Annual Report
Financial year 2020

Zürcher Kantonalbank

Close to you.

Zürcher Kantonalbank celebrated its 150th anniversary in 2020. We have always seen ourselves as an element that establishes a link between business and society, town and country, tradition and modernity. We had planned anniversary activities under the motto “Zäme Züri” (Together Zurich) to put this deep sense of solidarity on display. The coronavirus crisis forced its own agenda on us instead. Although we had to cancel the festivities, we still expressed our solidarity with the canton in a way that could hardly be more in line with this motto. Our proximity to Zurich’s business and political communities enabled us to act swiftly and get just the right assistance to those who needed it. We took responsibility and demonstrated in no uncertain terms that the people and businesses of the Canton of Zurich can count on us. Together Zurich.

Key figures (group)

Key figures (in %)	2020	2019	Change in %
Return on equity (RoE)	7.2	7.2	
Cost/income ratio (CIR)[1]	60.1[2]	59.9	
Common equity Tier 1 ratio (CET1)(going concern)[3]	17.4	17.7	
Risk-based capital ratio (going concern)[3]	18.9	20.0	
Risk-based capital ratio (gone concern)[3]	3.2	1.4	
Leverage ratio (going concern)[3]	6.2	7.0	
Leverage ratio (gone concern)[3]	1.1	0.5	
Liquidity coverage ratio (LCR)[4]	160	123	

Income statement (in CHF million)	2020	2019	Change in %
Net result from interest operations	1,218	1,216	0.2
Result from commission business and services	806	777	3.8
Result from trading activities and the fair value option	459	319	43.9
Other result from ordinary activities	29	102	–71.3
Operating income	**2,513**	**2,414**	**4.1**
Operating expenses	–1,580	–1,443	9.5
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–117	–113	3.6
Changes to provisions and other value adjustments and losses	–14	–12	23.6
Operating result	**801**	**846**	**–5.3**
Extraordinary result	25	4	525.3
Changes in reserves for general banking risks	46	–	n.a.
Taxes	–8	–5	50.6
Consolidated profit	**865**	**845**	**2.4**

Balance sheet (before appropriation of profit) (in CHF million)	2020	2019	Change in %
Total assets	188,364	167,054	12.8
High-quality liquid assets (HQLA)[4]	53,042	43,679	21.4
Mortgage loans	87,679	84,311	4.0
Amounts due in respect of customer deposits	92,609	85,089	8.8
Provisions	222	242	–8.0
Equity	12,650	12,337	2.5

Customers' assets (in CHF million)	2020	2019	Change in %
Total customers' assets	**361,658**	**333,341**	**8.5**

Headcount/branches (Number)	2020	2019	Change in %
Headcount after adjustment for part-time employees, as at the reporting date	5,180	5,145	0.7
Branches[5]	60	66	

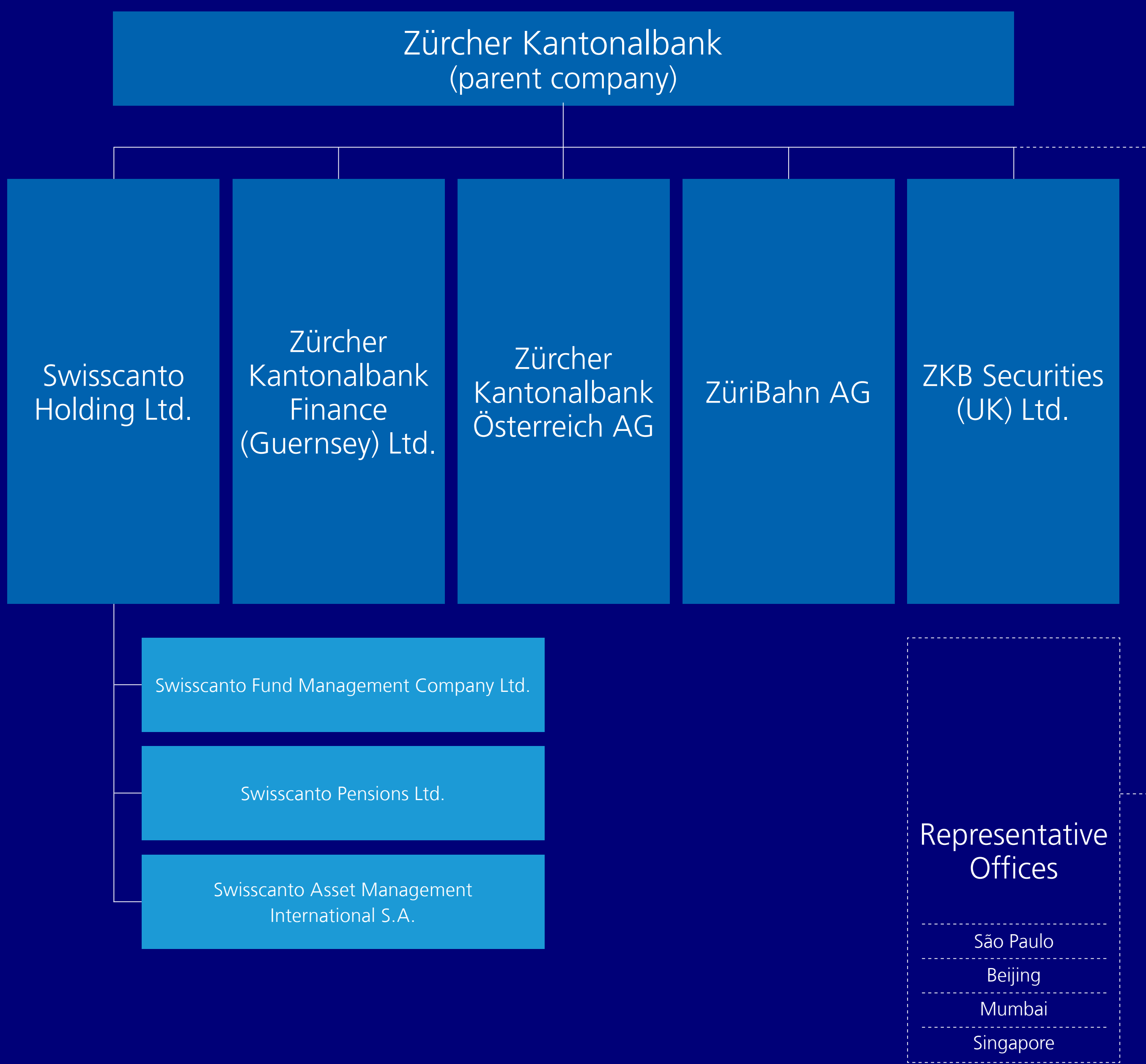
Profit distribution (in CHF million)	2020 Ord.	2020 Corona-virus	2020 Total	2019 Ord.	2019 Anniver-sary	2019 Total	Change in %
Share paid to canton to cover actual costs			11			11	–
Dividend for the canton	230[6]	67[8]	297	230[6]	100[7]	330	–10.1
Dividend for municipalities	115[6]	33[8]	148	115[6]	50[7]	165	–10.1
Total	**345**	**100**	**456**	**345**	**150**	**506**	**–9.9**

	2020	2019	Change in %
Additional compensation for state guarantee	23	22	3.9
Additional payments from public service mandate	126	125	1.1

Rating agencies (Rating)	2020	2019
Fitch	AAA	AAA
Moody's	Aaa	Aaa
Standard & Poor's	AAA	AAA

1 Calculation: Cost/income ratio (excl. changes in default-related value adjustments and losses from interest operations).
2 Excludes the CHF 46 million non-recurring personnel expense related to the anniversary payment made to employees.
3 In accordance with the provisions for systemically important banks.
4 Simple average of the closing values on the business days during the quarter under review.
5 Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna.
6 Ordinary dividend.
7 Anniversary dividend.
8 Special coronavirus dividend.

Group structure



Group mission statement

Our vision

Close to you

We support, advise and offer solutions.
Always, everywhere.
Throughout your life.

— No. 1 in the Greater Zurich Area
— Nationally strong
— Internationally successful

Our goals

Powerful Swiss universal bank

— Happy clients
— Committed staff
— High financial security
— Sustainable success

Our values

Inspiring
Motivate, think ahead, show courage

Responsible
Be reliable, create value, be present

Passionate
Be involved, enthuse, persevere

Our roots

The bank of the people of Zurich

— For the population and the economy
— Continuity in business policy
— Economic, ecological and social engagement

Focus on SMEs

One central factor that led to the establishment of Zürcher Kantonalbank was the need to address the banking requirements of tradesmen and small businesses. We have been living up to this claim for over 150 years – and also took this responsibility seriously in 2020, which proved to be a challenging year for our SME clients. See our focus topic to find out more about us as a bank for SMEs in the Greater Zurich Area.

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Dear residents of Zurich,

Covid-19 dictated the agenda in every area of our lives: in politics, society, health, business, culture, sports and in private. Terms used either infrequently or not at all just one year ago like "contact tracing", "herd immunity", "mandatory masks", "social distancing", "reproduction number" and "risk group" now stand for painful, restrictive precautionary measures that dictate our everyday lives. It goes without saying that Zürcher Kantonalbank was affected by this pandemic as well. Within just a very short space of time, countless measures had to be devised centrally and implemented decentrally to keep the bank up and running. Internal processes needed to be adjusted in response to ongoing assessments of the situation, remote access to computer systems had to be expanded considerably so that up to 70 percent of employees could efficiently work from home, 49 of our 64 branches were temporarily closed to ensure our long-term personal contact with clients, and digital channels needed to guarantee the bank's constant accessibility to clients, to name but a few.

Of course, as a cantonal bank with a public service mandate, the focus was on the bank's legal purpose, which is "to contribute to efforts to resolve economic and social issues within the canton". Even before the Federal Council decreed the lockdown, we set CHF 100 million aside to provide support for structurally intact SMEs. Together with the head of the Zurich Department of Finance, we played a leading role in devising and implementing the cantonal aid package for SMEs and start-ups and helped shape the federal response programme, under which we granted nearly CHF 1 billion in Covid-19 business loans last year. We also launched a programme last year that provided an additional CHF 300 million in liquidity bridging loans for viable companies. We made a promise to our more than 150 sponsorship partners from the realms of culture, sport and society that they would continue to receive the agreed contributions for 2020 and 2021, even if they were unable to provide any services. We also granted funds to help promote the integration of around 1,300 unemployed young people. And finally, in view of the resulting economic environment, the Board of Directors declared an additional special coronavirus dividend of CHF 100 million for the canton and the municipalities. Zürcher Kantonalbank has already weathered several crises and the diverse range of support measures that took the place of the bank's anniversary year celebrations – which where cancelled on account of the pandemic – is the very best vindication of the bank's purpose, something it has been fulfilling for 150 years now.

The past year was not all about the crisis, though. We continued to develop the bank according to plan, based on our long-term strategy, and took responsibility for resolving economic, environmental and social concerns. As a pioneer in the

area of sustainability, we are setting trends through our commitment to the Paris Climate Agreement in actively managed, traditional investment products and by training 100 employees as ESG analysts. We are breaking new ground with the launch of “frankly”, a programme designed to raise awareness among the people of Switzerland about private pension provisions and make it easier for them to take responsibility for building their own retirement capital. As part of the ongoing succession process employed by our Executive Board, the Board of Directors elected Florence Schnydrig Moser to ensure that the reins could be handed over as planned in Private Banking.

We are convinced that, with our stable yet innovative, large though manageable, well-diversified universal bank, one that focuses on Zurich values such as reliability, the common good and sustainability, we will continue to be a responsible, passionate and inspiring partner for the companies and private individuals of Zurich in 2021.

Dr Jörg Müller-Ganz
Chairman

Dear clients, Dear staff,

With group profit at CHF 865 million, the 2020 financial year goes down as one of the best on record for Zürcher Kantonalbank. In an environment dominated by the coronavirus crisis as well as social, economic and geopolitical uncertainties, the bank's diversification strategy once again proved to be successful. We generated stable income from interest operations and commission income was up on the previous year. The trading business benefited from volatility on the stock markets.

But as excellent as this result is overall, we cannot let it blind us. After all, the bank is only doing well if its clients are doing well too. In the year under review, we made a firm commitment to companies in particular. We helped to set up credit programmes at both the cantonal and federal level in record time and then worked on processing Covid loan applications from early in the morning until late at night. The result: We were able to provide our SME clients with more than CHF 1 billion francs in liquidity, thereby demonstrating once more that we are a reliable partner, even in times of crisis.

Nearly every aspect of our lives was impacted by the virus in 2020. We lived differently, worked more from home and met our friends online. Digitalisation undeniably experienced a boost, as did our digital distribution channels, although this came at the expense of our counter-based business. We still expect clients to contact us to schedule a personal meeting whenever faced with important financial decisions; however whether those meetings will still take place in the branches or in a new kind of meeting area remains to be seen.

The events of 2020 also brought yet another postponement of the interest rate reversal – along with all its negative repercussions. One of those is that our retirement savings are hardly earning any interest at all, which is one reason why wealth-building investment solutions are gaining ground in the area of private retirement planning. This prompted us to launch “frankly”, our app for 3a pensions. The purely digital solution for managing private retirement assets offers simple and intuitive access to 3a securities savings. Around 20,000 clients are proof that we have identified a need among the people of Switzerland.

Investments are made in Swisscanto investment products, meaning that all frankly clients also have access to our portfolio of sustainable investments. We are the first provider in Switzerland to have an asset management business that implements the Paris climate target in its active funds. With an annual CO_2 reduction pathway of at least 4 percent, we are setting our sights on limiting the increase in global average temperatures to no more than two degrees Celsius.

The achievements we made as a bank this year were possible only through the enormous commitment demonstrated by our employees. Cross-divisional collaboration in the Zurich area is one of the bank’s strengths, and we built on this strength by moving into Neue Hard and bringing employees together from both the Stettbach and Prime Tower sites. I am convinced that this will enable us to exploit additional synergies, shorten decision-making paths and further enhance our already high level of client focus. The 2020 client satisfaction survey shows that we are on the right track. We were able to maintain or even improve our high scores across all business units.

I would like to take this opportunity to thank you for the trust you have placed in us.

Martin Scholl
Chief Executive Officer

150-year history

A special bank

1870–2020

On Sunday, 7 November 1869, an overwhelming majority of the people of Zurich voted in favour of establishing a cantonal bank. In doing so, they expressed their wish that not only privileged citizens and large companies should have access to affordable loans, but also as many private individuals and businesses as possible. There was a bitter shortage of money at times, particularly in rural areas of the canton. Accordingly, the first article of the new law read: “The purpose of the Cantonal Bank is to satisfy, within its means, the lending and monetary needs of the citizens of the canton. Special attention should be given to small and medium-sized land holdings, crafts and trades.”

The bank's foundation came as the result of a movement aimed not only at changing the banking system, but at restructuring the political system from the ground up. It was termed the democratic movement because its main objective was to enforce direct democratic rights. Its success was simply overwhelming. The new constitution of 1869 included the right to referendums as well as the right to directly elect the members of both Zurich's Government Council and the Council of States, abolished the death penalty, introduced the freedom of faith, worship and teaching on matters related to the church and guaranteed the freedom of association. It also enabled the introduction of progressive income and wealth taxes and an inheritance tax. The establishment of a state bank was intended as a way of strengthening the economic policy of this democratic reform programme.

Surprisingly successful

The newly established Zürcher Kantonalbank opened its counters on 15 February 1870. Its beginnings were modest, as could be expected, as the bank's first task was to establish the most elementary of operating procedures and build up a client base. There was no existing business to build on – everything had to be developed from scratch. Added to that was the Franco-Prussian War, which broke out in the summer of 1870 and severely hampered the development of the banking business. While the cantonal bank suffered a corresponding loss in its first financial year, it quickly gained its footing and recorded a profit every year after that. On the occasion of its 25th anniversary in the mid-1890s, the Board of Directors noted that the bank's trajectory is one that "even its most ardent friends and supporters could not have predicted". Lending volumes grew strongly during the first decades, and the cantonal bank's geographic expansion progressed at a rapid pace. In 1914, it operated branches in Affoltern am Albis, Andelfingen, Bauma, Bülach, Dielsdorf, Horgen, Meilen, Rüti, Uster, Wald and Winterthur. Each branch had its own Board-elected assessors who both assisted with loan applications and supervised the management. The cantonal bank also had agencies in Fehraltorf, Feuertalen, Kloten, Zurich-Oerlikon, Schlieren, Thalwil, Turbenthal, Zurich-Neumünster and Zurich-Unterstrass as well as around 80 collection offices for savings bank deposits. No other bank had a comparable presence in the Canton of Zurich.

In its first four decades, the cantonal bank had already become a universal bank that conducted all major business transactions. It granted mortgage loans to small, medium and large borrowers, granted agricultural business loans, handled companies' current account transactions, bought and sold domestic bills of exchange and foreign currencies, traded stocks and bonds, issued bonds, managed assets and held securities in its custody accounts. It also promoted cooperatives and granted loans to municipalities. The cantonal bank was primarily financed through banknote issues, savings bank deposits and bonds.

Impressive growth

This growth continued during the difficult years from 1914 to 1945, which were defined by wars and crises. The cantonal bank's resilience during the economic depression of the 1930s, during which several major Swiss banks had to make major writedowns, was particularly remarkable. In 1933, the Swiss Volksbank even had to draw on extensive federal aid. Two major banks, Basler Handelsbank and Eidgenössische Bank, gave up their independence in 1945, at the end of the World War II. Zürcher Kantonalbank, on the other hand, was well equipped for the great economic recovery that set in soon after the war had ended.

Accordingly, Zürcher Kantonalbank was one of those banks that expanded strongly during the golden age of Zurich's financial centre, from 1945 to 1990. While consumer prices rose by a factor of only around four during this period, the bank's total assets increased from CHF 1.6 billion to CHF 44.4 billion and operating income from CHF 17.6 million to CHF 634 million. The number of employees also grew sharply: the cantonal bank employed 689 people in 1945 but more than 4,000 in 1990, half of whom at the head office in the city of Zurich and half in the branches. A manageable credit institution had become a big bank.

Troubled times

The growth engine first began to stutter in the 1990s. A severe real estate crisis triggered a shake-out of Switzerland's entire banking sector, which in turn had a strong braking effect on the economy as a whole. Zürcher Kantonalbank had enough reserves, however, to absorb the negative repercussions of the crisis. A systematic write-off strategy and reorganisation over the years have enabled the bank to rid itself of legacy issues. There is no doubt, however, that those years marked the beginning of a new era in financial history that continues to this day. The environment has become more volatile. The millennium began with a violent stock market crash that shook the global financial system. A global financial crisis broke out in 2007. The European Central Bank's persistently negative interest rates show that the euro crisis still isn't over.

At the same time, the political and legal environment has changed considerably. The automatic exchange of information, stricter transparency rules, extensive compliance guidelines and the great powers' tougher stance towards smaller international financial centres such as Switzerland now make it necessary to have a much larger pool of legally trained specialists. And finally, the progress being made by digital technologies calls for major investments that smaller banks are increasingly incapable of managing on their own. The Swiss banking sector is in the midst of a transformation process that is not yet complete.

Stable ownership structures

Zürcher Kantonalbank has coped well with the enormous changes that have taken place over the past thirty years and has successfully continued on its growth trajectory, even in years of crisis. It goes without saying that the bank has felt these troubled times, as well. The diversification process was a bit too tumultuous at times, especially in the trading sector. The remuneration system had to be adjusted after it failed to gain public acceptance. The financing of a dam in Turkey met with political resistance. In the recent financial crisis, it had to pay millions to the US authorities for accepting former clients of other banks with untaxed assets.

Because it has been able to hold on to its reputation as a solid state bank over the years, the old ownership structure has remained unchanged since its foundation. The cantonal bank is still wholly owned by the canton and is supervised by its parliament. The Cantonal Parliament of Zurich elects the members of the Board of Directors and the three full-time members of the Committee of the Board. It approves the annual report and the annual accounts and revises the Cantonal Bank Act. As they are the ultimate owners of the cantonal bank, any legal amendments are up to the Zurich electorate.

Privatisation attempts

Some political attempts have been made in recent history to change the bank's legal status. The Zurich Cantonal Parliament, for instance, tabled motions in the wake of the real estate crisis, which severely impacted several Swiss cantonal banks. When a complete revision of the Law on Zürcher Kantonalbank became necessary in 1997, a strong movement formed in the middle-class camp that favoured the cantonal bank's privatisation.

Every proposal was rejected by a vast majority in the Cantonal Parliament, and the Zurich electorate approved the complete revision of the Cantonal Bank Act with an 80 percent majority. In the wake of the stock market crisis at the beginning of the millennium, the Cantonal Parliament made a renewed push towards privatisation and proposed a motion calling for the Government Council to take suitable measures to contain the financial risk. Once again, however, the forces interested in preserving the long-standing ownership structures were in the majority, meaning that the motion to refer the matter to the Government Council was rejected.

History shows that support for greater government control rises in the wake of major banking crises.

Differences of opinion

Despite all the support Zürcher Kantonalbank enjoys, it should not be forgotten that the relationship between the bank and the canton has not always been a harmonious one. There were even heated arguments between the bank's governing bodies and the Cantonal Parliament at times. Particularly in its first decades of operation, sparks flew on a regular basis when the cantonal bank experienced explosive growth that was incompatible with its founding law. In those early days, the people of Zurich did not always comply with the Board of Directors' wishes, either. In October 1878, for example, the electorate narrowly rejected the first revision of the Cantonal Bank Act at the ballot box. It was not until 1883 that the cantonal bank was given the greater leeway it had long been demanding.

A dispute ignited at the end of the 19th century over the issue of governmental profit sharing. The head of the Zurich Department of Finance at the time demanded that a substantial portion of the cantonal bank's net profit be automatically transferred to the canton. He successfully debated the matter in the Cantonal Parliament and the voters then approved the new Cantonal Bank Act in March 1902 by a clear majority. While the Board of Directors did not view this as a perfect solution, the Board members supported it because the law now allowed the cantonal bank to buy and sell securities for its own account.

International business has repeatedly been a topic of discussion in the bank's more recent history. In the late 1970s, for example, a minority in the Canton of Zurich feared that overly liberal legislation would encourage an aggressive expansionist strategy. The preliminary advisory committee finally agreed on a formulation of paragraph 8, which was adopted by the Cantonal Parliament without any dissenting votes. The new formulation also allowed the bank to conduct business in the rest of Switzerland and abroad "as an exception". One vital piece of information mentioned during the debate at the Cantonal Parliament was the fact that any balances held by the cantonal bank in a foreign country were mainly for Zurich-based clients engaged in exports.

Cooperation and control

The disputes never escalated to an extent that precluded compromises, however, in part because the cantonal bank was generally successful in striking a balance between the requirements of the market and the demands of parliament and the people. To justify its special standing, the bank has always endeavoured to offer special services within the scope of its statutory public service mandate. It helps cooperatives by providing them with low-cost loans and sponsors many organisations as well as cultural and sporting events. As mentioned above, it also consistently delivers a sizeable portion of its net profit to the canton and the municipalities as a dividend. Furthermore, by virtue of its democratic ownership structure, the Board of Directors must also report to the Cantonal Parliament on a regular basis. This makes Zürcher Kantonalbank an extremely special bank in the Canton of Zurich.

Zürcher Kantonalbank has successfully positioned itself as a universal bank with a regional base as well as a national and international network. We are not only the leading cantonal bank in Switzerland, but also one of the largest Swiss banks. With a market penetration rate of around 50 percent, we are the top-ranked bank in the Canton of Zurich in both retail and corporate banking. We are also the third-largest fund provider in the country. Zürcher Kantonalbank is an autonomous public-law institution of the Canton of Zurich and benefits from a state guarantee. Our public service mandate is to provide financial services to the public and business, to contribute towards efforts to resolve economic and social issues and to ensure that our actions are environmentally and socially responsible. We uphold our values: responsible, inspiring and passionate. We are the bank that's "Close to you" and are part of life in the Canton of Zurich.

150 years

We have been providing financial services to both individuals and companies and fulfilling our statutory mandate since 1870.

Leader in the Greater Zurich Area

Nearly half of the people of Zurich and of the companies domiciled in the Canton of Zurich are clients of Zürcher Kantonalbank. Total client assets amounted to around CHF 362 billion during the year under review while our mortgage receivables totalled around CHF 88 billion. That makes us the number 1 in the Greater Zurich Area when it comes to promoting home ownership.

CHF 3 billion

in dividends and other distributions

Over the past ten years, we have distributed over CHF 3 billion to the Canton of Zurich and its municipalities.

5,979

employees

5,979 people work at Zürcher Kantonalbank in more than 5,100 full-time positions. With around 420 apprenticeships, we are one of the largest providers of vocational training in the Canton of Zurich.

CHF 126 million

for commitments

Over the course of the past year, we committed more than CHF 126 million in financial support in the Canton of Zurich in the economic, social and environmental arenas. Through 150 sponsorship commitments, we are also actively helping to make the Canton of Zurich liveable.

No. 3

in the fund market

With CHF 192 billion in assets under management, Swisscanto Invest by Zürcher Kantonalbank is also Switzerland's third-largest fund provider.

Secure

We are one of very few banks in the world to have received the highest possible credit rating from several rating agencies.

CO_2 neutral

We have been able to cut our CO_2 emissions from banking operations by over 50 percent since 2010 and offset 100 percent of all unavoidable CO_2 emissions.

Looking back

Financial year 2020 was extremely encouraging. The return on equity amounted to 7.2 percent. The cost / income ratio was 60.1 percent. We have further strengthened our capital base in recent years, while also complying with steadily rising regulatory requirements. At the end of 2020, the risk-based capital ratio (going concern) came to 18.9 percent and therefore far exceeded the regulatory requirement of 12.9 percent. The current risk-based requirement (gone concern) amounts to 2.0 percent. With a reported risk-based capital ratio (gone concern) of 3.2 percent, this requirement was also exceeded at the end of 2020.

Switzerland's only AAA bank

The rating agencies Standard & Poor's, Moody's and Fitch continue to award Zürcher Kantonalbank their highest ratings of AAA or Aaa. In the view of ratings agency Standard & Poor's, Zürcher Kantonalbank is among the safest banks in the world. That makes us the only Swiss bank to be given top marks yet again by all three rating agencies. Given its "stand-alone credit profile" of aa-, the bank's creditworthiness is rated as extremely good, even without taking the state guarantee into account. Our high ratings are due in part to our sustained operational stability as a result of our diversified business model as well as the extremely good capitalisation. Other factors include Zürcher Kantonalbank's solid income base and the profitability this affords the bank, which is based not least on its stable, lasting client relationships. The bank reported equity of CHF 12.7 billion at the end of 2020. The risk-based capital ratio (gone concern) amounted to 18.9 percent. These figures confirm our standing as one of the best-capitalised universal banks in the world.

Strongly rooted in the canton

We are the market leader for retail and corporate banking in the Canton of Zurich. While we also operate the canton's densest network of branches and ATMs, our clients are increasingly conducting their banking transactions via our support centres, eBanking and eBanking Mobile services. Over the course of the last year, we committed CHF 126.3 million to providing financial support in the Canton of Zurich in the economic, environmental and social arenas. Through more than 150 sponsorship commitments, we are also actively helping to make the Canton of Zurich liveable.

Diversified income

Our economic strength is based on a broadly diversified business model, which also affects the income structure. We therefore aim for qualitative growth, particularly in the investment and asset management business. Commission business accounted for 32 percent of the bank's operating income at the end of 2020, with the result from interest operations contributing 48 percent, the trading business contributing 18 percent and other income contributing 1 percent.

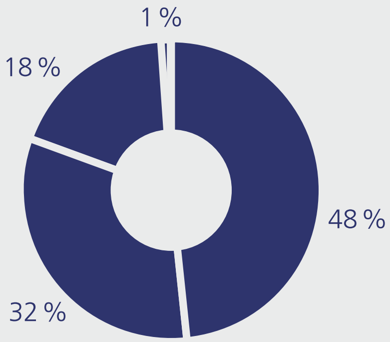
Profit

With consolidated profit of CHF 865 million, 2020 marks yet another extremely gratifying result. The ordinary appropriation of profit includes an ordinary dividend of CHF 356 million. Of this, CHF 241 million will go to the canton and CHF 11 million will be used to cover interest in connection with the endowment capital. Around CHF 115 million will go to the municipalities. To help both the canton and the municipalities deal with the coronavirus crisis, we are also distributing an uncommitted special coronavirus dividend of CHF 100 million.

Important employer

5,979 people work at Zürcher Kantonalbank (group) in 5,180 full-time positions. With around 420 apprenticeships in the areas of banking and IT, we are one of the largest training centres in the Zurich region.

Diversified income



48 % Result from interest operations
32 % Result from commission business
18 % Result from trading activities
1 % Other result

Consolidated profit

CHF 865 million

Profit distribution

CHF 456 million

including a special coronavirus dividend of CHF 100 million

Group rating

AAA, Aaa

Risk-based capital ratio (going concern)

Target: 16 – 19 %

18.9 %	**2020**
20.0 %	2019
20.2 %	2018

Liquidity coverage ratio (LCR)

160 %	**2020**
123 %	2019
127 %	2018

Return on equity (RoE)

7.2 %	**2020**
7.2 %	2019
7.1 %	2018

Cost/income ratio (CIR)

Target: 58 – 64 %

60.1 %	**2020**
59.9 %	2019
61.4 %	2018

Client satisfaction

Target: ≥75 %

Retail Clients	82
Private Banking	88
Corporate Clients	94

Milestones and material events

2020 was an exceptional financial year due to Covid-19

The year under review was dominated by the Covid-19 pandemic, which impacted all areas of the bank. In Switzerland, a wide range of measures were decided upon in cooperation with the federal government, the Canton of Zurich, the banks, the Swiss Financial Market Supervisory Authority and the Swiss National Bank, and a large-scale financial aid package was made available to businesses. We and the head of the Zurich Department of Finance were in charge of the cantonal aid package. We also secured CHF 100 million in additional support for SMEs in the Greater Zurich Area in the spring and CHF 300 million in bridging loans at the end of the year under review. The extraordinary situation also affected operations in our branches and intensified the trend towards cash-less transactions. Uncertainty and the fears associated with the pandemic triggered massive upheavals on the financial markets in the first quarter. This benefited our trading business, which generated an outstanding result for the year and confirmed the bank's strategy of income diversification. Restrictions on social life had a major impact on our sponsorship partners, whom we supported in full regardless of the services they provided. Similarly, the 150th anniversary celebrations, which have been postponed until 2021 due to the pandemic, had to be cancelled.

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→ Group results with comments: Page 97
→ Covid-19 loans for SMEs: Page 65
→ Covid-19 aid to sponsorship partners: Page 28
→ Covid-19 aid to unemployed young people: Page 28
→ Operations in branches: Page 59
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Cantonal Parliament elects Adrian Bruhin to the Board of Directors

In the year under review, the Cantonal Parliament elected Prof. Adrian Bruhin to the Board of Directors of Zürcher Kantonalbank. Adrian Bruhin replaces Rolf Walther, who retired from the Board of Directors on 1 October after ten years of service.

→ Members of the Committee of the Board and of the Board of Directors: Page 116 ff.

Change in the Executive Board of Zürcher Kantonalbank

Christoph Weber, Head of Private Banking and Deputy Chairman of the Executive Board, will step down from his role on 1 May 2021 after some 30 years at Zürcher Kantonalbank. Florence Schnydrig Moser has been appointed as the new Head of Private Banking with effect from 1 May 2021. She will become a member of the Executive Board of Zürcher Kantonalbank as of 1 January 2021 to ensure a smooth transition.

→ Activity report Board of Directors: Page 111

Increase in the endowment capital

In the year under review, the Cantonal Parliament approved a CHF 425 million increase in the endowment capital of Zürcher Kantonalbank. This additional capital is reserved exclusively for the bank's contingency plan and will be used to meet the gone-concern capital requirement.

→ Presentation of the bank's capital: Page 222
→ Disclosure reports: zkb.ch/disclosures

Higher regulatory liquidity requirements

As a systemically important bank, Zürcher Kantonalbank is subject to substantially stricter liquidity requirements from 2021 on. To meet these requirements, the bank increased its already large liquidity cushion even further in 2020, thus enabling it to easily meet the additional requirements that apply from the beginning of 2021. The year-on-year increase in total assets is largely attributable to these higher regulatory liquidity requirements.

→ Regulation: Page 52
→ Analysis of the financial and capital position: Page 99

Third green bond placed

The issue of Zürcher Kantonalbank's third green bond also met with encouraging demand. The volume of the twelve-year bond was set at CHF 150 million. The proceeds from the issue will therefore be used to refinance existing and future ZKB environmental loans. ISS ESG, the responsible investment arm of Institutional Shareholder Services Inc. and one of the world's leading sustainable investment rating agencies, has awarded Prime status to Zürcher Kantonalbank. In its second party opinion, it confirms that Zürcher Kantonalbank's Green Bond Programme complies with the International Capital Market Association's (ICMA) Green Bond Principles.

→ Outstanding bond issues: Page 163

Swisscanto Invest is the first Swiss provider to guarantee a 2-degree reduction pathway

Swisscanto Invest is the first fund provider to guarantee an annual CO_2e reduction pathway of at least 4 percent for investment decisions in active funds of traditional asset classes. In doing so, it is making a contribution to achieving the Paris climate goal, which aims to limit the rise in the average global temperature to well below two degrees Celsius. This accord was ratified by Switzerland in 2017. The specific contribution will be reported transparently and measurably.

→ Sustainability: Page 30 ff.
→ Sustainable investments: Page 70

Zürcher Kantonalbank launches ESG collaboration with AZEK

Zürcher Kantonalbank is the first major Swiss provider of financial services to launch a close collaboration with the AZEK Training Centre for financial professionals in the CESGA® (Certified ESG Analyst) ESG course. AZEK has been offering this digital course in Switzerland since early 2020; it culminates in the CESGA® certificate that is recognised throughout Europe. More than 100 employees from the Institutionals & Multinationals business area of Zürcher Kantonalbank will complete the accredited CESGA® course and earn the corresponding certificate in 2020 and 2021.

→ Sustainability: Page 30 ff.
→ Sustainable investments: Page 70

Sale of the BVG administration business of Swisscanto Vorsorge AG

Zürcher Kantonalbank sold the occupational pension administration business (BVG) of Swisscanto Pension Ltd. (SVAG) to PFS Pension Fund Services Ltd. (PFS) in the year under review. At the same time, Zürcher Kantonalbank acquired a 20 % stake in PFS and remains closely involved in the business. This transaction was completed at the end of June 2020. All 35 employees of SVAG's BVG administration business were hired by PFS. The transaction does not include the SVAG division that provides services for pillar 3a pension foundations and vested benefits foundations. These specifically include custody account management and the administration of insurance policies. That portion will remain in the Zürcher Kantonalbank group. The pension fund survey will also remain with Swisscanto, which underlines the high level of commitment that Zürcher Kantonalbank and Swisscanto continue to embrace on all matters related to pensions.

→ Subsidiaries of Zürcher Kantonalbank: Page 158

Client satisfaction continues to rise

Zürcher Kantonalbank conducts a client satisfaction survey every two years and made further gains in 2020 as well. The results of the survey reveal that both client loyalty and service quality have risen.

→ Client satisfaction survey: Page 59

Private pension offering expanded

The Swiss pension system is under pressure, which is why private pensions are becoming increasingly important. ZKB Meine Vorsorge (ZKB My Pension) is the name of a comprehensive service package launched by the bank during the year under review, which will support clients as they enter retirement.

→ Portfolio of retirement planning services: Page 61

Vorsorgestiftung Sparen 3 of Zürcher Kantonalbank launches frankly, an app for 3a pensions

The Vorsorgestiftung Sparen 3 pension foundation of Zürcher Kantonalbank launched frankly, an app for 3a pensions, in the year under review. Developing this purely digital standalone solution for managing private pensions allowed the bank to add a digital channel to its range of services in the area of private pension provision. frankly is breaking new ground in pricing for pillar 3a securities savings. Compared to similar 3a offers, frankly's pricing model with an all-in fee of 0.47 percent is significantly more favourable for users than the current average of 3a securities solutions from Swiss banks. The community discount reduces the all-in fee as assets under management increase.

→ frankly, the app for 3a pensions, and its business performance: Page 63

SARON mortgage launched

Zürcher Kantonalbank has launched the ZKB rollover mortgage, a money market mortgage based on the Swiss Average Rate Overnight (SARON). SARON replaces Libor as the reference interest rate, which is expected to be discontinued at the end of 2021. This means that the clients of Zürcher Kantonalbank will continue to have access to money market mortgages with variable interest rates even once Libor has been replaced. The ZKB rollover mortgage is a mortgage with an indefinite term and a variable interest rate based on the SARON reference interest rate. The mortgage can be terminated on the interest payment date subject to six months' notice. The switch option also lets clients switch to another ZKB mortgage at any time and free of charge.

→ ZKB rollover mortgage and its business performance: Page 61

Advice on sustainable heating systems

We have been collaborating with the Canton of Zurich's electricity utility since 2020 to offer our clients with single-family homes free advice on replacing existing heating systems with environmentally friendly alternatives. We do this to support the climate targets of the Canton of Zurich.

→ Heating advice: Page 62

Faster access to self-service banking

The year under review saw Zürcher Kantonalbank launch a service entitled "Instant eBanking", which gives clients immediate access to eBanking. Clients perform the initial login and photo-TAN activation on site, either with an employee's help or on their own. Access is ready within 15 minutes.

→ Instant eBanking: Page 64

Ambitious environmental goals for banking operations

Zürcher Kantonalbank set itself a goal of reducing its CO_2 emissions by 15 percent by 2022 compared to the 2016 benchmark but already reached that goal in 2019. Since it achieved the goals set in the corporate environmental programme ahead of schedule, the bank adjusted its goals for the 2018–2022 environmental programme and now aims to reduce CO_2 emissions from banking operations by 30 percent compared with the benchmark.

→ Sustainability: Page 30 ff.

Successful apprentices

All of our 81 banking and 12 IT apprentices successfully completed their training in the year under review. Of those apprentices, some 90 percent chose to pursue a career within the bank and gain a great deal of valuable professional experience.

→ Young professionals: Page 93

Outlook

We expect the environment to remain challenging in 2021. Nevertheless, we still expect to be able to present pleasing results thanks to our sustained operational stability and diversified business model. In the years to come, we intend to further strengthen our leading market position in the Zurich economic area as a universal bank.

Effects of Covid-19

The Covid-19 pandemic brought the global economy to a halt in 2020. Nations continue to provide support through expansive monetary and fiscal policies in an effort to overcome the crisis and return to a growth trajectory. Promising breakthroughs in vaccine development for 2021, in particular, are boosting confidence in a global economic upturn. For 2021, we expect economic growth of 3.0 percent for Switzerland and 5.6 percent for the world. From an economic and investment policy perspective, decisive questions will be not only when vaccines will allow life as usual to resume, but also which structural changes will result from the Covid-19 pandemic.

Challenging environment

We continue to expect pressure on margins, income uncertainty and changes in the way that clients use banking services, which will intensify competition in the banking business even further. Together with the political community, the aim must be to improve the framework for Switzerland as a financial centre. Equally important is that people's trust in the financial centre be strengthened even further while also highlighting the important role played by banks, particularly that of domestic banks, with respect to society and the economy.

Continuing the strategy

We have a business policy focused on continuity that prioritises the universal bank strategy, the bank's high level of security and stability as well as its proximity to clients. We are also driving income diversification forward, in particular through a balanced product portfolio and a broad range of services in the investment and pension business. In the individual client and SME client segments, we are striving to expand on our standing as a top-ranked bank. All internal activities are focused on increasing efficiency. Great importance is attached to the Zürcher Kantonalbank brand.

Sustainable business model

We incorporate the criteria of ecological, social and economic sustainability into everything we do and are guided by the United Nations' 17 sustainable development goals.

Management Report

Management Report

The bank of the people of Zurich

Zürcher Kantonalbank has a clear statutory public service mandate from the Canton of Zurich: to provide investment and financial services to the public and business, to contribute towards efforts to address economic and social issues and to ensure that our actions are environmentally and socially responsible. This has made us unique for 150 years.

Public service mandate

Zürcher Kantonalbank was founded in 1870 as the bank of the people of Zurich. It is an independent public-law institution under the cantonal law of Zurich. We have a public service mandate from the Canton of Zurich. The scope of this mandate is formulated in the Cantonal Bank Act and in the Guidelines for the Fulfilment of the Public Service Mandate of the Board of Directors. Our business activities and public service mandate therefore benefit the canton, the municipalities, companies and the population. Non-profit commitments under the service mandate amounted to over CHF 126 million in 2020 (2019: CHF 125 million).

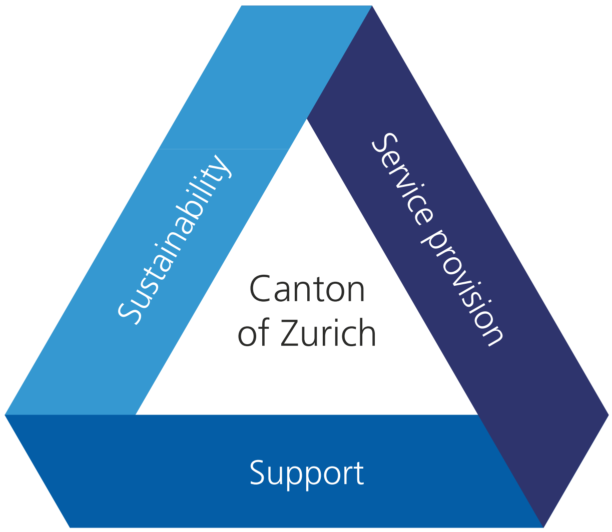
Endowment capital and state guarantee

The endowment capital forms the corporate capital of Zürcher Kantonalbank and is provided by the Canton of Zurich. In the year under review, the Cantonal Parliament approved a CHF 425 million increase in the endowment capital. This additional capital is reserved exclusively for the bank's contingency plan and will be used to meet the gone-concern capital requirement. The canton also provides the bank with a state guarantee. In doing so, it is liable for all the bank's (non-subordinate) liabilities should the bank's resources prove inadequate. This is a security measure, that has never had to be drawn upon. In exchange for the provision of the state guarantee, we pay annual compensation to the canton, the amount of which is calculated in accordance with an actuarial model. This amounted to CHF 23 million in 2020.

Profit distribution to the canton and municipalities

Zürcher Kantonalbank fulfils its public service mandate on the basis of a business strategy aimed at long-term continuity. It is based on market-oriented principles and intended to achieve an adequate level of profitability. Zürcher Kantonalbank will distribute an ordinary dividend of CHF 356 million for 2020 (2019: CHF 356 million). The canton uses this to first cover the actual costs incurred for its endowment capital (2020: CHF 11 million, 2019: CHF 11 million). Of the rest, two-thirds go to the canton and one-third to the municipalities. To help both the canton and the municipalities deal with the coronavirus crisis, we are

Public service mandate in the Canton of Zurich



Excerpt from the Law on Zürcher Kantonalbank of 28 September 1997

§ 2 Purpose

[1] The bank's purpose is to contribute to efforts to address economic and social issues within the canton. It supports environmentally sustainable development in the canton.

[2] It satisfies investment and financing needs through a business policy geared towards continuity. In doing so, it pays particular attention to the concerns of small and medium-sized enterprises, employees, agriculture and public authorities. It promotes home ownership and affordable housing.

Service obligation

We provide people and businesses in the canton with comprehensive banking services.

We provide the people and the economy with the financial services of a universal bank. These include payment transactions, saving, investing, financing, retirement planning, financial planning, taxes and estate planning. When doing so, we pay particular attention to the concerns of small and medium-sized enterprises, employees, agriculture and public authorities. We also promote home ownership and affordable housing. Our product portfolio is extremely broad and includes services outside the scope of those provided by traditional universal banks. We provide our clients with an excellent client experience across all channels, regardless of whether it is in the physical or digital world.

Support mandate

We assist the Canton of Zurich in the economic, social and environmental arenas.

The support mandate obligates us to help the canton resolve economic and social issues. Nowadays, our support frequently comes in the form of sponsorship commitments. We are committed to protecting our natural resources, preserving social cohesion and strengthening the competitiveness of the Greater Zurich Area. It only goes to follow that we advocate a balanced relationship with nature and wildlife as well as sustainable mobility, cultural diversity, equal opportunity, innovation and entrepreneurship. For detailed information about our activities in this area, please go to zkb.ch/sponsoring. We also have one of the largest apprenticeship programmes and are a major employer in the canton.

Sustainability mandate

Our operations in all areas follow a sustainable business model.

We pursue a business policy aimed at long-term continuity that meets the needs of the economy, the environment and society. Sustainability is an integral aspect of our business model. That means we factor environmental, social and economic criteria into our activities and align our operations with the United Nations' 17 sustainable development goals (SDGs). Our products and services offer us the most effective source of leverage and are how we promote sustainable financing and investments. This commitment is reflected in our memberships, participations and sponsorships, as well as in the way we run our bank.

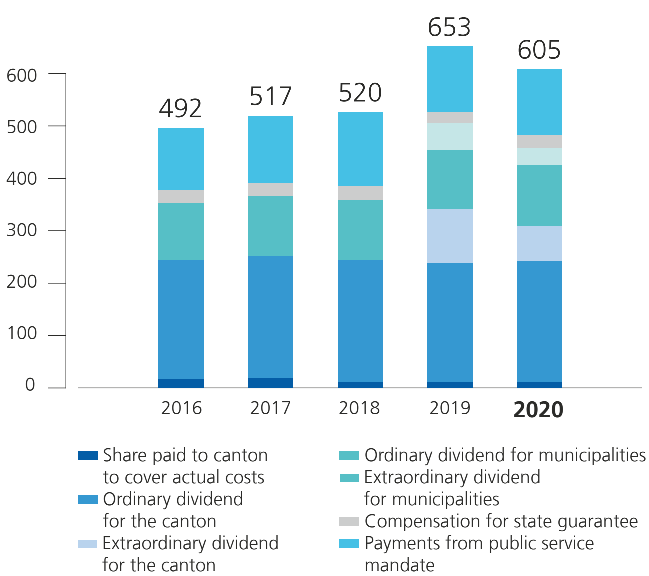
also distributing an uncommitted special coronavirus dividend of CHF 100 million. Hence, the people of Zurich earn a share of CHF 294 per person in the success of the bank (2019: CHF 329).

Material events related to the public service mandate

Sponsorship partners paid in full

We have been providing support to people and businesses over the course of their lives for 150 years. In good times and in bad. The year under review was challenging for our sponsorship partners. Many cultural institutions had to cancel their entire programme due to the coronavirus pandemic. Zürcher Kantonalbank decided to pay out the agreed sponsorship contributions in full in 2020 and 2021 regardless of the services they provide. This quick, uncomplicated assistance helps our partners out during these challenging times.

Participation by canton and municipalities in Zürcher Kantonalbank's business activities (in CHF million)



Extraordinary dividends for the canton and municipalities: 2019 anniversary dividend of CHF 150 million. 2020 special coronavirus dividend of CHF 100 million.

The new ZKB Nachtschwärmer

Zürcher Kantonalbank is one of the "founding partners" of the ZVV nighttime network and we have been its main sponsor since 2002. This offer, which is popular among young people, was expanded in the year under review.

The clients of our two youth packages, ZKB young and ZKB student, have been enjoying the new "ZKB Nachtschwärmer" offer since December 2020. With this offer, they travel free of charge on the entire ZVV network on Fridays and Saturdays from 7 p.m. until 5 a.m. the next morning. As in the past, they can get their free ticket in the eBanking Mobile app before embarking on their journey.

All around the canton, night trains and buses all run at hourly intervals from Friday to Saturday and from Saturday to Sunday, as well as before most public holidays. And in Zurich, night buses even run every half hour. This commitment is part of our contribution towards environmentally sustainable development in the Canton of Zurich.

Donation to support unemployed young people

According to recent figures released by the Canton of Zurich, youth unemployment in the Canton of Zurich has risen significantly over the previous year in the wake of the pandemic. At the end of October 2020, around 17,600 young people were registered as unemployed in Switzerland. This was 46 percent higher than in the previous year. In Switzerland as a whole, the number of unemployed young people is currently estimated at around 70,000. Covid-19 has made it more difficult for many to find a job. In order to provide quick, unbureaucratic assistance to those affected, Zürcher Kantonalbank – on the initiative of one of the bank's employees – has decided to donate CHF 450,000 to the umbrella organisation Check Your Chance, which will benefit around 1,300 young people in the Canton of Zurich. With this donation, the bank joins SECO and organisations such as Pro Juvenute and the Chance Foundation in taking a stand against youth unemployment in the Canton of Zurich.

Central principles of our sustainability policy

Business

Combating of money laundering, corruption and terrorist financing

Active contribution towards safeguarding the integrity of the financial system.

Governance

Decision-making criterion in the investment and financing process.

Application of corporate governance standards to the management of Zürcher Kantonalbank.

Value chain

Start-up financing and capital for subsequent growth phase (Swisscanto Invest Growth Fund).

Environment

Energy and climate

Promotion of energy efficiency and renewable sources of energy.

No financing of coal-fired power plants or coal mines.

Raw materials and biodiversity

No investments in individual agricultural commodities such as wheat, corn, soy and rice and no financing for raw materials such as crude and heavy oil, uranium, live goods, diamonds, asbestos, precious woods, non-certified palm oil, rare-earth elements.

Transactions that harm protected ecosystems are avoided.

Society

Human rights

Protection of human rights.

Exclusion of companies based on a blacklist.

Financial stability

Broad product offer and prevention of overindebtedness.

For more information, go to zkb.ch/sustainability

Sustainability

We act in harmony with the economy, the environment and society: Sustainability is an integral aspect of our business model. That means we factor environmental, social and economic criteria into our activities and align our operations with the United Nations' 17 sustainable development goals (SDGs). Our commitment is reflected in our products and services, memberships, participations and sponsorships, as well as in how we run our bank.

Sustainability policy

We are aware of the pivotal role played by the financial sector in efforts to achieve sustainable development worldwide. The principles of sustainability are set out in Zürcher Kantonalbank's sustainability policy (see table p. 29). Within our sphere of influence, we strive to reconcile our activities with sustainable development and to report them transparently. We focus on areas where the potential for impact is large. The Board of Directors has enshrined sustainability in the group strategy. Our sustainability policy is reviewed annually and approved by the Executive Board.

Sustainable Development Goals of the United Nations

Sustainability is an integral aspect of our business model. Here, we are guided by the United Nations' 17 sustainable development goals.

Key sustainability issues

Through dialogue with clients, employees, suppliers and partners, our owner, the Canton of Zurich, and the public, we regularly identify key issues within the context of sustainability. Zürcher Kantonalbank oversees and promotes sustainable development through its products and advisory services. Topics raised in this context include responsible lending, sustainable investment and active ownership, ethical business management, access to financial services, responsible sales practices and economic benefits. These are explained below. Detailed information can be found in our GRI report at zkb.ch/gri.

Responsible lending

To ensure the sustainable development of our financing business, we pursue a risk policy geared towards continuity and consider the assessment of environmental and social risks to be an important part of the credit assessment process. Both our credit policy and sustainability policy set out guidelines for responsible lending and we promote sustainability in the financing business through selected products and services.

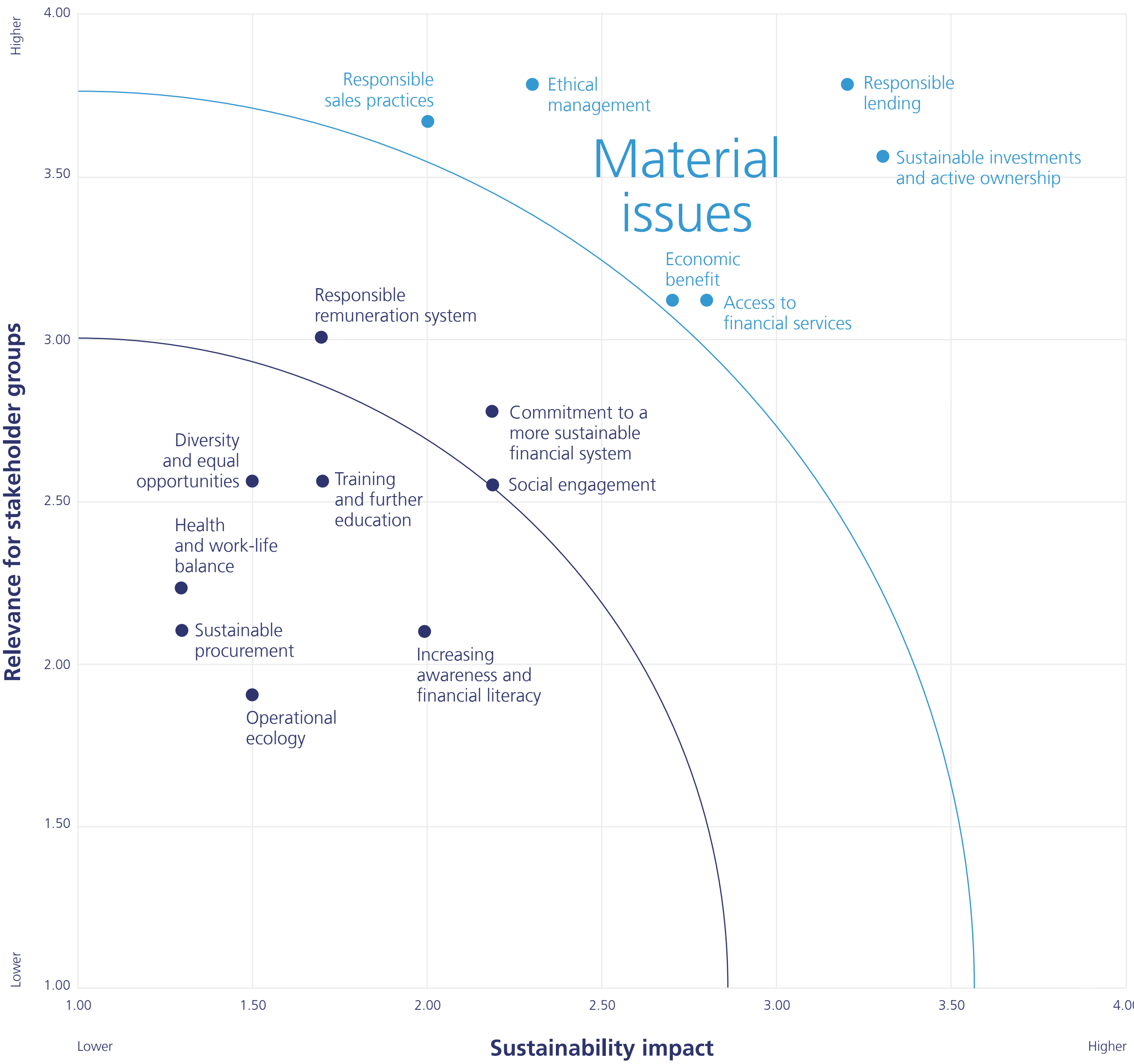
We generate specific social benefits through our ZKB starter mortgages for first-time home buyers and efforts to promote innovative start-ups (pp. 62 and 66). Our ZKB environmental loan generates specific environmental benefits (p. 62).

Sustainable investments and active ownership

The investment business is one of our core businesses. We are the first asset manager in Switzerland to use the Paris Climate Agreement as a compass for in all actively managed, traditional assets and follow an annual CO_2e reduction pathway of at least 4 percent when making investment decisions. Our approach towards sustainability allows us to influence issues related to sustainability and climate protection, in particular, in every active investment process and therefore fulfil our fiduciary and social responsibility.

Aspects of this approach include integrating ESG information, actively exercising our voting rights, excluding controversial companies and adhering to the CO_2 reduction pathway. The systematic inclusion of these aspects leads to better investment decisions. The "Impact" product line goes one step further and invests exclusively in companies that make a positive contribution to the United

Materiality matrix



We prioritise our activities by identifying material issues. The issues were surveyed in dialogue with our stakeholders (see p. 46) and evaluated in terms of their relevance to those stakeholders and the materiality of their impact on sustainable development.

Nations' 17 sustainable development goals. As a pioneer in the field of sustainable investments, we can build on many years of expertise.

Ethical management

Our corporate governance regulations, directives and processes help prevent unethical behaviour and promote sustainable ways of dealing with conflicts of interest, transparency regarding payments to authorities or other parties, as well as channels for and the protection of whistleblowing. You can find out more about this in the section on Corporate Governance (p. 103 ff.).

Access to financial services

One central aspect of our cantonal service mandate is ensuring access to financial services for the population and the economy in general, as well as for specific client groups in particular. We provide the population and businesses with the financial services of a universal bank, which include payment transactions, saving, investing, financing, retirement planning, financial planning, taxes and estate planning. In particular, we address the concerns of SMEs, employees, agriculture and public-sector entities and promote both home ownership and affordable housing.

Responsible sales practices

Responsible sales practices include all marketing activities that sustainably address the needs of our clients. They form the basis for trust in Zürcher Kantonalbank and promote the positive perception of our bank. We gear our products and services towards the needs of our clients and offer high quality and value for money at fair, competitive prices. We communicate quickly, directly, regularly and transparently. Transparency is a central and overarching basic principle. We ensure that our products and services are transparent so our clients can make informed decisions. We avoid hidden fees. Any environmental and social impacts are identified. One example of this is that all our sustainability funds bear the European Transparency Code logo. Our advertising measures are tailored to our target groups and use simple language appropriate for the group in question. Our remuneration policy is based on the bank's long-term goals and values. In line with that approach, it does not create incentives for taking inappropriate risks. We also promote education on specialist subjects related to banking. In order to teach children and youths how to handle money, for example, we support Pro Juventute in its efforts to prevent young people from accumulating debt as well as the Association of Swiss Cantonal Banks (ASCB) in its Finance Mission project.

Economic benefit

Zürcher Kantonalbank generates economic benefits by contributing towards efforts to promote the development of the local economy. We help promote Zurich as a business location and are committed to driving environmental and societal progress in the Canton of Zurich. When fulfilling our public service mandate, we pursue a business policy aimed at long-term continuity, an adequate level of profitability and a steady distribution of profit to the Canton of Zurich and its municipalities.

It should be noted that, with around 420 apprentices, we have one of the largest apprenticeship programmes in the Canton of Zurich and we are also a major employer in the canton with over 5,000 full-time positions. We provide our clients with the densest network of branch offices in the Canton of Zurich and are involved in a wide range of activities in the areas of nature, youth, culture, sport, social activities and entrepreneurship through more than 150 partnerships, memberships and sponsorships.

Other sustainability commitments

Operational ecology

In an effort to ensure a continuous reduction of CO_2 emissions and improve the company's environmental performance, we set ourselves environmental goals as part of our operational environmental programme. We use exclusively green "naturemade star" electricity, which helps us gradually reduce our CO_2 emissions, and have been offsetting 100 percent of unavoidable CO_2 emissions since 2009. One of the projects we supported during the year under review was a carbon-offsetting project that produces biochar. Our current operational environmental programme for 2018–2022 is running successfully and right on target.

Memberships

We are involved in several different organisations that help promote sustainable development. We put a special focus on knowledge building, networking between different players, innovations, the general conditions for a sustainable economy and the development of industry standards. In addition to partnerships, we also provide human resources who make a specific contribution by sitting on boards or working groups, for example.

Sustainability reporting

The Sustainability Report for 2020 shows how Zürcher Kantonalbank exemplifies sustainability as an integrated business principle. In the section of the report prepared in accordance with the requirements of the Global Reporting Initiative (GRI), all key indicators are presented in accordance with the GRI standard. Detailed information can be found under zkb.ch/sustainability and zkb.ch/gri.

Partnerships

- Center for Corporate Responsibility and Sustainability (CCRS)
- Fairtrade Max Havelaar
- Mobility Business Carsharing
- naturemade star!
- Minergie Association

Memberships

- Carbon Disclosure Project (CDP)
- Zurich Energy Model
- EUROSIF
- Forum Nachhaltige Geldanlagen (FNG)
- Montréal Carbon Pledge
- Principles for Responsible Investment (PRI)
- Swiss Sustainable Finance (SSF)
- swisscleantech
- UNEP Finance Initiative (UNEP FI)

AWU Focus Report 2020

Report on the fulfilment of the public service mandate

The Parliamentary Committee for the Supervision of Commercial Undertakings (AWU) monitors the fulfilment of the public service mandate. To this end, Zürcher Kantonalbank reports annually on a specific topic chosen by the AWU. The following section is devoted to "Zürcher Kantonalbank and its public service mandate in the current environment" and examines the fulfilment of the public service mandate from a qualitative perspective. Zürcher Kantonalbank's anniversary year began with unforeseen developments that clearly highlight both the bank's public service mandate and its impact.

AWU Focus Report 2020

Zürcher Kantonalbank and its public service mandate in the current environment

The rapid spread of the coronavirus has posed major challenges for the Swiss economy. Many companies prepared emergency plans and rules of conduct for their employees. Economic losses suddenly became a question of survival for previously successful companies. Any businesses not serving basic needs remained closed in the spring, as did the schools. The population was urged to stay at home. Everyone was called on to make a joint effort to overcome this crisis together.

In the Canton of Zurich, as well, we are experiencing massive restrictions that are hitting the entire economy with full force. Nearly every company is feeling the impact of the virus's spread and the precautions being taken as a result. Assessing the full impact of this shock is still impossible at present – the events are still too dynamic.

While we are convinced that most companies in the Canton of Zurich will be able to overcome the challenges of this extraordinary economic situation, they should also be able to approach them in the knowledge that they are not alone in their efforts.

Zürcher Kantonalbank strives to maintain a relationship with its clients based on partnership and continuity. We have adhered to this aspiration in the past and have made it our promise for the future. With that in mind, we have continued to provide our full range of services in our role as a primary service provider and will continue to do so in the future. For example, Zürcher Kantonalbank and the head of the Zurich Department of Finance played a leading role in devising and implementing the cantonal aid package. We also secured an additional CHF 300 million in bridging loans for SMEs in the Greater Zurich Area at the end of the year under review.

Efficient lending for Zurich's economy

The Canton of Zurich is home to the largest number of companies in Switzerland (over 110,000), 99 percent of which are small or medium-sized companies with up to 250 employees. 85 percent of them belong to the service sector. And at just over 30 percent, the Canton of Zurich also has the largest share of start-ups in Switzerland.

The federal government, the cantons and the banks worked together to provide quick, unbureaucratic assistance to the companies affected by the situation, which in some cases is threatening their very existence. The federal guarantees, also supplemented by a guarantee from the Canton of Zurich in special cases, serve as collateral for the banks and have massively facilitated the granting of loans.

Online guide for SMEs

Once the financial aid had been worked out and launched, Zürcher Kantonalbank turned its attention to rounding off the offer for SMEs. The main priority was to support companies in other ways by providing them with some tips and tricks in these difficult times. The result: a page with an online SME guide, where new SME-relevant content has been added on an ongoing basis. Users receive helpful tips on a wide range of topics aimed at helping them master these current challenges such as setting up a webshop, steps they can take to preserve liquidity, cyber security and contactless payments.

→ zkb.ch/kmu-ratgeber

SME Roundtable

Zürcher Kantonalbank launched a series of webcasts in April 2020 called "KMU im Gespräch" (SME Roundtable), which offer SMEs an opportunity to share experiences and know-how. During these webcasts, experts and company representatives discuss their insights on and solutions for a variety of different topics. Some of the topics that have already been addressed during the coronavirus pandemic include "Planning Security", "Remote Management", "Cyber Security", "Online Sales Channels" and "Exporting to Neighbouring Countries".

→ zkb.ch/de/un/fk/kmu-im-gespraech

Stronger together

Entrepreneurs are experts in their field – they are committed, form good teams and know that they're stronger together. Numerous campaigns and initiatives emerged during the weeks of the partial lockdown that were aimed at supporting local businesses. Trade associations play an important role in this context. One successful example of this is the cooperation with the SME and Trade Association of the Affoltern district. It had set up an online platform to support local businesses during this difficult situation. Coordinated by the Affoltern am Albis branch, Zürcher Kantonalbank actively participated in the planning and dissemination of the information and helped fund the effort as its sponsor.

→ kmu-bezirk-affoltern.ch

Coronavirus lending by Zürcher Kantonalbank through the federal and cantonal programme

CHF 1 billion

until 31 December 2020

Covid-19 loans

(credit limits of up to CHF 500,000)
More than 7,700 loan applications granted with a volume of over CHF 780 million

Loans with cantonal guarantee

More than 80 loan applications granted with a volume of over CHF 40 million

Covid-19 PLUS loans

(credit limits of over CHF 500,000)
Around 70 loan applications granted with a volume of over CHF 210 million

Additional assistance provided by Zürcher Kantonalbank

CHF 100 million

Zürcher Kantonalbank earmarked a total of CHF 100 million from its own lending perspective to provide support, which resulted in measures worth more than CHF 40 million by 31 December 2020. These include payment deferrals, loans and waivers.

CHF 300 million

in bridging loans provided for SMEs in the Greater Zurich Area from 4 January 2021.

Sponsorship

Full payment of sponsorship amounts to our sponsorship partners in 2020 and 2021 regardless of the services they provide.

CHF 450,000

to help around 1,300 unemployed young people in the Canton of Zurich find a job.

AWU Focus Report 2020

Interview

Zürcher Kantonalbank has been helping to secure jobs right from the very first day of the coronavirus crisis. Chairman Dr Jörg Müller-Ganz on the strengths of a state-owned bank – and what will matter going forward.

Jörg Müller-Ganz, you worked together with Ernst Stocker, a member of the Government Council, to get an assistance programme for Zurich SMEs launched at record speed. What was your motivation?

At my previous job, I spent several years managing the turnarounds of companies in crisis situations and also published a specialist book on the subject. I've seen close-up dozens of times how companies can successfully plot a course to escape from the eye of the storm. With that kind of background, it was immediately obvious to me what these sudden collapses in income and liquidity would mean for companies, employees, suppliers and for our economy in general, as well as the role bridging loans can play to salvage situations such as these. Personally, I consider it vitally important that Zürcher Kantonalbank, as the canton's largest bank and as a state bank, lives up to its responsibility and that the people and companies of the Canton of Zurich can count on us. The best way to demonstrate our statutory public service mandate – "it satisfies investment and financing needs through a business policy geared towards continuity" – is during crisis situations!

Could a private-sector bank and the canton have made it happen just as quickly?

Every bank in Switzerland has achieved great things – that's something I'd like to emphasise. The industry recognises that it now has to give something back to our society. I'm certain, though, that our proximity to Zurich's business and political communities, which we've carefully cultivated over the years, helped us roll out the assistance that was needed both quickly and in line with specific needs.

We know the companies of Zurich. We're also in constant contact with the Cantonal Parliament and the Government Council, the rural communities and the cities of Zurich and Winterthur. We know where the shoe pinches in Zurich. I'm actually a little proud of the fact that Zurich was quicker with its SME emergency assistance programme than the federal government, which helped add a bit more momentum to the process in Berne.

In a crisis situation like this, does the statutory public service mandate help our bank?

Our public service mandate is both our bank's raison d'être and its unique selling proposition. Times of crisis give us an opportunity to prove that we're focused on providing sustainable services and assisting our clients. Anyone can hand out umbrellas in nice weather. Our anniversary book contains numerous examples of how Zürcher Kantonalbank has excelled over the past 150 years, especially during difficult times. That will be our responsibility in the near future as well. Helping out quickly in a time of need is one thing. Embracing a patient, understanding approach when guiding companies back into calmer waters is another. Plus, at that point in time it was crucial that we launch and support something new.

What do you mean by that?

For many SMEs, the current crisis is also a learning and testing ground for digitalisation and innovative ways of contacting clients. The economist Joseph Schumpeter already coined the term "creative destruction" 80 years ago: external disruptions, like the one we're experiencing now, revolutionise the economic structure from within and create something new. That gives rise to changed business models, which are likely to become a platform for new growth in the post-crisis world.

Zürcher Kantonalbank is the most prominent promoter of start-ups in Switzerland. We're spearheading efforts to provide concrete assistance to these young companies during the crisis. They should be able to continue their development once things calm down – with a positive impact on Zurich as a business location. Young companies, unlike established businesses, need equity for that to happen. Our "Pioneer" programme has already provided equity to more than 200 start-ups in the 20 years since it was first launched and will continue to do so in the future.

"The crisis is a learning and testing ground for digitalisation."

You mentioned our 150-year history. The anniversary motto was "Zäme Zuri" (Together Zurich)…

… which is something we are exemplifying in the coronavirus crisis. I still would have liked the year to have progressed a bit differently, with a cheerful summer festival in the Landiwiese recreational area and lots of cultural highlights. Our anniversary year was a year in which we had an opportunity to demonstrate our solidarity and proximity to our canton in a way that could hardly be more fitting for this motto.

"We know where the shoe pinches in Zurich."

Is this attitude something you also sense among our employees?

Yes, very strongly, in fact. Our employees have accomplished extraordinary things in recent months. I'm thinking of those of our staff who have been learning new fields of work – sometimes overnight, like when we started granting federal loans.

While working from home during the lockdown, many of them were just as productive as they had been in the office, even while simulta-

"Our employees have accomplished extraordinary things."

neously watching their kids, explaining schoolwork, and cooking for them. On behalf of the Board of Directors, I'd like to take this opportunity to thank each and every one of them for their enormous commitment.

We're facing not only the coronavirus crisis: climate change still presents an urgent challenge too. Zürcher Kantonalbank and Swisscanto have steadily intensified heir commitments in this area. Is it going to be relegated to second or even third priority now?

Absolutely not – even if the coronavirus crisis is presenting us with previously unimaginable challenges. The issues surrounding climate change remain unaltered on our agenda. Our clients and society have clear expectations of us in this regard. And politicians are setting ambitious targets, one of which being the 2-degree target defined by the Paris Climate Agreement. We won't weaken our commitment: we plan to strengthen it instead by expanding our focus from the investment business to the financing business, as well.

Jörg Müller-Ganz, you've been Chairman of our bank for more than ten years. Are these the most challenging and most difficult times that you've experienced during your tenure?

When the weather gets rough, that doesn't necessarily mean it has to be exceptionally demanding and difficult for individuals. According to an old proverb, there's no such thing as bad weather, but only the wrong clothes. I must confess that I'm not uncomfortable in my role during challenging times. As I've already explained, my former professional passion was always to help medium-sized and large companies get out of extremely difficult situations. Situations like these let you test your own personal resilience and composure, reset your bearings and leverage your creativity to find and follow new paths. From that perspective, different situations and times present different challenges. Even when things are quiet, there are still complex issues that need to be resolved.

How confident are you about the future?

My mother experienced a lot of horrible things in Germany during the war. Despite everything that happened, she still managed to hold on to her optimistic outlook throughout her life and taught us children to look for the silver lining in every setback and to rise up again with new-found strength and tackle the future with confidence and commitment. Building on a solid foundation and our multitude of strengths, we'll also overcome Covid-19 – as a society and economy in any case. I just hope that the same can be said for as many of us as possible in our personal circles, as well. Zürcher Kantonalbank will emerge from these experiences all the stronger.

As employees, we've witnessed a professional, unagitated and reliable employer with a clear compass; we've experienced the strength of our collaboration and the stability of our systems and processes. Our clients, suppliers and the institutions we sponsor have seen us as a genuine partner that is always close at hand, one that not only fulfils contracts, but also demonstrates solidarity, provides unexpected services and treats others with trust and a human touch. The Cantonal Parliament and Government Council have seen that their strong bank promotes the welfare of our canton; responsibly, quickly, reliably and with fortitude! ■

Interview: Matthias Baer,
Head of Public Affairs at Zürcher Kantonalbank

AWU Focus Report 2020

Looking for the silver lining

Our clients experienced the challenges of the pandemic in different ways. Mauro Lapenna, for example, has been bold and creative. He owns Moro's Zweirad GmbH in Feuerthalen and has achieved something that was nearly unthinkable. Despite closed retail shops, the ten people employed at his bike shop are working at full capacity – and it looks like their sales will be hitting a record high.

The people of Switzerland might be riding bicycles during the crisis, but bike shops are not allowed to sell anything. According to the umbrella association, 30 percent more cyclists have been on the road since the start of the coronavirus crisis. At first glance, it might seem that this bodes well for bike shops. But without any retail space and given the recommendation that people stay at home, the future is also fraught with uncertainty.

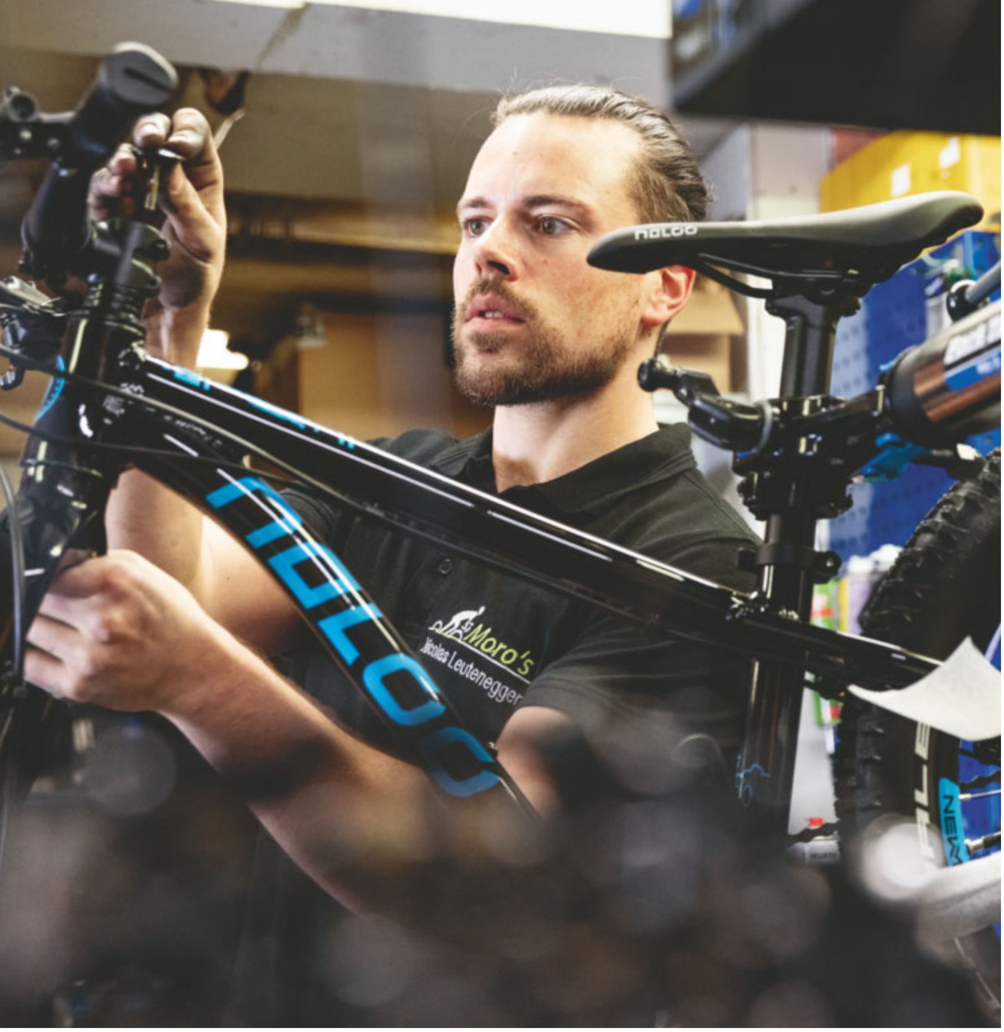
Concerned about employees

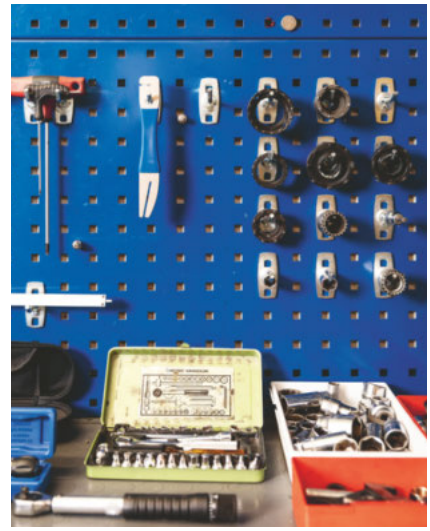
The lockdown announcement was not entirely unexpected for Mauro Lapenna, owner of Moro's Zweirad bicycle shop in Feuerthalen. He had already expected shops to close sooner or later. "I was concerned about my employees, first and foremost. They're my top priority," says Mauro Lapenna. He's spent the past ten years building his business and currently employs ten people. In fact, he was able to create an additional three full-time equivalent jobs just last year. This entrepreneur is fully committed to his employees. Many questions were plaguing him before the lockdown: How am I going to keep my ten employees busy? And if the shop has to stay closed, how am I supposed to pay for everything?

"We had already filled out the form for short-time work. Business is traditionally slower in the winter, with bikes for the new season arriving in January and February," Lapenna recalls. Given the uncertainty of the situation, he didn't know at first if he would even be able to pay for the bikes so he also applied for a Covid-19 loan from his local bank.

Swift response to the lockdown

On 16 March, the very same day that the federal government announced the lockdown, Lapenna notified all his customers via e-mail of how it would impact his business and informed them that the repair shop was still open. He points out that he normally gets by without doing any advertising at all. This e-mail was also sent to Thomas Müller, Head of Business Clients at the Andelfingen branch. In his eyes, Mauro Lapenna is the consummate entrepreneur, whose commitment stands out even in the middle of a crisis. "When the lockdown started, it was important for us to talk to all of our clients



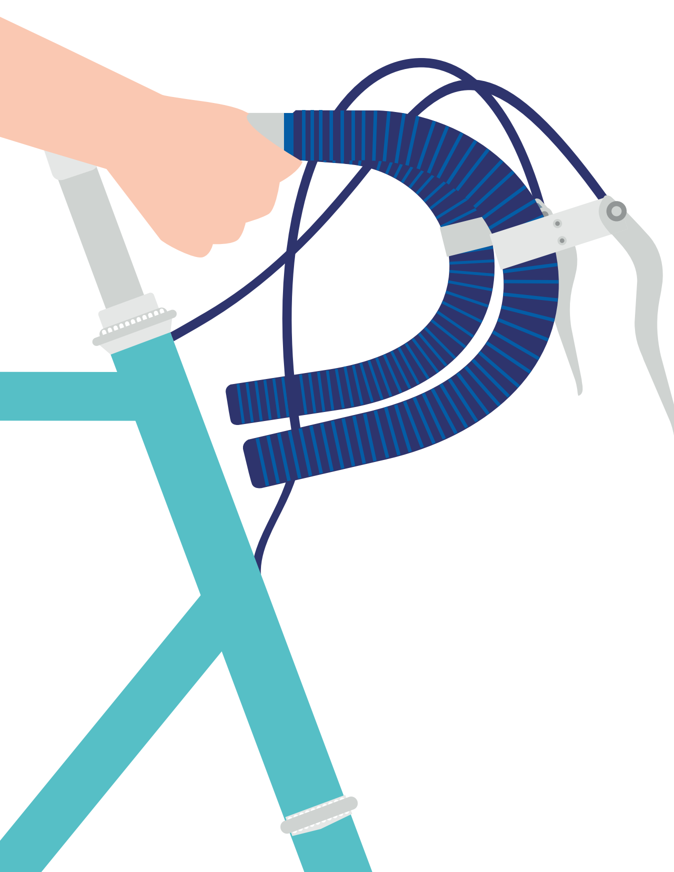


“I was concerned about my employees. They’re my top priority.”

Mauro Lapenna

in person. We were on the phone nine hours a day in the beginning. We discussed their precise needs and assured them that they could count on our support." Many of them needed Twint set up as a payment option, for example. "We set up an eCommerce service for Mauro Lapenna because he was no longer able to serve his customers in the shop. To get his digital operations up and running more swiftly, he also acquired a small business that was already a few steps ahead of him with respect to online bike sales. There, too, he could count on our support," Thomas Müller continues.

Mauro Lapenna has since come to the realisation that "we could have done it even without the Covid loan". In the end, they decided not to submit the short-time work request. Thanks to his initiative and excellent reputation, their order books are full and each and every employee, including his sales associates, is working to capacity. The workshop has even received around 150 written repair requests at times, plus 100–130 phone calls a day. Right now, it looks like sales for the year will hit a record high.



"We had already filled out the form for short-time work."

Mauro Lapenna

Booked out for a month in advance

Thomas Müller says: "Moro's Zweirad demonstrates the lengths local businesses are going to in order to overcome the crisis on their own. Interacting with entrepreneurs like Mauro Lapenna is extremely important to us, partly because we, ourselves, are customers of these companies."

Lapenna is confident that he will be able to repay the Covid-19 loan quickly. He's been working 14 hours a day to make that happen. He has reserved only Wednesdays for family time with his two-year-old son. Plus he gave his employees two extra days off so they could take a break. Thomas Müller laughs when he talks about his bike's repair. "The waiting list was a month long. After an in-person visit and a bit of luck, I was able to take delivery of my repaired bike just ten days later."

Once the lockdown was over, things continued at the same pace for Mauro Lapenna as during the lockdown. The situation calmed down only towards the end of September and they are currently experiencing their normal seasonal business.

We have learned a lot from these critical situations and have adapted our company's structure accordingly to make sure we don't lose track of anything when the work comes flooding in. The entire company has grown as a result of the coronavirus crisis and employees were also asked for ideas on how we can improve. ■

Text: Katharina Andres, Communications Asset Management, Zürcher Kantonalbank
Photos: Gabi Vogt

AWU Focus Report 2020

Conclusion and outlook

2020 showed us in no uncertain terms just how profoundly our everyday lives can change in what seems like a heartbeat. Normal, everyday things were no longer a given and we had to take new paths. Striking the right balance between stability and flexibility while still focusing on the necessities became extremely important.

Zürcher Kantonalbank lived up to the challenges it faced in 2020 and was once again able to count on its employees, all of whom have accomplished extraordinary things. We stood by our clients from the very beginning and will continue on this extraordinary journey together.

As a bank, we have already had to overcome several crises, including both the real estate crisis in the 1990s and the financial crisis in 2008. Thanks to a business policy geared towards continuity and stability, Zürcher Kantonalbank has been coping with these challenges more successfully than some of its competitors.

The coronavirus pandemic and the social distancing it has necessitated have given digitalisation a powerful boost. Challenging times such as these create fertile ground for new ideas and solutions. We continue to take advantage of the opportunities offered by new formats, such as the online guide for SMEs, and leverage them to expand our range of services. As the bank that is "close to you", we simultaneously seek out and maintain personal contact with our clients and other stakeholders.

Particularly in difficult times, our public service mandate shows how Zürcher Kantonalbank can provide effective support to its owner, the Canton of Zurich. We pledged support not only to our clients, but also to our sponsorship partners, associations and institutions.

Which challenges we face going forward and what repercussions these will have on our everyday lives still remains to be seen. But as a reliable partner, we will continue to stand by our clients and other stakeholders – just as we have done for the past 150 years.

Management Report

Group mission statement and strategy

Our vision is “Close to you”. Our mission statement describes our identity and serves as a compass for our conduct. Our strategy shows us which path we need to follow in order to fulfil our public service mandate, both now and in the future: we want to become simpler and more agile, strengthen our investment and retirement planning business and create proximity, both online and in person.

Zürcher Kantonalbank is characterised by continuity and stability. To ensure that we can continue to keep our promise of being “close to you” in future, we keep pace with economic, social and technological developments and align our organisation accordingly.

Group mission statement

The group mission statement serves as a compass for our conduct and the future development of our company and our subsidiaries.

The more fast-paced the environment, the more important it is that a long-term vision, goals and values guide our actions. Our Board of Directors has reformulated what this means in today’s world in our mission statement.

The key element of this is the way we view ourselves. We’re the bank of both the people and companies of Zurich. We engage in economic, environmental and social activities to fulfil our public service mandate.

Stakeholder groups

We want to enthuse our clients. In order to position ourselves successfully in this rapidly changing world, we continuously strive to improve our understanding of proximity: we want to advise our clients not only as financial experts, but also expand their own financial expertise, provide them with lifelong support and offer them solutions to challenges they are not even aware of yet.

As an institution under public law, we have a special responsibility to our owner, the Canton of Zurich. Because of this, we conduct our business activities with a focus on maximum financial security and reliability at all times.

Since this is only possible through the efforts of committed employees who identify with our vision, goals and values, we provide them with comprehensive, long-term support. We do this not only so they can actively contribute to the development of our organisation, but also to enable them to successfully enhance their qualifications and skills.

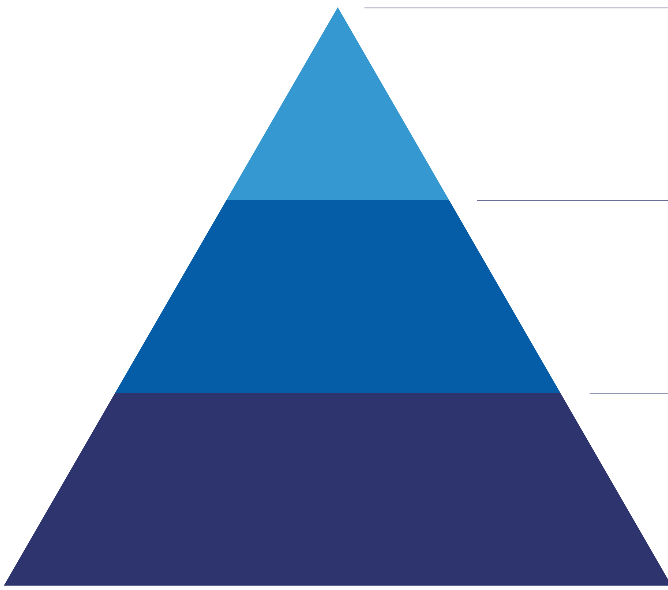
Our values

Our values – responsible, inspiring and passionate – shape and reflect our culture and the conduct of our staff.

Our vision

Close to you

We support, advise and offer solutions.
Always, everywhere. Throughout your life.



Internationally successful

Nationally strong

No. 1
in the Greater
Zurich Area

We conduct ourselves responsibly in every situation and with respect to all stakeholder groups. We are a reliable partner, make a positive impact and are at hand when needed. Responsible decisions always also focus on creating sustainable added value – for both society and the environment.

Those who take initiative and inspire do not wait to see what others do. We think ahead, anticipate trends, show courage and assume a pioneering role, and in doing so inspire others. We internalise our value of "inspiring" within our culture and thus become the bank that sets the pace beyond the Zurich area.

Our actions always revolve around people. Our passion for what we do is palpable – regardless of whether these contacts take place online or in person. Our collaborative commitment and perseverance spark enthusiasm in every encounter and in every aspect of our work.

Group strategy

Group strategy

We are a universal bank and a leader in our home market, the Greater Zurich Area. For certain client segments, we also provide services throughout Switzerland and in selected other countries.

Globalisation, digitalisation, regulation of the financial sector and demographic change are the challenges presented by our modern-day world; we face these challenges and find both contemporary and forward-looking solutions for our clients. Our strategy tells us which path we must take as Zürcher Kantonalbank. It defines our current and future business activities and priorities.

We firmly believe that the only way for us to fulfil our broad statutory public service mandate – which we passionately embrace – is by being a universal bank. This puts us in a position to offer the full range of banking services from one source and generate added value for our clients in the process. We actively address sustainability-related issues, lead the way with sustainable offerings and guide our clients on their journey towards a sustainable future.

Our entire value chain is focused on providing banking services to private individuals and companies in the Greater Zurich Area. Our strong presence in our home canton and cross-divisional collaboration under the umbrella of the universal bank give us a competitive edge and offer benefits to our clients.

We pursue a diversification strategy: we generate our income in several different business areas to spread risks. We already pursue a policy of broad income diversification and intend to expand on this even further, in part by aiming for qualitative growth in the investment and asset management business.

Our group strategy differentiates between three categories: client segments, producers and functions. We define divisional strategies for all areas that fall within these categories.

Client segments

In the core individual client segments, we aim to retain our status as the leading financial services provider for the people of Zurich. We are there for our clients. We are the reliable partner standing at their side for every life event, regardless of whether positive or negative. We understand what moves our clients and which challenges they face. Our experts offer the right solutions for those events and create added value.

In the core SME segments, we have set ourselves the goal of further expanding our position as the clear number one for commercial, business and corporate clients in the Greater Zurich Area. We aspire to be the financial partner of choice for the 5,000 largest corporate groups in Switzerland.

The specialised segments include large corporations, pension funds, financial institutions, key clients, external asset managers and international private clients. We make targeted investments in these specialised segments in order to achieve qualitative growth.

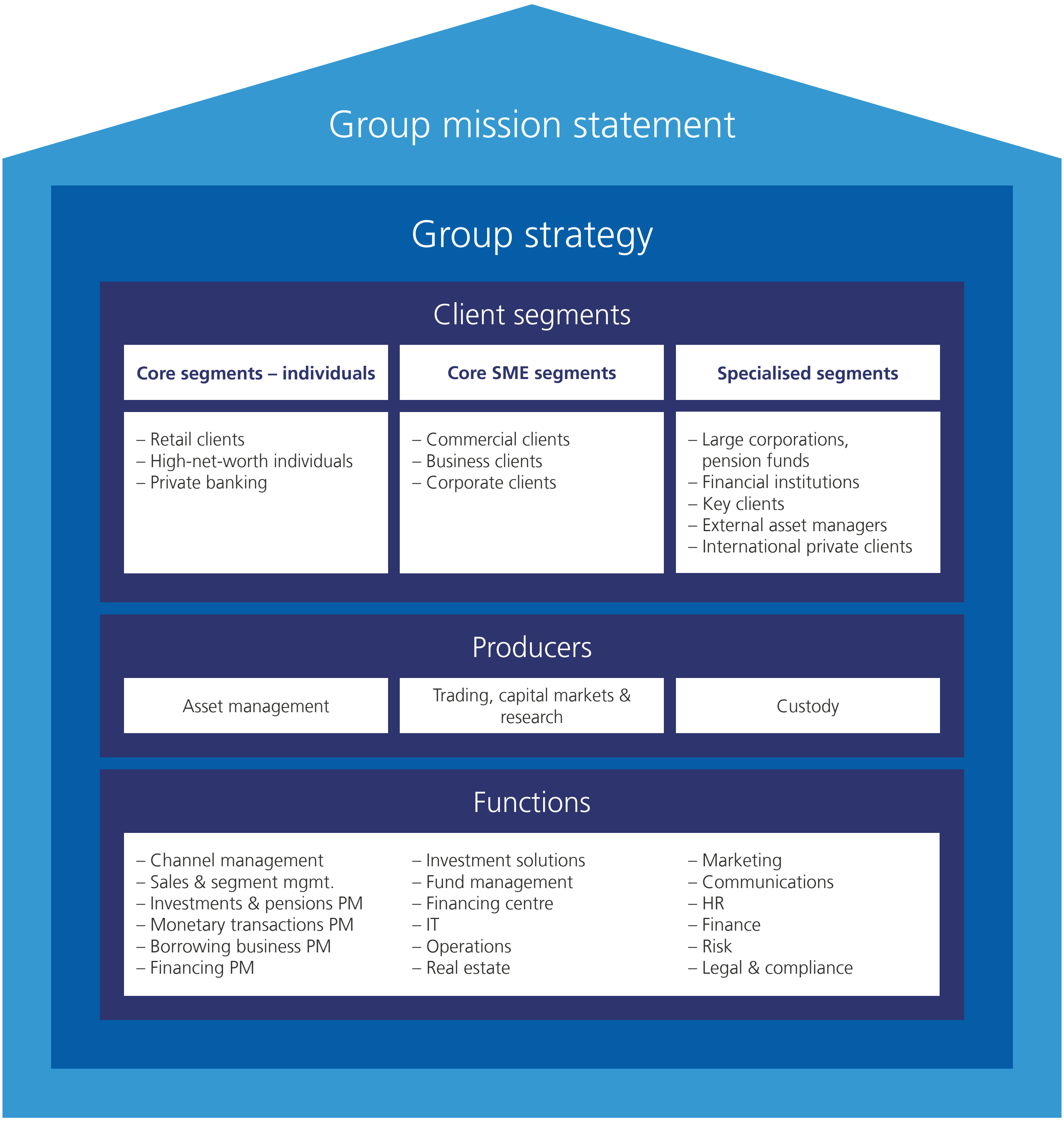
Producers

Producers is the term we apply to our asset management, trading, capital markets & research divisions and our custody business. These are divisions that not only offer products directly on the market and maintain client relationships, but also perform an internal service function for the bank's various distribution channels (i.e. for product distribution via our client advisors, via our digital channels, etc.). We make ongoing, targeted investments to strengthen our producers and ensure that they are capable of delivering high-quality services that underpin their long-term ability to compete on the market.

Functions

Functions include all internal activities that provide targeted services to support the client segments and producers. These include Risk Management, Legal & Compliance, Communications, Marketing, IT, Product Management, Human Resources and Finance. They are all committed to boosting the efficiency of the universal bank even further and delivering on the promise of being the bank "close to you".

Strategy


Group mission statement
Group strategy
Client segments
Core segments – individuals
Core SME segments
Specialised segments
– Retail clients
– High-net-worth individuals
– Private banking
– Commercial clients
– Business clients
– Corporate clients
– Large corporations, pension funds
– Financial institutions
– Key clients
– External asset managers
– International private clients
Producers
Asset management
Trading, capital markets & research
Custody
Functions
– Channel management
– Sales & segment mgmt.
– Investments & pensions PM
– Monetary transactions PM
– Borrowing business PM
– Financing PM
– Investment solutions
– Fund management
– Financing centre
– IT
– Operations
– Real estate
– Marketing
– Communications
– HR
– Finance
– Risk
– Legal & compliance

Business environment and risk assessment

The year under review was dominated by political and economic uncertainties related to the coronavirus pandemic. The financial centre proved to be a pillar of the Swiss economy, both in terms of its function and the added value it provides. While the banking industry can be expected to consolidate further, the interest rate reversal has been postponed and regulatory requirements are likely to increase. Zürcher Kantonalbank's risk profile changed very little in 2020.

General economic situation

Under the spell of the pandemic

It still looked as if the economy might stabilise when 2020 began, but the global Covid-19 pandemic put a sudden damper on global economic growth. In economic terms, the coronavirus crisis transformed 2020 into a year of negative superlatives and ushered in the worst recession of the post-war period. The novel virus initially broke out in China and spread rapidly. Governments around the world adopted rigorous measures to prevent its spread, including nationwide lockdowns, which brought economic and social life to an almost complete standstill in some cases and disrupted global supply chains. Investors got off relatively lightly, even despite sharp declines on the financial markets in the spring. The speed with which equity markets recovered from the price setbacks was remarkable and exchanges even reached new all-time highs.

Central banks and governments offer a hand

Monetary authorities around the world reacted immediately by cutting key interest rates and launching bond-buying programmes to cushion the dramatic effects of the crisis. Countries also put together gigantic aid packages to jump start the economy, avert bankruptcies and prevent widespread unemployment. Once the infection curve had flattened, individual governments gradually relaxed the measures they had enacted and the global economy slowly recovered. As feared, however, the pleasant summer was followed by a second wave of infections, which put a stop to economic recovery. Targeted measures were then implemented on a regional basis in an effort to avoid nationwide lockdowns. Although this growth momentum flattened out towards the end of 2020, confidence in the economic recovery remains intact.

US power shift and surprising progress in vaccine development

There is hope that the global economy will pick back up in 2021. Firstly, US President Joe Biden is resuming international cooperation, and another government bailout package is on the way, due to the Democrats' control of the US Senate. Secondly, efforts to develop a vaccine against Covid-19 are yielding promising breakthroughs that are extremely encouraging. This new generation of vaccines is surprising, not only in terms of how swiftly the vaccines have become available, but also their high efficacy. Technological advances combined with non-bureaucratic approval procedures are fuelling confidence that the pandemic could be largely under control by the second half of 2021. As an export-oriented economy, Switzerland also benefits from good development at the global level – foreign trade is a vital economic engine for our country.

Legacies of the Covid-19 pandemic

The pandemic will leave its mark in the form of structural changes – of that there is no doubt. Insolvencies can be expected at many companies in many different industries. Trends such as declines in the working-age population, digitalisation and increased environmental awareness are picking up speed. Labour-intensive and underproductive sectors such as leisure-related industries will need a longer rehabilitation period. Since the associated reallocation of resources that follows will dampen economic growth initially, the support provided by central banks and governments will remain indispensable in 2021. The low interest rate environment will persist, and inflation will pick up only moderately due to the underutilisation of the economy's potential. In many countries, current fiscal policies will increase government debt even further. Another legacy of this crisis will be the impressive advances made in the area of vaccine development. They represent a strong will, innovative spirit and international cooperation.

Asset classes: equities rank higher than bonds

Despite ongoing risks, the economic environment is developing in a way conducive to the financial market. Companies' earnings outlook will improve steadily in 2021. And although bond yields are likely to rise in the context of a positive economic outlook, they will probably remain low due to the central banks' expansive monetary policy. Moderate inflationary pressure will also keep real yields at a low, occasionally negative, level. Expectations of low bond yields will make risky assets like equities far more attractive.

The Swiss banking centre

The Swiss financial centre makes an important contribution to the Swiss economy. Some 250 banks account for almost 5 percent of the local value chain and for a good 4 percent of taxes. Those figures do not factor in tax payments made by employees. Switzerland is still the world's number one for cross-border private banking.

Attractive domestic market of Switzerland

Margins have come under pressure in many business areas and competition in the Swiss market is particularly fierce. The major Swiss banks have been cultivating their home market with new-found intensity, while pension funds and insurers are becoming increasingly active in the mortgage business.

The general conditions in banking operations remain challenging. Banks have to contend with increasingly stringent national and international regulatory requirements, find the right solutions to meet changing client behaviour, make good use of the opportunities offered by digitalisation and deal with the negative interest rate environment.

In 2020, assets under management remained more or less stable, in part due to the market recovery that followed in the wake of the spring slump. In the interest business, banks recorded an increase in mortgage lending, and no large-scale loan defaults occurred. Due to the economic situation, however, the need for provisions is expected to be higher than in previous years. Banks continued to focus on cost management at the same time.

Occasionally high levels of client activity

The start of the year under review was marked by the market downturn in the wake of the coronavirus crisis. This was followed by a sharp recovery, which triggered increased client activity and then normalised over the course of the year. As interest rates in Europe and Switzerland remained stuck at record-low levels and with no end to the "investment crisis" in sight, the banks continued their efforts to increase the amount of clients' liquid funds in their asset management mandates.

Refinancing amid negative interest rates

Negative interest rates remain a challenge for Swiss banks. The Swiss National Bank (SNB) raised the factor used to calculate the exemption threshold for commercial banks from 25 to 30 in April 2020 in an effort to strengthen the central role banks will be playing in Switzerland's economic development over the further course of the coronavirus pandemic. Several banks, however, including Zürcher Kantonalbank, still have to pay negative interest of 0.75 percent on their current account balances at the SNB, while passing this cost on only to clients with large cash balances. The coronavirus crisis dashed any hopes of a rapid interest rate reversal and no interest rate turnaround is in sight.

Digitalisation solutions

Digitalisation is leading to new fintech companies trying to gain a foothold in the market. It is also opening up numerous opportunities for established banks – partly through collaborative partnerships with innovative fintech start-ups. These collaborative partnerships are seen by most financial services providers in Switzerland as a key to success if they want to provide new client experiences and solid quality at reasonable costs.

Most of the institutions active in retail banking are still working on digitalisation solutions. Ultimately, however, the digital channels are more useful for maintaining the loyalty of existing clients than for acquiring new ones. It was already apparent during the coronavirus lockdown that the bank needed to be able to serve clients through alternative channels, not least because digitalisation provides a wide range of clients with easy access to banking services.

Regulation

Continued development of supervisory law

A memorandum on the modernisation of the Swiss Banking Act on the topics of restructuring law, deposit protection and segregation was presented during the year under review. While the proposal is fundamentally positive, adjustments are necessary in the restructuring law section, as the newly envisaged rules and debt instruments do not take the special circumstances of cantonal banks into account. Based on the recommendations of its Economic Affairs and Taxation Committee, which had already been issued in autumn, the National Council will not address the matter until the spring session of 2021. Furthermore, in connection with the requirements of the Basel Committee (Basel III), the Swiss Financial Market Supervisory Authority (FINMA) and the Federal Council are calling for stricter requirements on mortgage financing with regard to affordability and valuation. Cantonal banks and other domestic banks are calling for these changes to be waived, especially since the stricter rules would affect only banks but not the numerous other lenders on the market. The Federal Council finally initiated the consultation on the partial revision of the Post Organisation Act (POA) in summer. According to the proposal, the ban precluding Postfinance from granting loans and mortgages is to be lifted. Resistance is coming from cantonal banks, other domestic banks and even the heads of the cantons' departments of finance on the grounds that the market has not failed.

Higher regulatory liquidity requirements

As a systemically important bank, Zürcher Kantonalbank is subject to significantly higher liquidity coverage ratio (LCR) requirements as of 1 January 2021. To meet these requirements, the bank increased its already large liquidity cushion even further over the course of financial year 2020, thus enabling it to easily meet the additional requirements that apply from the beginning of 2021. This was mainly achieved by issuing money market paper, by opening investment accounts for institutional clients subject to withdrawal restrictions as well as through the capital market and time deposits in the interbank market. The year-on-year increase in total assets is largely attributable to these higher regulatory liquidity requirements.

In September 2020, the Federal Council also adopted the revised Liquidity Ordinance, which provides for the introduction of structural liquidity ratio requirements (net stable funding ratio, NSFR). The new provisions will enter into force on 1 July 2021. At the end of 2020, Zürcher Kantonalbank also met these new requirements with a comfortable buffer.

Tax regime

A parliamentary initiative on the gradual abolition of stamp duties could not be addressed during the summer session due to Covid-19 and was postponed as a result. In November 2020, the Federal Council stated that it agreed that the stamp duty on new issues should be abolished in the interest of Switzerland's attractiveness as a location for foreign investors but was opposed to any more far-reaching elimination of stamp duties. The National Council is expected to discuss the bill in its spring session in March 2021. In addition, the Federal Council is planning to issue a memorandum in spring 2021 on the revision of withholding taxes and the abolition of sales taxes on domestic bonds. This move is aimed in part at promoting Switzerland's international attractiveness as a business location.

Financial market law

Following the entry into force of the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) as well as their corresponding ordinances on 1 January 2020, FINMA adopted the follow-up regulation to FinSA and FinIA that regulates the supervisory regime governing the trustees and asset managers that are now subject to these regulations. The latter group also includes the managers of collective assets and pension assets. The Federal Department of Finance (FDF), FINMA and SIX Swiss Exchange began the process of approving and implementing the infrastructure envisaged by the legislation. This includes further ombudsman offices (in addition to the existing banking ombudsman), new supervisory organisations that are responsible for asset managers and trustees, and review bodies for prospectuses.

Intensification of the fight against money laundering

The revision of the Anti-Money Laundering Act (AMLA), which is based on the recommendations of the Financial Action Task Force on Money Laundering (FATF), is still pending and will lead to stricter audit and documentation requirements and apply to advisors, as well. The majority of the National Council does not want advisors to be subject to this legislation. The Council of States agreed to the bill in its autumn session but wants to eliminate advisors from its scope. This approach is intended to salvage the rest of the bill and prevent tighter scrutiny by the FATF in the process. The National Council also decided to approve the bill in its winter session. No detailed debate can take place until the spring session in March, however.

Data becoming increasingly important

In this age of increasingly intense globalisation and digitalisation, the enormous importance of data and data handling goes hand in hand with increasingly stringent data-related regulations. The various priorities – strengthening data protection, supporting digital business models (fintech) and effective cyber security requirements – complement one another; they will also help facilitate digital banking transactions while further strengthening Switzerland's position as a competitive, forward-looking business location at the same time.

After several years of debate in Parliament, the National Council and the Council of States have been able to resolve their final differences regarding the revision of the Swiss Data Protection Act (DPA), namely with respect to profiling (automated processing of data with the intent to evaluate, analyse, or predict several different behavioural aspects of an individual) and the duration for which third-party data may be used for performing credit checks. The Federal Office of Justice (FOJ) is working on finalising the ordinances for the new DPA at the same time. Public consultation on this is expected to begin in the first quarter of 2021. The revised DPA and its ordinances are likely to enter into force in mid-2022, subject to certain transitional periods. That should put Switzerland in a position to definitively comply with the Council of Europe's Convention 108, which has already been signed by the Federal Council.

In the fintech sector, a referendum was initiated against a legislative project for the creation of an electronic identity (Swiss Federal Act on Electronic Identification Services, E-ID Act, BGEID), which had already received parliamentary approval and is vitally important for digital business models. A referendum on the matter is due in March 2021. The equally important legislation on distributed ledger technology (DLT), which establishes principle-based and technology- and competition-neutral legal certainty for the creation of digital business models with digital assets, passed through the parliamentary process in record time and has already been finalised; this legislation was fast-tracked in light of its enormous importance with respect to both innovation and Switzerland's attractiveness. The consultation on the ordinance is currently underway. At the same time, the Federal Council put individual parts of the act into force on 1 February 2021 to enable the rapid introduction of digital register rights. Regarding Facebook's Libra project, the Geneva-based Libra Association submitted an application to FINMA in spring 2020 requesting approval of its payment system; the system has since been analysed and reviewed by FINMA. The duration and outcome of the proceedings are still unknown.

Sustainability as a challenge

The bill to revise the CO_2 Act was passed by both chambers of Parliament in the autumn session. It obliges FINMA and the SNB to examine climate risks. Further minority motions, which provided for extensive disclosure obligations and agreements on climate compatibility targets with associations from the financial sector, were rejected.

At the end of June 2020, the Federal Council approved its report along with the guidelines on sustainability in the financial sector with the goal of making Switzerland a leading location for sustainable financial services. To this end, the Federal Council intends to shape the general conditions in a way that both improves the Swiss financial centre's competitiveness and also enables the financial sector to make an effective contribution towards sustainability. The federal government intends to intervene only in the event of market failure. The Swiss Bankers Association (SBA) published guidelines on including sustainability criteria in investment advice.

At the cantonal level, the Committee for Economic Affairs and Taxation of the Cantonal Parliament of Zurich is currently discussing the parliamentary initiative (PI) "Climate Protection: Zürcher Kantonalbank's Fossil Fuel Divestment", which the Cantonal Parliament tentatively supported in early 2020. The initiative calls for the bank to pull out of financing activities in the carbon-intensive economy. The bank's Committee of the Board is present at these Committee meetings to contribute information regarding the bank's stance on the matter. From our bank's point of view, one of the problems is the vague terminology used in the text of the initiative, which is likely to lead to legal uncertainties in the event of implementation. The Committee will continue to assess the proposal in 2021; it may modify the text of the PI, either in part or in full. Once the Committee has concluded its study, the full Cantonal Parliament will re-examine the results and reach a verdict.

In the EU, processes are moving forward to enact further sustainability-related regulations in addition to the Disclosure Regulation, which will enter into force in March 2021. Based on its Green Deal document from December 2019, the EU Commission launched a consultation on its draft for the Non-Financial Reporting Directive (NFRD). This directive is intended to promote sustainability investments throughout the EU by tightening transparency. These initiatives, as well as additional reports on sustainability-related issues, which were commissioned by the EU Commission and prepared by the Technical Expert Group (TEG), will result in further regulatory initiatives by the EU on the matter. The same applies to publications of the international standard-setting bodies, such as IOSCO and OECD. It can be assumed that the regulations at EU level will have both a direct and an indirect impact on the Swiss financial centre.

One initial, specific manifestation of this is that, in line with EU activities and based on the internationally recognised standard devised by the Task Force on Climate-related Disclosure (TCFD), FINMA expects the five systemically important banks to disclose their material climate risks for the first time in 2022 for the year 2021. To that end, FINMA initiated the consultation on the revision of its circulars 2016/1 "Disclosure – banks" and 2016/2 "Disclosure – insurers" in November 2020. FINMA's proposals are principle- and risk-based, respect the principle of proportionality and aim to follow the rules of the TCFD standard.

Covid-19 pandemic

With its emergency Joint and Several Guarantee Ordinance, the Federal Council established a legal framework for making Covid-19 loans available swiftly and without any rigorous prior review to help companies in the real economy bridge liquidity bottlenecks. While the loans are guaranteed by the federal government, the actual disbursement was carried out by the banks. The Federal Council also enacted emergency legislation to permit Postfinance to grant bridging loans of this nature. Zürcher Kantonalbank offered support for the real economy through federal Covid-19 loans, credit limits provided by the Canton of Zurich, and by drawing on its own resources (see p. 65).

To increase liquidity potential even further and in accordance with the emergency ordinance on capital adequacy, the Federal Council decided at the end of March 2020 to deactivate the countercyclical capital buffer based on the recommendations of international standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB), as well as at the request of the SNB. At the same time, the implementation of Basel III requirements has been postponed until 1 January 2023. By way of exception, SECO granted the banks greater flexibility to deploy certain employees on Sundays and public holidays to help them better cope with the additional workload that has arisen in connection with Covid-19. In addition, the rules for initiating bankruptcy proceedings and for debt restructuring agreements were made more flexible in order to prevent pending bankruptcies that were solely occurring as the result of short-term liquidity bottlenecks, even despite the business having a functioning business model.

Parliament, which has been back in session again since May 2020, successfully incorporated its emergency Covid-19 ordinance, the Joint and Several Guarantee Ordinance, into ordinary law. The Covid-19 Joint and Several Guarantee Act (COVID-19 JSGA), which was finalised in December 2020, entered into force on 1 January 2021. Issues of importance to the banks have been clarified, either directly within the law or through clear statements issued by the Federal Council or other authorities involved, such as SECO. One of these is the possibility of adjusting interest rates on loans of this nature by way of an ordinance, if necessary. Among other things, it also clarified that – like other loans – Covid-19 loans are not tied to any specific obligations for monitoring the use of the loan.

Risk assessment

Zürcher Kantonalbank fosters a risk culture that is geared towards responsible behaviour. This includes the ongoing monitoring of risks in all dimensions. The risk organisation provides the Executive Board and the Board of Directors with comprehensive reports on a quarterly basis on the development and profile of credit, market and liquidity risks, as well as of compliance risks, operational risks and reputational risks.

The Board of Directors' risk management tasks

Risk management is practised at every level within the bank. The Board of Directors is responsible for the management of overall risks – it approves the principles for risk management and compliance, the Code of Conduct, the framework for group-wide risk management and the risk policy regulations at group level. The Board of Directors is responsible for assuring a suitable risk and control environment within the group and arranges for an effective internal control system (ICS). It also approves transactions involving major financial exposure.

Credit, market and liquidity risks

Overall, Zürcher Kantonalbank's risk profile at the end of financial year 2020 reveals that it has changed very little compared to the previous year, meaning that the bank is comparatively robust against the impact of the Covid-19 pandemic. However, this should not belie the fact that the pandemic has triggered increased momentum in certain risk areas during the year.

Major restrictions of free movement implemented to combat the pandemic brought economic and social life in Switzerland and large parts of Europe to a virtual standstill in the spring. Officially mandated business closures and travel restrictions had a particularly harsh impact on the personal services sector, the hospitality industry and companies in the travel and events sector. So far, emergency measures initiated by the federal government and the cantons as well as economic stabilisation mechanisms (including compensation for short-time work) have been able to prevent liquidity bottlenecks from triggering a wave of redundancies and bankruptcies in Switzerland. Zürcher Kantonalbank has provided over CHF 1 billion in financing to some 8,000 businesses under the Covid-19 emergency loan programme.

Uncertainties about the further course of the pandemic and its economic impact were enormous at the beginning of the crisis, and economic forecasts became increasingly pessimistic. Against that backdrop, credit risk management at Zürcher Kantonalbank analysed at an early stage the potential impact of adverse developments on the credit portfolio within the context of internal and regulatory stress scenarios.

Market turbulence in March and April pushed volatility to levels last seen during the financial crisis. In the short term, they led to a higher value at risk (VaR) for market risks in the trading book that was still in compliance with the risk tolerance requirements at all times. With a strategy focused on client business, trading has benefited from higher margins and trading volumes without having significantly increased its risk appetite. Extensive support measures taken by central banks and governments in the second quarter helped keep markets calm. Since the summer months, the VaR for market risks in the trading book has been at a level comparable to before the pandemic.

The key figures for liquidity risk indicate a comfortable liquidity situation for Zürcher Kantonalbank – even despite stricter regulatory requirements (see p. 52)

Zurich real estate market

Residential property prices in the Canton of Zurich continue to make strong gains. Price growth has picked up even further since 2019, when residential property prices rose 3.2 percent. Contrary to our fears, the owner-occupied housing market did not dry up. In fact, the number of transactions remained stable and Zurich's real estate market has so far remained unaffected by the Covid-19 pandemic. Price growth is supported by solid fundamentals. Low mortgage rates are making the switch from rental housing to living in one's own four walls increasingly attractive. Additionally, the push to build rental housing means that residential property is still in short supply, and the labour market outlook for many well-paying jobs remains solid. Besides those fundamentals, a psychological effect is also likely to drive home prices upward. A surge in demand for real assets had already been seen in previous crises, such as the one after 9/11 or during the European debt crisis. Not only do people want to treat themselves to something special in times of crisis, but living situations have become particularly important during Covid-19 too. Many people have never spent so much time in their own homes. The cocooning trend seems to be increasing desires to own a home.

Operational and compliance risks

Both the nature and scope of public health restrictions and the economic impact of efforts to combat the Covid-19 pandemic were nearly impossible to predict. A pandemic event is an integral part of business continuity management (BCM) within the scope of operational risk management. Accordingly, Zürcher Kantonalbank was prepared for a pandemic event. The Pandemic Task Force was called into action as part of the emergency organisation way back in January, primarily to safeguard critical processes and resources. Working in close cooperation with the Executive Board while keeping a close eye on the latest developments, far-reaching measures were taken not only to protect the bank's clients and employees, but also to guarantee that banking operations would remain intact at all times. The bank did not experience any significant interruptions to its operations in 2020 as a result of the pandemic. The coronavirus crisis did not trigger any material change in the bank's risk profile for operational risks compared with the previous year. Close attention is still being paid to key risks in the two main areas of cyber and process risks. Compliance risks remain stable overall.

As in previous years, regulatory changes led to an increasing number of requirements being imposed on Zürcher Kantonalbank.

Further information on risk management and the risk profile is available in the Risk Report (Note I in the Financial Report).

Management Report

Banking services for individuals and companies

In a challenging market environment, we have delivered a strong performance in all business areas. Our efforts to consistently align our bank structure with the needs of our clients have really paid off. We are constantly working to provide our clients with an excellent client experience across all channels, regardless of whether it is in the physical or digital world.

In order to understand the financial needs of our clients as accurately as possible and to develop the best solutions for them, we differentiate between the following client segments: individual clients, SMEs and specialised segments. Each of these segments posted healthy results in the year under review. This reflects the trust that our clients have in us, and is confirmation that we are on the right track in terms of our strategy.

Number 1 in the Greater Zurich Area

Our economic strength is based on a broadly diversified business model. Almost half of all Zurich residents have an account with Zürcher Kantonalbank. With a market share of around 50 percent, we are the market leader in both retail and corporate banking. In terms of loans, we are the clear number 1 in the Greater Zurich Area. Furthermore, we are the preferred partner for bank transactions with a Swiss connection in a number of client segments in the Canton of Zurich and throughout Switzerland. With Swisscanto Invest by Zürcher Kantonalbank, we are also the third-largest fund provider in Switzerland.

Client proximity

We ensure physical proximity to our clients every single day, whether it be during advisory consultations or in our client lobbies. To that end we maintained 58 branches in the Canton of Zurich as at the end of 2020, and thus operate the densest branch and ATM network among banks. A wide range of cutting-edge digital self-service options also bring us close to our clients. We are constantly developing services that are provided via mobile channels in particular, as they are becoming increasingly important. As a result, clients can carry out their banking activities regardless of the time or location via the eBanking and eBanking Mobile services. We are of the opinion that security, user-friendliness and service quality are of the utmost importance, which is why we continuously review and optimise our processes. In view of the changing client needs in terms of being able to make payments anywhere and at any time as well as the simultaneous upgrading of digital channels, we made substantial investments in our eBanking, eBanking Mobile and cashless payment solutions in the year under review. We continuously tailor our digital services to the needs of our clients and add new functions, where necessary.

Client satisfaction continues to rise

Zürcher Kantonalbank has boosted client satisfaction considerably over the past two years, as can be seen in a two-yearly survey conducted by the bank. This year's survey, covering over 7,000 clients, was conducted in autumn 2020.

Customer loyalty is measured with the customer satisfaction index.

In Corporate Banking, the value rose by 8 points to 94. In Private Banking, it increased by 6 points to reach 88. This means that satisfaction in both segments has reached its highest level in ten years. In Retail Banking, the index remained unchanged at 82 points. The index is calculated from questions about clients' overall satisfaction with Zürcher Kantonalbank, their willingness to recommend the bank to others, the volume of their future banking transactions, and the benefits of being with Zürcher Kantonalbank.

The service quality for personal support, which was already very high in 2018, also increased even further. In Private Banking, the service quality index, which combines the intensity of support, client orientation and the quality of advice, rose from 78 to 80 points, and in Corporate Banking from 73 to 77 points. The service quality at the information desk and counters was also maintained at a high level. Finally, the direct bank's services also tend to be rated more positively than in the last measurement.

Individual clients

Our direct bank provides advice and support for our retail clients, and at the same time acts as the central processing centre for Zürcher Kantonalbank. Our wide range of services includes the execution of our daily business activities, business opening and closing, maintenance of master data as well as availability and deputisation management. We also offer a telephone service (with over 750,000 calls made to the service in 2020) and deal with complex issues relating to legal estates and court-appointed guardians.

Our Private Banking client advisors are on hand to meet the personal needs of clients for all life events. The client advisors will act as your personal primary contact for any questions you may have on investment, financing, taxes, pensions and succession planning. Additional specialists may also be consulted, depending on the complexity of the matter. We provide comprehensive solutions to meet individual client requirements and support our clients at every stage of their lives.

At the end of 2020, we had active relationships with around 700,000 individual clients in our core individual client segments.

Operations in client lobbies shaped by coronavirus – trend towards cashless transactions intensifies

The Covid-19 pandemic and the subsequent exceptional situation in the first half of the year under review had a significant impact on operations in our branches. In order to protect our clients and employees, we temporarily concentrated our handling of cash operations in 15 central branches in the canton from the end of March to mid-May. At the other locations, individual client lobbies were closed temporarily or were geared to self-service advice. As a supplement to the cash offer, the bank also temporarily stopped levying charges for sending cash by post. Advice to our clients in all other areas of our service offering was largely provided by telephone. When very complex or sensitive issues were involved, we also conducted personal consultations at all locations at the client's request, subject to strict safety requirements.

When the lockdown was initially eased, all but one of the branches resumed operations in client lobbies in mid-July. Only the location at the university hospital remained temporarily closed – due to visitor restrictions in hospitals. Clients were thus able to make cash transactions at ATMs around the clock at 28 locations, and withdraw and deposit additional cash at counters at a further 30 branches. The long-standing decline in the importance of cash meant that even before the pandemic, our clients were already carrying out most simple transactions digitally and using their cards or TWINT to make payments. This trend has accelerated significantly since the first quarter of 2020.

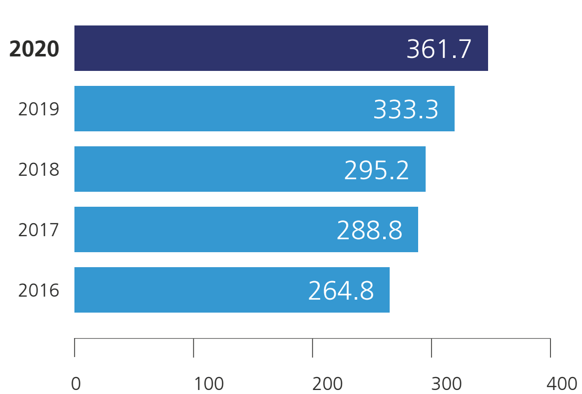
As a result, counter services will probably shift further to digital or self-service channels in the coming years. Zürcher Kantonalbank therefore continues to invest in expanding its self-service channels, both online and offline. Our local employees provide personal assistance to clients carrying out cash transactions in the self-service area. They also explain the functions of the machines. In addition, we advise and support clients in all branches regarding digital and contactless services, such as eBanking, eBanking Mobile, cash dispatch, TWINT and self-service cash.

In the year under review, over-the-counter transactions declined by 47 percent. Cash withdrawals and deposits at our ATMs decreased by 31 percent. In contrast, cashless transactions (with Maestro card, credit card, eBanking, LSV, Quickpay, TWINT) rose by 11 percent, with TWINT transactions increasing the most (+158 percent).

Launch of QR billing

QR billing was introduced throughout Switzerland in the middle of the year under review. This replaced payment slips (ES and ESR). Bill recipients can scan the QR code and with one click the payment is automatically triggered. In addition, it is no longer necessary to type in the account and reference number – this makes payment faster and reduces sources of error. Billers benefit too, because the entire process is faster, more efficient and, in the medium term, more cost-effective. These advantages result from structured payment information, less manual effort, reduced susceptibility to errors and simplified accounts receivable management.

Total client assets (in CHF billion)



SWIFT gpi certification consolidates our position as a Swiss franc correspondent bank

Zürcher Kantonalbank has had SWIFT gpi certification since July 2020. It introduced the new standard to process cross-border payments in November 2020. SWIFT gpi allows payments to be tracked around the world. Zürcher Kantonalbank is thus making an important contribution to the transparency and efficiency of global payments. In this way the bank is strengthening its offering for internationally active clients, consolidating its attractive range of payment transaction services, and also bolstering its position as an important Swiss franc correspondent bank.

Asset management and investment advice up considerably

The declared goal for our asset management and investment advice service is to create added value for clients and the bank itself. It is becoming increasingly important to build up assets with long-term investment solutions for retirement, particularly via private pensions. Clients stand at the heart of everything we do, and they have personal contact with their client advisors. In addition, clients benefit from the knowledge of the Chief Investment Officer (CIO) and numerous specialists, and thus from the bank's wealth of expertise. Our approach is complemented by future-oriented technology. Using this technology, we can compare each client portfolio with the CIO reference portfolio and show the differences. A tablet is available to use throughout the entire advisory process to help illustrate complex ideas in a clear and simple manner. Furthermore, the eBanking platform also features extensive advisory functionality. We posted strong growth in both asset management mandates and advisory mandates. Total client assets were boosted by CHF 28.3 billion to CHF 361.7 billion during the year under review. while net new money inflow amounted to CHF 22.1 million.

Investment offering: service provision digitalised

With the introduction of the new investment offering three years ago, we adapted the advice we provide for the investment business to create an end-to-end digital and interactive client experience. As a further core element, the provision of services was also digitalised in the year under review. This enables the annual meeting for every client who has an investment solution from Zürcher Kantonalbank (e.g. ZKB Discretionary Mandate, ZKB investment advice) to be supported fully by a tablet. Information previously available only in paper form in the investment report can now be called up directly and queried interactively. The new solution allows for an individual view of the markets, performance and portfolio analysis at any time during the advisory meeting. As before, an investment proposal can be created and discussed during clients' visits. This gives clients a better insight into their investment year and the key events that have affected performance.

Pension advice for individual clients expanded

The Swiss pension system is under pressure. Private pensions are therefore becoming ever more important. At Zürcher Kantonalbank, this issue has been a high priority for some time. The range of services we offer in retirement planning is constantly being developed and expanded and is in great demand among our clients. We launched a comprehensive benefits package called "ZKB Meine Vorsorge" (ZKB My Pension) in the year under review. It rounds out our offering, which also comprises a retirement calculator and an initial discussion with our client advisors. With "ZKB Meine Vorsorge", we accompany our clients and support them in pursuing their personal goals and wishes for the time after retirement. This support includes an overview of their personal pension situation in eBanking, digital reminders for deadlines and measures, simulations for alternative courses of action and comparison options with the current pension plan, review discussions with the client advisor, as well as personal, telephone and digital support.

The bank sees this fusion of digital and personal advice as a key success factor.

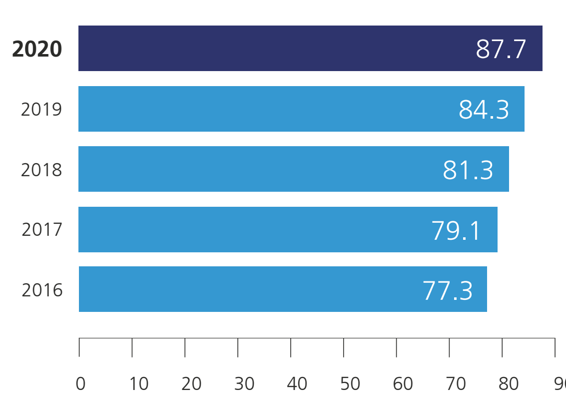
Leading position in the mortgage business

We finance half of the owner-occupied homes in the Canton of Zurich. We thus find ourselves in the excellent position of being the market leader. There is fierce competition within the mortgage market, and an increasing number of players from outside of the industry are pushing their way in due to the low yield environment and negative interest rates. Our strategy remains the same and will continue to focus on the quality of our loans. Our affordability calculation therefore continues to be based on the imputed minimum interest rate of 5 percent, which is a sustainable rate. In the year under review, our mortgage loans increased by CHF 3.4 billion to CHF 87.7 billion. This corresponds to an increase of 4.0 percent, whereas the market as a whole (just banks, excluding mortgage investment companies and insurers) grew by about 3 percent. Preference was given to long maturities of five years or more. The share of fixed-rate mortgages (including ZKB starter mortgages and ZKB environmental loans) in the total mortgage portfolio was 93 percent at the end of the year.

New ZKB rollover mortgage

The UK financial market regulator will continue to support the Libor reference rate only until the end of 2021. Back in 2009, the SNB and SIX Swiss Exchange developed the SARON reference interest rate (Swiss Average Rate Overnight). The National Working Group on Swiss Franc Reference Rates, co-led by a representative of Zürcher Kantonalbank and the SNB, recommended SARON as an alternative to CHF Libor in October 2017. Zürcher Kantonalbank responded to the expected change and launched the ZKB rollover mortgage in June of the year under review. With the new ZKB rollover mortgage, we can offer our

Mortgage loans (in CHF billion)



clients another financing option. This product's considerable flexibility makes it particularly attractive. It is aimed primarily at clients with an interest in finance who actively follow events on the money and capital markets and can tolerate short-term fluctuations in interest rates. Thanks to the short notice period of six months up to an interest payment date, the mortgage is also very suitable for construction financing or for planned renovations. Since its launch, the bank has concluded ZKB rollover mortgages with a total volume of CHF 2.9 billion. The portfolio of ZKB Libor mortgages decreased by CHF 1.7 billion, to CHF 2.8 billion, in the same period (ZKB Libor mortgage portfolio as at June 2020: CHF 4.5 billion).

Constantly high volume of ZKB environmental loans

There are many old buildings that still need to be renovated and thus represent an opportunity to significantly reduce the energy consumption of a property. In line with our sustainability mandate, we provide our clients with assistance in this process. Thanks to our ZKB environmental loans, we have been promoting energy-efficient construction and renovation for over a quarter of a century. Clients with such loans benefit from an interest-rate reduction of up to 0.8 percentage points on their selected ZKB fixed-rate mortgage for up to five years. In 2020, the total volume of ZKB environmental loans taken out stood at approximately CHF 1.2 billion. Our environmental loans are used to construct new buildings and carry out renovations with proven energy-efficient characteristics.

With free advice on sustainable heating

Since the middle of 2020, Zürcher Kantonalbank has been offering clients that own their own homes a free heating-replacement consultation worth CHF 450, in collaboration with the Canton of Zurich's electricity provider (EKZ).

Zürcher Kantonalbank's initiative supports the climate goals of the Canton of Zurich entirely in line with its own sustainability efforts.

The background of this offer is that heating with oil and gas will hardly be possible in the foreseeable future due to climate issues and Switzerland's commitment to a massive reduction in CO_2 emissions. The need for action is particularly urgent in the Canton of Zurich. According to the building and housing register, 67 percent of all residential buildings in the canton still have oil or gas heating. No other canton has more fossil-fuel heating systems.

EKZ energy advisors analyse our clients' needs and the respective infrastructure of the property on site. They then show which heating systems make sense and what the associated costs are. The focus is on climate-friendly and efficient systems. After the end of the consultation, clients receive a detailed report with specific recommendations and the next steps for purchasing and installing a new climate-friendly heating system.
Clients who opt for environmentally friendly heating benefit additionally from the ZKB environmental loan.

There was strong demand for this service in the year under review. We have capacity for 120 consultations per month, and this has been fully used every month since the offer was launched.

Greater demand for ZKB starter mortgages

In line with our public service mandate, we have supported first-time home buyers for over 30 years by providing them with ZKB starter mortgages. To get them off to a good start, we grant them a reduced interest rate in comparison with the normal ZKB fixed-rate mortgage. In 2020, the ZKB starter mortgage portfolio amounted to CHF 6.7 billion. This corresponds to year-on-year growth of 12.3 percent.

Worry-free home ownership in the third phase of life

Many people approaching retirement worry about their mortgage solution because their post-retirement income usually declines. Financing retirees' own homes is not a challenge for Zürcher Kantonalbank, however. For this reason, one of our continued focal points in customer service is conveying a sense of security and appreciation for these clients. We accomplish this, for example, by providing a written "lifelong commitment" for the financing of owner-occupied residential property to clients who meet the criteria. In the year under review, we issued around 600 of these pledges to clients who own their own homes.

Digitalisation and innovation

Digitalisation influences the way in which we work and the demands of our clients. We adapt to changes in clients' behaviour by constantly developing our banking services. Every business unit within Zürcher Kantonalbank is working on promising new solutions.

We foster a corporate culture that supports innovation at every level. All of our divisions are constantly looking to develop innovations that are both useful and profitable. We develop solutions for every client segment in the bank based on our strategy. New service approaches are tested with temporary pilot projects. Promising ideas are broken down into concrete steps, and various offers are tested with clients directly. To this end, trends are analysed systematically and across all industries, innovation is promoted, and meaningful partnerships and collaborations are examined. As a result, several innovations contributed to the bank's success in the past financial year.

Launches

Strengthening private pension provision with frankly

The Vorsorgestiftung Sparen 3 pension foundation of Zürcher Kantonalbank launched frankly, an app for pillar 3a pensions, in March 2020. By developing this purely digital stand-alone solution for managing private pensions, the bank added a digital channel to its range of services in private pension provision. The pension app offers simple and intuitive access to pillar 3a securities savings.

The background to the launch of this app is that employed people in Switzerland make too little use of the opportunities offered by pillar 3 securities solutions. Although 60 percent of the Swiss population have a pension solution, only around a quarter are invested in a securities solution. Saving with securities offers the opportunity to achieve long-term returns that surpass the preferential interest rate of the Savings 3 account.

The frankly pension app is a purely digital product. The services are therefore available at any time. The opening process with a biometric login allows users to identify themselves and register via their smartphones within a few minutes. Moreover, frankly is breaking new ground in pricing for pillar 3a securities savings. Compared to similar pillar 3a offers, frankly's pricing model with an all-in fee of 0.48 percent is significantly more favourable for users than the current average of 3a securities solutions from Swiss banks. With frankly, there are no fees for securities custody and no flat-rate management commissions for the investment product – they are included in the all-in fee. The community discount reduces the all-in fee as assets under management increase. In other words, the more assets managed in the app, the cheaper the all-in fee becomes. The total assets under management are shown transparently, and users can see how close they are to the next discount level in the app.

The opening, the free transfer process and the investments in Swisscanto investment products are simple and intuitive. frankly is also suitable for users without specialist knowledge.

Since its launch, around 20,000 clients have invested over CHF 400 million via frankly. At the beginning of May, the first threshold for a community discount was reached, and the all-in fee was reduced to 0.47 percent.

Instant eBanking

The importance of eBanking is increasing. More and more clients are using the channel for their daily banking transactions. The majority of bank clients expect to be able to use their eBanking immediately or at least within one day after opening an account. Our bank has been supporting this development since 2020 with fast access to the digital eBanking service. This internally developed innovation, called Instant eBanking, is unique in the traditional Swiss banking environment. Clients activate their new eBanking immediately – with the support of branch staff or on their own. The bank is thus following the current trend of providing clients with rapid access to services. The eBanking access data are now also produced directly in the branch. The client performs the initial login including photoTAN activation on site, and after 15 minutes the access is set up.

Always up to date with the ZKB info app

This proprietary app is aimed at clients who do not yet use eBanking, but who always have their smartphones to hand and want to be informed about their banking products at all times and in an up-to-date manner. The ZKB info app was launched in 2020. In contrast to eBanking and eBanking Mobile, it is purely an information channel without any transaction options. It allows users to check their account balance as well as recent bookings at a glance. The simple opening process can be completed in a matter of seconds over the phone or at a branch.

Payment card made of wood

Zürcher Kantonalbank, together with Viseca, one of the largest card issuers in Switzerland, and the start-up Swiss Wood Solutions, a spin-off of the Swiss Federal Laboratories for Materials Testing and Research (EMPA) and ETH Zurich, developed a functional prototype of a payment card made of wood within just a few months. Manufactured with wood from Switzerland, it dispenses completely with conventional plastic – only the card chip, that is, the electronic component, is made of recyclable metal and biodegradable carrier material, for technical reasons. With this innovative project, the bank is setting an example in terms of sustainability. In order for the card to be mass produced, numerous quality tests are necessary. They are currently being carried out.

First bank to introduce TWINT+

TWINT meets the growing need for mobile and contactless payment with a smartphone. This need was reinforced by the Covid-19 lockdown. At the end of the year, the mobile payment solution had more than three million users. Zürcher Kantonalbank was thus the first bank to provide direct access – via the TWINT+ app – to a platform of offers that make everyday life easier, including digital vouchers, parking facilities and donations.

SME

Our employees assist companies through every phase of the business life cycle and provide them the support they need to overcome the financial challenges they face – from the company's foundation to succession planning. Our direct bank advises commercial clients on all aspects of day-to-day business and supports this client segment with payment transactions, financing, investments and pension provision. As a universal bank, we offer companies the full range of services – if needed also in other countries. Our specialised corporate client advisors act as personal contacts for our business and corporate clients for all financial matters, dealing with their specific and complex needs. As set out in the bank's statutory public service mandate, we place a great deal of emphasis on our commitment to small and medium-sized enterprises (SMEs). Thanks to our consistent lending policy, we make a significant contribution to the functioning of the economy by supplying credit to SMEs in the Canton of Zurich as well as to medium-sized and large companies throughout Switzerland.

At the end of 2020, we counted over 60,000 companies as active clients in our core SME segments.

Bank for SMEs in the Greater Zurich Area

We have a market penetration rate of around 50 percent in the Canton of Zurich, and nearly one-third of Zurich companies even call us their principal bank. Our credit exposure to companies increased to CHF 28.4 billion in the year under review, which represents positive growth of 5.2 percent. We see growth opportunities in expanding our business with existing clients. Occupational pensions also play a very important role, both from a company perspective and for the individual entrepreneur. We have successfully established ourselves in this field as an independent broker of pension solutions. You can find out more about our role as a bank for SMEs on pages 34 ff. and 72 ff.

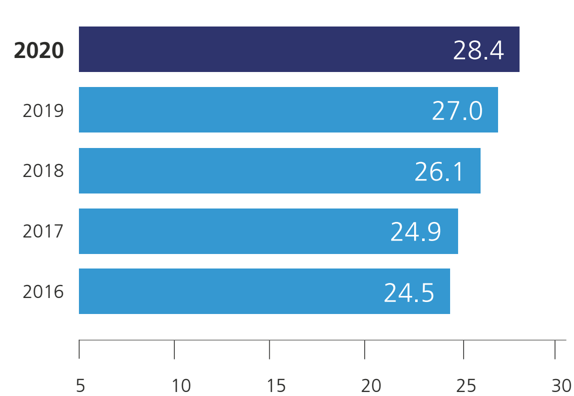
In good times and in bad

The rapid spread of the coronavirus has posed major challenges for the Swiss economy. Economic losses suddenly became a question of survival for previously successful companies. The economy in the Canton of Zurich was hit with full force too. The federal government, the canton and the banks have worked together to provide rapid and unbureaucratic assistance to the companies affected. The federal guarantees and the guarantee of the Canton of Zurich, which serve as collateral for the banks, have massively facilitated the granting of loans. Direct measures were taken as well, for example for the self-employed or start-ups.

Under the federal programme, more than 7,700 loan applications with a total volume of over CHF 780 million were approved (Covid-19 loans), and an additional CHF 210 million was approved for around 70 applications with a limit of over CHF 500,000 (Covid-19 PLUS loans).

A few days before the federal programme was rolled out, Zürcher Kantonalbank launched a cantonal programme together with the canton as a support for companies. This allowed Zürcher Kantonalbank to help some companies withstand the financial impact of the Covid-19 crisis by offering them moderately priced loans, particularly in the days leading up to the federal offer. The cantonal programme also assists very severely affected companies with short-term liquidity requirements of more than 10 percent of sales, as well as selected start-ups for which the support in the federal packages is not sufficient. Under the cantonal programme, more than 80 loan applications with a volume of over CHF 40 million were approved.

Credit exposure to companies (in CHF billion)

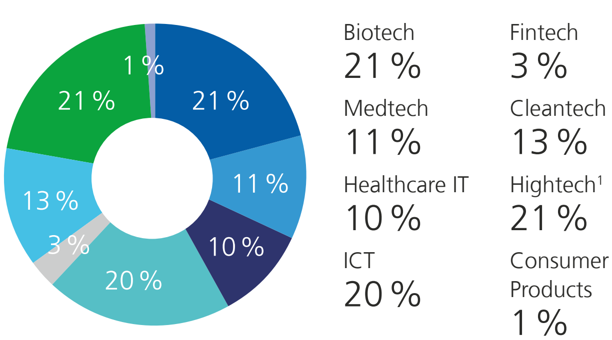


Over and above the federal and cantonal programmes, Zürcher Kantonalbank reserved an additional CHF 100 million to support companies from its own lending perspective. This resulted in support measures worth more than CHF 40 million. Most of this assistance has been repayment deferrals, supplemented by bridging loans, approved credit overdrafts or the deferral of leasing instalments.

The government-imposed restrictions, which were tightened again at the end of the year under review, hit many sectors of the Zurich economy hard. Consequently, Zürcher Kantonalbank decided to provide CHF 300 million in bridging loans for SMEs in the Greater Zurich Area. The focus is on companies that meet the criteria of the hardship programme of the federal government and the Canton of Zurich, but which still have a financial gap until they receive government assistance during the first quarter of 2021. It is also intended to support those companies that cannot meet all the criteria of the hardship programme. All solidly positioned SMEs that have run into economic difficulties because of Covid-19 are to be given an opportunity to apply for bridging loans. The situation of SMEs is assessed according to their respective sector and individual situation.

Zürcher Kantonalbank has stood by companies for 150 years as a partner in all situations – in good times and in bad. That is what we have done and what we continue to do. Our focus was to ensure the continuation of these companies and the associated jobs for the Canton of Zurich.

Composition of the "Pioneer" start-up portfolio



[1] Collective term for nanotech, sensor technology, robotics, materials, etc.

Cautiously positive outlook of our SME clients

Most clients have successfully mastered the Covid-19 crisis so far and are confident that progress is being made. One exception is companies in those sectors that have been particularly hard hit and that continue to have uncertain future prospects, such as tourism, catering and event organising. The issues of previous years, such as negative interest rates and the emergence of alternative providers of financing solutions (capital market and bonds as well as parabanks and crowd-lending platforms), remained noticeable. Corporate Banking posted a positive result overall.

Helping to start a business

New companies in traditional sectors, such as a painting business or a medical practice, are part of the regular financing business of Zürcher Kantonalbank. In 2020, Zürcher Kantonalbank provided CHF 22.8 million in traditional funding to more than 110 new companies. The bank also works closely with the "GO! Ziel selbststandig" association, helping people to become freelance entrepreneurs with ZKB microloans.

Promoting innovative start-ups

For start-ups with new, innovative products and services, the traditional forms of financing are only suitable to a limited extent in view of their increased risks and frequently tight liquidity – especially before entering the market, when a prototype is being further developed for mass production, and the first clients are being acquired. To meet these financing needs, Zürcher Kantonalbank launched the sustainable "Pioneer" start-up financing initiative in 2005, which provides innovative start-ups with risk capital on a targeted basis at an early stage of their company's life cycle. An innovative company is one that offers a product, a service or a distribution model that does not yet exist on the market. As part of the Pioneer programme, Zürcher Kantonalbank has supported more than 230 innovative young companies with over CHF 180 million since 2005. As a result, the companies have exhibited an above-average growth rate and created more than 3,000 new jobs. Over 80 percent of the financing was arranged in the Canton of Zurich, primarily in the form of equity. During the year under review, a total of CHF 13.7 million in risk capital financing was approved for 38 promising start-ups. In addition, 32 Pioneer start-ups were supported with CHF 14.8 million under the cantonal programme prompted by the Covid-19 pandemic.

It is worth noting that two of our portfolio start-ups, Credentis and HeiQ Materials, were able to exit the programme during the year under review. Credentis, a medtech company that had been supported since 2011, was acquired by vVardis AG in a trade sale thanks to its in house developments for caries prevention and early detection. ETH spin-off HeiQ Materials, in which we have been invested since 2006, performed brilliantly with its textile innovation HeiQ Viroblock, which won the Swiss Technology Award 2020. It completed a rare initial public offering on London's main stock exchange XLON.

Succession planning offering expanded

Thousands of Zurich-based SMEs need to work out their succession plans and require both specialist and financial support during this phase. Our priority is to ensure that the generational change at SMEs is a success, as it is also important to the economy. We have therefore further expanded our offering – including by launching our succession planning check at zkb.ch/nachfolgecheck. This check allows for a simple assessment of the current situation as regards succession planning and is an ideal basis for discussion for an advisory consultation. In the year under review, we provided personal support to companies through around 140 advisory mandates and 31 acquisition loans to help ensure that the generational change proceeds smoothly.

Growing demand for micro-loans and leasing

Microbusinesses and small enterprises make an important contribution to the vibrant Zurich economy. We therefore ensure that these companies have access to professional advice and a wide range of services with fair conditions. Our newly launched leasing calculator (zkb.ch/leasingrechner) makes the first contact even easier. Zürcher Kantonalbank's portfolio in the year under review included more than 3,800 non-cost-covering micro-loans of less than CHF 200,000 for SMEs. Capital goods leasing is increasingly important in this area. For SMEs and the agriculture sector in particular, this represents a liquidity-preserving alternative to a traditional investment loan. Zürcher Kantonalbank is a major provider of capital goods leases throughout Switzerland. Overall, in the joint distribution network with other cantonal banks, more than 3,000 lease agreements with a volume of more than CHF 300 million were concluded.

Specialised segments

In our capacity as a universal bank, we offer a wide range of products to meet the needs of international companies, key clients, foundations, commodity trading companies, large international organisations and financial services providers, such as banks, insurance companies, large pension funds, asset managers, investment funds and brokers. These products range from financing, trading products and capital market services, to custody and asset management services, trade and export finance, and payment transactions. We also act as a provider for third-party institutions operating in the financial sector. In order to bolster the proximity to our clients and the impact of our international services, we have allocated business with banks abroad and with internationally oriented major Swiss clients to two new units, "International Business & Custody" and "Institutional Clients & Multinationals".

Partner to major clients and international financial services providers

Our ambition in today's globally networked economy is to provide our clients with access to banking services worldwide. This is why we cultivate comprehensive international banking relationships and are responsible for a high-calibre network of correspondent banks. With our representative offices in Brazil, China, India and Singapore, we are also able to support our Swiss clients with local knowledge in the most important export markets.

In times of increasing regulatory requirements, we see it as our task to provide services to our clients in a secure, simple and efficient manner, and to meet the increasing complexity of client demand with professional and effective solutions. We support our clients as a reliable partner not only with financing via loans or the capital market, but also with trade and export finance business, securities and foreign exchange trading, payment transactions (transaction banking), and custody and asset management. Regardless of the economic situation and market trends, continuity is essential.

Partner for financial services providers in Switzerland

Cooperation with other financial services providers has been a strategic business area of Zürcher Kantonalbank for many years. As a nationally significant universal bank with roots in the local area and an outstanding credit rating, we are the natural partner for many third-party institutions. The services we provide include solutions in all our core businesses. These include investment and asset management business, trading and capital market services, and financing.

Structural change in the financial sector continues unabated, presenting small and medium-sized banks with particularly complex challenges. Our cooperative partnership benefits both sides. The partner banks profit from our expertise, and Zürcher Kantonalbank benefits from the additional volumes. Our services are based on processes that are also used successfully by our own clients every day. This expertise enables us to respond to the individual needs of our partners in a targeted manner.

Due to their long shared history, the players in the cantonal banking sector are very interconnected. The need for targeted strategic collaboration is greater than ever, as demonstrated by our Banking Sourcing & Service study, which we published in 2020.

Transparency and efficiency in the philanthropy market

Since 2018, Zürcher Kantonalbank has held a significant minority stake in Philanthropy Services AG, the sponsor of the online platform stiftungschweiz.ch. In addition to the strategic partnership, Christoph Weber, Head of Private Banking and member of the Executive Board, is a member of its board of directors. Zürcher Kantonalbank thus provides significant impetus regarding the digitalisation of the Swiss philanthropy market.

Our commitment made it possible to enhance the platform comprehensively and thus, within the framework of a wide range of services, contribute to increasing efficiency, bolstering transparency and promoting active dialogue among exchange partners in philanthropy.

As an example, a digital donation platform was created on the portal in the year under review. It allows private donors to search for an organisation to support in an easy and targeted manner. It also facilitates a fully digital donation process that has been proven to be safe from money laundering.

In the long term, we would like the platform to make donating in Switzerland more ecological and economical by sending fewer physical donation appeals to Swiss households and thus reducing the waste involved in mass mailing. Zürcher Kantonalbank's fundraising campaign for unemployed young people was also handled via this portal (see p. 28), as was the first edition of the "Donate Instead of Giving" Christmas campaign.

In the year under review, we also launched the "Swiss Philanthropy Performance Index (SwiPhiX)" in collaboration with Swisscanto and StiftungSchweiz. Mandates that are managed by Zürcher Kantonalbank serve as the data source. SwiPhiX is the first Swiss index to track the performance of foundation assets and thereby contribute to the debate within foundations as to whether assets are invested optimally. With foundation assets estimated at over CHF 100 billion in Switzerland, even small performance gains have a significant impact, which ultimately benefits the foundation's purposes.

Finally, the Swiss Foundation magazine "THE PHILANTHROPIST", which is published physically and digitally four times a year throughout Switzerland in three languages (G/E/F), is intended to contribute to dialogue in the Swiss foundation market. It places a strong focus on current issues in the philanthropy and foundation sector. The magazine was awarded the international Fox Award 2020.

Producers

The increasing importance of custody

Custody and asset services are important basic services for our institutional investors. These include safekeeping and administration services, securities accounting, performance reporting and investment compliance services, as well as custodian bank services for investment funds. Electronic interfaces to the client's systems are becoming increasingly important. Our strengths are flexibility in the development of solutions as well as our wide range of offerings. Although the market is largely saturated, we achieved very good growth in new custody and custodian bank clients in 2020, as in 2019. We were also able to establish our ESG reporting with clients. Our current focus is on the digitalisation of business services, i.e. the development of standardised interfaces (APIs) for connecting third-party systems, as well as the enhancement of user interfaces on the web.

Added value via research services

Our equity, real estate and bond research is renowned, covering more than 150 stock corporations and real estate funds as well as around 200 bond issuers throughout Switzerland – more than any other institution. Our equity recommendations have generated above-average performance and thus added value for our clients for years. In addition, Zürcher Kantonalbank organises events, such as roadshows, production tours and investor meetings, as platforms to promote information exchange between investors and small and medium-sized Swiss firms, as well as global players and SMI-listed companies. Our major two-day investor conference was largely held virtually in 2020. Managers from more than 70 Swiss companies and real estate funds presented their strategies and provided information on current challenges and financial developments. The presentations inspired the total of more than 400 investors who participated virtually. Many of them took up the opportunity for one-on-one meetings with managers via the video platform. This high-calibre event, which was greatly appreciated by everybody involved, gave us an opportunity to consolidate our excellent position in the research and brokerage business even further. It also complements our existing offering of more than 100 roadshows throughout Switzerland every year.

The ratings awarded to issuers by the Bond Research team of Zürcher Kantonalbank are relevant for the composition of the Swiss Bond Index and are an important investment criterion for institutional investors. In 2020, Credit Research continued its series of publications on methodological principles with a study on the rating methodology for banks. We use these publications to establish the highest possible level of transparency, and that in turn enables investors and issuers to objectively understand the rating classifications. In view of the publication of this year's Swiss Rating Guide and the accompanying virtual bondholder event, which attracted widespread interest among institutional clients, Bond Research took an in-depth look at the possible consequences of Covid-19 on the ratings of the Swiss borrowers we cover.

Covid-19 posed challenges for our analysts as well, given the trends on the financial markets amid the unpredictable pandemic, the major disruptions of economic life and record-low visibility for companies. The performance of our research recommendations was nevertheless encouraging overall. In particular, our Swiss small and mid-caps model portfolio significantly outperformed its benchmark (780 basis points above the benchmark). In addition to day-to-day business, extensive research reports were prepared for both bonds (2) and equities (7) in connection with new cover and capital market projects. In terms of equities, for example, we published comprehensive reports on the spin-off of the high-end household appliance manufacturer V-ZUG and on the capital increase of Meyer Burger.

Trading and capital markets as the central offering in an integrated value chain

We are one of Switzerland's leading providers in the trading business as well as in the issuing of debt capital and equity instruments (capital market). In trading, we cover all of the important products and asset classes, such as equities, foreign currencies, precious metals, interest rate and credit instruments, as well as structured products. In the consolidating market environment, we position ourselves as an "insourcer" in our domestic market of Switzerland and provide our clients with our integrated value chain and cutting-edge interfaces. The Trading and Capital Markets division is also an important service provider for the parent company.

To further strengthen our brokerage business for Swiss equities and to increase our placement power in equity capital market transactions, Zürcher Kantonalbank acquired an equity brokerage team in the UK from Bank Vontobel Europe AG. This expansion in London will substantially improve the offering for Swiss clients of Zürcher Kantonalbank with capital market needs. It will also broaden the international investor base for capital market transactions with a Swiss connection. For this purpose, the bank founded the subsidiary ZKB Securities (UK) Ltd in London, which successfully commenced operations in December 2020 following approval from the UK supervisory authority FCA.

The year under review was shaped largely by the global pandemic and its impact on the interest rate and equity markets. After a sharp downturn in the markets in the spring, the equity markets rebounded dramatically. Central banks flooded markets around the world with liquidity. Volatility rose sharply, while at the same time trading volumes picked up, generating record client sales. As we gained more experience in dealing with the pandemic and its real impact on the global economy, the markets calmed down in the second half of the year, and both client activity and trading spreads settled at normal levels. Income from trading operations totalled CHF 459 million in the year under review, down by 44 percent on the previous year. The market risks in the trading book (value-at-risk) amounted to CHF 14 million on average and were therefore at a similar level to the previous year. On the debt capital markets, Zürcher Kantonalbank managed the issue of 76 bonds worth CHF 7,395 million. Additionally, 41 transactions were carried out for the Central Mortgage Bond Institution of the Swiss Cantonal Banks, worth CHF 11,258 million. In the equity capital markets, we acted as lead manager for 19 transactions involving companies listed on the SIX Swiss Exchange, representing more than a quarter of all transactions. These included the IPO of V-Zug, the fifth-largest takeover bid in the last decade for Pargesa with a volume of CHF 2.7 billion, and five share placements. In addition, we supported five transactions for unlisted securities.

Asset Management expands sustainable offering

Swisscanto Invest by Zürcher Kantonalbank is the Asset Management division of Zürcher Kantonalbank. This competence centre is responsible for the development and management of investment solutions, such as investment funds and individual, mainly institutional mandates. As such, Asset Management provides professional and innovative investment solutions to meet client needs in Zürcher Kantonalbank's various business units. It also provides clients with support in connection with technical issues and sales. During 2020, assets under management increased by a substantial CHF 17 billion (+10 %) to CHF 192 billion, despite strong price fluctuations on the capital markets. The growth drivers were the fund business and institutional asset management mandates.

In 2020, a sustainability milestone was reached in Asset Management. Swisscanto Invest is the first fund provider to guarantee an annual CO2e reduction path of at least 4 percent for investment decisions in active funds in traditional asset classes. In doing so, it is making a contribution to achieving the Paris climate goal, which aims to limit the rise in the average global temperature to well below two degrees Celsius. This accord was ratified by Switzerland in 2017. The specific contribution will be reported transparently and measurably starting from the beginning of 2021. In addition, Swisscanto Invest has developed its position as a pioneer in the field of sustainability. For example, we have expanded our team to include proven sustainability specialists. We are meeting the constantly growing demand from institutional and individual clients by broadening our sustainable product range further. In addition to the CO2e reduction path, our sustainability criteria include implementing a blacklist, maintaining dialogue with boards of directors and managers as well as actively exercising voting rights (engagement), considering ESG factors, and integrating companies that make a positive contribution to society and the environment (impact).

In recent years, we have responded to growing investor interest in investment alternatives amid the low interest rate environment with our private markets initiative, which has met with lively demand, as expected. The Swisscanto AST Hypotheken Schweiz mortgage fund has now broken through the billion barrier. This success is based on the needs-oriented design of the product. In private equity, the Swisscanto (CH) Growth Fund makes targeted investments in unlisted, mostly Swiss companies that have successfully mastered the start-up phase and now require capital for their expansion phase. The fund, which was launched in 2018, was able to increase the number of its participations from five to nine in 2020. It therefore has a well-diversified, very attractive portfolio with a focus on the medical technology, IT and industrial technology sectors. OncoDNA, Memo Therapeutics and Varjo are just three of several promising investments. Finally, our commercial real estate fund, Swisscanto (CH) Real Estate Fund Swiss Commercial, successfully carried out a CHF 45 million capital increase last year. This capital increase will allow Swisscanto (CH) Real Estate Fund Swiss Commercial to continue to steer a course focused on responsible growth. The fund has an attractive investment pipeline, which is to be used to expand the existing portfolio in line with the strategy.

Bank for SMEs

Bank for SMEs

Backbone of economy and society

Small and medium-sized enterprises – SMEs – are impressively numerous and attract a lot of interest. They also shape the Zurich economy – as they do in this country in general.

As a starting point, here are some figures on the business landscape in our canton: out of 1,000 companies, 997 have fewer than 250 employees, and two out of three employees work for SMEs. SMEs are important innovators that tap new growth areas and help technical developments to make a breakthrough. They are often suppliers to internationally oriented large companies and part of corresponding networks. And last but not least, they increase competition and thus prosperity.

SMEs are also important for society. Many business owners are not just self-employed, but also employ others. This requires vision, responsibility and commitment. The voluntary activities of many entrepreneurs in politics, associations or clubs are indicative of this. They are committed to acting in a commercially, socially and ecologically prudent manner and to passing these convictions on to their employees and trainees.

When talking about SMEs, it is important to remember how varied they are. The spectrum includes both traditional, domestically oriented businesses and highly specialised export-oriented SMEs. They range from the local bakery to the regionally oriented construction company and the internationally renowned biotech company. Their interests and needs are naturally very different. Some are heavily dependent on consumption and investment demand in Switzerland, while others rely on trends in their target markets abroad and on exchange rates.

To cater to these SMEs and their financial needs, we offer services, advice, products, platforms and networks so that they can realise their vision, generate jobs and create wealth. Always better together – for trade, society and the whole of Zurich.

Patrick Sulser, Head of Corporate Finance & Special Financing

Bank for SMEs

Facts and figures

Market leadership

Satisfied and loyal clients

In our regular surveys, which are carried out independently, we achieve a consistently high level of client satisfaction and loyalty, which is significantly above our own targets in each case.

28 billion in credit exposure to SMEs

A continuous, reliable business policy in corporate financing is very important. For many companies in Switzerland, bank loans are the most important form of external financing.

50 % market penetration rate

We maintain a client relationship with every second company in the Canton of Zurich, and we are the main bank for every third. That makes us the clear number one in the market. We process over 16 million payments annually for our SME clients.

600 new businesses and 250 succession solutions

Over the past five years, we have provided financing of around CHF 180 million to more than 500 traditional company foundations and about CHF 100 million to more than 100 start-ups. In the same period, we helped companies transfer ownership to the next generation with around 250 succession solutions.

Capital market coverage of small and mid caps

With over 150 public companies and real estate funds as well as around 200 bond issuers, we have the highest research coverage in Switzerland. This is crucial for companies that need access to the capital market. In addition, we offer a leading platform for trading in small and mid-cap shares.

Comprehensive range of services

- Payments and accounts
- Investments
- Occupational retirement planning as an independent broker
- Foundation and start-up financing
- Operating and investment financing incl. leasing
- Trade and export finance
- Interest and currency hedges
- Capital market access for small and mid caps
- Succession solutions
- Tax consultancy

Client proximity

Active dialogue

We conduct a wide range of topic-related and target-group-related events and platforms to foster a lively exchange with our SME clients and find out their expectations and concerns. Over the past three years we have held around 300 such events.

More than 250 employees

serve our SME clients locally at 20 locations, as well as centrally by telephone and via our direct banking services online. We attach great importance to good training, experience and continuity in relationship management.

SME promotion

We promote entrepreneurship through numerous partnerships and awards. These include the SME prize for sustainable companies, which was awarded for ten years, its successor project kmu.zh, and the Pioneer Award of the Technopark Zurich.

Comprehensive advice and support

We advise and support our SME clients in all areas that may have a financial impact on the current and future situation of the company as well as the life situation of the business owner. This overall view is particularly important for SMEs, as owners of SMEs often invest a large proportion of their private assets in their business.

Closely networked with trade

We have a close working relationship with business and business organisations at the local, regional and cantonal level. We have maintained a long-standing partnership with the Canton of Zurich's business association (Kantonaler Gewerbeverband Zürich). In addition, we support over 160 business associations and similar organisations in the canton and are members of 150 of them ourselves. Our employees are active members of the organisations.

Isabel Perizzato (responsible for HR and Marketing)

Leonardo Perizzato (founded the company in 2007)

Simona Perizzato (responsible for catering)

Bank for SMEs

A passion for ice cream making

From start-up to SME with 80 employees: Leonardo Perizzato has successfully positioned his ice creams on the market as Swiss-Italian premium gelati.

Many people dream of earning a living from their hobby. Leonardo Perizzato did just that and made a name for himself beyond Zurich with his ice creams. He aims to convey one thing above all to his customers with his gelati: joie de vivre. Originally, however, the 57-year-old started his career somewhere else entirely. The trained electrician worked in his profession for many years, but always dreamed of creating creamy, natural gelati, like the ice cream he knew from his childhood, which he spent partly in Casale Monferrato in Italy.

"Ice cream is an anti-cyclical business."
Leonardo Perizzato

At 35, Leonardo Perizzato bought an ice cream machine, rented a room and started making his own gelati. In order to learn the craft from scratch, he took various courses during his autumn holidays in Italy over a number of years. He even attended the renowned Scuola Italiana di Gelateria, where he trained to become a Maestro Gelatiere. In Zurich he opened his first improvised gelateria, which he ran at weekends with friends and family in a canteen in Altstetten.

As he wanted to go to market only with very good quality, he always gave his gelati to his friends and family first to taste – much to the delight of his two daughters Isabel and Simona Perizzato. They were at primary school at the time and remain active in the company today. During the build-up of his business, he continued to work in parallel as a self-employed electrician. It took him years of trial and error until he was satisfied with the quality of his product. In 2007, Leonardo Perizzato founded his company and opened his first gelateria in Sihlcity shopping centre with the support of a start-up loan from Zürcher Kantonalbank.

Continuous success

His gelati, which he sold under his melodious first name Leonardo, went down well with the discerning palates of the people of Zurich. The business grew slowly but steadily. Leonardo moved into production premises in Zurich-Enge, opened a branch in the Glattzentrum shopping centre and operated seasonal sales stands in front of the Globus stores in Zurich, Berne, Basel, Lausanne and St. Gallen. In addition, he opened an Osteria in Sihlcity – a restaurant

"Ice cream producers abroad can only dream of this first-class regional milk."

Leonardo Perizzato


MONATS GLACE
MONATS SORBET

where guests can enjoy specialities and aperitifs from Italy.

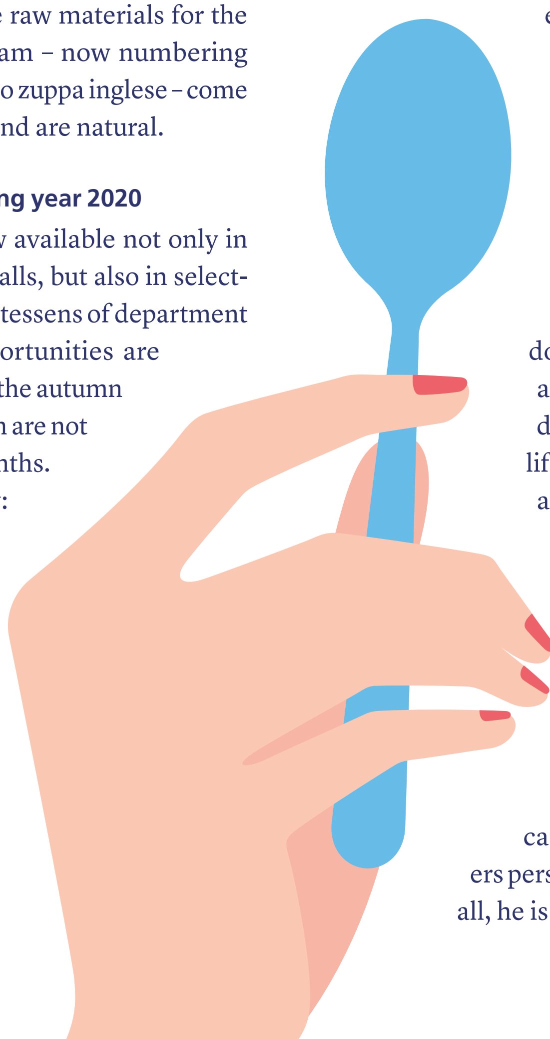
When the production facilities became too small, Leonardo Perizzato and his team looked for a property outside the city. In 2018 they moved to an address in Stallikon. Here they invested in a modern production facility with new ice cream machines, a blast freezer, a milk tank and pasteurisation equipment. His partner in this expansion was again his local bank. Client advisor Adrian Furrer has known the passionate gelatiere for twelve years. "Over time, a friendly working relationship has developed. Leonardo Perizzato is a unique personality and a great person."

Not far from Stallikon, passers-by can see the grazing cows of Guido Keller, a long-time Leonardo milk supplier from the Mädikon farm estate. "Ice cream producers abroad can only dream of this first-class regional milk," enthuses Leonardo Perizzato. The raw materials for the various types of ice cream – now numbering over 100, from amarena to zuppa inglese – come mainly from the region and are natural.

Riding out the challenging year 2020

The ice cream is now available not only in gelaterias in shopping malls, but also in selected restaurants and delicatessens of department stores. These sales opportunities are particularly important in the autumn and winter months, which are not the typical ice cream months. What many do not know: in December, many customers treat themselves to an ice cream while shopping in the warmth. Another crucial factor is the development of new products and flavours, for which Leonardo and his team draw inspiration in several ways, including through trips abroad. They really enjoy creating new products, like their little handmade ice-cream lollipops, ice-cream cakes and tartufo gelati. In the challenging 2020 business year, the company tried to minimise the economic damage arising from the situation surrounding the pandemic.

The temporary closure of the gelati stands and restaurants was anything but pleasant, but the Perizzatos are now looking ahead, trusting in their perseverance, good teamwork and ideas. During the lockdown, for example, they delivered ice cream to their customers' homes. Client advisor Adrian Furrer is also confident about the future. "Ice cream is a counter-cyclical business. It's a bit of a luxury that people like to indulge in, but not as expensive as caviar." His daughters Isabel and Simona Perizzato, who are responsible for marketing and client catering, know this too. An operations manager and an accountant have also been part of the permanent team of 80 employees for years.



Owner and networker

Even though Leonardo now has a large team at his side, the Leonardo company is still his life project. He is also not above lending a hand himself when a gelati display case needs to be repaired. And you will find him behind the carrettino too, a traditional three-wheeled ice-cream cart, serving his customers personally at events. Above all, he is an excellent networker and a man of action who comes first in the morning and leaves last in the evening.

He prefers to do what is closest to his heart: passing on his joy in what he does. For example, during an appearance at one of Zürcher Kantonalbank's leadership seminars, which he particularly enjoyed. He gave an audience of 80 people an emotional speech about his company and its collaboration with Zürcher Kantonalbank. The audience was moved by his authentic and touching life story. As the gelatiere scooped out ice cream from behind his carrettino during the break, he encountered many smiling faces, even from the highest echelons of management. Leonardo Perizzato was particularly pleased with this reaction. "When I hand over an ice cream and get a smile in return, that's the best reward for me."

Text: Susanne Wagner
Photos: Selina Meier

"We've known each other for twelve years. Over time, a friendly working relationship has developed."

Adrian Furrer, Client Advisor
Zürcher Kantonalbank

Bettina Brandenberger (co-owner and daughter of Kurt Brandenberger)

Renzo Brandenberger (founded the company together with his brother Kurt and Oskar Wipf)

Kurt Brandenberger (handed over the company into new hands)

Account advisor Rafael Schütz (looks after corporate clients of Zürcher Kantonalbank)

Roger Brandenberger (successor to his father)

Client advisor Markus Suter (gives advice and support to companies regarding succession solutions)

Bank for SMEs

A secure succession

It is difficult for a business owner to let go of their company and hand it over to their successor, even when everyone is in agreement.

As Kurt Brandenberger approached normal retirement age, it was clear that his joinery firm should definitely go to his son Roger. He did not realise at the time, however, that this would involve such a huge effort. “I didn’t give it much thought at all, but simply told my bank advisor Rafael Schütz at the next opportunity that I was thinking about handing the company over to my son soon,” Kurt Brandenberger recalls.

His client advisor, however, realised right away that this was going to be challenging. “A transfer of a company and real estate ownership within a family, when several children and other family members are involved, requires a carefully thought-out solution,” explains Rafael Schütz, a client advisor at Zürcher Kantonalbank, who has been advising the Brandenberger family on all financial matters for several years. In view of this, he immediately called in his colleagues from the specialist department for SME business succession. The seven-member team advises and supports SMEs in all legal, tax and financial matters relating to company succession. One of them is Markus Suter, who has taken on the case of the Brandenberger family and has therefore been a frequent visitor to idyllic Buch am Irchel near Winterthur.

That is where the Brandenberger + Wipf AG joinery firm has been based since it was founded in 1986. Back then the brothers Kurt and Renzo Brandenberger joined forces with Oskar Wipf, and together they founded the joint stock company. When establishing their business, the three benefited from their original profession as model makers. “Our expertise in moulds and mould bonding has made us specialists in cabinetry,” says Renzo Brandenberger. “We make prototypes in most cases and have never produced large quantities – that’s not our core business,” adds his brother Kurt.

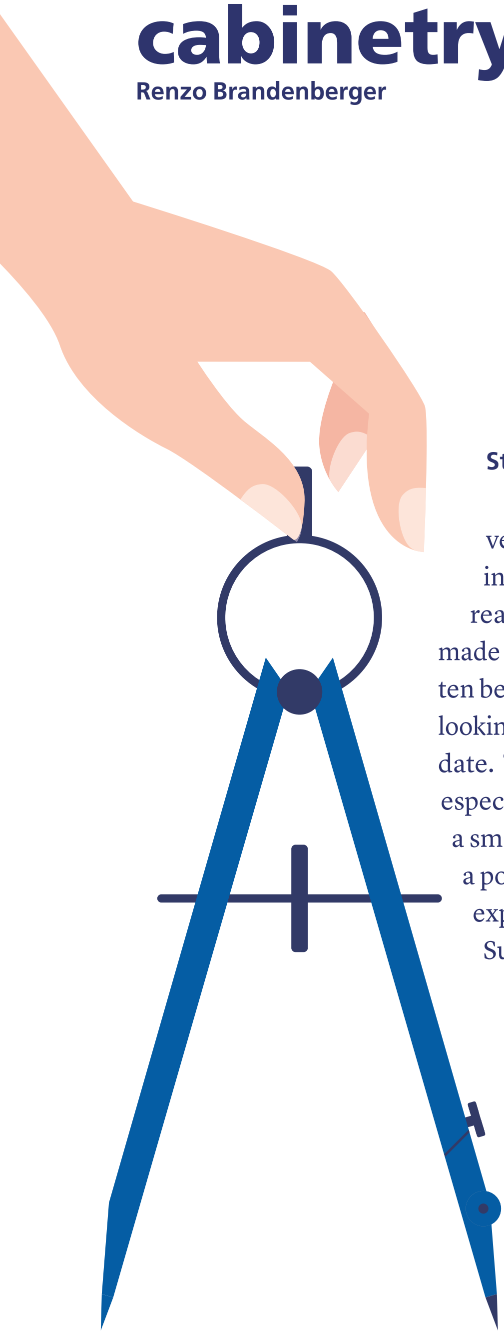
And so it is that the small joinery firm with its 16 employees in Buch am Irchel has produced furniture in recent decades for the reception areas of various well-known international companies. It has also carried out interesting orders for the SBB, for hospitals and for Swiss embassies from London to Tel Aviv and Beijing.


Birke
Birke
Birke
OKUME


3M
Daniel
26.03.20

"Our expertise in moulds and mould bonding made us specialists in cabinetry."

Renzo Brandenberger



Sticking point – real estate

The operating profit was also invested in real estate over the years, in the good old-fashioned way. This real estate ownership, however, has made the company very "heavy". This often becomes a problem, especially when looking for a succession solution at a later date. "Owning one or more properties, especially non-operational ones, makes a small business nearly unaffordable to a potential buyer with limited equity," explains succession specialist Markus Suter.

In order to hand over the majority ownership of the joinery business to his son, Markus Suter advised the Brandenberger family to transfer only the productive business, and to leave the real estate in the old, residual company. Handing over both in combination was ultimately a price issue. "In the Brandenberger case, it made more sense, particularly from a financial perspective, to leave the properties in the shell of the old joint stock company and to set up a new joint stock company for the joinery business," Markus Suter explains. The purchase price to be paid would have been difficult for the successors to bear. So a new company was founded for the joinery business.

Spinning off the business in an "asset deal" proved to be the best way forward. As a result, all employment contracts with the employees, most of whom had been employed for many years, were newly concluded and a new bank account was opened. Kurt Brandenberger is still the majority shareholder of the real estate company "Brandenberger Immobilien AG", while the joinery firm "Brandenberger + Wipf" is now majority owned by his son Roger, with additional shares held by his brother Renzo and his daughter Bettina.

This does not mean, however, that the boss has completely withdrawn from the day-to-day business. "I'm glad my dad still takes care of the billing and payments. And some regular customers continue to ask for him," says Roger Brandenberger. Father and son are making the transition gradually, which both appreciate, although Kurt Brandenberger has noticed from time to time that "they don't always like it when I tell them what to do", as he admits with a smile.

Text: Sandra Willmeroth
Photo: Gabi Vogt


EWALT
WURTH

Bank for SMEs

Interview

Jürg Bühlmann has been Head of Corporate Clients at Zürcher Kantonalbank since 1 January 2020. In this interview, he talks about his turbulent early days at the bank amid the Covid-19 pandemic and explains why he is currently working unintentionally in a one-person office.

Jürg Bühlmann, last year was a difficult year for companies. The Covid-19 crisis also threatened the livelihoods of many of your bank clients. How did you find the year 2020?

Time has gone by incredibly fast. I spent the first two and a half months familiarising myself with the company in the usual way and met the most important key clients together with my predecessor Heinz Kunz. Then, from mid-March 2020, the huge wave hit me too. Talks with the Zurich financial centre, the canton and even the federal government to arrange Covid-19 loans became the order of the day.

What was the most defining moment?

That was the first lockdown decision in the spring of 2020 with all its implications. A pragmatic and quick solution had to be found to alleviate clients' existential worries to some extent – that could be the only goal.

What specifically?

As a bank, we were able to set up the lending programme for the canton and the federal government within just a few days. But once we had it in place, we were very much challenged as a bank in terms of implementation because there was a veritable run on loans. Many companies had encountered liquidity bottlenecks through no fault of their own due to the sudden disappearance of their income. They needed bridging loans quickly. The need for advice was correspondingly great. Our client advisors did a great job and were constantly on duty. That was the only way we could be a reliable partner for our corporate clients, even in these difficult times.

In addition, many things changed within the bank from one day to the next. For example, split teams required new forms of communication and organisation.

How did the employees deal with it?

I am happy and proud of the enthusiasm with which the people in the background and our support staff on the front line have mastered this crisis – and continue to do so magnificently.

Regarding the loans you mentioned: even before the start of the official loan programmes, Zürcher Kantonalbank granted loans at the end of March 2020 to companies that had become distressed due to the Covid-19 crisis. How did this come about?

We wanted to signal to our clients early on that we are there for them – in good times and bad. That is why we offered individual solutions to structurally sound companies. We have continued to do so until today, even after the launch of the federal programme and the cantonal programmes, and have granted loans whenever federal and cantonal support was not sufficient.

At the end of the year we went one step further. The reason was the renewed shutdown ordered by the Federal Council and the resulting liquidity bottlenecks for Zurich companies until the federal hardship programme took effect. For example, we made an additional CHF 300 million in bridging loans available to SMEs affected by the Covid-19 crisis starting from 4 January 2021.

"Clients will not forget that they were able to rely on us!"

Jürg Bühlmann, Member of the Executive Board and Head of the Corporate Clients business unit

Since its foundation, Zürcher Kantonalbank has been particularly committed to small and medium-sized companies in the Greater Zurich Area. That hasn't changed, has it?

That's right, we are still the bank for Zurich – we were yesterday, we are today, and we will be tomorrow. When Zürcher Kantonalbank opened its first counter back on 15 February 1870, it did so during a time when private banks largely neglected to serve tradesmen and employees who had capital-related requirements for their agricultural and commercial businesses. Industrial companies were often overlooked too. This is where the "Bank of the people of Zurich" was to step in. At least that was the idea of Johann Jakob Keller, a member of the Cantonal Parliament and the driving force behind the bank's founding. 150 years later, Zürcher Kantonalbank faces the same responsibility.

By the way, what is the current mood among corporate clients?

For a while, the mood was better – but due to the second lockdown it is tense again. This is especially true for companies in those sectors that have been hit particularly hard, such as tourism, catering and event organising.

But most are confident about the future, despite the uncertainty. Moreover, the entrepreneurial spirit and ideas of our SMEs should never be underestimated. The companies are extremely creative and flexible.

What is the most important lesson you have learned to date?

It's particularly important to stand by your clients and accompany them closely during a crisis, because they won't forget that they were able to rely on you. However, none of this would have been possible without strong internal cohesion as a bank. Staff members from all business units, with a wide variety of professional functions in "normal operations", have taken on special assignments as part of the Covid-19

Task Force. I am thrilled by their team spirit in this exceptional situation.

Let’s go back to your early days in the Corporate Clients business unit: what is special about this business unit?

It is a diverse sales unit with dedicated employees and exciting clients. I encounter a new world every day. A sector of the newspaper industry is different from the hotel industry. The diversity of our clients’ business models, each with different challenges, fascinates me. In addition, many of them are family businesses with a company history that is often centuries old.

Where are things going well?

Things are going extremely well in terms of client proximity. Our client advisors know their clients inside out. I had assumed at the beginning that the first clients they would introduce me to would be those with whom they had a good rapport – as a kind of grace period for me. But after I’d met over 100 clients, I began to realise that a large number of clients are actually real fans of Zürcher Kantonalbank.

And what are your goals as a leader?

There are three focal points. I’ve already mentioned one: turn clients into fans. Another is: increase income sustainably with even more cross-selling. We support our clients holistically during all phases of their business and life.

The third focus is: seize every opportunity, be more willing again to take risks. The cautious approach has developed over time, starting in the 1990s with the real estate crisis and later amid the financial crisis. But the pandemic has now shown that banks can indeed bear risks for their clients.

How is all this to be achieved?

By getting people involved and increasing their personal responsibility. I’m not an expert in everything and don’t always know all the details. You have to inspire people, motivate them — in short, create a sense of purpose.

How do you push yourself?

I’ve always lived by the motto: get a little better every day. I believe everyone can make more out of themselves.

How do you feel about mistakes?

Mistakes happen everywhere. You need to have the courage to take ownership of them.

And what about criticism?

We need to allow criticism because it enables us to improve ourselves. This kind of culture is very important.

In the IT, Operations & Real Estate business unit, you moved your executive chair from a single office to the open-plan office. And in the new division?

A single office is certainly optimal to be able to work undisturbed. But I want to sense the mood in the team, pick up information and – if necessary – be able to react quickly. And speaking of structural changes, I found out that, here at the headquarters on Bahnhofstrasse, the walls cannot be torn down – it is forbidden by fire regulations.

I still don’t want to sit alone in my office, but we haven’t been able to implement the idea of a two-person office with my deputy because of the pandemic. Now is not the right time for this – let’s wait a little longer. ■

Interview: Livia Caluori, Topic Manager,
Corporate Communication, Zürcher Kantonalbank

Bank for SMEs

We are the co-pilots of the client advisors. We support them and provide assistance, mainly when financing is involved. An increasingly competitive market, with an increasingly complex regulatory environment and high demand for speed, requires more resources from the bank in this area. Our corporate clients are local and regional SMEs. It motivates us every day to develop tailor-made financing solutions for them and thus make a contribution to the Lake Zurich business location. We're willing to go the extra mile – for example, by working weekends to disburse Covid-19 loans. Whatever it takes to meet the client's needs quickly and competently. Dedication. That is what our work is all about.

Susi Morger (l.)
and Denise Rüttimann (r.)
Co-Team Leaders
Competence Centre
Corporate Clients
Market area Lake Zurich

Ever since I started my apprenticeship at Zürcher Kantonalbank 13 years ago, I have been fascinated by corporate banking. I know entrepreneurship through my parents and admire everyone who has the courage to start their own business. I support our clients in typical banking topics, such as accounts, mortgages, loans and retirement planning. That way they can concentrate on their core business. I want to be their sparring partner and make their contact with the bank as easy as possible. They show me a lot of gratitude for this, which always motivates me anew. We experience many defining moments for our clients, often involving the whole family. When they buy or build their dream home, start a company, or when someone hands over the baton after 30 years as a founder of their company. It is great to see the trust that our clients place in us at these moments, and to be able to support them with these unique events.

Sonja Meyer
Business client advisor
Effretikon branch

What I particularly like about corporate client services is building up long-standing, trusting relationships with our clients and accompanying them as an important reference person in their day-to-day business. When I took over responsibility for business clients in the Hinwil region ten years ago, I still knew many of them from my football club. I grew up in the neighbouring village of Dürnten. Today I am also involved in the board of the local trade association. I aim to understand my clients' businesses and be able to discuss their plans and challenges with them on an equal footing. I can also bring in the experiences of other clients.

Daniel Lüdi
Business client advisor
Wetzikon Branch

Management Report

Employees

We offer our employees a productive, appreciative environment. As one of the canton's largest training centres, we also make it possible for numerous young adults to enter a wide range of professions in the worlds of banking and IT.

Zürcher Kantonalbank is a popular and attractive employer. Our culture is characterised by our focus on performance, fairness and respect. We take our corporate responsibility seriously and encourage our employees to take responsibility for their own actions and shape their own work. Unless indicated otherwise, the figures and information below relate to the parent company (excluding subsidiaries and their subsidiaries).

Headcount

The group's headcount rose in 2020 by 0.7 percent, from 5,145 to 5,180 full-time positions (FTE). 13 full-time positions were filled by temporary employees. 320 employees were on a banking or IT apprenticeship or high-school internship.

Identification with the company

Our employees also actively act as brand ambassadors by carrying over into their personal lives our corporate culture and our corporate values as well as their enthusiasm for working in the bank. This positive image should help ensure that we are widely perceived as an employer of choice. We approach candidates during the recruitment process in a personal and target-group-specific manner. Since the spring of 2020, we have been conducting first-round interviews as well as follow-up interviews virtually. Final interviews are conducted on the bank's premises, in an authentic working environment but in a comfortable setting. We show the candidates that we are interested in them as people.

Equal opportunities

We believe that the diversity of our employees offers the bank substantial added value. Furthermore, it reflects our equally diverse client structure. We are firmly committed to fairness and respect and promote equal opportunities – regardless of age, gender, sexual orientation, nationality, religion and physical ability.

The bank's Private Banking business unit features prominently in the Gender Intelligence Report and sponsors the Driver Seat initiative, which offers talented women the opportunity to gain leadership experience. The report was launched by Advance, the leading organisation for equality in the business environment, and the University of

St. Gallen. Learn more about the Driver Seat initiative in our video at zkb.ch/driver-seat.

Performance and Development

In the past few years, we have successfully invested in our employees' professional development and in succession planning within the scope of our Performance & Development programme.

The new learning initiative under the slogan Give.Take. Learn shows employees and managers how shared continuous learning and development can succeed in everyday work. With the help of various digital tools, employees can proactively take charge of their own learning and development process. Managers support and accompany their employees and the team by giving them creative freedom and encouraging dialogue. The aim is for employees to be able to use their strengths even better and align their actions with our strategy. Development discussions, development plans and short meetings will continue to be a central element of Performance & Development, as will personal development measures based on the performance, behaviour and potential of each individual employee.

We find it extremely important that our employees continually expand their technical, methodological and social skills. We provide a wide range of internal classes, workshops, podcasts and videos, among other things, as well as the opportunity to attend external training and development courses. In the year under review, we invested CHF 10.7 million in basic training and professional education. 734 employees are currently taking part in a training course. We are continuously expanding this offering to ensure that our proven learning portal continues to provide a needs-based range of courses to promote our employees' development and make them fit for the future. In 2020, the pandemic forced us to focus on specific offers and tools for the lockdown phase and the gradual return from crisis mode.

Talent management – the Talent Community is alive

Continuous dialogue shows what potential our employees have and where their strengths lie. We therefore invest in a comprehensive talent management programme. Our aim here is not just to train young people, but to promote lifelong learning at all levels.

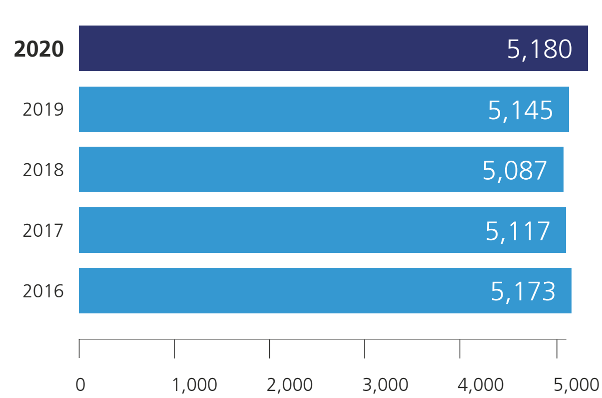
In 2019, Zürcher Kantonalbank launched a Talent Community that provides comprehensive networking and development opportunities for all employees defined as talent. The offerings, which are structured to match our talent management objectives, include personal development, networking, visibility and inspiration. This is intended to contribute to the further development of the bank.

At the same time, we see the internal Talent Community as complementary to our talent acquisition and recruitment activities. Employees with above-average potential, excellent performance and exemplary conduct are offered special opportunities. Following the covid-related postponement of the support programme cycle, the tailored programmes are to be implemented again for these employees in 2021.

Young professionals

With around 420 apprenticeships, we are one of the largest providers of vocational training in the Canton of Zurich. We offer vocational training in the areas of banking and IT. In 2020, 81 apprentices started their training with us. Since 2019, the syllabus has involved shorter, alternating assignments during the apprenticeship period and combines these with the skills that the apprentices are to acquire. This provides added value for both the

Group headcount (adjusted for part-time employees) as at 31 December



apprentices and the bank. In addition to the Business Engineering thematic programme, two apprenticeship graduates successfully started the new thematic programme in Human Resources & Training in summer 2020. Passing the 2020 training programme was particularly challenging for trainees amid the coronavirus pandemic. Distance learning was the order of the day, and grades for practical work counted instead of the final apprenticeship examination. All 93 apprentices (81 bank apprentices, 12 IT apprentices) graduated. Forty-nine of them also obtained the vocational baccalaureate. We were once again able to meet our main objective of continuing to employ young employees in the bank after they have completed their apprenticeships. Of those apprentices, some 90 percent chose to pursue a career within the bank and gain more valuable professional experience. In addition to apprenticeships, we also offer internships for vocational school and high school graduates, as well as trainee programmes for university graduates and graduates of apprenticeship programmes. In 2020, there were 30 interns and about 50 trainees working at the bank.

Working during the Covid-19 pandemic

Due to the Covid-19 pandemic, a special focus of Zürcher Kantonalbank has been on protecting and supporting employees. This was accomplished, among other ways, by splitting up teams, having thousands of employees work from home, and implementing protective measures in the office premises. It was also necessary to support employees with their work in the virtual world. To that end, topics such as leadership at a distance, resilience building and mental health were offered in new formats, such as webinars, workshops and podcasts. The aim was to enable employees to deal with this prolonged stressful situation. The high uptake of these offers shows that the new formats could be easily integrated into employees' daily work routine.

Modern workplace environment in Neue Hard

We value short, quick decision-making channels and personal communication among staff. We implement flexible working methods to promote entrepreneurial thinking and action, customer proximity, creativity, motivation, satisfaction and productivity. In terms of office space, we reached another milestone in the year under review. After more than two years of construction work, around 800 additional workplaces were created in 2020 in the renovated Neue Hard commercial building. At the same time, the working environment of the previous office spaces was also modernised in order to shape the entire infrastructure in line with an activity-based working philosophy. This means: desk-sharing workplaces for a flexible working environment; training, meeting and project rooms as well as a co-working zone; efficient use of space and a modern working environment for agile forms of organisation that are individually tailored to the teams and their needs or adaptable; scope for entrepreneurial activity and self-organisation.

The use of synergies offers short decision-making channels and a high level of client orientation, and fosters cross-divisional cooperation. We are convinced that the modern workplaces at Neue Hard will create added value for our employees. The Steinfels and Neue Hard sites of the Zurich West district now offer a modern working environment for over 4,000 employees.

Employer commitment

Work-life balance

We want our employees to be able to find a healthy balance between their professional commitments and their personal lives. To do that, we offer them flexible working models. This means that two managers share one management function. In total, 29.5 percent of our employees work on a part-time basis. We have also seen a slight increase in the number of part-time employees working in middle and senior management. The percentage of women working in senior management positions has likewise increased again.

We find it extremely important that our female employees return to us after their maternity leave. Our maternity concept strengthens this intention. In addition, we provide financial support for female employees working 60 percent or more and part-time male employees who have one or more children in daycare while they are working.

Political engagement

Zürcher Kantonalbank supports employees if they choose to hold a political office. A total of around 120 employees are involved in politics, thus making a valuable contribution

GRI key figures[1] Employees

		2020	2019	2018	2017	2016
Employment (parent company)						
Number of employees (full-time equivalent)	Number	4,983	4,918	4,859	4,866	4,910
Turnover rate	%	4.5	5.8	6.3	5.7	5.9
Change in the number of jobs	%	2.3	1.1	−0.2	−0.9	0.6
Health and occupational safety (parent company)						
Lost days per employee as a result of sickness or occupational and non-occupational accidents	Days/ employee	5.6	6.8	6.9	6.8	7.1
Basic training and further education (parent company)						
Internal basic training and further education per employee	Hours/ employee	11.5	18.4	14.3	22.8	20.5
Percentage of employees on external courses	%	14.7	12.8	12.9	13.1	11.3
Diversity and equal opportunities (parent company)						
Percentage of women in total workforce	%	37.4	37.3	37.2	37.3	37.7
Percentage of women in middle management	%	36.6	36.5	35.1	34.3	34.2
Percentage of women in senior management	%	13.9	13.3	13.1	11.9	11.2

1 The Annual Report of Zürcher Kantonalbank has been prepared in line with the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI). The bank publishes a separate sustainability report on its website at www.zkb.ch/sustainability

towards embedding our bank in both the political and social realms. The bank supports these non-profit activities by offering up to one month's worth of paid days off without any reduction in annual leave, for example. As an expression of the gratitude and appreciation we have for the commitment shown by these employees, the Committee of the Board organises the "Politics and Commitment" event every year. The 2020 event could not be held due to Covid-19.

Integration

Due to Covid-19, we were able to award only one work integration job in 2020 to an individual who needed a programme to enter the job market. We accompany this person in a tailored manner and thus help them gain a foothold in the bank or another company. We work together with the Chance Foundation in the MIA project (Mothers in Training) and have also been able to accompany three young women without an education on their way to completing an apprenticeship with a Federal Vocational Certificate (EBA).

Health

Our systematic approach to health management makes an important contribution to the work-life balance and well-being of our employees. This is reflected in the employee satisfaction survey conducted every two years. Healthcare and health promotion will thus continue to be an important aspect of our commitment as an employer. Our bank has been designated as a "Friendly Work Space" for the past six years. "Friendly Work Space" is a label that recognises companies for their exemplary occupational health management programmes. In 2020, we had the privilege of participating in a health promotion pilot project and of helping to design the third assessment, which offered substantial added value in the further development of health management. Our health-related offers include financial support for health checks, free flu vaccinations in collaboration with the Swiss Association of Pharmacists, and support for sporting activities such as the "Bike to Work" campaign to promote health throughout Switzerland. In addition, a health and fitness room was built at our largest location in Zurich West, where fitness courses are offered at off-peak times. This offers the perfect opportunity to keep fit during the week. We also provide our employees with ergonomically designed workplaces, as well as rest and massage rooms. We are constantly optimising our measures with the aim of helping our employees to stay fit and healthy.

Employee representation committee

The employee representation committee consists of five members and constitutes itself. For the 2018–2022 legislative period, it decided to redefine annually the leadership of the elected employee representatives. The employee representatives of Zürcher Kantonalbank are supported by an employee committee.

Employee benefits

Our employees are compensated according to the total compensation approach. Their compensation consists of a base salary, variable compensation based on the performance of the group, as well as statutory allowances and additional voluntary benefits. Please see the Compensation Report from page zz onwards. In the year under review, the Pension Fund of Zürcher Kantonalbank covered 5,437 active insured persons and 1,732 retirees. As at 31 December 2020, it managed assets of approximately CHF 5 billion and had a coverage ratio of 114.9 percent (unaudited). For further information on occupational pensions and employee benefits, please see Note 13.

Management Report

Business development

Material events

27 February 2020 Scope of consolidation expanded by the creation of ZKB Securities (UK) Ltd., active in equity brokerage.

19 March 2020 Vorsorgestiftung Sparen 3 pension foundation of Zürcher Kantonalbank launches the 3a pensions app frankly. This sees the foundation add a digital channel to its range of services in private pension provision.

25 March 2020 Zürcher Kantonalbank provides quick and non-bureaucratic bridging loans under the federal and cantonal aid packages to companies facing liquidity constraints due to the coronavirus pandemic. The aid meets with great approval from the business community.

28 April 2020 Zürcher Kantonalbank sells the BVG management business of Swisscanto Pensions to PFS Pension Fund Services AG and at the same time acquires a 20 percent stake in PFS Pension Fund Services AG.

30 September 2020 Zürcher Kantonalbank places a further Additional Tier 1 (AT1) conditional write-off bond in the amount of CHF 315 million with a coupon of 1.75 percent. The AT1 bond has a Baa1 rating from Moody's. Payment was made on 16 October 2020 at an issue price of 100 percent.

2 November 2020 The Cantonal Parliament approves a CHF 425 million increase in the endowment capital. The endowment capital reserve now amounts to CHF 1 billion. This is reserved in full for the bank's contingency planning and can be counted towards gone-concern capital.

Strong group results

The group profit of CHF 865 million (previous year: CHF 845 million) once again confirms the importance of a strategy focused on continuity and sustainable success. The financial year was dominated by the pandemic and its associated uncertainties. In interest operations this was reflected in a higher need for value adjustments, which meant that the net result from interest operations (CHF 1,218.2 million) remained at the previous year's level despite higher gross interest income.

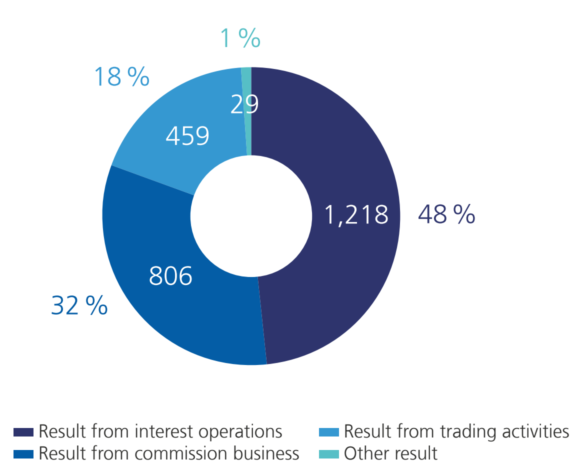
The ultimately positive market performance and higher investment and transaction volumes had a positive impact on net fee and commission income (CHF 806.5 million or plus 4 percent).

In the trading business, it proved possible to make optimum use of the market distortions caused by the pandemic and the market opportunities that arose. This resulted in a year-on-year increase of around 44 percent in the result from trading activities (CHF 458.8 million).

As a result, operating income amounted to CHF 2,512.8 million, around CHF 99.0 million higher than in the previous year.

Operating expenses were CHF 1,580.1 million, more than 9 percent above the prior-year result. In view of the strong group results, Zürcher Kantonalbank approved a special coronavirus dividend of CHF 100 million.

Breakdown of operating result (in CHF million / percent)



Analysis of earnings

Encouraging interest operations despite need for value adjustments because of the pandemic

In spite of a more intense competition and a persistently negative interest rate environment, gross interest income of CHF 1,257.5 million (up 4 percent year-on-year) was achieved. As well as mortgage growth, the increase in the limit on funds exempt from negative interest rates at the SNB also had a positive impact. By contrast, higher funding and liquidity costs to comply with the significantly increased liquidity requirements imposed by FINMA on systemically important banks had a negative effect. Due to the pandemic, there were also significantly more default-related value adjustments and losses from interest operations during the year. These amounted to CHF 39.3 million, compared with a net release of CHF 6.5 million in the previous year. The net result from interest operations totalled CHF 1,218.2 million, only slightly above the previous year's figure of CHF 1,216.2 million.

Positive performance in commission business and services

The total result from commission business and services amounted to CHF 806.5 million in financial year 2020, exceeding the good result from the previous year (CHF 776.8 million) by 4 percent.

Commission income from securities trading and investment activities was CHF 862.4 million, 10 percent above the previous year's level. This was driven by the overall positive market performance and the increase in investment and transaction volumes.

Commission income from lending activities, at CHF 57.4 million, remained on a par with last year (CHF 58.5 million). Income from other services declined CHF 21.3 million year-on-year to CHF 128.7 million. This was mainly due to lower income from card and ATM transactions, down primarily because of lower travel.

At CHF 242.0 million, commission expense was also around CHF 24.2 million higher than in the previous year. The components associated with the investment business were the main contributors.

Excellent trading business

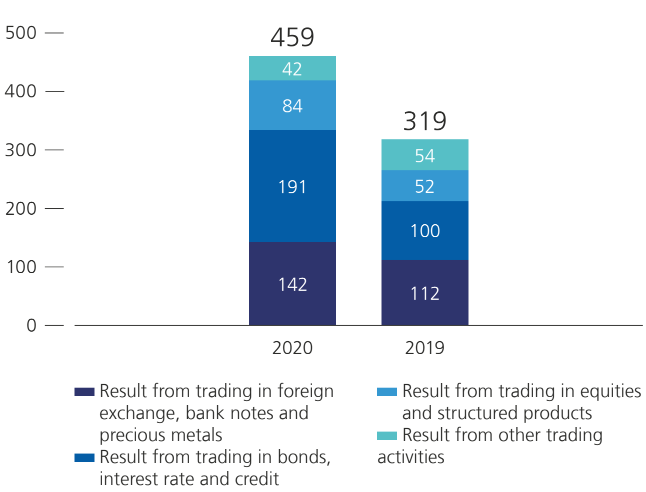
Following the sharp corrections in the first quarter and the recovery in the second quarter, financial markets entered a calmer phase from the third quarter onwards. The favourable environment with low overall fluctuations and falling risk premiums continued to be supported by expansive central bank monetary policy. The trading activities of Zürcher Kantonalbank were marked by occasionally very active client business and extreme volatility.

Thanks to continuous provision of liquidity and active risk management, the result from trading activities of CHF 458.8 million was significantly higher than the previous year (CHF 318.9 million).

The result from trading in bonds, interest rate and credit derivatives in particular, at CHF 191.5 million, posted a significant year-on-year increase (up 91 percent). However, very pleasing figures were also achieved in the other areas. The result from trading in foreign exchange, bank notes and precious metals amounted to CHF 142.3 million (up 27 percent on the previous year). The result from trading in equities and structured products amounted to CHF 83.6 million (previous year: CHF 52.4 million).

For further information, please see Note 32 to the Financial Report.

Breakdown of trading result (in CHF million)



Decline in other result from ordinary activities

The other result from ordinary activities amounted to CHF 29.3 million, compared with CHF 102.0 million in the previous year. The decline was due in particular to a one-off effect in the previous year in connection with positive value adjustments to financial investments.

Operating expenses dominated by one-off effects

Operating expenses increased more than 9 percent or CHF 136.9 million over the previous year to CHF 1,580.1 million. Of this amount, around CHF 100 million is attributable to higher personnel expenses (CHF 1,125.6 million), of which CHF 46.2 million relates to the anniversary payment, which was neutralised in the income statement by releasing the same amount from reserves for general banking risks. The remaining increase is due to a slightly higher headcount and higher variable components due to the good result.

At CHF 454.5 million, general and administrative expenses were up around 9 percent on the previous year's figure (CHF 417.3 million). This is mainly due to higher IT costs in connection with the further development of the bank and innovative products. One-off additional costs were also incurred in the spring for the expansion of infrastructure necessary because of the coronavirus and the centralisation of workplaces in Zurich West.

For further information on personnel, general and administrative expenses, please see Notes 34 and 35 to the Financial Report.

Slightly higher depreciation expenses

Expenses in connection with value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets in the year under review amounted to CHF 116.9 million (2019: CHF 112.9 million). As in the previous year, depreciation on bank buildings and other real estate accounted for the largest share, followed by ordinary goodwill amortisation. The higher value adjustments on participations were largely offset by lower depreciation on other tangible fixed assets.

Net allocation to provisions

Value adjustments are made and provisions recognised to the extent operationally necessary to cover default risks and any other identifiable risks.

For the financial year 2020 the item "Changes to provisions and other value adjustments and losses" shows an expense of CHF 14.4 million (2019: CHF 11.6 million). This essentially relates to the recognition of provisions for default risks. The item "Changes in value adjustments for default risks and losses from interest operations" is a component of the result from interest operations. A comment can be found in the section on interest operations.

Extraordinary result from participations

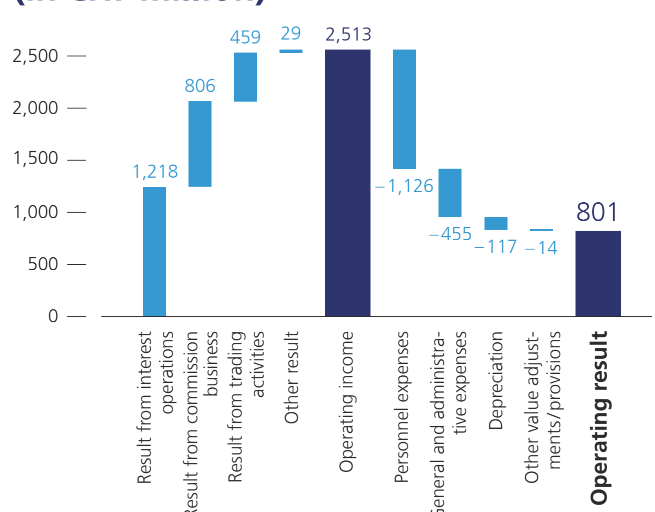
The extraordinary result amounted to CHF 25.4 million. As stated in the Half-yearly Report, this is mainly attributable to the sale of the participation in Homegate AG and the sale of the BVG administration business of Swisscanto Pensions Ltd.

Analysis of the asset and financial position

Increase in total assets due to higher liquidity requirements

As a systemically important bank, Zürcher Kantonalbank is subject to substantially stricter liquidity requirements with effect from 1 January 2021. To meet the regulatory liquidity ratio of 135 percent, the bank further increased its liquidity cushion over the course of the year, enabling

Breakdown of operating result (in CHF million)



it to meet the additional requirements at the end of 2020 comfortably. This was mainly achieved by issuing money market instruments, through the capital market, opening investment accounts for institutional clients subject to withdrawal restrictions, and time deposits in the interbank market. The year-on-year increase in total assets (up 13 percent to CHF 188.4 billion) is therefore mainly attributable to this regulatory-driven, significantly higher liquidity holding.

Sight deposits with the Swiss National Bank, which are included in liquid assets, mainly serve to meet these regulatory liquidity requirements. At the end of the year under review they amounted to CHF 51.7 billion, significantly higher than the previous year (CHF 36.3 billion) due to the measures mentioned above. Total high-quality liquid assets (HQLA) also increased significantly to CHF 53.0 billion from CHF 43.7 billion a year earlier. The regulatory liquidity ratio (LCR) was 160 percent at the end of the year, compared with 123 percent at the end of the previous year. The liabilities side continues to be characterised by amounts due in respect of customer deposits, which is the largest balance sheet item at 49 percent and a major source of financing.

Disclosure on significant components of the balance sheet

Larger portfolio of financial investments

The portfolio of financial investments amounted to CHF 5.0 billion, around 14 percent higher than the previous year. The high-quality fixed-interest securities held as financial investments are also counted as liquidity.

Development of the interbank and securities financing business

At the end of 2020 amounts due from banks came to CHF 3.4 billion, lower than in the previous year (CHF 4.9 billion).

Amounts due to banks were CHF 34.8 billion, in line with the previous year (CHF 34.1 billion).

On the assets side the securities financing business increased by 9 percent to CHF 16.9 billion, while on the liabilities side it declined by 3 percent to CHF 4.8 billion.

These changes lie within the bounds of the usual volatilities that arise in short- and medium-term liquidity management.

Slight growth in loans

At the end of 2020 mortgage loans amounted to CHF 87.7 billion (previous year: CHF 84.3 billion). This constitutes an increase of 4 percent or CHF 3.4 billion. The quality of the loans and their collateral continues to be a key consideration for lending policy, especially in the current environment.

Amounts due from customers (CHF 9.3 billion) also recorded growth of 4 percent or CHF 0.3 billion.

On 25 March 2020 the Confederation, together with the Swiss National Bank, the Financial Market Supervisory Authority and the Swiss banks, presented the implementation of support measures for SMEs. Zürcher Kantonalbank too provided rapid and targeted support to businesses in the form of bridging loans. Covid-19 loans granted to corporate clients and fully or partially covered by a federal or cantonal guarantee totalled over CHF 1 billion at year-end.

More volatile markets shape trading activities

The trading business continues to be strongly client-focused. On the assets side, both the trading portfolio (up 19 percent to CHF 10.9 billion) and the positive replacement values of derivative financial instruments increased (up 7 percent to CHF 1.6 billion).

By contrast, trading portfolio liabilities (down 36 percent) and negative replacement values of derivative financial instruments (down 28 percent) saw a year-on-year decrease. Liabilities from other financial instruments at fair value, on the other hand, increased by 22 percent to CHF 3.5 billion.

Further information on trading activities can be found in Notes 3 and 4 to the Financial Report.

For further information on market risk management, please see section 1.6 of the Risk Report.

Participations, tangible fixed assets and intangible assets

Non-consolidated participations amounted to CHF 134.9 million, on a par with the previous year (CHF 138.3 million). For further information, please see the comments on the extraordinary result and Notes 6 and 7 to the Financial Report.

The tangible fixed assets in the amount of CHF 628.8 million mainly consist of bank premises and other properties.

Investments in tangible fixed assets amounted to CHF 45.8 million during financial year 2020 compared with ordinary depreciation of CHF 67.9 million.

At CHF 74.8 million, goodwill for the Swisscanto Group was still the largest item recognised under "Intangible assets", which came to a total of CHF 86.5 million (previous year: CHF 122.5 million).

Growth in client deposits

Amounts due in respect of customer deposits increased from CHF 85.1 billion to CHF 92.6 billion (up 9 percent). These included savings accounts as well as other client accounts on sight and on time.

Increase in bonds and central mortgage institution loans

At the end of 2020 the bank reported outstanding bonds totalling CHF 25.4 billion, an increase of CHF 12.1 billion or 90 percent. As mentioned above, the increase is mainly related to the implementation of the new higher liquidity requirements imposed on systemically important banks.

An increase of 10 percent was recorded for central mortgage institution loans, which serve to refinance lending. At year-end, central mortgage institution loans in the amount of CHF 10.7 billion were recognised.

For further information, please see Note 15 to the Financial Report.

Higher shareholders' equity thanks to retained profit

Equity increased again on the back of the positive business result and the profit allocated to the retained earnings reserves. The equity reported in the balance sheet before appropriation of profit amounts to CHF 12.7 billion, an increase of CHF 312.8 million or 3 percent over the previous year. It comprises the bank's capital (CHF 2.4 billion), retained earnings reserves and foreign currency translation reserves (CHF 9.2 billion), reserves established for general banking risks (CHF 153.8 million) as well as consolidated profit (CHF 865.1 million).

The bank's capital consists exclusively of endowment capital, which is made available to the bank by the Canton of Zurich for an unlimited term as equity.

Client assets

Assets under management increased by CHF 28.3 billion to CHF 361.7 billion in financial year 2020. Of this, approximately CHF 8.9 billion can be attributed to positive performance (i.e. price gains/losses, interest, dividends and currency gains/losses). The net inflow of assets under management amounted to CHF 22.1 billion. For further information, please see Notes 31a and 31b to the Financial Report.

Uncertainties will remain a feature next year

Due to the ongoing pandemic and the geopolitical situation, we expect the environment to remain challenging in 2021. Nevertheless, we still expect to be able to present pleasing results thanks to our sustained operational stability and diversified business model. Please see the Outlook on page 23 for more details.

Corporate Governance

We take our responsibility to the Canton of Zurich and its residents seriously. This is also reflected in our corporate management. We engage in open, transparent dialogue with our stakeholder groups. The management and supervision of our bank comprises the Board of Directors, the Board of Directors Committees, the Committee of the Board, the Executive Board, the Audit Committee, the Auditor, and the Cantonal Parliamentary Committee. The Board of Directors, the Committee of the Board and the Executive Board ensure that the objectives of the public service mandate are fulfilled.

Basic principles

Zürcher Kantonalbank is a responsible bank which engages in a constant, open and transparent dialogue with its stakeholder groups. As an institution under public law, the bank is accountable in particular to the Canton of Zurich, its residents and the Cantonal Parliament, which is ultimately responsible for the supervision of the bank. As a bank, it is subject to the Swiss Financial Market Supervisory Authority FINMA as an independent supervisory authority with sovereign powers. In addition to the provisions of federal supervisory law, the requirements of FINMA Circular 2017/1 Corporate Governance – Banks in particular are also applicable to Zürcher Kantonalbank. Insofar as this is possible for a public-law institution, it also bases its operations on the SIX Swiss Exchange Directive on Information relating to Corporate Governance of 20 March 2018 and the economiesuisse Swiss Code of Best Practice for Corporate Governance of 29 February 2016. Unless otherwise specified, all stated information is valid as at 31 December 2020.

Structure and ownership

Zürcher Kantonalbank is a public-law institution under the cantonal law of Zurich. In accordance with the Law on Zürcher Kantonalbank of 28 September 1997, version dated 1 January 2015 (Cantonal Bank Act), the bank's purpose is to contribute to addressing economic and social issues and support environmentally sustainable development in the Canton of Zurich. The group structure and scope of consolidation are shown in Note b) Accounting and valuation principles in the Consolidated Financial Statements. For information on the change in equity, please refer to the Consolidated statement of changes in equity in the Financial Report.

Board of Directors and Committee of the Board

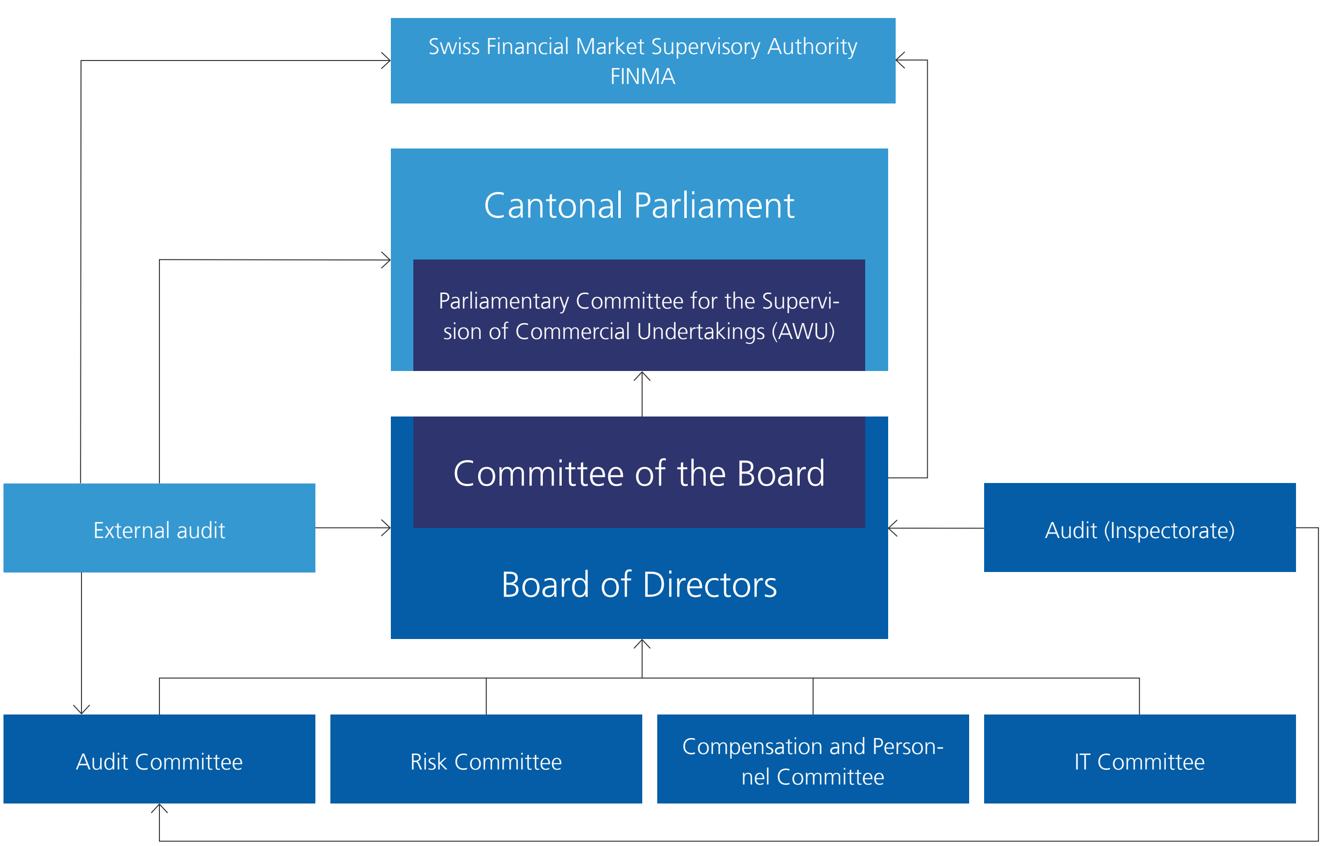
The Board of Directors consists of 13 members elected by the Cantonal Parliament for a term of four years. This number includes three full-time members of the Committee of the Board.

All of the members of the Board of Directors are Swiss citizens resident in the Canton of Zurich and are independent within the meaning of FINMA Circular 2017/1 "Corporate Governance – Banks". No member has ever served on the bank's Executive Board. None of the part-time members of the Board of Directors have significant business connections with the bank as defined in the SIX directive. The Committee of the Board is an independent body. Its members are subject to the same rules as all employees of Zürcher Kantonalbank, except for the provisions of the regulations approved by the Cantonal Parliament governing the compensation of the members of the Board of Directors of Zürcher Kantonalbank dated 25 November 2004.

The duties of the Board of Directors and Committee of the Board are set out in sections 15 and 16 of the Law on Zürcher Kantonalbank, sections 29, 30 and 33 of the bank's organisational regulations of 23 June 2011 and other specific regulations. As laid down in section 14, paragraph 3, of the Law on Zürcher Kantonalbank, members of the Board of Directors may not work for any other bank, be a member of the Government Council, Cantonal Parliament or highest cantonal courts, or 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 doing so, it considers their personal characteristics such as assertiveness, credibility and integrity, and their suitability with regard to banking expertise, as well as regulatory requirements and proportional political representation. The professional qualifications for each individual member of the Board of Directors are regularly assessed by external specialists. 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

Corporate Governance at Board of Directors level



office for members of the Board of Directors ends at the latest on their 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.

For the current legislative period (July 2019 – end of June 2023), the Board of Directors consists of the persons listed in the following table.

Members of the Board of Directors for the 2019 – 2023 legislative period

Dr Jörg Müller-Ganz	Chairman Deputy Chairman Member of the Board of Directors	since 01.07.2011 from 01.10.2010 until 30.06.2011 since 01.07.2007
Dr János Blum	Deputy Chairman Member of the Board of Directors	since 01.07.2011 since 06.05.2002
Roger Liebi	Deputy Chairman Member of the Board of Directors	since 01.07.2019 since 01.07.2018
Amr Abdelaziz	Member of the Board of Directors	since 01.07.2015
Dr Adrian Bruhin (successor of Rolf Walther)	Member of the Board of Directors	since 26.10.2020
Dr Bettina Furrer	Member of the Board of Directors	since 01.07.2019
René Huber	Member of the Board of Directors	since 01.11.2014
Henrich Kisker	Member of the Board of Directors	since 01.07.2015
Mark Roth	Member of the Board of Directors	since 01.09.2013
Peter Ruff	Member of the Board of Directors	since 01.07.2011
Walter Schoch	Member of the Board of Directors	since 01.07.2015
Anita Sigg	Member of the Board of Directors	since 01.07.2011
Rolf Walther	Member of the Board of Directors	from 01.10.2010 until 30.9.2020
Stefan Wirth	Member of the Board of Directors	since 01.07.2011

Cantonal Parliamentary Committee

Responsibility for the ultimate supervision of Zürcher Kantonalbank lies with the Cantonal Parliament. Its duties are set out in section 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, they include approving the guidelines on the fulfilment of the public service mandate, the regulations governing the compensation paid to members of the Board of Directors, and the annual financial statements and annual report of the bank, as well as discharging the governing bodies.

The Cantonal Parliament of Zurich has charged the Parliamentary Committee for the Supervision of Commercial Undertakings (AWU) with ultimate supervision in accordance with section 12 of the Law on Zürcher Kantonalbank. 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, the Committee of the Board, members of the Board of Directors, the Chief Executive Officer, other members of the Executive Board or representatives of the external auditors with regard to the activities, course and results of the bank's business and any important events. As at 31 December 2020, this Cantonal Parliamentary Committee comprised the following members:

AWU members as at 31.12.2020

André Bender, SVP	Chairman
Isabel Bartal, SP	Member of the Committee
Carola Etter-Gick, FDP	Member of the Committee
Astrid Furrer, FDP	Member of the Committee
Hanspeter Göldi, SP	Member of the Committee
Barbara Günthard Fitze, EVP	Member of the Committee
Daniel Heierli, Greens	Member of the Committee
Stefanie Huber, GLP	Member of the Committee
Thomas Lamprecht, EDU	Member of the Committee
Benjamin Walder, Greens	Member of the Committee
Orlando Wyss, SVP	Member of the Committee

Information and control instruments

The Board of Directors and Committee of the Board are regularly briefed on the course of business and the main activities of the Executive Board as well as on significant developments. At the invitation of the Committee of the Board, members of the Executive Board attend meetings of the Board of Directors to inform its members on current issues and are involved in the strategy and planning. The Committee of the Board scrutinises all minutes of the meetings of the Executive Board, business units and committees. If required, the remaining members of the Board of Directors request additional information to the minutes.

At least once every quarter, the Board of Directors receives a detailed briefing on the course of business, developments in key risk categories (including compliance risks) and the status of important projects. This also includes monitoring of reputation risks. The Legal, Tax & Compliance business unit reports directly to the Board of Directors and

Executive Board in accordance with margin no. 78 ff. FINMA Circular 2017/1. The Anti-Money Laundering unit also reports to Legal, Tax & Compliance.

Moreover, Zürcher Kantonalbank has an Audit unit that reports directly to the Board of Directors and is independent of the Executive Board. Audit assists the Committee of the Board and the Board of Directors 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.

The AWU of the Cantonal Parliament of Zurich monitors the fulfilment of the public service mandate in accordance with section 12 of the Law on Zürcher Kantonalbank. This is primarily based on an annual focus report, the theme of which changes annually depending on the AWU's requests, as well as the annual report (including the sustainability report), which also accounts for the bank's fulfilment of the public service mandate.

Internal organisation

Areas of responsibility

The responsibilities of the Committee of the Board, Board of Directors, Executive Board and external auditors are governed by the Law on Zürcher Kantonalbank of 28 September 1997 (sections 15 to 18) and the organisational regulations of the Zürcher Kantonalbank group of 23 June 2011 (sections 29 to 37 and section 39).

Committee of the Board

Under section 16 of the Law on Zürcher Kantonalbank, the Committee of the Board, which is an executive body in its own right, is responsible for the direct supervision of the Executive Board. In this context, the Committee monitors 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 takes decisions on various operational and electoral matters. The Committee of the Board ensures that the public service mandate is addressed by the Board of Directors and in this connection also bears responsibility for sustainability issues.

The Committee of the Board consists of Jörg Müller-Ganz, János Blum and Roger Liebi. Jörg Müller-Ganz is the Chairman and János Blum is his deputy. Anita Sigg and Walter Schoch were elected as substitute members of the Committee of the Board (Schoch replaced Rolf Walther, who retired at the end of September 2020).

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 (section 15 of the Law on Zürcher Kantonalbank).

The Board of Directors follows a structured annual cycle and examines the group strategy and analyses Zürcher Kantonalbank's strengths and weaknesses, opportunities and risks as well as the associated strategic risks. This includes the related planning, controlling and reporting activities, as well as regular examination of risk management, risk reporting, the regulatory audit report by auditors Ernst & Young AG (EY), and measures and reports relating to the public service mandate and sustainability. The Board of Directors also takes decisions on loan and limit applications as well as other transactions that fall within its remit.

Audit

Audit is responsible for the group's internal audit. It is headed by Walter Seif and as at the end of 2020 had 52 employees (FTE).

In organisational terms, Audit reports directly to the Board of Directors and is 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, risk-oriented approach to evaluate the effectiveness of risk management and controls as well as of the management, performance and monitoring processes, and submitting recommendations for optimisation. Audit also checks the bank's compliance with regulatory provisions, 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 by any directives in substantive terms in the drafting of its reports, which are generally drawn up for the attention of the Audit Com-

Areas of responsibility

Committee of the Board

Main responsibilities of the Committee of the Board: It
- prepares topics relating to strategy and corporate culture for submission to the Board of Directors
- scrutinises the decisions of the Executive Board and assures its direct supervision
- monitors the execution of resolutions passed by the Board of Directors
- approves unsecured loans in accordance with the delineation of powers laid down by the Board of Directors
- 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 invoices for building projects authorised by the Board of Directors
- takes decisions on providing assistance to economic, social and cultural institutions
- decides on the bank's membership of, and representation in, organisations
- is informed of new lending transactions that fall within the remit of the Executive Board
- is informed of the course of business at participations
- hires, dismisses and promotes members of senior management
- reviews the Legal, Tax & 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 on transactions with particular business policy risks, conflicts of interest and particular effects on reputation
- regularly checks the quality and efficiency of the fulfilment of the public service mandate

Board of Directors

Main responsibilities of the Board of Directors: It
- defines the principles of the corporate strategy, the mission statement, the business strategy and the organisational structure
- approves the risk policy, equity strategy, group-wide risk and global limits, equity investments and the general framework for group-wide risk management
- establishes and closes branches and establishes subsidiaries
- sets up an internal control system (ICS)
- determines the group and financial planning
- issues guidelines on human resources policy as part of the group strategy
- is informed quarterly on risk concentration in accordance with article 95, paragraph 1, of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers
- is informed of the reporting on country limits
- consults the detailed quarterly reports of the Executive Board
- is regularly informed by the Executive Board of all relevant aspects of risk management
- approves unsecured loans in excess of CHF 1 billion
- is regularly informed of lending transactions that fall within the remit of the Committee of the Board
- approves the annual planning, annual and semi-annual financial statements and the annual report including the compensation report
- hires and dismisses the members of the Executive Board and their deputies, branch managers at senior level, and the Head of Audit and his/her deputy
- decides on the annual distribution of profit to the canton and municipalities

mittee of the Board of Directors, the Committee of the Board (which can take immediate measures), occasionally other bank committees, the members of the Executive Board, other managers and the external auditors.

Audit follows strict quality guidelines and designs its procedures in accordance with recognised international auditing standards – the Standards and the Code of Ethics of the Institute of Internal Auditors (IIA).

Board of Directors Committees

Four committees assist the Board of Directors in its decisions by providing preliminary advice:
– Audit Committee
– Risk Committee
– Compensation and Personnel Committee
– IT Committee

The Board of Directors Committees have no decision-making powers: instead they make proposals and give recommendations. 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 more than one committee are dealt with at joint meetings coordinated by the Committee of the Board. In addition, minutes of the individual committee meetings are submitted to all members of the Board of Directors.

Audit Committee

The Audit Committee supports the Board of Directors in its supervisory and control functions in accordance with section 15a of the Law on Zürcher Kantonalbank, section 32 of the organisational regulations of Zürcher Kantonalbank and FINMA Circular 2017/1 "Corporate Governance – Banks". Within its area of responsibility, it prepares specialist resolutions of the full Board of Directors and, in this regard, is responsible in particular for critically analysing the published annual and interim financial statements of the parent company and group. In addition, the Audit Committee assesses the functionality of the internal control system and appraises the audit plan and reports issued by Audit and the external auditors.

As at 31 December 2020, this Committee comprised Mark Roth (Chairman), Amr Abdelaziz, Adrian Bruhin, Bettina Furrer and René Huber. The Head of Audit, Walter Seif, attends all meetings of the Audit Committee as a permanent guest. The CFO, Rudolf Sigg, participates in portions of each meeting of the Audit Committee.

Risk Committee

The Risk Committee assists the Board of Directors in monitoring the bank's risk management and compliance with regulatory requirements regarding the management of risk. It prepares the corresponding transactions for the Board of Directors.

The Risk Committee provides preliminary advice to the Board of Directors. It evaluates the quality, adequateness and effectiveness of the processes and procedures for identifying, assessing, limiting, controlling, monitoring and managing risks.

As at 31 December 2020, this Committee comprised Henrich Kisker (Chairman), János Blum, Adrian Bruhin, René Huber and Anita Sigg. The Chief Risk Officer, Roger Müller, participates in parts of each meeting of the Risk Committee.

Compensation and Personnel Committee

The Compensation and Personnel Committee (EPA) assists the Board of Directors in connection with the 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 at 31 December 2020, the Compensation and Personnel Committee comprised Peter Ruff (Chairman), Amr Abdelaziz, Jörg Müller-Ganz, Anita Sigg and Stefan Wirth. The Head of Human Resources, Marco Beutler, participates in parts of each meeting of the Compensation and Personnel Committee.

IT Committee

The IT Committee assists and advises the Board of Directors in the handling of all IT issues of strategic importance for the entire bank and provides it with relevant recommendations. For this purpose, it works to obtain a picture of the contribution of IT to the bank's performance. Furthermore, it assesses the cost (run) and investment framework (change) for IT by considering the potential effects on current and future courses of action as well as on business risks. Finally, it assesses the functionality of the management of IT risks with an impact on IT-related investment opportunities and risks.

As at 31 December 2020, the IT Committee comprised Walter Schoch (Chairman), Stefan Wirth, Roger Liebi and Bettina Furrer. The Head of the IT, Operations & Real Estate business unit, Remo Schmidli, participates in parts of each meeting of the IT Committee.

Auditor

Under the Law on Zürcher Kantonalbank, the Cantonal Parliament appoints the external auditors for a two-year period. The external auditors must be recognised by FINMA. On 15 June 2020, the Cantonal Parliament confirmed the appointment of EY (since 1989) as external auditors for 2021 and 2022.

Bruno Patusi has been the lead auditor for the financial audit since 2018. Patrick Schwaller has been the lead auditor for the regulatory audit since 2020.

In the year under review, EY charged CHF 4.1 million for regulatory audits (basic and additional audits), the audit of the annual financial statements of the bank and group companies as well as the consolidated financial statements (2019: CHF 4.2 million). EY charged CHF 13,000 (2019: CHF 20,000) for additional consulting services and CHF 8,000 (2019: CHF 48,000) for audit-related services. Furthermore, EY charged CHF 3.2 million (2019: CHF 3.2 million) via group companies for auditing collective capital investments.

The external auditors work together with Audit and, to the extent permitted, base their work on that of Audit. The tools used to inform the Board of Directors include reports on the regulatory and financial audits as well as reports on any interim audits and summary audits. The external auditors also attend meetings of the Board of Directors or its committees where necessary.

Executive Board

The Executive Board of Zürcher Kantonalbank has nine members. It is headed by Martin Scholl (Chief Executive Officer, CEO). Under section 17 of the Law on Zürcher Kantonalbank, the Executive Board is responsible for managing the bank's operations. The members of the Executive Board occupy 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 members of senior management. The duties of the Executive Board are governed by the law and regulations. Its organisational structure is set out in the regulations governing the Executive Board (group and parent company) of 23 June 2011. Sections 8 to 10 of these regulations govern its joint area of responsibility.

Under section 11 of the regulations, the Chief Executive Officer is responsible for managing the Executive Board, implementing the group mission statement and group strategy, the organisation and management guidelines, 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 and Board of Directors. 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. For information on compensation, profit-sharing and loans, please refer to the Compensation Report. As at 31 December 2020, the Executive Board comprised the following members:

Members of the Executive Board as at 31.12.2020

Martin Scholl	Chairman of the Executive Board Member of the Executive Board	since 01.06.2007 since 01.01.2002
Christoph Weber	Deputy Chairman of the Executive Board Member of the Executive Board	since 01.01.2014 since 01.08.2008
Jürg Bühlmann	Member of the Executive Board	since 01.07.2012
Stephanino Isele	Member of the Executive Board	since 01.04.2014
Heinz Kunz	Member of the Executive Board	since 01.01.2011
Roger Müller	Member of the Executive Board	since 01.01.2014
Daniel Previdoli	Member of the Executive Board	since 01.12.2007
Remo Schmidli	Member of the Executive Board	since 01.07.2019
Rudolf Sigg	Member of the Executive Board	since 27.11.2008

For further information about the individual members of the Executive Board, please see pages 121 ff.

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. They ensure that the bank's legal requirements and strategically defined targets are met. The Committee of the Board is assigned special responsibility for control and monitoring in this regard (sections 9 and 10 of the Guidelines for the Fulfilment of the Public Service Mandate).

The central body is the internal Public Service Mandate Steering Committee, which is chaired by the officer responsible for the public service mandate. The committee 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 Public Service Mandate Steering Committee by a manager with responsibility for the relevant area.

The Public Service Mandate specialist area is part of Corporate Development. It coordinates planning, implementation and reporting with regard to the fulfilment of the public service mandate and all associated activities. It also prepares the business of the Public Service Mandate Steering Committee. Various specialist areas within the individual business units assist with the achievement of objectives.

Focus of the risk strategy and risk profile

For information on the focus of the risk strategy and the risk profile, please see the Risk Report in Note I) to the Consolidated Financial Statements.

Compensation of the members of the Board of Directors and the Executive Board

For detailed information on the compensation of the members of the Board of Directors and the Executive Board and the process underlying the determination of the amounts to be compensated, please see the Compensation Report.

Management contracts

No management contracts as defined in the annex to the SIX Swiss Exchange Directive on Corporate Governance have been concluded by the group or its subsidiaries with any third parties.

Communication policy

Zürcher Kantonalbank pursues a transparent communication policy towards its stakeholder groups. The most important communication tools are the comprehensive annual and sustainability report, the half-yearly report and press conferences. The 2020 annual results were announced on 12 February 2021, and the Annual Report is set to be approved by the Cantonal Parliament on 31 May 2021. The bank's half-yearly results are expected to be published at the end of August 2021.

Activity reports

Committee of the Board

In addition to addressing strategic, planning, organisational and human resources questions as well as issues concerning the 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 lending and limit transactions within its area of responsibility following the applicable regulations, as well as transactions involving potential reputation risk. Members of the Executive Board, the Head of Audit and representatives of the specialist units were regularly invited to attend these meetings. The Committee of the Board met several times in its function as a strategic committee for the Board of Directors. In addition, it continuously dealt with current geopolitical and national events and measures, particularly regarding the Covid-19 pandemic, and their possible effects on the markets and the bank.

The Committee of the Board kept abreast of regulatory changes in the year under review and monitored the development of important bank projects. In addition, it dealt with the succession planning for the Head of Private Banking and key individuals at the bank. In close cooperation with the Department of Finance of the Canton of Zurich, the Committee of the Board initiated a cantonal support programme to help Zurich-based companies cope with the economic crisis caused by Covid-19. In addition, the Committee of the Board decided that the bank will fully support its sponsoring partners in 2020 and 2021, even though they are unable to fulfil their obligations under the sponsorship agreements due to Covid-19.

The Committee of the Board decided on any immediate measures to address objections in audit reports, closely oversaw the monitoring and implementation of regulatory requirements, and dealt with requests addressed to the Board of Directors from both FINMA and the Cantonal Parliament. The Committee of the Board represented the Board of Directors' proposals regarding an increase in endowment capital to the Cantonal Parliament's Finance Committee and regarding the election procedure for the Board of Directors and the Committee of the Board to the Parliamentary Committee for the Supervision of Commercial Undertakings (AWU). It also provided information to the Cantonal Parliament's Committee for Economic Affairs and Taxation with respect to the "Climate Protection" parliamentary initiative.

In order to better promote the interests of Zürcher Kantonalbank among important decision-makers in politics and business, the Committee of the Board maintained contact with FINMA and strengthened its collaboration with the Public Affairs specialist unit founded in 2015. The Committee of the Board maintained a personal dialogue with the Cantonal Parliament of Zurich – particularly with the AWU and executive board – as well as the Government Council of Zurich, the executive authorities of towns and municipalities in the Canton of Zurich, and Zurich's representatives in the National Council and Council of States. It also decided on sponsorship commitments under the public service mandate. It cooperated with the Board of Directors Committees in preparing the substantive resolutions 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. The Committee of the Board represented Zürcher Kantonalbank in regular discussions between bank chairpersons in the context of the Association of Swiss Cantonal Banks, as well as at various representative cultural, political, environmental and business events. Such events occurred infrequently in the year under review due to the Covid-19 pandemic. In accordance with an agreed timetable, the members of the Committee of the Board visited market areas and specialist units.

Board of Directors

As it does every year, the Board of Directors sought guidance on the effects on the bank of national and geopolitical events and conditions on the financial markets. The main focus in the year under review was on the impact of the Covid-19 pandemic, particularly on the lending business. Due to the bank's systemic relevance, the Board of Directors also reviewed its contingency planning in detail and requested the Cantonal Parliament to increase the endowment capital framework by CHF 475 million to meet gone-concern requirements, which the Cantonal Parliament approved on 2 November 2020. The Board of Directors also approved the update of the stabilisation plan. In addition, it obtained more detailed information on the findings of the "Financial Management" project and on the following other topics: start-up and venture financing, capital markets transactions, high frequency/algorithmic trading and the derivatives business of Zürcher Kantonalbank. One meeting of the bank's Board of Directors was devoted primarily to the topic of innovation. A presentation on the bank's various activities in innovative financial technology was made to the Board of Directors at this meeting. The Board of Directors also held a two-day seminar to discuss strategic issues, specifically on the topic "employees of the future".

The Board of Directors adopted a proposal to the Cantonal Parliament to amend the regulations on the preparation of elections for members of the Board of Directors and the Committee of the Board dated 25 November 2013.

In the year under review, the Board of Directors appointed Florence Schnydrig Moser to be the new Head of the Private Banking business unit as of 1 May 2021. It also elected new branch managers for the Volketswil and Eglisau branches, as well as a new Head for the Pawnbroking Agency. Additionally, the Board of Directors pproved the revised job profiles for the management of the individual business units and the Head of Audit.

In the year under review, the Board of Directors approved the sale of parts of Swisscanto Vorsorge AG and thus of the bank's own occupational pension (BVG) management business, as well as the opening of a new branch in Stettbach. The Board of Directors also dealt with various matters subject to the regulations applicable to it regarding proprietary trading, the handling of conflicts of interest and breaches of rules, and the compensation of the members of the Board of Directors and the Committee of the Board. Rolf Walther stepped down from the Board of Directors at the end of September 2020 on reaching retirement age. The Cantonal Parliament elected Adrian Bruhin as his successor on 26 October 2020.

Ten ordinary meetings were held in the presence of the Executive Board and the Head of Audit, some of which were conducted via digital communication channels in view of the Covid-19 protective measures. Representatives of EY attended three meetings. Two members of the Board of Directors also made visits to ten branches and five specialist units.

Audit Committee

In 2020, the Audit Committee held a total of eleven regular meetings lasting several hours and one extraordinary meeting. The CFO was always in attendance when agenda items relating to financial planning, controlling and reporting were discussed. In relation to specific subject matters, the meetings were also regularly attended by the external auditors, the CEO, CRO and Head of Legal, Tax & Compliance. Depending on their importance, various agenda items were discussed in the presence of the Committee of the Board. The relevant management decision-makers were also involved in the discussions on a regular basis where needed.

At each meeting, attention focused on financial reporting (monthly, quarterly, half-yearly and annual reports including disclosures) as well as the external and internal audit reports. A total of 55 internal and 17 external audit reports were discussed. This also involved the assessment of the appropriateness of measures taken by the entities audited and reporting by Audit on the current implementation status of the measures decided.

At several meetings and at the annual workshop organised by Audit, key changes in the risk profile as well as the consequent setting of audit objectives for internal and external auditing were discussed. FINMA also presented its view to the Audit Committee as part of the supervisory risk analysis. It focused in particular on the systematic overall coverage of the supervisory audit universe in a multi-year cycle by internal and external auditors.

Other important activities and those required by the regulator in the year under review included:

- analysis and assessment of reporting on the structure and effectiveness of the internal control system for all business units and subsidiaries of the bank
- discussion of the activity report by Legal, Tax & Compliance and a forward-looking assessment of statutory and regulatory developments
- critical assessment of the regulatory audit report, the comprehensive financial audit report and the special report from the external auditors for the attention of the Parliamentary Committee (AWU) regarding the bank's economic standing with respect to the state guarantee
- assessment of the performance of Audit

– assessment of the performance and compensation of the external auditors

With regard to financial management, the Audit Committee also examined the bank's financial strategic parameters in the year under review. Furthermore, the bank's financial value added was assessed and compared with other banks on the basis of the CFO's annual benchmarking study. Other important topics for the Audit Committee in the year under review included the business performance, the annual and multi-year financial planning, the recognition of allowances for expected losses, and the update of the stabilisation and contingency plan. The Audit Committee was then informed about current developments in the financial industry, such as sustainable finance and the cloud.

The Chairman of the Audit Committee regularly confers with the partners at the external auditors responsible for the regulatory and financial audits, as well as with the Head of Audit and the CFO. He is responsible for setting the Audit Committee's annual targets and for its systematic, thorough and critical self-assessment. He also briefs the Board of Directors – both regularly and ad hoc – on the Committee's activities, as well as on current issues and challenges.

Risk Committee

In the year under review, the Risk Committee met on eight occasions and at one workshop; almost all meetings were attended by the Chief Risk Officer, the Head of Risk Control and the Head of Audit. Depending on the subject matter, other representatives of the specialist areas also attended the meetings. The year under review was dominated by the Covid-19 pandemic. Its impact on the bank's various business areas, in particular the lending business, was a regular topic at the Risk Committee meetings from March onwards. The Committee obtained timely information on the impact of the pandemic on the various risk categories.

It regularly consulted standard reports, stress scenarios and risk reports. The quarterly report by the Chief Risk Officer giving an account of credit, market, liquidity, operating, compliance and reputation risks was an important tool for the Committee in terms of performing its role. It also took note of changes relevant to risk, especially in connection with the mortgage business, international risks, a deterioration in the economic situation and other business areas. The Risk Committee kept itself informed of credit exposures and limits, and periodically sought information about lending and limit transactions that fall within the remit of the Board of Directors in particular. It provided preliminary advice on strategic credit and limit applications and other matters within the remit of the Board of Directors from a risk perspective; it evaluated the appropriateness of our bank's risk management processes at a workshop, the completeness of the risk inventory and the risk profiles for both operational and compliance risk. It also submitted to the Board of Directors recommendations concerning the group-wide risk framework, the requirements of the bank's risk policy and strategic risks. The Risk Committee also examined the findings in the risk-relevant audit reports and noted the minutes of the Risk Committee of the Executive Board.

In the year under review, the Committee again examined the risks of the real estate market and in particular the risks against the backdrop of the Covid-19 pandemic. It also obtained information about new internal developments related to ICS as part of the discussion of the operational risk profile. It monitored international developments in connection with country risks and dealt with the application concerning country categories. In addition, it received regular reports on liquidity risk management, cluster risks, the exposures to central counterparties, the 20 largest exposures and exception-to-policy transactions.

Compensation and Personnel Committee

The Compensation and Personnel Committee met for nine regular meetings and one extraordinary meeting in the year under review, always with the participation of the Head of Human Resources or their deputy. Depending on the topic, the CEO, CFO, Head of Institutionals & Multinationals and other representatives of the specialist units participated in the meetings.

As is standard, the Compensation and Personnel Committee attended to succession planning, the implementation of the human resources strategy and, in particular, matters related to compensation, promotions, disciplinary cases and dismissals, and staff training and development. For the Annual Report, it reviewed the Compensation Report and dealt with the compensation of the Executive Board, trading-related bonuses, the implementation of the group-wide salary and bonus system, and the parameters for the 2020-2022 long-term deferred component. The Compensation and Personnel Committee also obtained information from external consultants on developments in compensation systems and, based on this information, judged the bank's existing compensation system to be state-of-the-art.

The Compensation and Personnel Committee prepared the recruitment process for a replacement for the Head of the Private Banking business unit as of 1 May 2021 and, together with the Committee of the Board, submitted the replacement proposal to the Board of Directors. It also dealt with the proposals for the appointment of new branch managers for the Eglisau and Volketswil branches, as well as the Head of the Pawnbroking Agency. In the year under review, the Compensation and Personnel Committee again examined measures aimed at increasing the percentage of women in management positions. It also obtained ideas externally in this regard.

IT Committee

The IT Committee held five regular meetings and one training event in the year under review. The Head of the IT, Operations & Real Estate business unit informed the Committee about the new IT strategy ("IT of the Future") and the defined development steps. In addition, portfolio planning and the financial management of IT were dealt with in several meetings. In this context, the IT Committee was informed about the methodology for determining the benefits realised from the optimisation of business processes.

Due to the upcoming strategic decisions on the use of cloud computing, the Committee examined this topic intensively. Internal and external experts gave presentations on the development of the market, concrete case studies, legal and regulatory framework conditions, security aspects and IT's procedural plans.

The IT Committee examined strategic IT reports in detail on a quarterly basis. The Chairman of the IT Committee provided the Board of Directors with a report in each case. These reports included the key indicators for IT as well as the status of the most important IT programmes. In this respect, the committee obtained guidance on the strategic focal points in the portfolio from individuals directly responsible for them. These strategic focal points include the programmes "EDM" (document management) and "Regulatory and Risk-oriented Filters in Payment Transactions".

The IT Committee dealt with matters related to IT security and IT compliance on a regular basis. It was informed, for instance, about the security roadmap and the security architecture. Presentations were made to the Committee regarding the projects "Web Isolation", "Data Recovery", "Secure Development Lifecycle (SDL)", "Developer Workplace (EAP)", "eMail Security" and "eChannel Security". It also gained in-depth insight into a cyber attack exercise and the activities to be performed by investigators if cyber incidents occur. In total, the IT Committee dealt with fifteen audit reports relevant to IT and was regularly informed of the status of the audit firm's findings.

For the purpose of gaining an overview of important IT matters, the Committee dealt with information management and digital ledger technology (DLT). Other focal points were teleworking, taking security aspects into account, and Swisscanto's sourcing model.

Committee of the Board

Jörg Müller-Ganz

Chairman
Dr. oec. HSG Swiss/German national; born in 1961

Key mandates: Member of the Boards of Trustees of Innovationspark, Zurich, Zurich Zoo, Zurich, and ETH Foundation, Zurich; member of the Boards of Directors of Technopark Immobilien AG, Zurich, and Opo Oeschger AG, Kloten

Dr. oec. Jörg Müller-Ganz, who holds a doctorate in economics from the University of St. Gallen, was elected to the Board of Directors in 2007 and the Committee of the Board in October 2010. From 1992 to 2010, he worked as a 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. He is a member of the Compensation and Personnel Committee of the Board of Directors of Zürcher Kantonalbank. He was appointed Chairman of the Board of Directors of Opo Oeschger AG, Kloten, in 2015.

János Blum

Deputy Chairman
Dr. sc. math. ETH and lic. oec. HSG Swiss/Hungarian national; born in 1957

Key mandates: Chairman of the Management Committee and employer representative of the Pension Fund of Zürcher Kantonalbank, Zurich; Chairman of the Board of Trustees and employer representative of the Marienburg Foundation of Zürcher Kantonalbank, Zurich; member of the Boards of Trustees of the Center for Corporate Responsibility and Sustainability at the University of Zurich, Zurich, and the Chance foundation, Zurich; Chairman of the Board of Directors of Theater Winterthur AG, Winterthur; partner in Blum Real GmbH, Hungary

János Blum, who holds a doctorate in mathematics from ETH Zurich and a master's degree in economics from the University of St. Gallen, was elected to the Board of Directors in 2002 and to the Committee of the Board in 2011. From 1989 to 2011, he worked as an actuary. Following various roles with Swiss Re, he was appointed Chief Actuary at Zurich Re and subsequently at Allianz Risk Transfer. He went on to work for Milliman AG and as partner for Prime Re Solutions AG, which both specialise in business consulting in the insurance and finance sectors. He has served as Chairman of the Board of Directors of Theater Winterthur AG since August 2019 and, since 2015, he has been Chairman of the Board of Trustees of the Pension Fund and the Marienburg Foundation of Zürcher Kantonalbank, as well as a member of the Zürcher Kantonalbank Risk Committee, which he chaired between 2003 and 2011. Dr János Blum is a partner in Blum Real GmbH, Hungary.

Roger Liebi

Deputy Chairman
Banker, BoD certification from SAQ Swiss national; born in 1961

Key mandates: Board of Trustees of the Excellence Foundation for Economic & Social Research at the University of Zurich, Zurich; Board of Trustees of the BlueLion Incubator, Zurich; Member of the Advisory Board of Umwelt Arena Schweiz, Spreitenbach

Roger Liebi was elected to the Committee of the Board in June 2019 to succeed Bruno Dobler. He has been a member of the Board of Directors since 2018. He started his professional career in 1981 at the Union Bank of Switzerland in Thun. He then went on to gain more experience in commerce, the retail client business and as a foreign exchange and money market dealer in Thun, Gstaad, Berne and Neuchatel. Next, his path led him to a position with the rank of Vice-Director in the world of international private banking. From 2004 to 2015, for instance, he worked for the partially state-owned Scandinavian Nordea Bank (Switzerland) as regional manager in charge of several countries. In 2017, Roger Liebi became a self-employed executive search consultant and sports agent. In addition to this, he was also active in the Zurich Banking Association, in entrepreneur groups and as the chairman of an NGO. He was a member of Zurich City Parliament from 2002 to 2017. From 2015 to 2018, Roger Liebi served as a member of the Cantonal Parliament, where he headed up the Committee for Economic Affairs and Taxation of the Cantonal Parliament of Zurich. He is a member of the IT Committee of the Board of Directors of Zürcher Kantonalbank.

Board of Directors

Amr Abdelaziz

Member of the Board of Directors
lic. iur. attorney-at-law Swiss/Egyptian national; born in 1977

Key mandates: None

Amr Abdelaziz studied law at the University of Zurich and the University of Geneva, and completed a Master of European Law degree (L.L.M.) at the College of Europe in Bruges, Belgium. He was elected to the Board of Directors in 2015. From 2007 to 2015, he worked as a lawyer at CMS von Erlach Poncet AG, Zurich, specialising in cartel investigations. He now runs his own law firm in Zurich. He is a member of the Audit Committee and the Compensation and Personnel Committee of the Board of Directors of Zürcher Kantonalbank.

Adrian Bruhin

Member of the Board of Directors
Prof. Dr. oec.
Swiss national; born in 1981

Key mandates: None

Adrian Bruhin was elected as a new member of the Board of Directors in October 2020. He studied at the University of Zurich and earned a doctorate in economics. From 2010 to 2012, he worked as a senior economist in the Financial Stability department at the Swiss National Bank in Berne. From 2012 to 2016, he was an assistant professor, and since 2016 he has been a full professor of economics at the University of Lausanne. Adrian Bruhin is an external scientific advisor at Polynomics AG, Olten. He is a member of the Audit and Risk Committee of the Board of Directors of Zürcher Kantonalbank.

Bettina Furrer

Member of the Board of Directors
Dr. sc. ETH Zurich and Prof. ZFH Swiss national; born in 1970

Key mandates: Member of the Board of Directors of Technopark Winterthur AG, Winterthur (until 31.12.2020)

Bettina Furrer has been a member of the Board of Directors since June 2019. She studied environmental science at the Swiss Federal Institute of Technology Zurich and earned a doctorate in economics. She also completed the Executive Management Programme at the Swiss Banking School, Zurich, with distinction. From 1995 to 2003, she held a management position with the rank of Vice President at UBS AG. She was subsequently employed by Zurich University of Applied Sciences, Winterthur, where she served as a lecturer (2004–2011) as well as a professor and Head of the Institute of Sustainable Development (2012–2018). As a member of the Sustainability Advisory Board, she advised the management of Basler Kantonalbank, Basel, and Bank Cler, Basel, from 2016 to 2019. She has been Head of Urban Development at the city of Winterthur since December 2020. She is a member of both the Audit Committee and the IT Committee of the Board of Directors of Zürcher Kantonalbank.

René Huber

Member of the Board of Directors
Swiss certified banking expert
Swiss national; born in 1956

Key mandates: Mayor of the political municipality of Kloten; Chairman of the Board of Directors of the Glatt Valley transport authority (Verkehrsbetriebe Glattal AG), Glattbrugg; member of the Board of Directors of Seitzmeir Immobilien AG, Zurich

René Huber has been a member of the Board of Directors since 1 November 2014. He has served as the Mayor of Kloten since 2006, and has been Chairman of the Board of Directors of the Glatt Valley transport authority, Glattbrugg, since 2011, and a member of the Board of Directors of Seitzmeir Immobilien AG, Zurich, since 2016. He was a senior advisor for retail clients at UBS AG in Kloten until October 2014, after having occupied various roles at UBS AG. René Huber is a member of the Management Committee (as employer representative) of the Pension Fund of Zürcher Kantonalbank, and a member of the Audit Committee and Risk Committee of the Board of Directors of Zürcher Kantonalbank.

Henrich Kisker

Member of the Board of Directors
Swiss Certified Accountant Swiss/German national; born in 1955

Key mandates: Directorships in certain group companies of Senior plc, Rickmansworth (UK); Delegate of the Boards of Directors of NF Technology Holding AG, Zurich, and its subsidiaries; Schmid & Partner Engineering AG, Zurich; ZMT Zurich; MedTech AG, Zurich; and TI Solutions AG, Zurich

Henrich Kisker is a Swiss Certified Accountant. He was elected to the Board of Directors in 2015. From 1992 to March 2017, he held the position of Director of Tax and Treasury at Senior plc, Rickmansworth (UK). Between 1989 and 1992, he worked as Lead Auditor for Arthur Andersen AG, Zurich. He chairs the Risk Committee of the Board of Directors of Zürcher Kantonalbank.

Mark Roth

Member of the Board of Directors
Swiss Certified Accountant Swiss national; born in 1974

Key mandates: Board of Directors of Budliger Treuhand AG, Zurich; Board of Directors of BTAG Management AG, Zurich; Board of Directors of Treuhandgesellschaft Hebeisen Kälin AG, Zurich; Board of Directors of Theodor Zemp AG, Zurich; Board of Directors of Prewo AG and Prewo Wohnbau AG, Zurich; Board of Directors of Delta Technik AG, Zug

Mark Roth has been a member of the Board of Directors since 2013. He has been a member of the Board of Trustees of the Hartmann Müller Foundation for Medical Research at the University of Zurich since 2020. Since 2019, he has been a member of the Board of Directors of Theodor Zemp AG, Zurich; and since 2018 the Chairman of the Board of Directors of Prewo AG and Prewo Wohnbau AG, Zurich, and a member of the Board of Directors of Energy Invest Consulting AG, Zurich; since 2017, a member of the Board of Directors of BTAG Management AG, Zurich; since 2016, a member of the Board of Directors of Delta Technik AG, Zug; and since 2014, a member of the Board of Directors of Budliger Treuhand AG, Zurich, and Treuhandgesellschaft Hebeisen Kälin AG, Zurich. He has been a member of the Executive Board and Head of Auditing for Budliger Treuhand AG in Zurich since 2009. Prior to this, he worked for Itema (Switzerland) Ltd. in Rüti and Ernst & Young, Zurich, in both Zurich and Amman (Jordan). Mark Roth is Chairman of the Audit Committee of the Board of Directors of Zürcher Kantonalbank.

Peter Ruff

Member of the Board of Directors
dipl. Ing. FH Swiss national;
born in 1956

Key mandates: Member of the Boards of Directors of Exploris AG, Zurich, and Exploris Health AG, Zurich; partner in Unimex GmbH, Zug

Peter Ruff joined the Board of Directors in 2011. He is a qualified engineer and has been CEO and co-owner of Exploris Health AG since 2018, a company that develops artificial intelligence-based diagnostics and therapy solutions. Since 2002, he has been the owner and managing director of Exploris AG, which specialises in data analysis in the healthcare sector. From 1994 to mid-2017, he was a member of the Board of Directors and co-owner of Ruf Group, an information technology business. In 2019 he was elected as a member of the Board of Trustees of the Marienburg Foundation of Zürcher Kantonalbank. He has been a member of the Management Committee and employer representative of the Pension Fund of Zürcher Kantonalbank since 2015. Peter Ruff chairs the Compensation and Personnel Committee of the Board of Directors of Zürcher Kantonalbank.

Walter Schoch

Member of the Board of Directors
dipl. El. Ing. FH Technikum Winterthur; MA in Theology at the University of Lampeter, UK Swiss national;
born in 1956

Key mandates: Member of the Board of Trustees of Bibelheim Männedorf

The engineer and theologian Walter Schoch was elected to the Board of Directors in 2015. He was a member of the Cantonal Parliament from 2007 to 2015 and serves as Justice of the Peace in the municipalities of Bauma, Wila and Wildberg. After working for BBC Oerlikon as a project manager (1982 to 1983) and for Imeth AG, Wetzikon, as technical director (1983 to 1987), he worked for Swisscom AG, Zurich, from 1987 to 2003 as key account manager, senior project manager and divisional director. In 2005, Walter Schoch began his studies at the University of Lampeter in the UK, while simultaneously managing the MEOS Media department at MEOS Svizzera. From 2007 to 2010, he headed up the Swiss Mission Fellowship's office in Winterthur. Since 2019, he has been a substitute member of the Management Committee and employer representative of the Pension Fund of Zürcher Kantonalbank. He chairs the IT Committee of the Board of Directors of Zürcher Kantonalbank.

Anita Sigg

Member of the Board of Directors
lic. oec. publ.
Swiss national; born in 1966

Key mandates: Member of the awards committee of Sustainable Harvest Switzerland, Zurich; member of the 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, project manager and Head of the Centre for Banking and Finance at the Zurich University of Applied Sciences in Winterthur. In addition, the economist is a trustee of the Ökopolis Foundation and a member of the association FinanceMission. She previously held various management positions at Zürcher Kantonalbank within the Corporate Centre and in sales management. Anita Sigg is a member of the Risk Committee and the Compensation and Personnel Committee of the Board of Directors of Zürcher Kantonalbank.

Audit

Stefan Wirth

Member of the Board of Directors
dipl. Ing. ETH/BWI Swiss national; born in 1961

Key mandates: 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 and of the Compensation and Personnel Committee of the Board of Directors of Zürcher Kantonalbank.

Walter Seif

Head of Audit
Swiss Certified Accountant; graduate in business management
Swiss/UK national; born in 1962

Key mandates: Chairman of the Internal Audit Association of the Swiss Cantonal Banks; member of the Board of Directors of the Institute of Internal Auditing Switzerland (IIAS)

Walter Seif has held the position of Head of Audit since 1 January 2015. He joined Zürcher Kantonalbank in April 2014. He previously worked in various internal audit roles at a major bank over a period of 23 years.

Executive Board

Martin Scholl

Chief Executive Officer (CEO)
Swiss certified banking expert
Swiss national; born in 1961

Key mandates: Member of the Board of Directors of the Swiss Bankers Association, Basel; member of the Board of Directors of the Association of Swiss Cantonal Banks, Basel; Chairman of the Board of Directors of ZüriBahn AG, 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 Commercial and Corporate Clients. 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; Chairman of the Board of ZüriBahn AG, Zurich; member of the Board of Directors of Venture Incubator AG, Zug; and member ofthe Board of Trustees of the FCZ Museum Foundation, Zurich.

Christoph Weber

Head of Private Banking, Deputy Chairman of the Executive Board
Swiss certified banking expert
Swiss national; born in 1959

Key mandates: 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 responsible for sales to institutional and retail clients, and a member of senior management at Basellandschaftliche Kantonalbank (BLKB). Christoph Weber is Chairman of the Supervisory Board of Zürcher Kantonalbank Österreich AG, Salzburg.

Jürg Bühlmann

Head of Corporate Banking
Dr. oec. publ.
Swiss national; born in 1967

Key mandates: Member of the Board of Directors of SIX Group

Dr Jürg Bühlmann has headed the Corporate Clients business unit since 1 January 2020. From 2012 to June 2019, he managed the Logistics business unit as a member of the Executive Board. He studied business management at the University of Zurich, where he gained a doctorate. His initial role with Zürcher Kantonalbank was in Controlling. From 2002 until his appointment as a member of the Executive Board, he held a variety of positions within the Logistics business unit. His main duties were the management of strategic IT projects, a sub-area of the IT unit and the Real Estate unit.

Stephanino Isele

Head of Institutionals & Multinationals
Dr. oec. publ.
Swiss national; born in 1962

Key mandates: Member of the Board of Directors of Swisscanto Holding Ltd.; Vice Chairman of the Boards of Trustees of Swisscanto Anlagestiftung, Zurich, and Swisscanto Anlagestiftung Avant, Zurich; Deputy Chairman of the Regulatory Board of SIX Swiss Exchange AG, Zurich; member of the Advisory Board of Zurich University's Department of Banking and Finance (IBF); member of the Board of Trustees of the Swiss Finance Institute, Zurich

Dr Stephanino Isele has been Head of Institutionals & Multinationals since 1 April 2014. He joined Zürcher Kantonalbank on 1 January 2008 as the Head of Trading, Sales & Capital Markets after holding various national and international roles at J.P. Morgan & Co. and Morgan Stanley in London, most recently as COO, where he dealt with equity derivatives. He has been Vice Chairman of the Boards of Trustees of Swisscanto Anlagestiftung, Zurich, and Swisscanto Anlagestiftung Avant, Zurich, since 2017. He has been Vice Chairman of the Board of Directors of Swisscanto Holding Ltd. since 2018. He is a member and (since 2021) the Deputy Chairman of the Regulatory Board of SIX Swiss Exchange AG, Zurich; a member of the Advisory Board of Zurich University's Department of Banking and Finance (IBF) (since 2015); and a member of the Board of Trustees of the Swiss Finance Institute, Zurich (since 2014).

Heinz Kunz

Special mandates
Swiss certified banking expert
Swiss national; born in 1961

Key mandates: Chairman of the Board of Directors of Swisscanto Pensions Ltd., Zurich; PFS Pension Fund Services AG, Opfikon; member of the Board of Directors of Swisscanto Holding Ltd.; Verve Capital Partners AG, Zug; member of the Board of Directors of the Swiss Banks' and Securities Dealers' Deposit Guarantee Association, Basel

Heinz Kunz was at the helm of Corporate Banking from the start of 2011 until the end of 2019. He had previously worked as Deputy Head of the unit and was responsible for key account management for corporate clients. After completing his apprenticeship in banking at Zürcher Kantonalbank, Heinz Kunz was employed in various roles, including Head of Corporate Banking for the Unterland region and from 2001 Head of Sales for Business and Corporate Clients. Since 2020, Heinz Kunz has been Chairman of the Board of Directors of PFS Pension Fund Services AG as well as a member of the Board of Directors of Verve Capital Partners AG. He has been a member of the Board of Directors of Swisscanto Holding Ltd since 2016, and Chairman of the Board of Directors of Swisscanto Pensions Ltd., Zurich, since 2015. He is a representative of the Association of Swiss Cantonal Banks (ASCB), Chairman of the Swiss Bankers Association's Management Committee for Retail Banking, and a member of the Board of Directors of the Swiss Banks' and Securities Dealers' Deposit Guarantee Association (esisuisse), Basel.

Roger Müller

Chief Risk Officer (CRO)
Swiss certified banking expert
Swiss national; born in 1962

Key mandates: None

Roger Müller has been serving as Chief Risk Officer since 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, mainly in commercial lending and corporate banking. From 2000, he headed up credit office analysis in Corporate Banking.

Daniel Previdoli

Head of Products, Services & Direct Banking
lic. rer. pol. Swiss national; born in 1962

Key mandates: Chairman of the Board of Directors of Swisscanto Fund Management Company Ltd., Zurich; member of the Boards of Directors of Swisscanto Holding Ltd., Zurich; TWINT AG, Zurich; Viseca Holding AG, Zurich; Viseca Payment Services SA, Zurich; Deputy Chairman of the Greater Zurich Area Foundation Board, Zurich.

Daniel Previdoli has been a member of the Executive Board since 2007. He became Head of Products, Services & Direct Banking on 1 October 2014 after having led the Retail Banking business unit. Prior to that, he spent 11 years with UBS, as Head of Recovery Management Primaries between 1996 and 2002 and subsequently as Head of Retail and Corporate Banking for the Zurich region. From 1987 until 1996, he held various positions with Credit Suisse, both in Switzerland and abroad. Daniel Previdoli is Chairman of the Board of Directors of Swisscanto Fund Management Company Ltd., Zurich. He is a member of the Boards of Directors of TWINT AG, Zurich, Swisscanto Holding Ltd., Zurich, Viseca Holding AG, Zurich, Viseca Payment Services SA, Zurich; and Deputy Chairman of the Greater Zurich Area Foundation, Zurich.

Remo Schmidli

Head of IT, Operations & Real Estate
Computer science graduate, Executive Master of Business Administration ZFH from the University of Applied Sciences, Zurich
Swiss national; born in 1978

Key mandates: Member of the Board of Directors of Swiss Fintech Innovations

Remo Schmidli has been Head of IT, Operations & Real Estate and a member of the Executive Board since 1 July 2019. Prior to that, he held a variety of positions at Zürcher Kantonalbank, including in the areas of IT and project management, starting in 2001. He took charge of Multichannel Management in the Products, Services & Direct Banking business unit in 2014. He has been a member of the Board of Directors of Swiss Fintech Innovations since 2016.

Rudolf Sigg

Chief Financial Officer (CFO)
Swiss certified banking expert; Swiss certified accountant and controller
Swiss national; born in 1961

Key mandates: Chairman of the Board of Directors of Swisscanto Holding Ltd., Zurich; member of the Board of Directors of the Central Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich; member of the Management Committee and employer representative of the Pension Fund of Zürcher Kantonalbank, Zurich; Chairman of the Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3 foundations of Zürcher Kantonalbank, Zurich; member of the Board of Trustees and employer representative of the Marienburg Foundation of Zürcher Kantonalbank

Rudolf Sigg has been a member of the Executive Board since 2008. He currently heads the Finance business unit after having been Head of Controlling & Accounting. For 12 years, he had overall responsibility for Controlling, which also included Central Risk Controlling from 2000 to 2008. Rudolf Sigg joined Zürcher Kantonalbank in 1977. He is Chairman of the Board of Directors of Swisscanto Holding Ltd., Zurich, a member of the Board of Directors of the Central Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich, a member of the Management Committee of the Pension Fund of Zürcher Kantonalbank, Zurich, Chairman of the Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3 foundations of Zürcher Kantonalbank, and a member of the Board of Trustees of the Marienburg Foundation of Zürcher Kantonalbank.

Compensation Report

Our compensation model is in line with the market and based on performance. It is geared towards the long-term financial interests of Zürcher Kantonalbank.

Basic principles

As a public-law institution, Zürcher Kantonalbank aligns its compensation policy to Art. 663b^{bis} of the Swiss Code of Obligations, the SIX Swiss Exchange directives on corporate governance and the Swiss Code of Best Practice for Corporate Governance.

In accordance with the SIX directive, variable compensation is charged on an accrual basis, i.e. to the financial year in which it is actually incurred. Total personnel expenses include all cash compensation, deferred components of the variable compensation and changes in their value, employer contributions to the pension fund and the AHV (old-age and survivors' insurance), as well as other mandatory social security contributions. The compensation guidelines are set out in the Personnel and Compensation Regulations issued by the Board of Directors for Zürcher Kantonalbank and apply throughout the group. The procedures for determining compensation are structured and documented by the group companies. This Compensation Report refers to the parent company of Zürcher Kantonalbank. The compensation paid by the consolidated subsidiaries also fulfils the relevant requirements in an appropriate manner.

Competencies

Under the Law on Zürcher Kantonalbank, responsibility for the ultimate supervision of Zürcher Kantonalbank lies with the Cantonal Parliament of Zurich, which is also responsible for approving the regulations governing the compensation of members of the Board of Directors. The Board of Directors issues regulations governing the compensation of the members of the Board of Directors, subject to approval by the Cantonal Parliament.

The Board of Directors also issues the Personnel and Compensation Regulations for Zürcher Kantonalbank in accordance with the requirements set out in FINMA Circular 2010/1 "Remuneration Schemes". The Compensation and Personnel Committee assists the Board of Directors in matters concerning the compensation policy. It prepares the corresponding transactions for the Board of Directors, gives its view on compensation issues that fall within the remit of the Committee of the Board and Board of Directors, and reviews the market conformity of compensation for the bank as a whole. The Compensation

Competencies and responsibilities

Competencies	Body responsible
Compensation for the Committee of the Board and other members of the Board of Directors	Cantonal Parliament, based on proposal of the Board of Directors
Setting up or amending compensation plans	Board of Directors, based on recommendation of the Compensation and Personnel Committee
Determining total amount of variable compensation	Board of Directors, based on recommendation of the Compensation and Personnel Committee
Compensation for CEO	Board of Directors, based on proposal of the Committee of the Board
Compensation for members of the Executive Board	Board of Directors, based on proposal of the Committee of the Board
Compensation for Head of Audit	Board of Directors, based on proposal of the Committee of the Board
Compensation for senior management	Executive Board

and Personnel Committee has the following duties and powers for determining compensation policy:

- making recommendations to the Board of Directors on the strategic and human resource policy principles of the pension funds from the employer's viewpoint
- making recommendations on principles concerning the compensation of members of the Executive Board and Audit, as well as any profit-sharing and benefit programmes
- evaluating the bank's compensation system, specifically with regard to its sustainability and the avoidance of false incentives

In the year under review, the Compensation and Personnel Committee took part in six meetings at which compensation-related issues at Zürcher Kantonalbank were discussed. It arranged to have an external consultant make a presentation on the current developments in research and practice, from which it judged the bank's existing compensation system to be state-of-the-art.

Compensation policy

Zürcher Kantonalbank's compensation policy is aligned with the bank's business strategy, objectives and values. It takes into account the long-term financial interests of the bank and supports solid and effective risk management. It is up to the Board of Directors to reconcile the interests of the Canton of Zurich with those of Zürcher Kantonalbank and its employees. The compensation policy is also aimed at attracting and retaining highly qualified employees in the long term. Through our compensation policy, we recognise outstanding performances and motivate employees to continue their professional development. Accordingly, the compensation system of Zürcher Kantonalbank does not create any incentives to take inappropriate risks that might affect the bank's stability or good reputation. Any compensation (professional or attendance fees, etc.) received for acting as a delegate or representative of the bank must be surrendered to Zürcher Kantonalbank. Any reimbursed expenses are retained by the appointee. Zürcher Kantonalbank's principles of compensation are based on the following objectives:

- promoting close cooperation within management and ensuring that all actions are undertaken in the interests of the bank as a whole as well as its integrated business and risk model
- motivating employees to create lasting added value while taking account of the risks
- promoting a performance-led environment for the benefit of the company as a whole
- ensuring that variable compensation is adjusted for risk and only income that is sustainable in the long term is included
- offering competitive, balanced compensation for comparable jobs

Benchmarks

Zürcher Kantonalbank attaches great importance to offering compensation that is competitive within the industry in terms of structure and level. To this end, it conducts annual market comparisons in collaboration with Willis Towers Watson, SwissICT, Kienbaum and other specialist consultancy firms, comparing itself with other Swiss financial institutions. For senior managers, additional compensation parameters are taken into account, such as the size of the organisation, number of employees, hierarchy, depth of the organisation, geographical reach and internationality. Additional parameters may be used if necessary.

Sign-on and severance payments

Payments agreed in connection with the signing of an employment contract such as guaranteed bonuses or bonus buyouts are referred to as sign-on payments. Zürcher Kantonalbank agrees to such payments only on an exceptional basis and only in justified individual cases. Payments agreed in connection with the termination of an employment relationship are referred to as severance payments. Zürcher Kantonalbank's employment contracts do not contain any pre-agreed severance payments or notice periods that differ from the general terms and conditions of employment. Both sign-on and severance payments must be approved by the Committee of the Board on the basis of clear decision-making processes. The sign-on and severance payments agreed in the year under review are shown in the figure below.

Compensation groups

Board of Directors

The compensation of the members of the Board of Directors and the Committee of the Board is based on the regulations governing the compensation of members of the Board of Directors of Zürcher Kantonalbank, as approved by the Cantonal Parliament of Zurich on 25 November 2004. In principle, these regulations are identical to those prevailing in 1989 (Committee of the Board) and 1994 (Board of Directors). Part-time members of the Board of Directors receive a fixed annual salary plus compensation for each membership of a committee as well as an expense allowance. An attendance fee is paid for meetings, visits to specialist units and branch offices, as well as for training and development events. No variable compensation is paid to the members of the Board of Directors.

Committee of the Board

The members of the Committee of the Board are full-time members of the Board of Directors. They each receive a fixed annual base salary, an expense allowance as well as the benefits set out in the relevant regulations for all Zürcher Kantonalbank employees. The Chairman receives an additional allowance of 10 percent of his annual base salary. No variable compensation is paid to the members of the Committee of the Board.

Audit

In view of Audit's special function, the Head of Audit and employees at the second most senior level of management who report directly to him do not receive any variable compensation. Their entire compensation takes the form of a fixed annual salary.

Executive Board

Compensation for the members of the Executive Board is based on Zürcher Kantonalbank's overall compensation policy. A variable element is paid depending on the group's result. Part of the variable compensation takes the form of a benefit deferred for three years.

Senior management

Senior management has a sustained influence on the bank's business operations (risks, image, etc.), on the group's result and therefore on the implementation of the strategy. Senior management accounts for approximately 1 percent of the total headcount. As with the Executive Board, variable compensation is paid in addition to the base salary. The variable compensation is linked to the group's result and individual managers' performance. Part of the variable compensation (long-term deferred component) is deferred as in the case of the Executive Board.

2020 Agreed sign-on and severance payments

in CHF 1,000	No. of employees	Total	Paid in 2020	Amounts due in 2021 or later
Total sign-on payments	6	793	78	715
– of which Key Risk Takers	3	700	–	700
Total severance payments	–	–	–	–
– of which Key Risk Takers	–	–	–	–
Total compensation	6	793	78	715

Other management and employees

In principle, all the bank's employees are entitled to a variable element of compensation for good performance. Selected employees in the Trading, Sales & Capital Markets organisational unit (OU) are subject to a different compensation model, under which part of their variable compensation is deferred and exposed to future risk development.

Key Risk Takers

In accordance with FINMA guidance, one of the compensation groups is defined as Key Risk Takers, which is subject to the rules for deferred variable compensation. Key Risk Takers are:

- the Executive Board
- members of senior management with a substantial influence on the resources of the business and / or risk profile
- selected employees in the Trading, Sales & Capital Markets OU who exceed a defined threshold in relation to variable compensation

A total of 93 employees are currently defined as Key Risk Takers, of whom nine were members of the Executive Board in the year under review.

Components of compensation

In term of its compensation policy, Zürcher Kantonalbank applies the total compensation approach, which comprises the following compensation component

Components of compensation

Base salary	Contractually agreed, regularly paid salary
Variable compensation	Variable component of salary that is contingent on result and performance
Deferred variable component	Element of compensation based on sustainable success of the business deferred for a longer period
Statutory allowances and additional benefits	Child and education allowances, family allowances (Agreement on Conditions of Employment for Bank Staff), allowances under the Employment Act, expense allowances, allowance for years of service, etc.

The base salary, variable compensation and deferred components are explained in greater detail below.

Base salary

Zürcher Kantonalbank tends to align its base salaries with median values for the industry. The findings of salary comparisons serve, among other things, to determine individual salaries. Base-salary levels are usually reviewed annually. The amount of the base salary is determined by the employee's position, experience and skills, and takes account of their individual sustainable performance. Adjustments are made to reflect market conditions, affordability, individual performance and the overall financial position of Zürcher Kantonalbank.

Variable compensation

Variable compensation is a central element of the bank's compensation practices and offers flexibility in making adjustments to reflect a change in the business situation. The parent bank's pool for variable compensation is based on the group's result, with capital and risk costs taken into account. The variable compensation for Trading is determined on the basis of its operating result less risk and capital costs. The amount of variable compensation allocated to each employee depends on their position, individual performance and conduct. Variable compensation is set by the bank and may be forfeited in full at its discretion due to inadequate individual performance, staff misconduct (for details, see Penalty clause) or a poor business result. The thresholds for deferred compensation components are in line with the risk profile of Zürcher Kantonalbank.

Variable compensation component deferred for three years

For members of the Executive Board and senior management, part of the variable compensation takes the form of a benefit deferred for three years. The targets for each series of these deferred benefits are set in advance and apply for the entire term. The value of the variable compensation component deferred for three years at the end of the term is determined by the achievement of targets, which in turn is dependent on the level of economic profit. The maximum value is set at 1.5 times its original amount and the minimum at 0.5 times. In the event that internal cumulated net income over the three-year deferral period is negative, the value of the deferred variable compensation component is reduced to zero.

Deferred variable compensation exposed to risk

For certain employees in the Trading, Sales & Capital Markets OU who bear greater responsibility in terms of results and risks and whose variable compensation exceeds a defined threshold, a portion of this variable compensation is deferred for two years and exposed to risk. The CEO and Head of Human Resources, who are both independent of the Trading, Sales & Capital Markets OU, may impose a penalty, i.e. a reduction or forfeiture of the deferred variable compensation exposed to risk for individual employees, particularly in the event of:

- significant financial losses at department, desk or individual level
- reputational damage or actions that may be detrimental to Zürcher Kantonalbank, such as activities that breach regulations and result or may result in sanctions being imposed by FINMA
- activities that cause significant numbers of clients to leave the bank or inappropriate risk-taking outside of the ordinary risk processes

Consideration of risks

Risk-adjusted variable compensation pool

Two different methods are used for the risk adjustment of the variable compensation pools. The variable compensation pool of the parent bank is based on the consolidated result after adjusting for risk costs. Risk costs take into account standard risk costs as well as the cost of risk capital or cost of equity.

The model for standard risk costs is based on the default rates for an entire economic cycle. This evens out the annual default risk costs, which would otherwise be irregular. By taking account of standard risk costs, the annual accounts include risk costs arising from current business volumes under the model. This means that management decisions to focus on specific products or markets immediately incur the relevant risk costs. Using this procedure ensures that the basis for calculating the variable compensation pool is geared towards sustainable growth for the bank. As equity compensation, an interest rate at market terms is applied to the total amount of equity.

The size of the variable compensation pool for Trading is calculated on the basis of the result for the Trading, Sales & Capital Markets organisational unit, adjusted for the default and market risk costs of the individual trading desks. These are calculated on the basis of the standard risk costs for default risks and on the cost of risk capital in accordance with internal models for default as well as market risks (internal capital-at-risk models). The capital-at-risk approach is used to determine the internally required capital that is tied up for a year on account of market and default risks in connection with trading activities. The maximum risk capital available for trading activities is allocated by the Board of Directors on an annual basis, taking into account the bank's strategic direction and capital planning for the coming years. This risk capital is charged to the result of the Trading, Sales & Capital Markets organisational unit using a customary interest rate.

Overview of variable compensation

	Recipient	Due	Sunset clause	Performance, penalty clause	Performance-related[1]
Variable compensation	Permanent employees	Immediately	Yes	Dependent on individual performance; may be cancelled altogether in the event of misconduct.	Yes
Variable compensation component deferred for three years	Executive Board, senior management	Payment after three years	Yes	Amount of cash sum paid out on due date depends on development of economic profit.	Yes
Deferred variable compensation exposed to risk	Certain employees in the Trading, Sales & Capital Markets OU	Payment in equal shares over two years	Yes	Amount of cash sum paid out on due date depends on whether a penalty has been imposed.	Yes

1 Taking capital and risk costs into account

Determining the compensation for control functions

For the purpose of efficient risk monitoring, Legal, Tax & Compliance, Risk, Finance and Human Resources must be able to perform their control and escalation tasks independently. Therefore, their compensation does not directly depend on the results of the individual business units being monitored. Using the total compensation approach for these functions ensures that compensation is attractive to qualified, experienced people.

Determining the compensation of Key Risk Takers

Key Risk Takers are subject to a performance evaluation and development process in the same way as other employees. The performance evaluation also takes account of risk aspects, any breaches of internal or external directives and guidelines, misconduct that could negatively affect the bank's reputation, and ongoing disciplinary proceedings. The individual performance of a Key Risk Taker is regularly discussed with their supervisor. During the process of allocating and paying variable compensation elements to Key Risk Takers in the Trading, Sales & Capital Markets organisational unit, the independent control functions Legal, Tax & Compliance, Risk Management and Human Resources are consulted.

As stated in the section "Competencies and responsibilities" (page 126), the Board of Directors determines the compensation of the members of the Executive Board at the request of the Committee of the Board. The Executive Board determines the compensation of Key Risk Takers in senior management at the request of the relevant member of the Executive Board. The Head of Institutionals & Multinationals determines the compensation of Key Risk Takers in Trading, Sales & Capital Markets at the request of the head of the relevant organisational unit.

Risk adjustment in relation to deferred compensation

Deferred components of compensation are subject to further risk adjustment. They may lapse in full or in part if negative business developments or other predefined conditions occur (see "Variable compensation component deferred for three years" (page 128), "Deferred variable compensation exposed to risk" (page 129) and "Penalty clause" (page 130) for further details on possible reductions).

Risk overview

	Risk adjustments made prior to the allocation of variable compensation		Risk adjustments made after the allocation of variable compensation
Quantitative	– Equity – Risk costs – Special factors	Explicit	– Deferred compensation components – Conduct-based adjustment (penalty or forfeiture)
Qualitative	– Employee appraisal – Reporting by internal control units	Implicit	– Economic profit

Penalty clause

Employees' variable compensation is not or only partially paid out at the bank's discretion if they have violated contractual, risk or compliance requirements before the date of the intended payment, or if the bank has otherwise sustained losses due to their activity. Moreover, such employees are deemed "bad leavers" under the bank's compensation models, and their entitlement to any deferred compensation lapses. The breach of laws, codes of conduct, directives or internal rules may also lead to additional disciplinary measures, which may entail the reduction or forfeiture of variable compensation and/or of a deferred variable compensation component or similar elements of compensation. In the event of ongoing investigations or suspicion of misconduct that could lead to disciplinary measures, Zürcher Kantonalbank is entitled to delay payment of variable compensation and/or deferred compensation and similar elements of compensation until the matter has been definitively clarified or the sanction decided. Under the "bad leaver" rule, the long-term deferred component as well as the deferred variable compensation exposed to risk may lapse in full if Zürcher Kantonalbank parts company with the employee for certain reasons. This may in particular be the case where an employee has committed a breach of contract or caused material or non-material damage, or the relationship of trust between the employee and the bank has suffered lasting damage as a result of the employee's conduct.

Compensation in 2020

Personnel expenses for all 4,983 (2019: 4,918) employees (full-time equivalents) amounted to CHF 1,043 million (parent company). The parent company incurred additional non-recurring personnel expenses of CHF 44.3 million for the anniversary payment agreed in the previous year and paid out in February. Social security expenses also include payments to the bank's pension fund. All variable elements of compensation are charged to the financial year in which they are actually incurred.

Personnel expenses in 2020 (parent company)

In CHF million	2020	2019
Base salary[1]	546.6	536.0
Total amount of variable compensation	286.3	249.0
Social security contributions	180.0	169.9
Other personnel expenses[2]	30.1[3]	31.6
Total personnel expenses	1,043.0	986.5

1 Fixed compensation for permanent employees, temporary staff and governing bodies as well as compensation for loss of income and payroll-related costs

2 In particular costs for training, staff support, recruitment and premiums

3 Excluding anniversary payment expense of CHF 44.3 million

In its annual review of base salaries, Zürcher Kantonalbank decided to raise the total sum of the base salaries for 2020 by CHF 5.2 million (+1.0 percent) compared with the previous year, mainly for the purpose of bringing its employees closer in line with standard market rates as well as to better reward employees who assumed more responsibility or put in an outstanding performance. Total variable compensation rose by CHF 37.3 million. The total amount of deferred compensation was CHF 17.6 million.

Details of variable compensation (parent company)

	2020		2019	
	No. of employees[1]	In CHF million	No. of employees[1]	In CHF million
Total amount of variable compensation	4,983	286.3	4,918	249.0
– of which deferred compensation	93	17.6	78	10.3
– of which sign-on and severance payments	6	0.8	3	0.3

1 Full-time equivalents

Compensation for members of the Board of Directors

Compensation for members of the Board of Directors is based on the regulations governing the compensation of members of the Board of Directors of Zürcher Kantonalbank, as approved by the Cantonal Parliament of Zurich on 25 November 2004. In principle, these regulations are identical to those prevailing in 1989 (Committee of the Board) and 1994 (Board of Directors). For part-time members of the Board of Directors, it comprises a fixed annual salary of CHF 18,000 plus CHF 6,000 compensation for each membership of a committee, as well as an annual expense allowance of CHF 6,000. A fixed attendance fee of CHF 700 per day and CHF 350 per half-day is paid for meetings and visits to branch offices and specialist units. The part-time members of the Board of Directors are insured in accordance with federal social security standards and the regulations of the bank's pension funds.

As full-time members of the Board of Directors, the members of the Committee of the Board receive an annual base salary of CHF 311,500 as well as the benefits set out in the relevant regulations for all Zürcher Kantonalbank employees. The Chairman receives an additional allowance of 10 percent of his annual base salary. The full-time members of the Board of Directors are paid an annual allowance of CHF 14,000 each. The full-time members of the Board of Directors are insured in accordance with the regulations of the bank's pension funds. No variable compensation is paid to the members of the Board of Directors.

No other compensation or benefits in kind were paid to current or former members of the Board of Directors or related parties during the year under review. There are no unusual commitments between Zürcher Kantonalbank and the members of the Board of Directors or related parties.

No loans on unusual terms were granted to part-time members of the Board of Directors or related parties.

The members of the Board of Directors and related parties received no other fees or payments for additional services rendered to the Zürcher Kantonalbank group or any of its subsidiaries during the year under review.

Compensation for members of the Executive Board

The total compensation of the individual members of the Executive Board takes account of their performance in their areas of responsibility. The succession of the Head of Corporate Clients resulted in additional expenses in total remuneration. Total compensation for the nine members of the Executive Board in 2020 amounted to CHF 15,676,226 (2019: CHF 14,866,052). The highest sum paid to a member of the Executive Board during the year under review was CHF 2,120,000 in salary and variable compensation plus CHF 222,011 in pension payments and other remuneration, and was paid to Martin Scholl, CEO (2019: CHF 2,226,950).

In addition, deferred components amounting to CHF 2,642,500 (2019: CHF 2,405,000) were set aside for the members of the Executive Board, of which CHF 412,500 were allocated to the highest paid member (2019: CHF 377,500); provided specific conditions are met, these will be paid out in three years' time.

The members of the Executive Board and related parties received no other fees or payments for additional services rendered to the Zürcher Kantonalbank group or any of its subsidiaries during the year under review.

Total loans and mortgage lending to the Executive Board members amounted to CHF 10,970,500 (of which CHF 10,041,000 on employee terms). No loans on unusual terms were granted to related parties of the Executive Board.

Compensation and loans for members of the Board of Directors (in CHF)

	Year	Annual compensation	Attendance fee	Expense allowance[1]	Benefits in kind[2]	Employer contributions to pillar 2[3]	Total	loans as at 31.12 in CHF
Committee of the Board								
Jörg Müller-Ganz	2020	342,650	–	14,040	19,192	90,331	466,213	1,300,000
	2019	342,650	–	14,040	9,900	90,331	456,921	1,300,000
János Blum	2020	311,500	–	14,040	900	83,944	410,384	1,000,000
	2019	311,500	–	14,040	1,900	83,944	411,384	1,400,000
Roger Liebi	2020	311,500	–	14,040	–	80,353	405,893	–
	2019 (since 01.07.2019)	155,750	–	7,020	–	40,176	202,946	–
Bruno Dobler	2019 (until 30.06.2019)	155,750	–	7,020	–	23,132	185,902	–
Other members of the Board of Directors								
Amr Abdelaziz	2020	30,000	24,500	6,000	–	3,410	63,910	–
	2019	30,000	27,300	6,000	–	–	63,300	–
Adrian Bruhin	2020 (since 01.11.2020)	5,000	2,100	1,000	–	568	8,668	–
	2019	–	–	–	–	–	–	–
Bettina Furrer[5]	2020	30,000	26,250	6,000	–	5,040	67,290	388,000
	2019 (since 01.07.2019)	15,000	13,300	3,000	–	–	31,300	–
René Huber	2020	30,000	25,200	6,000	–	4,800	66,000	3,680,000
	2019	30,000	26,600	6,000	–	–	62,600	3,697,000
Henrich Kisker	2020	28,500	21,000	6,000	–	1,710	57,210	–
	2019	30,000	23,450	6,000	–	–	59,450	–
Roger Liebi	2019 (until 30.06.2019)	15,000	17,850	3,000	–	–	35,850	–
Mark Roth	2020	24,000	28,350	6,000	–	–	58,350	–
	2019	24,000	34,300	6,000	–	–	64,300	–
Peter Ruff	2020	24,000	23,450	6,000	–	3,840	57,290	–
	2019	24,000	22,750	6,000	–	–	52,750	–
Walter Schoch	2020	24,000	23,100	6,000	–	–	53,100	–
	2019	24,000	26,950	6,000	–	–	56,950	–
Anita Sigg[4]	2020	30,000	23,100	6,000	–	–	59,100	2,228,000
	2019	30,000	21,700	6,000	–	–	57,700	2,234,000
Rolf Walther	2020 (until 30.09.2020)	18,000	19,950	4,500	–	–	42,450	–
	2019	24,000	35,000	6,000	–	–	65,000	–
Stefan Wirth	2020	30,000	22,750	6,000	–	4,800	63,550	–
	2019	30,000	23,800	6,000	–	–	59,800	–
Total	2020	1,239,151	239,750	101,620	20,092	278,796	1,879,408	8,208,000
	2019	1,241,651	273,000	102,120	11,800	237,583	1,866,154	8,631,000

1 For the members of the Committee of the Board, CHF 40 is attributable to rounding differences due to monthly payments.
2 Benefits in kind: child, education and family allowances (Agreement on Conditions of Employment for Bank Staff), loyalty bonuses, medical check-ups, contribution to ZVV/SBB season tickets.
3 While the members of the bank's Committee of the Board have always been insured with the pension fund of Zürcher Kantonalbank, a legal opinion obtained externally in December 2019 showed that the other members of the Board of Directors must also be insured under the pension fund regulations in relation to their basic compensation (including compensation for the committees). This applies irrespective of whether they are affiliated to another pension fund as self-employed persons or employees in their main occupation. Accordingly, the members of the Board of Directors were granted the option of retroactive affiliation to the pension scheme and, to implement this, the bank paid the employer contributions retroactively for up to five years. The following members of the Board of Directors made use of this option: Amr Abdelaziz CHF 12,225, Bettina Furrer CHF 2,200, René Huber CHF 20,580, Henrich Kisker CHF 18,900, Peter Ruff CHF 16,800, Stefan Wirth CHF 21,000.
4 Loans: reduced community of heirs of Anita Sigg-Meyer: CHF 1,700,000; Anita Sigg alone: CHF 534,000.
5 Loans: Heirs of Dr Dieter Furrer: CHF 388,000; Bettina Furrer alone: CHF 0.

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

The following rules apply to the tables:
0 (0 or 0.0) Figure that is smaller than half the unit of account used
– Figure not available or not meaningful

Consolidated income statement

in CHF million	Notes	**2020**	2019	Change	Change in %
Result from interest operations					
Interest and discount income		1,425	1,861	–436	–23.4
Interest and dividend income from financial investments		32	35	–3	–7.5
Interest expense		–200	–687	487	–70.9
Gross result from interest operations	33	1,258	1,210	48	4.0
Changes in value adjustments for default risk and losses from interest operations		–39	6	–46	–
Subtotal net result from interest operations		1,218	1,216	2	0.2
Result from commission business and services					
Commission income from securities trading and investment activities		862	786	76	9.7
Commission income from lending activities		57	58	–1	–1.8
Commission income from other services		129	150	–21	–14.2
Commission expense		–242	–218	–24	11.1
Subtotal result from commission business and services		806	777	30	3.8
Result from trading activities					
Result from trading activities and the fair value option	32	459	319	140	43.9
Other result from ordinary activities					
Result from the disposal of financial investments		6	6	–0	–4.7
Income from participations		15	25	–10	–39.8
– of which, participations valued using the equity method		1	2	–0	–23.5
– of which, from other non-consolidated participations		14	23	–10	–41.0
Result from real estate		5	5	0	0.5
Other ordinary income		9	68	–58	–86.2
Other ordinary expenses		–6	–2	–4	192.4
Subtotal other result from ordinary activities		29	102	–73	–71.3
Operating income		2,513	2,414	99	4.1
Operating expenses					
Personnel expenses	34	–1,126	–1,026	–100	9.7
General and administrative expenses	35	–455	–417	–37	8.9
Subtotal operating expenses		–1,580	–1,443	–137	9.5
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–117	–113	–4	3.6
Changes to provisions and other value adjustments and losses		–14	–12	–3	23.6
Operating result		801	846	–45	–5.3
Extraordinary income	36	25	4	21	–
Extraordinary expenses	36	–0	–0	0	–78.3
Changes in reserves for general banking risks	36	46	–	46	–
Taxes	39	–8	–5	–3	50.6
Consolidated profit		865	845	20	2.4

Consolidated balance sheet

as at 31 December

in CHF million	Notes	2020	2019	Change	Change in %
Assets					
Liquid assets		52,154	36,786	15,368	41.8
Amounts due from banks		3,396	4,917	–1,521	–30.9
Amounts due from securities financing transactions	1	16,942	15,588	1,354	8.7
Amounts due from customers	2	9,253	8,905	348	3.9
Mortgage loans	2	87,679	84,311	3,369	4.0
Trading portfolio assets	3	10,920	9,168	1,752	19.1
Positive replacement values of derivative financial instruments	4	1,593	1,486	107	7.2
Other financial instruments at fair value	3	–	–	–	–
Financial investments	5	5,035	4,422	613	13.9
Accrued income and prepaid expenses		302	293	10	3.3
Non-consolidated participations	6.7	135	138	–3	–2.4
Tangible fixed assets	8	629	651	–22	–3.4
Intangible assets	9	86	123	–36	–29.4
Other assets	10	239	267	–28	–10.4
Total assets		188,364	167,054	21,310	12.8
Total subordinated claims		263	337	–75	–22.1
–of which subject to conversion and/or debt waiver		18	37	–20	–52.4
Liabilities					
Amounts due to banks		34,838	34,082	756	2.2
Liabilities from securities financing transactions	1	4,823	4,969	–146	–2.9
Amounts due in respect of customer deposits		92,609	85,089	7,520	8.8
Trading portfolio liabilities	3	1,320	2,058	–739	–35.9
Negative replacement values of derivative financial instruments	4	942	1,303	–361	–27.7
Liabilities from other financial instruments at fair value	3.14	3,459	2,844	616	21.6
Cash bonds	15	158	143	15	10.7
Bond issues	15	25,385	13,329	12,056	90.4
Central mortgage institution loans	15	10,743	9,778	965	9.9
Accrued expenses and deferred income		798	674	124	18.4
Other liabilities	10	417	205	212	103.0
Provisions	16	222	242	–19	–8.0
Reserves for general banking risks	16	154	200	–46	–23.1
Bank's capital	21	2,425	2,425	–	–
Retained earnings reserve	21	9,214	8,875	339	3.8
Foreign currency translation reserve	21	–8	–7	–0	1.0
Consolidated profit	21	865	845	20	2.4
Shareholders' equity	21	12,650	12,337	313	2.5
Total liabilities		188,364	167,054	21,310	12.8
Total subordinated liabilities		1,607	1,471	136	9.3
–of which subject to conversion and/or debt waiver		1,607	1,471	136	9.3
Off-balance-sheet transactions					
Contingent liabilities	2.28	3,395	3,885	–490	–12.6
Irrevocable commitments	2	10,563	8,718	1,844	21.2
Obligations to pay up shares and make further contributions	2	251	257	–6	–2.3
Credit commitments	2.29	–	–	–	–

Consolidated cash flow statement

in CHF million	Cash inflow 2020	Cash outflow 2020	Cash inflow 2019	Cash outflow 2019
Cash flow from operating activities (internal financing):				
Result of the period	865	–	845	–
Change in reserves for general banking risks	–	46	–	–
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	118	–	113	–
Provisions and other value adjustments	62	81	69	83
Changes in value adjustments for default risks and losses	94	65	51	73
Accrued income and prepaid expenses	–	10	0	–
Accrued expenses and deferred income	124	–	–	51
Other items	–	1	–	5
Previous year's dividend	–	506	–	358
Balance	554	–	509	–
Cash flow from equity transactions:				
Share capital/participation capital/cantonal banks' endowment capital etc.	–	–	–	–
Recognised in reserves	–	0	–	2
Balance	–	0	–	2
Cash flow from transactions in respect of non-consolidated participations, tangible fixed assets and intangible assets:				
Non-consolidated participations	1	3	–	0
Real estate	0	32	0	32
Other tangible fixed assets	0	14	0	16
Intangible assets	0	2	0	16
Mortgages on own real estate	–	–	–	–
Balance	–	49	–	63

Consolidated cash flow statement
(continued)

in CHF million	Cash inflow 2020	Cash outflow 2020	Cash inflow 2019	Cash outflow 2019
Cash flow from banking operations:				
Medium and long-term business (> 1 year):				
Amounts due to banks	–	1	–	4
Amounts due in respect of customer deposits	–	77	–	150
Liabilities from other financial instruments at fair value	320	–	235	–
Cash bonds	35	16	2	28
Bonds	23,791	11,929	8,512	6,753
Central mortgage institution loans	1,927	962	1,057	742
Loans from central issuing institutions	–	–	–	–
Other obligations (other liabilities)	212	–	1	–
Amounts due from banks	113	–	–	61
Amounts due from customers	–	758	151	–
Mortgage loans	–	3,360	–	3,044
Other financial instruments at fair value	–	–	–	–
Financial investments	–	562	168	–
Other accounts receivable (other assets)	28	–	24	–
Short-term business:				
Amounts due to banks	756	–	–	2,933
Liabilities from securities financing transactions	–	146	–	1,907
Amounts due in respect of customer deposits	7,597	–	–	299
Trading portfolio liabilities	–	739	–	360
Negative replacement values of derivative financial instruments	–	361	551	–
Liabilities from other financial instruments at fair value	296	–	137	–
Amounts due from banks	1,409	–	–	54
Amounts due from securities financing transactions	–	1,354	1,416	–
Amounts due from customers	370	–	–	576
Trading portfolio assets	–	1,561	101	–
Positive replacement values of derivative financial instruments	–	107	–	208
Other financial instruments at fair value	–	–	–	–
Financial investments	–	57	116	–
Liquidity:				
Liquid assets	–	15,368	4,202	–
Balance	–	505	–	445

Consolidated statement of changes in equity

in CHF million	Bank's capital	Retained earnings reserve	Reserves for general banking risks	Consolidated profit	Foreign currency translation reserve	Total equity
2019						
Opening amount	2,425	9,233	200	–	−6	11,852
Effect of any restatement	–	–	–	–	–	–
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Increase in scope of capital consolidation	–	–	–	–	–	–
Decrease in scope of capital consolidation	–	–	–	–	–	–
Other grants/other capital contributions	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Currency translation differences	–	–	–	–	−2	−2
Dividends and other distributions	–	−358	–	–	–	−358
Valuation adjustments not affecting net income	–	−0	–	–	–	−0
Other allocations to (transfers from) the reserves for general banking risks	–	–	–	–	–	–
Other allocations to (transfers from) other reserves	–	–	–	–	–	–
Consolidated profit	–	–	–	845	–	845
Total equity as at 31.12.2019	2,425	8,875	200	845	−7	12,337
2020						
Opening amount	2,425	9,720	200	–	−7	12,337
Effect of any restatement	–	–	–	–	–	–
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Increase in scope of capital consolidation	–	–	–	–	–	–
Decrease in scope of capital consolidation	–	–	–	–	–	–
Other grants/other capital contributions	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Currency translation differences	–	–	–	–	−0	−0
Dividends and other distributions	–	−506	–	–	–	−506
Valuation adjustments not affecting net income	–	−0	–	–	–	−0
Other allocations to (transfers from) the reserves for general banking risks	–	–	−46	–	–	−46
Other allocations to (transfers from) the other reserves	–	–	–	–	–	–
Consolidated profit	–	–	–	865	–	865
Total equity as at 31.12.2020	2,425	9,214	154	865	−8	12,650

Notes

a) Portrait

Zürcher Kantonalbank is "Close to you". We have successfully positioned ourselves as a universal bank with a regional base as well as an international network. Within the Greater Zurich Area we are the leaders in universal banking. Our clients profit from a broad range of products and services. Our core business includes the following: financing, investment and asset management, trading and capital markets, the borrowing business, payment transactions and the card business.

Zürcher Kantonalbank has its registered office in Zurich, was founded in 1870 and is an independent public-law institution of the Canton of Zurich.

Broad diversification

The business model of Zürcher Kantonalbank focuses on sustainability and diversification of earnings. Sustainability is an integral aspect of our business model. That means we incorporate environmental, social and economic criteria into everything we do.

Our earnings base is spread across various business areas. This reduces our dependence on individual income components and thus our entrepreneurial risk. We therefore continue to aim for qualitative growth. We wish to grow mainly organically. Our focus is on the Greater Zurich Area. We are not planning any substantial expansion abroad.

The group includes as parent company the largest cantonal bank in Switzerland and the fourth-largest Swiss bank. The broadly diversified consolidated group (hereinafter referred to as "ZKB Group") also includes Swisscanto Holding AG with its subsidiaries and their subsidiaries (Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd., Swisscanto Private Equity CH I Ltd and Swisscanto Asset Management International SA), which are mainly engaged in asset management business. Zürcher Kantonalbank Finance (Guernsey) Ltd., which focuses on issuing structured investment products, and Zürcher Kantonalbank Österreich AG, which operates in international private banking, are also part of the Group. In addition, there is the representative office Zürcher Kantonalbank Representações Ltda. and ZüriBahn AG.

In February 2020 ZKB Securities (UK) Ltd., which is active in equity brokerage and research, was also established.

At the end of June 2020, ZKB Group sold the BVG administration business of Swisscanto Pensions Ltd. to PFS Pension Fund Services AG (PFS), a leading provider of pension fund administration services. At the same time, ZKB Group acquired a 20% stake in PFS and remains closely involved in the business. The remaining business activities continue to be conducted via Swisscanto Pensions Ltd.

b) Accounting and valuation principles

Changes in accounting and valuation principles

The transition from the existing accounting rules for banks to the new accounting rules was completed during the year under review. These consist of the FINMA Accounting Ordinance (RelV-FINMA) and the FINMA Circular 2020/1. The conversion took place in compliance with the existing transitional provisions. These changes had no material impact on the annual financial statements or their disclosure. The rules on value adjustments and provisions for expected losses will not be introduced until 1 January 2021 in accordance with the transitional provisions. The initial recognition of valuation allowances and provisions for expected losses will be made on an aggregate basis (rather than built up on a straight-line basis) through equity by releasing reserves for general banking risks.

In addition, the date of recognition for bonds was adjusted. Previously, bonds issued by Zürcher Kantonalbank were recognised on the liabilities side under other liabilities between the trading and settlement date, and only reposted to bonds on the settlement date. Own bonds are now reported under bonds from the transaction day onwards. In order to allow for recognition on the transaction day, a corresponding exemption was added to the accounting and valuation principles governing balance sheet fixed-term transactions.

General principles

Pursuant to the Listing Rules of the Swiss Exchange, the consolidated financial statements of the ZKB Group are prepared in line with the accounting rules for banks, securities firms, financial groups and conglomerates (consisting of the FINMA Accounting Ordinance (RelV-FINMA) and FINMA Circular 2020/1). The consolidated financial statements provide a true and fair view of the financial position, results of operations and cash flows.

Scope of consolidation

The consolidated annual financial statements comprise the accounts of the parent company and the directly and indirectly owned significant subsidiaries in which the bank has a participation of more than 50 percent of the voting capital or which it controls in another way. The majority shareholdings in Zürcher Kantonalbank Representações Ltda. and ZüriBahn AG, which are immaterial for accounting purposes, are an exception. Please refer to the section "Non-consolidated participations" for further information.

The consolidated financial statements are prepared in accordance with the principle of substance-over-form. The individual accounts of the group companies are included in the consolidated financial statements on the basis of 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 equity of the group companies at the time of acquisition or at the time of incorporation against the book value of the parent company's interest. Please refer to the section on "intangible assets" for details of the treatment of any goodwill. All the assets and liabilities as well as expenses and income of the subsidiaries to be consolidated are included in the consolidated financial statements. Intragroup transactions and intercompany earnings are eliminated on consolidation.

Period of consolidation

The period of consolidation corresponds to 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 transactions (spot and forward) concluded but not yet executed are booked in accordance with the settlement-day principle. These transactions are stated between the trade and settlement dates (value date) at replacement value under the corresponding item (Positive or negative replacement values of derivative financial instruments). Securities and options transactions are recognised in the balance sheet as of the trade date.

Balance sheet fixed-term transactions are recognised as a rule on the settlement date.

Own bond issues, which are posted on the transaction day, are an exception.

Foreign exchange translation

Transactions in foreign currency are translated at the corresponding daily rate. Assets and liabilities in foreign currency, with the exception of bank notes, are translated at the average rate as at the balance sheet date. The bid rates on the balance sheet date are applied for foreign bank notes.

Translation gains and losses are recognised under "Result from trading activities and the fair value option". The annual financial statements of Zürcher Kantonalbank Österreich AG are prepared in euros and the annual financial statements of ZKB Securities (UK) Ltd. in pounds sterling. The assets and liabilities are translated at the rate on the balance sheet date, and income and expenses at the respective average exchange rate for the year. The difference between these exchange rates is reported directly in equity as a currency translation difference effect under the item "Currency translation reserve".

	2020		2019	
	Rates on the balance sheet date	Average annual rates	Rates on the balance sheet date	Average annual rates
EUR	1.0816	1.0705	1.0870	1.1111
GBP	1.2083	1.2061	1.2828	1.2719
USD	0.8840	0.9340	0.9684	0.9929

Offsetting assets and liabilities

There is generally no offsetting of assets and liabilities. An exception is made in the cases listed below.

Receivables and liabilities are offset if they arise from similar transactions with the same counterparty; and have the same or earlier due date; and are in the same currency and do not result in a counterparty risk.

These conditions must be met cumulatively. Holdings of own bonds and cash bonds are offset against the corresponding liability items. The same applies to positive and negative changes in book value with no income effect in the compensation account.

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

Liquid assets

Liquid assets include cash holdings in Swiss francs and foreign bank notes, as well as sight deposits with the Swiss National Bank. These items are recognised at nominal value.

Amounts due from and to banks

Unless stated otherwise in a different item, amounts due from and to banks are stated in this item. These items are recognised at nominal value. Appropriate allowances are created for default risks on existing positions and directly deducted from assets (see also the section "Value adjustments for default risks and losses on impaired loans/receivables").

Claims and liabilities from securities financing transactions

The amounts due from securities financing transactions include reverse repo transactions, which are treated as 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 a loan. Reimbursement claims in the context of securities borrowing which arise from cash collateral for the borrowed, non-monetary values are also included. Repo transactions in the sense of a collateralised refinancing are entered in the balance sheet under Liabilities from securities financing transactions. Within the framework of securities lending, Zürcher Kantonalbank lends non-monetary assets, such as securities, on its own account and at its own risk (principal status).

The repayment obligation for cash deposits received is also shown here. The bank conducts lending and borrowing transactions within the framework of trading operations.

Loan transactions involving securities or money market instruments that are not collateralised with cash are not recognised in the balance sheet but reported in the Notes.

Amounts due from customers, mortgage loans and amounts due in respect of customer deposits

These items are recognised at nominal value. Book claims in precious metals are stated at market values. 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 included in Interest income. The remaining amount of the leasing instalment represents the repayment element and reduces the claim amount. Appropriate value adjustments are made for default risks on existing positions and directly deducted from the relevant asset item (see the next section).
Default risks on credit limits granted but not utilised on the balance sheet date are accounted for by means of provisions (see "Provisions").

Explanations on the valuation of collateral for loans can be found in section e), under "Valuation of collateral".

Value adjustments for default risks in respect of impaired loans/receivables

Loss risks on existing exposures are allowed for by appropriate value adjustments. They are recognised in the item "Changes in value adjustments for default risks and losses from interest operations" and deducted directly from the asset affected.

A systematic approach is used to determine the amount of value adjustments.

The bank considers loans/receivables to be impaired if there are indications that the debtor will not be able to meet his future liabilities, but at the latest when the contractually defined amortisation, interest and commission payments are due for 90 days or more. The corresponding interest and commission are fully covered by provisions.

Impaired loans/receivables are valued on an individual basis. Individual value adjustments for credit risks are established in accordance with the following principles:

- Claims are valued individually taking into account the borrower's creditworthiness and any collateral at liquidation value.
- As soon as it is no longer assured that the loan repayments can be recovered, a value adjustment is made for the probable credit default (book value less estimated recoverable amount). Exposures rated as impaired are subjected to a creditworthiness test at least twice a year. If necessary, an appropriate value adjustment is made or existing ones are altered in line with the current circumstances. Value adjustments for impaired loans are released if there is reasonable assurance of timely collection of the interest and principal in accordance with the contractual terms of the claim agreement. In the case of small risks in homogeneous credit portfolios, the need for a value adjustment is assessed collectively (collective individual value adjustments).

Zürcher Kantonalbank has opted not to set up a collective value adjustment for latent risks as at 31 December 2020 because the method used to determine an individual allowance ensures the correct valuation of a loan. Country-specific risks in connection with loans/receivables are accounted for separately. Among other factors, country assessments of various rating agencies are taken into consideration. Such value adjustments take into account any existing collateral as well as existing individual value adjustments and are reviewed at least every six months. If all or part of a claim is deemed uncollectible or in case of a debt waiver, it is written off accordingly.

Trading portfolio assets and liabilities

Trading positions including money market paper held in the context of the trading business are recognised at fair value. This is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing and independent parties. This corresponds to the price set on a price-efficient and liquid market or determined on the basis of a valuation model. Where, as an exception, no fair value is ascertainable, valuation and recognition are to follow the principle of the lower of cost or market value.

Valuation differences are recognised in the income statement. Interest and dividend income on securities trading portfolios are credited to the item "Result from trading activities and the fair value option". Results from securities lending and borrowing transactions are also recognised under "Result from trading activities and the fair value option". The refinancing result for trading portfolio assets is recognised by compensating the result from trading activities within net interest. With the exception of the physical precious metal portfolios accounted for under Financial investments, all other precious metals that are physical and held in account form are accounted for as Trading portfolio assets and at fair value.

Short positions are also accounted for at fair value and stated under the item "Trading portfolio liabilities". In the case of trading in combinations of money market transactions and currency swaps, the aim is to report the interest income or trading result in the way that most closely captures the economic impact, following the principle of substance over form. As a result, the gain on the currency swaps is compensated under the result from interest operations. Hence the results from these combined transactions are posted uniformly in the result from interest operations. This avoids inflating the income statement and shifting amounts between interest operations and trading activities with no substantive or economic rationale.

Positive and negative replacement values of derivative financial instruments

Derivative financial instruments are valued at fair value and, in principle, represent trading activities. Comments on the business policy parameters for the use of derivative financial instruments and explanations in connection with the application of hedge accounting can be found under section f).

Replacement values of derivative financial instruments from client transactions resulting from contracts traded over-the-counter (bank as agent) are, in principle, accounted for. Exchange-traded contracts from client transactions are accounted for if no daily margining takes place. Replacement values from trading activities are accounted for under "Positive replacement values of derivative financial instruments" on the asset side or the item "Negative replacement values of derivative financial instruments" on the liability side. Valuation gains are recognised through income in the item "Result from trading activities and the fair value option".

Hedging transactions are also measured at fair value, except for the derivative financial instruments used to hedge interest rate risk within the scope of asset and liability management. In this case, value changes are recognised in the compensation account as "not affecting net income". The net balance of this compensation account is included in "Other assets" or "Other liabilities". If the gains from the hedging transaction exceed those from the hedged underlying transaction, the hedge is considered ineffective. The excess part of the derivative instrument is treated like a trading transaction.

Please see the statements in the section "Offsetting assets and liabilities" with respect to the recognition of netting agreements for derivative financial instruments.

Other financial instruments at fair value or liabilities from other financial instruments at fair value

Structured products with own debenture components issued by the bank are valued as a whole at fair value (no separation of the derivative from the underlying instrument) provided that the following conditions have been met on a cumulative basis:

– The financial instruments are part of a trade-related strategy and are based on a documented risk management and investment strategy which ensures correct recording, measuring and limitation of the various risks.
– There is an economic hedging relationship between the financial instruments on the asset side and those on the liability side that is largely neutralised in terms of income by the fair value valuation (avoidance of an accounting mismatch).
– Any impact of a change in own creditworthiness on the fair value is neutralised and does not affect the income statement where it arises.

The amounts are accounted for under "Liabilities from other financial instruments at fair value". Investments by subsidiaries managed in the trading book and connected to self-issued structured products are stated at market value. These are recognised in "Other financial instruments at fair value".

Financial investments

The item includes money market instruments which are not held in the context of trading business. Accounting takes place at nominal value taking a discount provision into account. Financial assets also include fixed-income securities. Securities held to maturity are valued in accordance with the amortised cost method (at acquisition cost with amortisation of the premium or discount over the maturity). Realised gains from sales prior 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.

Fixed-interest securities not intended to be held until maturity are recorded based on the same rule. The same applies for shares and other equity securities that, irrespective of the share of voting rights, are also booked under this item provided that they were not acquired as a permanent investment. Financial investments also include real estate taken over from the lending business and intended for sale. They are also valued according to the lower of cost or market principle (acquisition value or prudently estimated lower liquidation value). Non-realised losses and market-related revaluations up to the original cost of the securities components are stated under "Other ordinary expenses" or "Other ordinary income". Realised gains or losses on the securities components from the sale of financial investments are booked under "Result from the disposal of financial investments". Unrealised and realised gains in foreign currency components are booked under "Results from foreign exchange trading". Physical stocks of precious metals held as a financial investment are recognised at fair value.

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. Participations with voting rights of up to 19.9 percent are valued at lower of cost or market. Participations are subject to impairment testing at least once a year.

Non-consolidated participations with voting rights of between 20 percent and up to and including 49.9 percent, together with the non-material (from an accounting perspective) majority participations in Zürcher Kantonalbank Representações Ltda. and ZüriBahn AG, are stated in accordance with the equity method in proportion to the equity held on the balance sheet date. The proportionate net annual result is included in the equity valuation and is recognised in the consolidated income statement as participation income.

Tangible fixed assets

Bank premises, including installations and fittings in rented properties, are recognised at cost value plus major investments and amortised on a straight-line basis over their estimated useful life. Other properties acquired as a long-term investment are also recognised at the lower of cost value less straight-line amortisation or capitalised earnings value.

The remaining tangible fixed assets comprise IT systems and equipment, furniture, vehicles and machinery. Smaller acquisitions are charged in full to General and administrative expenses in the year of acquisition. Larger investments are capitalised and amortised in full over their estimated useful life on the basis of business criteria or, in the case of acquired data processing programs, generally over 12 months.

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[1]
IT systems and equipment	4
Acquired IT programmes	max. 1
Furniture/vehicles/machines	max. 5

1 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 recoverable amount. In the real estate sector, the recoverable amount is determined by a property valuer. For other tangible fixed assets, the recoverable amount is equivalent to the value-in-use, which is defined according to business 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 amortised over the estimated useful life on a straight-line basis. The amortisation period is generally five years, from the date of acceptance, but a maximum of ten years, in justified instances. If the recoverability of goodwill is no longer ensured on the balance sheet date (impairment), an impairment is recognised.

Licences. These include purchased software licences. Smaller acquisitions are charged in full to General and administrative expenses in the year of acquisition. Larger investments are capitalised and normally fully amortised over 12 months.

Other intangible assets. This item includes acquired non-monetary assets with no physical existence which will provide the bank with measurable benefits over several years. Amortisation is over the estimated useful life on a straight-line basis. The amortisation period is generally five years, from the date of acceptance, but a maximum of ten years, in justified instances.

Cash bonds, bond issues and central mortgage institution loans

These items are recognised at nominal value. Holdings of own bonds and cash bonds are offset against the corresponding liability items (see also the section "Offsetting assets and liabilities").

Provisions

Loss risks in connection with off-balance-sheet transactions (e.g. credit limits confirmed but not utilised) as well as other identifiable and foreseeable risks as of the balance sheet date are accounted for by means of appropriate, operationally necessary provisions. Creation and dissolution take place via the item "Changes to provisions and other value adjustments and losses".

Reserves for general banking risks

These items include reserves for general banking risks created and/or released since 2018. Creation and release of such reserves is shown in the income statement under "Changes in reserves for general banking risks". Please see the next section "Retained earnings reserve" for reserves for general banking risks created/released prior to 2018 and solely at the parent company.

Retained earnings reserve

The retained earnings reserve includes retained earnings, i.e. the funds generated by the group itself. This item includes reserves for general banking risks created at the parent company prior to 2018.

Pension schemes

An annual evaluation is performed to assess whether, from the group's perspective, an economic benefit or economic obligation arises for the bank or the group as a result of a pension fund. The determination is based on agreements and annual financial statements of the pension funds, which, in Switzerland, are prepared according to Swiss GAAP FER 26. Other calculations showing the financial situation and existing surplus/shortfall for each pension fund in accordance with actual circumstances are also taken into account. Zürcher Kantonalbank has no liabilities that extend beyond the regulatory foundations. The employer contribution reserve is capitalised in the "Other assets" item. Additions and withdrawals are included in "Personnel expenses". Please see Note 13 for additional information.

Contingent liabilities, irrevocable commitments, obligations to pay up shares and make further contributions, credit commitments and fiduciary investments

With the exception of commitments under currency swaps facilities, off-balance-sheet transactions are reported at nominal value. Commitments under currency swap facilities are reported in accordance with the principle of substance over form at 5% of the nominal value. Appropriate provisions are set aside for identifiable risks. Irrevocable commitments also include forward commitment mortgages.

Taxes

As an independent public-law institution, Zürcher Kantonalbank is exempt from taxes on its income and capital under cantonal tax law (§ 61) and the federal law on direct taxation (§ 56).

The subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. is a finance company under Companies Law in Guernsey. In terms of tax law, as of 1 January 2008 the company is deemed to be resident and is liable to pay 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 General and administrative expenses. Zürcher Kantonalbank Finance (Guernsey) Ltd. is not liable for any federal, cantonal or municipal taxes in Switzerland.

The Swisscanto companies are subject to cantonal and federal taxes or the tax regime of Luxembourg in accordance with their domicile.

Zürcher Kantonalbank Österreich AG is subject to Austrian corporation tax. Its taxable income is taxed at a fixed rate of 25 percent. The subsidiary ZKB Securities (UK) Ltd. is subject to UK corporation tax. Its taxable income is taxed at a fixed rate of 19 percent.

The tax implications of time differences between the balance sheet values reported in the consolidated financial statements and the 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. The property gains tax charged on the sale of land is separated from the gain on the sale of properties and booked to the income statement under “taxes”.

c) Explanations on risk management

For explanations on risk management in general and the treatment of the interest rate risk, other market risks and credit risks specifically, please refer to the statements in section l) Risk report (page 178 ff).

d) Explanation on the methods used for identifying default risks and determining the need for value adjustments

The methods used to identify default risks and determine the need for value adjustments are set out in the section “Value adjustments for default risks in respect of impaired loans/receivables” in the accounting and valuation principles. Further information can also be found in section l) Risk report, under the sub-section “Credit risks” (page 189 ff).

e) Explanation on the valuation of collateral

The valuation of collateral for loans is specified in comprehensive internal regulations. They define the methods, procedures and competencies. These rules are continually reviewed and aligned with regulatory requirements and market changes. The bank distinguishes between mortgage claims and readily realisable collateral.

Mortgage claims

Zürcher Kantonalbank uses recognised estimation methods appropriate to the type of property for the valuation of mortgage claims. The lower of cost or market principle is applied: accordingly, the lower of estimated value or purchase price is taken as the lending value. This corresponds to the guidelines for the examination, valuation and processing of mortgage-secured loans issued by the Swiss Bankers Association. The key valuation factors for a property assessment are:

- Land (macro and micro position, area)
- Building (construction standard, condition, room concept, sustainability)
- Type of use (private, commercial, non-profit)
- Legal regulations
- Situation under property law and contractual agreements (rights, encumbrances)
- Result from rented properties

Model-based valuation processes are used in the first instance in the financing of single-family houses and owner-occupied apartments.

In the bank's internal hedonic model, the estimated value is determined based on the characteristics of the property to be valued and with the assistance of the data from similar market transactions.

Depending on the type of property, client and complexity, Zürcher Kantonalbank also makes use of expert appraisals. The assessment criteria, the valuation procedures and methods to be used and the required valuation skills of the experts are set out in the bank's internal regulations.

The valuation of mortgage claims is reviewed on a regular basis. The frequency depends on the type of property. Special developments in the real estate market or macroeconomic framework conditions may require an adjustment to the valuation intervals or portfolio-specific, extraordinary revaluations. The maximum permitted loan for the financed property is based on the class of collateral. This reflects the expected volatility of the value of the property or the usability of the property. It is determined by the type of property (e.g. single-family house, commercial property), the type of use (owner-occupied, rented) and other property-specific criteria (e.g. location, size of property).

Other collateral

Other collateral includes account balances, marketable securities as well as other readily realisable assets (precious metals, fiduciary investments, claims from life insurance policies, etc.). To the extent possible, lending values are based on market values. Other collateral is subject to the deduction of specified margins. These take into account the likelihood of fluctuations in value and concentration risks within the coverage.

f) Explanation on the bank's business policy regarding the use of derivative financial instruments and the use of hedge accounting

Use of derivative financial instruments

Trading in derivative financial instruments must comply with business policy requirements. It may be conducted for the purposes of proprietary and client trading as well as for hedging, and comprises both over-the-counter (OTC) and exchange-traded transactions.

Derivative financial instruments may only be established on underlyings that fulfil the following conditions:

- Prices are set regularly via a stock exchange or an alternative organised exchange or according to recognised, transparent regulations determined in advance.
- The prices are published.
- The underlying instrument may only be physically delivered for participation rights, bonds, fund units and precious metals.

Explanations regarding the application of hedge accounting

Hedge accounting is a balance sheet depiction of collateral relationships. It aims to reduce the volatility of the results figures or equity capital stated and adjust them to the economic risk. The ZKB Group applies hedge accounting to limit the interest rate risk in connection with balance sheet structure management. In this process, there is both a present value and an income consideration.

Contractually agreed client transactions, financial investments as well as debt financing in the banking book qualify as underlying transactions to be hedged. For the underlying instrument, a distinction is made between direct and indirect transactions. For direct transactions, Treasury has a direct influence on the timing and terms of the underlying instrument (purchase of financial investments, bond issues). Indirect transactions are understood to be all the transactions concluded by Sales and transferred to Treasury for interest risk management. For direct transactions, the result of individual transactions is taken into account, whilst for indirect transactions only the market value of the positions, based on changed market conditions (in particular the yield curve), is included. Appropriate derivative financial instruments (mainly interest swaps) are used for hedging purposes. For each hedging relationship, a review is undertaken to determine whether it meets the conditions for the application of hedge accounting (e.g. the hedging transactions must be concluded with an external counterparty).

All hedging transactions are treated as direct transactions. Zürcher Kantonalbank hedges the underlying transaction by means of a macro hedge. It optimises the total exposure on the basis of key rate sensitivities while adhering to the risk policy requirements. The result from the hedging transactions runs counter to the result of the underlying transactions and indicates the economic risk assumption and cover. The hedge effectiveness is measured every six months as of the balance sheet date at the end of June and the end of December. It is based on the effects on the result from the interest exposures of the underlying transactions and the hedging transactions. Specifically, the result from the underlying transaction is compared to the result from the hedging transaction as of the balance sheet date.

The cumulative absolute amounts from the monthly result from the underlying and hedging transactions are compared for the aggregate view of the hedge effectiveness over the six-month horizon. The hedge is regarded as effective as long as the result from the hedging transactions does not exceed the result from the underlying transactions. If the result from the hedging transactions, accumulated over six months, exceeds the result from the underlying transactions, the excessive part of the hedge is regarded as ineffective. The transactions responsible for the ineffectiveness of the hedge are then identified in the hedging portfolio. These transactions are derecognised from the hedging portfolio and allocated to the trading portfolio. This is carried out until the hedge is effective in the period under review. No ineffectiveness was recorded in the year under review.

g) Explanation on material events occurring after the balance sheet date

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

i) Information on the balance sheet

1 Breakdown of securities financing transactions

in CHF million	2020	2019
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	16,942	15,588
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	4,823	4,969
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	4,758	4,454
– of which, with unrestricted right to resell or pledge	4,758	4,454
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	42,632	45,792
– of which, repledged securities	848	160
– of which, resold securities	25,535	30,924

2 Overview of collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables

Overview by collateral

in CHF million	Type of collateral: Mortgage collateral	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	34	1,965	7,393	9,392
Mortgage loans				
– Residential property	72,849	10	14	72,873
– Office and business premises	9,870	1	10	9,881
– Commercial and industrial premises	2,341	1	20	2,362
– Other	2,607	0	2	2,608
Total mortgage loans	87,667	12	46	87,724
Total loans (before netting with value adjustments) 2020	87,701	1,977	7,439	97,117
Total loans (before netting with value adjustments) 2019	84,341	1,291	7,738	93,369
Total loans (after netting with value adjustments) 2020	87,701	1,977	7,254	96,932
Total loans (after netting with value adjustments) 2019	84,341	1,291	7,584	93,215
Off-balance-sheet				
Contingent liabilities	60	475	2,860	3,395
Irrevocable commitments	2,003	385	8,175	10,563
Obligations to pay up shares and make further contributions	–	–	251	251
Credit commitments	–	–	–	–
Total off-balance-sheet transactions 2020	2,063	859	11,286	14,209
Total off-balance-sheet transactions 2019	1,414	1,145	10,301	12,860

2 Overview of collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables (continued)

Information on impaired loans

Impaired loans	in CHF million	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments[1]
2020		500	246	254	188
2019		435	257	179	159

1 Individual value adjustments of 100 percent of the net debt amount are normally made. Individual value adjustment rates may apply in the case of major positions.

3 Trading portfolios and other financial instruments at fair value

Assets in CHF million	2020	2019
Debt securities, money market securities/transactions	4,492	4,803
– of which, listed[1]	3,777	4,702
Equity securities	3,086	2,477
Precious metals and commodities	3,340	1,888
Other trading portfolio assets	0	–
Total trading transactions	10,920	9,168
Debt securities	–	–
Structured products	–	–
Other	–	–
Total other financial instruments at fair value	–	–
Total assets	10,920	9,168
– of which, determined using a valuation model	716	101
– of which, securities eligible for repo transactions in accordance with liquidity requirements	1,670	1,559

1 Listed = traded on a recognised exchange.

Liabilities in CHF million	2020	2019
Debt securities, money market securities/transactions	1,300	2,033
– of which, listed[1]	1,280	2,006
Equity securities	14	18
Precious metals and commodities	5	1
Other trading portfolio liabilities	0	6
Total trading portfolio liabilities	1,320	2,058
Debt securities	–	–
Structured products	3,459	2,844
Other	–	–
Total liabilities from other financial instruments at fair value	3,459	2,844
Total liabilities	4,779	4,902
– of which, determined using a valuation model	3,480	2,871

1 Listed = traded on a recognised exchange.

4 Derivative financial instruments (assets and liabilities)

	Trading instruments			Hedging instruments		
in CHF million	Positive replacement values	Negative replacement values	Contract volume [1]	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments						
Forward contracts including FRAs	0	0	3,027	–	–	–
Swaps	7,662	6,957	598,897	315	326	14,507
Futures	–	–	21,793	–	–	–
Options (OTC)	42	25	3,167	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	7,704	6,982	626,885	315	326	14,507
Foreign exchange/precious metals						
Forward contracts	2,714	2,909	369,159	–	–	–
Combined interest rate/currency swaps	263	519	2,748	267	–	1,606
Futures	–	–	277	–	–	–
Options (OTC)	111	114	65,445	–	–	–
Options (exchange-traded)	0	0	4	–	–	–
Total	3,088	3,543	437,634	267	–	1,606
Equity securities/indices						
Forward contracts	–	–	–	–	–	–
Swaps	6	20	348	–	–	–
Futures	–	–	3,137	–	–	–
Options (OTC)	29	66	4,297	–	–	–
Options (exchange-traded)	175	175	7,106	–	–	–
Total	210	261	14,888	–	–	–
Credit derivatives						
Credit default swaps	3	4	307	–	–	–
Total return swaps	0	1	72	–	–	–
First-to-default swaps	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–
Total	4	5	378	–	–	–
Other [2]						
Forward contracts	–	–	–	–	–	–
Swaps	1	1	175	–	–	–
Futures	–	–	726	–	–	–
Options (OTC)	–	–	–	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	1	1	901	–	–	–
Total before netting agreements						
2020	11,006	10,792	1,080,685	581	326	16,113
– of which, determined using a valuation model	11,006	10,792	–	581	326	–
2019	10,651	10,728	1,048,096	541	404	15,493
– of which, determined using a valuation model	10,651	10,728	–	541	404	–

1 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 2020/1, irrespective of whether the derivative is traded long or short. The contract volume is determined differently depending on the type of contract and does not permit any direct conclusions to be drawn about the risk exposure.
2 Includes commodities and hybrid derivatives.

4 Derivative financial instruments (assets and liabilities) (continued)

Total after netting agreements[3]

in CHF million	Positive replacement values (cumulative)	Negative replacement values (cumulative)
2020	1,593	942
2019	1,486	1,303

Breakdown by counterparty

Positive replacement values (after netting agreements)	Central clearing houses	Banks and securities firms	Other customers
2020	108	468	1,017

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

5 Financial investments

	Book value		Fair value	
in CHF million	**2020**	2019	**2020**	2019
Debt securities	4,699	4,074	4,874	4,238
– of which, intended to be held to maturity	4,699	4,074	4,874	4,238
– of which, not intended to be held to maturity (available for sale)	–	–	–	–
Equity securities	96	90	177	160
of which, qualified participations[1]	17	20	27	28
Precious metals	236	255	236	255
Real estate[2]	4	3	4	3
Cryptocurrencies	–	–	–	–
Total financial investments	5,035	4,422	5,291	4,656
– of which, securities eligible for repo transactions in accordance with liquidity requirements	4,609	4,000	4,782	4,161

1 At least 10 percent of the capital or voting rights.

2 The insurance value of the real estate within financial investments amounted to CHF 3.4 million.

Counterparties by rating

in CHF million						
Moody's	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Ba1 – Ba3	Lower than Ba3	Unrated
Standard & Poor's, Fitch	AAA – AA–	A+ – A–	BBB+ – BBB–	BB+ – B–	Below B–	Unrated
Debt securities: Book values						
2020	4,392	47	–	–	–	261

All debt instruments without a rating fulfil the conditions of high-quality liquid assets (HQLA) according to the Liquidity Ordinance (LiqV).
If two ratings exist with different risk weightings, the rating with the lower risk weighting is used.
If more than two ratings exist with different risk weightings, those ratings which correspond to the two lowest risk weightings are taken into consideration.
The higher of the two risk weightings is used. Top priority is given to the issue rating and second priority to the issuer rating.

6 Presentation of non-consolidated participations

in CHF million	Cost value	Accumulated value adjustments/ changes in book value (equity valuation)	Book value end of 2019	Reclassifi-cations	Addi-tions	Disposals (incl. any FC differences)	Value adjustments	Changes in book value for participations using the equity method/ depreciation reversals	Book value end of 2020	Market value end of 2020
Participations valued using the equity method										
– with market value	–	–	–	–	–	–	–	–	–	–
– without market value	23	–1	21	6[1]	1	–	–7	1	22	–
Other participations										
– with market value	–	–	–	–	–	–	–	–	–	–
– without market value	126	–9	117	–	1	–1	–4	0	113	–
Total participations[2]	148	–10	138	6	2	–1	–11	1	135	–

1 Reclassification from financial investments at book value.

2 No material impairment losses or partial or full reversals of impairment to be recorded.

7 Disclosures on companies in which the bank holds a permanent direct or indirect significant participation

Company name	Registered office	Business activity	Currency bank's capital	Bank's capital in million	Zürcher Kantonalbank share of capital (in %)	Zürcher Kantonalbank voting rights (in %)	Held directly	Held indirectly
Fully consolidated participations								
Swisscanto Asset Management International S.A.	Luxembourg	Fund management	CHF	0	100.0	100.0		■
Swisscanto Fund Management Company Ltd.[1]	Zurich	Fund management	CHF	5	100.0	100.0		■
Swisscanto Holding Ltd.[2]	Zurich	Participations	CHF	24	100.0	100.0	■	
Swisscanto Private Equity CH I Ltd	Zurich	Financial services	CHF	0	100.0	100.0		■
Swisscanto Pensions Ltd.	Zurich	Financial services	CHF	1	100.0	100.0		■
Zürcher Kantonalbank Finance (Guernsey) Ltd.	Guernsey	Financial services	CHF	1	100.0	100.0	■	
Zürcher Kantonalbank Österreich AG	Salzburg	Financial services	EUR	6	100.0	100.0	■	
ZKB Securities (UK) Limited	London	Financial services	GBP	15	100.0	100.0	■	
Reported under non-consolidated participations:[3]								
– of which, participations valued using the equity method								
Technopark Real Estate Ltd.	Zurich	Project planning, construction, maintenance	CHF	40	33.3	33.3	■	
– of which, from other non-consolidated participations								
Pfandbriefzentrale der schweizerischen Kantonalbanken AG	Zurich	Pfandbrief institution	CHF	1,625[4]	17.8	17.8	■	
Viseca Holding AG[5]	Zurich	Participations	CHF	25	14.7	14.7	■	
Subsidiaries not fully consolidated								
ZüriBahn AG[6]	Zurich	Cable car	CHF	5	100.0	100.0	■	
Zürcher Kantonalbank Representações Ltda.[7]	São Paulo	Representative office	BRL	0	100.0	100.0	■	

1 Swisscanto Fund Management Ltd holds 100 percent of the shares of Swisscanto Private Equity CH I Ltd.
2 Swisscanto Holding Ltd. holds 100 percent of the shares in Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd. and Swisscanto Asset Management International S.A.
3 All non-consolidated participations whose share of capital is more than 10 percent are shown. In addition, either the share of the participations in the bank's capital must be more than CHF 2 million or the book value must be more than CHF 15 million.
4 Of which CHF 325 million has been paid up.
5 Name changed: formerly Aduno Holding AG. Requirement to surrender shares when new shareholders are admitted in accordance with the shareholder agreement.
6 Total assets in CHF thousand (2020: 5,380; 2019: 5,395); loss for the period in CHF thousand (2020: 397; 2019: 705).
7 Total assets in CHF thousand (2019: 297, 2018: 279); result for the period in CHF thousand (2019: 33, 2018: 32).

8 Presentation of tangible fixed assets

in CHF million	Cost value	Accumulated depreciation	Book value at end 2019	Change to scope of consolidation	Additions	Disposals	Depreciation	Reversals	Book value at end 2020
Bank buildings	1,331	–709	622	–	32	–0	–54	–	600
Other real estate	8	–6	2	–	–	–	–0	–	2
Proprietary or separately acquired software	–	–	–	–	–	–	–	–	–
Other tangible fixed assets	203	–176	27	0	14	–0	–14	–	27
Tangible assets acquired under finance leases	–	–	–	–	–	–	–	–	–
– of which, bank buildings	–	–	–	–	–	–	–	–	–
– of which, other real estate	–	–	–	–	–	–	–	–	–
– of which, other tangible fixed assets	–	–	–	–	–	–	–	–	–
Total tangible fixed assets	1,543	–892	651	0	46	–0	–68	–	629

The insurance value of the real estate within tangible fixed assets amounted to CHF 1,157 million.
The insurance value of the other tangible fixed assets amounted to CHF 393 million.

8 Presentation of tangible fixed assets (continued)

Operating leases

Leasing obligations not recognised in the balance sheet in CHF million	2020	2019
Due within 12 months	0	0
Due between 12 months and 5 years	0	0
Due after more than 5 years	–	–
Total of leasing obligations not recognised in the balance sheet	0	0
– of which, cancellable within 1 year	–	–

9 Presentation of intangible assets

in CHF million	Cost value	Accumulated amortisation	Book value end of 2019	Changes to scope of consolidation	Reclassifica-tions	Additions	Disposals	Amortisation	Reversals	Book value end of 2020
Goodwill	315	–207	108	–	–	1 [1]	–	–34	–	75
Patents	–	–	–	–	–	–	–	–	–	–
Licences	50	–50	0	–	–	1	–0	–1	–	0
Other intangible assets [2]	15	–1	14	–	–	–	–	–3	–	11
Total intangible assets	380	–258	123	–	–	2	–0	–38	–	86

1 Goodwill from the purchase of 20% of Pension Fund Services AG (PFS) by Swisscanto Holding Ltd.

2 In connection with the agreed and partially completed takeover of the investment management and marketing of GAM precious metals and money market funds.

10 Other assets and liabilities

	Other assets		Other liabilities	
in CHF million	2020	2019	2020	2019
Compensation account	0	–	131	29
Deferred income taxes recognised as assets	8	8	–	–
Amount recognised as assets in respect of employer contribution reserves	–	1	–	–
Amount recognised as assets relating to other assets from pension schemes	–	–	–	–
Negative goodwill	–	–	–	–
Settlement accounts	168	196	232	133
Indirect taxes	57	53	39	26
Other	6	8	16	17
Total	239	267	417	205

11 Assets pledged or assigned to secure own commitments, and assets under reservation of ownership

	2020		2019	
in CHF million	Book value	Effective commitment	Book value	Effective commitment
Pledged/assigned assets				
Amounts due from banks	990	985	1,329	1,310
Amounts due from customers	2,879	2,855	2,624	2,596
Mortgage loans	13,376	10,743	12,127	9,778
Trading portfolio assets	771	765	13	13
Financial investments	–	–	–	–
Total pledged/assigned assets	18,016	15,348	16,092	13,696

No assets are subject to reservation of ownership.
Note 1 shows instruments serving as collateral for which a right of resale or pledging has been granted in connection with securities financing.

12 Liabilities relating to own pension schemes and number and nature of equity instruments of the bank held by own pension schemes

Liabilities to own pension schemes from balance-sheet transactions

in CHF million	2020	2019	Change
Amounts due in respect of customer deposits	108	105	3
Cash bonds	–	–	–
Negative replacement values of derivative financial instruments	4	12	–8
Accrued expenses and deferred income	–	–	–
Other liabilities	–	–	–
Total	112	117	–5

Own pension schemes do not hold any of the bank's equity instruments.

13 Information on pension schemes

The Zürcher Kantonalbank pension fund is a public-law institution and is a separate legal entity. The purpose of the pension fund is to insure the bank's employees against the economic consequences of age, death and disability. The pension fund's pension plan comprises three different pension vehicles. The annuity plan insures the basic salary (annual salary) according to the combined defined benefit/defined contribution [1] principle. The capital plan insures any paid variable compensation (bonus) subject to AHV. 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 reduction in benefits on early retirement between the ages of 58 and 64.

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. An additional plan is operated in the form of a separate trust, the Marienburg Foundation of Zürcher Kantonalbank, for the senior management of affiliated employers.

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, and the pension is recalculated when the insured individual reaches normal retirement age.

Structured on a defined contribution basis, this solution insures the element of the base salary in excess of a specific minimum amount. The Marienburg Foundation of Zürcher Kantonalbank is funded jointly by the insured individuals and the bank. However, employer contributions for salary components insured in the Marienburg Foundation are lower than those in the pension fund after the age of 45. Also, unlike the pension fund, the Marienburg Foundation does not pay pensions, only retirement capital.

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

- Zürcher Kantonalbank's Grüningen Botanical Garden Trust
- Zürcher Kantonalbank pension fund
- Zürcher Kantonalbank's SanArena Trust
- Swisscanto Fund Management Company Ltd.
- Swisscanto Pensions Ltd.
- Zürcher Kantonalbank

in %	Coverage ratio as at 31.12.2020 (not yet audited)	Coverage ratio as at 31.12.2019 (audited)
Zürcher Kantonalbank pension fund	115	117
Marienburg Foundation of Zürcher Kantonalbank (solution for senior management)	110	110

Coverage ratio pursuant to Article 44 BVV2

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 the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. are not affiliated to any pension scheme.

Swisscanto Asset Management International SA in Luxembourg has set up a pension plan for all employees. The plan, including the investment of employee assets, is managed by an insurance company. The savings contributions are fully financed by the employer. The risks are comprehensively covered by the insurance company. The office in Germany is a member of the pension fund for the banking industry. The employees can save tax-free contributions for retirement, with the employer paying part of the contributions.

The pension plan for the employees of ZKB Securities (UK) Ltd. is a defined contribution scheme and is administered by an independent retirement benefit institution.

There is no possibility of a shortfall or surplus for pension solutions in other countries as the investment risk is fully borne by the employee.

13 Information on pension schemes (continued)

a) Employer contribution reserves (ECR)

	Nominal value	Waiver of use	Net amount	Net amount	Influence of ECR on personnel expenses	Influence of ECR on personnel expenses
in CHF million	End of 2020	End of 2020	End of 2020	End of 2019	2020	2019
Zürcher Kantonalbank pension fund	–	–	–	1	– 1	– 0
Total	–	–	–	1	– 1	– 0

b) Economic benefit / obligations and the pension expenses

	Over-/underfunding	Economic interest of the bank		Change in economic interest versus previous year	Contributions paid	Pension expenses in personnel expenses	
in CHF million	End of 2020	2020	2019	2020	2020	2020	2019
Employer-sponsored funds / employer-sponsored pension schemes	–	–	–	–	–	–	–
Pension plans without overfunding / underfunding [1]	–	–	–	–	117	117	0
Pension plans with overfunding	–	–	–	–	–	–	111
Pension plans with underfunding	–	–	–	–	–	–	–
Pension schemes without own assets	–	–	–	–	–	–	–
Total	–	–	–	–	117	117	112

1 Including change in provisions for pension benefit obligations (2020: release CHF 0 million / 2019: release CHF 1 million).

14 Issued structured products

Underlying risk of the embedded derivative		Book value: Valued as a whole		Book value: Valued separately		Total
in CHF million		Booked in trading portfolio	Booked in other financial instruments at fair value	Value of the host instrument	Value of the derivative	
Interest rate instruments	With own debenture component	–	80	–	–	80
	Without oDC	–	–	–	–	–
Equity securities	With own debenture component	–	3,045	–	–	3,045
	Without oDC	–	–	–	–	–
Foreign currencies	With own debenture component	–	189	–	–	189
	Without oDC	–	–	–	–	–
Commodities/precious metals	With own debenture component	–	59	–	–	59
	Without oDC	–	–	–	–	–
Loans	With own debenture component	–	78	–	–	78
	Without oDC	–	–	–	–	–
Real estate	With own debenture component	–	–	–	–	–
	Without oDC	–	–	–	–	–
Hybrid instruments	With own debenture component	–	9	–	–	9
	Without oDC	–	–	–	–	–
Total 2020		–	3,459	–	–	3,459
Total 2019		–	2,844	–	–	2,844

15 Presentation of bonds outstanding and mandatory convertible bonds (incl. cash bonds and central mortgage institution loans)

Cash bonds

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2020	158	0.50	2021–2030
31.12.2019	143	0.61	2020–2029

Maturity structure in CHF million	2021	2022	2023	2024	2025	after 2025	Total
Cash bonds	33	38	3	21	26	37	158

Bonds and mandatory convertible bonds

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2020 (Issuer: Zürcher Kantonalbank)	25,385		
– of which, non-subordinated	23,778	0.28	2021–2044
– of which, subordinated without PONV clause[1]	–	–	–
– of which, subordinated with PONV clause	1,607	2.22	2027–perpetual
31.12.2019 (Issuer: Zürcher Kantonalbank)	13,329		
– of which, non-subordinated	11,858	0.60	2020–2044
– of which, subordinated without PONV clause[1]	–	–	–
– of which, subordinated with PONV clause	1,471	2.17	2025–perpetual

Maturity structure in CHF million	2021	2022	2023	2024	2025	after 2025	Total
Bond issues	17,145	1,302	248	300	800	5,591	25,385

1 Point of non-viability (PONV).

Central mortgage institution loans

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2020	10,743	0.57	2021–2039
31.12.2019	9,778	0.61	2020–2039

Maturity structure in CHF million	2021	2022	2023	2024	2025	after 2025	Total
Central mortgage institution loans[1]	794	616	1,253	1,923	1,304	4,853	10,743

1 Pfandbriefzentrale der schweizerischen Kantonalbanken AG loans.

16 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

in CHF million	Balance at end of 2019	Changes to scope of consolidation	Use in conformity with designated purpose and reversals	Reclassifi-cations	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income statement	Balance at end of 2020
Provisions for deferred taxes	0	–	–	–	–	–	–	–0	–
Provisions for pension benefit obligations [1]	17	–	–17	–	–	–	–	–0	–
Provisions for default risks	127	–	–0	–	–	–	56	–46	137
Provisions for other business risks [2]	59	–	–3	0	–	–	–	–1	55
Provisions for restructuring	–	–	–	–	–	–	–	–	–
Other provisions [3]	38	–	–10	–0	–0	–	5	–4	30
Total provisions	242	–	–30	0	–0	–	62	–51	222
Reserves for general banking risks	200	–	–	–	–	–	–	–46	154
Value adjustments for default and country risks	159	–	–7	–	–0	2	92	–57	188
– of which, value adjustments for default risks in respect of impaired loans/receivables [4]	159	–	–7	–	–0	2	92	–57	188
– of which, value adjustments for latent risks	–	–	–	–	–	–	–	–	–

1 In line with its sustainable human resources policy, the Board of Directors decided in December 2016 that the bank would assume certain costs for the financing of transitional solutions in connection with the realignment of the pension fund to the changed environment.
2 Provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
3 Other provisions include provisions for litigation, provisions for employees' holiday credits and provisions for the ZKB company anniversary.
4 Default risks consist primarily of counterparty risks, for which value adjustments of 100 percent of the net debt amount are generally made. Individual value adjustment rates may apply in the case of major positions.

Recoveries from amounts due derecognised in previous periods are reported directly in Changes in value adjustments for default risk and losses from interest operations (2020: CHF 1 million/2019: CHF 1 million).
For more details on the management of credit risks, operational risks and legal and compliance risks, please refer to section I) Risk report.

17 Presentation of the bank's capital

The disclosure pursuant to the accounting rules for banks is made only by the parent company (page 222).

18 Number and value of equity securities or options on equity securities held by all executives and directors and by employees, and disclosures on any employee participation schemes

Neither Zürcher Kantonalbank nor its subsidiaries have employee participation schemes.

19 Amounts due from / to related parties

in CHF million	Due from 2020	Due from 2019	Due to 2020	Due to 2019
Holders of qualified participations	11	12	1,305	938
Group companies	2	1	3	0
Linked companies	357	493	970	875
Transactions with members of governing bodies	15	17	20	28
Other related parties	–	–	–	–

Linked companies are public-law institutions of the respective canton or public-private enterprises in which the canton holds qualified participations.
On- and off-balance-sheet transactions with related parties are conducted at usual market conditions, with the exception of loans to members of governing bodies. Loans to governing bodies are granted on employee terms in some cases.
This primarily involved the usual balance sheet banking business, i.e. it was mainly amounts due from and due to customers.
The totals above also include securities items and claims and liabilities from transactions in derivatives (positive and negative replacement values).
The off-balance-sheet transactions with related parties in the amount of CHF 223 million (2019: CHF 232 million) primarily include irrevocable loan commitments and other contingent liabilities.

20 Disclosure of holders of significant participations

The disclosure pursuant to the accounting rules for banks is only made by the parent company (page 223).

21 Disclosure of own shares and composition of equity capital

in CHF million	2020	2019
Reserves for general banking risks	154	200
Bank's capital	2,425	2,425
Retained earnings reserve	9,214	8,875
Foreign currency translation reserve	−8	−7
Consolidated profit	865	845
Total shareholders' equity	12,650	12,337

The bank does not hold any of its own shares.

22 Disclosures in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations and Article 663c para. 3 CO for banks whose equity securities are listed

The disclosure pursuant to the accounting rules for banks is only made by the parent company (page 224).

23 Maturity structure of financial instruments

in CHF million	At sight	Cancellable	Due: within 3 months	Due: within 3 to 12 months	Due: after 1 to 5 years	Due: after 5 years	No maturity	Total
Assets/financial instruments								
Liquid assets	52,154	–	–	–	–	–	–	52,154
Amounts due from banks	905	0	1,427	896	77	92	–	3,396
Amounts due from securities financing transactions	–	7,652	7,428	1,862	–	–	–	16,942
Amounts due from customers	168	1,203	2,592	1,689	2,295	1,305	–	9,253
Mortgage loans	87	3,381	9,291	9,826	39,988	25,107	–	87,679
Trading portfolio assets	10,920	–	–	–	–	–	–	10,920
Positive replacement values of derivative financial instruments	1,593	–	–	–	–	–	–	1,593
Other financial instruments at fair value	–	–	–	–	–	–	–	–
Financial investments	332	–	146	263	2,407	1,884	4	5,035
Total assets/financial instruments 2020	66,158	12,237	20,884	14,535	44,767	28,388	4	186,973
Total assets/financial instruments 2019	49,478	8,838	21,793	14,912	45,608	24,950	3	165,583
Debt capital/ financial instruments								
Amounts due to banks	2,542	796	28,275	2,516	–	708	–	34,838
Liabilities from securities financing transactions	–	1,946	2,878	–	–	–	–	4,823
Amounts due in respect of customer deposits	51,243	35,934	2,686	1,219	375	1,152	–	92,609
Trading portfolio liabilities	1,320	–	–	–	–	–	–	1,320
Negative replacement values of derivative financial instruments	942	–	–	–	–	–	–	942
Liabilities from other financial instruments at fair value	3,459	–	–	–	–	–	–	3,459
Cash bonds	–	–	19	14	88	37	–	158
Bond issues	–	1,607	8,012	9,133	2,649	3,984	–	25,385
Central mortgage institution loans	–	–	100	694	5,096	4,853	–	10,743
Total debt capital/financial instruments 2020	59,506	40,283	41,969	13,577	8,209	10,734	–	174,277
Total debt capital/financial instruments 2019	55,185	38,311	35,284	6,740	7,955	10,120	–	153,595

24 Assets, liabilities and off-balance-sheet positions by domestic and foreign origin in accordance with the domicile principle

	2020		2019	
in CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	52,139	15	36,668	119
Amounts due from banks	496	2,901	807	4,110
Amounts due from securities financing transactions	7,344	9,599	8,141	7,447
Amounts due from customers	7,420	1,833	6,724	2,180
Mortgage loans	87,679	0	84,310	0
Trading portfolio assets	7,051	3,868	5,105	4,063
Positive replacement values of derivative financial instruments	1,252	342	1,102	384
Other financial instruments at fair value	–	–	–	–
Financial investments	3,752	1,283	2,989	1,433
Accrued income and prepaid expenses	285	17	274	19
Non-consolidated participations	134	1	137	1
Tangible fixed assets	626	3	648	3
Intangible assets	86	0	122	0
Other assets	231	8	258	9
Total assets	168,494	19,871	147,286	19,768
Liabilities				
Amounts due to banks	3,885	30,953	1,935	32,147
Liabilities from securities financing transactions	651	4,172	4	4,965
Amounts due in respect of customer deposits	84,679	7,929	78,220	6,869
Trading portfolio liabilities	566	754	974	1,085
Negative replacement values of derivative financial instruments	591	351	872	431
Liabilities from other financial instruments at fair value	2,436	1,023	1,657	1,187
Cash bonds	158	–	143	–
Bond issues	25,385	–	13,329	–
Central mortgage institution loans	10,743	–	9,778	–
Accrued expenses and deferred income	783	15	662	12
Other liabilities	416	1	203	2
Provisions	221	1	240	1
Reserves for general banking risks	154	–	200	–
Bank’s capital	2,425	–	2,425	–
Retained earnings reserve	9,089	124	8,752	123
Foreign currency translation reserve	–8	–	–7	–
Consolidated profit	861	4	838	6
Total liabilities	143,036	45,328	120,226	46,828
Off-balance-sheet transactions				
Contingent liabilities	1,676	1,719	1,776	2,108
Irrevocable commitments	9,929	634	7,741	977
Obligations to pay up shares and make further contributions	251	0	257	0
Credit commitments	–	–	–	–

25A Assets by country or group of countries

	2020		2019	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	168,494	89.5	147,286	88.2
Rest of Europe	13,555	7.2	13,351	8.0
– of which, Germany	3,792	2.0	1,972	1.2
– of which, France	596	0.3	1,009	0.6
– of which, United Kingdom	4,308	2.3	4,408	2.6
– of which, Guernsey	17	0.0	27	0.0
Americas	4,325	2.3	4,086	2.4
– of which, USA	3,316	1.8	2,764	1.7
Asia and Oceania	1,962	1.0	2,192	1.3
Africa	28	0.0	139	0.1
Total assets	188,364	100.0	167,054	100.0

25B Liabilities by country or group of countries

	2020		2019	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	143,036	75.9	120,226	72.0
Rest of Europe	19,616	10.4	23,008	13.8
– of which, Germany	4,041	2.1	3,953	2.4
– of which, France	3,187	1.7	3,138	1.9
– of which, United Kingdom	2,454	1.3	2,978	1.8
– of which, Guernsey	1,629	0.9	1,843	1.1
Americas	16,383	8.7	12,693	7.6
– of which, USA	8,206	4.4	3,696	2.2
Asia and Oceania	7,805	4.1	9,342	5.6
Africa	1,524	0.8	1,785	1.1
Total liabilities	188,364	100.0	167,054	100.0

25C Contingent liabilities, irrevocable commitments, obligations to pay up shares and make further contributions by country or group of countries

	2020		2019	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	11,856	83.4	9,774	76.0
Rest of Europe	1,188	8.4	1,675	13.0
– of which, Germany	88	0.6	136	1.1
– of which, France	131	0.9	73	0.6
– of which, United Kingdom	170	1.2	178	1.4
– of which, Guernsey	310	2.2	903	7.0
Americas	389	2.7	738	5.7
– of which, USA	20	0.1	61	0.5
Asia and Oceania	731	5.1	634	4.9
Africa	45	0.3	39	0.3
Total	14,209	100.0	12,860	100.0

26 Breakdown of total assets by credit rating of country groups (risk domicile view)

Rating system		2020 Net foreign exposure		2019 Net foreign exposure	
ZKB's own country rating	Moody's	in CHF million	Share as %	in CHF million	Share as %
A	Aaa / Aa1 / Aa2 / Aa3	13,064	84.7	12,306	82.1
B	A1 / A2 / A3	1,034	6.7	1,162	7.7
C	Baa1 / Baa2 / Baa3	651	4.2	833	5.6
D	Ba1 / Ba2	360	2.3	351	2.3
E	Ba3	73	0.5	57	0.4
F	B1 / B2 / B3	227	1.5	256	1.7
G	Caa1 / Caa2 / Caa3 / Ca / C	11	0.1	29	0.2
Total		15,418	100.0	14,994	100.0

For further information, please see the "Credit risks" section in the Risk Report.

27 Balance sheet by currencies

	Currencies translated in CHF million				
	CHF	USD	EUR	Other	Total in CHF million
Assets					
Liquid assets	51,984	2	164	5	52,154
Amounts due from banks	684	2,264	310	138	3,396
Amounts due from securities financing transactions	5,024	5,897	6,021	–	16,942
Amounts due from customers	6,036	1,447	1,297	473	9,253
Mortgage loans	87,531	123	25	–	87,679
Trading portfolio assets	8,393	1,428	670	428	10,920
Positive replacement values of derivative financial instruments	1,243	216	113	21	1,593
Other financial instruments at fair value	–	–	–	–	–
Financial investments	4,209	75	750	1	5,035
Accrued income and prepaid expenses	267	14	18	3	302
Non-consolidated participations	134	0	1	0	135
Tangible fixed assets	626	–	3	0	629
Intangible assets	86	–	0	–	86
Other assets	207	16	8	7	239
Total assets shown in balance sheet	166,425	11,483	9,379	1,077	188,364
Delivery entitlements from spot exchange, forward forex, forex options and precious metal transactions	119,706	123,845	93,872	41,219	378,642
Total assets	286,130	135,328	103,252	42,297	567,007
Liabilities					
Amounts due to banks	8,641	21,245	3,515	1,437	34,838
Liabilities from securities financing transactions	44	2,050	2,729	–	4,823
Amounts due in respect of customer deposits	81,352	4,391	5,834	1,032	92,609
Trading portfolio liabilities	761	435	70	54	1,320
Negative replacement values of derivative financial instruments	585	137	206	13	942
Liabilities from other financial instruments at fair value	2,255	648	542	16	3,459
Cash bonds	158	–	–	–	158
Bond issues	9,716	–	10,160	5,509	25,385
Central mortgage institution loans	10,743	–	–	–	10,743
Accrued expenses and deferred income	759	13	22	3	798
Other liabilities	369	7	34	7	417
Provisions	221	–	1	–	222
Reserves for general banking risks	154	–	–	–	154
Bank's capital	2,425	–	–	–	2,425
Retained earnings reserve	9,230	–	−16	–	9,214
Foreign currency translation reserve	–	–	−8	–	−8
Consolidated profit	864	–	3	−2	865
Total liabilities shown in the balance sheet	128,277	28,926	23,093	8,068	188,364
Delivery obligations from spot exchange, forward forex, forex options and precious metal transactions	158,437	106,015	80,056	34,371	378,879
Total liabilities	286,714	134,941	103,150	42,439	567,243
Net position per currency in 2020	−584	387	102	−142	−237
Net position per currency in 2019	−366	−297	90	134	−439

j) Information on off-balance-sheet transactions

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

28 Contingent liabilities and contingent assets

in CHF million	2020	2019
Guarantees to secure credits and similar	375	449
Performance guarantees and similar	2,036	2,617
Irrevocable commitments arising from documentary letters of credit	984	819
Other contingent liabilities	0	0
Total contingent liabilities	3,395	3,885
Contingent assets arising from tax losses carried forward	–	–
Other contingent assets	–	–
Total contingent assets	–	–

29 Breakdown of credit commitments

There are no credit commitments as of 31 December 2020 and 31 December 2019.

30 Breakdown of fiduciary transactions

in CHF million	2020	2019
Fiduciary investments with third-party companies	214	558
Fiduciary investments with linked companies	–	–
Fiduciary loans	–	–
Fiduciary transactions arising from securities lending and borrowing (in the bank's own name for the account of customers)	–	–
Other fiduciary transactions	–	–
Total	214	558

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

Type of managed assets in CHF million	2020	2019
Assets in collective investment schemes managed by the bank	114,590 [2]	96,540
Assets under discretionary asset management agreements	70,598 [2]	72,412
Other managed assets	176,470	164,390
Total managed assets (including double counting) [1]	361,658	333,341
– of which, double counting	58,936	54,601

1 The client assets shown include all client assets of an investment nature held with Zürcher Kantonalbank, as well as client assets held with third-party banks that are managed by Zürcher Kantonalbank. Zürcher Kantonalbank also includes client deposits that are not of an investment nature in its reported client assets. Non-inclusion of accounts that do not have an investment element would lead to greater volatility in managed client assets and thus distort the meaningfulness of trends in client assets. Assets held with Zürcher Kantonalbank but managed by third parties (custody-only) are not included. Banks and significant investment fund companies (including collective pension fund foundations, investment trusts, pension foundations and pension funds) for which Zürcher Kantonalbank acts exclusively as custodian bank are treated as custody-only.

2 To ensure uniform presentation, the assets of the Swisscanto Investment Foundation (CHF 7,895 million) are now reported as of 1 January 2020 under the category of assets in collective investment schemes managed by the bank. In the past, these were included in assets under discretionary asset management agreements.

b) Presentation of the development of managed assets

in CHF million	2020	2019
Total managed assets (including double counting) at beginning	333,341	295,194
+/– net new money inflow or net new money outflow [1]	22,056	11,656
+/– price gains/losses, interest, dividends and currency gains/losses	8,857	27,006
+/– other effects	−2,596	−515
Total managed assets (including double counting) at end	361,658	333,341

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

k) Information on the income statement

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

32 Breakdown of the result from trading activities and the fair value option

a) Breakdown by business area (in accordance with the organisation of the bank/financial group)

in CHF million	2020	2019
Result from trading in foreign exchange, bank notes and precious metals	142	112
Result from trading in bonds, interest rate and credit derivatives	191	100
Result from trading in equities and structured products	84	52
Result from other trading activities[1]	42	54
Total	459	319

1 The result from other trading activities includes results from securities lending and borrowing as well as positions for which the Executive Board or Asset Management is responsible.

b) Breakdown by underlying risk and based on the use of the fair value option

		Result from trading activities from:						
in CHF million	2020	Foreign exchange and bank notes	Precious metals	Securities lending and borrowing	Bonds, interest rate and credit derivatives	Equities and equity derivatives	Commodities and commodity derivatives	Other products[2]
Result from trading in foreign exchange, bank notes and precious metals	142	138	3	–	1	–	–	–
Result from trading in bonds, interest rate and credit derivatives	191	1	–	–	191	–0	–	–
Result from trading in equities and structured products	84	22	–1	–	–28	90	0	0
Result from other trading activities	42	–0	–	43	–1	–0	–1	0
Total	459	161	2	43	163	90	–1	0
– of which, from fair value option on assets	–	–	–	–	–	–	–	–
– of which, from fair value option on liabilities	–47	16	–0	–	14	–77	–0	–0

2 Trading income from other products includes hybrid products and real estate derivatives.

33 Disclosure of material refinancing income in the item Interest and discount income as well as material negative interest

During financial year 2020, refinancing income from trading activities of CHF –22.1 million (previous year: CHF –41.3 million) was included in the item Interest and discount income.

The item Interest and discount income also includes the result of currency swaps in the amount of CHF 370.1 million (previous year: CHF 692.4 million), which were entered into solely for the purpose of engaging in interest arbitrage. Negative interest on lending business is shown as a reduction in the interest and discount income. Negative interest on deposit-taking business is shown as a reduction in interest expenses.

in CHF million	2020	2019
Negative interest on lending business (reduction in interest and discount income)	199	240
Negative interest on deposit-taking business (reduction in interest expenses)	145	125

34 Breakdown of personnel expenses

in CHF million	2020	2019
Salaries for members of the bank's governing bodies and personnel	861	816
– of which, alternative forms of variable compensation	–	–
AHV, IV, ALV and other social security contributions[1]	188	178
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	76[2]	33
Total	1,126	1,026

1 Including change in provisions for pension benefit obligations (2020: release CHF 0 million/2019: release CHF 1 million).
2 Including anniversary payments of CHF 46 million.

35 Breakdown of general and administrative expenses

in CHF million	2020	2019
Office space expenses	35	34
Expenses for information and communications technology	174	154
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	2	2
Fees of audit firms	7	7
– of which, for financial and regulatory audits	7	7
– of which, for other services	0	0
Other operating expenses	236	221
– of which, compensation for state guarantee	23	22
Total	455	417

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

in CHF million	2020	2019
Extraordinary income		
Reversal of impairment on other participations	0	4
Income from sale of other real estate / bank premises	0	0
Income from sale of participations	25	0
Other	0	0
Total	25	4
Extraordinary expenses		
Losses from sale of other real estate / bank premises	0	0
Losses from disposal of participations	–	–
Other	0	–0
Total	0	0
Changes in reserves for general banking risks		
Creation of reserves for general banking risks	–	–
Release of reserves for general banking risks	46 [1]	–
Total	46	–

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

1 This release of reserves for general banking risks is related to anniversary payments to employees as part of the 150-year anniversary of Zürcher Kantonalbank.

37 Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum

in CHF million		2020	2019
Participations	Registered office		
Venture Incubator AG	Altendorf	–	3
Total		–	3

Appreciation is applied to non-listed participations in accordance with the mean value method and, for listed participations, in accordance with the market value method.

38 Income statement broken down according to domestic and foreign origin, according to the principle of permanent establishment

	2020		2019	
in CHF million	Domestic	Foreign	Domestic	Foreign
Result from interest operations				
Interest and discount income	1,425	0	1,861	0
Interest and dividend income from financial investments	32	0	35	0
Interest expense	–200	0	–687	–0
Gross result from interest operations	1,257	1	1,209	0
Changes in value adjustments for default risks and losses from interest operations	–39	0	6	0
Subtotal net result from interest operations	1,218	1	1,216	1
Result from commission business and services				
Commission income from securities trading and investment activities	754	108	685	101
Commission income from lending activities	57	0	58	0
Commission income from other services	128	1	149	1
Commission expense	–205	–37	–181	–36
Subtotal result from commission business and services	735	72	711	66
Result from trading activities				
Result from trading activities and the fair value option	448	11	302	16
Other result from ordinary activities				
Result from the disposal of financial investments	6	–	6	–
Income from participations	15	–0	25	0
– of which, participations valued using the equity method	1	–0	2	0
– of which, from other non-consolidated participations	14	0	23	0
Result from real estate	5	0	5	0
Other ordinary income	9	0	68	0
Other ordinary expenses	–6	–0	–2	–
Subtotal other result from ordinary activities	29	–0	102	0
Operating expenses				
Personnel expenses	–1,108	–18	–1,011	–15
General and administrative expenses	–443	–11	–408	–9
Subtotal operating expenses	–1,551	–29	–1,419	–24
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–116	–1	–111	–1
Changes to provisions and other value adjustments and losses	–14	–0	–12	0
Operating result	748	53	789	58
Extraordinary income	25	0	4	0
Extraordinary expenses	–0	–	–0	–0
Changes in reserves for general banking risks	46	–	–	–
Taxes	–6	–2	–4	–1
Consolidated profit	814	51	788	57

39 Presentation of current taxes, deferred taxes, and disclosure of tax rate

in CHF million	2020	2019
Creation of provisions for deferred taxes	–	–
Reversal of provisions for deferred taxes	0	0
Recognition of deferred taxes on losses carried forward	–1	–0
Recognition of other deferred taxes	0	–
Expenses for current income and capital taxes	–7	–5
Expenses for property gains taxes	–0	–
Total	–8	–5
Unrecognised tax reductions on losses carried forward, and tax credits not recognised under the principle of prudence	–	–
Hypothetical deferred income taxes calculated at theoretical tax rates on revaluations of investments not relevant for tax purposes	–	–

Figures in table: minus = expense; plus = income

As Zürcher Kantonalbank is exempt from direct income and capital taxes, no weighted average interest rate is disclosed.

40 Disclosures and explanations of the earnings per equity security in the case of listed banks

Zürcher Kantonalbank has no listed equity securities.

41 Components of return on equity

in %	2020	2019
Return on equity (RoE)	7.2	7.2

in CHF million	2020	2019
Relevant net annual result for calculating ROE		
Consolidated profit	865	845
Total	865	845
Relevant average equity[1] for calculating ROE		
Average bank's capital	2,425	2,425
Average other equity components	9,630	9,282
Total	12,055	11,707

1 The average bank's capital and other equity components are calculated on a monthly basis.

I) Risk report

1.1.1 Risk profile

Zürcher Kantonalbank's risk profile at the end of financial year 2020 is largely unchanged overall compared to the previous year. In light of the Covid-19 pandemic, this stability indicates it is very robust. However, this does not belie the fact that the pandemic has triggered increased momentum in certain risk areas during the year.

Both the nature and scope of public health restrictions and the economic impact of efforts to combat the Covid-19 pandemic were nearly impossible to predict. A pandemic event is, however, an integral part of business continuity management (BCM) in OpRisk management. Accordingly, Zürcher Kantonalbank was prepared for a pandemic event. The Pandemic Task Force was called into action as part of the emergency organisation way back in January, primarily to safeguard critical processes and resources. Working in close cooperation with the Executive Board and keeping a close eye on the latest developments, the Task Force took far-reaching measures not only to protect the bank's clients and employees, but also to guarantee that banking operations would remain intact at all times. The bank did not experience any significant interruptions to its operations in 2020 as a result of the pandemic. The coronavirus crisis did not trigger any substantial change in the bank's risk profile for operational risks compared with the previous year. Close attention is still being paid to key risks in the two main areas of cyber and process risks.

Market turbulence in March and April pushed volatility to levels last seen during the financial crisis. While temporarily higher value at risk (VaR) resulted for market risks in the trading book, this metric remained in compliance with the risk tolerance requirements at all times. With a strategy focused on client business, trading has benefited from higher margins and trading volumes without a significant increase in risk appetite. Extensive support measures taken by central banks and governments in the second quarter helped keep markets calm. Since the summer months, the value at risk (VaR) for market risks in the trading book has returned to pre-pandemic levels. As at the end of the year, the utilisation of the risk capital limit allocated internally for trading (capital at risk) was around 65 percent.

Major restrictions on movement implemented to combat the pandemic brought economic and social life in Switzerland and large parts of Europe to a virtual standstill in the spring. Officially mandated business closures and travel restrictions had a particularly harsh impact on the personal services sector, the hospitality industry and companies in the travel and events sector. So far, emergency measures initiated by the federal government and the cantons as well as economic stabilisation mechanisms (including compensation for short-time work) have been able to prevent liquidity bottlenecks from triggering a wave of redundancies and bankruptcies in Switzerland. Zürcher Kantonalbank approved a total financing volume of over CHF 1 billion during the year under this Covid-19 emergency loan programme (see section 1.5.2). Larger companies in particular secured additional liquidity in the spring by drawing on previously unused limits; they subsequently restructured their financing during the year and then reduced their credit utilisation again.

At the beginning of the crisis, there was a great deal of uncertainty about the further course of the pandemic and its economic impact, and economic forecasts became increasingly pessimistic. Against that backdrop, credit risk management at Zürcher Kantonalbank carried out an analysis at an early stage to determine the potential impact of adverse developments on the credit portfolio within the context of internal and regulatory stress scenarios. In addition, specific stress analyses were performed, for example in commercial real estate financing, with a focus on the potential loss of rental income in the hospitality industry. The possible effects of a slump in immigration were analysed in detail in several areas, including in residential real estate. In close coordination between the Sales units as the risk managers of the first line of defence and the Risk business unit as the second line of defence, the commercial loan portfolio was repeatedly subjected to different analyses. The priority was to determine which clients in the lending business are affected by the crisis and to what extent. The bank significantly increased the frequency of risk reporting and substantially expanded the internal monitoring reports for credit risks as an important basis for the ongoing assessment of the creditworthiness of the loan portfolios.

Looking back, the residential property market in particular proved to be robust, and the cautious price forecasts made in the spring turned out to be too pessimistic. Zürcher Kantonalbank's planning has so far not identified any extraordinary loss events in the loan portfolio. Overall, the net new creation of specific valuation adjustments and reserves for default risk had a negative effect totalling around CHF 47 million in the 2020 income statement (see section 1.5.2). The uncertainty of forecasts remains high in the medium term, however, and the income situation in some of the sectors that were already hard hit in the spring remains under pressure.

Central bank interest rate forecasts, which are an important framework for managing the bank's interest rate risk exposure, were again revised downwards in 2020. Against this backdrop, the longer interest rate fixings of mortgage clients, together with mortgage portfolio growth, made an ongoing contribution to interest rate exposure growth in the risk profile. The step-up in capital market refinancing and hedging measures in the first half of the year had a risk-reducing effect, as did the encouraging development of rollover mortgages in the second half. This successor product to Libor mortgages, which was launched in the summer, makes only a marginal contribution to interest rate risk due to the daily fixing of interest rates.

As a systemically important bank, Zürcher Kantonalbank must fulfil significantly higher regulatory liquidity requirements with effect from 1 January 2021. In light of these new requirements, the bank increased its large liquidity cushion even further during the year under review. By the end of 2020, the bank was thus easily able to meet the additional requirements applicable from the beginning of 2021. In September 2020, the Federal Council also adopted the revised Liquidity Ordinance, which provides for the introduction of structural liquidity ratio requirements (net stable funding ratio, NSFR). The new provisions will enter into force on 1 July 2021. Zürcher Kantonalbank also met these new requirements with a comfortable buffer as at the end of 2020.

Compliance risks remain stable overall. The implementation of the evolving regulatory framework, particularly regarding investor protection (FinSA), data protection and the fight against money laundering, continues to require the deployment of substantial resources. The bank had to undertake special efforts in the year under review to manage the legal and compliance risks associated with lending amid the Covid-19 pandemic, for example regarding contract drafting and abuse prevention.

1.1.2 Risk management and internal control system (ICS)

Zürcher Kantonalbank defines "risk management" and "internal control system (ICS)" as follows:

Risk management: In risk management, the bank defines its risk tolerance within its capacity to bear risk. Risk management encompasses organisational structures, methods and processes. Zürcher Kantonalbank's risk management process consists of six steps: risk identification, assessment, control, management, monitoring and reporting.

The decisions in risk management are implemented in the internal control system (ICS).

Internal control system (ICS): The ICS ensures that processes are carried out properly. To this end, management issues appropriate guidelines and ensures that compliance is monitored. An effective ICS includes control activities that are integrated into workflows, suitable risk management and compliance processes, and appropriate supervisory bodies compared to the size, complexity and risk profile of the institution, in particular an independent risk control and compliance function.

1.1.3 Principles of risk management

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

– Risk culture: The bank fosters a risk culture that is geared towards responsible behaviour. Risk managers bear responsibility for profits and losses generated from the risks entered into. In addition, they have primary responsibility for identifying transactions and structures that entail particular business policy risks, conflicts of interest or particular effects on the bank's reputation.

- Separation of functions: For significant risks and to avoid conflicts of interest, the bank has established control processes that are independent of management.
- Risk identification and monitoring: The bank enters into transactions only if the risks are in accordance with its business strategy and can be appropriately identified, restricted, managed and monitored.
- Risk and return: The bank seeks to achieve a balanced relationship between risk and return for all transactions. Assessment of the risk / return profile takes account of quantifiable as well as non-quantifiable risks.
- Transparency: Risk reporting and disclosure are guided by high industry standards in terms of objectivity, scope, transparency and timeliness.

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

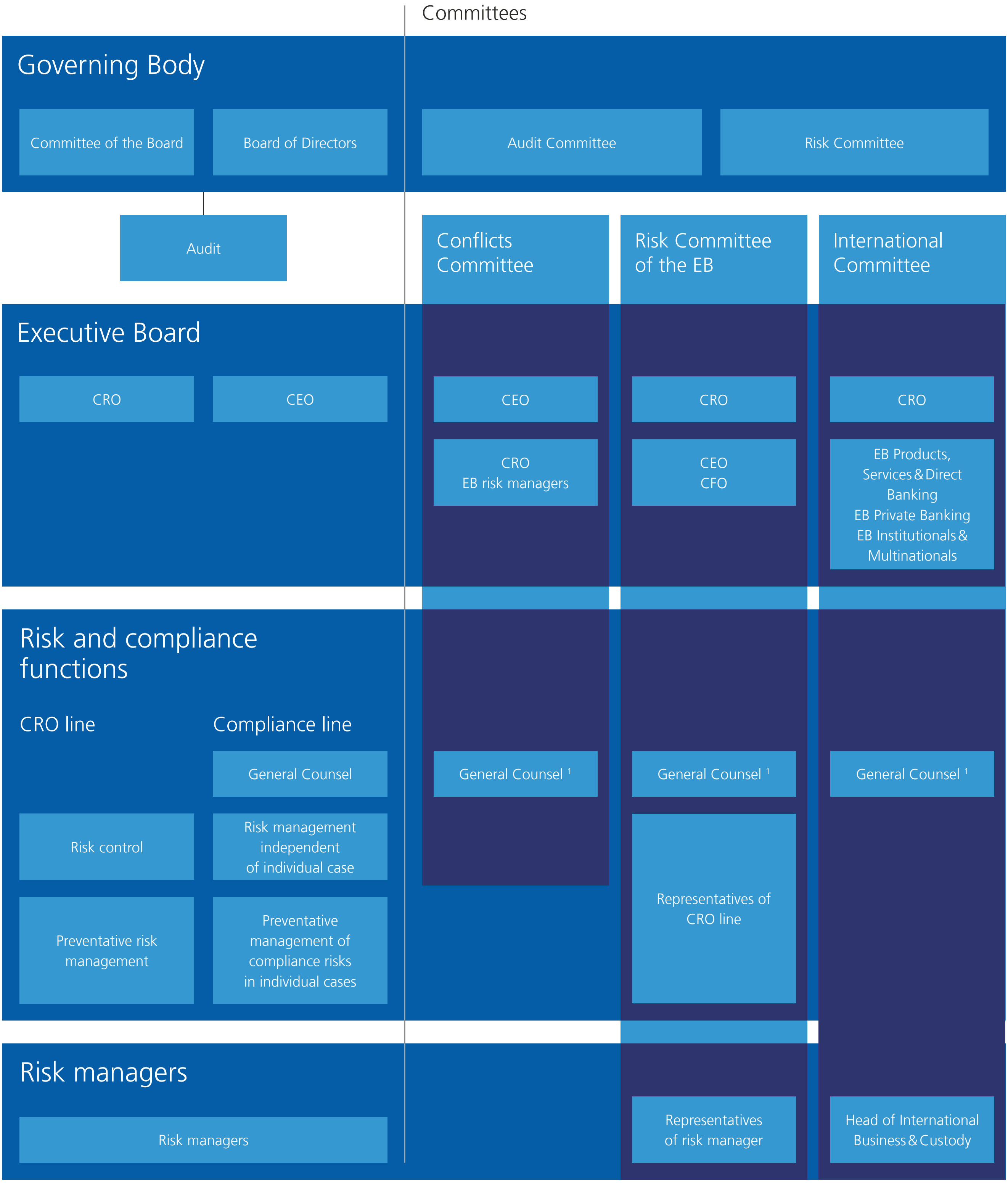
1.1.4 Principles of compliance

The objective of compliance is to ensure that Zürcher Kantonalbank conducts its business operations in accordance with legal and ethical norms. The principles of the compliance policy are as follows: relevant legal and ethical norms; ethical and performance-related basic values in a code of conduct; duty of all employees and members of governing bodies to comply with laws, regulations, internal rules, industry standards and codes of conduct, including appropriate sanctions for any violations; special reporting procedure available for identified violations of the rules (whistleblowing). Primary responsibility for compliance lies with the Executive Board. The Compliance function prepares an annual assessment of compliance risk and a corresponding action plan based on a risk inventory. The Compliance function is organisationally independent of the income-driven business units. The most important principle of all is that Zürcher Kantonalbank conducts its banking operations in accordance with the statutory and regulatory provisions as well as recognised professional and ethical principles within the banking industry.

1.1.5 Risk and compliance organisation

The risk management organisation is based on the Three Lines model. The profit-driven business units form the first line. They actively manage risks and are responsible for constant compliance with internal and external risk tolerance and compliance requirements. The independent risk management and control units represent the second line. Under the stewardship of the Chief Risk Officer (CRO) or the General Counsel, they identify, evaluate and monitor risks and submit regular reports to the Executive Board and the Board of Directors. The third line is the Audit unit, which is responsible for the internal auditing of Zürcher Kantonalbank under the applicable laws and regulations. Each line is supported by the appropriate committees (see Fig. 1).

Fig. 1: Risk and compliance organisation



1 General Counsel has the right of escalation to the Committee of the Board at any time.

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

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

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

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

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

Risk Committee of the Executive Board. The Risk Committee assists the Executive Board in defining risk management processes. The Committee is chaired by the CRO and approves the methods of risk measurement on the basis of the responsibilities delegated to it. The risk managers on the four separate subcommittees (credit, trading, treasury and operational risk) and members of the risk and compliance organisation discuss the Risk Committee's business and formulate proposals for its attention. 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 chaired by the CRO. It defines the specific business policy requirements for transactions with an international dimension, monitors and reports on such transactions, and approves the permissible business activities per country.

Risk unit. The Chief Risk Officer (CRO) is a member of the Executive Board and heads the Risk unit. He has a right of intervention that permits measures to be assigned to the risk managers if required by the risk situation or to protect the bank. The CRO also enjoys direct access to the Committee of the Board at all times.
The risk control function, which monitors portfolio-level risks and the Board of Directors' risk tolerance requirements, reports to the Executive Board and the Board of Directors. The risk control function is responsible for defining methods of risk measurement, model validation, as well as execution and quality assurance in relation to the risk measurement implemented.

Preventative risk management examines transactions before they are finalised and systems prior to their deployment in line with existing delineations of power and consultation duties, and defines the requirements at individual transaction or system level. It also continuously monitors local risks and supports the training of risk managers. Preventive risk management in the area of operational risk security is carried out outside the Risk business unit by the respective process managers and in the Security department of the IT, Operations & Real Estate business unit.

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

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

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

Risk reporting. The Risk Control and Compliance functions report on a quarterly basis as part 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 analyses on relevant topics. Besides quarterly reporting, various reports are produced for the individual types of risk. In terms of the frequency with which they are published and the group of recipients, they are tailored to individual risks, and they provide comprehensive, objective and transparent information for decision-makers and supervisory bodies.

1.2 Regulatory capital adequacy and liquidity requirements

This section includes the regulatory key figures (Table KM1) to be published in the Annual Report in accordance with FINMA Circular 2016/1. The other tables on qualitative and quantitative disclosure as at 31 December 2020 will be available online from the end of April 2021 at www.zkb.ch/disclosures.

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. The capital required for credit risks has been calculated using the IRB approach (FIRB) since the end of 2017. For market risks, the model-based approach is used in combination with the international standard approach (SA-BIS) for specific interest rate risks. The capital base needed for operational risks is calculated using the basic indicator approach.

A FINMA Directive from 2012 permits Zürcher Kantonalbank to solo-consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. in line with the individual institution provisions. Accordingly, the required capital is calculated on a solo-consolidated basis by the parent company.

As at 31 December 2020, the group had minimum required capital of CHF 5,481 million, compared with eligible capital of CHF 13,508 million. Both the total capital ratio of 19.7 percent of risk-weighted assets and the leverage ratio of 6.2 percent reflect Zürcher Kantonalbank's solid equity base. The liquidity coverage ratio (LCR) of 160 percent points to a comfortable liquidity situation. The ratio was gradually increased during the reporting period in view of the stricter LCR requirements for systemically important banks that apply as of 1 January 2021. The following key regulatory figures essentially present the same picture of the capital and liquidity situation for the group as for the parent company.

Fig. 2a: Table KM1: Key regulatory figures group

in CHF million (unless indicated otherwise)		a 31.12.2020	b 30.09.2020	c 30.06.2020	d 31.03.2020	e 31.12.2019
Eligible capital [1]						
1	Common equity Tier 1 (CET1)	11,903	11,486	11,480	11,474	11,515
2	Tier 1 capital (T1)	12,968	12,236	12,230	12,224	12,261
3	Total capital	13,508	12,774	12,761	12,927	12,986
Risk-weighted assets (RWA)						
4	RWA	68,515	69,672	69,750	69,208	64,983
Minimum required capital						
4a	Minimum required capital	5,481	5,574	5,580	5,537	5,199
Risk-based capital ratios (as a % of RWA) [1,2]						
5	CET1 ratio	17.4%	16.5%	16.5%	16.6%	17.7%
6	Tier 1 capital ratio	18.9%	17.6%	17.5%	17.7%	18.9%
7	Total capital ratio	19.7%	18.3%	18.3%	18.7%	20.0%
CET1 buffer requirements (in % of RWA)						
8	Capital conservation buffer as per the Basel minimum standards (2.5% from 2019)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer (Art. 44a CAO) in accordance with Basel minimum standards	–	–	–	–	–
10	Additional capital buffer due to international or national system relevance	–	–	–	–	–
11	Total of bank CET1 specific buffer requirements	2.5%	2.5%	2.5%	2.5%	2.5%
12	CET1 available after meeting the bank's minimum requirements	11.7%	10.3%	10.3%	10.7%	12.0%
Capital target ratios as per Annex 8 to the CAO (as a % of RWA) [3]						
12a	Capital conservation buffer in accordance with Annex 8 to the CAO	–	–	–	–	–
12b	Countercyclical capital buffers (Art. 44 and 44a CAO)	–	–	–	–	–
	Countercyclical capital buffer (Art. 44 CAO)	–	–	–	–	0.7%
12c	CET1 target ratio in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
12d	T1 target ratio in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
12e	Total capital target ratio (in %) in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
Basel III leverage ratio [1]						
13	Total exposure [4]	208,326	201,795	198,218	197,350	185,628
14	Basel III leverage ratio (Tier 1 capital in % of leverage exposure measure)	6.2%	6.1%	6.2%	6.2%	6.6%
Liquidity coverage ratio (LCR) [5]						
15	LCR numerator: total high-quality liquid assets (HQLA)	53,042	48,374	42,487	43,356	43,679
16	LCR denominator: total net outflows of funds	33,190	33,883	33,433	35,895	35,594
17	Liquidity coverage ratio (LCR)	160%	143%	127%	121%	123%
Financing ratio (NSFR) [6]						
18	Available stable refinancing	–	–	–	–	–
19	Required stable refinancing	–	–	–	–	–
20	Financing ratio (NSFR)	–	–	–	–	–

1 Banks for which expected loss accounting is not applicable as well as banks that are not using the transitional regulations can ignore the relevant rows in accordance with FINMA Circular 2016/1. Zürcher Kantonalbank did not apply expected loss accounting as at the reporting date. These rows are therefore not applicable.
2 The figures are calculated in accordance with the provisions of the CAO for non-systemically-- important banks.
3 Systemically important banks can forego the information in rows 12a to 12e, as Annex 8 to the CAO does not apply to them. In this instance, they must nevertheless provide information on the countercyclical capital buffer in accordance with Art. 44 CAO.
4 Zürcher Kantonalbank is not making use of the temporary exemptions in calculating the leverage ratio available until 1 January 2021 under FINMA guidance 02/2020 and 06/2020 "Temporary exemptions for banks due to the Covid-19 crisis". Central bank deposits are therefore included in the total exposure for the leverage ratio as before.
5 Simple average of the closing values on the business days during the quarter under review.
6 Rows 18–20 must be disclosed when the provisions of the Liquidity Ordinance on the net stable funding ratio (NSFR) enter into force on 1 July 2021.

Fig. 2b: Table KM1: Key regulatory figures parent company

	in CHF million (unless indicated otherwise)	a 31.12.2020	b 30.09.2020	c 30.06.2020	d 31.03.2020	e 31.12.2019
Eligible capital [1]						
1	Common equity Tier 1 (CET1)	12,130	11,726	11,729	11,731	11,781
2	Tier 1 capital (T1)	13,195	12,476	12,479	12,481	12,526
3	Total capital	13,735	13,015	13,011	13,185	13,252
Risk-weighted assets (RWA)						
4	RWA	69,304	70,418	70,520	70,136	65,936
Minimum required capital						
4a	Minimum required capital	5,544	5,633	5,642	5,611	5,275
Risk-based capital ratios (as a % of RWA) [1,2]						
5	CET1 ratio	17.5%	16.7%	16.6%	16.7%	17.9%
6	Tier 1 capital ratio	19.0%	17.7%	17.7%	17.8%	19.0%
7	Total capital ratio	19.8%	18.5%	18.4%	18.8%	20.1%
CET1 buffer requirements (in % of RWA)						
8	Capital conservation buffer as per the Basel minimum standards (2.5% from 2019)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer (Art. 44a CAO) in accordance with Basel minimum standards	–	–	–	–	–
10	Additional capital buffer due to international or national system relevance	–	–	–	–	–
11	Total of bank CET1 specific buffer requirements	2.5%	2.5%	2.5%	2.5%	2.5%
12	CET1 available after meeting the bank's minimum requirements	11.8%	10.5%	10.4%	10.8%	12.1%
Capital target ratios as per Annex 8 to the CAO (as a % of RWA) [3]						
12a	Capital conservation buffer in accordance with Annex 8 to the CAO	–	–	–	–	–
12b	Countercyclical capital buffers (Art. 44 and 44a CAO)	–	–	–	–	–
	Countercyclical capital buffer (Art. 44 CAO)	–	–	–	–	0.7%
12c	CET1 target ratio in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
12d	T1 target ratio in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
12e	Total capital target ratio (in %) in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
Basel III leverage ratio [1]						
13	Total exposure [4]	208,596	201,978	198,344	197,476	185,801
14	Basel III leverage ratio (Tier 1 capital in % of leverage exposure measure)	6.3%	6.2%	6.3%	6.3%	6.7%
Liquidity coverage ratio (LCR) [5]						
15	LCR numerator: total high-quality liquid assets (HQLA)	53,028	48,348	42,458	43,329	43,661
16	LCR denominator: total net outflows of funds	33,379	34,022	33,552	36,042	35,732
17	Liquidity coverage ratio (LCR)	159%	142%	127%	120%	122%
Financing ratio (NSFR) [6]						
18	Available stable refinancing	–	–	–	–	–
19	Required stable refinancing	–	–	–	–	–
20	Financing ratio (NSFR)	–	–	–	–	–

1 Banks for which expected loss accounting is not applicable as well as banks that are not using the transitional regulations can ignore the relevant rows in accordance with FINMA Circular 2016/1. Zürcher Kantonalbank did not apply expected loss accounting as at the reporting date. These rows are therefore not applicable.

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

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

4 Zürcher Kantonalbank is not making use of the temporary exemptions in calculating the leverage ratio available until 1 January 2021 under FINMA guidance 02/2020 and 06/2020 "Temporary exemptions for banks due to the Covid-19 crisis". Central bank deposits are therefore included in the total exposure for the leverage ratio as before.

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

6 Rows 18–20 must be disclosed when the provisions of the Liquidity Ordinance on the net stable funding ratio (NSFR) enter into force as of 1 July 2021.

The breakdown of the regulatory minimum required capital within the group of CHF 5,481 million shows the importance of the lending business to Zürcher Kantonalbank.

1.3 Capital allocation within internal risk management

Zürcher Kantonalbank employs a capital at risk approach to internal risk management. The Board of Directors defines the risk tolerance with the maximum risk capital. The Board of Directors determines the quantitative risk tolerance requirements by means of the allocation of risk capital to the risk categories credit risks, market risks and operational[1] risks. 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 for market and credit risks is allocated 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.

Of the CHF 12,986 million in eligible capital (total capital) at the end of 2019, a total of CHF 5,680 million was allocated to the risk business in 2020. The percentage breakdown by risk category of the allocated capital is shown in Figure 4.

Fig. 3: Breakdown of the regulatory risk-weighted minimum required capital as at 31.12.2020, by risk category

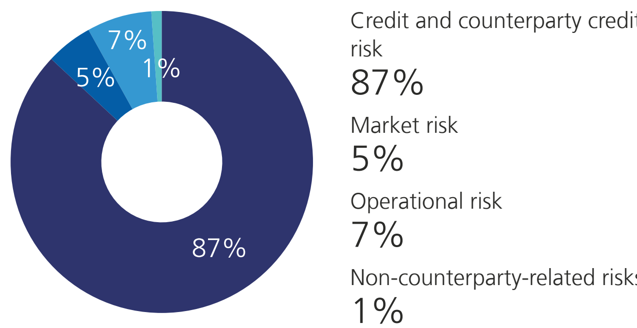
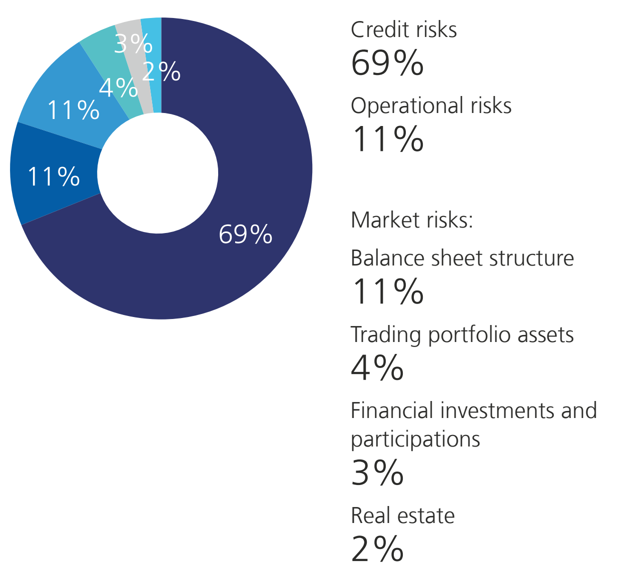


Fig. 4: Risk capital assigned by the Board of Directors, by risk category



1 The risk capital for operational risks also covers compliance risks.

1.4 Risk categories

Zürcher Kantonalbank divides risks into the following categories.

Fig. 5: Risk categories

Credit risk

Credit risk constitutes the risk of financial losses that can arise if clients or counterparties do not fulfil contractual obligations that are falling due or do not fulfil them on time. Loans, promises of payment and trading transactions all involve credit risks. Credit risks also include:

- Counterparty risks refer to credit risks in trading transactions (e.g. OTC derivatives and SLB transactions). Trading transactions usually include mutual claims, which also depend on market parameters. Counterparty risks are also referred to as counterparty default risks.
- Settlement risks describe the risk of losses in connection with transactions involving mutual payment and delivery obligations, where the bank must meet its delivery obligation without first being able to ensure that counter-payment will be made.
- Country risks: The risk of losses as the result of country-specific events, such as transfer risks (payment of a liability is restricted or prevented by a country) and risks arising from political and/or macroeconomic events.

Market risk

Market risks comprise the risk of financial losses on securities and derivatives in the bank's own portfolio as a result of changes in market factors, such as share prices, interest rates, volatilities or exchange rates (general market risks), as well as for issuer-specific reasons (specific market risks). Market risks also include:

- Balance sheet interest rate risk is the risk that changes in market interest rates will impact negatively on the financial situation of the banking book. As well as affecting current interest income, changes in interest rates have implications for future results. The interest rate risk is managed based on the market interest method.
- Market liquidity risk is the risk that a product can no longer be easily sold (or purchased) on a market. The higher the market liquidity, the greater the chance of purchasing or selling a product for an appropriate price at the desired time.
- Issuer (default) risk is the risk of a loss arising from a change in fair value resulting from a credit event affecting an issuer to which the bank is exposed through marketable securities or derivatives from this issuer.

Liquidity risk

Liquidity refers to the bank's capacity to settle its liabilities promptly and without restrictions. Liquidity risk is the risk that this capacity to pay will be impaired under institution or market-related stress conditions. Liquidity risks also include (re)financing risk. Refinancing refers to the procurement of funds for the financing of assets. Refinancing risk is the risk that the bank is not in a position to procure sufficient funds at appropriate conditions for the ongoing financing of its lending business.

- Short-term liquidity ensures that the bank is able to make payments over a short period of time in the event of a systemic or institution-specific liquidity crisis by holding a sufficiently large inventory of high-quality liquid and unencumbered assets as a financial precaution against a temporary liquidity gap. Often, 30 calendar days are used as the definition period. The regulatory indicator for short-term liquidity is the liquidity coverage ratio (LCR).
- Structural liquidity has a medium-term horizon and ensures that refinancing as per the liquidity profile of the assets takes place with stable liabilities. Structural liquidity requirements specify that illiquid assets such as loans to private individuals and companies, as well as parts of the trading portfolio, are to be refinanced through long-term liabilities. The regulatory indicator for structural liquidity is the net stable funding ratio (NSFR).

Operational risk

Operational risks refer to potential damage caused by the inappropriateness or failure of persons, systems or processes or due to external events. Operational risks also include:

- IT risks refer to the potential damage caused by the loss of confidentiality, integrity and availability of data and functions in IT systems.
- Cyber risks comprise the risk of attacks from the Internet or similar networks (referred to as hacker attacks) on the confidentiality, integrity and availability of data and functions in IT systems.

Compliance risk

Compliance risks are behavioural risks. These are risks that are caused by breaches of the law, regulations or contracts and can result in legal and regulatory sanctions, financial losses and reputational damage.

Compliance is the observance of legal, regulatory and internal regulations as well as the adherence to industry standards and codes of conduct. Compliance involves ensuring the behaviour and actions of the Zürcher Kantonalbank and its employees meet applicable legal and ethical standards, and also comprises all organisational measures designed to prevent violations of the law and breaches of rules and ethical norms by Zürcher Kantonalbank, its governing bodies and its employees.

Strategic risk

Strategic risks are all possible factors of influence, events and decisions that have the potential to endanger the long-term success of the company.

Business risk

Business risk is the risk that lower business volumes and margins will reduce the group's operating result if the decline in operating income is not offset by a simultaneous drop in operating expenses. Business risks also include unplanned additional costs in the absence of correspondingly higher income. Business risks materialise when actual income falls short of the budgeted income. This can occur on a one-off and a recurring basis. Typical examples of business risks are unexpectedly decreasing margins and a lack of client demand following an economic downturn.

Reputation risk

Reputation risks involve the risk of damage to the bank's good reputation or, in extreme cases, the risk of losing the bank's good reputation altogether. Aligning business activities to the central core values of the company is the best way in which to guarantee that the company's excellent reputation is maintained and to prevent instances in which activities have a negative impact on the bank's reputation.

Reputation denotes the image that a company enjoys among its stakeholders, i.e. the bank's standing in terms of its integrity, competency, performance and reliability from the perspective of stakeholders. Reputational damage occurs when the perception of a stakeholder group differs from its expectations. The trustworthiness and credibility of the bank as aspects of its reputation are negatively influenced by this difference. Reputation is determined by constantly comparing perceptions and expectations over a period of time and is reflected in the company's values and identity.

Reputational risks are treated as a separate category by Zürcher Kantonalbank. Nevertheless it also sees them as a derived risk: they are considered a reputation-affecting component of strategic risks, market and credit risks, liquidity risks, compliance risks, operational risks and business risks. Strategic risks and business risks are managed as part of the bank's strategy and controlling process. Risk management and the risk profile in the other risk categories are described in the following sections.

Sustainability risks are events or conditions related to the environment, society or governance (ESG), the occurrence of which may have actual or potential negative effects on the bank's assets, finances and earnings, as well as on its reputation. Sustainability risks are not a separate risk category and are instead treated as a component of the risk categories listed above. The management of sustainability risks is an integral part of the bank's risk management processes. For example, aspects of sustainability, such as environmental or social risks, are an important part of risk assessment when reviewing financing for companies that operate globally. Zürcher Kantonalbank's lending rules also explicitly exclude financing of certain commodities, such as crude and heavy oil, precious woods, live goods, etc.

The sustainability, service and support mandates together form Zürcher Kantonalbank's public service mandate, which is anchored in the Law on Zürcher Kantonalbank and implemented in the "Guidelines for the Fulfilment of the Public Service Mandate" adopted by the Cantonal Parliament. Internal guidelines for implementation in the business areas are formulated in the sustainability policy. Zürcher Kantonalbank publishes an annual sustainability report, which contains detailed information on the fulfilment of its public service mandate.

1.5 Credit risks

1.5.1 Strategy, organisation and processes

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

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

The preventative risk management and risk control functions are separated from risk management at Executive Board level. Preventative risk management issues lending guidelines, analyses and reviews transactions in line with existing delineations of power, monitors business-related risks on an ongoing basis and assists in the training of risk managers. Risk control monitors and reports at portfolio level and is responsible for defining risk measurement methods.

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

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

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

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

The models used as well as the individual valuations are reviewed on a regular basis. The maximum loan-to-value ratio for mortgages depends on how realisable the collateral is and is influenced by factors such as location and type of property (family home or commercial property, for example). Readily marketable collateral (securities, precious metals, account balances, for example) is generally valued at current market prices. The lending of readily marketable collateral is subject to the deduction of specified margins. These margins differ primarily in terms of the collateral's susceptibility to fluctuations in value.

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

Value adjustments. As part of their risk management role, the bank's relationship managers constantly monitor all positions in the credit portfolio to identify any signs of impairment of value. Should any signs be found, a standardised impairment test is used to determine whether a loan should be classed as impaired. Impaired loans are those where the borrower is unlikely to be able to meet his future obligations.

Where it appears that the bank will be unable to collect all amounts due on a claim, the bank makes an allowance for the unsecured part of the loan, taking into account the borrower's creditworthiness. In determining the required value adjustment, mortgage collateral (including valuation discounts, settlement and holding costs) and readily marketable collateral (freely tradeable securities as well as other easily realised assets such as deposits, precious metals, fiduciary investments, etc.) are considered at their current liquidation value. The recoverability of other collateral (e.g. leased assets, guarantees) has to be demonstrated in particular. The authority to approve the creation of new individual value adjustments rests with the risk managers. Above a certain amount, the approval of the risk organisation is also required.

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

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

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

Settlement risks. A settlement risk arises in the case of transactions with mutual payment and delivery obligations where Zürcher Kantonalbank must meet its obligations without being able to ensure that counterpayment is also being made. Settlement risk can occur in relation to foreign exchange transactions, securities lending and borrowing (SLB) and OTC repo transactions as well as transactions involving different payment systems and time zones in the interbank sector. Zürcher Kantonalbank is a member of the CLS Bank International Ltd. joint venture, a clearing centre for the settlement of foreign exchange transactions on a "delivery versus payment" basis, which helps ensure that a substantial element of the settlement risk arising as a result of foreign exchange trading is eliminated.

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

1.5.2 Risk profile

As at 31 December 2020, the credit portfolio was comparatively robust given the Covid-19 pandemic. No extraordinary loss events have occurred to date. The additional allowance and provisioning requirements that had been identified were still within manageable limits as at the end of 2020 (see separate section below). The uncertainty of forecasts remains high, however. The bridging loans granted quickly and unbureaucratically in the spring of 2020 made it possible to prevent a liquidity shortage for many companies, especially smaller ones from severely affected sectors, and to avert a wave of bankruptcies and redundancies. During the year, Zürcher Kantonalbank approved over CHF 1 billion in financing under this Covid-19 emergency loan scheme and other financing programmes with a federal guarantee. Larger companies in particular secured additional liquidity in the spring by drawing on previously unused limits; they subsequently restructured their financing during the year and then reduced their credit utilisation again.

Covid-19 emergency loans: Companies in Switzerland affected by the Covid-19 crisis were able to apply for bridging loans guaranteed by the federal government in order to ensure their liquidity. Under this programme, which extended from 26 March until 31 July 2020, the participating commercial banks granted affected companies loans of up to 10 percent of their annual sales or a maximum of CHF 20 million. Such "Covid-19 loans" involved the disbursement of up to CHF 500,000 with a 100 percent federal guarantee. The larger amounts, known as "Covid-19 plus loans", are 85 percent covered by the federal government. These loans were granted after the bank performed a proper lending appraisal. To supplement the federal loan programmes, the Canton of Zurich has underwritten loan default guarantees for hardship cases. This financing is also 85 percent covered by the canton. This cantonal loan loss guarantee programme was extended in November 2020 to the end of the first quarter of 2021. In addition, promising start-up companies were supported with a special financing programme.

The outstanding limits in the above-mentioned financing programmes amounted to CHF 927 million as at the end of 2020; limits totalling CHF 113 million have meanwhile been scaled back (Figure 6). The uncovered exposure increased only marginally thanks to extensive surety cover.

Credit exposure in the main sub-portfolios

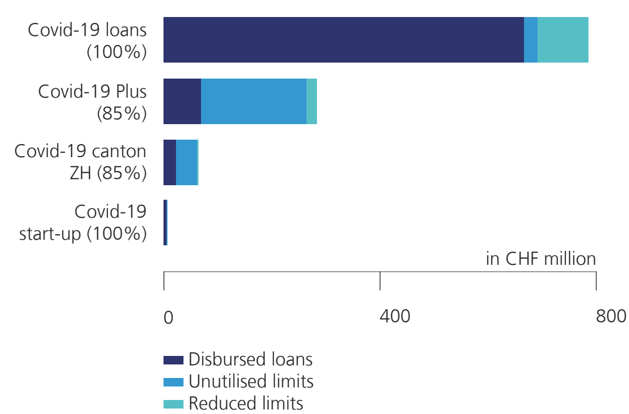
The following sections provide information about the most important sub-portfolios of the credit exposures in Zürcher Kantonalbank's balance sheet.

Credit exposures by rating category. Default probability ratings are assigned internally on the basis of a scale from 1 to 19. Figure 7 shows the credit exposures broken down by counterparty credit rating, mapped to Standard & Poor's rating scale. At the overall portfolio level, only marginal changes occurred compared with the previous year. Credit exposures in the non-investment categories (BB and below) account for 7.0 percent of the volume (2019: 6.7 percent).

Credit exposures by client portfolio. Figure 8 shows credit exposures classified in accordance with the bank's internally defined client portfolios. The volume of credit exposures increased by around CHF 3.5 billion (3.1 percent) compared with the previous year.

Credit exposures in relation to "private individuals" consist almost entirely of receivables secured by mortgages and represent 54 percent (2019: 54 percent) of total credit exposures. The "corporates" portfolio consists of credit exposures in relation to clients of a commercial nature (incl. real estate companies and cooperative building associations). The share of this client group in total credit exposures is 24 percent (2019: 24 percent), 84 percent (2019: 83 percent) of which is secured by mortgages or cash. In the "banks and securities dealers" portfolio, the largest share of credit exposures in volume terms, at 11 percent, (2019: 13 percent) is in the form of collateralised transactions such as reverse repo transactions. Other credit exposures in relation to banks arise as a result of trading operations and from the international trade financing business. Insurance companies, pension funds, financial holding companies, investment fund companies and similar companies together

Fig. 6: Covid-19 emergency loans from Zürcher Kantonalbank



(values in brackets = surety/warranty cover)

Fig. 7: Credit exposures by rating category

constitute the "Financial sector excluding banks" portfolio, which accounts for a 7 percent share (2019: 5 percent). "Governments and public entities" – the smallest portfolio, with a share of 4 percent of the volume of credit exposures – consists of positions with central banks, central governments and public authorities and institutions.

Mortgage loans to private individuals. Real estate financing for private individuals is part of Zürcher Kantonalbank's core business. Almost two-thirds of mortgage loans relate to owner-occupied residential property. The remaining loans are secured with rented residential properties or properties that are used for commercial purposes. Mortgage loans to private individuals increased by 3.6 percent in 2020. The median gross loan-to-value ratio for all properties in the private client portfolio was 49.6 percent (2019: 49.5 percent). The figures indicate the market remains robust despite the Covid-19 pandemic, particularly in the residential property segment.

Unsecured loans. Of the unsecured loans in the "corporates" portfolio (Figure 9), 70 percent (2019: 77 percent) are attributable to clients in the AAA to BBB (investment grade) rating categories, with a slightly lower overall volume than in the previous year, at just under CHF 4.5 billion (–2.1 percent). The changes in the proportions of the individual rating categories, specifically BB and D, reflect the credit rating reassessments carried out by the bank due to the Covid-19 crisis. The main shifts are attributable to individual larger exposures that are particularly affected by the coronavirus situation.

Fig. 8: Credit exposures by client portfolio

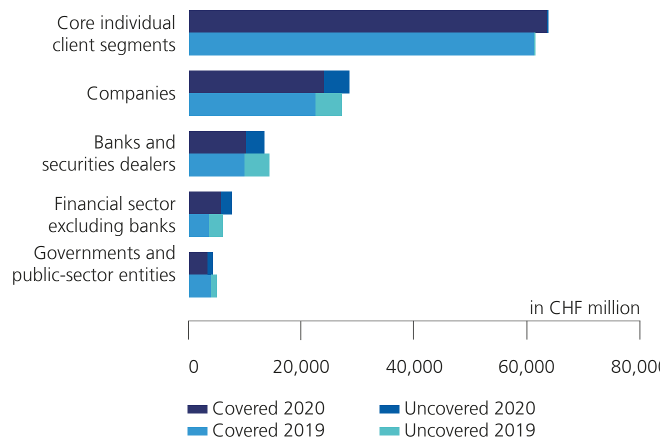


Fig. 9: Unsecured credit exposures to corporate clients by rating category

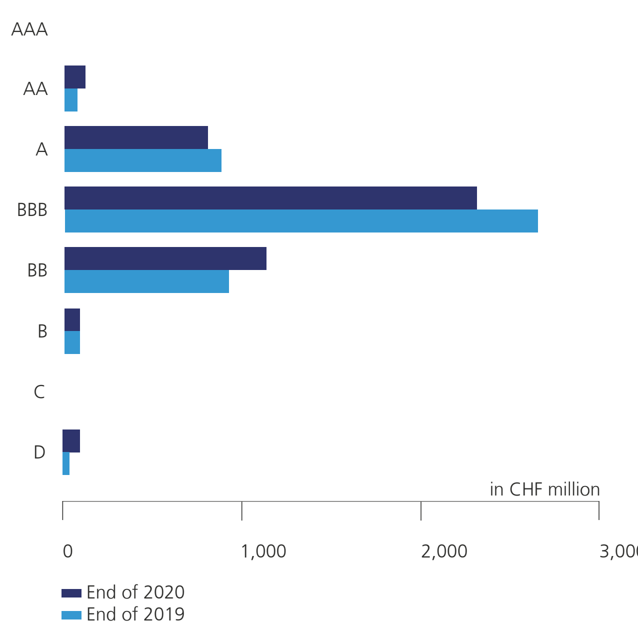


Figure 10 shows the unsecured loans in the Corporates portfolio broken down by industry. The "hospitality industry", which has been particularly hard hit by the pandemic, accounted for only 0.3 percent or CHF 14 million. The "manufacturing" and "trade/maintenance and repair of motor vehicles" industries cover more than half of the volume.

In the "banks and securities traders" client portfolio (Figure 11), the volume of unsecured loans is 27 percent lower than at the end of 2019. The level of this exposure can change significantly every day, unlike other forms of lending, due to the influence of the bank's trading transactions. The AAA to BBB (investment grade) rating categories account for 78 percent (2019: 82 percent) of the unsecured exposures.

Impaired loans/receivables. Impaired loans amounted to CHF 500 million (2019: CHF 435 million). After deducting the estimated liquidation value of collateral, this equals net debt of CHF 254 million (2019: CHF 179 million, see also Note 2 to the balance sheet).

Non-performing loans/receivables. The nominal value of non-performing loans amounted to CHF 103 million at the end of the reporting period (2019: CHF 113 million). Loans are classified as non-performing when interest, commission or amortisation payments or the repayment of the principal have not been received in full 90 days after becoming due. This also includes claims against borrowers in liquidation, and loans with special conditions arising from a borrower's financial standing. Non-performing loans are also often a component of impaired loans.

Fig. 10: Unsecured credit exposures to corporate clients by industry

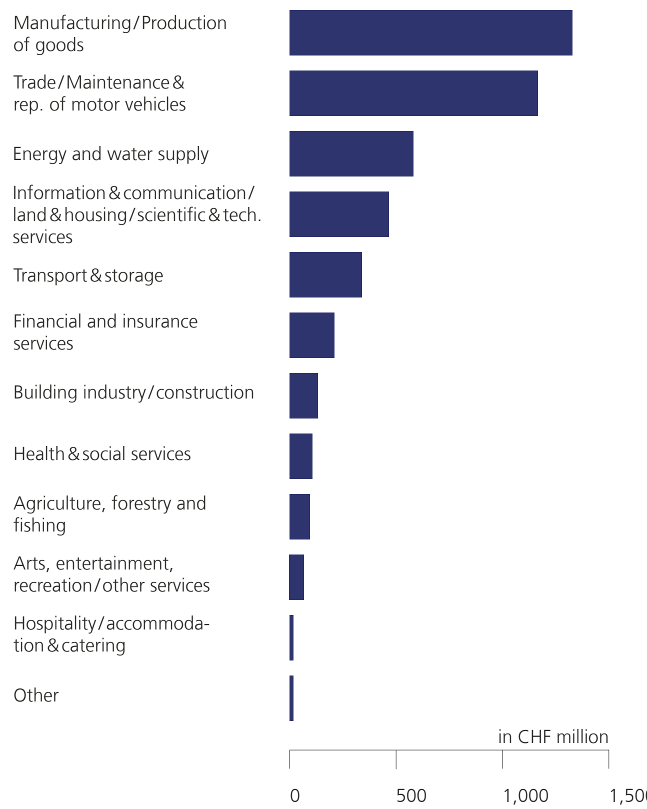
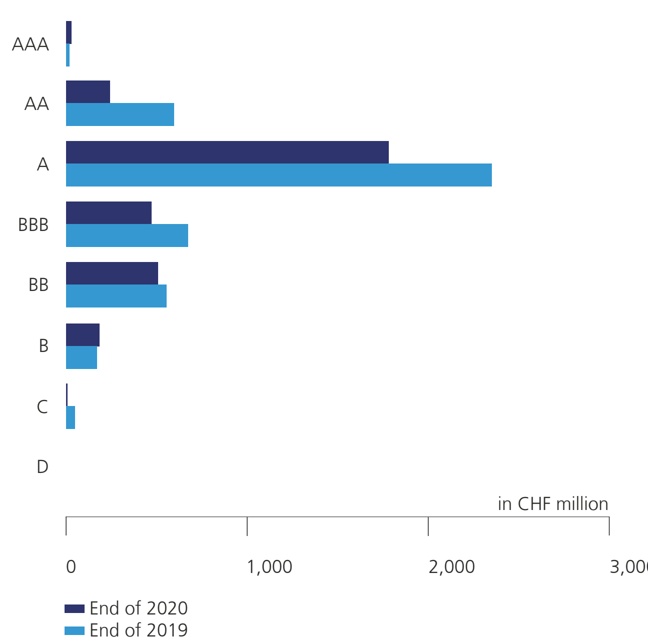


Fig. 11: Unsecured credit exposures to banks and securities traders by rating category



Value adjustments and provisions. The volume of value adjustments and provisions for default risks increased by CHF 40 million to CHF 325 million in 2020 (see also Note 16 to the balance sheet). In relation to the total credit volume of Zürcher Kantonalbank and the distressed economic situation, the negative effect of portfolio changes recognised in profit or loss in the income statement for 2020 is within a manageable range at CHF 47 million. Forecast uncertainty in the medium term remains high, however, and the income situation in many of the industries that were already hard hit in the spring of 2020 remains under pressure.

1.6 Market risk

1.6.1 Strategy, organisation and processes for the management of market risks in the trading book

In the trading business, Zürcher Kantonalbank pursues a strategy focused on client transactions. The individual desks hold trading mandates approved by the Risk Committee of the Executive Board, which set out the basic conditions in terms of the objectives pursued, instruments used for underlying and hedging transactions, the form of risk management, and the holding period. The preventative risk management and risk control functions are separated from risk management at Executive Board level. The responsibilities of the preventative risk management function, which is independent of Trading, and the risk control function downstream of it include the monitoring of compliance with risk limits and trading mandates, the calculation and analysis of the result from trading activities (P&L) and risk figures, as well as the preventative analysis of potentially high-risk transactions. The risk organisation is also responsible for defining and implementing methods of risk measurement, their independent validation, and internal and external risk reporting.

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

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

Zürcher Kantonalbank calculates value at risk for a 10-day period and at a confidence level of 99 percent using a Monte Carlo simulation. The loss distribution is arrived at from the valuation of the portfolio using a large number of scenarios (full valuation). The necessary parameters for determining the scenarios are estimated on the basis of historical market data, with more recent observations being accorded a higher weighting for the forecasting of volatility than less recent ones. As a result, value at risk responds rapidly to any changes in volatility on the markets. Value at risk is calculated on a daily basis for the entire trading book. The four groups of risk factors – commodities, currencies, interest rates and equities – are calculated and shown both separately and on a combined basis (Figure 12).

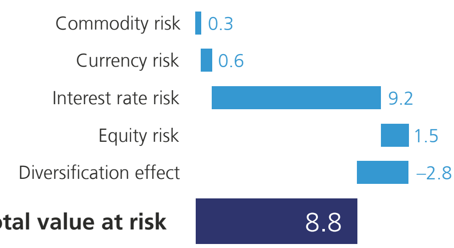
The bank uses different types of scenarios for stress-testing: in matrix scenarios, all market prices and their corresponding volatilities are heavily skewed. Such a scenario might include a 30 percent general fall in equity market prices with a simultaneous 70 percent increase in market volatility.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

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

The bank performs daily back-testing for the purpose of examining the forecast accuracy of the value at risk. Regulatory back-testing is based on a comparison of the value at risk for a holding period of one day with the back-testing result. Breaches of limits are notified immediately to the competent authorities if the number of breaches exceeds expectations.

The market risk model is validated annually on the basis of a defined process. Validation comprises both standardised quantitative analyses, such as backtesting, and in-depth investigations in selected focus areas. 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.

Fig. 13: Components of value at risk as at 31.12.2020 (in CHF million)



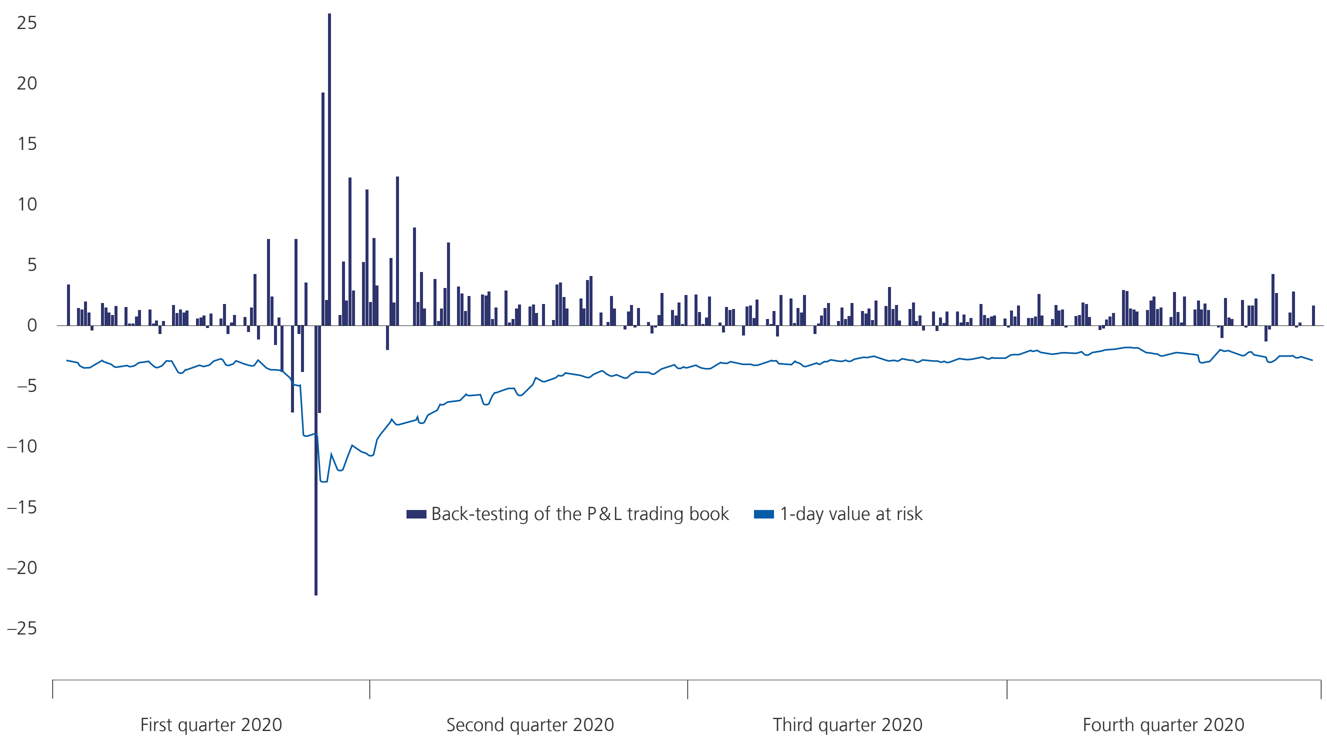
Risk profile. At CHF 14 million, the annual average value at risk remained on a par with the prior year (CHF 13 million) (Figure 12). The sharp temporary increase in value at risk reflects the high volatility in the financial markets following the outbreak of the Covid-19 crisis. This volatility in the financial markets ebbed toward the end of the first half of 2020, with the average value at risk in the second half actually falling below the pre-crisis level of CHF 9 million. Interest rate risks continue to dominate in the composition of value at risk (Figure 13).

Fig. 12: Market risks in the group trading book

Risks including volatility risks in CHF million	Commodities[1]	Currencies	Interest rates	Equities	Diversification	Modelled total risk	Total risk[2]
Risks based on the model approach (value at risk with 10-day holding period)							
As at 31.12.2020	0	1	9	1	–3	9	10
Average current year 2020	1	1	11	5	–6	12	14
Maximum	3	7	27	32	–21	47	49
Minimum	0	0	6	1	–2	5	6
As at 31.12.2019	0	0	8	2	–3	8	11

1 Incl. precious metals.
2 Sum of modelled total risk and risk premium for trading products not fully modelled.

Fig. 14: Comparison of back-testing results[1] and value at risk (in CHF million)



1 The back-testing result corresponds to the trading income used and adjusted for the purpose of methodological reviewing of the quality of the risk model.

Back-testing results. The quality of the value at risk approach used is assessed by comparing the value at risk for a holding period of one day with the realised daily back-testing result (Figure 14). In the case of a one-day holding period and 99-percent quantile, the value at risk is expected to be exceeded two to three times each year. The abrupt rise in market volatility during the Covid-19 crisis in March 2020 caused three backtesting exceptions in the Zürcher Kantonalbank market risk model approach. This occurs when a daily loss in trading is higher than the model predicts. More than five exceptions in one year may result in higher capital requirements. In FINMA guidance 04/2020 and 06/2020 issued in April and May 2020, FINMA informed banks of a limited exemption period from 1 February 2020 to 1 July 2020, during which the number of exceptions remained frozen. The number of exceptions to be taken into account for the institution-specific multiplier is therefore unchanged at zero for Zürcher Kantonalbank for 2020.

1.6.2. Strategy, organisation and processes for the management of market risks in the bank book

1.6.2.1 Interest rate risks in the balance sheet

Strategy, organisation and processes. In managing the banking book, Zürcher Kantonalbank pursues a strategy focused on medium-term optimisation of net interest income. The interest rate risk is managed based on the market interest method. For client deposits and loans with a variable interest rate, the interest rate risk is determined by taking into account the bank’s presumed future rate-setting behaviour and client behaviour, and is reviewed at least once a year.

The interest rate risk in the bank book is managed in strategic terms by the Board of Directors and in tactical terms by the CFO and Treasury. The strategic interest rate risk position is set by the Board of Directors on a periodic basis in the form of an investment strategy for equity (equity benchmark). The CFO and Treasury manage the deviation of the interest rate risk position in the banking book from the equity benchmark within the risk limits set by the Board of Directors. The Risk unit is responsible for the measurement and monitoring of risk as well as independent reporting on interest rate risk.

Variable products play a central role in the management of interest rate risks. Banking book products without defined interest rates and capital commitment are variable products. These include, in particular, savings and transaction accounts as well as, to a comparatively low extent, variable mortgages. These products are modelled by replicating these (real) variable products through synthetic products with defined fixed interest rates on the basis of econometric analyses and expert-based estimates. A key component of this modelling approach is the definition of a "floor", which can be considered a non-interest-rate-sensitive partial volume in terms of capital commitment. The duration of the replication of the floor is determined by the assumed setting of conditions in the event of interest rate changes. The model is updated and validated every year and is approved by the Risk Committee of the Executive Board on an annual basis.

Interest rate risk management takes account of the present value as well as earnings prospects. From the present value perspective, interest rate risks are managed by allocating risk capital in accordance with the capital at risk approach (risk horizon of one year, confidence level of 99.9 percent) and by applying value at risk limits (holding period of 20 trading days, confidence level of 99 percent). In addition, stress scenarios are simulated in the present value perspective in order to analyse and limit the impact of extraordinary changes in the interest rate environment.

From the prospective earnings perspective, stress tests provide an indication of the structural contribution in the event of extraordinary changes in market interest rates with unchanged positioning over a one-year period. Besides the structural contribution, margin effects are particularly significant for client deposits with variable interest rates. This applies especially in an environment of negative market interest rates for balance sheet items such as retail client deposits on which negative interest is mostly not charged. Additional monitoring tools allow such margin effects to be analysed for different interest rate scenarios over a period of several years.

Risk profile. The maturity-dependent sensitivity data shown in Figure 16 indicate the change in value in Swiss francs when interest rates for each maturity band fall by one basis point (0.01 percentage points). The client deposits contained in the hedged item are represented via replicating portfolios with average maturities of between 22 months (savings accounts) and 28 months (private and current accounts).

The interest rate sensitivity of the CHF banking book stood at CHF 9.5 million per basis point as at 31 December 2020, approximately 13 percent up on the previous year (see Figure 15). The increase in interest rate exposure stems mainly from mortgage lending, which was characterised not only by a high volume of renewal business and a 3.9 percent increase in volume, but also long maturities. The interest rate exposure serves as a strategic hedge against persistently low Swiss franc interest rates as well as the stabilisation of interest gains. In the event of an interest rate rise, the positive margin effects successively compensate for the anticipated losses in

Fig. 15: Interest rate sensitivity of the banking book CHF

Basis point sensitivity[1]	in CHF 1,000	up to 12 months	1 to 5 years	over 5 years	Total
Hedged item		–481	3,200	8,951	11,670
Hedge		377	–1,070	–1,486	–2,178
Total as at 31.12.2020		–104	2,131	7,465	9,492
Total as at 31.12.2019		119	2,269	5'984	8,372

1 Basis point sensitivity is measured as a cash value gain/loss when the interest rate in the maturity band concerned falls by one basis point (bp). A basis point equals 0.01 percentage points.

terms of the structural contribution. The euro and US dollar interest rate exposures are almost fully hedged as of the end of 2020.

The present value losses in the regulatory interest rate shock scenarios introduced on 1 January 2019, as shown in Figure 16, illustrate the development of interest rate risk. In the worst-case scenario in Swiss francs, a parallel interest rate shock of 150 basis points upwards results in a present value loss of CHF –1,279 million, which is a higher year-on-year stress loss of CHF –92 million.

1.6.2.2 Risks in the investment portfolio

The risks in the investment portfolio comprise issuer risks on debt and equity securities in financial investments and real estate price risks. Interest rate risks are managed and limited as part of asset and liability management.

Strategy, organisation and processes. The basis of the investment portfolio is mainly operational. Debt securities in financial investments form part of the bank's liquidity buffer, and participations mainly related to companies within the financial market infrastructure. In addition, ZKB provides start-up financing to promote young companies. The real estate position consists almost entirely of property in use by the bank.

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

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

Risk profile. The carrying amount of debt securities in financial investments was CHF 4.7 billion as at 31 December 2020 (2019: CHF 4.1 billion). The portfolio consists of first-class bonds and is diversified in terms of counterparty groups and countries. The presentation of Financial investments and Participations can be found in Notes 5 and 6 to the balance sheet.

1.7 Operational risks

1.7.1 Strategy, organisation and processes

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

Fig. 16: Present value stress results of the regulatory interest rate shock scenarios as at 31.12.2020

in CHF million		2020	2019	Change
(i) Upward parallel shift		–1,279	–1,186	–92
(ii) Downward parallel shift		1,436	1,299	138
(iii) Steepener shock		–584	–412	–171
(iv) Flattener shock		335	181	155
(v) Shock of short-term interest rates upward		–169	–259	90
(vi) Shock of short-term interest rates downward		173	265	–92
Core capital		13,195	12,526	668
Ratio of largest present value loss to core capital	in %	9.69%	9.47%	0.22%

The corresponding risk inventory constitutes the basis for the management of operational risks. Besides periodic and systematic assessments, operational risks are assessed, managed and monitored on an event-driven basis as well. Operational risks are divided into six topics: environmental and accident risks, process risks, expert and model risks, cyber risks, other external tort risks and internal tort risks.

The measurement of operational risks is based on an estimate of potential claims and the probability of occurrence. To calculate the operational residual risks, inherent risks are set against existing risk-mitigating measures. If the residual risks exceed the risk tolerance, additional risk-mitigating measures are defined and implemented. The adequacy and effectiveness of the risk-mitigating measures are monitored as part of the bank-wide internal control system (ICS). The specialist operational risk function of the Risk unit specifies the processes and methods, and provides tools for monitoring the internal control system.

1.7.2 Risk profile

The Covid-19 pandemic did not trigger any material change in the bank's risk profile for operational risks compared with the previous year. The pandemic scenario, which is assigned to the OpRisk topic area "environmental and accident risks", can develop into a business continuity management (BCM) event under very unfavourable circumstances, i.e. if a critical number of employees in critical processes are absent. No such absences occurred in 2020. Zürcher Kantonalbank prepared for such a scenario by putting in place a generic pandemic plan, which was adapted to the Covid-19 scenario in early 2020. The Executive Board activated the Pandemic Task Force as early as January as a preliminary stage of the emergency organisation. Working in close cooperation with the Executive Board while keeping a close eye on the latest developments, far-reaching measures were taken not only to protect the bank's clients and employees, but also to guarantee that banking operations would remain intact at all times. The pandemic was and is an additional burden for Zürcher Kantonalbank's operations. But thanks to the crisis organisation in the various areas and the great commitment of its employees, Zürcher Kantonalbank in 2020 suffered no significant business interruptions due to the pandemic.

The assessment of the damage potential and probability of occurrence of a pandemic scenario have not changed as a result of the Covid-19 pandemic. The bank has analysed the indirect effects of the pandemic on the remaining OpRisk topic areas, but this analysis also did not lead to a reassessment in the risk profile. The risk ratings of the six OpRisk topics were confirmed. Cyber and process risks remain the two OpRisk topics with the greatest residual risk for the bank. The management of process and cyber risks therefore continues to receive a high level of attention.

1.8 Liquidity and refinancing risks

1.8.1 Strategy, organisation and processes

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

The measurement, management and control of short-term liquidity risks are based both on an internal model and on the liquidity coverage ratio (LCR), a regulatory liquidity indicator. The internal model is based on a bank-specific stress scenario for balance-sheet and off- balance-sheet transactions. In this scenario, substantial outflows of varying intensity in the client and interbank business are assumed, among other things. The result of the liquidity risk measurement is an automatically produced daily report on the availability of liquid assets and securities eligible for unencumbered repo transactions in financial investments and trading positions, liquidity inflows and outflows under the stress scenario as well the liquidity position left after the stress scenario. The emergency plan also constitutes a significant element of liquidity risk management. This supports the situationally appropriate conduct of the relevant functions in a crisis.

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

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

1.8.2 Risk profile

The liquidity ratios in 2020 were above the previous year's figures, in particular due to a significant increase in the second half of the year. The average LCR, which is calculated as a simple average of the end-of-day values of the business days during the quarter under review, lies between 121 percent and 160 percent. High-quality liquid assets (HQLA) average between CHF 42.5 billion and CHF 53 billion. The HQLA consist of Level-1 assets (cash, central bank deposits, tradeable securities) and Level-2 assets (tradeable securities with less strict criteria). The majority of Level 1 assets are held in the form of central bank deposits. Zürcher Kantonalbank actively manages its liquidity risk profile, particularly through targeted management of time deposits, money-market instruments as well as SLB and repo transactions. The changes in the LCR and the internal statistical measures of liquidity risk are mainly driven by portfolio changes in non-operational sight deposits, time deposits, money-market instruments and SLB and repo transactions with banks and major clients.

As a systemically important bank, Zürcher Kantonalbank must fulfil significantly higher regulatory liquidity requirements with effect from 1 January 2021. In light of these new requirements, the bank increased its large liquidity cushion even further during the year under review. By the end of 2020, the bank was thus easily able to meet the additional requirements that apply from the beginning of 2021. This was mainly achieved in 2020 by issuing money market instruments, by opening investment accounts for institutional clients subject to withdrawal restrictions as well as through the capital market and time deposits in the interbank market. The year-on-year increase in total assets is largely attributable to these higher regulatory liquidity requirements.

In September 2020, the Federal Council adopted the revised Liquidity Ordinance, which provides for the introduction of structural liquidity ratio requirements (net stable funding ratio, NSFR). The new provisions will enter into force on 1 July 2021. Zürcher Kantonalbank also met these new requirements with a comfortable buffer as at the end of 2020.

Figure 17 shows a year-on-year comparison of the coverage ratio for asset-side client transactions. Loans to clients amounted to CHF 96.9 billion and client assets to CHF 92.8 billion as at 31 December 2020. This results in a coverage ratio of 95.7 percent, which is slightly higher than in the previous year.

1.9 Compliance and legal risks

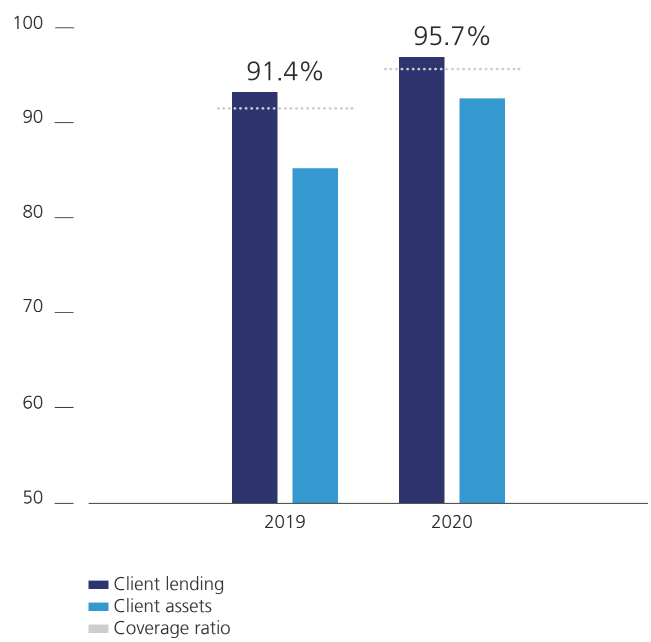
1.9.1 Processes and methods

The risk management instruments used to manage compliance and legal risks include information on the relevant legal frameworks, internal legal advice, training and education of employees, the implementation of ordinances through internal bank directives, and the embedding of compliance and legal requirements into the bank's internal processes. They also include monitoring and controlling, investigations and clarifications in the event of violation of the rules, as well as the conducting and overseeing of civil, criminal and administrative proceedings. The Compliance function maintains a bank-wide compliance risk inventory, which is reviewed annually to ensure it is up to date. It defines the risk management tools for compliance risks and supports the preventative management of compliance risks on a case-by-case basis. To fulfil its role, the Compliance function has unlimited rights of information, access and inspection.

1.9.2 Risk profile

The regulatory framework for Zürcher Kantonalbank remained demanding in the reporting period and has evolved in several respects. The new Financial Services Act (FinSA) came into force at the end of 2019 and the revised Data Protection Act in autumn 2020. At the same time, regulation is increasingly also addressing the issue of sustainability. Corresponding preparatory and implementation work was and is the focus of the bank's work to manage compliance and legal risks. The ongoing tightening of regulations in the area of anti-money laundering also required significant efforts in the year under review; in addition, the bank continued to revise various technical risk management tools in this area. Finally, the Covid-19 pandemic also impacted the compliance function and led to significant additional work related to combating abuse and money laundering, and in providing legal support for loans. When performing the aforementioned compliance risk inventory, Zürcher Kantonalbank still continuously assesses not only the issues mentioned above, but also all its legal and regulatory risks and, where necessary, takes the appropriate risk provisioning measures.

Fig. 17: Coverage ratio of client business (in CHF billion)



m) Multi-year comparison

All figures in the multi-year comparison are based on the accounting rules for banks, securities firms, financial groups and conglomerates.

	2020	2019	2018	2017	2016
Income statement in CHF million					
Net result from interest operations	1,218	1,216	1,213	1,202	1,187
Result from commission business and services	806	777	776	770	728
Result from trading activities and the fair value option	459	319	286	334	379
Other result from ordinary activities	29	102	46	31	31
Operating income	**2,513**	**2,414**	**2,320**	**2,336**	**2,325**
Operating expenses	–1,580	–1,443	–1,430	–1,434	–1,441[1]
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–117	–113	–192	–120	–124
Changes to provisions and other value adjustments and losses	–14	–12	194	2	–8
Operating result	**801**	**846**	**892**	**784**	**752**[1]
Extraordinary result	25	4	103	8	16
Changes in reserves for general banking risks	46	–	–200	–	–
Taxes	–8	–5	–7	–11	–7
Consolidated profit	**865**	**845**	**788**	**782**	**761**[1]
Balance sheet (before appropriation of profit) in CHF million					
Total assets	188,364	167,054	169,408	163,881	157,985
Mortgage loans	87,679	84,311	81,256	79,087	77,275
Amounts due in respect of customer deposits	92,609	85,089	85,537	81,381	80,890
Provisions	222	242	255	585	636
Shareholders' equity	12,650	12,337	11,852	11,228	10,793
Key figures in %					
Return on equity (RoE)	7.2	7.2	7.1	7.3	7.4[1]
Cost/income ratio (CIR)[2]	60.1[3]	59.9	61.4	61.1	61.7[1]
Common equity Tier 1 ratio (CET1)[4]	17.4	17.7	17.8	16.5[6]	15.6
Risk-based capital ratio (going concern)[4]	18.9	20.0	20.2	18.8[6]	17.5
Risk-based capital ratio (gone concern)[4/5]	3.2	1.4	–	–	–
Leverage ratio (going concern)[4]	6.2	7.0	6.8	6.8	6.7
Leverage ratio (gone concern)[4/5]	1.1	0.5	–	–	–
Liquidity coverage ratio (LCR)[7]	160	123	127	153	132
Customers' assets in CHF million					
Total customers' assets	361,658	333,341	295,194	288,802	264,754
Headcount/branches Number					
Headcount after adjustment for part-time employees, as at the reporting date	5,180	5,145	5,087	5,117	5,173
Branches[8]	60	66	75	78	89

1 Excludes the CHF 70 million non-recurring personnel expense related to the creation of provisions for pension benefit obligations.
2 Calculation: Cost/income ratio (excl. changes in default-related value adjustments and losses from interest operations).
3 Excludes the CHF 46 million non-recurring personnel expense related to the anniversary payment made to employees.
4 In accordance with the provisions for systemically important banks.
5 Effective since 1 January 2019.
6 Including effects stemming from the changeover to IRB and SA-CCR.
7 Up until 2016 – average for the quarter; from 2017, a simple average of the end-of-day values on business days during the quarter under review.
8 Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna.

Multi-year comparison (continued)

Profit distribution (in CHF million)	2020	2019	2018	2017	2016
Share paid to canton to cover actual costs	11	11	13	18	21
Distribution to canton	297 [10]	330 [9]	230	230	220
Distribution to municipalities	148 [10]	165 [9]	115	115	110
Total profit distribution	456	506	358	363	351
Additional compensation for state guarantee	23	22	22	23	22
Additional payments from public service mandate	126	125	140	131	119

Rating agencies (Rating)	2020	2019	2018	2017	2016
Fitch	AAA	AAA	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Standard & Poor's	AAA	AAA	AAA	AAA	AAA

9 Including anniversary dividend.

10 Including special coronavirus dividend.

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone: +41 58 286 31 11
Fax: +41 58 286 30 04
www.ey.com/ch

Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the consolidated financial statements
as of 31 December 2020 of

Zurich, 4 March 2021

Zürcher Kantonalbank, Zurich

Report of the statutory auditor on the consolidated financial statements

Mr. President,
Ladies and Gentlemen,

As statutory auditor, we have audited the consolidated financial statements of Zürcher Kantonalbank, which comprise the consolidated balance sheet, consolidated statement of income, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements (pages 136 to 202), for the year ended 31 December 2020.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation 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 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.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2020 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 key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Determination of allowances and provisions for default risks

Audit Matter

Determining allowances and provisions for default risks requires making estimates and assumptions, which by definition involve judgments and can vary depending on the valuation. The outbreak of the coronavirus pandemic and its economic effects have increased the valuation uncertainty. As of 31 December 2020, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 100.3 billion. At the balance sheet date, allowances and provisions for default risks amounted to CHF 325.4 million. With 53.3%, client loans and amounts due from banks are a material part of the assets of Zürcher Kantonalbank, and we consider the determination of allowances and provisions for default risks as a key audit matter.

The significant accounting principles for determining allowances and provisions for default risks are described by Zürcher Kantonalbank on pages 143, 144, 145, 149 and 150 as well as on pages 189 to 195 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 153, 154 and 164 in the notes to the consolidated financial statements.

Our audit response

We audited the processes and controls in connection with granting and monitoring loans as well with regard to the determination of allowances and provisions for default risks. Our audits also included the monitoring processes, extended during the reporting period in connection with the coronavirus pandemic.

Moreover, we performed sample tests on the impairment of selected client loans and amounts due from banks, and evaluated the compliance of significant accounting principles as well as the appropriateness of the disclosures in the notes to the consolidated financial statements.

Our audit procedures did not lead to any reservations concerning the determination of allowances and provisions for default risks.

Fair value measurement of financial instruments

Audit Matter	Fair value is defined as the amount for which an asset is exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. This amount corresponds to the price requested in a price-efficient and liquid market or, if this is missing, to the price determined on the basis of a valuation model. Valuation models are significantly affected by the assumptions that are used, including interest, forward and swap rates, spread curves and the volatility and estimates of future cash flows. There is a significant degree of judgment involved in making these assumptions. Zürcher Kantonalbank discloses financial instruments at fair value measurement in different balance sheet items. As of 31 December 2020, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.6 billion, while that of the negative replacement values comes to CHF 0.9 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 1,097 billion. Furthermore, as of 31 December 2020, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 3.5 billion. As a result of the scope of judgment and the significance of the listed balance sheet items in the consolidated financial statements of Zürcher Kantonalbank, the valuation of these items represents a key audit matter. Zürcher Kantonalbank explains the relevant accounting principles on pages 145, 146, 151, 152 as well as on pages 195 to 199 of its annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 154, 155, 156 and 162 in the notes to the consolidated financial statements.
Our audit response	We audited the processes and controls with regard to fair value measurement, the validation and application of valuation models. Moreover, we assessed the assumptions made in connection with the valuation and their appropriateness on the basis of sample testing and evaluated the measurement of financial instruments by means of independent valuation models. On the basis of sample testing and a comparison with third-party sources, we assessed the fair values used and directly available from an active market. Moreover, we evaluated the appropriateness of the disclosures in the notes to the consolidated financial statements. Our audit procedures did not lead to any reservations concerning the fair value measurement of financial instruments.

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 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and 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.

Ernst & Young Ltd

Bruno Patusi
Licensed audit expert
(Auditor in charge)

Timo D'Ambrosio
Licensed audit expert

Parent Company Financial Statements

Income statement

in CHF million	Notes	2020	2019	Change	Change in %
Result from interest operations					
Interest and discount income		1,425	1,861	–436	–23.4
Interest and dividend income from financial investments		32	35	–3	–7.4
Interest expense		–200	–687	486	–70.8
Gross result from interest operations	33	1,257	1,209	48	3.9
Changes in value adjustments for default risk and losses from interest operations		–39	6	–46	–
Subtotal net result from interest operations		1,218	1,216	2	0.2
Result from commission business and services					
Commission income from securities trading and investment activities		679	636	43	6.8
Commission income from lending activities		57	58	–1	–1.8
Commission income from other services		102	111	–9	–8.0
Commission expense		–127	–115	–12	10.9
Subtotal result from commission business and services		711	691	21	3.0
Result from trading activities					
Result from trading activities and the fair value option	32	448	301	147	48.9
Other result from ordinary activities					
Result from the disposal of financial investments		6	6	–0	–4.7
Income from participations		37	144	–107	–74.0
Result from real estate		8	8	–0	–4.6
Other ordinary income		25	82	–57	–69.8
Other ordinary expenses		–6	–2	–4	188.3
Subtotal other result from ordinary activities		70	238	–168	–70.7
Operating income		2,447	2,445	1	0.1
Operating expenses					
Personnel expenses	34	–1,087	–987	–101	10.2
General and administrative expenses	35	–440	–401	–38	9.6
Subtotal operating expenses		–1,527	–1,388	–139	10.0
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–116	–111	–5	4.9
Changes to provisions and other value adjustments and losses		–14	–12	–3	22.1
Operating result		789	935	–146	–15.6
Extraordinary income	36	23	5	18	388.8
Extraordinary expenses	36	–0	–0	0	–74.6
Changes in reserves for general banking risks	36	46	–	46	–
Taxes	39	–0	–	–0	–
Result of the period		859	940	–81	–8.6

Appropriation of profit

in CHF million	2020	2019	Change	Change in %
Result of the period	859	940	−81	−8.6
Profit carried forward	2	1	1	124.0
Distributable profit	860	941	−80	−8.5
Appropriation of profit				
Profit distribution				
Dividend	456	506	−50	−9.9
– of which, paid to cover actual costs	11	11	–	0.0
– of which, ordinary dividends for the benefit of the canton	230	230	–	0.0
– of which, anniversary dividends for the benefit of the canton	–	100	–	–
– of which, special coronavirus dividends for the benefit of the canton	67	–	–	–
– of which, ordinary dividends for the benefit of the municipalities	115	115	–	0.0
– of which, anniversary dividends for the benefit of the municipalities	–	50	–	–
– of which, special coronavirus dividends for the benefit of the municipality	33	–	–	–
Profit retained				
Allocated to reserves	402	433	−31	−7.2
– of which, allocated to voluntary retained earnings reserve	402	433	−31	−7.2
Profit carried forward	2	2	1	41.9

The profit distribution takes place on the basis of the provisions in Section 26f of the Law on Zürcher Kantonalbank of 28 September 1997, as amended on 1 January 2015, and has no direct link to the endowment capital.

The appropriation of profit was approved by the Board of Directors on 28 January 2021. Approval of the annual financial statements by the Cantonal Parliament is scheduled for 31 May 2021.

Balance sheet
as at 31 December

in CHF million	Notes	2020	2019	Change	Change in %
Assets					
Liquid assets		52,140	36,671	15,470	42.2
Amounts due from banks		3,379	4,902	–1,523	–31.1
Amounts due from securities financing transactions	1	16,942	15,588	1,354	8.7
Amounts due from customers	2	9,348	8,880	468	5.3
Mortgage loans	2	87,679	84,311	3,369	4.0
Trading portfolio assets	3	9,750	7,881	1,869	23.7
Positive replacement values of derivative financial instruments	4	1,655	1,494	161	10.8
Other financial instruments at fair value	3	–	–	–	–
Financial investments	5	4,996	4,360	636	14.6
Accrued income and prepaid expenses		341	325	15	4.7
Participations		522	540	–18	–3.3
Tangible fixed assets		626	648	–22	–3.4
Intangible assets		12	14	–3	–19.9
Other assets	10	230	254	–24	–9.3
Total assets		187,620	165,867	21,753	13.1
Total subordinated claims		263	337	–75	–22.1
– of which subject to conversion and/or debt waiver		18	37	–20	–52.4
Liabilities					
Amounts due to banks		34,885	34,108	777	2.3
Liabilities from securities financing transactions	1	4,823	4,969	–146	–2.9
Amounts due in respect of customer deposits		92,824	85,036	7,787	9.2
Trading portfolio liabilities	3	1,320	2,058	–739	–35.9
Negative replacement values of derivative financial instruments	4	942	1,303	–362	–27.7
Liabilities from other financial instruments at fair value	3.14	2,436	1,657	780	47.1
Cash bonds		158	143	15	10.7
Bond issues		25,385	13,329	12,056	90.4
Central mortgage institution loans		10,743	9,778	965	9.9
Accrued expenses and deferred income		785	666	119	17.9
Other liabilities	10	412	199	213	–
Provisions	16	220	240	–19	–8.1
Reserves for general banking risks	16	4,990	5,036	–46	–0.9
Bank's capital	17.21	2,425	2,425	–	–
Statutory retained earnings reserve	21	1,213	1,213	–	–
Voluntary retained earnings reserve	21	3,199	2,766	433	15.7
Profit carried forward	21	2	1	1	124.0
Result of the period	21	859	940	–81	–8.6
Shareholders' equity	21	12,687	12,381	307	2.5
Total liabilities		187,620	165,867	21,753	13.1
Total subordinated liabilities		1,607	1,471	136	9.3
– of which subject to conversion and/or debt waiver		1,607	1,471	136	9.3
Off-balance-sheet transactions					
Contingent liabilities	2	3,393	3,882	–489	–12.6
Irrevocable commitments	2	11,590	9,908	1,682	17.0
Obligations to pay up shares and make further contributions	2	251	257	–6	–2.3
Credit commitments	2	–	–	–	–

Statement of changes in equity

in CHF million	Bank's capital	Statutory retained earnings reserve	Reserves for general banking risks	Voluntary retained earnings reserve	Distributable profit	Total equity
2019						
Opening amount	2,425	1,213	5,036	2,383	742	11,799
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Other grants/other capital contributions	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Capital costs of endowment capital	–	–	–	–	–13	–13
Allocation to the canton from previous year's profit	–	–	–	–	–230	–230
Allocation to municipalities from previous year's profit	–	–	–	–	–115	–115
Valuation adjustments not affecting net income	–	–	–	–	–	–
Other allocations to (transfers from) the reserves for general banking risks	–	–	–	–	–	–
Other allocations to (transfers from) the other reserves	–	–	–	383	–383	–
Result of the period	–	–	–	–	940	940
Total equity as at 31.12.2019	2,425	1,213	5,036	2,766	941	12,381
2020						
Opening amount	2,425	1,213	5,036	2,766	941	12,381
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Other grants/other capital contributions	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Capital costs of endowment capital	–	–	–	–	–11	–11
Allocation to the canton from previous year's profit	–	–	–	–	–330	–330
Allocation to municipalities from previous year's profit	–	–	–	–	–165	–165
Valuation adjustments not affecting net income	–	–	–	–	–	–
Other allocations to (transfers from) the reserves for general banking risks	–	–	–46	–	–	–46
Other allocations to (transfers from) the other reserves	–	–	–	433	–433	–
Result of the period	–	–	–	–	859	859
Total equity as at 31.12.2020	2,425	1,213	4,990	3,199	860	12,687

Notes Parent Company

Under Art. 36 of the Swiss Ordinance on Banks and Savings Banks (BankO), institutions that draw up consolidated financial statements are exempt from disclosing certain information in the individual financial statements. For reasons of clarity, the same numbering has been used for the required tables as in the consolidated financial statements. The portrait details, explanations relating to risk management, identification of default risks and definition of the need for value adjustments, valuation of coverage and details of business policy on the use of derivative financial instruments as well as on the use of hedge accounting in the group also apply to the parent company. This is also the case for material events occurring after the balance sheet date.

Accounting and valuation principles

Accounting, valuation and reporting are based on the provisions of the Code of Obligations and Swiss banking law, the accounting rules for banks, securities firms, financial groups and conglomerates according to the Accounting Ordinance (RelV-FINMA) and FINMA Circular 2020/1 as well as the Law on Zürcher Kantonalbank (Cantonal Bank Act) of 28 September 1997 (version specified by the Cantonal Parliament Act dated 25 March 2019) and the regulations based on it. The statutory financial statements of the parent company are prepared in compliance with the provisions of Art. 25 para. 1 a) Banking Ordinance ("Reliable assessment statutory single-entity financial statements").

They are generally based on the accounting and valuation principles of the group, with the following exceptions: All participations are recognised at the lower of cost or market in the statutory financial statements. Goodwill from acquisitions is included under participations. In the single-entity financial statement, the reserves for general banking risks are shown as an individual item in the balance sheet. At group level, retained earnings reserves include reserves for general banking risks created before 2018. Creation and release of such reserves is shown under Changes in reserves for general banking risks.

i) Information on the balance sheet

1 Breakdown of securities financing transactions

in CHF million	2020	2019
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	16,942	15,588
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	4,823	4,969
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	4,758	4,454
– of which, with unrestricted right to resell or pledge	4,758	4,454
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	42,632	45,792
– of which, repledged securities	848	160
– of which, resold securities	25,535	30,924

2 Overview of collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables

Overview by collateral

	Type of collateral			
in CHF million	Mortgage collateral	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	34	1,875	7,578	9,488
Mortgage loans				
– Residential property	72,849	10	14	72,873
– Office and business premises	9,870	1	10	9,881
– Commercial and industrial premises	2,341	1	20	2,362
– Other	2,607	0	2	2,608
Total mortgage loans	87,667	12	46	87,724
Total loans (before netting with value adjustments) 2020	87,701	1,887	7,624	97,212
Total loans (before netting with value adjustments) 2019	84,341	1,218	7,786	93,344
Total loans (after netting with value adjustments) 2020	87,701	1,887	7,439	97,027
Total loans (after netting with value adjustments) 2019	84,341	1,218	7,632	93,190
Off-balance-sheet				
Contingent liabilities	60	473	2,860	3,393
Irrevocable commitments	2,003	368	9,219	11,590
Obligations to pay up shares and make further contributions	–	–	251	251
Credit commitments	–	–	–	–
Total off-balance-sheet transactions 2020	2,063	841	12,330	15,235
Total off-balance-sheet transactions 2019	1,414	1,124	11,510	14,048

2 Overview of collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables (continued)

Information on impaired loans

Impaired loans in CHF million	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments[1]
2020	499	246	253	188
2019	435	257	178	159

1 Individual value adjustments of 100 percent of the net debt amount are normally made. Individual value adjustment rates may apply in the case of major positions.

3 Trading portfolios and other financial instruments at fair value

Assets in CHF million	2020	2019
Debt securities, money market securities/transactions	3,221	3,418
– of which, listed[1]	2,540	3,366
Equity securities	3,086	2,477
Precious metals and commodities	3,340	1,888
Other trading portfolio assets	103	98
Total trading transactions	9,750	7,881
Debt securities	–	–
Structured products	–	–
Other	–	–
Total other financial instruments at fair value	–	–
Total assets	9,750	7,881
– of which, determined using a valuation model	783	150
– of which, securities eligible for repo transactions in accordance with liquidity requirements	1,321	1,313

1 Listed = traded on a recognised exchange.

Liabilities in CHF million	2020	2019
Debt securities, money market securities/transactions	1,300	2,033
– of which, listed[1]	1,280	2,006
Equity securities	14	18
Precious metals and commodities	5	1
Other trading portfolio liabilities	0	6
Total trading portfolio liabilities	1,320	2,058
Debt securities	–	–
Structured products	2,436	1,657
Other	–	–
Total liabilities from other financial instruments at fair value	2,436	1,657
Total liabilities	3,756	3,715
– of which, determined using a valuation model	2,457	1,684

1 Listed = traded on a recognised exchange.

4 Derivative financial instruments (assets and liabilities)

	Trading instruments			Hedging instruments		
in CHF million	Positive replacement values	Negative replacement values	Contract volume[1]	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments						
Forward contracts including FRAs	0	0	3,027	–	–	–
Swaps	7,670	6,968	600,511	315	326	14,507
Futures	–	–	21,793	–	–	–
Options (OTC)	42	25	3,167	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	7,712	6,993	628,498	315	326	14,507
Foreign exchange/ precious metals						
Forward contracts	2,714	2,909	369,159	–	–	–
Combined interest rate/currency swaps	263	519	2,748	267	–	1,606
Futures	–	–	277	–	–	–
Options (OTC)	117	114	65,453	–	–	–
Options (exchange-traded)	0	0	4	–	–	–
Total	3,094	3,543	437,642	267	–	1,606
Equity securities/indices						
Forward contracts	–	–	–	–	–	–
Swaps	44	23	979	–	–	–
Futures	–	–	3,137	–	–	–
Options (OTC)	57	71	4,882	–	–	–
Options (exchange-traded)	175	175	7,106	–	–	–
Total	276	269	16,104	–	–	–
Credit derivatives						
Credit default swaps	3	4	310	–	–	–
Total return swaps	1	1	143	–	–	–
First-to-default swaps	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–
Total	4	6	453	–	–	–
Other[2]						
Forward contracts	–	–	–	–	–	–
Swaps	1	1	181	–	–	–
Futures	–	–	726	–	–	–
Options (OTC)	–	0	1	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	1	1	908	–	–	–
Total before netting agreements						
2020	11,087	10,811	1,083,604	581	326	16,113
– of which, determined using a valuation model	11,087	10,811	–	581	326	–
2019	10,686	10,755	1,050,624	541	404	15,493
– of which, determined using a valuation model	10,686	10,755	–	541	404	–

1 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 2020/1, irrespective of whether the derivative is traded long or short. The contract volume is determined differently depending on the type of contract and does not permit any direct conclusions to be drawn about the risk exposure.
2 Includes commodities and hybrid derivatives.

4 Derivative financial instruments (assets and liabilities) (continued)

Total after netting agreements[3]

in CHF million	Positive replacement values (cumulative)	Negative replacement values (cumulative)
2020	1,655	942
2019	1,494	1,303

Breakdown by counterparty

Positive replacement values (after netting agreements)	Central clearing houses	Banks and securities firms	Other customers
2020	108	468	1,078

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

5 Financial investments

	Book value		Fair value	
in CHF million	**2020**	2019	**2020**	2019
Debt securities	4,661	4,013	4,835	4,176
– of which, intended to be held to maturity	4,661	4,013	4,835	4,176
– of which, not intended to be held to maturity (available for sale)	–	–	–	–
Equity securities	96	90	177	160
of which, qualified participations[1]	17	20	27	28
Precious metals	236	255	236	255
Real estate[2]	4	3	4	3
Cryptocurrencies	–	–	–	–
Total financial investments	4,996	4,360	5,252	4,594
– of which, securities eligible for repo transactions in accordance with liquidity requirements	4,576	3,950	4,748	4,111

1 At least 10 percent of the capital or voting rights.

2 The insurance value of the real estate within financial investments amounted to CHF 3.4 million.

Counterparties by rating

in CHF million						
Moody's	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Ba1 – Ba3	Lower than Ba3	Unrated
Standard & Poor's, Fitch	AAA – AA–	A+ – A–	BBB+ – BBB–	BB+ – B–	Below B–	Unrated
Debt securities: Book values						
2020	4,353	47	–	–	–	261

All debt instruments without a rating fulfil the conditions of high-quality liquid assets (HQLA) according to the Liquidity Ordinance (LiqV).
If two ratings exist with different risk weightings, the rating with the lower risk weighting is used.
If more than two ratings exist with different risk weightings, those ratings which correspond to the two lowest risk weightings are taken into consideration.
The higher of the two risk weightings is used. Top priority is given to the issue rating and second priority to the issuer rating.

10 Other assets and liabilities

in CHF million	Other assets 2020	Other assets 2019	Other liabilities 2020	Other liabilities 2019
Compensation account	0	–	131	29
Deferred income taxes recognised as assets	–	–	–	–
Amount recognised as assets in respect of employer contribution reserves	–	–	–	–
Amount recognised as assets relating to other assets from pension schemes	–	–	–	–
Negative goodwill	–	–	–	–
Settlement accounts	168	196	232	133
Indirect taxes	57	53	38	24
Other	5	4	11	12
Total	230	254	412	199

11 Assets pledged or assigned to secure own commitments, and assets under reservation of ownership

in CHF million	2020 Book value	2020 Effective commitment	2019 Book value	2019 Effective commitment
Pledged/assigned assets				
Amounts due from banks	990	985	1,329	1,310
Amounts due from customers	2,879	2,855	2,624	2,596
Mortgage loans	13,376	10,743	12,127	9,778
Trading portfolio assets	771	765	13	13
Financial investments	–	–	–	–
Total pledged/assigned assets	18,016	15,348	16,092	13,696

No assets are subject to reservation of ownership.
Note 1 shows instruments serving as collateral for which a right of resale or pledging has been granted in connection with securities financing.

12 Liabilities relating to own pension schemes and number and nature of equity instruments of the bank held by own pension schemes

Liabilities to own pension schemes from balance-sheet transactions, in CHF million	2020	2019	Change
Amounts due in respect of customer deposits	108	105	3
Cash bonds	–	–	–
Negative replacement values of derivative financial instruments	4	12	−8
Accrued expenses and deferred income	–	–	–
Other liabilities	–	–	–
Total	112	117	−5

Own pension schemes do not hold any of the bank's equity instruments.

13 Information on pension schemes

a) Employer contribution reserves (ECR)

	Nominal value	Waiver of use	Net amount	Net amount	Influence of ECR on personnel expenses	Influence of ECR on personnel expenses
in CHF million	End of 2020	End of 2020	End of 2020	End of 2019	2020	2019
Zürcher Kantonalbank pension fund	–	–	–	–	–	–
Total	–	–	–	–	–	–

b) Economic benefit/obligations and the pension expenses

	Over-/underfunding	Economic interest of the bank		Change in economic interest versus previous year	Contributions paid	Pension expenses in personnel expenses	
in CHF million	End of 2020	2020	2019	2020	2020	2020	2019
Employer-sponsored funds/employer-sponsored pension schemes	–	–	–	–	–	–	–
Pension plans without overfunding/underfunding	–	–	–	–	113	113	–
Pension plans with overfunding [1]	–	–	–	–	–	–	108
Pension plans with underfunding	–	–	–	–	–	–	–
Pension schemes without own assets	–	–	–	–	–	–	–
Total	–	–	–	–	113	113	108

1 Including change in provisions for pension benefit obligations (2020: release CHF 0 million/2019: release CHF 1 million).

14 Issued structured products

Underlying risk of the embedded derivative		Book value: Valued as a whole		Book value: Valued separately		Total
in CHF million		Booked in trading portfolio	Booked in other financial instruments at fair value	Value of the host instrument	Value of the derivative	
Interest rate instruments	With own debenture component	–	68	–	–	68
	Without oDC	–	–	–	–	–
Equity securities	With own debenture component	–	2,150	–	–	2,150
	Without oDC	–	–	–	–	–
Foreign currencies	With own debenture component	–	189	–	–	189
	Without oDC	–	–	–	–	–
Commodities/precious metals	With own debenture component	–	19	–	–	19
	Without oDC	–	–	–	–	–
Loans	With own debenture component	–	9	–	–	9
	Without oDC	–	–	–	–	–
Real estate	With own debenture component	–	–	–	–	–
	Without oDC	–	–	–	–	–
Hybrid instruments	With own debenture component	–	1	–	–	1
	Without oDC	–	–	–	–	–
Total 2020		–	2,436	–	–	2,436
Total 2019		–	1,657	–	–	1,657

16 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

in CHF million	Balance at end of 2019	Use in conformity with designated purpose and reversals	Reclassifi-cations	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income statement	Balance at end of 2020
Provisions for deferred taxes	–	–	–	–	–	–	–	–
Provisions for pension benefit obligations[1]	17	–17	–	–	–	–	–0	–
Provisions for default risks	127	–0	–	–	–	56	–46	137
Provisions for other business risks[2]	59	–3	–	–	–	–	–1	55
Provisions for restructuring	–	–	–	–	–	–	–	–
Other provisions[3]	37	–10	–	–	–	5	–4	29
Total provisions	240	–30	–	–	–	62	–51	220
Reserves for general banking risks	5,036	–	–	–	–	–	–46	4,990
Value adjustments for default and country risks	159	–7	–	–	2	92	–57	188
– of which, value adjustments for default risks in respect of impaired loans/receivables[4]	159	–7	–	–	2	92	–57	188
– of which, value adjustments for latent risks	–	–	–	–	–	–	–	–

1 In line with its sustainable human resources policy, the Board of Directors decided in December 2016 that the bank would assume certain costs for the financing of transitional solutions in connection with the realignment of the pension fund to the changed environment.
2 Provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
3 Other provisions include provisions for litigation, provisions for employees' holiday credits and provisions for the ZKB company anniversary.
4 Default risks consist primarily of counterparty risks, for which value adjustments of 100 percent of the net debt amount are generally made. Individual value adjustment rates may apply in the case of major positions.

Recoveries from amounts due derecognised in previous periods are reported directly in Changes in value adjustments for default risk and losses from interest operations (2020: CHF 1 million/2019: CHF 1 million).
For more details on the management of credit risks, operational risks and legal and compliance risks, please refer to section I) Risk report.

17 Presentation of the bank's capital

in CHF million	Total par value 2020	Total par value 2019
Endowment capital	2,425	2,425
Total bank's capital	2,425	2,425

Zürcher Kantonalbank's capital consists of endowment capital in the amount of CHF 2,425 million. On 2 November 2020, the Cantonal Parliament decided to increase the endowment capital ceiling, which has an indefinite time limit, by CHF 425 million to CHF 3,425 million. The endowment capital of CHF 1,000 million (endowment capital reserve), which has been approved by the Cantonal Parliament and has not yet been called on, has been reserved in full for the Bank's contingency plan by resolution of the Board of Directors and will be counted towards the gone concern capital component. As a result, the endowment capital reserve can now only be called on by order of FINMA or a FINMA-appointed restructuring official.

18 Number and value of equity securities or options on equity securities held by all executives and directors and by employees, and disclosures on any employee participation schemes

Zürcher Kantonalbank does not have an employee participation scheme.

19 Amounts due from / to related parties

	Due from		Due to	
in CHF million	**2020**	2019	**2020**	2019
Holders of qualified participations	10	11	1,305	938
Group companies	460	264	455	262
Linked companies	357	493	970	875
Transactions with members of governing bodies	15	17	20	28
Other related parties	–	–	–	–

Affiliated companies are public-law institutions of the respective canton or public-private enterprises in which the canton holds qualified participations.
On- and off-balance-sheet transactions with related parties are conducted at usual market conditions, with the exception of loans to members of governing bodies. Loans to governing bodies are granted on employee terms in some cases.
This primarily involved the usual balance sheet banking business, i.e. it was mainly amounts due from and due to customers.
The totals above also include securities items and claims and liabilities from transactions in derivatives (positive and negative replacement values).
The off-balance-sheet transactions with related parties in the amount of CHF 1,269 million (2019: CHF 1,442 million) primarily include irrevocable loan commitments, in particular the keepwell agreement with Zürcher Kantonalbank Finance (Guernsey) Ltd., and other contingent liabilities.

20 Disclosure of holders of significant participations

Zürcher Kantonalbank is an independent public-law institution of the Canton of Zurich.

21 Disclosure of own shares and composition of equity capital

in CHF million	2020	2019
Reserves for general banking risks	4,990	5,036
Bank's capital	2,425	2,425
Statutory retained earnings reserve	1,213	1,213
Voluntary retained earnings reserve	3,199	2,766
Profit carried forward	2	1
Result of the period	859	940
Total equity	12,687	12,381

The bank does not hold any of its own shares. The statutory retained earnings reserve cannot be distributed.

22 Disclosures in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations and Article 663c para. 3 CO for banks whose equity securities are listed

The requirements are not applicable for Zürcher Kantonalbank.

26 Breakdown of total assets by credit rating of country groups (risk domicile view)

		2020 Net foreign exposure		2019 Net foreign exposure	
Rating system ZKB's own country rating	Moody's	in CHF million	Share as %	in CHF million	Share as %
A	Aaa/Aa1/Aa2/Aa3	12,216	84.1	11,330	81.5
B	A1/A2/A3	981	6.8	1,050	7.5
C	Baa1/Baa2/Baa3	651	4.5	833	6.0
D	Ba1/Ba2	360	2.5	351	2.5
E	Ba3	73	0.5	57	0.4
F	B1/B2/B3	227	1.6	256	1.8
G	Caa1/Caa2/Caa3/Ca/C	11	0.1	29	0.2
Total		14,519	100.0	13,907	100.0

For further information, please see the "Credit risks" section in the Risk Report.

j) Information on off-balance sheet transactions

30 Breakdown of fiduciary transactions

in CHF million	2020	2019
Fiduciary investments with third-party companies	214	558
Fiduciary investments with group companies and linked companies	–	–
Fiduciary loans	–	–
Fiduciary transactions arising from securities lending and borrowing (in the bank's own name for the account of customers)	–	–
Other fiduciary transactions	–	–
Total	214	558

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

Type of managed assets in CHF million	2020	2019
Assets in collective investment schemes managed by the bank	112,563 [2]	94,607
Assets under discretionary asset management agreements	69,962 [2]	71,743
Other managed assets	175,159	163,181
Total managed assets (including double counting) [1]	357,684	329,532
– of which, double counting	57,709	53,507

1 The client assets shown include all client assets of an investment nature held with Zürcher Kantonalbank, as well as client assets held with third-party banks that are managed by Zürcher Kantonalbank. Zürcher Kantonalbank also includes client deposits that are not of an investment nature in its reported client assets. Non-inclusion of accounts that do not have an investment element would lead to greater volatility in managed client assets and thus distort the meaningfulness of trends in client assets. Assets held with Zürcher Kantonalbank but managed by third parties (custody-only) are not included. Banks and significant investment fund companies (including collective pension fund foundations, investment trusts, pension foundations and pension funds) for which Zürcher Kantonalbank acts exclusively as custodian bank are treated as custody-only.

2 To ensure uniform presentation, the assets of the Swisscanto Investment Foundation (CHF 7,895 million) are now reported as of 1 January 2020 under the category of assets in collective investment schemes managed by the bank. In the past, these were included in assets under discretionary asset management agreements.

b) Presentation of the development of managed assets

in CHF million	2020	2019
Total managed assets (including double counting) at beginning	329,532	292,040
+/– net new money inflow or net new money outflow [1]	22,013	11,466
+/– price gains/losses, interest, dividends and currency gains/losses	8,757	26,559
+/– other effects	–2,618	–532
Total managed assets (including double counting) at end	357,684	329,532

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

k) Information on the income statement

32 Breakdown of the result from trading activities and the fair value option

a) Breakdown by business area (in accordance with the organisation of the bank / financial group)

in CHF million	2020	2019
Result from trading in foreign exchange, bank notes and precious metals	142	110
Result from trading in bonds, interest rate and credit derivatives	191	100
Result from trading in equities and structured products	73	36
Result from other trading activities [1]	42	54
Total	448	301

1 The result from other trading activities includes results from securities lending and borrowing as well as positions for which the Executive Board or Asset Management is responsible.

b) Breakdown by underlying risk and based on the use of the fair value option

		Result from trading activities from:						
in CHF million	2020	Foreign exchange and bank notes	Precious metals	Securities lending and borrowing	Bonds, interest rate and credit derivatives	Equities and equity derivatives	Commodities and commodity derivatives	Other products [2]
Result from trading in foreign exchange, bank notes and precious metals	142	138	3	–	1	–	–	–
Result from trading in bonds, interest rate and credit derivatives	191	1	–	–	191	–0	–	–
Result from trading in equities and structured products	73	18	–0	–	–15	71	0	–0
Result from other trading activities	42	–0	–	43	–1	–0	–1	0
Total	448	156	3	43	176	70	–1	0
– of which, from fair value option on assets	–	–	–	–	–	–	–	–
– of which, from fair value option on liabilities	–101	17	–0	–	10	–127	–0	–0

2 The trading result from other products includes hybrid products and real estate derivatives.

33 Disclosure of material refinancing income in the item Interest and discount income as well as material negative interest

During financial year 2020, refinancing income from trading activities of CHF –22.1 million (previous year: CHF –41.3 million) was included in the item Interest and discount income.

The item Interest and discount income also includes the result of currency swaps in the amount of CHF 370.1 million (previous year: CHF 692.4 million), which were entered into solely for the purpose of engaging in interest arbitrage. Negative interest on lending business is shown as a reduction in the interest and discount income. Negative interest on deposit-taking business is shown as a reduction in interest expenses.

in CHF million	2020	2019
Negative interest on lending business (reduction in interest and discount income)	199	240
Negative interest on deposit-taking business (reduction in interest expenses)	144	125

34 Breakdown of personnel expenses

in CHF million	2020	2019
Salaries for members of the bank's governing bodies and personnel	833	785
– of which, alternative forms of variable compensation	–	–
AHV, IV, ALV and other social security contributions [1]	180	170
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	74 [2]	32
Total	1,087	987

1 Including change in provisions for pension benefit obligations (2020: release CHF 0 million / 2019: release CHF 1 million).
2 Including the anniversary payment of CHF 44 million.

35 Breakdown of general and administrative expenses

in CHF million	2020	2019
Office space expenses	33	33
Expenses for information and communications technology	172	151
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	2	1
Fees of audit firms	4	4
– of which, for financial and regulatory audits	4	4
– of which, for other services	0	0
Other operating expenses	230	213
– of which, compensation for state guarantee	23	22
Total	440	401

36 Explanations regarding material losses, extraordinary income and expenses, as well as material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required

in CHF million	2020	2019
Extraordinary income		
Reversal of impairment on other participations	4	5
Income from sale of other real estate / bank premises	0	0
Income from sale of participations	20	0
Other	0	0
Total	23	5
Extraordinary expenses		
Losses from sale of other real estate / bank premises	0	0
Losses from disposal of participations	–	–
Other	0	–
Total	0	0
Changes in reserves for general banking risks		
Creation of reserves for general banking risks	–	–
Release of reserves for general banking risks	46 [1]	–
Total	46	–

In the financial year, no releases of hidden reserves or material freed-up value adjustments and provisions were recorded.

1 This release of reserves for general banking risks is related to the anniversary payment to employees as part of the 150-year anniversary of Zürcher Kantonalbank.

37 Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum

in CHF million		2020	2019
Participations	Registered office		
Zürcher Kantonalbank Österreich AG	Salzburg	3	1
Venture Incubator AG	Altendorf	–	3
Total		3	4

Appreciation is applied to non-listed participations in accordance with the mean value method and, for listed participations, in accordance with the market value method.

39 Presentation of current taxes, deferred taxes, and disclosure of tax rate

in CHF million	2020	2019
Creation of provisions for deferred taxes	–	–
Reversal of provisions for deferred taxes	–	–
Recognition of deferred taxes on losses carried forward	–	–
Recognition of other deferred taxes	–	–
Expenses for current income and capital taxes	–	–
Expenses for property gains taxes	–0	–
Total	–0	–
Unrecognised tax reductions on losses carried forward, and tax credits not recognised under the principle of prudence	–	–
Hypothetical deferred income taxes calculated at theoretical tax rates on revaluations of investments not relevant for tax purposes	–	–

Figures in table: minus = expense; plus = income

As Zürcher Kantonalbank is an independent public-law institution that is exempt from taxes on its income and capital under both cantonal tax law (Art. 61) and the federal law on direct taxation (Art. 56), no weighted average tax rate is disclosed.

Pawnbroking agency
of Zürcher Kantonalbank

Zürcher Kantonalbank is required to operate a pawnbroking agency (Art. 7 para. 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.

Balance sheet (before appropriation of profit)

Assets in CHF 1,000	2020	2019
Liquid assets	352	309
Amounts due from banks	543	383
Accounts receivable	–	–
Loans	5,681	6,293
Inventory	–	–
Furniture, IT system	0	0
Transitory assets/accrued interest	219	240
Total assets	6,796	7,225

Liabilities in CHF 1,000	2020	2019
Amounts due to banks	5,200	5,650
Surplus from auctions	206	213
Accounts payable	2	11
Provisions	140	140
Reserve fund	1,211	1,100
Profit carried forward	0	1
Operating profit	36	110
Total assets	6,796	7,225

Income statement

Expenses in CHF 1,000	2020	2019
Operating expenses	828	845
Refinancing expenses	34	41
Losses	0	0
Depreciation and provisions	–	–
Operating profit	36	110
Total	899	996

Income in CHF 1,000	2020	2019
Interest on loans	776	837
Other income	123	159
	–	–
	–	–
	–	–
Total	899	996

Loan transactions

	Items	in CHF 1,000	Items	in CHF 1,000
Total loans at 31.12.2019	–	–	4,871	6,293
New loans in 2020 (incl. renewals)	–	–	8,910	11,768
Repayments in 2020	9,289	12,294	–	–
Proceeds from auctions incl. inventory receipts	130	86	–	–
Total loans at 31.12.2020	–	–	4,362	5,681

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone: +41 58 286 31 11
Fax: +41 58 286 30 04
www.ey.com/ch

Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the annual financial statements
as of 31 December 2020 of

Zurich, 4 March 2021

Zürcher Kantonalbank, Zurich

Report of the statutory auditor on the financial statements

Mr. President,
Ladies and Gentlemen,

As statutory auditor, we have audited the financial statements of Zürcher Kantonalbank, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 211 to 229), for the year ended 31 December 2020.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with 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.

Opinion

In our opinion, the financial statements for the year ended 31 December 2020 comply with Swiss law and the Law on Zürcher Kantonalbank.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Determination of allowances and provisions for default risks

Audit Matter	Determining allowances and provisions for default risks requires making estimates and assumptions, which by definition involve judgments and can vary depending on the valuation. The outbreak of the coronavirus pandemic and its economic effects have increased the valuation uncertainty. As of 31 December 2020, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 100.4 billion. At the balance sheet date, allowances and provisions for default risks amounted to CHF 325.3 million. With 53.5%, client loans and amounts due from banks are a material part of the assets of Zürcher Kantonalbank, and we consider the determination of allowances and provisions for default risks as a key audit matter. The significant accounting principles for determining allowances and provisions for default risks are described by Zürcher Kantonalbank on pages 143, 144, 145, 149 and 150 as well as on pages 189 to 195 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 216, 217 and 222 in the notes to the financial statements.
Our audit response	We audited the processes and controls in connection with granting and monitoring loans as well with regard to the determination of allowances and provisions for default risks. Our audits also included the monitoring processes, extended during the reporting period in connection with the coronavirus pandemic. Moreover, we performed sample tests on the impairment of selected client loans and amounts due from banks, and evaluated the compliance of significant accounting principles as well as the appropriateness of the disclosures in the notes to the financial statements. Our audit procedures did not lead to any reservations concerning the determination of allowances and provisions for default risks.

Fair value measurement of financial instruments

Audit Matter	Fair value is defined as the amount for which an asset is exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. This amount corresponds to the price requested in a price-efficient and liquid market or, if this is missing, to the price determined on the basis of a valuation model. Valuation models are significantly affected by the assumptions that are used, including interest, forward and swap rates, spread curves and the volatility and estimates of future cash flows. There is a significant degree of judgment involved in making these assumptions. Zürcher Kantonalbank discloses financial instruments at fair value measurement in different balance sheet items. As of 31 December 2020, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.7 billion, while that of the negative replacement values comes to CHF 0.9 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 1,100 billion. Furthermore, as of 31 December 2020, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 2.4 billion. As a result of the scope of judgment and the significance of the listed balance sheet items in the financial statements of Zürcher Kantonalbank, the valuation of these items represents a key audit matter. Zürcher Kantonalbank explains the relevant accounting principles on pages 145, 146, 151, 152 as well as on pages 195 to 199 of its annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 217 to 219 and 221 in the notes to the financial statements.
Our audit response	We audited the processes and controls with regard to fair value measurement, the validation and application of valuation models. Moreover, we assessed the assumptions made in connection with the valuation and their appropriateness on the basis of sample testing and evaluated the measurement of financial instruments by means of independent valuation models. On the basis of sample testing and a comparison with third-party sources, we assessed the fair values used and directly available from an active market. Moreover, we evaluated the appropriateness of the disclosures in the notes to the consolidated financial statements. Our audit procedures did not lead to any reservations concerning the fair value measurement of financial instruments.

Building a better working world

4

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 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and 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.

Ernst & Young Ltd

Bruno Patusi	Timo D‘Ambrosio
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Glossary

A

Assessment — Appraisal of a project, situation or participant.

Audit — The business unit Audit (the Inspectorate) is responsible for the group's internal auditing. In organisational terms, it reports directly to the Board of Directors and assists the latter in fulfilling its supervisory and control tasks.

B

Basel III — The reforms published by the Basel Committee for Banking Supervision in 2010, Basel III, include a further revision of the Basel Capital Accord. Besides stricter, risk-based capital requirements with a countercyclical effect, Basel III sets limits on leverage for the first time (leverage ratio). It also specifies a global minimum liquidity standard.

Basel Committee on Banking Supervision — The Basel Committee on Banking Supervision was established by the Bank for International Settlements (BIS) in 1974 and is made up of representatives of central banks and banking supervisory authorities from 27 countries. Switzerland is represented by SNB and FINMA. The Basel Committee serves as a forum for cooperation on banking supervision issues and is the world's most important standard-setting body for banking regulation. Of particular importance is the Basel Capital Accord, also known as Basel I, Basel II and Basel III.

Bid-ask spread — Difference between the buying and selling price of a financial instrument or currency.

Blacklist — Within the framework of Zürcher Kantonalbank's sustainability policy, investments in and the financing of companies that produce weapons prohibited under international treaties and / or violate Swiss sanctions are prohibited; this applies to the issue of structured products, all active and passive investment solutions of Swisscanto Invest and the financing business. These include producers of cluster bombs / ammunition, anti-personnel and land mines, biological and chemical weapons, nuclear weapons, enriched uranium and blinding laser weapons.

Business continuity management — Business continuity management ensures a company's critical business functions are maintained or restored in the case of internal or external events.

C

Capital at risk — The maximum risk capital specified by the Board of Directors, divided between the various risk categories of credit, market and operational risks in order to limit the various business activities.

Capital budgeting — Planning process for determining risk capital. The available funds (risk capital) are allocated to the various investment opportunities (risk categories, risk managers).

Clearing house — Financial sector institution that ensures the orderly settlement of financial transactions between two counterparties by acting as a central counterparty through which financial transactions between different parties are processed.

Commodity trade finance — Financing for commodities trading in the form of loans.

Compliance — Compliance involves ensuring that the conduct and actions of the bank and its employees meet applicable legal and ethical standards and also covers all organisational measures designed to prevent violations of the law and breaches of rules and ethical norms by the bank.

Confidence level — Also known as confidence interval or expectancy range. Indicates an interval for the accuracy of the estimated position of a parameter. The confidence interval is the range that contains the true position of the parameter with a specific frequency (confidence level) when random samples are drawn an infinite number of times.

Core capital — This term was introduced as part of the Basel Capital Accord (Basel III) and refers to the equity available to a company on a permanent basis in order to cover losses in its operations. It consists primarily of paid-up corporate capital or endowment capital, as well as capital and profit reserves (Common Equity Tier 1). Additional Tier 1 capital, such as perpetual hybrid capital, is also included.

Core capital ratio (Tier 1) — This term was introduced as part of the Basel Capital Accord (Basel III) and describes the level of required core capital as a percentage of risk-weighted assets.

Corporate governance — Corporate governance is the totality of principles aimed at safeguarding the owner's interests; it is intended to guarantee transparency and provide a proper system of checks and balances at the highest level of the company while preserving decision-making powers and efficiency.

Cost / income ratio (CIR) — The cost/income ratio is a key measure of the efficiency of a participant in the financial sector.

Countercyclical capital buffer — The countercyclical capital buffer is a preventative capital measure within the Basel III framework aimed at preventing excessive bank lending. The level and implementation timescale for the capital buffer are determined by the Federal Council at the Swiss National Bank's (SNB) request, with FINMA monitoring implementation of the measure at bank level. The SNB can confine the countercyclical capital buffer to just one sector of the credit market (e.g. residential mortgages).

Credit valuation adjustment (CVA) — Additional capital requirement to account for the risk of a change in a counterparty's credit quality where OTC derivatives are not settled via a central counterparty.

Creditworthiness — Ability and willingness of an individual, company or country to repay debts.

E

Endowment capital — Equity made available to Zürcher Kantonalbank, as a public-law institution, by the canton, as owner.

Exception to policy — Procedure or approach that deviates from internal guidelines on an exceptional basis.

F

Fair value — Fair value is the amount for which mutually independent, knowledgeable business partners would exchange an asset or repay a debt.

FATCA — The United States Foreign Account Tax Compliance Act aims to prevent US taxpayers from minimising their taxes, particularly through using financial institutions located abroad. The law came into effect for financial institutions worldwide on 1 July 2014.

FINMA — The Swiss Financial Market Supervisory Authority (FINMA) is responsible for supervising banks, insurance companies, exchanges, securities dealers, collective investment schemes, as well as distributors and insurance brokers. An independent authority, it works to protect creditors, investors and policyholders, as well as to ensure the effectiveness of the financial markets.

I

Impairment — Decrease in value where the book value of an asset (participation, tangible fixed asset or intangible asset) exceeds the recoverable amount (the greater of net market value or value-in-use).

IRB approach — The internal ratings-based (IRB) approach is an institution-specific modelling approach based on internal ratings, used to determine risk-based capital requirements for credit risk. IRB approaches are more risk-sensitive than the standard approach and have to be approved by FINMA.

Issuer — Issuer of securities such as equities or bonds.

K

Key rate sensitivity — The degree of sensitivity of an asset's net present value to minor changes in an interest rate, e.g. the effect on the net present value of a portfolio of financial investments of a reduction in the market interest rate by 0.01 percent.

Key risk takers — Key risk takers have a sustained influence on the bank's business operations (risks, image, etc.), on the group's result and therefore on the implementation of the strategy (see compensation report, p. 86).

L

Letter of credit — The (documentary) letter of credit is an instrument guaranteeing the settlement of payment and credit transactions in connection with international trade. An importer's bank issues a written commitment in which it agrees to make payment to the exporter of a good upon receipt of the documents specified in the letter of credit.

Leverage ratio — The leverage ratio is an unweighted equity ratio and measures a bank's degree of indebtedness. It defines the relationship between equity and the sum of all assets and various off-balance-sheet items.

Liquidity — A company's ability to meet its commitments in full and on time. The Banking Act requires banks in Switzerland to have adequate liquidity. The money market is central to the liquidity management of banks. The SNB provides the money market with liquidity to implement its monetary policy.

M

Monte Carlo simulation — Stochastic process based on very frequently conducted random experiments. The aim is to use probability theory to analytically solve problems that are difficult or impossible to solve.

N

Negative replacement value — The replacement value corresponds to the market value of outstanding derivative financial instruments. Negative replacement values constitute a financial obligation and thus a liability.

Netting — The term netting describes the offsetting of receivables and payables under a netting agreement between two counterparties. Netting agreements must be enforceable under bankruptcy law. As a result of netting, the level of gross receivables/payables is reduced to a net position.

O

OTC transaction — Transaction that takes place over the counter (OTC), i.e. not on an exchange but on a direct, individual basis between two counterparties.

P

Positive replacement value — The replacement value corresponds to the market value of outstanding derivative financial instruments. Positive replacement values constitute a receivable and thus an asset.

R

Repo (repurchase agreement) — Financial transaction where the borrower agrees to transfer securities to the lender in return for an agreed sum of money and redeem them for payment plus interest at the end of the term.

Return on equity (RoE) — The return on equity measures the profitability of equity and is calculated from the relationship between net profit and equity.

Risk-adjusted pricing — Pricing where the price level depends on the level of risk entered into.

Risk capital allocation — The allocation of risk capital (capital at risk) to the various risk categories (or risk managers) as part of the planning process.

Risk-weighted assets (RWA) — The term risk-weighted assets was introduced as part of the Basel Capital Accord (Basel III) and constitutes the main basis for measuring risk-based capital ratios such as the core capital ratio. Risk weighting assumes that not every position entails the same level of risk. For this reason, less risky positions require less equity to underpin them than riskier ones.

S

Securities lending and borrowing (SLB) transaction — SLB transactions involve a lender transferring a security to a borrower to use for a fixed or indefinite, but callable period; in return, they receive a fee from the borrower.

SME — Small and medium-sized enterprises with fewer than 250 employees. Microbusinesses and small enterprises are those with fewer than 20 employees. Companies with 20 to 249 employees are considered medium-sized enterprises.

Systemically important banks — A bank or group of banks is systemically important if it performs functions in the domestic lending and deposit business as well as payment transactions that are indispensable to the Swiss economy and not substitutable at short notice. Other criteria such as size, risk profile and integration are also taken into account. Systemically important banks in Switzerland are subject to particularly strict requirements ("too big to fail").

U

Universal bank — A universal bank is a financial institution that fundamentally conducts all banking transactions and offers them to all client groups. All banking transactions means payment transactions, deposit business (accounts), financing as well as investment, trading and capital market business. All client groups are retail clients (Retail Banking), high-net-worth individuals (Private Banking), corporate clients (Corporate Banking) and large corporations (Investment Banking). A universal bank generates income from interest margin business, commission business and services (from securities and investments), as well as trading activities.

V

Value at risk (VaR) — The maximum loss not exceeded on a specific risk position (e.g. a securities portfolio) with a given probability (e.g. 95 percent) over a given period of time (e.g. 10 days).

Variable compensation component — An unsecured entitlement to a future allocation of a cash sum that is deferred for a period of three years. It is also subject to additional conditions, in particular the sustainable success of the business.

Volatility — Fluctuation, e.g. in the price of a security.

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T

V

Z

Branches

Canton of Zurich

We have a strong local base. With around 60 branches and some 320 ATMs, we have the densest network of branches and ATMs in the Canton of Zurich.

International

- ● Branches/Locations Zürcher Kantonalbank
- ● Locations Swisscanto Holding AG
- * Representation offices

Branches in the Canton of Zurich

Adliswil
Albisstrasse 17
8134 Adliswil

Affoltern am Albis
Obere Bahnhofstrasse 25
8910 Affoltern am Albis

Andelfingen
Landstrasse 42
8450 Andelfingen

Bassersdorf
Postplatz 3
8303 Bassersdorf

Bauma
Bahnhofstrasse 8
8494 Bauma

Bülach
Kreuzstrasse 1
8180 Bülach

Dielsdorf
Wehntalerstrasse 45
8157 Dielsdorf

Dietikon
Zentralstrasse 19
8953 Dietikon

Dietlikon
Bahnhofstrasse 50
8305 Dietlikon

Dübendorf
Usterstrasse 1
8600 Dübendorf

Effretikon
Märtplatz 17
8307 Effretikon

Egg
Forchstrasse 138
8132 Egg

Eglisau
Obergass 8
8193 Eglisau

Fehraltorf
Grundstrasse 2
8320 Fehraltorf

Feuerthalen
Schützenstrasse 30
8245 Feuerthalen

Gossau
Laufenbachstrasse 3
8625 Gossau

Hinwil
Dürntnerstrasse 9
8340 Hinwil

Hombrechtikon
Grüningerstrasse 12
8634 Hombrechtikon

Horgen
Seestrasse 150
8810 Horgen

Kloten
Bahnhofstrasse 10
8302 Kloten

Küsnacht
Obere Wiltisgasse 48
8700 Küsnacht

Männedorf
Kugelgasse 21
8708 Männedorf

Meilen
Bahnhofstrasse 25
8706 Meilen

Pfäffikon
Turmstrasse 5
8330 Pfäffikon ZH

Rafz
Bahnhofstrasse 5
8197 Rafz

Regensdorf
Watterstrasse 57
8105 Regensdorf

Richterswil
Poststrasse 15
8805 Richterswil

Rümlang
Oberdorfstrasse 17
8153 Rümlang

Rüti
Bergstrasse 1
8630 Rüti

Schlieren
Zürcherstrasse 4
8952 Schlieren

Seuzach
Birchstrasse 4
8472 Seuzach

Stäfa
Bahnhofstrasse 12
8712 Stäfa

Thalwil
Gotthardstrasse 29
8800 Thalwil

Turbenthal
Tösstalstrasse 58
8488 Turbenthal

Urdorf
Bachstrasse 11
8902 Urdorf

Uster
Webernstrasse 3
8610 Uster

Volketswil
Zentralstrasse 19
8604 Volketswil

Wädenswil
Zugerstrasse 12
8820 Wädenswil

Wald
Bahnhofstrasse 38
8636 Wald

Wallisellen
Bahnhofstrasse 23
8304 Wallisellen

Wetzikon
Bahnhofstrasse 186
8620 Wetzikon

Winterthur-Marktgasse
Untertor 30
8400 Winterthur

Winterthur-Oberwinterthur
Frauenfelderstrasse 30
8404 Winterthur

Winterthur-Seen
Hinterdorfstrasse 2
8405 Winterthur

Zumikon
Dorfstrasse 61
8126 Zumikon

Zurich-Altstetten
Altstetterstrasse 142
8048 Zurich

Zurich City
Bahnhofstrasse 9
8001 Zurich

Zurich-Höngg
Regensdorferstrasse 18
8049 Zurich

Zurich-Klusplatz
Witikonerstrasse 3
8032 Zurich

Zurich-Neumünster
Forchstrasse 5
8032 Zurich

Zurich-Oerlikon
Schaffhauserstrasse 331
8050 Zurich

Zurich Prime Tower
Hardstrasse 201
8005 Zurich

Zurich-Schwamendingen
Winterthurerstrasse 512
8051 Zurich

Zurich-Seebach
Schaffhauserstrasse 481
8052 Zurich

Zurich-Unispital
Rämistrasse 100
8091 Zurich

Zurich-Wiedikon
Zweierstrasse 146
8003 Zurich

Zurich-Witikon
Witikonerstrasse 377
8053 Zurich

Zurich-Wollishofen
Albisstrasse 36
8038 Zurich

International

Zürcher Kantonalbank Finance (Guernsey) Ltd.
Bordage House
Le Bordage,
St Peter Port
Guernsey, GY1 1BU
United Kingdom

ZKB Securities (UK) Ltd.
Mutual House
Third Floor,
70 Conduit Street
London, W1S 2GF
United Kingdom

Zürcher Kantonalbank Österreich AG
Getreidegasse 10
5020 Salzburg
Austria

Zürcher Kantonalbank Österreich AG
Hegelgasse 6
1010 Vienna
Austria

Representative Offices

Zürcher Kantonalbank Representações Ltda. São Paolo Representative Office
Rua Pedroso Alvarenga,
nº 691, 4° andar
CJ 401-402 Itaim Bibi
CEP: 04531-011 São Paulo
Brazil

Zürcher Kantonalbank Beijing Representative Office
Room 705, Tower 3
(Anlian Plaza)
International Center No. 38,
Do San Huan Bei Road
Chaoyang District
100026 Beijing
China

Zürcher Kantonalbank Mumbai Representative Office
406, Maker Chambers V
Nariman Point
Mumbai-400021
India

Zürcher Kantonalbank Singapore Representative Office
160 Robinson Road,
Unit #25-07, SBF Center
068914 Singapore

Swisscanto Holding AG

Swisscanto Holding Ltd
Bahnhofstrasse 9
8001 Zurich

Swisscanto 1e Collective Foundation
Stockerstrasse 33
8021 Zurich

Swisscanto Investment Foundations
Bahnhofstrasse 9
(Grundhof)
8001 Zurich

Swisscanto Asset Management International S.A.
19, rue de Bitbourg
1273 Luxembourg

Swisscanto Asset Management International S.A.
Bockenheimer Landstrasse 92
60323 Frankfurt am Main
Germany

Swisscanto Flex Collective Foundation
Stockerstrasse 33
8021 Zurich

Swisscanto Fund Management Company Ltd.
Bahnhofstrasse 9
8001 Zurich

Contact

Zürcher Kantonalbank
Bahnhofstrasse 9
8001 Zurich
+41 (0)844 843 823
zkb.ch
info@zkb.ch

For further information about Zürcher Kantonalbank, please don’t hesitate to contact us:

Retail Clients
+41 (0)844 843 823
kundenservice@zkb.ch

Private Banking
+41 (0)844 843 827
privatebanking@zkb.ch

Corporate Clients
+41 (0)844 850 830
kundenservice@zkb.ch

Institutionals & Multinationals
+41 (0)44 292 87 00
international@zkb.ch

Media
+41 (0)44 292 29 79
medien@zkb.ch

You can also find further information at zkb.ch

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