Zürcher Kantonalbank

Capital adequacy and liquidity disclosures

Disclosure as at 30 June 2016

With the information showing its position as at 30 June 2016, the bank meets the requirements of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers and the disclosure rules contained in FINMA Circulars 2008/22 and 2016/01 (where already applicable).

Capital adequacy and liquidity disclosures

Capital adequacy is calculated using the international standard approach (SA-BIS).

Zürcher Kantonalbank's equity base as at 30 June 2016, both weighted and unweighted, continues to exceed regulatory requirements. The same applies to the short-term liquidity requirements with respect to the liquidity coverage ratio (LCR).
The total capital ratio for the group was 17.3 percent as at 30.6.2016 (March 2016: 17.6 percent). The common equity Tier 1 capital ratio is 15.3 percent (March 2016:15.5 percent).

With a minimum capital requirement of CHF 5,219 million (March 2016: CHF 5,144 million), the group's eligible capital amounted to CHF 11,294 million as at 30 June 2016 (March 2016: CHF 11,284 million). The minimum required capital was thus in line with the previous quarter.

The leverage ratio of 7.1 percent (group) is well above the requirement of 3.52 percent. This reflects Zürcher Kantonalbank's solid equity base, also on an unweighted basis. The group's LCR averaged 116% in the second quarter of 2016, once again well in excess of the 100% required.

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 of 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 indirectly wholly owned subsidiaries: Zürcher Kantonalbank Finance (Guernsey) Ltd., Zürcher Kantonalbank Österreich AG and the Swisscanto Group, consisting of Swisscanto Holding Ltd., Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd., 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 Reprecentações 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 are oriented on an economic perspective.

Capital requirements and calculation standards applied

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 the decree issued by the Swiss Financial Market Supervisory Authority (FINMA). This includes the progressive component of 1.0 percent, which can be covered either by low-trigger convertible capital (Tier 2) or common equity Tier 1 (CET1). The requirement is increased by a further 0.7 percent - currently - relating to the countercyclical capital buffer on mortgages secured on residential properties in Switzerland.

Capital adequacy requirements for credit risks are calculated using the international standard approach (SA-BIS). The credit equivalent of derivatives is calculated based on the fair value method, while the financial collateral comprehensive method is used for credit risk mitigation and to calculation of the credit equivalent for repos. In accordance with the regulatory requirements, capital is also required to cover the credit risks arising from financial investments and participations. The capital required for the risk of possible value adjustments due to the counterparty risk on derivatives (CVA risk) is calculated in accordance with the standard approach.

Under Basel III, the risk weightings of counterparties may be calculated on the basis of agency ratings. For the corporate and public-law entity categories, Zürcher Kantonalbank applies the ratings from the agencies Standard & Poor's and Moody's. In the case of the bank and sovereign sectors, Fitch ratings are also taken into account. For securities with an issue-specific rating from Standard & Poor's and Moody's, it is this issue rating that is used.

In accordance with the Capital Adequacy Ordinance, the basis for calculating credit exposures in the case of most transactions is the reported value. In off-balance-sheet transactions, a credit conversion factor is used. Derivative transactions are converted into a credit equivalent and shown after netting.

The required capital for market risk is calculated based on the internal model-based approach approved by the Swiss Financial Supervisory Authority (FINMA) using value at risk. Capital adequacy requirements are based on the market risks in the trading book and exchange rate, precious metals and commodity risks in the banking book. Besides the value-at-risk figures calculated daily, stress-based value-at-risk figures are also included in the calculation of required capital on a weekly basis. The total risk is also calculated using the model approach, although the value changes in risk factors are based on data that were observed in a period with significant market stress for Zürcher Kantonalbank. Zürcher Kantonalbank uses the basic indicator approach to determine the required capital for operational risks.

Regulatory capital adequacy requirements according to Basel III (Switzerland)
The eligible capital of Zürcher Kantonalbank only changed insignificantly in comparison with 31 December 2015. The profit from the current financial year is not taken into consideration in determining the eligible capital.

The required capital was slightly higher as at 30 June 2016 than at the end of 2015. The principal driver is the growth in mortgages and loans to retail and corporate customers, which has a corresponding impact on the credit risks. The requirements for market risks and for operational risks also increased during the first half of the year, albeit only slightly. The capital requirement for non-counterparty-related risks decreased slightly.

The total net positions for equity instruments of companies operating in the financial sector are below the corresponding thresholds. No capital deduction is therefore necessary, and the positions are risk-weighted.

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

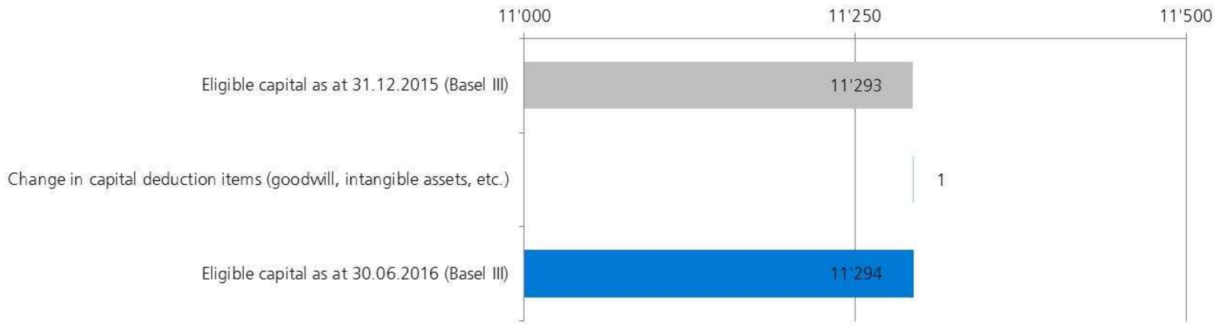
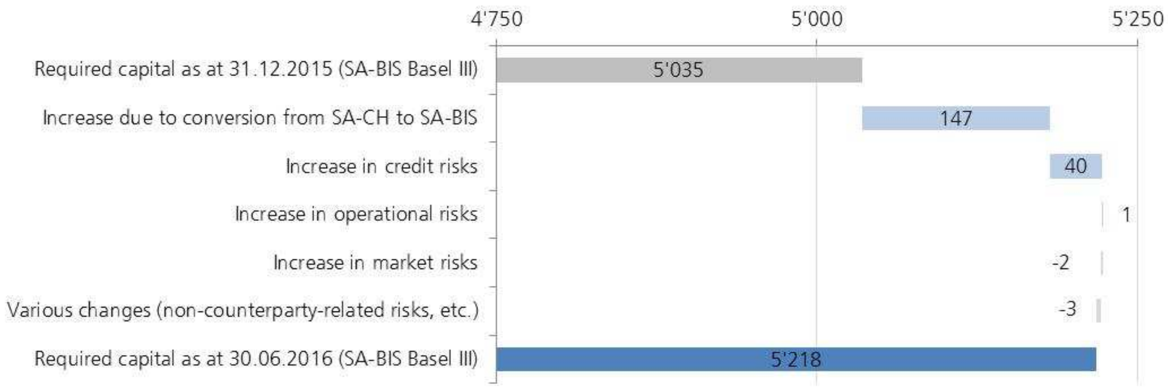


Fig. 2: Change in required minimum capital *(in CHF million)*



Short-term liquidity requirements (LCR)
Based on the FINMA ordinance on the liquidity of banks (liquidity ordinance, LiqV) and the FINMA Circular 2015/02, Zürcher Kantonalbank is obliged to hold an adequate level of unencumbered, high quality liquid assets (HQLA) which can be converted into cash. These serve to cover the liquidity requirement in a major liquidity stress scenario defined by the regulator, with a time horizon of 30 calendar days.

The reserve of liquid assets should allow the bank to survive at least up until day 30 of the stress scenario. By then, it should have been possible for the management and/or the regulator to take appropriate remedial measures.

In calculating the regulatory indicator LCR, the reserve of HQLAs (numerator) is compared with the net cash outflows anticipated over the 30-day horizon according to the stress scenario (denominator). As a bank of systemic importance, according to Article 13 LiqV Zürcher Kantonalbank must be able at any time to cover 100% of all liquidity outflows which are to be anticipated in the event of realisation of the stress scenario for at least 30 days. On a monthly average the LCR within the group was 116% for the second quarter of 2016.

1 Quantitative disclosures

The table below provides an overview of the capital adequacy and liquidity disclosures required as at 30 June 2016.

Ref. Circ. 08/22	Information to be disclosed	Applicable to ZKB	Systemic importance disclosures	Required frequency as per FINMA Circular 08/22	Effective frequency of disclosure	Disclosure report reference
M.n. 23	Key characteristics of eligible regulatory capital instruments issued	yes	no	yes/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 the banking book: figures on effect on assets and income in the 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	no	no	n/a	n/a	n/a
M.n. 46.2 M.n. 46.4 – M.n. 46.6	Liquidity coverage ratio (group)	yes	stricter require-ments from 1 January 2017	HY	Q	Fig. 15 a
M.n. 13 (FINMA Circular 2016/1)	Liquidity coverage ratio (parent company)	yes	no	Y	Q	Fig. 15 b
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 a-b Fig. 17
	▪ institution-specific approach for operating risks	no	no	n/a	n/a	n/a
	▪ securitisation transactions as defined in FINMA Circular 08/19	no	no	n/a	n/a	n/a

Ref. Circ. 08/22	Information to be disclosed	Applicable to ZKB	Systemic importance disclosures	Required frequency as per FINMA Circular 08/22	Effective disclosure frequency	Disclosure report reference
M.n. 57-58	The disclosure requirements for major banks include the group/subgroup 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. 15a Fig. 15a
M.n. 59.0	Banks with a total exposure greater than EUR 200 million → 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 as well as capital ratios

The tables below provide information on the detailed composition of and changes in eligible and required capital.

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

in CHF million	References to Fig. 4a	30.06.2016 [1]	31.12.2015 [1]
Assets			
Liquid assets		31'590	32'497
Amounts due from banks		5'950	6'011
Amounts due from securities financing transactions		12'477	14'966
Amounts due from customers		7'341	7'673
Mortgage loans		75'399	73'623
Trading portfolio assets		9'671	10'226
Positive replacement values of derivative financial instruments		2'528	2'897
Other financial instruments at fair value		220	220
Financial investments		4'291	4'320
Accrued income and prepaid expenses		387	294
Non-consolidated participations		148	161
Tangible fixed assets		822	860
Intangible assets		114	124
- of which goodwill	A	113	121
- of which other intangible assets	B	2	3
Other assets		672	538
- of which deferred tax assets which rely on future profitability	C	9	9
Total assets		**151'611**	**154'410**
Liabilities and equity			
Liabilities			
Amounts due to banks		34'164	34'803
Liabilities from securities financing transactions		3'191	2'991
Amounts due in respect of customer deposits		77'762	80'820
Trading portfolio liabilities		2'268	2'110
Negative replacement values of derivative financial instruments		1'305	2'067
Liabilities from other financial instruments at fair value		3'251	4'163
Cash bonds		273	269
Bonds		8'537	7'669
Central mortgage institution loans		7'975	7'716
Accrued expenses and deferred income		547	578
Other liabilities		1'270	211
Provisions		572	584
- of which deferred tax on valuation differences		0	0
Total liabilities		**141'115**	**143'981**
- of which subordinated liabilities eligible as additional Tier 1 capital (AT1) [2]	D	590	589
- of which subordinated liabilities eligible as supplementary capital (T2) [3]	E	725	721
- of which collective value adjustments for default risks, eligible as supplementary capital (T2)	F		14
Net equity			
Bank capital		2'425	2'425
- of which eligible as CET1	G	2'425	2'425
Voluntary retained earnings reserve	H	7'686	7'290
Foreign currency translation reserve	I	-8	-8
Group net income		393 [4]	722
- of which minority interests			
- of which retained earnings	J		396
Total equity		**10'496**	**10'429**
Total liabilities and equity		**151'611**	**154'410**

[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	**30.06.2016** [2]	**31.12.2015** [2]
Common equity Tier 1 (CET1)			
Issued and paid-up corporate capital, fully eligible	G	2'425	2'425
Profit reserves, including reserves for general banking risks/profit (loss) brought forward	H+J	7'686	7'686
Capital reserves and foreign currency translation reserve	I	-8	-8
Common equity Tier 1 before adjustments		**10'103**	**10'103**
Adjustments to common equity Tier 1			
Goodwill	A	-113	-121
Other intangible assets	B	-2	-3
Deferred tax assets which rely on future profitability	C	-9	-9
Total adjustments to common equity Tier 1		**-124**	**-133**
Common equity Tier 1 (net CET1)		**9'979**	**9'970**
Additional Tier 1 capital (AT1)			
Issued and paid up debt instruments [3]		590	590
Deduction of net long positions in own AT1 instruments		-0	-1
Additional Tier 1 capital (net AT1)	D	**590**	**589**
Core capital (net Tier 1)		**10'569**	**10'559**
Supplementary capital (Tier 2)			
Issued and paid up debt instruments [4]	E	726	729
Deduction of net long positions in own Tier 2 instruments	E	-1	-8
General bad debt provision for inherent default risks	F		14
Supplementary capital (net Tier 2)		**725**	**735**
Regulatory total capital (net Tier 1 & net Tier 2)		**11'294**	**11'293**

[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 definitive 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	30.06.2016 [4]	31.12.2015 [4]
Common equity Tier 1 (CET1)		
Issued and paid-up corporate capital, fully eligible	2'425	2'425
Profit reserves, including reserves for general banking risks/profit (loss) brought forward	7'724	7'724
Capital reserves and foreign currency translation reserve		
Common equity Tier 1 before adjustments	**10'149**	**10'149**
Adjustments to common equity Tier 1		
Goodwill		
Other intangible assets	-1	-3
Deferred tax assets which rely on future profitability		
Consolidated participations (CET1 instruments)	-394	-402
Total adjustments to common equity Tier 1	**-395**	**-405**
Common equity Tier 1 (net CET1)	**9'754**	**9'744**
Additional Tier 1 capital (AT1)		
Issued and paid-up debt instruments [5]	590	590
Deduction of net long positions in own AT1 instruments	-0	-1
Additional Tier 1 capital (net AT1)	**590**	**589**
Core capital (net Tier 1)	**10'344**	**10'333**
Supplementary capital (Tier 2)		
Issued and paid-up debt instruments [6]	726	729
Deduction of net long positions in own Tier 2 instruments	-1	-8
General bad debt provision for inherent default risks		14
Supplementary capital (net Tier 2)	**725**	**735**
Regulatory total capital (net Tier 1 & net Tier 2)	**11'069**	**11'068**

[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 from 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 definitive 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]

	30.06.2016		31.12.2015	
in CHF million	Amount[2]	Threshold	Amount[2]	Threshold
Non-qualified participations in the share capital of other companies in the financial sector	385	998 [3]	470	999 [3]
Qualified participations in the share capital of other companies in the financial sector	312	998 [4]	205	999 [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	30.06.2016 SA-BIS	31.12.2015 SA-BIS
Credit risks (using standard approach)	including CVA [1]	4'483	4'296
- of which price risk relating to equity-type securities in the banking book		28	25
Non-counterparty-related risks (using standard approach)		66	69
Market risks		351	353
- of which market risks (using model-based approach) [2]		211	214
- of which market risks on interest rate instruments (specific market risks) [3]		141	139
Operational risks (using basic indicator approach)		319	318
Minimum required capital		**5'219**	**5'035**
Total risk-weighted assets	12.5 x minimum capital	**65'233**	**62'942**

[1] The capital adequacy requirements for the risk of possible value adjustments due to the counterparty credit risk on derivatives (CVA risk) are calculated in accordance with the standard approach and amounted to CHF 239 million as at 30 June 2016 (CHF 198 million as at 31 December 2015).

[2] Excludes specific interest rate risks; aggregate value-at-risk (VaR) from average of the 60 immediately preceding trading days and stress-based VaR from average of the 12 immediately preceding weeks.

[3] Specific risks due to interest rates (from interest rate instruments, options and credit derivatives).

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

in CHF million	Remarks	30.06.2016 SA-BIS	31.12.2015 SA-BIS
Credit risks (using standard approach)	including CVA [2]	4'475	4'286
- of which price risk relating to equity-type securities in the banking book		28	25
Non-counterparty-related risks (using standard approach)		65	68
Market risks		353	353
- of which market risks (using model-based approach) [3]		212	214
- of which market risks on interest rate instruments (specific market risks)[4]		141	139
Operational risks (using basic indicator approach)		308	304
Minimum required capital		**5'202**	**5'010**
Total risk-weighted assets	12.5 x minimum capital	**65'026**	**62'626**

[1] The parent company's capital is calculated on a solo-consolidated basis from 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 the counterparty credit risk on derivatives (CVA risk) are calculated in accordance with the standard approach and amounted to CHF 239 million as at 30 June 2016 (CHF 198 million as at 31 December 2015).

[3] Excludes specific interest rate risks; aggregate value-at-risk (VaR) from average of the 60 immediately preceding trading days and stress-based VaR from average of the 12 immediately preceding weeks.

[4] Specific risks due to interest rates (from interest rate instruments, options and credit derivatives).

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

	Remarks	30.06.2016 [1]	31.12.2015 [1]
Common equity Tier 1 ratio (CET1)	based on minimum capital (8%)	**15.3%**	**15.8%**
Additional Tier 1 capital ratio (AT1)	based on minimum capital (8%)	**0.9%**	**0.9%**
Core capital ratio (Tier 1 = CET1 + AT1)	based on minimum capital (8%)	**16.2%**	**16.8%**
Supplementary capital ratio (Tier 2)	based on minimum capital (8%)	**1.1%**	**1.2%**
Total capital ratio (Tier 1 + Tier 2)	based on minimum capital (8%)	**17.3%**	**17.9%**

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)	5.8%	5.2%
- of which capital buffer pursuant to CAO (in % of risk-weighted assets)[2]	0.6%	
- 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 [4], which are met through CET1 (in % of risk-weighted assets)	13.8%	14.4%

CET1 target [5] 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 [6], which are met through CET1 (in % of risk-weighted assets)	13.2%	13.8%

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)	16.2%	16.8%

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)	17.3%	17.9%

[1] Figures for capital are net values in accordance with the definitive 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 2015 is 0.0 %, for 2016 0.625 %.

[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 441 million as at 30 June 2016 (CHF 432 million as at 31 December 2015).

[4] AT1 minimum requirement 1.5% (Art. 143 CAO), Tier 2 minimum requirement 2.0% (Art. 42 para. 1 CAO).

[5] Derived from the FINMA decree of August 2014, the CET1 target for Zürcher Kantonalbank is 10.0% from 31 December 2014.

[6] 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	30.06.2016 [1]	31.12.2015 [1]
Common equity Tier 1 ratio (CET1)	based on minimum capital (8%)	**15.0%**	**15.6%**
Additional Tier 1 capital ratio (AT1)	based on minimum capital (8%)	**0.9%**	**0.9%**
Core capital ratio (Tier 1 = CET1 + AT1)	based on minimum capital (8%)	**15.9%**	**16.5%**
Supplementary capital ratio (Tier 2)	based on minimum capital (8%)	**1.1%**	**1.2%**
Total capital ratio (Tier 1 + Tier 2)	based on minimum capital (8%)	**17.0%**	**17.7%**

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)	5.8%	5.2%
- of which capital buffer pursuant to CAO (in % of risk-weighted assets)[2]	0.6%	
- 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 (in % of risk-weighted assets)	-	-
Available CET1 to meet minimum and buffer requirements, after deduction of AT1 and Tier 2 requirements [4], which are met through CET1 (in % of risk-weighted assets)	13.5%	14.2%
CET1 target [5] 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 [6], which are met through CET1 (in % of risk-weighted assets)	12.9%	13.5%
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)	15.9%	16.5%
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)	17.0%	17.7%

[1] Figures for capital are net values in accordance with the definitive 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 2015 is 0.0 %, for 2016 0.625 %.
[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 441 million as at 30 June 2016 (CHF 432 million as at 31 December 2015).
[4] AT1 minimum requirement 1.5% (Art. 143 CAO), Tier 2 minimum requirement 2.0% (Art. 42 para. 1 CAO).
[5] Derived from the FINMA decree of August 2014, the CET1 target for Zürcher Kantonalbank is 10.0% from 31 December 2014.
[6] Derived from the FINMA decree of August 2014, the AT1 target for Zürcher Kantonalbank is 3.0% and the Tier 2 target 1.0%

2.1 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
Balance sheet items							
Amounts due from banks	38	5'841		72			**5'950**
Amounts due from securities financial transactions		9'377		3'101			**12'477**
Amounts due from customers	1		1'033	4'180	2'013	113	**7'341**
Mortgage loans			37	4'789	68'626	1'947	**75'399**
Positive replacement values of derivative financial instruments	131	787	236	604	685	86	**2'528**
Other financial instruments at fair value		220					**220**
Debt securities in financial investments	745	704	2'230	348	253		**4'280**
Accrued income and prepaid expenses						387	**387**
Other assets[5]						208	**208**
Total as at 30.06.2016	**915**	**16'928**	**3'537**	**13'094**	**71'576**	**2'741**	**108'790**
Total as at 31.12.2015	**1'232**	**16'013**	**5'195**	**15'375**	**69'834**	**2'297**	**109'946**
Off-balance-sheet transactions							
Contingent liabilities	7	907	81	2'781	312	8	**4'097**
Irrevocable commitments[6]	4	210	313	4'993	1'812	59	**7'391**
Liabilities for calls on shares and other equities						233	**233**
Credit commitments							
Total as at 30.06.2016	**11**	**1'117**	**395**	**7'774**	**2'124**	**300**	**11'721**
Total as at 31.12.2015	**8**	**1'171**	**407**	**7'877**	**1'786**	**227**	**11'477**

[1] The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Cash, non-counterparty-related assets and exposure 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 deferred items.

[5] Excludes equalising accounts for value adjustments not recognised in the income statement and deferred tax assets which rely on future profitability.

[6] 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 accounting guidelines for banks (AGB) (group balance sheet).

The following tables show the credit exposures by type of collateral in accordance with the Capital Adequacy Ordinance. 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 group credit risk mitigation

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			1'062	1'062
- of which derivatives[3]				*184*	*184*
Banks and securities traders[4]	705		0	12'826	13'531
- of which derivatives[3]				*2'547*	*2'547*
Other institutions	153	37	43	2'948	3'180
- of which derivatives[3]				*369*	*369*
Companies[4]	356	4'500	1'146	9'833	15'835
- of which derivatives[3]				*1'345*	*1'345*
Private customers and small businesses	261	68'194	677	3'635	72'766
- of which derivatives[3]				*771*	*771*
Other positions		1'884	19	32'699	34'603
- of which derivatives[3]				*190*	*190*
Total as at 30 June 2016	**1'475**	**74'615**	**1'886**	**63'002**	**140'978**
Total as at 31 December 2015	**1'312**	**73'002**	**1'684**	**63'181**	**139'178**

1 Effective 31 December 2012, risk is mitigated using the financial collateral comprehensive method. Financial collateral is recognised 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 1,449 million).

Fig. 9: Group credit exposure breakdown by risk weighting category

in CHF million	0%	2%	20%	35%	50%	75%	100%	150%	250%	Deduction	**Total**
Credit exposure after provision of collateral [1]											
Central governments and central banks	2'148				0		133				2'281
- of which derivatives [2]	*53*						*131*				*184*
Banks and securities traders [3]		591	6'676		5'218		471	83			13'040
- of which derivatives [2]		*289*	*536*		*1'712*		*9*	*1*			*2'547*
Other institutions	564		823	22	996		621	0			3'026
- of which derivatives [2]	*77*		*81*		*54*		*156*				*369*
Companies [3]		858	827	2'502	531	44	9'566	5			14'333
- of which derivatives [2]		*343*	*70*		*169*		*762*				*1'345*
Private customers and small businesses				58'404		1'789	11'581	55			71'829
- of which derivatives [2]							*771*				*771*
Other positions	31'590			1'012		19	1'962	1			34'583
- of which derivatives [2]							*190*				*190*
Total as at 30 June 2016	**34'301**	**1'449**	**8'327**	**61'940**	**6'746**	**1'851**	**24'334**	**143**			**139'092**
Total as at 31 December 2015	**35'233**	**2'575**	**7'567**	**60'410**	**6'339**	**1'801**	**23'398**	**172**			**137'494**

[1] 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 taki into account supervisory haircuts. The substitution approach continues to be used for guarantees, whereby covered exposures can be allocated to the counterparty group o 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 group after the provision of collateral (deduction or substitution).

[2] The fair value method was used to calculate the credit equivalents on derivatives.

[3] 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). As on 31 December 2015, there were no corresponding open positions as at 30 June 2016.

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 30.06.2016		
Total as at 31.12.2015		

Fig. 11: Key characteristics of regulatory capital instruments

	Endowment capital	Tier 1 bond
Issuer	Zürcher Kantonalbank	Zürcher Kantonalbank
Applicable law to instrument	Swiss law	Swiss law
Identifier (ISIN)	n/a	CH0143808332
Supervisory treatment		
Treatment under Basel III transitional rules (CET1 / AT1 / T2)	Common equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)
Treatment after Basel III transitional period (CET1 / AT1 / T2)	Common equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)
Eligible at solo / group / solo and group levels	Solo and group level	Solo and group level
Equity securities / debt securities / hybrid instruments / other instruments	Other instruments	Hybrid instrument (subordinated bond with conditional claim waiver)
Amount eligible as regulatory capital (according to latest statement of changes in equity)	CHF 2,425 million	CHF 590 million
Nominal value of instrument	CHF 2,425 million	CHF 590 million
Accounting item	Corporate capital	Bonds
Original date of issue	15.02.1870	31.01.2012
Unlimited or with expiry date	Unlimited	Unlimited
Original date of maturity	n/a	n/a
May be terminated by issuer (with prior consent of supervisory authority)	No	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
May be terminated at a later date, if applicable	n/a	Thereafter annually on interest date of 30 June
Coupons / dividends		
Fixed / variable / initially fixed then variable / initially variable then fixed	n/a	Fixed with reset every 5 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
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
Interest payment / dividend: fully discretionary / partly discretionary / mandatory	Profit distribution fully discretionary	Payment of interest fully discretionary
Existence of an interest step-up clause or other incentive to redeem	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible, write-off
Write-down characteristics	n/a	Write-down until trigger ratio (7%) is met again
Trigger for write-down	n/a	Common equity Tier 1 (CET1) capital ratio falls below 7% or FINMA declares PONV (point-of-non-viability)
Full / partial	n/a	Full or partial. To return to the trigger ratio (7%) in 25% stages from the nominal amount
Permanent or temporary	n/a	Permanent
In the case of temporary depreciation: allocation mechanism	n/a	n/a
Hierarchy in event of liquidation (state the higher-ranked instrument in each case)	Tier 1 bond	Subordinate to all other subordinated liabilities (if any) except pari passu instruments.
Existence of characteristics that prevent full recognition under Basel III	No	No

	CHF Tier 2 bond	EUR Tier 2 bond
Issuer	Zürcher Kantonalbank	Zürcher Kantonalbank
Applicable law to instrument	Swiss law	Swiss law
Identifier (ISIN)	CH0267596697	XS1245290181
Supervisory treatment		
Treatment under Basel III transitional rules (CET1 / AT1 / T2)	Supplementary capital (Tier 2)	Supplementary capital (Tier 2)
Treatment after Basel III transitional period (CET1 / AT1 / T2)	Supplementary capital (Tier 2)	Supplementary capital (Tier 2)
Eligible at solo / group / solo and group levels	Solo and group level	Solo and group level
Equity securities / debt securities / hybrid instruments / other instruments	Hybrid instrument (subordinated bond with conditional claim waiver)	Hybrid instrument (subordinated bond with conditional claim waiver)
Amount eligible as regulatory capital (according to latest statement of changes in equity)	CHF 184 million	CHF 541 million
Nominal value of instrument	CHF 185 million	EUR 500 million
Accounting item	Bonds	Bonds
Original date of issue	02.03.2015	15.06.2015
Unlimited or with expiry date	02.09.2025	15.06.2027
Original date of maturity	n/a	n/a
May be terminated by issuer (with prior consent of supervisory authority)	Yes	Yes
May be terminated at any time / in specific circumstances / redemption amount	First possible termination date 02.09.2020. Redemption amount: entire outstanding issue, no partial termination	First possible termination date 15.06.2022. Redemption amount: entire outstanding issue, no partial termination
May be terminated at a later date, if applicable	Thereafter annually on interest date of 02 Sep	n/a
Coupons / dividends		
Fixed / variable / initially fixed then variable / initially variable then fixed	Fixed with reset every 5 years	Fixed with reset every 7 years
Nominal coupon and any reference index	Fixed at 1.0% until 02.09.2020; thereafter reset based on 5-year mid-swap (minimum 0.00%) plus 1.00% risk premium	Fixed at 2.625% until 15.06.2022; thereafter reset 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)	No	No
Interest payment / dividend: fully discretionary / partly discretionary / mandatory	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
Non-cumulative or cumulative	n/a	n/a
Convertible or non-convertible	Non-convertible, write-off	Non-convertible, write-off
Write-down characteristics	Full write-down if trigger has occurred	Full write-down if trigger has occurred
Trigger for write-down	Common equity Tier 1 (CET1) capital ratio falls below 5% or FINMA declares PONV (point-of-non-viability)	Common equity Tier 1 (CET1) capital ratio falls below 5% or FINMA declares PONV (point-of-non-viability)
Full / partial	Full	Full
Permanent or temporary	Permanent	Permanent
In the case of temporary depreciation: allocation mechanism	n/a	n/a
Hierarchy in event of liquidation (state the higher-ranked instrument in each case)	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

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

	in CHF million	0%	20%	50%	100%	150%
Credit exposure after provision of collateral						
Central governments and central banks	With rating[1]	785		0	2	
	No rating				131	
Banks and securities dealers	With rating[1]		6'132	4'510	471	80
	No rating		545	708		
Other institutions	With rating [2]		382	152		
	No rating				605	
Companies	With rating [2]		693	531	117	0
	No rating				7'486	

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

[2] Standard & Poor's, Moody's

2.2 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 (0.01 percentage points). The CHF interest rate sensitivity of the banking book stood at around CHF 8.4 million per basis point as at 30 June 2016, up slightly on the end of the previous year (CHF 8.1 million per basis point). The euro interest rate exposures remain almost fully hedged as of the end of June 2016. The interest rate exposures in US dollars can continue to be regarded as insignificant compared with the Swiss franc.

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	-114	4'432	6'765	11'083
Hedge	133	-1'196	-1'634	-2'697
Total as at 31.06.2016	**19**	**3'236**	**5'131**	**8'385**
Total as at 31.12.2015	**200**	**3'349**	**4'509**	**8'058**

Basis point sensitivity [1] *in EUR 1,000*	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	-17	-101	-839	-957
Hedge	29	55	937	1'022
Total as at 31.06.2016	**12**	**-46**	**98**	**64**
Total as at 31.12.2015	**-27**	**-39**	**120**	**54**

Basis point sensitivity [1] *in USD 1,000*	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	6	41	3	50
Hedge	-	-	-	-
Total as at 31.06.2016	**6**	**41**	**3**	**50**
Total as at 31.12.2015	**-2**	**30**	**17**	**45**

[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.

2.3 Leverage ratio

Fig. 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 30.06.2016**	**Parent Company [1] 30.06.2016**
Overview of total exposure [2]		
1 Total assets as stated in the published accounts[1]	151'611	151'523
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 Circular 15/3), and adjustments relating to assets deducted from core capital (m.n. 16-17 FINMA Circular 15/3)	-124	-395
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. 15 FINMA Circular 15/3)		
4 Adjustments relating to derivatives (m.n. 21-51 FINMA Circular 15/3)	-1'898	-1'897
5 Adjustments relating to securities financing transactions (m.n. 52-73 FINMA Circular 15/3)	1'876	1'876
6 Adjustments relating to off-balance-sheet transactions (m.n. 74-76 FINMA Circular 15/3)	7'622	7'622
7 Other adjustments		
8 Overall exposure subject to the leverage ratio	159'087	158'728
Detailed presentation of the leverage ratio [3]		
Balance sheet exposures		
1 Balance sheet items excluding derivatives and securities financing transactions (SFTs) but including collateral (m.n. 14-15 FINMA Circular 15/3)	125'681	125'593
2 Assets that must be deducted from eligible core capital (m.n. 7 and m.n. 16-17 FINMA Circular 15/3).	-124	-395
3 Total balance sheet positions subject to the leverage ratio excluding derivatives and SFTs	125'557	125'198
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 Circular 15/3)	4'510	4'510
5 Add-ons for all derivatives (m.n. 22 and m.n. 25 FINMA Circular 15/3)	3'006	3'006
6 Reintegration of collateral provided in connection with derivatives if its accounting treatment results in a reduction in assets (m.n. 27 FINMA Circular 15/3)	3'729	3'729
7 Deduction of receivables arising due to margin payments (m.n. 36 FINMA Circular 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 Circular 15/3)		
9 Effective notional amount of credit derivatives issued, after deduction of negative replacement values (m.n. 43 FINMA Circular 15/3)	341	341
10 Netting with effective notional amount of offsetting credit derivatives (m.n. 44-50 FINMA Circular 15/3) and deduction of add-ons for credit derivatives issued (m.n. 51 FINMA Circular 15/3)	-231	-231
11 Total exposure from derivatives	11'355	11'356

in CHF million	**Group** **30.06.2016**	**Parent Company** [1] **30.06.2016**
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 Circular 15/3)) including those recognised as a sale (m.n. 69 FINMA Circular 15/3), less the securities received as part of the SFT, which are recognised as assets in the balance sheet (m.n. 58 FINMA Circular 15/3)	12'677	12'677
13 Netting of cash payables and receivables relating to SFT counterparties (m.n. 59-62 FINMA Circular 15/3)		
14 Exposure to SFT counterparties (m.n. 63-68 FINMA Circular 15/3)	1'876	1'876
15 Exposure to SFTs with the bank as agent (m.n. 70-73 FINMA Circular 15/3)		
16 Total exposure from SFTs	14'553	14'553
Other off-balance-sheet exposures		
17 Off-balance-sheet transactions as gross notional amount prior to use of credit conversion factors	30'207	30'201
18 Adjustments relating to conversion into credit equivalents (m.n. 75-76 FINMA Circular 15/3)	-22'585	-22'579
19 Total off-balance-sheet exposures	7'622	7'622
Eligible capital and total exposure		
20 Core capital (Tier 1) (m.n. 5 FINMA Circular 15/3)	10'569	10'344
21 Total exposure (sum of lines 3, 11, 16 and 19)	159'087	158'728
Leverage ratio		
22 Leverage ratio (m.n. 3-4 FINMA Circular 15/3)	6.64%	6.52%

[1] The parent company’s capital is calculated on a solo consolidated basis from 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 Circular 08/22 Disclosure - Banks.

[3] The numbering of the lines corresponds to model table 11b in Appendix 2 of FINMA Circular 08/22 Disclosure - Banks.

2.4 Liquidity coverage ratio (LCR)

Fig. 15a: Information on the short-term liquidity ratio (group)

in CHF million	Monthly averages Q1 2016[1]		Monthly averages Q2 2016[1]	
	Unweighted values	Weighted values	Unweighted values	Weighted values
High quality liquid assets (HQLA)				
Total high quality liquid assets (HQLA)		**34'821**		**34'302**
of which Level 1		32'046		31'487
of which Level 2		2'775		2'815
Outflows of funds				
Deposits from retail customers and SMEs	49'239	5'037	50'060	5'133
of which stable deposits	6'029	301	6'029	301
of which less stable deposits	43'210	4'736	44'031	4'832
Unsecured funds provided by commercial or major customers	35'177	21'281	35'148	21'762
of which operating deposits (all counterparties)	3'774	943	3'659	915
of which non-operating deposits (all counterparties)	31'305	20'238	31'391	20'749
of which unsecured funds	99	99	98	98
Secured funding provided by commercial or major customers and security swaps	0	6'540	0	6'646
Other outflow of funds	36'239	25'601	37'127	26'437
of which outflows of funds relating to trading in derivatives and other transactions	28'697	23'749	29'315	24'590
of which outflows of funds from mortgage bond loans	96	96	100	100
of which outflows of funds from committed credit and liquidity facilities	7'446	1'756	7'712	1'747
Other contractual obligations regarding funding	1'119	1'091	1'364	1'339
Other contingent liabilities regarding funding	22'948	340	23'655	350
Total outflows of funds		**59'890**		**61'668**
Inflows of funds				
Secured financing opterations (e.g. reverse repo transactions) and security swaps	7'463	5'173	7'770	5'336
Inflows from receivables at full value	2'825	2'797	3'212	3'186
Other inflows of funds	22'630	22'630	23'473	23'473
Total inflows of funds	**32'918**	**30'600**	**34'454**	**31'995**
Total high quality liquid assets (HQLA)		**34'821**		**34'302**
Total net inflows of funds		**29'290**		**29'673**
Liquidity coverage ratio LCR (in %)		**119%**		**116%**

[1] The average is calculated based on the values shown in the monthly liquidity statement.

Fig. 15b: Information on the short-term liquidity ratio (parent company)

in CHF million	Q1 2016[1]	Q2 2016[1]
High quality liquid assets (HQLA)[2]	34'752	34'239
- of which Level 1	32'020	31'465
- of which Level 2	2'732	2'774
Net outflow of funds	29'370	29'808
Liquidity coverage ratio LCR (in %)	**118%**	**115%**

[1] The monthly average is calculated based on the values shown in the monthly liquidity statement.

[2] In consideration of the unwinding/settlement mechanism pursuant to FINMA Circular 2015/2.

2.5 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. As at 30 June 2016 the value at risk (incl. risk premium for incompletely modelled products) amounted to CHF 17 million and was thus above the level at the end of the previous year. The increase is attributable to increased market data fluctuations associated with the Brexit decision at the end of June 2016. Interest rate risks continue to dominate. The average value at risk in the second quarter of 2016, at CHF 12 million, was at the same level as at the end of the previous year.

Fig. 16a: 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 2016	**0**	**2**	**16**	**4**	**-7**	**15**	**17**
Average current year 2016	1	1	9	3	-6	9	12
Maximum	1	4	16	8	-9	15	17
Minimum	0	0	7	2	-3	6	8
As at 31 December 2015	**0**	**1**	**9**	**3**	**-3**	**9**	**12**

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

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:

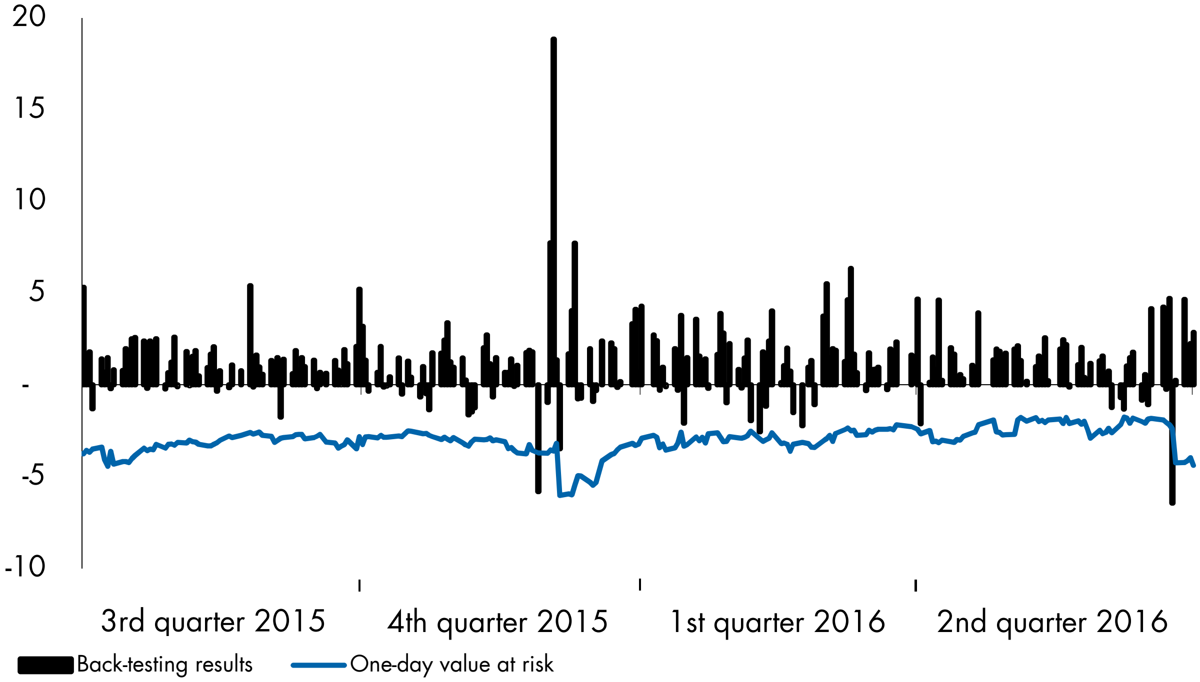
Fig. 16b: Stress-based market risks in the trading book and banking book (group)[1]

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 2016	**43**	**45**
Average current year 2016	46	50
Maximum	55	59
Minimum	39	42
As at 31 December 2015	**39**	**42**

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

The quality of the VaR model used by Zürcher Kantonalbank is tested by back-testing. A VaR is calculated assuming a one-day holding period (confidence level 99 percent) and compared with the daily trading income achieved on the next trading day. The following picture emerges for the last 250 trading days:

Fig. 17: Comparison of back-testing results[1] and value at risk (group) (in CHF million)



1) The back-testing result corresponds to the adjusted trading income used for the methodological review of the quality of the risk model.

The fact that back-testing exceeded the value at risk at the end of the second quarter of 2016 can be attributed to valuation losses on the first day of trading following the Brexit decision at the end of June 2016. The market movements were greater than the fluctuations estimated on the basis of the market data time series in Zürcher Kantonalbank's risk model used to generate the weekly VaR scenario and included in the calculation of the VaR for this trading day. Following inclusion of these market data movements, the VaR increased in line with expectations.

The back-testing result corresponds to the statistically expected figure. In the case of a one-day holding period and 99-percent quantile, two to three breaches of the value at risk are expected each year.

2.6 Systemic importance disclosures

Zürcher Kantonalbank has been considered a systemically relevant bank since November 2013.

The risk-weighted capital requirements for systemically important 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 2016) and a progressive component (1.0 percent). The latter is calculated from the sum of the supplement for the 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 requirements and therefore amounts to 3.52 percent of the total exposure.

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

		Group		**Parent Company [1]**	
in CHF million		**30.06.2016 [2]**	**31.12.2015 [2]**	**30.06.2016 [2]**	**31.12.2015 [2]**
Common equity Tier 1 (CET1)		10'103	10'103	10'149	10'149
Adjustments to common equity Tier 1		-124	-133	-395	-405
Reclassification of CET1 to Tier 2 to cover the progressive component					
Common equity Tier 1 (net CET1)		9'979	9'970	9'754	9'744
Issued and paid up high-trigger capital instruments [3]		590	590	590	590
Deduction of net long positions in own high-trigger capital instruments		-0	-1	-0	-1
High-trigger convertible capital		590	589	590	589
Issued and paid up low-trigger capital instruments [4]		726	729	726	729
Deduction of net long positions in own low-trigger capital instruments		-1	-8	-1	-8
Reclassification of CET1 to Tier 2 to cover the progressive component					
Low-trigger convertible capital		725	721	725	721
General bad debt provisions for inherent default risks			14		14
Other Tier 2 capital			14		14
Total capital		11'294	11'293	11'069	11'068
Total risk-weighted assets		65'233	62'942	65'026	62'626
Capital ratios					
Common equity Tier 1 ratio (CET1)	based on minimum capital (8%)	15.3%	15.8%	15.0%	15.6%
High-trigger convertible capital ratio	based on minimum capital (8%)	0.9%	0.9%	0.9%	0.9%
Low-trigger convertible capital ratio	based on minimum capital (8%)	1.1%	1.1%	1.1%	1.2%
Total capital ratio	based on minimum capital (8%)	17.3%	17.9%	17.0%	17.7%

[1] The parent company's capital is calculated on a solo-consolidated basis from 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 definitive 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)	-	-	-	-	65'233
Capital requirements					
Minimum capital ratio [1]	4.5%	9.2% [2]	1.0%	-	14.7%
Minimum capital requirement (in CHF million) [3]	2'935	5'986	652	-	9'574
Capital coverage (in CHF million) [4]					
Common equity Tier 1 (net CET1)	2'935	5'397	-	1'647	9'979
High-trigger convertible capital	-	590	-		590
Low-trigger convertible capital	-	-	652	73	725
Other Tier 2 capital	-	-	-		
Total	2'935	5'986	652	1'720	11'294
Capital ratios 30.06.2016	4.5%	9.2%	1.0%	2.6%	17.3%
Capital ratios 31.12.2015	4.5%	9.2%	1.0%	3.3%	17.9%

1 In accordance with Art. 128 – 132 CAO.
2 Includes countercyclical capital buffer (capital requirement CHF 441 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 definitive 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)	-	-	-	-	65'026
Capital requirements					
Minimum capital ratio	4.5%	9.2% [3]	1.0%	-	14.7%
Minimum capital requirement (in CHF million) [4]	2'926	5'969	650	-	9'545
Capital coverage (in CHF million) [5]					
Common equity Tier 1 (net CET1)	2'926	5'379	-	1'449	9'754
High-trigger convertible capital	-	590	-		590
Low-trigger convertible capital	-	-	650	75	725
Other Tier 2 capital	-	-	-		
Total	2'926	5'969	650	1'524	11'069
Capital ratios 30.06.2016	4.5%	9.2%	1.0%	2.3%	17.0%
Capital ratios 31.12.2015	4.5%	9.2%	1.0%	3.0%	17.7%

1 The parent company's capital is calculated on a solo consolidated basis from 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 441 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 definitive 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 important banks (group)

	Basic requirement	Capital buffer [1]	Progressive component	Excess	**Total**
Total exposure (in CHF million)	-	-	-	-	159'087
Capital requirements					
Minimum capital ratio [2]	1.08%	2.20%	0.24%	-	3.52%
Minimum capital requirement (in CHF million) [3]	1'718	3'504	382	-	5'604
Capital coverage (in CHF million) [4]					
Common equity Tier 1 (net CET1)	1'718	2'914	-	5'347	9'979
High-trigger convertible capital	-	590	-		590
Low-trigger convertible capital	-	-	382	344	725
Other Tier 2 capital	-	-	-		
Total	1'718	3'504	382	5'690	11'294
Leverage ratio 30.06.2016	1.08%	2.20%	0.24%	3.58%	7.10%
Leverage Ratio 31.12.2015	1.08%	2.20%	0.24%	3.45%	6.98%

[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 risk-weighted assets.
[4] Figures for capital are net values in accordance with the definitive 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. 20b: Leverage ratio requirements and coverage for systemically important banks (parent company)[1,2]

	Basic requirement	Capital buffer [3]	Progressive component	Excess	**Total**
Total exposure (in CHF million)	-	-	-	-	158'728
Capital requirements					
Minimum capital ratio [4]	1.08%	2.20%	0.24%	-	3.52%
Minimum capital requirement (in CHF million) [5]	1'714	3'497	381	-	5'592
Capital coverage (in CHF million) [6]					
Common equity Tier 1 (net CET1)	1'714	2'907	-	5'133	9'754
High-trigger convertible capital	-	590	-		590
Low-trigger convertible capital	-	-	381	344	725
Other Tier 2 capital	-	-	-		
Total	1'714	3'497	381	5'477	11'069
Leverage ratio 30.06.2016	1.08%	2.20%	0.24%	3.45%	6.97%
Leverage Ratio 31.12.2015	1.08%	2.21%	0.24%	3.31%	6.84%

[1] The parent company's capital is calculated on a solo consolidated basis from 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 risk-weighted assets.
[6] Figures for capital are net values in accordance with the definitive 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.