



# Review 2015

# Pleasing annual result for 2015

**Zuger Kantonalbank has posted a pleasing annual result for 2015. The operating result for the year under review came to CHF 94.1 million. At CHF 61.5 million, profit is slightly higher than in the previous year. The increases in the result from trading activities, in net new money and in real estate financing are particularly noteworthy, as are the substantial cost reductions.**

Thanks to the bank's stable earnings performance and comfortable equity capitalization, the annual general meeting of 30 April 2016 will be requested to distribute an unchanged dividend of CHF 175 per share. This means that Zuger Kantonalbank will distribute 82.1 % of its profit to its shareholders.

The introduction of new accounting rules has resulted in various changes to the presentation of the annual result. The overall result is no longer stated as the gross profit but as the operating result, which includes value adjustments and depreciation. At CHF 94.1 million, the operating result was well above the previous year's result (CHF 76.9 million), which included a one-off payment to the pension scheme.

## **Substantially higher result from trading activities – slight decline in commission business**

Trading activities benefited from the increased demand for currency hedging following the abandonment of the minimum euro exchange rate: the result improved significantly to CHF 15.6 million (+39.6%).

At the same time, the result from commission business decreased to CHF 35.5 million from CHF 39.0 million in the prior year. The expected decline in service fee income impacted on the result.

## **Positive net new money figure**

In 2015, customer deposits entrusted to Zuger Kantonalbank grew by 2.9% to CHF 9.4 billion, while assets under management increased by 4.4% to CHF 10.2 billion. The net inflow of funds in the investment business came to CHF 449 million.

## **Growth in real estate financing**

Zuger Kantonalbank was able to strengthen its position in the highly competitive financing market. While risk management remained rigorous, the volume of real estate loans rose by 5.0% to CHF 11.3 billion. Overall, customer loans rose by CHF 493 million to CHF 11.9 billion (+4.3%).

### **Interest income only slightly down from prior year**

Zuger Kantonalbank posted a net result from interest operations of CHF 150.8 million, down 1.4% from the previous year. Under the new accounting rules, this figure factors in interest-related value adjustments and losses. These remain at the low level of CHF 2.0 million (previous year: CHF 1.9 million).

The negative interest rates have fundamentally altered the interest differentials business. By actively managing its balance sheet and through continued growth in customer loans, Zuger Kantonalbank has succeeded in largely compensating for the adverse effects. At times, refinancing rates have fallen to historic lows.

### **Substantial cost reductions**

In 2015 Zuger Kantonalbank reduced its general and administrative expenses by a substantial 5.1%. Personnel expenses were virtually unchanged from the prior year, rising by just 0.3%. As a result, the ratio of costs to income at Zuger Kantonalbank improved to 46.8% (previous year: 47.4%) and is very good on a peer group comparison.

### **US tax issue resolved**

In November 2015, Zuger Kantonalbank came to an agreement with the US Department of Justice on settling the tax issues regarding those of its clients classified as US Persons.

The fine payable to the US authorities and the third-party costs incurred in this connection are covered in their entirety by the provisions formed in 2013.

### **Further strengthening of capital**

In the year under review, Zuger Kantonalbank strengthened its equity base substantially, increasing it by around CHF 58 million. By doing so, the bank has not only met the new (Basel III) capital adequacy rules but has also met the requirements for an anticyclical capital buffer. The leverage ratio – the ratio of the bank's capital to its total assets – remained unchanged at 7.9%. Disposable regulatory capital saw a further improvement. As of the balance sheet date, it came to 17.1% – a high figure on a sector comparison (previous year: 16.6%). Zuger Kantonalbank thus easily exceeds the minimum legal requirements with regard to both of these ratios.

The entire one-off gain of CHF 10.9 million from the disposal of the stake in Swisscanto has been allocated to the reserves for general banking risks.

### **Provisions for deferred taxes**

Thanks to the exceptionally good liquidity situation, Zuger Kantonalbank is able to release the existing provisions for deferred taxes. The bank's prudent provisions policy helps to strengthen its capital base.

The release of provisions frees up CHF 16.5 million, which is now recognized in the income statement under "Taxes". As a result, tax income of CHF 1.9 million is stated. Effectively, however, Zuger Kantonalbank pays regular taxes to the federal government, the canton and the municipalities in addition to settling the deferred taxes of CHF 14.6 million.

### Healthy return on shares

In 2015, the Zuger Kantonalbank share price rose by 4.7% compared with the previous year to CHF 4,684. In a year of considerable fluctuations on the Swiss equity market (SMI: -1.8%), the share price held up well. Including the dividend of CHF 175 per share, the overall return came to 8.7% in the year under review.

### Bright outlook for 2016

The operating conditions for Zuger Kantonalbank will remain challenging in 2016. The Swiss National Bank will continue with its policy, introduced one year ago, of applying negative interest to the sight deposits it holds, and interest rates look set to remain very low for a considerable time. The world's financial markets sustained heavy losses at the beginning of the year.

Zug remains a robust and attractive business location. The real estate market in the Zug business region is encouragingly immune to economic upheavals around the world, and continues to grow – albeit less rapidly than in previous years. Prices are stable at a high level. Thanks to this environment – and while retaining its cautious lending policy – the bank will be able to continue growing and to expand its loans volume.

Zuger Kantonalbank is also aiming for continued growth in its investment business. During the current year, the bank will work intensively to adjust the business model applicable to investment clients. The aim is to introduce advisory mandates in order to transition from a transaction-oriented to an expense-based business model.

Zuger Kantonalbank is confident that it is moving in the right strategic direction, and takes an optimistic view of the future.

The bank and its employees look forward to welcoming clients back to its newly opened head office at Postplatz, Zug, on Monday 4 July 2016.

# Key Figures

in CHF 1,000 (rounded)

	2015	2014	Change
<b>Balance sheet</b>			
Total assets	14,313,305	13,549,747	5.6 %
Loans to customers	11,855,343	11,362,693	4.3 %
■ of which: mortgages	11,278,842	10,738,129	5.0 %
Customer deposits	9,403,788	9,135,255	2.9 %
<b>Shareholders' equity</b>			
Shareholders' equity after distribution of profits	1,167,881	1,114,443	4.8 %
Available regulatory capital	17.1 %	16.6 %	
<b>Income statement</b>			
Net result from interest operations	150,759	152,848	-1.4 %
Result from commission business and services	35,544	38,977	-8.8 %
Result from trading activities and the fair value option	15,560	11,147	39.6 %
Operating income	206,223	206,656	-0.2 %
Operating expenses excl. one-off payment to pension scheme	-97,405	-98,881	-1.5 %
One-off payment to pension scheme	0	-18,500	
Operating result excl. one-off payment to pension scheme	94,109	95,441	-1.4 %
Operating result incl. one-off payment to pension scheme	94,109	76,941	22.3 %
Profit	61,467	61,173	0.5 %
<b>Key ratios</b>			
Assets under management	10,170,883	9,744,425	4.4 %
Cost-income ratio	46.8 %	47.4 %	
Number of employees (FTE)	402	395	
<b>Key share figures</b>			
Share price at the end of the year (in CHF)	4,684	4,472	4.7 %
Market capitalization	1,350,341	1,289,224	
Dividend (in CHF)	175	175	
Dividend yield (share price at year-end)	3.7 %	3.9 %	

## New accounting rules for banks

As of 1 January 2015 the "Accounting rules for banks" (ARB) came into force. These require a number of changes to the presentation of the annual results, especially with regard to balance sheet structure and to income statement items. This means, for example, that operating result rather than gross profit is stated; consequently, the latter also includes value adjustments and depreciation and thus corresponds to the "subtotal" previously stated. Furthermore, prior-year figures have been restated to reflect the accounting rules now applicable.

# Balance Sheet as at 31 December 2015 (before distribution of profit)

in CHF 1,000 (rounded)

	2015	2014	Change
<b>Assets</b>			
Cash	1,760,185	1,127,260	56.1%
Due from banks	18,352	280,296	-93.5%
Due from customers	576,502	624,564	-7.7%
Mortgage loans	11,278,842	10,738,129	5.0%
Trading portfolio assets	453	587	-22.8%
Positive replacement values of derivative financial instruments	5,756	25,497	-77.4%
Financial investments	530,610	587,548	-9.7%
Accrued income and prepaid expenses	10,400	14,005	-25.7%
Participations	5,283	9,571	-44.8%
Tangible fixed assets	121,672	119,874	1.5%
Other assets	5,251	22,415	-76.6%
<b>Total assets</b>	<b>14,313,305</b>	<b>13,549,747</b>	<b>5.6%</b>
<b>Liabilities</b>			
Amounts due to banks	23,419	2,094	>1,000%
Liabilities from securities financing transactions	375,000	0	
Amounts due in respect of customer deposits	9,326,195	9,021,171	3.4%
Negative replacement values of derivative financial instruments	3,121	44,714	-93.0%
Medium-term notes	77,593	114,084	-32.0%
Bonds and mortgage-backed bonds	3,114,000	3,016,000	3.2%
Accrued expenses and deferred income	145,168	51,337	182.8%
Other liabilities	19,321	12,105	59.6%
Provisions	7,835	120,025	-93.5%
Reserves for general banking risks			
▪ of which risk profile	184,000	183,000	0.5%
▪ of which general	496,217	451,767	9.8%
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	197,072	189,797	3.8%
Treasury shares	-5,051	-5,569	-9.3%
Retained earnings	994	1,094	-9.1%
Profit	61,467	61,173	0.5%
<b>Total liabilities</b>	<b>14,313,305</b>	<b>13,549,747</b>	<b>5.6%</b>
<b>Off-balance-sheet transactions</b>			
Contingent liabilities	52,828	43,964	20.2%
Irrevocable commitments	411,942	414,579	-0.6%
Liabilities for calls on shares and other equities	11,180	11,180	0.0%
Commitment facilities	307	164	87.6%

# Income Statement

in CHF 1,000 (rounded)

	2015	2014	Change
Interest and discount income	230,339	240,858	-4.4%
Interest and dividend income from trading portfolios	5	7	-36.4%
Interest and dividend income from financial investments	4,140	4,346	-4.7%
Interest expense	-81,688	-90,439	-9.7%
<b>Gross result from interest operations</b>	<b>152,796</b>	<b>154,773</b>	<b>-1.3%</b>
Changes in value adjustments for default risks and losses from interest operations	-2,037	-1,925	5.8%
<b>Net result from interest operations</b>	<b>150,759</b>	<b>152,848</b>	<b>-1.4%</b>
Commissions from securities and investment transactions	29,206	31,698	-7.9%
Commission income from lending activities	1,106	1,609	-31.3%
Commission income from other services	10,300	10,762	-4.3%
Commission expense	-5,068	-5,092	-0.5%
<b>Result from commission business and services</b>	<b>35,544</b>	<b>38,977</b>	<b>-8.8%</b>
<b>Result from trading activities and the fair value option</b>	<b>15,560</b>	<b>11,147</b>	<b>39.6%</b>
Income from participations	1,368	1,039	31.6%
Real estate income	2,583	2,382	8.4%
Other ordinary income	414	267	55.2%
Other ordinary expenses	-4	-4	15.7%
<b>Other result from ordinary activities</b>	<b>4,361</b>	<b>3,685</b>	<b>18.4%</b>
<b>Operating income</b>	<b>206,223</b>	<b>206,656</b>	<b>-0.2%</b>
Personnel expenses	-65,549	-65,328	0.3%
General and administrative expenses	-31,855	-33,553	-5.1%
<b>Operating expenses excl. one-off payment to pension scheme</b>	<b>-97,405</b>	<b>-98,881</b>	<b>-1.5%</b>
One-off payment to pension scheme	0	-18,500	
Value adjustments on participations and depreciation, and amortisation of tangible fixed assets and intangible assets	-14,630	-12,060	21.3%
Changes to provisions and other value adjustments, and losses	-79	-275	-71.1%
<b>Operating result excl. one-off payment to pension scheme</b>	<b>94,109</b>	<b>95,441</b>	<b>-1.4%</b>
<b>Operating result incl. one-off payment to pension scheme</b>	<b>94,109</b>	<b>76,941</b>	<b>22.3%</b>
<b>Extraordinary income</b>	<b>10,904</b>	<b>101</b>	<b>&gt;1,000%</b>
<b>Extraordinary expenses</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>
Reserves for general banking risks			
▪ risk profile	-1,000	-1,000	0.0%
▪ general	-44,450	-6,200	616.9%
<b>Changes in reserves for general banking risks</b>	<b>-45,450</b>	<b>-7,200</b>	<b>531.3%</b>
<b>Taxes</b>	<b>1,904</b>	<b>-8,668</b>	<b>-122.0%</b>
<b>Profit</b>	<b>61,467</b>	<b>61,173</b>	<b>0.5%</b>

Zuger Kantonalbank  
Baarerstrasse 37  
6301 Zug  
Phone 041 709 11 11  
Fax 041 709 15 55

[service@zugerkb.ch](mailto:service@zugerkb.ch)  
[www.zugerkb.ch](http://www.zugerkb.ch)

**Wir begleiten Sie im Leben.**

 **Zuger Kantonalbank**