

Half-yearly Report Financial Year 2022

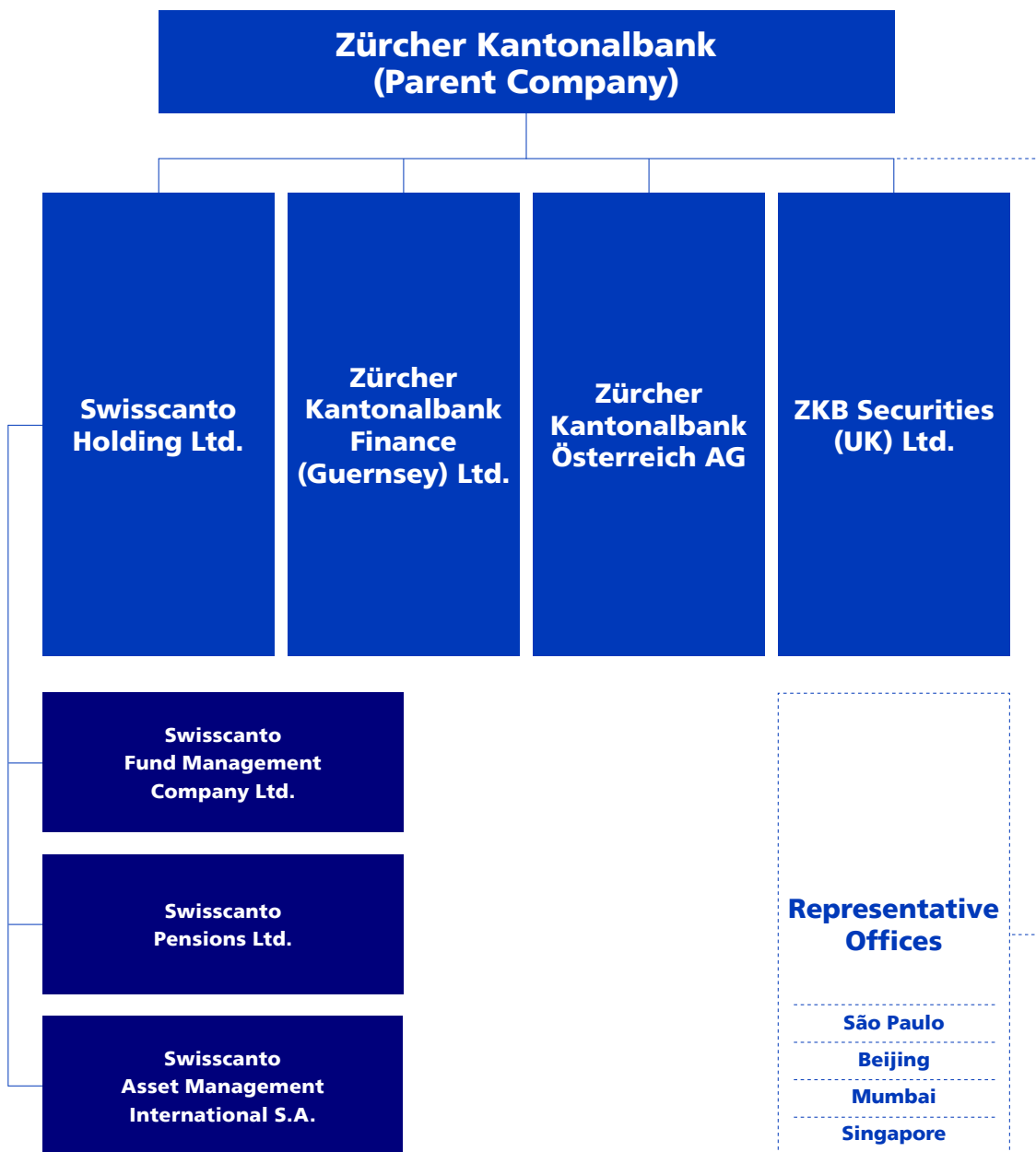


Zürcher
Kantonalbank

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 the most important cantonal bank in Switzerland, one of the largest Swiss banks and systemically important. With a market penetration rate of around 50 percent, we are the top-ranked bank in the Greater Zurich Area in both retail and corporate banking. We are also the third-largest fund provider in the country. Zürcher Kantonalbank is an autonomous public-law institution of the Canton of Zurich and benefits from a state guarantee. Our public service mandate is to provide financial services to the public and business, to contribute towards efforts to resolve economic and social issues and to ensure that our actions are environmentally and socially conscientious. We uphold our values: responsible, inspiring and passionate. We are the bank that's "Close to you" and are part of life in the Canton of Zurich.

Group structure



Remarks regarding the scope of consolidation

The consolidated interim financial statements comprise the accounts of the parent company and its subsidiaries Swisscanto Holding AG (and its subsidiaries), Zürcher Kantonalbank Finance (Guernsey) Ltd, Zürcher Kantonalbank Österreich AG and ZKB Securities (UK) Ltd.

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

Key figures (group)

	1st half 2022	1st half 2021	Change in %
Key figures in %			
Return on Equity (RoE)	8.7	8.2	
Cost Income Ratio (CIR) ¹	56.2	56.4	
Common equity Tier 1 ratio (CET1) (going-concern) ²	16.2	16.4	
Risk-based capital ratio (going-concern) ²	17.6	17.9	
Risk-based capital ratio (gone-concern) ²	4.3	4.0	
Leverage Ratio (going-concern) ²	6.0	6.0	
Leverage Ratio (gone-concern) ²	1.5	1.4	
Liquidity Coverage Ratio (LCR) ³	149	147	
Net Stable Funding ratio (NSFR) ⁴	119	–	
Income statement in CHF million			
Net result from interest operations	650	600	8.4
Result from commission business and services	473	449	5.3
Result from trading activities and the fair value option	211	209	1.0
Other result from ordinary activities	10	10	–2.7
Operating income	1,344	1,268	6.0
Operating expenses	–765	–737	3.9
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–54	–53	0.6
Changes to provisions and other value adjustments and losses	12	13	–13.7
Operating result	537	492	9.2
Extraordinary result	8	1	–
Changes in reserves for general banking risks	–	–	–
Taxes	–4	–5	–22.1
Consolidated profit	541	487	11.0
Balance sheet in CHF million			
Total assets	30.06.2022 197,969	31.12.2021 192,105	3.1
High-quality liquid assets (HQLA) ³	52,383	51,682	1.4
Mortgage loans	94,130	91,847	2.5
Amounts due in respect of customer deposits	97,057	96,777	0.3
Provisions	210	237	–11.4
Equity	12,783	12,674	0.9
Customers' assets in CHF million			
Total customers' assets	388,134	409,190	–5.1
Headcount/branches Number			
Headcount after adjustment for part-time employees, as at the reporting date	5,140	5,145	–0.1
Branches ⁵	55	57	–3.5

1 Calculation: Cost/Income ratio (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 Effective since 1 July 2021.

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

Business development

Major developments and events

First quarter of 2022 The pandemic remained a topical issue at the beginning of the financial year, in particular due to the delivery delays and disruptions in supply chains caused by China's zero-Covid strategy. With the outbreak of the Ukraine conflict, inflation was fuelled by the sharp rise in energy and commodity prices. In addition, global economic conditions changed noticeably. The pronounced fears of inflation and renewed concerns about growth led to significant increases in interest rates, followed by rising bond yields and a correction on the equity markets.

Second quarter of 2022 Ongoing corporate investment, high savings surpluses among private households and growing employment continue to argue against a global recession, despite prevailing concerns.

The financial markets, however, continued to be tested in the second quarter because of ongoing concerns about inflation. In Switzerland, though, the development of inflation rates to date has shown a rather moderate price increase compared to the EU and the US. The markets were also burdened by the sharp rise in interest rate expectations, which were accompanied by the first interest rate hikes. The latter impacted the Swiss National Bank too, which increased the key interest rate as of 17 June 2022 from -0.75 percent to -0.25 percent. The full impact of this increase, however, will not become apparent until the second half of the year.

Best half-year result in the bank's history

Zürcher Kantonalbank achieved a record result in the first half of 2022. All material income components were again higher on the comparable figures in the previous year. This growth led to a group profit of CHF 541 million, an increase of 11.0 percent on the CHF 487 million realised in the previous year.

The net result from interest operations amounts to an excellent CHF 650 million. This is an 8.4 percent increase on the comparable period last year (CHF 600 million). The performance in commission business and services was likewise good. It reached CHF 473 million, 5.3 percent above the comparable figure in the first half of 2021 (CHF 449 million). At CHF 211 million, the bank added to the very good trading result it realised in the previous year. This outcome was achieved despite the current corrections and uncertainties prevailing on the markets.

Overall, the bank increased its operating income by CHF 76 million or 6.0 percent to CHF 1,344 million, which is the basis for the excellent half-year result. Operating expenses, which amounted to CHF 765 million (previous year: CHF 737 million), grew less strongly by 3.9 percent compared with the previous year. The excellent half-year profit is therefore CHF 54 million higher year-on-year and CHF 4 million above the best half-year result attained to date in over 150 years (2019: CHF 537 million).

This development is also reflected in our key figures. The return on equity stands at 8.7 percent (first half of 2021: 8.2 percent). The cost-income ratio is 56.2 percent versus 56.4 percent in the comparable period.

Convincing interest operations

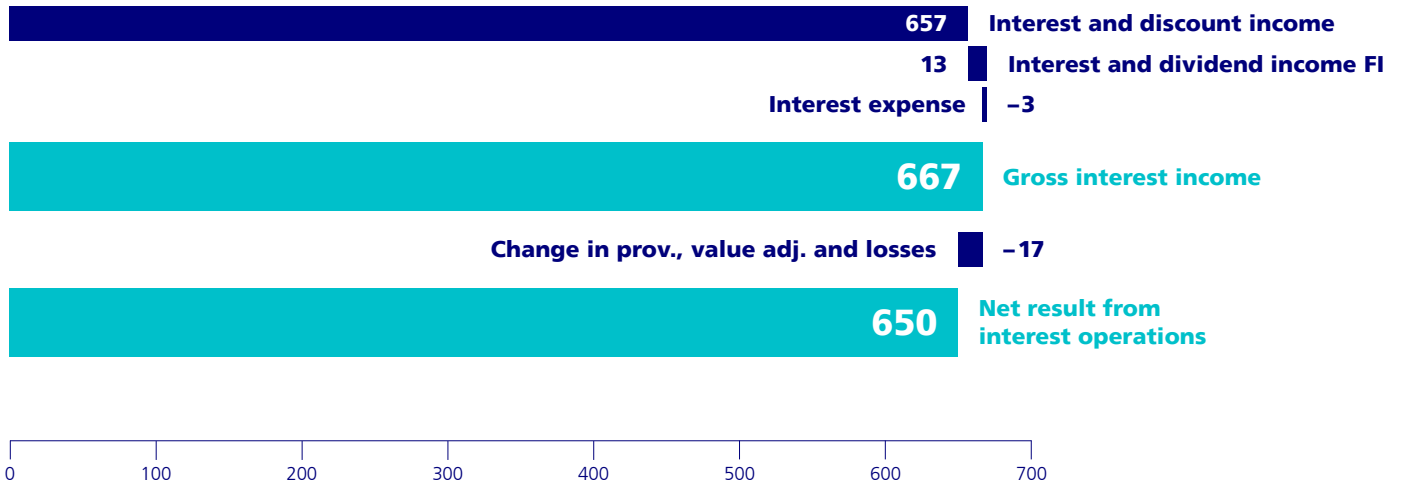
Gross interest income totalled CHF 667 million, which despite elevated pressure on margins represents a year-on-year increase of 4.5 percent.

Factors that offset the pressure on margins included higher income in the secured interbank business, an excellent asset&liability management and, not least, the increase in interest, particularly in US dollars. Zürcher Kantonalbank continuously assesses the default risks and all other identifiable risks. When necessary, the bank recognises the corresponding value adjustments and provisions. With a year-on-year decline of CHF 21 million in net new creations of value adjustments to around CHF 17 million, of which CHF 7 million was for expected losses, a net result from interest operations totalling CHF 650 million was achieved (2021: CHF 600 million).

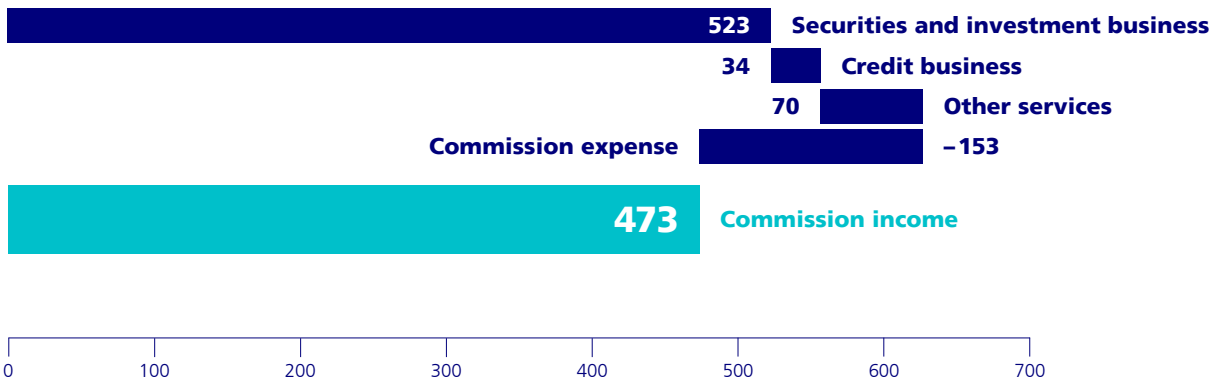
Successful commission business and services

The bank generated a result of CHF 473 million in commission business and services in the first half of 2022. The result is 5.3 percent or CHF 24 million higher than in the previous year. The main positive influence enabling this increase was income from securities trading and investment activities. At CHF 523 million, it represents the largest share of income from commission business and services and is 6.7 percent above the comparable period. The positive performance in investment activities is primarily attributable to the strong growth in net new money in 2021 and the first quarter of 2022. This growth, which partially offset the performance-related portfolio corrections caused by developments on the equity and bond markets, had a positive impact especially on wealth management fees and income from the fund business.

Breakdown of result from interest operations in CHF million



Breakdown of result from commission business in CHF million



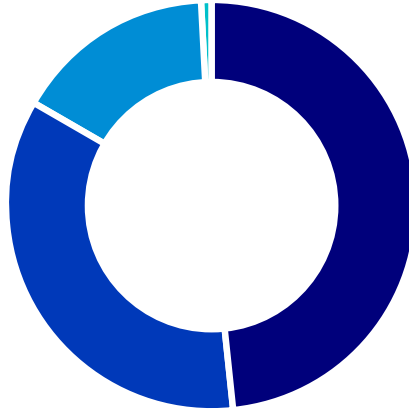
Commission income from lending activities totalling CHF 34 million was higher by CHF 2 million (CHF 7.4 percent). Commission expense, at CHF 153 million, rose by CHF 19 million or 14.1 percent compared with the previous year.

Stable trading result

At CHF 211 million, the trading result again exceeded the very good result from the previous year (CHF 209 million). The components of the trading result were largely unchanged on the previous year.

Breakdown of operating income in CHF million / per cent

Result from interest operations	650 (48.4 %)
Result from commission business	473 (35.2 %)
Result from trading activities	211 (15.7 %)
Other result	10 (0.7 %)



Higher operating income

The bank generated operating income totalling CHF 1,344 million in the first half of 2022. This represents an increase of 6.0 percent or CHF 76 million on the comparable period last year. The bank's diversified and stable income structure continued to prove successful even in this difficult environment. Income largely matched or exceeded the prior-year level. With a share of 48.4 percent, interest operations remain the bank's most important income stream, followed by commission business and services with a share of 35.2 percent. The trading business, the third material income component, contributed 15.7 percent to operating income.

Balanced operating expenses

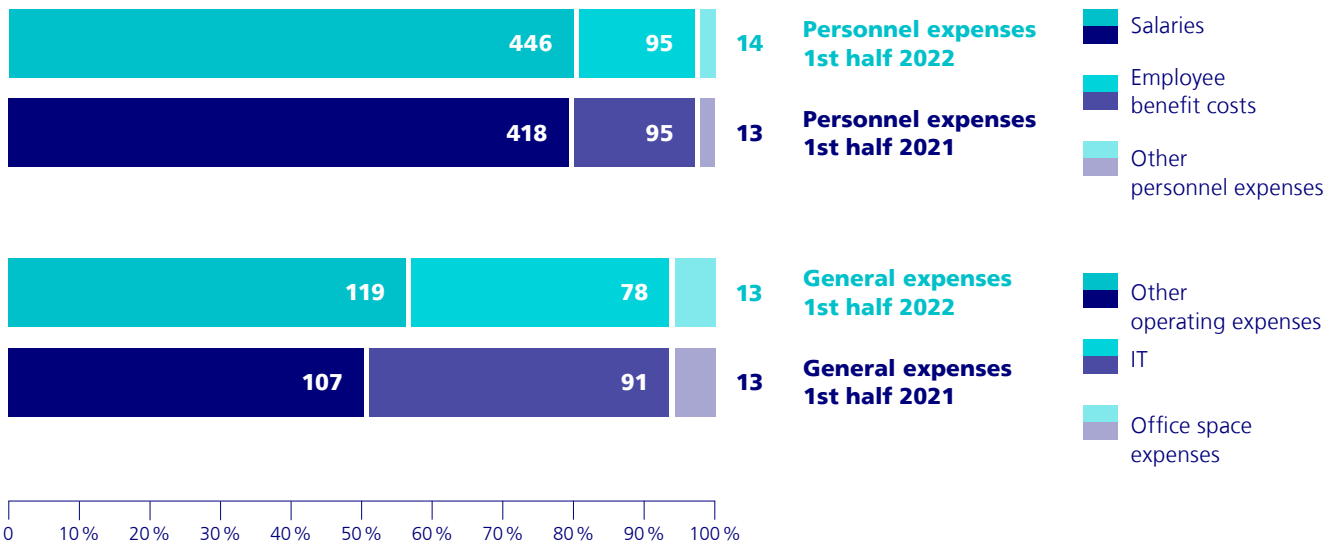
Operating expenses totalled CHF 765 million in the first half of 2022 and are therefore 3.9 percent higher on the previous year. With the higher net income went slightly higher personnel expenses.

General and administrative expenses remained unchanged at CHF 210 million. The breakdown of costs, however, is somewhat different than in the previous year. Following the federal government's decision to end the pandemic measures, the bank was able to conduct more customer events again. This led to higher marketing and representation costs. In addition, the bank reduced its expenditure on information and communication technology by 14.1 percent to CHF 78 million. The change in the other components is shown in the figure "Development of operating expenses".

Outstanding operating result

Zürcher Kantonalbank achieved an outstanding operating result of CHF 537 million in the first half of 2022. This represents an increase of 9.2 percent or around CHF 45 million over the previous year.

Development of operating expenses in CHF million



Stable depreciation and amortisation and lower provisions

The value adjustments on participations as well as depreciation and amortisation of tangible fixed assets and intangible assets were stable on the previous year's level at around CHF 54 million. The CHF 3 million increase in value adjustments on participations was largely offset by a decrease in depreciation on bank buildings of around CHF 2 million. The line item "Changes to provisions and other value adjustments and losses", which amounts to a net release of CHF 12 million (first half of 2021: CHF 13 million), likewise changed only slightly on the previous year. The largest item influencing this figure is the provision for off-balance-sheet default risks, which totalled a net release of CHF 11 million.

Extraordinary components

The extraordinary result totalling CHF 8 million includes primarily the proceeds from the sale of bank premises and properties.

Record result

Overall, the bank achieved a record profit totalling CHF 541 million, which is an increase of 11.0 percent or CHF 54 million compared with the previous year.

Modest growth in total assets amid an unchanged balance sheet structure

Total assets increased compared with 31 December 2021 by CHF 5.9 billion or 3.1 percent to CHF 198.0 billion as at 30 June 2022. The bank's balance sheet structure did not change materially during the reporting period.

Mortgage loans totalling CHF 94.1 billion remain the largest asset position, accounting for 47.5 percent of total assets (previous year: 47.8 percent), followed by liquid assets at

21.2 percent. Liabilities are dominated by customer deposits of CHF 97.1 billion, which account for 49.0 percent of total liabilities and equity.

Excellent liquidity situation

Liquid assets increased by a further 2.8 percent year-on-year to CHF 42.0 billion as at mid-year. Deposits at the Swiss National Bank continue to account for a substantial proportion. Their significance is directly related to the particularly high liquidity requirements that apply to systemically important banks such as Zürcher Kantonalbank. The liquidity coverage ratio (LCR) of 149 percent, which is determined as the simple average of the end-of-day values on business days during the quarter under review, confirms the high liquidity reserves and the resulting excellent liquidity situation.

Comfortable refinancing situation

The portfolio of mortgage loans grew by CHF 2.3 billion to CHF 94.1 billion in the first six months of 2022. The growth of 2.5 percent is similar to the previous year's pace. Zürcher Kantonalbank is closely monitoring developments in the real estate market and is addressing the risks using carefully coordinated measures to maintain a balanced risk profile.

Amounts due from clients total CHF 12.0 billion as at 30 June 2022. This represents an increase of 21.4 percent or CHF 2.1 billion compared with the end of the previous year. Time deposits and cash collateral delivered increased the most (around CHF 1.7 billion). Customer deposits (money in the form of savings and deposits as well as other liabilities to customers) amounted to CHF 97.1 billion as at mid-year and therefore did not change significantly compared to the end of 2021. The increase in personal and savings accounts was largely offset by other effects, such as the decline in corporate account balances. Customer deposits continue to cover 91.4 percent of loans, which confirms that the bank's refinancing situation remains comfortable. Long-term refinancing through bonds and central mortgage institution loans totalling CHF 21.2 billion is also stable.

Solid capital base

On a going-concern basis, the risk-based equity ratio was 17.6 percent as at 30 June 2022, compared with 17.9 percent as at 30 June of the previous year. The bank clearly continues to exceed the current capital adequacy requirement (12.86 percent of risk-weighted positions) imposed on it as a systemically important bank. This confirms Zürcher Kantonalbank's high capitalisation. The leverage ratio (going-concern) of 6.0 percent is likewise far above the 4.5 percent requirement applicable to systemically important banks. Zürcher Kantonalbank also exceeds the additional loss-absorbing requirements (gone-concern) on both a risk-based (plus 0.4 percentage points) and unweighted basis (plus 0.2 percentage points).

Negative market performance overshadows positive trend in net new money

Client assets total CHF 388.1 billion as at 30 June 2022. The net new money inflow of CHF 17.8 billion clearly exceeds the comparable figure in the previous year. This positive trend, however, could not offset the negative performance on the markets. Overall, client assets decreased by CHF 21.1 billion or 5.1 percent in the first half of the year.

Confirmed AAA rating

The rating agencies Fitch, Moody's and Standard&Poor's all confirmed their rating for Zürcher Kantonalbank at AAA and Aaa, respectively. Zürcher Kantonalbank is also one of the safest universal banks in the world on a stand-alone basis (i.e. without taking any government support into account), as evidenced by the stand-alone rating of aa- issued by S&P.

Outlook

Concerns about inflation are increasingly being replaced by concerns about recession, which the financial markets have meanwhile reflected in prices to a considerable extent. Nevertheless, factors exist that will continue to cause uncertainties in the markets in the second half of 2022, including the development of inflation, the dosing of interest rate increases by international central banks, the unfolding of the Ukraine war and other geopolitical developments. These influences will also be reflected in the market performance. In light of the current half-year result, we are confident that we have created a good basis for an attractive annual result, even under the given circumstances.

Consolidated income statement

in CHF million	1st half 2022	1st half 2021	Change	Change in %
Result from interest operations				
Interest and discount income	657	605	52	8.6
Interest and dividend income from financial investments	13	14	-1	-8.1
Interest expense	-3	19	-22	-116.3
Gross result from interest operations	667	638	29	4.5
Changes in value adjustments for default risk and losses from interest operations	-17	-38	21	-56.4
Subtotal net result from interest operations	650	600	50	8.4
Result from commission business and services				
Commission income from securities trading and investment activities	523	490	33	6.7
Commission income from lending activities	34	32	2	7.4
Commission income from other services	70	62	8	12.4
Commission expense	-153	-134	-19	14.1
Subtotal result from commission business and services	473	449	24	5.3
Result from trading activities				
Result from trading activities and the fair value option	211	209	2	1.0
Other result from ordinary activities				
Result from the disposal of financial investments	3	0	3	-
Income from participations	8	7	1	14.5
– of which, participations valued using the equity method	1	1	-0	-33.2
– of which, from other non-consolidated participations	7	6	1	24.1
Result from real estate	3	3	0	6.5
Other ordinary income	4	4	0	3.6
Other ordinary expenses	-8	-4	-4	113.1
Subtotal other result from ordinary activities	10	10	-0	-2.7
Operating income	1,344	1,268	76	6.0
Operating expenses				
Personnel expenses	-555	-526	-29	5.5
General and administrative expenses	-210	-210	0	-0.1
Subtotal operating expenses	-765	-737	-29	3.9
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-54	-53	-0	0.6
Changes to provisions and other value adjustments and losses	12	13	-2	-13.7
Operating result	537	492	45	9.2
Extraordinary income	8	1	7	-
Extraordinary expenses	-	-	-	-
Changes in reserves for general banking risks	-	-	-	-
Taxes	-4	-5	1	-22.1
Consolidated profit	541	487	54	11.0

Consolidated balance sheet

in CHF million	30.6.2022	31.12.2021	Change	Change in %
Assets				
Liquid assets	42,027	40,883	1,144	2.8
Amounts due from banks	3,667	3,173	494	15.6
Amounts due from securities financing transactions	24,093	26,289	-2,195	-8.4
Amounts due from clients	12,007	9,891	2,116	21.4
Mortgage loans	94,130	91,847	2,283	2.5
Trading portfolio assets	12,688	12,442	246	2.0
Positive replacement values of derivative financial instruments	1,225	1,272	-47	-3.7
Other financial instruments at fair value	-	-	-	-
Financial investments	5,014	4,759	255	5.4
Accrued income and prepaid expenses	342	280	62	22.1
Non-consolidated participations	155	155	-0	-0.2
Tangible fixed assets	582	597	-16	-2.6
Intangible assets	32	50	-18	-36.4
Other assets	2,008	467	1,541	330.1
Total assets	197,969	192,105	5,863	3.1
Total subordinated claims	342	284	57	20.1
- of which, subject to conversion and/or debt waiver	47	48	-1	-1.9
Liabilities				
Amounts due to banks	40,835	34,897	5,938	17.0
Liabilities from securities financing transactions	3,294	4,403	-1,109	-25.2
Amounts due in respect of customer deposits	97,057	96,777	280	0.3
Trading portfolio liabilities	3,492	1,943	1,548	79.7
Negative replacement values of derivative financial instruments	2,681	1,116	1,565	140.2
Liabilities from other financial instruments at fair value	3,752	4,387	-635	-14.5
Cash bonds	173	135	37	27.5
Certificate of deposits	8,598	13,148	-4,550	-34.6
Bond issues	9,342	9,630	-288	-3.0
Central mortgage institution loans	11,899	11,307	592	5.2
Accrued expenses and deferred income	673	787	-115	-14.6
Other liabilities	3,181	661	2,520	381.1
Provisions	210	237	-27	-11.4
Reserves for general banking risks	154	154	-	-
Bank's capital	2,425	2,425	-	-
Retained earnings reserve	9,674	9,163	512	5.6
Foreign currency translation reserve	-12	-9	-2	26.0
Consolidated profit	541	942	-401	-42.6
Shareholders' equity	12,783	12,674	108	0.9
Total liabilities	197,969	192,105	5,863	3.1
Total subordinated liabilities	1,572	1,585	-13	-0.8
- of which, subject to conversion and/or debt waiver	1,572	1,585	-13	-0.8
Off-balance-sheet transactions				
Contingent liabilities	4,066	4,374	-308	-7.0
Irrevocable commitments	11,280	10,192	1,088	10.7
Obligations to pay up shares and make further contributions	361	332	29	8.9
Credit commitments	-	-	-	-

Consolidated statement of changes in equity

in CHF million	Bank's capital	Retained earnings reserve	Reserves for general banking risks	Consolidated profit	Foreign currency translation reserve	Total equity
2021						
Opening amount	2,425	10,079	154	–	–8	12,650
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	–	–456	–	–	–	–456
Valuation adjustments not affecting net income	–	0	–	–	–	0
Other allocations to (transfers from) the reserves for general banking risks	–	–	–	–	–	–
Other allocations to (transfers from) the other reserves	–	–460 ¹	–	–	–	–460
Consolidated profit	–	–	–	942	–	942
Total equity as at 31.12.2021	2,425	9,163	154	942	–9	12,674
2022						
Opening amount	2,425	10,105	154	–	–9	12,674
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	–	–431	–	–	–	–431
Valuation adjustments not affecting net income	–	0	–	–	–	0
Other allocations to (transfers from) the reserves for general banking risks	–	–	–	–	–	–
Other allocations to (transfers from) the other reserves	–	–	–	–	–	–
Consolidated profit	–	–	–	541	–	541
Total equity as at 30.06.2022	2,425	9,674	154	541	–12	12,783

¹ Initial recognition of valuation allowances/provisions for expected losses

Capital and liquidity disclosures

The bank's disclosures on capital adequacy and liquidity regulations are published in a separate report at zkb.ch ("Disclosures" section).

Condensed notes

Changes in accounting and valuation principles

Certificate of deposits

As at 30 June 2022, certificate of deposits are reported for the first time as a single balance sheet item under liabilities. In the past, certificate of deposits were summarised under bonds. The adjustment requires a restatement of the balance sheet as at 31 December 2021. The financial impact is shown in the following table:

Item	Before restatement	Change	After restatement
Balance sheet as at 31.12.2021			
in CHF million			
Bond issues	22,778	-13,148	9,630
Certificate of deposits	-	+13,148	13,148

Factors influencing the half-year result in 2022

The Ukraine conflict and China's costly zero-Covid strategy have impacted the global economy. Irrespective of the deteriorating economy, inflation has continued to rise in recent months. The central banks are committed to fighting inflation. The most important central bank in the world, the US Federal Reserve, raised its key interest rate by 75 basis points in June – the largest interest rate hike since 1994. The SNB also unexpectedly increased its key interest rate in June. The financial markets reacted sharply to the change in monetary policy and the declining economic momentum, which affected performance accordingly.

Events occurring after the reporting date of the interim financial statements

No significant events affecting the assets, liabilities, financial position and the results of operations of the group occurred between the reporting date of the interim financial statements and the date on which the report was published.

Explanations regarding material losses, extraordinary income and expenses, reserves for general banking risks and value adjustments and provisions no longer required

in CHF million	1st half 2022	1st half 2021
Extraordinary income		
Reversal of impairment on other participations	1	0
Income from sale of other real estate/bank premises	7	1
Income from sale of participations	-	0
Other	1	0
Total	8	1
Extraordinary expenses		
Losses from sale of other real estate/bank premises	-	-
Losses from disposal of participations	-	-
Other	-	-
Total	-	-
Changes in reserves for general banking risks		
Creation of reserves for general banking risks	-	-
Release of reserves for general banking risks	-	-
Total	-	-

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

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