



Consolidated Accounts for the Financial Year.

Ending 31 December 2016.

Growing together. gkb.ch



**Graubündner
Kantonalbank**

Group key figures.

	31.12.2016 in CHF million	31.12.2015 in CHF million	+/- in %
Balance sheet / Off-balance-sheet			
Client assets 1)	27,878	30,079	-7.3
<i>Client assets without Private Client Bank AG (PCB) 1)</i>	27,878	27,363	1.9
Net new money 1)	309	-11	n/a
Loans to clients	18,046	17,520	3.0
Own funds 2)	2,429	2,359	2.9
Headcount			
FTEs (adjusted for part-time positions, apprenticeships at 50 %)	765.3	792.1	-3.4
Income statement			
	2016 in CHF 1,000	2015 in CHF 1,000	+/- in %
Operating income	355,497	369,060	-3.7
<i>Operating income 2015 adjusted for PCB (sale on 1 January 2016)</i>	355,497	353,562	0.5
Operating expenses	174,371	174,966	-0.3
<i>Operating expenses excl. EPFF single contributions resp. PCB</i>	168,905	166,860	1.2
Operating result	156,547	179,083	-12.6
<i>Operating result excl. EPFF single contributions resp. PCB</i>	162,013	173,178	-6.4
Profit before allocation to reserves without minority interests	175,926	188,791	-6.8
<i>Profit before allocation to reserves without minority interests excl. EPFF single contributions resp. PCB</i>	181,392	187,708	-3.4
Group profit	168,492	168,183	0.2
Key figures			
	2016	2015	+/- in %
Operating expense incl. depreciation/operating income (CIR II) 3)	51.8%	50.2%	3.2
<i>Cost-Income-Ratio II excl. EPFF single contributions resp. PCB 3)</i>	50.2%	50.0%	0.4
Return on equity (ROE) 2) 4)	7.5%	8.3%	-9.8
<i>Return on equity (ROE) excl. EPFF single contributions/PCB 2) 4)</i>	7.8%	8.3%	-6.4
Profit/PC (EPS) 4)	70.5	75.6	-6.7
Own funds 2)/PC	974.0	943.8	3.2
Leverage Ratio	9.1%	9.4%	-2.8
Core capital ratio (CET-1-ratio/Tier-1-ratio)	18.5%	18.7%	-0.8

EPFF single contributions: one-time contribution to the employee pension fund foundation (EPFF) of CHF 5.5 million.

- 1) Client funds, client deposits and fiduciary investments incl. client assets with account and custody account management at third-party banks (incl. double counting); without cash management positions
- 2) Equity before the appropriation of profits without minority interests
- 3) without value adjustments interest rates; depreciation excl. goodwill depreciation
- 4) Basis: profit before allocation to reserves without minority interests

GKB consolidated accounts 2016: good result confirmed.



Peter Fanconi
Chairman

Alois Vinzens
CEO

In 2016 Grisons Cantonal Bank made a number of strategically important decisions for the future. With the restructuring of the bank participations Privatbank Bellerive AG (PBB) and Private Client Bank (PCB) as well as the acquisition of a minority stake in Albin Kistler AG, GKB laid the foundations for the further diversification of its revenues. The 2016 financial year was positive. In addition to a sound operating result, the introduction of the digital consultancy mandate strengthened GKB's position on the investment side.

Loans to clients: robust growth of 3.0%

Client lending increased by 3.0%. In the case of mortgages (+5.8%), growth of 3.6% was achieved with first-class mortgages in other cantons. This offset declining momentum in the domestic market.

Client assets:

CHF 0.3 billion inflow of new money

The sale of PCB on 1 January 2016 trimmed client assets to CHF 27.9 billion. The performance (CHF +0.2 billion) and the inflow of new money (CHF 0.3 billion) helped to compensate for this. The reported net new money of CHF 309.2 million was positive for the first time in years. The outflow of non-domestic client assets fell to a minimum, now that historical legacies have broadly been cleared up.

Net interest income: negative interest rate environment is a strain

Income from interest-earning operations (CHF 239.6 million) increased by 4.0% due to the declining cost of hedging transactions. Value adjustments had a minimal impact on interest earnings of CHF 0.2 million. Relative to the previous year, this was equiv-

alent to an improvement of CHF 0.2 million. Gross interest earnings rose by 3.9%. The volume of non-performing loans declined. The 0.22% ratio corresponded to a historic low. The negative interest environment continued to impact the client side of the business. Despite the growth in volumes, the earnings contribution declined further.

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Commission and trading business: PCB no longer made earnings contribution

Earnings from commission and service activities fell 15.2% on account of the divestment of PCB. If PCB's contribution in the previous year is taken out of the equation, then earnings fell only by 3.9%. The launch of the consultancy mandate on the investment side of the business did not wholly offset the decline in securities transactions. Foreign exchange earnings profited in the previous year from the lifting of the minimum exchange rate against the EUR.

Operating expenses: Productivity remains high

Operating expenses, including the settlement of the state guarantee, sank 0.3% relative to the previous year. The omission of PCB's operating expenses was offset by a one-off contribution to the employee pension fund foundation (Personalvorsorgestiftung – "PVS") of CHF 5.5 million. This reduced the financial impact of the lower conversion rates for occupational pensions for long-standing employees. Excluding this special factor, the cost/income ratio II was maintained at 50.2%. As a consequence of the digitalisation initiative, project overheads as well as IT operating costs rose.

Operating result of CHF 156.5 million

Special factors mean the 12.6% decline in operating results does not properly reflect the operating performance. Excluding special factors (participation transactions, PVS contribution), the comparable operating result effectively increased by 1.0% to reach CHF 174.9 million. In addition to a regular value adjustment, the operating result also includes an initial value adjustment on the acquired participation (goodwill depreciation). This meant it was possible to use extraordinary earnings from the restructuring of the PBB/PCB participation to acquire shares in Albin Kistler AG. The excellent result in respect of operating risks is reflected by a net dissolution of provisions amounting to CHF 0.9 million.

Consolidated earnings: upheld

Relative to the previous year, reported consolidated earnings remained broadly stable at CHF 168.5 million (+0.2%) following the change in the level of reserves for general banking risks. The bank financed the project expenditure of CHF 2.9 million linked to the “Digital Banking 2020” using dedicated bank reserves for future investments. The contribution to the occupational pension foundation (CHF 5.5 million) also had no impact on consolidated earnings. The corresponding sum was drawn from the reserve for general banking risks.

Equity base: outstanding core capital ratio of 18.5%

GKB's goal is to positively differentiate itself in the market with an above-average equity base. The weighted capital ratio is 18.5% (CET-1 ratio) and consists entirely of common equity. Compared to the ratio of 12.8% required by the supervisory authorities, the Bank therefore has substantial capital reserves.

Dividend: CHF 100.1 million for the canton, participation capital holders and public

Given the good result, the same dividend of CHF 38 will be paid out. The payout ratio is 53.5% for the parent company and falls within the targeted range of 50 to 60%. A total dividend of CHF 95.0 million will be paid to the Canton of Grisons and the participation capital holders. CHF 2.2 million was allocated to the contributory fund for non-commercial cultural, charitable, sport, business, tourism and social projects. The Canton of Grisons will receive CHF 83.0 million (including payment for the state guarantee), an increase of CHF 0.1 million on the previous year.

Outlook for 2017: higher earnings anticipated

Despite the challenging environment, Grison Cantonal Bank is expecting the group to earn a stable profit in 2017. The earnings performance will be favoured by the discontinuation of special factors, meaning that slightly higher earnings of between CHF 156 million and CHF 160 million are expected. Due to lower extraordinary earnings, the bank is expecting earnings per share to fall to between CHF 64 and CHF 67. On the client side of the business, GKB is expecting growth of CHF 400 million in 2017 for client lending, and an inflow of new money amounting to approximately CHF 350 million.

Chur, 10 February 2017

Group Balance Sheet.

	31.12.2016	31.12.2015	
Assets	in CHF 1,000	in CHF 1,000	+/- in %
Liquid assets	3,240,094	3,243,516	-0.1
Amounts due from banks	789,812	615,776	28.3
Amounts due from customers	2,667,569	2,981,422	-10.5
Mortgage loans	15,378,711	14,538,153	5.8
Trading portfolio assets	268	88	204.5
Positive replacement values of derivative financial instruments	252,988	259,516	-2.5
Financial investments	1,300,254	1,343,860	-3.2
Accrued income and prepaid expenses	25,821	27,224	-5.2
Non-consolidated participations	26,065	12,162	114.3
Tangible fixed assets	115,946	117,982	-1.7
Intangible assets	10,367	0	100.0
Other assets	109,884	144,294	-23.8
Total assets	23,917,779	23,283,993	2.7
Total subordinated claims	10,000	10,000	-
Liabilities	31.12.2016	31.12.2015	
	in CHF 1,000	in CHF 1,000	+/- in %
Amounts due to banks	2,068,552	2,137,966	-3.2
Liabilities from securities financing transactions	620,000	435,000	42.5
Amounts due in respect of customer deposits	15,332,786	14,992,355	2.3
Negative replacement values of derivative financial instruments	30,808	156,245	-80.3
Cash bonds	26,252	34,760	-24.5
Bond issues and central mortgage institution loans	3,268,415	2,971,015	10.0
Accrued expenses and deferred income	77,687	70,317	10.5
Other liabilities	20,866	34,024	-38.7
Provisions	27,271	54,727	-50.2
Reserves for general banking risks	1,344,375	1,334,570	0.7
Bank's capital	250,000	250,000	-
Capital reserves	49,044	48,843	0.4
Retained earnings reserves	628,938	563,733	11.6
Own shares	-9,483	-1,837	-416.2
Minority interests in equity	13,776	34,092	-59.6
Consolidated profit	168,492	168,183	0.2
<i>of which, minority interests in consolidated profit</i>	<i>2,371</i>	<i>4,004</i>	<i>-40.8</i>
Total liabilities	23,917,779	23,283,993	2.7

Consolidated Income Statement.

	2016 in CHF 1,000	2015 in CHF 1,000	+/- in %
Gross result from interest operations	239,763	230,782	3.9
Changes in value adjustments for default risks and losses from interest operations	-203	-423	52.0
Net result from interest operations	239,560	230,359	4.0
Result from commission business and services	89,809	105,966	-15.2
<i>Result from commission business and services without PCB</i>	89,809	93,464	-3.9
Result from trading activities and the fair value option	17,637	22,321	-21.0
Other result from ordinary activities	8,491	10,414	-18.5
Operating income	355,497	369,060	-3.7
<i>Operating income 2015 adjusted for PCB (sale on 1 January 2016)</i>	<i>355,497</i>	<i>353,562</i>	<i>0.5</i>
Personnel expenses	117,109	116,791	0.3
General and administrative expenses	54,314	55,356	-1.9
Compensation for cantonal guarantee	2,948	2,819	4.6
Operating expenses	174,371	174,966	-0.3
<i>Operating expenses excl. EPFF single contributions resp. PCB</i>	<i>168,905</i>	<i>166,860</i>	<i>1.2</i>
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	25,442	10,358	145.6
<i>of which, goodwill depreciation</i>	<i>15,683</i>	<i>0</i>	<i>100.0</i>
Changes to provisions and other value adjustments, and losses	863	-4,653	118.5
Operating result	156,547	179,083	-12.6
<i>Operating result excl. EPFF single contributions resp. PCB</i>	<i>162,013</i>	<i>173,178</i>	<i>-6.4</i>
Extraordinary income	23,257	17,199	35.2
Extraordinary expenses	0	464	-100.0
Changes in reserves for general banking risks	-9,805	-24,612	60.2
<i>of which, reserves for general banking risks (earmarked)</i>	<i>2,874</i>	<i>-16,800</i>	<i>117.1</i>
Taxes	1,507	3,024	-50.2
Consolidated profit	168,492	168,183	0.2
<i>of which, minority interests in consolidated profit</i>	<i>2,371</i>	<i>4,004</i>	<i>-40.8</i>

Profit Appropriation of the Parent Company.

	31.12.2016	31.12.2015	+/- CHF
	in CHF 1,000	in CHF 1,000	1,000
Annual profit	167,700	163,000	4,700
Profit carried forward	0	0	0
Distributable profit	167,700	163,000	4,700
Pursuant to the board of directors ruling, profit is to be appropriated as follows:			
Dividend on nominal capital of 38 % (previous year 38 %)	95,000	95,000	0
Funds for projects with cultural, charitable, sporting or economic purposes in the Canton of Graubünden	2,200	2,000	200
Allocation to voluntary retained earnings reserves	70,500	66,000	4,500
Allocation to statutory retained earnings reserves ¹⁾	0	0	0
New amount carried forward	0	0	0

1) No allocation to statutory retained earnings reserves, as 50 % of the nominal capital has been achieved.

Graubündner Kantonalbank Participation Certificate.

Listed on SIX Swiss Exchange Sec. No. 134 020 Price: CHF 1,439.00²

Graubündner Kantonalbank (GKB) is a mid-sized cantonal bank. In addition to private and corporate client business focused on the Canton of Graubünden, GKB has a long-standing tradition in private banking. Offering a comprehensive range of services, attractive employment options, progressive training opportunities and balanced value management, meeting the needs of its clients, employees, investors and the public is of paramount importance to GKB.

The bank holds strategic stakes in Privatbank Bellerive AG, Zurich, and Albin Kistler AG, Zurich.

Capital structure

Endowment and participation cap.: CHF 250 Mio.
750,000 PC at CHF 100 nom.
CHF 175,000,000 endow. cap.

Shareholders

Canton of Graubünden: 84.5% of capital (per 31.12.16)
Board/Management: 0.1% of PC (per 31.12.16)

Board of directors/Management

Chairman of the Bank: Peter Fanconi (since 2014)
Chief Executive Officer: Alois Vinzens (since 2003)
No. of BD/EB members 2016: 7/4

Rating Standard & Poor's

Long term: AA
Outlook: stable

Key dates

Ex-dividend date: 10 March 2017
Participation certificate holder's meeting 2017: 8 April 2017
Half-year figures 2017: 27 Juli 2017

Key figures per Participation Certificate (PC): Figures according to ZKB Research

per PC (adjusted in CHF)	2013	2014	2015	2016	2017	per PC (in CHF)	2013	2014	2015	2016
Equity capital ¹	872.7	905.8	945.4	980.2	1'011.0	Price ³ High	1'237	1'418	1'782	1'860
Adjusted net profit ¹	75.0	71.6	68.8	67.6	67.6	Price ³ Low	1'123	1'170	1'403	1'271
Dividend	38.0	38.0	38.0	38.0	38.0	P/E ⁴ High	16.5	19.8	25.9	27.5
Payout ratio	60.8%	60.8%	57.9%	56.2%	56.2%	P/E ⁴ Low	15.0	16.3	20.4	18.8

¹ not including goodwill/intangible assets

² price as at 30.12.2016

³ highest/lowest prices on actually paid prices

⁴ highest/lowest prices of a given year as a ratio of the adjusted net profit of that year

10 year performance (including dividend distributions)

