



Review 2013

Solid annual result 2013

In fiscal year 2013, Zuger Kantonalbank achieved a solid result in line with expectations despite a challenging environment. Gross profit was almost unchanged at CHF 114.2 million (– 1.0 %). At CHF 61.2 million net profit, too, stayed at the previous year's level. In view of the stable development of business and sound equity capitalization, the annual general meeting will be requested to distribute an unchanged dividend of CHF 175 per share.

Interest income at previous year's level

In spite of persistently low interest rates, revenues from interest differentials, the Bank's primary income driver, held firm almost at the previous year's level with income of CHF 154.4 million (– 0.6 %). As in previous years, we were able to compensate for a reduction in our interest margins with active balance sheet management and by continuing to grow the volume of customer loans.

Stable commission business

In its investment business as well, Zuger Kantonalbank was able to maintain the level of the previous year's result (– 0.5 %), with investors continuing to exhibit caution despite continued strengthening in worldwide stock markets.

Regulatory requirements driving up costs

Operating expenses rose by 0.4 % to CHF 97.8 million in the reporting period. This rise is due in part to the changeover to the new banking platform and to rent payments for our new "vorZUG" office building in Baar, payable for the first time for the entire year,

while on the other hand, clarification and documentation for the US tax authorities generated considerable expenditure. While personnel expenses fell by 1.6 % compared with the previous year, these extra requirements and associated external consultancy costs lifted other operating expenses by 5.0 %. With a cost/income ratio of 46.1 %, however, Zuger Kantonalbank still continues to represent very good value in a sector comparison.

Zuger Kantonalbank acts with caution and awareness of risk. As a result, we have decided to participate in Category 2 in the US tax program for settling the tax dispute between the Swiss banks and the US. To this end, we have set aside reserves of CHF 8 million as provision for risks, of which we anticipate that more than CHF 4 million will be needed for clarifications, documentation costs, translations, external legal advice and accountants. This is a clear indication of the great effort and expense that participation in this program entails for a bank of our size.

Tactical liquidity management – cautious lending policy

In the highly competitive financing market Zuger Kantonalbank has been able to expand its customer lending by CHF 729 million or 7.0 % to CHF 11.2 billion without any compromises in risk management. The rise in mortgage lending by 6.3 % to more than CHF 10.3 billion, however, was affected by tactical measures by the Bank. To manage the high level of excess liquidity, we made low-risk investments in short-term, mortgage-backed products totalling around CHF 400 million.

Allowances, provisions and losses from interest business are at the same low level as in the previous year as a result of our tried and tested principles and sustained lending policy, which demand consistent and comprehensive examination of every loan enquiry. For real estate financing, this includes valuation of the property by our own experts or a calculation of financial viability, with an imputed annual interest rate of 5.0 % being applied for private individuals.

Significant rise in customer deposits and assets under management

In 2013 there was a welcome 7.7 % increase, to CHF 8.9 billion, in the customer deposits entrusted to Zuger Kantonalbank, while a CHF 545 million increase in assets under management took them over the CHF 10

billion mark. On the other hand, implementation of our change of policy in 2012 concerning cooperation with customers domiciled abroad resulted in several customer accounts being closed in 2013. The resulting net inflow of funds was CHF 304 million.

Sound equity basis

Our sound equity capitalization ensures that Zuger Kantonalbank has valuable room for manoeuvre, making the Bank extremely well equipped for the new equity capital provisions set out in Basel III. The Bank's lending policy was not affected by the introduction of the counter-cyclical capital buffer in September 2013. Even under the new regulations, our BIS Tier 1 ratio was a reliable 16.5 % as of the balance sheet date.

Unchanged dividend

Based on the stable development of business and strong equity capitalization, a motion will be put to the annual general meeting on 3 May 2014 to pay an unchanged dividend of CHF 175 per share, meaning that Zuger Kantonalbank will distribute 82.4 % of its earnings for the year to the shareholders.

Zuger Kantonalbank share price

The Zuger Kantonalbank share price fell by 8.0 % to CHF 4,419 compared to the previous year. Including the dividend of CHF 175 per share, this results in an overall performance of – 4.4 % for 2013.

New banking platform successfully introduced

In June 2013, following an intensive, year-long project phase, Zuger Kantonalbank changed over to a new IT platform, which has since been operating successfully. This long-term investment has given Zuger Kantonalbank a reliable and adaptable solution, and the good result for 2013 means that we will be able to write off around half the related investment in the first year of operation.

Outlook for 2014: requirements remain high

The regulatory environment will remain challenging in 2014. The sustained low level of interest rates will continue to put pressure on

interest income in the coming year. Increasing the volume of lending while retaining our cautious lending policy should enable us to compensate in part for the erosion of our margins. In our commission business we anticipate earnings at the previous year's level. From 1 January 2015, the Zuger Kantonalbank pension scheme will change from a defined benefit to a defined contribution plan. The Bank will be supporting this switchover with an additional CHF 18.5 million in personnel expenses. The gross profit will be lower as a result. However, we currently anticipate a satisfactory annual result for 2014.

Zuger Kantonalbank's share price compared to SP Banks and SMI



Key Figures

in 1,000 CHF (rounded)

	2013	2012	Change
Balance sheet			
Balance sheet total	13,302,594	12,313,917	8.0 %
Loans to customers	11,164,275	10,435,091	7.0 %
■ of which: mortgages	10,315,122	9,700,894	6.3 %
Due to customers ¹⁾	8,947,546	8,304,188	7.7 %
Shareholders' equity			
Shareholders' equity after distribution of profits	1,099,879	1,086,266	1.3 %
BIS Tier 1 ratio	16.5 %	17.4 %	
Income statement			
Net interest income	154,449	155,405	-0.6 %
Net commission and fee income	41,480	41,668	-0.5 %
Net income from trading operations	11,937	12,887	-7.4 %
Operating income	211,958	212,720	-0.4 %
Operating expenses	-97,794	-97,358	0.4 %
Gross profit	114,164	115,361	-1.0 %
Operating profit (subtotal)	74,441	97,114	-23.3 %
Annual profit	61,202	61,240	-0.1 %
Key figures			
Assets under management	10,448,966	9,904,081	5.5 %
Cost/income ratio	46.1 %	45.8 %	
Number of employees (FTE)	398	393	
Key share figures			
Share price at the end of the year (in CHF)	4,419	4,805	-8.0 %
Market capitalization	1,273,945	1,385,224	
Dividend (in CHF)	175	175	
Dividend yield	4.0 %	3.6 %	

¹⁾ Due to customers & medium-term notes

Balance Sheet as of 31.12.2013

(before distribution of profit)

in 1,000 CHF (rounded)

	2013	2012	Change
Assets			
Cash	1,211,405	941,458	28.7 %
Receivables from money market instruments	0	11,000	-100.0 %
Due from banks	182,858	81,007	125.7 %
Due from customers	849,152	734,197	15.7 %
Mortgages	10,315,122	9,700,894	6.3 %
Securities and precious metals trading portfolios	516	572	-9.8 %
Financial investments	420,293	501,116	-16.1 %
Participating interests	9,190	9,260	-0.8 %
Fixed assets	111,024	105,574	5.2 %
Accrued income and prepaid expenses	15,319	18,172	-15.7 %
Other assets	187,714	210,667	-10.9 %
Total assets	13,302,594	12,313,917	8.0 %
Liabilities			
Due to money market instruments	278	3,020	-90.8 %
Due to banks	2,051	7,909	-74.1 %
Due to customers in savings and deposits	5,369,364	4,929,169	8.9 %
Other due to customers	3,396,892	3,082,312	10.2 %
Medium-term notes	181,290	292,707	-38.1 %
Bonds and mortgage-backed bonds	2,754,000	2,403,000	14.6 %
Accrued expenses and deferred income	51,349	52,724	-2.6 %
Other liabilities	204,587	219,471	-6.8 %
Allowances and provisions	189,130	183,566	3.0 %
Reserves for general banking risks			
▪ risk profile	182,000	179,500	1.4 %
▪ general	445,567	443,567	0.5 %
Share capital	144,144	144,144	0.0 %
Legal reserve from capital reserve	63,865	63,865	0.0 %
General statutory reserve	250,612	243,112	3.1 %
Other reserves	10,856	11,025	-1.5 %
Treasury shares	-5,759	-7,612	-24.3 %
Retained earnings	1,165	1,199	-2.8 %
Annual profit	61,202	61,240	-0.1 %
Total liabilities	13,302,594	12,313,917	8.0 %
Off balance-sheet transactions			
Contingent liabilities	75,097	63,251	18.7 %
Irrevocable commitments	369,620	194,065	90.5 %
Liabilities for calls on shares and other equities	9,000	9,000	0.0 %
Commitment facilities	94	125	-24.5 %
Derivative financial instruments			
▪ positive replacement values	77,841	99,800	-22.0 %
▪ negative replacement values	199,829	213,947	-6.6 %
▪ contract volume	6,057,735	4,969,350	21.9 %
Fiduciary transactions	83,671	83,936	-0.3 %

Income Statement

in 1,000 CHF (rounded)

	2013	2012	Change
Net interest income			
Interest and discount income	247,583	255,853	-3.2 %
Interest and dividend income from trading portfolios	7	7	0.0 %
Interest and dividend income from financial investments	5,552	9,132	-39.2 %
Interest expenses	-98,692	-109,587	-9.9 %
	154,449	155,405	-0.6 %
Net commission and fee income			
Commission income from lending activities	1,267	1,105	14.7 %
Commission income from securities and investment activities	35,290	35,378	-0.2 %
Commission income from other service fee activities	10,040	9,509	5.6 %
Commission expenses	-5,118	-4,325	18.3 %
	41,480	41,668	-0.5 %
Net income from trading operations	11,937	12,887	-7.4 %
Other ordinary profits	4,091	2,760	48.2 %
Operating income	211,958	212,720	-0.4 %
Operating expenses			
Personnel expenses	-66,636	-67,695	-1.6 %
Other operating expenses	-31,158	-29,663	5.0 %
	-97,794	-97,358	0.4 %
Gross profit	114,164	115,361	-1.0 %
Depreciation and amortization of fixed assets			
▪ properties	-4,264	-4,264	0.0 %
▪ other fixed assets	-27,431	-8,101	238.6 %
Losses	-307	-782	-60.7 %
Allowances and provisions	-7,720	-5,100	51.4 %
Subtotal (operating profit)	74,441	97,114	-23.3 %
Extraordinary income	2	1	71.6 %
Extraordinary expenses			
Reserves for general banking risks			
▪ risk profile	-2,500	-4,000	-37.5 %
▪ general	-2,000	-19,600	-89.8 %
Other extraordinary expenses	0	0	
	-4,500	-23,600	-80.9 %
Taxes	-8,741	-12,276	-28.8 %
Annual profit	61,202	61,240	-0.1 %

Zuger Kantonalbank
Baarerstrasse 37
CH-6301 Zug
Phone +41 41 709 11 11
Fax +41 41 709 15 55

service@zugerkb.ch
www.zugerkb.ch

Wir begleiten Sie im Leben.

 **Zuger Kantonalbank**