Zürcher Kantonalbank

Disclosures

Capital adequacy and liquidity dislosures as at 30 June 2015

Capital adequacy and liquidity disclosures

Zürcher Kantonalbank once again has strengthened its capital base. The short-term liquidity requirements with respect to the liquidity coverage ratio (LCR) were also exceeded.

The core capital ratio (Tier 1) based on the minimum required capital was 17.1 percent as at 30 June 2015 (end 2014: 15.6 percent).

The Zürcher Kantonalbank group's required capital was CHF 4.8 billion, compared to the eligible capital of CHF 10.9 billion, representing a total capital ratio of 18.2 percent as at 30 June 2015 (end 2014: 16.6 percent).

The increase relate in particular to the two Tier 2 bonds – amounting to CHF 185 million and EUR 500 million respectively – that were issued in the first half of 2015. They had a direct effect on the total capital ratio. The two bonds are mainly used to cover the progressive capital component, which amounts to 1.0 percent. The common equity Tier 1 that had been tied to the progressive component was consequently released, thereby providing a positive impact on the common equity Tier 1 ratio (CET 1).

Furthermore, the CHF 500 million increase in the endowment capital as at 30 June 2015 also had a positive impact on CET1. As a consequence, the capital base of Zürcher Kantonalbank is very solid.

The LCR stood at 1.24 as at 30 June 2015, thereby significantly exceeding the required quotient of 1.

With this information showing its position as at 30 June 2015, the bank meets the requirements of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO) and the disclosure rules contained in FINMA Circular 08/22.

About the figures:
The amounts stated in this report have been rounded. The total may therefore vary from the sum of the individual values.

The following rules apply to the tables:

0	(0 oder 0,0) Figure is smaller than half the unit of account used
–	Figure not available or not meaningful
blank	No data available

About the bank

In accordance with its public service mandate, Zürcher Kantonalbank's primary focus is on its customers in the Greater Zurich area. To a limited extent, the bank also operates in the rest of Switzerland and abroad.

Zürcher Kantonalbank is an independent public-law institution of the canton of Zurich. The corporate (endowment) capital provided by the canton is a component of Zürcher Kantonalbank's equity. Should these resources prove inadequate, the canton additionally provides a guarantee for all the bank's non-subordinated liabilities.

Scope of consolidation

The parent company's capital is calculated on a solo-consolidated basis in accordance with Art. 10 para. 3 CAO and includes the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd., St. Peter Port, Guernsey.

The group's scope of consolidation includes the parent company, Zürcher Kantonalbank, as well as all directly and wholly owned subsidiaries: Zürcher Kantonalbank Finance (Guernsey) Ltd., Zürcher Kantonalbank Österreich AG and the Swisscanto group, consisting of Swisscanto Holding AG, Swisscanto Fondsleitung AG, Swisscanto Vorsorge AG, Swisscanto Funds Centre Ltd. and Swisscanto Asset Management International SA.

The representative office in São Paulo, which from an accounting perspective is a non-material majority interest of Zürcher Kantonalbank Representações Ltda., is not fully consolidated.

The individual accounts of the group companies are based on uniform accounting standards that are applied throughout the group and prepared in accordance with the principle of substance over form.

Capital adequacy requirements and calculation standards used

The risk-weighted capital adequacy requirement for Zürcher Kantonalbank, as a systemically important institution, is currently 14.0 percent for both the parent company and the group according to a decree issued by the Swiss Financial Market Supervisory Authority (FINMA). This includes the progressive capital component of 1.0 percent, which may be covered by either low-trigger convertible capital (Tier 2) or common equity Tier 1 (CET1). The countercyclical capital buffer, on domestic mortgages secured by residential property, increases the requirement by an additional 0.7 percent.

Under Basel III, a selection of different approaches is available to banks for the calculation of capital adequacy requirements for credit, market and operational risks.

The model-based approach is used for market risk combined with the standard approach for specific interest rate risks, and the basic indicator approach (BIA) for operational risk. With respect to required capital for credit risks, Zürcher Kantonalbank currently continues to apply the transitional provisions of the Capital Adequacy Ordinance in two cases. First, credit risk is calculated using the Swiss standard approach (SA-CH); second, the traditional method applied so far is used to calculate the credit equivalents of positions vis-à-vis central counterparties in the form of exchange-traded derivatives.

As regards determining eligible capital, Zürcher Kantonalbank chose not to make use of all possible transition periods specified in the Capital Adequacy Ordinance (Articles 140-142 CAO) and has therefore applied the Basel III rules since 1 January 2013.

The unweighted capital adequacy requirement (leverage ratio) for systemically important institutions in accordance with the Capital Adequacy Ordinance (Art. 134 CAO) is 24.0 percent of the weighted capital adequacy requirement including countercyclical capital buffer and amounts to 3.53 percent of total exposure.

Regulatory capital adequacy under Basel III (Switzerland)

The slight increase in required capital for credit risks is attributable to mortgage and credit growth for retail customers and businesses. Whereas the required capital for operational risks grew due to the inclusion of Swisscanto Holding AG in the calculation of the income indicator, the requirements for market risk showed little change in the first half of 2015.

The eligible capital of Zürcher Kantonalbank was strengthened significantly in the first half of 2015. This was attributable to the issue of two subordinated Tier 2 bonds and the increase in the endowment capital. At the same time, capital deduction items increased as a result of the inclusion of goodwill for Swisscanto Holding AG. Profit for the current financial year is not included in the calculation of eligible capital in the first-half statements.

As the total net positions for equity instruments of companies operating in the financial sector are below the corresponding thresholds, no capital deduction is required and the positions are risk-weighted.

Fig. 1: Change in eligible capital *(in CHF million)*

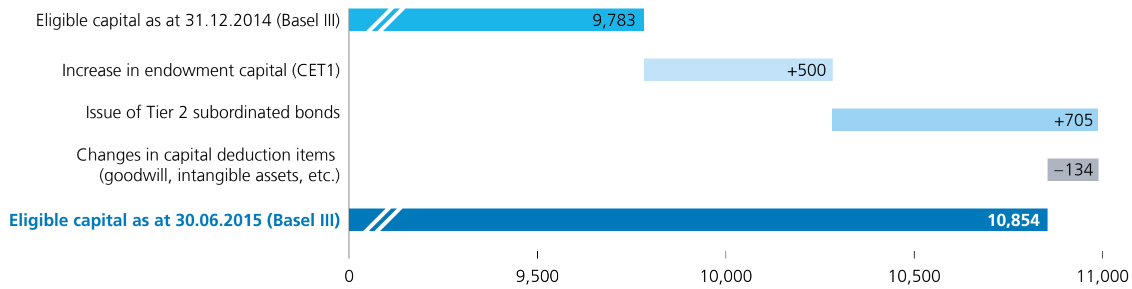
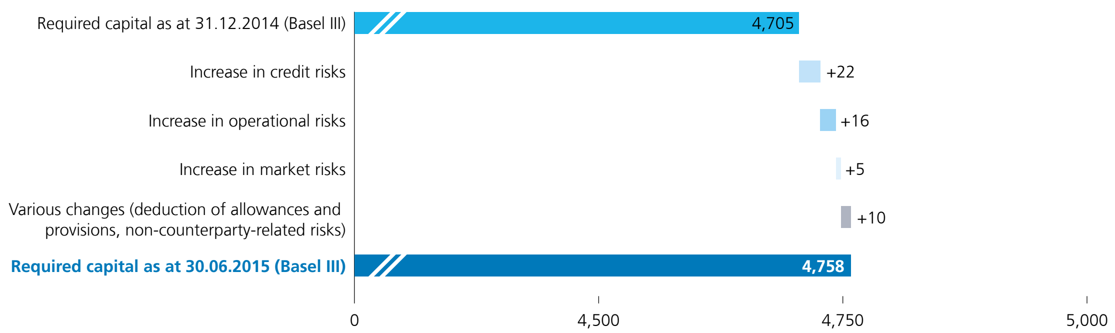


Fig. 2: Change in minimum required capital *(in CHF million)*



Short-term liquidity requirements (LCR)

Based on the FINMA Ordinance on the Liquidity of Banks (Liquidity Ordinance, LO) and FINMA Circular 2015/02, Zürcher Kantonalbank is required to hold an appropriate stock of unencumbered, high-quality liquid assets (HQLA) that can be converted into cash. These are used to cover liquidity requirements in a liquidity stress scenario defined by the supervisor, over a time horizon of 30 calendar days.

The stock of liquid assets should enable the bank to survive until at least day 30 of the stress scenario. By that time, appropriate remedial measures must have been taken by the executive board and/or supervisor.

The LCR is the quotient of the stock of HQLA (numerator) and total net cash outflows expected over a 30-day horizon in the stress scenario (denominator). The bank meets the LCR requirements if the quotient stipulated in Art. 13 LO is at least 1. The average month-end figure for the second quarter of 2015 was 1.24.

As a systemically important bank, Zürcher Kantonalbank must at all times be in a position to cover all cash outflows expected in the event of the stress scenario for at least 30 days.

1. Overview of the disclosure rules applicable as at 30 June 2015

The table below provides an overview of the capital adequacy and liquidity disclosures required as at 30 June 2015 and in the first half.

Ref. Circ. 08/22	**Information to be disclosed**	**Applicable to ZKB**	**Systemic importance dislosures**	**Required frequency as per FINMA-Circ. 08/22**	**Effective disclosure frequency**	**Disclosure report reference**
M.n. 23	Key characteristics of eligible regulatory capital instruments issued	yes	no	y / in event of change	Q	Fig. 11
M.n. 38	Breakdown of eligible regulatory capital	yes	no	HY	Q	Fig. 1, 3, 4a–c
M.n. 39	Required capital	yes	no	HY	Q	Fig. 2, 5a–b
M.n. 40	Credit risk / breakdown by counterparty or sector	yes	no	HY	Q	Fig. 7
M.n. 41	Regulatory credit risk mitigation	yes	no	HY	Q	Fig. 8
M.n. 42	Segmentation of credit risks	yes	no	HY	Q	Fig. 9
M.n. 43	Geographical credit risks	no	no	n/a	n/a	n/a
M.n. 44	Doubtful customer loans by geographical area	no	no	n/a	n/a	n/a
M.n. 45	Credit derivative transactions in the banking book	yes	no	HY	Q	Fig. 10
M.n. 45.1	Volume of risk-weighted positions when using external ratings	yes	no	HY	Q	Fig. 12
M.n. 46	Interest rate risks in banking book: figures on effect on assets and income in event of an interest rate shock	yes	no	HY	Q	Fig. 13
M.n. 46.1	Leverage ratio	yes	no	HY	Q	Fig. 14
M.n. 46.3	Liquidity coverage ratio (non-systemically important banks)	no	no	n/a	n/a	n/a
M.n. 46.2 M.n. 46.4 – M.n. 46.6	Liquidity coverage ratio (systemically important banks)	yes	stricter require-ments from 1 January 2017	HY	Q	Fig. 15
M.n. 47 – M.n. 47.4	Disclosure requirements under Basel Minimum Standards when using: – bank-specific calculations for credit risks	no	no	n/a	n/a	n/a
	– Model-based approach for market risks	yes	no	HY	Q	Fig. 16–17
	– institution-specific approach for operating risks	no	no	n/a	n/a	n/a
	– Securitisation transactions as defined in FINMA-Circ. 08/19	no	no	n/a	n/a	n/a

Ref. Circ. 08/22	Information to be disclosed	Applicable to ZKB	Systemic importance dislosures	Required frequency as per FINMA-Circ. 08/22	Effective disclosure frequency	Disclosure report reference
M.n. 57–58	The disclosure requirements for major banks include the group/sub-group ratios and significant domestic and foreign banking subsidiaries that must comply with capital adequacy requirements regarding: – common equity Tier 1 (CET1) – total core capital (Tier 1) and – ordinary regulatory capital (Tier 1 and Tier 2) Furthermore, the related basic information, i.e. common equity Tier 1, total core capital and ordinary regulatory capital as well as minimum required capital	yes	no	Q	Q	Fig. 1 Fig. 2 Fig. 3 Fig. 4a–c Fig. 5a–b Fig. 6a–b
M.n. 58.1	The disclosure obligations for major banks also include: – Leverage ratio including numerator (core capital, Tier 1) and denominator (total exposure)	yes	no	Q	Q	Fig. 14
M.n. 58.2	– Quantitative and qualitative information regarding the LCR: – as per m.n. 36.3 et seq. – as per m.n. 46.2 et seq	yes yes	yes no	Q Q	Q Q	Fig. 15 Fig. 15
M.n. 59.0	Banks with a total exposure greater than EUR 200 billion have additional disclosure obligations to meet.	no	no	n/a	n/a	n/a
M.n. 59.2	CET1 ratios, high/low trigger convertible capital and indication as to which part is deemed AT1 and which T2.	yes	yes	Q	Q	Fig. 18
M.n. 59.3	Reconciliation into numbers/percentages to enable assessment of compliance with basic requirements, capital buffer and progressive component. CET1 used to cover the progressive component must be stated separately.	yes	yes	Q	Q	Fig. 19a–b
M.n. 59.4	Leverage ratio: sub-divided in accordance with basic requirements, capital buffer and progressive component.	yes	yes	Q	Q	Fig. 20a–b
M.n. 59.5	Listing and qualification of reliefs granted for RWAs, eligible capital and total exposure at individual institution level, stating materiality of their impacts/importance etc.	no	no	n/a	n/a	n/a

2. Eligible and required capital, capital ratios

The following tables provide information about the detailed composition and changes in eligible and required capital.

Fig. 3: Group balance sheet before distribution of net profit

in CHF million	References in Fig. 4a	30.06.2015 [1]	31.12.2014 [1]
Assets			
Cash		29,182	27,064
Money market placements		3	5
Due from banks		16,162	16,302
Due from customers		16,459	15,019
Mortgages		72,370	71,389
Securities and precious metals trading portfolios		10,058	11,394
Financial investments		3,933	4,027
Participations		148	163
Tangible fixed assets		755	723
Intangible assets		174	1
– of which goodwill	A	173	0
– of which other intangible assets	B	1	1
Accrued income and prepaid expenses		369	303
Other assets		12,205	12,003
– of which deferred tax assets which rely on future profitability	C	9	10
Total assets		161,819	158,392
Liabilities and equity			
Liabilities			
Due to banks		33,812	33,870
Due to customers in savings and investment accounts		46,031	45,624
Other amounts due to customers		38,703	37,021
Cash bonds		312	381
Bonds		7,438	7,817
Central mortgage institution loans		7,411	6,964
Accrued expenses and deferred income		544	265
Other liabilities		16,727	16,242
Allowances and provisions		702	721
Total liabilities		151,680	148,905
– of which subordinated liabilities eligible as additional Tier 1 capital (AT1) [2]	D	586	588
– of which subordinated liabilities eligible as supplementary capital (T2) [3]	E	705	
Net equity			
Corporate capital		2,425	1,925
– of which eligible as CET1	F	2,425	1,925
Profit reserves	G	7,321	6,914
– of which foreign currency translation reserve	H	–9	–4
Group net income		393 [4]	647
– of which retained earnings	I		368
Minority interests			
Total equity		10,139	9,487
Total liabilities and equity		161,819	158,392

[1] The regulatory scope of consolidation pursuant to the Capital Adequacy Ordinance is identical to that used in accounting.
[2] Consists solely of high-trigger convertible capital.
[3] Consists solely of low-trigger convertible capital.
[4] Profit for the current financial year is not a component of eligible capital.

Fig. 4a: Eligible capital group[1]

in CHF million	References to Fig. 3	30.06.2015[2]	31.12.2014[2]
Common equity Tier 1 (CET1)			
Issued and paid-up corporate capital, fully eligible	F	2,425	1,925
Profit reserves, including reserves for general banking risks/profit (loss) brought forward and profit (loss) for the period	G–H+I	7,330	7,286
Capital reserves and foreign currency translation reserve	H	–9	–4
Common equity Tier 1 before adjustments		9,746	9,207
Adjustments to common equity Tier 1			
Goodwill	A	–173	–0
Other intangible assets	B	–1	–1
Deferred tax assets which rely on future profitability	C	–9	–10
Reclassification of CET1 to Tier 2 to cover the progressive component			–588
Total adjustments to common equity Tier 1		–183	–600
Common equity Tier 1 (net CET1)		9,563	8,607
Additional Tier 1 capital (AT1)			
Issued and paid up debt instruments[3]		590	590
Deduction of net long positions in own AT1 instruments		–4	–2
Additional Tier 1 capital (net AT1)	D	586	588
Core capital (net Tier 1)		10,149	9,195
Supplementary capital (Tier 2)			
Issued and paid up debt instruments[4]	E	706	
Deduction of net long positions in own AT1 instruments		–0	
Reclassification of CET1 to Tier 2 to cover the progressive component			588
Supplementary capital (net Tier 2)		705	588
Regulatory total capital (net Tier 1 & net Tier 2)		10,854	9,783

1 Unused headings in accordance with model table 1b) of Appendix 2 FINMA Circular 2008/22 "Capital Adequacy Disclosure – Banks" are omitted in favour of a more straightforward presentation.
2 Figures for capital are calculated in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
3 Consists solely of high-trigger convertible capital.
4 Consists solely of low-trigger convertible capital.

Fig. 4b: Eligible capital parent company [1,2,3]

in CHF million	30.06.2015 [4]	31.12.2014 [4]
Common equity Tier 1 (CET1)		
Issued and paid-up corporate capital, fully eligible	2,425	1,925
Profit reserves, including reserves for general banking risks/profit (loss) brought forward and profit (loss) for the period	7,263	7,263
Capital reserves and foreign currency translation reserve		
Common equity Tier 1 before adjustments	9,688	9,188
Adjustments to common equity Tier 1		
Goodwill	–173	–0
Other intangible assets	–1	–1
Deferred tax assets which rely on future profitability		
Consolidated participations (CET1 instruments)	–236	–39
Reclassification of CET1 to Tier 2 to cover the progressive component		–587
Total adjustments to common equity Tier 1	–410	–627
Common equity Tier 1 (net CET1)	9,278	8,561
Additional Tier 1 capital (AT1)		
Issued and paid up debt instruments [5]	590	590
Deduction of net long positions in own AT1 instruments	–4	–2
Additional Tier 1 capital (net AT1)	586	588
Core capital (net Tier 1)	9,864	9,148
Supplementary capital (Tier 2)		
Issued and paid up debt instruments [6]	706	
Deduction of net long positions in own AT1 instruments	–0	
Reclassification of CET1 to Tier 2 to cover the progressive component		587
Supplementary capital (net Tier 2)	705	587
Regulatory total capital (net Tier 1 & net Tier 2)	10,569	9,735

1 Unused headings in accordance with model table 1b) of Appendix 2 FINMA Circular 2008/22 "Capital Adequacy Disclosure – Banks" are omitted in favour of a more straightforward presentation.
2 The parent company's capital is calculated on a solo-consolidated basis effective 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close relationship to the bank. FINMA has ruled that Zürcher Kantonalbank may consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. on a solo basis under the individual institution provisions from 2012.
3 Zürcher Kantonalbank does not claim any relief on the basis of Art. 125 CAO.
4 Figures for capital are calculated in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
5 Consists solely of high-trigger convertible capital.
6 Consists solely of low-trigger convertible capital.

Fig. 4c: Thresholds and positions with no deduction from common equity Tier 1 (CET1) group [1]

	30.06.2015		31.12.2014	
in CHF million	Amount [2]	Threshold	Amount [2]	Threshold
Non-qualified participations in the share capital of other companies in the financial sector	515	956 [3]	567	920 [3]
Qualified participations in the share capital of other companies in the financial sector	205	956 [4]	227	920 [4]

1 Amounts below the threshold are subject to normal capital adequacy requirements. Zürcher Kantonalbank does not have any "mortgage servicing rights" or "other deferred tax assets".
2 Net position (trading and banking book) for equity instruments of companies operating in the financial sector (Art. 52 CAO).
3 Threshold 1 pursuant to Art. 35 para. 2 CAO.
4 Threshold 2 pursuant to Art. 35 para. 3 CAO.

Fig. 5a: Required capital group

in CHF million	Remarks	30.06.2015	31.12.2014
Credit risks (using Swiss standard approach)	including CVA [1]	4,022	3,999
– of which price risk relating to equity-type securities in the banking book		23	27
Non-counterparty-related risks (using Swiss standard approach)		167	159
Market risks		282	276
– of which market risks (using model-based approach) [2]		182	166
– of which market risks on interest rate instruments (specific market risks) [3]		100	110
Operational risks (using basic indicator approach)		319	303
Reduction because of deductible value adjustments and provisions [4]		–31	–32
Minimum required capital		4,758	4,705
Total risk-weighted assets	12.5 x minimum capital	59,481	58,816

[1] The capital adequacy requirements for the risk of possible value adjustments due to counterparty credit risk on derivatives (CVA risk) are calculated in accordance with the standard approach and amounted to CHF 215 million as at 30 June 2015 (CHF 215 million as at 31 December 2014).
[2] Excludes specific interest rate risks; aggregate value-at-risk (VaR) from average for the 60 immediately preceding trading days and stress-based VaR from average for the 12 immediately preceding weeks
[3] Specific risks due to interest rates (from interest rate instruments, options and credit derivatives).
[4] Under the Swiss standard approach for credit risk (SA-CH), the allowances and provisions recognised as liabilities are deducted from the required capital on a global basis in accordance with Art. 137 para. 1 CAO.

Fig. 5b: Required capital parent company [1]

in CHF million	Remarks	30.06.2015	31.12.2014
Credit risks (using Swiss standard approach)	including CVA [2]	4,009	3,996
– of which price risks relating to equity-type securities in the banking book		23	27
Non-counterparty-related risks (using Swiss standard approach)		163	157
Market risks		282	276
– of which market risks (using model-based approach) [3]		182	166
– of which market risks on interest rate instruments (specific market risks) [4]		100	110
Operational risks (using basic indicator approach)		295	299
Reduction because of deductible allowances and provisions [5]		–31	–32
Minimum required capital		4,717	4,696
Total risk-weighted assets	12.5 x minimum capital	58,967	58,701

[1] The parent company's capital is calculated on a solo-consolidated basis effective 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close relationship to the bank. FINMA has ruled that Zürcher Kantonalbank may consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. on a solo basis under the individual institution provisions from 2012.
[2] The capital adequacy requirements for the risk of possible value adjustments due to counterparty credit risk on derivatives (CVA risk) are calculated in accordance with the standard approach and amounted to CHF 215 million as at 30 June 2015 (CHF 215 million as at 31 December 2014).
[3] Excludes specific interest rate risks; aggregate value-at-risk (VaR) from average for the 60 immediately preceding trading days and stress-based VaR from average for the 12 immediately preceding weeks.
[4] Specific risks due to interest rates (from interest rate instruments, options and credit derivatives).
[5] Under the Swiss standard approach for credit risk (SA-CH), the allowances and provisions recognised as liabilities are deducted from the required capital on a global basis in accordance with Art. 137 para. 1 CAO.

Fig. 6a: Capital ratios in accordance with Basel III (Switzerland) group

	Remarks	30.06.2015 [1]	31.12.2014 [1]
Common equity Tier 1 ratio (CET1)	based on minimum capital (8 %)	16.1 %	14.6 %
Additional Tier 1 capital ratio (AT1)	based on minimum capital (8 %)	1.0 %	1.0 %
Core capital ratio (Tier 1 = CET1 + AT1)	based on minimum capital (8 %)	17.1 %	15.6 %
Supplementary capital ratio (Tier 2)	based on minimum capital (8 %)	1.2 %	1.0 %
Total capital ratio (Tier 1 + Tier 2)	based on minimum capital (8 %)	18.2 %	16.6 %
CET1 requirements pursuant to CAO (minimum requirements + capital buffer + countercyclical buffer) plus the capital buffer for global systemically important institutions in accordance with the Basel parameters (in % of risk-weighted assets)		5.2 %	4.7 %
– of which capital buffer pursuant to CAO (in % of risk-weighted assets) [2]			
– of which countercyclical buffer (in % of risk-weighted assets) [3]		0.7 %	0.7 %
– of which capital buffer for global systemically important institutions in accordance with the Basel parameters (in % of risk-weighted assets)		–	–
Available CET1 to meet minimum and buffer requirements, after deduction of AT1 and Tier 2 requirements, which are met through CET1 (in % of risk-weighted assets)		14.7 % [4]	12.6 % [5]
CET1 target [6] plus countercyclical buffer (in % of risk-weighted assets)		10.7 %	10.7 %
Available CET1 to meet target and countercyclical buffer, after deduction of AT1 and Tier 2 requirements [7], which are met through CET1 (in % of risk-weighted assets)		14.1 %	12.6 %
Tier 1 target plus countercyclical buffer (in % of risk-weighted assets)		13.7 %	13.7 %
Available Tier 1 to meet target plus countercyclical buffer, after deduction of Tier 2 requirements, which are met through Tier 1 (in % of risk-weighted assets)		17.1 %	15.6 %
Regulatory capital target plus countercyclical buffer (in % of risk-weighted assets)		14.7 %	14.7 %
Available regulatory capital to meet target plus countercyclical buffer (in % of risk-weighted assets)		18.2 %	16.6 %

1 Figures for capital are net values in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140 – 142 CAO, which allow a gradual introduction of the new rules.
2 Based on the transitional provisions (Art. 144 CAO), the capital buffer specified in Art. 43 CAO for years 2013 to 2015 is 0.0 %.
3 The basis for the countercyclical capital buffer is mortgage lending for the financing of residential property in Switzerland. Since 30 June 2014, this has been 2.0 % of the corresponding risk-weighted assets and amounted to CHF 427 million as at 30 June 2015 (CHF 418 million as at 31 December 2014).
4 AT1 minimum requirement 1.5 % (Art. 143 CAO), Tier 2 minimum requirement 2.0 % (Art. 42 para. 1 CAO) as at 30 June 2015.
5 AT1 minimum requirement 1.5 % (Art. 143 CAO), Tier 2 minimum requirement 2.5 % (Art. 42 para. 1 CAO) as at 31 December 2014.
6 Derived from the FINMA decree of August 2014, the CET1 target for Zürcher Kantonalbank is 10.0 % from 31 December 2014.
7 Derived from the FINMA decree of August 2014, the AT1 target for Zürcher Kantonalbank is 3.0 % and the Tier 2 target 1.0 % from 31 December 2014.

Fig. 6b: Capital ratios in accordance with Basel III (Switzerland) (parent company)

	Remarks	30.06.2015 [1]	31.12.2014 [1]
Common equity Tier 1 ratio (CET1)	based on minimum capital (8 %)	15.7 %	14.6 %
Additional Tier 1 capital ratio (AT1)	based on minimum capital (8 %)	1.0 %	1.0 %
Core capital ratio (Tier 1 = CET1 + AT1)	based on minimum capital (8 %)	16.7 %	15.6 %
Supplementary capital ratio (Tier 2)	based on minimum capital (8 %)	1.2 %	1.0 %
Total capital ratio (Tier 1 + Tier 2)	based on minimum capital (8 %)	17.9 %	16.6 %
CET1 requirements pursuant to CAO (minimum requirements + capital buffer + countercyclical buffer) plus the capital buffer for global systemically important institutions in accordance with the Basel parameters (in % of risk-weighted assets)		5.2 %	4.7 %
– of which capital buffer pursuant to CAO (in % of risk-weighted assets) [2]			
– of which countercyclical buffer (in % of risk-weighted assets) [3]		0.7 %	0.7 %
– of which capital buffer for global systemically important institutions in accordance with the Basel parameters (in % of risk-weighted assets)		–	–
Available CET1 to meet minimum and buffer requirements after deduction of AT1 and Tier 2 requirements, which are met through CET1 (in % of risk-weighted assets)		14.4 % [4]	12.6 % [5]
CET1-target [6] plus countercyclical buffer (in % of risk-weighted assets)		10.7 %	10.7 %
Available CET1 to meet target plus countercyclical buffer, after deduction of AT1 and Tier 2 requirements [7], which are met through CET1 (in % of risk-weighted assets)		13.7 %	12.6 %
Tier 1 target plus countercyclical buffer (in % of risk-weighted assets)		13.7 %	13.7 %
Available CET1 to meet target plus countercyclical buffer, after deduction of Tier 2 requirements, which are met through Tier 1 (in % of risk-weighted assets)		16.7 %	15.6 %
Regulatory capital target plus countercyclical buffer (in % of risk-weighted assets)		14.7 %	14.7 %
Available regulatory capital to meet target plus countercyclical buffer (in % of risk-weighted assets)		17.9 %	16.6 %

1 Figures for capital are net values in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
2 Based on the transitional provisions (Art. 144 CAO), the capital buffer specified in Art. 43 CAO for years 2013 to 2015 is 0.0 %.
3 The basis for the countercyclical capital buffer is mortgage lending for the financing of residential property in Switzerland. Since 30 June 2014, this has been 2.0 % of the corresponding risk-weighted assets and amounted to CHF 427 million as at 30 June 2015 (CHF 418 million as at 31 December 2014).
4 AT1 minimum requirement 1.5 % (Art. 143 CAO), Tier 2 minimum requirement 2.0 % (Art. 42 para. 1 CAO) as at 30 June 2015.
5 AT1 minimum requirement 1.5 % (Art. 143 CAO), Tier 2 minimum requirement 2.5 % (Art. 42 para. 1 CAO) as at 31 December 2014.
6 Derived from the FINMA decree of August 2014, the CET1 target for Zürcher Kantonalbank is 10.0 % from 31 December 2014.
7 Derived from the FINMA decree of August 2014, the AT1 target for Zürcher Kantonalbank is 3.0 % and the Tier 2 target 1.0 % from 31 December 2014.

3. Credit risks

The following tables provide information about various aspects relating to credit risks.

Fig. 7: Group credit exposure breakdown by counterparty group

Credit exposures[1] *in CHF million*	Central governments and central banks	Banks and securities dealers	Other institutions[2]	Companies	Retail customers and small businesses[3]	Other positions[4]	**Total**
Bilanzpositionen							
Money market placements[5]				3			3
Due from banks	165	15,995				2	16,162
Due from customers	1		3,637	11,093	1,635	93	16,459
Mortgages			24	5,053	65,475	1,818	72,370
Debt securities in financial investments	850	616	1,145	1,059	251		3,921
Accrued income and prepaid expenses						369	369
Other assets[6]	110	6,509	266	3,572	506	782	11,745
Total as at 30 June 2015	1,127	23,120	5,072	20,780	67,866	3,064	121,029
Total as at 31 December 2014	891	24,470	4,615	19,353	66,552	2,748	118,630
Off-balance-sheet transactions							
Contingent liabilities	4	841	81	2,286	282	29	3,524
Irrevocable commitments[7]	4	207	341	5,157	1,386	34	7,128
Liabilities for calls on shares and other equities						147	147
Credit commitments							
Total as at 30 June 2015	8	1,048	422	7,443	1,668	210	10,799
Total as at 31 December 2014	12	1,296	399	8,167	1,370	221	11,465

1 The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Cash, non-counterparty-related assets and exposures with equity-type characteristics are not stated under credit exposure.
2 This group includes public authorities and institutions, the Bank for International Settlements (BIS), the International Monetary Fund (IMF), multilateral development banks and joint institutions.
3 Small businesses are defined by Zürcher Kantonalbank as all companies that meet at least one of the following conditions: number of employees < 50, total assets < CHF 6 million, net sales < CHF 15 million.
4 E.g. foundations or accrued income and prepaid expenses.
5 Excludes money market paper in the trading book.
6 Excludes equalising accounts for value adjustments not recognised in the income statement and deferred tax assets which rely on future profitability.
7 Irrevocable commitments are disclosed in accordance with the definition specified in the Capital Adequacy Ordinance (CAO). Due to the different measurement criteria, the total may differ from the total under the Bank Accounting Guidelines (group balance sheet).

Banks can reduce their capital adequacy requirements for credit risk through the inclusion of collateral. Collateral recognised by the Swiss Financial Market Supervisory Authority (FINMA) for the purpose of reducing credit risk includes securities, guarantees and mortgages.

Zürcher Kantonalbank has used the comprehensive method in relation to financial collateral since 31 December 2012. Here the collateral is deducted from the exposure after taking into account the corresponding standard supervisory haircuts. The substitution approach continues to be used for guarantees.

The following tables show credit exposures in accordance with the Capital Adequacy Ordinance (CAO). The transactions subject to capital adequacy rules are primarily calculated based on the values reported in the balance sheet. In off-balance-sheet transactions, a credit conversion factor is used. Derivative transactions are converted into a credit equivalent and shown after netting.

Therefore, the total credit exposures are not identical to those in the table "Group credit exposure breakdown by counterparty group".

Fig. 8: Regulatory credit risk mitigation group

in CHF million	Secured by guarantees	Secured by real estate	Financial collateral [1]	Other credit exposures	**Total**
Credit exposures [2]					
Central governments and central banks	1			1,155	1,156
– of which derivatives [3]				76	76
Banks and securities traders	532			18,157	18,689
– of which derivatives [3]				2,665	2,665
Other institutions	147	24		5,342	5,513
– of which derivatives [3]				280	280
Companies [4]	382	4,844	985	14,361	20,572
– of which derivatives [3]				1,927	1,927
Private customers and small businesses	260	64,914	680	2,629	68,483
– of which derivatives [3]				550	550
Other positions		1,797	21	30,997	32,816
– of which derivatives [3]				106	106
Total as at 30 June 2015	1,321	71,580	1,686	72,642	147,229
Total as at 31 December 2014	2,114	70,670	1,839	68,890	143,512

1 Effective 31 December 2012, risk is mitigated using the financial collateral comprehensive method. Financial collateral is stated at the net value after taking into account supervisory haircuts.
2 The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Non-counterparty-related assets and exposures with equity-type characteristics are not stated under credit exposure. Credit exposures are shown after netting based on equity. Off-balance-sheet items were converted into their credit equivalents.
3 The fair value method was used to calculate the credit equivalents on derivatives.
4 Includes exposures vis-à-vis qualified central counterparties (CHF 1,605 million).

Fig. 9: Credit exposure breakdown by risk weighting category group [1]

in CHF million	0 %	2 %	25 %	35 %	50 %	75 %	100 %	150 %	250 %	Deduction	**Total**
Credit exposure after provision of collateral [2]											
Central governments and central banks	2,425				0		37	0			2,462
– of which derivatives [3]	49						26				76
Banks and securities traders	8,360		7,409		2,239	54	86	11	1		18,161
– of which derivatives [3]			2,486		150	28	1	0			2,665
Other institutions	2,500		1,228	20	1,144	4	479				5,376
– of which derivatives [3]			25		65		190				280
Companies [4]	4,206	1,605	752	3,230	408	1,126	7,855	25			19,207
– of which derivatives [3]		994	56		71		806				1,927
Private customers and small businesses				55,123	410	7,566	4,400	42	3		67,543
– of which derivatives [3]							550				550
Other positions	29,182			1,015		574	2,022	1			32,794
– of which derivatives [3]							106				106
Total as at 30 June 2015	46,673	1,605	9,389	59,388	4,202	9,323	14,880	79	4		145,543
Total as at 31 December 2014	44,119	997	9,293	58,410	4,870	9,265	14,639	78	3		141,673

1 Zürcher Kantonalbank does not have any credit exposures with a risk weighting of 125 %.
2 The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Non-counterparty-related assets and exposures with equity-type characteristics are not stated under credit exposure. Credit exposures are shown after netting based on equity. Off-balance-sheet items were converted into their credit equivalents. Effective 31 December 2012, the financial collateral comprehensive method is used for credit risk mitigation. Under this method, the net value of financial collateral is deducted from the covered exposure after taking into account supervisory haircuts. The substitution approach continues to be used for guarantees, whereby covered exposures can be allocated to the counterparty group of the protection seller in order to reflect the lower risk of the collateral. In contrast with the previous table, this table shows the credit exposures of the counterparty groups after the provision of collateral (deduction or substitution).
3 The fair value method was used to calculate the credit equivalents on derivatives.
4 Includes exposures vis-à-vis qualified central counterparties (risk weighting category 2 %).

On a selective basis, Zürcher Kantonalbank uses derivatives for the purpose of hedging credit exposures. Credit derivatives for hedging purposes are managed in the banking book in accordance with the Capital Adequacy Ordinance (CAO).

Fig. 10: Credit derivative transactions in the banking book group

in CHF million	Protection seller Contract volume	Protection buyer Contract volume
Credit default swaps		
Credit linked notes		
Total return swaps		
First-to-default swaps		
Other credit derivatives		
Total as at 30 June 2015		
Total as at 31 December 2014	522	522

Fig. 11: Key characteristics of regulatory capital instruments

	Endowment capital	**Tier 1 bond**	**CHF Tier 2 bond**	**EUR Tier 2 bond**
Issuer	Zürcher Kantonalbank	Zürcher Kantonalbank	Zürcher Kantonalbank	Zürcher Kantonalbank
Applicable law to instrument	Swiss law	Swiss law	Swiss law	Swiss law
Identifier (ISIN)	n/a	CH0143808332	CH0267596697	XS1245290181
Supervisory treatment				
Treatment under Basel III transitional rules (CET1/AT1/T2)	Common equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)	Supplementary capital (Tier 2)	Supplementary capital (Tier 2)
Treatment after Basel III transitional period (CET1/AT1/T2)	Common equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)	Supplementary capital (Tier 2)	Supplementary capital (Tier 2)
Eligible at solo/group/solo and group levels	Solo and group level	Solo and group level	Solo and group level	Solo and group level
Equity securities/ debt securities/ hybrid instruments/ other instruments	Other instruments	Hybrid instrument (subordinated bond with conditional write-off)	Hybrid instrument (subordinated bond with conditional write-off)	Hybrid instrument (subordinated bond with conditional write-off)
Amount eligible as regulatory capital (according to latest statement of changes in equity)	CHF 2,425 million	CHF 586 million	CHF 185 million	CHF 521 million
Nominal value of instrument	CHF 2,425 million	CHF 590 million	CHF 185 million	EUR 500 million
Accounting item	Corporate capital	Bonds	Bonds	Bonds
Original date of issue	15.02.1870	31.01.2012	02.03.2015	15.06.2015
Unlimited or with expiry date	Unlimited	Unlimited	02.09.2025	15.06.2027
Original date of maturity	n/a	n/a	n/a	n/a
May be terminated by issuer (with prior consent of supervisory authority)	No	Yes	Yes	Yes
May be terminated at any time/ in specific circumstances/ redemption amount	n/a	First possible termination date 30.06.2017. Redemption amount: entire outstanding issue, no partial termination	First possible termination date 02.09.2020. Redemption amount: entire outstanding issue, no partial termination	On 15.06.2022. Redemption amount: entire outstanding issue, no partial termination
May be terminated at a later date, if applicable	n/a	Thereafter annually on interest date of 30 June	Thereafter annually on interest date of 2 Sep	n/a

(continued on page 17)

(continued from page 16)

	Endowment capital	Tier 1 bond	CHF Tier 2 bond	EUR Tier 2 bond
Coupons/dividends				
Fixed/variable/initially fixed then variable/initially variable then fixed	n/a	Fixed with reset every 5 years	Fixed with reset after 5 years	Fixed with reset after 7 years
Nominal coupon and any reference index	n/a	Fixed at 3.5 % until 30.06.2017; thereafter revised every 5 years based on 5-year mid-swap plus 2.98 % risk premium	Fixed at 1.0 % until 02.09.2020; thereafter reset based on 5-year mid swap (minimum 0 %) plus 1.00 % risk premium	Fixed at 2.625 % until 15.06.2022; thereafter revised based on 5-year mid-swap plus 1.85 % risk premium
Existence of a dividend stopper arrangement (the waiving of dividends on the instrument also results in the stopping of dividends on common shares)	n/a	Yes. No distribution to canton if coupon is not paid.	No	No
Interest payment/dividend: fully discretionary/partly discretionary/mandatory	Profit distribution fully discretionary	Payment of interest fully discretionary	Interest payment mandatory, except if write-off has occurred	Interest payment mandatory, except if write-off has occurred
Existence of an interest step-up clause or other incentive to redeem	No	No	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	n/a	n/a
Convertible or non-convertible	Non-convertible	Non-convertible, write-off	Non-convertible, write-off	Non-convertible, write-off
Write-down characteristics	n/a	Write-down until trigger ratio (7 %) is met again.	Full write-down if trigger has occurred	Full write-down if trigger has occurred
Trigger for write-down	n/a	Common equity Tier 1 (CET1) capital ratio falls below 7 % or FINMA declares PONV (point-of-non-viability).	Common equity Tier 1 (CET1) capital ratio falls below 5 % and/or FINMA declares PONV (point-of-non-viability)	Common equity Tier 1 (CET1) capital ratio falls below 5 % and/or FINMA declares PONV (point-of-non-viability)
Full/partial	n/a	Full or partial. To return to the trigger ratio (7 %) in 25 % steps from the nominal amount	Full	Full
Permanent or temporary	n/a	Permanent	Permanent	Permanent
In the case of temporary depreciation: allocation mechanism	n/a	n/a	n/a	n/a
Hierarchy in event of liquidation (state the higher-ranked instrument in each case)	Tier 1 bond	Subordinated to all other subordinated liabilities (if any) except pari passu instruments.	Has priority over lower-subordinated liabilities such as liabilities from Tier 1 bonds. Pari passu with similarly ranked instruments such as Tier 2 bonds. Subordinated to all other liabilities.	Has priority over lower-subordinated liabilities such as liabilities from Tier 1 bonds. Pari passu with similarly ranked instruments such as Tier 2 bonds. Subordinated to all other liabilities.
Existence of characteristics that prevent full recognition under Basel III	No	No	No	No

Fig. 12: Risk-weighted positions determined on basis of external ratings group

30.06.2015 *in CHF million*		0 %	25 %	50 %	75 %	100 %	150 %
Credit exposure after provision of collateral							
Central governments and central banks	With rating [1]	815		0		11	
	No rating					26	
Banks and securities traders	With rating [1]	–	6,129	2,001		86	6
	No rating	–	1,280	238	54		5
Other institutions	With rating [2]	–	480	175			
	No rating	–				479	
Companies	With rating [2]	–	752	401		202	4
		–				7,182	21

[1] Standard & Poor's, Moody's, Fitch.
[2] Standard & Poor's, Moody's.

4. Interest rate risks in the banking book

The sensitivity data (key rate sensitivity) shown in the tables below indicate the value loss or increase when interest rates for each maturity band fall by one basis point.

Swiss franc interest rate sensitivity per basis point showed an increase as at 30 June 2015. The US dollar and euro interest rate risks managed in the banking book are almost entirely hedged.

Fig. 13: Swiss franc, euro and US dollar interest rate sensitivity in the banking book

Basis point sensitivity [1] in CHF 1,000	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	–525	3,333	6,423	9,232
Hedge	470	–524	–2,167	–2,220
Total as at 30 June 2015	–54	2,809	4,256	7,011
Total as at 31 December 2014	–3	1,139	5,549	6,685

Basis point sensitivity [2] in EUR 1,000	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	3	–103	503	403
Hedge	29	43	–449	–378
Total as at 30 June 2015	32	–60	53	26
Total as at 31 December 2014	25	–49	386	362

Basis point sensitivity [3] in USD 1,000	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	0	14	36	51
Hedge	–	–	–	–
Total as at 30 June 2015	0	14	36	51
Total as at 31 December 2014	1	7	49	57

[1] Basis point sensitivity is measured as a cash profit/loss when the interest rate in the maturity band concerned falls by one basis point. A basis point is 0.01 percentage points.
[2] Interest rate risk in euros has been included in the treasury's risk assessment since 31 December 2012.
[3] Interest rate risk in US dollars has been included in the treasury's risk assessment since 28 February 2014.

5. Leverage ratio

Abb. 14: Comparison between assets reported in the balance sheet and the total exposure for the leverage ratio, as well as detailed illustration of the leverage ratio

in CHF million	Group 30.06.2015	Parent company [1] 30.06.2015
Overview of total exposure [2]		
1 Total assets as stated in the published accounts	161,819	161,476
2 Adjustments relating to investments in banking, financial, insurance and commercial entities that are consolidated for accounting purposes but not included in the scope of regulatory consolidation (m.n. 6–7 FINMA-Circ. 15/3), and adjustments relating to assets deducted from core capital (m.n. 16–17 FINMA-Circ. 15/3)	–183	–410
3 Adjustments relating to fiduciary assets that are recognised in the balance sheet but not taken into account in the measurement of the leverage ratio (m.n. FINMA-Circ. 15/3)		
4 Adjustments relating to derivatives (m.n. 21–51 FINMA-Circ. 15/3)	–916	–916
5 Adjustments relating to securities financing transactions (SFTs) (m.n. 52–73 FINMA-Circ. 15/3)	1,788	1,788
6 Adjustments relating to off-balance-sheet transactions (m.n. 74–76 FINMA-Circ. 15/3)	6,597	6,596
7 Other adjustments		
8 Overall exposure subject to the leverage ratio	169,104	168,534
Detailed presentation of the leverage ratio [3]		
Balance sheet exposures		
1 Balance sheet positions excluding derivatives and securities financing transactions (SFTs) but including collateral (m.n. 14–15 FINMA-Circ. 15/3)	135,555	135,212
2 Assets that must be deducted from eligible core capital (m.n. 7 and m.n. 16–17 FINMA-Circ. 15/3)	–183	–410
3 Total balance sheet positions subject to the leverage ratio excluding derivatives and SFTs	135,372	134,802
Derivatives		
4 Positive replacement values relating to all derivative transactions including those concluded with central counterparties (CCPs) after taking into account margin payments and netting agreements (m.n. 22–23 and m.n. 34–35 FINMA-Circ. 15/3)	6,287	6,287
5 Add-ons for all derivatives (m.n. 22 and m.n. 25 FINMA-Circ. 15/3)	3,478	3,478
6 Reintegration of collateral provided in connection with derivatives if its accounting treatment results in a reduction in assets (m.n. 27 FINMA-Circ. 15/3)		
7 Deduction of receivables arising due to margin payments made (m.n. 36 FINMA-Circ. 15/3)		
8 Deduction relating to the exposure to qualified central counterparties (QCCPs) if there is no obligation to reimburse the customer in the event that a QCCP defaults (m.n. 39 FINMA-Circ. 15/3)		
9 Effective notional amount of credit derivatives issued, after deduction of negative replacement values (m.n. 43 FINMA-Circ. 15/3)	367	367
10 Netting with effective notional amount of offsetting credit derivatives (m.n. 44–50 FINMA-Circ. 15/3) and deduction of add-ons for credit derivatives issued (m.n. 51 FINMA-Circ.15/3)	–78	–78
11 Total exposure from derivatives	10,054	10,054
Securities financing transactions (SFTs)		
12 Gross assets in connection with SFTs without netting (except in the case of novation with a qualified central counterparty (m.n. 57 FINMA-Circ. 15/3)) including those recognised as a sale (m.n. 69 FINMA-Circ.15/3), less the securities received as part of the SFT, which are recognised as assets in the balance sheet (m.n. 58 FINMA-Circ. 15/3)	15,294	15,294
13 Netting of cash payables and receivables relating to SFT counterparties (m.n. 59–62 FINMA-Circ. 15/3)		
14 Exposure to SFT counterparties (m.n. 63–68 FINMA-Circ. 15/3)	1,788	1,788
15 Exposure to SFTs with the bank as agent (m.n. 70–73 FINMA-Circ. 15/3)		
16 Total exposure from SFTs	17,082	17,082
Other off-balance-sheet exposures		
17 Off-balance-sheet transactions as gross notional amount prior to use of credit conversion factors	27,000	26,998
18 Adjustments relating to conversion into credit equivalents (m.n. 75–76 FINMA-Circ. 15/3)	–20,404	–20,401
19 Total off-balance-sheet exposures	6,597	6,596
Eligible capital and total exposure		
20 Core capital (Tier 1) (m.n. 5 FINMA-Circ. 15/3) [4]	10,149	9,864
21 Total exposure (sum of lines 3, 11, 16 and 19)	169,104	168,534
Leverage ratio		
22 Leverage ratio (m.n. 3–4 FINMA-Circ. 15/3)	6.00 %	5.85 %

[1] The parent company's capital is calculated on a solo-consolidated basis effective 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close relationship to the bank. FINMA has ruled that Zürcher Kantonalbank may consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. on a solo basis under the individual institution provisions from 2012.
[2] The numbering of the lines corresponds to model table 11a in Appendix 2 of FINMA-Circ. 08/22 Disclosure – Banks.
[3] The numbering of the lines corresponds to model table 11b in Appendix 2 of FINMA-Circ. 08/22 Disclosure – Banks.
[4] Before taking into account the reclassification of CET1 to cover the progressive component (in accordance with Art. 130 para. 3 CAO).

6. Liquidity coverage ratio (LCR)

Fig. 15: Information on the short-term liquidity ratio (LCR) [1]

	Month-end averages Q1 [2]		Month-end averages Q2 [2]	
in CHF million	Values not weighted	Weighted values	Values not weighted	Weighted values
High-quality liquid assets (HQLAs) Total high-quality liquid assets (HQLAs)		34,938		34,733
Cash outflows				
Deposits from retail customers and SMEs	48,189	4,921	48,516	4,953
– of which stable deposits	6,023	301	6,024	301
– of which less stable deposits	42,165	4,620	42,491	4,652
Unsecured funding provided by corporate or large-scale customers	34,340	22,173	33,341	21,581
– of which operating deposits (all counterparties)	3,375	844	3,167	792
– of which non-operating deposits (all counterparties)	30,965	21,329	29,426	20,041
– of which unsecured debt instruments	0	0	748	748
Secured funding provided by commercial or large-scale customers and collateral swaps		9,523		7,838
Other cash outflows	15,297	3,447	13,789	3,250
– of which cash outflows in connection with derivative and other transactions [3]	7,474	1,536	6,607	1,603
– of which cash outflows from central mortgage institution bonds	62	62	1	1
– of which cash outflows from committed credit and liquidity facilities	7,760	1,849	7,181	1,645
Other contractual funding obligations	5,536	3,687	4,007	2,675
Other contingent funding obligations	22,416	338	21,937	343
Total cash outflows		44,088		40,639
Cash inflows				
Collateralised financing transactions (e.g. reverse repo transactions) and collateral swaps	10,710	8,296	10,047	8,217
Cash inflows from non-impaired receivables	6,843	4,994	5,353	4,021
Other cash inflows	230	230	364	364
Total cash inflows	17,783	13,520	15,764	12,602
Total high-quality liquid assets (HQLAs)		34,938		34,733
Total net cash outflows		30,568		28,038
Liquidity coverage ratio (LCR) (in %)		114.17 %		124.01 %

1 Key data and classification based on FINMA Circular 2008/22 Disclosure – Banks (except footnote 3).
2 The values reported in the monthly liquidity statement constitute the basis for calculating the average.
3 Inflows and outflows of derivative transactions are stated on a net basis.

7. Market risks

Zürcher Kantonalbank's market risks are measured using an internal model approach based on value-at-risk (VaR) for a 10-day holding period and at a confidence level of 99 percent. In the first half of 2015, the market risk situation compared with previous years was as follows:

Fig. 16: Market risks in the trading book group

Risks including volatility risks in CHF million	Commodities [1]	Currencies [2]	Interest rates	Equities	Diversification	Modelled total risk	Total risk [3]
Risks based on model approach (value-at-risk with 10-day holding period)							
As at 30 June 2015	0	1	12	2	–5	10	14
Average for first-half 2015	0	3	18	3	–7	16	20
Maximum	1	14	37	6	–15	38	41
Minimum	0	1	10	1	–5	9	12
As at 31 December 2014	1	1	11	2	–5	10	12
As at 31 December 2013	0	1	10	2	–2	10	13

[1] Excluding gold.
[2] Including gold.
[3] Sum of modelled total risk and risk premium for trading products not fully modelled.

Although total risk was higher at the end of the first half of 2015 than on 31 December 2014, it remains at a low level. A separate risk premium is calculated for trading products not fully modelled and added to the total modelled risk (CHF 3.9 million as at 30 June 2015; CHF 2.4 million as at 31 December 2014).

To determine its capital adequacy requirements, Zürcher Kantonalbank also calculates a stress-based VaR on a weekly basis. The total risk is also calculated using the internal model approach. The value changes in risk factors are based on data that were observed in a period with significant market stress for Zürcher Kantonalbank:

Fig. 17: Stress-based market risks in the trading and banking book group [1]

Stress-based VaR in CHF million	Modelled total risk	Total risk [2]
Stress-based risks based on model approach (value-at-risk with 10-day holding period) [3]		
As at 30 June 2015	34	38
Average first-half 2015	37	40
Maximum	51	54
Minimum	29	33
As at 31 December 2014	34	36
As at 31 December 2013	36	40

[1] Including exchange rate, precious metals and commodity risks in the banking book.
[2] Sum of modelled total risk and risk premium for trading products not fully modelled.
[3] VaR model, calibrated for observed changes in value due to market stress.

8. Systemic importance disclosures

Zürcher Kantonalbank is considered a systemically relevant bank since November 2013.

The risk-weighted capital requirements for systemically relevant banks consist of a basic requirement (4.5 percent), the capital buffer (8.5 percent) plus the countercyclical capital buffer (0.7 percent as at 30 June 2015) and a progressive component (1.0 percent). The latter is calculated from the sum of the supplement for domestic market share and the supplement for the size of the financial group, although deductions may be considered for measures designed to improve the resolvability of the financial group. The level of the progressive component is stipulated each year by the Swiss Financial Market Supervisory Authority (FINMA).

The unweighted capital adequacy requirement (leverage ratio) is 24.0 percent of the weighted capital adequacy requirement and therefore amounts to 3.53 percent of total exposure.

Fig. 18 Composition of capital and risk-weighted capital ratios

		Group		Parent company [1]	
in CHF million		30.06.2015 [2]	31.12.2014 [2]	30.06.2015 [2]	31.12.2014 [2]
Common equity Tier 1 (CET1)		9,746	9,207	9,688	9,188
Adjustments to common equity Tier 1		–183	–11	–410	–40
Reclassification of CET1 to Tier 2 to cover the progressive component			–588		–587
Common equity Tier 1 (net CET1)		9,563	8,607	9,278	8,561
Issued and paid-up high-trigger capital instruments [3]		590	590	590	590
Deduction of net long positions in high-trigger own capital instruments		–4	–2	–4	–2
High-trigger convertible capital ratio		586	588	586	588
Issued and paid-up low-trigger capital instruments [4]		706		706	
Deduction of net long positions in low-trigger own capital instruments		–0		–0	
Reclassification of CET1 to Tier 2 to cover the progressive component			588		587
Low-trigger convertible capital		705	588	705	587
Total capital		10,854	9,783	10,569	9,735
Total risk-weighted assets		59,481	58,816	58,967	58,701
Capital ratios					
Common equity Tier 1 ratio (CET1)	based on minimum capital (8 %)	16.1 %	14.6 %	15.7 %	14.6 %
High-trigger convertible capital ratio	based on minimum capital (8 %)	1.0 %	1.0 %	1.0 %	1.0 %
Low-trigger convertible capital ratio	based on minimum capital (8 %)	1.2 %	1.0 %	1.2 %	1.0 %
Total capital ratio	based on minimum capital (8 %)	18.2 %	16.6 %	17.9 %	16.6 %

1 The parent company's capital is calculated on a solo-consolidated basis effective 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close relationship to the bank. FINMA has ruled that Zürcher Kantonalbank may consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. on a solo basis under the individual institution provisions from 2012.
2 Figures for capital are net values in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
3 Consists solely of additional Tier 1 capital (AT1).
4 Consists solely of supplementary capital (T2).

Fig. 19a: Risk-weighted capital requirements and coverage group[1]

	Basic requirement	Capital buffer	Progressive component	Excess	**Total**
Total risk-weighted assets *(in CHF million)*	–	–	–	–	59’481
Capital requirements					
Minimum capital ratio[1]	4.5 %	9.2 %[2]	1.0 %	–	14.7 %
Minimum capital requirement *(in CHF million)*[3]	2,677	5,483	595	–	8,754
Capital coverage (in CHF million)[4]					
Common equity Tier 1 (net CET1)	2,677	4,897	–	1,989	9,563
High-trigger convertible capital	–	586	–		586
Low-trigger convertible capital	–	–	595	110	705
Total	2,677	5,483	595	2,100	10,854
Capital ratios 30 June 2015	4.5 %	9.2 %	1.0 %	3.5 %	18.2 %
Capital ratios 31 December 2014	4.5 %	9.2 %	1.0 %	1.9 %	16.6 %

1 In accordance with Art. 128 – 132 CAO.
2 Includes countercyclical capital buffer (capital requirement CHF 427 million, or 0.7 %).
3 Capital requirements are calculated as a percentage of risk-weighted assets.
4 Figures for capital are net values in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140 – 142 CAO, which allow a gradual introduction of the new rules.

Fig. 19b: Risk-weighted capital requirements and coverage parent company[1,2]

	Basic requirement	Capital buffer	Progressive component	Excess	**Total**
Total risk-weighted assets *(in CHF million)*	–	–	–	–	58,967
Capital requirements					
Minimum capital ratio	4.5 %	9.2 %[3]	1.0 %	–	14.7%
Minimum capital requirement *(in CHF million)*[4]	2,654	5,439	590	–	8,682
Capital coverage (in CHF million)[5]					
Common equity Tier 1 (net CET1)	2,654	4,853	–	1,771	9,278
High-trigger convertible capital	–	586	–		586
Low-trigger convertible capital	–	–	590	116	705
Total	2,654	5,439	590	1,887	10,569
Capital ratios 30 June 2015	4.5 %	9.2 %	1.0 %	3.2 %	17.9 %
Capital ratios 31 December 2014	4.5 %	9.2 %	1.0 %	1.9 %	16.6 %

1 The parent company's capital is calculated on a solo-consolidated basis effective 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close relationship to the bank. FINMA has ruled that Zürcher Kantonalbank may consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. on a solo basis under the individual institution provisions from 2012.
2 Zürcher Kantonalbank does not claim any relief on the basis of Art. 125 CAO.
3 Includes countercyclical capital buffer (capital requirement CHF 427 million, or 0.7 %).
4 Capital requirements are calculated as a percentage of risk-weighted assets.
5 Figures for capital are net values in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140 – 142 CAO, which allow a gradual introduction of the new rules.

Fig. 20a: Leverage ratio requirements and coverage for systemically relevant banks (group)

	Basic requirement	Capital buffer [1]	Progressive component	Excess	**Total**
Total exposure *(in CHF million)*	–	–	–	–	169,104
Capital requirements					
Minimum capital ratio [2]	1.08 %	2.21 %	0.24 %	–	3.53 %
Minimum capital requirement *(in CHF million)* [3]	1,826	3,741	406	–	5,973
Capital coverage (in CHF million) [4]					
Common equity Tier 1 (net CET1)	1,826	3,155	–	4,581	9,563
High-trigger convertible capital	–	586	–		586
Low-trigger convertible capital	–	–	406	299	705
Total	1,826	3,741	406	4,881	10,854
Leverage ratio 30 June 2015	1.08 %	2.21 %	0.24 %	2.89 %	6.42 %
Leverage ratio 31 December 2014 [5]	1.08 %	2.21 %	0.24 %	2.27 %	5.80 %

[1] Includes countercyclical capital buffer.
[2] 24 % of the minimum capital ratios in accordance with Art. 134 CAO.
[3] Capital requirements are calculated as a percentage of total exposure.
[4] Figures for capital are net values in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140 – 142 CAO, which allow a gradual introduction of the new rules.
[5] Total exposure as at 31 December 2014 was calculated in accordance with Art. 133 – 135 CAO from the average of the last three values at the end of the month.

Fig. 20b: Leverage ratio requirements and coverage for systemically relevant banks (parent company) [1,2]

	Basic requirement	Capital buffer [3]	Progressive component	Excess	**Total**
Total exposure *(in CHF million)*	–	–	–	–	168’534
Capital requirements					
Minimum capital ratio [4]	1.08 %	2.21 %	0.24 %	–	3.53 %
Minimum capital requirement *(in CHF million)* [5]	1,820	3,731	404	–	5,956
Capital coverage (in CHF million) [6]					
Common equity Tier 1 (net CET1)	1,820	3,145	–	4,313	9,278
High-trigger convertible capital	–	586	–		586
Low-trigger convertible capital	–	–	404	301	705
Total	1,820	3,731	404	4,613	10,569
Leverage ratio 30 June 2015	1.08 %	2.21 %	0.24 %	2.74 %	6.27 %
Leverage ratio 31 December 2014 [7]	1.08 %	2.21 %	0.24 %	2.24 %	5.77 %

[1] The parent company's capital is calculated on a solo-consolidated basis effective 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close relationship to the bank. FINMA has ruled that Zürcher Kantonalbank may consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. on a solo basis under the individual institution provisions from 2012.
[2] Zürcher Kantonalbank does not claim any relief on the basis of Art. 125 CAO.
[3] Includes countercyclical capital buffer.
[4] 24 % of the minimum capital ratios in accordance with Art. 134 CAO.
[5] Capital requirements are calculated as a percentage of total exposure.
[6] Figures for capital are net values in accordance with the Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140 – 142 CAO, which allow a gradual introduction of the new rules.
[7] Total exposure as at 31 December 2014 was calculated in accordance with Art. 133 – 135 CAO from the average of the last three values at the end of the month.

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