



# Interim Report 2018

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# Very good result for the first half of 2018

**Zuger Kantonalbank managed to increase profit in the first half of 2018 by 9.5% to CHF 34.2 million. A key driver of this very good result was higher income from commission business and services. Interest income likewise developed positively. Customer assets recorded a significant rise, while loans to customers also increased. The quality of the credit portfolio remains consistently good.**

Zuger Kantonalbank experienced a very healthy trend in its results for the first six months of this year. The operating result came in at CHF 56.4 million, which represents an increase of 14.0% on the prior year, while profit was up by 9.5% to CHF 34.2 million. Total assets rose to CHF 14.8 billion.

## **Mortgage lending business strengthened further**

Compared to the end of the year, mortgage loans rose slightly by 1.2% and amounted to CHF 11.6 billion. Persistently high repayment volumes were more than offset by new property loans, as Zuger Kantonalbank continued to strengthen its position as the leading bank for real estate financing in the Zug business region. The bank is sticking to its prudent lending policy with clearly defined test criteria.

## **Interest income on track**

Margins in the mortgage business have remained virtually unchanged in the ongoing low-interest environment. Favourable long-

term refinancing conditions have enabled the bank to cushion low interest rates on new mortgage business. As a result, interest income rose to CHF 76.2 million (prior year: CHF 74.4 million). Customers continued to take advantage of the favourable mortgage rates on offer and renewed maturing loans on a fixed-rate basis.

The sharp increase of CHF 492 million in customer deposits in the first half of the year to a total of CHF 9.6 billion (+5.4%) is primarily attributable to inflows in wealth management that are being consistently invested in securities. As before, in the absence of broad market acceptance we are only passing negative interest rates on to customers in individual cases.

## **Result from commission business and services up sharply**

In commission business and services, the bank posted a very gratifying result of CHF 22.6 million (+16.2% year-on-year). Together with ongoing growth, the strategic measures

implemented in the investment advisory and asset management business as per 1 July 2017 have strengthened income sustainably.

Assets under management rose by CHF 634.1 million to CHF 11.9 billion, an increase of 5.6% compared to 30 June 2017. On a performance-adjusted basis, the increase in assets under management since the beginning of the year amounted to CHF 224.4 million.

At mid-year, the result from trading activities stood at CHF 8.7 million, mirroring the result for the first half of 2017.

#### **Cost-income ratio confirms high efficiency**

The position "Other results from ordinary activities" has risen to CHF 5.4 million as a result of higher distributions on participations. Personnel expenses remained virtually unchanged (+0.2%). Due to the introduction of new IT solutions, general and administrative expenses rose by 2.7% to CHF 17.3 million. Depreciation declined by CHF 0.5 million year-on-year to CHF 5.9 million. The healthy cost-income ratio testifies to the steadily high efficiency of Zuger Kantonalbank.

#### **Very comfortable equity base**

The quality of the credit portfolio remains consistently good. In the first half of 2018, value adjustments for default risks were written back to the tune of CHF 0.2 million. The ratio of available regulatory capital stood at 17.8% at mid-year. This makes Zuger Kantonalbank one of the best capitalised banks in Switzerland.

# Balance Sheet

in CHF 1,000 (rounded)

	30.06.2018	31.12.2017	Change
<b>Assets</b>			
Liquid assets	1,973,913	1,954,909	1.0%
Amounts due from banks	36,484	23,659	54.2%
Amounts due from customers	520,504	526,757	-1.2%
Mortgage loans	11,597,943	11,462,260	1.2%
Trading portfolio assets	535	567	-5.6%
Positive replacement values of derivative financial instruments	15,760	3,204	391.9%
Financial investments	529,015	522,088	1.3%
Accrued income and prepaid expenses	6,853	5,205	31.7%
Participations	12,834	6,854	87.3%
Tangible fixed assets	122,770	127,040	-3.4%
Other assets	8,380	8,213	2.0%
<b>Total assets</b>	<b>14,824,990</b>	<b>14,640,755</b>	<b>1.3%</b>
Total subordinated claims	1,887	1,047	80.2%
<b>Liabilities</b>			
Amounts due to banks	13,354	342,479	-96.1%
Liabilities from securities financing transactions	213,000	370,000	-42.4%
Amounts due in respect of customer deposits	9,580,148	9,084,137	5.5%
Negative replacement value of derivative financial instruments	21,404	4,285	399.5%
Medium-term notes	40,514	44,609	-9.2%
Bond issues and central mortgage institution loans	3,549,000	3,374,000	5.2%
Accrued expenses and deferred income	62,287	61,613	1.1%
Other liabilities	51,367	53,892	-4.7%
Provisions	2,534	3,695	-31.4%
Reserves for general banking risks			
▪ of which risk profile	188,000	188,000	0.0%
▪ of which general	565,667	549,917	2.9%
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	219,314	212,031	3.4%
Own shares	-3,297	-4,358	-24.3%
Profit carried forward	560	1,452	-61.4%
Six-month/12-month profit	34,184	68,048	-49.8%
<b>Total liabilities</b>	<b>14,824,990</b>	<b>14,640,755</b>	<b>1.3%</b>
<b>Off-balance-sheet transactions</b>			
Contingent liabilities	36,488	41,041	-11.1%
Irrevocable commitments	498,450	438,068	13.8%
Obligations to pay up shares and make further contributions	17,724	17,724	0.0%
Credit commitments		339	

# Income Statement

in CHF 1,000 (rounded)

	30.06.2018	30.06.2017	Change
Interest and discount income	96,008	101,270	-5.2 %
Interest and dividend income from financial investments	1,222	1,302	-6.1 %
Interest expense	-21,224	-28,159	-24.6 %
<b>Gross result from interest operations</b>	<b>76,006</b>	<b>74,413</b>	<b>2.1 %</b>
Changes in value adjustments for default risks and losses from interest operations	186	-1	< -1,000 %
<b>Net result from interest operations</b>	<b>76,192</b>	<b>74,412</b>	<b>2.4 %</b>
Commission income from securities and investment transactions	19,421	16,800	15.6 %
Commission income from lending activities	482	477	1.0 %
Commission income from other services	5,620	5,550	1.3 %
Commission expense	-2,968	-3,409	-13.0 %
<b>Result from commission business and services</b>	<b>22,556</b>	<b>19,417</b>	<b>16.2 %</b>
<b>Result from trading activities</b>	<b>8,651</b>	<b>8,799</b>	<b>-1.7 %</b>
Result from divestment of financial investments	626		
Income from participations	2,691	831	223.7 %
Result from real estate income	1,825	2,320	-21.3 %
Other ordinary income	215	89	140.7 %
<b>Other result from ordinary activities</b>	<b>5,357</b>	<b>3,240</b>	<b>65.3 %</b>
<b>Operating income</b>	<b>112,756</b>	<b>105,868</b>	<b>6.5 %</b>
Personnel expenses	-33,153	-33,094	0.2 %
General and administrative expenses	-17,300	-16,844	2.7 %
<b>Operating expenses</b>	<b>-50,453</b>	<b>-49,938</b>	<b>1.0 %</b>
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-5,857	-6,395	-8.4 %
Changes to provisions and other value adjustments and losses	-54	-77	-29.6 %
<b>Operating result</b>	<b>56,392</b>	<b>49,457</b>	<b>14.0 %</b>
<b>Extraordinary income</b>	<b>14</b>	<b>2</b>	<b>676.5 %</b>
<b>Extraordinary expenses</b>			
<b>Changes in reserves for general banking risks</b>	<b>-15,750</b>	<b>-12,550</b>	<b>25.5 %</b>
<b>Taxes</b>	<b>-6,473</b>	<b>-5,704</b>	<b>13.5 %</b>
<b>Six-month profit</b>	<b>34,184</b>	<b>31,205</b>	<b>9.5 %</b>

# Statement of Changes in Equity

in CHF 1,000 (rounded)	Share capital	Statutory capital reserve	Statutory retained earnings reserve	Treasury shares	Reserves for general banking risks	Result of the period	Total
Equity as at 31.12.2017	144,144	142,810	212,031	-4,358	737,917	69,501	1,302,045
Acquisition of own shares				-1,152			-1,152
Disposal of own shares				2,213			2,213
Profit (loss) on disposal of own shares			-336				-336
Dividends from own equity securities			119				119
Dividends and other distributions			7,500			-68,940	-61,440
Other allocations to (transfers from) the reserves for general banking risks					15,750		15,750
Six-month profit						34,184	34,184
Equity as at 30.06.2018	144,144	142,810	219,314	-3,297	753,667	34,744	1,291,382

## 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 2018, please see pages 2 and 3 of this publication.

### Extraordinary income and extraordinary expenses

in CHF 1,000 (rounded)	30.06.2018	30.06.2017	Change
Gains realised from the disposal of participations, tangible fixed assets and intangible assets	14	2	676.5%
Other extraordinary income			
<b>Total extraordinary income</b>	<b>14</b>	<b>2</b>	<b>676.5%</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 2018.

# Outlook for 2018

The global economic upswing continued in the first half of 2018, despite political uncertainties. The latest sentiment indicators suggest that this development should persist in the second half of the year too. In the US, the normalisation of interest rates is well advanced. The US central bank (Fed) can be expected to raise interest rates further this year. In Europe and Switzerland, central banks are keeping interest rates at a very low level.

## **Zug real estate market in robust shape**

Canton Zug continues to be an attractive place to live and work. As a result, demand for residential property is strong, a situation accentuated by the fact that construction activity has been below average for more than five years now. The Zug real estate market is therefore in very robust shape.

## **Expanding products and services**

Zuger Kantonbank is working continuously to expand its spectrum of products and services for its customers. In the second half of the year, we will be implementing a new e-banking solution in a phased approach. Thanks to the modern design with various graphic illustration options, a simplified payment execution process, and an improved search function, our customers will be able to conduct their banking business even more efficiently in future.

## **Good annual result expected**

With the introduction of advisory mandates 12 months ago, Zuger Kantonbank completed its transition from a transaction-based model to an advisory-oriented business model. As the half-year result confirms, this has given the bank an important growth stimulus and ensured a stable flow of income despite financial market volatility.

The above-mentioned introduction has resulted in a base effect in the comparison of the first half of 2018 with the prior-year period. Accordingly, growth in the second half of the year will not prove as strong. Zuger Kantonbank is expecting to record a good result for the year.



# Key Figures

in CHF 1,000 (rounded)

	30.06.2018	31.12.2017	Change
<b>Balance sheet</b>			
Total assets	14,824,990	14,640,755	1.3%
Loans to customers	12,118,447	11,989,017	1.1%
■ of which mortgage loans	11,597,943	11,462,260	1.2%
Customer deposits	9,620,662	9,128,746	5.4%
<b>Shareholders' equity</b>			
Available regulatory capital ratio	17.8%	17.9%	

in CHF 1,000 (rounded)

	30.06.2018	30.06.2017	Change
<b>Income statement</b>			
Net result from interest operations	76,192	74,412	2.4%
Result from commission business and services	22,556	19,417	16.2%
Result from trading activities	8,651	8,799	-1.7%
Operating income	112,756	105,868	6.5%
Operating expenses	-50,453	-49,938	1.0%
Operating result	56,392	49,457	14.0%
Six-month profit	34,184	31,205	9.5%
<b>Cost-income ratio</b>	<b>44.8%</b>	<b>47.2%</b>	
<b>Assets under management</b>	<b>11,861,192</b>	<b>11,227,058</b>	<b>5.6%</b>
<b>Increase in assets under management, performance-adjusted</b>	<b>224,361</b>	<b>101,057</b>	<b>122.0%</b>
<b>Number of employees (FTE)</b>	<b>390</b>	<b>399</b>	

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