



Review 2014

# Good annual result for 2014

**Zuger Kantonalbank has posted a good annual result for 2014. Taking the one-off allocation to the pension scheme into account, a gross profit of CHF 91.5 million was generated in the year under review. As in the previous year, net profit came to CHF 61.2 million.**

In view of the Bank's stable business performance and comfortable equity capitalization, the annual general meeting of 2 May 2015 will be requested to distribute an unchanged dividend of CHF 175 per share. This means that Zuger Kantonalbank will distribute 82.5% of annual profits to its shareholders.

## **Robust interest income**

The result for the interest business – the Bank's principal business – rose slightly compared with 2013 to CHF 155.1 million (+0.4%), despite persistently low interest rates. Margins in interest business weakened again but, as in previous years, the Bank was able to stabilize the results for this business through active balance sheet management and further growth in customer lending. Customers continued to benefit from very low interest rates. Meanwhile, refinancing rates reached all-time lows, both on a fixed rate basis and for LIBOR loans.

## **Slight fall in income in the commission business**

Adjusted for one-off factors in the previous year, Zuger Kantonalbank posted a decline of -3.0% in the commission business. Low

activity in trading operations and a fall in service fee income were limiting factors.

## **Increase in other operating expenses**

Operating expenses rose by 1.1% to CHF 98.9 million, excluding the one-off allocation to the pension scheme in the year under review. This increase is attributable partly to the changeover to the new banking platform, which will not generate savings for some time yet, and partly to the additional costs incurred due to the new regulatory provisions. While personnel expenses declined by 2.0% year on year, other operating expenses rose by 7.7%. Despite the increase in costs in 2014, Zuger Kantonalbank is in a very good position compared with the rest of the sector, with a cost/income ratio of 47.3%.

## **One-off effect in favour of the pension fund**

As planned, the decision made in previous years to change the pension scheme from a defined benefit to a defined contribution plan, together with the reduction in the technical interest rate, led to a one-off allocation to the employee benefit scheme of CHF 18.5 million in 2014, which is recognized in the income statement. This switch strength-

ens the attractiveness of Zuger Kantonalbank as an employer over the longer term.

Excluding this allocation to the pension scheme, gross profit fell only slightly to CHF 110.0 million (-3.6%).

Work on the US Department of Justice programme for settling the tax dispute between the Swiss banks and the USA is proceeding on schedule. It is not yet possible to say when the programme will be completed.

### **Cautious lending policy**

Zuger Kantonalbank was able to strengthen its position in the fiercely competitive financing market. Loans to customers rose by CHF 264 million or 2.4% to CHF 11.4 billion, while risk management remained rigorous. Mortgage lending increased by 4.4% to CHF 10.8 billion.

Allowances, provisions and losses from interest business were at the same level as in the previous year and remained gratifyingly low, not least because of the Bank's tried-and-tested principles and sustainable lending policy. These call for a stringent and comprehensive examination of every loan application. For real estate financing, this includes a valuation of the property and a calculation of financial viability by the Bank, with an imputed annual interest rate of 5% being applied.

### **Customer deposits and assets under management**

In 2014 the customer deposits entrusted to Zuger Kantonalbank went up by 2.1% to CHF 9.1 billion. The net inflow of funds in the investment business came to CHF 162 million. Owing to a new method of calculating assets under management, these declined to CHF 9.7 billion.

### **Comfortable equity basis**

Zuger Kantonalbank's healthy equity capitalization gives the Bank valuable room for manoeuvre and ensures that it meets the new equity capital provisions (Basel III) very comfortably. The increase in the counter-cyclical capital buffer in June 2014 was implemented without any problems. On the balance sheet date, the available regulatory capital stood at 16.6% (previous year: 16.5%) – a high figure compared with the sector as a whole.

### **Zuger Kantonalbank share price**

The Zuger Kantonalbank share price rose year on year by 1.2% to CHF 4,472. The share thus performed well in a challenging year for banks (SP banks index: -1.6%). Including the dividend of CHF 175 per share, the overall return was 5.2% in the year under review.

## **Outlook for 2015**

The operating conditions for Zuger Kantonalbank will remain challenging in 2015. There is continuing uncertainty about how the European environment and the global economy will develop. Interest rates will remain very low for some time to come.

## **Repercussions of the SNB's decision to abandon the euro exchange rate floor**

Since Zuger Kantonalbank does not engage in trading for its own account, it does not hold securities in foreign currencies or retain any significant foreign currency reserves. It simply keeps sufficient foreign currency for cash supply purposes. The decision of the Swiss National Bank (SNB) to abandon the euro exchange rate floor will therefore have only a minor impact in the short term.

Although the liquidity of Zuger Kantonalbank is high, it remains below the threshold at which SNB negative interest rates become payable. Negative LIBOR interest rates make measures to hedge the interest rate risk extremely unattractive economically. This may have a negative impact on interest income in 2015.

Despite the SNB's decision to abandon the euro exchange rate floor, the business climate in the Zug region will remain favourable, if rather less so than before. Even though the real estate market has slowed down slightly, construction will make a substantial contribution to the economy. Zuger Kantonalbank will take advantage of these conditions and grant loans to customers in line with its existing lending policy.

Furthermore, Zuger Kantonalbank aims to expand its investment business. During the current year, the Bank will work intensively to adjust the business model applicable to investment clients. The goal is to offer clients added value. Naturally, regulatory requirements will be met at the same time.

Zuger Kantonalbank is convinced that despite all these developments, the Zug economic region offers good conditions in which to continue the steady business performance of recent years in 2015 as well.

# Key Figures

in CHF 1,000 (rounded)

	2014	2013	Change
<b>Balance sheet</b>			
Balance sheet total	13,824,710	13,302,594	3.9%
Loans to customers:	11,428,381	11,164,275	2.4%
■ of which: mortgages	10,772,884	10,315,122	4.4%
Due to customers <sup>1)</sup>	9,135,255	8,947,546	2.1%
<b>Shareholders' equity</b>			
Shareholders' equity after distribution of profits	1,114,443	1,099,879	1.3%
Available regulatory capital	16.6%	16.5%	
<b>Income statement</b>			
Net interest income	155,109	154,449	0.4%
Net commission and fee income	38,977	41,480	-6.0%
Net income from trading operations	11,147	11,937	-6.6%
Operating income	208,918	211,958	-1.4%
Operating expenses excl. one-off payment to pension scheme	-98,881	-97,794	1.1%
One-off payment to pension scheme	-18,500	0	
Gross profit excl. one-off payment to pension scheme	110,037	114,164	-3.6%
Operating profit (subtotal) incl. one-off payment to pension scheme	76,941	74,441	3.4%
Earnings for the year	61,173	61,202	0.0%
<b>Key figures</b>			
Assets under management	9,744,425	10,448,966	-6.7%
Cost/income ratio	47.3%	46.1%	
Number of employees (FTE)	395	398	
<b>Key share figures</b>			
Share price at the end of the year (in CHF)	4,472	4,419	1.2%
Market capitalization	1,289,224	1,273,945	
Dividend (in CHF)	175	175	
Dividend yield	3.9%	4.0%	

<sup>1)</sup> Due to customers & medium-term notes

# Balance Sheet as of 31.12.2014 (before distribution of profit)

in CHF 1,000 (rounded)

	2014	2013	Change
<b>Assets</b>			
Cash	1,127,260	1,211,405	-6.9%
Receivables from money market instruments	0	0	
Due from banks	327,385	182,858	79.0%
Due from customers	655,497	849,152	-22.8%
Mortgages	10,772,884	10,315,122	4.4%
Securities and precious metals trading portfolios	587	516	13.7%
Financial investments	587,548	420,293	39.8%
Participating interests	9,571	9,190	4.1%
Fixed assets	119,874	111,024	8.0%
Accrued income and prepaid expenses	14,005	15,319	-8.6%
Other assets	210,099	187,714	11.9%
<b>Total assets</b>	<b>13,824,710</b>	<b>13,302,594</b>	<b>3.9%</b>
<b>Liabilities</b>			
Due to money market instruments	610	278	118.9%
Due to banks	43,783	2,051	2,034.8%
Due to customers in savings and investments	5,611,655	5,369,364	4.5%
Other due to customers	3,409,516	3,396,892	0.4%
Medium-term notes	114,084	181,290	-37.1%
Bonds and mortgage-backed bonds	3,016,000	2,754,000	9.5%
Accrued expenses and deferred income	51,337	51,349	0.0%
Other liabilities	223,796	204,587	9.4%
Allowances and provisions	185,713	189,130	-1.8%
Reserves for general banking risks			
■ risk profile	183,000	182,000	0.5%
■ general	451,767	445,567	1.4%
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	10,629	10,856	-2.1%
Treasury shares	-5,569	-5,759	-3.3%
Retained earnings	1,094	1,165	-6.1%
Earnings for the year	61,173	61,202	0.0%
<b>Total liabilities</b>	<b>13,824,710</b>	<b>13,302,594</b>	<b>3.9%</b>
<b>Off-balance-sheet transactions</b>			
Contingent liabilities	43,964	45,092	-2.5%
Irrevocable commitments	415,932	399,626	4.1%
Liabilities for calls on shares and other equities	11,180	9,000	24.2%
Commitment facilities	164	94	73.9%
Derivative financial instruments			
■ positive replacement values	187,684	77,841	141.1%
■ negative replacement values	211,691	199,829	5.9%
■ contract volume	6,185,061	6,057,735	2.1%
Fiduciary transactions	77,302	83,671	-7.6%

# Income Statement

in CHF 1,000 (rounded)

	2014	2013	Change
Interest and discount income	241,195	247,583	-2.6%
Interest and dividend income from trading portfolios	7	7	10.0%
Interest and dividend income from financial investments	4,346	5,552	-21.7%
Interest expenses	-90,439	-98,692	-8.4%
<b>Net interest income</b>	<b>155,109</b>	<b>154,449</b>	<b>0.4%</b>
Commission income from lending activities	1,609	1,267	27.0%
Commission from securities and investment activities	31,698	35,290	-10.2%
Commission income from other service fee activities	10,762	10,040	7.2%
Commission expenses	-5,092	-5,118	-0.5%
<b>Net commission and fee income</b>	<b>38,977</b>	<b>41,480</b>	<b>-6.0%</b>
<b>Net income from trading operations</b>	<b>11,147</b>	<b>11,937</b>	<b>-6.6%</b>
<b>Other ordinary profits</b>	<b>3,685</b>	<b>4,091</b>	<b>-9.9%</b>
<b>Operating income</b>	<b>208,918</b>	<b>211,958</b>	<b>-1.4%</b>
Personnel expenses	-65,328	-66,636	-2.0%
Other operating expenses	-33,553	-31,158	7.7%
<b>Operating expenses excl. one-off payment to pension scheme</b>	<b>-98,881</b>	<b>-97,794</b>	<b>1.1%</b>
<b>Gross profit excl. one-off payment to pension scheme</b>	<b>110,037</b>	<b>114,164</b>	<b>-3.6%</b>
One-off payment to pension scheme	-18,500	0	
<b>Gross profit incl. one-off payment to pension scheme</b>	<b>91,537</b>	<b>114,164</b>	
Depreciation and amortization of fixed assets			
■ properties	-4,263	-4,264	0.0%
■ other fixed assets	-7,797	-27,431	-71.6%
Losses	-536	-307	74.4%
Allowances and provisions	-2,000	-7,720	-74.1%
<b>Subtotal (operating profit) excl. one-off payment to pension scheme</b>	<b>95,441</b>	<b>74,441</b>	<b>28.2%</b>
<b>Subtotal (operating profit) incl. one-off payment to pension scheme</b>	<b>76,941</b>	<b>74,441</b>	<b>3.4%</b>
Reserves for general banking risks	6,500	0	
Other extraordinary income	101	2	
<b>Extraordinary income</b>	<b>6,601</b>	<b>2</b>	
Reserves for general banking risks			
■ risk profile	-1,000	-2,500	-60.0%
■ general	-12,700	-2,000	535.0%
Other extraordinary expenses	0	0	
<b>Extraordinary expenses</b>	<b>-13,700</b>	<b>-4,500</b>	<b>204.4%</b>
<b>Taxes</b>	<b>-8,668</b>	<b>-8,741</b>	<b>-0.8%</b>
<b>Earnings for the year</b>	<b>61,173</b>	<b>61,202</b>	<b>0.0%</b>

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 **Zuger Kantonalbank**