



Review 2016

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Seit 125 Jahren.

Strong annual result for 2016

Zuger Kantonalbank performed well in 2016. The operating result for the year under review came to CHF 100.5 million. At CHF 61.5 million, profit worked out at the level of the previous year. Interest income developed positively in the challenging environment of negative interest rates. The result from trading activities was likewise markedly higher, whereas special one-off charges led to an increase in operating expenses. In the real estate financing area, the bank consolidated its strong market position further.

Thanks to the stable development of results and a robust equity base, Zuger Kantonalbank has entered 2017 – its 125th anniversary year – in good shape. The bank has already incurred up-front expenditure with a view to celebrating this event appropriately with the people of Zug.

In view of the major challenges faced by Switzerland – and therefore also its banks – owing to the negative interest rates that have now persisted for two years, the annual result recorded in 2016 may be described as very good. The Bank Council is therefore pleased to propose to the Annual General Meeting of 29 April 2017 an unchanged dividend of CHF 175 per share. This means that Zuger Kantonalbank will distribute 82.0% of its profit to its shareholders.

Increase in interest income

Zuger Kantonalbank posted a net result from interest operations of CHF 154.5 million, or +2.5% compared to the previous year. In keeping with the new accounting rules intro-

duced in 2015, this figure contains interest-related value adjustments and losses. At just CHF 32,000 (previous year: CHF 2 million), these are very low.

Margins on the mortgage business were maintained. The positive result from interest operations was attributable to the favourable conditions in the interbank business arising from negative interest rates, combined with consistent management of customer deposits and circumspect balance sheet management. This allowed Zuger Kantonalbank to defy the challenging environment of negative interest rates once again in the year under review. Refinancing rates hit historic lows in the summer of 2016, and had only partially normalised by the end of the year.

Substantially higher result from trading activities – commission business holds up

The trading business benefited from the significant interest rate differential of the Swiss franc vis-à-vis the world's major currencies, recording a significantly higher result at CHF 18.0 million (+15.4%). Investors continue

to sit on the sidelines in what is an uncertain economic and political environment. Despite this, the result in the commission business remained stable at CHF 35.4 million (previous year: CHF 35.5 million). The net inflow of funds in the investment business was able to offset the persistent decline in sales commissions.

Increase in assets under management – targeted reduction of net new money

In 2016, customer deposits entrusted to Zuger Kantonalbank declined by 3.6% to CHF 9.1 billion, while assets under management increased by 3.5% to CHF 10.5 billion. The net new money inflow in asset management amounted to CHF 23.7 million in the year under review (previous year: CHF 449.1 million). This development was engineered deliberately – the very selective introduction of negative rates for certain individual customers triggered the corresponding outflow of customer deposits. At the same time, the level of assets under management, which is the key to sustainable revenue development, rose by CHF 223.4 million.

Leading position in real estate financing consolidated

Zuger Kantonalbank was able to strengthen its position in the highly competitive real estate financing market in the Zug business region. Although numerous customers exploited the momentum of the low-interest environment to make repayments, the volume of real estate financing remained unchanged at CHF 11.3 billion. Loans to customers likewise remained stable overall, coming in at CHF 11.8 billion (–0.2%).

Stable cost-income ratio despite special one-off charges

In the year under review, Zuger Kantonalbank continued its cost control and the associated strong cost discipline of previous years. Personnel expenses rose just slightly by 0.5% compared to the previous year. The 5.6% increase in general and administrative expenses is explained by the up-front expenditure already booked for our 125th anniversary in 2017. Zuger Kantonalbank was nonetheless able to keep its ratio of costs to income stable at 46.9% (previous year: 46.8%). This puts the bank in a very strong position on an industry comparison.

Further strengthening of capital

Zuger Kantonalbank's robust equity base continues to afford the bank valuable freedom of manoeuvre. At CHF 38.4 million, our capital base ended the year under review in a much stronger state. The bank fulfils both the (Basel III) capital adequacy rules and the requirements for a countercyclical capital buffer. The leverage ratio – the ratio of the bank's capital to its total assets – improved to 8.0%. The ratio of available regulatory capital amounted to 17.3% as per the balance sheet date (previous year: 17.1%), which is high in an industry comparison. Zuger Kantonalbank thus clearly exceeds the minimum legal requirements with regard to both of these ratios.

Zuger Kantonalbank share

In 2016, Zuger Kantonalbank shares recorded a year-on-year rise of 6.1% to CHF 4,971. In a year of fluctuation in the Swiss equity market (SMI: –6.8%), this was a very strong performance. Including the dividend of CHF 175

per share, the overall return came to 9.9% in the year under review.

Outlook for 2017

Fundamental conditions remain challenging for 2017. The negative interest rates being imposed on the sight deposits of banks with the Swiss National Bank are likely to keep capital market interest rates very low for a considerable time yet. The persistent strength of the franc continues to pose major challenges to the Swiss economy. Pleasingly, the Zug business region is proving both robust and attractive.

Zuger Kantonalbank is prepared for the future. Thanks to its strong current situation, clear strategy and sharp focus on the local economic area, we are looking to the future positively and with confidence.

Zug real estate market remains stable

Despite high prices, the real estate market in the Zug business region remains stable and robust. Demand is increasingly focused on properties in the lower and medium price segments, while upper-tier properties are remaining on the market for noticeably longer. The persistently high appeal of the local area should enable us to grow further in the financing business. At the same time, we are sticking to our prudent lending policy with its focus on the long-term interest environment.

Expanding the advisory offering in response to demand

As part of the strategic expansion of asset management, Zuger Kantonalbank will be introducing new solutions in the second half

of 2017 in the form of three customer-specific advisory offers. These will differ in terms of both frequency and scope of advice, intensity of portfolio monitoring, access to research and publications, and invitations to special events. Customers will therefore receive advice of the appropriate intensity at the corresponding price, in keeping with their needs.

A sustainable contribution in our anniversary year

Zuger Kantonalbank is celebrating its 125th anniversary in 2017. As the local cantonal bank, we feel a strong sense of shared responsibility for the development of the Zug region as a place to live and work. In our anniversary year, we are therefore particularly keen to promote and breathe life into sustainable ideas and projects in the social, cultural and sporting spheres. We are implementing this through our project competition "Ideas for Zug". Project ideas can be submitted online at www.zugerkb.ch/125-jahre until the end of June 2017.

Upcoming dates

Publication of Annual Report

23 March 2017

Annual General Meeting

29 April 2017

2017 interim results

18 July 2017

Key dates already known are listed above. These are potentially subject to change. The very latest information can be found at www.zugerkb.ch/die-zugerkb/investor-relations.

Key Figures

in CHF 1,000 (rounded)

	2016	2015	Change
Balance sheet			
Total assets	14,480,207	14,313,305	1.2%
Loans to customers	11,835,258	11,855,343	-0.2%
■ of which mortgage loans	11,302,873	11,278,842	0.2%
Customer deposits	9,066,536	9,403,788	-3.6%
Shareholders' equity			
Shareholders' equity after distribution of profit	1,207,869	1,167,881	3.4%
Available regulatory capital ratio	17.3%	17.1%	
Income statement			
Net result from interest operations	154,478	150,759	2.5%
Result from commission business and services	35,418	35,544	-0.4%
Result from trading activities and the fair value option	17,952	15,560	15.4%
Operating income	212,063	206,223	2.8%
Operating expenses	-99,493	-97,405	2.1%
Operating result	100,528	94,109	6.8%
Profit	61,537	61,467	0.1%
Key figures			
Assets under management	10,531,204	10,170,883	3.5%
Increase in assets under management, performance-adjusted	223,424	212,318	
Cost-income ratio	46.9%	46.8%	
Number of employees (FTE)	401	402	
Key share figures			
Share price at the end of the year (in CHF)	4,971	4,684	6.1%
Market capitalization	1,433,080	1,350,341	
Dividend (in CHF)	175	175	
Dividend yield (share price at year-end)	3.5%	3.7%	

Balance Sheet as at 31 December 2016 (before distribution of profit)

in CHF 1,000 (rounded)

	2016	2015	Change
Assets			
Liquid assets	1,921,506	1,760,185	9.2%
Amounts due from banks	39,345	18,352	114.4%
Amounts due from customers	532,385	576,502	-7.7%
Mortgage loans	11,302,873	11,278,842	0.2%
Trading portfolio assets	518	453	14.3%
Positive replacement values of derivative financial instruments	7,088	5,756	23.1%
Financial investments	523,260	530,610	-1.4%
Accrued income and prepaid expenses	6,463	10,400	-37.9%
Participations	6,903	5,283	30.7%
Tangible fixed assets	132,066	121,672	8.5%
Other assets	7,801	5,251	48.6%
Total assets	14,480,207	14,313,305	1.2%
Liabilities			
Amounts due to banks	165,030	23,419	604.7%
Liabilities from securities financing transactions	400,000	375,000	6.7%
Amounts due in respect of customer deposits	9,010,416	9,326,195	-3.4%
Negative replacement value of derivative financial instruments	5,065	3,121	62.3%
Medium-term notes	56,120	77,593	-27.7%
Bond issues and central mortgage institution loans	3,473,000	3,114,000	11.5%
Accrued expenses and deferred income	54,890	145,168	-62.2%
Other liabilities	50,100	19,321	159.3%
Provisions	3,945	7,835	-49.7%
Reserves for general banking risks			
■ of which risk profile	186,000	184,000	1.1%
■ of which general	526,217	496,217	6.0%
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	204,495	197,072	3.8%
Own shares	-4,749	-5,051	-6.0%
Profit carried forward	1,188	994	19.5%
Profit	61,537	61,467	0.1%
Total liabilities	14,480,207	14,313,305	1.2%
Off-balance-sheet transactions			
Contingent liabilities	53,544	52,828	1.4%
Irrevocable commitments	477,375	458,471	4.1%
Obligations to pay up shares and make further contributions	17,724	11,180	58.5%
Credit commitments	80	307	-74.0%

Income statement

in CHF 1,000 (rounded)

	2016	2015	Change
Interest and discount income	216,298	230,339	-6.1 %
Interest and dividend income from trading portfolios	5	5	0.0 %
Interest and dividend income from financial investments	3,051	4,140	-26.3 %
Interest expense	-64,843	-81,688	-20.6 %
Gross result from interest operations	154,510	152,796	1.1 %
Changes in value adjustments for default risks and losses from interest operations	-32	-2,037	-98.4 %
Net result from interest operations	154,478	150,759	2.5 %
Commissions from securities and investment transactions	27,997	29,206	-4.1 %
Commission income from lending activities	863	1,106	-21.9 %
Commission income from other services	11,153	10,300	8.3 %
Commission expense	-4,596	-5,068	-9.3 %
Result from commission business and services	35,418	35,544	-0.4 %
Result from trading activities and the fair value option	17,952	15,560	15.4 %
Income from participations	789	1,368	-42.3 %
Result from real estate	3,083	2,583	19.4 %
Other ordinary income	342	414	-17.3 %
Other ordinary expenses		-4	-100.0 %
Other result from ordinary activities	4,214	4,361	-3.4 %
Operating income	212,063	206,223	2.8 %
Personnel expenses	-65,856	-65,549	0.5 %
General and administrative expenses	-33,636	-31,855	5.6 %
Operating expenses	-99,493	-97,405	2.1 %
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-11,964	-14,630	-18.2 %
Changes to provisions and other value adjustments, and losses	-79	-79	-1.0 %
Operating result	100,528	94,109	6.8 %
Extraordinary income	2,240	10,904	-79.5 %
Reserves for general banking risks			
▪ risk profile	-2,000	-1,000	100.0 %
▪ general	-30,000	-44,450	-32.5 %
Changes in reserves for general banking risks	-32,000	-45,450	-29.6 %
Taxes	-9,231	1,904	-584.9 %
Profit	61,537	61,467	0.1 %

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Seit **125** Jahren.

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