

# Interim Report 2015



# Good business performance in the first half of 2015

**Zuger Kantonalbank posted a pleasing profit of CHF 30.9 million for the first six months of 2015 (CHF 30.2 million in the first half of the previous year). The bank developed steadily – even in the unusual and difficult negative interest-rate environment. The property financing business continued to expand, interest income remained at the previous year's level, and the wealth management business developed positively.**

The mortgage business, which is Zuger Kantonalbank's most important source of income, continued to grow in the first six months of 2015. Mortgage receivables increased by 3.7% to CHF 11.2 billion (+2.0% to CHF 10.5 billion in the first half of the previous year). Zuger Kantonalbank therefore remains the leading player in property financing in the Zug economic region. It is continuing its prudent lending policy, which includes an in-house valuation of every property before granting financing. In addition, the bank consistently verifies the financial viability of its commitments. Losses resulting from defaults remained low in the first half of 2015, reflecting the high quality of the loan portfolio.

## **Interest income stable**

Customer assets increased by 3.1% in the first six months of 2015 to CHF 9.4 billion. Despite much lower interest rates, Zuger Kantonalbank achieved slightly higher margins on its mortgage business. Together with an increase in business volume, the bank was able to hold interest income stable year-on-year at CHF 77.0 million (CHF 77.1 million in the first half

of the previous year) even though interest rates were at an all-time low. Many customers took advantage of the persistently low mortgage rates to refinance existing mortgages at attractive fixed rates. As a result, the share of fixed-rate mortgages had risen to over 96.9% by mid-year (previous year: 95.7%). In the corporate financing sector, too, some clients took advantage of low interest rates to arrange long-term financing.

## **Commission and service fee income down slightly**

Zuger Kantonalbank continued to grow its wealth management business in the first six months of 2015. The bank has extended its client offering to include its own strategy funds. E-banking has also been available in English since June, and the mobile banking app introduced in April 2015 enables clients to undertake banking transactions via a secure smartphone connection. In the first six months of 2015, assets under management increased by CHF 248 million (2.5%) to CHF 10.0 billion. The increase in brokerage fees could not offset the decline in commission income – an effect that had been expected

in view of the divestment of the shares in Swisscanto Holding AG (3.48% stake). At CHF 17.2 million, total commission and service fee income was 3.8% lower than in the previous year. By contrast, income from trading operations rose 27.0% to CHF 7.2 million, thanks to higher currency income as a result of the higher interest spread between foreign currencies and the Swiss franc (negative interest rates).

## **Good cost-income ratio**

In the first half of 2015, personnel expenses declined slightly compared with the same period of the previous year. Zuger Kantonalbank still has nearly 400 employees. Other operating expenses were held constant year-on-year despite rising regulatory requirements. Total operating expenses were CHF 50.7 million in the first six months of this year (-1.6%). The cost-income ratio improved to 49.0% (50.3% in the same period of the previous year) and is still very good by sector standards.

## **Comfortable equity basis**

Allowances, provisions and losses remained at a very low level of CHF 0.5 million (previous year: CHF 0.2 million). The quality of the credit portfolio is still good. Zuger Kantonalbank has a BIS tier 1 ratio – now officially known as "available regulatory capital" – of 16.3% (16.6% as per 31.12.2014), giving it an extremely sound equity base that still exceeds regulatory requirements.

The entire one-off gain of CHF 11.0 million from the divestment of the stake in Swisscanto was allocated to reserves for general banking risks.

Work on the US Department of Justice programme for settling the tax dispute between the Swiss banks and the USA is proceeding on schedule. Completion of this programme is dependent on the US authorities.

## **Positive economic conditions but interest rates still low**

Against the background of major political uncertainties and unconventional action by central banks, the global economy was more resilient than expected in the first half of 2015. Although the gross domestic product declined slightly in the USA, the euro-zone economy picked up further, clouded only by the difficult negotiations relating to Greek sovereign debt.

## **Outlook for 2015**

The abolition of the exchange rate ceiling versus the euro is a major challenge for the Swiss economy. The Swiss franc is still far too strong in terms of neutral purchasing power parity and is putting pressure on the margins of Swiss companies that are highly dependent on foreign markets or have high export exposure. Following the interest rate decision by the Swiss National Bank in January, medium and long-term Swiss interest rates have dropped considerably.

It may be assumed that interest rates will remain low, but short-term volatility is likely to become more frequent.

The property market in the Zug region is still sound and remains stable at a high level. Housing demand continues to hold up in the mid and low-end segments, but is slowing at the upper end of the market.

The financial markets remain volatile. Despite the political uncertainty, the recovery of the US economy is continuing – followed with a time lag by the European economy – and this should increase growth momentum.

Zuger Kantonalbank assumes that the steady development of previous years will continue in the present financial year.

## Key Figures

in CHF 1,000 (rounded)	30.06.15	31.12.14	Change
<b>Balance sheet</b>			
Balance sheet total	14,581,238	13,824,710	5.5 %
Loans to customers:	11,805,256	11,428,381	3.3 %
■ of which: mortgages	11,169,911	10,772,884	3.7 %
Due to customers <sup>1)</sup>	9,419,706	9,135,255	3.1 %
<b>Shareholders' equity</b>			
Shareholders' equity after distribution of profits	1,139,885	1,114,443	2.3 %
Available regulatory capital	16.3 %	16.6 %	
<b>Assets under management</b>			
	9,992,104	9,744,425	2.5 %
<b>Number of employees (FTE)</b>			
	399	395	

in CHF 1,000 (rounded)	30.06.15	30.06.14	Change
<b>Income statement</b>			
Net interest income	77,025	77,092	-0.1 %
Net commission and fee income	17,227	17,901	-3.8 %
Income from trading operations	7,210	5,676	27.0 %
Operating income	103,424	102,504	0.9 %
Operating expenses excl. one-off payment to pension scheme	-50,714	-51,554	-1.6 %
One-off payment to pension scheme for 12 months	0	-18,500	
Gross profit excl. one-off payment to pension scheme	52,710	50,949	3.5 %
Operating profit (subtotal) excl. one-off payment to pension scheme	46,975	45,403	3.5 %
Half-year profit	30,891	30,194	2.3 %
<b>Cost/income ratio (excl. one-off payment to pension scheme)</b>			
	49.0 %	50.3 %	

<sup>1)</sup> Due to customers & medium-term notes

# Balance Sheet

in CHF 1,000 (rounded)

	30.06.15	31.12.14	Change
<b>Assets</b>			
Cash	1,661,237	1,127,260	47.4%
Receivables from money market instruments	1	0	
Due from banks	213,413	327,385	-34.8%
Due from customers	635,345	655,497	-3.1%
Mortgages	11,169,911	10,772,884	3.7%
Securities and precious metals trading portfolios	587	587	0.0%
Financial investments	537,049	587,548	-8.6%
Participating interests	5,267	9,571	-45.0%
Fixed assets	118,599	119,874	-1.1%
Accrued income and prepaid expenses	12,541	14,005	-10.5%
Other assets	227,290	210,099	8.2%
<b>Total assets</b>	<b>14,581,238</b>	<b>13,824,710</b>	<b>5.5%</b>
<b>Liabilities</b>			
Due to money market instruments	479	610	-21.5%
Due to banks	293,507	43,783	570.4%
Due to customers in savings and investments	5,673,999	5,611,655	1.1%
Other due to customers	3,656,749	3,409,516	7.3%
Medium-term notes	88,958	114,084	-22.0%
Bonds and mortgage-backed bonds	3,215,000	3,016,000	6.6%
Accrued expenses and deferred income	57,369	51,337	11.7%
Other liabilities	242,406	223,796	8.3%
Allowances and provisions	185,999	185,713	0.2%
Reserves for general banking risks			
▪ risk profile	184,000	183,000	0.5%
▪ general	471,267	451,767	4.3%
Share capital	144,144	144,144	0.0%
Legal reserve from capital reserve	63,865	63,865	0.0%
General statutory reserve	265,612	258,112	2.9%
Other reserves	10,416	10,629	-2.0%
Treasury shares	-4,419	-5,569	-20.6%
Retained earnings	994	1,094	-9.1%
Earnings for the half-year/year	30,891	61,173	-49.5%
<b>Total liabilities</b>	<b>14,581,238</b>	<b>13,824,710</b>	<b>5.5%</b>
<b>Off-balance-sheet transactions</b>			
Contingent liabilities	46,022	43,964	4.7%
Irrevocable commitments	393,564	414,579	-5.1%
Liabilities for calls on shares and other equities	11,180	11,180	0.0%
Commitment facilities	59	164	-63.7%
Derivative financial instruments			
▪ positive replacement values	214,120	187,684	14.1%
▪ negative replacement values	235,476	211,691	11.2%
▪ contract volume	6,594,087	6,185,061	6.6%
Fiduciary transactions	56,216	77,302	-27.3%

# Income Statement

in CHF 1,000 (rounded)

	30.06.15	30.06.14	Change
Interest and discount income	116,816	121,862	-4.1%
Interest and dividend income from trading portfolios	0	0	
Interest and dividend income from financial investments	2,195	1,889	16.2%
Interest expenses	-41,986	-46,659	-10.0%
<b>Net interest income</b>	<b>77,025</b>	<b>77,092</b>	<b>-0.1%</b>
Commission income from lending activities	662	564	17.5%
Commission from securities and investment activities	14,293	14,959	-4.5%
Commission income from other service fee activities	4,798	4,819	-0.4%
Commission expenses	-2,527	-2,441	3.5%
<b>Net commission and fee income</b>	<b>17,227</b>	<b>17,901</b>	<b>-3.8%</b>
<b>Net income from trading operations</b>	<b>7,210</b>	<b>5,676</b>	<b>27.0%</b>
<b>Other ordinary profits</b>	<b>1,961</b>	<b>1,836</b>	<b>6.8%</b>
<b>Operating income</b>	<b>103,424</b>	<b>102,504</b>	<b>0.9%</b>
Personnel expenses	-33,152	-34,134	-2.9%
Other operating expenses	-17,561	-17,420	0.8%
<b>Operating expenses excl. one-off payment to pension scheme</b>	<b>-50,714</b>	<b>-51,554</b>	<b>-1.6%</b>
<b>Gross profit excl. one-off payment to pension scheme</b>	<b>52,710</b>	<b>50,949</b>	<b>3.5%</b>
One-off payment to pension scheme for 12 months	0	-18,500	-100.0%
<b>Gross profit incl. one-off payment to pension scheme for 12 months</b>	<b>52,710</b>	<b>32,449</b>	<b>62.4%</b>
Depreciation and amortization of fixed assets	-5,249	-5,347	-1.8%
Losses	-200	-200	0.0%
Allowances and provisions (risk profile)	-287	0	
<b>Subtotal (operating profit) excl. one-off payment to pension scheme</b>	<b>46,975</b>	<b>45,403</b>	<b>3.5%</b>
<b>Subtotal (operating profit) incl. one-off payment to pension scheme for 12 months</b>	<b>46,975</b>	<b>26,903</b>	<b>74.6%</b>
Reserves for general banking risks	0	6,500	-100.0%
Other extraordinary income	10,966	100	>1,000.0%
<b>Extraordinary income</b>	<b>10,966</b>	<b>6,600</b>	<b>66.2%</b>
Reserves for general banking risks			
▪ risk profile	-1,000	0	
▪ general	-19,500	0	
Other extraordinary expenses	0	0	
<b>Extraordinary expenses</b>	<b>-20,500</b>	<b>0</b>	
<b>Taxes</b>	<b>-6,550</b>	<b>-3,308</b>	<b>98.0%</b>
<b>Half-year profit</b>	<b>30,891</b>	<b>30,194</b>	<b>2.3%</b>

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 **Zuger Kantonalbank**