Report of the Board 2023

International Crisis - National Crisis

Three years ago a pandemic, two years ago a war, one year ago the downfall of a bank ... the crises or challenges for the Swiss financial centre came one after the other. For the last event, a crisis unit met over the weekend and took swift decisions, just as when the pandemic broke out and when sanctions against Russia were implemented. Since then, the financial centre and the country are coming to terms with the disappearance of one of the two major Swiss banks. The Federal Council published its Report on Safeguarding Financial Stability in April 2024 and proposed numerous measures. FINMA already reported in December 2023 that its hands had been tied in many areas and called for new regulation that would give it more powers. There is still a lot of ink to be spilt on the aftermath of the UBS-CS transaction and many more discussions are to take place. In addition, day-to-day business continues and the new situation in the Swiss financial centre presents exciting challenges and interesting opportunities.

Distortions

The takeover of Credit Suisse by UBS has left deep scars that have not yet fully emerged. One of the two global Swiss banks has disappeared from the scene. The international Swiss commercial bank is no longer there. An important syndicate partner in the financing business is missing. One of the major national correspondent banks has disappeared. There is now only one nationally active universal bank with international connections. However, it is not only the reduction in supply, but also the wave of regulation that must be expected as a result of the transaction which is causing concern among foreign banks.

Even though many of the 37 proposals made by the Federal Council in its Report on Safeguarding Financial Stability (LINK) of April 2024 are aimed at the systemically important banks (SIBs), it nevertheless proposes 17 measures for adoption of for examination that should apply to all banks and financial institutions. The associations will therefore have to carefully assess the regulatory proposals. The aim is to maintain the attractiveness and stability of the Swiss financial centre. The requirements from a supervisory perspective will certainly increase, and FINMA will take an even closer look at banks' internal organisation and processes in order to avoid potential future cases.

Of course, the transaction creates a new starting position for the foreign banks. The commercial business has always been important for the foreign banks in Switzerland, as the global connection of the Swiss economy can only be guaranteed by an internationally networked bank with a local presence. This is now even more evident. Several banks have expanded their offering to corporate clients or are in the process of doing so. Swiss associations and companies are realising what an internationally diversified banking population they have on their doorstep. The group of foreign banks in Switzerland is like a universal bank – present all over the world.

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Supervisory Law

Supervisory activities in the reporting year were strongly characterised by the UBS-Credit Suisse transaction. Proposals for measures are now summarised in the Federal Council's report on banking stability of April 2024 (LINK). However, as early as summer 2023, the supervisory authority showed a clear interest in the liquidity situation of individual banks and their financing channels. The Swiss National Bank is revising its programmes for the availability of liquidity in the event of a crisis and at the same time is planning to improve its ongoing oversight through extensive reporting. This should enable it to act quickly. Measures such as the single credit reporting or the instant payment programme, as already known in other financial centres, are intended to provide data in real time. The initiatives may bring stability, but they impose heavy burdens on the banks at an operational level. This is particularly felt by small institutions, where the administrative effort required for implementation is much greater in proportion to the transaction volume.

In addition to liquidity and financing issues, FINMA has now also addressed the topic of outsourcing in its Risk Monitor. Closely linked to this is the use of the cloud which was still viewed with suspicion a few years ago but is being used more widely today. The power of the factual has taken over. Efficiency of processes can only be achieved through concentration in centres of excellence, and this implicitly requires exchange of data across borders. Control of data flows by the outsourcing party, the data owner, is important in order to grant the necessary authorisations and access rights. This is not always easy to implement for subsidiaries of foreign banks.

In its Risk Monitor, FINMA also commented on the use of artificial intelligence (AI). Once again, it opts for a technology-neutral approach and imposes basic rules on the institutions: assignment of responsibility; reliability of applications; explainability of results; transparency about use; and equal treatment of clients. According to the latest statements, FINMA is not planning any specific regulation on the use of AI. However, as in other areas of technology application, it will certainly keep a close eye on market developments and monitor applications at the supervised institutions.

International

Our Association is pleased that the Federal Council has included the issue of cross-border provision of financial services in its mandate for negotiations with the EU. This was only possible after a tough struggle and thanks to the active support of the cantonal governments concerned. It now remains to be seen how the negotiating mandate will be implemented and how the EU will react to the institution-based approach. This provides for a framework to be defined at government level within which an individual institution can then apply for market access. It means that only those institutions that wish to take advantage of the associated opportunities will have to fulfil the regulatory requirements.

A financial services agreement with the United Kingdom has been signed under the name "Berne Agreement". By providing for mutual recognition of regulation, the two financial centres can be viewed and serviced as one. However, interested institutions must fulfil specific conditions that are currently being defined at country level. The governments of both countries are rightly proud of the agreement, which is one of the first international agreements to provide for mutual recognition of national regulation rather than defining new common regulation. The agreement is expected to become applicable from 2026.

Banks are increasingly coming to terms with the fact that sanctions are a new, additional topic for the compliance department. Conventional wisdom says that sanctions policy is the new economic policy. This may apply to

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individual countries or economic blocs. But how will neutral, independent countries be able to position themselves in this environment? What significance does this development have for an international financial centre like Switzerland? Can Switzerland maintain its neutrality? If so, how?

Combating Money Laundering

The fight against money laundering continues to play an important role in the compliance function at banks. The focus is broadening and now also includes the implementation of sanctions, whose non-compliance some already wish to equate to money laundering – to the surprise of others. Compliance with the internationally applicable regimes is complex and poses a variety of challenges for banks. The often vaguely worded requirements need to be translated into code that can be read by machines. Clear thresholds are required, as is international standardisation. A sanctions regime that raises questions of understanding and allows for differences between jurisdictions is a nightmare for any compliance department. For the subsidiary of an international bank, as the majority of AFBS members are, it is even more so, as it wants to implement clear, generally applicable requirements and under no circumstances expose itself to a situation of regulatory arbitrage.

The Association has commented on the revision of the Anti-Money Laundering Act and the introduction of a register of beneficial owners. The latter is an additional measure to create transparency. It is complex because it is necessary to clarify who is responsible for keeping the register up to date and correct and what role financial intermediaries play in filling it. It is unacceptable that they also have to fulfil control functions here and constantly compare data from their own files with those in the register. The Association does not understand why the obligation to comply with sanctions should be enshrined in this law, as it has already been clarified for all economic operators in the Code of Obligations. Following a controversial consultation process, the bill is now with the Federal Council, which has decided to fundamentally revise it.

The AFBS Get Together 2023 was dedicated to the introduction of a public-private partnership, promoted by the Money Laundering Reporting Office Switzerland (MROS). The initiative stems from a Financial Action Task Force (FATF) recommendation of a peer review that other international financial centres have already implemented. The foreign banks share experience from abroad contributing to success: simple processes for information sharing are needed to create added value; exchange of experience at a generic level is welcome; exchange of data needs to be made compatible with local regulation on protection of the private sphere and confidentiality; the evaluation must be made available to the participating banks and the financial centre in a suitable manner, without it being possible to draw conclusions about individual institutions. Our Association is participating in the work with one representative each from the corporate and private client business.

Digitalisation

The digitalisation topic is treated differently from institution to institution, even if the transition to the cloud has been accepted as a fact by most. Processes with customers have largely been clarified. The EU and Switzerland have recognised their legal frameworks as equivalent in terms of data protection, which allows the exchange of data and simplifies processes. The same recognition between the USA and Switzerland is still pending but would be a welcome step simplifying the close relations between the two jurisdictions also at intra-group level.

The foreign banks are following with great interest the efforts of the Swiss financial centre towards digitalisation of securities trading and currencies. The outstanding technological infrastructure set up by SIX Group and the technology-neutral regulation are helping small FinTechs to flourish. The participation of the Swiss National Bank

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in the international pilot projects for the digitalisation of currencies, securities and related transactions provides valuable insight and clarification. The path to the introduction of digital, programmable currencies is well under way, even if the end goal has not yet been defined.

The Financial Services Cyber Security Centre (FS CSC) has now found its final home at the Federal Department of Defence, Civil Protection and Sport. It has not lost its close connection to associations and the financial industry, quite the opposite. In the reporting year, comprehensive exercises were carried out for the first time and behaviour in the event of an emergency was tested. The processes for communicating information are being further improved. Foreign banks and the Association are involved in the initiative and contribute to deepening experience and knowledge transfer through their international network.

Financial Centre Infrastructure

SIX Group is making progress with internationalisation on the one hand and digitalisation on the other. The banks are also challenged by digitalisation, as certain processes oblige all institutions to adjust. In the reporting year, the Association took an interest in the introduction of the Instant Payment Standards and endeavoured to understand what adjustments are necessary at the level of the individual banks. It has become clear that implementation penetrates deep into banking processes and that outsourcing is hardly possible. The banks are also required to communicate with the infrastructure provider SIX, which will replace Finance IPNet with the Swiss Secure Finance Network for data exchange in September 2024. This is based on the internet-based SCION standard, which was developed at ETH Zurich. The encryption technology works on the existing internet infrastructure and enables point-to-point networking instead of the previous hub-and-spoke system. This means that in the future banks will also be able to exchange data directly between themselves using this highly secure standard.

In order to strengthen stability, the Swiss National Bank is working on various projects that will enable it to be aware of the situation on the capital and financial markets without delay. This includes instant payment, but also the introduction of individual credit reports and emergency liquidity assistance. Both the new payment standards and the new reporting obligations pose considerable challenges for banks, as they must be implemented "instant", i.e. immediately. This requires adjustments to the internal systems, which the foreign banks often have to prepare in consultation with the parent company. It is therefore important that the affected institutions are informed in detail and with sufficient advance notice and, if possible, are also involved in the preparation and implementation phases.

With the UBS-CS transaction, an important player in the Swiss market has disappeared – not only as a provider of services for private and institutional banking clients, but also as part of the financial centre infrastructure. The numerous small banks in Switzerland that relied on Credit Suisse as their correspondent bank will have to find a new partner as UBS will not take over the entire business simply for reasons of risk diversification. Who remains? – The foreign banks are networked, but institutions with a small transaction volume are putting in a lot of effort for little return. It is important that such infrastructure services continue to be available, otherwise Switzerland will lose its connection to the global financial markets.

Green Financial Services

The topic of ESG remains high on the agenda. The Association continued its series of presentations and this year once again invited numerous experts from Switzerland and abroad to present specific aspects and discuss them with members. An important moment in this series was the presentation of the Swiss Climate Scores by the

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speaker from the State Secretariat for International Financial Matters (SIF).

The Association took part in the consultation on the draft FINMA Circular on nature-related financial risks. It gathered opinions from its members and exchanged views with the umbrella organisation and other related associations. The opinion was unanimous: the draft goes too far and introduces obligations that are internationally unique and operationally difficult or impossible to implement. It makes no sense to impose such far-reaching but difficult-to-implement obligations. It is better to define less far-reaching but genuinely realisable requirements.

The Association is closely following developments in the fight against greenwashing. After the Federal Council had long been content with self-regulation of the financial sector, it suddenly announced its own regulatory initiatives, among others against greenwashing, around a year ago. This has necessitated intensive dialogue between the umbrella organisation and SIF. This dialogue will continue. The aim is to reach an agreement and adapt the self-regulation in such a way that it meets the expectations of the Federal Council. This promotes transparency and continuity of the existing regulation.

Self-regulation remains firmly anchored in the Swiss financial centre. The foreign banks welcome this approach, even if it repeatedly presents them with considerable challenges. Self-regulation has the upside of pragmatism, as it can take account of the specific requirements of the business process and can be adapted quickly. It has the downside of "Swiss specificity", which is not recognised in an international context because it is unknown. As a result, international institutions in Switzerland often have to fulfil several regulations. At the same time, products and services created according to Swiss standards can only be recognised abroad with difficulty, if at all, because the equivalence of regulation is lacking. Sooner or later, the financial centre will probably not be able to avoid asking itself about the future of self-regulation.

Ongoing Business

In addition to the major issues that have affected the entire financial centre and challenged all participants, the Association is also working with its members on numerous other issues which are no less important but probably less in the public spotlight. These include financial planning and liquidity management at an institution level, which are presenting banks with new challenges now that interest rates are positive again. The topic was taken up in a newly created AFBS Group and explored in greater depth at events. This also includes the forthcoming implementation of the Basel III standards, where AFBS, together with the Swiss Bankers' Association, is pressing the Federal Council to align the deadlines with those of the major international financial centres. In the reporting year, AFBS Groups met to discuss implementation of the FINMA Circular on Operational Risks. Focus was on internal procedures, processes for identifying critical data and functions, as well as the exchange of information and experience reports from other Swiss banks. The introduction of the OECD minimum tax was less high on the list of priorities, as the project is mostly coordinated by the parent company and only minor, mostly individual, adjustments are required in Switzerland. The regulation of work from home continues to raise questions even if demand decreases. The treatment in a cross-border context should be clarified. This is easier in tax law than in social security law or supervisory law. A small but active group of foreign banks is looking into the introduction of open banking; the banks bring experience from their respective parent companies abroad and respond to a need of their customers. The introduction of the digitalisation of the mortgage business with SIX Terravis is progressing and the pilot project with the notary offices in Geneva is helping to simplify processes.

Association Activities and Personnel

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At the Board's decision, the 51st General Assembly of the Association was held in a virtual format. Attendance was once again higher than in previous years and the format gave room for a summer event with a large number of participants and a debate on a current topic. This year's AFBS Get Together focussed on the Public Private Partnership (PPP) for combating money laundering which is being set up by MROS. Panellists from Switzerland and abroad shared their experiences and exchanged ideas. The audience spontaneously made use of the opportunity to contribute, and a lively discussion ensued.

The format of member information has now established itself: video conferencing is ideal for lectures and presentations, as the informal exchange is minimal, and the dissemination of information is simple. For roundtables with an exchange of ideas, on the other hand, only the on-site event with physical participation can provide the appropriate framework. The Association also organised around 80 events this year.

The Association's Board has expanded the format of the C-Meeting, meetings in a small group of C-level managers. In the reporting year, such meetings were held with the French ambassador, with SIX Group, with experts on ESG topics, and on the subject of Government Affairs in the EU. These formats are valuable because, in addition to providing information, they also help members of the Association to network with each other and with the Board. In addition, experts from the member banks meet in AFBS Groups on the topics of commodity trade finance, corporate banking, ESG, finance and liquidity management, human resources, legal & compliance, and tax.

In September 2023, the Board focused its meeting on the topic of public affairs. It received representatives from the Swiss Bankers' Association and Economiesuisse, as well as Councillor of States Ruedi Noser. He was interested in how the Association could contribute to the political discourse. Networking via umbrella organisations is important, and direct contact is also appreciated, said the Councillor of States, who emphasised the important role of foreign banks for the Swiss economy.

The annual meeting with the State Secretariat for International Financial Matters (SIF) took place on the same day. The latter is well aware that the consequences of the UBS-CS transaction also affect the foreign banks. In the future, they will play an even more important role in the global financial transactions of Swiss international companies. Their role as a correspondent bank and as a counterparty in the diversification of custody business is also expected to grow. There is now only one global Swiss bank, and its core business is asset management. SIF and AFBS agree that the positioning of the Swiss financial centre must be strengthened; good framework conditions and a strong supervisory authority are important for the attractiveness of the location.

The UBS-CS transaction was also at the centre of attention in the meeting with FINMA in October 2023. FINMA considers diversity in the financial centre still to be guaranteed and wants to maintain the principle of proportionality. However, regulation is necessary, particularly with regards to liquidity, accountability, and the supervisor's scope for action. FINMA is not planning any regulation in the area of artificial intelligence but has adopted principles according to which it intends to act. With regards to the implementation of sanctions, FINMA has identified differences between banks, the Board of Directors must be involved, and the defined risk policy must be applied appropriately.

A meeting was held with the State Secretariat for Economic Affairs SECO in November 2023. Implementing the sanctions against Russia was a major challenge, not least because of their complexity. Expectations towards Switzerland are high in the talks on financing the reconstruction of Ukraine. SECO is involved in procedures for the restitution of assets and in setting up the register of beneficial owners in accordance with the FATF

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recommendation. SECO coordinates the Federal Council's economic missions and is an important partner for AFBS also for that reason.

In addition to the Board, ten other foreign banks took part in the meeting with SIX Group in March 2024. The discussions focused on the necessary connection of the Swiss stock exchange to the EU and other markets – also in order to achieve economies of scale through larger volumes and to stabilise technology investments. SIX Digital Exchange is a global leader as the only fully integrated trading platform for digital assets. The Stock Exchange Connect with the Shanghai Stock Exchange is also a unique project that offers companies access to both capital markets and promotes internationalisation.

In March, the Association met with the Zurich cantonal government. Economic Affairs Director Carmen Walker-Späh and Finance Director Ernst Stocker received the delegation for a valuable exchange, during which they emphasised their support for the banking centre and foreign banks. They had coordinated their action with the cantons of Geneva, Ticino and Basel so as the Federal Council would include market access and the institution-specific approach in its negotiating mandate with the EU. The Government of the Canton of Zurich is interested in continuing the dialogue with the foreign banks and offers a sympathetic ear.

The annual meeting with the Governing Board of the Swiss National Bank took place in April 2024. The UBS-CS transaction remained on the agenda. The AFBS delegation confirmed that the foreign banks are also reliable partners for Swiss companies and support them in financing matters. The SNB participation in the Bank for International Settlements' projects on the digitalisation of cross-border transactions also provides valuable insights for national monetary policy. AFBS welcomes the openness of Swiss institutions in these areas.

The 51st Annual General Assembly elected Gabriel Castello, HSBC Private Bank (Suisse) SA, and Laurent Gagnebin, Rothschild & Co Bank AG, as new members of the Board. It renewed the mandates of Mauro De Stefani, Treasurer, Banca Popolare di Sondrio (Suisse) SA, and Daniel Belfer, Bank J. Safra Sarasin SA. Since then, the Board has taken note of the resignation of Anne Marion-Bouchacourt, Société Générale, with effect per 31 December 2023. It further nominated Gabriel Castello and Enna Pariset, BNP Paribas (Suisse) SA, to the Vice-Chairmanship and thus the Board of Directors of the Swiss Bankers' Association. It further co-opted Loïc Voide, Deutsche Bank (Suisse) SA, as new Member to be proposed for election by the 52nd Ordinary General Assembly.

Laurent Gagnebin, Rothschild & Co Bank AG, represents the Association on the SBA Private Banking Expert Commission and on the FINMA Panel on the same topic. Anke Bridge Haux, LGT Bank (Switzerland) Ltd, succeeded André Lagger as the Association's representative to the Expert Commission on Digitalisation. Elvira Knecht, LGT Bank (Switzerland) Ltd, took over from Gottlieb Prack the representation in the Board of Employer Banks. Daniel Wild, Bank J. Safra Sarasin SA, succeeded Sabrina-Yanna Zeyher on the SBA Sustainable Finance Expert Commission and Giovanni Leonardo, Schroder & Co Bank Ltd, sits on the newly established FINMA Panel ESG. Thomas Conel, BNP Paribas (Suisse) SA, is a new representative on the Swiss Finance Institute Sounding Board. Isabelle Monestes, HSBC Private Bank (Suisse) SA, and Camillo Zbinden, Société Générale, are represented on the MROS working group on the development of public-private partnerships.

A current list of AFBS mandates and representations can be found atwww.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 our 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.

Zurich, May 2024

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