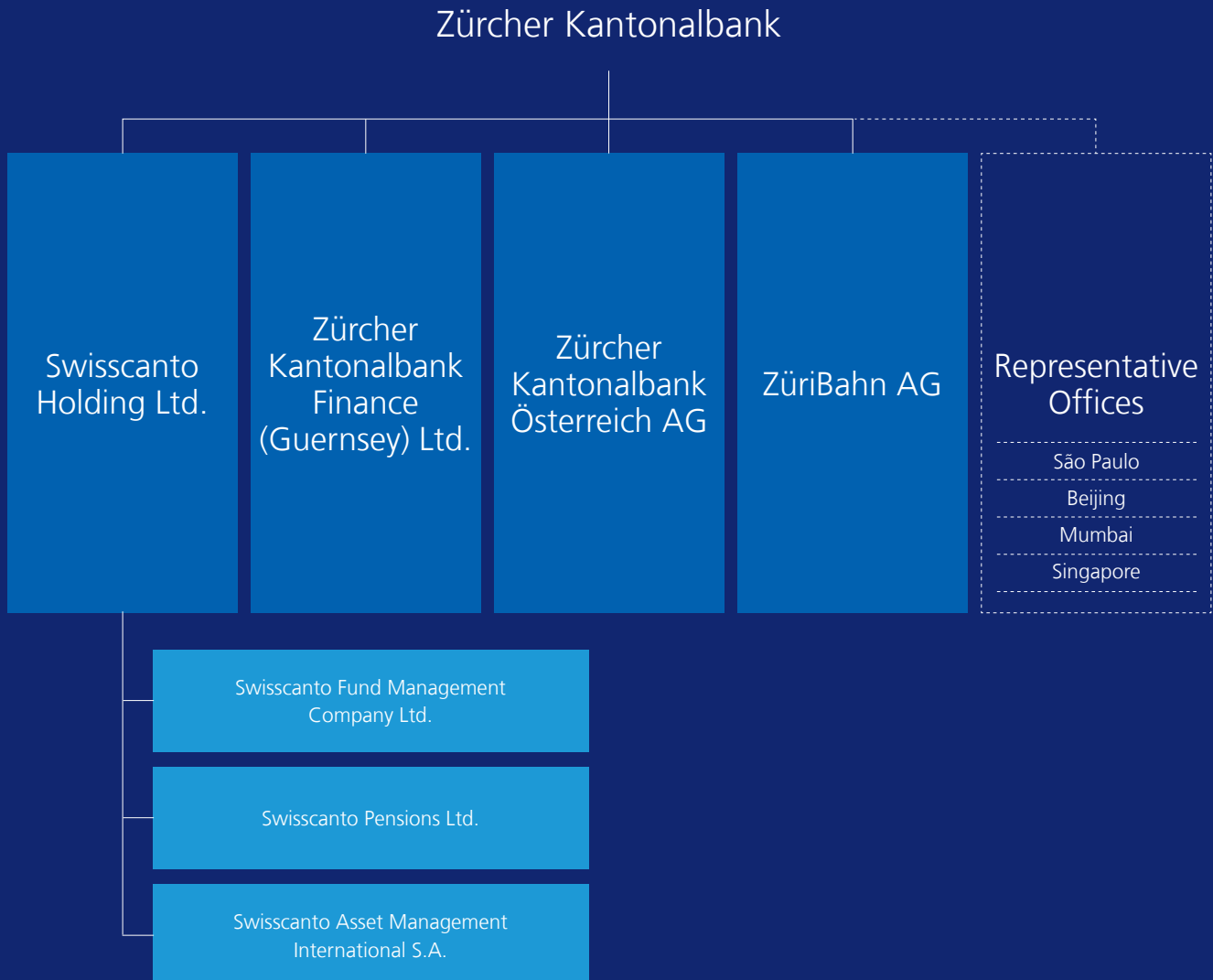


Financial year 2019

Half-yearly Report

Group structure



About the figures:

The amounts stated in this report have been rounded off. 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 that is smaller than half the unit of account used
- Figure not available or not meaningful

Close to you.

Zürcher Kantonalbank has successfully positioned itself as a universal bank with a regional base as well as a national and international network. We are not only the leading cantonal bank in Switzerland, but also one of the largest Swiss banks. With a market penetration rate of around 50 percent, we are the top-ranked bank in the Canton of Zurich in both retail and corporate banking. Since the acquisition of Swisscanto in March 2015, we have also been the third-largest fund provider in the country. Zürcher Kantonalbank is an independent public-law institution of the Canton of Zurich. We offer the public and businesses a comprehensive range of banking services via various channels. We play an economic and social role in the Canton of Zurich and exemplify sustainability as an integrated business principle. We are the bank that's "Close to you" and are part of life in the Canton of Zurich.

Key figures (group)

	1st half 2019	1st half 2018	Change in %
Key figures			
	in %		
Return on equity (RoE)	7.2	8.0	
Cost/income ratio (CIR) ¹	59.1	58.4	
Common equity Tier 1 ratio (CET1)(going-concern) ²	17.2	16.3	
Risk-based capital ratio (going-concern) ²	19.3	18.6	
Risk-based capital ratio (gone-concern) ^{2/5}	0.5	n.a.	
Leverage ratio (going-concern) ²	6.6	6.8	
Leverage ratio (gone concern) ^{2/5}	0.2	n.a.	
Liquidity coverage ratio (LCR) ³	125	136	
Income statement	in CHF million		
Net result from interest operations	606	625	-2.9
Result from commission business and services	387	396	-2.5
Result from trading activities and the fair value option	138	151	-8.5
Other result from ordinary activities	34	39	-14.0
Operating income	1,165	1,211	-3.9
Operating expenses	-683	-706	-3.2
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-56	-65	-13.8
Changes to provisions and other value adjustments and losses	-7	-5	27.1
Operating result	419	436	-3.8
Extraordinary result	1	8	-89.8
Changes in reserves for general banking risks	-	-	n.a.
Taxes	-2	-5	-55.1
Half-yearly consolidated profit	418	439	-4.8
Balance sheet	in CHF million		
	30.6.2019	31.12.2018	
Balance sheet total	170,612	169,408	0.7
Mortgage loans	82,144	81,256	1.1
Amounts due in respect of customer deposits	86,515	85,537	1.1
Provisions	249	255	-2.6
Equity	11,912	11,852	0.5
Customers' assets	in CHF million		
Total customers' assets	315,466	295,194	6.9
Headcount/branches	Number		
Headcount after adjustment for part-time employees	5,135	5,087	0.9
Branches ⁴	67	69	-2.9
Rating agencies	Rating		
Fitch	AAA	AAA	
Moody's	Aaa	Aaa	
Standard & Poor's	AAA	AAA	
Scope of consolidation	Share in %		
Zürcher Kantonalbank Finance (Guernsey) Ltd.	100	100	
Zürcher Kantonalbank Österreich AG	100	100	
Swisscanto Holding Ltd.	100	100	

1 Calculation: Operating expenses / operating income (excl. changes in default-related value adjustments and losses from interest operations).

2 In accordance with the provisions for systemically important banks.

3 Simple average of the closing values on the business days during the quarter under review.

4 Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna.

5 Effective since 1 January 2019.

Business development

Material events

1st quarter 2019 The US economy led the rest of the world, as it benefited further from the fiscal stimulus provided by tax reductions. Meanwhile, the robust state of the US economy resulted in rising interest rates. Nonetheless, the tense geopolitical situation worried investors. Of particular concern were the global trade dispute, the Italian budget debate and Brexit. The Swiss economy still grew significantly in the first quarter. Pressure on mortgage interest rates also mounted, partly because the Swiss National Bank's hands are still tied by the European Central Bank's strategic thrust. Competition was also noticeably tougher.

2nd quarter 2019 As the progress targeted in the China-US trade dispute was not achieved, the US imposed new tariffs on Chinese goods. China reacted with corresponding countermeasures. As a result, the global economy deteriorated further, and uncertainty on the financial markets increased. This prompted the US and European central banks to signal a return to monetary easing. This change of monetary regime went down well with the markets. The global growth slowdown did not leave much of a mark on the Swiss economy in the second quarter. In fact, Swiss foreign trade picked up again, although leading economic indicators started to point to a looming downturn. Demand for mortgages was boosted by another decrease in interest rates.

Zürcher Kantonalbank once again posted a positive half-yearly result, albeit slightly down year-on-year. The consolidated half-yearly profit totalled CHF 418 million, which was 4.8 percent below the previous year's figure of CHF 439 million.

The main reasons can be summarised as follows: The result from interest operations came under pressure during the first half of 2019 from the prevailing conditions. At CHF 606 million, it was around 3 percent down year-on-year.

Geopolitical uncertainties dented the trading and investment businesses. Hence, the result from trading activities was correspondingly lower at CHF 138 million than in the previous year (CHF 151 million). The same applied to the result from commission business. Although some individual components fared well, the drop in income in the securities and investment business dragged the result from commission business down by 2.5 percent to CHF 387 million.

However, at CHF 683 million, operating expense came in below the prior-year level of CHF 706 million, thanks to strict cost controls. The half-year result primarily reflects the market environment, which also affects key figures. Return on equity was 7.2 percent (1st half 2018: 8.0 percent).

Excellent capital and liquidity basis

Equity increased again due to the profit retained at year-end. The risk-based equity ratio (going-concern) on 30 June 2019 was high, at 19.3 percent, compared with 18.6 percent on 30 June in the previous year. The ratio is higher than the current capital adequacy requirements for a systemically important bank (13.5 percent of risk-weighted assets) and testifies to Zürcher Kantonalbank's high capitalisation.

The leverage ratio (going-concern), at 6.6 percent, is also significantly higher than the 4.5 percent required for systemically important banks. Likewise, the additional loss-absorbing requirements (gone-concern) are met by Zürcher Kantonalbank both on a risk-based and an unweighted basis. The liquidity coverage ratio (LCR), which is calculated as a simple average of the closing values on the business days during the quarter under review, was 125 percent for the group, significantly higher than the required 100 percent.

Challenging interest operations

The heightening competition and persistent negative interest rate environment are a major challenge. Zürcher Kantonalbank obtained a net result from interest operations of CHF 606 million, which is around 3 percent down year-on-year.

Zürcher Kantonalbank paid the Swiss National Bank negative interest amounting to around CHF 82 million (12.5 percent more than in the first half of 2018).

Zürcher Kantonalbank assesses credit default risks and other recognisable risks on an ongoing basis. Where necessary, it makes appropriate value adjustments or provisions.

In interest operations, this led to a net unwinding of value adjustments for default risks and losses amounting to CHF 9 million (1st half 2018: net release of CHF 3 million).

Overall lower depreciation and amortisation and changes to provisions

Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets amounted to CHF 56 million, CHF 9 million lower than in the first half of 2018. The main reasons were the lower ordinary amortisation of goodwill from the Swisscanto

Group and lower depreciation on bank buildings as some properties were sold in the previous year.

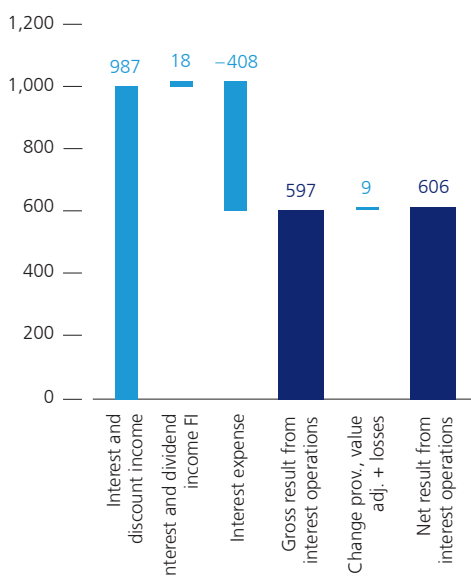
Changes to provisions and other value adjustments and losses were CHF 7 million for the first half of 2019 and thus slightly up year-on-year (prior-year period: CHF 5 million).

Commission business and services

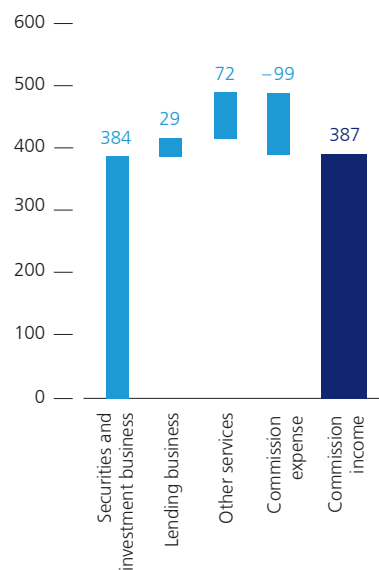
In the first half of 2019, the bank posted a result from commission business and services of CHF 387 million. This was 2.5 percent lower than in the previous year. Securities trading and investment activities continued to account for the largest share (79 percent) of the result from commission business and services. At CHF 384 million, this item was 6.6 percent down year-on-year, reflecting the uncertainties in the financial markets, among other things.

By contrast, the other components performed well. Commission income from lending activities totalled CHF 29 million, up 19.5 percent. Commission income from other services business was CHF 72 million, which represents growth of 3.1 percent. At the same time, commission expense, at around CHF 100 million, was down slightly year-on-year (–9.6 percent).

Breakdown of result from interest operations (in CHF million)



Breakdown of result from commission business (in CHF million)



Robust trading activities

Zürcher Kantonalbank continues to focus its trading activities primarily on client transactions. At CHF 138 million, the result from trading activities was satisfactory, but below the prior-year level of CHF 151 million.

The result from trading in bonds, interest rates and credit derivatives, which accounted for a good 35 percent of the result from trading, was substantially higher than the previous year at CHF 49 million (1st half 2018: CHF 36 million). The result from other trading activities was stable year-on-year, at CHF 29 million. By contrast, the result from trading in foreign exchange, bank notes and precious metals (CHF 33 million) and result from trading in equities and structured products (CHF 28 million) were both about 30 percent lower than in the first half of 2018.

Positive operating income

In the first half of 2019, operating income was CHF 1.2 billion, which was on a par with the prior-year period. This shows that the diversified, stable income structure was still of benefit.

With a share of 52 percent, interest operations continue to represent one of the bank's most important income

streams, followed by the commission business and services with a 33 percent share. Trading activities, the bank's third most important source of income, accounted for 12 percent of operating income.

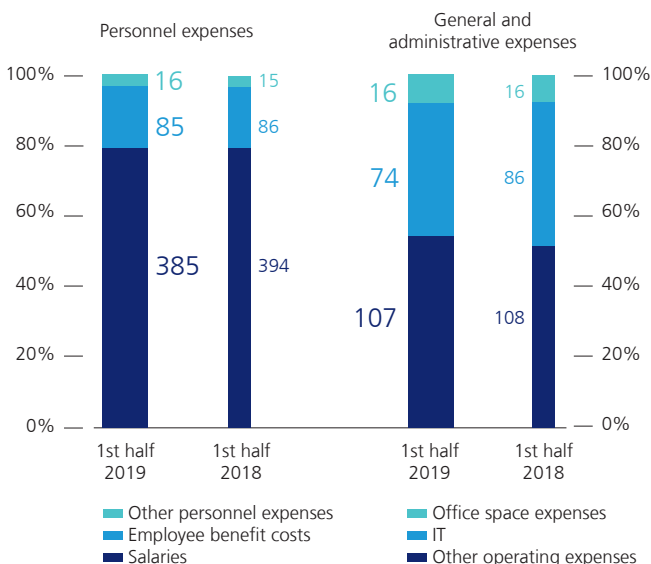
This result once again reflects the confidence and satisfaction of our clients.

Falling operating expenses

Operating expenses were CHF 683 million in the first half of 2018 and thus slightly down year-on-year. Thanks to constant cost controls, both personnel expenses (CHF 486 million) and general and administrative expenses (CHF 197 million) were kept below their prior-year level. IT expenses fell by annual comparison, not least due to lower third-party costs. The change in the other components can be seen in the chart "Development of operating expenses".

Compensation to the canton for its state guarantee amounted to CHF 10.9 million for the first six months of 2019, slightly down on the first half of 2018 (CHF 11.1 million) due to moderately lower risks. The cost/income ratio amounted to 59.1 percent compared with 58.4 percent for the prior-year period.

Development of operating expenses (in CHF million)



Robust operating result

The operating result fell slightly year-on-year, by 3.8 percent or CHF 17 million. It was still substantial though, at CHF 419 million. Hence, Zürcher Kantonalbank once again produced a robust operating result in a competitive market environment.

The individual components can be seen in the chart “Breakdown of operating result”.

Lower extraordinary result

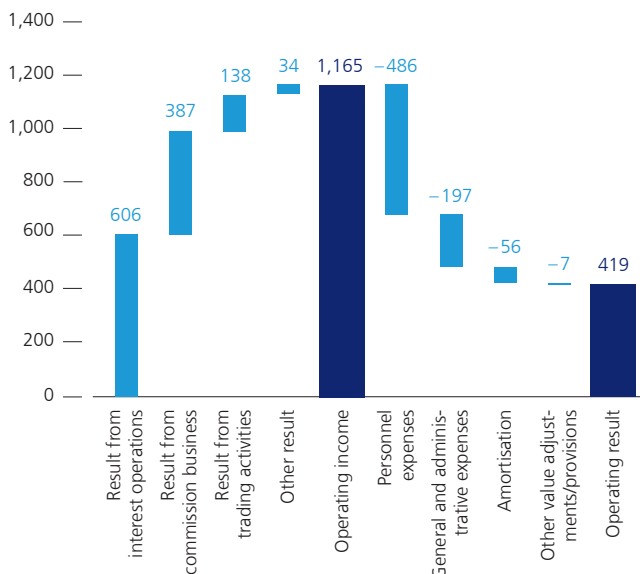
The extraordinary result of CHF 1 million was significantly below the prior-year level of CHF 7.6 million, due to property sales in the prior-year period.

Stable balance sheet structure

Total assets were CHF 170.6 billion as at 30 June 2019, up by an insignificant 0.7 percent compared with 31 December 2018.

There were no material changes to the balance sheet structure either. Mortgage loans in the amount of CHF 82 billion constituted the largest position on the asset side, with a share of 48.1 percent, followed by liquid assets, which accounted for a good quarter of total assets.

Breakdown of operating result (in CHF million)



On the liabilities side, the largest item was Amounts due in respect of customer deposits, which came in at CHF 87 billion, representing 50.7 percent of total liabilities. The second-largest item was Amounts due to banks of CHF 37 billion, which made up 21.9 percent of total liabilities.

High liquidity reserve

Liquid assets were at a high level as at the middle of the year, totalling around CHF 44 billion, up by a further 6.4 percent from the end of 2018.

Deposits with the Swiss National Bank continued to account for most of the liquid assets. These deposits are directly related to the liquidity requirements, which are particularly high for systemically important banks such as Zürcher Kantonalbank.

Comfortable refinancing situation

The total mortgage portfolio grew in the first six months of 2019 by 1.1 percent to CHF 82.1 billion. This growth reflects the current competitive situation. The largest share, at 92 percent, is still fixed mortgages (including ZKB starter mortgages and fixed advances with mortgage collateral). This shows our customers' expectations regarding interest rate trends. The principle of “quality before quantity” is a key criterion for the granting of mortgages, so we continue to base affordability calculations on an imputed mortgage interest rate of 5 percent. Customer deposits (savings and investments as well as other liabilities to clients) also grew. Holdings were 1.1 percent higher than at the end of 2018, amounting to around CHF 87 billion as at 30 June 2019.

Zürcher Kantonalbank's refinancing situation thus remains comfortable.

Positive trend in customers' assets

Customers' assets increased by CHF 20.3 billion to CHF 315.5 billion in the first half of 2019. The net new money inflow was CHF 2.5 billion. This means that the contribution made by positive investment performance was around CHF 17.7 billion.

AAA bank

The rating agencies Fitch, Moody's and Standard & Poor's continue to give Zürcher Kantonalbank first-class ratings: AAA, Aaa and AAA respectively.

Even on a stand-alone basis (i.e. not taking into account the state guarantee) Zürcher Kantonalbank is one of the safest universal banks worldwide, with a rating of aa- (S&P).

2019 remains challenging

The current interest rate environment and future interest trends will have a significant influence on us at Zürcher Kantonalbank and on the basis for our income. Nor can we escape from global influences, in particular, geopolitical events, such as developments in the trade dispute between the United States and China. The slowdown in global economic growth also presents a challenge, even if the foundation for domestic growth is still intact. Zürcher Kantonalbank thus expects the year to remain challenging. We are convinced that our diversified business model and client proximity will prove their worth in this situation too. Hence we are confident that we will continue to perform well in the second half of 2019 and be able to present pleasing annual results.

Consolidated income statement

in CHF million	1st half 2019	1st half 2018	Change	Change in %
Result from interest operations				
Interest and discount income	987	881	106	12.0
Interest and dividend income from financial investments	18	24	-6	-23.8
Interest expense	-408	-284	-124	43.7
Gross result from interest operations	597	621	-24	-3.9
Changes in value adjustments for default risk and losses from interest operations	9	3	6	175.5
Subtotal net result from interest operations	606	625	-18	-2.9
Result from commission business and services				
Commission income from securities trading and investment activities	384	411	-27	-6.6
Commission income from lending activities	29	24	5	19.5
Commission income from other services	72	70	2	3.1
Commission expense	-99	-109	10	-9.6
Subtotal result from commission business and services	387	396	-10	-2.5
Result from trading activities				
Result from trading activities and the fair value option	138	151	-13	-8.5
Other result from ordinary activities				
Result from the disposal of financial investments	5	2	3	132.4
Income from participations	23	30	-7	-24.4
– of which, participations valued using the equity method	1	1	-0	-5.5
– of which, from other non-consolidated participations	22	29	-7	-25.0
Result from real estate	3	3	-0	-4.2
Other ordinary income	4	5	-1	-26.8
Other ordinary expenses	-1	-1	1	-57.4
Subtotal other result from ordinary activities	34	39	-5	-14.0
Operating income	1,165	1,211	-47	-3.9
Operating expenses				
Personnel expenses	-486	-495	9	-1.8
General and administrative expenses	-197	-210	14	-6.4
Subtotal operating expenses	-683	-706	23	-3.2
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-56	-65	9	-13.8
Changes to provisions and other value adjustments and losses	-7	-5	-1	27.1
Operating result	419	436	-17	-3.8
Extraordinary income	1	8	-7	-89.7
Extraordinary expenses	-0	-	-0	-
Changes in reserves for general banking risks	-	-	-	-
Taxes	-2	-5	3	-55.1
Half-yearly consolidated profit	418	439	-21	-4.8

Consolidated balance sheet

in CHF million	30.6.2019	31.12.2018	Change	Change in %
Assets				
Liquid assets	43,622	40,989	2,633	6.4
Amounts due from banks	5,216	4,803	414	8.6
Amounts due from securities financing transactions	12,562	17,004	-4,442	-26.1
Amounts due from customers	9,660	8,469	1,191	14.1
Mortgage loans	82,144	81,256	888	1.1
Trading portfolio assets	9,925	9,364	561	6.0
Positive replacement values of derivative financial instruments	1,532	1,278	254	19.9
Other financial instruments at fair value	-	-	-	-
Financial investments	4,537	4,705	-168	-3.6
Accrued income and prepaid expenses	294	293	1	0.4
Non-consolidated participations	137	138	-2	-1.1
Tangible fixed assets	659	677	-19	-2.7
Intangible assets	125	142	-17	-11.8
Other assets	199	291	-92	-31.7
Total assets	170,612	169,408	1,204	0.7
Total subordinated claims	194	166	28	16.6
- of which, subject to conversion and/or debt waiver	29	46	-17	-37.2
Liabilities				
Amounts due to banks	37,314	37,019	295	0.8
Liabilities from securities financing transactions	4,201	6,876	-2,676	-38.9
Amounts due in respect of customer deposits	86,515	85,537	977	1.1
Trading portfolio liabilities	2,320	2,418	-99	-4.1
Negative replacement values of derivative financial instruments	911	752	159	21.1
Liabilities from other financial instruments at fair value	2,687	2,472	215	8.7
Cash bonds	157	167	-10	-5.9
Bond issues	12,489	11,666	823	7.1
Central mortgage institution loans	9,736	9,463	273	2.9
Accrued expenses and deferred income	578	725	-147	-20.3
Other liabilities	1,545	205	1,340	654.4
Provisions	249	255	-7	-2.6
Reserves for general banking risks	200	200	-	-
Bank's capital	2,425	2,425	-	-
Retained earnings reserve	8,875	8,445	430	5.1
Foreign currency translation reserve	-7	-6	-1	10.8
Consolidated profit	418	788	-370	-46.9
Equity	11,912	11,852	60	0.5
Total liabilities	170,612	169,408	1,204	0.7
Total subordinated liabilities	1,490	1,491	-1	-0.0
- of which, subject to conversion and/or debt waiver	1,490	1,491	-1	-0.0
Off-balance-sheet transactions				
Contingent liabilities	3,893	4,102	-209	-5.1
Irrevocable commitments	9,141	7,698	1,443	18.7
Obligations to pay up shares and make further contributions	259	263	-4	-1.4
Credit commitments	-	-	-	-

Consolidated statement of changes in equity

in CHF million	Bank's capital	Retained earnings reserve	Reserves for general banking risks	Consolidated profit	Currency translation reserve	Total equity
2018						
Opening amount	2,425	8,808	–	–	–4	11,228
Effect of any restatement	–	–	–	–	–	–
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Increase in scope of capital consolidation	–	–	–	–	–	–
Decrease in scope of capital consolidation	–	–	–	–	–	–
Other contributions/other capital paid in	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Currency translation differences	–	–	–	–	–2	–2
Dividends and other distributions	–	–363	–	–	–	–363
Valuation adjustments with no income effect	–	–0	–	–	–	–0
Other allocations to (transfers from) the reserves for general banking risks	–	–	200	–	–	200
Other allocations to (transfers from) other reserves	–	–	–	–	–	–
Consolidated profit	–	–	–	788	–	788
Total equity as at 31.12.2018	2,425	8,445	200	788	–6	11,852
2019						
Opening amount	2,425	9,233	200	–	–6	11,852
Effect of any restatement	–	–	–	–	–	–
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Increase in scope of capital consolidation	–	–	–	–	–	–
Decrease in scope of capital consolidation	–	–	–	–	–	–
Other contributions/other capital paid in	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Currency translation differences	–	–	–	–	–1	–1
Dividends and other distributions	–	–358	–	–	–	–358
Valuation adjustments with no income effect	–	–0	–	–	–	–0
Other allocations to (transfers from) the reserves for general banking risks	–	–	–	–	–	–
Other allocations to (transfers from) other reserves	–	–	–	–	–	–
Half-yearly consolidated profit	–	–	–	418	–	418
Total equity as at 30.6.2019	2,425	8,875	200	418	–7	11,912

Disclosure of capital and liquidity

A disclosure in line with capital and liquidity requirements is published in a separate report at zkb.ch (keyword "disclosures").

Condensed notes

Changes in accounting and valuation principles

In the first half of 2019, no changes to the accounting and valuation principles were made. For further information about the applicable accounting and valuation principles, please see the annual report for 2018.

Factors affecting the 2019 half-yearly result

The geopolitical situation, especially the global trade dispute, the Italian budget debate and Brexit, worried investors. The US Federal Reserve and the European Central Bank reacted to the emerging economic gloom in the second quarter with further monetary easing. This was welcomed by the market: equity markets recovered from their temporary correction and bond yields fell again. Nonetheless, a general slowdown in global growth can be seen. A further challenge lay in the persistent negative interest rate environment and the heightening of competition, which impacted interest operations.

In the reporting period, no material value adjustments or impairment losses were recorded.

Extraordinary result

in CHF million	1st half 2019	1st half 2018
Extraordinary income		
Reversal of impairment on other participations	1	0
Income from sale of other real estate/bank premises	0	7
Income from sale of participations	–	–
Other	0	0
Total	1	8
Extraordinary expenses		
Losses from disposal of other real estate/bank premises	–	–
Losses from disposal of participations	–	–
Other	0	–
Total	0	–

In the first half of the financial year, no material value adjustments or provisions no longer required were recorded.

**Events occurring after the reference date
of the Half-yearly Report**

No significant events affecting the assets, liabilities, financial position and the results of operations of the group occurred between the reference date of the Half-yearly Report and the date on which the report was published.

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