



# Review 2018

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# Very good annual result for 2018

**Zuger Kantonbank can look back on a very good 2018 financial year. The operating result rose by 3.9% to CHF 108.2 million. At 7.3%, the rise in income from commission business and services was particularly notable. Costs remained stable. Net profit amounted to CHF 74.7 million, which equates to a year-on-year rise of 9.8%.**

**A dividend increase of CHF 20 to CHF 220 per share will be proposed to the Annual General Meeting.**

Zuger Kantonbank's business model has shown itself to be robust and adaptable even in an environment of low interest rates and volatile financial markets. Thanks to the positive performance and a robust capital base, the Bank Council is proposing to the Annual General Meeting of 4 May 2019 that the dividend be increased by 10% to CHF 220 per share. The dividend yield based on the year-end share price amounts to 3.9%.

## **Income from commission business and services sharply up – trading result lower**

Numerous investors suffered losses over the year as a whole in a difficult investment market that required them to continually reorientate themselves. Overall investment activity was restrained, and income from brokerage fees was significantly lower as a result. Nonetheless, the bank managed once again to increase its result from commission business and services to CHF 46.4 million (previous year: CHF 43.2 million).

Although the trading business continued to benefit from the interest rate differential between the Swiss franc and the major currencies, the result from trading activities of CHF 16.8 million (–6.0%) represented a decline on the prior-year level.

## **Increase in assets under management – cautious acceptance of new money**

Customer deposits, predominantly in private and savings accounts, rose by 6.0% to CHF 9.7 billion in 2018. At 31 December 2018, assets under management stood at CHF 11.6 billion, 0.6% higher than the previous year despite the negative market developments. The level of assets under management, which is the key to sustainable revenue development, recorded a (performance-adjusted) rise of CHF 425.3 million.

The advisory mandates introduced in mid-2017 have delivered important growth stimuli. The volume of proprietary investment funds –

supplemented by new equity and strategy funds, as well as by fund solutions for pension assets – developed very positively in the year under review. Overall, the asset management business of Zuger Kantonalbank once again surpassed the strong growth of the previous year.

### **Interest income holds up**

Zuger Kantonalbank posted a net result from interest operations of CHF 149.0 million, or –0.3% compared to the previous year. Margins in the mortgage business remain under pressure against a backdrop of persistently negative interest rates. Customers took advantage of the unchanged, favourable level of mortgage interest rates and renewed expiring mortgages at lower rates on average. This effect weighed on the interest income result. However, the bank succeeded in cushioning the decline in interest income through circumspect balance sheet management. By the end of the reporting year, fixed-rate mortgages accounted for 98.8% of the total volume (previous year: 98.4%).

The bank continued to pursue its prudent risk policy, with value adjustments and losses remaining very low at CHF 150,000 (previous year: CHF 110,000).

### **Leading position maintained in real estate financing in the Zug region**

In the mortgage business, Zuger Kantonalbank focuses above all on the financing of owner-occupied residential property. The bank consolidated its leading position in this fiercely competitive market further in the year under review, financing 443 new owner-occupied

homes in the Zug region. As a result, real estate financings increased by 2.3% to CHF 11.7 billion, despite persistently high amortisation rates. Loans to customers likewise developed positively, rising by 1.7% to CHF 12.2 billion.

### **Very good cost-income ratio**

At CHF 99.0 million, operating expenses were almost identical to the prior-year level (CHF +0.2 million). Personnel expenses recorded a slight year-on-year rise of 0.2%. In the year under review, the bank invested in a new e-banking solution for its customers and in the IT infrastructure generally with a view to optimising processes. Nonetheless, general and administrative expenses remained stable. Thanks to extraordinary dividend payments in connection with two holdings, income from participations rose by some CHF 2 million to CHF 3 million. The cost-income ratio of 44.9% (previous year: 45.6%) is the result of higher income on the one hand and a stable cost structure on the other, although a proportion of the bank's income in 2018 was of an extraordinary nature.

### **Capital base strengthened yet again**

Zuger Kantonalbank's powerful equity base makes it well-equipped to face the future, as well as affording it great security. Shareholders' equity rose by CHF 30.3 million in the reporting year, and this figure already takes into account the proposed dividend increase. The bank very easily surpasses both the (Basel III) capital adequacy rules and the requirements for a countercyclical capital buffer. The leverage ratio – the ratio of the bank's capital to its total assets – improved to 8.3%.

The ratio of available regulatory capital amounted to 18.5% as at the balance sheet date (previous year: 17.9%), which is high in an industry comparison.

### **Zuger Kantonalbank share**

By year-end, the Zuger Kantonalbank share price had recorded a year-on-year rise of 8.3% to CHF 5,700. Including the distributed dividend of CHF 200 per share, the overall return for 2018 amounted to 12.1%.

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## **Outlook for 2019**

### **Financial markets anticipate weakening of global growth**

The monetary policies of key central banks are giving rise to uncertainty in many places. Should the European Central Bank begin to normalise its monetary policy and start raising interest rates, the Swiss National Bank would gain welcome scope for manoeuvre. However, the risk of a global economic growth slowdown has risen. This would have repercussions for economic development in Switzerland too. Fears of an escalation of the US–China trade dispute and other geopolitical risks have already left their clear mark on equity markets.

### **Zug real estate market on a solid footing**

Our canton continues to enjoy unwavering appeal as a place to live and work. Canton Zug comes out at the top of the rankings in a number of studies on quality of life and competitiveness. The immigration rate is commensurately high, and demand for residential accommodation is persistently strong as a result. The current vacancy rate is only

around half that of the Swiss average. In a year-on-year comparison, the average prices of residential property in Canton Zug have risen once again.

Meanwhile, construction activity hit a 10-year low in 2018, and the number of building permits issued last year suggests that new-build construction will remain low in 2019. The robust demand will continue to exceed the residential property supply in the medium term, which will exert the corresponding upward pressure on prices. The Zug real estate market will retain its leading position in Switzerland. This is true of both purchase prices and rents in the residential segment. With its supply of modern office premises, the canton also remains attractive as a business location.



## Digital services to complement personal advice

We provide personal advice to our customers in all municipalities of Canton Zug. This enables us to continue strengthening our close customers ties. Digital services complement our advisory activity, and are constantly being expanded. Further functionalities in e-banking and additional communication options via digital channels are planned for 2019.

## Cantonal bank legislation to be put to Annual General Meeting

Deliberations in the cantonal parliament in respect of the new legislation on Zuger Kantonalbank have now been concluded. The fully revised cantonal bank law will be put to shareholders for a decision at the Annual General Meeting on 4 May 2019. The proposed total revision will deliver a streamlined, modern law that – together with the new Articles of Association – ideally meets the needs of the modern bank. If accepted by shareholders, the new law will enter into force on 1 January 2020.

## Swiss Wrestling and Alpine Festival comes to Zug

As the bank for the people of Zug, we look forward to being part of this summer's Swiss Wrestling and Alpine Festival. As a "king partner" to this event, we are keen to help make Switzerland's greatest sporting festival an unforgettable experience for the people of Zug, our customers and our employees. You can find more on our commitment to this event (in German only) at [www.zugerkb.ch/gemeinsam-in-schwung](http://www.zugerkb.ch/gemeinsam-in-schwung).

## Upcoming dates

### Publication of Annual Report

26 March 2019

### Annual General Meeting

4 May 2019

### 2019 interim results

16 July 2019

Key dates already known are listed above. These are potentially subject to change. The latest information can be found at [www.zugerkb.ch/die-zugerkb/investor-relations](http://www.zugerkb.ch/die-zugerkb/investor-relations).

# Balance Sheet as at 31 December 2018 (before distribution of profit)

in CHF 1,000 (rounded)

|   | 2018              | 2017              | Change      |
|---|-------------------|-------------------|-------------|
| <b>Assets</b>   |                   |                   |             |
| Liquid assets   | 1,832,777         | 1,954,909         | -6.2%       |
| Amounts due from banks  | 25,089            | 23,659            | 6.0%        |
| Amounts due from customers                                      | 471,949           | 526,757           | -10.4%      |
| Mortgage loans  | 11,722,040        | 11,462,260        | 2.3%        |
| Trading portfolio assets  | 650               | 567               | 14.7%       |
| Positive replacement values of derivative financial instruments | 12,197            | 3,204             | 280.7%      |
| Financial investments   | 534,588           | 522,088           | 2.4%        |
| Accrued income and prepaid expenses                             | 4,311             | 5,205             | -17.2%      |
| Participations  | 13,434            | 6,854             | 96.0%       |
| Tangible fixed assets   | 119,303           | 127,040           | -6.1%       |
| Other assets  | 7,147             | 8,213             | -13.0%      |
| <b>Total assets</b>   | <b>14,743,485</b> | <b>14,640,755</b> | <b>0.7%</b> |
| <b>Liabilities</b>  |                   |                   |             |
| Amounts due to banks  | 2,194             | 342,479           | -99.4%      |
| Liabilities from securities financing transactions              |                   | 370,000           |             |
| Amounts due in respect of customer deposits                     | 9,638,925         | 9,084,137         | 6.1%        |
| Negative replacement value of derivative financial instruments  | 18,402            | 4,285             | 329.5%      |
| Medium-term notes   | 34,244            | 44,609            | -23.2%      |
| Bond issues and central mortgage institution loans              | 3,608,000         | 3,374,000         | 6.9%        |
| Accrued expenses and deferred income                            | 58,508            | 61,613            | -5.0%       |
| Other liabilities   | 41,138            | 53,892            | -23.7%      |
| Provisions  | 3,701             | 3,695             | 0.2%        |
| Reserves for general banking risks                              |                   |                   |             |
| ■ of which risk profile   | 190,000           | 188,000           | 1.1%        |
| ■ of which general  | 570,517           | 549,917           | 3.7%        |
| 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                             | 219,381           | 212,031           | 3.5%        |
| Own shares  | -3,746            | -4,358            | -14.0%      |
| Profit carried forward  | 560               | 1,452             | -61.4%      |
| Profit  | 74,707            | 68,048            | 9.8%        |
| <b>Total liabilities</b>  | <b>14,743,485</b> | <b>14,640,755</b> | <b>0.7%</b> |
| <b>Off-balance-sheet transactions</b>                           |                   |                   |             |
| Contingent liabilities  | 31,773            | 41,041            | -22.6%      |
| Irrevocable commitments   | 455,514           | 438,068           | 4.0%        |
| Liabilities for calls on shares and other equities              | 17,724            | 17,724            | 0.0%        |
| Credit commitments  |                   | 339               |             |

# Income statement

in CHF 1,000 (rounded)

|  | 2018           | 2017           | Change        |
|--|----------------|----------------|---------------|
| Interest and discount income   | 191,041        | 199,415        | -4.2%         |
| Interest and dividend income from trading portfolios   | 5              | 5              | 0.0%          |
| Interest and dividend income from financial investments  | 2,505          | 2,505          | 0.0%          |
| Interest expense   | -44,404        | -52,389        | -15.2%        |
| <b>Gross result from interest operations</b>   | <b>149,147</b> | <b>149,536</b> | <b>-0.3%</b>  |
| Changes in value adjustments for default risks and losses from interest operations                                   | -150           | -110           | 36.0%         |
| <b>Net result from interest operations</b>   | <b>148,997</b> | <b>149,426</b> | <b>-0.3%</b>  |
| Commissions from securities and investment transactions  | 39,141         | 36,717         | 6.6%          |
| Commission income from lending activities  | 844            | 933            | -9.5%         |
| Commission income from other services  | 12,005         | 11,778         | 1.9%          |
| Commission expense   | -5,634         | -6,223         | -9.5%         |
| <b>Result from commission business and services</b>  | <b>46,356</b>  | <b>43,204</b>  | <b>7.3%</b>   |
| <b>Results from trading activities</b>   | <b>16,773</b>  | <b>17,843</b>  | <b>-6.0%</b>  |
| Result from divestment of financial investments  | 626            | 373            | 67.8%         |
| Income from participations   | 3,003          | 1,087          | 176.2%        |
| Result from real estate  | 3,952          | 4,604          | -14.2%        |
| Other ordinary income  | 494            | 244            | 102.2%        |
| Other ordinary expenses  | -1             |                |               |
| <b>Other result from ordinary activities</b>   | <b>8,074</b>   | <b>6,308</b>   | <b>28.0%</b>  |
| <b>Operating income</b>  | <b>220,200</b> | <b>216,781</b> | <b>1.6%</b>   |
| Personnel expenses   | -66,133        | -66,013        | 0.2%          |
| General and administrative expenses  | -32,863        | -32,817        | 0.1%          |
| <b>Operating expenses</b>  | <b>-98,996</b> | <b>-98,829</b> | <b>0.2%</b>   |
| Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets | -12,894        | -13,723        | -6.0%         |
| Changes to provisions and other value adjustments, and losses  | -75            | -100           | -24.7%        |
| <b>Operating result</b>  | <b>108,234</b> | <b>104,129</b> | <b>3.9%</b>   |
| <b>Extraordinary income</b>  | <b>1,361</b>   | <b>1,730</b>   | <b>-21.3%</b> |
| Reserves for general banking risks   |                |                |               |
| ▪ risk profile   | -2,000         | -2,000         | 0.0%          |
| ▪ general  | -20,600        | -23,700        | -13.1%        |
| <b>Changes in reserves for general banking risks</b>   | <b>-22,600</b> | <b>-25,700</b> | <b>-12.1%</b> |
| <b>Taxes</b>   | <b>-12,288</b> | <b>-12,110</b> | <b>1.5%</b>   |
| <b>Profit</b>  | <b>74,707</b>  | <b>68,048</b>  | <b>9.8%</b>   |

# Key Figures

in CHF 1,000 (rounded)

|   | 2018             | 2017       | Change |
|---|------------------|------------|--------|
| <b>Balance sheet</b>                                      |                  |            |        |
| Total assets  | 14,743,485       | 14,640,755 | 0.7%   |
| Loans to customers  | 12,193,988       | 11,989,017 | 1.7%   |
| ■ of which mortgage loans                                 | 11,722,040       | 11,462,260 | 2.3%   |
| Customer deposits   | 9,673,169        | 9,128,746  | 6.0%   |
| <b>Shareholders' equity</b>                               |                  |            |        |
| Shareholders' equity after distribution of profit         | 1,270,879        | 1,240,605  | 2.4%   |
| Available regulatory capital ratio                        | 18.5%            | 17.9%      |        |
| <b>Income statement</b>                                   |                  |            |        |
| Net result from interest operations                       | 148,997          | 149,426    | -0.3%  |
| Result from commission business and services              | 46,356           | 43,204     | 7.3%   |
| Results from trading activities                           | 16,773           | 17,843     | -6.0%  |
| Operating income  | 220,200          | 216,781    | 1.6%   |
| Operating expenses  | -98,996          | -98,829    | 0.2%   |
| Operating result  | 108,234          | 104,129    | 3.9%   |
| Profit  | 74,707           | 68,048     | 9.8%   |
| <b>Statistical overview</b>                               |                  |            |        |
| Assets under management                                   | 11,575,608       | 11,504,454 | 0.6%   |
| Increase in assets under management, performance-adjusted | 425,334          | 142,607    | 198.3% |
| Cost-income ratio   | 44.9%            | 45.6%      |        |
| Number of employees (FTE)                                 | 397              | 395        |        |
| <b>Key share figures</b>                                  |                  |            |        |
| Share price at the end of the year (in CHF)               | 5,700            | 5,265      | 8.3%   |
| Market capitalization                                     | 1,643,242        | 1,517,836  |        |
| Dividend (in CHF)   | 220 <sup>1</sup> | 200        |        |
| Dividend yield  | 3.9%             | 3.8%       |        |

<sup>1</sup> Proposal to the Annual General Meeting

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