Report of the Board 2024 EN

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53rd AFBS Report of the Board

Executive Summary

Foreign banks have been present in Switzerland for over 150 years, initially focusing on international clients. Following the UBS-CS transaction, foreign banks are positioning themselves as alternatives for Swiss businesses. The association aims to highlight the role and contributions of foreign banks to the Swiss economy and international connectivity. Media and political interest in foreign banks' activities beyond private banking is growing. Foreign banks play a crucial role in providing Swiss companies access to global markets and expertise. The diversity and expertise of foreign banks enhance the attractiveness of Switzerland as a financial hub. Cross-border banking remains vital but faces challenges due to EU regulations like CRD6, which require local offices for certain services. The Berne Financial Services Agreement with the UK is expected to boost bilateral banking relations. Post UBS-CS transaction regulatory adjustments aim at ensuring stability but must not overburden small banks. Initial enthusiasm for digitalisation has waned due to lengthy and difficult to predict approval processes.

Foreign banks are integral to Switzerland's financial ecosystem, providing international expertise, fostering innovation, and supporting regulatory and digital advancements. AFBS promotes their interests, ensuring their continued contribution to the Swiss economy and its global connectivity. It facilitates collaboration among members through roundtables and working groups on topics like operational risks, taxation, and geopolitical challenges. It engages with authorities like FINMA, SECO, and the Swiss National Bank to address regulatory and market concerns. AFBS fosters relationships with EU, US, and UK stakeholders. It advocates for proportionality in regulation to preserve the diversity of the Swiss banking sector.

Positioning

Foreign banks have been present in Switzerland for more than 150 years without interruption. Their focus has traditionally been on business with international clients and not so much on the domestic Swiss market. A few years ago, however, this situation started to change. Foreign-controlled retail banks have also become active in the Swiss domestic market, and since the UBS-CS transaction and the subsequent disappearance from the market of the only international Swiss commercial bank the foreign banks have been positioning themselves as an alternative, and with great success.

This change in the Swiss financial centre has also given our Association a new role. Since its foundation in 1972, the

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focus of the Association's work has above all been on information and promoting networking amongst its members as well as representing the interests of its members vis-à-vis umbrella organisations and the authorities. A desire has now arisen for the Association to explain to an interested public the nature of the contribution the foreign banks make to Switzerland's economy and its interconnectedness with the rest of the world. With this aim in view the Board decided to engage an agency and communications and public affairs have become a new field of activity for the Association Secretariat.

Public Affairs

The primary goal of the Association's public affairs work is to explain the role played and contribution made by the foreign banks in Switzerland, to showcase this contribution and to put it in perspective. Meetings with representatives of the media, administration, and the political world arouse keen interest. It is astonishing to see just how great the desire to discuss topics other than private banking. The Association comes into contact with numerous journalists who wish to examine the foreign banks in their role as lenders, as issuers of capital market products, as financiers of commodity trading or as custodians of securities. Background briefings help to explain the interconnectedness of international financial operations. There are extensive interdependencies and the relationship between financial market players and financial centres is complex. As a small country with a large financial centre, Switzerland has to be careful here: it has to uphold its values without engaging in "heritage protection" and it has to bear in mind that many "Swiss" companies were actually founded by foreigners and that the very presence of international companies adds significantly to Switzerland's attractiveness as a business location.

The Association Secretariat is the main source of the Association's public affairs work, but it showcases its member banks in all their variety. The aim is to show the diversity of the financial services providers present in Switzerland, the wide range of services on offer and the depth of know-how available, above all on international issues.

International Financial Centre

Since the takeover of Credit Suisse by UBS, one has to acknowledge that there no longer exists a Swiss-controlled, internationally active commercial bank. UBS is a leader in wealth management, but never provided those financial services that small-, medium-, and large-sized companies need to expand internationally to the extent that Credit Suisse did. This is where foreign banks in Switzerland can make a contribution to Switzerland's economy. In many cases their parent companies are active in commercial financing and can call on their extensive networks and wide experience, whether these be worldwide or linked to specific regions. No foreign bank would build up a complete value chain for its commercial business in Switzerland and only a few of them would cover all world markets, but through their substantial presence here they can give resident companies access to their global network. Thanks to the foreign banks every Swiss enterprise can find access to its desired markets.

While a few foreign banks are internationally active universal banks, others have focused on a specific business model in which they are, however, globally active. In any event, the foreign banks in Switzerland offer their clients access to competence, networks and infrastructure at an international level. It is of much value for an international business and financial location to have such a wide palette of services at its disposal. The professionalism of the services offered and the accompanying competition distinguish such a financial centre and make it attractive from the viewpoint of international clients. The advantage that also accrues for domestic clients, whether private or institutional, is not to be underestimated. Global financial institutions have expertise at their disposal and achieve economies of scale that only a huge volume of transactions makes possible. Even a bank which is large by Swiss

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standards can hardly keep pace with this global comparison.

For an international business location such as Switzerland, it is essential for internationally networked service providers to be represented locally, irrespective of whether they are Swiss- or foreign-owned. Companies located here can then obtain the banking services they need for their business. The main task for Switzerland at present is to provide attractive frame conditions, because if these conditions are right then investors will want to be active here, there will be sufficient liquidity in the markets, Switzerland will attract innovation and the country will see growth. Switzerland's long tradition of international networking, its multilingualism, its multicultural way of life and its neutrality create a framework that is second to none.

Crossborder Services

The provision of crossborder financial services continues to be an important pillar of the business activities of banks in Switzerland. In the international context, a special feature of banks is that they serve clients in countries without having a physical presence there. Many countries see this special feature as a thorn in their side that has to be treated with increasing vigour. The EU's CRD6 Directive continues the process of closing frontiers and will oblige non-EU financial entities to conduct customer relationships and bookings via an authorised local branch in the client's country of residence. Even if certain exemptions are made for the provision of wealth management services under MiFID, it will be increasingly challenging for banks in Switzerland to conduct their business with an international clientele. As CRD6 covers "core banking services", lending business conducted from Switzerland will also be affected. Banks are assuming that individual EU companies will want to avoid losing access to sources of liquid financing and will thus transfer certain departments to Switzerland. We will have to wait for the national implementation laws in order to find out about the precise regulation.

This subject is of extreme importance for Switzerland as a financial and business location. It is unfortunate that it is not receiving more attention and that the issue of the provision of crossborder financial services does not feature in the mandate covering EU-Swiss negotiations. At least the Financial Dialogue has been resumed and this will ensure a regular exchange of views.

Competence, in conjunction with the stability and predictability of Switzerland's business environment, continues to represent the unique selling point of the country as a financial centre and is appreciated far and wide. Clients seek a relationship with a bank in Switzerland so they can diversify their market exposure and minimise risk. Foreign banks in Switzerland do not hold back when showing their strength to their clients, namely the strength offered by their international interconnectedness. This ensures direct access to markets in which many Swiss companies maintain production or sales locations. These companies appreciate the opportunity to work with a local partner who also has a presence in their home country. The international dimension of the company is thereby also reflected within the banking institution and this helps reduce complexity and cost considerably.

The Berne Financial Services Agreement between Switzerland and the UK has been signed and is now in the process of implementation in both countries. The plan is for this work to be completed by the end of 2025 so the Agreement can enter into force by the beginning of 2026 at the latest. Banks see great potential here. On the one hand, they will be able to serve the British market without having a physical local presence, and on the other they will be able to offer their Swiss clients access to competence existing in the UK and UK clients in turn will have access to Swiss expertise. Should this development be realised then it will be further proof that open borders lead to more growth and prosperity.

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In the year under review, the Swiss Bankers' Association (SBA) continued to cultivate contacts at the international level, in particular with the EU and USA. Following a pause of some years, a delegation visited Washington D.C. in the autumn of 2024 to exchange views with US politicians and administration officials. The foreign banks, keeping to their traditional role as a link in the chain of international networking serving the Swiss financial centre, acted as go-between and through their local offices opened doors and initiated contacts. The meetings met with a very good response to the extent that before the year's end a return visit by Members of Congress was scheduled. With regards to the EU, the SBA teamed up with the Swiss Finance Council, established by the Swiss big banks in 2013. All banks are now either directly involved in the Council or represented on it by their group associations or the SBA and activities are coordinated and carried out in Brussels via this body. The Swiss financial centre as a whole can thus profit from local presence and make a coordinated contribution to the promotion of common interests. Here, too, our Association and our member banks can offer assistance via their contacts and networks and serve the interests of the Swiss financial centre.

National Issues

At the national level, the question of the regulation of the Swiss financial centre following the UBS-CS takeover is high on the agenda and the Federal Administration and FINMA are reviewing laws and regulations. The banking associations are advocating a compromise solution which achieves the desired stability and security without at the same time imposing unnecessary burdens, in particular on the small- and medium-sized banks. It is, of course, appropriate to implement certain internationally recognised provisions concerning stability and, if need be, to apply them even to small- and medium-sized banks - for example regulations concerning responsibility or transparency. A situation should be avoided, however, whereby all banks, irrespective of their size and business orientation, are subject to exactly the same provisions. A private bank that offers select services to a niche clientele does not pose the same risk to the stability of the financial centre as a universal bank that serves private and corporate clients. Once again, the major challenge will be to look ahead and identify potential dangers and align regulation to avoid them. It remains to be seen whether the challenge will be met successfully this time.

Besides regulation to avoid a new financial crisis, adaptations in the area of anti-money laundering are also in the offing. While the introduction of a Register of Beneficial Owners should pass through Parliament without too much controversy and be in force in time for the next FATF Mutual Evaluation, stormy waters have again formed around the move to make financial advisors and attorneys subject to the anti-money laundering laws and Parliament has sent this part of the revised law back for review. This area will also be in the scope of the FATF Mutual Evaluation and a solution generally satisfactory to all parties should be found as soon as possible. Our Association supports the efforts of the Federal Administration to adapt national legislation to international standards. Only in this way can the good reputation of the Swiss financial centre be upheld and the attractiveness of Switzerland as a location - not just for banks - be preserved.

Digitalisation

The initial euphoria which greeted the digitalisation of the financial sector has given way to a moderate disillusionment. Some of the international banks are rethinking their plans: it seems that the approval process with FINMA increasingly drags on and this impinges on the time-to-market and weakens the attractiveness of the financial centre. This is regrettable because Switzerland managed to position itself as a frontrunner a few years ago, above all thanks to FINMA which had distinguished itself through openness and competence. Hopefully that initial pioneering spirit will return and drive things forward.

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Blockchain is no longer the sole centre of attention. Users are also finding solutions in simpler structures. Commodity dealers have developed an infrastructure that makes it possible for registered participants, including banks, to exchange contract documents over a secure platform and to communicate with each other. This is also of interest to the foreign banks, which are leading providers of finance for commodity trading, as it enhances security and reduces the risk of default at manageable cost. A meeting of the AFBS Group CTF, which brings together representatives of foreign and Swiss banks offering commodity trade financing, focused on this subject and discussed solutions with KOMGO, an international bank-held trade finance platform.

During the year under review the Association addressed the topic of digitalisation at several events for its members. The SBA spoke on an event to present its activities and our Association's representative on the Expert Commission took questions from and discussed issues of concern with member institutions. During a video conference experts from Germany and Switzerland discussed the EU Artificial Intelligence Act and discussed implications for those banks in Switzerland which conduct business internationally. At a Roundtable event lawyers discussed the issue of digital signature and their usage. Three formats are available in Switzerland, but as legal practice is very pragmatic here a Qualified Signature will really be needed in only a few cases. But that does not solve the problem of international recognition and according to the Federal Council the authorities will continue to work on this in the coming year. The recognition of digital contracts by the courts would also be a welcome step in the right direction, as commercial contracts are increasingly no longer drawn up on paper but written and exchanged in digital form. From the point of view of international commerce this form of conveyance also offers increased security as documents can be exchanged via a secure platform subject to controlled access. It appears that recognition has already been granted in the UK and Singapore, and hopefully other jurisdictions, including Switzerland, will follow soon. Such a step would definitely be a locational advantage.

Ongoing Business

In addition to the major issues affecting the entire financial centre and its participants, the Association has also been dealing with numerous other issues which, while of no less importance, have not attracted the glare of public attention to the same degree. During the year under review these included the implementation of the FINMA Circular Operational Risks to which numerous Roundtables and Conferences were devoted. The opportunity to exchange views is very much appreciated by members and there is sustained demand for such events. This was also the case with the FINMA Circular Nature-Related Financial Risks when banks in Supervisory Category 3 (large and complex market participants) discussed implementation and were able to coordinate requests for clarification to FINMA via the Association Secretariat. In a similar manner member banks were able to use the Association to channel requests for clarification in connection with the implementation of specific points of the FINMA Circular Rules of Conduct under the Financial Services Act. It is now clear that with regards to asset management mandates not every single product must be subjected to scrutiny but that the mandate per se must be examined for appropriateness for the respective clients. The Association is playing an increasingly important role in this kind of interaction and coordination; members appreciate this as they can consult a network of professional colleagues who, while not necessarily working in the same bank, nevertheless face the same challenges.

Roundtables are just one format via which our members can discuss and work on topical issues. Others include the AFBS Groups on specific business areas which are also valued by members as a medium through which they can exchange views and experiences. In addition to the Legal & Compliance and Human Resources Groups, which have already been meeting regularly for many years, there are other subject-specific Groups, some of which have come into being within the past few years. One such Group is the Commodity Trade Finance Group in Geneva which

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meets twice a year and has established itself as a valued forum for discussion not only amongst foreign banks but also Swiss institutions. During the year under review questions about digitalisation were discussed, as were issues concerning how to deal with geopolitical risks. Corporate banking specialists met in Zurich in a similar AFBS Group. One meeting focused on tax issues and another on Transition Finance as well as the expectations Swiss SMEs have towards a bank. A small consulting firm conducted a survey and presented the findings which lead to an animated discussion. In the areas of Taxation and Liquidity the Groups are using a hybrid format: members meet personally in Geneva and Zurich alternately while other participants can take part via video. As all members know each other very well this format works perfectly.

Contacts with Authorities

Regular meetings with representatives of the Federal Administration and with financial centre infrastructure providers are of great importance.

In a meeting with SIX Group the opportunity was again taken to acknowledge the fruitful cooperation and to emphasize the common interest all participants have in a well-integrated and well-functioning financial infrastructure. The foreign banks are responsible for a significant amount of trading volume and thereby make a substantial contribution to the stability and liquidity of the local markets. This also became apparent in talks with the Directorate of the Swiss National Bank who were very interested to hear how the international banking groups assess and serve the local market and the international economy active out of Switzerland. The respective parent companies naturally play an important role here, but the intermediary and point of contact is always the local branch of the banking group. The State Secretariat for Economic Affairs (SECO) was keen to understand how the foreign banks, given their international interconnectedness and their versatile dependencies, deal with sanctions regimes. The talks with SECO also covered the financing options foreign banks can offer thanks to their international presence. The discussion again made it clear how disproportionately large the Swiss economy is relative to the size of the country and that this size ratio also brings with it significant challenges.

In September 2024, members of the Board held a meeting with a member of Parliament and representatives of umbrella organisations at the Bern office of economiesuisse where they discussed the role of lobbying and the interconnectedness of economy, politics and the administration. All sides show a readiness to exchange views; everything is within a convenient distance and the interest is there. These are important factors that facilitate mutual understanding and make possible a political process that works out solutions to problems that are in everyone's interest. The chairman of economiesuisse welcomed the presence of the foreign banks and expressed his hope for them to continue expanding their activities and supporting the Swiss economy in its international business.

The same day also saw the annual meeting with the State Secretariat for International Finance (SIF). The State Secretary took this opportunity to confirm that she was well aware of the importance of the foreign banks for the Swiss economy. She expressed regret that the revision of the anti-money laundering law and the introduction of due diligence requirements for attorneys had again become hot talking points. She said that the implementation of the Berne Financial Services Agreement with the UK was on course and that it was realistic for both sides to expect it to come into force in 2026 at latest. The banks concerned are making preparations. Members of the Board pointed out the difficulties some banks are experiencing in their search for a USD correspondent bank and said that the situation had become more acute following the exit of Credit Suisse.

In November, Members of the Board were again in Bern for their meeting but above all for the annual meeting with

FINMA, represented this time not only by heads of departments but also by its new CEO and the President. During the discussions, the CEO showed his empathy for the diversity of the Swiss banking landscape and said he did not want to thoughtlessly endanger this diversity which is characterised by a plethora of small financial institutions. Nevertheless, he expects smaller institutions also to implement certain provisions concerning internal organisation, separation of powers and control just like the large ones. Proportionality and the small banks regime should continue to exist. That addresses a major concern of our Association and is essential for the safeguarding of the diversity of the Swiss financial centre. The latter differs from its neighbours through the fact that numerous independent small- and medium-sized institutions are active here; they are totally independent and this independence goes beyond just having their own brand although they belong to a large group.

Association Activities and Personnel

In its 52nd business year, the Association's Ordinary General Assembly again took place in virtual format. Voter participation is higher compared with the Assemblies held physically in the past, and the format leaves room for a personal meeting at the annual Get Together which in 2024 took place under full sunshine in the park of the Ecole Hôtelière de Genève. The panel focused on the issue of positioning of the Swiss financial centre and its image both at home and abroad. The subject is extremely topical following the UBS-CS transaction and the associated media coverage. Speakers from Switzerland and abroad expressed their points of view and discussed the subject on the panel. Many inputs from the audience contributed to a lively discussion. The conclusion was that the reputation of the Swiss financial centre abroad had not been so badly tarnished as many commentators in Switzerland had claimed. However, it cannot be denied that the financial centre's reputation suffered more in certain regions of the world than others. Perception is always relative and given the social and political turmoil going on in various parts of the world and the accompanying insecurity and unpredictability many people continue to appreciate our country as an attractive location.

The many events the Association holds for its members also attract a very high level of participation, and the year under review again saw more than eighty such events. The separation of Conferences for information from Roundtables for an exchange of views has proven its worth: the former take place mainly in digital format while the latter take place exclusively on-site in Zurich, Geneva and Lugano.

Not so many C-Meetings took place as in previous years, but one held by a small group of bankers with the British ambassador allowed a valuable exchange of views on bilateral relations. All participants were confident that the Berne Financial Services Agreement will lay the foundation for fruitful relations and lead to multi-level cooperation in other areas. In Lugano, CEOs and branch managers of local banks continue to meet twice a year. The main topic of discussion was relations with Italy and experts from Italy were also invited.

The 52nd Ordinary General Assembly elected Loïc Voide, Deutsche Bank (Suisse) SA, as a new member of the Board and also renewed the mandate of Adrian Nösberger, Chair, Schroder & Co Bank AG. It acknowledged the resignation of Anne Marion-Bouchacourt, Société Générale. During the year under review the Board co-opted Anke Bridge-Haux, LGT Bank (Schweiz) AG, and Grégory Lambillon, ING Bank N.V., Amsterdam, Lancy/Geneva Branch, as members of the Board and they will be proposed for election at the 2025 OGA. The Board has since acknowledged the resignation of Loïc Voide, Deutsche Bank (Suisse) SA (30 November 2024).

Daniel Toreilles, J.P. Morgan (Suisse) SA, represents the AFBS on the Board of the Fondation Genève Place Financière, while Jacques Luyet, BNP Paribas (Suisse) SA succeeds Bernhard Schopper as the representative to the

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SBA Tax Commission. Daniel Wild, Bank J. Safra Sarasin Ltd., succeeds Sabrina-Janna Zeyher as representative to the SBA Commission Sustainable Finance. Andrej Subaric, Citibank N.A., represents the Association on the Swiss Payments Council and Claudia Gurtner, Deutsche Bank (Suisse) SA, is the representative in the SBA Working Group E-ID.

A current list of all AFBS mandates and representatives is available at www.afbs.ch \ About Us.

The Board would like to take this opportunity to thank everyone who has supported the work and promoted the interests of the foreign banks and the Association.

The Board would also like to express its thanks to the Association's Secretariat for its ongoing work in information and coordination which ensures the efficient conduct of the Association's mission.

Zürich, May 2025

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