Zuger Kantonalbank

Review 2011

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Annual result at level of previous year

Fiscal year 2011 presented Zuger Kantonalbank with major challenges. Various macroeconomic conditions strongly impacted our business. In this challenging environment we achieved an annual result that was only slightly below that of the previous year. Gross profit stood at CHF 115.0 million (down 5.5 %) and net profit at CHF 61.0 million (0.0 %). The resolution to be put to the annual general meeting is to pay an unchanged dividend of CHF 175 per share.

Interest income under pressure

Interest business is the primary income driver of Zuger Kantonalbank. Although the persistently low interest rates further reduced our interest margins, interest income fell only slightly (–4.4 %) to CHF 151.7 million, due on the one hand to the increase in the volume of customer loans and on the other hand to our active balance sheet management.

Commission business holds its ground

Net income from commission and fees was marked by the uncertainties in the financial markets. Despite that, net income virtually held its ground, with a 3.4 % drop to CHF 40.7 million compared to the previous year. The uncertain development of the US economy and the debt crisis in Europe unsettled investors who exhibited extreme caution.

Investments in the future

Operating expenses increased overall by 1.4 %. While other operating expenses increased by 2.2 %, personnel expenses were up by a mere 1.1 %. The higher values of other operating expenses and personnel expenses result from investments and additional staff associated with the newly positioned investment business and the expanded range of services offered by «Zuger Kantonalbank direct». The cost/income ratio was slightly down on the previous year. At 45.4 %, however, we continue to represent good value in a sector comparison.

Strong growth in lending business, position of assets under management maintained

Construction activity in the canton of Zug continues unabated. Although prices continue to rise, supply is still well absorbed. Low interest rates and continuous immigration led to high demand. In this environment we were able, without changing our careful lending strategy, to increase loans to customers by 8.3 % to CHF 10.0 billion. A significant proportion of this was due to mortgages, which went up by 8.7 % to CHF 9.3 billion.
Given the difficult environment, assets under management held up well, decreasing a mere

1.3 % to CHF 9.9 billion. The net inflow of funds of CHF 279 million which we achieved with local customers was a very pleasing development and is a strong indication to us that we are on the right path with the investment philosophy launched in the fall of 2010 in collaboration with Wellershoff & Partners. Customer deposits were also up, rising 7.9 % to CHF 8.1 billion, confirmation that our customers value security and stability.

Banking platform

In connection with developing the investment business, the IT (banking platform) was audited to ensure it met future requirements. The extensive analysis resulted in the decision to set about comprehensively renovating the IT base in the course of the current fiscal year. A start was already made on evaluating the future banking platform.

Sustained lending policy

Allowances, provisions and losses (CHF 2.7 million) are at the same low level as the previous year, showing that our cautious lending policy stands the test of time. We continue to have a very high quality loan portfolio. Although the market is hotly contested and interest rates are low, we adhere to our tried and tested criteria for reviewing the creditworthiness of borrowers. To do this we use a rating model which includes quantitative and qualitative characteristics of the borrower. We also calculate the financial burden of a customer not at the currently low interest level but at an imputed annual interest rate of 5 %. Lastly, the value of each property is reviewed by the bank's own real estate appraisers before a loan is granted.

Sound equity capitalization

Business growth in 2011, particularly in the mortgage business, resulted in risk-weighted assets increasing more strongly than shareholders' equity. The BIZ Tier 1 ratio of 17.4 % is therefore slightly lower than the previous year. Our extremely good capitalization in comparative terms means that we are very well equipped for the future, particularly with regard to the new regulations concerning shareholders' equity.

Unchanged dividend

Based on the good business result and strong equity capitalization, the resolution to be put to the annual general meeting on April 28, 2012 is to pay an unchanged dividend of CHF 175 per share, meaning that Zuger Kantonalbank will distribute 82.7 % of the earnings for the year to the shareholders.

Pleasing growth in share price

Growth in the Zuger Kantonalbank share price has been pleasing, rising slightly by 1.0% from CHF 4,990 to CHF 5,040. Including the dividend of CHF 175 per share, this results in overall performance of 4.5% for 2011, making the Zuger Kantonalbank share once again an attractive investment opportunity.

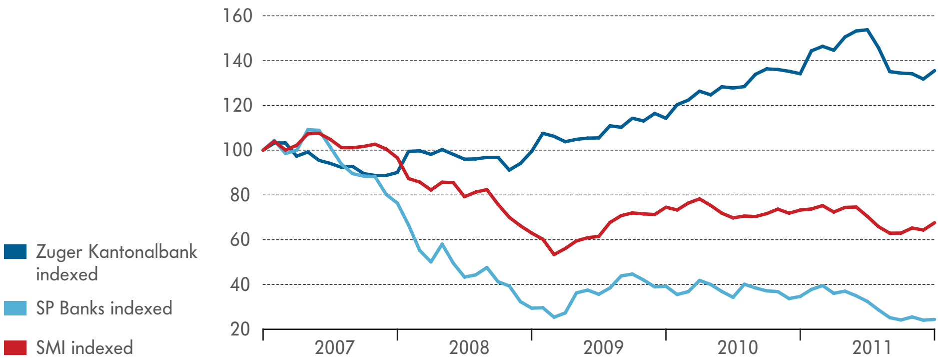
Outlook: continued pressure on interest business

The financial crisis of 2010 developed in the course of 2011 into a huge debt crisis in the southern countries of the Eurozone, and 2012 shows no signs of a normalization in the financial markets. The developments in the global and Swiss economy are uncertain. The Euro crisis and the enormous sovereign debt in Europe and the USA continue to give rise to concern. Switzerland's economic growth is expected to weaken. Exports will continue to be negatively impacted by the strong Swiss franc. Given the negative inflation rates, the interest level in 2012 is also expected to remain low. Growth in interest rates, uncertainty in the financial markets and the slowdown in economic growth will impact our business negatively this year. Overall, we are cautious about the prospects for 2012.

Gleam of hope in investment business

The newly developed investment customers business is starting to show some initial success in this difficult environment. The increased focus on advisory services for customers in our market regions, which we were able to accomplish by adding more personnel, is showing positive effects, paving the way for further growth and allowing us to look to the more distant future.

Zuger Kantonalbank's share price compared to SP Banks and SMI



Key Figures

in 1'000 CHF (rounded)	2011	2010	Change
Balance sheet			
Balance sheet total	11'645'376	10'704'010	8,8 %
Loans to customers	9'996'400	9'228'020	8,3 %
▪ of which: mortgages	9'313'896	8'566'638	8,7 %
Due to customers [1]	8'054'638	7'461'668	7,9 %
Shareholders' equity			
Shareholders' equity after distribution of profits	1'053'510	1'022'390	3,0 %
BIS Tier 1 ratio	17.4 %	17,7 %	
Income statement			
Net interest income	151'747	158'764	–4,4 %
Net commission and fee income	40'719	42'141	–3,4 %
Net income from trading operations	14'701	11'475	28,1 %
Operating income	210'767	216'073	–2,5 %
Operating expenses	–95'752	–94'391	1,4 %
Gross profit	115'015	121'682	–5,5 %
Operating profit (subtotal)	100'866	109'121	–7,6 %
Annual profit	61'027	61'051	0,0 %
Key figures			
Assets under management	9'875'681	10'005'604	–1,3 %
Cost / income ratio	45.4 %	43,7 %	
Number of employees (FTE)	404	403	
Key share figures			
Share price at the end of the year (in CHF)	5'040	4'990	1,0 %
Market capitalization	1'452'972	1'438'557	
Dividend (in CHF)	175	175	
Dividend yield	3.5 %	3,5 %	

[1] Due to customers & medium-term notes

Balance Sheet of 31.12.2011

(before distribution of profit)

in 1'000 CHF (rounded)	2011	2010	Change
Assets			
Cash	472'376	95'487	394,7 %
Receivables from money market instruments	12'300	313'000	–96,1 %
Due from banks	166'084	93'204	78,2 %
Due from customers	682'504	661'382	3,2 %
Mortgages	9'313'896	8'566'638	8,7 %
Securities and precious metals trading portfolios	606	702	–13,6 %
Financial investments	646'616	713'622	–9,4 %
Participating interests	8'520	8'993	–5,3 %
Fixed assets	101'622	104'889	–3,1 %
Accrued income and prepaid expenses	22'809	18'483	23,4 %
Other assets	218'042	127'610	70,9 %
Total assets	**11'645'376**	**10'704'010**	**8,8 %**
Liabilities			
Due to money market instruments	315	25	1'153,2 %
Due to banks	6'159	157'557	–96,1 %
Due to customers in savings and deposits	4'515'025	4'126'701	9,4 %
Other due to customers	3'117'531	2'867'031	8,7 %
Medium-term notes	422'082	467'937	–9,8 %
Bonds and Pfandbrief bonds	2'025'000	1'620'000	25,0 %
Accrued expenses and deferred income	48'680	44'362	9,7 %
Other liabilities	226'873	171'256	32,5 %
Allowances and provisions	176'528	173'078	2,0 %
Reserves for general banking risks			
▪ risk profile	175'500	171'500	2,3 %
▪ general	423'967	406'367	4,3 %
Share capital	144'144	144'144	0,0 %
Capital reserve	63'865	0	
General statutory reserve	235'612	291'977	–19,3 %
Other reserves	11'017	9'677	13,8 %
Treasury shares	–9'294	–10'120	–8,2 %
Retained earnings	1'345	1'466	–8,3 %
Annual profit	61'027	61'051	0,0 %
Total liabilities	**11'645'376**	**10'704'010**	**8,8 %**
Off balance-sheet transactions			
Contingent liabilities	56'665	48'828	16,0 %
Irrevocable commitments	163'700	382'298	–57,2 %
Liabilities for calls on shares and other equities	9'000	9'000	0,0 %
Commitment facilities	205	269	–23,7 %
Derivative financial instruments			
▪ positive replacement values	81'701	37'288	119,1 %
▪ negative replacement values	220'546	165'116	33,6 %
▪ contract volume	4'300'672	3'695'906	16,4 %
Fiduciary transactions	92'660	90'349	2,6 %

Income Statement

in 1'000 CHF (rounded)	2011	2010	Change
Interest and discount income	261'246	257'535	1,4 %
Interest and dividend income from trading portfolios	5	7	–20,0 %
Interest and dividend income from financial investments	12'680	15'142	–16,3 %
Interest expenses	–122'185	–113'920	7,3 %
Net interest income	151'747	158'764	–4,4 %
Commission income from lending activities	1'105	1'018	8,6 %
Commission income from securities and investment activities	35'586	37'457	–5,0 %
Commission income from other service fee activities	8'979	8'723	2,9 %
Commission expenses	–4'952	–5'057	–2,1 %
Net commission and fee income	40'719	42'141	–3,4 %
Net income from trading operations	14'701	11'475	28,1 %
Other ordinary profits	3'600	3'693	–2,5 %
Operating income	210'767	216'073	–2,5 %
Personnel expenses	–65'622	–64'908	1,1 %
Other operating expenses	–30'130	–29'483	2,2 %
Operating expenses	–95'752	–94'391	1,4 %
Gross profit	**115'015**	**121'682**	**–5,5 %**
Depreciation and amortization of fixed assets			
▪ properties	–4'264	–4'264	0,0 %
▪ other fixed assets	–7'231	–5'512	31,2 %
Losses	–653	–785	–16,8 %
Allowances and provisions (risk profile)	–2'000	–2'000	0,0 %
Subtotal (operating profit)	**100'866**	**109'121**	**–7,6 %**
Extraordinary income	1'420	38	3646,5 %
Reserves for general banking risks			
▪ risk profile	–4'000	–5'000	–20,0 %
▪ general	–17'600	–19'800	–11,1 %
Contribution to Finanzierungsstiftung	–7'500	–7'500	0,0 %
Other extraordinary expenses	0	–3'000	–100,0 %
Extraordinary expenses	–29'100	–35'300	–17,6 %
Taxes	–12'159	–12'808	–5,1 %
Annual profit	**61'027**	**61'051**	**0,0 %**

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