



Interim Report 2017

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Seit 125 Jahren.

Zuger Kantonalbank is well on track

Zuger Kantonalbank posted a good result in the first half of 2017. While operating income rose 1.5 % to CHF 105.9 million, profit came to CHF 31.2 million for the first half of the year, in line with the previous year's result (first half of 2016: CHF 31.3 million). Higher income from commission business and services played a particularly major part in this. Interest income decreased slightly in the continuing low-interest rate environment. The loan volume remained on a par with the previous year. The advisory offering and mobile services for customers are continuing to be expanded.

Zuger Kantonalbank experienced a stable trend in results in the first six months of this year. Total assets rose to CHF 14.6 billion. Zuger Kantonalbank is one of the best capitalised banks in Switzerland.

Mortgage lending business remains solid

Compared to the end of the year, mortgage loans rose slightly by 0.4% and amount to CHF 11.3 billion. The high volume of repayments sparked by negative interest rates was offset by new property loans, as Zuger Kantonalbank continued to strengthen its position as the leading bank for real estate financing in the Zug business region. The bank is continuing to adhere to its prudent lending policy with clearly defined test criteria.

Low interest rate environment impacts interest income

Interest operations remained under pressure. Although margins and volumes in the mortgage business were virtually unchanged, low interest rates on new contracts in the current environment of persistently low interest

rates resulted in net interest income that was down slightly at CHF 74.4 million. Numerous customers took advantage of the advantageous mortgage rates on offer and renewed maturing loans on a fixed-rate basis. As a result, the proportion of fixed-rate mortgages rose to 98.1% at mid-year (previous year: 97.6%). In the first half of the year, the bank saw customer deposits increase by CHF 92 million to CHF 9.2 billion (+1.0%). Without broad market acceptance, negative interest rates will still only be passed on to customers in individual cases.

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

Customers' continued confidence in Zuger Kantonalbank is also reflected in the increase in assets under management. These rose by CHF 957.2 million to CHF 11.2 billion (+9.3%) compared to 30 June 2016. Adjusted for performance the increase in assets under management since the beginning of the year amounted to CHF 101.1 million.

In commission business and services, the bank posted a very gratifying result of CHF 19.4 million (+21.5% year-on-year). The factors that contributed to this included the benign market environment and the positive performance of the equity markets, which resulted in higher brokerage income in the first half of 2017. In addition, strategic measures are starting to take effect and are driving steady growth in the asset management business.

At mid-year, the result from trading activities stands at CHF 8.8 million, matching the result for the first half of 2016.

Cost-income ratio well above-average

Under the position "Other result from ordinary activities" the rental of the commercial property at Zug railway station is having a particularly positive impact. Personnel expenses remained virtually unchanged (+0.1%). Due to additional spending in the bank's anniversary year, general and administrative expenses increased by CHF 0.3 million in the first half of 2017. Total operating expenses therefore increased by 0.6% to CHF 49.9 million. Depreciation rose by CHF 1.4 million year-on-year to CHF 6.4 million. This is due to investments in real estate and projects reaching completion.

The cost-income ratio stands at 47.2%, only slightly higher than at year-end 2016 (46.9%). This bears witness to Zuger Kantonalbank's high level of efficiency. There has been a modest improvement compared to the Interim Report 2016.

Comfortable equity base

The quality of the credit portfolio remains consistently good. At CHF 0.08 million, value adjustments, provisions and losses were also once again very low (previous year: CHF 0.03 million). Shareholders' equity after distribution of profit increased to CHF 1.225 billion as at 30 June 2017 (+1.4%). The ratio of available regulatory capital increased to 17.4% at mid-year.

Balance Sheet

in CHF 1,000 (rounded)

30.06.17

31.12.16

Change

Assets

Liquid assets	1,972,511	1,921,506	2.7%
Amounts due from banks	35,514	39,345	-9.7%
Amounts due from customers	531,531	532,385	-0.2%
Mortgage loans	11,345,819	11,302,873	0.4%
Trading portfolio assets	597	518	15.3%
Positive replacement values of derivative financial instruments	4,106	7,088	-42.1%
Financial investments	523,051	523,260	0.0%
Accrued income and prepaid expenses	7,339	6,463	13.6%
Participations	6,854	6,903	-0.7%
Tangible fixed assets	130,919	132,066	-0.9%
Other assets	6,635	7,801	-14.9%
Total assets	14,564,875	14,480,207	0.6%
Total subordinated claims	1,047	725	44.5%

Liabilities

Amounts due to banks	112,092	165,030	-32.1%
Liabilities from securities financing transactions	398,000	400,000	-0.5%
Amounts due in respect of customer deposits	9,109,304	9,010,416	1.1%
Negative replacement value of derivative financial instruments	5,446	5,065	7.5%
Medium-term notes	49,263	56,120	-12.2%
Bond issues and central mortgage institution loans	3,521,000	3,473,000	1.4%
Accrued expenses and deferred income	58,429	54,890	6.4%
Other liabilities	55,595	50,100	11.0%
Provisions	3,478	3,945	-11.8%
Reserves for general banking risks			
▪ of which risk profile	186,000	186,000	0.0%
▪ of which general	538,767	526,217	2.4%
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	211,991	204,495	3.7%
Own shares	-4,102	-4,749	-13.6%
Profit carried forward	1,452	1,188	22.2%
Six-month/12-month profit	31,205	61,537	-49.3%
Total liabilities	14,564,875	14,480,207	0.6%

Off-balance-sheet transactions

Contingent liabilities	51,904	53,544	-3.1%
Irrevocable commitments	484,311	477,375	1.5%
Obligations to pay up shares and make further contributions	17,724	17,724	0.0%
Credit commitments	372	80	365.4%

Income Statement

in CHF 1,000 (rounded)	30.06.17	30.06.16	Change
Interest and discount income	101,270	109,896	-7.8 %
Interest and dividend income from financial investments	1,302	1,618	-19.5 %
Interest expense	-28,159	-33,790	-16.7 %
Gross result from interest operations	74,413	77,723	-4.3 %
Changes in value adjustments for default risks and losses from interest operations	-1	-175	-99.7 %
Net result from interest operations	74,412	77,548	-4.0 %
Commission income from securities and investment transactions	16,800	13,551	24.0 %
Commission income from lending activities	477	462	3.3 %
Commission income from other services	5,550	4,724	17.5 %
Commission expense	-3,409	-2,754	23.8 %
Result from commission business and services	19,417	15,984	21.5 %
Result from trading activities and the fair value option	8,799	8,823	-0.3 %
Income from participations	831	547	51.9 %
Result from real estate income	2,320	1,171	98.0 %
Other ordinary income	89	186	-52.1 %
Other result from ordinary activities	3,240	1,905	70.1 %
Operating income	105,868	104,260	1.5 %
Personnel expenses	-33,094	-33,068	0.1 %
General and administrative expenses	-16,844	-16,548	1.8 %
Operating expenses	-49,938	-49,617	0.6 %
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-6,395	-5,033	27.1 %
Changes to provisions and other value adjustments, and losses	-77	-34	127.9 %
Operating result	49,457	49,576	-0.2 %
Extraordinary income	2		
Extraordinary expenses			
Reserves for general banking risks			
■ risk profile			
■ general	-12,550	-12,600	-0.4 %
Changes in reserves for general banking risks	-12,550	-12,600	-0.4 %
Taxes	-5,704	-5,720	-0.3 %
Six-month profit	31,205	31,257	-0.2 %

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 as at 31.12.2016	144,144	142,810	204,495	-4,749	712,217	62,725	1,261,642
Acquisition of own shares				-3,086			-3,086
Disposal of own shares				3,732			3,732
Profit (loss) on disposal of own shares			-139				-139
Dividends from own equity securities			134				134
Dividends and other distributions			7,500			-61,273	-53,773
Other allocations to (transfers from) the reserves for general banking risks					12,550		12,550
Six-month profit						31,205	31,205
Shareholders' equity at 30.06.2017	144,144	142,810	211,991	-4,102	724,767	32,658	1,252,267
Equity after distribution of profit on 31.12.2016							1,207,869
Equity after distribution of profit on 30.06.2017							1,225,381

Abridged Notes

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

There are no changes or corrections to errors to report in comparison with the previous year.

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 2017, please see pages 2 and 3 of this publication.

Extraordinary income and extraordinary expenses

in CHF 1,000 (rounded)	30.06.17	30.06.16	Change
Gains realised from the disposal of participations, tangible fixed assets and intangible assets	2		
Other extraordinary income			
Total extraordinary income	2		
Total extraordinary expenses			

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 2017.

Outlook for 2017

Persistently low interest rates and the strong franc remain challenges for the Swiss economy. Positive global economic developments exist alongside greater political risks. In addition to protectionist tendencies, the tough negotiations between Switzerland and the EU are another factor that could affect economic performance at any time.

Zug real estate market is intact

Overall, however, there is a good basis for Zuger Kantonalbank continuing to perform well. Our economic region is proving to be robust and attractive. The region's real estate market is stable and in good shape. This should enable us to grow further in the financing business. This said, interest operations remain under pressure. In a situation which is exacerbated by customers' high liquidity holdings and resulting repayment rates, it remains a major challenge to offset this pressure with growth.

Strengthening personal advice

As of 1 July, Zuger Kantonalbank has taken a further step in the expansion of its asset management business with the launch of three new advisory mandates. These offer customers significant added benefits and increase long-term opportunities for returns. At the same time, they help to stabilise the bank's income and anticipate changes in regulatory requirements.

With the ongoing certification of customer advisors, the bank is ensuring that the quality of advice will remain high in the future.

The third quarter will see the introduction of the Twint mobile payment solution.

Anniversary year sees considerable level of customer contact

One of the highlights of the activities to mark the bank's 125th anniversary is the naming of the winners of the "Ideas for Zug" project competition. With grants totalling up to CHF 500,000, the bank supports projects set up by the people of Zug and for the people of Zug that have a positive and lasting impact on life in the canton.

Until 31 December 2017, Zuger Kantonalbank will be giving customers who open an anniversary fund savings plan a starting balance of CHF 125.

Business performance expected to be steady

Unless conditions on the money and capital markets deteriorate significantly, Zuger Kantonalbank expects to post a solid full-year result in line with the previous year.

Key Figures

in CHF 1,000 (rounded)

	30.06.17	31.12.16	Change
Balance sheet			
Total assets	14,564,875	14,480,207	0.6%
Loans to customers	11,877,349	11,835,258	0.4%
■ of which mortgage loans	11,345,819	11,302,873	0.4%
Customer deposits	9,158,567	9,066,536	1.0%
Shareholders' equity			
Shareholders' equity after distribution of profit	1,225,381	1,207,869	1.4%
Available regulatory capital ratio	17.4%	17.3%	

in CHF 1,000 (rounded)

	30.06.17	30.06.16	Change
Income statement			
Net result from interest operations	74,412	77,548	-4.0%
Result from commission business and services	19,417	15,984	21.5%
Result from trading activities and the fair value option	8,799	8,823	-0.3%
Operating income	105,868	104,260	1.5%
Operating expenses	-49,938	-49,617	0.6%
Operating result	49,457	49,576	-0.2%
Six-month profit	31,205	31,257	-0.2%
Cost-income ratio	47.2%	47.5%	
Assets under management	11,227,058	10,269,901	9.3%
Increase in assets under management, performance-adjusted	101,057	92,264	9.5%
Number of employees (FTE)	399	405	

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