Annual Report Financial year 2021

Zürcher Kantonalbank

Inspiring
Responsible
Passionate

As lively and multifaceted as our canton – with a love of detail and local craftsmanship – each physical copy of this annual report is unique and expresses the esteem with which we treat our clients, employees, business partners and contacts on a daily basis.

The cover of this annual report was produced using the sophisticated Iris printing process in our in-house colours: the blue tones Zurich Blue, Night Blue and Sea Blue were applied manually to the inking rollers so that they slowly mix and run into one another on the printed sheets during the printing process. With the effect that each cover has a similar colour gradient, but unique in and unto itself.

Zürcher Kantonalbank is inspiring, responsible and passionate – values for which the cover of our current annual report also stands. We want to think ahead, anticipate trends and show courage. We are a reliable partner, make a positive impact and are at hand when needed. Our collaborative commitment and perseverance spark enthusiasm in every encounter and in every aspect of our work.

Key figures (group)

	2021	2020			Change in %
Key figures in %					
Return on Equity (RoE)	**7.8**			7.2	
Cost Income Ratio (CIR)[1]	**58.7**			60.1[2]	
Common equity Tier 1 ratio (CET1) (going-concern)[3]	**17.0**			17.4	
Risk-based capital ratio (going-concern)[3]	**18.5**			18.9	
Risk-based capital ratio (gone-concern)[3]	**4.0**			3.2	
Leverage Ratio (going-concern)[3]	**6.2**			6.2	
Leverage Ratio (gone-concern)[3]	**1.3**			1.1	
Liquidity Coverage Ratio (LCR)[4]	**160**			160	
Net Stable Funding Ratio (NSFR)[5]	**118**			n.a.	
Income Statement in CHF million					
Net result from interest operations	**1,248**			1,218	2.4
Result from commission business and services	**926**			806	14.8
Result from trading activities and the fair value option	**347**			459	–24.4
Other result from ordinary activities	**24**			29	–19.6
Operating income	**2,544**			**2,513**	**1.2**
Operating expenses	**–1,517**			–1,580	–4.0
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	**–104**			–117	–11.0
Changes to provisions and other value adjustments and losses	**28**			–14	–297.2
Operating result	**951**			**801**	**18.7**
Extraordinary result	**0**			25	–99.5
Changes in reserves for general banking risks	**–**			46	–100.0
Taxes	**–9**			–8	12.6
Consolidated profit	**942**			**865**	**8.9**
Balance sheet (before appropriation of profit) in CHF million					
Total assets	**192,105**			188,364	2.0
High-quality liquid assets (HQLA)[4]	**51,682**			53,042	–2.6
Mortgage loans	**91,847**			87,679	4.8
Amounts due in respect of customer deposits	**96,777**			92,582	4.5
Provisions	**237**			222	6.7
Equity	**12,674**			12,650	0.2
Customers' assets in CHF million					
Total customers' assets	**409,190**			**361,658**	**13.1**
Headcount/branches Number					
Headcount after adjustment for part-time employes, as at the reporting date	**5,145**			5,180	–0.7
Branches[6]	**57**			60	–5.0
Profit distribution in CHF million	**ordinary**	ord.	Corona	Total	
Share paid to canton to cover actual costs	**11**			11	–
Dividend for the canton	**280**	230	67	297[7]	–5.7
Dividend for municipalities	**140**	115	33	148[7]	–5.4
Total	**431**	**345**	**100**	**456**	**–5.5**
Additional compensation for state guarantee	**27**			23	18.0
Additional payments from public service mandate	**141**			126	11.5

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 Effective since 1 July 2021.
6 Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna.
7 The total amount comprises the ordinary dividend and the one-off special coronavirus dividend.

Group structure

Annual Report
Financial year
2021

Zürcher
Kantonalbank

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

Management Report

We derive our fortitude and stability from our capital strength, full-service banking strategy, highly diversified income model and disciplined cost management.

24

Corporate Governance

We take our responsibility to the Canton of Zurich and its residents seriously. We engage in open, transparent dialogue with our stakeholder groups.

76

Financial Report

Zürcher Kantonalbank generated consolidated profit of CHF 942 million in financial year 2021. The operating result amounted to CHF 951 million.

108

Contents

Dear residents of Zurich,

Now in its second year, the coronavirus pandemic is still dominating our lives and making enormous demands on each and every one of us. While we were still mainly reacting in crisis mode in 2020, last year saw us become more adept at coping with the persistently difficult conditions. Many companies' creativity and determination enabled them to adapt to the new situation, demonstrating yet again just how resilient our economy is. Nevertheless, individual industries such as the hotel business, catering, tourism and culture continued to suffer severely from the impact of the virus in 2021; in our private lives, our autonomy was subject to major restrictions. We must continue to do everything we can to join together as a society and overcome this crisis by taking responsibility for ourselves and focusing on tried-and-tested Zurich values: public spirit, a focus on performance, reliability, transparency, restraint, sustainability and continuity.

As the bank that serves the canton, its people and its companies, Zürcher Kantonalbank is making its contribution to this within the framework of its legal mandate. Especially in these difficult times, our reliability makes us a partner that our clients, suppliers, employees, sponsored institutions, the Canton of Zurich and its communities hold in very high esteem.

Since its foundation, our bank has pursued a business model focused on continuity and stability. This is demonstrated by our persistently solid annual results and the consistently highest credit ratings awarded by global rating agencies. The Greater Zurich Area benefits from this in several ways: every year we distribute a substantial portion of our profit to the canton and municipalities; this amounted to CHF 431 million in 2021. On top of this is our role as a major employer that provides nearly 6,000 jobs and around 390 apprenticeships. The vast majority of employees live in the Greater Zurich Area and contribute to the tax base. We prefer to procure goods and services from local companies.

Business success is the prerequisite for being able to fulfil our statutory purpose: to help address the economic and social issues in the canton and to support environmentally sustainable development within the canton. We committed CHF 141 million within the context of our public service mandate in 2021. Among other things, we maintain over 400 sponsorship commitments with our partners – to promote an attractive business and living environment, to develop our communal life and to foster economic activity that is in harmony with the environment and society.

In terms of sustainability, we are guided by the United Nations' 17 sustainable development goals, the Paris Agreement and achieving greenhouse gas neutrality by 2050 in our third-party investment and financing business and obviously in our own operations as well. Since we view technological innovation as a key driver of sustainable development, we expanded our innovation support again last year. At Dübendorf Innovation Park, we offer free workspaces to start-ups for a one-year period. In addition, we have expanded our offering for start-ups by now also including up to CHF 10 million per year in funding for young companies in the scale-up phase.

We are pushing ahead with the long-planned renewal of the Executive Board to ensure the bank's successful further development. In Private Banking, Florence Schnydrig Moser has taken over from Christoph Weber. Following the announcement of the retirement of our long-standing CEO, Martin Scholl, we have found an ideal successor in Urs Baumann, who will take over the role of CEO on 1 September 2022. In addition, our long-time Deputy Chairman, János Blum, announced his resignation as at the end of January 2022. The Cantonal Parliament appointed Mark Roth as his successor in early 2022.

The low interest rate environment, our pension system and climate change will remain highly challenging for our society going forward. We are convinced that they can also bring about positive changes and as a responsible universal bank, we want to help seize these opportunities.

Dr Jörg Müller-Ganz, Chairman

We must do everything we can to join together as a society and overcome this crisis by taking responsibility for ourselves and focusing on tried-and-tested Zurich values.

Dear clients, Dear staff,

Zürcher Kantonalbank looks back on an extremely successful financial year. With group profit of CHF 942 million, we achieved yet another extremely strong result.

The encouraging results of the past few years are testimony to the bank's economic strength and continuity. These are based on our broadly diversified business model. We have reduced our dependence on interest operations, are exploiting opportunities in the trading business and have steadily expanded the commission and fee income business. To safeguard the sustainable success of Zürcher Kantonalbank, we will continue to develop the latter in a targeted manner.

The year under review saw us expand our commitment to sustainable development yet again. We have adapted our sustainability policy, which contains precise specifications and exclusions. By signing the UN Principles for Responsible Banking, we have made a commitment to integrating sustainability into all areas of our business. We have also joined the Net Zero Asset Manager Initiative, which means that we are gradually extending the 1.5-degree climate target to other portfolios. Special recognition was given to one of our funds, which received the Sustainable Fund Award 2021 from the United Nations Conference on Trade and Development.

We are convinced that mixed teams have a positive impact on our culture, on the quality of our work and on our sense of responsibility. We have reaffirmed this conviction by signing the Advance Diversity Charter. Doing so underscores our goal of increasing the proportion of women in management.

In our satisfaction survey conducted every two years, employees demonstrated a high level of commitment to the bank. That score has risen to its highest level to date – and the increase was seen across all business units. It was also important for us to ask the workforce about their work situation during the pandemic. Responses show that employees' experiences while working with one another and with supervisors from home were positive, although they missed the personal contact with colleagues.

Digitalisation is changing the way our clients want to obtain our banking services. In that context, frankly proved to be a hole in one and we recorded around 50,000 users with CHF 1.1 billion in assets under management at the end of 2021. We also expanded our website into a full-fledged distribution channel. Similarly, we created the very first digital interface for our institutional clients to manage their assets. We will follow up with a revamped mobile presence in 2022.

While we will be conducting nearly all our day-to-day banking transactions through self-service channels in the future, personal contact will remain important for major life events. In order to respond to our clients' changing needs, we have opened up a pilot location in Stettbach that features a colourful and open-plan room concept without bank counters, but with coffee to go instead. Insights from that location are currently being incorporated into the modernisation of the Winterthur branch, which we will open as our new flagship branch in 2022.

I am proud and grateful to be able to hand over such an extraordinarily well-positioned bank that is in such excellent shape to my successor, Urs Baumann, in the summer of 2022. For the past 40 years, it has been an honour and a privilege for me to work together with many dedicated colleagues to shape Zürcher Kantonalbank. I wish my successor every success, both as he takes up this new post and in the coming years, and thank you for the trust you have placed in us.

Martin Scholl, CEO

The employee satisfaction survey earned us our highest commitment index score to date – and that result was seen across the board in all business units.

Close to you.

Zürcher Kantonalbank has successfully positioned itself as a systemically important universal bank with a regional base as well as a national and international network. We are the most important cantonal bank in Switzerland and 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.

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. 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. Our mortgage loans amounted to around CHF 92 billion during the year under review, which makes us the number 1 in the Greater Zurich Area when it comes to promoting home ownership. Our credit exposure to companies totals CHF 31 billion. Total client assets amounted to around CHF 409 billion, CHF 122 billion of which are invested sustainably. Zürcher Kantonalbank's Swisscanto product brand is Switzerland's third-largest fund provider with a fund volume of CHF 151 billion.

50 %
market penetration

92 billion
in mortgages

409 billion
client assets

122 billion
in sustainable investments

Densest
network of branches and ATMs

Environmentally friendly banking operations
We have been able to cut our CO_2 emissions from banking operations by over 50 percent since 2010. We offset 100 percent of unavoidable CO_2 emissions and use natural negative emission technology, among other things.

Rooted in the canton

For more than 150 years

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

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.

141 million

for financial support

Over the course of 2021, we committed around CHF 141 million in financial support in the Canton of Zurich in the economic, social and environmental arenas. Through more than 400 sponsorships, we are also actively helping to make the Canton of Zurich liveable.

Attractive employer

5,877

employees

5,877 people work at Zürcher Kantonalbank in more than 5,100 full-time positions. With around 390 apprenticeships, we are one of the largest providers of vocational training in the Canton of Zurich.

Commitment

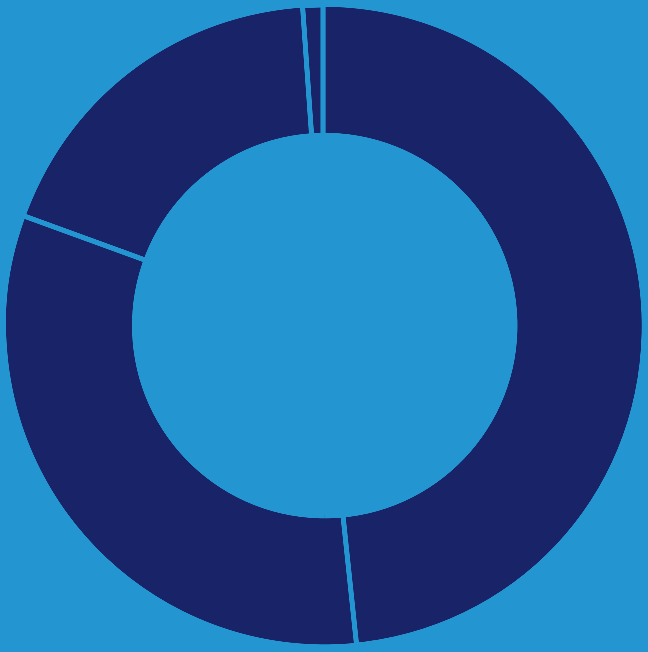
In order to find out what moves our employees and to continue providing the right framework for a productive, appreciative environment going forward, a comprehensive employee satisfaction study is conducted every two years. The results of the survey conducted in mid-2021, with a response rate of over 80 percent, paint a very positive picture. This year’s commitment score surpassed the previous survey’s high score and is now at an all-time high. All business units exceeded our ambitious targets.

Overview of 2021

Sustainably successful

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 wealth management business.

Diversified income



CHF 1,248 million (49 %)
Result from interest operations

CHF 926 million (36 %)
Result from commission business

CHF 347 million (14 %)
Result from trading activities

CHF 24 million (1 %)
Other result

Consolidated profit

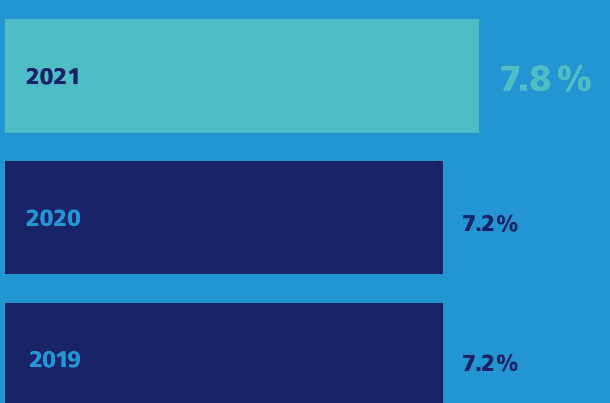
CHF 942 million

Profit distribution

CHF 431 million

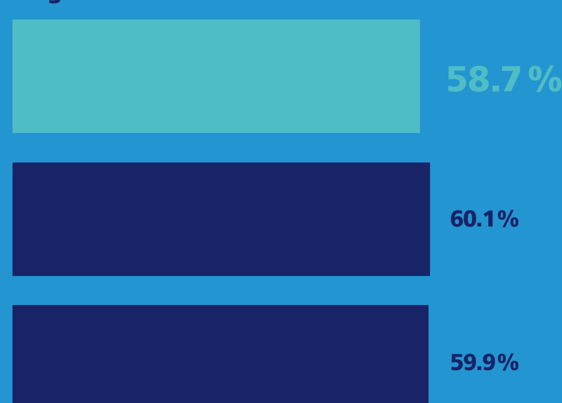
With consolidated profit of CHF 942 million, 2021 marks yet another extremely gratifying result. The appropriation of profit includes a dividend of CHF 431 million. Of this, CHF 291 million will go to the canton and around CHF 11 million will be used to cover the cost of capital for providing the endowment capital. Around CHF 140 million will go to the municipalities.

Return on equity (ROE)



Cost/income ratio (CIR)

Target: 58–64%



The return on equity (ROE) amounted to 7.8 percent. The cost/income ratio (CIR) stood at 58.7 percent and was thus within our target range of 58–64 percent.

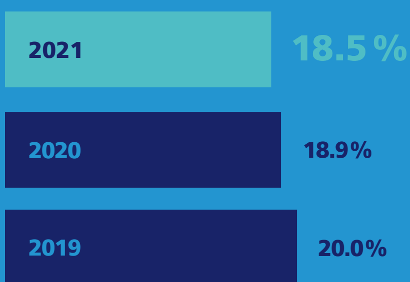
Secure universal bank

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 higher than any other universal bank in the world, even without taking the state guarantee into account. Our high ratings are due primarily 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 particularly attributable to its stable, lasting client relationships.

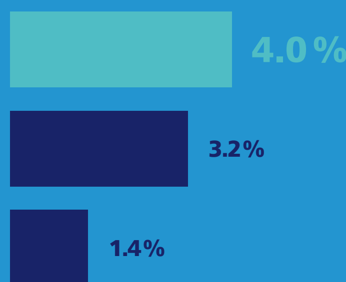
Group rating

AAA
Aaa

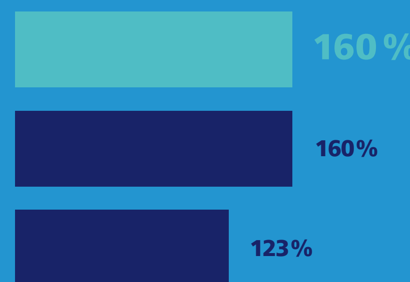
Risk-based capital ratio (going concern)



Risk-based capital ratio (gone concern)



Liquidity coverage ratio (LCR)



We have a strong equity base that complies with steadily rising regulatory requirements. The bank reported equity of CHF 12.7 billion as at the end of 2021. The risk-based capital ratio (going concern) came to 18.5 percent and therefore far exceeded the regulatory requirement of 12.86 percent. We are one of the best-capitalised universal banks in the world. The current risk-based gone-concern requirement amounts to 2.9 percent. With a reported risk-based capital ratio (gone concern) of 4.0 percent, this requirement was also exceeded at the end of 2021.

As a systemically important bank, Zürcher Kantonalbank is additionally subject to significantly higher liquidity coverage ratio (LCR) requirements. At 160 percent, we significantly exceed the regulatory requirements as well.

Milestones and material events

Corporate Governance

Changes in the Executive Board

Florence Schnydrig Moser took over the Private Banking business from Christoph Weber. Stephanino Isele was newly elected as Deputy CEO. Martin Scholl announced his retirement as at the end of August 2022. He will be succeeded by Urs Baumann.
Page 84 ff.

Changes in the Board of Directors

Deputy Chairman of the Board of Directors, János Blum, will step down as at the end of January 2022. Mark Roth was selected as his successor by the Cantonal Parliament on 31 January 2022.
Page 85

The bank as an employer

High level of employee commitment

The employee survey conducted every two years revealed the highest-ever commitment score and increases across all business units.
Page 61

Commitment to gender diversity

We signed the Advance Diversity Charter in the reporting year to express our commitment to increasing the proportion of women in management.
Page 63

Public service mandate

Büro Züri Innovation Park

The second Büro Züri facility was built at Dübendorf Innovation Park. The free workspaces are awarded for one-year periods to young companies, which additionally benefit from the entire start-up ecosystem.
Page 26

Transparency in gold production

We worked together with a partner company to develop a DNA marking technique for gold that makes it possible to transparently identify the origin of this precious metal and verify whether sustainability standards were complied with during production.
Page 28

Banking business

Sustainable investments

By joining the Net Zero Asset Manager Initiative, Swisscanto Invest by Zürcher Kantonalbank reaffirmed its commitment to the climate. We strengthened our focus on sustainability both in our business with institutional clients and with private investors.
Pages 47 & 56

10th anniversary of ZKB Österreich

The subsidiary, with its two locations in Salzburg and Vienna, celebrated its 10th anniversary in the year under review.
Page 47

Seamless start-up funding

The scale-up programme expands our offering for start-ups. This offer is now also aimed at young companies looking to fund the growth phase that follows their early (start-up) phase.
Page 51

New concepts for our branches

With a new pilot location in Stettbach and the kick-off of remodelling at the Winterthur branch, we are examining new concepts for our branch network that are geared toward meeting clients' changing needs.
Page 47

Strong growth for the frankly pension app

Assets managed in frankly, our pillar 3a app, increased from CHF 400 million to CHF 1.1 billion in the year under review.
Page 48

Development of standardised digital interfaces

By joining the OpenWealth Association and SIX's bLink open banking platform, Zürcher Kantonalbank is making an active contribution toward the expansion and modernisation of standardised interfaces.
Page 59

Granting of coronavirus bridging loans ceased in mid-2021

The bank made an additional line of credit available to ensure that it could provide the companies of Zurich with rapid assistance during the renewed shutdown at the beginning of the year under review. The programme was officially ended in mid-2021 and 60 percent of the loans granted had been repaid by the end of the year under review.
Page 50

Another green bond issued

With its issue of another green bond, Zürcher Kantonalbank has committed a total of CHF 825 million over the past four years to refinance ZKB environmental loans and to enable energy-efficient renovations of office buildings owned and used by the bank.
Page 67

Outlook

The environment for the banking industry will remain challenging in 2022. Nevertheless, we still expect to be able to present pleasing results thanks to our full-service banking strategy and diversified business model. When conducting our business activities, we aim for economically, socially and environmentally sustainable development. We aspire to further expand our market position in the Greater Zurich Area as the number one for private individuals and SMEs.

Above-average growth expected

The slowdown in global economic growth will continue in 2022. This non-linear development should be viewed as a recalibration of economic growth toward normal levels. Nevertheless, we expect above-average growth and good prospects for corporate earnings. Normalisation is taking place not only at the real economic level, but at the monetary and fiscal policy level as well. While the global economy will remain dominated by production and supply bottlenecks in the short term that will put a damper on growth and cause prices to rise, both of these effects will be temporary in nature. As the pandemic subsides, bottlenecks and inflationary pressures will gradually start to diminish.

Challenging environment

We continue to expect that competition in the banking centre will intensify 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 core 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, the Paris Agreement and our aim to achieve greenhouse gas neutrality by 2050.

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 more than 150 years.

History

1830 – 1869 A peaceful revolution

The foundation of Zürcher Kantonalbank 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. Among other things, the new constitution of 1869 included the right to referendums as well as the right to directly elect the members of Zurich's Government Council, abolished the death penalty, guaranteed the freedom of association and introduced progressive taxation. The establishment of a state bank was intended as a way of strengthening the economic policy of this democratic reform programme. The bank was to offer affordable loans to agricultural and commercial businesses and to meet the savings and investment needs of broad segments of the population.

1870 – 1914 Storm and stress

The newly established Zürcher Kantonalbank opened its first counter at Paradeplatz on 15 February 1870. Its beginnings were modest as the bank's first task was to establish basic operating procedures and build up a client base. The Franco-Prussian War also broke out in the summer of 1870, severely hampering the banking business. The bank gained a foothold quickly after that and rapidly expanded its lending volume. Until the establishment of the central bank, it also issued its own banknotes, which, in addition to savings and bonds, secured its financing. To serve its clients, it opened up a large number of branches and agencies throughout the canton, as well as part-time collection offices that accepted savings deposits. No other bank has had a comparable presence in the Canton of Zurich ever since.

1914 – 1945 Solid as a rock

Despite setbacks caused by war and crises between 1914 and 1945, Zürcher Kantonalbank remained a reliable pillar of the canton's economy. It avoided speculative transactions due to its legal mandate. Unlike the big global banks, its focus on the domestic market helped it survive the Great Depression of the early 1930s relatively unscathed. Resilience to crises enhanced its reputation and offered proof of the need for a state-owned bank. Although it expanded its business activities to other areas such as the capital market, at heart it still remained the canton's most important mortgage bank. It was particularly active as a lender to the housing cooperatives that had become popular in the 1920s.

1945 – 1990 Impressive growth

The longest and most powerful economic upswing in the history of Western Europe began soon after the end of World War II. This marked the start of the golden age for Zurich's financial centre and Zürcher Kantonalbank developed accordingly. While it employed 689 people in 1945, this number rose to over 4,000 in 1990. Total assets increased from CHF 1.6 to 44.4 billion, which was also a consequence of the expanded range of products and services. A manageable credit institution had become a big bank. The real estate sector overheated toward the end of this period, however, which resulted in high follow-up costs later.

1990 – 2020 Stability through diversification

The 1990s real estate crisis prompted the bank to initiate the first major reorganisation in its history; this also involved a strategic realignment. Eager to reduce its dependence on real estate financing, the bank continuously strengthened its commission and fee income business as well as its trading business, for example by acquiring the investment fund company Swisscanto in 2014. The environment remained volatile during this period: The dotcom bubble burst shortly after the turn of the millennium and the global financial crisis erupted in the summer of 2007. The US tax dispute caused further turbulence for the Swiss banking centre. During these crises, the diversification strategy proved to be a stabilising factor and pillar for both the bank and the canton; in its 151-year history, Zürcher Kantonalbank has only posted a loss in its founding year of 1870. ●

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 (zkb.ch/governance). 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 around CHF 141 million in 2021 (2020: CHF 126 million).

Endowment capital and state guarantee

The endowment capital of CHF 2.425 billion forms the corporate capital of Zürcher Kantonalbank and is provided by the Canton of Zurich. 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 27 million in 2021.

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 a dividend of CHF 431 million for 2021 (2020: CHF 456 million incl. special coronavirus dividend of CHF 100 million). The canton uses this to first cover the actual costs incurred for its endowment capital (2021: CHF 11 million, 2020: CHF 11 million). Of the rest, two-thirds go to the canton and one-third to the municipalities. Hence, the people of Zurich earn a share of CHF 276 per person in the success of the bank (2020: CHF 294).

Material events related to the public service mandate

Büro Züri Innovation Park

For over five years now, Zürcher Kantonalbank's "Büro Züri" co-working space has been offering free and attractive workspaces for innovative minds and young companies on Bahnhofstrasse in Zurich.

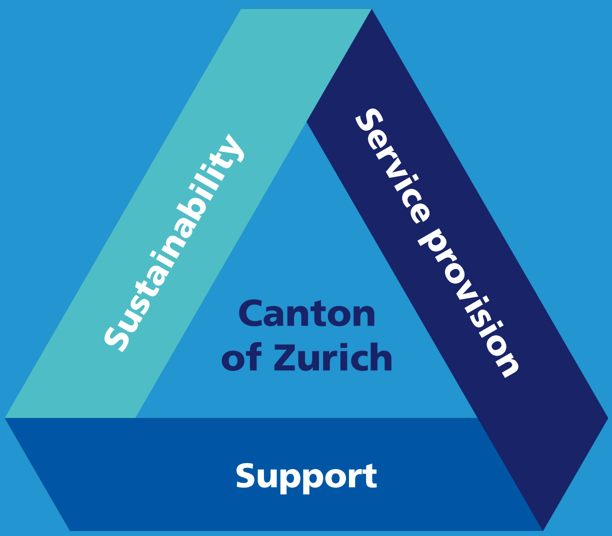
The creation of this unique community and a broad range of support, information and expertise have prompted consistently positive feedback from guests, the media and policymakers. An occupancy rate of nearly 100 percent with over 10,000 registered members is testimony to the success of the format.

Zürcher Kantonalbank took this successful format to the next level with a second location in 2021. "Büro Züri Innovation Park" provides start-ups and spin-offs with free and modern workspaces at Zurich Innovation Park in Dübendorf, which is housed in the airport's former fire station. Space in the facility was awarded within the scope of a multi-stage application process involving recognised experts. Six young companies were nominated and since December have enjoyed access to an ecosystem of universities and companies that is unique in Switzerland; this support is provided for an approximately one-year period. Through this forward-looking project, Zürcher Kantonalbank, founding sponsor of the Innovation Park, is setting an example for Zurich as a place of business and innovation. With this newly created environment, however, Zürcher Kantonalbank offers young entrepreneurs much more than just free workspaces: the start-ups are given an ideal location between the realms of academia and business. In addition to space and ample room for testing and experimentation, companies gain access to a variety of consulting services and experts – they become part of the Büro Züri community as well as the Zurich Innovation Park ecosystem and can network with other companies and universities in the Innovation Park.

Quick, uncomplicated support for sponsorship partners

Once again, the pandemic made the year under review a challenging one for our sponsorship partners. Although coronavirus measures were gradually relaxed over the course of the year, many cultural institutions continued

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 the environment 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.

to suffer from the coronavirus pandemic and were unable to implement their programmes as usual. The Committee of the Board had already decided in the previous year to pay out all agreed sponsorship contributions in full for both 2020 and 2021, regardless of the services provided. The bank also offered a hardship payment to support particularly hard-hit cultural institutions. This quick, uncomplicated assistance helps our partners out during these challenging times.

Transparency in gold production

Zürcher Kantonalbank is partnering with Haelixa to promote transparency regarding the origin of gold bars. Haelixa is an ETH spin-off that was advised and funded by the Start-Up Finance team. Building on this partnership, Haelixa developed a special DNA marking technique that will be used on any gold mined for Zürcher Kantonalbank, as a pilot client, before it leaves the mine. Once the shipment arrives, the Argor-Heraeus refinery tests the material and uses PCR tests to determine the unique origin of this precious metal. If everything is in order, the bars are produced in a separate production line. The serial number used for each bar then makes it possible to verify the gold's mine of origin and whether sustainability standards were met. If any problems arise with a particular mine, the bars can then be located quickly.

17th Kilchberg Schwinget

The year under review saw Zürcher Kantonalbank support the 17th Kilchberger Schwinget, a traditional Swiss wrestling competition, for the first time as its main sponsor. The event enjoys a special status on the agenda of this national sport. Held just every six years, it forms part of the Swiss Wrestling Grand Slam alongside the Swiss Wrestling and Alpine Festival (Eidgenössisches Schwing- und Älplerfest) and the Unspunnen Wrestling Festival (Unspunnen-Schwinget). It is a particularly prestigious occasion because only the 60 best wrestlers in Switzerland are invited to compete.

We have supported the Zurich Cantonal Wrestling Festivals (Zürcher Kantonal-Schwingfeste, ZKSF) every year since 2010 as well as Northeastern Switzerland Wrestling Festivals (Nordostschweizerisches Schwingfest, NOS) in the Canton of Zurich (2008 and 2015). We have also served as the sole main sponsor of the Zurich Cantonal Wrestling Association (Zürcher Kantonal-Schwingerverband) since 2013.

Biodiversity – the bank that's close to nature

For Zürcher Kantonalbank, sustainability means reconciling the bank's economic activity with its responsibility for the environment and society. With its "Biodiversity – the bank that's close to nature" project launched in Männedorf in 2019, Zürcher Kantonalbank is following the path laid out by the federal government's "Swiss Biodiversity Strategy". The bank effectively and sustainably promotes biodiversity by having Wildbiene & Partner transform outdoor spaces into natural sanctuaries for wild bees, thereby making the topics of sustainability and biodiversity visible and tangible for everyone. This project creates several habitats for a variety of different species of wild bees and many other insects, reptiles and wild plants at the bank's designated locations. Zürcher Kantonalbank plans to take measures of varying scopes to promote biodiversity at all its own sites. In 2021, the areas surrounding the Regensdorf, Schlieren, Effretikon, Bauma and Affoltern am Albis sites were designed to be closer to nature. Work at the Dübendorf, Steinfels, Witikon, Stäfa and Kloten sites is scheduled for the end of the year.

Sustainability

We are aware of the important 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 zkb.ch/sustainability). 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.

Our sustainability goals

Zürcher Kantonalbank is guided by the United Nations' 17 sustainable development goals (SDGs), the Paris Agreement and the goal of achieving greenhouse gas neutrality by 2050. Our actions are based on scientific principles. We develop products and services that have a positive impact on sustainability and guide our clients on their journey towards a more sustainable future.

We integrate environmental, social and governance (ESG) risks and opportunities into our business activities (ESG integration). We also define exclusion criteria.

Where relevant, the contribution made by products and services to sustainable development and the achievement of greenhouse gas neutrality by 2050 is examined and transparently reported during the approval and review processes. Processes and responsible committees are defined for dealing with specific transactions.

Our climate goals

We aim to minimise climate risks across all our business operations and to establish transparency in this regard. When doing so, we are guided by the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Our climate goals are based on the goals of the Paris Agreement and on achieving greenhouse gas neutrality by 2050. We help mitigate climate change by promoting energy efficiency and the substitution of fossil fuels and non-renewable energy with renewable energy.

UN Principles for Responsible Banking signed

The year under review saw Zürcher Kantonalbank sign the Principles for Responsible Banking (PRB) of the United Nations Environment Programme Finance Initiative (UNEP FI). These principles, which were developed through a partnership between banks worldwide and the UNEP FI, are the foremost framework for banks to align their strategy and practice with the vision of society defined by the UN's sustainable development goals and the Paris Agreement. Banks that have signed the six principles pledge to ambitiously pursue sustainability as part of their strategy, to integrate sustainability into their core business and to provide transparent reporting.

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 supports 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.

Sustainability in lending

For our financing business, we are guided in particular by the objectives of both the federal government and the Canton of Zurich with a view to Agenda 2030 and achieving greenhouse gas neutrality by 2050.

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. Our sustainability policy sets out requirements for responsible lending.

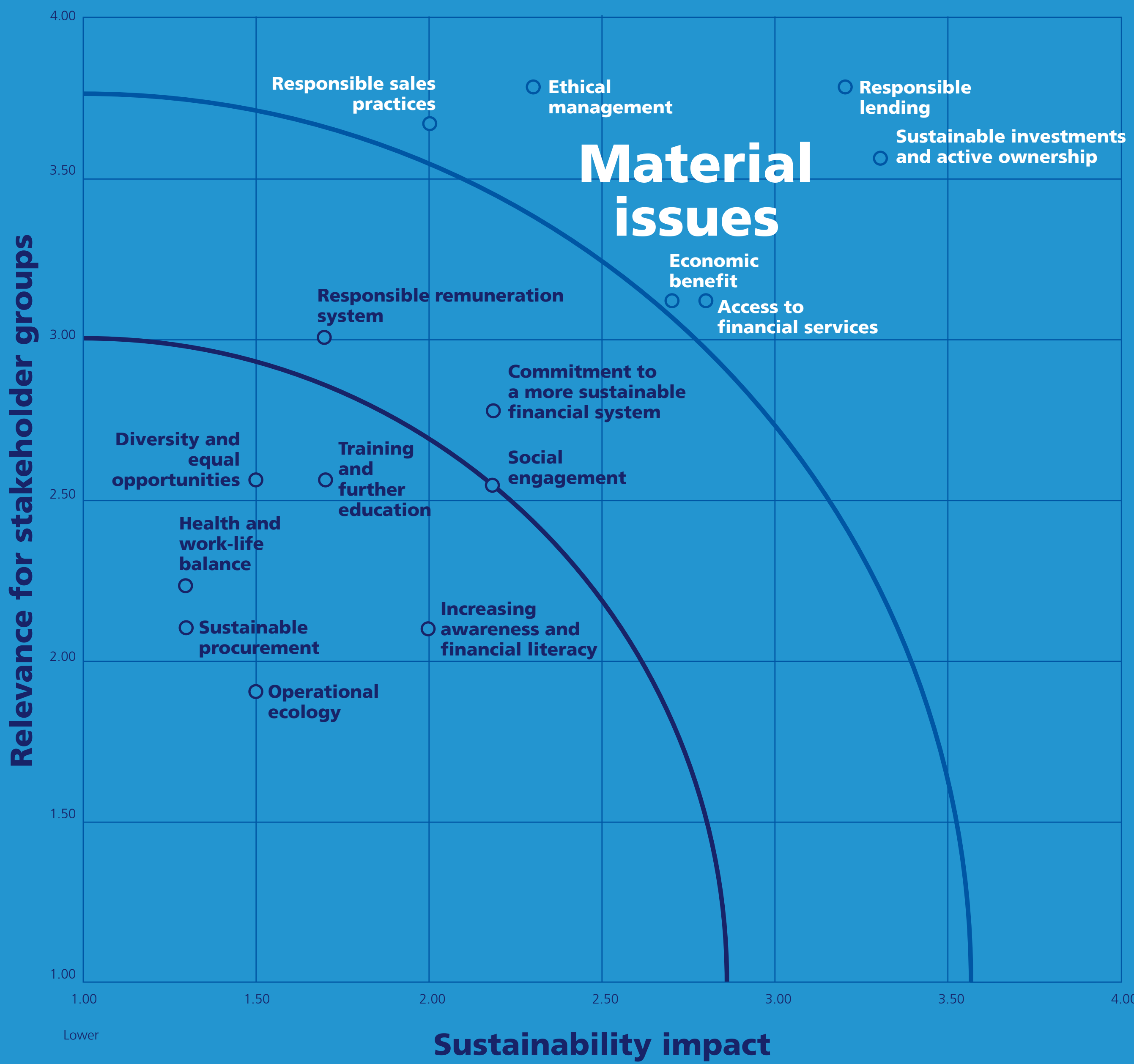
We actively support sustainable development through our financing business and minimise sustainability risks. We take ESG criteria into account in the credit assessment and monitoring process to leverage positive and avoid negative effects. We meet with our clients to discuss our assessment and promote sustainable and forward-looking business models. Since our credit policy is geared towards continuity, we are a reliable financial partner for companies with intact future prospects, even in difficult times. We support small and medium-sized enterprises and entrepreneurs with start-up, development, expansion and acquisition loans, and finance projects involving sustainable technologies. Furthermore, we also participate in companies with innovative products, services or distribution models at the early stages of a company's life cycle.

We generate specific social benefits through our ZKB starter mortgages for first-time home buyers and efforts to promote innovative start-ups (pp. 49 and 51). Our ZKB environmental loan generates specific environmental benefits (p. 49).

Sustainability in the investment business

In our investment business, we are guided by the United Nations' six Principles for Responsible Investment (UN PRI) and report on them annually. We systematically consider

Materiality matrix



We prioritise our activities by identifying material issues. The issues were surveyed in dialogue with our stakeholders (see p. 34) and evaluated in terms of their relevance to those stakeholders and the materiality of their impact on sustainable development.

ESG risks and opportunities in all investment solutions and, in direct investments, focus on dialogue with the invested companies with a view to achieving the SDGs and greenhouse gas neutrality by 2050.

Our Asset Management team engages in direct dialogue with the companies in which we are invested and is actively involved through the UN PRI Collaboration Platform and investor initiatives. We exercise our voting rights based on Swiss and international corporate governance rules, the United Nations Principles for Responsible Investment (UN PRI) and in the interests of the company's long-term, sustainability-oriented success. We publish our voting policy and voting behaviour transparently.

In Asset Management, dialogue with the companies in which we are invested, participation in investor initiatives and the exercise of voting rights take place indirectly through the choice of external asset managers. We systematically ask our clients about their sustainability preferences and provide them with comprehensive and transparent information about the ESG impact of their investment solutions.

For further information on sustainable investments, please refer to page 47 (Wealth Management) and page 56 (Asset Management).

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. 76 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 people and companies with the financial services of a universal bank. These 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. 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. 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 390 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 400 partnerships, memberships and sponsorships.

Other sustainability commitments

Operational ecology

In an effort to ensure a continuous reduction of CO_2 emissions and improve the bank'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 all unavoidable CO_2 emissions since 2009. One of the projects we supported during the year under review was a carbon-offsetting project in the Canton of Zurich that produces biochar. This represents an investment in a natural negative emission technology that stores CO_2, improves soil quality and creates added value in the region. Our current operational environmental programme for 2018 – 2022 is running successfully and right on target. We have additionally made a commitment to the federal government's "Swiss Biodiversity Strategy" and plan to create habitats for insects, reptiles and wild plants at each of the bank's locations.

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 2021 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.

Memberships

- **Carbon Disclosure Project (CDP)**
- **Zurich Energy Model**
- **EUROSIF**
- **Sustainable Investment Forum (SIF)**
- **Montréal Carbon Pledge**
- **Principles for Responsible Investment (PRI)**
- **Swiss Sustainable Finance (SSF)**
- **swisscleantech**
- **UNEP Finance Initiative (UNEP FI)**
- **UN Principles for Responsible Banking (PRB)**

Partnerships

- **Fairtrade Max Havelaar**
- **Mobility Business Carsharing**
- **naturemade star!**
- **Minergie Association**

Management Report

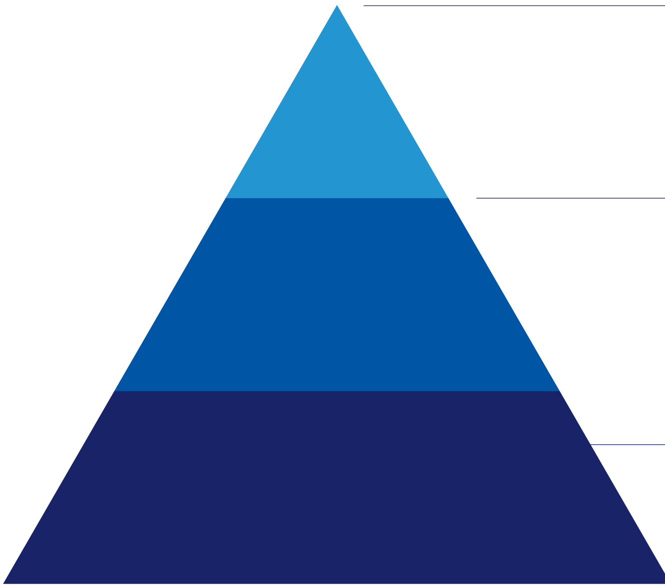
Group mission statement and strategy

Our vision is “Close to you”. Our mission statement describes our identity and serves as a compass for our conduct: we support, advise and offer solutions. Always, everywhere. Throughout your life. 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 are a universal bank and a leader in our home market. For certain client segments, we also provide services throughout Switzerland and in selected other countries.

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

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 Zürcher Kantonalbank and its 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.

This is only possible through the efforts of committed employees who identify with our vision, goals and values. That is why we provide our employees with comprehensive, long-term support to enable them not only to contribute actively to the development of our organisation, but also to successfully develop individual plans for enhancing their own qualifications and skills.

Our partners and suppliers are also pivotal to our actions. We attach great importance to cultivating a fair and cooperative business relationship with them, not only by focusing on economic aspects, but also by paying attention to ecological and social standards as well as the regional value chain.

We communicate with our clients, employees and the public quickly, transparently and regularly. We do this in line with the principle of internal before external.

Our values

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

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 and provide positive food for thought. 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 in person or online. Our collaborative commitment and perseverance spark enthusiasm in every encounter and in every aspect of our work.

Group strategy

Strategic principles

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 our key 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, which strengthens the bank's stability. 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 wealth 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.

Strategic goals and measures

We pay special attention to five strategic building blocks. At the same time, we are extremely client-oriented and build on a strong foundation.

We will further expand our position as the number one for private individuals and SMEs

We are inspiring and the partner of choice for the individual client and SME core segments in the Greater Zurich Area. We target above-average growth in the under-30, families and start-ups segments. We provide active support to private individuals and SMEs throughout the entire life cycle.

We make targeted investments in our specialised segments in order to achieve qualitative growth.

As a universal bank, we are active in a large number of specialised segments that enable us to diversify our business model, spread our risks and stabilise the bank as a whole. We are also open to inorganic growth opportunities if the right opportunities arise.

We are the bank that's "Close to you"and offer the best client experience, both "in person and digitally"

We can be found wherever our clients need us – at any time and through all channels. We will make day-to-day transactions available in full through self-service channels by 2025. We are continuing to expand our advisory expertise for event-related transactions (such as home purchases, retirement, inheritance).

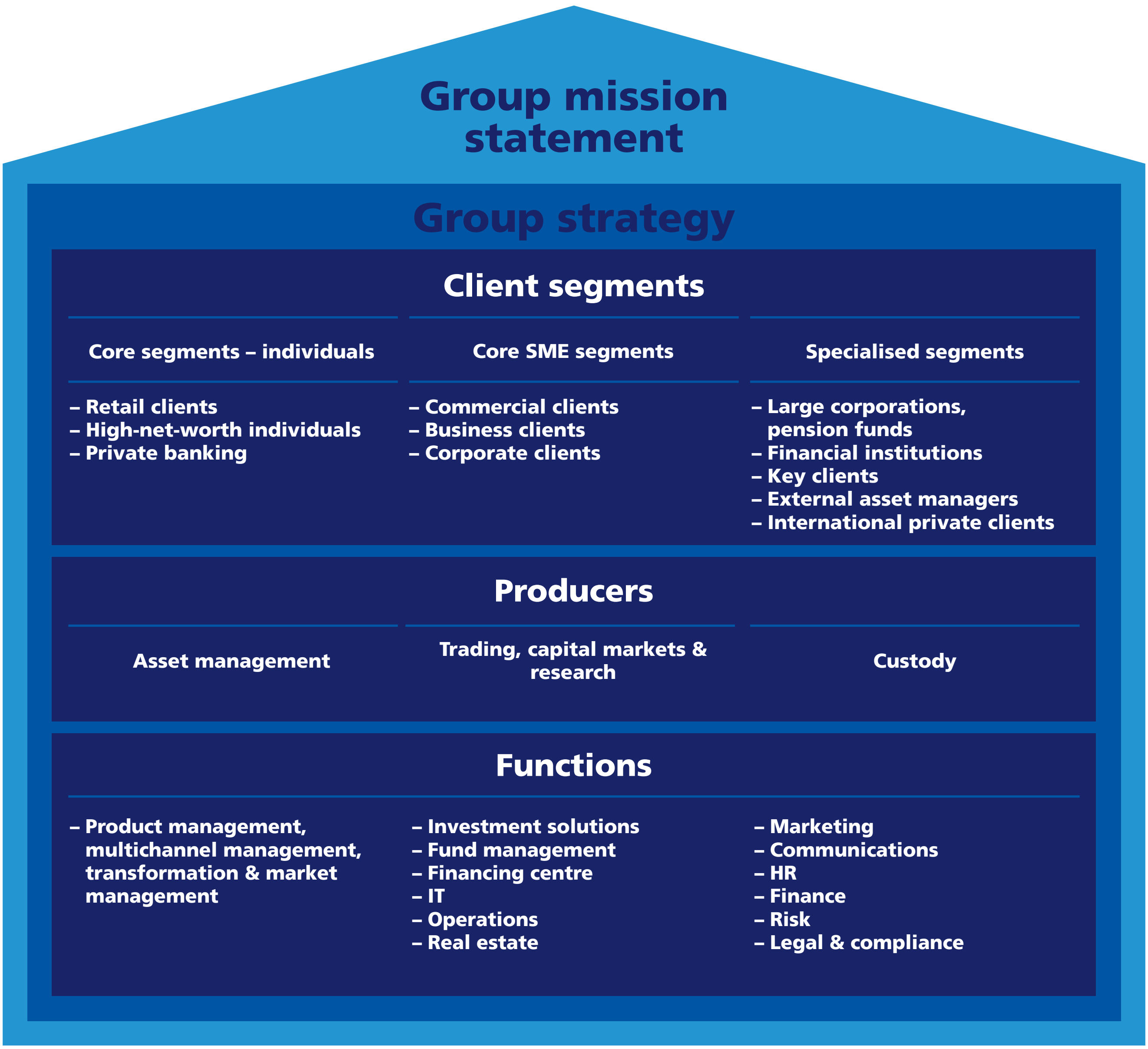
We are an attractive employer and take responsibility for sustainable development

Our employees have made us one of the leading and most reliable banks in the world, which is why we want to safeguard and boost our attractiveness as an employer. We are passionate about our statutory public service mandate and, through it, are further expanding our pioneering role in the area of sustainability.

We promote increased efficiency

We are digitising and automating our business processes and increasing the straight-through-processing rate where reasonable. Whenever possible, we use existing resources to cope with constantly increasing demands on our bank. We are strengthening cooperation within and between the business units.

Our strategy house



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, our goal is to further expand 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 and monitor 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”.

Business environment and risk assessment

The year under review was shaped by the coronavirus pandemic and gradual lifting of restrictions as well as a boom on the stock markets. The financial centre continues to be a pillar of the Swiss economy, both in terms of its function and the added value it provides. The general conditions in the banking industry remain challenging and there is no interest rate turnaround in sight. Regulatory requirements – particularly with regard to data protection and sustainability – are likely to increase. Zürcher Kantonalbank's risk profile changed very little in 2021.

General economic situation

Growth driven by catch-up effects until mid-year

Pandemic-related catch-up effects and supportive stimuli in monetary and fiscal policies brought above-average growth in the global economy and exceptional recovery until mid-2021. The year under review was also marked by supply and capacity bottlenecks as well as a severe shortage of skilled staff. Economic momentum started slowing down in the second half of the year, primarily because US economic growth peaked in the third quarter. The manufacturing sector, in particular, saw economic momentum flatten. Industrial companies were slow to increase production despite full order books and global supply bottlenecks led to high inflation rates in industrialised countries. Economic development was also accompanied by concerns about inflation. Growth momentum remained high in the services sector, which was impacted to a far lesser degree by the effects of supply bottlenecks. Economic growth was around 6 percent in 2021.

Switzerland is a special case

Switzerland coped relatively well with the coronavirus pandemic in 2021 from an economic perspective. The economic slump was weaker than feared and less severe than in most European countries. Inflation in the euro zone stood at around 4 percent, whereas the Swiss inflation rate of 1.2 percent was within the range of 0 to 2 percent targeted by the Swiss National Bank (SNB). This was largely due to the different energy consumption mix in the various countries. The Swiss labour market was also a positive surprise.

Test for the economy

Whereas it was still assumed at mid-year that the pandemic would soon be over and renewed lockdowns seemed less likely, new waves of the coronavirus at the end of the year led to a series of government-imposed measures that put a damper on economic development. Global economic recovery faced yet another test. The Omicron variant also started spreading but by the end of the year, the scientific community was still uncertain as to how dangerous this new mutation of the virus would be and what impact it would have.

Strong performance on the equity markets

From an equity market perspective, 2021 was a very good year. Volatility was much lower than in 2020. The Swiss Market Index (SMI) reached a new all-time high. Riskier asset classes clearly outperformed bonds.

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.

Strong competition on Switzerland's domestic market

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.

Assets under management rose further because of positive stock market performance. 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 – especially once governmental Covid-19 programmes expire. Banks continued to focus on cost management at the same time.

Client activity remains at a high level

The start of the year under review was marked by rising capital markets. A high level of client activity was recorded in the spring but 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 wealth management mandates.

Refinancing amid negative interest rates

Negative interest rates remain a challenge for Swiss banks. After the Swiss National Bank (SNB) raised the factor used to calculate the exemption threshold for commercial banks in 2020, it left this factor unchanged in 2021. Several banks, including Zürcher Kantonalbank, must still pay negative interest of 0.75 percent on a portion of 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 even easier access to banking services.

Regulation

Continued development of supervisory law

The parliamentary process to revise the Swiss Banking Act on the topics of restructuring law, deposit protection and segregation was concluded by the National Council in the 2021 winter session. The special circumstances of cantonal banks were factored into the restructuring law. Moreover, in the future cantonal banks will also be able to issue debt instruments to carry losses in the event of insolvency measures (referred to as bail-in bonds). This is necessary for Zürcher Kantonalbank as a systemically important bank and strengthens individual banks' resilience to crises, thereby strengthening the crisis resilience of the financial market as a whole. However, a decision has yet to be made on the detailed regulation governing the issuance of bail-in bonds by cantonal banks. This is to be done at the ordinance level by amending the Capital Adequacy Ordinance.

Also under discussion is the plan by the Swiss Financial Market Supervisory Authority (FINMA), the Swiss National Bank (SNB) and the State Secretariat for International Finance (SIF) to introduce stricter requirements for mortgage financing in terms of their affordability and valuation in connection with the Basel Committee's requirements (Basel III). This stands in contrast to the EU. Specifically, 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 published the dispatch on the partial revision of the Postal Organisation Act (POA) in 2021 in order to lift Postfinance's loan and mortgage ban. Resistance to this step continues to come from cantonal banks, other domestic banks and even the heads of the cantons' finance departments.

The Federal Department of Finance (FDF) also initiated the consultation regarding the amendment of the Liquidity Ordinance in the year under review. The revision is intended to ensure that systemically important banks hold sufficient liquidity to better absorb liquidity shocks and also cover demand in the event of restructuring or liquidation. The liquidity requirements for systemically important banks will increase further as a result of this bill.

Intensification of the fight against money laundering

In spring, Parliament approved 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) and will lead to stricter audit and documentation requirements. The date when it will come into force is still undecided.

Tax regime

In order to make the Swiss capital market more attractive, improve Switzerland's appeal as a business location and safeguard jobs, the Federal Council has launched various initiatives for the partial abolition of stamp duties and withholding taxes. A referendum will be initiated against each of these.

In July 2021, the OECD published key figures regarding the future taxation of large companies with international operations. These provide for taxation rights to be re-allocated to market countries (countries of sale) and a global minimum tax rate of 15 percent. Switzerland supported this proposal in the sense that work on it should be continued, but still has the same reservations and conditions it had already expressed.

Data becoming increasingly important

In the age of ongoing globalisation and digitalisation, the importance of data is rising steadily. Associated regulation is also on the rise and typically aims to strengthen data protection, requirements for effective cybersecurity and support for digital business models (fintech).

The revised Data Protection Act (rDPA) was finalised following several years of parliamentary debate. Parallel to the legislative process, the Federal Office of Justice (FOJ) began work on adapting the associated ordinances. The public consultation on the particularly important draft of the general Ordinance to the Federal Act on Data Protection (D-DPO) did not take place until the end of June 2021, however. In order to allow sufficient time for the implementation of the new obligations, some of which have only been introduced at ordinance level, the business community is calling for the entire regulatory package (DPA including ordinances) to enter into force in mid-2023. This also makes sense in view of the adequacy decision that the EU will eventually have to take.

The important legislative project for creating an electronic identity (Federal Act on Electronic Identification Services, e-ID Act, FAEIS) for the purpose of legally recognising digital business models was rejected by the electorate in the March 2021 referendum. The Federal Council is planning a new proposal that addresses the concerns expressed in the referendum.

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, was implemented in two steps in 2021 along with its corresponding administrative provisions. This means that Switzerland has up-to-date legislation that establishes sufficient legal certainty for business models to be created while simultaneously enabling enough flexibility to ensure the inclusion of new technologies in the future. Accordingly, this legislation is also attracting a great deal of attention abroad and promotes the innovative strength and attractiveness of Switzerland as a business location.

During the year under review, it became known that Facebook's attempt to launch its digital currency, Libra, had failed in Switzerland. Facebook has withdrawn its request for FINMA approval and is now focusing on the US instead of Switzerland.

Sustainability megatrend

FINMA's revision of its Circular 2016/1 "Disclosure – banks" entered into force as at 1 July 2021. Accordingly, banks and insurance companies (initially only those in supervisory categories 1 and 2) must already comply with disclosure requirements for climate risks, including both qualitative and quantitative information, in 2022 with effect for the 2021 financial year. In accordance with the standard from the Task Force on Climate-related Financial Disclosures (TCFD), principle- and risk-based disclosures can be made with a focus on those risks that are material to and directly affect the financial service provider concerned. Zürcher Kantonalbank has provided proactive support for this arrangement from the outset (for information on Zürcher Kantonalbank's climate risk disclosure, see Risk Report p. 187 ff.).

In August 2021, the Federal Council announced that, in addition to the FINMA regulation, it would define key parameters for mandatory climate reporting by large

Swiss companies, including those outside the financial sector, by around mid-2022. Zürcher Kantonalbank welcomes this proposal. Expanding the scope to companies beyond merely the financial industry is crucial for the success of efforts against climate change.

At the beginning of November 2021, FINMA published Guidance 05/2021 on preventing and combating greenwashing. In it, FINMA expresses its expectations regarding measures taken by the industry both in the fund segment and in the advisory process. Accordingly, the Asset Management Association Switzerland (AMAS), supported by the SBA and Swiss Sustainable Finance (SSF), launched recommendations on minimum requirements and transparency for sustainable financial instruments in late November.

Also in November 2021, the Federal Council adopted its report on a climate-friendly financial market. In doing so, it adheres to the primacy of industry solutions and calls for more measures or financial instruments, such as environmental loans, that have a direct impact on lower CO_2 emissions. Zürcher Kantonalbank proactively promotes the development of various industry solutions within the framework of the SBA and AMAS.

In mid-April 2021, the Federal Council published the consultation on the ordinance specifying the indirect counterproposal to the corporate responsibility initiative adopted by the electorate. In December 2021, the Federal Council implemented the final Ordinance on Due Diligence and Transparency Regarding Minerals and Metals from Conflict Areas and Child Labour (VSoTr) as at 1 January 2022. The new due diligence requirements will apply for the first time to the 2023 financial year.

With reference to the three aforementioned FINMA and Federal Council proposals, Zürcher Kantonalbank has joined together with the Swiss Bankers Association (SBA) and economiesuisse to make a proactive, ongoing effort toward ensuring the creation of an overall regulation that is conceptually coherent and consistent with respect to the regulatory approach, the content and the formal requirements. With respect to the latter, for example, it is important that the timing of the various reporting obligations is coordinated and that their content can ideally be combined within a single report.

The revision of the CO_2 Act was narrowly rejected in mid-June 2021. The Federal Council has already begun working on the next draft, which will address opponents' concerns.

Efforts are also underway in the EU to create rules at the supranational level that relate to the achievement of CO_2 neutrality and the topic of corporate responsibility. The focus is currently on consolidating and simplifying numerous existing approaches with respect to taxonomy and disclosures. The international standard-setting bodies, such as the Basel Committee, the SFB and IOSCO, are also refraining from issuing additional ESG regulations and concentrating instead on reports that use comparative law, for example, to standardise and support the efficient implementation of existing rules.

Sustainability-related developments impact the bank directly or indirectly at the cantonal level as well. On 28 November, the electorate of the Canton of Zurich approved the new cantonal Energy Act, which aims to reduce greenhouse gas emissions in the building sector. In the future, fossil-fuel heating systems can only be replaced by fossil-fuel heating systems in exceptional cases. Zürcher Kantonalbank provides intensive support for its clients to help them with environmentally friendly construction and renovation; this has already taken the form of environmental loans for some time and now also includes free consultations for heating system replacements (see p. 49).

The parliamentary initiative (PI) "Climate Protection: Zürcher Kantonalbank's Fossil Fuel Divestment", which the Cantonal Parliament tentatively supported in 2020, is currently pending before the Committee for Economic Affairs and Taxation. The Board of Directors submitted its comments to the Government Council in August. In its response, the Board of Directors is guided by the sustainability goals that Zürcher Kantonalbank communicated to the public, namely its focus on the United Nations' 17 sustainable development goals (SDGs), the Paris Agreement and achieving greenhouse gas neutrality by 2050.

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 Board of Directors and the Executive Board with comprehensive reports on a quarterly basis on the development and profile of credit, market and liquidity risks, as well as compliance 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

The risk profile of Zürcher Kantonalbank has not changed significantly compared to the previous year and continues to present itself as robust against the consequences of the ongoing coronavirus pandemic as at the end of financial year 2021.

In the case of business loans, an overall improvement in creditworthiness was seen in the wake of strong economic recovery. Nearly two years following the outbreak of the pandemic, the corporate loan portfolio remains resilient and no extraordinary loss events have occurred to date. Despite improved visibility, forecast uncertainty remains high in the medium term. The income situation in particularly exposed sectors is still under pressure. Individual companies are struggling with structural problems that have become more acute due to the pandemic. It cannot be ruled out that the need for value adjustments in the SME portfolio could increase in the coming years when the government support programmes expire and the loans granted have to be repaid.

Market risks in the trading book continue to be dominated by interest rate risks. The value at risk (VaR) was at a low level, reflecting financial markets' comparatively low volatility in 2021. The low risk profile also reflects the strategy of focusing on client business.

The key figures for liquidity risk indicate a comfortable liquidity situation for Zürcher Kantonalbank – despite even stricter regulatory requirements.

Zurich real estate market

Residential property prices in the Canton of Zurich continue to make strong gains. Compared with the previous year when residential property prices rose by 4.2 percent, price growth has increased even further to 9.3 percent. This is attributable to the fact that home ownership is becoming increasingly attractive. The number of transactions for single-family houses and condominiums continued to rise in the first half of the year. Older properties offset the decline in owner-occupied home construction, which kept Zurich's real estate market liquid and resulted in a dynamic, broad-based price trend. The further increase in excess demand ensured, however, that buyers perceive the market to be shrivelled, despite the higher number of transactions actually taking place.

Price growth continues to be supported by solid fundamentals. 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. In addition to these fundamentals, the trend toward working from home has made housing a high priority. In fact, that trend has shaped housing requirements from both a quantitative and qualitative perspective. These drivers ensured further price increases in 2021.

Operational and compliance risks

The bank's risk profile for operational risks did not change materially, either. The bank decides on and implements measures to manage operational risk on an ongoing basis. Given that cyber and litigation risks still represent the two most crucial issues, managing these risks remains a high priority. The pandemic is managed within the scope of business continuity management (BCM). As a preliminary stage of the emergency organisation, the Pandemic Task Force has been active ever since the beginning of 2020 and meets for ongoing assessments of the situation. Based on the guidelines and recommendations of the Federal Office of Public Health (FOPH) and the Canton of Zurich, the Task Force implements measures on an ongoing basis, checks continuously to determine if any adjustments are needed and prepares more comprehensive steps as a precautionary measure. But thanks to the smoothly functioning crisis organisation in the various areas, Zürcher Kantonalbank once again did not suffer any significant pandemic-related business interruptions in 2021.

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 thanks to the fact that our organisation is systematically aligned with clients' needs. Continuous further development of both our physical and digital sales channels ensures that our clients enjoy an excellent client experience.

In order to consistently offer our clients individual solutions tailored to their needs, we distinguish between several different core 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 confirms our strategy as Zürcher Kantonalbank.

No. 1 in the Greater Zurich Area

Our economic strength is based on a broadly diversified business model. Almost half of all Zurich residents have a business relationship 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 personal advisory consultations or during interactions in our client lobbies. To that end we maintained 55 branches in the Canton of Zurich as at the end of 2021, 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 conduct daily banking transactions 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 are constantly adapting the digital services and functionalities we offer for banking transactions to better meet clients' needs and adding new, cutting-edge functions (see p. 58 ff.).

Private individuals

As a financial partner in touch with the realities of life, we support and advise our clients during major life events. When it comes to important financial events and decisions, such as starting a family, buying a house, retirement and inheritances, our client advisors are personal primary contacts who are near at hand and have the right networked solution at the right time for our clients. Regardless of whether they have questions about investments, financing, taxes, pensions or succession planning. Additional specialists may also be consulted, depending on the complexity of the matter. We provide comprehensive solutions to meet individual requirements and are at our clients' side at every stage of their lives to ensure they can make the right financial decisions for the long term.

Our direct bank provides advice and support for our clients' day-to-day banking transactions while simultaneously serving 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 more than 740,000 calls made to the service in 2021) and deal with complex issues relating to legal estates and court-appointed guardians.

At the end of 2021, we had active relationships with around 700,000 individual clients in our core individual client segments.

Coronavirus intensifies trend toward cashless transactions

The trend toward cashless payments clearly accelerated in the year under review.

That means cash services in the client lobbies will probably continue their shift toward digital or self-service channels in the coming years. Against this backdrop, Zürcher Kantonalbank adapted its branch network in 2021 to reflect these changing client needs and closed four small locations with cash-only business (Dietlikon, Rafz, Gossau, Urdorf). At the same time, the bank 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.

Cash services in the client lobbies declined by 19 percent in the year under review. Cash withdrawals at our ATMs decreased by 11 percent. In contrast, cashless transactions (with Maestro card, credit card, eBanking, LSV, Quickpay, TWINT) rose by 15 percent, with TWINT transactions increasing the most (100 percent).

New location in Stettbach – "Branch of the future" in Winterthur

Despite ongoing digitalisation and an increase in the use of self-service channels, personal client contact remains important. Personal advice continues to be a high priority for clients, especially when it comes to complex life events such as retirement or buying a house. Against this backdrop, Zürcher Kantonalbank will continue to invest substantially in its branch network going forward and is testing new approaches in pilot projects to enhance its service offering in line with clients' changing needs. The bank opened a pilot location with a new branch concept in Stettbach in mid-March. The remodelling of the Winterthur branch was also kicked off during the year under review. The bank expects to launch an integral new concept for the client lobby of the future at the current location of the Untertor branch in June 2022. The idea is to create a brightly lit setting that radiates a sense of openness and transparency in order to promote communication and encounters between bank employees and clients. The interior is designed as a multifunctional space that can be adapted with minimal effort to meet the needs of both people and the bank. Different zones are optimised for providing consultations and a wide range of potential interactions with clients.

10th anniversary of presence in Austria

Zürcher Kantonalbank Österreich AG celebrated its 10th anniversary in the year under review. This subsidiary specialises in private banking and serves high-net-worth individuals, foundations and entrepreneurs. With its two locations in Salzburg and Vienna, it focuses on clients in Austria and southern Germany. Zürcher Kantonalbank Österreich AG gives the parent company access to the EU market and its two locations establish a local presence. Growing by up to 20 percent per year, the subsidiary reached the break-even point after just five years and has been contributing to the group's profits ever since.

Wealth management and investment advice up considerably

The declared goal for our wealth management and investment advice service is to create added value for clients and the bank itself. The importance of building up assets with long-term investment solutions for old age is growing, particularly with respect to private pensions. This is based on individual consultations that are geared toward the client's needs and goals. 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 wealth management mandates and advisory mandates. Positive performance was reported for all our clients' wealth management mandates in the year under review. Equity holdings that were overweighted at the expense of liquidity and bonds were one of the biggest performance drivers. Strategies with a high equity weighting ended the year with growth in the double-digit percentage range. Our peer comparison shows that we were able to hold on to our lead in terms of performance in 2021.

How we implement sustainable investments in wealth management for private individuals

Our private clients can contribute towards sustainability by making conscious decisions when selecting their financial investments. In its wealth management and advisory mandates, Zürcher Kantonalbank applies recognised, measurable ESG criteria that allow companies and countries to be assessed in terms of their sustainability. When selecting investment instruments, we are guided by MSCI ESG Ratings, which are issued by an independent global leader. We report this rating transparently and use it to determine the sustainability rating of entire client portfolios. In the case of sustainable wealth management mandates, we aim for a rating of AA at portfolio level. Not just ESG ratings are taken into consideration; companies are also screened for controversial business activities such as the extraction of and trade in thermal coal. We also prioritise fund companies that seek to reduce CO_2 emissions and influence companies' sustainability and climate strategy directly by actively exercising voting rights and engaging in ongoing dialogue.

Focus on pension advice for private individuals

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.

The bank sees the fusion of digital and personal advice as a key success factor (see p. 58).

Securities savings with frankly

The Swiss pension system is facing major challenges: life expectancy is rising and interest rates remain at a historically low level. Many pension funds are taking steps to ensure their ability to guarantee pensions, including increasing or extending contribution obligations and reducing the interest rate and conversion rate.

More personal responsibility is needed in retirement planning. As a result, private pillar 3 pension provisions are becoming increasingly important to people's ability to maintain their standard of living in old age. They can cushion the impact of lower benefits and any pension gaps that might exist in the first and second pillars.

With pillar 3a, savers can choose between tied insurance policies with insurance companies and tied pension arrangements with bank foundations. Bank foundations not only offer accounts but securities solutions as well. A 3a savings account works much like a long-term restricted bank account. An amount of up to the legally stipulated maximum, currently set at CHF 6,883 per year, can be paid into this account flexibly at any time and without any obligation to save. However, 3a accounts earn hardly any interest in today's low interest rate environment, therefore investing in a securities solution might be worthwhile. Here, depending upon the investor profile, investments are made into a broadly diversified fund or into a group of investments and investors can participate in financial markets even if they only make small contributions. Pension assets, which often have a long investment horizon, are particularly suitable for investments in securities since potentially negative fluctuations in value can be cushioned over a longer period of time. There is also something referred to as the "compound interest effect", in other words how the continuous reinvestment of income generated through shares and bonds impacts the performance of those assets.

This is where the frankly pillar 3a app comes in. The pension app is a purely digital product. The services are available at any time. It only takes a few minutes to open an account and the pricing model is transparent and affordable with an all-in fee. The app provides access to a range of Swisscanto pension funds, which simplifies securities savings and wealth building. frankly had around 50,000 clients and CHF 1.1 billion in assets by the end of the year under review.

Leading position in the mortgage business

Zürcher Kantonalbank is the market leader in the Canton of Zurich and finances half of the owner-occupied homes in a market environment dominated by intense competition and a low interest rate environment. We continue to attach great importance to the quality of our loans and embrace a credit policy that is both predictable and sustainable. In the year under review, our mortgage loans increased by CHF 4.2 billion to CHF 91.8 billion. This corresponds to an increase of 4.8 percent, whereas the market as a whole (just banks, excluding mortgage investment companies and insurers) grew by 3.3 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 91 percent at the end of the year.

ZKB rollover mortgage replaces Libor money market loans

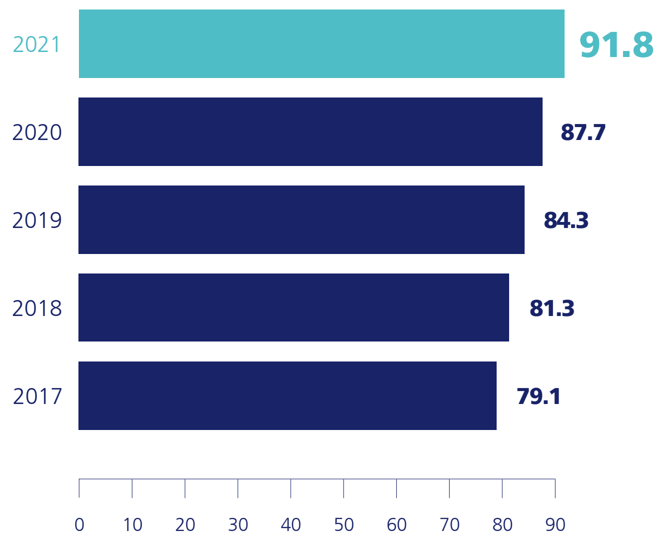
In 2017, the UK financial market regulator announced that it would only support the Libor reference rate for a limited time. The Libor for Swiss francs was permanently discontinued at the end of 2021. Zürcher Kantonalbank responded early to the expected change and launched the ZKB rollover mortgage in June 2020. Since then, it has only been possible to conclude money market mortgages based on SARON. The switch proceeded smoothly. Since its launch, the bank has concluded ZKB rollover mortgages with a total volume of CHF 7.6 billion as at the end of the year under review.

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 2021, 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.

We also offer our clients free and independent heating replacement advice as additional support for the canton's climate targets. We render this service by collaborating with the Canton of Zurich's electricity provider (EKZ), the City of Zurich Office for Environmental and Health Protection (Umwelt- und Gesundheitsschutz Stadt Zürich) and the Energy Office of the City of Winterthur (Energiefachstelle der Stadt Winterthur). From the launch in October 2020 through to the end of 2021, over 1,300 consultations were conducted for heating system replacements.

Mortgage loans (in CHF billion)



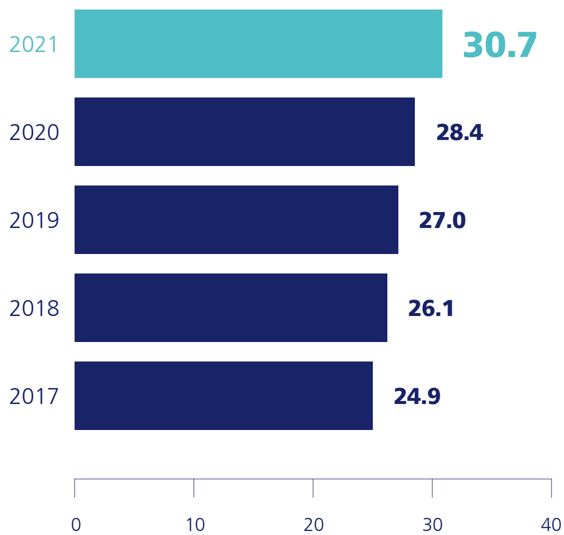
Greater demand for ZKB starter mortgages

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 2021, the ZKB starter mortgage portfolio amounted to CHF 7.3 billion. This corresponds to year-on-year growth of 9.5 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.

Credit exposure to companies (in CHF billion)



SMEs

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 – even in other countries if needed. 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 2021, we counted over 65,000 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. Our credit exposure to companies increased to CHF 30.7 billion in the year under review, which represents positive growth of 7.7 percent. We see growth opportunities in expanding our business with existing clients or by means of acquisitions. 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.

Coronavirus: bridging loans for SMEs

As the bank that is "close to you", we have provided an additional CHF 300 million in loans to SMEs in the Greater Zurich Area since 4 January 2021 to support them during the coronavirus crisis. Because the renewed shutdown hit the companies of Zurich hard. In response, Zürcher Kantonalbank decided to launch a quick and easy bridging loan for SMEs impacted by the crisis. The offer was also open to existing clients outside the Greater Zurich Area.

All in all, Zürcher Kantonalbank provided a total of CHF 35 million in loans to support 238 SMEs in 2021. Of the loans granted, 60 percent had already been repaid by the end of the year under review.

Yet the bank's support was not only financial in nature. Together with the implementation of the bridging programme, it also activated an SME hotline that proved highly popular. Over 2,000 interactions with SMEs took place in the first half of the year, with callers mainly seeking information about the different aid programmes offered by the authorities, who qualifies for them and how the processes work.

Once the funds from the cantonal aid programmes had been largely disbursed and economic recovery followed in the wake of lifted restrictions, hardly any companies asked for bridging loans. As a result, the programme was officially discontinued in mid-2021. Nevertheless, SMEs seeking capital will continue to receive responsible support from Zürcher Kantonalbank through its ordinary range of financing offers.

A total of CHF 697 million in Covid-19 emergency loans were granted to companies in the year under review.

Of this amount, CHF 549 million were Covid-19 loans and CHF 99 million were Covid-19 plus loans from the federal programme. Loans from the cantonal programme came to a total of CHF 38 million. Over CHF 5 million of this amount related to loans that Zürcher Kantonalbank granted at its own risk. Loans granted to start-ups amounted to CHF 6 million.

Launch of the ZH SME Initiative

With its new ZH SME Initiative, the bank intends to make a contribution toward the ongoing and sustainable success of SMEs. To that end, it has commissioned the Zurich University of Applied Sciences (ZHAW) to conduct an annual study on SMEs. Zürcher Kantonalbank publishes the findings, collaborates with experts to take a more detailed look at one of the SME-relevant topics and develops some potential solutions. Zürcher Kantonalbank shares the findings with SMEs in various forms and through various communication channels.

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 2021, Zürcher Kantonalbank provided CHF 33.4 million in traditional funding to around 120 new companies. The bank also works closely with the "GO! Ziel selbstständig" association, helping people to become freelance entrepreneurs with ZKB microloans.

Start-up support expanded

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 250 innovative young companies with more than CHF 200 million since 2005. As a result, the companies have exhibited an above-average growth rate and created more than 3,500 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 21.3 million in risk capital financing was approved for 44 promising start-ups and scale-ups.

Zürcher Kantonalbank not only advocates for innovative young companies in their early stages, but also during the subsequent scale-up phase. After all, a successful market launch lays the foundation for a company's future growth. The goal here is to close the gap to the Swisscanto Growth Fund, which helps larger start-ups in their growth phase. In short: Zürcher Kantonalbank offers solutions that include equity capital to extremely innovative young companies, from start-up to the growth phase.

Composition of the "Pioneer" start-up portfolio

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

It is worth noting that two of our portfolio start-ups, Inositec and TestingTime, were able to exit the programme during the year under review. ETH spin-off Inositec is developing a novel treatment for vascular calcification in patients with kidney diseases and has been acquired by Vifor Pharma. TestingTime, a company specialising in user guidance and experience testing, was also sold to Norway's market research institute Norstat. The company, which was founded in 2015, will remain autonomous for the time being and continue to operate as a separate brand and entity under the management of the co-founders.

Support for generational changes

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. In the year under review, we provided personal support to companies through around 120 advisory mandates and 57 acquisition loans (a total of over CHF 100 million) to help ensure that the generational change proceeds smoothly. The first steps in this direction can also be taken digitally: The succession planning check at zkb.ch/nachfolgecheck allows for a simple assessment of the current situation as regards succession planning and is an ideal basis for discussion for an advisory consultation.

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. Zürcher Kantonalbank's portfolio in the year under review included more around 3,200 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. Our leasing calculator (zkb.ch/leasingrechner) makes the initial contact even easier. The joint distribution network with other cantonal banks has an overall portfolio comprising some 3,500 lease agreements with a volume of around CHF 570 million.

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, trading companies, large international organisations and financial services providers, such as banks, insurance companies, 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 guarantee proximity to our clients as well as the impact of our international services, we advise financial services providers abroad and internationally oriented major Swiss clients in two units, "International Business & Custody" and "Institutional Clients & Multinationals".

Partner to major clients and international financial services providers

In today's globally networked economy, we provide our clients with access to banking services worldwide. To that end, 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 their 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, and custody and asset management. Regardless of the economic situation and market trends, we stand for long-term continuity.

Leading role in syndicated loans

For our corporate clients, we structure tailor-made solutions for complex financing, particularly in connection with acquisitions, major projects or for other operational purposes. If large-volume financing is needed, we take the lead and work together with our excellent network of banks to offer syndicated loans to satisfy that need. As one of the few providers of this type of structured financing, Zürcher Kantonalbank continues to enjoy a strong market position in Switzerland. In dialogue with our clients, we are increasingly incorporating sustainability components into these syndicated loans; some of those components could include an ESG rating from an independent provider or individual sustainability targets that are peer-reviewed by an independent, recognised third party.

Partner for financial services providers in Switzerland

Cooperation with other financial services providers in Switzerland 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. There is a growing need for strategic collaboration through the targeted procurement of services from provider banks like Zürcher Kantonalbank. 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.

Ideally positioned among key clients

We have been conducting business with the wealthiest client segment among private individuals and their family offices for around ten years.

As wealth increases, so does the need for individuality in terms of how financial services are implemented. We provide our clients and their families with individual advice and support on multi-generational issues, across all assets and in both a domestic and foreign context.

As a universal bank with clear ownership, high performance, as well as continuity and experience among our advisors, Zürcher Kantonalbank is in an ideal position to succeed in this competitive market environment.

Business developed excellently in the year under review. Zürcher Kantonalbank provides support to prominent clients on challenging financial matters. Accordingly, this segment contributes to the growth of assets under management.

In an increasingly fast-paced environment, the continuity of our support allows us to offer our clients stability, guidance and security. This is precisely the segment where our long-term strategy is increasingly paying off by allowing us to make the most of entrepreneurial freedom and seize opportunities in the market.

Given our unique positioning and considering the individual performance of the consulting teams, we expect to see positive development in the coming year.

Attractive partner for external asset managers – now and in the future

The traditional market with external asset managers in Switzerland plays an important role for Zürcher Kantonalbank. In this business, Zürcher Kantonalbank acts as a reliable partner, offering its clients specific expertise, experience from our experts, and the individual solutions that are in frequent demand in this segment.

In the year under review, we were able to build on the developments of recent years and significantly improve our market position, which also led to growth in assets under management.

This success is based on the trust that clients place in Zürcher Kantonalbank. We strengthen this trust through the professional and personal support provided by our asset managers as well as our employees' solid, first-class expertise in the investment business.

Since digitalisation is also on the rise in this segment, Zürcher Kantonalbank is committed to providing state-of-the-art IT solutions for external asset managers. At the heart of this will be a new eBanking system for external asset managers and standardised data interfaces (API). As a co-founder of the OpenWealth Association, Zürcher Kantonalbank is intimately involved in developments in this segment (see p. 59).

With the changed regulatory environment (FINIG/FIDLEG), a new era will begin for external asset managers from 2022 onwards and market shifts are to be expected. Having a custodian bank behind you that offers stability and reliability through personal support, even in turbulent times, will remain crucial in the future.

Commitment to foundations and non-profit organisations expanded

When it comes to implementing charitable ideas and projects, non-profit organisations play an important role in Switzerland.

Zürcher Kantonalbank is a reliable and stable partner that provides management services, networking and expertise relevant to this client segment. Because their funds are largely donation-based, foundations attach importance to transparent, efficient and sustainable solutions, especially when it comes to asset management. As the sector becomes more professional, important yet delegable tasks such as asset management are increasingly being placed in specialised hands. Securing capital and generating sufficient income are, after all, fundamental and indispensable prerequisites for foundations' and non-profit associations' ability to fulfil their purpose. Through its financial commitment to the development of the StiftungSchweiz digital platform, Zürcher Kantonalbank aims to make a major contribution toward digitalisation and enhancing the efficiency of the entire philanthropic sector in Switzerland. The participation in Philanthropy Services AG, which develops and builds the online platform stiftungschweiz.ch, was increased to a majority stake in the year under review.

The Swiss Philanthropy Performance Index (SwiPhiX), which is published monthly on stiftungschweiz.ch, provides timely information on the performance of non-profit organisations' assets. The index is based on a series of asset management mandates that Swisscanto Invest, the Asset Management division of Zürcher Kantonalbank, manages for foundations and non-profit organisations (NPOs). It shows the average total return of all mandates documented since the index was first compiled in 2013. Likewise, financial support is also provided for important and cross-sector events such as the Swiss Foundation Day, the "NPO Finanzforum" or even the Swiss Foundation Barometer.

Producers

The increasing importance of custody

Custody and asset services are important basic services for our institutional investors. These include custodian and administrative services, securities accounting, performance reporting and investment compliance services, as well as custodian bank services for investment funds. We established a comprehensive ESG reporting service with our clients in response to the growing need for ESG-related services. Electronic interfaces to clients' systems are also becoming increasingly important. Our 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. In a saturated market, we once again achieved very good growth in new custody and custodian bank clients thanks to our flexibility when developing solutions and our broad range of services.

Added value via research services

Zürcher Kantonalbank's equity, bond and real estate research covers more than 150 public companies and real estate funds as well as around 150 bond issuers throughout Switzerland – more than any other institution. That means our analysts make up one of the most important research teams in Switzerland. Thanks to its broad coverage and close contact with companies, it has in-depth knowledge of the Swiss market and publishes research with insights that create added value. What's more, our ratings are essential for a large proportion of the issuers in the Swiss Bond Index (SBI).

Our stock recommendations outperformed their respective benchmarks again this year. Our research achieved two milestones in 2021: increasing the international coverage of equity securities through a cooperation with Landesbank Baden-Württemberg (LBBW) and expanding sustainability research by designing a holistic ESG approach.

Increase in our international equity coverage

Our analysts are extremely well-versed in our domestic market. To further emphasise their unique selling proposition, they are now focusing exclusively on the analysis of companies listed in Switzerland and meanwhile cover over 95 percent of Swiss market capitalisation in the equities sector.

To ensure that it can continue to offer this broad coverage and, in particular, to adhere to its high quality standards in the international environment as well, Zürcher Kantonalbank entered into a partnership with LBBW in spring 2021. The addition of LBBW's comprehensive and high-quality equity research has increased the international equity research universe of Zürcher Kantonalbank from some 100 shares previously to about 170 now.

Expansion of our sustainability research

Our clients are placing more and more importance on fully integrating ESG factors into traditional financial analyses. Whereas the approach used to date when compiling our sustainable investment universe has been largely quantitative in nature, it will be expanded to include qualitative analyses and aspects from mid-2022 onward. The resulting holistic ESG approach makes it possible to perform comprehensive assessments of issuers. The insights gained through primary research on sustainability aspects will be gradually integrated into existing financial models, company valuations and research publications in 2022, further expanding the bank's position as a pioneer in the field of sustainability.

Versatile commitment

In addition to day-to-day business, extensive research reports were prepared for bonds (7) and equities (10) in connection with new cover and capital market projects. In 2021, a record number of first-time issuers received a rating from our Bond Research team. Currently, around 150 issuers are covered, representing approximately 70 percent of the borrowers in the market and almost 100 percent of the volume of the CHF capital market. At the Bondholder Event 2021, which was attended by several prominent representatives from the Swiss real estate market, the new "Rating Guide" with a special focus on the "Swiss Real Estate Market" was presented to a record number of participants.

With over 100 roadshows per year, production tours and investor meetings, Zürcher Kantonalbank promotes dialogue between investors and companies. The Swiss Equity Conference and the Swiss Real Estate Conference are annual highlights. In 2021, the easing of coronavirus measures once again made it possible to hold the extremely popular two-day conferences in person, subject to hygiene measures, with more than 70 Swiss companies and real estate funds in attendance and over 120 presenters.

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.

The year under review was marked by rising equity markets, generally low volatility and – compared with the exceptional previous year – declining client activity in most asset classes. Thanks to the broad-based business model in Trading and Capital Markets, the 2021 financial year can be described as very pleasing in a multi-year comparison, with certain significant revenue components being booked under commission or interest income rather than trading income.

The bank achieved record results in its equity capital markets (ECM) and equity brokerage businesses. In the ECM business, we acted as lead manager for 13 transactions of issuers listed on the SIX Swiss Exchange and in other functions and/or on other stock exchanges for another 11 transactions, resulting in the most active year ever in this business area. In the year under review, we played a major role in the initial public offerings (IPOs) of five issuers.

On the debt capital markets, Zürcher Kantonalbank managed the issue of 77 bonds worth CHF 6,629 million. This makes us the clear market leader in the CHF domestic segment yet again. Additionally, 32 transactions were carried out for the Central Mortgage Bond Institution of the Swiss Cantonal Banks, worth CHF 8,583 million.

The structured products business finished the year very successfully due to the expansion of business and the positive investor environment. Trading in interest rate instruments, foreign exchange and precious metals also achieved good results in a multi-year comparison, despite significantly lower turnover at times and tighter bid/ask spreads than in the previous year.

In the securities lending, repo and money market business, revenues increased significantly compared with the previous year, which had been challenging in this regard.

The result from trading activities (excluding commission and interest income) amounted to CHF 347 million in the year under review, 24 percent below the previous year's record results but well above the long-term average of recent years.

The market risks in the trading book (value-at-risk) amounted to CHF 8 million on average and were therefore at a substantially lower level than in the previous year, which reflects a lower level of volatility in the financial markets during the year under review.

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, 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 2021, assets under management increased by a substantial CHF 26 billion (13.5 %) to CHF 218 billion, despite strong price fluctuations on the capital markets. The growth drivers were the fund business and institutional asset management mandates.

Sustainability commitment strengthened

Our Asset Management team launched a mandatory climate mitigation pathway for all active investment solutions in 2020 to mark the fifth anniversary of the Paris Agreement. The defined reduction target was exceeded in 2021. Viewed across all active investment solutions, Swisscanto Invest succeeded in significantly reducing CO_2e intensities. By joining the Net Zero Asset Manager Initiative, Swisscanto Invest has reaffirmed its commitment to combating climate change. Its pioneering work in the area of sustainability was also acknowledged by the market in 2021. Not only did Swisscanto record strong growth in sustainable products, it was also recognised by Swiss Sustainable Finance as the best sustainable asset manager. At product level, the "Swisscanto Equity Fund Sustainable Global Climate" was presented with the Sustainable Fund Award 2021 from the United Nations Conference on Trade and Development. This award recognises funds that embody the highest standards of sustainable investing. The award is a gratifying acknowledgement of our long-term commitment in this area.

Successful private market offerings

In recent years, growing investor interest in investment alternatives amid the low interest rate environment prompted us to launch our private markets initiative, which has met with lively demand. Since its launch at the end of 2016, the "Swisscanto AST Hypotheken Schweiz" mortgage fund has recorded pleasing growth to around CHF 1.3 billion and is now one of the flagship investment vehicles on the Swiss mortgage market. This success is based on the needs-oriented design of the product. In the area of private equity, we offer qualified investors access to unlisted growth companies in their expansion phase (late stage/growth) with a focus on Switzerland through the "Swisscanto (CH) Private Equity Switzerland Growth I" vehicle. A new private equity investment strategy focused on decarbonising the economy is planned for 2022. Finally, our commercial real estate fund, "Swisscanto (CH) Real Estate Fund Swiss Commercial", successfully carried out a CHF 49.7 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.

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.

Digitalisation and innovation

Launches

zkb.ch internet site relaunched

A digital platform is nothing without good content. That's why, as part of a website relaunch project, Zürcher Kantonalbank has placed a special focus on content in addition to performing an all-around makeover. Visitors have been able to go to the new website to find out about the bank's products and services and order them online since May 2021. Two things that stand out are the site's new design and clear navigation with direct access. With this relaunch, the bank has laid the foundation for developing its website into a full-fledged sales channel and delivered on its brand promise of being the bank that's "close to you". At the same time, it offers its clients a holistic experience on its online channels and comprehensively meets their needs.

Online advisory services

To live up to our value proposition as the bank that's "close to you" in the digital context as well, we launched screen sharing and video advisory services in all sales units as part of the Online Advisory Services project. Because sometimes a telephone consultation is easier to schedule than a meeting in the branch. With online advisory services, clients have a telephone consultation plus valuable visualisations and explanations displayed right on their device.

Digital elements in retirement planning

Zürcher Kantonalbank's retirement calculator, available for free on zkb.ch, is very popular. Clients can use it to find out quickly and efficiently what amounts they can expect in old age – as things stand today. Clients can also see how additional measures will affect their personal results. The calculator is now also used as a gateway for advisory inquiries. There is a three-tier model for the actual advisory service. In the free "ZKB Retirement Compact" model (since 2019), the client advisor gives clients an initial overview of their situation and some possible action areas. For more in-depth analyses, Zürcher Kantonalbank has been offering the "Classic" and "Premium" models since late 2021. A financial planning expert is available for the last two offerings. The focus is on broader issues such as taking a pension or lump-sum amount, pension fund purchases as well as tax-related aspects. Even after the initial consultation, clients continue to receive support. Their main contact person is still their client advisor.

Both personal and digital services are used to support and demonstrate the process and progress between the consultation and actual retirement. This also includes regular discussions and reviews, reminder services and an eBanking dashboard in addition to support when implementing the defined measures.

Renovation calculator

It is important that our clients occasionally consider whether their housing situation meets their current and future needs. In this context, minor or major renovation work makes sense to ensure that the building's value is preserved and it can be resold. To estimate the right time and the approximate costs for such renovations, our client advisors now use a renovation calculator.

The renovation calculator is a tool for discussing individual renovation projects with clients based on a calculated baseline model. The model-based initial calculation helps us raise awareness of the topic of renovation and provide transparency regarding anticipated investment dates and amounts. As the relationship progresses, we work together with the client to individualise the plans, update completed and planned renovations and replace cost estimates with craftsmen's quotations to help the client coordinate the financing strategy.

Participation in open banking platforms

Zürcher Kantonalbank, St.Galler Kantonalbank, SIX, Alphasys and Assetmax founded the OpenWealth Association in February 2021. This provides members with a regulated framework for future collaboration when defining specifications for interfaces (API) in wealth management. Various financial service providers have joined this association since its creation. Likewise, Zürcher Kantonalbank has joined SIX's open banking platform bLink.

In this context, an open, standardised interface for external asset managers and custody clients was introduced in the area of open wealth management in the year under review. This OpenWealth API enables external asset managers and custody clients of Zürcher Kantonalbank to access data in order to map client portfolios in their third-party systems. The services we offer our external asset managers and custody clients will be modernised from the ground up with the introduction of the OpenWealth API.

Going forward, both the connection to the bLink platform and the interface standardisation association will help the bank position itself correctly in the area of open banking and achieve our goals in the investment business.

Employees

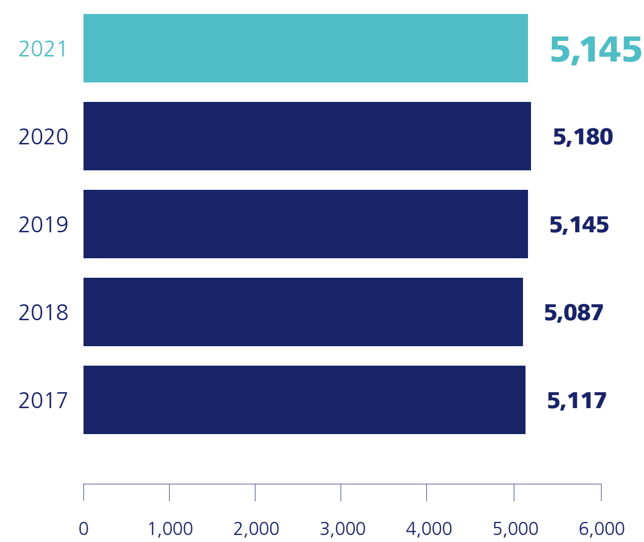
We offer our employees a productive, appreciative environment. As one of the canton's largest training centres, we also make it possible for numerous young adults to enter a wide range of professions in the worlds of banking and IT.

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 fell in 2021 by 0.8 percent, from 5,180 to 5,145 full-time positions (FTE). Twelve full-time positions were filled by temporary employees. 309 employees were on a banking or IT apprenticeship or high-school internship.

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



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. We continue to conduct most first-round meetings virtually because of the positive feedback and good experience we have had with this approach. 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.

Employee satisfaction survey reveals highest commitment level to date

Zürcher Kantonalbank once again scored a high rating on its commitment index. In its two-yearly employee survey, commitment reached a peak in 2021, the highest level to date. All business units achieved an increase in their rating. The index comprises the categories of overall satisfaction, identification, motivation, willingness to recommend the bank, intention to reapply to the bank and competitiveness.

The survey also showed that employees have coped well with the work situation during the pandemic. Most expressed a very positive experience in terms of cooperation with team colleagues and leadership by supervisors. Many employees stated that they missed the personal contact with their colleagues.

At 82 percent, participation was stable at a high level.

Performance & Development

We continue to invest successfully in the flexibility and learning ability of our managers and employees, and in succession planning, as part of our Performance & Development programme.

We launched the Give.Take.Learn initiative in 2020 to show how to implement and embed "Learning and Development". This initiative, which we conducted as part of the "Skillaware – Fit for the Banking World" campaign, resulted in the bank winning the Skilly Award 2020 in the year under review in the category "Outstanding HR or Team Initiative in Skills Development and Lifelong Learning". 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 10.3 million in basic training and professional education. 821 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.

Talent management – the Talent Community is alive

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

For the past three years, Zürcher Kantonalbank has offered Talent Community – a comprehensive networking and development experience for all employees defined as talent. It is structured to match our talent management objectives and include personal development, networking, visibility and inspiration. The aim is 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 levels and exemplary conduct are offered special opportunities. After two intensive years, 27 talented young people from Support Programme 1 presented their project work on various internal bank topics. This also included evaluating the use of the direct, first-name basis of communication between employees, and then introducing it within the bank. Since July 2021, all employees of the bank have officially been on a first-name basis with each other. Unless otherwise agreed, we continue to use the formal form of address with our clients, with our Board of Directors and in recruitment interviews. As a result of the coronavirus-related interruption in 2020, 86 high-performing employees with great potential were given the opportunity in the year under review to proceed with their personal and professional development in tailored support programmes.

Young professionals

With around 390 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 2021, 96 apprentices started their training with us. Since 2019, the syllabus has involved shorter, alternating assignments during the apprenticeship period, combining these with the skills that the apprentices are to acquire. This provides added value for both the apprentices and the bank. The bank welcomes the one-year postponement of the "Commercial Employees 2022" reform (Kaufleute 2022). The commercial apprenticeship must not lose its appeal compared to a high school education. Sound theoretical training combined with plenty of practical relevance must be ensured. The "Jugendlinie" (hotline for young people) we launched in the year under review, for example, involves motivated apprentices answering calls from clients under the age of 22 and advising them on their concerns and needs. In 2021, the bank also held its traditional apprentice camp again – twice in fact, once for the current new recruits and once for the apprentices a year ahead of them. The pandemic forced the bank to hold these events as day trips in the Canton of Zurich. All 93 apprentices (82 bank apprentices, 11 IT apprentices) graduated. Forty-eight 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, more than 80 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 2021, there were 36 interns and about 80 trainees working at the bank.

Working during the Covid-19 pandemic

Compulsory teleworking in the first few months of the year brought podcasts back into focus, and topics such as managing teams at a distance and strengthening resilience and mental health were in demand. In the year under review, employees' work situations continued to be shaped by the pandemic situation and the requirements set out by the Federal Office of Public Health.

Modern working environment

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.

The experience gained when employees worked from home will be incorporated into a future flexible working arrangement.

Employer commitment

Equal opportunities – diversity & inclusion

Zürcher Kantonalbank aims to achieve equal opportunity for all employees and is committed to a shared understanding of diversity and inclusion (D & I). 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.

We have the following D & I networks: Women's Network, Queers & Peers, and Co-Lead (job sharing in management).

Externally, we are a member of Advance, and Florence Schnydrig, Head of Private Banking and member of the Executive Board, sits on its Board.

We signed the Advance Diversity Charter in the reporting year to express our commitment to increasing the proportion of women in management. Remo Schmidli, member of the Executive Board and Head of IT, Operations & Real Estate, is responsible for implementing it in the bank. Its focus is on improving the gender mix in management functions. To achieve this, an ambition and an action plan have been defined for each business unit. Similarly, the Driver Seat initiative is being implemented as a measure to increase the proportion of women in management in all business units.

To address the IT skills shortage, a higher proportion of female IT professionals is more important than ever. In 2021, the topic of "Women in IT" was declared a focus area. Among other measures, increasing the visibility of female IT professionals is an important means of countering prevailing gender stereotypes.

The bank implemented several measures in 2021. For example, we again offered the module "Let's Hear It For Girls in IT!" (Mädchen in der Informatik los!) on National Future Day in November 2021. It featured a female IT specialist from Zürcher Kantonalbank talking about her career and everyday working life to give young women a role model as they try to decide on a career.

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. Leadership and part-time work are becoming more important for both men and women. There is a greater demand for co-lead roles. This means that two managers share one management function. In total, 28.9 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. Around 140 fathers took the complete two-week paternity leave all at once.

Political engagement

Zürcher Kantonalbank supports employees if they choose to hold a political office. More than 120 employees are involved in politics, thus making a valuable contribution 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. In 2021 this panel discussion took place after the coronavirus-related interruption. This year's topic, "New in the National Council", was discussed with Corina Gredig, Therese Schläpfer, Andri Silberschmidt and Céline Widmer, who are Zurich-based members of the National Council.

Integration

We were able to award an MIA Project (Mothers in Training) work integration job to two individuals who needed a programme to enter the job market. We accompany these individuals in a tailored manner and thus help them gain a foothold in the bank or another company. We also offered an apprenticeship for basic vocational training to a young person with a disability.

Health

Our systematic approach to health management makes an important contribution to the work-life balance and well-being of our employees. An important aspect of our commitment as an employer is preventive healthcare and health promotion. Our bank has been designated as a "Friendly Work Space" since 2014. "Friendly Work Space" is a label that recognises companies for their exemplary occupational health management programmes. 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 health-promoting Swiss-wide "Bike to Work" campaign. The trainHARD health room in the Hard office building opened again at the beginning of September but with a reduced offer due to the pandemic. Nevertheless, 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.

The external counselling service for stress situations was relaunched. We continue to place great emphasis on providing free and anonymous services to our employees. We are constantly optimising our measures with the aim of helping our employees to stay fit and healthy.

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 96 onwards. In the year under review, the Pension Fund of Zürcher Kantonalbank covered 5,366 active insured persons and 2,224 retirees. As at 31 December 2021, it managed assets of approximately CHF 5.4 billion and had a coverage ratio of 118.4 percent (unaudited). For further information on occupational pensions and employee benefits, please see Note 13.

GRI key figures[1] Employees

		2021	2020	2019	2018	2017
Employment (parent company)						
Number of employees (full-time equivalent)	Number	**4,944**	4,983	4,918	4,859	4,866
Turnover rate	%	**5.9**	4.5	5.8	6.3	5.7
Change in the number of jobs	%	**–0,8**	2.3	1.1	–0.2	–0.9
Health and occupational safety (parent company)						
Lost days per employee as a result of sickness or occupational and non-occupational accidents	Days/ employee	**6.1**	5.6	6.8	6.9	6.8
Basic training and further education (parent company)						
Internal basic training and further education per employee	Hours/ employee	**15.5**	11.5	18.4	14.3	22.8
Percentage of employees on external courses	%	**16.6**	14.7	12.8	12.9	13.1
Equal opportunities (parent company)						
Percentage of women in total workforce	%	**37.2**	37.4	37.3	37.2	37.3
Percentage of women in middle management	%	**37.6**	36.6	36.5	35.1	34.3
Percentage of women in senior management	%	**15.7**	13.9	13.3	13.1	11.9

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

Annual report of the employee representation committee for 2021

The employee representation committee (ERC) represents the interests and rights of employees vis-à-vis the employer Zürcher Kantonalbank. It promotes open dialogue and the exchange of different opinions, viewpoints and interests.

The ERC consists of five members and constitutes itself. The members of the ERC are elected in a general and free election by relative majority. In principle, all employees of the parent company are entitled to vote and to be elected.

For the 2018–2022 legislative period, it decided to redefine annually the leadership of the elected employee representatives. Zürcher Kantonalbank's ERC is supported by an employee committee. The regular exchange which the ERC has with the latter enables the ERC to be close to the employees and to act at an early stage when concerns arise.

In the year under review, the ERC focused on the key issues of "age-appropriate personnel development" and working during the pandemic. It conducted workshops and surveys on these focus areas with employees and the employee committee to understand needs and desires. The results were then addressed in discussions with the Executive Board and the Head of Human Resources and have found their way into the bank's concepts and decision-making foundations. In addition, the ERC was able to reach an agreement with the Executive Board in a constructive dialogue on a salary increase of 0.5 percent. Furthermore, the Reka money quota for employees was increased.

The ERC also advocated continuing professional education and lifelong learning. Its commitment and negotiations contribute to maintaining the employability of the bank's staff. These include the extension of an internal pilot project for the attendance of online courses from universities as well as participation in Skillaware, a campaign to promote sustainable skills development in the banking industry. This campaign was set up by the Arbeitgeber Banken (Banks as Employers) association, the Schweizerischer Bankpersonalverband (Swiss Association of Bank Employees), and the Kaufmännischer Verband (Swiss Association of Commercial Employees).

To strengthen its relationship with employees, the ERC also initiated a campaign called "Hier steckt ANV drin" (The ERC is involved here) campaign, which informs employees about the activities and achievements of the ERC.

Facts & Figures The year 2021

Around 20 meetings with the Board of Directors, Executive Board and Head of Human Resources were held

About 400 new employees were welcomed

25 ERC meetings were conducted

More than 20 meetings with social partners and other banks

The ERC's tasks include:

- fulfilling the tasks and competences resulting from co-determination rights
- monitoring compliance with co-determination rights and initiating any necessary adjustments
- representing the collective interests of employees
- regularly communicating with the employee committee, its members and employees
- formulating employee concerns and proposals for the attention of the employer
- supporting individual requests from employees

Management Report

Business development

Material events

13 April 2021

Zürcher Kantonalbank makes gold fully traceable using DNA technology. A PCR test at the refinery can be used to prove the origin of gold along the entire supply chain.

25 May 2021

Martin Scholl will step down after 15 years as Chief Executive Officer of Zürcher Kantonalbank on 31 August 2022.

5 July 2021

Dr János Blum, Deputy Chairman of the Board of Directors of Zürcher Kantonalbank, decides to resign as at 31 January 2022.

24 September 2021

The issue of Zürcher Kantonalbank's fourth green bond again meets with encouraging demand. The volume of the ten-year bond was set at CHF 150 million. The proceeds from the issue will be used to refinance existing and future ZKB environmental loans as well as for the energy-efficient refurbishment of owner-occupied office buildings of Zürcher Kantonalbank. 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.

28 October 2021

The Board of Directors appoints Urs Baumann as the new Chief Executive Officer of Zürcher Kantonalbank. He will succeed Martin Scholl with effect from 1 September 2022. In order to ensure a smooth transition in the operational management of the bank, Urs Baumann will join the bank as a member of the Executive Board on 1 June 2022.

16 November 2021

The United States terminates the deferred prosecution agreement (DPA) with Zürcher Kantonalbank after it fully complied with its obligations under the DPA for the past three years.

18 November 2021

Zürcher Kantonalbank launches an offer for innovative start-ups in the scaling phase. It now offers an equity capital solution for all development phases – from start-up and development through to scaling, and growth.

23 November 2021

The pillar 3a app frankly exceeds the CHF 1 billion mark in assets under management. The decisive factors for this success are Swisscanto's excellent investment products, the focus on sustainability in active products and the attractive pricing model.

2021 – record year under the leadership of Martin Scholl

With an excellent group profit of CHF 942 million (previous year: CHF 865 million), Zürcher Kantonalbank ended 2021 with a record result.

The gross result from interest operations increased by CHF 30 million year-on-year to CHF 1,287 million thanks to encouraging growth in the mortgage business and opportunities in the money market.

Changes in valuation adjustments for default risk and losses amounted to CHF 39 million, in line with the previous year. This was achieved despite the new additional charge of CHF 30 million for the allowance for expected losses, which was partly offset by lower individual valuation adjustments. The net result from interest operations totalled CHF 1,248 million (up CHF 30 million).

In commission business and services, the bank posted an excellent result with income of CHF 926 million. This is 14.8 percent or CHF 119 million above the previous year's figure of CHF 806 million, reflecting the performance of assets under management thanks to a positive market trend and an increase in net new assets.

At CHF 347 million, the trading result was also good in a multi-year comparison. However, it was unable to match the excellent result seen the previous year, which was impacted by special factors related to coronavirus.

Operating expenses were CHF 1,517 million, i.e. 4 percent or CHF 63 million lower than the prior year. In particular, the decline in general and administrative expenses is due to strong cost control, while the lower personnel expenses are attributable to a one-time effect in the previous year.

Overall, this resulted in an operating result of CHF 951 million, exceeding the previous year by 18.7 percent or CHF 150 million.

Analysis of earnings

Positive performance in interest operations

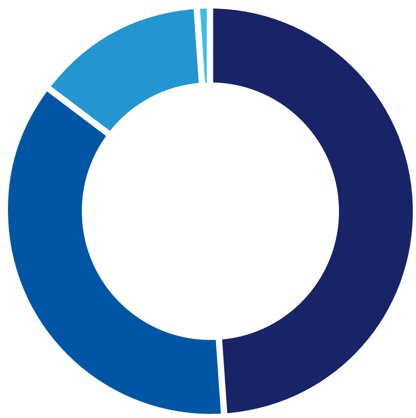
The 4.8 percent growth in mortgage lending and various market opportunities in the money market counteracted the increasing pressure on margins. The bank was able to generate gross interest income of CHF 1,287 million. This represents an increase of 2.4 percent or CHF 30 million over the previous year.

Our forward-looking credit policy has also enabled us to recognise lower individual valuation adjustments this year. For this reason, changes in valuation adjustments for default risk and losses from interest operations were at the same level as last year, despite the new additional charge of CHF 30 million from the valuation adjustments for expected losses. For further information, please refer to the section entitled "Implementation of valuation adjustments and provisions for expected losses" on page 72. This resulted in encouraging net interest income of CHF 1,248 million, slightly above the previous year's level of CHF 1,218 million.

Excellent result in commission business and services

The total result from commission business and services increased to CHF 926 million in 2021. This represents an increase of 14.8 percent or CHF 119 million over the previous year.

Breakdown of operating result in CHF million/percent



Commission income from securities trading and investment activities had the greatest impact. At CHF 1,025 million, this is the most significant income component of commission business and services, which is why the increase of CHF 163 million or 18.9 percent had a significant impact on the overall result. In particular, income from the fund business, wealth management and advisory fees performed very positively.

Commission income from lending activities was CHF 69 million, also well above last year's CHF 57 million. This was mainly due to higher income from the letter of credit business. Income from other services remained at the previous year's level of CHF 131 million. Commission expenses amounted to CHF 299 million in total, 23.6 percent higher than the previous year. The marked increase in the fund business was also accompanied by higher brokerage and agency commissions.

A good trading result in a multi-year comparison

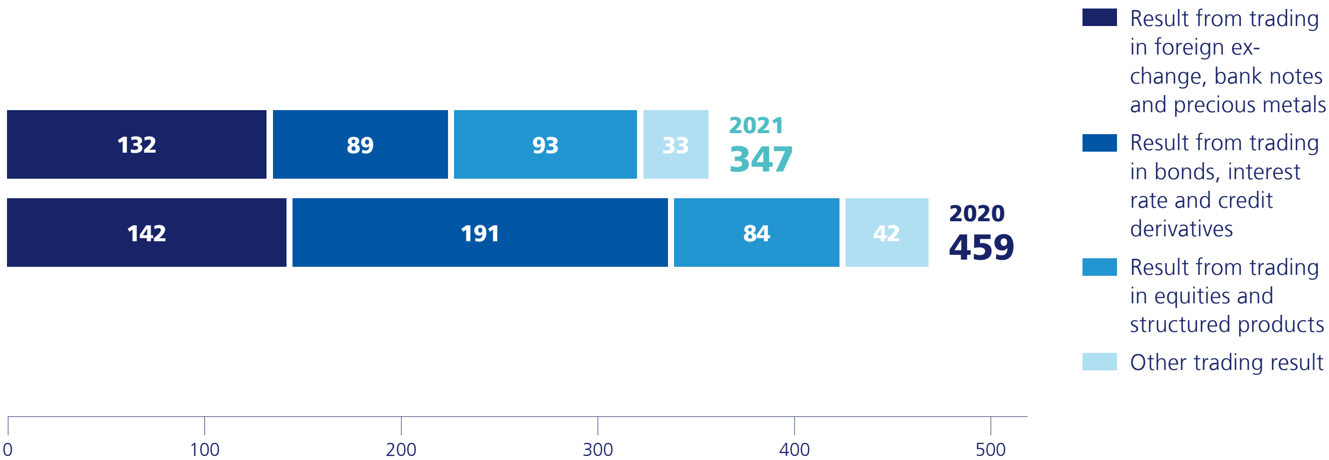
Even though the pandemic and how it unfolded brought a degree of uncertainty, the markets have been very confident over the past year. In the fourth quarter, the Swiss Market Index (SMI) reached all-time highs. This positive performance was carried over into the result from trading in equities and structured products, where income rose from CHF 84 million the previous year to CHF 93 million.

Significant losses were recorded in the result from trading in bonds, interest rate derivatives and credit derivatives. At CHF 89 million, this was 53.5 percent lower than in the previous year, which had been exceptionally good due to increased volatility on the markets, partly because of the pandemic.

The result from trading in foreign exchange, bank notes and precious metals was CHF 132 million and made the largest contribution to the result from trading activities in 2021, accounting for 38.1 percent.

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

Breakdown of trading result
in CHF million



Other result from ordinary activities down slightly

At CHF 24 million, the other result from ordinary activities was around CHF 6 million below the previous year's figure, which was influenced by one-off effects in connection with the disposal of two items held under financial assets.

Effective cost control pays off

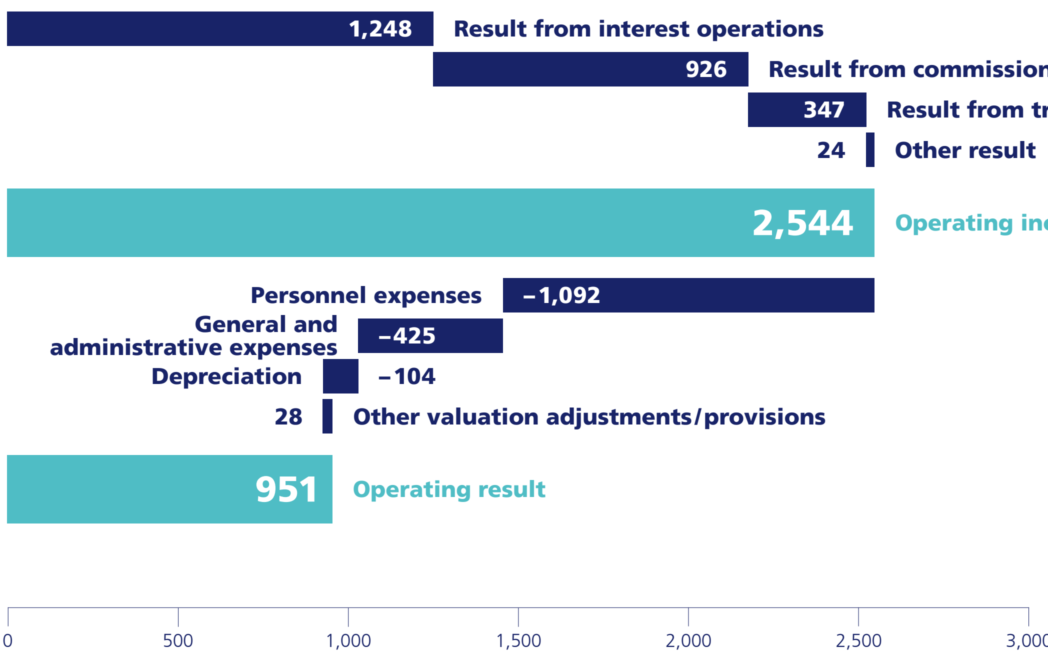
Operating expenses fell by 4.0 percent or CHF 63 million over the previous year to CHF 1,517 million. Personnel expenses were CHF 1,092 million. The decrease of 3.0 percent or CHF 33 million is due in particular to the expense for the anniversary payments of CHF 46 million paid out the previous year. On the other hand, higher variable components were recorded due to the good result. There were also higher costs for family and child allowances as a result of the cost compensation financing in the Canton of Zurich.

At CHF 425 million, general and administrative expenses were 6.6 percent below the previous year's figure of CHF 455 million. In addition to the elimination of non-recurring effects and the consistent practice of cost control had the desired effect. Conversely, the cost of the state guarantee rose to CHF 27 million (previous year: CHF 23 million).

IT costs, which were higher in the previous year due to special projects, and the marketing costs associated with the launch of frankly were significantly reduced in 2021 (down 8.7 percent). The decline in premises costs is also attributable, among other things, to one-off effects the previous year in connection with centralising workplaces in Zurich West.

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

Breakdown of operating result in CHF million



Slightly lower depreciation and amortisation

Expenses in connection with valuation adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets in the year under review amounted to CHF 104 million, compared to CHF 117 million the previous year. Once again, the largest share of this at CHF 46 million (previous year: CHF 54 million) was attributable to depreciation on bank premises and other real estate, followed by ordinary goodwill amortisation at CHF 33 million, which was on a par with the previous year. Writedowns on participations were also lower than a year earlier.

Net release of provisions

Valuation adjustments are set aside and provisions recognised to the extent necessary to cover default risks and any other identifiable risks.

For 2021, changes to provisions and other valuation adjustments and losses show a net release of CHF 28 million (previous year: net allocation of CHF 14 million).

This is mainly due to the release of provisions no longer required in connection with the conclusion of the deferred prosecution agreement (DPA) with the United States and the release of further provisions for other business risks. The new provisions to be recognised for expected losses amount to CHF 12 million and are also included in the net figure of CHF 28 million. For the changes in valuation adjustments for default risks and losses from interest operations, please see the section on interest operations.

Analysis of the asset and financial position

Moderate balance sheet growth

Total assets increased by 2.0 percent to CHF 192.1 billion in 2021. On the assets side, this was due in particular to growth in the mortgage business of 4.8 percent or CHF 4.2 billion.

Cash and cash equivalents decreased by CHF 11.3 billion at the reporting date, largely offset by a higher level of receivables from securities financing transactions.

The regulatory liquidity requirements, which for Zürcher Kantonalbank as a systemically important bank underwent an increase as at 1 January 2021, were comfortably met. At CHF 51.7 billion, the quarterly average of total high-quality liquid assets (HQLA) was in line with the previous year's figure of CHF 53.0 billion. The regulatory liquidity ratio (LCR) was 160 percent at the end of the year, unchanged from the comparable period.

The liabilities side continues to be dominated by liabilities from customer deposits. At CHF 96.8 billion or 50 percent of total assets, they represent the largest single item and a major source of funding. At the end of the year, customer deposit liabilities showed an increase of 4.5 percent or CHF 4.2 billion year-on-year.

Implementation of valuation adjustments and provisions for expected losses

As at 1 January 2021, the introduction of valuation adjustments and provisions for expected losses took place in accordance with the transitional provisions of the Accounting Ordinance RelV-FINMA and FINMA Circular 2020/01.

The following chart shows the opening balances, the changes during the year recognised in the income statement, and the balance of valuation allowances and provisions for expected losses at year-end.

in CHF million	Valuation adjustments[2]	Provisions[3]	Total
Expected losses as at 1.1.2021	**408**	**53**	**460**[1]
Changes 1.1.–31.12.2021	30	12	**42**
Expected losses as at 31.12.2021	**437**	**65**	**502**

1 Initial recognition was through retained earnings without affecting profit or loss.
2 On-balance sheet items
3 Off-balance sheet items

Development of the interbank and securities financing business

At the end of 2021, amounts due from banks came to CHF 3.2 billion while amounts due to banks were CHF 34.9 billion, in line with the level seen the previous year.

On the assets side, the securities financing business increased by 55.2 percent to CHF 26.3 billion at the year-end, while on the liabilities side it declined by 8.7 percent to CHF 4.4 billion. This is the carrying amount of receivables/liabilities from cash deposits in connection with the securities lending/borrowing and repo business. Please see Note 1 in the Financial Report for further information.

Pleasing growth in loans

Mortgage receivables amounted to CHF 91.8 billion at the end of 2021 (previous year: CHF 87.7 billion). This constitutes an increase of 4.8 percent or CHF 4.2 billion. Gross growth excluding the valuation adjustment for expected losses introduced as at 1 January 2021 is slightly higher at 5.2 percent. The valuation allowances recognised for expected losses are offset directly against the portfolio of mortgage receivables. At year-end, this was equivalent to an amount of CHF 376 million.

Amounts due from customers amounted to CHF 9.9 billion and also recorded net growth of 7.5 percent or CHF 694 million. Excluding the valuation adjustments for expected losses, the increase was CHF 745 million.

More movement on the markets

In the trading business, Zürcher Kantonalbank continues to rely on the principle of customer focus. On the assets side, the trading portfolio was up 13.9 percent to CHF 12.4 billion, while the positive replacement values of derivative financial instruments fell year-on-year (by 20.2 percent to CHF 1.3 billion).

The negative replacement values of derivative financial instruments (CHF 1.1 billion) and trading portfolio liabilities (CHF 1.9 billion) increased significantly year-on-year, the latter by as much as 47.3 percent.

Liabilities from other financial instruments at fair value likewise increased by 26.8 percent to CHF 4.4 billion.

For further information on trading activities, please see Notes 3 and 4 to the Financial Report. Information on market risk management is provided in the Risk Report in section 1.6.

Slight decline in financial assets

The portfolio of financial investments amounted to CHF 4.8 billion, around 5.5 percent lower than the previous year. Debt instruments account for the largest share of financial assets at CHF 4.5 billion or 94.1 percent. These are generally held to maturity. Fixed income securities that qualify as high-quality liquid assets (HQLA) under the Liquidity Ordinance may be counted towards liquidity. At the end of 2021, the portfolio of securities eligible to be regarded as HQLA amounted to CHF 4.4 billion.

The remaining portfolio is mainly divided into equity securities (CHF 107 million) and precious metals (CHF 175 million).

Participations, tangible fixed assets and intangible assets

At CHF 155 million, non-consolidated participations were up by CHF 20 million or 15.0 percent compared with the previous year.

The main reason for the rise was the capital increase by the Central Mortgage Bond Institution of the Swiss Cantonal Banks, in which Zürcher Kantonalbank holds a 17.8 percent stake. The capital increase resulted in an investment of CHF 22 million. For further information, please see Notes 6 and 7 to the Financial Report.

The tangible fixed assets of CHF 597 million (previous year: CHF 629 million) mainly consist of bank premises and other properties (CHF 574 million). Investments totalling CHF 29 million were made in 2021. Disposals amounted to CHF 1 million. Ordinary depreciation was CHF 59 million. Further details on tangible fixed assets can be found in Note 8.

Intangible assets amount to CHF 50 million (previous year: CHF 86 million). The position continues to be dominated by the CHF 42 million of goodwill for the Swisscanto Group, which is being steadily amortised.

Growth in customer deposits

Amounts due in respect of customer deposits increased from CHF 92.6 billion to CHF 96.8 billion (up 4.5 percent). These included savings accounts as well as other customer accounts at sight and on time.

Decrease in bonds and increase in central mortgage institution loans

At year-end, bonds outstanding were CHF 22.8 billion. This is equal to a fall of CHF 2.6 billion or 10.3 percent, which is mainly attributable to a decrease in the short-term certificates of deposit included therein.

Central mortgage institution loans recorded a net increase of 5.2 percent or CHF 564 million, despite maturities of CHF 794 million. At year-end, central mortgage institution loans in the amount of CHF 11.3 billion were recognised. Along with client funds, these represent an important funding instrument. For further information, please see Note 15 to the Financial Report.

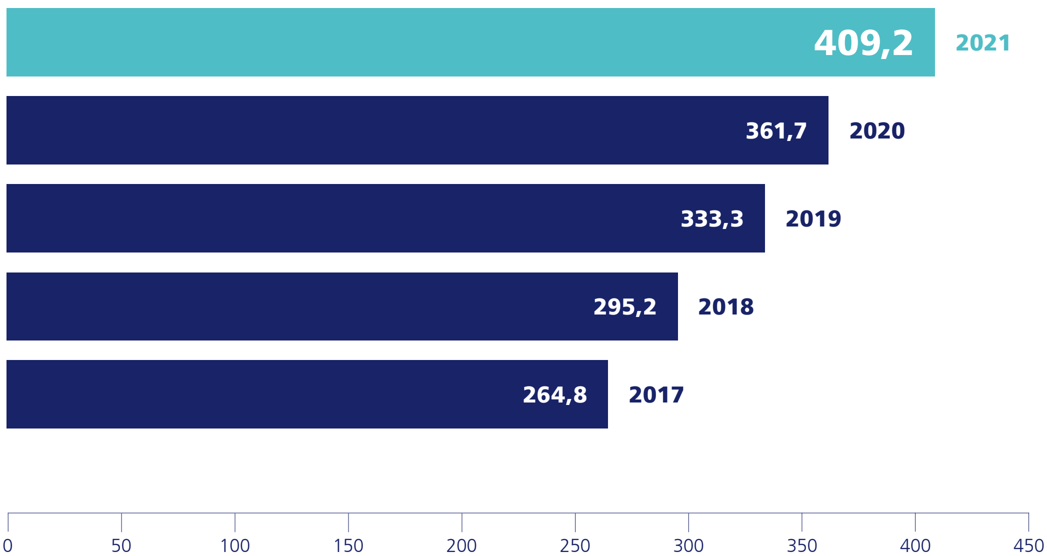
Shareholders' equity stable at a high level

Thanks to the previous year's retained earnings and the excellent Group result, shareholders' equity remained stable despite the first-time recognition in equity of value adjustments and provisions for expected losses amounting to CHF 460 million. Shareholders' equity reported in the balance sheet before appropriation of profit amounts to CHF 12.7 billion, an increase of CHF 24 million or 0.2 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 for general banking risks (CHF 154 million) and consolidated profit (CHF 942 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 47.5 billion to CHF 409.2 billion in 2021. Of this, CHF 21.2 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 25.9 billion. For further information, please see Notes 31a and 31b to the Financial Report.

Total client assets in CHF billion



Ongoing challenges

The banking industry will continue to operate in a challenging environment in 2022 and we expect competition to intensify further. Nevertheless, we anticipate a pleasing result and will continue to rely on our universal banking strategy, our diversified business model and, in particular, our high level of client loyalty. When conducting our business activities, we aim for sustainable development. Please see the Outlook on page 22 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 governance. 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 via a standing commission. 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 18 June 2021 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 2021.

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 (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 voluntarily 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 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.

The following table lists the members of the Board of Directors for the current legislative period, which on an exceptional basis will last four and a half years instead of the usual four years, i.e. from July 2019 to December 2023 (due to the revision of the regulations on the preparation of elections for members of the Board of Directors and the Committee of the Board of 25 November 2013).

Members of the Board of Directors as at 31.12.2021 (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
Prof. Adrian Bruhin	Member of the Board of Directors	since 26.10.2020
Prof. 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
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 Chairperson, 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 2021, this Cantonal Parliamentary Committee comprised the following members:

AWU members as at 31.12.2021

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.

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 & 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 this unit.

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. This focus report is integrated into the German annual report, which also accounts for the bank's fulfilment of the public service mandate.

Internal organisation

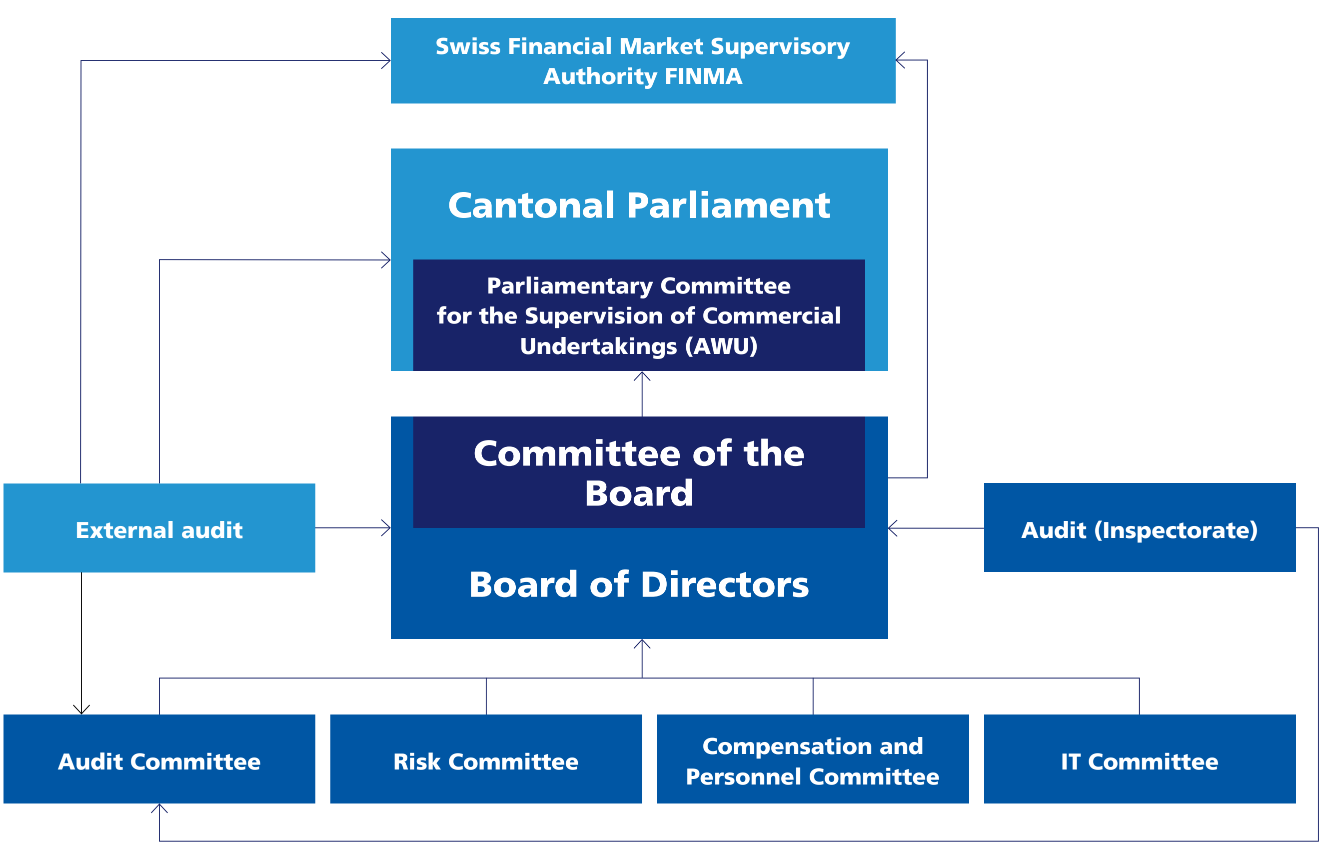
Areas of responsibility

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), the organisational regulations of the Zürcher Kantonalbank group of 23 June 2011 (sections 29 to 37 and section 39) and other regulations.

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. It prepares strategic and other topics for the attention of the Board of Directors. The Committee of the Board ensures that the public service mandate is addressed by the Board of Directors and therefore also bears responsibility for sustainability issues.

Corporate Governance at Board of Directors level



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. Elected substitute members for the Committee of the Board are Anita Sigg and Walter Schoch.

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 2021 had 53 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 oversight processes, and by 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 Committee 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 to the Board of Directors. Information on the work of the committees is presented at every meeting of the Board of Directors. Every year the committee chairpersons 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, all members of the Board of Directors receive the minutes of all meetings of Board of Directors Committees.

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 2021, this Committee comprised Mark Roth (Chairman), Amr Abdelaziz, Adrian Bruhin,

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 & 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, the equity strategy, group-wide risk and global limits, the 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
- approves contingency planning
- 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

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 2021, this Committee comprised Henrich Kisker (Chairman), János Blum, Adrian Bruhin, René Huber and Anita Sigg. The Chief Risk Officer, Roger Müller, the Head of Audit, Walter Seif, and the Head of Risk Control, Peter Meier, participate in every meeting of the Risk Committee.

Compensation and Personnel Committee

The Compensation and Personnel Committee (EPA) assists the Board of Directors in connection with personnel decisions, 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 2021, 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 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 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 2021, the IT Committee comprised Walter Schoch (Chairman), Bettina Furrer, Roger Liebi and Stefan Wirth. The Head of the IT, Operations & Real Estate business unit, Remo Schmidli, and the Head of IT Audit, Tobias Ryser, participate in 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 1998) 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 3.8 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 (2020: CHF 4.1 million). EY charged CHF 0.01 million (2020: CHF 0.01 million) for additional consulting services, and CHF 0.3 million for audit-related services (2020: CHF 0.01 million). Furthermore, EY charged CHF 3.4 million (2020: 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 eight 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 the above-mentioned 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 2021, the Executive Board comprised the following members:

Members of the Executive Board as at 31.12.2021

Martin Scholl	Chief Executive Officer Member of the Executive Board	since 01.06.2007 since 01.01.2002
Stephanino Isele	Deputy Chief Executive Officer Member of the Executive Board	since 01.05.2021 since 01.04.2014
Jürg Bühlmann	Member of the Executive Board	since 01.07.2012
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
Florence Schnydrig Moser	Member of the Executive Board	since 01.01.2021
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 93 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 the general management staff office. 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 2021 annual results were announced on 11 February 2022, and the Annual Report is set to be approved by the Cantonal Parliament on 30 May 2022. The bank's half-yearly results are expected to be published at the end of August 2022.

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 pursuant to the applicable regulations, as well as transactions involving special reputation risk. 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. Members of the Executive Board, the Head of Audit and representatives of the specialist units were regularly invited to attend these meetings.

The bank's Committee of the Board dealt intensively in the year under review with the process to find a successor for the Chief Executive Officer (CEO) as at 1 September 2022. In addition to the succession in the Executive Board, the Committee of the Board addressed succession planning for all of the bank's key management personnel. It was also actively involved in the efforts to draft a fundamental revision of the bank's organisational regulations and in the development of the new concept for the oversight of foreign activities. It kept abreast of regulatory changes in the year under review and monitored the development of important bank projects. The Committee of the Board also met several times to discuss and prepare strategic topics for the attention of the Board of Directors. It additionally prepared the strategy seminar of the Board of Directors and the Executive Board. It cooperated with the Board of Directors Committees in preparing the substantive resolutions and personnel decisions as well as the basic principles for the strategic adjustment requirement on behalf of the Board of Directors and ensured their swift implementation. 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. It also decided on sponsorship commitments and donations under the public service mandate.

The Committee of the Board represented the Board of Directors' proposals regarding an adjustment of the election procedure for the members of the Board of Directors and the Committee of the Board to the Cantonal Parliament's Committee for the Supervision of Commercial Undertakings (AWU) and to FINMA. 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 regular contact with FINMA and strengthened its collaboration with the Public Affairs specialist unit. 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. 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. In accordance with an agreed timetable, the members of the Committee of the Board visited market areas and specialist units.

Board of Directors

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. In addition, a two-day Board of Directors seminar took place, and members of the Board of Directors visited ten branches and five specialist units in pairs during the year under review.

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 focus in the year under review was on the impact of the Covid-19 pandemic, particularly on the lending business, and the effects of the SNB's negative interest rate policy on the mortgage business. The Board of Directors decided to pay a special Covid-related dividend of CHF 100 million because of the economic impact of the pandemic. Due to the bank's systemic importance, the Board of Directors also dealt in detail with contingency planning and the stabilisation plan.

An important event in the reporting year was the election of the new Chief Executive Officer (CEO) in October, effective 1 September 2022. The Board of Directors also elected a new Deputy CEO and three new branch managers. Furthermore, the Board of Directors approved a new concept for the oversight of foreign activities as well as the job profiles for the succession in the Committee of the Board and the Board of Directors following the retirement of János Blum as at 31 January 2022. Mark Roth was also selected as his successor by the Cantonal Parliament on 31 January 2022. The Board of Directors also resolved to amend the articles of association of the bank's pension fund, to increase the capital of the Central Mortgage Bond Institution and to amend the guideline related to the Board of Directors concerning rules on the personal trading of securities, the handling of insider information, conflicts of interest, etc. It additionally approved the establishment of a subsidiary in the private equity sector with the purpose of contributing to decarbonisation and the amendments to the specific regulations on the bank's investment and derivatives business. It also obtained information about cloud computing and made fundamental decisions in this regard. It additionally took note of start-up and venture financing activities, capital markets transactions, innovation efforts, the 2021 employee satisfaction survey, the launch of SARON, the bank's diversity and inclusion efforts, the results of the PACTA Climate Impact Test, and the status of the FCC 3.0 programme roll-out. The Board of Directors also held a two-day seminar to discuss strategic issues, specifically on the topic of growth.

The proposal to the Cantonal Parliament adopted by the Board of Directors in 2020 to amend the regulations on the preparation of elections for members of the Board of Directors and the Committee of the Board of 25 November 2013 was approved by the Cantonal Parliament on 1 November 2021 with only a few revisions.

Audit Committee

The Audit Committee held a total of ten meetings in 2021. The CFO was always in attendance when agenda items relating to financial planning, controlling and reporting were discussed. When the external auditors' reports were discussed, the lead auditors also attended. The CEO, the CRO and the Head of Legal & Compliance periodically participated in the meetings. 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 62 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 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 risk-oriented overall coverage of the supervisory audit universe in a multi-year cycle by internal and external auditors.

Other important activities and activities 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 & 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 data value and climate risks.

The Chairperson 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.

Risk Committee

The Risk Committee held nine regular meetings in the year under review. 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 dealt on several occasions with the risks of the real estate market, as well as with credit risks resulting from the Covid-19 crisis in general. It also addressed the financial management in the Risk unit, the amendment of the specific regulations for investment business, and trading risks and their oversight. Its discussion about the operational risk profile also involved obtaining information about new internal developments related to ICS and about current regulatory developments. It dealt with the proposal concerning country categories, but also addressed the conceptual reorganisation of the oversight of foreign business and the replacement of country categories. In addition, it received 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 and three extraordinary meetings in the year under review. Depending on the topic, the Chief Executive Officer (CEO), the Head of the Finance business unit (CFO), the 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 (including equal pay), 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 2021 – 2023 long-term deferred component.

In the year under review, the Compensation and Personnel Committee completed the preparatory work (primarily in a multi-stage recruiting process) for the attention of the Board of Directors in order to replace the CEO as at 1 September 2022. Together with the members of the Committee of the Board, it submitted a proposal to the Board of Directors for a new appointment. In 2021 the committee also held preliminary discussions on the job profiles to be approved by the Board of Directors for the election of a successor on both the Committee of the Board and the Board of Directors following the retirement of János Blum (as at 31 January 2022). In addition, the Compensation and Personnel Committee dealt with applications for the appointment of a new Deputy Chief Executive Officer and three new branch managers. In the year under review, it addressed the repositioning of the bank's diversity and inclusion initiative and again discussed measures to increase the proportion of women in management positions. It additionally handled the proposal to revise the articles of association of the Pension Fund of Zürcher Kantonalbank.

IT Committee

The IT Committee held five regular meetings, one extraordinary discussion and one training event in the year under review. 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), "Financing Business" and "Cloud". The committee dealt in detail with cloud-related issues at an extraordinary meeting. Based on the framework conditions and measures outlined, it supported the proposal for group-wide use of public cloud services from foreign-controlled providers with service provision from Switzerland and abroad for all applications. The committee will receive semi-annual updates on the status of the programme.

The IT Committee dealt with matters related to IT security and IT compliance on a regular basis. For example, it gained in-depth insight into the topic of "cyber security in the financial Industry" at a separately held training event. It was also briefed on the topics of "governance of security in the group," "cyber security architecture," "cyber defence," "eChannel security," and the security roadmap. Operational risks for IT were also addressed. In total, the IT Committee dealt with 23 audit reports relevant to IT and was regularly informed about the rectification status of the findings of the audit firm and FINMA.

In order to have general background information on important IT topics, the committee dealt with further developments in real estate financing, the development of IT in retail, and the use of new technologies and innovations. The committee also received information on the organisational structures and processes related to external IT procurements and on the development of the personnel portfolio, as well as an overview of outsourcing and the regulatory provisions relevant to IT.

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. HSG 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 (retirement as at 31 January 2022). 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, where he chaired several committees including finance and audit. 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. Today he is a partner in a law firm specialising in criminal law. He is a member of the Audit and 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 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:
None

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 member of the Board of Directors of 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:
Member of the Boards of Directors of Budliger Treuhand AG, Zurich, BTAG Management AG, Zurich, Treuhandgesellschaft Hebeisen Kälin AG, Zurich, Theodor Zemp AG, Zurich, Prewo AG and Prewo Wohnbau AG, Zurich, and Delta Technik AG, Zug

Mark Roth has been a member of the Board of Directors since 2013. 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 Kalin 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, Russikon, and Exploris Health AG, Wallisellen; 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:
Chairman 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 served as Justice of the Peace in the municipalities of Bauma, Wila and Wildberg from 2003 until 2021. 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 Finance-Mission. 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

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 of the Board of Trustees of the FCZ Museum Foundation, Zurich.

Stephanino Isele

Head of Institutionals & Multinationals, Deputy Chief Executive Officer
Dr. oec. publ.
Swiss national; born in 1962

Key mandates:
Vice Chairman 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 as well as Deputy Chief Executive Officer since 1 May 2021. 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).

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.

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 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.

Florence Schnydrig Moser

Head of Private Banking
Master of Mathematics at the ETH Lausanne, CFA
Swiss national; born in 1972

Key mandates:
Chairwoman of the Supervisory Board of Zürcher Kantonalbank Österreich AG, Salzburg; member of the Board of Directors of Advance (Gender Equality in Business) and member of the Board of Trustees of the Hasler Foundation.

Florence Schnydrig Moser was appointed as a member of the Executive Board as of 1 January 2021, and has been Head of the Private Banking business unit since 1 May 2021. Previously she was CEO of Swisscard AECS GmbH in Horgen. Florence Schnydrig Moser worked for Credit Suisse from 2000 to 2018 in various functions in the private banking environment – including in Zurich, Australia and Hong Kong. Most recently, as Head of Products, Investments & Marketing, she was responsible for the development and marketing of products for Swiss private clients and, as a member of the Executive Board, had overarching responsibility within Credit Suisse (Switzerland) Ltd. Florence Schnydrig Moser studied mathematics at the Ecole polytechnique fédérale de Lausanne (EPFL) and then passed the examinations to become a Chartered Financial Analyst (CFA). She is Chairwoman of the Supervisory Board of Zürcher Kantonalbank Österreich AG, Salzburg. In addition, she is a member of the Board of Directors of Advance (Gender Equality in Business) and a member of the Board of Trustees of the Hasler Foundation.

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; member of the Board of Directors of the Swiss Banks' and Securities Dealers' Deposit Guarantee Association, Basel

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, and 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 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.

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

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

2021 agreed sign-on and severance payments

in CHF 1,000	No. of employees	Total	Paid in 2021	Amounts due in 2022 or later
Total sign-on payments	1	800	–	800
– of which to Key Risk Takers	1	800	–	800
Total severance payments	–	–	–	–
– of which to Key Risk Takers	–	–	–	–
Total compensation	**1**	**800**	**–**	**800**

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.

Equal pay

Equal pay between women and men is one aspect of Zürcher Kantonalbank's understanding of good corporate governance. To this end, we have conducted an independent analysis every two years since 2011 with büro a & o, an external management consulting firm. The values determined in each case were below the tolerance threshold set by the Swiss Federal Office for Gender Equality. In 2021, büro a&o attested to Zürcher Kantonalbank's compliance with equal pay principles by awarding it the ADVANCED fair pay label. In addition, the Social Partnership Office for Equal Pay in the Banking Industry (SF-LoBa) has reviewed the analysis and confirmed both the formally correct implementation of the evaluation as well as its compliance with all requirements of the SF-LoBa industry seal of quality. Our ongoing efforts for fair wages have therefore been confirmed by the successful completion of the equal pay analysis in accordance with the requirements of the Swiss Gender Equality Act.

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 table on page 98.

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 Chairperson receives an additional allowance of 10 percent of their 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 the Head 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.

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 85 employees are currently defined as Key Risk Takers, of whom eight 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 components in accordance with the table on page 100. 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.

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.

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:

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
Long-term deferred variable compensation	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

- 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 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.

Determining the compensation for control functions

For the purpose of efficient risk monitoring, Legal & 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.

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

Personnel expenses in 2021 (parent company)

in CHF million	2021	2020
Base salary[1]	551.2	546.6
Total amount of variable compensation	295.3	286.3
Social security contributions	178.9	180.0
Other personnel expenses[2]	29.5	30.1[3]
Total personnel expenses	1,054.9	1,043.0

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

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 & Compliance, Risk Management and Human Resources are consulted.

As stated in the section "Competencies" (page 97), 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 100), "Deferred variable compensation exposed to risk" (page 100) and "Penalty clause" (page 102) for further details on possible reductions).

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

Details of variable compensation (parent company)

	2021		2020	
	No. of employees[1]	in CHF million	No. of employees[1]	in CHF million
Total amount of variable compensation	**4,944**	**295.3**	4,983	286.3
– of which deferred compensation	**85**	**12.5**	93	17.6
– of which sign-on and severance payments	**1**	**0.8**	6	0.8

1 Full-time equivalents

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 2021

Personnel expenses for all 4,944 (2020: 4,983) employees (full-time equivalents) amounted to CHF 1,055 million (parent company). 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.

In its annual review of base salaries, Zürcher Kantonalbank decided to raise the total sum of the base salaries for 2021 by CHF 2.6 million (+0.5 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 9 million. The total amount of deferred compensation was CHF 12.5 million.

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 Chairperson receives an additional allowance of 10 percent of their 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. Total compensation for the eight members of the Executive Board in 2021 amounted to CHF 14,998,362 (2020: CHF 15,676,226). The highest sum paid to a member of the Executive Board during the year under review was CHF 2,278,750 in salary and variable compensation plus CHF 210,139 in pension payments and other remuneration, and was paid to Martin Scholl, CEO (2020: CHF 2,342,011).

In addition, deferred components amounting to CHF 2,642,500 (2020: CHF 2,642,500) were set aside for the members of the Executive Board, of which CHF 462,500 were allocated to the highest paid member (2020: CHF 412,500); 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 7,172,000 (of which CHF 7,172,000 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	Total	Loans as at 31.12 in CHF
Committee of the Board								
Jörg Müller-Ganz	**2021**	**342,650**	**–**	**14,040**	**3,400**	**90,863**	**450,954**	**1,300,000**
	2020	342,650	–	14,040	19,192	90,331	466,213	1,300,000
János Blum	**2021**	**311,500**	**–**	**14,040**	**13,879**	**84,477**	**423,896**	**1,000,000**
	2020	311,500	–	14,040	900	83,944	410,384	1,000,000
Roger Liebi	**2021**	**311,500**	**–**	**14,040**	**–**	**80,885**	**406,426**	**–**
	2020	311,500	–	14,040	–	80,353	405,893	–
Other members of the Board of Directors								
Amr Abdelaziz	**2021**	**30,000**	**23,800**	**6,000**	**–**	**3,410**	**63,210**	**–**
	2020	30,000	24,500	6,000	–	3,410	63,910	–
Adrian Bruhin	**2021** (since 01.11.2020)	**30,000**	**27,300**	**6,000**	**–**	**3,410**	**66,710**	**–**
	2020	5,000	2,100	1,000	–	568	8,668	–
Bettina Furrer[3]	**2021**	**30,000**	**20,650**	**6,000**	**–**	**5,040**	**61,690**	**388,000**
	2020	30,000	26,250	6,000	–	5,040	67,290	388,000
René Huber	**2021**	**30,000**	**23,450**	**6,000**	**–**	**3,800**	**63,250**	**4,463,000**
	2020	30,000	25,200	6,000	–	4,800	66,000	3,680,000
Henrich Kisker	**2021**	**24,000**	**21,000**	**6,000**	**–**	**1,440**	**52,440**	**–**
	2020	28,500	21,000	6,000	–	1,710	57,210	–
Mark Roth	**2021**	**24,000**	**31,150**	**6,000**	**–**	**–**	**61,150**	**–**
	2020	24,000	28,350	6,000	–	–	58,350	–
Peter Ruff	**2021**	**24,000**	**23,100**	**6,000**	**–**	**1,440**	**54,540**	**–**
	2020	24,000	23,450	6,000	–	3,840	57,290	–
Walter Schoch	**2021**	**24,000**	**29,050**	**6,000**	**–**	**1,440**	**60,490**	**–**
	2020	24,000	23,100	6,000	–	–	53,100	–
Anita Sigg	**2021**	**30,000**	**21,700**	**6,000**	**–**	**–**	**57,700**	**1,673,444**
	2020	30,000	23,100	6,000	–	–	59,100	2,228,000
Rolf Walther	2020 (until 30.09.2020)	18,000	19,950	4,500	–	–	42,450	–
Stefan Wirth	**2021**	**30,000**	**22,050**	**6,000**	**–**	**4,800**	**62,850**	**–**
	2020	30,000	22,750	6,000	–	4,800	63,550	–
Total	**2021**	**1,241,651**	**243,250**	**102,120**	**17,279**	**281,005**	**1,885,305**	**8,824,444**
	2020	1,239,151	239,750	101,620	20,092	278,796	1,879,408	8,596,000

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 Loans: Heirs of Dr Dieter Furrer: CHF 388,000; Bettina Furrer alone: CHF 0.

Financial Report

108 Group

113 Notes to the Consolidated Financial Statements

198 Parent company

203 Notes Parent Company

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	2021	2020	Change	Change in %
Result from interest operations					
Interest and discount income		1,190	1,425	−235	−16.5
Interest and dividend income from financial investments		27	32	−6	−17.4
Interest expense		70	−200	270	−135.0
Gross result from interest operations	**33**	**1,287**	**1,258**	**30**	**2.4**
Changes in value adjustments for default risk and losses from interest operations		−39	−39	−0	0.5
Subtotal net result from interest operations		**1,248**	**1,218**	**30**	**2.4**
Result from commission business and services					
Commission income from securities trading and investment activities		1,025	862	163	18.9
Commission income from lending activities		69	57	11	19.9
Commission income from other services		131	129	2	1.8
Commission expense		−299	−242	−57	23.6
Subtotal result from commission business and services		**926**	**806**	**119**	**14.8**
Result from trading activities					
Result from trading activities and the fair value option	**32**	**347**	**459**	**−112**	**−24.4**
Other result from ordinary activities					
Result from the disposal of financial investments		4	6	−2	−36.2
Income from participations		12	15	−3	−22.1
– of which, participations valued using the equity method		2	1	1	56.7
– of which, from other non-consolidated participations		10	14	−4	−29.6
Result from real estate		5	5	−0	−2.2
Other ordinary income		14	9	5	50.1
Other ordinary expenses		−11	−6	−5	79.3
Subtotal other result from ordinary activities		**24**	**29**	**−6**	**−19.6**
Operating income		**2,544**	**2,513**	**31**	**1.2**
Operating expenses					
Personnel expenses	34	−1,092	−1,126	33	−3.0
General and administrative expenses	35	−425	−455	30	−6.6
Subtotal operating expenses		**−1,517**	**−1,580**	**63**	**−4.0**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		−104	−117	13	−11.0
Changes to provisions and other value adjustments and losses		28	−14	43	−297.2
Operating result		**951**	**801**	**150**	**18.7**
Extraordinary income	36	2	25	−24	−92.9
Extraordinary expenses	36	−2	−0	−2	–
Changes in reserves for general banking risks	36	–	46	−46	−100.0
Taxes	39	−9	−8	−1	12.6
Consolidated profit		**942**	**865**	**77**	**8.9**

Consolidated balance sheet
as at 31 December

in CHF million	Notes	2021	2020	Change	Change in %
Assets					
Liquid assets		**40,883**	52,154	–11,271	–21.6
Amounts due from banks		**3,173**	3,238	–65	–2.0
Amounts due from securities financing transactions	1	**26,289**	16,942	9,346	55.2
Amounts due from clients	2	**9,891**	9,197	694	7.5
Mortgage loans	2	**91,847**	87,679	4,168	4.8
Trading portfolio assets	3	**12,442**	10,920	1,523	13.9
Positive replacement values of derivative financial instruments	4	**1,272**	1,593	–322	–20.2
Other financial instruments at fair value	3	**–**	–	–	–
Financial investments	5	**4,759**	5,035	–276	–5.5
Accrued income and prepaid expenses		**280**	302	–23	–7.5
Non-consolidated participations	6,7	**155**	135	20	15.0
Tangible fixed assets	8	**597**	629	–31	–5.0
Intangible assets	9	**50**	86	–37	–42.3
Other assets	10	**467**	453	14	3.1
Total assets		**192,105**	**188,364**	**3,741**	**2.0**
Total subordinated claims		**284**	263	21	8.1
– of which, subject to conversion and/or debt waiver		**48**	18	30	171.1
Liabilities					
Amounts due to banks		**34,897**	34,733	164	0.5
Liabilities from securities financing transactions	1	**4,403**	4,823	–420	–8.7
Amounts due in respect of customer deposits		**96,777**	92,582	4,195	4.5
Trading portfolio liabilities	3	**1,943**	1,320	624	47.3
Negative replacement values of derivative financial instruments	4	**1,116**	942	174	18.5
Liabilities from other financial instruments at fair value	3,14	**4,387**	3,459	928	26.8
Cash bonds	15	**135**	158	–23	–14.5
Bond issues	15	**22,779**	25,385	–2,606	–10.3
Central mortgage institution loans	15	**11,307**	10,743	564	5.2
Accrued expenses and deferred income		**787**	798	–11	–1.3
Other liabilities	10	**661**	549	113	20.5
Provisions	16	**237**	222	15	6.7
Reserves for general banking risks	16	**154**	154	–	–
Bank's capital	21	**2,425**	2,425	–	–
Retained earnings reserve	21	**9,163**	9,214	–51	–0.6
Foreign currency translation reserve	21	**–9**	–8	–2	22.6
Consolidated profit	21	**942**	865	77	8.9
Shareholders' equity	**21**	**12,674**	**12,650**	**24**	**0.2**
Total liabilities		**192,105**	**188,364**	**3,741**	**2.0**
Total subordinated liabilities		**1,585**	1,607	–22	–1.3
– of which, subject to conversion and/or debt waiver		**1,585**	1,607	–22	–1.3
Off-balance-sheet transactions					
Contingent liabilities	2,28	**4,374**	3,395	979	28.8
Irrevocable commitments	2	**10,192**	10,563	–371	–3.5
Obligations to pay up shares and make further contributions	2	**332**	251	81	32.1
Credit commitments	2,29	**–**	–	–	–

Consolidated cash flow statement

in CHF million	Cash inflow 2021	Cash outflow 2021	Cash inflow 2020	Cash outflow 2020
Cash flow from operating activities (internal financing):				
Result of the period	942	–	865	–
Change in reserves for general banking risks	–	–	–	46
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	104	–	118	–
Provisions and other value adjustments	141	179	62	81
Changes in value adjustments for default risks and losses	291	260	94	65
Accrued income and prepaid expenses	23	–	–	10
Accrued expenses and deferred income	–	11	124	–
Other items	–	2	–	1
Previous year's dividend	–	456	–	506
Balance	**593**	**–**	**554**	**–**
Cash flow from equity transactions:				
Share capital / participation capital / cantonal banks' endowment capital etc.	–	–	–	–
Recognised in reserves	0	2	–	0
Balance	**–**	**2**	**–**	**0**
Cash flow from transactions in respect of non-consolidated participations, tangible fixed assets and intangible assets:				
Non-consolidated participations	2	28	1	3
Real estate	1	21	0	32
Other tangible fixed assets	0	8	0	14
Intangible assets	0	0	0	2
Mortgages on own real estate	–	–	–	–
Balance	**–**	**54**	**–**	**49**

Consolidated cash flow statement
(continued)

in CHF million	Cash inflow 2021	Cash outflow 2021	Cash inflow 2020	Cash outflow 2020
Cash flow from banking operations:				
Medium and long-term business (> 1 year):				
Amounts due to banks	23	–	–	1
Amounts due in respect of customer deposits	65	–	–	77
Liabilities from other financial instruments at fair value	753	–	320	–
Cash bonds	10	33	35	16
Bonds	25,829	28,397	23,791	11,929
Central mortgage institution loans	1,358	794	1,927	962
Loans from central issuing institutions	–	–	–	–
Other obligations (other liabilities)	113	–	212	–
Amounts due from banks	30	–	113	–
Amounts due from customers	105	–	–	758
Mortgage loans	–	4,545	–	3,360
Other financial instruments at fair value	–	–	–	–
Financial investments	92	–	–	562
Other accounts receivable (other assets)	–	14	28	–
Short-term business:				
Amounts due to banks	141	–	756	–
Liabilities from securities financing transactions	–	420	–	146
Amounts due in respect of customer deposits	4,130	–	7,597	–
Trading portfolio liabilities	624	–	–	739
Negative replacement values of derivative financial instruments	174	–	–	361
Liabilities from other financial instruments at fair value	175	–	296	–
Amounts due from banks	28	–	1,409	–
Amounts due from securities financing transactions	–	9,346	–	1,354
Amounts due from customers	–	852	370	–
Trading portfolio assets	–	1,561	–	1,561
Positive replacement values of derivative financial instruments	322	–	–	107
Other financial instruments at fair value	–	–	–	–
Financial investments	184	–	–	57
Liquidity:				
Liquid assets	11,271	–	–	15,368
Balance	**–**	**538**	**–**	**505**

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
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 contributions/other capital paid in	–	–	–	–	–	–
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**
2021						
Opening amount	**2,425**	**10,079**	**154**	**–**	**–8**	**12,650**
Effect of any restatement	**–**	**–**	**–**	**–**	**–**	**–**
Capital increase	**–**	**–**	**–**	**–**	**–**	**–**
Capital decrease	**–**	**–**	**–**	**–**	**–**	**–**
Increase in scope of capital consolidation	**–**	**–**	**–**	**–**	**–**	**–**
Decrease in scope of capital consolidation	**–**	**–**	**–**	**–**	**–**	**–**
Other contributions/other capital paid in	**–**	**–**	**–**	**–**	**–**	**–**
Reclassifications	**–**	**–**	**–**	**–**	**–**	**–**
Currency translation differences	**–**	**–**	**–**	**–**	**–2**	**–2**
Dividends and other distributions	**–**	**–456**	**–**	**–**	**–**	**–456**
Valuation adjustments not affecting net income	**–**	**0**	**–**	**–**	**–**	**0**
Other allocations to (transfers from) the reserves for general banking risks	**–**	**–**	**–**	**–**	**–**	**–**
Other allocations to (transfers from) the other reserves	**–**	**–460**[1]	**–**	**–**	**–**	**–460**
Consolidated profit	**–**	**–**	**–**	**942**	**–**	**942**
Total equity as at 31.12.2021	**2,425**	**9,163**	**154**	**942**	**–9**	**12,674**

1 Initial recognition of valuation allowances/provisions for expected losses

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, and the borrowing, payment transactions and card businesses.

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 diversification of income. Sustainability is an integral aspect of our business model. That means we incorporate environmental, social and economic criteria into everything we do.

Our income 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 Ltd. with its subsidiaries and sub-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, ZKB Securities (UK) Ltd., which engages in equity brokerage and research, 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., ZüriBahn AG and Philanthropy Services AG.

b) Accounting and valuation principles

Changes in accounting and valuation principles

Expected losses

As at 1 January 2021, the introduction of value adjustments/provisions for expected losses was completed in accordance with the transitional provisions of the Accounting Ordinance (RelV-FINMA) and FINMA Circular 2020/1. The initial allocation of CHF 460 million was recognised directly in equity through the release of retained earnings.

The accounting policies for adjustments and provisions for expected losses on non-impaired loans/receivables and off-balance-sheet transactions can be summarised as follows: for non-impaired loans/receivables and off-balance-sheet transactions, Zürcher Kantonalbank recognises value adjustments and provisions for expected losses. For 2021, net recognition through the income statement was CHF 41.8 million.

For further information, please refer to the section "Value adjustments and provisions for expected losses".

Brokerage accounts

From 1 January 2021, brokerage accounts are now reported consistently under other assets and liabilities instead of under amounts due from and to banks and customers, as was previously the case. This adjustment requires a restatement of the balance sheet as at 31 December 2020. The financial impact of the restatement is shown in the following table:

Item	Before restatement	Change	After restatement
Balance sheet as at 31.12.2020 in CHF million			
Amounts due from banks	3,396	– 159	3,238
Amounts due from customers	9,253	– 56	9,197
Other assets	239	+ 214	453
Amounts due to banks	34,838	– 105	34,733
Amounts due in respect of customer deposits	92,609	– 27	92,582
Other liabilities	417	+ 132	549

There are no other changes that have a material impact on the financial statements.

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., ZüriBahn AG and Philanthropy Services 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 posted and recognised on 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 euro 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".

	2021		2020	
	Rates on the balance sheet date	Average annual rates	Rates on the balance sheet date	Average annual rates
EUR	1.0362	1.0793	1.0816	1.0705
GBP	1.2341	1.2578	1.2083	1.2061
USD	0.9112	0.9148	0.8840	0.9340

Offsetting assets and liabilities

There is generally no offsetting of assets and liabilities. An exception is made in the cases listed below. These conditions must be met cumulatively.

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.

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 value adjustments are created for default risks on existing positions and directly deducted from assets (see also the section "Value adjustments for default risks in respect of impaired loans/receivables", and " Value adjustments and provisions for expected losses").

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 created for default risks on existing positions and directly deducted from the corresponding assets (see also the following section and the section "Value adjustments and provisions for expected losses"). 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 overdue 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). 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.

Value adjustments and provisions for expected losses

For non-impaired loans / receivables and off-balance-sheet transactions, Zürcher Kantonalbank recognises value adjustments and provisions for expected losses.

Expected loss (EL) is the anticipated value of future losses from credit defaults. It is the product of the statistical probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). Expressed mathematically, the relationship is as follows: EL = PD x LGD x EAD.

The EL approach is based on the regulatory parameters (the IRB approach) and a residual maturity approach. Discounting is not applied. For the positions without internal rating information, the one-year PD is derived based on the SA-BIS risk weighting. Regulatory PDs are based on long-term average estimates and extrapolated into lifetime PDs with the assumption of constant forward PDs. IRB residual maturities with a one-year floor and five-year cap are used for this purpose. The regulatory IRB parameters from the capital adequacy calculation are also used to calculate the LGD. The EAD from the IRB approach is adopted for off-balance-sheet items too. An EAD excluding accrued interest is used for balance sheet items. EAD and LGD are constant in the (residual) term calculation.

The EL is determined on the non-impaired loans/receivables of the following balance sheet and off-balance-sheet items:
- Amounts due from banks
- Amounts due from customers
- Mortgage loans
- Debt instruments held to maturity in financial investments
- Contingent liabilities
- Irrevocable commitments

The use of value adjustments and provisions for expected losses is a safety cushion required by the regulator and is only intended for a "crisis situation" (high loan defaults). A crisis situation is defined as follows: The changes in value adjustments/provisions for impaired loans/receivables, incurred losses and default-risk-related changes in value on debt instruments held in financial investments exceed the one-year expected loss (one-year RelV-EL) calculated on regulatory parameters for the corresponding period. For half-year periods, 50 percent of the one-year RelV EL is compared to the actual values.

If the trigger criterion is met, use may be at the 0 percent, 50 percent, or 100 percent level, with higher use intended for short, severe crises and lower use for longer-lasting ones. In the case of a large single event without an actual crisis, for example, it may also be possible to dispense with its use.

Replenishment is essentially linear over a period of five years after a crisis. While a crisis is ongoing, no replenishment takes place. The replenishment period is assessed semi-annually and may be shortened. Ongoing changes resulting from changes in credit volumes, credit ratings and maturities are always recognised in the period to which they relate (there is no deferral in the event of a crisis).

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 or loss 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 and losses 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 result from the hedging transaction exceeds the result 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 investments 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). Unrealised 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 and losses 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., ZüriBahn AG and Philanthropy Services 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 depreciated/amortised in full over their estimated useful life on the basis of business criteria, or, in the case of acquired IT programmes, generally over 12 months. Estimated useful life for depreciation purposes (in years):

Land	**no depreciation**
Bank premises and other properties	
– Shell	**max. 80**
– Building envelope	**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, with 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 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. 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 and collateral upgrade transactions, off-balance-sheet transactions are reported at nominal value. Commitments under currency swap facilities and collateral upgrade transactions are reported in accordance with the principle of substance over form at 5 percent or 4 percent, respectively, 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 154 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" and "Value adjustments and provisions for expected losses" in the accounting and valuation principles. Further information can also be found in section l) Risk report, under the sub-section "Credit risks" (page 167 ff).

e) Explanation of 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	2021	2020
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	26,289	16,942
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	4,403	4,823
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	4,345	4,758
– of which, with unrestricted right to resell or pledge	4,345	4,758
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	52,550	42,632
– of which, repledged securities	1,564	848
– of which, resold securities	25,980	25,535

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	30	2,181	7,873	10,084
Mortgage loans				
– Residential property	76,875	8	24	76,908
– Office and business premises	10,066	–	13	10,079
– Commercial and industrial premises	2,261	0	20	2,281
– Other	3,001	0	1	3,003
Total mortgage loans	92,203	9	58	92,270
Total loans (before netting with value adjustments) 2021	**92,234**	**2,190**	**7,930**	**102,354**
Total loans (before netting with value adjustments) 2020	**87,701**	**1,977**	**7,384**	**97,061**
Total loans (after netting with value adjustments) 2021	**91,858**	**2,184**	**7,697**	**101,738**
Total loans (after netting with value adjustments) 2020	**87,701**	**1,977**	**7,199**	**96,876**
Off-balance-sheet				
Contingent liabilities	40	265	4,069	4,374
Irrevocable commitments	2,214	371	7,608	10,192
Obligations to pay up shares and make further contributions	–	–	332	332
Credit commitments	–	–	–	–
Total off-balance-sheet transactions 2021	**2,254**	**635**	**12,008**	**14,898**
Total off-balance-sheet transactions 2020	**2,063**	**859**	**11,286**	**14,209**

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]
2021		**418**	**211**	**207**	**190**
2020		500	246	254	188

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	2021	2020
Debt securities, money market securities/transactions		**5,215**	4,492
– of which, listed[1]		**4,962**	3,777
Equity securities		**3,855**	3,086
Precious metals and commodities		**3,372**	3,340
Other trading portfolio assets		**1**	0
Total trading transactions		**12,442**	**10,920**
Debt securities		**–**	–
Structured products		**–**	–
Other		**–**	–
Total other financial instruments at fair value		**–**	**–**
Total assets		**12,442**	**10,920**
– of which, determined using a valuation model		**254**	716
– of which, securities eligible for repo transactions in accordance with liquidity requirements		**1,558**	1,670

Liabilities	in CHF million	2021	2020
Debt securities, money market securities/transactions		**1,938**	1,300
– of which, listed[1]		**1,910**	1,280
Equity securities		**2**	14
Precious metals and commodities		**–**	5
Other trading portfolio liabilities		**3**	0
Total trading portfolio liabilities		**1,943**	**1,320**
Debt securities		**–**	–
Structured products		**4,387**	3,459
Other		**–**	–
Total liabilities from other financial instruments at fair value		**4,387**	**3,459**
Total liabilities		**6,331**	**4,779**
– of which, determined using a valuation model		**4,416**	3,480

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[1]
Interest rate instruments						
Forward contracts including FRAs	–	–	–	–	–	–
Swaps	6,728	5,964	1,059,664[2]	255	169	15,410
Futures	–	–	15,169	–	–	–
Options (OTC)	44	56	7,337	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	**6,772**	**6,020**	**1,082,170**	**255**	**169**	**15,410**
Foreign exchange/precious metals						
Forward contracts	2,408	3,001	372,930	–	–	–
Combined interest rate/currency swaps	318	517	2,819	113	6	1,539
Futures	–	–	378	–	–	–
Options (OTC)	61	75	37,591	–	–	–
Options (exchange-traded)	0	–	3	–	–	–
Total	**2,787**	**3,594**	**413,721**	**113**	**6**	**1,539**
Equity securities/indices						
Forward contracts	–	–	–	–	–	–
Swaps	5	13	388	–	–	–
Futures	–	–	2,796	–	–	–
Options (OTC)	33	111	5,259	–	–	–
Options (exchange-traded)	177	243	12,364	–	–	–
Total	**215**	**366**	**20,806**	**–**	**–**	**–**
Credit derivatives						
Credit default swaps	13	13	665	–	–	–
Total return swaps	0	0	12	–	–	–
First-to-default swaps	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–
Total	**13**	**13**	**677**	**–**	**–**	**–**
Other[3]						
Forward contracts	–	–	–	–	–	–
Swaps	–	0	6	–	–	–
Futures	–	–	736	–	–	–
Options (OTC)	–	–	–	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	**–**	**0**	**741**		**–**	**–**
Total before netting agreements						
2021	**9,787**	**9,994**	**1,518,115[2]**	**367**	**175**	**16,949**
– of which, determined using a valuation model	**9,787**	**9,994**	**–**	**367**	**175**	**–**
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	–

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 The contract volume of interest rate swaps includes additional transactions with short terms to maturity in connection with the conversion from Libor to Saron rates.
3 Includes commodities and hybrid derivatives.

4 Derivative financial instruments (assets and liabilities) (continued)

Total after netting agreements[4]	in CHF million	Positive replacement values (cumulative)	Negative replacement values (cumulative)
2021		**1,272**	**1,116**
2020		1,593	942

Breakdown by counterparty

Positive replacement values (after netting agreements)	Central clearing houses	Banks and securities firms	Other customers
2021	**99**	**300**	**873**

4 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	**2021**	**2020**	**2021**	**2020**
Debt securities	**4,477**	4,699	**4,560**	4,874
– of which, intended to be held to maturity	**4,477**	4,699	**4,560**	4,874
– of which, not intended to be held to maturity (available for sale)	**–**	–	**–**	–
Equity securities	**107**	96	**219**	177
– of which, qualified participations[1]	**16**	17	**32**	27
Precious metals	**175**	236	**175**	236
Real estate	**–**	4	**–**	4
Cryptocurrencies	**–**	–	**–**	–
Total financial investments	**4,759**	**5,035**	**4,954**	**5,291**
– of which, securities eligible for repo transactions in accordance with liquidity requirements	**4,431**	4,609	**4,514**	4,782

1 At least 10 percent of the capital or voting rights.

Counterparties by rating

in CHF million						
Moody's	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Ba1 – Ba3	Lower than Ba	Unrated
Standard & Poor's, Fitch	AAA – AA-	A+ – A-	BBB+ – BBB-	BB+ – B-	Below B–	Unrated
Debt securities: book values 2021	**4,192**	**25**	**–**	**–**	**–**	**260**

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 2020	Reclassi-fications	Addi-tions	Disposals (incl. any FC differ-ences)	Value adjust-ments	Changes in book value for participations using the equity method/ depreciation reversals	Book value end of 2021	Market value end of 2021
Participations valued using the equity method										
– with market value	–	–	–	–	–	–	–	–	–	–
– without market value	31	–9	22	–	4	–	–5	1	22	–
Other participations										
– with market value	–	–	–	–	–	–	–	–	–	–
– without market value	125	–12	113	–	23	–2	–2	1	133	–
Total participations[1]	**156**	**–21**	**135**	**–**	**28**	**–2**	**–8**	**2**	**155**	**–**

1 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

			Currency bank's capital	Bank's capital in CHF million	Zürcher Kantonal-bank share capital (in %)	Zürcher Kantonal-bank voting rights	Held directly	Held indirectly
Fully consolidated participations								
Swisscanto Asset Management International S.A.	Luxem-bourg	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 CHF 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) Ltd.	London	Financial services	GBP	15	100.0	100.0	■	
Reported under non-consolidated participations[3]:								
– of which, participations values 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	2,225[4]	17.8	17.8	■	
Viseca Payment Services SA[5]	Zurich	Participations	CHF	25	14.7	14.7	■	

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 445 million has been paid up.
5 Requirement to surrender shares when new shareholders are admitted in accordance with the shareholder agreement.

7 Disclosures on companies in which the bank holds a permanent direct or indirect significant participation (continued)

			Currency bank's capital	Bank's capital in CHF million	Zürcher Kantonalbank share capital (in %)	Zürcher Kantonalbank voting rights	Held directly	Held indirectly
Subsidiaries not fully consolidated								
Philanthropy Services AG[6]	Basel	Services	CHF	0	73.1	73.1	■	
ZüriBahn AG[7]	Zurich	Cable car	CHF	5	100.0	100.0	■	
Zürcher Kantonalbank Representações Ltda.[8]	São Paulo	Representative office	BRL	0	100.0	100.0	■	

6 Total assets in CHF thousand: (2020: 784), half-year loss in CHF thousand: (2020:1,119).
7 Total assets in CHF thousand (2021: 5,357; 2020: 5,380); loss for the period in CHF thousand (2021:219; 2020: 397).
8 Total assets in CHF thousand (2020: 233, 2019: 297; result for the period in CHF thousand (2020: 23, 2019: 33).

8 Presentation of tangible fixed assets

in CHF million	Cost value	Accumulated depreciation	Book value at end 2020	Change to scope of consolidation	Additions	Disposals	Depreciation	Reversals	Book value at end 2021
Bank buildings	1,352	−752	600	–	21	−1	−46	–	574
Other real estate	8	−7	2	–	0	–	−0	–	2
Proprietary or separately acquired software	–	–	–	–	–	–	–	–	–
Other tangible fixed assets	202	−174	27	–	8	−0	−13	–	22
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	**1,562**	**−933**	**629**	**–**	**29**	**−1**	**−59**	**–**	**597**

The insurance value of the real estate within tangible fixed assets amounted to CHF 1,152 million.
The insurance value of the other tangible fixed assets amounted to CHF 396 million.

Operating leases

Leasing obligations not recognised in the balance sheet	in CHF million	2021	2020
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 2020	Changes to scope of consolidation	Reclassifications	Additions	Disposals	Amortisation	Reversals	Book value end of 2021
Goodwill	315	−240	75	–	–	–	–	−33	–	42
Patents	–	–	–	–	–	–	–	–	–	–
Licences	51	−51	0	–	–	0	−0	−1	–	0
Other intangible assets[1]	15	−4	11	–	–	–	–	−3	–	8
Total intangible assets	**381**	**−295**	**86**	**–**	**–**	**0**	**−0**	**−37**	**–**	**50**

1 In connection with the 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	2021	2020	2021	2020
Compensation account	0	0	162	131
Deferred income taxes recognised as assets	7	8	–	–
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	408	382	435	363
Indirect taxes	46	57	51	39
Other	5	6	14	16
Total	**467**	**453**	**661**	**549**

11 Assets pledged or assigned to secure own commitments, and assets under reservation of ownership

	2021		2020	
in CHF million	Book value	Effective commitment	Book value	Effective commitment
Pledged/assigned assets				
Amounts due from banks	1,045	1,033	990	985
Amounts due from customers	2,119	2,086	2,879	2,855
Mortgage loans	13,937	11,307	13,376	10,743
Trading portfolio assets	360	314	771	765
Financial investments	–	–	–	–
Total pledged/assigned assets	**17,462**	**14,739**	**18,016**	**15,348**

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 transactions.

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	2021	2020	Change
Amounts due in respect of customer deposits	**105**	108	–3
Cash bonds	**0**	0	0
Negative replacement values of derivative financial instruments	**18**[1]	4	14
Accrued expenses and deferred income	**0**	0	0
Other liabilities	**0**	0	0
Total	**123**	**112**	**11**

Own pension schemes do not hold any of the bank's equity instruments.
1 After taking netting agreement into account

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 principle.[1] 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. 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. This means that investment risk and longevity risk are borne by the retirees.

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.

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.
- Zürcher Kantonalbank

in %	Coverage ratio as at 31.12.2021 (not yet audited)	Coverage ratio as at 31.12.2020 (audited)
Zürcher Kantonalbank pension fund	118	115
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 S.A. 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) Limited 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)

in CHF million	Nominal value End of 2021	Waiver of use End of 2021	Net amount End of 2021	Net amount End of 2020	Influence of ECR on personnel expenses 2021	Influence of ECR on personnel expenses 2020
Zürcher Kantonalbank pension fund	–	–	–	–	–	–1
Total	**–**	**–**	**–**	**–**	**–**	**–1**

The employer contribution reserves were released in full at the end of 2020.

b) Economic benefit/obligations and the pension expenses

in CHF million	Over-/underfunding end 2021	Economic interest of the bank 2021	Economic interest of the bank 2020	Change in economic interest versus previous year 2021	Contributions paid 2021	Pension expenses in personnel expenses 2021	Pension expenses in personnel expenses 2020
Employer-sponsored funds/employer-sponsored pension schemes	–	–	–	–	–	–	–
Pension plans without overfunding/underfunding	–	–	–	–	1	1	117
Pension plans with overfunding	108	–	–	–	116	116	–
Pension plans with underfunding	–	–	–	–	–	–	–
Pension schemes without own assets	–	–	–	–	–	–	–
Total	**108**	**–**	**–**	**–**	**117**	**117**	**117**

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	–	83	–	–	83
	Without oDC	–	–	–	–	–
Equity securities	With own debenture component	–	4,013	–	–	4,013
	Without oDC	–	–	–	–	–
Foreign currencies	With own debenture component	–	247	–	–	247
	Without oDC	–	–	–	–	–
Commodities/precious metals	With own debenture component	–	25	–	–	25
	Without oDC	–	–	–	–	–
Loans	With own debenture component	–	12	–	–	12
	Without oDC	–	–	–	–	–
Real estate	With own debenture component	–	–	–	–	–
	Without oDC	–	–	–	–	–
Hybrid instruments	With own debenture component	–	9	–	–	9
	Without oDC	–	–	–	–	–
Total 2021		**–**	**4,387**	**–**	**–**	**4,387**
Total 2020		**–**	**3,459**	**–**	**–**	**3,459**

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
31.12.2021	**135**	**0.37**	**2022–2032**
31.12.2020	158	0.50	2021–2030

Maturity structure	in CHF million	2022	2023	2024	2025	2026	after 2026	Total
Cash bonds		38	3	21	26	11	37	135

Bonds and mandatory convertible bonds

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2021 (Issuer: Zürcher Kantonalbank)	**22,779**		
– of which, non-subordinated	**21,193**	**0.26**	**2022–2044**
– of which, subordinated without PONV clause[1]	**–**	**–**	**–**
– of which, subordinated with PONV clause	**1,585**	**2.21**	**2027– perpetual**
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

Maturity structure	in CHF million	2022	2023	2024	2025	2026	after 2026	Total
Bond issues		14,445	249	300	802	1,578	5,405	22,779

Central mortgage institution loans

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2021	**11,307**	**0.50**	**2022–2039**
31.12.2020	10,743	0.57	2021–2039

Maturity structure	in CHF million	2022	2023	2024	2025	2026	after 2026	Total
Central mortgage institution loans[2]		616	1,253	1,923	1,304	780	5,431	11,307

1 Point of non-viability (PONV).
2 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 2020	Changes to scope of consolida-tion	Use in conformity with designated purpose and reversals	Reclassifi-cations[1]	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income statement	Balance at end of 2021
Provisions for deferred taxes	–	–	–	–	–	–	–	–	–
Provisions for pension benefit obligations	–	–	–	–	–	–	–	–	–
Provisions for default risks	137	–	–0	53	–0	–	138	–145	183
– of which, provisions for expected loss	–	–	–	53	–0	–	95	–83	65
Provisions for other business risks[2]	55	–	–2	–	–	–	–	–23	29
Provisions for restructuring	–	–	–	–	–	–	–	–	–
Other provisions[3]	30	–	–3	–	–0	–	3	–5	25
Total provisions	**222**	**–**	**–6**	**53**	**–0**	**–**	**141**	**–173**	**237**
Reserves for general banking risks	**154**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**154**
Value adjustments for default and country risks	188	–	–6	408	–0	2	290	–254	627
– of which, value adjustments for default risks in respect of impaired loans/receivables[4]	188	–	–6	–	–0	2	80	–74	190
– of which, value adjustments for expected loss	–	–	–	408	–0	–	210	–180	437

1 Initial recognition of valuation allowances/provisions for expected losses by means of transfer from retained earnings.
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 The other provisions include, among other things, provisions for litigation and provisions for employees' holiday credits.
4 Default risks consist primarily of counterparty risks, for which value adjustments of 100 percent of the net debt are generally set aside. Individual value adjustments 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 (2021: CHF 1 million/2020: 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 210).

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 2021	Due from 2020	Due to 2021	Due to 2020
Holders of qualified participations	3	11	379	1,305
Group companies	2	2	2	3
Affiliated companies	549	357	1,049	970
Transactions with members of governing bodies	15	15	19	20
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 394 million (2020: CHF 223 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 211).

21 Disclosure of own shares and composition of equity capital

in CHF million	2021	2020
Reserves for general banking risks	154	154
Bank's capital	2,425	2,425
Retained earnings reserve	9,163	9,214
Foreign currency translation reserve	–9	–8
Consolidated profit	942	865
Total shareholders' equity	**12,674**	**12,650**

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 212).

23 Maturity structure of financial instruments

in CHF million	At sight	Cancel-lable	Due within 3 months	Due within 3 to 12 months	Due after 1 to 5 years	Due after 5 years	Due No maturity	Total
Assets/financial instruments								
Liquid assets	40,883	–	–	–	–	–	–	40,883
Amounts due from banks	577	0	1,502	954	25	114	–	3,173
Amounts due from securities financing transactions	120	9,536	15,318	1,315	–	–	–	26,289
Amounts due from customers	111	1,356	3,569	1,388	2,153	1,316	–	9,891
Mortgage loans	82	8,991	8,216	9,308	38,071	27,178	–	91,847
Trading portfolio assets	12,442	–	–	–	–	–	–	12,442
Positive replacement values of derivative financial instruments	1,272	–	–	–	–	–	–	1,272
Other financial instruments at fair value	–	–	–	–	–	–	–	–
Financial investments	282	–	118	157	2,278	1,925	–	4,759
Total assets/financial instruments 2021	**55,770**	**19,882**	**28,723**	**13,122**	**42,526**	**30,533**	**–**	**190,556**
Total assets/financial instruments 2020	**65,944**	**12,237**	**20,884**	**14,535**	**44,767**	**28,388**	**4**	**186,759**
Debt capital/financial instruments								
Amounts due to banks	2,140	637	27,129	4,259	627	104	–	34,897
Liabilities from securities financing transactions	–	2,225	2,178	–	–	–	–	4,403
Amounts due in respect of customer deposits	55,032	35,655	3,073	1,425	500	1,092	–	96,777
Trading portfolio liabilities	1,943	–	–	–	–	–	–	1,943
Negative replacement values of derivative financial instruments	1,116	–	–	–	–	–	–	1,116
Liabilities from other financial instruments at fair value	4,387	–	–	–	–	–	–	4,387
Cash bonds	–	–	18	19	61	37	–	135
Bond issues	–	1,585	5,560	8,885	2,929	3,819	–	22,779
Central mortgage institution loans	–	–	108	508	5,260	5,431	–	11,307
Total debt capital/financial instruments 2021	**64,619**	**40,102**	**38,067**	**15,096**	**9,377**	**10,483**	**–**	**177,745**
Total debt capital/financial instruments 2020	**59,374**	**40,283**	**41,969**	**13,577**	**8,209**	**10,734**	**–**	**174,145**

24 Assets, liabilities and off-balance-sheet positions by domestic and foreign origin in accordance with the domicile principle

	2021		2020	
in CHF million	**Domestic**	**Foreign**	**Domestic**	**Foreign**
Assets				
Liquid assets	40,841	42	52,139	15
Amounts due from banks	631	2,542	434	2,804
Amounts due from securities financing transactions	15,059	11,230	7,344	9,599
Amounts due from clients	8,160	1,731	7,382	1,815
Mortgage loans	91,847	0	87,679	0
Trading portfolio assets	7,170	5,273	7,051	3,868
Positive replacement values of derivative financial instruments	968	304	1,252	342
Other financial instruments at fair value	–	–	–	–
Financial investments	3,774	985	3,752	1,283
Accrued income and prepaid expenses	258	22	285	17
Participations	154	1	134	1
Tangible fixed assets	595	3	626	3
Intangible assets	50	0	86	0
Other assets	229	237	330	123
Total assets	**169,735**	**22,370**	**168,494**	**19,871**
Liabilities				
Amounts due to banks	3,931	30,966	3,870	30,862
Liabilities from securities financing transactions	46	4,357	651	4,172
Amounts due in respect of customer deposits	88,518	8,259	84,654	7,928
Trading portfolio liabilities	959	984	566	754
Negative replacement values of derivative financial instruments	815	301	591	351
Liabilities from other financial instruments at fair value	3,223	1,164	2,436	1,023
Cash bonds	135	–	158	–
Bond issues	22,779	–	25,385	–
Central mortgage institution loans	11,307	–	10,743	–
Accrued expenses and deferred income	766	22	783	15
Other liabilities	410	251	455	94
Provisions	235	2	221	1
Reserves for general banking risks	154	–	154	–
Bank's capital	2,425	–	2,425	–
Retained earnings reserve	9,044	118	9,089	124
Foreign currency translation reserve	–9	–	–8	–
Consolidated profit	925	17	861	4
Total liabilities	**145,664**	**46,441**	**143,036**	**45,328**
Off-balance-sheet transactions				
Contingent liabilities	2,073	2,300	1,676	1,719
Irrevocable commitments	9,517	675	9,929	634
Obligations to pay up shares and make further contributions	332	–	251	0
Credit commitments	–	–	–	–

25A Assets by country or group of countries

	2021		2020	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	169,735	88.4	168,494	89.5
Rest of Europe	15,546	8.1	13,555	7.2
– of which, Germany	4,230	2.2	3,792	2.0
– of which, France	1,049	0.5	596	0.3
– of which, United Kingdom	6,877	3.6	4,308	2.3
– of which, Guernsey	8	0.0	17	0.0
Americas	4,666	2.4	4,325	2.3
– of which, USA	3,442	1.8	3,316	1.8
Asia and Oceania	2,134	1.1	1,962	1.0
Africa	24	0.0	28	0.0
Total assets	**192,105**	**100.0**	**188,364**	**100.0**

25B Liabilities by country or group of countries

	2021		2020	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	145,664	75.8	143,036	75.9
Rest of Europe	21,288	11.1	19,616	10.4
– of which, Germany	4,414	2.3	4,041	2.1
– of which, France	3,376	1.8	3,187	1.7
– of which, United Kingdom	2,522	1.3	2,454	1.3
– of which, Guernsey	1,682	0.9	1,629	0.9
Americas	15,917	8.3	16,383	8.7
– of which, USA	7,797	4.1	8,206	4.4
Asia and Oceania	7,922	4.1	7,805	4.1
Africa	1,314	0.7	1,524	0.8
Total liabilities	**192,105**	**100.0**	**188,364**	**100.0**

25C Contingent liabilities, irrevocable commitments, obligations to pay up shares and make further contributions by country or group of countries

	2021		2020	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	11,922	80.0	11,856	83.4
Rest of Europe	1,553	10.4	1,188	8.4
– of which, Germany	131	0.9	88	0.6
– of which, France	144	1.0	131	0.9
– of which, United Kingdom	155	1.0	170	1.2
– of which, Guernsey	160	1.1	310	2.2
Americas	237	1.6	389	2.7
– of which, USA	55	0.4	20	0.1
Asia and Oceania	1,140	7.7	731	5.1
Africa	46	0.3	45	0.3
Total	**14,898**	**100.0**	**14,209**	**100.0**

26 Breakdown of total assets by credit rating of country groups (risk domicile view)

		2021 Net foreign exposure		2020 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	**25,619**	**85.8**	20,161	87.9
B	A1/A2/A3	**1,254**	**4.2**	907	4.0
C	Baa1/Baa2/Baa3	**1,012**	**3.4**	770	3.4
D	Ba1/Ba2	**675**	**2.3**	437	1.9
E	Ba3	**97**	**0.3**	85	0.4
F	B1/B2/B3	**372**	**1.2**	243	1.1
G	Caa1/Caa2/Caa3/Ca/C	**820**	**2.7**	332	1.4
Total		**29,848**	**100.0**	**22,935**	**100.0**

The prior year figures include a restatement in the amount of CHF 7.5 billion. In the past, a risk assessment was performed because amounts due from securities financing transactions were offset against collateral received. Foreign assets are now reported according to balance sheet values by risk domicile without this offsetting.

27 Balance sheet by currencies

	Currencies translated in CHF million				
	CHF	USD	EUR	Other	Total
Assets					
Liquid assets	40,695	3	181	4	40,883
Amounts due from banks	551	2,079	427	116	3,173
Amounts due from securities financing transactions	15,102	6,980	4,206	–	26,289
Amounts due from clients	6,453	1,605	1,307	526	9,891
Mortgage loans	91,699	115	33	–	91,847
Trading portfolio assets	9,560	1,805	663	414	12,442
Positive replacement values of derivative financial instruments	1,028	120	119	4	1,272
Other financial instruments at fair value	–	–	–	–	–
Financial investments	4,193	0	565	1	4,759
Accrued income and prepaid expenses	245	14	17	3	280
Non-consolidated participations	155	–	0	0	155
Tangible fixed assets	595	–	2	0	597
Intangible assets	50	–	0	–	50
Other assets	182	56	45	184	467
Total assets shown in balance sheet	**170,507**	**12,778**	**7,567**	**1,252**	**192,105**
Delivery entitlements from spot exchange, forward forex, forex options and precious metal transactions	119,564	132,264	91,579	37,164	380,570
Total assets	**290,071**	**145,042**	**99,147**	**38,416**	**572,676**
Liabilities					
Amounts due to banks	12,141	16,142	3,293	3,320	34,897
Liabilities from securities financing transactions	286	1,838	2,279	–	4,403
Amounts due in respect of customer deposits	84,445	4,920	6,325	1,086	96,777
Trading portfolio liabilities	1,246	528	120	50	1,943
Negative replacement values of derivative financial instruments	809	89	207	12	1,116
Liabilities from other financial instruments at fair value	2,744	1,002	622	20	4,387
Cash bonds	135	–	–	–	135
Bond issues	9,692	–	11,483	1,604	22,779
Central mortgage institution loans	11,307	–	–	–	11,307
Accrued expenses and deferred income	753	9	22	4	787
Other liabilities	389	134	31	108	661
Provisions	235	–	2	–	237
Reserves for general banking risks	154	–	–	–	154
Bank’s capital	2,425	–	–	–	2,425
Retained earnings reserve	9,179	–	–15	–2	9,163
Foreign currency translation reserve	–	–	–10	0	–9
Consolidated profit	937	–	6	–1	942
Total liabilities shown in the balance sheet	**136,878**	**24,661**	**24,365**	**6,201**	**192,105**
Delivery obligations from spot exchange, forward forex, forex options and precious metal transactions	154,340	120,159	74,730	31,977	381,206
Total liabilities	**291,218**	**144,820**	**99,095**	**38,178**	**573,311**
Net position per currency in 2021	**–1,147**	**222**	**52**	**237**	**–636**
Net position per currency in 2020	**–581**	**387**	**102**	**–142**	**–234**

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	2021	2020
Guarantees to secure credits and similar	404	375
Performance guarantees and similar	2,476	2,036
Irrevocable commitments arising from documentary letters of credit	1,493	984
Other contingent liabilities	0	0
Total contingent liabilities	**4,374**	**3,395**
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 2021 and 31 December 2020.

30 Breakdown of fiduciary transactions

in CHF million	2021	2020
Fiduciary investments with third-party companies	120	214
Fiduciary investments with affiliated 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	**120**	**214**

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

Type of managed assets	in CHF million	2021	2020
Assets in collective investment schemes managed by the bank		131,543	114,590
Assets under discretionary asset management agreements		80,724	70,598
Other managed assets		196,923	176,470
Total managed assets (including double counting)[1]		**409,190**	**361,658**
– of which, double counting		70,140	58,936

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.

b) Presentation of the development of managed assets

in CHF million	2021	2020
Total managed assets (including double counting) at beginning	361,658	333,341
+/– net new money inflow or net new money outflow[1]	25,853	22,056
+/– price gains/losses, interest, dividends and currency gains/losses	21,262	8,857
+/– other effects	416	–2,596
Total managed assets (including double counting) at end	**409,190**	**361,658**

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	2021	2020
Result from trading in foreign exchange, bank notes and precious metals	132	142
Result from trading in bonds, interest rate and credit derivatives	89	191
Result from trading in equities and structured products	93	84
Result from other trading activities[1]	33	42
Total	**347**	**459**

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	2021	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	132	120	10	–	2	–	–	–
Result from trading in bonds, interest rate and credit derivatives	89	–0	–	–	91	–2	–	–
Result from trading in equities and structured products	93	6	2	–	–15	99	1	–0
Result from other trading activities	33	0	–	32	1	–1	–0	0
Total	**347**	**126**	**12**	**32**	**79**	**96**	**1**	**–0**
– of which, from fair value option on assets	–	–	–	–	–	–	–	–
– of which, from fair value option on liabilities	–379	7	–1	–	–0	–383	–1	–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 2021, refinancing income from trading activities of CHF –15.5 million (previous year: CHF –22.1 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 230.8 million (previous year: CHF 370.1 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	2021	2020
Negative interest on lending business (reduction in interest and discount income)	212	199
Negative interest on deposit-taking business (reduction in interest expenses)	209	145

34 Breakdown of personnel expenses

in CHF million	2021	2020
Salaries for members of the bank's governing bodies and personnel	876	861
– of which, alternative forms of variable compensation	–	–
AHV, IV, ALV and other social security contributions	186	188[1]
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	30	76[2]
Total	**1,092**	**1,126**

1 Including change in provisions for pension benefit obligations (release CHF 0 million).
2 Including anniversary payments of CHF 46 million.

35 Breakdown of general and administrative expenses

in CHF million	2021	2020
Office space expenses	29	35
Expenses for information and communications technology	159	174
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	228	236
– of which, compensation for state guarantee	27	23
Total	**425**	**455**

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	2021	2020
Extraordinary income		
Reversal of impairment on other participations	1	0
Income from sale of other real estate / bank premises	1	0
Income from sale of participations	0	25
Other	0	0
Total	2	25
Extraordinary expenses		
Losses from sale of other real estate / bank premises	–	0
Losses from disposal of participations	2	–
Other	0	0
Total	2	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

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.

Provisions for other business risks, including in connection with the termination of the Deferred Prosecution Agreement (DPA) with the US in the amount of CHF 19 million, were released through profit or loss in the financial year via the item Changes to provisions and other value adjustments and losses.

37 Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum

in CHF million		2021	2020
Participations	**Registered office**		
–	–	–	–
Total		–	–

Appreciation is applied to non-listed participations in accordance with the practitioner 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

	2021		2020	
in CHF million	Domestic	Foreign	Domestic	Foreign
Result from interest operations				
Interest and discount income	1,190	0	1,425	0
Interest and dividend income from financial investments	27	0	32	0
Interest expense	70	0	−200	0
Gross result from interest operations	**1,287**	**1**	**1,257**	**1**
Changes in value adjustments for default risk and losses from interest operations	−40	0	−39	0
Subtotal net result from interest operations	**1,247**	**1**	**1,218**	**1**
Result from commission business and services				
Commission income from securities trading and investment activities	882	143	754	108
Commission income from lending activities	69	0	57	0
Commission income from other services	130	1	128	1
Commission expense	−251	−49	−205	−37
Subtotal result from commission business and services	**830**	**95**	**735**	**72**
Result from trading activities				
Result from trading activities and the fair value option	**329**	**17**	**448**	**11**
Other result from ordinary activities				
Result from the disposal of financial investments	4	–	6	–
Income from participations	12	0	15	−0
– of which, participations valued using the equity method	2	0	1	−0
– of which, from other non-consolidated participations	10	–	14	0
Result from real estate	5	0	5	0
Other ordinary income	14	0	9	0
Other ordinary expenses	−11	−0	−6	−0
Subtotal other result from ordinary activities	**23**	**0**	**29**	**−0**
Operating expenses				
Personnel expenses	−1,074	−19	−1,108	−18
General and administrative expenses	−411	−13	−443	−11
Subtotal operating expenses	**−1,485**	**−32**	**−1,551**	**−29**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	−103	−1	−116	−1
Changes to provisions and other value adjustments and losses	29	−1	−14	−0
Operating result	**871**	**80**	**748**	**53**
Extraordinary income	2	0	25	0
Extraordinary expenses	−2	−0	−0	–
Changes in reserves for general banking risks	–	–	46	–
Taxes	−6	−3	−6	−2
Consolidated profit	**866**	**77**	**814**	**51**

39 Presentation of current taxes, deferred taxes, and disclosure of tax rate

in CHF million	2021	2020
Creation of provisions for deferred taxes	–	–
Reversal of provisions for deferred taxes	–	0
Recognition of deferred taxes on losses carried forward	−1	−1
Recognition of other deferred taxes	0	0
Reversal of other deferred taxes	−0	–
Expenses for current income and capital taxes	−8	−7
Expenses for property gains taxes	0	−0
Total	**−9**	**−8**
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 revaluationsof 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

	2021	2020
Return on Equity (RoE)	7.8 %	7.2 %

	2021	2020
Relevant net annual result for calculating ROE		
Consolidated profit	942	865
Total	**942**	**865**
Relevant average equity[1] for calculating ROE		
Average bank's capital	2,425	2,425
Average other equity components	9,603	9,630
Total	**12,028**	**12,055**

1 The average bank's capital and other equity components are calculated on a monthly basis.

l) Risk report

1.1.1 Risk profile

The risk profile of Zürcher Kantonalbank has not changed significantly compared to the previous year and remains robust against the consequences of the ongoing Covid-19 pandemic as at the end of financial year 2021.

The situation has improved overall for companies in the wake of the strong economic recovery. Nearly two years following the outbreak of the pandemic, the corporate loan portfolio remains resilient, and no extraordinary loss events have occurred to date. Despite improved visibility, however, forecast uncertainty remains high in the medium term. The income situation in particularly exposed sectors is still under pressure. Individual companies are struggling with structural problems that have become more accentuated due to the pandemic. It cannot be ruled out that the need for value adjustments on the SME exposure in the corporate loan portfolio could increase in the coming years when the government support programmes expire and the loans granted have to be repaid. With regard to the risk profile, the increased forecast uncertainty is cushioned by the revised FINMA Accounting Ordinance (RelV-FINMA), under which Swiss banks have been required since 1 January 2021 to recognise value adjustments and provisions for expected losses on non-impaired loans/receivables. In January 2021, Zürcher Kantonalbank recorded the initial recognition of CHF 460 million with no effect on income. Since then the adjustments have been recognised through income. The loan portfolio figures presented in this report show loans/receivables before deduction of these value adjustments and provisions, which amounted to CHF 502 million as at year-end.

The Swiss residential real estate market continued to realise impressively strong price growth in 2021. The high demand for housing is due to strong net immigration, the investment crisis and not least because of changes in demand caused by the pandemic. In the rental housing segment, the vacancy rate declined in the year under review for the first time in ten years, and a further drop is likely given the slight downturn in construction activity. In the owner-occupied home segment, high demand pressure is colliding with even more limited supply, causing a sharp rise in prices and significant growth in mortgage market volume. Zürcher Kantonalbank is closely monitoring ongoing developments and is addressing the mounting affordability risks using carefully coordinated measures to ensure growth while maintaining a balanced risk profile. Mortgage volume as at the reporting date was 5.2 percent higher than at the same time in the previous year (4.8 percent after deduction of value adjustments for expected losses).

Market risks in the trading book continue to be dominated by interest rate risks. The value at risk (VaR) was at a low level, reflecting financial markets' comparatively low volatility in 2021. The VaR at year-end stood at CHF 12.3 million. The low risk profile also reflects the strategy of focusing on client business. The utilisation of the risk capital limit allocated internally for trading (capital at risk) was 66 percent as at the end of the year.

The management of risks to the balance sheet structure remains subject to the framework conditions arising from the negative interest rate environment in the Swiss franc. The interest rate sensitivity of the banking book is lower overall compared with the previous year. While strong mortgage growth and longer maturities for fixed-rate mortgages increased interest rate exposure, the bank reduced this risk by issuing capital market refinancing, hedging transactions, and achieving further good growth in rollover mortgages as a successor product to LIBOR mortgages.

In liquidity risk management, higher regulatory requirements (liquidity coverage ratio, LCR) have applied to Zürcher Kantonalbank as a systemically important institution since 1 January 2021. The bank significantly exceeded these higher requirements throughout the year under review. In addition, the new requirements regarding the structural financing ratio (NSFR) came into force in mid-2021. Zürcher Kantonalbank has met these requirements with a comfortable buffer for some time. Overall, the liquidity risk ratios reflect a very solid liquidity situation at Zürcher Kantonalbank.

The bank's risk profile for operational risks did not change materially, either. The assessment of its OpRisk profile has been confirmed. Cyber and process risks remain the two OpRisk topics with the most significant residual risk. The bank therefore continues to focus a great deal of its attention on managing these risks, and the internal planning ensures that the necessary financial resources are allocated to them. The pandemic scenario is assigned to the OpRisk topic area "environmental and accident risks" and is managed as part of business continuity management (BCM). As a preliminary stage of the emergency organisation, the Pandemic Task Force has been active since the beginning of 2020 and meets regularly for ongoing assessments of the situation. Based on the guidelines and recommendations of the Federal Office of Public Health (FOPH) and the Canton of Zurich, the Task Force implements measures on an ongoing basis, checks to determine if any adjustments are needed and prepares more comprehensive steps as a precautionary measure. But thanks to the smoothly functioning crisis organisation in the various areas, Zürcher Kantonalbank once again did not suffer any significant pandemic-related business interruptions in 2021.

Compliance risks remain stable overall. The implementation of the evolving regulatory framework, particularly regarding investor protection, data protection and the fight against money laundering, continues to require the deployment of substantial resources. In the year under review, for example, the implementation of the Financial Services Act (FinSA) required special efforts, as did the update of anti-money laundering systems and the management of legal and compliance risks in connection with lending amid the Covid-19 pandemic.

Zürcher Kantonalbank is disclosing its climate-related financial risks for the first time for the financial year 2021, thus taking into account the supplemented requirements of FINMA's Disclosure Circular for systemically important banks. Climate protection has long been a very important issue for Zürcher Kantonalbank. Climate-related financial risks, however, are not a top risk for the bank due to the nature of its business activities and the strong focus on the Greater Zurich Area. A summary of the corresponding risk analysis can be found in section 1.10. In risk management, climate-related financial risks are treated as risk drivers in the existing risk categories.

1.1.2 Risk management and internal control system (ICS)

Zürcher Kantonalbank defines "risk management" and "internal control system (ICS)" as follows:

Risk management: As part of risk management, the bank sets its risk tolerance within its risk capacity. 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 for 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; 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.

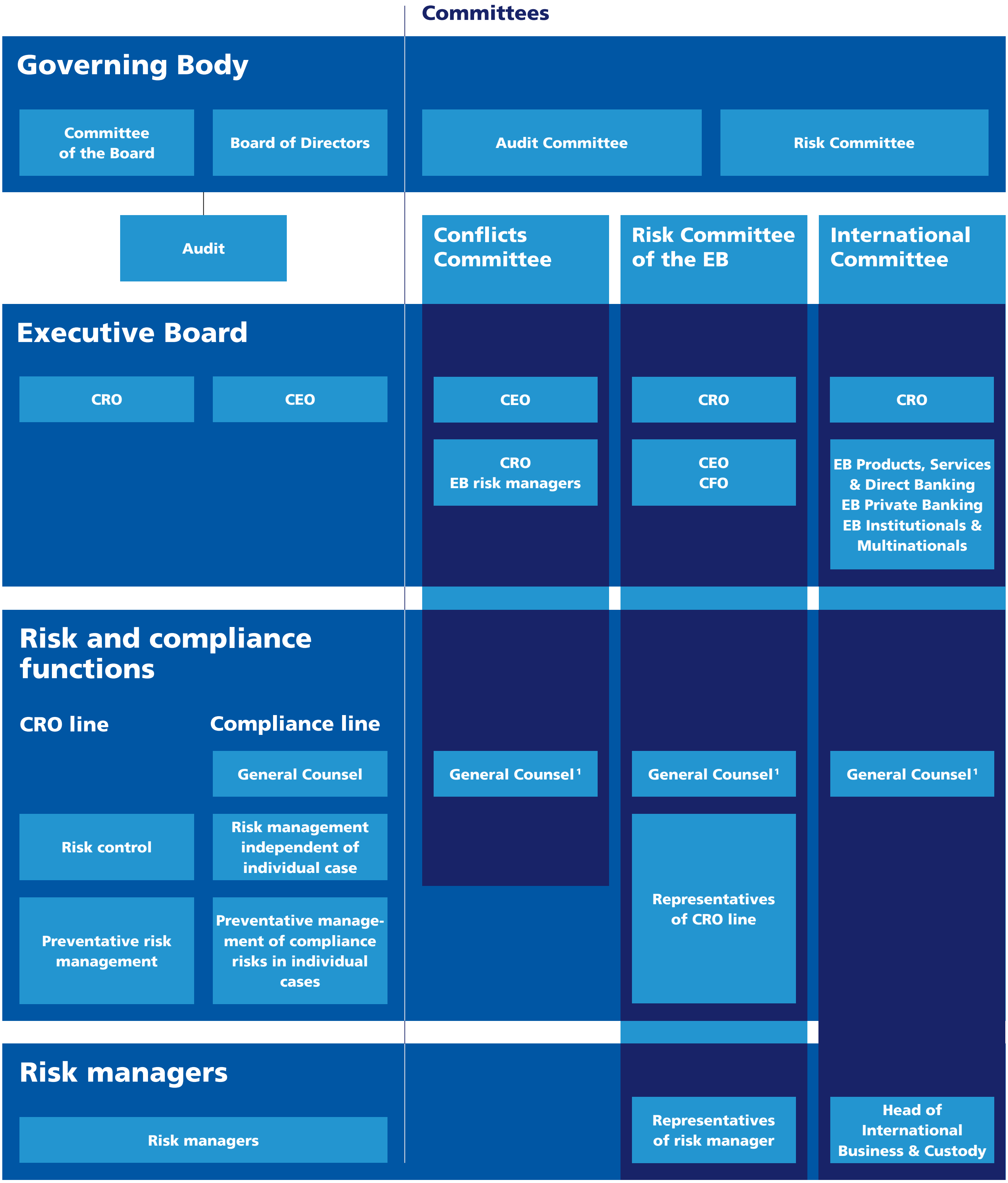
1.1.5 Risk and compliance organisation

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 Figure 1).

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 ensuring that there is 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.

Fig. 1: Risk and compliance organisation



1 General Counsel has the right of escalation to the Committee of the Board at any time.

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 carrying out defined monitoring and control duties (e.g. as pre-deal or post-deal control), as well as defining risk management tools. The function also defines risk management measures for compliance risk independently of the individual case, such as the editing of directives when implementing new ordinances as well as conducting 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 2021 will be available online from the end of April 2022 at www.zkb.ch/disclosure.

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 2021, the group had minimum required capital of CHF 5,724 million, compared with eligible capital of CHF 14,063 million. Both the total capital ratio of 19.7 percent of risk-weighted assets and the leverage ratio of 6.2 percent are unchanged compared with the end of 2020 and reflect Zürcher Kantonalbank’s solid equity base.

The liquidity coverage ratio (LCR) of 160 percent points to a comfortable liquidity situation. 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 31.12.2021	b 30.09.2021	c 30.06.2021	d 31.03.2021	e 31.12.2020
Eligible capital[1]						
1	Common equity Tier 1 (CET1)	**12,188**	11,669	11,661	11,652	11,903
2	Tier 1 capital (T1)	**13,253**	12,734	12,722	12,709	12,968
3	Total capital	**14,063**	13,554	13,547	13,529	13,508
Risk-weighted assets (RWA)						
4	RWA	**71,553**	71,140	71,166	71,526	68,515
Minimum required capital						
4a	Minimum required capital	**5,724**	5,691	5,693	5,722	5,481
Risk-based capital ratios (as a % of RWA)[1, 2]						
5	CET1 ratio	**17.0 %**	16.4 %	16.4 %	16.3 %	17.4 %
6	Tier 1 capital ratio	**18.5 %**	17.9 %	17.9 %	17.8 %	18.9 %
7	Total capital ratio	**19.7 %**	19.1 %	19.0 %	18.9 %	19.7 %
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 [3]	**0.0 %**	–	–	–	–
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 %**	11.1 %	11.0 %	10.9 %	11.7 %
Capital target ratios as per Annex 8 to the CAO (as a % of RWA)[4]						
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	**–**	–	–	–	–
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	**212,425**	211,641	211,135	216,387	208,326
14	Basel III leverage ratio (Tier 1 capital in % of leverage exposure measure)	**6.2 %**	6.0 %	6.0 %	5.9 %	6.2 %
Liquidity coverage ratio (LCR)[5]						
15	LCR numerator: total high-quality liquid assets (HQLA)	**51,682**	50,503	60,206	60,010	53,042
16	LCR denominator: total net outflows of funds	**32,242**	31,908	41,006	39,581	33,190
17	Liquidity coverage ratio (LCR)	**160 %**	158 %	147 %	152 %	160 %
Financing ratio (NSFR)[6]						
18	Available stable refinancing	**108,217**	108,552	–	–	–
19	Required stable refinancing	**91,486**	90,186	–	–	–
20	Financing ratio (NSFR)	**118 %**	120 %	–	–	–

1 Zürcher Kantonalbank adopted the rules on value adjustments and provisions for expected losses on 1 January 2021. The initial recognition of value adjustments and provisions
for expected losses was made as a lump sum (not built up on a linear basis). Zürcher Kantonalbank is not making use of the transitional rules, which is why these rows are not applicable.
2 The figures are calculated in accordance with the provisions of the CAO for non-systemically-important banks.
3 The extended countercyclical buffer in accordance with Art. 44a CAO will be applied for the first time for Zürcher Kantonalbank as at 31 December 2021. Based on this, the requirement as at 31 December 2021 is 0.01 % of RWA.
4 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.
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 31.12.2021	b 30.09.2021	c 30.06.2021	d 31.03.2021	e 31.12.2020
Eligible capital[1]						
1	Common equity Tier 1 (CET1)	**12,380**	11,869	11,868	11,867	12,130
2	Tier 1 capital (T1)	**13,445**	12,934	12,929	12,924	13,195
3	Total capital	**14,253**	13,751	13,752	13,742	13,735
Risk-weighted assets (RWA)						
4	RWA	**72,280**	71,875	71,938	72,264	69,304
Minimum required capital						
4a	Minimum required capital	**5,782**	5,750	5,755	5,781	5,544
Risk-based capital ratios (as a % of RWA)[1, 2]						
5	CET1 ratio	**17.1 %**	16.5 %	16.5 %	16.4 %	17.5 %
6	Tier 1 capital ratio	**18.6 %**	18.0 %	18.0 %	17.9 %	19.0 %
7	Total capital ratio	**19.7 %**	19.1 %	19.1 %	19.0 %	19.8 %
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[3]	**0.0 %**	–	–	–	–
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 %**	11.1 %	11.1 %	11.0 %	11.8 %
Capital target ratios as per Annex 8 to the CAO (as a % of RWA)[4]						
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)	**–**	–	–	–	–
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	**212,654**	211,880	211,368	216,607	208,596
14	Basel III leverage ratio (Tier 1 capital in % of leverage exposure measure)	**6.3 %**	6.1 %	6.1 %	6.0 %	6.3 %
Liquidity coverage ratio (LCR)[5]						
15	LCR numerator: total high-quality liquid assets (HQLA)	**51,671**	50,493	60,198	60,002	53,028
16	LCR denominator: total net outflows of funds	**32,385**	32,057	41,228	39,788	33,379
17	Liquidity coverage ratio (LCR)	**160 %**	158 %	146 %	151 %	159 %
Financing ratio (NSFR)[6]						
18	Available stable refinancing	**107,726**	108,054	–	–	–
19	Required stable refinancing	**91,520**	91,190	–	–	–
20	Financing ratio (NSFR)	**118 %**	118 %	–	–	–

1 Zürcher Kantonalbank adopted the rules on value adjustments and provisions for expected losses on 1 January 2021. The initial recognition of value adjustments and provisions for expected losses was made as a lump sum (not built up on a linear basis). Zürcher Kantonalbank is not making use of the transitional rules, which is why these rows are not applicable.
2 The figures are calculated in accordance with the provisions of the CAO for non-systemically-important banks.
3 The extended countercyclical buffer in accordance with Art. 44a CAO will be applied for the first time for Zürcher Kantonalbank as at 31 December 2021. Based on this, the requirement as at 31 December 2021 is 0.01 % of RWA.
4 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.
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.

The breakdown of the regulatory minimum required capital within the group of CHF 5,724 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 risks[1]. 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 13,508 million in eligible capital (total capital) at the end of 2020, a total of CHF 5,775 million was allocated to the risk business in 2021. The percentage breakdown by risk category of the allocated capital is shown in Figure 4.

1 The risk capital for operational risks also covers compliance risks.

Fig. 3: Breakdown of the regulatory risk-weighted minimum required capital as at 31.12.2021, by risk category

Credit and counterparty credit risk
88 %
Market risk
5 %
Operational risk
6 %
Non-counterparty-related risks
1 %

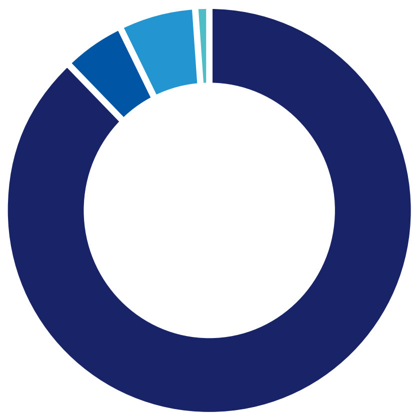


Fig. 4: Risk capital assigned by the Board of Directors, by risk category

Credit risks
69 %
Operational risks
11 %
Balance sheet structure
11 %
Trading portfolio assets
4 %
Financial investments and participations
3 %
Real estate
2 %

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 that the behaviour and actions of 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 risk involves 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.

Reputation 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 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, coal for electricity production (thermal coal), precious woods, live goods, etc., as well as coal mining, oil and gas extraction, and fossil-fuel power plants. 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. Climate-related financial risks, which must be disclosed for the first time as at 31 December 2021 in accordance with FINMA regulatory requirements, are part of sustainability risks. The disclosure report will be published by the end of April 2022 under www.zkb.ch/disclosure. Section 1.10 of this report provides a summary of climate-related financial risks.

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 statistical 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 value adjustments are recognised 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 set aside.

In principle, 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.

The calculation of value adjustments and provisions for expected losses on exposures not at risk of default is explained in the section "Accounting and valuation principles" on page 114.

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 counter-payment is also being made. Settlement risk can occur in relation to foreign exchange transactions, securities lending and borrowing (SLB) and OTC repo transactions as well as transactions involving different payment systems and time zones in the interbank sector. Zürcher Kantonalbank is a member of the CLS Bank International Ltd. joint venture, a clearing centre for the settlement of foreign exchange transactions on a "payment versus payment" basis, which helps ensure that a substantial element of the settlement risk arising as a result of foreign exchange trading is eliminated.

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

1.5.2 Risk profile

The loan portfolio remains robust to the ongoing impact of the Covid-19 pandemic. In the corporate sector, the strong economic recovery has improved the situation and increased the visibility of the impact. Nearly two years following the outbreak of the pandemic, Zürcher Kantonalbank's corporate loan portfolio remains resilient and no extraordinary loss events have occurred to date. Despite improved visibility, forecast uncertainty remains high in the medium term. The income situation in particularly exposed sectors is still under pressure. Individual companies are struggling with structural problems that have become more accentuated due to the pandemic. It cannot be ruled out that the need for value adjustments on the SME exposure in the corporate loan portfolio could increase in the coming years when the government support programmes expire and the loans granted have to be repaid.

The increased forecast uncertainty regarding possible future value adjustments is cushioned by the revised FINMA Accounting Ordinance (RelV-FINMA), under which Swiss banks have been required since 1 January 2021 to recognise value adjustments and provisions for expected losses on non-impaired loans/receivables. In January 2021, Zürcher Kantonalbank recorded the initial recognition of CHF 460 million with no effect on income. Since then the adjustments have been recognised through income. The loan portfolio figures presented in this report show loans/receivables before deduction of the value adjustments for expected losses, which amounted to CHF 502 million as at year-end.

The Swiss residential real estate market continued to realise impressively strong price growth in 2021. The high demand for housing is due to strong net immigration, the investment crisis and not least because of changes in demand caused by the pandemic. In the rental housing segment, the vacancy rate declined in the year under review for the first time in ten years, and a further drop is likely given the slight downturn in construction activity. In the owner-occupied home segment, high demand pressure is colliding with even more limited supply, causing a sharp rise in prices and significant growth in mortgage market volume. Zürcher Kantonalbank is addressing the mounting affordability risks using carefully coordinated measures to ensure growth while maintaining a balanced risk profile.

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 692 million as at the end of 2021 (previous year-end: CHF 927 million); limits totalling CHF 322 million (2020: CHF 113 million) have meanwhile been scaled back (Figure 6). The unsecured exposure from Covid-19 emergency loans for Zürcher Kantonalbank changed only slightly thanks to extensive surety cover.

Credit exposure in the main sub-portfolios

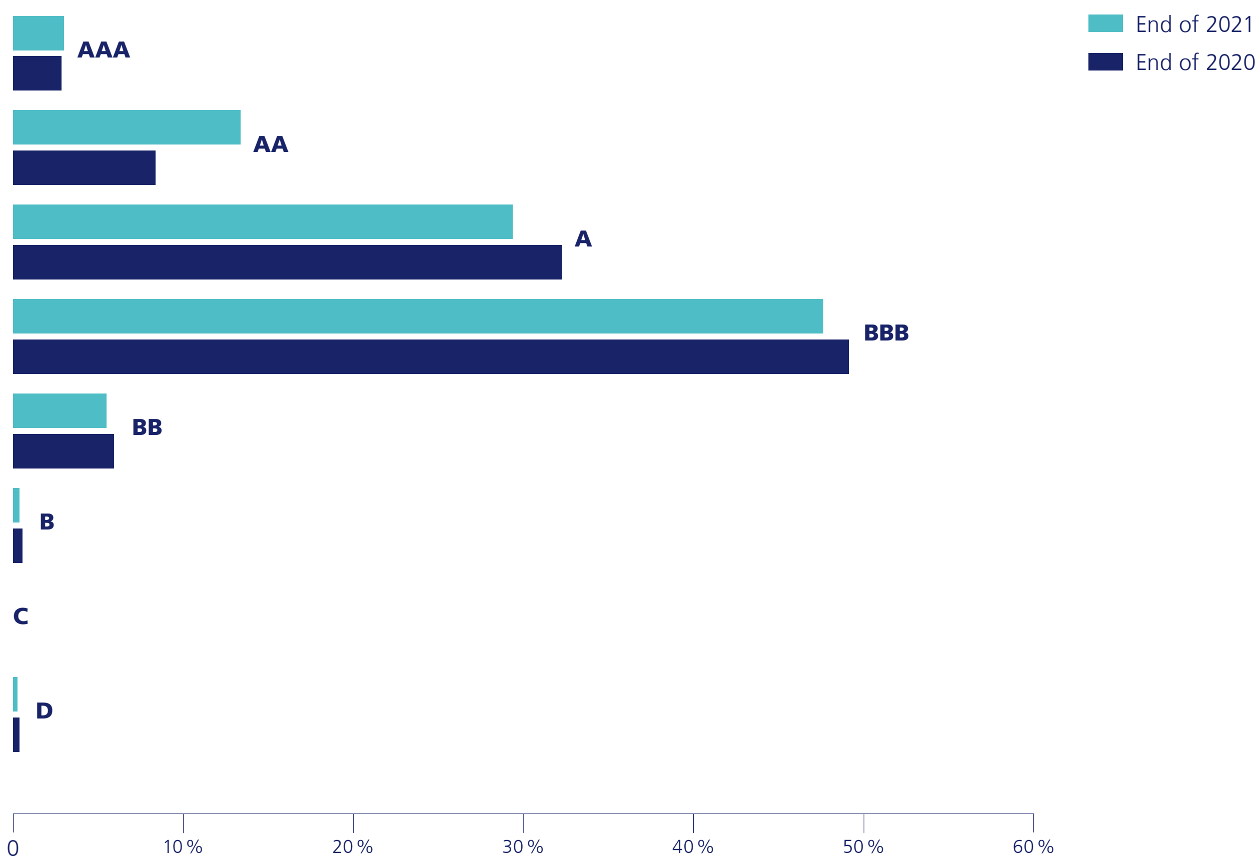
The following sections provide information about the most important sub-portfolios of the credit exposures in Zürcher Kantonalbank's balance sheet.

Fig. 6: Covid-19 emergency loans from Zürcher Kantonalbank in CHF million as at 31 December 2021

in CHF million	Outstanding loans	Unutilised limits	Reduced limits	Total
Covid-19 loans (100 %)	512	37	233	**782**
Covid-19 Plus (85 %)	39	60	83	**183**
Covid-19 canton ZH (85 %)	23	14	5	**43**
Covid-19 start-up (100 %)	5	0	0	**6**
Total	580	112	322	**1,013**

(values in brackets = surety/warranty cover)

Fig. 7: Credit exposures by rating category Share as %



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 6.3 percent of the volume (2020: 7.0 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 14.6 billion (12.5 percent) compared with the previous year. Credit exposures in relation to "private individuals" consist almost entirely of receivables secured by mortgages and represent 51 percent (2020: 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 23 percent (2020: 24 percent), 83 percent (2020: 84 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 15 percent (2020: 11 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 constitute the "Financial sector excluding banks" portfolio, which accounts for an 8 percent share (2020: 6 percent). "Governments and public entities" – the smallest portfolio, with a share of 3 percent of the volume of credit exposures – consists of positions with central banks, central governments and public authorities and institutions.

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 4.5 percent in 2021. The median gross loan-to-value ratio for all properties in the private client portfolio was 49.3 percent (2020: 49.6 percent). The figures indicate the market remains robust in the residential property segment.

Unsecured loans. Of the unsecured loans in the "corporates" portfolio (Figure 9), 77 percent (2020: 70 percent) are attributable to clients in the AAA to BBB (investment grade) rating categories, with a higher year-on-year overall volume at just under CHF 5.2 billion (+ 13.8 percent).

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 0.6 percent or CHF 30 million as at the end of 2021. The "manufacturing" and "trade / maintenance and repair of motor vehicles" industries cover around 44 percent of the volume.

Fig. 8: Credit exposures by client portfolio
in CHF million

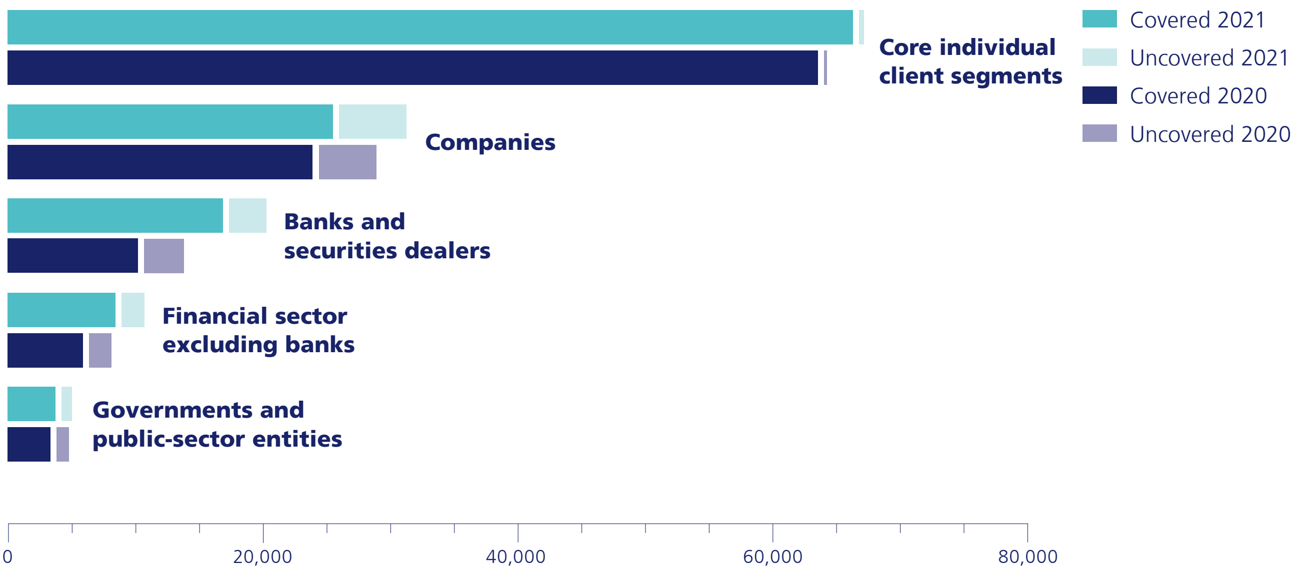


Fig. 9: Unsecured credit exposures to corporate clients by rating category
in CHF million

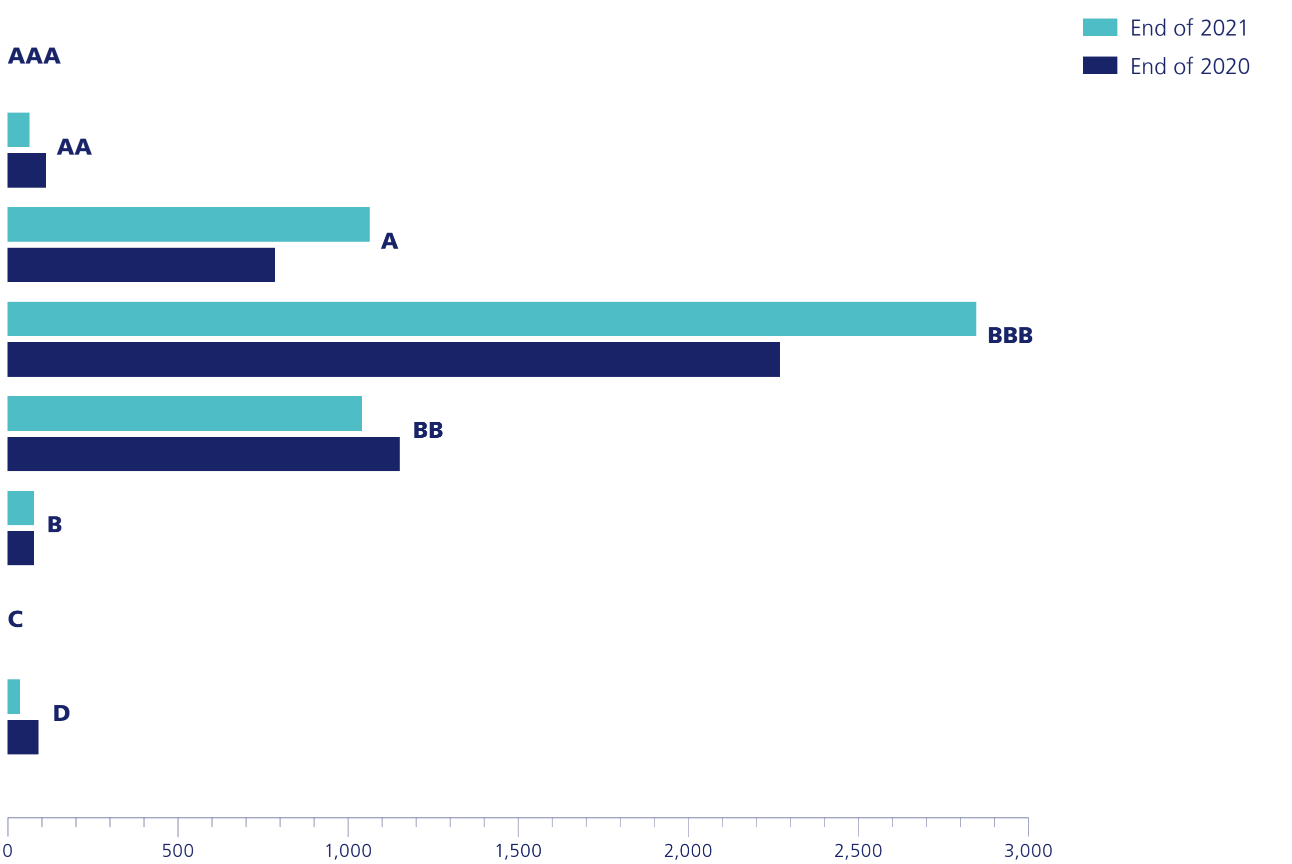
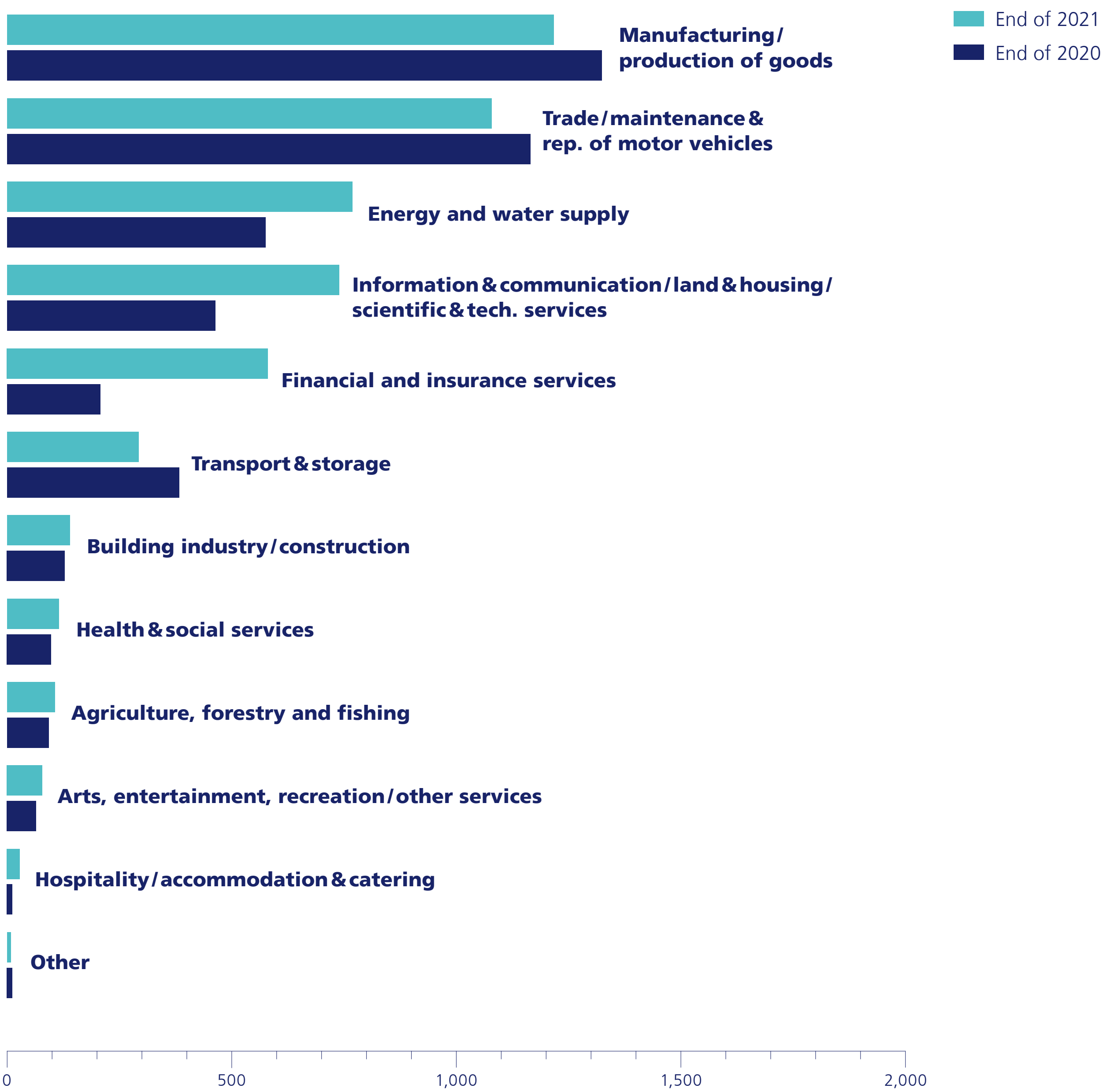
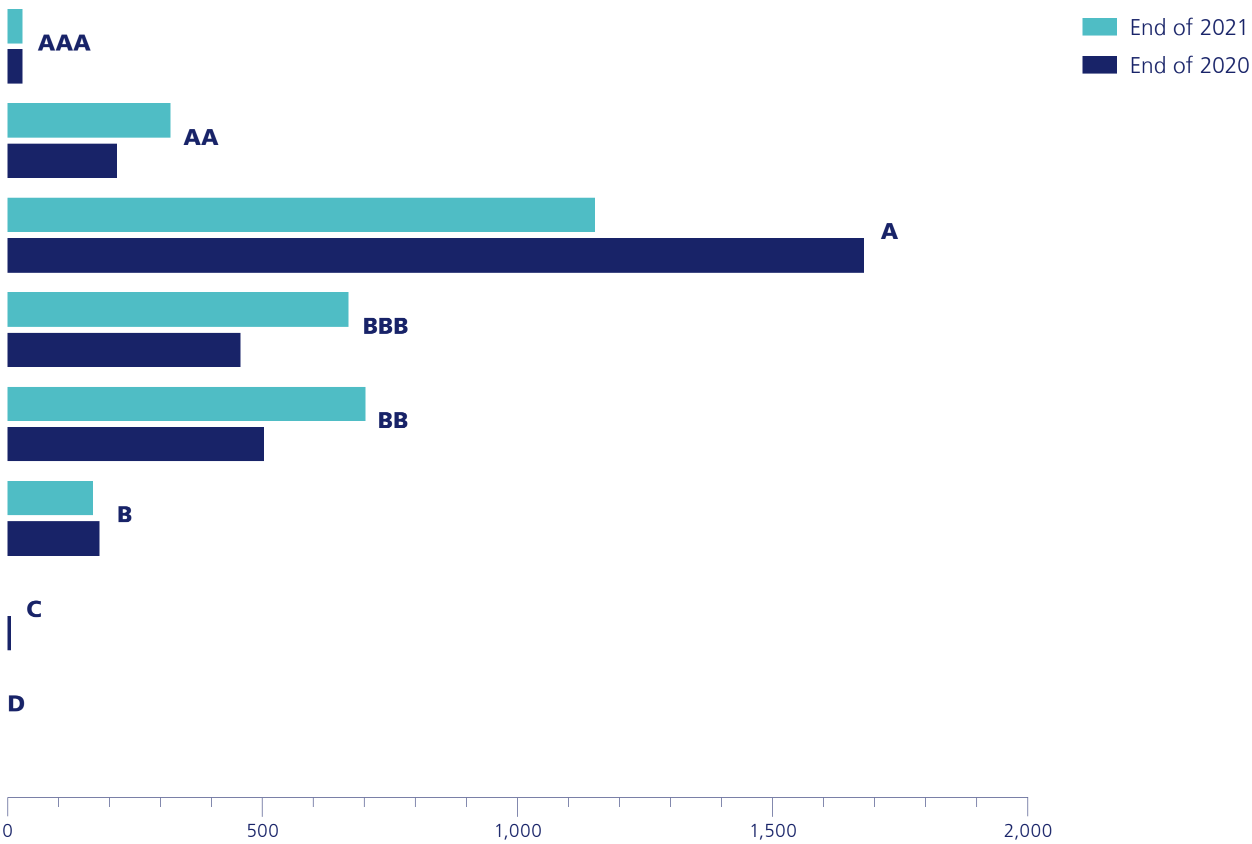


Fig. 10: Unsecured credit exposures to corporate clients by industry in CHF million



In the "banks and securities traders" client portfolio (Figure 11), the volume of unsecured loans at about CHF 3 billion is only marginally lower (–1.2 percent) than at the end of 2020. 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 71 percent (2020: 77 percent) of the unsecured exposures.

Fig. 11: Unsecured credit exposures to banks and securities traders by rating category in CHF million



Impaired loans / receivables. Impaired loans amounted to CHF 418 million (2020: CHF 500 million). After deducting the estimated liquidation value of collateral, this equals net debt of CHF 207 million (2020: CHF 254 million, see also Note 2 to the balance sheet).

Non-performing loans / receivables. The nominal value of non-performing loans amounted to CHF 89 million at the end of the reporting period (2020: CHF 103 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.

Value adjustments and provisions. The volume of individual value adjustments and provisions for default risks from impaired loans and receivables decreased by CHF 18 million to CHF 308 million in 2021 (see also Note 16 to the balance sheet). The uncertainty of forecasts remains high in the medium and long term, and the income situation in some of the sectors remains under pressure.

Accounting regulations have required Swiss banks to recognise value adjustments and provisions for expected losses on non-impaired loans/receivables since 1 January 2021. In January 2021, Zürcher Kantonalbank recorded the initial recognition of CHF 460 million with no effect on income. Since then the adjustments have been recognised through income. Value adjustments and provisions for expected losses increased by CHF 42 million to CHF 502 million since the beginning of the year under review in line with portfolio growth.

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. Historical and hypothetical scenarios are used to estimate the loss that could result from extreme but plausible macroeconomic stress events. Each scenario is based on the expected development of market indicators for the corresponding scenario. In this way the bank can identify potential vulnerabilities and risk concentrations, analyse them better and then take action.

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 identification of the risk of losses due to general changes in prices and volatility. Non-linearity or asymmetry of risks can also be observed in the matrix scenarios. 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 recognised, 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 back-testing, 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.

Risk profile. At CHF 8 million, the annual average value at risk was below the prior year (CHF 14 million) (Figure 12). The sharp decline reflects the limited volatility and the low risk appetite due to a widespread lack of market momentum in the financial markets. Market momentum returned towards the end of the year, driven by inflation figures and the reactions of central banks, with the result that volatility and risk appetite also rose again. Interest rate risks continue to dominate in the composition of value at risk (Figure 13).

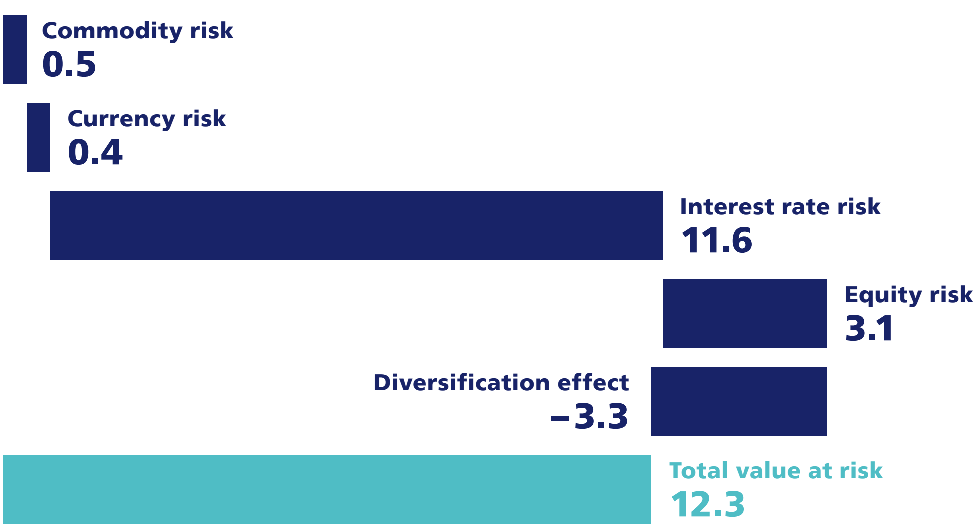
Back-testing results. The quality of the value at risk approach used is assessed by comparing the value at risk for a holding period of one day with the daily back-testing result (Figure 14). In the case of a one-day holding period and 99-percent quantile, the value at risk is expected to be exceeded two to three times each year. This occurs when a daily loss in trading is higher than the model predicts. The number of negative back-testing exceptions over 250 business days rose from zero to one in October against the backdrop of increased interest rate volatility in the financial markets; it remained at one as at the end of the year.

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 31.12.2021	**0**	**0**	**12**	**3**	**−3**	**12**	**13**
Average in 2021	1	1	7	2	−4	7	8
Maximum	1	4	12	4	−6	12	13
Minimum	0	0	5	1	−3	5	5
As at 31.12.2020	0	1	9	1	−3	9	10

1 Incl. precious metals.
2 Sum of modelled total risk and risk premium for trading products not fully modelled.

Fig. 13: Components of value at risk as at 31.12.2021 in CHF million



1.6.2 Strategy, organisation and processes for the management of market risks in the banking book

1.6.2.1 Interest rate risks in the balance sheet

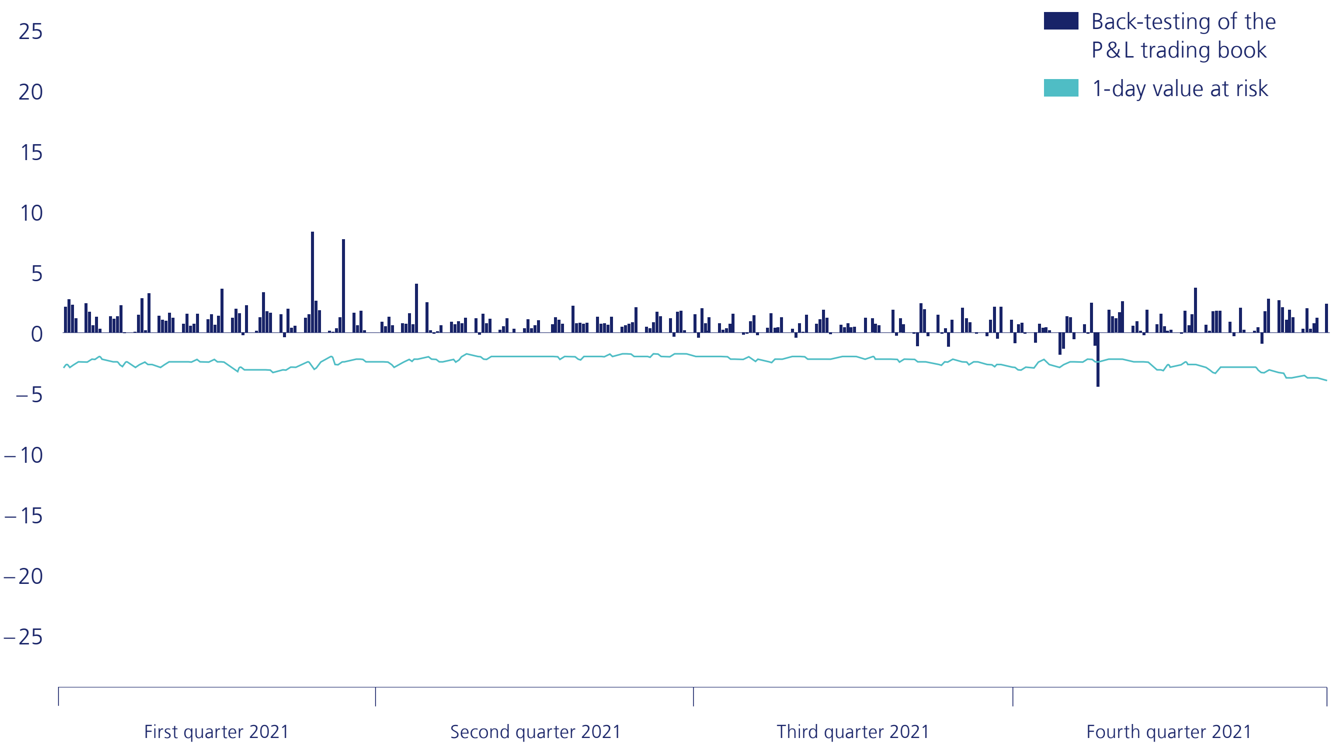
Strategy, organisation and processes. In managing the banking book, Zürcher Kantonalbank pursues a strategy focused on medium-term optimisation of net interest income. The interest rate risk is managed based on the market interest method. For client deposits and loans with a variable interest rate, the interest rate risk is determined by taking into account the bank's anticipated future rate-setting behaviour and client behaviour, and is reviewed at least once a year.

The interest rate risk in the banking book is managed in strategic terms by the Board of Directors and in tactical terms by the CFO and Treasury. 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 primarily savings and transaction accounts. These products are modelled by replicating these 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.

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.

Risk profile. The maturity-dependent sensitivity data shown in Figure 15 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 8.4 million per basis point as at 31 December 2021, approximately 12 percent down on the previous year (see Figure 15). As in the previous year, the strong growth in interest rate exposure from the mortgage business – which was again characterised by a high volume of renewal business, an increase in volume and also long maturities – was increasingly hedged.

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	–746	2,786	9,487	11,527
Hedge	464	–1,281	–2,353	–3,170
Total as at 31.12.2021	**–282**	**1,505**	**7,135**	**8,357**
Total as at 31.12.2020	**–104**	**2,131**	**7,465**	**9,492**

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.

Fig. 16: Present value stress results of the standardised interest rate shock scenarios

in CHF million		31.12.2021	31.12.2020	Change
(i) Upward parallel shift		–1,067	–1,279	212
(ii) Downward parallel shift		1,219	1,436	–217
(iii) Steepener shock		–606	–584	-23
(iv) Flattener shock		398	335	63
(v) Shock of short-term interest rates upward		–40	–169	129
(vi) Shock of short-term interest rates downward		41	173	–132
Core capital parent company (T1)		**13,445**	**13,195**	**251**
Ratio of largest present value loss to core capital	**in %**	**7.94**	**9.69**	**–1.75**

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 terms of the structural contribution. The euro and US dollar interest rate exposures were almost fully hedged as at the end of 2021. The present value losses in the regulatory interest rate shock scenarios, 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 1,067 million, which is a lower year-on-year stress loss of CHF 212 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, Zürcher Kantonalbank 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. In 2021, the bank updated its investment guidelines by including requirements on climate-related financial risks in order to align to Zürcher Kantonalbank's sustainability policy. Financial investments by Treasury must now meet not only exclusion criteria for issuers from critical industries, but also requirements regarding their carbon footprint (CO_2 emissions relative to sales). 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 4.5 billion as at 31 December 2021 (2020: CHF 4.7 billion). The portfolio consists of mortgage bonds and first-class bonds, which are 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.

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: cyber risks, other external tort risks, internal tort risks, expert and model risks, process risks, and environmental and accident risks.

The risk organisation reviews the management of operational risks in an annual structured process. The principles governing the management of operational risks require, among other things, that operational risks are measured and managed based on uniform, binding objectives, and that they are accepted and controlled sustainably in a reasonable relationship to the bank's risk capacity. The Risk unit specifies the processes and methods, and provides tools for monitoring the internal control system.

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). An appropriate and effective ICS ensures that losses from operational risks remain low.

1.7.2 Risk profile

The bank's risk profile for operational risks did not change materially compared with the previous year. The risk ratings of the six OpRisk topics were confirmed. The planned measures to manage the operational risk profile are appropriate.

As society and the economy continue to become digitally connected, external and internal process and cyber risks remain high. Cyber and process risks remain the two OpRisk topics with the greatest residual risk for the bank. The management of these risks therefore continues to receive a high degree of attention.

The bank is addressing the challenging environment and dynamics related to cyber risks by taking various risk mitigation measures. The need to implement additional measures is evaluated on an ongoing basis. Their implementation is based on structured planning. This ensures that the bank's security posture takes into account the requirements of increasing interconnectedness and that the relevant dimensions (identification, protection, detection, response and recovery) are managed. Employees are continuously trained to make them aware of cyber risks and thus to establish and promote a cyber risk culture in the bank.

Risk management of process risks is primarily performed by the process owners. In addition, preventive risk management and the Risk unit prepare risk assessments of the process chains in an end-to-end process context. When doing so, special attention is paid to the interfaces in the process flows and operational resilience is taken into account. Where possible and reasonable, execution errors are avoided by using control activities focused on anomaly detection. The plans for resuming normal operations of critical business processes in the event of an operational crisis (business continuity plans) are regularly reviewed and tested during emergency exercises. The critical business processes according to the business impact analysis as well as the business continuity plans are part of Zürcher Kantonalbank's business continuity management as implemented in accordance with regulatory requirements.

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. Despite the ongoing pandemic, no such absences occurred in 2021. The Pandemic Task Force, as the preliminary stage of the emergency organisation, remains active. 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 2021 suffered no significant business interruptions due to the pandemic.

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 on both 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 unencumbered high-quality liquid assets (HQLA) in financial investments and trading positions, liquidity inflows and outflows under the stress scenario, and 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 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 diversification in terms of maturities, refinancing instruments used and related markets. This diversification limits 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. In addition, the regulatory net stable funding ratio (NSFR) is used to measure, manage and control structural liquidity.

1.8.2 Risk profile

As a systemically important bank, Zürcher Kantonalbank has had to fulfil significantly higher regulatory liquidity requirements since 1 January 2021. 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 147 percent and 160 percent. High-quality liquid assets (HQLA) average between CHF 50.5 billion and CHF 60.2 billion. The HQLA consist of Level-1 assets (cash, central bank deposits, tradeable securities from countries and central banks with high credit ratings) 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, as well as SLB and repo transactions with banks and major clients.

As at mid-2021, the new provisions on the net stable funding ratio (NSFR) from the revised Liquidity Ordinance came into force. Zürcher Kantonalbank has fulfilled this new requirement of 100 percent with a significant buffer for some time. The quarter-end NSFR values ranged from 118 percent to 120 percent in the second half of 2021. The required stable funding ranges between CHF 90.2 billion and CHF 91.4 billion. The available stable funding is between CHF 108.2 billion and CHF 108.6 billion.

Figure 17 shows a year-on-year comparison of the coverage ratio for asset-side client transactions. Loans to clients amounted to CHF 101.7 billion and client assets to CHF 96.9 billion as at 31 December 2021. This results in a coverage ratio of 95.3 percent, which is practically unchanged on the previous year.

1.9 Compliance and legal risks

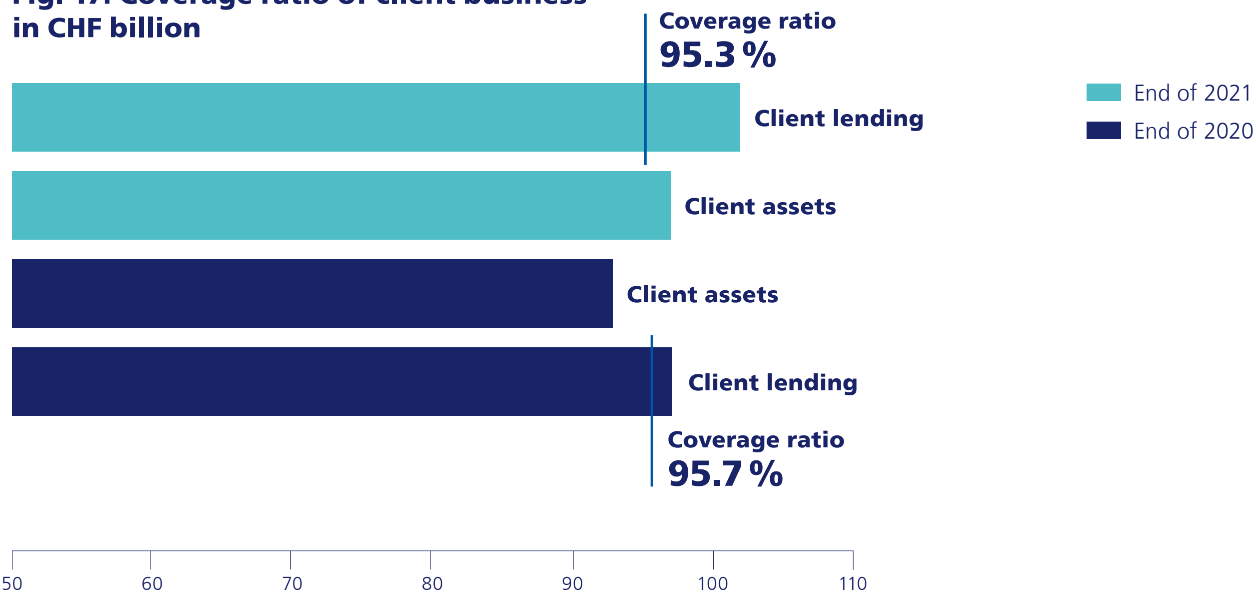
1.9.1 Processes and methods

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 bankwide 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 bank had to implement several new requirements during 2021, including the investor protection provisions of the new Financial Services Act (FinSA) and the new rules stipulated in the revised Data Protection Act. At the same time, regulation is increasingly also addressing the issue of sustainability. Corresponding preparatory and implementation work was likewise a priority of the bank's work to manage compliance and legal risks. The tightening of the Anti-Money Laundering Act, which was adopted in the year under review, also required ongoing efforts. In addition, the bank continued to modernise various technical risk management tools in this area and successfully implemented the first sub-projects. Finally, the Covid-19 pandemic continued to impact the compliance function in the year under review 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

Fig. 17: Coverage ratio of client business in CHF billion



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.

1.10 Climate-related financial risks

Systemically important banks in Switzerland have to disclose information on climate-related financial risks for the first time as at 31 December 2021. Zürcher Kantonalbank will publish the detailed information together with the other elements of its disclosures on capital and liquidity as of the end of April 2022 at www.zkb.ch/disclosure. The following sections summarise some key components of the disclosure information.

Climate-related financial risks are divided into physical risks and transition risks. Physical risks result both from extreme weather events and their consequences (for example, flood damage) and from chronic changes in climatic conditions (for example, rising temperatures). Transition risks, which arise from the shift to a low-carbon economy, include political/legal/regulatory risks, risks from technological change, risks from changing client and investor preferences, and reputation risks.

1.10.1 Strategy, organisation and processes

Risk management's integrated approach to addressing climate-related financial risks as part of sustainability risks contributes to the long-term protection of client assets and the bank's assets. Zürcher Kantonalbank's broad commitment to the various areas of sustainability, including climate protection, is supported by its statutory public service mandate. Zürcher Kantonalbank's group strategy calls for the bank to shape sustainability issues actively, to lead the way in sustainable offerings and to support clients on their journey to a more sustainable future. Zürcher Kantonalbank aims to minimise climate risks across its entire business operations and to establish transparency in this regard. The climate goals are based on the goals of the Paris Agreement and on achieving greenhouse gas neutrality by 2050.

The Board of Directors, in its capacity as the bank's governing body, defines the group mission statement and the group strategy. The Committee of the Board is assisted in fulfilling its responsibilities related to the public service mandate by a specialist unit and a specialist body, which is chaired by the CFO and is made up of representatives of all business units. This specialist body, which is coordinated by the officer responsible for the public service mandate, advises and supports the Committee of the Board and the Board of Directors in all matters relating to the public service mandate.

The Executive Board determines the sustainability policy, which specifies the bank's goals and is also disclosed externally in several ways, including on the bank's homepage (www.zkb.ch). The sustainability policy summarises the areas of impact, defines the role of Zürcher Kantonalbank and formulates the targets – specifically, goals and exclusions in line with the dimensions of environment, society, and governance (ESG) – for implementation in the various business areas.

The management of climate-related financial risks is an integral part of Zürcher Kantonalbank's risk management processes. Sustainability aspects are taken into account in risk identification and assessment, and – if material – also in risk control, management, monitoring and reporting on the respective risk category. Elements that are particularly relevant to climate risk in the risk management processes are:

- OpRisk management in banking operations with the goals for achieving operational ecology as set out in the bank's environmental programme (reduction and compensation of CO_2 footprint), and business continuity management for action in the event of natural disasters.
- Credit risk management in the financing business, where ESG criteria are an integral part of the credit assessment process and specifications exist on excluded and undesirable businesses, as well as regarding transactions with special climate risks.
- The management of market risks with climate-specific specifications for investments in the portfolio of financial assets managed by Treasury.
- Risk management in the investment and asset management business.

In asset management and investment advisory mandates, the integration of ESG criteria into the investment process enables a view of the opportunities and risks of investment decisions that is broadened to include sustainability aspects. Part of risk management in this regard includes the analysis of climate-related financial risks using data on CO_2e intensity, key figures for identifying assets particularly affected by climate risks, and ESG ratings from the financial services provider MSCI. The latter are shown transparently in discussions with clients.

In the field of asset management, Zürcher Kantonalbank is one of the leading providers of sustainable investment products in Switzerland with its products under the "Swisscanto Invest" brand. The Paris climate goal is a binding requirement for all of Swisscanto Invest's traditional, actively managed investment funds. In the products of the "Responsible" product line, investment activities include not only a systematic integration of ESG criteria, but also an orientation towards reducing CO_2e emissions by at least 4 percent per year. The "Sustainable" product line also meets additional sustainability criteria. The product approval process ensures that the contractually stipulated ESG aspects of the products comply with legal requirements and can be subsequently monitored by the bank's investment controlling function, which is independent of the asset manager. Product approval and investment controlling are important elements to ensure compliance with contractually agreed sustainability standards and thus reduce so-called greenwashing risks. The degree of achievement of the CO_2e reduction target and the Swisscanto Sustainability Rating are part of the publicly available sustainability reporting for investors. In addition, the Risk unit uses sustainability stress tests in its measurement, monitoring and reporting.

1.10.2 Risk profile

Climate protection is a central theme in Zürcher Kantonalbank's sustainability mandate. Climate-related financial risks influence the risk profile, but they are not among the top risks.

For transition risks, the key drivers are climate legislation, changing client preferences and public perception. Areas that are potentially more affected by this include:

– the investment and asset management business with the offering of climate-friendly products; and
– the lending business, where future changes in CO_2 legislation may impact the valuation of collateral (including properties in the mortgage portfolio) and financing of companies in climate-exposed sectors.

Physical climate risks are significantly less important for the risk profile than transition risks. Areas that are potentially affected by physical climate risks include:

– the mortgage portfolio – the value of individual properties in the mortgage portfolio could be reduced, for example, as a result of flooding or landslides; and
– banking operations – the accumulation of extreme weather events could impact bank operations in a very adverse flooding scenario.

In the financing business, Zürcher Kantonalbank is guided in particular by the objectives of both the federal government and the Canton of Zurich with a view to Agenda 2030 and achieving greenhouse gas neutrality by 2050. It therefore does not provide financing for coal mining, oil/natural gas production or fossil-fuel power plants. Commodities that are explicitly excluded in commodity trading (CTF) include: coal for electricity production (thermal coal), crude and heavy oil, bitumen/asphalt, asbestos, uranium, precious woods, live goods, diamonds, rare earth metals, perishable goods and non-certified palm oil. In the case of commodity trading clients, the bank systematically reviews sector-specific ESG risks and opportunities during onboarding as part of due diligence and on an annual basis. This review is based on reported data or data collected through the bank's own questionnaires.

Zürcher Kantonalbank is guided by the internationally established United Nations Environment Programme Finance Initiative (UNEP FI) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) on the disclosure of transition risks from credit exposure to climate-sensitive and, as a subset thereof, carbon-related industries. TCFD defines carbon-related as industries associated with the energy and utilities sectors, according to the Global Industry Classification Standard, excluding water supply and renewable power generation. Zürcher Kantonalbank more comprehensively describes as climate-sensitive those industries that are exposed to higher transition risks due to their greenhouse gas emissions. Zürcher Kantonalbank bases its delimitation on emission statistics and uses the Swiss or European industry classification. The commodity trade finance (CTF) sub-portfolio is reported separately, irrespective of the industry, and is subject to the aforementioned restrictions under the bank's sustainability policy.

Figure 19 shows the unsecured loans and advances in the companies client portfolio in line with this classification. In terms of the total balance sheet exposure in this portfolio, climate-sensitive sectors account for around 8.3 percent. This includes the entire energy sector, which, however, consists almost exclusively of financing for sustainable energy sources. In accordance with the aforementioned exclusion criteria of our sustainability policy, Zürcher Kantonalbank does not provide financing in the "coking and petroleum refining" industry, which TCFD designates as carbon-related, and does not finance coal mining or fossil-fuel power plants.

Fig. 18: Overview from the qualitative assessment of climate-related financial risks

Time frame	Physical risks: Short term	Physical risks: Med. term – Long term	Transition risks: Short term	Transition risks: Med. term – Long term
Operational risks: Banking operations	•	•	•	•
Credit risks: Financing business	•	• •	• •	• • •
Market risks: Trading and Treasury	•	•	•	• •
Business risks: Wealth & Asset Management business	•	• •	• •	• •

• = low risk, ••••• = high risk

Short term to med. term = time horizon up to 5 years, long term = 6 to 30 years

Fig. 19: Unsecured loans and advances in the companies client portfolio by “climate-sensitive” and other industries

Industry designation	Exposure in CHF million as at 31.12.2021	in % of unsecured exposure	in % of balance sheet exposure
Mining/crushed rock and earths	7	0.1 %	0.0 %
Metal production/processing	26	0.5 %	0.1 %
Sewage and waste disposal and elimination of environmental pollution	51	1.0 %	0.2 %
Agriculture, hunting and related activities	85	1.7 %	0.3 %
Glass/ceramics/cement	136	2.6 %	0.4 %
Chemical products	195	3.8 %	0.6 %
Transport (incl. mountain railways, but excluding railroads)	206	4.0 %	0.7 %
Automotive	491	9.5 %	1.6 %
Energy supply	673	13.1 %	2.2 %
CTF (commodity trade finance)	710	13.8 %	2.3 %
Total climate-sensitive sectors	**2,580**	**50.0 %**	**8.3 %**
Total other sectors	**2,576**	**50.0 %**	**8.3 %**
Total companies client portfolio loans and advances unsecured	5,156	100.0 %	16.5 %
Real estate financing	24,444		78.4 %
Other products	1,579		5.1 %
Total balance sheet exposure companies	**31,179**		**100.0 %**

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.

		2021	2020	2019	2018	2017
Income statement	**in CHF million**					
Net result from interest operations		**1,248**	1,218	1,216	1,213	1,202
Result from commission business and services		**926**	806	777	776	770
Result from trading activities and the fair value option		**347**	459	319	286	334
Other result from ordinary activities		**24**	29	102	46	31
Operating income		**2,544**	**2,513**	**2,414**	**2,320**	**2,336**
Operating expenses		**–1,517**	–1,580	–1,443	–1,430	–1,434
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		**–104**	–117	–113	–192	–120
Changes to provisions and other value adjustments and losses		**28**	–14	–12	194	2
Operating result		**951**	**801**	**846**	**892**	**784**
Extraordinary result		**0**	25	4	103	8
Changes in reserves for general banking risks		**–**	46	–	–200	–
Taxes		**–9**	–8	–5	–7	–11
Consolidated profit		**942**	**865**	**845**	**788**	**782**
Balance sheet (before appropriation of profit)	**in CHF million**					
Total assets		**192,105**	188,364	167,054	169,408	163,881
Mortgage loans		**91,847**	87,679	84,311	81,256	79,087
Amounts due in respect of customer deposits		**96,777**	92,582	85,089	85,537	81,381
Provisions		**237**	222	242	255	585
Shareholders' equity		**12,674**	12,650	12,337	11,852	11,228
Key figures	**in %**					
Return on equity (RoE)		**7.8**	7.2	7.2	7.1	7.3
Cost/income ratio (CIR)[1]		**58.7**	60.1[2]	59.9	61.4	61.1
Common equity Tier 1 ratio (CET1)[3]		**17.0**	17.4	17.7	17.8	16.5[5]
Risk-based capital ratio (going concern)[3]		**18.5**	18.9	20.0	20.2	18.8[5]
Risk-based capital ratio (gone concern)[3/4]		**4.0**	3.2	1.4	n/a	n/a
Leverage ratio (going concern)[3]		**6.2**	6.2	7.0	6.8	6.8
Leverage ratio (gone concern)[3/4]		**1.3**	1.1	0.5	n/a	n/a
Liquidity coverage ratio (LCR)[6]		**160**	160	123	127	153
Net stable fund ratio (NSFR)[7]		**118**	n.a.	n.a.	n.a.	n.a.
Customers' assets	**in CHF million**					
Total customers' assets		**409,190**	**361,658**	**333,341**	**295,194**	**288,802**

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 Effective since 1 January 2019.
5 Including effects stemming from the changeover to IRB and SA-CCR.
6 A simple average of the end-of-day values on business days during the quarter under review.
7 Effective since 1 July 2021.

Multi-year comparison (continued)

	2021	2020	2019	2018	2017
Headcount/branches — **Number**					
Headcount after adjustment for part-time employees, as at the reporting date	5,145	5,180	5,145	5,087	5,117
Branches[8]	57	60	66	75	78
Profit distribution — **in CHF million**					
Share paid to canton to cover actual costs	11	11	11	13	18
Distribution to canton	280	297[10]	330[9]	230	230
Distribution to municipalities	140	148[10]	165[9]	115	115
Total profit distribution	**431**	**456**	**506**	**358**	**363**
Additional compensation for state guarantee	27	23	22	22	23
Additional payments from public service mandate	141	126	125	140	131
Rating agencies — **Rating**					
Fitch	AAA	AAA	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Standard & Poor's	AAA	AAA	AAA	AAA	AAA

8 Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna.
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 2021 of

Zurich, 3 March 2022

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, including a summary of significant accounting policies (pages 108 to 153), for the year ended 31 December 2021.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the applicable financial reporting framework 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements, which provide a true and fair view of the financial position, the results of operations and the cash flows, 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 2021 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the applicable financial reporting framework 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

Zürcher Kantonalbank discloses loans to clients and amounts due from banks at nominal value less any necessary allowances.

For impaired loans, individual value adjustments are made.

With effect from 1 January 2021, the bank has adopted the accounting regulations for banks regarding the determination of allowances and provisions for default risks for non-impaired receivables (FINMA Accounting Ordinance and FINMA Circular 2020/01 “Accounting – Banks”).

For the measurement of allowances and provisions for default risks, valuation models are used. In addition, this requires making estimates and assumptions which, by definition, involve judgments and can vary depending on the valuation.

As of 31 December 2021, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 104.9 billion. As of the balance sheet date, allowances and provisions for impaired loans amounted to CHF 307.8 million and allowances and provisions for expected losses amounted to CHF 502.2 million. With 54.6%, 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 117 to 119, 125, 126 as well as on pages 167 to 177 of the bank’s annual report. Furthermore, we refer to notes 2 and 16 on pages 129, 130 and 140 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. Moreover, we evaluated the concept implemented by Zürcher Kantonalbank as of 1 January 2021 for the determination of allowances and provisions for expected losses. Finally, 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 2021, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.3 billion, while that of the negative replacement values comes to CHF 1.1 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 1,535 billion. Furthermore, as of 31 December 2021, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 4.4 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 120, 121, 126, 127 as well as on pages 177 to 183 of its annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 130 to 132 and 138 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.

EY Building a better working world

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	Timo D'Ambrosio
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Parent Company Financial Statements

Income statement

in CHF million	Notes	2021	2020	Change	Change in %
Result from interest operations					
Interest and discount income		1,190	1,425	–235	–16.5
Interest and dividend income from financial investments		27	32	–6	–17.3
Interest expense		70	–200	270	–135.0
Gross result from interest operations	33	**1,287**	**1,257**	**30**	**2.4**
Changes in value adjustments for default risk and losses from interest operations		–40	–39	–0	0.5
Subtotal net result from interest operations		**1,247**	**1,218**	**30**	**2.4**
Result from commission business and services					
Commission income from securities trading and investment activities		788	679	109	16.0
Commission income from lending activities		69	57	11	19.9
Commission income from other services		102	102	–1	–0.7
Commission expense		–144	–127	–17	13.1
Subtotal result from commission business and services		**814**	**711**	**103**	**14.5**
Result from trading activities					
Result from trading activities and the fair value option	32	**327**	**448**	**–121**	**–26.9**
Other result from ordinary activities					
Result from the disposal of financial investments		4	6	–2	–36.2
Income from participations		34	37	–3	–8.2
– of which, participations valued using the equity method		–	–	–	–
– of which, from other non-consolidated participations		–	–	–	–
Result from real estate		8	8	–0	–5.1
Other ordinary income		33	25	8	32.5
Other ordinary expenses		–11	–6	–5	81.9
Subtotal other result from ordinary activities		**67**	**70**	**–3**	**–3.6**
Operating income		**2,456**	**2,447**	**9**	**0.4**
Operating expenses					
Personnel expenses	34	–1,055	–1,087	32	–3.0
General and administrative expenses	35	–406	–440	34	–7.7
Subtotal operating expenses		**–1,461**	**–1,527**	**66**	**–4.3**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–103	–116	13	–11.2
Changes to provisions and other value adjustments and losses		29	–14	43	–301.6
Operating result		**921**	**789**	**132**	**16.7**
Extraordinary income	36	12	23	–11	–46.3
Extraordinary expenses	36	–2	–0	–2	–
Changes in reserves for general banking risks	36	–	46	–46	–100.0
Taxes	39	0	–0	0	–192.3
Result of the period		**932**	**859**	**73**	**8.5**

Appropriation of profit

in CHF million	2021	2020	Change	Change in %
Result of the period	932	859	73	8.5
Profit carried forward	2	2	1	41.9
Distributable profit	934	860	74	8.6
Appropriation of profit				
Profit distribution				
Dividend	431	456	−25	−5.6
– of which, paid to cover actual costs	11	11	−0	−4.1
– of which, ordinary dividends for the benefit of the canton	280	230	50	21.7
– of which, special coronavirus dividends for the benefit of the canton	–	67	n.a.	n.a.
– of which, ordinary dividends for the benefit of the municipalities	140	115	25	21.7
– of which, special coronavirus dividends for the benefit of the municipality	–	33	n.a.	n.a.
Profit retained				
Allocated to reserves	501	402	99	24.6
– of which, allocated to voluntary retained earnings reserve	501	402	99	24.6
Profit carried forward	**3**	**2**	**0**	**10.5**

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 27 January 2022.
Approval of the annual financial statements by the Cantonal Parliament is scheduled for 30 May 2022.

Balance sheet
as at 31 December

in CHF million	Notes	2021	2020	Change	Change in %
Assets					
Liquid assets		**40,842**	52,140	–11,298	–21.7
Amounts due from banks		**3,160**	3,220	–60	–1.9
Amounts due from securities financing transactions	1	**26,289**	16,942	9,346	55.2
Amounts due from clients	2	**9,868**	9,292	576	6.2
Mortgage loans	2	**91,847**	87,679	4,168	4.8
Trading portfolio assets	3	**11,133**	9,750	1,382	14.2
Positive replacement values of derivative financial instruments	4	**1,321**	1,655	–334	–20.2
Other financial instruments at fair value	3	**–**	–	–	–
Financial investments	5	**4,729**	4,996	–268	–5.4
Accrued income and prepaid expenses		**325**	341	–15	–4.5
Participations		**516**	522	–6	–1.1
Tangible fixed assets		**595**	626	–31	–5.0
Intangible assets		**8**	12	–3	–28.2
Other assets	10	**459**	444	15	3.4
Total assets		**191,092**	**187,620**	**3,471**	**1.9**
Total subordinated claims		**284**	263	21	8.1
– of which, subject to conversion and/or debt waiver		**48**	18	30	171.1
Liabilities					
Amounts due to banks		**34,948**	34,780	167	0.5
Liabilities from securities financing transactions	1	**4,403**	4,823	–420	–8.7
Amounts due in respect of customer deposits		**96,876**	92,797	4,079	4.4
Trading portfolio liabilities	3	**1,943**	1,320	624	47.3
Negative replacement values of derivative financial instruments	4	**1,116**	942	174	18.5
Liabilities from other financial instruments at fair value	3,14	**3,223**	2,436	787	32.3
Cash bonds		**135**	158	–23	–14.5
Bond issues		**22,779**	25,385	–2,606	–10.3
Central mortgage institution loans		**11,307**	10,743	564	5.2
Accrued expenses and deferred income		**765**	785	–20	–2.6
Other liabilities	10	**656**	543	113	20.8
Provisions	16	**237**	220	17	7.5
Reserves for general banking risks	16	**4,530**	4,990	–460	–9.2
Bank's capital	17,21	**2,425**	2,425	–	–
Statutory retained earnings reserve	21	**1,213**	1,213	–	–
Voluntary retained earnings reserve	21	**3,601**	3,199	402	12.6
Profit carried forward	21	**2**	2	1	41.9
Result of the period	21	**932**	859	73	8.5
Shareholders' equity	**21**	**12,703**	**12,687**	**16**	**0.1**
Total liabilities		**191,092**	**187,620**	**3,471**	**1.9**
Total subordinated liabilities		**1,585**	1,607	–22	–1.3
– of which subject to conversion and/or debt waiver		**1,585**	1,607	–22	–1.3
Off-balance-sheet transactions					
Contingent liabilities	2	**4,373**	3,393	980	28.9
Irrevocable commitments	2	**11,348**	11,590	–243	–2.1
Obligations to pay up shares and make further contributions	2	**332**	251	81	32.1
Credit commitments	2	**–**	–	–	–

Statement of changes in equity

in CHF millions	Bank's capital	Statutory retained earnings reserve	Reserves for general banking risks	Voluntary retained earnings reserve	Distributable profit	Total equity
2020						
Opening amount	2,425	1,213	5,036	2,766	941	12,381
Effect of any restatement	–	–	–	–	–	–
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Other contributions/other capital paid in	–	–	–	–	–	–
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**
2021						
Opening amount	**2,425**	**1,213**	**4,990**	**3,199**	**860**	**12,687**
Effect of any restatement	–	–	–	–	–	–
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Other contributions/other capital paid in	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Capital costs of endowment capital	–	–	–	–	**–11**	**–11**
Allocation to the canton from previous year's profit	–	–	–	–	**–297**	**–297**
Allocation to municipalities from previous year's profit	–	–	–	–	**–148**	**–148**
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	–	–	**–460**[1]	**402**	**–402**	**–460**
Result of the period	–	–	–	–	**932**	**932**
Total equity as at 31.12.2021	**2,425**	**1,213**	**4,530**	**3,601**	**934**	**12,703**

1 Initial recognition of valuation allowances/provisions for expected losses

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 and changes made to them during the financial year, 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	2021	2020
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	26,289	16,942
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	4,403	4,823
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	4,345	4,758
– of which, with unrestricted right to resell or pledge	4,345	4,758
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	52,550	42,632
– of which, repledged securities	1,564	848
– of which, resold securities	25,980	25,535

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	30	2,088	7,941	10,059
Mortgage loans				
– Residential property	76,875	8	24	76,908
– Office and business premises	10,066	–	13	10,079
– Commercial and industrial premises	2,261	0	20	2,281
– Other	3,001	0	1	3,003
Total mortgage loans	92,203	9	58	92,270
Total loans (before netting with value adjustments) 2021	**92,234**	**2,097**	**7,998**	**102,329**
Total loans (before netting with value adjustments) 2020	**87,701**	**1,887**	**7,569**	**97,157**
Total loans (after netting with value adjustments) 2021	**91,858**	**2,093**	**7,765**	**101,715**
Total loans (after netting with value adjustments) 2020	**87,701**	**1,887**	**7,384**	**96,972**
Off-balance-sheet				
Contingent liabilities	40	264	4,068	4,373
Irrevocable commitments	2,214	342	8,792	11,348
Obligations to pay up shares and make further contributions	–	–	332	332
Credit commitments	–	–	–	–
Total off-balance-sheet transactions 2021	**2,254**	**607**	**13,192**	**16,052**
Total off-balance-sheet transactions 2020	**2,063**	**841**	**12,330**	**15,235**

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]
2021	**418**	**211**	**207**	**190**
2020	499	246	253	188

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	2021	2020
Debt securities, money market securities/transactions	**3,849**	3,221
– of which, listed[1]	**3,624**	2,540
Equity securities	**3,850**	3,086
Precious metals and commodities	**3,372**	3,340
Other trading portfolio assets	**62**	103
Total trading transactions	**11,133**	**9,750**
Debt securities	**–**	–
Structured products	**–**	–
Other	**–**	–
Total other financial instruments at fair value	**–**	**–**
Total assets	**11,133**	**9,750**
– of which, determined using a valuation model	**286**	783
– of which, securities eligible for repo transactions in accordance with liquidity requirements	**1,238**	1,321

Liabilities in CHF million	2021	2020
Debt securities, money market securities/transactions	**1,938**	1,300
– of which, listed[1]	**1,910**	1,280
Equity securities	**2**	14
Precious metals and commodities	**–**	5
Other trading portfolio liabilities	**3**	0
Total trading portfolio liabilities	**1,943**	**1,320**
Debt securities	**–**	–
Structured products	**3,223**	2,436
Other	**–**	–
Total liabilities from other financial instruments at fair value	**3,223**	**2,436**
Total liabilities	**5,167**	3,756
– of which, determined using a valuation model	**3,252**	2,457

1 Listed = traded on a recognised exchange.

4 Derivative financial instruments (assets and liabilities)

in CHF million	Trading instruments			Hedging instruments		
	Positive replacement values	Negative replacement values	Contract volume[1]	Positive replacement values	Negative replacement values	Contract volume[1]
Interest rate instruments						
Forward contracts including FRAs	–	–	–	–	–	–
Swaps	6,731	5,969	1,061,035[2]	255	169	15,410
Futures	–	–	15,169	–	–	–
Options (OTC)	44	56	7,337	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	**6,776**	**6,024**	**1,083,541**	**255**	**169**	**15,410**
Foreign exchange/precious metals						
Forward contracts	2,408	3,001	372,933	–	–	–
Combined interest rate/currency swaps	318	517	2,819	113	6	1,539
Futures	–	–	378	–	–	–
Options (OTC)	61	75	37,591	–	–	–
Options (exchange-traded)	0	–	3	–	–	–
Total	**2,787**	**3,594**	**413,723**	**113**	**6**	**1,539**
Equity securities/indices						
Forward contracts	–	–	–	–	–	–
Swaps	25	16	1,048	–	–	–
Futures	–	–	2,796	–	–	–
Options (OTC)	76	121	6,062	–	–	–
Options (exchange-traded)	177	243	12,364	–	–	–
Total	**278**	**380**	**22,270**	**–**	**–**	**–**
Credit derivatives						
Credit default swaps	13	13	669	–	–	–
Total return swaps	0	0	23	–	–	–
First-to-default swaps	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–
Total	**13**	**14**	**692**	**–**	**–**	**–**
Other[3]						
Forward contracts	–	–	–	–	–	–
Swaps	0	0	11	–	–	–
Futures	–	–	736	–	–	–
Options (OTC)	–	0	1	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	**0**	**0**	**748**		**–**	**–**
Total before netting agreements						
2021	**9,854**	**10,012**	**1,520,975[2]**	**367**	**175**	**16,949**
– of which, determined using a valuation model	**9,854**	**10,012**	**–**	**367**	**175**	**–**
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	–

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 The contract volume of interest rate swaps includes additional transactions with short terms to maturity in connection with the conversion from Libor to Saron rates.

3 Includes commodities and hybrid derivatives.

4 Derivative financial instruments (assets and liabilities) (continued)

Total after netting agreements[4]

in CHF million	Positive replacement values (cumulative)	Negative replacement values (cumulative)
2021	**1,321**	**1,116**
2020	1,655	942

Breakdown by counterparty

Positive replacement values (after netting agreements)	Central clearing houses	Banks and securities firms	Other customers
2021	**99**	**300**	**921**

4 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	**2021**	**2020**	**2021**	**2020**
Debt securities	**4,447**	4,661	**4,529**	4,835
– of which, intended to be held to maturity	**4,447**	4,661	**4,529**	4,835
– of which, not intended to be held to maturity (available for sale)	**–**	–	**–**	–
Equity securities	**107**	96	**219**	177
– of which, qualified participations[1]	**16**	17	**32**	27
Precious metals	**175**	236	**175**	236
Real estate	**–**	4	**–**	4
Cryptocurrencies	**–**	–	**–**	–
Total financial investments	**4,729**	**4,996**	**4,923**	**5,252**
– of which, securities eligible for repo transactions in accordance with liquidity requirements	**4,401**	4,576	**4,484**	4,748

1 At least 10 percent of the capital or voting rights.

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 2021	**4,162**	**25**	**–**	**–**	**–**	**260**

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

	Other assets		Other liabilities	
in CHF million	**2021**	**2020**	**2021**	**2020**
Compensation account	0	0	162	131
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	409	382	433	363
Indirect taxes	46	57	50	38
Other	5	5	12	11
Total	**459**	**444**	**656**	**543**

11 Assets pledged or assigned to secure own commitments, and assets under reservation of ownership

	2021		2020	
in CHF million	**Book value**	**Effective commitment**	**Book value**	**Effective commitment**
Pledged/assigned assets				
Amounts due from banks	1,045	1,033	990	985
Amounts due from customers	2,119	2,086	2,879	2,855
Mortgage loans	13,937	11,307	13,376	10,743
Trading portfolio assets	360	314	771	765
Financial investments	–	–	–	–
Total pledged/assigned assets	**17,462**	**14,739**	**18,016**	**15,348**

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 transactions.

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	**2021**	**2020**	**Change**
Amounts due in respect of customer deposits	105	108	–3
Cash bonds	0	0	0
Negative replacement values of derivative financial instruments	18[1]	4	14
Accrued expenses and deferred income	0	0	0
Other liabilities	0	0	0
Total	**123**	**112**	**11**

Own pension schemes do not hold any of the bank's equity instruments.
1 After taking netting agreement into account

13 Information on pension schemes

a) Employer contribution reserves (ECR)

in CHF million	Nominal value End of 2021	Waiver of use End of 2021	Net amount End of 2021	Net amount End of 2020	Influence of ECR on personnel expenses 2021	Influence of ECR on personnel expenses 2020
Zürcher Kantonalbank pension fund	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

b) Economic benefit/obligations and the pension expenses

in CHF million	Over-/underfunding end 2021	Economic interest of the bank 2021	Economic interest of the bank 2020	Change in economic interest versus previous year 2021	Contributions paid 2021	Pension expenses in personnel expenses 2021	Pension expenses in personnel expenses 2020
Employer-sponsored funds/employer-sponsored pension schemes	–	–	–	–	–	–	–
Pension plans without overfunding/underfunding	–	–	–	–	–	–	113
Pension plans with overfunding	108	–	–	–	114	114	–
Pension plans with underfunding	–	–	–	–	–	–	–
Pension schemes without own assets	–	–	–	–	–	–	–
Total	**108**	**–**	**–**	**–**	**114**	**114**	**113**

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	–	37	–	–	37
	Without oDC	–	–	–	–	–
Equity securities	With own debenture component	–	2,914	–	–	2,914
	Without oDC	–	–	–	–	–
Foreign currencies	With own debenture component	–	247	–	–	247
	Without oDC	–	–	–	–	–
Commodities/precious metals	With own debenture component	–	25	–	–	25
	Without oDC	–	–	–	–	–
Loans	With own debenture component	–	–	–	–	–
	Without oDC	–	–	–	–	–
Real estate	With own debenture component	–	–	–	–	–
	Without oDC	–	–	–	–	–
Hybrid instruments	With own debenture component	–	2	–	–	2
	Without oDC	–	–	–	–	–
Total 2021		**–**	**3,223**	**–**	**–**	**3,223**
Total 2020		**–**	**2,436**	**–**	**–**	**2,436**

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 2020	Changes to scope of consolida-tion	Use in conformity with designated purpose and reversals	Reclassifi-cations[1]	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income statement	Balance at end of 2021
Provisions for deferred taxes	–	–	–	–	–	–	–	–	–
Provisions for pension benefit obligations	–	–	–	–	–	–	–	–	–
Provisions for default risks	137	–	–0	54	–	–	138	–145	184
– of which provisions for expected loss	–	–	–	54	–	–	95	–83	66
Provisions for other business risks[2]	55	–	–2	–	–	–	–	–23	29
Provisions for restructuring	–	–	–	–	–	–	–	–	–
Other provisions[3]	29	–	–3	–	–	–	3	–5	23
Total provisions	**220**	**–**	**–5**	**54**	**–**	**–**	**140**	**–173**	**237**
Reserves for general banking risks	**4,990**	**–**	**–**	**–460**	**–**	**–**	**–**	**–**	**4,530**
Value adjustments for default and country risks	188	–	–6	406	–	2	289	–254	625
– of which, value adjustments for default risks in respect of impaired loans/receivables[4]	188	–	–6	–	–	2	80	–74	190
– of which, value adjustments for expected loss	–	–	–	406	–	–	210	–180	436

1 Initial recognition of valuation allowances/provisions for expected losses by means of transfer from retained earnings.
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 The other provisions include, among other things, provisions for litigation and provisions for employees' holiday credits.
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 (2021: CHF 1 million/2020: 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 2021	Total par value 2020
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	**2021**	**2020**	**2021**	**2020**
Holders of qualified participations	**2**	10	**379**	1,305
Group companies	**304**	460	**361**	455
Affiliated companies	**549**	357	**1,049**	970
Transactions with members of governing bodies	**15**	15	**19**	20
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 1,579 million (2020: CHF 1,269 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	**2021**	**2020**
Reserves for general banking risks	**4,530**	4,990
Bank's capital	**2,425**	2,425
Statutory retained earnings reserve	**1,213**	1,213
Voluntary retained earnings reserve	**3,601**	3,199
Profit carried forward	**2**	2
Result of the period	**932**	859
Total equity	**12,703**	**12,687**

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)

		2021 Net foreign exposure		2020 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	**24,618**	**86.2**	19,363	88.5
B	A1 / A2 / A3	**1,237**	**4.3**	786	3.6
C	Baa1 / Baa2 / Baa3	**980**	**3.4**	768	3.5
D	Ba1 / Ba2	**668**	**2.3**	437	2.0
E	Ba3	**97**	**0.3**	85	0.4
F	B1 / B2 / B3	**347**	**1.2**	209	1.0
G	Caa1 / Caa2 / Caa3 / Ca / C	**623**	**2.2**	233	1.1
Total		**28,569**	**100.0**	**21,880**	**100.0**

The prior year figures include a restatement in the amount of CHF 7.4 billion. In the past, a risk assessment was performed because amounts due from securities financing transactions were offset against collateral received. Foreign assets are now reported according to balance sheet values by risk domicile without this offsetting.

j) Information on off-balance-sheet transactions

28 Contingent liabilities and contingent assets

in CHF million	2021	2020
Guarantees to secure credits and similar	**404**	375
Performance guarantees and similar	**2,475**	2,034
Irrevocable commitments arising from documentary letters of credit	**1,493**	984
Other contingent liabilities	**–**	–
Total contingent liabilities	**4,373**	**3,393**
Contingent assets arising from tax losses carried forward	**–**	–
Other contingent assets	**–**	–
Total contingent assets	**–**	**–**

Zürcher Kantonalbank is jointly and severally liable for all obligations in connection with the value added tax (VAT) of companies belonging to the VAT group of Zürcher Kantonalbank in Switzerland.

30 Breakdown of fiduciary transactions

in CHF million	2021	2020
Fiduciary investments with third-party companies	120	214
Fiduciary investments with group companies and affiliated 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	**120**	**214**

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

Type of managed assets in CHF million	2021	2020
Assets in collective investment schemes managed by the bank	129,220	112,563
Assets under discretionary asset management agreements	80,002	69,962
Other managed assets	195,296	175,159
Total managed assets (including double counting)[1]	**404,518**	**357,684**
– of which, double counting	68,621	57,709

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.

b) Presentation of the development of managed assets

in CHF million	2021	2020
Total managed assets (including double counting) at beginning	357,684	329,532
+/– Net new money inflow or net new money outflow[1]	25,421	22,013
+/– price gains/losses, interest, dividends and currency gains/losses	21,025	8,757
+/– other effects	388	–2,618
Total managed assets (including double counting) at end	**404,518**	**357,684**

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	2021	2020
Result from trading in foreign exchange, bank notes and precious metals	130	142
Result from trading in bonds, interest rate and credit derivatives	89	191
Result from trading in equities and structured products	76	73
Result from other trading activities[1]	33	42
Total	**327**	**448**

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	2021	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	130	117	10	–	2	–	–	–
Result from trading in bonds, interest rate and credit derivatives	89	–0	–	–	91	–2	–	–
Result from trading in equities and structured products	76	8	2	–	–9	74	1	–0
Result from other trading activities	33	0	–	32	1	–1	–0	0
Total	**327**	**125**	**12**	**32**	**86**	**71**	**1**	**–0**
– of which, from fair value option on assets	–	–	–	–	–	–	–	–
– of which, from fair value option on liabilities	–318	7	1	–	0	–325	–1	–1

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 2021, refinancing income from trading activities of CHF –15.5 million (previous year: CHF – 22.1 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 230.8 million (previous year: CHF 370.1 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	2021	2020
Negative interest on lending business (reduction in interest and discount income)	212	199
Negative interest on deposit-taking business (reduction in interest expenses)	209	144

34 Breakdown of personnel expenses

in CHF million	2021	2020
Salaries for members of the bank's governing bodies and personnel	846	833
– of which, alternative forms of variable compensation	–	–
AHV, IV, ALV and other social security contributions	179	180[1]
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	29	74[2]
Total	**1,055**	**1,087**

1 Including change in provisions for pension benefit obligations (release CHF 0 million).
2 Including the anniversary payment of CHF 44 million.

35 Breakdown of general and administrative expenses

in CHF million	2021	2020
Office space expenses	27	33
Expenses for information and communications technology	153	172
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	1	2
Fees of audit firms	4	4
– of which, for financial and regulatory audits	3	4
– of which, for other services	0	0
Other operating expenses	220	230
– of which, compensation for state guarantee	27	23
Total	**406**	**440**

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	2021	2020
Extraordinary income		
Reversal of impairment on other participations	12	4
Income from sale of other real estate / bank premises	1	0
Income from sale of participations	0	20
Other	0	0
Total	**12**	**23**
Extraordinary expenses		
Losses from sale of other real estate / bank premises	–	0
Losses from disposal of participations	2	–
Other	–	0
Total	**2**	**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**

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.

In the financial year, no releases of hidden reserves were recorded.
Provisions for other business risks, including in connection with the termination of the Deferred Prosecution Agreement (DPA) with the US in the amount of CHF 19 million, were released through profit or loss in the financial year via the item Changes to provisions and other value adjustments and losses.

37 Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum

in CHF million		2021	2020
Participations	**Registered office**		
Zürcher Kantonalbank Österreich AG	Salzburg	11	3
Total		**11**	**3**

Appreciation is applied to non-listed participations in accordance with the practitioner 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	2021	2020
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	–	–
Reversal of other deferred taxes	–	–
Expenses for current income and capital taxes	–	–
Expenses for property gains taxes	0	–0
Total	**0**	**–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	2021	2020	Liabilities in CHF 1,000	2021	2020
Liquid assets	423	352	Amounts due to banks	5,000	5,200
Amounts due from banks	684	543	Surplus from auctions	185	206
Accounts receivable	–	–	Accounts payable	11	2
Loans	5,167	5,681	Provisions	115	140
Inventory	–	–	Reserve fund	1,247	1,211
Furniture, IT system	0	0	Profit carried forward	1	0
Transitory assets / accrued interest	197	219	Operating profit / -loss	–89	36
Total assets	**6,471**	**6,796**	**Total assets**	**6,471**	**6,796**

Income statement

Expenses in CHF 1,000	2021	2020	Income in CHF 1,000	2021	2020
Operating expenses	917	828	Interest on loans	711	776
Refinancing expenses	28	34	Other income	146	123
Losses	1	0			
Depreciation and provisions	–	–			
Operating profit	–	36	Operating loss	89	–
Total	**946**	**899**	**Total**	**946**	**899**

Loan transactions

	Items	in CHF 1,000	Items	in CHF 1,000
Total loans at 31.12.2020			4,362	5,681
New loans in 2021 (incl. renewals)			8,096	11,246
Repayments in 2021	8,513	11,681		
Proceeds from auctions incl. inventory receipts	130	79		
Total loans at 31.12.2021			**3,815**	**5,167**

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 2021 of

Zurich, 3 March 2022

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 199 to 217), for the year ended 31 December 2021.

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 2021 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

Zürcher Kantonalbank discloses loans to clients and amounts due from banks at nominal value less any necessary allowances.

For impaired loans, individual value adjustments are made.

With effect from 1 January 2021, the bank has adopted the accounting regulations for banks regarding the determination of allowances and provisions for default risks for non-impaired receivables (FINMA Accounting Ordinance and FINMA Circular 2020/01 "Accounting – Banks").

For the measurement of allowances and provisions for default risks, valuation models are used. In addition, this requires making estimates and assumptions which, by definition, involve judgments and can vary depending on the valuation.

As of 31 December 2021, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 104.9 billion. As of the balance sheet date, allowances and provisions for impaired loans amounted to CHF 307.6 million and allowances and provisions for expected losses amounted to CHF 501.9 million. With 54.9%, 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 117 to 119, 125, 126 as well as on pages 167 to 177 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 204, 205 and 210 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 as with regard to the determination of allowances and provisions for default risks. Moreover, we evaluated the concept implemented by Zürcher Kantonalbank as of 1 January 2021 for the determination of allowances and provisions for expected losses. Finally, 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 2021, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.3 billion, while that of the negative replacement values comes to CHF 1.1 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 1,538 billion. Furthermore, as of 31 December 2021, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 3.2 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 120, 121, 126, 127 as well as on pages 177 to 183 of its annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 205 to 207 and 209 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 financial statements. Our audit procedures did not lead to any reservations concerning the fair value measurement of financial instruments.

EY
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
Licensed audit expert
(Auditor in charge)

Timo D'Ambrosio
Licensed audit expert

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 the 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) — An 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. 99).

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 Swiss 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.

Net stable funding ratio (NSFR) — The NSFR is a ratio established under Basel III. Compliance with this ratio is intended to ensure long-term liquidity. It is a supplement to the liquidity coverage ratio (LCR). The NSFR is calculated by dividing stable refinancing by long-term liabilities (over one year).

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 II) 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.

Straight through processing — Straight through data processing in the sense that the information is processed without manual intervention.

Systemically important banks — A bank or group of banks is systemically important if it performs functions in the domestic lending and deposit business and in the payment transactions business 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.

Index

T

V

W

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 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

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

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

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

Stettbach
Am Stadtrand 5
8600 Dübendorf

Thalwil
Gotthardstrasse 29
8800 Thalwil

Turbenthal
Tösstalstrasse 58
8488 Turbenthal

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-Oberwinterthur
Frauenfelderstrasse 30
8404 Winterthur

Winterthur-Seen
Hinterdorfstrasse 2
8405 Winterthur

Winterthur-Untertor
Untertor 30
8400 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
Saint Peter Port
Guernsey C.I. 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, N° 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 Centre No. 38,
Do San Huan Bei Road
Chaoyang District
100026 Beijing
China

Zürcher Kantonalbank Mumbai Representative Office
Office Suite # 1, 7th Floor,
B Wing
Supreme Business Park,
Hiranandani Gardens
Powai, Mumbai 400076

Zürcher Kantonalbank Singapore Representative Office
9 Raffles Place #25-03
Republic Plaza
Singapore 048619

Swisscanto Holding Ltd.

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

Contacts

Zürcher Kantonalbank
Bahnhofstrasse 9
8001 Zurich
0844 843 823
zkb.ch
info@zkb.ch

For further information about
Zürcher Kantonalbank,
please don’t hesitate to contact us:

Retail Clients
0844 843 823
kundenservice@zkb.ch

Private Banking
0844 843 827
privatebanking@zkb.ch

Corporate Clients
0844 850 830
kundenservice@zkb.ch

Institutionals & Multinationals
044 292 87 00
international@zkb.ch

Media
044 292 29 79
medien@zkb.ch

You can also find further information
at zkb.ch

Imprint

Published by: Zürcher Kantonalbank, Zurich; Design and layout: hilda design matters, Zurich; Photography: Christian Grund (pages 9, 11), Dominique Meienberg (page 91 right, 95 left), Reto Schlatter (pages 88 – 95); Print: Zürcher Kantonalbank; Copyright: Zürcher Kantonalbank; Reproduction is permitted with the editor's permission and indication of the source. Printed in Switzerland on 100% recycled paper.

225922