer group.
- We can help you elaborate on the performance drivers by reference to the various private banking business and operating models employed in the market.
- Fine tune your peer group with just a few clicks to enable an enhanced performance comparison.
- Detailed insights into any KPI can be obtained by clicking on the respective KPI tile.
- The three-year trend is provided for that KPI against both peer and overall market performance.
- KPI improvement/deterioration can be easily assessed from this analytical perspective.



Please contact us to understand how our benchmarking tool can help you drive enhanced understanding and improved performance.

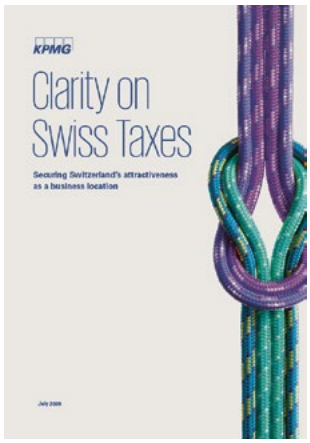
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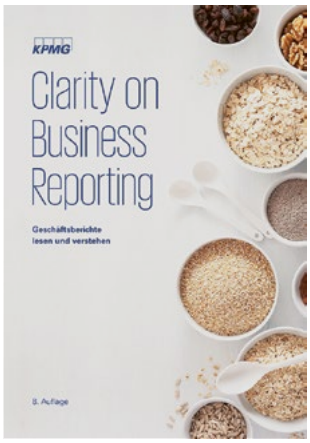
"Clarity on" publications

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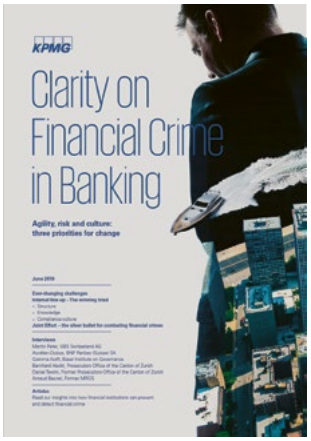
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