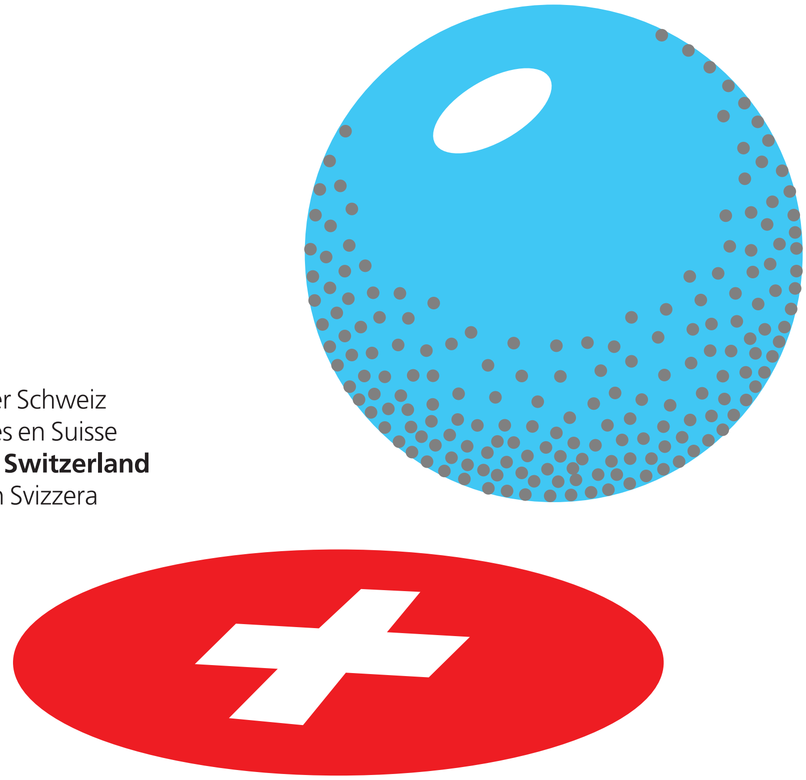
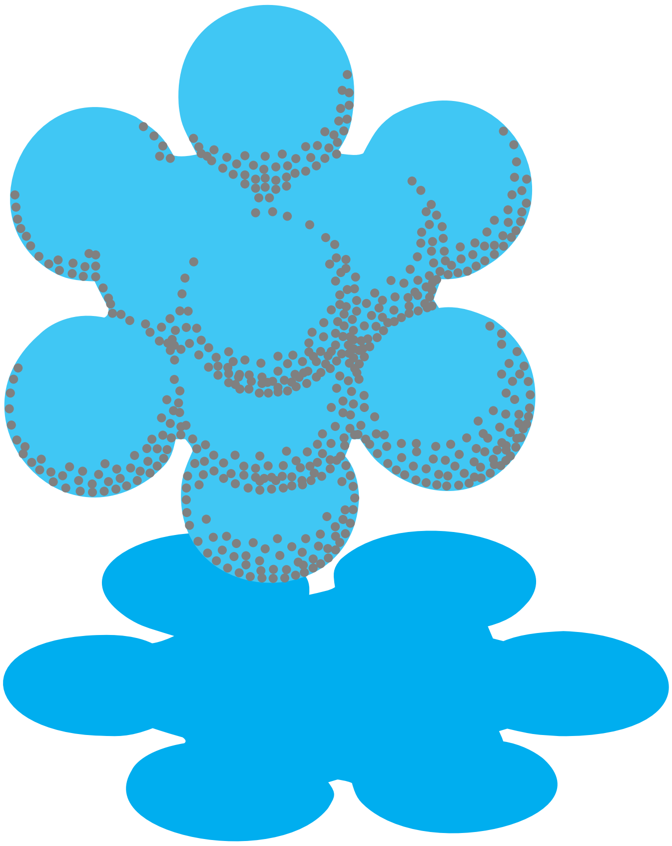
2000/2001



Verband der Auslandsbanken in der Schweiz
Association des Banques Étrangères en Suisse
Association of Foreign Banks in Switzerland
Associazione delle Banche Estere in Svizzera



Dr. Alfredo Gysi
Chief Executive Officer, BSI Ltd., Lugano
Chairman

René G. Keller
Senior Adviser, Lloyds TSB Bank plc, Geneva
Vice-Chairman

Hugh N. Matthews
Chief Executive Officer, Coutts Bank (Switzerland) Ltd., Zurich
Vice-Chairman
(till 15 September 2000)

Reto A. Cavelti
Managing Director and Senior Executive Officer for Switzerland,
Schroder Salomon Smith Barney, and
Chief Representative, The Nikko Securities Co., Ltd., Zurich
Vice-Chairman

Paul Maibach
General Manager, Bank CIAL (Switzerland), Basle
Treasurer

Rainer Erdmann
Executive Vice President, LB(Swiss) Private Bank Ltd., Zurich

Peter Faes
Executive Vice-President and Member
of the Executive Committee,
Dresdner Bank (Switzerland) Ltd., Zurich
(till 31 March 2001)

Joseph Assaraf
General Manager and Executive Committee Chairman,
Discount Bank and Trust Company, Geneva

Claude-Alain Burnand
Secretary General, BNP Paribas (Suisse) SA, Geneva

Louk de Wilde
General Manager, Banque MeesPierson Gonet SA, Geneva

Eduardo Leemann
Chief Executive Officer, AIG Private Bank AG, Zurich

Brunello Perucchi
Chief Executive Officer, Banca Popolare di Sondrio (Suisse) SA,
Lugano

Auditors

Matthias Deplazes
Senior Vice President and Member
of the Management Committee,
Finter Bank Zürich, Zurich

Heinrich Speich
Chief Executive Officer and Chairman of the Board
of Management, Bank von Ernst & Cie AG, Zurich

Henry Fauche
Senior Vice President, Bank CIAL (Switzerland), Geneva

Secretariat

Max C. Schäfer
General Secretary
(† 10 January 2001)

Dr. Martin Maurer
General Secretary
(since 1 April 2001)

To cope with its steadily increasing workload the Association has been fortunate to be able to rely on the active efforts of numerous representatives of its members.

The Association of Foreign Banks in Switzerland was founded on 5 July 1972. The objectives are to protect and to promote the common interests of its members. The protection of individual interests, however, remains a matter for each member.

The following institutions can be members of the Association:
foreign-controlled banks organized under Swiss law,
foreign banks with Swiss branches,
foreign-controlled finance companies,
representative offices of foreign banks.

A major prerequisite for the admission of banks and finance companies to the Association is membership of the Swiss Bankers' Association.

The Association counts among its members (1 May 2001):

102 foreign-controlled banks organized under Swiss law,
10 foreign banks with Swiss branches,
6 foreign-controlled finance companies,
3 representative offices of foreign banks.

One topic has been predominant in last year's discussion of our Association: the European Union's (EU) project to implement an exchange of information among the member states in order to improve the taxation of their citizens' interest earnings. To prevent the evasion of the legislation, the EU plans to negotiate the introduction of equivalent measures with other important financial centres not subject to its jurisdiction. Switzerland, partner in the coming negotiations, rejects the proposed exchange of information while declaring itself prepared to adopt a cooperative attitude towards the EU's concern. Both the Swiss Government and the Financial Sector have suggested to discuss a paying agent tax scheme as an alternative measure. The implementation of such a system would be conditional to the participation of other important non-EU financial centres. The Swiss Bankers' Association has constituted the Committee "International Financial Centre Switzerland", in which our Association is represented together with the big banks and other banking associations. This committee has been mandated to develop strategies and promote propositions to strengthen the Swiss financial centre.

The new Money Laundering Act and the "Wolfsberg Anti Money Laundering Principles", published within short intervals, constitute two important elements for the banks in Switzerland. Compared to respective regulatory schemes in other countries the Money Laundering Act has a better and stronger grip on the problem as it does not restrict its ruling to the financial sector but includes other activities vulnerable to attempts to launder money, as well. The "Wolfsberg Anti Money Laundering Principles" were adopted in October 2000 by eleven internationally active banks, among them head offices of several member banks of our Association. The principles contribute to the debate on efficiency and effectiveness of the worldwide combat of money laundering.

The Board took notice of the report on financial market regulation and supervision published in October 2000 by the expert committee headed by Professor Jean-Baptiste Zufferey. It welcomes the points raised in the report on principles, but emphasizes the need to put them in concrete terms step by step and to closely evaluate the implementation of the individual steps. The Board also took notice of the Basel Committee on Banking Supervision's revision of the Capital Accord from 1988, including a new proposal on capital adequacy for credit risks and introducing capital adequacy for operational risks. The proposed measures were debated by several committees of our Association who supports the revision of the existing accord but expresses reserves on different issues, particularly on the inclusion of operational risks into the capital adequacy ruling.

Relations with the EU and the OECD

In June 2000 the EU Council decided to adopt a system of exchange of information to ensure comprehensive taxation of interest earnings. To prevent the evasion of its system, it also decided to seek an agreement with the United States, Switzerland, Liechtenstein, Monaco, Andorra and San Marino on the implementation of equivalent measures in these countries. The EU member states committed themselves to ensure full implementation of the adopted measures in their dependent and affiliate territories. The EU Council will decide by 31 December 2002 at the latest on the definitive adoption of the respective Directives. Member countries which at present apply a withholding tax will benefit from a seven years transition period to introduce a system of exchange of information. During this period an adequate part of the taxes levied will be transferred to the tax payer's state of residence.

The Swiss Federal Council takes the view that Switzerland has no interest in taking advantage of the EU norms on taxation of interest earnings. However, Switzerland will oppose the exchange of information as a means to find a mutual agreement. It favours and will promote the introduction of a paying agent tax as an alternative way to broker a compromise with the EU.

The exchange of information also attracted the interest of other international organizations. The Basel Committee on Banking Supervision raised the issue of an exchange of banks' client data among supervisory authorities in the context of "know-your-customer" principles. The Board voiced its concern towards too large an interpretation of the supervisory authorities' mandate in cross-border cooperation. The OECD on its side published a report on "Improving access to banking information for tax purposes" which suggests to reinforce cooperation among tax authorities.

American withholding tax

While the negotiations with the EU on taxation of interest earnings have just begun, the ones with the United States on the "Qualified Intermediary Agreement" (QIA) are terminated. The agreement has come into effect on 1 January 2001. It ensures a comprehensive taxation of investments in US securities. Under the QIA, only banks having been attributed the Qualified Intermediary status by the Internal Revenue Service (IRS) are entitled to forward tax reductions to their clients without revealing the latters' identity. For this purpose the banks have to identify their clients as US persons or non-US persons. Persons taxable in the USA, so called US persons, who hold US securities, are obliged to reveal their identity to the IRS. Otherwise, the returns and sales proceedings of their assets will be subject to the 31% backup withholding tax.

The implementation of the agreement has raised many new questions which are still pending. Answers are needed particularly with respect to the treatment of foundations and partnerships (under which private firms and general partnerships according to Swiss law are to be subsumed), the auditing procedures (cooperation between internal and external auditors, treatment of internationally active groups), the definition of tasks and competencies of auditors or the applicability of Double Taxation Treaties.

Money laundering and due diligence

1 April 2000 was the deadline for financial intermediaries to implement the measures necessary to comply with due diligence and prevention of money laundering according to the Money Laundering Act entered into force on 1 April 1998. Besides banks, insurance companies, investment funds and traders, any person who commercially executes financial transactions for third parties is directly concerned. The Act deals with money laundering on two levels: customer identification and supervision of current transactions.

The "Wolfsberg Anti Money Laundering Principles" complement the laws and rules on money laundering. The principles deal with account opening, current transactions, internal structures of the banks, training of employees and reporting and especially refer to private banking. The signatory banks aim at preventing their worldwide activities to be abused for criminal purposes.

Tax questions

The Swiss Federal Council presented a tax package in March 2000 which also contained a project to revise the Federal Stamp Duty Law. The project does not foresee to abolish the duty altogether but introduces an equal standing for foreign and Swiss investors. The Swiss Parliament has decided to exclude from the duty investment funds and foreign institutional investors (institutions of social and professional provision and life insurances, central banks and governments). It did, however, not completely follow the Swiss Federal Council and maintained the duty for Swiss pension funds and occupational benefit plans.

Negotiations with the EU are to be taken up in the realm of customs fraud. The volume of the customs fraud, often committed under cover of TIR documents, has been steadily increasing. This issue will very probably be a prominent point on the agenda of the coming bilateral negotiations. Our Association defends the point that it should be treated the soonest possible, but independently of other matters.

Foreign Funds Association Switzerland

On the occasion of the 2nd Ordinary General Assembly of the Foreign Funds Association Switzerland (FFAS) Dr. Matthäus den Otter, Deputy Head of Section, Federal Banking Commission, addressed those present on "Regulation and Self-regulation of the Swiss Funds Market". He referred to the "Code of Conduct for the Swiss Funds Industry" and underlined its contribution to the maintenance of the high quality of the Swiss funds industry. He is convinced of the Code of Conduct's contribution to reinforce the confidence of the investors.

Events

The 28th Ordinary General Assembly of our Association took place at the Hotel Bellevue Palace, Berne, on 9 June 2001. Secretary of State, David Syz, addressed numerous guests and delegates on "Ordnungspolitik – Balsam oder bittere Pille?". The head of the State Secretariat for Economic Affairs "seco" gave a brief presentation on the recent reforms in Switzerland.

He analysed the relation between a self-regulating market and political intervention and pledged for the applicability of market principles to the core activities of the public sector.

The reception, which traditionally takes place on the eve of the Bankers' Day, was held on 31 August 2000 in St. Gall. The cocktails were offered by Coutts Bank (Switzerland) Ltd., Zurich.

The Association held an information meeting in Zurich on the Qualified Intermediary in November 2000. The presentation on the agreement, which entered into force on 1 January 2001, was given by Mr. Alfred Preisig, Tax Partner with Ernst & Young AG, and attracted numerous participants.

On the occasion of the Winter Assembly, which took place on 9 February 2001, Mrs Antoinette Hunziker-Ebneter, Head of SWX Group and CEO of virt-x, addressed those present on the situation of European stock exchanges. She outlined the experiences made in the process leading towards the foundation of virt-x and expressed her view of the ongoing concentration process. According to her, consequences thereof are to be found in lower transaction costs and more direct access to the trading platforms.

General Secretary Max C. Schäfer deceased

The year has been clouded by the decease of Mr. Max C. Schäfer, the Association's General Secretary. He passed away unexpectedly on 10 January 2001.

Max C. Schäfer, who graduated at the law school of the University of Berne in 1975, left the former UBS in 1993 to join the Association of Foreign Banks in Switzerland. He was elected General Secretary on 1 October 1994 and later on also took over the post of General Secretary of the Foreign Funds Association whose foundation he actively promoted.

Max C. Schäfer pursued his functions with strong commitment. Due to his knowledge and his diplomatic skills he was able to represent the interests of the foreign banks in Switzerland competently. His broad knowledge and his kind spirit made him a highly esteemed delegate in the numerous committees in which he represented our association. We have lost a highly valued colleague as well as a sincere and multi-farious personality whom we will keep in fond memory.

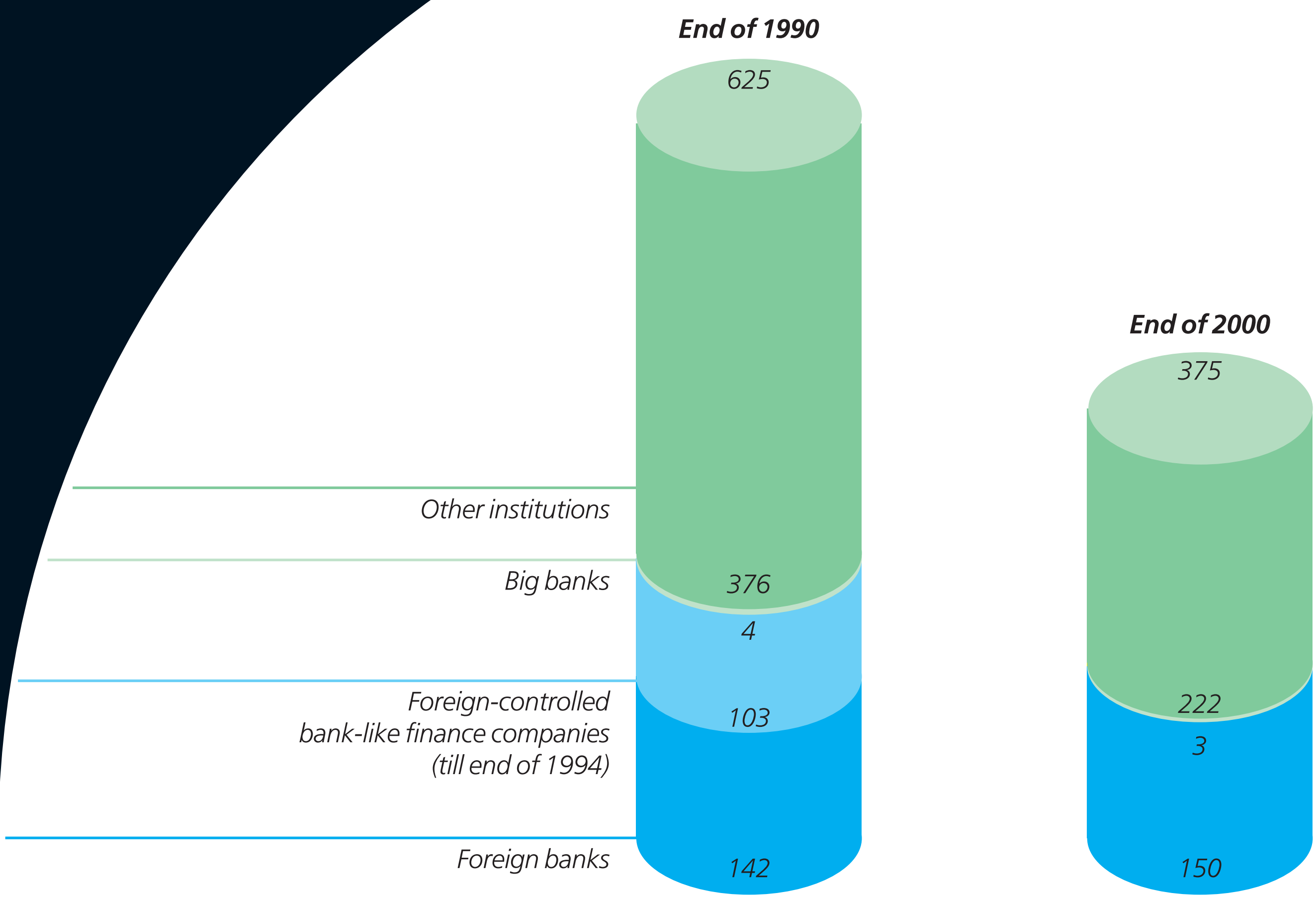
Personal matters

During the year under review Messrs. Hugh N. Matthews and Peter Faes left the Board. We express our gratitude for their valuable and competent contributions to the Association's work.

Dr. Martin Maurer assumed his function as Secretary General on 1 April 2001, succeeding Mr. Max C. Schäfer.

We would like to thank all public and administrative bodies, associated organizations and, above all, the member institutions for their continuing trust and support. We also thank all delegates of our member banks in committees and commissions of our Association, the Swiss Bankers' Association and other bodies for their efforts. They make an invaluable contribution to the shaping of the Swiss Financial Centre.

Number of institutions



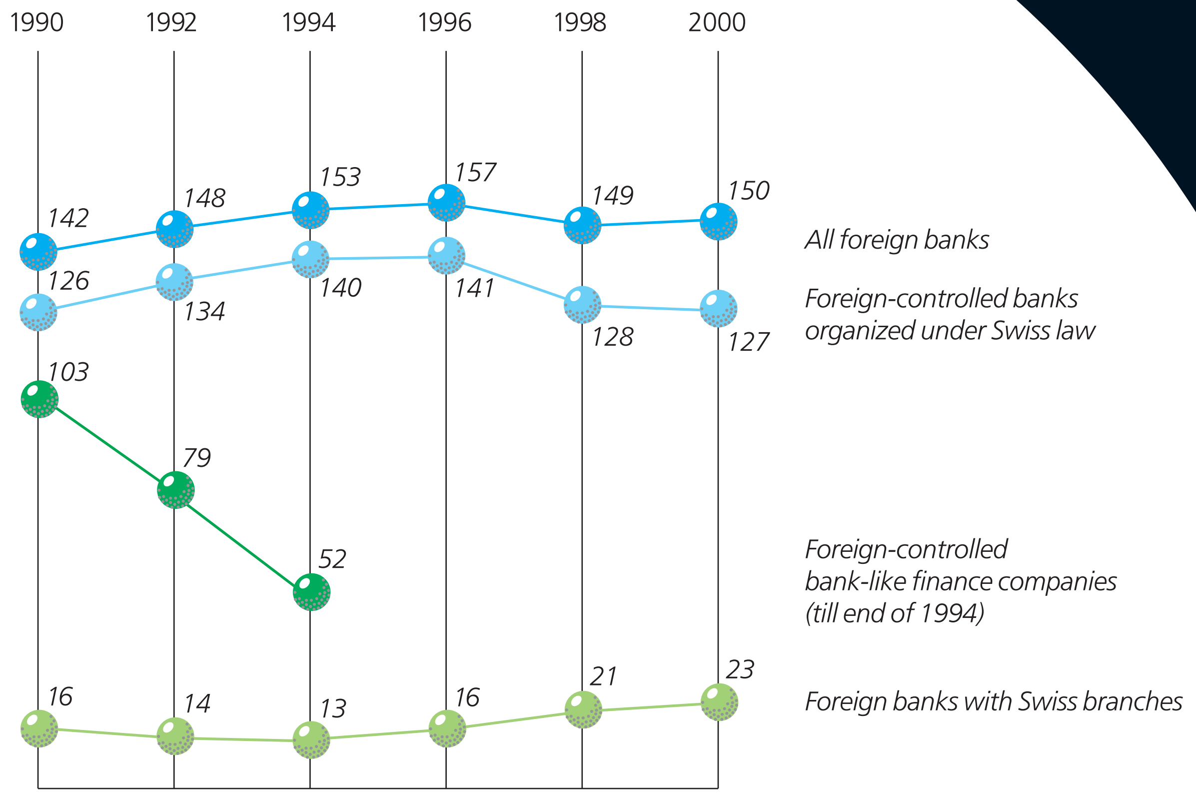
The number of banks in Switzerland at the end of 2000 comprised 375 (end of 1990: 625).

Of the 375 institutions registered, 150 (end of 1990: 142) were foreign banks of which 127 (126) foreign-controlled (stock companies organized under Swiss law) and 23 (16) banks domiciled abroad with branch offices in Switzerland.

60 banks have permanent representative offices in Switzerland. Their activities are limited to representation and goodwill functions.

Sources:
Annual report for 2000 of the Federal Banking Commission;
estimates based on the quarterly bulletin of the Swiss National Bank

Number of foreign institutions 1990 – 2000 (end of December)



The number of foreign banks in Switzerland amounted to 150 at the end of 2000, an increase of 6 institutions compared with the previous year. During the year under review the number of the branches of foreign banks raised by 2 and the one of the foreign-controlled banks by 4 units.

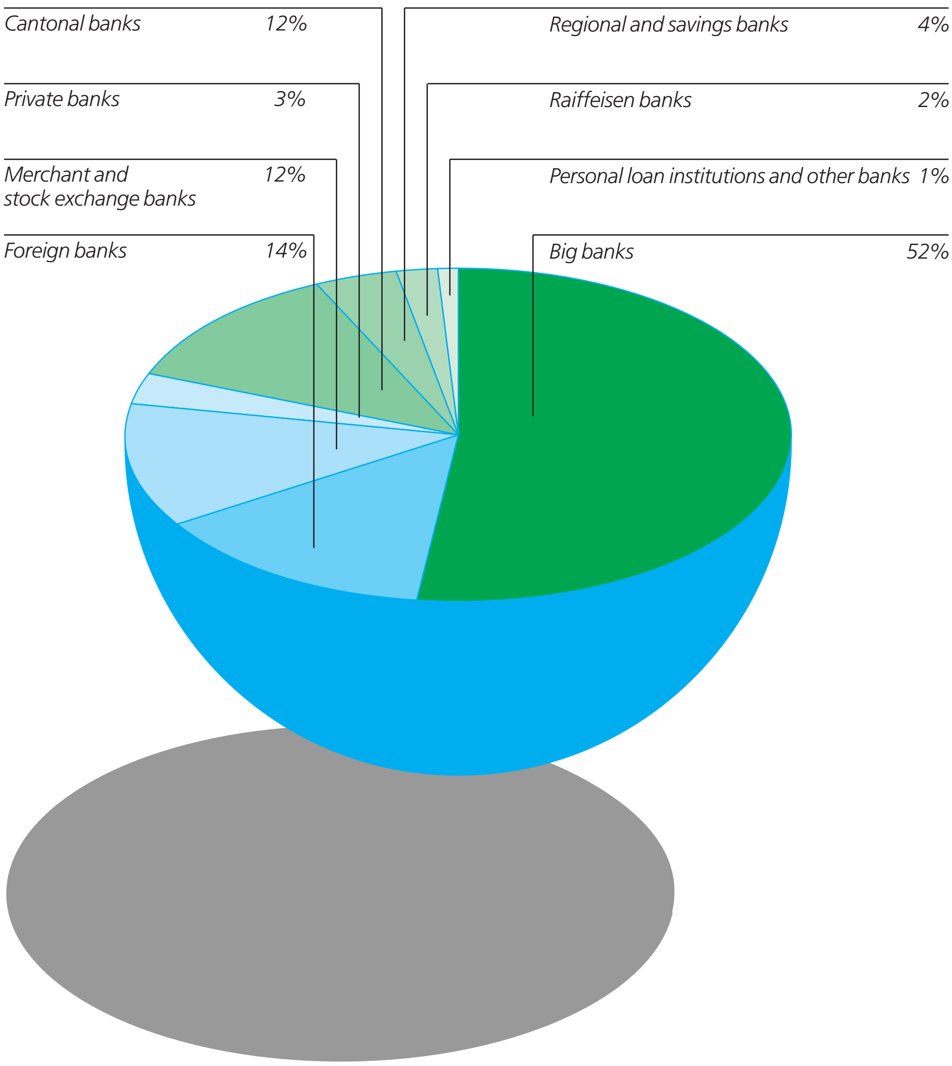
Share of total assets (end of 2000)

The total assets of the Swiss banking system amounted to Sfr. 2123 billion at the end of 2000. Compared to the previous year, total assets diminished by 5.4% or about Sfr. 121 billion. The share of the foreign banks in balance sheet totals of the Swiss banking system increased by one percentage point during 2000 to 8.4%.

The off-balance-sheet fiduciary deposits have increased by 11% in 2000. The share of the foreign institutions in this business is slightly over 50%.

Average gross profits 1995 – 1999

Yearly average, total of all banking groups Sfr. 21.1 billion

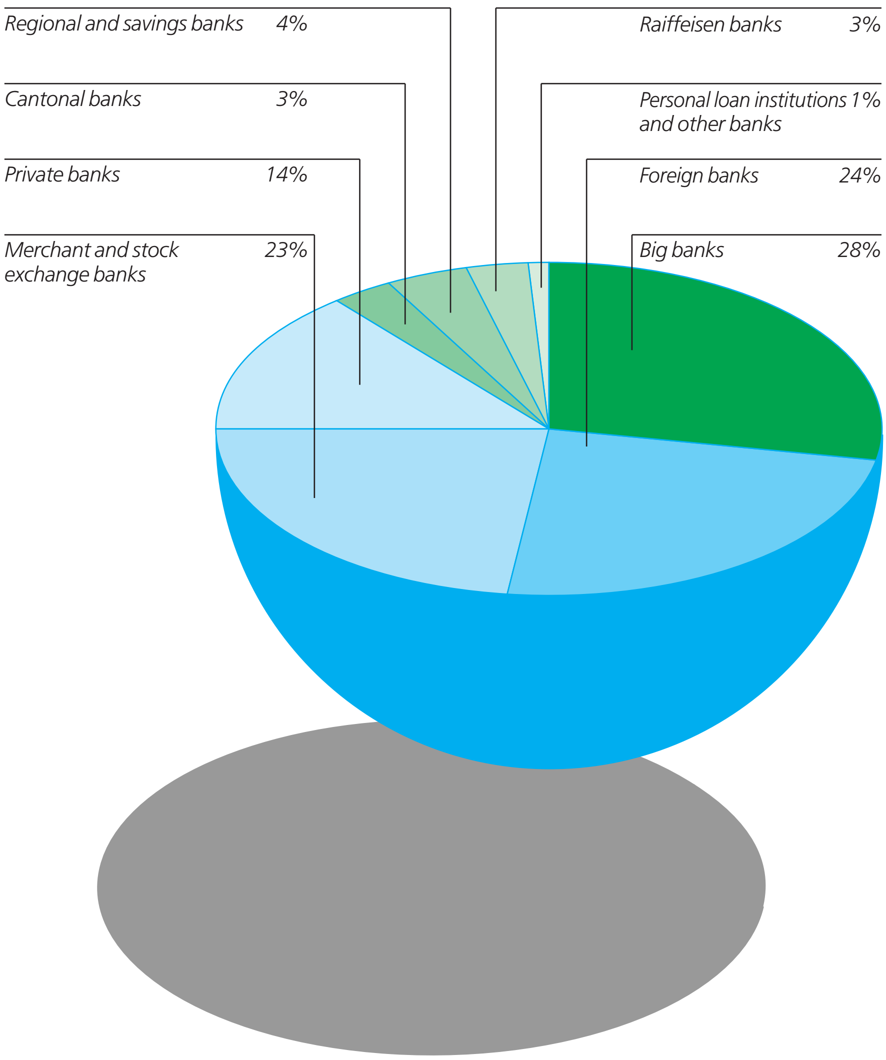


The significance of foreign banks, mainly involved in asset management business, is shown much more clearly by their share in total average gross income than by their share in the balance sheet total of all institutions.

Among banking groups as a whole, the foreign banks came second over the period 1995 to 1999. Their average gross income totalled Sfr. 2.8 billion, or 14% of all institutions.

Source:
Swiss National Bank publication 1999 "Banking Institutions in Switzerland"

Average taxes 1995–1999
Yearly average, total of all banking groups Sfr. 1.76 billion

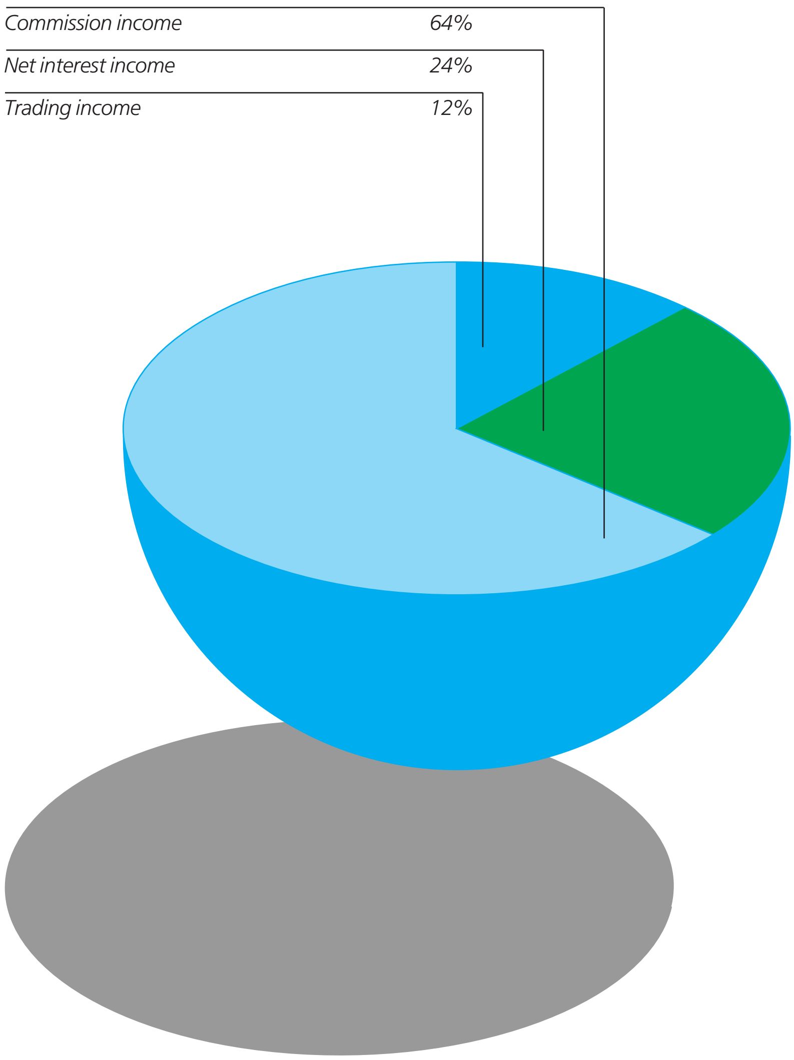


The importance of the foreign banks for the Swiss economy is shown even more clearly by their share in the average tax yield of all institutions over the period 1995 to 1999. With a contribution of Sfr. 415 million on average, corresponding to a share of 24%, they rank second behind the big banks with 28%.

The foreign banks contribute, together with the merchant and stock exchange banks and the private banks, 61% to tax income. This clearly reflects the high quality of asset management business in Switzerland and its important contribution to the national prosperity as a whole.

Source:
Swiss National Bank publication 1999 "Banking Institutions in Switzerland"

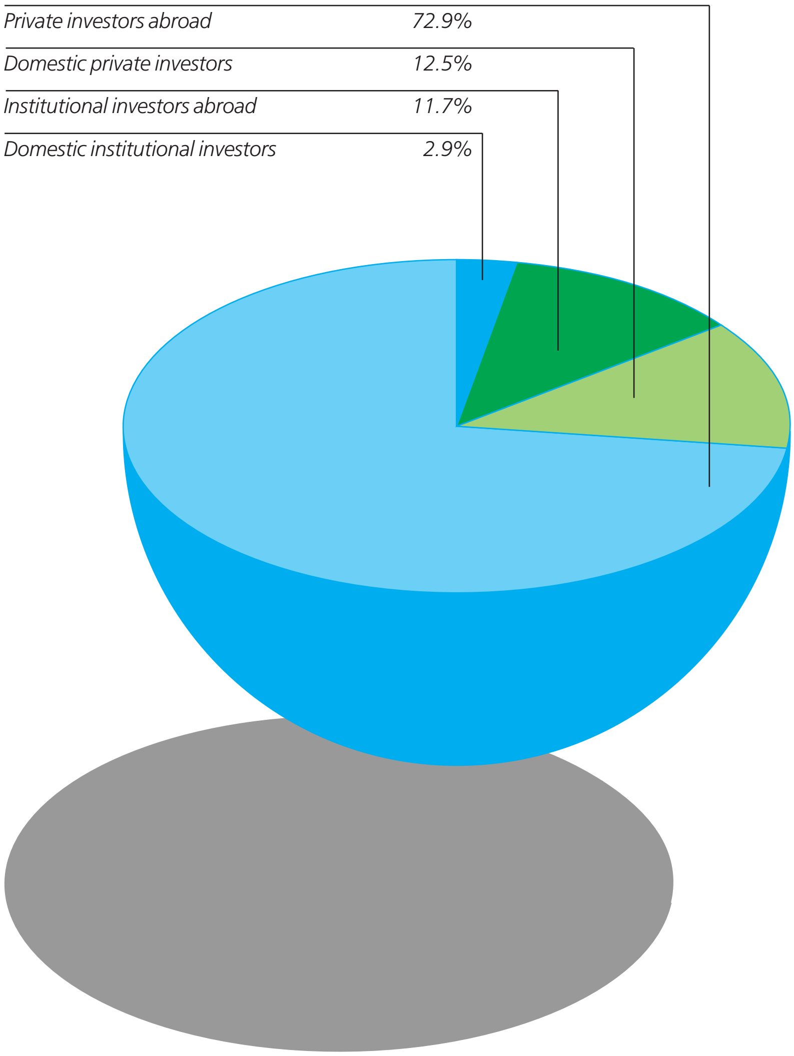
Income statement by categories of income (end of 2000)



The breakdown of the income statement into different categories of income illustrates the extreme significance of asset management for the foreign banks in Switzerland. The high percentage of commission income 64%, together with the trading income share of 12%, amounts to a total of 76% for these two income classes.

Net interest income came to slightly over 24% and is derived almost solely from asset-management-driven transactions.

Asset Management Business

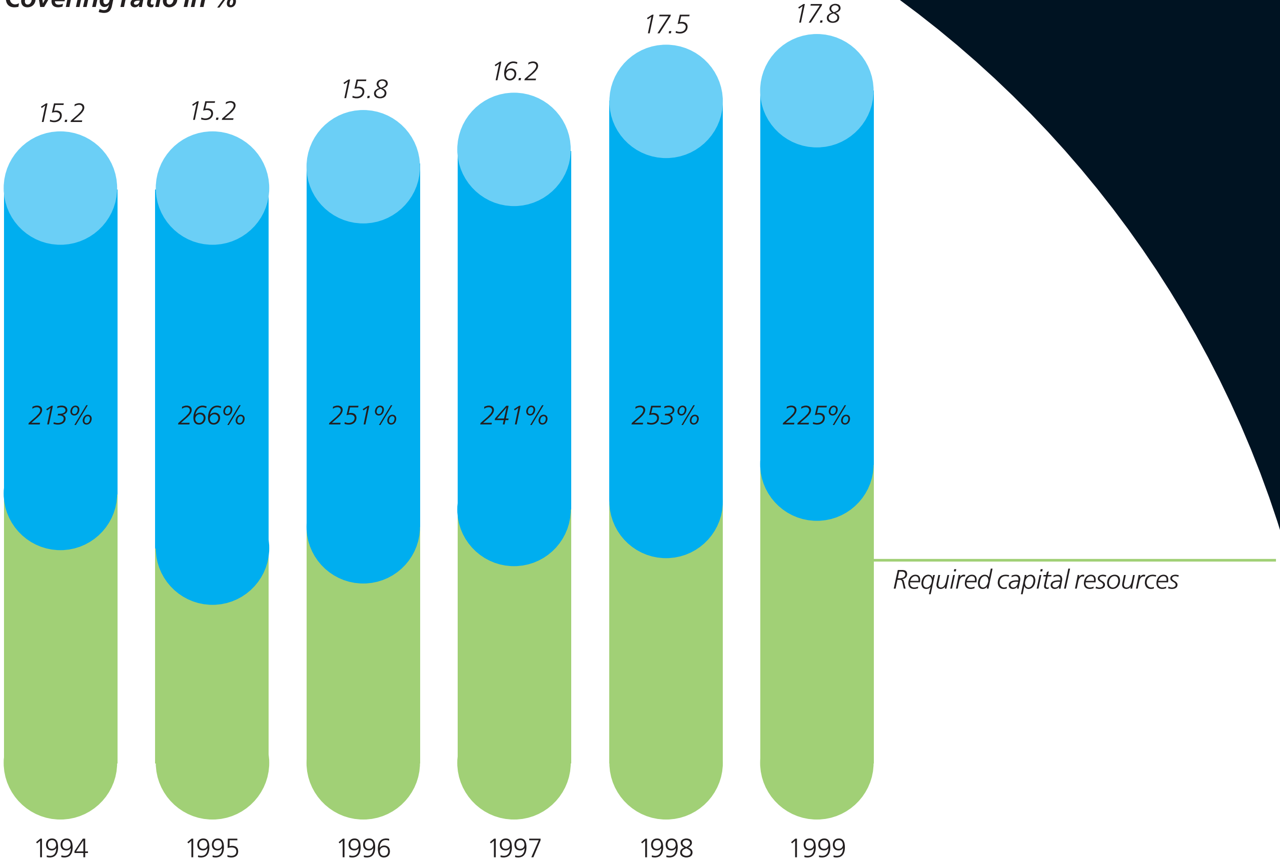


Total asset management business by foreign banks in Switzerland is estimated at Sfr. 400 billion for 1994. According to a survey, more than 85% of this business is on behalf of private investors, 85% of whom are domiciled abroad and 15% in Switzerland.

Only 15% of customer volume comprises institutional investors, most of whom (80%) are again domiciled abroad.

These figures emphasize the important role played by the foreign banks in Switzerland and reflect their significant share in cross-border private customer business worldwide.

Capital resources in billion Swiss francs / Covering ratio in %

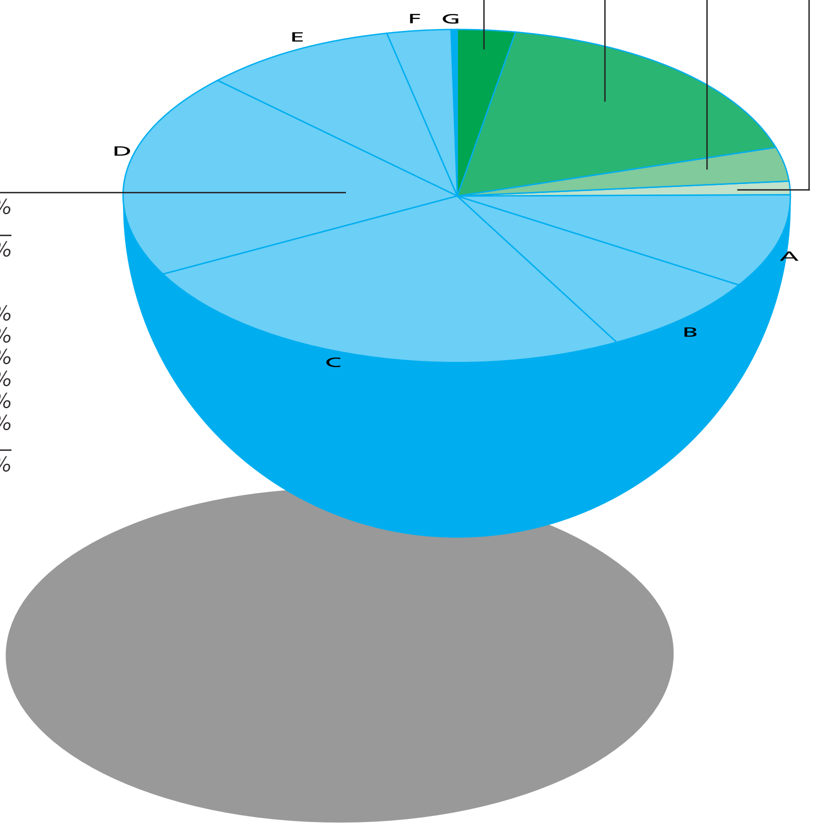


Total capital resources have risen by Sfr. 0.3 billion to a total of Sfr. 17.8 billion during the year under review. Following the introduction of new capital resources regulations per 31 December 1995 and the associated risk-weighted calculation methods, the ratio of actual capital coverage to legally required resources has changed considerably. Since the end of 1995 to 1999, results are therefore hardly comparable with those of the previous year.

The ratio of actual capital coverage to legally required resources diminished in 1999 to 225% (1998: 253%) as against 143% for the Swiss banks in general. This clearly shows that the foreign banks retain the healthy and secure state of their balance structures which is so important for their core business of asset management.

Number and shares of total assets of foreign banks by region and country (end of 2000)

Japan	*5 banks*	*1.3%*
Middle East and Indian subcontinent	*8 banks*	*3.3%*
USA and Canada	*25 banks*	*17.5%*
Miscellaneous	*10 banks*	*2.9%*



Europe	*102 banks*	*75.0%*
Members of the EU and associates	*99 banks*	*74.7%*
A Benelux	*22 banks*	*9.1%*
B Germany	*19 banks*	*8.1%*
C France	*17 banks*	*25.1%*
D United Kingdom	*8 banks*	*19.9%*
E Italy	*16 banks*	*9.4%*
F Miscellaneous	*17 banks*	*3.1%*
G Rest of Europe	*3 banks*	*0.3%*

The figures on this page show the origin of majority shareholders in the foreign banks in Switzerland and their percentage share in the balance sheet total of all foreign banks.

More than half (99 foreign banks) originate from countries which are either members or associates of the European Union (EU).

About 95% of the balance sheet total of all foreign banks in 2000 was attributed to institutions owned by foreign financial organizations.

			1995	1996	1997	1998	1999	2000	2001 [8]
1. Macroeconomical aggregates	1.1.	Real GDP [1]	+0.8	+0.3	+1.7	+2.3	+1.5	+3.4	+2.2
	1.2.	Inflation (consumer price) [1]	+1.8	+0.8	+0.5	0.0	+0.8	+1.6	+1.4
	1.3.	Unemployment rate in % [7]	4.2	4.7	5.2	3.9	2.7	2.0	1.8
2. Money supply aggregates	2.1.	Monetary base [1] [7] [9]	+1.4	+5.0	+3.1	+5.2	+1.5	–1.2	+1.5
	2.1.1.	Bank note circulation [1] [7]	+0.7	+2.4	+2.8	+1.9	+4.2	+2.2	+0.5
	2.1.2.	Credit balance on sight deposit account [1] [7]	–0.2	+14.1	+26.5	+9.4	–9.2	–12.0	+4.2
	2.2.	Money stock M1 [1] [7] [11]	+6.8	+11.7	+10.1	+8.0	+8.6	–1.9	–0.6

Notes

1) Change in % compared to the previous year
2) Rate on three-month Eurofranc deposits
3) Interest rate on savings deposits with cantonal banks
4) Interest rate on medium-term notes with cantonal banks
5) Average yield on Federal Government bonds
6) Interest rate on new 1st mortgages with cantonal banks
7) Annual average
8) Estimates
9) Bank note circulation + sight deposits of the commercial banks seasonally adjusted
10) Vis-à-vis 15 important trading partners (export-weighted arithmetical mean)
11) M1 = Currency in circulation plus sight and transaction deposits (= savings accounts and deposits mainly used for payment transaction including sight deposit accounts of wages)
12) 1995–1999 ECU/Sfr.

			1995	1996	1997	1998	1999	2000	2001 [8]
3. Interest rates	3.1.	Money market rate [2,7]	3.0	1.9	1.6	1.4	1.3	3.1	2.9
	3.2.	Interest rate on savings deposits [3,7]	3.1	2.4	1.8	1.4	1.2	1.4	1.2
	3.3.	Rate on medium-term notes [4,7]	4.6	3.6	3.0	2.7	2.7	3.8	3.6
	3.4.	Yield on bonds [5,7]	4.6	4.0	3.4	2.8	2.9	3.9	3.5
	3.5.	Mortgage rate [6,7]	5.5	5.0	4.5	4.1	3.9	4.3	4.1
4. Exchange rates	4.1.	Real external value of the Sfr. [1,7,10]	+6.0	–3.2	–6.9	+0.3	–1.1	–1.8	+2.8
	4.2.	US$/Sfr. exchange rate [7]	1.18	1.24	1.45	1.45	1.50	1.69	1.62
	4.3.	Euro/Sfr. exchange rate [7,12]	1.55	1.57	1.64	1.62	1.60	1.56	1.54
	4.4.	D-Mark/Sfr. exchange rate [7]	82.47	82.10	83.70	82.38	81.82	79.65	79.00
	4.5.	£ UK/Sfr. exchange rate [7]	1.86	1.93	2.38	2.40	2.43	2.56	2.40
5. Wages, foreign trade	5.1.	Real wages by the hour nominal [1]	+1.3	+1.3	+0.5	+0.7	+0.3	+0.6	+1.6
	5.2.	Exports of goods/services in real terms [1]	+1.6	+2.5	+9.0	+4.6	+5.9	+9.3	+5.7
	5.3.	Imports of goods/services in real terms [1]	+5.1	+2.7	+8.1	+9.4	+5.5	+7.9	+5.1

Official rates (16.5.2001)

USA discount rate	4.0%
USA Federal Funds Rate	4.0%
Japan discount rate	0.25%
Euro repurchase rate	4.5%
England Base Rate	5.25%
Three-month Libor for deposits in Sfr. and SNB's margin of fluctuation	2.75–3.75%

Sources: Statistical monthly bulletin of the Swiss National Bank, BAK Basel Economics Ltd. and estimates of the Association of Foreign Banks in Switzerland

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