

# Half-yearly Report

for the 2015 financial year



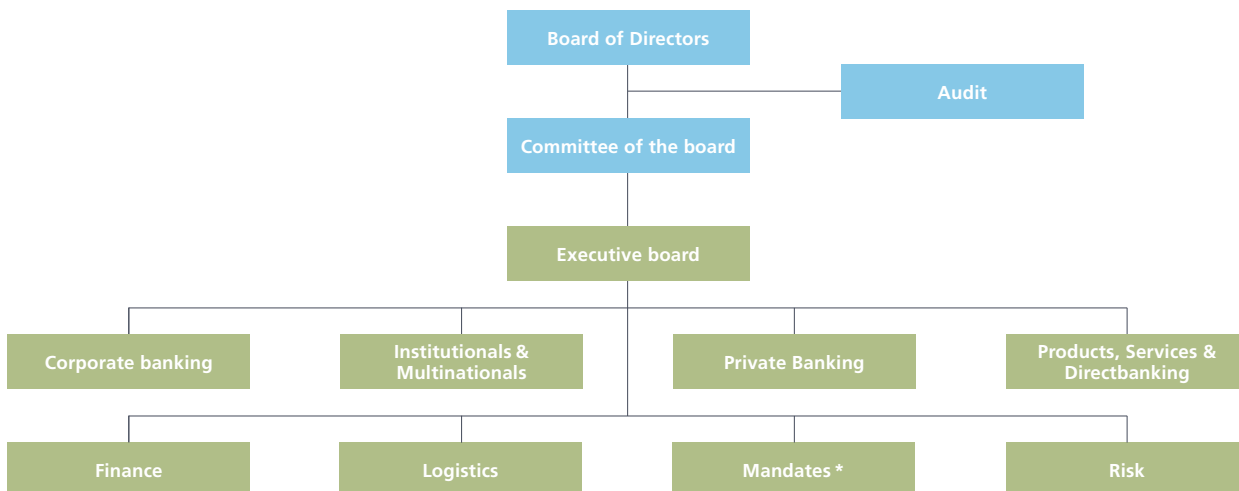
# At a glance

## About us

Zürcher Kantonalbank is wholly owned by the canton of Zurich. It benefits from a state guarantee and fulfils a statutory public service mandate that entails providing financial services for the public and assisting the canton in the economic, social and environmental arenas. This mandate requires the bank to be responsible in its use of natural resources and to ensure that

its actions comply with the demands of social and environmental sustainability.

As a full-service bank with a strong regional anchoring as well as national and international links, Zürcher Kantonalbank has a leading position in the Greater Zurich area. It has a market penetration of around 50 percent in retail as well as corporate banking.



\* dissolved effective 1 July 2015

## 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:

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## In figures (group)

| Income statement   | <i>in CHF million</i> | 1st half 2015 <sup>1</sup> | 1st half 2014           | 1st half 2013           | Change<br>2015/2014 in % |
|--|-----------------------|----------------------------|-------------------------|-------------------------|--------------------------|
| Net interest income  |                       | 549                        | 539                     | 571                     | 1.7                      |
| Net commission and fee income                              |                       | 318                        | 277                     | 279                     | 14.5                     |
| Income from trading operations                             |                       | 213                        | 153                     | 202                     | 39.2                     |
| Other ordinary income                                      |                       | 22                         | 20                      | 34                      | 8.7                      |
| Operating income   |                       | 1,101                      | 989                     | 1,087                   | 11.2                     |
| Operating expenses   |                       | 681                        | 602                     | 631                     | 13.1                     |
| Gross profit   |                       | 420                        | 388                     | 455                     | 8.3                      |
| Depreciation and amortisation of fixed assets              |                       | 49                         | 42                      | 43                      | 16.5                     |
| Allowances, provisions and losses                          |                       | 6                          | 51                      | 56                      | -88.1                    |
| Extraordinary income                                       |                       | 36                         | 42                      | 37                      | -15.5                    |
| Taxes  |                       | 7                          | 0                       | 0                       | -                        |
| Group net income   |                       | 393                        | 336                     | 394                     | 16.9                     |
| <b>Balance sheet (before distribution of net profit)</b>   | <i>in CHF million</i> | 30.06.2015 <sup>1</sup>    | 31.12.2014              | 31.12.2013              |                          |
| Total assets   |                       | 161,819                    | 158,392                 | 149,707                 | 2.2                      |
| Loans to customers   |                       | 88,829                     | 86,408                  | 80,421                  | 2.8                      |
| – of which mortgages                                       |                       | 72,370                     | 71,389                  | 69,658                  | 1.4                      |
| Funds due to customers                                     |                       | 99,895                     | 97,808                  | 95,869                  | 2.1                      |
| – of which savings and investment accounts                 |                       | 46,031                     | 45,624                  | 43,992                  | 0.9                      |
| Allowances and provisions                                  |                       | 702                        | 721                     | 688                     | -2.7                     |
| Net equity   |                       | 10,139                     | 9,487                   | 9,208                   | 6.9                      |
| <b>Key figures</b>   | <i>in %</i>           | 1st half 2015 <sup>1</sup> | 1st half 2014           | 1st half 2013           |                          |
| Return on equity (ROE)                                     |                       | 8.3                        | 7.5                     | 9.2                     |                          |
| Cost/income ratio (CIR)                                    |                       | 66.3                       | 65.1                    | 62.0                    |                          |
| Common equity Tier 1 ratio (CET1)                          |                       | 16.1                       | 14.9                    | 13.9                    |                          |
| Core capital ratio (Tier 1)                                |                       | 17.1                       | 15.9                    | 14.9                    |                          |
| Total capital ratio  |                       | 18.2                       | 15.9                    | 14.9                    |                          |
| Liquidity coverage ratio (LCR) <sup>2</sup>                |                       | 124.0                      | -                       | -                       |                          |
| <b>Assets under management</b>                             | <i>in CHF million</i> | 30.06.2015 <sup>1</sup>    | 31.12.2014 <sup>3</sup> | 31.12.2013 <sup>3</sup> |                          |
| Total assets under management                              |                       | 262,074                    | 198,686                 | 191,942                 | 31.9                     |
| Net new money (NNM) <sup>4</sup>                           |                       | 2,525                      | -1,654                  | 874                     |                          |
| <b>Personnel/banking outlets</b>                           | <i>Number</i>         | 30.06.2015 <sup>1</sup>    | 31.12.2014              | 31.12.2013              |                          |
| Headcount on full-time-equivalent basis, as at 31 December |                       | 5,184                      | 4,844                   | 4,818                   | 7.0                      |
| Banking outlets <sup>5</sup>                               |                       | 97                         | 97                      | 97                      |                          |
| <b>Rating agencies</b>                                     | <i>Rating</i>         | 30.06.2015                 | 31.12.2014              | 31.12.2013              |                          |
| Fitch  |                       | AAA                        | AAA                     | AAA                     |                          |
| Moody's  |                       | Aaa                        | Aaa                     | Aaa                     |                          |
| Standard & Poor's  |                       | AAA                        | AAA                     | AAA                     |                          |
| <b>Scope of consolidation</b>                              | <i>Share in %</i>     | 30.06.2015                 | 31.12.2014              | 31.12.2013              |                          |
| Balfidior Holding AG <sup>6</sup>                          |                       |                            | 100                     | 100                     |                          |
| Swisscanto Holding AG                                      |                       | 100                        |                         |                         |                          |
| Zürcher Kantonalbank Finance (Guernsey) Ltd.               |                       | 100                        | 100                     | 100                     |                          |
| Zürcher Kantonalbank Österreich AG                         |                       | 100                        | 100                     | 100                     |                          |

<sup>1</sup> Includes Swisscanto Holding AG from 1 April 2015.

<sup>2</sup> Monthly averages for second-quarter 2015.

<sup>3</sup> Restated following a change in the segmentation of business partners as well as deposits.

<sup>4</sup> First half of the year.

<sup>5</sup> Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as five automated banks.

<sup>6</sup> Balfidior Holding AG was merged with Swisscanto Holding AG effective 4 June 2015.

# Business performance

Thanks to a broad-based income structure, a pleasing result was achieved for the first half of the year. This was mainly due to a positive trend in commission and fees as well as trading operations.

Zürcher Kantonalbank achieved a solid group net income of CHF 393 million in the first half of 2015. The first-half result was 16.9 percent higher than the figure for the first six months of 2014. In particular, there was a significant increase in net commission and fee income as well as income from trading operations. The return on equity was 8.3 percent (first half of 2014: 7.5 percent). The cost/income ratio (operating expenses and depreciation on fixed assets as a percentage of operating income) amounted to 66.3 percent (first half of 2014: 65.1 percent).

## Significant acquisition

After all requisite approvals had been granted by the Swiss and foreign authorities, the acquisition – announced in December 2014 – of Swisscanto Holding AG by Zürcher Kantonalbank was concluded on 25 March 2015 and ownership transferred on schedule. Swisscanto Holding AG has been consolidated by Zürcher Kantonalbank since 1 April 2015, and is accordingly included in the first-half 2015 results for a three-month period.

The purchase of Swisscanto Holding AG made Zürcher Kantonalbank the third largest investment fund provider in Switzerland, offering a comprehensive array of high-quality product and services under the well-known Swisscanto label. The bank's own funds as well as the occupational pensions business and the Swisscanto Foundations will continue to operate under the familiar Swisscanto name.

## Strengthening of the equity base

Two Tier 2 bonds amounting to CHF 185 million and EUR 500 million respectively were issued in the first half of 2015. The endowment capital was increased by CHF 500 million to CHF 2,425 million as at 30 June 2015.

A CHF 575 million portion of the endowment capital ceiling of CHF 3,000 million set by the cantonal parliament therefore remains unused. If necessary, the board of directors can also call upon the remaining CHF 575 million of the endowment capital; this would strengthen the core capital ratio by 1.0 percentage points, all else being equal. Together with retained earnings of CHF 367 million from the 2014 financial year, this gives a total capital ratio of 18.2 percent as at mid-2015. The bank therefore has a very solid equity base.

In accordance with the regulatory requirements, Zürcher Kantonalbank must have a total capital ratio of 14.7 percent – including the countercyclical buffer – as at 30 June 2015 (at group and parent company level).

Compared with 30 June 2014, the total capital ratio increased by 2.3 percentage points.

## Top marks from the rating agencies

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

## Increase in assets under management

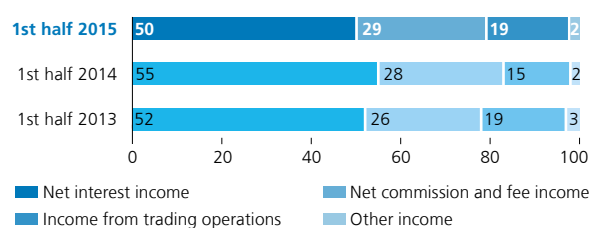
Assets under management grew by CHF 63.4 billion to CHF 262.1 billion in the first half of 2015. The lion's share of the increase stems from the acquisition of Swisscanto Holding AG. The bank achieved a net inflow of new money of CHF 2.5 billion in the first six months of 2015.

### Improved income structure

Operating income increased by a significant CHF 111 million year-on-year in the first six months of 2015 to CHF 1,101 million thanks to organic growth as well as the acquisition of Swisscanto Holding AG.

Net commission and fee income grew particularly strongly (29 percent). Net interest income remains the bank's biggest income stream with a share of 50 percent. Trading operations also made a positive contribution to operating income (19 percent).

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



### Introduction of negative interest rates

The introduction of negative interest rates by the Swiss National Bank has been and will continue to be a major challenge in the future too. Due to prudent operations, growth in customer lending and lower hedging costs, interest income showed a slight increase in the first half of 2015 to CHF 549 million (+CHF 9 million year-on-year).

### Increase in commission and fees

The bank generated net commission and fee income of CHF 318 million (first half of 2014: CHF 277 million). The importance of this income stream increased further thanks to the acquisition of Swisscanto Holding AG. At CHF 309 million, the biggest share of commission

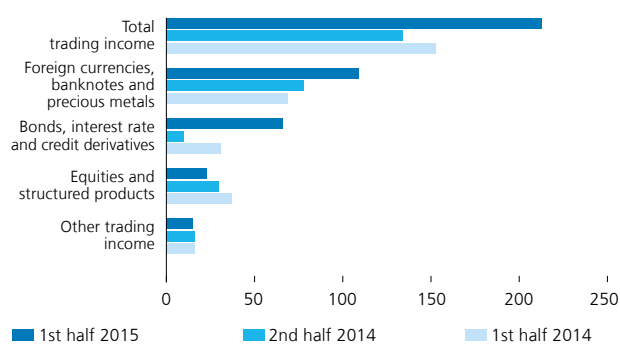
and fee income comes from the securities and investment business.

### Pleasant rise in trading income

The trading activities of Zürcher Kantonalbank are based on a clear customer focus. In a volatile and challenging market environment, particularly for interest rates and currencies, income rose significantly to CHF 213 million (first half of 2014: CHF 153 million).

Market risks in the trading book (value-at-risk with a 10-day holding period) were low at an average level of CHF 20 million (average in the first half of 2014: CHF 14 million).

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



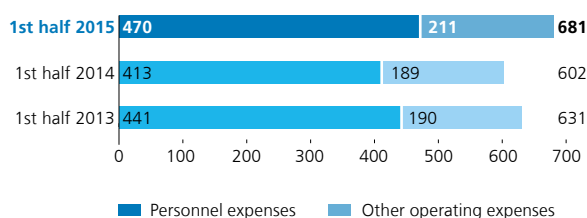
### Higher operating expenses

Operating expenses totalled CHF 681 million in the first half of 2015, representing a year-on-year increase of CHF 79 million.

This was primarily due to the integration of Swisscanto Holding AG. In addition, the state guarantee has been compensated since 1 January 2015. This is charged to operating expenses and amounted to over CHF 10 million in the first six months.

As at 30 June 2015, headcount on a full-time-equivalent basis stood at 5,184 (mid-2014: 4,844).

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

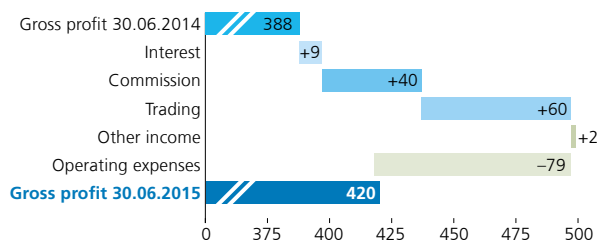


### Higher gross profit

At CHF 111 million, the growth in income was greater than the rise in operating expenses (CHF 79 million).

Gross profit for the first half of 2015 therefore increased by CHF 32 million compared with the first six months of 2014 to CHF 420 million.

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



### Allowances and provisions

The Zürcher Kantonalbank assesses default risks as well as other identifiable risks on a constant basis, where necessary creating corresponding allowances and provisions. Expenses for allowances, provisions and losses were very low in the first half of 2015 at CHF 6 million (first half of 2014: CHF 51 million).

Depreciation and amortisation of fixed assets amounted to CHF 49 million (first half of 2014: CHF 42 million). The increased writedown requirement was due to higher ordinary goodwill amortisation.

Extraordinary income amounted to CHF 36 million in the first six months of 2015 (first half of 2014: CHF 42 million); this was mainly due to property sales, together with the reversal of impairment on participations.

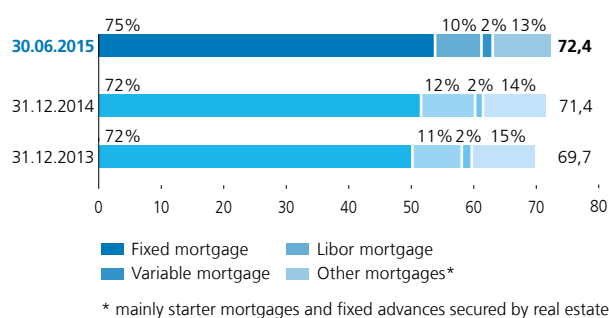
### Total assets of CHF 162 billion

At CHF 161.8 billion as at 30 June 2015, total assets were around 2.2 percent higher compared with 31 December 2014. Mortgages constituted the biggest item on the asset side at CHF 72.4 billion. The largest items on the liabilities side were customer deposits in savings and investment accounts at CHF 46.0 billion and other amounts due to customers at CHF 38.7 billion.

### Modest growth in mortgages

The total volume of mortgages amounted to CHF 72.4 billion in mid-2015. The growth of CHF 1.0 billion in the first six months of 2015 was slightly higher than the figure for the first half of 2014 (CHF 0.7 billion). Zürcher Kantonalbank continues to pay the utmost attention to the quality of loans. Three quarters of the total volume of mortgages comprised fixed mortgages.

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



At CHF 16.5 billion in mid-2015, funds due from customers were CHF 1.4 billion higher compared with the end of 2014. Much of the increase was due to repo transactions.

### Growth in funds due to customers

Funds due to customers comprise savings and investment accounts, other amounts due to customers and long-term funds (cash bonds, bonds and central mortgage institution loans).

CHF 99.9 billion was entrusted to Zürcher Kantonalbank in the form of funds due to customers as at 30 June 2015. This represents an additional inflow of CHF 2.1 billion since the end of 2014.

### High liquidity

Cash consisted predominantly of deposits with the Swiss National Bank and totalled CHF 29.2 billion at the mid-year point (31 December 2014: CHF 27.1 billion). These deposits serve to meet the particularly high liquidity rules applicable to Zürcher Kantonalbank, as a systemically important bank.

Funds due from banks amounted to CHF 16.2 billion as at 30 June 2015 (end of 2014: CHF 16.3 billion). Funds due from banks were secured to a significant extent. Funds due to banks amounted to CHF 33.8 billion (31 December 2014: CHF 33.9 billion). These are used mainly for short and medium-term liquidity procurement.

### Stable trading portfolio

The trading portfolio of securities and precious metals stood at CHF 10.1 billion as at 30 June 2015 (end of previous year: CHF 11.4 billion).

### Capital adequacy and liquidity disclosures

The capital adequacy and liquidity disclosures are posted separately on the internet at [www.zkb.ch](http://www.zkb.ch).

### Outlook

Zürcher Kantonalbank's strengths lie in its broadly diversified business model, which has been reinforced by the acquisition of Swisscanto, as well as the bank's proximity to its customers. The uncertainty on international markets is set to continue in the second half of the year. The impact of the strong Swiss franc on the country's economy and the interest-rate situation also need to be kept under close watch.

Unless the economy deteriorates further, Zürcher Kantonalbank nevertheless expects to achieve a respectable result for 2015.

# Group income statement

as at 30 June 2015

| <i>in CHF million</i>   | 1st half 2015 <sup>1</sup> | 1st half 2014 | 2nd half 2014 | Change<br>2015/2014 in % |
|---|----------------------------|---------------|---------------|--------------------------|
| Interest and discount income                                  | 678                        | 729           | 719           | -7.0                     |
| Interest and dividend income from financial investments       | 33                         | 35            | 38            | -6.1                     |
| Interest expense  | 162                        | 224           | 226           | -27.8                    |
| <b>Subtotal net interest income</b>                           | <b>549</b>                 | <b>539</b>    | <b>531</b>    | <b>1.7</b>               |
| Commission income from lending activities                     | 24                         | 28            | 30            | -14.0                    |
| Commission income from securities and investment transactions | 309                        | 239           | 226           | 29.7                     |
| Other commissions and fee income                              | 56                         | 47            | 43            | 18.4                     |
| Commission expenses   | 71                         | 36            | 46            | 98.7                     |
| <b>Subtotal net commission and fee income</b>                 | <b>318</b>                 | <b>277</b>    | <b>254</b>    | <b>14.5</b>              |
| <b>Income from trading operations</b>                         | <b>213</b>                 | <b>153</b>    | <b>134</b>    | <b>39.2</b>              |
| Income from sale of financial investments                     | 3                          | 0             | 2             | -                        |
| Participation income, total group                             | 13                         | 8             | 13            | 70.7                     |
| – of which from equity-consolidated participations            | 2                          | 1             | 9             | 53.0                     |
| – of which from other non-consolidated participations         | 12                         | 7             | 4             | 73.9                     |
| Real estate income  | 3                          | 4             | 4             | -8.1                     |
| Other ordinary income   | 7                          | 9             | 9             | -21.3                    |
| Other ordinary expenses                                       | 5                          | 1             | 2             | -                        |
| <b>Subtotal other ordinary income</b>                         | <b>22</b>                  | <b>20</b>     | <b>27</b>     | <b>8.7</b>               |
| <b>Operating income</b>                                       | <b>1,101</b>               | <b>989</b>    | <b>946</b>    | <b>11.2</b>              |
| Personnel expenses  | 470                        | 413           | 403           | 13.7                     |
| Other operating expenses                                      | 211                        | 189           | 195           | 11.8                     |
| <b>Subtotal operating expenses</b>                            | <b>681</b>                 | <b>602</b>    | <b>598</b>    | <b>13.1</b>              |
| <b>Gross profit</b>   | <b>420</b>                 | <b>388</b>    | <b>347</b>    | <b>8.3</b>               |
| Depreciation and amortisation of fixed assets                 | 49                         | 42            | 50            | 16.5                     |
| Allowances, provisions and losses                             | 6                          | 51            | 8             | -88.1                    |
| <b>Subtotal</b>   | <b>365</b>                 | <b>294</b>    | <b>288</b>    | <b>23.9</b>              |
| Extraordinary income  | 36                         | 42            | 24            | -15.4                    |
| Extraordinary expenses  | 0                          | 0             | 1             | 65.5                     |
| Taxes   | 7                          | 0             | 0             | -                        |
| <b>Group net income</b>                                       | <b>393</b>                 | <b>336</b>    | <b>311</b>    | <b>16.9</b>              |

<sup>1</sup> Includes Swisscanto Holding AG from 1 April 2015.



# Group balance sheet

before distribution of net profit, as at 30 June 2015

| in CHF million                                      | 30.06.2015 <sup>1</sup> | 31.12.2014     | Change       | Change<br>in % |
|---|-------------------------|----------------|--------------|----------------|
| <b>Assets</b>                                       |                         |                |              |                |
| Cash  | 29,182                  | 27,064         | 2,119        | 7.8            |
| Money market placements                             | 3                       | 5              | -2           | -34.3          |
| Due from banks                                      | 16,162                  | 16,302         | -140         | -0.9           |
| Due from customers                                  | 16,459                  | 15,019         | 1,441        | 9.6            |
| Mortgages   | 72,370                  | 71,389         | 981          | 1.4            |
| <b>Loans to customers</b>                           | <b>88,829</b>           | <b>86,408</b>  | <b>2,422</b> | <b>2.8</b>     |
| Securities and precious metals trading portfolios   | 10,058                  | 11,394         | -1,336       | -11.7          |
| Financial investments                               | 3,933                   | 4,027          | -94          | -2.3           |
| Non-consolidated participations                     | 148                     | 163            | -15          | -9.3           |
| Tangible fixed assets                               | 755                     | 723            | 31           | 4.3            |
| Intangible assets                                   | 174                     | 1              | 173          | -              |
| Accrued income and prepaid expenses                 | 369                     | 303            | 66           | 21.9           |
| Other assets  | 12,205                  | 12,003         | 203          | 1.7            |
| <b>Total assets</b>                                 | <b>161,819</b>          | <b>158,392</b> | <b>3,427</b> | <b>2.2</b>     |
| Total subordinated claims                           | 273                     | 299            | -26          | -8.8           |
| <b>Liabilities</b>                                  |                         |                |              |                |
| Due to banks  | 33,812                  | 33,870         | -58          | -0.2           |
| Due to customers in savings and investment accounts | 46,031                  | 45,624         | 406          | 0.9            |
| Other amounts due to customers                      | 38,703                  | 37,021         | 1,682        | 4.5            |
| Cash bonds  | 312                     | 381            | -69          | -18.2          |
| Bonds   | 7,438                   | 7,817          | -379         | -4.8           |
| Central mortgage institution loans                  | 7,411                   | 6,964          | 447          | 6.4            |
| <b>Funds due to customers</b>                       | <b>99,895</b>           | <b>97,808</b>  | <b>2,087</b> | <b>2.1</b>     |
| Accrued expenses and deferred income                | 544                     | 265            | 279          | 105.3          |
| Other liabilities                                   | 16,727                  | 16,242         | 485          | 3.0            |
| Allowances and provisions                           | 702                     | 721            | -19          | -2.7           |
| Corporate capital                                   | 2,425                   | 1,925          | 500          | 26.0           |
| Profit reserves                                     | 7,321                   | 6,914          | 407          | 5.9            |
| Group net income                                    | 393                     | 647            | -254         | -39.3          |
| <b>Net equity</b>                                   | <b>10,139</b>           | <b>9,487</b>   | <b>652</b>   | <b>6.9</b>     |
| <b>Total liabilities</b>                            | <b>161,819</b>          | <b>158,392</b> | <b>3,427</b> | <b>2.2</b>     |
| Total subordinated liabilities                      | 1,291                   | 588            | 704          | 119.8          |
| <b>Off-balance-sheet transactions</b>               |                         |                |              |                |
| Contingent liabilities                              | 3,524                   | 3,886          | -363         | -9.3           |
| Irrevocable commitments                             | 7,128                   | 7,432          | -303         | -4.1           |
| Liabilities for calls on shares and other equities  | 147                     | 147            | -0           | -0.1           |
| Derivative instruments                              |                         |                |              |                |
| – positive replacement values                       | 10,970                  | 11,501         | -531         | -4.6           |
| – negative replacement values                       | 15,708                  | 15,823         | -114         | -0.7           |
| – contract volume                                   | 495,297                 | 534,526        | -39,229      | -7.3           |
| Fiduciary business                                  | 150                     | 204            | -53          | -26.2          |

<sup>1</sup> Includes Swisscanto Holding AG.

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