

Interim Report 2012

Good half-yearly results in challenging market conditions

Zuger Kantonalbank posted a CHF 30.4 million profit for the first six months of 2012, up 0.5%. In a challenging market environment, the modest increase in mortgage volumes led to higher interest income. Performance was flat in the commission and service fee income business. These results point to annual profits substantially unchanged on the previous year.

Stable demand for mortgages; marked increase in customer assets

The Canton of Zug continued to enjoy high levels of construction activity. There are currently circa 2,000 residential units under construction. Supply continues to be well absorbed despite some occasional price gouging. Our ongoing cautious credit policy and the valuation of each property by our own appraisers allows us to ensure that loan approvals are done on the basis of the fair market value of the property to be financed. Demand for mortgages remained high in the first half of 2012. The aforementioned credit policy and increasingly strong competition, also from outside the Canton, explain the slightly lower completion rate compared to the previous year. Mortgage loans were up 1.4% (first half previous year: 5.3%) to circa CHF 9.5 billion. Customer assets also performed well, rising 2.4% to CHF 8.3 billion.

Strong interest income

Higher volumes in the mortgage market and slightly better margins drove interest income

up 2.6% to CHF 77.6 million. Our clients benefited from the low rates and refinanced maturing fixed-rate mortgages at extremely attractive rates. As a result, the proportion of fixed-rate mortgages increased to over 92% of total property financing at mid-year. The strong interest income was also positively impacted by the rigorous management of interest rate risks in the balance sheet.

Strong increase in asset management mandates

Volatile financial markets and the uncertain outlook for the global economy impacted our customer's investment behaviour and had a corresponding impact on the commission and service fee income, which was almost unchanged at CHF 19.6 million (+0.7%). Assets under management rose a modest 0.4% over the six months. Nevertheless, we are delighted to note that our carefully developed investment philosophy put together in conjunction with Wellershoff & Partners Ltd. has been well-received. We thus saw a 27.7% increase in asset manage-

ment mandates in the first half. Thanks to this, assets under management now represent a stronger basis for the non-lending business.

Improved cost-income ratio

The decision to switch next year from the existing banking platform to the integrated banking software for the whole bank (Finnova) reduced the current development costs for the maintenance of the existing platform and as a result cut non-staff costs in the first half. Staff costs were also down slightly year-on-year. Accordingly, operating expenses were down 2.7% to CHF 47.5 million. Overall, the higher gross profit and the slightly lower costs resulted in an improved cost-income ratio of 45.2% (46.8% year-on-year). Following planning approval for the bank building in the Postplatz in Zug, we will move to the newly completed "vorZug" office building in Baar in July. Leasing costs for the new office space will slightly increase non-staff expenses in the second half, still within the budget.

Well positioned for the future

Valuation adjustments, provisions and losses totalled CHF 1.45 million, once again lower

than in the previous year. The quality of the credit portfolio continues to be good. Thanks to the high levels of capital built up by Zuger Kantonalbank to manage credit risks, it is well-positioned for potential risks going forward.

Outlook

The Swiss economy has seen strong and satisfactory growth in the year to date. Nevertheless, given the strong Swiss franc there are clear signs of a growing drag on certain sectors and a trend towards a cooling of the economy. In light of low inflation expectations and the continued uncertainty in Europe and the US, Swiss interest rates have fallen to a record low. The Swiss National Bank will not change its monetary policy until there is an easing in the global economy, developments in Europe and the currency markets. Despite the challenging environment and the very volatile financial and investment markets, Zuger Kantonalbank is optimistic that 2012 annual profits will be on par with the previous year.

Key Figures

in '000 CHF (rounded)	30 June 2012	31 Dec 2011	Change
Balance sheet			
Balance sheet total	12'003'286	11'645'376	3.1%
Loans to customers	10'112'367	9'996'400	1.2%
■ of which: mortgages	9'448'855	9'313'896	1.4%
Due to customers ¹	8'250'888	8'054'638	2.4%
Shareholders' equity			
Shareholders' equity after distribution of profits	1'075'099	1'053'510	2.0%
BIS Tier 1 ratio	17.8%	17.4%	
Assets under management	9'919'495	9'875'681	0.4%

in '000 CHF (rounded)	30 June 2012	30 June 2011	Change
Income statement			
Net interest income	77'614	75'658	2.6%
Net commission and fee income	19'566	19'434	0.7%
Net income from trading operations	6'089	6'922	-12.0%
Operating income	105'209	104'291	0.9%
Operating expenses	-47'522	-48'851	-2.7%
Gross profit	57'687	55'440	4.1%
Operating profit (subtotal)	51'336	48'383	6.1%
Half-year profit	30'351	30'207	0.5%
Cost/income ratio	45.2%	46.8%	
Number of employees (FTE)	394	401	

¹ Due to customers & medium-term notes

Balance Sheet

in 1'000 CHF (rounded)

30 June 2012 **31 Dec 2011** **Change**

Assets

Cash	880'653	472'376	86.4%
Receivables from money market instruments	12'201	12'300	-0.8%
Due from banks	91'356	166'084	-45.0%
Due from customers	663'512	682'504	-2.8%
Mortgages	9'448'855	9'313'896	1.4%
Securities and precious metals trading portfolios	588	606	-3.0%
Financial investments	540'615	646'616	-16.4%
Participating interests	8'520	8'520	0.0%
Fixed assets	103'244	101'622	1.6%
Accrued income and prepaid expenses	19'464	22'809	-14.7%
Other assets	234'277	218'042	7.4%
Total assets	12'003'286	11'645'376	3.1%

Liabilities

Due to money market instruments	304	315	-3.3%
Due to banks	40'787	6'159	562.3%
Due to customers in savings and deposits	4'774'184	4'515'025	5.7%
Other due to customers	3'128'555	3'117'531	0.4%
Medium-term notes	348'149	422'082	-17.5%
Bonds and Pfandbrief bonds	2'140'000	2'025'000	5.7%
Accrued expenses and deferred income	59'715	48'680	22.7%
Other liabilities	229'478	226'873	1.1%
Allowances and provisions	180'178	176'528	2.1%
Reserves for general banking risks			
■ risk profile	177'000	175'500	0.9%
■ general	436'967	423'967	3.1%
Share capital	144'144	144'144	0.0%
Legal reserve from capital reserve	63'865	63'865	0.0%
General statutory reserve	243'112	235'612	3.2%
Other reserves	11'074	11'017	0.5%
Treasury shares	-5'777	-9'294	-37.8%
Retained earnings	1'199	1'345	-10.9%
Earnings for the half-year/year	30'351	61'027	-50.3%
Total liabilities	12'003'286	11'645'376	3.1%

Off balance-sheet transactions

Contingent liabilities	53'741	56'665	-5.2%
Irrevocable commitments	182'041	163'700	11.2%
Liabilities for calls on shares and other equities	9'000	9'000	0.0%
Commitment facilities	313	205	52.7%
Derivative financial instruments			
■ positive replacement values	104'588	81'701	28.0%
■ negative replacement values	225'454	220'546	2.2%
■ contract volume	4'562'035	4'300'672	6.1%
Fiduciary transactions	86'882	92'660	-6.2%

Income Statement

in '000 CHF (rounded)	30 June 2012	30 June 2011	Change
Interest and discount income	129'077	130'029	-0.7%
Interest and dividend income from trading portfolios	0	0	
Interest and dividend income from financial investments	5'099	6'683	-23.7%
Interest expenses	-56'563	-61'053	-7.4%
Net interest income	77'614	75'658	2.6%
Commission income from lending activities	402	519	-22.6%
Commission income from securities and investment activities	16'558	17'138	-3.4%
Commission income from other service fee activities	4'715	4'575	3.1%
Commission expenses	-2'108	-2'798	-24.7%
Net commission and fee income	19'566	19'434	0.7%
Net income from trading operations	6'089	6'922	-12.0%
Other ordinary profits	1'940	2'277	-14.8%
Operating income	105'209	104'291	0.9%
Personnel expenses	-31'990	-33'194	-3.6%
Other operating expenses	-15'533	-15'657	-0.8%
Operating expenses	-47'522	-48'851	-2.7%
Gross profit	57'687	55'440	4.1%
Depreciation and amortization of fixed assets	-4'900	-4'557	7.5%
Losses	-450	-500	-10.0%
Allowances and provisions (risk profile)	-1'000	-2'000	-50.0%
Subtotal (operating profit)	51'336	48'383	6.1%
Extraordinary income	0	1'419	-100.0%
Reserves for general banking risks			
▪ risk profile	-1'500	-1'000	50.0%
▪ general	-13'000	-12'000	8.3%
Other extraordinary expenses	0	0	
Extraordinary expenses	-14'500	-13'000	11.5%
Taxes	-6'486	-6'596	-1.7%
Half-year profit	30'351	30'207	0.5%

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Wir begleiten Sie im Leben.



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