



Interim Report 2020

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Robust half-year result for 2020

Zuger Kantonalbank performed well in the first six months of the current year and has unveiled a robust result. At CHF 37.4 million, six-month profit is at the same level as the previous year. Thanks to a significant increase in loans to customers, the result from interest operations was almost unchanged, despite declining margins. Commission income increased by 11.8% to CHF 25.9 million. This had the effect of offsetting the decline in trading activities and other ordinary income. For the first time, operating expenses include the compensation for the government guarantee. Total assets rose strongly to CHF 16.8 billion.

With the entry into force of the new Zuger Kantonalbank Act on 1 January 2020, the additional allocation to the canton for compensation of the government guarantee is no longer booked to appropriation of earnings, but operating expenses. The operating result has therefore declined by CHF 1.4 million to CHF 52.4 million. When adjusted for the new accounting requirement in respect of the government guarantee, the operating result works out slightly higher than the previous year. The advisory-based business model of Zuger Kantonalbank has proved a stable one.

Bank operations rapidly adapted to coronavirus situation

Just like all companies, Zuger Kantonalbank had to adapt rapidly to the coronavirus crisis. Two considerations underpinned all decisions taken during this difficult period: the importance of supplying the population of Zug with banking services at all times, and the need to protect both employees and customers. On 20 March we reduced our presence to five locations. Employees working at other

branches ensured that customers could contact the bank by phone. All branches opened their doors to customers once again from mid-May onwards. As part of the Confederation's COVID-19 lending programme, Zuger Kantonalbank made more than CHF 100 million of liquidity available to Zug-based SMEs.

Interest result virtually unchanged

At CHF 73.6 million, the interest result was barely any lower than in the prior-year period (CHF -0.4 million). The effects of the further decline in interest margins in the first half of 2020 were almost wholly offset by strong lending growth. Our customers took advantage of the continued low interest environment and renewed their expiring fixed mortgages at attractive interest rates.

The healthy state of the Zug real estate market persisted even against the backdrop of the coronavirus crisis. This market continues to derive support from the favourable financing environment, a diversified industry structure with attractive jobs, outstanding transport

connections, and a trend of declining new-build activity that has been evident for a number of years. In the first six months of the year, loans to customers increased by CHF 374.8 million to CHF 13.1 billion. This high credit growth was refinanced by customer deposits as well as loans from the central mortgage institution of the Swiss cantonal banks, among other things.

Commission income, result from trading activities, and other ordinary income remain stable overall

The commission business and the services business are becoming an increasingly important source of income for Zuger Kantonalbank. Compared to the prior-year period, this area recorded a rise in profit of CHF 2.7 million to CHF 25.9 million (+11.8%). Transaction volumes increased as a result of volatile markets, which resulted in higher brokerage income. In addition, the persistent growth of performance-adjusted assets under management (CHF +312.2 million) supported the income side.

Thanks to the recovery of equity markets following the slump at the beginning of the coronavirus crisis, assets under management were unchanged compared to 31 December 2019 at CHF 12.7 billion.

In a challenging market environment, income from trading activities declined by CHF 1.1 million to CHF 6.6 million. This decline is attributable to the slump in demand for foreign currencies during the coronavirus crisis on the one hand, and to the sharp decline in interest rates in the US and Europe on the other.

At CHF 3.7 million, other ordinary income was some CHF 0.8 million lower than the previous year. This change reflects the fact that a special dividend was paid out on a participation in the first half of 2019.

Compensation for government guarantee reported under operating expenses for the first time

Operating expenses recorded a year-on-year rise of CHF 2.3 million to CHF 52.5 million. Of this amount, CHF 1.6 million relates to the compensation for the government guarantee, which – following the recent change to legislation – is now reported under operating expenses for the first time. Up until now, this item has been booked to the appropriation of net income position. Personnel expenses together with general and administrative expenses recorded a rise of CHF 0.7 million (+1.5% compared to the previous year). The cost-income ratio amounted to a healthy 47.8% (previous year: 45.9%). Of this rise, 1.4 percentage points is attributable to the change in accounting guidelines for compensation of the government guarantee.

Value adjustments, provisions, and losses remain very low

Default-related value adjustments remained at the very low level of the previous year; there are no indications yet of any coronavirus-related defaults. The ratio of available regulatory capital amounted to 18.0% as per 30 June 2020 (previous year: 17.7%). Zuger Kantonalbank continues to exhibit a very strong capital base.

Balance sheet

in CHF 1,000 (rounded)	30.06.2020	31.12.2019	Change
Assets			
Liquid assets	2,846,165	2,218,990	28.3%
Amounts due from banks	36,144	28,776	25.6%
Amounts due from customers	621,054	408,381	52.1%
Mortgage loans	12,474,030	12,311,903	1.3%
Trading portfolio assets	446	749	-40.4%
Positive replacement values of derivative financial instruments	10,301	11,724	-12.1%
Financial investments	585,093	548,606	6.7%
Accrued income and prepaid expenses	8,263	3,877	113.1%
Participations	16,690	13,434	24.2%
Tangible fixed assets	114,155	115,826	-1.4%
Other assets	54,285	33,010	64.4%
Total assets	16,766,627	15,695,277	6.8%
Total subordinated claims	5,263	4,877	7.9%
Liabilities			
Amounts due to banks	604,248	192,602	213.7%
Liabilities from securities financing transactions	410,000	450,000	-8.9%
Amounts due in respect of customer deposits	10,280,037	9,684,468	6.1%
Negative replacement value of derivative financial instruments	11,256	18,356	-38.7%
Medium-term notes	16,696	20,441	-18.3%
Bond issues and central mortgage institution loans	3,955,000	3,846,000	2.8%
Accrued expenses and deferred income	57,088	59,930	-4.7%
Other liabilities	76,805	55,328	38.8%
Provisions	10,927	6,151	77.7%
Reserves for general banking risks			
▪ risk profile	191,000	191,000	0.0%
▪ general	594,617	586,117	1.5%
Share capital	144,144	144,144	0.0%
Statutory capital reserve	121,188	142,810	-15.1%
▪ of which tax-exempt capital contribution reserve	42,244	63,865	-33.9%
Statutory retained earnings reserve	237,860	226,964	4.8%
Voluntary retained earnings reserves	21,622		
Own shares	-3,358	-3,990	-15.9%
Profit carried forward	134	273	-51.1%
Six-month/12-month profit	37,363	74,684	-50.0%
Total liabilities	16,766,627	15,695,277	6.8%
Off-balance-sheet transactions			
Contingent liabilities	85,857	31,504	172.5%
Irrevocable commitments	375,827	345,134	8.9%
Liabilities for calls on shares and other equities	17,724	17,724	0.0%

Income Statement

in CHF 1,000 (rounded)	30.06.2020	30.06.2019	Change
Interest and discount income	88,687	94,658	-6.3 %
Interest and dividend income from trading portfolios			
Interest and dividend income from financial investments	1,304	1,310	-0.4 %
Interest expense	-16,347	-22,001	-25.7 %
Gross result from interest operations	73,644	73,967	-0.4 %
Changes in value adjustments for default risks and losses from interest operations	-48	73	-165.4 %
Net result from interest operations	73,596	74,039	-0.6 %
Commissions from securities and investment transactions	21,990	19,505	12.7 %
Commission income from lending activities	1,099	431	155.1 %
Commission income from other services	5,888	5,863	0.4 %
Commission expense	-3,090	-2,635	17.3 %
Result from commission business and services	25,888	23,164	11.8 %
Results from trading activities	6,587	7,721	-14.7 %
Result from divestment of financial investments			
Income from participations	1,237	2,185	-43.4 %
Result from real estate	1,755	1,856	-5.4 %
Other ordinary income	679	418	62.5 %
Other ordinary expenses	-5	-0	942.8 %
Other result from ordinary activities	3,667	4,459	-17.8 %
Operating income	109,739	109,384	0.3 %
Personnel expenses	-33,810	-33,405	1.2 %
General and administrative expenses	-17,122	-16,796	1.9 %
Compensation for government guarantee	-1,589		
Operating expenses	-52,521	-50,201	4.6 %
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-4,725	-5,322	-11.2 %
Changes to provisions and other value adjustments, and losses	-71	-48	48.2 %
Operating result	52,421	53,813	-2.6 %
Extraordinary income	3		
Extraordinary expenses			
Changes in reserves for general banking risks	-8,500	-8,400	1.2 %
Taxes	-6,561	-7,983	-17.8 %
Six-month profit	37,363	37,429	-0.2 %

Statement of Changes in Equity

in CHF 1,000 (rounded)	Share capital	Statutory capital reserve	Statutory retained earnings reserve	Voluntary retained earnings reserves	Own shares	Reserves for general banking risks	Result of the period	Total
Equity as at 31.12.2019	144,144	142,810	226,964		-3,990	777,117	74,957	1,362,001
Acquisition of own shares					-1,644			-1,644
Disposal of own shares					2,277			2,277
Profit (loss) on disposal of own shares			265					265
Dividends from own equity securities			131					131
Dividends and other distributions		-21,622	10,500				-53,201	-64,323
Other allocations to (transfers from) reserves for general banking risks						8,500		8,500
Other changes to (transfers from) other reserves				21,622			-21,622	
Six-month profit							37,363	37,363
Equity as at 30.06.2020	144,144	121,188	237,860	21,622	-3,358	785,617	37,497	1,344,570

Abridged Notes

Changes to accounting and valuation policies and any corrections to errors, and their impact on the interim financial statements

There are no changes or corrections to errors to report in comparison with the previous year.

Note on factors which have influenced the bank's economic situation during the reporting period and by comparison with the prior-year period

For comments on the development of business in the first half of 2020, please see pages 2 and 3 of this publication.

Extraordinary income and extraordinary expenses

in CHF 1,000 (rounded)	30.06.2020	30.06.2019	Change
Gains realised from the disposal of participations, tangible fixed assets and intangible assets			
Other extraordinary income	3		
Total extraordinary income	3		
Total extraordinary expenses			

Material events occurring after the balance sheet date of the interim financial statements

No material events have occurred since the balance sheet date which significantly influence

the bank's assets, financial position and earnings as at 30 June 2020.

Outlook for 2020

Global economy will recover – measures kicking in

The coronavirus crisis triggered a keenly-felt sell-off in global equity markets. Massive central bank interventions together with unprecedented state support measures ensured a rapid recovery as well as stabilisation. For the second half of 2020, we are anticipating a recovery of the global economy – as long as there is no strong second wave of infections. Viewed over the year as a whole, however, economic development remains negative following the strong decline in the first half of the year, and volatility is likely to remain a feature of the financial markets.

Zug real estate market on a solid footing

The Zug real estate market continues to demonstrate its structural soundness even in challenging times, both on the home ownership and the rental apartment side. In the office property market, the high quality of supply should provide some support against the decline in demand in the medium term. Greater challenges are evident on the retail side, as retailers have been particularly hard-hit by the coronavirus crisis.

Further expansion of digital services

The changes in user behaviour evident over the last few months make it clear that our digital services – including e-banking, mobile banking, digital payment options, online account opening for new customers, and the various digital calculators on our website –

are greatly appreciated by our customers. Furthermore, customers can also obtain comprehensive, individual advice online from the comfort of their own homes. Further services will be added in the second half of the year such as online investor analyses, an online fund savings plan, and EBICS, a new interface for the exchange of data between companies and the bank.

Two branches opening in new locations

We are convinced that the banking business will remain a person-to-person business in the future too, and that customised advice – supplemented by digital offerings – will become ever more important. For this reason, Zuger Kantonbank is continuing to invest in the modernisation of its branches. In October we will be opening our Zug-Herti branch following the complete renovation of the local shopping centre. In Rotkreuz, meanwhile, we will be welcoming our clients to a new-build on Luzernerstrasse. Work will begin on renovating our branch in Cham in the autumn. During this period, we will be servicing our customers from temporary premises nearby.

Annual profit in line with previous year

Despite clearly identifiable repercussions of the coronavirus crisis for economic development, Zuger Kantonbank is expecting a good annual result, with operating profit slightly lower and annual profit broadly in line with the figure for the previous year.

Key Figures

in CHF 1,000 (rounded)	30.06.2020	31.12.2019	Change
Balance sheet			
Total assets	16,766,627	15,695,277	6.8%
Loans to customers	13,095,084	12,720,284	2.9%
■ of which mortgage loans	12,474,030	12,311,903	1.3%
Customer deposits	10,296,733	9,704,909	6.1%
Assets under management	12,723,940	12,709,027	0.1%
Change in assets under management, performance-adjusted	312,229	-30,516	

in CHF 1,000 (rounded)	30.06.2020	30.06.2019	Change
Income statement			
Net result from interest operations	73,596	74,039	-0.6%
Result from commission business and services	25,888	23,164	11.8%
Result from trading activities	6,587	7,721	-14.7%
Operating income	109,739	109,384	0.3%
Operating expenses	-52,521	-50,201	4.6%
Operating result	52,421	53,813	-2.6%
Six-month profit	37,363	37,429	-0.2%
Shareholders' equity			
Available regulatory capital ratio	18.0%	17.7%	
Cost-income ratio	47.8%	45.9%	
Number of employees (FTE)	406	395	

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