

Interim Report 2013

 Zuger Kantonalbank

Stable results in the first half of 2013

Zuger Kantonalbank posted a stable profit of CHF 30.2 million for the first six months of 2013 (CHF 30.4 million in the first half of the previous year). In the mortgage business, the bank's volumes and margins rose. Interest income was unchanged on the previous year. Performance was roughly constant in the commission and service fee income business. For full-year 2013, Zuger Kantonalbank expects to achieve similar profits to the previous year.

Mortgage business remains strong

In the first half of 2013, Zuger Kantonalbank continued to expand its mortgage business. Mortgage loans rose by 1.7% to CHF 9.9 billion (first half of the previous year: plus 1.4% to CHF 9.5 billion). Zuger Kantonalbank thus remains the leading player in property financing in the Zug economic region. Construction activity in the Canton of Zug remains strong: more than 2,000 residential units are under construction. In the high-end segment, a certain cooling is noticeable. In the mid and low-end, housing demand continues to hold up. Zuger Kantonalbank continues to maintain its cautious credit policy and, prior to loan approval, all properties are subject to valuation by its own appraisers.

Interest income stable

Customer assets rose 4.3% in the first six months of 2013 to CHF 8.7 billion. Higher volumes in the mortgage business and the slightly better margins stabilized interest income at CHF 77.4 million (CHF 77.6 million in the first half of the previous year). In the corporate finance business, Zuger Kantonalbank was able to slightly grow volumes and profits.

Many customers took advantage of the continued low rates and refinanced existing mortgages at attractive fixed rates. Thus, the share of fixed-rate mortgages rose to over 94% by mid-year.

Commission and service fee income unchanged on the previous year

Zuger Kantonalbank's investment philosophy once again paid off in 2013: the number of asset management mandates rose by 14.4% to mid-year, thereby sharply increasing the bank's non-lending business. Assets under management rose 4.2% over the six months. Despite increasing margin pressure, commission and service fee income totalled CHF 19.2 million, just under the level of the previous year (-1.9%).

Continued good cost-income ratio

In the first half of 2013, personnel expenses rose slightly compared to the same period of the previous year. This was due to the contribution to the Zuger Kantonalbank's pension fund foundation, a pension scheme, which had previously been booked as «extraordinary expenses». Full-time equivalent employees

were almost unchanged at 388. Expenditure on the IT system, which has since been upgraded, fell towards the end of its lifetime. Nevertheless, non-staff costs came in slightly higher than the previous year due to the leasing of office space in the «vorZug» office building in Baar. Overall, operating expenses rose 3.8% to CHF 49.4 million and the cost-income ratio to 46.9% (45.2% in the same period of the previous year). Compared to its peers, Zuger Kantonalbank continued to post a very strong cost-income ratio.

On track with generous capital buffer

Valuation adjustments, provisions and losses totalled CHF 0.4 million, markedly under the level of the previous year (CHF 1.45 million). The quality of the credit portfolio continues to be good. As in previous periods, the bank further increased its reserves for general banking risks. Zuger Kantonalbank thus continues to have an extremely solid equity capitalisation and has for years exceeded the additional capital requirements approved by the Swiss Federal Council on 30 September 2013 (anti-cyclical capital buffer).

Events after the balance sheet date

In early July 2013, Zuger Kantonalbank successfully switched to its new banking software. The intensive one-year preparation period paid off: the switchover was very smooth and came in on time and on budget. The most visible change for customers is the much improved e-banking user interface and functionality.

Outlook

The global economy posted a more stable than expected economic performance in the first half of 2013. The southern euro zone countries benefited from the easing of conditions, and market uncertainty fell. The measures taken by the central bank of the major economic areas to spur their economies proved effective: driven by low interest rates, equity markets rose markedly in the opening months of the year. For Swiss exporters, the strong Swiss franc acted as a drag, which may cool down the economy.

Towards the end of the half, mid to long-term Swiss rates rose slightly from their record lows. Nevertheless, the Swiss National Bank is not expected to change its monetary policy until it sees a sustainable stabilisation in the global economy, developments in Europe and the Swiss franc exchange rate.

In the first half of 2013, Zuger Kantonalbank once again saw incredible commitment from its employees and achieved its six-monthly goals. For full-year 2013, Zuger Kantonalbank expects a slightly lower gross profit but is optimistic about achieving a similar level of results to the previous year.

Key Figures

in 1'000 CHF (rounded)	30 June 2013	31 Dec 2012	Change
Balance sheet			
Balance sheet total	12'877'996	12'313'917	4,6%
Loans to customers	10'666'276	10'435'091	2,2%
■ of which: mortgages	9'866'405	9'700'894	1,7%
Due to customers ¹⁾	8'659'173	8'304'188	4,3%
Shareholders' equity			
Shareholders' equity after distribution of profits	1'105'643	1'086'266	1,8%
BIS Tier 1 ratio	17,2%	17,4%	
Assets under management	10'317'770	9'904'081	4,2%
Number of employees (FTE)	388	393	
Income statement			
Net interest income	77'429	77'614	-0,2%
Net commission and fee income	19'195	19'566	-1,9%
Net income from trading operations	6'516	6'089	7,0%
Operating income	105'148	105'209	-0,1%
Operating expenses	-49'351	-47'522	3,8%
Gross profit	55'797	57'687	-3,3%
Operating profit (subtotal)	51'290	51'336	-0,1%
Half-year profit	30'237	30'351	-0,4%
Cost/income ratio	46,9%	45,2%	

¹⁾ Due to customers & medium-term notes

Balance Sheet

in 1'000 CHF (rounded)

	30 June 2013	31 Dec 2012	Change
Assets			
Cash	1'313'146	941'458	39,5%
Receivables from money market instruments	11'000	11'000	0,0%
Due from banks	146'129	81'007	80,4%
Due from customers	799'872	734'197	8,9%
Mortgages	9'866'405	9'700'894	1,7%
Securities and precious metals trading portfolios	579	572	1,2%
Financial investments	391'120	501'116	-22,0%
Participating interests	9'260	9'260	0,0%
Fixed assets	122'510	105'574	16,0%
Accrued income and prepaid expenses	16'203	18'172	-10,8%
Other assets	201'772	210'667	-4,2%
Total assets	12'877'996	12'313'917	4,6%
Liabilities			
Due to money market instruments	886	3'020	-70,7%
Due to banks	7'662	7'909	-3,1%
Due to customers in savings and deposits	5'154'074	4'929'169	4,6%
Other due to customers	3'280'330	3'082'312	6,4%
Medium-term notes	224'769	292'707	-23,2%
Bonds and Pfandbrief bonds	2'631'000	2'403'000	9,5%
Accrued expenses and deferred income	58'436	52'724	10,8%
Other liabilities	202'201	219'471	-7,9%
Allowances and provisions	186'106	183'566	1,4%
Reserves for general banking risks			
■ risk profile	181'000	179'500	0,8%
■ general	456'567	443'567	2,9%
Share capital	144'144	144'144	0,0%
Legal reserve from capital reserve	63'865	63'865	0,0%
General statutory reserve	250'612	243'112	3,1%
Other reserves	10'965	11'025	-0,5%
Treasury shares	-6'026	-7'612	-20,8%
Retained earnings	1'165	1'199	-2,8%
Earnings for the half-year/year	30'237	61'240	-50,6%
Total liabilities	12'877'996	12'313'917	4,6%
Off balance-sheet transactions			
Contingent liabilities	54'432	63'251	-13,9%
Irrevocable commitments	195'445	194'065	0,7%
Liabilities for calls on shares and other equities	9'000	9'000	0,0%
Commitment facilities	252	125	102,4%
Derivative financial instruments			
■ positive replacement values	82'484	99'800	-17,4%
■ negative replacement values	197'937	213'947	-7,5%
■ contract volume	5'761'806	4'969'350	15,9%
Fiduciary transactions	76'455	83'936	-8,9%

Income Statement

in 1'000 CHF (rounded)

	30 June 2013	30 June 2012	Change
Interest and discount income	124'011	129'077	-3.9%
Interest and dividend income from trading portfolios	0	0	
Interest and dividend income from financial investments	3'262	5'099	-36.0%
Interest expenses	-49'844	-56'563	-11.9%
Net interest income	77'429	77'614	-0.2%
Commission income from lending activities	558	402	38.9%
Commission income from securities and investment activities	16'158	16'558	-2.4%
Commission income from other service fee activities	4'845	4'715	2.8%
Commission expenses	-2'367	-2'108	12.3%
Net commission and fee income	19'195	19'566	-1.9%
Net income from trading operations	6'516	6'089	7.0%
Other ordinary profits	2'008	1'940	3.5%
Operating income	105'148	105'209	-0.1%
Personnel expenses	-33'900	-31'990	6.0%
Other operating expenses	-15'451	-15'533	-0.5%
Operating expenses	-49'351	-47'522	3.8%
Gross profit	55'797	57'687	-3.3%
Depreciation and amortization of fixed assets	-4'107	-4'900	-16.2%
Losses	-400	-450	-11.1%
Allowances and provisions (risk profile)	0	-1'000	-100.0%
Subtotal (operating profit)	51'290	51'336	-0.1%
Extraordinary income	0	0	
Reserves for general banking risks			
▪ risk profile	-1'500	-1'500	0.0%
▪ general	-13'000	-13'000	0.0%
Other extraordinary expenses	0	0	
Extraordinary expenses	-14'500	-14'500	0.0%
Taxes	-6'552	-6'486	1.0%
Half-year profit	30'237	30'351	-0.4%

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