Zürcher
Kantonalbank

Annual Report

for the 2014 financial year

Contents

The theme of this year's annual report is "On the move".
We invite you to join us on a journey through the canton of Zurich. Our annual report and sustainability report highlight interesting links between different places within our canton. It's a journey that takes us through unspoilt nature, via the wider conurbation and into the city itself. We hope our tour uncovers one or two thought-provoking facts about our home canton.

Key figures (group)

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

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

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

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

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

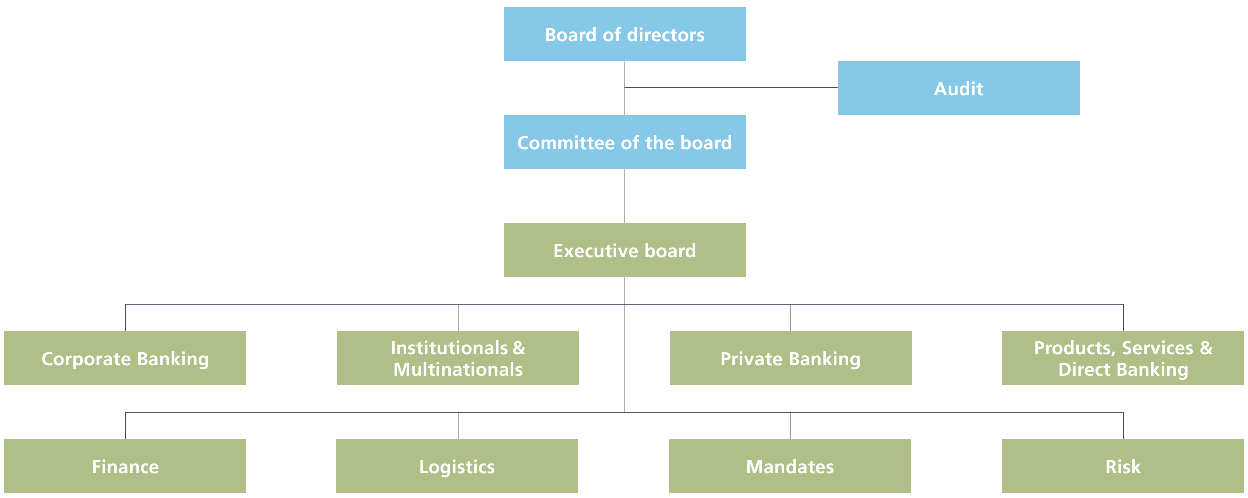
Rating agencies	Rating			
Fitch		AAA	AAA	AAA
Moody's		Aaa	Aaa	Aaa
Standard & Poor's		AAA	AAA	AAA

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

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

In Brief

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



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

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

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

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

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

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

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

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

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

Dr. Jörg Müller-Ganz, Martin Scholl

Dear Customer
Dear Business Partner

The banking industry is in the midst of deep and far-reaching structural change. The effects of the 2008 crisis on the financial markets can be seen to this day. If we look at Switzerland, however, we see a financial industry that is in a very solid position despite ongoing consolidation pressures and a difficult international market backdrop. Prudently managed, well-capitalised banks are a vital asset for this country's economy.

Zürcher Kantonalbank benefited from the robust state of the domestic economy in 2014. Low interest rates and more intensive competition left their mark, however. Our group net income of CHF 647 million failed to match the previous year's figure, which had been buoyed by extraordinary income. Given such a challenging environment, the result nevertheless met our expectations.

The cantonal parliament last year approved the amended Law on Zürcher Kantonalbank. The bank's constitutional state guarantee is to be compensated financially from 2015. The cantonal parliament also voted to raise the ceiling for any increase in the endowment capital from CHF 575 million to CHF 1,075 million.

We are continuing to pursue our proven strategy. For customers in Zurich as well as Switzerland as a whole, we are positioning ourselves as a full-service bank with a regional base as well as national and international links. Accordingly, we were particularly pleased when in December Standard & Poor's once again awarded us its top AAA rating – making us the world's only full-service bank to be given such an accolade. The S&P analysts praised the broad diversification of our income streams as well as the services we provide to other cantonal banks. We are now the only Swiss bank with a triple-A rating.

We regard the structural change in our industry as a major opportunity rather than a threat. At the end of the year, a tremendous opportunity arose for us to acquire the Swisscanto group – a joint venture between the cantonal banks that was established in 1993. Once officially approved, the transaction will make us Switzerland's third-largest fund provider. Our in-house investment products will also bear the Swisscanto name in future, marking a continuation of the concept behind the joint venture. We remain a dependable partner to our sister institutions.

Our performance in the 2014 financial year was only possible thanks to the trust shown by our customers as well as the huge effort and commitment displayed by our employees. We owe them a great debt of gratitude. In 2015 we will once again do our utmost to earn the trust placed in us.

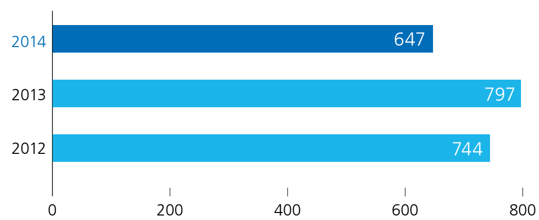
Dr. Jörg Müller-Ganz	Martin Scholl
Chairman of the board of directors	Chief executive officer

Business Performance

The difficult market environment had a clear impact on the 2014 business result. In view of these major challenges, we are nevertheless satisfied with the group net income of CHF 647 million.

In a year in which the market environment presented a series of challenges, Zürcher Kantonalbank delivered a respectable result. Although group net income declined by 19 percent to CHF 647 million in 2014, the previous year's result had been buoyed by one-time extraordinary factors such as the sale of investments and real estate. Thanks to the bank's broadly diversified business model and strong roots in the Greater Zurich area, setbacks in individual business segments were partly offset.

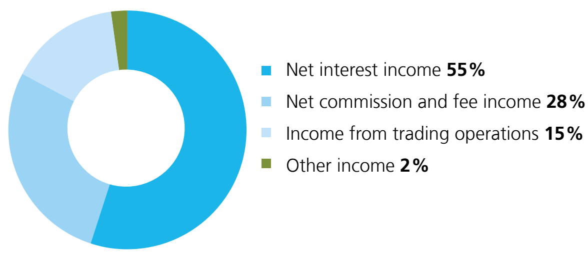
Fig. 1: Group net income (in CHF million)



Solid interest operations

Interest operations – the bank's largest source of income – generated a respectable result of CHF 1,070 million, a fall of 4.2 percent versus the previous year. The margin on the bank's deposit-taking business was unsatisfactory, while net commission and fee income was below the record result for the previous year at CHF 531 million (–3.5 percent). Although equity markets performed very well, many investors adopted a cautious approach. The main setbacks were recorded in brokerage fees and income from the fund business. Trading operations generated income of CHF 287 million (–15.7 percent). Other ordinary income amounted to CHF 47 million. In overall terms, operating income was 8.6 percent lower at CHF 1,935 million.

Fig. 2: Diversification of income



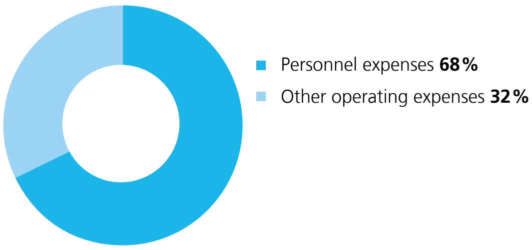
Reduced costs

Thanks to systematic cost discipline and various measures designed to boost efficiency, costs were once again lower than in the previous year. Operating expenses were reduced by 3.3 percent to CHF 1,200 million. Personnel expenses (–4.1 percent) as well as other operating expenses (–1.6 percent) were lower than the previous year's figures. Headcount (FTE basis) increased by 26 employees to 4,844 at the end of 2014. Gross profit decline by 16.2 percent to CHF 735 million.

Balanced risk provision

Expenses for allowances, provisions and losses amounted to CHF 60 million and were markedly lower than in the previous year (CHF 210 million). Zürcher Kantonalbank evaluates all its risks on a constant basis, where necessary taking corresponding measures in terms of risk provisioning.

Fig. 3: Breakdown of costs



Qualitative growth
Mortgages reached a volume of CHF 71.4 billion at the end of 2014. Growth was slowed deliberately, and at 2.5 percent was below the rate of increase for the market as a whole. Zürcher Kantonalbank continues to pay the utmost attention to the quality of loans. Funds due from customers increased by 39.5 percent to CHF 15.0 billion. Most of the increase was recorded in repo transactions. Total loans to customers (mortgages and funds due from customers) amounted to CHF 86.4 billion (+7.4 percent).

More funds due to customers
Zürcher Kantonalbank is highly rated as a dependable, secure partner, and this is reflected in the growth in funds due to customers. Funds due to customers reached CHF 97.8 billion at the end of the year under review (+2.0 percent). They therefore accounted for nearly two-thirds of the balance sheet and exceeded loans to customers by 13 percent. Total assets grew by 5.8 percent to CHF 158.4 billion.

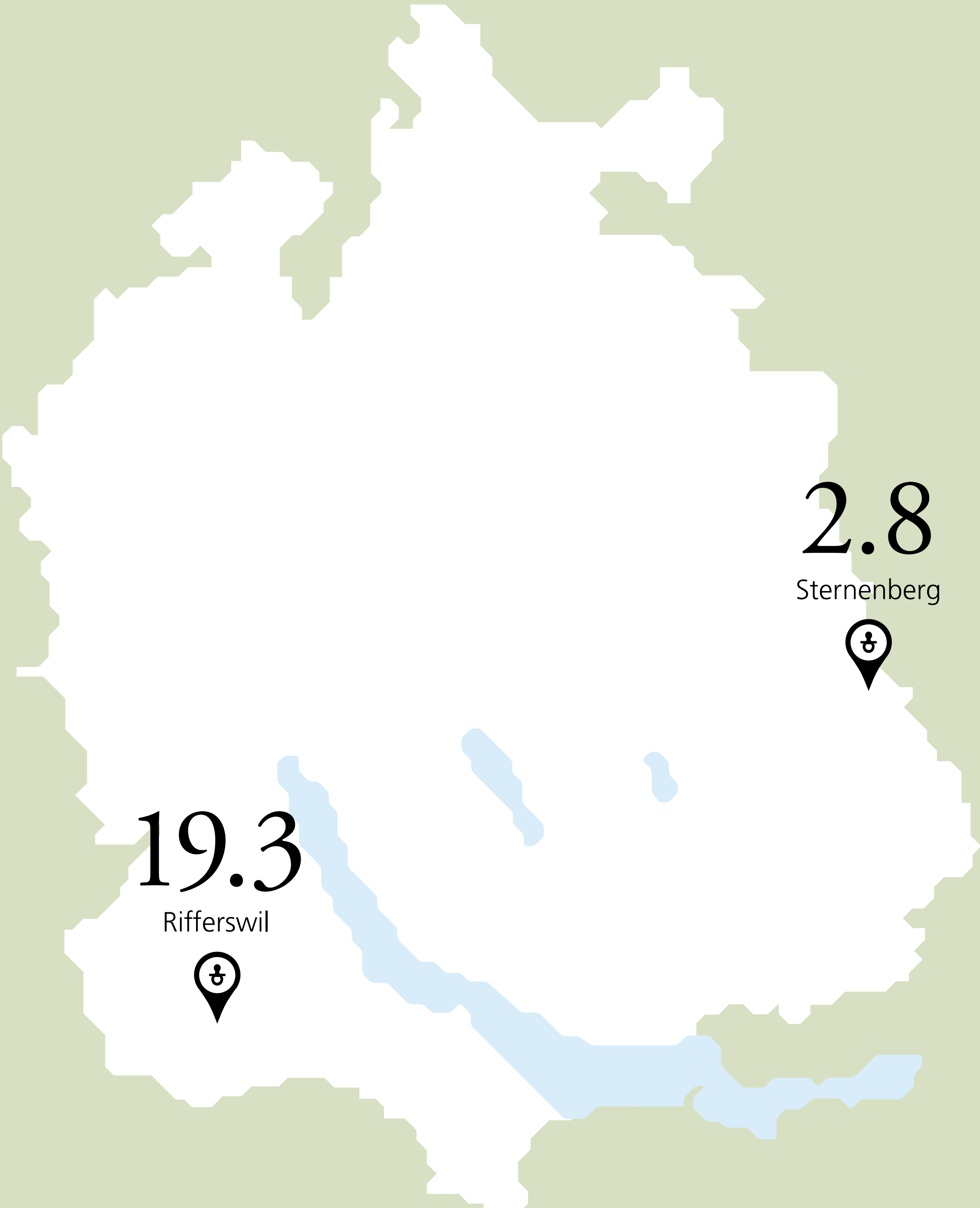
Increase in assets under management
Zürcher Kantonalbank had assets under management of CHF 199.1 billion (+ CHF 7.0 billion) at the end of 2014, making us Switzerland's fifth largest asset manager. The 3.7 percent increase in assets under management stemmed from a net outflow of new money at CHF 2.3 billion and a CHF 9.3 billion rise in stock market valuations.

Strong capital base
With eligible net equity of CHF 9,783 million and a total capital ratio of 16.6 percent, Zürcher Kantonalbank is one of the best capitalised banks in the world. Thanks to internally generated funds, we have increased our net asset value by CHF 5.5 billion since 2000. The three major rating agencies – Fitch, Standard & Poor's and Moody's – once again confirmed their top ratings of AAA and Aaa for Zürcher Kantonalbank.

Reduced profit distribution
Due to the lower group net income, the profit distribution to the bank's owners is reduced. A total of CHF 280 million is being distributed to the canton and its municipalities: CHF 164 million of this goes to the canton and CHF 82 million to Zurich's municipalities. In addition, the canton provides the endowment capital at cost. Consequently, a further CHF 34 million will flow to the treasury. The canton of Zurich will therefore receive around CHF 137 and the municipalities around CHF 57 for each of their residents.

Acquisition of Swisscanto
Zürcher Kantonalbank is acquiring the Swisscanto group with retroactive effect to 1 July 2014. With an 18.1 percent interest, it was already the largest shareholder in this joint venture between the cantonal banks. The interests of the other 23 cantonal banks are being purchased for CHF 360.3 million. In the 2016 to 2018 period, the sellers will also receive a variable share of the purchase price depending on the individual contribution to future business performance. The transaction is likely to be completed in the first quarter of 2015, once all approvals have been granted by the Swiss and foreign authorities. Zürcher Kantonalbank's 2014 result is unaffected by the acquisition.

The Swisscanto acquisition strengthens the bank's position in the investment and asset management business, and makes it the third-largest fund provider and fourth-largest asset manager in Switzerland. The components of the bank's income will shift accordingly in the coming years. By 2016, the share of income from commission and fees should increase from the current figure of nearly 30 percent to around 40 percent. In an increasingly challenging competitive environment, the aim will be to optimise scale effects. The integration of Swisscanto will involve job losses. A fair and transparent nomination process has been initiated.



No future without children

Birth rate per 1,000 residents (2012)

The number of children in the municipality of Sternenberg is not even enough to fill a class room. In 2012, this small municipality – located in the Zurich "highlands" – had the lowest birth rate in the canton at just one birth or 2.8 births per 1,000 residents. The birth rate in Rifferswil, in the municipality of Kronau,on the other hand, is the highest in the canton at 19.3 births per 1,000 residents. The local school has its own website and even a Twitter account. The municipality – which describes itself as the "jewel of the Säuliamt" district – would therefore seem to have a bright future ahead of it.

Strategy

Even in a challenging environment, we remain firmly committed to our objectives: to be the leading full-service bank in the Greater Zurich area, occupy a top position in Switzerland, and be internationally successful.

Market environment

The banking industry has undergone fundamental change in recent years. The effects of the 2008 crisis on the financial markets can still be seen to this day. Regulatory requirements, the constantly changing needs of customers and the increasingly pronounced trend towards the standardisation of services are challenges the Swiss banks need to address.

With around 280 banks, accounting for 6 percent of total value added, the financial industry is and will remain extremely important to the country as a whole. The value added created by the banks has stagnated in recent years, however, and growth prospects for the industry remain subdued. That makes it all the more crucial for individual players to position themselves clearly in the market and differentiate themselves from other banks.

Vision

Zürcher Kantonalbank has a clear vision: to be the bank that's “close to you”. Customer proximity is a theme that goes back to our very beginnings. The bank was established in 1870 with the purpose of providing banking services for people as well as small and medium-sized enterprises in the canton of Zurich. We have remained true to this vision ever since.

Being the bank that's “close to you” means being close to our customers not just in geographical terms but also at an emotional level. We enter into a committed partnership with our various stakeholder groups. In the context of comprehensive advice and support, we work together with customers to devise financial solutions comprising suitable products and services that add as much value as possible for the environment and society at large. A good relationship with our suppliers is important to us. Internally, we foster a results-driven, responsible approach on the part of our employees, in a climate of trust, openness and fairness.

Fig. 4: Our vision

Our vision of being the bank that's “close to you” is what drives us. Our full-service banking strategy has proved commercially successful for many years now. This comprises a broad line-up of banking products and services: from financing business to investment and asset management, from payment transactions to trading and capital markets business. This breadth of business activities under one roof, combined with proximity to our customers, is what makes us unique. Our business model is complemented by selected services in the national and international arena.

Strategy

Our full-service banking strategy is directly derived from the needs of residents and businesses in the Greater Zurich area. We firmly believe that the provision of comprehensive advice and support as well as the resulting solutions creates added value for our customers.

Expectations have undergone massive change in recent years. Today's customers want to be able to contact us any day of the week and via the widest array of communication channels. In the 2014 financial year, we therefore revised parts of our strategy and realigned our organisational structure. Comprehensive responsibility for providing personal service and support to all private customers now lies with the Private Banking business unit. This enables us to improve the efficiency of our organisational structure and simplify processes, in turn benefiting our customers.

Living values

The behaviour of banks has been the subject of a growing, fundamental public debate in recent years. We believe that living corporate values constitute the basis for a trusting, long-term business relationship. Our values are: personal, competent and responsible. "Personal" because we know our customers, accompanying them through every stage of life with our comprehensive service centred on partnership. "Competent" because – through our outstanding advisory and customer service capability – we can be depended upon to meet our customers' expectations. "Responsible" because sustainability is at the heart of what we do.

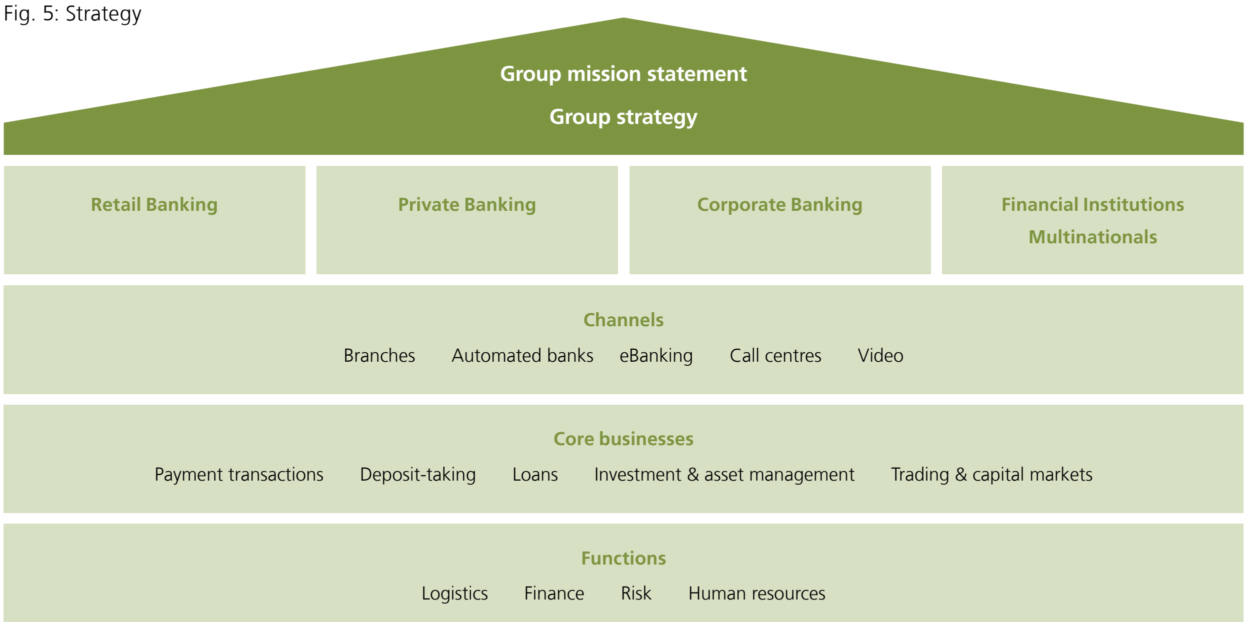
Performance promises

To reflect the bank's service philosophy, specific performance promises are made for each customer segment – whether retail, private or business and corporate banking, pension funds, key customers or financial institutions & multinationals. We are positioning ourselves through the high quality of our advisory service, continuity of customer support and comprehensive, lifetime service offer. Based on our performance promises, we offer a range of high-quality products and services at a competitive price/performance ratio. We decide whether to use in-house products or those of third parties on the basis of customer benefit, cost-effectiveness and the bank's expertise.

Loans

In terms of loans, we are the clear number one in the Greater Zurich area. With a market penetration of around 50 percent, we are the leader in retail as well as corporate banking. In this way, we form an important counterweight to the big banks and the private banks. On account of the canton of Zurich's economic strength within Switzerland and therefore our important role in the domestic lending and deposit-taking business, we were categorised as "systemically important" by the Swiss National Bank in 2013. Beyond the Greater Zurich area, we provide finance for medium-sized and large businesses whose registered office is in Switzerland.

Fig. 5: Strategy



Indirectly, therefore, we help ensure Switzerland's success as a business location. We are a select counterparty in international banking and provide lending to foreign banks in connection with Swiss exports.

Investments and asset management
In the investment and asset management business, we are Switzerland's fifth largest asset manager with assets under management of CHF 199 billion. For private individuals and businesses alike, we offer high-quality, innovative products and asset management mandates. Our compelling offer comprises a transparent investment advisory process, systematic investment process and efficient execution. Our expertise is rounded off by our in-house equity and bond research team.

Trading and capital markets
Our trading operations are based on clear customer focus. Innovations are developed quickly and offered in a targeted manner in line with customer needs. In our home market of Switzerland, we are among the leading players in all asset classes and capital market services. In the fixed income business, the bank once again occupied a top position as lead manager with 63 domestic bonds and private placements with a transaction volume of CHF 4.8 billion.

Basic services
We are the number one address for basic banking services, whether in payment transactions or cards. One in every two Zurich residents has an account with Zürcher Kantonalbank. With around one million customer relationships, we have a considerable potential that we intend to continue exploiting. Bundled solutions as well as individual products are tailored to the needs of our customers at every stage of life.

Logistics
Firmly established processes within the bank are a crucial factor in the success of our full-service banking strategy. The backbone to this is a state-of-the-art logistics operation that integrates information technology, processing and real estate management. Processes are constantly being optimised in order to address the trend towards standardisation of banking services. Cost transparency is an essential prerequisite for the implementation of efficiency-improving measures. The first milestones in the plan to outsource parts of the payment transactions operation to Swisscom by 2016 were achieved in the year under review.

Employees
Any strategy will only succeed in the long term if it is supported, carried through and defined by employees. We employee results-driven, responsible employees who embody our values and fulfil our performance promises in a credible manner. Even in challenging times, we intend to remain an attractive, responsible employer with around 4,800 full-time equivalent positions; the fact is that only well-trained, motivated employees can deliver outstanding services.

Targets

To measure the effectiveness of our strategy, we have developed a comprehensive system of targets (balanced scorecard). We measure the strategic group targets on the basis of four parameters: finance, customers, processes and employees.

Fig. 6: Strategic Targets (balanced scorecard)

Finance ▪ Fulfil and systematically develop the public service mandate ▪ Retain a high rating ▪ Generate sustainable financial success	**Customers** ▪ Expand market position ▪ Strengthen support and advisory services; keep customer loyalty at high level ▪ Develop brand further
Processes ▪ Develop core businesses further ▪ Manage risk ▪ Optimise logistics processes	**Employees** ▪ Develop skills and optimise employee placement ▪ Be an attractive employer ▪ Maintain employee satisfaction at a high level

Compared with our competitors, and in view of our special status as a cantonal bank, we are financially successful through our achievement of an appropriate level of profitability, efficient cost structure, optimised balance sheet and income structure, along with a balanced diversification of our income streams. Achievement of our targets is measured annually based on criteria such as the return on equity (ROE), cost/income ratio (CIR), total capital ratio, group rating, employee satisfaction index and customer satisfaction index. The objective is for the figures achieved to fall within specified strategic target bands. A multi-year plan, which is reviewed and revised in line with current conditions on an annual basis, is also produced. Annual planning and budgeting are derived from this process. From 2015, profitability will be measured using the new measure of sustainable profit; this establishes the risk element and measures the value added produced after deducting the cost of risk capital.

Values attained in 2014

We are satisfied with the figures achieved in the 2014 financial year, in view of the challenging environment. At 7.2 percent, the return on equity fell short of the specified target range (9 to 12 percent). At 66.8 percent, the cost/income ratio lay outside the specified target band.

Fig. 7: Values attained in 2014

Benchmark	Targets	2014	2013	2012
Return on equity (ROE)	*9–12%*	7.2	9.2	9.0
Cost/income ratio (CIR)	*58–64%*	66.8	62.7	64.4
Total capital ratio	*13–15%*	16.6	16.2	15.2
Group rating	*AAA, Aaa*	AAA, Aaa	AAA, Aaa	AAA, Aaa
Employee satisfaction index[1]	*60–70 pts.*	67	67	73
Brand index[2]	*≥ 60 points*	61	66	–
Customer satisfaction				
Retail customers	*≥ 75 points*	75	83	83
Corporate customers	*≥ 75 points*	74	81	81
Private Banking customers	*≥ 75 points*	77	83	83

[1] 2013 result, next survey in 2015.
[2] New brand index survey conducted in 2013.

We have systematically strengthened our capital base in recent years, and at the end of 2014 had a total capital ratio of 16.6 percent. This exceeded the regulatory required minimum of 14.7 percent (including counter-cyclical buffer). It does not include the CHF 1,075 million in endowment capital that may be called upon from the canton of Zurich. Use of the callable endowment capital would raise the total capital ratio by around 1.8 percentage points.

AAA rating

Rating agencies Fitch, Standard & Poor's and Moody's continue to accord Zürcher Kantonalbank their highest ratings of AAA or Aaa. This makes us the only Swiss bank to be given top marks by Standard & Poor's. This first-class assessment is in recognition of the bank's deep roots in the Zurich region and in Switzerland, its broadly diversified business model, modest risk profile, strong capital base and state guarantee. In the view of ratings agency Standard & Poor's, Zürcher Kantonalbank is among the safest banks in the world. We also won Global Finance magazine's "Safest Bank Award". In this survey of the 500 largest banks, Zürcher Kantonalbank emerges in second place behind a German development bank and is therefore the safest full-service bank in the world.

Systemic importance

Following our categorisation as a systemically important bank in 2013, we are now subject to stricter requirements in terms of capital and liquidity. The total risk-weighted capital adequacy requirement amounted to 14 percent as of the end of 2014 (excluding counter-cyclical buffer). The bank has not been granted use of the transition period until the end of 2018 for the switch from the Swiss to the international standard approach for weighting credit risk. Accordingly, this switch must take place by the end of 2015.

In terms of the new liquidity requirements, Zürcher Kantonalbank must meet the liquidity coverage ratio (LCR) in full from 1 January 2015. In actual fact, however, these requirements have already been met since the end of 2013. We are also producing an emergency plan, so that even in adverse circumstances the continuation of the systemically important functions of lending, deposit-taking and execution of domestic payment transactions is assured.

Counter-cyclical capital buffer, self-regulation

To counter the formation of a real estate bubble, the Federal Council raised the counter-cyclical capital buffer from 1 to 2 percent in January 2014. From 30 June 2014, the banks are accordingly required to hold additional capital of 2 percent of their risk-weighted positions for residential mortgages in Switzerland.

Self-regulation on the part of the Swiss Bankers Association was revised in June, resulting in a shortening of the period for repayment of mortgage debt on two-thirds of the lending value from 20 to 15 years. In addition, property purchases and changes of ownership are now subject to valuation based on the lower of cost or market principle; accordingly, the lower of market value or purchase price is taken as the lending value.

Legal amendment

At two sessions in April, the cantonal parliament of Zurich partially approved the application for a legal amendment submitted by the bank at the beginning of 2013. It also decided to raise the endowment capital ceiling from CHF 2.5 billion to CHF 3 billion. However, the option of issuing participation capital was struck from the Law on Zürcher Kantonalbank. The details regarding compensation for the state guarantee will be presented to the cantonal parliament in 2015. In the course of the debate, parliament placed great stress on the bank's stability and confirmed its full-service banking strategy.

Brand

We attach great importance to brand awareness and reputation. A survey conducted in the year under review showed that in many respects people in Zurich believe we fit the bill of the perfect bank. Our aim is to be considered the best bank brand in the Greater Zurich area. Corresponding measures to achieve this objective have been taken. Our brand promise remains the bank that's "close to you". This represents the essence of our brand values: personal, competent and responsible. The bank's employees are its best advertisement, as they live the bank's core values in their day-to-day work.

Outlook

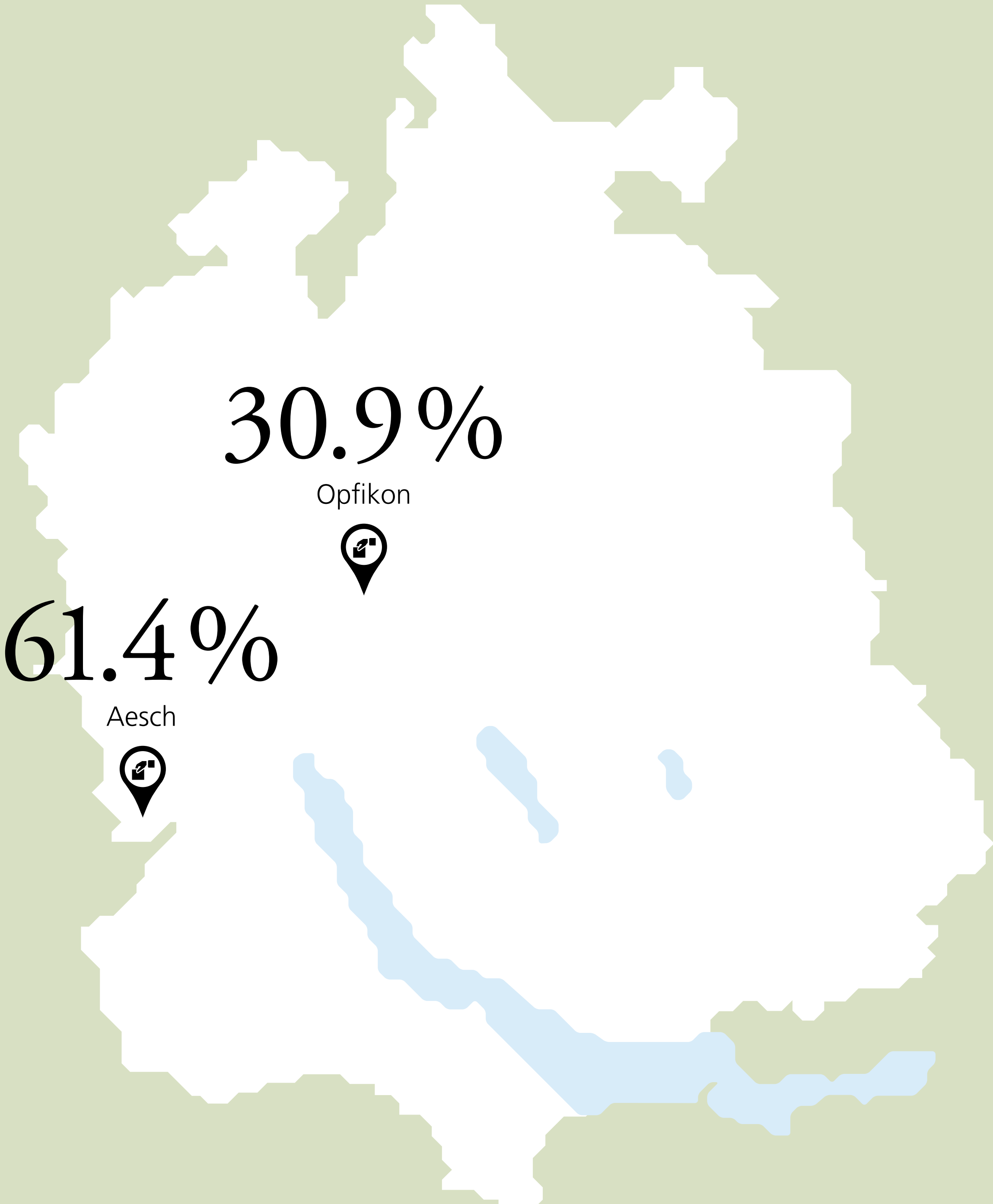
The start of the 2015 financial year has been marked by major challenges. The Swiss National Bank's surprising abandonment of the EUR/CHF floor and introduction of negative interest rates brought uncertainty to the markets. This is likely to impact on customer business and hit all the bank's income streams. 2015 will be beset by considerably greater uncertainties.

In the years ahead, we will systematically expand our leading position as a full-service bank that is outstandingly well-positioned in strategic terms. The planned acquisition of the Swisscanto group strengthens our position in the investment and asset management business. The bank's income components will shift accordingly in the coming years, and by 2016 the share of income from commission and fees should increase from nearly 30 percent to around 40 percent. In all our business decisions, we consider the potential risks and act responsibly towards our stakeholder groups. Legal certainty, tax compliance and market access will remain the dominant themes for the Swiss financial centre. The Swiss banks are doing their utmost to ensure they only manage taxed assets, although the road to full tax compliance poses major challenges for the industry. Great importance continues to be attached to protecting the privacy of customers (bank/client confidentiality); indeed Zürcher Kantonalbank was calling for a "clean-money" strategy back in 2009. On a group-wide basis, we require full tax compliance when accepting and investing money from international customers. Regularisation of the assets entrusted to us by international private customers will be fully completed by 2015. The investigation of Zürcher Kantonalbank launched by the US authorities in 2011 remains ongoing at the present time.

In principle, it must be assumed that competition in the banking industry will intensify in the years ahead. Together with the political community, the aim must be to improve the overall framework for the Swiss financial centre. Open markets and unfettered access to the EU market are vital for Switzerland as a small, outward-looking economy. At the same time, we need to make our processes within the bank simpler and more efficient. Corresponding measures to counter the growing pressure on margins will occupy a great deal of our attention in the years ahead.

We are investing in innovative solutions in order to differentiate ourselves within the banking sector. Our aim is to offer customers user-friendly, transparent banking services. We are constantly expanding our online offer in order to guarantee unlimited availability. We spend a total of more than CHF 300 million annually on operating and upgrading our IT platform. In the years ahead, this platform will be upgraded step by step in the core areas of account management, loans, investment and asset management.

Zürcher Kantonalbank's portfolio of bank premises requires investment of around CHF 310 million over the 2015 to 2019 period. CHF 130 million of this figure has been earmarked for 2015. In summer 2015 we will be opening our new flagship headquarters on Zurich's Bahnhofstrasse.



Wide disparity in voting turnout

Voter participation in cantonal polls (2013)

Whereas eligible voters in the small rural municipality of Aesch fulfil their civic duties to a greater degree than most, that is not the case in Opfikon, in the municipality of Glatttal. Here the figure is well below the cantonal average at just 30.9%. It doesn't seem to have anything to do with the municipal council's political complexion, as this is similar in both municipalities. The emigration quota in Opfikon is the highest in the canton at 61.2%, and that in Aesch relatively low at 34.4%. This would suggest that a highly transient population tends to make less use of the means of direct democracy.

Public Service Mandate

The people of Zurich have given us a three-part mandate. This mandate is enshrined in law and constitutes the basis of our business activities.

Our ownership structure makes us unique. Zürich Kantonalbank belongs to all the people of Zurich. The cantonal constitution of 27 February 2005 gives us an institutional guarantee: "the canton operates a cantonal bank". With the Law on Zürich Kantonalbank, the canton gives the bank its own statutory framework in which to operate as a business. Paragraph 2 defines the objective from which our public service mandate is derived.

Paragraph 2, objective

- The bank has the objective of addressing economic and social issues in the canton. It supports environmentally sustainable development in the canton.
- It meets investment and financing needs through a business strategy that is geared towards continuity. In doing so it focuses in particular on the needs of small and medium-sized companies, the working population, the agriculture sector and public-sector organisations. It fosters home ownership and the construction of affordable housing.

In the guidelines on implementation of the public service mandate, the board of directors specifies how the bank fulfils its mandate. The guidelines set out the individual business activities and lay the basis for ensuring and monitoring the mandate. The wording of the bank's legal foundation gives it a threefold obligation towards its owners: the service mandate, the support mandate and the sustainability mandate. Paragraph 7 of the Law on Zürich Kantonalbank states that the bank is to carry out the business of a full-service bank. With a broad array of full-service banking services for people and businesses, fulfilment of the **service mandate** is at the heart of our business activities.

Fig. 8: Public service mandate

- **Service**
  Providing people and businesses with comprehensive banking services
- **Support**
  Assisting the canton of Zurich in the economic, social and environmental arenas
- **Sustainability**
  Taking account of sustainability issues in all our business areas and activities

With its wide-ranging commitments in the core areas of nature, young people, culture, sport and entrepreneurship, undertaken as part of its **support mandate**, the bank is an important force for the positive development of co-existence in the canton of Zurich.
The **sustainability mandate**, in the sense of future-proof economic, environmental and social development, is vital both to the bank's success as a business and to the prosperity of the canton. We implement sustainability as an integrated business principle, and this is reflected in our products, among our employees, in our commitments and in our operations.

Share in profit

The services we fulfil on behalf of the canton include a business strategy that is based on market-oriented principles and the generation of an appropriate profit. Through regular distributions to the canton and its municipalities, Zurich's people benefit directly from the success of their bank – to the tune of CHF 246 million in the year under review. This includes the annual compensation paid to the canton for the endowment capital (2014: CHF 34 million). From 2015, financial compensation will also be paid for the provision of the state guarantee. In return, Zürcher Kantonalbank is exempt from tax and its customers benefit from the state guarantee. Under the law, the canton of Zurich provides a guarantee for all the bank's liabilities should the latter's resources prove inadequate. Thus all customer deposits enjoy unlimited security. The state guarantee has never been called upon in the bank's 144-year history, however.

Specifics of the public service mandate

The way in which the bank fulfils its public service mandate is managed and supervised as part of the corporate governance process. We spent CHF 105.7 million on the public service mandate in the year under review. The 2014 sustainability report shows how Zürcher Kantonalbank has elevated sustainability – in all its dimensions – to an integrated business principle. For detailed information about our commitments under the support mandate, see www.zkb.ch/sponsoring. The following comprises a selection of examples of the way in which we fulfil our public service mandate.

Service

Via all channels
Thanks to our multi-channel strategy, customers can choose the way in which they wish to contact the bank that's "close to you": whether at one of our 90 branches in the canton of Zurich or on a 24/7 basis at 335 ATMs, via our eBanking service – which was revamped in the year under review – or while out and about via our eBanking Mobile service. Our professional call centre is also open on weekdays between 8 a.m. and 6 p.m. Since the start of the year, it has also been possible to arrange a personal video consultation via webcam.

For every stage of life
As a partner to private and corporate customers alike, the bank offers products and services suited to all personal and business circumstances: from young person's savings account to advice on inheritance matters, from start-up financing to succession planning for businesses.

For international requirements too
That the service mandate is changing in line with customer needs is also evident from the financing business for companies. For many years, traditional commercial credit business lay at the heart of the customer relationship and the emphasis was initially on mortgage-backed lending. With our multi-faceted product and service offer, we now cover all stages in the life of an SME. 69 percent of Swiss SMEs engage in cross-border activities either directly or indirectly. Their needs are changing as a result of internationalisation and globalisation. Consequently, they require additional services such as export finance, documentary credits and guarantees, currency hedging, international payment transactions and market information.

For the Swiss export industry, we maintain a worldwide network of correspondents with more than 60 partner banks in around 40 countries and have our own representative offices in Singapore, Mumbai, Beijing and São Paulo. The central task of these offices is to expand the trade and export finance business with banks and Swiss exporters and importers. The four representative offices do not conduct their own business; instead they provide us with local expertise on the most important export markets of our corporate customers as well as risk assessment information.

Zürcher Kantonalbank intends to remain the main bank for its corporate customers and to accompany them worldwide through all stages in the life of their business. To achieve this, it must have answers and solutions to all these changing and additional requirements. Only in that way can the bank fulfil its public service mandate.

Support

For the young generation
Every we year we train around 100 new apprentices, offering them a position within the bank once they have successfully completed their training. Zürcher Kantonalbank has a responsibility to provide lasting support for young people.

Pioneers sought
With Technopark Zurich's renowned "Pioneer Award", the bank promotes particularly innovative business ideas. In 2014, the award went to AOT AG in honour of its development of contact-free bone surgery based on laser, robotics, sensor and navigation technologies. The Pioneer Award goes to a technical project that is on the verge of a market breakthrough – one that is notable for its high degree of innovation, marketability and relevance to society. The award is endowed with a prize of 10,000 times Pi squared, corresponding to the sum of CHF 98,696.04.

Steps towards self-employment
Together with the City of Zurich and Migros Culture Percentage, we support the "GO! Ziel selbstständig" organisation. This helps people to set up their own businesses by providing them with microcredit.

A stage for modern music
Every year, the Moods jazz club stages 320 concerts including jazz, funk, soul, blues, black music, electro, world music and much more. Moods is the preferred stage for Swiss musicians, with half of all concerts given by domestic artists. Through our partnership, we support Swiss jazz culture and its talented young musicians with the Zürcher Kantonalbank Festival Jazz Prize.

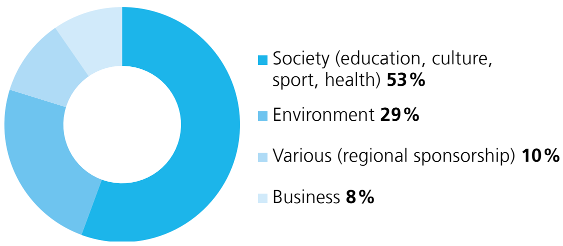
Running for all
The ZüriLaufCup is Switzerland's oldest, biggest and most successful running series. 13 events are staged annually, right across the canton of Zurich. Every year sees around 15,000 finishers at the various races. As main sponsor, we are committed to fostering grassroots sport and encouraging physical activity.

Sustainability

High quality of life with low energy consumption
With the aim of achieving a high quality of life with low energy consumption, the Minergie association helps ensure compliance with MINERGIE standards – a commitment we support as a leading partner. We also foster environment-friendly, energy-efficient construction, refurbishment and management of properties and infrastructure with generous ZKB environmental loans. Along with a MINERGIE® module, possession of a cantonal building energy certificate (GEAK) has also ensured entitlement to a ZKB environmental loan since 2014.

Sustainability research
The bank's greatest influence on sustainable development is through its products and services. Since 1996, our asset management sustainability specialists have analysed companies and borrowers worldwide with regard to environmental, social and corporate governance (ESG) sustainability criteria. The work of our sustainability research department serves as the basis for our sustainable investment products, the sustainability indicator as well as sustainable investment products from external providers.

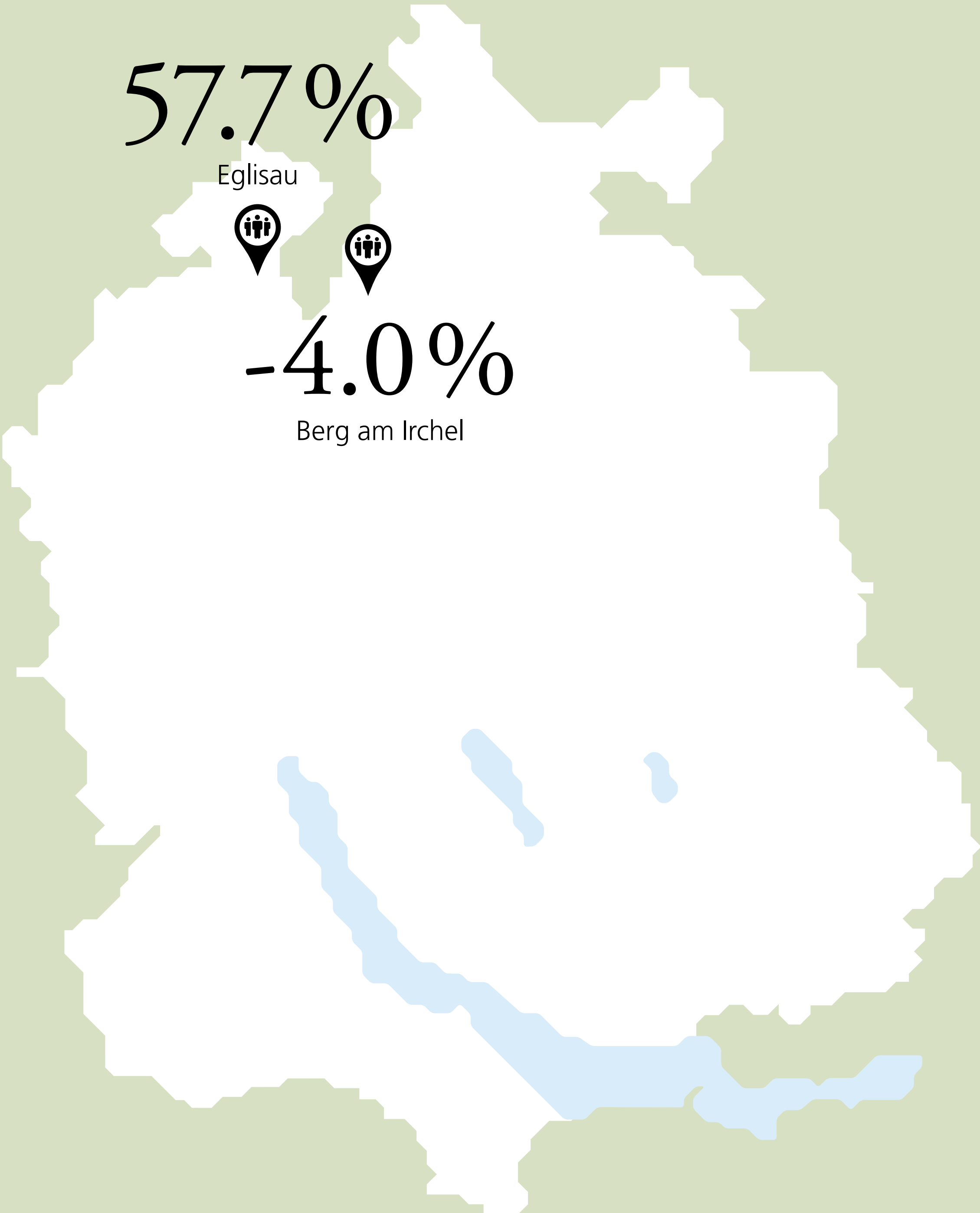
Fig. 9: Use of sponsorship funds



Sustainable SMEs
With total prize money of CHF 150,000, the SME Prize is presented each year to small and medium-sized Swiss firms that make an outstanding contribution in the field of sustainable development. The prize recognises and rewards extraordinary commitment, publicises it, and thus encourages others to follow suit. First prize in January 2015 went to ALFA Klebstoffe AG, based in Rafz.

Operational environmental programme
With implementation of the operational environmental programme in 2015 to 2017, we decided to lower the bank's CO2 emissions by a further 20 percent. With the help of CO2 compensation payments, Zürcher Kantonalbank has operated on a carbon-neutral basis since 2010.

For health at work
In the year under review, we were awarded the "Prix Balance" for a good work/life balance. We also received the "Friendly Work Space" label – evidence of our outstanding operational health management.



Neighbours growing at an unequal rate

Population growth (2003–2013)

The situation in the north of our canton shows a sharp contrast. The number of residents of Eglisau has risen by 1,616 in 10 years, while barely a kilometre away in the municipality of Berg am Irchel the number of residents has fallen by 24 in the same period. The powers that be in the two locations are therefore giving some thought to the future, judging by the legislative goals of the different municipal councils. Through changes to building and zoning regulations, one is attempting to halt any extension of its residential area while the other is seeking precisely the opposite.

Customers

We provide comprehensive, responsible advice. Our product and service offer is constantly being developed in line with changing needs.

Advice and support

Customer advice
Zürcher Kantonalbank helps people and businesses across the generations. It is essential to offer our customers constant, first-class advisory and support quality. We therefore gauge customer satisfaction on a regular basis and assess the quality of the service we provide through internal analysis and external surveys.

The high level of satisfaction shown in recent years was once again confirmed by a customer survey conducted during the year under review. Although the figures fell slightly compared with the peak levels of 2012, they were still within the specified target band. Two-thirds of customers describe themselves as having a strong or very strong loyalty towards the bank. Our goal is to go on improving the quality of our customer advisory and support service.

That is why we make a conscious effort to foster employee training and development. Our staff are in contact with customers on a daily basis. It is vital that we have a comprehensive understanding of our customers' needs and aspirations in order to provide them with solutions that are tailored to their individual circumstances. To enhance the suitability of our solutions, we talk to our customers about the right subject at the right time. We also discuss selected focal points with customers on a systematic basis. Our focus in the year under review was on optimisation of portfolio structures, Pillar 3 investment savings and attractive financing solutions.

With the interests of customers in mind, we are increasingly bundling our strengths. In 2014 we set up a dedicated service centre that provides rapid, straightforward solutions on all inheritance matters. This constructive approach, which includes a personal customer contact, supports customers at a particularly difficult time. The service centre for guardians – a primary contact point for all guardianship and custodianship matters – is equally successful. In the year under review, it recorded growth of 8.2 percent in assets under management and has a market share of 70 percent in the canton of Zurich.

Customer service and support
One in very two residents of Zurich is a customer of Zürcher Kantonalbank. That makes us the leading financial services provider in the Greater Zurich area for private customer business. We continued to expand our market share in the year under review. At the end of 2014, we had 884,400 relationships with private customers.

The trend for customers to demand comprehensive solutions to suit their personal circumstances was confirmed in the year under review. With a view to meeting customer needs even more successfully and efficiently and generating added value for customers, the bank's organisational structure was realigned effective 1 October 2014. Comprehensive responsibility for the provision of personal service and support to all our private customers now lies with the Private Banking business unit. The Products & Services unit was expanded to include Direct Banking, part of the former Retail Banking unit.

The reorganisation builds on our excellent competitive position as leading financial services provider in the Greater Zurich area and should strengthen it further thanks to increased synergies and the bundling of competencies. The new Private Banking unit includes the high-net-worth-individuals and private banking customer segments, and managed assets of CHF 63.7 billion at the end of 2014. For the fourth time in succession, the comprehensive advisory approach of our Private Banking unit impressed the jury of "Bilanz" business magazine.

In its comparison of the quality of service in Swiss private banking, we achieved first place in the national full-service banks category.

Private Banking continued the reorientation of international business in the year under review. Attention was centred on the following objectives: worldwide tax compliance for all markets by 2015, focus on a small number of core markets, primarily in Europe, as well as growth, based on security, competence and professionalism. The most important core markets in Europe are Germany, the UK, Italy, Spain, Austria and the Czech Republic. In terms of the emerging markets, the focus is above all on the United Arab Emirates and Hong Kong. In the course of this realignment, we have had to part company with around 9,000 customers in recent years.

Zürcher Kantonalbank Österreich AG – whose assets under management climbed above the EUR 1 billion mark for the first time in 2014 – acts as a window to Europe. In Salzburg and Vienna, we operate two branches focusing on investment advisory services and asset management for a select international customer base. With around 5 percent of total assets under management, Private Banking International's share remains modest; however, the rate of growth in net new money on the international market is already significantly above that of the domestic market – though without disproportionate risks being taken. That is the reason why we are turning to these markets.

Proximity to customers

We are also close to our business customers, and have a particularly close affinity to SMEs. Around half of all SMEs in the canton of Zurich rely on the services of the bank that's "close to you". This proximity is founded on our comprehensive, continuous advice and support throughout the lifecycle and in all circumstances, an actively maintained dialogue with SMEs, close relationships with the business community and its organisations as well as numerous partnerships and awards for SME promotion. With 53,000 customer relationships and a very high score in the customer loyalty index over many years, the bank is the clear number one in the Greater Zurich area. As a dependable partner to businesses in the canton, plus the extensive array of services offered by a full-service bank, we have the necessary basis on which to retain this leading position.

We have pursued a multichannel strategy for many years now. Our customers are able to contact us in person at one of our numerous branches or by telephone via the call centre for private and corporate customers; they can also conduct their banking transactions electronically via eBanking or eBanking Mobile. Should they wish, they can also arrange a consultation via video conference. For straightforward banking transactions, we offer a network of 335 ATMs.

In the year under review, we optimised two key contact channels in the form of our revamped website and the new eBanking service. The website includes greater service functionality, while content is presented on an optimised basis for each device and addresses the principle of barrier-free access for people with vision and hearing impairment. Our eBanking offer has been thoroughly revised and includes a host of functions that make it easier to execute banking instructions or contact us. In the year under review, 360,600 customers had access to our eBanking service (2013: 346,000); meanwhile, our eBanking Mobile app was downloaded 27,000 times.

With the launch of quick response (QR) payments, we became the first Swiss bank to offer real-time payment from smart phone to smart phone. This service is available to all Zürcher Kantonalbank customers and now to Credit Suisse customers too. With regard to all electronic banking transactions, we place the utmost emphasis on security.

Loans

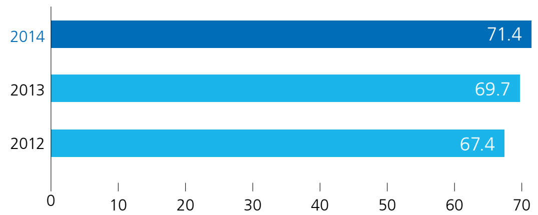
Mortgages

In view of the high level of property prices and very low interest rates, we continued to prioritise qualitative and sustained mortgage growth in the year under review as the number one financier of owner-occupied homes in the canton of Zurich. The total volume of mortgages increased by CHF 1.7 billion to CHF 71.4 billion. Given that we deliberately pursue qualitative growth in the financing business, our mortgage volume growth of 2.5 percent was below the market rate of 3.4 percent.

In the first few months of this year, demand for Libor mortgages exceeded the demand for fixed-term mortgages. When interest rates on fixed-term mortgages fell once again in the middle of the year, the fixed-term mortgage once again became the most popular product. The share of fixed-term mortgages (including starter mortgages and fixed advances) in the total volume of mortgages was 86 percent at the end of the year; this compares with 12 percent for Libor mortgages. The average term of newly taken out fixed-term mortgages was five years.

The year under review saw the launch of our extended ZKB environmental loan. Whereas in the past we focused primarily on the MINERGIE® standard for the granting of a maximum 0.8 percent discount on mortgages, we now offer ZKB environmental loans on presentation of a cantonal building energy certificate (GEAK) too. With GEAK Plus, the GEAK with an advisory report, real estate owners receive specific proposals on how they can improve their property in energy terms. Through this expansion of our product range, we are systematically supporting and fostering the energy-efficient modernisation of real estate.

Fig. 10: Mortgages (in CHF billion)



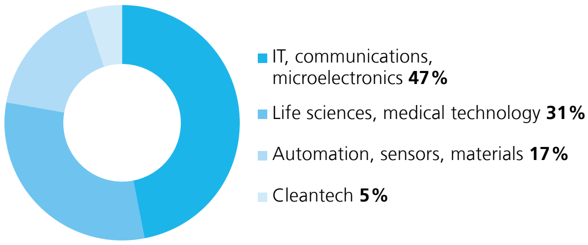
Business financing

Thanks to a constant and proven lending policy, we are able to make a key contribution to the supply of credit to SMEs in the canton of Zurich and to large businesses on a Swiss-wide basis at the same time as controlling and diversifying risk. A systematic credit assessment process and decentralised decision-making authority for standard transactions enable local expertise to be incorporated into credit decisions and individual factors to be taken into account.

Most Swiss companies have performed successfully despite the challenging economic environment. Our credit exposure to companies increased to CHF 22.6 billion (+6.3 percent). Zürcher Kantonalbank pursues a dependable, steady lending policy. A partnership-based approach and fairness towards customers who are in financial difficulty are also important to us. Provided future prospects are intact, we can offer flexible solutions.

Technological competition demands ever-increasing innovation on the part of Zurich as a business location as well as Zurich-based SMEs. With the Swiss Federal Institute of Technology in Zurich and the University of Zurich, the prerequisites for corporate start-ups are excellent. To meet the associated financing needs, our “Pioneer” initiative – which systematically supports innovative start-ups with venture capital – was launched in 2005. 22 promising start-ups were established in the year under review, equipped with venture capital of CHF 5.9 million. This portfolio of credit exposures and interests showed a stable performance. We are also

Fig. 11: Composition of Pioneer start-up portfolio



partners to Technopark Zurich, Technopark Winterthur, Bio-Technopark Schlieren, Blue Lion in Zurich and Grow in Wädenswil.

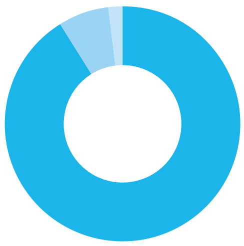
With Technopark Zurich’s renowned “Pioneer Award”, which in 2014 went to AOT AG in honour of its development of contact-free bone surgery based on laser, robotics, sensor and navigation technologies, the bank additionally fosters particularly innovative business ideas. Start-ups in traditional sectors are part of normal financing operations. In the year under review, we provided finance of CHF 11.5 million for 59 company start-ups.

The bank also works closely with the “GO! Ziel selbstständig” association, helping people to become entrepreneurs with ZKB microcredit.

At the other end of the business cycle, succession planning, the bank also takes into account the changing needs of SMEs. Not least due to demographic developments, numerous SMEs currently face generational change. Through its range of services, the bank provides SMEs with professional guidance on these issues too. With 58 advisory mandates and 10 acquisition financings, we play a responsible role.

Zürcher Kantonalbank ensures that small and very small businesses also receive comprehensive advice and support as well as a broad range of services on fair terms. That includes more than 5,000 microloans of less than CHF 200,000 for SMEs. Capital goods leasing is becoming increasingly important. For SMEs and the agriculture sector in particular, leasing is an attractive, liquidity-preserving alternative to a traditional investment loan. Through the joint distribution network with a large number of other cantonal banks, 2,700 lease agreements with a volume of CHF 231 million were concluded in the year under review.

Fig. 12: Corporate customers by number of employees



Investments

Investment policy

The chief investment officer (CIO) is responsible for the objectives and implementation of the investment policy including strategic and tactical investment decisions for private customers. The bank aims to advise customers in accordance with uniform, binding principles in line with their requirements and to provide them with suitable investment solutions. The investment objectives are jointly agreed with the customer. The professional and market expertise of our investment specialists helps ensure that the services we provide offer added value for the customer.

Our investment specialists were regularly questioned about key global topics in the year under review – particularly with regard to the monetary policy of the major central banks and their implications for the economy and financial markets. Through this very broad Swiss-wide coverage, both equity and bond research place a strong emphasis not only on blue chips but also on smaller and medium-sized listed Swiss firms. Zürcher Kantonalbank's multi-award-winning research team is one of Switzerland's leading research houses in both segments.

With a comprehensive line-up, we offer attractive products and services for all customer segments. The asset management business in particular has achieved a pleasing performance in recent years. Investment strategies are determined on the basis of investor profiles and the investment horizon. When managing portfolios, a clear investment process and forward-looking risk management are included, covering all asset classes: cash and bonds, equities, structured products and alternative investments. Passive, core long-term investments are combined with complementary satellite investments.

Asset Management

Zürcher Kantonalbank offers a comprehensive line-up of active, indexed as well as thematic investment fund and asset management solutions. The indexed investments business continued to grow in importance in 2014. With a broad offer of indexed funds, we are addressing the trend towards passively managed index products among Swiss pension funds. With an acquisition rate of 30 percent, we bolstered our leading position in terms of mandates tendered by Swiss pension funds.

In active asset management, the trend to specialisation continued and resulted in a general consolidation of the products offered on the market. Since 2012, we have focused on our core competencies in the field of active investment. Assets under management in this area increased to CHF 28.6 billion, while income remained stable.

Satellite investments such as commodities, thematic and quantitative investments once again found a place in the asset allocation of institutional and private investors. Sustainable investments also saw greater demand once again. More and more institutional investors regard sustainable issues as a long-term opportunity to reduce the risks of their asset allocation and at the same time generate attractive returns. Fixed Income Active, an important pillar of asset management with over CHF 15 billion in assets under management, was again able to achieve attractive returns despite the low interest rate environment.

In 2014, the Swiss Equities Active team once again won the prestigious "FERI EuroRating Award" in the "Best Swiss Equity Fund" category. From the same agency, we also picked up the "Best Asset Manager" award in the "Socially Responsible Investing" category. FERI assessed quantitative and qualitative criteria in socially responsible investment research, as well as portfolio and risk management.

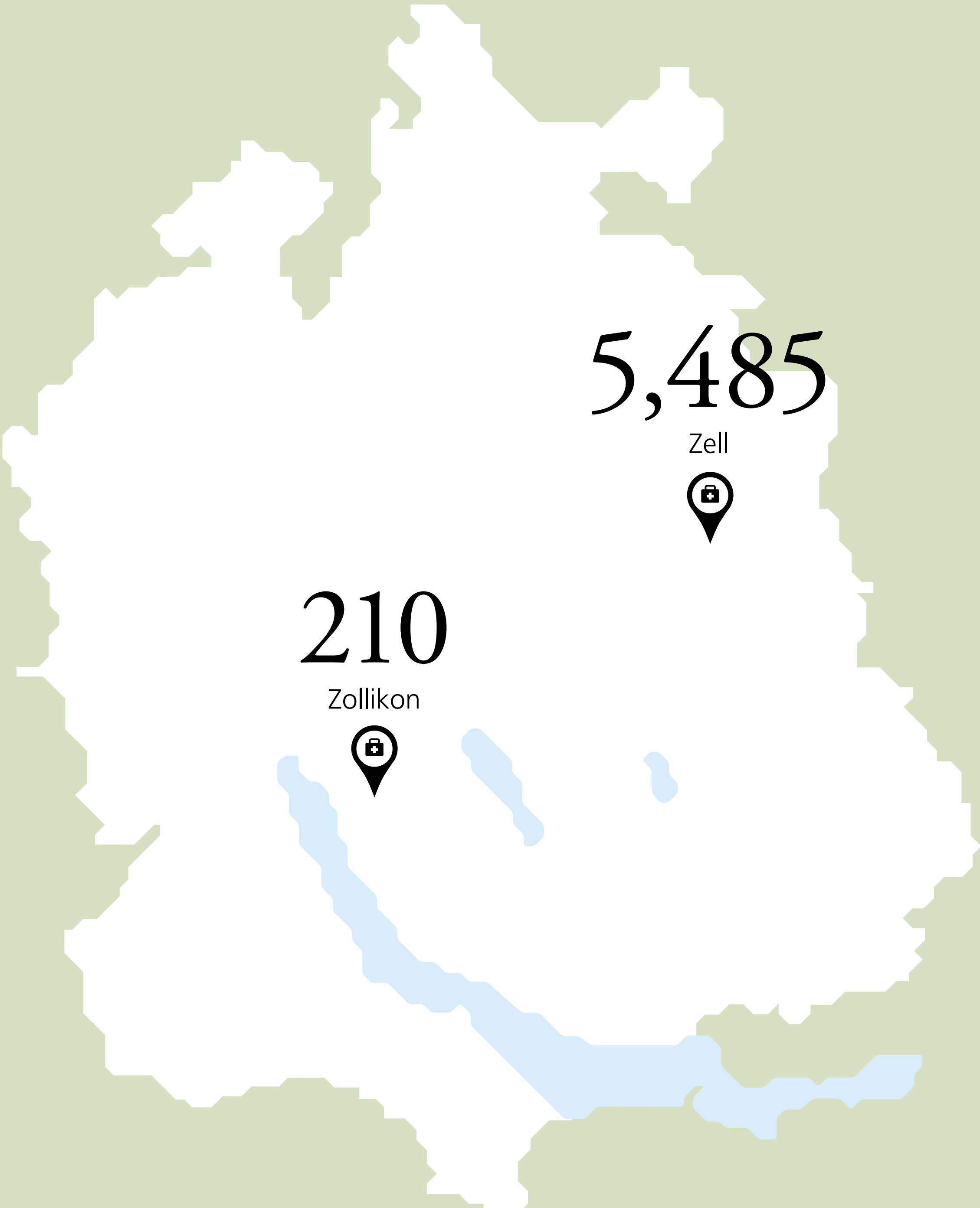
Trading and capital markets

The trading strategy of Zürcher Kantonalbank is based on clear customer focus. In the year under review, income from trading operations was considerably below the result for the previous year at CHF 287 million. At the same time, market risks in the trading book were reduced to an average of CHF 13 million. Customer activity remained at a low level despite the highs on equity markets. Trading in fixed-interest securities was characterised by record-low interest rates, narrow bid/ask spreads and reticent investment behaviour. Due to lower volatility, there was a fall in volumes and margins in foreign exchange trading too.

Investors in the structured products business favoured return optimisation and participation products. Customised products continued to enjoy strong growth. In terms of sales of all listed products, we are among the most important providers on the Swiss market.

In the capital markets business, many companies used the positive market environment for attractive debt and equity financing. We lead-managed 17 transactions in the year under review, and also assisted with the successful IPOs of Thurgauer Kantonalbank and Glarner Kantonalbank.

Over the past two years, Zürcher Kantonalbank has made crucial investments in its trading infrastructure and therefore in the service offered to customers and partner banks. We are convinced this will enable us to gain market share in the medium term as well.



Health and Christmas

Number of residents per doctor (2012)

Although these two Zurich municipalities follow immediately behind one another in an alphabetical list of all 169 of the canton's municipalities, they could not be more different. Those living in Zell who want to see a doctor don't have much choice, as there is just one doctor practising in the municipality. Residents here in the Töss Valley could try singing about their problem – after all, they are famed for their talents in that department. Indeed the older generation in particular still know the words to those traditional Zell Christmas carols. The residents of Zollikon, on the other hand, are spoilt for choice when it comes to choosing a doctor.

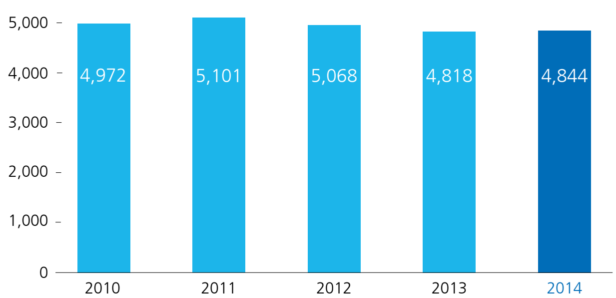
Employees

As the employer of around 5,500 people, our focus is on stability and a sense of responsibility. The bank owes its success to its employees.

Headcount

Our employees are crucial to the success of the business. We therefore aim to provide maximum dependability in terms of environment and prospects. Following constant growth in headcount from 2007 until 2011 due to positive market conditions, we changed our recruitment policy in 2012 and 2013 and cut the number of new hires. The year under review saw a slight relaxation of our recruitment policy, as evidenced by a mild increase in headcount to 4,844 full-time equivalent positions.

Fig. 13: Group headcount 2010 – 2014 (FTE basis)



The bank faced a significantly greater number of changes in the year under review compared with prior years. Philipp Halbherr retired at the end of March, while Stephanino Isele was appointed head of Institutionals & Multinationals. Daniel Previdoli, head of Retail Banking since December 2007, took over from Markus Bachofen Rösner as head of Products & Services; the latter has now been expanded to include Direct Banking, part of the former Retail Banking unit. Markus Bachofen Rösner retires at the end of June 2015. As of October 2014, the provision of personal service and support to all private customers was integrated into Private Banking; this unit continues to be led by Christoph Weber. The bank provided tailored assistance and support to employees and line managers affected by the changes. The beginning of June saw Marco Beutler take over as head of Human Resources from his predecessor René Hoppeler, who retired. Karl Haller, the head of Internal Audit, retired at the end of the year under review and was replaced by Walter Seif.

Staff development

The following figures relate to the parent company of Zürcher Kantonalbank. We put the emphasis on reliability from the training stage onwards:

As one of the largest providers of banking traineeships in the Zurich region, Zürcher Kantonalbank once again offered 101 new apprentices an opportunity to work in the world of banking, IT, logistics and operational maintenance in the year under review. A total of 406 apprentices, interns and trainees work at the bank. 98 percent of trainees successfully completed their programme. After training, Zürcher Kantonalbank offers jobs to all talented individuals with a good qualification. 88 percent opted to continue their professional career with us.

Development
Our objective is for employees to continue developing their talents and strengths including after their basic professional training is completed. The bank invested CHF 2.6 million in external training in the year under review, enabling it to offer development opportunities to one in every seven employees. The training offer was extended again to include a focus on leadership,

outward effectiveness and personality development. Since 2013, specific training routes have been implemented for direct customer-facing sales advisers to ensure the high quality of our advisory service. Assessments are conducted every three years to ascertain whether our advisers meet specialist requirements and customer service standards. In 2014, all sales employees in direct customer-facing roles underwent this specialist assessment. Carried out for the first time, this new specialist and sales training ensures that knowledge levels are kept up-to-date and any gaps are closed.

In the year under review, 59 high-achieving employees with potential were given the opportunity to develop their career as well as personal goals through systematic development programmes. The bank managed to fill 72 percent of executive and 50 percent of mid-level management positions with internal candidates, including the two new members of the executive board and long-standing executives Stephanino Isele and Roger Müller.

Awards

The aim of our human resources policy is to create an optimum working environment and the prerequisites for equal opportunities. We were awarded "Friendly Work Space" accreditation for the first time, a label awarded by the Health Promotion Switzerland organisation to firms with particularly strong health promotion policies and a high degree of social responsibility. We also received the "Prix Balance" for work/life balance. We focus on flexible working time models and create part-time opportunities at all hierarchy levels. 53.1 percent of our female and 15.7 percent of our male workforce now work part-time. 33.2 percent of managers are women, while at executive level the proportion of women increased slightly from 9.8 percent to 10.2 percent. In the year under review, the bank launched an internal women's network and invited young women with an interest in IT to attend special programmes.

Support

It goes without saying that Zürcher Kantonalbank offers 16 weeks' maternity leave and 10 days of paid paternity leave. We work closely with the "thkt GmbH" family service. There, employees can obtain fee advice and support when looking for childcare, help in the home, or assistance for older family members. In cooperation with the family service, Zürcher Kantonalbank also offers special programmes for our employees' children during the school holidays. At two crèches, our bank provides reserved, subsidised places for children until nursery-school age. 45 children of employees attended these crèches in the year under review. In addition, fathers who work part-time and mothers who work full or part-time receive financial assistance when sending their children to the crèches. This benefited 65 families.

Health promotion

We help promote the health of our employees through a range of programmes including e-learning, seminars and health check-ups, through to ergonomically designed office furniture. In particularly stressful situations, employees can take advantage of psychological advice – anonymously and at no charge to them. We provide employees with support with rehabilitation following long-term absence as well as in relation to severe health problems. The bank filled 62 reintegration places in the year under review. The figure of 1.1 percent is above the target 0.8 percent.

Staff association

The staff association also represents the social and economic interests of employees. 48.6 percent of our employees are members of the association. The association is led by a six-member board, while the delegates' assembly had 34 delegates in the year under review. As social partner, the association represents the interests of employees in regular meetings with the executive board. The board of the staff association was continuously involved in a multi-stage process in connection with the partial outsourcing of payment transactions to Swisscom; here the focus was on an employee-oriented solution while fulfilling mandatory information and consultation requirements. During this process, the board worked closely with Human Resources on the personnel takeover agreement and the vested rights enshrined within the agreement; it also expressed its strong commitment to the negotiated terms. The consultation process was concluded successfully.

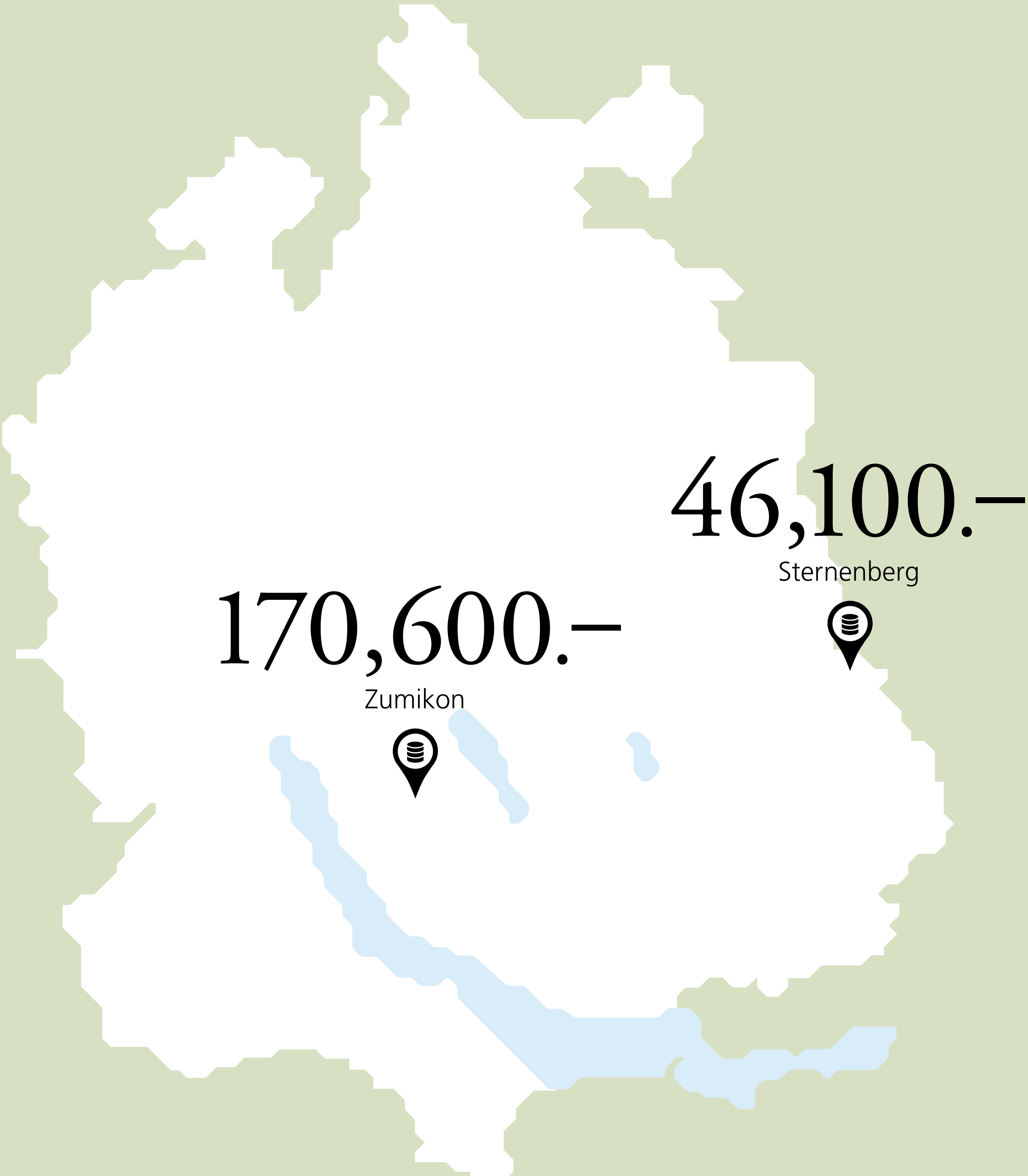
Employee benefits

Compensation for Zürcher Kantonalbank employees consists of base salary, variable compensation based on the performance of the business, as well as statutory allowances and additional voluntary benefits. More in-depth information is provided in the compensation report on page 51. Zürcher Kantonalbank's pension fund is a defined-contribution scheme. Pension benefits are calculated from the accumulated savings assets, multiplied by the conversion rate. The normal retirement age is 62. Partial or early retirement is possible from the age of 58. A substitute AHV pension continues to be funded by Zürcher Kantonalbank as employer from age 62 until the statutory AHV retirement age. The pension fund covered 5,039 active insureds and 1,984 retirees in the year under review. As at 31 December 2014, it managed assets of CHF 3.3 billion with a coverage ratio of 112.5 percent (not audited as at early March 2015).

Fig. 14: GRI data[1] on employees (parent company)

Employment		2014	2013	2012	2011	2010
Number of employees (full-time equivalent)	*Number*	4,704	4,673	4,917	4,951	4,838
Turnover rate	%	7.7	7.7	6.5	6.5	6.4
Creation of new jobs	%	0.60	–5.0	–0.7	2.3	1.3
Health and occupational safety						
Lost days per employee as a result of sickness or occupational and non-occupational accidents	*Days/employee*	6.1	6.5	6.4	6.9	6.3
Training and education						
Internal education and training time per employee	*Hours/employee*	14.2	12.6	16.0	16.1	18.3
Percentage of employees on external courses	%	14.6	14.3	17.3	17.1	17.0
Diversity and equal opportunities						
Percentage of women in total workforce	%	38.5	39.1	39.3	39.7	40.1
Percentage of women in middle management	%	33.2	32.8	32.1	32.0	30.2
Percentage of women in senior management[2]	%	10.2	9.8	9.5	8.9	7.8

[1] The annual report of Zürcher Kantonalbank adheres to the sustainability reporting guidelines of the Global Reporting Initiative (GRI). The bank publishes a separate sustainability report on its website at www.zkb.ch/nachhaltigkeit.
[2] Since 2009 including vice presidents.



When a little has to go a long way

Average taxable income per person in Swiss francs (2011)

From Elisabeth Kopp to Udo Jürgens, who died last year, the municipality of Zumikon has always been home to celebrities and people with high incomes. Tax receipts in 2015 are projected to total an impressive CHF 68,695,500 – yet there will still be a deficit. That has long been the case in Sternenberg: its nearly 200 taxpayers have had to maintain 28 km of municipality roads, 40 km of water and waste water pipes, and a whole lot more, from a tax take that is 100 times lower. They have therefore decided to merge with the neighbouring municipality of Bauma and will do so next year.

Corporate Governance

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

Basic principles

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

Structure and ownership

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

Board of directors and committee of the board

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

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

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

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

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

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

Internal organisational structure

Board of directors

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

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

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

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

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

Committee of the board

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

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

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

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

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

The board of directors	The committee of the board
▪ sets out the principles of the corporate strategy, mission statement, business strategy and organisational structure ▪ approves the risk policy, risk strategy and bank-wide risk and global limits and approves any equity investments ▪ is responsible for establishing and closing branches and for establishing subsidiaries ▪ is responsible for setting up an internal controls system (ICS) ▪ draws up guidelines on human resources policy as part of the bank's overall strategy ▪ is informed quarterly on risk concentration in accordance with Article 90, paragraph 1, of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers ▪ is informed of the reporting on country limits ▪ approves the detailed quarterly reports from the executive board ▪ is regularly informed by the executive board of all relevant aspects of risk management ▪ determines the mortgage policy ▪ approves unsecured loans in excess of CHF 1 billion ▪ is regularly informed of loans under the jurisdiction of the committee of the board ▪ approves the annual planning, annual financial statements and the annual report including the compensation report ▪ is responsible for hiring and dismissing the members of the executive board and their deputies, branch managers at senior level, and the chief inspector and deputy chief inspector ▪ decides on the annual distribution of profit to the canton and municipalities	▪ prepares topics relating to strategy and corporate culture for submission to the board of directors ▪ scrutinises the decisions of the executive board and is responsible for its direct supervision ▪ monitors the implementation of decisions taken by the board of directors and the quality and effectiveness of the fulfilment of the public service mandate on behalf of the board of directors ▪ approves unsecured loans in excess of CHF 75 billion ▪ decides on the purchase and sale of real estate in addition to renovations and new building projects in accordance with the delineation of powers laid down by the board of directors ▪ approves the payment of accounts for building projects authorised by the board of directorsn ▪ takes decisions on providing assistance to business, social and cultural institutions ▪ decides on the bank's membership of and representation in organisations ▪ approves the detailed monthly reports from the executive board ▪ is informed of new credit transactions that fall under the jurisdiction of the executive board ▪ is informed of the course of business at subsidiaries ▪ iis responsible for hiring and dismissing members of senior management, as well as their promotion ▪ reviews the legal, tax and compliance reports on a half-yearly basis ▪ is regularly informed of major risk positions ▪ deals with pressing matters that fall under the responsibilities of the board of directors and subsequently obtains the board's approval ▪ in the event of escalation decides about transactions with particular business policy risks, conflicts of interest and particular effects on reputation ▪ regularly monitors the quality and effectiveness of the fulfilment of the public service mandate

Audit committee

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

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

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

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

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

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

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

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

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

Compensation & personnel committee

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

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

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

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

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

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

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

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

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

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

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

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

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

Areas of responsibility

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

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

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

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

Management contracts

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

Communication policy

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

Public service mandate

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

Committee of the board

Jörg Müller-Ganz

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

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

János Blum

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

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

Bruno Dobler

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

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

Board of directors

Thomas Heilmann

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

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

René Huber

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

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

Hans Kaufmann

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

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

Mark Roth

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

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

Peter Ruff

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

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

Anita Sigg

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

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

Hans Sigg

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

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

Liliane Waldner

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

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

Rolf Walther

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

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

Stefan Wirth

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

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

Audit

Walter Seif

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

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

Executive board

Martin Scholl

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

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

Christoph Weber

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

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

Markus Bachofen Rösner

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

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

Jürg Bühlmann

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

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

Stephanino Isele

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

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

Heinz Kunz

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

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

Roger Müller

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

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

Daniel Previdoli

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

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

Rudolf Sigg

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

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

Where wedding bells ring

Marriages per 1,000 residents (2012)

Coincidence, or not? Both municipalities offer an extremely attractive backdrop for wedding photographers, though the number of marriages among the local population could not be more different. The highest rate can be seen in the municipality of Kyburg, famed for its castle and "Iron Maiden" – who is no longer as young as she used to be. No marriages took place among the residents of Wasterkingen in 2012. In 1701, this was the scene of the last witch trial to be held in the canton of Zurich – a trial in which seven women and one man were executed for witchcraft. Coincidence, or not?

Compensation

Our compensation model is based on competitive, performance-based levels of pay – with the bank's long-term financial interests in mind.

Basic principles

Zürcher Kantonalbank complies with the corporate governance principles of the Swiss Code of Obligations, the Corporate Governance Directives issued by SIX Swiss Exchange on 1 September 2014 concerning information on corporate governance, and the Swiss Code of Best Practice for Corporate Governance, insofar as this is possible and appropriate for a public-law institution as opposed to a public limited company.

As laid down in the SIX directives, all variable elements of compensation are assigned to the financial year in which they are actually incurred. Total personnel expenses include all cash compensation and deferred components, changes in their value, as well as employer contributions to the pension fund; employer contributions to AHV (old-age and survivors' insurance) and other mandatory social security contributions are also included. The compensation guidelines are set out in the personnel and compensation regulations issued by the board of directors for Zürcher Kantonalbank and apply group-wide. The procedures for determining compensation are structured and documented by the group companies. This compensation report refers to the Zürcher Kantonalbank parent company. The compensation paid by the consolidated subsidiaries also fulfils the relevant requirements in an appropriate manner.

Competencies

Under §11 section 7 of the Law on Zürcher Kantonalbank of 28 September 1997, version dated 10 May 2010, the cantonal parliament is responsible for approving the regulations governing the compensation of the members of the board of directors. The board of directors issues regulations governing the compensation of the members of the board of directors; these regulations are subject to approval by the cantonal parliament.

Fig. 17: Competencies and responsibilities

Competency	Body responsible
▪ Setting up or amending compensation plans	▪ Board of directors, on recommendation of compensation & personnel committee
▪ Determining total amount of variable compensation	▪ Board of directors, on recommendation of compensation & personnel committee
▪ Compensation for committee of board of directors and other members of board of directors	▪ Cantonal parliament, based on proposal of board of directorst
▪ Compensation for CEO	▪ Board of directors, based on proposal of committee of board of directors
▪ Compensation for members of executive board	▪ Board of directors, based on proposal of committee of board of directors
▪ Compensation for head of Audit	▪ Board of directors, based on proposal of committee of board of directors
▪ Compensation for senior management	▪ Executive board

The board of directors furthermore issues personnel and compensation regulations for Zürcher Kantonalbank in accordance with Swiss Financial Market Authority (FINMA) requirements. It is responsible for the implementation of these regulations, both at the parent company and at the relevant subsidiaries in Switzerland and abroad that are subject to consolidation (under mandatory foreign requirements). The compensation & personnel committee assists the board of directors with compensation policy issues. It prepares the relevant business 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 & personnel committee has the following duties and powers for determining compensation policy:

- To make preparations for the issuing of a set of regulations governing compensation for the members of the board of directors for submission to the cantonal parliament for the purpose of approval
- To make recommendations to the board of directors on the strategic and human resource policy principles of the pension funds from the employer's viewpoint
- To make recommendations for principles concerning compensation for members of the executive board and Audit, as well as any profit-sharing and benefit programmes
- To evaluate the bank's compensation system, specifically with regard to its sustainability and the avoidance of false incentives.

In the year under review, the compensation & personnel committee conducted an in-depth review of the variable compensation models at seven meetings. This review showed that the compensation system applied meets the regulatory requirements for the bank's compensation policy and that it does not contain any incentives to take inappropriate risks. While the compensation system was retained, various smaller simplifications to the model were approved by the board of directors.

Compensation policy

Zürcher Kantonalbank's compensation policy is based on the bank's business strategy, objectives and values, as well as the long-term financial interests of the bank and the need for solid, effective risk management. The board of directors, in its capacity as supreme governing body, brings together the interests of the canton of Zurich as owner and the interests of Zürcher Kantonalbank and its employees. The compensation policy is also aimed at attracting and retaining highly qualified employees, recognising outstanding performance and motivating employees to continue their professional development. Compensation is closely linked to the group's strategy. This is based on Zürcher Kantonalbank's performance promises to its customers and owner, as well as the preservation of its good reputation. Therefore, the compensation system at Zürcher Kantonalbank does not create any incentives to take inappropriate risks that might negatively affect the bank's stability. Variable compensation is sustainable and geared towards the long-term financial success of Zürcher Kantonalbank and its risk profile. At each individual level, employees therefore have key targets that are linked to Zürcher Kantonalbank's successful long-term performance and take account of the risks entered into.

Principles of compensation

Zürcher Kantonalbank's compensation practice is based on the following objectives:

- Recruiting employees who pursue their goals fairly and with integrity, in accordance with the group strategy
- Motivating employees to create lasting added value while taking account of the risks
- Promoting a performance-led environment for the benefit of the bank as a whole – one that recognises and rewards performance
- Ensuring that variable compensation is adjusted for risk and only income that is sustainable in the long term is included
- Competitive, balanced compensation for comparable jobs that reflects successful long-term performance

Total compensation for management is aimed at encouraging close cooperation 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. For the purpose of efficient risk monitoring, the Legal, Tax & Compliance, Risk, Finance and Human Resources specialist areas must be able to perform their control and escalation tasks independently. Compensation for these functions is therefore set independently of the organisational units with responsibility for income. The overall compensation for these functions ensures that they are attractive to qualified, experienced persons.

Zürcher Kantonalbank's base salary structure is oriented towards the standard median values for the industry. Base-salary levels are usually reviewed on an annual basis. Variable compensation is a central element of compensation practice and offers flexibility for adjustment in the event of a change in the business situation. Assuming the agreed individual performance targets and overall bank result are achieved, the bank aims to compensate its employees in line with market rates. On behalf of Human Resources, the bank conducts an annual market comparison in cooperation with Towers Watson, SwissICT, Kienbaum and other specialist consultancy firms. Zürcher Kantonalbank therefore measures itself against other Swiss financial institutions. For senior managers, additional compensation parameters obtained from these market comparisons are scaled on the basis of criteria such as size of organisation, number of employees, hierarchy, depth of organisation, geographical reach and internationality. Additional appropriate parameters are used if necessary. All compensation (honoraria, attendance fees and similar compensation) for delegation and representation on behalf of the bank must be surrendered to Zürcher Kantonalbank. Any reimbursed expenses are retained by the appointee. Variable elements of the overall compensation of employees are reduced or forfeited at the bank's own discretion if, prior to the time of the envisaged payout, the employee has committed a breach of contractual, risk or compliance requirements, or the bank has occurred losses as a result of the employee's activity. Moreover, such employees are deemed "bad leavers" under compensation models and their entitlement to any deferred compensation lapses.

Breaches of laws, codes of conduct, directives or internal rules can in addition lead to disciplinary measures. These may be combined with the reduction or forfeiture of variable compensation and/or a deferred element and 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 relevant sanction decided. Under the "bad leaver" rule, the long-term deferred component as well as the deferred element at risk may lapse in full if Zürcher Kantonalbank parts company with the employee for specific reasons. This may be the case if employees have committed a breach of contract or have caused material or non-material damages as a result of their activities or the relationship of trust between them and the bank has suffered lasting damage as a result of their conduct.

Agreed payments such as guaranteed bonuses or bonus buyouts in connection with the conclusion of an employment contract are termed sign-on compensation. Zürcher Kantonalbank pursues a policy whereby such compensation is agreed on only an exceptional basis and only in individually justified instances. Payments agreed in connection with the termination of an employment relationship are termed severance compensation. Zürcher Kantonalbank's employment contracts do not contain any pre-agreed severance compensation or notice periods that differ from the general terms and conditions of employment. Sign-on and severance compensation must be approved by the committee of the board on the basis of clear decision-making processes. The sign-on and severance compensation agreed in the year under review is shown in Figure 18.

Compensation groups

Board of directors

Compensation for part-time members of the board of directors is based on the regulations governing the compensation of members of the board of directors including the committee of the board of 25 November 2004, as approved by the cantonal parliament of Zurich on 18 June 2005 and published and implemented with retroactive effect to 1 January 2005. It comprises a fixed annual salary plus compensation for each membership of a committee and an expense allowance. An attendance fee is paid for meetings, visits to organisational units and branch offices, as well as training and development events. No variable compensation is paid to the members of the board of directors.

Fig. 18: Agreed sign-on and severance compensation

in CHF 1,000	No. of employees	Total	Paid in 2014	Amounts due in 2015 or later
Total sign-on payments	4	155	20	135
– of which key risk-takers	0	0	0	0
Total severance compensation	0	0	0	0
– of which key risk-takers	0	0	0	0
Total compensation	4	155	20	135

Committee of the board
Based on the aforementioned regulations governing the compensation of members of the board of directors, the members of the committee of the board receive an annual base salary and expense allowance, in addition to all the benefits designated for all Zürcher Kantonalbank employees in the relevant regulations. The chairman receives an additional allowance of 10 percent of his annual base salary. No variable compensation is paid to the members of the committee of the board.

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

Executive board
Compensation for the members of the executive board is based on Zürcher Kantonalbank's overall compensation policy. A variable element is paid depending on the business result. Rather than being paid out in the following year, part of the calculated variable compensation is invested in a long-term deferred component.

Senior management
Senior management has a sustained influence on the bank's business operations (risks, image, etc.), on its overall result and therefore on the implementation of the strategy. Senior managers make up approximately two percent of the total headcount. As with the executive board, variable compensation is provided in addition to the base salary; this variable compensation is linked to the business result and individual performance. Part of the calculated variable compensation is not paid out in the following year; instead it 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. For selected employees in the trading, sales and capital markets area, a separate model applies. Part of the variable compensation is deferred and exposed to future risk development. In accordance with the supervisory recommendations, the group of key risk-takers subject to the rules for deferred variable compensation is formed from the compensation groups mentioned above. The following are defined as key risk-takers:

- Executive board
- Senior management with a substantial influence on the resources of the business and/or risk profile
- Selected employees in the trading, sales and capital markets area who exceed a defined threshold in relation to variable compensation

A total of 75 employees are defined as key risk-takers; in the year under review, nine of them were active members of the executive board.

Components of compensation

Zürcher Kantonalbank uses the total compensation approach, which comprises the following components:

Fig. 19: Components of compensation

Base salary	Contractually agreed, paid out on a regular basis
Variable compensation	Variable component of salary that is contingent on result and performance
Deferred component	Long-term, deferred element of compensation based on sustainable success of the business
Statutory allowances and additional benefits	Child and training allowances, family allowances (Agreement on Conditions of Employment for Bank Staff), allowances under the Labour Law, expense allowances, loyalty bonuses, etc.

Zürcher Kantonalbank's employee appraisal system supports the feedback culture, making it possible to give each employee an individual, nuanced assessment of their performance. The annual employee appraisal is one of the basic principles for the allocation of individual variable compensation. The base salary, variable compensation and deferred components, which are explained in greater detail below, are financially relevant.

Base salary
Zürcher Kantonalbank's base salary structure is generally oriented towards the standard median values for the industry. The results of the salary comparisons help provide a basis for the setting of individual salaries. Base salary levels are decided in accordance with position, experience and skills, and take account of individual sustainable performance. Adjustments are made to reflect market conditions, affordability, individual performance and the overall financial position of Zürcher Kantonalbank.

Fig. 20: Variable compensation at a glance

	Recipient	Due	Forfeiture clause	Performance, penalty clause	Performance-related[1]
Variable compensation	Permanent employees	Immediate	Yes	Dependent on individual performance in event of misconduct.	Yes
Long-term deferred component	Executive board, senior management	Transferred after 3 years	Yes	Amount of cash sum paid out on due date depends on development of sustainable profit and adherence to values framework.	Yes
Defferal at risk	Head of Institutionals & Multinationals, some employees in the trading, sales and capital markets area	Transfer in equal shares over 2 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.

Variable compensation
The bank's total pool for variable compensation is based on its overall result, whereby estimated capital and risk costs are deducted in advance. Calculation of the bonus pool for trading staff is based on the operating results of the relevant trading units, less the cost of risk and capital. The allocation to the variable amount depends on the employee's position and individual performance, the annual employee appraisal being one of the key criteria. Variable compensation is decided by the bank; at its discretion, the variable compensation may be forfeited in full following inadequate performance or a poor business result. Variable compensation is reduced or forfeited at the bank's own discretion if, prior to the time of the envisaged payout, the employee has committed a breach of contract, the bank has incurred considerable losses as a result of the employee's activity or the employee is serving his/her notice. Thresholds for the deferred compensation components are based on the risk profile of the bank as a whole.

Long-term deferred component
For members of the executive board and senior management, part of the calculated variable compensation is invested in a long-term, deferred component for three years. For each series of deferred component, the targets to be achieved are specified in advance and apply for a three-year period. The value of the deferred component at the end of this term is based on the achievement of targets related to the level of sustainable profit. The maximum value of the deferred component is 1.5 times the original amount, the minimum being 0.5 times. Should there be a negative internal net income over the three-year period, the value of the deferred compensation is reduced to zero.

Deferral at risk
For selected employees in the trading, sales and capital markets area with a significant influence on the bank's results and risk profile, a portion of the variable compensation in excess of a specific amount is deferred and exposed to risk for a two-year period. The functions of CEO and head of Human Resources for the bank as a whole, which are independent of the trading, sales and capital markets area, may impose a penalty, i.e. a reduction or forfeiture of the deferred amount at risk on an individual person basis, particularly in the case of:

- significant financial losses at the level of department, desk or individual;
- reputational damage or other actions that may be detrimental to Zürcher Kantonalbank, such as activities that breach regulations and result or may result in sanctions by the Swiss Financial Market Supervisory Authority (FINMA); activities that result in significant customer migration or the taking of inappropriate risks outside ordinary risk processes.

Members of senior management who are simultaneously selected employees of the trading, sales and capital markets area are subject to both systems of deferred component on a cumulative basis.

Risk consideration

Risk-adjusted variable compensation pool
Two different methods are used for risk adjustment of the variable compensation pools. The variable compensation pool of the bank as a whole is based on the overall bank result after adjustment for risk costs. Risk costs cover 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 over an entire economic cycle. This evens out the annual default risk costs, which would otherwise be irregular. By taking account of standard risk costs, risk costs arising as a result of current business volumes are therefore included in the annual accounts under the model. Management decisions to focus on specific products or markets are therefore covered by corresponding risk costs on a timely basis. Thanks to this procedure, the basis for calculating the variable compensation pool is oriented towards the bank's sustainable development. A market-level interest rate is taken into account in relation to the compensation for equity, with relevant equity being based on the regulatory required capital or risk-weighted assets.

The calculation process for the variable compensation pool of the trading bonus is based on the adjusted result for the trading, sales & capital markets area. This is likewise adjusted for the default and market risk costs of the individual trading desks. The calculation is based firstly on the standard risk costs for default risks and secondly on the cost of risk capital in accordance with internal models for default as well as market risks (internal capital-at-risk models). The capital-at-risk approach is used to determine the internally required capital that is tied up for a year on account of market and default risks on trading activities. The maximum risk capital available for trading activities is allocated by the board of directors on an annual basis. This takes account of the bank's strategic direction and capital planning for the coming years. The risk capital allocated in this way is charged to the result for the trading, sales and capital markets area using a standard market interest rate.

Determining the variable compensation of key risk-takers
Risk factors are taken into account at individual level in the performance appraisal and allocation of compensation. As with all other employees, key risk-takers undergo a formal three-stage process: defining objectives, the performance appraisal and setting compensation.

- **Defining objectives**
  The objectives to be achieved are agreed between immediate line managers and employees at the start of each financial year. The scale of the strategic targets (finance, customers, processes and employees) in the balanced scorecard is key to determining the objectives. The sales-relevant objectives agreed by the business units, which serve as the basis for determining the quantitative and qualitative objectives, are examined in advance by the risk committee in terms of risk-relevant issues. The risk committee takes account of conditions on the basis of the current overall scenario and the bank's overall planning, as well as the market situation and other relevant information. In the event of a negative assessment, the risk committee may amend targets or decide on any compensatory measures.

- **Performance appraisal**
  The performance appraisal is drawn up by the immediate line manager and forms the basis for the allocation of individual variable compensation. Besides an assessment of agreed qualitative targets, in particular specific key figures of significance to the functional area are taken into account. They include the growth in lending business and inflow of assets under management, as well as the change in risk-adjusted profits and improvement in cost efficiency. Also included in the performance appraisal are any breaches of internal or external directives and guidelines or misconduct that may impact negatively on the reputation of the bank as well as ongoing disciplinary proceedings. During the process of allocating and paying variable compensation elements for key

Fig. 21: Risk overview

	Risk adjustments made prior to the allocation of variable compensation
Quantitative	▪ Cost of equity ▪ Risk costs ▪ Special factors
Qualitative	▪ Employee appraisal ▪ Reporting by internal control units

	Risk adjustments made following the allocation of variable compensation
Explicit	▪ Deferred components of compensation ▪ Conduct-based adjustment (penalty or forfeiture)
Implicit	▪ Sustainable profit

risk-takers in the trading, sales & capital markets area, the independent control functions of legal, tax & compliance, risk management and human resources are consulted.

- **Setting variable compensation**
  The performance-related variable compensation of key risk-takers can account for a large element of their overall compensation and varies from year to year depending on the performance of the business and the individual performance appraisal. As stated above under "Competencies and responsibilities" (page 51), the board of directors decides the compensation of the members of the executive board based on the proposals of the committee of the board. The executive board decides the compensation of key risk-takers among senior management. The head of Institutionals and Multinationals decides the compensation of key risk-takers in the trading, sales & capital markets area based on the proposals of the head of that 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 "Long-term deferred component" and "Deferral at risk" for further details on the possibilities of a reduction).

Compensation in 2014

Total personnel expenses in respect of the full-time-equivalent headcount of 4,704 (2013: 4,673) amounted to CHF 797.1 million (parent company). Personnel expenses fell by 4.2 percent, mainly due to lower variable compensation costs. The social security expenses also include payments to the bank's pension fund. All variable elements of compensation are assigned to the financial year in which they are actually incurred.

Fig. 22: Personnel expenses in 2014 (parent company)

in CHF million	2014	2013
Base salaries[1]	497.8	503.8
Total variable compensation	119.0	148.7
Social security	145.1	152.8
Other personnel expenses[2]	35.1	26.5
Total personnel expenses	797.1	831.7

[1] Fixed compensation for permanent employees and temporary staff, governing bodies as well as compensation for loss of income and payroll-related costs.
[2] In particular costs for training, staff support, recruitment.

In the course of its annual review of base salaries, Zürcher Kantonalbank decided to raise base salaries for 2014 by CHF 5 million (+ 1.0 percent) compared with the previous year. The increase in base salaries was used primarily to bring employees closer to industry levels as well as to provide greater reward to employees who have assumed more responsibility or shown outstanding performance. Total variable compensation declined by CHF 29.7 million compared with the previous year. The total amount of deferred compensation was CHF 4.8 million.

Fig. 23: Details of variable compensation

	2014		2013	
	Anzahl Mitarbeitende[1]	in CHF million	No. of employees[1]	in CHF million
Total amount of variable compensation	4,704	119.0	4,673	148.7
▪ of which deferred	75	4.8	84	7.0
▪ of which sign-on and severance compensation	4	0.2	4	0.7
▪ of which other credits and debits from compensation of previous years, reflected in income statement	–	0	86	0.5

[1] Full-time equivalents

Compensation for members of the board of directors

Compensation for part-time members of the board of directors is based on the regulations governing the compensation of members of the board of directors including the committee of the board of 25 November 2004, as approved by the cantonal parliament of Zurich on 18 April 2005 and implemented with retroactive effect to 1 January 2005. It comprises a fixed annual salary of CHF 18,000, plus compensation of CHF 6,000 for each membership of a committee. An annual expense allowance of CHF 6,000 is also provided. A fixed attendance fee of CHF 700 per day and CHF 350 per half-day is paid for meetings. These rates are also paid for visits to branch offices and specialist units.

As laid down in the aforementioned regulations governing the compensation of members of the board of directors, the full-time members of the board of directors (committee of the board) receive an annual base salary of CHF 311,500 in addition to all the benefits designated for employees in the corresponding regulations. The chairman receives an additional allowance of 10 percent of his annual base salary. The full-time members of the board of directors are paid an annual allowance of CHF 14,000 each. The full-time members of the board of directors are insured within the scope of the bank's directive on pension funds. No variable compensation is paid to the members of the board of directors. Under the disclosure guidelines, the compensation paid to the members of the board of directors is reported individually.

Total expenses in relation to the board of directors were virtually unchanged. No other additional 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. The part-time members of the board of directors and related parties are granted loans only on normal market terms.

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

Total compensation for the individual members of the executive board takes account of their performance in the relevant areas of responsibility. Total compensation for the executive board in 2014 amounted to CHF 10,732,088 (2013: CHF 11,482,344). The highest sum paid to a member of the executive board during the year under review was CHF 1,375,000 in salary and variable compensation, together with CHF 211,608 in pension payments and other remuneration, and was paid to Martin Scholl, CEO (2013: CHF 1,674,064). In addition, deferred components amounting to CHF 1,485,320 (2013: CHF 1,749,435) were set aside for the members of the executive board; 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 11,255,500 (of which CHF 11,082,000 on employee terms). No loans on unusual terms were granted to related parties of the executive board.

Fig. 24: Compensation and loans for members of the board of directors (in CHF)

Committee of the board	Year	Annual compensation	Attendance fee	Expense allowance [1]	Benefits in kind [2]	Employer contributions to Pillar 2	Total	Loans as at 31.12.
Jörg Müller-Ganz	2014	342,650	–	14,040	9,815	93,800	460,305	1,300,000
	2013	342,650	–	14,040	8,565	90,705	455,960	600,000
János Blum	2014	311,500	–	14,040	2,315	87,413	415,269	1,855,000
	2013	311,500	–	14,040	4,000	85,045	414,585	1,930,000
Bruno Dobler	2014	311,500	–	14,040	0	86,200	411,740	988,000
	2013	311,500	–	14,040	0	85,045	410,585	992,000
Other members of the board of directors								
Alfred Binder	2014	18,000	23,100	4,500	–	–	45,600	0
(until 30.9.2014)	2013	24,000	31,850	6,000	–	–	61,850	475,000
Thomas Heilmann	2014	24,000	51,100	6,000	–	–	81,100	0
	2013	24,000	52,150	6,000	–	–	82,150	0
René Huber	2014	4,000	3,150	1,000	–	–	8,150	0
(since 1.11.2014)	2013	–	–	–	–	–	–	–
Hans Kaufmann	2014	25,500	18,200	6,000	–	–	49,700	800,000
	2013	24,000	19,950	6,000	–	–	49,950	800,000
Mark Roth	2014	30,000	23,100	6,000	–	–	59,100	0
(since 1.9.2013)	2013	10,000	8,050	2,000	–	–	20,050	0
Peter Ruff	2014	28,500	23,800	6,000	–	–	58,300	0
	2013	30,000	26,250	6,000	–	–	62,250	0
Kurt Schreiber	2014	–	–	–	–	–	–	–
(until 31.8.2013)	2013	16,000	9,450	4,000	–	–	29,450	0
Anita Sigg [3]	2014	30,000	20,300	6,000	–	–	56,300	2,264,000
	2013	30,000	26,250	6,000	–	–	62,250	2,270,000
Prof. Dr. Hans Sigg	2014	24,000	18,550	6,000	–	–	48,550	0
	2013	24,000	22,050	6,000	–	–	52,050	0
Liliane Waldner	2014	24,000	32,900	6,000	–	–	62,900	0
	2013	24,000	31,850	6,000	–	–	61,850	0
Rolf Walther	2014	24,000	23,800	6,000	–	–	53,800	0
	2013	24,000	23,100	6,000	–	–	53,100	0
Stefan Wirth	2014	30,000	23,800	6,000	–	–	59,800	0
	2013	30,000	26,600	6,000	–	–	62,600	0
Total	2014	1,227,651	261,800	101,620	12,130	267,413	1,870,614	7,207,000
Total	2013	1,225,651	277,550	102,120	12,565	260,795	1,878,680	7,067,000

[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, training and family allowances (Agreement on Conditions of Employment for Bank Staff), loyalty bonuses, medical check-ups, contribution to tram/rail season tickets.
[3] Loans: reduced community of heirs of Anita Sigg-Meyer: CHF 1,700,000, Anita Sigg alone: CHF 564,000.

Mini highs and lows

Height above sea level

The municipality of Flaach, in Zurich's wineland region, and the municipality of Sternenberg, in the Zurich highlands, are popular destinations for school trips and hiking within the canton. They are also culinary hot spots: Flaach has its incomparably tender asparagus, while Sternenberg produces wonderful cheese. People with a head for heights can reach 835 metres above sea level using Sternenberg's 245-metre-long ski lift. In Flaach, those looking to go the distance can get in a boat and sail down the Rhine to the open sea if the water level is right.

Financial Report

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

The following rules apply to the tables:

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

Comments on the group financial statements

Group net income

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

Distribution of profit

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

Triple-A rating confirmed

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

Amended Law on Zürcher Kantonalbank

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

Very solid equity base

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

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

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

Participations and cooperation agreements

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

Swisscanto

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

Key financial targets

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

Assets under management

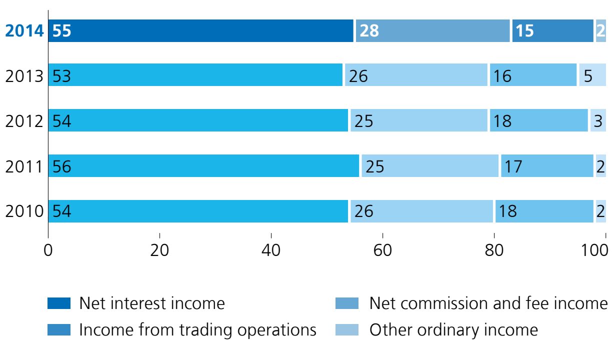
At the end of 2014, Zürcher Kantonalbank had CHF 199.1 billion in assets under management (end of 2013: CHF 192.1 billion; end of 2012: CHF 191.8 billion). The increase of CHF 7.0 billion stemmed from a net outflow of CHF 2.3 billion and a performance element of CHF 9.3 billion.

Comments on the income statement

Operating income well supported

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

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



Interest operations under pressure

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

Commission income slightly lower

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

Decline in trading operations

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

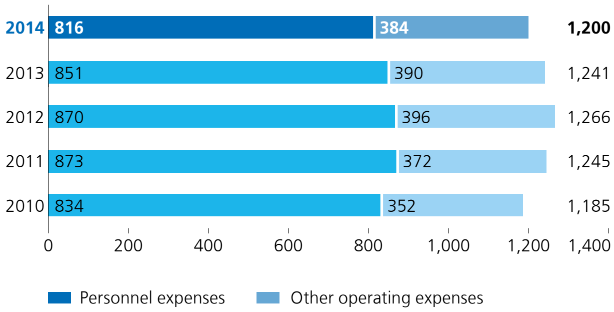
Other ordinary income

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

Lower operating expenses

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

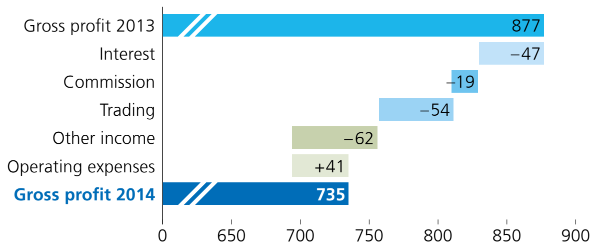
Fig. 2: Five-year comparison of operating expenses *(in CHF million)*



Lower gross profit

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

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



Depreciation and amortisation

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

Significantly lower expenses for allowances and provisions

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

Extraordinary income

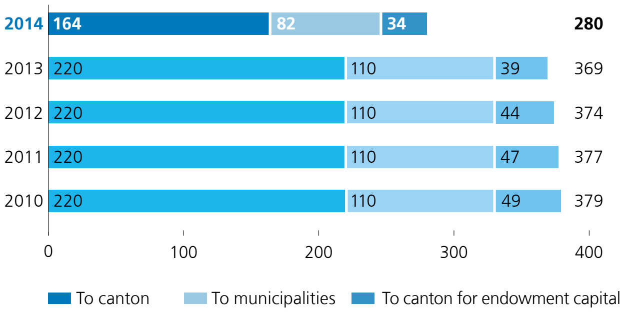
Extraordinary income amounted to CHF 65 million in 2014 (2013: CHF 218 million). The figure for the previous year included a large gain from the sale of property. A detailed statement is provided in Note 5.4 (p. 100).

Profit distribution by parent company

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

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

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



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

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

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

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

Comments on the balance sheet

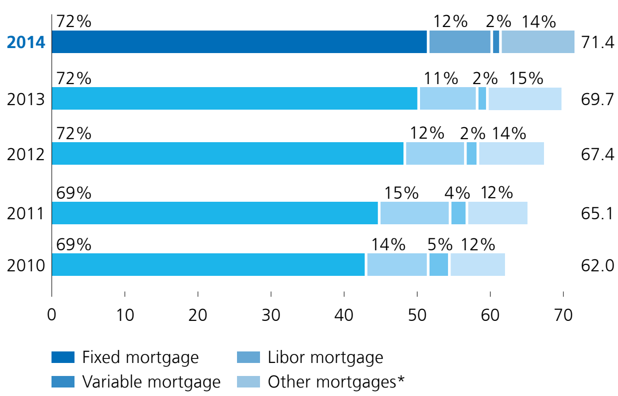
Growth in balance sheet

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

Moderate growth in total volume of mortgages

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

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



* mainly starter mortgages and fixed advances secured by real estate

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

Inflow of funds due to customers

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

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

Liquidity and financial investments

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

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

Interbank market

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

Trading portfolios, derivative instruments

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

Participations, tangible fixed and intangible assets

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

Allowances and provisions

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

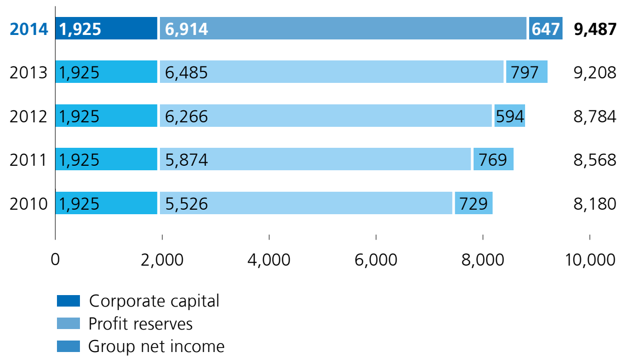
Pension funds

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

Balance sheet net equity

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

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



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

Group income statement

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

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

Group balance sheet

before distribution of net profit, as at 31 December

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

Statement of cash flows

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

Notes

1. Comments

on business activities and information on headcount

About the bank

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

Balance-sheet business

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

Commission and fee business

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

Trading

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

Risk assessment

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

Outsourcing

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

Headcount

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

Notes

2. Accounting and valuation principles

General principles

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

Scope of consolidation

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

Method of consolidation

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

Period of consolidation

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

Recognition of transactions

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

Foreign exchange conversion

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

Fig. 8: Foreign currency conversion rates

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

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

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

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

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

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

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

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

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

Non-consolidated participations

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

Tangible fixed assets

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

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

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

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

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

Intangible assets

Goodwill

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

Other intangible assets

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

Allowances and provisions for credit risks

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

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

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

Allowances and provisions for other business risks and other provisions

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

Profit reserves

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

Pension funds

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

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

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

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

Derivative instruments

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

Reporting in the income statement

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

Reporting in the balance sheet

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

Structured products

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

Taxes

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

Changes to the accounting and valuation principles

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

Events after the balance sheet date

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

Notes

3. Information on the balance sheet

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

3.1.1 Overview by collateral

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

3.1.2 Information on impaired loans

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

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

3.2.1 Securities and precious metals trading portfolio

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

[1] Listed = traded on a recognised exchange.

3.2.2 Financial investments

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

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

3.2.3 Participations

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

3.3.1 Fully consolidated participations

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

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

3.3.2 Significant non-consolidated participations[1]

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

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

3.4 Tangible fixed and intangible assets, participations

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

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

There are no leasing commitments.

3.5 Other assets and liabilities

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

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

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

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

3.6.2 Loan transactions and repurchase agreements with securities

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

Information on pension funds

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

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

The following employers are affiliated to Zürcher Kantonalbank's pension fund:
- Adamant Biomedical Investments AG (until 31 December 2014)
- Balfidor Fondsleitung AG
- Zürcher Kantonalbank's Grüningen Botanical Garden Trust
- Zürcher Kantonalbank pension fund
- Zürcher Kantonalbank's SanArena Trust
- Zürcher Kantonalbank

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

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

Fig. 10: Coverage ratio pursuant to Article 44 BVV2

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

3.7.1 Liabilities to own pension funds

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

3.7.2 Employer contribution reserve (ECR)

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

3.7.3 Economic benefit/economic obligations and pension expenses

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

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

3.8.1 Cash bonds outstanding

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

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

3.8.2 Bond issues outstanding

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

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

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

3.8.3 Central mortgage institution loans outstanding

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

(continued on page 87)

3.8.3 Central mortgage institution loans outstanding (continued)

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

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

3.9 Allowances and provisions

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

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

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

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

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

3.10 Corporate capital

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

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

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

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

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

3.11 Statement of changes in equity

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

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

3.12 Maturity profile of current assets and liabilities

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

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

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

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

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

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

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

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

3.15.1 Assets by countries/regions

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

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

3.15.2 Liabilities by countries/regions

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

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

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

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

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

3.16 Balance sheet by currencies

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

Notes

4. Information on off-balance-sheet transactions

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

4.1 Contingent liabilities and irrevocable commitments

Contingent liabilities

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

Irrevocable commitments

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

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

4.2 Credit commitments

There are no credit commitments.

4.3.1 Derivative instruments outstanding by contract type

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

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

(continued on page 97)

4.3.1 Derivative instruments outstanding by contract type (continued)

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

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

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

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

4.3.2 Derivative instruments outstanding by remaining period

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

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

[1] Before netting

4.4 Fiduciary business

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

4.5 Assets under management

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

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

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

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

4.6 Other liabilities, not included in the balance sheet

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

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

Notes

5. Information on the income statement

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

5.1 Results from trading operations[1]

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

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

5.2 Personnel expenses

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

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

5.3 Other operating expenses

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

5.4 Extraordinary income and expenses

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

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

5.5 Taxes

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

Figures in tables: minus = expense; plus = income

5.6 Components of ROE

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

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

Notes

6. Risk management

Risk profile

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

Internal controls system

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

- systematic risk analysis and periodic monitoring of the appropriateness and effectiveness of internal controls by the executive board and board of directors,
- the risk policy parameters of the board of directors for safeguarding the bank's credit rating and reputation,
- the bank's established processes for risk management and compliance with applicable standards and
- the systematic process to ensure the appropriateness and effectiveness of internal controls by the individual business units and processes.

Principles of risk management

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

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

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

Principles of compliance policy

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

Risk and compliance organisation

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

Board of directors and committee of the board

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

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

Executive board

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

Conflicts committee

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

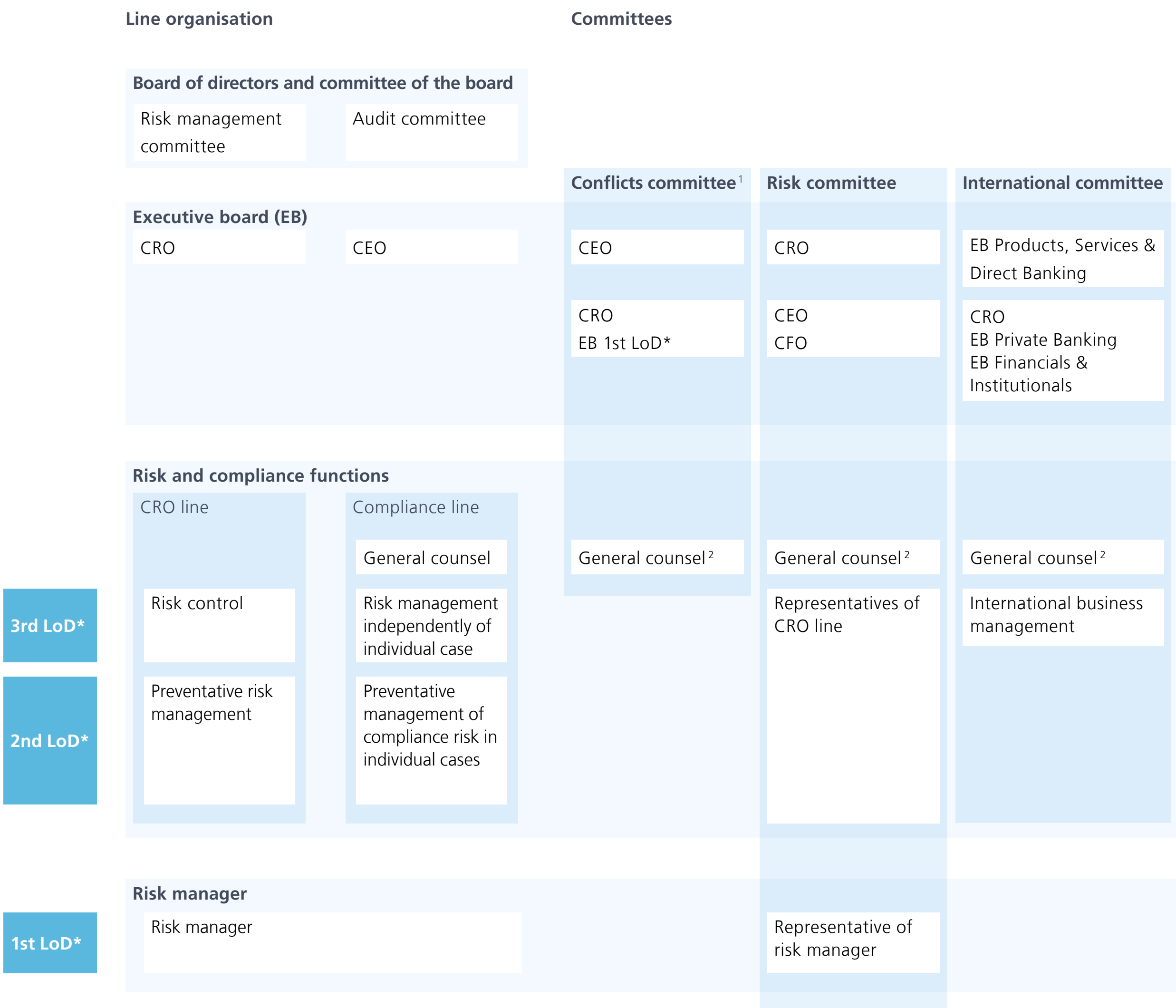
Risk committee

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

International committee

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

Fig. 11: Risk and compliance organisation



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

CRO line

The chief risk officer (CRO) is a member of the executive board and manages the Risk unit. He has a right of intervention that permits measures to be assigned to the risk managers if required by the risk situation or to protect the bank.

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

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

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

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

Risk managers
The risk managers (1st Line of Defence) bear responsibility for profits and losses generated on the risks entered into. They are responsible for the continuous, active management of risks and for constant compliance with the risk policy parameters, relevant laws, ordinances and standards.

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

Fig. 12: Risk categories

Risk categories

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

Systemic risks

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

Strategic risks

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

Reputation risks

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

Other risks

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

Risk control and capital adequacy

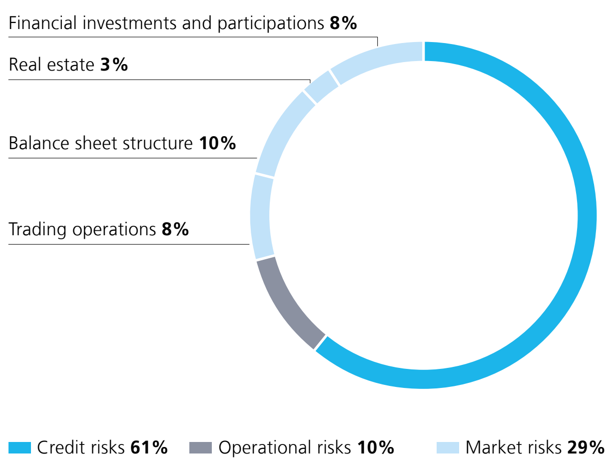
Internal risk control

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

Internal capital adequacy

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

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



Basel III capital adequacy regulations

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

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

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

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

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

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

requirement and therefore amounts to 3.36 percent of total exposure.

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

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

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

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

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

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

Risk-weighted capital adequacy requirements

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

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

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

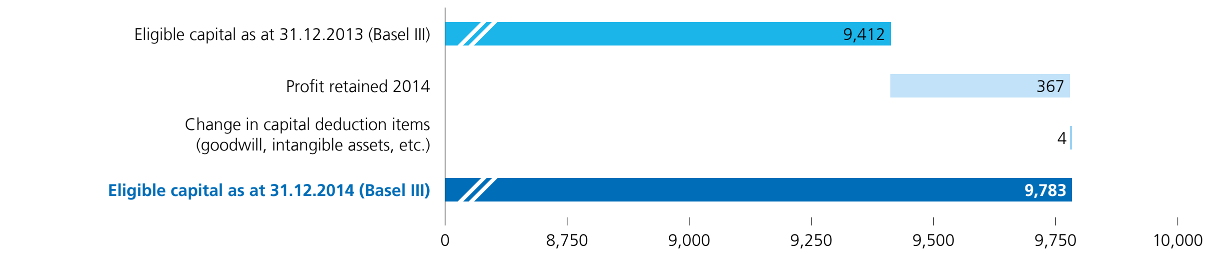
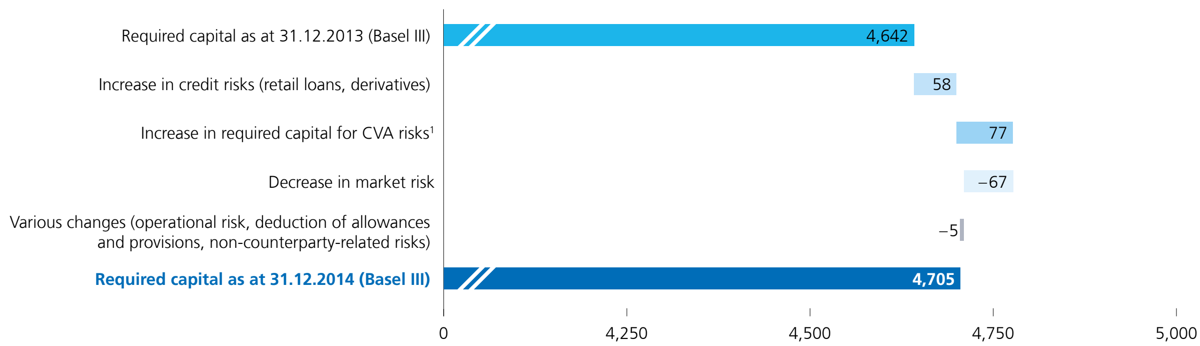


Fig. 15b: Change in minimum required capital (in CHF million)



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

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

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

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

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

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

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

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

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

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

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

Fig. 18: Required minimum capital (group)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unweighted capital adequacy requirement (leverage ratio)

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

Fig. 23: Leverage ratio (group)

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

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

Fig. 24: Leverage ratio requirements and coverage (group)

31.12.2014	Basic requirement	Capital buffer [1]	Progressive component	Excess	Total
Average adjusted total exposure	–	–	–	–	168,780
Capital requirements					
Minimum capital ratio [2]	1.08 %	2.21 %	0.24 %	–	3.53 %
Minimum capital requirement (CHF million) [3]	1,823	3,731	405	–	5,959
Capital coverage (in CHF million) [4]					
Common equity Tier 1 (net CET1)	1,823	3,144	–	3,641	8,607
High-trigger convertible capital	–	588	–		588
Low-trigger convertible capital [5]	–	–	405	183	588
Total	1,823	3,731	405	3,824	9,783
Leverage ratio 31.12.2014	1.08 %	2.21 %	0.24 %	2.27 %	5.80 %
Leverage ratio 31.12.2013 [6]	0.84 %	0.92 %	0.06 %	3.91 %	5.73 %

[1] Includes countercyclical capital buffer.
[2] 24 % of the minimum capital ratios in accordance with Art. 134 CAO.
[3] Capital requirements are calculated as a percentage of the average adjusted total exposure.
[4] Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules.
[5] CET1 reclassified in accordance with Art. 130 para. 3 CAO to cover the progressive component.
[6] Due to the transitional provisions in accordance with Art. 145–147 CAO, the unweighted capital requirement was 1.82 % on 31 December 2013.

The following table lists the key characteristics of all Zürcher Kantonalbank's regulatory capital instruments. Detailed current information on individual instruments can be found at www.zkb.ch under "Kapitalinstrumente" (German-only).

Fig. 25: Key characteristics of regulatory capital instruments (as at 31 December 2014)

	Endowment capital	Tier 1 bond
Issuer	Zürcher Kantonalbank	Zürcher Kantonalbank
Applicable law to instrument	Swiss law	Swiss law
Identifier (ISIN)	n/a	CH0143808332
Supervisory treatment		
Treatment under Basel III transitional rules (CET1/AT1/T2)	Common equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)
Treatment after Basel III transitional period (CET1/AT1/T2)	Common equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)
Eligible at solo/group/solo and group levels	Solo and group level	Solo and group level
Equity securities/debt securities/hybrid instruments/ other instruments	Other instruments	Hybrid instrument (subordinated bond with conditional claim waiver)
Amount eligible as regulatory capital (according to latest statement of changes in equity)	CHF 1,925 million	CHF 588 million
Nominal value of instrument	CHF 1,925 million	CHF 590 million
Accounting item	Corporate capital	Bonds
Original date of issue	15.02.1870	31.01.2012
Unlimited or with expiry date	Unlimited	Unlimited
Original date of maturity	n/a	n/a
May be terminated by issuer (with prior consent of supervisory authority)	No	Yes
May be terminated at any time/in specific circumstances/redemption amount	n/a	First possible termination date 30.06.2017. Redemption amount: entire outstanding issue, no partial termination
May be terminated at a later date, if applicable	n/a	Thereafter annually on the interest date of 30 June
Coupons/dividends		
Fixed/variable/initially fixed then variable/ initially variable then fixed	n/a	Fixed with revision every 5 years
Nominal coupon and any reference index	n/a	Fixed at 3.5% until 30.06.2017; thereafter revised every 5 years based on 5-year mid-swap plus 2.98% risk premium
Existence of a dividend stopper arrangement (the waiving of dividends on the instrument also results in the stopping of dividends on common shares)	n/a	Yes. No distribution to canton if coupon is not paid.
Interest payment/dividend: fully discretionary/partly discretionary/mandatory	Profit distribution fully discretionary	Payment of interest fully discretionary
Existence of an interest step-up clause or other incentive to redeem	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible, claim waiver
Write-down characteristics	n/a	Write-down until trigger ratio (7%) is met again.
Trigger for write-down	n/a	Common equity Tier 1 (CET 1) capital ratio falls below 7% or FINMA declares impending insolvency.
Full/partial	n/a	Full or partial. To return to the trigger ratio (7%) in 25% stages from the nominal amount
Permanent or temporary	n/a	Permanent
In the case of temporary depreciation: allocation mechanism	n/a	n/a
Hierarchy in event of liquidation (state the higher-ranked instrument in each case)	Tier 1 bond	Subordinate to all other subordinated liabilities (if any) except pari passu instruments.
Existence of characteristics that prevent full recognition under Basel III	No	No

Credit risks

Loans, promises of payment and trading business involve credit risks. Credit risk is the risk whereby payments due from a debtor are not met or are not met on time.

Processes and methods

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

Expected losses are determined on the basis of default probability, assumptions regarding exposures in the event of default, together with estimates of loss rates on default. Rating models specific to individual segments are used to determine default probabilities. The rating system for retail and corporate customers as well as banks combines statistical procedures with many years of practical experience in the credit business and incorporates both qualitative and quantitative elements. The procedure for banks additionally takes account of ratings from recognised ratings agencies. Country ratings are in principle based on the ratings of external agencies (country ceiling ratings and sovereign default ratings).

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

For the valuation of collateral for loans, in particular the calculation of market and collateral values, the corresponding methods, procedures and responsibilities are specified in an extensive set of internal rules. These rules are continually monitored and aligned with regulatory requirements and market changes. For the valuation of mortgage collateral, the bank uses recognised estimation methods that are tailored to the type of property. This includes the use of hedonic models, income capitalisation approaches and expert appraisals. The models used as well as the individual valuations are reviewed on a regular basis. The maximum loan-to-value ratio for properties secured by mortgage is based on the marketability of the collateral and influenced by factors such as location and type of property (house or commercial property, for example). Marketable collateral (securities, precious metals, account balances, for example) is in principle valued at current market prices. Marketable collateral is subject to the deduction of specified margins. These margins differ primarily depending on the marketable collateral's susceptibility to fluctuations in value.

Limits are used to minimise credit exposures. In addition to the limits at counterparty and counterparty group level, limits are placed on sub-portfolios – for instance for foreign exposures. All credit and contingent exposures are valued each day, while exposures from trading business are valued on a real-time basis. In the case of trading business, pre-deal checks can be undertaken to examine and ensure adherence to counterparty limits. Any breaches of the limits are reported promptly to the officer responsible. An early-warning system is used to identify negative developments and communicate them to the officers responsible. The rating of corporate customers is in principle reviewed once a year on the basis of the annual financial statements. A supplementary review of ratings, limits and exposures in retail and corporate customer business is undertaken using risk-oriented criteria. Ratings, limits and exposures in the banking sector are reviewed periodically and on an extraordinary basis in the event of a deterioration in the credit rating of a particular institution.

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

Risk profile

Figure 26 illustrates credit exposures by counterparty group in accordance with Basel III.

The following sections provide information about the most important sub-portfolios of the credit exposures of Zürcher Kantonalbank on the basis of various criteria.

Credit exposures by rating category

Default probability ratings for corporate and private customers are assigned on the basis of a scale of 1 to 19, and for banks on a scale of 1 to 9. Figure 27 shows the credit exposures to counterparties by rating category using S&P's rating scale. There was no material change in the distribution of credit exposures by rating category compared with the previous year.

Credit exposures by customer portfolio

Figure 28 shows credit exposures classified in accordance with the bank's internally defined customer portfolios. Credit exposures in relation to "private individuals" consist almost entirely of mortgages and represent 51 percent (2013: 55 percent) of total credit exposures. The "companies" portfolio consists of credit exposures in relation to customers of a commercial nature. The share of this customer group in total credit exposures is 22 percent (2013: 22 percent), 80 percent (2013: 81 percent) of which is secured by mortgage or cash. In the "banks and securities dealers" portfolio, the larger share of credit exposures in volume terms is in the form of collateralised transactions such as reverserepo transactions. Other credit exposures in relation to banks arise as a result of trading operations and from the export financing business. Insurance companies, pension funds, financial holding companies, investment fund companies and similar companies together constitute the "Financial sector excluding banks" portfolio. "Governments and public entities" – the smallest portfolio, with a share of 3 percent of the volume of credit exposures – consists of positions with central banks, central governments and public authorities and institutions.

Fig. 26: Group credit exposure breakdown by counterparty group

Credit exposure [1] in CHF million	Central governments and central banks	Banks and securities traders	Other institutions [2]	Companies	Retail customers and small businesses [3]	Other positions [4]	**Total**
Balance sheet items							
Money market placements [5]				4			4
Due from banks	0	16,235	0			67	16,302
Due from customers	2	0	3,127	10,119	1,658	114	15,019
Mortgages			7	5,275	64,156	1,950	71,389
Debt securities in financial investments	789	682	1,219	1,042	270	10	4,012
Accrued income and prepaid expenses						303	303
Other assets [6]	101	7,553	262	2,913	467	305	11,601
Total as at 31.12.2014	891	24,470	4,615	19,353	66,552	2,748	118,630
Total as at 31.12.2013	654	20,233	1,650	15,951	64,935	2,349	105,773
Off-balance-sheet transactions							
Contingent liabilities	8	760	81	2,691	317	30	3,886
Irrevocable commitments [7]	4	536	318	5,476	1,054	44	7,432
Liabilities for calls on shares and other equities						147	147
Credit commitments							
Total as at 31.12.2014	12	1,296	399	8,167	1,370	221	11,465
Total as at 31.12.2013	8	955	408	8,797	1,397	154	11,719

[1] The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Cash, non-counterparty-related assets and exposure with equity-type characteristics are not stated under credit exposure.
[2] This group includes public authorities and institutions, the Bank for International Settlements (BIS), the International Monetary Fund (IMF), multilateral development banks and joint institutions.
[3] Small businesses are defined by Zürcher Kantonalbank as all companies that meet at least one of the following conditions: number of employees < 50, total assets < CHF 6 million, net sales < CHF 15 million.
[4] E.g. foundations or accrued income and prepaid expenses.
[5] Excludes money market paper in the trading book.
[6] Excludes equalising accounts for value adjustments not recognised in the income statement and deferred tax assets which rely on future profitability.
[7] Irrevocable commitments are disclosed in accordance with the definition specified in the Capital Adequacy Ordinance (CAO). Due to the different measurement criteria, the total may differ from the total under the Bank Accounting Guidelines (group balance sheet).

Fig. 27: Credit exposures by rating category

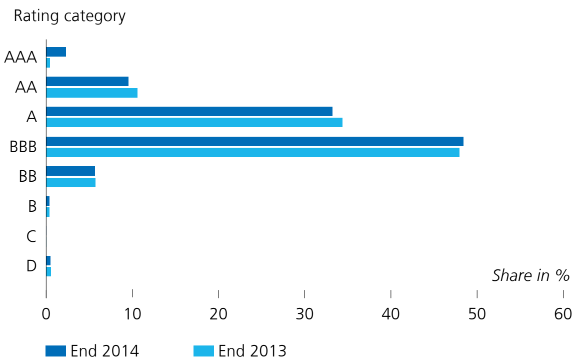


Fig. 28: Credit exposures by customer portfolio

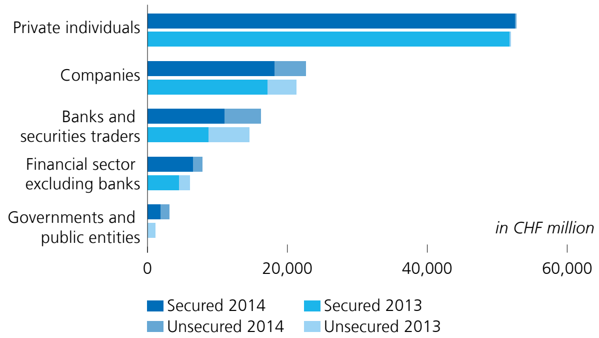


Fig. 29: Unsecured credit exposures of corporate customers by rating category

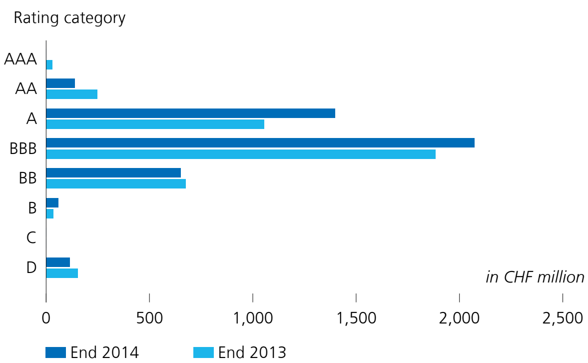
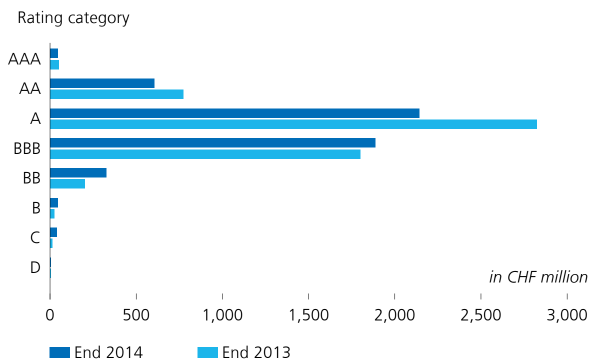


Fig. 30: Unsecured credit exposures of banks and securities traders by rating



Mortgage exposure to private individuals

Real estate financing for private individuals is part of Zürcher Kantonalbank's core business. Two-thirds of mortgage exposures relate to owner-occupied residential property. The remaining exposures are secured with rented residential properties or properties that are used for commercial purposes. The median gross loan-to-value ratio for all properties in the private customer portfolio was 52 percent (2013: 53 percent).

Unsecured credit exposure

81 percent (2013: 78 percent) of unsecured credit exposure in the "companies" portfolio (Fig. 29) relates to customers in the AAA to BBB (investment grade) rating categories. Unsecured lending in the corporate customers portfolio increased slightly compared with the previous year, although the increase was centred on the A and BBB rating categories. In the "banks and securities traders" customer portfolio (Fig. 30), the share of unsecured loans fell versus the previous year due to a decrease in money market business and lower account balances. 90 percent (2013: 94 percent) of unsecured exposures relate to rating categories AAA to BBB (investment grade).

International credit exposure

The net international exposure consists of loans at nominal value, issuer risks at market value and derivatives at replacement value plus premium. The risk premium takes account of the security margin calculated to cover the future potential default risk over the defined holding period of the contract. Figure 31 shows the marginally higher international exposure in relation to the previous year at CHF 13.9 billion, of which 78.3 percent (2013: 80.2 percent) stems from countries to which Zürcher Kantonalbank assigns its best in-house rating category (A) (corresponds to Moody’s Aaa/Aa1/Aa2/Aa3 ratings). Credit exposures by region (geographical credit risk) are illustrated in Note 3. “Information on the balance sheet” (Table 3.14, p. 91).

Allowances and provisions

The methods of creating and reversing allowances and provisions are explained in the section “Consolidation, accounting and valuation principles” (p. 78). The volume of allowances and provisions for credit risks was reduced by CHF 58 million to CHF 321 million in 2014.

Impaired loans

Impaired loans amounted to CHF 605 million (2013: CHF 674 million). After deduction of the estimated recoverable value of the collateral, there was a net debt of CHF 291 million (2013: CHF 335 million; see Table 3.1.2, p. 80). Risk-weighted, impaired international loans accounted for under 15 percent of the bank’s total risk-weighted impaired loans, and for that reason no geographical breakdown is provided.

Non-performing loans

The nominal value of non-performing loans amounted to CHF 138 million at the end of the reporting period (2013: CHF 176 million). Loans are classified as non-performing when interest payments, commission, amortisation or the repayment of the principal have not been received in full 90 days after becoming due. This also includes claims against borrowers in liquidation, and loans with special conditions arising from a borrower’s financial standing. In addition, non-performing loans are often a component of impaired loans.

Fig. 31: Net international group exposure by rating category

		31.12.2014 Net international exposure		31.12.2013 Net international exposure	
Bank country rating	Moody’s	in CHF million	Share in %	in CHF million	Share in %
A	Aaa/Aa1/Aa2/Aa3	10,901	78.3	11,081	80.2
B	A1/A2/A3	921	6.6	982	7.1
C	Baa1/Baa2/Baa3	1,951	14.0	1,678	12.1
D	Ba1/Ba2	96	0.7	10	0.1
E	Ba3	26	0.2	13	0.1
F	B1/B2/B3	21	0.1	39	0.3
G	Caa1/Caa2/Caa3/Ca/C	11	0.1	9	0.1
Total		13,927	100.0	13,812	100.0

Settlement risk
A settlement risk arises in the case of transactions with mutual payment and delivery obligations, where Zürcher Kantonalbank must meet its obligations without being able to ensure that counter-payment is also being made. Settlement risk can occur in relation to foreign exchange transactions, securities lending and borrowing (SLB) and OTC repo transactions as well as transactions involving different payment systems and time zones in the interbank sector. Zürcher Kantonalbank's membership of the CLS Bank International Ltd. joint venture - a clearing centre for settlement of foreign exchange transactions on a "delivery versus payment" basis - helps ensure that a substantial element of the settlement risk arising as a result of foreign exchange trading is eliminated.

Risk concentration
Zürcher Kantonalbank uses an internal, systems-based method for monitoring risk concentration. Besides measurement for the purpose of preparing regulatory reports, risk concentration is restricted at product and customer level using benchmarks that are reflected in the corresponding powers of authorisation. Internal risk concentration reporting includes information on product, sector and individual position concentrations. Due to the bank's anchoring within the Greater Zurich area, the biggest risk concentration in the credit portfolio takes the form of geographical concentration risk.

Regulatory capital adequacy
Capital adequacy requirements for credit risks are calculated using the Swiss standard approach. The credit equivalent of derivatives is calculated based on the fair value method, while the financial collateral comprehensive method is used for credit risk mitigation. In the case of repo transactions, the difference between the margin provided and the securities position constitutes the basis of the capital requirement. In accordance with the regulatory requirements, capital is also required to cover the credit risks arising from financial investments and participations. The capital required for the risk of possible value adjustments due to the counterparty risk on derivatives (CVA risk) is calculated in accordance with the standard approach.

Under Basel III, the risk weightings of counterparties may be calculated on the basis of agency ratings. For the corporate and public-law entity categories, Zürcher Kantonalbank applies the ratings from agencies Standard & Poor's and Moody's. In the case of the bank and sovereign sectors, Fitch ratings are also taken into account. For securities with an issue-specific rating from Standard & Poor's and Moody's, it is this issue rating that is used. Figure 32 shows the scope of risk-weighted positions using external ratings.

Fig. 32: Risk-weighted positions determined on basis of external ratings, as at 31 December 2014

in CHF million		0 %	25 %	50 %	75 %	100 %	150 %
Credit exposure after provision of collateral							
	With rating [1]	1,629		0		7	
Central governments and central banks	No rating					35	
	With rating [1]	–	6,459	2,496		55	7
Banks and securities traders	No rating	–	761	395	53		4
	With rating [2]	–	496	224			
Other institutions	No rating	–				465	0
	With rating [2]	–	764	386		183	7
Companies	No rating	–				7,434	17

[1] Standard & Poor's, Moody's, Fitch.
[2] Standard & Poor's, Moody's.

In accordance with the Capital Adequacy Ordinance, the basis for calculating credit exposures in the case of most transactions is the reported value. In off-balance-sheet transactions, a credit conversion factor is used. Derivative transactions are converted into a credit equivalent and shown after netting. Therefore, the total credit exposures in accordance with the Capital Adequacy Ordinance in Figures 34 and 35 may not be identical to those in the table "Group credit exposure breakdown by counterparty group" (Fig. 26, p. 116).

Banks can reduce their capital adequacy requirements for credit risk through the inclusion of collateral. Collateral recognised by the Swiss Financial Market Supervisory Authority (FINMA) for the purpose of reducing credit risk includes securities, guarantees and loans secured by mortgage. Figure 34 provides a breakdown of credit exposures by type of collateral in accordance with the Capital Adequacy Ordinance. The collateral comprehensive method is used in relation to financial collateral. Here the collateral is deducted from the exposures after taking into account the corresponding haircuts. The substitution approach is used for guarantees. The resulting credit exposure breakdown by risk weighting category is shown by counterparty group in Figure 35. The biggest increases occurred in relation to credit exposures with a 0 percent risk weight (+ CHF 2.5 billion) and in relation to those with a 35 percent risk weight (+ CHF 1.7 billion) from the increase in loans secured by mortgage.

On a selective basis, Zürcher Kantonalbank uses credit derivatives for the purpose of hedging credit exposures or acts as protection seller in individual customer-induced transactions and passes the risks on to the market. The contract volume of credit derivatives managed in the banking book in accordance with the Capital Adequacy Ordinance (CAO) was CHF 0.5 billion at the end of the year (Fig. 33).

Fig. 33: Credit derivatives in the banking book (group)

in CHF million	Protection seller Contract volume	Protection buyer Contract volume
Credit default swaps		
Credit linked notes		
Total return swaps	522	522
First-to-default swaps		
Other credit derivatives		
Total as at 31 December 2014	522	522
Total as at 31 December 2013	1,328	1,328

Fig. 34: Regulatory group credit risk mitigation

in CHF million	Secured by guarantees	Secured by real estate	Financial collateral [1]	Other credit exposures	**Total**
Credit exposures [2]					
Central governments and central banks	1			918	919
– of which derivatives [3]				74	74
Banks and securities traders	716			18,968	19,684
– of which derivatives [3]				3,111	3,111
Other institutions	170	7		4,943	5,120
– of which derivatives [3]				345	345
Companies [4]	996	5,087	1,087	13,057	20,226
– of which derivatives [3]				1,318	1,318
Private customers and small businesses	232	63,687	731	2,432	67,081
– of which derivatives [3]				519	519
Other positions		1,889	21	28,571	30,481
– of which derivatives [3]				320	320
Total as at 31 December 2014	2,114	70,670	1,839	68,890	143,512
Total as at 31 December 2013	2,535	68,820	2,145	66,723	140,222

[1] Effective 31 December 2012, risk is mitigated using the financial collateral comprehensive method. Financial collateral is stated at the net value after taking into account supervisory haircuts.
[2] The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Non-counterparty-related assets and exposures with equity-type characteristics are not stated under credit exposure. Credit exposures are shown after netting based on equity. Off-balance-sheet items were converted into their credit equivalents.
[3] The fair value method was used to calculate the credit equivalents on derivatives.
[4] Includes exposures vis-à-vis qualified central counterparties (CHF 997 million).

Fig. 35: Group credit exposure breakdown by risk weighting category [1]

in CHF million	0 %	2 %	25 %	35 %	50 %	75 %	100 %	150 %	250 %	Decuction	**Total**
Credit exposure after provision of collateral [2]											
Central governments and central banks	2,344				0		42				2,386
– of which derivatives [3]	34						40				74
Banks and securities traders	9,368		7,220		2,891	53	55	11			19,598
– of which derivatives [3]			2,827		261	21	1	1			3,111
Other institutions	2,000		1,310	4	1,178	3	465	0			4,960
– of which derivatives [3]			70		61		213				345
Companies [4]	3,282	997	764	3,315	394	1,223	8,151	24			18,150
– of which derivatives [3]		248	99		90		880				1,318
Private customers and small businesses				54,085	407	7,292	4,290	42	3		66,119
– of which derivatives [3]							519				519
Other positions	27,124			1,005		694	1,636	0			30,460
– of which derivatives [3]							320				320
Total as at 31 December 2014	44,119	997	9,293	58,410	4,870	9,265	14,639	78	3		141,673
Total as at 31 December 2013	41,556	1,246	9,695	56,744	5,752	9,186	13,779	120	1		138,077

[1] Zürcher Kantonalbank does not have any credit exposures with a risk weighting of 125 percent.
[2] The counterparty groups correspond to those in the Capital Adequacy Ordinance (CAO). Non-counterparty-related assets and exposures with equity-type characteristics are not stated under credit exposure. Credit exposures are shown after netting based on equity. Off-balance-sheet items were converted into their credit equivalents. Effective 31 December 2012, the financial collateral comprehensive method is used for credit risk mitigation. Under this method, the net value of financial collateral is deducted from the covered exposure after taking into account supervisory haircuts. The substitution approach continues to be used for guarantees, whereby covered exposures can be allocated to the counterparty group of the protection seller in order to reflect the lower risk of the collateral. In contrast with the previous table, this table shows the credit exposures of the counterparty groups after the provision of collateral (deduction or substitution).
[3] The fair value method was used to calculate the credit equivalents on derivatives.
[4] Includes exposures vis-à-vis qualified central counterparties (risk weighting category 2 %).

Market risks in trading

Market risks comprise the risk of financial losses on own securities and derivatives as a result of changes in factors that determine the market price, such as share prices, interest rates, volatilities and exchange rates, as well as issuer default.

Processes and methods

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

The capital-at-risk market risk corresponds to the assigned risk capital for the market risks of trading operations on a one-year horizon. In relation to the general and specific market risks of the trading book, the loss probability of the risk capital is monitored through capital budgeting. This is based on three key elements:

- the earnings generated during the calendar year,
- the value-at-risk calculated using the model-based approach and
- a distribution assumption ("tail coefficient"), with the help of which the loss potential is extrapolated to high quantiles.

The aim of capital budgeting is to limit risk-taking in accordance with economic capital. Issuer default risks for trading business are taken into account using a separate model.

Using a Monte Carlo simulation, Zürcher Kantonalbank calculates value-at-risk for a 10-day period and at a confidence level of 99 percent. The loss distribution is arrived at from the valuation of the portfolio using a large number of manufactured scenarios (full valuation). The necessary parameters for determining the scenarios are estimated on the basis of historical market data, whereby more recent observations for the forecasting of volatility are accorded a higher weighting than less recent ones. As a result, value-at-risk responds rapidly to any changing volatility on the markets. Value-at-risk is calculated on a daily basis for the entire trading book. The four groups of risk factors - commodities, currencies, interest rates and equities - are calculated and shown separately as well as on a combined basis (Fig. 36).

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

The bank additionally monitors the market liquidity risk of individual portfolios. In the equity derivatives sector, the potential trading volume resulting from the hedging strategy in the case of a change in the key risk factors is compared with the total market volume.

Fig. 36: Market risks in the trading book (group)

Risks including volatility risks in CHF million	Commodities [1]	Currencies [2]	Interest rates	Equities	Diversification	Modelled total risk	Total risk [3]
Risks based on model approach (value-at-risk with 10-day holding period)							
As at 31 December 2014	1	1	11	2	–5	10	12
Average 2014	0	1	11	2	–4	10	13
Maximum	2	2	15	4	–7	13	20
Minimum	0	0	8	1	–3	7	10
As at 31 December 2013	0	1	10	2	–2	10	13

[1] Excluding gold
[2] Including gold
[3] Sum of modelled total risk and risk premium (CHF 2.4 million as at 31 December 2014) for trading products not fully modelled.

Hypothetical closing-out expenses are calculated for bonds and bond-type products, based on observed bid-ask spreads and taking into account additional pricing supplements/discounts. Large-scale positions are examined regularly to ensure there is sufficient liquidity; valuation reserves are formed if necessary, causing a reduction in core capital in the context of capital adequacy.

The bank performs daily back-testing for the purpose of examining the forecast accuracy of value-at-risk. Regulatory back-testing is based on comparison of value-at-risk for a holding period of one day with the back-testing result. Any breach of limits is notified to the units responsible immediately.

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

Risk profile

At CHF 12 million, value-at-risk was CHF 1 million lower on 31 December 2014 than a year earlier (Fig. 36). Interest rate risks were the dominant factor (Fig. 37). In overall terms, value-at-risk decreased from CHF 16 million in 2013 to CHF 13 million in 2014. As in the previous year, this was due to the persistently low level of volatility on the markets in the year under review.

Fig. 37: Components of value-at-risk (in CHF million)

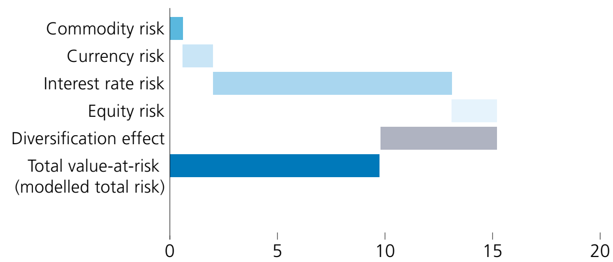
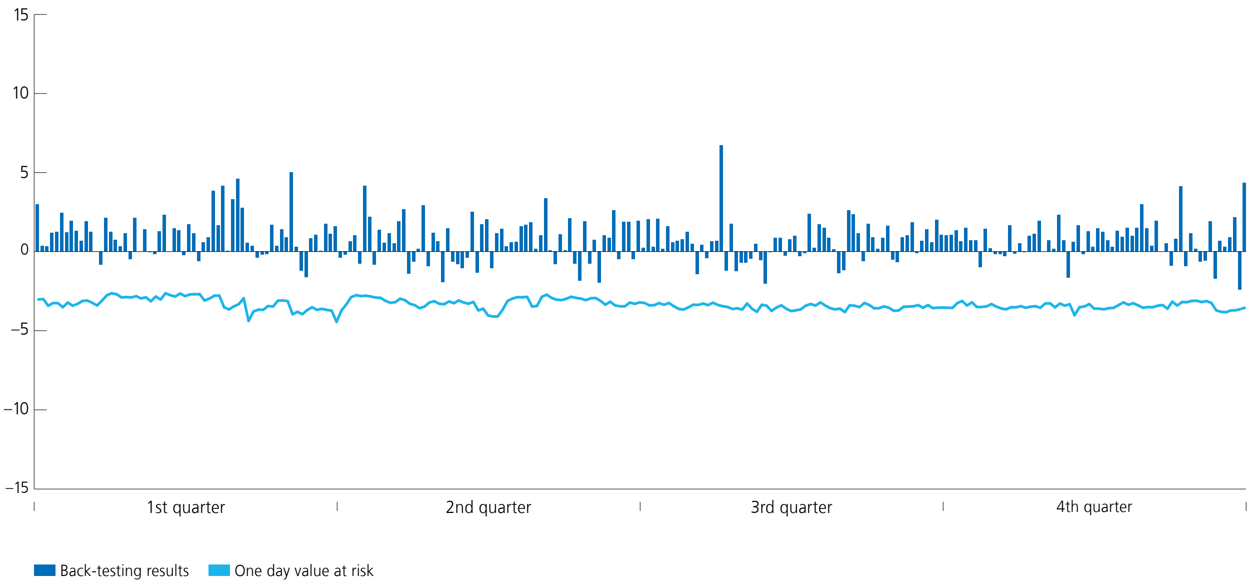


Fig. 38: Comparison of back-testing results[1] and value-at-risk (in CHF million)



[1] The back-testing result corresponds to the adjusted trading income used for the methodological review of the quality of the risk model.

Back-testing results 2014

The quality of the value-at-risk approach used is estimated by comparing the value-at-risk for a holding period of one day with the realised daily back-testing result. Figure 38 shows the relationship between these two criteria. In 2014, no breaches of the value-at-risk were recorded. The back-testing result is therefore below the statistically expected figure. In the case of a one-day holding period and 99-percent quantile, two to three breaches of the value-at-risk are expected each year.

Regulatory capital adequacy

The required capital is calculated in accordance with the capital adequacy requirements for market risk based on a model-based approach approved by the Swiss Financial Supervisory Authority (FINMA) using value-at-risk. Capital adequacy requirements are based on the market risks in the trading book and exchange rate, precious metals and commodity risks in the banking book. Besides the value-at-risk figures calculated daily, stress-based value-at-risk figures are also included in the calculation of required capital on a weekly basis. The total risk is also calculated using the model approach, although the value changes in risk factors are based on data that were observed in a period with significant market stress for Zürcher Kantonalbank (Fig. 39). By contrast, calculation of the required capital for the specific risks of interest rate instruments is performed in accordance with the standard approach for market risk.

The required capital for market risks amounted to CHF 276 million as at 31 December 2014 (Fig. 18, p. 109). Because volatility on the markets remained low overall in the year under review, the difference between stress-based value-at-risk and normal value-at-risk was correspondingly substantial.

Fig. 39: Stress-based market risks in the trading book and banking book[1]

Stress-based VaR in CHF million	Modelled total risk	Total risk[2]
Stress-based risks based on model approach (value-at-risk with 10-day holding period)[3]		
As at 31 December 2014	34	36
Average 2014	39	42
Maximum	46	54
Minimum	30	33
As at 31 December 2013	36	40

[1] Including exchange rate, precious metals and commodity risks in the banking book
[2] Sum of modelled total risk and risk premium for trading products not fully modelled
[3] VaR model, calibrated for observed changes in value due to market stress

Risks in the investment portfolio

The risks in the investment portfolio comprise issuer risks on debt instruments in financial investments and market risks on equity-type securities and real estate. Interest rate risks are managed and limited as part of asset and liability management.

Processes and methods

Risk is managed internally by assigning risk capital. The required risk capital for the investment portfolio represents the required regulatory capital. One exception exists in relation to participations in the financial sector, where the risk weights from Basel II are used; given Zürcher Kantonalbank's holdings, this represents a more cautious principle. There are detailed parameters and competencies for the purchase of financial investments and real estate, as well as for entering into participations. The investment policy for the financial investments managed by treasury is laid down in a special directive. Only debt instruments with a first-class credit rating may be purchased. This directive also ensures that concentration at the level of the overall bank is avoided. Adherence to the risk capital limits and internal investment rules for financial investments is monitored by the risk organisation.

Risk profile

The balance sheet value of debt securities in financial investments was CHF 4.0 billion as at 31 December 2014 (2013: CHF 3.8 billion). The portfolio consists of first-class bonds and is diversified in terms of counterparty groups and countries. The distribution by counterparty group is shown in Figure 26 (p. 116). Guarantees given by central governments in relation to debt securities of banks are in some cases not apparent. It should also be noted that due to regulatory requirements the exposure to central mortgage institution loans is shown in the companies counterparty group. Other positions in the investment portfolio are shown in Notes 3.2.2 "Financial investments" (p. 81), 3.2.3 "Participations" (p. 81) and 3.3.2 "Non-consolidated significant participations" (p. 82).

Regulatory capital adequacy

The capital adequacy required for the investment portfolio is calculated using the Swiss standard approach.

Interest rate risks in the balance sheet

Interest rate risks are the risk that changes in market interest rates will impact negatively on Zürcher Kantonalbank's financial position. As well as affecting current interest income, changes in interest rates have implications for future earnings.

Processes and methods

The control of interest rate risk takes account of the present value as well as earnings prospects. With the present value perspective, interest rate risks are controlled by assigning risk capital in accordance with the capital-at-risk approach and using value-at-risk limits. Value-at-risk is determined for a 20-day holding period and confidence level of 99 percent and is calculated on an integrated basis for all currencies using a Monte Carlo simulation. In addition, stress scenarios are simulated in order to analyse and limit the impact of extraordinary changes in the level of interest rates. For operational management, sensitivity ratios are also calculated for each currency (key rate sensitivity).

With the earnings perspective, earnings stress tests are used to analyse the effects of potential changes in the interest rate on current earnings. The earnings stress tests model the effects of scenario-based interest rate changes on the balance-sheet items; reassignments and reinvestment of expiring contracts are eliminated. Changes in future interest income as a result of new business are not taken into account. The earnings stress tests provide an indication of interest income in the coming period in the event of extraordinary changes in market interest rates with unchanged positioning and constant margins.

The non-trading-related interest rate risk of the balance sheet is managed in strategic terms by the board of directors and in tactical terms by the CFO and treasury. Management is based on the market interest method. For non-market-traded balance sheet products with a variable interest rate, the interest rate risk is determined by taking into account restrictions stemming from the capital commitment. The strategic interest rate risk position is specified by the board of directors on a periodic basis in the form of an investment strategy for equity (equity benchmark). The CFO and treasury manage the deviation of the interest rate risk position in the banking book from the equity benchmark within the risk limits.

Fig. 40: Interest rate sensitivity of the banking book

Basis point sensitivity[1] in CHF 1,000	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	–55	1,310	8,047	9,302
Hedge	52	–171	–2,499	–2,618
Total as at 31 December 2014	–3	1,139	5,549	6,685
Total as at 31 December 2013	–1	1,401	3,172	4,571

Basis point sensitivity[1] in EUR 1,000	up to 12 months	1 to 5 years	over 5 years	**Total**
Hedged item	3	–119	570	454
Hedge	21	70	–184	–92
Total as at 31 December 2014	25	–49	386	362
Total as at 31 December 2013	–3	–	–	–3

[1] Basis point sensitivity is measured as a cash profit/loss when the interest rate in the maturity band concerned falls by one basis point. A basis point is 0.01 percentage points.

Risk profile

The sensitivity data (key rate sensitivity) shown in Figure 40 indicate the value loss or increase in Swiss francs or euros when interest rates for each maturity band fall by one basis point (0.01 percentage points). Due to less close hedging of the newly concluded underlying transaction, the interest rate sensitivity of the banking book as at 31 December 2014 increased compared with the previous year. The value-at-risk also increased accordingly (Fig. 41). In particular, the increase in interest rate sensitivity takes into account the risk of a protracted period of low interest rates.

Fig. 41: Value-at-risk of interest rate risk in the banking book

in CHF million	Value-at-risk (99% quantile)
As at 31 December 2014	–98
As at 31 December 2013	–83

Liquidity and refinancing risks

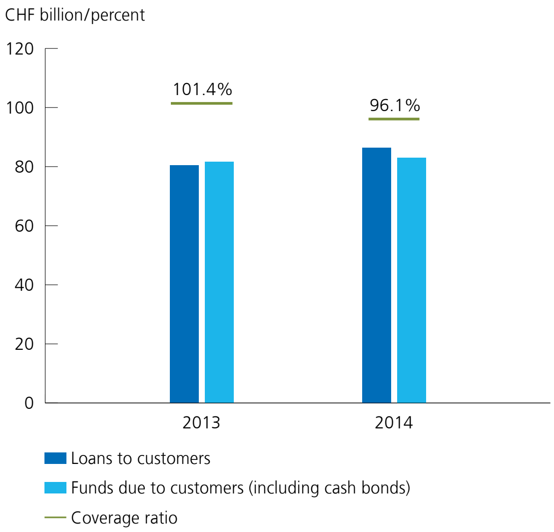
Liquidity risk is the risk that the bank is no longer able to meet its short-term payment obligations. Refinancing risk is the risk that the bank is not in a position to procure sufficient funds for the ongoing financing of its lending business on suitable terms.

Processes and methods

The management, measurement and control of liquidity risk takes place within an organisational and technical framework that embraces a liquidity policy and scenario analysis system and includes an emergency plan. Short-term liquidity management is the responsibility of the treasury, with operational liquidity management delegated to the money trading unit. As risk policy parameter, the board of directors lays down the minimum number of days' survival time under a bank-specific standard stress scenario. An analysis system measures liquidity risks under the standard stress scenario on a daily, fully automated basis. This scenario is based on the assumption that Zürcher Kantonalbank is no longer able to refinance itself on the interbank market on an unsecured basis and that customers withdraw their money and exhaust limits with varying degrees of intensity. The result of the liquidity risk measurement is a daily report on the net liquidity position, availability of liquid assets and securities eligible for repo transactions in financial investments and trading portfolios as well as liquidity inflows and outflows under the standard stress scenario.

Apart from cost aspects, the long-term refinancing approach also includes risk aspects. Risks are managed via an appropriate diversification with regard to refinancing instruments used and markets. The treasury uses short and long-term instruments, which are placed on the domestic and international markets as required.

Fig. 42: Coverage ratio customer business



Risk profile

The liquidity risk profile remained stable in 2014, and it was possible to take up long-term refinancing on the capital market on the planned scale. Figure 42 shows a year-on-year comparison of the coverage ratio for customer business. Funds due to customers (including cash bonds) totalled CHF 83.0 billion as at 31 December 2014, against loans to customers of CHF 86.4 billion. This gives a coverage ratio of 96.1 percent. The decline in relation to the previous year is primarily due to the rise in funds due from customers.

In 2014 Zürcher Kantonalbank already met the regulatory requirements regarding the liquidity coverage ratio (LCR), which took effect on 1 January 2015.

Operational risks

Operational risks are potential risks that arise due to the inappropriateness or failure of persons, systems, procedures or due to external events.

Processes and methods

The assessment of operational risks takes account not only of the direct financial losses but also the consequences of a loss of customer confidence and reputation. The primary objective of Zürcher Kantonalbank's management of operational risk is to ensure that the canton (as owner), customers, partners, the public and the regulator can be confident about the services provided by the bank.

The bank-wide inventory of operational risks constitutes the basis for the management of operational risks. Through periodic, systematic assessments, the operational risks of all the bank's critical services and service providers are identified, assessed and documented. Bank-wide security management constitutes an important component of the management of operational risks, and comprises four areas of security and corresponding protection objectives:

Fig. 43: Security management

Security area	Security protection objective
Business continuity management	Maintaining critical business functions in the event of serious events stemming from operational risks
Data security	Protecting data confidentiality, integrity and availability
Personal safety	Protecting people (life and limb)
Protection of property	Protecting physical assets

The measurement of operational risks is based on an estimate of potential claims and the probability of occurrence. To calculate the operational risks, inherent risks are set against existing risk-mitigating measures. If the residual risks exceed the risk tolerance, additional risk-mitigating measures are defined. The effectiveness of the risk-mitigating measures is monitored in the context of the bank-wide internal controls system.

Risk profile
There was no material change in the bank's risk profile for operating risks compared with the previous year. There were no fundamental changes in the bank's business model or organisational structure. Zürcher Kantonalbank paid particular attention to the identification of operational risk scenarios in relation to cybercrime. The bank's security management is addressing growing threat levels through continuous improvement in protective and defensive measures.

Regulatory capital adequacy
Zürcher Kantonalbank uses the basic indicator approach to determine the required capital for operational risks. As at 31 December 2014, capital of CHF 303 million (2013: CHF 311 million) was required in order to cover operational risks (Fig. 18, p. 109).

Compliance and legal risks

Compliance and legal risks are the risk of a breach of the rules, standards and code of conduct that can lead to legal and regulatory sanctions, financial losses or reputation damage. Zürcher Kantonalbank's compliance function reports directly to the CEO and is independent of profit-driven business activities. It supports the executive board and employees in adhering to the legal and ethical norms applicable to them. Support generally consists of identifying, evaluating, advising, monitoring and reporting, in general terms as well as in individual cases.

Processes and methods
The following are the main risk control instruments used for the management of compliance and legal risks: providing the bank with information on all relevant legal requirements, providing legal advice, training and education of employees, implementation of ordinances through internal bank directives, monitoring and controlling, making inquiries and investigating in the event of a violation of the rules, assisting and instructing civil, criminal and administrative proceedings.

The duties of the compliance function include maintaining the bank-wide compliance risk inventory, determining the risk management tools for compliance risks, as well as preventive management of compliance risks in individual cases. To fulfil its role, the compliance function has unlimited rights of information, access and inspection. As a support function, compliance communicates its legal advice in the form of recommendations. It cannot issue any instructions to risk managers.

The legal and reputation risks in the cross-border financial services business are a focal point in the management of compliance risks.

On 29 August 2013, Switzerland and the United States signed a joint statement aimed at ending the long-running tax dispute between the banks and the US. The Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks launched by the United States Department of Justice is not applicable to banks that were already the subject of an investigation by the DOJ as at 29 August 2013. It therefore does not apply to Zürcher Kantonalbank, which has been under investigation since September 2011. The bank continues to cooperate with the relevant authorities on this matter, and is working towards an agreement. The timing of the conclusion of this process remains uncertain.

Besides assisting the investigation into Zürcher Kantonalbank launched by the United States Department of Justice in 2011, the compliance function drew up numerous directives concerning the cross-border financial services business and further bolstered the tax compliance strategy anchored by the bank. This was accompanied by a series of inquiries in various countries (country set-ups) and training for the employees involved.

A team of specialists analysed the consequences of the Swiss Federal Supreme Court's ruling of 30 October 2012 on retrocessions for Zürcher Kantonalbank and, in a number of specific areas, made changes to contracts and the information provided to customers. Zürcher Kantonalbank has already devoted much attention to this matter in the past, and in 2001, 2006, 2008 and 2009 took measures in response to the requirements of the Federal Supreme Court rulings as well as those of the supervisory authorities. In addition, Zürcher Kantonalbank prepared and implemented a new fund category concept.

Notes

7. Overview 2007–2014

Balance sheet before distribution of profit

in CHF million	2014	2013	2012	2011	2010	2009	2008	2007
Assets								
Cash	27,064	29,530	26,056	8,521	2,361	532	1,840	1,410
Money market placements	5	23	37	287	1,705	171	10,581	124
Due from banks	16,302	14,612	17,185	17,465	19,524	22,363	16,314	23,496
Due from customers	15,019	10,764	11,182	8,833	9,073	9,329	10,491	8,570
Mortgages	71,389	69,658	67,371	65,059	62,021	58,424	53,899	52,158
Loans and advances to customers	86,408	80,421	78,552	73,892	71,094	67,753	64,390	60,727
Securities and precious metals trading portfolios	11,394	13,284	14,532	14,096	12,404	8,948	7,037	9,630
Financial investments	4,027	3,768	3,659	6,973	9,038	9,943	3,697	2,326
Non-consolidated participations	163	161	203	208	151	129	121	127
Tangible fixed assets	723	698	670	674	668	664	684	705
Intangible assets	1	5	9	13	13	2	5	4
Accrued income and prepaid expenses	303	338	391	486	455	406	397	621
Other assets	12,003	6,866	9,399	11,385	8,996	6,324	8,166	4,000
Liabilities								
Due to banks	33,870	31,788	31,813	26,047	27,999	23,241	18,614	28,129
Due to customers in savings and investment accounts	45,624	43,992	44,455	41,751	38,425	36,149	30,710	23,439
Other amounts due to customers	37,021	37,101	36,450	28,139	24,556	26,791	29,587	23,292
Cash bonds	381	460	642	905	1,363	2,467	2,955	2,125
Bonds	7,817	8,104	7,558	6,534	6,665	5,009	5,375	5,651
Central mortgage institution loans	6,964	6,212	5,082	4,033	2,934	2,667	3,383	3,755
Funds due to customers	97,808	95,869	94,187	81,363	73,942	73,083	72,010	58,262
Accrued expenses and deferred income	265	284	294	370	349	351	491	702
Other liabilities	16,242	11,869	15,000	17,022	15,235	12,035	14,032	8,127
Allowances and provisions	721	688	617	631	705	690	648	619
Corporate capital	1,925	1,925	1,925	1,925	1,925	1,925	1,925	1,925
Profit reserves	6,914	6,485	6,266	5,874	5,526	5,158	5,008	4,566
Minority interests in equity								
Group net income	647	797	594	769	729	751	503	843
– of which minority interests								–7
Net equity	9,487	9,208	8,784	8,568	8,180	7,834	7,436	7,334
Balance sheet total	158,392	149,707	150,694	133,999	126,410	117,235	113,231	103,172

Overview of income statement/key figures 2007–2014

in CHF million	2014	2013	2012 [1]	2011	2010	2009	2008	2007
Income statement								
Net interest income	1,070	1,117	1,154	1,181	1,099	1,128	1,323	1,219
Net commission and fee income	531	551	536	525	532	508	471	507
Income from trading operations	287	340	379	356	367	508	52	341
Other ordinary income	47	109	54	35	35	90	45	59
Operating income	1,935	2,118	2,122	2,097	2,032	2,234	1,891	2,126
Operating expenses	1,200	1,241	1,266	1,245	1,185	1,234	1,199	1,170
Gross profit	735	877	856	852	847	1,001	692	956
Depreciation	93	87	100	88	74	80	82	81
Allowances, provisions and losses	60	210	46	29	58	181	166	44
Extraordinary income	67	218	33	34	11	13	60	19
Extraordinary expenses	1	0			0	1	0	6
Taxes	0	0	–0	–0	–2	1	1	1
Group net income	647	797	744	769	729	751	503	843
– of which minority interests								–7
Key figures								
Average number of employees	4,822	4,913	5,128	5,037	4,894	4,768	4,562	4,444
Total number of employees at year-end	4,844	4,818	5,068	5,101	4,972	4,825	4,685	4,446
Return-on-equity (ROE) group net income in % of average equity	7.2	9.2	9.0	9.6	9.6	10.3	7.2	12.5
Group net income in % of required capital net	13.8	17.2	16.0	16.8	18.2	20.5	13.3	23.3
Total capital ratio [2]	16.6	16.2	15.2	13.4	14.1	14.1	12.9	13.3
Gross profit per employee [3] (in CHF 1,000)	152	178	167	169	173	210	152	215
Operating expenses per employee [3] (in CHF 1,000)	249	253	247	247	242	259	263	263
Cost/income ratio [4]	66.8	62.7	64.4	63.5	61.9	58.8	67.7	58.9

[1] Figure does not include non-recurring pension expense of CHF 150 million for the pension fund owing to the reduction in the technical interest rate.
[2] Qualifying capital in percent of risk-weighted positions plus the required capital for market risks, operational risks and positions arising from transactions not settled, multiplied by 12.5 for conversion into equivalent units.
[3] Calculated based on the average number of employees.
[4] Operating expenses and depreciation/amortisation in percent of operating income.

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Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the financial statements as of 31 December 2014 of

Zürcher Kantonalbank, Zurich

Ms. President
Ladies and Gentlemen

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zürcher Kantonalbank, which comprise the balance sheet, income statement, cash flow statement and notes (pages 70 to 128) for the year ended 31 December 2014.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Swiss accounting principles for banks and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better working world

2

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss accounting principles for banks and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

On the basis of article 728a paragraph 1 item 3 CO and in accordance with Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Zurich, 23 February 2015

Ernst & Young Ltd

Rolf Walker
Licensed audit expert
(Auditor in charge)

Stefan Lutz
Licensed audit expert

Parent company financial statements

Comments on business activities and information on headcounts

The comments on business activities applicable to the group also apply to the parent company.

After adjustment for part-time employees, 4,704 people were employed at the end of 2014 (2013: 4,673). This figure includes 51 temporary staff (2013: 23). Of those staff in permanent employment, 1,395 worked on a part-time basis (2013: 1,357). The number of employees after adjustment for part-time staff includes 351 trainees and interns (2013: 352); in accordance with the rules of the Swiss Financial Market Supervisory Authority (FINMA), they are weighted at 50 percent.

Accounting and valuation principles

Accounting practices, valuations and the preparation of balance sheet data are governed by the relevant provisions of the Swiss Code of Obligations, the Swiss accounting rules for banks, the guidelines of the Swiss Financial Market Supervisory Authority and the Law on Zürcher Kantonalbank of 28 September 1997, as well as the regulations based thereon.

The statutory financial statements of the parent company are drawn up in compliance with the accounting principles of the group with the exception of the participations. These are recognised at lower of cost or market in the statutory financial statements.

In the individual financial statements, the reserves for general banking risks are shown as an individual item in the balance sheet in accordance with Art. 25 para. 1 section 2.10 of the Banking Ordinance. The formation or release of such reserves is recognised under extraordinary expenses or extraordinary income.

Income statement

in CHF million	Note	2014	2013	2012	Change 2014/2013 in %
Interest and discount income		1,448	1,491	1,628	–2.8
Interest and dividend income from financial investments		72	71	92	1.0
Interest expense		451	445	568	1.3
Subtotal net interest income		1,070	1,117	1,153	–4.2
Commission income from lending activities		58	60	70	–3.4
Commission income from securities and investment transactions		442	467	451	–5.3
Other commissions and fee income		90	84	86	7.0
Commission expenses		73	75	83	–2.4
Subtotal net commission and fee income		517	536	524	–3.6
Income from trading operations	5.1	264	315	333	–16.1
Income from sale of financial investments		2	56	14	–95.5
Participation income		20	23	12	–13.1
Real estate income		8	11	10	–24.7
Other ordinary income		19	20	19	–4.9
Other ordinary expenses		3	2	2	54.7
Subtotal other ordinary income		47	108	54	–56.4
Operating income		1,897	2,075	2,063	–8.6
Personnel expenses		797	832	1,001[1]	–4.2
Other operating expenses		378	383	389	–1.3
Subtotal operating expenses		1,175	1,215	1,390	–3.3
Gross profit		722	860	673	–16.1
Depreciation and amortisation of fixed assets		94	85	102	10.4
Allowances, provisions and losses		59	210	46	–71.7
Subtotal		569	565	524	0.6
Extraordinary income	5.4	61	223	186[2]	–72.8
Extraordinary expenses	5.4	234	280	224	–16.4
Net income		396	508	487	–22.1

[1] Includes non-recurring personnel expense of CHF 150 million in connection with the reduction in the technical interest rate by the Zürcher Kantonalbank pension fund.
[2] Includes release of reserves for general banking risks in the amount of CHF 150 million to neutralise the effect of the non-recurring personnel expense on the result.

Distribution of profit

in CHF million	2014	2013	Change	Change in %
Net income including allocation to reserves for general banking risks	628	788	–160	–20.4
Allocation to reserves for general banking risks	232	280	–48	–17.1
Net income	396	508	–112	–22.1
Net income	396	508	–112	–22.1
Retained earnings brought forward	1	2	–1	–40.6
Balance sheet profit	397	511	–113	–22.2
Capital costs on endowment capital	34	39	–5	–13.1
Allocation to				
– canton	164	220	–56	–25.5
– municipalities	82	110	–28	–25.5
– general statutory reserve	116	140	–24	–17.1
Retained earnings brought forward	1	1	–0	–

The distribution of profit was approved by the board of directors on 22 January 2015. Approval of the annual financial statements by the cantonal parliament is planned for 27 April 2015.

Balance sheet

Before distribution of net profit, as at 31 December

in CHF million	*Note*	2014	2013	Change	Change in %
Assets					
Cash		27,062	29,518	–2,455	–8.3
Money market placements		5	23	–19	–79.9
Due from banks		15,472	13,492	1,980	14.7
Due from customers		15,133	10,821	4,312	39.9
Mortgages		71,389	69,660	1,729	2.5
Loans to customers		86,522	80,481	6,041	7.5
Securities and precious metals trading portfolios		9,859	11,558	–1,699	–14.7
Financial investments		3,940	3,674	266	7.2
Participations	3.4	199	193	6	2.9
Tangible fixed assets	3.4	718	693	25	3.6
Intangible assets	3.4	1	5	–4	–75.6
Accrued income and prepaid expenses		287	321	–34	–10.7
Other assets	3.5	12,436	7,390	5,046	68.3
Total assets		156,501	147,348	9,153	6.2
Total subordinated claims		309	319	–9	–2.9
Total due from group companies and qualified participants		658	719	–60	–8.4
Liabilities					
Due to banks		33,885	31,796	2,089	6.6
Due to customers in savings and investment accounts		45,624	43,992	1,632	3.7
Other amounts due to customers		37,018	37,074	–56	–0.2
Cash bonds		381	460	–79	–17.2
Bonds		7,817	8,104	–287	–3.5
Central mortgage institution loans		6,964	6,212	752	12.1
Funds due to customers		97,804	95,842	1,962	2.0
Accrued expenses and deferred income		259	280	–22	–7.7
Other liabilities	3.5	14,446	9,615	4,831	50.2
Allowances and provisions	3.9	719	686	33	4.8
Reserves for general banking risks		4,806	4,574	232	5.1
Corporate capital [1]	3.10	1,925	1,925		
General statutory reserve		2,260	2,120	140	6.6
Retained earnings brought forward		1	2	–1	–40.6
Net income		396	508	–112	–22.1
Net equity	3.11	9,388	9,130	259	2.8
Total liabilities		156,501	147,348	9,153	6.2
Total subordinated liabilities		588	589	–1	–0.2
Total due to group companies and qualified participants		603	438	165	37.7
Off-balance-sheet transactions					
Contingent liabilities		3,886	4,727	–841	–17.8
Irrevocable commitments		9,284	9,184	99	1.1
Liabilities for calls on shares and other equities		147	118	29	24.7
Derivative instruments					
– positive replacement values		11,959	7,060	4,900	69.4
– negative replacement values		14,030	9,172	4,858	53.0
– contract volume		536,280	467,392	68,888	14.7
Fiduciary business	4.4	204	484	–281	–57.9

[1] In the Law on Zürcher Kantonalbank, the corporate capital is termed endowment capital.

Notes

Under Art. 25k of the Swiss Ordinance on Banks and Savings Banks, institutions that are required to draw up group financial statements are exempt from disclosure of certain information in the individual financial statements. For reasons of clarity, the same numbering has been used for the required disclosure items as in the notes to the group financial statements.

3.4 Tangible fixed and intangible assets, participations

in CHF million	Historical cost	Accumulated appreciation and depreciation	Book value at end 2013	Investments	Disposals	Appreciation/ depreciation	Book value at end 2014
Majority interests	65	–24	41	15	–17	1	40
Minority interests	193	–40	152	7	–0	–0	159
Total participations [1]	258	–65	193	23	–17	0	199
Real estate [2]							
– Bank premises	1,311	–654	656	111	–26	–57	684
– Other real estate	16	–12	4	0	–0	–0	4
Other tangible fixed assets [3]	149	–116	33	18		–21	30
Total tangible fixed assets	1,475	–782	693	130	–26	–78	718
Goodwill	15	–12	3			–3	0
Other intangible assets	28	–27	2	2		–2	1
Total intangible assets	44	–39	5	2		–6	1

[1] Effect of the theoretical application of the equity method: for 2014 this results in a higher amount of CHF 21 million in the income statement and higher participations of CHF 99 million in the balance sheet.
[2] The insurance value of real estate included in tangible fixed assets amounts to CHF 1,461 million.
[3] The insurance value of other tangible fixed assets amounts to CHF 532 million.

There are no leasing commitments.

3.5 Other assets and liabilities

	2014		2013	
in CHF million	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values from derivative instruments trading position [1, 2]	11,959	14,030	7,060	9,172
Equalising account	392		229	
Capitalised formation, capital increase and organisation costs				
Settlement accounts	21	142	17	103
Indirect taxes	49	44	66	85
Other	15	229	17	255
Total	12,436	14,446	7,390	9,615

[1] Irrespective of the motive, replacement values arising in the trading book as hedging transactions are also handled via the trading business.
[2] CHF 1,919 million comprises structured products issued by the bank with a debt security component (2013: CHF 1,969 million).

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

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

3.6.2 Loan transactions and repurchase agreements with securities

in CHF million	2014	2013
Book value of cash collateral due to bank for securities borrowed and in connection with reverse repurchase agreements	14,040	9,693
Book value of cash collateral due from bank for securities lent and in connection with repurchase agreements	2,754	1,881
Book value of securities in bank's portfolio lent in connection with securities lending or supplied as collateral in securities borrowing or transferred in repurchase agreements	3,973	5,199
– of which with unrestricted rights to resell or pledge	3,973	5,199
Fair value of securities with unrestricted right to resell or repledge used as collateral for securities lent or for securities borrowed or received in connection with reverse repurchase agreements	40,356	37,469
– of which repledged or resold securities	25,675	24,351

3.7.1 Liabilities to own pension funds

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

3.7.2 Employer contribution reserve (ECR)

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

3.7.3 Economic benefit/economic obligations and pension expenses

in CHF million	Surplus/ shortfall	Economic share of the organisation		Surplus/ shortfall	Change vs. previous year, reflected in income statement	Amounts accrued over the period	Pension costs in personnel expenses	
	2014	2014	2013	2013	2014	2014	2014	2013
Zürcher Kantonalbank pension fund						92	92	98
Zürcher Kantonalbank trust for senior management						1	1	1
Total						93	93	99

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

3.9 Allowances and provisions

in CHF million	Balance at end 2013	Appropriate usage and reversals	Recoveries, doubtful interest, foreign currency translation effect	New creation charged to income statement	Reversals credited to income statement	Balance at end 2014
Allowances and provisions for credit risks (counterparty and country risks) [1]	379	–38	4	66	–90	321
Allowances and provisions for other business risks [2]	157	–1	14	52		222
Provisions for restructuring [3]				13		13
Other provisions [4]	150	–0	12	3	–2	163
Total allowances and provisions	686	–39	30	133	–92 [5]	719
Reserves for general banking risks	4,574			232		4,806

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

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

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

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

3.10 Corporate capital (breakdown of endowment capital)

Capital costs canton of Zurich	Valid from	Valid until	Amount *(in CHF million)*
3.660 %	2008	16.06.2015	225
1.250 %	2010	15.09.2015	120
1.750 %	2010	16.03.2016	150
1.950 %	2009	15.12.2016	90
1.550 %	2010	27.10.2017	60
2.090 %	2009	15.12.2017	100
1.875 %	2011	29.03.2018	90
1.660 %	2011	29.06.2018	115
0.471 %	2012	29.06.2018	100
1.180 %	2011	14.09.2018	80
1.260 %	2013	13.09.2021	75
0.402 %	2014	13.09.2021	140
1.114 %	2013	15.06.2022	125
0.880 %	2012	14.09.2022	130
1.000 %	2013	08.03.2023	85
1.173 %	2014	08.03.2023	100
0.941 %	2014	28.06.2024	140
Total 2014			1’925
Total 2013			1’925

Average capital cost in 2014 was 1.76 percent/average capital cost in 2013 was 2.03 percent.

3.11 Statement of changes in equity

in CHF million	Corporate capital	General statutory reserve [1]	Reserves for general banking risks	Balance sheet profit	Total equity
Total equity as at 1 January 2012					
Opening amount	1,925	1,879	4,220	508	8,532
Capital increase					
Capital decrease					
Capital costs on endowment capital of previous year				–47	–47
Allocation to the canton from previous year's profit				–220	–220
Allocation to municipalities from previous years profit				–110	–110
Formation of reserves for general banking risks			224		224
Release of reserves for general banking risks			–150		–150
Formation of general statutory reserves		129		–129	
Profit for the current year				487	487
Total equity as at 31 December 2012	1,925	2,008	4,294	489	8,716
Total equity as at 1 January 2013					
Opening amount	1,925	2,008	4,294	489	8,716
Capital increase					
Capital decrease					
Capital costs on endowment capital of previous year				–44	–44
Allocation to the canton from previous year's profit				–220	–220
Allocation to municipalities from previous year's profit				–110	–110
Formation of reserves for general banking risks			280		280
Formation of general statutory reserves		112		–112	
Profit for the current year				508	508
Total equity as at 31 December 2013	1,925	2,120	4,574	511	9,130
Total equity as at 1 January 2014					
Opening amount	1,925	2,120	4,574	511	9,130
Capital increase					
Capital decrease					
Capital costs on endowment capital of previous year				–39	–39
Allocation to the canton from previous year's profit				–220	–220
Allocation to municipalities from previous year's profit				–110	–110
Formation of reserves for general banking risks			232		232
Formation of general statutory reserves		140		–140	
Profit for the current year				396	396
Total equity as at 31 December 2014	1,925	2,260	4,806	397	9,388

[1] The non-distributable statutory reserves amount to CHF 588 million.

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

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

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

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

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

4.1 Contingent liabilities

Together with Balfidor Group and Adamant Biomedical Investments AG (interest sold on 30 September 2014), Zürcher Kantonalbank forms a VAT group; this is treated as a single taxable unit by the tax authorities.

4.4 Fiduciary business

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

5.1 Results from trading operations[1]

in CHF million	2014	2013	2012
Foreign exchange, banknotes and precious metals	147	129	133
Bonds, interest rate and credit derivatives	41	107	104
Equities and structured products[2]	44	41	51
Other trading income[3]	32	37	44
Total	264	315	333

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

5.4 Extraordinary income and expenses

in CHF million	2014	2013	2012
Extraordinary income			
Reversal of provisions not required	25[1]	52	27
Reversal of impairment on participations	10	14	4
Income from sale of other real estate/bank premises	25	141	5
Income from sale of participations	0	15	0
Other	0	1	1
Release of reserves for general banking risks			150[2]
Total	61	223	186
Extraordinary expenses			
Allocation to reserves for general banking risks	232	280	224
Loss from the sale of participations	1		
Other	1	0	
Total	234	280	224

[1] The reversal of provisions not required in 2014 is attributable to unused allowances for credit risks.
[2] The release of reserves for general banking risks is connected to neutralisation of the effect on the result of increased personnel expenses due to the reduction in the technical interest rate by the pension fund.

6. Eligible and required capital (parent company)

Capital under Basel III (Switzerland) parent company [1,2]

in CHF million	Remarks	31.12.2014 [3]	31.12.2013 [3]
Common equity Tier 1 (net CET1)		8,561	8,798
Additional Tier 1 capital (net AT1)		588	589
Core capital (net Tier 1)		9,148	9,387
Supplementary capital (net Tier 2) [4]		587	
Regulatory total capital (net Tier 1 & net Tier 2)		9,735	9,387
Required minimum capital		4,696	4,635
Total risk-weighted assets	12.5 x minimum capital	58,701	57,933

Common equity Tier 1 ratio (CET1)	based on minimum capital (8 %)	14.6 %	15.2 %
Core capital ratio (Tier 1)	based on minimum capital (8 %)	15.6 %	16.2 %
Supplementary capital ratio (Tier 2)	based on minimum capital (8 %)	1.0 %	
Total capital ratio	based on minimum capital (8 %)	16.6 %	16.2 %

1 The parent company's capital is calculated on a solo consolidated basis from 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close relationship to the bank. FINMA has ruled that Zürcher Kantonalbank may consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. on a solo basis under the individual institution provisions from 2012.
2 Zürcher Kantonalbank does not claim any relief on the basis of Art. 125 CAO.
3 Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140 – 142 CAO, which allow a gradual introduction of the new rules.
4 CET1 reclassified in accordance with Art. 130 para. 3 CAO to cover the progressive component.

Pawnbroking agency

Zürcher Kantonalbank is required to operate a pawnbroking agency (Art. 7 §3 of the Law on Zürcher Kantonalbank). Since 1872, the pawnbroking agency has been granting loans in return for the depositing of pledged items. It is managed as an independent business operation in Zurich, at Zurlindenstrasse 105. The following section shows the balance sheet, income statement and loan transactions of the pawnbroking agency (in CHF 1,000).

Balance sheet (before distribution of net profit)

CHF 1,000	2014	2013
Assets		
Cash	213	234
Postal account	8	20
Accounts receivable		
Loans	7,169	7,490
Inventories		3
Furniture, IT equipment	0	0
Accrued interest	285	296
Balance sheet total	7,675	8,043

CHF 1,000	2014	2013
Liabilities		
Zürcher Kantonalbank	6,281	6,759
Surplus from auctions	291	335
Accounts payable	6	13
Provisions	155	155
Reserves	780	704
Profit carried forward	1	1
Operating profit	162	76
Balance sheet total	7,675	8,043

Income statement

in CHF 1,000	2014	2013
Expenses		
Operating expenses	946	1,090
Refinancing expenses	55	46
Losses	3	–0
Depreciation and provisions		0
Operating profit	162	76
Total	1,166	1,212

in CHF 1,000	2014	2013
Income		
Interest on loans	954	968
Other income	212	244
Total	1,166	1,212

Loan transactions

	Items	*in CHF 1,000*	Items	*in CHF 1,000*
Total loans at 31 December 2013			6,604	7,490
New loans in 2014 (including renewals)			13,097	15,314
Repayments in 2014	13,207	15,479		
Proceeds from auctions including inventory receipts	281	155		
Total loans at 31 December 2014			6,213	7,169

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Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the financial statements as of 31 December 2014 of

Zürcher Kantonalbank, Zurich

Ms. President
Ladies and Gentlemen

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Zürcher Kantonalbank, which comprise the balance sheet, income statement and notes (pages 133 to 144) for the year ended 31 December 2014.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with the Swiss accounting principles for banks, the requirements of Swiss law and the Law on Zürcher Kantonalbank. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss accounting principles for banks and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

On the basis of article 728a paragraph 1 item 3 CO and in accordance with Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Law on Zürcher Kantonalbank. We recommend that the financial statements submitted to you be approved.

Zurich, 23 February 2015

Ernst & Young Ltd

Rolf Walker Licensed audit expert (Auditor in charge)	Stefan Lutz Licensed audit expert

Glossary

Assessment Appraisal of a project, situation or participant.

Audit 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.

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, a limit has been set on leverage for the first time (leverage ratio). A global minimum liquidity standard is also envisaged.

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 supervisory authorities from 27 countries. Switzerland is represented by FINMA and the SNB. 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 buy and sell price of a financial instrument or currency.

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.

Capital-at-Risk The maximum risk capital specified by the board of directors, it is divided between the various risk categories of credit, market and operational risk 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 centre Financial sector institution that ensures the orderly settlement of financial transactions between two counterparties. Sometimes known as a clearing house, it acts as a central counterparty through which financial transactions between different parties are processed.

Commodity trade finance Loan financing for the trade in commodities.

Compliance Compliance on the one hand involves ensuring the behaviour and actions of the bank and its employees meet applicable legal and ethical standards and on the other hand comprises all organisational measures designed to prevent violations of the law and breaches of rules and ethical norms by the bank, its governing bodies and its employees.

Confidence interval Indicates an interval for the accuracy of the estimated position of a parameter. The confidence interval is the range containing the true position of the parameter in the case of infinite repetition of a random experiment with a specific frequency (confidence level).

Core capital The term core capital was introduced as part of the Basel Capital Accord (Basel III) and comprises the equity available to a company on a permanent basis in order to cover losses in its operations. Core capital primarily consists of paid-up corporate capital, or endowment capital, plus capital and profit reserves (common equity Tier 1). Additional Tier 1 capital, such as perpetual hybrid capital, is also included.

Core capital ratio (Tier1) The term core capital ratio 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; while preserving decision-making powers and efficiency at the highest level of the company, these principles are intended to guarantee transparency and provide a proper system of checks and balances.

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. The level and implementation timescale for the capital buffer are determined by the Federal Council at the Swiss National Bank's request, with FINMA monitoring implementation of the measure at bank level. In addition, the SNB can confine the countercyclical capital buffer to just one part of the credit market (e.g. residential mortgages).

Credit rating Ability and willingness of an individual, company or country to repay its debts.

CVA (credit valuation adjustment) charge Additional capital requirement for the risk of a change in counterparty credit rating in the case of OTC derivatives not settled via a central counterparty.

Endowment capital Equity made available to Zürcher Kantonalbank, as a public-law institution, by the canton, as owner.

Exception-to-policy Procedure that deviates from internal guidelines on an exceptional basis.

Fair value Fair value is the amount for which mutually independent, knowledgeable business partners would exchange an asset or repay a debt.

FATCA Stands for Foreign Account Tax Compliance Act. With FATCA, the United States aims to prevent US taxpayers from minimising their taxes particularly through financial institutions located abroad. The law came into effect for financial institutions worldwide on 1 July 2014, and will be implemented in stages by 2017.

FERI Award FERI EuroRating Services AG selects the best investment funds and fund companies across the German-speaking countries. FERI assesses quantitative and qualitative criteria in investment research as well as portfolio and risk management.

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 the effectiveness of the financial markets.

Issuer Issuer of securities such as equities or bonds.

Key rate sensitivity Sensitivity of the present value to a very minimal change in interest rates, e.g. effect on the present value of a portfolio of financial investments due to a lowering of the market interest rate by 0.01 percent.

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 promise to pay in which it agrees to make the 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 is calculated from the relationship between equity and the sum of all assets and various off-balance-sheet items.

Liquidity A company's ability to meet its commitments in full and on time. The Banking Act requires banks in Switzerland to have sufficient liquidity. The money market is central to the liquidity management of banks. The SNB provides the money market with liquidity, thereby implementing its monetary policy.

Long-term deferred component The long-term deferred component represents an unsecured entitlement to a future allocation of a cash sum. It is deferred for a period of three years and subject to additional conditions, in particular the sustainable success of the business.

Monte Carlo simulation Stochastic process based on very frequently conducted random experiments. The aim is to use probability theory to solve problems that are difficult or impossible to solve by analysis.

Negative replacement value The replacement value is the market value of outstanding derivative instruments. Negative replacement values constitute payables and are therefore a liability item.

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.

OTC transaction Transaction that takes place over the counter, i.e. not on an exchange but on a direct, individual basis between two counterparties.

Positive replacement value The replacement value is the market value of outstanding derivative instruments. Positive replacement values constitute receivables and are therefore an asset item.

Repo transaction (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 income 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 to the various risk categories (or risk managers) as part of the planning process.

Risk-weighted assets (RWA) The term risk-weighted assets was introduced as part of the Basel Capital Accord (Basel III) and constitutes the central basis for measuring risk-weighted capital ratios such as the core capital ratio. The 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 more risky ones.

Securities lending and borrowing With securities lending and borrowing, the lender transfers a security to a borrower to use for a fixed or indefinite though callable period; in return, he receives a fee from the borrower.

SME Small and medium-sized enterprises with fewer than 250 employees. Microbusinesses and small businesses are those with fewer than 20 employees. Companies with 20 to 249 employees are considered medium-sized enterprises.

Swiss standard approach Banks in Switzerland have so far been able to use two standard approaches to calculate risk-weighted assets: the Swiss standard approach (SA-CH) and the international standard approach (SA-BIS) for credit risk. In the course of implementing Basel III in Switzerland, FINMA abolished the Swiss standard approach. Thus from the end of 2018 banks will only be permitted to use the international standard approach. In addition, banks can use institution-specific model approaches for credit risk based on internal ratings (IRB approaches). However, these need to be approved by FINMA.

Systemically important banks A bank or group of banks is systemically important if it performs functions in the domestic lending and deposit business as well as payment transactions that are indispensable to the Swiss economy and not substitutable at short notice. Other criteria such as size, risk profile and integration are also taken into account in any decision. Systemically important banks in Switzerland are subject to particularly strict requirements (“too big to fail”).

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).

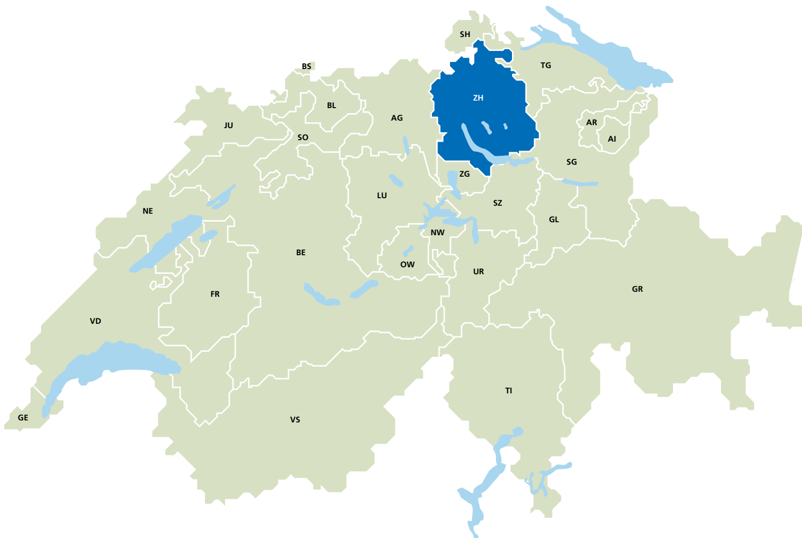
Volatility Fluctuation, e.g. in price of a security.

Locations

Regional base
We have a strong local base, and operate 90 branches throughout the canton of Zurich.

National and international links

As Switzerland's third-largest bank, we are active at national and international level in selected business areas.



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