

Half-yearly Report

Half-yearly Report 2013 of Zürcher Kantonalbank



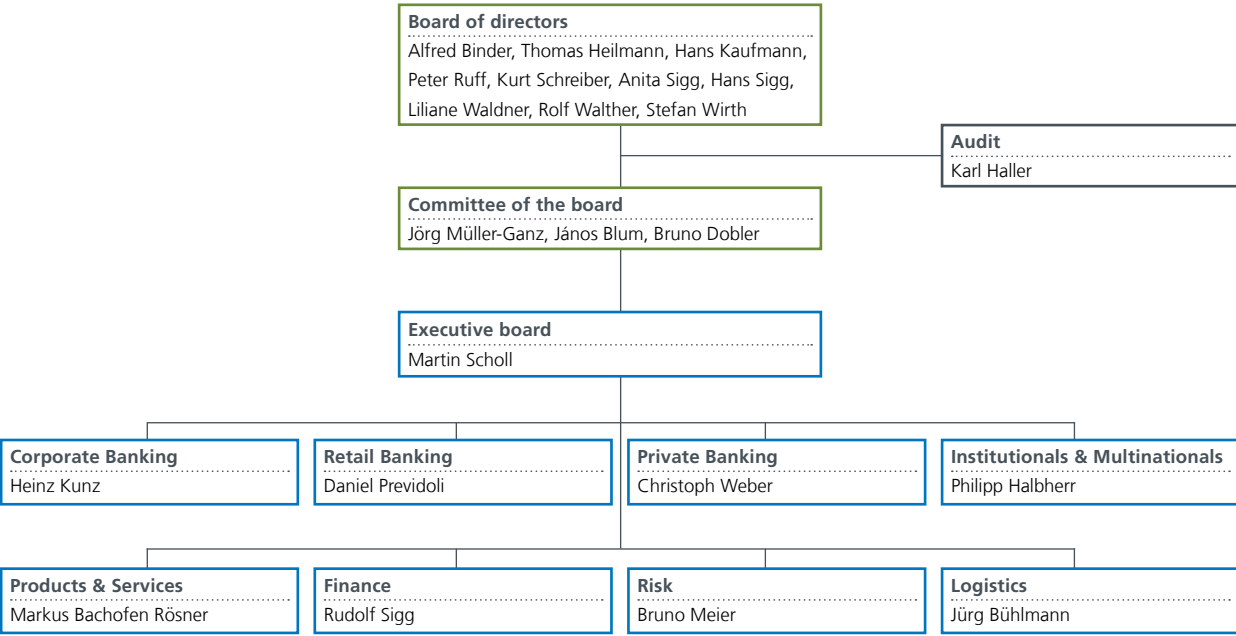
At a glance

About us

Zürcher Kantonalbank is successfully positioning itself as a full-service bank with a regional base as well as national and international links. With a market penetration of more than 50 percent, we rank as the leader in retail as well as corporate banking in the canton of Zurich. Zürcher Kantonalbank is wholly owned by the canton of

Zurich and benefits from a state guarantee. Our public service mandate entails providing financial services for the public, assisting the canton in the performance of its tasks in the economic, social and environmental arenas, and ensuring that our actions comply with the demands of environmental and social responsibility.

Organisational chart



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 or not meaningful
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In figures

Group income statement	<i>in CHF million</i>	1st half 2013	1st half 2012	1st half 2011	Change 2013/2012 in %
Net interest income		571	593	563	-3.7
Net commission and fee income		279	269	273	4.0
Income from trading operations		202	225	151	-10.0
Other ordinary income		34	17	23	101.4
Operating income		1,087	1,103	1,011	-1.5
Operating expenses		631	651 ¹	610	-3.1
Gross profit		455	452 ¹	401	0.7
Depreciation and amortisation of fixed assets		43	49	42	-13.4
Allowances, provisions and losses		56	25	3	129.6
Extraordinary income		37	14	1	174.9
Tax expenses		0	-0	-0	-
Group net income		394	392 ¹	357	0.4
Group balance sheet (before distribution of net profit)	<i>in CHF million</i>	30.06.2013	31.12.2012	31.12.2011	
Total assets		149,818	150,694	133,999	-0.6
Loans to customers		79,793	78,552	73,892	1.6
– of which mortgages		68,660	67,371	65,059	1.9
Funds due to customers		93,774	94,187	81,363	-0.4
– of which savings and investment accounts		43,965	44,455	41,751	-1.1
Allowances and provisions		581	617	631	-5.8
Net equity		8,804	8,784	8,568	0.2
Key figures	<i>in %</i>	1st half 2013	1st half 2012	1st half 2011	
Return on equity (ROE)		9.2	9.5 ¹	9.1	
Cost/income ratio (CIR)		62.0	63.5 ¹	64.6	
Tier 1 capital ratio ²		14.9	14.2	13.0	
Common equity Tier 1 (CET1) ratio		13.9	–	–	
Assets under management	<i>in CHF million</i>	30.06.2013	31.12.2012 ³	31.12.2011 ³	
Total assets under management		190,863	191,794	176,792	-0.5
Net new money (NNM)		790	785 ⁴	2,389 ⁴	
Personnel/banking outlets	<i>Number</i>	30.06.2013	31.12.2012	31.12.2011	
Headcount after adjustment for part-time employees, as at 30 June		4,931	5,068	5,101	-2.7
Banking outlets ⁵		99	99	102	
Rating agencies	<i>Rating</i>	30.06.2013	31.12.2012	31.12.2011	
Fitch		AAA	AAA	AAA	
Moody's		Aaa	Aaa	Aaa	
Standard & Poor's		AAA	AAA	AAA	
Scope of consolidation	<i>Share in %</i>	30.06.2013	31.12.2012	31.12.2011	
Zürcher Kantonalbank Finance (Guernsey) Ltd.		100	100	100	
Balfidor Holding AG		100	100	100	
Zürcher Kantonalbank Österreich AG		100	100	100	

¹ Figure does not include non-recurring expense of CHF 150 million for the pension fund of Zürcher Kantonalbank owing to the reduction in the technical interest rate.

² First half of 2013 in accordance with Basel III; first half of 2012 and 2011 in accordance with Basel 2.5.

³ Restated following a change in business partner segmentation.

⁴ First half of the year.

⁵ Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as four automated banks.

Business performance

Thanks to the broad diversification of our banking activities, we are able to report on a successful first half of the year.

Zürcher Kantonalbank achieved a slightly higher group net income of CHF 394 million in the first half of 2013 compared with the first six months of the previous year (CHF 392 million in the first half of 2012).

At 9.2 percent, the return on equity was on a similar level to previous years (9.5 percent in the first half of 2012) and within the specified target range of 9 to 12 percent. The cost/income ratio (operating expenses and depreciation on fixed assets as a percentage of operating income) improved and amounted to 62.0 percent (63.5 percent in the first half of 2012). Accordingly, Zürcher Kantonalbank's cost/income ratio was also within the target range of 58 to 64 percent.

Strengthening of the equity base

The Basel III rules came into effect in Switzerland on 1 January 2013. This led to additional capital adequacy requirements, in particular for the risk of possible value adjustments due to counterparty credit risk on derivatives (CVA charge); as a result, the bank's capital ratios were immediately reduced by 0.5 percentage points. Zürcher Kantonalbank was nevertheless able to improve its Tier 1 capital ratio to 14.9 percent (14.2 percent at the mid-point of 2012, in accordance with Basel 2.5). This was mainly thanks to retained earnings from the 2012 financial year and the reduction in market risks. The ratio therefore lay at the upper end of the 13 to 15 percent target range specified by Zürcher Kantonalbank's board of directors. According to the regulatory requirements, Zürcher Kantonalbank must have a total capital ratio of 13.6 percent by 31 December 2016.

In accordance with Basel III, the "common equity Tier 1" (CET1) ratio has also been calculated and reported since 2013. At 13.9 percent, Zürcher Kantonalbank has a very solid capital base compared with other full-service banks as well as in international terms.

In January 2013, Zürcher Kantonalbank proposed to the cantonal parliament of Zurich that its endowment capital facility – which has remained unchanged for nearly two decades – be increased by CHF 2 billion. This is to ensure the restoration of the strategic reserve, which was affected by the stricter requirements introduced by the Swiss Financial Market Supervisory Authority (FINMA) in 2011, and to enable the continued strengthening of the equity base.

Top marks from the rating agencies

Zürcher Kantonalbank is one of the few banks in the world to retain a first-class rating from rating agencies Fitch, Standard & Poor's and Moody's (AAA or Aaa). This is in recognition of the state guarantee but also, more importantly, of the bank's strong anchoring in the economically healthy Greater Zurich area, broadly diversified income streams, modest risk profile and solid equity and liquidity base.

Slight fall in assets under management

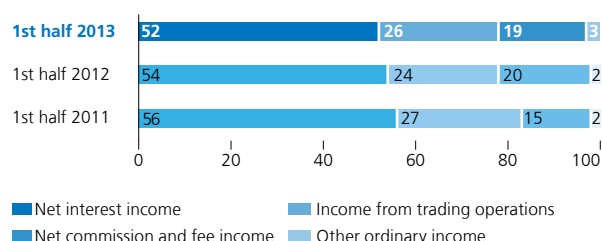
Assets under management declined by CHF 0.9 billion in the first half of the year to CHF 190.9 billion. The reduction consisted of the net inflow of new money (CHF 0.8 billion) and stock market valuations (CHF –1.7 billion).

Diversified income structure

Operating income was maintained at a high level in the first half of 2013 at CHF 1,087 million (CHF 1,103 million in the first half of 2012). With a share of 52 percent, net interest income remained the bank's biggest income stream. Commission and fee business (26 percent) and

trading operations (19 percent) contributed to the healthy diversification of operating income.

Fig. 1: Income structure of Zürcher Kantonalbank (in %)



Solid interest operations

Net interest income declined by 3.7 percent compared with the first half of 2012 to CHF 571 million. However, additional income of CHF 10 million was generated compared with the second half of 2012 thanks to a slightly improved margin in deposit-taking.

Increase in commission and fees

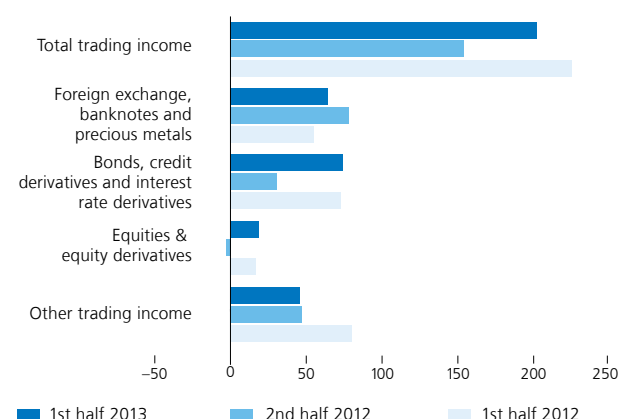
Net commission and fee income in the first six months of the financial year exceeded the figure for the first half of the previous year by 4.0 percent and amounted to CHF 279 million. The biggest share of commission and fee income comes from the securities and investment business. Here the bank generated encouragingly high levels of additional income from asset and portfolio management.

Low market risks in trading book

The trading activities of Zürcher Kantonalbank are based on clear customer focus. Income from trading operations came to a respectable CHF 202 million in the first half of 2013 (CHF 225 million in the first half of 2012).

At an average of CHF 18 million, market risks in the trading book (value-at-risk with a 10-day holding period) remained at a low level (average of CHF 24 million in the first half of 2012).

Fig. 2: Breakdown of trading income (in CHF million)

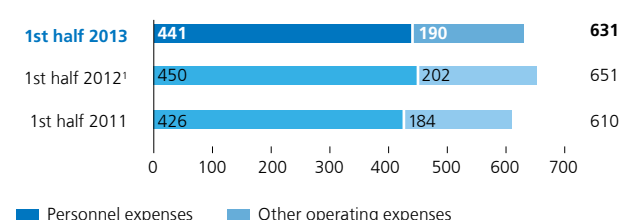


Decline in operating expenses

At CHF 631 million, operating expenses were reduced by 3.1 percent in the first six months of this financial year compared with the first half of the previous year. The measures taken to optimise processes and costs, which began in the autumn of 2012, had a positive impact.

Personnel expenses amounted to CHF 441 million in the first half of the year. At the end of June 2013, Zürcher Kantonalbank's headcount stood at 4,931 (full-time equivalent). This represents a decrease of 2.7 percent compared with 31 December 2012. At CHF 190 million, other operating expenses were reduced by 5.8 percent in the first half compared with the first six months of the previous year.

Fig. 3: Development of operating expenses (in CHF million)

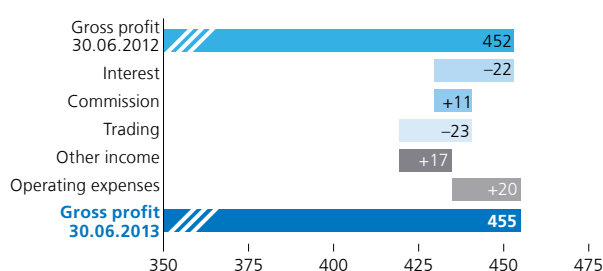


¹ First half of 2012 excludes cost of pension fund switch.

Gross profit constant

Gross profit amounted to CHF 455 million in the first half of the year, and was therefore slightly higher than in the first six months of 2012 (CHF 452 million).

Fig. 4: Development of gross profit (in CHF million)



Allowances and provisions

Zürcher Kantonalbank assessed the default risks as well as all other identifiable risks on the balance sheet date and where necessary created corresponding allowances and provisions. CHF 56 million was set aside for allowances, provisions and losses in the first half of the year (CHF 25 million in the first half of 2012). In addition, the reversal of allowances and provisions not required, together with the reversal of impairment on participations, resulted in extraordinary income of CHF 37 million (CHF 14 million in the first half of 2012).

Depreciation and amortisation of fixed assets amounted to CHF 43 million (CHF 49 million in the first half of 2012). The improved result was due in particular to lower write-downs on participations and bank premises.

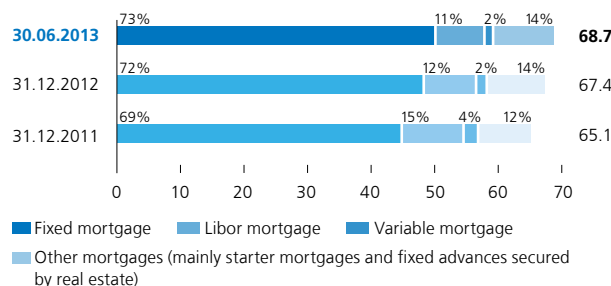
No change in total assets

At CHF 149.8 billion as at 30 June 2013, total assets were virtually unchanged compared with 31 December 2012. On the asset side, more than half comprised loans to customers – primarily mortgage business.

A dependable financing partner

The total volume of mortgages increased by CHF 1.3 billion, or 1.9 percent, in the first half of 2013 to CHF 68.7 billion. Zürcher Kantonalbank continues to pay close attention to the quality of loans. Due to the low level of interest rates and attractive terms, a large proportion of customers favoured fixed-term mortgages.

Fig. 5: Fixed and variable mortgages (in % and in CHF billion)



Zürcher Kantonalbank is the number one address for businesses of all sizes in the Greater Zurich area. At the mid-point of 2013, total funds due from customers were virtually unchanged compared with the end of the previous year at CHF 11.1 billion.

High level of funds due to customers

Funds due to customers include savings and investment accounts, other amounts due to customers and long-term funds (medium-term notes, bonds and Pfandbrief bonds). As at 30 June 2013, the total was CHF 93.8 billion (CHF 94.2 billion as at 31 December 2012).

Good liquidity cushion

Zürcher Kantonalbank has very high liquidity. Cash consisted predominantly of current account balances with the Swiss National Bank and totalled CHF 28.0 billion at the mid-point of 2013 (CHF 26.1 billion as at 31 December 2012).

Funds due from banks as at 30 June 2013 amounted to CHF 16.8 billion (CHF 17.2 billion as at 31 December 2012), while funds due to banks totalled CHF 32.9 billion (CHF 31.8 billion as at 31 December 2012). Funds due from banks were secured to a significant extent.

cluded in July 2013 following approval by the Competition Commission. In July 2013, Zürcher Kantonalbank also sold several bank premises that were no longer required.

Decline in trading portfolio

The trading portfolio of securities and precious metals stood at CHF 12.5 billion as at 30 June 2013, a decline of CHF 2.0 billion compared with the end of financial year 2012. Precious metals amounted to CHF 1.8 billion at the mid-point of the year (CHF 2.1 billion at the end of 2012). As at 30 June 2013, positive replacement values of derivative instruments booked in the other assets item amounted to CHF 7.5 billion (CHF 8.6 billion as at the end of 2012) and negative replacement values of derivative instruments booked in other liabilities to CHF 12.7 billion (CHF 14.5 billion as at the end of 2012) (before netting).

Capital adequacy disclosures

The capital adequacy disclosures in accordance with Basel III are posted separately on the internet at www.zkb.ch (see "Capital adequacy disclosures").

Outlook

Zürcher Kantonalbank is well equipped for the second half of the year thanks to its firm anchoring in the Greater Zurich area and diversification strategy. Despite the uncertain economic environment, Zürcher Kantonalbank expects to achieve a respectable result for 2013.

Events after the balance sheet date

On 10 June 2013, Zürcher Kantonalbank signed an agreement on the sale of its shareholding in Tertianum AG, Zurich, to Swiss Prime Site AG. The sale was con-

Group income statement

as at 30 June 2013

<i>in CHF million</i>	1st half 2013	1st half 2012	2nd half 2012	Change 2013/2012 in %
Interest and discount income	757	832	795	-9.1
Interest and dividend income from financial investments	38	55	38	-31.7
Interest expense	223	294	273	-24.2
Subtotal net interest income	571	593	561	-3.7
Commission income from lending activities	30	33	37	-8.8
Commission income from securities and investment transactions	246	233	234	5.7
Other commissions and fee income	41	43	44	-3.5
Commission expenses	38	40	48	-4.9
Subtotal net commission and fee income	279	269	267	4.0
Income from trading operations	202	225	154	-10.0
Income from sale of financial investments	0	7	7	-97.0
Participation income, total group	19	11	5	78.9
– of which from equity-consolidated participations	4	2	3	72.8
– of which from other non-consolidated participations	15	8	2	80.4
Real estate income	6	5	5	9.4
Other ordinary income	9	7	9	27.3
Other ordinary expenses	0	13	-11	-96.5
Subtotal other ordinary income	34	17	38	101.4
Operating income	1,087	1,103	1,019	-1.5
Personnel expenses	441	600 ¹	420	-26.4
Other operating expenses	190	202	195	-5.8
Subtotal operating expenses	631	801	615	-21.2
Gross profit	455	302	404	50.7
Depreciation and amortisation of fixed assets	43	49	51	-13.4
Allowances, provisions and losses	56	25	21	129.6
Subtotal	356	228	331	56.0
Extraordinary income	37	14	20	174.9
Extraordinary expenses				
Taxes	0	-0	-0	-
Group net income for first half	394	242	351	62.5
<i>Non-recurring personnel expense in relation to pension fund</i>		150		-100.0
Group net income from operations for first half	394	392	351	0.4

¹ Includes non-recurring expense of CHF 150 million for the pension fund of Zürcher Kantonalbank owing to the reduction in the technical interest rate.

Group balance sheet

before distribution of net profit, as at 30 June 2013

in CHF million	30.06.2013	31.12.2012	Change	Change in %
Assets				
Cash	28,042	26,056	1,986	7.6
Money market placements	25	37	-13	-34.4
Due from banks	16,799	17,185	-386	-2.2
Due from customers	11,133	11,182	-49	-0.4
Mortgages	68,660	67,371	1,289	1.9
Loans to customers	79,793	78,552	1,240	1.6
Securities and precious metals trading portfolios	12,500	14,532	-2,033	-14.0
Financial investments	3,468	3,659	-191	-5.2
Non-consolidated participations	199	203	-4	-1.9
Tangible fixed assets	690	670	20	3.0
Intangible assets	6	9	-3	-32.8
Accrued income and prepaid expenses	357	391	-34	-8.8
Other assets	7,940	9,399	-1,459	-15.5
Total assets	149,818	150,694	-876	-0.6
Total subordinated claims	348	387	-39	-10.1
Liabilities				
Due to banks	32,935	31,813	1,123	3.5
Due to customers in savings and investment accounts	43,965	44,455	-490	-1.1
Other amounts due to customers	35,433	36,450	-1,017	-2.8
Cash bonds	550	642	-91	-14.2
Bonds	8,267	7,558	710	9.4
Central mortgage institution loans	5,558	5,082	476	9.4
Funds due to customers	93,774	94,187	-413	-0.4
Accrued expenses and deferred income	377	294	82	28.0
Other liabilities	13,348	15,000	-1,652	-11.0
Allowances and provisions	581	617	-36	-5.8
Corporate capital	1,925	1,925		
Retained earnings	6,485	6,266	220	3.5
Group net income	394	594	-200	-33.7
Net equity	8,804	8,784	20	0.2
Total liabilities	149,818	150,694	-876	-0.6
Total subordinated liabilities	588	590	-2	-0.4
Off-balance-sheet transactions				
Contingent liabilities	4,779	4,551	228	5.0
Irrevocable commitments	7,196	7,632	-436	-5.7
Liabilities for calls on shares and other equities	118	119	-0	-0.3
Derivative instruments				
– positive replacement values	7,543	8,619	-1,076	-12.5
– negative replacement values	12,732	14,474	-1,742	-12.0
– contract volume	483,304	498,765	-15,461	-3.1
Fiduciary business	571	611	-40	-6.5

Contact us

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Should you require any further information about Zürcher Kantonalbank, the following offices will be pleased to assist.

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The half-yearly report in German is available in PDF form at www.zkb.ch/halbjahresbericht.

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