

# Capital adequacy and liquidity disclosure requirements

Disclosure as at 31 December 2019

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## 1 Key abbreviations in disclosure

<b>AT1</b>	Additional Tier 1 capital
<b>CAO</b>	Capital Adequacy Ordinance
<b>CaR</b>	Capital at risk
<b>CCB</b>	Countercyclical buffer
<b>CCF</b>	Credit conversion factors
<b>CCP</b>	Central counterparty
<b>CCR</b>	Counterparty credit risk
<b>CET1</b>	Common Equity Tier 1 capital
<b>CRM</b>	Credit risk mitigation
<b>CVA</b>	Credit valuation adjustment
<b>D-SIB</b>	Domestic systemically important bank
<b>EAD</b>	Exposure at default
<b>EL</b>	Expected loss
<b><math>\Delta</math> EVE</b>	Change in the economic value of equity
<b>G-SIB</b>	Global systemically important bank
<b>HQLA</b>	High-quality liquid assets
<b>IRB</b>	Internal ratings-based approach
<b>IRRBB</b>	Interest rate risk in the banking book
<b>LCR</b>	Liquidity coverage ratio
<b>LGD</b>	Loss given default
<b>LRD</b>	Leverage ratio denominator
<b><math>\Delta</math> NII</b>	Change in net interest income
<b>PD</b>	Probability of default
<b>PONV</b>	Point of non-viability
<b>QCCP</b>	Qualifying central counterparty
<b>RWA</b>	Risk-weighted assets
<b>RWA density</b>	RWA divided by total assets and off-balance-sheet exposures (post-CCF and post-CRM)
<b>SA-BIS</b>	International standardised approach for credit risk
<b>SA-CCR</b>	Standardised approach for measuring counterparty credit risk exposures
<b>SFT</b>	Securities financing transactions
<b>Stressed VaR</b>	Value at risk under a stress scenario
<b>T2</b>	Tier 2 capital
<b>VaR</b>	Value at risk

In case of any deviations resulting from the translation, the German version shall prevail.

### 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
- No data available, not meaningful or not applicable

## 2 Introduction and material changes

Zürcher Kantonalbank is providing this information as at 31 December 2019 in accordance with its disclosure obligations. The relevant provisions form part of the Capital Adequacy Ordinance (CAO) and the disclosure requirements set out in FINMA Circular 2016/1 "Disclosure – banks" of 28 October 2015, last revised on 31 October 2019.

### About the company

Zürcher Kantonalbank is an independent public-law institution of the Canton of Zurich. The endowment capital provided by the Canton of Zurich forms part of Zürcher Kantonalbank's own funds. The canton also provides a state guarantee for all the bank's non-subordinate liabilities should the bank's resources prove inadequate.

The group includes as parent company the largest cantonal bank in Switzerland and the fourth-largest Swiss bank. The broadly diversified consolidated group also includes Swisssanto Holding AG with its subsidiaries and their subsidiaries, which are mainly engaged in asset management business. Zürcher Kantonalbank Finance (Guernsey) Ltd., which focuses on issuing structured investment products, Zürcher Kantonalbank Österreich AG, which operates in international private banking, the representative office Zürcher Kantonalbank Representações Ltda. and ZüriBahn AG are also part of the group.

### Calculation approaches for risk-based capital requirements

A selection of different approaches is available to banks for the calculation of [risk-based capital requirements](#) for credit, market and operational risks.

The capital requirement for [credit risks](#) is mainly calculated using the internal ratings-based approach (foundation IRB or F-IRB). For exposures where the IRB approach cannot be used, the capital requirement for credit risks is calculated using the international standardised approach (SA-BIS). The standardised approach for measuring counterparty credit risk exposures (SA-CCR) is used to determine the credit equivalent of derivatives. The capital requirement for the risk of credit value adjustments (CVA risk) due to the counterparty credit risk of derivatives is calculated in accordance with the standardised approach.

The capital requirement for [market risk](#) is calculated based on the internal market risk model approach (the value-at-risk model) approved by FINMA. Capital requirements are based on the market risks in the trading book and the exchange rate, precious metals and commodity risks in the banking book. Besides the daily value-at-risk figures, weekly stressed VaR figures are also included in the calculation of capital requirements. The total risk is also calculated using the model approach, although the value changes in risk factors are based on data that were observed in a period with significant market stress for Zürcher Kantonalbank. The capital requirement for the specific risks of interest rate instruments is calculated using the standardised approach.

Zürcher Kantonalbank uses the basic indicator approach to determine the capital requirement for [operational risks](#).

### Risk-based capital requirements for systemically important banks

The risk-based capital adequacy requirements for systemically important banks basically consist of capital adequacy requirements for the bank to continue its activities (going concern) and requirements for additional loss-absorbing capital (gone concern). In addition to these, since February 2013 there has been a countercyclical buffer (CCB) requirement, which is activated, adjusted or deactivated by the Federal Council at the request of the Swiss National Bank.

The [risk-based total going concern requirement](#) consists of a base requirement and additional requirements, calculated on the basis of market share and total exposure. Under Article 129, para. 2 CAO, the base requirement for Zürcher Kantonalbank is 12.86 percent of risk-weighted assets (RWA). There are currently no additional requirements for Zürcher Kantonalbank as a result of market share or total exposure. There is also a [countercyclical buffer \(CCB\) requirement](#), currently equivalent to two percent of mortgages secured by residential properties in Switzerland. As a percentage of total RWA, this currently corresponds to 0.70 percent for the group (0.69 percent for the

parent company), resulting in a total going concern requirement of 13.56 percent as at 31 December 2019 (13.55 percent for the parent company).

Under Article 132, para. 2 CAO, the [risk-based gone concern requirement](#) is measured based on the total going concern requirement (excluding the CCB) and varies for systemically important banks with and without international operations. For systemically important banks without international operations, such as Zürcher Kantonalbank, the requirements came into effect on 1 January 2019. Based on the transitional provisions in Article 148j CAO, the gross gone concern requirement in 2019 is 0.64 percent of RWA. This will increase in stages until 2026, when the gross gone concern requirement will be equal to 40 percent of the total going concern requirement for Zürcher Kantonalbank (excluding the CCB). In a letter dated 3 September 2019, FINMA set the risk-based gone concern requirement for contingency planning at Zürcher Kantonalbank at 7.86 percent gross from 2026, including the total stipulated in the CAO based on size and market share (mirroring the going concern requirement). Under the transitional provisions in Art. 148j CAO, this is equivalent to an additional risk-based requirement of 0.34 percent gross as at 31 December 2019. This results in a total risk-based gone concern requirement of 0.98 percent gross as at 31 December 2019. The total risk-based gone concern requirement is being increased gradually to 7.86 percent by 2026, as already mentioned.

### **Calculation approaches for unweighted capital adequacy requirements (leverage ratio)**

When calculating the derivative exposure for the purposes of [unweighted capital adequacy requirements \(leverage ratio\)](#), margin no. 51.1 of FINMA Circular 2015/3 "Leverage Ratio – Banks" allows banks the option of using the standardised approach (SA-CCR). Zürcher Kantonalbank has used this since 31 December 2018 both as required for risk-based capital adequacy requirements and voluntarily for the leverage ratio.

### **Unweighted capital adequacy requirements (leverage ratio) for systemically important banks**

The unweighted capital adequacy requirements for systemically important banks also consist of capital adequacy requirements for the bank to continue its activities (going concern) and additional loss-absorbing capital (gone concern). The countercyclical buffer (CCB) requirement is not applicable to the leverage ratio.

The [unweighted total going concern requirement](#) consists of a base requirement and additional requirements, calculated on the basis of market share and total exposure. Under Article 129, para. 2 CAO, the base requirement for Zürcher Kantonalbank is 4.5 percent of total exposure. There are currently no additional requirements for Zürcher Kantonalbank as a result of market share or total exposure. The result as at 31 December 2019 for both the group and parent company is a total going concern requirement of 4.5 percent.

Under Article 132, para. 2 CAO, the [unweighted gone concern requirement](#) is measured based on the total going concern requirement and varies for systemically important banks with and without international operations. For systemically important banks without international operations, such as Zürcher Kantonalbank, the requirements came into effect on 1 January 2019. Based on the transitional provisions in Article 148j CAO, the gross gone concern requirement in 2019 is 0.21 percent of total exposure. This will increase in stages until 2026, when the gross gone concern requirement will be equal to 40 percent of the total going concern requirement for Zürcher Kantonalbank. In a letter dated 3 September 2019, FINMA increased the unweighted gone concern requirement for contingency planning at Zürcher Kantonalbank from 2026 in the same ratio as for the risk-based gone concern requirements. Under the transitional provisions in Art. 148j CAO, this is equivalent to an additional unweighted requirement of 0.11 percent gross as at 31 December 2019. This results in a total unweighted gone concern requirement of 0.32 percent gross as at 31 December 2019. The total unweighted gone concern requirement is being increased gradually to 2.75 percent gross by 2026.

### **Material changes in comparison with the previous quarter as regards the definition of the capital requirement figures**

There were no material changes in the calculation of the capital ratios in the quarter under review.

## Changes in group regulatory capital and liquidity in comparison with the previous quarter

As at 31 December 2019, the capital base of Zürcher Kantonalbank comfortably exceeded the regulatory requirements on both a risk-based and unweighted basis. The liquidity situation of Zürcher Kantonalbank also remains comfortable.

Group risk-weighted assets (RWA) as at 31 December 2019 amounted to CHF 64,983 million (30 September 2019: CHF 66,720 million). They were therefore CHF 1,737 million lower than in the previous quarter.

Risk-based capital adequacy requirements on a going concern basis as a systemically important bank stood at CHF 8,811 million on 31 December 2019 (30 September 2019: CHF 9,028 million), compared to eligible capital on a going concern basis in the group of CHF 12,986 million (30 September 2019: CHF 12,344 million). This is equivalent to surplus cover of CHF 4,175 million (30 September 2019: CHF 3,316 million). The lower RWA, the resulting lower risk-based capital adequacy requirement (going concern) and the higher eligible capital (going concern) led to this significant increase in surplus cover. The eligible capital (going concern) increased mainly by the amount of planned retained profit. As a result of the endowment capital reserve qualifying as eligible additional loss-absorbing capital (gone concern) for the first time, Tier 2 capital no longer needs to be reclassified to cover gone concern requirements as at 31 December 2019. This also increases the eligible capital (going concern).

The core capital ratio (going concern) on a group basis as at 31 December 2019 was 20.0 percent (30 September 2019: 18.5 percent). It was thus 6.4 percent (30 September 2019: 5.0 percent) above the 13.6 percent going concern requirement (including the CCB). The increase in the core capital ratio (going concern) results from the combination of the above-mentioned decline in RWA and the increase in eligible capital (going concern).

At CHF 893 million (1.4 percent of RWA), the eligible additional loss-absorbing capital exceeded the gone concern requirement by CHF 258 million as at 31 December 2019 (as at 30 September 2019 the gone concern requirement was met with no surplus cover). The surplus cover over and above the gone concern requirement as at 31 December 2019 is mainly due to the endowment capital reserve qualifying for the first time as eligible additional loss-absorbing capital (gone concern).

The total leverage ratio exposure fell by CHF 4,251 million from 30 September 2019 to CHF 185,628 million, mainly due to lower on-balance sheet exposures within the leverage ratio framework. The unweighted going concern total requirement remains unchanged at 4.5 percent. Eligible capital on a going concern basis for the leverage ratio is the same as for the risk-based requirements. This results in surplus cover in the leverage ratio on a going concern basis of 2.5 percent as at 31 December 2019 (30 September 2019: 2.0 percent), equivalent to CHF 4,633 million (30 September 2019: CHF 3,799 million).

Eligible capital on a gone concern basis for the leverage ratio is also the same as for the risk-based requirements. At CHF 893 million (0.5 percent of total exposure), the eligible additional loss-absorbing capital exceeds the gone concern requirement of CHF 596 million as at 31 December 2019.

With the current composition of eligible capital and eligible additional loss-absorbing capital, Zürcher Kantonalbank would meet the final rules from 2020 and 2026 respectively as follows: There is surplus cover of CHF 2,614 million above the risk-based going concern requirement. The gone concern requirement would be met exactly. On an unweighted basis, the surplus cover amounts to CHF 3,072 million above the going concern requirement and to CHF 2 million above the gone concern requirement.

As a systemically important bank, Zürcher Kantonalbank is subject to stricter liquidity requirements. Zürcher Kantonalbank's ongoing comfortable liquidity situation is also reflected in its liquidity coverage ratio (LCR). The LCR on a group basis is virtually unchanged compared with the previous quarter and averaged 123 percent in the fourth quarter of 2019 (third quarter of 2019: 127 percent).

### 3 Publication frequency of the details on capital and liquidity

The following table gives an overview of the publication frequency of capital and liquidity details which have to be disclosed under current regulations (FINMA Circular 2016/1 "Disclosure – banks"). Tables marked n/a are not applicable for Zürcher Kantonalbank and so are not produced. All other tables are published at the prescribed frequency for domestic systemically important banks reporting financial information semi-annually.

Reference	Table name	QUAL or QC <sup>1</sup>	Disclosure frequency		
			Quarterly	Semiannual	Annual
KM1	Key metrics	QC	X		
KM2	Key metrics - TLAC requirements (at resolution group level)	QC	n/a	n/a	n/a
OVA	Bank risk management approach	QUAL			X
OV1	Overview of RWA	QC		X	
LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	QC			X
LI2	Main sources of differences between regulatory exposure amounts and carrying values in consolidated financial statements	QC			X
LIA	Explanations of differences between accounting and regulatory exposure amounts	QUAL			X
PV1	Prudent valuation adjustments (PVA)	QC			X
CC1	Composition of regulatory capital	QC		X	
CC2	Reconciliation of regulatory capital to balance sheet	QC		X	
CCA	Main features of regulatory capital instruments and of other TLAC-eligible instruments	QUAL / QC		X	
TLAC1	TLAC composition for G-SIBs (at resolution group level)	QC	n/a	n/a	n/a
TLAC2	Material subgroup entity - creditor ranking at legal entity level	QC	n/a	n/a	n/a
TLAC3	Resolution entity - creditor ranking at legal entity level	QC	n/a	n/a	n/a
GSIB1	Disclosure of G-SIB indicators	QC	n/a	n/a	n/a
CCyB1	Geographical distribution of credit exposures used in the countercyclical buffer	QC	n/a	n/a	n/a
LR1	Leverage ratio: summary comparison of accounting assets vs leverage ratio exposure measure	QC		X	
LR2	Leverage ratio: leverage ratio common disclosure template	QC		X	
LIQA	Liquidity: liquidity risk management	QUAL / QC			X
LIQ1	Liquidity: Liquidity coverage ratio (LCR)	QC		X	
LIQ2	Liquidity: Net stable funding ratio (NSFR)	QC		X	
CRA	Credit risk: general qualitative information about credit risk	QUAL			X
CR1	Credit risk: credit quality of assets	QC		X	
CR2	Credit risk: changes in stock of defaulted loans and debt securities	QC		X	
CRB	Credit risk: additional disclosure related to the credit quality of assets	QUAL / QC			X
CRC	Credit risk: qualitative disclosure requirements related to credit risk mitigation techniques	QUAL			X
CR3	Credit risk: credit risk mitigation techniques - overview	QC		X	
CRD	Credit risk: qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk	QUAL			X
CR4	Credit risk: standardised approach - credit risk exposure and credit risk mitigation (CRM) effects	QC		X	
CR5	Credit risk: standardised approach - exposures by asset classes and risk weights	QC		X	
CRE	IRB: qualitative disclosures related to IRB models	QUAL			X
CR6	IRB: credit risk exposures by portfolio and probability of default (PD) range	QC		X	
CR7	IRB: effect on RWA of credit derivatives used as CRM techniques	QC		X	
CR8	IRB: RWA flow statements of credit risk exposures under IRB	QC		X	
CR9	IRB: back-testing of PD per portfolio	QC			X
CR10	IRB: specialised lending and equities under the simple risk weight method	QC		X	
CCRA	Counterparty credit risk: qualitative disclosure related to counterparty credit risk	QUAL			X
CCR1	Counterparty credit risk: analysis of counterparty credit risk (CCR) exposure by approach	QC		X	
CCR2	Counterparty credit risk: credit valuation adjustment (CVA) capital charge	QC		X	
CCR3	Counterparty credit risk: standardised approach of CCR exposures by regulatory portfolio and risk weights	QC		X	
CCR4	IRB: CCR exposures by portfolio and PD scale	QC		X	
CCR5	Counterparty credit risk: composition of collateral for CCR exposure	QC		X	
CCR6	Counterparty credit risk: credit derivatives exposures	QC		X	
CCR7	Counterparty credit risk: RWA flow statements of CCR exposures under the Internal Model Method (IMM)	QC		X	
CCR8	Counterparty credit risk: exposures to central counterparties	QC		X	

<sup>1</sup> Qualitative (QUAL) or quantitative with comments (QC)



Reference	Table name	QUAL or QC <sup>1</sup>	Disclosure frequency		
			Quarterly	Semiannual	Annual
SECA	Securitisations: qualitative disclosure requirements related to securitisation exposures	QUAL			X
SEC1	Securitisations: exposures in the banking book	QC		X	
SEC2	Securitisations: exposures in the trading book	QC		X	
SEC3	Securitisations: exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	QC		X	
SEC4	Securitisations: exposures in the banking book and associated capital requirements – bank acting as investor	QC		X	
MRA	Market risk: general qualitative disclosure requirements related to market risk	QUAL			X
MR1	Market risk: market risk under SA	QC		X	
MRB	Market risk: qualitative disclosures for banks using the Internal Model Approach (IMA)	QUAL			X
MR2	Market risk: RWA flow statements of market risk exposures under IMA	QC		X	
MR3	Market risk: IMA values for trading portfolios	QC		X	
MR4	Market risk: comparison of VaR estimates with gains/losses	QC		X	
IRRBBA	Interest rate risk: interest rate risk in the banking book (IRRBB) risk management objective and policies	QUAL / QC			X
IRRBBA1	Interest rate risk: quantitative information on exposure structure and repricing	QC			X
IRRBB1	Interest rate risk: quantitative information on IRRBB	QC			X
REMA	Remuneration: policy	QUAL	n/a	n/a	n/a
REMA1	Remuneration: remuneration awarded during the financial year	QC	n/a	n/a	n/a
REMA2	Remuneration: special payments	QC	n/a	n/a	n/a
REMA3	Remuneration: deferred remuneration	QC	n/a	n/a	n/a
ORA	Qualitative disclosure requirements related to operational risks	QUAL			X
Annex 3	Disclosure requirements for systemically important banks: risk-based capital requirements based on capital ratios	QC	X		
Annex 3	Disclosure requirements for systemically important banks: unweighted capital requirements based on the leverage ratio	QC	X		

<sup>1</sup> Qualitative (QUAL) or quantitative with comments (QC)

## 4 Overview total risk

### 4.1 KM1: Key metrics (group)

Group	a	b	c	d	e
<i>in million CHF (unless stated otherwise)</i>	<b>31.12.2019</b>	<b>30.09.2019</b>	<b>30.06.2019</b>	<b>31.03.2019</b>	<b>31.12.2018</b>
<b>Eligible capital</b>					
1 Common equity Tier 1 (CET1)	11,515	11,019	11,030	11,173	11,171
1a Fully loaded ECL (expected credit loss) accounting model CET1 <sup>1</sup>	-	-	-	-	-
2 Tier 1 capital (T1)	12,261	11,760	11,776	11,915	11,910
2a Fully loaded ECL (expected credit loss) accounting model T1 <sup>1</sup>	-	-	-	-	-
3 Total capital	12,986	12,486	12,513	12,657	12,658
3a Fully loaded ECL (expected credit loss) accounting model total capital <sup>1</sup>	-	-	-	-	-
<b>Risk-weighted assets (RWA)</b>					
4 RWA	64,983	66,720	64,187	64,580	62,674
<b>Minimum required capital</b>					
4a Minimum required capital	5,199	5,338	5,135	5,166	5,014
<b>Risk-based capital ratios (in % of RWA) <sup>2</sup></b>					
5 CET1 ratio	17.7%	16.5%	17.2%	17.3%	17.8%
5a Fully loaded ECL (expected credit loss) accounting model CET1 ratio <sup>1</sup>	-	-	-	-	-
6 Tier 1 capital ratio	18.9%	17.6%	18.3%	18.5%	19.0%
6a Fully loaded ECL (expected credit loss) accounting model Tier 1 ratio <sup>1</sup>	-	-	-	-	-
7 Total capital ratio	20.0%	18.7%	19.5%	19.6%	20.2%
7a Fully loaded ECL (expected credit loss) accounting model total capital ratio <sup>1</sup>	-	-	-	-	-
<b>CET1 buffer requirements (in % of RWA)</b>					
8 Capital conservation buffer as per the Basel minimum standards (2.5% from 2019)	2.5%	2.5%	2.5%	2.5%	1.9%
9 Countercyclical buffer (Art. 44a CAO) in accordance with the Basel minimum standards	-	-	-	-	-
10 Additional capital buffer due to international or national system relevance	-	-	-	-	-
11 Total of bank CET1 specific buffer requirements	2.5%	2.5%	2.5%	2.5%	1.9%
12 CET1 available after meeting the bank's minimum capital requirements	12.0%	10.7%	11.5%	11.6%	12.2%
<b>Capital target ratios as per Annex 8 to the CAO (in % of RWA) <sup>3</sup></b>					
12a Capital conservation buffer in accordance with Annex 8 to the CAO	-	-	-	-	-
12b Countercyclical buffers (Art. 44 and Art. 44a CAO)	-	-	-	-	-
Countercyclical buffer (Art. 44 CAO)	0.7%	0.7%	0.7%	0.7%	0.7%
12c CET1 target ratio in accordance with Annex 8 to the CAO plus the countercyclical buffers in accordance with Art. 44 and 44a CAO	-	-	-	-	-
12d T1 target ratio in accordance with Annex 8 to the CAO plus countercyclical buffers in accordance with Art. 44 and 44a CAO	-	-	-	-	-
12e Total capital target ratio in accordance with Annex 8 to the CAO plus countercyclical buffers in accordance with Art. 44 and 44a CAO	-	-	-	-	-
<b>Basel III leverage ratio</b>					
13 Total Basel III leverage ratio exposure measure	185,628	189,879	187,040	187,693	185,574
14 Basel III leverage ratio (Tier 1 capital in % of leverage ratio exposure measure)	6.6%	6.2%	6.3%	6.3%	6.4%
14a Basel III leverage ratio under the fully loaded ECL (expected credit loss) accounting model (Tier 1 capital in % of leverage ratio exposure measure) <sup>1</sup>	-	-	-	-	-
<b>Liquidity coverage ratio (LCR) <sup>4</sup></b>					
15 LCR numerator: total high-quality liquid assets (HQLA)	43,679	49,119	48,017	48,692	43,393
16 LCR denominator: total net outflows of funds	35,594	38,539	38,430	37,199	34,184
17 Liquidity coverage ratio (LCR)	123%	127%	125%	131%	127%
<b>Net stable funding ratio (NSFR) <sup>5</sup></b>					
18 Available stable refinancing	-	-	-	-	-
19 Required stable refinancing	-	-	-	-	-
20 Net stable funding ratio, (NSFR)	-	-	-	-	-

<sup>1</sup> Banks for which expected loss accounting is not applicable as well as banks that are not using the transitional regulations can ignore the relevant rows above. Zürcher Kantonalbank does not use expected loss accounting, which is why these rows are not applicable.

<sup>2</sup> The figures are calculated in accordance with the provisions of the CAO for non-systemically important banks.

<sup>3</sup> Systemically important banks can forego the information in rows 12a to 12e, as Annex 8 to the CAO does not apply to them. In this instance, they must nevertheless provide information on the countercyclical buffer in accordance with Art. 44 CAO.

<sup>4</sup> Simple average of the closing values on the business days during the quarter under review.

<sup>5</sup> Rows 18 – 20 must only be disclosed once the NSFR regulation has entered into force.

Compared to 30 September 2019, Common Equity Tier 1 (CET1) increased mainly by the planned retained profit (CHF 339 million). As the extraordinary anniversary dividend was already reflected in eligible regulatory capital from 30 June 2019, this had a positive effect of CHF 150 million on Common Equity Tier 1 (CET1) as at 31 December 2019. Tier 1 capital (T1) and total capital increased by the same amount as Common Equity Tier 1 (CET1).

RWA fell by CHF 1,737 million overall compared with 30 September 2019. The largest changes are mainly due to lower volumes in items under counterparty credit risk (impact on RWA: CHF -894 million) and in the portfolio of bonds with lower ratings and longer maturities under market risk (impact on RWA: CHF -730 million). The RWA for the credit valuation adjustment (CVA) also declined (CHF -602 million) as a result of lower volumes. By contrast, the RWA for equity positions in the banking book (CHF +259 million) and for equity investments in funds (CHF +204 million) increased. Both factors related mainly to positive value adjustments in equity securities.

The combination of the lower RWA compared with 30 September 2019 and higher eligible capital resulted in an increase in the capital ratios of around 1.3 percentage points. With CET1 buffer requirements as per the Basel minimum standards unchanged, the ratio of CET1 available after meeting the bank's minimum capital requirements also increased by 1.3 percentage points. The requirement for the countercyclical buffer has not changed significantly.

Total Basel III leverage ratio exposure measure decreased by CHF 4,251 million to CHF 185,628 million during the quarter. The most significant changes can be seen in the total on-balance sheet exposures within the leverage ratio framework, excluding derivatives and SFTs (a decrease of CHF 7,860 million) and, conversely, in the total SFT exposures, which increased by CHF 4,111 million. Together with the increase in eligible capital described above, this resulted in a leverage ratio of 6.6 percent as at 31 December 2019 (as at 30 September 2019: 6.2 percent).

The LCR on a group basis is virtually unchanged compared with the previous quarter and averaged 123 percent in the fourth quarter of 2019 (third quarter of 2019: 127 percent).

## 4.2 KM1: Key metrics (parent company)

The group's regulatory ratios are largely driven by the figures at the parent company. Hence the comments and explanations for the parent company are essentially identical to those for the group (see above) and will not be repeated here.

<b>Parent company</b>		a	b	c	d	e
<i>in million CHF (unless stated otherwise)</i>		<b>31.12.2019</b>	<b>30.09.2019</b>	<b>30.06.2019</b>	<b>31.03.2019</b>	<b>31.12.2018</b>
<b>Eligible capital</b>						
1	Common equity Tier 1 (CET1)	11,781	11,193	11,212	11,363	10,931
1a	Fully loaded ECL (expected credit loss) accounting model CET1 <sup>1</sup>	-	-	-	-	-
2	Tier 1 capital (T1)	12,526	11,934	11,958	12,105	11,671
2a	Fully loaded ECL (expected credit loss) accounting model T1 <sup>1</sup>	-	-	-	-	-
3	Total capital	13,252	12,660	12,694	12,847	12,418
3a	Fully loaded ECL (expected credit loss) accounting model total capital <sup>1</sup>	-	-	-	-	-
<b>Risk-weighted assets (RWA)</b>						
4	RWA	65,936	67,532	65,008	65,515	62,493
<b>Minimum required capital</b>						
4a	Minimum required capital	5,275	5,403	5,201	5,241	4,999
<b>Risk-based capital ratios (in % of RWA) <sup>2</sup></b>						
5	CET1 ratio	17.9%	16.6%	17.2%	17.3%	17.5%
5a	Fully loaded ECL (expected credit loss) accounting model CET1 ratio <sup>1</sup>	-	-	-	-	-
6	Tier 1 capital ratio	19.0%	17.7%	18.4%	18.5%	18.7%
6a	Fully loaded ECL (expected credit loss) accounting model Tier 1 ratio <sup>1</sup>	-	-	-	-	-
7	Total capital ratio	20.1%	18.7%	19.5%	19.6%	19.9%
7a	Fully loaded ECL (expected credit loss) accounting model total capital ratio <sup>1</sup>	-	-	-	-	-
<b>CET1 buffer requirements (in % of RWA)</b>						
8	Capital conservation buffer as per the Basel minimum standards (2.5% from 2019)	2.5%	2.5%	2.5%	2.5%	1.9%
9	Countercyclical buffer (Art. 44a CAO) in accordance with the Basel minimum standards	-	-	-	-	-
10	Additional capital buffer due to international or national system relevance	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements	2.5%	2.5%	2.5%	2.5%	1.9%
12	CET1 available after meeting the bank's minimum capital requirements	12.1%	10.7%	11.5%	11.6%	11.9%
<b>Capital target ratios as per Annex 8 to the CAO (in % of RWA) <sup>3</sup></b>						
12a	Capital conservation buffer in accordance with Annex 8 to the CAO	-	-	-	-	-
12b	Countercyclical buffers (Art. 44 and Art. 44a CAO)	-	-	-	-	-
	Countercyclical buffer (Art. 44 CAO)	0.7%	0.7%	0.7%	0.7%	0.7%
12c	CET1 target ratio in accordance with Annex 8 to the CAO plus the countercyclical buffers in accordance with Art. 44 and 44a CAO	-	-	-	-	-
12d	T1 target ratio in accordance with Annex 8 to the CAO plus countercyclical buffers in accordance with Art. 44 and 44a CAO	-	-	-	-	-
12e	Total capital target ratio in accordance with Annex 8 to the CAO plus countercyclical buffers in accordance with Art. 44 and 44a CAO	-	-	-	-	-
<b>Basel III leverage ratio</b>						
13	Total Basel III leverage ratio exposure measure	185,801	190,094	187,198	187,893	185,361
14	Basel III leverage ratio (Tier 1 capital in % of leverage ratio exposure measure)	6.7%	6.3%	6.4%	6.4%	6.3%
14a	Basel III leverage ratio under the fully loaded ECL (expected credit loss) accounting model (Tier 1 capital in % of leverage ratio exposure measure) <sup>1</sup>	-	-	-	-	-
<b>Liquidity coverage ratio (LCR) <sup>4</sup></b>						
15	LCR numerator: total high-quality liquid assets (HQLA)	43,661	49,102	47,996	48,675	43,370
16	LCR denominator: total net outflows of funds	35,732	38,692	38,611	37,396	34,366
17	Liquidity coverage ratio (LCR)	122%	127%	124%	130%	126%
<b>Net stable funding ratio (NSFR) <sup>5</sup></b>						
18	Available stable refinancing	-	-	-	-	-
19	Required stable refinancing	-	-	-	-	-
20	Net stable funding ratio, (NSFR)	-	-	-	-	-

<sup>1</sup> Banks for which expected loss accounting is not applicable as well as banks that are not using the transitional regulations can ignore the relevant rows above. Zürcher Kantonalbank does not use expected loss accounting, which is why these rows are not applicable.

<sup>2</sup> The figures are calculated in accordance with the provisions of the CAO for non-systemically important banks.

<sup>3</sup> Systemically important banks can forego the information in rows 12a to 12e, as Annex 8 to the CAO does not apply to them. In this instance, they must nevertheless provide information on the countercyclical buffer in accordance with Art. 44 CAO.

<sup>4</sup> Simple average of the closing values on the business days during the quarter under review.

<sup>5</sup> Rows 18 – 20 must only be disclosed once the NSFR regulation has entered into force.

### 4.3 OVA: Bank risk management approach

Ongoing operations at a universal bank such as Zürcher Kantonalbank require comprehensive and systematic risk management, with monitoring and controlling units acting independently of the risk managers.

#### Principles of risk management

The objective of risk management is to support the bank in generating added value while maintaining a first-class credit rating and reputation. Zürcher Kantonalbank's approach to risk management is based on the following principles:

- Risk culture: The bank fosters a risk culture that is geared towards responsible behaviour. Risk managers bear responsibility for profits and losses generated on the risks entered into. In addition, they bear primary responsibility for identifying transactions and structures that entail particular business policy risks, conflicts of interest or particular effects on the bank's reputation.
- Separation of functions: For significant risks and to avoid conflicts of interest, the bank has established control processes that are independent of management.
- Risk identification and monitoring: The bank only enters into transactions if the risks are in accordance with its business strategy and can be appropriately identified, managed, restricted and monitored.
- Risk and return: The bank seeks to achieve a balanced relationship between risk and return for all transactions. Assessment of the risk / return profile takes account of quantifiable as well as non-quantifiable risks.
- Transparency: Risk reporting and disclosure are guided by high industry standards in terms of objectivity, scope, transparency and timeliness.

#### Internal control system (ICS)

The ICS comprises all of the control structures and processes that constitute the basis for the achievement of the group's business policy objectives and its proper operation at all levels. The ICS comprises not only retrospective checks but also planning and management activities. An effective ICS includes control activities that are integrated into workflows, suitable risk management and compliance processes, and appropriate supervisory bodies compared to the size, complexity and risk profile of the institution, in particular an independent risk control and compliance function. The key elements of the ICS at Zürcher Kantonalbank are:

- the risk policy parameters of the Board of Directors for safeguarding the group's credit rating and reputation;
- systematic risk analysis and periodic monitoring of the appropriateness and effectiveness of internal controls by the Executive Board and Board of Directors;
- the group's established processes for risk management and compliance with applicable standards and
- the systematic process to ensure the appropriateness and effectiveness of internal controls by the individual business units and business processes.

Identifying and reducing the inherent risks involved in the business model are also an important aspect of the internal control system. For more information on the underlying processes, please see Table CRA (Credit risk, page 42), Table CCRA (Counterparty credit risk, page 64), Table MRA (Market risk, page 71) und Table ORA (Operational risks, page 81).

For reporting on the effectiveness of the ICS, please see section "Internal risk reporting" on page 23.

## Risk management process

Zürcher Kantonalbank divides the risk management process into the following stages:



<b>Identification</b>	The risks relevant to the group are identified on an ongoing basis, either through regular, systematic observation of the corporate environment and risk profile, or as the potential result of one of the following steps.
<b>Assessment</b>	Assessment of an identified risk includes qualitative assessment and quantification. In order to counter the limits to quantification of different types of risk, models or expert assessments are used depending on the type of risk to calculate the potential size of the loss, the probability of occurrence and the correlation with other risks.
<b>Steering</b>	Risk steering is assured via risk tolerance requirements. Risk tolerance includes both quantitative and qualitative considerations concerning the main risks the group is willing to accept to achieve its strategic business objectives given its capital and liquidity planning. Qualitative risk requirements are primarily issued in the form of regulations, directives or instructions, but also cover risk policy and aspects of strategy. Quantitative requirements are issued in the form of limits and benchmarks. At group level, these are chiefly the risk policy rules from the Board of Directors and the risk limits of the Executive Board (EB).
<b>Management</b>	Units managing risk perform their tasks within the risk tolerance set by the officer responsible. This includes taking countermeasures to avoid or limit risks or loss.
<b>Monitoring</b>	Risk monitoring takes the form of limit monitoring and ongoing monitoring of risk exposures by units independent of the risk manager. The risk organisation and the Compliance function are examples of such units.
<b>Reporting</b>	Risk reporting supports all levels of the hierarchy in assessing and monitoring risks.

## Principles of compliance

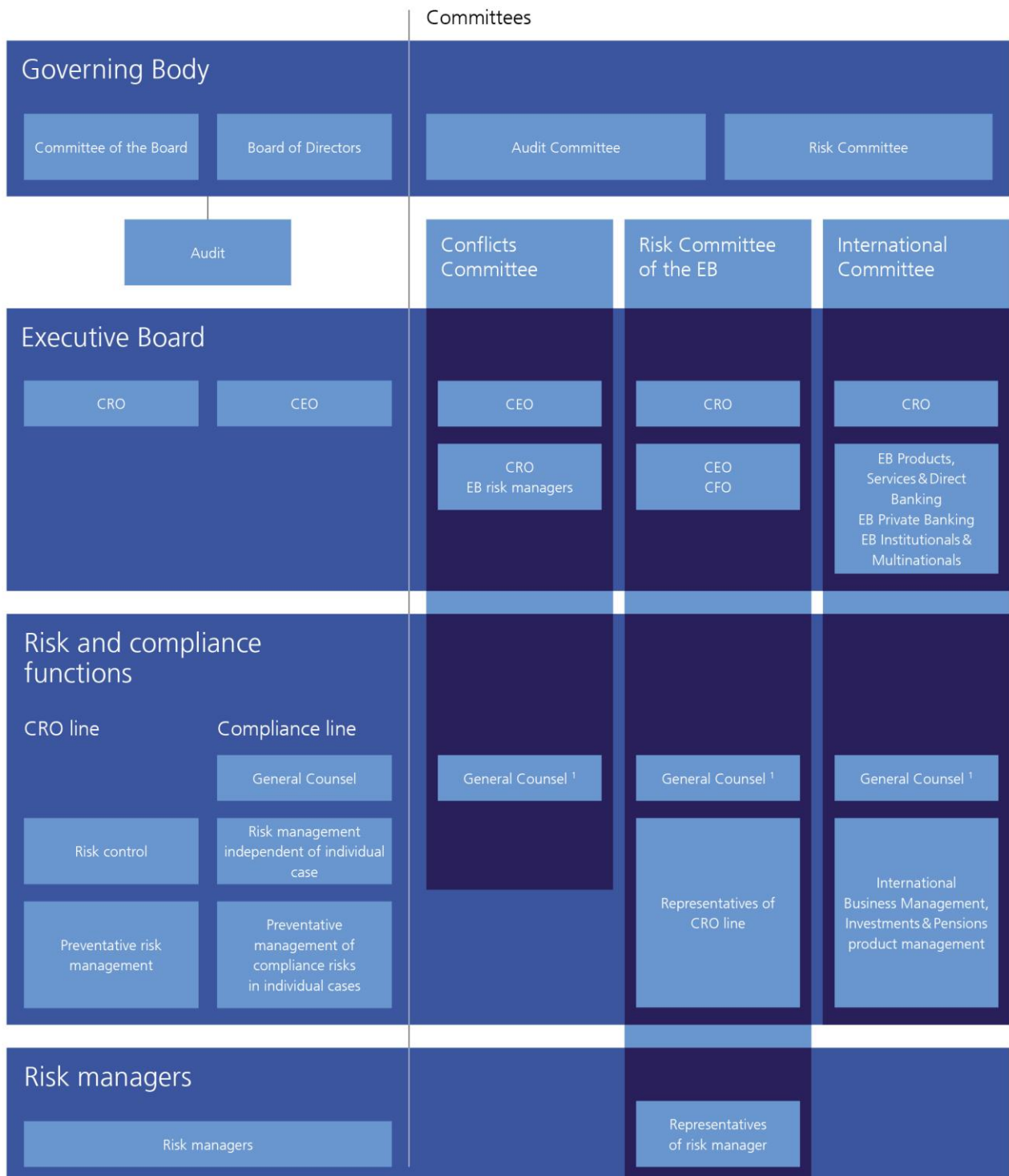
The objective of compliance is to ensure that Zürcher Kantonalbank conducts its business operations in accordance with legal and ethical norms. The principles of the compliance policy are as follows:

- relevant legal and ethical norms;
- ethical and performance-related basic values in a code of conduct;
- duty of all employees and members of governing bodies to comply with laws, regulations, internal rules, industry standards and codes of conduct, including appropriate sanctions for any violations;
- special reporting procedure available to employees for identified violations of the rules (whistle-blowing).

Primary responsibility for compliance lies with the Executive Board. The Compliance function prepares an annual assessment of compliance risk and a corresponding action plan based on a risk inventory. The Compliance function is organisationally independent of the income-driven business units. The most important principle of all is that Zürcher Kantonalbank conducts its banking operations in accordance with the statutory and regulatory provisions as well as recognised professional and ethical principles within the banking industry.

## Risk organisation

Risk organisation at Zürcher Kantonalbank is arranged so that the profit-oriented functions of taking and managing risk are always structurally separate at Executive Board level from the preventive risk management and risk control functions.



<sup>1</sup> General Counsel has the right of escalation to the Committee of the Board at any time.

## **Board of Directors**

The Board of Directors approves the principles for risk management and compliance, the Code of Conduct, the framework for group-wide risk management and the risk tolerance regulations at group level. It is responsible for the regulation, organisation and monitoring of an effective risk management system as well as the management of overall risks. The Board of Directors is responsible for assuring a suitable risk and control environment within the group and arranges for an effective internal control system (ICS). It also approves transactions involving major financial exposure. The Risk Committee and Audit Committee of the Board of Directors support the Board in its tasks and duties in the areas of risk management and the internal control system.

## **Committee of the Board**

The Committee of the Board approves limits and deals with transactions involving particular business policy risks, conflicts of interest or particular effects on the group's reputation where these exceed the remit of the Executive Board and do not fall within the remit of the Board of Directors.

## **Audit**

Audit supports the Board of Directors in fulfilling its statutory supervisory and control tasks and discharges the monitoring tasks assigned to it by the Board of Directors. In particular, Audit independently and objectively evaluates the appropriateness and effectiveness of the internal control and risk management processes and contributes towards their improvement. Audit also checks the bank's compliance with regulatory provisions, internal directives and guidelines. Audit has unlimited rights of inspection, information and access within the entire group. Audit provides line managers with support in the form of consulting services that help to increase the efficiency of organisational structures and processes.

## **Executive Board**

The Executive Board issues provisions for the identification, evaluation, control, management, monitoring and reporting of risks in the form of directives. The Executive Board is also responsible for approving transactions that entail particular business policy risks, conflicts of interest or particular effects on the reputation of Zürcher Kantonalbank, unless they are assigned to another officer under the applicable regulations.

## **Risk unit**

The Chief Risk Officer (CRO) is a member of the Executive Board and heads the Risk unit. He has a right of intervention that permits measures to be assigned to the risk managers if required by the risk situation or to protect the bank. The CRO also enjoys direct access to the Committee of the Board at all times. The business unit consists of the Credit Risk, Market Risk, Operational Risk and Risk Control organisational units.

Risk Control is responsible for identifying and monitoring risks at portfolio level, monitoring compliance with the risk tolerance requirements set out by the Board of Directors, and integrated risk reporting to the Executive Board and Board of Directors. The risk control function is responsible for defining methods of risk measurement, model validation, as well as execution and quality assurance in relation to the risk measurement implemented.

Preventative risk management is responsible for the analysis and examination of transactions and systems prior to their conclusion or introduction in line with existing delineations of power and consultation duties, the definition of requirements at individual transaction or system level, the continuous local monitoring of risks, and the provision of support in the training of risk managers. Preventive risk management in the area of operational risk security is carried out outside the Risk business unit by the respective process managers and in the Security department of the IT, Operations & Real Estate business unit.



### **Compliance line / Compliance function**

The General Counsel reports directly to the CEO and manages the Compliance unit. As a member of the Risk, Conflicts and International Committees of the Executive Board, he has a right of escalation to the Committee of the Board. He also enjoys direct access to the Committee of the Board at all times.

The Compliance function has the following duties: examining the compliance risk inventory on an annual basis and preparing the action plan with focal points relating to the management of compliance risks, formulating proposals and if necessary carrying out defined monitoring and control duties (e.g. as pre-deal or post-deal control), as well as defining risk management tools. The Compliance function also defines risk management measures independently of the individual case, such as the editing of directives in the context of the implementation of new directives and provision of training courses. The Compliance function is further responsible for providing forward-looking legal advice with the objective of avoiding or minimising individual identified risks and threats arising from legal requirements. Legal advice is provided in the context of existing mandatory consultations, as a pre-deal consultation or on request.

### **Risk managers**

The risk managers bear responsibility for profits and losses generated on the risks entered into. They are responsible for the continuous, active management of risks and for constant compliance with internal risk tolerance regulations, relevant laws, ordinances, circulars and standards. The sales units are responsible for credit risks as risk managers and the Trading and Capital Markets organisational unit for market risks in the trading book. Interest rate risks in the banking book and liquidity risks are the responsibility of Treasury in the Finance unit. All units of the bank are responsible for managing operational and compliance risks.

### **Risk Committee of the Board of Directors**

The Risk Committee of the Board of Directors focuses on credit, market and liquidity risks, operational and compliance risks, and reputation risks. It performs the tasks set out in FINMA Circular 2017/1 "Corporate governance – banks". These are, in summary:

- To discuss and review the overall concept in place annually;
- To give preliminary consideration to the risk policy rules;
- To acknowledge and discuss risk reporting;
- To monitor implementation of the risk strategies to ensure they are compatible with the risk tolerance and risk limits set;
- To review the capital and liquidity planning;
- To assess measures taken as a result of audit recommendations;
- To assess the bank's compensation system for risk-related issues.

The Risk Committee of the Board of Directors also provides preliminary advice on major transactions that fall within the remit of the Board of Directors. The committee is also kept informed of transactions that fall within the remit of the Committee of the Board. The duties, competences and responsibility of the committee are set out in the Guidelines on the Duties and Powers of the Risk Committee of Zürcher Kantonalbank.

### **Audit Committee of the Board of Directors**

The Audit Committee is an audit committee as defined in FINMA Circular 2017/1 "Corporate governance – banks" and supports the Board of Directors at group and parent company level in monitoring internal and external audit, the internal control system and the audit of the annual financial statements. The duties and powers of the Audit Committee of the Board of Directors include:

- analysing and discussing the general and annual planning;
- assessing the proper functioning of the ICS and informing the Board of Directors about this;
- receiving and discussing the activity reports of the Compliance function and Risk Control.

The duties, competences and responsibilities of the committee are set out in the Guidelines on the Duties and Powers of the Audit Committee of Zürcher Kantonalbank.

### **Risk Committee of the Executive Board and committees**

The Risk Committee assists the Executive Board in defining risk management processes. The Committee is chaired by the CRO and approves the methods of risk measurement on the basis of the responsibilities delegated to it. The risk managers represented on four separate sub-committees (credit, trading, treasury and operational risk) and members of the risk and compliance organisation discuss the Risk Committee's business and formulate proposals for its attention.

### **Conflicts Committee**

Based on the responsibilities delegated to them, the members of the Executive Board represented on the Conflicts Committee take decisions regarding transactions that entail particular business policy risks, conflicts of interest or particular effects on the group's reputation. The Conflicts Committee is chaired by the CEO; its escalation body is the Committee of the Board.

### **International Committee**

The International Committee is chaired by the CRO. It is responsible for defining the specific business policy requirements for transactions with an international dimension, monitoring and reporting on such transactions, and approving the permissible business activities per country.

### **Crisis organisation**

In the event of a crisis, in addition to the above committees, a Risk Crisis Team is set up, supported by divisional crisis teams. It has the task of ensuring that decisions are taken in an efficient and coordinated manner in the event of a crisis. The crisis team provides support to the EB during crises affecting the group, such as systemic and financial market crises, which the emergency organisation cannot cover. The divisional crisis teams (banks, liquidity and investments/clients) cross reporting lines, with the aim of working with all units affected to identify and implement necessary and appropriate measures in their area of responsibility.

### **Business continuity management (BCM)**

The emergency organisation is led by the Head of IT, Operations & Real Estate and supports the bank in dealing with major disruptions and crises caused by operational risks that cannot be resolved by the normal line organisation. It is important to distinguish crisis management from the associated advance planning measures (which are part of business continuity management).

The emergency organisations in the business units/areas are responsible for dealing with major disruptions in their own unit/area caused by the occurrence of an operational risk which cannot be resolved by the normal line organisation. The Sales emergency organisation has responsibility for sales across business units.

## Risk categories

Zürcher Kantonalbank divides risks into the following categories:

### Credit risk

Definition	<b>Credit risk</b> constitutes the risk of financial losses that can arise if clients or counterparties do not fulfil contractual obligations that are falling due or do not fulfil them on time. Loans, promises of payment and trading transactions all involve credit risks.
Sub-categories	<b>Counterparty credit risks</b> refer to credit risks in trading transactions (e.g. OTC derivatives and SLB transactions). Trading transactions usually include mutual claims, which also depend on market parameters. Counterparty risks are also referred to as counterparty default risks. <b>Settlement risks</b> describe the risk of losses in connection with transactions involving mutual payment and delivery obligations, where the bank must meet its delivery obligation without first being able to ensure that counter-payment will be made. <b>Country risks:</b> The risk of losses as the result of country-specific events, such as transfer risks (payment of a liability is restricted or prevented by a country) and risks arising from political and / or macroeconomic events.
Management	Sales units, Trading
Indep. monitoring	Risk unit

### Market risk

Definition	<b>Market risks</b> comprise the risk of financial losses on securities and derivatives in the bank's own portfolio as a result of changes in market factors, such as share prices, interest rates, volatilities or exchange rates (general market risks), as well as for issuer-specific reasons (specific market risks).
Sub-categories	<b>Balance sheet interest risk</b> is the risk that changes in market interest rates will impact negatively on the financial situation of the banking book. As well as affecting current interest income, changes in interest rates have implications for future results. The interest rate risk is managed based on the market interest method. <b>Market liquidity risk</b> is the risk that a product can no longer be easily sold (or purchased) on a market. The higher the market liquidity, the greater the chance of purchasing or selling a product for an appropriate price at the desired time. <b>Issuer (default) risk</b> is the risk of a loss arising from a change in fair value resulting from a credit event affecting an issuer to which the bank is exposed through marketable securities or derivatives from this issuer.
Management	Trading, Treasury
Indep. monitoring	Risk unit

## Liquidity risk

Definition	<b>Liquidity</b> refers to the bank's capacity to settle its liabilities promptly and without restrictions. <b>Liquidity risk</b> is the risk that this capacity to pay will be impaired under institution or market-related stress conditions.
Sub-categories	<b>(Re-)financing risk:</b> Refinancing refers to the procurement of funds for the financing of assets. Refinancing risk is the risk that the bank is not in a position to procure sufficient funds at appropriate conditions for the ongoing financing of its lending business. <b>Short-term liquidity</b> ensures that the bank is able to make payments over a short period of time in the event of a systemic or institution-specific liquidity crisis by holding a sufficiently large inventory of high-quality liquid and unencumbered assets as a financial precaution against a temporary liquidity gap. Often, 30 calendar days are used as the definition period. The regulatory indicator for short-term liquidity is the liquidity coverage ratio (LCR). <b>Structural liquidity</b> has a medium-term horizon and ensures that refinancing as per the liquidity profile of the assets takes place with stable liabilities. Structural liquidity requirements specify that illiquid assets such as loans to private individuals and companies, as well as parts of the trading portfolio, are to be refinanced through long-term liabilities. The regulatory indicator for structural liquidity is the net stable funding ratio (NSFR).
Management	Treasury and Money Trading
Indep. monitoring	Risk unit

## Operational risk

Definition	<b>Operational risks</b> refer to potential damage caused by the inappropriateness or failure of persons, systems or processes or due to external events.
Sub-categories	<b>IT risks</b> refer to the potential damage caused by the loss of confidentiality, integrity and availability of data and functions in IT systems. <b>Cyber risks</b> comprise the risk of attacks from the Internet or similar networks (referred to as hacker attacks) on the confidentiality, integrity and availability of data and functions in IT systems.
Management	All employees, in line with their duties, competences and responsibilities in the group.
Indep. monitoring	Risk unit

## Compliance risk

Definition	<b>Compliance risks</b> are behavioural risks. These are risks that are caused by breaches of the law, regulations or contracts and can result in legal and regulatory sanctions, financial losses and reputational damage. <b>Compliance</b> is the observance of legal, regulatory and internal regulations as well as the adherence to industry standards and codes of conduct. Compliance involves ensuring the behaviour and actions of the Zürcher Kantonalbank and its employees meet applicable legal and ethical standards, and also comprises all organisational measures designed to prevent violations of the law and breaches of rules and ethical norms by Zürcher Kantonalbank, its governing bodies and its employees.
Management	Group board members and all employees
Indep. monitoring	Compliance function

## Strategic risk

Definition	<b>Strategic risks</b> are all possible factors of influence, events and decisions that have the potential to endanger the long-term success of the company.
Management	Board of Directors and Executive Board
Indep. monitoring	None (Board of Directors and EB act as the manager)

## Business risk

Definition	<b>Business risk</b> is the risk that lower business volumes and margins will reduce the group's operating income if the decline in income is not offset by a simultaneous drop in operating expenses. Business risks also include unplanned additional costs in the absence of correspondingly higher income. Business risks materialise when actual income falls short of the budgeted income. This can occur on a one-off and a recurring basis. Typical examples of business risks are unexpectedly decreasing margins and a lack of client demand following an economic downturn.
Management	All group employees, in line with their duties, competences and responsibilities.
Indep. monitoring	Finance unit

## Reputation risk

Definition	<b>Reputation risks</b> involve the risk of damage to the bank's good reputation or, in extreme cases, the risk of losing the bank's good reputation altogether. Aligning business activities to the central core values of the company is the best way in which to guarantee that the company's excellent reputation is maintained and to prevent instances in which activities have a negative impact on the bank's reputation. <b>Reputation</b> denotes the image that a company enjoys among its stakeholders, i.e. the bank's standing in terms of its integrity, competency, performance and reliability from the perspective of stakeholders. Reputational damage occurs when the perception of a stakeholder group differs from its expectations. The trustworthiness and credibility of the bank as aspects of its reputation are negatively influenced by this difference. Reputation is determined by constantly comparing perceptions and expectations over a period of time and is reflected in the company's values and identity.
Management	Group board members and all employees
Indep. monitoring	Group administrative department

## Risk tolerance

Risk tolerance includes both qualitative and quantitative considerations concerning the main risks the group is willing to accept to achieve its strategic business objectives, given its capital and liquidity planning. Risk tolerance is set for each risk category and at group level.

The qualitative elements of risk tolerance are mainly set in the form of regulations, directives and instructions. These are reviewed regularly and adjusted if necessary, but are largely medium and long-term in nature and at the strategic level, going well beyond the horizon of annual quantitative risk policy requirements.

At the Board of Directors level (strategic), the qualitative risk tolerance requirements include in particular the risk management principles set down in the risk and compliance regulations and the code of conduct, the business policy rules in the group strategy and the business policy rules in the special regulations on the individual business areas.

At the Executive Board level (operational), the qualitative requirements include in particular the policies for the individual business areas. Examples include the credit policy rules from the Executive Board (credit policy) or the trading mandates for the individual trading desks.

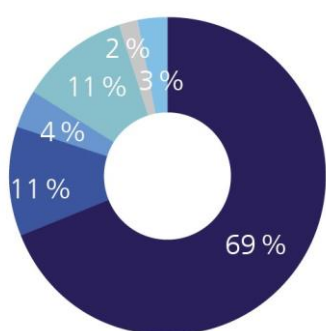
As part of the annual risk policy process the Board of Directors ensures that the risk limits and benchmarks it sets (quantitative risk tolerance) are consistent with the bank's risk capacity.

**Risk capacity** refers to the maximum possible total risk the bank can take without endangering its own credit rating target in a period of heavy stress lasting several years. Risk capacity in capital allocation refers to the maximum risk

capital the Board of Directors can allocate on a one-year horizon. Risk capacity sets the framework for determining quantitative risk tolerance.

**Risk tolerance** refers to the total risk defined for all relevant business types the bank is willing to enter into, bearing in mind the strategic business objectives and the capital and liquidity planning. Risk tolerance is set annually by the Board of Directors, which approves the risk policy requirements for the following year. The Board of Directors ensures that risk tolerance is consistent with risk capacity. The allocation of capital at risk (CaR) to individual risk managers (e.g. Trading) is a key management instrument. Quantitative risk tolerance is set by the Board of Directors, mainly by allocating capital at risk to credit risk, market risk and operational risk; capital at risk for operational risk also covers compliance risk. The risk managers request risk capital from the Board of Directors based on the current risk profile, planned business activities and potential negative trends in the risk profile.

Of the CHF 12,658 million in eligible capital at the end of 2018, a total of CHF 5,510 million was allocated to the risk business in 2019. The percentage breakdown by risk category of the allocated capital is shown below.



Credit risk: 69%  
Operational risk: 11%  
Market risk: 20%  
  of which trading portfolio assets: 4%  
  of which assets and liabilities: 11%  
  of which real estate: 2%  
  of which financial investments and participations: 3%

The figure shows that the risk profile of Zürcher Kantonalbank is strongly influenced by credit risks.

In the case of operational risks, there is no sub-allocation to risk managers. For credit risks the risk committee of the Executive Board makes a sub-allocation to the risk management units in Sales by annually setting sub-portfolio limits.

Provided the total capital at risk requested (CaR limits) is below the previously determined risk capacity (maximum capital at risk), the Board of Directors can set risk tolerance at the level of the capital at risk requested. The process for allocating capital at risk ensures that the quantitative elements of risk tolerance and the capital strategy are mutually compatible.

In addition to capital at risk, the Board of Directors also sets every year the cost of capital rates for internal charging and other quantitative risk tolerance rules, including a limit for liquidity risk and the benchmark for the strategic investment of equity (equity benchmark).

The **risk profile** refers to the risk exposure taken at a given point in time, in the relevant risk categories and aggregated at bank level. The risk profile is reflected in a series of quantitative risk measurement variables and qualitative risk aspects. Limit utilisation is a major measurement and assessment criterion. Ongoing monitoring of the risk profile ensures that it remains within the risk tolerance.

For more information on how the business model interacts with the overall risk profile, please see Table CRA (Credit risk, page 42), Table CCRA (Counterparty credit risk, page 64), Table MRA (Market risk, page 71) und Table ORA (Operational risks, page 81).

## Internal risk reporting

Internal and external risk reporting is guided by high industry standards in terms of objectivity, scope, transparency and timeliness. Risk transparency is fundamental if the recipients of reports are to assess risk properly. Reporting transparency is supported by having a risk reporter organisationally independent from the units managing risk. Risk reporting covers the entire Zürcher Kantonalbank group.

Reporting to the Executive Board and Board of Directors covers all risk categories. The internal reports are produced by the independent monitoring units. The main reports are:

- The quarterly report from the CRO covering events, the risk profile and monitoring of credit, market and liquidity risk, operational risk, compliance risk reported by the General Counsel and reputation risk reported by Corporate Communications.
- The quarterly report from the CRO on the financial position and earnings, along with reporting on business risks, the attainment of strategic objectives and an integrated risk/return perspective.
- The annual report on the suitability and effectiveness of the internal control system and the activities of Risk Control and the Compliance function.

When special developments or events occur, the Executive Board and Board of Directors are informed of changes in the risk profile in additional reports and analyses.

Monitoring reports support risk monitoring in the Risk unit and management controls in the organisational units managing risk. Monitoring reports are produced at higher frequencies for higher risk categories.

## Risk data aggregation and systems

The group structure at Zürcher Kantonalbank, with a relatively small number of subsidiaries and the parent bank regionally focused on the Canton of Zurich, means that risk data aggregation is much simpler than, for example, major banks with global activities. Relative size means that the risk profile of the Zürcher Kantonalbank group is dominated by the risks at the parent bank. Where risks at subsidiaries are material for the risk profile of the group, daily or real-time data updates to the parent bank systems ensure that a reliable and up-to-date picture of the group's risk profile is available at all times.

Risk systems for credit risks

- **Limit monitoring system**  
The system is the group's application for managing counterparty limits and risk management structures for market and default risk. The limit monitoring system contains all credit-risk related exposures, including counterparty risks on trading transactions. Default-related data are supplied by Trading in real time. Aggregated exposure is available by group company and also at group level. Exposures are calculated for different maturity ranges. This takes into account netting and collateral, using pre-defined rules. Exposures can be coded down to individual transaction level by drilling down. The system has a pre-deal function allowing simulation of the impact of potential transactions (e.g. in Trading) on limit utilisation.
- **Risk measurement: Credit Risk Portfolio Management System**  
Credit risks at portfolio level are measured in the Credit Risk Portfolio Management System. It calculates, among other things, capital at risk (CaR) and expected loss (EL). Based on these, the cost of capital and the standard risk cost are determined. Exposure data is provided to the system by the limit monitoring system. This data is then enhanced with collateral information. EL calculations are run at individual client level, CaR is calculated at portfolio level. Exposure data is updated daily. It is possible with the corresponding special rights to make flexible changes to portfolio data, e.g. for stress tests, impact analyses or scenario analyses. There is also an option to use a pre-deal check to add new positions to a portfolio to see the effect on CaR.
- **Reporting and analyses: Credit risk assessment platform**  
The application brings together data from various sources into a single database. The data is available to the Risk business unit as raw data at the individual transaction and limit level, and can be viewed both as a current portfolio and reflecting applications. In addition to exposures and limits, the platform also contains



data on collateral down to the level of individual security, property, guarantee, etc. and information on clients' group structure. The data is used for regular reports and ad hoc assessments. It is normally downloaded monthly from upstream systems, but is also available for other reporting dates, including retrospectively. The assessments themselves are carried out using database query tools.

#### Risk systems for market risks

- [Measurement of trading P&L](#)

A business intelligence solution is used to support the risk organisation in its independent P&L and risk analysis of trading positions. P&L and risk data (valuation of trading positions, P&L attributions and risk sensitivities) and the relevant market data (interest rates, exchange rates, etc.) are obtained from the front office application used by Trading. The system used offers a full plausibilisation, analysis and reporting infrastructure for currencies and securities.

- [Market risk measurement](#)

The market risk measurement system measures capital at risk and value at risk for trading positions. This is calculated at various levels of aggregation (desk, trading area, portfolio, etc.). The application allows model-based valuation of all instruments held in Trading and risk measurement with proprietary simulation models for both market risk and counterparty risk. The market movements for value at risk come from a Monte Carlo simulation. The model implemented in the market risk system is certified by FINMA for capital adequacy requirements for market risks in the general interest rates, currencies, general and specific equities, and commodities categories. Capital adequacy for specific market risks uses the standard approach. Stress tests are run directly in the trading application.

- [Interest rate risk measurement on the balance sheet](#)

The ALM system is the application for managing the balance sheet structure in Treasury and in the Risk unit. Exposures in the banking book which are interest rate-sensitive are updated weekly, and the interest rate position is calculated based on this. The Treasury system is used by Treasury to manage interest rate risk under the market interest rate method and regulatory reporting. In terms of risk control, the ALM system is the basis for measuring interest rate risk from both the net present value and profit perspectives.

#### Risk systems for liquidity risks

- [Liquidity risk system](#)

The system is a scenario-based risk system customised for Zürcher Kantonalbank to measure liquidity risk. In the system, the data for all the bank's transactions that are relevant to liquidity risk measurement are processed, categorised as per the model and their impact on the bank's liquidity buffer simulated. The key indicator set by the Board of Directors is: "minimum liquidity reserve within 30 days under the standard stress scenario".

#### Risk systems for operational risk and compliance risk

- [Operational risk and compliance risk application](#)

This application supports the business units plus Operational Risk and the Compliance function in defining and managing operational and compliance risks. The application is the central location for documenting risks and the associated countermeasures (such as control activities) and for classifying data, functions and systems. It is also a monitoring instrument for dealing with control activities, compliance measures and outstanding audit items.

#### Risk systems for reputation risk, business risk and strategic risk

- No specific systems are used to measure reputation, business or strategic risk. The Finance unit mainly uses SAP systems for accounting and controlling.

### Stress testing

Stress tests are used to analyse the impact of shock events, changes to individual business parameters or longer lasting crisis scenarios on key target indicators. They are a way of analysing the ability to survive such stress events.



Zürcher Kantonalbank uses stress tests to:

- analyse the effect on the income statement, capital and liquidity of exceptional disruptions on financial markets or in the broader economy;
- perform plausibility checks and optimise capital and liquidity planning;
- develop crisis scenarios and plans to manage risk in stress situations;
- communicate risks for the group using a stress perspective.

Stress scenarios are based on one or more of the following methodologies:

- extreme historic events;
- hypotheses/scenarios formulated by experts;
- sensitivity analyses for area-specific risk factors;
- insolvency scenarios (reverse stress).

Stress testing is an integral part of risk management at Zürcher Kantonalbank. When setting the risk tolerance, Risk Control ensures that the risk limits requested from the Board of Directors are consistent with the results of stress tests.

The stress test universe at Zürcher Kantonalbank mainly consists of two components:

- **Group stress test:** Checking risk has been identified across all categories, taking into account the interactions between the different categories.
- **Area-specific stress tests for market, liquidity and credit risk** which are an integral part of individual risk measurement, for example to complement VaR as a largely model-free way of measuring market risk.

### **Group stress test: potential loss analysis**

In the annual potential loss analysis, the Finance and Risk units jointly examine the potential impact of crisis scenarios lasting several years on profitability and the capital position. The aim of the analysis is to check the vulnerability of Zürcher Kantonalbank to crisis scenarios that are unlikely but possible. When measuring potential loss, the focus is on balance sheet and income statement items as well as the regulatory capital situation.

The starting point for the potential loss analysis is the development of scenarios by Economic Research in collaboration with the specialist areas. They draw up macro-economic scenarios which have as wide a range of impacts as possible on individual business areas. The scenarios are to an extent realistic and economically consistent, but exaggerate some trends in order to give the desired severity. Central macro-economic parameters are forecast for each scenario over a period of several years.

Based on these figures, the specialist areas estimate the impact on the group. This stage includes an analysis of the effects on the risk profile and a model-based or expert assessment of potential losses. The analyses and loss estimates produced by the specialist areas are combined in a report and validated. Finally, based on the figures from the annual financial planning, the impact on the income statement and capital is calculated and analysed over the entire horizon of the scenario. In medium-term planning, the scenario selected is used to critically review the stress reserves and capital position overall and define any action required.

### **Area-specific stress tests**

Zürcher Kantonalbank uses stress testing as a management and monitoring tool, among others, in the following areas:

- **Credit risk stress test**  
Risk Control runs sensitivity and scenario analyses as part of the process for setting the risk tolerance (CaR) for credit risk. The parameters in the credit risk portfolio model are varied to differing degrees and the impact on the estimated portfolio loss and risk capital requirement is analysed. Other stress tests are carried out on an ad hoc basis to analyse the credit risk profile of sub-portfolios.

- [Market risk stress test](#)  
Market risk in trading: stress testing is an integral part of measuring market risk. Losses on trading positions caused by extraordinary market movements are calculated, analysed and monitored. Historically observed stress events are a key element in defining and updating a broad set of stress scenarios. The matrix stress test measures the sensitivity of a trading position to large movements in a combination of individual market parameters. In addition to the value at risk calculated every day based on current market conditions, a stressed VaR is also calculated. Stressed VaR is based on the same model as VaR, but calibrated on the basis of changes in the value of the risk factors observed in a period of significant market stress.
- [Liquidity risk](#)  
For liquidity risk, the bank uses a stress scenario-based risk measure for short-term liquidity: the “minimum liquidity buffer up to day 30 under the standard stress scenario”. From a set of various stress scenarios, the one with the most serious liquidity deterioration is chosen as the basis for risk measurement: a bank-specific bank run. The starting point for the calculation is the existing buffer of liquid assets. Based on this, for each successive day, the internal model calculates inflows and outflows for various product groups, which increase or reduce the liquidity reserve. The scenario includes, for example, the loss of maturing funding, an outflow of liquidity from all liability items that threatens the existence of the bank and no renewals of term deposits. The liquidity left after the 30th day of the scenario is the internal risk measurement. The Board of Directors uses this to set the risk tolerance for liquidity risks.
- [Interest rates risks on the balance sheet](#)  
From the net present value perspective, the aim of stress testing is to limit potential losses in net present value resulting from a sudden and extreme interest rate scenario. The scenarios used are abrupt interest rate shocks and cover all relevant movements in the yield curve (parallel shifts, twists and steepening). From the income perspective, stress testing is based on extreme interest rate scenarios with a horizon of one year. The respective structural contribution over the simulation horizon is calculated for each scenario. The stress test indicator is calculated as the difference between the lowest structural contribution of all scenarios and that in the steady state scenario, in which the yield curve is kept unchanged across the entire simulation horizon.

For more information on risk management, strategies and processes, internal reporting and the internal control system, please see Table CRA (Credit risk, page 42), Table CCRA (Counterparty credit risk, page 64), Table MRA (Market risk, page 71) und Table ORA (Operational risks, page 81).

#### 4.4 OV1: Overview of RWA

	a	b	c
	RWA	RWA	Minimum capital requirements
<i>in CHF million</i>	<b>31.12.2019</b>	<b>30.06.2019</b>	<b>31.12.2019</b>
1 Credit risk (excluding CCR – counterparty credit risk) <sup>1</sup>	45,642	45,243	3,651
2 of which standardised approach (SA) <sup>1</sup>	6,414	6,293	513
3 of which foundation internal ratings-based (F-IRB) approach	24,227	24,299	1,938
4 of which supervisory slotting approach	-	-	-
5 of which advanced internal ratings-based (A-IRB) approach <sup>2</sup>	15,000	14,650	1,200
6 Counterparty credit risk (CCR)	6,542	6,243	523
7 of which standardised approach for counterparty credit risk (SA-CCR)	3,931	3,579	314
7a of which simplified standard approach (SSA-CCR)	-	-	-
7b of which current exposure method	-	-	-
8 of which internal model method (IMM)	-	-	-
9 of which other CCR <sup>3</sup>	2,611	2,664	209
10 Credit valuation adjustment (CVA)	2,843	2,838	227
11 Equity positions under the simple risk weight approach	532	251	43
12 Equity investments in funds – look-through approach	-	-	-
13 Equity investments in funds – mandate-based approach	-	-	-
14 Equity investments in funds – fall-back approach	656	450	53
14a Equity investments in funds – simplified approach	-	-	-
15 Settlement risk	1	1	0
16 Securitisation exposures in banking book	-	-	-
17 of which securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
18 of which securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)	-	-	-
19 of which securitisation standardised approach (SEC-SA)	-	-	-
20 Market risk	3,614	4,015	289
21 of which standardised approach (SA)	1,543	1,873	123
22 of which internal model approaches (IMA)	2,071	2,142	166
23 Capital charge for switch between trading book and banking book	-	-	-
24 Operational risk	4,372	4,366	350
25 Amounts below the thresholds for deduction (subject to 250% risk weight)	781	781	62
26 Floor adjustment	-	-	-
<b>27 Total</b>	<b>64,983</b>	<b>64,187</b>	<b>5,199</b>

<sup>1</sup> According to FINMA Circ. 16/1, non-counterparty-related risks are also to be taken into account in this row.

<sup>2</sup> Zürcher Kantonalbank essentially uses the foundation IRB approach (F-IRB approach). For the IRB segment Retail, however, only the advanced IRB approach (A-IRB approach) exists, so the RWA and minimum capital requirements for the IRB segment Retail are disclosed in this row.

<sup>3</sup> Zürcher Kantonalbank uses the comprehensive approach for credit risk mitigation and the calculation of the credit equivalent for securities financing transactions (SFT).

RWA did not change materially overall compared to 30 June 2019, rising by CHF 796 million. With the exception of RWA for market risks, which decreased by CHF 401 million, as at 31 December 2019 RWA for all risk categories were slightly higher or the same as at mid-2019. For further information on the reasons for the changes please see the relevant detailed tables.

## 5 Linkages between accounting and regulatory exposure amounts

### 5.1 LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a and b <sup>1,2</sup>	c	d	e	f	g
	Carrying values under the scope of accounting and regulatory consolidation	Carrying values of items subject to credit risk framework <sup>3</sup>	Carrying values of items subject to counterparty credit risk framework	Carrying values of items subject to securitisation framework	Carrying values of items subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
<b>31.12.2019</b>						
<i>in CHF million</i>						
<b>Assets</b>						
Liquid assets	36,786	36,786	-	-	-	-
Amounts due from banks	4,917	4,356	561	-	-	-
Amounts due from securities financing transactions	15,588	-	15,588	-	-	-
Amounts due from customers	8,905	8,061	843	-	-	-
Mortgage loans	84,311	84,311	-	-	-	-
Trading portfolio assets	9,168	0	-	-	9,168	-
Positive replacement values of derivative financial instruments	1,486	-	1,486	-	1,486	-
Other financial instruments at fair value	-	-	-	-	-	-
Financial investments	4,422	4,167	-	-	255	-
Accrued income and prepaid expenses	293	293	-	-	-	-
Non-consolidated participations	138	138	-	-	-	-
Tangible fixed assets	651	651	-	-	-	-
Intangible assets	123	-	-	-	-	123
Other assets	267	258	-	-	-	8
<b>Total assets</b>	<b>167,054</b>	<b>139,021</b>	<b>18,478</b>	<b>-</b>	<b>10,910</b>	<b>131</b>
<b>Liabilities</b>						
Amounts due to banks	34,082	-	194	-	-	33,888
Liabilities from securities financing transactions	4,969	-	4,969	-	-	-
Amounts due in respect of customer deposits	85,089	-	4	-	-	85,085
Trading portfolio liabilities	2,058	-	-	-	2,058	-
Negative replacement values of derivative financial instruments	1,303	-	1,303	-	1,303	-
Liabilities from other financial instruments at fair value	2,844	-	-	-	2,844	-
Cash bonds	143	-	-	-	-	143
Bond issues	13,329	-	-	-	-	13,329
Central mortgage institution loans	9,778	-	-	-	-	9,778
Accrued expenses and deferred income	674	-	-	-	-	674
Other liabilities	205	-	-	-	-	205
Provisions	242	-	-	-	-	242
<b>Total liabilities</b>	<b>154,717</b>	<b>-</b>	<b>6,470</b>	<b>-</b>	<b>6,205</b>	<b>143,344</b>

<sup>1</sup> If a bank's scope of accounting consolidation and its scope of regulatory consolidation are exactly the same, columns a and b should be merged. This is applicable to Zürcher Kantonalbank.

<sup>2</sup> Where a single item attracts capital charges according to more than one risk category framework, it should be reported in all columns that it attracts a capital charge. As a consequence, the sum of amounts in columns c to g may be greater than the amount in column a and b.

<sup>3</sup> Includes liquid assets, trading portfolio assets, equities, accrued income and prepaid expenses and non-counterparty-related risks in the amount of CHF 38,219 million.

## 5.2 LI2: Main sources of differences between regulatory exposure amounts and carrying values in consolidated financial statements

31.12.2019 in CHF million	a	b	d	c	e
	Total	Positions subject to credit risk framework	Positions subject to counterparty credit risk framework	Positions subject to securitisation framework	Positions subject to market risk framework <sup>1</sup>
1 Asset carrying value amount under regulatory scope of consolidation (as per Table LI1)	168,409	139,021	18,478	-	10,910
2 Liabilities carrying value amount under regulatory scope of consolidation (as per Table LI1)	12,675	-	6,470	-	6,205
3 Total net amount under regulatory scope of consolidation	155,734	139,021	12,008	-	4,704
4 Off-balance sheet amounts <sup>2</sup>	12,860	7,466	-	-	-
5 Revocable commitments <sup>2</sup>	22,224	12,792	-	-	-
6 Differences due to consideration of value adjustments and provisions	9	9	-	-	-
7 Amounts below the thresholds for deduction (subject to 250% risk weight)	-312	-312	-	-	-
8 Net position of central mortgage institution bonds and loans	-2,029	-2,029	-	-	-
9 Consideration of financial collateral	-923	-923	-	-	-
10 Differences due to the calculation of credit equivalents for derivatives	8,790	-	8,790	-	-
11 Differences due to the use of the comprehensive approach for credit risk mitigation (for SFTs)	-4,232	-	-4,232	-	-
12 Other differences	-4,708	-41	-	-	-4,668
<b>13 Exposure amounts considered for regulatory purposes</b>	<b>172,586</b>	<b>155,984</b>	<b>16,566</b>	<b>-</b>	<b>37</b>

<sup>1</sup> Exposure at default is only calculated for securitisation exposures in the trading book, resulting in a difference between carrying values and exposure amounts considered for regulatory purposes.

<sup>2</sup> According to FINMA Circ. 16/1, off-balance sheet original exposures are to be disclosed in column a and the amounts after application of the credit conversion factors (CCFs) in columns b to e. Hence, the total amount in column a does not equal the sum of positions from columns b to e. The same method is applied for revocable commitments.

## 5.3 LIA: Explanations of differences between accounting and regulatory exposure amounts

### Differences between accounting and regulatory exposure amounts

Table LI2 shows the main differences between accounting and regulatory exposure amounts, which can be summarised as follows:

- Off-balance sheet amounts (row 4)
- Revocable commitments (row 5)
- Differences due to consideration of value adjustments and provisions (row 6)
- Amounts below the thresholds for deduction (subject to 250% risk weight) (row 7)
- Net position of central mortgage institution bonds and loans (row 8)
- Consideration of financial collateral (row 9)
- Differences due to the calculation of credit equivalents for derivatives (row 10)
- Differences due to the use of the comprehensive approach for credit risk mitigation (for SFTs) (row 11)
- Other differences (row 12)

### Trading portfolio assets and liabilities

These exposures are actively managed to benefit from market price movements, i.e. there is an ongoing willingness to increase, reduce, close out or hedge the risk position. The intention to make an arbitrage profit also counts as a trading portfolio asset. When a transaction is executed, it must be classified as a trading portfolio asset and documented accordingly.

Trading portfolio assets are always measured and recognised at fair value. Where, as an exception, no fair value is ascertainable, valuation and recognition must follow the principle of the lower of cost or market value.

The group handbook specifies the following rules for measuring balance sheet exposures which may contain trading portfolio assets measured at fair value:

<b>Balance sheet item</b>	<b>Content</b>	<b>Valuation rules</b>
Trading portfolio assets	All securities and precious metals (physical or in an account) held and owned by the bank for trading purposes. Money market receivables held for trading.	Recognised at fair value.
Positive replacement values of derivative financial instruments	Derivative financial instruments must be treated as trading portfolio assets unless used with structured products or for hedging.	Derivative financial instruments are valued at fair value and, in principle, represent trading portfolio assets. Hedging transactions are also measured at fair value, except for the derivative financial instruments used to hedge interest rate risk within the scope of asset and liability management. In this case, value changes are recognised in the Compensation account with no income effect.
Other financial instruments at fair value	Assets related to own issues of structured products with own debt instruments which satisfy the conditions for using the fair value option.	All recognised at fair value provided all the conditions in FINMA Circular 2015/1 "Accounting – banks" (ARB-FINMA) are met.
Trading portfolio liabilities	Short positions.	Recognised at fair value.
Negative replacement values of derivative financial instruments	Derivative financial instruments must be treated as trading portfolio assets unless used with structured products or for hedging.	Derivative financial instruments are valued at fair value and, in principle, represent trading portfolio assets.
Liabilities from other financial instruments at fair value	Liabilities related to own issues of structured products with own debt instruments which satisfy the conditions for using the fair value option.	All recognised at fair value provided all the conditions in ARB-FINMA are met.

The fair value used can either be a price set on a price-efficient and liquid market or a theoretical price determined based on a valuation model. In the latter case, all the following conditions for price calculation must be met:

- the bank's internal valuation and risk measurement models take appropriate account of all relevant risks;
- the input factors for the bank's internal valuation and risk measurement models are complete and appropriate;
- the bank's internal valuation and risk measurement models, including the inputs used, are scientifically sound, robust and consistently applied;
- controls are effective, especially the controls on model, measurement and the calculation of daily profit or loss carried out by an internal risk control unit that is independent from trading;
- the traders, independent controller and risk manager are close to the market and familiar with them.

### **Systems and controls in connection with the valuation of trading portfolio assets**

The Trading unit enters trading portfolio assets in the Frontarena system. Settlement and position management is carried out in a designated position management system (the back office system WSA), which sources transactions from Frontarena. Accounting (secondary ledger) for all trading transactions is in SAP CFM.

Prices are checked for plausibility in the front office systems by Market Risk to calculate the ongoing trading P&L and reconcile the front office and back office systems every day.

Trading portfolio assets are valued using the prices and valuations in Frontarena. The valuation parameters for calculating the trading P&L are checked independently by Market Risk.

For financial reporting, the prices supplied by Frontarena are checked for plausibility by Accounting and monitored using consistency controls. Every month, the accounting gain or loss on trading is reconciled with the reported P&L by the Risk Control unit.

Positions in the trading book are priced using the data and data sources applied in Market Risk. These pricing rules are set by type of instrument, by Market Risk.

The following figure provides an overview of the valuation methods used for trading portfolio assets by type of instrument.

<b>Instrument</b>	<b>Valuation/price</b>
Bonds CHF/EUR	Market price
Swap CHF/non-CHF	Theoretical
Credit default swaps (CDS)	Theoretical
Equity securities/indices	Market price
Futures	Market price
Equity/index options	Theoretical
Commodities	Market price
PM futures	Market price
PM and commodity options	Theoretical
Gold and fund ETFs	Theoretical
FX options/warrants	Theoretical
Structured products	Theoretical

For further information on market risk management, please see Table MRA starting from page 71.

#### **5.4 PV1: Prudential valuation adjustments (PVA)**

Zürcher Kantonalbank made no prudential value adjustments either in the previous reporting period or as at the reporting date.

## 6 Composition of regulatory capital

### 6.1 CC1: Presentation of regulatory capital

31.12.2019

in CHF million

	a	b
	Amounts	References
<b>Common equity (CET1)</b>		
1 Issued and paid-in capital, fully eligible	2,425	J
2 Retained earnings reserves, including reserves for general banking risks / profit (loss) carry forwards and profit (loss) for the period	9,414	
of which voluntary retained earnings reserve	8,875	
of which reserves for general banking risks	200	
of which profit (loss) for the current period	845	
of which planned dividend	-506	
of which planned retained profit	339	
3 Capital reserves and foreign currency translation reserve (+/-) and other reserves	-7	
4 Issued and paid in capital, subject to phase-out	-	
5 Minority interests, eligible as CET1 capital	-	L
6 Common Equity Tier 1 capital before regulatory adjustments	11,831	
<b>CET1: regulatory adjustments</b>		
7 Prudential valuation adjustments	-	
8 Goodwill (net of related tax liability)	-108	A, F
9 Other intangibles other than mortgage servicing rights (net of related tax liability)	-15	B, G
10 Deferred tax assets that rely on future profitability	-8	D
11 Cash flow hedge reserve (-/+)	-	
12 IRB shortfall of provisions to expected losses	-185	
13 Securitisation gain on sale	-	
14 Gains or losses due to changes in own credit risk	-	
15 Defined-benefit pension fund net assets (net of related tax liability)	-	
16 Net long position in own CET1 instruments	-	
17 Reciprocal cross-holdings in common equity (CET1 instruments)	-	
17a Qualified participations where a controlling influence is exercised together with other owners (CET1 instruments)	-	
17b Immaterial participations (CET1 instruments)	-	
18 Non-qualified participations (max. 10% in the financial sector (amount above Threshold 1) (CET1 instruments)	-	
19 Other qualified participations in the financial sector (amount above Threshold 2) (CET1 instruments)	-	
20 Mortgage servicing rights (amount above Threshold 2)	-	C, H
21 Other deferred tax assets arising from temporary differences (amount above Threshold 2)	-	E
22 Amount exceeding Threshold 3 (15%)	-	
23 of which other qualified participations	-	
24 of which mortgage servicing rights	-	
25 of which other deferred tax assets arising from temporary differences	-	
26 Expected losses on equity investments treated under the PD / LGD approach	-	
26a Other adjustments in the case of financial statements prepared in accordance with internationally recognised accounting standards	-	
26b Other deductions	-	
27 Amount by which the AT1 deductions exceed the AT1 capital	-	
28 Total regulatory adjustments to CET1	-316	
<b>29 Common Equity Tier 1 capital (net CET1)</b>	<b>11,515</b>	
<b>Additional Tier 1 capital (AT1)</b>		
30 Issued and paid in instruments, fully eligible	750	
31 of which classified as equity under applicable accounting standards	-	K
32 of which classified as liabilities under applicable accounting standards	750	
33 Issued and paid in instruments, subject to phase out	-	
34 Minority interests eligible as AT1	-	M
35 of which subject to phase out	-	
36 Additional Tier 1 capital before regulatory adjustments	750	



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in CHF million

	a	b
	Amounts	References
<b>Additional Tier 1 capital: regulatory adjustments</b>		
37 Net long position in own AT1 instruments	-5	
38 Reciprocal qualified cross-holdings in AT1 instruments	-	
38a Qualified participations where a controlling influence is exercised together with other owners (AT1 instruments)	-	
38b Immaterial participations (AT1 instruments)	-	
39 Non-qualified participations (max. 10% in the financial sector (amount above Threshold 1) (AT1 instruments)	-	
40 Other qualified participations in the financial sector (AT1 instruments)	-	
41 Other deductions	-	
42 Amount by which the T2 deductions exceed the T2 capital	-	
42a AT1 deductions covered by CET1 capital	-	
43 Total regulatory adjustments to AT1	-5	
44 Additional Tier 1 capital (net AT1)	745	
<b>45 Tier 1 capital (net Tier 1 = net CET1 + net AT1)</b>	<b>12,261</b>	
<b>Tier 2 capital (T2)</b>		
46 Issued and paid in instruments, fully eligible	728	
47 Issued and paid in instruments, subject to phase-out	-	
48 Minority interests eligible as T2	-	
49 of which subject to phase out	-	
50 Valuation adjustments; provisions and depreciation for prudential reasons; compulsory reserves on financial investments	-	
51 Tier 2 capital before regulatory adjustments	728	
<b>Tier 2 capital: regulatory adjustments</b>		
52 Net long position in own T2 instruments and other TLAC instruments	-3	
53 Reciprocal cross-holdings in T2 instruments and other TLAC instruments	-	
53a Qualified participations where a controlling influence is exercised together with other owners (T2 instruments and other TLAC instruments)	-	
53b Immaterial participations (T2 instruments and other TLAC instruments)	-	
54 Non-qualified participations (max. 10% in the financial sector (amount above Threshold 1) (T2 instruments and other TLAC instruments)	-	
55 Other qualified participations in the financial sector (T2 instruments and other TLAC instruments)	-	
56 Other deductions	-	
56a T2 deductions covered by AT1 capital	-	
57 Total regulatory adjustments to T2	-3	
<b>58 Tier 2 capital (net T2)</b>	<b>725</b>	
<b>59 Regulatory capital (net T1 + net T2)</b>	<b>12,986</b>	
<b>60 Total risk-weighted assets</b>	<b>64,983</b>	
<b>Capital ratios <sup>1</sup></b>		
61 CET1 ratio (item 29, as a percentage of risk-weighted assets)	17.7%	
62 T1 ratio (item 45, as a percentage of risk-weighted assets)	18.9%	
63 Regulatory capital ratio (item 59, as a percentage of risk-weighted assets)	20.0%	
64 Institute specific CET1 buffer requirements in accordance with the Basel minimum standards (capital buffer + countercyclical buffer according to Art. 44a CAO + capital buffer for systemically important banks) (as a percentage of risk-weighted assets)	2.5%	
65 of which capital buffer in accordance with Basel minimum standards (as a percentage of risk-weighted assets)	2.5%	
66 of which countercyclical buffer in accordance with the Basel minimum standards (Art. 44a CAO, as a percentage of risk-weighted assets)	-	
67 of which capital buffer for systemically important institutions in accordance with the Basel minimum standards (as a percentage of risk-weighted assets)	-	
68 CET1 available after meeting the bank's minimum capital requirements (in %)	12.0%	
68a CET1 total requirement target in accordance with Annex 8 of the CAO plus the countercyclical buffers according to Art. 44 and Art. 44a CAO (as a percentage of risk-weighted assets)	-	
68b of which countercyclical buffers according to Art. 44 and Art. 44a CAO (as a percentage of risk-weighted assets)	-	
68c CET1 available (as a percentage of risk-weighted assets)	-	
68d T1 total requirement in accordance with Annex 8 CAO plus the countercyclical buffers according to Art. 44 and Art. 44a CAO (as a percentage of risk-weighted assets)	-	
68e T1 available (as a percentage of risk-weighted assets)	-	
68f Total requirement for regulatory capital as per Annex 8 CAO plus the countercyclical buffers according to Art. 44 and Art. 44a CAO (as a percentage of risk-weighted assets)	-	
68g Regulatory capital available (as a percentage of risk-weighted assets)	-	

<sup>1</sup> Systemically important banks can disregard Rows 68a – 68g as Annex 8 of the CAO does not apply to them.

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in CHF million

	a	b
	Amounts	References
<b>Amounts below the thresholds for deduction (before risk-weighting)</b>		
72 Non-qualified participations in the financial sector	642	
73 Other qualified participations in the financial sector (CET1)	319	
74 Mortgage servicing rights	-	
75 Other deferred tax assets	-	
<b>Applicable caps on the inclusion of items in T2</b>		
76 Valuation adjustments eligible in T2 in the context of the SA-BIS approach	-	
77 Cap on inclusion of valuation adjustments in T2 in the context of the SA-BIS approach	-	
78 Valuation adjustments eligible in T2 in the context of the IRB approach	-	
79 Cap on inclusion of valuation adjustments in T2 in the context of the IRB approach	-	
<b>Capital instruments with phase out (1.1.2018 – 1.1.2022) according to Art. 141 CAO</b>		
80 Cap on CET1 instruments with phase out	-	
81 Amount not included in CET1 (above cap)	-	
82 Cap on AT1 instruments with phase out	-	
83 Amount not included in AT1 (above cap)	-	
84 Cap on T2 instruments with phase out	-	
85 Amount not included in T2 (above cap)	-	

The most important change in regulatory capital compared to 30 June 2019 is the increase in Common Equity Tier 1 capital by CHF 485 million. The increase is mainly due to the retained profit for the year 2019 (CHF 339 million). As the extraordinary anniversary dividend was already reflected in regulatory capital from 30 June 2019, this had a positive effect of CHF 150 million on Common Equity Tier 1 as at 31 December 2019. Combined with the slightly higher RWA (see Table OV1 on page 27 for details), this resulted in a rise of around 0.5 percentage points in the capital ratios. Otherwise, there were no material changes in regulatory capital compared with 30 June 2019.

## 6.2 CC2: Reconciliation of regulatory capital to balance sheet

Balance sheet

31.12.2019

in CHF million

	a and b	c
	As in financial statements / Under regulatory scope of consolidation <sup>1</sup>	References
<b>Assets</b>		
Liquid assets	36,786	
Amounts due from banks	4,917	
Amounts due from securities financing transactions	15,588	
Amounts due from customers	8,905	
Mortgage loans	84,311	
Trading portfolio assets	9,168	
Positive replacement values of derivative financial instruments	1,486	
Other financial instruments at fair value	-	
Financial investments	4,422	
Accrued income and prepaid expenses	293	
Non-consolidated participations	138	
Tangible fixed assets	651	
Intangible assets	123	
of which goodwill	108	A
of which other intangibles, other than mortgage servicing rights	15	B
of which mortgage servicing rights	-	C
Other assets	267	
of which deferred tax assets that rely on future profitability	8	D
of which deferred tax assets arising from temporary differences	-	E
Capital not paid in	-	
<b>Total assets</b>	<b>167,054</b>	

<sup>1</sup> One completed column is sufficient at the level of the single-entity financial statement and consolidated financial statement provided that the scope of consolidation for accounting purposes is identical to that for regulatory purposes. This is applicable to Zürcher Kantonalbank.

**Balance sheet**

	a and b	c
	As in financial statements / Under regulatory scope of consolidation <sup>1</sup>	
31.12.2019 in CHF million		References
<b>Liabilities</b>		
Amounts due to banks	34,082	
Liabilities from securities financing transactions	4,969	
Amounts due in respect of customer deposits	85,089	
Trading portfolio liabilities	2,058	
Negative replacement values of derivative financial instruments	1,303	
Liabilities from other financial instruments at fair value	2,844	
Cash bonds	143	
Bond issues	13,329	
Central mortgage institution loans	9,778	
Accrued expenses and deferred income	674	
Other liabilities	205	
Provisions	242	
of which deferred tax liabilities related to goodwill	-	F
of which deferred tax liabilities related to other intangible assets, other than mortgage servicing rights	-	G
of which deferred tax liabilities related to mortgage servicing rights	-	H
of which liabilities in connection with occupational pension plans	-	I
<b>Total liabilities</b>	<b>154,717</b>	
of which subordinated liabilities eligible as Tier 2 capital (T2)	745	
of which subordinated liabilities eligible as Additional Tier 1 capital (AT1)	725	
<b>Equity</b>		
Reserves for general banking risks	200	
Bank's capital	2,425	
of which eligible as CET1	2,425	J
of which eligible as AT1	-	K
Statutory reserves / voluntary reserves / profits (losses) carried forward / profit (loss) for the period	9,712	
of which voluntary retained earnings reserve	8,875	
of which foreign currency translation reserve	-7	
of which profit (loss) for the current period	845	
of which planned dividend	-506	
of which planned retained profit	339	
(Own shares)	-	
Minority interests	-	
of which eligible as CET1	-	L
of which eligible as AT1	-	M
<b>Total equity</b>	<b>12,337</b>	

<sup>1</sup> One completed column is sufficient at the level of the single-entity financial statement and consolidated financial statement provided that the scope of consolidation for accounting purposes is identical to that for regulatory purposes. This is applicable to Zürcher Kantonalbank.

### Scope of consolidation group

The scope of consolidation used to calculate capital requirements is equal to the one used to draw up the consolidated financial statements. In addition to the parent company Zürcher Kantonalbank, the group's scope of consolidation includes all material directly and indirectly held subsidiaries: Zürcher Kantonalbank Finance (Guernsey) Ltd., Zürcher Kantonalbank Österreich AG and Swisscanto, consisting of Swisscanto Holding AG with its subsidiaries and their subsidiaries (Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd., Swisscanto Private Equity CH I Ltd and Swisscanto Asset Management International SA).

Non-material (from an accounting perspective) majority participations in Zürcher Kantonalbank Representações Ltda. and ZüriBahn AG are not fully consolidated.

Equity instruments of companies in the financial sector are treated as described in Articles 33 - 40 CAO. The portion above a threshold is deducted directly from equity; the portion below the threshold is risk-weighted. Book values in the accounting and regulatory scopes of consolidation are the same.

### **Material changes in the scope of consolidation of the group compared with the previous period**

There were no changes to the scope of consolidation of the group compared with the previous period.

### **Scope of consolidation parent company**

The parent company's capital has been calculated on a solo consolidated basis since 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close relationship to the bank. FINMA has ruled that Zürcher Kantonalbank may consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. on a solo basis under the individual institution provisions since 2012. There are no other differences between the regulatory and accounting scopes of consolidation.

### **Material changes in the scope of consolidation of the parent company compared with the previous period**

There were no changes to the scope of consolidation of the parent company compared with the previous period.

### 6.3 CCA: Main features of regulatory capital instruments and of other TLAC-eligible instruments

31.12.2019	Endowment capital	Tier 1 bond
1 Issuer	Zürcher Kantonalbank	Zürcher Kantonalbank
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg ID for private placement)	n/a	CH0361532945
3 Governing law of the instrument	Swiss law	Swiss law
3a Manner in which the enforceability criterion under section 13 of the TLAC Term Sheet is met (for other eligible TLAC instruments under foreign law)	n/a	n/a
<b>Regulatory treatment</b>		
4 During the Basel III transitional phase	Common equity Tier 1 (CET1)	Additional Tier 1 (AT1)
5 Under Basel III rules not taking into account transitional treatment	Common equity Tier 1 (CET1)	Additional Tier 1 (AT1)
6 Eligible at single-entity, group / single-entity and group levels	Solo and group level	Solo and group level
7 Instrument type	Other instruments	Hybrid instrument
8 Amount recognised in regulatory capital (in CHF million)	CHF 2,425 million	CHF 745 million
9 Par value of instrument	CHF 2,425 million	CHF 750 million
10 Accounting classification	Bank's capital	Liability - notional
11 Original date of issuance	15.02.1870	30.06.2017
12 Perpetual or dated	Perpetual	Perpetual
13 Original maturity date	n/a	n/a
14 Issuer call option (subject to prior supervisory authority approval)	No	Yes
15 Optional call date / contingent call dates (tax and / or regulatory event) / redemption amount	n/a	First possible termination date 30.10.2023. Redemption amount: entire outstanding issue, no partial termination
16 Subsequent call dates, if applicable	n/a	Thereafter annually on interest date of 30 Oct
<b>Dividend / coupon</b>		
17 Fixed or floating dividend / coupon	Floating	Fixed
18 Coupon rate and related index, if applicable	n/a	Fixed at 2.125% until 30.10.2023; thereafter reset every 5 years based on 5-year mid-swap (minimum 0.00%) plus 2.125% risk premium
19 Existence of a dividend stopper (non-payment of dividend on the instrument prohibits the payment of dividends on common shares)	n/a	Yes
20 Coupon / Dividend payment fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21 Existence of step up or other incentive to redeem	No	No
22 Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23 Convertible / non-convertible	Non-convertible	Non-convertible
24 If convertible: conversion trigger	n/a	n/a
25 If convertible: fully or partially	n/a	n/a
26 If convertible: conversion rate	n/a	n/a
27 If convertible: mandatory or optional conversion	n/a	n/a
28 If convertible: specify instrument type convertible into	n/a	n/a
29 If convertible: specify issuer of instrument it converts into	n/a	n/a
30 Write-down feature	No	Yes
31 If write-down feature: write-down trigger(s)	n/a	Common equity Tier 1 (CET1) capital ratio falls below 7% and / or FINMA declares PONV (point-of-non-viability). Write-down triggered by FINMA on a contractual basis.
32 If write-down feature: fully or partially	n/a	Always partially where a trigger event occurs (CET1 ratio below 7%) that persists until the subsequent trigger test date; always fully where a trigger event occurs (CET1 ratio below 7%) that persists until the subsequent trigger test date, if in the opinion of FINMA a partial write-down would be inadequate or if a point of non-viability (PONV) has been reached.
33 If write-down feature: permanent or temporary	n/a	Permanent
34 If temporary write-down: description of write-up mechanism	n/a	n/a
34a Type of subordination	Contractual	Contractual
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 1 bond	Tier 2 bonds
36 Features that prevent full recognition under Basel III	No	No
37 If yes: description of non-compliant features	n/a	n/a

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CHF Tier 2 bond

EUR Tier 2 bond

1	Issuer	Zürcher Kantonalbank	Zürcher Kantonalbank
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg ID for private placement)	CH0267596697	XS1245290181
3	Governing law of the instrument	Swiss law	Swiss law
3a	Manner in which the enforceability criterion under section 13 of the TLAC Term Sheet is met (for other eligible TLAC instruments under foreign law)	n/a	n/a
<b>Regulatory treatment</b>			
4	During the Basel III transitional phase	Tier 2 (T2)	Tier 2 (T2)
5	Under Basel III rules not taking into account transitional treatment	Tier 2 (T2)	Tier 2 (T2)
6	Eligible at single-entity, group / single-entity and group levels	Solo and group level	Solo and group level
7	Instrument type	Hybrid instrument	Hybrid instrument
8	Amount recognised in regulatory capital (in CHF million)	CHF 185 million	CHF 540 million
9	Par value of instrument	CHF 185 million	EUR 500 million
10	Accounting classification	Liability - notional	Liability - notional
11	Original date of issuance	02.03.2015	15.06.2015
12	Perpetual or dated	Dated	Dated
13	Original maturity date	02.09.2025	15.06.2027
14	Issuer call option (subject to prior supervisory authority approval)	Yes	Yes
15	Optional call date / contingent call dates (tax and / or regulatory event) / redemption amount	First possible termination date 02.09.2020. Redemption amount: entire outstanding issue, no partial termination	First possible termination date 15.06.2022. Redemption amount: entire outstanding issue, no partial termination
16	Subsequent call dates, if applicable	Thereafter annually on interest date of 2 Sep	n/a
<b>Dividend / coupon</b>			
17	Fixed or floating dividend / coupon	Fixed	Fixed
18	Coupon rate and related index, if applicable	Fixed at 1.0% until 02.09.2020; thereafter reset based on 5-year mid-swap (minimum 0.00%) plus 1.00% risk premium	Fixed at 2.625% until 15.06.2022; thereafter reset based on 5-year mid-swap plus 1.85% risk premium
19	Existence of a dividend stopper (non-payment of dividend on the instrument prohibits the payment of dividends on common shares)	No	No
20	Coupon / Dividend payment fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible / non-convertible	Non-convertible	Non-convertible
24	If convertible: conversion trigger	n/a	n/a
25	If convertible: fully or partially	n/a	n/a
26	If convertible: conversion rate	n/a	n/a
27	If convertible: mandatory or optional conversion	n/a	n/a
28	If convertible: specify instrument type convertible into	n/a	n/a
29	If convertible: specify issuer of instrument it converts into	n/a	n/a
30	Write-down feature	Yes	Yes
31	If write-down feature: write-down trigger(s)	Common equity Tier 1 (CET1) capital ratio falls below 5% and / or FINMA declares PONV (point-of-non-viability). Write-down triggered by FINMA on a contractual basis.	Common equity Tier 1 (CET1) capital ratio falls below 5% and / or FINMA declares PONV (point-of-non-viability). Write-down triggered by FINMA on a contractual basis.
32	If write-down feature: fully or partially	Always fully where a trigger event occurs (CET1 ratio below 5%) that persists until the subsequent trigger test date or if a point of non-viability (PONV) has been reached.	Always fully where a trigger event occurs (CET1 ratio below 5%) that persists until the subsequent trigger test date or if a point of non-viability (PONV) has been reached.
33	If write-down feature: permanent or temporary	Permanent	Permanent
34	If temporary write-down: description of write-up mechanism	n/a	n/a
34a	Type of subordination	Contractual	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non-subordinated liabilities	Non-subordinated liabilities
36	Features that prevent full recognition under Basel III	No	No
37	If yes: description of non-compliant features	n/a	n/a

## 7 Leverage ratio

### 7.1 LR1: Leverage ratio: summary comparison of accounting assets vs leverage ratio exposure measure

31.12.2019

in CHF million

	a
1 Total assets as per published financial statements	167,054
1a Differences between published financial statements and accounting principles used for the determination of the leverage ratio exposure <sup>1</sup>	-
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation (margin nos. 6 – 7 FINMA Circ. 15/3), as well as adjustment for assets deducted from Tier 1 capital (margin nos. 16 – 17 FINMA Circ. 15/3)	-316
3 Adjustment for fiduciary assets recognised on the balance sheet for accounting purposes, but excluded from the leverage ratio exposure measure (margin no. 15 FINMA Circ. 15/3)	-
4 Adjustment for derivative financial instruments (margin nos. 21 – 51 FINMA Circ. 15/3)	8,224
5 Adjustment for securities financing transactions (SFTs) (margin nos. 52 – 73 FINMA Circ. 15/3)	1,945
6 Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts) (margin nos. 74 – 76 FINMA Circ. 15/3)	8,721
7 Other adjustments	-
<b>8 Leverage ratio exposure (sum of Rows 1 – 7)</b>	<b>185,628</b>

<sup>1</sup> Not applicable to Zürcher Kantonalbank, as the financial statements are published in accordance with FINMA-RS 15/1.

### 7.2 LR2: Leverage ratio: leverage ratio common disclosure template

in CHF million

	a	b
	31.12.2019	30.06.2019
<b>On-balance-sheet exposures</b>		
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral) (margin nos. 14 – 15 FINMA Circ. 15/3)	149,980	156,518
2 Assets that must be deducted in determining the eligible Tier 1 capital (margin nos. 7 and 16 – 17 FINMA Circ. 15/3)	-316	-314
<b>3 Total on-balance sheet exposures within the leverage ratio framework, excluding derivatives and SFTs (sum of rows 1 and 2)</b>	<b>149,664</b>	<b>156,204</b>
<b>Derivatives</b>		
4 Replacement values associated with all derivatives transactions, including those with CCPs, taking into account the margin payments received and netting agreements in accordance with margin nos. 22 – 23 and 34 – 35 FINMA Circ. 15/3	2,965	2,942
5 Add-on amounts for PFE associated with all derivatives transactions (margin nos. 22 and 25 FINMA Circ. 15/3)	7,349	5,728
6 Gross up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework (margin no. 27 FINMA Circ. 15/3)	2,424	3,083
7 Deduction of receivables assets for cash variation margin provided in derivatives transactions, in accordance with margin no. 36 FINMA Circ. 15/3	-2,603	-3,172
8 Deduction relating to exposures to QCCPs if there is no obligation to reimburse the client in the event of the QCCP defaulting (margin no. 39 FINMA Circ. 15/3)	-441	-411
9 Adjusted effective notional amount of written credit derivatives, after deduction of negative replacement values (margin no. 43 FINMA Circ. 15/3)	124	331
10 Adjusted effective notional offsets of bought / written credit derivatives (margin nos. 44 – 50 FINMA Circ. 15/3) and add-on deductions for written credit derivatives (margin no. 51 FINMA Circ. 15/3)	-108	-314
<b>11 Total derivative exposures (sum of rows 4 – 10)</b>	<b>9,711</b>	<b>8,186</b>
<b>Securities financing transaction exposures</b>		
12 Gross SFT assets with no recognition of netting (except in the case of novation with a QCCP as per margin no. 57 FINMA Circ. 15/3) including sale accounting transactions (margin no. 69 FINMA Circ. 15/3), less the items specified in margin no. 58 FINMA Circ. 15/3)	15,588	12,562
13 Netted amounts of cash payables and cash receivables relating to SFT counterparties (margin nos. 59 – 62 FINMA Circ. 15/3)	-	-
14 CCR exposure for SFT assets (margin nos. 63 – 68 FINMA Circ. 15/3)	1,945	1,729
15 Agent transaction exposures (margin nos. 70 – 73 FINMA Circ. 15/3)	-	-
<b>16 Total securities financing transaction exposures (sum of rows 12 – 15)</b>	<b>17,533</b>	<b>14,292</b>
<b>Other off-balance-sheet exposures</b>		
17 Off-balance-sheet exposure at gross notional amounts before application of credit conversion factors	34,852	35,460
18 Adjustments for conversion to credit equivalent amounts (margin nos. 75 – 76 FINMA Circ. 15/3)	-26,132	-27,102
<b>19 Total off-balance-sheet items (sum of rows 17 and 18)</b>	<b>8,721</b>	<b>8,358</b>
<b>Eligible capital and total exposures</b>		
20 Tier 1 capital (margin no. 5 FINMA Circ. 15/3)	12,261	11,776
21 Total exposures (sum of rows 3, 11, 16 and 19)	185,628	187,040
<b>Leverage ratio</b>		
<b>22 Leverage ratio (margin nos. 3 – 4 FINMA Circ. 15/3) in %</b>	<b>6.6%</b>	<b>6.3%</b>

The balance sheet items in row 1 of Table LR2 are equal to total assets as reported less amounts due from securities transactions and the positive replacement value of derivative financial instruments.

Compared to 30 June 2019, on-balance sheet items (excluding derivatives and SFTs) fell by CHF 6,540 million for volume reasons. This decrease is mainly due to comparatively lower liquid assets (CHF -6,836 million). By contrast, derivative exposures (CHF +1,525 million), securities financing transaction exposures (CHF +3,241 million) and other off-balance-sheet exposures (CHF +363 million) increased. Overall, this led to a fall in total exposures of CHF 1,412 million. In combination with the increase in Tier 1 capital, this resulted in a leverage ratio 0.3 percentage points higher as at 31 December 2019.

## 8 Liquidity

### 8.1 LIQA: Liquidity: liquidity risk management

#### Strategy

The aim of liquidity risk management is to ensure solvency, even under bank-specific or market-specific stress conditions. Zürcher Kantonalbank pursues a long-term refinancing policy that includes both cost and risk aspects.

Refinancing risks are managed via a deliberate diversification in terms of maturities, refinancing instruments used and related markets, to limit dependence on funding sources. For this purpose, Treasury uses both short- and long-term instruments, which are placed on the domestic and international markets. The diversified refinancing base is reflected in a broad product portfolio, comprising client deposits, bank deposits and money and capital market refinancing.

#### Organisation and processes

The Treasury organisational unit, which reports to the CFO, is responsible for managing the liquidity risks and refinancing of Zürcher Kantonalbank. Treasury delegates operational liquidity management to the Money Trading unit, which ensures the efficient use of liquidity based on internal and regulatory rules. In line with the requirements of the bank's risk policy, the Board of Directors defines the liquidity risk tolerance using an internal model. The risk organisation oversees compliance with the rules and reports to the Board of Directors in this regard on a regular basis.

The measurement, management and control of short-term liquidity risks are based both on the internal model and on the liquidity coverage ratio (LCR), a regulatory indicator. The internal model is based on a bank-specific stress scenario for balance-sheet and off-balance-sheet transactions. In this scenario, substantial outflows of varying intensity in the client and interbank business are assumed, among other things. The result of the liquidity risk measurement is an automatically produced daily report on the availability of liquid assets and securities eligible for unencumbered repo transactions in financial investments and trading positions, liquidity inflows and outflows under the stress scenario as well the liquidity position left after the stress scenario. The related emergency plan constitutes a significant element of liquidity risk management. It helps the respective functions to act in a manner appropriate to the circumstances in a crisis by setting out measures they can adopt to manage liquidity. These measures are also set out in the bank's stabilisation and emergency plan.

The bank uses an internal model to divide wholesale deposits into operational and non-operational categories. Net outflows of funds from the collateralisation of derivatives due to changes in market values are calculated using the look-back method. Besides Swiss francs, which make up by far the largest part of the balance sheet of Zürcher Kantonalbank, the LCR is also monitored and periodically reported in other major currencies.

#### Quantitative disclosures

The following table shows inflows and outflows in items on and off balance sheet with a fixed term by maturity band in the group and compares these to holdings of high-quality liquid assets (HQLA) as at 31 December 2019. Unlike the data used to calculate the liquidity cover ratio (LCR), this table also includes unweighted inflows and outflows beyond 30 days. Business with no set maturity, such as savings deposits and sight deposits, are not included.



31.12.2019

in CHF million

M = month(s), Y = year

<b>Outflows</b>		<b>≤ 1M</b>	<b>&gt; 1M ≤ 3M</b>	<b>&gt; 3M ≤ 6M</b>	<b>&gt; 6M ≤ 1Y</b>	<b>&gt; 1Y</b>	<b>Total</b>
Outflow from own bonds issued		665	2,757	2,683	1,219	17,724	25,047
Outflow from unsecured financing		18,629	12,522	2,896	508	2,440	36,995
Outflow from securities financing transactions		2,039	-	-	-	-	2,039
Additional outflows <sup>1</sup>		7,733	3,665	2,340	4,242	7,844	25,823
<b>Total outflows</b>		<b>29,066</b>	<b>18,944</b>	<b>7,919</b>	<b>5,968</b>	<b>28,008</b>	<b>89,904</b>
<b>Inflows</b>		<b>≤ 1M</b>	<b>&gt; 1M ≤ 3M</b>	<b>&gt; 3M ≤ 6M</b>	<b>&gt; 6M ≤ 1Y</b>	<b>&gt; 1Y</b>	<b>Total</b>
Inflow from lending		6,898	7,511	4,838	8,331	66,595	94,172
Inflow from securities financing transactions		8,409	1,903	1,344	285	3,474	15,413
Additional inflows <sup>2</sup>		6,684	3,776	2,440	3,660	7,054	23,615
<b>Total inflows</b>		<b>21,991</b>	<b>13,190</b>	<b>8,622</b>	<b>12,276</b>	<b>77,123</b>	<b>133,200</b>
<b>HQLA</b>		<b>Inventory</b>	<b>≤ 1M</b>	<b>&gt; 1M ≤ 3M</b>	<b>&gt; 3M ≤ 6M</b>	<b>&gt; 6M ≤ 1Y</b>	<b>&gt; 1Y</b>
<b>HQLA after netting of outflows and inflows</b>		<b>42,112</b>	<b>35,037</b>	<b>29,283</b>	<b>29,986</b>	<b>36,293</b>	<b>85,408</b>

<sup>1</sup> Outflows from irrevocable lending commitments and derivatives

<sup>2</sup> Inflows from trading securities and derivatives

## Risk profile

The liquidity ratios in 2019 were slightly below the previous year's figures. The average LCR, which is calculated as a simple average of the end-of-day values of the business days during the quarter under review, lies between 123 percent and 131 percent. High-quality liquid assets (HQLA) average between CHF 43.7 billion and CHF 49.1 billion. These HQLA can be subdivided into Level 1 assets (cash, central bank deposits, tradeable securities) and Level 2 assets (tradeable securities with less strict criteria). The majority of Level 1 assets are held in the form of central bank deposits. The liquidity risk profile is actively managed, particularly through targeted management of time deposits, money-market instruments as well as SLB and repo transactions. The changes in the LCR and the internal statistical measures of liquidity risk are mainly driven by fluctuations in non-operational sight deposits, time deposits, money-market instruments and SLB and repo transactions with banks and major clients.

## 8.2 LIQ1: Liquidity: Liquidity coverage ratio (LCR)

in CHF million	Quarterly averages Q3 19 <sup>1</sup>		Quarterly averages Q4 19 <sup>1</sup>	
	Unweighted values	Weighted values	Unweighted values	Weighted values
<b>A. High-quality liquid assets (HQLA)</b>				
<b>1 Total high quality liquid assets (HQLA)</b>		<b>49,119</b>		<b>43,679</b>
<b>B. Cash outflows</b>				
2 Retail deposits	58,812	6,141	58,866	6,121
3 of which stable deposits	5,968	298	5,958	298
4 of which less stable deposits	52,844	5,843	52,908	5,823
5 Unsecured wholesale funding	42,279	27,581	38,812	25,148
6 of which operational deposits (all counterparties) and deposits in networks of cooperative banks	3,704	926	3,625	906
7 of which non-operational deposits (all counterparties)	38,161	26,242	34,633	23,688
8 of which unsecured debt	414	414	554	554
9 Secured wholesale funding and collateral swaps		6,916		6,649
10 Other outflows	18,484	7,138	19,981	9,002
11 of which outflows related to derivative exposures and other transactions	10,334	5,129	11,515	6,931
12 of which outflows related to loss of funding on asset-backed securities, covered bonds and other structured financing instruments, asset-backed commercial papers, conduits, securities investment vehicles and other such financing facilities	40	40	64	64
13 of which, outflows related to committed credit and liquidity facilities	8,110	1,968	8,402	2,008
14 Other contractual funding obligations	1,553	1,510	1,602	1,570
15 Other contingent funding obligations	27,547	313	28,879	329
<b>16 Total cash outflows</b>		<b>49,600</b>		<b>48,819</b>
<b>C. Cash inflows</b>				
17 Secured financing operations (e.g. reverse repo transactions)	8,223	5,269	8,392	5,562
18 Inflows from fully performing exposures	3,110	2,475	3,296	2,657
19 Other cash inflows	3,316	3,316	5,006	5,006
<b>20 Total cash inflows</b>	<b>14,648</b>	<b>11,060</b>	<b>16,694</b>	<b>13,225</b>
Adjusted values				
<b>21 Total high-quality liquid assets (HQLA)</b>		<b>49,119</b>		<b>43,679</b>
<b>22 Total net cash outflows</b>		<b>38,539</b>		<b>35,594</b>
<b>23 Liquidity coverage ratio in %</b>		<b>127%</b>		<b>123%</b>

<sup>1</sup> The average is calculated based on the end of day values from the business days of the reported quarter: Q3 19: 65 days included, Q4 19: 63 days included.

There were no significant changes to the liquidity ratios in the third and fourth quarters of 2019.

## 8.3 LIQ2: Liquidity: Net stable funding ratio (NSFR)

Will be disclosed once the NSFR regulation has entered into force.

## 9 Credit risk

### 9.1 CRA: Credit risk: general qualitative information about credit risk

The strategy applied in the management of credit risks is set out in the internal lending policy. The strategy is revised and updated by the risk organisation as part of an annual, structured process and is approved by the Executive Board. The principles defined in the lending policy include the measurement and management of risks based on uniform, binding objectives and instruments, and the acceptance of risks based on objective, business-related criteria, in proportion to the bank's risk capacity, together with sustainable management of the quality of the credit portfolio.

The bank adopts a risk-and cost-based pricing policy, with transparent credit decisions and a selective, quality-oriented strategy for the acquisition of financing business. Particular attention is paid to environmental and social risks in the credit assessment process. In recognition of the total commitment of owners, higher risks may deliberately be accepted on occasion for SMEs from the Greater Zurich Area.

## Organisation and processes

The risk managers bear responsibility for profits and losses generated on the risks entered into. They are responsible for the continuous, active management of risks and for constant compliance with internal risk tolerance regulations, relevant laws, ordinances, circulars and standards. The sales units in Corporate Clients, Institutionals & Multinationals, Private Banking and the support centre in Products, Services & Direct Banking are the risk managers responsible for credit risks.

The preventative risk management and risk control functions are separated from risk management at Executive Board level. Preventative risk management is responsible for defining lending policy requirements, analysing and examining transactions in line with existing delineations of power, continuous local monitoring of risks, and providing support in the training of risk managers. Risk control is responsible for monitoring risks and risk reporting at portfolio level, as well as defining methods of risk measurement.

The Compliance function is a member of the Risk Committee of the Executive Board and also the Credit Committee, which considers in advance credit risk-related issues which fall within the remit of the Risk Committee.

Audit supports the Board of Directors in fulfilling its statutory supervisory and control tasks and discharges the monitoring tasks assigned to it by the Board of Directors. In particular, Audit independently and objectively evaluates the appropriateness and effectiveness of the internal control and risk management processes and contributes towards their improvement. Audit also checks the bank's compliance with regulatory provisions, internal directives and guidelines. Audit has unlimited rights of inspection, information and access within the group. Audit provides line managers with support in the form of consulting services that help to increase the efficiency of organisational structures and processes.

Credit risks are managed and limited by means of detailed parameters and areas of responsibility within the credit process at individual exposure level and by means of limiting the risk capital for the credit business in accordance with the capital at risk approach at portfolio level. Another key control element in credit risk management is risk-adjusted pricing, which includes expected losses (standard risk costs) as well as the cost of the risk capital to be retained in order to cover unexpected losses.

Expected losses are determined on the basis of the probability of default (PD), assumptions regarding the level of exposure at default (EAD) and the estimated loss given default (LGD). Rating models specific to individual segments are used to determine default probabilities. The rating system for retail and corporate clients as well as banks combines statistical procedures with many years of practical experience in the lending business and incorporates both qualitative and quantitative elements. Country ratings are in principle based on the ratings of external agencies (country ceiling ratings and sovereign default ratings).

A credit portfolio model is used as the basis for the modelling of unexpected losses. Besides default probabilities, exposures in the event of default and loss rates, correlations between debtors are particularly significant for the modelling of unexpected losses. In principle, the model covers balance-sheet and off-balance-sheet items.

## Collateral

The valuation of collateral for loans, and in particular the calculation of market and collateral values, is governed by an extensive set of internal rules setting out the relevant methods, procedures and responsibilities. These rules are continually reviewed and aligned with regulatory requirements and market changes. For the valuation of mortgage collateral, the bank uses recognised estimation methods that are tailored to the type of property, including hedonic models, income capitalisation approaches and expert appraisals, among others.

The models used as well as the individual valuations are reviewed on a regular basis. The maximum loan-to-value ratio for mortgages depends on how realisable the collateral is and is influenced by factors such as location and

type of property (family home or commercial property, for example). Readily marketable collateral (securities, precious metals, account balances, for example) is generally valued at current market prices. The lending of readily marketable collateral is subject to the deduction of specified margins. These margins differ primarily in terms of the collateral's susceptibility to fluctuations in value.

### **Limiting and monitoring credit exposures**

Credit exposures are restricted by limits. In addition to the limits at counterparty and counterparty group level, limits are placed on sub-portfolios, for instance for foreign exposures. All credit and contingent exposures are monitored on a daily basis, exposures from trading transactions on a real-time basis. In the case of trading transactions, pre-deal checks can be undertaken to examine and ensure adherence to counterparty limits. Any breaches of limits are reported promptly to the competent management level. An early-warning system identifies negative developments, which are communicated to the officers responsible. The rating of corporate clients is generally reviewed once a year on the basis of the annual financial statements. A supplementary review of ratings, limits and exposures in the retail and corporate client business is undertaken using risk-oriented criteria. Ratings, limits and exposures in the banking sector are reviewed periodically and on an extraordinary basis in the event of a deterioration in the credit rating of a particular institution.

### **Value adjustments**

As part of their risk management role, the bank's relationship managers constantly monitor all positions in the credit portfolio to identify any signs of impairment of value. Should any signs be found, a standardised impairment test is used to determine whether a loan should be classed as impaired. Impaired loans are those where the borrower is unlikely to be able to meet his future obligations. Where it appears that the bank will be unable to collect all amounts due on a claim, the bank makes an allowance for the unsecured part of the loan, taking into account the borrower's creditworthiness. In determining the required value adjustment, mortgage collateral (including valuation discounts, settlement and holding costs) and readily marketable collateral (freely tradeable securities as well as other easily realised assets such as deposits, precious metals, fiduciary investments, etc.) are considered at their current liquidation value. The recoverability of other collateral (e.g. leased assets, guarantees) has to be demonstrated in particular. The authority to approve the creation of new individual value adjustments rests with the risk managers. Above a certain amount, the approval of the risk organisation is also required.

Interest and associated commission payments that have not been received in full 90 days after becoming due are classified as past due. They are deemed to be impaired and are usually fully adjusted if they are not covered by collateral. Individual value adjustment rates may apply to the principal in the case of major positions. Collective individual valuation adjustments are made for overdrafts of up to CHF 30,000 and for interest and associated commission payments outstanding for more than 90 days; in all other cases, individual value adjustments are generally made.

A central, specialised unit manages impaired positions across all client segments. This unit steers the positions through the stabilisation and resolution process and ensures that existing value adjustments are regularly reviewed and adjusted where necessary.

### **Country risks**

The country risk of individual exposures is determined on the basis of the risk domicile, where this is not identical to the domicile of the borrower, in accordance with the Swiss Bankers Association's guidelines on the management of country risk. In the case of secured exposures, the domicile of the collateral is taken into account when determining the risk domicile. The risks for each country, total country risks and total country risks outside the bank's best internal rating category are subject to limits, adherence to which is monitored on a constant basis.

### **Settlement risks**

A settlement risk arises in the case of transactions with mutual payment and delivery obligations where Zürcher Kantonalbank must meet its obligations without being able to ensure that counterpayment is also being made. Settlement risk can occur in relation to foreign exchange transactions, securities lending and borrowing (SLB) and OTC

repo transactions as well as transactions involving different payment systems and time zones in the interbank sector. Zürcher Kantonalbank is a member of the CLS Bank International Ltd. joint venture, a clearing centre for the settlement of foreign exchange transactions on a “delivery versus payment” basis, which helps ensure that a substantial element of the settlement risk arising as a result of foreign exchange trading is eliminated.

### **Concentration risks**

Zürcher Kantonalbank uses a systems-based method for monitoring concentration risks. Besides measurement for the purpose of preparing regulatory reports, concentration risks are limited at product and client level using benchmarks that are reflected in the corresponding powers of authorisation. Internal concentration risk reporting includes information on product, sector and individual position concentrations. Due to the bank’s roots within the Greater Zurich Area, a large concentration risk in the credit portfolio takes the form of geographical concentration risk in the mortgage portfolio.

### **Reporting**

The CRO report is a quarterly report from the risk organisation, produced independently of the risk managers, informing the Executive Board and Board of Directors of events, the risk profile and credit risk monitoring. Information on the credit risk profile of the group is provided in tables, graphs and commentaries on trends in the individual sub-portfolios and credit risk overall. In addition to management reporting, there are also special reports on selected issues of special relevance and/or topicality. These reports are also seen by FINMA and the external auditor. In addition, every year, the Executive Board and Board of Directors receive reports on the suitability and effectiveness of internal controls in credit risk management. When special developments or events occur, the Executive Board and Board of Directors are informed on an ad hoc basis of changes in the risk profile in additional reports and analyses.

Apart from the management reporting, there are also various monitoring reports. These support risk monitoring in the Risk unit and management controls in the organisational units managing risk. Unlike the management reporting, the monitoring reports focus on a limited presentation of specific risks or portfolios, in some cases all the way down to counterparty level. Depending on their subject, these monitoring reports are produced at shorter intervals, as production is often more automated than for the management reporting described above.

### **Risk profile**

Zürcher Kantonalbank pursues a full-service banking strategy. This is directly derived from the Law on Zürcher Kantonalbank and the needs of the people and businesses in the Greater Zurich Area. In line with this strategic focus, the bank operates a broadly diversified business model strongly rooted in the Greater Zurich Area. In accordance with the business model the lending business, and especially the mortgage lending business, are central business areas for the bank. Mortgage receivables amount to CHF 84.3 billion making them by far the largest item in the receivables on the balance sheet. Around two-thirds of mortgage loans relate to owner-occupied residential property. The remaining loans are secured with rented residential properties or properties that are used for commercial purposes. This is reflected in the bank’s risk profile. Loan commitments are shown in Table CR4 (SA-BIS) starting from page 51 and CR6 (IRB) starting from page 55 by exposure category under Basel III.

### **Investment portfolio**

#### **Strategy, organisation and processes for the management of risks in the investment portfolio**

The risks in the investment portfolio comprise issuer risks on debt and equity securities in financial investments. Because these are allocated to the banking book, they are included under credit risk for capital adequacy purposes. Real estate price risk also comes under risks in the investment portfolio. According to the capital adequacy rules, these are non-counterparty related risks. They are disclosed under credit risk; please see Table LI1 on page 28. Interest rate risks are managed and limited as part of asset and liability management.

The basis of the investment portfolio is mainly operational. Debt securities in financial investments form part of the bank's liquidity buffer, participations mainly relate to companies within the financial market infrastructure, and the real estate position consists almost entirely of property in use by the bank.

The purchase of financial investments and real estate as well as the acquisition of participations are subject to detailed regulations and responsibilities. The investment strategy for the financial investments managed by Treasury is laid down in the risk tolerance requirements approved by the Risk Committee of the Executive Board. Only debt instruments with a first-class credit rating that are considered high-quality liquid assets (HQLA) may be purchased. The Risk unit is responsible for the measurement and monitoring of risk as well as independent reporting on investment portfolio risks.

Risks relating to the investment portfolio are managed internally by assigning risk capital. For the determination of this risk capital for financial investments and participations, Zürcher Kantonalbank uses an internal default model that takes diversification effects into account. For real estate owned by the bank, risk capital is allocated based on regulatory minimum capital adequacy requirements.

### Risk profile

The carrying amount of debt securities in financial investments was CHF 4,074 million as at 31 December 2019 (2018: CHF 4,431 million). The portfolio consists of first-class bonds and is diversified in terms of counterparty groups and countries. Some debt instruments from banks have guarantees from central government. For risk mitigation techniques, please see Table CR3 on page 50.

## 9.2 CR1: Credit risk: credit quality of assets

31.12.2019 in CHF million		a	b	c	d
		Gross carrying values of defaulted exposures	Gross carrying values of non-defaulted exposures	Value adjustments / impairments	Net values (a + b - c)
1	Loans (excluding debt securities) <sup>1</sup>	506	96,381	159	96,728
2	Debt securities <sup>1</sup>	-	4,074	-	4,074
3	Off-balance-sheet exposures	71	12,789	-	12,860
<b>4</b>	<b>Total</b>	<b>578</b>	<b>113,244</b>	<b>159</b>	<b>113,663</b>

<sup>1</sup> According to FINMA Circ. 16/1, on-balance-sheet items include loans and debt securities. Hence, liquid assets, trading portfolio assets, equities, accrued income and prepaid expenses and non-counterparty-related risks in the amount of CHF 38,219 million are not included in this table.

### Disclosure and explanation of internal definition of default

#### Defaulted loans/receivables

This is a regulatory definition. Under the standardised approach, defaulted loans include both impaired loans and non-performing loans, e.g. those more than 90 days in arrears. Under IRB, a model approach has been selected that uses the rating assigned to define "defaulted". If a counterparty is assigned the default rating (C19) under such definition, all receivables from that counterparty are deemed to be in default, regardless of whether they are covered by collateral or not.

#### Impaired loans/receivables

Accounting definition: For accounting purposes, loans are impaired when the borrower is unlikely to be able to meet future obligations and they are not covered by collateral. The assessment as to whether a loan is impaired is made on an individual basis.

#### Non-performing loans/receivables

For both accounting and supervisory purposes, loans are classified as non-performing when interest, commission or amortisation payments or the repayment of the principal have not been received in full 90 days after becoming due.

This also includes claims against borrowers in liquidation, and loans with special conditions arising from the borrower's financial standing. Non-performing loans are also often a component of impaired loans.

### 9.3 CR2: Credit risk: changes in stock of defaulted loans and debt securities

31.12.2019

in CHF million

	a
<b>1 Defaulted loans and debt securities<sup>1</sup> at end of the previous reporting period (30.06.2019)</b>	<b>518</b>
2 Loans and debt securities that have defaulted since the last reporting period	80
3 Returned to non-defaulted status	71
4 Amounts written off	8
5 Other changes (+/-) <sup>2</sup>	-13
<b>6 Defaulted loans and debt securities at end of the reporting period (1 + 2 - 3 - 4 + 5)</b>	<b>506</b>

<sup>1</sup> All exposures are presented gross of allowances / impairments.

<sup>2</sup> Mainly volume changes of loans and debt securities, which had the status "defaulted" at the end of both reporting periods.

During the reporting period, there were no material changes to the stock of defaulted loans and debt securities. The total for defaulted loans and debt securities as at 31 December 2019 decreased by 2 percent compared to the figure recorded on 30 June 2019.

### 9.4 CRB: Credit risk: additional disclosure related to the credit quality of assets

#### Breakdown of exposures by geographical area

31.12.2019

in CHF million

	Carrying values
Switzerland	93,633
Rest of Europe	3,825
Americas	1,273
Asia and Oceania	1,932
Africa	140
<b>Total exposures</b>	<b>100,803</b>

#### Breakdown of exposures by industry

31.12.2019

in CHF million

	Carrying values
Agriculture	724
Manufacturing	3,723
Services	38,922
Individuals and other	57,434
<b>Total exposures</b>	<b>100,803</b>

#### Breakdown of exposures by residual maturity

31.12.2019

in CHF million

	Carrying values
Due up to 3 months	17,882
Due between 3 and 12 months	25,576
Due between 1 and 3 years	21,222
Due between 3 and 5 years	17,586
Due after more than 5 years	18,536
<b>Total exposures</b>	<b>100,803</b>

#### Impaired loans/receivables

Accounting definition: For accounting purposes, loans are impaired when the borrower is unlikely to be able to meet future obligations and they are not covered by collateral. The assessment as to whether a loan is impaired is made on an individual basis.

As at the reporting date, impaired loans under the accounting definition came to CHF 435 million (2018: CHF 504 million). After deducting the estimated liquidation value of collateral, this equals net debt of CHF 179 million (2018: CHF 218 million).

### Identification of impaired loans

Please refer to the section headed “Value adjustments” in Table CRA starting from page 44.

### Breakdown of impaired exposures by geographical area

31.12.2019 in CHF million	Impaired exposures (gross debt)	Allowances and write-offs
Switzerland	405	151
Rest of Europe	24	3
Americas	3	2
Asia and Oceania	3	3
Africa	-	-
<b>Total impaired exposures</b>	<b>435</b>	<b>159</b>

### Breakdown of impaired exposures by industry

31.12.2019 in CHF million	Impaired exposures (gross debt)	Allowances and write-offs
Agriculture	10	4
Manufacturing	108	63
Services	182	66
Individuals and other	135	26
<b>Total impaired exposures</b>	<b>435</b>	<b>159</b>

### Non-performing loans/receivables

For both, accounting and supervisory purposes, loans are classified as non-performing when interest, commission or amortisation payments or the repayment of the principal have not been received in full 90 days after becoming due. This also includes claims against borrowers in liquidation, and loans with special conditions arising from the borrower's financial standing. Non-performing loans are also often a component of impaired loans. The nominal value of non-performing loans amounted to CHF 113 million at the end of the reporting period (2018: CHF 125 million). Loans that were non-performing but not impaired amounted to CHF 56 million (2018: CHF 64 million). These are loans covered by collateral.

### Ageing analysis of accounting past-due exposures

31.12.2019 in CHF million	Past-due exposures (gross debt)	Allowances and write-offs
Past-due for up to 3 months	25	5
Past-due for 3 to 6 months	12	3
Past-due for 6 to 9 months	10	2
Past-due for 9 months to 1 year	11	2
Past-due for 1 to 3 years	42	7
Past-due for 3 to 5 years	6	3
Past-due for more than 5 years	8	4
<b>Total past-due exposures</b>	<b>113</b>	<b>25</b>

### Restructured exposures

Restructured exposures are all those on- or off-balance-sheet positions which are deemed in default and are being serviced by a dedicated team within the bank. Individual value adjustments or provisions are recognised for impaired default positions and off-balance-sheet positions with credit risk. Positions that have recovered are no longer flagged as being in default, but are generally only transferred from the dedicated team back to sales, once a degree of sustainability has been confirmed. Positions in sales do not count as restructured.



## Breakdown of restructured exposures

31.12.2019

in CHF million

	Gross debt		Total
	Impaired	Not impaired	
<b>Restructured exposures</b>	<b>342</b>	<b>443</b>	<b>784</b>

### Defaulted loans/receivables

This is a regulatory definition. Under the standardised approach, defaulted loans include both impaired loans and non-performing loans, e.g. those more than 90 days in arrears. Under IRB, a model approach has been selected that uses the rating assigned to define "defaulted". If a counterparty is assigned the default rating (C19) under such definition, all receivables from that counterparty are deemed to be in default, regardless of whether they are covered by collateral or not.

## 9.5 CRC: Credit risk: qualitative disclosure requirements related to credit risk mitigation techniques

### Core features of policies and processes for on- and off-balance-sheet netting

For accounting purposes, with the exception of the following instances, no netting takes place. Payables and receivables are offset if all the conditions below are met:

- payables and receivables arise from the same type of transactions with the same counterparty;
- have the same or earlier maturity for the receivable;
- are in the same currency and
- cannot result in a counterparty risk.

Holdings of own bonds and cash bonds are offset against the corresponding liability items. Furthermore, positive and negative value adjustments with no income effect are offset in the compensation account.

For over-the-counter transactions, the positive and negative replacement values of derivative instruments as well as the related cash collaterals are offset. For this purpose, a relevant bilateral agreement with the affected counterparties must be in place. This agreement must be proven to be recognised and legally enforceable.

Netting on the balance sheet as at 31 December 2019 amounted to CHF 12.2 billion (2018: CHF 8.7 billion). No off-balance-sheet netting takes place.

### Core features of policies and processes for collateral evaluation and management

Bank guarantees are treated as other collateral. The loan-to-value ratio depends on the rating of the bank in question. Bank guarantees are checked by the sales unit for banks before acceptance. All other guarantees are classified simply as additional cover with no eligible collateral value (unsecured). Guarantees from other companies may only be taken into consideration where Risk Control has given its prior consent.

If the amount of a guarantee is a maximum including interest and other costs, it must be for at least 110 percent of the loan amount to be secured. The term of the credit exposure is measured in line with the maximum validity of the guarantee. The loan generally matures one month before the guarantee expires, so a claim can be made.

For the purposes of calculating capital adequacy, Zürcher Kantonalbank recognises bank guarantees (Zürcher Kantonalbank as direct beneficiary, callable on first request with no right of objection) using the substitution approach. State guarantees are also taken into account.

### Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative protection providers)

Guarantees taken into account for credit exposures are included in internal risk measurement under the guarantor's credit exposure. This means that the value of guarantees is included automatically in concentration risk monitoring at the level of client, region and sector.

## 9.6 CR3: Credit risk: credit risk mitigation techniques - overview

In order to ensure a consistent point of view without anticipating the IRB segmentation, the standardised approach was used to present the overview of credit risk mitigation techniques. We refer to the IRB tables in this report on page 51 onwards for IRB disclosures.

	a	b1	b	d	f
31.12.2019 in CHF million	Unsecured exposures / carrying amount	Secured exposures / carrying amount <sup>1</sup>	of which secured by collateral <sup>2</sup>	of which secured by financial guarantees <sup>2</sup>	of which secured by credit derivatives <sup>2</sup>
1 Loans (excluding debt securities)	11,065	85,664	84,647	717	-
2 Debt securities	3,525	550	-	550	-
<b>3 Total</b>	<b>14,589</b>	<b>86,213</b>	<b>84,647</b>	<b>1,266</b>	-
4 of which defaulted	127	222	213	1	-

<sup>1</sup> Fully or partially secured by collateral (incl. secured by financial guarantees and credit derivatives)

<sup>2</sup> Secured amount. Where the amount the collateral / financial guarantee/credit derivate can be settled for exceeds the value of the exposure, the exposure amount is reported.

During the reporting period, there were no material changes in the extent to which credit risk mitigation techniques were used.

## 9.7 CRD: Credit risk: qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

Capital adequacy requirements for credit risks are calculated using the IRB approach. However, some positions are still calculated using the international standard approach (SA-BIS). With respect to these positions, the risk weights of counterparties may be calculated on the basis of agency ratings.

For the corporate and public-sector entity categories, Zürcher Kantonalbank applies the ratings from the agencies Standard & Poor's and Moody's. The ratings of export credit agencies (ECAs) are not taken into account.

For banks and governments, Fitch ratings are also taken into account. No ratings are used in the categories retail, equity securities and other positions. For securities, the issue-specific ratings from Standard & Poor's and Moody's are used.

If two or more ratings exist with different risk weights, those ratings which correspond to the two lowest risk weights are taken into consideration and the higher of the two risk weights is used. For debt securities, top priority is given to the issue rating and second priority to the issuer rating.

There were no changes in this regard during the period under review.

## 9.8 CR4: Credit risk: standardised approach - credit risk exposure and credit risk mitigation (CRM) effects

31.12.2019

in CHF million (unless stated otherwise)

Exposure class	a		b		c		d		e		f	
	Exposures before CCF and CRM				Exposures post-CCF and CRM							
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density				
1 Central governments and central banks	332	7	1,184	4	0	0.0%						
2 Banks and securities firms	214	203	189	93	65	23.2%						
3 Other public sector entities and multilateral development banks	1,902	2,798	1,824	246	602	29.1%						
4 Corporates	2,524	5,065	2,383	1,217	2,414	67.1%						
5 Retail	2,862	1,816	2,262	269	2,024	79.9%						
6 Equity	-	-	-	-	-	-						
7 Other exposures <sup>1</sup>	38,088	272	38,073	49	1,309	3.4%						
<b>8 Total</b>	<b>45,922</b>	<b>10,161</b>	<b>45,915</b>	<b>1,877</b>	<b>6,414</b>	<b>13.4%</b>						

<sup>1</sup> According to FINMA Circ. 16/1, non-counterparty-related exposures are included in other exposures.

Compared to 30 June 2019, on-balance-sheet exposures before CCF and CRM subject to credit risks under the standardised approach fell by CHF 6,895 million. The most significant change in this item is attributable to liquid assets (under other exposures). Liquid assets were CHF 6,836 million lower than at 30 June 2019. This was offset in particular by an increase in balance-sheet items in the retail segment (CHF +551 million). As a zero percent risk weight applies to liquid assets, total RWA rose slightly from mid-2019 (CHF +121 million) despite the decline in balance-sheet items under the standardised approach.

## 9.9 CR5: Credit risk: standardised approach - exposures by asset classes and risk weights

31.12.2019

in CHF million

Exposure class / risk weight	a										j
	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post-CCF and post-CRM)	
1 Central governments and central banks	1,188	-	-	-	0	-	0	-	-	-	1,188
2 Banks and securities firms	-	-	262	-	16	-	-	3	-	-	281
3 Other public sector entities and multilateral development banks	428	-	746	16	866	-	14	0	-	-	2,070
4 Corporates	-	-	998	70	694	7	1,814	15	-	-	3,599
5 Retail	-	-	-	717	-	195	1,605	14	-	-	2,532
6 Equity	-	-	-	-	-	-	-	-	-	-	-
7 Other exposures <sup>1</sup>	36,786	-	-	42	-	-	1,294	0	-	-	38,122
<b>8 Total</b>	<b>38,402</b>	<b>-</b>	<b>2,006</b>	<b>845</b>	<b>1,577</b>	<b>202</b>	<b>4,728</b>	<b>33</b>	<b>-</b>	<b>-</b>	<b>47,793</b>
9 of which, covered by mortgages	-	-	-	845	-	20	1,103	-	-	-	1,968
10 of which, past-due loans	-	-	-	-	-	-	22	30	-	-	52

<sup>1</sup> According to FINMA Circ. 16/1, non-counterparty-related exposures are included in other exposures.

The changes in comparison with 30 June 2019 depicted in Table CR4 are also displayed in Table CR5 after CCF and CRM. The fall in liquid assets is mainly responsible for the CHF 6,894 million drop in other exposures with a risk weight of zero percent. The rise in retail exposures is mainly evident in the 100 percent risk weight (CHF +424 million). Otherwise, there were no significant changes in table CR5.

## 9.10 CRE: IRB: qualitative disclosures related to IRB models

In an order dated 8 January 2018, Zürcher Kantonalbank received permission from FINMA to use the IRB approach retrospectively from 31 December 2017 to calculate the capital adequacy requirement for credit risk. Model governance sets out the internal duties, competences and responsibilities within model management as follows:

## Model development

The model owner has the technical responsibility for developing and refining the model. Care must be taken to ensure it is appropriate for the area of use and that suitable allowance is made for model uncertainties. The model owner must compile and update the model documentation, describing relevant aspects in a way that can be understood by a knowledgeable third party.

The model owner also has the technical responsibility for regular model suitability tests to monitor that the model is methodologically appropriate (e.g. back-testing). Model suitability tests are defined in terms of method and procedure as part of model development, and are carried out on a regular basis.

## Model validation

Model validation acts as a supervisory body that is independent from the model owner, the manager of the specialist area and the model users. It ensures that models are appropriate and that material model uncertainties are taken into account.

New models undergo initial validation before going into operation. Models are revalidated in operation, either regularly or as required. Frequency is based on classification (annually, every three or five years), unless more frequent revalidation is required by the regulator.

The model owner or the manager of the specialist area (on his/her behalf) provides the information required for the model to be validated. This includes, in particular, full and up-to-date model documentation and, if necessary, access to model prototypes, a test environment or data from productive operation of the model. The model validators may also use existing test results and arrange for the model owner to carry out further tests. The model validators must however scrutinise the tests and ensure all aspects necessary are investigated.

Reporting on model validation is provided in the internal quarterly report from the CRO and annually in the summary report of activities submitted by the Risk Control unit to the Executive Board and the Board of Directors. The model validators also submit an annual written assessment of aggregate model risk to Operational Risk.

## Authorisation of model approvals and model changes

When a new model goes into operation or a model is changed, depending on the situation, the model validators must give approval and the competency holder within the bank must also issue their authorisation. It may also be necessary to then seek authorisation from or inform FINMA. The model owner coordinates the approval and authorisation steps. Implementation of the model must also be accepted by the manager of the specialist area and any other model users.

## Internal control system and models

The heads of specialist areas are responsible for identifying models in their areas and including them in the risk management/ICS process. Every year, the model validators check the plausibility of the assessments of model risks issued as part of the risk management/ICS process.

The model owner also carries out a further management control of the effectiveness of model risk management. Specifically, this includes carrying out model suitability tests, model documentation, implementing conditions within the deadlines set and controlling compliance with restrictions on use.

The Head of Risk Control monitors the effectiveness of the model risk management through model validation. This includes in particular the risk classification, keeping of the model inventory, validation planning, quality of validation execution and documentation, and the suitability of approval decisions and conditions. For details of the role of Audit, please refer to the information presented under Table OVA.

## Models

The rating models used for IRB purposes are:

Model name	Model type	Area of application
<b>Bank rating model</b>	Statistical rating model	<p>The rating model for banks consists of two sequential sub-models. In a first step, the stand-alone model is used to categorise a bank according to its intrinsic financial strength. This involves determining a failure or stand-alone rating, which expresses the probability of the bank defaulting within a year. This takes no account of any potential external support from a banking group or government.</p> <p>Any rating improvement due to the willingness and ability of a banking group or government to provide support is only calculated in the second stage using the support model.</p> <p>When a support rating is calculated, this also takes the transfer and convertibility risk of the country of domicile into consideration. This may, however, lead to a lower rating. The end result is the final rating. Technically, the final stage is considered to form part of the support model.</p> <p>A shadow rating approach is used for the estimation and calibration of the standalone model, which takes agency ratings as target data. Replication is performed using a statistical regression model where the regression parameters for suitable influence factors are estimated (top-down approach). The support model, by contrast, is a mechanistic structural model that directly models the individual interactions (bottom-up approach).</p>
<b>Commercial rating model</b>	Statistical rating model	<p>The commercial rating model is used for loans to SMEs and key account customers. The model consists of various quantitative accounting variables such as profitability, debt and liquidity, and qualitative factors like management skills and stability.</p>
<b>Retail client rating model</b>	Statistical rating model	<p>The retail client rating model is used for retail real estate financing. It uses various factors such as disposable income, net loan to value and profession to calculate an overall score, which is presented as a probability of default (PD) via a calibration function.</p>
<b>Real estate rating model</b>	Statistical rating model	<p>The real estate rating model is used for clients with rental property loans. The model consists of various sub-models (with the option to select various factors and weights) for different client groups:</p> <ul style="list-style-type: none"> <li>– Real estate balance sheet model/module 1: Profit-oriented companies (based on balance sheet data)</li> <li>– Real estate balance sheet model/module 2: Non-profit-oriented companies (e.g. cooperatives, based on balance sheet data)</li> <li>– Real estate tax model/module 3: Natural persons (based on tax return)</li> </ul> <p>These models also consist of a quantitative part with factors such as the debt ratio and the cost/income ratio, and a qualitative part that considers issues such as real estate expertise and management stability.</p>

As at 31 December 2018 Zürcher Kantonalbank separated the calibration of internal and external ratings (PD). A through-the-cycle (TTC) calibration has been used since for the RWA calculations (external perspective); this is based on long-term average default rates.

Another major building block used by Zürcher Kantonalbank in the IRB universe is the loss given default (LGD) model in retail, where own LGD estimates are permitted. This model uses the following LGD drivers:

- Collateral recovery ratio: the percentage of the estimated value of collateral (e.g. real estate for a mortgage) that can be recovered on sale, reducing the loss; broken down by type of collateral and, for real estate, type of property.

- Unsecured recovery ratio: the percentage of the unsecured portion that can still be repaid by the borrower, reducing the loss.
- Cure rate: the percentage of cases where the borrower moves out of default status within a year without a write off, meaning there is ultimately no loss.
- Recovery costs: the cost of processing defaults, added to the loan loss.
- Calibration is in line with the requirements for a downturn, and hence are different from the calibration used internally. The internal collateral recovery ratio is reduced so the current portfolio has an average LGD equal to the maximum in the last real estate crisis.

#### Breakdown of EAD by different approaches as at 31 December 2019

<b>EAD in percent</b>	<b>SA-BIS</b>	<b>IRB</b>
Central governments and central banks	100%	0%
Banks and securities firms	18%	82%
Other public-sector entities, multilateral development banks	100%	0%
Corporates	13%	87%
Retail: covered by mortgages	1%	99%
Retail: other retail exposures	100%	0%
Equity	0%	100%
Other exposures	100%	0%
<b>Total</b>	<b>13%</b>	<b>87%</b>

## 9.11 CR6: IRB: credit risk exposures by portfolio and probability of default (PD) range

	a	b	c	d	e	f	g	h	i	j	k	l
31.12.2019 in million CHF (unless stated otherwise)	Original on- balance-sheet gross exposure	Off-balance- sheet exposures pre CCF	Average CCF in %	EAD post-CRM and post-CCF	Average PD in %	Number of obligors	Average LGD in %	Average maturity in years	RWA	RWA density in %	EL	Provisions
<b>1 Central governments and central banks (F-IRB) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>2 Central governments and central banks (A-IRB) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>3 Banks and securities firms (F-IRB) by PD range</b>												
0.00 to <0.15	2,204	1,267	66.2%	2,823	0.1%	92	45.0%	1.2	604	21.4%	1	
0.15 to <0.25	808	224	49.5%	845	0.2%	68	45.0%	1.2	295	35.0%	1	
0.25 to <0.50	143	46	22.9%	162	0.4%	50	45.0%	1.0	79	48.7%	0	
0.50 to <0.75	285	142	25.9%	398	0.7%	32	45.0%	1.0	307	77.1%	1	
0.75 to <2.50	687	206	39.2%	554	1.4%	58	45.0%	1.0	556	100.3%	3	
2.50 to <10.00	209	90	27.9%	191	4.8%	64	45.0%	1.0	261	136.7%	4	
10.00 to <100.00	154	54	20.2%	98	14.9%	34	45.0%	1.0	203	206.0%	7	
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>4,490</b>	<b>2,029</b>	<b>55.3%</b>	<b>5,071</b>	<b>0.8%</b>	<b>398</b>	<b>45.0%</b>	<b>1.1</b>	<b>2,305</b>	<b>45.5%</b>	<b>17</b>	

	a	b	c	d	e	f	g	h	i	j	k	l
31.12.2019 in million CHF (unless stated otherwise)	Original on- balance-sheet gross exposure	Off-balance- sheet exposures pre CCF	Average CCF in %	EAD post-CRM and post-CCF	Average PD in %	Number of obligors	Average LGD in %	Average maturity in years	RWA	RWA density in %	EL	Provisions
<b>4 Banks and securities firms (A-IRB) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
<b>5 Other public sector entities, multilateral development banks (F-IRB) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
<b>6 Other public sector entities, multilateral development banks (A-IRB) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
<b>7 Corporates: specialised lending (F-IRB) by PD range</b>												
0.00 to <0.15	705	1,214	75.0%	1,616	0.1%	22	41.7%	1.5	338	20.9%	1	
0.15 to <0.25	2,663	2,745	75.0%	4,722	0.2%	77	42.4%	2.0	1,599	33.9%	3	
0.25 to <0.50	9,033	4,182	74.6%	12,153	0.3%	615	39.3%	2.5	6,015	49.5%	15	
0.50 to <0.75	2,540	555	75.0%	2,956	0.6%	375	38.7%	2.4	2,041	69.1%	7	
0.75 to <2.50	2,083	382	74.9%	2,369	1.2%	526	40.1%	2.6	2,201	92.9%	11	
2.50 to <10.00	199	39	74.7%	228	3.0%	100	42.3%	2.7	297	130.2%	3	
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	44	0	75.0%	37	-	10	-	-	40	106.0%	-	
Sub-total	17,267	9,117	74.8%	24,080	0.4%	1,725	40.0%	2.3	12,530	52.0%	40	6



	a	b	c	d	e	f	g	h	i	j	k	l
31.12.2019 in million CHF (unless stated otherwise)	Original on- balance-sheet gross exposure	Off-balance- sheet exposures pre CCF	Average CCF in %	EAD post-CRM and post-CCF	Average PD in %	Number of obligors	Average LGD in %	Average maturity in years	RWA	RWA density in %	EL	Provisions
<b>8 Corporates: specialised lending (A-IRB) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>9 Corporates: other lending (F-IRB) by PD range</b>												
0.00 to <0.15	427	2,889	74.8%	2,588	0.1%	70	44.8%	1.7	567	21.9%	1	
0.15 to <0.25	826	1,103	73.4%	1,636	0.2%	74	40.2%	1.8	547	33.5%	1	
0.25 to <0.50	2,201	2,652	72.9%	4,136	0.4%	907	39.9%	1.9	2,017	48.8%	6	
0.50 to <0.75	1,240	1,090	73.5%	2,042	0.7%	879	40.8%	1.8	1,388	68.0%	6	
0.75 to <2.50	2,975	1,571	68.8%	4,056	1.5%	1,966	40.8%	2.0	3,606	88.9%	24	
2.50 to <10.00	709	297	72.2%	922	3.7%	1,203	39.5%	2.2	1,015	110.0%	14	
10.00 to <100.00	19	2	73.9%	21	15.0%	66	38.3%	2.3	36	175.0%	1	
100.00 (Default)	218	131	67.7%	203	-	173	-	-	216	106.0%	-	
<b>Sub-total</b>	<b>8,616</b>	<b>9,736</b>	<b>72.8%</b>	<b>15,604</b>	<b>0.9%</b>	<b>5,338</b>	<b>40.6%</b>	<b>1.9</b>	<b>9,392</b>	<b>60.2%</b>	<b>54</b>	<b>103</b>
<b>10 Corporates: other lending (A-IRB) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>11 Retail: covered by mortgages by PD range</b>												
0.00 to <0.15	16,808	898	75.0%	17,482	0.1%	36,313	18.2%	2.9	943	5.4%	2	
0.15 to <0.25	9,695	520	75.0%	10,084	0.2%	12,339	21.0%	3.0	1,233	12.2%	4	
0.25 to <0.50	17,950	953	75.0%	18,665	0.3%	21,647	23.3%	3.1	4,010	21.5%	14	
0.50 to <0.75	8,370	549	75.0%	8,781	0.6%	7,328	25.9%	3.0	3,156	35.9%	13	
0.75 to <2.50	6,547	550	75.0%	6,959	1.2%	6,252	27.5%	3.0	4,129	59.3%	22	
2.50 to <10.00	1,042	73	75.0%	1,096	3.3%	1,455	26.1%	2.9	1,167	106.4%	9	
10.00 to <100.00	78	7	75.0%	84	12.0%	68	30.6%	2.4	196	233.6%	3	
100.00 (Default)	169	2	75.0%	158	-	167	-	-	167	106.0%	-	
<b>Sub-total</b>	<b>60,658</b>	<b>3,552</b>	<b>75.0%</b>	<b>63,309</b>	<b>0.4%</b>	<b>85,569</b>	<b>22.3%</b>	<b>3.0</b>	<b>15,000</b>	<b>23.7%</b>	<b>68</b>	<b>13</b>

	a	b	c	d	e	f	g	h	i	j	k	l
<b>31.12.2019</b> <i>in million CHF</i> <i>(unless stated otherwise)</i>	Original on- balance-sheet gross exposure	Off-balance- sheet exposures pre CCF	Average CCF in %	EAD post-CRM and post-CCF	Average PD in %	Number of obligors	Average LGD in %	Average maturity in years	RWA	RWA density in %	EL	Provisions
<b>12 Retail: qualifying revolving exposures (QRRE) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
<i>Sub-total</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>13 Other retail exposures by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
<i>Sub-total</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>14 Equity (PD / LGD approach) by PD range</b>												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
<i>Sub-total</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total (all portfolios)</b>	<b>91,031</b>	<b>24,434</b>	<b>72.4%</b>	<b>108,064</b>	<b>0.5%</b>	<b>93,030</b>	<b>23.8%</b>	<b>2.6</b>	<b>39,227</b>	<b>36.3%</b>	<b>179</b>	<b>123</b>

Zürcher Kantonalbank was not using any credit derivatives for hedging purposes on the reporting date under the credit risk rules. Therefore, there was no impact on RWA.

## 9.12 CR7: IRB: effect on RWA of credit derivatives used as CRM techniques

Zürcher Kantonalbank was not using any credit derivatives for hedging purposes on the reporting date under the credit risk rules. Therefore, there was no impact on RWA.

## 9.13 CR8: IRB: RWA flow statements of credit risk exposures under IRB

31.12.2019

in CHF million

	a
	RWA amounts
<b>1 RWA as at end of previous reporting period (30.06.2019)</b>	<b>38,950</b>
2 Asset size changes	368
3 Asset quality changes	-58
4 Model updates	-
5 Methodology and policy changes	-
6 Acquisitions and disposals (of entities)	-
7 Foreign exchange movements	-32
8 Other	-
<b>9 RWA as at end of current reporting period</b>	<b>39,227</b>

Compared with 30 June 2019, the RWA of credit risk exposures under the IRB approach rose due to an increased volume of assets (CHF 368 million). The changes in asset credit quality and exchange rates in the second half of 2019 were minor. Overall, this resulted in net RWA growth of CHF 277 million as at 31 December 2019.

## 9.14 CR9: IRB: back-testing of PD per portfolio

a and b	c			d	e	f		g	h	i
	External rating equivalent			Weighted average	Arithmetic average	Number of obligors		Number of	of which number	Average historical
	S&P	Moody's	Fitch	PD in %	PD by obligors in %	End of previous year	End of the year	defaulted obligors in the year	of new defaulted obligors in the year	annual default rate in % <sup>1</sup>
<b>31.12.2019</b>										
<b>1 Central governments and central banks (FIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-	-	-	-
<b>2 Central governments and central banks (AIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-	-	-	-
<b>3 Banks and securities firms (FIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	0.1%	0.0%	109	92	-	-	-
0.15 to <0.25	A-	A3	A-	0.2%	0.2%	46	68	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	0.4%	0.3%	54	50	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	0.7%	0.7%	38	32	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	1.4%	1.3%	57	58	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	4.8%	4.7%	86	64	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	14.9%	19.1%	27	34	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	<b>0.8%</b>	<b>0.8%</b>	<b>417</b>	<b>398</b>	-	-	-

a and b	c			d	e	f		g	h	i
	External rating equivalent			Weighted average PD in %	Arithmetic average PD by obligors in %	Number of obligors		Number of defaulted obligors in the year	of which number of new defaulted obligors in the year	Average historical annual default rate in % <sup>1</sup>
	S&P	Moody's	Fitch			End of previous year	End of the year			
<b>31.12.2019</b>										
<b>4 Banks and securities firms (AIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
<b>5 Other public sector entities, multilateral development banks (FIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
<b>6 Other public sector entities, multilateral development banks (AIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
<b>7 Corporates: specialised lending (FIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	0.1%	0.1%	21	22	-	-	-
0.15 to <0.25	A-	A3	A-	0.2%	0.2%	72	77	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	0.3%	0.3%	584	615	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	0.6%	0.6%	356	375	1	-	0.1%
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	1.2%	1.2%	522	526	1	-	0.3%
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	3.0%	2.9%	87	100	1	-	1.1%
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	9	10	-	-	-
Subtotal	-	-	-	0.4%	0.4%	1,651	1,725	3	-	0.2%

a and b	c			d	e	f		g	h	i
	External rating equivalent					Number of obligors				
	S&P	Moody's	Fitch	Weighted average PD in %	Arithmetic average PD by obligors in %	End of previous year	End of the year	Number of defaulted obligors in the year	of which number of new defaulted obligors in the year	Average historical annual default rate in % <sup>1</sup>
<b>31.12.2019</b>										
<b>8 Corporates: specialised lending (AIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
<b>9 Corporates: other lending (FIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	0.1%	0.1%	73	70	-	-	-
0.15 to <0.25	A-	A3	A-	0.2%	0.2%	68	74	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	0.4%	0.4%	866	907	1	-	0.2%
0.50 to <0.75	BBB-	Baa3	BBB-	0.7%	0.7%	906	879	1	-	0.1%
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	1.5%	1.5%	1,933	1,966	15	-	0.6%
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	3.7%	4.2%	1,219	1,203	21	-	1.6%
10.00 to <100.00	B to C	B2 to C	B to C	15.0%	15.2%	59	66	4	-	8.3%
100.00 (Default)	D	D	D	-	-	166	173	-	-	-
Subtotal	-	-	-	0.9%	1.4%	5,290	5,338	42	-	0.7%
<b>10 Corporates: other lending (AIRB) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
<b>11 Retail: covered by mortgages by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	0.1%	0.1%	36,088	36,313	6	-	0.0%
0.15 to <0.25	A-	A3	A-	0.2%	0.2%	12,109	12,339	2	-	0.0%
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	0.3%	0.3%	21,301	21,647	11	-	0.1%
0.50 to <0.75	BBB-	Baa3	BBB-	0.6%	0.6%	6,989	7,328	6	-	0.1%
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	1.2%	1.2%	5,969	6,252	7	-	0.2%
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	3.3%	3.4%	1,272	1,455	7	-	0.6%
10.00 to <100.00	B to C	B2 to C	B to C	12.0%	12.4%	57	68	1	-	0.9%
100.00 (Default)	D	D	D	-	-	193	167	-	-	-
Subtotal	-	-	-	0.4%	0.4%	83,978	85,569	40	-	0.1%

a and b	c			d	e	f		g	h	i
	External rating equivalent			Weighted average PD in %	Arithmetic average PD by obligors in %	Number of obligors		Number of defaulted obligors in the year	of which number of new defaulted obligors in the year	Average historical annual default rate in % <sup>1</sup>
	S&P	Moody's	Fitch			End of previous year	End of the year			
<b>31.12.2019</b>										
<b>12 Retail: qualifying revolving exposures (QRRE) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
<b>13 Other retail exposures by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
<b>14 Equity (PD / LGD approach) by PD range</b>										
0.00 to <0.15	AAA to A	Aaa to A2	AAA to A	-	-	-	-	-	-	-
0.15 to <0.25	A-	A3	A-	-	-	-	-	-	-	-
0.25 to <0.50	BBB+ / BBB	Baa1 / Baa2	BBB+ / BBB	-	-	-	-	-	-	-
0.50 to <0.75	BBB-	Baa3	BBB-	-	-	-	-	-	-	-
0.75 to <2.50	BBB- neg / BB+	Baa3 neg / Ba1	BBB- neg / BB+	-	-	-	-	-	-	-
2.50 to <10.00	BB to B+	Ba2 to B1	BB to B+	-	-	-	-	-	-	-
10.00 to <100.00	B to C	B2 to C	B to C	-	-	-	-	-	-	-
100.00 (Default)	D	D	D	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
<b>Total (all Portfolios)</b>	-	-	-	<b>0.5%</b>	<b>0.4%</b>	<b>91,336</b>	<b>93,030</b>	<b>85</b>	-	<b>0.1%</b>

<sup>1</sup> With the adoption of the IRB approach as per 31.12.2017, the average historical annual default rate in % as per 31.12.2019 is based on the two-year average.

There were no material changes in the back-testing of PD per portfolio compared with the previous period.

## 9.15 CR10: IRB: specialised lending and equities under the simple risk weight method

Zürcher Kantonalbank does not use the supervisory slotting approach for special financing. Hence, only equity securities under the simplified risk weight method have to be disclosed in Table CR10.

Equities under the simple risk weight approach					
31.12.2019 in CHF million (unless stated otherwise)	On-balance-sheet amount	Off-balance-sheet amount	Risk weight in %	Exposure amount	RWA
Exchange-traded equity exposures	7	-	300%	7	23
Private equity exposures	119	-	400%	119	503
Other equity exposures	2	0	400%	2	7
<b>Total</b>	<b>127</b>	<b>0</b>		<b>127</b>	<b>532</b>

The on-balance-sheet amount of private equity securities rose by CHF 67 million in the second half of 2019, primarily as a result of positive value adjustments. RWA therefore increased by CHF 281 million. There were no material changes in listed and other equity instruments.

## 10 Counterparty credit risk

### 10.1 CCRA: Counterparty credit risk: qualitative disclosure related to counterparty credit risk

#### Relevant divisions

Trading activities at Zürcher Kantonalbank with counterparty credit risk include bilateral OTC derivatives, repos and SLB transactions. Zürcher Kantonalbank is also a clearing member of central counterparties for OTC derivatives, exchange traded derivatives (ETDs) and repos, and provides clearing services for clients. In some market segments, Zürcher Kantonalbank also uses access to central counterparties through a clearing broker. The client base includes financial institutions, corporates and public-sector entities.

#### Organisation, processes and methods

In procedural and organisational terms, management of counterparty credit risk is integrated into that of credit risk. Counterparty credit risk is managed at the level of individual counterparties using limits monitored in real time. Compliance can be examined with a pre-deal check before a transaction is executed. When calculating limit utilisation, both, current exposure and potential future exposure in three maturity bands are taken into account.

Contractual collateralisation agreements are offset separately as risk reduction. In addition to the separate perspective, limit utilisation is also compared to all other credit exposures to a counterparty combined and to its overall credit risk limit. Counterparty credit risk is also included in credit risk measurement at portfolio level and in the calculation of capital at risk and expected loss in the Credit Risk Portfolio Management System. For central counterparties, both, potential future exposure and contributions to the default fund and the initial margin are also taken into account.

#### Risk mitigation techniques and wrong way risk

With bilateral OTC derivatives, Zürcher Kantonalbank aims for collateralisation by means of netting agreements and collateral support annexes (CSAs), especially when dealing with financial institutions and large corporates. Where this is not possible, alternative collateral is often agreed, e.g. in the form of mortgages. Conservative rules apply as regards currency, quality and overcollateralisation (haircut) for collateral that Zürcher Kantonalbank accepts for derivative, repo and SLB transactions. Counterparties are expressly forbidden from posting their own bonds or equities as collateral.

#### Impact of a rating downgrade on guarantees given

Zürcher Kantonalbank has been awarded the highest rating from the major rating agencies Standard & Poor's, Moody's and Fitch. A downgrade of Zürcher Kantonalbank would not mean an immediate and material increase in the collateral/guarantees demanded by counterparties in SLB, repo and derivatives business. Zürcher Kantonalbank



mostly uses standard agreements for this business; these do not contain any clauses triggering the issue of more guarantees when the bank's own rating deteriorates.

## 10.2 CCR1: Counterparty credit risk: analysis of counterparty credit risk (CCR) exposure by approach

	a	b	c	d	e	f
31.12.2019 in CHF million (unless stated otherwise)	Replacement cost	Potential future exposure	EEPE (effective expected positive exposure)	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1 SA-CCR (for derivatives)	1,647	3,945		1.4	7,827	3,885
2 IMM (for derivatives and SFTs)			-	-	-	-
3 Simple approach for risk mitigation (for SFTs)						
4 Comprehensive approach for risk mitigation (for SFTs)					6,226	2,585
5 VaR for SFTs					-	-
<b>6 Total</b>						<b>6,470</b>

Replacement cost was unchanged compared to 30 June 2019, while potential future exposure for derivatives rose (CHF +930 million), largely due to higher derivatives volumes. As a result, EAD post-CRM for derivatives was around CHF 1,300 million higher. With an average risk weight of counterparties for derivative transactions of around 50 percent as at 31 December 2019, this resulted in RWA of CHF 3,885 million (CHF +348 million compared to 30 June 2019). Despite higher volumes of SFTs (EAD after CRM CHF +497 million), RWA were CHF 48 million lower as at 31 December 2019. This is due to the lower average risk weight for SFTs (down from 46 percent to 42 percent).

## 10.3 CCR2: Counterparty credit risk: credit valuation adjustment (CVA) capital charge

	a	b
31.12.2019 in CHF million	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
1 VaR component (including the 3 x multiplier)		-
2 Stressed VaR component (including the 3 x multiplier)		-
3 All portfolios subject to the standardised CVA capital charge	7,827	2,843
<b>4 Total subject to the standardised CVA capital charge</b>	<b>7,827</b>	<b>2,843</b>

The changes shown in Table CCR1 are also displayed in Table CCR2. For the CVA, the CHF 1,300 million increase in EAD post-CRM for derivatives had hardly any effect on the level of RWA (an increase of CHF 5 million) due to the lower average risk weight (down from 43 percent to 36 percent).

## 10.4 CCR3: Counterparty credit risk: standardised approach of CCR exposures by regulatory portfolio and risk weights

31.12.2019 in million CHF	a	b	c	d	e	f	g	h	i
Exposure category / risk weight <sup>1</sup>	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure
1 Central governments and central banks	66	-	-	-	-	379	-	-	444
2 Banks and securities firms	-	-	1,985	186	-	-	-	-	2,172
3 Other public sector entities and multilateral development banks	133	-	184	60	-	595	-	-	971
4 Corporates	-	-	123	454	-	1,863	-	-	2,440
5 Retail	-	-	-	-	-	198	-	-	198
6 Equity	-	-	-	-	-	-	-	-	-
7 Other exposures	-	-	-	-	-	359	-	-	359
8 <sup>2</sup>	-	-	-	-	-	-	-	-	-
<b>9 Total</b>	<b>199</b>	<b>-</b>	<b>2,292</b>	<b>700</b>	<b>-</b>	<b>3,393</b>	<b>-</b>	<b>-</b>	<b>6,584</b>

<sup>1</sup> According to FINMA-Circ. 16/1, the exposure category central counterparties (CCP) is not part of this table. We refer to table CCR8 for disclosures with respect to exposures to central counterparties.

<sup>2</sup> Currently, Zürcher Kantonalbank does not have credit exposures that would be disclosed in row 8 of this table.

Compared to 30 June 2019, total CCR exposures under the standardised approach increased by CHF 547 million. The largest rise, CHF 436 million, was recorded in the Banks and securities firms segment with a risk weight of 20 percent.

## 10.5 CCR4: IRB: CCR exposures by portfolio and PD scale

<b>31.12.2019</b>	a	b	c	d	e	f	g
<i>in CHF million (unless stated otherwise)</i>	EAD post-CRM	Average PD in %	Number of obligors	Average LGD in %	Average maturity in years	RWA	RWA density in %
<b>1 Central governments and central banks (F-IRB) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>2 Central governments and central banks (A-IRB) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>3 Banks and securities firms (F-IRB) by PD range</b>							
0.00 to <0.15	4,473	0.1%	99	45.0%	0.9	794	17.8%
0.15 to <0.25	1,414	0.2%	53	45.0%	0.9	487	34.4%
0.25 to <0.50	209	0.3%	55	45.0%	0.8	82	39.4%
0.50 to <0.75	67	0.7%	38	45.0%	1.2	49	72.2%
0.75 to <2.50	46	1.2%	38	45.0%	1.0	40	86.7%
2.50 to <10.00	37	5.0%	31	45.0%	1.0	54	146.2%
10.00 to <100.00	2	12.3%	13	45.0%	1.0	4	196.1%
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>6,248</b>	<b>0.1%</b>	<b>327</b>	<b>45.0%</b>	<b>0.9</b>	<b>1,510</b>	<b>24.2%</b>
<b>4 Banks and securities firms (A-IRB) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>5 Other public sector entities, multilateral development banks (F-IRB) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-

31.12.2019

in CHF million  
(unless stated  
otherwise)

	a	b	c	d	e	f	g
	EAD post-CRM	Average PD in %	Number of obligors	Average LGD in %	Average maturity in years	RWA	RWA density in %
<b>6 Other public sector entities, multilateral development banks (A-IRB) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>7 Corporates: specialised lending (F-IRB) by PD range</b>							
0.00 to <0.15	10	0.1%	3	45.0%	1.0	2	15.1%
0.15 to <0.25	24	0.2%	5	45.0%	1.9	9	35.3%
0.25 to <0.50	276	0.3%	41	45.0%	4.7	224	81.0%
0.50 to <0.75	41	0.6%	9	45.0%	5.0	47	114.2%
0.75 to <2.50	13	1.1%	4	45.0%	4.8	17	130.4%
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>365</b>	<b>0.3%</b>	<b>62</b>	<b>45.0%</b>	<b>4.5</b>	<b>298</b>	<b>81.6%</b>
<b>8 Corporates: specialised lending (A-IRB) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>9 Corporates: other lending (F-IRB) by PD range</b>							
0.00 to <0.15	360	0.1%	30	45.0%	3.4	105	29.2%
0.15 to <0.25	115	0.2%	21	45.0%	4.6	67	58.4%
0.25 to <0.50	213	0.4%	71	45.0%	2.0	125	58.7%
0.50 to <0.75	92	0.7%	30	45.0%	3.6	93	101.4%
0.75 to <2.50	61	1.2%	47	45.0%	2.0	59	96.9%
2.50 to <10.00	0	4.9%	10	45.0%	2.2	1	124.9%
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	0	-	2	-	-	0	106.0%
<b>Subtotal</b>	<b>842</b>	<b>0.3%</b>	<b>211</b>	<b>45.0%</b>	<b>3.1</b>	<b>451</b>	<b>53.5%</b>
<b>10 Corporates: other lending (A-IRB) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>11 Retail: covered by mortgages by PD range</b>							
0.00 to <0.15	4	0.1%	35	48.4%	1.1	1	17.4%
0.15 to <0.25	2	0.2%	8	48.7%	3.0	0	29.1%
0.25 to <0.50	1	0.3%	10	56.3%	1.2	0	54.0%
0.50 to <0.75	1	0.5%	5	56.3%	1.0	1	74.3%
0.75 to <2.50	6	1.2%	7	56.3%	2.3	8	128.7%
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>13</b>	<b>0.7%</b>	<b>65</b>	<b>53.1%</b>	<b>1.8</b>	<b>10</b>	<b>76.0%</b>

31.12.2019	a	b	c	d	e	f	g
<i>in CHF million (unless stated otherwise)</i>	EAD post-CRM	Average PD in %	Number of obligors	Average LGD in %	Average maturity in years	RWA	RWA density in %
<b>12 Retail: qualifying revolving exposures (QRRE) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>13 Other retail exposures by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>14 Equity (PD/LGD approach) by PD range</b>							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	-	-	-	-	-	-	-
0.50 to <0.75	-	-	-	-	-	-	-
0.75 to <2.50	-	-	-	-	-	-	-
2.50 to <10.00	-	-	-	-	-	-	-
10.00 to <100.00	-	-	-	-	-	-	-
100.00 (Default)	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-
<b>Total all portfolios</b>	<b>7,469</b>	<b>0.2%</b>	<b>665</b>	<b>45.8%</b>	<b>1.3</b>	<b>2,268</b>	<b>30.4%</b>

Counterparty credit risk positions under the IRB approach increased by CHF 1,250 million in the reporting period. The increase was driven by higher EAD post-CRM with banks and securities firms, amounting to CHF 1,360 million. The additional EAD volume compared to 30 June 2019 is also the reason for the increase in RWA by CHF 252 million to CHF 2,268 million.

## 10.6 CCR5: Counterparty credit risk: composition of collateral for CCR exposure

31.12.2019 <i>in CHF million</i>	a		b		c		d		e		f
	Collateral used in derivative transactions						Collateral used in SFTs				
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral				
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	
Cash – CHF	-	-	1,334	-	-	2,628	-	-	61	-	5,501
Cash – other currencies	-	-	1,457	-	-	1,194	-	-	4,932	-	10,088
Swiss Confederation sovereign debt	-	-	65	-	-	31	-	-	3,262	-	3,396
Other domestic public authority debt	-	-	78	-	-	-	-	-	1,047	-	648
Foreign sovereign and public authority debt	-	-	5	-	-	97	-	-	13,671	-	12,857
Corporate bonds	-	-	747	-	-	90	-	-	17,831	-	13,276
Equity securities	-	-	982	-	-	-	-	-	9,760	-	5,101
Other collateral	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>4,668</b>	-	-	<b>4,039</b>	-	-	<b>50,565</b>	-	<b>50,867</b>

During the reporting period, there were no significant changes to the composition of collateral for CCR exposure. The totals for received and posted collateral for derivative transactions as well as for SFTs rose. The ratios of collateral received to collateral posted essentially moved in parallel.

## 10.7 CCR6: Counterparty credit risk: credit derivatives exposures

31.12.2019 in CHF million	a	b
	Protection bought	Protection sold
<b>Notionals</b>		
Single-name CDSs	186	15
Index-CDSs	129	109
Total return swaps	124	-
Credit options	-	-
Other credit derivatives	-	-
<b>Total notionals</b>	<b>440</b>	<b>124</b>
<b>Fair values</b>		
Positive replacement value (asset)	2	5
Negative replacement value (liability)	8	0

During the reporting period, there were no significant changes in credit derivative exposures. The total notionals for purchased and sold protection sank essentially in parallel.

## 10.8 CCR7: Counterparty credit risk: RWA flow statements of CCR exposures under the Internal Model Method (IMM)

Zürcher Kantonalbank does not use the IMM approach.

## 10.9 CCR8: Counterparty credit risk: exposures to central counterparties

31.12.2019 in CHF million	a	b
	EAD (post-CRM)	RWA
<b>1 Exposures to QCCPs (total)</b>		<b>72</b>
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions)	1,294	26
3 of which OTC derivatives	806	16
4 of which exchange-traded derivatives	327	7
5 of which SFTs	161	3
6 of which netting sets where cross-product netting has been approved	-	-
7 Segregated initial margin	-	-
8 Non-segregated initial margin	1,170	23
9 Pre-funded default fund contributions	49	23
10 Unfunded default fund contributions	-	-
<b>11 Exposures to non-QCCPs (total)</b>		<b>-</b>
12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions)	-	-
13 of which OTC derivatives	-	-
14 of which exchange-traded derivatives	-	-
15 of which SFTs	-	-
16 of which netting sets where cross-product netting has been approved	-	-
17 Segregated initial margin	-	-
18 Non-segregated initial margin	-	-
19 Pre-funded default fund contributions	-	-
20 Unfunded default fund contributions	-	-

With the exception of the pre-funded default fund contributions, the risk weight for EAD (post-CRM) with CCPs remains unchanged at 2 percent. Therefore, the change in RWA is linear to the change in the exposures to QCCPs. There continues to be no exposure to non-QCCPs. There were no significant changes in EAD (after CRM) and RWA for the pre-funded default fund contributions as at 31 December 2019.

## 11 Securitisations

### 11.1 SECA: Securitisations: qualitative disclosure requirements related to securitisation exposures

Currently, Zürcher Kantonalbank does not have any securitisation positions in the banking book.

The bank holds securitisation positions in the trading book. These are solely positions arising from issuing securitisations for clients, as investments for money raised from issuing structured products and from market making. The maximum volume for total securitisation positions in the trading book is specifically limited. Zürcher Kantonalbank acts only as an investor in such cases. All positions are traditional securitisations where the assets to be securitised are actually sold to the issuing company, the special purpose vehicle (SPV).

The positions are carried in the bank's trading portfolio. As with other trading transactions, they are therefore recognised at fair value. This is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing and independent parties. This corresponds to the price set on a price-efficient and liquid market or a theoretical price determined on the basis of a valuation model. The conditions for calculating a price in this manner are listed in Table LIA. Where, as an exception, no fair value is ascertainable, valuation and recognition follow the principle of the lower of cost or market value. Valuation differences are recognised in the income statement.

### 11.2 SEC1: Securitisations: exposures in the banking book

Currently, Zürcher Kantonalbank does not have any securitisation positions in the banking book.

### 11.3 SEC2: Securitisations: exposures in the trading book

31.12.2019 in CHF million	a	b	c	e	f	g	i	j	k
	Bank acts as originator			Bank acts as sponsor			Banks acts as investor		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
<b>1 Retail (total)</b>	-	-	-	-	-	-	37	-	37
2 of which residential mortgage	-	-	-	-	-	-	3	-	3
3 of which credit card	-	-	-	-	-	-	15	-	15
4 of which other retail exposures	-	-	-	-	-	-	19	-	19
5 of which re-securitisation	-	-	-	-	-	-	-	-	-
<b>6 Wholesale (total)</b>	-	-	-	-	-	-	-	-	-

During the reporting period, there were no material changes to the securitisation exposures in the trading book.

## **11.4 SEC3: Securitisations: exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor**

Currently, Zürcher Kantonalbank does not have any securitisation positions in the banking book.

## **11.5 SEC4: Securitisations: exposures in the banking book and associated capital requirements - bank acting as investor**

Currently, Zürcher Kantonalbank does not have any securitisation positions in the banking book.

## **12 Market risk**

### **12.1 MRA: Market risk: general qualitative disclosure requirements related to market risk**

#### **Market risks in the trading book**

##### **Strategy**

In the trading business, Zürcher Kantonalbank pursues a strategy focused on client transactions. The individual desks hold trading mandates approved by the Risk Committee of the Executive Board, which set out the basic conditions in terms of the objectives pursued, instruments used for underlying and hedging transactions, the form of risk management, and the holding period.

##### **Organisation of the market risk management function**

The preventative risk management and risk control functions are separated from risk management at Executive Board level. The responsibilities of the preventative risk management function, which is independent of Trading, and the risk control function downstream of it include the monitoring of compliance with risk limits and trading mandates, the calculation and analysis of the result from trading activities (P&L) and risk figures, as well as the preventative analysis of potentially high-risk transactions. The risk organisation is also responsible for defining and implementing methods of risk measurement, their independent validation, and internal and external risk reporting.

In addition to the ongoing contact between Trading and the risk management units, there are also regular meetings which provide an institutionalised platform for communications between Trading, Risk and Compliance. In these meetings, the risk profile is scrutinised and trends in the P&L, the breakdown of the P&L and the positioning of Trading are discussed. Monitoring issues are also considered, such as compliance with limits or the checking of valuation parameters.

##### **Risk measurement and limitation**

Market risks are measured, managed and controlled on the one hand by assigning risk capital in accordance with the capital at risk approach and on the other by using value at risk limits. This is supplemented by the periodic performance of stress tests and by the monitoring of market liquidity risks. The value of trading positions is determined using the fair value method, whereby marking to market or marking to model, which is subject to stricter rules, is applied on a daily basis.

The "trading market risks" capital at risk corresponds to the assigned risk capital for the market risks of trading transactions on a one-year horizon and at a confidence level of 99.9 percent. The modelling is based on a stressed value at risk (stressed VaR). Besides general market risks, the model also takes into account issuer default risks.

Zürcher Kantonalbank calculates value at risk for a 10-day period and at a confidence level of 99 percent using a Monte Carlo simulation. The loss distribution is arrived at from the valuation of the portfolio using a large number of manufactured scenarios (full valuation). The necessary parameters for determining the scenarios are estimated on the basis of historical market data, with more recent observations being accorded a higher weighting for the forecasting of volatility than less recent ones. As a result, value at risk responds rapidly to any changes in volatility on

the markets. Value at risk is calculated on a daily basis for the entire trading book. The four groups of risk factors – commodities, currencies, interest rates and equities – are calculated and shown both separately and on a combined basis.

The bank uses different types of scenarios for stress-testing: in matrix scenarios, all market prices and their corresponding volatilities are heavily skewed. Such a scenario might include a 30 percent general fall in equity market prices with a simultaneous 70 percent increase in market volatility. This enables the risk of losses due to general changes in price and volatility to be identified. Non-linearity or asymmetry of risks can also be observed in the matrix scenarios. In addition to the matrix scenarios, Zürcher Kantonalbank further identifies probability-based scenarios which are accorded a 0.1 percent probability of occurring. These scenarios are calculated with increased correlations between risk factors so as to take account of the reduced diversification effect typically observed in an extreme situation.

The bank additionally monitors the market liquidity risk of individual portfolios. In the equity derivatives sector, the potential trading volume resulting from the hedging strategy in the event of a change in the key risk factors is compared with the total market volume. Hypothetical offsetting expenses are calculated for bonds and bond-type products, based on observed bid-ask spreads and taking into account additional pricing supplements / discounts. Large positions are examined regularly to ensure there is sufficient liquidity; valuation reserves are formed if necessary, causing a reduction in core capital in the context of capital adequacy.

The bank performs daily back-testing for the purpose of examining the forecast accuracy of the value at risk. Regulatory back-testing is based on a comparison of the value at risk for a holding period of one day with the back-testing result. Breaches of limits are notified immediately to the competent authorities if the number of breaches exceeds expectations. For further information on the back-testing results, please see Table MR4 starting from page 75.

The market risk model is validated annually on the basis of a defined process. Validation includes quantitative as well as qualitative aspects. The quantitative validation focuses on the back-testing of the risk-factor distribution, while the qualitative validation focuses on aspects such as data quality, operation and further development of the model, as well as ongoing plausibility checks on the model results. In addition to the annual review of the model, risks not modelled in the value at risk are periodically analysed in a separate process and monitored with regard to materiality.

## Reporting

The CRO report is a quarterly report from the risk organisation, produced independently of the risk managers, informing the Executive Board and Board of Directors of events, the risk profile and market risk monitoring. Information is provided in tables, graphs and commentaries on trends in the individual sub-portfolios and risk factors as well as overall market risk in trading. In addition to management reporting, there are also special reports on selected issues of special relevance and/or topicality. These reports are also seen by FINMA and the external auditor. In addition, every year, the Executive Board and Board of Directors receive reports on the suitability and effectiveness of internal controls in market risk management. When special developments or events occur, the Executive Board and Board of Directors are informed on an ad hoc basis of changes in the risk profile in additional reports and analyses.

Apart from the management reporting, there are also various monitoring reports on the P&L and market risk measurement. These support risk monitoring in the Risk unit and in Trading. Unlike the management reporting, the monitoring reports focus on a limited presentation of specific risks or portfolios. Depending on their subject, these monitoring reports are produced at shorter intervals (in some cases several times a day), as the production of monitoring reports is often more automated than for the management reporting described above.



## Risk measurement systems

Details of the systems used are given in Table OVA starting from page 13. For further information on the market risk model approach, please see Table MRB starting from page 73.

## Market risks in the banking book

For further information on the market risks in the banking book, please see the IRRBB Tables on page 76.

### 12.2 MR1: Market risk: market risk under SA

31.12.2019		a
in CHF million		RWA
Outright products		
1	Interest rate risk (general and specific)	1,536
2	Equity risk (general and specific)	-
3	Foreign exchange risk	-
4	Commodity risk	-
Options		
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	7
<b>9</b>	<b>Total</b>	<b>1,543</b>

In particular, the reduction of bonds in interest rate trading reduced the RWA of market risk positions under the standardised approach by CHF 330 million compared to mid-year.

### 12.3 MRB: Market risk: qualitative disclosures for banks using the Internal Model Approach (IMA)

Stressed VaR includes commodities, currencies, interest rates and equities as risk factor groups and is calculated for the entire trading book as well as for commodity and currency risk in the banking book. Capital adequacy for specific interest rate risks uses the standard approach, which covers residual interest rate risk and event (especially rating migration) and default risk. Therefore, there is no modelling of residual interest rate risk or calculation of an incremental risk charge (IRC) when calculating capital adequacy requirements under the model approach in VaR or stressed VaR. Thus, the capital adequacy requirement for market risk is the total of the capital adequacy requirement under the standard approach, which covers specific interest rate risk, plus that under the model approach, which covers general market risk. For internal risk management and monitoring the full model is used, which covers both, general market risk and residual interest rate risk.

VaR and stressed VaR are based on the same model across the group. Zürcher Kantonalbank uses a Monte Carlo method to determine VaR and stressed VaR. The distribution of risk factors is parameterised by estimating a covariance matrix. The loss distribution in VaR and stressed VaR is arrived at from the valuation of the portfolio using a large number of manufactured scenarios with full valuation. Both VaR and stressed VaR are calculated directly on a 10-day horizon using a 99 percent confident interval, so no scaling is necessary. The assumption when calculating VaR is that the portfolio remains unchanged during the holding period and does not age, i.e. the residual maturity does not fall.

For VaR, market data used to value the portfolio in the basic scenario is obtained daily. The market data history to re-estimate the covariance matrix is obtained at least weekly.

The covariance matrix is estimated based on a one-year market data history. More recent observations are weighted more heavily than older ones when forecasting volatility.

Absolute risk factor changes are modelled for interbank rate curves and credit spread curves; relative risk factor changes are modelled for equity prices, equity index levels, implied volatility, exchange rates, precious metals prices and commodity prices.

The estimation period for stressed VaR is from 6 March 2008 to 6 March 2009. This was calculated using a delta-normal VaR model and is reviewed regularly.

Stress-testing mainly uses economic stress scenarios with probabilities that are very low but nevertheless relevant over the long term, plus stress scenarios as a sensitivity analysis. The economic scenarios include stress scenarios across risk factor groups. The stress tests use the same positions and risk factors as the VaR.

Back-testing is a central element in controlling value at risk calculated in the model procedure and acts as a quantitative validation of the risk model. Back-testing involves comparing the back-testing VaR on a one-day time horizon against the daily back-testing P&L. The back-testing P&L is calculated as the realised P&L including position changes as a result of intraday transactions, but excluding securities lending fees, commissions and issue proceeds. Unlike the VaR used to calculate capital adequacy requirements, back-testing VaR does not model residual interest rate risk. Therefore, it is consistent with the VaR used for internal risk management and monitoring and its comparator variable, the P&L.

#### 12.4 MR2: Market risk: RWA flow statements of market risk exposures under IMA

31.12.2019 in CHF million	a	b	c	d	e	f
	VaR	Stressed VaR	IRC	CRM	Other	Total RWA
<b>1 RWA as at end of previous reporting period (30.06.2019)</b>	<b>503</b>	<b>1,639</b>	-	-	-	<b>2,142</b>
2 Movement in risk levels <sup>1</sup>	35	277	-	-	-	312
3 Model updates / changes	58	-441	-	-	-	-383
4 Methodology and policy changes	-	-	-	-	-	-
5 Acquisitions and disposals (of entities)	-	-	-	-	-	-
6 Foreign exchange movements <sup>1</sup>	-	-	-	-	-	-
7 Other	-	-	-	-	-	-
<b>8 RWA as at end of current reporting period</b>	<b>597</b>	<b>1,474</b>	-	-	-	<b>2,071</b>

<sup>1</sup> The effect of foreign exchange movements is captured in movement in risk levels, since foreign exchange rate movements are part of the effects of market movements on risk levels.

The total RWA of exposures under IMA decreased slightly by CHF 71 million to CHF 2,071 million during the reporting period. An increase in RWA of CHF 312 million, largely due to higher interest rate risks (movement in risk levels), was offset by a decrease in RWA due to model updates / changes of CHF 383 million. The model updates / changes reflect adjustments in settings as a result of the regular review of model parameters.

## 12.5 MR3: Market risk: IMA values for trading portfolios

31.12.2019

in CHF million

		a
<b>VaR (10 day 99%)</b>		
1	Maximum value	20
2	Average value	15
3	Minimum value	11
<b>4</b>	<b>Period end</b>	<b>13</b>
<b>Stressed VaR (10 day 99%)</b>		
5	Maximum value	48
6	Average value	38
7	Minimum value	26
<b>8</b>	<b>Period end</b>	<b>41</b>
<b>Incremental risk charge (99.9%)</b>		
9	Maximum value	-
10	Average value	-
11	Minimum value	-
<b>12</b>	<b>Period end</b>	<b>-</b>
<b>Comprehensive risk capital charge (99.9%)</b>		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
<b>16</b>	<b>Period end</b>	<b>-</b>
17	Floor (standardised measurement method)	-

During the reporting period, there were no material changes in the IMA values for trading portfolios.

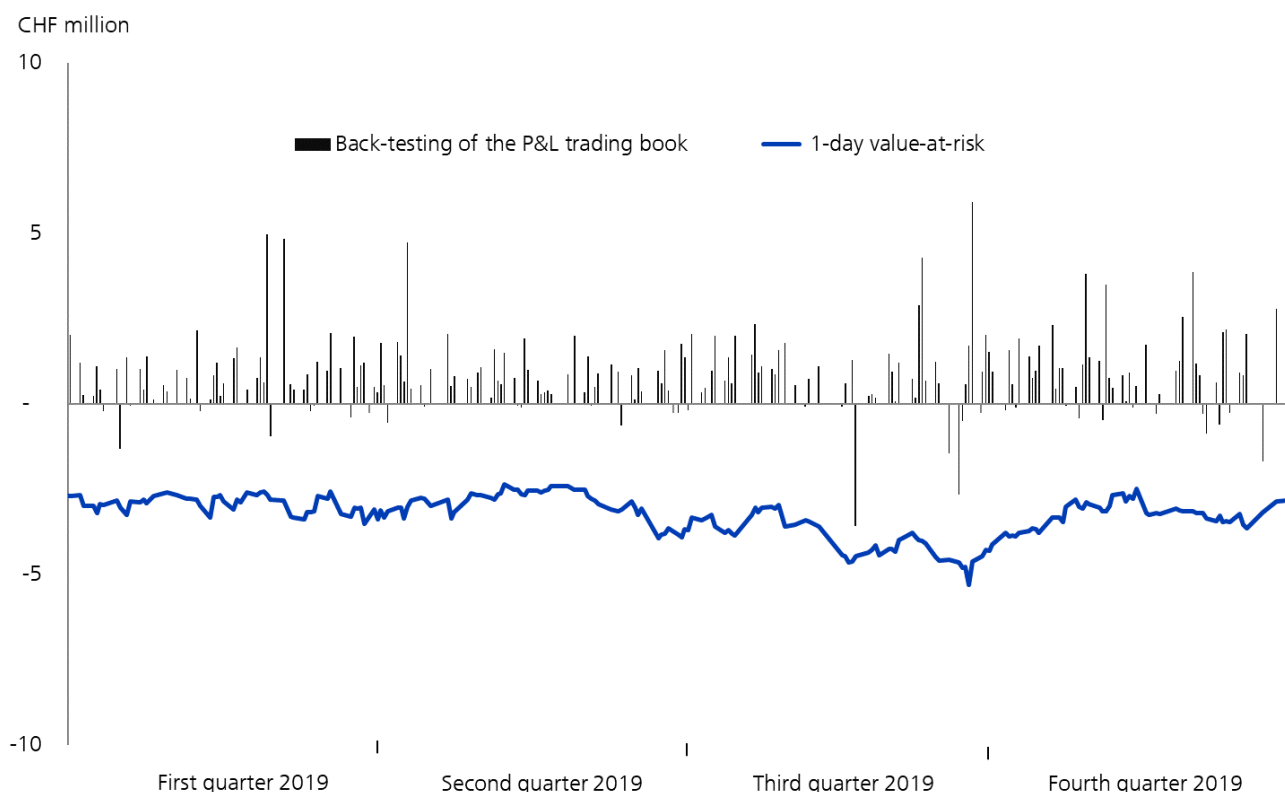
## 12.6 MR4: Market risk: comparison of VaR estimates with gains/losses

The quality of the value at risk approach used is assessed by comparing the value at risk for a holding period of one day with the realised daily back-testing result. The back-testing result is based on the result from trading activities, adjusted for commission income. Unlike a hypothetical P&L, the back-testing result includes intraday trading income. In the case of a one-day holding period and 99-percent quantile, the value at risk is expected to be exceeded two to three times each year.

## Backtesting results for the year 2019

The value at risk was not exceeded in 2019.

The situation in the last four quarters was as follows:



### 13 Interest rate risk

Zürcher Kantonalbank is making use of the option in FINMA Circular 2016/1 "Disclosure – banks" to disclose tables IRRBBA, IRRBBA1 and IRRBB1 for the first time on an extraordinary basis as at 30 June 2019. The explanation of material changes since the previous reporting period therefore refers to 30 June 2019. From 31 December 2019 these tables will be disclosed at each year-end, in line with the prescribed frequency.

#### 13.1 IRRBBA: Interest rate risk: interest rate risk in the banking book (IRRBB) risk management objective and policies

##### Description of how the bank defines IRRBB for the purposes of managing and measuring risk

Balance sheet interest rate risk is the risk that changes in market interest rates will impact negatively on the financial situation of the banking book. Interest rate risk management takes into account both net present value (change in the economic value of equity -  $\Delta EVE$ ) and prospective earnings (change in net interest income -  $\Delta NII$ ). In managing interest rate risk in the banking book (IRRBB), Zürcher Kantonalbank pursues a strategy focussed on medium-term optimisation of net interest income. The interest rate risk is managed based on the market interest method. For client deposits and loans with a variable interest rate, the interest rate risk is determined by taking into account the bank's presumed future condition-setting behaviour and client behaviour. Product modelling is subject to an annual review and is approved by the Risk Committee of the Executive Board.

## Description of the overall strategy of the bank to manage and mitigate IRRBB

Interest rate risk in the banking book is managed in strategic terms by the [Board of Directors](#) and in tactical terms by the [CFO](#) and [Treasury](#). Treasury has delegated operational management of interest rate and currency risk for periods of less than one year to the Money Trading unit. The strategic interest rate risk position is set by the Board of Directors on a periodic basis in the form of an investment strategy for equity (equity benchmark). The CFO and Treasury manage the deviation of the interest rate risk position in the banking book from the equity benchmark within the risk limits set by the Board of Directors. From the net present value perspective (EVE), interest rate risks are managed by allocating risk capital in accordance with the capital at risk approach (risk horizon one year, confidence level 99.9 percent) and by using value at risk limits (holding period 20 trading days, confidence level 99 percent). In addition, stress scenarios are simulated in order to analyse and limit the impact of extraordinary changes in the interest rate environment. Potential stress losses are also limited by the Board of Directors by means of benchmarks.

From the prospective earnings perspective (NII), stress tests provide an indication of the change in the structural contribution in the event of extraordinary changes in market interest rates with unchanged positioning over a one-year period. Potential losses of earnings are limited by the Executive Board. Besides the structural contribution, margin effects are particularly significant for client deposits with variable interest rates. Special monitoring tools allow such margin effects to be analysed and monitored for different interest rate scenarios over a period of several years.

At the weekly [balance sheet meeting](#), Treasury discusses expected moves in interest rates, assesses the tactical interest rate positioning and sets hedging programmes. For hedging decisions, representatives of the Risk unit are consulted; for interest rate forecasts, the analysts in the internal research team of Zürcher Kantonalbank are consulted.

Risk measurement and monitoring and independent reporting of interest rate risk is the responsibility of the [Risk unit](#), which is organisationally independent of the people managing the risk.

The [Treasury Committee](#) is a specialist body of the Risk Committee of the Executive Board, which regularly reviews the quality and appropriateness of asset-liability management. Chaired by the Head of Treasury, the Treasury Committee comprises people managing risk, representatives of sales, product management and controlling and members of the risk organisation.

[Model Validation](#) in the Risk unit acts as an independent controller to ensure that models are appropriate and that material model uncertainties are taken into account. The modelling of variable products is subject to an annual review by Treasury as the model owner together with model validation, and approved by the Risk Committee of the Executive Board via the Treasury Committee.

## Frequency of calculation of the bank's IRRBB metrics and description of the specific metrics the bank uses to estimate its sensitivity to IRRBB

Value at risk and capital at risk in the CFO overlay and Treasury position are calculated weekly and monthly and compliance with limits is checked. Monthly reports cover compliance with the stress test requirements. The measure of sensitivity used by Zürcher Kantonalbank is the net present gain or loss for a reduction of one basis point in the interest rate in each maturity band. These key rate sensitivities are calculated for all relevant levels of aggregation, such as the banking book, CFO and Treasury, etc.

## Description of the interest rate shock and stress scenarios the bank uses to estimate changes in economic value and earnings

In the net present value perspective, two groups of instant interest rate shock scenarios are used: a first group of scenarios involves economic scenarios based on historical changes in interest rates. A second group of scenarios uses non-parallel interest rate shock scenarios and twists in the yield curve that suitably cover the bank's risk profile. In the return perspective, the scenarios are based on historic scenarios observed over a twelve-month period in the past. In addition, the six standardised interest rate shock scenarios in FINMA Circular 2019/2 "Interest rate risk –

banks" are used in the net present value perspective and the two parallel standard shock scenarios in the earnings perspective.

### **Differences between the model assumptions used in the bank's internal interest rate risk measurement system and the model assumptions prescribed for disclosure in Table IRRBB1**

No model assumptions used in the bank's internal interest rate risk management to calculate net present value figures ( $\Delta$ EVE) differ significantly from the model assumptions prescribed for disclosure. In terms of positions included, the following differences occur: unlike for the EVE figure for disclosure, the internal interest rate risk system considers all subordinated bonds (Tier 1 bonds as well as Tier 2 bonds) as interest rate-sensitive funding instruments under bonds, rather than as core capital.

### **Overall description of how the bank hedges its IRRBB and the associated accounting treatment**

Contractually agreed client transactions, financial investments and debt financing in the banking book qualify as underlying transactions. Appropriate derivative financial instruments (mainly interest rate swaps) are used to hedge interest rate risk as part of asset-liability management. For each hedging relationship, a review is undertaken to determine whether it meets the conditions for the application of hedge accounting (e.g. the hedging transactions must be concluded with an external counterparty). The gain on effective hedging derivatives is recognised in the balance sheet in the settlement account with no income effect. The net balance of the settlement account is included under Other assets or Other liabilities. In the case of ineffective hedging transactions, the excess portion of the derivative is treated as a trading transaction. Refinancing transactions in EUR are fully swapped into Swiss francs in a micro hedge using EUR/CHF cross currency swaps, so the foreign currency risk is fully eliminated.

### **Description of the main modelling and parameter assumptions used to calculate $\Delta$ EVE and $\Delta$ NII in Table IRRBB1, with reference to the items and currencies shown in Table IRRBBA1**

1	Change in net present value of capital ( $\Delta$ EVE)	Calculation of cash flows: Recognition of interest rate margins and other components	Cash flows include principal and interest payments. For all exposures, the main margin payments and credit spread components of the original client transactions are excluded from cash flows, as Zürcher Kantonalbank has implemented a profit-splitting system (internal interest rate perspective) in interest rate management.
2		Mapping: Description of the cash flow mapping used	Cash flows are allocated to maturity bands using the interest rate reset date. For fixed-rate instruments the interest rate reset date for the nominal cash flow is equal to the residual term, but for a money market mortgage it is equal to the residual term of the shorter fixed-rate period agreed. Cash flows on variable products match those on the replicating synthetic fixed-rate products.
3		Discount rates: Description of the (product-specific) discount rates or interpolation assumptions	Cash flows are discounted using the risk-free LIBOR/swap curve.

4	Changes to planned income ( $\Delta$ NII)	Description of the procedure and central assumptions in the model for calculating future income	As part of the steady-state asset-liability assumptions, transactions maturing in the next twelve months, with the exception of hedges, are renewed at the same term and volume. For customer transactions, the same margin payments and credit spread components are used as in the original transaction. When calculating the original margin, no floor is set for negative market interest rates. With variable exposures, maturing replication tranches are renewed in line with the interest rate scenario and the current margin is retained. An internal interest rate forecast is chosen as the bank's basic scenario that corresponds to a constant current yield curve over time.
5	Variable exposures	Description of the procedure and central assumptions and parameters for determining the interest rate reset date and cash flows of variable exposures	Modelling of variable products is based on econometric analyses and expert-based empirical values as regards the setting of conditions and volume trends under interest rate scenarios. As a result, these products, which are not contractually fixed in terms of interest or principal, are replicated by synthetic products with a set fixed term. A key component of this modelling approach is the definition of a "floor", which can be considered a non-interest-rate-sensitive partial volume in terms of capital commitment. Excess volumes above the floor are modelled using a short-term core/volatile approach.
6	Exposures with re-payment options	Description of the assumptions and procedures for recognising behaviour-related early repayment options	Zürcher Kantonalbank currently has no exposures with behaviour-related early repayment options in the banking book.
7	Term deposits	Description of the assumptions and procedures for recognising behaviour-related early withdrawals	Zürcher Kantonalbank offers callable money market deposits with no term agreed for various notice periods (48 hours, 35 days, 95 days). Investment accounts with notice periods of 35 days and 95 days are also offered. The products are treated like fixed deposits based on their first call date, with no behaviour-related modelling.
8	Automatic interest rate options	Description of the assumptions and procedures for recognising automatic, behaviour-independent interest rate options	Zürcher Kantonalbank currently has no automatic, behaviour-independent interest rate options in the banking book.
9	Derivative exposures	Description of purpose, assumptions and procedure for linear and non-linear interest rate derivatives	Zürcher Kantonalbank currently has no non-linear interest rate derivatives in the banking book. Payer/receiver interest rate swaps, cross currency swaps, forward rate agreements and FX swaps are currently used to hedge against interest rate risk in the banking book.

10	Other assumptions	Description of other assumptions and procedures affecting the calculation of figures in Tables IRRBBA1 and IRRBB1, e.g. aggregation across currencies and correlation assumptions for interest rates	In Table IRRBBA1, volumes are shown aggregated across all currencies, for CHF and aggregated for EUR and USD as material currencies.
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### 13.2 IRRBBA1: Interest rate risk: quantitative information on exposure structure and repricing

	Volume (in CHF million)			Average interest rate reset period (in years)		Maximum interest rate reset period for exposures with modeled (not determined) interest rate reset dates (in years)	
	Total	of which in CHF	of which in other significant currencies <sup>1</sup>	Total	of which in CHF	Total	of which in CHF
<b>31.12.2019</b>							
<b>Defined interest rate reset date</b>	Amounts due from banks	12,018	1,918	10,062	0.14	0.14	
	Amounts due from customers	11,368	8,796	2,538	0.76	0.94	
	Money market mortgage loans	5,366	5,366	-	0.26	0.26	
	Fixed-rate mortgage loans	78,488	78,303	185	3.76	3.77	
	Financial investments	3,967	3,164	803	4.58	4.85	
	Other receivables	1,217	-	1,217	0.04	-	
	Receivables from interest-rate derivatives <sup>2</sup>	35,430	26,382	8,719	2.09	2.11	
	Amounts due to banks	-30,385	-5,910	-22,410	0.13	0.10	
	Amounts due in respect of customer deposits	-6,014	-2,402	-3,369	2.77	1.24	
	Cash bonds	-143	-143	-	2.93	2.93	
	Bond issues and central mortgage institution loans	-22,357	-18,976	-3,380	4.08	4.70	
Other payables	-	-	-	-	-		
Payables to interest-rate derivatives <sup>2</sup>	-35,234	-33,459	-1,754	2.15	2.18		
<b>Undefined interest rate reset date</b>	Amounts due from banks	-	-	-	-	-	
	Amounts due from customers	417	295	122	0.09	0.09	
	Mortgage loans with floating rates	533	533	-	1.56	1.56	
	Other receivables on demand	-	-	-	-	-	
	Payables on demand from personal accounts and current accounts	-45,721	-42,070	-3,651	1.86	1.97	
	Other payables on demand	-	-	-	-	-	
	Payables arising from client deposits, terminable but not transferable (savings)	-31,032	-31,032	-	1.93	1.93	
<b>Total</b>	<b>-22,082</b>	<b>-9,235</b>	<b>-10,918</b>	<b>2.29</b>	<b>2.64</b>	<b>10.00</b>	<b>10.00</b>

<sup>1</sup> Currencies comprising more than 10% of balance sheet assets or liabilities (as at 31.12.2019: EUR and USD).

<sup>2</sup> In the case of receivables from and payables to interest rate derivatives, derivatives volumes are shown under both receivables and payables for technical reasons.

### 13.3 IRRBB1: Interest rate risk: quantitative information on IRRBB

<i>in CHF million</i>	$\Delta$ EVE (change in the economic value of equity)		$\Delta$ NII (change in net interest income)	
<b>Period</b>	<b>31.12.2019</b>	<b>30.06.2019</b>	<b>31.12.2019</b>	<b>30.06.2019</b>
Parallel up	-1,186	-1,230	-136	-91
Parallel down	1,299	1,348	152	110
Steepener <sup>1</sup>	-412	-445		
Flattener <sup>2</sup>	181	203		
Short rate up	-259	-257		
Short rate down	265	264		
Maximum	-1,186	-1,230	-136	-91
<b>Period</b>	<b>31.12.2019</b>	<b>30.06.2019</b>	<b>31.12.2019</b>	<b>30.06.2019</b>
Tier 1 capital	12,526	11,958	12,526	11,958

<sup>1</sup> Decrease of short term interest rates in combination with increase of long term interest rates.

<sup>2</sup> Increase of short term interest rates in combination with decrease of long term interest rates.



Measurement, management, monitoring and controlling of interest rate risk in the banking book is not carried out at group level but at the level of the parent company, including the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. The interest rate risk taken by the other group companies is relatively immaterial. Treasury performs a corresponding materiality check of group companies semi-annually. In accordance with margin no. 3 of FINMA Circular 2019/2 “Interest rate risk – banks”, Zürcher Kantonalbank has received approval from the auditor. Group rules are also in place on permitted business activity, risk-taking and limits on interest rate positions.

In accordance with FINMA Circular 2019/2 “Interest rate risk – banks”, the above scenarios are used in addition to internal scenarios to estimate changes in economic value and income. They form part of the internal interest rate risk measurement system. There were no material changes compared with 30 June 2019.

## **14 Operational risks**

### **14.1 ORA: Qualitative disclosure requirements related to operational risks**

#### **Strategy**

The objective of Zürcher Kantonalbank’s management of operational risk is the risk-oriented protection of people, information, services and assets, and the maintenance and restoration of critical business functions in an operational emergency. The management of operational risk is therefore an essential part ensuring that the canton, clients, partners, public and regulator have confidence in the bank. The assessment of operational risks takes account of both direct financial losses and the consequences of a loss of client confidence and reputation.

#### **Organisation and processes**

The group-wide inventory of operational risks constitutes the basis for the management of operational risks. Besides periodic, systematic assessments, the operational risks with respect to individuals, critical information, services and assets are assessed, managed and documented on an event-driven basis as well. The measurement of operational risks is based on an estimate of potential claims and the probability of occurrence. To calculate the operational residual risks, inherent risks are set against existing risk-mitigating measures. If the residual risks exceed the risk tolerance, additional risk-mitigating measures are defined and implemented. The effectiveness of the risk-mitigating measures is monitored as part of the bank-wide internal control system (ICS). The specialist operational risk function of the Risk unit specifies the processes and methods, and provides tools for monitoring the internal control system.

In terms of security, the specialist unit in the IT, Operations & Real Estate business unit has group-wide responsibility for setting rules. As the unit for preventive risk management, the specialist unit sets the security rules for individuals, systems and procedures. The greater the risk or risk classification, the more extensive the security rules that have to be implemented. The specialist unit for security supports line managers where required, providing advice on implementing technical security requirements. It also provides training and raises staff awareness of rules of conduct relating to security (security awareness).

#### **Risk profile**

There was no fundamental change in the bank’s environment for the management of operational risks compared with the previous year. There are two significant risk factors – a professional cyber-crime industry that is constantly specialising and an increase in the potential for attacks due to the continuing advance of digitisation. Zürcher Kantonalbank is therefore continuing to give the management of cyber and process risks a high level of attention. Fraud attempts that are detected too late and operational errors can quickly result in consequential damage in the digitally interconnected business environment. The bank is responding to this challenging environment with a large number of technical protective measures, by raising the awareness of employees and clients, and by developing rule- and model-based instruments for detecting erroneous or fraudulent transactions, and other attacks.

#### **Approach regarding capital adequacy requirements for operational risk**

Zürcher Kantonalbank uses the basic indicator approach to determine the capital requirement for operational risks.

## 15 Disclosure requirements for systemically important banks

### Special disclosure obligations for systemically important financial groups and banks

Zürcher Kantonalbank has been deemed a domestic systemically important bank since November 2013.

#### 15.1 Annex 3: Risk-based capital requirements based on capital ratios (group and parent company)

	Group			
31.12.2019	Transitional rules		Definitive rules (from 2020 and 2026, respectively)	
<i>in CHF million and in % RWA</i>				
	CHF million		CHF million	
<b>Basis of assessment</b>				
<b>Risk-weighted assets (RWA)</b>	<b>64,983</b>		<b>64,983</b>	
<b>Risk-based capital requirements (going concern) based on capital ratios</b>	CHF million	in % RWA	CHF million	in % RWA
<b>Total <sup>1</sup></b>	<b>8,811</b>	<b>13.6%</b>	<b>8,811</b>	<b>13.6%</b>
of which CET1: minimum capital	3,184	4.9%	2,924	4.5%
of which CET1: buffer capital	2,638	4.1%	2,638	4.1%
of which CET1: countercyclical buffer	454	0.7%	454	0.7%
of which Additional Tier 1: minimum capital	2,014	3.1%	2,274	3.5%
of which Additional Tier 1: buffer capital	520	0.8%	520	0.8%
<b>Eligible capital (going concern) <sup>2</sup></b>	CHF million	in % RWA	CHF million	in % RWA
<b>Core capital</b>	<b>12,986</b>	<b>20.0%</b>	<b>11,425</b>	<b>17.6%</b>
of which CET1	10,452	16.1%	8,631	13.3%
of which CET1 to cover additional Tier 1 requirements	1,064	1.6%	2,794	4.3%
of which additional Tier 1 high-trigger CoCos	745	1.1%	-	-
of which additional Tier 1 low-trigger CoCos	-	-	-	-
of which Tier 2 high-trigger CoCos	-	-	-	-
of which Tier 2 low-trigger CoCos	725	1.1%	-	-
<b>Risk-based requirements for additional loss-absorbing capital (gone concern) based on capital ratios</b>	CHF million	in % RWA	CHF million	in % RWA
Total according to size and market share (mirroring going concern requirements)				
incl. additional requirement FINMA <sup>3,4</sup>	635	1.0%	5,108	7.9%
Reduction based on rebates as per Art. 133 CAO	-	-	-	-
Reduction based on holdings in additional capital in the form of CET1 or contingent capital as per Art. 132 para. 4 CAO	-	-	-418	-0.6%
<b>Total (net)</b>	<b>635</b>	<b>1.0%</b>	<b>4,690</b>	<b>7.2%</b>
<b>Eligible additional loss-absorbing capital (gone concern)</b>	CHF million	in % RWA	CHF million	in % RWA
<b>Total</b>	<b>893</b>	<b>1.4%</b>	<b>4,690</b>	<b>7.2%</b>
of which CET1 used to meet gone concern requirements	-	-	90	0.1%
of which additional Tier 1 used to meet gone concern requirements	-	-	745	1.1%
of which Tier 2 high-trigger CoCos	-	-	-	-
of which Tier 2 low-trigger CoCos	-	-	725	1.1%
of which non-Basel III compliant Tier 1	-	-	-	-
of which non-Basel III compliant Tier 2	-	-	-	-
of which bail-in bonds	-	-	-	-
of which other eligible additional loss-absorbing capital <sup>5</sup>	575	0.9%	575	0.9%
of which state guarantee or similar mechanism	318	0.5%	2,554	3.9%

<sup>1</sup> The risk-based capital requirements on a going concern basis are calculated as a percentage of risk-weighted assets. Under Article 129 CAO, the total requirement for Zürcher Kantonalbank is 12.86%. In addition, there is a countercyclical buffer requirement, currently 0.70%, which results in a total requirement of 13.56%.

<sup>2</sup> Pursuant to the transitional provisions on the amendment of the CAO dated 11.05.2016 (Art. 148b CAO) with regard to capital quality for systemically important banks, low-trigger Tier 2 capital can be charged to core capital until the first capital call, at the latest by 31.12.2019.

<sup>3</sup> Under Article 132, para. 2 CAO, the risk-based requirements for additional loss-absorbing capital (gone concern) are calculated using the total going concern requirement under Article 129 CAO. Based on the transitional provisions in Article 148j CAO, the gross gone concern requirement in 2019 is 0.64% of RWA. This will increase in stages until 2026, when the gross gone concern requirement will be equal to 40 percent of the total going concern requirement for Zürcher Kantonalbank (excluding the CCB).

<sup>4</sup> In a letter dated 03.09.2019, FINMA set the risk-based requirements for additional loss-absorbing capital (gone concern) for contingency planning at Zürcher Kantonalbank at 7.86% gross from 2026, including the total according to size and market share (mirroring the going concern requirement). Under the transitional provisions in Art. 148j CAO, this is equivalent to an additional risk-based requirement of 0.34% gross as at 31.12.2019. This results in a total risk-based gone concern requirement of 0.98% gross as at 31.12.2019. The total risk-based gone concern requirement is being increased gradually to 7.86% by 2026, as already mentioned.

<sup>5</sup> In December 2019, the Board of Directors decided to set aside the full amount of the endowment capital, which had been approved by the Cantonal Parliament in 2014 and has not yet been called on, for the bank's contingency plan (endowment capital reserve in the amount of CHF 575 million). The endowment capital reserve thus qualifies as eligible additional loss-absorbing capital (gone concern). As a result, this amount can now only be called on by order of FINMA or a FINMA-appointed restructuring official.

31.12.2019

in CHF million and in % RWA

Transitional rules

Definitive rules  
(from 2020 and 2026, respectively)

	Transitional rules		Definitive rules (from 2020 and 2026, respectively)	
	CHF million	in % RWA	CHF million	in % RWA
<b>Basis of assessment</b>	CHF million		CHF million	
<b>Risk-weighted assets (RWA)</b>	<b>65,936</b>		<b>65,936</b>	
<b>Risk-based capital requirements (going concern) based on capital ratios</b>	CHF million	in % RWA	CHF million	in % RWA
<b>Total <sup>1</sup></b>	<b>8,933</b>	<b>13.5%</b>	<b>8,933</b>	<b>13.5%</b>
of which CET1: minimum capital	3,231	4.9%	2,967	4.5%
of which CET1: buffer capital	2,677	4.1%	2,677	4.1%
of which CET1: countercyclical buffer	454	0.7%	454	0.7%
of which Additional Tier 1: minimum capital	2,044	3.1%	2,308	3.5%
of which Additional Tier 1: buffer capital	527	0.8%	527	0.8%
<b>Eligible capital (going concern) <sup>2</sup></b>	CHF million	in % RWA	CHF million	in % RWA
<b>Core capital</b>	<b>13,252</b>	<b>20.1%</b>	<b>11,666</b>	<b>17.7%</b>
of which CET1	10,680	16.2%	8,830	13.4%
of which CET1 to cover additional Tier 1 requirements	1,101	1.7%	2,835	4.3%
of which additional Tier 1 high-trigger CoCos	745	1.1%	-	-
of which additional Tier 1 low-trigger CoCos	-	-	-	-
of which Tier 2 high-trigger CoCos	-	-	-	-
of which Tier 2 low-trigger CoCos	725	1.1%	-	-
<b>Risk-based requirements for additional loss-absorbing capital (gone concern) based on capital ratios</b>	CHF million	in % RWA	CHF million	in % RWA
Total according to size and market share (mirroring going concern requirements) incl. additional requirement FINMA <sup>3,4</sup>	645	1.0%	5,183	7.9%
Reduction based on rebates as per Art. 133 CAO	-	-	-	-
Reduction based on holdings in additional capital in the form of CET1 or contingent capital as per Art. 132 para. 4 CAO	-	-	-430	-0.7%
<b>Total (net)</b>	<b>645</b>	<b>1.0%</b>	<b>4,752</b>	<b>7.2%</b>
<b>Eligible additional loss-absorbing capital (gone concern)</b>	CHF million	in % RWA	CHF million	in % RWA
<b>Total</b>	<b>897</b>	<b>1.4%</b>	<b>4,752</b>	<b>7.2%</b>
of which CET1 used to meet gone concern requirements	-	-	115	0.2%
of which additional Tier 1 used to meet gone concern requirements	-	-	745	1.1%
of which Tier 2 high-trigger CoCos	-	-	-	-
of which Tier 2 low-trigger CoCos	-	-	725	1.1%
of which non-Basel III compliant Tier 1	-	-	-	-
of which non-Basel III compliant Tier 2	-	-	-	-
of which bail-in bonds	-	-	-	-
of which other eligible additional loss-absorbing capital <sup>5</sup>	575	0.9%	575	0.9%
of which state guarantee or similar mechanism	322	0.5%	2,591	3.9%

<sup>1</sup> The risk-based capital requirements on a going concern basis are calculated as a percentage of risk-weighted assets. Under Article 129 CAO, the total requirement for Zürcher Kantonalbank is 12.86%. In addition, there is a countercyclical buffer requirement, currently 0.69%, which results in a total requirement of 13.55%.

<sup>2</sup> Pursuant to the transitional provisions on the amendment of the CAO dated 11.05.2016 (Art. 148b CAO) with regard to capital quality for systemically important banks, low-trigger Tier 2 capital can be charged to core capital until the first capital call, at the latest by 31.12.2019.

<sup>3</sup> Under Article 132, para. 2 CAO, the risk-based requirements for additional loss-absorbing capital (gone concern) are calculated using the total going concern requirement under Article 129 CAO. Based on the transitional provisions in Article 148j CAO, the gross gone concern requirement in 2019 is 0.64% of RWA. This will increase in stages until 2026, when the gross gone concern requirement will be equal to 40 percent of the total going concern requirement for Zürcher Kantonalbank (excluding the CCB).

<sup>4</sup> In a letter dated 03.09.2019, FINMA set the risk-based requirements for additional loss-absorbing capital (gone concern) for contingency planning at Zürcher Kantonalbank at 7.86% gross from 2026, including the total according to size and market share (mirroring the going concern requirement). Under the transitional provisions in Art. 148j CAO, this is equivalent to an additional risk-based requirement of 0.34% gross as at 31.12.2019. This results in a total risk-based gone concern requirement of 0.98% gross as at 31.12.2019. The total risk-based gone concern requirement is being increased gradually to 7.86% by 2026, as already mentioned.

<sup>5</sup> In December 2019, the Board of Directors decided to set aside the full amount of the endowment capital, which had been approved by the Cantonal Parliament in 2014 and has not yet been called on, for the bank's contingency plan (endowment capital reserve in the amount of CHF 575 million). The endowment capital reserve thus qualifies as eligible additional loss-absorbing capital (gone concern). As a result, this amount can now only be called on by order of FINMA or a FINMA-appointed restructuring official.

## 15.2 Annex 3: Unweighted capital requirements based on the leverage ratio (group and parent company)

Group

31.12.2019

in CHF million and in % LRD

Transitional rules

Definitive rules  
(from 2020 and 2026, respectively)

Basis of assessment	CHF million		CHF million	
Leverage ratio exposure measure (leverage ratio denominator, LRD)	185,628		185,628	
Unweighted capital requirements (going concern) based on the leverage ratio	CHF million	in % LRD	CHF million	in % LRD
<b>Total</b> <sup>1</sup>	<b>8,353</b>	<b>4.5%</b>	<b>8,353</b>	<b>4.5%</b>
of which CET1: minimum capital	3,156	1.7%	2,784	1.5%
of which CET1: buffer capital	2,784	1.5%	2,784	1.5%
of which Additional Tier 1: minimum capital	2,413	1.3%	2,784	1.5%
Eligible capital (going concern) <sup>2</sup>	CHF million	in % LRD	CHF million	in % LRD
<b>Core capital</b>	<b>12,986</b>	<b>7.0%</b>	<b>11,425</b>	<b>6.2%</b>
of which CET1	10,452	5.6%	8,631	4.6%
of which CET1 to cover additional Tier 1 requirements	1,064	0.6%	2,794	1.5%
of which additional Tier 1 high-trigger CoCos	745	0.4%	-	-
of which additional Tier 1 low-trigger CoCos	-	-	-	-
of which Tier 2 high-trigger CoCos	-	-	-	-
of which Tier 2 low-trigger CoCos	725	0.4%	-	-
Unweighted requirements for additional loss-absorbing capital (gone concern) based on the leverage ratio	CHF million	in % LRD	CHF million	in % LRD
Total according to size and market share (mirroring going concern requirements)				
incl. additional requirement FINMA <sup>3,4</sup>	596	0.3%	5,105	2.8%
Reduction based on rebates as per Art. 133 CAO	-	-	-	-
Reduction based on holdings in additional capital in the form of CET1 or contingent capital as per Art. 132 para. 4 CAO	-	-	-418	-0.2%
<b>Total (net)</b>	<b>596</b>	<b>0.3%</b>	<b>4,688</b>	<b>2.5%</b>
Eligible additional loss-absorbing capital (gone concern)	CHF million	in % LRD	CHF million	in % LRD
<b>Total</b>	<b>893</b>	<b>0.5%</b>	<b>4,690</b>	<b>2.5%</b>
of which CET1 used to meet gone concern requirements	-	-	90	0.0%
of which additional Tier 1 used to meet gone concern requirements	-	-	745	0.4%
of which Tier 2 high-trigger CoCos	-	-	-	-
of which Tier 2 low-trigger CoCos	-	-	725	0.4%
of which non-Basel III compliant Tier 1	-	-	-	-
of which non-Basel III compliant Tier 2	-	-	-	-
of which bail-in bonds	-	-	-	-
of which other eligible additional loss-absorbing capital <sup>5</sup>	575	0.3%	575	0.3%
of which state guarantee or similar mechanism	318	0.2%	2,554	1.4%

<sup>1</sup> The unweighted capital requirements (going concern) are calculated as a percentage of the leverage ratio exposure measure. Under Article 129 CAO, the unweighted total requirement for Zürcher Kantonalbank is 4.5%.

<sup>2</sup> Pursuant to the transitional provisions on the amendment of the CAO of 11.05.2016 (Art. 148b CAO) with regard to capital quality for systemically important banks, low-trigger Tier 2 capital can be charged to core capital until the first capital call, at the latest by 31.12.2019.

<sup>3</sup> Under Article 132, para. 2 CAO, the unweighted requirements for additional loss-absorbing capital (gone concern) are calculated using the total going concern requirement under Article 129 CAO. Based on the transitional provisions in Article 148j CAO, the gross gone concern requirement in 2019 is 0.21% of the leverage ratio exposure measure. This will increase in stages until 2026, when the gross gone concern requirement will be equal to 40 percent of the total going concern requirement for Zürcher Kantonalbank.

<sup>4</sup> In a letter dated 03.09.2019, FINMA increased the unweighted requirements for additional loss-absorbing capital (gone concern) for contingency planning at Zürcher Kantonalbank from 2026 in the same ratio as for the risk-based gone concern requirements. Under the transitional provisions in Art. 148j CAO, this is equivalent to an additional unweighted requirement of 0.11% gross as at 31.12.2019. This results in a total unweighted gone concern requirement of 0.32% gross as at 31.12.2019. The total unweighted gone concern requirement is being increased gradually to 2.75% gross by 2026.

<sup>5</sup> In December 2019, the Board of Directors decided to set aside the full amount of the endowment capital, which had been approved by the Cantonal Parliament in 2014 and has not yet been called on, for the bank's contingency plan (endowment capital reserve in the amount of CHF 575 million). The endowment capital reserve thus qualifies as eligible additional loss-absorbing capital (gone concern). As a result, this amount can now only be called on by order of FINMA or a FINMA-appointed restructuring official.

31.12.2019

in CHF million and in % LRD

Transitional rules

Definitive rules  
(from 2020 and 2026, respectively)

Basis of assessment	CHF million		CHF million	
<b>Leverage ratio exposure measure (leverage ratio denominator, LRD)</b>	<b>185,801</b>		<b>185,801</b>	
Unweighted capital requirements (going concern) based on the leverage ratio	CHF million	in % LRD	CHF million	in % LRD
<b>Total <sup>1</sup></b>	<b>8,361</b>	<b>4.5%</b>	<b>8,361</b>	<b>4.5%</b>
of which CET1: minimum capital	3,159	1.7%	2,787	1.5%
of which CET1: buffer capital	2,787	1.5%	2,787	1.5%
of which Additional Tier 1: minimum capital	2,415	1.3%	2,787	1.5%
Eligible capital (going concern) <sup>2</sup>	CHF million	in % LRD	CHF million	in % LRD
<b>Core capital</b>	<b>13,252</b>	<b>7.1%</b>	<b>11,666</b>	<b>6.3%</b>
of which CET1	10,680	5.7%	8,830	4.8%
of which CET1 to cover additional Tier 1 requirements	1,101	0.6%	2,835	1.5%
of which additional Tier 1 high-trigger CoCos	745	0.4%	-	-
of which additional Tier 1 low-trigger CoCos	-	-	-	-
of which Tier 2 high-trigger CoCos	-	-	-	-
of which Tier 2 low-trigger CoCos	725	0.4%	-	-
Unweighted requirements for additional loss-absorbing capital (gone concern) based on the leverage ratio	CHF million	in % LRD	CHF million	in % LRD
Total according to size and market share (mirroring going concern requirements) incl. additional requirement FINMA <sup>3,4</sup>	596	0.3%	5,110	2.8%
Reduction based on rebates as per Art. 133 CAO	-	-	-	-
Reduction based on holdings in additional capital in the form of CET1 or contingent capital as per Art. 132 para. 4 CAO	-	-	-430	-0.2%
<b>Total (net)</b>	<b>596</b>	<b>0.3%</b>	<b>4,680</b>	<b>2.5%</b>
Eligible additional loss-absorbing capital (gone concern)	CHF million	in % LRD	CHF million	in % LRD
<b>Total</b>	<b>897</b>	<b>0.5%</b>	<b>4,752</b>	<b>2.6%</b>
of which CET1 used to meet gone concern requirements	-	-	115	0.1%
of which additional Tier 1 used to meet gone concern requirements	-	-	745	0.4%
of which Tier 2 high-trigger CoCos	-	-	-	-
of which Tier 2 low-trigger CoCos	-	-	725	0.4%
of which non-Basel III compliant Tier 1	-	-	-	-
of which non-Basel III compliant Tier 2	-	-	-	-
of which bail-in bonds	-	-	-	-
of which other eligible additional loss-absorbing capital <sup>5</sup>	575	0.3%	575	0.3%
of which state guarantee or similar mechanism	322	0.2%	2,591	1.4%

<sup>1</sup> The unweighted capital requirements (going concern) are calculated as a percentage of the leverage ratio exposure measure. Under Article 129 CAO, the unweighted total requirement for Zürcher Kantonalbank is 4.5%.

<sup>2</sup> Pursuant to the transitional provisions on the amendment of the CAO of 11.05.2016 (Art. 148b CAO) with regard to capital quality for systemically important banks, low-trigger Tier 2 capital can be charged to core capital until the first capital call, at the latest by 31.12.2019.

<sup>3</sup> Under Article 132, para. 2 CAO, the unweighted requirements for additional loss-absorbing capital (gone concern) are calculated using the total going concern requirement under Article 129 CAO. Based on the transitional provisions in Article 148j CAO, the gross gone concern requirement in 2019 is 0.21% of the leverage ratio exposure measure. This will increase in stages until 2026, when the gross gone concern requirement will be equal to 40 percent of the total going concern requirement for Zürcher Kantonalbank.

<sup>4</sup> In a letter dated 03.09.2019, FINMA increased the unweighted requirements for additional loss-absorbing capital (gone concern) for contingency planning at Zürcher Kantonalbank from 2026 in the same ratio as for the risk-based gone concern requirements. Under the transitional provisions in Art. 148j CAO, this is equivalent to an additional unweighted requirement of 0.11% gross as at 31.12.2019. This results in a total unweighted gone concern requirement of 0.32% gross as at 31.12.2019. The total unweighted gone concern requirement is being increased gradually to 2.75% gross by 2026.

<sup>5</sup> In December 2019, the Board of Directors decided to set aside the full amount of the endowment capital, which had been approved by the Cantonal Parliament in 2014 and has not yet been called on, for the bank's contingency plan (endowment capital reserve in the amount of CHF 575 million). The endowment capital reserve thus qualifies as eligible additional loss-absorbing capital (gone concern). As a result, this amount can now only be called on by order of FINMA or a FINMA-appointed restructuring official.

## 16 Corporate Governance

For disclosures on corporate governance, please see the corporate governance section in our Annual Report 2019 or the corporate governance information our internet page.