

Interim Report 2014



Zuger Kantonalbank

Solid result in line with previous year

Zuger Kantonalbank posted a stable profit of CHF 30.2 million for the first six months of 2014 (CHF 30.2 million in the first half of the previous year). The bank continued to expand its core business of mortgage lending. Interest income remained stable. Performance was moderately lower in the commission and service fee income business.

Mortgage business sees further growth

In the first half of 2014, Zuger Kantonalbank continued to build up its mortgage operations, the bank's principal source of income. Mortgage loans rose by 2.0% to CHF 10.5 billion (first half of the previous year: plus 1.7% to CHF 9.9 billion). Zuger Kantonalbank thus also remains the leading player in property financing in the Zug economic region.

Construction activity in the Canton of Zug is still high. Housing demand continues to hold up in the mid and low-end segments. In the high-end segment, a certain cooling is noticeable. Zuger Kantonalbank is maintaining its prudent credit policy and, prior to loan approval, continues to have all properties valued by its own appraisers. The bank also consistently verifies the financial viability of each loan commitment.

Interest income stable

Customer assets increased by 1.6% in the first six months of 2014 to CHF 9.1 billion. Despite much lower interest rates, Zuger Kantonalbank achieved moderately wider margins on its mortgage business. In combination with higher volumes, the bank reported interest income

of CHF 77.1 million, virtually unchanged on the previous year (first half of the previous year: CHF 77.4 million). In the corporate finance business, Zuger Kantonalbank succeeded in growing volumes and profits slightly.

Many customers took advantage of the further fall in mortgage rates since the beginning of the year and refinanced existing mortgages at attractive fixed rates. As a result, the share of fixed-rate mortgages rose to over 95.7% by mid-year (previous year: 94.2%).

Commission and service fee income down slightly

Zuger Kantonalbank's investment strategy, which is focused on preserving value, developed in line with expectations in the first six months of 2014. The number of asset management mandates fell by 3.9% to mid-year, but the overall volume rose by 3.1%, representing a solid increase compared with the market. Assets under management showed a decrease despite an encouraging inflow of new funds. On the one hand, for regulatory reasons the bank had to discontinue business

with customers resident abroad, and on the other hand, a redefinition of assets under management led to an adjustment in the amount. With markets quiet, customers were visibly holding back on stock exchange transactions. At CHF 17.9 million, total commission and service fee income was 6.7% lower than in the previous year.

One-off payment in favour of pension scheme

As already announced, a one-time allocation of CHF 18.5 million to the pension scheme for the change from a defined benefit to a defined contribution plan was charged to gross profit. The switchover will increase the appeal of Zuger Kantonalbank as an employer. To offset the effect of this charge, which was paid in full in the first half of the year, the bank is dissolving reserves for general banking risks in the amount of CHF 6.5 million. The bank aims to replenish these reserves in the second half.

Good cost-income ratio

In the first half of 2014, personnel expenses rose slightly compared with the same period of the previous year. At 402, the number of full-time equivalent employees, including temporary positions, remained almost unchanged compared with the end of 2013.

Non-staff costs came in higher than the previous year owing to increased IT platform costs and more stringent regulatory requirements.

Overall, operating expenses rose by 4.5% to CHF 51.6 million and the cost-income ratio to 50.3% (46.9% in the same period of the previous year). Compared to its peers, Zuger Kantonalbank continued to report a good cost-income ratio.

Comfortable equity capitalisation

Valuation adjustments, provisions and losses totalled CHF 0.2 million, once again markedly under the already low level seen in the previous year (CHF 0.4 million). The quality of the credit portfolio remains good. With a BIS Tier 1 ratio of 15.9%, Zuger Kantonalbank continues to have an extremely solid equity capitalisation and also holds an anti-cyclical capital buffer in compliance with the required level, which was increased from 1% to 2% by resolution of the Swiss Federal Council effective 30 June 2014.

Considerable headway has been made with work in connection with the US tax programme to settle the tax dispute between the Swiss banks and the USA. While the bank expects to be able to close the matter within the next few months, this naturally depends on the competent US authorities.

Conditions favourable but interest rates still low

In spite of major political uncertainties, the global economy turned out to be more resilient than expected in the first half of 2014. The USA and the euro zone countries benefited from the easing of conditions, and the capital markets became less unpredictable. The measures taken by the central banks of the leading economic areas to boost their economies also proved effective.

Although the strong Swiss franc continues to exert a considerable drag on Switzerland's export sector, a large number of local companies are moving in the right direction thanks to an increase in global demand.

Since the beginning of the year, mid to long-term Swiss franc rates have again been falling significantly, in tandem with euro rates. Regardless of the global economic recovery, the Swiss National Bank is unlikely to change its monetary course.

Outlook

For full-year 2014, Zuger Kantonalbank expects a lower gross profit and – barring any unforeseen events – a generally satisfactory result.

Key Figures

in CHF 1,000 (rounded)

	30.06.2014	31.12.2013	Change
Balance sheet			
Balance sheet total	13,505,044	13,302,594	1.5%
Loans to customers:	11,311,502	11,164,275	1.3%
■ of which: mortgages	10,520,358	10,315,122	2.0%
Due to customers ¹⁾	9,094,418	8,947,546	1.6%
Shareholders' equity			
Shareholders' equity after distribution of profits	1,097,527	1,099,879	-0.2%
BIS Tier 1 ratio	15.9%	16.5%	
Assets under management	9,951,845	10,448,966	-4.8%
Number of employees (FTE)	402	398	

in CHF 1,000 (rounded)

	30.06.2014	30.06.2013	Change
Income statement			
Net interest income	77,092	77,429	-0.4%
Net commission and fee income	17,901	19,195	-6.7%
Income from trading operations	5,676	6,516	-12.9%
Operating income	102,504	105,148	-2.5%
Operating expenses excl. one-off payment to pension scheme	-51,554	-49,351	4.5%
One-off payment to pension scheme for 12 months	-18,500	0	
Gross profit excl. one-off payment to pension scheme	50,949	55,797	-8.7%
Operating profit (subtotal) excl. one-off payment to pension scheme	45,403	51,290	-11.5%
Half-year profit	30,194	30,237	-0.1%
Cost/income ratio (excl. one-off payment to pension scheme)	50.3%	46.9%	

¹⁾ Due to customers & medium-term notes

Balance Sheet

in CHF 1,000 (rounded)

	30.06.2014	31.12.2013	Change
Assets			
Cash	1,132,755	1,211,405	-6.5%
Receivables from money market instruments	0	0	
Due from banks	208,544	182,858	14.0%
Due from customers	791,145	849,152	-6.8%
Mortgages	10,520,358	10,315,122	2.0%
Securities and precious metals trading portfolios	557	516	79%
Financial investments	540,103	420,293	28.5%
Participating interests	9,120	9,190	-0.8%
Fixed assets	118,786	111,024	70%
Accrued income and prepaid expenses	16,778	15,319	9.5%
Other assets	166,899	187,714	-11.1%
Total assets	13,505,044	13,302,594	1.5%
Liabilities			
Due to money market instruments	182	278	-34.5%
Due to banks	4,233	2,051	106.4%
Due to customers in savings and investments	5,518,075	5,369,364	2.8%
Other due to customers	3,437,096	3,396,892	1.2%
Medium-term notes	139,247	181,290	-23.2%
Bonds and mortgage-backed bonds	2,764,000	2,754,000	0.4%
Accrued expenses and deferred income	61,188	51,349	19.2%
Other liabilities	248,979	204,587	21.7%
Allowances and provisions	207,630	189,130	9.8%
Reserves for general banking risks			
▪ risk profile	182,000	182,000	0.0%
▪ general	439,067	445,567	-1.5%
Share capital	144,144	144,144	0.0%
Legal reserve from capital reserve	63,865	63,865	0.0%
General statutory reserve	258,112	250,612	3.0%
Other reserves	10,649	10,856	-1.9%
Treasury shares	-4,712	-5,759	-18.2%
Retained earnings	1,094	1,165	-6.1%
Earnings for the half-year/year	30,194	61,202	-50.7%
Total liabilities	13,505,044	13,302,594	1.5%
Off-balance-sheet transactions			
Contingent liabilities	47,916	45,092	6.3%
Irrevocable commitments	452,429	399,626	13.2%
Liabilities for calls on shares and other equities	9,000	9,000	0.0%
Commitment facilities	188	94	100.0%
Derivative financial instruments			
▪ positive replacement values	98,871	77,841	270%
▪ negative replacement values	138,201	199,829	-30.8%
▪ contract volume	5,361,519	6,057,735	-11.5%
Fiduciary transactions	85,478	83,671	2.2%

Income Statement

in CHF 1,000 (rounded)

	30.06.2014	30.06.2013	Change
Net interest income			
Interest and discount income	121,862	124,011	- 1.7%
Interest and dividend income from trading portfolios	0	0	
Interest and dividend income from financial investments	1,889	3,262	- 42.1%
Interest expenses	- 46,659	- 49,844	- 6.4%
	77,092	77,429	- 0.4%
Net commission and fee income			
Commission income from lending activities	564	558	0.9%
Commission from securities and investment activities	14,959	16,158	- 7.4%
Commission income from other service fee activities	4,819	4,845	- 0.5%
Commission expenses	- 2,441	- 2,367	3.1%
	17,901	19,195	- 6.7%
Net income from trading operations	5,676	6,516	- 12.9%
Other ordinary profits	1,836	2,008	- 8.6%
Operating income	102,504	105,148	- 2.5%
Operating expenses excl. one-off payment to pension scheme			
Personnel expenses	- 34,134	- 33,900	0.7%
Other operating expenses	- 17,420	- 15,451	12.7%
	- 51,554	- 49,351	4.5%
Gross profit excl. one-off payment to pension scheme	50,949	55,797	- 8.7%
One-off payment to pension scheme for 12 months	- 18,500	0	
Gross profit incl. one-off payment to pension scheme for 12 months	32,449	55,797	
Depreciation and amortization of fixed assets	- 5,347	- 4,107	30.2%
Losses	- 200	- 400	- 50.0%
Allowances and provisions (risk profile)	0	0	
Subtotal (operating profit) excl. one-off payment to pension scheme	45,403	51,290	- 11.5%
Subtotal (operating profit) incl. one-off payment to pension scheme for 12 months	26,903	51,290	
Extraordinary income			
Reserves for general banking risks	6,500	0	
Other extraordinary income	100	0	
	6,600	0	
Extraordinary expenses			
Reserves for general banking risks			
▪ risk profile	0	- 1,500	- 100.0%
▪ general	0	- 13,000	- 100.0%
Other extraordinary expenses	0	0	
	0	- 14,500	- 100.0%
Taxes	- 3,308	- 6,552	- 49.5%
Half-year profit	30,194	30,237	- 0.1%

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Wir begleiten Sie im Leben.

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