

# Zürcher Kantonalbank delivers record income of CHF 2.3 billion and increases group operating profit to CHF 761 million

Media release on 2016 financial results

***Zürcher Kantonalbank grew its group operating profit by 5% to CHF 761 million in 2016. Higher commission and fee income and a strong performance in trading were the main drivers of this result. The distribution to the canton and municipalities will increase by 10% to CHF 330 million.***

Zurich, 10 February 2017 – Martin Scholl, Chief Executive Officer of Zürcher Kantonalbank, commented on the 2016 result as follows: "Zürcher Kantonalbank successfully navigated the difficult economic environment in the last financial year and achieved a very pleasing result. Thanks to the successful integration of Swisscanto, we were also able to further improve the diversification of the business. In doing so, we have once again demonstrated that our business model – broadly diversified and focused on continuity – generates sustained value."

## **Increase in income despite a challenging environment**

Operating income rose by 5% compared to the previous year and reached a record level of CHF 2,325 million. This reflects the very pleasing performance of the commission and fee business and trading in particular. Compared to the previous year, significant increases were reported for both of these income drivers. This compared with a smaller increase in net interest income.

Interest operations generated net income of CHF 1,187 million in 2016, corresponding to an increase of 2% compared to the previous year. This includes a charge for allowances for defaults and losses from interest operations of CHF 12 million, compared to income of CHF 3 million in the previous year. The increase in net interest income reflects the pleasing growth in volumes in the mortgage business of CHF 3.7 billion. Loan quality remains a top priority for Zürcher Kantonalbank. In view of the latent risk of a change in interest rates, the bank continues to calculate the affordability of properties for its customers based on an imputed mortgage interest rate of 5%.

Against the backdrop of the successful integration of Swisscanto, net commission and fee income improved by 9% to CHF 728 million. This substantial increase was mainly attributable to the investment business and was driven by additional income in the investment fund and asset management business.

In an environment of heightened market volatility, the trading business benefited from a significant increase in trading activity among customers of Zürcher Kantonalbank and delivered a 16% increase in trading income to CHF 379 million compared to the previous year. Zürcher Kantonalbank has a broad-based trading business that is clearly focused on the needs of customers. This customer-oriented strategy is also reflected in figures relating to risk: trading risks in the trad-

ing book (Value-at-Risk with a 10-day holding period) decreased to CHF 11 million compared to CHF 17 million in the financial year 2015.

### **Moderate rise in expenses**

Operating expenses rose by 5% to CHF 1,441 million in the financial year 2016. This increase primarily reflects higher personnel expenses, which rose by 7% compared to the previous year to CHF 1,009 million due to the first-time full-year inclusion of Swisscanto as well as higher variable compensation components. General expenses totalled CHF 433 million, corresponding to an increase of 1% compared to 2015. This includes the cost of compensation for the state guarantee of CHF 22 million, compared to CHF 21 million in the previous year.

Operating expenses of CHF 1,441 million do not include a one-off expense of CHF 70 million related to the adjustment of the actuarial basis of the Pension Fund of Zürcher Kantonalbank in line with the changed environment. To secure pensions over the long term, a series of measures were approved that will enter into effect on 1 July 2017. They include a reduction of the conversion rate for future pension recipients, an increase in the savings contributions of insured persons and the employer, and an increase in the ordinary retirement age from 62 to 64 for men and women. Transitional solutions are planned for employees born in or before 1964. As part of its commitment to pursuing a sustainable human resources policy, the Bank Council has decided that the bank will assume costs of financing the transitional solutions. Consequently, a provision for pension fund liabilities amounting to CHF 70 million was recognised in personnel expenses in the year under review.

The charge for impairments on participations as well as the depreciation of tangible fixed assets and intangible assets totalled CHF 124 million in the reporting period, corresponding to an increase of 17% compared to 2015. The charge for provisions, other impairments and losses decreased significantly to CHF 8 million, compared to CHF 61 million in the previous year.

Operating income rose by 13% to CHF 752 million in the financial year 2016 compared to the previous year. Extraordinary income totalled CHF 16 million, compared to extraordinary income of CHF 66 million recognised in 2015 due to the sale of real estate as well as reversals of impairments on participations. Taxes amounted to CHF 7 million in the reporting period, compared to CHF 8 million in the previous year.

The cost/income ratio improved to 61.7% in 2016 from 62.4% in the previous year. Group operating income totalled CHF 761 million. Including the one-off charge for the realignment of the Pension Fund, group profit totalled CHF 691 million.

### **Increased distribution to canton and municipalities**

Zürcher Kantonalbank will distribute a total of CHF 351 million of profits to the canton and municipalities for the financial year 2016. Of this sum, a dividend of CHF 220 million will be paid to the canton and a dividend of CHF 110 million will be paid to the political municipalities, each corresponding to an increase of 10% compared to the previous year. The proportion of the sum paid to the canton to cover the cost of capital is CHF 21 million, compared to CHF 26 million in the previous year.

In addition, the canton received around CHF 22 million to compensate it for the state guarantee. As part of its public service mandate, the bank spent a further CHF 119 million in the previous financial year, benefiting the population of Zurich.

## **Growth in customer assets under management and pleasing inflow of new money**

At the end of 2016, customer assets totalled CHF 264.8 billion compared to CHF 257.5 billion at the end of 2015. The net inflow of new assets under management totalled CHF 8.0 billion compared to a net outflow of CHF 2.5 billion in 2015.

## **Capital base remains strong**

Zürcher Kantonalbank has maintained an extremely solid capital position that significantly exceeds regulatory requirements. Eligible capital totalled CHF 11,564 million at the end of 2016, compared to CHF 11,293 million at the end of 2015.

The total capital ratio was 17.5%, compared to 17.9% in the previous year, and the common equity tier 1 (CET1) ratio was 15.6%, compared to 15.8%. The leverage ratio was 6.7% at the end of 2016, compared to 7.0% in the previous year. This slight reduction reflects the increase in risk-weighted assets and the growth in the size of the balance sheet due to the expansion of the mortgage business.

## **Outlook**

On the outlook, Martin Scholl stated: "Ongoing macroeconomic uncertainty and the demanding operating environment with negative interest rates will continue to present us with challenges in 2017. I am confident that thanks to our balanced business model, we will be able to overcome these challenges again this year and seize the opportunities."

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## **Zürcher Kantonalbank**

Zürcher Kantonalbank is a leading universal bank in the Zurich economic area with national roots and international reach. It is an independent public-law institution owned by the canton of Zurich and has received top ratings from the rating agencies Standard & Poor's, Moody's and Fitch (AAA/Aaa). With more than 5,000 employees, Zürcher Kantonalbank offers its clients a comprehensive range of products and services. The bank's core activities include financing businesses, asset and wealth management, trading, capital market transactions, deposits, payment transactions and card business. Zürcher Kantonalbank provides clients and distribution partners with a comprehensive range of investment and retirement provision products and services.