NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR ITS TERRITORIES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the following Prospectus (in preliminary or final form), and you are therefore required to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUCH SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

Confirmation of your Representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the notes described therein (the "**Bonds**"), you must not be in the United States or be, or be acting on behalf of, a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the email and accessing the Prospectus, you shall be deemed to have represented to Zürcher Kantonalbank (the "**Issuer**") and to BNP Paribas and Credit Suisse Securities (Europe) Ltd as joint lead managers (the "**Global Co-ordinators**") and Zürcher Kantonalbank as joint lead manager (together with the Global Co-ordinators, the "**Joint Lead Managers**") that:

(1) you are outside the United States and are not a U.S. person, as defined in Regulation S under the Securities Act, nor acting on behalf of a U.S. person and, to the extent you purchase any Bonds you will be doing so pursuant to Regulation S under the Securities Act;

(2) the electronic mail address to which the attached Prospectus has been delivered is not located in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, and

(3) you consent to delivery of the attached Prospectus and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Joint Lead Managers and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling any of the foregoing accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Issuer.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person. Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and a Joint Lead Manager or any affiliate of such Joint Lead Manager is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by such Joint Lead Manager or such affiliate, as the case may be, on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy any Bonds in any jurisdiction in which such offer or solicitation would be unlawful. No action has been or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would, or is intended to, permit a public offering of the securities, or possession or distribution of the Prospectus (in preliminary or final form) or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required.

Recipients of the Prospectus who intend to subscribe for or purchase any Bonds are reminded that any subscription or purchase may only be made on the basis of the information contained in the Prospectus in final form.

The Prospectus is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons within the United Kingdom who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "**Relevant Persons**"). The Prospectus is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. The Prospectus (in preliminary or final form) may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 would not, if the Issuer was not an authorised person, apply to the Issuer.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Bonds are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Bonds to retail investors.

In particular, in August 2014, the UK Financial Conduct Authority published the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time, the "**TMR**") which took effect on 1 October 2014. Under the rules set out in the TMR (as amended or replaced from time to time, the "**TMR Rules**"), certain contingent write-down or convertible securities, such as securities having features substantially similar to the Bonds, must not be sold to retail clients in the European Economic Area (the "**EEA**") and nothing may be done that would or might result in the buying of such securities or the holding of a beneficial interest in such securities by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than in accordance with the limited exemptions set out in the TMR Rules.

The Joint Lead Managers are required to comply with the TMR Rules. By purchasing, or making or accepting an offer to purchase, any Bonds from the Issuer and/or any Joint Lead Manager, each prospective investor represents, warrants, agrees with, and undertakes to, the Issuer and the Joint Lead Managers that:

1. it is not a retail client in the EEA (as defined in the TMR Rules);

2. whether or not it is subject to the TMR Rules, it will not sell or offer the Bonds to retail clients in the EEA or do anything (including the distribution of the Prospectus) that would or might result in the buying of the Bonds or the holding of a beneficial interest in the Bonds by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than (i) in relation to any sale or offer to sell Bonds to a retail client in or resident in the United Kingdom (the "**UK**"), in circumstances that do not and will not give rise to a contravention of the TMR Rules by any person and/or (ii) in relation to any sale or offer to sell Bonds to a retail client in any EEA member state other than the UK, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Bonds and is able to bear the potential losses involved in an investment in the Bonds and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Bonds, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Bonds by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Bonds from the Issuer and/or any Joint Lead Manager, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

Prospectus dated 11 June 2015

Zürcher Kantonalbank

EUR 500,000,000
2.625 per cent. Tier 2 Subordinated Bonds due 2027

Issue Price: 99.622 per cent.

The EUR 500,000,000 2.625 per cent. Tier 2 Subordinated Bonds due 2027 (the "**Bonds**") will be issued by Zürcher Kantonalbank (the "**Issuer**") on 15 June 2015 (the "**Issue Date**"). Interest on the Bonds will accrue from (and including) the Issue Date to (but excluding) 15 June 2022 (the "**Optional Redemption Date**") at an initial rate of 2.625 per cent. per annum payable annually in arrear, and thereafter at a rate based on the 5-year Mid-Swap Rate (as defined herein) plus 1.85 per cent. Payments on the Bonds will be made without deduction for or on account of taxes of Switzerland to the extent described herein under "*Terms of the Bonds — 6. Taxation*" and under "*Taxation*".

Unless previously redeemed or purchased and cancelled, the Bonds will mature on 15 June 2027 at par plus accrued but unpaid interest thereon. The Bonds may be redeemed in whole, but not in part, at par plus accrued but unpaid interest at the option of the Issuer, on the Optional Redemption Date, upon the occurrence of a Tax Event or upon the occurrence of a Regulatory Event (each as defined herein), as more particularly described in "*Terms of the Bonds —3. Redemption, Purchase and Cancellation*". The Bonds will constitute direct, unsecured and subordinated obligations of the Issuer and shall rank at all times *pari passu* and without any preference among themselves, as more particularly described herein under "*Terms of the Bonds —7. Status and Subordination*".

If on an Initial Trigger Test Date (as defined herein) a Trigger Event (as defined herein) occurs and is continuing on the relevant Subsequent Trigger Test Date (as defined herein), or at any time a Viability Event (as defined herein) occurs, the Issuer shall write-down all due but unpaid and all other obligations under the Bonds and all obligations under the Bonds shall automatically be extinguished, as more particularly described in "*Terms of the Bonds — 8. Contingent Write-down*". Holders (as defined herein) will lose their entire investment in the Bonds. See "*Risk Factors — The Bonds may be subject to a Contingent Write-down*".

In the event of liquidation, dissolution, insolvency or proceeding for the avoidance of insolvency of, or against, the Issuer, the Bonds rank junior to all unsubordinated obligations of the Issuer.

The Bonds are expected to be provisionally admitted to trading on the SIX Swiss Exchange AG ("**SIX Swiss Exchange**") from 12 June 2015. The last trading day will be the second trading day prior to the date on which the Bonds are fully redeemed or the date a Contingent Write-Down occurs, as applicable, in accordance with the Terms of the Bonds. Application will be made to the SIX Swiss Exchange for listing of the Bonds. This Prospectus is an advertisement and not a prospectus for the purposes of EU Directive 2003/71/EU (as amended).

The Bonds have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Bonds may not be offered or sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered and sold only in "offshore transactions" to non-U.S. persons (as defined in Regulation S) in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of the Bonds and distribution of this Prospectus, see "Subscription and Sale".

The Bonds are to be issued in registered form in denominations of EUR 200,000 and integral multiples of EUR 1,000 in excess thereof. The Bonds will initially be represented by a global certificate (the "**Global Certificate**") which will be deposited on or about the Issue Date with a common depositary and registered in the name of a nominee for Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*. The provisions governing the form and transfers are described in "*Terms of the Bonds —1. Amount and Denomination, Reopening, Form, Title and Transfer*".

The Bonds are expected upon issue to be rated "A" by Standard & Poor's. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in Bonds involves certain risks, including the risk that Holders will lose their entire investment in the Bonds. For a discussion of certain of the risks that potential investors should carefully consider before deciding to invest in the Bonds, see "Risk Factors".

Joint Lead Managers

BNP PARIBAS **Credit Suisse** **Zürcher Kantonalbank**

IMPORTANT INFORMATION

This Prospectus may only be used for the purposes for which it has been published.

The Joint Lead Managers (as defined herein under "*Subscription and Sale*") have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Bonds.

No person is or has been authorised by the Issuer or the Joint Lead Managers to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Issuer or the issue and offering of the Bonds. The Joint Lead Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Prospectus or any such statement.

Neither this Prospectus nor any other information supplied in connection with the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of the Bonds constitutes an offer or invitation by or on behalf of the Issuer or the Joint Lead Managers to any person to subscribe for or to purchase any Bonds.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issue of the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. Each Joint Lead Manager expressly does not undertake to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to its attention.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Bonds are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Bonds to retail investors.

In particular, in August 2014, the UK Financial Conduct Authority published the TMR, which took effect on 1 October 2014. Under the rules set out in the TMR (as amended or replaced from time to time, the "**TMR Rules**"), certain contingent write-down or convertible securities, such as securities having features substantially similar to the Bonds, must not be sold to retail clients in the European Economic Area (the "**EEA**") and nothing may be done that would or might result in the buying of such securities or the holding of a beneficial interest in such securities by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than in accordance with the limited exemptions set out in the TMR Rules.

The Joint Lead Managers are required to comply with the TMR Rules. By purchasing, or making or accepting an offer to purchase, any Bonds from the Issuer and/or any Joint Lead Manager, each prospective investor represents, warrants, agrees with, and undertakes to, the Issuer and the Joint Lead Managers that:

1. it is not a retail client in the EEA (as defined in the TMR Rules);

2. whether or not it is subject to the TMR Rules, it will not sell or offer the Bonds to retail clients in the EEA or do anything (including the distribution of the Prospectus) that would or might result in the buying of the Bonds or the holding of a beneficial interest in the Bonds by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than (i) in relation to any sale or offer to sell Bonds to a retail client in or resident in the United Kingdom (the "**UK**"), in circumstances that do not and will not give rise to a contravention of the TMR Rules by any person and/or (ii) in relation to any sale or offer to sell Bonds to a retail client in any EEA member state other than the UK, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Bonds and is able to bear the potential losses involved in an investment in the Bonds and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Bonds, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Bonds by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Bonds from the Issuer and/or any Joint Lead Manager, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

STABILISATION

In connection with the issue of the Bonds, Credit Suisse Securities (Europe) Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

EACH PURCHASER OF THE BONDS MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE BONDS OR POSSESSES OR DISTRIBUTES THIS INFORMATION MEMORANDUM AND MUST OBTAIN ANY CONSENT, APPROVAL, OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE BONDS UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND THE ISSUER AND THE JOINT LEAD MANAGERS SHALL NOT HAVE ANY RESPONSIBILITY THEREFOR.

The Bonds are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Bonds have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "**SEC**"), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Bonds or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence under the laws of the United States.

WARNING

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Bonds in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Bonds may be restricted by law in certain jurisdictions. Neither the Issuer nor the Joint Lead Managers represent that this Prospectus may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of any Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States and the United Kingdom, see "*Subscription and Sale*".

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements, which reflect the current expectation of the Issuer's management with respect to future events, financial and operating performance and future market conditions. Words such as "believe", "anticipate", "expect", "aim", "project", "expect", "intend", "predict", "target", "may", "might", "assume", "could", "will" and "should" or other variations or comparable terminology are intended to identify forward-looking statements. Forward-looking statements appear in a number of places in this Prospectus including, without limitation, the "*Risk Factors*" and "*Description of the Issuer*". These forward-looking statements address matters such as:

- the Issuer's business strategy and financial targets;
- performance of the financial markets;
- future prospects of the Issuer; and
- future exposure to credit, market, liquidity and other risks.

By their nature, forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. While the Issuer has prepared these forward-looking statements in good faith and on the basis of assumptions it believes to be reasonable, any such forward-looking statements are not guarantees or warranties of future performance. The Issuer's actual financial condition, results of operation and cash flows, and the development of the markets in which it operates, may differ materially from those expressed or implied in the forward-looking statements contained in this Prospectus.

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RISK FACTORS

Prior to making an investment decision, prospective investors in the Bonds should consider carefully, among further factors and in light of their financial circumstances and investment objectives, all the information in this Prospectus and, in particular, the risk factors set forth below. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial conditions or prospects of the Issuer, which in turn could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Bonds. In addition, each of the risks highlighted below could adversely affect the trading price of the Bonds or the rights of investors under the Bonds and, as a result, investors could lose some or all of their investment. This section is not intended to be exhaustive and prospective investors should make their own independent evaluation of all risk factors, consult their respective financial, legal, tax and other advisors and also read the detailed information set out elsewhere in this Prospectus. Other risks and uncertainties unknown to the Issuer or considered insignificant at this time could equally have a material adverse effect on the business, operations, financial conditions or prospects of the Issuer.

Investment decisions should ***not*** *be made solely on the basis of the risk warnings set out in the Prospectus, since such information cannot serve as a substitute for individual advice and information which is tailored to the requirements, objectives, experience, knowledge and circumstances of each prospective investor individually.*

Only prospective investors who are fully aware of the risks associated with the investment in the Bonds and who are financially able to bear any losses that may arise, should consider engaging in transactions of this type.

The order in which the following risks factors are presented is not an indication of the likelihood of their occurrence or their importance.

Risks relating to the Issuer and to the industry

The Issuer's operating performance could be adversely affected by an economic downturn or fluctuations in the financial as well as the real estate markets

A protracted economic downturn in Switzerland, in the Canton of Zurich and/or globally or continued volatility in the financial markets could have an adverse effect on the Issuer's business, financial condition and results of operations. Factors such as interest rates, inflation, deflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices can significantly affect the activity level of customers and the profitability of the Issuer. Furthermore, a deterioration or slump in the market for residential or other real estate in Switzerland and in particular in the Canton of Zurich could negatively affect the Issuer's mortgage business.

The Issuer faces competition from domestic and international market participants

All aspects of the Issuer's business are highly competitive. While the Issuer is striving to deliver excellent client service to meet highest industry standards, the Issuer's ability to compete effectively depends on many factors, including its ability to maintain its reputation, the quality of its services and advice, its intellectual capital, product innovation, execution ability, pricing, sales efforts and the talent of its employees. Any failure by the Issuer to maintain its competitive position could have an adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer is exposed to third-party credit risk, and financial or other problems experienced by third parties that may adversely affect the Issuer's business, financial condition and results of operations

Typical for a banking operation, the Issuer is exposed to the risk that third parties to whom the Issuer has lent money or whose securities the Issuer has acquired will not perform their obligations. These parties include the Issuer's clients, trading counterparties, clearing agents, exchanges, clearing houses and other financial institutions. Even though the Issuer's exposure to these counterparties is subject to in-depth scrutiny in order to reasonably reduce the risk, such parties may default on their obligations to the Issuer due to lack of liquidity, operational failure, bankruptcy or other reasons. The risk of counterparty default has become increasingly relevant in the current challenging operating environment and volatile financial markets. Therefore, credit losses exceeding the long-term average could occur despite the Issuer's best efforts to manage its credit risk and could have an adverse effect on the Issuer's business, financial condition and results of operation.

A deterioration of the Issuer's credit ratings could result in increased funding costs and may harm clients' perception of the Issuer

A deterioration in the Issuer's credit ratings or a negative outlook by a rating agency could result in increased funding costs and may limit its funding sources. In addition, rating downgrades may limit the Issuer's ability to conduct certain businesses or may cause clients to be reluctant to do business with Issuer. Due to the potentially negative consequences of a credit rating downgrade on the Issuer's funding costs and options, a reduction in the Issuer's credit ratings could have an adverse effect on the Issuer's business, financial condition and results of operations. Such deterioration in the Issuer's credit ratings with the potentially adverse effects as described above may also be attributable to a loss of the explicit state guarantee by the Canton of Zurich in relation to the Issuer's unsubordinated obligations, since this guarantee provides support for the credit assessment by the rating agencies of the Issuer's senior obligations.

The Issuer's operating performance could be adversely affected by sudden and substantial changes in interest rates

Unexpected and erratic changes in interest rates can affect the level of the Issuer's net interest income. Since funding costs and interest earnings do not necessarily correlate in all interest rate environments, movements in overall interest rate levels as well as in the slope of the yield curve can influence the Issuer's net interest income. Interest rate fluctuations may also influence the value of the Issuer's fixed-income trading portfolio and the amount of income the Issuer derives from its sales and trading businesses. Moreover, interest rate movements may have an impact on market prices for various classes of financial assets, including the Issuer's assets under management. Despite its best efforts to manage this interest rate risk, the Issuer's business, financial condition and results of operations could be adversely affected by sudden and substantial changes in interest rates.

Inability to preserve a stable funding and liquidity position could adversely affect the Issuer's operating performance and financial condition

Despite actively managing its funding and liquidity position and ensuring sufficient liquidity at a specific point in time, the Issuer faces liquidity risk. Liquidity risk, i.e. the risk of being unable to meet (re)payment obligations when they become due, is inherent in any banking operation and could adversely affect the Issuer's business, financial condition and results of operations.

Negative changes in market prices could adversely affect the value of the Issuer's trading portfolio

The value of the Issuer's trading portfolio is affected by changes in market prices, such as interest rates, equities, currencies, certain commodities and derivatives. The Issuer takes various actions to address risks from such market price fluctuations, including entering into hedging transactions to address the market risks relating to the Issuer's limited trading activities, however significant negative changes in market prices could adversely affect the Issuer's business, financial condition and results of operations.

Changes in foreign exchange rates could have adverse effects on the Issuer's results of operations

Some of the Issuer's capital is invested in foreign activities. These foreign activities expose the Issuer to currency risk, in the form of translation risk. In addition, some of the Issuer's trading books are exposed to market risk, in that they can have positions that are affected by changes in the exchange rates of currencies. Despite the Issuer's best efforts to manage this currency risk, substantial changes in the exchange rates of currencies could have an adverse effect on the Issuer's business, financial condition and results of operations.

Operational risks may disrupt the Issuer's businesses, result in regulatory action against it or adversely impact the Issuer's operating performance

Despite having processes and controls in place, the Issuer faces operational risks. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, people or from external events which adversely impact the operations of the Issuer (excluding financial risks such as, inter alia, financial market risks and counterparty risks). In particular in view of the broad spectrum of operational risks, the realisation of one or more of these risks could have adverse effects on the Issuer's business, financial condition and results of operations.

The Issuer as a leading wealth manager in Switzerland could be adversely affected by ongoing developments in the private banking industry

Ongoing discussions around the Swiss banking client confidentiality laws and low-tax jurisdictions in general, the demanded heightened transparency and the exchange of information on tax matters by several jurisdictions as well as heightened regulatory scrutiny have led to increased pressure on wealth management operations in Switzerland. These developments could have an adverse effect on banks in Switzerland in general and despite the strong regional anchoring of the Issuer's private banking business and its tax-transparent strategy for customers domiciled abroad, could have an adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer's reputation is key for its business operations as a bank and if that reputation is harmed, the Issuer may not be able to retain and attract clients and its operating performance may suffer

The Issuer is exposed to the risk that negative or adverse publicity, media speculation and threatened or actual legal proceedings concerning the Issuer's business or the Issuer's clients will harm its reputation. Negative publicity or potential or actual legal proceedings may result in greater regulatory scrutiny and influence market perception of the Issuer, resulting in clients to leave the Issuer or difficulty to attract new clients. Any of these negative effects could adversely affect the Issuer's business, financial condition and results of operations.

Legal obligations and disputes can expose the Issuer to inherent risks which could adversely affect its operating performance

The Issuer is subject to legal obligations in Switzerland, in the Canton of Zurich as well as in the foreign countries it operates in. Therefore the Issuer faces risks where legal proceedings may be brought against it. Regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss. The outcome of such proceedings cannot be determined in advance. Defending legal proceedings can be expensive and time-consuming and there is no guarantee that all costs incurred will be recovered even if the Issuer is successful. Although the Issuer has processes and controls to manage legal risks, failure to manage these risks could have a negative impact on the Issuer's reputation and could have an adverse effect on the Issuer's business, financial condition and results of operations.

US cross-border business

The US government, including the Department of Justice ("**DOJ**") and the U.S. Internal Revenue Service ("**IRS**"), is currently examining the conduct of Swiss banks, including the conduct of the Issuer, in relation to cross-border services provided in the past to US clients. In particular, the Issuer has been notified in late September 2011 that it has come under investigation by the DOJ. The Issuer is cooperating with the U.S. authorities, consistent with its obligations under Swiss law. On 29 August 2013, the DOJ has launched the Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks (the "**Program**"). According to its wording, the Program does not apply to banks already under investigation by the DOJ on or prior to 29 August 2013. On 29 August 2013, the DOJ informed the Issuer in writing that the Issuer, accordingly, is not subject to the Program.

The Issuer is currently evaluating all its risks, including in this context, and takes appropriate measures to prevent and/or control the associated risks. Any evaluations, however, are subject to uncertainties. Any fine may negatively affect the Issuer's operating results.

The Issuer is exposed to the risk of losses as a result of employee fraud, misconduct or improper practice

Fraud, misconduct, improper practice or failure or perceived failure by the Issuer's employees to comply with legal, regulatory or compliance requirements or their duty of care when advising clients could expose the Issuer to the risk of adverse publicity and damage to its reputation and lead to increased regulatory supervision, affect the Issuer's ability to attract and retain customers, maintain access to the capital markets, result in lawsuits, enforcement actions, fines and penalties or have other adverse effects on the Issuer in ways that are not predictable.

The Issuer faces risk from failure to comply with and react to regulatory or legal changes

The Issuer's businesses are subject to detailed, comprehensive laws and regulations as well as supervision in the Canton of Zurich, in Switzerland and in other countries in which it operates. Changes in existing laws and regulations may affect the way in which the Issuer conducts its business. Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, "know your customer" rules, privacy, record keeping, and marketing and selling practices. Banking, insurance and other financial services laws, regulations and policies currently governing the Issuer may change at any time in ways which have an adverse effect on its business, and the Issuer cannot predict the timing or form of any future regulatory or enforcement initiatives in respect thereof. Also, regulators and other supervisory authorities in Switzerland, the EU, the United States and elsewhere continue to scrutinise payment processing and other transactions under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, tax evasion and bribery or other anti-corruption measures. Despite the Issuer's best efforts to comply with applicable regulations, there are a number of risks in areas where applicable regulations may be unclear or where regulators revise their previous guidance or courts overturn previous rulings. Regulators and other authorities have the power to bring administrative or judicial proceedings against the Issuer, which could result, among other things, in significant adverse publicity and reputational harm, suspension or revocation of licenses, cease-and-desist orders, fines, civil penalties, criminal penalties or other disciplinary action.

It is not possible to fully predict the consequences and effects of the Issuer's designation as a systemically relevant financial institution by the Swiss National Bank and such designation may have a negative effect on the Issuer's results

On 1 November 2013, the Swiss National Bank designated the Issuer as a systemically relevant financial institution because of its important role in the domestic deposit taking and lending business. Other than higher capital and liquidity requirements, the consequences of and effects of the designation as a systemically relevant financial institution to the business, financial condition and results of operations are not entirely clear, yet, in all details. The Issuer is undertaking evaluations and analyses and is engaged in the relevant discussions with the Swiss Financial Market Supervisory Authority FINMA (the "**Regulator**") and other relevant authorities. The designation as a systemically relevant financial institution may have an adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements

As described in Section "*Description of the Issuer*", the Issuer is required by the Regulator to have a total capital ratio of 14.0% on a consolidated (*Konzern*) and on an unconsolidated (*Stammhaus*) basis. The leverage ratio currently is set at 24% of the risk-weighted capital requirements and, hence, is 3.36% of total commitments (*Gesamtengagement*). Additionally, Swiss requirements include a supplemental countercyclical buffer of up to 2.5% of risk-weighted assets that can be activated during periods of excess credit growth. In February 2013, upon the request of the Swiss National Bank, the Swiss Federal Council activated the countercyclical capital buffer, which was effective from 30 September, 2013 and requires banks to hold common equity tier 1 capital in the amount of 1% of their risk-weighted assets pertaining to mortgage loans that finance residential property in Switzerland. In January 2014, at the request of Swiss National Bank, the Swiss Federal Council further increased the countercyclical buffer from 1% to 2%, effective from 30 June 2014.

Any failure of the Issuer to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions by the Regulator, Cantonal authorities or the legislator, which in turn may have an adverse impact on the Issuer's business, financial condition and results of operations. Furthermore, shortage of available capital might restrict the Issuer's opportunities for expansion.

Terrorist acts, other acts of war or hostility, geopolitical, pandemic or other such events could adversely affect the Issuer's operating performance

Terrorist acts, other acts of war or hostility, geopolitical, pandemic or other such events and responses to those acts/events may create economic and political uncertainties, which could have a negative impact on Swiss and international economic conditions generally, and more specifically on the business and results of the Issuer in ways that cannot necessarily be predicted. The occurrence of any such event could have an adverse effect on the Issuer's business, financial condition and results of operations.

Failure of attracting and retaining key management and employees could adversely affect the Issuer's operating performance

The Issuer's success depends to a great extent on the ability and experience of its senior management and other key employees. The loss of the services of certain key employees, particularly to competitors, could have an adverse effect on the Issuer's results of operations. The failure to attract or retain a sufficient number of qualified employees could significantly impede the Issuer's financial plans, growth and other objectives and have an adverse effect on the Issuer's results of operations.

Risks related to the Bonds

The Bonds are a complex form of security and may not be a suitable investment for all investors

The Bonds are a complex form of security. As a result, an investment in the Bonds will involve certain increased risks. Each potential investor in the Bonds must determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Bonds, such as the provisions governing a write-down, particularly the calculation of the Relevant Capital Ratio, as well as under what circumstances a write-down will or may occur, and be familiar with the behaviour of any relevant financial markets and their potential impact on the likelihood of a write-down, a Regulatory Event or a Tax Event occurring; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment, the write-down of the Bonds, and its ability to bear the applicable risks.

The Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the likelihood of a write-down, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus or incorporated by reference herein.

The Bonds may be subject to a Contingent Write-Down

If on an Initial Trigger Test Date (as defined in the Terms of the Bonds) a Trigger Event (as defined in the Terms of the Bonds) occurs and is continuing on the relevant Subsequent Trigger Test Date (as defined in the Terms of the Bonds), or if a Viability Event (as defined in the Terms of the Bonds) occurs, a Contingent Write-down (as defined in the Terms of the Bonds) will occur and the full principal amount of the Bonds and all other payment obligations, including with respect to due but unpaid interest, will be automatically and permanently written-down to zero. As a result, Holders will lose the entire amount of their investment in the Bonds. On the date of such Contingent Write-down, the full principal amount of the Bonds will be written-down to zero and all rights for payment of any amounts under or in respect of the Bonds (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default (as defined in the Terms of the Bonds)) will become null and void, irrespective of whether such amounts have become due and payable prior to the occurrence of the Contingent Write-down.

Furthermore, any such write-down will be irrevocable and, upon the occurrence of a write-down, the Holders will not (i) receive any participation securities or other participation rights in the Issuer or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of the Issuer's group, or (ii) be entitled to any write-up or any other compensation in the event of a potential recovery of the Issuer or the group or any subsequent change in the Relevant Capital Ratio (as defined herein) or financial condition. The write-down may occur even if existing equity capital of the Issuer remains outstanding.

The circumstances triggering a Contingent Write-down are unpredictable.

The occurrence of a Trigger Event or Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Issuer's control.

The occurrence of a Trigger Event depends, in part, on the calculation of the Relevant Capital Ratio, which can be affected, among other things, by the growth of the Issuer's business and its future earnings; expected distributions of profit by the Issuer; regulatory changes (including possible changes in regulatory capital definitions and calculations) and the Issuer's ability to mitigate risk-weighted assets. The calculation may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments modifying the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules or the related changes to regulatory adjustments are not applicable as of the relevant calculation date, the Regulator could require the Issuer to reflect such changes in any particular calculation of the Relevant Capital Ratio. Those accounting changes or regulatory changes may have a material adverse impact on the calculation of the common equity tier 1 and risk-weighted assets used to calculate the Relevant Capital Ratio. Moreover, pursuant to the Swiss Capital Adequacy Ordinance (as defined in the Terms of the Bonds), the Issuer is permitted to allocate common equity tier 1 capital to progressive component capital so long as at the time of, and immediately after giving effect to, such re-allocation the common equity tier 1 capital does not fall below the amount required under the Swiss Capital Adequacy Ordinance at such time. If the Issuer were to choose to do so, any such common equity tier 1 capital would no longer be included in the Relevant Capital Ratio and such ratio would be reduced accordingly. Any such re-allocation could make the occurrence of a Trigger Event more likely and would not be subject to any approval or consent by the Holders or any beneficial owner of a Bond.

Furthermore, although the Issuer reports the Relevant Capital Ratio in its annual reports (*Geschäftsberichte*) and disclosure reports (*Offenlegungsreport*) regarding capital adequacy, the Regulator as part of its supervisory activity may instruct the Issuer to calculate the Relevant Capital Ratio as of any date during such periods in a special report. The Relevant Capital Ratio and other capital metrics fluctuate during any reporting period in the ordinary course of business. A Trigger Event could, therefore, occur at any time if (a) the common equity tier 1 capital according to article 21 of the Swiss Capital Adequacy Ordinance divided by (b) the risk-weighted positions according to article 42 of the Swiss Capital Adequacy Ordinance, in both cases in relation to the Issuer on an unconsolidated basis (*Stammhaus*) expressed as a percentage, as of any such date is below 5 per cent.

Moreover, changes that may occur to the Swiss Capital Adequacy Ordinance subsequent to the date of this Prospectus, and changes to the basis of the Issuer's calculation of the Relevant Capital Ratio resulting therefrom, may individually or in the aggregate negatively affect the Relevant Capital Ratio and thus increase the risk of a Contingent Write-down, as a result of which Holders will lose their entire investment in the Bonds and have no further rights against the Issuer with respect to the repayment of the principal amount of the Bonds or the payment of interest on the Bonds.

The occurrence of a Viability Event, and a Contingent Write-down resulting therefrom, is subject to, *inter alia*, a subjective determination by the Regulator or actions by the Swiss Government and the Swiss National Bank or the Canton of Zurich as more particularly described below and in "*Terms of the Bonds — 8. Contingent Write-down — (c) Viability Event*". As a result, the Regulator may require and/or the federal government, Swiss National Bank or the Canton of Zurich may take actions contributing to the occurrence of a Contingent Write-down in circumstances that are beyond the control of the Issuer and with which the Issuer does not agree.

The Regulator may notify the Issuer that it has determined that the write-down of the Bonds, together with the conversion or write-down of Holders' claims in respect of any other capital instruments that, pursuant to their terms or by operation of law, are capable of being converted into equity or written down at that time, is an essential requirement to prevent the Issuer from becoming insolvent, bankrupt or unable to pay a material part of its debts as they fall due, or from ceasing to carry on its business, because customary measures to improve the Issuer's capital adequacy at the time are inadequate or unfeasible. Such a notification or determination by the Regulator will constitute a Viability Event. Moreover, customary measures to improve the Issuer's capital adequacy being at the time inadequate or unfeasible, the Issuer may receive an irrevocable commitment of Extraordinary Support (as defined and as more particularly described in "*Terms of the Bonds —8. Contingent Write-down — (c) Viability Event*") directly or indirectly from the Swiss government, the Swiss National Bank or the Canton of Zurich. In accordance with its Constitution, the Canton of Zurich must observe the public interest.

Because of the inherent uncertainty regarding the determination as to whether a Trigger Event or a Viability Event has occurred, it will be difficult to predict when, if at all, a write-down will occur. Accordingly, trading behaviour in respect of the Bonds is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Issuer is trending towards a condition that could trigger a Trigger Event or a Viability Event can be expected to have a material adverse effect on the market price of the Bonds.

Holders will bear the risk of fluctuations in the Relevant Capital Ratio

The market price of the Bonds is expected to be affected by fluctuations in the Relevant Capital Ratio. Fluctuations in the Relevant Capital Ratio may be caused by changes in the amount of common equity tier 1 and/or the amount of risk-weighted assets (each of which shall be calculated by the Issuer on a standalone basis), as well as changes to their respective definitions under relevant capital adequacy standards and guidelines. Any indication that the Relevant Capital Ratio is trending towards a Trigger Event can be expected to have a material adverse effect on the market price of the Bonds.

Actions by the Canton of Zurich

The Canton of Zurich is the owner of the Issuer and liable for the Issuer's unsubordinated liabilities pursuant to a state guarantee. This state guarantee does not apply to the Bonds.

There are no rules whether or when the Canton of Zurich takes investment decisions with respect to the Issuer and whether or not such investment decisions are in the interests of the Issuer, whether such investment is seen as a support of the Issuer by the Canton of Zurich and, if yes, which form such a support may take. It is not possible to predict reliably how the Regulator may qualify any actions by the Canton of Zurich or whether such actions may qualify as an Extraordinary Support (as defined and as more particularly described in "*Terms of the Bonds —8. Contingent Write-down — (c) Viability Event*").

Extraordinary Support by the Canton of Zurich is one of the conditions for the occurrence of a Viablity Event and can thereby result in a Contingent Write-Down. According to the Terms of the Bonds, it does not constitute Extraordinary Support, if support by the Canton of Zurich (i) is made in the ordinary course of business, (ii) is the result of customary transactions and arrangements, or (iii) is undertaken in the direct or indirect pursuit of strategic or political purposes or aims. However, for example, substantial support by the Canton of Zurich with the purpose of avoiding an insolvency of the Issuer could constitute Extraordinary Support. The Regulator has a certain amount of discretion in the qualification of support as Extraordinary Support and it is possible that the Regulator exercises this discretion to the disadvantage of the Holders.

Other regulatory capital instruments may not be subject to a write-down

The terms and conditions of other regulatory capital instruments already in issue or to be issued after the date hereof by the Issuer or any of its subsidiaries may vary and accordingly such instruments may not be written-down at the same time, or to the same extent, as the Bonds, or at all.

The Bonds are not deposit liabilities of the Issuer and will not be insured by any depositor protection scheme or any other government compensation or insurance scheme, and do not benefit from the state guarantee of the Canton of Zurich or any other guarantee

The Bonds are not deposit liabilities of the Issuer and will not be covered by the Swiss Banks and Securities Dealers' Depositor Protection Association (*Einlagensicherung*) nor by any other government compensation or insurance scheme, nor do the Bonds benefit from the state guarantee of the Canton of Zurich or any other guarantee. The Holders may lose their entire investment in the Bonds.

The Bonds are subject to the provisions of the laws of Switzerland, which may change and have a material adverse effect on the terms and market value of the Bonds

The Terms of the Bonds are based on Swiss law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Swiss law or administrative practice after the date of this Prospectus.

Changes in the laws of Switzerland after the date hereof may also affect the rights and effective remedies of Holders as well as the market value of the Bonds. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Bonds, which may have an adverse effect on investment in the Bonds.

In particular, any amendment of the Swiss Federal Law on Banks and Savings Banks of 8 November 1934, as amended (the "**Swiss Banking Act**") or any amendment or implementation of an implementing ordinance in respect of the provisions in the Swiss Banking Act could impact the calculation of the Relevant Capital Ratio. Because the occurrence of a Trigger Event depends, in part, on the calculation of the Relevant Capital Ratio, any change in Swiss law that could affect the calculation of this ratio could also affect the determination of whether a Trigger Event has occurred. This uncertainty relates to one of the principal terms of the Bonds and any uncertainty regarding this term can be expected to have an adverse effect on the market value of the Bonds.

Furthermore, on 17 December 2014, the Swiss Federal Council issued draft legislation, which, if enacted, may require any paying agent in Switzerland to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of a Bond to a beneficiary resident in Switzerland (subject to certain exceptions). If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from a payment, neither the relevant Issuer nor a paying agent nor any other person would pursuant to the Terms of the

Bonds be obliged to pay additional amounts with respect to any Bonds as a result of the deduction or imposition of such withholding tax.

In addition, any change in regulations that occurs on or after the Issue Date having the effect that the Bonds cease to be eligible in their entirety to be treated as both Progressive Component (as defined in the Terms of the Bonds) and Tier 2 Capital (as defined in the Terms of the Bonds) would trigger a Regulatory Event, and any change under the laws or regulations of Switzerland, including any treaty to which Switzerland is a party, or any change in the generally published application or interpretation of such laws, including a decision of any court or tribunal or any relevant tax authority, that either (i) would have the result that the Issuer has ceased, or will cease, to be exempt from federal, cantonal or communal income taxes, and is not permitted, or will not be permitted any longer, to deduct payments of interest in respect of the Bonds for Swiss corporate income tax purposes, as a result of which the Issuer is, or will be, subject to more than a *de minimis* amount of additional taxes, or (ii) would cause the Issuer to have to pay Additional Amounts (as defined in the Terms of the Bonds) under the Bonds would trigger a Tax Event (as defined in the Terms of the Bonds), at which time the Issuer has the option, subject to certain conditions, to redeem the Bonds in whole but not in part. In any such case, the Bonds could cease to be outstanding, which could materially and adversely affect investors and frustrate investment strategies and goals.

In addition, such legislative and regulatory uncertainty could affect an investor's ability to value the Bonds accurately and therefore affect the trading price of the Bonds given the extent and impact on the Bonds of one or more regulatory or legislative changes, including the ones described above.

In certain instances the Holders may be bound by certain amendments to the Bonds to which they did not consent

The Bonds are subject to statutory provisions of Swiss law allowing for the calling of meetings of Holders to consider matters affecting their interests. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

Pursuant to the mandatory provisions of Swiss law currently in effect, (i) the Issuer will be required to provide Holders with a least 20 days notice of any meeting of Holders, (ii) the Issuer will be required to call a meeting of Holders if it is requested to do so by Holders holding Bonds in an aggregate principal amount that represents at least one-twentieth of the outstanding aggregate principal amount of the Bonds, and (iii) only Holders or their proxies will be entitled to attend, or vote at, a meeting of Holders.

In addition, the requirements under Swiss law currently in effect regarding the approval by the Holders of amendments to the Terms of the Bonds will depend on the type of amendment. Pursuant to article 1170 of the Swiss Code of Obligations, the consent of Holders representing at least two-thirds of the outstanding aggregate principal amount of the Bonds is required for any resolution limiting the Holders' rights under the Terms of the Bonds (such as a moratorium on interest or capital and certain amendments to the interest provisions). In addition, in order to become effective and binding on the non-consenting Holders, any such resolution must be approved by the competent superior cantonal composition court. In the case of resolutions that do not limit the Holders' rights under the Terms of the Bonds, pursuant to article 1181 of the Swiss Code of Obligations, an absolute majority of the votes represented at a meeting of Holders is sufficient to approve any such resolution, unless article 1170 of the Swiss Code of Obligations or the Terms of the Bonds provide for more stringent requirements.

The interest rate on the Bonds will reset on the Optional Redemption Date, which affects the market value of the Bonds

The Bonds will initially bear interest at the fixed rate of 2.625 per cent. per annum from (and including) the Issue Date to (but excluding) the Optional Redemption Date. From (and including) the Optional Redemption Date, however, the interest rate will be reset to a rate which will equal the aggregate of 1.85 per cent. and the 5-year Mid Swap Rate. This reset rate could adversely affect the market value of an investment in the Bonds.

The Issuer may, in its sole discretion, elect to redeem the Bonds early upon the Optional Redemption Date or upon the occurrence of certain events.

The Bonds may be redeemed early, subject to the conditions described under "*Terms of the Bonds — 3. Redemption, Purchase and Cancellation*" including the approval of the Regulator in certain cases, in the Issuer's sole discretion, in whole but not in part, in the case of the Optional Redemption Date, a Tax Event or a Regulatory Event, at their principal amount, in each case together with accrued but unpaid interest, on the Optional Redemption Date or at any time upon the occurrence of a Tax Event or a Regulatory Event. The Bonds may not be repurchased or redeemed by the Issuer at the option of the Holders.

The Issuer may be expected to exercise its right to redeem all or part of the Bonds when its cost of alternative borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider whether and how to reinvest the proceeds of such redemption in light of other investments available at that time. There can be no assurance that Holders will be able to reinvest the redemption proceeds at a rate that will provide the same rate of return as their investment in the Bonds.

In addition, the early redemption feature of the Bonds is likely to affect their market value. During any period when the Issuer has the right to elect to redeem the Bonds, the market value of the Bonds generally will not rise substantially above the price at which they can be redeemed.

There is no requirement to redeem the Bonds or any other capital instruments of the Issuer on a *pro rata* basis upon the occurrence of any event giving the Issuer the right to redeem the Bonds early. Also, upon the occurrence of any event giving the Issuer the right to redeem the Bonds early, the Issuer may instead of redeeming the Bonds choose to redeem other outstanding capital instruments if the terms of those capital instruments so provide, leaving the Holders of the Bonds subject to the risk of a write-down while other investors are redeemed at par or other advantageous prices.

For further information, please see "*Terms of the Bonds — 3. Redemption, Purchase and Cancellation*".

The obligations of the Issuer under the Bonds are subordinated

In the event of the liquidation, dissolution or winding-up of the Issuer prior to a Contingent Write-down having occurred, the rights and claims of the Holders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Bonds shall rank junior to all unsubordinated obligations of the Issuer and junior to all other subordinated obligations of the Issuer except the obligations which according to their terms rank *pari passu* with the Bonds, such as obligations under other tier 2 bonds of the Issuer, *pari passu* with other tier 2 bonds of the Issuer and senior to obligations of the Issuer which according to their terms or by operation of law rank junior to the Bonds, such as obligations under additional tier 1 bonds or equity capital of the Issuer.

In addition, upon the occurrence of a write-down prior to the liquidation, dissolution or winding-up of the Issuer, the full principal amount of the Bonds and all obligations with respect to the Bonds will be automatically and permanently written-down to zero and, as a result, each Holder will lose the entire amount of its investment in the Bonds, and will not have any rights against the Issuer with respect to repayment of the principal amount of the Bonds (whether or not such principal amount has become due) or the payment of interest on such Bonds (or any related Additional Amounts), irrespective of whether the Issuer has sufficient assets available to settle the claims of the Holders under the Bonds or other securities subordinated to the same or greater extent than the Bonds, in liquidation, dissolution or winding-up proceedings or otherwise. As a result, even if other notes that rank *pari passu* with or junior to the Bonds are paid in full, if the liquidation, dissolution or winding-up of the Issuer occurs after the Contingent Write-down, the Holders will receive nothing with respect to the Bonds.

There are limited remedies available under the Bonds

In accordance with the Basel III requirements for tier 2 instruments, and as more particularly described in "*Terms of the Bonds — 9. Events of Default*", the Bonds contain limited Events of Default, confined to the insolvency, bankruptcy and composition proceedings regarding the Issuer.

There is no restriction on the amount or type of further securities or indebtedness which the Issuer may issue

There is no restriction on the amount or type of further securities or indebtedness which the Issuer may issue or incur, as the case may be, which rank senior to, or *pari passu* with the Bonds. The issue or incurrence of any such further securities or indebtedness may limit the ability of the Issuer to meet its respective obligations under the Bonds.

Credit ratings may not reflect all risks. Changes to the credit ratings could affect the value of the Bonds

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. The Bonds are expected upon issue to be rated "A" by Standard & Poor's. There can be no assurance that the methodology of these rating agencies will not evolve or that such ratings will not be suspended, reduced or withdrawn at any time by Standard & Poor's. Further, such credit rating may be revised downwards in the event of a deterioration in the capital position or viability of the

Issuer. A rating is not a recommendation to buy, hold or sell securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Bonds are held by or on behalf of Euroclear and Clearstream, Luxembourg; investors will have to rely on the clearing system procedures for transfer, payment and communication with the Issuer

The Bonds will, upon issue, be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive individual note certificates ("**Note Certificates**"). Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Bonds represented by the Global Certificate. While the Bonds are in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg, as the case may be.

While the Bonds are in global form, the Issuer will discharge its payment obligations under the Bonds by making payments to or to the order of the common depositary. A holder of a beneficial interest in a Bond must rely on the procedures of Euroclear and/or Clearstream, Luxembourg, as the case may be, to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made by Euroclear and Clearstream, Luxembourg in respect of, beneficial interests in such Bonds represented by the Global Certificate.

Investors who hold less than the EUR 200,000 may be unable to sell their Bonds and may be adversely affected if Note Certificates are subsequently required to be issued

The Bonds have denominations consisting of a minimum denomination of EUR 200,000 plus integral multiples of EUR 1,000 in excess thereof. It is possible that such Bonds may be traded in amounts in excess of EUR 200,000 that are not integral multiples of such minimum specified denomination. In such a case a Holder who, as a result of trading such amounts, holds an amount which is less than the EUR 200,000 in its account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Bonds at or in excess of EUR 200,000 such that its holding amounts to EUR 200,000. Further, a Holder who, as a result of trading such amounts, holds an amount which is less than EUR 200,000 in its account with the relevant clearing system at the relevant time will not be entitled to receive a Note Certificate in respect of such holding (should Note Certificates be printed) and would need to purchase additional Bonds such that it holds at least a principal amount of EUR 200,000 in order to receive its Note Certificate representing those Bonds.

If such Note Certificates are issued, Holders should be aware that Note Certificates which have a denomination that is not an integral multiple of the EUR 200,000 may be illiquid and difficult to trade.

Payment of Additional Amounts for Swiss withholding taxes may be null and void

Although the terms of the Bonds provide that, in the event of any withholding or deduction on account of Swiss tax being required by Swiss law, the Issuer shall, subject to certain exceptions, pay Additional Amounts (as defined in the Terms of the Bonds) so that the net amount received by the Holders of the Bonds shall equal the amount which would have been received by such Holder in the absence of such withholding or deduction, such obligation may contravene Swiss legislation and be null and void and not enforceable in Switzerland.

Withholding under the EU Savings Directive

Under *Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**")*, each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person established within its jurisdiction to, or secured by such a person for the benefit of, an individual resident or certain limited types of entity established in that other EU Member State. However, for a transitional period, Austria is instead required (unless during such period it elects otherwise) to apply a withholding system in relation to such payments, deducting tax at the rate of 35 per cent pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or, introduced in order to conform to, such Directive. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non EU countries to the exchange of information relating to such payments. Luxembourg, which before 1 January 2015 also operated a withholding tax under the transitional rules, has now replaced such withholding tax with the information reporting regime described above.

Also a number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain EU Member States, have adopted similar measures to the EU Savings Directive (either provision of information or transitional withholding) in relation to payments made by a person established within its jurisdiction to, or secured by such a person for the benefit of, an individual resident or certain limited types of entity established in an EU Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in an EU Member State to, or secured by such a person for the benefit of, an individual resident or certain limited types of entity established in one of those territories.

The European Council formally adopted a Council Directive amending the EU Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive amends and broadens the scope of the requirements described above. EU Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive, which legislation must apply from 1 January 2017. The changes made under the Amending Directive include expanding the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The EU Savings Directive will also apply a "look through approach" to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State is regarded as the beneficial owner of the payment for the purposes of the EU Savings Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

Savings Tax Withholding under the Agreement between the European Community and Switzerland

Under the agreement between the European Community and the Confederation of Switzerland dated as of 26 October 2004 (the "**Agreement**") Switzerland and under laws and regulations enacted in Switzerland in accordance therewith, Switzerland has adopted a withholding system (35 per cent.) with the option of the individual to have the paying agent and Switzerland provide to the tax authorities of the EU Member State the details of the interest payments in lieu of the withholding.

In accordance with the Agreement and such laws and regulations and concurring with the special statutory exemption under article 5a of the Swiss withholding tax act payments by Swiss paying agents in respect of the Bonds are exempt from EU savings tax.

In connection with the Amending Directive, Switzerland and the European Commission have commenced negotiations on corresponding amendments to the Agreement, which, may, if implemented, amend or broaden in Switzerland the scope of the withholding or information requirements accordingly. If these amendments are implemented, or if the proposed new Swiss withholding tax legislation is enacted (see "—*Proposed Amendment of the Swiss Withholding Tax Act*" below), the position of Holders receiving payments through Swiss paying agents in relation to the Agreement could be different to that set out above.

Proposed Amendment of the Swiss Withholding Tax Act

Payments by the Issuer in respect of the Bonds are exempt from Swiss withholding tax (*Verrechnungssteuer*) under a special statutory exemption in the Swiss Withholding Tax Act. However, on 17 December 2014, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland to deduct Swiss withholding tax at a rate of 35 per cent on any payment of interest in respect of a Bond to a beneficiary resident in Switzerland (subject to certain exceptions). If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from that payment, neither the Issuer nor any paying agent nor any other person would, pursuant to the Terms of the Bonds, be obliged to pay Additional Amounts with respect to any Bond as a result of the deduction or imposition of such withholding tax.

Final Foreign Withholding Taxes in Switzerland

On 1 January 2013, treaties on final withholding taxes entered into by Switzerland with the United Kingdom and Austria came into force (each a "**Contracting State**"). The treaties require a Swiss paying agent, as defined in the treaties, to levy a flat-rate final withholding tax at rates specified in the treaties on certain capital gains and income items (including Embedded Interest Amounts and Embedded Premium Amounts), all as defined in the treaties, deriving from assets, including the Bonds, held in accounts or deposits with a Swiss paying agent by (i) an individual resident in a Contracting State, or (ii) if certain requirements are met, by a domiciliary company (*Sitzgesellschaft*), an insurance company in connection with a so-called insurance wrapper (*Lebensversicherungsmantel*) or other individuals if the beneficial owner is an individual resident in a Contracting State. Under the treaty with the UK, the tax rate for individuals resident and domiciled in the UK is 43 per cent. on interest payments and 27 per cent. on capital gains, and, under the treaty with Austria, 25 per cent. on interest payments and capital gains. The flat-rate tax withheld substitutes the ordinary capital gains tax and income tax on the relevant capital gains and income items in the Contracting State where the individuals are tax resident, unless the individuals elect for the flat-rate tax withheld to be treated as if it were a credit allowable against the income tax or, as the case may be, capital gains tax, due for the relevant tax year in the relevant Contracting State. Alternatively, instead of paying the flat-rate tax, such individuals may opt for a disclosure of the relevant capital gains and income items to the tax authorities of the Contracting State where they are tax residents. Switzerland may conclude similar treaties with other European countries.

Payments under the Bonds may be subject to U.S. Foreign Account Tax Compliance Withholding

Whilst the Bonds are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Bonds are discharged once it has paid the common depositary for the clearing systems (as registered Holder of the Bonds) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. If an amount of, or in respect of, such withholding taxes were to be deducted or withheld from any payments in respect of the Bonds as a result of an investor or intermediary's failure to comply with these rules, no additional amounts will be paid on the Bonds held by such investor as a result of the deduction or withholding of such tax. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "**IGA**") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

No public market exists for the Bonds, and there are uncertainties regarding the existence of any trading market for the Bonds

The Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their issue price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Issuer's results of operations and fluctuations in the Issuer's capital ratios. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for the Bonds as they are especially sensitive to interest rate, currency and market risks, are designed for specific objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities.

Although application will be made for the admission to trading and listing of the Bonds on the SIX Swiss Exchange, there can be no assurance that such application will be accepted or that an active trading market in the Bonds will develop. Accordingly, there can be no assurance as to the development or liquidity of any trading market for the Bonds. Illiquidity may have a severely adverse effect on the market value of the Bonds.

The market value of the Bonds may be influenced by unpredictable factors

Many factors, most of which are beyond the Issuer's control, will influence the value of the Bonds and the price, if any, at which securities dealers may be willing to purchase or sell the Bonds in the secondary market, including:

(i) the creditworthiness of the Issuer and, in particular, the level of the Issuer's capital ratios from time to time;

(ii) supply and demand for the Bonds, including inventory with any securities dealer; and

(iii) economic, financial, political or regulatory events or judicial decisions that affect the Issuer or the financial markets generally.

Accordingly, if a Holder sells its Bonds in the secondary market, it may not be able to obtain a price equal to the principal amount of the Bonds or a price equal to the price that it paid for the Bonds.

The Euro exchange rate may have an effect on the value of the Bonds

The Issuer will pay principal and interest on the Bonds in Euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of Euros or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Euros would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of any principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. Any of the foregoing events could adversely affect the price of the Bonds.

Holders are subject to interest rate risks

Because the Bonds bear a fixed reset rate of interest, an investment in the Bonds involves the risk that if at any time market interest rates increase above the relevant rate paid on the Bonds at such time, this will adversely affect the value of the Bonds.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to assess the terms of the Bonds (including as to Contingent Write-down) and to determine whether and to what extent (1) Bonds are legal investments for it, (2) Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

The risk of failing to deal with any potential conflicts of interest could adversely affect the value of the Bonds

The Issuer, any of its affiliates or the Joint Lead Managers may participate in transactions related to the Bonds in some way, for their own account or for account of a client. Such transactions may not serve to benefit the investors and may have a positive or negative effect on the value of the Bonds. Furthermore, companies affiliated with the Issuer may become counterparties in hedging transactions relating to obligations of the Issuer stemming from the Bonds. As a result, conflicts of interest can arise between companies affiliated with the Issuer, as well as between these companies and Investors, in relation to obligations regarding the calculation of the price of the Bonds and other associated determinations.

The Issuer, any of its affiliates or the Joint Lead Managers may receive non-public information relating to the Bonds, and neither the Issuer, any of its affiliates nor any of the Joint Lead Managers undertake to make this information available to prospective investors and/or Holders of the Bonds. Such activities could present conflicts of interest and may affect the value of the Bonds.

Inflation risk

The inflation risk is the risk of future money depreciation. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on a bond. If the inflation rate is equal to or higher than the nominal yield, the real yield is zero or even negative.

Disclosure with regard to fees

Within the context of the offering and sale of the Bonds, the Issuer, any of its affiliates or the Joint Lead Managers may directly or indirectly pay fees in varying amounts to third parties, such as distributors or investment advisors, or receive payment of fees in varying amounts, including those levied in association with the distribution of the Bonds, from third parties. Prospective investors should be aware that the Issuer, its affiliates and the Joint Lead Managers may retain fees in part or in full.

OVERVIEW OF THE BONDS

This summary must be read as an introduction to this Prospectus and any decision to invest in the Bonds should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "Terms of the Bonds" shall have the same meanings when used in this summary.

Issuer	Zürcher Kantonalbank.
Notes	EUR 500,000,000 2.625 per cent. Tier 2 Subordinated Bonds due 2027.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. Certain of these factors are set out under "*Risk Factors*" above and include liquidity risks, market risks, credit risks, cross-border and foreign exchange risks, operational risks, legal and regulatory risks and competition risks, among others. In addition, there are certain factors which are material for the purpose of assessing the risks associated with the Bonds. These include the fact that the Bonds may not be a suitable investment for all investors, certain risks relating to the structure of the Bonds including that they are subject to a Contingent Write-down upon the occurrence of a Trigger Event or Viability Event, which will result in the Holders' loss of their entire investment in the Bonds, and certain market risks.
Joint Lead Managers	BNP Paribas, Credit Suisse Securities (Europe) Limited and Zürcher Kantonalbank.
Principal Paying Agent	Citibank, N.A., London Branch.
Swiss Paying Agent and Swiss Listing Agent	Zürcher Kantonalbank will perform the functions of the Swiss Paying Agent and of the Swiss listing agent.
Registrar	Citigroup Global Markets Deutschland AG.
Currency	Euro.
Maturity Date	15 June 2027. Unless previously redeemed or purchased and cancelled, and provided that no Contingent Write-down has occurred, the Bonds will mature at par without prior notice on the Maturity Date.
Issue Price	99.622 per cent.
Form of Bonds	Registered. The Bonds which are sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Global Certificate, without interest coupons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg.
Denominations	EUR 200,000 and integral multiples of EUR 1,000 in excess thereof.
Interest	The Bonds will bear interest at an initial rate of 2.625 per cent. per annum from (and including) the Issue Date to (but excluding) the Optional Redemption Date, and thereafter at a rate based on the 5-year Mid-Swap Rate plus the Margin of 1.85 per cent.
Interest Payment Dates	Interest will be payable annually in arrear on 15 June in each year, commencing on 15 June 2016.
Status of the Bonds	The Bonds will constitute direct, unsecured and subordinated

	obligations of the Issuer and will rank *pari passu* (and without any preference) among themselves. The rights and claims of Holders are subordinated as described in "*Terms of the Bonds —7. Status and Subordination*".
Events of Default	Each of the following events shall constitute an Event of Default: (i) the Issuer is (or is deemed by law, a court or the Regulator to be) insolvent; or (ii) the Issuer is (or is deemed by law, a court or the Regulator to be) bankrupt; or (iii) a general assignment or an arrangement or composition with or for the benefit of the creditors in respect of any debts is agreed or declared in respect of or affecting all or a substantial part of the debts of the Issuer.
Redemption	Unless previously redeemed or purchased and cancelled, and provided that a Contingent Write-down has not occurred on or prior to the applicable date fixed for redemption and subject to certain conditions as described herein under "*Terms of the Bonds —3. Redemption, Purchase and Cancellation*", the Bonds will be redeemable at the option of the Issuer, in whole but not in part, upon giving not less than 30 days' notice to the Holders notifying the date fixed for redemption, in the following circumstances: (i) at the option of the Issuer, at par together with any accrued but unpaid interest to (but excluding) the Optional Redemption Date; (ii) in case of a Tax Event, at par together with any accrued but unpaid interest to (but excluding) the Tax Event Redemption Date; and (iii) in case of a Regulatory Event, at par together with any accrued but unpaid interest to (but excluding) the Regulatory Event Redemption Date.
Optional Redemption Date	15 June 2022
Contingent Write-down	**If a Trigger Event or a Viability Event occurs, all obligations under the Bonds that have become due but are unpaid and all obligations under the Bonds that have not yet become due shall automatically be extinguished (*bedingte Aufhebung einer Forderung durch Übereinkunft*).** See "*Terms of the Bonds —8. Contingent Write-down*" for more information.
Taxation	The Bonds are currently exempted from Swiss withholding tax. The Issuer will pay Additional Amounts as may be necessary in order that the net payment received by each Holder in respect of the Bonds, after withholding for any taxes imposed on the Issuer by tax authorities in Switzerland (or in any political subdivision thereof or therein having power to tax) upon payments made by or on behalf of the Issuer under the Bonds will equal the amount which would have been received in the

	absence of any such withholding taxes, save in certain limited circumstances as more particularly set out in "*Terms of the Bonds — 6. Taxation*".
Listing and Admission to trading	Application will be made to the SIX Swiss Exchange for listing of the Bonds. The Bonds are expected to be provisionally admitted to trading on the SIX Swiss Exchange from 12 June 2015. The last trading day will be the second dealing day prior to the date on which the Bonds are fully redeemed or the date of the Contingent Write-down, as applicable, in accordance with the Terms of the Bonds.
Clearing Systems	The Bonds shall be accepted for clearing through the systems operated by Euroclear and Clearstream, Luxembourg. As the Global Certificates are to be held by, or on behalf of, Euroclear and Clearstream, Luxembourg, the Holders will have to rely on their procedures for transfers of, and payments on, the Bonds and communications with the Issuer.
Governing Law	Swiss law.
Jurisdiction	Courts of the City of Zurich.
Rating	The Bonds are expected to be rated "A" by Standard & Poor's.
Security Codes	ISIN: XS1245290181 Swiss Security Number: 28471370 Common code: 124529018

TERMS OF THE BONDS

TERMS AND CONDITIONS OF THE TIER 2 SUBORDINATED BONDS

The terms and conditions of the Tier 2 Subordinated Bonds due 2027, issued by Zürcher Kantonalbank (the **Issuer**), are as follows (each a **Condition**, and together the **Terms of the Bonds**):

1. Amount and Denomination, Reopening, Form, Title and Transfer

(a) Amount and Denomination

The initial aggregate principal amount of the Bonds of Euro (**EUR**) 500,000,000 (five hundred million) (the **Aggregate Principal Amount**) is divided into bonds (each a **Bond** and, collectively, the **Bonds**) with denominations of EUR 200,000 and integral multiples of EUR 1,000 in excess thereof.

(b) Reopening

The Issuer reserves the right to reopen and increase the Aggregate Principal Amount at any time and without prior consultation with or permission of the Holders by issuing further bonds which will be fungible with the Bonds (i.e. identical especially in respect of the Terms of the Bonds, security number, final maturity and interest rate).

(c) Form

The Bonds are issued in registered form. The Registrar will maintain a register (the **Register**) in respect of the Bonds.

The Bonds will, upon issue, be represented by a global certificate (the **Global Certificate**) which will be deposited with, and registered in the name of Citivic Nominees Limited (the **Registered Holder**) as nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Certificate will be exchanged in whole but not in part (free of charge) for duly authenticated and completed certificates in definitive form (each a **Bond Certificate**) if Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so.

Whenever the Global Certificate is to be exchanged for Bond Certificates, such Bond Certificates shall be issued within 20 business days of the delivery to the Registrar of such information as is required to complete and deliver such Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the specified office of the Registrar. Such exchange shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register. Each Bond Certificate will identify the principal amount of the Bonds represented thereby.

For so long as any of the Bonds is represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to for the purposes of any quorum requirements of, or the right to demand a poll or, accelerating Bonds upon the occurrence to an Event of Default and meetings of the holders and giving notices to the Issuer) other than with respect to the payment of principal, interest and any other amounts on or in respect of the Bonds, the right to which shall be vested, as against the Issuer, solely in the registered Holder. Subject to the preceding sentence, the Holder of a Bond shall (except as otherwise required by law) be treated as the absolute owner of such Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Bond Certificate) and no person shall be liable for so treating such Holder.

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

(d) Transfers

Whilst represented by the Global Certificate, transfers of book-entry interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Subject as provided under Condition 1(g) below, a Bond in definitive form may be transferred upon surrender of the relevant Bond Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or any Paying and Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Bonds represented by the surrendered Bond Certificate are the subject of the transfer, a new Bond Certificate in respect of the balance of the Bonds will be issued to the transferor.

(e) Registration and delivery of Bond Certificates

Within five Business Days of the surrender of a Bond Certificate, the Registrar will register the transfer in question and deliver at its Specified Office new Bond Certificate(s) of a like principal amount to the Bonds transferred to each relevant Holder or (as the case may be) the Specified Office of any Paying and Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first-class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

(f) No charge

The transfer of any Bonds will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying and Transfer Agent but upon payment by the Holder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Paying and Transfer Agent may require).

(g) Closed period

Holders may not require transfers of Bonds in definitive form to be registered during the period of 30 days ending on the due date for any payment of principal or interest in respect of the Bonds.

2. Interest

(a) Interest Rate and Interest Payment Dates

The Bonds bear interest at the applicable Rate of Interest from and including the Issue Date in accordance with the provisions of this Condition 2. Interest shall be payable annually in arrear on each Interest Payment Date. The first payment shall be made on 15 June 2016.

(b) Interest Accrual

Each Bond will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until the date on which all amounts due in respect of such Bond have been paid.

(c) Initial Rate of Interest and Reset Rate of Interest

The Rate of Interest for each Interest Period from (and including) the Issue Date to (but excluding) the Optional Redemption Date (the **Initial Period**) will be 2.625 per cent. per annum (the **Initial Rate of Interest**).

The Rate of Interest for the Interest Period from (and including) the Optional Redemption Date to (but excluding) the Maturity Date (the **Reset Interest Period**) will be the applicable Reset Rate of Interest determined in accordance with these Conditions.

(d) Determination of Reset Rate of Interest in relation to the Reset Interest Period

The Principal Paying Agent will, as soon as reasonably practicable after 11:15 a.m. (CET) on the day falling two TARGET2 Settlement Days prior to the Optional Redemption Date (the **Reset Rate of Interest Determination Date**), determine the Reset Rate of Interest.

(e) Calculation of Interest

When interest is required to be calculated in respect of any period, it shall be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

3. Redemption, Purchase and Cancellation

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled and subject to Condition 8 of these Terms of the Bonds, each Bond will be redeemed by the Issuer at par without prior notice on the Maturity Date.

(b) Conditions to redemption or purchase

Any redemption or purchase of the Bonds other than a redemption following a Regulatory Event is subject to the Issuer receiving the prior approval of the Regulator, if then required.

The Regulator may give its consent only, if (i) the remaining capital still satisfies the capital requirements or (ii) the Issuer issues a sufficient amount of capital that is at least equivalent.

(c) Redemption at the option of the Issuer

Subject to Condition 3(b), the Issuer may elect to redeem the Bonds, in whole but not in part, on the Optional Redemption Date, by giving not less than thirty (30) days' notice (which notice shall be irrevocable) to the Holders in accordance with Condition 11 of the Optional Redemption Date, at par together with any accrued but unpaid interest to the Optional Redemption Date.

(d) Redemption upon a Tax Event

Upon the occurrence of a Tax Event, but subject to the Condition 3(b), the Issuer may, at any time, redeem the Bonds, in whole but not in part, by giving not less than thirty (30) days' notice (which notice shall be irrevocable) to the Holders in accordance with Condition 11 and notifying the date fixed for redemption (the **Tax Event Redemption Date**), at par together with any accrued but unpaid interest to the Tax Event Redemption Date.

A **Tax Event** means the receipt by the Issuer of an opinion of a nationally recognized law firm or other tax advisor (which may be an accounting firm) in Switzerland experienced in such matters stating that there is more than an insubstantial risk that (a) the Issuer has ceased, or will cease, to be exempt from federal, cantonal or communal income taxes, and is not permitted, or will not be permitted any longer, to deduct payments of interest in respect of the Bonds for Swiss corporate income tax purposes, as a result of which the Issuer is, or will be, subject to more than a *de minimis* amount of additional taxes, or (b) the Issuer is, or will become obliged, to pay Additional Amounts pursuant to Condition 6, and in each of cases (a) and (b) this cannot be avoided by the Issuer taking such reasonable measures available to the Issuer without any material adverse effect on, or material cost to, the Issuer (as determined by the Issuer in its sole discretion).

(e) Redemption upon a Regulatory Event

Upon the occurrence of a Regulatory Event, the Issuer may, at any time, redeem the Bonds, in whole but not in part, by giving not less than thirty (30) days' notice (which notice shall be irrevocable) to the Holders in accordance with Condition 11 and notifying the date fixed for redemption (the **Regulatory Event Redemption Date**), at par together with any accrued but unpaid interest to the Regulatory Event Redemption Date.

A **Regulatory Event** is deemed to have occurred if the Issuer is notified in writing by the Regulator to the effect that the Bonds are not, or cease to be, eligible in their entirety to be treated as Tier 2 Capital or as Progressive Component Capital.

(f) Purchases

The Issuer may, subject to the Regulator's consent, at any time purchase Bonds in the open market or otherwise at any price. The Bonds may be held, reissued, resold or, at the option of the Issuer surrendered for cancellation. The Regulator's consent is not required for purchases in connection with market making activities in the Bonds.

If purchases are made by public tender, such tender must be available to all Holders alike.

(g) Cancellation

All Bonds which are redeemed or surrendered shall forthwith be cancelled. All Bonds so cancelled shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

4. Payments

(a) Method of payment

Payments in respect of Bonds represented by the Global Certificate will be made to or to the order of the Registered Holder. The Registered Holder shall be the only person entitled to receive payments in respect of the Bonds whilst represented by the Global Certificate and the Issuer's obligations in respect of any payment on or in respect of the Bonds will be discharged by payment to, or to the order of, the Registered Holder in respect of each amount so paid.

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular principal amount of Notes represented by the Global Certificate must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment so made by the Issuer to, or to the order of, the Registered Holder.

Payments shall be made by credit or transfer to an account in EUR maintained by the payee with, or, at the option of the payee, by a cheque in EUR. Payments of principal and interest payable on redemption shall be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificate(s) at the Specified Office of any Paying and Transfer Agent or the Registrar.

(b) Payments subject to fiscal laws

All payments in respect of the Bonds are subject in all cases to: (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to Condition 6 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 or otherwise imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to Condition 6) any law implementing an intergovernmental approach thereto.

(c) Payments on payment days

If the due date for payment of any amount in respect of any Bond is not a Payment Day, the Holder shall not be entitled to payment of the amount due until the next succeeding Payment Day in the relevant place and shall not be entitled to any further interest or other payment in respect of any such delay.

Where payment is to be made by cheque, the cheque will be mailed not later than the Payment Day on which the relevant payment is otherwise due to be made in accordance with this Condition 4(c) (or, if presentation or surrender of a Bond Certificate is required, not later than the Payment Day following presentation or surrender (as the case may be) of such Bond Certificate at the Specified Office of a Paying and Transfer Agent).

Holders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Day, if the Holder is late in presenting or surrendering its Bond Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 4(c) arrives after the due date for payment.

(d) Record Date

With respect to payments of Bonds represented by the Global Certificate held on behalf of Euroclear and Clearstream, Luxembourg, the Record Date shall be the day on which Euroclear and Clearstream, Luxembourg are open for business preceding the due date for payment.

Each payment in respect of a Bond in definitive form will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the fifteenth day before the due date for such payment (the **Record Date**). Where payment in respect of a Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

5. Statute of Limitations

In accordance with Swiss law, claims for interest payments shall become time-barred after a period of five (5) years and claims for the repayment or redemption of Bonds after a period of ten (10) years, calculated from their respective due dates.

6. Taxation

All payments of principal and interest in respect of the Bonds by the Issuer to Holders will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf Switzerland or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts (the **Additional Amounts**) as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable from the Issuer in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

(i) held by or on behalf of a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Switzerland other than the mere holding of such Bond; or

(ii) presented for payment more than 30 days after the due date except to the extent that the Holder would have been entitled to an Additional Amount on presenting the same for payment on such thirtieth day assuming that day to have been a Business Day); or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law or agreement implementing or complying with, or introduced in order to conform to, such Directive (including, but not limited to, the Agreement between the European Community and the Confederation of Switzerland dated 26 October 2004); or

(iv) presented for payment by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Bond to another Paying and Transfer Agent in a Member State of the European Union (provided that there is such a Paying and Transfer Agent appointed at such time); or

(v) where such withholding or deduction is imposed on a payment and is required to be made pursuant to laws enacted by Switzerland providing for the taxation of payments according to principles similar to those laid down in the draft legislation proposed by the Swiss Federal Council on 17 December 2014, in particular the principle to have a person other than the Issuer withhold or deduct the tax, including, without limitation, any paying agent; or

(vi) where such withholding or deduction is imposed on a payment and is required to be made pursuant to any agreement between Switzerland and other countries on final withholding taxes (*internationale Quellensteuern*) levied by a paying agent in Switzerland in respect of an individual resident in the other country on interest or capital gain paid, or credited to an account, relating to a Bond; or

(vii) where such withholding or deduction is imposed on any payment by reason of FATCA; or

(viii) any combination of two or more of the items set out at (i) to (viii) above.

7. Status and Subordination

(a) Status

The Bonds constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and rank *pari passu* among themselves. The right and claims of the Holders are subordinated as described in Condition 7(b).

(b) Subordination

In the event of liquidation, dissolution, insolvency or proceeding for the avoidance of insolvency of, or against, the Issuer, the Bonds rank as follows:

(i) The obligations under the Bonds rank junior to all unsubordinated obligations of the Issuer.

(ii) The obligations under the Bonds also rank junior to all other subordinated obligations of the Issuer except the obligations of the Issuer under other Tier 2 Capital instruments or other obligations which according to their terms rank *pari passu* with the Bonds.

(iii) The obligations under the Bonds rank senior to obligations of the Issuer which according to their terms rank junior to the Bonds, such as obligations under Additional Tier 1 Capital instruments or equity capital of the Issuer.

8. Contingent Write-down

(a) Contingent Write-down

All obligations under the Bonds that have become due but are unpaid and all obligations under the Bonds that have not yet become due shall automatically be extinguished (*bedingte Aufhebung einer Forderung durch Übereinkunft*) if:

(i) on an Initial Trigger Test Date, a Trigger Event occurs and is continuing on the relevant Subsequent Trigger Test Date; or

(ii) at any time a Viability Event occurs.

(b) Trigger Event

A **Trigger Event** shall occur on the first Business Day following the publication of a Relevant Report (an **Initial Trigger Test Date**), if:

(i) the Relevant Capital Ratio according to the Relevant Report is less than the Threshold Ratio, and

(ii) the Issuer has not paid a distribution in cash or kind (other than any distribution in the form of CET1 Instruments) on any of its CET1 Instruments, nor repurchased, redeemed or retired for any consideration (other than consideration in the form of, or by exchange into, any CET1 Instruments) any of its CET1 Instruments, in each case at any time during the 3 months immediately preceding the Initial Trigger Test Date.

Such Trigger Event shall be continuing on the Subsequent Trigger Test Date unless the Regulator, at the request of the Issuer, has agreed on or prior to the Subsequent Trigger Test Date but after the Initial Trigger Test Date, that a write-down is not required as a result of actions taken by the Issuer, circumstances or events which have had, or imminently will have, the effect of restoring the Relevant Capital Ratio as per the Subsequent Trigger Test Date to a level above the Threshold Ratio.

Threshold Ratio means 5.00 per cent.

Subsequent Trigger Test Date means the earlier of:

(i) the date falling 30 Business Days after the date of publication of the Relevant Report, and

(ii) the date on which the Regulator instructs or requests the Issuer to proceed with the write-down.

Relevant Capital Ratio means (i) the common equity Tier 1 capital according to article 21 of the Swiss Capital Adequacy Ordinance divided by (ii) the risk weighted positions according to article 42 of the Swiss Capital Adequacy Ordinance, in both cases in relation to the Issuer on an unconsolidated basis (*Stammhaus*) expressed as a percentage.

Relevant Report means any of the Issuer's (i) annual reports (*Geschäftsberichte*) (ii) disclosure reports (*Offenlegungsreport*) regarding capital adequacy and (iii) special reports prepared by the Issuer for the purpose of calculating the Relevant Capital Ratio, in each case excluding any press releases and other publications in connection with such reports.

(c) Viability Event

A **Viability Event** means that either (i) the Regulator has notified the Issuer that it has determined that the write-down of the Bonds, together with the conversion or write-down of holders' claims in respect of any other capital instruments that, pursuant to their terms or by operation of law, are capable of being converted into equity or written down at that time, is an essential requirement to prevent the Issuer from becoming insolvent, bankrupt or unable to pay a material part of its debts as they fall due, or from ceasing to carry on its business, because customary measures to improve the Issuer's capital adequacy at the time are inadequate or unfeasible, or (ii) customary measures to improve the Issuer's capital adequacy being at the time inadequate or unfeasible, the Issuer has received an irrevocable commitment of Extraordinary

Support directly or indirectly from the Swiss government, the Swiss National Bank or the Canton of Zurich.

Extraordinary Support means:

(i) with respect to the Swiss government and the Swiss National Bank, any direct or indirect support (other than support that (x) is made in the ordinary course of business, or (y) is the result of customary transactions and arrangements) that has, or imminently will have, the effect of improving the Issuer's capital adequacy and without which, in the determination of the Regulator, the Issuer would have become insolvent, bankrupt, unable to pay a material part of its debt as they fall due or unable to carry on its business; and

(ii) with respect to the Canton of Zurich, any direct or indirect support (other than support that (x) is made in the ordinary course of business, (y) is the result of customary transactions and arrangements, or (z) is undertaken in the direct or indirect pursuit of strategic or political purposes or aims) that (1) has, or imminently will have, the effect of improving the Issuer's capital adequacy and without which, in the determination of the Regulator, the Issuer would have become insolvent, bankrupt, unable to pay a material part of its debt as they fall due or unable to carry on its business, and (2) has been confirmed by the Regulator in writing as constituting Extraordinary Support.

9. Events of Default

Each of the following events shall constitute an Event of Default:

(i) the Issuer is (or is deemed by law, a court or the Regulator to be) insolvent; or

(ii) the Issuer is (or is deemed by law, a court or the Regulator to be) bankrupt; or

(iii) a general assignment or an arrangement or composition with or for the benefit of the creditors in respect of any debts is agreed or declared in respect of or affecting all or a substantial part of the debts of the Issuer.

then the holder of any Bond may, by written notice to the Issuer (each such notice, a **Default Notice**) declare such Bond to be immediately due and payable whereupon it shall become immediately due and payable at par together with accrued interest, if any, on the day the Default Notice is given.

10. No Right to Set-off

No Holder may set-off any claims under the Bonds against any obligations the Issuer has against that Holder. The Issuer may not set-off its obligations under the Bonds against any claims it has against any Holder.

11. Notices

All notices regarding the Bonds shall be published by the Issuer (i) on the internet site of the SIX Swiss Exchange (where notices are currently published under the address:
www.six-exchange-regulation.com/publications_en.html)
or (ii) otherwise in accordance with the regulations of the SIX Swiss Exchange.

12. Listing

Application will be made for the admission to trading and listing of the Bonds on the SIX Swiss Exchange.

The Issuer will use reasonable endeavors to have the Bonds listed on the SIX Swiss Exchange and to maintain such listing during the whole duration of the Bonds in accordance with standard Swiss market practice.

13. Amendments

The Issuer may, without the consent of the Holders, amend the Terms of the Bonds under the condition that:

(i) such amendments are formal, minor or technical in nature only and do not adversely affect the rights and claims of the Holders under the Bonds; or

(ii) such amendments are made to correct an obvious error.

The Issuer has to notify such amendments to the Holders in accordance with Condition 11. Any amendment made pursuant to this Condition 13 shall be binding on the Holders in accordance with its terms.

14. Meetings of Holders

The provisions on bondholder meetings contained in Article 1157 et seq. of the Swiss Federal Code of Obligations shall apply in relation to meetings of Holders.

15. Governing Law and Jurisdiction

The Terms of the Bonds and the Bonds shall be governed by and construed in accordance with the laws of Switzerland.

Any dispute which might arise based on the Terms of the Bonds and the Bonds shall be settled in accordance with Swiss law and shall fall within the jurisdiction of the courts of the City of Zurich, Switzerland, venue being Zurich 1.

16. Agents

The Issuer is entitled to appoint, vary or terminate the appointment of any Registrar, or Principal Paying Agent or Swiss Paying Agent and/or approve any change in the Specified Office through which any Registrar, or Principal Paying Agent or Swiss Paying Agent acts, provided that:

(i) so long as the Bonds are listed on any stock exchange or admitted to listing by any other relevant authority there will at all times be a paying agent, with a specified office in such place as may be required by the rules and regulations of such stock exchange or other relevant authority;

(ii) there will at all times be a Registrar; and

(iii) there will at all times be a Principal Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

The Registrar, the Principal Paying Agent and the Swiss Paying Agent act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency with, any Holders.

17. Severability

If at any time one or more of the provisions of the Terms of Bonds is or becomes unlawful, invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

18. Definitions

5-year Mid-Swap Quotations means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in EUR which (i) has a term commencing on the Optional Redemption Date which is equal to five years; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis).

5-year Mid-Swap Rate means, in relation to the Reset Interest Period and the Reset Rate of Interest Determination Date:

(i) the applicable annual mid-swap rate for swap transactions in EUR (with a maturity equal to five years) as displayed on the Screen Page at 11.15 a.m. (CET) on the Reset Rate of Interest Determination Date; or

(ii) if such rate is not displayed on the Screen Page at such time and date, the Reset Reference Bank Rate.

Accountholder has the meaning set out in Condition 1(c).

Actual/360 means the actual number of days in the relevant period divided by 360.

Additional Amounts has the meaning set out in Condition 6.

Additional Tier 1 Capital means any items that constitute additional tier 1 capital (zusätzliches Kernkapital) within the meaning of articles 27 et seq. of the Swiss Capital Adequacy Ordinance.

Aggregate Principal Amount has the meaning set out in Condition 1(a).

Bond or Bonds has the meaning set out in Condition 1 (a).

Bond Certificate has the meaning set out in Condition 1(c).

Business Day means any day (other than Saturday or Sunday) on which banks are open the whole day for business in London and Zurich and which is also a TARGET2 Settlement Day.

CET1 Instrument means instruments which qualify as common equity tier 1 capital according to articles 21 et seq. of the Swiss Capital Adequacy Ordinance.

Condition has the meaning set out in the introduction of the Terms of the Bonds.

Contingent Write-Down has the meaning set out in Condition 8(a).

Default Notice has the meaning set out in Condition 9.

EUR means Euro.

Extraordinary Support has the meaning set out in Condition 8(c).

Event of Default has the meaning set out in Condition 9.

Global Certificate has the meaning set out in Condition 1(c).

Holder means each person in whose name a Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Holder" and "Holders" shall be construed accordingly.

Interest Payment Date means 15 June in each year from (and including) 15 June 2016.

Interest Period means the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date.

Initial Period has the meaning set out in Condition 2(c).

Initial Rate of Interest has the meaning set out in Condition 2(c).

Initial Trigger Test Date has the meaning set out in Condition 8(b).

Issue Date means 15 June 2015.

Issuer means Zürcher Kantonalbank, Bahnhofstrasse 9, CH-8001 Zürich.

Margin means 1.85 per cent.

Maturity Date means 15 June 2027.

Optional Redemption Date means 15 June 2022.

Paying and Transfer Agent means either of the Principal Paying Agent and the Swiss Paying Agent.

Payment Day means any day which is a (i) a TARGET2 Settlement Day and (ii) day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in (a) London and Zurich and (b) (where presentation is required) the relevant place of presentation of the relevant Bond Certificate.

Principal Paying Agent means Citibank, N.A., London Branch.

Progressive Component Capital means any items that constitute progressive component capital (*progressive Komponente*) pursuant to article 130 of the Swiss Capital Adequacy Ordinance.

Rate of Interest means:

(i) in the case of each Interest Period falling in the Initial Period, the Initial Rate of Interest; or

(ii) in the case of each Interest Period falling in the Reset Interest Period, the Reset Rate of Interest,

all as determined in accordance with Condition 2.

Record Date has the meaning set out in Condition 4(d).

Register has the meaning set out in Condition 1(c).

Registered Holder has the meaning set out in Condition 1(c).

Registrar means Citigroup Global Markets Deutschland AG.

Regulator means the Swiss Financial Market Supervisory Authority FINMA (or any successor authority thereof).

Regulatory Event has the meaning set out in Condition 3(e).

Regulatory Event Redemption Date has the meaning set out in Condition 3(e).

Relevant Capital Ratio has the meaning set out in Condition 8(b).

Relevant Report has the meaning set out in Condition 8(b).

Reset Interest Period has the meaning set out in Condition 2(c).

Reset Rate of Interest means, in relation to the Reset Interest Period, the sum of (i) the 5-year Mid-Swap Rate and (ii) the Margin.

Reset Rate of Interest Determination Date has the meaning set out in Condition 2(d).

Reset Reference Banks means five leading swap dealers in the principal interbank market relating to EUR selected by the Principal Paying Agent in its discretion after consultation with the Issuer.

Reset Reference Bank Rate means the percentage rate determined on the basis of the 5-Year Mid-Swap Quotations provided by the Reset Reference Banks to the Principal Paying Agent at or around 11:15 a.m. (CET) on the Reset Rate of Interest Determination Date and, rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be the most recent previously available rate calculated otherwise in accordance with these Terms of the Bonds.

Screen Page means Reuters screen page ISDAFIX2, or such other screen page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates.

SIX Swiss Exchange means SIX Swiss Exchange Ltd, Selnaustrasse 30, CH-8001 Zurich or any successor organization.

Specified Office of the Principal Paying Agent means Citibank, N.A., London Branch, 13th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14, 5LB, England.

Specified Office of the Registrar means Citigroup Global Markets Deutschland AG, Germany Agency and Trust Department, Reuterweg 16, 60323 Frankfurt am Main, Germany.

Specified Office of the Swiss Paying Agent means Zürcher Kantonalbank, Josefstrasse 222, CH-8010 Zurich, Switzerland.

Subsequent Trigger Test Date has the meaning set out in Condition 8(b).

Swiss Capital Adequacy Ordinance means the ordinance on capital adequacy and risk diversification for banks and securities dealers of June 1, 2012, as amended from time to time (SR 952.03).

Swiss Paying Agent means Zürcher Kantonalbank.

TARGET2 Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open.

Tax Event has the meaning set out in Condition 3(d).

Tax Event Redemption Date has the meaning set out in Condition 3(d).

Terms of the Bonds means these terms and conditions of the Bonds.

Threshold Ratio has the meaning set out in Condition 8(b).

Tier 2 Capital means any items that constitute tier 2 capital (*Ergänzungskapital (Tier 2)*) pursuant to article 30 of the Swiss Capital Adequacy Ordinance.

Trigger Event has the meaning set out in Condition 8(b).

Viability Event has the meaning set out in Condition 8(c).

USE OF PROCEEDS

The net proceeds of the Bonds, being the amount of EUR 496,360,000 (the "**Net Proceeds**") will be used by the Issuer for its corporate purposes. None of the Global Co-ordinators shall have any responsibility for, or be obliged to concern itself with, the application of the Net Proceeds of the Bonds.

DESCRIPTION OF THE ISSUER

Name, registered office and principal place of business

Zürcher Kantonalbank, Bahnhofstrasse 9, CH-8001 Zürich.

Incorporation, duration

Zürcher Kantonalbank was **founded** in 1870 for an unlimited period of time, based on the Bank Act (*Bankgesetz*) of 1869.

Legal basis, legal form

Zürcher Kantonalbank is a public-law institution under the laws of the Canton of Zurich (*selbständige Anstalt des öffentlichen Rechts*). Its current legal basis is based on the Cantonal Bank Act on the Zürcher Kantonalbank of 28 September 1997, which entered into force on 1 January 1998 and was last amended on 1 January 2015. The Canton of Zurich is liable for all of the senior obligations of the Zürcher Kantonalbank to the extent its own funds are insufficient (§6 of the Cantonal Bank Act on the Zürcher Kantonalbank). **According to § 6 of the Cantonal Bank Act on the Zürcher Kantonalbank, these Bonds do not benefit from the state guarantee of the Canton of Zurich.**

Zürcher Kantonalbank is subject to the Swiss Banking Act and the supervision of the Swiss Financial Market Supervisory Authority FINMA.

Purpose

In accordance with the statutory purpose (§2 of the Cantonal Bank Act on the Zürcher Kantonalbank), the Zürcher Kantonalbank contributes to the performance of economic and social tasks in the Canton of Zurich and supports an environmentally sustainable development. It pursues a business policy geared towards continuity and meets investment and financing needs while taking into account the concerns of smaller and medium-sized businesses, employees, the agricultural industry and commerce. In addition, Zürcher Kantonalbank promotes home ownership, as well as the development of affordable housing.

Register

Zürcher Kantonalbank was first registered with the Commercial Register of the Canton of Zurich, Switzerland, on 24 April 1883, and its registration number is CHE-108.954.607.

Group

The fully consolidated financial accounts of the Zürcher Kantonalbank Group of the year 2014 comprise the financial statements of the parent company, Zürcher Kantonalbank, as well as those of its directly held, 100-percent subsidiaries Zürcher Kantonalbank Finance (Guernsey) Limited, Zürcher Kantonalbank Österreich AG and the Balfidor Group, consisting of Balfidor Holding AG and Balfidor Fondsleitung AG. The consolidated financial accounts of the year 2015 will additionally comprise the Swisscanto group, currently consisting of Swisscanto Holding AG, Swisscanto Asset Management AG, Swisscanto Vorsorge AG, Swisscanto Funds Centre Ltd. and Swisscanto Asset Management International S.A.
The presentation of the group's financial statements is based on a true and fair view. The financial statements of the group companies are based on consistent, group-wide applicable accounting standards.

Information about the board of directors, management and auditors

Board of Directors (“Bankrat”)

Dr. Jörg Müller-Ganz	Chairman
Dr. János Blum	Deputy Chairman
Bruno Dobler	Deputy Chairman
René Huber	Member
Thomas Heilmann	Member
Hans Kaufmann	Member
Mark Roth	Member
Peter Ruff	Member
Anita Sigg	Member
Prof. Dr. Hans Sigg	Member
Liliane Waldner	Member
Rolf Walther	Member
Stefan Wirth	Member

Committee of the Board (“Bankpräsidium”)

Dr. Jörg Müller-Ganz	Chairman
Dr. János Blum	Deputy Chairman
Bruno Dobler	Deputy Chairman

Executive Board (“Generaldirektion”)

Martin Scholl	CEO
Christoph Weber	Head Private Banking, Deputy of CEO
Heinz Kunz	Head Corporate Banking
Dr. Stephanino Isele	Head Institutionals & Multinationals
Daniel Previdoli	Head Products, Services & Directbanking
Rudolf Sigg	CFO
Roger Müller	CRO
Dr. Jürg Bühlmann	Head Logistics
Markus Bachofen Rösner	Mandates

External auditors / group auditors

Ernst & Young AG, Maagplatz 1, 8005 Zürich, serves as external auditor under corporate and banking law and as group auditor.

Business activities

Zürcher Kantonalbank is positioned as a fullservice bank with a regional anchoring. Its strategy is geared towards the needs of its customers in Retail Banking, Private Banking, Corporate Banking and Financial Institutions & Multinationals. The Issuer's core businesses include financing, investment and asset management, trading, as well as cards, payment transactions and deposit-taking.

Geographically, Zürcher Kantonalbank’s business activities span the economic Zurich area. Transactions in the rest of Switzerland and abroad are permitted to the extent that the Issuer is not subject to any disproportionately large risks. The details of the business activities are governed by the business regulation.

For further information about the business activities of the Issuer please refer to the 2014 annual report of the Issuer (pages 3 – 5, 31 – 49 and 61 – 146) set forth in Annex B hereto.

Court, arbitration and administrative proceedings

Save as disclosed in this Prospectus (see page 9), Zürcher Kantonalbank is not or has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the financial position or profitability of Zürcher Kantonalbank.

Capital

Capital structure

The core capital of the Zürcher Kantonalbank comprises the endowment capital *(Dotationskapital)*.

The endowment capital is provided by the Canton of Zurich. It is determined by the cantonal parliament of Zurich and as of 31 December 2014 amounted to CHF 1.925 billion (2013: CHF 1.925 billion) and is fully paid up. According to a resolution of the Cantonal Parliament (*Kantonsrat*) dated 14 April 2014, the endowment capital could be increased by up to CHF 1.075 billion to a maximum of CHF 3.0 billion at any time. Such increases can be effected at any time by Zürcher Kantonalbank at its discretion.

The Issuer creates additional capital resources by retaining earnings. As of 31 December 2014, retained earnings (*Gewinnreserven*) amounted to CHF 6.914 billion on a consolidated basis.

Capital adequacy requirements

As per decree dated 1 November 2013, the Swiss National Bank designated Zürcher Kantonalbank to be a systemically relevant financial institution, leading to the applicability of increased capital requirements to Zürcher Kantonalbank. Based on the Swiss National Bank's designation, the Regulator in August 2014 determined the applicable capital requirements for Zürcher Kantonalbank. The required minimum risk-weighted capital ratio amounts to 14.0% both on a consolidated and unconsolidated basis from the end of 2014. Due to the countercyclical capital buffer, which currently amounts to 2% of the risk-weighted assets pertaining to mortgage loans that finance residential property in Switzerland, this requirement increased by an additional 0.7%. Thus, the required total capital ratio for Zürcher Kantonalbank amounted to 14.7% as of 31 December 2014. The leverage ratio requirement is 24% of the risk-weighted capital requirements and, accordingly, amount to 3.53% of Zürcher Kantonalbank's total commitments as per 31 December 2014.

As of 31 December 2014, Zürcher Kantonalbank’s risk-weighted total capital ratio was 16.6% on a consolidated basis and 16.6% on an unconsolidated basis. The unconsolidated ratio of common equity tier 1 to risk-weighted assets (common equity tier 1 capital ratio) was 14.6% as per 31 December 2014. Zürcher Kantonalbank's leverage ratio was 5.80% on a consolidated and 5.77% on an unconsolidated basis as per 31 December 2014.

Outstanding conversion and option rights and bonds

As of the reporting date for the financial statements for the 2014 business year, there were no conversion or option rights in relation to the capital of the Issuer outstanding.

As of the reporting date for the financial statements for the 2014 business year, Zürcher Kantonalbank had certificates of deposit (*Kassenobligationen*) in the amount of CHF 381 million, bonds in the amount of CHF 7.817 billion and Pfandbrief bonds in the amount of CHF 6.964 billion outstanding. Interest rates, maturity dates and nominal values in CHF for these bonds can be found on p. 85 f. the 2014 annual report of the Issuer, the relevant pages of which are annexed hereto in Annex B.

Own capital

As of the date of this Prospectus, Zürcher Kantonalbank holds none of its own capital.

Rating

As of the date of this Prospectus, the ratings assigned to Zürcher Kantonalbank are as follows:

Rating Agency	**Date**	**long-term senior obligations**
Standard&Poor's	23 December 2014	AAA (outlook negative)
Moody's	21 May 2015	Aaa (outlook stable)
Fitch	30 January 2015	AAA (outlook stable)

The Bonds are expected upon issue to be rated "A" by Standard & Poor’s.

Current business developments

The surprising discontinuance of the EUR/CHF minimum exchange rate by the Swiss National Bank and the introduction of negative interest rates in January 2015 lead to uncertainties in the markets. This is expected to have an impact on the Issuer’s financial performance in 2015.

The acquisition of the Swisscanto group by Zürcher Kantonalbank announced in December 2014 has closed on 25 March 2015 after all approvals by domestic and foreign regulators had been obtained. Accordingly, the Swisscanto group previously founded by all Swiss cantonal banks is now fully owned by Zürcher Kantonalbank. The integration in Zürcher Kantonalbank will occur in the course of 2015. For more information see Annex A.

In the coming years, Zürcher Kantonalbank envisages to extend its leading position in the market, particularly in the economic area of Zurich but also in specific segments in Switzerland and abroad. In taking business decisions, Zürcher Kantonalbank will take all possible risks into account and will act responsible vis-à-vis its owner and its stakeholders.

TAXATION

Switzerland

The following discussion of taxation under the heading "Switzerland" in this section is only an indication of certain tax implications currently in force under the laws of Switzerland as they may affect investors. It applies only to persons who are beneficial owners of the Bonds and may not apply to certain classes of person. The summary contains general information only; it is not exhaustive and does not constitute legal or tax advice and is based on taxation law and practice at the date of this Prospectus. Potential investors should be aware that tax law and interpretation, as well as the level and bases of taxation, may change from those described and that changes may alter the benefits of investment in, holding or disposing of, Bonds. The Issuer makes no representations as to the completeness of the information nor undertakes any liability of whatsoever nature for the tax implications for investors. Potential investors are strongly advised to consult their own professional advisers on the implications of making an investment in, holding or disposing of, Bonds under the laws of the countries in which they are liable to taxation and in light of their particular circumstances.

Swiss Withholding Tax

Payments by the Issuer in respect of the Bonds are exempt from Swiss withholding tax (*Verrechnungssteuer*) under the special statutory exemption in article 5a of the Swiss Withholding Tax Act (*Bundesgesetz über die Verrechnungssteuer*) pursuant to which certain write-down bonds and contingent convertible bonds issued by banks in Switzerland qualify for an exemption.

However, on 17 December 2014, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of Bonds to a beneficiary resident in Switzerland, subject to certain exceptions. If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from a payment, neither the Issuer nor a paying agent nor any other person would pursuant to the Terms of the Bonds be obliged to pay additional amounts with respect to any Bonds as a result of the deduction or imposition of such withholding tax.

The attention of Holders of Bonds is drawn to Condition 6 of the Terms of the Bonds.

Swiss Turnover Tax

The issue, and the sale and delivery, of the Bonds, on the Issue Date to initial Holders of the Bonds is not subject to Swiss turnover tax (*Umsatzabgabe*) (primary market).

Secondary market transactions in the Bonds are subject to Swiss turnover tax at a rate of 0.15 per cent. of the consideration paid for the Bonds traded, however, only if a Swiss securities dealer, as defined in the Swiss Stamp Tax Act (*Bundesgesetz über die Stempelabgaben*), is a party or an intermediary to the transaction and no exemption applies. Where both the seller and the purchaser of the Bonds are not residents of Switzerland or the Principality of Liechtenstein, no Swiss turnover tax will apply.

Swiss Income Taxation

Classification and Coupon Split

The Bonds classify as transparent structured financial products composed of a bond and one or more options or similar rights the yield-to-maturity of which predominantly derives from periodic interest payments and not from a one-time interest payment such as an original issue discount or a repayment premium (*Obligationen ohne überwiegende Einmalverzinsung*; non-IUP). In accordance with such classification, the interest on each Bond of EUR 200,000 is split into two components for Swiss tax purposes:

(i) a non-taxable option premium amount (hereinafter for purposes of this section, the "**Embedded Premium Amount**"); and

(ii) a taxable interest amount (hereinafter for purposes of this section, the "**Embedded Interest Amount**") equivalent to:

– the initial rate of 2.625 per cent. per annum less the rate representing the Embedded Premium Amount from (and including) the Issue Date to (but excluding) the Optional Redemption Date,

– a percentage rate per annum from the Optional Redemption Date to (but excluding) the Maturity Date equal to (a) the Reset Rate of Interest minus (b) the rate representing the Embedded Premium Amount.

The Embedded Premium Amount and the Embedded Interest Amount will be determined by the Swiss Federal Tax Administration and following determination be disclosed separately.

Bonds held by Non-Swiss Holders

Holders who are not residents of Switzerland for tax purposes and who during the taxable year have not held Bonds through a permanent establishment or a fixed place of business within Switzerland are not subject to any Swiss income tax in respect of their Bonds. See "*—Swiss Withholding Tax*" above for a summary of the taxation treatment of the Bonds in respect of Swiss withholding tax. See "*—Final Foreign Withholding Taxes*" below for a summary of the taxation treatment of individuals holding Bonds in an account or deposit with a Swiss paying agent. See "*—EU Savings Directive and Associated Arrangements with Switzerland*" below for a summary of the taxation treatment of EU resident individuals receiving payments on the Bonds from a Swiss paying agent.

Bonds held as Private Assets by Swiss Resident Holders

An individual who resides in Switzerland and holds Bonds as private assets is required to include all payments of Embedded Interest Amounts on the Bonds, and upon repayment, issue discount on the Bonds, converted at the exchange rate prevailing at the time of payment, in his or her personal income tax return for the relevant tax period and is taxable on any net taxable income (including the Embedded Interest Amounts and issue discount) for such tax period at the then prevailing tax rates. The payment of Embedded Premium Amounts on the Bonds and gain realised on the sale or other disposal of Bonds, *inter alia*, in respect of the option(s) or similar right(s) embedded in the Bonds, interest accrued or foreign exchange rate or interest rate fluctuation, is a tax-free private capital gain. The same applies for gain realised upon the redemption of Bonds, except when Bonds are redeemed early, in which case compensation for interest accrued paid by the Issuer to a Holder constitutes a taxable interest amount. Conversely, a loss, including in respect of foreign exchange rate or interest rate fluctuation realised on the sale or other disposal or redemption of Bonds or a loss resulting from a Write-down is a private capital loss which is not tax deductible. See *"—Bonds held as Assets of a Trade or Business in Switzerland"* for a summary of the taxation treatment of Swiss resident individuals who, for income tax purposes, are classified as "professional securities dealers".

Bonds held as Assets of a Trade or Business in Switzerland

Individuals who hold Bonds through a business in Switzerland, and Swiss-resident corporate taxpayers, and corporate taxpayers residing abroad holding Bonds through a permanent establishment or a fixed place of business situated in Switzerland, are required to recognise payments of Embedded Interest Amounts and Embedded Premium Amounts and gains or losses realised on the disposal or redemption of Bonds, and, as the case may be, losses realised on the Write-down of the Bonds in their income statement for the relevant tax period, and will be taxable on any net taxable earnings for such tax period at the then prevailing tax rates. The same taxation treatment also applies to Swiss-resident individuals who, for Swiss income tax purposes, classify as "professional securities dealers" for reasons of, *inter alia*, frequent dealings, or leveraged transactions, in securities.

Final Foreign Withholding Taxes

On 1 January 2013, treaties on final withholding taxes entered into by Switzerland with the United Kingdom and Austria came into force (each a "**Contracting State**"). The treaties require a Swiss paying agent, as defined in the treaties, to levy a flat-rate final withholding tax at rates specified in the treaties on certain capital gains and income items (including Embedded Interest Amounts and Embedded Premium Amounts), all as defined in the treaties, deriving from assets, including the Bonds, held in accounts or deposits with a Swiss paying agent by (i) an individual resident in a Contracting State, or (ii) if certain requirements are met, by a domiciliary company (*Sitzgesellschaft*), an insurance company in connection with a so-called insurance wrapper (*Lebensversicherungsmantel*) or other individuals if the beneficial owner is an individual resident in a Contracting State. Under the treaty with the United Kingdom, the tax rate for individuals resident and domiciled in the United Kingdom is 43 per cent. on interest payments and 27 per cent. on capital gains, and, under the treaty with Austria, 25 per cent. on interest payments and capital gains. The flat-rate tax withheld substitutes the ordinary capital gains tax and income tax on the relevant capital gains and income items in the Contracting State where the individuals are tax resident, unless the individuals elect for the flat-rate tax withheld to be treated as if it were a credit allowable against the income tax or, as the case may be, capital gains tax, due for the relevant tax year in the relevant Contracting State. Alternatively, instead of paying the flat-rate tax, such individuals may opt for a disclosure of the relevant capital gains and income items to the tax authorities of the Contracting State where they are tax residents. Switzerland may conclude similar treaties with other European countries.

EU Savings Directive

EU Member States and non-EU countries and territories excluding Switzerland

Under *Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**")*, each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person established within its jurisdiction to, or secured by such a person for the benefit of, an individual resident or certain limited types of entity established in that other EU Member State. However, for a transitional period, Austria is instead required (unless during such period it elects otherwise) to apply a withholding system in relation to such payments, deducting tax at the rate of 35 per cent pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or, introduced in order to conform to, such Directive. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non EU countries to the exchange of information relating to such payments. Luxembourg, which before 1 January 2015 also operated a withholding tax under the transitional rules, has now replaced such withholding tax with the information reporting regime described above.

Also a number of non-EU countries, including Switzerland (see "—EU Savings Directive and Associated Arrangements with Switzerland" below), and certain dependent or associated territories of certain EU Member States, have adopted similar measures to the EU Savings Directive (either provision of information or transitional withholding) in relation to payments made by a person established within its jurisdiction to, or secured by such a person for the benefit of, an individual resident or certain limited types of entity established in an EU Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in an EU Member State to, or secured by such a person for the benefit of, an individual resident or certain limited types of entity established in one of those territories.

The attention of Holders of Bonds is drawn to Condition 6 of the Terms of the Bonds.

The European Council formally adopted a Council Directive amending the EU Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive amends and broadens the scope of the requirements described above. EU Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive, which legislation must apply from 1 January 2017. The changes made under the Amending Directive include expanding the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The EU Savings Directive will also apply a "look through approach" to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State is regarded as the beneficial owner of the payment for the purposes of the EU Savings Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

EU Savings Directive and Associated Arrangements with Switzerland

Under the agreement between the European Community and the Confederation of Switzerland dated as of 26 October 2004 (the **Agreement**), and under laws and regulations enacted in Switzerland in accordance therewith, Switzerland has adopted a withholding system (35 per cent.) with the option of the individual to have the paying agent and Switzerland provide to the tax authorities of the EU Member State the details of the interest payments in lieu of the withholding.

In accordance with the Agreement and such laws and regulations and concurring with the special statutory exemption under article 5a of the Swiss withholding tax act (see "—Swiss Withholding Tax" above) payments by Swiss paying agents in respect of the Bonds are exempt from EU savings tax.

In connection with the Amending Directive, Switzerland and the European Commission have commenced negotiations on corresponding amendments to the Agreement, which, may, if implemented, amend or broaden in Switzerland the scope of the withholding or information requirements accordingly. If these amendments are implemented, or if the proposed new Swiss withholding tax legislation was enacted (see "—Swiss Withholding Tax" above), the position of

Holders receiving payments through Swiss paying agents in relation to the Agreement could be different to that set out above.

SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in a Subscription Agreement dated 11 June 2015 (the "**Subscription Agreement**") among Zürcher Kantonalbank as Issuer, BNP Paribas and Credit Suisse Securities (Europe) Ltd as joint lead managers (the "**Global Co-ordinators**") and Zürcher Kantonalbank as joint lead manager (together with the Global Co-ordinators, the "**Joint Lead Managers**"), the Issuer has agreed to issue to the Joint Lead Managers and the Joint Lead Managers have jointly and severally agreed to purchase or find purchasers for the Bonds. The Issuer has, pursuant to the terms of the Subscription Agreement, agreed to pay the Joint Lead Managers certain commissions and to reimburse certain of their expenses in connection with their appointment as Joint Lead Managers, and has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Bonds.

United States

The Bonds have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each of the Joint Lead Managers has represented and agreed that it will not offer or sell the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**"), within the United States or to, or for the account or benefit of, U.S. persons, and it will send to each dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

In relation to the Bonds, each Joint Lead Manager has represented, warranted and agreed in the Subscription Agreement that:

(a) Financial Promotion: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of the Bonds in circumstances in which section 21(1) of the FSMA does not or, in the case of the Issuer, would not if it was not an authorised person, apply to the Issuer; and

(b) Global Compliance: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

General

Persons who receive this Prospectus are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver the Bonds or have in their possession or distribute such offering material and to obtain any consent, approval or permission required by them for the purchase, offer, sale or delivery by them of the Bonds under the law and regulations in force in any jurisdiction to which they are subject or in which they make such purchases, offers, sales or deliveries, in all cases at their own expense, and neither the Issuer nor any Joint Lead Manager shall have responsibility therefor. In accordance with the above, the Bonds purchased by any person which it wishes to offer for sale or resale may not be offered in any jurisdiction in circumstances which would result in the Issuer being obliged to register any further information memorandum or corresponding document relating to the Bonds in such jurisdiction.

In particular, but without limiting the generality of the preceding paragraph, and subject to any amendment or supplement which may be agreed with the Issuer, each purchaser of the Bonds must comply with the restrictions described above, except to the extent that, as a result of changes in, or in the official interpretation of, any applicable legal or regulatory requirements, non-compliance would not result in any breach of the requirements set forth in the preceding paragraph.

The Bonds are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the TMR, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on page 2 of this Prospectus for further information.

GENERAL INFORMATION

Authorisation

Pursuant to a resolution of the Directors Board (*Bankrat*) of the Issuer dated 16 April 2015 and the Subscription Agreement, the Issuer has decided to issue the Bonds.

Availability of Documents

Copies of this Prospectus are available free of charge in Switzerland at the office of Zürcher Kantonalbank, Bahnhofstrasse 9, CH-8001 Zürich, Switzerland, (telephone: +41 (0)44 293 67 40 facsimile: +41 (0)44 293 67 32 or email prospectus@zkb.ch).

No material adverse change

Except as disclosed in this Prospectus, there has been no material adverse change in the assets and liabilities, financial position and profits and losses of the Issuer since 31 December 2014.

Responsibility Statement

The Issuer accepts responsibility for the information contained in this Prospectus and hereby confirms that to the best of its knowledge (i) such information is correct and (ii) no material facts or circumstances have been omitted herefrom.

ANNEX A

Zürcher Kantonalbank

Zürcher Kantonalbank vollzieht Akquisition von Swisscanto

Ad-hoc-Medienmitteilung

Die im Dezember 2014 angekündigte Akquisition der Swisscanto-Gruppe durch die Zürcher Kantonalbank ist heute, 25. März 2015, vollzogen worden. Alle erforderlichen Bewilligungen der in- und ausländischen Behörden liegen vor. Damit geht die von den Schweizer Kantonalbanken gegründete Swisscanto-Gruppe wie geplant in den Besitz der Zürcher Kantonalbank über. Die Integration der Swisscanto in die Zürcher Kantonalbank erfolgt während der nächsten Monate.

Am 11. Dezember 2014 haben die Kantonalbanken angekündigt, ihre Aktienanteile am Anlagefonds- und Vorsorgedienstleister Swisscanto an die Zürcher Kantonalbank zu verkaufen. Die Vereinfachung der Eigentümerstruktur und die Bündelung der Kompetenzen und Leistungen verleiht dem bisherigen Gemeinschaftswerk eine neue Perspektive in einem zunehmend wettbewerbsintensiven und herausfordernden Marktumfeld.

Mit dem Erwerb der Swisscanto wird die Zürcher Kantonalbank zum drittgrössten Fondsanbieter der Schweiz. Die Zürcher Kantonalbank bietet weiterhin eine umfassende und qualitativ hochwertige Produkt- und Dienstleistungspalette unter der bekannten Marke Swisscanto an. Sie führt auch die eigenen ZKB Fonds sowie Aktivitäten in der beruflichen Vorsorge und die Swisscanto-Stiftungen unter dem Namen Swisscanto weiter.

Diese Mitteilung wird ausserhalb der Öffnungszeiten der Schweizer Börse (SIX Swiss Exchange) verschickt, um den Vorschriften für Ad-hoc-Publizität des Kotierungsreglements der SIX zu genügen.

25. März 2015

Zürcher Kantonalbank, Pressestelle
Tel. 044 292 29 79 Fax 044 292 38 23 E-Mail medien@zkb.ch

ANNEX B

Key figures (group)

Income statement	in CHF million	2014	2013	2012	Change 2014/2013 in %
Net interest income		1,070	1,117	1,154	–4.2
Net commission and fee income		531	551	536	–3.5
Income from trading operations		287	340	379	–15.7
Other ordinary income		47	109	54	–57.1
Operating income		1,935	2,118	2,122	–8.6
Operating expenses		1,200	1,241	1,266 [1]	–3.3
Gross profit		735	877	856 [1]	–16.2
Depreciation and amortisation of fixed assets		93	87	100	6.4
Allowances, provisions and losses		60	210	46	–71.6
Extraordinary income		65	218	33	–70.0
Tax expenses		0	0	–0	–
Group net income		647	797	744 [1]	–18.8

Balance sheet (before distribution of net profit)	in CHF million	2014	2013	2012	Change 2014/2013 in %
Total assets		158,392	149,707	150,694	5.8
Loans to customers		86,408	80,421	78,552	7.4
– of which mortgages		71,389	69,658	67,371	2.5
Funds due to customers		97,808	95,869	94,187	2.0
– of which savings and investment accounts		45,624	43,992	44,455	3.7
Allowances and provisions		721	688	617	4.8
Net equity		9,487	9,208	8,784	3.0

Key figures	in %	2014	2013	2012
Return on equity (ROE)		7.2	9.2	9.0 [1]
Cost/income ratio (CIR)		66.8	62.7	64.4 [1]
Common equity Tier 1 ratio (CET1)		14.6	15.2	–
Core capital ratio (Tier 1) [2]		15.6	16.2	15.2
Total capital ratio		16.6	16.2	–

Assets under management	in CHF million	2014	2013	2012	Change 2014/2013 in %
Total assets under management [3]		199,095	192,070	191,821	3.7
Net new money (NNM) [3]		–2,258	–178	8,320	

Personnel/banking outlets	Number	2014	2013	2012	Change 2014/2013 in %
Headcount after adjustment for part-time employees, as at 31 December		4,844	4,818	5,068	0.5
Banking outlets [4]		97	97	99	

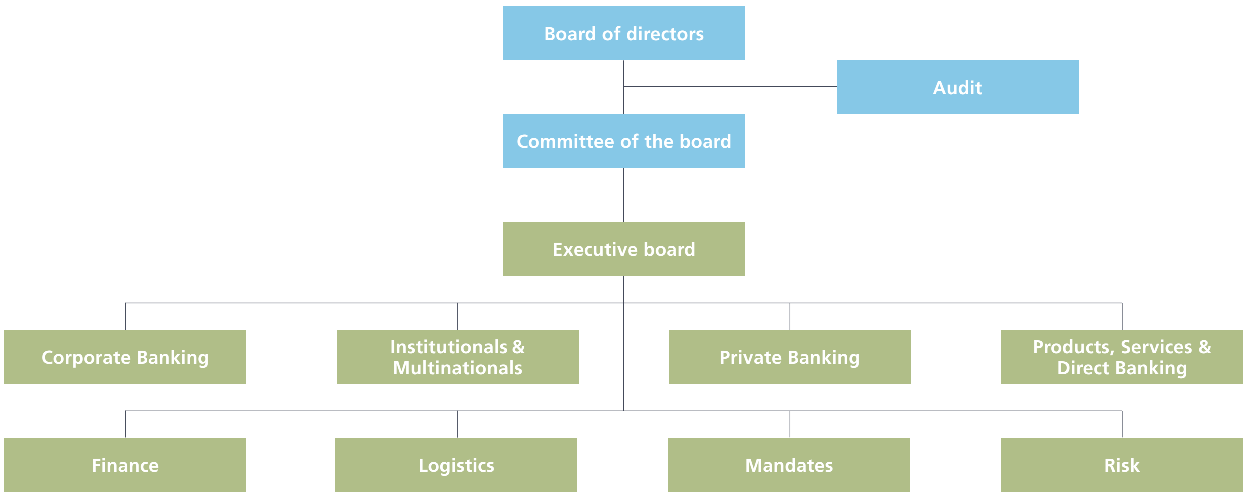
Rating agencies	Rating	2014	2013	2012
Fitch		AAA	AAA	AAA
Moody's		Aaa	Aaa	Aaa
Standard & Poor's		AAA	AAA	AAA

Scope of consolidation	Share in %	2014	2013	2012
Zürcher Kantonalbank Finance (Guernsey) Ltd.		100	100	100
Balfidor Holding AG		100	100	100
Zürcher Kantonalbank Österreich AG		100	100	100

[1] Excludes CHF 150 million non-recurring expense for Zürcher Kantonalbank's pension in connection with the reduction in the technical interest rate.
[2] 2014 and 2013 in accordance with Basel III; 2012 in accordance with Basel 2.5.
[3] Restated following a change in segmentation of business partners (see Note 4.5, p. 98).
[4] Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as five automated banks.

In Brief

The bank that's "close to you"
Zürcher Kantonalbank is successfully positioning itself as a full-service bank with a regional base as well as national and international links. We are the largest cantonal bank in Switzerland and one of the largest Swiss banks. With a market penetration of around 50 percent, we rank as the leader in retail as well as corporate banking in the canton of Zurich. Zürcher Kantonalbank is wholly owned by the canton of Zurich and benefits from a state guarantee. Our public service mandate entails providing financial services for the public and businesses, assisting the canton in the performance of its tasks in the economic, social and environmental arenas, and ensuring that our actions comply with the demands of environmental and social responsibility. Our values are: personal, competent and responsible. We are part of life in the canton of Zurich.



New organisational structure
Zürcher Kantonalbank realigned its organisational structure on 1 October 2014. Comprehensive responsibility for the provision of personal service and support to all our private customers now lies with the Private Banking business unit.

Net result
With a group net income of CHF 647 million, Zürcher Kantonalbank achieved a satisfactory result in the 2014 financial year. After payment of capital costs on the endowment capital and allocations to reserves, CHF 246 million was distributed to the canton of Zurich and its municipalities.

Personnel changes
Roger Müller became chief risk officer on 1 January, Stephanino Isele head of Institutionals & Multinationals on 1 April and Daniel Previdoli head of Products, Services & Direct Banking on 1 October. René Huber was elected to the board of directors on 1 November. Walter Seif becomes head of Audit on 1 January 2015.

Switzerland's only AAA bank
We are the only Swiss bank and the only full-service bank in the world to be given an AAA rating by Standard & Poor's. Fitch and Moody's also awarded us their top marks.

Stability
At the end of 2014, Zürcher Kantonalbank had net equity of CHF 9,487 million. The total capital ratio amounted to 16.6 percent. We are therefore one of the best capitalised banks in the world.

Roots in the canton
With 90 branches, we have strong roots in the canton of Zurich. Our customers are also able to conduct their banking transactions via our call centres, via eBanking and via eBanking Mobile.

Legal amendment
At the beginning of 2013, we submitted an application for a partial amendment of the Law on Zürcher Kantonalbank to the cantonal parliament of Zurich. The cantonal parliament partially approved the requested legal amendment in April 2014.

Swisscanto
In December 2014, we announced the acquisition of the Swisscanto group. By integrating this joint venture between the cantonal banks, we will become Switzerland's third-largest fund provider. At the same time, we are increasing our diversification by strengthening the share of income we generate from commission and fee business.

Significant employer
Around 5,500 people work at Zürcher Kantonalbank in 4,844 full-time positions. With 406 apprentices, interns and trainees, we are one of the largest training centres for banking professions and offer around 100 apprenticeships in banking, IT and logistics every year.

Corporate Governance

We are conscious of our responsibility towards the canton of Zurich and manage the bank in a prudent, transparent manner.

Basic principles

Zürcher Kantonalbank is conscious of its responsibility towards the canton of Zurich. That includes being in constant, open and transparent dialogue with the various stakeholder groups. In particular, we are accountable to the canton of Zurich as owner, its residents and the cantonal parliament, which is ultimately responsible for supervision of the bank. Even though there is no legal requirement to do so, the bank essentially complies with the corporate governance principles of Art. 663b^{bis} of the Swiss Code of Obligations and the Corporate Governance Directives issued by SIX Swiss Exchange on 1 September 2014. It also complies with the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse on 6 September 2007, insofar as this is possible for a public-law institution as opposed to a public limited company. Unless otherwise specified, the information is applicable as at 31 December 2014.

Structure and ownership

Zürcher Kantonalbank is a public-law institution wholly owned by the canton of Zurich. The interests and strategy of the owner are set out in the Law on Zürcher Kantonalbank of 28 September 1997, version dated 1 January 2015. The group's operating structure corresponds to the organisational structure of the parent company. The annual report includes the corporate structure (page 4), companies included in the scope of consolidation (pages 75, 81), major shareholders (page 73), corporate capital (page 88) and changes in equity (page 89).

Board of directors and committee of the board

The board of directors consists of 13 members elected by the cantonal parliament, including the three full-time members of the committee of the board. The current legislative period lasts from 27 June 2011 until the end of June 2015. On 15 September 2014 René Huber was elected by the cantonal parliament as the successor to Alfred Binder, who retired on 30 September 2014.

All members of the board of directors are Swiss nationals. No member has ever served on the bank's executive board. None of the part-time members of the board of directors has significant business connections with the bank as defined in the SIX directives. The committee of the board is an independent body. Its members are subject to the same rules as all employees of Zürcher Kantonalbank.

The duties of the board of directors and committee of the board are set out in §15 and §16 of the Law on Zürcher Kantonalbank, §29, §30 and §33 of the bank's organisational regulations of 23 June 2011 and other specific regulations. As laid down in §14, paragraph 2, of the Law on Zürcher Kantonalbank, members of the board of directors may not work for any other bank; nor may they be a member of the cantonal government, cantonal parliament or highest cantonal courts. In addition, members of the board of directors are not permitted to work for the tax authorities.

The cantonal parliament of Zurich elects the members of the board of directors and the committee of the board for a four-year term of office. In electing the members, it focuses on personal characteristics such as assertiveness, credibility and integrity, suitability with regard to banking expertise and proportional political representation. Members are eligible for re-election. There are no restrictions on periods of office for members of the committee of the board. For the other members of the board of directors, the total period of office may not exceed 12 years. The term of office ends at the latest on the member's 70th birthday. If members of the committee of the board reach their 65th birthday during their term of office, their time in office ends when their term of office expires.

Fig. 15: Board of directors and committee of the board as at 31.12.2014

Jörg Müller-Ganz	Chairman
János Blum	Deputy chairman
Bruno Dobler	Deputy chairman
Thomas Heilmann	Member of the board of directors
René Huber	Member of the board of directors
Hans Kaufmann	Member of the board of directors
Mark Roth	Member of the board of directors
Peter Ruff	Member of the board of directors
Anita Sigg	Member of the board of directors
Hans Sigg	Member of the board of directors
Liliane Waldner	Member of the board of directors
Rolf Walther	Member of the board of directors
Stefan Wirth	Member of the board of directors

Internal organisational structure

Board of directors

The board of directors bears ultimate responsibility for the management of the bank and for the supervision of the individuals entrusted with its operational management (§15 of the Law on Zürcher Kantonalbank). The key responsibilities are listed on page 34. As part of a structured process, it attends to the group strategy on a twice-yearly basis, approves the annual consolidated risk inventory, which is based on a systematically conducted analysis, and deals with the strategic risks. Besides its normal duties, the board of directors receives regular reports from the executive board, notes the latter's assessment of the situation and takes the decisions within its remit. Regular reports are received on the internal controls system.

In a structured annual cycle, the board of directors attends to strategy, planning, controlling and reporting, risk management, risk reporting and the supervisory report by auditors EY (Ernst & Young) as well as the public service mandate. The board of directors took decisions on credit and limit applications in addition to other transactions within its remit such as the sale of individual properties. In the year under review, it also actively assisted the processing of the applications submitted to the cantonal parliament, including the application for a partial amendment of the Law on Zürcher Kantonalbank and the newly introduced compensation for the state guarantee; it also dealt with the decisions of the cantonal parliament and corresponding consequences, in particular concerning the capital base. It also held in-depth discussions on the regulatory requirements regarding the systemic importance classification, liquidity and dealing with "exception to policy" cases. The strategic parameters were discussed and partially amended.

Furthermore, the board of directors dealt on an in-depth basis with agricultural commodities, the new accounting rules, the branch network and the refurbishment of the head office in Zurich's Bahnhofstrasse, as well as with implementation of the real estate strategy. It approved the sale of the interest in investment fund company Adamant Biomedical Investments AG. It reviewed the compensation system and approved a number of adjustments. It monitored developments on domestic and foreign markets, in particular the tax treaty with the USA and other countries. The board of directors also held detailed discussions on the bank-wide structural changes and in this connection approved a reduction in the number of business units from nine to eight (effective 1 July 2015). The relevant regulations were also adjusted. The board of directors held in-depth discussions on strategy decisions in the year under review: firstly, the decision to outsource payment transactions to Swisscom; secondly, at several meetings and workshops, the decision to acquire Swisscanto.

The subsequent reorganisation also resulted in changes at senior executive level. This included Daniel Previdoli being appointed head of the reorganised Products, Services & Direct Banking unit. Christoph Weber continues to head Private Banking, although this now includes the branch network too. Until his retirement on 30 June 2015, Markus Bachofen Rösner will remain responsible for various mandates and projects. In addition, Stephanino Isele took over as head of Institutionals & Multinationals. Karl Haller, the head of Internal Audit, retired at the end of the year under review and was replaced by Walter Seif. The board of directors appointed Marco Beutler as deputy head of the executive board business unit, Peter Luginbühl as deputy head of Private Banking, Carlos Philippen as deputy head of Logistics and Christoph Schenk as deputy head of Products, Services & Direct Banking. The board of directors appointed four new branch managers. The members of the board of directors also made visits to branches and specialist units. 14 regular meetings were held; they were also attended by some or all members of the executive board as well as the chief inspector. Representatives of Ernst & Young attended four meetings. A one-day strategy workshop and a two-day retreat on various issues were also held.

To assist in the preparation of its resolutions, the board of directors has various committees: audit, risk management, compensation & personnel, and IT. The committees have no decision-making powers; instead they have a preliminary consultative function, make proposals, and meet as often as business requires. Information on the work of the committees is presented at every meeting of the board of directors. Twice a year, the committee chairmen hold a joint coordination meeting with the committee of the board. Where possible, subjects concerning the various committees are dealt with at joint meetings coordinated by the committee of the board. In addition, minutes of the individual committees are submitted to all members of the board of directors for approval.

Committee of the board

§16 of the Law on Zürcher Kantonalbank states that the committee of the board is responsible for the direct supervision of the executive board. In this context, the committee monitored the implementation of decisions of the board of directors and compliance with statutory and regulatory requirements. Within the framework of such statutory and regulatory requirements, it took decisions on various operational and electoral matters. The committee of the board also made preparations for the discussion of the public service mandate on the board of directors and in this connection is also responsible for sustainability issues. Jörg Müller-Ganz is chairman; János Blum and Bruno Dobler are the deputy chairmen. Anita Sigg and Rolf Walther have been elected as substitute members of the committee of the board; Rolf Walther replaces Alfred Binder, who has retired.

In addition to addressing strategic, planning, organisational and human resources questions as well as issues concerning corporate culture, the committee of the board in accordance with statutory and regulatory competencies dealt at its weekly meetings in the year under review with transactions involving potential reputation risk. Members of the executive board, the chief inspector and representatives of the specialist units were also invited to attend on a regular basis. The committee of the board met on several occasions in its role as strategy committee for the board of directors. It was also kept continuously briefed on relevant regulatory and political matters that could be of significance to Zürcher Kantonalbank. In particular, it dealt with the bank's activities in connection with the tax dispute with the USA and the Swiss National Bank's classification of Zürcher Kantonalbank as systemically important. In addition, the committee of the board actively assisted with the consultations of the special commission of the cantonal parliament in connection with the applications submitted to the cantonal parliament in 2013, in particular regarding the partial amendment of the Law on Zürcher Kantonalbank and compensation for the state guarantee; it also discussed the consequences of the cantonal parliament's decisions.

The committee of the board also closely oversaw implementation of the bank's reorganisation and the reduction in the number of business units to eight as of 1 July 2015. In its role as strategy committee, the committee of the board provided the board of directors with preliminary advice on the strategy decisions regarding the outsourcing of payment transactions as well as the decision to acquire Swisscanto and the sale of the interest in Adamant Biomedical Investments AG. Besides deciding on any immediate measures on the basis of audit report findings, the committee of the board closely oversaw implementation of regulatory requirements and, on behalf of the board of directors, discussed requests from the financial markets supervisory body, FINMA, with which the committee maintained various contacts, as well as those from the board of directors. The committee of the board also decided on sponsorship commitments under the public service mandate.

It cooperated with the board committees in preparing the substantive decisions and personnel decisions as well as the basic principles for the statutory and strategic adjustment requirement on behalf of the board of directors and ensured their swift implementation. Together with the compensation & personnel committee, it prepared the changes to various parts of the compensation model on behalf of the board of directors. The committee of the board represented Zürcher Kantonalbank in the course of regular discussions between the bank chairmen in the context of the Association of Swiss Cantonal Banks and various representation events in culture, politics, environment and business. In accordance with an agreed timetable, the members of the committee of the board visited all market areas and specialist units, subsidiary companies and locations.

Fig. 16: Key responsibilities of the board of directors and committee of the board

The board of directors

- sets out the principles of the corporate strategy, mission statement, business strategy and organisational structure
- approves the risk policy, risk strategy and bank-wide risk and global limits and approves any equity investments
- is responsible for establishing and closing branches and for establishing subsidiaries
- is responsible for setting up an internal controls system (ICS)
- draws up guidelines on human resources policy as part of the bank's overall strategy
- is informed quarterly on risk concentration in accordance with Article 90, paragraph 1, of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers
- is informed of the reporting on country limits
- approves the detailed quarterly reports from the executive board
- is regularly informed by the executive board of all relevant aspects of risk management
- determines the mortgage policy
- approves unsecured loans in excess of CHF 1 billion
- is regularly informed of loans under the jurisdiction of the committee of the board
- approves the annual planning, annual financial statements and the annual report including the compensation report
- is responsible for hiring and dismissing the members of the executive board and their deputies, branch managers at senior level, and the chief inspector and deputy chief inspector
- decides on the annual distribution of profit to the canton and municipalities

The committee of the board

- prepares topics relating to strategy and corporate culture for submission to the board of directors
- scrutinises the decisions of the executive board and is responsible for its direct supervision
- monitors the implementation of decisions taken by the board of directors and the quality and effectiveness of the fulfilment of the public service mandate on behalf of the board of directors
- approves unsecured loans in excess of CHF 75 billion
- decides on the purchase and sale of real estate in addition to renovations and new building projects in accordance with the delineation of powers laid down by the board of directors
- approves the payment of accounts for building projects authorised by the board of directorsn
- takes decisions on providing assistance to business, social and cultural institutions
- decides on the bank's membership of and representation in organisations
- approves the detailed monthly reports from the executive board
- is informed of new credit transactions that fall under the jurisdiction of the executive board
- is informed of the course of business at subsidiaries
- iis responsible for hiring and dismissing members of senior management, as well as their promotion
- reviews the legal, tax and compliance reports on a half-yearly basis
- is regularly informed of major risk positions
- deals with pressing matters that fall under the responsibilities of the board of directors and subsequently obtains the board's approval
- in the event of escalation decides about transactions with particular business policy risks, conflicts of interest and particular effects on reputation
- regularly monitors the quality and effectiveness of the fulfilment of the public service mandate

Audit committee

The audit committee supports the board of directors in its supervisory and control functions in accordance with §15 of the Law on Zürcher Kantonalbank, the organisational regulations and FINMA Circular 2008/24 on monitoring and internal control systems for banks. It prepares specialist resolutions of the full board of directors and in this connection is responsible in particular for monitoring the annual and interim financial statements of the group and the parent company, for the capital adequacy statement and capital adequacy planning, and for monitoring the internal controls system and compliance with the help of internal and external auditing.

Until 30 September 2014, the audit committee comprised Thomas Heilmann (chairman), Hans Kaufmann, Mark Roth, Liliane Waldner and Stefan Wirth. Due to the election of René Huber to the board of directors, and his taking up office on 1 November 2014, the audit committee comprised Thomas Heilmann (chairman), René Huber, Hans Kaufmann, Mark Roth and Liliane Waldner as at 31 December 2014. The chief inspector, Karl Haller, attends all meetings and since August 2014 his designated successor, Walter Seif, has also attended all meetings of the audit committee.

The audit committee held 12 meetings, which lasted up to eight hours, during the year under review; all meetings were attended by the chief inspector/head of Audit and in the case of agenda items relating to financial reporting and financial management were on each occasion attended by the CFO. In relation to specific subject matter, the meetings were also attended on a regular basis by the external auditors, the CRO and the head of Legal, Tax & Compliance on a periodic basis and by the CEO on two occasions. Depending on their importance, various agenda items were discussed jointly with the committee of the board, the risk management committee as well as the IT committee of the board of directors. The relevant management decision-makers were also involved in the discussions on a regular basis.

At each meeting, attention focused on financial reporting (monthly, quarterly, half-yearly and annual reporting) as well as the handling of the external and internal audit reports. A total of 58 internal and 20 external audit reports were discussed. This also comprised assessment of the appropriateness of measures taken by the entities audited, the approval of internal audit reports, as well as reporting by internal Audit on the effective implementation of the measures decided.

At several meetings and at the annual workshop organised by Audit, advice was provided about key changes in the risk profile as well as the consequent setting of audit objectives for internal and external auditing and the focus of the compliance function. Particular attention was paid to the systematic, total coverage of the regulatory audit universe on a multi-year cycle by internal and external auditing. Other important activities and those required by the regulator in the year under review included:

- reporting on the structure and effectiveness of the internal controls system for all business units and subsidiaries of the bank
- discussion of the quarterly reports by Legal, Tax & Compliance and a forward-looking assessment of statutory and regulatory developments
- treatment of the annual assessment of compliance risks based on the compliance risk inventory and related risk-oriented activities undertaken and planned by the Compliance function
- critical assessment of the report on the regulatory audit and the report on the accounting audit
- discussion of regulatory reporting and the auditor's comprehensive report on the accounting audit
- discussion of the activity report of Audit.

In relation to financial control, the audit committee dealt with the bank's financial strategic parameters in the year under review. The audit committee paid special attention to an appropriate risk element when measuring profitability. The value added created, after deducting the cost of risk capital, is measured using the new benchmark of sustainable profit. Furthermore, the bank's financial value added was compared with other banks on the basis of the CFO's annual benchmarking study and advice given about the advantages and disadvantages of Zürcher Kantonalbank's strategic business model. Other important topics for the audit committee in the year under review were:

- New FINMA accounting guidelines for banks (AGB)
- The bank's systemic importance
- Synergies between Compliance and operational risk management
- Business performance and multi-year financial planning

On a regular basis, the chairman of the audit committee discusses the regulatory and accounting audit with the external auditors' partner responsible as well as with the chief inspector and CFO. He is responsible for determining the audit committee's annual targets and its systematic, thorough and critical self-assessment. He also briefs the board of directors on an event-related basis about the committee's activities as well as current issues and challenges.

Compensation & personnel committee

The compensation & personnel committee assists the board of directors in connection with human resources strategy, as well as personnel and compensation policy. It assists the board of directors by providing preliminary advice and issuing recommendations on these matters. As is normally the case, the compensation & personnel committee was informed about the implementation of human resources strategy, in particular the issues of promotion, disciplinary cases, dismissals, as well as staff training and development. It verified the compensation report and discussed executive-board compensation, the bonus for trading staff as well as the parameters for the 2014 deferred component. In addition, the committee provided the board of directors with preliminary advice regarding branch manager appointments and was briefed about succession arrangements for key individuals. In the year under review, the compensation & personnel committee held detailed discussions on the existing compensation system at several meetings and recommended that the board of directors make corresponding changes effective 1 January 2015.

It discussed the personnel implications of the reorganisation and the associated reduction in the bank's structure by one business unit. This affected in particular the heads of the business units and their deputies as well as the remit of Markus Bachofen Rösner as former head of Products & Services and his remit as a member of the executive board until his retirement on 30 June 2015.

Alfred Binder, the chairman of the compensation & personnel committee, stepped down on 30 September 2014. Effective 1 October 2014, Peter Ruff assumed the role of chairman while Stefan Wirth was elected as a member for the first time. As at 31 December 2014, the compensation & personnel committee comprised Peter Ruff (chairman), Bruno Dobler, Anita Sigg and Stefan Wirth.

The compensation & personnel committee met on 10 occasions in the year under review, with all meetings attended by the head of Human Resources or his deputy. Depending on the subject matter, the CEO, CFO and other representatives of the specialist areas also attended the meetings. The committee of the board also attended, particularly in the case of meetings regarding the revision of the compensation system. The members of the compensation & personnel committee attended a meeting of the audit committee in connection with the compensation report.

Risk management committee
The risk management committee assists the board of directors in relation to supervision of the bank's risk management and compliance with regulatory requirements regarding the management of risk. It prepares the relevant business for the board of directors. Peter Ruff stepped down from the risk management committee effective 1 October 2014 due to his taking over the chairmanship of the compensation & personnel committee. In his place, Hans Kaufmann was elected as a member as of the same date. As at 31 December 2014, this committee comprised Rolf Walther (chairman), János Blum, Hans Kaufmann and Anita Sigg.

The risk management committee held eight meetings in the year under review, all of which were attended by the chief risk officer and the head of Risk Controlling. A further five meetings took place in the context of the meetings of the audit committee. The risk management committee has a preliminary consultative role on behalf of the board of directors. It evaluates the quality, adequateness and effectiveness of the processes and procedures for identifying, assessing, limiting, controlling and monitoring risks. It is informed of standard reports, stress scenarios and risk reports on a regular basis. The quarterly report of the chief risk officer, giving an account of credit, market, liquidity, operating, compliance and reputation risks, is an important tool for the committee in terms of performing its role, although in-depth evaluation of compliance risks falls within the remit of the audit committee. It also takes note of changes relevant to risk, especially in the mortgage business, international risks and risks in other business areas.

The risk management committee keeps itself informed of credit exposures and limits, provides preliminary advice on strategic credit and limit applications and other matters within the remit of the board of directors from a risk perspective, receives annual reports on the adequateness and effectiveness of internal controls in the business units together with the audit committee, evaluates the completeness of the risk inventory and submits recommendations concerning risk policy parameters and strategic risks to the board of directors. The risk management committee also discussed the findings in the risk-relevant audit reports and noted the minutes of the operating risk sub-committee. In 2014, the committee held detailed discussions on liquidity risks and kept itself informed of off-balance-sheet transactions, new capital-at-risk models in trading and treasury, risk concentration and operating risks and the project to implement model-based approaches for credit risk (IRB). It was notified of settlement risk and risk concentration as well as of exposure vis-à-vis central counterparties and discussed country risks and associated country restrictions. The risk management committee also discussed possible condition risks in preparation for the board of directors. It was briefed on regulatory changes in connection with risk management and followed developments on the markets as well as exception-to-policy transactions. The mechanisms and inherent risks of central counterparties and allocation of risk capital were also topics of discussion for the risk management committee.

IT committee
In 2014, the IT committee comprised Hans Sigg (chairman), Jörg Müller-Ganz, Mark Roth and Stefan Wirth. The IT committee held six regular meetings in the year under review; all were attended by the head of Logistics and/or his deputy.

The IT committee discussed a total of 13 audit reports with relevance to IT. It was informed on a regular basis about the completion status of findings of the auditors. The IT committee dealt with the IT annual report 2013 and on a quarterly basis with the strategic IT report. The IT committee dealt on a regular basis with other IT security matters and operational risks. Another focal point was the strategic direction of IT and the interplay between business and IT architecture. IT planning was discussed at several meetings. The IT committee was shown how financial resources are being prioritised in favour of regulatory and ongoing projects and how resources are consequently available for top 10 projects and optimisation of the IT Infrastructure in the coming years as well as for further improvement in the sustainability of IT operations. Oversight of selected strategic IT projects was once again of major importance in the year under review. Thus the IT committee was informed at several meetings about the status of the payment transaction, customer interface and state-of-the-art account management programmes as well as about the cooperation with Swisscom. The IT committee also discussed the subject of big data and the workplace of the future (digital workplace). For the purpose of a general orientation on important IT matters, the committee dealt with the IT workload automation project, directory services and the restoration of data.

Executive board
The executive board of Zürcher Kantonalbank comprises nine members and is headed by Martin Scholl (chief executive officer, CEO). Under §17 of the Law on Zürcher Kantonalbank, it is responsible for managing the bank's operations. The members of the executive board perform an advisory role on the board of directors and the committee of the board. The executive board is responsible for business as well as human resources matters where they concern the management of the bank. With the exception of Audit, it is responsible for the appointment and dismissal of senior executives. Zürcher Kantonalbank realigned its organisational structure on 1 October: the branches now come under Private Banking, while electronic distribution channels have been integrated with Products, Services & Direct Banking. The number of business units is being reduced from nine to eight as of 1 July 2015.

Audit
Audit is responsible for the group's internal auditing. Audit was headed by Karl Haller until 31 December 2014, when he retired. Walter Seif took over as head of Audit on 1 January 2015. In organisational terms, Audit reports directly to the board of directors and is completely independent of the executive board. It assists the board of directors and its committees in fulfilling their supervisory and control tasks by using a systematic, targeted approach to evaluate the effectiveness of risk management, controls, as well as management, performance and monitoring processes, and submitting recommendations for their optimisation. Audit also examines compliance with the regulatory provisions and internal directives and guidelines in all areas of the business. To perform its audit role, Audit has unlimited rights of inspection, information and access within the bank and group companies. Audit is not bound to any directives in substantive terms and generally reports to the audit committee, which inspects and approves the reports, the committee of the board, which can take immediate measures, the CEO, the relevant members of the executive board and other managers. Audit pursues stringent quality guidelines and structures its procedures in accordance with nationally and internationally recognised auditing standards.

Auditors
EY (Ernst & Young) act as auditors to Zürcher Kantonalbank. On 28 April 2014, the cantonal parliament re-elected the auditors for 2015 and 2016. Rolf Walker is the auditor-in-charge for the accounting audit. As second auditor-in-charge, Andreas Blumer is responsible for the regulatory audit. In the year under review, EY invoiced the sum of CHF 3.6 million (2013: CHF 3.6 million) for its services in connection with the regulatory audits and auditing of the annual financial statements of Zürcher Kantonalbank and its group companies, as well as the group financial statements. EY charged CHF 10,000 (2013: CHF 7,000) for additional consulting services and CHF 18,000 (2013: CHF 47,000) for audit-related services. Under §11 and §18 of the Law on Zürcher Kantonalbank, the cantonal parliament of Zurich appoints the external auditors for a two-year period. The external auditors must be recognised by the Swiss Financial Market Supervisory Authority (FINMA).

Cantonal parliamentary committee
Responsibility for the ultimate supervision of Zürcher Kantonalbank lies with the cantonal parliament. Its tasks are laid down in §11 of the Law on Zürcher Kantonalbank. In addition to the election of the members of the board of directors and committee of the board, these tasks include approving guidelines for the fulfilment of the public service mandate as well as regulations governing the compensation paid to members of the board of directors and inspecting the annual financial statements and annual report of the bank as well as discharging the governing bodies. The cantonal parliament of Zurich has appointed the committee on commercial undertakings with ultimate supervision in accordance with §12. This standing, supervisory cantonal parliamentary committee inspects the minutes of the board of directors and, depending on the matter concerned, obtains information from the chairman, committee of the board or members of the board of directors, the chief executive officer or other members of the executive board or representatives of the auditors about the direction and results of the bank's business activities and important events. As at 31 December 2014, this cantonal parliamentary committee comprised 11 members: Benedikt Gschwind, Zurich, SP, chair; Katharina Weibel, Seuzach, FDP, deputy chair; Franco Albanese, Winterthur, CVP; Bruno Fenner, Dübendorf, BDP; Reinhard Fürst, IllnauEffretikon, SVP; Nik Gugger, Winterthur, EVP; Beat Huber, Buchs, SVP; Stefanie Huber, Dübendorf, GLP; Ruedi Menzi, Rüti, SVP; Roland Munz, Zurich, SP; Maria RohwederLischer, Männedorf, GP.

Areas of responsibility

Details of the responsibilities of the committee of the board, board of directors, executive board and auditors are laid down in the Law on Zürcher Kantonalbank (§15–§18) and the bank's organisational regulations (§29–§37 and §39).

Information and control instruments
The board of directors and committee of the board are briefed on a regular basis on the course of business and the main activities of the executive board as well as on significant developments. The members of the executive board attend meetings of the board of directors to inform its members on current issues. Joint strategy and planning meetings, as well as a retreat, are also held. All minutes of the meetings of the executive board and business units are submitted to the committee of the board. The other members of the board of directors have the right to inspect the minutes or to request additional information at any time. At least once every quarter, the board of directors receives a detailed briefing on the course of business, risk development in key risk categories for the bank (including compliance risks), as well as on the status of important projects. The monitoring of reputation risk is also included. A report produced by the legal, tax and compliance unit is also submitted to the board of directors and executive board every year. The money laundering unit also reports to this organisational unit. Moreover, Zürcher Kantonalbank has an Audit unit that reports directly to the board of directors and is independent of the executive board. The Audit unit assists the board of directors and committee of the board in fulfilling their supervisory and control tasks, and has unlimited rights of inspection and information within the bank. It reports to the audit committee and the committee of the board, and as required but at least once per year to the board of directors.

Executive board
The organisational structure is laid down in the regulations regarding the executive board (group and parent company) of 23 June 2011. The executive board is responsible for those joint functions laid down by law and §8–§10 of the ExB regulations. Under §11, the chief executive officer is entrusted with the following tasks: managing the executive board, implementing the group mission statement and group strategy, organisation and management guidelines, as well as representing the executive board outside the bank, coordinating the business activities of the executive board, and ensuring that the duties assigned by the board of directors and the committee of the board are carried out. The chief executive officer reports to the committee of the board/board of directors. He has a right of veto on bank policy and strategic matters. Subject to the responsibilities of the board of directors and the committee of the board, the individual members of the executive board report to the CEO.

Members of the executive board
All members of the executive board are Swiss nationals. Their names, the year in which they were born, position and the year they were appointed are shown on pages 46 to 49. On 1 January 2014 Roger Müller became chief risk officer and therefore the successor to Bruno Meier, who retired on 31 January 2014. Philipp Halbherr retired on 31 March 2014, while Stephanino Isele took over as head of Institutionals & Multinationals. Daniel Previdoli became head of Products, Services & Direct Banking on 1 October 2014, while Markus Bachofen Rösner will be responsible for strategic mandates until his retirement on 30 June 2015. Compensation, profit-sharing and loans are listed on pages 51 to 59 of the compensation report.

Management contracts

No management contracts as defined in annex 4.3 of the SIX Corporate Governance Directive have been concluded by the group and its subsidiaries with any third parties.

Communication policy

Zürcher Kantonalbank pursues a transparent communication policy vis-à-vis the various stakeholder groups. The most important communication tools are the comprehensive annual report, sustainability report, half-yearly report and press conferences. The 2014 annual results were announced on 6 February 2015, and the annual report is to be discussed in the cantonal parliament on 27 April 2015. The bank's half-yearly results are expected to be published at the end of August 2015.

Public service mandate

As part of the strategy process, the board of directors, committee of the board and executive board deal on a regular basis with the subject of the public service mandate and ensure that the statutory parameters and strategically defined targets are met. The committee of the board is assigned special responsibility for control and monitoring (§9 and §10 of the guidelines for the fulfilment of the public service mandate). The central body is the internal specialist committee for the public service mandate, which is managed by the head of Corporate Responsibility. It advises and supports the bank's governing bodies and business units on all aspects of the public service mandate and reports annually on the fulfilment of the mandate to the supervisory committee of the cantonal parliament. All business units are represented on the steering committee for the public service mandate by a manager with responsibility for the relevant area. The specialist area of the public service mandate is part of Corporate Development. It coordinates the planning, implementation and reporting of the public service mandate and all associated activities, as well as preparing the business of the steering committee for the public service mandate. Various specialist areas within the individual business units assist with the achievement of objectives. The supervisory committee of the cantonal parliament of Zurich on commercial undertakings monitors the fulfilment of the public service mandate in accordance with §12 of the Law on Zürcher Kantonalbank. This is primarily based on the annual report (including the sustainability report), which at the same time provides an account of how the public service mandate is being fulfilled.

Committee of the board

Jörg Müller-Ganz

Dr. oec. University of St. Gallen; Swiss/German national; born 1961
Chairman; member of FDP
Main appointments: Chairman of management committee/employer representative of Zürcher Kantonalbank pension fund, Zurich; chairman of board of trustees/employer representative of Zürcher Kantonalbank's Marienburg foundation, Zurich; member of board of trustees of Zurich Zoo, Zurich; member of board of trustees of ETH Foundation, Zurich; member of board of directors of Technopark Immobilien AG, Zurich; member of board of directors of Opo Oeschger AG, Kloten

Jörg Müller-Ganz, who holds a doctorate in economics from the University of St. Gallen, was appointed to the board of directors in 2007. He joined the committee of the board in October 2010. From 1992 to 2010 he was consultant, CEO and partner at the Helbling Group. He also lectured on the subject of corporate finance at various universities. Prior to that, he worked at Bank Vontobel and Credit Suisse. Jörg Müller-Ganz chairs the management committee of the pension fund, the Marienburg foundation and is a member of the IT committee. He is a member of the board of directors of Opo Oeschger AG, Kloten.

János Blum

Dr. sc. math. ETH Zurich and lic. oec. University of St. Gallen; Swiss/Hungarian national; born 1957
Deputy chairman; member of SP
Main appointments: Chairman of Zürcher Kantonalbank's Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3, Zurich; member of board of trustees of Center for Corporate Responsibility and Sustainability at University of Zurich, Zurich; member of board of trustees of Chance, Zurich; shareholder of Blum Real GmbH, Hungary

A mathematician (Dr. sc. math. ETH) and economist (lic. oec. University of St. Gallen), János Blum was elected to the board of directors in 2002 and to the committee of the board in 2011. From 1989 until 2011, he worked as an actuarial mathematician. Following various roles with Swiss Re, he was appointed chief actuary at Zurich Re then at Allianz Risk Transfer. He went on to work for Milliman AG and as partner for Prime Re Solutions AG, which specialises in business consulting in the insurance and finance sectors. János Blum is chairman of the board of trustees of Zürcher Kantonalbank's Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3 and a member of the risk management committee, which he chaired from 2003 until 2011. János Blum is shareholder of Blum Real GmbH, Hungary.

Bruno Dobler

Executive MBA University of St. Gallen; Swiss national; born 1952
Deputy chairman; member of SVP
Main appointments: Deputy chairman of board of trustees of SanArena, Zurich; member of board of trustees of Excellence Foundation, Zurich; member of advisory board of University of Zurich, Department of Economics, Zurich; member of board of directors of B+D Beteiligungen, Eglisau; member of Aviation Experts Group

Bruno Dobler (Executive MBA University of St. Gallen) was elected to the committee of the board in 2011. After completing his banking apprenticeship and before studying to become an airline pilot, Bruno Dobler trained with the then Union Bank of Switzerland for five years. In 1979 and 1985 he set up two airlines, which he managed as chairman and CEO. From 2006 to 2008, he was CEO of Helvetic Airways and from 2008 to 2011 of Toggenburg Bergbahnen AG. From 1995 to 2003 he was a member of the cantonal parliament. Bruno Dobler is a member of the compensation & personnel committee of Zürcher Kantonalbank. He is a member of the board of directors of B+D Beteiligungen, Eglisau, a member of Aviation Experts Group and a member of the advisory board of the University of Zurich, Department of Economics, Zurich.

Board of directors

Thomas Heilmann

llic. rer. pol.; University of Basel, Swiss national; born 1949
Member of board of directors; member of GP
Wesentliche Mandate: Member of management committee/employer representative of Zürcher Kantonalbank's pension fund, Zurich; member of board of trustees/employer representative of Zürcher Kantonalbank's Marienburg foundation, Zurich; member of board of directors of Buchhandlung Hottingerplatz AG, Zurich

Economist Thomas Heilmann is the CEO and a founding member of Zurich publishing house Rotpunktverlag in Zurich. He previously played a major role in the creation of Alternative Bank ABS in Olten, of which he was also chairman. Thomas Heilmann has been a member of the board of directors since 2003 and a member of the management committee of Zürcher Kantonalbank's pension fund since 2013. He is also a trustee of Zürcher Kantonalbank's Marienburg foundation and chairs the audit committee.

René Huber

Swiss certified banking expert; Swiss national; born 1956
Member of board of directors; member of SVP
Wesentliche Mandate: Mayor of Kloten political municipality; chairman of the board of directors of the Glatt Valley transport authority (Verkehrsbetriebe Glatttal AG), Glattbrugg

René Huber has been a member of the board of directors since 1 November 2014, when he succeeded Alfred Binder. He has been mayor of the political municipality of Kloten since 2006, and chairman of the board of directors of the Glatt Valley transport authority (Verkehrsbetriebe Glatttal AG), Glattbrugg, since 2011. Until October 2014, he was a senior private clients adviser at UBS AG in Kloten. Prior to that, he served in various roles at UBS AG. He is a member of the audit committee of Zürcher Kantonalbank.

Hans Kaufmann

lic. oec. publ. University of Zurich; Swiss national; born 1948
Member of board of directors; member of SVP
Wesentliche Mandate: Chairman of board of directors of Kaufmann Research AG, Wettswil

Hans Kaufmann joined the board of directors in 2011. From 1999 to May 2014 he was a national councillor for the SVP in the canton of Zurich. He is a member of the party leadership of the SVP Zurich. He began his professional career as a financial analyst with Zürcher Kantonalbank. In 1980 he moved to the private bank Julius Bär, where he was initially head of equity research and later chief economist for Switzerland. In 1999, Hans Kaufmann became a self-employed business consultant. He is a substitute member of the management committee of Zürcher Kantonalbank's pension fund and employer representative, a member of the audit committee and a member of the risk management committee.

Mark Roth

Swiss certified accountant; Swiss national; born 1974
Member of board of directors; member of SP
Main appointments: Member of board of directors of Budliger Treuhand AG, Zurich; member of board of directors of Treuhandgesellschaft Hebeisen Kälin AG, Zurich

Mark Roth has been a member of the board of directors since 2013. He has been a member of the board of directors of Budliger Treuhand AG, Zurich, and a member of the board of directors of Treuhandgesellschaft Hebeisen Kälin AG, Zurich, since 2014. From 2011 to 2014, he was a member of the executive board and treasurer of SP City of Zurich. He has been a member of the management board and head of auditing at Budliger Treuhand AG in Zurich since 2009. He had previously worked for Itema (Switzerland) Ltd. in Rüti and was stationed in Zurich and Amman, Jordan, with Ernst & Young, Zurich. He is a member of Zürcher Kantonalbank's audit committee and of its IT committee.

Peter Ruff

dipl. Ing. FH; Swiss national; born 1956
Member of board of directors; member of SVP
Main appointments Chairman of board of trustees of Grüningen Botanical Garden, Grüningen; member of board of directors of Exploris AG, Zurich; shareholder of Unimex GmbH, Zug; member of board of directors of Ruf Gruppe, Schlieren

Peter Ruff joined the board of directors in 2011. Having trained as an engineer, he has been the owner and CEO of Exploris AG – which specialises in diagnostic solutions and data analysis in the healthcare industry – since 2002. He is also a member of the board of directors and co-owner of Ruf Group, an information technology business that he helped set up. He has been a substitute member of the management committee of the pension fund of Zürcher Kantonalbank / employer representative since 2013. Peter Ruff chairs the compensation & personnel committee of Zürcher Kantonalbank.

Anita Sigg

lic. oec. publ. University of Zurich; Swiss national; born 1966
Member of board of directors; member of GLP
Main appointments: Member of awards committee of Sustainable Harvest Switzerland, Zurich; member of board of trustees of Ökopolis foundation, Zurich

Anita Sigg has been a member of the board of directors since 2011. Since 2003, she has been a lecturer and project manager, and is currently head at the Centre for Banking and Finance at Zurich University of Applied Sciences in Winterthur. An economist, she is also a trustee of the Ökopolis foundation. She previously held various senior roles with Zürcher Kantonalbank at the Corporate Centre and in market control. Anita Sigg is a member of the risk management committee and of the compensation & personnel committee of Zürcher Kantonalbank.

Hans Sigg

Prof. Dr. oec.; Schweiz; 1952
Member of board of directors; member of Grüne
Main appointments: Member of board of trustees of Grüningen Botanical Garden, Grüningen

Prof. Hans Sigg has been a member of the board of directors since 2003. He has been teacher of economics at the Kantonale Maturitätsschule für Erwachsene (cantonal high school for adults) since 1980. He has also taught at the Freies Gymnasium Zürich FGZ since 1996. From 1987 to 1995 he was a member of the cantonal parliament. He has been a trustee of Grüningen Botanical Garden since 2003. Hans Sigg is chairman of the IT committee of Zürcher Kantonalbank.

Liliane Waldner

BBA, Swiss national; born 1951
Member of board of directors; member of SP
Main appointments: Chairman of board of trustees of SanArena, Zurich; member of delegates' assembly of Coop Switzerland, Basel; member of management committee/employer representative of Zürcher Kantonalbank's pension fund, Zurich

Liliane Waldner is a self-employed businesswoman and has been a member of the board of directors since 2003. She is also a member of the management committee and investment committee of Zürcher Kantonalbank's pension fund. An economist, she was previously on the board of directors of Elektrizitätswerke des Kantons Zürich (cantonal power generation company). From 1986 to 2003 she was a member of the cantonal parliament. Liliane Waldner is chairman of the SanArena foundation. She is a member of the audit committee of Zürcher Kantonalbank.

Rolf Walther

BBA; Swiss national; born 1951
Member of board of directors; member of FDP
Main appointments: Chairman of board of directors and CEO of Walther Beratungen AG, Zurich; member of board of trustees of Wildnispark, Zurich

Rolf Walther, an economist and self-employed businessman, was elected to the board of directors in 2010. Prior to becoming an entrepreneur, he held various positions with UBS over a period of 29 years. From 2003 to 2010 he was a member of the cantonal parliament. He is chairman of the Herrenbergli Residential Home and Care Centre for the Elderly Cooperative. He is a member of the board of trustees of Wildnispark Zurich and chairman of Zürcher Kantonalbank's risk management committee.

Stefan Wirth

dipl. Ing. ETH/BWI; Swiss national; 1961
Member of board of directors; member of CVP
Main appointments: None

Stefan Wirth has been a member of the board of directors since 2011. A mechanical engineer and business administrator, he headed up software development at Credit Suisse Asset Management until 2003. He is an independent IT and organisational consultant, and implements projects for various banks in his role as project manager and business engineer. Stefan Wirth is a member of the IT committee as well as the compensation & personnel committee of Zürcher Kantonalbank.

Audit

Walter Seif

Swiss certified accountant, BBA; Swiss/UK national; born 1962
Head of Audit
Main appointments: Chairman of the Internal Audit Association of the Swiss Cantonal Banks; member of the board of the Institute of Internal Auditing Switzerland (IIAS)

Walter Seif took over as chief inspector/head of Audit (internal auditing) on 1 January 2015 . He joined Zürcher Kantonalbank on 1 April 2014. He previously worked in various internal audit roles at Credit Suisse over a period of 23 years, eight of which were spent in London.

Executive board

Martin Scholl

Swiss certified banking expert; Swiss national; born 1961
Chief executive officer (CEO)
Main appointments: Member of board of directors of Swiss Bankers Association, Basel; member of board of directors of Association of Swiss Cantonal Banks, Basel; member of board of economiesuisse, Zurich

Martin Scholl became chief executive officer in 2007. He has been a member of the executive board since 2002. Martin Scholl was head of Corporate Banking until 2005, before being appointed head of Retail Banking in 2006. After completing his apprenticeship in banking at Zürcher Kantonalbank, he was employed in various roles. In 2001 he led the credit management department, and from 1996 to 2001 was head of distribution for business and corporate customers. Martin Scholl is a member of the board of directors of the Swiss Bankers Association; deputy chairman of the Association of Swiss Cantonal Banks, Basel; member of the board of Zürcher Volkswirtschaftliche Gesellschaft, Zurich; member of the board of economiesuisse, Zurich; member of the board of directors of Venture Incubator AG, Zug; member of the board of trustees of the FCZ Museum foundation, Zurich.

Christoph Weber

Swiss certified banking expert; Swiss national; born 1959
Head of Private Banking, deputy CEO
Main appointments: Chairman of the supervisory board of Zürcher Kantonalbank Österreich AG, Salzburg

Christoph Weber was appointed head of Private Banking and a member of the executive board in 2008. Prior to that he was Head of Private Banking North and a member of the executive board at Banca del Gottardo. From 2000 to 2006, Christoph Weber was a member of the executive board of AAM Privatbank AG, where he was head of sales to institutional and private customers, and a member of the management of Basellandschaftliche Kantonalbank (BLKB). Christoph Weber is chairman of the supervisory board of Zürcher Kantonalbank Österreich AG, Salzburg.

Markus Bachofen Rösner

Degree in business economics KSZ; Swiss/French national; born 1955
Head of Mandates
Main appointments: Member of board of directors of Aduno Holding AG, Zurich; chairman of board of directors of Balfidor Holding AG, Basel; member of board of directors of Swisscanto Holding AG, Berne

Markus Bachofen Rösner has held responsibility for the bank's key mandates since October 2014 and has been a member of the executive board since 2008. He previously headed the Products & Services business unit for six years. Prior to that, the finance expert worked as a senior consultant and management trainer at the Banking Advisory Centre (BBZ) in St. Gallen and held various key positions both in Switzerland and abroad, primarily at group companies of UBS and the former Swiss Bank Corporation. He is deputy chairman of the board of trustees/employee representative committee of Zürcher Kantonalbank's Marienburg Foundation, Zurich; member of the board of directors of Aduno Holding AG, Zurich; member of the management committee/employer representative of the Zürcher Kantonalbank pension fund, Zurich; deputy chairman of the Zürcher Kantonalbank Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3 foundations for vested pension capital and savings respectively, both Zurich; chairman of the board of directors of Balfidor Holding AG and Balfidor Fondsleitung AG, Basel; member of the board of directors of Swisscanto Holding AG, Berne.

Jürg Bühlmann

Dr. oec. publ.; Swiss national; born 1967
Head of Logistics
Main appointments: None

Jürg Bühlmann was appointed head of Logistics and a member of the executive board in 2012. Jürg Bühlmann studied business management at the University of Zurich, where he gained a doctorate. His initial role with Zürcher Kantonalbank was in Controlling. In 2002 he moved to the Logistics/IT unit. In the years that followed, he headed up strategic IT projects and managed a sub-area of IT. Jürg Bühlmann has also been head of the Real Estate unit, which is part of Logistics, since 2011.

Stephanino Isele

Dr. oec. publ.; Swiss national; born 1962
Head of Institutionals & Multinationals
Main appointments: Member of regulatory board of SIX Swiss Exchange AG, Zurich; member of board of trustees of Swiss Finance Institute, Zurich

Stephanino Isele took on the role of head of Institutionals & Multinationals on 1 April 2014 from Philipp Halbherr, who retired on 1 May 2014. Stephanino Isele joined Zürcher Kantonalbank in 2008 as head of Trading, Sales & Capital Markets. He previously held various national and international roles at J.P. Morgan & Co. and at Morgan Stanley in London, latterly as COO, for equity derivatives. He is a member of the regulatory board of SIX Swiss Exchange AG, Zurich, and a member of the board of trustees of the Swiss Finance Institute, Zurich

Heinz Kunz

Swiss certified banking expert; Swiss national; born 1961
Head of Corporate Banking
Main appointments: Member of board of directors of Bülach Hospital, Bülach; member of board of trustees of Berufslehr-Verbund (BVZ), Zurich; member of board of directors of Deposit Protection of Banks and Securities Dealers association, Basel

Heinz Kunz became head of Corporate Banking at the end of 2010. He was previously deputy head of the unit, where he was responsible for key account management for corporate customers. Following the completion of his banking traineeship, Heinz Kunz held various roles with Zürcher Kantonalbank. They included head of Corporate Banking for the Unterland region, and from 2001 head of Sales for Business and Corporate Customers. Heinz Kunz represents the Association of Swiss Cantonal Banks (ASCB) on the Swiss Bankers Association committee for Swiss customer business and is a member of the board of directors of the Deposit Protection of Banks and Securities Dealers association, Basel; member of the board of directors of the Bülach hospital association (joint board), Bülach; chairman of the board of directors of Gasthof Gyrenbad AG, Turbenthal; member of the board of trustees of the Berufslehr-Verbund (BVZ), Zurich.

Roger Müller

Swiss certified banking expert; Swiss national; born 1962
Chief risk officer (CRO)
Main appointments: None

Roger Müller became chief risk officer on 1 January 2014. From 2008 until his appointment as a member of the executive board, he was head of the Credit Office and deputy chief risk officer. He has held a wide variety of roles within the bank since 1978. Focal points have included commercial lending and corporate banking. From 2000, he headed up credit office analysis for corporate clients.

Daniel Previdoli

lic. rer. pol.; Swiss national; born 1962
Head of Products, Services & Direct Banking
Main appointments: Member of board of directors of Homegate AG, Zurich; deputy chairman of Greater Zurich Area Foundation Board, Zurich

Daniel Previdoli became Head of Products, Services & Direct Banking on 1 October 2014. He has been a member of the executive board since December 2007 and was head of Retail Banking for seven years. Prior to that he spent 11 years with UBS, where he was head of Recovery Management Primaries between 1996 and 2002 before being appointed head of Retail and Corporate Banking for the Zurich region. From 1987 until 1996 Daniel Previdoli served at Credit Suisse, where he held various positions both in Switzerland and abroad. Daniel Previdoli is a member of the board of directors of Homegate AG, Zurich and deputy chairman of Greater Zurich Area Foundation Board, Zurich.

Rudolf Sigg

Swiss certified banking expert; Swiss certified federal accountant and controller; Swiss national; born 1961
Chief financial officer (CFO)
Main appointments: Member of board of directors of Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich

Rudolf Sigg was appointed chief financial officer and a member of the executive board in November 2008. He had been head of Controlling & Accounting since 2007. Prior to that, Rudolf Sigg had overall responsibility for Controlling – which was integrated into Central Risk Controlling in 2000 – over a period of 12 years. Rudolf Sigg has been with Zürcher Kantonalbank since 1977. He is a member of the board of directors of the Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich.

Financial Report

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About the figures:
The amounts stated in this report have been rounded. The total may therefore vary from the sum of the individual values.

The following rules apply to the tables:

0	(0 or 0.0) Figure is smaller than half the unit of account used
–	Figure not available or not meaningful
blank	No data available

Comments on the group financial statements

Group net income

Zürcher Kantonalbank achieved a group net income of CHF 647 million in 2014 (2013: CHF 797 million), 19 percent lower than in the previous financial year. All income streams showed a decline in 2014, while in the previous year group net income had been buoyed by one-time factors.

Distribution of profit

The board of directors has set a distribution ratio of 45 percent for 2014, in line with the long-term average. Accordingly, the canton of Zurich and its political municipalities will receive the sum of CHF 246 million (2013: CHF 330 million). In addition, the cost on the endowment capital is paid to the canton at cost; this represents a further CHF 34 million (2013: CHF 39 million). This brings the estimated total profit distribution to CHF 280 million (2013: CHF 369 million).

Triple-A rating confirmed

Zürcher Kantonalbank is one of the few banks in the world and the only Swiss bank to retain a top rating from ratings agencies Fitch, Standard & Poor's and Moody's (AAA or Aaa). The key factors behind this excellent assessment are: Zürcher Kantonalbank's strong position in the Greater Zurich area, its solid capitalisation, broad diversification and operating stability, as well as the state guarantee from the canton of Zurich.

Amended Law on Zürcher Kantonalbank

By passing the amended Law on Zürcher Kantonalbank on 26 May 2014, the cantonal parliament of Zurich confirmed the bank's strategic orientation. It also endorsed Zürcher Kantonalbank's business model as a full-service bank. In addition, the option of issuing participation certificates was struck from the law. In mid-April 2014, the cantonal parliament decided to increase the endowment capital ceiling by CHF 500 million to CHF 3.0 billion.

Very solid equity base

Zürcher Kantonalbank had a total capital ratio of 16.6 percent at the end of 2014. Eligible equity was strengthened in 2014 compared with the previous year thanks to retained earnings, while required capital increased only modestly. This improved the total capital ratio by 0.4 percentage points.

In November 2013, the Swiss National Bank (SNB) declared Zürcher Kantonalbank to be systemically important. As a result, the bank's capital adequacy requirements increased significantly according to the decree issued by the Swiss Financial Market Supervisory Authority (FINMA) on 29 August 2014. The required minimum risk-weighted capital ratio amounts to 14 percent from the end of 2014. Due to the countercyclical capital buffer, this requirement increased by an additional 0.7 percentage points. Thus the required total capital ratio for Zürcher Kantonalbank amounted to 14.7 percent as at 31 December 2014. This corresponds to a tightening of 1.3 percentage points compared with the previous year (requirement at end-2013: 13.4 percent).

By increasing the endowment capital ceiling by CHF 500 million, the cantonal parliament put the authority and responsibility for a further strengthening of equity in the hands of the board of directors. Together with the still unused portion of CHF 575 million, this gives a capital buffer of CHF 1,075 million and enables the bank to raise its core capital ratio by around 1.8 percentage points if required.

Participations and cooperation agreements

In April 2014, Zürcher Kantonalbank decided to outsource its payment transactions to Swisscom from mid-2016. Swisscom will provide the bank with cost-efficient processing of payment transactions in line with future European standards. Effective 30 September 2014, Zürcher Kantonalbank sold its majority interest in Adamant Biomedical Investment AG to Bellevue Group.

Swisscanto

On 11 December 2014, Zürcher Kantonalbank announced its acquisition of the Swisscanto Group. The existing shareholders will be paid a fixed purchase price of CHF 360.3 million (see "Irrevocable commitments", p. 95) for the acquisition of the 81.9 percent of the shares not yet owned by the bank. In the 2016 to 2018 period, the sellers may also receive a variable share of the purchase price. This is primarily dependent on the contribution to business performance made by the individual sellers. The transaction is likely to be completed in the first quarter of 2015, once all approvals have been granted by the Swiss and foreign authorities. The Swisscanto group will be included in Zürcher Kantonalbank's consolidated income statement from the date on which the shares are transferred.

Key financial targets

The return on equity in the year under review was 7.2 percent (2013: 9.2 percent; 2012: 9.0 percent). The cost/income ratio (operating expenses and depreciation on fixed assets as a percentage of operating income) amounted to 66.8 percent (2013: 62.7 percent; 2012: 64.4 percent).

Assets under management

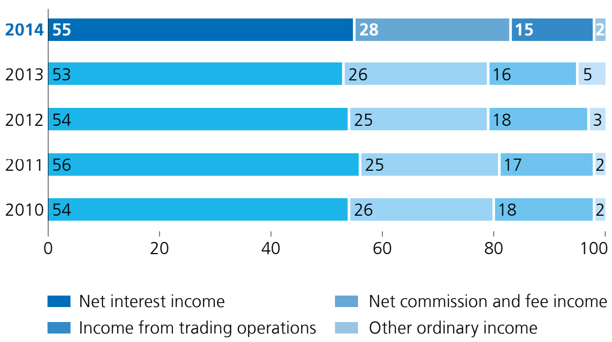
At the end of 2014, Zürcher Kantonalbank had CHF 199.1 billion in assets under management (end of 2013: CHF 192.1 billion; end of 2012: CHF 191.8 billion). The increase of CHF 7.0 billion stemmed from a net outflow of CHF 2.3 billion and a performance element of CHF 9.3 billion.

Comments on the income statement

Operating income well supported

Total operating income amounted to CHF 1,935 million in the year under review (2013: CHF 2,118 million), with all income streams showing a decrease. The structure of operating income was virtually unchanged. This mainly comprised interest income (55 percent), commission and fees (28 percent) and income from trading operations (15 percent), and is therefore broad-based. The acquisition of Swisscanto will further strengthen diversification in future.

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



Interest operations under pressure

Interest operations continued to come under heavy pressure due to the persistently low level of interest rates. In particular, the margin on the bank's deposit-taking business was unsatisfactory for the bank. Zürcher Kantonalbank nevertheless succeeded in generating a respectable result of CHF 1,070 million. Compared with the previous year's result of CHF 1,117 million, net interest income was down 4 percent.

Commission income slightly lower

With commission and fees of CHF 531 million (2013: CHF 551 million), the result was 4 percent below the record result of the previous year. The main reductions in income were recorded in stock-exchange commission (brokerage fees) and income from fund business (precious metals ETF).

Decline in trading operations

The trading activities of Zürcher Kantonalbank are based on a clear customer focus. Accordingly, income from trading operations was characterised by significant restraint on the part of investors. Income from trading operations nonetheless amounted to CHF 287 million in the year under review (2013: CHF 340 million). Market risks in the trading book (value-at-risk with a 10-day holding period) remained low at an average level of CHF 13 million (2013: CHF 16 million). Income from trading operations consisted of trading in foreign exchange, banknotes and precious metals (CHF 147 million), trading in bonds, interest rate and credit derivatives (CHF 41 million), trading in equities and structured products (CHF 67 million) and other trading income (CHF 32 million). In particular, the latter includes income from securities lending and borrowing transactions.

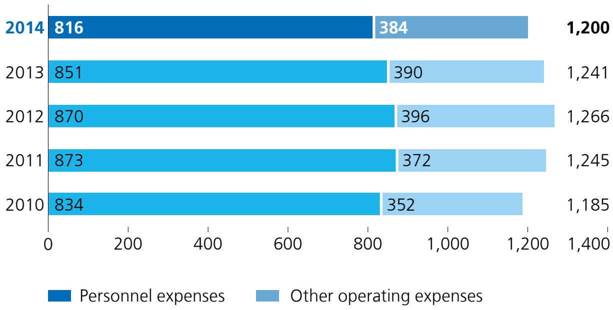
Other ordinary income

Other ordinary income amounted to CHF 47 million in the year under review (2013: CHF 109 million). In the previous year, a significant portion was attributable to the sale of the shareholding in Ascom Holding AG.

Lower operating expenses

Thanks to systematic cost discipline and the measures taken by the bank to make product and service delivery, sales, as well as processing, simpler and more efficient, operating expenses were reduced by 3 percent compared with the previous year. The operating expenses item comprises personnel and other operating expenses. Personnel expenses amounted to CHF 816 million (2013: CHF 851 million). The 4 percent reduction is essentially due to performance-related salary components. Savings of CHF 6 million were made in relation to other operating expenses compared with the previous year; other operating expenses consequently amounted to CHF 384 million in 2014. Personnel and other operating expenses are shown in greater detail in Notes 5.2 and 5.3 (p. 99).

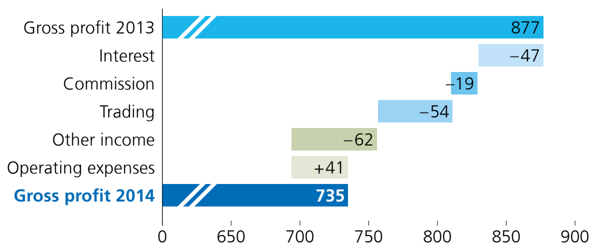
Fig. 2: Five-year comparison of operating expenses *(in CHF million)*



Lower gross profit

Gross profit amounted to CHF 735 million (2013: CHF 877 million) in the year under review. The positive effect of lower operating expenses only partly offset the decline in income. The sharp fall in other ordinary income was attributable to a one-time effect in the previous year (sale of financial investments).

Fig. 3: Development of gross profit *(in CHF million)*



Depreciation and amortisation

Depreciation and amortisation of fixed assets amounted to CHF 93 million (2013: CHF 87 million). The increase versus the previous year was mainly due to higher depreciation on bank premises in connection with the refurbishment of the head office.

Significantly lower expenses for allowances and provisions

Zürcher Kantonalbank assesses default risks as well as all other identifiable risks on a constant basis, where necessary creating corresponding allowances and provisions. Expenses for allowances, provisions and losses amounted to CHF 60 million and were markedly lower than in the previous year (2013: CHF 210 million).

Extraordinary income

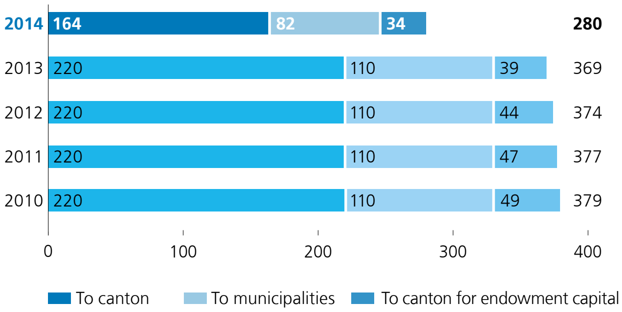
Extraordinary income amounted to CHF 65 million in 2014 (2013: CHF 218 million). The figure for the previous year included a large gain from the sale of property. A detailed statement is provided in Note 5.4 (p. 100).

Profit distribution by parent company

The parent company's allocation to reserves for general banking risks (2014: CHF 232 million) is stated under extraordinary expenses as anticipated profit. In the group financial statements, this amount is included in group net income. Following this allocation, the parent company's profit amounted to CHF 396 million (2013: CHF 508 million). The proposed distribution of profit provides for an allocation to general statutory reserves of CHF 116 million (2013: CHF 140 million). The Law on Zürcher Kantonalbank of 28 September 1997, version dated 1 January 2015, requires not only the canton but also the municipalities to benefit from the bank's annual profit. They receive one third of the profit that remains after the payment of capital costs on the endowment capital and allocations to reserves. Details of the estimated profit distribution are set out in tabular form in the parent company's financial statements (p. 135).

The canton provides Zürcher Kantonalbank's endowment capital on a perpetual basis in the form of equity. This is compensated at cost (market rates; average rate in 2014: 1.76 percent) and is an element of the profit distribution. In the year under review, the endowment capital was accordingly compensated with CHF 34 million (2013: CHF 39 million). In addition, a further CHF 164 million (2013: CHF 220 million) is being distributed to the canton of Zurich. Zurich's municipalities receive CHF 82 million (2013: CHF 110 million). The canton of Zurich therefore receives around CHF 137 and each of the municipalities around CHF 57 per resident.

Fig. 4: Distribution to canton and municipalities *(in CHF million)*



The board of directors has set a distribution ratio of 45 percent for 2014, in line with the long-term average. The public sector benefits directly from the profit distribution. Zürcher Kantonalbank has awarded the canton of Zurich and its municipalities a total of CHF 4.3 billion for financial years 2000 to 2014. The canton – as the sole owner of Zürcher Kantonalbank – additionally benefits from the growth in the bank's value through profit retention. The retention of earnings has strengthened the bank's equity base by CHF 5.5 billion over this 15-year period.

Fig. 5: Overview of profit retained and distributed by parent company *(in CHF million)*

in CHF million	2014	2013	2000–2012	Total	in %
Annual profit [1]	628	788	8,347	9,763	100
Profit distribution [2]	280	369	3,635	4,284	44
Profit retained [3]	348	419	4,713	5,479	56

[1] Before allocation to reserves for general banking risks.
[2] Distribution is in each case made in the subsequent year.
[3] Consists of allocation to reserves for general banking risks and statutory reserves, plus change in profit carried forward.

Comments on the balance sheet

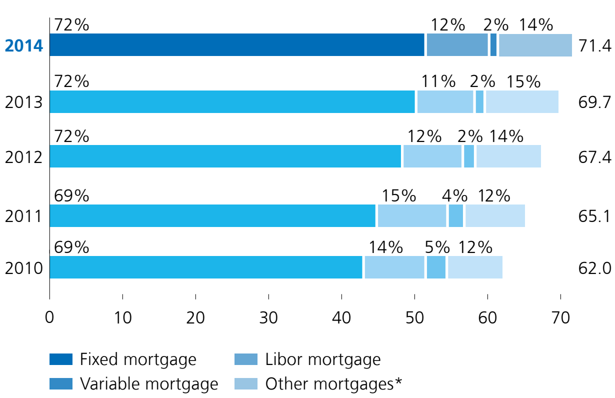
Growth in balance sheet

Total assets increased by CHF 8.7 billion, or 6 percent, and amounted to CHF 158.4 billion as at 31 December 2014. The growth in the balance sheet was primarily attributable on both the asset and liability side to higher amounts in relation to customers and banks as well as higher replacement values of derivative instruments. Both funds due to customers and loans to customers account for more than half the total balance sheet, with mortgages representing the main element of loans to customers.

Moderate growth in total volume of mortgages

The total volume of mortgages amounted to CHF 71.4 billion at the end of 2014. At CHF 1.7 billion, growth weakened slightly versus the previous year (CHF 2.3 billion). Loan quality remains Zürcher Kantonalbank's top priority. Therefore, in view of the latent risk of changes in interest rates, the bank continues to calculate the customer's ability to afford a property on the basis of a theoretical mortgage interest rate of 5 percent. Given the interest-rate environment, customers predominantly favoured mortgages with a fixed term and fixed interest rate – as in the previous year.

Fig. 6: Mix and volume of mortgages *(in CHF billion)*



* mainly starter mortgages and fixed advances secured by real estate

Loans to customers consist of mortgages as well as funds due from customers. At a total of CHF 15.0 billion at the end of 2014, funds due from customers rose significantly compared with the previous year (CHF 4.3 billion). Most of the increase was recorded in repo transactions.

Inflow of funds due to customers

Funds due to customers comprise savings and investment accounts, other amounts due to customers, cash bonds, bonds and central mortgage institution loans. These items increased by CHF 1.9 billion year-on-year to CHF 97.8 billion at the end of 2014.

Traditional savings and investment accounts remained popular in the year under review. Here Zürcher Kantonalbank attracted additional funds of CHF 1.6 billion, giving a total of CHF 45.6 billion at the end of 2014. Other amounts due to customers amounted to CHF 37.0 billion (2013: CHF 37.1 billion). There was a decline in the total volume of cash bonds of CHF 0.1 billion to CHF 0.4 billion, while the high volume of maturing bond issues was entirely replaced. At CHF 7.8 billion at the end of 2014, they were only CHF 0.3 billion lower than in the previous year. Long-term refinancing with central mortgage bond institution loans was expanded further. Besides the replacement of maturing issues, the total was increased by CHF 0.8 billion to CHF 7.0 billion. Average interest rates on long-term forms of financing were as follows: cash bonds 1.35 percent (2013: 1.49 percent), bonds 1.68 percent (2013: 1.67 percent) and central mortgage institution loans 1.12 percent (2013: 1.38 percent).

Liquidity and financial investments

Cash consisted mainly of deposits with the Swiss National Bank and totalled CHF 27.1 billion at the end of the reporting year (2013: CHF 29.5 billion). These deposits serve to meet Zürcher Kantonalbank's particularly high liquidity rules as a systemically important bank. Zürcher Kantonalbank's financial investments also include fixed-interest securities, which are likewise used for statutorily prescribed liquidity maintenance.

These amounted to CHF 4.0 billion at the end of December 2014 (total at end 2013: CHF 3.8 billion), with 94 percent of them exhibiting a rating of AA or higher.

Interbank market

Funds due from banks amounted to CHF 16.3 billion (total at end 2013: CHF 14.6 billion). Zürcher Kantonalbank's interbank receivables are mainly secured with securities or cash. Liabilities increased by CHF 2.1 billion to CHF 33.9 billion. They are used mainly for short and medium-term liquidity procurement.

Trading portfolios, derivative instruments

The trading portfolio of securities and precious metals reached CHF 11.4 billion as at 31 December 2014 (2013: CHF 13.3 billion), of which CHF 2.3 billion (2013: CHF 1.9 billion) comprised precious metals. In accordance with accounting regulations, derivative instruments were stated at replacement value under other assets or liabilities. Positive replacement values of CHF 11.5 billion (2013: CHF 6.5 billion) were stated in the other assets item, and negative replacement values of CHF 15.8 billion (2013: CHF 11.4 billion) in other liabilities. After netting agreements, claims and liabilities amounted to CHF 4.5 billion (2013: CHF 2.2 billion) and CHF 8.9 billion (2013: CHF 7.1 billion) respectively. Short positions in securities amounting to CHF 2.7 billion (2013: CHF 4.1 billion) were stated in funds due to banks.

Participations, tangible fixed and intangible assets

At CHF 0.2 billion as at 31 December 2014, the value of non-consolidated participations was unchanged compared with the previous year. Investments of CHF 8 million and disposals with book values of CHF 8 million were carried out in the year under review. Significant non-consolidated participations, including the share of capital and voting rights, are disclosed in Note 3.3.2 (p. 82). Tangible fixed assets were unchanged compared with the previous year at CHF 0.7 billion and comprised real estate and other tangible fixed assets. Investments in tangible fixed assets amounted to CHF 131 million. Zürcher Kantonalbank's main project is the refurbishment of its head office in Zurich's Bahnhofstrasse. Around CHF 200 million is being invested in renovation and modernisation between 2012 and 2015. Further information on participations, tangible fixed and intangible assets is contained in the schedule in Note 3.4 (p. 83).

Allowances and provisions

The required level of provisioning and appropriate usage and reversal of provisions more or less balanced each other out, giving an unchanged total of CHF 0.7 billion. The change in the total for each category is shown in Note 3.9 (p. 88).

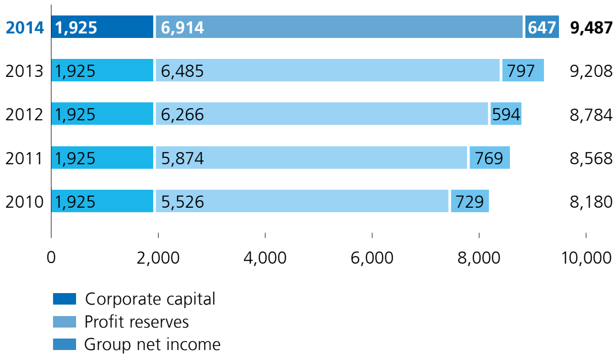
Pension funds

The coverage ratio of the Zürcher Kantonalbank pension fund reached 112.5 percent (audit in accordance with Article 44 BVV2 not yet available at the time of publication) as at the end of the reporting year and was therefore around 4.5 percentage points above its level at the end of the previous year (108 percent). Zürcher Kantonalbank has no liabilities that extend beyond the regulatory benefits. Further information is contained in the accounting and valuation principles (p. 78) and Note 3 (p. 84). The cost of staff pension funds, which is included in personnel expenses, was CHF 94 million in the year under review (2013: CHF 100 million).

Balance sheet net equity

At group level, net equity comprises corporate capital, profit reserves and net income. Thanks to internally generated funds, Zürcher Kantonalbank has increased stated net equity by CHF 1.3 billion over the past five years.

Fig. 7: Composition and development of net equity *(in CHF million)*



The corporate capital consists exclusively of endowment capital and has been unchanged at CHF 1.925 billion since the end of 1994. Profit reserves amounted to CHF 6.9 billion at the end of 2014. Together with the group net income of CHF 647 million, stated net equity before the distribution of profit amounted to CHF 9.5 billion at the end of 2014.

Group income statement

in CHF million	Note	2014	2013	2012	Change 2014/2013 in %
Interest and discount income		1,448	1,490	1,628	–2.8
Interest and dividend income from financial investments		73	72	94	0.7
Interest expense		451	445	568	1.3
Subtotal net interest income		1,070	1,117	1,154	–4.2
Commission income from lending activities		58	60	70	–3.4
Commission income from securities and investment transactions		465	489	467	–5.0
Other commissions and fee income		90	85	87	6.4
Commission expenses		82	83	88	–1.8
Subtotal net commission and fee income		531	551	536	–3.5
Income from trading operations	5.1	287	340	379	–15.7
Income from sale of financial investments		3	56	14	–95.5
Participation income, total group		21	26	15	–17.9
– of which from equity-consolidated participations		10	8	5	20.7
– of which from other non-consolidated participations		11	17	10	–36.3
Real estate income		8	11	10	–24.7
Other ordinary income		18	19	17	–5.7
Other ordinary expenses		3	2	2	54.7
Subtotal other ordinary income		47	109	54	–57.1
Operating income		1,935	2,118	2,122	–8.6
Personnel expenses	5.2	816	851	1,020	–4.1
Other operating expenses	5.3	384	390	396	–1.6
Subtotal operating expenses		1,200	1,241	1,416	–3.3
Gross profit		735	877	706	–16.2
Depreciation and amortisation of fixed assets	3.4	93	87	100	6.4
Allowances, provisions and losses		60	210	46	–71.6
Subtotal		583	580	560	0.5
Extraordinary income	5.4	67	218	33	–69.4
Extraordinary expenses	5.4	1	0		–
Taxes	5.5	0	0	–0	–
Group net income		647	797	594	–18.8

Non-recurring personnel expense in relation to pension fund				150	
Group net income from operations		647	797	744	–18.8

Group balance sheet

before distribution of net profit, as at 31 December

in CHF million	Note	2014	2013	Change	Change in %
Assets					
Cash		27,064	29,530	–2,466	–8.4
Money market placements		5	23	–19	–79.9
Due from banks		16,302	14,612	1,690	11.6
Due from customers	3.1	15,019	10,764	4,255	39.5
Mortgages	3.1	71,389	69,658	1,731	2.5
Loans to customers		86,408	80,421	5,986	7.4
Securities and precious metals trading portfolios	3.2.1	11,394	13,284	–1,890	–14.2
Financial investments	3.2.2	4,027	3,768	258	6.9
Non-consolidated participations	3.2.3, 3.3.2, 3.4	163	161	1	0.8
Tangible fixed assets	3.4	723	698	26	3.7
Intangible assets	3.4	1	5	–4	–73.5
Accrued income and prepaid expenses		303	338	–35	–10.3
Other assets	3.5	12,003	6,866	5,137	74.8
Total assets		158,392	149,707	8,685	5.8
Total subordinated claims		299	309	–9	–3.0
Total due from non-consolidated participations and qualified participants		2,784	2,149	635	29.5
Liabilities					
Due to banks		33,870	31,788	2,082	6.6
Due to customers in savings and investment accounts		45,624	43,992	1,632	3.7
Other amounts due to customers		37,021	37,101	–79	–0.2
Cash bonds	3.8.1	381	460	–79	–17.2
Bonds	3.8.2	7,817	8,104	–287	–3.5
Central mortgage institution loans	3.8.3	6,964	6,212	752	12.1
Funds due to customers		97,808	95,869	1,938	2.0
Accrued expenses and deferred income		265	284	–20	–6.9
Other liabilities	3.5	16,242	11,869	4,372	36.8
Allowances and provisions	3.9	721	688	33	4.8
Corporate capital	3.10	1,925	1,925		
Profit reserves		6,914	6,485	429	6.6
Group net income		647	797	–150	–18.8
Net equity	3.11	9,487	9,208	279	3.0
Total liabilities		158,392	149,707	8,685	5.8
Total subordinated liabilities		588	589	–1	–0.2
Total due to non-consolidated participations and qualified participants		8,382	7,153	1,229	17.2
Off-balance-sheet transactions					
Contingent liabilities	3.1,4.1	3,886	4,727	–841	–17.8
Irrevocable commitments	3.1, 4.1	7,432	6,869	562	8.2
Liabilities for calls on shares and other equities	3.1	147	118	29	24.7
Derivative instruments					
– positive replacement values	4.3.1, 4.3.2	11,501	6,511	4,990	76.6
– negative replacement values	4.3.1, 4.3.2	15,823	11,423	4,399	38.5
– contract volume	4.3.1	534,526	465,217	69,308	14.9
Fiduciary business	4.4	204	484	–281	–57.9

Statement of cash flows

in CHF million	Source of funds 2014	Application of funds 2014	Balance 2014	Source of funds 2013	Application of funds 2013	Balance 2013
Group net income	647			797		
Depreciation and amortisation of fixed assets	93			87		
Income from associated companies (using the equity method)		9			11	
Allowances and provisions	164	92		296	129	
Accrued income and prepaid expenses	35			53		
Accrued expenses and deferred income		20			10	
Allocation to canton and municipalities in previous year		369			374	
Deferred taxes		0			0	
Foreign currency translation effect		0		0		
Cash flow from operating activities	940	490	450	1,234	524	711
Corporate capital						
Cash flow from equity transactions						
Non-consolidated participations/associated companies	9	9		50	6	
Change in scope of consolidation		0				
Tangible fixed assets	26	131		22	122	
Intangible assets	0	2			3	
Cash flow from investment activities	36	142	–106	72	131	–59
Due from customers		4,255		418		
Mortgages		1,731			2,287	
Due to customers in savings and investment accounts	1,632				463	
Other amounts due to customers		79		651		
Cash bonds	88	169		21	201	
Bonds	705	1,005		900	400	
Central mortgage institution loans	1,624	872		1,594	464	
Appropriate usage of reserves for credit risks		38			91	
Cash flow from customer transactions	4,049	8,149	–4,100	3,584	3,907	–323
Due from banks		1,690		2,573		
Due to banks	2,082				25	
Cash flow from bank transactions	2,082	1,690	392	2,573	25	2,548
Securities and precious metals trading portfolios	1,904			1,294		
Financial investments		258			110	
Money market placements	19			14		
Other assets		5,137		2,533		
Other liabilities	4,372				3,130	
Appropriate usage of other provisions		1			5	
Cash flow from other banking operations	6,295	5,396	899	3,841	3,244	596
Cash flow from banking operations	12,427	15,236	–2,809	9,998	7,176	2,822
Cash	2,466		2,466		3,474	–3,474
Total source of funds	15,868			11,304		
Total application of funds		15,868			11,304	

Notes

1. Comments

on business activities and information on headcount

About the bank

Zürcher Kantonalbank is the largest cantonal bank in Switzerland and the country's third biggest bank. It is positioned as a full-service bank with a regional anchoring and its primary focus is on customers in the Greater Zurich area. To a limited extent, the bank also conducts business in the rest of Switzerland and abroad. It is an independent public-law institution of the canton of Zurich and offers its customers the densest branch network in the Greater Zurich area. The corporate (endowment) capital provided by the canton is a component of Zürcher Kantonalbank's equity. Should these resources prove inadequate, the canton additionally provides a guarantee for all the bank's liabilities. The bank's public service mandate requires it to contribute to addressing economic and social issues in the canton of Zurich and to support environmentally sustainable development in the region. In addition, Zürcher Kantonalbank offers the following services via its subsidiaries: fund management activities for collective investment schemes as well as financial accounting and securities bookkeeping (Balfidor Group), asset management in the healthcare sector (Adamant Biomedical Investments AG, interest sold on 30 September 2014), international private banking through onshore services (Zürcher Kantonalbank Österreich AG) and the issuing of structured investment products (Zürcher Kantonalbank Finance (Guernsey) Ltd.). Apart from the business segments described below, Zürich Kantonalbank does not engage in any other activities that could have a material impact on its risk exposure or earnings.

Balance-sheet business

Interest operations are the main source of Zürcher Kantonalbank's income. The bank is firmly anchored in the mortgage business, where its main emphasis is on the financing of residential property in the Greater Zurich area. In the commercial lending business, companies of all sizes consider the bank to be a dependable partner. The acceptance of customer deposits in savings and investment accounts, fixed-term and demand deposits, as well as cash bonds, bonds and central mortgage institution loans, constitutes its most important source of refinancing. In the interbank business, the bank is active mainly on a secured basis.

Commission and fee business

Commission and fee operations mainly include the areas of investment advisory services, asset management and financial planning as well as services involving all aspects of securities management and payment transactions, inheritance matters and tax advice, export financing, documentary credits, as well as security deposits and guarantees. The bank also assists with capital market issues for domestic and foreign issuers of all types, both as lead manager and as syndicate partner.

Trading

The bank primarily trades in securities, foreign exchange, banknotes, precious metals, commodity contracts and financial derivatives on behalf of customers. In the Swiss market, Zürcher Kantonalbank is a leading market-maker and significant issuer of structured products and warrants. The bank also engages in securities lending and borrowing as well as repo transactions.

Risk assessment

The board of directors deals on a regular basis with Zürcher Kantonalbank's risks. Its deliberations are based on quarterly reports concerning credit, market and liquidity risks, compliance risks, operational risks and reputation risks, as well as the risk analysis of the institution as a whole, which is systematically updated on an annual basis, including activity and effectiveness reports on the internal controls system of all business units and functions. The board of directors monitors compliance with the risk profile as well as the risk-policy parameters and limits, and analyses specific events and developments as well as their impact. It also deals with decisions of the committees and sub-committees, new products, changes in the market environment and regulatory developments. The risk management and audit committees support the board of directors in its tasks. For further information on the organisation, processes, methods and risk data, please refer to Note 6. Risk management (page 101).

Outsourcing

Zürcher Kantonalbank outsourced contract initiation for the conclusion of mortgages via an online portal as a "significant service" as defined in FINMA Circular 2008/7 ("Outsourcing by banks") to Homegate AG of Zurich.

Headcount

After adjustment for part-time employees, the bank employed 4,844 people at the end of 2014 (2013: 4,818). This figure includes 51 temporary staff (2013: 23). Of those staff in permanent employment, 1,429 worked on a part-time basis (2013: 1,387). The number of employees after adjustment for part-time staff includes 351 trainees and interns (2013: 352); in accordance with the rules of the Swiss Financial Market Supervisory Authority (FINMA), they are weighted at 50 percent.

Notes

2. Accounting and valuation principles

General principles

The group financial statements of Zürcher Kantonalbank are prepared in accordance with the Listing Rules of the Swiss Exchange and with the accounting regulations applicable for banks and securities dealers (Swiss Financial Market Supervisory Authority's guidelines on accounting rules). The group financial statements provide a true-and-fair view of the group's financial position, results of operations and cash flows.

Scope of consolidation

The group financial statements comprise the accounts of the parent company and the directly and indirectly owned significant subsidiaries in which the bank has participations of more than 50 percent of the voting capital or which it controls in another way. The treatment of participations of less than 50 percent is explained in greater detail in "Non-consolidated participations" (p. 77). The scope of consolidation changed as follows in the year under review: merger of Bucher AG with Balfidor Fondsleitung AG and merger of Balfidor Treuhand AG with Balfidor Holding AG. The group financial statements are prepared in accordance with the principle of substance over form. The individual accounts of the group companies are based on uniform accounting standards that are applied throughout the group.

Method of consolidation

Capital is consolidated in accordance with the purchase method. This involves offsetting the group companies' equity capital at the time of acquisition or at the time of formation against the book value of the parent company's interest. Assets and liabilities, as well as income and expenses, of all group companies are included in full in the group statements. Intragroup transactions and unrealised gains are eliminated on consolidation. The allocation to reserves for general banking risks stated as anticipated profit in the parent company's financial statements is reported in the group financial statements under group net income.

Period of consolidation

The period of consolidation corresponds to the calendar year. For all consolidated companies, the financial year is the calendar year.

Recognition of transactions

All business transactions are recorded and measured in accordance with recognised principles on the day they occur. Foreign exchange and precious metal spot and forward transactions concluded but not yet executed are booked in accordance with the settlement-day principle. Such transactions are carried at replacement value under "Other assets and liabilities" between trade and settlement day (value date). Securities and options transactions are recognised in the balance sheet as of the transaction day. Balance sheet fixed-term transactions are always booked as of the settlement day.

Foreign exchange conversion

Transactions in foreign currency are converted at the corresponding daily rate. Assets and liabilities in foreign currency, with the exception of banknotes, are calculated at the average rate as at the balance sheet date. The bid rates on the balance sheet date are applied for foreign banknotes. Exchange gains and losses are recognised under income from trading operations. The annual financial statements of Zürcher Kantonalbank Österreich AG are denominated in euros. The assets and liabilities are converted at the rate on the balance sheet date, and income and expenses at the average exchange rate for the year. The difference between these exchange rates is reported directly in equity as foreign currency translation effect.

Fig. 8: Foreign currency conversion rates

	2014		2013	
	Rate on balance sheet date	Annual average	Rate on balance sheet date	Annual average
USD	0.9937	0.9193	0.8894	0.9241
EUR	1.2024	1.2125	1.2255	1.2287

Offsetting of assets and liabilities
In principle, no offsetting takes place except in the following cases. Claims and liabilities are offset if all the following conditions are met: the claims and liabilities arise from similar transactions with the same counterparty – where the claim matures on the same date or earlier, and is denominated in the same currency – and must not result in any counterparty risk. Holdings of own bonds and cash bonds are offset against the corresponding liability positions.

Cash, money-market placements, funds due to banks and deposits
These items are carried at nominal value. Rediscounted transactions in bills of exchange and money market paper are shown net at year-end. Short positions in securities and money-market placements are stated at fair value.

Due from banks and customers, mortgages
These items are carried at nominal value. Book claims in precious metals and investments by subsidiary companies that are managed in the trading book and relate to derivatives are stated at market value. Adequate allowances are made for acute and latent credit risks in accordance with the principle of prudence. Leasing arrangements are reported in the balance sheet under loans, at their nominal value (or property value) less accumulated amortisation plus instalments due but not paid, interest on arrears and fees. The element of the leasing instalment representing the interest for the period in question is reported in the income statement under interest income. The remaining amount represents the repayment element and reduces the claim amount. Comments on the valuation of collateral for loans can be found in Note 6, under "Credit risks" (p. 115).

Securities and precious metals trading portfolios
Trading positions are carried at fair value. This is the amount for which mutually independent, knowledgeable business partners would exchange an asset or repay a debt, i.e. either the price asked on a price-efficient and liquid market or the price derived on the basis of a valuation model. If – in exceptional cases – fair value cannot be calculated, positions are valued at the lower of cost or market. Gains and losses from this valuation are recognised in the income statement. Interest and dividend income from trading positions in securities are credited to income from trading operations. The refinancing result for the securities portfolio is calculated by offsetting income from trading operations against net interest. All physical precious metals portfolios are stated in the trading portfolio item.

Securities lending and borrowing transactions
Zürcher Kantonalbank lends and borrows non-monetary instruments such as money market paper and securities on its own account and at its own risk (principal status). The bank conducts lending and borrowing transactions via its trading book, and lends securities from financial investments, whereby claims and liabilities are valued at market price. Loan transactions involving securities or money-market paper are treated as repo transactions, provided they are collateralised with cash and subject to daily margining. Loan transactions involving securities or money market paper not collateralised with cash are not recognised in the balance sheet but reported in the Notes.

Repurchase and reverse repurchase transactions (repo)
Repo transactions are recognised in the balance sheet as cash deposits with pledging of own securities, and reverse repo transactions as cash advances against collateral in the form of securities. This underscores the financing nature of the transactions. The securities are transferred in the same way as if they had been pledged as collateral for the loan.

Financial investments
Fixed-interest securities are valued in accordance with the accrual method. Premiums and discounts spread over term to maturity are included in the income statement. Realised gains from sales previous to maturity are amortised to maturity. The lower of cost or market rule is applied in the case of value losses resulting from changes in credit standing. Irrespective of the share of voting rights, shares and other equity securities that were not acquired as a permanent investment are booked under this item. Positions in equity securities are valued at the lower of cost or market. Real estate and equity securities taken over from the credit business and intended for disposal are valued at lower of cost or market (acquisition cost or conservatively estimated lower liquidation value).

Non-realised losses due to price fluctuations and market-related revaluation up to original cost are stated under "other ordinary expenses" or "other ordinary income". Realised gains or losses from the sale of financial investments are booked under income from the sale of financial investments.

Non-consolidated participations

Shares and other equity securities are considered as participations regardless of the share of voting rights held, provided they have been acquired as a permanent investment. Significant non-consolidated participations are listed in Note 3.3.2 (p. 82). Participations with voting rights of up to 20 percent are valued at lower of cost or market. Participations are subject to a regular impairment review, conducted at least once a year. Non-consolidated participations with voting rights of between 20 percent and 49.9 percent, together with the non-material (from an accounting perspective) majority participation in Adamant Biomedical Investments AG (stake sold on 30 September 2014) and Zürcher Kantonalbank Representações Ltda., are stated in accordance with the equity method in proportion to the equity held on the balance sheet date. The proportionate net income is stated in the group income statement on the basis of equity valuation.

Tangible fixed assets

Bank premises, including installations and fittings in rented properties, are carried at historical cost plus major investments and written off on a straight-line basis over their estimated useful life. Other properties acquired as a long-term investment are carried at the lower of cost less straight-line depreciation or capitalised value. The remaining tangible fixed assets comprise IT systems and equipment, furniture, vehicles and machinery. Smaller investments are charged in full to other operating expenses in the year they were made. Larger investments are capitalised and written off in full over their estimated useful life. Depreciation rates for bank premises and other properties as well as installations were amended compared with the previous year, so as to better reflect the estimated useful life of the building elements. The changes to depreciation rates have no significant effect on the income statement or balance sheet.

Fig. 9: Estimated useful life for depreciation purposes *(in years):*

Land	no depreciation
Bank premises and other properties – Shell – Building envelope	 max. 80 max. 30
Installations (fitting out, technical installations)	 max. 25
Fittings in rented properties	remaining duration of rental agreement*
IT systems and equipment	2 to max. 5
Furniture/vehicles/machines	max. 5

*in the case of rental agreements with an option to extend, depreciation is extended to the option date should the investment be made with the intention of taking up the option.

An impairment test of all tangible fixed assets is undertaken on a regular basis. An asset is subject to impairment if its book value exceeds the realisable value. In the real estate sector, this assessment is conducted by a property valuer. The utility value of other tangible fixed assets is monitored on the basis of business and economic criteria.

Intangible assets

Goodwill

If the purchase cost of an acquisition is greater than the net assets valued in accordance with standard group-wide accounting principles, the remaining amount is capitalised as goodwill. This goodwill is generally written off over the estimated useful life on a straight-line basis. The amortisation period is generally five years, but a maximum of 20 years in justified instances. Capitalised goodwill no longer justified on the basis of an evaluation on the balance sheet date (impairment) is also amortised.

Other intangible assets

The other intangible assets include purchased IT programs. Smaller investments are charged in full to other operating expenses in the year they were made. Larger investments are capitalised and normally written off over 12 months.

Allowances and provisions for credit risks

Allowances and provisions are established to cover credit risks. The amount of the allowance is determined on a systematic basis that takes account of the risks of Zürcher Kantonalbank's portfolio. Impaired claims are in principle valued on an individual basis. An individual allowance is made when there are signs that the bank will be unable to collect all amounts due on a claim. The bank considers a claim impaired when there are indications that the borrower is unlikely to be able to meet his future obligations. At the latest, a claim is considered impaired when the contractual repayments and/or payments of interest or commission are 90 days or more in arrears. The corresponding interest and commission is provided for in full. Individual allowances for credit risks are established in accordance with the following principles:

- Claims are valued individually on the basis of the borrower's financial situation and the realisable value of any collateral.
- As soon as the expected payments to repay a loan are no longer assured, an allowance is established for the probable credit loss (book value less estimated recoverable amount).

All impaired claims are reviewed and analysed at least twice a year and an appropriate allowance established where necessary. Allowances for impaired loans are only reversed if there is reasonable assurance of timely collection of principal and interest in accordance with the contractual terms of the claim agreement. If all or part of a claim is deemed uncollectible or forgiven, it is written off accordingly. A general allowance is made for a homogenous credit portfolio for small risks. Zürcher Kantonalbank does not set up a general bad-debt provision for latent risks because the method used to determine an individual allowance ensures the correct valuation of a loan. Appropriate allowances are also established where claims are subject to a country-specific risk. Country allowances are determined in part on the basis of country assessments by various ratings agencies. Specific country allowances are calculated taking account of security and any individual allowances in line with the previously described approach for credit risk and also reviewed on at least a half-yearly basis.

Allowances and provisions for other business risks and other provisions

Individual allowances and provisions are established in accordance with the prudence principle for all risks identifiable and foreseeable on the balance sheet date.

Profit reserves

The group's self-generated funds are recognised under profit reserves. This item also includes the reserves for general banking risks formed by the parent company in previous years.

Pension funds

Zürcher Kantonalbank applies Swiss GAAP ARR 16 principles. An annual evaluation is performed to ascertain whether, from the group's perspective, an economic benefit or economic obligation arises as a result of a pension fund. This is based on the pension funds' agreements and annual accounts, which are prepared in accordance with Swiss GAAP ARR 26, and other calculations showing the financial situation and existing surplus/shortfall for each pension fund in accordance with actual circumstances.

The employer contribution reserve is capitalised in the "Other assets" item. Additions and withdrawals are included in "Personnel expenses". Zürcher Kantonalbank has no liabilities that extend beyond the regulatory benefits. Additional information may be found in Note 3. Information on the balance sheet, in the section "Information on pension funds" (p. 84).

Contingent liabilities, irrevocable commitments, liabilities for calls on shares and other equities, credit commitments and fiduciary investments

Off-balance-sheet transactions are reported at nominal value. Appropriate provisions are set aside for identifiable risks in accordance with the principle of prudence. Irrevocable commitments also include forward commitment mortgages.

Derivative instruments

Derivative instruments are used for trading and hedging purposes. At the time a financial instrument is designated as a hedge, the relationship between the hedging instrument and the hedged item is documented. The hedged risk and method used to assess the effectiveness of the hedging relationship are also set out. The effectiveness assessment shows the relationship between the results for the hedging derivative and for the hedged item.

Reporting in the income statement

The derivative instruments in the trading portfolio are measured at fair value. Derivative instruments used to hedge interest rate risk within the scope of asset and liability management are valued in accordance with the accrual method. If the gains from the hedging derivative exceed those from the hedged item, the hedge is considered ineffective. The excess part of the derivative instrument is treated like a trading transaction.

Reporting in the balance sheet

The replacement values of contracts traded on the bank's own account are shown in the balance sheet without reference to their treatment in the income statement. For hedging transactions valued in accordance with the accrual method, the valuation difference is neutralised on an equalising account and thus does not affect the income statement. The balance of this equalising account is included in "Other assets" or "Other liabilities" and disclosed in Note 3.5 (p. 83). All the treasury's hedging transactions are carried out via the trading unit, i.e. the treasury does not have direct contact with the market. Thus the replacement values of derivative instruments represent the total volume of transactions carried out with third parties. They correspond to the values of the trading instruments shown in table 4.3.1 "Derivative instruments outstanding by contract type" (p. 96). The items reported under hedging instruments correspond to internal hedging activities. Balance sheet reporting does not include the offsetting of assets and liabilities stemming from netting agreements.

Structured products

As structured products issued by the bank using its own debt instruments are part of a trading-type strategy, they are measured as a whole at fair value (no separation of derivative and host contract). Any effects of own creditworthiness on the fair value of the issued structured product, should they occur, are not recognised in the income statement.

Taxes

As an independent public-law institution, Zürcher Kantonalbank is exempt from taxes on its income and capital under cantonal law (§61) and federal law on direct taxation (§56). The subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. is a finance company under the Companies Law in Guernsey. Under Guernsey tax law, the company is deemed "resident" since 1 January 2008 and in principle subject to tax. As it does not perform any banking activities that are subject to income tax or any other regulated transactions that are subject to tax, Zürcher Kantonalbank Finance (Guernsey) Ltd. pays only a fixed "validation fee", which is included in other operating expenses. Zürcher Kantonalbank Finance (Guernsey) Ltd. is not liable for any federal, cantonal or municipal taxes in Switzerland. The Balfidor Group companies are liable for cantonal and federal taxes, such taxes being assessed on the basis of their taxable income and capital. Zürcher Kantonalbank Österreich AG is subject to Austrian corporation tax. Its taxable income is taxed at a fixed rate of 25 percent. The tax implications of time differences between the balance-sheet values reported in the group financial statements and their tax values in the individual accounts are reported as deferred tax claims or liabilities. Deferred tax claims from loss carry-forwards are capitalised where it is likely that sufficient taxable profits will be generated within the statutory time limits, against which these differences/corresponding loss carry-forwards may be offset. Changes in deferred taxes are stated in the income statement via the taxes item.

Changes to the accounting and valuation principles

With the exception of the changes to depreciation rates mentioned in "Tangible fixed assets", no changes were made to the accounting and valuation principles in the year under review.

Events after the balance sheet date

No significant events affecting the financial position, results of operations and cash flows of the group occurred between the balance sheet date and the date on which the group financial statements were prepared.

Notes

3. Information on the balance sheet

3.1 Overview of collateral for loans and off-balance-sheet transactions

3.1.1 Overview by collateral

in CHF million	Type of collateral: Secured by real estate	Other collateral	Unsecured	Total
Loans				
Due from customers	121	6,162	8,735	15,019
Mortgages				
– Residential real estate	59,042			59,042
– Office and business premises	7,941			7,941
– Trade and industrial property	2,470			2,470
– Other	1,937			1,937
Total mortgage loans	71,389			71,389
Total loans 2014	71,510	6,162	8,735	86,408
Total loans 2013	69,763	3,529	7,130	80,421
Off-balance-sheet transactions				
Contingent liabilities	53	1,772	2,061	3,886
Irrevocable commitments	907	804	5,720	7,432
Liabilities for calls on shares and other equities			147	147
Total off-balance-sheet transactions 2014	960	2,576	7,929	11,465
Total off-balance-sheet transactions 2013	1,051	2,869	7’795	11,715

3.1.2 Information on impaired loans

in CHF million	Gross debt	Estimated yield from collateral	Net debt	Individual allowances [1]
Impaired loans				
2014	605	313	291	302
2013	674 [2]	339	335	360

[1] Individual allowances of 33 percent, 66 percent or 100 percent of the net amount outstanding are formed in accordance with the probability of default. Individual rates of adjustment may apply in the case of major positions.
[2] Restated following a change in the method of calculation. The gross debt is now charged per impaired commitment instead of per customer.

3.2.1 Securities and precious metals trading portfolio

in CHF million	2014	2013
Debt Securities	6,643	8,537
– listed [1]	6,465	8,242
– not listed	178	295
Equity-type securities	2,473	2,878
Precious metals	2,277	1,868
Total securities and precious metals trading portfolio	11,394	13,284
- of which securities eligible for repo transactions in accordance with liquidity regulations	2,391	3,218
Lent securities and precious metals trading portfolios	3,942	5,199

[1] Listed = traded on a recognised exchange.

3.2.2 Financial investments

	Book value		Fair value	
in CHF million	2014	2013	2014	2013
Debt securities	4,012	3,752	4,255	3,866
– of which valued in accordance with accrual method	4,012	3,752	4,255	3,866
– of which valued in accordance with lower of cost or market				
Equity-type securities	15	16	26	29
– of which qualified participations [1]				
Precious metals				
Real estate [2]	0	1	0	1
Total financial investments	4,027	3,768	4,281	3,896
– of which securities eligible for repo transactions in accordance with liquidity regulations	3,824	3,197	4,061	3,308
Lent financial investments	31	0	31	0

[1] At least 10 percent of the capital or voting rights.
[2] The insurance value of real estate included in financial investments amounted to CHF 0.7 million in 2014.

3.2.3 Participations

in CHF million	2014	2013
With market value	39	38
Without market value	123	123
Total participations	163	161

3.3.1 Fully consolidated participations

				2014			2013		
Company name	Domicile	Business activity	Currency of share capital	Share capital in CHF million	Zürcher Kantonalbank interest in %	Zürcher Kantonalbank voting rights in %	Share capital in CHF million	Zürcher Kantonalbank interest in %	Zürcher Kantonalbank voting rights in %
Zürcher Kantonalbank Finance (Guernsey) Ltd.	Guernsey	Financial services	CHF	1	100.0	100.0	1	100.0	100.0
Balfidor Holding AG [1]	Basel	Participations	CHF	0	100.0	100.0	0	100.0	100.0
Zürcher Kantonalbank Österreich AG	Salzburg	Financial services	EUR	6	100.0	100.0	6	100.0	100.0

[1] Balfidor Holding AG owns 100 percent of the shares in Balfidor Fondsleitung AG.

3.3.2 Significant non-consolidated participations[1]

Company name	Domicile	Business activity	Currency of share capital	2014 Share capital in CHF million	2014 Zürcher Kantonalbank interest in %	2014 Zürcher Kantonalbank voting rights in %	2013 Share capital in CHF million	2013 Zürcher Kantonalbank interest in %	2013 Zürcher Kantonalbank voting rights in %
Reported under non-consolidated participations: – of which using the equity method									
Technopark Immobilien AG	Zurich	Project planning, construction, maintenance	CHF	40	33.3	33.3	40	33.3	33.3
– of which other non-consolidated participations									
Pfandbriefzentrale der schweizerischen Kantonalbanken AG	Zurich	Pfandbrief institution	CHF	1,025[2]	17.8	17.8	825[3]	17.8	17.8
Swisscanto Holding AG[4]	Berne	Participations	CHF	24	18.1	18.1	24	18.1	18.1
Aduno Holding AG[5]	Zurich	Participations	CHF	25	14.7	14.7	25	14.7	14.7
Non fully consolidated subsidiaries pursuant to FINMA Circular 08/02 m.n. 209									
Adamant Biomedical Investments AG[6]	Zurich	Financial services	CHF				0	85.1	85.1
Zürcher Kantonalbank Representações Ltda.	São Paulo	Representative office	BRL	0	100.0	100.0	0	100.0	100.0

[1] Shows all subsidiaries (interest > 50 percent) that are not consolidated for reasons of materiality and participations where the interest exceeds 10 percent. Additionally, the share of these interests in the corporate capital must amount to > CHF 2 million or book value to > CHF 15 million.
[2] Of which CHF 205 million has been paid up.
[3] Of which CHF 165 million has been paid up.
[4] On 11 December 2014, Zürcher Kantonalbank announced the acquisition of the Swisscanto group (for more information, see "Irrevocable commitments", p. 95).
[5] Requirement to surrender shares when new shareholders are admitted in accordance with the shareholder agreement.
[6] Entire interest sold on 30 September 2014.

3.4 Tangible fixed and intangible assets, participations

in CHF million	Historical cost	Accumulated depreciation/ value adjustment of equity valuation	Book value at end 2013	Investments	Disposals	Depreciation	Value adjustment of equity valuation/ appreciation	Book value at end 2014
Participations valued in accordance with equity method	46	–22	24	1	–8	–1	1	18
Other participations	162	–26	137	7	–0	–7	7	144
Total participations	209	–48	161	8	–8	–8	9	163
Real estate [1]								
– Bank premises	1,319	–659	660	112	–26	–57		689
– Other real estate	16	–12	4	0	–0	–0		4
Other tangible fixed assets [2]	154	–120	33	19	–0	–21		31
Total tangible fixed assets	1,489	–791	698	131	–26	–79		723
Goodwill	15	–12	3			–3		0
Other intangible assets	32	–30	2	2	–0	–3		1
Total intangible assets	47	–41	5	2	–0	–6		1

[1] The insurance value of real estate included in tangible fixed assets amounts to CHF 1,473 million.
[2] The insurance value of other tangible fixed assets amounts to CHF 540 million.

There are no leasing commitments.

3.5 Other assets and liabilities

	2014		2013	
in CHF million	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values from derivative instruments trading position [1,2]	11,501	15,823	6,511	11,423
Equalising account	392		229	
Capitalised formation, capital increase and organisation costs				
Settlement accounts	21	142	17	103
Indirect taxes	49	44	66	85
Other	40	232	42	258
Total	12,003	16,242	6,866	11,869

[1] Irrespective of the motive, replacement values arising in the trading book as hedging transactions are also handled via the trading business.
[2] CHF 3,779 million comprises structured products issued by the bank with a debt security component (2013: CHF 4,292 million).

3.6.1 Assets pledged or ceded to secure own liabilities, and assets subject to reservation of ownership

	2014		2013	
in CHF million	Amount due or book value	of which claimed	Amount due or book value	of which claimed
Pledged assets				
Due from banks	1,934	1,916	1,376	1,368
Due from customers	2,320	2,264	774	755
Securities and precious metals trading portfolios	55	55	120	119
Pledged or ceded mortgages for central mortgage institution loans	9,101	8,009	8,627	7,144
Total pledged assets	13,409	12,243	10,898	9,386

3.6.2 Loan transactions and repurchase agreements with securities

in CHF million	2014	2013
Book value of cash collateral due to bank for securities borrowed and in connection with reverse repurchase agreements	14,740	10,393
Book value of cash collateral due from bank for securities lent and in connection with repurchase agreements	2,754	1,881
Book value of securities in bank's portfolio lent in connection with securities lending or supplied as collateral in securities borrowing or transferred in repurchase agreements	3,973	5,199
– of which with unrestricted rights to resell or pledge	3,973	5,199
Fair value of securities with unrestricted right to resell or repledge used as collateral for securities lent or for securities borrowed or received in connection with reverse repurchase agreements	41,126	38,239
– of which repledged or resold securities	25,675	24,351

Information on pension funds

The pension fund of Zürcher Kantonalbank is an autonomous, public-law institution. The purpose of the fund is to insure the bank's employees against the financial consequences of age, death and incapacity. The pension fund's retirement plan comprises three different retirement vehicles. The annuity plan insures the base salary on a combined defined benefit/defined contribution basis[1]. The capital plan insures any variable, qualifying AHV compensation (bonus) that is paid out. The capital plan is also based on a combined defined benefit/defined contribution principle. The third vehicle – the supplementary account – enables insured individuals to pre-finance the benefits that will be lost upon early retirement between the ages of 58 and 62.

The premiums required for these plans constitute a component of personnel expenses. Contributions to the annuity and capital plans are funded jointly by the insured individual and the bank. The supplementary account is funded exclusively by the insured individuals. For the senior management of affiliated employers, an additional plan is operated in the form of a separate trust. Structured on a defined contribution basis, this scheme insures the element of the base salary in excess of a specific minimum amount. The senior management plan is funded jointly by insured individuals and the bank.

The following employers are affiliated to Zürcher Kantonalbank's pension fund:

- Adamant Biomedical Investments AG (until 31 December 2014)
- Balfidor Fondsleitung AG
- Zürcher Kantonalbank's Grüningen Botanical Garden Trust
- Zürcher Kantonalbank pension fund
- Zürcher Kantonalbank's SanArena Trust
- Zürcher Kantonalbank

Occupational pension provision for the employees of the Austrian subsidiary is outsourced to a collective scheme governed by Austrian law. The pension plan is structured on a defined contribution basis. The employees of subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. are not affiliated to any pension scheme.

[1] Retirement benefits are based on the individually accumulated savings assets, while death and disability benefits are calculated as a percentage of the insured salary. Disability pensions are paid for life, with recalculation of the pension taking place upon reaching normal retirement age.

Fig. 10: Coverage ratio pursuant to Article 44 BVV2

in %	Coverage ratio as at 31 December 2014 (not audited)	Coverage ratio as at 31 December 2013 (audited)
Zürcher Kantonalbank pension fund	113	108
Zürcher Kantonalbank trust for senior management	114	110

3.7.1 Liabilities to own pension funds

in CHF million	2014	2013	Change
Liabilities to own pension funds from balance-sheet transactions			
Due to customers in savings and investment accounts	28	100	–72
Other amounts due to customers	48	82	–33
Other liabilities (replacement values)	1	1	–1
Total	77	183	–106

3.7.2 Employer contribution reserve (ECR)

	Nominal value	Waiver of usage	Creation/ with drawal	Balance sheet	Balance sheet	Result from ECR in personnel expenses	Result from ECR in personnel expenses
in CHF million	2014	2014	2014	2014	2013	2014	2013
Zürcher Kantonalbank pension fund	1		–0	1	1	–0	–0
Total	1		–0	1	1	–0	–0

3.7.3 Economic benefit/economic obligations and pension expenses

	Surplus/ shortfall	Economic share of the organisation		Surplus/ shortfall	Change vs. previous year, reflected in income statement	Amounts accrued over the period	Pension costs in personnel expenses	
in CHF million	2014	2014	2013	2013	2014	2014	2014	2013
Zürcher Kantonalbank pension fund						93	93	99
Zürcher Kantonalbank trust for senior management						1	1	1
VBV Pensionskasse AG						0	0	0
Total						94	94	100

The audits of the 2014 financial statements for the pension funds were not yet available at the time of publication of the Annual Report 2014.

3.8.1 Cash bonds outstanding

	Maturity								Total	Total
in CHF million	2015	2016	2017	2018	2019	2020	2021	2022	2014	2013
Interest rate										
0.0000–0.9999 %	13	13	7	9	12	12	9	3	79	75
1.0000–1.9999 %	64	56	14	14	13	2	22	36	220	258
2.0000–2.9999 %	36	12	25	7	3				82	127
Total	113	81	46	30	28	14	31	39	381	460

Average interest rate as at 31 December 2014 was 1.35 percent/average interest rate as at 31 December 2013 was 1.49 percent.

3.8.2 Bond issues outstanding

Interest rate	Type	Year of issue	Earliest repayment	Maturity	Nominal value in CHF million
2.250 %		2005	–	04.05.2015	249
2.250 %	Increase	2006	–	04.05.2015	200
0.191 %		2012	–	07.05.2015	681 [1]
0.024 %		2013	–	26.06.2015	350 [1]
0.024 %	Increase	2014	–	26.06.2015	375 [1]
2.125 %		2009	–	16.07.2015	248
2.125 %	Increase	2010	–	16.07.2015	150
4.500 %		2000	–	14.08.2015	149
1.625 %		2010	–	03.03.2016	295
1.750 %		2011	–	29.03.2017	198
0.111 %		2013	–	29.01.2018	252 [1]
2.125 %		2010	–	05.02.2018	251
2.125 %	Increase	2011	–	05.02.2018	150
1.000 %		2011	–	14.12.2018	160
2.125 %		2011	–	15.04.2019	125
2.125 %		2010	–	12.03.2020	291
2.000 %		2011	–	21.01.2021	398
0.875 %		2013	–	17.05.2021	132
0.875 %	Increase	2014	–	17.05.2021	80
1.250 %		2012	–	31.01.2022	288
2.125 %		2010	–	29.06.2022	320
2.125 %	Increase	2011	–	29.06.2022	125
1.500 %		2014	–	27.01.2023	99
2.375 %		2011	–	29.03.2023	145
1.125 %		2013	–	29.01.2024	142
1.125 %	Increase	2014	–	29.01.2024	150
2.000 %		2010	–	08.09.2025	472
1.625 %		2012	–	12.04.2027	96
2.500 %		2011	–	10.06.2031	119
2.000 %		2010	–	30.11.2034	150
2.000 %	Increase	2011	–	30.11.2034	100
2.000 %	Increase	2012	–	30.11.2034	90
2.000 %		2010	–	14.12.2040	100
2.500 %		2011	–	29.03.2044	100
3.500 %	Subordinated AT1	2012	30.06.2017	Perpetual	588 [2]
Total 2014					7,817
Total 2013					8,104

Average interest rate as at 31 December 2014 was 1.68 percent/average interest rate as at 31 December 2013 was 1.67 percent.

[1] Variable coupon, basis CHF Libor 3 months and spread.
[2] Subordinated perpetual Additional Tier 1 bond with conditional claim waiver. With FINMA's consent, the Zürcher Kantonalbank bond can be called on a unilateral basis (no earlier than five years following issue).

3.8.3 Central mortgage institution loans outstanding

Interest rate	Year of issue	Earliest repayment	Maturity	Nominal value in CHF million
0.375 %	2012	–	16.03.2015	187
2.500 %	2003	–	30.06.2015	3
2.000 %	2005	–	15.09.2015	301
2.500 %	2006	–	30.03.2016	289
0.250 %	2013	–	25.07.2016	300
1.125 %	2010	–	02.09.2016	193

(continued on page 87)

3.8.3 Central mortgage institution loans outstanding (continued)

Interest rate	Year of issue	Earliest repayment	Maturity	Nominal value in CHF million
0.250 %	2013	–	21.10.2016	150
0.625 %	2011	–	15.12.2016	218
1.625 %	2011	–	21.02.2017	219
1.750 %	2010	–	12.04.2017	97
0.375 %	2013	–	31.10.2017	100
0.250 %	2013	–	01.12.2017	100
2.000 %	2010	–	09.02.2018	87
0.280 %	2014	–	28.03.2018	300
0.500 %	2013	–	02.05.2018	300
0.280 %	2014	–	21.06.2018	200
2.750 %	2006	–	02.10.2018	101
0.875 %	2012	–	03.12.2018	138
0.155 %	2014	–	15.05.2019	100
0.280 %	2014	–	15.07.2019	100
0.500 %	2012	–	15.07.2019	50
1.875 %	2010	–	31.10.2019	57
1.750 %	2010	–	01.11.2019	125
0.280 %	2014	–	21.02.2020	70
2.125 %	2011	–	21.02.2020	50
0.530 %	2014	–	06.04.2020	201
2.125 %	2011	–	06.04.2020	70
1.125 %	2013	–	12.06.2020	50
1.500 %	2010	–	03.09.2020	121
1.030 %	2014	–	17.02.2021	100
0.875 %	2013	–	16.04.2021	112
0.905 %	2014	–	10.06.2021	200
1.375 %	2011	–	02.09.2021	140
1.250 %	2013	–	29.10.2021	50
1.375 %	2011	–	15.12.2021	51
1.250 %	2012	–	03.02.2022	108
1.375 %	2013	–	22.04.2022	150
0.875 %	2012	–	20.06.2022	110
1.000 %	2012	–	09.09.2022	100
1.375 %	2013	–	12.12.2022	54
1.000 %	2012	–	13.02.2023	182
1.155 %	2014	–	28.04.2023	80
2.250 %	2011	–	16.06.2023	68
0.530 %	2014	–	20.10.2023	107
1.030 %	2014	–	18.12.2023	50
0.780 %	2014	–	15.04.2024	50
1.250 %	2012	–	17.07.2024	95
0.780 %	2014	–	23.09.2024	66
1.625 %	2011	–	31.10.2024	150
1.375 %	2013	–	16.04.2025	26
2.000 %	2010	–	30.10.2025	150
2.375 %	2011	–	06.04.2026	80
1.750 %	2011	–	02.09.2026	50
1.375 %	2012	–	19.03.2027	180
1.625 %	2012	–	17.04.2028	142
1.500 %	2012	–	21.05.2029	36
Total 2014				6,964
Total 2013				6,212

Average interest rate as at 31 December 2014 was 1.12 percent/average interest rate as at 31 December 2013 was 1.38 percent.

3.9 Allowances and provisions

in CHF million	Balance at end 2013	Changes in scope of consolidation	Appropriate usage and reversals	Recoveries, doubtful interest, foreign currency translation effect	New creation charged to income statement	Reversals credited to income statement	Balance at end 2014
Provisions for deferred taxes	0	–0				–0	0
Allowances and provisions for credit and country risks [1]	379		–38	4	66	–90	321
Allowances and provisions for other business risks [2]	157		–1	14	52	–0	222
Provisions for restructuring [3]					13		13
Other provisions [4]	152		–0	12	4	–2	165
Total allowances and provisions	688		–39	30	134	–92 [5]	721

1 Credit risks consist primarily of counterparty risks, the values of which are generally adjusted by 33 percent, 66 percent or 100 percent of the net amount outstanding depending on the probability of default. Individual rates of adjustment may apply in the case of major positions.
2 Allowances and provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
3 Provisions for restructuring were made in connection with the acquisition of the Swisscanto group and comprise personnel measures and various integration costs.
4 Other provisions primarily consist of provisions for litigation and provisions for employees' holiday credits.
5 CHF 25 million of these reversals credited to extraordinary income.

Recoveries from claims already written off in previous periods are not included in provisions. They are booked directly through allowances, provisions and losses (2014: CHF 3 million).

Zürcher Kantonalbank is aware that the United States Department of Justice (DOJ) and United States Internal Revenue Service (IRS) are investigating Zürcher Kantonalbank's cross-border business with US customers. On 29 August 2013, Switzerland and the US signed a joint statement aimed at ending the long-running tax dispute between the banks and the USA. The Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks launched by the US Department of Justice is not applicable to banks that were already the subject of an investigation by the United States justice authorities as at 29 August 2013. It therefore does not apply to Zürcher Kantonalbank, which has been under investigation since September 2011. The bank is continuing to cooperate with the relevant authorities on this matter. It is working towards an agreement. The timing of the conclusion of this process remains open. Zürcher Kantonalbank evaluates all its risks on a constant basis, including in this connection, where necessary taking corresponding measures in terms of risk provisioning. All assessments are associated with a great deal of uncertainty.

For more details on the management of credit risks, operational risks as well as legal and compliance risks, please refer to Note 6. "Risk management" (page 101).

3.10 Corporate capital

in CHF million	Total nominal value 2014	Total nominal value 2013
Endowment capital	1,925	1,925
Participation capital [1]		
Total corporate capital	1,925	1,925

1 On 26 May 2014, the cantonal parliament voted to end the option of creating participation capital with effect from 1 January 2015.

At present, Zürcher Kantonalbank only has endowment capital and has no outstanding participation capital.
Zürcher Kantonalbank's share capital consists of endowment capital of CHF 1,925 million.
In April 2014, the cantonal parliament increased the endowment ceiling, which has an indefinite time limit, by CHF 500 million to CHF 3,000 million.
Zürcher Kantonalbank therefore has an unused endowment capital facility of CHF 1,075 million.

A breakdown of the endowment capital is given in the parent company's financial statements (page 140).

Zürcher Kantonalbank is a public-law institution under cantonal law and wholly owned (100% of the capital and voting rights) by the canton of Zurich.

3.11 Statement of changes in equity

in CHF million	Corporate capital	Profit reserves	Group net income	Foreign currency translation effect [1]	Total equity
Total equity as at 1 January 2012					
Opening amount	1,925	6,647		–4	8,568
Capital increase					
Capital decrease					
Other allocations to/withdrawals from the reserves					
Distribution of profit		–377			–377
Additions to scope of consolidation					
Removals from scope of consolidation					
Foreign currency translation effect				–0	–0
Group net income			594		594
Total equity as at 31 December 2012	1,925	6,270	594	–4	8,784
Total equity as at 1 January 2013					
Opening amount	1,925	6,864		–4	8,784
Capital increase					
Capital decrease					
Other allocations to / withdrawals from the reserves					
Distribution of profit		–374			–374
Additions to scope of consolidation					
Removals from scope of consolidation					
Foreign currency translation effect				0	0
Group net income			797		797
Total equity as at 31 December 2013	1,925	6,489	797	–4	9,208
Total equity as at 1 January 2014					
Opening amount	1,925	7,287		–4	9,208
Capital increase					
Capital decrease					
Other allocations to/withdrawals from the reserves		2			2
Distribution of profit		–369			–369
Additions to scope of consolidation					
Removals from scope of consolidation		–0			–0
Foreign currency translation effect				–0	–0
Group net income			647		647
Total equity as at 31 December 2014	1,925	6,919	647	–4	9,487

[1] Foreign currency translation effects are netted against profit reserves in the group balance sheet.

3.12 Maturity profile of current assets and liabilities

in CHF million	On demand	Callable	Maturity: Within 3 months	Between 3 and 12 months	Between 1 and 5 years	After 5 years	Immobilised	**Total**
Current assets								
Cash	27,064							27,064
Money market placements	1		1	2	1			5
Due from banks	2,788	50	6,261	4,240	2,659	305		16,302
Due from customers	272	2,838	8,171	732	1,812	1,192		15,019
Mortgages	103	1,073	9,657	11,170	30,599	18,788		71,389
Securities and precious metals trading portfolios	11,394							11,394
Financial investments	15		104	175	1,724	2,009	0	4,027
Total current assets 2014	41,636	3,961	24,194	16,319	36,796	22,294	0	145,199
Total current assets 2013	45,822	2,742	21,966	13,402	38,495	19,212	1	141,639
Current liabilities								
Due to banks	6,952	300	20,322	3,035	2,661	600		33,870
Due to customers in savings and investment accounts	313	45,172	86	52	1			45,624
Other amounts due to customers	23,962	5,221	5,292	827	950	768		37,021
Cash bonds			38	75	184	84		381
Bonds		588		2,402	1,431	3,397		7,817
Central mortgage institution loans			187	304	3,224	3,249		6,964
Total current liabilities 2014	31,228	51,281	25,925	6,696	8,451	8,097		131,677
Total current liabilities 2013	32,156	49,492	24,380	4,512	9,791	7,327		127,657

3.13 Amounts due from and due to affiliated companies and loans to the bank's governing bodies

in CHF million	2014	2013
Due from affiliated companies	363	403
Due to affiliated companies	1,983	2,039
Loans to the bank's governing bodies	16	17

Affiliated companies are public cantonal corporations or semi-public enterprises in which the canton holds significant participations.

Market conditions apply to transactions carried out with affiliated companies. Loans to the bank's governing bodies may be granted occasionally on employee terms.
There are no substantial amounts due to the governing bodies.

Primarily the usual balance sheet banking business was involved, i.e. it was mainly amounts due from and due to customers. The totals above also include securities items and amounts outstanding from transactions in derivatives (positive and negative replacement values).

3.14 Assets, liabilities and off-balance-sheet positions by domestic and foreign origin

	2014		2013	
in CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Cash	27,053	11	29,508	22
Money market placements		5	16	8
Due from banks	1,309	14,993	1,352	13,259
Due from customers	11,958	3,061	8,676	2,087
Mortgages	71,388	1	69,657	1
Securities and precious metals trading portfolios	5,978	5,416	5,920	7,364
Financial investments	1,886	2,140	2,363	1,406
Non-consolidated participations	162	0	161	0
Tangible fixed assets	721	3	696	2
Intangible assets	1	0	5	1
Accrued income and prepaid expenses	275	28	311	27
Other assets	5,007	6,996	2,566	4,300
Total assets	125,738	32,654	121,230	28,477
Liabilities				
Due to banks	5,696	28,174	6,248	25,540
Due to customers in savings and investment accounts	44,103	1,522	42,400	1,592
Other amounts due to customers	31,023	5,998	32,125	4,976
Cash bonds	381		460	
Bonds	7,817		8,104	
Central mortgage institution loans	6,964		6,212	
Accrued expenses and deferred income	262	3	283	1
Other liabilities	5,892	10,350	4,506	7,363
Allowances and provisions	720	2	687	2
Corporate capital	1,925		1,925	
Profit reserves	6,861	54	6,443	43
Group net income	641	7	788	10
Total liabilities	112,284	46,108	110,182	39,525
Off-balance-sheet transactions				
Contingent liabilities	1,598	2,289	1,614	3,113
Irrevocable commitments	6,325	1,106	6,153	716
Liabilities for calls on shares and other equities	146	1	118	1
Derivative instruments – positive replacement values	4,515	6,986	2,220	4,291
– negative replacement values	5,474	10,349	4,061	7,362
– contract volume	193,919	340,607	167,495	297,722
Fiduciary business	164	40	384	100

3.15.1 Assets by countries/regions

	2014		2013	
	in CHF million	Share in %	in CHF million	Share in %
Switzerland	125,738	79.4	121,230	81.0
Rest of Europe	25,405	16.0	22,753	15.2
– of which Germany	4,921	3.1	4,060	2.7
– of which France	2,134	1.3	2,487	1.7
– of which United Kingdom	10,924	6.9	9,129	6.1
– of which Italy	73	0.0	118	0.1
– of which Liechtenstein	180	0.1	92	0.1
– of which Austria	1,020	0.6	654	0.4
Americas	4,978	3.1	3,891	2.6
– of which USA	3,860	2.4	2,797	1.9
Asia and Oceania	2,231	1.4	1,825	1.2
Africa	40	0.0	9	0.0
Total assets	158,392	100.0	149,707	100.0

Countries are listed provided they neighbour Switzerland or their share is > 2 percent.

3.15.2 Liabilities by countries/regions

	2014		2013	
	in CHF million	Share in %	in CHF million	Share in %
Switzerland	112,284	70.9	110,182	73.6
Rest of Europe	28,871	18.2	24,885	16.6
– of which Germany	5,428	3.4	5,193	3.5
– of which France	2,168	1.4	2,134	1.4
– of which United Kingdom	9,729	6.1	5,236	3.5
– of which Italy	125	0.1	229	0.2
– of which Liechtenstein	856	0.5	891	0.6
– of which Austria	438	0.3	485	0.3
Americas	8,188	5.2	6,881	4.6
– of which USA	4,889	3.1	3,443	2.3
Asia and Oceania	7,111	4.5	5,966	4.0
Africa	1,938	1.2	1,793	1.2
Total liabilities	158,392	100.0	149,707	100.0

Countries are listed provided they neighbour Switzerland or their share is > 2 percent.

3.15.3 Contingent liabilities, irrevocable commitments, liabilities for calls on shares and other equities by countries/regions

	2014		2013	
	in CHF million	Share in %	in CHF million	Share in %
Switzerland	8,069	70.4	7,885	67.3
Rest of Europe	2,580	22.5	2,686	22.9
– of which Germany	61	0.5	40	0.3
– of which France	1	0.0	7	0.1
– of which Guernsey	1,978	17.3	2,370	20.2
– of which Italy	0	0.0	0	0.0
– of which Liechtenstein	14	0.1	15	0.1
– of which Austria	67	0.6	8	0.1
Americas	455	4.0	664	5.7
– of which Cayman Islands	330	2.9	413	3.5
Asia and Oceania	347	3.0	461	3.9
Africa	14	0.1	18	0.2
Total	11,465	100.0	11,715	100.0

Countries are listed provided they neighbour Switzerland or their share is > 2 percent.

3.16 Balance sheet by currencies

	Currencies converted into CHF million				
	CHF	USD	EUR	Other	Total in CHF million
Assets					
Cash	26,992	6	60	6	27,064
Money market placements	2		2	1	5
Due from banks	3,106	7,851	5,085	260	16,302
Due from customers	12,399	868	1,661	92	15,019
Mortgages	71,382		7	0	71,389
Securities and precious metals trading portfolios	7,629	1,379	1,322	1,063	11,394
Financial investments	2,971	103	953		4,027
Non-consolidated participations	162		0	0	163
Tangible fixed assets	721		3		723
Intangible assets	1		0		1
Accrued income and prepaid expenses	237	18	30	17	303
Other assets	8,490	1,443	1,702	368	12,003
Total balance sheet assets	134,093	11,668	10,825	1,807	158,392
Delivery claims from spot exchange, forward exchange, currency option and precious metal transactions	69,358	76,765	30,071	15,847	192,041
Total assets	203,450	88,433	40,896	17,654	350,433
Liabilities					
Due to banks	10,586	14,484	6,659	2,141	33,870
Due to customers in savings and investment accounts	45,624		0		45,624
Other amounts due to customers	27,634	2,049	6,620	718	37,021
Cash bonds	381				381
Bonds	7,817				7,817
Central mortgage institution loans	6,964				6,964
Accrued expenses and deferred income	234	11	15	5	265
Other liabilities	11,691	1,450	2,719	382	16,242
Allowances and provisions	720		2		721
Corporate capital	1,925				1,925
Profit reserves	6,932		–17		6,914
Group net income	650		–2		647
Total balance sheet liabilities	121,158	17,993	15,995	3,246	158,392
Delivery commitments from spot exchange, forward exchange, currency option and precious metal transactions	82,567	70,058	24,806	14,134	191,565
Total liabilities	203,724	88,051	40,801	17,381	349,957
Net position per currency in 2014	–274	382	95	273	476
Net position per currency in 2013	–479	282	58	200	62

Notes

4. Information on off-balance-sheet transactions

The following gives more detailed information on off-balance-sheet positions, as well as assets under management and other liabilities not included in the balance sheet.

4.1 Contingent liabilities and irrevocable commitments

Contingent liabilities

in CHF million	2014	2013
Credit guarantees	246	376
Back-up guarantees	3,077	3,704
Irrevocable commitments	564	648
Total	3,886	4,727

Irrevocable commitments

in CHF million	2014	2013
Irrevocable commitments	7,432	6,869
Total	7,432	6,869

In connection with the anticipated acquisition of Swisscanto Holding AG, the sellers on the one hand receive a fixed purchase price (this promise of payment represents an irrevocable commitment to the 23 selling cantonal banks as at 31 December 2014) and on the other hand – in the period from 2016 to 2018 – a variable share of the purchase price; this variable share primarily depends on the contribution to business performance made by the individual sellers, but also on the general development of the market and the success of the product range. The actual annual variable share of the purchase price paid to the sellers cannot fall below zero. The three variable purchase price payments – payable in October 2016, October 2017 and October 2018 – are not accurately quantifiable at the current time. They are based on the principle whereby the generation of higher net income with the sellers results in higher variable purchase price payments.

4.2 Credit commitments

There are no credit commitments.

4.3.1 Derivative instruments outstanding by contract type

in CHF million	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments						
Forward contracts including FRAs	4	1	4,500			
Swaps	6,520	6,105	263,398	678	1,199	30,102
Futures			19,429			
Options (OTC)	192	625	7,450			
Options (traded)						
Total	6,715	6,730	294,777	678	1,199	30,102
Foreign exchange						
Forward contracts	191	146	10,177			
Swaps	3,149	3,431	171,387	61	580	2,173
Futures						
Options (OTC)	221	90	9,804			
Options (traded)	1	2	251			
Total	3,562	3,670	191,620	61	580	2,173
Precious metals						
Forward contracts	2	3	163			
Swaps	147	46	3,566			
Futures			66			
Options (OTC)	35	30	521			
Options (traded)	0		57			
Total	185	78	4,373			
Equity-type instruments/indices						
Forward contracts						
Swaps	0	6	120			
Futures			212			
Options (OTC)	203	3,186	4,659			
Options (traded)	75	176	3,452			
Total	278	3,368	8,442			
Credit derivatives						
Credit default swaps	13	13	1,342			
Total return swaps	5	5	1,198			
First-to-default swaps						
Other credit derivatives		7	7			
Total	18	25	2,547			
Others [1]						
Forward contracts						
Swaps	4	3	229			
Futures			56			
Options (OTC)		170	207			
Options (traded)						
Total	4	173	493			

[1] Includes commodities, real estate and hybrid derivatives.

(continued on page 97)

4.3.1 Derivative instruments outstanding by contract type (continued)

in CHF million	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Total before netting						
2014	10,761	14,044	502,251	739	1,779	32,274
2013	5,940	9,969	429,729	571	1,454	35,488

Total after netting [2]	Positive replacement values (accumulated)	Negative replacement values (accumulated)
2014	4,539	8,861
2013	2,161	7,074

[2] Balance sheet reporting does not include the offsetting of assets and liabilities stemming from netting agreements (shown gross).

The contract volume shows the amount of underlying on which a derivative is based or the notional amount underlying the derivative in accordance with the requirements of FINMA Circular 08/2, irrespective of whether the derivative is traded long or short. The contract volume is determined differently depending on type of contract and does not permit any direct conclusions to be drawn about the risk exposure.

4.3.2 Derivative instruments outstanding by remaining period

By remaining period (in CHF million)	By remaining period			2014 total	2013 total
	< 1 year	1-5 years	> 5 years		
Positive gross replacement values [1]					
Interest rate instruments	204	2,271	4,918	7,393	4,227
Foreign exchange	2,968	329	327	3,623	1,768
Precious metals	174	10		185	152
Equity-type instruments/indices	273	4	1	278	342
Credit derivatives	6	12		18	20
Others	4			4	2
Total	3,629	2,627	5,246	11,501	6,511

By remaining period (in CHF million)	By remaining period			2014 total	2013 total
	< 1 year	1-5 years	> 5 years		
Negative gross replacement values [1]					
Interest rate instruments	524	2,442	4,963	7,929	4,734
Foreign exchange	2,647	1,004	599	4,249	2,661
Precious metals	64	12	2	78	154
Equity-type instruments/indices	1,615	918	835	3,368	3,468
Credit derivatives	13	12	0	25	46
Others	34	50	90	173	360
Total	4,896	4,437	6,489	15,823	11,423

[1] Before netting

4.4 Fiduciary business

in CHF million	2014	2013
Fiduciary placements with third-party banks	204	484
Total	204	484

4.5 Assets under management

in CHF million	2014	2013 [1]
Type of customer assets		
Assets in funds managed by Zürcher Kantonalbank	34,197	30,527
Assets with management mandate	30,629	27,687
Other customer assets	134,269	133,856
Total customer assets (incl. double counted assets) [2]	199,095	192,070
– of which double counted assets	19,580	17,464
Net new money inflow/outflow [3]	–2,258	–178

[1] Following a change in the segmentation of business partners as well as deposits, the figures for the previous year were adjusted as follows: other customer assets and total customer assets (incl. double counted assets) +CHF 203 million; net new money inflow/outflow +CHF 180 million.

[2] The managed customer assets shown include all customer assets of an investment nature held with Zürcher Kantonalbank, as well as customer assets held with third-party banks and which are managed by Zürcher Kantonalbank. This does not include assets held with Zürcher Kantonalbank but managed by third parties (custody-only). Banks and significant investment fund companies (including collective pension fund foundations, investment trusts, employee benefits foundations and pension funds) for which Zürcher Kantonalbank acts exclusively as custodian bank are treated as custody-only.

[3] The net new money inflow/outflow corresponds to the development of managed customer assets adjusted for fluctuations in prices and exchange rates, interest and dividend payments, fees and expenses charged to customers, and reclassification of assets. Changes due to acquisitions/disposals of subsidiaries are not included. The interest billed to loan customers is included in the change in net new money inflow/outflow.

4.6 Other liabilities, not included in the balance sheet

in CHF million	2014	2013
2014		101
2015	109	64
2016	73	39
2017	41	20
2018	30	12
2019	27	

These liabilities comprise rental agreements, leasehold payments and other payment commitments with a remaining term of more than one year (nominal values).
Figures for five years are published.

Notes

5. Information on the income statement

In this section, individual income statement items are broken down in detail and the components of the return on equity explained.

5.1 Results from trading operations[1]

in CHF million	2014	2013	2012
Foreign exchange, banknotes and precious metals	147	129	133
Bonds, interest rate and credit derivatives	41	107	104
Equities and structured products[2]	67	67	97
Other trading income[3]	32	37	44
Total	287	340	379

1 After refinancing result of CHF 0 million (2013: CHF 2 million/2012: CHF 3 million).
2 Due to the reorganisation of trading, the result from equities and equity derivatives now also includes the result from the issuing and trading of structured products, which until 2013 was shown under other trading income. The previous years have been restated.
3 Other trading income includes results from securities lending and borrowing as well as positions for which the executive board as well as Asset Management are responsible.

5.2 Personnel expenses

in CHF million	2014	2013	2012
Compensation for governing bodies and personnel	632	668	693
AHV, IV, ALV and other statutory social security contributions	54	56	58
Retirement benefit expenses	94	100	239[1]
Other personnel expenses	36	27	30
Total	816	851	1,020

1 Non-recurring expense of CHF 150 million due to the lowering of the technical interest rate by the pension fund.

5.3 Other operating expenses

in CHF million	2014	2013	2012
Occupancy expense	45	43	43
Expenses for IT, fixtures and fittings, vehicles and other equipment	87	87	90
Other operating expenses	252	260	263
Total	384	390	396

5.4 Extraordinary income and expenses

in CHF million	2014	2013	2012
Extraordinary income			
Reversal of provisions not required	25 [1]	52	27
Reversal of impairment on other participations	7	8	1
Income from sale of other real estate/bank premises	25	141	5
Income from sale of participations	9	15	0
Other	1	1	1
Total	67	218	33
Extraordinary expenses			
Loss from the sale of participations	0		
Other	1	0	
Total	1	0	

[1] The reversal of provisions not required in 2014 is attributable to unused allowances for credit risks.

5.5 Taxes

in CHF million	2014	2013	2012
Reversal of provisions for deferred taxes	0	0	0
Capitalisation of deferred taxes on loss carryforwards	1	1	1
Expense for current income and capital taxes	–1	–1	–1
Total	–0	–0	0
Unrecognised reductions on tax loss carryforwards and on tax credits which, under the prudence principle, are not entered in the balance sheet.			
Hypothetical, deferred income taxes calculated at theoretical tax rates on revalued investments not relevant for tax purposes.			

Figures in tables: minus = expense; plus = income

5.6 Components of ROE

in %	2014	2013	2012
Return on equity (ROE)	7.2 %	9.2 %	9.0 %
in CHF million			
Relevant net income for calculating ROE			
Group net income as shown on the balance sheet and income statement	647	797	594
Non-recurring personnel expense for the pension fund			150
Total	647	797	744
Relevant average equity[1] for calculating ROE			
Average corporate capital	1,925	1,925	1,925
Average profit reserves	7,098	6,699	6,375
Total	9,023	8,624	8,300

[1] The average corporate capital is calculated on the basis of daily averages. The remaining components are calculated as an average of the totals at the beginning and end of the year.

Notes

6. Risk management

Risk profile

There was no material change in the bank's risk profile in 2014. The volume of non-mortgage lending increased slightly, and primarily consisted of secured funds due from customers. Growth in the volume of mortgages to private individuals continued to slow. The extent of foreign exposures remained stable. Market risks arising from trading operations remained minimal, not least due to a low level of market volatility by long-term standards. The interest rate risk in interest operations became more accentuated. Persistently low – and in some cases negative – interest rates make asset and liability management a challenge. The increase in interest rate sensitivity in the banking book primarily takes into account the risk of a protracted period of low interest rates. The risk profile of operational risks remained stable. Legal and reputation risks in the cross-border financial services business remain a focal point in the management of compliance risks.

Internal controls system

Zürcher Kantonalbank's internal controls system covers all control structures and processes, which at all levels of the institution constitute the basis for the achievement of the bank's business policy objectives, the protection of the bank's credit rating and reputation, compliance with legal and ethical norms, as well as the reliability of financial reporting. The internal controls system involves not only retrospective checks but also planning and management activities. The following are key features of the internal controls system:

- systematic risk analysis and periodic monitoring of the appropriateness and effectiveness of internal controls by the executive board and board of directors,
- the risk policy parameters of the board of directors for safeguarding the bank's credit rating and reputation,
- the bank'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 processes.

Principles of risk management

The objective of risk management is to support the bank in generating added value whilst retaining 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 with 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 and monitored.
- Risk and return: in relation to all transactions, the bank seeks to achieve a balanced relationship between risk and return. 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.

These principles constitute the basis for determining the organisational structure and detailed group-wide risk management framework.

Principles of compliance policy

The objective of compliance is to ensure that Zürcher Kantonalbank conducts its business operations in accordance with legal and ethical norms. The principles of compliance policy are as follows: relevant legal and ethical norms, anchoring ethical and performance-related basic values in a code of conduct, duty of all employees and members of the governing bodies to comply with the laws, regulations, internal rules, industry standards, codes of conduct with corresponding sanctions for violations of the rules, special reporting procedure for identified violations of the rules for employees (whistle-blowing), primary responsibility of the executive board for compliance, annual assessment of the compliance risk based on the risk inventory with corresponding activity plan, as well as independence of the compliance function. 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 and compliance organisation

Zürcher Kantonalbank's risk management line organisation is based on the three Lines of Defence model. In organisational terms, the risk acceptance and risk management functions (1st Line of Defence), on the one hand, and preventive risk management (2nd Line of Defence) and risk control (3rd Line of Defence), on the other, are separated at executive-board level (Fig. 11).

Board of directors and committee of the board

The board of directors approves the principles of risk management and compliance, code of conduct, risk acceptance and additional risk policy parameters. The board of directors is also responsible for the monitoring and regular examination of the appropriateness and effectiveness of internal controls, including the risk and compliance organisation.

The board of directors approves matters involving major financial exposure and/or having particular effects on the Group's reputation in key areas. The committee of the board approves limits and discusses matters involving particular business policy risks, where they lie outside the remit of the executive board and do not fall within the remit of the board of directors. The risk management and audit committees support the board of directors in its tasks.

Executive board

The executive board approves the provisions for identifying, assessing, measuring, limiting and monitoring risk. It provides the board of directors with periodic reports on the overall bank risks and compliance with the risk policy parameters. The executive board also informs the board of directors of measurement methods and models as well as their consequences for risk management. The executive board is also responsible for approving matters with particular business policy risks, conflicts of interest or particular effects on the reputation of Zürcher Kantonalbank, unless they are assigned to another officer-holder in regulatory terms.

Conflicts committee

The members of the executive board represented on the conflicts committee take decisions on matters with particular business policy risks. The escalation body of the conflicts committee is the committee of the board.

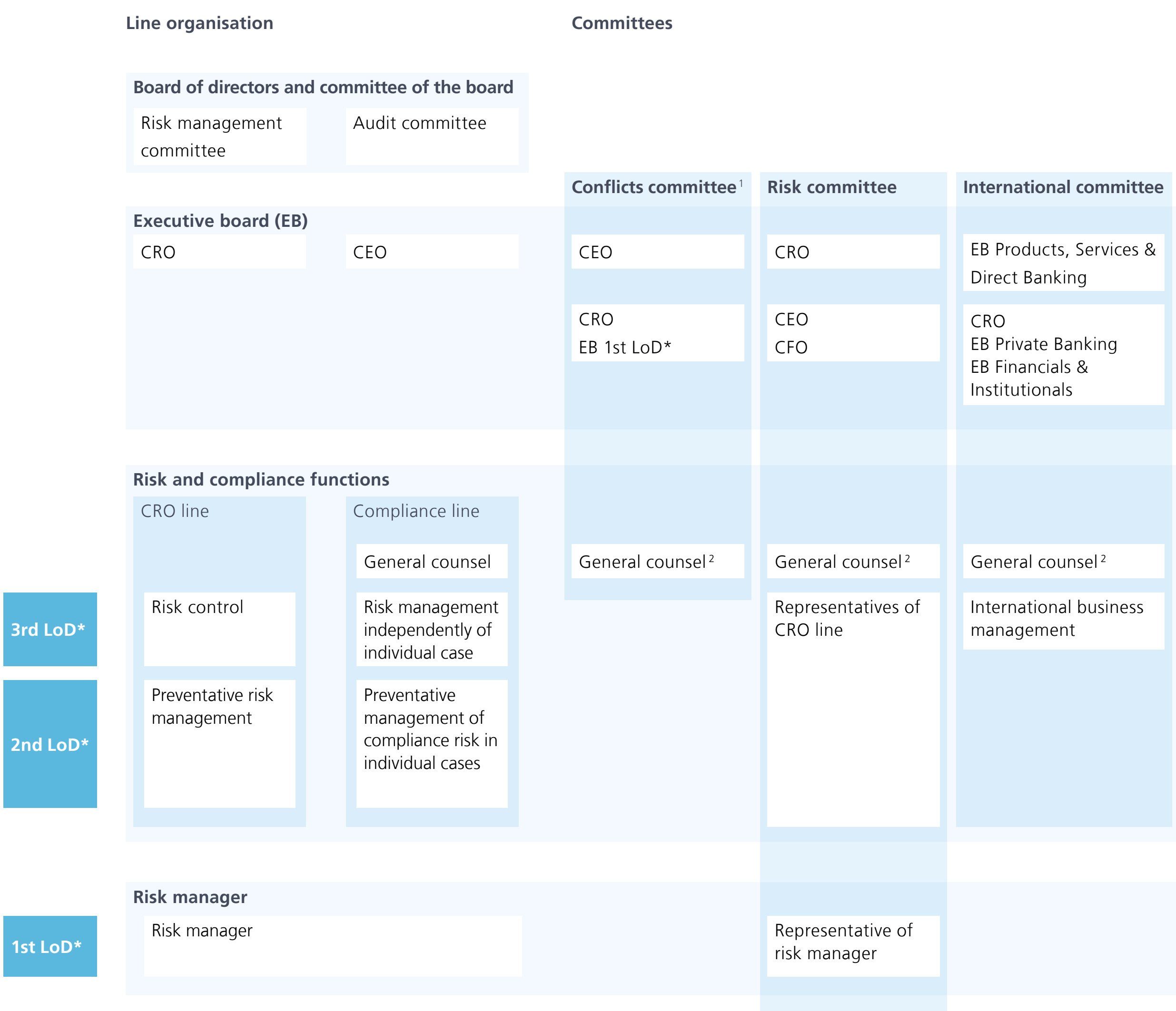
Risk committee

The risk committee assists the executive board with regard to formulating risk management processes. Decisions of the risk committee are taken on the basis of responsibilities delegated by the members of the executive board represented on the risk committee. The risk managers represented on four separate sub-committees (credit, trading, treasury and operational risk) and members of the risk and compliance organisation provide preliminary advice on the risk committee's business and formulate proposals for it. In a crisis situation, individual crisis management teams reporting to the risk committee ensure that necessary and appropriate measures are defined and implemented.

International committee

The international committee is tasked with defining the business policy parameters for matters with an international dimension, as well as corresponding monitoring and reporting. It is also responsible for the development of monitoring and documentation processes.

Fig. 11: Risk and compliance organisation



[1] Escalation body is the committee of the board.
[2] General counsel has right of escalation to the committee of the board at any time.
* Line of Defence

CRO line

The chief risk officer (CRO) is a member of the executive board and manages 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.

Risk control (3rd Line of Defence) is responsible for identifying and monitoring risks at portfolio level, monitoring compliance with the risk policy parameters and integrated risk reporting to the executive board and board of directors. The risk control function is responsible for defining methods of risk measurement, parts of the acceptance procedure for new products and valuation methods, model validation, as well as execution and quality assurance in relation to the risk measurement implemented.

Preventative risk management (2nd Line of Defence) is responsible for analysis and examination of transactions prior to conclusion in the context of existing delineations of power and mandatory consultations, the definition of parameters at individual transaction level, the continuous local monitoring of risks and the training of risk managers.

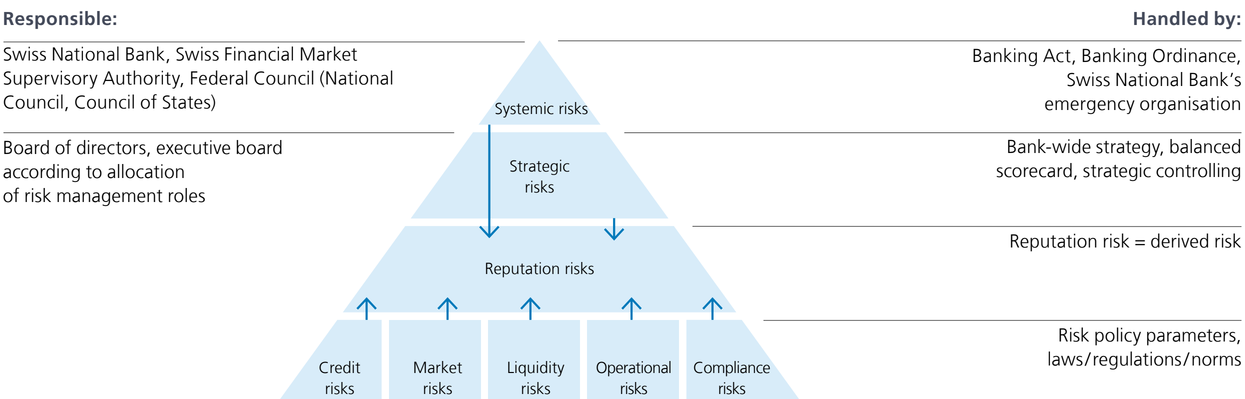
Compliance line
The general counsel reports directly to the CEO and manages the legal, tax and compliance unit. As a member of the risk, conflicts and international committees, the general counsel has a right of escalation to the committee of the board. He also enjoys direct access to the committee of the board at all times.

The compliance function as 3rd Line of Defence has the following duties: examining on an annual basis the compliance risk inventory and preparing the annual activity plan with key focal points relating to the management of compliance risk, formulating proposals and if necessary implementing defined monitoring and control duties in the context of post-deal control, defining the risk management tools and implementing risk control measures independently of the individual case such as editing directives in the context of the implementation of new directives and staging training events. The compliance function as 2nd Line of Defence is primarily responsible for providing forward-looking legal advice with the objective of avoiding or minimising individual identified risks and threats arising due to legal parameters. Legal advice is provided in the context of existing mandatory consultations, as a pre-deal consultation or on request.

Risk managers
The risk managers (1st Line of Defence) 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 the risk policy parameters, relevant laws, ordinances and standards.

Risk reporting
Risk controlling reports on a quarterly basis in the context of integrated risk reporting to the executive board and board of directors on the development of the risk profile, on material internal and external events and on findings from monitoring activities. Quarterly reports are supplemented by special analysis of significant themes. Besides quarterly reporting, various reports are produced for the individual types of risk; in terms of the frequency with which they are published and group of recipients, they are tailored to the individual risks and ensure the provision of comprehensive, objective and transparent information for decision-makers and supervisory bodies. The compliance function also reports directly to the board of directors once a year.

Fig. 12: Risk categories



Risk categories

Zürcher Kantonalbank's risk strategy is based on the risk categorisation illustrated in Figure 12.

Systemic risks

Systemic risk is where an institution suffers damage due to negative developments in the financial system that are beyond its control. Systemic risks cannot be independently limited and controlled by a single institution. Systemic risks are managed in conjunction with the Swiss National Bank (SNB), Swiss Financial Market Supervisory Authority (FINMA) and, if necessary, the Federal Council. The SNB and FINMA are responsible for establishing adequate processes for managing systemic risks.

Strategic risks

Strategic risks include the risk of pursuing a strategy that is inappropriate against the backdrop of relevant factors of influence but also the risk of not implementing strategies successfully. Strategic risks are managed in the context of the bank's strategy process.

Reputation risks

Reputation risks involve damage to Zürcher Kantonalbank's image and brand value. As reputation risks can potentially arise as a result of any of the bank's business operations, they are controlled chiefly by ensuring competency, integrity and reliability on a bank-wide basis. This is a multi-layered task that embraces the bank's entire range of operational and strategic management tools. The findings of the periodic reputation monitoring performed by an external institution on behalf of Zürcher Kantonalbank are also important to its management of reputation risk.

Other risks

The definition of risk categories as well as the processes and methods of risk management are described in the following sections.

Risk control and capital adequacy

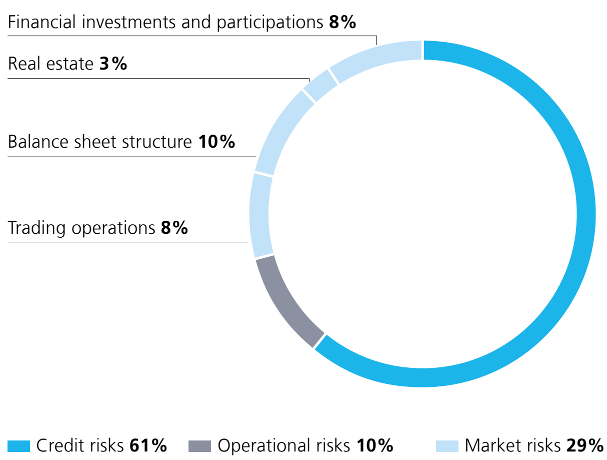
Internal risk control

Zürcher Kantonalbank employs a capital-at-risk approach to control risks. The board of directors specifies the maximum risk capital and assigns this capital to the credit, market and operational risk categories. The models are based on a time horizon of one year and a maximum default probability of 0.1 percent per year. The risk capital allocated to the investment portfolio corresponds to the required regulatory capital. The risk capital for market and credit risks is allotted to the individual organisational units, and the cost of capital is charged to the units. In the case of operational risks, there is no internal allocation of the cost of capital.

Internal capital adequacy

Of the CHF 9,412 million in eligible capital at the end of 2013, CHF 4,925 million was assigned to the risk business in 2014. The percentage breakdown of funds assigned by risk category is shown in Figure 13.

Fig. 13: Risk capital assigned by board of directors, by risk category



Basel III capital adequacy regulations

Based on the classification of Zürcher Kantonalbank as a systemically important institution in a decree issued by the Swiss National Bank in November 2013, the Swiss Financial Market Supervisory Authority (FINMA) in August 2014 withdrew the previously decreed requirements regarding transition periods and capital targets and set higher capital adequacy requirements.

As of the end of 2014, the weighted capital adequacy requirement – excluding the countercyclical capital buffer – is at least 14 percent of risk-weighted positions for both the parent company and the group. The unweighted capital adequacy requirement (leverage ratio) is 24 percent of the weighted capital adequacy

Fig. 14: Treatment of non-consolidated significant participations[1] with respect to capital adequacy

			Treatment for capital adequacy purposes	
Company name	Domicile	Business activity	Threshold approach [2]	Weighting
Technopark Immobilien AG	Zurich	Project planning, construction, maintenance		X
Pfandbriefzentrale der schweizerischen Kantonalbanken AG	Zurich	Pfandbrief institution	X	
Swisscanto Holding AG	Berne	Participations	X	
Aduno Holding AG	Zurich	Participations	X	
Zürcher Kantonalbank Representações Ltda.	São Paulo	Representative office	X	

[1] Shows all subsidiaries (interest > 50 percent) that are not consolidated for reasons of materiality and participations where the interest exceeds 10 percent. Additionally, the share of these participations in the corporate capital must amount to > CHF 2 million or the book value to > CHF 15 million.

[2] Equity instruments of companies operating in the financial sector are treated in accordance with the procedure described in Articles 33–40 CAO. Here the portion above a threshold is deducted directly from equity, while the portion below the threshold is risk-weighted.

requirement and therefore amounts to 3.36 percent of total exposure.

The capital requirement for systemically important institutions consists of a basic requirement, the capital buffer plus the countercyclical capital buffer and a progressive component. The latter is calculated from the sum of the supplement for domestic market share and the supplement for size of financial group, although deductions may be considered for measures designed to improve the resolvability of the financial group. The level of the progressive component is stipulated each year by the Swiss Financial Market Supervisory Authority (FINMA).

The countercyclical capital buffer was increased on 30 June 2014 and on 31 December 2014 amounted to two percent of the risk-weighted assets of mortgage lending secured by residential properties in Switzerland. The countercyclical capital buffer must be held in the form of common equity Tier 1 (CET1).

Under Basel III, a selection of different approaches is available to banks for the calculation of capital adequacy requirements for credit, market and operational risks. With respect to required capital for credit risks, Zürcher Kantonalbank applies the transitional provisions of the Capital Adequacy Ordinance in two cases. First, credit risk is calculated using the Swiss standard approach (SA-CH); second, the traditional method applied so far is used to calculate the credit equivalents of positions vis-à-vis central counterparties in the form of exchange-traded derivatives. The model-based approach is used for market risk combined with the standard approach for specific interest rate risks, and the basic indicator approach (BIA) for operational risk.

As regards determining eligible capital, Zürcher Kantonalbank chose not to make use of all possible transition periods specified in the Capital Adequacy Ordinance (Articles 140–142 CAO) and has therefore applied the definitive Basel III rules since 1 January 2013.

The required regulatory information on capital adequacy and the risk situation is disclosed as part of the following explanation of risk management and under the information on the balance sheet and off-balance-sheet transactions.

The scope of consolidation for the purpose of calculating capital adequacy is identical to that used in preparing the group financial statements. Zürcher Kantonalbank has several significant participations that are not consolidated. The treatment of these positions in terms of capital adequacy is illustrated in Figure 14.

Risk-weighted capital adequacy requirements

As at 31 December 2014, the capital adequacy requirement for Zürcher Kantonalbank as a systemically important institution is 14.0 percent for both the parent company and the group according to the decree issued by the Swiss Financial Market Supervisory Authority (FINMA). The countercyclical capital buffer on mortgages secured on residential properties in Switzerland increased the requirement by a further CHF 418 million, or 0.7 percent, to 14.7 percent.

As at 31 December 2014, the minimum required capital amounted to CHF 4,705 million (2013: CHF 4,642 million) against eligible capital of CHF 9,783 million (2013: CHF 9,412 million) (Fig. 15a and 15b). The minimum required capital was therefore CHF 63 million more than in the previous year (Fig. 15b). The higher required capital for credit risks is firstly attributable to mortgage and credit growth for retail customers and small businesses and secondly to an increase in derivatives positions and the associated requirements for the risk of possible value adjustments due to counterparty credit risk on derivatives (CVA risk). Capital adequacy requirements for market risks declined by CHF 67 million

Fig. 15a: Change in eligible capital (in CHF million)

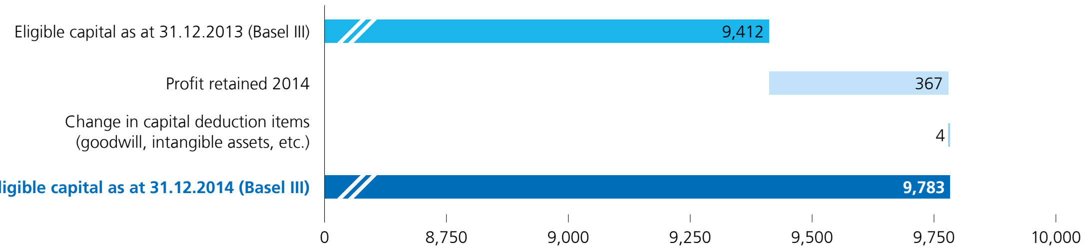
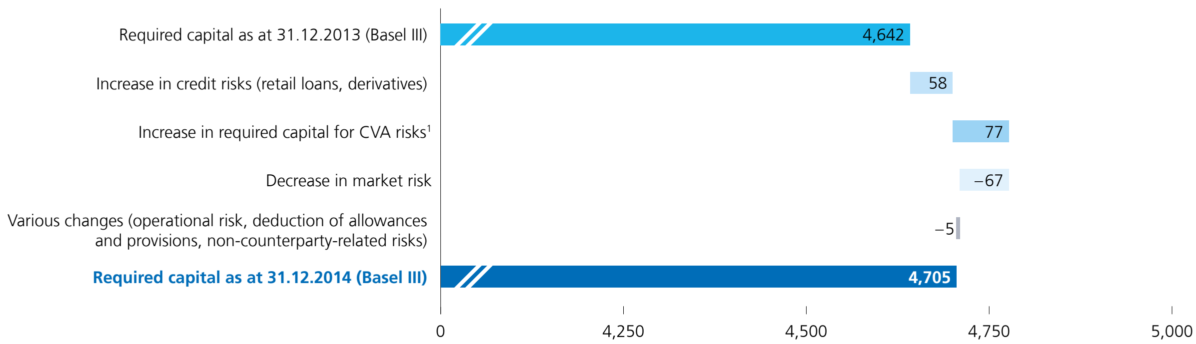


Fig. 15b: Change in minimum required capital (in CHF million)



[1] Risk of possible value adjustments due to counterparty risk on derivatives.

in the year under review, while requirements for operational risks fell by CHF 8 million.

Eligible capital rose by CHF 371 million in relation to the previous year. The increase was almost entirely due to retained earnings (CHF 367 million).

Due to the decree issued by the Swiss Financial Market Supervisory Authority (FINMA), there was a significant change in the disclosure of the composition of capital (Fig. 17, p. 109) compared with the previous year. The progressive component (1 percent of risk-weighted assets) may be covered by either low-trigger convertible capital (Tier 2) or common equity Tier 1 (CET1), whereby in the latter case Article 130 para. 3 CAO requires that the common equity Tier 1 be assigned to supplementary capital (Tier 2) for the disclosure. As Zürcher Kantonalbank did not have any low-trigger convertible capital (Tier 2) as at 31 December 2014, the common equity Tier 1 (CET1) was reduced by CHF 588 million due to the reclassification.

The total capital ratio based on required minimum capital was 16.6 percent at the end of 2014 (2013: 16.2 percent) and reflects Zürcher Kantonalbank's solid equity base. The common equity Tier 1 capital ratio (14.6 percent) fell compared with the previous year (15.2 percent) due to the aforementioned reclassification.

Fig. 16: Group balance sheet before distribution of net profit

in CHF million	References to Fig. 17	31.12.2014 [1]	31.12.2013 [1]
Assets			
Cash		27,064	29,530
Money market placements		5	23
Due from banks		16,302	14,612
Due from customers		15,019	10,764
Mortgages		71,389	69,658
Securities and precious metals trading portfolios		11,394	13,284
Financial investments		4,027	3,768
Participations		163	161
Tangible fixed assets		723	698
Intangible assets		1	5
– of which goodwill	A	0	3
– of which other intangible assets	B	1	2
Accrued income and prepaid expenses		303	338
Other assets		12,003	6,866
– of which deferred tax assets which rely on future profitability	C	10	9
Total assets		158,392	149,707
Liabilities			
Current liabilities			
Due to banks		33,870	31,788
Due to customers in savings and investment accounts		45,624	43,992
Other amounts due to customers		37,021	37,101
Cash bonds		381	460
Bonds		7,817	8,104
Central mortgage institution loans		6,964	6,212
Accrued expenses and deferred income		265	284
Other liabilities		16,242	11,869
Allowances and provisions		721	688
Total liabilities		148,905	140,499
– of which subordinated liabilities eligible as additional Tier 1 capital (AT1)	D	588	589
Equity			
Corporate capital		1,925	1,925
– of which eligible as CET1	E	1,925	1,925
Profit reserves	F	6,914	6,485
- of which foreign currency translation reserve	G	–4	–4
Group net income		647	797
– of which retained earnings	H	368	428
Minority interests			
Total equity		9,487	9,208
Total liabilities		158,392	149,707

[1] The regulatory scope of consolidation pursuant to the Capital Adequacy Ordinance is identical to that used in accounting.

Fig. 17: Eligible capital (group) after distribution of profit [1]

in CHF million	References to Fig. 16	31.12.2014 [2]	31.12.2013 [2]
Common equity Tier 1 (CET1)			
Issued and paid-up corporate capital, fully eligible	E	1,925	1,925
Profit reserves, including reserves for general banking risks/profit (loss) brought forward and profit (loss) for the period	F–G+H	7,286	6,917
Capital reserves and foreign currency translation reserve	G	–4	–4
Common equity Tier 1 before adjustments		9,207	8,839
Adjustments to common equity Tier 1			
Goodwill	A	–0	–3
Other intangible assets	B	–1	–2
Deferred tax assets which rely on future profitability	C	–10	–9
Reclassification of CET1 to Tier 2 to cover the progressive component		–588	
Total adjustments to common equity Tier 1		–600	–15
Common equity Tier 1 (net CET1)		8,607	8,824
Additional Tier 1 capital (AT1)			
Issued and paid up debt instruments		590	590
Deduction of net long positions in own AT1 instruments		–2	–1
Additional Tier 1 capital (net AT1) [3]	D	588	589
Core capital (net Tier 1)		9,195	9,412
Reclassification of CET1 to Tier 2 to cover the progressive component		588	
Supplementary capital (net Tier 2)		588	
Regulatory total capital (net Tier 1 & net Tier 2)		9,783	9,412

[1] Unused headings in accordance with model table 1b) of Appendix 2 FINMA Circular 2008/22 "Capital Adequacy Disclosure – Banks" are omitted in favour of a more straightforward presentation.
[2] Figures for capital are calculated in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
[3] Consists solely of high-trigger convertible capital.

Fig. 18: Required minimum capital (group)

in CHF million	Remarks	31.12.2014	31.12.2013
Credit risks (using Swiss standard approach)	including CVA [1]	3,999	3,864
– of which price risks relating to equity-type securities in the banking book		27	40
Non-counterparty-related risks (using Swiss standard approach)		159	155
Market risks		276	343
– of which market risks (using model-based approach) [2]		166	165
– of which market risks on interest rate instruments (specific market risks) [3]		110	179
Operational risks (using basic indicator approach)		303	311
Reduction because of deductible allowances and provisions [4]		–32	–32
Required minimum capital		4,705	4,642
Total risk-weighted assets	12,5 x minimum capital	58,816	58,020

[1] The capital adequacy requirements for the risk of possible value adjustments due to counterparty credit risk on derivatives (CVA risk) are calculated in accordance with the standard approach (CHF 215 million as at 31.12.2014).
[2] Excludes specific interest rate risks; aggregate value-at-risk (VaR) from average for the 60 immediately preceding trading days and stress-based VaR from average for the 12 immediately preceding weeks.
[3] Specific risks due to interest rates (from interest rate instruments, options and credit derivatives).
[4] Under the Swiss standard approach for credit risk (SA-CH), the allowances and provisions recognised as liabilities are deducted from the required capital on a global basis in accordance with Art. 137 para. 1 CAO.

Fig. 19: Capital ratios in accordance with Basel III (Switzerland) group

	Remarks	31.12.2014 [1]	31.12.2013 [1]
Common equity Tier 1 ratio (CET1)	based on minimum capital (8 %)	14.6 %	15.2 %
Additional Tier 1 capital ratio (AT1)	based on minimum capital (8 %)	1.0 %	1.0 %
Core capital ratio (Tier 1 = CET1 + AT1)	based on minimum capital (8 %)	15.6 %	16.2 %
Supplementary capital ratio (Tier 2)	based on minimum capital (8 %)	1.0 %	
Total capital ratio (Tier 1 + Tier 2)	based on minimum capital (8 %)	16.6 %	16.2 %
CET1 requirements pursuant to CAO (minimum requirements + capital buffer + countercyclical buffer) plus the capital buffer for global systemically important institutions in accordance with the Basel parameters (in % of risk-weighted assets)		4.7 %	3.9 %
– of which capital buffer pursuant to CAO (in % of risk-weighted assets) [2]			
– of which countercyclical buffer (in % of risk-weighted assets)		0.7 % [3]	0.4 % [4]
– of which capital buffer for global systemically important institutions in accordance with the Basel parameters (in % of risk-weighted assets)		–	–
Available CET1 to meet minimum and buffer requirements after deduction of AT1 and Tier 2 requirements, which are met through CET1 (in % of risk-weighted assets)		12.6 % [5]	11.7 % [6]
CET1 requirement plus countercyclical buffer (in % of risk-weighted assets)		10.7 % [7]	8.7 % [8]
Available CET1 to meet target plus countercyclical buffer, after deduction of AT1 and Tier 2 requirements, which are met through CET1 (in % of risk-weighted assets)		12.6 % [9]	11.5% [10]
Tier 1 target plus countercyclical buffer (in % of risk-weighted assets)		13.7 %	10.7 %
Available CET 1 to meet target plus countercyclical buffer, after deduction of Tier 2 requirements, which are met through Tier 1 (in % of risk-weighted assets)		15.6 %	13.5 %
Regulatory capital target plus countercyclical buffer (in % of risk-weighted assets)		14.7 %	13.4 %
Available regulatory capital to meet target plus countercyclical buffer (in % of risk-weighted assets)		16.6 %	16.2 %

[1] Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
[2] Based on the transitional provisions (Art. 144 CAO), the capital buffer specified in Art. 43 CAO for years 2013 to 2015 is 0 %.
[3] The basis for the countercyclical capital buffer is mortgage lending for the financing of residential property in Switzerland. It was increased to 2 % of the relevant risk-weighted assets on 30 June 2014 and amounted to CHF 418 million as at 31 December 2014.
[4] The basis for the countercyclical capital buffer is mortgage lending for the financing of residential property in Switzerland. It was set at 1% of the relevant risk-weighted assets on 31 December 2013 and amounted to CHF 204 million.
[5] AT1 minimum requirement 1.5 % (Art. 143 CAO), Tier 2 minimum requirement 2.5 % (Art. 42 para. 1 CAO) as at 31 December 2014
[6] AT1 minimum requirement 1.0 % (Art. 143 CAO), Tier 2 minimum requirement 3.5 % (Art. 42 para. 1 CAO) as at 31 December 2013.
[7] Derived from the FINMA decree of August 2014, the CET1 target for Zürcher Kantonalbank is 10 % from 31 December 2014.
[8] Derived from the FINMA decree of February 2013, the CET1 target for Zürcher Kantonalbank was 8.3% on 31 December 2013.
[9] Derived from the FINMA decree of August 2014, the AT1 target for Zürcher Kantonalbank is 3.0 % and the Tier 2 target 1.0 % from 31 December 2014.
[10] Derived from the FINMA decree of February 2013, the AT1 target for Zürcher Kantonalbank was 2.0 % and the Tier 2 target 2.7 % on 31 December 2013.

Fig. 20: Composition of capital and capital ratios for systemically important banks (group)

in CHF million		31.12.2014 [1]	31.12.2013 [1]
Common equity Tier 1 (CET1)		9,207	8,839
Adjustments to common equity Tier 1		–11	–15
Reclassification of CET1 to Tier 2 to cover the progressive component		–588	
Common equity Tier 1 (net CET1)		8,607	8,824
High-trigger convertible capital [2]		588	589
Low-trigger convertible capital [3]		588	
Total capital		9,783	9,412
Total risk-weighted assets (in CHF million)		58,816	58,020
Capital ratios			
Common equity Tier 1 ratio (CET1)	based on minimum capital (8 %)	14.6 %	15.2 %
High-trigger convertible capital ratio	based on minimum capital (8 %)	1.0 %	1.0 %
Low-trigger convertible capital ratio	based on minimum capital (8 %)	1.0 %	
Total capital ratio	based on minimum capital (8 %)	16.6 %	16.2 %

[1] Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
[2] Consists solely of additional Tier 1 capital (AT1).
[3] CET1 reclassified in accordance with Art. 130 para. 3 CAO to cover progressive component.

Fig. 21: Risk-weighted capital requirement and coverage for systemically important banks (group)

31.12.2014	Basic requirement	Capital buffer	Progressive component	Excess	Total
Total risk-weighted assets (in CHF million)	–	–	–	–	58,816
Capital requirements					
Minimum capital ratio [1]	4.5 %	9.2 % [2]	1.0 %	–	14.7 %
Minimum capital requirement (CHF million) [3]	2,647	5,418	588	–	8,652
Capital coverage (in CHF million) [4]					
Common equity Tier 1 (net CET1)	2,647	4,830	–	1,131	8,607
High-trigger convertible capital	–	588	–		588
Low-trigger convertible capital [5]	–	–	588		588
Total	2,647	5,418	588	1,131	9,783
Capital ratios 31.12.2014	4.5 %	9.2 %	1.0 %	1.9 %	16.6 %
Capital ratios 31.12.2013 [6]	3.5 %	3.9 %	0.3 %	8.6 %	16.2 %

[1] In accordance with Art. 128–132 CAO.
[2] Includes countercyclical capital buffer (capital requirement CHF 418 million, or 0.7%).
[3] Capital requirements are calculated as a percentage of risk-weighted assets.
[4] Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
[5] CET1 reclassified in accordance with Art. 130 para. 3 CAO to cover the progressive component.
[6] Due to the transitional provisions pursuant to Art. 145–147 CAO, the weighted capital requirement was 7.6% on 31 December 2013.

As the total net positions for equity instruments of companies operating in the financial sector are below the corresponding thresholds, no capital deduction is required and the positions are risk-weighted.

Fig. 22: Thresholds and positions with no deduction from common equity Tier 1 (CET1) group [1]

	31.12.2014		31.12.2013	
in CHF million	Amount [2]	Threshold	Amount [2]	Threshold
Non-qualified participations in the share capital of other companies in the financial sector	567	920 [3]	477	882 [3]
Qualified participations in the share capital of other companies in the financial sector	227	920 [4]	197	882 [4]

[1] Amounts below the threshold are subject to normal capital adequacy requirements. Zürcher Kantonalbank does not have any “mortgage servicing rights” or “other deferred tax assets”.
[2] Net position (trading and banking book) for equity instruments of companies operating in the financial sector (Art. 52 CAO).
[3] Threshold 1 pursuant to Art. 35 para. 2 CAO.
[4] Threshold 2 pursuant to Art. 35 para. 3 CAO.

Unweighted capital adequacy requirement (leverage ratio)

The unweighted capital adequacy requirement (leverage ratio) is 24 percent of the weighted capital adequacy requirement including countercyclical capital buffer and amounts to 3.53 percent of total exposure as at 31 December 2014. The leverage ratio of 5.80 percent lies well above the requirement of 3.53 percent, thus highlighting Zürcher Kantonalbank's strong equity base in terms of the unweighted capital adequacy requirement too.

Fig. 23: Leverage ratio (group)

in CHF million	31.12.2014	31.12.2013
Total capital [1]	9,783	9,412
Average total exposure [2]		
Total balance sheet positions	157,769	150,170
Adjustment for securities financing and repo transactions [3]	1,904	1,722
Adjustment for derivative positions [4]	–3,672	–1,203
Off-balance-sheet items (credit conversion factor 100 %)	11,277	12,049
Unconditionally cancellable commitments (credit conversion factor 10 %)	1,516	1,443
Corrections [5]	–14	–15
Total	168,780	164,167
Leverage Ratio	5.80 %	5.73 %

[1] Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
[2] Calculated in accordance with Art. 133–135 CAO from the average of the last three values at the end of the month.
[3] Netting and surplus claims in relation to securities financing and repo transactions.
[4] Netting and credit equivalents (add-on) based on current exposure method.
[5] Items deducted directly from equity in accordance with Art. 32–40 CAO.

Fig. 24: Leverage ratio requirements and coverage (group)

31.12.2014	Basic requirement	Capital buffer [1]	Progressive component	Excess	Total
Average adjusted total exposure	–	–	–	–	168,780
Capital requirements					
Minimum capital ratio [2]	1.08 %	2.21 %	0.24 %	–	3.53 %
Minimum capital requirement (CHF million) [3]	1,823	3,731	405	–	5,959
Capital coverage (in CHF million) [4]					
Common equity Tier 1 (net CET1)	1,823	3,144	–	3,641	8,607
High-trigger convertible capital	–	588	–		588
Low-trigger convertible capital [5]	–	–	405	183	588
Total	1,823	3,731	405	3,824	9,783
Leverage ratio 31.12.2014	1.08 %	2.21 %	0.24 %	2.27 %	5.80 %
Leverage ratio 31.12.2013 [6]	0.84 %	0.92 %	0.06 %	3.91 %	5.73 %

[1] Includes countercyclical capital buffer.
[2] 24 % of the minimum capital ratios in accordance with Art. 134 CAO.
[3] Capital requirements are calculated as a percentage of the average adjusted total exposure.
[4] Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
[5] CET1 reclassified in accordance with Art. 130 para. 3 CAO to cover the progressive component.
[6] Due to the transitional provisions in accordance with Art. 145–147 CAO, the unweighted capital requirement was 1.82 % on 31 December 2013.

The following table lists the key characteristics of all Zürcher Kantonalbank's regulatory capital instruments. Detailed current information on individual instruments can be found at www.zkb.ch under "Kapitalinstrumente" (German-only).

Fig. 25: Key characteristics of regulatory capital instruments (as at 31 December 2014)

	Endowment capital	Tier 1 bond
Issuer	Zürcher Kantonalbank	Zürcher Kantonalbank
Applicable law to instrument	Swiss law	Swiss law
Identifier (ISIN)	n/a	CH0143808332
Supervisory treatment		
Treatment under Basel III transitional rules (CET1/AT1/T2)	Common equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)
Treatment after Basel III transitional period (CET1/AT1/T2)	Common equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)
Eligible at solo/group/solo and group levels	Solo and group level	Solo and group level
Equity securities/debt securities/hybrid instruments/ other instruments	Other instruments	Hybrid instrument (subordinated bond with conditional claim waiver)
Amount eligible as regulatory capital (according to latest statement of changes in equity)	CHF 1,925 million	CHF 588 million
Nominal value of instrument	CHF 1,925 million	CHF 590 million
Accounting item	Corporate capital	Bonds
Original date of issue	15.02.1870	31.01.2012
Unlimited or with expiry date	Unlimited	Unlimited
Original date of maturity	n/a	n/a
May be terminated by issuer (with prior consent of supervisory authority)	No	Yes
May be terminated at any time/in specific circumstances/redemption amount	n/a	First possible termination date 30.06.2017. Redemption amount: entire outstanding issue, no partial termination
May be terminated at a later date, if applicable	n/a	Thereafter annually on the interest date of 30 June
Coupons/dividends		
Fixed/variable/initially fixed then variable/ initially variable then fixed	n/a	Fixed with revision every 5 years
Nominal coupon and any reference index	n/a	Fixed at 3.5% until 30.06.2017; thereafter revised every 5 years based on 5-year mid-swap plus 2.98% risk premium
Existence of a dividend stopper arrangement (the waiving of dividends on the instrument also results in the stopping of dividends on common shares)	n/a	Yes. No distribution to canton if coupon is not paid.
Interest payment/dividend: fully discretionary/partly discretionary/mandatory	Profit distribution fully discretionary	Payment of interest fully discretionary
Existence of an interest step-up clause or other incentive to redeem	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible, claim waiver
Write-down characteristics	n/a	Write-down until trigger ratio (7%) is met again.
Trigger for write-down	n/a	Common equity Tier 1 (CET 1) capital ratio falls below 7% or FINMA declares impending insolvency.
Full/partial	n/a	Full or partial. To return to the trigger ratio (7%) in 25% stages from the nominal amount
Permanent or temporary	n/a	Permanent
In the case of temporary depreciation: allocation mechanism	n/a	n/a
Hierarchy in event of liquidation (state the higher-ranked instrument in each case)	Tier 1 bond	Subordinate to all other subordinated liabilities (if any) except pari passu instruments.
Existence of characteristics that prevent full recognition under Basel III	No	No

Credit risks

Loans, promises of payment and trading business involve credit risks. Credit risk is the risk whereby payments due from a debtor are not met or are not met on time.

Processes and methods

Credit risks are managed and controlled at individual exposure level by means of detailed parameters and areas of responsibility within the credit process, whilst at portfolio level they are managed and controlled by limiting risk capital for the credit business in accordance with the capital-at-risk approach. 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 default probability, assumptions regarding exposures in the event of default, together with estimates of loss rates on default. Rating models specific to individual segments are used to determine default probabilities. The rating system for retail and corporate customers as well as banks combines statistical procedures with many years of practical experience in the credit business and incorporates both qualitative and quantitative elements. The procedure for banks additionally takes account of ratings from recognised ratings agencies. 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 – in particular the correlations between debtors – are significant for the modelling of unexpected losses. In principle, the model covers balance sheet and off-balance-sheet items.

For the valuation of collateral for loans, in particular the calculation of market and collateral values, the corresponding methods, procedures and responsibilities are specified in an extensive set of internal rules. These rules are continually monitored 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. This includes the use of hedonic models, income capitalisation approaches and expert appraisals. The models used as well as the individual valuations are reviewed on a regular basis. The maximum loan-to-value ratio for properties secured by mortgage is based on the marketability of the collateral and influenced by factors such as location and type of property (house or commercial property, for example). Marketable collateral (securities, precious metals, account balances, for example) is in principle valued at current market prices. Marketable collateral is subject to the deduction of specified margins. These margins differ primarily depending on the marketable collateral's susceptibility to fluctuations in value.

Limits are used to minimise credit exposures. 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 valued each day, while exposures from trading business are valued on a real-time basis. In the case of trading business, pre-deal checks can be undertaken to examine and ensure adherence to counterparty limits. Any breaches of the limits are reported promptly to the officer responsible. An early-warning system is used to identify negative developments and communicate them to the officers responsible. The rating of corporate customers is in principle reviewed once a year on the basis of the annual financial statements. A supplementary review of ratings, limits and exposures in retail and corporate customer 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.

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 risk domicile is determined by taking into account the domicile of the collateral. The risks for each country, total country risks and total country risks outside the best rating category (bank in-house rating categories B to G) are subject to limits, adherence to which is monitored on a constant basis.

Risk profile

Figure 26 illustrates credit exposures by counterparty group in accordance with Basel III.

The following sections provide information about the most important sub-portfolios of the credit exposures of Zürcher Kantonalbank on the basis of various criteria.

Credit exposures by rating category

Default probability ratings for corporate and private customers are assigned on the basis of a scale of 1 to 19, and for banks on a scale of 1 to 9. Figure 27 shows the credit exposures to counterparties by rating category using S&P's rating scale. There was no material change in the distribution of credit exposures by rating category compared with the previous year.

Credit exposures by customer portfolio

Figure 28 shows credit exposures classified in accordance with the bank's internally defined customer portfolios. Credit exposures in relation to "private individuals" consist almost entirely of mortgages and represent 51 percent (2013: 55 percent) of total credit exposures. The "companies" portfolio consists of credit exposures in relation to customers of a commercial nature. The share of this customer group in total credit exposures is 22 percent (2013: 22 percent), 80 percent (2013: 81 percent) of which is secured by mortgage or cash. In the "banks and securities dealers" portfolio, the larger share of credit exposures in volume terms is in the form of collateralised transactions such as reverserepo transactions. Other credit exposures in relation to banks arise as a result of trading operations and from the export financing business. Insurance companies, pension funds, financial holding companies, investment fund companies and similar companies together constitute the "Financial sector excluding banks" portfolio. "Governments and public entities" – the smallest portfolio, with a share of 3 percent of the volume of credit exposures – consists of positions with central banks, central governments and public authorities and institutions.

Fig. 26: Group credit exposure breakdown by counterparty group

Credit exposure [1] in CHF million	Central governments and central banks	Banks and securities traders	Other institutions [2]	Companies	Retail customers and small businesses [3]	Other positions [4]	**Total**
Balance sheet items							
Money market placements [5]				4			4
Due from banks	0	16,235	0			67	16,302
Due from customers	2	0	3,127	10,119	1,658	114	15,019
Mortgages			7	5,275	64,156	1,950	71,389
Debt securities in financial investments	789	682	1,219	1,042	270	10	4,012
Accrued income and prepaid expenses						303	303
Other assets [6]	101	7,553	262	2,913	467	305	11,601
Total as at 31.12.2014	891	24,470	4,615	19,353	66,552	2,748	118,630
Total as at 31.12.2013	654	20,233	1,650	15,951	64,935	2,349	105,773
Off-balance-sheet transactions							
Contingent liabilities	8	760	81	2,691	317	30	3,886
Irrevocable commitments [7]	4	536	318	5,476	1,054	44	7,432
Liabilities for calls on shares and other equities						147	147
Credit commitments							
Total as at 31.12.2014	12	1,296	399	8,167	1,370	221	11,465
Total as at 31.12.2013	8	955	408	8,797	1,397	154	11,719

1 The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Cash, non-counterparty-related assets and exposure with equity-type characteristics are not stated under credit exposure.
2 This group includes public authorities and institutions, the Bank for International Settlements (BIS), the International Monetary Fund (IMF), multilateral development banks and joint institutions.
3 Small businesses are defined by Zürcher Kantonalbank as all companies that meet at least one of the following conditions: number of employees < 50, total assets < CHF 6 million, net sales < CHF 15 million.
4 E.g. foundations or accrued income and prepaid expenses.
5 Excludes money market paper in the trading book.
6 Excludes equalising accounts for value adjustments not recognised in the income statement and deferred tax assets which rely on future profitability.
7 Irrevocable commitments are disclosed in accordance with the definition specified in the Capital Adequacy Ordinance (CAO). Due to the different measurement criteria, the total may differ from the total under the Bank Accounting Guidelines (group balance sheet).

Fig. 27: Credit exposures by rating category

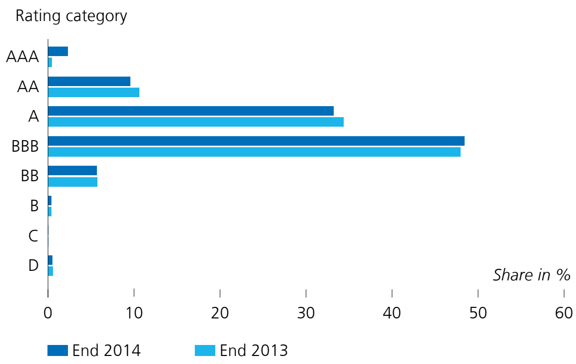


Fig. 28: Credit exposures by customer portfolio

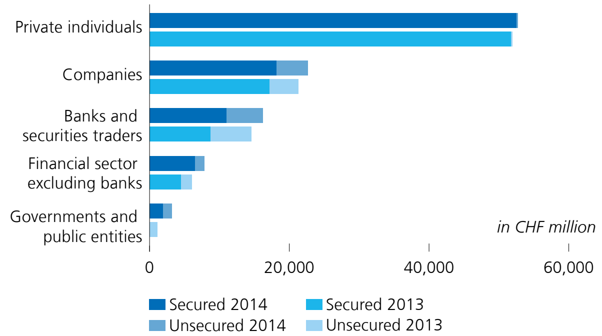


Fig. 29: Unsecured credit exposures of corporate customers by rating category

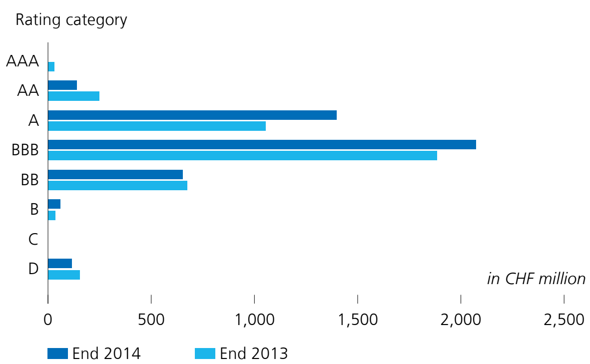
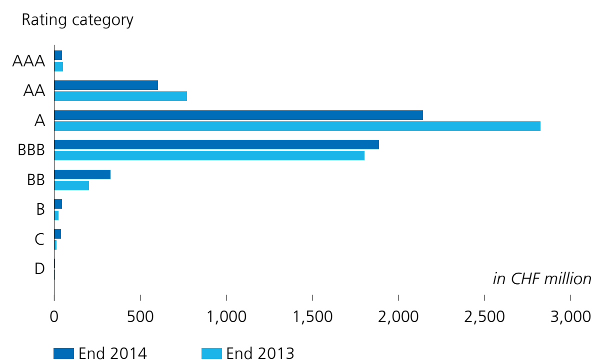


Fig. 30: Unsecured credit exposures of banks and securities traders by rating



Mortgage exposure to private individuals
Real estate financing for private individuals is part of Zürcher Kantonalbank's core business. Two-thirds of mortgage exposures relate to owner-occupied residential property. The remaining exposures are secured with rented residential properties or properties that are used for commercial purposes. The median gross loan-to-value ratio for all properties in the private customer portfolio was 52 percent (2013: 53 percent).

Unsecured credit exposure
81 percent (2013: 78 percent) of unsecured credit exposure in the "companies" portfolio (Fig. 29) relates to customers in the AAA to BBB (investment grade) rating categories. Unsecured lending in the corporate customers portfolio increased slightly compared with the previous year, although the increase was centred on the A and BBB rating categories. In the "banks and securities traders" customer portfolio (Fig. 30), the share of unsecured loans fell versus the previous year due to a decrease in money market business and lower account balances. 90 percent (2013: 94 percent) of unsecured exposures relate to rating categories AAA to BBB (investment grade).

International credit exposure

The net international exposure consists of loans at nominal value, issuer risks at market value and derivatives at replacement value plus premium. The risk premium takes account of the security margin calculated to cover the future potential default risk over the defined holding period of the contract. Figure 31 shows the marginally higher international exposure in relation to the previous year at CHF 13.9 billion, of which 78.3 percent (2013: 80.2 percent) stems from countries to which Zürcher Kantonalbank assigns its best in-house rating category (A) (corresponds to Moody's Aaa/Aa1/Aa2/Aa3 ratings). Credit exposures by region (geographical credit risk) are illustrated in Note 3. "Information on the balance sheet" (Table 3.14, p. 91).

Allowances and provisions

The methods of creating and reversing allowances and provisions are explained in the section "Consolidation, accounting and valuation principles" (p. 78). The volume of allowances and provisions for credit risks was reduced by CHF 58 million to CHF 321 million in 2014.

Impaired loans

Impaired loans amounted to CHF 605 million (2013: CHF 674 million). After deduction of the estimated recoverable value of the collateral, there was a net debt of CHF 291 million (2013: CHF 335 million; see Table 3.1.2, p. 80). Risk-weighted, impaired international loans accounted for under 15 percent of the bank's total risk-weighted impaired loans, and for that reason no geographical breakdown is provided.

Non-performing loans

The nominal value of non-performing loans amounted to CHF 138 million at the end of the reporting period (2013: CHF 176 million). Loans are classified as non-performing when interest payments, commission, amortisation 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 a borrower's financial standing. In addition, non-performing loans are often a component of impaired loans.

Fig. 31: Net international group exposure by rating category

		31.12.2014 Net international exposure		31.12.2013 Net international exposure	
Bank country rating	Moody's	in CHF million	Share in %	in CHF million	Share in %
A	Aaa/Aa1/Aa2/Aa3	10,901	78.3	11,081	80.2
B	A1/A2/A3	921	6.6	982	7.1
C	Baa1/Baa2/Baa3	1,951	14.0	1,678	12.1
D	Ba1/Ba2	96	0.7	10	0.1
E	Ba3	26	0.2	13	0.1
F	B1/B2/B3	21	0.1	39	0.3
G	Caa1/Caa2/Caa3/Ca/C	11	0.1	9	0.1
Total		13,927	100.0	13,812	100.0

Settlement risk

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 counter-payment 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's membership of the CLS Bank International Ltd. joint venture - a clearing centre for settlement of foreign exchange transactions on a "delivery versus payment" basis - helps ensure that a substantial element of the settlement risk arising as a result of foreign exchange trading is eliminated.

Risk concentration

Zürcher Kantonalbank uses an internal, systems-based method for monitoring risk concentration. Besides measurement for the purpose of preparing regulatory reports, risk concentration is restricted at product and customer level using benchmarks that are reflected in the corresponding powers of authorisation. Internal risk concentration reporting includes information on product, sector and individual position concentrations. Due to the bank's anchoring within the Greater Zurich area, the biggest risk concentration in the credit portfolio takes the form of geographical concentration risk.

Regulatory capital adequacy

Capital adequacy requirements for credit risks are calculated using the Swiss standard approach. The credit equivalent of derivatives is calculated based on the fair value method, while the financial collateral comprehensive method is used for credit risk mitigation. In the case of repo transactions, the difference between the margin provided and the securities position constitutes the basis of the capital requirement. In accordance with the regulatory requirements, capital is also required to cover the credit risks arising from financial investments and participations. The capital required for the risk of possible value adjustments due to the counterparty risk on derivatives (CVA risk) is calculated in accordance with the standard approach.

Under Basel III, the risk weightings of counterparties may be calculated on the basis of agency ratings. For the corporate and public-law entity categories, Zürcher Kantonalbank applies the ratings from agencies Standard & Poor's and Moody's. In the case of the bank and sovereign sectors, Fitch ratings are also taken into account. For securities with an issue-specific rating from Standard & Poor's and Moody's, it is this issue rating that is used. Figure 32 shows the scope of risk-weighted positions using external ratings.

Fig. 32: Risk-weighted positions determined on basis of external ratings, as at 31 December 2014

in CHF million		0 %	25 %	50 %	75 %	100 %	150 %
Credit exposure after provision of collateral							
	With rating [1]	1,629		0		7	
Central governments and central banks	No rating					35	
	With rating [1]	–	6,459	2,496		55	7
Banks and securities traders	No rating	–	761	395	53		4
	With rating [2]	–	496	224			
Other institutions	No rating	–				465	0
	With rating [2]	–	764	386		183	7
Companies	No rating	–				7,434	17

[1] Standard & Poor's, Moody's, Fitch.
[2] Standard & Poor's, Moody's.

In accordance with the Capital Adequacy Ordinance, the basis for calculating credit exposures in the case of most transactions is the reported value. In off-balance-sheet transactions, a credit conversion factor is used. Derivative transactions are converted into a credit equivalent and shown after netting. Therefore, the total credit exposures in accordance with the Capital Adequacy Ordinance in Figures 34 and 35 may not be identical to those in the table "Group credit exposure breakdown by counterparty group" (Fig. 26, p. 116).

Banks can reduce their capital adequacy requirements for credit risk through the inclusion of collateral. Collateral recognised by the Swiss Financial Market Supervisory Authority (FINMA) for the purpose of reducing credit risk includes securities, guarantees and loans secured by mortgage. Figure 34 provides a breakdown of credit exposures by type of collateral in accordance with the Capital Adequacy Ordinance. The collateral comprehensive method is used in relation to financial collateral. Here the collateral is deducted from the exposures after taking into account the corresponding haircuts. The substitution approach is used for guarantees. The resulting credit exposure breakdown by risk weighting category is shown by counterparty group in Figure 35. The biggest increases occurred in relation to credit exposures with a 0 percent risk weight (+ CHF 2.5 billion) and in relation to those with a 35 percent risk weight (+ CHF 1.7 billion) from the increase in loans secured by mortgage.

On a selective basis, Zürcher Kantonalbank uses credit derivatives for the purpose of hedging credit exposures or acts as protection seller in individual customer-induced transactions and passes the risks on to the market. The contract volume of credit derivatives managed in the banking book in accordance with the Capital Adequacy Ordinance (CAO) was CHF 0.5 billion at the end of the year (Fig. 33).

Fig. 33: Credit derivatives in the banking book (group)

in CHF million	Protection seller Contract volume	Protection buyer Contract volume
Credit default swaps		
Credit linked notes		
Total return swaps	522	522
First-to-default swaps		
Other credit derivatives		
Total as at 31 December 2014	522	522
Total as at 31 December 2013	1,328	1,328

Fig. 34: Regulatory group credit risk mitigation

in CHF million	Secured by guarantees	Secured by real estate	Financial collateral [1]	Other credit exposures	**Total**
Credit exposures [2]					
Central governments and central banks	1			918	919
– of which derivatives [3]				74	74
Banks and securities traders	716			18,968	19,684
– of which derivatives [3]				3,111	3,111
Other institutions	170	7		4,943	5,120
– of which derivatives [3]				345	345
Companies [4]	996	5,087	1,087	13,057	20,226
– of which derivatives [3]				1,318	1,318
Private customers and small businesses	232	63,687	731	2,432	67,081
– of which derivatives [3]				519	519
Other positions		1,889	21	28,571	30,481
– of which derivatives [3]				320	320
Total as at 31 December 2014	2,114	70,670	1,839	68,890	143,512
Total as at 31 December 2013	2,535	68,820	2,145	66,723	140,222

[1] Effective 31 December 2012, risk is mitigated using the financial collateral comprehensive method. Financial collateral is stated at the net value after taking into account supervisory haircuts.
[2] The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Non-counterparty-related assets and exposures with equity-type characteristics are not stated under credit exposure. Credit exposures are shown after netting based on equity. Off-balance-sheet items were converted into their credit equivalents.
[3] The fair value method was used to calculate the credit equivalents on derivatives.
[4] Includes exposures vis-à-vis qualified central counterparties (CHF 997 million).

Fig. 35: Group credit exposure breakdown by risk weighting category [1]

in CHF million	0 %	2 %	25 %	35 %	50 %	75 %	100 %	150 %	250 %	Decuction	**Total**
Credit exposure after provision of collateral [2]											
Central governments and central banks	2,344				0		42				2,386
– of which derivatives [3]	34						40				74
Banks and securities traders	9,368		7,220		2,891	53	55	11			19,598
– of which derivatives [3]			2,827		261	21	1	1			3,111
Other institutions	2,000		1,310	4	1,178	3	465	0			4,960
– of which derivatives [3]			70		61		213				345
Companies [4]	3,282	997	764	3,315	394	1,223	8,151	24			18,150
– of which derivatives [3]		248	99		90		880				1,318
Private customers and small businesses				54,085	407	7,292	4,290	42	3		66,119
– of which derivatives [3]							519				519
Other positions	27,124			1,005		694	1,636	0			30,460
– of which derivatives [3]							320				320
Total as at 31 December 2014	44,119	997	9,293	58,410	4,870	9,265	14,639	78	3		141,673
Total as at 31 December 2013	41,556	1,246	9,695	56,744	5,752	9,186	13,779	120	1		138,077

[1] Zürcher Kantonalbank does not have any credit exposures with a risk weighting of 125 percent.
[2] The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Non-counterparty-related assets and exposures with equity-type characteristics are not stated under credit exposure. Credit exposures are shown after netting based on equity. Off-balance-sheet items were converted into their credit equivalents. Effective 31 December 2012, the financial collateral comprehensive method is used for credit risk mitigation. Under this method, the net value of financial collateral is deducted from the covered exposure after taking into account supervisory haircuts. The substitution approach continues to be used for guarantees, whereby covered exposures can be allocated to the counterparty group of the protection seller in order to reflect the lower risk of the collateral. In contrast with the previous table, this table shows the credit exposures of the counterparty groups after the provision of collateral (deduction or substitution).
[3] The fair value method was used to calculate the credit equivalents on derivatives.
[4] Includes exposures vis-à-vis qualified central counterparties (risk weighting category 2 %).

Market risks in trading

Market risks comprise the risk of financial losses on own securities and derivatives as a result of changes in factors that determine the market price, such as share prices, interest rates, volatilities and exchange rates, as well as issuer default.

Processes and methods

Market risk is 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. It 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 capital-at-risk market risk corresponds to the assigned risk capital for the market risks of trading operations on a one-year horizon. In relation to the general and specific market risks of the trading book, the loss probability of the risk capital is monitored through capital budgeting. This is based on three key elements:

- the earnings generated during the calendar year,
- the value-at-risk calculated using the model-based approach and
- a distribution assumption (“tail coefficient”), with the help of which the loss potential is extrapolated to high quantiles.

The aim of capital budgeting is to limit risk-taking in accordance with economic capital. Issuer default risks for trading business are taken into account using a separate model.

Using a Monte Carlo simulation, Zürcher Kantonalbank calculates value-at-risk for a 10-day period and at a confidence level of 99 percent. 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, whereby more recent observations for the forecasting of volatility are accorded a higher weighting than less recent ones. As a result, value-at-risk responds rapidly to any changing 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 separately as well as on a combined basis (Fig. 36).

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 prices on a 70 percent increase in market volatility. The risk of losses due to general changes in price and volatility can therefore be identified. Non-linearity or asymmetry of risks can be observed in the matrix scenarios. Zürcher Kantonalbank identifies probability-based scenarios - which are accorded a 0.1 percent probability of occurring - in addition to the matrix scenarios. These scenarios are calculated with increased correlations between risk factors, with a view to taking into account 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 case of a change in the key risk factors is compared with the total market volume.

Fig. 36: Market risks in the trading book (group)

Risks including volatility risks in CHF million	Commodities [1]	Currencies [2]	Interest rates	Equities	Diversification	Modelled total risk	Total risk [3]
Risks based on model approach (value-at-risk with 10-day holding period)							
As at 31 December 2014	1	1	11	2	–5	10	12
Average 2014	0	1	11	2	–4	10	13
Maximum	2	2	15	4	–7	13	20
Minimum	0	0	8	1	–3	7	10
As at 31 December 2013	0	1	10	2	–2	10	13

[1] Excluding gold
[2] Including gold
[3] Sum of modelled total risk and risk premium (CHF 2.4 million as at 31 December 2014) for trading products not fully modelled.

Hypothetical closing-out expenses are calculated for bonds and bond-type products, based on observed bid-ask spreads and taking into account additional pricing supplements/discounts. Large-scale 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 value-at-risk. Regulatory back-testing is based on comparison of value-at-risk for a holding period of one day with the back-testing result. Any breach of limits is notified to the units responsible immediately.

The market risk model is validated annually on the basis of a defined process. Validation includes quantitative as well as qualitative aspects. The focus of the quantitative validation is the back-testing of the risk-factor distribution, while the focus of the qualitative validation is 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.

Risk profile

At CHF 12 million, value-at-risk was CHF 1 million lower on 31 December 2014 than a year earlier (Fig. 36). Interest rate risks were the dominant factor (Fig. 37). In overall terms, value-at-risk decreased from CHF 16 million in 2013 to CHF 13 million in 2014. As in the previous year, this was due to the persistently low level of volatility on the markets in the year under review.

Fig. 37: Components of value-at-risk (in CHF million)

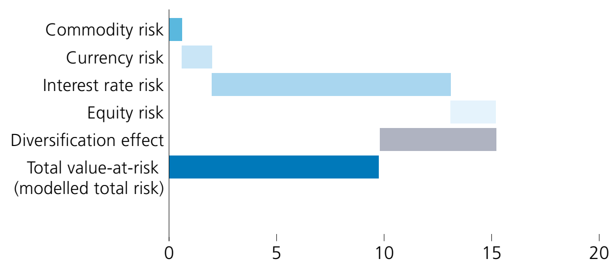
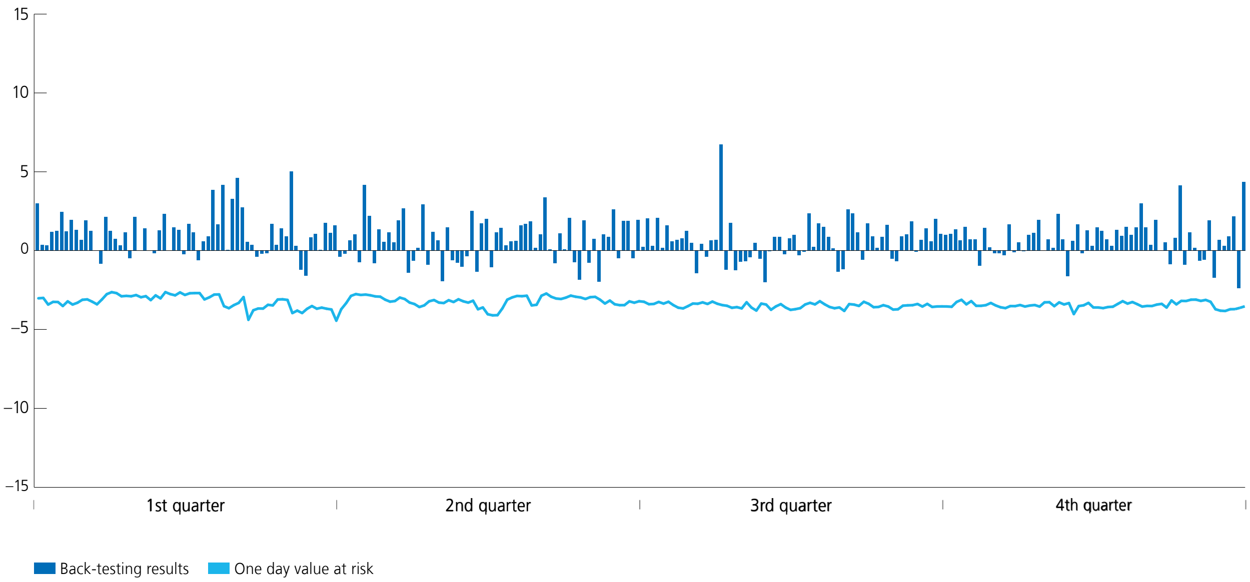


Fig. 38: Comparison of back-testing results[1] and value-at-risk (in CHF million)



[1] The back-testing result corresponds to the adjusted trading income used for the methodological review of the quality of the risk model.

Back-testing results 2014

The quality of the value-at-risk approach used is estimated by comparing the value-at-risk for a holding period of one day with the realised daily back-testing result. Figure 38 shows the relationship between these two criteria. In 2014, no breaches of the value-at-risk were recorded. The back-testing result is therefore below the statistically expected figure. In the case of a one-day holding period and 99-percent quantile, two to three breaches of the value-at-risk are expected each year.

Regulatory capital adequacy

The required capital is calculated in accordance with the capital adequacy requirements for market risk based on a model-based approach approved by the Swiss Financial Supervisory Authority (FINMA) using value-at-risk. Capital adequacy requirements are based on the market risks in the trading book and exchange rate, precious metals and commodity risks in the banking book. Besides the value-at-risk figures calculated daily, stress-based value-at-risk figures are also included in the calculation of required capital on a weekly basis. 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 (Fig. 39). By contrast, calculation of the required capital for the specific risks of interest rate instruments is performed in accordance with the standard approach for market risk.

The required capital for market risks amounted to CHF 276 million as at 31 December 2014 (Fig. 18, p. 109). Because volatility on the markets remained low overall in the year under review, the difference between stress-based value-at-risk and normal value-at-risk was correspondingly substantial.

Fig. 39: Stress-based market risks in the trading book and banking book[1]

Stress-based VaR in CHF million	Modelled total risk	Total risk[2]
Stress-based risks based on model approach (value-at-risk with 10-day holding period)[3]		
As at 31 December 2014	34	36
Average 2014	39	42
Maximum	46	54
Minimum	30	33
As at 31 December 2013	36	40

[1] Including exchange rate, precious metals and commodity risks in the banking book
[2] Sum of modelled total risk and risk premium for trading products not fully modelled
[3] VaR model, calibrated for observed changes in value due to market stress

Risks in the investment portfolio

The risks in the investment portfolio comprise issuer risks on debt instruments in financial investments and market risks on equity-type securities and real estate. Interest rate risks are managed and limited as part of asset and liability management.

Processes and methods

Risk is managed internally by assigning risk capital. The required risk capital for the investment portfolio represents the required regulatory capital. One exception exists in relation to participations in the financial sector, where the risk weights from Basel II are used; given Zürcher Kantonalbank's holdings, this represents a more cautious principle. There are detailed parameters and competencies for the purchase of financial investments and real estate, as well as for entering into participations. The investment policy for the financial investments managed by treasury is laid down in a special directive. Only debt instruments with a first-class credit rating may be purchased. This directive also ensures that concentration at the level of the overall bank is avoided. Adherence to the risk capital limits and internal investment rules for financial investments is monitored by the risk organisation.

Risk profile

The balance sheet value of debt securities in financial investments was CHF 4.0 billion as at 31 December 2014 (2013: CHF 3.8 billion). The portfolio consists of first-class bonds and is diversified in terms of counterparty groups and countries. The distribution by counterparty group is shown in Figure 26 (p. 116). Guarantees given by central governments in relation to debt securities of banks are in some cases not apparent. It should also be noted that due to regulatory requirements the exposure to central mortgage institution loans is shown in the companies counterparty group. Other positions in the investment portfolio are shown in Notes 3.2.2 "Financial investments" (p. 81), 3.2.3 "Participations" (p. 81) and 3.3.2 "Non-consolidated significant participations" (p. 82).

Regulatory capital adequacy

The capital adequacy required for the investment portfolio is calculated using the Swiss standard approach.

Interest rate risks in the balance sheet

Interest rate risks are the risk that changes in market interest rates will impact negatively on Zürcher Kantonalbank's financial position. As well as affecting current interest income, changes in interest rates have implications for future earnings.

Processes and methods

The control of interest rate risk takes account of the present value as well as earnings prospects. With the present value perspective, interest rate risks are controlled by assigning risk capital in accordance with the capital-at-risk approach and using value-at-risk limits. Value-at-risk is determined for a 20-day holding period and confidence level of 99 percent and is calculated on an integrated basis for all currencies using a Monte Carlo simulation. In addition, stress scenarios are simulated in order to analyse and limit the impact of extraordinary changes in the level of interest rates. For operational management, sensitivity ratios are also calculated for each currency (key rate sensitivity).

With the earnings perspective, earnings stress tests are used to analyse the effects of potential changes in the interest rate on current earnings. The earnings stress tests model the effects of scenario-based interest rate changes on the balance-sheet items; reassignments and reinvestment of expiring contracts are eliminated. Changes in future interest income as a result of new business are not taken into account. The earnings stress tests provide an indication of interest income in the coming period in the event of extraordinary changes in market interest rates with unchanged positioning and constant margins.

The non-trading-related interest rate risk of the balance sheet is managed in strategic terms by the board of directors and in tactical terms by the CFO and treasury. Management is based on the market interest method. For non-market-traded balance sheet products with a variable interest rate, the interest rate risk is determined by taking into account restrictions stemming from the capital commitment. The strategic interest rate risk position is specified 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.

Fig. 40: Interest rate sensitivity of the banking book

Basis point sensitivity[1] in CHF 1,000	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	–55	1,310	8,047	9,302
Hedge	52	–171	–2,499	–2,618
Total as at 31 December 2014	–3	1,139	5,549	6,685
Total as at 31 December 2013	–1	1,401	3,172	4,571

Basis point sensitivity[1] in EUR 1,000	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	3	–119	570	454
Hedge	21	70	–184	–92
Total as at 31 December 2014	25	–49	386	362
Total as at 31 December 2013	–3	–	–	–3

[1] Basis point sensitivity is measured as a cash profit/loss when the interest rate in the maturity band concerned falls by one basis point. A basis point is 0.01 percentage points.

Risk profile

The sensitivity data (key rate sensitivity) shown in Figure 40 indicate the value loss or increase in Swiss francs or euros when interest rates for each maturity band fall by one basis point (0.01 percentage points). Due to less close hedging of the newly concluded underlying transaction, the interest rate sensitivity of the banking book as at 31 December 2014 increased compared with the previous year. The value-at-risk also increased accordingly (Fig. 41). In particular, the increase in interest rate sensitivity takes into account the risk of a protracted period of low interest rates.

Fig. 41: Value-at-risk of interest rate risk in the banking book

in CHF million	Value-at-risk (99% quantile)
As at 31 December 2014	–98
As at 31 December 2013	–83

Liquidity and refinancing risks

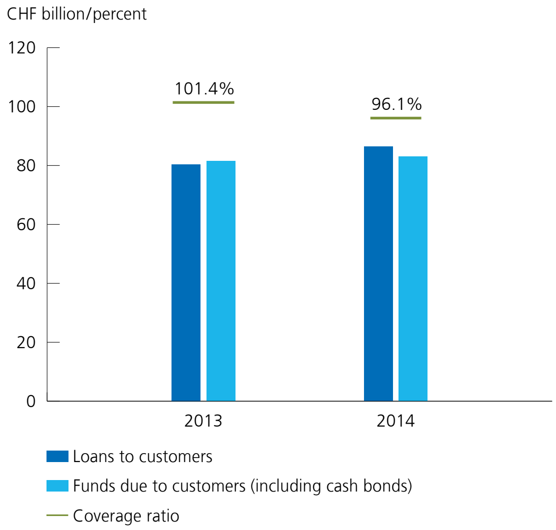
Liquidity risk is the risk that the bank is no longer able to meet its short-term payment obligations. Refinancing risk is the risk that the bank is not in a position to procure sufficient funds for the ongoing financing of its lending business on suitable terms.

Processes and methods

The management, measurement and control of liquidity risk takes place within an organisational and technical framework that embraces a liquidity policy and scenario analysis system and includes an emergency plan. Short-term liquidity management is the responsibility of the treasury, with operational liquidity management delegated to the money trading unit. As risk policy parameter, the board of directors lays down the minimum number of days' survival time under a bank-specific standard stress scenario. An analysis system measures liquidity risks under the standard stress scenario on a daily, fully automated basis. This scenario is based on the assumption that Zürcher Kantonalbank is no longer able to refinance itself on the interbank market on an unsecured basis and that customers withdraw their money and exhaust limits with varying degrees of intensity. The result of the liquidity risk measurement is a daily report on the net liquidity position, availability of liquid assets and securities eligible for repo transactions in financial investments and trading portfolios as well as liquidity inflows and outflows under the standard stress scenario.

Apart from cost aspects, the long-term refinancing approach also includes risk aspects. Risks are managed via an appropriate diversification with regard to refinancing instruments used and markets. The treasury uses short and long-term instruments, which are placed on the domestic and international markets as required.

Fig. 42: Coverage ratio customer business



Risk profile

The liquidity risk profile remained stable in 2014, and it was possible to take up long-term refinancing on the capital market on the planned scale. Figure 42 shows a year-on-year comparison of the coverage ratio for customer business. Funds due to customers (including cash bonds) totalled CHF 83.0 billion as at 31 December 2014, against loans to customers of CHF 86.4 billion. This gives a coverage ratio of 96.1 percent. The decline in relation to the previous year is primarily due to the rise in funds due from customers.

In 2014 Zürcher Kantonalbank already met the regulatory requirements regarding the liquidity coverage ratio (LCR), which took effect on 1 January 2015.

Operational risks

Operational risks are potential risks that arise due to the inappropriateness or failure of persons, systems, procedures or due to external events.

Processes and methods

The assessment of operational risks takes account not only of the direct financial losses but also the consequences of a loss of customer confidence and reputation. The primary objective of Zürcher Kantonalbank's management of operational risk is to ensure that the canton (as owner), customers, partners, the public and the regulator can be confident about the services provided by the bank.

The bank-wide inventory of operational risks constitutes the basis for the management of operational risks. Through periodic, systematic assessments, the operational risks of all the bank's critical services and service providers are identified, assessed and documented. Bank-wide security management constitutes an important component of the management of operational risks, and comprises four areas of security and corresponding protection objectives:

Fig. 43: Security management

Security area	Security protection objective
Business continuity management	Maintaining critical business functions in the event of serious events stemming from operational risks
Data security	Protecting data confidentiality, integrity and availability
Personal safety	Protecting people (life and limb)
Protection of property	Protecting physical assets

The measurement of operational risks is based on an estimate of potential claims and the probability of occurrence. To calculate the operational risks, inherent risks are set against existing risk-mitigating measures. If the residual risks exceed the risk tolerance, additional risk-mitigating measures are defined. The effectiveness of the risk-mitigating measures is monitored in the context of the bank-wide internal controls system.

Risk profile
There was no material change in the bank's risk profile for operating risks compared with the previous year. There were no fundamental changes in the bank's business model or organisational structure. Zürcher Kantonalbank paid particular attention to the identification of operational risk scenarios in relation to cybercrime. The bank's security management is addressing growing threat levels through continuous improvement in protective and defensive measures.

Regulatory capital adequacy
Zürcher Kantonalbank uses the basic indicator approach to determine the required capital for operational risks. As at 31 December 2014, capital of CHF 303 million (2013: CHF 311 million) was required in order to cover operational risks (Fig. 18, p. 109).

Compliance and legal risks

Compliance and legal risks are the risk of a breach of the rules, standards and code of conduct that can lead to legal and regulatory sanctions, financial losses or reputation damage. Zürcher Kantonalbank's compliance function reports directly to the CEO and is independent of profit-driven business activities. It supports the executive board and employees in adhering to the legal and ethical norms applicable to them. Support generally consists of identifying, evaluating, advising, monitoring and reporting, in general terms as well as in individual cases.

Processes and methods
The following are the main risk control instruments used for the management of compliance and legal risks: providing the bank with information on all relevant legal requirements, providing legal advice, training and education of employees, implementation of ordinances through internal bank directives, monitoring and controlling, making inquiries and investigating in the event of a violation of the rules, assisting and instructing civil, criminal and administrative proceedings.

The duties of the compliance function include maintaining the bank-wide compliance risk inventory, determining the risk management tools for compliance risks, as well as preventive management of compliance risks in individual cases. To fulfil its role, the compliance function has unlimited rights of information, access and inspection. As a support function, compliance communicates its legal advice in the form of recommendations. It cannot issue any instructions to risk managers.

The legal and reputation risks in the cross-border financial services business are a focal point in the management of compliance risks.

On 29 August 2013, Switzerland and the United States signed a joint statement aimed at ending the long-running tax dispute between the banks and the US. The Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks launched by the United States Department of Justice is not applicable to banks that were already the subject of an investigation by the DOJ as at 29 August 2013. It therefore does not apply to Zürcher Kantonalbank, which has been under investigation since September 2011. The bank continues to cooperate with the relevant authorities on this matter, and is working towards an agreement. The timing of the conclusion of this process remains uncertain.

Besides assisting the investigation into Zürcher Kantonalbank launched by the United States Department of Justice in 2011, the compliance function drew up numerous directives concerning the cross-border financial services business and further bolstered the tax compliance strategy anchored by the bank. This was accompanied by a series of inquiries in various countries (country set-ups) and training for the employees involved.

A team of specialists analysed the consequences of the Swiss Federal Supreme Court's ruling of 30 October 2012 on retrocessions for Zürcher Kantonalbank and, in a number of specific areas, made changes to contracts and the information provided to customers. Zürcher Kantonalbank has already devoted much attention to this matter in the past, and in 2001, 2006, 2008 and 2009 took measures in response to the requirements of the Federal Supreme Court rulings as well as those of the supervisory authorities. In addition, Zürcher Kantonalbank prepared and implemented a new fund category concept.

Notes

7. Overview 2007–2014

Balance sheet before distribution of profit

in CHF million	2014	2013	2012	2011	2010	2009	2008	2007
Assets								
Cash	27,064	29,530	26,056	8,521	2,361	532	1,840	1,410
Money market placements	5	23	37	287	1,705	171	10,581	124
Due from banks	16,302	14,612	17,185	17,465	19,524	22,363	16,314	23,496
Due from customers	15,019	10,764	11,182	8,833	9,073	9,329	10,491	8,570
Mortgages	71,389	69,658	67,371	65,059	62,021	58,424	53,899	52,158
Loans and advances to customers	86,408	80,421	78,552	73,892	71,094	67,753	64,390	60,727
Securities and precious metals trading portfolios	11,394	13,284	14,532	14,096	12,404	8,948	7,037	9,630
Financial investments	4,027	3,768	3,659	6,973	9,038	9,943	3,697	2,326
Non-consolidated participations	163	161	203	208	151	129	121	127
Tangible fixed assets	723	698	670	674	668	664	684	705
Intangible assets	1	5	9	13	13	2	5	4
Accrued income and prepaid expenses	303	338	391	486	455	406	397	621
Other assets	12,003	6,866	9,399	11,385	8,996	6,324	8,166	4,000
Liabilities								
Due to banks	33,870	31,788	31,813	26,047	27,999	23,241	18,614	28,129
Due to customers in savings and investment accounts	45,624	43,992	44,455	41,751	38,425	36,149	30,710	23,439
Other amounts due to customers	37,021	37,101	36,450	28,139	24,556	26,791	29,587	23,292
Cash bonds	381	460	642	905	1,363	2,467	2,955	2,125
Bonds	7,817	8,104	7,558	6,534	6,665	5,009	5,375	5,651
Central mortgage institution loans	6,964	6,212	5,082	4,033	2,934	2,667	3,383	3,755
Funds due to customers	97,808	95,869	94,187	81,363	73,942	73,083	72,010	58,262
Accrued expenses and deferred income	265	284	294	370	349	351	491	702
Other liabilities	16,242	11,869	15,000	17,022	15,235	12,035	14,032	8,127
Allowances and provisions	721	688	617	631	705	690	648	619
Corporate capital	1,925	1,925	1,925	1,925	1,925	1,925	1,925	1,925
Profit reserves	6,914	6,485	6,266	5,874	5,526	5,158	5,008	4,566
Minority interests in equity								
Group net income	647	797	594	769	729	751	503	843
– of which minority interests								–7
Net equity	9,487	9,208	8,784	8,568	8,180	7,834	7,436	7,334
Balance sheet total	158,392	149,707	150,694	133,999	126,410	117,235	113,231	103,172

Overview of income statement/key figures 2007–2014

in CHF million	2014	2013	2012[1]	2011	2010	2009	2008	2007
Income statement								
Net interest income	1,070	1,117	1,154	1,181	1,099	1,128	1,323	1,219
Net commission and fee income	531	551	536	525	532	508	471	507
Income from trading operations	287	340	379	356	367	508	52	341
Other ordinary income	47	109	54	35	35	90	45	59
Operating income	1,935	2,118	2,122	2,097	2,032	2,234	1,891	2,126
Operating expenses	1,200	1,241	1,266	1,245	1,185	1,234	1,199	1,170
Gross profit	735	877	856	852	847	1,001	692	956
Depreciation	93	87	100	88	74	80	82	81
Allowances, provisions and losses	60	210	46	29	58	181	166	44
Extraordinary income	67	218	33	34	11	13	60	19
Extraordinary expenses	1	0			0	1	0	6
Taxes	0	0	–0	–0	–2	1	1	1
Group net income	647	797	744	769	729	751	503	843
– of which minority interests								–7
Key figures								
Average number of employees	4,822	4,913	5,128	5,037	4,894	4,768	4,562	4,444
Total number of employees at year-end	4,844	4,818	5,068	5,101	4,972	4,825	4,685	4,446
Return-on-equity (ROE) group net income in % of average equity	7.2	9.2	9.0	9.6	9.6	10.3	7.2	12.5
Group net income in % of required capital net	13.8	17.2	16.0	16.8	18.2	20.5	13.3	23.3
Total capital ratio[2]	16.6	16.2	15.2	13.4	14.1	14.1	12.9	13.3
Gross profit per employee[3] (in CHF 1,000)	152	178	167	169	173	210	152	215
Operating expenses per employee[3] (in CHF 1,000)	249	253	247	247	242	259	263	263
Cost/income ratio[4]	66.8	62.7	64.4	63.5	61.9	58.8	67.7	58.9

[1] Figure does not include non-recurring pension expense of CHF 150 million for the pension fund owing to the reduction in the technical interest rate.
[2] Qualifying capital in percent of risk-weighted positions plus the required capital for market risks, operational risks and positions arising from transactions not settled, multiplied by 12.5 for conversion into equivalent units.
[3] Calculated based on the average number of employees.
[4] Operating expenses and depreciation/amortisation in percent of operating income.

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Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the financial statements as of 31 December 2014 of

Zürcher Kantonalbank, Zurich

Ms. President
Ladies and Gentlemen

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zürcher Kantonalbank, which comprise the balance sheet, income statement, cash flow statement and notes (pages 70 to 128) for the year ended 31 December 2014.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Swiss accounting principles for banks and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss accounting principles for banks and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

On the basis of article 728a paragraph 1 item 3 CO and in accordance with Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Zurich, 23 February 2015

Ernst & Young Ltd

Rolf Walker	Stefan Lutz
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Parent company financial statements

Comments on business activities and information on headcounts

The comments on business activities applicable to the group also apply to the parent company.

After adjustment for part-time employees, 4,704 people were employed at the end of 2014 (2013: 4,673). This figure includes 51 temporary staff (2013: 23). Of those staff in permanent employment, 1,395 worked on a part-time basis (2013: 1,357). The number of employees after adjustment for part-time staff includes 351 trainees and interns (2013: 352); in accordance with the rules of the Swiss Financial Market Supervisory Authority (FINMA), they are weighted at 50 percent.

Accounting and valuation principles

Accounting practices, valuations and the preparation of balance sheet data are governed by the relevant provisions of the Swiss Code of Obligations, the Swiss accounting rules for banks, the guidelines of the Swiss Financial Market Supervisory Authority and the Law on Zürcher Kantonalbank of 28 September 1997, as well as the regulations based thereon.

The statutory financial statements of the parent company are drawn up in compliance with the accounting principles of the group with the exception of the participations. These are recognised at lower of cost or market in the statutory financial statements.

In the individual financial statements, the reserves for general banking risks are shown as an individual item in the balance sheet in accordance with Art. 25 para. 1 section 2.10 of the Banking Ordinance. The formation or release of such reserves is recognised under extraordinary expenses or extraordinary income.

Income statement

in CHF million	Note	2014	2013	2012	Change 2014/2013 in %
Interest and discount income		1,448	1,491	1,628	–2.8
Interest and dividend income from financial investments		72	71	92	1.0
Interest expense		451	445	568	1.3
Subtotal net interest income		1,070	1,117	1,153	–4.2
Commission income from lending activities		58	60	70	–3.4
Commission income from securities and investment transactions		442	467	451	–5.3
Other commissions and fee income		90	84	86	7.0
Commission expenses		73	75	83	–2.4
Subtotal net commission and fee income		517	536	524	–3.6
Income from trading operations	5.1	264	315	333	–16.1
Income from sale of financial investments		2	56	14	–95.5
Participation income		20	23	12	–13.1
Real estate income		8	11	10	–24.7
Other ordinary income		19	20	19	–4.9
Other ordinary expenses		3	2	2	54.7
Subtotal other ordinary income		47	108	54	–56.4
Operating income		1,897	2,075	2,063	–8.6
Personnel expenses		797	832	1,001[1]	–4.2
Other operating expenses		378	383	389	–1.3
Subtotal operating expenses		1,175	1,215	1,390	–3.3
Gross profit		722	860	673	–16.1
Depreciation and amortisation of fixed assets		94	85	102	10.4
Allowances, provisions and losses		59	210	46	–71.7
Subtotal		569	565	524	0.6
Extraordinary income	5.4	61	223	186[2]	–72.8
Extraordinary expenses	5.4	234	280	224	–16.4
Net income		396	508	487	–22.1

[1] Includes non-recurring personnel expense of CHF 150 million in connection with the reduction in the technical interest rate by the Zürcher Kantonalbank pension fund.
[2] Includes release of reserves for general banking risks in the amount of CHF 150 million to neutralise the effect of the non-recurring personnel expense on the result.

Distribution of profit

in CHF million	2014	2013	Change	Change in %
Net income including allocation to reserves for general banking risks	628	788	–160	–20.4
Allocation to reserves for general banking risks	232	280	–48	–17.1
Net income	396	508	–112	–22.1
Net income	396	508	–112	–22.1
Retained earnings brought forward	1	2	–1	–40.6
Balance sheet profit	397	511	–113	–22.2
Capital costs on endowment capital	34	39	–5	–13.1
Allocation to				
– canton	164	220	–56	–25.5
– municipalities	82	110	–28	–25.5
– general statutory reserve	116	140	–24	–17.1
Retained earnings brought forward	1	1	–0	–

The distribution of profit was approved by the board of directors on 22 January 2015. Approval of the annual financial statements by the cantonal parliament is planned for 27 April 2015.

Balance sheet

Before distribution of net profit, as at 31 December

in CHF million	*Note*	2014	2013	Change	Change in %
Assets					
Cash		27,062	29,518	–2,455	–8.3
Money market placements		5	23	–19	–79.9
Due from banks		15,472	13,492	1,980	14.7
Due from customers		15,133	10,821	4,312	39.9
Mortgages		71,389	69,660	1,729	2.5
Loans to customers		86,522	80,481	6,041	7.5
Securities and precious metals trading portfolios		9,859	11,558	–1,699	–14.7
Financial investments		3,940	3,674	266	7.2
Participations	3.4	199	193	6	2.9
Tangible fixed assets	3.4	718	693	25	3.6
Intangible assets	3.4	1	5	–4	–75.6
Accrued income and prepaid expenses		287	321	–34	–10.7
Other assets	3.5	12,436	7,390	5,046	68.3
Total assets		156,501	147,348	9,153	6.2
Total subordinated claims		309	319	–9	–2.9
Total due from group companies and qualified participants		658	719	–60	–8.4
Liabilities					
Due to banks		33,885	31,796	2,089	6.6
Due to customers in savings and investment accounts		45,624	43,992	1,632	3.7
Other amounts due to customers		37,018	37,074	–56	–0.2
Cash bonds		381	460	–79	–17.2
Bonds		7,817	8,104	–287	–3.5
Central mortgage institution loans		6,964	6,212	752	12.1
Funds due to customers		97,804	95,842	1,962	2.0
Accrued expenses and deferred income		259	280	–22	–7.7
Other liabilities	3.5	14,446	9,615	4,831	50.2
Allowances and provisions	3.9	719	686	33	4.8
Reserves for general banking risks		4,806	4,574	232	5.1
Corporate capital [1]	3.10	1,925	1,925		
General statutory reserve		2,260	2,120	140	6.6
Retained earnings brought forward		1	2	–1	–40.6
Net income		396	508	–112	–22.1
Net equity	3.11	9,388	9,130	259	2.8
Total liabilities		156,501	147,348	9,153	6.2
Total subordinated liabilities		588	589	–1	–0.2
Total due to group companies and qualified participants		603	438	165	37.7
Off-balance-sheet transactions					
Contingent liabilities		3,886	4,727	–841	–17.8
Irrevocable commitments		9,284	9,184	99	1.1
Liabilities for calls on shares and other equities		147	118	29	24.7
Derivative instruments					
– positive replacement values		11,959	7,060	4,900	69.4
– negative replacement values		14,030	9,172	4,858	53.0
– contract volume		536,280	467,392	68,888	14.7
Fiduciary business	4.4	204	484	–281	–57.9

[1] In the Law on Zürcher Kantonalbank, the corporate capital is termed endowment capital.

Notes

Under Art. 25k of the Swiss Ordinance on Banks and Savings Banks, institutions that are required to draw up group financial statements are exempt from disclosure of certain information in the individual financial statements. For reasons of clarity, the same numbering has been used for the required disclosure items as in the notes to the group financial statements.

3.4 Tangible fixed and intangible assets, participations

in CHF million	Historical cost	Accumulated appreciation and depreciation	Book value at end 2013	Investments	Disposals	Appreciation/ depreciation	Book value at end 2014
Majority interests	65	–24	41	15	–17	1	40
Minority interests	193	–40	152	7	–0	–0	159
Total participations [1]	258	–65	193	23	–17	0	199
Real estate [2]							
– Bank premises	1,311	–654	656	111	–26	–57	684
– Other real estate	16	–12	4	0	–0	–0	4
Other tangible fixed assets [3]	149	–116	33	18		–21	30
Total tangible fixed assets	1,475	–782	693	130	–26	–78	718
Goodwill	15	–12	3			–3	0
Other intangible assets	28	–27	2	2		–2	1
Total intangible assets	44	–39	5	2		–6	1

[1] Effect of the theoretical application of the equity method: for 2014 this results in a higher amount of CHF 21 million in the income statement and higher participations of CHF 99 million in the balance sheet.
[2] The insurance value of real estate included in tangible fixed assets amounts to CHF 1,461 million.
[3] The insurance value of other tangible fixed assets amounts to CHF 532 million.

There are no leasing commitments.

3.5 Other assets and liabilities

	2014		2013	
in CHF million	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values from derivative instruments trading position [1, 2]	11,959	14,030	7,060	9,172
Equalising account	392		229	
Capitalised formation, capital increase and organisation costs				
Settlement accounts	21	142	17	103
Indirect taxes	49	44	66	85
Other	15	229	17	255
Total	12,436	14,446	7,390	9,615

[1] Irrespective of the motive, replacement values arising in the trading book as hedging transactions are also handled via the trading business.
[2] CHF 1,919 million comprises structured products issued by the bank with a debt security component (2013: CHF 1,969 million).

3.6.1 Assets pledged or ceded to secure own liabilities, and assets subject to reservation of ownership

in CHF million	2014 Amount due or book value	2014 of which claimed	2013 Amount due or book value	2013 of which claimed
Pledged assets				
Due from banks	1,934	1,916	1,376	1,368
Due from customers	2,320	2,264	774	755
Securities and precious metals trading portfolios	55	55	120	119
Pledged or ceded mortgages for central mortgage institution loans	9,101	8,009	8,627	7,144
Total pledged assets	13,409	12,243	10,898	9,386

3.6.2 Loan transactions and repurchase agreements with securities

in CHF million	2014	2013
Book value of cash collateral due to bank for securities borrowed and in connection with reverse repurchase agreements	14,040	9,693
Book value of cash collateral due from bank for securities lent and in connection with repurchase agreements	2,754	1,881
Book value of securities in bank's portfolio lent in connection with securities lending or supplied as collateral in securities borrowing or transferred in repurchase agreements	3,973	5,199
– of which with unrestricted rights to resell or pledge	3,973	5,199
Fair value of securities with unrestricted right to resell or repledge used as collateral for securities lent or for securities borrowed or received in connection with reverse repurchase agreements	40,356	37,469
– of which repledged or resold securities	25,675	24,351

3.7.1 Liabilities to own pension funds

in CHF million	2014	2013	Change
Liabilities to own pension funds from balance-sheet transactions			
Due to customers in savings and investment accounts	28	100	–72
Other amounts due to customers	48	82	–33
Other liabilities (replacement values)	1	1	–1
Total	77	183	–106

3.7.2 Employer contribution reserve (ECR)

	Nominal value	Waiver of usage	Creation/ withdrawal	Balance sheet	Balance sheet	Result from ECR in personnel expenses	Result from ECR in personnel expenses
in CHF million	2014	2014	2014	2014	2013	2014	2013
Zürcher Kantonalbank pension fund							
Total							

3.7.3 Economic benefit/economic obligations and pension expenses

	Surplus/ shortfall	Economic share of the organisation		Surplus/ shortfall	Change vs. previous year, reflected in income statement	Amounts accrued over the period	Pension costs in personnel expenses	
in CHF million	2014	2014	2013	2013	2014	2014	2014	2013
Zürcher Kantonalbank pension fund						92	92	98
Zürcher Kantonalbank trust for senior management						1	1	1
Total						93	93	99

The audits of the 2014 financial statements for the pension funds were not yet available at the time of publication of the Annual Report 2014.

3.9 Allowances and provisions

in CHF million	Balance at end 2013	Appropriate usage and reversals	Recoveries, doubtful interest, foreign currency translation effect	New creation charged to income statement	Reversals credited to income statement	Balance at end 2014
Allowances and provisions for credit risks (counterparty and country risks) [1]	379	–38	4	66	–90	321
Allowances and provisions for other business risks [2]	157	–1	14	52		222
Provisions for restructuring [3]				13		13
Other provisions [4]	150	–0	12	3	–2	163
Total allowances and provisions	686	–39	30	133	–92 [5]	719
Reserves for general banking risks	4,574			232		4,806

1 Credit risks consist primarily of counterparty risks, the values of which are generally adjusted by 33 percent, 66 percent or 100 percent of the net amount outstanding depending on the probability of default. Individual rates of adjustment may apply in the case of major positions.
2 Allowances and provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
3 Provisions for restructuring were made in connection with the acquisition of the Swisscanto group and comprise personnel measures and various integration costs.
4 Other provisions primarily consist of provisions for litigation and provisions for employees' holiday credits.
5 CHF 25 million of these reversals credited to extraordinary income.

Recoveries from claims already written off in previous periods are not included in provisions. They are booked directly through allowances, provisions and losses (2014: CHF 3 million).

Zürcher Kantonalbank is aware that the United States Department of Justice (DOJ) and United States Internal Revenue Service (IRS) are investigating Zürcher Kantonalbank's cross-border business with US customers. On 29 August 2013, Switzerland and the United States signed a joint statement aimed at ending the long-running tax dispute between the banks and the US. The Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks launched by the US Department of Justice is not applicable to banks that were already the subject of an investigation by the United States justice authorities as at 29 August 2013. It therefore does not apply to Zürcher Kantonalbank, which has been under investigation since September 2011. The bank is continuing to cooperate with the relevant authorities on this matter. It is working towards achieving an agreement. The timing of the conclusion of this process remains uncertain. Zürcher Kantonalbank evaluates all its risks on a constant basis, including in this connection, where necessary taking corresponding measures in terms of risk provisioning. All assessments are associated with a great deal of uncertainty.

For more details on the management of credit risk, operational risks as well as legal and compliance risks, please refer to Note 6. "Risk management" (page 101).

3.10 Corporate capital (breakdown of endowment capital)

Capital costs canton of Zurich	Valid from	Valid until	Amount *(in CHF million)*
3.660 %	2008	16.06.2015	225
1.250 %	2010	15.09.2015	120
1.750 %	2010	16.03.2016	150
1.950 %	2009	15.12.2016	90
1.550 %	2010	27.10.2017	60
2.090 %	2009	15.12.2017	100
1.875 %	2011	29.03.2018	90
1.660 %	2011	29.06.2018	115
0.471 %	2012	29.06.2018	100
1.180 %	2011	14.09.2018	80
1.260 %	2013	13.09.2021	75
0.402 %	2014	13.09.2021	140
1.114 %	2013	15.06.2022	125
0.880 %	2012	14.09.2022	130
1.000 %	2013	08.03.2023	85
1.173 %	2014	08.03.2023	100
0.941 %	2014	28.06.2024	140
Total 2014			1’925
Total 2013			1’925

Average capital cost in 2014 was 1.76 percent/average capital cost in 2013 was 2.03 percent.

3.11 Statement of changes in equity

in CHF million	Corporate capital	General statutory reserve [1]	Reserves for general banking risks	Balance sheet profit	Total equity
Total equity as at 1 January 2012					
Opening amount	1,925	1,879	4,220	508	8,532
Capital increase					
Capital decrease					
Capital costs on endowment capital of previous year				–47	–47
Allocation to the canton from previous year's profit				–220	–220
Allocation to municipalities from previous years profit				–110	–110
Formation of reserves for general banking risks			224		224
Release of reserves for general banking risks			–150		–150
Formation of general statutory reserves		129		–129	
Profit for the current year				487	487
Total equity as at 31 December 2012	1,925	2,008	4,294	489	8,716
Total equity as at 1 January 2013					
Opening amount	1,925	2,008	4,294	489	8,716
Capital increase					
Capital decrease					
Capital costs on endowment capital of previous year				–44	–44
Allocation to the canton from previous year's profit				–220	–220
Allocation to municipalities from previous year's profit				–110	–110
Formation of reserves for general banking risks			280		280
Formation of general statutory reserves		112		–112	
Profit for the current year				508	508
Total equity as at 31 December 2013	1,925	2,120	4,574	511	9,130
Total equity as at 1 January 2014					
Opening amount	1,925	2,120	4,574	511	9,130
Capital increase					
Capital decrease					
Capital costs on endowment capital of previous year				–39	–39
Allocation to the canton from previous year's profit				–220	–220
Allocation to municipalities from previous year's profit				–110	–110
Formation of reserves for general banking risks			232		232
Formation of general statutory reserves		140		–140	
Profit for the current year				396	396
Total equity as at 31 December 2014	1,925	2,260	4,806	397	9,388

[1] The non-distributable statutory reserves amount to CHF 588 million.

3.13 Amounts due from and due to affiliated companies and loans to the bank's governing bodies

in CHF million	2014	2013
Due from affiliated companies	363	403
Due to affiliated companies	1,983	2,039
Loans to the bank's governing bodies	16	17

Affiliated companies are public cantonal corporations or semi-public enterprises in which the canton holds significant participations.

Market conditions apply to transactions carried out with affiliated companies. Loans to the bank's governing bodies may be granted occasionally on employee terms. There are no substantial amounts due to the governing bodies.

Primarily the usual balance sheet banking business was involved, i.e. it was mainly amounts due from and due to customers. The totals above also include securities items and amounts outstanding from transactions in derivatives (positive and negative replacement values).

4.1 Contingent liabilities

Together with Balfidor Group and Adamant Biomedical Investments AG (interest sold on 30 September 2014), Zürcher Kantonalbank forms a VAT group; this is treated as a single taxable unit by the tax authorities.

4.4 Fiduciary business

in CHF million	2014	2013
Fiduciary placements with third-party banks	204	484
Total	204	484

5.1 Results from trading operations[1]

in CHF million	2014	2013	2012
Foreign exchange, banknotes and precious metals	147	129	133
Bonds, interest rate and credit derivatives	41	107	104
Equities and structured products[2]	44	41	51
Other trading income[3]	32	37	44
Total	264	315	333

[1] After refinancing result of CHF 0 million (2013: CHF 2 million/2012: CHF 3 million).
[2] Due to the reorganisation of trading, the result from equities and equity derivatives now also includes the result from the issuing and trading of structured products; this was shown under other trading income until 2013. The previous years have been restated.
[3] Other trading income includes results from securities lending and borrowing as well as positions for which the executive board and Asset Management are responsible.

5.4 Extraordinary income and expenses

in CHF million	2014	2013	2012
Extraordinary income			
Reversal of provisions not required	25[1]	52	27
Reversal of impairment on participations	10	14	4
Income from sale of other real estate/bank premises	25	141	5
Income from sale of participations	0	15	0
Other	0	1	1
Release of reserves for general banking risks			150[2]
Total	61	223	186
Extraordinary expenses			
Allocation to reserves for general banking risks	232	280	224
Loss from the sale of participations	1		
Other	1	0	
Total	234	280	224

[1] The reversal of provisions not required in 2014 is attributable to unused allowances for credit risks.
[2] The release of reserves for general banking risks is connected to neutralisation of the effect on the result of increased personnel expenses due to the reduction in the technical interest rate by the pension fund.

6. Eligible and required capital (parent company)

Capital under Basel III (Switzerland) parent company [1,2]

in CHF million	Remarks	31.12.2014 [3]	31.12.2013 [3]
Common equity Tier 1 (net CET1)		8,561	8,798
Additional Tier 1 capital (net AT1)		588	589
Core capital (net Tier 1)		9,148	9,387
Supplementary capital (net Tier 2) [4]		587	
Regulatory total capital (net Tier 1 & net Tier 2)		9,735	9,387
Required minimum capital		4,696	4,635
Total risk-weighted assets	12.5 x minimum capital	58,701	57,933
Common equity Tier 1 ratio (CET1)	based on minimum capital (8 %)	14.6 %	15.2 %
Core capital ratio (Tier 1)	based on minimum capital (8 %)	15.6 %	16.2 %
Supplementary capital ratio (Tier 2)	based on minimum capital (8 %)	1.0 %	
Total capital ratio	based on minimum capital (8 %)	16.6 %	16.2 %

1 The parent company's capital is calculated on a solo consolidated basis from 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 from 2012.

2 Zürcher Kantonalbank does not claim any relief on the basis of Art. 125 CAO.

3 Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140 – 142 CAO, which allow a gradual introduction of the new rules.

4 CET1 reclassified in accordance with Art. 130 para. 3 CAO to cover the progressive component.

Pawnbroking agency

Zürcher Kantonalbank is required to operate a pawnbroking agency (Art. 7 §3 of the Law on Zürcher Kantonalbank). Since 1872, the pawnbroking agency has been granting loans in return for the depositing of pledged items. It is managed as an independent business operation in Zurich, at Zurlindenstrasse 105. The following section shows the balance sheet, income statement and loan transactions of the pawnbroking agency (in CHF 1,000).

Balance sheet (before distribution of net profit)

CHF 1,000	2014	2013
Assets		
Cash	213	234
Postal account	8	20
Accounts receivable		
Loans	7,169	7,490
Inventories		3
Furniture, IT equipment	0	0
Accrued interest	285	296
Balance sheet total	7,675	8,043

CHF 1,000	2014	2013
Liabilities		
Zürcher Kantonalbank	6,281	6,759
Surplus from auctions	291	335
Accounts payable	6	13
Provisions	155	155
Reserves	780	704
Profit carried forward	1	1
Operating profit	162	76
Balance sheet total	7,675	8,043

Income statement

in CHF 1,000	2014	2013
Expenses		
Operating expenses	946	1,090
Refinancing expenses	55	46
Losses	3	–0
Depreciation and provisions		0
Operating profit	162	76
Total	1,166	1,212

in CHF 1,000	2014	2013
Income		
Interest on loans	954	968
Other income	212	244
Total	1,166	1,212

Loan transactions

	Items	*in CHF 1,000*	Items	*in CHF 1,000*
Total loans at 31 December 2013			6,604	7,490
New loans in 2014 (including renewals)			13,097	15,314
Repayments in 2014	13,207	15,479		
Proceeds from auctions including inventory receipts	281	155		
Total loans at 31 December 2014			6,213	7,169

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Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the financial statements as of 31 December 2014 of

Zürcher Kantonalbank, Zurich

Ms. President
Ladies and Gentlemen

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Zürcher Kantonalbank, which comprise the balance sheet, income statement and notes (pages 133 to 144) for the year ended 31 December 2014.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with the Swiss accounting principles for banks, the requirements of Swiss law and the Law on Zürcher Kantonalbank. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss accounting principles for banks and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

On the basis of article 728a paragraph 1 item 3 CO and in accordance with Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Law on Zürcher Kantonalbank. We recommend that the financial statements submitted to you be approved.

Zurich, 23 February 2015

Ernst & Young Ltd

Rolf Walker	Stefan Lutz
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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