Zürcher Kantonalbank

Annual Report

for the 2016 financial year

Key figures (group)

Income statement	in CHF million	2016	2015	Change 2016/2015 in %
Net result from interest operation		1,187	1,162	2.2
Result from commission business and services		728	668[1]	8.9
Result from trading operations and the fair value option		379	328	15.8
Result from other ordinary activities		31	47[1]	–35.1
Operating income		2,325	2,204	5.5
Operating expenses		–1,441[2]	–1,374	4.9
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–124	–106	17.1
Changes to provisions and other value adjustments and losses		–8	–61	–87.3
Operating result		752[2]	664	13.3
Extraordinary result		16	66	–76.0
Taxes		–7	–8	–10.4
Group net income from operations		761[2]	722	5.3

Balance sheet (before distribution of net profit)	in CHF million			
Total assets		157,985	154,410	2.3
Mortgage loans		77,275	73,623	5.0
Amounts due in respect of customer deposits		80,890	80,820	0.1
Provisions		636	584	8.9
Equity		10,793	10,429	3.5

Key figures	in %		
Return on equity (ROE)		7.4[2]	7.5
Cost/income ratio (CIR)[3]		61.7[2]	62.4
Common equity Tier 1 ratio (CET1)[4]		15.6	15.8
Core capital ratio (Tier 1)[4]		17.5	16.8
Total capital ratio[4]		17.5	17.9
Leverage ratio[4]		6.7	7.0
Liquidity coverage ratio (LCR)[5]		132	128

Assets under management	in CHF million			
Total assets under management		264,754	257,505	2.8

Headcount/banking outlets	Number			
Headcount after adjustment for part-time employees, as on reporting date		5,173	5,179	–0.1
Banking outlets[6]		89	91	

Profit distribution	in CHF million			
Share paid to canton to defray cost of capital		21	26	–21.3
Distribution to canton		220	200	10.0
Distribution to municipalities		110	100	10.0
Total profit distribution		351	326	7.5
Additional compensation for state guarantee		22	21	6.7
Additional payments from public service mandate		119	128	–7.0

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

[1] A restatement of CHF 4.3 million was undertaken due to a changed profit allocation (+ profit from the commission and service business / – other ordinary income).
[2] Excludes the CHF 70 million non-recurring expense in connection with the creation of provisions for pension benefit obligations.
[3] Charged: Cost/income ratio (excl. changes in default-related value adjustments and losses from interest business)
[4] In accordance with the provisions for systemically important banks
[5] Average for the quarter, 4th quarter
[6] Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as six automated banks.

Contents

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

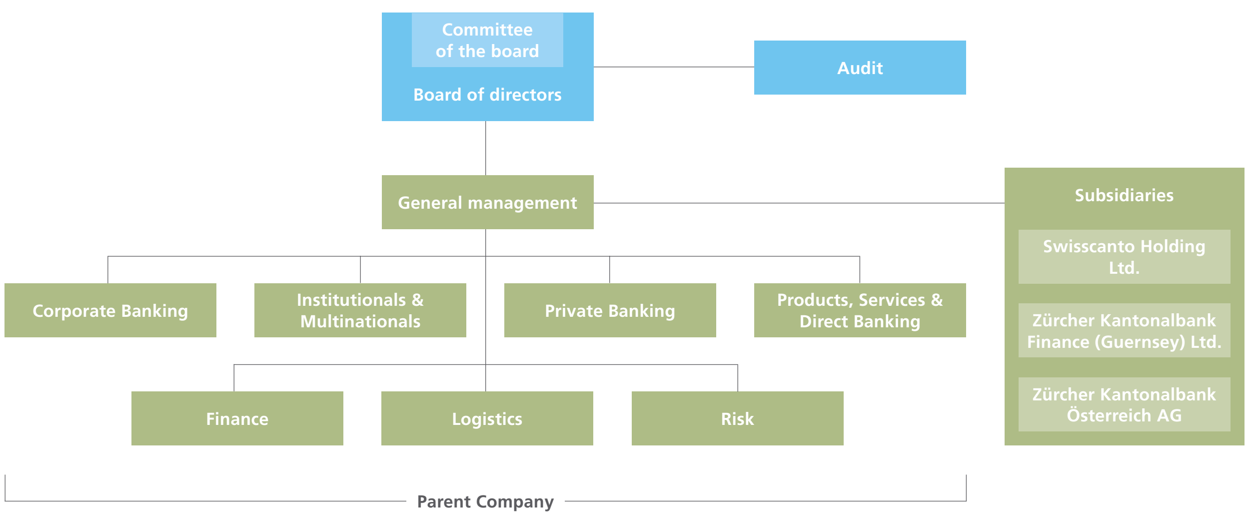
The following rules apply to the tables:

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 and 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 (group)



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.

High level of financial stability
At the end of 2016, the bank had net equity of CHF 10,793 million. The total capital ratio amounted to 17.5 percent. We are therefore one of the best capitalised banks in the world.

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. Our customers are increasingly conducting their banking transactions via our call centres, eBanking and eBanking Mobile.

Highly popular "Büro Züri"
"Büro Züri" also opened its doors with the reopening of the head office on Bahnhofstrasse in Zurich. The 21 workplaces that the bank provides to the Zurich population free of charge are very popular. The utilisation rate is 98.5 percent on average.

Further income diversification
Our economic strength is based on a highly diversified income model. As at the end of 2016, the share of commission and fee income increased by 2 percentage points to 32 percent year-on-year due to Swisscanto's integration which was continued in 2016.

Important employer
5,958 people work at Zürcher Kantonalbank (group) in 5,173.3 full-time positions. With 421 traineeships in banking, IT, logistics and operational maintenance, we are one of the largest training centres in the Zurich region.

Net result
With a group net income of CHF 761 million, we again achieved a pleasing result in 2016. The canton of Zurich receives a dividend of CHF 351 million, of which 21 million is used to cover capital costs and 110 million goes to the municipalities. The canton also received CHF 22 million as compensation for the state guarantee.

Commitment to fintechs and start-ups stepped up
Since 2016, we have committed ourselves to the "Swiss Fintech Innovations" association in order to make Switzerland a leading fintech centre. In addition, we further developed our position as a leading provider of risk capital in Switzerland by participating in the "investiere.ch" investment platform.

Martin Scholl (left) and Dr. Jörg Müller-Ganz at the bank's head office in Bahnhofstrasse, Zurich.

"A long-term approach is in our bank's DNA"

Dr. Jörg Müller-Ganz, chairman of the board of directors and Martin Scholl, CEO, discussing the strength and future of Zürcher Kantonalbank. *Interview: Pascal Ihle*

Dr. Müller-Ganz, in your view, which investment was particularly worthwhile in 2016?
Müller-Ganz: With our multifaceted commitment to the canton and municipalities, we provide substantial and sustainable local support to our community in Zurich. This creates closeness and trust.

And for you, Mr Scholl, what was your best, personal investment in the last year?
Martin Scholl: More creative freedom for our employees. We discontinued the traditional employee appraisals, i.e. the target agreement, qualification and performance value in 2016. We now focus on continuous dialogue between line managers and employees. This should allow us to work more flexibly and with greater agility. Away from rigid management tools towards personal discussion – that does better justice to our fast-paced world.

Was it well received?
Scholl: There will always be sceptics. The positives, however, clearly predominate and there was an almost euphoric mood at times. This shows us that we are on the right path.

You have both invested in trust. Is this a symbol for Zürcher Kantonalbank?
Scholl: Yes. As a bank, we rely on the trust of our customers and employees.
Müller-Ganz: It is more than a symbol. A good investment must go beyond day-to-day politics and be sustainable. To develop trust, we must invest in security. Ultimately, the goal here is also sustainability.

You advocate sustainability. Isn't this in conflict with the short-term nature of our current day-to-day life?
Scholl: No, a long-term focus is entrenched in Zürcher Kantonalbank's DNA and differentiates us from our competitors. Our task is not to look good in the short term but to hand a fundamentally healthy bank to the next generation. This long-term perspective shapes our decisions.

What were the biggest challenges in 2016?
Müller-Ganz: For me, these were the dealings with the regulators, the Financial Market Supervisory Authority and the Swiss National Bank. We have to keep on showing that, although we are a systemically important institution, we have a different business model to the two major banks and we have less complexity. We are not an internationally focused financial institution but a domestic bank significant to, and in particular a stable pillar of, the Swiss financial sector.

And what was the biggest surprise in 2016?
Müller-Ganz: There were so many surprising events in the past year. As a company, we were well prepared for various scenarios and were able to use the opportunities. A pleasant surprise for me was the resilience of the Swiss economy. Switzerland is steaming ahead and maintaining its course despite the storms in global politics and the financial and foreign currency markets.

Zürcher Kantonalbank is also steaming ahead in defiance of the Swiss franc shock. Why are the results similar from year to year?
Scholl: This requires a solid financial foundation, a clear strategy that does not change every six months, consistent implementation of the strategy and, above all, loyal, excellent employees.

What did the bank earn the most money with in 2016?
Scholl: In the past year, operating income reached a historic high and reflects our solid business model with a diversified income base. The commission and service business developed extremely positively. Together with the trading portfolio, it has now established itself as a key source of revenue. Both revenue sources realised a significant increase. With a share of around half of all revenue, interest operations remain the main source of income.

Interest rates are currently a hot topic in the financial world: on the one hand low investment returns and, on the other hand, negative interest rates. How is your bank handling it?
Scholl: It impacts the bank's earnings position but also customers' behaviour. Managing the balance sheet is a challenge with negative interest rates. Money is no longer earned with customer deposits, i.e. on the liabilities side. For this reason, one has to be disciplined in securing margins on the assets side, when lending money. Customers are looking for minimum returns at all costs and are therefore prepared to accept higher risks. As a bank, we are required to provide proper risk information.

The pressure on your margins is rising. Is Zürcher Kantonalbank taking higher risks?
Müller-Ganz: No. Deliberate risk management is a core task at all levels of the bank. A key issue for us is that we manage the various risks in the context of prescribed limits and only invest in line with our risk profile.

Mortgages are an investment class promising surplus returns. Are you pursuing this business like your competitors?
Scholl: When the first warning signs of a real estate bubble forming in Switzerland appeared four or five years ago, we decided to slow down the growth. The corrections on the real estate market came about as we expected. We expect a soft landing and are not anticipating a bubble. In the last year, our mortgages for retail customers grew in line with the market. For mortgages to companies and institutional investors such as housing cooperatives and real estate funds, we were able to take advantage of market opportunities, thereby outperforming the market.

How secure is Zürcher Kantonalbank really?
Müller-Ganz: We are the most secure bank in the world. We have the highest credit rating, "AAA", given by the three leading international rating agencies and are thus the only full-service bank that has such a rating.

But you have a state guarantee.
Müller-Ganz: That is correct. But even without taking the state guarantee into account, with our Standard & Poor's "aa-" rating we are still the leading bank in a global comparison of assessed banks. Zürcher Kantonalbank is the most secure full-service bank in the world, even without a state guarantee.

Is a state guarantee even needed then?
Müller-Ganz: The people and the parliament formalised the state guarantee 147 years ago. Since then, the issue has been revisited by the government from time to time. It was last discussed by the cantonal parliament in 2014 and confirmed with a two-thirds majority. We do everything on our end to ensure that Zürcher Kantonalbank remains the most secure full-service bank in the world – with or without a state guarantee.

You are the fourth largest bank in Switzerland with total assets of almost CHF 160 billion and around 6,000 employees. Does your focus on the canton of Zurich represent a cluster risk for the bank?
Müller-Ganz: Three quarters of our risk lies in the Greater Zurich Area. This is also where we generate three quarters of our profit. With that in mind, one could say there is a cluster risk. But Zurich is the financially strongest canton in Switzerland and Switzerland is one of the most competitive countries in the world. For this reason, in my view, focusing on Zurich is most certainly an attractive prospect.

Do you provide support to Swiss companies abroad?
Scholl: Since it was founded, one of the tasks of Zürcher Kantonalbank has been to develop the economy and society in the canton. We provide support to our customers wherever they go. The more international a company is, the more international are our services. We diversify along with our customers.

What do you benefit from more: the "Zurich made" or the "Swiss made" label?
Scholl: You can't have one without the other. "Zurich made" is also "Swiss made". We find that our competitors go back to their roots in a five-year cycle and want to again be a Swiss bank. We do not have to emphasise this: we are a Swiss bank, and have been for 147 years. Our customers know that.

Products and services in banking are similar. How does Zürcher Kantonalbank differentiate itself from its competitors?
Scholl: Ultimately, it is about more than just products. If someone has to make a particularly important

"As a bank, we rely on the trust of our customers and employees," says Martin Scholl.

financial decision, they will work with a bank that stands for certain values and with which they can identify.

Then there is digitalisation. How is Zürcher Kantonalbank positioned?

Scholl: Digitalisation already started long ago. 20 years ago, Zürcher Kantonalbank was three times smaller, generated a fifth of today's profits and dealt with at least twenty times fewer transactions. We are reaching our targets today with just 25 percent more employees. That is only possible thanks to automation and the use of technology. 10 years ago, the iPhone came on the market and turned our lives upside down in terms of how we transact with banks. Of course, this is a challenge but, in the last 150 years, we have proven that we are able to change and adapt and that we also have the required stability. We built the first online bank 20 years ago already and have been able to build on this knowledge. In addition, we work closely with fintech start-ups, and learn and benefit from this collaboration.

Müller-Ganz: We see the digital transformation among our customers in their day-to-day lives. Our branches are being visited less and less, the use of cash is continuously decreasing and the demand for our digital services is increasing. In contrast, our customers want personal consultations and expertise when it comes to complex investment and financing issues. Two things are needed today – excellent digital and analogue service.

What are the biggest challenges for you in 2017?

Müller-Ganz: Strategy, structure and personnel – these are the major themes that are also on our agenda in 2017. Issues such as the impacts of digitalisation on our business model, the timely fulfilment of our public service mandate, the continuing high level of attractiveness of Zürcher Kantonalbank as a financial services provider and employer.

Scholl: One challenge must surely be the major uncertainty on the market. It is important that we are equipped to deal with all eventualities with the organisation and employees. This also helps us to deal with diversity, a second important topic. Thirdly, we must ensure that the trust that we have in our employees ultimately results in better performance of the bank.

Dr. Jörg Müller-Ganz was appointed to the board of directors in 2007. He joined the committee of the board in October 2010.

Martin Scholl became Chief Executive Officer in 2007. He has been a member of the executive board since 2002. Prior to that, he held various roles at the bank.

Environment and Strategy

Our financial strength is based on our full-service banking strategy, a highly diversified income model and disciplined cost management.

General economic situation

As far as the economic situation is concerned, the acceleration expected in 2016 turned into a slowdown at first. Nevertheless, Switzerland gradually overcame the Swiss franc crisis. From the second half of the year onwards, China's growth-oriented economic policy led to a more promising economic outlook – for emerging markets in particular. However, the economic outlook for the developed world also brightened in the final months. In the USA this was heightened by the infrastructure projects announced by President-elect Donald Trump.

2016 had two big political surprises in store: the British vote to leave the European Union in late June and the election of Donald Trump as the 45th President of the USA in early November. Both votes went against predictions and can be viewed as anti-establishment in nature. Following the Brexit result, the financial markets calmed down after some initial turmoil. In expectation of a more expansive fiscal policy, the election of Donald Trump as the new US President led to expectations of interest rate rises and resurgent inflation expectations in the USA. Towards the end of the year, this led to a global growth in yields, from historically low levels in some cases. The yield on 10-year Swiss government bonds had previously slipped further into the negative zone in the summer months. After the election of Donald Trump, it was a question of picking winners and losers in terms of countries and sectors on the stock markets. The markets ended the year up by almost 10 percent (global equities in CHF). Swiss stocks brought up the rear with a slight fall.

Market environment

With around 260 banks, accounting for nearly 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 private banking. 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. On the one hand, well-established institutions are faced with new competitors from the emerging fintech industry and, on the other hand, this offers even small regional banks the opportunity to offer their services throughout Switzerland.

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. Another factor in this is that we generate most of our value creation in the canton of Zurich and contribute to the prosperity of the region as a major employer. 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.

Fig. 1: Our vision

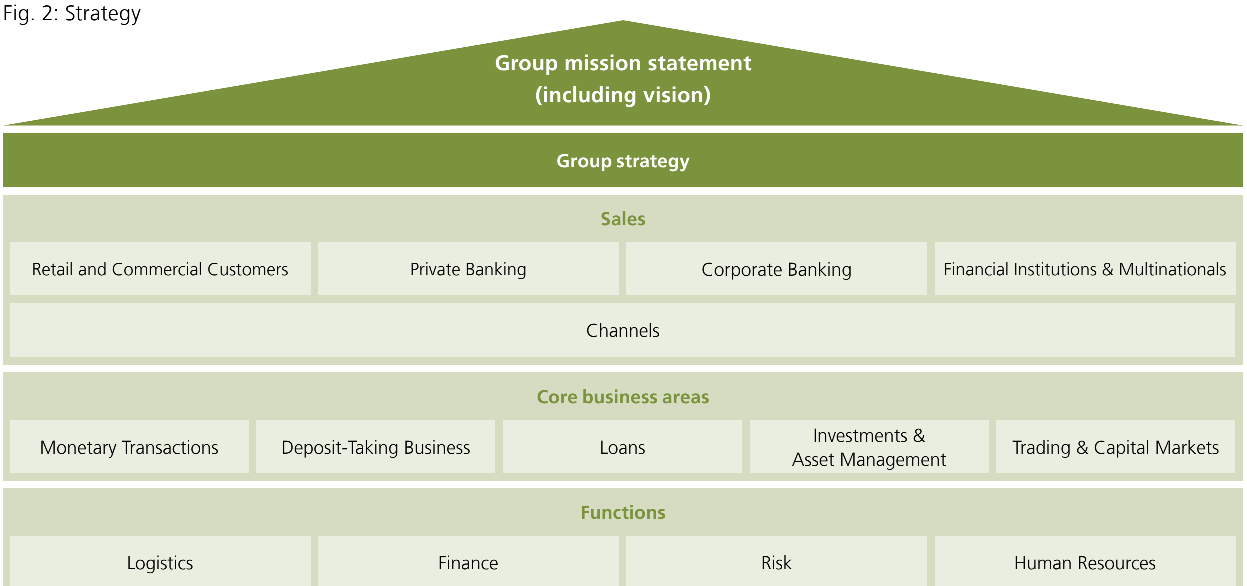
Strategy

Zürcher Kantonalbank pursues a full-service banking strategy. This is directly derived from the Law on Zürcher Kantonalbank and the needs of the people and businesses in the Greater Zurich Area. 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. With our approach of offering comprehensive advice and support, we provide competent, dependable support for our customers at every stage of life and in all business circumstances. Our business model is complemented by selected services in the national and international arena.

Our financial strength and robustness are based on disciplined cost management and a highly diversified income model. As part of this diversification, in 2015, we acquired Swisscanto, whose successful integration continued in the year under review.

Clear performance promises
For each of our different customer segments – retail and commercial customers, business and corporate customers – there are specific performance promises which reflect our service philosophy. We are positioning

Fig. 2: Strategy



ourselves through the high quality of our advisory service, continuity of customer support and a comprehensive, lifetime service offer.

Developments in our service to our customers

In order to meet the changing needs of our customers in an optimal way, we are continually developing our range of products and services and redefining our multi-channel strategy. In the year under review, five branches were modernised and given a new look as part of our programme of conversions/refurbishments in line with our design and service concept (Affoltern am Albis, Effretikon, Pfäffikon, Rüti and Zurich Wollishofen). In our innovation laboratory, our digital channels were also developed during the year under review, in line with technological progress and changing user needs. The innovations include fingerprint login for our eBanking Mobile service. A new feature which can be used to define personal savings goals was added to the Personal Finance Manager integrated into eBanking. Other innovations in eBanking included the expansion of self-service features such as ordering cash from home.

Monetary transactions and deposit-taking business

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 the sale of the hundred-thousandth "ZKB inklusiv" bundled solution in the summer of 2016, a growing number of our retail customers are using one of our "ZKB inklusiv" packages, which combine attractive terms with changing benefits. We want to increase this proportion further.

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 as a third force. In this way, we directly support Switzerland as a business location. We are a select counterparty in international banking and provide lending to foreign banks in connection with Swiss exports.

Investments and asset management

As Switzerland'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 mainly analyses Swiss securities and enjoys an outstanding reputation.

A highlight of the year under review was the launch of a range of more than 40 index funds for retail customers. Also, for investment business, we now only act under the competence brand Swisscanto Invest by Zürcher Kantonalbank. We are now offering all funds, except for precious metal ETFs, under this brand. In this way, we have also strengthened our position in the investment and asset management business in the year under review. We increased the share of income derived from commissions and fees by 2 percentage points to 32 percent at the end of the year under review.

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 in traded asset classes and in debt and equity market services.

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.

Finance

In order to implement our strategy we ensure that the necessary financial resources are available and the regulatory requirements with regard to capital resources and liquidity are fulfilled with an additional reserve buffer. 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.

Risk management

The board of directors deals on a regular basis with the bank's risks. The basis for this is provided partly by detailed quarterly reports on credit, market and liquidity risks, compliance risks, operational risks and reputation risks. The board of directors also carries out a risk assessment at least once a year. The risk management and audit committees of the board of directors investigate these matters and report on them to the board. More information about our risk and compliance organisation and the associated processes and methods can be found in the "Risk report" section (p. 106 onwards).

Human resources

In 2016, we decided to replace our previous target and performance agreement process with the dialogue-oriented and agile "Performance & Development" approach. In doing so, we aim to ensure that management and employees use their strengths more flexibly and in a more focussed manner during the year, constantly align their actions with corporate strategy and thereby contribute more effectively to the success of the bank. Our employees are only able to reach their full potential if they know and understand our business model and strategy. This also promotes collaboration across all levels and areas, which has a positive effect on our culture of trust.

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, a high degree of customer satisfaction along with a balanced diversification of our income streams. We measure achievement of the targets on the basis of key indicators such as 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 economic profit instead of return on equity (ROE). Externally, we continue to state the ROE. The measured key indicators should lie within strategic bandwidths defined by the board of directors. 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 ▪ Fulfil and systematically develop the public service mandate ▪ Retain a high rating ▪ Generate sustainable financial success	**Customers** ▪ Expand market position ▪ Strengthen support and advisory services; keep customer loyalty at high level ▪ Develop brand further
Processes ▪ Develop core business further ▪ Manage risk ▪ Optimise logistics processes	**Employees** ▪ Develop skills and optimise employee placement ▪ Be an attractive employer ▪ Maintain employee satisfaction at a high level

Milestones in 2016

We are very satisfied with the figures achieved in the 2016 financial year. The return on equity amounted to 7.4 percent. The cost/income ratio was 61.7 percent. We have systematically strengthened our capital base in recent years, and at the end of 2016 had a total capital ratio of 17.5 percent. This far exceeded the regulatory required minimum of 14.7 percent (including counter-cyclical buffer). It does not include the CHF 575 million in endowment capital that can still be called in from the canton of Zurich. Use of the callable endowment capital would raise the total capital ratio by 0.9 percentage point.

Fig. 4: Figures achieved in 2016

Variables	Targets	2016	2015	2014
Return on equity (ROE)	[1]	7.4	7.5	7.2
Cost/income ratio (CIR)	*58–64%*	61.7	62.4	61.7
Total capital ratio	*16–19%*	17.5	17.9	16.6
Group rating	*AAA, Aaa*	AAA, Aaa	AAA, Aaa	AAA, Aaa
Employee satisfaction	*65–70 points*	72	72	67
Brand performance	*≥ 60 points*	66	65	61
Customer satisfaction[2]				
Retail customers	*≥ 75 points*	75	75	75
Corporate banking	*≥ 75 points*	83	79	79
Private banking customers	*≥ 75 points*	79	75	75

[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] Survey conducted every two years; 2015 results, next survey 2017.
[3] Figures for 2014/2015 have been recalculated due to restructuring.

AAA rating awarded once again

The rating agencies Standard & Poor's, Moody's and Fitch continue to award 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 include the bank's deep roots in the Zurich region and in Switzerland, its broadly diversified business model, moderate 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. It has also rated the bank's "stand-alone credit profile" very highly at aa-. This describes how safe a bank is on its own, i. e. independently of any support provided by the owner of a bank in an emergency. In the year under review, we also won Global Finance magazine's "Safest Bank Award" for the fifth year in a row. In this survey of the 500 largest banks, Zürcher Kantonalbank emerged in second place once more behind a German development bank and is therefore regarded as the safest full-service bank in the world.

Stable growth of international business

International business with retail customers, which was reorganised in 2015, is based on a tax-compliant business model focussed on a few core markets, mainly in Europe, and Swiss customers abroad. 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. This lays the foundation for stable growth, based on security, competence and professionalism. The most important core markets in Europe are Germany, the UK, Italy, Spain, Austria and the Czech Republic. In terms of emerging markets, our focus is on the United Arab Emirates, Hong Kong and Singapore. Zürcher Kantonalbank Österreich AG – whose assets under management increased to about EUR 1.3 billion in 2016 – acts as a gateway to Europe. It also managed to break even. Zürcher Kantonalbank Österreich AG operates two locations, in Salzburg and Vienna, focusing on investment advisory services and asset management.

Amicable agreement reached with judicial authorities in Germany

An amicable agreement was reached with the judicial authorities in North Rhine-Westphalia covering all German federal states for a one-off payment of EUR 5.7 million in relation to untaxed assets of German customers.

Emergency plan drawn up due to systemic importance

Following the bank's classification as a bank of national systemic importance in 2013, we drew up an emergency plan in the year under review. In this plan we describe how the systemically important functions, which include domestic deposit and lending business as well as payment transactions, can be maintained in the event of a crisis. The emergency plan is triggered if the bank is not able to stabilise itself on its own. We set out the stabilisation measures in the stabilisation plan, which also forms part of the emergency planning for systemically important banks and was drawn up in 2015.

Thurgauer Kantonalbank uses CIO services

We also provide services to other banks in relation to investment, asset management and pensions business. This includes extensive investment research, recommendations regarding investment policy, complete portfolios and processing of mandates. The partners benefit from our expertise and from connection to our systems, allowing them to offer their customers constantly up-to-date solutions similar to full-service banks. Since 2016, Thurgauer Kantonalbank has also used our CIO services.

Involvement in the fintech scene stepped up

The continuing process of digitisation of banking transactions and developments in the area of fintech are among the strategic core themes for the bank. With the aim of making Switzerland a leading international centre for digitisation and innovation in the financial industry, in 2016 we were closely involved in the foundation of the "Swiss Fintech Innovations" association. The main focus of the association is on attracting and supporting innovative (young) businesses and professionals in the area of fintech, achieving close and direct cooperation between business and science on fintech themes and promoting the optimal regulatory framework and technical standards.

Position as provider of venture capital extended

With an annual investment volume of around CHF 15 million in the form of equity and mezzanine capital, Zürcher Kantonalbank was already one of the largest providers of venture capital in Switzerland. In the year under review, we acquired a substantial minority interest in "investiere.ch", a leading Swiss investment platform for start-ups, for a total of CHF 3.5 million in a private round of financing. This strengthens our position in the start-up and fintech arena as well as exploits opportunities for the future continued development of our other financing activities, for instance in the arena of SMEs.

Cooperation entered into with China Construction Bank

Zürcher Kantonalbank and China Construction Bank signed an agreement for renminbi clearing in 2016. China Construction Bank is the only bank in Switzerland that is authorised by the People's Bank of China to conduct cross-border business with China. The agreement means that our corporate customers domiciled in Switzerland can make payments in renminbi. Processing payment transactions with Chinese companies becomes simpler, since China Construction Bank is directly connected to the Chinese clearing system. This is scheduled to be implemented in the first half of 2017.

Paymit and TWINT combined

Mobile payment in the form of smartphone apps is becoming more and more established. During the year under review, the partners in mobile payment solutions Paymit und TWINT decided to offer a joint solution in future under the TWINT brand. Once the competition commission had approved the merger, the newly founded TWINT AG began trading in the autumn of 2016. The features of both solutions have been combined into a new offer. In 2017, users of TWINT and Paymit will be migrated to the new TWINT. The common mobile payment solution will be available to all consumers and merchants, offering versatility in application: at the till, in e-commerce, in apps, at ATMs and between individuals.

Outsourcing 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. The outsourcing of payment transactions to Swisscom has been postponed until the first half of 2017.

The bank that's "close to you" as a credible reality

The behaviour of banks has been the subject of fundamental public debate in recent years. We believe that practised 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. Our brand promise remains the bank that's "close to you". This represents the essence of our brand values. We attach great importance to brand awareness and reputation. A survey conducted in the year under review showed that in many respects people in Zurich believe we fit the bill of the perfect bank. Our aim is to be considered the best bank brand in the Greater Zurich Area. We pursue this objective consistently with a wide variety of measures.

Outlook

We anticipate a continued challenging environment in 2017. However, we are confident that we will again achieve pleasing results in 2017 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 of January 2018, Zürcher Kantonalbank will engage in a comprehensive renewal of its investment advice. As well as the close relationship with their relationship manager, in future our customers will benefit more directly from the knowledge of our investment experts and from the use of modern technology to draw up investment proposals, monitor portfolios and offer advice.

Following a successful test phase in the year under review, 2018 will see the launch of tablet-based advice to retail customers. Personalised simulations, clear visualisations and interactive features will enhance the informative value for our customers.

Due to constantly declining footfall, the bank will close eight counter locations and six agencies by 2018. These locations only offer counter services, mainly deposits and withdrawals.

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.

The investigation of Zürcher Kantonalbank launched by the US authorities in 2011 remains ongoing at the present time.

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.

It is to be assumed that competition within the banking industry will continue to increase 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 remain a matter of importance.

Public Service Mandate

The mandate given to their cantonal bank by the people of Zurich, which is enshrined in law, constitutes the basis of our business activities. It is our USP and we are proud of it.

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. The public service mandate enshrined in this law consists of a threefold obligation of service, support and sustainability.

Three pillars of our commitment

The service obligation is at the heart of the public service mandate. The purpose of this is to provide banking services for the general public and companies in the canton of Zurich. Particular attention is to be paid to requirements for payment transactions and relating to investment and financing business. The services cover a wide, modern range of products and banking services, our dense network of branches, the promotion of SMEs, a special partnership with not-for-profit residential property developers and support for first-time property buyers. We also make products available to the residents and businesses of Zurich that are not usually provided by a conventional full-service bank. These include non-cost-covering micro-loans and tenant deposit accounts.

The support obligation requires the bank to support regional businesses. For instance, our financing expertise helps Zurich to develop further as a business location through targeted support for innovative start-ups. Through over 140 sponsorship commitments, we are helping to make the canton of Zurich sustainable and liveable.

The bank fulfils the sustainability aspect through ZKB environmental loans for climate-friendly building projects and a broad range of sustainable investments. In addition, we view this area as the basis of our long-term financial success, which depends on respect for the principles of sustainability and professional risk management. The bank lives sustainability as an integrated business principle, and this is reflected in our products, among our employees, in our commitment and in our operations. High-quality sustainability and certified environmental management, embedded in the organisation, are therefore features of the implementation of the sustainability obligation in terms of future-proof economic, environmental and social corporate development.

Fig. 5: Public service mandate

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 of CHF 351 million is paid to the canton. The canton uses this, in the first instance, to cover capital costs incurred for the refinancing of the endowment capital (2016: CHF 21 million).

Of the rest, two thirds go to the canton and one third to the municipalities. In this way, Zurich's people benefit from the success of their bank.

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 2016, Zürcher Kantonalbank paid the canton financial compensation of CHF 22 million for the provision of the state guarantee. This is based on an arrangement which was approved by the cantonal parliament in 2015.

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 and 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 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 months, the number of mobile logins has increased by nearly two thirds.

In line with the spirit of the service mandate, the bank strives to offer its customers access to modern products and services on all desired channels. In recent years, the bank has intensively addressed the issue of digitisation and launched several new offerings including a smartwatch app, a budget tool and a mobile payment solution. Over the coming years, further development steps will follow which will further improve the customer experience on the digital channels. Naturally, with regard to all electronic banking transactions, we place the utmost emphasis on security.

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 18.7 million was invested in the network of branches. However, with the continuing advance 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, we closed three agencies during the year under review.

The public service mandate in practice

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 2016 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 zkb.ch/sponsoring. The following comprises a selection of examples of the way in which we fulfil our public service mandate.

Service

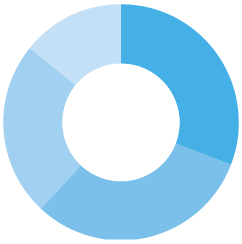
Multiple contact options

As "the bank that's close to you" Zürcher Kantonalbank offers contact options on all channels, whether at one of our 81 branches, at 348 ATMs, via the electronic channels of the eBanking and eBanking Mobile services or using the smartwatch app. During the year under review, 404,500 customers accessed our eBanking service (2015: 380,500). 86,200 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.

ZKB micro-loans for start-ups

As a partner of the "GO! Ziel selbstständig" ("GO!") association, a non-profit organisation, the bank helps people to set up their own business by providing micro-loans. The micro-loans provided by the bank range from CHF 5,000 to CHF 40,000 and normally have a maximum term of three years. In 2016, we financed 24 new, small businesses with a volume of approximately CHF 500,000.

Fig. 6: Use of sponsorship funds



Support

SME Prize for Sustainable Businesses

In January 2017, Zürcher Kantonalbank will award the seventh SME Prize for Sustainable Businesses for 2016, with prize money totalling CHF 150,000. The prize recognises exceptional sustainability efforts by small and medium-sized businesses. The jury, consisting of well-known representatives of industry, science and politics, assesses candidates based on current and future-oriented aspects in the areas of business, management, the environment and society. The main prize was awarded to Schwendimann AG from Münchenbuchsee (BE), and the second and third prizes went to Bio Partner Schweiz AG from Seon (AG) and J. Grimm AG from Oetwil am See (ZH). The special prize for micro-enterprises was awarded to Romer Holzbau AG from Benken (SG) and the special prize for extraordinary achievements went to Gammacatering AG from Hünenberg (ZG). Zürcher Kantonalbank is convinced that sustainably managed businesses perform better in the long term and are better able to hold their own against competitors.

Commitment to young people

For more than a hundred years, Pro Juventute has looked after the needs and concerns of children and young people in Switzerland. A major focus of the organisation is helping to prevent young people from getting into debt: young people in Switzerland are confronted with consumption and consumerism from an early age. How they and their parents deal with this can affect these young people for the rest of their lives. Together with Pro Juventute, we are committed to organise events for parents on the theme of money and consumption, which help the parents who attend to improve their children’s financial skills and accept their responsibility for teaching them about money.

“Büro Züri”: a popular place to work

For over a year, the bank has offered free temporary working space at its head office in Bahnhofstrasse. The number of visitors and almost 100 percent occupancy demonstrate the positive response from the people of Zurich. Individuals and groups can reserve working space at “Büro Züri” free of charge for several hours. This offer is a gift from the bank to local residents. It offers start-ups, students, entrepreneurs and business people the opportunity to press ahead with their projects and plans in a professional and relaxing atmosphere.

ZKB Schiller Prize goes to Thilo Krause

The ZKB Schiller Prize recognises authors who enrich and shape the Swiss literature scene with their works. Zürcher Kantonalbank has awarded the prize every year since 1979, based on the recommendations of the board of trustees of the Swiss Schiller Foundation. It is our oldest commitment to the world of literature. Through our contribution, we promote and support the literary scene in the Greater Zurich Area. The prize for 2016 was awarded to Thilo Krause for his poetry collection “Um die Dinge ganz zu lassen”.

Knabenschiessen: where youth and tradition meet

Since 1899, the shooting club of the City of Zurich has organised the Knabenschiessen target-shooting competition. For decades, this traditional Zurich event has attracted thousands of budding marksmen and women aged 13 to 17 from all over the canton. They compete for three days to become the champion. Besides many rides and stalls, visitors to the fair on the Albisgütli shooting ground can also try food from all around the world. At Knabenschiessen, the emphasis is firmly on fairness, perfection and determination – values to which we are committed as the bank that’s “close to you”. That’s why we have been supporting young people and simultaneously an ancient tradition as main sponsor for the last 25 years.

Food for the mind and body: LunchKino

Since 1996, LunchKino has been serving up cinematic treats in the Arthouse Le Paris cinema at lunchtime – sandwiches and soft drinks are also available in the foyer. Anyone wanting to see the latest films before their official opening should set aside some time each week to visit LunchKino. The programme runs seven days a week and changes every Thursday, showing previews of frequently award-winning international studio films. It also puts on regular special showings with famous guests and an exciting supporting programme. Through our commitment to studio and short films, we contribute to the diversity of the Zurich cinema scene.

Sustainability

ESG factors integrated into the investment process

Through an innovative approach, since 2016, we have consistently integrated ESG factors (ESG: Environmental, Social, Governance) into conventional financial analysis. This helps us make better investment decisions. In this way, material risks are identified which have not yet been factored into the evaluation. This gives conventional financial analysis an extra dimension. For this purpose, we have developed a database which supplies the portfolio manager or analysts with the key ESG information at the touch of a button. In order to continue to develop our service in future and reflect on it regularly, we set up the external "Zürcher Kantonalbank Investment Sustainability Committee" in 2016. We also increased the scope of its advisory mandate to include the integration of ESG criteria in the investment process. We appreciate the independent assessment of the broad range of experts of future developments, our sustainable investments and the integration of ESG in the investment process. The investment sustainability committee meets about four times a year.

Range of fairtrade gold expanded

In 2015, we became the first bank in the world to launch the sale of fairtrade certified gold ingots from 1 to 10 g. The ingots carry the "Fairtrade Max Havelaar" label. In response to a doubling of sales compared with the previous year, we added a special Christmas edition to the range in 2016. Fairtrade gold ingots are about 5 to 6 percent more expensive than conventional gold. As of 2016, when fairtrade gold is sold to the bank, the fairtrade premium is refunded to our customers. The certification brings various advantages to those 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 fairtrade premiums also make possible investments in community projects. Stricter safety regulations protect people and the local environment.

Eco-friendly travel

New forms of mobility are constantly gaining in popularity. Holistic and sustainable approaches are increasingly coming to the fore. In line with our sustainability mandate, our bank has also been committed to sustainable mobility concepts for a long time. Accordingly, for the second time, in 2016, the bank gave all employees and retirees an SBB rail voucher entitling them to a discount on a Half-Fare or GA travelcard. In 2016, 4,206 employees took advantage of discounted ZVV Bonus Passes or Z Bonus Passes (for travel from a different canton). Almost 300 employees made use of our mobility scheme for business trips. Zürcher Kantonalbank also constantly reviews and expands its mobility offer.

Discount for SMEs when leasing low-emission commercial vehicles

In 2015 and 2016, we conducted an environmental campaign among SMEs. This was aimed at promoting low-emission commercial vehicles with discounts on leasing. The vehicles either had to comply with the Euro 6 standard, have electric or hybrid drive or run on biogas or natural gas. Financing was provided by the reimbursement of the federal CO_2 incentive tax. With 120 agreements encompassing a total volume of CHF 26.7 million, the funds flowed back into the Swiss economy for the benefit of sustainability.

100 % green power "naturemade star"

Ever since 2006, Zürcher Kantonalbank has been one of the few businesses in Switzerland to meet all of its power requirements from green power with the "naturemade star" label. This mainly comes from Swiss hydroelectric power as well as solar and wind power as well as biomass. "naturemade star" power plants fulfil strict environmental requirements so that flora and fauna around the power plant are affected as little as possible. For every kilowatt hour of hydroelectric power sold, one cent is collected in a fund. This finances ecological improvements in the area around the power stations, such as the re-naturalisation of embankments or regeneration of old rivers.

Customers

With comprehensive advice and a modern product and service portfolio, we are a reliable partner for our customers at every stage of life and in all business circumstances.

Advice and support

Comprehensive advice and support
Zürcher Kantonalbank helps people and businesses across generations. For us it is vital to offer our customers solutions that are tailored to their individual requirements in all life circumstances. We want to offer a constant, first-class quality of advice and support, and meet the ever more demanding needs of our customers. We conduct regular surveys to monitor the satisfaction of our customers every year, including the year under review. The customer loyalty indices obtained reach the defined targets in all customer segments, or even exceed them by several index points (see p. 15). We have therefore managed to increase customer loyalty significantly from an already high level.

As far as advice to retail customers is concerned, in 2016 the focus lay on developing investment solutions in a low interest environment, attractive financing variants and holistic pensions solutions. We have significantly expanded our advice on financial planning to prepare customers for the "third age". Through the launch of the "Meine Vorsorge" (My Pension) brochure, we have strengthened our market presence in the areas of pensions, estate planning and tax.

One in every two residents of Zurich is a customer of Zürcher Kantonalbank. At the end of 2016, we had 872,100 relationships with retail customers. That makes us the leading financial services provider in the canton of Zurich for business with retail customers.

In 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 was to identify optimisation potentials along the financial value creation chain, in particular in the subsegments of information management, liquidity management, payment transactions and risk management.

With 53,300 customer relationships. we are also the clear number one for companies in the Greater Zurich Area. As a dependable partner to businesses in the canton, with 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.

At the end of 2016, assets under management for retail customers and companies at the parent company level amounted to CHF 187.4 billion (2015: CHF 182.3 billion).

Proximity to customers through multiple contact options
Closeness to our customers is important to us. We also create proximity through the multiple modern contact options available to our customers. Zürcher Kantonalbank maintains the densest ATM and branch network in the canton of Zurich. Both retail and corporate customers continue to use their local branch as an important point of contact for advice. In 2016, our branch sales professionals held around 162,000 face-to-face consultations in branch on the core businesses of investments and asset management, loans and on the themes of pensions, estate planning and tax. In the year under review, five more branches (Affoltern am Albis, Effretikon, Pfäffikon, Rüti and Wollishofen) were refurbished. They now match our new, uniform design

and service concept, which offers a higher standard of service in an attractive environment.
Besides day-to-day business, the active dialogue with SMEs, our 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.

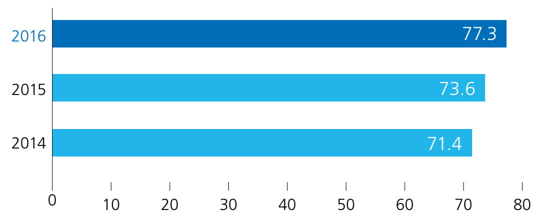
Online channels and mobile services continue to grow in significance as a complement to traditional branch operations. To meet this growing demand, we have been pursuing a multi-channel strategy for many years, offering our customers alternative ways of carrying out their banking transactions. For instance, they can obtain advice from our support centre for retail and corporate customers by telephone or via videoconference. During the year under review, our support centre handled about 730,000 calls. In addition, customers can carry out their transactions via our eBanking or eBanking Mobile services and our smartwatch app. Our customers can use the Personal Finance Manager – an eBanking feature that gives them a comprehensive, fast and clear overview of their finances – to define new personal savings goals. In association with partners, since 2015, Zürcher Kantonalbank has offered its customers the mobile payment solution Paymit. In 2016, the companies involved decided to offer the previously separate mobile payment solutions Paymit and TWINT jointly in future under the TWINT name. Both private individuals and merchants will benefit from extended functionality in future.

Across all channels, we place emphasis on the greatest security and a brand experience that puts the needs of our customers at the centre.

Loans

Mortgages
The trend of slower growth in property prices seen in recent years continued in 2016. In a market with declining immigration and stable building activity, continuing low interest rates for mortgage holders still led to solid demand for real estate. In this environment, the bank's mortgage receivables increased by CHF 3.7 billion to CHF 77,3 billion in the year under review. This equates to an increase of 5 percent, whereas the market as a whole (just banks, excluding mortgage investment companies and insurers) grew by just 2.4 percent in the year under review. Due to the continuing low interest environment, long-term fixed-rate mortgages in particular experienced the strongest growth over the year as a whole. The share of fixed-rate mortgages with a ten-year term increased from 13 percent in December 2015 to 19 percent at the end of 2016. The share of fixed-rate mortgages (including ZKB starter mortgages and fixed advances) in the total mortgage portfolio was 90 percent at the end of the year. As market leader in the canton of Zurich, we place great emphasis on quality in all loans issued.

Fig. 7: Mortgage receivables (in CHF billion)



Many 1960s buildings, whether houses or apartment blocks, are now in their second redevelopment cycle and show potential for renovation. The energy consumption of the properties can also be significantly reduced in the course of renovation. Since, for us, sustainability means combining successful business activity with social and environmental responsibility, we support our customers in this process. Through our market leading environmental loans, we promote energy-efficient construction and renovation. Customers benefit from an interest-rate reduction of up to 0.8 percent compared to the indicative rate of the selected ZKB fixed-rate mortgage for up to five years. In the year under review, we have once again boosted the area of energy-efficient renovation in particular. We started promoting specific in-depth surveys by GEAK surveyors (GEAK stands for Gebäudeausweis der Kantone – cantonal building energy certificate) and the implementation of energy-saving measures. The total volume of ZKB environmental loans amounted to roughly CHF 1.16 billion in the year under review. New loans were up by 28.2 % compared with the previous year. Due to an increase of loans maturing by 64.4 %, the total volume fell by 4.8 % compared to the previous year.

In line with our public service mandate, we have also supported first-time property buyers with the ZKB starter mortgage for over 30 years. As a leg-up, we grant them a reduced interest rate in comparison with the normal ZKB fixed-rate mortgage. In 2016, the volume of ZKB starter mortgages amounted to CHF 4.4 billion. This represents growth of 15 percent compared to the previous year.

Business financing

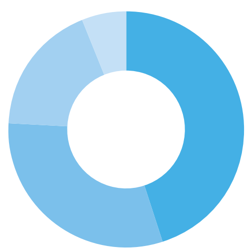
Thanks to a constant and proven lending policy, we are able to make a key contribution to the supply of credit to SMEs in the canton of Zurich and to large businesses on a Swiss-wide scale at the same time as controlling and diversifying risk. A model-based and systematic credit assessment process and decentralised decision-making authority for standard transactions allows us to incorporate local expertise into credit decisions and to take individual factors into account. In our communications with our customers, we therefore place great importance on transparency in credit decisions. The ratings are supplemented by 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.

With a substantial part of its GDP derived from exports, Switzerland is a leading exporting nation. Consequently, our corporate customers with cross-border activities require services such as export finance, documentary credits and guarantees, interest rate and currency hedging, international payment transactions and market information. Zürcher Kantonalbank has proved to be a dependable partner for these companies in this respect. For this purpose, we maintain an international network of correspondents and have our own representative offices in Singapore, Mumbai, Beijing and São Paulo. One of the tasks of these offices is to support the trade and export finance business with banks and Swiss exporters and importers. The four representative offices do not conduct their own business; instead they provide us with local expertise on the most important export markets of our corporate customers as well as risk assessment information.

In 2016, a year characterised by the continuing strength of the Swiss franc and modest economic growth, Zürcher Kantonalbank once again stood side by side with Swiss companies as a dependable partner. Our credit exposure to companies increased to CHF 24.5 billion (+ 6.5 percent) in the year under review. 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 constant innovation on the part of Zurich as a business location as well as Zurich-based SMEs. With the Swiss Federal Institute of Technology in Zurich, 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 supports innovative start-ups with venture capital on a targeted basis – was launched in 2005. Since then, as part of its public service mandate, Zürcher Kantonalbank has invested approximately CHF 115 million in venture capital in 185 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, 27 promising start-ups were recapitalised with venture capital in the amount of CHF 9.5 million.

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



In the year under review, Zürcher Kantonalbank acquired a substantial minority interest in "investiere.ch" the leading Swiss investment platform for start-ups. This strengthened our position in the start-up and fintech arena. We are also partners to the technology parks Technopark Zurich, Technopark Winterthur, Bio-Technopark Schlieren, and the start-up centres Blue Lion in Zurich, Runway of the Zurich University of Applied Sciences (ZHAW) and Grow in Wädenswil. Jointly with the Swiss Federal Institute of Technology in Zurich and the canton of Zurich, we established the sponsorship of the Swiss Innovation Park that will be started in Dübendorf.

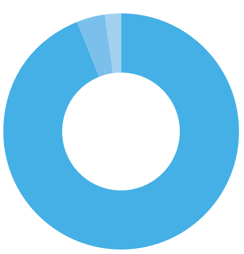
With the renowned ZKB Technopark "Pioneer Award", which in 2016 went to Nomoko AG for the development of a new form of camera technology, the bank fosters particularly innovative business ideas.

Start-ups in traditional sectors are part of our normal financing operations. In the year under review, we provided finance of CHF 48.4 million to 64 company start-ups. We also work closely with the "GO! Ziel selbstständig" association, helping people to become entrepreneurs with ZKB micro-loans.

At the other end of the business cycle, succession planning, we also take care of 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 them with guidance on these issues too. In the year under review, we fulfilled this responsible role in the protection of companies and jobs with 48 consulting mandates and 28 acquisition financings.

Zürcher Kantonalbank ensures that small and micro-businesses also receive comprehensive advice and support, as well as a broad range of services on fair terms. That includes almost 4,500 micro-loans 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 represents 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. Overall, in the joint distribution network with a large number of other cantonal banks, 2,815 lease agreements with a volume of CHF 227 million were concluded in the year under review.

Fig. 9: Corporate customers by number of employees



Investments and asset management

Investment policy

The Chief Investment Officer is responsible for the definition and comprehensive communication of the investment policy for retail customers. Thanks to a clear investment philosophy and skilful tactical asset allocation, the assets we manage are aligned with the current market situation in an optimal and broadly diversified manner. Zürcher Kantonalbank's investment process is built on a risk-based approach and designed to exploit earnings potential at every stage, in the context of the customer's personal ability to bear risk. This involves a high degree of modularity, as this allows portfolios to be personalised to the optimal degree and composed transparently according to specific customer requirements. The Investment Solutions team of 50 economists, portfolio managers, mathematicians and investment specialists is dedicated to this. In the year under review, the media regularly asked their opinion on global focus issues, in particular the economic slowdown in China and turmoil on the stock markets at the start of the year, the UK referendum on leaving the European Union, the monetary policy of the central banks as well as negative interest rates and, of course, the US presidential election and its effect on the financial markets.

Our equity and bond research division mostly provides recommendations and ratings throughout Switzerland on blue chips as well as smaller and medium-sized listed Swiss companies. It is one of Switzerland's leading research houses for both equities and 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 and institutional clients. 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 clients, 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, individual investment plans are available for professional clients.

Asset Management
Zürcher Kantonalbank offers a comprehensive line-up of active, indexed and thematic investment fund and asset management solutions. At the end of 2016, assets under management amounted to CHF 133.2 billion. Index-linked funds business and institutional and private asset management mandates were growth drivers.

In the year under review, we followed up the acquisition of Swisscanto, which took place in 2015, with the implementation of a new uniform presence. In the investment business, we now act under the competence brand "Swisscanto Invest by Zürcher Kantonalbank". We offer all funds, except for precious metal ETFs, under the new brand.

Another highlight was the launch of our range of index funds for private clients. Under the motto "100 % Swiss Made Asset Management", we made over 40 index funds available to the public.

In the year under review, our core tasks – the management of assets and customer support – were accompanied by the search for innovative investment solutions for our customers. In the low interest environment, taking advantage of alternative risk premiums represents an essential supplement to our traditional services. With the launch of our new investment group "Swisscanto AST Hypotheken", we made a new instrument available to occupational pension funds which meets their need for added value and broader diversification.

Trading and capital markets
The trading strategy of Zürcher Kantonalbank is based on a clear customer focus. In the year under review, income from trading operations was 16 percent above the result for the previous year at CHF 379 million. The market risks in the trading book (value-at-risk) amounted to CHF 11 million on average and were slightly lower than the previous year.

The first half of the year was initially dominated by macroeconomic factors such as falling interest rates, volatile stock markets and associated reticence on the part of investors. From the spring onwards, discussions focussed on a possible UK exit from the EU, or Brexit. This was also reflected in customer activities.

Following the Brexit vote, the pound lost ground against the US dollar in July, before eventually stabilising in August. It fell again in the autumn. Yields on Swiss government bonds reached a new all-time low. The postponement of interest rate hikes in the USA and communications from the European Central Bank also had a significant impact on the stock markets. In this environment, investors carried out more frequent reviews of their strategy and adapted their portfolios accordingly. Investors in the structured products business favoured yield optimisation and participation products. In terms of sales of all listed products, Zürcher Kantonalbank is among the most important providers on the Swiss market. The pleasing trading result in the second half of the year was also achieved on a broadly diversified basis, with contributions from currency, money market and bond trading in particular, under highly volatile market conditions following the unexpected result of the US presidential elections.

Zürcher Kantonalbank can look back on another highly successful year on the Swiss capital market. It was lead manager for the issue of a total of 48 bonds on the capital market worth CHF 8,735 million. A further 23 transactions were carried out for the Mortgage Bond Institution of the Swiss Cantonal Banks, worth CHF 7,381 million. The bank acted as lead manager for a total of 19 equity transactions for companies listed on the SIX Swiss Exchange, representing more than 30 percent of all corresponding business. This included advising Walliser Kantonalbank on the introduction of a modern capital structure in four transaction steps. Besides successful equity offerings (accelerated bookbuildings), Zürcher Kantonalbank also assisted Investis Holding SA with its IPO. There were numerous share buybacks as well (from smaller companies to blue chips). The picture is completed by six transactions as lead manager in the over-the-counter segment, in which the capital increase of CHF 171 million for Repower AG deserves particular mention.

Employees

To allow our employees to fulfil their potential even more successfully in an increasingly dynamic environment, Zürcher Kantonalbank is exploring new ways of management and working together.

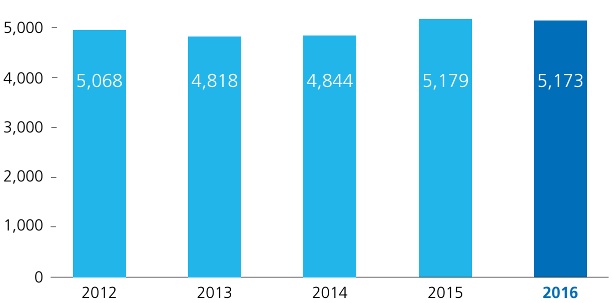
Zürcher Kantonalbank is built on a corporate culture based on closeness, responsibility and competence. In 2016, senior management decided to allow managers and employees greater freedom. Since it no longer reflects our dynamic environment and the challenges this involves, the annual process of defining objectives and appraising performance has been replaced by the dialogue-oriented and agile "Performance & Development" (P&D) approach. A range of tools have been developed in relation to P&D, to facilitate a modern, dialogue-based management culture.

Unless indicated otherwise, the figures and information below relate to the parent company (excluding subsidiaries and their subsidiaries).

Headcount

In 2016, the group's headcount increased by 0.65 percent from 5,138.1 to 5,173.3 full-time positions on an annual average. Of these, 23.4 are full-time positions filled by employees employed on a temporary basis. There are 348 employees in training.

Fig. 10: Group headcount (FTE) as at 31 December 2016



Staff development

With 421 traineeships, we are one of the largest training institutions in the canton of Zurich, offering training in the working worlds of banking, information technology, logistics and general administration. In the year under review, 99 trainees started their training with us. For the first time in five years, all examination candidates from Zürcher Kantonalbank obtained their certificate of proficiency. This fills us with pride and confirms that we look after our students well in every respect. Every student is supported by a supervisor throughout their training, who, besides providing practical training, also places great emphasis on personal support.

Our corporate culture underpinned by trust is an important factor for the trainees. Our young employees know about the bank's sound foundation and that they have a good chance of continuing to be employed after completing their training. More than 80 percent of those trainees who completed their apprenticeships last year will continue their career with us.

Development

Development – whether internal or external – plays an important role in maintaining and developing competence. We invested CHF 10.7 million in training and development in the year under review. During the year, 556 employees took advantage of external development opportunities. The internal training offer furthers our employees' personal development. The offering ranges from seminars about digital learning media to individual coaching sessions. For each individual employee, 2.4 internal development days were used. In the year under review, 80 high-achieving employees with potential were also given the opportunity to develop their career and personal goals through systematic development programmes.

Employer commitment

Work / life balance
We have a wide offering in terms of work/life balance. This ranges from flexible working arrangements to financial support for childcare, reserved crèche places and holiday clubs to tailor-made advice on matters relating to caring for elderly relatives or home nursing care, for instance when needing to find a solution for parents needing care. The aim is to assist and support our employees in different situations in their lives. Our maternity plan, which ensures optimal support for mothers-to-be from the start of pregnancy onwards, is working well.

Health promotion
Healthcare and health promotion are important concerns for us. Together with our external partners, we constantly review and develop the offering. In November, we shared our experiences with our advisers regarding external support in order to identify areas for action. The "Friendly Work Space" also means that we are committed to maintaining a high standard of systematic health management in the workplace. We presented our approach at the national conference on health management in the workplace and led a symposium on the theme of "Healthier thanks to Friendly Work Space". In the last year, we also entered into a partnership with the Compasso association, the information portal for employers focussed on early detection and intervention and occupational reintegration. We want to identify health problems among our employees at an early stage, in order to put in place the necessary measures promptly. Our financially supported healthcare offer was taken up by 179 employees. A further 128 employees took advantage of the mobile health check-ups offered for the second time at major locations.

Staff association
Zürcher Kantonalbank's staff association was founded on 11 November 1916 and celebrated its centenary during the year under review. One hundred years later, the original aims still remain relevant: the staff association represents the social, financial and legal interests of all employees, seeks socially and financially sustainable solutions in partnership with management, promotes cooperative collaboration and helps to create a positive working atmosphere. The staff association took part in a variety of projects in 2016, including the "ZaZu" (future payment transactions) project. The staff association also takes part in negotiations regarding salaries and additional benefits. In all, 41 percent of our employees are members of the association. Five board members head the association. The delegates' assembly had 39 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 group, as well as statutory allowances and additional voluntary benefits. Please see the compensation report from page 55 onwards.

Pension institutions in Switzerland are facing major challenges in guaranteeing pension payments on a sustainable basis. Zürcher Kantonalbank's pension fund is no exception. Therefore, the management committee of Zürcher Kantonalbank's pension fund has decided to introduce a package of measures from 1 July 2017 to ensure the long-term maintenance of a solid level of benefits. This includes increasing contributions and raising the normal retirement age from 62 to 64, as well as reducing the technical interest rate from 3 to 2 percent and a corresponding reduction in the conversion rate. Transitional solutions are proposed for employees born from 1964 onwards. Zürcher Kantonalbank will fund these solutions to the extent of around CHF 70 million. In the year under review, the bank's pension fund covered 5,365 active insured persons and 2,067 retirees. As at 31 December 2016, it managed assets of approximately CHF 3.71 billion with a coverage ratio of 112.8 percent (not tested). For further information on occupational pensions and employee benefits, please see Note 13, page 88.

Fig. 11: GRI key figures[1] Employees

Employment (parent company)		2016	2015	2014	2013	2012
Number of employees (full-time equivalent)	*Number*	4,910	4,879	4,704	4,673	4,917
Turnover rate	%	5.9	6.8	7.7	7.7	6.5
Creation of new jobs	%	0.6	3.7	0.6	–5.0	–0.7

Health and occupational safety (parent company)						
Lost days per employee as a result of sickness or occupational and non-occupational accidents	*Days / Employee*	7.1	7	6.1	6.5	6.4

Continuing education and training (parent company)						
Internal education and training time per employee	*Hours / Employee*	20.5	19.3	14.2	12.6	16.0
Percentage of employees on external courses	%	11.3	13.4	14.6	14.3	17.3

Diversity and equal opportunities (parent company)						
Percentage of women in total workforce	%	37.7	38.1	38.5	39.1	39.3
Percentage of women in middle management	%	34.2	33.2	33.2	32.8	32.1
Percentage of women in senior management	%	11.2	10.6	10.2	9.8	9.5

[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/sustainability.

Analysis of financial statements

Management summary

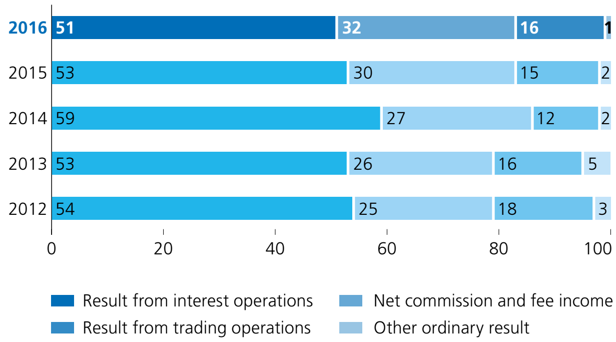
Increase in group net income from operations and operating result
Zürcher Kantonalbank achieved a group net income from operations of CHF 761 million in financial year 2016, 5 percent, or CHF 38 million, higher than in the previous financial year. The operating result amounted to CHF 752 million. It increased by 13 percent, or CHF 88 million, compared to the previous year.

Scope of consolidation
With the parent company, Zürcher Kantonalbank, the group is the largest cantonal bank in Switzerland. It is positioned as a full-service bank with a regional anchoring and national presence. Its primary focus is on customers in the Greater Zurich Area. Furthermore, the broadly diversified group includes Swisscanto Holding Ltd., which is primarily active in the asset management business via its subsidiaries, Zürcher Kantonalbank Finance (Guernsey) Ltd., which focuses on issuing structured investment products, and Zürcher Kantonalbank Österreich AG, which operates international onshore private banking. Please see Note 7 (p. 86) for detailed information on the participation structure.

Analysis of the income situation

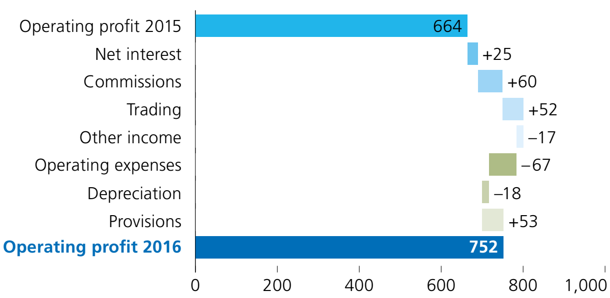
Broad diversification of operating income
Operating income in the reporting year increased by around 5 percent and amounted to CHF 2,325 million in the year under review. This mainly comprised income from the interest business (51 percent), commission and fees (32 percent) and income from trading operations (16 percent), and is therefore broad-based. As commission and fees, and income from trading operations performed well, it was possible to improve diversification further. Not least, this is due to the successful integration of Swisscanto.

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



Development of the operating result
On the whole, the operating result increased by 13 percent to CHF 752 million in financial year 2016. Results exceeded expectations in particular in the commission and fees business and trading operations. The increase in income exceeds the higher expenses by far. The lower requirement for provisions also had a positive effect.

Fig. 13: Performance of operating profit (in CHF million)



Disclosures on significant components of the income statement

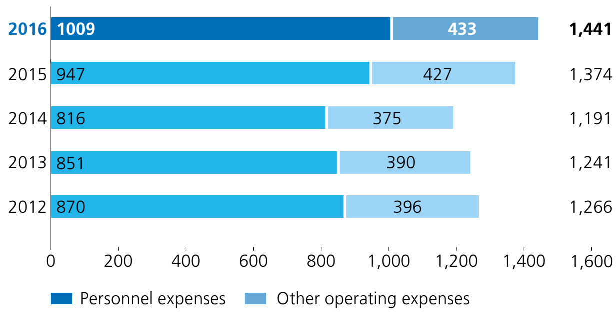
Interest operations
The negative interest rate environment remained a major challenge in the year under review. Zürcher Kantonalbank realised a net result from interest operation of CHF 1,187 million (2015: CHF 1,162 million) thereby exceeding expectations. This result includes an expense for default-related value adjustments and losses from interest business of CHF 12 million (2015: income of CHF 3 million). The Swiss National Bank charged the bank negative interest rates of CHF 83 million in 2016. Zürcher Kantonalbank passed on the negative interest rates differentiated on the interbank market and to the credit balances of certain major customers. Retail customers were not charged negative interest rates.

Commission and service business
Result includes earnings from the securities and investment business, the credit business, the other service business as well as the commission expense. The large increase in results from the commission and service business of 9 percent, or CHF 60 million, to CHF 728 million is primarily due to the investment business. The latter mainly benefited from significant additional earnings in the fund and asset management business.

Securities trading and investment activities
Zürcher Kantonalbank focuses its trading activities on the customer business. Net income from trading operations increased from CHF 328 million to CHF 379 million thanks to increased customer activity. Market risks in the trading book (value-at-risk with a 10-day holding period) decreased and amounted to CHF 11 million on average (2015: CHF 17 million). The low risk figures for trading reflect the customer-oriented strategy.

Operating expenses
For the purpose of a sustainable human resources policy, the board of directors at the end of 2016 decided that the bank would bear the costs of financing the transitional solutions required due to the realignment of the pension fund as a result of the changed environment (see p. 28). For this reason, a provision for pension benefit obligations was made in the amount of 70 million in the year under review, which was recognised under personnel expenses. Excluding this non-recurring expense, personnel expenses amounted to CHF 1,009 million (2015: CHF 947 million). The increase in personnel expenses is due both to higher variable salary components as well as the inclusion of Swisscanto for a full year (previous year: nine months). General and administrative expenses increased slightly by 1 percent to CHF 433 million. In accordance with the Law on Zürcher Kantonalbank, compensation has been paid for the state guarantee. In 2016 the canton received around CHF 22 million (2015: CHF 21 million), which was charged to general and administrative expenses.

Fig. 14: Five-year comparison of operating expenses (in CHF million)



Depreciations and provisions expenditure
Value adjustments on participations as well as amortisation of tangible fixed assets and intangible assets in the year under review amounted to CHF 124 million (2015: CHF 106 million). The higher depreciation requirement is substantially due to a price decline in a listed participation in the first half of the year. The partial appreciations in value in the second half of the year were recognised in extraordinary income in line with accounting provisions.

Zürcher Kantonalbank assesses default risks as well as all other identifiable risks on a constant basis, where necessary creating corresponding allowances and provisions. The change in the item "Value adjustments for default risks and losses from interest operations" is a component of net interest income. Further information can be found in the section "Interest operations". The net expense in the income statement item "Changes to provisions and other value adjustments and losses" amounted to CHF 8 million (2015: CHF 61 million).

Extraordinary income statement items
Non-recurring and non-operating income is deemed to be extraordinary income. Extraordinary result amounted to CHF 16 million in 2016 (2015: CHF 66 million). The higher result in the previous year was mainly due to real estate disposals and appreciations in the value of participations. The tax expense amounted to CHF 7 million (2015: CHF 8 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 (p. 115 onwards).

Balance sheet expansion
Total assets increased by CHF 3.6 billion, or 2 percent, and amounted to CHF 158.0 billion on 31 December 2016. The increase is largely due to higher holdings of liquid assets and mortgage loans. On the liabilities side, the increase is due to the securities financing business as well as bonds and covered bonds. More than half the balance sheet was made up of amounts due in respect of customer deposits as well as mortgage loans and amounts due from customers.

Disclosures on significant components of the balance sheet

Liquidity and financial investments
Liquid assets consisted mainly of deposits with the Swiss National Bank and totalled CHF 35.3 billion at the end of the year under review (2015: CHF 32.5 billion). These deposits serve to meet Zürcher Kantonalbank's particularly high liquidity rules as a systemically important bank. Furthermore, Zürcher Kantonalbank's financial investments include extremely high quality fixed-interest securities, which are likewise used for statutorily prescribed liquidity maintenance. The volume at the end of the year under review amounted to CHF 4.2 billion (end of 2015: CHF 4.3 billion). Zürcher Kantonalbank's comfortable liquidity situation is manifested in the liquidity coverage ratio (LCR) of 132 percent (2015: 128 percent).

Amounts due from and liabilities to banks and from securities financing transactions
The interbank and securities financing business is used inter alia for short and medium-term liquidity management. Compared to the previous year, there was a slight decrease in amounts due from banks (2016: CHF 5.4 billion) and amounts due to banks (2016: CHF 34.1 billion). Amounts due from securities financing transactions amounted to CHF 14.9 billion (2015: CHF 15.0 billion) and liabilities to CHF 5.1 billion (2015: CHF 3.0 billion).

Amounts due from customers
This line item includes all amounts due from non-banks that do not require disclosure under another item. The balance decreased slightly from CHF 7.7 billion to CHF 7.5 billion at the end of 2016.

Mortgage loans
Mortgage loans increased by CHF 3.7 billion, or 5 percent. The volume at the end of 2016 amounted to CHF 77.3 billion. Loan quality remains Zürcher Kantonalbank's top priority. Therefore, in view of the latent risk of changes in interest rates, the bank continues to calculate the customer's ability to afford a property on the basis of a theoretical mortgage interest rate of 5 percent.

Trading portfolio assets and derivative instruments
The trading activities of Zürcher Kantonalbank continue to be 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 Note 3 (p. 83), the replacement values of the derivative financial instruments in Note 4 (p. 84).

Participations, tangible fixed assets and intangible assets

In the previous year, Zürcher Kantonalbank completed the acquisition of the Swisscanto Group. In addition to the purchase price, the sellers may also receive variable purchase price components 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. In 2016, a variable purchase price component in the amount of around CHF 63 million was paid out with a corresponding impact on goodwill. Furthermore, under the item "Non-consolidated participations", investments were made in the TWINT AG joint-venture (CHF 4 million) and Pfandbriefzentrale der schweizerischen Kantonalbanken AG (capital increase of CHF 22 million) in the year under review. Significant non-consolidated participations, including the share of capital and voting rights, are disclosed in Note 7 (p. 86) of the Financial Report. Tangible fixed assets consist of properties in use and other tangible assets. Investments in tangible fixed assets amounted to CHF 39 million. Further information on the participations, tangible fixed assets and intangible assets can be found in the Financial Report in Notes 6 to 9 (pp. 85–87).

Amounts due in respect of customer deposits

The amounts due in respect of customer deposits contain the holdings in savings accounts and other customer accounts currently and over time. The volume at the end of the year under review remained almost unchanged at CHF 80.9 billion (2015: CHF 80.8 billion).

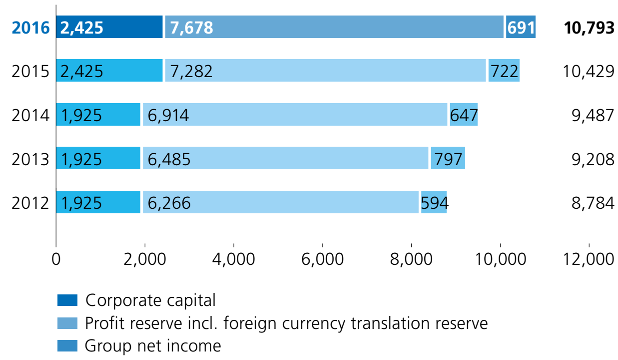
Cash bonds, bond issues and central mortgage institution loans

The monies due were replaced in full by issues. Additional capital was also taken up. Refinancing with longer-term deposits increased significantly by CHF 2.3 billion to CHF 17.9 billion at the end of 2016.

Balance sheet net equity

At group level, net equity comprises corporate capital, retained earnings reserve and foreign currency translation reserves as well as group net income. Thanks to internally generated funds, in particular, Zürcher Kantonalbank has increased the net equity by CHF 2.0 billion since 2012.

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



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. Compared to the beginning of the year, the endowment capital amounted still to CHF 2.425 billion at the end of the financial year. 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 including currency translation reserve amounted to CHF 7.7 billion at the end of the financial year. Together with the group net income, the reported equity before distribution of net profit amounted to CHF 10.8 billion at the end of 2016.

Assets under management

At the end of 2016, assets under management amounted to CHF 264.8 billion (2015: CHF 257.5 billion). The net new money inflow of managed assets amounted to CHF 8.0 billion (2015: net new money outflow of CHF 2.5 billion). Further information can be found in Note 31 (p. 100).

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 the supervision of the bank. Even though there is no legal requirement to do so, the bank essentially complies with the corporate governance principles of Art. 663b bis of the Swiss Code of Obligations and the Corporate Governance Directives issued by the SIX Swiss Exchange on 1 January 2016. It also complies with the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse on 29 February 2016, insofar as this is possible for a public-law institution. Unless otherwise specified, the information is applicable as at 31 December 2016.

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. The annual report includes information on the company structure (p. 4), information on ownership (p. 147), companies included in the scope of consolidation (pp. 30 and 72) and changes in equity (p. 70).

Board of directors and committee of the board

The board of directors consists of 13 members elected by the cantonal parliament for four years, including the three full-time members of the committee of the board. For the current legislative period, beginning on 1 July 2015 until the end of June 2019, the board of directors is made up of the following persons:

Dr. Jörg Müller-Ganz	Chairman	since 01.07.2011
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 01.10.2010
Stefan Wirth	Member of the board of directors	since 01.07.2011

All members of the board of directors are Swiss nationals residents 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 3, 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, experience in politics and public offices), 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.

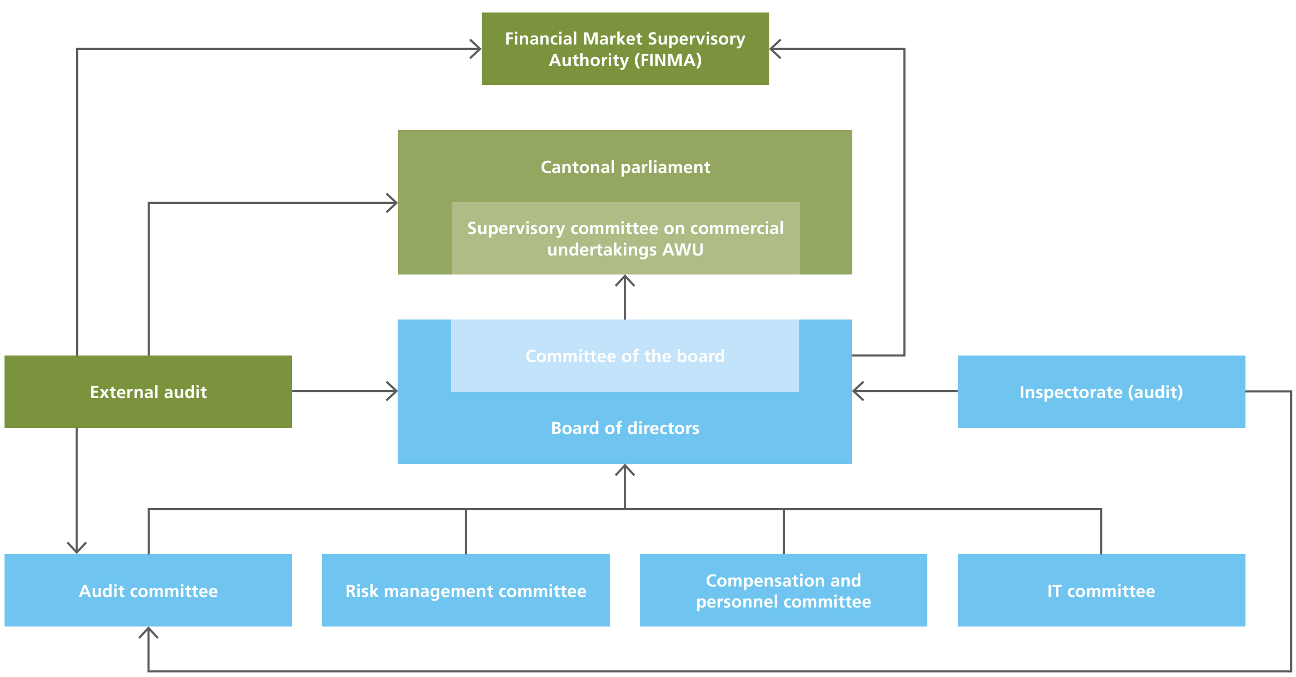
Internal organisational structure

Board of directors

Key responsibilities of the board of directors: It

- 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)
- determines the group and financial planning
- 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 95, paragraph 1 of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers
- is informed of the reporting on country limits
- approves the detailed quarterly reports from the executive board
- is regularly informed by the executive board of all relevant aspects of risk management
- approves unsecured loans in excess of CHF 1 billion
- is regularly informed of 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

Fig. 16: Corporate governance at the board of directors level



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 in accordance with legal and regulatory requirements are listed on page 36.

The board of directors attends to the group strategy in an annual cycle. It analyses strengths and weaknesses, opportunities and risks for Zürcher Kantonalbank, along with the associated strategic risks. This also includes related planning, controlling and reporting activities. Regular discussions are held 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. The board of directors took decisions on credit and limit applications in addition to other transactions within its remit. It informed itself of the effects of geopolitical events and the situations on the financial markets, in particular seeking guidance on the prevailing foreign exchange and interest rate situations, and continued to pursue the developments regarding the taxation treaty with the USA and other countries. In the year under review, the board of directors dealt on an in-depth basis with the emergency plan required due to systemic importance and sought guidance on further developments relating to the regulatory requirements. This also included safeguarding liquidity and dealing with exception regulations. It closely oversaw the integration activities of Swisscanto in the group as well as the activities and consequences relating to payment transactions outsourcing. Furthermore, in the year under review, it dealt with international business, approved modifications to the parent company's compensation model and handled the consequences of adjustments to Zürcher Kantonalbank's employee pensions. The board of directors underwent a Board Effectiveness Review, overseen by external experts, to optimise its functioning.

In the year under review, the board of directors appointed five new branch managers, a new Deputy CFO and the Head of Institutionals & Multinationals. Ten regular meetings were held; they were also attended by some or all members of the executive board as well as the chief inspector. Representatives of Ernst & Young attended 3 meetings. The board of directors also held a two-day retreat to discuss strategic issues. Subsequent to the meetings of the board of directors, it regularly dealt in-depth with individual topics such as trading activity or aspects of group management by holding workshops. Two members of the board of directors also made visits to ten branches and five specialist units.

Board of directors 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

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

Committee of the board

Key responsibilities of the committee of the board: It

- prepares topics relating to strategy and corporate culture for submission to the board of directors
- scrutinises the decisions of the executive board and is responsible for its direct supervision
- monitors the execution of resolutions passed by the board of directors
- approves unsecured loans in excess of CHF 75 million
- 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 the reporting on country limits
- 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 on 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. In this context, the committee monitored the implementation of decisions of the board of directors and compliance with statutory and regulatory requirements. Within the framework of such statutory and regulatory requirements, it took decisions on various operational and electoral matters. The committee of the board also made preparations for the discussion of the public service mandate on the board of directors and in this connection is also responsible for sustainability issues.

Jörg Müller-Ganz is chairman; János Blum and Bruno Dobler are the deputy chairmen. Anita Sigg and Rolf Walther have been elected as substitute members of the committee of the board.

In addition to addressing strategic, planning, organisational and human resources questions as well as issues concerning corporate culture, the committee of the board, in accordance with statutory and regulatory competencies, dealt at its weekly meetings in the year under review with credit and limit transactions within its area of responsibility following the applicable regulations, as well as transactions involving potential reputation risk. Members of the executive board, the chief inspector and representatives of the specialist units were also invited to attend on a regular basis. The committee of the board met several times in its function as a strategic committee for the board of directors. In addition, it continuously dealt with current geopolitical and national events and their possible effects on the markets and the bank. The committee of the board kept itself up to date on the consequences of the low interest rate policy and regulatory changes. It monitored the progress of Swisscanto's integration and developments of important bank projects, obtained guidance on the performance results of asset management mandates and was continuously involved with the activities relating to the tax dispute with the USA. In addition, it dealt with succession planning for key individuals at the bank.

Besides deciding on any immediate measures on the basis of objections in audit reports, the committee of the board closely oversaw implementation of regulatory requirements and, on behalf of the board of directors, discussed requests from the Financial Markets Supervisory Authority, FINMA, as well as those from the cantonal parliament. The committee of the board maintained contact with FINMA, in particular also in the context of developing regulation of equity for systemically important banks with a domestic focus. In order to better promote the interests of Zürcher Kantonalbank among important decision-makers in politics and business, it established close collaboration with the newly established Public Affairs specialist unit. It also decided on sponsorship commitments under the public service mandate. It cooperated with the board committees in preparing the substantive decisions and personnel decisions as well as the basic principles for the statutory and strategic adjustment requirement on behalf of the board of directors and ensured their swift implementation. The committee of the board represented Zürcher Kantonalbank in the course of regular discussions between the bank chairmen in the context of the Association of Swiss Cantonal Banks and various representation events in culture, politics, environment and business. In accordance with an agreed timetable, the members of the committee of the board visited all market areas and specialist units, subsidiary companies and branches.

Audit committee

The audit committee supports the board of directors in its supervisory and control functions in accordance with section 15a of the Law on Zürcher Kantonalbank, section 32 of the organisational regulations of Zürcher Kantonalbank and FINMA Circular 2008/24 on monitoring and internal control systems for banks. Within its remit, it prepares specialist resolutions of the full board of directors and, in this regard, is responsible in particular for critically analysing the published annual and interim financial statements of the parent company and group. In addition, the audit committee assesses the functionality of the internal control system in particular also with respect to compliance with standards.

The audit committee comprised Mark Roth (chairman), Amr Abdelaziz, René Huber, Hans Kaufmann and Henrich Kisker as at 31 December 2016. The chief inspector, Walter Seif, attends all meetings of the audit committee as a permanent guest.

The audit committee held a total of twelve meetings lasting several hours in 2016. All meetings with agenda items relating to financial planning, management and reporting were attended by the CFO. In relation to specific subject matter, the meetings were also attended on a regular basis by the external auditors, the CEO, CRO and Head of Legal, Tax & Compliance. Depending on their importance, various agenda items were discussed with the committee of the board, the risk management committee or jointly. The relevant management decision-makers were also involved in the discussions on a regular basis.

At each meeting, attention focused on financial reporting (monthly, quarterly, half-yearly and annual reporting including disclosures) as well as the handling of the external and internal audit reports. A total of 51 internal and 29 external audit reports were discussed. This also comprised assessment of the appropriateness of measures taken by the entities audited, the approval of internal audit reports, as well as reporting by internal audit on the effective implementation of the measures decided.

At several meetings and at the annual workshop organised by internal audit, advice was provided about key changes in the risk profile as well as the consequent setting of audit objectives for internal and external auditing. Particular attention was paid to the systematic, total coverage of the regulatory audit universe on a multi-year cycle by internal and external auditing.

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

- analysis and assessment of reporting on the structure and effectiveness of the internal control system for all business units and subsidiaries of the bank
- discussion of the 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
- 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 systemic importance of the bank, the consequences derived accordingly as well as the stabilisation and emergency plan
- business performance and multi-year financial planning
- current challenges in the funds and investment business

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. As at 31 December 2016, 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 10 occasions in the year under review, with all meetings attended by the Head of Human Resources or his deputy. Depending on the topic, the CEO, CFO, Head of the Institutionals & Multinationals business unit and other representatives of the specialist units participated in the meetings. The committee also conducted a workshop in which the challenges for the human resources strategy and policy arising from the demographic changes and other condition risks relating to human resources policy topics were discussed. 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 the human resources strategy, in particular about issues of promotion, disciplinary cases, dismissals, as well as staff training and development. For the annual report 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 2016 deferred component. On behalf of the board of directors, the personnel committee reviewed a change to the parent company's compensation system model and dealt in-depth with the subsidiaries' compensation systems, in particular those of Swisscanto. It also obtained guidance regarding the salary trends on the market and committed itself to the process of integrating Swisscanto's employees. The compensation and personnel committee provided preliminary advice to the board of directors regarding applications for branch manager appointments, new appointments for the Deputy CFO and the Head of Institutionals & Multinationals and was briefed about succession arrangements for key individuals. In the year under review, the compensation and personnel committee also dealt with measures relating to the advancement of women. Another focal point in the year under review was Zürcher Kantonalbank's pension fund solution; the board of directors received preliminary advice in this regard. Furthermore, the personnel committee reviewed how employees were handled during change management processes in the context of the payment transactions project. Due to the new focus of ZKB's performance management, the compensation and personnel committee also dealt with the abolition of the MbO, performance value and employee appraisal and obtained information on and discussed the new "Performance and Development" tool.

Risk management committee

The risk management committee assists the board of directors in relation to the 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. As at 31 December 2016, this committee comprised Rolf Walther (chairman), János Blum, René Huber, Hans Kaufmann and Anita Sigg.

The risk management committee has a preliminary consultative role on behalf of the board of directors. It evaluates the quality, adequateness and effectiveness of the processes and procedures for identifying, assessing, limiting, controlling and monitoring risks. It is informed of standard reports, stress scenarios and risk reports on a regular basis. The quarterly report by the Chief Risk Officer, giving an account of credit, market, liquidity, operating, compliance and reputation risks, is an important tool for the committee in terms of performing its role, although in-depth evaluation of compliance risks falls within the remit of the audit committee. It also takes note of changes relevant to risk, especially in the mortgage business, international risks, deterioration in the economic situation and risks in other business areas. The risk management committee keeps itself informed of credit exposures and limits on a periodic basis, in particular on the credit and limit transactions within the remit of the board of directors. The risk management committee provides preliminary advice on strategic credit and limit applications and other matters within the remit of the board of directors from a risk perspective, receives annual reports on the adequateness and effectiveness of internal controls in the business units together with the audit committee, evaluates the completeness of the risk inventory and submits recommendations concerning risk policy parameters and strategic risks to the board of directors. The risk management committee also discusses the findings in the risk-relevant audit reports and notes the minutes of the operating risk sub-committee.

The risk management committee held 10 meetings in the year under review, which were attended by the Chief Risk Officer or the Head of Risk Controlling and the Head of Audit. It also met once for a workshop held on the topic of condition risks. Depending on the subject matter, other representatives of the specialist areas also attended the meetings. A further two meetings took place in the context of the meetings of the audit committee. In the year under review, the committee dealt in detail with the effects of the negative interest rate on asset and liability management. The committee also kept itself up to date on the impending introduction of the "Internal Ratings Based" approach. It also promptly obtained guidance on the measures taken and effects of the United Kingdom's decision to leave the EU. The continuing banking crisis in Europe (Italy, Austria, etc.) was also focused on regularly. The committee also informed itself on the developments and measures taken regarding cyber risks in the context of operational risks. With respect to country risks, it followed international developments, in particular those in Turkey after the military coup, in the United States after the elections, in Brazil and in other countries. The committee also paid particular attention to specific industries in Switzerland such as the electricity industry. In addition, it received regular reports on liquidity risk management, concentration risks, exposures to central counterparties and exception-to-policy transactions.

IT committee

The IT committee assists the board of directors in determining and monitoring the IT strategy. It advises the board of directors on all issues relating to information technology, including telematics, of the entire bank and provides it with relevant recommendations. For this purpose, it forms a picture of IT's contribution to the bank's performance. Furthermore, it assesses the costs and investment framework for IT by considering the potential effects on current and future courses of action as well as business risks. Finally, it assesses the functionality of the management of IT risks with an impact on IT-related investment risks.
In 2016, the IT committee comprised Walter Schoch (chairman), Henrich Kisker, Jörg Müller-Ganz and Stefan Wirth. The IT committee held five regular meetings

and one extraordinary meeting in the year under review; all were attended by the Head of Logistics.

The IT committee discussed a total of 15 audit reports with relevance to IT. It was informed on a regular basis about the completion status of relevant findings of the auditors. The IT committee dealt with the 2015 IT annual report and on a quarterly basis with the strategic IT report. The chairman of the IT committee in the board of directors was informed in this respect. These reports include the key indicators for IT as well as the status of the most important IT programmes. In this respect, the committee obtained guidance on the most important programmes in the portfolio from individuals directly responsible for them. In addition, IT planning was dealt with in several meetings. The IT committee was shown how financial resources are prioritised in accordance with the bank's strategic guidelines.

The IT committee dealt on a regular basis with IT security matters and risk management. It received reports on, for instance, the threat situation and security roadmap, the restoration of data as well as security tests by means of covert attacks on the IT systems.

For the purpose of a general orientation on important IT matters, the committee dealt with the IT architecture, technological innovations and data management.

Further focal points were Zürcher Kantonalbank's takeover of Swisscanto, payment transactions of the future as well as the customer interface program projects. In addition, the IT committee was informed about further strategic IT projects.

Audit

Audit is responsible for the group's internal auditing. It is led by Walter Seif and has 49.5 employees (FTE). In organisational terms, Audit reports directly to the board of directors and is independent of the executive board. It assists the board of directors and its committees in fulfilling their supervisory and control tasks by using a systematic, risk-oriented approach to evaluate the effectiveness of risk management, controls, as well as management, performance and monitoring processes, and submit recommendations for optimisation. Audit also examines compliance with the regulatory provisions, internal directives and guidelines in all areas of the business. To perform its audit role, Audit has unlimited rights of inspection, information and access within the bank and group companies. Audit is not bound by any directives in substantive terms 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 international auditing standards.

Auditors

Under the Law on Zürcher Kantonalbank, the cantonal parliament appoints the external auditors for a two-year period. The external auditors must be recognised by the Swiss Financial Market Supervisory Authority (FINMA). On 25 April 2016, the cantonal parliament confirmed the appointment of Ernst & Young as auditors for 2017 and 2018. Rolf Walker is the auditor-in-charge for the accounting audit. As second auditor-in-charge, Dr Andreas Blumer is responsible for the regulatory audit. In the year under review, Ernst & Young charged CHF 5.1 million (2015: CHF 3.8 million) for regulatory audits (basic and additional audits), the audit of the annual financial statements of the bank and group companies as well as the consolidated financial statements. Ernst & Young charged CHF 9,000 (2015: CHF 14,000) for additional consulting services and CHF 2,500 (2015: CHF 24,000) for audit-related services. Furthermore, Ernst & Young charged CHF 2.8 million (2015: CHF 1.9 million) for auditing collective capital investments via group companies. External Audit works together with Audit and, to the extent permitted, bases its work on theirs.

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 with regard to the direction and results of the bank's business activities and important events. As at

31 December 2016, 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, Zurich, FDP	Member of the committee
Roland Munz, Zurich, SP	Member of the committee
Martin Romer, Dietikon, FDP	Member of the committee
Hans W. Wiesner, Bonstetten, GLP	Member of the committee
Eva-Maria Würth, Zurich, SP	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. At the invitation of the committee of the board, members of the executive board attend all meetings of the board of directors to inform its members on current issues and are involved in the strategy and planning. The committee of the board scrutinises all minutes of the meetings of the executive board, business units and committees. If required, the remaining members of the board of directors request additional information on the relevant minutes. At least once every quarter, the board of directors receives a detailed briefing on the course of business, developments in key risk categories (including compliance risks), 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 anti-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 an annual focus report, the theme of which changes annually depending on AWU's requests as well as the annual report (including the sustainability report), which also accounts for the public service mandate.

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.

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 executive board is responsible for those functions laid down by law. The organisational structure is laid down in the regulations regarding the executive board (group and parent company) of 23 June 2011. Sections 8 to 10 of the regulations govern their joint areas of responsibility. Under section 11 of the regulations, 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. Compensation, profit-sharing and loans are listed on page 63 of the compensation report. As at 31 December 2016, the executive board comprised the following members:

Martin Scholl	Chief Executive Officer	Member of the Executive Board since 2002
Christoph Weber	Head of Private Banking, Deputy Chief Executive Officer	Member of the Executive Board since 2008
Heinz Kunz	Head of Corporate Banking	Member of the Executive Board since 2010
Dr. Stephanino Isele	Head of Institutionals & Multinationals	Member of the Executive Board since 2014
Daniel Previdoli	Head of Products, Services & Direct Banking	Member of the Executive Board since 2007
Rudolf Sigg	Chief Financial Officer	Member of the Executive Board since 2008
Roger Müller	Chief Risk Officer	Member of the Executive Board since 2014
Dr. Jürg Bühlmann	Head of Logistics	Member of the Executive Board since 2012

Further information about the individual members of the executive board can be found on pages 50 to 53.

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 4.4 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 towards its stakeholder groups. The most important communication tools are the comprehensive annual report, sustainability report, half-yearly report and press conferences. The 2016 annual results were announced on 10 February 2017, and the annual report is to be discussed in the cantonal parliament on 15 May 2017. The bank's half-yearly results are expected to be published at the end of August 2017.

Committee of the board

Jörg Müller-Ganz

Dr. oec. University of St. Gallen; Swiss/German national; born in 1961
Chairman
Main appointments: Member of the Board of Trustees of Innovationspark Zurich, Zurich Zoo, Zurich and ETH Foundation, Zurich; Board 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. 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 in 1957
Deputy Chairman
Main appointments: Chairman of the management committee/employer representative of the Zürcher Kantonalbank pension fund, Zurich; chairman of the Board of Trustees/employer representative of Zürcher Kantonalbank's Marienburg foundation, Zurich; member of the Boards of Trustees of the Center for Corporate Responsibility and Sustainability at the 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, followed by 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. Since 2015, he has been chairman of the 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. Dr. János Blum is shareholder of Blum Real GmbH, Hungary.

Bruno Dobler

Executive MBA University of St. Gallen; Swiss national; born in 1952
Deputy Chairman
Main appointments: Chairman of the Board of Trustees of SanArena, Zurich; member of the Board of Trustees of Excellence Foundation, Zurich; member of the advisory boards of the University of Zurich, Department of Economics, Zurich, and Umwelt Arena, Spreitenbach; member of the Board of Directors of B+D Beteiligungen, Eglisau; member of the 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 former 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. He was a cantonal parliament member from 1995 to 2003. 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, and a member of the Aviation Experts Group, and a member of the advisory boards of Umwelt Arena, Spreitenbach, and the University of Zurich, Department of Economics, Zurich.

Board of directors

Amr Abdelaziz

Lawyer; Swiss/Egyptian national; born in 1977
Member of the board of directors
Main appointments: none

Amr Abdelaziz studied law at the University of Zurich and completed a postgraduate degree in European law (LL. M.) from the College of Europe. He 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 specialising in cartel investigations. He manages his own law firm in Zurich today. He 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 in 1956
Member of the board of directors
Main appointments: Mayor of the Kloten political municipality since 2006; chairman of the Board of Directors of the Glatt Valley transport authority (Verkehrsbetriebe Glattal AG), Glattbrugg since 2011; Member of the Board of Directors of Seitzmeir Immobilien AG, Zurich, since 2016

René Huber has been a member of the board of directors since 1 November 2014. 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 (as employer representative) 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. University of Zurich; Swiss national; born in 1948
Member of the board of directors
Main appointments: Chairman of the 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 in 1955
Member of the board of directors
Main appointments: Member of the Board of Directors of the 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 in 1974
Member of the board of directors
Main appointments: Member of the Boards of Directors of Budliger Treuhand AG, Zurich, and Treuhandgesellschaft Hebeisen Kälin AG, Zurich, both since 2014

Mark Roth has been a member of the board of directors since 2013. 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. He had previously worked for Itema (Switzerland) Ltd. in Rüti with Ernst & Young, Zurich. Mark Roth is the chairman of the audit committee.

Peter Ruff

dipl. Ing. FH; Swiss national; born in 1956
Member of the board of directors
Main appointments: Chairman of the Board of Trustees of Grüningen Botanical Garden, Grüningen; member of the Board of Directors of Exploris AG, Zurich; shareholder of Unimex GmbH, Zug; member of the Board of Directors of Ruf Group, Schlieren

Peter Ruff joined the board of directors in 2011. Having trained as an engineer, he has been the owner and CEO of Exploris AG – which specialises in diagnostic solutions and data analysis in the healthcare industry – since 2002. He is also a member of the Board of Directors and co-owner of Ruf Group, an information technology business. 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

grad. electrical engineer, dipl. El. Ing. FH Technikum Winterthur; Master of Arts in Theology at the University of Lampeter, United Kingdom; Switzerland; born in 1956
Member of the board of directors
Main appointments: Vice chairman of the Board of Trustees of SanArena, Zurich; member of the Board of Trustees of Grüningen 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. He was a member of the cantonal parliament from 2007 to 2015. 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 in 1966
Member of the board of directors
Main appointments: Member of the awards committee of Sustainable Harvest Switzerland, Zurich; member of the Board of Trustees of Ökopolis foundation, Zurich

Anita Sigg has been a member of the board of directors since 2011. Since 2003, she has been a lecturer 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 the compensation and personnel committee of Zürcher Kantonalbank.

Rolf Walther

Graduate in business management; Swiss national; born in 1951
Member of the board of directors
Main appointments: Chairman of the Board of Directors and CEO of Walther Beratungen AG, Zurich; member of the 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 in 1961
Member of the 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, graduate in business management; Swiss/UK national; born in 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 Inspectorate (Audit) on 1 January 2015. He joined Zürcher Kantonalbank in April 2014. He previously worked in various internal audit roles at a major bank over a period of 23 years, eight of which were spent in London.

Executive board

Martin Scholl

Swiss certified banking expert; Swiss national; born in 1961
Chief Executive Officer (CEO)
Main appointments: Member of the Board of Directors of the Swiss Bankers Association, Basel; member of the Board of Directors of the Association of Swiss Cantonal Banks, Basel; member of the 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-sized 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; member of the board of Zürcher Volkswirtschaftliche Gesellschaft, Zurich; member of the board of economiesuisse, Zurich; member of the Board of Directors of Venture Incubator AG, Zug; member of the Board of Trustees of the FCZ Museum foundation, Zurich.

Christoph Weber

Swiss certified banking expert; Swiss national; born in 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 in 1967
Head of Logistics
Main appointments: Member of the Board of Directors of SIX Group

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. Dr. Jürg Bühlmann has been Head of Real Estate, which is part of Logistics, since 2011.

Stephanino Isele

Dr. oec. publ.; Swiss national; born in 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 the Regulatory Board of SIX Swiss Exchange AG, Zurich; member of the advisory board of Zurich University's Department of Banking and Finance (IBF); member of the Board of Trustees of the Swiss Finance Institute, Zurich

Dr. Stephanino Isele took on the role of Head of Institutionals & Multinationals on 1 April 2014. He joined Zürcher Kantonalbank on 1 January 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 (IBF); member of the Board of Trustees of the Swiss Finance Institute, Zurich.

Heinz Kunz

Swiss certified banking expert; Swiss national; born in 1961
Head of Corporate Banking
Main appointments: Chairman of the Board of Directors of Swisscanto Pensions Ltd., Zurich; member of the Board of Directors of Swisscanto Holding Ltd.; member of the Board of Trustees of Berufslehr-Verbund (BVZ), Zurich; member of the Board of Directors of the 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 2016, Heinz Kunz has been chairman of the Board of Directors of Swisscanto Holding Ltd. 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) as chairman of the Swiss Bankers Association management committee for Retail Banking and is a member of the Board of Directors of the Deposit Protection of Banks and Securities Dealers Association (esisuisse), Basel; chairman of the Board of Directors of Gasthof Gyrenbad AG, Turbenthal; member of the Board of Trustees of Berufslehr-Verbund (BVZ), Zurich.

Roger Müller

Swiss certified banking expert; Swiss national; born in 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 in 1962
Head of Products, Services & Direct Banking
Main appointments: Chairman of the 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 the Greater Zurich Area Foundation Board, Zurich

Daniel Previdoli has been a member of the executive board since 2007. He became Head of Products, Services & Direct Banking on 1 October 2014 after leading the Retail Banking business unit. 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 2016, he has been chairman of the Board of Directors of TWINT AG, Zurich.

Rudolf Sigg

Swiss certified banking expert; Swiss certified federal accountant and controller; Swiss national; born in 1961
Chief Financial Officer (CFO)
Main appointments: Chairman of the Board of Directors of Swisscanto Holding Ltd., Zurich; member of the Board of Directors of Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich; member of the management committee/employer representative of Zürcher Kantonalbank's pension fund, Zurich; chairman of the Zürcher Kantonalbank Freizügigkeitsstiftung and Vorsorgestiftung Sparen 3 foundations for vested pension capital and savings respectively, both in Zurich; member of the Board of Trustees/employer representative of Zürcher Kantonalbank's Marienburg foundation

Rudolf Sigg has been a member of the executive board since 2008. He heads the Finance business unit. Previously, he had been Head of Controlling & Accounting and had overall responsibility for Controlling – which also included Central Risk Controlling in 2000 – over a period of 12 years. Rudolf Sigg has been with Zürcher Kantonalbank since 1977. He is chairman of the Board of Directors of Swisscanto Holding Ltd., Zurich and a member of the Board of Directors of Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich.

Compensation Report

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 the SIX Swiss Exchange concerning information on corporate governance, and the Swiss Code of Best Practice for Corporate Governance, insofar as this is possible and appropriate as a public-law institution.

As laid down in the SIX directives, the variable compensation is assigned to the financial year in which it is actually incurred. Total personnel expenses include all cash compensation and deferred components, changes in their value, as well as employer contributions to the pension fund; employer contributions to AHV (old-age and survivors' insurance) and other mandatory social security contributions are also included. The compensation guidelines are set out in the personnel and compensation regulations issued by the board of directors for Zürcher Kantonalbank and apply 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

Responsibility for the ultimate supervision of Zürcher Kantonalbank lies with the Zurich cantonal parliament In accordance with the Law on Zürcher Kantonalbank. It is also responsible for approving the regulations regarding compensation for 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 and personnel committee
▪ Determining total amount of variable compensation	▪ Board of directors, on recommendation of compensation and personnel committee
▪ Compensation for committee of board of directors and other members of 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 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 set out in circular 2010/01 "Compensation Systems". 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. It takes into account the long-term financial interests of the bank and supports solid and effective risk management. The board of directors brings together the interests of the canton of Zurich and the interests of Zürcher Kantonalbank and its employees. The compensation policy is also aimed at attracting and retaining highly qualified employees in the long term. With our compensation policy, we recognise outstanding performance and motivate employees to continue their professional development. Compensation is closely coordinated with 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

The compensation approach 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 people.

Zürcher Kantonalbank's base salary 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. The amount of the compensation depends on the group's results, the employee's position and individual performance. The bank aims to compensate its employees in line with the market. The bank conducts annual market comparisons in cooperation with Willis 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 the 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. Employees' variable compensation is not, or only partially, paid out at the bank's discretion if the employee has violated contractual, risk or compliance requirements before the date of the intended payment or if the bank has sustained losses due to the 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 supplemented with the reduction or forfeiture of variable compensation and/or a deferred element and similar elements of compensation. In the event of ongoing investigations or suspicion of misconduct that could lead to disciplinary measures, Zürcher Kantonalbank is entitled to delay payment of variable compensation and/or deferred compensation and similar elements of compensation until the matter has been definitively clarified or the relevant sanction decided. Under the "bad leaver" rule, the long-term deferred component as well as the deferred element at risk may lapse in full if Zürcher Kantonalbank parts company with the employee for specific reasons. This may be the case if employees have committed a breach of contract or have caused material or non-material damages as a result of their activities or the relationship of trust between them and the bank has suffered lasting damage as a result of their conduct.

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

Compensation groups

Board of directors
Compensation for members of the board of directors is based on the regulations governing the compensation of members of the board of directors of Zürcher Kantonalbank, as approved by the cantonal parliament of Zurich on 25 November 2004. For part-time members of the board of directors, it comprises a fixed annual salary plus compensation for each membership of a committee and an expense allowance. An attendance fee is paid for meetings, visits to specialist units and branch offices, as well as training and development events. No variable compensation is paid to the members of the board of directors.

Committee of the board
As full-time members of the board of directors, the members of the committee of the board receive an 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.

Fig. 18: 2016 Agreed sign-on and severance compensation (in CHF)

	No. of employees	Total	Paid in 2016	Amounts due in 2017 or later
Total sign-on payments	2	50,000	0	50,000
– 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	2	50,000	0	50,000

Executive board
Compensation for the members of the executive board is based on Zürcher Kantonalbank's overall compensation policy. A variable element is paid depending on the group's result. Part of the variable compensation is deferred as a long-term component (LZA).

Senior management
Senior management has a sustained influence on the bank's business operations (risks, image, etc.), on its group's result and therefore on the implementation of the strategy. Senior managers make up approximately one 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 group's result and individual performance. Part of the variable compensation 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 compensation 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. Key risk-takers are:
- 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 91 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

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

Fig. 19: Components of compensation

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

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

Base salary
Zürcher Kantonalbank's base salary 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.

Variable compensation
The bank's total pool for variable compensation is based on the group's result with capital and risk costs being taken into account. The operating income of trade less risk and capital costs is decisive for determining the variable compensation for trade. The amount of the allocation of the variable compensation depends on the employee's position and individual performance. 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.

Fig. 20: Variable compensation at a glance

	Recipient	Due	Forfeiture clause	Performance, penalty clause	Performance -related [1]
Variable compensation	Permanent employees	Immediate	Yes	Dependent on individual performance in event of misconduct.	Yes
Long-term deferred component	Executive board, senior management	Transferred after 3 years	Yes	Amount of cash sum paid out on due date depends on development of sustainable profit and adherence to values framework.	Yes
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.

Long-term deferred component

For members of the executive board and senior management, part of the variable compensation is deferred as a long-term component for three years. For each series of deferred component, the targets to be achieved are specified in advance and apply for the entire term. 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 at the individual person level, 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 the risk adjustment of the variable compensation pools. The variable compensation pool of the bank as a whole is based on the overall group result after adjusting for risk costs. Risk costs take into account standard risk costs as well as the cost of risk capital or cost of equity.

The model for standard risk costs is based on the default rates 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 used for the compensation of equity.

The calculation process for the variable compensation pool of the trading area is based on the adjusted result for the trading, sales and 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

Fig. 21: Risk overview

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

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

the trading, sales and capital markets area using a standard market interest rate.

Determining the variable compensation of key risk-takers
Included in the performance appraisal of key risk-takers are risk aspects, 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. The individual performance of a key risk-taker is discussed on a continuous basis with the respective supervisor. During the process of allocating and paying variable compensation elements for key risk-takers in the trading, sales and capital markets area, the independent control functions of legal, tax and compliance, risk management and human resources are consulted.

Setting variable compensation
The 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 group and the individual performance appraisal. As stated above under "Competences and responsibilities" (p. 55), 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 from senior management at the request of the respective member of the executive board after assessing individual performance. The Head of Institutionals and Multinationals decides the compensation of key risk-takers in the trading, sales and capital markets area based on the proposals of the head of that organisational unit.

Risk adjustment in relation to deferred compensation
Deferred components of compensation are subject to further risk adjustment. They may lapse in full or in part if negative business developments or other predefined conditions occur (see "Long-term deferred component" (p. 59) and "Deferral at risk" (p. 59) for further details on the possibilities of a reduction).

Compensation in 2016

Total personnel expenses in respect of the full-time-equivalent headcount of 4,910 (2015: 4,879) amounted to CHF 965.1 million (parent company). Included in this figure, for a full financial year for the first time, are the costs for employees who were integrated into the parent company following the takeover of Swisscanto in 2015. Along with the higher variable compensation expenses, personnel expenses increased by 8 percent. 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 2016 (parent company)

in CHF million	2016	2015
Base salaries [1]	527.4	508.4
Total amount of variable compensation	234.6	193.6
Social insurance	170.7 [3]	159.4
Other personnel expenses [2]	32.4	31.0
Total personnel expenses	965.1 [3]	892.4

[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 and premiums.
[3] Excludes the CHF 70 million non-recurring personnel expense in connection with the creation of provisions for pension benefit obligations.

In the course of its annual review of base salaries, Zürcher Kantonalbank decided to raise base salaries for 2016 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 a greater reward to employees who have assumed more responsibility or shown outstanding performance. Total variable compensation increased by CHF 41 million. The total amount of deferred compensation was CHF 13.9 million.

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

	2016		2015	
	No. of employees [1]	in CHF million	No. of employees [1]	in CHF million
Total amount of variable compensation	4,910	234.6	4,879	193.6
▪ of which deferred compensation	91	13.9	86	9.9
▪ of which agreed sign-on and severance compensation	2	0.1	1	0
▪ of which other charges and credits recognised in the income statement from compensation in previous years	–	0	–	0

[1] Full-time equivalents.

Compensation for members of the board of directors

Compensation for members of the board of directors is based on the regulations governing the compensation of members of the board of directors of Zürcher Kantonalbank, as approved by the cantonal parliament of Zurich on 25 November 2004. For part-time members of the board of directors, it comprises a fixed annual compensation of CHF 18,000 plus CHF 6,000 compensation for each membership of a committee. An annual expense allowance of CHF 6,000 is also provided. A fixed attendance fee of CHF 700 per day and CHF 350 per half-day is paid for meetings. These rates are also paid for visits to branch offices and specialist units as well as for necessary role-related courses and further training.

As full-time members of the board of directors, the members of the committee of the board have, since 1994, received an annual base salary of CHF 311,500 in addition to all the benefits designated for all employees in the relevant 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 lower. 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 2016 amounted to CHF 12,705,215 (2015: CHF 12,329,523). The highest sum paid to a member of the executive board during the year under review was CHF 1,858,205 in salary and variable compensation, together with CHF 211,892 in pension payments and other remuneration, and was paid to Martin Scholl, CEO (2015: CHF 1,924,392). In addition, deferred components amounting to CHF 2,213,750 (2015: CHF 2,118,813) 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 10,798,500 (of which CHF 9,881,500 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 as at 31.12.
Dr. Jörg Müller-Ganz	2016	342,650	–	14,040	8,610	94,084	459,385	1,300,000
	2015	342,650	–	14,040	9,350	94,084	460,125	1,300,000
János Blum	2016	311,500	–	14,040	6,860	87,698	420,098	1,790,000
	2015	311,500	–	14,040	6,850	87,698	420,088	1,790,000
Bruno Dobler	2016	311,500	–	14,040	0	73,091	398,631	980,000
	2015	311,500	–	14,040	200	73,091	398,831	984,000
Other members of the board of directors								
Amr Abdelaziz	2016	30,000	28,700	6,000	–	–	64,700	0
(since 1.7.2015)	2015	15,000	11,550	3,000	–	–	29,550	0
Thomas Heilmann	2016	0	0	0	–	–	0	0
(until 30.6.2015)	2015	12,000	29,750	3,000	–	–	44,750	0
René Huber	2016	30,000	27,650	6,000	–	–	63,650	10,640,000
	2015	27,000	23,100	6,000	–	–	56,100	500,000
Hans Kaufmann	2016	30,000	26,950	6,000	–	–	62,950	1,065,000
	2015	30,000	29,750	6,000	–	–	65,750	800,000
Henrich Kisker	2016	30,000	24,150	6,000	–	–	60,150	0
(since 1.7.2015)	2015	15,000	11,550	3,000	–	–	29,550	0
Mark Roth	2016	24,000	33,250	6,000	–	–	63,250	0
	2015	27,000	28,000	6,000	–	–	61,000	0
Peter Ruff	2016	24,000	32,200	6,000	–	–	62,200	0
	2015	24,000	26,250	6,000	–	–	56,250	0
Walter Schoch	2016	24,000	26,250	6,000	–	–	56,250	0
(since 1.7.2015)	2015	12,000	15,050	3,000	–	–	30,050	70,000
Anita Sigg[3]	2016	30,000	23,800	6,000	–	–	59,800	2,252,000
	2015	30,000	19,950	6,000	–	–	55,950	2,258,000
Prof. Dr. Hans Sigg	2016	0	0	0	–	–	0	
(until 30.6.2015)	2015	12,000	11,900	3,000	–	–	26,900	0
Liliane Waldner	2016	0	0	0	–	–	0	0
(until 30.6.2015)	2015	12,000	18,900	3,000	–	–	33,900	0
Rolf Walther	2016	24,000	27,650	6,000	–	–	57,650	0
	2015	24,000	33,250	6,000	–	–	63,250	0
Stefan Wirth	2016	30,000	23,450	6,000	–	–	59,450	0
	2015	30,000	24,500	6,000	–	–	60,500	0
Total	2016	1,241,651	274,050	102,120	15,470	254,873	1,888,164	18,027,000
Total	2015	1,235,651	283,500	102,120	16,400	254,873	1,892,544	7,702,000

[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 552,000.

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 that 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	2016	2015	Change	Change in %
Result from interest operations					
Interest and discount income		1,453	1,396	57	4.1
Interest and dividend income from financial investments		58	64	–6	–9.4
Interest expense		–311	–301	–10	3.3
Gross result from interest operations		1,199	1,159	41	3.5
Changes in value adjustments for default risk and losses from interest operations		–12	3	–15	–
Subtotal net result from interest operations		1,187	1,162	25	2.2
Result from commission business and services					
Commission income from securities and investment activities		763	692	71	10.3
Commission income from lending activities		55	55 [1]	0	0.7
Commission income from other services		134	112	23	20.2
Commission expense		–225	–190	–34	18.0
Subtotal result from commission business and services		728	668	60	8.9
Result from trading operations and the fair value option	32	379	328	52	15.8
Other result from ordinary activities					
Result from the disposal of financial investments		1	10	–9	–90.4
Income from participations		14	28	–15	–52.0
– of which from equity-consolidated participations		3	3	–1	–15.5
– of which from other non-consolidated participations		11	25	–14	–56.7
Result from real estate		10	7	3	41.0
Other ordinary income		9	9 [1]	0	0.2
Other ordinary expense		–3	–8	4	–55.9
Subtotal other result from ordinary activities		31	47	–17	–35.1
Operating income		2,325	2,204	120	5.5
Operating expenses					
Personnel expenses	34	–1,079	–947	–132	13.9
General and administrative expenses	35	–433	–427	–6	1.3
Subtotal operating expenses		–1,511	–1,374	–137	10.0
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–124	–106	–18	17.1
Changes to provisions and other value adjustments and losses		–8	–61	53	–87.3
Operating result		682	664	18	2.7
Extraordinary income	36	17	67	–49	–74.2
Extraordinary expenses	36	–1	–0	–1	–
Taxes	39	–7	–8	1	–10.4
Group net income		691	722	–32	–4.4
Non-recurring personnel expense in connection with the creation of provisions for pension benefit obligations		*70*		*70*	–
Group net income from operations		***761***	***722***	***38***	***5.3***

[1] A restatement of CHF 4.3 million was undertaken due to a changed profit allocation (+ profit from commission income from the lending business / – other ordinary income).

Group balance sheet

before distribution of net profit, as at 31 December

in CHF million	Note	2016	2015	Change	Change in %
Assets					
Liquid Assets		35,336	32,497	2,839	8.7
Amounts due from banks		5,364	6,011	–648	–10.8
Amounts due from securities financing transactions	1	14,889	14,966	–77	–0.5
Amounts due from customers	2	7,509	7,673	–164	–2.1
Mortgage loans	2	77,275	73,623	3,652	5.0
Trading portfolio assets	3	9,472	10,226	–754	–7.4
Positive replacement values of derivative financial instruments	4	1,933	2,897	–963	–33.3
Other financial instruments at fair value	3	20	220	–200	–90.9
Financial investments	5	4,156	4,320	–164	–3.8
Accrued income and prepaid expenses		360	294	66	22.5
Non-consolidated participations	6, 7	179	161	18	11.2
Tangible fixed assets	8	804	860	–56	–6.5
Intangible assets	9	168	124	44	35.4
Other assets	10	520	538	–18	–3.3
Total assets		157,985	154,410	3,575	2.3
Total subordinated claims		181	291	–110	–37.8
– of which subject to mandatory conversion and/or debt waiver		44	8	35	427.0
Liabilities					
Amounts due to banks		34,137	34,803	–665	–1.9
Liabilities from securities financing transactions	1	5,084	2,991	2,093	70.0
Amounts due in respect of customer deposits		80,890	80,820	69	0.1
Trading portfolio liabilities	3	2,656	2,110	546	25.9
Negative replacement values of derivative financial instruments	4	1,551	2,067	–516	–24.9
Liabilities from other financial instruments at fair value	3, 14	3,100	4,163	–1,063	–25.5
Cash bonds	15	235	269	–34	–12.6
Bond issues	15	9,329	7,669	1,660	21.7
Central mortgage institution loans	15	8,384	7,716	668	8.7
Accrued expenses and deferred income		683	578	105	18.1
Other liabilities	10	506	211	295	139.6
Provisions	16	636	584	52	8.9
Bank’s capital	21	2,425	2,425		
Retained earnings reserve	21	7,686	7,290	396	5.4
Foreign currency translation reserves	21	–8	–8	–0	5.5
Group net income	21	691	722	–32	–4.4
Equity	21	10,793	10,429	364	3.5
Total liabilities		157,985	154,410	3,575	2.3
Total subordinated liabilities		1,298	1,310	–13	–1.0
– of which subject to mandatory conversion and/or debt waiver		1,298	1,310	–13	–1.0
Off-balance-sheet transactions					
Contingent liabilities	2, 28	4,483	3,851	631	16.4
Irrevocable commitments	2	7,506	7,478	28	0.4
Obligations to pay up shares and make further contributions	2	233	147	86	58.6
Credit commitments	29				

Group cash flow statement

in CHF million	Cash inflow 2016	Cash outflow 2016	Cash inflow 2015	Cash outflow 2015
Cash flow from operating activities (internal financing):				
Income for the period under review	691		722	
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	124		106	
Provisions and other value adjustments	123	71	130	84
Changes in value adjustments for default risks and losses	61	54	51	71
Accrued income and prepaid expenses		66	15	
Accrued expenses and deferred income	105		154	
Other items	0	7	0	22
Dividend for previous year		326		280
Balance	579		719	
Cash flow from equity transactions:				
Share/participation/endowment capital, etc.			500	
Recognised in reserves	0	0	21	21
Balance		0	500	
Cash flow from transactions in respect of non-consolidated participations, tangible fixed assets and intangible assets:				
Non-consolidated participations	0	26	20	
Real estate	10	21	21	213
Other tangible fixed assets	1	18	0	30
Intangible assets	0	68	0	138
Mortgages on own real estate				
Balance		123		341
Cash flow from banking business:				
Medium and long-term business (> 1 year):				
Amounts due to banks		1,109		982
Amounts due in respect of customer deposits		257		154
Liabilities from other financial instruments at fair value		74	503	
Cash bonds	45	81	5	115
Bonds	3,433	1,749	2,213	2,380
Central mortgage institution loans	1,818	1,150	1,243	491
Loan of central issuing institutions				
Other obligations (other liabilities)	295			48
Amounts due from banks	139		68	
Amounts due from customers		4	88	
Mortgage loans		3,655		2,281
Other financial instruments at fair value				200
Financial investments		365	382	
Other accounts receivables (other assets)	18			42

(continued on page 69)

Group cash flow statement (continued)

in CHF million	Cash inflow 2016	Cash outflow 2016	Cash inflow 2015	Cash outflow 2015
Cash flow from banking business:				
Short-term business:				
Amounts due to banks	444		6,876	
Liabilities from securities financing transactions	2,093		237	
Amounts due in respect of customer deposits	327		1,006	
Trading portfolio liabilities	546			618
Negative replacement values of derivative financial instruments		516	198	
Liabilities from other financial instruments at fair value		990		112
Amounts due from banks	509			620
Amounts due from securities financing transactions	77			927
Amounts due from customers	164			251
Trading portfolio assets	733		1,063	
Positive replacement values of derivative financial instruments	963			392
Other financial instruments at fair value	200		779	
Financial investments	529			493
Liquidity:				
Liquid Assets		2,839		5,433
Balance		456		879

Group statement of changes in equity

in CHF million	Bank's capital	Profit reserves	Group net income	Foreign currency translation reserve	Total equity
Total equity as at 01.01.2015					
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					
Reclassifications					
Currency translation effect				–3	–3
Distribution of profit		–280			–280
Revaluation adjustments not affecting net income		–18			–18
Other allocations to (transfers from) the reserves for general banking risks					
Other allocations to (transfers from) the other reserves					
Group net income			722		722
Total equity as at 31.12.2015	2,425	7,290	722	–8	10,429

in CHF million	Bank's capital	Profit reserves	Group net income	Foreign currency translation reserve	Total equity
Total equity as at 01.01.2016					
Opening amount	2,425	8,012		–8	10,429
Impact of restatement					
Capital increase					
Capital decrease					
Increase in scope of capital consolidation					
Decrease in scope of capital consolidation					
Other contributions/other capital paid in					
Reclassifications					
Currency translation effect				–0	–0
Distribution of profit		–326			–326
Revaluation adjustments not affecting net income		0			0
Other allocations to (transfers from) the reserves for general banking risks					
Other allocations to (transfers from) the other reserves					
Group net income			691		691
Total equity as at 31.12.2015	2,425	7,686	691	–8	10,793

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.

Broad diversification

With the parent company, Zürcher Kantonalbank, the group is the largest cantonal bank in Switzerland. 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 Swisscanto Holding Ltd. with its subsidiaries (Swisscanto Fund Management Company Ltd, Swisscanto Pensions Ltd., Swisscanto Funds Centre Ltd. and Swisscanto Asset Management International SA), which are 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. Please see Note 7 (p. 86) for detailed information on the participation structure.

Outsourcing

Zürcher Kantonalbank outsourced contract initiation for the conclusion of online mortgages via a portal as a "significant service" as defined in FINMA Circular 2008/7 ("Outsourcing by banks") to Homegate AG, Zurich. Furthermore, Zürcher Kantonalbank outsourced the digitalisation of paper-based structured payment orders (ZKB Quickpay) to Swisscom (Schweiz) AG, Ittigen.

Note

b) Accounting and valuation policies

Changes in accounting and valuation principles
No material changes in accounting and valuation principles were recorded in the year under review.

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 consolidated financial statements comprise the accounts of the parent company and the directly and indirectly owned significant subsidiaries in which the bank has a participation of more than 50 percent of the voting capital or which it controls in another way.

The 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. Please refer to the section on Intangible assets (p. 76) for details of the treatment of any goodwill. All the assets and liabilities as well as expenses and income of the subsidiaries to be consolidated are included in the group financial statements. Intragroup transactions and unrealised gains are eliminated on consolidation.

Period of consolidation
The period of consolidation corresponds to the calendar year.

Recognition of transactions
All business transactions are recorded and measured in accordance with 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.

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 prepared 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".

Fig. 1: Foreign currency conversion rates

	2016		2015	
	Rates on balance sheet date	Annual average rates	Rates on balance sheet date	Annual average rates
USD	1.0164	0.9873	1.0010	0.9645
EUR	1.0720	1.0892	1.0874	1.0640

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 Swiss National Bank 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 "Value adjustments for default risks, provisions and losses from interest operations", p. 74).

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.

Repo transactions in the sense of a collateralised refinancing are entered in the balance sheet under liabilities from securities financing transactions. Within the framework of securities lending, Zürcher Kantonalbank lends non-monetary assets, such as securities, on its own account and at its own risk (principal status). The 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 utilised on the balance sheet date are accounted for by means of provisions (see "Provisions", p. 77). Leasing arrangements are reported in the balance sheet under loans, at their nominal value (or property value) less accumulated amortisation plus instalments due but not paid, interest on arrears and fees. The element of the leasing instalment representing the interest for the period in question is reported under interest income. The remaining amount of the leasing instalment 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" (p. 79).

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

Loss risks on existing exposures are allowed for by appropriate value adjustments. They are formed via the item "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. Individual allowances for credit risks are established in accordance with the following principles:

- Claims are valued individually on the basis of the borrower's financial situation and the realisable value of any collateral.
- As soon as the expected payments to repay a loan are no longer assured, 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 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/receivables are accounted for separately. Among other factors, country assessments of various rating agencies are taken into account. Such value adjustments take into account any existing collateral as well as existing individual value adjustments and are reviewed at least every six months.

If all or part of a claim is deemed uncollectible or 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 item "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) (p. 80). 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" on the asset side or the item "Negative replacement values of derivative financial instruments" on the liability side. Valuation gains are recognised through income in the item "Result from trading activities and the fair value option".

Hedging transactions are also 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 the compensation account not affecting net income. The net balance of this compensation account is included in "Other assets" or "Other liabilities". If the gains from the hedging transaction exceed those from the hedged underlying transaction, the hedge is considered ineffective. The excess part of the derivative instrument is treated like a trading transaction.

Please see the statements in the section "Offsetting assets and liabilities" (p. 73) 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 bifurcation 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 asset side and those on the liability side that is largely neutralised in terms of income by the fair value valuation (avoidance of an accounting mismatch).
c) Any impact of a change in own creditworthiness on the fair value is neutralised and does not affect the income statement where it arises.

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

Financial investments

The item includes money market 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. Fixed-interest securities with no intention to hold until maturity are also recorded based on the same rule.

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 twelve months.

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

Country	no depreciation
Bank premises and other properties – Shell – Building envelope	 max. 80 max. 30
Installations (fitting out, technical installations)	max. 25
Fittings in rented properties	remaining duration of rental agreement*
IT systems and equipment	2 to max. 5
Acquired IT programmes	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 impairment 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 utilised) as well as other identifiable and foreseeable risks as of the balance sheet date are accounted for by means of appropriate, operationally necessary provisions.

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 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 (p. 88) 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 identifiable risks 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 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.

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 percent.

The tax implications of time differences between the balance sheet values reported in the group financial statements and the tax values in the individual accounts are reported as deferred tax claims or liabilities.

Deferred tax claims from loss carry-forwards are capitalised where it is likely that sufficient taxable profits will be generated within the statutory time limits, against which these differences/corresponding loss carry-forwards may be offset. Changes in deferred taxes are stated in the income statement via the taxes item.

Note

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" (p. 106).

Note

d) Explanation
of the methods used for identifying default risks and determing the need for 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 74. Further information can also be found in section l) Risk report in the "Credit risks" paragraph (p. 115).

Notes

e) Explanation
of the valuation of collateral

The valuation of collateral for loans is specified in comprehensive internal regulations. They define the methods, procedures and competencies. These rules are continually 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 and 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 portfolio-specific, extraordinary revaluations.

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, fiduciary investments, claims from life insurance policies, etc.). To the extent possible, lending values are based on market values. Other collateral is subject to the deduction of specified margins. These take into account the likelihood of fluctuations in value and concentration risks within the coverage.

Notes

f) Explanation

of the bank's 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 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 of the processes and methods, please refer to the corresponding paragraph and section l) Risk report (p. 123).

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 while adhering to the risk policy requirements. 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 and cover. The hedge effectiveness is measured every six months as of the balance sheet date at the end of June and the end of December. It is based on the effects on the 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) Explanation

of material events occurring 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.

Note

i) Information on the balance sheet

1 Breakdown of securities financing transactions

in CHF million	2016	2015
Book value of cash collateral due to bank for securities borrowed and in connection with reverse repurchase agreements	14,889	14,966
Book value of cash collateral due from bank for securities lent and in connection with repurchase agreements	5,084	2,991
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	3,325	1,830
– of which with unrestricted rights to resell or pledge	3,325	1,830
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	43,457	34,760
– of which repledged securities	358	292
– of which resold securities	31,662	24,525

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 (before netting with value adjustments)				
Amounts due from customers	72	925	6,626	7,623
Mortgage loans				
– Residential property	64,061			64,061
– Office and business premises	8,607			8,607
– Trade and industrial property	2,361			2,361
– Other	2,296			2,296
Total mortgage loans	77,325			77,325
Total lendings (before netting value adjustments) **2016**	77,397	925	6,626	84,948
Total lendings (before netting value adjustments) **2015**	73,757	886	6,811	81,453
Total lendings (after netting value adjustments) **2016**	77,347	920	6,518	84,785
Total lendings (after netting value adjustments) **2015**	73,708	884	6,705	81,296
Off-balance-sheet				
Contingent liabilities	59	1,969	2,455	4,483
Irrevocable commitments	1,131	49	6,327	7,506
Obligations to pay up shares and make further contributions			233	233
Credit commitments				
Total off-balance-sheet transactions 2016	1,190	2,017	9,015	12,222
Total off-balance-sheet transactions 2015	1,289	1,743	8,444	11,476

(continued on page 83)

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	Estimated yield from collateral	Net debt	Individual allowances [1]
Impaired loans				
2016	468	285	183	169
2015	466	282	184	162

[1] Individual allowances of 100 percent of the net amount outstanding are normally formed. 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	2016	2015
Assets		
Debt securities, money market securities/transactions	5,468	5,524
– of which listed [1]	5,314	5,284
Equity securities	2,472	2,773
Precious metals and commodities	1,532	1,929
Other trading portfolio assets		
Total trading portfolio assets	9,472	10,226
Debt securities		
Structured products		
Other	20	220
Total other financial instruments at fair value	20	220
Total assets	9,492	10,446
– of which determined using a valuation model	20	516
– of which securities eligible for repo transactions in accordance with liquidity requirements	1,616	1,784

[1] Listed = traded on a recognised exchange.

in CHF million	2016	2015
Trading portfolio liabilities		
Debt securities, money market securities/transactions	2,644	2,085
– of which listed [1]	2,589	2,074
Equity securities	12	17
Precious metals and commodities	0	9
Other trading liabilities	0	
Total trading portfolio liabilities	2,656	2,110
Debt securities		
Structured products	3,100	4,163
Other		
Total other financial instruments at fair value	3,100	4,163
Total liabilities	5,756	6,273
– of which determined using a valuation model	3,100	4,460

[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		0	500			
Swaps	6,150	5,274	255,140	557	1,000	23,164
Futures			5,390			
Options (OTC)	185	110	6,687			
Options (traded)	0	0	0			
Total	6,335	5,385	267,717	557	1,000	23,164
Foreign exchange / precious metals						
Forward contracts	2,962	2,839	297,707			
Combined interest rate/ currency swaps	608	1,001	4,495	85	530	2,269
Futures			27			
Options (OTC)	279	77	11,889			
Options (traded)	1	1	180			
Total	3,851	3,918	314,298	85	530	2,269
Equity securities / indices						
Forward contracts						
Swaps	1	7	212			
Futures			112			
Options (OTC)	163	54	1,231			
Options (traded)	105	133	6,195			
Total	270	193	7,750			
Credit derivatives						
Credit default swaps	2	3	433			
Total return swaps	2	0	136			
First-to-default swaps						
Other credit derivatives						
Total	4	3	569			
Others [1]						
Forward contracts						
Swaps	2	2	269			
Futures			47			
Options (OTC)		0	2			
Options (traded)						
Total	2	3	318			
Total before netting						
2016	10,460	9,501	590,652	642	1,530	25,433
– of which, determined using a valuation model	10,460	9,501	–	642	1,530	–
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	–

Total after netting agreements	Positive replacement values (accumulated)	Negative replacement values (accumulated)
2016	1,933	1,551
2015	2,897	2,067

(continued on page 85)

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
2016	68	575	1,290

[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	2016	2015	2016	2015
Debt securities	3,927	4,146	4,145	4,372
– of which intended to be held to maturity	3,927	4,146	4,145	4,372
– of which not intended to be held to maturity (available for sale)				
Equity securities	10	12	21	23
– of which qualified participations [1]				
Precious metals	217	162	217	162
Real estate [2]	1	1	1	1
Total financial investments	4,156	4,320	4,385	4,558
– of which securities eligible for repo transactions in accordance with liquidity requirements	3,817	4,021	4,030	4,243

[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

in CHF million						
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						
2016	3,530	69				329

All but CHF 2.5 million of debt instruments without a rating fulfil the conditions for 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.

6 Presentation of non-consolidated participations

in CHF million	Acquisition cost	Accumu-lated value adjustments and changes in book value (valuation using equity method)	Book value at end 2015	Reclassifica-tions	Additions	Disposals (incl. any for-eign currency differences)	Value adjustments	Changes in book value in the case of participation values using the equity method/ depreciation reversals	Book value at end 2016	Market value at end 2016
Participations valued using the equity method										
– with market value										
– without market value	30	–13	17				–1	1	17	
Other participations										
– with market value	56		56				–11	4	48	48
– without market value	93	–5	88		26	–0	–2	1	113	
Total participations [1]	179	–18	161		26	–0	–15	7	179	48

[1] 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	Company capital in CHF million	Zürcher Kantonalbank capital ratio in %	Zürcher Kantonalbank voting rights in %	Held directly	Held indirectly
Fully consolidated holdings								
Zürcher Kantonalbank Finance (Guernsey) Ltd.	Guernsey	Financial services	CHF	1	100.0	100.0	x	
Swisscanto Holding Ltd.[1]	Zurich	Participations	CHF	24	100.0	100.0	x	
Swisscanto Fund Management Company Ltd.	Zurich	Fund management	CHF	5	100.0	100.0		x
Swisscanto Pensions Ltd.	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:[2]								
– 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	1,625[3]	17.8	17.8	x	
Aduno Holding AG[4]	Zurich	Participations	CHF	25	14.7	14.7	x	
Not fully consolidated subsidiaries								
Zürcher Kantonalbank Representações Ltda.[5]	São Paulo	Representative office	BRL	0	100.0	100.0	x	

[1] Swisscanto Holding Ltd. holds 100 percent of the shares in Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd., Swisscanto Fund Centre Ltd. and Swisscanto Asset Management International SA.
[2] 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.
[3] Of which CHF 325 million has been paid up
[4] Requirement to surrender shares when new shareholders are admitted in accordance with the shareholder agreement.
[5] Total assets in CHF thousand (2015: 292, 2014: 326); net income in CHF thousand (2015: 14, 2014: 38).

8 Presentation of tangible fixed assets

in CHF million	Acquisition cost	Accumulated depreciation	Book value at end 2015	Change of scope of consolidation	Additions	Disposals	Depreciation	Book value End 2016
Bank buildings	1,508	–689	818		21	–10	–64	766
Other real estate	8	–6	2				–0	2
Proprietary or separately acquired software	0	–0	0				–0	
Other tangible fixed assets	199	–160	39		18	–1	–20	36
Tangible assests acquired under finance leases								
– of which bank buildings								
– of which other real estate								
– of which other tangible fixed assets								
Total tangible fixed assets	1,716	–856	860		39	–11	–84	804

The insurance value of real estate included in tangible fixed assets amounted to CHF 1,471 million.
The insurance value of other tangible fixed assets amounted to CHF 553 million.

(continued on page 87)

8 Presentation of tangible fixed assets (continued)

in CHF million	31.12.2016	31.12.2015
Operating leases		
Leasing commitments not recognised 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 recognised 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 2015	Reclassifica-tions	Additions	Disposals	Changes in scope of consolidation	Amortisation	Appreciation	Book value at end 2016
Goodwill	149	–28	121		63			–19		165
Patents										
Licences	38	–35	3		5	–0		–5		3
Other intangible assets					0			–0		
Total intangible assets	186	–62	124		68	–0		–25		168

10 Other assets and liabilities

	Other assets		Other liabilities	
in CHF million	2016	2015	2016	2015
Compensation account	315	413		
Deferred income tax as recognised as assets	9	9		
Amount recognised as assets due to employer contribution reserves	1	1		
Amount recognised as assets relating to other assets from pension schemes				
Badwill				
Settlement accounts	46	5	355	111
Indirect taxes	118	70	44	33
Other	31	39	108	68
Total	520	538	506	211

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

	2016		2015	
in CHF million	Book value	Effective commitment	Book value	Effective commitment
Pledged/assigned assets				
Amounts due from banks	2,212	2,189	1,865	1,851
Amounts due from customers	1,692	1,643	2,051	2,031
Mortgage loans	10,101	9,642	10,101	8,873
Trading portfolio assets	50	50	124	124
Financial investments	16		5	5
Total pledged / assigned assets	14,072	13,524	14,145	12,884

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 (p. 82).

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	2016	2015	Change
Liabilities to own pension schemes from balance-sheet transactions			
Amounts due in respect of customer deposits	104	144	–40
Cash bonds			
Negative replacement values of derivative financial instruments	11	0	11
Accrued expenses and deferred income	0	0	–0
Total	115	145	–30

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

13 Information on pension schemes

The Zürcher Kantonalbank pension schemes is a public-law institution and is a separate legal entity. The purpose of the pension scheme is to insure the bank's employees against the economic consequences of age, death and disability. The pension schemes 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 pre-finance the benefits that will be lost upon early retirement between the ages of 58 and 62.

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

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

- Zürcher Kantonalbank's Grüningen Botanical Garden Trust
- Zürcher Kantonalbank pension fund
- Zürcher Kantonalbank's SanArena Trust
- Swisscanto Fund Management Company Ltd. (since 1 January 2016)
- Swisscanto Pensions Ltd. (since 1 January 2016)
- Zürcher Kantonalbank

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

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

Fig. 3: Coverage ratio pursuant to Article 44 BVV2

in %	Coverage ratio as at 31.12.2016 (not audited)	Coverage ratio as at 31.12.2015 (audited)
Zürcher Kantonalbank pension scheme	113	111
Zürcher Kantonalbank trust for senior management	110	111
Swisscanto pension scheme	n/a [1]	115

[1] As of 1 January 2016, employees of Swisscanto Fund Management Company Ltd. and Swisscanto Pensions Ltd. are insured under the Zürcher Kantonalbank Pension Scheme. Affiliation with the Swisscanto Flex Collective Foundation was announced at the end of 2015.

Swisscanto Funds Centre Ltd. in London has set up a pension 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 savings contributions are fully financed by the employer. The risks are comprehensively covered by insurance companies.

Swisscanto Asset Management International SA in Luxembourg has set up a pension scheme for all employees. The plan, including the investment of employee assets, is managed by an insurance company. The savings contributions are fully financed by the employer. The risks are comprehensively covered by the insurance company. The office in Germany is a member of the pension scheme for the banking industry. The employees can save tax-free contributions for retirement, with the employer paying part of the contributions.

There is no possibility of shortfall or surplus for pension solutions in other countries as the investment risk is fully borne by the employee.

13A Employer contribution reserve (ECR)

in CHF million	Nominal value 31.12.2016	Waiver of use 31.12.2016	Net amount 31.12.2016	Net amount 31.12.2015	Influence of ECR on personnel expenses 2016	Influence of ECR on personnel expenses 2015
Zürcher Kantonalbank pension scheme	1		1	1	–0	–0
Total	1		1	1	–0	–0

13B Economic benefit / economic obligations and the pension expenses

	Overfunding/ underfunding	Economic interest of the financial group		Change in economic interest	Contributions paid	Pension expenses in personnel expenses	
in CHF million	31.12.2016	2016	2015	2016	2016	2016	2015
Employer-funded fund / employer-funded pension fund							
Pension plans without overfunding / underfunding					183 [1]	183 [1]	108
Pension plans with overfunding							
Pension plans with shortfall							
Pension schemes without own assets							
Total					183	183	108

[1] Including the creation of provisions for pension benefit obligations amounting to CHF 70 million.

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)/ without ODC		148			148
Equity securities	With own debenture component (ODC)/ without ODC		2,463			2,463
Foreign currencies	With own debenture component (ODC)/ without ODC		159			159
Commodities/ Precious metals	With own debenture component (ODC)/ without ODC		56			56
Loans	With own debenture component (ODC)/ without ODC		145			145
Real estate	With own debenture component (ODC)/ without ODC					
Hybrid instruments	With own debenture component (ODC)/ without ODC		129			129
Total 2016			3,100			3,100
Total 2015			4,163			4,163

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	Maturities
31.12.2016	235	0.97	2017–2026
31.12.2015	269	1.23	2016–2025

Maturity structure

in CHF million	2017	2018	2019	2020	2021	after 2021	Total
Cash bonds	45	30	28	16	33	84	235

Bonds and mandatory convertible bonds

in CHF million	Outstanding amount	Weighted average interest rate	Maturities
31.12.2016 (Issuer: Zürcher Kantonalbank)	9,329		
– of which non-subordinated	8,031	1.03	2017–2044
– of which subordinated without PONV clause [1]			
– of which subordinated with PONV clause	1,298	2.79	2025 – perpetual
31.12.2015 (Issuer: Zürcher Kantonalbank)	7,669		
– of which non-subordinated	6,358	1.37	2016–2044
– of which subordinated without PONV clause			
– of which subordinated with PONV clause	1,310	2.80	2025 – perpetual

Maturity structure

in CHF million	2017	2018	2019	2020	2021	after 2021	Total
Bond issues	1,326	816	114	519	1,052	5,501	9,329

[1] Point of non-viability (PONV).

Central mortgage institution loans

in CHF million	Outstanding amount	Weighted average interest rate	Maturities
31.12.2016	8,384	0.79	2017–2030
31.12.2015	7,716	0.97	2016–2030

Maturity structure

in CHF million	2017	2018	2019	2020	2021	after 2021	Total
Central mortgage institution loans [1]	516	1,126	742	962	794	4,244	8,384

[1] Pfandbriefzentrale der schweizerischen Kantonalbanken AG loans.

16 Presentation of value adjustments and provisions and changes therein during the current year

in CHF million	As at end of 2015	Changes in scope of consoli-dation	Appropriate usage and reversals	Reclassifica-tions	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at end 2016
Provisions for deferred taxes	0						0	–0	0
Provisions for pension benefit obligations [1]							70		70
Provisions for credit risks	147		–10				47	–41	144
Provisions for other business risks [2]	221		–2		2		1	–2	221
Provisions for restructuring [3]	10		–9					–0	0
Other provisions [4]	206		–7		2		1	–1	201
Total provisions	584		–28		4		119	–43	636
Value adjustments for default risks and country risks	162		–5		–0	3	58	–49	169
– of which value adjustments for default risks from impaired loans [5]	162		–5		–0	3	58	–49	169
– of which value adjustments for latent risks									

[1] In line with a sustainable human resources policy, the board of directors decided in December 2016 that the bank would assume certain costs for the financing of transitional solutions in connection with the realignment of the pension fund to the changed environment. In the year under review, provision for pension liabilities amounting to CHF 70 million was made under personnel expenses.
[2] Provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
[3] Provisions for restructuring were made in connection with the acquisition of the Swisscanto group and comprise personnel measures and various integration costs.
[4] Other provisions primarily consist of provisions for litigation and provisions for employees' holiday credits.
[5] Default risks consist primarily of counterparty risks, the values of which are generally adjusted by 100 percent of the net amount outstanding. 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 (2016: CHF 3 million/2015: CHF 5 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. The Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks launched by the United States Department of Justice on 29 August 2013 was declared to have ended by the DOJ at the end of 2016. It was aimed at banks that were not the subject of an investigation by the DOJ as at 29 August 2013. It therefore did 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 the bank's capital

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

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

Neither Zürcher Kantonalbank nor its subsidiaries have employee participation schemes.

19 Amounts due from and due to related parties

	Amounts due from		Amounts due to	
in CHF million	2016	2015	2016	2015
Holders of qualified participations:	4	11	592	472
Group companies		0		
Affiliated companies	547	421	1,629	1,859
Transactions with members of governing bodies	18	16	28	30
Other related parties				

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 are 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 parties in the amount of CHF 205 million (2015: CHF 181 million) primarily include irrevocable loan commitments and other contingent liabilities.

20 Disclosure of holders of significant participations

The disclosure pursuant to the accounting guidelines for banks (AGB) is only made by the parent company (p. 147).

21 Disclosure of own shares and composition of equity capital

in CHF million	2016	2015
Bank's capital	2,425	2,425
Profit reserves	7,686	7,290
Foreign currency translation reserves	–8	–8
Group net income	691	722
Total equity	10,793	10,429

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

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 (p. 148).

23 Maturity structure of financial instruments

			Due					
in CHF million	at sight	cancellable	within 3 months	between 3 and 12 months	between 1 and 5 years	after 5 years	no maturity	**Total**
Assets/financial instruments								
Cash	35,336							35,336
Amounts due from banks	1,974	0	1,325	1,584	407	74		5,364
Amounts due from securities financing transactions		4,539	9,868	481				14,889
Amounts due from customers	185	995	2,642	773	2,065	849		7,509
Mortgage loans	127	719	8,699	8,263	36,156	23,312		77,275
Trading portfolio assets	9,472							9,472
Positive replacement values of derivative financial instruments	1,933							1,933
Other financial instruments at fair value	20							20
Financial investments	227		16	197	1,683	2,032	1	4,156
Total assets/financial instruments 2016	49,274	6,253	22,550	11,299	40,311	26,267	1	155,954
Total assets/financial instruments 2015	48,149	5,067	24,687	11,178	38,154	25,197	1	152,434
Debt capital / financial instruments								
Amounts due to banks	2,292	4	27,157	3,515	570	600		34,137
Liabilities from securities financing transactions		1,429	3,655					5,084
Amounts due in respect of customer deposits	22,333	51,630	4,437	1,183	272	1,035		80,890
Trading portfolio liabilities	2,656							2,656
Negative replacement values of derivative financial instruments	1,551							1,551
Liabilities from other financial instruments at fair value	3,100							3,100
Cash bonds			15	29	107	84		235
Bond issues		1,298	783	543	2,502	4,204		9,329
Central mortgage institution loans			219	297	3,624	4,244		8,384
Total debt capital / financial instruments 2016	31,932	54,361	36,265	5,567	7,075	10,166		145,366
Total debt capital / financial instruments 2015	33,674	49,371	34,212	8,986	7,293	9,072		142,607

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

	2016		2015	
in CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	35,284	53	32,487	10
Amounts due from banks	1,403	3,961	1,538	4,473
Amounts due from securities financing transactions	7,009	7,880	7,436	7,530
Amounts due from customers	5,870	1,640	6,174	1,499
Mortgage loans	77,275	1	73,622	1
Trading portfolio assets	4,767	4,705	5,226	5,000
Positive replacement values of derivative financial instruments	1,503	430	1,884	1,013
Other financial instruments at fair value		20		220
Financial investments	2,422	1,734	2,381	1,939
Accrued income and prepaid expenses	310	50	255	39
Non-consolidated participations	177	1	160	1
Tangible fixed assets	799	4	855	5
Intangible assets	168	0	124	0
Other assets	511	9	528	10
Total assets	137,497	20,488	132,671	21,739
Liabilities				
Amounts due to banks	2,430	31,707	2,912	31,890
Liabilities from securities financing transactions	24	5,060	24	2,967
Amounts due in respect of customer deposits	75,146	5,744	75,899	4,921
Trading portfolio liabilities	734	1,922	774	1,336
Negative replacement values of derivative financial instruments	735	816	743	1,324
Liabilities from other financial instruments at fair value	1,581	1,519	2,725	1,438
Cash bonds	235		269	
Bond issues	9,329		7,669	
Central mortgage institution loans	8,384		7,716	
Accrued expenses and deferred income	635	48	555	23
Other liabilities	506	1	210	1
Provisions	634	2	583	1
Bank’s capital	2,425		2,425	
Retained earnings reserve	7,584	102	7,229	60
Foreign currency translation reserves	–8		–8	
Group net income	674	17	735	–13
Total liabilities	111,047	46,938	110,461	43,948
Off-balance-sheet transactions				
Contingent liabilities	1,455	3,027	1,411	2,440
Irrevocable commitments	6,603	903	6,501	977
Obligations to pay up shares and make further contributions	232	1	146	1
Credit commitments				

25 A Assets by country or group of countries

	2016		2015	
	in CHF million	Share in %	in CHF million	Share in %
Switzerland	137,497	87.0	132,671	85.9
Rest of Europe	13,382	8.5	14,327	9.3
– of which Germany	2,331	1.5	3,354	2.2
– of which France	911	0.6	870	0.6
– of which United Kingdom	4,077	2.6	3,893	2.5
– of which Guernsey	120	0.1	64	0.0
Americas	5,167	3.3	5,386	3.5
– of which USA	3,953	2.5	4,148	2.7
Asia and Oceania	1,889	1.2	1,988	1.3
Africa	49	0.0	38	0.0
Total assets	157,985	100.0	154,410	100.0

25 B Liabilities by country or group of countries

	2016		2015	
	in CHF million	Share in %	in CHF million	Share in %
Switzerland	111,047	70.3	110,461	71.5
Rest of Europe	25,239	16.0	22,178	14.4
– of which Germany	4,223	2.7	5,192	3.4
– of which France	2,384	1.5	1,436	0.9
– of which United Kingdom	5,459	3.5	4,330	2.8
– of which Guernsey	2,094	1.3	2,053	1.3
Americas	9,858	6.2	8,671	5.6
– of which USA	4,082	2.6	4,033	2.6
Asia and Oceania	10,766	6.8	11,773	7.6
Africa	1,075	0.7	1,326	0.9
Total liabilities	157,985	100.0	154,410	100.0

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

	2016		2015	
	in CHF million	Share in %	in CHF million	Share in %
Switzerland	8,291	67.8	8,058	70.2
Rest of Europe	3,061	25.0	2,554	22.3
– of which Germany	67	0.5	77	0.7
– of which France	3	0.0	0	0.0
– of which United Kingdom	1,753	14.3	187	1.6
– of which Guernsey	915	7.5	1,782	15.5
Americas	475	3.9	530	4.6
– of which USA	94	0.8	32	0.3
Asia and Oceania	380	3.1	295	2.6
Africa	15	0.1	39	0.3
Total	12,222	100.0	11,476	100.0

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

Rating class of ZKB's own country rating	Moody's	31.12.2016 Net foreign exposure in CHF million	31.12.2016 Net foreign exposure Share in %	31.12.2015 Net foreign exposure in CHF million	31.12.2015 Net foreign exposure Share in %
A	Aaa/Aa1/Aa2/Aa3	12,353	84.9	11,605	83.4
B	A1/A2/A3	641	4.4	747	5.4
C	Baa1/Baa2/Baa3	816	5.6	973	7.0
D	Ba1/Ba2	634	4.4	538	3.9
E	Ba3	75	0.5	32	0.2
F	B1/B2/B3	25	0.2	11	0.1
G	Caa1/Caa2/Caa3/Ca/C	4	0.0	9	0.1
Total		14,547	100.0	13,916	100.0

For explanations regarding the rating system please refer to section l) of the risk report (p.116).

27 Balance sheet by currencies

	Currencies converted into CHF million				
	CHF	USD	EUR	ROW	Total in CHF million
Assets					
Liquid assets	35,209	9	114	4	35,336
Amounts due from banks	1,053	3,361	723	227	5,364
Amounts due from securities financing transactions	5,330	4,592	4,749	219	14,889
Amounts due from customers	5,518	870	974	147	7,509
Mortgage loans	77,139	122	14		77,275
Trading portfolio assets	6,318	1,770	925	459	9,472
Positive replacement values of derivative financial instruments	1,594	94	227	19	1,933
Other financial instruments at fair value	20				20
Financial investments	3,240	97	820	0	4,156
Accrued income and prepaid expenses	260	65	26	9	360
Non-consolidated participations	178	1	0	0	179
Tangible fixed assets	801		3		804
Intangible assets	168		0		168
Other assets	496	2	11	11	520
Total assets shown in balance sheet	137,324	10,982	8,585	1,094	157,985
Delivery entitlements from spot exchange, forward forex, forex option and precious metal transactions	103,640	109,715	76,529	18,927	308,812
Total assets	240,964	120,697	85,114	20,021	466,796
Liabilities					
Amounts due to banks	7,903	18,887	4,456	2,891	34,137
Liabilities from securities financing transactions	162	678	4,244		5,084
Amounts due in respect of customer deposits	72,794	3,359	3,886	851	80,890
Trading portfolio liabilities	1,150	1,235	212	59	2,656
Negative replacement values of derivative financial instruments	451	216	877	8	1,551
Liabilities from other financial instruments at fair value	2,084	339	659	18	3,100
Cash bonds	235				235
Bond issues	8,798		531		9,329
Central mortgage institution loans	8,384				8,384
Accrued expenses and deferred income	589	63	21	11	683
Other liabilities	476	30	1	0	506
Provisions	635		1		636
Bank's capital	2,425				2,425
Retained earnings reserve	7,705		–19		7,686
Foreign currency translation reserves			–8		–8
Group net income	689		1		691
Total balance sheet liabilities	114,478	24,808	14,862	3,837	157,985
Delivery obligations from spot exchange, forward forex, forex option and precious metal transactions	125,961	95,407	71,588	16,029	308,985
Total liabilities	240,439	120,214	86,450	19,866	466,969
Net position per currency in 2016	525	482	–1,336	155	–173
Net position per currency in 2015	110	–624	532	337	355

Note

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	2016	2015
Guarantees to secure credits and similar	437	416
Performance guarantees and similar	3,299	2,904
Irrevocable commitments arising from documentary letters of credit	746	531
Other contingent liabilities		
Total contingent liabilities	4,483	3,851
Contingent assets arising from tax losses carried forward		
Other contingent assets		
Total contingent assets		

In connection with the completed acquisition of Swisscanto Holding Ltd., a fixed purchase price was paid to the sellers in March 2015 and a variable purchase price in October 2016. The purchase contract provides for the possibility of two further variable purchase price payments in 2017 and 2018. Their amount depends on the contribution to results of the individual sellers, general market conditions and the income from the product range. The actual annual share of the purchase price cannot fall below zero. The two variable purchase price payments – payable in October 2017 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 2016 and 31 December 2015.

30 Fiduciary transactions

in CHF million	2016	2015
Fiduciary investments with third-party companies	243	205
Fiduciary investments with linked companies		
Fiduciary loans		
Fiduciary transactions arising from securities lending and securities borrowing (conducted out in the bank's own name for the account of customers)		
Other fiduciary transactions		
Total	243	205

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

in CHF million	2016	2015
Type of customer assets		
Assets in collective investment schemes managed by Zürcher Kantonalbank	75,939	73,884
Assets under discretionary asset management agreements [1]	57,303	53,905
Other customer assets [1]	131,512	129,716
Total customer assets (including double counting) [2]	264,754	257,505
– of which double counting [3]	38,658	30,838

[1] Assets with a Private Portfolio Consulting (PPC) mandate (approximately CHF 500 million) are now shown under "Other managed assets" (previously "Assets under discretionary asset management agreements"). A PPC mandate offers a more intensive form of advice with additional services compared with a classic advisory mandate. The previous year has been restated.

[2] The managed customer assets shown include all customer assets of an investment nature held with Zürcher Kantonalbank, as well as customer assets held with third-party banks and which are managed by Zürcher Kantonalbank. In addition, passive products from corporate customers, which have no investment character, are also shown as managed assets. This does not include assets held with Zürcher Kantonalbank but managed by third parties (custody-only). Assets of banks and significant investment fund companies (including collective pension fund foundations, investment trusts, employee benefits foundations and pension funds) for which Zürcher Kantonalbank acts exclusively as custodian bank are treated as custody-only.

[3] Correction of value for previous year by CHF 5.8 billion in view of Swisscanto collective investment schemes.

b) Presentation of the development of managed assets

in CHF million	2016	2015 [1]
Total managed assets (including double counting assets) at beginning	257,505	208,674
+/– net new money inflow or net new money outflow [2]	7,953	–2,502
+/– price gains/losses, interest, dividends and currency gains/losses	6,430	–903
+/– other effects	–7,134 [3]	52,235 [4]
Total managed assets (including double counting) at end	264,754	257,505

[1] Following a change in the segmentation of business partners as well as deposits, the figures for the previous year were adjusted.

[2] 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.

[3] The restructuring of a major mandate led to a reduction in eligible portfolios, without an actual outflow of assets. The CHF 7.1 billion reduction in assets is therefore shown under "Other effects".

[4] For the most part other effects for 2015 reflect the acquisition of Swisscanto Holding Ltd.

Note

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	2016	2015
Result from foreign exchange, banknotes and precious metals	133	120
Result from bonds, interest rate and credit derivatives	144	114
Result from trading in equities and structured products	48	54
Result from other trading activities[1]	54	39
Total	379	328

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

		Trading result from:						
in CHF million	2016	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]
Result from foreign exchange, banknotes and precious metals	133	113	20					
Result from bonds, interest rate and credit derivatives	144	–0			142	2		
Result from trading in equities and structured products	48	7	–5		–1	50	–2	–1
Result from other trading activities	54		–0	58	–3	–1	–0	
Total	379	120	15	58	138	52	–2	–1
– of which from fair value option on assets	–0				–0			
– of which from fair value option on liabilities	–54	–4	–3		–5	–40	–6	4

[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 material negative interest

During the 2016 financial year a refinancing income of CHF –12.1 million (previous year CHF –1.9 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	2016	2015
Negative interest on lending business (reduction in the interest and discount income)	148	114
Negative interest on deposit-taking business (reduction in interest expenses)	117	82

34 Personnel expenses

in CHF million	2016	2015
Compensation for governing bodies and personnel	796	745
– of which alternative forms of variable compensation		
AHV, IV, ALV and other social security contributions	249 [1]	169
Changes in book value for economic benefits and obligations arising from pension schemes		
Other personnel expenses	33	32
Total	1,079	947

[1] Including the creation of provisions for pension liabilities amounting to CHF 70 million.

35 General and administrative expenses

in CHF million	2016	2015
Occupancy expense	35	50
Expense for information and communications technology	172	172
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	2	2
Auditors’ fees	8	6
– of which for financial and regulatory audits	8	5
– of which for other services	0	0
Other operating expenses	215	197
– of which as compensation for state guarantee	22	21
Total	433	427

36 Explanations regarding material losses, extraordinary income and expenses, as well as value adjustments and provisions no longer required

in CHF million	2016	2015
Extraordinary income		
Reversal of impairment on other participations	5	21
Income from sale of other real estate/bank premises	9	38
Income from sale of participations	2	3
Other	1	6
Total	17	67
Extraordinary expenses		
Losses from sale of other real estate/bank premises	0	0
Expenses incurred outride of the reporting period		
Loss from the sale of participations		
Other	1	0
Total	1	0

In the financial year, no material freed-up allowances and provisions were recorded.

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

in CHF million		2016	2015
Participation	Domicile		
CLS Group Holdings AG	Lucerne	1	3
SWIFT	La Hulpe	0	
Technopark Winterthur AG	Winterthur		0
Valiant Holding AG	Lucerne		17
Total		1	20

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

in CHF million	2016 Domestic	2016 Foreign	2015 Domestic	2015 Foreign
Result from interest operations				
Interest and discount income	1,452	0	1,395	0
Interest and dividend income from financial investments	58	0	64	0
Interest expense	–311	–0	–300	–1
Gross result from interest operations	1,199	0	1,159	–0
Changes in value adjustments of default risk and losses from interest operations	–12	0	3	–0
Subtotal net result from interest operations	1,187	0	1,162	–0
Result from commission business and services				
Commission income from securities and investment activities	616	147	557	135
Commission income from lending activities	55	0	55 [1]	0
Commission income from other services	132	3	112	0
Commission expense	–170	–55	–141	–50
Subtotal result from commission and business services	633	95	583	85
Result from trading operations and the fair value option	357	22	307	20
Other ordinary activities				
Result from disposal of financial investments	1		10	0
Participation income, total group	14	0	28	0
– of which from equity-consolidated participations	3		3	
– of which from other non-consolidated participations	11	0	25	0
Result from real estate	10	0	7	0
Other ordinary income	9	0	9 [1]	0
Other ordinary expense	–3	0	–7	–0
Subtotal other result from ordinary activites	30	0	47	0
Operating expenses				
Personnel expenses	–1,062	–16	–931	–15
General and administrative expenses	–422	–11	–418	–9
Subtotal operating expenses	–1,484	–27	–1,349	–25
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–123	–1	–105	–1
Changes to provisions and other value adjustments and losses	–7	–1	–61	–0
Operating result	594	88	585	79
Extraordinary income	17	0	67	0
Extraordinary expenses	–1	–0	–0	
Change in reserves for general banking risks				
Taxes	–6	–1	–3	–5
Group net income	604	87	648	75

[1] A restatement of CHF 4.3 million was undertaken due to a changed profit allocation (+ Commission income from lending activities / – Other ordinary income).

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

in CHF million	2016	2015
Creation of provisions for deferred taxes	–0	–0
Reversal of provisions for deferred taxes	0	0
Capitalisation of deferred taxes on loss carryforwards	–0	0
Expense for current income and capital taxes	–7	–9
Total	–7	–8
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 %	2016	2015
Return on equity (ROE)	7.4	7.5

in CHF million		
Relevant net income for calculating ROE		
Group net income from operations [1]	761	722
Total	761	722
Relevant average equity [2] for calculating ROE		
Average corporate capital	2,425	2,175
Average other equity components	7,869	7,495
Total	10,294	9,670

[1] Excludes the CHF 70 million non-recurring expense in connection with the creation of provisions for pension benefit obligations.
[2] Average corporate capital and other equity components are calculated on a monthly basis.

Note

f) Risk report

Risk profile

In view of continuing negative Swiss franc interest rates, asset and liability management remains 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.

As far as the lending business is concerned, the volume of mortgages increased by nearly 5 percent to CHF 77.3 billion, with lending policy remaining the same. Real estate financing for retail customers accounted for CHF 57 billion of this. There were no material changes in the rating structure of the various credit portfolios.

Except for event-driven movements such as after the Brexit result in June, there was little volatility in the value-at-risk for the trading book for 2016. The low risk figures for trading reflect the strategy of focussing on customer business in this area.

The key figures for both short-term and structural liquidity risks indicate a comfortable liquidity situation for Zürcher Kantonalbank.

Among operational risks, the management of cyber risks continues to demand particular attention. The legal and reputation risks in the cross-border financial services business are a focal point in the management o 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:

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

Principles of risk management

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

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

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

Principles of compliance policy

The objective of compliance is to ensure that Zürcher Kantonalbank conducts its business operations in accordance with legal and ethical norms. The principles of the 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, p. 108).

Board of directors and committee of the board

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

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

Executive board

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

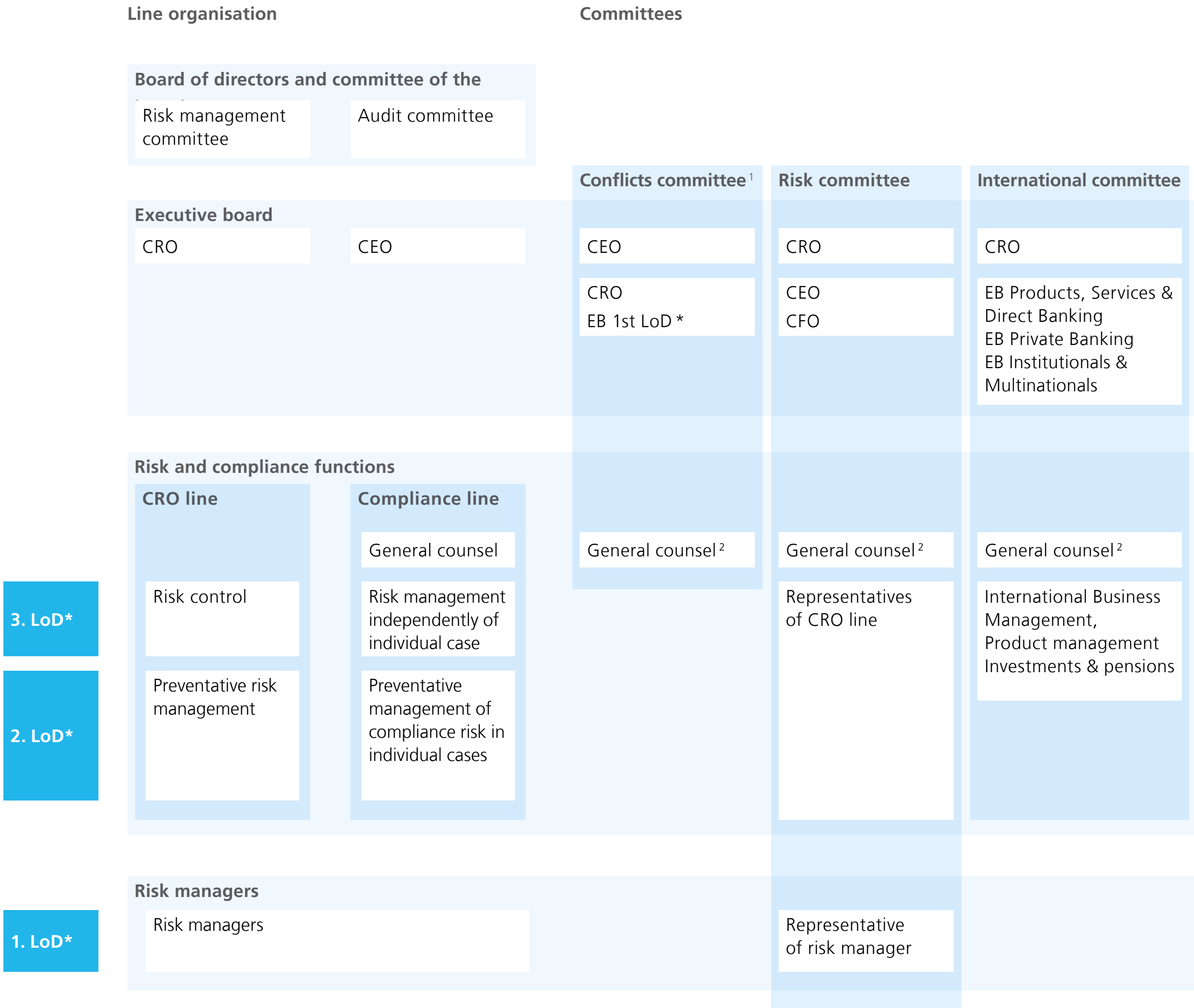
Conflicts committee

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

Risk committee

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

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.

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 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 function as 2nd Line of Defence is primarily responsible for providing forward-looking legal advice with the objective of avoiding or minimising individual identified risks and threats arising due to legal parameters. Legal advice is provided in the context of existing mandatory consultations, as a pre-deal consultation or on request.

Risk managers

The risk managers (1st Line of Defence) bear responsibility for profits and losses generated on the risks entered into. They are responsible for the continuous, active management of risks and for constant compliance with the risk policy parameters, relevant laws, ordinances and standards. The sales units are responsible for credit risks as risk managers and the trading and capital markets unit for market risks in the trading book. Interest risks in the banking book and liquidity risks are managed partly by treasury in the finance business unit and partly by the trading and capital markets unit. All units of the bank are responsible for managing operational and compliance risks.

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 and liquidity requirements

The following sections contain, amongst other matters, key points from the quantitative disclosure in accordance with FINMA Circular 2016/1. The complete disclosure reports, including qualitative information, are available at zkb.ch/disclosures.

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. By contrast, calculation of the required capital for credit risks is performed in accordance with the international standard approach (SA-BIS). The model-based approach is used for market risks, combined with the standard approach (SA-BIS) for specific interest rate risks, and the basic indicator approach (BIA) for operational risk.

The capital requirements for systemically important institutions basically consist of capital adequacy requirements for the bank to continue its activities (going concern) and additional loss-absorbing measures (gone concern). The total requirement for the continuation of the bank's activities consists of a base requirement and additional requirements, calculated on an annual basis according to market share and total exposure. At the present time, requirements for additional loss-absorbing measures only apply to global systemically important banks (G-SIB) and are therefore not relevant to Zürcher Kantonalbank as a domestic systemically important institution (D-SIB).

As at 31 December 2016, the capital adequacy requirement for Zürcher Kantonalbank as a domestic systemically important institution is 14.0 percent of risk-weighted assets, for both the parent company and the group, according to the individual 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 453 million, or 0.7 percent, to 14.7 percent.

As at 31 December 2016, the minimum required capital for the group amounted to CHF 5,279 million (2015: CHF 5,035 million) against eligible capital of CHF 11,564 million (2015: CHF 11,293 million) (Fig. 5). The minimum required capital was therefore

Fig. 5: Minimum disclosure

in CHF million (unless indicated otherwise)		Group 31.12.2016	Parent Company[4] 31.12.2016
1	Minimum capital based on risk-based requirements	5,279	5,259
2	Eligible capital	11,564	11,362
3	– of which common equity Tier 1 (CET1)	10,266	10,064
4	– of which Tier 1 capital (T1)	10,849	10,647
5	Risk-weighted assets (RWA)	65,987	65,731
6	CET1 ratio (Common equity Tier 1 capital as a percentage of RWA)[1]	15.6	15.3
7	Tier 1 capital ratio (Tier 1 capital as a percentage of RWA)[1]	16.4	16.2
8	Total capital ratio (as a percentage of RWA)[1]	17.5	17.3
9	Countercyclical capital buffer (as a percentage of RWA)	0.7	0.7
10	CET1 target ratio (as a percentage) according to Annex 8 to the Swiss Capital Adequacy Ordinance (CAO) plus countercyclical capital buffer[2]	10.7	10.7
11	T1 target ratio (as a percentage) according to Annex 8 to the Swiss Capital Adequacy Ordinance (CAO) plus countercyclical capital buffer[2]	13.7	13.7
12	Total capital target ratio (as a percentage) according to Annex 8 to the Swiss Capital Adequacy Ordinance (CAO) plus countercyclical capital buffer[2]	14.7	14.7
13	Basel III Leverage Ratio (Tier 1 capital as a percentage of total exposure)	6.3	6.2
14	Total exposure	171,618	171,254
15	Liquidity coverage ratio (LCR) as a percentage in the 4th quarter[3]	132	131
16	LCR numerator: total high quality liquid assets (HQLA)	40,976	40,943
17	LCR denominator: total net outflows of funds	31,151	31,230
18	Liquidity coverage ratio (LCR) as a percentage in the 3rd quarter[3]	125	125
19	LCR numerator: total high quality liquid assets (HQLA)	40,482	40,459
20	LCR denominator: total net outflows of funds	32,331	32,396
21	Liquidity coverage ratio (LCR) as a percentage in the 2nd quarter[3]	116	115
22	LCR numerator: total high quality liquid assets (HQLA)	34,302	34,239
23	LCR denominator: total net outflows of funds	29,673	29,808
24	Liquidity coverage ratio (LCR) as a percentage in the 1st quarter[3]	119	118
25	LCR numerator: total high quality liquid assets (HQLA)	34,821	34,752
26	LCR denominator: total net outflows of funds	29,290	29,370

[1] Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140 –142 CAO, which allow a gradual introduction of the new rules. The figures are calculated in accordance with the provisions of the CAO for non-systematically important banks.
[2] In accordance with the decree issued by FINMA in August 2014, Zürcher Kantonalbank's CET1 target ratio is 10.0 %, the T1 target ratio 13.0 % and the total capital target ratio 14.0 %, each plus the countercyclical buffer of 0.7 %.
[3] Based on monthly averages.
[4] The parent company's capital is calculated on a solo consolidated basis since 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 as of 2012.

Fig. 6a: Required minimum capital (group)

in CHF million	Remarks	31.12.2016 SA-BIS	31.12.2015 SA-BIS
Credit risks (using standard approach)	including CVA[1]	4,561	4,296
– of which price risks relating to equity-type securities in the banking book		29	25
Non-counterparty-related risks (using standard approach)		64	69
Market risks		326	353
– of which market risks (using model-based approach)[2, 4]		163	214
– of which market risks on interest rate instruments (specific market risks)[3, 4]		163	139
Operational risks (using basic indicator approach)		327	318
Required minimum capital		5,279	5,035
Total risk-weighted assets	12.5 x minimum capital	65,987	62,942

[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 194 million as at 31 December 2016 (CHF 198 million as at 31 December 2015).
[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] The values for the two lines were reversed in error in the 2015 Annual Report.

Fig. 6b: Risk-based capital requirement based on capital ratios for systemically important banks

in CHF million	Group 31.12.2016 Transitional rules		Rules as from 2020	
Basis of assessment	CHF		CHF	
Risk-weighted assets (RWA)	65,987		65,987	
Risk-based capital requirements (going concern) based on capital ratios	CHF	As a percentage of RWA	CHF	As a percentage of RWA
Total [1]	9,691	14.7	9,889	15.0
– of which CET1: minimum	4,075	6.2	2,969	4.5
– of which CET1: capital buffer	1,287	2.0	2,679	4.1
– of which CET1: countercyclical capital buffer	453	0.7	453	0.7
– of which CET1: additional capital Pillar 2	1,237	1.9	950	1.4
– of which Additional Tier 1: minimum	1,204	1.8	2,310	3.5
– of which Additional Tier 1: capital buffer	528	0.8	528	0.8
– of which Additional Tier 1: additional capital Pillar 2	907	1.4		
Eligible capital (going concern) [2,3]	CHF	As a percentage of RWA	CHF	As a percent age of RWA
Core capital	11,564	17.5	10,849	16.4
– of which CET1	8,924	13.5	8,012	12.1
– of which CET1 to cover the Additional Tier 1 requirements	1,342	2.0	2,254	3.4
– of which Additional Tier 1 High-Trigger CoCos	583	0.9	583	0.9
– of which Additional Tier 1 Low-Trigger CoCos				
– of which Tier 2 High-Trigger CoCos			–	–
– of which Tier 2 Low-Trigger CoCos	714	1.1	–	–
Risk-based requirements for additional loss-absorbing measures (gone concern) based on capital ratios [4]	CHF	As a percentage of RWA	CHF	As a percentage of RWA
Total (net)				
Eligible additional loss-absorbing measures (gone concern)	CHF	As a percentage of RWA	CHF	As a percentage of RWA
Total				
– of which bail-in bonds				
– of which CET1, used to meet gone concern requirements				
– of which Additional Tier 1, used to meet gone concern requirements				

[1] Capital requirements are calculated as a percentage of risk-weighted assets. In accordance with the decree issued by FINMA in August 2014, Zürcher Kantonalbank's CET1 target ratio is 10.0 %, the T1 target ratio 13.0 % and the total capital target ratio 14.0 %, each plus the countercyclical buffer of 0.7 %.
[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] In accordance with the transitional provisions for the amendment of the CAO of 11 May 2016 (Art. 148b CAO) regarding the quality of capital for systemically important banks, low-trigger Tier 2 capital can be included in the core capital until the first capital call, but not later than 31 December 2019.
[4] There are currently no gone concern capital requirements for D-SIB (Domestic Systemically Important Banks).

CHF 244 million more than in the previous year (Fig. 6a). The increase in required capital for credit risks is mainly connected with the growth in mortgage-backed loans and higher credit equivalents for derivative and repo transactions. The requirements for market risks were slightly lower than in the previous year, while those for operational risks were slightly higher.

The eligible capital of Zürcher Kantonalbank increased in the 2016 financial year, mainly due to retained earnings. The total capital ratio of 17.5 percent (2015: 17.9 percent) and the common equity Tier 1 capital ratio of 15.6 percent (2015: 15.8 percent) based on required minimum capital reflect Zürcher Kantonalbank's solid equity base.

Unweighted capital adequacy requirements (leverage ratio)

The unweighted capital adequacy requirement (leverage ratio) is 3.4 percent according to the individual decree issued by FINMA. The systemically relevant leverage ratio of 6.7 percent far exceeds the requirements, highlighting the strength of Zürcher Kantonalbank's capital base, even under the unweighted capital adequacy requirements.

Fig. 7: Unweighted capital adequacy requirements based on the leverage ratio for systemically important banks

	Group 31.12.2016			
in CHF million	Transitional rules		Rules as from 2020	
Basis of assessment	CHF		CHF	
Total exposure (leverage ratio denominator, LRD)	171,618		171,618	
Unweighted capital adequacy requirements (going concern) based on the leverage ratio	CHF	As a percentage of LRD	CHF	As a percentage of LRD
Total [1]	5,766	3.4	7,723	4.5
– of which CET1: minimum	3,947	2.3	2,574	1.5
– of which CET1: capital buffer	0	0.0	2,574	1.5
– of which CET1: additional capital Pillar 2	172	0.1		
– of which Additional Tier 1: minimum	1,201	0.7	2,574	1.5
– of which Additional Tier 1: additional capital Pillar 2	446	0.3		
Eligible capital (going concern) [2, 3]	CHF	As a percentage of LRD	CHF	As a percentage of LRD
Core capital	11,467	6.7	10,849	6.3
– of which CET1	8,924	5.2	8,012	4.7
– of which CET1 to cover the Additional Tier 1 requirements	1,342	0.8	2,254	1.3
– of which Additional Tier 1 High-Trigger CoCos [4]	583	0.3	583	0.3
– of which Additional Tier 1 Low-Trigger CoCos				
– of which Tier 2 High-Trigger CoCos			–	–
– of which Tier 2 Low-Trigger CoCos [4]	618	0.4	–	–
Unweighted requirements for additional loss-absorbing measures (gone concern) based on leverage ratio [5]	CHF	As a percentage of LRD	CHF	As a percentage of LRD
Total (net)				
Eligible additional loss-absorbing measures (gone concern)	CHF	As a percentage of LRD	CHF	As a percentage of LRD
Total				
– of which bail-in bonds				
– of which CET1, used to meet gone concern requirements				
– of which Additional Tier 1, used to meet gone concern requirements				

[1] Capital requirements are calculated as a percentage of total exposure. In accordance with the decree issued by FINMA in August 2014, the unweighted capital requirement is 3.4 %.
[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] In accordance with the transitional provisions for the amendment of the CAO of 11 May 2016 (Art. 148b CAO) regarding the quality of capital for systemically important banks, low-trigger Tier 2 capital can be included in the core capital until the first capital call, but not later than 31 December 2019.
[4] The eligible capital in the unweighted capital ratio which can be covered by AT 1 and during the transitional period by AT 2 is restricted to 0.7 % in 2016 (Art. 148c CAO).
[5] There are currently no gone concern capital requirements for D-SIB (Domestic Systemically Important Banks).

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 11,293 million in eligible capital at the end of 2015, CHF 4,480 million was allocated to the risk business in 2016. The percentage breakdown of the capital allocated by risk category is shown in Figure 8.

Regulatory requirements regarding liquidity
In 2016, Zürcher Kantonalbank's liquidity coverage ratio (LCR) remained stable, far above the minimum level of 100 percent required under the regulations.

Fig. 8: Risk capital assigned by board of directors, by risk category

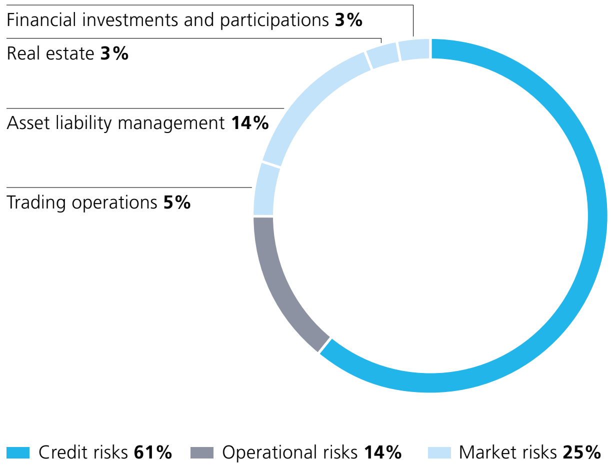


Fig. 9: Liquidity coverage ratio (LCR)

in CHF million	Q1 2016[1]	Q2 2016[1]	Q3 2016[1]	Q4 2016[1]	Q4 2015[1]
High quality liquid assets (HQLA)[2]	34,821	34,302	40,482	40,976	36,101
– of which Level 1	32,046	31,487	37,550	37,773	33,663
– of which Level 2	2,775	2,815	2,932	3,203	2,439
Net outflow of funds	29,290	29,673	32,331	31,151	28,188
Liquidity coverage ratio (LCR)	119 %	116 %	125 %	132 %	128 %

[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 – Liquidity Risks for Banks (Annex 1).

Risk categories

Zürcher Kantonalbank's risk strategy is based on the risk categorisation illustrated in Figure 10.

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.

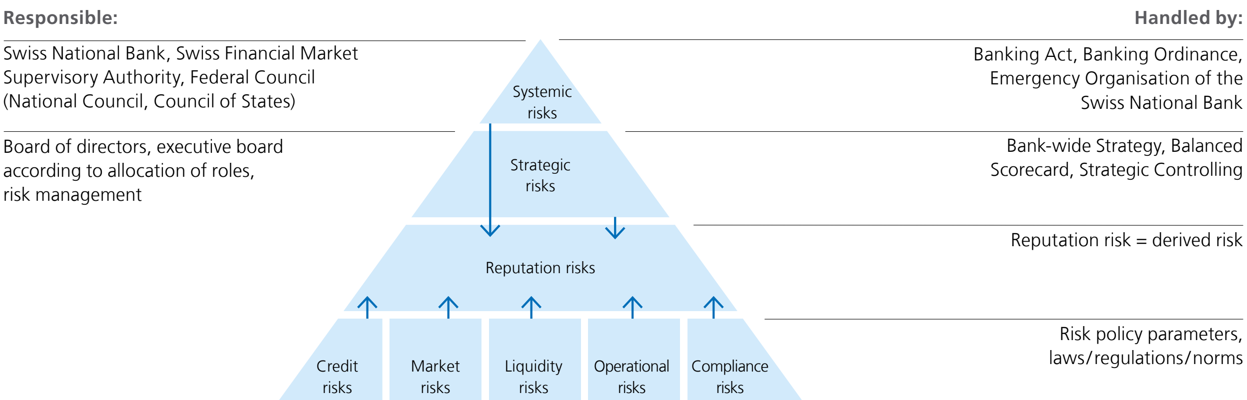
Reputation risks

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. 10: 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 acquisition of financing business. 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 Three Lines of Defence 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 the level of exposure at default (EAD) and the estimated loss given default (LGD). Rating models specific to individual segments are used to determine default probabilities. The rating system for retail and corporate 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, procedure 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. Other 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 depreciation. Should any signs be found, a standardised impairment test is used to determine whether a loan should be classed as impaired. Impaired loans are those where the borrower is unlikely to be able to meet his future obligations. Where it appears that the bank will be unable to collect all amounts due on a claim, the bank makes an allowance for the unsecured part of the loan, 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 recoverability of other security (e.g. leased assets, letter of comfort) 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, specialised 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 of the CLS Bank International Ltd. joint venture a clearing centre for settlement of foreign exchange transactions on a "delivery versus payment" basis helps ensure that a substantial element of the settlement risk arising as a result of foreign exchange trading is eliminated.

Risk concentration

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

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

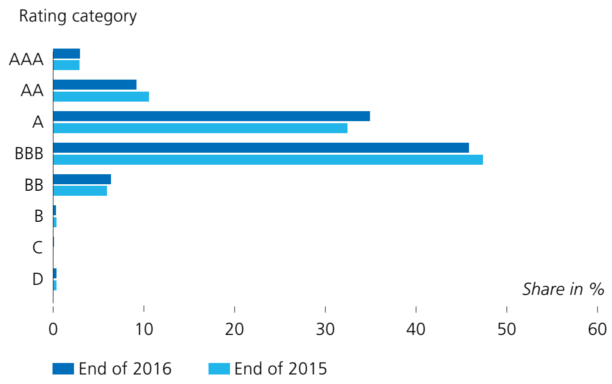
Fig. 11: Group credit exposure breakdown by counterparty group

Credit exposure[1] *in CHF million*	Central governments and central banks	Banks and securities dealers	Other institutions[2]	Companies	Retail customers and small businesses[3]	Other positions[4]	**Total**
Balance sheet items							
Due from banks	15	5,348		1		0	5,364
Due from securities financing transactions	204	8,831	2,800	3,054			14,889
Due from customers	2	0	993	4,382	2,026	107	7,509
Mortgages			44	4,830	70,606	1,795	77,275
Positive replacement value	83	594	128	465	575	88	1,933
Other financial instruments valued at fair value		20					20
Debt securities in financial investments	572	696	1,140	1,528	209		4,145
Deferred items						360	360
Other assets[5]	116					80	196
Total as at 31.12.2016	992	15,488	5,105	14,260	73,416	2,431	111,692
Total as at 31.12.2015	1,232	16,013	5,195	15,375	69,834	2,297	109,946
Off-balance-sheet items							
Contingent liabilities	6	1,227	83	2,804	339	24	4,483
Irrevocable commitments[6]	3	100	317	5,102	1,901	82	7,506
Obligations to pay up shares and make further contributions						233	233
Credit commitments							
Total as at 31.12.2016	9	1,327	400	7,906	2,240	340	12,222
Total as at 31.12.2015	8	1,171	407	7,877	1,786	227	11,477

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).

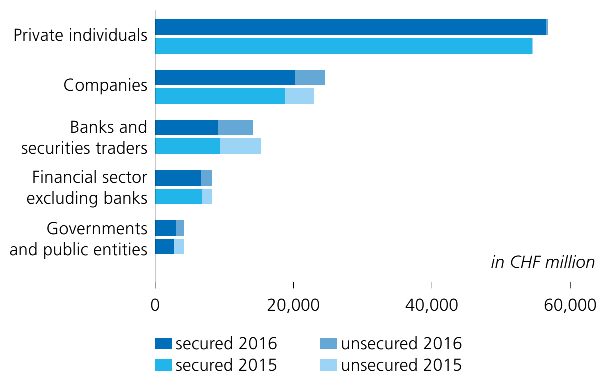
Credit exposures by rating category
Default probability ratings are assigned internally on the basis of a scale from 1 to 19. Figure 12 shows credit exposures to counterparties by rating category using S&P's rating scale.

Fig. 12: Credit exposures by rating category



Credit exposures by customer portfolio
Figure 13 shows credit exposures classified in accordance with the bank's internally defined customer portfolios.

Fig. 13: Credit exposures by customer portfolio



Credit exposures in relation to "private individuals" consist almost entirely of mortgages and represent 53 percent (2015: 52 percent) of total credit exposures. The "corporates" portfolio consists of credit exposures in relation to customers of a commercial nature. The share of this customer group in total credit exposures is 23 percent (2015: 22 percent), 83 percent (2015: 82 percent) of which is secured by mortgage on 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 3.9 % in 2016. The median gross loan-to-value ratio for all properties in the private customer portfolio was 51 percent (2015: 52 percent).

Unsecured credit exposure
Seventy-five percent (2015: 78 percent) of unsecured credit exposure in the "corporates" portfolio relates to customers in the AAA to BBB (investment grade) rating categories. The volume of unsecured lending in the corporate customers portfolio increased slightly overall.

Fig. 14: Unsecured credit exposures of corporate customers by rating category

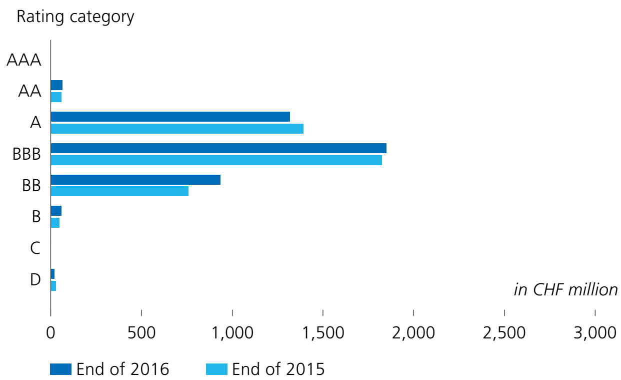
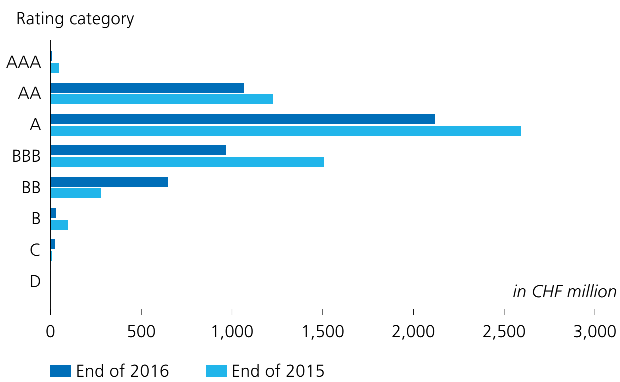


Fig. 15: Unsecured credit exposures of banks and securities traders by rating category



In the "banks and securities traders" customer portfolio, the volume of unsecured loans in the AA and A rating categories fell slightly due to a slight decrease in money market lending and reductions in international trade finance. Rating downgrades for banks from emerging markets led to the volume shift from rating category BBB to rating category BB. Eighty-three percent (2015: 92 percent) of unsecured exposures relate to rating categories AAA to BBB (investment grade).

Impaired loans

Impaired loans amounted to CHF 468 million (2015: CHF 466 million). After deduction of the estimated recoverable value of the collateral, there was a net debt of CHF 183 million (2015: CHF 184 million, see also Note 2 to the balance sheet, p. 83). 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 128 million at the end of the reporting period (2015: CHF 143 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 default risks increased by CHF 3 million to CHF 312 million in 2016 (CHF 144 million in provisions for default risks and CHF 169 million in allowances for default risks from impaired loans (see also p. 92, Note 16 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 Three Lines of Defence 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 percent. The modelling is based on a stressed value-at-risk (Stressed-VaR). Besides general market risks, the model also takes into account issuer default risks.

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. 16).

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

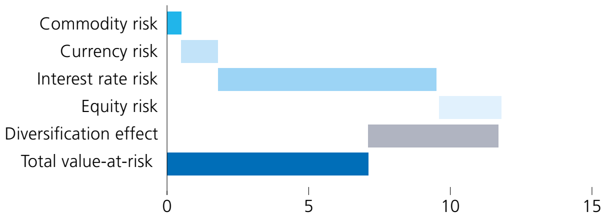
At year-end 2016, the value-at-risk stood at CHF 9 million (Fig. 16). Interest rate risks continue to dominate (Fig. 17, p. 122). On average, the value-at-risk decreased from CHF 17 million to CHF 11 million compared with the previous year. The main reason for the reduction lies in a lower average interest rate exposure in 2016.

Fig. 16: 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 31.12.2016	0	1	8	2	–5	7	9
Average current year 2016	1	1	9	3	–5	8	11
Maximum	1	4	16	8	–9	15	17
Minimum	0	0	6	1	–3	5	7
As at 31.12.2015	0	1	9	3	–4	9	12

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

Fig. 17: Components of value-at-risk (in CHF million)



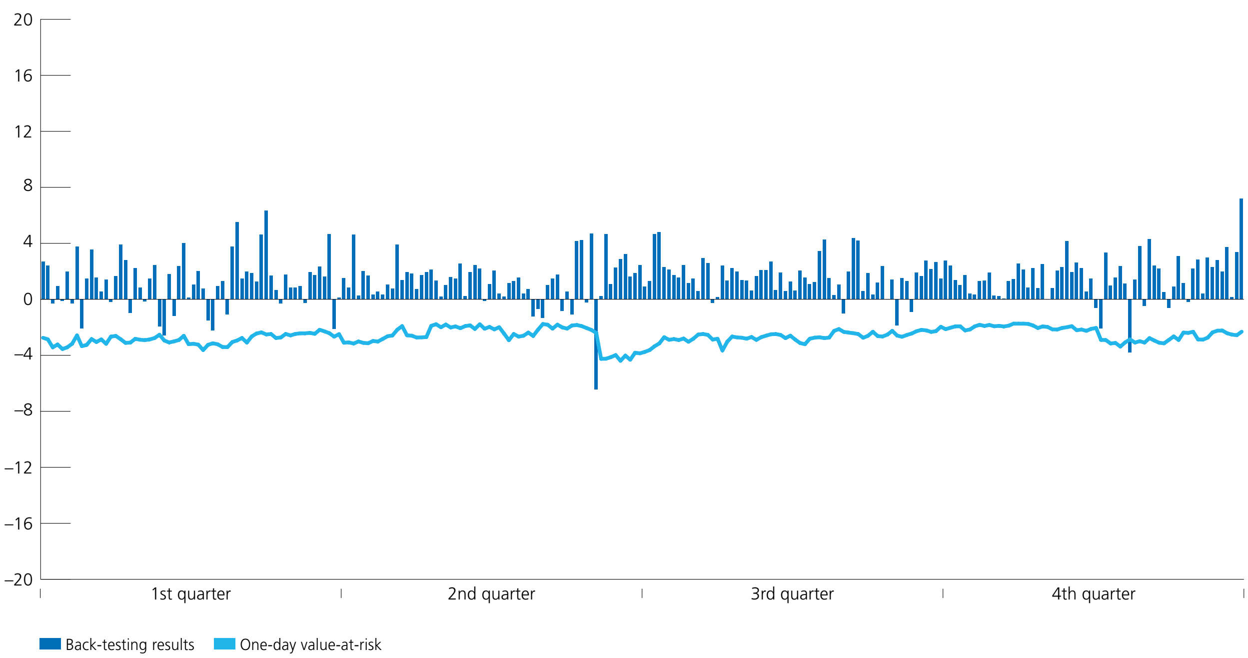
Back-testing results 2016

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. 18). In 2016, two 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. The first breach resulted from extraordinary market movements following the Brexit result in the UK and the second was due to a major movement in money market interest rates at the end of November.

Approach to measuring capital adequacy

The required capital is calculated based on the internal model-based approach approved by 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.

Fig. 18: 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

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.

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 and reviewed at least once a year.

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 percent) and by using value-at-risk limits (holding period 20 trading days, confidence level 99 percent). In addition, stress scenarios are simulated in order to analyse and limit the impact of extraordinary changes in the level of interest rates.

As far as earnings are concerned, stress tests provide an indication of the structural contribution in the event of extraordinary changes in market interest rates with unchanged positioning over a one year period. Besides the structural contribution, with regard to earnings, margin effects are particularly significant for customer deposits with variable interest. This applies especially in an environment of negative market interest rates for balance sheet items such as retail customer deposits which are not affected by negative interest rates. Newly implemented monitoring tools allow such margin effects to be analysed for different interest rate scenarios over a period of several years.

Risk profile

The sensitivity data shown in Fig. 19 on p. 124 indicate the change in value in Swiss francs when interest rates for each maturity band fall by one basis point (0.01 percentage points). The customer deposits contained in the hedged item are represented via replicating portfolios with average maturities of between 17 and 26 months.

The interest rate sensitivity of the CHF banking book stood at CHF 8.1 million per basis point as at 31 December 2016, level with the previous year. The interest rate exposure mainly serves as a strategic hedge against persistently low Swiss franc interest rates and is dominated (by more than two thirds) by the strategic interest rate risk position specified by the board of directors (equity benchmark). In the event of an interest rate rise, the positive margin effects successively compensate for the losses in terms of the structural contribution. The increase in interest rate sensitivity in the maturity band of over five years and the reduction between one and five years are mainly attributable to aging effects of hedging transactions.

The euro and US dollar interest rate exposures are almost fully hedged as of the end of 2016.

Fig. 19: 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	–30	3,902	6,934	10,806
Hedge	–36	–1,788	–879	–2,703
Total as at 31.12.2016	–66	2,114	6,055	8,103
Total as at 31.12.2015	200	3,349	4,509	8,058

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

Fig. 20: Value-at-risk of interest rate risk in the banking book

in CHF million	Value-at-risk (99 % quantile)
As at 31.12.2016	–164
As at 31.12.2015	–226

The value-at-risk of the interest rate risk position of the banking book decreased due to lower volatility in interest rate markets (Fig. 20).

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 3.9 billion as at 31 December 2016 (2015: CHF 4.1 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 11 (p. 117). 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 11, 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 (p. 85).

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 and 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. 21: 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.

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, which reports to the CFO, is responsible for managing the liquidity risks and refinancing of Zürcher Kantonalbank. The treasury delegates operational liquidity management to the money trading unit, which ensures the efficient use of liquidity based on internal and regulatory rules. Within the framework of risk policy parameters, the board of directors establishes the 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 are based both on the internal model and on the regulatory indicator, the liquidity coverage ratio (LCR). The internal model is based on a bank-specific stress scenario tailored to the characteristics of Zürcher Kantonalbank. In this scenario, substantial outflows of varying intensity in customer and interbank business are assumed. The result of the liquidity risk measurement is an automatically produced 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 stress scenario. As a systemically important bank, with effect from 1 January 2015, Zürcher Kantonalbank is subject to a minimum requirement of 100 percent 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 into operational and non-operational categories. Net outflows of funds from derivatives due to market changes are calculated based on 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.

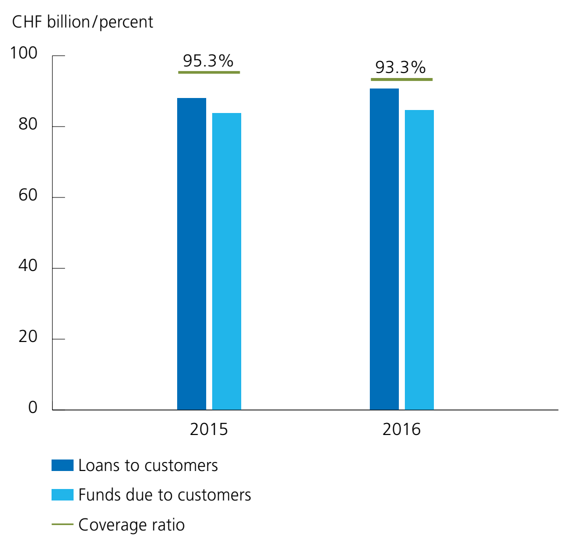
Zürcher Kantonalbank pursues a long-term refinancing policy, including both cost and risk aspects. Refinancing risks are managed via a deliberate diversification with regard to maturities and refinancing instruments used and markets, to limit dependence on funding sources. The treasury uses short and 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 2016. The quarterly averages for the LCR are shown in Fig. 9 on page 113. They lie between 116 percent and 132 percent. High quality liquid assets (HQLA) amount to between CHF 34.3 billion and CHF 41 billion. These 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 liquidity risk profile is actively managed, particularly by targeted management of fixed-term deposits and SLB and repos. The change in the LCR is driven by fluctuations in non-operational deposits and SLB and repo business with banks and major customers.

Figure 22 shows a year-on-year comparison of the coverage ratio for asset-side customer business. Loans to customers amounted to CHF 90.6 billion against funds due to customers of CHF 84.6 billion as at 31 December 2016. This gives a coverage ratio of 93.3 percent. The coverage ratio has reduced slightly versus the previous year due to the increased volume of mortgages.

Fig. 22: Coverage ratio customer business



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 United States Internal Revenue Service (IRS) are investigating Zürcher Kantonalbank's cross-border business with US customers. The Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks launched by the United States Department of Justice on 29 August 2013 was declared to have ended by the DOJ at the end of 2016. It was aimed at banks that were not the subject of an investigation by the DOJ as at 29 August 2013. It therefore did 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.

Note

m) Multi-year comparison

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*	2016	2015	2014
Net result from interest operations		1,187	1,162	1,127
Result from commission business and services		728	668	526
Result from trading operations and the fair value option		379	328	233
Other result from ordinary activities		31	47	43
Operating income		2,325	2,204	1,929
Operating expenses		–1,441 [1]	–1,374	–1,191
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–124	–106	–93
Changes to provisions and other value adjustments and losses		–8	–61	–38
Operating result		752 [1]	664	607
Extraordinary result		16	66	41
Taxes		–7	–8	–0
Group net income		761 [1]	722	647

Balance sheet (before distribution of net profit)	*in CHF million*	2016	2015	2014
Total assets		157,985	154,410	145,872
Mortgage loans		77,275	73,623	71,349
Amounts due in respect of customer deposits		80,890	80,820	79,969
Provisions		636	584	539
Equity		10,793	10,429	9,487

Key figures	*in %*	2016	2015	2014
Return on equity (ROE)		7.4 [1]	7.5	7.2
Cost/income ratio (CIR) [2]		61.7 [1]	62.4	61.7
Common equity Tier 1 ratio (CET1) [3]		15.6	15.8	14.6
Core capital ratio (Tier 1) [3]		17.5	16.8	15.6
Total capital ratio [3]		17.5	17.9	16.6
Leverage ratio [3]		6.7	7.0	5.8
Liquidity coverage ratio (LCR) [4]		132	128	–

Assets under management	*in CHF million*	2016	2015	2014
Total assets under management		264,754	257,505	208,677

Headcount/banking outlets	*Number*	2016	2015	2014
Headcount after adjustment for part-time employees, as at 31 December		5,173	5,179	4,844
Banking outlets [5]		89	91	97

(continued on page 129)

Multi-year comparison (continued)

Profit distribution	*in CHF million*	2016	2015	2014
Share paid to canton to defray cost of capital		21	26	34
Distribution to canton		220	200	164
Distribution to municipalities		110	100	82
Total profit distribution		351	326	280
Additional compensation for state guarantee		22	21	–
Additional payments from public service mandate		119	128	106

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

[1] Excludes the CHF 70 million non-recurring expense in connection with the creation of provisions for pension benefit obligations.
[2] Charged: Cost-income ratio (excl. changes in default-related value adjustments and losses from interest business).
[3] In accordance with the provisions for systemically important banks.
[4] Average for the quarter, 4th quarter.
[5] Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as automated banks.

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

Report of the statutory auditor to the Cantonal Parliament of Zurich on our audit of the consolidated financial statements as of 31 December 2016 of

Zurich, 2 March 2017

Report of the statutory auditor on the consolidated financial statements

Mr. President
Ladies and Gentlemen

As statutory auditor, we have audited the consolidated financial statements of Zürcher Kantonalbank, which comprise the consolidated balance sheet, consolidated statement of income, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements (pages 66 to 127), for the year ended 31 December 2016.

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

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

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

Building a better working world

Page 2

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss accounting principles for banks and comply with Swiss law.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Loans – impairment of client loans and amounts due from banks as well as determination of allowances and provisions

Audit matter	Zürcher Kantonalbank discloses client loans, which consist of amounts due from clients and mortgage receivables, as well as amounts due from banks at nominal value less any necessary allowances. If required, provisions are recorded for limits that are set but not used as of the balance sheet date. The need for an allowance or provision is determined on a case-by-case basis and is based on the difference between the carrying amount of a receivable, or, if greater, the limit, and the prospective recoverable amount, taking into account the counterparty risk and the net income from the use of any collateral. Determining allowances and provisions requires making estimates and assumptions, which by definition involve judgments and can vary depending on the valuation. As of 31 December 2016, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 90.1 billion. Their share as a percentage of total assets amounted to 57.1% as of the reporting date. Therefore, the valuation of the impairment of client loans and the amounts due from banks as well as the determination of allowances and provisions are key audit matters. Significant accounting principles regarding client loans, amounts due from banks as well as allowances and provisions are described by Zürcher Kantonalbank on pages 73, 74, 77 and 79 as well as on pages 115 to 120 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 82 and 92 in the notes to the consolidated financial statements.

Our audit response	Our audit included auditing the processes and controls in connection with granting and monitoring loans as well as assessing the identification and calculation of allowances and provisions. Moreover, we performed sample tests on the impairment of selected client loans and amounts due from banks, and evaluated the compliance and implementation of significant accounting principles as well as the appropriateness of the disclosures in the notes to the consolidated financial statements.

Fair value measurement of financial instruments

Audit matter	Fair value is defined as the amount for which an asset is exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. This amount corresponds to the price requested in a price-efficient and liquid market or, if this is missing, to the price determined on the basis of a valuation model. Valuation models are significantly affected by the assumptions that are used, including interest, forward and swap rates, spread curves and the volatility and estimates of future cash flows. There is a significant degree of judgment involved in making these assumptions. Zürcher Kantonalbank discloses financial instruments at fair value measurement – largely in connection with client business – in different balance sheet items. As of 31 December 2016, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.9 billion, while that of the negative replacement values comes to CHF 1.6 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 616.0 billion. Furthermore, as of 31 December 2016, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 3.1 billion. As a result of the inherent scope of judgment and the significance of the listed balance sheet items in the consolidated financial statements of Zürcher Kantonalbank, the valuation of these items represents a key audit matter. Zürcher Kantonalbank explains the relevant accounting principles on pages 74, 75, 80, 81 as well as on pages 120 to 122 of their annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 83, 84 and 90 in the notes to the consolidated financial statements
Our audit response	We audited the processes and controls with regard to fair value measurement, the validation and application of valuation models as well as the significant assumptions on which these are based. Moreover, we assessed the assumptions made in connection with the valuation and their appropriateness on the basis of sample testing. We compared the prices considered on price-efficient and liquid markets with independent sources using sample testing.

Building a better working world

Page 4

Provisions for compliance and legal risks

Audit matter	Zürcher Kantonalbank faces a limited number of pending legal issues and process risks, for which they have determined and recognized (on the balance sheet) the provisioning need as of 31 December 2016 on the basis of the estimated amounts in dispute. We consider the assessment of the determination and completeness of provisions for compliance and legal risks to be a key audit matter, because the estimated possible costs and obligations have a significant level of uncertainty and the bank's estimates and assessments involve significant judgments. In addition, unexpected negative developments can have a material impact on Zürcher Kantonalbank's net assets and results of operations. The bank's history of cross-border banking services with US clients is being investigated by the US Department of Justice and the US Internal Revenue Service. As in other areas, the bank assesses its risks on an ongoing basis here, taking appropriate risk provisioning measures where required. Zürcher Kantonalbank explains the relevant accounting principles on pages 77 and 127 of their annual report. Furthermore, we refer to note 16 on page 92 in the notes to the consolidated financial statements.
Our audit response	Our audit with regard to provisions for compliance and legal risks included inspecting the bank's internal documentation and risk analyses, discussing the assumptions made in determining the provisions with those charged with governance at the bank as well as evaluating the assessments prepared by the bank's external legal representatives on our behalf.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

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

Parent company financial statements

Income statement

in CHF million	Note	2016	2015	Change	Change in %
Result from interest operations					
Interest and discount income		1,452	1,396	57	4.1
Interest and dividend income from financial investments		57	64	–6	–10.0
Interest expense		–311	–300	–11	3.7
Gross result from interest operations		1,199	1,159	39	3.4
Changes in value adjustments for default risk and losses from interest operations		–12	3	–16	–
Subtotal net result from interest operations		1,186	1,162	24	2.1
Result from commission business and services					
Commission income from securities and investment activities		573	501	72	14.4
Commission income from lending activities		55	55 [1]	0	0.7
Commission income from other services		102	91	12	12.9
Commission expense		–107	–83	–23	27.9
Subtotal result from commission business and services		624	563	61	10.8
Result from trading operations and the fair value option	32	357	303	53	17.6
Other ordinary activities					
Result from disposal of financial investments		1	7	–6	–86.2
Income from participations		72	127	–55	–43.1
Result from real estate		13	7	6	76.2
Other ordinary income		18	11 [1]	7	59.8
Other ordinary expense		–3	–3	1	–19.5
Subtotal other result from ordinary activities		102	149	–48	–31.8
Operating income		2,269	2,178	90	4.2
Operating expenses					
Personnel expenses	34	–1,035 [2]	–892	–143	16.0
General and administrative expenses	35	–411	–401	–10	2.6
Subtotal operating expenses		–1,446	–1,293	–153	11.8
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–121	–103	–19	18.1
Changes to provisions and other value adjustments and losses		–7	–60	53	–87.9
Operating result		694	722	–29	–3.9
Extraordinary income	36	17	62	–45	–72.3
Extraordinary expenses	36	–6	–0	–5	–
Change in reserves for general banking risks	36	70 [3]	–100	170	–
Net income		775	684	91	13.4

[1] A restatement of CHF 4.3 million was undertaken due to a changed profit allocation (+ Commission income from lending activities / – Other ordinary income).
[2] Includes the CHF 70 million non-recurring expense in connection with the creation of provisions for pension benefit obligations.
[3] Release of reserves for general banking risks to neutralise the effect of the non-recurring personnel expense on the result.

Distribution of net profit

in CHF million	2016	2015	Change	Change in %
Net income	775	684	91	13.4
Profit carried forward	1	1	–0	–17.1
Distributable profit	776	685	91	13.3
Distribution of net profit				
Profit distribution				
Dividends	351	326	24	7.5
– of which share paid to canton to meet cost of capital	21	26	–6	–21.3
– dividends for the benefit of the canton	220	200	20	10.0
– dividends for the benefit of the municipalities	110	100	10	10.0
Profit retained				
Allocated to reserves	425	358	67	18.7
– allocated to voluntary retained earnings reserve	425	358	67	18.7
New profit carried forward	1	1	–0	–18.3

The distribution of profit was approved by the board of directors on 26 January 2017. Approval of the annual financial statements by the cantonal parliament is planned for 8.5.2017.

Balance sheet

before distribution of net profit, as at 31 December

in CHF million	Note	2016	2015	Change	Change in %
Assets					
Liquid assets		35,292	32,490	2,802	8.6
Amounts due from banks		5,248	5,817	–570	–9.8
Amounts due from securities financing transactions	1	14,889	14,966	–77	–0.5
Amounts due from customers	2	7,541	7,716	–175	–2.3
Mortgage loans	2	77,275	73,623	3,652	5.0
Trading portfolio assets	3	7,834	8,880	–1,047	–11.8
Positive replacement values of derivative financial instruments	4	1,990	2,983	–994	–33.3
Other financial instruments at fair value	3				
Financial investments	5	4,041	4,177	–137	–3.3
Accrued income and prepaid expenses		324	236	88	37.2
Participations		624	562	63	11.2
Tangible fixed assets		799	852	–52	–6.1
Intangible assets		3	3	–0	–9.4
Other assets	10	501	545	–44	–8.1
Total assets		156,360	152,851	3,509	2.3
Total subordinated claims		181	291	–110	–37.8
– of which subject to mandatory conversion and/or debt waiver		44	8	35	427.0
Liabilities					
Amounts due to banks		34,096	34,749	–653	–1.9
Liabilities from securities financing transactions	1	5,084	2,991	2,093	70.0
Amounts due in respect of customer deposits		80,957	80,880	77	0.1
Trading portfolio liabilities	3	2,656	2,110	546	25.9
Negative replacement values of derivative financial instruments	4	1,551	2,067	–516	–25.0
Liabilities from other financial instruments at fair value	3, 14	1,581	2,725	–1,144	–42.0
Cash bonds		235	269	–34	–12.6
Bond issues		9,329	7,669	1,660	21.7
Central mortgage institution loans		8,384	7,716	668	8.7
Accrued expenses and deferred income		584	505	80	15.8
Other liabilities	10	499	207	292	141.4
Provisions	16	632	572	60	10.5
Reserves for general banking risks		4,836	4,906	–70	–1.4
Corporate capital	21	2,425	2,425		
Statutory profit reserves	21	1,213	1,213		
Voluntary retained earnings reserve	21	1,521	1,163	358	30.8
Profit carried forward	21	1	1	–0	–17.1
Net income	21	775	684	91	13.4
Equity	21	10,771	10,392	379	3.6
Total liabilities		156,360	152,851	3,509	2.3
Total subordinated liabilities		1,298	1,310	–13	–1.0
– of which subject to mandatory conversion and/or debt waiver		1,298	1,310	–13	–1.0
Off-balance-sheet transactions					
Contingent liabilities	2	4,484	3,852	632	16.4
Irrevocable commitments	2	9,019	8,907	112	1.3
Obligations to pay up shares and make further contributions	2	233	147	86	58.6
Credit commitments					

Equity statement

in CHF million	Bank's capital	Statutory profit reserves	Reserves for general banking risks	Voluntary retained earnings reserve	Balance sheet profit	Total equity
Total equity as at 01.01.2015						
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 (loss) on disposal of own 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
Other allocations to / withdrawals from the reserves						
Other allocations to (transfers from) the reserves for general banking risks			100			100
Other allocations to (transfers from) the other reserves		116			–116	
Net income					684	684
Total equity as at 31.12.2015	2,425	1,213	4,906	1,163	685	10,392

in CHF million	Bank's capital	Statutory profit reserves	Reserves for general banking risks	Voluntary retained earnings reserve	Balance sheet profit	Total equity
Total equity as at 01.01.2016						
Opening amount	2,425	1,213	4,906	1,163	685	10,392
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 (loss) on disposal of own shares						
Capital costs on endowment capital					–26	–26
Allocation to the canton from previous years profit					–200	–200
Allocation to municipalities from previous years profit					–100	–100
Other allocations to / withdrawals from the reserves						
Other allocations to (transfers from) the reserves for general banking risks			–70			–70
Other allocations to (transfers from) the other reserves				358	–358	
Net income					775	775
Total equity as at 31.12.2016	2,425	1,213	4,836	1,521	776	10,771

Notes Parent Company

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 statements with respect to the group with regard to the company profile, 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 in the group also apply to the parent company. The same applies to material events occurring after the balance sheet date.

Accounting and valuation policies

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 prepared in compliance with the provisions of Art. 25 para. 1 a) BO ("Reliable assessment statutory single-entity financial statements").

They are generally based on 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.

Note

i) Information on the balance sheet

1 Breakdown of securities financing transactions

in CHF million	2016	2015
Book value of cash collateral due to bank for securities borrowed and in connection with reverse repurchase agreements	14,889	14,966
Book value of cash collateral due from bank for securities lent and in connection with repurchase agreements	5,084	2,991
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	3,325	1,830
– of which with unrestricted rights to resell or pledge	3,325	1,830
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	43,457	34,760
– of which repledged securities	358	292
– of which resold securities	31,662	24,525

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 (before netting with value adjustments)				
Amounts due from customers	72	874	6,709	7,655
Mortgage loans				
– Residential property	64,061			64,061
– Office and business premises	8,607			8,607
– Trade and industrial property	2,361			2,361
– Other	2,296			2,296
Total mortgage loans	77,325			77,325
Total lendings (before netting with adjustments) **2016**	77,397	874	6,709	84,980
Total lendings (before netting with adjustments) **2015**	73,757	838	6,900	81,495
Total lendings (after netting with adjustments) **2016**	77,347	869	6,601	84,816
Total lendings (after netting with adjustments) **2015**	73,708	837	6,795	81,339
Off-balance-sheet				
Contingent liabilities	59	1,969	2,457	4,484
Irrevocable commitments	1,131	41	7,847	9,019
Obligations to pay up shares and make further contributions			233	233
Credit commitments				
Total off-balance-sheet transactions 2016	1,190	2,010	10,537	13,737
Total off-balance-sheet transactions 2015	1,289	1,734	9,884	12,907

(continued on page 141)

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	Estimated yield from collateral	Net debt	Individual allowances [1]
Impaired loans				
2016	468	285	183	169
2015	466	282	184	162

[1] Individual allowances of 100 percent of the net amount outstanding are normally formed. 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	2016	2015
Assets		
Debt securities, money market securities/transactions	3,574	3,883
– of which listed [1]	3,469	3,647
Equity securities	2,472	2,773
Precious metals and commodities	1,532	1,929
Other trading portfolio assets	256	296
Total trading portfolio assets	7,834	8,880
Debt securities		
Structured products		
Other		
Total other financial instruments at fair value		
Total assets	7,834	8,880
– of which determined using a valuation model	256	296
– of which securities eligible for repo transactions in accordance with liquidity requirements	1,013	1,161

[1] Listed = traded on a recognised exchange.

in CHF million	2016	2015
Trading portfolio liabilities		
Debt securities, money market securities/transactions	2,644	2,085
– of which listed [1]	2,589	2,074
Equity securities	12	17
Precious metals and commodities	0	9
Other trading liabilities	0	
Total trading portfolio liabilities	2,656	2,110
Debt securities		
Structured products	1,581	2,725
Other		
Total other financial instruments at fair value	1,581	2,725
Total liabilities	4,237	4,835
– of which determined using a valuation model	1,581	2,725

[1] Listed = traded on a recognised exchange.

4 Derivative instruments (assets and liabilities)

	Trading instruments			Hedging instruments		
in CHF million	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments						
Forward contracts including FRAs		0	500			
Swaps	6,169	5,292	257,359	557	1,000	23,164
Futures			5,390			
Options (OTC)	185	110	8,720			
Options (traded)	0	0	0			
Total	6,354	5,403	271,970	557	1,000	23,164
Foreign exchange/precious metals						
Forward contracts	2,963	2,840	297,744			
Combined interest rate/currency swaps	608	1,001	4,495	85	530	2,269
Futures			27			
Options (OTC)	279	81	12,405			
Options (traded)	1	1	180			
Total	3,851	3,923	314,851	85	530	2,269
Equity securities/indices						
Forward contracts						
Swaps	14	9	558			
Futures			112			
Options (OTC)	220	61	1,630			
Options (traded)	105	133	6,195			
Total	340	202	8,495			
Credit derivatives						
Credit default swaps	2	3	447			
Total return swaps	2	2	273			
First-to-default swaps						
Other credit derivatives						
Total	4	5	719			
Other [1]						
Forward contracts						
Swaps	3	2	362			
Futures			47			
Options (OTC)	0	1	45			
Options (traded)						
Total	3	4	454			
Total before netting						
2016	10,552	9,537	596,488	642	1,530	25,433
– of which, determined using a valuation model	10,552	9,537	–	642	1,530	–
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	–

Total after netting agreements	Positive replacement values (accumulated)	Negative replacement values (accumulated)
2016	1,990	1,551
2015	2,983	2,067

(continued on page 143)

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
2016	68	575	1,346

[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	2016	2015	2016	2015
Debt securities	3,813	4,003	4,028	4,227
– of which intended to be held to maturity	3,813	4,003	4,028	4,227
– of which not intended to be held to maturity (available for sale)				
Equity securities	10	11	21	22
– of which qualified participations [1]				
Precious metals	217	162	217	162
Real estate [2]	1	1	1	1
Total financial investments	4,041	4,177	4,267	4,412
– of which securities eligible for repo transactions in accordance with liquidity requirements	3,720	3,906	3,930	4,125

[1] At least 10% of capital or votes.
[2] The insurance value of real estate included in financial investments amounted to CHF 1 million.

Counterparties by rating

in CHF million						
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						
2016	3,422	65				325

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	2016	2015	2016	2015
Compensation account	315	413		
Deferred income tax as recognised as assets				
Amount recognised as asset due to employer contribution reserves				
Amount recognised as asset realting to other assets from pension schemes				
Badwill				
Settlement accounts	46	5	355	111
Indirect taxes	118	68	42	31
Other	23	59	102	65
Total	501	545	499	207

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

in CHF million	2016 Book value	2016 Effective commitment	2015 Book value	2015 Effective commitment
Pledged/assigned assets				
Amounts due from banks	2,212	2,189	1,865	1,851
Amounts due from customers	1,692	1,643	2,051	2,031
Mortgage loans	10,101	9,642	10,101	8,873
Trading portfolio assets	50	50	124	124
Financial investments				
Total pledged / assigned assets	14,056	13,524	14,140	12,879

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 (p. 140).

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	2016	2015	Change
Liabilities to own pension schemes from balance-sheet transactions			
Amounts due in respect of customer deposits	104	144	–40
Cash bonds			
Negative replacement values of derivative financial instruments	11	0	11
Accrued expenses and deferred income			
Total	115	144	–30

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

13A Employer contribution reserve (ECR)

in CHF million	Nominal value 31.12.2016	Waiver of usage 31.12.2016	Net amount 31.12.2016	Net amount 31.12.2015	Influence of ECR on personnel expenses 2016	Influence of ECR on personnel expenses 2015
Zürcher Kantonalbank pension scheme						
Total						

13B Economic benefit / economic obligations and the pension expenses

in CHF million	Overfunding/ underfunding 31.12.2016	Economic interest of the bank 2016	Economic interest of the bank 2015	Change in economic interest 2016	Contributions paid 2016	Pension expenses in personnel expenses 2016	Pension expenses in personnel expenses 2015
Employer-funded fund / employer-funded pension fund							
Pension plans without surplus / shortfall					179 [1]	179 [1]	103
Pension plans with surplus							
Pension plans with shortfall							
Pension schemes without own assets							
Total					179	179	103

[1] Including the creation of provisions for pension benefit obligations amounting to CHF 70 million.

14 Issued structured products

Underlying risk of the embedded derivative		Book value: Valued as a whole		Book value: Valued separately		Total
in CHF million		Booked in trading portfolio	Booked in other financial instruments at fair value	Value of the host instrument	Value of the derivative	
Interest rate instruments	With own debenture component (ODC)/ without ODC					
Equity securities	With own debenture component (ODC)/ without ODC		1,455			1,455
Foreign currencies	With own debenture component (ODC)/ without ODC		57			57
Commodities / precious metals	With own debenture component (ODC)/ without ODC		53			53
Loans	With own debenture component (ODC)/ without ODC		8			8
Real estate	With own debenture component (ODC)/ without ODC					
Hybrid instruments	With own debenture component (ODC)/ without ODC		8			8
Total 2016			1,581			1,581
Total 2015			2,725			2,725

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

in CHF million	As at end of 2015	Appropriate usage and reversals	Reclassifications	Currency differences	Past due interest, recoveries	New creation charged to income statement	Releases to income	Balance at end 2016
Provisions for deferred taxes								
Provisions for pension benefit obligations [1]						70		70
Provisions for credit risks	147	–10				47	–41	144
Provisions for other business risks [2]	219	–0		2			–1	219
Provisions for restructuring [3]	3	–2						0
Other provisions [4]	203	–6		2		1	–0	199
Total provisions	572	–19		4		118	–42	632
Reserves for general banking risks	4,906						–70	4,836
Value adjustments for default risks and country risks	162	–5			3	58	–49	169
– of which value adjustments for default risks from impaired loans [5]	162	–5			3	58	–49	169
– of which value adjustments for latent risks								

[1] In line with a sustainable human resources policy, the board of directors decided in December 2016 that the bank would assume certain costs for the financing of transitional solutions in connection with the realignment of the pension fund to the changed environment. In the year under review, provision for pension liabilities amounting to CHF 70 million was made under personnel expenses.
[2] Provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
[3] Provisions for restructuring were made in connection with the acquisition of the Swisscanto group and comprise personnel measures and various integration costs.
[4] Other provisions primarily consist of provisions for litigation and provisions for employees' holiday credits.
[5] Default risks consist primarily of counterparty risks, the values of which are generally adjusted by 100 percent of the net amount outstanding. 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 (2016: CHF 3 million/2015: CHF 5 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. The Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Bawnks launched by the United States Department of Justice on 29 August 2013 was declared to have ended by the DOJ at the end of 2016. It was aimed at banks that were not the subject of an investigation by the DOJ as at 29 August 2013. It therefore did 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 the bank's capital

in CHF million	Total nominal value 2016	Total nominal value 2015
Endowment capital	2,425	2,425
Participation capital [1]		
Total bank's capital	2,425	2,425

[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 parties

	Amounts due from		Amounts due to	
in CHF million	2016	2015	2016	2015
Holders of qualified participations:	4	11	592	472
Group companies	542	580	294	250
Affiliated companies	547	421	1,629	1,859
Transactions with members of governing bodies	18	16	28	30
Other related parties				

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 are 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 parties in the amount of CHF 1,727 million (2015: CHF 1,671 million) primarily include irrevocable loan commitments, in particular the keepwell agreement with Zürcher Kantonalbank Finance (Guernsey) Ltd., and other contingent liabilities.

20 Disclosure of holders of significant participations

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

21 Disclosure of own shares and composition of equity capital

in CHF million	2016	2015
Reserves for general banking risks	4,836	4,906
Bank's capital	2,425	2,425
Statutory profit reserves	1,213	1,213
Voluntary retained earnings reserve	1,521	1,163
Profit carried forward	1	1
Net income	775	684
Total equity	10,771	10,392

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

The statutory retained earnings reserve 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 of ZKB's own country rating	Moody's	31.12.2016 Net foreign exposure		31.12.2015 Net foreign exposure	
		in CHF million	Share in %	in CHF million	Share in %
A	Aaa/Aa1/Aa2/Aa3	11,127	84.2	10,241	81.9
B	A1/A2/A3	531	4.0	708	5.7
C	Baa1/Baa2/Baa3	815	6.2	973	7.8
D	Ba1/Ba2	634	4.8	538	4.3
E	Ba3	75	0.6	32	0.3
F	B1/B2/B3	25	0.2	11	0.1
G	Caa1/Caa2/Caa3/Ca/C	4	0.0	9	0.1
Total		13,210	100.0	12,511	100.0

For explanations regarding the rating system please refer to section l) of the risk report (p. 116).

Note

j) Information
on off-balance-sheet items

30 Fiduciary transactions

in CHF million	2016	2015
Fiduciary investments with third-party companies	243	205
Fiduciary investments with group companies and linked companies		
Fiduciary loans		
Fiduciary transactions arising from securities lending and borrowing (in the bank's own name for the account of customers)		
Other fiduciary transactions		
Total	243	205

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

in CHF million	2016	2015
Type of customer assets		
Assets in collective investment schemes managed by Zürcher Kantonalbank	75,939	73,884
Assets under discretionary asset management agreements [1]	56,417	53,114
Other customer assets [1]	131,027	129,215
Total customer assets (including double counting) [2]	263,384	256,214
– of which double counting [3]	38,658	30,838

[1] Assets with a Private Portfolio Consulting (PPC) mandate (approximately CHF 500 million) are now shown under Other managed assets (previously Assets under discretionary asset management agreements). A PPC mandate offers a more intensive form of advice with additional benefits compared with a classic advisory mandate. The previous year has been restated.
[2] The managed customer assets shown include all customer assets of an investment nature held with Zürcher Kantonalbank, as well as customer assets held with third-party banks and which are managed by Zürcher Kantonalbank. Lending products for corporate customers, which do not have an investment element, are also shown as assets under management. This does not include assets held with Zürcher Kantonalbank but managed by third parties (custody-only). Assets of banks and significant investment fund companies (including collective pension fund foundations, investment trusts, employee benefits foundations and pension funds) for which Zürcher Kantonalbank acts exclusively as custodian bank are treated as custody-only.
[3] Correction of value for previous year by CHF 5.8 billion in view of Swisscanto collective investment schemes

b) Presentation of the development of managed assets

in CHF million	2016	2015 [1]
Total managed assets (incl. double counting) at beginning	256,214	207,415
+/– net new money inflow or net new money outflow [2]	7,887	–2,574
+/– price gains/losses, interest, dividends and currency gains/losses	6,412	–867
+/– other effects	–7,130 [3]	52,239 [4]
Total managed assets (incl. double counting) at end	263,384	256,214

[1] Following a change in the segmentation of business partners as well as deposits, the figures for the previous year were adjusted.
[2] 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.
[3] The restructuring of a major mandate led to a reduction in eligible portfolios, without an actual outflow of assets. The CHF 7.1 billion reduction in assets is therefore shown under Other effects.
[4] For the most part, other effects for 2015 reflect the acquisition of Swisscanto Holding Ltd.

Note

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	2016	2015
Result from foreign exchange, banknotes and precious metals	133	115
Result from bonds, interest rate and credit derivatives	144	114
Result from trading in equities and structured products	25	34
Result from other trading activities [1]	54	40
Total	357	303

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

		Trading result from:						
in CHF million	2016	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]
Result from foreign exchange, banknotes and precious metals	133	113	20					
Result from bonds, interest rate and credit derivatives	144	–0			142	2		
Result from trading in equities and structured products	25	11	–5		–7	29	–2	1
Result from other trading activities	54		–0	58	–3	–1	–0	
Total	357	124	15	58	132	31	–2	1
– of which from fair value option on assets								
– of which from fair value option on liabilities	–12	–1	–0		–0	–5	–6	0

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 material negative interest

During the 2016 financial year a refinancing income of CHF –12.1 million (previous year CHF –1.9 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 as a reduction in interest expenses.

in CHF million	2016	2015
Negative interest on lending business (reduction in the interest and discount income)	147	114
Negative interest on deposit-taking business (reduction in interest expenses)	117	82

34 Personnel expenses

in CHF million	2016	2015
Compensation for governing bodies and personnel	762	702
– of which alternative forms of variable compensation		
AHV, IV, ALV and other social security contributions	241 [1]	159
Changes in book value for economic benefits and obligations arising from pension schemes		
Other personnel expenses	32	31
Total	1,035	892

[1] Including the creation of provisions for pension benefit obligations amounting to CHF 70 million.

35 General and administrative expenses

in CHF million	2016	2015
Occupancy expense	32	44
Expense for information and communications technology	168	167
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	1	2
Auditors' fees	5	4
– of which for financial and regulatory audits	5	4
– of which for other services		
Other operating expenses	205	184
– of which as compensation for state guarantee	22	21
Total	411	401

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

in CHF million	2016	2015
Extraordinary income		
Reversal of impairment on other participations	7	21
Income from sale of other real estate/bank premises	8	38
Income from sale of participations	2	3
Other	0	1
Total	17	62
Extraordinary expenses		
Losses from sale of other real estate/bank premises	0	0
Expenses incurred outside of the reporting period		
Loss from the sale of participations		
Other	6	0
Total	6	0
Change in reserves for general banking risks		
Release of reserves for general banking risks	70 [1]	
Total	70	

[1] Release of reserves for general banking risks to neutralise the effect of the non-recurring personnel expense on the result.

In the financial year, no hidden reserves or 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		2016	2015
Participation	Domicile		
Caleas AG	Zurich	0	
CLS Group Holdings AG	Lucerne	1	3
Technopark Winterthur AG	Winterthur		0
Technopark Immobilien AG	Zurich		0
Valiant Holding AG	Lucerne		17
Zürcher Kantonalbank Österreich AG	Salzburg	1	
Zürcher Kantonalbank Representações Ltda.	São Paulo	0	
Total		2	20

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
of Zürcher Kantonalbank

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

Balance sheet (before distribution of net profit)

in CHF 1,000	2016	2015
Assets		
Cash	228	227
Postal account	12	40
Accounts receivable		
Loans	6,359	6,655
Inventory	0	
Furniture, IT system	0	0
Accrued interest	242	264
Total assets	6,841	7,186

in CHF 1,000	2016	2015
Liabilities		
Zürcher Kantonalbank	5,404	5,762
Surplus from auctions	225	240
Accounts payable	6	9
Provisions	140	145
Reserve fund	1,029	942
Profit carried forward	1	1
Operating profit	36	87
Total assets	6,841	7,186

Income statement

in CHF 1,000	2016	2015
Expenses		
Operating expenses	949	958
Refinancing expenses	52	56
Losses	1	1
Depreciation and provisions		
Operating profit	36	87
Total	1,039	1,102

in CHF 1,000	2016	2015
Income		
Interest on loans	840	902
Other income	200	200
Total	1,039	1,102

Loan transactions

	Items	*in CHF 1,000*	Items	*in CHF 1,000*
Total loans at 31.12.2015			5,676	6,655
New loans in 2016 (incl. renewals)			11,207	13,609
Repayments 2016	11,293	13,751		
Proceeds from auctions incl. inventory receipts	238	154		
Total loans at 31.12.2016			5,352	6,359

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

Zurich, 2 March 2017

Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the financial statements as of 31 December 2016 of

Zürcher Kantonalbank, Zurich

Report of the statutory auditor on the financial statements

Mr. President
Ladies and Gentlemen

As statutory auditor, we have audited the financial statements of Zürcher Kantonalbank, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 135 to 153), for the year ended 31 December 2016.

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 2016 comply with Swiss law and the Law on Zürcher Kantonalbank.

Page 2

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Loans – impairment of client loans and amounts due from banks as well as determination of allowances and provisions

Audit Matter	Zürcher Kantonalbank discloses client loans, which consist of amounts due from clients and mortgage receivables, as well as amounts due from banks at nominal value less any necessary allowances. If required, provisions are recorded for limits that are set but not used as of the balance sheet date. The need for an allowance or provision is determined on a case-by-case basis and is based on the difference between the carrying amount of a receivable, or, if greater, the limit, and the prospective recoverable amount, taking into account the counterparty risk and the net income from the use of any collateral. Determining allowances and provisions requires making estimates and assumptions, which by definition involve judgments and can vary depending on the valuation. As of 31 December 2016, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 90.1 billion. Their share as a percentage of total assets amounted to 57.6% as of the reporting date. Therefore, the valuation of the impairment of client loans and the amounts due from banks as well as the determination of allowances and provisions are key audit matters. Significant accounting principles regarding client loans, amounts due from banks as well as allowances and provisions are described by Zürcher Kantonalbank on pages 73, 74, 77 and 79 as well as on pages 115 to 120 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 140, 141 and 146 in the notes to the financial statements.
Our audit response	Our audit included auditing the processes and controls in connection with granting and monitoring loans as well as assessing the identification and calculation of allowances and provisions. Moreover, we performed sample tests on the impairment of selected client loans and amounts due from banks, and evaluated the compliance and implementation of significant accounting principles as well as the appropriateness of the disclosures in the notes to the financial statements.

Building a better working world

Fair value measurement of financial instruments

Audit matter	Fair value is defined as the amount for which an asset is exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. This amount corresponds to the price requested in a price-efficient and liquid market or, if this is missing, to the price determined on the basis of a valuation model. Valuation models are significantly affected by the assumptions that are used, including interest, forward and swap rates, spread curves and the volatility and estimates of future cash flows. There is a significant degree of judgment involved in making these assumptions. Zürcher Kantonalbank discloses financial instruments at fair value measurement – largely in connection with client business – in different balance sheet items. As of 31 December 2016, the fair value of positive replacement values of derivative financial instruments amounts to CHF 2.0 billion, while that of the negative replacement values comes to CHF 1.6 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 621.9 billion. Furthermore, as of 31 December 2016, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 1.6 billion. As a result of the inherent scope of judgment and the significance of the listed balance sheet items in the financial statements of Zürcher Kantonalbank, the valuation of these items represents a key audit matter. Zürcher Kantonalbank explains the relevant accounting principles on pages 74, 75, 80, 81 as well as on pages 120 to 122 of their annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 141 to 143 and 145 in the notes to the financial statements.
Our audit response	We audited the processes and controls with regard to fair value measurement, the validation and application of valuation models as well as the significant assumptions on which these are based. Moreover, we assessed the assumptions made in connection with the valuation and their appropriateness on the basis of sample testing. We compared the prices considered on price-efficient and liquid markets with independent sources using sample testing.

Provisions for compliance and legal risks

Audit Matter	Zürcher Kantonalbank faces a limited number of pending legal issues and process risks, for which they have determined and recognized (on the balance sheet) the provisioning need as of 31 December 2016 on the basis of the estimated amounts in dispute. We consider the assessment of the determination and completeness of provisions for compliance and legal risks to be a key audit matter, because the estimated possible costs and obligations have a significant level of uncertainty and the bank's estimates and assessments involve significant judgments. In addition, unexpected negative developments can have a material impact on Zürcher Kantonalbank's net assets and results of operations.

Page 4

The bank's history of cross-border banking services with US clients is being investigated by the US Department of Justice and the US Internal Revenue Service. As in other areas, the bank assesses its risks on an ongoing basis here, taking appropriate risk provisioning measures where required.
Zürcher Kantonalbank explains the relevant accounting principles on pages 77 and 127 of their annual report. Furthermore, we refer to note 16 on page 146 in the notes to the financial statements.

Our audit response	Our audit with regard to provisions for compliance and legal risks included inspecting the bank's internal documentation and risk analyses, discussing the assumptions made in determining the provisions with those charged with governance at the bank as well as evaluating the assessments prepared by the bank's external legal representatives on our behalf.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

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

Glossary

Assessment Appraisal of a project, situation or participant.

Audit Audit (the inspectorate) is responsible for the group's internal auditing. In organisational terms, it reports directly to the board of directors and assists the latter in fulfilling its supervisory and control tasks.

Basel III The reforms published by the Basel Committee for Banking Supervision in 2010, Basel III, include a further revision of the Basel Capital Accord. Besides stricter, risk-based capital requirements with a countercyclical effect, a limit has been set on leverage for the first time (leverage ratio). A global minimum liquidity standard is also envisaged.

Basel Committee on Banking Supervision The Basel Committee on Banking Supervision was established by the Bank for International Settlements (BIS) in 1974 and is made up of representatives of central banks and supervisory authorities from 27 countries. Switzerland is represented by FINMA and the SNB. The Basel Committee serves as a forum for cooperation on banking supervision issues and is the world's most important standard-setting body for banking regulation. Of particular importance is the Basel Capital Accord, also known as Basel I, Basel II and Basel III.

Bid-ask spread Difference between the buying and selling price of a financial instrument or currency.

Business continuity management Business continuity management ensures a company's critical business functions are maintained or restored in the case of internal or external events.

Capital-at-Risk The maximum risk capital specified by the board of directors, it is divided between the various risk categories of credit, market and operational risk in order to limit the various business activities.

Capital budgeting Planning process for determining risk capital. The available funds (risk capital) are allocated to the various investment opportunities (risk categories, risk managers).

Clearing centre Financial sector institution that ensures the orderly settlement of financial transactions between two counterparties. Sometimes known as a clearing house, it acts as a central counterparty through which financial transactions between different parties are processed.

Commodity trade finance Loan financing for 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 known as confidence interval or expectancy range. Indicates an interval for the accuracy of the estimated position of a parameter. The confidence interval is the range containing the true position of the parameter in the case of the infinite repetition of a random experiment with a specific frequency (confidence level).

Core capital This term 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, as well as capital and profit reserves (hard core capital or common equity Tier 1). Additional Tier 1 capital, such as perpetual hybrid capital, is also included.

Core capital ratio (Tier 1) This term was introduced as part of the Basel Capital Accord (Basel III) and describes the level of required core capital as a percentage of risk-weighted assets.

Corporate governance Corporate governance is the totality of principles aimed at safeguarding the owner's interests; 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 ratio of cost to income is called the cost/income ratio and 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 to prevent overheated bank 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).

Creditworthiness 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.

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

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.

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.

Impairment Decrease in value where the book value of an asset (participation, fixed asset or intangible asset) exceeds the recoverable amount (higher than net market value or value-in-use).

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 i 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 corresponds to the market value of outstanding derivative financial instruments. Negative replacement values constitute a financial obligation and thus a liability.

Netting The term netting describes the offsetting of receivables and payables under a netting agreement between two counterparties. Netting agreements must be enforceable under bankruptcy law. As a result of netting, the level of gross receivables/payables is reduced to a net position.

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

Positive replacement value The replacement value corresponds to the market value of outstanding derivative financial instruments. Positive replacement values constitute a receivable and thus an asset.

Repo (repurchase agreement) Financial transaction where the borrower agrees to transfer securities to the lender in return for an agreed sum of money and redeem them for payment plus interest at the end of the term.

Return on equity (ROE) The return on equity measures the profitability of equity and is calculated from the relationship between net profit and equity.

Risk capital allocation The allocation of risk capital (capital-at-risk) to the various risk categories (or risk managers) as part of the planning process.

Risk-adjusted pricing Pricing where the price level depends on the level of risk entered into.

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 riskier ones.

SLB transactions (Securities Lending and Borrowing) With SLB transactions, the lender transfers a security to a borrower to use for a fixed or indefinite, though callable period; in return, they receive a fee from the borrower.

SME Small and medium-sized enterprises with fewer than 250 employees. Microbusinesses and small 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 risks. 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 the price of a security.

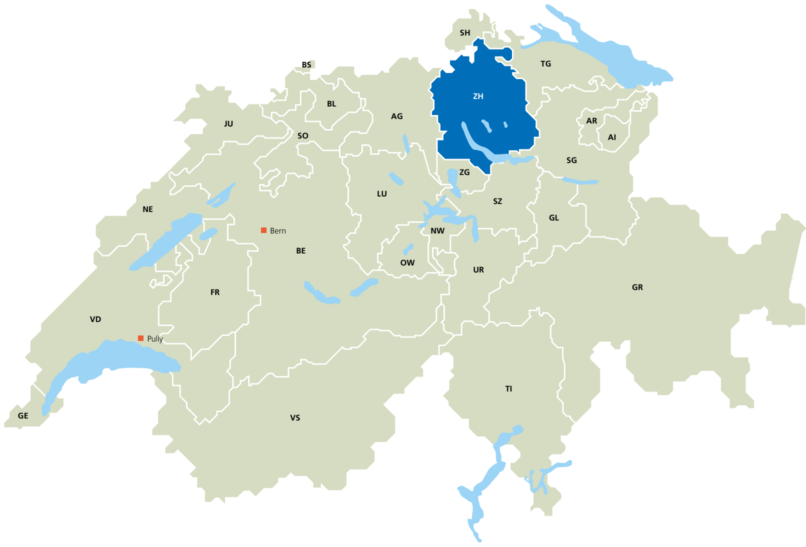
Branches

Regional base

We have a strong local base. With 81 branches and 348 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 a national and international level in selected business areas.



* Representation offices

Contact

Should you require further information about Zürcher Kantonalbank, the following offices will be pleased to assist:

Retail Customers
+41 (0)844 843 823
serviceline@zkb.ch

Private Banking
+41 (0)844 843 827
privatebanking@zkb.ch

Corporate Banking
+41 (0)844 850 830
businessline@zkb.ch

Financial Institutions & Multinationals
+41 (0)44 292 87 00
international@zkb.ch

Media
+41 (0)44 292 29 79
medien@zkb.ch

You can find further information at www.zkb.ch

Imprint
Published by Zürcher Kantonalbank, Postfach, 8010 Zurich **Concept and layout** Partner & Partner AG, Winterthur
Photography Daniel Auf der Mauer, Zurich (Cover, pp. 6 – 9); Dominique Meienberg, Zurich (pp. 44 – 53)
Translation and proofreading Xplanation AG, Zurich **Print** Multicolor Print AG (NZZ Mediengruppe) **Print run** 200 copies

Disclaimer

3/2017 Printed on 100 % recycled paper