



Zuger Kantonalbank

# Interim Report 2019

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# Good half-year result for 2019

**Zuger Kantonalbank is performing well, recording a profit of CHF 37.4 million for the first half of 2019. Contributory factors to this result included slightly higher income of CHF 23.2 million from commission business and services, as well as a stable cost base. Despite a sharp increase in loans to customers, declining interest rates meant that the result from interest operations was slightly below that of the previous year. As regards assets under management, favourable financial market developments led to a significant increase (+8.2% compared to 31 December 2018). Total assets rose to CHF 15.4 billion.**

Zuger Kantonalbank experienced a positive development in its results for the first six months of this year. Profit increased by 9.5% to CHF 37.4 million. However, at CHF 53.8 million, the operating result was 4.6% below the prior-year equivalent.

## **Strong balance sheet growth**

Compared to the end of 2018, mortgage loans rose by 4.8% and amounted to CHF 12.3 billion. As a result, total assets rose significantly to CHF 15.4 billion. A persistently high level of repayments was more than offset by new property loans. Zuger Kantonalbank has increased its volume of short-term loans to first-class institutional clients in Switzerland, which means it is investing customer deposits at low risk. Among other things, the bank refinanced its growth in the mortgage business by issuing new bonds with a volume of CHF 200 million. At the same time, this step assured the bank's long-term compliance with the more stringent regulatory requirements that apply in the area of liquidity. Customer

deposits rose by CHF 122.6 million in the first half of 2019 to CHF 9.8 billion (+1.3%). The bank is persisting with its existing credit policy, namely to generate sustainable and prudent growth.

## **Interest result declines slightly**

Over the course of the first six months of the year, interest rates fell back to the lows recorded in mid-2016. Low interest rates have put margins in the mortgage business under even greater pressure. Favourable long-term refinancing rates were unable to fully offset the low interest rates that apply to new mortgage business. As a result, the bank recorded a lower net result from interest operations of CHF 74.0 million (prior-year period: CHF 76.2 million).

### Growth in asset management

The result from commission business and services increased to CHF 23.2 million (+2.7% compared to the prior-year period). The continued growth of assets under management, which was supported by a net new asset inflow of CHF 138.8 million in the first half of 2019, is strengthening this result in a sustainable way. The growth of the asset management business reflects the high level of confidence customers have in our advisory expertise. This was also confirmed by the Swiss business magazine "Bilanz", which cited Zuger Kantonalbank as Best Regional Bank in Private Banking in April 2019.

Assets under management rose by CHF 949.2 million to CHF 12.5 billion (+8.2%) compared to 31 December 2018, an increase enhanced by financial market developments. When adjusted for performance, the increase in assets under management in the first half of the year amounted to CHF 91.0 million.

The result from trading activities recorded a year-on-year decline of 10.8%. This decline is primarily attributable to the lower demand for securities transactions in foreign currencies.

### Keen eye on efficiency

Zuger Kantonalbank once again demonstrated rigorous cost discipline in the first half of 2019. General and administrative expenses

came in at CHF 16.8 million, a 2.9% decline compared to the prior-year period. This reduction was achieved despite the bank's ongoing investment in digitalisation. Personnel expenses recorded a year-on-year rise of 0.8%. Depreciation declined by CHF 0.5 million year-on-year to CHF 5.3 million. At 45.9%, Zuger Kantonalbank has a strong cost-income ratio in an industry comparison.

### Above-average equity base

The quality of the credit portfolio remains very good. No new default-related value adjustments were formed in the reporting period. Indeed, value adjustments were reduced by CHF 0.1 million.

The ratio of available regulatory capital amounted to 17.7% at mid-year (prior-year equivalent: 17.8%). This slight decline is attributable to the sharp growth in loans to customers. Zuger Kantonalbank remains one of the best capitalised banks in Switzerland.

# Balance Sheet

in CHF 1,000 (rounded)

|   | 30.06.2019        | 31.12.2018        | Change      |
|---|-------------------|-------------------|-------------|
| <b>Assets</b>   |                   |                   |             |
| Liquid assets   | 1,969,090         | 1,832,777         | 7.4%        |
| Amounts due from banks  | 32,588            | 25,089            | 29.9%       |
| Amounts due from customers                                      | 439,147           | 471,949           | -7.0%       |
| Mortgage loans  | 12,279,829        | 11,722,040        | 4.8%        |
| Trading portfolio assets  | 535               | 650               | -17.7%      |
| Positive replacement values of derivative financial instruments | 13,459            | 12,197            | 10.3%       |
| Financial investments   | 548,885           | 534,588           | 2.7%        |
| Accrued income and prepaid expenses                             | 6,481             | 4,311             | 50.3%       |
| Participations  | 13,434            | 13,434            | 0.0%        |
| Tangible fixed assets   | 116,675           | 119,303           | -2.2%       |
| Other assets  | 26,257            | 7,147             | 267.4%      |
| <b>Total assets</b>   | <b>15,446,380</b> | <b>14,743,485</b> | <b>4.8%</b> |
| Total subordinated claims                                       | 2,281             | 1,047             | 117.8%      |
| <b>Liabilities</b>  |                   |                   |             |
| Amounts due to banks  | 75,900            | 2,194             | >1,000.0%   |
| Liabilities from securities financing transactions              | 300,000           |                   |             |
| Amounts due in respect of customer deposits                     | 9,771,964         | 9,638,925         | 1.4%        |
| Negative replacement value of derivative financial instruments  | 22,150            | 18,402            | 20.4%       |
| Medium-term notes   | 23,793            | 34,244            | -30.5%      |
| Bond issues and central mortgage institution loans              | 3,831,000         | 3,608,000         | 6.2%        |
| Accrued expenses and deferred income                            | 56,187            | 58,508            | -4.0%       |
| Other liabilities   | 44,196            | 41,138            | 7.4%        |
| Provisions  | 4,021             | 3,701             | 8.6%        |
| Reserves for general banking risks                              |                   |                   |             |
| ■ risk profile  | 190,000           | 190,000           | 0.0%        |
| ■ general   | 578,917           | 570,517           | 1.5%        |
| Share capital   | 144,144           | 144,144           | 0.0%        |
| Statutory capital reserve                                       | 142,810           | 142,810           | 0.0%        |
| ■ of which tax-exempt capital contribution reserve              | 63,865            | 63,865            | 0.0%        |
| Statutory retained earnings reserve                             | 226,859           | 219,381           | 3.4%        |
| Own shares  | -3,262            | -3,746            | -12.9%      |
| Profit carried forward  | 273               | 560               | -51.3%      |
| Six-month/12-month profit                                       | 37,429            | 74,707            | -49.9%      |
| <b>Total liabilities</b>  | <b>15,446,380</b> | <b>14,743,485</b> | <b>4.8%</b> |
| <b>Off-balance-sheet transactions</b>                           |                   |                   |             |
| Contingent liabilities  | 31,288            | 31,773            | -1.5%       |
| Irrevocable commitments   | 457,848           | 455,514           | 0.5%        |
| Liabilities for calls on shares and other equities              | 17,724            | 17,724            | 0.0%        |
| Credit commitments  |                   |                   |             |

# Income Statement

in CHF 1,000 (rounded)

|   | 30.06.2019     | 30.06.2018     | Change         |
|---|----------------|----------------|----------------|
| Interest and discount income  | 94,658         | 96,008         | -1.4%          |
| Interest and dividend income from trading portfolios  |                |                |                |
| Interest and dividend income from financial investments   | 1,310          | 1,222          | 7.1%           |
| Interest expense  | -22,001        | -21,224        | 3.7%           |
| <b>Gross result from interest operations</b>  | <b>73,967</b>  | <b>76,006</b>  | <b>-2.7%</b>   |
| Changes from default-risk-related value adjustments and losses from interest operations                       | 73             | 186            | -61.0%         |
| <b>Net result from interest operations</b>  | <b>74,039</b>  | <b>76,192</b>  | <b>-2.8%</b>   |
| Commission income from securities and investment transactions   | 19,505         | 19,421         | 0.4%           |
| Commission income from lending activities   | 431            | 482            | -10.5%         |
| Commission income from other services   | 5,863          | 5,620          | 4.3%           |
| Commission expense  | -2,635         | -2,968         | -11.2%         |
| <b>Result from commission business and services</b>   | <b>23,164</b>  | <b>22,556</b>  | <b>2.7%</b>    |
| <b>Result from trading activities</b>   | <b>7,721</b>   | <b>8,651</b>   | <b>-10.8%</b>  |
| Result from divestment of financial investments   |                | 626            | -100.0%        |
| Income from participations  | 2,185          | 2,691          | -18.8%         |
| Result from real estate   | 1,856          | 1,825          | 1.7%           |
| Other ordinary income   | 418            | 215            | 94.4%          |
| Other ordinary expenses   | -0             |                |                |
| <b>Other result from ordinary activities</b>  | <b>4,459</b>   | <b>5,357</b>   | <b>-16.8%</b>  |
| <b>Operating income</b>   | <b>109,384</b> | <b>112,756</b> | <b>-3.0%</b>   |
| Personnel expenses  | -33,405        | -33,153        | 0.8%           |
| General and administrative expenses   | -16,796        | -17,300        | -2.9%          |
| <b>Operating expenses</b>   | <b>-50,201</b> | <b>-50,453</b> | <b>-0.5%</b>   |
| Value adjustments on participations and depreciation and amortisation of tangible and intangible fixed assets | -5,322         | -5,857         | -9.1%          |
| Changes to provisions and other value adjustments, and losses   | -48            | -54            | -12.3%         |
| <b>Operating result</b>   | <b>53,813</b>  | <b>56,392</b>  | <b>-4.6%</b>   |
| <b>Extraordinary income</b>   |                | <b>14</b>      | <b>-100.0%</b> |
| <b>Extraordinary expenses</b>   |                |                |                |
| <b>Changes in reserves for general banking risks</b>  | <b>-8,400</b>  | <b>-15,750</b> | <b>-46.7%</b>  |
| <b>Taxes</b>  | <b>-7,983</b>  | <b>-6,473</b>  | <b>23.3%</b>   |
| <b>Six-month profit</b>   | <b>37,429</b>  | <b>34,184</b>  | <b>9.5%</b>    |

# Statement of Changes in Equity

| in CHF 1,000 (rounded)   | Share capital | Statutory capital reserve | Statutory retained earnings reserve | Own shares | Reserves for general banking risks | Result of the period | Total     |
|--|---------------|---------------------------|-------------------------------------|------------|------------------------------------|----------------------|-----------|
| Equity as at 31.12.2018  | 144,144       | 142,810                   | 219,381                             | -3,746     | 760,517                            | 75,267               | 1,338,373 |
| Acquisition of own shares  |               |                           |                                     | -1,346     |                                    |                      | -1,346    |
| Disposal of own shares   |               |                           |                                     | 1,831      |                                    |                      | 1,831     |
| Profit (loss) on disposal of own shares                                      |               |                           | -158                                |            |                                    |                      | -158      |
| Dividends from own equity securities   |               |                           | 136                                 |            |                                    |                      | 136       |
| Dividends and other distributions  |               |                           | 7,500                               |            |                                    | -74,995              | -67,495   |
| Other allocations to (transfers from) the reserves for general banking risks |               |                           |                                     |            | 8,400                              |                      | 8,400     |
| Six-month profit   |               |                           |                                     |            |                                    | 37,429               | 37,429    |
| Equity as at 30.06.2019  | 144,144       | 142,810                   | 226,859                             | -3,262     | 768,917                            | 37,702               | 1,317,170 |

## 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 2019, please see pages 2 and 3 of this publication.

### Extraordinary income and extraordinary expenses

| in CHF 1,000 (rounded)  | 30.06.2019 | 30.06.2018 | Change         |
|---|------------|------------|----------------|
| Gains realised from the disposal of participations, tangible fixed assets and intangible assets |            | 14         | -100.0%        |
| Other extraordinary income  |            |            |                |
| <b>Total extraordinary income</b>   |            | <b>14</b>  | <b>-100.0%</b> |
| <b>Total extraordinary expenses</b>   |            |            |                |

### 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 2019.

# Outlook for 2019

The extremely positive developments in the financial markets in the first half of the year were consistently supported by the expansionary monetary policy of the world's key central banks. Trade policy tensions continue to indicate a further slowdown in economic growth, however, and political tensions such as Brexit will continue to preoccupy investors over the coming months too. This could trigger a rise in financial market volatility.

## **Zug real estate market performing strongly**

Large numbers of rental apartments continue to be built across Switzerland, even though the number of vacant apartments continues to rise. The picture looks rather different in Canton Zug, where the number of planning permits issued last year suggests that new-build construction will remain low in 2019. Given the already very low vacancy rate of 0.4%, this market is unlikely to ease much this year. Living space continues to be in short supply and demand remains high.

## **Digital services being expanded**

By way of enhancing the comprehensive personalised advice provided by our certified client advisors, we are consistently expanding our offering of digital services. The second half of 2019 will see preparatory

work carried out for the introduction of a completely overhauled mobile banking service along with additional functionalities in e-banking, such as the administration of powers of attorney and a scanner to record the new payment slips.

## **Conversion of bearer shares to registered shares**

On 4 May 2019 the Annual General Meeting approved the new legislation relating to Zuger Kantonbank. This will enter into force on 1 January 2020, and among other things envisages the conversion of the current bearer shares to registered shares. The par value will remain CHF 500 per share. Zuger Kantonbank is taking the necessary measures to ensure that this conversion can be implemented for shareholders.

## **Good annual result anticipated**

Zuger Kantonbank is expecting a good annual result, with a slightly lower operating result and profit broadly in line with that of the previous year.

# Key Figures

in CHF 1,000 (rounded)

|  | 30.06.2019        | 31.12.2018        | Change      |
|--|-------------------|-------------------|-------------|
| <b>Balance sheet</b>   |                   |                   |             |
| Total assets   | 15,446,380        | 14,743,485        | 4.8%        |
| Loans to customers   | 12,718,976        | 12,193,988        | 4.3%        |
| ■ of which mortgage loans  | 12,279,829        | 11,722,040        | 4.8%        |
| Customer deposits  | 9,795,757         | 9,673,169         | 1.3%        |
| <b>Assets under management</b>                                   | <b>12,524,784</b> | <b>11,575,608</b> | <b>8.2%</b> |
| <b>Increase in assets under management, performance-adjusted</b> | <b>91,023</b>     | <b>425,334</b>    |             |

in CHF 1,000 (rounded)

|  | 30.06.2019   | 30.06.2018   | Change |
|--|--------------|--------------|--------|
| <b>Income statement</b>                      |              |              |        |
| Net result from interest operations          | 74,039       | 76,192       | -2.8%  |
| Result from commission business and services | 23,164       | 22,556       | 2.7%   |
| Result from trading activities               | 7,721        | 8,651        | -10.8% |
| Operating income                             | 109,384      | 112,756      | -3.0%  |
| Operating expenses                           | -50,201      | -50,453      | -0.5%  |
| Operating result                             | 53,813       | 56,392       | -4.6%  |
| Six-month profit                             | 37,429       | 34,184       | 9.5%   |
| <b>Shareholders' equity</b>                  |              |              |        |
| Available regulatory capital ratio           | 17.7%        | 17.8%        |        |
| <b>Cost-income ratio</b>                     | <b>45.9%</b> | <b>44.8%</b> |        |
| <b>Number of employees (FTE)</b>             | <b>395</b>   | <b>390</b>   |        |

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