Zürcher Kantonalbank

# Annual Report

for the 2015 financial year

# Key figures (group)

| Income statement | in CHF million | 2015 | 2014 | Change 2015/2014 in % |
|---|---|---|---|---|
| Net result from interest operations | | 1,162 | 1,127 | 3.1 |
| Result from commission business and services | | 663 | 526 | 26.1 |
| Result from trading operations and the fair value option | | 328 | 233 | 40.5 |
| Other result from ordinary activities | | 52 | 43 | 19.5 |
| Operating income | | 2,204 | 1,929 | 14.3 |
| Operating expenses | | –1,374 | –1,191 | 15.3 |
| Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets | | –106 | –93 | 14.4 |
| Changes to provisions and other value adjustments and losses | | –61 | –38 | 59.6 |
| Operating result | | 664 | 607 | 9.3 |
| Extraordinary income | | 66 | 41 | 63.6 |
| Taxes | | –8 | –0 | – |
| Group net income | | 722 | 647 | 11.5 |

| Balance sheet profit (before distribution of net profit) | in CHF million | 2015 | 2014 | Change 2015/2014 in % |
|---|---|---|---|---|
| Total assets | | 154,410 | 145,872 | 5.9 |
| Mortgage loans | | 73,623 | 71,349 | 3.2 |
| Amounts due in respect of customer deposits | | 80,820 | 79,969 | 1.1 |
| Provisions | | 584 | 539 | 8.4 |
| Equity | | 10,429 | 9,487 | 9.9 |

| Key figures | in % | 2015 | 2014 |
|---|---|---|---|
| Return on equity (ROE) | | 7.5 | 7.2 |
| Cost Income Ratio (CIR)[1] | | 62.4 | 61.7 |
| Common equity Tier 1 ratio (CET1) | | 15.8 | 14.6 |
| Core capital ratio (Tier 1) | | 16.8 | 15.6 |
| Total capital ratio | | 17.9 | 16.6 |
| Leverage ratio | | 7.0 | 5.8 |
| Liquidity Coverage Ratio (LCR)[2] | | 128 | – |

| Assets under management | in CHF million | 2015 | 2014 | Change 2015/2014 in % |
|---|---|---|---|---|
| Total assets under management[3] | | 257,507 | 208,677 | 23.4 |
| Net new money (NNM)[3] | | –2,502 | 927 | |

| Personnel / banking outlets | Number | 2015 | 2014 | Change 2015/2014 in % |
|---|---|---|---|---|
| Headcount after adjustment for part-time employees, as on reporting date | | 5,179 | 4,844 | 6.9 |
| Banking outlets[4] | | 91 | 97 | |

| Profit distribution | in CHF million | 2015 | 2014 | Change 2015/2014 in % |
|---|---|---|---|---|
| Share paid to canton to defray cost of capital | | 26 | 34 | –23.1 |
| Distribution to canton | | 200 | 164 | 22.0 |
| Distribution to municipalities | | 100 | 82 | 22.0 |
| Total profit distribution | | 326 | 280 | 16.5 |

| | | 2015 | 2014 |
|---|---|---|---|
| Additional compensation for state guarantee | | 21 | – |
| Additional payments from public service mandate | | 128 | 106 |

| Rating agencies | Rating | 2015 | 2014 |
|---|---|---|---|
| Fitch | | AAA | AAA |
| Moody's | | Aaa | Aaa |
| Standard & Poor's | | AAA | AAA |

[1] Charged: Cost-income ratio (excl. changes in value adjustments for default risk and losses from interest operations).
[2] Monthly averages, 4th quarter 2015.
[3] Restated following a change in segmentation of business partners.
[4] Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as five automated banks.

# Contents



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

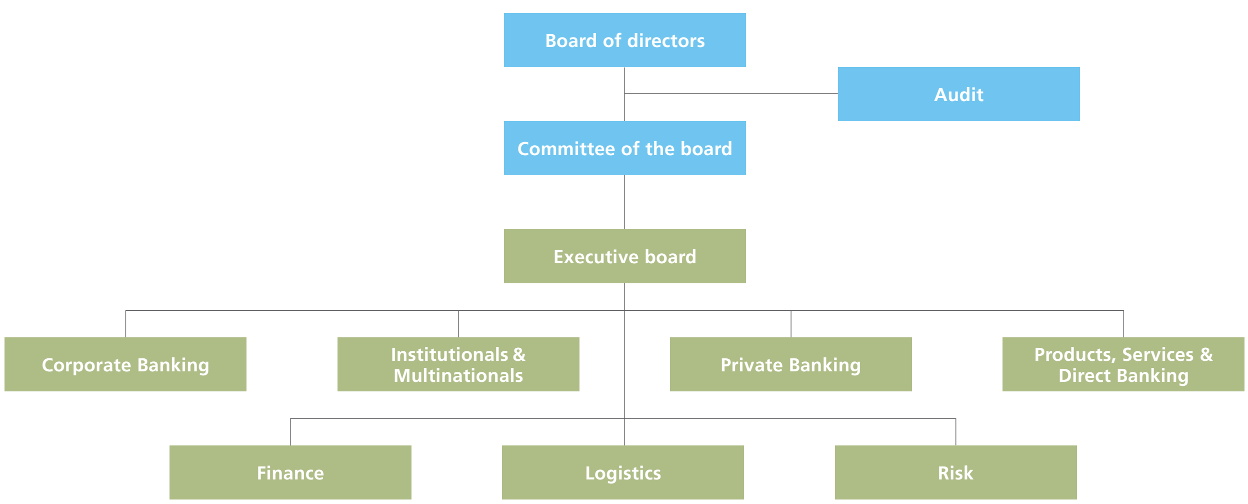
The following rules apply to the tables:

| | |
|---|---|
| 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 |

# 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. Since the acquisition of Swisscanto in March 2015, we are also Switzerland's third-largest fund provider. Zürcher Kantonalbank is an autonomous public-law institution of 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.

**Organisational structure of Zürcher Kantonalbank**



**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.

**Strong roots in the canton**
We are the market leader in the canton of Zurich for retail and corporate banking. We also have the densest network of automated banks and branches in the canton. Our customers are able to conduct their banking transactions via our call centres, via eBanking and via eBanking Mobile.

**Swisscanto integrated**
Following the integration of Swisscanto, we have become Switzerland's third-largest fund provider. At the same time, we have increased the diversification of our income.

**Net result**
With a group net income of CHF 722 million, we achieved a pleasing result in 2015. The canton is being paid a dividend of CHF 326 million for the provision of the endowment capital. CHF 100 million of this goes to the municipalities. Compensation of CHF 21 million is also being paid to the canton for the first time for the provision of the state guarantee.

**Stability**
At the end of 2015, Zürcher Kantonalbank had net equity of CHF 10,429 million. The total capital ratio amounted to 17.9 percent. We are therefore one of the best capitalised banks in the world.

**New head office occupied**
In August, Zürcher Kantonalbank moved into the renovated head office in Bahnhofstrasse, Zurich. The building now meets the MINERGIE® standard. The "Kafi Züri" and "Büro Züri" emphasise our closeness to the people of Zurich. Even the rhino is back in place.

**Significant employer**
5,963 people work at Zürcher Kantonalbank in 5,179 full-time positions. With 418 traineeships in banking, IT, logistics and operational maintenance, we are one of the largest training centres in the Zurich region.

**Three new members elected to the board of directors**
The cantonal parliament elected Amr Abdelaziz, Henrich Kisker and Walter Schoch as new members of the board of directors. They took over from Liliane Waldner, Thomas Heilmann and Hans Sigg, who resigned from the board of directors after three terms of office, having reached the limit of their permitted period of office.

Martin Scholl, Dr. Jörg Müller-Ganz

# Dear Customers and People of Zurich

Zürcher Kantonalbank found itself operating in a challenging economic environment in 2015. The introduction of negative interest rates by the Swiss National Bank had a particular impact. Nonetheless, the bank achieved an encouraging result with a profit of CHF 722 million.

That Zürcher Kantonalbank is also successful in a challenging environment is attributable to a prudent business management policy which takes into consideration the bank's responsibility towards the economy and people, as well as the broadly diversified profit model of its full-service banking strategy.

The successful integration of Swisscanto, which was a key development during the 2015 financial year, is a direct consequence of this strategy. This makes Zürcher Kantonalbank the third-biggest fund provider in Switzerland and allows the bank to increase the share of the bank's overall income represented by income from commissions and fees, in the medium term, to between 35 and 38 percent. In this way Zürcher Kantonalbank reduces the influence of the interest rate environment on its earnings situation and makes its business model even more stable.

Everyone in the canton benefits from this: on the one hand through the bank's wide-ranging commitment on behalf of the economy and people, including for example the promotion of start-ups, the support of culture and sport as well as the promotion of sustainability. And on the other hand, through a profit participation to the tune of CHF 326 million which the bank pays out directly to the canton of Zurich and the Zurich municipalities. In addition, with the integration of Swisscanto, for the first time a subsidiary of Zürcher Kantonalbank contributed to the tax revenues in the canton of Zurich in 2015.

On a national level, no departure from the negative interest rate policy is foreseeable in the medium term. Nonetheless, Zürcher Kantonalbank views the future optimistically, because it is emerging from the 2015 financial year in a stronger and stable position.

This was only possible thanks to the trust shown by our customers as well as the huge commitment displayed by our employees. In 2016 we will once again do our utmost to earn the trust placed in us.

Dr. Jörg Müller-Ganz
Chairman of the board of directors

Martin Scholl
Chief Executive Officer

# Environment and strategy

With the integration of Swisscanto we have substantially strengthened our position in the investment and asset management business and further driven forward the diversification of our income stream.

## General economic situation

The year 2015 began in a turbulent climate: the Swiss National Bank removed its EUR/CHF minimum rate and reduced base rates into the negative range, shortly before the European Central Bank launched a bond purchasing programme worth billions. A few months later, the possibility of Greece leaving the eurozone, China's economic downturn and the first steps towards liberalisation of the foreign exchange market created uncertainty. While many emerging markets and commodities markets weakened, along with global trade, and global industry lost impetus, domestic forces in most industrial nations proved robust. This applied in particular to the US economy, but also to the eurozone.

## Market environment

With around 280 banks, accounting for 6 percent of total value added, the financial industry is extremely important to Switzerland. However, increasing regulatory requirements, changing customers' needs, the trend towards the standardisation of services and above all the continuing negative interest rate environment are challenges which the Swiss banks need to address. The value added created by the banks has stagnated in recent years, and growth prospects for the industry remain subdued. A tendency towards consolidation has become apparent within the banking sector, particularly in the case of the private banks. This makes it all the more crucial for individual players to position themselves clearly and differentiate themselves from other banks. In this respect potential is offered by, among other things, the continuing trend towards the digitisation of banking services.

## Vision

Zürcher Kantonalbank has a clear vision: to be the bank that's "close to you". 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. In line with our philosophy of providing advice and support, we develop comprehensive financial solutions oriented around customers' needs. In doing so we strive to offer products and services that create as much added value as possible for the environment and society at large. We enter into a committed partnership with our stakeholder groups. A good relationship with our suppliers is important to us.

We foster a results-driven, responsible approach on the part of our employees, in a climate of trust, openness and fairness. Our vision of being the bank that's "close to you" is what drives us. Our full-service banking strategy has proved successful for many years now. We offer 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, 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. With our approach of providing comprehensive advice and support we offer our customers added value through every stage of life, making the Zürcher Kantonalbank brand a part of everyday experience.

With the integration of the Swisscanto group we have substantially strengthened our position in the investment and asset management business and further driven forward the diversification of our income stream. Today we are Switzerland's third-largest fund provider. We offer our high-quality, innovative range of products to both private customers as well as businesses and institutional customers. Our services are also available to cantonal and third-party banks.

Fig. 1: Our vision


## Living values

The behaviour of banks has been the subject of a 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.

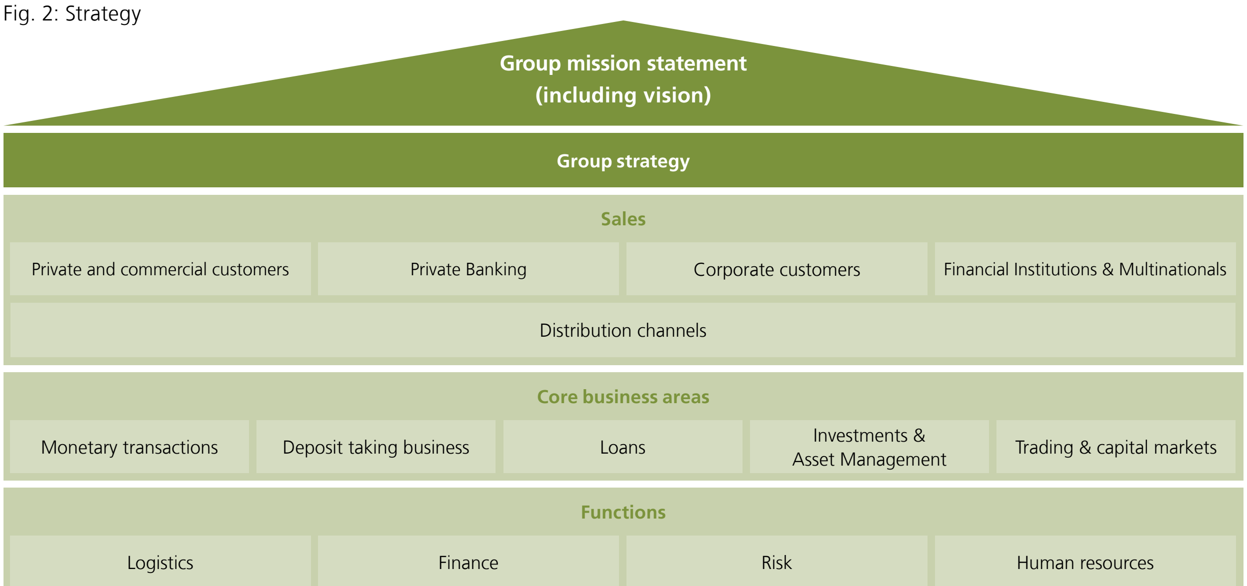
## Performance promises

For each of our different customer segments – retail customers and commercial customers, private banking, corporate customers as well as financial institutions and multinationals – we have defined clear performance promises which reflect our service philosophy. We are positioning ourselves through the high quality of our advisory service, continuity of customer support and comprehensive, lifetime service offer.

## Loans

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. Due to the canton of Zurich's economic strength within Switzerland and our important market share, above all in the domestic lending and deposit-taking business, we were categorised as "systemically important" by the Swiss National Bank in 2013. In terms of loans, we are the clear number one in the Greater Zurich area. We also provide finance for medium-sized and large businesses outside of this region. In this way we directly support Switzerland as a business location. We are a select counterparty in

Fig. 2: Strategy



international banking and provide lending to foreign banks in connection with Swiss exports.

**Investments and asset management**
As the country's third-largest fund provider and an important asset manager we offer private individuals, businesses and institutional customers high-quality, innovative products and asset management solutions. Our compelling offer comprises a transparent investment advisory process, a systematic investment process with clear allocation of responsibility for performance and efficient execution. Our expertise is rounded off by our in-house equity and bond research team, which enjoys an outstanding reputation.

**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 Switzerland, we are among the leading service providers both in traded asset classes and also in debt and equity market services.

**Basic services**
We are the number one address in the canton of Zurich for basic banking services such as payment transactions or savings. Just under 45 percent of Zurich residents have an account with Zürcher Kantonalbank. Our bundled solutions and individual products are tailored to the needs of our customers at every stage of life. With around one million customer relationships, we have a considerable potential that we intend to continue exploiting.

**Research and development**
In order to meet the changing needs of our customers in the area of financial solutions in an optimal way, we are continually developing our range of products and services further.

Our digital channels are continually being improved and adapted to changing user needs through innovations developed by Zürcher Kantonalbank's innovation laboratory. In this way we offer our customers a modern user experience combined with the highest possible level of security. During the year under review we launched a log-in-free balance enquiry application for smartwatches, the language option "Züritüütsch" for our eBanking Mobile service, eBanking Mobile Quick Actions as well as the new "Personal Finance Manager" function in eBanking. Together with our partners, we also launched the payment app "Paymit", which allows amounts of money to be transferred and requested simply.

**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 an efficient 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. In addition, we are pushing forward with the digital transformation of the bank that's "close to you". The basis for this is provided through the continuous upgrading of our IT infrastructure.

**Human resources**
Any strategy will only succeed if it is supported and implemented on a daily basis by the employees. We employ results-driven, responsible employees who embody our values and fulfil our performance promises in a credible manner. Because we are convinced that outstanding services can only be provided by well-trained and motivated employees, we wish to be seen as an attractive and responsible employer. The number of full-time positions within the group was on average 5,138.1 during the year under review (basis: monthly averages).

**Risk management**
The board of directors deals on a regular basis with the bank's risks. The basis for this is provided by detailed quarterly reports on credit, market and liquidity risks, compliance risks, operational risks and reputation risks. The risk management and audit committees support the board of directors in fulfilling this function. Further information on the bank's risk profile, organisation, processes, methods and risk ratios are contained in the "Risk report" section (page 102).

**Finance**
In order to realise our strategy we ensure that the necessary financial resources are available and the regulatory requirements with regard to capital resources and liquidity fulfilled. We raise the outside capital and equity necessary in order to achieve our growth targets at minimal costs. With our equity and liquidity management we ensure a risk-appropriate and economically efficient use of our financial resources. Comprehensive financial reporting forms the basis for the successful financial management of the bank.

## Targets

To measure the effectiveness of our strategy, we have developed a comprehensive system of targets (balanced scorecard). We measure the strategic group targets in four dimensions: finance, customers, processes and employees. We are financially successful if we achieve an appropriate level of profitability, an efficient cost structure, an optimised balance sheet and income structure along with a balanced diversification of our income streams. We measure achievement of the targets on the basis of key indicators such as the return on equity (ROE), cost/income ratio (CIR), total capital ratio, group rating, employee satisfaction index and customer satisfaction index. Internally, since 2015 we have measured profitability on the basis of the economic profit. Externally, we continue to state the ROE (return on equity). The measured key indicators should lie within defined strategic bandwidths. In addition, we draw up a multi-year plan, which we review and revise on an annual basis in line with current conditions. Annual planning and budgeting are derived from this process.

Fig. 3: Strategic targets (balanced scorecard)

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

## Figures achieved in 2015

We are very satisfied with the figures achieved in the 2015 financial year. The return on equity amounted to 7.5 percent. The cost/income ratio was, at 62.4 percent, within the specified target bandwidth.

We have systematically strengthened our capital base in recent years. At the end of 2015 the total capital ratio was 17.9 percent, well above the regulatory required minimum of 14.7 percent (including countercyclical buffer). It does not include the CHF 575 million in endowment capital that may be called upon by the canton of Zurich. Use of the callable endowment capital would raise the total capital ratio by around 1.0 percentage points.

Fig. 4: Figures achieved in 2015

| Variables | Targets | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Return on equity (ROE) | [1] | 7.5 | 7.2 | 9.2 |
| Cost/income ratio (CIR)[2] | – | 62.4 | 61.7 | 62.7 |
| Total capital ratio | 16–19 % | 17.9 | 16.6 | 16.2 |
| Group rating | AAA, Aaa | AAA, Aaa | AAA, Aaa | AAA, Aaa |
| Employee satisfaction | 65–70 points | 72 | 67 | 67 |
| Brand index | ≥ 60 points | 65 | 61 | 66 |
| Customer satisfaction[3] | | | | |
| Retail customers | ≥ 75 points | 75 | 75 | 83 |
| Corporate customers | ≥ 75 points | 74 | 74 | 81 |
| Private banking customers | ≥ 75 points | 77 | 77 | 83 |

[1] Internally, since 2015 we have measured profitability on the basis of the economic profit. Externally, we continue to state the ROE, but without target bandwidth.
[2] New method of calculation due to the changeover to the new financial reporting requirements for banks. A restatement was carried out for 2014. The value for 2013 is based on the old method of calculation.
[3] Survey conducted every two years; results for 2014, next survey 2016.

### The only Swiss bank with a AAA rating

The rating agencies Standard & Poor's, Moody's and Fitch 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 all three rating agencies. The reasons for this first-class assessment include 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. Also, we once again won Global Finance magazine's "Safest Bank Award" during the year under review. In this survey of the 500 largest banks, Zürcher Kantonalbank emerges in second place behind a German development bank and is therefore regarded as the safest full-service bank in the world.

### Tax compliance

We expect tax compliance from our customers with respect to the assets deposited with the Bank. For this reason, we avoid accepting new funds on which tax has not or will not be paid. We expect our customers to settle any tax owed and we assist them with doing so. When receiving and investing funds from international retail customers, we insist on tax compliance with regard to these funds and obey the laws of the countries of origin in this respect.

**Stabilisation plan**
As a consequence of our classification as a systemically important bank in 2013, we have developed a stabilisation plan. This sets forth those measures which, in the event of a crisis, will stabilise Zürcher Kantonalbank in the long term in such a way that it can continue its business activities without state intervention.

**Outsourcing of payment transactions driven forward**
In future we will be processing our payment transactions via the bank processing centre of Swisscom. In this way, Zürcher Kantonalbank is deliberately preparing itself for future requirements with respect to payment transactions. During the year under review we completed the first stage of the project with Swisscom according to schedule. Since October, Swisscom has digitised customers' payment orders for Zürcher Kantonalbank.

**Swisscanto successfully integrated**
The Swisscanto group has been successfully integrated. As a result today we are Switzerland's third-largest fund provider. The integration contributes to the further diversification of our income model and to the outstanding stability of our business model.

**Move to new headquarters completed**
After four years of reconstruction work, Zürcher Kantonalbank was able to move into its newly renovated headquarters building on Bahnhofstrasse in August. The building now complies with the MINERGIE® standard. With the completely redesigned customer branch, the "Kafi Züri" and the "Büro Züri", it is open to everyone.

**Sections B and C of "Neue Hard" acquired**
In mid-December 2015 Zürcher Kantonalbank acquired Section B and Section C of the "Neue Hard" property in Zurich from the Kuoni Group. With this transaction the bank acquired sole ownership of the entire "Neue Hard" site and thus wider scope for action with respect to its further development in the dynamic Zurich-West district.

**The bank that's "close to you" as a credible reality**
We attach great importance to our brand 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. We pursue this objective consistently with a wide variety of measures. Our brand promise remains: to be 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 embody the bank's core values in their day-to-day work.

## Outlook

We anticipate a continued challenging environment in 2016. However, we are confident that we will again achieve pleasing results in 2016 thanks to our extremely sound foundation, balanced business model and clear strategy. In the years ahead, we aim to systematically expand our leading position as a full-service bank that is outstandingly well-positioned in strategic terms. As a result of the takeover of the Swisscanto group, the share of income derived from commissions and fees is expected to increase to between 35 and 38 percent in the mid-term. The integration of the group which began in 2015 will be largely completed during 2016. We will also complete the outsourcing of payment transactions to Swisscom in 2016, so that as from November it will be possible to process payment transactions completely via their bank processing centre.

Legal certainty, tax compliance and market access will continue to be key issues of concern to the banking industry. Great importance continues to be attached to protecting the privacy of customers (bank/client confidentiality). The investigation of Zürcher Kantonalbank launched by the US authorities in 2011 remains ongoing at the present time. It is to be assumed that competition within the banking business will continue to intensify in the years ahead. Together with the political community, the aim must be to improve the overall framework for Switzerland as a financial centre. Freely accessible markets, in particular within the EU, are vital for Switzerland as a small, outward-looking economy. The definition of measures to counter the growing pressure on costs will continue to occupy our attention.

We are investing in innovative solutions in order to differentiate ourselves within the banking sector. Our aim is to offer customers user-friendly, transparent and secure banking services. We are constantly expanding our range of online services in order to guarantee a high level of availability. We invest 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 lending, investment and asset management.

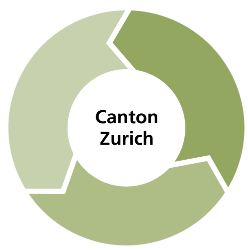
Zürcher Kantonalbank's real estate portfolio of bank premises will require an investment of around CHF 216 million over the years 2016 to 2020.

# Public service mandate

The threefold mandate given to their cantonal bank by the people of Zurich, which is enshrined in law, constitutes the basis of our business activities and the core of our understanding of our function.

Zürcher Kantonalbank is an independent public-law institution of the canton of Zurich. The bases for its business activities are defined in the Cantonal Bank Law. Particular importance is attached to the article defining the purpose of the bank. It sets forth those dimensions within which the bank makes a contribution to the welfare of the canton. In the guidelines on implementation of the public service mandate, the board of directors has specified how the bank implements the statutory requirements in specific business terms.

Fig. 5: Public service mandate




## Threefold obligation

The wording of the bank's legal foundation imposes on it a threefold obligation:

- to provide the people and business with banking services, to promote home ownership and agriculture, to support the construction of affordable housing and to support SMEs;
- to support the canton of Zurich in the fulfilment of its economic, environmental and social responsibilities as well as
- to comply with principles of sustainability in all of our business activities in Switzerland and abroad.

With a comprehensive range of full-service banking services for people and businesses, fulfilment of the service mandate is at the heart of our business activities. With a range of different products and services we go a step further in this than the purely commercially-oriented competition, for example with non-cost-covering micro-loans, tenant deposit accounts or by providing start-up loans in an early phase of the business cycle. With its wide-ranging commitments in the core areas of nature and the environment, young people, culture, sport and entrepreneurship, undertaken as part of its support mandate, the bank promotes the positive development of co-existence in the canton of Zurich.

Sustainability, 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 therefore implement sustainability as an integrated business principle, and this is reflected in our products, among our employees, in our commitments and in our operations.

**Compensation paid to canton and municipalities**

Zürcher Kantonalbank fulfils its public service mandate on the basis of a business strategy aimed at long-term continuity which is based on market-oriented principles and intended to achieve an appropriate profit. A dividend is paid to the canton for the provision of the endowment capital – to the tune of CHF 326 million in the year under review. The canton uses this, in the first place, to cover the capital costs incurred for the refinancing of the endowment capital (2015: CHF 26 million). Of the remaining amount, two thirds goes to the canton and one third to the municipalities. In this way, Zurich's people benefit directly from the success of their bank. Also, with the integration of Swisscanto, a subsidiary of Zürcher Kantonalbank contributed to the tax revenues of the canton of Zurich for the first time during the year under review.

## State guarantee

Zürcher Kantonalbank's customers benefit from the state guarantee. Under the law, the canton of Zurich provides a guarantee for all the bank's (non-subordinate) liabilities should the latter's resources prove inadequate. For 2015, Zürcher Kantonalbank for the first time paid the canton financial compensation in the amount of CHF 21 million for the provision of the state guarantee. This is based on an arrangement which was approved by the cantonal parliament.

## The changing public service mandate

Society is undergoing continual change, and with it Zürcher Kantonalbank's customer base. New technical achievements, the accelerated pace of economic life the rapid development of means of communication also call for new answers in the financial sector. The counter at the local branch which, 20 years ago, was still the main point of contact for banking transactions, nowadays represents one of several equivalent channels via which our customers can conduct their banking transactions. For example, today one third of our customers have an eBanking agreement. One in five is already using the bank's eBanking Mobile services. Within the past twelve 12 months, the number of mobile logins has more than doubled.

In line with the spirit of the service mandate, the bank strives to offer its customers access to all its products and services on all desired channels. In recent years, the bank has intensively addressed the issue of digitisation. In the year under review alone, several new options were created: in spring, we were the first Swiss bank to launch a smartwatch app. This makes it possible for our customers to check their account balance and view the last three entries in the accounts configured for this purpose on the watch – without needing to log in and with just one click. In May, together with two partners we launched the payment app "Paymit" onto the market, which was awarded the title "Master of Swiss Apps 2015". It allows private individuals to transfer and request amounts of money conveniently, quickly and securely. Since November, the "Personal Finance Manager" function has provided our eBanking customers with a quick overview of their finances and, if requested, assists them with budgeting and controlling expenditure. When it comes to banking transactions which are conducted by electronic means, security is a top priority for us. Over the coming years, further development steps will follow which will further improve the customer experience on the digital channels.

At the same time it remains an unquestioned part of the bank's business philosophy that the personal and confidential face-to-face service provided at the local branch locations will continue to represent a key element of any banking relationship. For this reason, during the current financial year alone around CHF 30 million was invested in the network of branches. However, with the continuing progress of digitisation, the importance of cash transactions over the counter, for example, has been declining for some years. Due to these changes in customer behaviour, during the year under review we closed five counter locations which were not receiving much business and one agency which did not offer an advice service. The ATMs on site were retained. In addition, in April we introduced a cash delivery service which allows customers to order foreign currency and Swiss francs to be delivered to their home conveniently by post.

## 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. The sustainability report for 2015 shows in detail how Zürcher Kantonalbank has elevated sustainability – in all its dimensions – to an integrated business principle. Detailed information about the support mandate can be found at www.zkb.ch/en/lg/ew/dsc-about-us/sustainability.html.

The following comprises a selection of examples of the way in which we fulfil our public service mandate.

### Service

#### Via all channels

As "the bank that's close to you" Zürcher Kantonalbank offers contact options on all channels, whether at one of our 84 branches, at 347 ATMs, via the electronic channels of the eBanking and eBanking Mobile services or using the smartwatch app. During the year under review, 380,500 customers accessed our eBanking service (2014: 360,600). 63,300 customers conducted their banking transactions via mobile devices using our eBanking Mobile app. In addition, the bank can be contacted on various social media channels. All our customers can also obtain competent advice over the telephone or via a video link on weekdays from 8 a.m. to 6 p.m.

### 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.

ZKB starter mortgage  Zürcher Kantonalbank supports first-time property buyers with a reduced interest rate in comparison with the normal ZKB fixed rate mortgage. In 2015 the ZKB starter mortgage was developed further. We now offer the interest rate subsidy phased over the entire term of up to ten years (previously up to a maximum of five years). In addition, we have relaxed the eligibility criteria. In 2015 the volume of ZKB starter mortgages amounted to CHF 3,779 million.

## Support

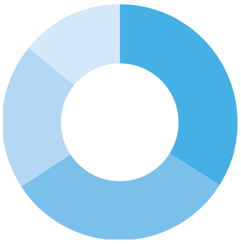
### Mobility for night owls

The weekend. Going out. Zurich's young people look forward to this all week. Thanks to the ZVV's extensive public transport network, night owls can make their way home safely until 4 a.m. We pay the night service surcharge on the ZVV's night network for young persons, students and young working people with a ZKB youngworld package. In this way we are contributing to an environmentally friendly development of mobility in the canton of Zurich.

### Running for all

The ZKB ZüriLaufCup is Switzerland's oldest, biggest and most successful series of running events. Thirteen events are staged annually, right across the canton of Zurich. Over 16,000 finishers make the runs into local events. As main sponsor, the aim of our commitment is not to promote exclusive sports for the few, but to promote exercise, sport and health for as many of Zurich's residents as possible.

Fig. 6: Use of sponsorship funds




### Major venue for cabaret in Winterthur

First performances and Swiss premieres by well-known national and international comedy stars as well as a wide range of fringe acts: this is what has made the Casinotheater in Winterthur a fixed venue on the regional theatre circuit. In addition to the focus on comedy, the venue also hosts other literary, dramatic and musical forms. With our commitment as main sponsor we make possible a diverse and lively theatre culture in the greater Zurich area.

### A research centre for data security

The Swiss Federal Institute of Technology in Zurich is a leading international centre for information security. The "Zurich Information Security & Privacy Center" (ZISC) has been based at the Zurich campus for over ten years. By means of a dialogue between research, society and industry economy, the objective is to identify trends, opportunities and risks and feed into the field of research issues which arise in practice. With our commitment in collaboration with the Swiss Federal Institute of Technology Zurich Foundation we help promote teaching and research in the field of information security. In this way we make a contribution to improving the future security and reliability of IT systems, data security as well as protection against unauthorised access.

### Space for innovation

The canton of Zurich, Zürcher Kantonalbank and the Swiss Federal Institute of Technology in Zurich are sponsors of the newly established Zurich Innovation Park, which will be opening in Dübendorf. With an area of around 70 hectares, the park offers space for the development of cooperations between local, national and international companies and the local universities, for example in the fields of Life Science & Life Quality, Engineering and the Environment or Digital Technologies & Communication. With this commitment we encourage innovations which further increase the competitiveness of the greater Zurich area.

### Recognition of pioneering achievements

The Pioneer Award goes to a 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. It is awarded by the Technopark foundation and Zürcher Kantonalbank and is endowed with CHF 98,696.04 – 10,000 times the number pi squared. In 2015 the award went to Nanolive SA for an innovative microscope technology by means of which the effect of drugs can for the first time be documented in a lifelike manner and their efficacy increased accordingly through specific measures.

## Sustainability

### A network for sustainable building

As a member of the "Sustainable Construction Network Switzerland" (NNBS) the bank, together with numerous other prominent partners, is pursuing the vision of elevating sustainable building in Switzerland from the consideration of individual objects to a higher, integrated level. The network has three main priorities: it creates clear definitions for sustainable building through standards, instruments and labels. It promotes networking and communication between the public sector, politicians, industry and science, and it deepens the exchange of ideas and coordination in relation to vocational training and development in all areas of sustainable building.

### Sustainable SMEs

Zürcher Kantonalbank recognises particularly sustainable businesses with the award of the well-known SME Prize. The prize money totalling CHF 150,000 is split between three main prizes and two special prizes. The first prize in January 2016 went to GGZ Gartenbau Genossenschaft Zurich. Pronatec AG in Winterthur achieved second place, followed by Wipf AG in Volketswil in third place. The special prize for micro-enterprises was awarded to Arento AG in Hinwil, the special prize for extraordinary achievements went to Schmid Transporte Niederglatt AG.

### Drink tap water, donate drinking water

We sometimes forget how important clean drinking water is and what a valuable asset Switzerland possesses with its high quality mains water. With its support for the initiative "$ZH_2O$ – Züriwasser Drink & Donate" Zürcher Kantonalbank is raising awareness of the issue of clean drinking water within the company and is at the same time supporting numerous Swiss drinking water projects with CHF 25,000 annually.

### Fair trade gold

In 2015, Zürcher Kantonalbank was the first bank in Switzerland to launch the sale of fair trade certified gold. In partnership with the Max-Havelaar Foundation (Switzerland), gold ingots weighing from 1 g to 10 g can for the first time be offered which are made from gold originating from a fair trade certified small-scale mining operation. Zürcher Kantonalbank's fair trade gold ingots are currently 5 percent more expensive than conventional gold.

The certification brings various advantages to the persons involved: due to the mandatory legalisation of the mines, the rights of the miners are protected. Formalised business relationships and a guaranteed minimum price provide financial security. The fair trade premiums make possible investments in community projects. Stricter safety regulations protect people and the local environment.

### Signature of the Montréal Pledge

In 2015, Zürcher Kantonalbank was the first Swiss bank to sign the Montréal Carbon Pledge (Montréal Pledge), which was launched by the UNEP Finance Initiative and the UN Principles for Responsible Investing (PRI). It demands of investors that they measure and publish the $CO_2$ footprint of their investment portfolios on an annual basis.

### Guldenen local recreation area

At the end of April 2015, ownership of the local recreation area on the Guldenen was transferred to a real estate company. The latter is prepared and in a position to maintain and further develop the whole area for public use. For example, the Waldgasthof hotel is going to be reopened. Also, the new owner will be continuing the existing agricultural lease agreements.

# Customers

We provide comprehensive, responsible advice in all life circumstances and company phases. We offer our customers a contemporary and sustainable product and service portfolio.

## Advice and support

**Customer advice**
Zürcher Kantonalbank helps people and businesses across the generations. It is essential for us to offer our customers constant, first-class quality of advice and support and to meet the ever more demanding needs of our customers.

For us it is vital to have a comprehensive understanding of our customers' needs and aspirations in order to provide them with solutions that are tailored to their individual circumstances. In the year under review, our focus was on advising private clients in the development of holistic pensions solutions and attractive financing variants.

In the business with our corporate clients, our focus was on providing advice in the area of cash management. We assist our customers with specific services in issues relating to the liquidity of their companies. Our goal is to identify optimisation potentials along the financial value creation chain, in particular in the sub-segments of information management, liquidity management, payment transactions and risk management.

**Customer service and support**
One in every two residents of Zurich is a customer of Zürcher Kantonalbank. That makes us the leading financial services provider in the canton of Zurich in the business with private customers. At the end of 2015, we had 874,800 relationships with private customers. The responsibility for the provision of personal service and support to all our private customers has been with the Private Banking business unit since October 2014. The assets managed in this segment amounted to CHF 182.3 billion at the end of 2015 (parent company). The realignment of our international business with private customers was fully completed in the year under review. This entailed implementing tax compliance for all foreign markets and focusing the international business on a small number of core markets, primarily in Europe. The foundation for stable growth, based on security, competence and professionalism was thus laid. The most important core markets in Europe are Germany, the UK, Italy, Spain, Austria and the Czech Republic. In terms of the emerging markets, our focus is on the United Arab Emirates and Hong Kong. When receiving and investing funds from international private customers, we insist on tax compliance with regard to these funds and obey the laws of the countries of origin in this respect. Zürcher Kantonalbank Österreich AG – whose assets under management increased to about EUR 1.3 billion in 2015 – acts as a window to Europe. In Salzburg and Vienna, Zürcher Kantonalbank Österreich AG operates two locations focusing on investment advisory services and asset management for a select international customer base.

With 52,700 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 a particularly close affinity to SMEs. Around half of all Zurich-based SMEs rely on the services of the bank that's "close to you". We are also an important partner for major national and international companies with registered offices in Switzerland as well as a select counterparty in the global interbank market.

### Proximity to customers

A good relationship with our customers is important to us. Our proximity is based on holistic, continuous advisory and support services in all life circumstances and company phases. Zürcher Kantonalbank has the densest ATM and branch network in the canton of Zurich. Both private and corporate customers continue to use their local branch as the most important first point of contact for advice. In 2015, our branch sales professionals held around 175,000 face-to-face consultations on the core businesses of investments and loans and on the themes of pension, succession planning and taxes. In addition, the active dialogue with SMEs, the close relationships with industry and its organisations as well as numerous partnerships and awards to promote SMEs are evidence of our commitment in the canton of Zurich and the customer proximity that is lived daily.

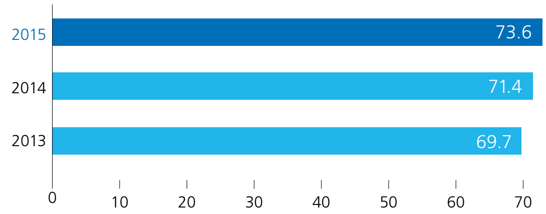
Online channels and mobile services are becoming more significant as a supplement to our personal consultations. We have for years pursued a multi-channel strategy in order to serve our customers according to their needs. Besides the classic branch business, we offer our customers various alternatives to carry out their banking transactions. We are available by telephone via the support centre for private and corporate customers or customers can arrange a consultation via video conference. In addition, customers can carry out their transactions via our eBanking or eBanking Mobile services. In the year under review, various new digital offerings were also created, such as a smartwatch app, a cashless immediate payment option (Paymit), an eBanking Mobile version in "Züritüütsch" (the Zurich dialect) as well as a digital Personal Finance Manager in eBanking.

## Loans

### Mortgages

The trend of slower growth in property prices seen in the last two years continued in 2015. In an environment that was characterised by the introduction of negative interest rates by the Swiss National Bank in the spring as well as continuing low interest rates for mortgage holders, the bank's mortgage receivables increased by CHF 2.3 billion to CHF 73.6 billion in the year under review. This equates to an increase of 3.2 percent. The bank's increase in mortgages was in thus in line with growth on the market overall. As a market leader in the canton of Zurich, we value quality in the loans issued.

Fig. 7: Mortgages (in CHF billion)




Digitisation and the growing needs of our customers in the use of online channels also extended to the mortgage business. Various financial service providers have gradually extended their online offering in recent years. In addition, providers with only an online presence entered the mortgage market. In collaboration with the property portal, Homegate, Zürcher Kantonalbank already launched the first internationally managed, multi-language online mortgage in 2013.

Due to the continuing low-interest environment, fixed-term mortgages for medium to long terms saw the highest demand throughout the whole year. The share of fixed-term mortgages (including starter mortgages and fixed advances) in the total volume of mortgages was 89 percent at the end of the year.

In the context of our public service mandate, we grant a ZKB environmental loan for new buildings and renovations according to the MINERGIE® standard, for buildings with a cantonal building energy certificate (GEAK) and for energy-related modernisations. Customers benefit from an interest-rate reduction of up to 0.8 percent compared to the indicative rate of the selected ZKB fixed-term mortgage for up to five years. Through this, we are systematically supporting and fostering the energy-efficient modernisation of real estate. The total volume of environmental loans amounted to roughly CHF 1.2 billion in the year under review.

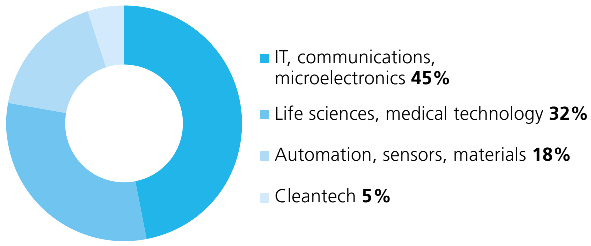
### Business financing

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 model-based and systematic credit assessment process and decentralised decision-making authority for standard transactions allows us to incorporate local expertise into credit decisions and to take individual factors into account. With the "Corporate Financing Specialist Assessment", Zürcher Kantonalbank launched a communications campaign in the lending business with its corporate customers in the year under review. Credit assessment and rating categories are now even more transparent. The ratings are supplemented with a calculation of the maximum debt capacity and the sustainability of debt levels. In dialogue with customers, the focus is primarily on value drivers and the strategy of the company as well as the free cash flow achievable in the long term. No changes are made to the consistent and proven lending policy of the bank.

Thanks to their adaptability and innovative power, the majority of Swiss companies have succeeded in a challenging economic environment, which was in particular characterised by the scrapping of the lower limit on the euro-franc exchange rate by the Swiss National Bank in January. Zürcher Kantonalbank proved to be a dependable partner for these companies. Our credit exposure to companies increased to CHF 23.0 billion (+1.7 percent). Dependability 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 innovations on the part of Zurich as a business location as well as Zurich-based SMEs. With the Swiss Federal Institute of Technology in Zurich, the University of Zurich, the Zurich University of Applied Sciences and the Zurich University of the Arts, the prerequisites for corporate start-ups in the Greater Zurich area are excellent. To meet the associated financing needs, our "Pioneer" initiative – which systematically supports innovative start-ups with venture capital – was launched in 2005. In the last ten years, as a part of its public service mandate, Zürcher Kantonalbank invested approximately CHF 110 million in risk capital in 180 companies from the "Information Technology, Communication and Micro Technology", "Life Sciences and Medical Technology", "Automation, Sensors and Materials" and "Cleantech" sectors. The current Pioneer portfolio comprises around 110 start-ups. In the year under review, 28 promising start-ups were recapitalised with risk capital in the amount of CHF 7.0 million. This portfolio of credit exposures and interests showed a stable performance.

Fig. 8: Composition of the Pioneer start-up portfolio




We are also partners to the technology parks Technopark Zurich, Technopark Winterthur, Bio-Technopark Schlieren, Blue Lion in Zurich and Grow in Wädenswil. In the year under review, we launched a partnership with the start-up centre Runway of the Zurich University of Applied Sciences (ZHAW). Jointly with the Swiss Federal Institute of Technology in Zurich and the University of Zurich, we established the sponsorship of the Swiss Innovation Park that will be started in Dübendorf.

With the renowned ZKB Technopark "Pioneer Award", which in 2015 went to Nanolive SA in honour of its development of live-cell tomography, the bank additionally fosters particularly innovative business ideas.

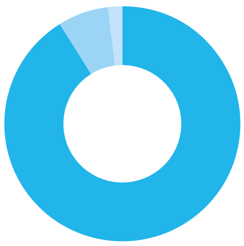
Start-ups in traditional sectors are part of our normal financing operations. In the year under review, we provided finance of CHF 23.9 million for 82 company start-ups. The bank also works closely with the "GO! Ziel selbstständig" association, helping people to become entrepreneurs with ZKB microcredit.

At the other end of the business cycle, succession planning, the bank also takes into account the needs of SMEs. Not least due to demographic developments, numerous SMEs currently face generational change.

Through its comprehensive range of services, the bank provides SMEs with guidance on these issues too. We fulfil our responsible role in the preservation of workplaces with 53 consulting mandates and 29 acquisition financings.

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 just under 5,000 microloans of less than CHF 200,000 for SMEs. Capital goods leasing is becoming increasingly important here. For SMEs and the agriculture sector in particular, this is an attractive, liquidity-preserving alternative to a traditional investment loan. Zürcher Kantonalbank is a leader in the leasing business in the agricultural sector throughout Switzerland. Its share in total revenues realised by the bank in the leasing business was also significant in the financial year. On the whole in the joint distribution network with a large number of other cantonal banks, 3,006 lease agreements with a volume of CHF 240 million were concluded in the year under review.

Fig. 9: 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 offer them tailored investment solutions. The investment objectives are jointly agreed with the customer. The high level of technical and market expertise of our investment specialists represent significant added value for our customers. In the year under review, the media regularly asked their opinion on global focus issues, in particular the scrapping of the euro-franc minimum rate by the Swiss National Bank, the monetary policy of the central banks and their effects on the economy and the financial markets, the euro debt crisis, the refugee flows to Europe as well as the weakening economic growth in China. Our equity and bond research division provides recommendations and ratings throughout Switzerland on blue chips as well as smaller and medium-sized listed Swiss firms. It is one of Switzerland's leading research houses for both equities as well as bonds. In addition, Zürcher Kantonalbank also supports platforms with events, such as roadshows and investor meetings, that promote information exchange between investors as well as smaller and medium-sized Swiss firms.

With a comprehensive line-up, we offer attractive products and services for both private as well as institutional customers. The asset management business in particular has achieved positive performance in recent years. In the year under review, a pleasing number of new customers was gained in asset management mandates. When managing portfolios professionally, a clear investment process and risk management are included, covering all asset classes.

For private customers, the mandates are implemented with active and passive core investments. They are combined with complementary satellite investments depending on their form. For institutional investors, their implementation can be active, passive, rule-based and long-term. In addition, professional customers are subject to individual investment restrictions.

**Asset Management**
Zürcher Kantonalbank offers a comprehensive line-up of active, indexed and thematic investment fund and asset management solutions. Asset Management was significantly characterised by the integration of Swisscanto in Zürcher Kantonalbank in the 2015 financial year. Since the regulatory approval was issued in March 2015, the fund management services of both companies could be merged – the organisation and responsibilities were clarified in a short period of time. The focus was on securing performance and the smooth functioning of the investment processes. In addition, providing transparent information to customers regarding the integration process was imperative.

With this merger, the strengths of both companies were successfully combined, which allows us to position ourselves as the new, third-largest fund provider on the Swiss market. The integration enabled us to substantially strengthen our expertise in direct real estate management as well as in the area of the management of more complex fixed-interest investments such as High-Yield bonds, Emerging Market Depth or the CoCo bond fund. We continue with our offering of index solutions, an area where Zürcher Kantonalbank has always been highly successful.

A standardised naming concept is part of our new, homogenous market presence. In the investment business, we act under the competence brand Swisscanto Invest. We are now offering all funds, except for precious metal ETFs, under this brand.

Both sides benefit from the merger: on the one hand, we can now provide products on a broader, higher quality basis and, on the other hand, are better positioned in the market. Our employees adapted quickly to the new situation and continue to focus on their core duties – the management of assets and customer support.

**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 above

the result for the previous year at CHF 328 million. The market risks in the trading book (value-at-risk) amounted to 17 million on average and were slightly higher than the previous year.

With the decision taken by the Swiss National Bank to scrap the euro minimum rate in January 2015, customer activities increased due to the repositioning of investors and the changed starting point for hedging transactions. Trading volumes remained at a pleasing level until mid-year.

The second half-year was significantly characterised by the Greek crisis that had been ongoing since the beginning of the year, the weak growth in China and falling commodity prices. Investors' nervousness was, in addition, influenced by the expected increase in the American base interest rate. These uncertainties had a dampening effect on customer activities. The market environment again became more demanding in combination with narrower bid/ask spreads. Due to lower volatility, there was a fall in volumes and margins in foreign exchange trading towards the end of the year. However, their figures were significantly higher than those of the previous year. Investors in the structured products business favoured return optimisation and participation products. In terms of sales of all listed products, we are among the most important providers on the Swiss market.

In the capital market business, Zürcher Kantonalbank took the leading position as a clear number one in the new issues business in Switzerland with 54 bonds and five hybrid and asset-backed bonds with a transaction volume totalling CHF 5,366 million. In addition, we lead-managed 17 equity transactions. In addition to the listing of PLAZZA AG, the bank assisted, among others, in a number of equity offerings and share buybacks in the year under review.

The know-how developed in the area of asset-backed bonds was met with a high level of interest from customers and, in addition to providing advice, also allowed the bank to participate in the placement of two significant transactions.

On the whole, Zürcher Kantonalbank has distinguished itself in past years due to the continual development of its service offering for its customers and partner banks. It has been a reliable partner even in the hectic trading days at the beginning of the year.

# Employees

We are a reliable and responsible employer for our staff, a fact confirmed by the latest employee satisfaction survey: we live up to this claim at a high level.

Zürcher Kantonalbank has been conducting an employee satisfaction survey every two years since 1998 (among employees of the parent company). The 2015 survey accords high marks to the bank as an employer.

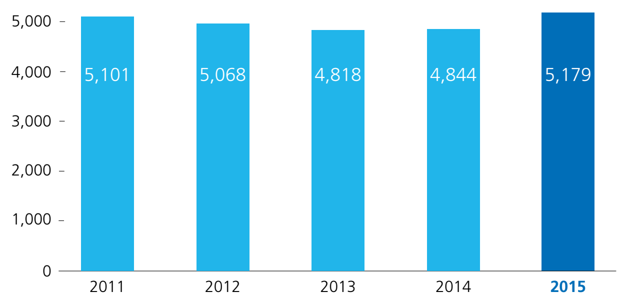
Sixty-three percent of employees recommend the bank without reservation. This is a welcome sign of confidence in the bank. Eighty-three percent of employees participated in the survey. The Commitment Index, the key figure demonstrating employees' loyalty to the company rose from 67 points in 2013 to 72 points. All teams at all levels intensively engaged with the results and defined measures for improvement where necessary.

Unless noted otherwise, the following figures relate to the parent company.

## Headcount

In 2015, the Group's headcount increased by 6.6 percent from 4,821.9 to 5,138.1 full-time positions on an annual average. Of these, 21.3 are full-time positions filled with employees employed on a temporary basis. There are 418 employees in training. The large increase in the number of employees is mainly due to the integration of Swisscanto.

Fig. 10: Group headcount (FTE basis)




## Staff development

With 418 traineeships at the parent company, we are one of the largest training institutions in the Zurich region. 55 places are filled by secondary school interns and high school graduates; a further 57 by internal Junior Trainees. Vocational training is the first step that many young people take in their working life. In 2015, 99 trainees started their training with us in the working worlds of banking, information technology, logistics and general administration. Ninety-eight percent of students who completed their final exams in the year under review were successful. Ninety percent of graduates continued their career with us. All students employed at Swisscanto are continuing their internship with us.

**Development**

The current and future requirements for knowledge and skills that our employees must have are constantly increasing. Zürcher Kantonalbank has always attached great importance to the training and development of its employees. In the year under review, it invested CHF 9.5 million in internal and external continuing education.

Every seventh employee attended an external training course in 2015 to obtain a Swiss Federal Certificate of Proficiency or diploma, a Certificate of Advanced Studies (CAS) or a Master of Advanced Studies (MAS). The internal continuing education and training offered by the bank covers the entire spectrum of technical and sales training as well as management and personality development. In addition, the bank supports employees with potential by means of special support programmes.

**Work / life balance**
In order for our employees to have an even better work / life balance, we continued to develop our offering in the year under review. For instance, we optimised the "Maternity and Return to Work" process. As from 2016, we will be providing advice to mothers-to-be at an even earlier stage and assisting them in planning their return to work. We have worked closely with thkt familienservice GmbH for 15 years. In the year under review, 53 employees took advantage of our offer of advice or assistance at home. We offer flexible working hours models, including part-time models, to ensure a better balance between recreational time and work. More than 50 percent of our female workforce and 16.8 percent of our male workforce work part-time.

In 2015, 41 of our employees' children were looked after by Kita Frechdachs in Zurich, which received a visit from Swiss Federal Council member Alain Berset on 12 October 2015, and Kita Leuenhöhli in Winterthur. A total of 116 employees benefited from subsidised and / or reserved crèche places.

**Equal opportunity**
The percentage of women on the staff remained stable at 33.2 percent in the year under review. At the director level, the proportion increased from 0.4 to 10.6 percent. Approximately 200 networkers were involved in the women's network at Zürcher Kantonalbank, which was established in 2014 on the initiative of interested employees.

**Health promotion**
We are a "Friendly Work Space" for the second year now, which is an award given for our systematic health management in the workplace. Employees benefit from a broad offering ranging from e-learning and customised workshops on the work / life balance theme through to health checks, ergonomic workplaces, quiet rooms and a comprehensive external advisory offering. In addition, we support our employees if they are experiencing difficult situations and during reintegration Thanks to a reintegrating workplace, four people were also given the opportunity of reintegrating into day-to-day worklife with a job at the bank.

**Staff association**
As a social partner of Zürcher Kantonalbank, the staff association deals with employees' concerns. It represents employees at meetings with the executive board. The staff association is involved in projects such as the outsourcing of payment transactions to Swisscom and assists the relevant departments. In addition, the staff association is involved in negotiations with management for salary increases and additional benefits and contributes to promoting good working conditions. In all, 42.5 percent of our employees are members of the association. The board provides additional support on behalf of the bank and provides advice to employees in respect of social and financial issues. Four board members head the association, while the delegates' assembly had 37 delegates in the year under review.

## Employee benefits

Our employees are compensated according to the total compensation approach. This compensation consists of a base salary, variable compensation based on the performance of the business, as well as statutory allowances and additional voluntary benefits. Please see the compensation report from page 51 onwards.

Zürcher Kantonalbank's pension fund is a defined-contribution scheme. The pension benefit is calculated on the basis of the savings credit acquired multiplied by the conversion rate. The normal retirement age is 62 years. Partial or early retirement is possible from the age of 58. As the employer, Zürcher Kantonalbank provides an AHV supplementary pension from the age of 62 until the statutory AHV age. For further information please see Note 13, page 84. In the year under review, the bank's pension fund covered 5,253 active insured persons and 2,010 retirees. As at 31 December 2015, it managed assets of CHF 3.358 billion with a coverage ratio of 110.9 percent.

Fig. 11: GRI key figures[1] Employees

| Employment (parent company) | | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| Number of Employees (full-time equivalent) | *Number* | 4,879 | 4,704 | 4,673 | 4,917 | 4,951 |
| Turnover rate | % | 6.8 | 7.7 | 7.7 | 6.5 | 6.5 |
| Creation of new jobs | % | 3.7 | 0.6 | –5.0 | –0.7 | 2.3 |
| **Health and occupational safety (parent company)** | | | | | | |
| Lost days per employee as a result of sickness or occupational and non-occupational accidents | *Days/Employees* | 7 | 6.1 | 6.5 | 6.4 | 6.9 |
| **Continuing education and training (parent company)** | | | | | | |
| Internal education and training time per employee | *Hours/Employees* | 19.3 | 14.2 | 12.6 | 16.0 | 16.1 |
| Percentage of employees on external courses | % | 13.4 | 14.6 | 14.3 | 17.3 | 17.1 |
| **Diversity and equal opportunities (parent company)** | | | | | | |
| Percentage of women in total workforce | % | 38.1 | 38.5 | 39.1 | 39.3 | 39.7 |
| Percentage of women in middle management | % | 33.2 | 33.2 | 32.8 | 32.1 | 32.0 |
| Percentage of women in senior management[2] | % | 10.6 | 10.2 | 9.8 | 9.5 | 8.9 |

[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/en/lg/ew/dsc-about-us/sustainability.html.
[2] Since 2009 including vice presidents.

# Analysis of Financial Statements

**Changes in scope of consolidation**
Once approvals were granted by the Swiss and foreign authorities, the acquisition of Swisscanto was executed on 25 March 2015 and included from 1 April 2015 in the scope of consolidation of Zürcher Kantonalbank. Further information can be found in the financial report in the sections "Broad diversification" (page 67) and "Scope of consolidation" (page 68).

**New accounting regulations for banks**
The new accounting rules for banks (ARB) were applied for the first time during the year under review. The effects on the reporting in the annual financial statements are described in the financial report in the section "Changes to accounting and valuation principles" (page 68).

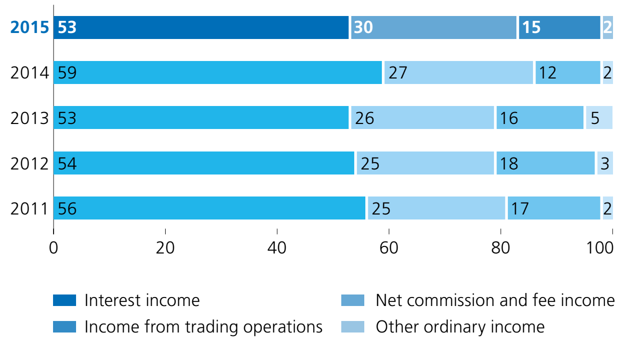
## Analysis of the income situation

**Group net income increased**
Zürcher Kantonalbank stood its ground in a challenging economic environment. Group net income increased by CHF 75 million or 12 percent to CHF 722 million (2014: CHF 647 million).

**Higher profit distribution**
Zürcher Kantonalbank is enabling the canton and the municipalities to participate in the higher profit. For the 2015 financial year, the estimated total profit distribution is CHF 326 million (2014: CHF 280 million). Compared with the previous year this represents an increase of CHF 46 million or 16.5 percent. The share paid to the canton to defray the costs of capital amounts to CHF 26 million. In total, CHF 226 million will be distributed to the Canton of Zurich (2014: CHF 198 million) and CHF 100 million to the political municipalities of the Canton of Zurich (2014: CHF 82 million). Details of the estimated profit distribution are set out in tabular form in the parent company's financial statements (p. 134). In addition, the canton was compensated for the state guarantee with around CHF 21 million.

**Diversified operating income**
The total operating income in the reporting year was increased strongly by 14 percent to CHF 2,204 million. This mainly comprised interest income (53 percent), commission income (30 percent) and income from trading operations (15 percent). Thanks to the acquisition of Swisscanto, the operating income was more broadly based.

Fig. 12: Income structure of Zürcher Kantonalbank (in %)




The introduction of negative interest rates by the Swiss National Bank was, and will remain in future, a major challenge. The introduction on 15 January 2015 showed that the bank can no longer rely on existing experience and theories. It was obliged to learn quickly from the situation and to react in a way which is calculable from the customer's viewpoint. Zürcher Kantonalbank has succeeded in doing so. Despite difficult framework conditions it has therefore managed increasing the net interest income by 3 percent to CHF 1,162 million. This includes the changes in value adjustments for default risk as well as losses from interest operations which in the year under review contributed CHF 3 million in income (2014: CHF 1 million in expenses).

The considerable rise in the result from commission business and services of CHF 137 million to CHF 663 million is primarily due to the acquisition of Swisscanto (results included for nine months). With CHF 692 million, the biggest share of the commission income comes from securities trading and investments activities.

The trading activities of Zürcher Kantonalbank are based on a clear customer focus. In the volatile and challenging market environment, which led to increased customer activity, in particular in terms of interest and currencies, a result from trading operations of CHF 328 million was achieved, surpassing the previous year's result by 41 percent. The market risks in the trading book (value-at-risk with a holding period of 10 days) have increased slightly, but at an average of CHF 17 million (2014: CHF 13 million) remained at a low level.

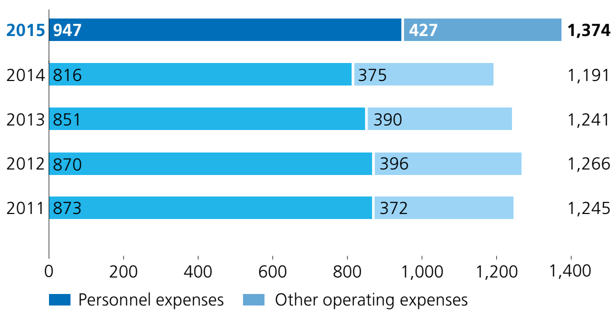
The other ordinary income amounted to 52 million in the year under review (2014: CHF 43 million).

**Operating expenses**

Operating expenses stood at CHF 1,374 million in the 2015 financial year. This means an increase of CHF 183 million compared to the previous year. Being primarily due to the inclusion of Swisscanto.

Personnel expenses amounted to CHF 947 million (2014: CHF 816 million). The increase in personnel expenses is due both to a higher headcount following the Swisscanto acquisition and to higher variable salary components. The headcount at the end of 2015, after adjustment for part-time employees, increased in comparison with the previous year by 335 employees, or by 6.9 percent, to 5,179 employees. Other operating expenses came to CHF 427 million (2014: CHF 375 million). The increase is attributable, among other things, to the acquisition of Swisscanto. According to the new Law on Zürcher Kantonalbank, compensation has been paid for the state guarantee since 1 January 2015. In 2015 the canton received around CHF 21 million, which were charged to operating expenses.

Fig. 13: Five-year comparison of operating expenses (in CHF million)




**Depreciations and provisions expenditure**

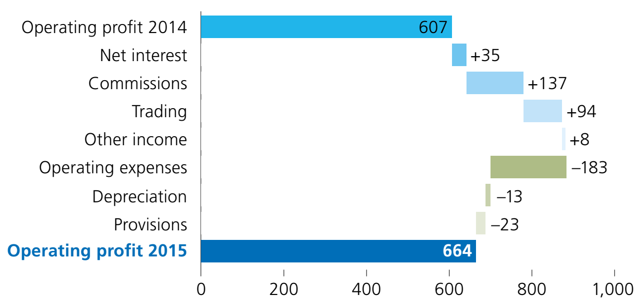
Value adjustments on participations and amortisation of tangible fixed assets and intangible assets in the current financial year amounted to CHF 106 million (2014: CHF 93 million). The increase is primarily attributable to higher ordinary amortisations of goodwill related to the acquisition of Swisscanto.

Zürcher Kantonalbank assesses default risks as well as all other identifiable risks on a constant basis, where necessary creating corresponding allowances and provisions. The changes in value adjustments for default risks are part of the interest income according to the new accounting rules for banks. Expenditure for provisions, other value adjustments and losses amounted to CHF 61 million (2014: CHF 38 million).

**Operating result**

Operating result was increased by CHF 57 million compared to the previous year, to CHF 664 million. Increases in income, principally in commission and trading operations, significantly outbalanced the higher expenses.

Fig. 14: Performance of operating profit (in CHF million)




**Extraordinary income and taxes**

Disposing of real estate and appreciation in value of participations resulted in an extraordinary income of CHF 66 million (2014: CHF 41 million). Tax expenses amounted to CHF 8 million (2014: CHF 0 million).

# Analysis of the financial and capital position

Credit risks, risks in the investment portfolio, interest rate risks in the balance sheet and liquidity and refinancing risks are described and analysed in the risk report (page 113 onwards).

### Higher balance sheet total

The balance sheet total amounted to CHF 154.4 billion as at 31 December 2015 (2014: CHF 145.9 billion). The increase is largely due to the cash flow in the amounts due to banks and amounts due in respect of customer deposits and higher holdings of liquid assets and mortgage loans. More than half the balance sheet was made up by mortgage loans and amounts due from customers or amounts due in respect of customer deposits.

### Mortgage loans of some CHF 74 billion

The total of mortgage loans increased by CHF 2.3 billion in 2015, i. e. by 3.2 percent to CHF 73.6 billion at the end of 2015. The quality of the lendings 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. At the end of 2015, amounts due from customers amounted to CHF 7.7 billion (2014: CHF 7.5 billion) respectively.

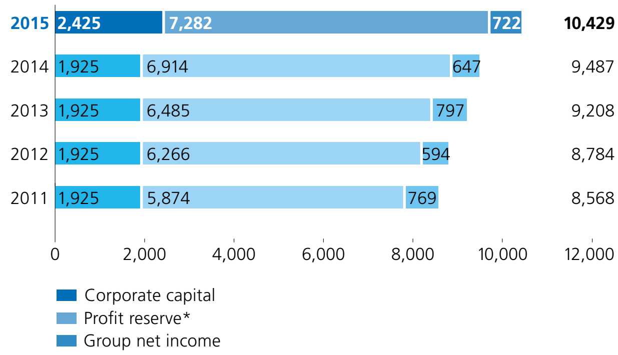
### Further inflow of amounts due to customers

The amounts due in respect of customers contain the holdings in savings accounts and other customer accounts currently and over time. As at the end of 2015, Zürcher Kantonalbank was entrusted with CHF 80.8 billion in this form. These deposits had been increased by 0.9 billion (+ 1.1 percent) compared to the end of 2014. The longer-term deposits in bonds, central mortgage institution loans and cash bonds amounted to CHF 15.7 billion on 31 December 2015 (2014: CHF 15.2 billion). The monies due were replaced in full by issues. In addition, a further CHF 0.5 billion in additional endowment capital was raised.

### Balance sheet net equity

At group level, net equity comprises corporate capital, profit and foreign currency translation reserves and group net income. Thanks to internally generated funds, in particular, Zürcher Kantonalbank has increased stated net equity by CHF 1.9 billion since 2011.

Fig. 15: Composition and development of net equity (in CHF million)




* incl. foreign currency translation reserve

The corporate capital consists exclusively of endowment capital. This is made available to the bank by the Canton of Zurich for an unlimited term as equity. The endowment capital ceiling approved by the cantonal parliament in 2014 amounts to CHF 3.0 billion. In mid-2015 the endowment capital was increased by CHF 500 million to CHF 2.425 billion. A further strengthening of the equity within the scope of the unused CHF 575 million lies within the competence and responsibility of the board of directors. The retained earnings reserve incl. currency translation reserve amounted to CHF 7.3 billion at the end of the financial year. Together with the group net income of CHF 722 million, the reported equity before distribution of net profit amounted to CHF 10.4 billion at the end of 2015.

### Liquidity and financial investments

Liquid assets consisted mainly of deposits with the Swiss National Bank and totalled CHF 32.5 billion at the end of the reporting year (2014: CHF 27.1 billion). In this way, Zürcher Kantonalbank meets the particularly high liquidity requirements for systemically important banks. As financial investments, Zürcher Kantonalbank prefers fixed-interest securities of very high quality. These can also be also be counted against prescribed holding of liquid assets as regulated by law. The volume at the end of 2015 amounted to CHF 4.3 billion (end of 2014: CHF 4.2 billion). Zürcher Kantonalbank's comfortable liquidity situation is manifested in the Liquidity Coverage Ratio (LCR) of 128 percent (requirement: 100 percent). A detailed explanation of the methodology and calculation of the LCR can be found in the risk report in the section on liquidity and refinancing risks (p. 123).

**Interbank business, securities financing transactions**
At the end of the year, amounts due from banks amounted to CHF 6.0 billion (2014: CHF 5.5 billion) and amounts due to banks 34.8 billion (2014: CHF 28.9 billion). The receivables from securities financing transactions amounted to CHF 15.0 billion (2014: CHF 14.0 billion) and the liabilities to CHF 3.0 billion (2014: CHF 2.8 billion). They are used mainly for short and medium-term liquidity management.

**Trading portfolio assets, derivative instruments**
The trading activities of Zürcher Kantonalbank are based on a clear customer focus. The composition of trading portfolio assets and other financial instruments at fair value is shown in the financial report in Table 3 (page 79), the replacement values of the derivative financial instruments in Table 4 (page 80).

**Investments in participations, tangible fixed assets, intangible assets**
In the spring, Zürcher Kantonalbank completed the acquisition of Swisscanto. The previous shareholders were paid a purchase price of around CHF 360 million for the takeover of the shares which were not yet in the possession of the bank. In addition, the sellers may also receive a variable purchase price component in the years 2016 to 2018. These depend in particular on the contribution to earnings of the individual sellers, but also on the general market development and the success of the product range. Otherwise, no investments were made in non-consolidated participations during the year under review. The book value of non-consolidated participations as at 31 December 2015 was the same as in the previous year at CHF 0.2 billion. Significant non-consolidated participations, including the share of capital and voting rights, are disclosed in Table 7 (p. 82). Tangible fixed assets increased from CHF 0.7 billion to CHF 0.9 billion. They consist of properties in use and other tangible assets. Investments in tangible fixed assets amounted to CHF 240 million. Zürcher Kantonalbank's main project was the completion of its head office in Zurich's Bahnhofstrasse. Approx. CHF 200 million was invested in the refurbishment and upgrade from 2012 to 2015. Further information on the participations, tangible fixed assets and intangible assets can be found in the financial report in tables 6, 8 and 9 (pp. 81 et seqq.).

**Assets under management**
Zürcher Kantonalbank had assets under management of CHF 257.5 billion at the end of 2015, which showed a strong rise thanks to the acquisition of Swisscanto. The increase of CHF 48.8 billion consisted of acquisitions and disposals of subsidiaries (CHF +52.2 billion), a performance share (CHF −0.9 billion) and the net outflow (CHF −2.5 billion).

# 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 our stakeholder groups. In particular, we are accountable to the canton of Zurich, 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. 663bbis 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 26 September 2014, insofar as this is possible for a public-law institution.

Unless otherwise specified, the information is applicable as at 31 December 2015.

## Structure and ownership

Zürcher Kantonalbank is a public-law institution of the canton of Zurich. The interests and strategy of the canton are set out in the Law on Zürcher Kantonalbank of 28 September 1997, version dated 1 January 2015.

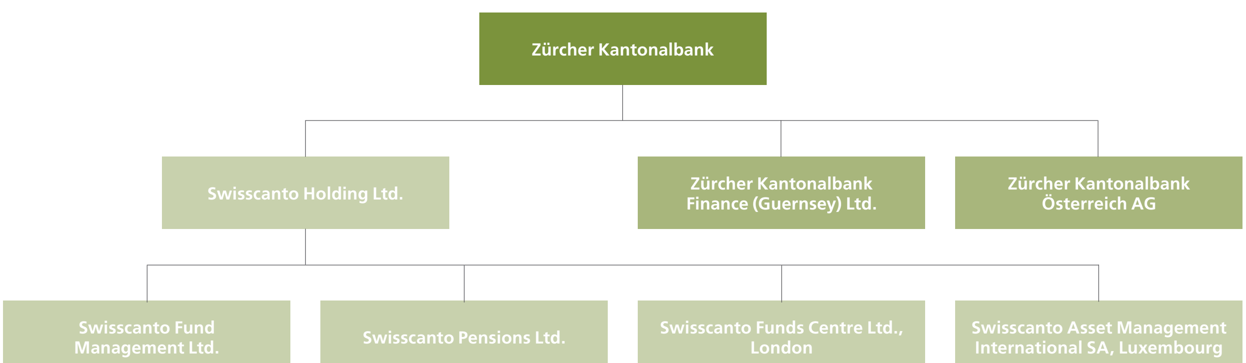
Following the acquisition of Swisscanto on 25 March 2015, the Zürcher Kantonalbank group was reorganised (Fig. 16). The integration also involved the transfer of several departments to Zürcher Kantonalbank.

The annual report includes information on the bank's ownership (page 145), companies included in the scope of consolidation (pages 67, 68), corporate capital and changes in equity (page 66).

## 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. On 29 June

Fig. 16: Scope of consolidation



2015, the cantonal parliament elected ten members of the board of directors and three members of the committee of the board. For the term of office from 2015 to 2019, beginning on 1 July 2015, the board of directors is made up of the following persons:

| | | |
|---|---|---|
| Dr. Jörg Müller-Ganz | Chairman | since 01.07.2011 |
| Dr. János Blum | Deputy chairman | since 01.07.2011 |
| Bruno Dobler | Deputy chairman | since 01.07.2011 |
| Amr Abdelaziz | Member of the board of directors | since 01.07.2015 |
| René Huber | Member of the board of directors | since 01.11.2014 |
| Hans Kaufmann | Member of the board of directors | since 24.10.2011 |
| Henrich Kisker | Member of the board of directors | since 01.07.2015 |
| Mark Roth | Member of the board of directors | since 01.09.2013 |
| Peter Ruff | Member of the board of directors | since 01.07.2011 |
| Walter Schoch | Member of the board of directors | since 01.07.2015 |
| Anita Sigg | Member of the board of directors | since 01.07.2011 |
| Rolf Walther | Member of the board of directors | since 01.07.2011 |
| Stefan Wirth | Member of the board of directors | since 01.07.2011 |

All members of the board of directors are Swiss nationals resident in the canton of Zurich. 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, except for the provisions of the regulations approved by the cantonal parliament governing the compensation of the members of the board of directors of Zürcher Kantonalbank dated 25 November 2004.

The duties of the board of directors and committee of the board are set out in sections 15 and 16 of the Law on Zürcher Kantonalbank, sections 29, 30 and 33 of the bank's organisational regulations of 23 June 2011 and other specific regulations. As laid down in section 14, paragraph 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 (knowledge and experience in the areas of corporate strategy, banking, finance and controlling, information technology, human resource management, risk management, leadership and organisation, law and corporate governance in the public sector), regulatory requirements and proportional political representation. The professional criteria for each individual member of the board of directors are reviewed by external specialists on a regular basis. 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 twelve 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.

## Internal organisational structure

### Board of directors

Key responsibilities of the board of directors

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

Committees

Four committees assist the board of directors in its decisions by providing preliminary advice:

- Audit committee
- Risk management committee
- Compensation and personnel committee
- IT committee

Thomas Heilmann, Hans Sigg and Liliane Waldner resigned from the board of directors on 30 June 2015 as they had reached the limit of their permitted period of office. On 29 June 2015, the cantonal parliament elected ten members of the board of directors in the course of the regular re-elections. Amr Abdelaziz, Henrich Kisker and Walter Schoch were elected as new members. René Huber, Hans Kaufmann, Mark Roth, Peter Ruff, Anita Sigg, Rolf Walther and Stefan Wirth were re-elected. The board of directors was then re-constituted.

The board of directors bears ultimate responsibility for the management of the bank and for the supervision of the individuals entrusted with its operational management (section 15 of the Law on Zürcher Kantonalbank). Its key responsibilities are listed on page 32. The board of directors attends to the group strategy in an annual cycle. It analyses strengths and weaknesses, opportunities and risks for the bank, along with the associated strategic risks. This includes related planning, controlling and reporting activities. The board of directors also holds regular discussions on risk management, risk reporting and the supervisory report by auditors Ernst & Young as well as measures and reporting related to the public service mandate and sustainability. It took decisions on proposals relating to credit and limits in addition to other transactions within its remit such as the purchase and sale of properties. In 2015, the board of directors dealt on an in-depth basis with the consequences of the exchange rate turmoil which arose in the year under review and the implications of negative interest rates for the bank and its customers. It decided to increase the bank's equity capital by issuing more than CHF 700 million worth of Tier 2 bonds (including some in euros) and drawing down CHF 500 million worth of endowment capital. The board of directors also followed the integration of Swisscanto into the Zürcher Kantonalbank group closely. It also sought guidance on changes in regulatory requirements. This involved drawing up a stabilisation and emergency plan in view of the systemic importance classification, safeguarding liquidity and dealing with "exception to policy" cases. Furthermore, the board of directors dealt with international business, the new accounting rules and the refurbishment of the head office, which was re-occupied during the year under review. It monitored developments on domestic and foreign markets, in particular those relating to the tax treaty with the USA and other countries. It also held in-depth discussions on strategy decisions concerning the decision to outsource payment transactions to Swisscom and, at several meetings, the consequences of the decision to acquire Swisscanto.

The board of directors appointed two new branch office managers in the year under review. Thirteen regular meetings were held; they were also attended by representatives of the executive board as well as the chief inspector. Specialist representatives of Ernst & Young attended three meetings. The board of directors also held a two-day retreat to discuss a variety of issues.

In order to ensure a swift, problem-free resumption of its role, the newly-constituted board of directors spent three days discussing the bank's business activity in mid-2015.

There are various committees: audit, risk management, IT and compensation & personnel. The committees have no decision-making powers. They have a preliminary consultative function and make proposals. The committees 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.

### Committee of the board

Key responsibilities of the committee of the board

- prepares topics relating to strategy and corporate culture for submission to the board of directors
- scrutinises the decisions of the executive board and is responsible for its direct supervision
- monitors the implementation of decisions taken by the board of directors and the quality and effectiveness of the fulfilment of the public service mandate on behalf of the board of directors
- approves unsecured loans in excess of CHF 75 billion
- decides on the purchase and sale of real estate in addition to renovations and new building projects in accordance with the delineation of powers laid down by the board of directors
- approves the payment of accounts for building projects authorised by the board of directors
- takes decisions on providing assistance to business, social and cultural institutions
- decides on the bank's membership of and representation in organisations
- is informed of detailed monthly reports of 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
- is 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

The committee of the board is an executive body in its own right alongside the board of directors. Section 16 of the Law on Zürcher Kantonalbank states that the committee of the board is responsible for the direct supervision of the executive board. The committee monitors the implementation of decisions of the board of directors and compliance with statutory and regulatory requirements. Within the framework of such statutory and regulatory requirements, it takes decisions on various operational and electoral matters. It also makes preparations for the discussion of the public service mandate on the board of directors and in this connection is also responsible for sustainability issues.

At its weekly meetings, in accordance with its statutory and regulatory competencies, the committee of the board also addressed strategic, planning, organisational and human resources questions as well as issues concerning corporate culture in the year under review.

Other matters discussed included issues relating to credit and limits, which fall within its competence under the applicable regulations, and business carrying reputation risks. 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 regulatory and political matters that could be of significance to Zürcher Kantonalbank.

The committee of the board assisted with the approval by the cantonal parliament of the regulation regarding compensation for the state guarantee, as well as discussing the stabilisation and emergency plan which proved necessary in view of the systemic importance classification by the Swiss National Bank. The committee of the board was also involved in the activities in connection with the tax dispute with the USA. The committee of the board was kept constantly briefed on the numerous organisational changes resulting from the acquisition of Swisscanto and its subsequent integration. It was briefed periodically on major IT projects such as the outsourcing of payment transactions to Swisscom and major construction projects such as the refurbishment of the head office and its reoccupation.

The committee of the board oversaw the implementation of regulatory requirements. The committee also discussed requests from the board of directors and the financial markets supervisory body, FINMA, with which it maintained various contacts, as well as those from the cantonal parliament. It decided on the bank's 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. The committee of the board represented the bank in the course of regular discussions between the bank chairmen in the context of the Association of Swiss Cantonal Banks and at various events in the fields of culture, politics, environment and business. It responded to parliamentary initiatives regarding Zürcher Kantonalbank promptly and comprehensively. In accordance with a planned schedule, the members of the committee of the board visited all market areas and specialist units, subsidiary companies and locations.

Through an induction programme, the committee of the board ensured that newly elected board members were swiftly equipped with the necessary knowledge to carry out their tasks. On 29 June 2015, the cantonal parliament re-elected Jörg Müller-Ganz, János Blum and Bruno Dobler as members of the committee of the board. At the constituent meeting of the board of directors held on 2 July 2015, Jörg Müller-Ganz was confirmed as chairman, with János Blum as his deputy. Anita Sigg and Rolf Walther have been elected as substitute members of the committee of the board.

**Audit committee**

The audit committee supports the board of directors in its supervisory and control functions in accordance with section 15 of the Law on Zürcher Kantonalbank, section 32 of the organisational regulations of Zürcher Kantonalbank and FINMA Circular 2008/24 on monitoring and internal control systems for banks. Its role includes preparing resolutions of the full board of directors. In particular, this involves critical analysis of the annual and interim financial statements of the group and the parent company. The audit committee also assesses the effectiveness of the internal controls system and compliance in particular. Until 30 June 2015, the audit committee comprised Thomas Heilmann (chairman), René Huber, Hans Kaufmann, Mark Roth and Liliane Waldner. Due to the election of Amr Abdelaziz and Henrich Kisker to the board of directors with effect from 1 July 2015, the audit committee comprised Mark Roth (chairman), René Huber, Hans Kaufmann, and Henrich Kisker as at 31 December 2015. The chief inspector, Walter Seif, attends all meetings of the audit committee as a permanent guest. The audit committee held a total of eleven meetings in 2015. All meetings with agenda items relating to financial planning, management and reporting were attended by the CFO. The meetings were also attended on a regular basis by the external auditors, the CRO and the head of Legal, Tax & Compliance and by the CEO on a periodic basis. Depending on their importance, various agenda items were discussed with the committee of the board, the risk management committee or the IT committee, or with all three. 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 external and internal audit reports. A total of 47 internal and 27 external audit reports were discussed by the audit committee. 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, the Audit Committee provided advice 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 comprised:

- analysis and assessment of 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 by the external audit
- assessment of the performance of the internal auditors
- assessment of the performance and remuneration of the external auditors
- 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. Furthermore, the bank's financial value added was assessed and compared with other banks on the basis of the CFO's annual benchmarking study. Other important topics for the audit committee in the year under review were:
- the 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 and personnel committee**

The compensation and 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. On 2 July 2015, Amr Abdelaziz was elected as an additional member of the compensation and personnel committee. As at 31 December 2015, the compensation and personnel committee comprised Peter Ruff (chairman), Amr Abdelaziz, Bruno Dobler, Anita Sigg and Stefan Wirth.

The compensation and personnel committee met on nine 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 members of the compensation and personnel committee attended a meeting of the audit committee in connection with the compensation report.

As is normally the case, the compensation and 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, the implementation of the bank-wide salary and bonus system as well as the parameters for the 2015 deferred component. It also sought guidance on the results of the equal pay analysis. 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, it was also involved in in-depth discussions about the advancement of women, the pension solution at Zürcher Kantonalbank and changing requirements for relationship managers. It was briefed about the results of the employee satisfaction survey conducted in 2015 and informed about the compensation systems for subsidiaries. It also formed a picture of salary trends in the market and compared them with those at Zürcher Kantonalbank. The remuneration and personnel committee also dealt with personnel-related findings of audit reports.

**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. On 2 July 2015, René Huber was elected as an additional member of the committee. As at 31 December 2015, this committee comprised Rolf Walther (chairman), János Blum, René Huber, Hans Kaufmann and Anita Sigg.

The risk management committee held nine meetings in the year under review, all of which were attended by the Chief Risk Officer and the Head of Risk Control. As from October 2015, Walter Seif was invited to attend meetings as a permanent guest as Head of Audit. Depending on the subject-matter, other representatives of the specialist areas also attended the meetings. A further five meetings took place in the context of the meetings of the audit committee.

The risk management committee 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 gives an account of credit, market, liquidity, operating, compliance and reputation risks. It 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, deterioration in the general economic situation 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. It 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 discusses the findings in the risk-relevant audit reports and notes the minutes of the operating risk sub-committee.

In the year under review, the committee was briefed promptly and in detail on the consequences of the abolition of the exchange rate floor against the euro by the Swiss National Bank and the effect of negative interest rates on asset and liability management. It held detailed discussions on subjects such as liquidity risks and was briefed on the use of FX swaps, risk measurement and risk reporting in trading as well as cyber-crime risks in relation to operational risks. It was also briefed about potential risks in relation to the integration of Swisscanto. The risk management committee was notified of risk concentration on a regular basis as well as of exposure vis-à-vis central counterparties and discussed country risks and associated country restrictions. As every year, it was briefed on regulatory changes in connection with risk management and followed developments on the domestic and international markets as well as exception-to-policy transactions. The mechanisms and inherent risks of central counterparties and allocation of risk capital, especially in relation to risk policy parameters, were also topics of discussion for the risk management committee in the year under review.

**IT committee**

At the beginning of 2015, the IT committee comprised Hans Sigg (chairman), Jörg Müller-Ganz, Mark Roth and Stefan Wirth. Due to the restrictions on the period of office, Hans Sigg resigned from the board of directors in mid-year, and newly elected Walter Schoch took over the role of chairman. Also in mid-year, Henrich Kisker replaced Mark Roth as a member of the IT committee. The IT committee held five regular meetings in the year under review; all were attended by the Head of Logistics.

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 2014 and on a quarterly basis with the strategic IT report. IT planning was also discussed at several meetings. The IT committee was shown how financial resources are prioritised in accordance with the bank's strategic guidelines. Other areas of focus included the acquisition of Swisscanto, the cooperation with Swisscom, the "state-of-the-art account management" project and the future of payment transactions. The IT committee was also informed about other strategic IT projects. The IT committee dealt on a regular basis with IT security matters and risk management. For the purpose of a general orientation on important IT matters, the committee dealt with directory services, external connections, data and change management and the continued development of the digital workplace.

**Audit**
Audit is responsible for the group's internal auditing. Since 1 January 2015, it has been led by Walter Seif. In organisational terms, Audit reports directly to the board of directors and is independent of the executive board. It assists the board of directors and its committees in fulfilling their supervisory and control tasks by using a systematic, risk-oriented approach to evaluate the effectiveness of risk management, controls, as well as management, performance and monitoring processes, and submitting recommendations for 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 by any directives in substantive terms and generally reports to the audit committee, 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 recognised auditing standards.

**Auditors**
Under 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). On 28 April 2014, the cantonal parliament re-elected Ernst & Young as 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, Ernst & Young invoiced the sum of CHF 3.8 million (2014: 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.

Ernst & Young charged CHF 14,000 (2014: CHF 10,000) for additional consulting services and CHF 24,000 (2014: CHF 18,000) for audit-related services.

**Cantonal parliamentary committee**
Responsibility for the ultimate supervision of Zürcher Kantonalbank lies with the cantonal parliament. Its tasks are laid down in section 11 of the Law on Zürcher Kantonalbank. In addition to the election of the members of the board of directors and committee of the board, 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 charged the committee on commercial undertakings with ultimate supervision in accordance with section 12 of the Law on Zürcher Kantonalbank. This standing, supervisory cantonal parliamentary committee inspects the minutes of the board of directors and, depending on the matter concerned, obtains information from the chairman, committee of the board, members of the board of directors, the Chief Executive Officer, 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 2015, this cantonal parliamentary committee comprised the following members:

| | |
|---|---|
| Beat Bloch, Zurich, CSP | Chairman |
| Beat Huber, Buchs, SVP | Deputy chairman |
| André Bender, Oberengstringen, SVP | Member of the committee |
| Reinhard Fürst, Illnau-Effretikon, SVP | Member of the committee |
| Nik Gugger, Winterthur, EVP | Member of the committee |
| Astrid Gut, Wallisellen, BDP | Member of the committee |
| Beat Habegger, Zürich, FDP | Member of the committee |
| Tobias Langenegger, Zurich, SP | Member of the committee |
| Roland Munz, Zurich, SP | Member of the committee |
| Hans W. Wiesner, Bonstetten, GLP | Member of the committee |

**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 all 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. The committee of the board receives all minutes of the meetings of the executive board, business units and committees. 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, developments in key risk categories (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 submitted to the board of directors and executive board every year, pursuant to m. n. 112 FINMA Circular 08/24. The money laundering unit also reports to it. 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. The supervisory committee of the cantonal parliament of Zurich on commercial undertakings monitors the fulfilment of the public service mandate in accordance with section 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.

## Public service mandate

As part of the strategy process, the board of directors, committee of the board and executive board deal on a regular basis with the subject of the public service mandate. They ensure that the statutory parameters and strategically defined targets are met. The committee of the board is assigned special responsibility for control and monitoring (sections 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 planning, implementation and reporting of the public service mandate and all associated activities. It also prepares 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.

## Committee of the board

### Jörg Müller-Ganz

Dr. oec. University of St. Gallen; Swiss/German national; born 1961
*Chairman*
**Main appointments:** Member of boards of trustees of Innovationspark Zurich; Zurich Zoo, Zurich; and ETH Foundation, Zurich; member of boards of directors of Technopark Immobilien AG, Zurich; and 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. Until mid-2015, Dr. Jörg Müller-Ganz chaired the management committee of the pension fund and the Marienburg foundation. He is a member of the IT committee. He was appointed chairman of the board of directors of Opo Oeschger AG, Kloten, in 2015.

## János Blum

Dr. sc. math. ETH Zurich and lic. oec. University of St. Gallen; Swiss/Hungarian national; born 1957
*Deputy Chairman*
**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 boards of trustees of Center for Corporate Responsibility and Sustainability at University of Zurich, Zurich; and 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 was chairman of the board of trustees of Zürcher Kantonalbank's Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3 from 2011 until 2015. Since 2015, he has been chairman of board of trustees / employer representative of Zürcher Kantonalbank's pension fund and Marienburg foundation, Zurich as well as 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*
**Main appointments:** Chairman of board of trustees of SanArena, Zurich; member of board of trustees of Excellence Foundation, Zurich; member of advisory boards of University of Zurich, Department of Economics, Zurich; and Umwelt Arena, Spreitenbach; 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, he 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 chairman of the board of trustees of SanArena, Zurich and a member of the compensation and 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, a member of the advisory boards of Umwelt Arena, Spreitenbach, and University of Zurich, Department of Economics, Zurich.

# Board of directors

## Amr Abdelaziz

Lawyer; Swiss/Egyptian national; born 1977
*Member of board of directors*
**Main appointments:** None

A lawyer and holder of a postgraduate degree in European law (LL.M.) from the College of Europe, Amr Abdelaziz was appointed to the board of directors in 2015. From 2007 until 2015, he worked as a lawyer for the CMS of Erlach Poncet AG, Zurich. He owns the law firm Abdelaziz in Zurich. Amr Abdelaziz is a member of the audit committee and the compensation and personnel committee of Zürcher Kantonalbank.

## René Huber

Swiss certified banking expert; Swiss national; born 1956
*Member of board of directors*
**Main appointments:** 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. 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 substitute member of the management committee of Zürcher Kantonalbank's pension fund and a member of the audit committee and risk management committee of Zürcher Kantonalbank.

## Hans Kaufmann

lic. oec. publ.; Swiss national; born 1948
*Member of board of directors*
**Main appointments:** 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 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 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.

## Henrich Kisker

Swiss certified accountant; Swiss/German national; born 1955
*Member of board of directors*
**Main appointments:** Member of the board of directors of group companies of Senior plc, Rickmansworth, UK; delegate of the boards of directors of NF Technology Holding AG, Zurich; Schmid & Partner Engineering AG, Zurich; and ZMT Zurich MedTech AG, Zurich

Henrich Kisker is a Swiss certified accountant. He was appointed to the board of directors in 2015. Since 1992, he has worked for Senior plc, London, UK, as Director of Tax and Treasury and Senior Investments GmbH, Schaffhausen, as managing director. Between 1989 and 1992 he worked as lead auditor for Arthur Andersen AG, Zurich. He is a member of the audit committee and the IT committee.

## Mark Roth

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

Mark Roth has been a member of the board of directors since 2013. Since 2014, he has been a member of the board of directors of Budliger Treuhand AG, Zurich; and Treuhandgesellschaft Hebeisen Kälin AG, Zurich. From 2011 to 2014 he was a financial delegate in the general management of the SP in the City of Zurich. He has been a member of the management board and head of auditing at Budliger Treuhand AG in Zurich since 2009. Prior to that, Mark Roth worked for Itema (Switzerland) Ltd. in Rüti and was stationed in Zurich and Amman, Jordan, with Ernst & Young, Zurich. Mark Roth is the chairman of the audit committee.

## Peter Ruff

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

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 member of the management committee of the pension fund of Zürcher Kantonalbank / employer representative since 2015. Peter Ruff chairs the compensation and personnel committee of Zürcher Kantonalbank.

## Walter Schoch

dipl. El. Ing. FH Technikum Winterthur; Master of Arts in Theology from the University of Lampeter, UK; Swiss national; born 1956
*Member of board of directors*
**Main appointments:** Vice chairman of the board of trustees of SanArena, Zurich; member of the board of trustees of the Botanical Garden, Grüningen; chairman of the Supervisory Board, Höhere Fachschule, Uster

An engineer and theologian, Walter Schoch was elected to the board of directors in 2015. From 2007 to 2015 he was a member of the cantonal parliament. Walter Schoch serves as a magistrate for the municipalities of Bauma, Wila and Wildberg. After working for BBC Oerlikon as project manager (1982 to 1983) and Imeth AG, Wetzikon, as technical director (1983 to 1987), he worked for Swisscom AG, Zurich, from 1987 to 2003 as key account manager, senior project manager and divisional director. In 2005, Walter Schoch began his studies at the University of Lampeter in the UK, while continuing to head the MEOS Media department at MEOS Svizzera. From 2007 to 2010 he ran the Winterthur office of the Swiss Mission Fellowship. He chairs the IT committee.

## Anita Sigg

lic. oec. publ.; Swiss national; born 1966
*Member of board of directors*
**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 and personnel committee of Zürcher Kantonalbank.

## Rolf Walther

BBA; FH; Swiss national; born 1951
*Member of board of directors*
**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. Since 2015 he has been a substitute member of the management committee of Zürcher Kantonalbank's pension fund and employer representative, as well as chairman of the risk management committee.

## Stefan Wirth

dipl. Ing. ETH.BWI; Swiss national; born 1961
*Member of board of directors*
**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 and personnel committee of Zürcher Kantonalbank.

# Audit

## Walter Seif

Swiss certified accountant; BBA FH; 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

The executive board of Zürcher Kantonalbank has eight members. It is headed by Martin Scholl (Chief Executive Officer, CEO). Under section 17 of the Law on Zürcher Kantonalbank, the executive board is responsible for managing the bank's operations. The members of the executive board 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.

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 sections 8 to 10 of the ExB regulations. Under section 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. Markus Bachofen retired on 30 June 2015. He was responsible for strategic mandates following the reorganisation in 2014. Compensation, profit-sharing and loans are listed on pages 58 of the compensation report. As at 31 December 2015, the executive board comprised the following members:

| | |
|---|---|
| Martin Scholl | Chief Executive Officer |
| Christoph Weber | Head of Private Banking, Deputy CEO |
| Heinz Kunz | Head of Corporate Banking |
| Dr. Stephanino Isele | Head of Institutionals & Multinationals |
| Daniel Previdoli | Head of Products, Services & Direct Banking |
| Rudolf Sigg | Chief Financial Officer (CFO) |
| Roger Müller | Chief Risk Officer (CRO) |
| Dr. Jürg Bühlmann | Head of Logistics |

Further information about the individual members of the executive board can be found on pages 46 to 49.

## 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 of 28 September 1997 (sections 15 to 18) and the organisational regulations of the Zürcher Kantonalbank group of 23 June 2011 (sections 29 to 37 and section 39).

## Management contracts

No management contracts as defined in annex 4.3 of the SIX Swiss Exchange 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 its stakeholder groups. The most important communication tools are the comprehensive annual report, sustainability report, half-yearly report and press conferences. The 2015 annual results were announced on 12 February 2016, and the annual report is to be discussed in the cantonal parliament on 25 April 2016. The bank's half-yearly results are expected to be published at the end of August 2016.

# Executive board

## Martin Scholl

Swiss certified banking expert; Swiss national; born 1961
*Chief Executive Officer (CEO)*
**Main appointments:** Member of boards of directors of Swiss Bankers Association, Basel; and 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 sales to small and medium enterprises. Martin Scholl is a member of the board of directors of the Swiss Bankers Association; deputy chairman of the Association of Swiss Cantonal Banks, Basel; chairman of 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.

## 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 the board of directors of Swisscanto Holding Ltd. and Swisscanto Swiss Red Cross Charity Fund (SICAV), Zurich; Member of regulatory board of SIX Swiss Exchange AG, Zurich; Member of the advisory board of Zurich University's Department of Banking and Finance; member of board of trustees of the Swiss Finance Institute, Zurich

Stephanino Isele took on the role of head of Institutionals & Multinationals on 1 April 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 has been a member of the board of directors of Swisscanto Holding Ltd. and Swisscanto Swiss Red Cross Charity Fund (SICAV) since 2015. He is a member of the regulatory board of SIX Swiss Exchange AG, Zurich; member of the advisory board of Zurich University's Department of Banking and Finance; member of 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:** Chairman of board of directors of Swisscanto Pensions Ltd., Zurich; 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. Since 2015 Heinz Kunz has been chairman of the board of directors of Swisscanto Pensions Ltd., Zurich. 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 board of directors of Deposit Protection of Banks and Securities Dealers association (esisuisse), Basel; chairman of the board of directors of Gasthof Gyrenbad AG, Turbenthal; member of board of trustees of 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:** Chairman of board of directors of Swisscanto Fund Management Company Ltd., Zurich; member of the boards of directors of Swisscanto Holding Ltd., Zurich; Aduno Holding AG, Zurich; Viseca Card Services SA, Zurich; and 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. Since 2015, Daniel Previdoli has been chairman of the board of directors of Swisscanto Fund Management Company Ltd., Zurich, a member of the Swisscanto Holding Ltd., Zurich, Aduno Holding AG, Zurich and Viseca Card Services SA. 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:** Chairman of board of directors of Swisscanto Holding Ltd., Zurich; member of board of directors of Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich; member of the management committee of the pension fund of Zürcher Kantonalbank, Zurich / employer representative; chairman of the Zürcher Kantonalbank Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3 foundations for vested pension capital and savings respectively, both Zurich

Rudolf Sigg was appointed Chief Financial Officer and a member of the executive board in 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. He has been with Zürcher Kantonalbank since 1977. He has been chairman of the board of directors of Swisscanto Holding Ltd., Zurich since 2015 and remains a member of the board of directors of the Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich. Since 2015, he has also been a member of the management committee / employer representative of the Zürcher Kantonalbank pension fund, Zurich, and also since 2015 chairman of the Zürcher Kantonalbank Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3 foundations for vested pension capital and savings respectively, both Zurich.

# Compensation

Our compensation model is performance-based and in line with the market. It is based on the long-term, financial interests of the bank.

## 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.

IAs 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 included. The compensation guidelines are set out in the personnel and compensation regulations issued by the board of directors for Zürcher Kantonalbank and apply throughout the group. The procedures for determining compensation are structured and documented by the group companies. This compensation report refers to the Zürcher Kantonalbank parent company. The compensation paid by the consolidated subsidiaries also fulfils the relevant requirements in an appropriate manner.

## Competences

Pursuant to Section 11 paragraph 7 of the Law on Zürcher Kantonalbank (Kantonalbankgesetz) dated 28 September 1997, as amended on 1 January 2015, the cantonal parliament is responsible for preparing for the issuing of a set of regulations governing compensation for 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: Competences and responsibilities

| Competences | 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 the board of directors | ▪ Cantonal parliament, based on proposal of board of directors |
| ▪ Compensation for CEO | ▪ Board of directors, based on proposal of committee of board of directors |
| ▪ Compensation for members of the 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 and 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 and personnel committee has the following duties and powers for determining compensation policy:

- 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 on 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 and personnel committee took part in six meetings discussing compensation at Zürcher Kantonalbank.

## 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 the canton, 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 separately to 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**

The compensation for the part-time members of the board of directors is based on the set of regulations governing compensation for the members of the board of directors including the committee of board of directors of 25 November 2004 approved, published and retroactively entered in force as of 1 January 2005 by the cantonal parliament on 18 June 2005. It comprises a fixed annual component as well as compensation per committee membership 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: 2015 Agreed sign-on and severance compensation

| *in CHF 1,000* | No. of employees | Total | Paid in 2015 | Amounts due in 2016 or later |
|---|---|---|---|---|
| Total sign-on payments | 1 | 17 | 0 | 17 |
| – 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 | 1 | 17 | 0 | 17 |

**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 86 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 components 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, allowance for years of service, 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 | Maturity | Forfeiture clause | Performance, penalty clause | Performance-based[1] |
|---|---|---|---|---|---|
| **Variable compensation** | Permanent employees | Immediate | Yes | Dependant on individual performance. Can be withdrawn in full in the 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. | Yes |
| **Deferral at risk** | Certain employees in the trading 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 is one of the basic principles. 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
- activities that may result in significant customer migrations or inappropriate risk-taking outside of the ordinary risk processes

## 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 standard market interest rate on the entire equity is taken into account for the compensation of equity.

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 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 "Competences 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.

Fig. 21: Risk overview

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

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

**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" (page 55) and "Deferral at risk"(page 55) for further details on the possibilities of a reduction).

## Compensation in 2015

Total personnel expenses in respect of the full-time-equivalent headcount of 4,879 (2014: 4,704, see p. 23 for further information on the development of the headcount) amounted to CHF 892.4 million at the parent company. Personnel expenses increased by 12 percent due to taking charge of former Swisscanto employees and due to higher variable compensation expenses. 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 2015 (parent company)

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Base salaries[1] | 508.4 | 495.6 |
| Total amount of variable compensation | 193.6 | 119.0 |
| Social insurance | 159.4 | 145.1 |
| Other personnel expenses[2] | 31.0 | 37.3 |
| Total personnel expenses | 892.4 | 797.1 |

[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, premiums.

In the course of its annual review of base salaries, Zürcher Kantonalbank decided to raise base salaries for 2015 by CHF 5.0 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 increased by CHF 74.6 million compared with the previous year. The total amount of deferred compensation was CHF 9.9 million.

Fig. 23: Details of variable compensation (parent company)

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Number of employees[1] | in CHF million | Number of employees[1] | in CHF million |
| Total amount of variable compensation | 4,879 | 193.6 | 4,704 | 119.0 |
| ▪ of which deferred compensation | 86 | 9.9 | 75 | 4.8 |
| ▪ of which agreed sign-on and severance compensation | 1 | 0 | 4 | 0.2 |
| ▪ of which other charges and credits recognised in the income statement | – | 0 | – | 0 |

[1] Full-time equivalents.

## Compensation for members of the board of directors

The compensation for the part-time members of the board of directors is based on the set of regulations governing compensation for the members of the board of directors including the committee of board of directors of 25 November 2004 approved, published and retroactively entered in force as of 1 January 2005 by the cantonal parliament. It comprises a fixed annual component of CHF 18,000 as well as CHF 6,000 in compensation per committee membership. 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 slightly higher. 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 2015 amounted to CHF 12,329,523 (2014: CHF 10,732,088). The highest sum paid to a member of the executive board during the year under review was CHF 1,712,500 in salary and variable compensation, together with CHF 211,892 in pension payments and other remuneration, and was paid to Martin Scholl, CEO (2014: CHF 1,586,608). In addition, deferred components amounting to CHF 2,118,813 (2014: CHF 1,485,320) 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 10,906,500 (of which CHF 10,856,500 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 at 31.12. |
|---|---|---|---|---|---|---|---|---|
| Dr. Jörg Müller-Ganz | 2015 | 342,650 | – | 14,040 | 9,350 | 94,084 | 460,125 | 1,300,000 |
| | 2014 | 342,650 | – | 14,040 | 9,815 | 93,800 | 460,305 | 1,300,000 |
| Dr. János Blum | 2015 | 311,500 | – | 14,040 | 6,850 | 87,698 | 420,088 | 1,790,000 |
| | 2014 | 311,500 | – | 14,040 | 2,315 | 87,413 | 415,269 | 1,855,000 |
| Bruno Dobler | 2015 | 311,500 | – | 14,040 | 200 | 73,091 | 398,831 | 984,000 |
| | 2014 | 311,500 | – | 14,040 | 0 | 86,200 | 411,740 | 988,000 |
| **Other members of the board of directors** | | | | | | | | |
| Amr Abdelaziz | 2015 | 15,000 | 11,550 | 3,000 | – | – | 29,550 | 0 |
| (since 1.7.2015) | 2014 | 0 | 0 | 0 | – | – | 0 | 0 |
| Alfred Binder | 2015 | 0 | 0 | 0 | – | – | 0 | 0 |
| (until 30.9.2014) | 2014 | 18,000 | 23,100 | 4,500 | – | – | 45,600 | 0 |
| Thomas Heilmann | 2015 | 12,000 | 29,750 | 3,000 | – | – | 44,750 | 0 |
| (until 30.6.2015) | 2014 | 24,000 | 51,100 | 6,000 | – | – | 81,100 | 0 |
| René Huber | 2015 | 27,000 | 23,100 | 6,000 | – | – | 56,100 | 500,000 |
| (since 1.11.2014) | 2014 | 4,000 | 3,150 | 1,000 | – | – | 8,150 | 0 |
| Hans Kaufmann | 2015 | 30,000 | 29,750 | 6,000 | – | – | 65,750 | 800,000 |
| | 2014 | 25,500 | 18,200 | 6,000 | – | – | 49,700 | 800,000 |
| Henrich Kisker | 2015 | 15,000 | 11,550 | 3,000 | – | – | 29,550 | 0 |
| (since 1.7.2015) | 2014 | 0 | 0 | 0 | – | – | 0 | 0 |
| Mark Roth | 2015 | 27,000 | 28,000 | 6,000 | – | – | 61,000 | 0 |
| | 2014 | 30,000 | 23,100 | 6,000 | – | – | 59,100 | 0 |
| Peter Ruff | 2015 | 24,000 | 26,250 | 6,000 | – | – | 56,250 | 0 |
| | 2014 | 28,500 | 23,800 | 6,000 | – | – | 58,300 | 0 |
| Walter Schoch | 2015 | 12,000 | 15,050 | 3,000 | – | – | 30,050 | 70,000 |
| (since 1.7.2015) | 2014 | 0 | 0 | 0 | – | – | 0 | 0 |
| Anita Sigg [3] | 2015 | 30,000 | 19,950 | 6,000 | – | – | 55,950 | 2,258,000 |
| | 2014 | 30,000 | 20,300 | 6,000 | – | – | 56,300 | 2,264,000 |
| Prof. Dr. Hans Sigg | 2015 | 12,000 | 11,900 | 3,000 | – | – | 26,900 | 0 |
| (until 30.6.2015) | 2014 | 24,000 | 18,550 | 6,000 | – | – | 48,550 | 0 |
| Liliane Waldner | 2015 | 12,000 | 18,900 | 3,000 | – | – | 33,900 | 0 |
| (until 30.6.2015) | 2014 | 24,000 | 32,900 | 6,000 | – | – | 62,900 | 0 |
| Rolf Walther | 2015 | 24,000 | 33,250 | 6,000 | – | – | 63,250 | 0 |
| | 2014 | 24,000 | 23,800 | 6,000 | – | – | 53,800 | 0 |
| Stefan Wirth | 2015 | 30,000 | 24,500 | 6,000 | – | – | 60,500 | 0 |
| | 2014 | 30,000 | 23,800 | 6,000 | – | – | 59,800 | 0 |
| **Total** | 2015 | 1,235,651 | 283,500 | 102,120 | 16,400 | 254,873 | 1,892,544 | 7,702,000 |
| **Total** | 2014 | 1,227,651 | 261,800 | 101,620 | 12,130 | 267,413 | 1,870,614 | 7,207,000 |

[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 558,000.

# Financial Report

## Contents



**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 |

# Group income statement

| *in CHF million* | Note | 2015 | 2014 | Change | Change in % |
|---|---|---|---|---|---|
| Result from interest operations | | | | | |
| Interest and discount income | | 1,396 | 1,506 | –110 | –7.3 |
| Interest and dividend income from financial investments | | 64 | 73 | –8 | –11.4 |
| Interest expense | | –301 | –451 | 149 | –33.1 |
| **Gross result from interest operations** | | 1,159 | 1,128 | 31 | 2.7 |
| Changes in value adjustments for default risk and losses from interest operations | | 3 | –1 | 4 | –378.4 |
| **Subtotal net result from interest income** | | 1,162 | 1,127 | 35 | 3.1 |
| Result from commission business and services | | | | | |
| Commission income from securities and investment activities | | 692 | 472 | 220 | 46.5 |
| Commission income from lending activities | | 50 | 58 | –8 | –13.2 |
| Commission income from other services | | 112 | 87 | 25 | 29.2 |
| Commission expense | | –190 | –91 | –100 | 110.2 |
| **Subtotal result from commission business and services** | | 663 | 526 | 137 | 26.1 |
| **Result from trading activities and the fair value option** | 32 | 328 | 233 | 94 | 40.5 |
| Other result from ordinary activities | | | | | |
| Result from disposal of financial investments | | 10 | 3 | 7 | 297.4 |
| Participation income | | 28 | 21 | 7 | 34.4 |
| – of which from equity-consolidated participations | | 3 | 10 | –7 | –67.6 |
| – of which from other non-consolidated participations | | 25 | 11 | 14 | 126.7 |
| Result from real estate | | 7 | 8 | –1 | –7.1 |
| Other ordinary income | | 13 | 14 | –1 | –6.4 |
| Other ordinary expenses | | –8 | –3 | –5 | 183.7 |
| **Subtotal other result from ordinary activities** | | 52 | 43 | 8 | 19.5 |
| **Operating income** | | 2,204 | 1,929 | 275 | 14.3 |
| Operating expenses | | | | | |
| Personnel expenses | 34 | –947 | –816 | –131 | 16.0 |
| Other operating expenses | 35 | –427 | –375 | –52 | 13.9 |
| **Subtotal operating expenses** | | –1,374 | –1,191 | –183 | 15.3 |
| Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets | | –106 | –93 | –13 | 14.4 |
| Changes to provisions and other value adjustments and losses | | –61 | –38 | –23 | 59.6 |
| **Operating result** | | 664 | 607 | 57 | 9.3 |
| Extraordinary income | 36 | 67 | 42 | 25 | 59.0 |
| Extraordinary expenses | 36 | –0 | –1 | 1 | –81.9 |
| Taxation | 39 | –8 | –0 | –8 | – |
| **Group net income** | | 722 | 647 | 75 | 11.5 |

# Group balance sheet

## before distribution of net profit, as at 31 December

| *in CHF million* | Note | 2015 | 2014 | Change | Change in % |
|---|---|---|---|---|---|
| Assets | | | | | |
| Liquid Assets | | 32,497 | 27,064 | 5,433 | 20.1 |
| Amounts due from banks | | 6,011 | 5,460 | 552 | 10.1 |
| Amounts due from securities financing transactions | 1 | 14,966 | 14,040 | 927 | 6.6 |
| Amounts due from customers | 2 | 7,673 | 7,483 | 190 | 2.5 |
| Mortgage loans | 2 | 73,623 | 71,349 | 2,274 | 3.2 |
| Trading portfolio assets | 3 | 10,226 | 11,272 | –1,046 | –9.3 |
| Positive replacement values of derivative financial instruments | 4 | 2,897 | 2,504 | 392 | 15.7 |
| Other financial instruments at fair value | 3 | 220 | 799 | –579 | –72.5 |
| Financial investments | 5 | 4,320 | 4,210 | 110 | 2.6 |
| Accrued income and prepaid expenses | | 294 | 309 | –15 | –4.8 |
| Non-consolidated participations | 6,7 | 161 | 163 | –2 | –1.3 |
| Tangible fixed assets | 8 | 860 | 724 | 136 | 18.8 |
| Intangible assets | 9 | 124 | 1 | 123 | – |
| Other assets | 10 | 538 | 496 | 42 | 8.4 |
| **Total assets** | | 154,410 | 145,872 | 8,538 | 5.9 |
| Total subordinated claims | | 291 | 297 | –6 | –1.9 |
| – of which subject to mandatory conversion and/or debt waiver | | 8 | 30 | –21 | –72.0 |
| Liabilities and equity | | | | | |
| Amounts due to banks | | 34,803 | 28,909 | 5,893 | 20.4 |
| Liabilities from securities financing transactions | 1 | 2,991 | 2,754 | 237 | 8.6 |
| Amounts due in respect of customer deposits | | 80,820 | 79,969 | 852 | 1.1 |
| Trading portfolio liabilities | 3 | 2,110 | 2,728 | –618 | –22.7 |
| Negative replacement values of derivative financial instruments | 4 | 2,067 | 1,869 | 198 | 10.6 |
| Liabilities from other financial instruments at fair value | 3,14 | 4,163 | 3,772 | 392 | 10.4 |
| Cash bonds | 15 | 269 | 381 | –112 | –29.4 |
| Bonds | 15 | 7,669 | 7,817 | –149 | –1.9 |
| Central mortgage institution loans | 15 | 7,716 | 6,964 | 752 | 10.8 |
| Accrued expenses and deferred income | | 578 | 424 | 154 | 36.2 |
| Other liabilities | 10 | 211 | 259 | –48 | –18.5 |
| Provisions | 16 | 584 | 539 | 45 | 8.4 |
| Corporate capital | 21 | 2,425 | 1,925 | 500 | 26.0 |
| Profit reserves | | 7,290 | 6,919 | 371 | 5.4 |
| Currency translation reserves | | –8 | –4 | –3 | 74.2 |
| Group net income | | 722 | 647 | 75 | 11.5 |
| **Net equity** | 21 | 10,429 | 9,487 | 942 | 9.9 |
| **Total liabilities and equity** | | 154,410 | 145,872 | 8,538 | 5.9 |
| Total subordinated liabilities | | 1,310 | 588 | 723 | 123.0 |
| – of which subject to mandatory conversion and/or debt waiver | | 1,310 | 588 | 723 | 123.0 |
| Off-balance-sheet transactions | | | | | |
| Contingent liabilities | 2,28 | 3,851 | 3,886 | –35 | –0.9 |
| Irrevocable commitments | 2 | 7,478 | 7,432 | 46 | 0.6 |
| Obligations to pay up shares and make further contributions | 2 | 147 | 147 | –0 | –0.1 |
| Credit commitments | 29 | | | | |

# Group cash flow statement

| *in CHF million* | Cash inflow | Cash outflow |
|---|---|---|
| Cash flow from operating activities: | | |
| Income for the period under review | 722 | |
| Change in reserves for general banking risks | | |
| Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets | 106 | |
| Provisions and other value adjustments | 130 | 84 |
| Changes in value adjustments for default risks and losses | 51 | 71 |
| Accrued income and prepaid expenses | 15 | |
| Accrued expenses and deferred income | 154 | |
| Other items | 0 | 22 |
| Dividend for previous year | | 280 |
| **Balance** | 719 | |
| Cash flow from equity transactions: | | |
| Share/participation/endowment capital, etc. | 500 | |
| Recognised in reserves | 21 | 21 |
| Change in own shares | | |
| **Balance** | 500 | |
| Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets: | | |
| Participations | 20 | |
| Real estate | 21 | 213 |
| Other tangible fixed assets | 0 | 30 |
| Intangible assets | 0 | 138 |
| Mortgages on own real estate | | |
| **Balance** | | 341 |
| Cash flow from banking operations: | | |
| Medium and long-term business (> 1 year): | | |
| Amounts due to banks | | 982 |
| Amounts due in respect of customer deposits | | 154 |
| Liabilities from other financial instruments at fair value | 503 | |
| Cash bonds | 5 | 115 |
| Bonds | 2,213 | 2,380 |
| Central mortgage institution loans | 1,243 | 491 |
| Loan of central issuing institutions | | |
| Other obligations (other liabilities) | | 48 |
| Amounts due from banks | 68 | |
| Amounts due from customers | 88 | |
| Mortgage loans | | 2,281 |
| Other financial instruments at fair value | | 200 |
| Financial investments | 382 | |
| Other accounts receivables (other assets) | | 42 |

(continued on page 65)

## Group cash flow statement (continued)

| *in CHF million* | Cash inflow | Cash outflow |
|---|---|---|
| Cash flow from banking business: | | |
| Short-term business: | | |
| Amounts due to banks | 6,876 | |
| Liabilities from sercurities financing transactions | 237 | |
| Amounts due in respect of customer deposits | 1,006 | |
| Trading portfolio liabilities | | 618 |
| Negative replacement values of derivative financial instruments | 198 | |
| Liabilities from other financial instruments at fair value | | 112 |
| Due from banks | | 620 |
| Due from SFTs | | 927 |
| Due from customers | | 251 |
| Trading portfolio assets | 1,063 | |
| Positive replacement values of derivative financial instruments | | 392 |
| Other financial instruments at fair value | 779 | |
| Financial investments | | 493 |
| Liquidity: | | |
| Cash | | 5,433 |
| **Balance** | | 879 |

# Group statement of changes in equity

| *in CHF million* | Corporate capital | Profit reserves | Group net income | Currency translation reserves | Total equity |
|---|---|---|---|---|---|
| Total equity as at 1 January 2014 | | | | | |
| Opening amount | 1,925 | 7,287 | | –4 | 9,208 |
| Impact of restatement | | | | | |
| Capital increase | | | | | |
| Capital decrease | | | | | |
| Increase in scope of capital consolidation | | | | | |
| Decrease in scope of capital consolidation | | –0 | | | –0 |
| Other contributions / other capital paid in | | | | | |
| Acquisition of own shares | | | | | |
| Disposal of own shares | | | | | |
| Reclassifications | | | | | |
| Profit from sale of own shares | | | | | |
| Currency translation effect | | | | –0 | –0 |
| Distribution of profit | | –369 | | | –369 |
| Revaluation adjustments not affecting net income | | 2 | | | 2 |
| Other allocations to reserves for general banking risks | | | | | |
| Other allocations to other reserves | | | | | |
| Group net income | | | 647 | | 647 |
| **Total equity as at 31.12.2014** | 1,925 | 6,919 | 647 | –4 | 9,487 |

| *in CHF million* | Corporate capital | Profit reserves | Group net income | Currency translation reserves | Total equity |
|---|---|---|---|---|---|
| Total equity as at 1 January 2015 | | | | | |
| Opening amount | 1,925 | 7,566 | | –4 | 9,487 |
| Impact of restatement | | | | | |
| Capital increase | 500 | | | | 500 |
| Capital decrease | | | | | |
| Increase in scope of capital consolidation | | 21 | | | 21 |
| Decrease in scope of capital consolidation | | | | | |
| Other contributions / other capital paid in | | | | | |
| Purchase of own shares | | | | | |
| Sale of own shares | | | | | |
| Reclassifications | | | | | |
| Income from sale of own shares | | | | | |
| Currency translation effect | | | | –3 | –3 |
| Distribution of profit | | –280 | | | –280 |
| Revaluation adjustments not affecting net income | | –18 | | | –18 |
| Other allocations to reserves for general banking risks | | | | | |
| Other allocations to other reserves | | | | | |
| Group net income | | | 722 | | 722 |
| **Total equity as at 31.12.2015** | 2,425 | 7,290 | 722 | –8 | 10,429 |

Notes

# a) Profile

Zürcher Kantonalbank has been at the service of its customers for more than 140 years. It has established a leading financial market position in particular in the Greater Zurich area since the bank was founded in 1870. The bank continuously develops itself further in order to meet the ever-changing needs of our customers as best as possible.

## Significant acquisitions

A further step on this route was the acquisition completed on 25 March 2015 of Swisscanto, which has been included in the scope of consolidation of Zürcher Kantonalbank as of 1 April 2015. With Swisscanto, consisting of Swisscanto Holding Ltd., Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd., Swisscanto Funds Centre Ltd. and Swisscanto Asset Management International SA, a first-class Swiss asset manager was added to the group, making Zürcher Kantonalbank the third-largest fund provider in Switzerland. Under the Swisscanto brand, a comprehensive range of high-quality products and services will be offered. These primarily include funds, the occupational pensions business and the Swisscanto investment foundations.

## Broad diversification

With the parent company, Zürcher Kantonalbank the group 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. Zürcher Kantonalbank is an independent public-law institution of the canton of Zurich with headquarters in Zurich and offers its customers the densest branch network in the Greater Zurich area. 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. Furthermore, the broadly diversified group includes the abovementioned Swisscanto Holding Ltd., which is primarily active in the asset management business, Zürcher Kantonalbank Finance (Guernsey) Ltd., which focuses on issuing structured investment products and Zürcher Kantonalbank Österreich AG, which operates international onshore private banking. The Balfidor group, which focuses on services in the area of financial and securities accounting, was integrated into Swisscanto in the financial year under review. Please see Note 7 (page 82) for detailed information on the participation structure.

## Reinforced capital base

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 of the bank's liabilities with the exclusion of subordinated liabilities.

The bank's capital base was strengthened further in the reporting year. In this process, in the first six months of 2015 two Tier 2 bonds in the amount of CHF 185 million and EUR 500 million were issued.

As at 30 June 2015, the endowment capital was also increased by CHF 500 million to CHF 2,425 million. The endowment capital framework of CHF 3,000 increased by the Cantonal Council by 500 million has therefore been utilised up to CHF 575 million. If necessary, the board of directors can also call on th remaining CHF 575 million of the endowment capital.

## 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. Furthermore, Zürcher Kantonalbank outsourced the digitalisation of paper-based structured payment orders (ZKB Quickpay) to Swisscom (Schweiz) AG, Ittigen.

Notes

# b) Accounting and valuation principles

## Changes in accounting and valuation principles

In the reporting year, the transition from the existing accounting regulations (BAG) to the new accounting rules for banks (ARB) was completed. This change had effects on the disclosure of the financial statements, in particular.

The major changes in this context can be summarised as follows:

Allowances for default risks on loans outstanding are now formed via the position of changes in value adjustments for default risks and losses from interest operations and deducted directly from the corresponding asset. Default risks on off-balance-sheet positions (e.g. confirmed but not used credit limits), are covered by provisions.

Repo/reverse repo transactions and securities lending and securities borrowing transactions are presented in the newly created position of amounts due or liabilities from securities financing transactions.

Positive and negative replacement values of derivative financial instruments as well as financial instruments to which the fair value option is applied are also recognised in separate items. The netting for OTC transactions must also be mentioned. In these transactions, the positive and negative replacement values of derivative financial instruments as well as the associated cash collateral are offset provided that the requirements of the ARB are met (see similar statements under "Offsetting assets and liabilities", page 69).

Short positions in the trading portfolio are recognised under the item "Trading portfolio liabilities".

Physical precious metal portfolios that cover liabilities from customers' precious metal accounts are recognised under financial investments and are measured at fair value.

The previous year's figures were restated based on the new accounting rules.

In addition to the changes in connection with the new Accounting rules for banks (ARB) mentioned above, the following adjustments to the accounting and valuation principles were made: For the combinations of money market transactions and the currency swaps carried out in the trading business, according to the principle of substance over form, interest income from the specific money market transactions was recorded under trading income, analogous to the currency swaps. The results from these combined transactions are therefore not disclosed in different income statement items but uniformly under result from trading activities.

Artificially inflating the income statement and movements between interest income and trading income, which in substance has neither a sound basis nor is it correct from an economic point of view, could therefore be avoided. This effect amounted to CHF 53.4 million in 2014; the result from trading activities as well as the gross result from the interest operations were therefore adjusted appropriately.

## General principles

The group financial statements of the Zürcher Kantonalbank group are prepared in accordance with the Listing Rules of the Swiss Exchange and with the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB). 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 a participation of more than 50 percent of the voting capital or which it controls in another way.

As already mentioned, the changes to the scope of consolidation relate to the acquisition of Swisscanto and the merger of the companies of the Balfidor group with Swisscanto.

The group financial statements are prepared in accordance with the principle of substance-over-form. The individual accounts of the group companies are included on the basis of uniform accounting standards that are applied throughout the group.

## Method of consolidation

Capital is consolidated in accordance with the purchase method. This involves offsetting the 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. All the assets and liabilities as well as expenses and income of the subsidiaries to be consolidated are included in the group financial statements. Intragroup transactions and unrealised gains are eliminated on consolidation.

## Period of consolidation

The period of consolidation corresponds to the calendar year. With the exception of Swisscanto Asset Management International SA, Luxemburg, whose accounts close on 30 June, the financial year corresponds to the calendar year for all group companies. Swisscanto Asset Management International SA, Luxembourg will state a six-month financial year as a one-off in the second half of 2015.

Since 1 April 2015, Swisscanto has been included in the scope of consolidation.

## Recognition of transactions

All business trasactions are recorded and measured in accordance with recorded 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. These transactions are stated between trade and settlement date (value date) at replacement value under the corresponding position (positive or negative replacement values of derivative financial instruments). Securities and options transactions are recognised in the balance sheet as of the transaction day. Balance sheet fixed-term transactions are booked as of the settlement day.

Fig. 1: Foreign currency conversion rates

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Balance sheet due date prices | Annual average prices | Balance sheet due date prices | Annual average prices |
| USD | 1.0010 | 0.9645 | 0.9937 | 0.9193 |
| EUR | 1.0874 | 1.0640 | 1.2024 | 1.2125 |

## 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 results from trading activities and the fair value option. 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 under the item foreign currency translation reserve.

## Offsetting assets and liabilities

In principle, no offsetting takes place except in the following cases. Claims and liabilities are offset if all the conditions below are met:

- claims and liabilities arise from the same type of transactions with the same counterparty,
- have the same or earlier maturity for the claim,
- are in the same currency, and
- cannot result in a counterparty risk.

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

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

### Liquid assets

Besides the cash balances in Swiss francs and foreign banknotes, the sight deposits with the SNB are primarily included in this position. These items are carried at nominal value.

### Amounts due from and to banks

Unless stated otherwise in a different position, amounts due from and to banks including bills of exchange drawn on the bank and money market instruments without the character of securities are stated in this position. These items are carried at nominal value. Rediscounted transactions in bills of exchange and money market instruments are shown net at year-end.

Appropriate allowances are created for default risks on existing positions and directly deducted from assets (see also section "Default risk-related allowances, provisions and losses from the interest business" on this page).

### Amounts due from and liabilities from securities financing transactions

The amounts due from securities financing transactions include reverse repo transactions which are treated as advances against collateral in the form of securities. This underscores the financing nature of the transactions. The securities are transferred in the same way as if they had been pledged as collateral for the loan. Reimbursement claims in the context of securities borrowing, which arise from cash collaterals for the borrowed, non-monetary values, are also included.

Under the liabilities from securities financing transactions, the repo transactions in the sense of a collateralized refinancing are to be entered in the balance sheet. Within the framework of securities lending, Zürcher Kantonalbank grants non-monetary assets, such as securities, on its own account and at its own risk (principal status). The redemption obligation for cash deposits received is also shown here.

The bank conducts lending and borrowing transactions within the framework of trading transactions. Loan transactions involving securities or money market paper not collateralised with cash are not recognised in the balance sheet but reported in the Notes.

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

These items are carried at nominal value. Book claims in precious metals are stated at market values. Appropriate allowances are created for default risks on existing positions and directly deducted from assets (see the next section). Default risks on credit limits granted but not yet utilised are accounted for by means of provisions (please refer to the relevant section "Provisions", page 73). Financial leasing arrangements are reported in the balance sheet 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 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 section e), under "Valuation of collateral" (page 75).

### Value adjustments for default risks, provisions and losses from interest operations

Loss risks on existing exposures are taken into account with appropriate value adjustments. They are formed via the position changes in value adjustments for default risks and losses from interest operations and deducted directly from the asset affected.

The amount of the allowance is determined on a systematic basis that takes account of the risks of Zürcher Kantonalbank's portfolio.

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

Impaired loans/receivables are valued on an individual basis. An individual value adjustment is made when there are signs that the bank will be unable to collect all amounts due on a claim. Individual value adjustments for default risks are established in accordance with the following principles:

- loans/receivables 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, a value adjustment is established for the probable credit default (book value less estimated recoverable amount).

Exposures rated as impaired are subjected to a credit rating test at least twice a year. If necessary, an appropriate value adjustment is formed or existing ones adjusted to the current circumstances. Value adjustments for impaired loans are only reversed if there is reasonable assurance of timely collection of interest and principal in accordance with the contractual terms of the claim agreement.

In the event of small risks in homogenously composed credit portfolios, the need for an allowance is assessed collectively (collective individual value adjustments). Zürcher Kantonalbank does not set up a collective value adjustment for inherent risks because the method used to determine an individual allowance ensures the correct valuation of a loan. Country-specific risks in connection with loans/receivebles are accounted for separately. Country assessments by various ratings agencies are used in part for this purpose. Value adjustments in this regard take into account any existing collateral as well as existing individual value adjustments and are reviewed at least every six months.

If all or part of a claim is deemed uncollectible or forgiven, it is written off accordingly.

### Trading portfolio assets and liabilities

Trading positions including money market paper held in the context of the trading business are carried at fair value. This is defined as the amount for which mutually independent, knowledgeable business partners would exchange an asset or repay a debt. This corresponds to the price set on a price-efficient and liquid market or determined on the basis of a valuation model. If – in exceptional cases – fair value cannot be calculated, positions are accounted for and valued at the lower of cost or market. Valuation differences are recognised in the income statement. Interest and dividend income on securities trading portfolios are credited to the item result from trading activities and the fair value option. The refinancing result for the securities trading portfolio is calculated by offsetting result from trading activities against net interest. With the exception of the physical precious metal portfolios accounted for under financial investments, all other precious metals that are physical and held in account form are accounted for as trading activities and at fair value.

Short positions are also accounted for at fair value and stated under the position trading portfolio liabilities.

### Positive and negative replacement values of derivative financial instruments

Derivative financial instruments are valued at fair value and, in principle, represent trading activities. Comments on the business policy parameters for the use of derivative financial instruments and explanations in connection with the application of hedge accounting can be found under section f) (page 76). Replacement values of derivative financial instruments from customer transactions resulting from contracts traded over-the-counter (bank as agent) are, in principle, accounted for. Exchange-traded contracts from customer transactions are accounted for if no daily margining takes place.

Replacement values from trading activities are accounted for under "Positive replacement values of derivative financial instruments" or item "Negative replacement values of derivative financial instruments". Valuation gains are recognised through income in the item "Income from trading activities and fair value option".

Hedging transactions are also valued at fair value. An exception are the derivative financial instruments used to hedge interest rate risk within the scope of asset and liability management. In this case, value changes are recognised in equity in the compensation account. The net balance of this compensation account is included in "Other assets" or "Other liabilities".

If the gains from the hedging transaction exceed those from the hedged underlying transaction, the hedge is considered ineffective. The excess part of the hedging transaction is treated like a trading activity.

Please see the statements in the section "Offsetting assets and liabilities" (page 69) with respect to the recognition of netting agreements for derivative financial instruments.

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

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

a) The financial instruments are valued at fair value and are subject to risk management corresponding to that for trading activities. This should be based on a documented risk management and investment strategy which ensures correct recording, measuring and limitation of the various risks.
b) There is an economic hedging relationship between the financial instruments on the as-set side and those on the liability side that is largely neutralised in terms of income by the fair value valuation (avoidance of an accounting mismatch).

c) Any impact of a change in own creditworthiness on the fair value following first-time recognition must be neutralised and may not influence the income statement. Recognition of the impact of own creditworthiness in the compensation account is permitted.

The amounts are accounted for under "Liabilities from other financial instruments at fair value".

Investments by subsidiaries managed in the trading book and connected to self-issued structured products are stated at fair value. The accounting takes place in "Other financial instruments at fair value".

## Financial investments

The position includes money market securities if these are securities or book-entry securities, which are not held in the context of trading business. Accounting takes place at nominal value taking a discount provision into account.

Fixed-income securities held to maturity are valued in accordance with the accrual method (at acquisition cost with amortisation of the premium or discount over the maturity). Realised gains from sales prior to maturity are amortised to maturity. The lower of cost or market rule is applied in the case of value losses resulting from changes in credit standing. The same principle is used for interest-bearing securities with no intention to hold until maturity.

Shares and other equity securities that, irrespective of the share of voting rights, are also booked under this item provided that they were not acquired as a permanent investment.

Real estate taken over from the credit business and intended for disposal is also valued at the lower of cost or market (acquisition cost or conservatively estimated lower liquidation value).

Non-realised losses and market-related revaluations up to the original cost of the securities components are stated under "Other ordinary expenses" or "Other ordinary income". Realised gains or losses of the securities components from the sale of financial investments are booked under "Results from the disposal of financial investments". Unrealised and realised gains in foreign currency components are booked under "Results from foreign exchange trading".

## Non-consolidated participations

Shares and other equity securities are considered as participations regardless of the share of voting rights held, provided they have been acquired as a permanent investment. Participations with voting rights of up to 20 percent are valued at lower of cost or market. Participations are subject to an 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 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 recognised in the group income statement on the basis of equity valuation as participation income.

## Tangible fixed assets

Bank premises, including installations and fittings in rented properties, are carried at historical cost plus major investments and amortised on a straight-line basis over their estimated useful life. Other properties acquired as a long-term investment are also carried at the lower of cost less straight-line amortisation 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 of acquisition. Larger investments are capitalised and amortised in full over their estimated useful life on the basis of business criteria or, in the case of acquired data processing programs, generally over 12 months.

Fig. 2: Estimated useful life for depreciation purposes (in years):

| | |
|---|---|
| Country | 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 |
| Acquired IT programs | max. 1 |
| 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, the realisable value is determined by a property valuer. For other tangible fixed assets, the realisable value is equivalent to the economic value, which is defined according to business criteria.

## Intangible assets

**Goodwill**

If the purchase cost of an acquisition is greater than the net assets valued in accordance with standard groupwide accounting principles, the remaining amount is capitalised as goodwill. This goodwill is written off over the estimated useful life on a straight-line basis. The amortisation period is generally five years, from the date of acceptance, but a maximum of 10 years, in justified instances. If the recoverability of goodwill is no longer ensured on the balance sheet date (impairment) an impaiment is recognised.

**Other intangible assets**

The other intangible assets include purchased software licences. Smaller investments are charged in full to other operating expenses in the year of acquisition. Larger investments are capitalised and normally fully amortised over 12 months.

## Provisions

Loss risks in connection with off-balance-sheet transactions (e. g. credit limits confirmed but not yet utilised) as well as other identifiable and foreseeable risks as of the balance sheet date are accounted for by means of the provisions created according to the principle of prudence.

Formation and dissolution takes place via the position "Changes to provisions and other value adjustments and losses".

## Profit reserves

The group's self-generated funds, the accumulated gains, are recognised under retained earnings reserves. This item also includes the reserves for general banking risks separately disclosed by the parent company.

## Pension funds

An annual evaluation is performed to assess whether, from the group's perspective, an economic benefit or economic obligation arises for the bank or the group as a result of a pension fund. The determination is based on agreements and annual financial statements of the pension funds, which, in Switzerland, are prepared according to Swiss GAAP FER 26. Other calculations showing the financial situation and existing surplus/shortfall for each pension fund in accordance with actual circumstances are also taken into account.

Zürcher Kantonalbank has no liabilities that extend beyond the regulatory foundations.

The employer contribution reserve is capitalised in the "Other assets" item. Additions and withdrawals are included in "Personnel expenses".

Please see Note 13 (page 84) for additional information.

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

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

### Taxes

As an independent public-law institution, Zürcher Kantonalbank is exempt from taxes on its income and capital under cantonal 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. In terms of tax law, as of 1 January 2008 the company is deemed to be resident and is liable to pay tax. As it does not perform any banking activities that are subject to income tax or any other regulated transactions that are subject to tax, Zürcher Kantonalbank Finance (Guernsey) Ltd. pays only a fixed "validation fee", which is included in "Other operating expenses". Zürcher Kantonalbank Finance (Guernsey) Ltd. is not liable for any federal, cantonal or municipal taxes in Switzerland. With the exception of Swisscanto Holding Ltd., the Swisscanto companies are liable for cantonal and federal taxes or the tax regimens of Luxembourg or the United Kingdom in accordance with their domicile. Zürcher Kantonalbank Österreich AG is subject to Austrian corporation tax. Its taxable income is taxed at a fixed rate of 25 %. 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.

Notes

# c) Explanations of Risk Management

For explanations on risk management in general and the treatment of the interest rate risk, other market risks and credit risks specifically, please refer to the statements in section l) "Risk report" (page 102).

Notes

# d) Identification
## of default risks and definition of necessary value adjustments

The methods used in connection with the identification of default risks and the determination of value adjustments can be seen under accounting and valuation principles on page 70.

Further information can also be found in section l) "Risk report" in the "Credit risks" paragraph (page 113).

Notes

# e) Valuation
## of collateral

The valuation of collateral for loans is governed by the comprehensive internal regulations. They define the methods, procedures and competencies. These rules are continually monitored and aligned with regulatory requirements and market changes.

The bank distinguishes between mortgage claims in the form of secured loans and ready realisable collateral.

### Collateral secured by mortgage

Zürcher Kantonalbank uses recognised estimation methods appropriate to the type of property for the evaluation of collateral secured by mortgage. The lower of cost or market principle is applied; accordingly, the lower of estimated value or purchase price is taken as the lending basis. This corresponds to the guidelines for the audit, evaluation and completion of mortgage-secured loans issued by the Swiss Bankers Association.

The key evaluation factors for a property assessment are:
- Land (macro and micro position, area)
- Building (construction standard, condition, room concept, sustainability)
- Type of use (private, commercial, communal)
- Legal regulations
- Situation under substantive law and contractual agreements (rights, encumbrances)
- Income from rented properties

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

In the bank's internal hedonic model, the estimated value is determined based on the characteristics of the property to be valued and with the assistance of the data from similar market transactions.

Depending on the type of property, customer and complexity, Zürcher Kantonalbank also makes use of expert estimations. The assessment criteria, the valuation procedures/methods to be used and the required valuation skills of experts are set out in the bank's internal regulations.

The valuation of collateral secured by mortgages are reviewed on a regular basis. The frequency depends on the type of property. Special developments in the real estate market or macro economic framework conditions may require an adjustment to the valuation intervals or a portfolio-specific, extraordinary revaluation.

The maximum permitted loan for the financed property is based on the class of collateral. The class of collateral reflects the expected volatility of the value of the real estate or the usability of the real estate. It is determined by the type of property (e. g. single-family house, commercial property), the type of use (owner-occupied, rented) and other property-specific criteria (e. g. position, size of property).

### Other collateral

Other collateral includes account balances, marketable securities as well as other readily realisable assets (precious metals, fiducary investments, claims from life insurance policies, etc). To the extent possible, lending values are based on market values. Marketable collateral is subject to the deduction of specified margins. These take into account the likelihood of fluctuations in value and concentration risks within the coverage.

Notes

# f) Explanations

## on the business policy regarding the use of derivative financial instruments and the use of hedge accounting

### Use of derivative financial instruments

The business with derivative financial instruments requires observing financial policy requirements. It may be conducted for the purposes of proprietary and customer trading as well as for hedging and contains both over-the-counter (OTC) as well as exchange-traded transactions.

Derivative financial instruments may only be established on underlyings that fulfil the following conditions:

- Pricing is generally undertaken via an exchange, another organised exchange or according to recognised, transparent regulations determined in advance.
- The prices are published.
- The underlying instrument may only be physically delivered for participation rights, bonds, fund units and precious metals.

### Comments in connection with the application of hedge accounting

Hedge accounting is a balance sheet accounting of collateral relationships. It intends to reduce the volatility of the profit values or equity capital stated and to adjust it to the economic risk.

The Zürcher Kantonalbank Group applies hedge accounting to limit the interest rate risk in connection with balance sheet structure management. In this process, there is both a cash value and an income prospect consideration. For further details on the processes and methods, please note the corresponding paragraph and Section l) Risk report (p. 121).

Contractually agreed customer transactions, financial investments as well as debt financing in the banking book qualify as underlying transactions to be hedged. For the underlying instrument, a distinction is made between direct and indirect transactions. For direct transactions, Treasury has a direct influence on the timing and terms of the underlying instrument (purchase of financial investments, bond issues). Indirect transactions are understood to be all the transactions concluded by sales and transferred to Treasury for managing the interest risks. For direct transactions, the profit and loss (P&L) of individual transactions is taken into account, whilst for direct transactions only the market value of the positions, based on changed market conditions (in particular the interest curve), are included in profit and loss.

Appropriate derivative financial instruments (mainly interest swaps) are used for hedging purposes. For each hedging relationship, a review is undertaken to determine whether they meet the conditions for the application of hedge accounting (e. g. the hedging transactions must be concluded with an external counterparty). All hedging transactions are treated as direct transactions.

Zürcher Kantonalbank hedges the underlying transaction by means of a macro hedge. It optimises the total exposure on the basis of key rate sensitivities where the risk policy requirements are adhered to. The P&L of the hedging transactions has an opposite direction to the P&L of the underlying transactions and indicates the economic risk assumption/cover.

The hedge effectiveness is measured every six months as of the balance sheet date at the end of June and the end of December. It is based on the effects on income (P&L) arising from the interest exposures of the underlying transactions and the hedging transactions. Specifically, the P&L of the hedging transaction is compared to the P&L of the hedging transaction as of the balance sheet date. The cumulative absolute amounts from the monthly P&L of the underlying and hedging transactions are compared for the aggregate view of the hedge effectiveness over the 6-month horizon. The hedge is regarded as effective as long as the P&L of the hedging transactions does not exceed the P&L of the underlying transactions.

If the P&L of the hedging transactions, accumulated over six months, exceeds the P&L of the underlying transactions, the excessive part of the hedge is regarded as ineffective. The transactions responsible for the ineffectiveness of the hedge are then identified in the hedging portfolio. These transactions are derecognised from the hedging portfolio and allocated to the trading activities. This is carried out until the hedge is effective in the period under review. No ineffectiveness was recorded in the year under review.

Notes

# g) Explanations

## regarding material 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

# i) Information
## on the balance sheet

### 1 Breakdown of securities financing transactions

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions[1] | 14,966 | 14,040 |
| Book value of obligation from cash collateral received in connection with securities lending | 2,991 | 2,754 |
| Book value of securities lent in connection with securities lending or delivered as collateral in securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreement | 1,830 | 3,973 |
| – of which with unrestricted rights to resell or pledge | 1,830 | 3,973 |
| Fair value of securities received and serving as collateral in connection with securities lending or securities borrowing as well as securities received in connection with reserve repurchase agreements with an unrestricted right to resell or repledge | 34,760 | 40,356 |
| – of which repledged securities | 292 | 4 |

[1] Before Netting agreements

### 2 Overview of collateral for loans and off-balance-sheet transactions, as well as impaired loans

#### Overview by collateral

| | Type of collateral | | | |
|---|---|---|---|---|
| *in CHF million* | Secured by mortgage | Other collateral | Unsecured | Total |
| Loans | | | | |
| Due from customers | 87 | 886 | 6,811 | 7,783 |
| Mortgages | | | | |
| – Residential property | 61,280 | | | 61,280 |
| – Office and business premises | 7,957 | | | 7,957 |
| – Trade and industrial property | 2,331 | | | 2,331 |
| – Other | 2,102 | | | 2,102 |
| **Total mortgage loans** | 73,670 | | | 73,670 |
| **Total loans** (before netting with adjustments) **2015** | 73,757 | 886 | 6,811 | 81,453 |
| **Total loans** (before netting with value adjustments) **2014** | 71,510 | 880 | 6,618 | 79,009 |
| **Total loans** (after netting with adjustments) **2015** | 73,708 | 884 | 6,705 | 81,296 |
| **Total loans** (after netting with adjustments) **2014** | 71,458 | 878 | 6,495 | 78,832 |
| Off-balance-sheet | | | | |
| Contingent liabilities | 51 | 1,632 | 2,168 | 3,851 |
| Irrevocable commitments | 1,240 | 57 | 6,181 | 7,478 |
| Obligation to pay up shares and make further contribution | | | 147 | 147 |
| Credit commitments | | | | |
| **Total off-balance-sheet 2015** | 1,291 | 1,689 | 8,496 | 11,476 |
| **Total off-balance-sheet 2014** | 960 | 2,576 | 7,929 | 11,465 |

(continued on page 79)

## 2 Overview of collateral for loans and off-balance-sheet transactions, as well as impaired loans (continued)

### Information on impaired loans

| *in CHF million* | Gross debt amount | Liquidation value of collateral | Net debt amount | Individual value adjustments[1] |
|---|---|---|---|---|
| Impaired loans | | | | |
| 2015 | 466 | 282 | 184 | 162 |
| 2014 | 480 | 285 | 195 | 183 |

[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.

## 3 Trading portfolios and other financial instruments at fair value

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Debt securities, money market securities/transactions | 5,524 | 6,644 |
| – of which listed[1] | 5,284 | 6,466 |
| Equity-type securities | 2,773 | 2,473 |
| Precious metals and commodities | 1,929 | 2,125 |
| Other trading portfolio assets | | 29 |
| **Total trading business** | 10,226 | 11,272 |
| Debt securities | | |
| Structured products | | |
| Other | 220 | 799 |
| **Total other financial instruments at fair value** | 220 | 799 |
| **Total assets** | 10,446 | 12,071 |
| – of which determined using of a valuation model | 516 | 1,204 |
| – of which securities eligible for repo transactions in accordance with liquidity requirements | 1,784 | 2,391 |

[1] Listed = traded on a recognised exchange.

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| **Liabilities** | | |
| Debt securities, money market securities/transactions | 2’,085 | 2,681 |
| – of which listed[1] | 2,074 | 2,673 |
| Equity-type securities | 17 | 45 |
| Precious metals and commodities | 9 | 1 |
| Other trading portfolio assets | | 1 |
| **Total trading business** | 2,110 | 2,728 |
| Debt securities | | |
| Structured products | 4,163 | 3,772 |
| Other | | |
| **Total other financial instruments at fair value** | 4,163 | 3,772 |
| **Total liabilities** | 6,273 | 6,500 |
| – of which, determined using a valuation model | 4,460 | 4,148 |

[1] Listed = traded on a recognised exchange.

## 4 Derivative instruments (assets and liabilities)

| | Trading instruments | | | Hedging instruments | | |
|---|---|---|---|---|---|---|
| *in CHF million* | Positive replacement values | Negative replacement values | Contract volume | Positive replacement values | Negative replacement values | Contract volume |
| Interest rate instruments | | | | | | |
| Forward contracts including FRAs | 1 | 2 | 4,010 | | 1 | 1,500 |
| Swaps | 6,762 | 5,835 | 264,947 | 672 | 1,188 | 26,236 |
| Futures | | | 6,195 | | | |
| Options (OTC) | 197 | 175 | 5,701 | | | |
| Options (traded) | 0 | 0 | 221 | | | |
| **Total** | 6,960 | 6,012 | 281,074 | 672 | 1,189 | 27,736 |
| Foreign exchange / precious metals | | | | | | |
| Forward contracts | 1,487 | 716 | 151,266 | 76 | 745 | 2,645 |
| Combined interest rate / currency swaps | 722 | 1,817 | 6,870 | | | |
| Futures | | | 78 | | | |
| Options (OTC) | 303 | 91 | 12,895 | | | |
| Options (traded) | 1 | 3 | 257 | | | |
| **Total** | 2,513 | 2,627 | 171,367 | 76 | 745 | 2,645 |
| Equity-type securities/indices | | | | | | |
| Forward contracts | | | | | | |
| Swaps | 0 | 12 | 198 | | | |
| Futures | | | 100 | | | |
| Options (OTC) | 146 | 66 | 1,299 | | | |
| Options (traded) | 73 | 120 | 4,291 | | | |
| **Total** | 220 | 198 | 5,888 | | | |
| Credit derivatives | | | | | | |
| Credit default swaps | 5 | 7 | 1,028 | | | |
| Total return swaps | 0 | 1 | 8 | | | |
| First-to-default swaps | | | | | | |
| Other credit derivatives | | | | | | |
| **Total** | 5 | 8 | 1,035 | | | |
| Other [1] | | | | | | |
| Forward contracts | | | | | | |
| Swaps | 2 | 2 | 240 | | | |
| Futures | | | 35 | | | |
| Options (OTC) | | 0 | 6 | | | |
| Options (traded) | | | | | | |
| **Total** | 2 | 2 | 282 | | | |
| Total before netting agreements | | | | | | |
| **2015** | 9,700 | 8,847 | 459,646 | 748 | 1,933 | 30,380 |
| – of which, determined using a valuation model | 9,700 | 8,847 | – | 748 | 1,933 | – |
| 2014 | 10,768 | 10,308 | 498,450 | 739 | 1,779 | 32,274 |
| – of which, determined using a valuation model | 10,768 | 10,308 | – | 739 | 1,779 | – |

| Total after netting agreements | Positive replacement values (cumulative) | Negative replacement values (cumulative) |
|---|---|---|
| **2015** | 2,897 | 2,067 |
| 2014 | 2,504 | 1,869 |

(continued on page 81)

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

Breakdown by counterparty

| *in CHF million* | | | |
|---|---|---|---|
| Positive replacement values (after netting agreements) | Central clearing houses | Banks and securities dealers | Other customers |
| **2015** | 661 | 651 | 1,585 |

[1] Includes commodities and hybrid derivatives.

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 15/1, irrespective of whether the derivative is traded long or short. The contract volume is determined differently depending on the type of contract and does not permit any direct conclusions to be drawn about the risk exposure.

## 5 Financial investments

| | Book value | | Fair value | |
|---|---|---|---|---|
| *in CHF million* | 2015 | 2014 | 2015 | 2014 |
| Debt securities | 4,146 | 4,012 | 4,372 | 4,255 |
| – of which intended to be held to maturity | 4,146 | 4,012 | 4,372 | 4,255 |
| – of which not intended to be held to maturity (available for sale) | | | | |
| Equity-type securities | 12 | 15 | 23 | 26 |
| – of which qualified participations [1] | | | | |
| Precious metals | 162 | 183 | 162 | 183 |
| Real estate [2] | 1 | 0 | 1 | 0 |
| **Total financial investments** | 4,320 | 4,210 | 4,558 | 4,464 |
| – of which securities eligible for repo transactions in accordance with liquidity requirements | 4,021 | 3,824 | 4,243 | 4,061 |

[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 1 million.

Counterparties by rating

| | | | | | | |
|---|---|---|---|---|---|---|
| Moody's | Aaa–Aa3 | A1–A3 | Baa1–Baa3 | Ba1–Ba3 | Lower than Ba3 | No rating |
| Standard & Poor's, Fitch | AAA–AA– | A+–A– | BBB+–BBB– | BB+–B– | Lower than B– | No rating |
| Debt securities: Book values | | | | | | |
| **2015** | 3,683 | 68 | | | | 394 |

All non-rated debt securities meet the conditions of high quality liquid assets (HQLA) in accordance with the Swiss Liquidity Regulation (Liquiditätsverordnung: LiqV).

If two or more ratings exist with different risk weightings, those ratings which correspond to the two lowest risk weightings are taken into consideration and the higher of the two risk weightings is used. As a first priority the issue rating is used and as a second priority, the issuer rating.

## 6 Presentation of participations

| *in CHF million* | Aquisition cost | Accumu-lated value adjustments and changes in book value (valuation using equity method) | Book value at end 2014 | Reclassi-fications | Investments | Divestments (incl. any foreign currency differences) | Value adjustments | Changes in book value in the case of participa-tion values using the equity method depreciation reversals | Book value at end 2015 | Market value at end 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Participations valued in accordance with equity method | | | | | | | | | | |
| – With market value | | | | | | | | | | |
| – Without market value | 30 | –12 | 18 | | | | –3 | 1 | 17 | |
| Other participations | | | | | | | | | | |
| – With market value | 56 | –17 | 39 | | | | | 17 | 56 | 56 |
| – Without market value | 114 | –9 | 105 | –20 [1] | | –0 | –2 | 4 | 88 | |
| **Total participations** [2] | 200 | –37 | 163 | –20 | | –0 | –4 | 22 | 161 | 56 |

[1] Complete takeover of Swisscanto Holding Ltd. by Zürcher Kantonalbank
[2] No significant impairments and appreciation due to (partial) omission of an impairment to be recorded.

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

| Company name | Domicile | Business activity | Currency of corporate capital | Corporate capital in CHF million | Zürcher Kantonalbank capital ratio in % | Zürcher Kantonalbank voting rights in % | Direct holding | Indirect holding |
|---|---|---|---|---|---|---|---|---|
| Fully consolidated holdings | | | | | | | | |
| Zürcher Kantonalbank Finance (Guernsey) Ltd. | Guernsey | Financial services | CHF | 1 | 100.0 | 100.0 | x | |
| Swisscanto Holding Ltd.[1, 2, 3] | Zurich | Participations | CHF | 24 | 100.0 | 100.0 | x | |
| Swisscanto Fondsleitung AG[3] | Zurich | Fund management | CHF | 5 | 100.0 | 100.0 | | x |
| Swisscanto Vorsorge AG | Zurich | Financial services | CHF | 1 | 100.0 | 100.0 | | x |
| Swisscanto Fund Centre Ltd. | London | Financial services | CHF | 15 | 100.0 | 100.0 | | x |
| Swisscanto Asset Management International SA | Luxembourg | Fund management | CHF | 0 | 100.0 | 100.0 | | x |
| Zürcher Kantonalbank Österreich AG | Salzburg | Financial services | EUR | 6 | 100.0 | 100.0 | x | |
| Reported under non-consolidated participations:[4] | | | | | | | | |
| – of which using the equity method | | | | | | | | |
| Technopark Immobilien AG | Zurich | Project planning, construction, maintenance | CHF | 40 | 33.3 | 33.3 | x | |
| – of which other non-consolidated participations | | | | | | | | |
| Pfandbriefzentrale der schweizerischen Kantonalbanken AG | Zurich | Pfandbrief institution | CHF | 1,025[5] | 17.8 | 17.8 | x | |
| Aduno Holding AG[6] | Zurich | Participations | CHF | 25 | 14.7 | 14.7 | x | |
| Not fully consolidated subsidiaries | | | | | | | | |
| Zürcher Kantonalbank Representações Ltda.[7] | São Paulo | Representative office | BRL | 0 | 100.0 | 100.0 | x | |

[1] The holding in Swisscanto Holding Ltd. amounted to 18.1% in the previous year. The acquisition of the remaining 81.9 % was completed on 25 March 2015. Swisscanto is included in the scope of consolidation of Zürcher Kantonalbank as of 1 April 2015.
[2] Swisscanto Holding Ltd. holds 100 percent of the shares in Swisscanto Fondsleitung AG, Swisscanto Vorsorge AG, Swisscanto Fund Centre Ltd. and Swisscanto Asset Management International SA.
[3] Balfidor Holding AG merged with Swisscanto Holding Ltd. as of 1 June 2015. Balfidor Holding AG merged with Swisscanto Fondsleitung AG as of 30 June 2015.
[4] All non-consolidated participations with a ratio higher than 10 percent are shown. In addition, the share of the participations in the corporate capital must amount to more than CHF 2 million or the book value to more than CHF 15 million.
[5] Of which CHF 205 million has been paid up.
[6] Requirement to surrender shares when new shareholders are admitted in accordance with the shareholder agreement.
[7] Total assets in CHF thousand (2014: 326; 2013: 247); Annual profit in CHF thousand (2014: 38; 2013: 29).

## 8 Presentation of tangible fixed assets

| *in CHF million* | Aquisition cost | Accumulated depreciation | Book value at end 2014 | Changes in scope of consolidation | Investments | Disposals | Depreciation | Book value at end 2015 |
|---|---|---|---|---|---|---|---|---|
| Bank buildings | 1,375 | –686 | 689 | | 213 | –19 | –64 | 818 |
| Other real estate | 16 | –12 | 4 | | | –1 | –0 | 2 |
| Proprietary or separately acquired | 0 | –0 | 0 | | 0 | | –0 | 0 |
| Other tangible fixed assets | 171 | –140 | 31 | 3 | 27 | –0 | –21 | 39 |
| Properties under finance leasing | | | | | | | | |
| – of which bank buildings | | | | | | | | |
| – of which other real estate | | | | | | | | |
| – of which other tangible fixed assets | | | | | | | | |
| **Total tangible fixed assets** | 1,562 | –839 | 724 | 3 | 240 | –21 | –86 | 860 |

The insurance value of real estate included in tangible fixed assets amounts to CHF 1,496 million.
The insurance value of other tangible fixed assets amounts to CHF 541 million.

(continued on page 83)

## 8 Presentation of tangible fixed assets (continued)

| *in CHF million* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Operating leases | | |
| **Leasing commitments not shown in the balance sheet** | | |
| Due up to 12 months | 0 | 0 |
| Due between 12 months and 5 years | 0 | 0 |
| Due after more than 5 years | | |
| **Total of leasing commitments not shown in the balance sheet** | 0 | 0 |
| – of which callable within 1 year | | |

## 9 Presentation of intangible assets

| *in CHF million* | Cost value | Accumulated depreciation | Book value at end 2014 | Reclassi-fications | Investments | Disposals | Changes in scope of consolidation | Depreciation | Appreciation | Book value at end 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Goodwill | 15 | –15 | 0 | | 134 | | | –13 | | 121 |
| Patents | | | | | | | | | | |
| Licences | 33 | –32 | 1 | | 5 | –0 | | –3 | | 3 |
| Other intangible assets | | | | | | | | | | |
| **Total intangible assets** | 49 | –47 | 1 | | 138 | –0 | | –15 | | 124 |

## 10 Other assets and liabilities

| | Other assets | | Other liabilities | |
|---|---|---|---|---|
| *in CHF million* | 2015 | 2014 | 2015 | 2014 |
| Compensation account | 413 | 392 | | |
| Deferred income taxes recognised as assets | 9 | 10 | | |
| Amount capitalised due to employer's contribution reserves | 1 | 1 | | |
| Amount capitalised due to other assets from pension funds | | | | |
| Badwill | | | | |
| Settlement accounts | 5 | 15 | 111 | 142 |
| Indirect taxes | 70 | 49 | 33 | 45 |
| Other | 39 | 29 | 68 | 72 |
| **Total** | 538 | 496 | 211 | 259 |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| *in CHF million* | Book value | Effective commitment | Book value | Effective commitment |
| Pledged / assigned assets | | | | |
| Amounts due from banks | 1,865 | 1,851 | 1,934 | 1,916 |
| Amounts due from customers | 2,051 | 2,031 | 2,320 | 2,264 |
| Mortgages | 10,101 | 8,873 | 9,101 | 8,009 |
| Trading portfolio assets | 124 | 124 | 55 | 55 |
| Financial investments | 5 | 5 | | |
| **Total pledged / assigned assets** | 14,145 | 12,884 | 13,409 | 12,243 |

No assets are subject to reservation of ownership.

Instruments serving as security where, in connection with securities financing, the right of resale or pledging has been granted are shown in Note 1 (page 78).

## 12 Liabilities relation to own pension schemes and the number and type of equity instruments of the bank held by own pension schemes

| *in CHF million* | 2015 | 2014 | Change |
|---|---|---|---|
| Liabilities to own pension funds from balance-sheet transactions | | | |
| Liabilities from customer deposits | 144 | 76 | 68 |
| Cash bonds | | | |
| Negative replacement values of derivative instruments | 0 | 1 | –1 |
| Accrued expenses and deferred income | 0 | | 0 |
| **Total** | 145 | 77 | 68 |

Own pension funds do not hold any of the bank's equity instruments.

## 13 Information on pension funds

The Zürcher Kantonalbank pension fund is a public-law institution and is a separate legal entity. The purpose of the pension fund is to insure the bank's employees against the economic consequences of age, death and disability. The pension fund's pension plan comprises three different pension vehicles. The annuity plan insures the basic salary (annual salary) according to the combined defined benefit / defined contribution principle [1]. The capital plan insures any 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 prefinance 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 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:

- Zürcher Kantonalbank's Grüningen Botanical Garden Trust
- Zürcher Kantonalbank pension fund
- Zürcher Kantonalbank's SanArena Trust
- Swisscanto Fondsleitung AG (formerly insured party of Balfidor Fondsleitung AG) [2]
- 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.

[2] As at 30 June 2015 Balfidor Fondsleitung AG merged with Swisscanto Fondsleitung AG. The former employees of Balfidor Fondsleitung AG remain with the Zürcher Kantonalbank pension fund.

Fig. 3: Coverage ratio pursuant to Article 44 BVV2

| *in %* | Coverage ratio as at 31.12.2015 (not audited) | Coverage ratio as at 31.12.2014 (audited) |
|---|---|---|
| Zürcher Kantonalbank pension fund | 111 | 113 |
| Zürcher Kantonalbank trust for senior management | 112 | 114 |
| Swisscanto pension fund | 115 | 116 |

At Swisscanto, the Swiss companies and the UK and Luxembourg company have their own pension funds with defined contribution plans that provide old age, disability and death benefits. Benefits take the form of annuities and/or lump sum payments, depending on the local regulations and the pension schemes.

The employees of Swisscanto Holding Ltd., Swisscanto Fondsleitung AG and Swisscanto Vorsorge AG are insured in the Swisscanto Pension Fund, which has joined the Swisscanto Flex Collective Foundation. This is a defined contribution plan which guarantees the statutory prescribed benefits. These employees will be included in Zürcher Kantonalbank's pension funds as of 1 January 2016.

Swisscanto Funds Centre Ltd. in London operates a defined contribution plan for all employees. The plan is managed by an outside partner. The assets of the insured persons are invested with a leading pension provider. The risks are comprehensively covered by insurance companies.

Swisscanto Asset Management International SA in Luxembourg has been a member of a defined contribution pension scheme since July 2012. The plan, including the investment of employee assets, is managed by a third party. The office in Germany is a member of a pension fund for the banking industry. The employees located there can save tax-free contributions for retirement, with Swisscanto paying part of the contributions.

## 13A Employer contribution reserve (ECR)

| in CHF million | Nominal value 2015 | Waiver of usage 2015 | Net amount 2015 | Net amount 2014 | Influence of ECR on personnel expenses 2015 | Influence of ECR on personnel expenses 2014 |
|---|---|---|---|---|---|---|
| Zürcher Kantonalbank pension fund | 1 | | 1 | 1 | -0 | –0 |
| **Total** | 1 | | 1 | 1 | -0 | –0 |

## 13B Economic benefit / economic obligations and pension expenses

| in CHF million | overfunding/ underfunding 2015 | Economic interest of the organisation 2015 | Economic interest of the organisation 2014 | Change to previous year in economic interest 2015 | Contributions paid 2015 | Pension costs in personnel expenses 2015 | Pension costs in personnel expenses 2014 |
|---|---|---|---|---|---|---|---|
| Employer-funded fund / employer-funded pension fund | | | | | | | |
| Pension plans without surplus/shortfall | | | | | 108 | 108 | 94 |
| Pension plans with surplus | | | | | | | |
| Pension plans with shortfall | | | | | | | |
| Pension funds without own assets | | | | | | | |
| **Total** | | | | | 108 | 108 | 94 |

## 14 Issued structured products

| Underlying risk of the embedded derivative | | Book value | | | | Total |
|---|---|---|---|---|---|---|
| | | Valued as a whole | | Valued separately | | |
| *in CHF million* | | Booked in trading portfolio | Booked in other financial instruments at fair value | Value of the host instrument | Value of the derivative | |
| Interest rate instruments | With own debenture component (oDC)<br>Without own oDC | | 125 | | | 125 |
| Equity-type securities | With own debenture component (oDC)<br>Without own oDC | | 3,218 | | | 3,218 |
| Foreign currencies | With own debenture component (oDC)<br>Without own oDC | | 703 | | | 703 |
| Commodities/ Precious metals | With own debenture component (oDC)<br>Without own oDC | | 64 | | | 64 |
| Loans | With own debenture component (oDC)<br>Without own oDC | | 12 | | | 12 |
| Real estate | With own debenture component (oDC)<br>Without own oDC | | | | | |
| Hybrid instruments | With own debenture component (oDC)<br>Without own oDC | | 42 | | | 42 |
| **Total 2015** | | | 4,163 | | | 4,163 |
| **Total 2014** | | | 3,772 | | | 3,772 |

## 15 Presentation of bonds outstanding and mandatory convertible bonds (incl. cash bonds and central mortgage institution loans)

### Cash bonds

| *in CHF million* | Outstanding amount | Weighted average interest rate | Maturity |
|---|---|---|---|
| 31.12.2015 | 269 | 1.23 | 2016–2025 |
| 31.12.2014 | 381 | 1.35 | 2015–2022 |

Maturity structure

| *in CHF million* | 2016 | 2017 | 2018 | 2019 | 2020 | After 2020 | Total |
|---|---|---|---|---|---|---|---|
| Medium-term notes | 78 | 45 | 29 | 28 | 16 | 72 | 269 |

### Bonds and mandatory convertible bonds

| *in CHF million* | Outstanding amount | Weighted average interest rate | Maturity |
|---|---|---|---|
| 31.12.2015 | 7,669 | | |
| of which non-subordinated | 6,358 | 1.3695 | 2016–2044 |
| of which subordinated without PONV clause [1] | | | |
| of which subordinated with PONV clause | 1,310 | 2.7982 | 2025–Perpetual |
| 31.12.2014 | 7,817 | | |
| of which non-subordinated | 7,230 | 1.5298 | 2015–2044 |
| of which subordinated without PONV clause [1] | | | |
| of which subordinated with PONV clause | 588 | 3.5000 | Perpetual |

Maturity structure

| *in CHF million* | 2016 | 2017 | 2018 | 2019 | 2020 | After 2020 | Total |
|---|---|---|---|---|---|---|---|
| Bond issues | 593 | 495 | 824 | 119 | 300 | 5,337 | 7,669 |

[1] Point of non viability (PONV).

### Central mortgage institution loans

| *in CHF million* | Outstanding amount | Weighted average interest rate | Maturity |
|---|---|---|---|
| 31.12.2015 | 7,716 | 0.97 | 2016–2030 |
| 31.12.2014 | 6,964 | 1.12 | 2015–2029 |

Maturity structure

| *in CHF million* | 2016 | 2017 | 2018 | 2019 | 2020 | After 2020 | Total |
|---|---|---|---|---|---|---|---|
| Mortgage bond loans | 1,150 | 516 | 1,126 | 632 | 812 | 3,480 | 7,716 |

## 16 Presentation of value adjustments, and provisions, reserves for general banking risks and changes therein during the current year

| *in CHF million* | Balance at end 2014 | Changes in scope of consolidation | Use in conformity with designated purpose | Reclassi-fications | Currency differences | Overdue interest, recoveries | New creations charged to income | Releases to income | Balance at end 2015 |
|---|---|---|---|---|---|---|---|---|---|
| Provisions for deferred taxes | 0 | | | | | | 0 | –0 | 0 |
| Provisions for credit risks | 138 | | –6 | | | | 56 | –41 | 147 |
| Provisions for other business risks [1] | 222 | 1 | –5 | | 1 | | 3 | –0 | 221 |
| Provisions for restructuring [2] | 13 | 11 | –14 | | | | 5 | –4 | 10 |
| Other provisions [3] | 165 | 2 | –1 | | 1 | | 51 | –12 | 205 |
| **Total provisions** | 539 | 14 | –26 | | 2 | | 115 | –58 | 584 |
| **Reserves for general banking risks** | | | | | | | | | |
| **Value adjustments for default risks and country risks** | 183 | | –21 | | –0 | 4 | 47 | –50 | 162 |
| – of which value adjustments for default risks from impaired loans [4] | 183 | | –21 | | –0 | 4 | 47 | –50 | 162 |
| – of which value adjustments for latent risks | | | | | | | | | |

[1] Value adjustments and provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
[2] Provisions for restructuring were made in connection with the acquisition of the Swisscanto group and comprise personnel measures and various integration costs.
[3] Other provisions primarily consist of provisions for litigation and provisions for employees' holiday credits.
[4] 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.

Recoveries from amounts due derecognised in previous periods are reported directly via changes in value adjustments for default risk and losses from interest operations (2015: CHF 5 million / 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 of the banks in the USA. 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 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 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 risks, operational risks as well as legal and compliance risks, please refer to section I) of the risk report.

## 17 Presentation of corporate capital

The disclosure pursuant to the accounting guidelines for banks (AGB) is only made by the parent company (page 144).

## 18 Number and value of equity securities or options on equity securities held by all executives and directors and by empolyees, and disclosures on any empolyee participation schemes

Neither Zürcher Kantonalbank nor its subsidiaries have employee participation schemes.

## 19 Amounts due from and due to related parties

| | Receivables | | Obligations | |
|---|---|---|---|---|
| *in CHF million* | 2015 | 2014 | 2015 | 2014 |
| Qualified participants | 11 | 15 | 472 | 405 |
| Group companies | 0 | 0 | | |
| Affiliated companies | 421 | 363 | 1,859 | 1,983 |
| Transactions relating to the bank's governing bodies | 16 | 16 | 30 | 44 |
| Other related parties | | | | |

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

With the exception of loans to the bank's governing bodies, balance sheet and off-balance-sheet transactions are carried out at market conditions. Loans to the bank's governing bodies are granted occasionally on employee terms.

Primarily the usual balance sheet banking business was involved, i.e. 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).

The off-balance-sheet transactions with related parties in the amount of CHF 1,239 million primarily include irrevocable loan commitments and other contingent liabilities.

## 20 Disclosures on the significant participants

The disclosure pursuant to the accounting guidelines for banks (AGB) is only made by the parent company (page 145).

## 21 Disclosures on the bank's own capital shares and composition of equity

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Corporate capital | 2,425 | 1,925 |
| Profit reserves | 7,290 | 6,919 |
| Foreign currency translation reserves | –8 | –4 |
| Group net income | 722 | 647 |
| **Total** | 10,429 | 9,487 |

The bank does not hold any own capital shares.

## 22 Disclosures in accordance with the Ordinance against Excessive Compensation with respect of Listed Stock Corporations and Article 663c para. 3 CO for banks whose equity securities are listed.

The disclosure pursuant to the accounting guidelines for banks (AGB) is only made by the parent company (page 146).

## 23 Maturity structure of financial instruments

| *in CHF million* | At sight | Cancellable | Due | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | | Within 3 months | Between 3 and 12 months | Between 1 and 5 years | After 5 years | no maturity | **Total** |
| Asset/financial instruments | | | | | | | | |
| Liquid assets | 32,497 | | | | | | | 32,497 |
| Amounts due from banks | 1,711 | 9 | 1,814 | 1,856 | 491 | 130 | | 6,011 |
| Amounts due from securities financing transac- | | | 10,906 | 1,286 | 2,774 | | | 14,966 |
| Amounts due from customers | 313 | 757 | 2,982 | 712 | 1,785 | 1,125 | | 7,673 |
| Mortgage loans | 113 | 897 | 8,794 | 7,348 | 34,503 | 21,968 | | 73,623 |
| Trading portfolio assets | 10,226 | | | | | | | 10,226 |
| Positive replacement values of derivative financial instruments | 2,897 | | | | | | | 2,897 |
| Other financial instruments valued at fair value | 220 | | | | | | | 220 |
| Financial investments | 173 | | 190 | 606 | 1,376 | 1,974 | 1 | 4,320 |
| **Total assets/financial instruments 2015** | 48,149 | 1,663 | 24,687 | 11,807 | 40,929 | 25,197 | 1 | 152,434 |
| **Total assets/financial instruments 2014** | 43,509 | 1,912 | 23,787 | 16,105 | 36,581 | 22,286 | 0 | 144,179 |
| Debt capital/financial instruments | | | | | | | | |
| Amounts due to banks | 2,084 | 4 | 25,429 | 5,006 | 1,597 | 682 | | 34,803 |
| Liabilities from securities financing transactions | | | 2,991 | | | | | 2,991 |
| Amounts due in respect of customer deposits | 23,249 | 47,950 | 5,289 | 2,767 | 753 | 811 | | 80,820 |
| Trading portfolio liabilities | 2,110 | | | | | | | 2,110 |
| Negative replacement values of derivative financial instruments | 2,067 | | | | | | | 2,067 |
| Liabilities from other financial instruments valued at fair value | 4,163 | | | | | | | 4,163 |
| Cash bonds | | | 20 | 59 | 118 | 72 | | 269 |
| Bonds | | 1,310 | 299 | 294 | 1,'739 | 4,026 | | 7,669 |
| Central mortgage institution loans | | | 289 | 861 | 3,086 | 3,480 | | 7,716 |
| **Total debt capital/financial instruments 2015** | 33,674 | 49,265 | 34,317 | 8,986 | 7,293 | 9,072 | | 142,607 |
| **Total debt capital/financial instruments 2014** | 34,712 | 51,281 | 25,925 | 6,696 | 8,451 | 8,097 | | 135,162 |

## 24 Assets, liabilities and off-balance-sheet positions by domestic and foreign origin – domicile principle

| | 2015 | | 2014 | |
|---|---|---|---|---|
| *in CHF million* | Domestic | Foreign | Domestic | Foreign |
| Assets | | | | |
| Liquid assets | 32,487 | 10 | 27,053 | 11 |
| Amounts due from banks | 1,538 | 4,473 | 942 | 4,517 |
| Amounts due from securities financing transactions | 7,436 | 7,530 | 5,397 | 8,642 |
| Amounts due from customers | 6,174 | 1,499 | 5,917 | 1,566 |
| Mortgage loans | 73,622 | 1 | 71,348 | 1 |
| Trading portfolio assets | 5,226 | 5,000 | 5,795 | 5,477 |
| Positive replacement values of derivative financial instruments | 1,884 | 1,013 | 1,816 | 688 |
| Other financial instruments valued at fair value | | 220 | | 799 |
| Financial investments | 2,381 | 1,939 | 2,069 | 2,140 |
| Accrued income and prepaid expenses | 255 | 39 | 281 | 28 |
| Non-consolidated participations | 160 | 1 | 162 | 0 |
| Tangible fixed assets | 855 | 5 | 721 | 3 |
| Intangible assets | 124 | 0 | 1 | 0 |
| Other assets | 528 | 10 | 486 | 10 |
| **Total assets** | 132,671 | 21,739 | 121,989 | 23,883 |
| Liabilities | | | | |
| Amounts due to banks | 2,912 | 31,890 | 3,327 | 25,582 |
| Liabilities from securities financing transactions | 24 | 2,967 | 26 | 2,728 |
| Amounts due in respect of customer deposits | 75,899 | 4,921 | 75,110 | 4,858 |
| Trading portfolio liabilities | 774 | 1,336 | 1,078 | 1,651 |
| Negative replacement values of derivative financial instruments | 743 | 1,324 | 1,160 | 709 |
| Liabilities from other financial instruments valued at fair value | 2,725 | 1,438 | 1,912 | 1,859 |
| Cash bonds | 269 | | 381 | |
| Bonds | 7,669 | | 7,817 | |
| Central mortgage institution loans | 7,716 | | 6,964 | |
| Accrued expenses and deferred income | 555 | 23 | 422 | 3 |
| Other liabilities | 210 | 1 | 259 | 1 |
| Provisions | 583 | 1 | 537 | 1 |
| Corporate capital | 2,425 | | 1,925 | |
| Profit reserves | 7,229 | 60 | 6,865 | 54 |
| Foreign currency translation reserves | –8 | | –4 | |
| Group net income | 735 | –13 | 641 | 7 |
| **Total liabilities** | 110,461 | 43,948 | 108,419 | 37,453 |
| Off-balance-sheet | | | | |
| Contingent liabilities | 1,411 | 2,440 | 1,598 | 2,289 |
| Irrevocable commitments | 6,501 | 977 | 6,325 | 1,106 |
| Liabilities for calls on shares and other equities | 146 | 1 | 146 | 1 |
| Credit commitments | | | | |

## 25A Assets by country or group of countries

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | in CHF million | Share in % | in CHF million | Share in % |
| Switzerland | 132,671 | 85.9 | 121,989 | 83.6 |
| Rest of Europe | 14,327 | 9.3 | 16,787 | 11.5 |
| – of which Germany | 3,354 | 2.2 | 3,719 | 2.5 |
| – of which France | 870 | 0.6 | 1,416 | 1.0 |
| – of which United Kingdom | 3,893 | 2.5 | 4,853 | 3.3 |
| – of which Guernsey | 64 | 0.0 | 139 | 0.1 |
| Americas | 5,386 | 3.5 | 4,830 | 3.3 |
| – of which USA | 4,148 | 2.7 | 3,723 | 2.6 |
| Asia and Oceania | 1,988 | 1.3 | 2,226 | 1.5 |
| Africa | 38 | 0.0 | 40 | 0.0 |
| **Total assets** | 154,410 | 100.0 | 145,872 | 100.0 |

## 25B Liabilities by country or group of countries

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | in CHF million | Share in % | in CHF million | Share in % |
| Switzerland | 110,461 | 71.5 | 108,419 | 74.3 |
| Rest of Europe | 22,178 | 14.4 | 20,412 | 14.0 |
| – of which Germany | 5,192 | 3.4 | 4,275 | 2.9 |
| – of which France | 1,436 | 0.9 | 1,431 | 1.0 |
| – of which United Kingdom | 4,330 | 2.8 | 3,777 | 2.6 |
| – of which Guernsey | 2,053 | 1.3 | 2,544 | 1.7 |
| Americas | 8,671 | 5.6 | 8,005 | 5.5 |
| – of which USA | 4,033 | 2.6 | 4,720 | 3.2 |
| Asia and Oceania | 11,773 | 7.6 | 7,098 | 4.9 |
| Africa | 1,326 | 0.9 | 1,938 | 1.3 |
| **Total liabilities** | 154,410 | 100.0 | 145,872 | 100.0 |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | in CHF million | Share in % | in CHF million | Share in % |
| Switzerland | 8,058 | 70.2 | 8,069 | 70.4 |
| Rest of Europe | 2,554 | 22.3 | 2,580 | 22.5 |
| – of which Germany | 77 | 0.7 | 61 | 0.5 |
| – of which France | 0 | 0.0 | 1 | 0.0 |
| – of which United Kingdom | 187 | 1.6 | 50 | 0.4 |
| – of which Guernsey | 1,782 | 15.5 | 1,978 | 17.3 |
| Americas | 530 | 4.6 | 455 | 4.0 |
| – of which USA | 32 | 0.3 | 45 | 0.4 |
| Asia and Oceania | 295 | 2.6 | 347 | 3.0 |
| Africa | 39 | 0.3 | 14 | 0.1 |
| **Total** | 11,476 | 100.0 | 11,465 | 100.0 |

## 26 Breakdown of total foreign assets by credit ratings of country groups (risk domicile view)

| Rating class of ZKB's own country rating | Moody's | 31.12.2015 Net international exposure in CHF million | 31.12.2015 Net international exposure Share in % | 31.12.2014 Net international exposure in CHF million | 31.12.2014 Net international exposure Share in % |
|---|---|---|---|---|---|
| A | Aaa/Aa1/Aa2/Aa3 | 11,605 | 83.4 | 10,901 | 78.3 |
| B | A1/A2/A3 | 747 | 5.4 | 921 | 6.6 |
| C | Baa1/Baa2/Baa3 | 973 | 7.0 | 1,951 | 14.0 |
| D | Ba1/Ba2 | 538 | 3.9 | 96 | 0.7 |
| E | Ba3 | 32 | 0.2 | 26 | 0.2 |
| F | B1/B2/B3 | 11 | 0.1 | 21 | 0.1 |
| G | Caa1/Caa2/Caa3/Ca/C | 9 | 0.1 | 11 | 0.1 |
| **Total** | | 13,916 | 100.0 | 13,927 | 100.0 |

Please refer to section I) "Risk report" (p. 102) for explanations on the rating system.

## 27 Balance sheet by currencies

| | Currencies converted into CHF million | | | | |
|---|---|---|---|---|---|
| | CHF | USD | EUR | Other | Total in CHF million |
| Assets | | | | | |
| Liquid assets | 32,419 | 8 | 65 | 5 | 32,497 |
| Amounts due from banks | 1,424 | 3,510 | 874 | 204 | 6,011 |
| Amounts due from securities financing transactions | 6,667 | 5,121 | 3,178 | | 14,966 |
| Amounts due from customers | 5,713 | 1,009 | 851 | 100 | 7,673 |
| Mortgage loans | 73,553 | 56 | 14 | 0 | 73,623 |
| Trading portfolio assets | 7,238 | 1,534 | 894 | 559 | 10,226 |
| Positive replacement values of derivative financial instruments | 2,719 | 66 | 104 | 7 | 2,897 |
| Other financial instruments at fair value | 220 | | | | 220 |
| Financial investments | 3,361 | 106 | 853 | 0 | 4,320 |
| Accrued income and prepaid expenses | 241 | 23 | 22 | 8 | 294 |
| Non-consolidated participations | 160 | | 0 | 0 | 161 |
| Tangible fixed assets | 857 | | 3 | | 860 |
| Intangible assets | 124 | | 0 | | 124 |
| Other assets | 222 | 1 | 315 | 0 | 538 |
| Total balance sheet assets | 134,918 | 11,433 | 7,176 | 883 | 154,410 |
| **Delivery entitlements from spot exchange, forward forex, forex option and precious metal transactions** | 55,522 | 64,729 | 32,108 | 13,564 | 165,922 |
| **Total assets** | 190,440 | 76,162 | 39,283 | 14,446 | 320,332 |
| Liabilities | | | | | |
| Amounts due to banks | 7,133 | 18,115 | 7,302 | 2,252 | 34,803 |
| Liabilities from securities financing transactions | | 24 | 2,967 | | 2,991 |
| Amounts due in respect of from customer deposits | 73,937 | 2,443 | 3,458 | 982 | 80,820 |
| Trading portfolio liabilities | 1,151 | 724 | 173 | 62 | 2,110 |
| Negative replacement values of derivative financial instruments | 1,385 | 132 | 542 | 8 | 2,067 |
| Liabilities from other financial instruments at fair value | 2,358 | 1,041 | 748 | 16 | 4,163 |
| Cash bonds | 269 | | | | 269 |
| Bonds | 7,125 | | 544 | | 7,669 |
| Mortgage institution loans | 7,716 | | | | 7,716 |
| Accrued expenses and deferred income | 537 | 14 | 19 | 8 | 578 |
| Other liabilities | 210 | | 1 | 0 | 211 |
| Provisions | 583 | | 1 | | 584 |
| Corporate capital | 2,425 | | | | 2,425 |
| Profit reserves | 7,307 | | –18 | | 7,290 |
| Foreign currency translation reserves | | | –8 | | –8 |
| Group net income | 724 | | –1 | | 722 |
| **Total balance sheet liabilities** | 112,860 | 22,494 | 15,729 | 3,327 | 154,410 |
| **Delivery obligations from spot exchange, forward forex, forex option and precious metal transactions** | 77,471 | 54,291 | 23,023 | 10,782 | 165,567 |
| **Total liabilities** | 190,331 | 76,786 | 38,752 | 14,109 | 319,977 |
| **Net position per currency in 2015** | 110 | –624 | 532 | 337 | 355 |
| **Net position per currency in 2014** | 496 | 238 | –483 | 225 | 476 |

Notes

# j) Information
## on off-balance-sheet items

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.

### 28 Contingent liabilities and contingent assets

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Guarantees to secure credits and similar | 416 | 246 |
| Performance guarantees and similar | 2,904 | 3,077 |
| Irrevocable commitments from documentary letters of credits | 531 | 564 |
| Other contingent liabilities | | |
| **Total contingent liabilities** | 3,851 | 3,886 |
| Contingent assets from tax loss carryforwards | | |
| Other contingent assets | | |
| **Total contingent assets** | | |

A fixed purchase price was settled with the sellers in connection with the completed acquisition of Swisscanto (see the statements under "Accounting and valuation principles").

Furthermore, there is the option that they can be additionally compensated by means of variable purchase price components between 2016 and 2018. The amount of any compensation depends on the contribution to results of the individual sellers, the general market development and the income from the product range. The actual annual share of the purchase price cannot fall below zero. The three variable purchase price payments – payable in October 2016 until October 2018 – are not 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.

### 29 Credit commitments

There are no credit commitments as of 31 December 2015 and 31 December 2014.

### 30 Fiduciary business

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Fiduciary investments with third-party companies | 205 | 204 |
| Fiduciary investments with affiliated companies | | |
| Fiduciary loans | | |
| Fiduciary transactions from securities lending and securities borrowing (conducted out in the bank's own name for the account of customers) | | |
| Other fiduciary transactions | | |
| **Total** | 205 | 204 |

## 31 Breakdown of managed assets and presentation of their development

### a) Breakdown of managed assets

| *in CHF million* | 2015 [2] | 2014 [3] |
|---|---|---|
| Type of managed assets | | |
| Assets in collective investment schemes managed by Zürcher Kantonalbank | 73,884 | 34,197 |
| Assets under discretionary asset management agreements | 54,385 | 37,981 |
| Other managed assets | 129,238 | 136,500 |
| **Total managed assets (incl. double counted assets) [1]** | 257,507 | 208,677 |
| – of which double counted assets | 25,003 | 22,153 |

[1] 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.
[2] The increase is due in particular to the acquisition of Swisscanto.
[3] Following a change in the segmentation of business partners as well as deposits, the figures for the previous year were adjusted as follows: Total assets under management (incl. double counted assets) CHF 9.6 billion and double counted assets CHF 2.6 billion.

### b) Presentation of the development of managed assets

| *in CHF million* | 2015 | 2014 [3] |
|---|---|---|
| Total managed assets (incl. double counted assets) at beginning | 208,677 | 197,768 |
| +/– Net new money inflow or net new money outflow [1] | –2,502 | 927 |
| +/– Price gains/losses, interest, dividends and currency gains/losses | –904 | 10,114 |
| +/– Other effects [2] | 52,236 | –131 |
| **Total managed assets (incl. double counted assets) at end** | 257,507 | 208,677 |

[1] 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.
[2] The other effects mainly reflect the acquisition of Swisscanto.
[3] Following a change in the segmentation of business partners as well as deposits, the figures for the previous year were adjusted as follows: Total assets under management (incl. double counted assets) at the end CHF 9.6 billion; net new money inflow/outflow CHF 3.2 billion.

Notes

# k) 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.

### 32 Breakdown of the result from trading activities and the fair value option

#### a) Breakdown by business area (in accordance with the organisation of the bank or financial group)

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Income from foreign exchange, banknotes and precious metals | 120 | 93 |
| Income from bonds, interest rate and credit derivatives | 114 | 41 |
| Income from trading in equities and structured products | 54 | 67 |
| Other trading activities [1] | 39 | 32 |
| **Total** | 328 | 233 |

#### b) Breakdown by underlying risks and based on the use of the fair value option

| | | Trading activities from: | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *in CHF million* | 2015 | Foreign exchange and banknotes | Precious metals | Securities lending and borrowing | Income from bonds, interest rate and credit derivatives | Equities and equity derivatives | Commod-ities and commodity derivatives | Other products [2] |
| Income from foreign exchange, banknotes and precious metals | 120 | 407 | –286 | | | | | |
| Income from bonds, interest rate and credit derivatives | 114 | 0 | | | 112 | 2 | | |
| Income from trading in equities and structured products | 54 | –3 | 13 | | –26 | 62 | 3 | 4 |
| Other trading activities | 39 | | –0 | 43 | –1 | –2 | –0 | |
| **Total** | 328 | 404 | –273 | 43 | 85 | 62 | 3 | 4 |
| Of which, from fair value option on assets | –5 | | | | –5 | | | |
| Of which, from fair value option on liabilities | 78 | –8 | 0 | | 48 | 19 | 14 | 5 |

[1] Other trading activities includes results from securities lending and borrowing as well as positions for which the executive board and Asset Management are responsible.
[2] Trading income from other products includes hybrid products and real estate derivatives.

## 33 Disclosure of material refinancing income in the interest and discount income item as well as significant negative interest

During the 2015 financial year a refinancing income of CHF –1.9 million (previous year CHF 0.0 million) was included in the interest and discount income item. Negative interest on lending business is shown as a reduction in the interest and discount income. Negative interest on deposit-taking operations are recognised as a reduction in the interest expense.

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Negative interest on lending business (reduction of the interest and discount income) | 114 | 1 |
| Negative interest on deposit-taking business (reduction in the interest expense) | 82 | 5 |

## 34 Personnel expenses

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Compensation for governing bodies and personnel | 745 | 630 |
| – of which alternative forms of variable compensation | | |
| AHV, IV, ALV and other statutory social security contributions | 169 | 149 |
| Value adjustments in respect of economic benefits or liabilities of pension funds | | |
| Other personnel expenses | 32 | 38 |
| **Total** | 947 | 816 |

## 35 Other operating expenses

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Occupancy expense | 50 | 45 |
| Expense for information and communications technology | 172 | 161 |
| Expenses for vehicles, machinery, fixtures and fittings and other equipment as well as operational leasing | 2 | 1 |
| Auditor's fees | 6 | 4 |
| – of which for financial and regulatory audits | 5 | 4 |
| – of which for other services | 0 | 0 |
| Other operating expenses | 197 | 164 |
| – of which as compensation for state guarantee | 21 | |
| **Total** | 427 | 375 |

## 36 Explanations regarding material losses, extraordinary income and expenses as well as material reversals of hidden reserves, reserves for general banking risks and value adjustments and provisions no longer required

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Extraordinary income | | |
| Reversal of impairment on other participations | 21 | 7 |
| Gain from sale of other real estate / bank premises | 38 | 25 |
| Income from sale of participations | 3 | 9 |
| Other | 6 | 0 |
| **Total** | 67 | 42 |
| Extraordinary expenses | | |
| Losses from sale of other real estate / bank premises | 0 | |
| Expenses incurred outride of the reporting period | | 1 |
| Loss from the sale of participations | | 0 |
| Other | 0 | 0 |
| **Total** | 0 | 1 |

In the financial year, no hidden reserves or reserves for general banking risks were reversed and no material freed-up allowances and provisions were recorded.

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

| *in CHF million* | | 2015 | 2014 |
|---|---|---|---|
| Participation | Domicile | | |
| CLS Group Holdings AG | Lucerne | 3 | – |
| Technopark Winterthur AG | Winterthur | 0 | 0 |
| Valiant Holding AG | Lucerne | 17 | 1 |
| Vescore Solutions AG | St. Gallen | – | 0 |
| **Total** | | 20 | 1 |

Appreciation is applied to non-listed participations in accordance with the mean value method and, for listed participations, in accordance with the market value method.

## 38 Income statement broken down according to domestic and foreign origin, according to the principle of permanent establishment

| *in CHF million* | 2015 Domestic | 2015 International | 2014 Domestic | 2014 International |
|---|---|---|---|---|
| Net interest income | | | | |
| Interest and discount income | 1,395 | 0 | 1,506 | 0 |
| Interest and dividend income from financial investments | 64 | 0 | 72 | 0 |
| Interest expense | –300 | –1 | –451 | –0 |
| **Gross interest income** | 1,159 | –0 | 1,127 | 1 |
| Changes in value adjustments of default risk and losses from interest operations | 3 | –0 | –1 | 0 |
| **Subtotal net result from interest income** | 1,162 | –0 | 1,126 | 1 |
| Net commission and fee income | | | | |
| Commission income from securities and investment activities | 557 | 135 | 462 | 10 |
| Commission income from lending activities | 50 | 0 | 58 | 0 |
| Commission income from other services | 112 | 0 | 86 | 0 |
| Commission expenses | –141 | –50 | –90 | –0 |
| **Subtotal result from commission business and services** | 578 | 85 | 517 | 9 |
| **Result from trading activities and the fair value option** | 307 | 20 | 210 | 23 |
| Other ordinary activities | | | | |
| Result from disposal of financial investments | 10 | 0 | 2 | 0 |
| Participation income, total group | 28 | 0 | 21 | 0 |
| – of which from equity-consolidated participations | 3 | | 10 | |
| – of which from other non-consolidated participations | 25 | 0 | 11 | 0 |
| Result from real estate | 7 | 0 | 8 | |
| Other ordinary income | 13 | 0 | 14 | 0 |
| Other ordinary expense | –7 | –0 | –3 | –0 |
| **Subtotal other result from ordinary activities** | 51 | 0 | 43 | 0 |
| Operating expenses | | | | |
| Personnel expenses | –931 | –15 | –806 | –10 |
| Other operating expenses | –418 | –9 | –370 | –5 |
| **Subtotal operating expenses** | –1,349 | –25 | –1,176 | –15 |
| Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets | –105 | –1 | –91 | –1 |
| Changes to provisions and other value adjustments and losses | –61 | –0 | –38 | 0 |
| **Operating result** | 585 | 79 | 590 | 18 |
| Extraordinary income | 67 | 0 | 42 | 0 |
| Extraordinary expenses | –0 | | –1 | |
| Change in reserves for general banking risks | | | | |
| Taxes | –3 | –5 | –1 | 1 |
| **Group net income** | 648 | 75 | 629 | 18 |

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

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Creation of provisions for deferred taxes | –0 | |
| Reversal of provisions for deferred taxes | 0 | 0 |
| Capitalisation of deferred taxes on loss carryforwards | 0 | 1 |
| Expense for current income and capital taxes | –9 | –1 |
| **Total** | –8 | –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

As Zürcher Kantonalbank is exempt from direct taxes, no weighted average interest rate is disclosed.

## 40 Disclosures and explanations of the earnings per equity security in the case of listed banks

Zürcher Kantonalbank has no listed equity-type security.

## 41 Components of ROE

| *in %* | 2015 | 2014 |
|---|---|---|
| **Return on equity (ROE)** | 7.5 % | 7.2 % |
| *in CHF million* | | |
| Relevant net income for calculating ROE | | |
| Group net income as shown on the balance sheet and income statement | 722 | 647 |
| **Total** | 722 | 647 |
| Relevant average equity[1] for calculating ROE | | |
| Average corporate capital | 2,175 | 1,925 |
| Average other equity components | 7,495 | 7,098 |
| **Total** | 9,670 | 9,023 |

[1] The average corporate capital is calculated on the basis of daily averages. The remaining equity components are calculated as an average of the totals at the beginning and end of the year. Swisscanto was consolidated as of 1 April 2015 and is therefore accounted for as from this date.

Notes

# f) Risk report

## Risk profile

There was no material change in Zürcher Kantonalbank's risk profile in 2015. In the first quarter, the Swiss National Bank's decision to discontinue the minimum exchange rate against the euro in January 2015 and the ensuing turmoil in the financial markets temporarily led to higher values-at-risk for trading. However, as the volatility died down, risk figures soon returned to the previous year's level. Changing conditions with negative CHF interest rates far into the long term made asset and liability management a challenge. The high interest rate sensitivity in the banking book in the long term primarily takes into account the risk of a protracted period of low interest rates. This also hedges against the risk of a further fall in CHF interest rates.

There was a slight increase in the volume of lending business, with the largest nominal rise in mortgages. The volume growth in mortgages to private individuals stood at 3.7 percent in the year under review. There were no material changes in the rating structure of the sub-portfolio.

The risk profile of operational risks remained stable. The bank paid particular attention to the detection of cyber risks. The legal and reputation risks in the cross-border financial services business are a focal point in the management of compliance risks, together with adapting to changes to the regulatory framework for financial services providers.

## 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 internet 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. It 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. The Assessment of the risk and 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. 4, page 104).

### 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. It 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 subcommittees (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

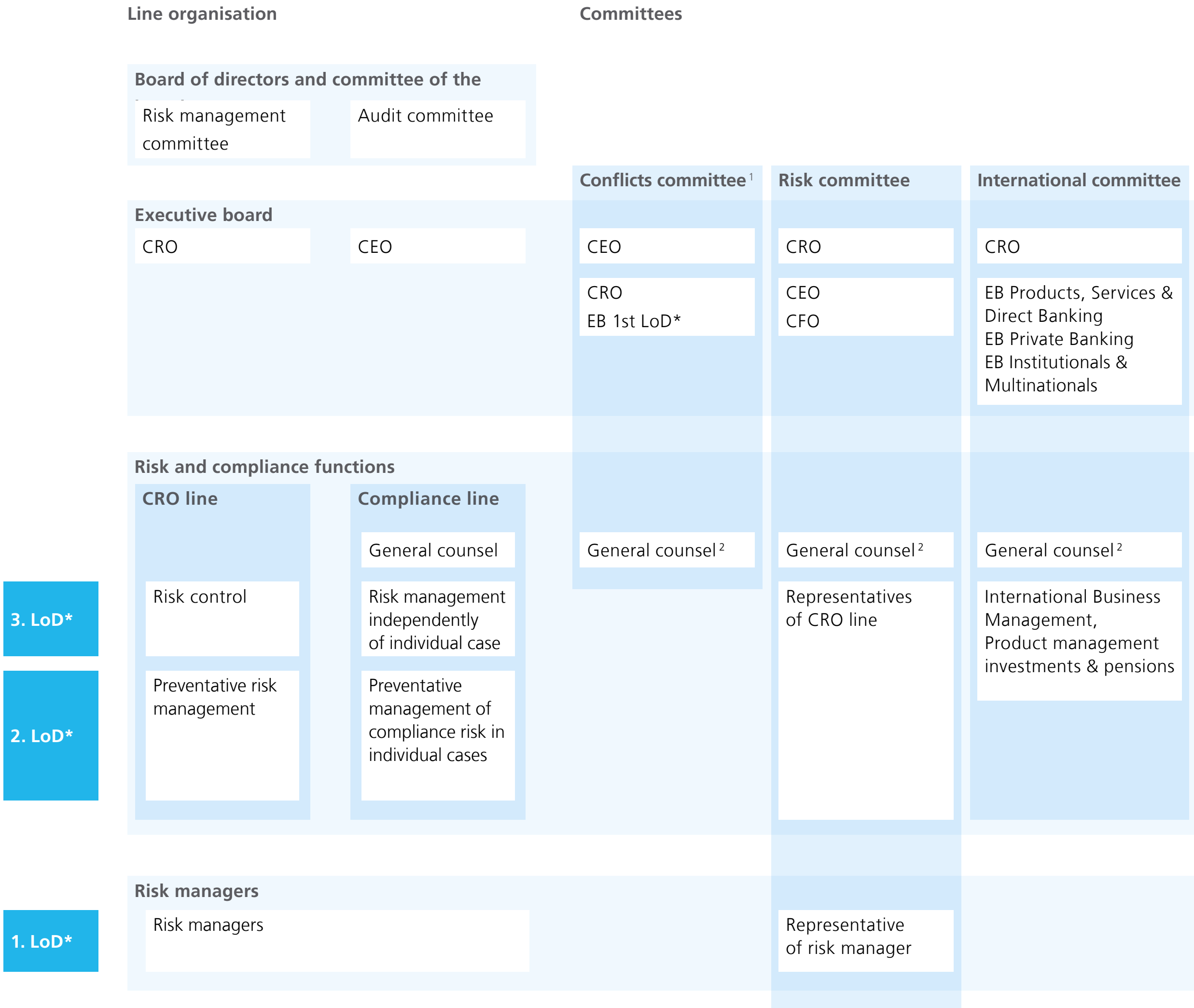
The international committee is tasked with defining the business policy parameters for matters with an international dimension, as well as corresponding monitoring and reporting.

### 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

Fig. 4: 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

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, he has a right of escalation to the committee of the board. He also enjoys direct access to the committee of the board at all times.

The compliance function 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 functions 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.

## Regulatory capital adequacy requirements

The following sections contain, amongst other things, key points from the quantitative disclosure as well as the qualitative information required for disclosure in FINMA Circular 2008/22. The complete reports on the disclosure, incl. quantitative information can be retrieved from www.zkb.ch/offenlegung.

## Participations and scope of consolidation

The scope of consolidation for the purpose of calculating capital adequacy is identical to that used in preparing the group financial statements.

The parent company's capital is calculated on a solo consolidated basis in accordance with Art. 10 para. 3 CAO and includes the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd., St. Peter Port, Guernsey. There are no other differences between the scopes of consolidation for regulatory and accounting purposes.

The group's scope of consolidation includes the parent company, Zürcher Kantonalbank, as well as all directly and indirectly wholly owned subsidiaries: Zürcher Kantonalbank Finance (Guernsey) Ltd., Zürcher Kantonalbank Österreich AG and Swisscanto, consisting of Swisscanto Holding Ltd., Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd., Swisscanto Funds Centre Ltd. and Swisscanto Asset Management International SA.

The representative office in São Paulo, from an accounting perspective a non-material majority interest of Zürcher Kantonalbank Representações Ltda, is not fully consolidated.

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.

The changes to the scope of consolidation compared with the previous year relate specifically to the acquisition of Swisscanto and the subsequent merger with the Balfidor Group.

Zürcher Kantonalbank has several significant participations that are not consolidated. The treatment of these positions in terms of capital adequacy is illustrated in Fig. 5 (page 106).

## Eligible and required capital

### Weighted capital adequacy requirements

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. Effective 31 December 2015, Zürcher Kantonalbank changed its method of calculating the capital equity required for credit risks from the Swiss standard approach (SA-CH) to the international standard approach (SA-BIS). 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.

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).

As at 31 December 2015, the capital adequacy requirement for Zürcher Kantonalbank as a systemically important institution is 14.0 percent of risk-weighted assets, 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 432 million, or 0.7 percent, to 14.7 percent.

Fig. 5: 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 | |
| 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 interests in the corporate capital must amount to > CHF 2 million or 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.

## Fig. 6: Composition of capital and capital ratios for systemically important banks

| *in CHF million CHF* | | Group 31.12.2015 [2] | Group 31.12.2014 [2] | Parent Company [1] 31.12.2015 [2] | Parent Company [1] 31.12.2014 [2] |
|---|---|---|---|---|---|
| Common equity Tier 1 (CET1) | | 10,103 | 9,207 | 10,149 | 9,188 |
| Adjustments to common equity Tier 1 | | –133 | –11 | –405 | –40 |
| Reclassification of CET1 to Tier 2 to cover the progressive component | | | –588 | | –587 |
| **Common equity Tier 1 (net CET1)** | | 9,970 | 8,607 | 9,744 | 8,561 |
| Issued and paid-up high-trigger capital instruments [3] | | 590 | 590 | 590 | 590 |
| Deduction of net long positions in own high-trigger capital instruments | | –1 | –2 | –1 | –2 |
| **High-trigger convertible capital** | | 589 | 588 | 589 | 588 |
| Issued and paid-up high-trigger capital instruments [4] | | 729 | | 729 | |
| Deduction of net long positions in own low-trigger capital instruments | | –8 | | –8 | |
| Reclassification of CET1 to Tier 2 to cover the progressive component | | | 588 | | 587 |
| **Low-trigger convertible capital** | | 721 | 588 | 721 | 587 |
| General bad debt provision for inherent default risks | | 14 | | 14 | |
| **Other Tier 2 capital** | | 14 | | 14 | |
| **Total capital** | | 11,293 | 9,783 | 11,068 | 9,735 |
| **Total risk-weighted assets [5]** | | 62,942 | 58,816 | 62,626 | 58,701 |
| Capital ratios | | | | | |
| Common equity Tier 1 ratio (CET1) | based on minimum capital (8 %) | 15.8 % | 14.6 % | 15.6 % | 14.6 % |
| High-trigger convertible capital ratio | based on minimum capital (8 %) | 0.9 % | 1.0 % | 0.9 % | 1.0 % |
| Low-trigger convertible capital ratio | based on minimum capital (8 %) | 1.1 % | 1.0 % | 1.2 % | 1.0 % |
| Total capital ratio | based on minimum capital (8 %) | 17.9 % | 16.6 % | 17.7 % | 16.6 % |

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 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.
3 Consists solely of additional Tier 1 capital (AT1).
4 Consists solely of supplementary capital (Tier 2).
5 Risk-weighted assets as at 31 December 2015 are calculated according to SA-BIS and those as at 31 December 2014 according to SA-CH.

## Fig. 7: Required minimum capital (group)

| *in CHF million CHF* | Remarks | 31.12.2015 SA-BIS | 31.12.2014 SA-CH |
|---|---|---|---|
| Credit risks (using standard approach) | incl. CVA [1] | 4,296 | 3,999 |
| – of which price risks relating to equity-type securities in the banking book | | 25 | 27 |
| Non-counterparty-related risks (using standard approach) | | 69 | 159 |
| Market risks | | 353 | 276 |
| – of which market risks (using model-based approach) [2] | | 139 | 166 |
| – of which market risks on interest rate instruments (specific market risks) [3] | | 214 | 110 |
| Operational risks (using basic indicator approach) | | 318 | 303 |
| Reduction because of deductible allowances and provisions [4] | | | –32 |
| **Required minimum capital** | | 5,035 | 4,705 |
| **Total risk-weighted assets** | 12.5 x minimum capital | 62,942 | 58,816 |

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 and amounted to CHF 198 million as at 31 December 2015 (CHF 215 million as at 31 December 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. 8: Required minimum capital (parent company)[1]

| *in CHF million CHF* | Remarks | 31.12.2015 SA-BIS | 31.12.2014 SA-CH |
|---|---|---|---|
| Credit risks (using standard approach) | incl. CVA [2] | 4,286 | 3,996 |
| – of which price risks relating to equity-type securities in the banking book | | 25 | 27 |
| Non-counterparty-related risks (using standard approach) | | 68 | 157 |
| Market risks | | 353 | 276 |
| – of which market risks (using model-based approach)[3] | | 139 | 166 |
| – of which market risks on interest rate instruments (specific market risks)[4] | | 214 | 110 |
| Operational risks (using basic indicator approach) | | 304 | 299 |
| Reduction because of deductible allowances and provisions[5] | | | –32 |
| **Required minimum capital** | | 5,010 | 4,696 |
| **Total risk-weighted assets** | 12.5 x minimum capital | 62,626 | 58,701 |

[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] 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 and amounted to CHF 198 million as at 31 December 2015 (CHF 215 million as at 31 December 2014). (CHF 215 million as at 31 December 2014) .

[3] 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.

[4] Specific risks due to interest rates (from interest rate instruments, options and credit derivatives).

[5] 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.

As at 31 December 2015, the minimum required capital amounted to CHF 5,035 million (2014: CHF 4,705 million) against eligible capital of CHF 11,293 million (2014: CHF 9,783 million) (Fig. 9 and 10). The minimum required capital was therefore CHF 330 million higher than in the previous year (Fig. 10). The increase in required capital for credit risks is mainly connected with the adoption of the international standard approach (SA-BIS). The higher risk weightings for mortgages secured by commercial or industrial property and the different method used for the calculation of derivative and repurchase transactions led to a marked increase in the corresponding requirements. For market risks also, the increase is also primarily due to the switch. On the other hand, far lower risk weights are applied under SA-BIS than under SA-CH for non-counterparty-related risks, resulting in a corresponding reduction in minimum required capital as at 31 December 2015. For operational risks, the inclusion of Swisscanto in the calculation of the basic indicator led to an increase in requirements for the group.

The eligible capital of Zürcher Kantonalbank increased significantly in the 2015 financial year. Apart from retained earnings, this is mainly due to the issue of two subordinated Tier 2 bonds and the increase in endowment capital. On the other hand, capital deduction items increased as a result of the inclusion of goodwill for Swisscanto.

Fig. 9: Change in eligible capital (in CHF million)

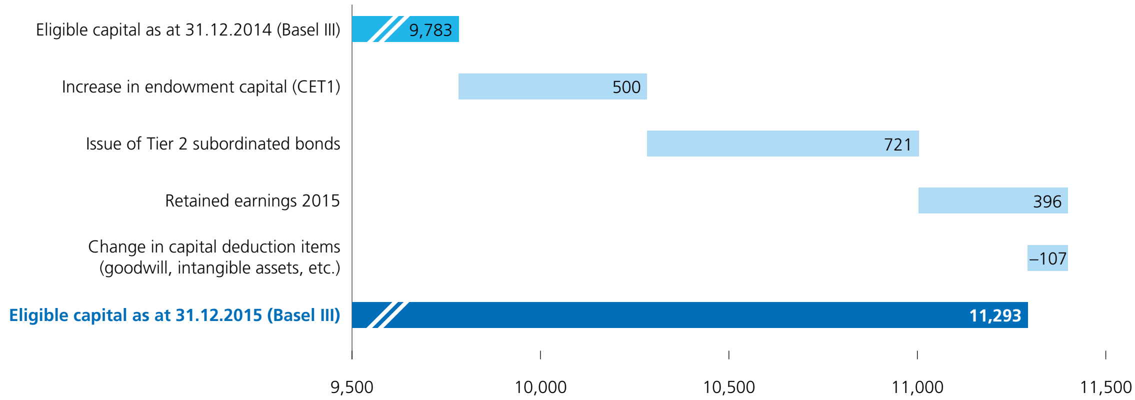
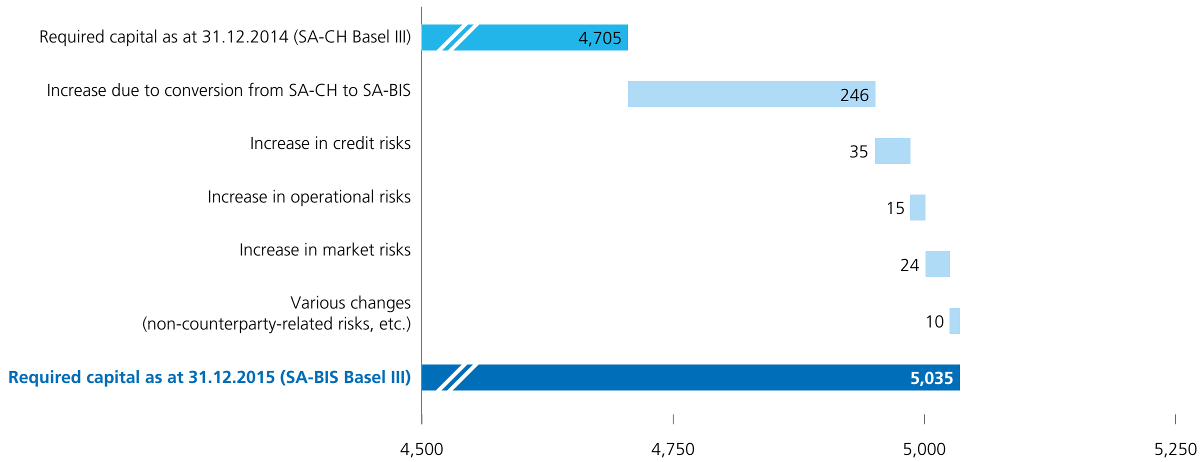



Fig. 10: Change in required minimum capital (in CHF million)




The total capital ratio based on required minimum capital for the group was 17.9 percent at the end of 2015 (2014: 16.6 percent) and reflects Zürcher Kantonalbank's solid equity base. The common equity Tier 1 capital ratio (15.8 percent) also rose compared with the previous year (14.6 percent).

### 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 3.52 percent of total exposure as at 31 December 2015. The leverage ratio of 6.98 percent (group) far exceeds the requirement of 3.52 percent, highlighting the strength of Zürcher Kantonalbank's capital base, even under the unweighted capital adequacy requirements.

Fig. 11: Overall exposure subject to leverage ratio

| | in CHF million | Group 31.12.2015 | Parent Company[1] 31.12.2015 |
|---|---|---|---|
| | Overview of total exposure[2] | | |
| 1 | Total assets as stated in the published accounts[1] | 154,410 | 154,215 |
| 2 | Adjustments relating to investments in banking, financial, insurance and commercial entities that are consolidated for accounting purposes but not included in the scope of regulatory consolidation (m.n. 6–7 FINMA Circular 15/3), and adjustments relating to assets deducted from core capital (m.n. 16–17 FINMA Circular 15/3) | –133 | –3 |
| 3 | Adjustments relating to fiduciary assets that are recognised in the balance sheet but not taken into account in the measurement of the leverage ratio (m.n. 15 FINMA Circular 15/3) | | |
| 4 | Adjustments relating to derivatives (m.n. 21–51 FINMA Circular 15/3) | –840 | –840 |
| 5 | Adjustments relating to securities financing transactions (m.n. 52–73 FINMA Circular 15/3) | 1,337 | 1,337 |
| 6 | Adjustments relating to off-balance-sheet transactions (m.n. 74–76 FINMA Circular 15/3) | 7,107 | 7,106 |
| 7 | Other adjustments | | |
| **8** | **Overall exposure subject to leverage ratio** | 161,880 | 161,815 |

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 The numbering of the lines corresponds to model table 11a in Appendix 2 of FINMA Circular 08/22 Disclosure-Banks.

Fig. 12: Leverage ratio (group)

| | Basic requirement | Capital buffer[1] | Progressive component | Excess | Total |
|---|---|---|---|---|---|
| **Total exposure (in CHF million)** | – | – | – | – | 161,880 |
| Capital requirements | | | | | |
| Minimum capital ratio[2] | 1.08 % | 2.20 % | 0.24 % | – | 3.52 % |
| Minimum capital requirement (CHF million)[3] | 1,748 | 3,569 | 389 | – | 5,706 |
| Capital coverage (in CHF million)[4] | | | | | |
| Common equity Tier 1 (net CET1) | 1,748 | 2,980 | – | 5,241 | 9,970 |
| High-trigger convertible capital | – | 589 | – | | 589 |
| Low-trigger convertible capital | – | – | 389 | 333 | 721 |
| Other Tier 2 capital | – | – | – | 14 | 14 |
| **Total** | 1,748 | 3,569 | 389 | 5,587 | 11,293 |
| **Leverage ratio 31.12.2015** | 1.08 % | 2.20 % | 0.24 % | 3.45 % | 6.98 % |
| **Leverage ratio 31.12.2014**[5] | 1.08 % | 2.21 % | 0.24 % | 2.27 % | 5.80 % |

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 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 Total exposure as at 31.12.2014 was calculated in accordance with Art. 133–135 CAO from the average of the last three month-end values.

Fig. 13: Leverage ratio parent company[1, 2]

| | Basic requirement | Capital buffer[3] | Progressive component | Excess | Total |
|---|---|---|---|---|---|
| **Total exposure (in CHF million)** | – | – | – | – | 161,815 |
| Capital requirements | | | | | |
| Minimum capital ratio[4] | 1.08 % | 2.21 % | 0.24 % | – | 3.53 % |
| Minimum capital requirement (CHF million)[5] | 1,748 | 3,569 | 388 | – | 5,705 |
| Capital coverage (in CHF million)[6] | | | | | |
| Common equity Tier 1 (net CET1) | 1,748 | 2,980 | – | 5,016 | 9,744 |
| High-trigger convertible capital | – | 589 | – | | 589 |
| Low-trigger convertible capital | – | – | 388 | 333 | 721 |
| Other Tier 2 capital | – | – | – | 14 | 14 |
| **Total** | 1,748 | 3,569 | 388 | 5,363 | 11,068 |
| **Leverage ratio 31.12.2015** | 1.08 % | 2.21 % | 0.24 % | 3.31 % | 6.84 % |
| **Leverage ratio 31.12.2014[7]** | 1.08 % | 2.21 % | 0.24 % | 2.24 % | 5.77 % |

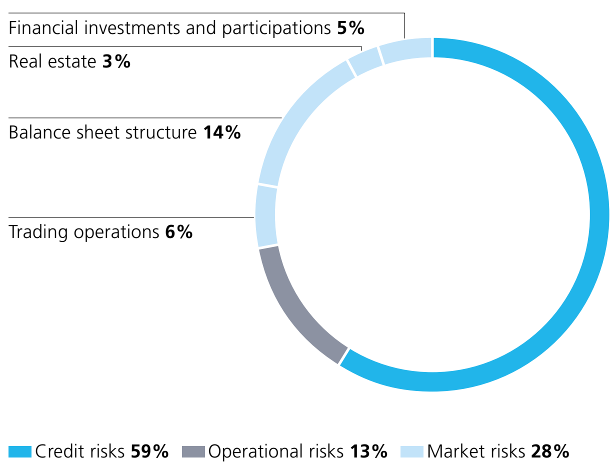
1 The parent company's capital is calculated on a solo consolidated basis from 31 December 2012. Under Art. 10 para. 3 CAO, FINMA can allow a bank to consolidate group companies operating in the financial sector at individual institution level (solo consolidation) on account of their particularly close 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 Includes countercyclical capital buffer.
4 24% of the minimum capital ratios in accordance with Art. 134 CAO.
5 Capital requirements are calculated as a percentage of risk-weighted assets.
6 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.
7 Total exposure as at 31.12.2014 was calculated in accordance with Art. 133 – 135 CAO from the average of the last three month-end values.

**Capital allocation in internal risk management**

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 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.

Of the CHF 9,783 million in eligible capital at the end of 2014, CHF 4,180 million was allocated to the risk business in 2015. The percentage breakdown of the capital allocated by risk category is shown in Figure 14.

Fig. 14: Risk capital assigned by board of directors, by risk category



## Risk categories

Zürcher Kantonalbank's risk strategy is based on the risk categorisation illustrated in Fig. 15.

### 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.

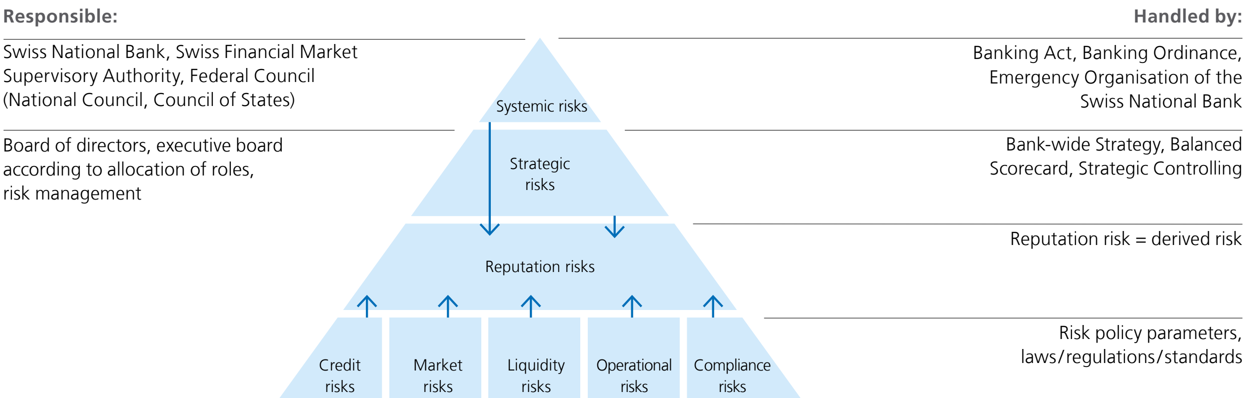
### Reputation risks

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 continuous media monitoring and periodic reputation monitoring are also important to Zürcher Kantonalbank's management of reputation risk.

### Other risks

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

Fig. 15: Risk categories



## 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.

**Strategy, organisation and processes**

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

The bank adopts a risk and cost-based pricing policy, with transparent credit decisions and a selective, quality-oriented strategy for the procurement of funds. Particular attention is also paid to environmental and social risks in the credit assessment process. In recognition of the total commitment of owners, higher risks are also accepted on occasions for SMEs from the Greater Zurich area.

Based on the 3-line model, the preventative risk management and risk control functions are separated from risk management at executive board level. Preventative risk management is responsible for setting parameters for the lending policy, analysing and examining transactions in the context of existing delineations of power, continuous local monitoring of risks and the training of risk managers. Risk control, as the 3rd Line of Defence, is responsible for monitoring risks and risk reporting at portfolio level, as well as defining methods of risk management.

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 the probability of default (PD), assumptions regarding exposure at default (EAD) and the estimated loss given default (LGD). Rating models specific to individual segments are used to determine default probabilities. The rating system for retail and corporate 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. 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 mortgages 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.

**Value adjustments**

As part of their risk management role, the bank's relationship managers constantly monitor all positions in the credit portfolio to identify any signs of value losses. Should any signs be found, a standardised value loss test is used to determine whether a claim should be classed as impaired. Impaired claims are those where the borrower is unlikely to be able to meet his future obligations. Where it appears that the bank will be unable to collect all amounts due on a claim, the bank makes an allowance for the unsecured part of the claim, based on creditworthiness. In determining the required allowance, mortgage collateral (including valuation discounts, settlement and holding costs) and marketable collateral (freely tradable securities such as deposits, precious metals, fiduciary investments, etc.) are included at current realisable value. In particular, the stability of other security (e.g. leased assets, sureties) has to be demonstrated. Authority for the approval of the creation of new individual allowances rests with the risk managers. Above a certain amount, the approval of the risk organisation is also required.

Loans on which interest and corresponding commission have not been received in full 90 days after becoming due, and therefore classified as non-performing, are deemed to be impaired and fully adjusted. Although general allowances are made for overdrafts of up to CHF 30,000 and interest outstanding for more than 90 days and the corresponding commission, individual allowances are the norm.

A central, specialist unit handles impaired positions across all customer segments. This unit steers the positions through the stabilisation and resolution process, with regular review of the adjustment requirement for existing allowances.

**Country risks**

The country risk of individual exposures is determined on the basis of the risk domicile where this is not identical to the domicile of the borrower, in accordance with the Swiss Bankers Association's guidelines on the management of country risk. In the case of secured exposures, the 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.

**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 to the CLS Bank International Ltd. joint venture a clearing centre for settlement of foreign exchange transactions on a "delivery versus payment" basis helps eliminate a substantial element of the settlement risk arising as a result of foreign exchange trading.

**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.

## Risk profile

The following sections provide information about the most important sub-portfolios of the credit exposures of Zürcher Kantonalbank on the basis of various criteria. Figure 16 illustrates credit exposures by counterparty group in accordance with Basel III.

Fig. 16: Group credit exposure breakdown by counterparty group

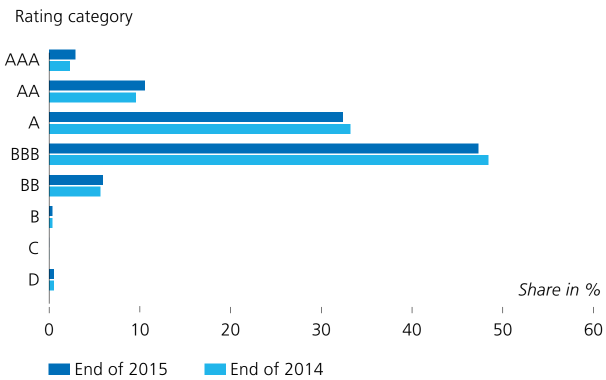
| *Loan commitments [1] in CHF million* | Central governments and central banks | Banks and securities traders | Other institutions [2] | Companies | Retail customers and small businesses [3] | Other positions [4] | **Total** |
|---|---|---|---|---|---|---|---|
| Balance sheet items | | | | | | | |
| Due from banks | 37 | 5,932 | | 42 | | | 6,011 |
| Due from securities financing transactions | 321 | 7,996 | 2,500 | 4,149 | | | 14,966 |
| Due from customers | 1 | 0 | 1,291 | 4,677 | 1,635 | 69 | 7,673 |
| Mortgages | | | 33 | 4,469 | 67,389 | 1,732 | 73,623 |
| Positive replacement value | 37 | 1,308 | 205 | 701 | 559 | 87 | 2,897 |
| Other financial instruments valued at fair value | | 220 | | | | | 220 |
| Debt securities in financial investments | 836 | 557 | 1,166 | 1,337 | 250 | | 4,146 |
| Deferred items | | | | | | 294 | 294 |
| Other assets [5] | | | | | | 115 | 115 |
| **Total as at 31.12.2015** | 1,232 | 16,013 | 5,195 | 15,375 | 69,834 | 2,297 | 109,946 |
| **Total as at 31.12.2014** | 846 | 16,656 | 4,574 | 14,893 | 66,401 | 2,688 | 106,059 |
| Off-balance-sheet items | | | | | | | |
| Contingent liabilities | 4 | 958 | 81 | 2,497 | 291 | 20 | 3,852 |
| Irrevocable commitments [6] | 4 | 213 | 326 | 5,380 | 1,495 | 60 | 7,478 |
| Liabilities for calls on shares and other equities | | | | | | 147 | 147 |
| Credit commitments | | | | | | | |
| **Total as at 31.12.2015** | 8 | 1,171 | 407 | 7,877 | 1,786 | 227 | 11,477 |
| **Total as at 31.12.2014** | 12 | 1,296 | 399 | 8,167 | 1,370 | 221 | 11,465 |

[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 community facilities.
[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 deferred items.
[5] Excludes equalising accounts for value adjustments not recognised in the income statement and deferred tax assets which rely on future profitability.
[6] 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 Accounting Guidelines for Banks (group balance sheet).

### Credit exposures by rating category

Default probability ratings are assigned internally on the basis of a scale from 1 to 19. Figure 17 shows credit exposures to counterparties by rating category using S&P's rating scale. There has been a slight shift in the distribution of credit exposures by rating category towards the better rating categories compared with the previous year.

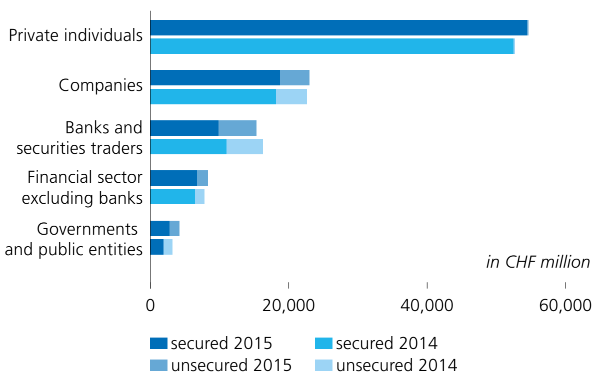
Fig. 17: Credit exposures by rating category




### Credit exposures by customer portfolio

Figure 18 shows credit exposures classified in accordance with the bank's internally defined customer portfolios.

Fig. 18: Credit exposures by customer portfolio




Credit exposures in relation to "private individuals" consist almost entirely of mortgages and represent 52 percent (2014: 51 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 (2014: 22 percent), 82 percent (2014: 80 percent) of which is secured by mortgage an properties 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 reverse repo 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 4 percent of the volume of credit exposures – consists of positions with central banks, central governments and public authorities and institutions.

### 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. Mortgage exposure to private individuals increased by 3.7 % in 2015. The median gross loan-to-value ratio for all properties in the private customer portfolio was 52 percent (2014: 52 percent).

### Unsecured credit exposure

78 percent (2014: 81 percent) of unsecured credit exposure in the "companies" portfolio relates to customers in the AAA to BBB (investment grade) rating categories. The volume of unsecured lending in the corporate customers portfolio decreased slightly. Rating migrations led to an increase in lending in the BB rating category.

Fig. 19: Unsecured credit exposures of corporate customers by rating category

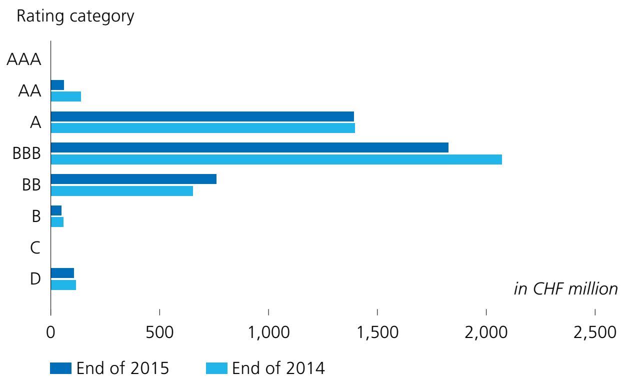
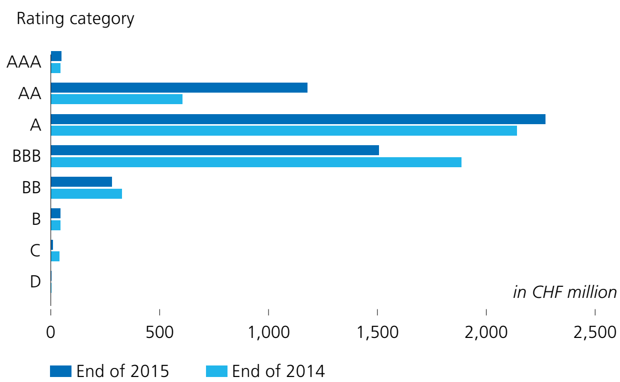



Fig. 20: Unsecured credit exposures of banks and securities traders by rating category




In the "banks and securities traders" customer portfolio, the share of unsecured loans in the A and AA rating categories rose slightly versus the previous year due to a slight increase in money market lending to banks with top credit ratings. A reduction in international trade finance led to a decrease in the volume in the BBB and BB rating categories. 92 percent (2014: 90 percent) of unsecured exposures relate to rating categories AAA to BBB (investment grade).

## Impaired loans

Impaired loans amounted to CHF 466 million (2014: CHF 480 million). After deduction of the estimated recoverable value of the collateral, there was a net debt of CHF 184 million (2014: CHF 195 million, see also Note 2, page 79). Risk-weighted, impaired international loans accounted for less than 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 143 million at the end of the reporting period (2014: CHF 138 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.

## Allowances and provisions

The volume of allowances and provisions for credit risks was reduced by CHF 12 million to CHF 309 million in 2015 (see also Notes 2 (page 79) and 16 (page 88) to the balance sheet).

**Approach to measuring capital adequacy, accounting for collateral and hedging instruments used**

Capital adequacy requirements for credit risks are calculated using the international standard approach (SA-BIZ). 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 and for calculation of the credit equivalent for repos. 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.

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.

## Market risks

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

**Strategy, organisation and processes**

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

Based on the 3-line model, the preventative risk management and risk control functions are separated from risk management at executive board level. The responsibilities of preventative risk management, which are independent of trading and the risk control function downstream include monitoring compliance with risk limits and trading mandates, calculating and analysing the trading income (P&L) and risk figures as well as preventive analysis of potentially high-risk transactions. The risk organisation is also responsible for defining methods of risk measurement, their independent validation and internal and external risk reporting.

Market risk is measured, managed and controlled on the one hand by assigning risk capital in accordance with the capital-at-risk approach and on the other by using value-at-risk limits. 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 and at a confidence level of 99.9 %. The modelling is based on a stressed value-at-risk (Stressed-VaR). Besides general market risks, the model also takes into account issuer default risks.

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. 21).

The bank uses different types of scenarios for stress-testing: in matrix scenarios, all market prices and their corresponding volatilities are heavily skewed. Such a scenario might include a 30 percent general fall in equity market prices with a simultaneous 70 percent increase in market volatility. 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. Hypothetical offsetting expenses are calculated for bonds and bond-type products, based on observed bid-ask spreads and taking into account additional pricing supplements/ discounts. Large-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 quantitative validation focuses on the back-testing of the risk-factor distribution, while the qualitative validation focuses on aspects such as data quality, operation and further development of the model, as well as ongoing plausibility checks on the model results. In addition to the annual review of the model, risks not modelled in the value-at-risk are periodically analysed in a separate process and monitored with regard to materiality.

**Risk profile**

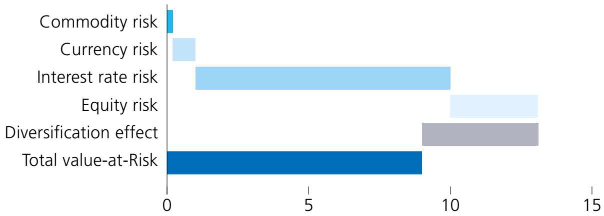
As at 31 December 2015, the value-at-risk stood at CHF 12 million, the same as at the end of the previous year (Fig. 21). Interest rate risks continue to dominate (Fig. 22, page 120). On average, the value-at-risk for 2015 increased from CHF 13 million to CHF 17 million compared with 2014. The rise was mainly due to increased volatility in the financial markets in 2015, especially in the first quarter.

Fig. 21: 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 31.12.2015** | 0 | 1 | 9 | 3 | –4 | 9 | 12 |
| Average current year 2015 | 0 | 2 | 14 | 3 | –6 | 13 | 17 |
| Maximum | 1 | 14 | 37 | 6 | –15 | 38 | 41 |
| Minimum | 0 | 0 | 8 | 1 | –3 | 7 | 11 |
| **As at 31.12.2014** | 1 | 1 | 11 | 2 | –5 | 10 | 12 |

[1] Excluding gold.
[2] Including gold.
[3] Sum of modelled total risk and risk premium for trading products not fully modelled.

Fig. 22: Components of value-at-risk (*in CHF million)*



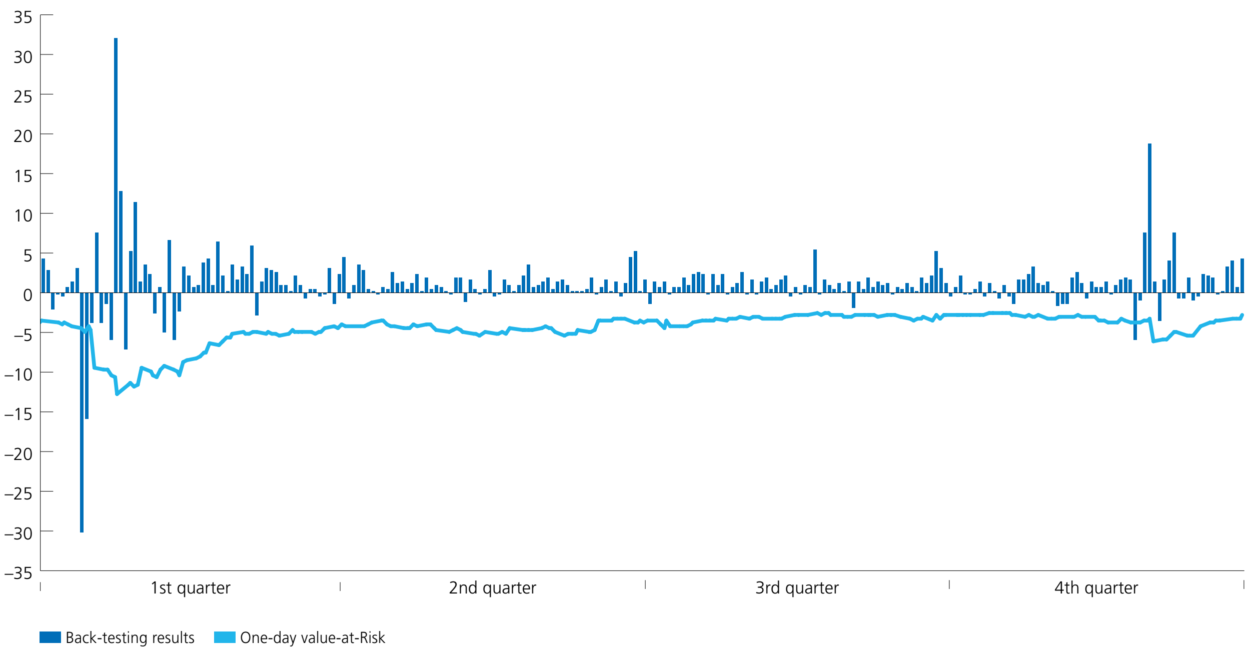

## Back-testing results 2015

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 (Fig. 23). In 2015, three breaches of the value-at-risk were recorded. 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. The back-testing result therefore corresponds to the statistically expected figure. Two cases of breaches were the result of extraordinary market movements after the decision by the Swiss National Bank of 15 January to discontinue the minimum exchange rate against the euro on 15 January, while the third arose from the uncertainty surrounding the decisions regarding fiscal policy taken by the European Central Bank in December.

## Approach to measuring capital adequacy

The required capital is calculated based on the internal 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. By contrast, calculation of the required capital for the specific risks of interest rate instruments is performed in accordance with the international standard approach (SA-BIZ) valid as of 31 December 2015. The required capital for market risks amounted to CHF 353 million as at 31 December 2015.

Fig. 23: 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.

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

### 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.

### Strategy, organisation and processes

Zürcher Kantonalbank pursues a strategy focussed on medium-term optimisation of net interest income for the management of the banking book. The interest rate risk is managed based on the market interest method. For customer deposits and loans with a variable interest rate, the interest rate risk is determined by taking into account the bank's presumed future rate-setting behaviour. Restrictions stemming from the capital commitment are also taken into account.

The interest rate risk in the banking book is managed in strategic terms by the board of directors and in tactical terms by the CFO and treasury. The strategic interest rate risk position is 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. The Risk unit is responsible for the measurement and monitoring of risk as well as independent reporting on interest rate risk.

The interest rate risk takes account of the present value as well as earnings prospects. With the present value perspective, interest rate risks are managed by allocating risk capital in accordance with the capital-at-risk approach (risk horizon one year, confidence level 99.9 %) and by 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 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 whereat 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.

### Risk profile

The sensitivity data (key rate sensitivity) shown in Figure 24 (page 122) 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). The CHF interest rate sensitivity of the banking book stood at CHF 8.1 million per basis point as at 31 December 2015, up on the previous year (CHF 6.7 million per basis point). The higher interest rate exposure mainly serves as a strategic hedge against persistently low or falling Swiss franc interest rates. The euro and US dollar interest rate exposures are fully hedged as of the end of 2015.

The value-at-risk of the interest rate risk position of the banking book increased substantially due to the higher interest rate exposure and increased volatility in interest rate markets (Fig. 25, page 122).

Fig. 24: Interest rate sensitivity of the banking book CHF

| *Basis point sensitivity[1] in CHF 1,000* | up to 12 months | 1 to 5 years | over 5 years | **Total** |
|---|---|---|---|---|
| Hedged item | –163 | 4,227 | 6,470 | 10,534 |
| Hedge | 363 | –877 | –1,961 | –2,475 |
| **Total as at 31.12.2015** | 200 | 3,349 | 4,509 | 8,058 |
| **Total as at 31.12.2014** | –3 | 1,139 | 5,549 | 6,685 |

[1] Basis point sensitivity is measured as a cash value effect when the interest rate in the maturity band concerned falls by 1 basis point (bp). A basis point is 0.01 percentage points.

Fig. 25: Value-at-risk of interest rate risk in the banking book

| *in CHF million* | Value-at-risk (99 % quantile) |
|---|---|
| **As at 31.12.2015** | –226 |
| **As at 31.12.2014** | –98 |

**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.

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

There are detailed parameters and competencies for the purchase of financial investments and real estate, as well as for entering into participations. The investment strategy for the financial investments managed by treasury is laid down in a directive approved by the risk committee. Only debt instruments with a first-class credit rating, eligible as high quality liquid assets (HQLA) may be purchased. The Risk unit is responsible for the measurement and monitoring of risk as well as independent reporting on investment portfolio risks.

Risk is managed internally for the investment portfolio by assigning risk capital. For the determination of the risk capital for financial investments and participations, Zürcher Kantonalbank uses an internal model based on a stress period for the risk factors, taking into account diversification effects, liquidity dependencies and the hedgeability of positions. For real estate owned by the bank, risk capital is allocated based on regulatory capital adequacy requirements.

**Risk profile**
The balance sheet value of debt securities in financial investments was CHF 4.1 billion as at 31 December 2015 (2014: CHF 4.0 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 16 (p. 115). Guarantees given by central governments in relation to debt securities of banks are in some cases not apparent. It should also be noted that, in Figure 16, due to regulatory requirements the exposure to central mortgage institution loans is shown in the companies counterparty group. Other positions for Financial investments and Participations can be found in Notes 5 and 6 to the balance sheet (page 81).

**Approach to measuring capital adequacy**
The capital adequacy required for the investment portfolio is calculated using the international standard approach.

## Operational risks

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

### Strategy, organisation and processes

The objective of Zürcher Kantonalbank's management of operational risk is the risk-oriented protection of people, information, services and assets within its own sphere of responsibility and maintenance as well as the restoration of critical business functions in an operational emergency. The management of operational risk is therefore an essential factor in ensuring that the canton, customers, partners, the public and the regulator can be confident about the services provided by the bank. 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 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. 26: 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. The specialist "Operational Risk" function of the Risk unit specifies methods and provides tools for monitoring the 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.

### Approach to measuring capital adequacy

Zürcher Kantonalbank uses the basic indicator approach to determine the required capital for operational risks. As at 31 December 2015, capital of CHF 318 million (2014: CHF 303 million) was required in order to cover operational risks.

## Liquidity and refinancing risks

Liquidity refers to the bank's capacity to discharge its liabilities promptly and unrestrictedly. The liquidity risk is the risk that this capacity to pay will be impaired under institution or market-specific stress conditions.

Refinancing refers to the procurement of funds for the financing of assets. Management of refinancing involves managing the maturity profile of assets and liabilities. 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.

### Strategy, organisation and processes

The treasury organisational unit is responsible for managing the liquidity risks and refinancing of Zürcher Kantonalbank. The treasury delegates operational liquidity management to the money trading unit. This organisation ensures the efficient use of liquidity based on current and future regulatory and internal rules. Within the framework of risk policy parameters, the board of directors establishes the maximum liquidity risk tolerance based on the internal model. The risk organisation oversees compliance with the rules and reports to the board of directors on this on a regular basis.

The measurement, management and control of short-term liquidity risks comprises both an internal scenario analysis system and the measurement of the regulatory indicator, the Liquidity Coverage Ratio (LCR). The internal scenario analysis system measures liquidity risks in a bank-specific stress scenario tailored to the characteristics of Zürcher Kantonalbank on a daily basis via a fully automated process. 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 customers withdraw their money at the same time 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 business positions as well as liquidity inflows and outflows under the standard stress scenario. For the regulatory indicator LCR, the portfolio of high-value liquid assets is exposed to the LCR scenario in relation to the net outflows after 30 days. As a systemically important bank, with effect from 1 January 2015, Zürcher Kantonalbank is subject to a minimum requirement of 100 % for the LCR. Zürcher Kantonalbank uses an internal model in accordance with marginal note 225 of FINMA Circular 2015/2 Liquidity Risks for Banks for the division of wholesale deposits (major customers and banks). Net outflows of funds from derivatives are calculated based on changes in fair value according to a look back method in accordance with marginal note 262 of the Circular. Besides Swiss francs, which make up by far the largest part of the balance sheet of Zürcher Kantonalbank, the LCR is also monitored and periodically reported in other major currencies. The management of liquidity risks also involves an emergency plan. This supports the situationally appropriate conduct of the relevant functions in a crisis.

Zürcher Kantonalbank pursues a long-term refinancing policy, including both cost and risk aspects. Refinancing risks are managed via a deliberate diversification with regard to refinancing instruments used and markets, to limit dependence on funding sources. The treasury uses short and long-term instruments, which are placed on the domestic and international markets. The diversified refinancing base is reflected in a broad product portfolio, comprising customer deposits, bank deposits and capital market refinancing.

**Risk profile**

The liquidity ratios moved within a stable framework in 2015. The quarterly averages for the LCR fluctuated between 114 % and 129 %. The high quality liquid assets (HQLA) used to calculate the LCR remained relatively stable throughout the year, averaging CHF 35.1 billion. As shown in Figure 27, the available liquid assets can be subdivided into Level 1 assets (cash, central bank deposits, tradeable securities) and Level 2 assets (tradeable securities with less strict criteria). The majority of Level 1 assets are held in the form of central bank deposits. The volatility of inflows and outflows of funds is mainly due to non-operational deposits and secured funding of major customers and banks. These fluctuations reflect the active management of the liquidity profile, particularly by targeted management of fixed-term deposits and active collateral management, including SLB and repos.

Fig. 27: Liquidity Coverage Ratio, LCR

| **in CHF million** | Q1 2015 [1] | Q2 2015 [1] | Q3 2015 [1] | Q4 2015 [1] | Q4 2014 [1] |
|---|---|---|---|---|---|
| High quality liquid assets (HQLA) [2] | 34,938 | 34,733 | 34,637 | 36,101 | 32,269 |
| – of which Level 1 | 33,533 | 33,382 | 33,263 | 33,663 | 31,416 |
| – of which Level 2 | 1,406 | 1,351 | 1,374 | 2,439 | 852 |
| Net outflow of funds | 30,568 | 28,038 | 26,952 | 28,188 | 28,579 |
| **Liquidity coverage ratio LCR (in %)** | 114 % | 124 % | 129 % | 128 % | 113 % |

[1] Monthly averages; based on the values shown in the monthly liquidity statement.
[2] Allowing for the unwinding/settlement mechanism in accordance with FINMA Circular 2015/2.

Fig. 28: Coverage ratio customer business

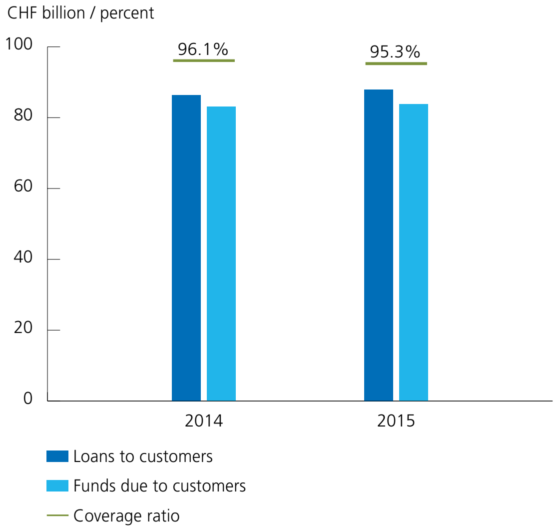



Figure 28 shows a year-on-year comparison of the coverage ratio for asset-side customer business. Funds due to customers (including cash bonds) totalled CHF 83.8 billion as at 31 December 2015, against loans to customers of CHF 87.9 billion. This gives a coverage ratio of 95.3 percent. It has therefore reduced slightly compared to the previous year.

## 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.

### Risk profile

Zürcher Kantonalbank is aware that the United States Department of Justice (DOJ) and the United States Internal Revenue Service (IRS) are investigating the cross-border business of Zürcher Kantonalbank's with US clients. On 29 August 2013, Switzerland and the US signed a joint statement aimed at ending the long-running tax dispute of the banks in 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 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 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.

Notes

# m) Summaries

Due to the application of the new accounting regulations, many figures cannot be compared with figures from previous periods, or only to a limited extent. The multi-year comparison will therefore be established again as from 2014 (based on the figures in accordance with the new accounting regulations).

| Income statement | *in CHF million* | 2015 | 2014 | Change 2015/2014 in % |
|---|---|---|---|---|
| Net interest income | | 1,162 | 1,127 | 3.1 |
| Net commission and fee income | | 663 | 526 | 26.1 |
| Income from trading operations and fair value option | | 328 | 233 | 40.5 |
| Other ordinary income | | 52 | 43 | 19.5 |
| Operating income | | 2,204 | 1,929 | 14.3 |
| Operating expenses | | –1,374 | –1,191 | 15.3 |
| Value adjustments on holdings and depreciation and amortisation of tangible and intangible assets | | –106 | –93 | 14.4 |
| Changes to provisions and other value adjustments and losses | | –61 | –38 | 59.6 |
| Operating profit | | 664 | 607 | 9.3 |
| Extraordinary income | | 66 | 41 | 63.6 |
| Taxes | | –8 | –0 | – |
| Group net income | | 722 | 647 | 11.5 |
| **Balance sheet (before distribution of net profit)** | *in CHF million* | | | |
| Total assets | | 154,410 | 145,872 | 5.9 |
| Mortgages | | 73,623 | 71,349 | 3.2 |
| Liabilities from customer deposits | | 80,820 | 79,969 | 1.1 |
| Provisions | | 584 | 539 | 8.4 |
| Equity | | 10,429 | 9,487 | 9.9 |
| **Key figures** | *in %* | | | |
| Return on equity (ROE) | | 7.5 | 7.2 | |
| Cost Income Ratio (CIR) [1] | | 62.4 | 61.7 | |
| Common equity Tier 1 ratio (CET1) | | 15.8 | 14.6 | |
| Core capital ratio (Tier 1) | | 16.8 | 15.6 | |
| Total capital ratio | | 17.9 | 16.6 | |
| Leverage ratio | | 7.0 | 5.8 | |
| Liquidity Coverage Ratio (LCR) [2] | | 128 | – | |
| **Assets under management** | *in CHF million* | | | |
| Total assets under management [3] | | 257,507 | 208,677 | 23.4 |
| Net new money (NNM) [3] | | –2,502 | 927 | |
| **Personnel / banking outlets** | *Number* | | | |
| Headcount after adjustment for part-time employees, as on reporting date | | 5,179 | 4,844 | 6.9 |
| Banking outlets [4] | | 91 | 97 | |

(continued on page 127)

## Overviews (continued)

| Profit distribution *in CHF million* | 2015 | 2014 | Change 2015/2014 in % |
|---|---|---|---|
| Share paid to canton to meet cost of capital | 26 | 34 | –23.1 |
| Distribution to canton | 200 | 164 | 22.0 |
| Distribution to municipalities | 100 | 82 | 22.0 |
| Total profit distribution | 326 | 280 | 16.5 |

| | | |
|---|---|---|
| Additional compensation for state guarantee | 21 | – |
| Additional payments from public service mandate | 128 | 106 |

| Rating agencies *Rating* | | |
|---|---|---|
| Fitch | AAA | AAA |
| Moody's | Aaa | Aaa |
| Standard & Poor's | AAA | AAA |

[1] Charged: Cost-income ratio (excl. changes in default-related value adjustments and losses from interest business).
[2] Monthly averages, 4th quarter 2015.
[3] Restated following a change in segmentation of business partners.
[4] Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as five automated banks.

The following tables show the multi-year comparison according to the AGB for the years 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 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 |
| Deferred items | 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 |
| Medium-term notes | 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 |
| Deferred items | 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 in group profits | | | | | | | | –7 |
| Equity | 9,487 | 9,208 | 8,784 | 8,568 | 8,180 | 7,834 | 7,436 | 7,334 |
| **Total assets** | 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 | | | | | | | | |
| 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 consolidated financial statements as of 31 December 2015 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, statement of changes in equity and notes (pages 62 to 125), for the year ended 31 December 2015.

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

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

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

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2

**Opinion**
In our opinion, the consolidated financial statements for the year ended 31 December 2015 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, 25 February 2016

Ernst & Young Ltd

Rolf Walker
Licensed audit expert
(Auditor in charge)

Stefan Lutz
Licensed audit expert

# Parent company financial statements

# Income statement

| *in CHF million* | Notes | 2015 | 2014 | Change | Change in % |
|---|---|---|---|---|---|
| Result from interest operations | | | | | |
| Interest and discount income | | 1,396 | 1,506 | –111 | –7.3 |
| Interest and dividend income from financial investments | | 64 | 72 | –8 | –11.4 |
| Interest expense | | –300 | –451 | 150 | –33.3 |
| **Gross result from interest operations** | | 1,159 | 1,128 | 31 | 2.8 |
| Changes in value adjustments for default risk and losses from the interest operations | | 3 | –1 | 4 | –355.7 |
| **Subtotal net result from interest operations** | | 1,162 | 1,127 | 36 | 3.2 |
| Result from commission business and services | | | | | |
| Commission income from securities trading and investment activities | | 501 | 449 | 52 | 11.6 |
| Commission income from lending activities | | 50 | 58 | –8 | –13.2 |
| Commission income from other services | | 91 | 86 | 4 | 4.7 |
| Commission expenses | | –83 | –82 | –1 | 1.6 |
| **Subtotal result from commission business and services** | | 559 | 512 | 47 | 9.2 |
| **Result from trading activities and the fair value option** | 32 | 303 | 210 | 93 | 44.5 |
| Other result from ordinary activities | | | | | |
| Result from disposal of financial investments | | 7 | 2 | 4 | 173.5 |
| Participation income | | 127 | 20 | 107 | 538.3 |
| Result from real estate | | 7 | 8 | –1 | –7.5 |
| Other ordinary income | | 16 | 16 | 0 | 1.8 |
| Other ordinary expenses | | –3 | –3 | –0 | 17.4 |
| **Subtotal other results from ordinary activities** | | 154 | 43 | 111 | 256.0 |
| **Operating income** | | 2,178 | 1,891 | 287 | 15.2 |
| Operating expenses | | | | | |
| Personnel expenses | 34 | –892 | –797 | –95 | 11.9 |
| Other operating expenses | 35 | –401 | –369 | –32 | 8.6 |
| **Subtotal operating expenses** | | –1,293 | –1,166 | –127 | 10.9 |
| Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets | | –103 | –93 | –9 | 9.8 |
| Changes to provisions and other value adjustments and losses | | –60 | –38 | –22 | 58.6 |
| **Operating result** | | 722 | 594 | 129 | 21.6 |
| Extraordinary income | 36 | 62 | 36 | 26 | 72.8 |
| Extraordinary expenses | 36 | –0 | –2 | 2 | –87.8 |
| Change in reserves for general banking risks | 36 | –100 | –232 | 132 | –56.9 |
| **Net income** | | 684 | 396 | 288 | 72.9 |

# Distribution of net profit

| *in CHF million* | 2015 | 2014 | Change | Change in % |
|---|---|---|---|---|
| Profit for the current year | 684 | 396 | 288 | 72.9 |
| Profit carried forward | 1 | 1 | –0 | –24.6 |
| Balance sheet profit | 685 | 397 | 288 | 72.5 |
| Distribution of net profit | | | | |
| **Profit distribution** | | | | |
| **Dividends** | 326 | 280 | 46 | 16.5 |
| – of which share paid to canton to meet cost of capital | 26 | 34 | –8 | –23.1 |
| – dividends for the benefit of the canton | 200 | 164 | 36 | 22.0 |
| – dividends for the benefit of the municipalities | 100 | 82 | 18 | 22.0 |
| **Profit retained** | | | | |
| **Allocated to reserves** | 358 | 116 | 242 | 208.6 |
| – allocated to statutory retained earnings reserves | | 116 | –116 | –100.0 |
| – allocated to voluntary retained earnings reserves | 358 | | 358 | 100.0 |
| New profit carried forward | 1 | 1 | –0 | –17.1 |

The distribution of profit was approved by the board of directors on 28 January 2016. Approval of the annual financial statements by the cantonal parliament is planned for 25 April 2016.

# Balance sheet

## before distribution of net profit, as at 31 December

| *in CHF million* | Notes | 2015 | 2014 | Change | Change in % |
|---|---|---|---|---|---|
| Assets | | | | | |
| Liquid assets | | 32,490 | 27,062 | 5,428 | 20.1 |
| Amounts due from banks | | 5,817 | 5,428 | 389 | 7.2 |
| Amounts due from securities financing transactions | 1 | 14,966 | 14,040 | 927 | 6.6 |
| Amounts due from customers | 2 | 7,716 | 7,598 | 118 | 1.6 |
| Mortgage loans | 2 | 73,623 | 71,349 | 2,274 | 3.2 |
| Trading portfolio assets | 3 | 8,880 | 10,089 | –1,208 | –12.0 |
| Positive replacement values of derivative financial instruments | 4 | 2,983 | 2,544 | 439 | 17.3 |
| Other financial instruments at fair value | 3 | | | | |
| Financial investments | 5 | 4,177 | 4,122 | 55 | 1.3 |
| Accrued income and prepaid expenses | | 236 | 293 | –57 | –19.5 |
| Participations | | 562 | 199 | 362 | 181.5 |
| Tangible fixed assets | | 852 | 718 | 134 | 18.6 |
| Intangible assets | | 3 | 1 | 2 | 216.9 |
| Other assets | 10 | 545 | 471 | 75 | 15.9 |
| **Total assets** | | 152,851 | 143,914 | 8,937 | 6.2 |
| Total subordinated claims | | 291 | 307 | –16 | –5.1 |
| – of which subject to mandatory conversion and/or debt waiver | | 8 | 30 | –21 | –72.0 |
| Liabilities | | | | | |
| Amounts due to banks | | 34,749 | 28,924 | 5,825 | 20.1 |
| Liabilities from securities financing transactions | 1 | 2,991 | 2,754 | 237 | 8.6 |
| Amounts due in respect of customer deposits | | 80,880 | 79,965 | 915 | 1.1 |
| Trading portfolio liabilities | 3 | 2,110 | 2,728 | –618 | –22.7 |
| Negative replacement values of derivative financial instruments | 4 | 2,067 | 1,869 | 198 | 10.6 |
| Liabilities from other financial instruments valued at fair value | 3, 14 | 2,725 | 1,912 | 813 | 42.5 |
| Cash bonds | | 269 | 381 | –112 | –29.4 |
| Bonds | | 7,669 | 7,817 | –149 | –1.9 |
| Central mortgage institution loans | | 7,716 | 6,964 | 752 | 10.8 |
| Accrued expenses and deferred income | | 505 | 418 | 86 | 20.6 |
| Other liabilities | 10 | 207 | 256 | –50 | –19.4 |
| Provisions | 16 | 572 | 536 | 36 | 6.6 |
| Reserves for general banking risks | | 4,906 | 4,806 | 100 | 2.1 |
| Corporate capital | 17 | 2,425 | 1,925 | 500 | 26.0 |
| Statutory retained earnings reserves | | 1,213 | 2,260 | –1,047 | –46.3 |
| Voluntary retained earnings reserves | | 1,163 | | 1,163 | 100.0 |
| Profit carried forward | | 1 | 1 | –0 | –24.6 |
| Net income | | 684 | 396 | 288 | 72.9 |
| **Equity** | 21 | 10,392 | 9,388 | 1,004 | 10.7 |
| **Total liabilities** | | 152,851 | 143,914 | 8,937 | 6.2 |
| Total subordinated liabilities | | 1,310 | 588 | 723 | 123.0 |
| – of which subject to mandatory conversion and/or debt waiver | | 1,310 | 588 | 723 | 123.0 |
| Off-balance-sheet transactions | | | | | |
| Contingent liabilities | 2 | 3.,852 | 3,886 | –34 | –0.9 |
| Irrevocable commitments | 2 | 8,907 | 9,284 | –377 | –4.1 |
| Liabilities for calls on shares and other equities | 2 | 147 | 147 | –0 | –0.1 |
| Credit commitments | | | | | |

# Equity statement

| *in CHF million* | Corporate capital | Statutory profit reserves | Reserves for general banking risks | Voluntary profit reserves | Balance sheet profit | Total equity |
|---|---|---|---|---|---|---|
| Total equity as at 1 January 2014 | | | | | | |
| Opening amount | 1,925 | 2,120 | 4,574 | | 511 | 9,130 |
| Capital increase | | | | | | |
| Capital decrease | | | | | | |
| Increase in scope of capital consolidation | | | | | | |
| Decrease in scope of capital consolidation | | | | | | |
| Other contributions / other capital paid in | | | | | | |
| Acquisition of own capital shares | | | | | | |
| Disposal of own capital shares | | | | | | |
| Reclassifications | | | | | | |
| Profit from sale of own capital shares | | | | | | |
| Capital costs on endowment capital | | | | | –39 | –39 |
| Allocation to the canton from previous years profit | | withdrawals | | | –220 | –220 |
| Allocation to municipalities from previous years profit | | | | | –110 | –110 |
| Revaluation adjustments not affecting net income | | | | | | |
| Other allocations to reserves for general banking risks | | | 232 | | | 232 |
| Other allocations to other 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 |

| *in CHF million* | Corporate capital | Statutory profit reserves | Reserves for general banking risks | Voluntary profit reserves | Balance sheet profit | Total equity |
|---|---|---|---|---|---|---|
| Total equity as at 1 January 2015 | | | | | | |
| Opening amount | 1,925 | 2,260 | 4,806 | | 397 | 9,388 |
| Capital increase | 500 | | | | | 500 |
| Capital decrease | | | | | | |
| Increase in scope of capital consolidation | | | | | | |
| Decrease in scope of capital consolidation | | | | | | |
| Other contributions / other capital paid in | | | | | | |
| Acquisition of own capital shares | | | | | | |
| Disposal of own capital shares | | | | | | |
| Reclassifications | | –1,163 | | 1,163 | | |
| Profit from sale of own capital shares | | | | | | |
| Capital costs on endowment capital | | | | | –34 | –34 |
| Allocation to the canton from previous years profit | | | | | –164 | –164 |
| Allocation to municipalities from previous years profit | | | | | –82 | –82 |
| Revaluation adjustments not affecting net income | | | | | | |
| Other allocations to reserves for general banking risks | | | 100 | | | 100 |
| Other allocations to other reserves | | 116 | | | –116 | |
| Profit for the current year | | | | | 684 | 684 |
| **Total equity as at 31 December 2015** | 2,425 | 1,213 | 4,906 | 1,163 | 685 | 10,392 |

# Notes

Under Art. 36 of the Swiss Ordinance on Banks and Savings Banks, institutions that 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.

The same statements apply to the parent company as they do with respect to the group with regard to the company portrait, explanations relating to risk management, the identification of default risks and definition of the need for value adjustments, valuation of coverage and explanation regarding the business policy in the use of derivative instruments as well as regarding the use of hedge accounting and significant events following the balance sheet date.

## Accounting and valuation principles

The accounting, valuation and balance sheet reporting are based on the provisions of the Code of Obligations and Swiss banking law, the accounting guidelines for banks, securities traders, financial groups and conglomerates according to Circular 15/1 issued by the Swiss Federal Financial Markets Supervisory Authority (AGB) of 28 September 1997 and the regulations based on it.

The statutory financial statements of the parent company are drawn up in compliance with the accounting principles of the group with the following exceptions:

All participations are recognised at lower of cost or market in the statutory financial statements. The goodwill from acquisition is included under participations.

In the individual financial statements, the reserves for general banking risks are shown as an individual item in the balance sheet. Their formation and release is shown under changes in reserves for general banking risks.

The annual financial statements (for the parent company) are being restated in compliance with the provisions of Art. 25 para. 1 a) BO ("Reliable assessment statutory single-entity financial statements"). The balance sheet reporting principle was adapted with the aim of being able to write down the goodwill on the Swisscanto participation according to the principles of consolidated accounting. An individual financial statement prepared according to the true and fair view principle (Art. 25 Abs. 1 b) BO) would not have permitted this. The adaptation had no further consequences.

Notes

# a) Information on the balance sheet

## 1 Breakdown of securities financing transactions

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions[1] | 14,966 | 14,040 |
| Book value of obligation from cash collateral received in connection with securities lending | 2,991 | 2,754 |
| Book value of securities lent in connection with securities lending or delivered as collateral in securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreement | 1,830 | 3,973 |
| – of which with unrestricted rights to resell or pledge | 1,830 | 3,973 |
| Fair value of securities received and serving as collateral in connection with securities lending or securities borrowing as well as securities received in connection with reserve repurchase agreements with an unrestricted right to resell or replied | 34,760 | 40,356 |
| – of which repledged securities | 292 | 4 |
| – of which resold securities | 24,525 | 25,671 |

[1] Before Netting agreements

## 2 Overview of collateral for loans and off-balanced-sheet transactions, as well as impaired loans

| | Type of collateral | | | |
|---|---|---|---|---|
| *in CHF million* | Secured mortgages | Other collateral | Unsecured | Total |
| Total Loans | | | | |
| Amounts due from customers | 87 | 838 | 6,900 | 7,825 |
| Mortgage loans | | | | |
| – Residential property | 61,280 | | | 61,280 |
| – Office and commercial buildings | 7,957 | | | 7,957 |
| – Trade and industrial property | 2,331 | | | 2,331 |
| – ROW | 2,102 | | | 2,102 |
| **Total mortgage loans** | 73,670 | | | 73,670 |
| **Total lendings** (before netting value adjustments) **2015** | 73,757 | 838 | 6,900 | 81,495 |
| **Total lendings** (before netting value adjustments) **2014** | 71,510 | 848 | 6,765 | 79,124 |
| **Total lendings** (after netting value adjustments) **2015** | 73,708 | 837 | 6,795 | 81,339 |
| **Total lendings** (after netting value adjustments) **2014** | 71,458 | 846 | 6,642 | 78,946 |
| Off-balance-sheet | | | | |
| Contingent liabilities | 51 | 1,632 | 2,169 | 3,852 |
| Irrevocable commitments | 1,240 | 47 | 7,619 | 8,907 |
| Obligations to pay up shares and make further contributions | | | 147 | 147 |
| Credit commitments | | | | |
| **Total off-balance-sheet 2015** | 1,291 | 1,679 | 9,936 | 12,907 |
| **Total off-balance-sheet 2014** | 960 | 2,568 | 9,789 | 13,317 |

(continued on page 139)

## 2 Overview of collateral for loans and off-balanced-sheet transactions, as well as impaired loans

### Information on impaired loans

| *in CHF million* | Gross debt amount | Liquidation value of collateral | Net debt amount | Individual value adjustments[1] |
|---|---|---|---|---|
| **Impaired loans** | | | | |
| 2015 | 466 | 282 | 184 | 162 |
| 2014 | 480 | 285 | 195 | 182 |

[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.

## 3 Trading portfolios and other financial instruments at fair value

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Assets | | |
| Debt securities, money market securities / transactions | 3,883 | 5,109 |
| – of which listed[1] | 3,647 | 4,934 |
| Equity-type securities | 2,773 | 2,473 |
| Precious metals and commodities | 1,929 | 2,125 |
| Other trading portfolio assets | 296 | 381 |
| **Total trading business** | 8,880 | 10,089 |
| Debt securities | | |
| Structured products | | |
| Other | | |
| **Total other financial instruments with fair value valuation** | | |
| **Total assets** | 8,880 | 10,089 |
| – of which determined using a valuation model | 296 | 381 |
| – of which securities eligible for repo transactions in accordance with liquidity requirements | 1’161 | 1’595 |

[1] Listed = traded on a recognised exchange.

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| **Liabilities** | | |
| Debt securities, money market securities / transactions | 2,085 | 2,681 |
| – of which listed[1] | 2,074 | 2,673 |
| Equity-type securities | 17 | 45 |
| Precious metals and commodities | 9 | 1 |
| Other trading portfolio liabilities | | 1 |
| **Total trading business** | 2,110 | 2,728 |
| Debt securities | | |
| Structured products | 2,725 | 1,912 |
| Other | | |
| **Total other financial instruments at fair value valuation** | 2,725 | 1,912 |
| **Total liabilities** | 4,835 | 4,641 |
| – of which determined using a valuation model | 2,725 | 1,912 |

[1] Listed = traded on a recognised exchange.

## 4 Derivative instruments (assets and liabilities)

| *in CHF million* | Trading instruments: Positive replacement values | Trading instruments: Negative replacement values | Trading instruments: Contract volume | Hedging instruments: Positive replacement values | Hedging instruments: Negative replacement values | Hedging instruments: Contract volume |
|---|---|---|---|---|---|---|
| Interest rate instruments | | | | | | |
| Forward contracts including FRAs | 1 | 2 | 4,010 | | 1 | 1,500 |
| Swaps | 6,787 | 5,857 | 267,089 | 672 | 1,188 | 26,236 |
| Futures | | | 6,195 | | | |
| Options (OTC) | 197 | 175 | 5,745 | | | |
| Options (traded) | 0 | 0 | 221 | | | |
| **Total** | 6,985 | 6,034 | 283,260 | 672 | 1,189 | 27,736 |
| Foreign exchange / precious metals | | | | | | |
| Forward contracts | 1,487 | 720 | 151,314 | 76 | 745 | 2,645 |
| Combined interest rate/currency swaps | 722 | 1,817 | 6,870 | | | |
| Futures | | | 78 | | | |
| Options (OTC) | 308 | 95 | 12,903 | | | |
| Options (traded) | 1 | 3 | 257 | | | |
| **Total** | 2,517 | 2,635 | 171,422 | 76 | 745 | 2,645 |
| Equity-type securities/indices | | | | | | |
| Forward contracts | | | | | | |
| Swaps | 23 | 13 | 558 | | | |
| Futures | | | 100 | | | |
| Options (OTC) | 222 | 77 | 1,736 | | | |
| Options (traded) | 73 | 120 | 4,291 | | | |
| **Total** | 318 | 210 | 6,685 | | | |
| Credit derivatives | | | | | | |
| Credit default swaps | 6 | 7 | 1,044 | | | |
| Total return swaps | 1 | 1 | 16 | | | |
| First-to-default swaps | | | | | | |
| Other credit derivatives | | | | | | |
| **Total** | 7 | 8 | 1,060 | | | |
| Others [1] | | | | | | |
| Forward contracts | | | | | | |
| Swaps | 2 | 2 | 240 | | | |
| Futures | | | 35 | | | |
| Options (OTC) | 0 | 2 | 54 | | | |
| Options (traded) | | | | | | |
| **Total** | 2 | 4 | 329 | | | |
| Total before netting agreements | | | | | | |
| **2015** | 9,830 | 8,891 | 462,757 | 748 | 1,933 | 30,380 |
| – of which, determined using a valuation model | 9,830 | 8,891 | – | 748 | 1,933 | – |
| 2014 | 10,875 | 10,375 | 501,712 | 739 | 1,779 | 32,274 |
| – of which, determined using a valuation model | 10,875 | 10,375 | – | 739 | 1,779 | – |

| Total after netting agreements | Positive replacement values (cumulative) | Negative replacement values (cumulative) |
|---|---|---|
| **2015** | 2,983 | 2,067 |
| 2014 | 2,544 | 1,869 |

(continued on page 141)

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

Breakdown by counterparty

| *in CHF million* | | | |
|---|---|---|---|
| Total replacement values (after netting agreement) | Central clearing houses | Banks and securities dealers | Other customers |
| **2015** | 661 | 651 | 1,671 |

[1] Includes commodities and hybrid derivatives.

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 15/1, 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.

## 5 Financial investments

| | Book value | | Fair value | |
|---|---|---|---|---|
| *in CHF million* | 2015 | 2014 | 2015 | 2014 |
| Debt securities: Book values | 4,003 | 3,924 | 4,227 | 4,167 |
| – of which, intended to be held to maturity | 4,003 | 3,924 | 4,227 | 4,167 |
| – of which, not intended to be held to maturity (available for sale) | | | | |
| Equity-type securities | 11 | 15 | 22 | 26 |
| – of which qualified participations [1] | | | | |
| Precious metals | 162 | 183 | 162 | 183 |
| Real estate [2] | 1 | 0 | 1 | 0 |
| **Total financial investments** | 4,177 | 4,122 | 4,412 | 4,376 |
| – of which securities eligible for repo transactions in accordance with liquidity requirements | 3,906 | 3,758 | 4,125 | 3,995 |

[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 1 million.

Counterparties by rating

| Moody's | Aaa–Aa3 | A1–A3 | Baa1–Baa3 | Ba1–Ba3 | Lower than Ba3 | No rating |
|---|---|---|---|---|---|---|
| Standard & Poor's, Fitch | AAA–AA– | A+–A– | BBB+–BBB– | BB+–B– | Lower than B– | No rating |
| Debt securities: Book values | | | | | | |
| **2015** | 3,547 | 65 | | | | 392 |

All debt instruments without a rating fulfil the conditions of high-quality liquid assets (HQLA) according to the Liquidity Ordinance (LiqV).

If two or more ratings exist with different risk weightings, those ratings which correspond to the two lowest risk weightings are taken into consideration and the higher of the two risk weightings is used. As a first priority the issue rating is used and as a second priority, the issuer rating.

## 10 Other assets and liabilities

| | Other assets | | Other liabilities | |
|---|---|---|---|---|
| *in CHF million* | 2015 | 2014 | 2015 | 2014 |
| Compensation account | 413 | 392 | | |
| Deferred income tax as recognised as assets | | | | |
| Amount capitalised due to employer contribution reserves | | | | |
| Amount capitalised due to other pension scheme assets | | | | |
| Badwill | | | | |
| Settlement accounts | 5 | 15 | 111 | 142 |
| Indirect taxes | 68 | 49 | 31 | 44 |
| Other | 59 | 15 | 65 | 70 |
| **Total** | 545 | 471 | 207 | 256 |

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

| *in CHF million* | 2015 Book value | 2015 Effective commitment | 2014 Book value | 2014 Effective commitment |
|---|---|---|---|---|
| Pledged/assigned assets | | | | |
| Amounts due from banks | 1,865 | 1,851 | 1,934 | 1,916 |
| Amounts due from customers | 2,051 | 2,031 | 2,320 | 2,264 |
| Mortgage loans | 10,101 | 8,873 | 9,101 | 8,009 |
| Trading portfolio assets | 124 | 124 | 55 | 55 |
| Financial investments | | | | |
| **Total pledged / assigned assets** | 14,140 | 12,879 | 13,409 | 12,243 |

No assets are subject to reservation of ownership.

Instruments serving as security where, in connection with securities financing, the right of resale or pledging has been granted are shown in Note 1 (page 78).

## 12 Liabilities relating to own pension schemes and number and nature of equity instruments of the bank held by own pension schemes

| *in CHF million* | 2015 | 2014 | Change |
|---|---|---|---|
| Liabilities to own pension funds from balance-sheet transactions | | | |
| Liabilities from customer deposits | 144 | 76 | 68 |
| Cash bonds | | | |
| Negative replacement values of derivative instruments | 0 | 1 | –1 |
| Accrued expenses and deferred income | | | |
| **Total** | 144 | 77 | 67 |

The bank's own pension funds do not hold any of the bank's equity instruments.

## 13A Employer contribution reserve (ECR)

| *in CHF million* | Nominal value 2015 | Waiver of usage 2015 | Net amount 2015 | Net amount 2014 | Result from ECR in personnel expenses 2015 | Result from ECR in personnel expenses 2014 |
|---|---|---|---|---|---|---|
| Zürcher Kantonalbank pension fund | | | | | | |
| **Total** | | | | | | |

## 13B Economic benefit / economic obligations and pension expenses

| in CHF million | Overfunding / Underfunding | Economic share of the organisation | | Change to previous year of change in economic share | Contributions paid | Pension costs in personnel expenses | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2015 | 2014 | 2015 | 2015 | 2015 | 2014 |
| Employer-funded fund / employer-funded pension fund | | | | | | | |
| Pension plans without surplus/shortfall | | | | | 103 | 103 | 93 |
| Pension plans with surplus | | | | | | | |
| Pension plans with shortfall | | | | | | | |
| Pension schemes without own assets | | | | | | | |
| **Total** | | | | | 103 | 103 | 93 |

## 14 Issued structured products

| | | Book value | | | | Total |
|---|---|---|---|---|---|---|
| Underlying risk of the embedded derivative | | Valued as a whole | | Valued separately | | |
| *in CHF million* | | Booked in trading portfolio stated under trading operations | Booked in other financial instruments at fair value | Value of the host instruments | Value of the derivative | |
| Interest rate instruments | With own debenture component (ODC) / without ODC | | | | | |
| Equity-type securities | With own debenture component (ODC) / without ODC | | 2,068 | | | 2,068 |
| Foreign currencies | With own debenture component (ODC) / without ODC | | 602 | | | 602 |
| Commodities / Precious metals | With own debenture component (ODC) / without ODC | | 47 | | | 47 |
| Loans | With own debenture component (ODC) / without ODC | | | | | |
| Real estate | With own debenture component (ODC) / without ODC | | | | | |
| Hybrid instruments | With own debenture component (ODC) / without ODC | | 8 | | | 8 |
| **Total 2015** | | | 2,725 | | | 2,725 |
| **Total 2014** | | | 1,912 | | | 1,912 |

## 16 Presentation of value adjustments and provisions, reserves for general banking risk, and changes therein during the current year

| *in CHF million* | Balance end 2014 | Use in conformity with designated purpose | Reclassification | Currency differences | Overdue interest, recoveries | New creation charged to income | Releases to income | As at end of 2015 |
|---|---|---|---|---|---|---|---|---|
| Provisions for deferred taxes | | | | | | | | |
| Provisions for default risks | 138 | –6 | | | | 56 | –41 | 147 |
| Provisions for other business risks [1] | 222 | –5 | | 1 | | 1 | –0 | 219 |
| Provisions for restructuring [2] | 13 | –10 | | | | | | 3 |
| Other provisions [3] | 163 | –1 | | 1 | | 50 | –10 | 202 |
| **Total provisions** | 536 | –22 | | 2 | | 108 | –52 | 572 |
| **Reserves for general banking risks** | 4,806 | | | | | 100 | | 4,906 |
| **Value adjustments for default risks and country risks** | 182 | –21 | | | 4 | 47 | –50 | 162 |
| – of which value adjustments for default risks from impaired loans [4] | 182 | –21 | | | 4 | 47 | –50 | 162 |
| – of which value adjustments for latent risks | | | | | | | | |

[1] Provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
[2] Provisions for restructuring were made in connection with the acquisition of the Swisscanto group and comprise personnel measures and various integration costs.
[3] Other provisions primarily consist of provisions for litigation and provisions for employees' holiday credits.
[4] 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.

Recoveries of receivables already written off in earlier periods are reported directly via changes in in value adjustments for default risk and losses from interest operation. (2015: CHF 5 million / 2014: CHF 3 million).

Zürcher Kantonalbank is aware that the United States Department of Justice (DOJ) and the United States Internal Revenue Service (IRS) are investigating the cross-border business of Zürcher Kantonalbank with US clients. 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 United States Department of Justice is not applicable to banks which the US authorities had started investigating before 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 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 risks, operational risks as well as legal and compliance risks, please refer to section I) of the risk report.

## 17 Presentation of corporate capital

| *in CHF million* | Total nominal value 2015 | Total nominal value 2014 |
|---|---|---|
| Endowment capital | 2,425 | 1,925 |
| Participation capital [1] | | |
| **Total corporate capital** | 2,425 | 1,925 |

[1] By decision of the Cantonal Council of 26 May 2014, the participation capital was abolished as of 1 January 2015.

At present, Zürcher Kantonalbank only has endowment capital and has no outstanding participation capital.

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's corporate capital consists of endowment capital, which with effect from 30 June 2015 was increased by CHF 500 million to CHF 2,425 million.
If needed, the board of directors can call on the unused CHF 575 million of the endowment capital.

The profit distribution takes place on the basis of the stipulations set forth in Section 26f Law on Zürcher Kantonalbank of 28 September 1997, version dated 1 January 2015 and has no direct link to the endowment capital.

## 18 Number and value of equity securities or options on equity securities held by all executives and directors and by employees, and disclosures on any employee participation schemes

Zürcher Kantonalbank does not have any employee participation schemes.

## 19 Amounts due from and due to related persons

| | Receivables | | Obligations | |
|---|---|---|---|---|
| *in CHF million* | 2015 | 2014 | 2015 | 2014 |
| Qualified participants | 11 | 15 | 472 | 405 |
| Group companies | 580 | 644 | 250 | 198 |
| Affiliated companies | 421 | 363 | 1,859 | 1,983 |
| Transactions with members of the bank's governing bodies | 16 | 16 | 30 | 44 |
| Other related persons | | | | |

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

On- and off-balance-sheet transactions with related persons are, with the exception of loans granted to members of the bank's governing bodies, conducted at usual market conditions. Loans to the bank's governing bodies may be granted occasionally on employee terms.

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).

The off-balance-sheet transactions with related persons amounting to CHF 2,728 million essentially included irrevocable credit commitments which comprise, in particular, the Keep Well Agreement with Zürcher Kantonalbank Finance (Guernsey) Ltd. as well as other contingent liabilities.

## 20 Disclosure of significant participants

Zürcher Kantonalbank is an independent public-law institution of the Canton of Zurich.

## 21 Disclosure on the bank's own capital shares and composition of equity

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Reserves for general banking risks | 4,906 | 4,806 |
| Corporate capital | 2,425 | 1,925 |
| Statutory retained earnings reserves | 1,213 | 2,260 |
| Voluntary retained earnings reserves | 1,163 | |
| Profit carried forward | 1 | 1 |
| Profit for the current year | 684 | 396 |
| **Total** | 10,392 | 9,388 |

The bank does not hold any capital shares of its own.

The statutory retained earnings reserves cannot be distributed.

In 2015 the board of directors decided on a reallocation of CHF 1,163 million from the statutory retained earnings reserves into the voluntary retained earnings reserves.

## 22 Disclosures in accordance with the Ordinance against Excessive Compensation with respect of Listed Stock Corporations and Article 663c para. 3 CO for banks whose equity securities are listed.

These requirements are not applicable to Zürcher Kantonalbank.

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

| Rating class ZKB's own country rating | Moody's | 31.12.2015 Net international exposure in CHF million | 31.12.2015 Net international exposure Share in % | 31.12.2014 Net international exposure in CHF million | 31.12.2014 Net international exposure Share in % |
|---|---|---|---|---|---|
| A | Aaa/Aa1/Aa2/Aa3 | 10,241 | 81.9 | 9,797 | 76.9 |
| B | A1/A2/A3 | 708 | 5.7 | 840 | 6.6 |
| C | Baa1/Baa2/Baa3 | 973 | 7.8 | 1,941 | 15.2 |
| D | Ba1/Ba2 | 538 | 4.3 | 96 | 0.8 |
| E | Ba3 | 32 | 0.3 | 26 | 0.2 |
| F | B1/B2/B3 | 11 | 0.1 | 21 | 0.2 |
| G | Caa1/Caa2/Caa3/Ca/C | 9 | 0.1 | 11 | 0.1 |
| **Total** | | 12,511 | 100.0 | 12,733 | 100.0 |

For explanations regarding the rating system please refer to section l) of the risk report (page 102).

Notes

# j) Information on off-balance-sheet items

## 30 Fiduciary business

| in CHF million | 2015 | 2014 |
|---|---|---|
| Fiduciary investments with third-party companies | 205 | 204 |
| Fiduciary investments with group companies and affiliated companies | | |
| Fiduciary loans | | |
| Fiduciary transactions arising from securities lending and securities borrowing (conducted in the name of the bank for the account of customers) | | |
| Other fiduciary transactions | | |
| **Total** | 205 | 204 |

## 31 Breakdown of managed assets and presentation of their development

### a) Breakdown of managed assets

| in CHF million | 2015 [2] | 2014 [3] |
|---|---|---|
| Type of managed assets | | |
| Assets in collective investment schemes managed by Zürcher Kantonalbank | 73,884 | 34,197 |
| Assets under discretionary asset management agreements | 53,595 | 37,214 |
| Other managed assets | 128,737 | 136,007 |
| **Total managed assets (incl. double counted assets)** [1] | 256,216 | 207,418 |
| – of which double counted assets | 25,003 | 22,153 |

[1] 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.
[2] The increase in comparison with the previous year is attributable among other things to the acquisition of Swisscanto, whose funds are managed by Zürcher Kantonalbank.
[3] Following a change in the segmentation of business partners as well as deposits, the figures for the previous year were adjusted as follows: Total assets under management (incl. double-counted assets) CHF 9.6 billion plus double-counted assets CHF 2.6 billion.

### b) Presentation of the development of managed assets

| in CHF million | 2015 | 2014 [3] |
|---|---|---|
| Total managed assets (incl. double counted assets) at beginning | 207,418 | 196,668 |
| +/– Net new money inflow or net new money outflow [1] | –2,574 | 855 |
| +/– Price gains/losses, interest, dividends and currency gains/losses | –867 | 10,027 |
| +/– Other effects [2] | 52,239 | –131 |
| **Total managed assets (incl. double counted assets) at end** | 256,216 | 207,418 |

[1] 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 or disposals of subsidiaries are not included. The interest billed to loan customers is included in the change in net new money inflow/outflow.
[2] For the most part other effects reflect the acquisition of Swisscanto.
[3] Following a change in the segmentation of business partners as well as deposits, the figures for the previous year were adjusted as follows: Total assets under management (incl. double-counted assets) at end CHF 9.6 billion; Net new money inflow/outflow CHF 3.2 billion.

Notes

# k) Information
## on the income statement

### 32 Breakdown of the result from trading activities and the fair value option

### a) Breakdown by business area (in accordance with the organisation of the bank or financial group)

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Income from foreign exchange, banknotes and precious metals | 115 | 93 |
| Income from bonds, interest rate and credit derivatives | 114 | 41 |
| Income from trading in equities and structured products | 34 | 44 |
| Other trading activities [1] | 40 | 32 |
| **Total** | 303 | 210 |

### b) Breakdown by underlying risk and based on the use of the fair value option

| | | Trading activities from: | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *in CHF million* | 2015 | Foreign exchange and banknotes | Precious metals | Securities lending and borrowing | Bonds, interest rate and credit derivatives | Equities and equity derivatives | Commodities and commodity derivatives | Other products [2] |
| Income from foreign exchange, banknotes and precious metals | 115 | 401 | –286 | | | | | |
| Income from bonds, interest rate and credit derivatives | 114 | 0 | | | 112 | 2 | | |
| Income from trading in equities and structured products | 34 | 0 | 13 | | –10 | 27 | 3 | 1 |
| Other trading activities | 40 | | –0 | 43 | –1 | –2 | –0 | |
| **Total** | 303 | 402 | –273 | 43 | 101 | 27 | 3 | 1 |
| Of which from fair value option on assets | | | | | | | | |
| Of which from fair value option on liabilities | 20 | –2 | 0 | | | 7 | 14 | 1 |

[1] Other trading activities includes results from securities lending and borrowing as well as positions for which the executive board and Asset Management are responsible.
[2] Trading income from other products includes hybrid products and real estate derivatives.

## 33 Disclosure of significant refinancing income in the item interest and discount income as well as material negative interest

During the 2015 financial year a refinancing income of CHF –1.9 million (previous year CHF 0.0 million) was included in the interest and discount income item.

Negative interest on lending business is shown as a reduction in the interest and discount income. Negative interest on deposit-taking business is shown a reduction in interest expenses.

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Negative interest on lending business (reduction in the interest and discount income) | 114 | 1 |
| Negative interest on deposit-taking business (reduction in interest expenses) | 82 | 5 |

## 34 Personnel expenses

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Compensation for governing bodies and personnel | 702 | 615 |
| – of which alternative forms of variable compensation | | |
| AHV, IV, ALV and other statutory social security contributions | 159 | 145 |
| Value adjustments relating to the economic benefit or liabilities of pension funds | | |
| Other personnel expenses | 31 | 37 |
| **Total** | 892 | 797 |

## 35 Other operating expenses

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Occupancy expense | 44 | 44 |
| Expenses for information and communication technology | 167 | 160 |
| Expenses for vehicles, machinery, fixtures and fittings and other equipment and operational leasing | 2 | 1 |
| Auditors' fees | 4 | 4 |
| – of which for financial and regulatory audits | 4 | 4 |
| – of which for other services | | |
| Other operating expenses | 184 | 161 |
| – of which as compensation for state guarantee. | 21 | |
| **Total** | 401 | 369 |

## 36 Explanations regarding significant losses, extraordinary income and expenses as well as significant reversals of hidden reserves, reserves for general banking risks and value adjustments and provisions no longer required

| *in CHF million* | 2015 | 2014 |
|---|---|---|
| Extraordinary income | | |
| Reversal of impairment on other participations | 21 | 10 |
| Gain from sale of other real estate / bank premises | 38 | 25 |
| Income from sale of participations | 3 | 0 |
| Other | 1 | 0 |
| **Total** | 62 | 36 |
| Extraordinary expenses | | |
| Losses from sale of other real estate / bank premises | 0 | |
| Expenses incurred outside the reporting period | | 1 |
| Loss from the sale of participations | | 1 |
| Other | 0 | 0 |
| **Total** | 0 | 2 |

In the financial year, no hidden reserves or reserves for general banking risks were reversed and no significant freed-up allowances and provisions were recorded.

## 37 Disclosure of and reasons for revaluation of participations and tangible fixed assets up to acquintion cost at maximum

| *in CHF million* | | 2015 | 2014 |
|---|---|---|---|
| Participation | Domicile | | |
| CLS Group Holdings AG | Lucerne | 3 | – |
| Technopark Winterthur AG | Winterthur | 0 | 0 |
| Technopark Immobilien AG | Zurich | 0 | – |
| Valiant Holding AG | Lucerne | 17 | 1 |
| Vescore Solutions AG | St. Gallen | – | 0 |
| **Total** | | 20 | 1 |

Appreciation is applied to non-listed participations in accordance with the mean value method and, for listed participations, in accordance with the market value method.

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

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

# Pawnbroking agency
## operated by Zürcher Kantonalbank

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

### Balance sheet (before distribution of net profit)

| *in CHF 1,000* | 2015 | 2014 |
|---|---|---|
| Assets | | |
| Cash | 227 | 213 |
| Postal account | 40 | 8 |
| Accounts receivable | | |
| Loans | 6,655 | 7,169 |
| Inventory | | |
| Furniture, IT system | 0 | 0 |
| Accrued interest | 264 | 285 |
| | | |
| **Total assets** | 7,186 | 7,675 |

| *in CHF 1,000* | 2015 | 2014 |
|---|---|---|
| Liabilities | | |
| Zürcher Kantonalbank | 5,762 | 6,281 |
| Surplus from auctions | 240 | 291 |
| Accounts payable | 9 | 6 |
| Provisions | 145 | 155 |
| Reserve fund | 942 | 780 |
| Profit carried forward | 1 | 1 |
| | | |
| Operating profit | 87 | 162 |
| **Total assets** | 7,186 | 7,675 |

### Income statement

| *in CHF 1,000* | 2015 | 2014 |
|---|---|---|
| Expenses | | |
| Operating expenses | 958 | 946 |
| Refinancing expenses | 56 | 55 |
| Losses | 1 | 3 |
| Depreciation and provisions | | |
| Operating profit | 87 | 162 |
| **Total** | 1,102 | 1,166 |

| *in CHF 1,000* | 2015 | 2014 |
|---|---|---|
| Income | | |
| Interest on loans | 902 | 954 |
| Other income | 200 | 212 |
| | | |
| | | |
| **Total** | 1,102 | 1,166 |

### Loan transactions

| | Items | *in CHF 1,000* | Items | *in CHF 1,000* |
|---|---|---|---|---|
| Total loans at 31.12.2014 | | | 6,213 | 7,169 |
| New loans in 2015 (incl. renewals) | | | 11,922 | 14,339 |
| Repayments in 2015 | 12,200 | 14,685 | | |
| Proceeds from auctions incl. inventory receipts | 259 | 168 | | |
| **Total loans at 31.12.2015** | | | 5,676 | 6,655 |

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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 2015 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, statement of changes in equity and notes (pages 133 to 151), for the year ended 31 December 2015.

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

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

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

**Opinion**
In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the Law on Zürcher Kantonalbank.

Building a better
working world

2

## 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, 25 February 2016

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** The audit or 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. Impairment of value in which the book value of an asset (participation, tangible fixed asset or intangible asset) exceeds the achievable value (higher of market value or economic value).

**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 to determine the 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 level** Also referred to as confidence interval or expectation range. 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 (Tier 1)** 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 intended to prevent overheated lending. 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 Charge (Credit Valuation Adjustment)** 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.

**FATCA** With the "Foreign Account Tax Compliance Act" 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.

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

**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** 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.

**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.

**SLB (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).

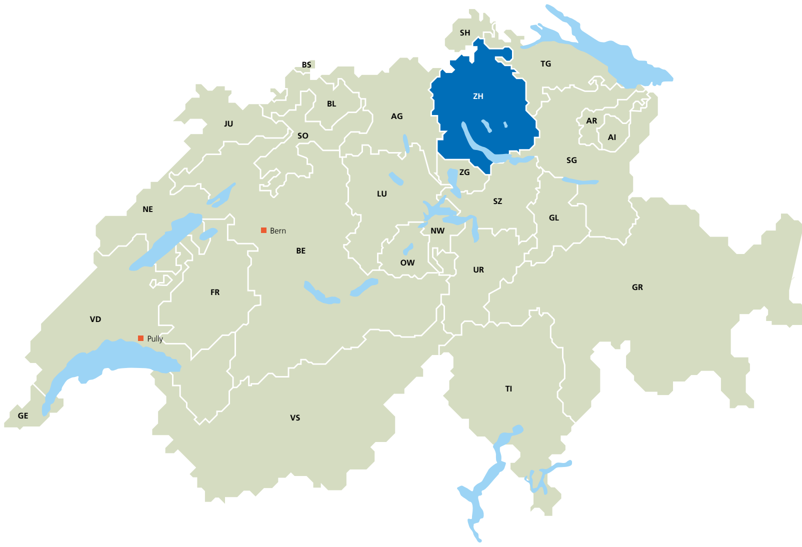
**Volatility Fluctuation,** e. g. in price of a security.

# Locations

**Regional base**
We have a strong local base. With 84 branches and 347 ATMs we have the densest network of ATMs and branches in 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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