



Review 2017

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Pleasing result for anniversary year 2017

Zuger Kantonalbank performed very well in its anniversary year 2017. The operating result saw a year-on-year rise of 3.6% to CHF 104.1 million. The increase of more than 20% in income from commission business and services shows that the continuous implementation of strategic measures is bearing fruit.

Net profit came to CHF 68.0 million, a year-on-year rise of 10.6%. Thanks to this solid result, the Bank Council is proposing to the Annual General Meeting a dividend increase of CHF 25 to CHF 200 per share.

Together with the local people of Zug, Zuger Kantonalbank celebrated its 125th anniversary throughout the year with a number of festive events as well as a project competition ("Ideas for Zug"). Zuger Kantonalbank can also look back on a pleasing 2017 from an operating perspective, with net profit rising to CHF 68.0 million.

Proposed dividend increase

Owing to the bank's strong performance and robust capital base, the Bank Council is proposing to the Annual General Meeting of 5 May 2018 that the dividend be increased from CHF 175 to CHF 200 per share. The dividend yield (based on the year-end share price) will therefore rise from 3.3% to 3.8%.

Strong increase in commission business – trading result holds up

Investors benefited from an exceptionally friendly stock market environment in the year under review. Our clients too were significant-

ly more active in the market than they have been in previous years. The brisk level of market activity is reflected in a stronger result in the commission business, namely CHF 43.2 million (previous year: CHF 35.4 million). This result was strengthened by the introduction of the new advisory mandates. Both the volume of proprietary funds and the assets in discretionary mandates of Zuger Kantonalbank developed particularly well, thereby driving the development of non-deposit related income. As in the previous year, the trading business benefited from the interest rate differential of the Swiss franc vis-à-vis the world's major currencies. The result of CHF 17.8 million (-0.6%) was broadly on a par with the prior-year level.

Increase in assets under management – cautious acceptance of new money

In 2017, customer deposits entrusted to Zuger Kantonalbank rose by 0.7% to CHF 9.1 billion. At 31 December 2017, assets under

management saw a year-on-year rise of 9.2% to CHF 11.5 billion, partly as a result of market performance. The net new money inflow in asset management amounted to CHF 140.8 million in the year under review (previous year: CHF 23.7 million). As in the previous year, we consciously managed the development of new assets by passing on negative interest rates to certain clients on an individual basis. The level of assets under management, which is the key to sustainable revenue development, recorded a (performance-adjusted) rise of CHF 142.6 million.

Interest income under pressure

Zuger Kantonalbank posted a net result from interest operations of CHF 149.4 million, or -3.3% compared to the previous year. Value adjustments and losses were once again low, amounting to CHF 110,000 (previous year: CHF 32,000).

Margins in the mortgage business were maintained. Customers took advantage of persistently low mortgage interest rates, hence new mortgage business was concluded at lower average rates than expiring mortgages. This had the effect of reducing interest income. By the end of the reporting year, fixed-rate mortgages accounted for 98.4% of the total volume (previous year: 97.9%). The favourable conditions in the interbank business arising from negative interest rates, combined with consistent management of customer deposits and circumspect balance sheet management, have enabled us to at least partially compensate for the decline in interest income on mortgages.

Leading position in real estate financing in the Zug region

Zuger Kantonalbank was able to strengthen its leading position in the fiercely competitive market for real estate financing even further in 2017. As in previous years, the mortgage business was focused on the financing of owner-occupied residential property. Although numerous customers exploited the continuing low-interest environment to make repayments (in the absence of investment alternatives), the volume of real estate financing nonetheless rose by 1.4% to CHF 11.5 billion. Loans to customers likewise developed positively, rising by 1.3% to CHF 12.0 billion.

Very good cost-income ratio

Overall, operating expenses declined by CHF 0.7 million to CHF 98.8 million. Personnel expenses recorded a slight year-on-year rise of 0.2%. General and administrative expenses declined by 2.4%, despite the additional costs incurred in connection with the bank's 125th anniversary. The further improvement in the cost-income ratio to 45.6% (previous year: 46.9%) is testimony to our cost discipline and high efficiency. This puts Zuger Kantonalbank in a very strong position in an industry comparison.

Capital base strengthened yet again

Zuger Kantonalbank's powerful equity base gives the bank freedom of manoeuvre in the future, as well as affording it great security. In the reporting year, our capital base rose by CHF 32.8 million, despite the proposed increase in the dividend.

The bank easily fulfils 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 8.2%. The ratio of available regulatory capital amounted to 17.9% as per the balance sheet date (previous year: 17.3%), which is high in an industry comparison. Zuger Kantonalbank thus significantly exceeds the minimum legal requirements with regard to both of these ratios.

Zuger Kantonalbank share

As at the end of 2017, the Zuger Kantonalbank share price had posted a year-on-year rise of 5.9% to CHF 5,265. Including the distributed dividend of CHF 175 per share, the overall return amounted to 9.4% in the year under review.

Outlook for 2018

The international environment improved further last year. The Swiss economy benefited from the dynamic economies of its trading partners, as well as the noticeable depreciation of the Swiss franc. This trend can be expected to continue in the coming months. However, the risks posed by low interest rates and a still overvalued franc continue to present a challenge to the Swiss economy. It is therefore all the more pleasing that the Zug economic region is in a robust state.

Viewed in overall terms, current parameters would suggest that the positive basic sentiment of financial markets is set to continue in 2018. Much of the current optimism rests on the fact that the economic upturn is also increasingly being reflected in companies’ performance. Corporate earnings are on the rise, which in turn forms the basis for bullish equity markets. In the absence of any immediate inflationary pressures, interest rates can be expected to normalise only very slowly.

Zug real estate market remains robust

Canton Zug continues to be attractive as a place to live and work. Accordingly, residential property has been the object of unbroken demand, with property prices rising once again in a year-on-year comparison. At the same time, residential building activity is well below its five-year average. Investment is being channelled predominantly into rental apartment construction. Nonetheless, vacancy rates in this segment are still close to zero. Generally speaking, it appears likely that the market will also easily absorb the increased offering in the office premises market. Zuger Kantonalbank is involved in many future construction projects in Canton Zug. We are therefore confident of being able to expand our financing business on a healthy basis in the 2018 financial year.

Customer advisers to be SAQ certified by mid-2018

Whatever the financial issue, Zuger Kantonalbank is there for its customers. The complexity of – and demand for – advisory competence and specialist knowledge are continually rising. For this reason, Zuger Kantonalbank continually invests in training its customer advisers. As of mid-2018, our customer advisers will be certified in accordance with the guidelines of the Swiss Association for Quality (SAQ).

Organisational changes as of 1 March 2018

Andreas Janett will be the new CFO of Zuger Kantonalbank with effect from 1 March 2018. He will succeed Theodor Keiser, who is retiring. Zuger Kantonalbank would like to thank Theodor Keiser for having served the bank so well for so many years. At the same time, Adrian Andermatt, Chief of Staff up to now, will be appointed to the Executive Board and take over responsibility for the Corporate Clients department.

Revision of Zuger Kantonalbank law ongoing

The cantonal government of Zug submitted a proposal for the full revision of the cantonal law on Zuger Kantonalbank for consultation in November 2017. This legislation will be debated in the Cantonal Council in 2018 and will then most probably be put to shareholders for a vote at the 2019 Annual General Meeting. The fully revised legislation in respect of Zuger Kantonalbank will enter into force on 1 January 2020 at the earliest.

Upcoming dates

Publication of Annual Report

27 March 2018

Annual General Meeting

5 May 2018

2018 interim results

17 July 2018

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.

Balance Sheet as at 31 December 2017 (before distribution of profit)

in CHF 1,000 (rounded)

	2017	2016	Change
Assets			
Liquid assets	1,954,909	1,921,506	1.7%
Amounts due from banks	23,659	39,345	-39.9%
Amounts due from customers	526,757	532,385	-1.1%
Mortgage loans	11,462,260	11,302,873	1.4%
Trading portfolio assets	567	518	9.5%
Positive replacement values of derivative financial instruments	3,204	7,088	-54.8%
Financial investments	522,088	523,260	-0.2%
Accrued income and prepaid expenses	5,205	6,463	-19.5%
Participations	6,854	6,903	-0.7%
Tangible fixed assets	127,040	132,066	-3.8%
Other assets	8,213	7,801	5.3%
Total assets	14,640,755	14,480,207	1.1%
Liabilities			
Amounts due to banks	342,479	165,030	107.5%
Liabilities from securities financing transactions	370,000	400,000	-7.5%
Amounts due in respect of customer deposits	9,084,137	9,010,416	0.8%
Negative replacement value of derivative financial instruments	4,285	5,065	-15.4%
Medium-term notes	44,609	56,120	-20.5%
Bond issues and central mortgage institution loans	3,374,000	3,473,000	-2.9%
Accrued expenses and deferred income	61,613	54,890	12.2%
Other liabilities	53,892	50,100	7.6%
Provisions	3,695	3,945	-6.3%
Reserves for general banking risks			
■ of which risk profile	188,000	186,000	1.1%
■ of which general	549,917	526,217	4.5%
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	212,031	204,495	3.7%
Own shares	-4,358	-4,749	-8.2%
Profit carried forward	1,452	1,188	22.2%
Profit	68,048	61,537	10.6%
Total liabilities	14,640,755	14,480,207	1.1%
Off-balance-sheet transactions			
Contingent liabilities	41,041	53,544	-23.4%
Irrevocable commitments	438,068	477,375	-8.2%
Obligations to pay up shares and make further contributions	17,724	17,724	0.0%
Credit commitments	339	80	323.9%

Income statement

in CHF 1,000 (rounded)

	2017	2016	Change
Interest and discount income	199,415	216,298	-7.8 %
Interest and dividend income from trading portfolios	5	5	0.0 %
Interest and dividend income from financial investments	2,505	3,051	-17.9 %
Interest expense	-52,389	-64,843	-19.2 %
Gross result from interest operations	149,536	154,510	-3.2 %
Changes in value adjustments for default risks and losses from interest operations	-110	-32	244.2 %
Net result from interest operations	149,426	154,478	-3.3 %
Commissions from securities and investment transactions	36,717	27,997	31.1 %
Commission income from lending activities	933	863	8.0 %
Commission income from other services	11,778	11,153	5.6 %
Commission expense	-6,223	-4,596	35.4 %
Result from commission business and services	43,204	35,418	22.0 %
Results from trading activities	17,843	17,952	-0.6 %
Result from divestment of financial investments	373		
Income from participations	1,087	789	37.7 %
Result from real estate	4,604	3,083	49.3 %
Other ordinary income	244	342	-28.7 %
Other result from ordinary activities	6,308	4,214	49.7 %
Operating income	216,781	212,063	2.2 %
Personnel expenses	-66,013	-65,856	0.2 %
General and administrative expenses	-32,817	-33,636	-2.4 %
Operating expenses	-98,829	-99,493	-0.7 %
Value adjustments on participations and depreciation, and amortisation of tangible fixed assets and intangible assets	-13,723	-11,964	14.7 %
Changes to provisions and other value adjustments, and losses	-100	-79	27.0 %
Operating result	104,129	100,528	3.6 %
Extraordinary income	1,730	2,240	-22.8 %
Reserves for general banking risks			
▪ risk profile	-2,000	-2,000	0.0 %
▪ general	-23,700	-30,000	-21.0 %
Changes in reserves for general banking risks	-25,700	-32,000	-19.7 %
Taxes	-12,110	-9,231	31.2 %
Profit	68,048	61,537	10.6 %

Key Figures

in CHF 1,000 (rounded)

	2017	2016	Change
Balance sheet			
Total assets	14,640,755	14,480,207	1.1%
Loans to customers	11,989,017	11,835,258	1.3%
■ of which mortgage loans	11,462,260	11,302,873	1.4%
Customer deposits	9,128,746	9,066,536	0.7%
Shareholders' equity			
Shareholders' equity after distribution of profit	1,240,605	1,207,869	2.7%
Available regulatory capital ratio	17.9%	17.3%	
Income statement			
Net result from interest operations	149,426	154,478	-3.3%
Result from commission business and services	43,204	35,418	22.0%
Results from trading activities	17,843	17,952	-0.6%
Operating income	216,781	212,063	2.2%
Operating expenses	-98,829	-99,493	-0.7%
Operating result	104,129	100,528	3.6%
Profit	68,048	61,537	10.6%
Statistical overview			
Assets under management	11,504,454	10,531,204	9.2%
Increase in assets under management, performance-adjusted	142,607	223,424	-36.2%
Cost-income ratio	45.6%	46.9%	
Number of employees (FTE)	395	401	
Key share figures			
Share price at the end of the year (in CHF)	5,265	4,971	5.9%
Market capitalization	1,517,836	1,433,080	
Dividend (in CHF)	200	175	
Dividend yield (share price at year-end)	3.8%	3.5%	

Zuger Kantonalbank
 Bahnhofstrasse 1
 6301 Zug
 Phone 041 709 11 11
 Fax 041 709 15 55

service@zugerkb.ch
 www.zugerkb.ch