

# Financial Services

Migros Bank fared very well in the difficult economic environment that marked the 2015 financial year, with profit up slightly on the previous year despite a decline in interest income.

## Financial results Financial Services

CHF million	2014	2015	Change compared to previous year
Net sales revenue from goods and services sold	2.9	3.0	3.4%
Income from financial services business	872.8	860.7	-1.4%
Other operating income	2.7	0.8	-70.4%
<b>Total income</b>	<b>878.4</b>	<b>864.5</b>	<b>-1.6%</b>
<b>Earnings before interest and taxes (EBIT)</b>	<b>280.6</b>	<b>283.6</b>	<b>1.1%</b>
Segment assets	40'700.0	42'139.9	
Investments in long-term assets	15.6	16.9	
Employees	1'526	1'502	

Customer deposits were again encouraging in the reporting year, increasing by 2.5% to CHF 33.1 billion. On the liabilities side of the balance sheet, mortgage lending increased by 3.1% to CHF 33.6 billion, while personal loans were up by 1.6% to CHF 1.1 billion. Migros Bank was thereby able to report a **respectable growth in volume** for 2015, although it continued to adhere to its careful lending policy.

## Effects of the negative interest rates on the interest - differential business

Thanks to its prudent risk policy, Migros Bank was able to hedge much of the interest-rate risk on the balance sheet. The associated costs increased considerably in the reporting year after the Swiss National Bank abolished the minimum euro exchange rate in January 2015 and reduced its base rate to

**CHF 88 millions**

in commission income was generated.

below zero. As a result, Migros Bank's **net interest income** fell by 5% to CHF 460 million.

Commission income increased by an encouraging 6.3% to CHF 88 million, while trading income rose by 9.2% to CHF 39 million. This was partly due to a rise in customer transactions following the decision to unpeg the Swiss franc from the euro. Nevertheless, **operating income** fell by 2.7% overall to CHF 594 million.

Broken down into customer groups, one half of operating income came from the private-clients segment, the other from the premium-banking and corporate-clients segments.

Migros Bank responded to the decline in operating income by **decreasing its operating expenses** even further by 3.4% to CHF 276 million. Material expenses were down by 5.8% to CHF 105 million, while personnel costs were reduced by 1.8% to CHF 171 million.

As a result of this **strict cost management**, the cost/income ratio of 46.5% was slightly lower than the previous year's level of 46.8%. Depreciation, provisions and losses were also encouraging. As a whole, operating income and profit were both up by 0.5% on the previous year, at CHF 288 million and CHF 266 million respectively.

## Temporary reduction of asset management fees

Since the start of 2015, Migros Bank's asset management division has been systematically selling off its franc- and euro-denominated bonds with negative yields-to-maturity. If it had continued to offer these investments, thus incurring an elevated risk of losses, the bank would not have been acting in the best interests of its customers. Some of the **income from the bond sales** was used to increase exposure to equities. The majority was put into an account under mandate with favourable rates in order to boost liquidity.

Alongside the aforementioned changes, an **innovative fee model** was introduced. On each portion of liquid funds that exceeds the long-term target of 5% of the asset management mandate, Migros Bank is not charging any management fees until capital market yields have normalised. Even before the reduction in fees, Migros Bank already offered some of the most cost-effective asset management mandates on the market. In light of this, the number of mandates increased by 19.7% in 2015.

## Further expansion of the branch network

At the end of 2015, Migros Bank's branch network consisted of **66 branches**. It has therefore grown by more than 20 branches since the start of expansion in 2008. The number of full-time positions amounted to 1334 by the end of the reporting year (up from 1317 in the previous year).

1334

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people were employed by  
Migros Bank in 2015.

## Sustainable development thanks to lower risks

For Migros Bank, sustainable trading means, above all, adopting a **responsible, consistent and prudent risk policy** without investment banking. This approach not only supports the company's long-term success

but is also in the interests of the lender and helps to prevent misallocation of macroeconomic resources.

Migros Bank finances the Engagement Migros development fund with a considerable annual contribution amounting to 10% of the dividends paid to the owners.