# Capital adequacy and liquidity disclosures

Disclosure as at 30 June 2017

Publication date: 25 August 2017

With the information showing its position as at 30 June 2017, 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 2017, 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 17.9 percent as at 30 June 2017 (March 2017: 17.6 percent). The common equity Tier 1 capital ratio is 15.7 percent (March 2017: 15.6 percent).

The risk-based capital requirement as a systemically important bank amounted to CHF 9,630 million (March 2017: CHF 9,670 million), the group's eligible capital amounted to CHF 11,754 million as at 30 June 2017 (March 2017: CHF 11,580 million). This corresponds to a surplus of CHF 2,124 million (March 2017: CHF 1,910 million).

The leverage ratio of 6.9 percent at the group level is well above the requirement (as a systemically important bank) of 3.5 percent. This reflects Zürcher Kantonalbank's solid equity base, also on an unweighted basis.

The group's LCR averaged 132 percent in the second quarter of 2017, once again well in excess of the 100 percent 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.

**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 or 0.0) Figure is smaller than half the unit of account used |
| - | Figure not available, not meaningful or not applicable |
| blank | No data available |

## 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 or high-trigger convertible capital. The requirement is increased by a further 0.7 percent currently relating to the countercyclical capital buffer on mortgages secured with 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 for the 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 credit 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 is calculated based on the internal model-based approach approved by the Swiss Financial Market 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 calculated on a weekly basis are also included in the calculation of required capital. 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)**
In comparison with 31 December 2016 the eligible capital of Zürcher Kantonalbank increased by CHF 190 million. The profit from the current financial year is not taken into consideration in determining the eligible capital. At the end of May 2017, Zürcher Kantonalbank announced that it is redeeming the current Additional Tier 1 bond (AT1 bond) with contingent write-down of a nominal CHF 590 million as of 30 June 2017. A new AT1 bond of a nominal CHF 750 million was successfully issued on the same date. This new issuance allowed the bank to modify the bond terms to the most recent market conditions and regulatory requirements and to further strengthen the capital base (increase of CHF 160 million). Please see Figure 11 of this report for further details of this new issuance.

The required capital was slightly lower as at 30 June 2017 than at the end of 2016. This is primarily due to the following: the movement of credit positions to lower risk weighting classes resulted in lower requirements for the credit risks despite a slight increase in the credit exposure. The requirements in connection with the CVA (Credit Valuation Adjustment) risk also decreased. However, an increase was noted in the capital for market risks required by the regulator, which was primarily due to a model adjustment.

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)*

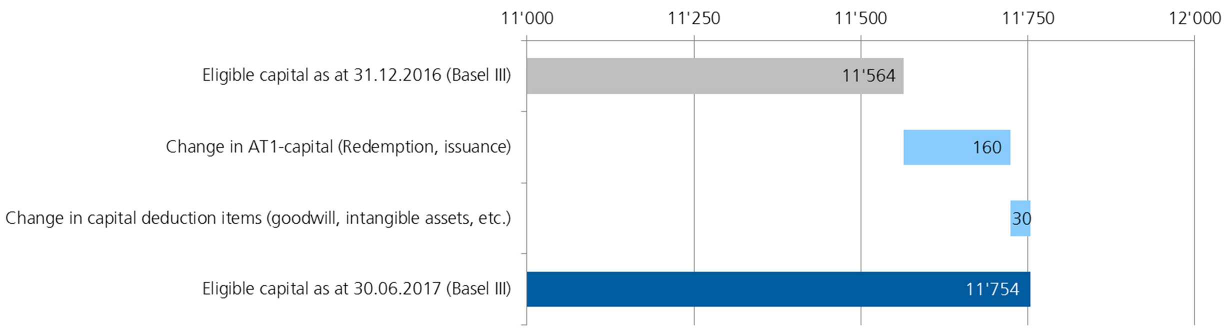
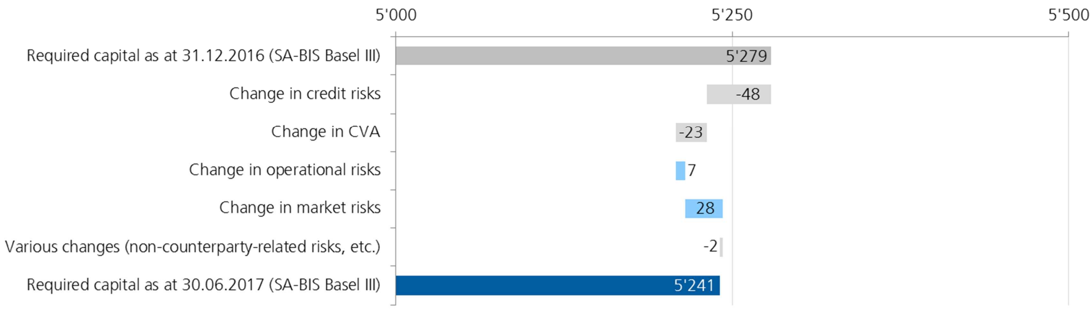



Fig. 2: Change in required minimum capital *(in CHF million)*



**Short-term liquidity requirements (LCR)**
Based on the FINMA ordinance on the liquidity of banks (liquidity ordinance, LiqV) and 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.

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 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, calculated 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 the realisation of the stress scenario for at least 30 days. On a quarterly average the LCR within the group was 132 percent for the second quarter of 2017. It shows Zürcher Kantonalbank's comfortable liquidity position.

From 1 January 2017, the calculation was carried out in compliance with FINMA Circular 2016/01 as a simple average of the daily settlement price of the working days of the quarter under review with 60 data points being taken into account in the second quarter of 2017.

**Liquidity: Information on structural liquidity (NSFR)**

Additional requirements in the form of a financing ratio (Net Stable Funding Ratio, NSFR) will be imposed in Switzerland as from 2018. This should ensure long-term, stable financing of the lending business as well as the off-balance-sheet activities of a bank. Zürcher Kantonalbank is calculating this key figure already at this point. The calculations indicate a clear surplus here, too.

## 1 Quantitative disclosures

The table below provides an overview of the capital adequacy and liquidity disclosure requirements as at 30 June 2017.

| Refers to Circular 08/22 unless stated otherwise | Information to be disclosed | Applicable to Zürcher Kantonalbank | Systemic importance disclosures | Required frequency as per FINMA Circular | Effective frequency of disclosure | Disclosure report reference |
|---|---|---|---|---|---|---|
| Mn 23 | Key characteristics of eligible regulatory capital instruments | yes | no | yes/in event of change | Q | Fig. 11 |
| Mn 38 | Breakdown of eligible regulatory capital | yes | no | HY | Q | Fig. 1, 3, 4a-c |
| Mn 39 | Required capital | yes | no | HY | Q | Fig. 2, 5a-b, 6a-b |
| Mn 40 | Credit risk/breakdown by counterparty or sector | yes | no | HY | Q | Fig. 7 |
| Mn 41 | Regulatory credit risk mitigation | yes | no | HY | Q | Fig. 8 |
| Mn 42 | Segmentation of credit risks | yes | no | HY | Q | Fig. 9 |
| Mn 43 | Geographical credit risks | no | no | n/a | n/a | n/a |
| Mn 44 | Doubtful customer loans by geographical area | no | no | n/a | n/a | n/a |
| Mn 45 | Credit derivative transactions in the banking book | yes | no | HY | Q | Fig. 10 |
| Mn 45.1 | Volume of risk-weighted positions when using external ratings | yes | no | HY | Q | Fig. 12 |
| Mn 46 | Interest rate risks in the banking book: figures on the asset effect and income effect in the event of an interest rate shock | yes | no | HY | Q | Fig. 13 |
| Mn 46.1 | Leverage ratio | yes | no | HY | Q | Fig. 14 |
| Mn 46.3 | Liquidity coverage ratio | no | no | n/a | n/a | n/a |
| Table 48 (FINMA-Circ. 16/1) | Liquidity Coverage Ratio (group) | yes | yes | HY | Q | Fig. 15 |
| Mn 47 – Mn 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<br>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 |

| Refers to Circular 08/22 unless stated otherwise | Information to be disclosed | Applicable to Zürcher Kantonalbank | Systemic importance disclosures | Required frequency as per FINMA Circular | Effective frequency of disclosure | Disclosure report reference |
|---|---|---|---|---|---|---|
| Mn 42, (FINMA-Circ. 16/1) | As per Margin no. (Mn) 42, large banks must publish additional information pursuant to Annex 4 to Circular 16/1. This should be done at the group level and for the main domestic and foreign bank subsidiaries and subgroups which must comply with capital and liquidity requirements. | yes | no | Q | Q | Fig. 20 |
| Mn 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 |
| Mn 49 (FINMA-Circ. 16/1) | Systemically important banks must disclose information pursuant to Annex 5 to Circular 16/1.This requirement relates to the finance group, the single entity as well as to significant domestic bank subsidiaries and subgroups which must comply with capital requirements. | yes | yes | Q | Q | Fig. 18<br>Fig. 19 |
| Mn 53 (FINMA-Circ. 16/1) | Listing and qualification of relief granted to RWAs, eligible capital and total exposure at individual institution level, stating the materiality of their impacts/importance etc. | no | no | n/a | n/a | n/a |

## 1.1 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 | 30.06.2017 [1] | 31.12.2016 [1] |
|---|---|---|---|
| **Assets** | | | |
| Liquid assets | | 36'059 | 35'336 |
| Amounts due from banks | | 5'036 | 5'364 |
| Amounts due from securities financing transactions | | 14'260 | 14'889 |
| Amounts due from customers | | 7'436 | 7'509 |
| Mortgage loans | | 78'207 | 77'275 |
| Trading portfolio assets | | 9'135 | 9'472 |
| Positive replacement values of derivative financial instruments | | 1'514 | 1'933 |
| Other financial instruments at fair value | | | 20 |
| Financial investments | | 4'539 | 4'156 |
| Accrued income and prepaid expenses | | 527 | 360 |
| Non-consolidated participations | | 182 | 179 |
| Tangible fixed assets | | 785 | 804 |
| Intangible assets | | 153 | 168 |
| - of which goodwill | A | 152 | 165 |
| - of which other intangible assets | B | 1 | 3 |
| Other assets | | 545 | 520 |
| - of which deferred tax assets which rely on future profitability | C | 9 | 9 |
| **Total assets** | | **158'378** | **157'985** |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Amounts due to banks | | 32'422 | 34'137 |
| Liabilities from securities financing transactions | | 5'111 | 5'084 |
| Amounts due in respect of customer deposits | | 81'454 | 80'890 |
| Trading portfolio liabilities | | 2'048 | 2'656 |
| Negative replacement values of derivative financial instruments | | 1'357 | 1'551 |
| Liabilities from other financial instruments at fair value | | 3'058 | 3'100 |
| Cash bonds | | 209 | 235 |
| Bonds | | 10'908 | 9'329 |
| Central mortgage institution loans | | 9'162 | 8'384 |
| Accrued expenses and deferred income | | 556 | 683 |
| Other liabilities | | 645 | 506 |
| Provisions | | 585 | 636 |
| - of which deferred tax on valuation differences | | 0 | 0 |
| **Total liabilities** | | **147'515** | **147'191** |
| - of which subordinated liabilities eligible as additional Tier 1 capital (AT1) [2] | D | 750 | 583 |
| - of which subordinated liabilities eligible as supplementary capital (T2) [3] | E | 723 | 714 |
| **Net equity** | | | |
| Bank capital | | 2'425 | 2'425 |
| - of which eligible as CET1 | F | 2'425 | 2'425 |
| Voluntary retained earnings reserve | G | 8'026 | 7'686 |
| Foreign currency translation reserve | H | -7 | -8 |
| Group net income | | 420 [4] | 691 |
| - of which minority interests | | | |
| - of which retained earnings | I | | 340 |
| **Total equity** | | **10'863** | **10'793** |
| **Total liabilities and equity** | | **158'378** | **157'985** |

[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 | 30.06.2017 [2] | 31.12.2016 [2] |
|---|---|---|---|
| **Common equity Tier 1 (CET1)** | | | |
| Issued and paid-up corporate capital, fully eligible | F | 2'425 | 2'425 |
| Profit reserves / profit (loss) brought forward | G+I | 8'026 | 8'026 |
| Capital reserves and foreign currency translation reserve | H | -7 | -8 |
| **Common equity Tier 1 before adjustments** | | **10'444** | **10'443** |
| **Adjustments to common equity Tier 1** | | | |
| Goodwill | A | -152 | -165 |
| Other intangible assets | B | -1 | -3 |
| Deferred tax assets which rely on future profitability | C | -9 | -9 |
| **Total adjustments to common equity Tier 1** | | **-162** | **-177** |
| **Common equity Tier 1 (net CET1)** | | **10'281** | **10'266** |
| **Additional Tier 1 capital (AT1)** | | | |
| Issued and paid up debt instruments [3] | | 750 | 590 |
| Deduction of net long positions in own AT1 instruments | | | -7 |
| **Additional Tier 1 capital (net AT1)** | D | **750** | **583** |
| **Core capital (net Tier 1)** | | **11'031** | **10'849** |
| **Supplementary capital (Tier 2)** | | | |
| Issued and paid up debt instruments [4] | | 731 | 721 |
| Deduction of net long positions in own Tier 2 instruments | | -9 | -7 |
| **Supplementary capital (net Tier 2)** | E | **723** | **714** |
| **Regulatory total capital (net Tier 1 & net Tier 2)** | | **11'754** | **11'564** |

[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* | 30.06.2017 [4] | 31.12.2016 [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 | 8'089 | 8'089 |
| Capital reserves and foreign currency translation reserve | | |
| **Common equity Tier 1 before adjustments** | **10'514** | **10'514** |
| **Adjustments to common equity Tier 1** | | |
| Goodwill | | |
| Other intangible assets | -1 | -3 |
| Deferred tax assets which rely on future profitability | | |
| Consolidated participations (CET1 instruments) | -446 | -447 |
| **Total adjustments to common equity Tier 1** | **-447** | **-450** |
| **Common equity Tier 1 (net CET1)** | **10'067** | **10'064** |
| **Additional Tier 1 capital (AT1)** | | |
| Issued and paid-up debt instruments [5] | 750 | 590 |
| Deduction of net long positions in own AT1 instruments | | -7 |
| **Additional Tier 1 capital (net AT1)** | **750** | **583** |
| **Core capital (net Tier 1)** | **10'817** | **10'647** |
| **Supplementary capital (Tier 2)** | | |
| Issued and paid-up debt instruments [6] | 731 | 721 |
| Deduction of net long positions in own Tier 2 instruments | -9 | -7 |
| **Supplementary capital (net Tier 2)** | **723** | **714** |
| **Regulatory total capital (net Tier 1 & net Tier 2)** | **11'539** | **11'362** |

[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]

| | 30.06.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| *in CHF million* | Amount[2] | Threshold | Amount[2] | Threshold |
| Non-qualified participations in the share capital of other companies in the financial sector | 285 | 1'028 [3] | 319 | 1'027 [3] |
| Qualified participations in the share capital of other companies in the financial sector | 313 | 1'028 [4] | 313 | 1'027 [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 | 30.06.2017 SA-BIS | 31.12.2016 SA-BIS |
|---|---|---|---|
| Credit risks (using standard approach) | including CVA [1] | 4'490 | 4'561 |
| - of which price risk relating to equity-type securities in the banking book | | 30 | 29 |
| Non-counterparty-related risks (using standard approach) | | 63 | 64 |
| Market risks | | 354 | 326 |
| - of which market risks (using model-based approach) [2] | | 211 | 163 |
| - of which market risks on interest rate instruments (specific market risks) [3] | | 143 | 163 |
| Operational risks (using basic indicator approach) | | 334 | 327 |
| **Minimum required capital** | | **5'241** | **5'279** |
| **Total risk-weighted assets** | 12.5 x minimum capital | **65'516** | **65'987** |

[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 170 million as at 30 June 2017 (CHF 194 million as at 31 December 2016).

[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 | 30.06.2017 SA-BIS | 31.12.2016 SA-BIS |
|---|---|---|---|
| Credit risks (using standard approach) | including CVA [2] | 4'473 | 4'552 |
| - of which price risk relating to equity-type securities in the banking book | | 29 | 29 |
| Non-counterparty-related risks (using standard approach) | | 62 | 64 |
| Market risks | | 354 | 326 |
| - of which market risks (using model-based approach) [3] | | 211 | 163 |
| - of which market risks on interest rate instruments (specific market risks)[4] | | 143 | 163 |
| Operational risks (using basic indicator approach) | | 328 | 316 |
| **Minimum required capital** | | **5'218** | **5'259** |
| **Total risk-weighted assets** | 12.5 x minimum capital | **65'225** | **65'731** |

[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 170 million as at 30 June 2017 (CHF 194 million as at 31 December 2016).

[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 | 30.06.2017 [1] | 31.12.2016 [1] |
|---|---|---|---|
| **Common equity Tier 1 ratio (CET1)** | based on minimum capital (8%) | **15.7%** | **15.6%** |
| **Additional Tier 1 capital ratio (AT1)** | based on minimum capital (8%) | **1.1%** | **0.9%** |
| **Core capital ratio (Tier 1 = CET1 + AT1)** | based on minimum capital (8%) | **16.8%** | **16.4%** |
| **Supplementary capital ratio (Tier 2)** | based on minimum capital (8%) | **1.1%** | **1.1%** |
| **Total capital ratio (Tier 1 + Tier 2)** | based on minimum capital (8%) | **17.9%** | **17.5%** |

| | | |
|---|---|---|
| CET1 requirements pursuant to Basle Minimum Standards (minimum requirements + capital buffer + countercyclical buffer + the capital buffer for global systemically important institutions (in % of risk-weighted assets) | 6.4% | 5.8% |
| - of which capital buffer pursuant to Basle Minimum Standards (in % of risk-weighted assets)[2] | 1.3% | 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) | 14.4% | 14.0% |
| 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) | 13.8% | 13.4% |
| 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) | 16.8% | 16.4% |
| 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% | 17.5% |

[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 specified in the Basle Minimum Standards, the capital buffer for 2016 is 0.625 % and 1.25% für 2017 respectively.
[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 458 million as at 30 June 2017 (CHF 453 million as at 31 December 2016).
[4] AT1 requirement 2.0 %, Tier 2 requirement 2.6 % (Appendix 8 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 | 30.06.2017 [1] | 31.12.2016 [1] |
|---|---|---|---|
| **Common equity Tier 1 ratio (CET1)** | based on minimum capital (8%) | **15.4%** | **15.3%** |
| **Additional Tier 1 capital ratio (AT1)** | based on minimum capital (8%) | **1.1%** | **0.9%** |
| **Core capital ratio (Tier 1 = CET1 + AT1)** | based on minimum capital (8%) | **16.6%** | **16.2%** |
| **Supplementary capital ratio (Tier 2)** | based on minimum capital (8%) | **1.1%** | **1.1%** |
| **Total capital ratio (Tier 1 + Tier 2)** | based on minimum capital (8%) | **17.7%** | **17.3%** |

| | | |
|---|---|---|
| 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) | 6.5% | 5.8% |
| - of which capital buffer pursuant to Basle Minimum Standards (in % of risk-weighted assets)[2] | 1.3% | 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) | 14.2% | 13.8% |
| 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) | 13.6% | 13.2% |
| 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) | 16.6% | 16.2% |
| 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) | 17.7% | 17.3% |

[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 specified in the Basle Minimum Standards, the capital buffer for 2016 is 0.625 % and 1.25% für 2017 respectively.

[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 458 million as at 30 June 2017 (CHF 453 million as at 31 December 2016).

[4] AT1 requirement 2.0 %, Tier 2 requirement 2.6 % (Appendix 8 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.

## 1.2 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 | 10 | 4'988 | | 38 | | | **5'036** |
| Amounts due from securities financial transactions | 98 | 8'781 | 2'900 | 2'480 | | | **14'260** |
| Amounts due from customers | 4 | | 1'004 | 4'209 | 2'118 | 100 | **7'436** |
| Mortgage loans | | | 46 | 4'681 | 71'607 | 1'873 | **78'207** |
| Positive replacement values of derivative financial instruments | 41 | 389 | 173 | 361 | 516 | 35 | **1'514** |
| Other financial instruments at fair value | | | | | | | |
| Debt securities in financial investments | 487 | 702 | 1'165 | 1'947 | 227 | | **4'529** |
| Accrued income and prepaid expenses | | | | | | 527 | **527** |
| Other assets[5] | 143 | | | | | 145 | **287** |
| **Total as at 30.06.2017** | **783** | **14'860** | **5'289** | **13'717** | **74'468** | **2'679** | **111'796** |
| **Total as at 31.12.2016** | **992** | **15'488** | **5'105** | **14'260** | **73'416** | **2'431** | **111'692** |
| **Off-balance-sheet transactions** | | | | | | | |
| Contingent liabilities | 12 | 1'161 | 83 | 2'398 | 260 | 61 | **3'975** |
| Irrevocable commitments | 2 | 177 | 317 | 5'838 | 1'528 | 64 | **7'926** |
| Liabilities for calls on shares and other equities | | | | | | 233 | **233** |
| Credit commitments | | | | | | | |
| **Total as at 30.06.2017** | **13** | **1'338** | **400** | **8'236** | **1'787** | **359** | **12'134** |
| **Total as at 31.12.2016** | **9** | **1'327** | **400** | **7'906** | **2'240** | **340** | **12'222** |

[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.

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. For 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 | 2 | | | 764 | 767 |
| *- of which derivatives[3]* | | | | *112* | *112* |
| Banks and securities traders[4] | 589 | | 0 | 12'081 | 12'670 |
| *- of which derivatives[3]* | | | | *2'671* | *2'671* |
| Other institutions | 154 | 46 | | 2'907 | 3'107 |
| *- of which derivatives[3]* | | | | *297* | *297* |
| Companies[4] | 354 | 4'509 | 1'003 | 9'968 | 15'835 |
| *- of which derivatives[3]* | | | | *1'192* | *1'192* |
| Private customers and small businesses | 216 | 71'188 | 677 | 3'829 | 75'910 |
| *- of which derivatives[3]* | | | | *601* | *601* |
| Other positions | | 1'900 | 13 | 37'234 | 39'147 |
| *- of which derivatives[3]* | | | | *129* | *129* |
| **Total as at 30 June 2017** | **1'316** | **77'643** | **1'694** | **66'783** | **147'436** |
| **Total as at 31 December 2016** | **1'436** | **76'644** | **1'955** | **67'293** | **147'328** |

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 1,649 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 | 1'840 | | | | 0 | | 59 | | | | 1'899 |
| *- of which derivatives [2]* | *55* | | | | | | *57* | | | | *112* |
| Banks and securities traders [3] | | 652 | 8'024 | | 2'784 | | 614 | 59 | | | 12'133 |
| *- of which derivatives [2]* | | *365* | *1'971* | | *332* | | *2* | *1* | | | *2'671* |
| Other institutions | 627 | | 819 | 29 | 959 | | 580 | 0 | | | 3'014 |
| *- of which derivatives [2]* | *120* | | *54* | | *32* | | *91* | | | | *297* |
| Companies [3] | | 997 | 641 | 2'410 | 598 | 44 | 9'845 | 12 | | | 14'546 |
| *- of which derivatives [2]* | | *375* | *27* | | *161* | | *629* | | | | *1'192* |
| Private customers and small businesses | | | | 60'933 | | 1'637 | 12'382 | 64 | | | 75'016 |
| *- of which derivatives [2]* | | | | | | | *601* | | | | *601* |
| Other positions | 36'059 | | | 1'050 | | 14 | 2'009 | 2 | | | 39'134 |
| *- of which derivatives [2]* | | | | | | | *129* | | | | *129* |
| **Total as at 30 June 2017** | **38'527** | **1'649** | **9'484** | **64'422** | **4'342** | **1'694** | **25'488** | **136** | | | **145'743** |
| **Total as at 31 December 2016** | **37'846** | **2'013** | **7'964** | **63'262** | **6'974** | **1'833** | **25'281** | **200** | | | **145'373** |

[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 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).

[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 at 30 June 2017, there were no corresponding open positions.

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 30.06.2017** | | |
| **Total as at 31.12.2016** | | |

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 | CH0361532945 |
| ***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 750 million |
| Nominal value of instrument | CHF 2'425 million | CHF 750 million |
| Accounting item | Corporate capital | Bonds |
| Original date of issue | 15.02.1870 | 30.06.2017 |
| 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 30.10.2023. 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 Oct |
| ***Coupons / dividends*** | | |
| Fixed / variable / initially fixed then variable / initially variable then fixed | n/a | Fixed with reset on 30.10.2023; thereafter reset every 5 years |
| Nominal coupon and any reference index | n/a | Fixed at 2.215% until 30.10.2023; thereafter reset every 5 years based on 5-year mid-swap (minimum 0.00%) plus 2.125% 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 and municipalities 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 | Partial write-down until trigger ratio (7%) is met again, full write-down if FINMA declares a PONV (point of non-viability) |
| 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 | Partial write-down until trigger ratio (7%) is met again, full write-down if FINMA declares a PONV (point of non-viability) |
| 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 183 million | CHF 540 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 the basis of external ratings (group)

| 30.06.2017 | *in CHF million* | 0% | 20% | 50% | 100% | 150% |
|---|---|---|---|---|---|---|
| **Credit exposure after provision of collateral** | | | | | | |
| Central governments and central banks | With rating[1] | 737 | | 0 | 1 | |
| | No rating | | | | 58 | |
| Banks and securities dealers | With rating[1] | | 7'361 | 2'396 | 614 | 56 |
| | No rating | | 663 | 389 | | |
| Other institutions | With rating [2] | | 517 | 129 | | |
| | No rating | | | | 563 | |
| Companies | With rating [2] | | 541 | 598 | 130 | 0 |
| | No rating | | | | 7'645 | |

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

## 1.3 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 CHF 7.2 million per basis point as at 30 June 2017, lower than at the end of the previous year. The interest rate exposure mainly serves as a strategic hedge against persistently low or falling Swiss franc interest rates. The euro and US dollar interest rate exposures are almost fully hedged as at the end of June 2017.

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 | -198 | 4'371 | 5'192 | 9'364 |
| Hedge | 349 | -2'177 | -358 | -2'186 |
| **Total as at 30.06.2017** | **151** | **2'194** | **4'833** | **7'178** |
| **Total as at 31.12.2016** | **-66** | **2'114** | **6'055** | **8'103** |

| Basis point sensitivity [1] *in EUR 1'000* | up to 12 months | 1 to 5 years | over 5 years | **Total** |
|---|---|---|---|---|
| Hedged item | 7 | -353 | -781 | -1'127 |
| Hedge | 23 | 276 | 850 | 1'149 |
| **Total as at 30.06.2017** | **30** | **-77** | **69** | **22** |
| **Total as at 31.12.2016** | **18** | **-69** | **82** | **31** |

| Basis point sensitivity [1] *in USD 1'000* | up to 12 months | 1 to 5 years | over 5 years | **Total** |
|---|---|---|---|---|
| Hedged item | -32 | 33 | 0 | 1 |
| Hedge | - | - | - | - |
| **Total as at 30.06.2017** | **-32** | **33** | **0** | **1** |
| **Total as at 31.12.2016** | **-13** | **38** | **2** | **27** |

[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.

### 1.4 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 30.06.2017 | Parent Company [1] 30.06.2017 |
|---|---|---|
| Overview of total exposure [2] | | |
| 1 Total assets as stated in the published accounts[1] | 158'378 | 158'391 |
| 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) | -162 | -447 |
| 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) | 3'463 | 3'464 |
| 5 Adjustments relating to securities financing transactions (m.n. 52-73 FINMA Circular 15/3) | 1'632 | 1'632 |
| 6 Adjustments relating to off-balance-sheet transactions (m.n. 74-76 FINMA Circular 15/3) | 8'080 | 8'080 |
| 7 Other adjustments | | |
| **8 Overall exposure subject to the leverage ratio** | 171'390 | 171'119 |
| 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) | 142'604 | 142'617 |
| 2 Assets that must be deducted from eligible core capital (m.n. 7 and m.n. 16-17 FINMA Circular 15/3). | -162 | -447 |
| **3 Total balance sheet positions subject to the leverage ratio excluding derivatives and SFTs** | 142'441 | 142'170 |
| **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) | 1'532 | 1'532 |
| 5 Add-ons for all derivatives (m.n. 22 and m.n. 25 FINMA Circular 15/3) | 3'393 | 3'393 |
| 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) | 2'145 | 2'145 |
| 7 Deduction of receivables arising due to margin payments (m.n. 36 FINMA Circular 15/3) | -2'120 | -2'120 |
| 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) | 123 | 123 |
| 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) | -96 | -96 |
| **11 Total exposure from derivatives** | 4'978 | 4'978 |

| | | |
|---|---|---|
| **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) | 14'260 | 14'260 |
| 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) | 1'632 | 1'632 |
| 15 Exposure to SFTs with the bank as agent (m.n. 70-73 FINMA Circular 15/3) | | |
| **16 Total exposure from SFTs** | 15'892 | 15'892 |
| **Other off-balance-sheet exposures** | | |
| 17 Off-balance-sheet transactions as gross notional amount prior to use of credit conversion factors | 31'404 | 31'399 |
| 18 Adjustments relating to conversion into credit equivalents (m.n. 75-76 FINMA Circular 15/3) | -23'324 | -23'319 |
| **19 Total off-balance-sheet exposures** | 8'080 | 8'080 |
| **Eligible capital and total exposure** | | |
| 20 Core capital (Tier 1) (m.n. 5 FINMA Circular 15/3) | 11'031 | 10'817 |
| 21 Total exposure (sum of lines 3, 11, 16 and 19) | 171'390 | 171'119 |
| **Leverage ratio** | | |
| 22 Leverage ratio (m.n. 3-4 FINMA Circular 15/3) | 6.44% | 6.32% |

[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 46 in Appendix 2 of FINMA Circular 16/1 Disclosure - Banks.

[3] The numbering of the lines corresponds to model table 47 in Appendix 2 of FINMA Circular 16/1 Disclosure - Banks.

## 1.5 Liquidity coverage ratio (LCR)

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

| *in CHF million* | Quarterly average Q1 2017[1] Unweighted values | Quarterly average Q1 2017[1] Weighted values | Quarterly average Q2 2017[1] Unweighted values | Quarterly average Q2 2017[1] Weighted values |
|---|---|---|---|---|
| **High quality liquid assets (HQLA)** | | | | |
| **Total high quality liquid assets (HQLA)** | | **38'646** | | **42'385** |
| *of which Level 1* | | 34'947 | | 38'208 |
| *of which Level 2* | | 3'699 | | 4'177 |
| **Outflow of funds** | | | | |
| **Deposits from retail customers and SMEs** | 52'455 | 5'477 | 53'097 | 5'541 |
| *of which stable deposits* | 5'949 | 297 | 5'955 | 298 |
| *of which less stable deposits* | 46'506 | 5'180 | 47'142 | 5'243 |
| **Unsecured funds provided by commercial or major customers** | 37'728 | 22'828 | 37'668 | 23'243 |
| *of which operating deposits (all counterparties)* | 3'718 | 930 | 3'701 | 925 |
| *of which non-operating deposits (all counterparties)* | 33'741 | 21'631 | 33'361 | 21'712 |
| *of which unsecured funds* | 268 | 268 | 606 | 606 |
| **Secured funding provided by commercial or major customers and security swaps** | | 6'934 | | 7'027 |
| **Other outflow of funds** | 46'564 | 36'619 | 51'929 | 42'262 |
| *of which outflwos of funds relating to trading in derivatives and other transactions* | 38'505 | 34'602 | 43'958 | 40'306 |
| *of which outflows of funds from mortgage bond loans* | 98 | 98 | 13 | 13 |
| *of which outflows related to committed credit and liquidity facilities* | 7'961 | 1'919 | 7'958 | 1'943 |
| **Other contractual obligations regarding funding** | 1'540 | 1'525 | 1'937 | 1'896 |
| **Other contingent liabilities regarding funding** | 24'778 | 349 | 25'578 | 340 |
| **Total outflows of funds** | | **73'733** | | **80'309** |
| **Inflows of funds** | | | | |
| Secured financing opterations (e.g. reverse repo transactions) and security swaps | 9'019 | 6'116 | 8'697 | 5'915 |
| Inflows from receivables at full value | 3'170 | 3'155 | 2'977 | 2'936 |
| Other inflows of funds | 33'442 | 33'442 | 39'462 | 39'462 |
| **Total inflows of funds** | **45'632** | **42'713** | **51'136** | **48'312** |
| **Total high quality liquid assets (HQLA)** | | **38'646** | | **42'385** |
| **Total net inflows of funds** | | **31'020** | | **31'996** |
| **Liquidity coverage ratio LCR (in %)** | | **125%** | | **132%** |

[1] The average is calculated based on the end of day values from the business days of the reported quarter: Q1 63 days included, Q2 60 days included.

### 1.6 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 2017 the value-at-risk (incl. risk premium for incompletely modelled products) was CHF 12 million and thus above the level at the end of 2016 (CHF 9 million). Interest rate risks continue to dominate. On average, the value-at-risk as at 30 June 2017 remained unchanged compared with 2016, at CHF 11 million.

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 2017** | **1** | **1** | **8** | **2** | **-4** | **7** | **12** |
| Average current year 2017 | 0 | 1 | 8 | 2 | -4 | 7 | 11 |
| Maximum | 1 | 3 | 9 | 5 | -8 | 9 | 13 |
| Minimum | 0 | 0 | 7 | 1 | -3 | 6 | 8 |
| **As at 30 December 2016** | **0** | **1** | **8** | **2** | **-5** | **7** | **9** |

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 2017** | **43** | **47** |
| Average current year 2017 | 40 | 44 |
| Maximum | 56 | 60 |
| Minimum | 31 | 33 |
| **As at 30 December 2016** | **36** | **38** |

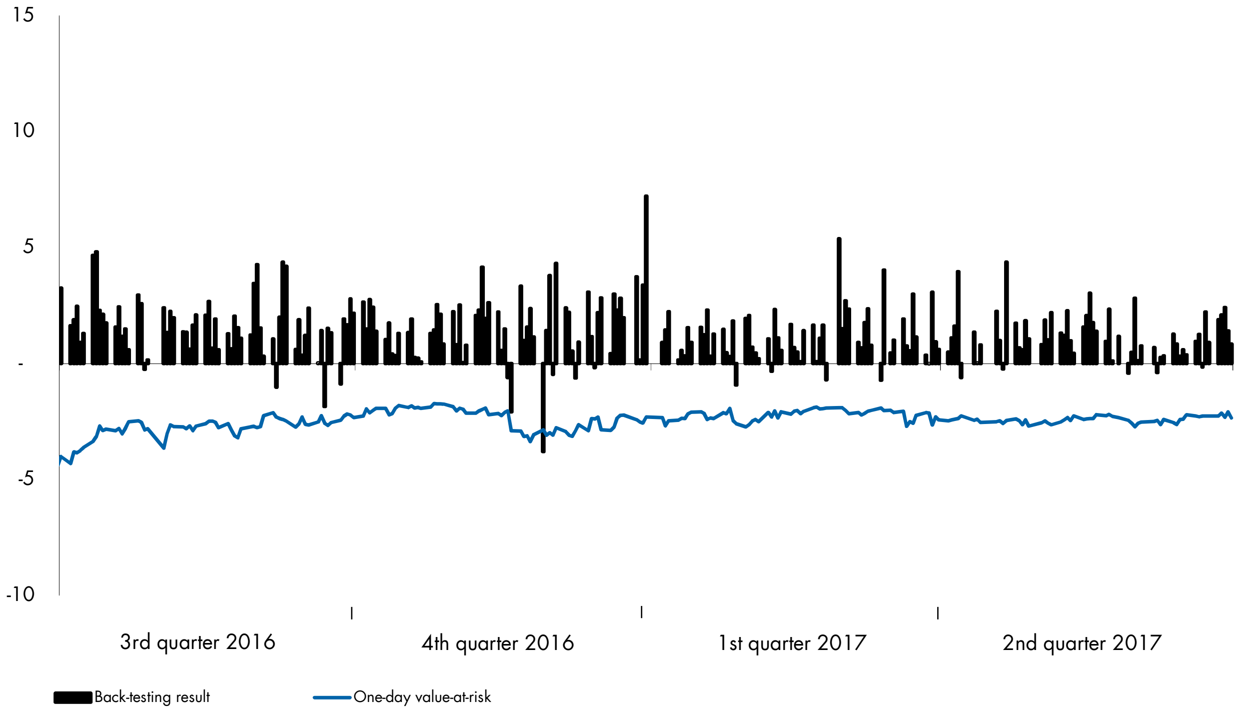
1 Including exchange rate, precious metals and commodity risks in the banking book

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.

## 1.7 Systemic importance disclosures

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

The risk-weighted capital requirements for systemically important banks consist of a basic requirement (5.8 percent), the capital buffer (7.2 percent) plus a countercyclical capital buffer (0.7 percent as at 30 June 2017) 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 can be stipulated each year by the Swiss Financial Market Supervisory Authority (FINMA). The unweighted capital adequacy requirement (leverage ratio) is calculated as a percentage of the total exposure. As at 30 June 2017, this is 3.5 percent of the total exposure.

Fig. 18: Risk-based capital adequacy requirement (capital ratios)

| | Group 30.06.2017 | | | |
|---|---|---|---|---|
| *in CHF million* | **Transitional rules** | | **Rules as of 2020** | |
| ***Assessment basis*** | CHF | | CHF | |
| Risk-weighted assets (RWA) | 65'516 | | 65'516 | |
| ***Risk-based capital adequacy requirements (going concern) (capital ratios)*** | CHF | In % RWA | CHF | In % RWA |
| **Total[1]** | **9'630** | **14.7%** | **9'827** | **15.0%** |
| Of which CET1: Minimum | 3'800 | 5.8% | 2'948 | 4.5% |
| Of which CET1: Capital buffer | 2'096 | 3.2% | 2'660 | 4.1% |
| Of which CET1: Countercyclical capital buffer | 458 | 0.7% | 458 | 0.7% |
| Of which CET1: Additional capital pillar 2 | 655 | 1.0% | 943 | 1.4% |
| Of which Additional Tier 1: Minimum | 1'441 | 2.2% | 2'293 | 3.5% |
| Of which Additional Tier 1: Capital buffer | 524 | 0.8% | 524 | 0.8% |
| Of which Additional Tier 1: Additional capital pillar 2 | 655 | 1.0% | | |
| ***Eligible capital (going concern)[2,3]*** | CHF | In % RWA | CHF | In % RWA |
| **Core capital** | **11'754** | **17.9%** | **11'031** | **16.8%** |
| Of which CET1 | 9'133 | 13.9% | 8'214 | 12.5% |
| Of which CET1 to cover Additional Tier 1 requirements | 1'148 | 1.8% | 2'067 | 3.2% |
| Of which Additional Tier 1 High-trigger CoCos | 750 | 1.1% | 750 | 1.1% |
| Of which Additional Tier 1 Low-trigger CoCos | | | | |
| Of which Tier 2 High-trigger CoCos | | | - | - |
| Of which Tier 2 Low-trigger CoCos | 723 | 1.1% | - | - |
| ***Risk-based requirements for additional loss-absorbing funds (gone concern) (capital ratios)[4]*** | CHF | In % RWA | CHF | In % RWA |
| **Total (net)** | | | | |
| ***Eligible additional loss-absorbing funds (gone concern)*** | CHF | In % RWA | CHF | In % RWA |
| **Total** | | | | |
| Of which bail-in bonds | | | | |
| Of which CET1 used to meet gone concern requirements | | | | |
| Of which Additional Tier 1 used to meet gone concern requirements | | | | |

[1] Capital requirements are calculated as a percentage of risk-weighted assets. Derived from the FINMA ruling of August 2014, the CET1 target ratio for Zürcher Kantonalbank is 10.0%, the T1 target ratio is 13.0%, the total capital target ratio is 14.0%, plus a countercyclical buffer of 0.7% in each case.

[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] Pursuant to the transitional provisions on the amendment of the CAO of 11 May 2016 (Art. 148b CAO) with regard to capital quality for systemically important banks, low-trigger Tier 2 capital can be charged to core capital until the first capital call, at the latest by 31 December 2019.

[4] There are currently no gone concern capital requirements for D-SIBs (domestic systemically important banks).

| in CHF million | Parent Company[5,6] 30.06.2017 Transitional rules | | Rules as of 2020 | |
|---|---|---|---|---|
| ***Assessment basis*** | CHF | | CHF | |
| Risk-weighted assets (RWA) | 65'225 | | 65'225 | |
| ***Risk-based capital adequacy requirements (going concern) (capital ratios)*** | CHF | In % RWA | CHF | In % RWA |
| **Total[1]** | **9'590** | **14.7%** | **9'786** | **15.0%** |
| Of which CET1: Minimum | 3'783 | 5.8% | 2'935 | 4.5% |
| Of which CET1: Capital buffer | 2'087 | 3.2% | 2'648 | 4.1% |
| Of which CET1: Countercyclical capital buffer | 458 | 0.7% | 458 | 0.7% |
| Of which CET1: Additional capital pillar 2 | 652 | 1.0% | 939 | 1.4% |
| Of which Additional Tier 1: Minimum | 1'435 | 2.2% | 2'283 | 3.5% |
| Of which Additional Tier 1: Capital buffer | 522 | 0.8% | 522 | 0.8% |
| Of which Additional Tier 1: Additional capital pillar 2 | 652 | 1.0% | | |
| ***Eligible capital (going concern)[2,3]*** | CHF | In % RWA | CHF | In % RWA |
| **Core capital** | **11'539** | **17.7%** | **10'817** | **16.6%** |
| Of which CET1 | 8'930 | 13.7% | 8'012 | 12.3% |
| Of which CET1 to cover Additional Tier 1 requirements | 1'136 | 1.7% | 2'055 | 3.2% |
| Of which Additional Tier 1 High-trigger CoCos | 750 | 1.1% | 750 | 1.1% |
| Of which Additional Tier 1 Low-trigger CoCos | | | | |
| Of which Tier 2 High-trigger CoCos | | | - | - |
| Of which Tier 2 Low-trigger CoCos | 723 | 1.1% | - | - |
| ***Risk-based requirements for additional loss-absorbing funds (gone concern) (capital ratios)[4]*** | CHF | In % RWA | CHF | In % RWA |
| **Total (net)** | | | | |
| ***Eligible additional loss-absorbing funds (gone concern)*** | CHF | In % RWA | CHF | In % RWA |
| **Total** | | | | |
| Of which bail-in bonds | | | | |
| Of which CET1 used to meet gone concern requirements | | | | |
| Of which Additional Tier 1 used to meet gone concern requirements | | | | |

[1] Capital requirements are calculated as a percentage of risk-weighted assets. Derived from the FINMA ruling of August 2014, the CET1 target ratio for Zürcher Kantonalbank is 10.0%, the T1 target ratio is 13.0%, the total capital target ratio is 14.0%, plus a countercyclical buffer of 0.7% in each case.

[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] Pursuant to the transitional provisions on the amendment of the CAO of 11 May 2016 (Art. 148b CAO) with regard to capital quality for systemically important banks, low-trigger Tier 2 capital can be charged to core capital until the first capital call, at the latest by 31 December 2019.

[4] There are currently no gone concern capital requirements for D-SIBs (domestic systemically important banks).

[5] 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.

[6] Zürcher Kantonalbank does not claim any relief on the basis of Art. 125 CAO.

## Fig. 19: Unweighted capital adequacy requirements (leverage ratio)

| | Group 30.06.2017 | | | |
|---|---|---|---|---|
| *in CHF million* | **Transitional rules** | | **Rules as of 2020** | |
| **Assessment basis** | CHF | | CHF | |
| Total exposure (leverage ratio denominator, LRD) | 171'390 | | 171'390 | |
| | | | | |
| ***Unweighted capital adequacy requirements (going concern) (leverage ratio)*** | CHF | In % LRD | CHF | In % LRD |
| Total[1] | **5'999** | **3.5%** | **7'713** | **4.5%** |
| Of which CET1: Minimum | 3'599 | 2.1% | 2'571 | 1.5% |
| Of which CET1: Capital buffer | 857 | 0.5% | 2'571 | 1.5% |
| Of which CET1: Additional capital pillar 2 | | | | |
| Of which Additional Tier 1: Minimum | 1'543 | 0.9% | 2'571 | 1.5% |
| Of which Additional Tier 1: Additional capital pillar 2 | | | | |
| | | | | |
| ***Eligible capital (going concern)[2,3]*** | CHF | In % LRD | CHF | In % LRD |
| **Core capital** | **11'754** | **6.9%** | **11'031** | **6.4%** |
| Of which CET1 | 9'133 | 5.3% | 8'214 | 4.8% |
| Of which CET1 to cover Additional Tier 1 requirements | 1'148 | 0.7% | 2'067 | 1.2% |
| Of which Additional Tier 1 High-trigger CoCos | 750 | 0.4% | 750 | 0.4% |
| Of which Additional Tier 1 Low-trigger CoCos | | | | |
| Of which Tier 2 High-trigger CoCos | | | - | - |
| Of which Tier 2 Low-trigger CoCos | 723 | 0.4% | - | - |
| | | | | |
| ***Unweighted requirements for additional loss-absorbing funds (gone concern) (leverage ratio)[5]*** | CHF | In % LRD | CHF | In % LRD |
| **Total (net)** | | | | |
| | | | | |
| ***Eligible additional loss-absorbing funds (gone concern)*** | CHF | In % LRD | CHF | In % LRD |
| **Total** | | | | |
| Of which bail-in bonds | | | | |
| Of which CET1 used to meet gone concern requirements | | | | |
| Of which Additional Tier 1 used to meet gone concern requirements | | | | |

[1] Capital requirements are calculated as a percentage of risk-weighted assets. Derived from Art. 148c CAO the unweighted capital adequacy requirement in 2017 is 3.5%.

[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] Pursuant to the transitional provisions on the amendment of the CAO of 11 May 2016 (Art. 148b CAO) with regard to capital quality for systemically important banks, low-trigger Tier 2 capital can be charged to core capital until the first capital call, at the latest by 31 December 2019.

[4] There are currently no gone concern capital requirements for D-SIBs (domestic systemically important banks).

| | Parent Company[6,7] 30.06.2017 | | | |
|---|---|---|---|---|
| *in CHF million* | **Transitional rules** | | **Rules as of 2020** | |
| **Assessment basis** | CHF | | CHF | |
| Total exposure (leverage ratio denominator, LRD) | 171'119 | | 171'119 | |
| | | | | |
| ***Unweighted capital adequacy requirements (going concern) (leverage ratio)*** | CHF | In % LRD | CHF | In % LRD |
| Total[1] | **5'989** | **3.5%** | **7'700** | **4.5%** |
| Of which CET1: Minimum | 3'593 | 2.1% | 2'567 | 1.5% |
| Of which CET1: Capital buffer | 856 | 0.5% | 2'567 | 1.5% |
| Of which CET1: Additional capital pillar 2 | | | | |
| Of which Additional Tier 1: Minimum | 1'540 | 0.9% | 2'567 | 1.5% |
| Of which Additional Tier 1: Additional capital pillar 2 | | | | |
| | | | | |
| ***Eligible capital (going concern)*** [2,3] | CHF | In % LRD | CHF | In % LRD |
| **Core capital** | **11'539** | **6.7%** | **10'817** | **6.3%** |
| Of which CET1 | 8'930 | 5.2% | 8'012 | 4.7% |
| Of which CET1 to cover Additional Tier 1 requirements | 1'136 | 0.7% | 2'055 | 1.2% |
| Of which Additional Tier 1 High-trigger CoCos | 750 | 0.4% | 750 | 0.4% |
| Of which Additional Tier 1 Low-trigger CoCos | | | | |
| Of which Tier 2 High-trigger CoCos | | | - | - |
| Of which Tier 2 Low-trigger CoCos | 723 | 0.4% | - | - |
| | | | | |
| ***Unweighted requirements for additional loss-absorbing funds (gone concern) (leverage ratio)*** [5] | CHF | In % LRD | CHF | In % LRD |
| **Total (net)** | | | | |
| | | | | |
| ***Eligible additional loss-absorbing funds (gone concern)*** | CHF | In % LRD | CHF | In % LRD |
| **Total** | | | | |
| Of which bail-in bonds | | | | |
| Of which CET1 used to meet gone concern requirements | | | | |
| Of which Additional Tier 1 used to meet gone concern requirements | | | | |

[1] Capital requirements are calculated as a percentage of risk-weighted assets. Derived from Art. 148c CAO the unweighted capital adequacy requirement in 2017 is 3.5%.

[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] Pursuant to the transitional provisions on the amendment of the CAO of 11 May 2016 (Art. 148b CAO) with regard to capital quality for systemically important banks, low-trigger Tier 2 capital can be charged to core capital until the first capital call, at the latest by 31 December 2019.

[4] There are currently no gone concern capital requirements for D-SIBs (domestic systemically important banks).

[5] 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.

[6] Zürcher Kantonalbank does not claim any relief on the basis of Art. 125 CAO.

## 1.8 Additional requirements for major banks

Fig. 20: Minimum disclosures

| | *in CHF million (unless stated otherwise)* | Group | | Parent company[5] | |
|---|---|---|---|---|---|
| | | 30.06.2017 | 31.12.2016 | 30.06.2017 | 31.12.2016 |
| 1 | Minimum capital based on risk-based requirements | 5'241 | 5'279 | 5'218 | 5'259 |
| 2 | Eligible capital | 11'754 | 11'564 | 11'539 | 11'362 |
| 3 | Of which common equity Tier 1 (CET1) | 10'281 | 10'266 | 10'067 | 10'064 |
| 4 | Of which core capital (T1) | 11'031 | 10'849 | 10'817 | 10'647 |
| 5 | Risk-weighted assets (RWA) | 65'516 | 65'987 | 65'225 | 65'731 |
| 6 | CET1 ratio (common equity Tier 1 in % of RWA)[1] | 15.7 | 15.6 | 15.4 | 15.3 |
| 7 | Core capital ratio (core capital in % of RWA)[1] | 16.8 | 16.4 | 16.6 | 16.2 |
| 8 | Total capital ratio (in % of RWA)[1] | 17.9 | 17.5 | 17.7 | 17.3 |
| 9 | Countercyclical capital buffer (in % of RWA) | 0.7 | 0.7 | 0.7 | 0.7 |
| 10 | CET1 target ratio (in %) pursuant to Annex 8 to the CAO plus countercyclical capital buffer [2] | 10.7 | 10.7 | 10.7 | 10.7 |
| 11 | T1 target ratio (in %) pursuant to Annex 8 to the CAO plus countercyclical capital buffer[2] | 13.7 | 13.7 | 13.7 | 13.7 |
| 12 | Total capital target ratio (in %) pursuant to Annex 8 to the CAO plus countercyclical capital buffer[2] | 14.7 | 14.7 | 14.7 | 14.7 |
| 13 | Basel III leverage ratio (core capital in % of total exposure) | 6.4 | 6.3 | 6.3 | 6.2 |
| 14 | Total exposure | 171'390 | 171'618 | 171'119 | 171'254 |
| 15 | Short-term liquidity ratio, LCR (in %) in Q4[3] | | 132 | | 131 |
| 16 | LCR numerator: Total high quality liquid assets | | 40'976 | | 40'943 |
| 17 | LCR denominator: Total net outflows of funds | | 31'151 | | 31'230 |
| 18 | Short-term liquidity ratio, LCR (in %) in Q3[3] | | 125 | | 125 |
| 19 | LCR numerator: Total high quality liquid assets | | 40'482 | | 40'459 |
| 20 | LCR denominator: Total net outflows of funds | | 32'331 | | 32'396 |
| 21 | Short-term liquidity ratio, LCR (in %) in Q2[3, 4] | 132 | 116 | 132 | 115 |
| 22 | LCR numerator: Total high quality liquid assets | 42'385 | 34'302 | 42'363 | 34'239 |
| 23 | LCR denominator: Total net outflows of funds | 31'996 | 29'673 | 32'181 | 29'808 |
| 24 | Short-term liquidity ratio, LCR (in %) in Q1[3, 4] | 125 | 119 | 124 | 118 |
| 25 | LCR numerator: Total high quality liquid assets | 38'646 | 34'821 | 38'614 | 34'752 |
| 26 | LCR denominator: Total net outflows of funds | 31'020 | 29'290 | 31'143 | 29'370 |

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. The figures are calculated in accordance with the provisions of the CAO for non-systemically important banks.

2 Derived from the FINMA ruling of August 2014, the CET1 target ratio for Zürcher Kantonalbank is 10.0%, the T1 target ratio is 13.0%, the total capital target ratio is 14.0%, plus a countercyclical buffer of 0.7% in each case.

3 For the year 2016, the LCR ratio is based on monthly averages.

4 Starting from the year 2017: The average is calculated based on the end of day values from the business days of the reported quarter: Q1 63 days included, Q2 60 days included.

5 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.