



Consolidated Interim Financial Statements.

as at 30 June 2016.

Growing together. gkb.ch



**Graubündner
Kantonalbank**

Group Key Figures.

(Half-yearly figures are not audited.)

	30.06.2016 in CHF million	31.12.2015 in CHF million	+/- in %
Balance sheet / Off-balance-sheet			
Client assets ¹⁾	27,374	30,079	-9.0
<i>Client assets without Private Client Bank AG (PCB) ¹⁾</i>	27,374	27,363	-
Net new money ¹⁾	178	-310	+157.5
Loans to clients	17,652	17,520	+0.8
Own funds ²⁾	2,358	2,359	-0.1
Headcount			
Full-time equivalent ³⁾	764.0	792.1	-3.5
Income statement			
	1st half 2016 in CHF 1,000	1st half 2015 in CHF 1,000	+/- in %
Operating income	178,038	191,351	-7.0
Operating expenses	83,695	86,317	-3.0
Operating result	91,680	89,996	+1.9
Profit before allocation to reserves without minority interests	98,087	102,841	-4.6
Group profit	90,350	88,565	+2.0
Key figures			
	1st half 2016	1st half 2015	+/- in %
Operating expense/Operating income without value adjustments interest rates (CIR I)	47.7%	47.1%	+1.3
Operating expense including depreciation/operating income without value adjustments interest rates (CIR II)	49.9%	49.5%	+0.7
Return on equity (ROE) ⁴⁾	8.5%	9.3%	-8.2
Profit/PS (EPS) ⁴⁾	39.3	41.2	-4.7
Own funds ^{2)/PS}	943.1	909.4	+3.7
Leverage Ratio	9.2%	9.5%	-2.5
Return on equity (ROE) on own funds target of 14.5 % CET1 ratio	10.9%	11.9%	-8.5
Excess capital (basis: 8 %/CH standard)	129.6%	133.7%	-3.1
Core capital ratio (CET1 ratio/Tier 1 ratio)	18.4%	18.7%	-1.7

1) Client funds, client deposits and fiduciary investments incl. client assets with account and custody account management at third-party banks (incl. double counting); from 2012 without cash management positions

2) before the appropriation of profits, without minority interests

3) adjusted for part-time positions, apprenticeships at 50 %

4) Basis: profit before allocation to reserves without minority interests

Half-Year and Management Report – Higher operating result and solid growth.



Alois Vinzens
CEO

Peter Fanconi
Chairman

Sale of shareholding in Private Client Bank, Zurich a special factor

The retrospective sale of Private Client Bank AG as at 1 January 2016 had an impact on client assets and commission business. Despite the associated reduction in the scope of consolidation, (55% stake in the private bank Bellerive AG), the operating result rose +1.9%.

Strong growth in client business

The CHF +132.8 million (+0.8%) rise in client lending normalised towards the end of the prior year. The mortgage portfolio grew +1.4% to reach CHF 14.7 billion, which was in line with anticipated market growth. Client assets (-9.0%) would have remained stable, if the sale of Private Client Bank AG was taken out of the equation. The inflow of net new money reached CHF +178.4 million, representing a trend turnaround. The outflow associated with clients domiciled abroad was stopped, and the position in the domestic market was strengthened.

Gross interest income up by 5.4%

Net profit from interest-related activities (CHF 121.7 million / +0.6%) developed positively thanks to a significant +5.4% rise in gross interest earnings. The financial burden linked to short-term hedging transactions (payer swaps) eased tangibly. The contribution made by client activities declined on account of negative interest rates, despite larger volumes. The change in bad debt provisions improved the result by CHF +2.6 million, which was less than in the corresponding period of the previous year (CHF + 8.0 million). The dissolution of bad debt

Graubündner Kantonalbank reports higher operating result (+1.9%) and improved Group profit (+2.0%). The half-year result was influenced by the sale of the shareholding in Private Client Bank AG, Zurich. The inflow of net new money and mortgage growth developed favourably. The management of the bank is upbeat about the prospects for the whole financial year 2016.

provisions on credit risks as well as the low 0.3% ratio of distressed loans underscores the good quality of the loan portfolio.

Commission business strategically on track

The sale of the stake in Private Client Bank AG had the anticipated impact on earnings from commission and service business, which declined -14.6% to reach CHF 44.6 million (CHF -7.6 million). Discounting the sale of Private Client Bank AG, Zurich, commission earnings would have fallen only by -1.9%. The significant value adjustments performed at the start of the year had a negative impact on volume-based fees. In addition, transaction fees were undermined by the general market jitters. With a consistently rising number of asset management mandates, the introduction of the new GKB consultancy mandate as well as the new shareholding in Albin Kistler AG, Graubündner Kantonalbank's commission business is strategically on track.

Decline in trading activities and other earnings

Net trading income (CHF -4.0 million / -32.9%) reflects the decline in foreign currency transactions. The same period of the previous year was boosted by the special effect of abandoning the minimum exchange rate against the euro. In year-on-year terms, other ordinary earnings (CHF -2.4 million / -40.0%) fell on account of the decline in profits on financial assets.

Productivity remains high

Operating expenses, including the state guarantee contribution fell -3.0% or CHF -2.6 million relative to the previous year. The reason for this decline was the sale of Private Client Bank AG. Excluding this special factor, costs rose by a modest $+1.8\%$. Productivity remained above average, with a cost/income ratio II of 49.9% .

Group profit higher

Group profit rose to reach CHF 90.4 million ($+2.0\%$). Net profit before allocations to reserves without minority interests declined -4.6% . Profit from the sale of the Swisscanto shareholding had a positive impact on the same half of the previous year.

Above average capital base

GKB reported shareholders' equity (including minority interests) of CHF $2,374$ million for the first half of 2016. With a core capital ratio (CET 1) of 18.4% , it is one of the best-capitalised banks. This is also confirmed by the very high leverage ratio of 9.21% .

Outlook – expectations confirmed

The strong first-half performance means the formulated outlook for 2016 can be confirmed, even in a challenging environment. Goodwill depreciation on the acquired shareholding in Albin Kistler AG will reduce operating earnings. The bank is now expecting operating earnings of between CHF 154 million and 158 million. The consolidated and net earnings expectations formulated in February 2016 are being confirmed, with consolidated earnings set to come in at CHF 166 million to CHF 171 million, and earnings per share of CHF 67 to CHF 70 . Growth in client assets is set to rise to CHF 350 million, while lending growth will remain unchanged at CHF 500 million.

Information on the summarised notes.

Extraordinary income and expense

In addition to earn-out compensation resulting from the sale of the shareholding in Swisscanto (CHF 3.5 million), the extraordinary earnings (CHF 8.4 million) contain the proceeds of the sale of real estate in Thisis and Zizers (CHF 3.3 million) as well as the sale of the stake in PCB (CHF 1.6 million). The extraordinary expenses of CHF 9 million contain exclusively the formation of reserves for general bank risks and compare with the dedicated formation of CHF 16.8 million in the previous year.

Changes in the accounting and valuation principles

None.

Material events after the closing date of the interim financial statements

Acquisition of a minority stake of 25% in Albin Kistler AG, Zurich.

Chur, 29 July 2016

Group Balance Sheet.

Assets	30.06.2016	31.12.2015	+/- in %
	in CHF 1,000	in CHF 1,000	
Liquid assets	3,226,243	3,243,516	-0.5
Amounts due from banks	918,736	615,776	+49.2
Amounts due from customers	2,917,754	2,981,422	-2.1
Mortgage loans	14,734,608	14,538,153	+1.4
Trading portfolio assets	164	88	+86.4
Positive replacement values of derivative financial instruments	247,301	259,516	-4.7
Financial investments	1,332,700	1,343,860	-0.8
Accrued income and prepaid expenses	40,183	27,224	+47.6
Non-consolidated participations	11,702	12,162	-3.8
Tangible fixed assets	115,738	117,982	-1.9
Other assets	108,785	144,294	-24.6
Total assets	23,653,914	23,283,993	+1.6
Liabilities	30.06.2016	31.12.2015	+/- in %
	in CHF 1,000	in CHF 1,000	
Amounts due to banks	2,089,448	2,137,966	-2.3
Liabilities from securities financing transactions	324,000	435,000	-25.5
Amounts due in respect of customer deposits	15,262,134	14,992,355	+1.8
Negative replacement values of derivative financial instruments	138,861	156,245	-11.1
Cash bonds	30,914	34,760	-11.1
Bond issues and central mortgage institution loans	3,302,415	2,971,015	+11.2
Accrued expenses and deferred income	64,430	70,317	-8.4
Other liabilities	40,902	34,024	+20.2
Provisions	27,075	54,727	-50.5
Reserves for general banking risks	1,343,570	1,334,570	+0.7
Bank's capital	250,000	250,000	-
Capital reserves	49,199	48,843	+0.7
Retained earnings reserves	629,172	563,733	+11.6
Own shares	-3,334	-1,837	+81.5
Minority interests in equity	14,778	34,092	-56.7
Consolidated profit	90,350	168,183	
<i>of which, minority interests in consolidated profit</i>	<i>1,263</i>	<i>4,004</i>	
Total liabilities	23,653,914	23,283,993	+1.6

Consolidated Income Statement.

	1st half 2016 in CHF 1,000	1st half 2015 in CHF 1,000	+/- in %
Gross result from interest operations	119,147	113,053	+5.4
Changes in value adjustments for default risks and losses from interest operations	2,577	7,992	-67.8
Net result from interest operations	121,724	121,045	+0.6
Result from commission business and services	44,581	52,188	-14.6
<i>p.m. Result from commission business and services without PCB</i>	44,581	45,433	-1.9
Result from trading activities and the fair value option	8,128	12,113	-32.9
Other result from ordinary activities	3,605	6,005	-40.0
Operating income	178,038	191,351	-7.0
Personnel expenses	55,396	57,759	-4.1
General and administrative expenses	26,829	27,138	-1.1
Compensation for cantonal guarantee	1,470	1,420	+3.5
Operating expenses	83,695	86,317	-3.0
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	3,829	4,496	-14.8
Changes to provisions and other value adjustments, and losses	1,166	-10,542	+111.1
Operating result	91,680	89,996	+1.9
Extraordinary income	8,445	17,248	-51.0
Extraordinary expenses	-	92	-100.0
Changes in reserves for general banking risks	-9,000	-16,800	-46.4
<i>of which, reserves for general banking risks (earmarked)</i>	-	-16,800	-100.0
Taxes	775	1,787	-56.6
Consolidated profit	90,350	88,565	+2.0
<i>of which, minority interests in consolidated profit</i>	<i>1,263</i>	<i>2,524</i>	<i>-50.0</i>

Statement of Equity Capital.

									in CHF 1'000
	Bank's capital	Capital reserves	Retained earnings reserves	Unassigned reserves for general banking risks	Reserves for general banking risks (earmarked)	Own shares	Minority interests	Result of the period	Total
Shareholders' equity on 1.1.2016	250,000	48,843	563,733	1,317,770	16,800	-1,837	34,092	168,183	2,397,584
Prior year's profit carried forward	-	-	164,179	-	-	-	4,004	-168,183	-
Other contributions/other capital paid in	-	-	-1,740	-	-	-	-23,318	-	-25,058
Acquisition of own shares	-	-	-	-	-	-5,334	-	-	-5,334
Disposal of own shares	-	-	-	-	-	3,838	-	-	3,838
Profit (loss) on disposal of own shares	-	323	-	-	-	-	-	-	323
Dividends and other distributions	-	33	-97,000	-	-	-	-	-	-96,967
Other allocations to (transfers from) the reserves for general banking risks	-	-	-	9,000	-	-	-	-	9,000
Result of the period	-	-	-	-	-	-	-	90,350	90,350
Equity on 30.06.2016	250,000	49,199	629,172	1,326,770	16,800	-3,334	14,778	90,350	2,373,736

Graubündner Kantonalbank Participation Certificate.

Listed on SIX Swiss Exchange Sec. No. 134 020 Price: CHF 1,733.00³

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: 84.3% of capital (per 30.06.16)
Board/Management: 0.1% of PC (per 30.06.16)

Board/Management

Supervisory Board
Chairman: Peter Fanconi (since 2014)
CEO: Alois Vinzens (since 2003)
No. of SB/EB members: 7/4

Rating Standard & Poor's

Long term: AA
Outlook: stable

Key dates

Annual figures 2016: 10 February 2017
Participation capital holders' meeting 2017: 8 April 2017

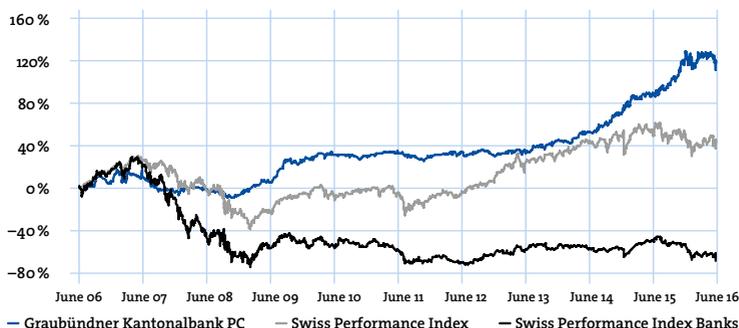
Key figures per Participation Certificate (PC)

per PC (adjusted in CHF)	2012	2013	2014	2015	2016(S)	per PC (in CHF)	2013	2014	2015	2016
Equity capital ¹	838.9	872.7	905.8	945.4	976.6 ²	Price ⁴ High	1'237	1'418	1'782	1'860
Adjusted net profit	73.0	75.0	71.6	68.8	67.6 ²	Low	1'123	1'170	1'403	1'665
Dividend	38.0	38.0	38.0	38.0	38.0 ²	P/E ⁵ High	16.5	19.8	25.9	27.5 ²
Payout ratio	62.0%	60.8%	60.8%	57.9%	54.6% ²	Low	15.0	16.3	20.4	24.6 ²

¹ not including goodwill/immaterial ² estimate ZKB Research ³ price and performance development as at 30.6.2016

⁴ Highest/lowest prices based on actually paid prices ⁵ Highest/lowest prices of a given year as a ratio of the adjusted net profit of that year

10 year performance (including dividend distributions)



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