



Zuger Kantonalbank



Interim Report 2016

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Good results in the first half of 2016

Zuger Kantonalbank performed well in the first six months of 2016. Profit increased by 1.2% to CHF 31.3 million in the first half of the year (CHF 30.9 million in the first half of the previous year). The bank posted healthy growth in mortgage lending. Interest income developed positively in the challenging environment of negative interest rates. General and administrative expenses were considerably lower. Systematic expansion of the offering for customers.

Zuger Kantonalbank continued to increase its mortgage lending business in the first six months of this year. Despite a rise in repayments, mortgage loans rose 0.1% to CHF 11.3 billion (+3.7% to CHF 11.2 billion in the first half of the previous year). Zuger Kantonalbank is therefore the leading player in real estate financing in the Zug economic region. The bank remains true to its prudent lending policy, which includes in-house valuation of every property prior to granting a mortgage and an examination of the financial sustainability of lending obligations.

Stable interest income

Customer deposits increased by 0.1% in the first six months of 2016 to CHF 9.4 billion. Margins in the mortgage business were maintained. The higher volume of loans, combined with cautious management of the balance sheet, led to a pleasing result from interest operations of CHF 77.5 million (CHF 76.6 million in the first half of the previous year). Many customers took advantage of the persistently low mortgage rates to refinance existing mortgages at attractive fixed rates.

The proportion of fixed-rate mortgages therefore rose further to 97.6% at mid-year (96.9% in the previous year). In addition, many corporate clients used the low interest rates for long-term financing.

Increase in assets under management – lower result from commission business and services

Customers' continued confidence in Zuger Kantonalbank is reflected in the fact that assets under management increased by CHF 99.0 million to CHF 10.3 billion. The net inflow of funds in the investment business came to CHF 130 million.

The result from trading activities improved by CHF 1.6 million to CHF 8.8 million in the first half of 2016. In the first half of 2015, the result was held back by the impact of the CHF/EUR exchange rate floor being abandoned.

In the wealth management business, Zuger Kantonalbank felt the predominant uncertainty following the global stock market setback in January. Customer confidence in the world's markets has still not returned. Commission

income also dropped as a result of the systematic switch to retrocession-free products. Overall, the result from commission business and services declined by 7.2% to CHF 16.0 million.

Very good cost-income ratio

While personnel expenses were virtually unchanged (-0.3%), general and administrative expenses posted a significant decline of CHF 1 million (-5.8%) in the first half of 2016. This was partly due to the change of IT platform that was completed in 2013. Total operating expenses therefore fell by 2.2% to CHF 49.6 million. The cost-income ratio improved to 47.5% (49.0% in the first half of the previous year) and remains very good by sector standards.

High equity base

Value adjustments, provisions and losses amounted to CHF 0.03 million and were once again very low (CHF 0.1 million in the previous year). The quality of the credit portfolio remains consistently high. Shareholders' equity increased to CHF 1.185 billion as of 30 June 2016 (+1.5%). This year, Zuger Kantonalbank altered the method of calculating its capital to bring it into line with the internationally harmonized standard under Basel III. Owing to this new standard calculation, the ratio of disposable regulatory capital decreased slightly to 16.6% as of

30 June 2016 (17.1% as of 31 December 2015 under Basel II). The capital base was unchanged in Swiss francs. The stated decline of 0.5 percentage points is attributable to changes in the risk weighting of assets under the new Basel III rules. Zuger Kantonalbank continues to be characterised by its very sound capital base.

Balance Sheet

in CHF 1 000 (rounded)

	30.06.16	31.12.15	Change
Assets			
Liquid assets	1 852 755	1 760 185	5.3%
Amounts due from banks	33 311	18 352	81.5%
Amounts due from customers	621 716	576 502	7.8%
Mortgage loans	11 290 553	11 278 842	0.1%
Trading portfolio assets	573	453	26.5%
Positive replacement values of derivative financial instruments	4 656	5 756	-19.1%
Financial investments	536 511	530 610	1.1%
Accrued income and prepaid expenses	10 303	10 400	-0.9%
Participations	5 267	5 283	-0.3%
Tangible fixed assets	128 724	121 672	5.8%
Other assets	7 561	5 251	44.0%
Total assets	14 491 930	14 313 305	1.2%
Liabilities			
Amounts due to banks	155 266	23 419	563.0%
Liabilities from securities financing transactions	400 000	375 000	6.7%
Amounts due in respect of customer deposits	9 351 859	9 326 195	0.3%
Negative replacement values of derivative financial instruments	4 275	3 121	37.0%
Cash bonds	65 652	77 593	-15.4%
Bond issues and central mortgage institution loans	3 165 000	3 114 000	1.6%
Accrued expenses and deferred income	55 165	145 168	-62.0%
Other liabilities	75 838	19 321	292.5%
Provisions	6 515	7 835	-16.9%
Reserves for general banking risks			
▪ risk profile	184 000	184 000	
▪ general	508 817	496 217	2.5%
Bank's capital	144 144	144 144	
Statutory capital reserve	142 810	142 810	
▪ of which tax-exempt capital contribution reserve	63 865	63 865	
Statutory retained earnings reserve	204 483	197 072	3.8%
Own shares	-4 339	-5 051	-14.1%
Profit carried forward	1 188	994	19.5%
Six-month/12-month profit	31 257	61 467	-49.1%
Total liabilities	14 491 930	14 313 305	1.2%
Off-balance-sheet transactions			
Contingent liabilities	52 381	52 828	-0.8%
Irrevocable commitments	409 866	458 471	-10.6%
Obligations to pay up shares and make further contributions	11 180	11 180	
Credit commitments	79	307	-74.3%

Income Statement

in CHF 1 000 (rounded)	30.06.16	30.06.15	Change
Interest and discount income	109 896	116 816	-5.9%
Interest and dividend income from trading portfolios			
Interest and dividend income from financial investments	1 618	2 195	-26.3%
Interest expense	-33 790	-41 986	-19.5%
Gross result from interest operations	77 723	77 025	0.9%
Changes in value adjustments for default risks and losses from interest operations	-175	-387	-54.7%
Net result from interest operations	77 548	76 639	1.2%
Commission income from securities trading and investment activities	13 551	14 293	-5.2%
Commission income from lending activities	462	662	-30.3%
Commission income from other services	4 724	4 798	-1.5%
Commission expense	-2 754	-2 527	9.0%
Result from commission business and services	15 984	17 227	-7.2%
Result from trading activities and the fair value option	8 823	7 210	22.4%
Income from participations	547	591	-7.4%
Result from real estate	1 171	1 110	5.5%
Other ordinary income	186	260	-28.5%
Other ordinary expenses		-0	-100.0%
Other result from ordinary activities	1 905	1 961	-2.9%
Operating income	104 260	103 037	1.2%
Personnel expenses	-33 068	-33 152	-0.3%
General and administrative expenses	-16 548	-17 561	-5.8%
Operating expenses	-49 617	-50 714	-2.2%
Value adjustments on participations and depreciation and amortisation of tangible fixed assets	-5 033	-5 249	-4.1%
Changes to provisions and other value adjustments, and losses	-34	-100	-66.1%
Operating result	49 576	46 975	5.5%
Extraordinary income		10 966	-100.0%
Extraordinary expenses			
Reserves for general banking risks			
▪ risk profile		-1 000	-100.0%
▪ general	-12 600	-19 500	-35.4%
Changes in reserves for general banking risks	-12 600	-20 500	-38.5%
Taxes	-5 720	-6 550	-12.7%
Six-month profit	31 257	30 891	1.2%

Statement of Changes in Equity

in CHF 1 000 (rounded)	Share capital	Statutory capital reserve	Statutory retained earnings reserve	Treasury shares	Reserves for general banking risks	Result of the period	Total
Equity at 31.12.2015	144 144	142 810	197 072	-5 051	680 217	62 461	1 221 653
Acquisition of own shares				-913			-913
Disposal of own shares				1 625			1 625
Profit (loss) on disposal of own shares			-256				-256
Dividends from own equity securities			167				167
Dividends and other distributions			7 500			-61 273	-53 773
Other allocations to (transfers from) the reserves for general banking risks					12 600		12 600
Six-month profit						31 257	31 257
Shareholders' equity at 30.06.2016	144 144	142 810	204 483	-4 339	692 817	32 445	1 212 361
Equity at 31.12.2015							1 167 881
Equity at 30.06.2016							1 185 475

Abridged Notes

Changes to accounting and valuation policies and any corrections to errors, and their impact on the interim financial statements

The present interim financial statements are based for the first time on the accounting rules set out in FINMA Circular 2015/1 "Accounting – banks". There are no changes to the accounting and valuation policies compared to the 2015 annual financial statements. To ensure comparability between the prior year and the reporting

period, the figures in the prior-year income statement have been adjusted to the new structure.

Note on factors which have influenced the bank's economic situation during the reporting period and by comparison with the prior-year period.

For comments on the development of business in the first half of 2016, please see pages 2 and 3 of this publication.

Extraordinary income and extraordinary expenses

in CHF 1 000 (rounded)	30.06.16	30.06.15	Change
Gains realised from the disposal of participations, tangible fixed assets and intangible assets	-	10 964	-100.0%
Other extraordinary income	-	2	-100.0%
Total extraordinary income	-	10 966	-100.0%
Total extraordinary expenses	-	-	

The prior year was adjusted in line with the accounting rules set out in FINMA Circular 2015/1 "Accounting – banks".

Material events occurring after the balance sheet date of the interim financial statements

No material events have occurred since the

balance sheet date which significantly influence the bank's assets, financial position and earnings as at 30 June 2016.

Outlook for 2016

The operating conditions for Zuger Kantonalbank will remain challenging in the second half of 2016. Interest rates remain low and the continued strength of the Swiss franc is still posing big challenges for the Swiss economy. The uncertainty has increased considerably now that Britain has voted to leave the EU.

Stable real estate market in the Zug region

Overall, there is a good basis for Zuger Kantonalbank continuing to perform well. Zug remains a highly attractive business location. Construction activity has only declined slightly. The real estate market remains stable, although growth has moderated slightly compared with previous years.

Expansion of service offering

As part of the strategic expansion of asset advisory services, Zuger Kantonalbank is introducing new investment solutions with three customer-specific advisory offers. These will be introduced on 1 January 2017.

Since mid-year, moreover, Zuger Kantonalbank has offered customers account sets. These bundle services and are tailored to the differing needs of low, average and frequent users. Individual products such as cards and accounts remain available to customers. From the third quarter, customers of Zuger Kantonalbank will be able to use the Paymit/Twint mobile payment solution.

Steady development

Zuger Kantonalbank assumes that the steady development of previous years will continue in the present financial year.

Back at Postplatz

Following an approximately four-year renovation period, Zuger Kantonalbank is delighted that since 4 July 2016 it has been able to receive customers at its Postplatz building again. 2687 people took advantage of the open day to visit the newly renovated premises in person.

Key Figures

in CHF 1 000 (rounded)	30.06.16	31.12.15	Change
Balance sheet			
Total assets	14 491 930	14 313 305	1.2%
Loans to customers	11 912 269	11 855 343	0.5%
■ of which mortgage loans	11 290 553	11 278 842	0.1%
Customer deposits	9 417 511	9 403 788	0.1%
Shareholders' equity			
Shareholders' equity after distribution of profit	1 185 475	1 167 881	1.5%
Available regulatory capital	16.6% ¹	17.1% ²	
Assets under management			
	10 269 901	10 170 883	1.0%
Number of employees (FTE)			
	405	402	

¹ calculation as per Basel III

² calculation as per Basel II

in CHF 1 000 (rounded)	30.06.16	30.06.15	Change
Income statement			
Net result from interest operations	77 548	76 639	1.2%
Result from commission business and services	15 984	17 227	-7.2%
Result from trading activities and the fair value option	8 823	7 210	22.4%
Operating income	104 260	103 037	1.2%
Operating expenses	-49 617	-50 714	-2.2%
Operating result	49 576	46 975	5.5%
Six-month profit	31 257	30 891	1.2%
Cost-income ratio			
	47.5%	49.0%	

Zuger Kantonalbank
 Bahnhofstrasse 1
 6301 Zug
 Phone 041 709 11 11
 Fax 041 709 15 55

service@zugerkb.ch
 www.zugerkb.ch