



Review 2012

# Zuger Kantonalbank posts strong annual results for 2012

In fiscal year 2012, Zuger Kantonalbank posted a gross profit of CHF 115.4 million (+0.3%) in what was a challenging environment. The net profit was CHF 61.2 million. Given the good business performance and solid equity capitalization, the annual general meeting will be asked to distribute an unchanged dividend of CHF 175 per share.

## Interest income up year-on-year

In its core business, the bank grew interest income by 2.4% to CHF 155.4 million. The bank thus offset lower interest rates in 2012 through active balance sheet management and an increase in customer loans.

## Stable results in the commission business

In the investment business, Zuger Kantonalbank grew its net income from commission and fees by 2.3% year-on-year. This was in no small part due to the performance of the successful new positioning in the investment customers segment. Investors continued to be defensive in light of the uncertainty in Europe and the US. Following a Federal Supreme Court ruling on 30 October 2012 on retrocessions on asset management mandates, a provision of CHF 4.1 million was set aside.

## Costs under control

Operating expenses rose 1.7% to CHF 97.4 million. While other operating expenses fell by 1.5%, personnel expenses were up 3.2%. This increase was wholly attributable to the contribution to the Zuger Kantonalbank's pension fund foundation, a pension scheme.

Such contributions had previously been booked as "extraordinary expenses".

Had the CHF 4 million not been classified as such, personnel expenses would have fallen because of the slightly lower headcount compared to the previous year.

With a cost/income ratio of 45.8%, Zuger Kantonalbank continues to perform very well compared to its peers.

## Growth of customer loans, sustained lending policy

Zuger Kantonalbank grew customer loans in what is a competitive market within the Zug economic region by 4.4% to CHF 10.4 billion. To achieve this, the bank followed its proven principles and continued with its cautious lending policy. Allowances, provisions and losses from the interest business once again fell to a very low level. All loan applications are consistently reviewed using risk-based principles. To this end, for private and corporate customers, Zuger Kantonalbank uses a rating model employing quantitative and qualitative criteria. In the case of property financing for private customers, we calculate the financial burden of a customer not at the currently

low interest rate level but at an imputed interest rate of 5%. In addition, before a loan is granted, the value of the property to be financed is determined by the bank's in-house real estate appraisers.

#### Higher customer deposits and assets under management

Our customers value the security of Zuger Kantonbank. The continued inflow of customer deposits is testament to this trust. They rose by 3.1% in 2012 to CHF 8.3 billion. Assets under management remained stable at CHF 9.9 billion (+0.3%) despite the challenging conditions. Following our request that non-resident customers pay the appropriate taxes in their countries of residence, some customer relationships were terminated. Adjusting for this, net new assets stood at a satisfactory CHF 223 million. The investment business, newly launched in 2010, and the partnership with Wellershoff & Partners Ltd. also proved their worth last year both for customers and for the bank.

#### Excellent equity capital base

Zuger Kantonbank is very well placed to satisfy the new capital requirements under Basel III. Even if the Swiss National Bank introduced the anti-cyclical capital buffer, Zuger Kantonbank would have more than enough equity capital. Our BIS Tier 1 Ratio remains stable at 17.4%. Compared to the sector, this capital base is very solid.

#### Dividend of CHF 175 per share

Given the good business performance and strong capitalization, the annual general meeting of 27 April 2013 will be asked to approve the payment of an unchanged dividend of CHF 175 per share. Zuger Kantonbank will thus distribute 82.4% of its profits for the year to shareholders.

#### Share price

The Zuger Kantonbank share price fell 4.7% to CHF 4,805 year-on-year. Including the dividend of CHF 175 per share, the performance in 2012 was -1.2%.

#### Ongoing upgrading of the banking platform

With the decision to modernise the existing IT infrastructure, Zuger Kantonbank is equipping itself for the future. The Finnova product is the best solution in light of the bank's current and foreseeable requirements. The project is running at full speed and making good progress.

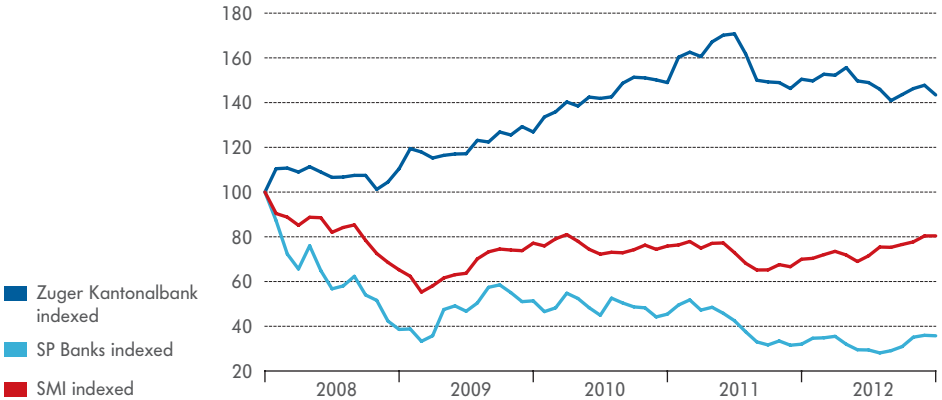
#### Outlook for 2013:

##### Cautiously optimistic – continuing challenging market environment

We expect 2013 to continue to be demanding for the whole Swiss banking sector, and hence for us too. Given the high proportion of fixed-rate mortgages at Zuger Kantonbank, the continually falling interest margin will drag down results. As regards profits, we expect a slight decrease over the coming year, something that should continue over

the first years following a future interest rate change. Growing commission income from the investment business will likely only partly offset this decline for the foreseeable future. The outlook for 2013 is overall moderately positive.

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



# Key Figures

| in 1'000 CHF (rounded)                             | 2012       | 2011       | Change  |
|--|------------|------------|---------|
| <b>Balance sheet</b>                               |            |            |         |
| Balance sheet total                                | 12'313'917 | 11'645'376 | 5,7 %   |
| Loans to customers                                 | 10'435'091 | 9'996'400  | 4,4 %   |
| ▪ of which: mortgages                              | 9'700'894  | 9'313'896  | 4,2 %   |
| Due to customers <sup>1)</sup>                     | 8'304'188  | 8'054'638  | 3,1 %   |
| <b>Shareholders' equity</b>                        |            |            |         |
| Shareholders' equity after distribution of profits | 1'086'266  | 1'053'510  | 3,1 %   |
| BIS Tier 1 ratio                                   | 17,4 %     | 17,4 %     |         |
| <b>Income statement</b>                            |            |            |         |
| Net interest income                                | 155'405    | 151'747    | 2,4 %   |
| Net commission and fee income                      | 41'668     | 40'719     | 2,3 %   |
| Net income from trading operations                 | 12'887     | 14'701     | -12,3 % |
| Operating income                                   | 212'720    | 210'767    | 0,9 %   |
| Operating expenses                                 | -97'358    | -95'752    | 1,7 %   |
| Gross profit                                       | 115'361    | 115'015    | 0,3 %   |
| Operating profit (subtotal)                        | 97'114     | 100'866    | -3,7 %  |
| Annual profit                                      | 61'240     | 61'027     | 0,3 %   |
| <b>Key figures</b>                                 |            |            |         |
| Assets under management                            | 9'904'081  | 9'875'681  | 0,3 %   |
| Cost / income ratio                                | 45,8 %     | 45,4 %     |         |
| Number of employees (FTE)                          | 393        | 404        |         |
| <b>Key share figures</b>                           |            |            |         |
| Share price at the end of the year (in CHF)        | 4'805      | 5'040      | -4,7 %  |
| Market capitalization                              | 1'385'224  | 1'452'972  |         |
| Dividend (in CHF)                                  | 175        | 175        |         |
| Dividend yield                                     | 3,6 %      | 3,5 %      |         |

<sup>1)</sup> Due to customers & medium-term notes

# Balance Sheet of 31.12.2012

(before distribution of profit)

| in 1'000 CHF (rounded)                             | 2012              | 2011              | Change      |
|--|-------------------|-------------------|-------------|
| <b>Assets</b>                                      |                   |                   |             |
| Cash   | 941'458           | 472'376           | 99,3%       |
| Receivables from money market instruments          | 11'000            | 12'300            | -10,6%      |
| Due from banks                                     | 81'007            | 166'084           | -51,2%      |
| Due from customers                                 | 734'197           | 682'504           | 7,6%        |
| Mortgages  | 9'700'894         | 9'313'896         | 4,2%        |
| Securities and precious metals trading portfolios  | 572               | 606               | -5,7%       |
| Financial investments                              | 501'116           | 646'616           | -22,5%      |
| Participating interests                            | 9'260             | 8'520             | 8,7%        |
| Fixed assets                                       | 105'574           | 101'622           | 3,9%        |
| Accrued income and prepaid expenses                | 18'172            | 22'809            | -20,3%      |
| Other assets                                       | 210'667           | 218'042           | -3,4%       |
| <b>Total assets</b>                                | <b>12'313'917</b> | <b>11'645'376</b> | <b>5,7%</b> |
| <b>Liabilities</b>                                 |                   |                   |             |
| Due to money market instruments                    | 3'020             | 315               | 860,1%      |
| Due to banks                                       | 7'909             | 6'159             | 28,4%       |
| Due to customers in savings and deposits           | 4'929'169         | 4'515'025         | 9,2%        |
| Other due to customers                             | 3'082'312         | 3'117'531         | -1,1%       |
| Medium-term notes                                  | 292'707           | 422'082           | -30,7%      |
| Bonds and Pfandbrief bonds                         | 2'403'000         | 2'025'000         | 18,7%       |
| Accrued expenses and deferred income               | 52'724            | 48'680            | 8,3%        |
| Other liabilities                                  | 219'471           | 226'873           | -3,3%       |
| Allowances and provisions                          | 183'566           | 176'528           | 4,0%        |
| Reserves for general banking risks                 |                   |                   |             |
| ■ risk profile                                     | 179'500           | 175'500           | 2,3%        |
| ■ general  | 443'567           | 423'967           | 4,6%        |
| 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                                     | 11'025            | 11'017            | 0,1%        |
| Treasury shares                                    | -7'612            | -9'294            | -18,1%      |
| Retained earnings                                  | 1'199             | 1'345             | -10,9%      |
| Annual profit                                      | 61'240            | 61'027            | 0,3%        |
| <b>Total liabilities</b>                           | <b>12'313'917</b> | <b>11'645'376</b> | <b>5,7%</b> |
| <b>Off balance-sheet transactions</b>              |                   |                   |             |
| Contingent liabilities                             | 63'251            | 56'665            | 11,6%       |
| Irrevocable commitments                            | 194'065           | 163'700           | 18,5%       |
| Liabilities for calls on shares and other equities | 9'000             | 9'000             | 0,0%        |
| Commitment facilities                              | 125               | 205               | -39,3%      |
| Derivative financial instruments                   |                   |                   |             |
| ■ positive replacement values                      | 99'800            | 81'701            | 22,2%       |
| ■ negative replacement values                      | 213'947           | 220'546           | -3,0%       |
| ■ contract volume                                  | 4'969'350         | 4'300'672         | 15,5%       |
| Fiduciary transactions                             | 83'936            | 92'660            | -9,4%       |

# Income Statement

| in 1'000 CHF (rounded)                                      | 2012           | 2011           | Change        |
|---|----------------|----------------|---------------|
| Interest and discount income                                | 255'853        | 261'246        | -2,1%         |
| Interest and dividend income from trading portfolios        | 7              | 5              | 25,0%         |
| Interest and dividend income from financial investments     | 9'132          | 12'680         | -28,0%        |
| Interest expenses   | -109'587       | -122'185       | -10,3%        |
| <b>Net interest income</b>                                  | <b>155'405</b> | <b>151'747</b> | <b>2,4%</b>   |
| Commission income from lending activities                   | 1'105          | 1'105          | 0,0%          |
| Commission income from securities and investment activities | 35'378         | 35'586         | -0,6%         |
| Commission income from other service fee activities         | 9'509          | 8'979          | 5,9%          |
| Commission expenses   | -4'325         | -4'952         | -12,7%        |
| <b>Net commission and fee income</b>                        | <b>41'668</b>  | <b>40'719</b>  | <b>2,3%</b>   |
| <b>Net income from trading operations</b>                   | <b>12'887</b>  | <b>14'701</b>  | <b>-12,3%</b> |
| <b>Other ordinary profits</b>                               | <b>2'760</b>   | <b>3'600</b>   | <b>-23,3%</b> |
| <b>Operating income</b>                                     | <b>212'720</b> | <b>210'767</b> | <b>0,9%</b>   |
| Personnel expenses  | -67'695        | -65'622        | 3,2%          |
| Other operating expenses                                    | -29'663        | -30'130        | -1,5%         |
| <b>Operating expenses</b>                                   | <b>-97'358</b> | <b>-95'752</b> | <b>1,7%</b>   |
| <b>Gross profit</b>   | <b>115'361</b> | <b>115'015</b> | <b>0,3%</b>   |
| Depreciation and amortization of fixed assets               |                |                |               |
| ■ properties  | -4'264         | -4'264         | 0,0%          |
| ■ other fixed assets  | -8'101         | -7'231         | 12,0%         |
| Losses  | -782           | -653           | 19,8%         |
| Allowances and provisions (risk profile)                    | -5'100         | -2'000         | 155,0%        |
| <b>Subtotal (operating profit)</b>                          | <b>97'114</b>  | <b>100'866</b> | <b>-3,7%</b>  |
| <b>Extraordinary income</b>                                 | <b>1</b>       | <b>1'420</b>   | <b>-99,9%</b> |
| Reserves for general banking risks                          |                |                |               |
| ■ risk profile  | -4'000         | -4'000         | 0,0%          |
| ■ general   | -19'600        | -17'600        | 11,4%         |
| Contribution to Finanzierungsstiftung                       | 0              | -7'500         | -100,0%       |
| Other extraordinary expenses                                | 0              | 0              |               |
| <b>Extraordinary expenses</b>                               | <b>-23'600</b> | <b>-29'100</b> | <b>-18,9%</b> |
| <b>Taxes</b>  | <b>-12'276</b> | <b>-12'159</b> | <b>1,0%</b>   |
| <b>Annual profit</b>  | <b>61'240</b>  | <b>61'027</b>  | <b>0,3%</b>   |

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