

Half-yearly Report

Half-yearly Report 2014 of Zürcher Kantonalbank



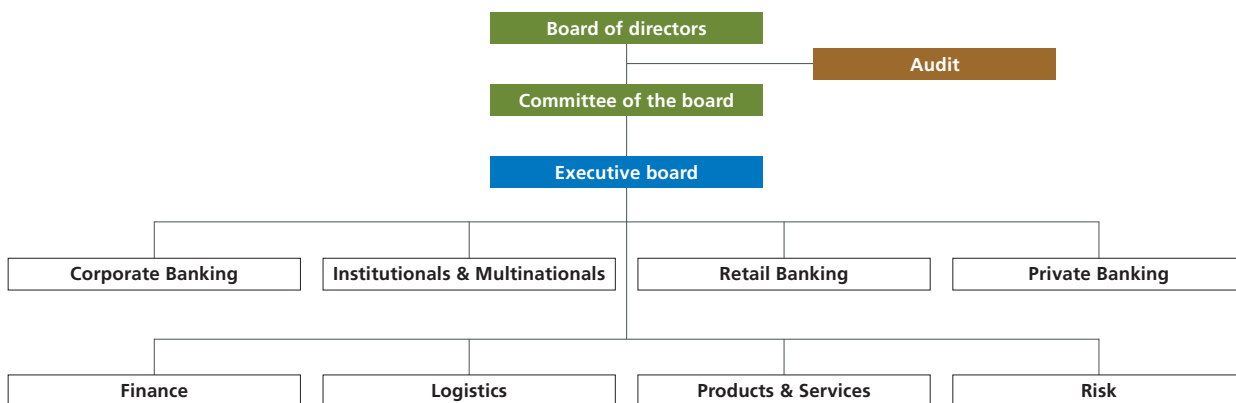
At a glance

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 around 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
- blank No data available

In figures (group)

Income statement	<i>in CHF million</i>	1st half 2014	1st half 2013	1st half 2012	Change 2014/2013 in %
Net interest income		539	571	593	-5,6
Net commission and fee income		277	279	269	-0,8
Income from trading operations		153	202	225	-24,5
Other ordinary income		20	34	17	-40,4
Operating income		989	1'087	1'103	-8,9
Operating expenses		602	631	651 ¹	-4,7
Gross profit		388	455	452 ¹	-14,8
Depreciation and amortisation of fixed assets		42	43	49	-0,4
Allowances, provisions and losses		51	56	25	-9,2
Extraordinary income		42	37	14	13,1
Taxes		0	0	-0	46,2
Group net income		336	394	392 ¹	-14,6
Balance sheet (before distribution of net profit)	<i>in CHF million</i>	30.06.2014	31.12.2013	31.12.2012	
Total assets		154'824	149'707	150'694	3,4
Loans to customers		83'134	80'421	78'552	3,4
– of which mortgages		70'347	69'658	67'371	1,0
Funds due to customers		96'980	95'869	94'187	1,2
– of which savings and investment accounts		44'396	43'992	44'455	0,9
Allowances and provisions		697	688	617	1,3
Net equity		9'176	9'208	8'784	-0,3
Key figures	<i>in %</i>	1st half 2014	1st half 2013	1st half 2012	
Return on equity (ROE)		7,5	9,2	9,5 ¹	
Cost/income ratio (CIR)		65,1	62,0	63,5 ¹	
Common equity Tier 1 ratio (CET1)		14,9	13,9	–	
Core capital ratio (Tier 1) ²		15,9	14,9	14,2	
Total capital ratio		15,9	14,9	–	
Assets under management	<i>in CHF million</i>	30.06.2014	31.12.2013⁴	31.12.2012⁴	
Total assets under management		196'016	192'045	191'795	2,1
Net new money (NNM) ³		-1'497	838	644	
Personnel/banking outlets	<i>Number</i>	30.06.2014	31.12.2013	31.12.2012	
Headcount after adjustment for part-time employees, as at 30 June		4'844	4'818	5'068	0,5
Banking outlets ⁵		97	97	99	
Rating agencies	<i>Rating</i>	30.06.2014	31.12.2013	31.12.2012	
Fitch		AAA	AAA	AAA	
Moody's		Aaa	Aaa	Aaa	
Standard & Poor's		AAA	AAA	AAA	
Scope of consolidation	<i>Share in %</i>	30.06.2014	31.12.2013	31.12.2012	
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 2014 and 2013 in accordance with Basel III; 2012 in accordance with Basel 2.5.

³ First half of the year.

⁴ Figures for previous year are restated following a change in business partner segmentation.

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

Business performance

The broad-based income structure led to a solid first-half result.

Zürcher Kantonalbank achieved a group net income of CHF 336 million in the first half of 2014 (first half of 2013: CHF 394 million). The continued, very low level of interest rates resulted in falling interest income, while limited market volatility led to lower trading income. Despite cost savings, the lower income could not be fully offset.

The return on equity was 7.5 percent (first half of 2013: 9.2 percent). The cost/income ratio (operating expenses and depreciation on fixed assets as a percentage of operating income) amounted to 65.1 percent (first half of 2013: 62.0 percent).

Amended Law on Zürcher Kantonalbank

By passing the amended Law on Zürcher Kantonalbank on 26 May 2014, the cantonal parliament of Zurich created clarity and certainty about the bank's direction. The cantonal parliament endorsed Zürcher Kantonalbank's business model as a full-service bank operating primarily in the Greater Zurich area. This continues to allow the bank to pursue business activities both in Switzerland and abroad. The bank's existing organisational structure – comprising its board of directors, committee of the board, executive board and auditors – is retained.

Strengthening of the equity base

With a Tier 1 core capital ratio of 15.9 percent, Zürcher Kantonalbank continues to have a very solid equity base. Mid-April 2014 the cantonal parliament approved an increase in the endowment capital ceiling of CHF 500 million, thus putting the authority and responsibility for a further strengthening of equity in the hands of the board of directors. Together with the still unused portion of CHF 575 million, this gives a capital buffer of

CHF 1,075 million and enables the bank to raise its Tier 1 core capital ratio by around 1.9 percentage points if required.

Compared with the mid-point of 2013, the bank was able to improve its total capital ratio by 1.0 percentage point to 15.9 percent. This was mainly thanks to retained earnings from the 2013 financial year. The regulatory requirements state that Zürcher Kantonalbank must have a total capital ratio of 13.7 percent – including the increased countercyclical buffer – from 30 June 2014.

Top marks from the rating agencies

Zürcher Kantonalbank remains one of the few banks in the world to be awarded 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 as well as a solid equity and liquidity base.

Realigned organizational structure

Effective 1 October 2014, Zürcher Kantonalbank is introducing a new organisational structure. The Products & Services business unit will be extended to include Direct Banking, while responsibility for the provision of personal service and support to private customers will be brought together in the Private Banking business unit. The bank is therefore addressing the ongoing digitalisation of the banking industry, and by bringing together the "high-net-worth individuals" and "private banking customers" distribution units is focused on delivering maximum continuity in terms of customer service and support.

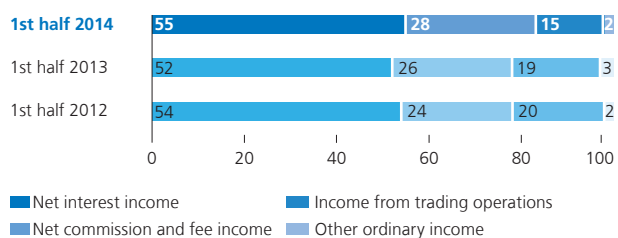
Increase in assets under management

Assets under management were increased by CHF 4.0 billion in the first half of 2014 to CHF 196.0 billion.

Broad-based income structure

Operating income declined by CHF 97 million in the first half of 2014 compared with the first six months of 2013 to CHF 989 million, primarily due to lower income from trading and interest operations. With a share of 55 percent, net interest income remained the bank's biggest income stream. Commission and fee business (28 percent) and trading operations (15 percent) contributed to the healthy diversification of operating income.

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



Interest operations under pressure

Interest operations continued to come under heavy pressure due to the low level of interest rates. Net interest income amounted to CHF 539 million in the first half of 2014 (first half of 2013: CHF 571 million). Compared with the second half of 2013, however, the decline amounted to only CHF 7 million.

High level of commission and fees

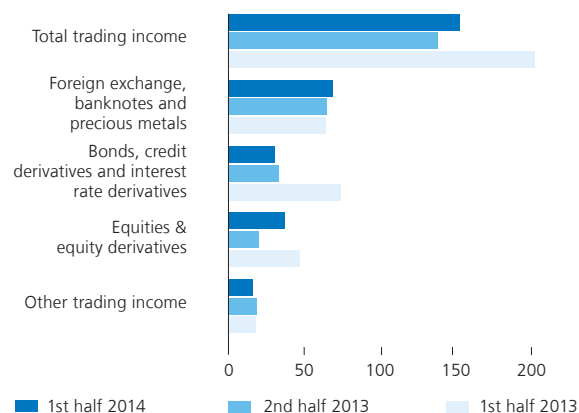
In the commission and fee business, the bank generated CHF 277 million and was able to maintain a high level of income in the first six months of the year under review (first half of 2013: CHF 279 million; second half of 2013: CHF 271 million). At CHF 239 million, the biggest share of commission and fee income comes from the securities and investment business.

Reduced income from trading operations

The trading activities of Zürcher Kantonalbank are based on a clear customer focus. The caution displayed by customers due to limited market volatility is reflected in a lower trading income of CHF 153 million compared with CHF 202 million in the first half of 2013 (second half of 2013: CHF 138 million).

At an average of CHF 14 million, market risks in the trading book (value-at-risk with a 10-day holding period) were at a very low level (average for first half of 2013: CHF 18 million).

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

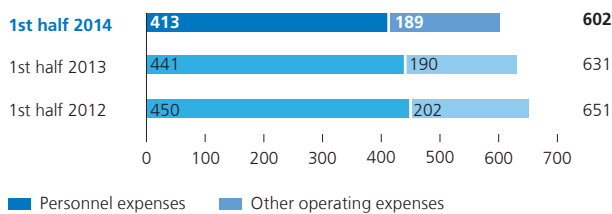


Decline in operating expenses

Operating expenses were reduced by 4.7 percent year-on-year in the first half of 2014 to CHF 602 million. Savings in relation to the first half of 2013 arose primarily in personnel expenses; this was as a result of lower variable salary costs following the decline in net profit, together with a cautious recruitment policy.

As at 30 June 2014, headcount stood at 4,844 on a full-time-equivalent basis, 1.8 percent less than at the mid-point of 2013.

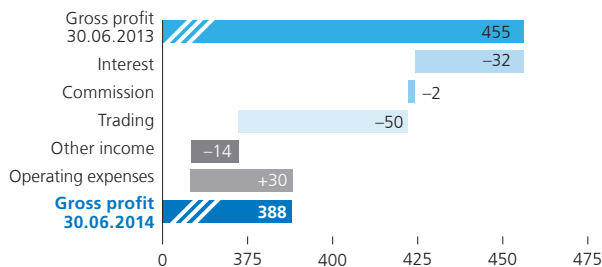
Fig. 3: Development of operating expenses (in CHF million)



Lower gross profit

The fall in income was more marked than the savings in operating expenses. Gross profit for the first half of the year therefore declined by CHF 68 million compared with the first six months of 2013 to CHF 388 million.

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



Allowances and provisions

Zürcher Kantonalbank assesses default risks as well as all other identifiable risks on a constant basis. Where necessary, the bank creates corresponding allowances and provisions. At CHF 51 million, the amount set aside for allowances, provisions and losses in the first half of 2014 was on a similar level to that of the first six months of the previous year (CHF 56 million). In addition, the reversal of allowances and provisions not required, property sales, together with the reversal of impairment on participations, resulted in extraordinary income of CHF 42 million (first half of 2013: CHF 37 million).

Depreciation and amortisation of fixed assets remained stable at CHF 42 million (first half of 2013: CHF 43 million).

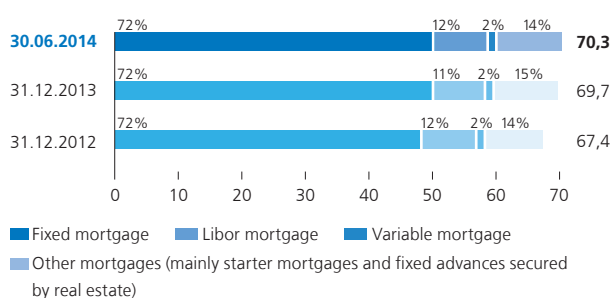
Total assets exceed CHF 150 billion

At CHF 154.8 billion as at 30 June 2014, total assets were around 3.4 percent higher compared with 31 December 2013. Funds due from customers increased by CHF 2.0 billion in the first half of 2014 to CHF 12.8 billion. The largest item on the asset side comprised mortgages of CHF 70.3 billion, while on the liabilities side it was customer deposits in savings and investment accounts of CHF 44.4 billion and other amounts due to customers of CHF 37.5 billion.

Slight growth in mortgages

The total volume of mortgages grew by CHF 0.7 billion, or 1.0 percent, in the first six months of 2014 (first half of 2013: 1.9 percent) to CHF 70.3 billion. Zürcher Kantonalbank pays the utmost attention to the quality of loans, even if that means below-average growth as at the present time. Nearly three quarters of the total volume of mortgages comprised fixed 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 end of June 2014, total funds due from customers amounted to CHF 12.8 billion (31 December 2013: CHF 10.8 billion).

Growth in customer deposits

Funds due to customers include savings and investment accounts, other amounts due to customers and long-term funds (medium-term notes, bonds and central mortgage institution loans). These items totalled CHF 97.0 billion at the mid-point of 2014, an increase of CHF 1.1 billion compared with the end of 2013.

High liquidity

Cash totalled CHF 30.5 billion at the mid-point of 2014 (31 December 2013: CHF 29.5 billion). The bank addressed the impending, stricter liquidity rules and holds a significant buffer of liquid assets; as at 30 June 2014, this mainly consisted of non-interest-bearing deposits with the Swiss National Bank.

Total funds due from banks as at 30 June 2014 were more or less stable at CHF 14.9 billion (end 2013: CHF 14.6 billion). Funds due from banks were secured to a significant extent. Funds due to banks amounted to CHF 34.7 billion (31 December 2013: CHF 31.8 billion).

Trading portfolio unchanged

The trading portfolio of securities and precious metals stood at CHF 13.3 billion as at 30 June 2014, unchanged compared with the end of the previous year.

Capital adequacy disclosures

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

Outlook

Zürcher Kantonalbank's strengths lie in its broadly diversified business model and the bank's proximity to its customers. Zürcher Kantonalbank expects the market environment to remain challenging in the second half of 2014. The bank's result for 2014 will probably be below that of the previous year.

Group income statement

as at 30 June 2014

<i>in CHF million</i>	1st half 2014	1st half 2013	2nd half 2013	Change 2014/2013 in %
Interest and discount income	729	757	734	-3,6
Interest and dividend income from financial investments	35	38	34	-8,0
Interest expense	224	223	222	0,5
Subtotal net interest income	539	571	546	-5,6
Commission income from lending activities	28	30	30	-8,5
Commission income from securities and investment transactions	239	246	243	-3,1
Other commissions and fee income	47	41	44	14,4
Commission expenses	36	38	45	-5,5
Subtotal net commission and fee income	277	279	271	-0,8
Income from trading operations	153	202	138	-24,5
Income from sale of financial investments	0	0	56	131,6
Participation income, total group	8	19	7	-58,4
– of which from equity-consolidated participations	1	4	5	-66,9
– of which from other non-consolidated participations	7	15	2	-56,4
Real estate income	4	6	5	-34,0
Other ordinary income	9	9	10	-7,6
Other ordinary expenses	1	0	1	49,6
Subtotal other ordinary income	20	34	76	-40,4
Operating income	989	1'087	1'031	-8,9
Personnel expenses	413	441	410	-6,4
Other operating expenses	189	190	200	-0,7
Subtotal operating expenses	602	631	610	-4,7
Gross profit	388	455	422	-14,8
Depreciation and amortisation of fixed assets	42	43	45	-0,4
Allowances, provisions and losses	51	56	153	-9,2
Subtotal	294	356	224	-17,5
Extraordinary income	42	37	180	13,3
Extraordinary expenses	0		0	-
Taxes	0	0	0	46,2
Group net income for first half	336	394	404	-14,6

Group balance sheet

before distribution of net profit, as at 30 June 2014

<i>in CHF million</i>	30.06.2014	31.12.2013	Change	Change in %
Assets				
Cash	30'530	29'530	1'000	3,4
Money market placements	17	23	-6	-27,2
Due from banks	14'936	14'612	324	2,2
Due from customers	12'788	10'764	2'024	18,8
Mortgages	70'347	69'658	689	1,0
Loans to customers	83'134	80'421	2'713	3,4
Securities and precious metals trading portfolios	13'324	13'284	41	0,3
Financial investments	4'139	3'768	370	9,8
Non-consolidated participations	164	161	2	1,4
Tangible fixed assets	715	698	17	2,4
Intangible assets	3	5	-2	-39,9
Accrued income and prepaid expenses	436	338	98	29,1
Other assets	7'426	6'866	561	8,2
Total assets	154'824	149'707	5'117	3,4
Total subordinated claims	388	309	80	25,9
Liabilities				
Due to banks	34'716	31'788	2'929	9,2
Due to customers in savings and investment accounts	44'396	43'992	404	0,9
Other amounts due to customers	37'514	37'101	413	1,1
Cash bonds	416	460	-44	-9,6
Bonds	7'832	8'104	-272	-3,4
Central mortgage institution loans	6'823	6'212	611	9,8
Funds due to customers	96'980	95'869	1'111	1,2
Accrued expenses and deferred income	466	284	181	63,6
Other liabilities	12'789	11'869	919	7,7
Allowances and provisions	697	688	9	1,3
Corporate capital	1'925	1'925		
Profit reserves	6'915	6'485	430	6,6
Group net income	336	797	-461	-57,8
Net equity	9'176	9'208	-31	-0,3
Total liabilities	154'824	149'707	5'117	3,4
Total subordinated liabilities	590	589	1	0,2
Off-balance-sheet transactions				
Contingent liabilities	3'939	4'727	-789	-16,7
Irrevocable commitments	6'828	6'869	-42	-0,6
Liabilities for calls on shares and other equities	118	118	-0	-0,0
Derivative instruments				
– positive replacement values	6'940	6'511	429	6,6
– negative replacement values	12'121	11'423	697	6,1
– contract volume	465'673	465'217	456	0,1
Fiduciary business	230	484	-254	-52,6

Contact us

Information

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 at www.zkb.ch/halbjahresbericht.

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