Zürcher Kantonalbank

Annual Report

for financial year 2017

Key group figures

Income statement

in CHF million	2017	2016	Change in %
Net result from interest operations	1,202	1,187	1.2
Result from commission business and services	770	728	5.8
Result from trading activities and the fair value option	334	379	–12.1
Other result from ordinary activities	31	31	0.6
Operating income	**2,336**	**2,325**	**0.5**
Operating expenses	–1,434	–1,441[1]	–0.5
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–120	–124	–3.5
Changes to provisions and other value adjustments and losses	2	–8	n/a
Operating result	**784**	**752[1]**	**4.3**
Extraordinary result	8	16	–50.6
Taxes	–11	–7	46.4
Consolidated profit	**782**	**761[1]**	**2.8**

Balance sheet (before appropriation of net profit)

in CHF million	2017	2016	Change in %
Balance sheet total	163,881	157,985	3.7
Mortgage loans	79,087	77,275	2.3
Amounts due in respect of customer deposits	81,381	80,890	0.6
Provisions	585	636	–8.1
Equity	11,228	10,793	4.0

Key figures

in %	2017	2016
Return on equity (ROE)	7.3	7.4[1]
Cost/income ratio (CIR)[2]	61.1	61.7[1]
Common equity Tier 1 ratio (CET1)[3/4]	16.5	15.6
Core capital ratio (Tier 1)[3/4]	18.8	17.5
Total capital ratio[3/4]	18.8	17.5
Leverage ratio[3]	6.8	6.7
Liquidity coverage ratio (LCR)[5]	153	132

Customers’ assets

in CHF million	2017	2016	Change in %
Total customers’ assets	**288,802**	**264,754**	**9.1**

Headcount/branches

Number	2017	2016	Change in %
Headcount after adjustment for part-time employees, as at the reporting date	5,117	5,173	–1.1
Branches[6]	78	89	

Profit distribution

in CHF million	2017	2016	Change in %
Share paid to canton to defray cost of capital	18	21	–12.1
Distribution to canton	230	220	4.5
Distribution to municipalities	115	110	4.5
Total profit distribution	**363**	**351**	**3.7**
Additional compensation for state guarantee	23	22	5.0
Additional payments from public service mandate	131	119	9.7

Rating agencies

Rating	2017	2016
Fitch	AAA	AAA
Moody’s	Aaa	Aaa
Standard & Poor’s	AAA	AAA

1 Excludes the CHF 70 million non-recurring personnel expense related to the creation of provisions for pension benefit obligations.
2 Calculation: Cost/income ratio (excl. changes in default-related value adjustments and losses from interest operations).
3 In accordance with the provisions for systemically important banks.
4 In 2017, incl. effects stemming from the changeover to IRB and SA-CCR.
5 2016 – average for the quarter; from 2017 a simple average of the end-of-day values of business days during the quarter under review.
6 Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as six automated banks.

Contents

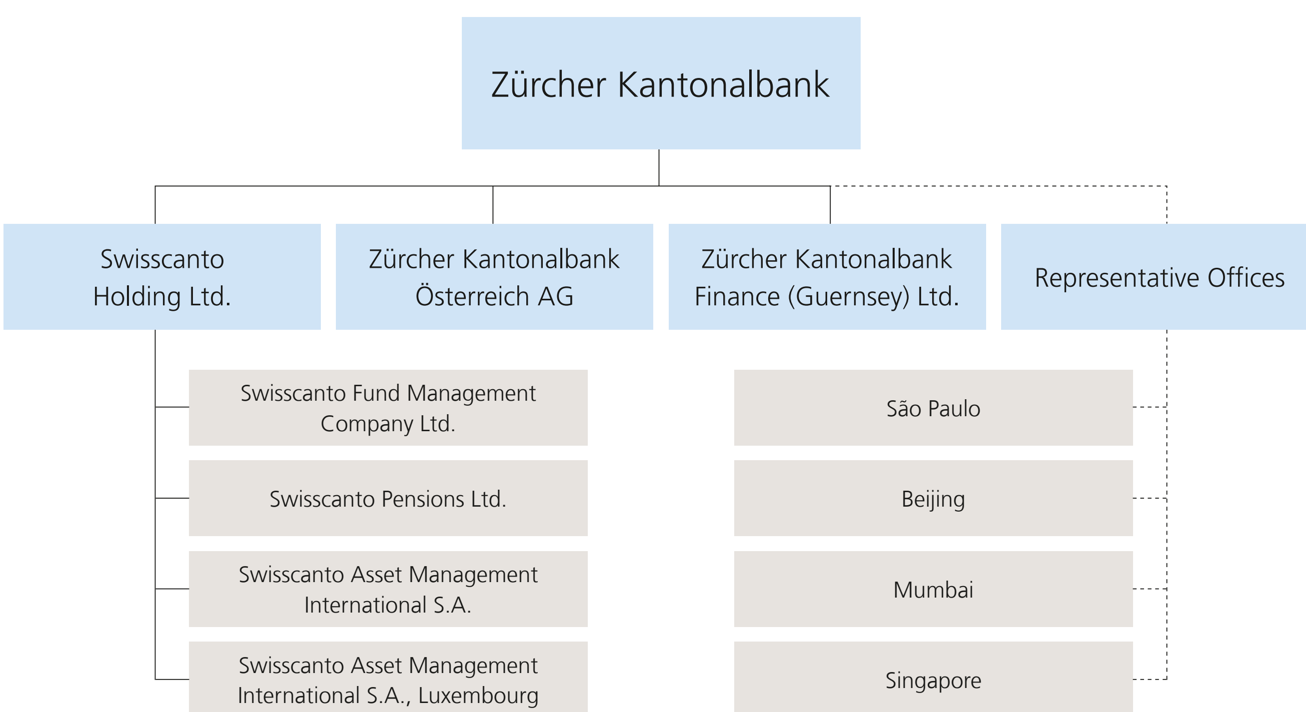
In Brief

Close to you

Zürcher Kantonalbank has successfully positioned itself as a full-service bank with a regional base as well as a national and international network. We are not only the largest cantonal bank in Switzerland, but also one of the largest Swiss banks. With a market penetration rate of around 50 percent, we are the top-ranked bank in the Canton of Zurich in both retail and corporate banking. Since the acquisition of Swisscanto in March 2015, we are also the third-largest fund provider in the country. Zürcher Kantonalbank is an autonomous public-law institution of the Canton of Zurich and benefits from a state guarantee.

Our public service mandate entails providing financial services for the public and businesses, supporting the canton in the performance of its tasks in the economic, social and environmental arenas, and ensuring that our actions are environmentally and socially responsible. Our values are: be personal, competent and responsible. We are part of life in the Canton of Zurich.

Group structure of Zürcher Kantonalbank



Switzerland’s only AAA bank

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

High level of financial stability

The bank reported equity of CHF 11,228 million at the end of 2017. The total capital ratio amounted to 18.8 percent. These figures confirm our standing as one of the best-capitalised banks in the world.

Strongly rooted in the canton

We are the market leader for retail and corporate banking in the Canton of Zurich. While we also operate the canton’s densest network of ATMs and branches, our clients are conducting a growing number of banking transactions via our support centres, eBanking and eBanking Mobile services.

New investment offering launched

Our new investment offering marks the launch of a comprehensive range of asset management and other services, all from a single source. This model blends the services of client advisors with expert knowledge and state-of-the-art technology. The focus is on the personal risk tolerance of our clients.

Diversified income

Our economic strength is based on a broadly diversified business model, which has an impact on our income structure. As a result of ongoing efforts to integrate Swisscanto in 2017, the share of income from commission business and services rose year on year by 1 percentage point to reach 33 percent at the end of 2017.

Important employer

5,906 people work at Zürcher Kantonalbank (group) in 5,117.2 full-time positions. With 417 traineeships in the areas of banking, IT, logistics and general administration, we are one of the largest training centres in the Zurich region.

Profit

With consolidated profit of CHF 782 million, 2017 marks yet another gratifying result. The Canton of Zurich will receive a dividend of CHF 363 million, of which CHF 18 million will be used to cover capital costs and CHF 115 million will go to the municipalities. The canton also received CHF 23 million as compensation for the state guarantee.

Involvement in fintech stepped up

Our membership in the “F10 FinTech Incubator and Accelerator” association gives us direct access to an innovation hub operated by Switzerland’s leading financial services providers. It also offers us an opportunity to foster start-ups and provide them with professional guidance.

Martin Scholl (left) and Dr Jörg Müller-Ganz in the bank's Steinfels building in Zurich-West.

Interview

"Proximity is important, even in a digital environment"

New investment offering, online banking, 150th anniversary: Dr Jörg Müller-Ganz, Chairman of the Board of Directors, and Martin Scholl, Chief Executive Officer, explain how Zürcher Kantonalbank is positioning itself for the future. Interview: Stephan Lehmann-Maldonado

Mr Müller-Ganz, Mr Scholl, Zürcher Kantonalbank performed well in 2017. What are you particularly proud of?
Müller-Ganz: Our bank's ability to realign itself to focus on future challenges. Our stability is the result of past successes. By aligning our bank to focus on changes in our environment, we preserve its proven adaptability.
Scholl: The results of our employee satisfaction study: We earned record-breaking scores! Our employees are happy to come to work and fully committed. Plus we launched our new investment offering at the start of 2018.

What is the secret behind the bank's continued success?
Müller-Ganz: Our success is based on five pillars: our Zurich canon of values; our stable, long-term strategy; our extremely healthy financial base; the considerable stability of all our governing bodies and employees; and our owner, the Canton of Zurich, which favours sustainability and reliability over profit maximisation.

After such encouraging results, is there still any upside potential left?
Scholl: I don't think that's the right question. An equally good performance in a difficult market environment could very well represent a greater achievement than an increase of 3 percent during a boom year. When I measure success, I look at whether all of our employees give it their all. We're currently working on improving our productivity even further.

What do you think of the market environment?
Scholl: Economies around the globe are buzzing. At the same time, interest rates are still very low or even negative and banks can hardly earn any money through client deposits. Interest rate hikes are coming, however. The valuation of many asset classes seems almost astronomically high and has been that way for several years in some cases. A correction is due at some point. Cryptocurrencies are also in an overvalued phase at the moment. It's unclear whether we'll even remember some of these cryptocurrencies by the end of the year.

Personnel expenses are a bank's biggest cost factor and some competitors are offshoring jobs as a result.
Müller-Ganz: At Zürcher Kantonalbank, we believe in the quality of Zurich as a place to live and work. Offshoring isn't up for discussion.
Scholl: We implemented a cost ceiling years ago. That keeps us disciplined and makes sure that we don't have to resort to any large-scale reduction in our workforce. Banks that relocated their jobs to low-wage countries have come to the realisation that wages in those countries are rising and that the quality of the work performed is debatable.

What solutions does the bank have to meet the challenges of the next few years?
Scholl: We've defined three priorities for implementing our strategy: First of all, we have to simplify and become more agile – despite all of the regulations. Second, we want to strengthen our investment and pensions business. That is an area where assets are still being created in Switzerland, through the second and third pillars. Third, our brand promise is to be "close to you". That's why we're working on how to create proximity in a digital environment in which the importance of branches is declining.

What do you feel demands stronger measures on your part: growing regulation or the moods of the financial markets?
Müller-Ganz: The Board of Directors is focusing on regulations. I am committed to ensuring that they harm neither the bank nor the economy. A number of new regulations have entered into force over the past few years. The government's current plans regarding equity for systemic-

ally important banks with a domestic focus – such as Zürcher Kantonalbank – overshoot the goal. They do not unconditionally recognise our state guarantee, for example, and do not satisfy the provisions of the Constitution of the Canton of Zurich or the Law on Zürcher Kantonalbank. As a result, not only the Board of Directors but also the managing body of the Cantonal Parliament and many national councillors of Zurich are championing our cause.

The cantonal bank launched its new investment offering in early 2018. Have you received any feedback from clients yet?
Scholl: Yes, yet the first and most important feedback came from our staff: they're thrilled. A solution can only be successful if our employees promote it enthusiastically. Accordingly, responses from clients have been equally positive.

Mortgages remain a vital business line. The imputed minimum interest rate of 5 percent is a frequent topic of discussion. What steps are you taking to defend your market position?
Scholl: We finance one out of every two apartments in the Canton of Zurich. That means our market position is top-rate and expanding it would be extremely difficult. We don't see any need to make changes to the lending or affordability guidelines. While the imputed minimum interest rate of 5 percent might seem high at the moment, it does, in fact, represent a historical average. Families are well advised to pay attention to the long-term affordability of their home.

We keep our finger on the pulse of all stakeholder groups in order to fulfil our public service mandate.

Dr Jörg Müller-Ganz

Zürcher Kantonalbank is the only bank that can boast an AAA rating. Does the bank even need the state guarantee?
Müller-Ganz: Even without the state guarantee we would still have an AA- rating from Standard & Poor's, and that rating would still rank us first worldwide.

So a state bank still makes sense from a regulatory perspective?
Müller-Ganz: State banks are in line with political intentions – both in the Canton of Zurich and throughout all of Switzerland. They contribute to the stability of the Swiss financial centre and the diversity of banks, as well as helping to develop their respective economic areas. Including Postfinance, there are 25 state banks in our country.

What values set Zürcher Kantonalbank apart from the others?
Müller-Ganz: We're the bank that's close to the people and companies of Zurich. As such, we have an obligation to the Greater Zurich Area. To ensure that our proximity is seen and felt by everybody, we work in line with our guiding values: be competent, personal and responsible.

Zürcher Kantonalbank has a public service mandate from the canton. Just how meaningful is that today?
Müller-Ganz: The public service mandate requires us to meet the investment and financing needs of the people and companies of the Canton of Zurich and to help address economic and social issues in the canton. Since the needs of these stakeholders and other issues change over time, we consider it vitally important to keep our finger on the pulse of all these groups. Of course we also take megatrends like digitalisation into consideration.

Zürcher Kantonalbank launched the Twint payment app for smartphones and a new real estate portal in 2017. What do digital solutions like these mean for the bank?
Scholl: When it comes to new technologies, we're happy to be at the cutting edge. In 1997 we launched the first online bank. That means we were among the pioneers even 20 years ago. Banking methods are changing constantly, and this isn't a trend that just started yesterday. Digitalisation definitely plays a key role, but it wasn't just invented today. We believe the key is to use digital solutions to simplify banking for our clients. That's not an easy task because our clients are very different. Add to that the fact that all online solutions have to be secure.

In late 2017, you teamed up with other groups to jointly found the Swiss Sign Group with the goal of launching an electronic means of identification, the Swiss ID. What prompted this effort? And how will it benefit clients?
Scholl: Switzerland is lagging behind other countries in this regard. Particularly when it comes to dealing with the public authorities, many transactions cannot be handled online. Banks play a key role in digitalisation because clients frequently log in to banks, and the login methods used are extremely secure. That makes the Swiss ID project important for Zürcher Kantonalbank as well. We want to help ensure that people can navigate the Internet using a single digital identity. Then all they need to remember is one password – instead of 150. The service comes at no charge to clients since the SwissID is financed by online service providers.

Considering the bank's brand promise "close to you", do you still rely on the personal touch?
Müller-Ganz: Absolutely. I'm convinced that personal consultations are indispensable for both understanding and conveying emotions. They also lay the groundwork for creating and receiving trust.

> Communication between young adults and the bank is even more intense than that of their parents.
>
> Martin Scholl

Studies have shown that the younger generation no longer feels the same sense of loyalty to banks as their parents. How are you addressing that issue?
Scholl: That's not our experience at all. Young adults often have the same health insurance provider as their parents and start off with an account at the same bank. Nowadays, all client groups are more fickle. They're looking for benefits. Nearly every young adult comes to us, for example, because of the ZKB Nachtschwärmer offer which eliminates the nighttime supplement on the ZVV public transport network. All we have to do is make sure that we don't lose these clients. In fact, digital channels are even making communication between young adults and the bank more intense than that of their parents. People under 30 are more likely to make small payments via smartphone. However, as soon as they start considering the purchase of a house or need help with a larger inheritance, they want to meet face to face with specialists who understand them.

You already mentioned the bank's 150th anniversary. What makes you so certain that we will be able to soar across Lake Zurich in the ZüriBahn cable car in 2020?
Müller-Ganz: First of all, Zürcher Kantonalbank and all of the experts involved are doing an extraordinary job on laying the groundwork needed to make this feat possible. Second, the municipal, cantonal and federal authorities are displaying a great deal of goodwill towards our airborne gift. And third, the response we're receiving from the general public is encouraging.

As well as the ZüriBahn cable car, there are also plans for a recreational park (ErlebnisGarten), and a historical exhibition (ZeitReise)...
Scholl: ... ZeitReise, which means "journey through time", is a huge opportunity for us to use multimedia technology to visually present the history of both our bank and the canton and make it come alive.The architecture of the ErlebnisGarten will make every visit a memorable experience. And if our ZüriBahn cable car is met with as much enthusiasm as the Landibahn in 1939 and the cable car installed at the landscaping exhibition in 1959, it will continue to shine bright for a great many years to come.

Dr Jörg Müller-Ganz

is an economist who was first elected to the Board of Directors in 2007 and has served as its Chairman since July 2011.

Martin Scholl

became Chief Executive Officer in 2007 and has been a member of the Executive Board since 2002. He first joined the bank as an apprentice.

Management Report

Environment and Strategy

Our brand promise is to be "Close to you". We create geographic and emotional closeness through personal, competent, responsible interactions with our clients. We maintain a climate of trust, openness and fairness by communicating with each and every stakeholder group. We derive our robustness and stability from our equity strength,full-service banking strategy, highly diversified income model and disciplined cost management, and we strive to achieve our goal of being the number one in the Greater Zurich Area, a national leader and internationally successful.

General economic situation

The year began with rising scepticism among market players, triggered by a weak first-quarter GDP in the United States. Upcoming parliamentary elections in some European countries also roused fears of a centrifugal, euro-critical trend in the EU. In the end, however, 2017 was an extremely good year for economies around the globe. Investors with equity holdings earned fantastic returns in a persistently low interest rate environment.

The global economy then gathered more momentum and was able to close the year with accelerated growth. While the United States is holding on to its standing as the powerhouse of the global economy, economic recovery was seen in all of the key economic regions. The pick-up in global trade, expansive monetary policy and economy-friendly impact of the 2017 political agenda, in particular, provided fertile ground for this development. Fears during the first part of the year that right-wing parties could gain more power in the Dutch parliamentary election proved unfounded. Emmanuel Macron's French presidential election win banished more eurosceptic voices, and the failed first round of coalition negotiations in Germany did not pose any economic threat.

Another key ingredient for the economic upturn in 2017 was the normalisation of interest rates in the United States, combined with a simultaneous devaluation of the US dollar. The trade-weighted US dollar fell by 8 percent from the start of the year due to growing scepticism surrounding the Trump administration, even though the US Federal Reserve increased key rates again. The European Central Bank (ECB), on the other hand, held on to its expansive monetary policy.

Market environment

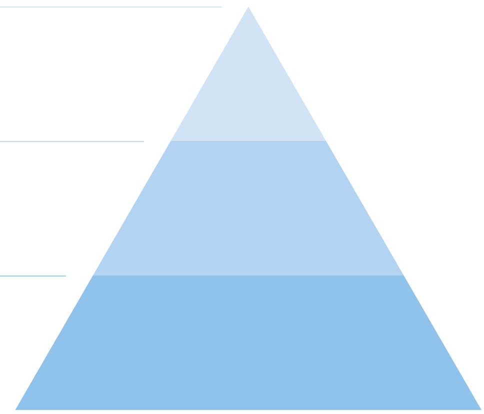
With around 260 banks, accounting for over 5 percent of total value creation, the financial industry remains extremely important to Switzerland. However, increasing international and national regulatory requirements, clients' changing needs, the trend towards service standardisation and, above all, the persistently negative interest rate environment are challenges which Swiss banks need to address. Added to this are new competitors entering the market (pension funds in the mortgage market, for instance).

Our vision

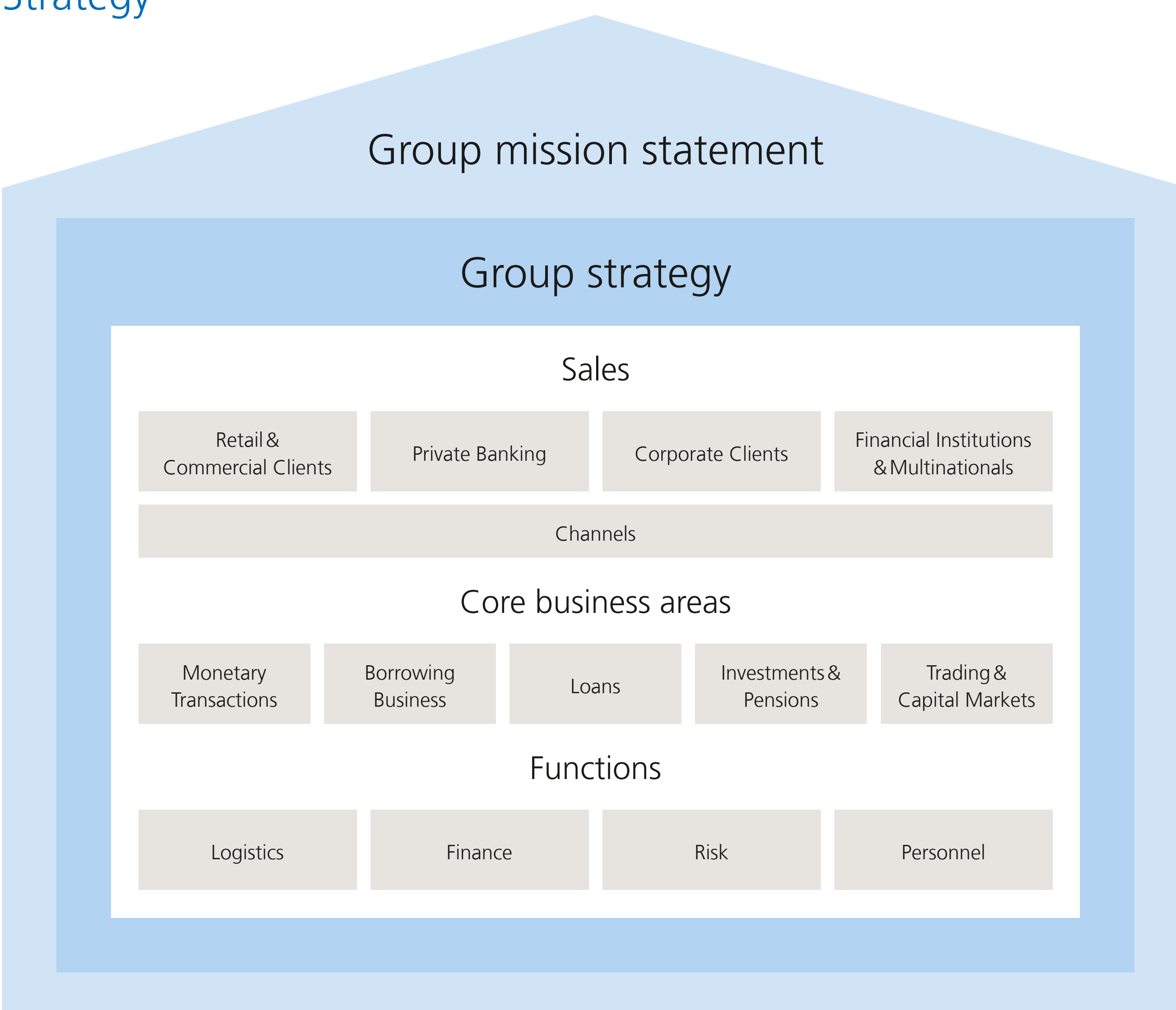
Internationally successful

National leader

No. 1
in the Greater
Zurich Area



Strategy



The value created by banks has stagnated in recent years. The Swiss Bankers Association still sees growth opportunities despite the challenging environment currently affecting all business lines (private banking, corporate banking, asset management, etc.). It remains vitally important, however, for individual players to position themselves clearly and differentiate themselves from other banks. The ongoing trend towards the digitalisation of banking services is one approach that could offer such potential. On the one hand, well-established institutions face new competitors from the emerging fintech industry while, on the other, even small regional banks now have an opportunity to offer their services throughout Switzerland.

Vision

Zürcher Kantonalbank has a clear vision: to be "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. Our brand promise, to be "Close to you", means being close to our clients, 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 geared towards clients' needs. In doing so, we strive to offer products and services that create as much added value as possible, both for the environment and society in general. This means that we generate most of our value in the Canton of Zurich and contribute to the region's prosperity as a major employer. We enter into a committed partnership with our stakeholder groups. We value having a good relationship with our suppliers. 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 "Close to you" is what drives us.

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.

As a result, we offer a broad line-up of banking products and services: from the financing business to the investment and pensions business, from payment transactions to trading and capital markets business. This breadth of business activities, combined with our proximity to our clients, is what makes us unique in the Greater Zurich Area. With our approach of offering comprehensive advice and support, we provide competent, dependable assistance for our clients at every stage of life and in all business phases. Our business model is complemented by selected services in the national and international arena.

Our financial strength and robustness are based on our capital strength, disciplined cost management and highly diversified income model.

Brand promise as a credible reality

Corporate values that are practised on a daily basis lay the foundation for a trusting, long-term business relationship. Our values are: be personal, competent and responsible. "Personal" because we know our clients, because we comprehensively guide and support them as partners through every stage of life. "Competent" because the outstanding quality of our advisory and client services means that we can be depended upon to meet our clients' every expectation. "Responsible" because sustainability is at the heart of everything we do. Our brand promise remains unchanged: "Close to you". This represents the essence of our brand values. We attach great importance to our brand and our reputation. A survey conducted in the year under review showed that people in Zurich believe we fit the bill of the perfect bank in many respects. Our aim is to be perceived as the best bank brand in the Greater Zurich Area.

"Close to you" is also a maxim that we embody within the company. Various activities including visits to branch offices and specialist units by the Board of Directors, visits by the Committee of the Board to business units, active communication on the intranet and employee events ensure ongoing dialogue between governing bodies and staff. Two series of events deserve special mention: "Vis-à-Vis" is an annual event for all employees at which the CEO and the Executive Board answer employees' questions on any topic that happens to arise, either individually or together. At an event entitled "CEO bi de Lüt", each and any department or branch office can arrange to meet with CEO Martin Scholl in person for a spontaneous, direct exchange of ideas.

Clear value propositions

We have defined specific value propositions for each of our various client segments to express how we view our services. We are positioning ourselves through the high quality of our advisory services, continuity of client support and a comprehensive, lifetime service offer.

Developments on behalf of our clients

We made great strides in the further development of our omni-channel strategy, which is geared towards maximising client benefits, in order to put our bank in a position to offer our client base the best possible client experiences during the year under review and to meet their changing needs.

New self-service machines offering an expanded range of services are being tested in the Meilen and Bülach branches. Five branches were modernised: Bauma, Dielsdorf, Feuerthalen, Horgen and Zürich-Höngg. Our client advisors are now available daily from 7 a.m. to 8 p.m. by appointment for personal consultations. We are testing longer lobby hours at selected locations, with a special focus on off-peak hours.

The events held at "Büro Züri", where we offer workstations in the heart of Zurich to the general public at no charge, were a resounding success. These events were organised as a networking platform and for anybody interested in start-ups.

TWINT, the new, stand-alone smartphone app for making mobile payment transactions, was rolled out in the first quarter. One of the app's special features is that iPhone users can use the voice-activated feature, Siri, to trigger a payment. A new authentication method called photoTAN was added to satisfy current and future security standards in eBanking.

The range of self-service options in the eBanking and eBanking Mobile services has been expanded in response to client feedback. Clients can now manage all aspects of their bank cards themselves or use their smartphones as a document reader in eBanking. In November, the SME Finance Manager was launched in eBanking for our corporate clients. This feature gives them a quick, easy summary of all incoming and outgoing payments, and can also be used to perform liquidity planning simulations. A revamped version of the "ZKB Nachtschwärmer" function was integrated into eBanking Mobile for our young clients. Our client advisors began using tablets as aids for conducting advisory consultations last summer. These devices allow them to better address clients' specific needs and display complex issues in a clear, easy-to-understand way.

Monetary transactions and the borrowing business

We are the number one address in the Canton of Zurich for basic banking services such as payment transactions and savings. Nearly 45 percent of Zurich residents have an account with Zürcher Kantonalbank. Our bundled solutions and services are tailored to the needs of our clients at every stage of life. More than 130,000 clients use one of our "ZKB inklusiv" bundles, which combine attractive terms with other benefits such as our bonus programme or supplement-free nighttime use of the ZVV public transport network. In November 2017, we added "ZKB inklusiv Basis" to our bundle, a basic offer geared towards new clients which comprises essential account and card services at an extremely attractive price.

Loans

With market penetration of around 50 percent, we are the leader in both retail and corporate banking in the Canton of Zurich. In terms of loans, we are the clear number one in the Greater Zurich Area. Outside this region, we provide targeted loans to medium-sized and large enterprises in Switzerland. This approach allows us to directly support Switzerland as a business location. We are a counterparty of choice in international banking and provide loans to foreign banks in connection with Swiss exports. We finance select companies in the commodity trade finance arena.

Investments and pensions

During the year under review, we worked hard to prepare our advisory model for the new investment offering. The result is a comprehensive range of asset management and other services, all from a single source, backed up by first-rate personal advisory services, cutting-edge technology and the seasoned team of experts from the Chief Investment Office. We launched this new model, which reinforces the risk-based advisory approach, at the end of 2017.

We were also extremely successful with our previous structure – Asset Management (AM mandates) and PPC

(Private Portfolio Consulting): in October, we passed the CHF 10 billion mark for managed assets. We also expanded our pension advisory services to help our clients prepare for their third phase of life.

As Switzerland's third-largest fund provider and an important asset manager, we offer private individuals, businesses and institutional clients high-quality, innovative products as well as asset management and pension 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 equity and bond research team, which analyses more Swiss securities than any other bank and enjoys an outstanding reputation. Our economic research is also well respected throughout the industry.

One focus during the year under review was the successful launch of two investment vehicles, Swisscanto AST Hypotheken and the Swisscanto (LU) Alternative Risk Premia Fund. Both products round out our offering for investors seeking alternatives in the low-interest-rate environment. The brand Swisscanto Invest by Zürcher Kantonalbank has been strengthened by means of four multi-channel Swiss-wide advertising campaigns. By the end of the year under review, we had succeeded in boosting the ratio of income from commission business and services to operating income by 1 percentage point.

Trading and capital markets

Our trading business is based on a clear client focus. Innovations are developed swiftly to meet clients' specific needs and offered in a targeted manner. 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. They are backed up by an efficient logistics operation that integrates information technology, processing and real estate management. We are constantly optimising our processes in order to address the trend towards banking service standardisation. In addition, we are pushing forwards with the digital transformation of the bank. One basis for this is provided through the continuous upgrading of our IT infrastructure. Key projects in this regard include not only the launch of the new investment offering and the outsourcing of payment transactions, but also the integration of the Swisscanto fund into the Asset Management division of Zürcher Kantonalbank and the modernisation of the data integration platform to safeguard the stability of IT operations.

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 debt capital and equity necessary to achieve our growth targets. Our equity and liquidity management ensure that financial resources are used in a risk-appropriate and cost-effective manner. Comprehensive financial reporting forms the basis for the successful financial management of the bank.

Risk management

The Board of Directors appraises the bank's risks on a regular basis. Its appraisals are based in part on 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 and Audit Committees of the Board of Directors investigate these matters in depth 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 (page 120 ff).

Personnel

We successfully replaced the old target and performance agreement process and launched the Performance & Development (P&D) approach. This forward-looking, strengths-based dialogue between line managers and employees offers greater quality. P&D lends new momentum to the topic of Strategy Transfer 2017. We now use new formats, including our own app, to convey the bank's history and personality, its business model and our strategic priorities. Our goal is to make the bank come alive for our employees and to help them better understand both the bank's overall strategy and their personal contribution towards it.

With 5,117.2 full-time equivalents, 417 of whom are trainees, we are an important employer in the Canton of Zurich.

Objectives

The objectives and related indicators and targets are defined by the Board of Directors. In addition, we draw up a multi-year plan, which we revise on an annual basis in line with current conditions. Annual planning and budgeting are derived from this process.

We have developed a comprehensive system of targets (balanced scorecard) to measure the effectiveness of our strategy. The system of targets was completely overhauled in 2017. We measure the strategic group targets in four areas: group, sales, core business and functions. This approach makes it easier to allocate targets to the divisions responsible for them and also ensures that we measure performance holistically while also satisfying the multifaceted demands of our public service mandate as stipulated by law.

Strategic targets (balanced scorecard)

Group

Fulfil and systematically develop the public service mandate

Retain a high rating

Further develop the Zürcher Kantonalbank brand

Generate sustainable financial success

Sales

Expand market position

Strengthen advisory and support services; keep client loyalty at a high level

Develop channels further

Core business areas

Offer an attractive product range and optimise core business processes

Functions

Optimise the logistics process

Master risk management

Develop skills and optimise employee placement

Maintain the bank's status as one of the most attractive employers for high-performance employees

Keep employee satisfaction at a high level

2017 milestones

We are very satisfied with the key figures we achieved in financial year 2017. The return on equity amounted to 7.3 percent. The cost/income ratio was 61.1 percent. We have systematically strengthened our capital base in recent years, and at the end of 2017 had a total capital ratio of 18.8 percent. This far exceeded the minimum regulatory requirement of 14.6 percent (including a countercyclical 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 1.0 percentage point.

Renewed AAA rating

The rating agencies Standard & Poor's, Moody's and Fitch continue to award Zürcher Kantonalbank their highest ratings of AAA or Aaa. That makes us the only Swiss bank to be given top marks yet again by all three rating agencies. Our high ratings are due in part to our sustained operational stability as a result of our diversified business model as well as the extremely good capitalisation of Zürcher Kantonalbank. Other factors include Zürcher Kantonalbank's solid income base and the profitability this affords the bank, something which is attributable not least to its stable, lasting client relationships and the 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 rating reflects the bank's creditworthiness without taking the state guarantee into account.

Other banks use CIO services

Zürcher Kantonalbank has successfully offered CIO services in the investment and asset management business to third-party banks since 2015. Some of these services include our investment policy, entire portfolios and underlying information from our extensive economic research. The Investment Office of Zürcher Kantonalbank serves as a "single point of entry" for private and professional contacts. The three new partner banks we acquired in 2017 are confirmation that ours is a compelling offer.

Figures achieved

Indicators	*Objectives*	2017	2016	2015
Return on equity (ROE)	[1]	7.3	7.4	7.5
Cost/income ratio (CIR)	*58–64 %*	61.1	61.7	62.4
Total capital ratio[2]	*16–19 %*	18.8	17.5	17.9
Group rating	*AAA, Aaa*	AAA, Aaa	AAA, Aaa	AAA, Aaa
Employee satisfaction	*65–70 points*	84	72	72
Brand performance	*≥ 60 points*	64	66	65
Client satisfaction[3]				
Retail and commercial clients	*≥ 75 points*	75	75	75
Corporate clients	*≥ 75 points*	83	83	79
Private banking clients	*≥ 75 points*	79	79	75

1 Internally, we have been measuring profitability based on economic profit since 2015. Externally, we continue to state the ROE, but without a target bandwidth.
2 The difference in the total capital ratio between 2016 and 2017 is mainly attributable to the changeover from the standard approach (SA-BIS, applied in 2016) to the internal rating-based method (F-IRB, applied in 2017).
3 Figures for 2014/2015 have been recalculated due to restructuring.

State-of-the-art advisory service with tablets

Employing tablets to digitise our advisory services allows us to create an entirely new kind of experience for our clients. The past few months have been spent getting all the pieces in place for this new approach – developing proprietary advisory software, purchasing cutting-edge devices and training nearly 1,000 advisors. The tablet-based solution is especially ideal for the new investment advisory approach: investment proposals can be created during the advisory consultation and supplemented in accordance with clients' wishes. The consultations are conducted systematically within a portfolio context while also taking return and risk into consideration.

Successful launch of TWINT

Mobile payment solutions in the form of smartphone apps are growing in popularity. That is why Zürcher Kantonalbank teamed up with Switzerland's five largest financial institutions and with SIX to launch TWINT in April 2017, the new mobile payment solution that replaces the previous Paymit solution. By the end of 2017, 40 Swiss banks and leading retailers were offering this Swiss payment solution, with the solution's success reflected in around 600,000 registrations and more than 3.5 million transactions during that same timeframe. TWINT has thus established itself as the mobile payment standard in Switzerland and represents a reliable alternative to cash, paying-in slips and charge cards.

TWINT can be used by all consumers in Switzerland as well as all retailers. The solution centres around functions that permit users to send and receive money at no charge and to make mobile phone payments in stores, restaurants and online shops. The app version from Zürcher Kantonalbank, ZKB TWINT, can be linked directly to a client's bank account to guarantee transparent transaction summaries. New functions are being added to the payment solution continuously, and the number of retailers accepting TWINT is on the rise.

Anniversary in 2020

We presented our projects for our 150th anniversary in 2020 to the general public during the year under review. Our ZüriBahn (cable car), ErlebnisGarten (recreational park) and ZeitReise (historical exhibit) projects were conceived under the motto "Creating encounters together" with the goal of creating places where people can meet – entirely in keeping with our aspiration of being "Close to you". We will be celebrating the pioneering spirit of our bank's founders and its 150-year success story together with the people of Zurich. We originally announced the projects in early July 2017, sharing our internal enthusiasm for the bank's anniversary with the general public, and were met with a positive response.

Swisscanto Invest

Key structural measures were implemented in the Asset Management division as a result of Zürcher Kantonalbank's acquisition of Swisscanto. This merger gives Zürcher Kantonalbank the opportunity to combine its own sales channels with those of the third-party banking business and the cantonal banks. It is using the synergy potential offered by the immense product portfolio with more than 100 funds. An important decision was also taken with regard to the "Swisscanto" brand: the asset management activities of Zürcher Kantonalbank are now being marketed under one single brand, "Swisscanto Invest by Zürcher Kantonalbank".

Involvement in fintech stepped up

Great strides have been made in the fintech industry in Switzerland over the past three years. These efforts have produced an ecosystem that heavily promotes innovation within the fintech environment. Zürcher Kantonalbank's decision to join the "F10 FinTech Incubator and Accelerator" in autumn 2017 is a concrete example of our partnership approach in the area of digital transformation. This membership gives our bank direct access to an innovation hub operated by Switzerland's leading financial service providers and will enable the bank to leverage its key infrastructure facilities to support start-ups and give them professional guidance. As a minority shareholder of "investiere.ch", Switzerland's leading investment platform, and a founding member of the "Swiss Fintech Innovations" association, our bank is well positioned. It is thus committed to finding sustainable solutions in the areas of digitalisation and innovation that focus on creating genuine value for clients. Several different sponsorship commitments in the start-up environment also allow the bank to make an important contribution to the development of the Canton of Zurich.

Outsourcing payment transactions

The outsourcing of payment transaction systems and associated processing steps was successfully completed. Zürcher Kantonalbank has been processing payment transactions through the bank processing centre of Swisscom since March 2017. The outsourcing took place without any major difficulties, and it allows Zürcher Kantonalbank to further develop its systems on a state-of-the-art platform to ensure that the bank is ready to meet future requirements for payment transactions.

Capital adequacy pursuant to IRB

Zürcher Kantonalbank switched to a different method of calculating capital adequacy, from the standard approach (SA-BIS) to the internal rating-based method (F-IRB), with effect from 31 December 2017. FINMA conducted an in-depth review of Zürcher Kantonalbank's credit risk measurement method and granted the bank authorisation at the end of 2017 to apply the F-IRB method. This change means that the capital required to cover credit risks will be calculated in accordance with the inhouse differentiated risk assessment for credit positions, as is common practice among large institutions.

Outlook

We expect the environment to remain challenging in 2018. Nevertheless, we are confident in our ability to generate attractive results again in 2018 thanks to our extremely sound footing, balanced business model and clear strategy. As a strategically well-positioned full-service bank, we aim to systematically expand our market leadership in the years ahead.

2018 should also bring continued economic recovery at the global level. The US Federal Reserve (Fed) will cautiously push ahead with efforts to normalise its monetary policy with several interest rate hikes. The European Central Bank (ECB), on the other hand, will probably only raise its key rate in 2019, at the earliest. Beginning in the second half of the year, rising inflation and interest rate expectations could challenge positive market sentiment. Following record-low volatility and high valuations in the equity markets, we consider increased volatility inevitable in 2018.

Consumer sentiment and business sentiment are both excellent, not just in the United States but also in Europe. The leading economic indicators suggest continued global economic growth. In the United States, production capacities are being fully utilised in this mature economic cycle while signs of shortages are starting to show on the labour market. The euro zone's robust economic growth is set to continue, albeit at a slower pace than in 2017. The anticipated decline in growth momentum is mainly attributable to the stronger euro exchange rate, which is negatively impacting the export industry.

A brighter picture is coming into focus in the emerging markets as well. Brazil and Russia have overcome their deep recessions while China and India are reporting stable growth rates. The pick-up in global trade is also providing for better balances of trade and making emerging markets less dependent on capital imports. Overall, Switzerland is profiting from the positive global environment, and we expect GDP growth of around 2 percent if the key rate remains unchanged in 2018. In our opinion, an unexpectedly rapid increase in inflation poses the greatest risk to financial markets. We are monitoring and analysing our clients' and bank's exposure to any risks that arise in connection with the expected economic upturn and geopolitical changes.

Ours is a dynamic environment that calls for flexibility at all times. We need to respond swiftly and appropriately to changes in order to safeguard the long-term success of our bank. Through the use of appropriate tools and structures, we are gearing our organisation to operate in this environment and remain agile on the market. For example, we are further developingour leadership tool "Performance & Development", bringing our business units closer together physically in order to boost the efficiency of collaboration and procedures, and creating the necessary IT set-up and systems to offer employees a flexible work environment.

To differentiate ourselves within the banking sector, we invest in innovative solutions. We create physical and digital proximity to our clients and aim to offer them 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.

In 2018, all retail clients will benefit from the new investment offering that we rolled out at the end of 2017. The new investment advisory model is based on our three values of being personal, competent and responsible, and combines client advisors, expert knowledge and state-of-the-art technology. In this model, the Chief Investment Officer is responsible for defining and implementing the bank's investment policy. In our new investment offering, this holds equally true with respect to our asset management mandates as well as our advisory mandates. In the financial markets, there is no return without risk.

Personal risk tolerance is at the heart of our new, high-tech investment advisory process. We ensure that our clients' portfolios only contain as much risk as they can and are willing to tolerate. We have the right investment strategy for each individual risk profile. The strategy determines which asset classes client assets are invested in so that the portfolios are perfectly balanced in terms of risk and return. This parameter is monitored on an ongoing basis through the use of state-of-the-art technology. Given the dynamic, global nature of the financial markets, we optimise client portfolios on a monthly basis in keeping with our investment policy and align them with future market expectations. Our dedicated experts constantly analyse and keep an eye on the situation on financial markets, the geopolitical situation, asset classes and currencies.

After their successful introduction during the year under review, tablet-assisted client advisory services will be expanded in 2018 to include financing. Customised simulations, clear visualisations and interactive features will enhance the informative value for our clients even further.

The investigation of Zürcher Kantonalbank launched by the US authorities in 2011 remains ongoing at the present time. Competition in the banking business will presumably continue to grow in the years ahead, and the digitalisation, industrialisation and consolidation trends will continue to present the financial centre with challenges. Together with the political community, the aim must be to improve the framework for Switzerland as a financial centre. Freely accessible markets, in particular within the EU, are vital for Switzerland as a small, open economy.

At the same time, we must strengthen people's trust in the financial centre even further and highlight the important role played by banks, particularly that of domestic banks, with respect to society and the economy.

Public Service Mandate

Our public service mandate is our unique selling point. We take pride in it. We provide banking services to the people and companies of Zurich, support the region with our numerous economic and cultural commitments, and integrate sustainability in our offering and our conduct as a business principle. We distribute a share of our profits to the Canton of Zurich and its municipalities.

Zürcher Kantonalbank is an independent public-law institution wholly owned by the Canton of Zurich. The bases for its business activities are defined in the Law on Zürcher Kantonalbank. The public service mandate enshrined in this law consists of a threefold obligation of service, support and sustainability.

Commitment to the canton

The service obligation is at the heart of our public service mandate. Its purpose is to ensure the provision of banking services geared towards continuity for the general public and companies in the Canton of Zurich. This is particularly applicable with respect to payment transactions as well as the investment and financing business. Other areas of focus include a broad range of contemporary products and banking services, our dense network of branch offices as well as the promotion of SMEs, residential property and the construction of affordable housing. We also make products available to the residents and businesses of Zurich that extend beyond the traditional offerings of a conventional full-service bank. These include non-cost-covering micro-loans and tenant deposit accounts.

The support mandate obliges the bank to promote the regional economy and to contribute to addressing social issues in the Canton of Zurich. Our financing expertise helps Zurich to develop further as a business location, for example, by offering targeted support for innovative start-ups. Through over 140 sponsorship commitments, we are also actively helping to make the Canton of Zurich sustainable and liveable.

We implement sustainability as an integrated business principle. That means that we take sustainability-related aspects into consideration in all of our business activities. This is reflected in our products, among our employees, in our regional commitments and in our operations. Specific offers with additional social and environmental benefits include the ZKB environmental loan for ecologically sound building projects or our sustainable investment products. High-quality sustainability management that is embedded in our organisation and our certified environmental management system are integral aspects of how we meet our sustainability obligation in terms of promoting forward-looking economic, environmental and social corporate development.

Profit distribution to the canton and municipalities

Zürcher Kantonalbank fulfils its public service mandate on the basis of a business strategy aimed at long-term continuity. It is based on market-oriented principles and intended to achieve an adequate level of profitability. Zürcher Kantonalbank pays a dividend of CHF 363 million. The canton uses this to first cover capital costs incurred for the refinancing of its endowment capital (2017: CHF 18 million).

Of the rest, two-thirds go to the canton and one-third to the municipalities. Hence, the people of Zurich gain a share of CHF 242 per person in the success of the bank.

State guarantee

The clients of Zürcher Kantonalbank 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 bank's resources prove inadequate. For 2017, Zürcher Kantonalbank paid the canton financial compensation of CHF 23 million for the provision of the state guarantee. This is based on a provision that was approved by the Cantonal Parliament.

The changing public service mandate

As society changes, so do our clients' needs. Technical advances, particularly with respect to means of communication, are awakening new needs and opening up new opportunities, which we address through our omni-channel strategy. Nowadays, the counter of a local branch office represents just one of several channels which our clients can use to conduct their banking transactions. First offered two decades ago and developed further over the years to meet clients' changing needs, Zürcher Kantonalbank's eBanking solution has advanced to become one of the bank's key channels. Today, over one-third of our clients have an eBanking agreement and more than one in five are already using the bank's eBanking Mobile services. The number of mobile logins has more than doubled over the course of the past two years.

In recent years, the bank has intensively addressed the issue of digitalisation and launched several new offerings including a smartwatch app, a budget tool and a mobile payment solution for making cashless payments. Further developments aimed at improving the client experience on digital channels even more will follow in the next few years. At the same time, it remains an unquestioned part of the bank's business philosophy that the face-to-face service provided at the local branch locations will continue to be a key element of any banking relationship. Hence, some CHF 18.2 million were invested in the branch network during the year under review alone. However, with the continuing advance of digitalisation and clients' changing needs, the importance of cash transactions over the counter, for example, has been declining for some years.

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 2017 shows in detail how Zürcher Kantonalbank exemplifies sustainability as an integrated business principle within the bank. We explain the most important sustainability-related aspects in a short brochure. In the section of the report prepared in accordance with the requirements of the Global Reporting Initiative (GRI), all key indicators are presented in accordance with the new GRI standard. The operational environmental programme for 2018–2022 and its new environmental objectives were approved during the year under review Detailed information about the support mandate can be found at zkb.ch/sponsoring. A few select examples of how we fulfil our public service mandate are mentioned here.

Service

Multiple contact options

As it is "Close to you", Zürcher Kantonalbank offers numerous contact options. It has the densest network of branches and ATMs in the Canton of Zurich, and it can also be contacted via the electronic channels of the eBanking and eBanking Mobile services, the smartwatch app and various social media channels. Our client advisors are available from 7 a.m. to 8 p.m. by appointment for personal consultations.

ZKB Starthypothek (starter mortgage)

Zürcher Kantonalbank supports first-time buyers of residential property with a reduced interest rate that is lower than the normal ZKB fixed-rate mortgage. Since being overhauled in 2015, ZKB starter mortgages now offer even more attractive terms. All in all, ZKB starter mortgages worth nearly CHF 4,900 million were granted in 2017.

Position as provider of risk capital extended

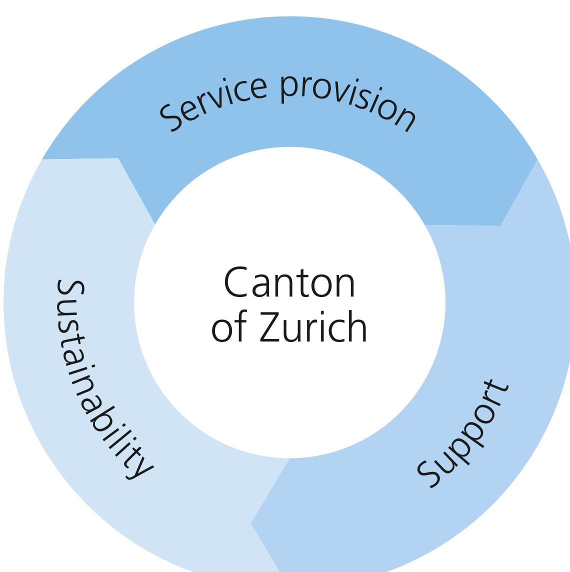
With an annual investment volume of between CHF 10 million and CHF 15 million in the form of equity and mezzanine capital, Zürcher Kantonalbank is one of the largest providers of risk capital in Switzerland. During the year under review, Zürcher Kantonalbank supported fasoon.ch, a platform on which users can obtain information about founding a company, prepare for the foundation procedure and implement it. We thus strengthen our position in the start-up and fintech arena as well as exploiting opportunities for the continued future development of our other financing activities, for instance in the arena of SMEs.

Support

Schauspielhaus: new commitment

We have been a partner to the renowned Schauspielhaus Zürich since 2017. Attracting some 150,000 patrons every year, this is the largest stage for spoken theatre in Switzerland and one of the nation's most important cultural institutions. Schauspielhaus Zürich has two extremely prestigious theatre buildings: the Pfauen, a venue with a long-standing tradition in the city centre, and the Schiffbau in the dynamic Zurich-West quarter of the city. Our commitment makes a vital contribution to the success of one of the most important German-language theatres and makes extraordinary artistic projects possible. Clients can benefit from exclusive seat upgrades at the Schauspielhaus and thus enjoy a good view of the stage.

Public service mandate in the Canton of Zurich



Service provision
Providing people and businesses with comprehensive banking services

Support
Assisting the Canton of Zurich in the economic, social and environmental arenas

Sustainability
Taking account of sustainability issues in all our business areas and activities

Wilderness Park: a unique blend of woodland, wilderness and wildlife

Wilderness Park Zurich is composed of two parks, Langenberg and Sihlwald. In January 2010, it became the only park in Switzerland to earn the official label "Nature discovery park – Park of national importance". The Langenberg Wildlife Park is Switzerland's oldest and largest wildlife park and entrance to the park is free of charge all year round. Sihlwald, on the other hand, is a rare example of a vast primeval forest that is rarely found on the Swiss Central Plateau. In the year under review, the Wilderness Park provided the inspiration for one of the Sihltal railway carriage designs. Passengers spend the journey in the middle of a forest scene. As the main sponsor of Wilderness Park Zurich, we support its development, thereby making a long-term contribution within the scope of our public service mandate.

"Hosenlupf" – a popular local custom

"Schwingen", a form of wrestling native to Switzerland, has been one the country's national sports for centuries. Yet as folksy and down-to-earth as this sport seems, the athletes are highly trained and can use their astounding flexibility, endurance, speed, strength and precise techniques to grab their opponent just right and force him into the sawdust. This sport is also characterised by fairness and respect. The 107th Zürcher Kantonalschwingfest (Swiss Wrestling Festival of the Canton of Zurich) was held in Weiach in May 2017. Through our commitment to the Zürcher Kantonalschwingfest and the Zürcher Kantonal-Schwingerverband (Swiss Wrestling Association of the Canton of Zurich), we foster tradition and our closeness to the people.

Honouring innovations

Every year, the ZKB Technopark "Pioneer Award" is presented to a nearly market-ready project that boasts a special level of innovativeness, marketability and social relevance. The prize is awarded by the Technopark Foundation and Zürcher Kantonalbank and is worth CHF 98,696.04 – an amount equal to 10,000 times the square of pi. In 2017, the prize went to Twenty Green AG, a start-up from Lucerne. Their newly developed feed supplement strengthens the immune systems of farm animals to help combat the problem of antibiotic resistance in agriculture. Moreover, farmers can feed their animals a healthier diet while also cutting costs.

Insight into the professional world: Job Fair Zurich

Job Fair Zurich (Berufsmesse Zürich) is an inter-regional contact point offering information about careers, basic training and further education. It gives young people and adults an insight into more than 420 apprenticeship careers, high school programmes and further education offers. Young people can delve into a wide range of different professional realms and find out about them at first hand. At the stands, information is disseminated, contacts are made and barriers are broken down. We operate a booth where we present ourselves as an employer, and, as the event's main sponsor, we contribute to the fulfilment of an important social mission.

Spitex – quality of life at home

Zürcher Kantonalbank has been the principal partner of the Spitex Association of the Canton of Zurich since 2009. Every year, some 40,000 residents of Zurich make use of the home care services provided by a Spitex organisation. Spitex services are a vital addition to the range of services provided by hospitals and nursing homes. Our financial backing supports the association's efforts to make it possible for people of all ages who need care and assistance to live at home and so enjoy a better quality of life. The bank thus helps the canton address social issues while also promoting a range of services that benefits the entire population of Zurich.

Sustainability

25 years of environmental loans

Zürcher Kantonalbank has been promoting environmentally friendly building and renovation work for a quarter of a century. Environmental loans grant property owners a reduction of up to 0.8 percentage points on the interest rate on their selected ZKB fixed-rate mortgage for up to five years. There has been a sharp rise in the number of discounted loans granted since this programme was first launched. One major factor behind this trend was the decision to make the Minergie certificate a criterion when granting ZKB environmental loans from autumn 1997 onwards. Our environmental commitment currently covers a portfolio of more than 3,200 environmental loans.

Partnership with Minergie

The Minergie label is recognised today as being synonymous with energy-efficient buildings, not only by construction specialists but also by the broader public. With around 45,000 certified buildings, Minergie is the most important label awarded to new and renovated buildings in Switzerland. Originally entered into in 1998, we extended our partnership with the Minergie Association for another three years in 2017. In keeping with its goal of promoting a high quality of life with a simultaneously low level of energy consumption, the Minergie Association manages and refines the MINERGIE standard. This commitment aligns with our efforts of using energy sustainably. Zürcher Kantonalbank has met the MINERGIE standard for all of its major construction projects since 2015, and the standard is also being considered for building renovations.

Sustainable mobility

Zürcher Kantonalbank has long been a proponent of sustainable mobility concepts and develops these concepts on an ongoing basis. An electric truck purchased for the central warehouse in spring 2017 helps us make further, lasting reductions to our CO_2 emission levels. This vehicle replaces a conventional diesel truck and offers a markedly lower energy consumption. The electric truck runs on ecological "naturemade star" electricity, emits neither soot nor CO_2 and produces less noise during operation. We collaborate with SBB and Mobility to promote the use of both public transportation and car-sharing vehicles to protect the environment. While fuel-powered Mobility vehicles have been used for client visits and business trips for some time now, 2017 was the first time that Mobility had two electric vehicles available at the Sonnenbühl building.

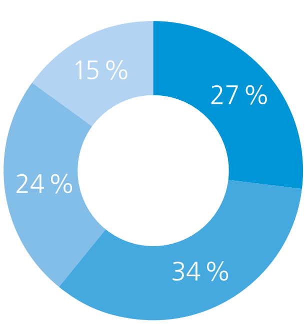
Protecting bees and biodiversity

Bees moved into their new home on the rooftop of the Hard property in spring of the year under review. The four beehives make an important contribution towards the sustainability mandate of Zürcher Kantonalbank. As pollinators, bees are instrumental to the preservation of wild and cultivated plants, and their ecological value is immense. By keeping bee colonies, we promote biodiversity and the bees' survival. The 2017 honey harvest was given away to employees in a prize draw.

Sustainable SME award

Zürcher Kantonalbank presents its renowned SME Award to particularly sustainable companies. It is endowed with a total of CHF 150,000 in prize money, which is split up between three main prizes and two special prizes. In January 2017, the first prize went to Schwendimann AG, a waste disposal specialist. Founded in 1935, Schwendimann AG is a highly innovative family-run company with a broad-based approach to sustainability – this SME exemplifies sustainability at the social, economic and environmental level. Bio Partner Schweiz AG, Switzerland's leading organic wholesaler, took second place, and third place went to J. Grimm AG, which entered the market in 1956 and is currently considered a specialist in the recovery of recyclable materials from waste. The special prize for microenterprises was awarded to Romer Holzbau AG and the special prize for extraordinary achievements went to Gammacatering AG.

Use of sponsorship funds



Various
(regional sponsorship, communication, reserve)
27 %

Society
(culture, sport, health)
34 %

Environment (nature)
24 %

Business
(career and education, business support)
15 %

Management Report

Clients

Our advisory and customer service philosophy is to provide our clients with a comprehensive advisory approach at every stage of life and in all business circumstances. A modern range of products and services that has been geared towards clients' needs helps us fulfil our role as a reliable partner at all times. Being "Close to you", we not only operate the densest network of branches and ATMs in the Canton of Zurich, but also have a business relationship with one out of every two residents of Zurich and half of Zurich's SMEs.

Advice and support

Comprehensive advice and support

Zürcher Kantonalbank strives to cultivate long-term, cross-generational client relationships with a focus on providing advice tailored to fit the needs of its clients and offering customised solutions for all situations in their lives or businesses. We deliberately implement modern technologies with the aim of fulfilling the increasingly discerning needs of our clients and set extremely high standards to ensure that we can impress them with consistently first-class advice and support.

In 2017, the focus of advisory services for retail clients was on developing investment solutions in a low interest environment, attractive types of financing and comprehensive pension solutions. We expanded our financial planning services even further to help our clients prepare for their third phase of life. Furthermore, the fourth quarter of the year under review saw us launch our new investment offering with new advisory and asset management mandates. The tablet-based advisory approach gives clients direct access to the expert knowledge of our Chief Investment Officer. The "ZKB inklusiv" bundle has also been adapted to clients' current needs and now better accommodates changes in how they use our basic services.

One in every two residents of Zurich is a client of Zürcher Kantonalbank. At the end of 2017, we had around 873,400 relationships with retail clients. That makes us the leading financial services provider in the Canton of Zurich for business with retail clients.

In our corporate client business, we launched several initiatives that will allow us to better tailor our offering to the needs of small and medium-sized enterprises (SMEs). These initiatives relate to company foundation, occupational pension schemes, succession planning topics and cash management. Ever since it was first founded, Zürcher Kantonalbank has been positioned as a "bank for SMEs". It also offers services for public-sector entities and institutions, other public service enterprises and socially active companies. We have a comprehensive portfolio of products and services that not only covers every phase of a business, but the entrepreneur as a private individual as well. Because of this, we feel confident in staking our claim as being a competent, responsible partner for SMEs.

Around half of all Zurich-based SMEs rely on the services of the bank. That makes us 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 are perfectly poised to hold on to this leading position and develop it.

We have significantly expanded our offering for company founders to ensure that their efforts to set up their own businesses are a success from the very start. In collaboration with partners like Startzentrum and fasoon.ch, we foster fledgling businesses by providing free start-up advice, events and attractive introductory offers. We are also one of Switzerland's leading partners for national and international corporations as well as finance companies such as central banks, commercial banks, insurance companies, asset managers, investment funds, brokers and bank-like institutions. At the end of 2017, assets under management for retail clients and companies at parent company level amounted to CHF 204.1 billion (2016: CHF 187.4 billion).

Proximity to clients through a wide range of contact options

Our brand promise is to be "Close to you". This closeness comes not only from the thousands of times our employees interact with clients every day, whether during advisory consultations or in our client lobbies. A wide range of cutting-edge digital self-service options also bring us close to our clients.

The importance of online channels, and especially the services offered via mobile channels, continues to rise. To meet this growing demand, we have been pursuing an omni-channel strategy for many years, offering our clients alternative ways of conducting their banking transactions, such as our eBanking or eBanking Mobile services and our smartwatch app. We also provide electronic support for complex processes. Zürcher Kantonalbank now offers online home mortgages in cooperation with Homegate AG. More than 1,200 households have already taken advantage of this opportunity.

In addition, Zürcher Kantonalbank maintains the densest ATM and branch network in the Canton of Zurich. Both retail and corporate clients continue to use their local branch as an important point of contact for advice. In 2017, sales professionals at our branches held around 150,000 face-to-face consultations on the bank's core activities of investments & pensions and loans as well as on the topics of financial planning & pensions, estate planning and taxes. Another five branches were renovated in the year under review (Bauma, Dielsdorf, Feuerthalen, Horgen and Zürich-Höngg). They now fit in with our new, uniform design and service concept, which offers a higher standard of service in an attractive environment.

Much of our client contact takes place not only during visits to our branches but also through our support centre. During the year under review, our support centre handled about 720,000 calls.

Our active dialogue with SMEs, our close relationships with business and business associations as well as numerous partnerships and awards to promote SMEs are evidence of our commitment in the Canton of Zurich and the client proximity that we practise on a daily basis, even after office hours.

Across all channels, we value top-notch security and a uniform brand experience that centres around the needs of our clients.

Financing

Mortgage financing

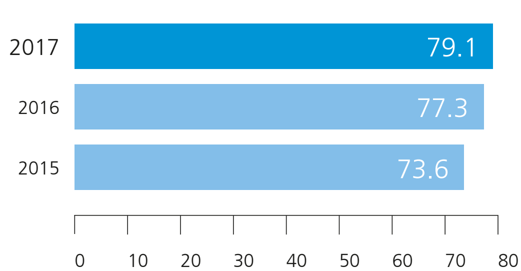
Both across Switzerland and in the Canton of Zurich, in particular, construction activity is at an extremely high level. Transaction prices for residential property continue to rise, with prices in the canton up by 4.9 percent during the year under review. This increase is losing momentum, however, and prices even dropped slightly during the fourth quarter. We are interpreting the price increase of the past two years as a short burst and do not expect any further increases during 2018. In this environment, the bank's mortgage loans increased by CHF 1.8 billion to CHF 79.1 billion in the year under review. This corresponds to an increase of 2.3 percent, whereas the market as a whole (just banks, excluding mortgage investment companies and insurers) grew by 2.7 percent in the year under review.

Clients preferred terms of 2, 5 and 10 years again this year.

The share of fixed-rate mortgages (including ZKB starter mortgages and ZKB environmental loans) in the total mortgage portfolio was 91 percent at the end of the year. As the market leader in the Canton of Zurich, we place great emphasis on quality in all loans issued. Many buildings from the 1960s, whether single-family or multi-family homes, 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 clients in this process. Thanks to our market-leading ZKB environmental loans, we have been promoting energy-efficient construction and renovation for over a quarter of a century. Clients benefit from an interest-rate reduction of up to 0.8 percentage points on the indicative rate of their selected ZKB fixed-rate mortgage for up to five years. The total volume of ZKB environmental loans amounted to roughly CHF 1.2 billion in 2017 and the number of ZKB environmental loans granted on the basis of GEAK certification doubled in the year under review.

In line with our public service mandate, we have also supported first-time home buyers for over 30 years by providing them with ZKB starter mortgages. To get them off to a good start, we grant them a reduced interest rate in comparison with the normal ZKB fixed-rate mortgage. In 2017, the total volume of ZKB starter mortgages granted amounted to CHF 4.9 billion, 11.9 percent more than in the previous year.

Mortgage loans (in CHF billion)



Business financing

In the Canton of Zurich, Zürcher Kantonalbank makes a key contribution to the supply of credit to SMEs, and, across Switzerland, it focuses on medium-sized and large companies. Our consistent, proven lending policy lets us diversify our risks and keep them under control in this area. A model-based method is applied for performing system-based credit checks. Decentralised decision-making authority for standard transactions allows us to incorporate local expertise into credit decisions and to take individual factors into account. The ratings are supplemented by key figures such as the debt capacity. We place great importance on transparency in credit decisions, and that is also reflected in communications with our clients. In dialogue with clients, we focus primarily on value drivers and the strategy of the company as well as the free cash flow achievable in the long term.

With exports accounting for a substantial portion of its GDP, namely more than 60 percent, Switzerland is a leading exporting nation. Our corporate clients strive to reduce their risks in international business transactions. This calls for services such as export finance, letters of credit and guarantees, interest rate and currency hedging, international payment transactions, and market information. Our consistent risk policy and extensive experience in matters related to cross-border activities make us a reliable partner. To fulfil this vital economic function, we cultivate a carefully selected network of international correspondent banks and have our own representative offices in Singapore, Mumbai, Beijing and São Paulo. The role of these representative 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 clients, maintain relationships with local partner banks in their respective regions and furnish us with risk assessment information.

Zürcher Kantonalbank was once again a dependable partner for Swiss companies in 2017. Our credit exposure to companies increased to CHF 25.5 billion (+ 1.4 percent) in the year under review. Reliability and fairness towards clients who are in financial difficulty are also important to us. Provided future prospects are intact, we can offer help through flexible solutions.

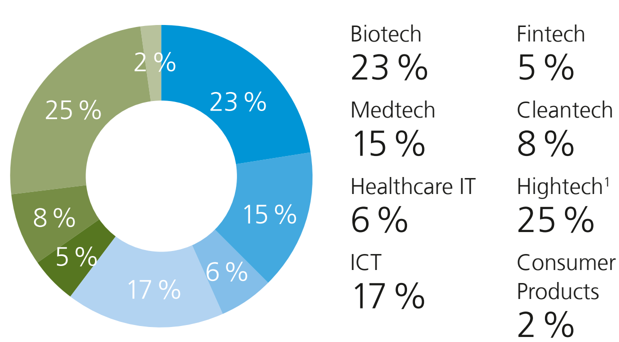
Technological competition demands constant innovation on the part of Zurich as a business location and Zurich-based SMEs. With the Swiss Federal Institute of Technology in Zurich, the University of Zurich, the Zurich University of Applied Sciences, the Zurich University of the Arts, and other universities, the conditions for start-ups in the Greater Zurich Area are excellent. To meet the associated financing needs, we launched our "Pioneer" initiative in 2005, which provides innovative start-ups with risk capital on a targeted basis. Since then, as part of its public service mandate, Zürcher Kantonalbank has invested approximately CHF 120 million in risk capital in 190 companies from the "Life Sciences", "ICT", "High-tech", "Products & Services" and "Cleantech" sectors. The current Pioneer portfolio comprises around 100 start-ups. During the year under review, a total amount of CHF 21.3 million in risk capital financing was approved for 53 promising start-ups. Zürcher Kantonalbank also stepped up its support for company founders. These efforts included a new partnership with the start-up platform "fasoon.ch" as well as an intensification of the bank's cooperation with the "Startzentrum" platform for advisory services through the launch of their new "Startbox" advisory offer for people interested in starting a business. We are also partners to the technology parks Technopark Zurich, Technopark Winterthur and BioTechnopark Schlieren, and the start-up centres "Blue Lion" in Zurich, "Runway" of the Zurich University of Applied Sciences (ZHAW) and "Grow" in Wädenswil, as well as a member of the "F10 Fintech Incubator & Accelerator". 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 go into operation in Dübendorf.

The bank fosters particularly innovative business ideas with the renowned ZKB Technopark Pioneer Award, which went to Twenty Green AG in 2017. In this case, the winning idea was a feed supplement that significantly reduces the use of antibiotics in livestock farming.

Start-ups in traditional sectors are part of our normal financing business. In the year under review, we provided CHF 36.2 million in funding to 93 company start-ups. We also work closely with the "GO! Ziel selbstständig" association, helping people to become freelance entrepreneurs with ZKB micro-loans.
At the other end of the business cycle, succession planning, we also play a responsible role. Not least due to demographic developments, thousands of SMEs in Zurich currently need to work out their succession plans. During this phase of their business, many companies and entrepreneurs require both financial and specialist support. As a bank that values sustainability, our priority is to ensure that the generational change at SMEs is a success. Over the past year, we expanded our offering further, focusing on these needs. We also sent out a mailing letter to nearly 2,600 entrepreneurs to alert them to our helpful guide and our new service, "Fragestunde Nachfolge", an hour-long consultation on the topic of succession planning. What's more, in the year under review we provided personal support through more than 100 advisory mandates (mandates, check-ups and consultations) and 24 acquisition loans to help ensure that the generational change proceeds smoothly.

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. In 2017, that included almost 4,200 non-cost-covering micro-loans of less than CHF 200,000 for SMEs. Capital

Composition of the Pioneer start-up portfolio



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

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 major provider of capital goods leases throughout Switzerland. Overall, in the joint distribution network with other cantonal banks, nearly 3,000 lease agreements with a volume of CHF 250 million were concluded.

Investments and pensions

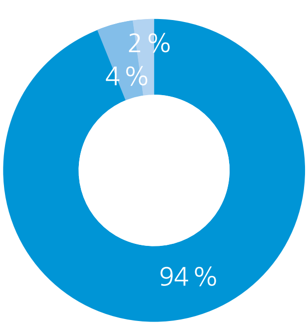
Investment policy with a new investment offering

Our success story is attributable to our risk / return-based investment advice which blends expert knowledge, customer service and state-of-the-art technology. This combination lets us offer clients the very best of everything: Client advisors cultivate the client relationship and match up clients' wishes with the knowledge of our experts. Tablets provide comprehensive support during the advisory consultation and help clients easily understand complex matters. Our Chief Investment Officer (CIO), together with his team of experts, is responsible for providing the strategy and analysis, as well as compiling a reference portfolio with an optimised risk / return ratio. Clients are given advice, taking into account their overall portfolio. Investment proposals are automatically generated based on the CIO's reference portfolio yet can also be adapted to reflect clients' individual wishes. The entire client portfolio is monitored on an ongoing basis. If any deviations are observed in the portfolio, the client is automatically notified via eBanking and can have suggestions for optimisation prepared either via eBanking or directly by a client advisor. Clients who delegate their investment decisions to Zürcher Kantonalbank also benefit from the vast expertise of our CIO and our other investment specialists. The mandate is always geared towards the current investment policy of Zürcher Kantonalbank and is structured both clearly and comprehensibly. The assets are continuously aligned with the current market situation by means of constant monitoring of the investment, strict risk control and efficient, market-based implementation. Clients receive a comprehensive report of their investments at regular performance meetings with their client advisor.

The CIO is responsible for defining the investment policy for retail clients and communicating this policy to them. Thanks to a clear investment philosophy and shrewd 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 uses a risk-based approach and is designed to exploit earnings potential at every stage, but always in line with the client's personal risk tolerance. This approach calls for a high degree of modularity as it makes it possible to maximise the degree of portfolio customisation and to structure portfolios transparently in accordance with specific client needs. There is a dedicated Investment Solutions team of around 50 economists, portfolio managers, mathematicians and investment specialists. Again in 2017, the media contacted us regularly to inquire about economic, geopolitical and investment-related topics. Many questions were related to the late cycle of the US economy, global synchronous economic recovery, record-low volatility on equity markets and nearly non-existent inflation. Other recurring topics included the monetary policy of central banks, Brexit terms and exchange rates. With respect to the Swiss economy, the focus in the area of currencies was naturally on the EUR / CHF exchange rate.

Our equity and bond research divisions cover the most companies across Switzerland, including well-known blue

Corporate clients by number of employees



Micro-businesses and small businesses
94 %

Medium-sized companies
4 %

Large companies
2 %

chips as well as many other small and medium-sized listed Swiss companies. The research division is responsible for a comprehensive range of publications and its equity market recommendations generated an above-average performance yet again. In addition, Zürcher Kantonalbank also supports platforms with events, such as roadshows and investor meetings, that promote information exchange between investors as well as small and medium-sized Swiss firms.

With a comprehensive line-up, we offer attractive products and services for private individuals, companies and institutional clients. The asset management business in particular has developed well in recent years. In the year under review, the number of new client acquisitions for asset management mandates was very encouraging. Our professional portfolio management services guarantee the use of a straightforward investment process and the application of a risk management system across all asset classes.

For retail clients, the mandates are implemented with active and passive core investments and can be combined with complementary satellite investments depending on the type of mandate. In the case of institutional investors, mandate implementation can be active, passive, rule-based or sustainable. Individual investment concepts are also available for professional clients.

Pension advice

The Swiss pension system was conceived with the goal of enabling the elderly, the disabled and, in case of death, any surviving dependants to maintain an appropriate standard of living. Pension funds are faced with major challenges in light of the persistently low interest rate environment and demographic trends. The rejection of the "Pension 2020" proposal by popular vote in September 2017 highlighted the growing importance of individual pension arrangements (pillar 3). As in 2016, we made further, significant expansions to our advisory services on the topics of pensions and financial planning in the year under review. Our clients appreciate the objective financial advice and support for their third phase of life. Moreover, our transparent explanation of their pension situation in case of a risk event (disability and death) occurring lays a solid foundation for safeguarding both their own financial situation and that of their dependants.

Pension advice for business owners includes additional advisory services related to occupational pensions and the implementation of succession plans.

Asset management

Zürcher Kantonalbank offers a comprehensive line-up of active, indexed and themed investment fund and asset management solutions. At the end of 2017, managed assets amounted to CHF 159.4 billion. The fund business as well as institutional and private asset management mandates were growth drivers.

In the year under review, our core tasks – the management of assets and client support – were once again backed up by the search for innovative investment solutions for our clients. 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 "Alternative Risk Premia Fund", we have made a new alternative investment tool available to institutional investors and occupational pension schemes. The fund optimally meets the need for added value, broader diversification and increased liquidity.

In 2017, we added a new product to the extensive range of pension solutions offered by Swisscanto Invest: the new pillar 3a pension fund with an equity weighting of 75 percent now allows pension savers to more effectively take account of their long investment horizon. With a share quota of 75 percent, the pension fund gives pension savers with a greater risk tolerance more opportunities to participate in the earnings opportunities offered by the equity markets.

To continue the strategic growth of the Swisscanto (CH) Real Estate Fund Swiss Commercial, a capital increase of CHF 75 million was carried out during the second half of 2017. The fund has a secured investment pipeline which can be used to make targeted additions to the portfolio.

The "Hypotheken Schweiz" (Swiss mortgages) investment group was successfully launched in October 2016 and has grown swiftly ever since. It currently has an investment volume of around CHF 400 million. Thanks to the use of a variety of different channels for granting mortgages, this investment vehicle is well diversified, both regionally and with respect to the type of use and borrowers.

Trading and capital markets

The trading strategy of Zürcher Kantonalbank is based on a clear client focus. In the year under review, the result from trading activities was CHF 334 million, 12 percent below the prior-year result. The market risks in the trading book (value-at-risk) amounted to CHF 11 million on average and were slightly lower year on year.

Zürcher Kantonalbank can look back on a solid trading result, which was generated through the broad-based support and contributions of the teams in every asset class. Trading benefited from the improved economic sentiment at the start of the year, which was triggered by both the US presidential election and greater volatility in advance of elections in France. Market momentum declined in the second quarter, however, which manifested itself in a drop in volatility. This resulted in narrower bid-ask spreads, particularly with respect to fixed-income security trading. The global economy continued to perform well in the second half of the year, and investors' expectations broadly matched the assessment of the current monetary policy situation by the Swiss National Bank, which adjusted its comments on the valuation of the Swiss franc relative to the euro. Coupled with the good economic outlook on corporate earnings, this led to very calm markets and a correspondingly low level of volatility. Compared to previous years, client activities were below average. Against this adverse backdrop, the result from trading activities clearly exceeded expectations.

Investors in the structured products business favoured yield optimisation and participation products. In terms of revenue from all listed products, Zürcher Kantonalbank is among the most important providers on the Swiss market.

Zürcher Kantonalbank was able to consolidate its leading position in the capital market business in the year under review. On the debt capital markets, the bank was the lead manager for the issue of a total of 52 bonds worth CHF 4,735 million, which puts it in second place in Switzerland in terms of total volume. Particularly encouraging was the fact that the bank was able to assist several issuers, including dormakaba Finance AG, Aéroport International de Genève, Partners Group Holding AG and Kantonsspital Aarau AG, with their first issue on the Swiss market and that the bank also succeeded in further strengthening its market position in this area with hybrid and structured financing issues (for Zürcher Kantonalbank, St.Galler Kantonalbank and others). Additionally, 30 transactions were carried out for the Central Mortgage Bond Institution of the Swiss Cantonal Banks, worth CHF 7,739 million. On the equity capital markets, the bank was the lead manager for a total of 22 transactions, 17 of which were for companies listed on SIX Swiss Exchange. Many placement transactions took place during the year under review. For example, Zürcher Kantonalbank assisted with three IPOs, including acting as sole lead manager for poenina holding ag. It also provided support to Basler Kantonalbank in its placement of participation certificates from its own portfolio and was involved in six capital increases. Share buybacks for varying sizes of companies from very small contractors to SMI corporations as well as various share swaps / splits complete the picture. Zürcher Kantonalbank also provided support with equity capital transactions to companies listed in the OTC segment of BX Berne eXchange and to fund management companies.

Employees

We fully embody our corporate culture. Our management approach focuses on establishing and maintaining a dialogue between employees and management. We promote the finding of a healthy work/life balance and take a systematic approach to health management. We are one of the largest providers of vocational training in the canton, enabling countless young adults to launch their careers. We conduct regular surveys which confirm that our employees have a high level of job satisfaction.

Our employees like working for us – a fact reflected by our high score on the commitment index, which is compiled as part of the employee surveys we conduct every two years. In 2017, we reached our highest score yet with 84 points, 12 points higher than two years ago. According to the latest survey, 73 percent of our employees would recommend working for us without any reservations. This is also reflected in our employees' high level of commitment to the bank and represents an increase of 10 percent on our previous score. At 81 percent, participation remained at practically the same level as in the previous survey.

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

Headcount

In 2017, the group's headcount fell by 1.1 percent from 5,173.3 to 5,117.2 full-time positions on an annual average. Due to the package of measures introduced to secure the long-term future of the Pension Fund of Zürcher Kantonalbank, a number of employees chose to leave the bank to take voluntary early retirement.

27.1 full-time positions are filled by employees employed on a temporary basis. 343 employees completed a banking or IT apprenticeship or high-school internship.

Performance & Development

In 2016, we bade farewell to the "Management by Objectives" (MbO) approach in which employees are assessed on the basis of set targets, and introduced our individually tailored, agile "Performance & Development" approach, which focuses on establishing a progressive dialogue between employees and management. This promotes mutual understanding and is in harmony with our trust-based corporate culture. The regular dialogue helps us to identify our strengths, the potential we could harness and any room for improvement. It also allows us to react quicker to changes in the market, continue to play a leading role and become a more appealing company to work for. In September 2016, we decided to do away with the MbO and roll out the new approach in the business units, which we did on an individual basis and without setting any major requirements. The great deal of positive feedback we received from all of the business units shows that "Performance & Development" is already well-established and has proved successful in day-to-day work. Due to the rollout of the "Performance & Development" system, management is taking an in-depth look at the issues of organisational development and maintaining and gaining skills. The employee satisfaction study also confirms the positive effect that "Performance & Development" has had on employees' satisfaction and commitment levels.

Young professionals

With 417 apprenticeships, we are one of the largest training institutions in the Canton of Zurich, offering vocational training in the areas of banking and information technology. In the year under review, 98 apprentices started their training with us. We take good care of our apprentices. Aside from receiving technical, specialist training, each apprentice is also supported by a supervisor who attaches great value to the development of their social and personal skills. This year, 99 apprentices sat their final exams, with 49 of them obtaining the Federal Vocational Baccalaureate and 97 successfully completing their apprenticeship. We were once again able to meet our main objective of continuing to employ apprentices in the bank after they have completed their apprenticeships, with 94.9 percent of those who graduated this year pursuing their careers within the bank and gaining a great deal of valuable professional experience.

In addition to apprenticeships, we also offer internships for vocational school and high school graduates, as well as a trainee programme for university graduates and graduates from universities of applied sciences. In 2017, there were 47 interns and 70 trainees working at the bank.

Basic training and further education

We find it extremely important that our employees continually expand their technical, methodological and social skills. We provide a wide range of internal training schemes and resources, as well as the opportunity to attend external training and development courses. In the year under review, we invested approximately CHF 10.6 million in basic training and further education. Overall, 639 employees benefited from external training.

We also offer additional further development opportunities for employees with potential. In the year under review, 33 high-achieving employees with potential were given the opportunity to develop their professional and personal skills through tailored development programmes.

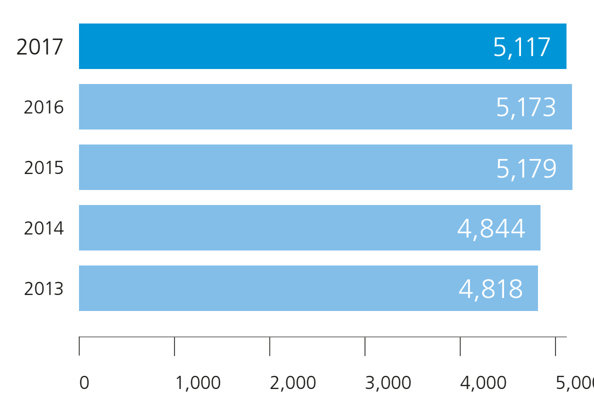
At the end of the year under review, we launched the discussion within the bank as to how we should address the topic of education and training in the future and how we can identify trends and stimuli. The aim is for our employees to be able to benefit from up-to-date and innovative offerings in the future, which they can also help to develop.

Employer commitment

Work / life balance

We want our employees to be able to find a healthy balance between their professional commitments and their personal lives. To this end, we offer flexible working models, financial support for childcare, reserved and subsidised crèche places and holiday clubs. Furthermore, employees can draw on tailored advice on matters relating to caring for elderly relatives or home nursing care. Men and women benefit from this support offering in equal measure. In total, 27.8 percent of our employees work on a part-time basis. We have also seen a slight increase in the number of employees working part-time in middle and senior management. The percentage of women working in senior management positions has likewise increased.

Group headcount (FTE) as at 31.12.2017



Health

After undergoing reassessment, we received confirmation in 2017 that we would be awarded the "Friendly Work Space" label, which is presented to companies for their systematic occupational health management programmes, for a further three years. Our occupational health promotion offerings are well received by our employees. These include annually recurring offerings, such as free health checks and flu vaccinations at all locations, as well as the promotion of sporting activities, such as the bike to work scheme. We also provide our employees with ergonomically designed workstations and, where necessary, additional resources. We constantly review our offering to ensure that our employees are provided with effective measures to help them stay fit and healthy. Since 2017, we have been offering seminars and workshops to help increase personal resilience and prevent burnout.

Integration

In the year under review, we transferred two employees we had hired as part of a reintegration programme to permanent positions. The two integrative positions were once again filled with people from outside of the bank who are now taking part in a work integration programme tailored to their needs.

Staff association

Zürcher Kantonalbank's staff association has supported employees for 100 years, holding negotiations with the Executive Board on the social, economic and legal interests of employees. Working in partnership with the Executive Board, the staff association has achieved a great deal in 2017, including redefining the participation rights, participating in various committees and providing advice in connection with reorganisations. The importance of trust in this partnership is demonstrated by the long established contacts across all business areas and hierarchical levels. This constitutes a good base on which to further develop employee representation to meet future needs after 100 years of hard work. In 2017, 38.0 percent of employees were members of the staff association, with 5 board members and 39 delegates making themselves available as points of contact.

Employee benefits

Our employees are compensated according to the total compensation approach. Their compensation consists of a base salary, variable compensation based on the performance of the group, as well as statutory allowances and additional voluntary benefits. Please see the Compensation Report from page 69 onwards.

In the year under review, the Pension Fund of Zürcher Kantonalbank covered 5,302 active insured persons and 2,205 retirees. As at 31 December 2017, it managed assets of approximately CHF 4.135 billion and had a coverage ratio of 113.1 percent (unaudited). For further information on occupational pensions and employee benefits, please see Note 13.

GRI key figures[1] Employees

		2017	2016	2015	2014	2013
Employment (parent company)						
Number of employees (full-time equivalent)	Number	4,866	4,910	4,879	4,704	4,673
Turnover rate	%	5.7	5.9	6.8	7.7	7.7
Change in the number of jobs	%	-0.9	0.6	3.7	0.6	-5.0
Health and occupational safety (parent company)						
Lost days per employee as a result of sickness or occupational and non-occupational accidents	Days/ employee	6.8	7.1	7	6.1	6.5
Basic training and further education (parent company)						
Internal basic training and further education per employee	Hours/ employee	22.8	20.5	19.3	14.2	12.7
Percentage of employees on external courses	%	13.1	11.3	10.4	14.6	14.3
Diversity and equal opportunities (parent company)						
Percentage of women in total workforce	%	37.3	37.7	38.1	38.5	39.1
Percentage of women in middle management	%	34.3	34.2	33.2	33.2	32.8
Percentage of women in senior management	%	11.9	11.2	10.6	10.2	9.8

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

Analysis of Financial Statements

Management summary

Increase in consolidated profit and operating result

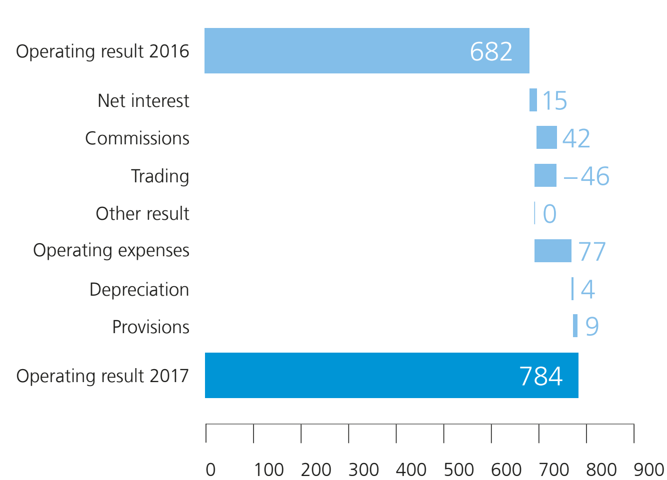
Zürcher Kantonalbank generated a consolidated profit of CHF 782 million in financial year 2017, which represents an increase of 2.8 percent or CHF 21 million year-on-year.

The operating result stood at CHF 784 million, approximately 15.0 percent or CHF 103 million higher than in the previous year.

Scope of consolidation

The broadly diversified group encompasses the parent company, Zürcher Kantonalbank, the largest cantonal bank and fourth-biggest bank in Switzerland. Zürcher Kantonalbank has positioned itself as a full-service bank with a regional base and national presence. Its primary focus is on clients in the Greater Zurich Area. The group also includes Swisscanto Holding Ltd., which operates mainly 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 is active in international private banking. For further information on the participation structure, please see Note 7 to the Financial Report.

Change in operating result (in CHF million)



Analysis of business development

Diversification as a success factor

Operating income increased by CHF 11 million to CHF 2,336 million. This result attests to the diversified business model of Zürcher Kantonalbank, which is also reflected in the income structure.

In the following section, we will look at the individual income statement items and their development in financial year 2017.

Interest operations

Despite the persistently negative interest rate environment, Zürcher Kantonalbank realised a net result from interest operations of CHF 1,202 million (2016: CHF 1,187 million), exceeding both the budget and the figure achieved last year. The expenses for default-related value adjustments and the losses from interest operations stood at CHF 9 million, slightly lower than in the previous year (2016: CHF 12 million). The Swiss National Bank charged the bank negative interest of CHF 132.6 million in 2017 (2016: CHF 83.4 million). Zürcher Kantonalbank passed on the negative interest in different ways on the interbank market and on the credit balances of certain major clients. Retail clients continue to not be charged any negative interest.

Commission business and services

The result from commission business and services can be broken down as follows: income from securities trading and investment activities, from lending activities and from other services, less commission expense.

The large increase in the result from commission business and services of 5.8 percent, or CHF 42 million, to CHF 770 million is primarily attributable to securities trading and investment activities. In comparison with the previous year, the latter grew by 5.1 percent to CHF 802 million and was particularly influenced by the main income components of wealth management and asset management. This performance was also supported by the positive market environment in financial year 2017.

Result from trading activities

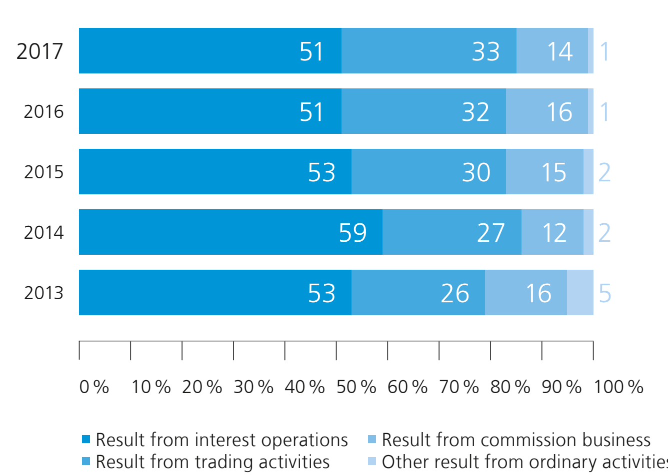
Trading activities continued to be mainly shaped by client transactions. The result from trading activities amounted to a respectable CHF 334 million in financial year 2017, which exceeded expectations and was the driving force behind the respectable result, even if it fell slightly short of the previous year's figure of CHF 379 million.

"Trading result from foreign exchange, bank notes and precious metals" once again provided the largest contribution to the result from trading activities with CHF 127.8 million or 38.3 percent, followed by "Trading result from bonds, interest rate and credit derivatives" which fell year-on-year (–39.2 percent). The result from equities and structured products (+26.3 percent) and the result from other trading activities (+6.7 percent) both increased. For further information, please see Note 32 to the Financial Report.

Operating expenses

Operating expenses in the year under review amounted to CHF 1,434 million (2016: CHF 1,511 million). This drop was mainly due to non-recurring personnel expenses recorded in the previous year to form provisions for pension benefit obligations. Thanks to the constant monitoring of costs, general and administrative expenses have remained at the same level over the last few years, falling by CHF 7 million to CHF 426 million in 2017. General and administrative expenses also included the compensation for the cantonal guarantee in accordance with the

Income structure of Zürcher Kantonalbank (in %)



Cantonal Bank Act, which amounted to CHF 23 million (2016: CHF 22 million).

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

Depreciation and provisions

Expenses in connection with value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets in the year under review amounted to CHF 120 million (2016: CHF 124 million).

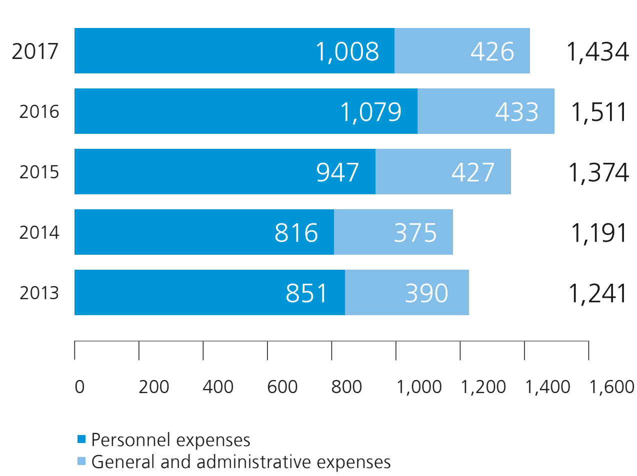
Zürcher Kantonalbank continuously assesses default risks as well as all other identifiable risks, and makes corresponding value adjustments or provisions where necessary. Changes in the item "Value adjustments for default risks and losses from interest operations" is a component of the result from interest operations. Further information can be found in the section "Interest operations".

The income statement item "Changes to provisions and other value adjustments, and losses" recorded a positive balance (net release) of CHF 2 million (2016: net creation of CHF 8 million).

Extraordinary result and taxes

Essentially non-recurring and non-operating results are deemed to constitute extraordinary results. In 2017, the extraordinary result amounted to CHF 8 million (2016: CHF 16 million), mainly due to the appreciation of participations (2017: CHF 6.6 million) and to gains from real estate disposals. Tax expenses amounted to CHF 11 million (2016: CHF 7 million).

Five-year comparison of operating expenses (in CHF million)



Analysis of the financial and capital position

Balance sheet expansion

The balance sheet total increased again in financial year 2017, by CHF 5.9 billion or 3.7 percent, and amounted to CHF 163.9 billion at the end of the year. On the asset side, this growth is mainly due to higher holdings of liquid assets (+ CHF 5.8 billion). On the liabilities side, the item Bonds recorded an increase of CHF 3.1 billion.

The asset side continues to be dominated by the items Mortgage loans and Amounts due from customers (53 percent). On the liabilities side, Amounts due in respect of customer deposits forms the largest item, representing approximately 49.7 percent of the balance sheet total.

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 41.1 billion at the end of the year under review (2016: CHF 35.3 billion). These deposits serve to meet the liquidity requirements, which in Zürcher Kantonalbank's case, are particularly high as it is a systemically important bank.

Zürcher Kantonalbank also holds high-quality fixed-interest securities as financial investments for the same purpose of meeting liquidity requirements. The portfolio of financial investments at the end of the year under review amounted to CHF 4.7 billion (end of 2016: CHF 4.2 billion).

Zürcher Kantonalbank's comfortable liquidity situation is also reflected in its liquidity coverage ratio (LCR) of 153 percent, which is significantly greater than the required 100 percent.

Amounts due from and 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, the amounts due from banks decreased slightly to CHF 4.5 billion, while amounts due to banks were slightly higher at CHF 35.4 billion.

The securities financing business presented a similar picture. While the amounts due from securities financing transactions amounted to CHF 14.3 billion, which represents a slight decrease (2016: CHF 14.9 billion), liabilities increased slightly to CHF 6.6 billion (2016: CHF 5.1 billion).

Amounts due from customers

This item includes all amounts due from non-banks that are not to be disclosed under another item. The amounts due at the end of 2017 totalled CHF 7.8 billion, up CHF 0.3 billion on the previous year.

Mortgage loans

Mortgage loans likewise recorded a slight year-on-year increase of CHF 1.8 billion, or 2.3 percent, to CHF 79.1 billion. Growth was therefore below the market.

Zürcher Kantonalbank continues to attach great importance to loan quality. In view of latent interest rate risks, the bank continues to calculate a client's ability to afford a property on the basis of an imputed mortgage interest rate of 5 percent.

Trading positions and derivative financial instruments

Zürcher Kantonalbank continues to focus its trading activities on client transactions. Trading positions totalled CHF 8.9 billion as at the end of the financial year (2016: CHF 9.5 billion).

For further information on the composition of the items Trading positions and Other financial instruments at fair value, please see Note 3 to the Financial Report. For further information on the composition of the item Replacement values of derivative financial instruments, please see Note 4.

Participations, tangible fixed assets and intangible assets

In 2015, Zürcher Kantonalbank completed the acquisition of the Swisscanto Group. In addition to a fixed purchase price, a variable component was also agreed. This depends on the contribution to results of the individual sellers and the general success of the product range. In 2016, a variable purchase price component in the amount of CHF 63 million was paid out, while CHF 53 million was paid out in 2017. These variable purchase price payments impacted goodwill, which is included in the item Intangible assets, as well as the ordinary, in this context annual depreciation amount.

The tangible fixed assets in the amount of CHF 775 million consist of real estate and other tangible fixed assets. Investments in tangible fixed assets in the financial year amounted to CHF 53 million. Further information on the participations, tangible fixed assets and intangible assets can be found in Notes 6 to 9 to the Financial Report.

Significant participations that are not consolidated, including the share of capital and voting rights, are disclosed in Note 7 to the Financial Report.

Amounts due in respect of customer deposits

The amounts due in respect of customer deposits include sight and time deposits in savings accounts and other client accounts, and totalled CHF 81.4 billion at the end of the year under review, which represents a slight increase on the previous year.

Cash bonds, bond issues and central mortgage institution loans

All maturing positions were replaced in full by issues, and additional capital was raised. Refinancing with longer-term loans once again increased by CHF 3.9 billion to CHF 21.9 billion at the end of 2017.

Equity

At group level, the equity reported in the balance sheet comprises the bank's capital, retained earnings reserves and foreign currency translation reserves as well as consolidated profit. Equity increased again on the back of the positive business result and the profit retained in the retained earnings reserves.

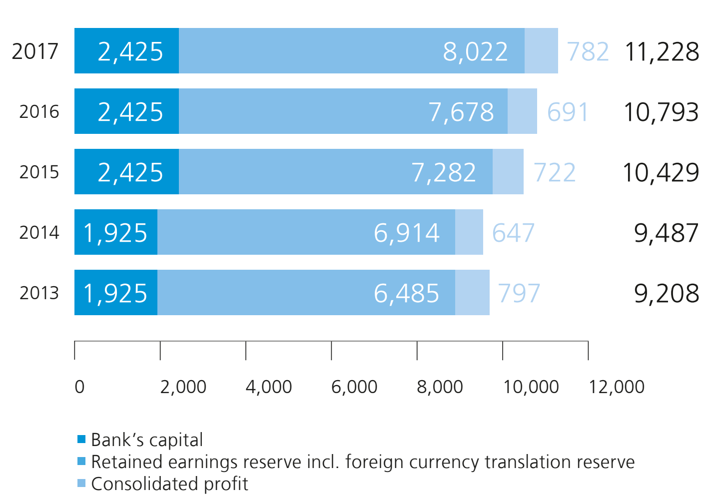
The bank's capital consists exclusively of endowment capital, which is made available to the bank by the Canton of Zurich for an unlimited term as equity. In 2014, the Cantonal Parliament approved a maximum endowment capital of CHF 3.0 billion. The Board of Directors can call on the unused CHF 575 million at any time to strengthen the capital base.

As at the end of 2017, the endowment capital remained unchanged at CHF 2,425 billion. The retained earnings reserve including currency translation reserve amounted to CHF 8 billion at the end of 2017. Together with consolidated profit, equity before appropriation of profit amounted to CHF 11.2 billion at the end of 2017.

Customers' assets

Assets under management increased by CHF 24 billion to CHF 288.8 billion in financial year 2017. Thereof, approximately CHF 16.7 billion can be attributed to performance (i.e. price gains/losses, interest, dividends and currency gains/losses). The net inflow of assets under management amounted to CHF 6.3 billion. Further information can be found in Notes 31a and 31b to the Financial Report.

Composition and development of equity (in CHF million)



Corporate Governance

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

Basic principles

Zürcher Kantonalbank is a responsible bank which engages in a constant, open and transparent dialogue with its stakeholder groups. As an institution under public law, we are accountable in particular to the Canton of Zurich, its residents and the Cantonal Parliament, which is ultimately responsible for the supervision of the bank. The bank voluntarily adheres to the corporate governance principles set out in Art. 663b^{bis} of the Swiss Code of Obligations. In doing so, it draws, insofar as this is possible for a public-law institution, on the SIX Swiss Exchange Directive Corporate Governance of 13 December 2016 and the economiesuisse Swiss Code of Best Practice for Corporate Governance of 29 February 2016. Unless otherwise specified, all stated information is valid as at 31 December 2017.

Structure and ownership

Zürcher Kantonalbank is a public-law institution wholly owned by the Canton of Zurich. In accordance with the Law on Zürcher Kantonalbank of 28 September 1997, version dated 1 January 2015 (Cantonal Bank Act), the bank's purpose is to contribute to addressing economic and social issues and support environmentally sustainable development in the Canton of Zurich. For information on the group structure and the scope of consolidation, please see page 6 and pages 42 and 86. For information on the development of equity, please see page 84.

Board of Directors and Committee of the Board

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

All of the members of the Board of Directors are Swiss citizens resident in the Canton of Zurich and are independent within the meaning of FINMA Circular 17/1 "Corporate Governance – Banks". No member has ever served on the bank's Executive Board. None of the part-time members of the Board of Directors 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, be a member of the Government Council, Cantonal Parliament or highest cantonal courts or work for the tax authorities.

The Cantonal Parliament of Zurich elects the members of the Board of Directors and the Committee of the Board for a four-year term of office. In doing so, it considers their personal characteristics such as assertiveness, credibility and integrity, and their suitability with regard to banking expertise, as well as regulatory requirements and proportional political representation. The professional criteria for each individual member of the Board of Directors are regularly reviewed by external specialists. Members are eligible for re-election. There are no restrictions on periods of office for members of the Committee of the Board. For the other members of the Board of Directors, the total period of office may not exceed twelve years. The term of office for members of the Board of Directors 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.

For the current legislative period (July 2015 – end of June 2019), the Board of Directors consists of the following persons:

Dr Jörg Müller-Ganz	Chairman Member of the Board of Directors	since 30.06.2011 since 01.07.2007
Dr János Blum	Deputy Chairman Member of the Board of Directors	since 01.07.2011 since 06.05.2002
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 30.06.2011
Walter Schoch	Member of the Board of Directors	since 01.07.2015
Anita Sigg	Member of the Board of Directors	since 30.06.2011
Rolf Walther	Member of the Board of Directors	since 01.10.2010
Stefan Wirth	Member of the Board of Directors	since 30.06.2011

Internal organisation

Board of Directors

Main responsibilities of the Board of Directors: It

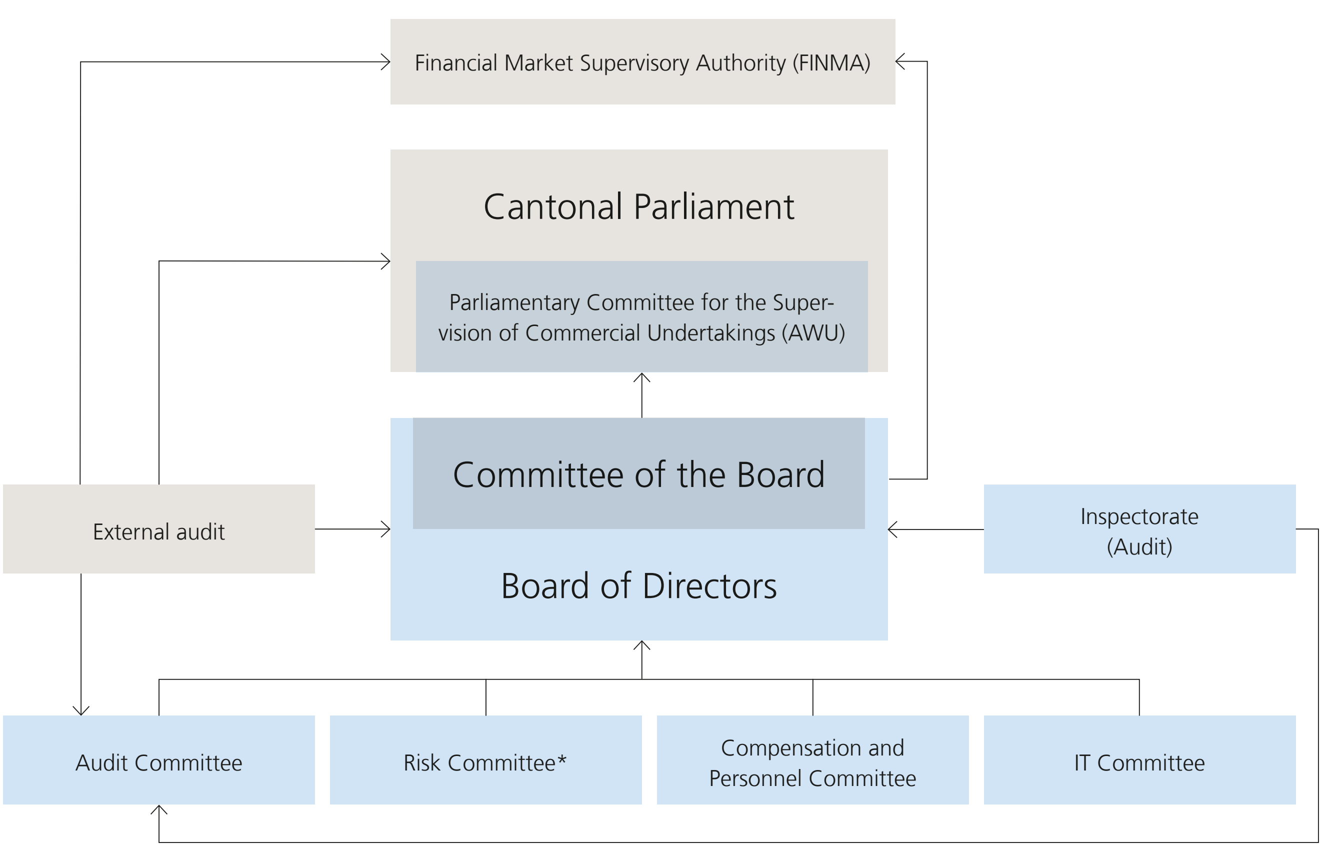
- defines the principles of the corporate strategy, the mission statement, the business strategy and the organisational structure
- approves the risk policy, equity strategy, bank-wide risk and global limits, and equity investments
- establishes and closes branches and establishes subsidiaries
- sets up an internal controls system (ICS)
- determines the group and financial planning
- issues 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 lending transactions that fall within the remit of the Committee of the Board
- approves the annual planning, annual financial statements and the annual report including the compensation report
- hires and dismisses the members of the Executive Board and their deputies, branch managers at senior level, and the Head of Audit and his/her deputy
- decides on the annual distribution of profit to the canton and municipalities

The Board of Directors bears ultimate responsibility for the management of the bank and for the supervision of the individuals entrusted with its operational management (section 15 of the Law on Zürcher Kantonalbank).

The Board of Directors follows a structured annual cycle and examines the group strategy and analyses Zürcher Kantonalbank's strengths and weaknesses, opportunities and risks as well as the associated strategic risks. This also includes the related planning, controlling and reporting activities, as well as regular examination of risk management, risk reporting, the regulatory audit report by auditors Ernst & Young, and measures and reports relating to the public service mandate and sustainability. The Board of Directors also takes decisions on loan and limit applications as well as other transactions that fall within its remit. In the year under review, the Board of Directors sought guidance on the effects of geopolitical events and conditions on the financial markets, and in particular on the prevailing foreign exchange and interest rate situations, and continued to follow developments regarding taxation treaties with the USA and other countries. In the year under review, the Board of Directors once again dealt with the emergency plan required due to the bank's systemic importance, as well as with the implementation of the requirements specified in FINMA Circular 2017/1 "Corporate Governance – Banks" and the associated audit of the internal regulations, and sought guidance on further developments relating to the regulatory requirements. It also dealt with the continued integration of Swisscanto into the group, the outsourcing of payment transaction services and the foreign business. Furthermore, the Board of Directors was briefed on the implementation of the adjustments to Zürcher Kantonalbank's employee pensions, the initial experiences with the introduction of "Performance & Development", the use of tablets in the provision of advisory services and the activities planned for the bank's anniversary celebrations in 2020.

In the year under review, the Board of Directors appointed three new branch managers and a new Deputy

Corporate governance at Board of Directors level



*up until 31.12.2017 Risk Management Committee

Head of Audit. Ten regular meetings were held; they were also attended by some or all members of the Executive Board as well as the Head of Audit. Representatives of Ernst & Young attended three meetings. The Board of Directors also held a two-day retreat to discuss strategic issues, namely the channels of the future. Subsequent to the meetings, it also regularly dealt with individual topics such as emerging risks in greater depth by holding workshops. Two members of the Board of Directors also made visits to nine 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 Committee
- Compensation and Personnel Committee
- IT Committee

The Board of Directors Committees have no decision-making powers; instead they have a preliminary consultative function, make proposals and give recommendations. Information on the work of the committees is presented at every meeting of the Board of Directors. Twice a year, the committee chairmen hold a joint coordination meeting with the Committee of the Board. Where possible, subjects concerning more than one committee are dealt with at joint meetings coordinated by the Committee of the Board. In addition, minutes of the individual committee meetings are submitted to all members of the Board of Directors.

Committee of the Board

Main responsibilities of the Committee of the Board: It
- prepares topics relating to strategy and corporate culture for submission to the Board of Directors
- scrutinises the decisions of the Executive Board and assures its direct supervision
- monitors the execution of resolutions passed by the Board of Directors
- approves unsecured loans in accordance with the delineation of powers laid down by the Board of Directors
- decides on the purchase and sale of real estate in addition to renovations and new building projects in accordance with the delineation of powers laid down by the Board of Directors
- approves the payment of invoices for building projects authorised by the Board of Directors
- takes decisions on providing assistance to economic, social and cultural institutions
- decides on the bank's membership of, and representation in, organisations
- consults the detailed monthly reports of the Board of Directors
- is informed of new lending transactions that fall within the remit of the Executive Board
- is informed of the course of business at participations
- hires, dismisses and promotes members of senior management
- reviews the legal, tax 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 checks the quality and efficiency 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. Under section 16 of the Law on Zürcher Kantonalbank, the Committee of the Board is responsible for the direct supervision of the Executive Board. In this context, the Committee monitors the implementation of decisions of the Board of Directors and compliance with statutory and regulatory requirements. Within the framework of such statutory and regulatory requirements, it takes decisions on various operational and electoral matters. The Committee of the Board ensures that the public service mandate is addressed by the Board of Directors and in this connection also bears responsibility for sustainability issues.

Jörg Müller-Ganz is Chairman; his deputies are János Blum and Bruno Dobler. 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 the corporate culture, the Committee of the Board, in accordance with statutory and regulatory competencies, dealt at its weekly meetings in the year under review with lending and limit transactions within its area of responsibility following the applicable regulations, as well as transactions involving potential reputation risk. Members of the Executive Board, the Head of Audit and representatives of the specialist units were regularly invited to attend these meetings. The Committee of the Board met several times in its function as a strategic committee for the Board of Directors. In addition, it continuously dealt with current geopolitical and national events and 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 development of important bank projects, such as "ZaZu" (future payment transactions), obtained guidance on the initial experiences gained with the implementation of "Performance & Development" and continued to be involved in the activities relating to the tax dispute with the USA. In addition, it looked at the succession planning for key individuals at the bank as well as the activities planned for the bank's anniversary celebrations in 2020, and approved the construction costs for the renovation of the bank's head office.

Besides deciding on any immediate measures to address objections in audit reports, the Committee of the Board closely oversaw the implementation of regulatory requirements, particularly in connection with FINMA Circular 2017/1 "Corporate Governance – Banks", which recently entered into force, and dealt with requests from the Financial Markets Supervisory Authority (FINMA) and the Cantonal Parliament addressed to the Board of Directors. The Committee of the Board maintained contact with FINMA, in particular in the context of developing the capital regime 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 and strengthened its collaboration with the Public Affairs specialist unit founded in 2015. The Committee of the Board maintained a personal dialogue with the Cantonal Parliament of Zurich – particularly the Parliamentary Committee for the Supervision of Commercial Undertakings (AWU) and executive board – as well as the State Council of Zurich, the executive authorities of towns and municipalities in the Canton of Zurich, and Zurich's representatives in the National Council and Council of States. The Committee of the Board held talks with the federal authorities on the revision of the Capital Adequacy Ordinance. It also decided on sponsorship commitments under the public service mandate. It cooperated with the Board of Directors Committees in preparing the substantive resolutions and personnel decisions as well as the basic principles for the statutory and strategic adjustment requirement on behalf of the Board of Directors and ensured their swift implementation. The Committee of the Board represented Zürcher Kantonalbank in regular discussions between bank chairmen in the context of the Association of Swiss Cantonal Banks as well as at a variety of representative cultural, political, environmental and business events. In accordance with an agreed timetable, the members of the Committee of the Board visited market areas and specialist units, subsidiaries 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 2017/1 "Corporate Governance – Banks". Within its area of responsibility, it prepares specialist resolutions of the full Board of Directors and, in this regard, is responsible in particular for critically analysing the published annual and interim financial statements of the parent company and group. In addition, the Audit Committee assesses the functionality of the internal control system, in particular with respect to compliance.

As at 31 December 2017, the Audit Committee of the Board of Directors comprised the following members: Mark Roth (Chairman), Amr Abdelaziz, René Huber, Hans Kaufmann and Henrich Kisker. The Head of Audit, Walter Seif, attends all meetings of the Audit Committee as a permanent guest.

The Audit Committee held a total of 13 meetings lasting several hours in 2017. All meetings with agenda items relating to financial planning, management and reporting were attended by the CFO. In relation to specific subject matters, the meetings were also regularly attended by the external auditor, the CEO, CRO and Head of Legal, Tax & Compliance. Depending on their importance, various agenda items were discussed in the presence of or with the Committee of the Board and the Risk Committee of the Board of Directors. The relevant management decision-makers were also involved in the discussions on a regular basis.

At each meeting, attention focused on financial reporting (monthly, quarterly, half-yearly and annual reports including disclosures) as well as the external and internal audit reports. A total of 46 internal and 26 external audit reports were discussed. This also involved the assessment of the appropriateness of measures taken by the entities audited, the approval of internal audit reports and reporting by Audit on the effective implementation of the measures decided.

At several meetings and at the annual workshop organised by Audit, key changes in the risk profile as well as the consequent setting of audit objectives for internal and external auditing were discussed, with particular attention paid to ensuring that Audit and the external auditors systematically cover the entire regulatory audit universe in a multi-year cycle.

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[1]
- critical assessment of the report on the regulatory audit and the comprehensive report on the financial audit
- assessment of the performance of Audit
- assessment of the performance and compensation of the external auditors

1 This task will be performed by the Risk Committee of the Board of Directors from 1 January 2018 onwards.

With regard to financial management, the Audit Committee of the Board of Directors also examined the bank's financial strategic parameters in the year under review. The Audit Committee paid special attention to ensuring that risks are adequately accounted for 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 included the business performance, annual and multi-year financial planning, and interest rate risk management with particular regard to the negative interest rate environment.

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

Compensation and Personnel Committee

The Compensation and Personnel Committee (EPA) assists the Board of Directors in connection with the human resources strategy, as well as personnel and compensation policy. It assists the Board of Directors by providing preliminary advice and issuing recommendations on these matters.

As at 31 December 2017, the Compensation and Personnel Committee comprised Peter Ruff (Chairman), Amr Abdelaziz, Bruno Dobler, Anita Sigg and Stefan Wirth.

The Compensation and Personnel Committee met on nine occasions in the year under review, with all meetings attended by the Head of Human Resources or his deputy. It also met once for a workshop on the topic of the compensation system, during which the basic principles of the compensation system were discussed. Depending on the topic, the CEO, CFO, Head of Institutionals & Multinationals and other representatives of the specialist units participated in the meetings. The members of the Compensation and Personnel Committee also attended a meeting of the Audit Committee in connection with the compensation report.

As is standard, the Compensation and Personnel Committee attended to the implementation of the human resources strategy as well as to, in particular, promotions, disciplinary cases, dismissals, and staff training and development. For the Annual Report, it reviewed the Compensation Report and dealt with the compensation of the Executive Board, trading-related bonuses, the implementation of the bank-wide salary and bonus system, and the parameters for the 2017–19 long-term deferred component. The Compensation and Personnel Committee discussed potential changes to the compensation system model and addressed the compensation systems used in subsidiaries. It also obtained guidance regarding salary trends on the market and dealt with 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 and the appointment of a new Deputy Head of Audit, and was briefed about succession arrangements for key individuals. The Compensation and Personnel Committee again examined measures aimed at increasing the percentage of women in management positions in the year under review and sought information about the implementation and effects of the new Zürcher Kantonalbank pension fund solution as well as on the future-oriented strategic personnel projects. Based on the realignment of the performance management approach, the Compensation and Personnel Committee also dealt with the discontinuation of MbO, of the performance value and of employee appraisals and looked into the new tools of Performance & Development.

Risk Committee

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

As at 31 December 2017, this Committee comprised Rolf Walther (Chairman), János Blum, René Huber, Hans Kaufmann and Anita Sigg.

The Risk Committee provides preliminary advice to the Board of Directors. It evaluates the quality, adequateness and effectiveness of the processes and procedures for identifying, assessing, limiting, controlling and monitoring and managing risks. It regularly consults standard reports, stress scenarios and risk reports. The quarterly report by the Chief Risk Officer giving an account of credit, market, liquidity, operating, compliance and reputation risks is an important tool for the Committee in terms of performing its role. It also takes note of changes relevant to risk, especially in connection with the mortgage business, international risks, a deterioration in the economic situation and other business areas. The Risk Committee keeps itself informed of credit exposures and limits, and periodically seeks information about lending and limit transactions that fall within the remit of the Board of Directors in particular. The Risk 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 of the Board of Directors, evaluates the completeness of the risk inventory, and submits a recommendation concerning risk-management policies and strategic risks to the Board of Directors. The Risk Committee of the Board of Directors also examines the findings in the risk-relevant audit reports and notes the minutes of the operating risk sub-committee.

The Risk Committee of the Board of Directors met on eight occasions in the year under review; almost all meetings were attended by the Chief Risk Officer, the Head of Risk Control and the Head of Audit. Depending on the subject matter, other representatives of the specialist areas also attended the meetings. A further two meetings took place in the context of the meetings of the Audit Committee of the Board of Directors. In the year under review, the Committee again dealt in detail with the effects of negative interest rates on balance sheet management. The Committee also kept itself up to date on the preparations for the introduction of the Internal Ratings Based approach. It was further promptly informed of the measures taken with regard to FINMA Circular 2017/1 "Corporate Governance – Banks" and the associated revision of the internal regulations, as well as on the new framework for group-wide risk management. The Committee was also briefed on the developments and measures taken regarding cyber risks in the context of operational risks. It followed international developments with respect to country risks and also paid particular attention to specific industries in Switzerland such as the electricity industry. In addition, it received regular reports on liquidity risk management, cluster risks, exposures to central counterparties and exception-to-policy transactions.

IT Committee

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

In 2017, the IT Committee comprised Walter Schoch (Chairman) as well as Jörg Müller-Ganz, Stefan Wirth and Henrich Kisker as members.

The IT Committee held five regular meetings as well as a training event, which was attended by the Head of Logistics. The IT Committee examined a total of 15 audit reports with relevance to IT. It was informed on a regular basis about the status of relevant findings from the external auditors. The IT Committee reviewed the 2016 IT annual report and examined strategic IT reports in detail on a quarterly basis. The Chairman of the IT Committee provided the Board of Directors with a report in each case. These reports included the key indicators for IT as well as the status of the most important IT programs. In this respect, the Committee obtained guidance on the most important programs 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 was thus briefed on a wide variety of issues, including business continuity management, identity access management, the restoration of data and cryptological measures in the bank's IT.

For the purpose of gaining an overview of important IT matters, the Committee dealt with the IT architecture, IT operations in the era of digitalisation and agile IT organisation.

Further focal points were the payment transactions of the future, the client interface program projects and the new investment offering. In addition, the IT Committee was also briefed on further strategic IT projects, such as the integration of the Swisscanto IT department and the modernisation of the integration platform. A training event was held to improve the Committee members' understanding of "Innovation".

Audit

Audit is responsible for the group's internal audit. It is headed by Walter Seif and as at the end of 2017 had 49 employees (FTE). In organisational terms, Audit reports directly to the Board of Directors and is independent of the Executive Board. It assists the Board of Directors and its committees in fulfilling their supervisory and control tasks by using a systematic, risk-oriented approach to evaluate the effectiveness of risk management and controls as well as of the management, performance and monitoring processes, and submitting recommendations for optimisation. Audit also checks the bank's compliance with regulatory provisions, internal directives and guidelines in all areas of the business. To perform its audit role, Audit has unlimited rights of inspection, information and access within the bank and group companies. Audit is not bound by any directives in substantive terms in the drafting of its reports, which are generally drawn up for the attention of the Audit Committee of the Board of Directors, the Committee of the Board (which can take immediate measures), the CEO, the relevant members of the Executive Board, other managers and the external auditors. Audit adheres to stringent quality guidelines and aligns its procedures with recognised international auditing standards.

External 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 (since 1989) as external auditors for 2017 and 2018. Rolf Walker is the lead auditor for the financial audit (and has been since 2011). Prof. Andreas Blumer is the lead auditor for the regulatory audit (and has been since 2013). In the year under review, Ernst & Young charged CHF 4.3 million (2016: CHF 5.1 million) for regulatory audits (basic and additional audits), the audit of the annual financial statements of the bank and group companies as well as the consolidated financial statements. Ernst & Young charged CHF 117,000 (2015: CHF 9,000) for additional consulting services and CHF 1,500 (2016: CHF 2,500) for audit-related services. Furthermore, Ernst & Young charged CHF 3.5 million (2016: CHF 2.8 million) for auditing collective capital investments via group companies. The external auditors work together with Audit and, to the extent permitted, base their work on that of Audit.

The tools used to inform the Board of Directors include reports on the regulatory and financial audits as well as reports on any interim audits and summary audits. The external auditors also attend meetings of the Board of Directors or its committees where necessary.

Cantonal Parliamentary Committee

Responsibility for the ultimate supervision of Zürcher Kantonalbank lies with the Cantonal Parliament. Its duties are set out in section 11 of the Law on Zürcher Kantonalbank. In addition to the election of the members of the Board of Directors and Committee of the Board, they include approving the guidelines on the fulfilment of the public service mandate, the regulations governing the compensation paid to members of the Board of Directors, and the annual financial statements and annual report of the bank, as well as discharging the governing bodies. The Cantonal Parliament of Zurich has charged the Parliamentary Committee for the Supervision of Commercial Undertakings (AWU) with ultimate supervision in accordance with section 12 of the Law on Zürcher Kantonalbank. This standing, supervisory Cantonal Parliamentary Committee inspects the minutes of the Board of Directors and, depending on the matter concerned, obtains information from the Chairman, the Committee of the Board, members of the Board of Directors, the Chief Executive Officer, other members of the Executive Board or representatives of the external auditors with regard to the course and results of the bank's business activities and any important events. As at 31 December 2017, this Cantonal Parliamentary Committee comprised the following members:

Beat Bloch, CSP	Chairman
André Bender, SVP	Member of the Committee
Reinhard Fürst, SVP	Member of the Committee
Barbara Günthard Fitze, EVP	Member of the Committee
Astrid Gut, BDP	Member of the Committee
Beat Habegger, FDP	Member of the Committee
Beat Huber, SVP	Member of the Committee
Prisca Koller, FDP	Member of the Committee
Roland Munz, SP	Member of the Committee
Cyrill von Planta, GLP	Member of the Committee
Eva-Maria Würth, SP	Member of the Committee

Focus of the risk strategy and risk profile

For information on the focus of the risk strategy and the risk profile, please see the Risk Report from page 120 onwards.

Information and control instruments

The Board of Directors and Committee of the Board are regularly briefed on the course of business and the main activities of the Executive Board as well as on significant developments. At the invitation of the Committee of the Board, members of the Executive Board attend meetings of the Board of Directors to inform its members on current issues and are involved in the strategy and planning. The Committee of the Board scrutinises all minutes of the meetings of the Executive Board, business units and committees. If required, the remaining members of the Board of Directors request additional information to the minutes. At least once every quarter, the Board of Directors receives a detailed briefing on the course of business, developments in key risk categories (including compliance risks) and the status of important projects. This also includes monitoring of reputation risks. The Legal, Tax & Compliance business unit reports directly to the Board of Directors and Executive Board in accordance with margin no. 78 FINMA Circular 17/1. The Anti-Money Laundering unit also reports to Legal, Tax & Compliance. Moreover, Zürcher Kantonalbank has an Audit unit that reports directly to the Board of Directors and is independent of the Executive Board. Audit assists the Board of Directors and the 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 Parliamentary Committee for the Supervision of Commercial Undertakings (AWU) of the Cantonal Parliament of Zurich monitors the fulfilment of the public service mandate in accordance with section 12 of the Law on Zürcher Kantonalbank. This is primarily based on an annual focus report, the theme of which changes annually depending on the AWU's requests as well as the annual report (including the sustainability report), which also accounts for the bank's fulfilment of the public service mandate.

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

For detailed information on the compensation of the members of the Board of Directors and the Executive Board and the process underlying the determination of the amounts to be compensated, please see the Compensation Report from page 69 onwards.

Public service mandate

As part of the strategy process, the Board of Directors, Committee of the Board and Executive Board deal on a regular basis with the subject of the public service mandate. They ensure that the bank's legal requirements and strategically defined targets are met. The Committee of the Board is assigned special responsibility for control and monitoring in this regard (sections 9 and 10 of the Guidelines for the Fulfilment of the Public Service Mandate). The central body is the internal Public Service Mandate Steering Committee, which is chaired by the officer responsible for the public service mandate. The committee advises and supports the bank's governing bodies and business units on all aspects of the public service mandate and reports annually on the fulfilment of the mandate to the supervisory committee of the Cantonal Parliament.

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

Executive Board

The Executive Board of Zürcher Kantonalbank has eight members. It is headed by Martin Scholl (Chief Executive Officer, CEO). Under section 17 of the Law on Zürcher Kantonalbank, the Executive Board is responsible for managing the bank's operations. The members of the Executive Board occupy an advisory role on the Board of Directors and the Committee of the Board. The Executive Board is responsible for business as well as human resources matters where they concern the management of the bank. With the exception of Audit, it is responsible for the appointment and dismissal of members of senior management.

The duties of the Executive Board are governed by the law and regulations. Its organisational structure is set out in the regulations governing the Executive Board (group and parent company) of 23 June 2011. Sections 8 to 10 of these regulations govern its joint area of responsibility. Under section 11 of the regulations, the Chief Executive Officer is responsible for managing the Executive Board, implementing the group mission statement and group strategy, the organisation and management guidelines, representing the Executive Board outside the bank, co-ordinating the business activities of the Executive Board, and ensuring that the duties assigned by the Board of Directors and the Committee of the Board are carried out. The Chief Executive Officer reports to the Committee of the Board and Board of Directors. 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. For information on compensation, profit-sharing and loans, please see page 76 of the Compensation Report. As at 31 December 2017, the Executive Board comprised the following members:

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

For further information about the individual members of the Executive Board, please see pages 65 to 67.

Areas of responsibility

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

Management contracts

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

Communication policy

Zürcher Kantonalbank pursues a transparent communication policy towards its stakeholder groups. The most important communication tools are the comprehensive annual and sustainability report, the half-yearly report and press conferences. The 2017 annual results were announced on 9 February 2018. The Annual Report is set to be approved by the Cantonal Parliament on 14 May 2018. The bank's half-yearly results are expected to be published at the end of August 2018.

Committee of the Board

Jörg Müller-Ganz

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

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

Jörg Müller-Ganz, who holds a doctorate in economics from the University of St. Gallen, was elected to the Board of Directors in 2007 and the Committee of the Board in October 2010. From 1992 to 2010, he worked as a consultant, CEO and partner at the Helbling Group. He also lectured on the subject of corporate finance at various universities. Prior to that, he worked at Bank Vontobel and Credit Suisse. He is a member of the IT Committee. He was appointed Chairman of the Board of Directors of Opo Oeschger AG, Kloten, in 2015.

János Blum

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

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

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

Bruno Dobler

Executive MBA HSG
Swiss national; born in 1952
Deputy Chairman

Key mandates:
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 AG, Eglisau; member of the Aviation Experts Group

Bruno Dobler, who holds an Executive MBA from the University of St. Gallen, was elected to the Committee of the Board in 2011. After his banking apprenticeship and before training to become an airline pilot, he completed further training with the former Union Bank of Switzerland. 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 member of the Cantonal Council from 1995 to 2003. Bruno Dobler is Chairman of the Board of Trustees of SanArena, Zurich, a member of the Compensation and Personnel Committee of Zürcher Kantonalbank, a member of the Board of Directors of B+D Beteiligungen AG, Eglisau, 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

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

Key mandates:
None

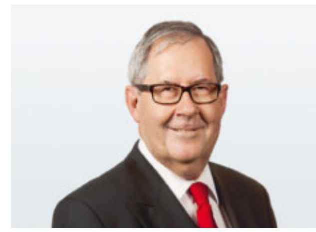
Amr Abdelaziz studied law at the University of Zurich and the University of Geneva, and completed a Master of European Law degree (L.L.M.) at the College of Europe in Bruges, Belgium. He was elected to the Board of Directors in 2015. From 2007 to 2015, he worked as a lawyer at CMS von Erlach Poncet AG,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

René Huber

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

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

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



Hans Kaufmann

lic. oec. publ.
Swiss national; born in 1948
Member of the Board of Directors

Key mandates:
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 and employer representative of the Pension Fund of Zürcher Kantonalbank, a member of the Audit Committee and a member of the Risk Committee of Zürcher Kantonalbank.

Henrich Kisker

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

Key mandates:
Member of the Boards of Directors and Executive Boards of the group companies of Senior plc, Rickmansworth (UK); Delegate of the Boards of Directors of NF Technology Holding AG, Zurich, and its subsidiaries, Schmid & Partner Engineering AG, Zurich, and ZMT Zurich MedTech AG, Zurich; Chairman of the Board of Directors of Pfisterer Ixosil AG, Altdorf (Canton of Uri) and of Pfisterer SEFAG AG, Malters (Canton of Lucerne)

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

Key mandates:
Member of the Boards of Directors of BTAG Management AG, Zurich, Budliger Treuhand AG, Zurich, and Treuhandgesellschaft Hebeisen Kälin AG, Zurich

Mark Roth has been a member of the Board of Directors since 2013. He has been a member of the Board of Directors of BTAG Management AG, Zurich, since 2017 and a member of the Boards of Directors of Budliger Treuhand AG, Zurich, and Treuhandgesellschaft Hebeisen Kälin AG, Zurich, since 2014. From 2011 to 2014, he acted as finance delegate within the Executive Committee of the SP Zurich City. He has been a member of the Executive Board and Head of Auditing for Budliger Treuhand AG in Zurich since 2009. Prior to this, he worked for Itema (Switzerland) Ltd. in Rüti and Ernst & Young in Zurich and Amman (Jordan). Mark Roth has chaired the Audit Committee of the Board of Directors since 2013.

Peter Ruff

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

Key mandates:
Chairman of the Board of Trustees of Grüningen Botanical Garden, Grüningen; member of the Board of Directors of Exploris AG, Zurich; partner in Unimex GmbH, Zug

Peter Ruff joined the Board of Directors in 2011. The certified engineer has been the owner and CEO of Exploris AG, which specialises in diagnostic solutions and data analysis in the healthcare industry, since 2002. From 1994 to mid-2017, he was 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 and employer representative of the Pension Fund of Zürcher Kantonalbank since 2015. Peter Ruff chairs the Compensation and Personnel Committee of Zürcher Kantonalbank.

Walter Schoch

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

Key mandates:
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 Committee of PET College Uster, Uster

The engineer and theologian Walter Schoch was elected to the Board of Directors in 2015. He was a member of the Cantonal Parliament from 2007 to 2015 and serves as Justice of the Peace in the municipalities of Bauma, Wila and Wildberg. After working for BBC Oerlikon as a project manager (1982 to 1983) and 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 headed the Swiss Mission Fellowship's office in Winterthur. He chairs the IT Committee.

Anita Sigg

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

Key mandates:
Member of the awards committee of Sustainable Harvest Switzerland, Zurich; member of the Board of Trustees of Ökopolis Foundation, Zurich

Anita Sigg has been a member of the Board of Directors since 2011. Since 2003, she has been a lecturer and project manager and most recently Head of the Centre for Banking and Finance at the Zurich University of Applied Sciences in Winterthur. An economist, she is also a trustee of the Ökopolis Foundation. She previously held various management positions at Zürcher Kantonalbank within the Corporate Centre and in sales management. Anita Sigg is a member of the Risk Committee and the Compensation and Personnel Committee of Zürcher Kantonalbank.

Rolf Walther

Graduate in business management
Swiss national; born in 1951
Member of the Board of the Directors

Key mandates:
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 and employer representative of the Pension Fund of Zürcher Kantonalbank, as well as Chairman of the Risk Committee of the Board of Directors of Zürcher Kantonalbank.

Audit

Stefan Wirth

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

Key mandates:
none

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

Walter Seif

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

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

Walter Seif has held the position of Head of Audit since 1 January 2015. He joined Zürcher Kantonalbank in April 2014. He previously worked in various internal audit roles at a major bank over a period of 23 years, 8 of which were spent in London.

Executive Board

Martin Scholl

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

Key mandates:
Member of the Board of Directors of the Swiss Bankers Association, Basel; member of the Board of Directors of the Association of Swiss Cantonal Banks, Basel; 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 Distribution for Commercial and Corporate Clients. Martin Scholl is a member of the Board of Directors of the Swiss Bankers Association; Deputy Chairman of the Association of Swiss Cantonal Banks, Basel; 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 and 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 Chairman of the Executive Board

Key mandates:
Chairman of the Supervisory Board of Zürcher Kantonalbank Österreich AG, Salzburg

Christoph Weber was appointed Head of Private Banking and a member of the Executive Board in 2008. Prior to that, he was Head of Private Banking North and a member of the Executive Board at Banca del Gottardo. From 2000 to 2006, Christoph Weber was a member of the Executive Board of AAM Privatbank AG, where he was responsible for sales to institutional and private clients and a member of senior management at Basellandschaftliche Kantonalbank (BLKB). Christoph Weber is Chairman of the Supervisory Board of Zürcher Kantonalbank Österreich AG, Salzburg.

Jürg Bühlmann

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

Key mandates:
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. He 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. Since 2011, he has also been head of the Real Estate unit within the area of Logistics.

Stephanino Isele

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

Key mandates:
Member of the Board of Directors of Swisscanto Holding Ltd. and Swisscanto Swiss Red Cross Charity Fund (SICAV), Zurich; member of the Boards of Trustees of Swisscanto Anlagestiftung, Zurich, and Swisscanto Anlagestiftung Avant, 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

Stephanino Isele has been Head of Institutionals & Multinationals since 1 April 2014. He joined Zürcher Kantonalbank on 1 January 2008 as Head of Trading, Sales & Capital Markets after holding various national and international roles at J.P. Morgan & Co. and Morgan Stanley in London, latterly as COO. He has been a member of the Boards of Trustees of Swisscanto Anlagestiftung, Zurich, and Swisscanto Anlagestiftung Avant, Zurich, since 2017, as well as 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, a member of the Advisory Board of Zurich University's Department of Banking and Finance (IBF) and a 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

Key mandates:
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 the Berufslehrverbund (BVZ), Zurich; member of the Board of Directors of the Swiss Banks' and Securities Dealers' Deposit Guarantee Association, Basel.

Heinz Kunz became Head of Corporate Banking in 2011. He had previously worked as Deputy Head of the unit and was responsible for key account management for corporate clients. After his banking apprenticeship at Zürcher Kantonalbank, he held various roles, including Head of Corporate Banking for the Unterland region and from 2001 Head of Sales for Business and Corporate Clients. Since 2016, he has been Chairman of the Board of Directors of Swisscanto Holding Ltd, and since 2015 of Swisscanto Pensions Ltd., Zurich. He is a representative of the Association of Swiss Cantonal Banks (ASCB), Chairman of the Swiss Bankers Association's Management Committee for Retail Banking, and a member of the Board of Directors of the Swiss Banks' and Securities Dealers' Deposit Guarantee Association (esisuisse), Basel. He is acting Chairman of the Board of Directors of Gasthof Gyrenbad AG, Turbenthal, and a member of the Board of Trustees of the Berufslehrverbund (BVZ), Zurich.

Roger Müller

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

Key mandates:
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, mainly in commercial lending and corporate banking. From 2000, he headed up credit office analysis in Corporate Banking.

Daniel Previdoli

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

Key mandates:
Chairman of the Board of Directors of Swisscanto Fund Management Company Ltd., Zurich; member of the Boards of Directors of Swisscanto Holding Ltd., Zurich, 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 having led the Retail Banking business unit. Prior to that, he spent 11 years with UBS as Head of Recovery Management Primaries between 1996 and 2002 and Head of Retail and Corporate Banking for the Zurich region. From 1987 until 1996, he held various positions with Credit Suisse, both in Switzerland and abroad. Daniel Previdoli is Chairman of the Board of Directors of Swisscanto Fund Management Company Ltd., Zurich. Since 2016, he has been a member of the Board of Directors of TWINT AG, Zurich, as well as a member of the Boards of Directors of Swisscanto Holding Ltd., Zurich, Aduno Holding AG, Zurich, Viseca Card Services SA, Zurich, and Homegate AG, Zurich, and Deputy Chairman of the Greater Zurich Area Foundation, Zurich.

Rudolf Sigg

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

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

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

Compensation Report

Our compensation model is geared towards the long-term financial interests of the bank and is in line with the market. It is based on Zürcher Kantonalbank's value proposition to its clients and the Canton, as well as the preservation of its good reputation. Our compensation policy is aimed at attracting and retaining highly qualified employees in the long term. The compensation plans are defined by the Board of Directors on the basis of the recommendation made by the Compensation and Personnel Committee.

Basic principles

As a public-law institution, Zürcher Kantonalbank frames its compensation policy in line with the corporate governance principles of the Swiss Code of Obligations, the SIX Swiss Exchange Directive Corporate Governance and the Swiss Code of Best Practice for Corporate Governance, insofar as this is possible and appropriate.

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

Competencies

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

Competencies and responsibilities

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

The Board of Directors also issues the Personnel and Compensation Regulations for Zürcher Kantonalbank in accordance with the requirements set out in the Swiss Financial Market Supervisory Authority (FINMA) Circular "Remuneration Schemes". The Compensation and Personnel Committee assists the Board of Directors in matters concerning the compensation policy. It prepares the corresponding transactions for the Board of Directors, gives its view on compensation issues that fall within the remit of the Committee of the Board and Board of Directors, and reviews the market conformity of compensation for the bank as a whole. The Compensation and Personnel Committee has the following duties and powers for determining compensation policy:

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

In the year under review, the Compensation and Personnel Committee took part in six meetings at which compensation-related issues at Zürcher Kantonalbank were discussed.

Compensation policy

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

Zürcher Kantonalbank's principles of compensation are based on the following objectives:

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

Benchmarks

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

Sign-on and severance payments

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

Compensation groups

Committee of the Board

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

Committee of the Board

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

Audit

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

Executive Board

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

2017 Agreed sign-on and severance payments

in CHF 1,000	No. of employees	Total	Paid in 2017	Amounts due in 2018 or later
Total sign-on payments	2	228	0	228
– of which Key Risk Takers	0	0	0	0
Total severance payments	0	0	0	0
– of which Key Risk Takers	0	0	0	0
Total compensation	2	228	0	228

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

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

Key Risk Takers
In accordance with FINMA guidance, one of the compensation groups is defined as Key Risk Takers, which is subject to the rules for deferred variable compensation. Key Risk Takers are:
- members of the Executive Board
- members of senior management with a substantial influence on the resources of the business and/or risk profile
- selected employees in Trading, Sales & Capital Markets who exceed a defined threshold in relation to variable compensation

A total of 82 employees are currently defined as Key Risk Takers, of which eight were members of the Executive Board in the year under review.

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

Components of compensation

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

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

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

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

Variable compensation component deferred for three years

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

Deferred variable compensation exposed to risk

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

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

Consideration of risks

Risk-adjusted variable compensation pool

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

The model for standard risk costs is based on the default rates for an entire economic cycle. This evens out the annual default risk costs, which would otherwise be irregular. By taking account of standard risk costs, the annual accounts include risk costs arising from current business volumes under the model. This means that management decisions to focus on specific products or

Overview of variable compensation

	Recipient	Due	Sunset clause	Performance, penalty clause	Performance-related[1]
Variable compensation	Permanent employees	Immediately	Yes	Dependent on individual performance; may be cancelled altogether in the event of misconduct.	Yes
Variable compensation component deferred for three years	Executive Board, senior management	Payment after 3 years	Yes	Amount of cash sum paid out on due date depends on development of economic profit.	Yes
Deferred variable compensation exposed to risk	Certain employees in Trading & Capital Markets	Payment 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

markets immediately incur the relevant risk costs. Using this procedure ensures that the basis for calculating the variable compensation pool is geared towards sustainable growth for the bank. As equity compensation, an interest rate at market terms is applied to the total amount of equity.

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

Determining the compensation for control functions

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

Determining the compensation of Key Risk Takers

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

As stated in the "Competencies and responsibilities" section (page 70), the Board of Directors determines the compensation of the members of the Executive Board at the request of the Committee of the Board. The Executive Board determines the compensation of Key Risk Takers in senior management at the request of the relevant member of the Executive Board. The Head of Institutional & Multinationals determines the compensation of Key Risk Takers in Trading, Sales & Capital Markets at the request of the head of the relevant organisational unit.

Risk adjustment in relation to deferred compensation

Deferred components of compensation are subject to further risk adjustment. They may lapse in full or in part if negative business developments or other predefined conditions occur (see "Variable compensation component deferred for three years" (page 73), "Deferred variable compensation exposed to risk" (page 73) and "Penalty clause" (page 74) for further details on possible reductions).

Risk overview

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

Penalty clause

Employees' variable compensation is not or only partially paid out at the bank's discretion if they have violated contractual, risk or compliance requirements before the date of the intended payment or if the bank has otherwise sustained losses due to their activity. Moreover, such employees are deemed "bad leavers" under the bank's compensation models and their entitlement to any deferred compensation lapses.

The breach of laws, codes of conduct, directives or internal rules may also lead to additional disciplinary measures, which may entail the reduction or forfeiture of variable compensation and/or of a deferred variable compensation component or similar elements of compensation. In the event of ongoing investigations or suspicion of misconduct that could lead to disciplinary measures, Zürcher Kantonalbank is entitled to delay payment of variable compensation and/or deferred compensation and similar elements of compensation until the matter has been definitively clarified or the sanction decided. Under the "bad leaver" rule, the long-term deferred component as well as the deferred variable compensation exposed to risk may lapse in full if Zürcher Kantonalbank parts company with the employee for certain reasons. This may in particular be the case where an employee has committed a breach of contract or caused material or non-material damage, or the relationship of trust between the employee and the bank has suffered lasting damage as a result of the employee's conduct.

Compensation in 2017

Total personnel expenses for all 4,866 (2016: 4,910) employees (full-time equivalents) amounted to CHF 965 million (parent company), which is slightly lower than in the previous year. Social security expenses also include payments to the bank's pension fund. All variable elements of compensation are charged to the financial year in which they are actually incurred.

Personnel expenses in 2017 (parent company)

in CHF million	2017	2016
Base salary[1]	527.1	527.4
Total amount of variable compensation	227.8	234.6
Social security contributions	178.1	170.7[3]
Other personnel expenses[2]	32.1	32.4
Total personnel expenses	965.0	965.1

1 Fixed compensation for permanent employees, temporary staff and governing bodies as well as compensation for loss of income and payroll-related costs
2 In particular costs for training, staff support, recruitment and premiums
3 Excluding costs for the support of transitional solutions in connection with the adjustments to the Pension Fund of Zürcher Kantonalbank on 1 July 2017

In its annual review of base salaries, Zürcher Kantonalbank decided to raise base salaries for 2016 by CHF 3.0 million (+0.6 percent) compared with the previous year, mainly for the purpose of bringing its employees closer in line with standard market rates as well as to better reward employees who assumed more responsibility or put in an outstanding performance. Total variable compensation fell by CHF 6.9 million. The total amount of deferred compensation was CHF 11.6 million.

Details of variable compensation (parent company)

	2017		2016	
	No. of employees[1]	in CHF million	No. of employees[1]	in CHF million
Total amount of variable compensation	4,866	227.8	4,910	234.6
▪ of which deferred compensation	82	11.6	91	13.9
▪ of which sign-on and severance payments	2	0.2	2	0.1

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 salary of CHF 18,000 plus CHF 6,000 compensation for each membership of a committee, as well as an annual expense allowance of CHF 6,000. A fixed attendance fee of CHF 700 per day and CHF 350 per half-day is paid for meetings and visits to branch offices and specialist units.

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

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

The total compensation of the individual members of the Executive Board takes account of their performance in their areas of responsibility. Total compensation for the Executive Board in 2017 amounted to CHF 13,170,096 (2016: CHF 12,705,215). The highest sum paid to a member of the Executive Board during the year under review was CHF 1,912,675 in salary and variable compensation plus CHF 207,249 in pension payments and other remuneration, and was paid to Martin Scholl, CEO (2016: CHF 2,070,097).

In addition, deferred components amounting to CHF 2,192,500 (2016: CHF 2,213,750) were set aside for the members of the Executive Board, of which CHF 365,000 were allocated to the highest paid member (2016: CHF 371,250); 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 13,792,500 (of which CHF 10,669,500 on employee terms). No loans on unusual terms were granted to related parties of the Executive Board.

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

	Year	Annual compensation	Attendance fee	Expense allowance[1]	Benefits in kind[2]	Employer contributions to pillar 2	Total	Loans as at 31.12. in CHF
Committee of the Board								
Jörg Müller-Ganz	2017	342,650	–	14,040	8,315	91,941	456,946	1,300,000
	2016	342,650	–	14,040	8,610	94,084	459,385	1,300,000
János Blum	2017	311,500	–	14,040	6,900	85,555	417,995	1,400,000
	2016	311,500	–	14,040	6,860	87,698	420,098	1,790,000
Bruno Dobler	2017	311,500	–	14,040	0	59,555	385,095	976,000
	2016	311,500	–	14,040	0	73,091	398,631	980,000
Other members of the Board of Directors								
Amr Abdelaziz	2017	30,000	26,250	6,000	–	–	62,250	0
	2016	30,000	28,700	6,000	–	–	64,700	0
René Huber	2017	30,000	23,450	6,000	–	–	59,450	5,197,500
	2016	30,000	27,650	6,000	–	–	63,650	10,640,000
Hans Kaufmann	2017	30,000	28,700	6,000	–	–	64,700	1,065,000
	2016	30,000	26,950	6,000	–	–	62,950	1,065,000
Henrich Kisker	2017	30,000	23,800	6,000	–	–	59,800	0
	2016	30,000	24,150	6,000	–	–	60,150	0
Mark Roth	2017	24,000	34,650	6,000	–	–	64,650	0
	2016	24,000	33,250	6,000	–	–	63,250	0
Peter Ruff	2017	24,000	31,150	6,000	–	–	61,150	0
	2016	24,000	32,200	6,000	–	–	62,200	0
Walter Schoch	2017	24,000	28,000	6,000	–	–	58,000	0
	2016	24,000	26,250	6,000	–	–	56,250	0
Anita Sigg[3]	2017	30,000	21,700	6,000	–	–	57,700	2,246,000
	2016	30,000	23,800	6,000	–	–	59,800	2,252,000
Rolf Walther	2017	24,000	27,650	6,000	–	–	57,650	0
	2016	24,000	27,650	6,000	–	–	57,650	0
Stefan Wirth	2017	30,000	25,200	6,000	–	–	61,200	0
	2016	30,000	23,450	6,000	–	–	59,450	0
Total	2017	1,241,651	270,550	102,120	15,215	237,050	1,866,586	12,184,500
Total	2016	1,241,651	274,050	102,120	15,470	254,873	1,888,164	18,027,000

1 For the members of the Committee of the Board, CHF 40 is attributable to rounding differences due to monthly payments.
2 Benefits in kind: child, education and family allowances (Agreement on Conditions of Employment for Bank Staff), loyalty bonuses, medical check-ups, contribution to ZVV/SBB season tickets
3 Loans: reduced community of heirs of Anita Sigg-Meyer: CHF 1,700,000; Anita Sigg alone: CHF 546,000.

Financial Report

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

The following rules apply to the tables:

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

Consolidated income statement

in CHF million	Notes	2017	2016	Change	Change in %
Result from interest operations					
Interest and discount income		1,608	1,453	156	10.7
Interest and dividend income from financial investments		49	58	–9	–15.5
Interest expense		–446	–311	–135	43.3
Gross result from interest operations	33	1,211	1,199	12	1.0
Changes in value adjustments for default risks and losses from interest operations		–9	–12	3	–24.0
Subtotal net result from interest operations		1,202	1,187	15	1.2
Result from commission business and services					
Commission income from securities trading and investment activities		802	763	39	5.1
Commission income from lending activities		52	55	–3	–5.5
Commission income from other services		141	134	7	5.1
Commission expense		–225	–225	–0	0.1
Subtotal result from commission and business services		770	728	42	5.8
Result from trading activities and the fair value option	32	334	379	–46	–12.1
Other result from ordinary activities					
Result from the disposal of financial investments		4	1	3	306.0
Income from participations		16	14	3	19.5
– of which, participations valued using the equity method		3	3	0	1.8
– of which, from other non-consolidated participations		13	11	3	24.0
Result from real estate		6	10	–4	–39.4
Other ordinary income		9	9	–0	–2.3
Other ordinary expenses		–4	–3	–1	33.5
Subtotal other result from ordinary activities		31	31	0	0.6
Operating income		2,336	2,325	11	0.5
Operating expenses					
Personnel expenses	34	–1,008	–1,079	71	–6.6
General and administrative expenses	35	–426	–433	7	–1.5
Subtotal operating expenses		–1,434	–1,511	77	–5.1
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–120	–124	4	–3.5
Changes to provisions and other value adjustments and losses		2	–8	9	–
Operating result		784	682	103	15.0
Extraordinary income	36	8	17	–9	–54.2
Extraordinary expenses	36	–0	–1	1	–98.6
Taxes	39	–11	–7	–3	46.4
Consolidated profit		782	691	91	13.2
Non-recurring personnel expense in connection with the creation of provisions for pension benefit obligations			70	–70	–100.0
Consolidated profit from operations		782	761	21	2.8

Consolidated balance sheet
as at 31 December

in CHF million	Notes	2017	2016	Change	Change in %
Assets					
Liquid assets		41,147	35,336	5,811	16.4
Amounts due from banks		4,457	5,364	–907	–16.9
Amounts due from securities financing transactions	1	14,326	14,889	–563	–3.8
Amounts due from customers	2	7,832	7,509	322	4.3
Mortgage loans	2	79,087	77,275	1,812	2.3
Trading portfolio assets	3	8,922	9,472	–550	–5.8
Positive replacement values of derivative financial instruments	4	1,535	1,933	–398	–20.6
Other financial instruments at fair value	3		20	–20	–100.0
Financial investments	5	4,740	4,156	584	14.1
Accrued income and prepaid expenses		281	360	–80	–22.1
Non-consolidated participations	6,7	130	179	–49	–27.4
Tangible fixed assets	8	775	804	–29	–3.6
Intangible assets	9	192	168	24	14.1
Other assets	10	458	520	–62	–11.9
Total assets		163,881	157,985	5,896	3.7
Total subordinated claims		188	181	7	3.7
– of which, subject to conversion waiver and/or debt waiver		31	44	–13	–29.8
Liabilities					
Amounts due to banks		35,393	34,137	1,255	3.7
Liabilities from securities financing transactions	1	6,623	5,084	1,539	30.3
Amounts due in respect of customer deposits		81,381	80,890	491	0.6
Trading portfolio liabilities	3	1,859	2,656	–797	–30.0
Negative replacement values of derivative financial instruments	4	867	1,551	–684	–44.1
Liabilities from other financial instruments at fair value	3,14	2,869	3,100	–231	–7.5
Cash bonds	15	191	235	–44	–18.8
Bond issues	15	12,419	9,329	3,090	33.1
Central mortgage institution loans	15	9,275	8,384	891	10.6
Accrued expenses and deferred income		634	683	–49	–7.2
Other liabilities	10	558	506	52	10.2
Provisions	16	585	636	–51	–8.1
Bank's capital	21	2,425	2,425	–	–
Retained earnings reserve	21	8,026	7,686	340	4.4
Foreign currency translation reserve	21	–4	–8	4	–46.5
Consolidated profit	21	782	691	91	13.2
Equity	21	11,228	10,793	435	4.0
Total liabilities		163,881	157,985	5,896	3.7
Total subordinated liabilities		1,513	1,298	216	16.6
– of which, subject to conversion waiver and/or debt waiver		1,513	1,298	216	16.6
Off-balance-sheet transactions					
Contingent liabilities	2,28	4,086	4,483	–397	–8.9
Irrevocable commitments	2	8,015	7,506	509	6.8
Obligations to pay up shares and make further contributions	2	233	233	–1	–0.3
Credit commitments	29				

Consolidated cash flow statement

in CHF million	Cash inflow 2017	Cash outflow 2017	Cash inflow 2016	Cash outflow 2016
Cash flow from operating activities (internal financing):				
Result of the period	782		691	
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	120		124	
Provisions and other value adjustments	69	120	123	71
Changes in value adjustments for default risks and losses	91	83	61	54
Accrued income and prepaid expenses	80			66
Accrued expenses and deferred income		49	105	
Other items		7	0	7
Previous year's dividend		351		326
Total	531		579	
Cash flow from shareholder's equity transactions:				
Share capital/participation capital/cantonal banks' endowment capital etc.				
Recognised in reserves	4		0	0
Total	4			0
Cash flow from transactions in respect of non-consolidated participations, tangible fixed assets and intangible assets:				
Non-consolidated participations		1	0	26
Real estate	0	32	10	21
Other tangible fixed assets		20	1	18
Intangible assets		58	0	68
Mortgages on own real estate				
Total		111		123

Consolidated cash flow statement
(continued)

in CHF million	Cash inflow 2017	Cash outflow 2017	Cash inflow 2016	Cash outflow 2016
Cash flow from banking operations:				
Medium and long-term business (> 1 year):				
Amounts due to banks		208		1,109
Amounts due in respect of customer deposits	452			257
Liabilities from other financial instruments at fair value	61			74
Cash bonds	2	46	45	81
Bond issues	6,647	3,744	3,433	1,749
Central mortgage institution loans	1,407	516	1,818	1,150
Loans of central issuing institutions				
Other obligations (other liabilities)	52		295	
Amounts due from banks	141		139	
Amounts due from customers	74			4
Mortgage loans		1,817		3,655
Other financial instruments at fair value				
Financial investments		316		365
Other accounts receivable (other assets)	62		18	
Short-term business:				
Amounts due to banks	1,463		444	
Liabilities from securities financing transactions	1,539		2,093	
Amounts due in respect of customer deposits	39		327	
Trading portfolio liabilities		797	546	
Negative replacement values of derivative financial instruments		684		516
Liabilities from other financial instruments at fair value		292		990
Amounts due from banks	766		509	
Amounts due from securities financing transactions	563		77	
Amounts due from customers		400	164	
Trading portfolio assets	736		733	
Positive replacement values of derivative financial instruments	398		963	
Other financial instruments at fair value	20		200	
Financial investments		215	529	
Liquidity:				
Liquid assets		5,811		2,839
Total		424		456

Consolidated statement of changes in equity

in CHF million	Bank's capital	Retained earnings reserve	Consolidated profit	Currency translation reserves	Total equity
Total equity as at 01.01.2016					
Opening amount	2,425	8,012		–8	10,429
Effect of any restatement					
Capital increase					
Capital decrease					
Increase in scope of capital consolidation					
Decrease in scope of capital consolidation					
Other contributions/other capital paid in					
Reclassifications					
Currency translation differences				–0	–0
Dividends and other distributions		–326			–326
Valuation adjustments with no income effect		0			0
Other allocations to (transfers from) the other reserves					
Consolidated profit			691		691
Total equity as at 31.12.2016	2,425	7,686	691	–8	10,793
Total equity as at 01.01.2017					
Opening amount	2,425	8,376		–8	10,793
Effect of any restatement					
Capital increase					
Capital decrease					
Increase in scope of capital consolidation					
Decrease in scope of capital consolidation					
Other contributions/other capital paid in					
Reclassifications					
Currency translation differences				4	4
Dividends and other distributions		–351			–351
Valuation adjustments with no income effect		0			0
Other allocations to (transfers from) the other reserves					
Consolidated profit			782		782
Total equity as at 31.12.2017	2,425	8,026	782	–4	11,228

Notes

a) Portrait

Zürcher Kantonalbank has served its clients for almost 150 years. Since the bank was founded in 1870, it has built up a leading financial market position, in particular in the Greater Zurich Area. The bank is continuously developing in order to best meet the ever-changing needs of its clients.

Broad diversification

The consolidated group includes as parent company the largest cantonal bank in Switzerland and the fourth-largest Swiss bank. Zürcher Kantonalbank has positioned itself as a full-service bank with a regional base. Its primary focus is on clients 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 its headquarters in Zurich. It offers its clients 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 environment sustainable development in the region. The broadly diversified Group also includes Swisscanto Holding AG with its subsidiaries (Swisscanto Management Company Ltd., Swisscanto Pensions Ltd., Swisscanto Funds Centre Ltd. and Swisscanto Asset Management International SA), which are mainly active in the asset management business, Zürcher Kantonalbank Finance (Guernsey) Ltd., which focuses on issuing structured investment products, and Zürcher Kantonalbank Österreich AG, operating in international onshore private banking. Please see Note 7 for detailed information on the participation structure.

Outsourcing

Zürcher Kantonalbank outsourced contract initiation for the conclusion of online mortgages via a portal – a "significant service" as defined in FINMA Circular 2008/7 "Outsourcing banks" – to Homegate AG, Zurich. Furthermore, Zürcher Kantonalbank outsourced the digitalisation of paper-based structured payment orders (ZKB Quickpay) to Swisscom (Schweiz) AG, Ittigen. Zürcher Kantonalbank has been processing payment transactions through the Swisscom processing centre since March 2017.

b) Accounting and valuation principles

Changes in accounting and valuation principles

No material changes in accounting and valuation principles occurred in the year under review.

General principles

Pursuant to the Listing Rules of the Swiss Exchange, the consolidated financial statements of the Zürcher Kantonalbank group are prepared in line with the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB). The consolidated financial statements provide a true and fair view of the financial position, results of operations and cash flows.

Scope of consolidation

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

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

Method of consolidation

Capital is consolidated in accordance with the purchase method. This involves offsetting the equity of the group companies at the time of acquisition or at the time of incorporation against the book value of the parent company's interest. Please refer to the section on "intangible assets" for details of the treatment of any goodwill. All the assets and liabilities as well as expenses and income of the subsidiaries to be consolidated are included in the consolidated financial statements. Intragroup transactions and intercompany earnings are eliminated on consolidation.

Period of consolidation

The period of consolidation corresponds to the calendar year.

Recognition of transactions

All business transactions are recorded and measured in accordance with recognised principles on the day they occur. Foreign exchange and precious metal transactions (spot and forward) concluded but not yet executed are booked in accordance with the settlement-day principle. These transactions are stated between the trade and settlement dates (value date) at replacement value under the corresponding item (Positive or negative replacement values of derivative financial instruments). Securities and options transactions are recognised in the balance sheet as of the trade date. Balance sheet fixed-term transactions are booked as of the settlement day.

Foreign exchange translation

Transactions in foreign currency are translated at the corresponding daily rate. Assets and liabilities in foreign currency, with the exception of bank notes, are translated at the average rate as at the balance sheet date. The bid rates on the balance sheet date are applied for foreign bank notes. Translation gains and losses are recognised under "Result from trading activities and the fair value option". The annual financial statements of Zürcher Kantonalbank Österreich AG are prepared in euros. The assets and liabilities are translated 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 a currency translation difference effect under the item "Currency translation reserve".

Foreign currency translation rates

	2017		2016	
	Rates on the balance sheet date	Annual average rates	Rates on the balance sheet date	Annual average rates
USD	0.9745	0.9797	1.0164	0.9873
EUR	1.1702	1.1160	1.0720	1.0892

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. The claims and liabilities:

- arise from the same type of transactions with the same counterparty,
- have the same or an earlier maturity of 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 items. Furthermore, positive and negative changes in book value with no income effect are offset in the compensation account.

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

Liquid assets

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

Amounts due from and to banks

Unless stated otherwise in a different item, amounts due from and to banks including bills of exchange drawn on the bank and money market instruments without the character of securities are stated in this item. These items are recognised 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 the section "Value adjustments for default risks and losses from interest operations").

Claims and liabilities from securities financing transactions

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

Repo transactions in the sense of a collateralised refinancing are entered in the balance sheet under Liabilities from securities financing transactions. Within the framework of securities lending, Zürcher Kantonalbank lends non-monetary assets, such as securities, on its own account and at its own risk (principal status). The repayment obligation for cash deposits received is also shown here. The bank conducts lending and borrowing transactions within the framework of trading operations. Loan transactions involving securities or money market instruments that are not collateralised with cash are not recognised in the balance sheet but reported in the Notes.

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

These items are recognised at nominal value. Book claims in precious metals are stated at market values. In accordance with the principle of prudence, appropriate value adjustments are made for default risks on existing positions and directly deducted from the relevant asset item (see the next section). Default risks on credit limits granted but not utilised on the balance sheet date are accounted for by means of provisions (see "Provisions"). Leasing arrangements are reported in the balance sheet under Loans, at their nominal value (or property value) less accumulated amortisation plus instalments due but not paid, interest on arrears and fees. The element of the leasing instalment representing the interest for the period in question is included in Interest income. The remaining amount of the leasing instalment represents the repayment element and reduces the claim amount. Explanations on the valuation of collateral for loans can be found in section e), under "Valuation of collateral".

Value adjustments for default risks and losses from interest operations

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

The amount of the value adjustments is determined using a systematic approach 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 amortisation, interest and commission payments are due for 90 days or more. The corresponding interest and commission is fully covered by provisions.

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

- Claims are valued individually taking into account the borrower's creditworthiness and any collateral at liquidation value.
- As soon as it is no longer assured that the loan repayments can be recovered, a value adjustment is made for the probable credit default (book value less estimated recoverable amount). Exposures rated as impaired are subjected to a creditworthiness test at least twice a year. If necessary, an appropriate value adjustment is made or existing ones are altered in line with the current circumstances.

Value adjustments for impaired loans are released if there is reasonable assurance of timely collection of the interest and principal in accordance with the contractual terms of the claim agreement. In the case of small risks in homogenous credit portfolios, the need for a value adjustment is assessed collectively (collective individual value adjustments).

Zürcher Kantonalbank does not set up a collective value adjustment for latent 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 consideration. Such value adjustments take into account any existing collateral as well as existing individual value adjustments and are reviewed at least every six months. If all or part of a claim is deemed uncollectible or in case of a debt waiver, it is written off accordingly.

Trading portfolio assets and liabilities

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

Valuation differences are recognised in the income statement. Interest and dividend income on securities trading portfolios are credited to the item "Result from trading activities and the fair value option". Results from securities lending and borrowing transactions are recognised under "Result from trading activities and the fair value option". The refinancing result for trading portfolio assets is calculated by offsetting the 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 portfolio assets 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). Replacement values of derivative financial instruments from client transactions resulting from contracts traded over-the-counter (bank as agent) are, in principle, accounted for. Exchange-traded contracts from client transactions are accounted for if no daily margining takes place. Replacement values from trading activities are accounted for under "Positive replacement values of derivative financial instruments" on the asset side or the item "Negative replacement values of derivative financial instruments" on the liability side. Valuation gains are recognised through income in the item "Result from trading activities and the fair value option".

Hedging transactions are also valued at fair value, except for the derivative financial instruments used to hedge interest rate risk within the scope of asset and liability management. In this case, value changes are recognised in the Compensation account with no income effect. The net balance of this Compensation account is included in "Other assets" or "Other liabilities". If the gains from the hedging transaction exceed those from the hedged underlying transaction, the hedge is considered ineffective. The excess part of the derivative instrument is treated like a trading transaction.

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

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

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

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

The amounts are accounted for under "Liabilities from other financial instruments at fair value". Investments by subsidiaries managed in the trading book and connected to self-issued structured products are stated at market value. 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 not intended to be held until maturity are also recorded based on the same rule.

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

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 "Result from the disposal of financial investments". Unrealised and realised gains in foreign currency components are booked under "Results from foreign exchange trading". Physical stocks of precious metals held as a financial investment are recognised at fair value.

Non-consolidated participations

Shares and other equity securities are considered as participations regardless of the share of voting rights held, provided they have been acquired as a permanent investment. Participations with voting rights of up to 20 percent are valued at lower of cost or market. Participations are subject to impairment testing at least once a year. Non-consolidated participations with voting rights of between 20 percent and 49.9 percent, together with the non-material (from an accounting perspective) majority participation in Zürcher Kantonalbank Representaçôes Ltda. are stated in accordance with the equity method in proportion to the equity held on the balance sheet date. The proportionate net annual result is included in the equity valuation and is recognised in the consolidated income statement as participation income.

Tangible fixed assets

Bank premises, including installations and fittings in rented properties, are recognised at cost value plus major investments and amortised on a straight-line basis over their estimated useful life. Other properties acquired as a long-term investment are also recognised at the lower of cost value less straight-line amortisation or capitalised earnings value. The remaining tangible fixed assets comprise IT systems and equipment, furniture, vehicles and machinery. Smaller acquisitions are charged in full to General and administrative expenses in the year of acquisition. Larger investments are capitalised and amortised in full over their estimated useful life on the basis of business criteria or, in the case of acquired data processing programs, generally over twelve months.

Estimated useful life for depreciation purposes (in years):

Land	no depreciation
Bank premises and other properties	
– Shell	max. 80
– Building envelope	max. 30
Installations (fitting out, technical installations)	max. 25
Fittings in rented properties	remaining duration of rental agreement*
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 recoverable amount. In the real estate sector, the recoverable amount is determined by a property valuer. For other tangible fixed assets, the recoverable amount is equivalent to the value-in-use, which is defined according to business criteria.

Intangible assets

Goodwill

If the purchase cost of an acquisition is greater than the net assets valued in accordance with standard group-wide accounting principles, the remaining amount is capitalised as goodwill. This goodwill is 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 acquisitions are charged in full to General and administrative expenses in the year of acquisition. Larger investments are capitalised and normally fully amortised over 12 months.

Provisions

Loss risks in connection with off-balance-sheet transactions (e.g. credit limits confirmed but not utilised) as well as other identifiable and foreseeable risks as of the balance sheet date are accounted for by means of appropriate, operationally necessary provisions.

Creation and dissolution takes place via the item "Changes to provisions and other value adjustments and losses".

Retained earnings reserve

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

Pension schemes

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

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

Please see Note 13 for additional information.

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

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 tax law (§61) and the federal law on direct taxation (§56). The subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. is a finance company under Companies Law in Guernsey. In terms of tax law, as of 1 January 2008 the company is deemed to be resident and is liable to pay tax. As it does not perform any banking activities that are subject to income tax or any other regulated transactions that are subject to tax, Zürcher

Kantonalbank Finance (Guernsey) Ltd. pays only a fixed "validation fee", which is included in General and administrative expenses. Zürcher Kantonalbank Finance (Guernsey) Ltd. is not liable for any federal, cantonal or municipal taxes in Switzerland.

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

Zürcher Kantonalbank Österreich AG is subject to Austrian corporation tax. Its taxable income is taxed at a fixed rate of 25 %.

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

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

c) Explanations on the risk management

For explanations on risk management in general and the treatment of the interest rate risk, other market risks and credit risks specifically, please refer to the statements in section l) "Risk report" (page 120ff).

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

The methods used to identify default risks and determine the need for value adjustments are set out in the section "Value adjustments for default risks, provisions and losses from interest operations" in the accounting and valuation principles. Further information can also be found in section l) Risk report, under the sub-section "Credit risks" (page 127ff).

e) Explanation on the valuation of collateral

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

Mortgage claims

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

The key valuation factors for a property assessment are:

- Land (macro and micro position, area) Building (construction standard, condition, room concept, sustainability)
- Type of use (private, commercial, non-profit)
- Legal regulations

- Situation under property law and contractual agreements (rights, encumbrances)
- Result from rented properties

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

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

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

The valuation of mortgage claims is reviewed on a regular basis. The frequency depends on the type of property. Special developments in the real estate market or 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. This reflects the expected volatility of the value of the property or the usability of the property. It is determined by the type of property (e.g. single-family house, commercial property), the type of use (owner-occupied, rented) and other property-specific criteria (e.g. location, size of property).

Other collateral

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

f) Explanation on the bank's business policy regarding the use of derivative financial instruments and the use of hedge accounting

Use of derivative financial instruments

Trading in derivative financial instruments must comply with business policy requirements. It may be conducted for the purposes of proprietary and client trading as well as for hedging, and comprises both over-the-counter (OTC) and exchange-traded transactions.

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

- Prices are set regularly via a stock exchange or an alternative organised exchange or according to recognised, transparent regulations determined in advance.
- The prices are published.
- The underlying instrument may only be physically delivered for participation rights, bonds, fund units and precious metals.

Explanations regarding the application of hedge accounting

Hedge accounting is a balance sheet depiction of collateral relationships. It aims to reduce the volatility of the results figures or equity capital stated and adjust them to the economic risk.

The 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 present value and an income consideration.

Contractually agreed client transactions, financial investments as well as debt financing in the banking book qualify as underlying transactions to be hedged. For the underlying instrument, a distinction is made between direct and indirect transactions. For direct transactions, Treasury has a direct influence on the timing and terms of the underlying instrument (purchase of financial investments, bond issues). Indirect transactions are understood to be all the transactions concluded by Sales and transferred to Treasury for interest risk management. For direct transactions, the result of individual transactions is taken into account, whilst for indirect transactions only the market value of the positions, based on changed market conditions (in particular the interest curve), is included. Appropriate derivative financial instruments (mainly interest swaps) are used for hedging purposes. For each hedging relationship, a review is undertaken to determine whether 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 result from the hedging transactions runs counter to the result of the underlying transactions and indicates the economic risk assumption and cover. The hedge effectiveness is measured every six months as of the balance sheet date at the end of June and the end of December. It is based on the effects on the result from the interest exposures of the underlying transactions and the hedging transactions. Specifically, the result from the underlying transaction is compared to the result from the hedging transaction as of the balance sheet date.

The cumulative absolute amounts from the monthly result from the underlying and hedging transactions are compared for the aggregate view of the hedge effectiveness over the six-month horizon. The hedge is regarded as effective as long as the result from the hedging transactions does not exceed the result from the underlying transactions. If the result from the hedging transactions, accumulated over six months, exceeds the result from the underlying transactions, the excessive part of the hedge is regarded as ineffective. The transactions responsible for the ineffectiveness of the hedge are then identified in the hedging portfolio. These transactions are derecognised from the hedging portfolio and allocated to the trading portfolio. This is carried out until the hedge is effective in the period under review. No ineffectiveness was recorded in the year under review.

g) Explanation on material events occurring after the balance sheet date

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

i) Information on the balance sheet

1 Breakdown of securities financing transactions

in CHF million	2017	2016
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	14,326	14,889
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	6,623	5,084
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	3,401	3,325
– of which, with unrestricted right to resell or pledge	3,401	3,325
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	43,042	43,457
– of which, repledged securities	140	358
– of which, resold securities	32,051	31,662

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

Overview by collateral

	Type of collateral			
in CHF million	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	70	1,043	6,836	7,949
Mortgage loans				
– Residential property	65,968	14	20	66,003
– Office and business premises	8,447	0	14	8,460
– Commercial and industrial premises	2,315	0	19	2,335
– Other	2,340	2	2	2,344
Total mortgage loans	79,070	17	55	79,142
Total loans (before netting with value adjustments) 2017	79,140	1,060	6,891	87,091
Total loans (before netting with value adjustments) 2016	77,397	925	6,626	84,948
Total loans (after netting with value adjustments) 2017	79,140	1,060	6,720	86,919
Total loans (after netting with value adjustments) 2016	77,347	920	6,518	84,785
Off-balance-sheet				
Contingent liabilities	73	1,527	2,486	4,086
Irrevocable commitments	1,047	66	6,903	8,015
Obligations to pay up shares and make further contributions			233	233
Credit commitments				
Total off-balance-sheet transactions 2017	1,120	1,593	9,621	12,334
Total off-balance-sheet transactions 2016	1,190	2,017	9,015	12,222

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

Information on impaired loans

Impaired loans in CHF million	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments[1]
2017	472	275	197	177
2016	468	285	183	169

1 Individual value adjustments of 100 percent of the net debt amount are normally made.
Individual value adjustment rates may apply in the case of major positions.

3 Trading portfolios and other financial instruments at fair value

Assets in CHF million	2017	2016
Debt securities, money market paper/transactions	4,517	5,468
– of which, listed[1]	4,413	5,314
Equity securities	2,724	2,472
Precious metals and commodities	1,682	1,532
Other trading portfolio assets		
Total trading transactions	8,922	9,472
Debt securities		
Structured products		
Other		20
Total other financial instruments at fair value		20
Total assets	8,922	9,492
– of which, determined using a valuation model	104	20
– of which, securities eligible for repo transactions in accordance with liquidity requirements	1,109	1,616

1 Listed = traded on a recognised exchange.

Liabilities in CHF million	2017	2016
Debt securities, money market paper/transactions	1,851	2,644
– of which, listed[1]	1,840	2,589
Equity securities	7	12
Precious metals and commodities	0	0
Other trading portfolio liabilities	0	0
Total trading transactions	1,859	2,656
Debt securities		
Structured products	2,869	3,100
Other		
Total other financial instruments at fair value	2,869	3,100
Total liabilities	4,728	5,756
– of which, determined using a valuation model	2,880	3,100

1 Listed = traded on a recognised exchange.

4 Derivative financial instruments (assets and liabilities)

	Trading instruments			Hedging instruments		
in CHF million	Positive replacement values	Negative replacement values	Contract volume[1]	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments						
Forward contracts including FRAs	0	0	1,793			
Swaps	4,745	3,967	265,845	416	713	17,462
Futures			21,535			
Options (OTC)	59	40	3,627			
Options (exchange-traded)	0	0	29			
Total	4,804	4,007	292,829	416	713	17,462
Foreign exchange/ precious metals						
Forward contracts	2,236	2,118	276,998			
Combined interest rate/currency swaps	407	738	4,231	154	124	1,866
Futures			74			
Options (OTC)	232	72	36,110			
Options (exchange-traded)						
Total	2,875	2,928	317,413	154	124	1,866
Equity securities/indices						
Forward contracts						
Swaps	1	7	319			
Futures			2,423			
Options (OTC)	130	40	1,436			
Options (exchange-traded)	108	99	5,796			
Total	240	146	9,974			
Credit derivatives						
Credit default swaps	6	13	599			
Total return swaps	3	0	153			
First-to-default swaps						
Other credit derivatives						
Total	9	13	751			
Other[2]						
Forward contracts						
Swaps	16	16	1,038			
Futures			952			
Options (OTC)	0	0	0			
Options (exchange-traded)						
Total	16	16	1,990			
Total before netting agreements						
2017	7,944	7,109	622,958	570	837	19,329
– of which, determined using a valuation model	7,944	7,109	–	570	837	–
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	–

1 The contract volume shows the amount of underlying on which a derivative is based or the notional amount underlying the derivative in accordance with the requirements in 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.
2 Includes commodities and hybrid derivatives.

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

Total after netting agreements[3] in CHF million	Positive replacement values (cumulative)	Negative replacement values (cumulative)
2017	1,535	867
2016	1,933	1,551

Breakdown by counterparty

Positive replacement values (after netting agreements)	Central clearing houses	Banks and securities dealers	Other customers
2017	79	407	1,048

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

5 Financial investments

	Book value		Fair value	
in CHF million	2017	2016	2017	2016
Debt securities	4,412	3,927	4,583	4,145
– of which, intended to be held to maturity	4,412	3,927	4,583	4,145
– of which, not intended to be held to maturity (available for sale)				
Equity securities	59	10	75	21
– of which, qualified participations[1]				
Precious metals	268	217	268	217
Real estate		1		1
Total financial investments	4,740	4,156	4,926	4,385
– of which, securities eligible for repo transactions in accordance with liquidity requirements	4,306	3,817	4,472	4,030

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

Counterparties by rating

in CHF million						
Moody's	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Ba1 – Ba3	Lower than Ba3	Unrated
Standard & Poor's, Fitch	AAA – AA–	A+ – A–	BBB+ – BBB–	BB+ – B–	Lower than B–	Unrated
Debt securities: Book values						
2017	4,030	37				346

All but CHF 0.5 million of debt instruments without a rating fulfil the conditions for high-quality liquid assets (HQLA) according to the Liquidity Ordinance (LiqV).
If two ratings exist with different risk weightings, the rating with the lower risk weighting is used.
If two or more ratings exist with different risk weightings, those ratings which correspond to the two lowest risk weightings are taken into consideration.
The higher of the two risk weightings is used. Top priority is given to the issue rating and second priority to the issuer rating.

6 Presentation of non-consolidated participations

in CHF million	Acquisition cost	Accumulated value adjustments/ changes in book value (equity valuation)	Book value end of 2016	Reclassifications	Additions	Disposals (inc. any FC differences)	Value adjustments	Changes in book value for participations valued using the equity method/ depreciation reversals	Book value end of 2017	Market value end of 2017
Participations valued using the equity method										
– with market value										
– without market value	30	–13	17				–2	1	17	
Other participations										
– with market value	56	–7	48	–52[1]				4		
– without market value	119	–6	113		1		–3	2	113	
Total participations[2]	205	–27	179	–52	1		–4	7	130	

1 Reclassified as financial investments.
2 No material impairment losses or partial or full reversals of impairment to be recorded.

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

Company name	Registered office	Business activity	Currency bank's capital	Bank's capital in CHF million	Zürcher Kantonalbank share of capital (in %)	Zürcher Kantonalbank voting rights (in %)	Held directly	Held indirectly
Fully consolidated participations								
Zürcher Kantonalbank Finance (Guernsey) Ltd.	Guernsey	Financial services	CHF	1	100.0	100.0	■	
Swisscanto Holding Ltd.[1]	Zurich	Participations	CHF	24	100.0	100.0	■	
Swisscanto Fund Management Company Ltd.	Zurich	Fund management	CHF	5	100.0	100.0		■
Swisscanto Pensions Ltd.	Zurich	Financial services	CHF	1	100.0	100.0		■
Swisscanto Funds Centre Ltd.	London	Financial services	CHF	15	100.0	100.0		■
Swisscanto Asset Management International S.A.	Luxembourg	Fund management	CHF	0	100.0	100.0		■
Zürcher Kantonalbank Österreich AG	Salzburg	Financial services	EUR	6	100.0	100.0	■	
Reported under non-consolidated participations:[2]								
– of which, participations valued using the equity method								
Technopark Immobilien AG	Zurich	Project planning, construction, maintenance	CHF	40	33.3	33.3	■	
– of which, from other non-consolidated participations								
Pfandbriefzentrale der schweizerischen Kantonalbanken AG	Zurich	Pfandbrief institution	CHF	1,625[3]	17.8	17.8	■	
Aduno Holding AG[4]	Zurich	Participations	CHF	25	14.7	14.7	■	
Subsidiaries not fully consolidated								
Zürcher Kantonalbank Representações Ltda.[5]	São Paulo	Representative office	BRL	0	100.0	100.0	■	

1 Swisscanto Holding Ltd. holds 100 percent of the shares in Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd., Swisscanto Funds Centre Ltd. and Swisscanto Asset Management International S.A.
2 All non-consolidated participations whose share of capital is more than 10 percent are shown. In addition, either the share of the participations in the bank's capital must be more than CHF 2 million or the book value must be more than CHF 15 million.
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 (2016: 165, 2015: 292); result for the period in CHF thousand (2016: 65, 2015: 14).

8 Presentation of tangible fixed assets

in CHF million	Acquisition cost	Accumulated depreciation	Book value at end 2016	Change to scope of consolidation	Additions	Disposals	Depreciation	Reversals	Book value at end 2017
Bank buildings	1,495	–729	766		32	–0	–63		735
Other real estate	8	–6	2				–0		2
Proprietary or seperately acquired software	0	–0							
Other tangible fixed assets	214	–179	36		20	0	–19		37
Tangible assets acquired under finance leases									
– of which, bank buildings									
– of which, other real estate									
– of which, other tangible fixed assets									
Total tangible fixed assets	1,718	–914	804		53	–0	–81		775

The insurance value of the real estate amounted to CHF 1,471 million.
The insurance value of the other tangible fixed assets amounted to CHF 524 million.

8 Presentation of tangible fixed assets (continued)

Operating leases

Leasing obligations not recognised in the balance sheet (in CHF million)	2017	2016
Due within 12 months	0	0
Due between 12 months and 5 years	0	0
Due after more than 5 years		
Total of leasing obligations not recognised in the balance sheet	0	0
– of which, cancellable within 1 year		

9 Presentation of intangible assets

in CHF million	Cost value	Accumulated amortisation	Book value End of 2016	Changes to scope of consolidation	Additions	Disposals	Amortisation	Reversals	Book value End of 2017
Goodwill	212	−47	165		53		−29		190
Patents									
Licences	43	−40	3		4	0	−5		2
Other intangible assets	0	−0							
Total intangible assets	255	−87	168		58	0	−34		192

10 Other assets and liabilities

	Other assets		Other liabilities	
in CHF million	2017	2016	2017	2016
Compensation account	188	315		
Deferred income taxes recognised as assets	9	9		
Amount recognised as assets in respect of employer contribution reserves	1	1		
Amount recognised as assets relating to other assets from pension schemes				
Negative goodwill				
Settlement accounts	71	46	387	355
Indirect taxes	154	118	40	44
Other	35	31	131	108
Total	458	520	558	506

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

	2017		2016	
in CHF million	Book value	Effective commitment	Book value	Effective commitment
Pledged/assigned assets				
Amounts due from banks	1,523	1,506	2,212	2,189
Amounts due from customers	1,419	1,368	1,692	1,643
Mortgage loans	11,725	9,275	10,101	9,642
Trading portfolio assets	11	11	50	50
Financial investments	15		16	
Total pledged/assigned assets	14,694	12,160	14,072	13,524

No assets are subject to reservation of ownership.
Note 1 shows instruments serving as collateral for which a right of resale or pledging has been granted in connection with securities financing.

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

Liabilities to own pension schemes from balance-sheet transactions — in CHF million	2017	2016	Change
Amounts due in respect of customer deposits	166	104	62
Cash bonds			
Negative replacement values of derivative financial instruments	10	11	–0
Accrued expenses and deferred income		0	–0
Total	176	115	62

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

13 Information on pension schemes

The Zürcher Kantonalbank pension fund is a public-law institution and is a separate legal entity. The purpose of the pension fund is to insure the bank's employees against the economic consequences of age, death and disability. The pension fund's pension plan comprises three different pension vehicles. The annuity plan insures the basic salary (annual salary) according to the combined defined benefit/defined contribution principle[1]. The capital plan insures any paid variable compensation (bonus) subject to AHV. The capital plan is also based on a combined defined benefit/defined contribution principle. The third vehicle – the supplementary account – enables insured individuals to pre-finance the reduction in benefits on early retirement between the ages of 58 and 64.

The management committee of the pension fund decided to introduce a package of measures as of 1 July 2017 to ensure the long-term maintenance of a solid level of retirement benefits. The main points are:

- increasing the retirement age to 64 for men and women
- changing from period to generation life tables
- reducing the technical interest rate from 3 % to 2 %
- reducing the conversion rate for future pensioners (now dependent on year of birth)
- reducing the spouse/partner pension entitlement from 70 % to 60 %

1 Retirement benefits are based on the individually accumulated savings assets, while death and disability benefits are calculated as a percentage of the insured salary. Disability pensions are paid for life, and the pension is recalculated when the insured individual reaches normal retirement age.

- increasing the savings contributions for those aged 35–54
- reducing the age at which savings contributions start to 21
- increasing the capital option in the pension plan from 50 % to 100 %
- a transitional solution for insured members born from 1964 onwards

The premiums required for these plans constitute a component of personnel expenses. Contributions to the annuity and capital plans are funded jointly by the insured individual and the bank. The supplementary account is funded exclusively by the insured individuals.

An additional plan is operated in the form of a separate trust, the Marienburg Foundation of Zürcher Kantonalbank, for the senior management of affiliated employers. Structured on a defined contribution basis, this solution insures the element of the base salary in excess of a specific minimum amount. The Marienburg Foundation of Zürcher Kantonalbank is funded jointly by the insured individuals and the bank. However, employer contributions for salary components insured in the Marienburg Foundation are lower than those in the pension fund after the age of 45. Also, unlike the pension fund, the Marienburg Foundation does not pay pensions, only retirement capital. Investment and longevity risk are therefore borne by the retired members.

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

- Zürcher Kantonalbank's Grüningen Botanical Garden Trust
- Zürcher Kantonalbank pension fund
- Zürcher Kantonalbank's SanArena Trust
- Swisscanto Fund Management Company Ltd.
- Swisscanto Pensions Ltd.
- Zürcher Kantonalbank

Coverage ratio pursuant to Article 44 BVV2

in %	Coverage ratio as at 31.12.2017 (unaudited)	Coverage ratio as at 31.12.2016 (audited)
Zürcher Kantonalbank pension fund	113	113
Marienburg Foundation of Zürcher Kantonalbank (solution for senior management)	113	110

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.

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

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

13 Information on pension schemes (continued)

a) Employer contribution reserves (ECR)

	Nominal value	Waiver of use	Addition/withdrawal	Net amount	Net amount	Influence of ECR on personnel expenses	Influence of ECR on personnel expenses
in CHF million	End of 2017	End of 2017	End of 2017	End of 2017	End of 2016	2017	2016
Zürcher Kantonalbank pension fund	1		−0	1	1	0	−0
Total	1		−0	1	1	0	−0

b) Economic benefit/obligation and the pension expenses

	Over-/underfunding	Economic interest of the bank		Change in economic interest versus previous year	Contributions paid	Pension expenses in personnel expenses	
in CHF million	End of 2017	2017	2016	2017	2017	2017	2016
Employer-sponsored funds/employer-sponsored pension schemes							
Pension plans without overfunding/underfunding[1]					120	120	183
Pension plans with overfunding							
Pension plans with underfunding							
Pension schemes without own assets							
Total					120	120	183

1 Including the creation of provisions for pension benefit obligations (2017: CHF 8 million/2016: 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					
	Without oDC		78			78
Equity securities	With own debenture component					
	Without oDC		2,433			2,433
Foreign currencies	With own debenture component					
	Without oDC		118			118
Commodities/precious metals	With own debenture component					
	Without oDC		42			42
Loans	With own debenture component					
	Without oDC		163			163
Real estate	With own debenture component					
	Without oDC					
Hybrid instruments	With own debenture component					
	Without oDC		35			35
Total 2017			2,869			2,869
Total 2016			3,100			3,100

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

Cash bonds

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2017	191	0.80	2018–2027
31.12.2016	235	0.97	2017–2026

Maturity structure in CHF million	2018	2019	2020	2021	2022	after 2022	Total
Cash bonds	29	27	16	33	39	47	191

Bonds and mandatory convertible bonds

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2017 (Issuer: Zürcher Kantonalbank)	12,419		
– of which, non-subordinated	10,906	0.74	2018–2044
– of which, subordinated without PONV clause [1]			
– of which, subordinated with PONV clause	1,513	2.18	2025–perpetual
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

Maturity structure in CHF million	2018	2019	2020	2021	2022	after 2022	Total
Bonds	4,540	124	524	1,090	1,302	4,839	12,419

1 Point of non-viability (PONV).

Central mortgage institution loans

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2017	9,275	0.69	2018–2030
31.12.2016	8,384	0.79	2017–2030

Maturity structure in CHF million	2018	2019	2020	2021	2022	after 2022	Total
Central mortgage institution loans [1]	1,126	742	962	794	616	5,035	9,275

1 Pfandbriefzentrale der schweizerischen Kantonalbanken AG loans.

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

in CHF million	Balance at end of 2016	Changes to scope of consolidation	Use in comformity with designated purpose and reversals	Reclass-ifications	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at end of 2017
Provisions for deferred taxes	0							−0	0
Provisions for pension benefit obligations [1]	70		−36				8		42
Provisions for default risks	144		−7				59	−65	131
Provisions for other business risks [2]	221		−2		−6			−0	213
Provisions for restructuring [3]	0		−0					−0	
Other provisions [4]	201		−0		−5		2	−0	198
Total provisions	636		−44		−10		69	−66	585
Value adjustments for default and country risks	169		−11		0	3	88	−72	177
– of which, value adjustments for default risks in respect of impaired loans/receivables [5]	169		−11		0	3	88	−72	177
– of which, value adjustments for latent risks									

1 In line with its sustainable human resources policy, the Board of Directors decided in December 2016 that the bank would assume certain costs for the financing of transitional solutions in connection with the realignment of the pension fund to the changed environment. Owing to the recalculation, CHF 8 million was added to provisions in the year under review and recognised under personnel expenses.
2 Value adjustments and provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
3 Provisions for restructuring were made in connection with the acquisition of the Swisscanto group and comprise personnel measures and various integration costs. The restructuring provisions were used in full in the year under review.
4 Other provisions primarily consist of provisions for litigation and provisions for employees' holiday credits.
5 Default risks consist primarily of counterparty risks, for which value adjustments of 100 percent of the net debt amount are generally made. Individual value adjustment rates may apply in the case of major positions.

Recoveries from amounts due derecognised in previous periods are reported directly in Changes in value adjustments for default risk and losses from interest operations (2017: CHF 13 million/2016: CHF 3 million).
Zürcher Kantonalbank is aware that the United States Department of Justice (DOJ) and the United States Internal Revenue Service (IRS) are investigating Zürcher Kantonalbank's cross-border business with US clients.
These proceedings have been under way since September 2011, and the situation has not changed since last year. The bank is continuing to cooperate with the competent authorities and is working towards reaching an agreement. It is still unclear when the proceedings will be completed.
Zürcher Kantonalbank evaluates all its risks on a constant basis, including risks in this connection. Where necessary, it takes 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 and 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 rules for banks (ARB) is only made by the parent company (page 158).

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

Neither Zürcher Kantonalbank nor its subsidiaries have employee participation schemes.

19 Amounts due from/to related parties

	Claims		Liabilities	
in CHF million	2017	2016	2017	2016
Holders of qualified participations	2	4	545	592
Group companies				
Linked companies	596	547	1,258	1,629
Transactions with members of governing bodies	21	18	25	28
Other related parties				

Affiliated companies are public-law institutions of the respective canton or public-private enterprises in which the canton holds a qualified participation.
On- and off-balance-sheet transactions with related parties are conducted at usual market conditions, with the exception of loans to members of governing bodies. Loans to governing bodies are granted on employee terms in some cases.

This primarily involved the usual balance sheet banking business, i.e. it was mainly amounts due from and due to customers. The totals above also include securities items and claims and liabilities from transactions in derivatives (positive and negative replacement values).
The off-balance-sheet transactions with related parties in the amount of CHF 234 million (2016: CHF 205 million) primarily include irrevocable loan commitments and other contingent liabilities.

20 Disclosure of holders of significant participations

The disclosure pursuant to the accounting rules for banks (ARB) is only made by the parent company (page 159).

21 Disclosure of own shares and composition of equity capital

in CHF million	2017	2016
Bank's capital	2,425	2,425
Retained earnings reserve	8,026	7,686
Foreign currency translation reserve	−4	−8
Consolidated profit	782	691
Total equity	11,228	10,793

The bank does not hold any of its own shares.

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

The disclosure pursuant to the accounting rules for banks (ARB) is only made by the parent company (page 160).

23 Maturity structure of financial instruments

in CHF million	At sight	Callable	Due Within 3 months	within 3 and 12 months	within 1 and 5 years	After 5 years	No maturity	Total
Assets/financial instruments								
Liquid assets	41,147							41,147
Amounts due from banks	1,072	0	1,666	1,378	254	86		4,457
Due from securities financing transactions		4,611	9,550	165				14,326
Amounts due from customers	197	1,102	2,882	811	2,142	698		7,832
Mortgage loans	194	623	8,567	7,634	40,194	21,876		79,087
Trading portfolio assets	8,922							8,922
Positive replacement values of derivative financial instruments	1,535							1,535
Other financial instruments at fair value								
Financial investments	328		136	244	1,588	2,444		4,740
Total assets/financial instruments 2017	53,395	6,336	22,801	10,232	44,178	25,105		162,046
Total assets/financial instruments 2016	49,274	6,253	22,550	11,299	40,311	26,267	1	155,954
Debt capital/financial instruments								
Amounts due to banks	2,282	102	27,904	4,143	245	717		35,393
Liabilities from securities financing transactions		2,636	3,987					6,623
Amounts due in respect of customer deposits	23,360	53,157	2,801	304	651	1,108		81,381
Trading portfolio liabilities	1,859							1,859
Negative replacement values of derivative financial instruments	867							867
Liabilities from other financial instruments at fair value	2,869							2,869
Cash bonds			11	18	115	47		191
Bond issues		1,513	2,782	1,758	3,040	3,325		12,419
Central mortgage institution loans			387	739	3,114	5,035		9,275
Total debt capital/financial instruments 2017	31,237	57,408	37,872	6,962	7,165	10,233		150,876
Total debt capital/financial instruments 2016	31,932	54,361	36,265	5,567	7,075	10,166		145,366

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

	2017		2016	
in CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	41,133	14	35,284	53
Amounts due from banks	1,063	3,394	1,403	3,961
Amounts due from securities financing transactions	6,044	8,282	7,009	7,880
Amounts due from customers	6,164	1,668	5,870	1,640
Mortgage loans	79,087	0	77,275	1
Trading portfolio assets	5,070	3,852	4,767	4,705
Positive replacement values of derivative financial instruments	1,267	268	1,503	430
Other financial instruments at fair value				20
Financial investments	2,982	1,757	2,422	1,734
Accrued income and prepaid expenses	258	22	310	50
Non-consolidated participations	128	1	177	1
Tangible fixed assets	770	4	799	4
Intangible assets	191	1	168	0
Other assets	440	18	511	9
Total assets	144,598	19,283	137,497	20,488
Liabilities				
Amounts due to banks	2,604	32,788	2,430	31,707
Liabilities from securities financing transactions	18	6,604	24	5,060
Amounts due in respect of customer deposits	75,650	5,731	75,146	5,744
Trading portfolio liabilities	858	1,001	734	1,922
Negative replacement values of derivative financial instruments	416	451	735	816
Liabilities from other financial instruments at fair value	1,699	1,169	1,581	1,519
Cash bonds	191		235	
Bond issues	12,419		9,329	
Central mortgage institution loans	9,275		8,384	
Accrued expenses and deferred income	620	14	635	48
Other liabilities	549	9	506	1
Provisions	583	1	634	2
Bank's capital	2,425		2,425	
Retained earnings reserve	7,918	108	7,584	102
Foreign currency translation reserve	–4		–8	
Consolidated profit	769	13	674	17
Total liabilities	115,991	47,889	111,047	46,938
Off-balance-sheet items				
Contingent liabilities	1,679	2,407	1,455	3,027
Irrevocable commitments	6,352	1,664	6,603	903
Obligations to pay up shares and make further contributions	232	1	232	1
Credit commitments				

25A Assets by country or group of countries

	2017		2016	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	144,598	88.2	137,497	87.0
Rest of Europe	12,296	7.5	13,382	8.5
– of which, Germany	3,101	1.9	2,331	1.5
– of which, France	722	0.4	911	0.6
– of which, United Kingdom	3,596	2.2	4,077	2.6
– of which, Guernsey	29	0.0	120	0.1
Americas	4,832	2.9	5,167	3.3
– of which, USA	3,471	2.1	3,953	2.5
Asia and Oceania	2,120	1.3	1,889	1.2
Africa	35	0.0	49	0.0
Total assets	163,881	100.0	157,985	100.0

25B Liabilities by country or group of countries

	2017		2016	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	115,991	70.8	111,047	70.3
Rest of Europe	23,160	14.1	25,239	16.0
– of which, Germany	3,924	2.4	4,223	2.7
– of which, France	2,513	1.5	2,384	1.5
– of which, United Kingdom	6,113	3.7	5,459	3.5
– of which, Guernsey	1,823	1.1	2,094	1.3
Americas	12,477	7.6	9,858	6.2
– of which, USA	4,872	3.0	4,082	2.6
Asia and Oceania	11,079	6.8	10,766	6.8
Africa	1,174	0.7	1,075	0.7
Total liabilities	163,881	100.0	157,985	100.0

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

	2017		2016	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	8,262	67.0	8,291	67.8
Rest of Europe	2,991	24.2	3,061	25.0
– of which, Germany	62	0.5	67	0.5
– of which, France	2	0.0	3	0.0
– of which, United Kingdom	1,519	12.3	1,753	14.3
– of which, Guernsey	994	8.1	915	7.5
Americas	621	5.0	475	3.9
– of which, USA	24	0.2	94	0.8
Asia and Oceania	426	3.5	380	3.1
Africa	34	0.3	15	0.1
Total	12,334	100.0	12,222	100.0

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

		31.12.2017 Net foreign exposure		31.12.2016 Net foreign exposure	
Rating system ZKB's own country rating	Moody's	in CHF million	Share as %	in CHF million	Share as %
A	Aaa / Aa1 / Aa2 / Aa3	10,109	80.2	12,353	84.9
B	A1 / A2 / A3	1,041	8.3	641	4.4
C	Baa1 / Baa2 / Baa3	817	6.5	816	5.6
D	Ba1 / Ba2	485	3.9	634	4.4
E	Ba3	63	0.5	75	0.5
F	B1 / B2 / B3	77	0.6	25	0.2
G	Caa1 / Caa2 / Caa3 / Ca / C	9	0.1	4	0.0
Total		12,602	100.0	14,547	100.0

For further information, please see the "Credit risks" section in the Risk Report.

27 Balance sheet by currencies

	Currencies translated in CHF million				
	CHF	USD	EUR	Other	Total in CHF million
Assets					
Liquid assets	41,070	6	68	3	41,147
Amounts due from banks	552	3,161	503	241	4,457
Amounts due from securities financing transactions	3,697	5,449	5,133	46	14,326
Amounts due from customers	5,805	930	967	130	7,832
Mortgage loans	78,933	117	37		79,087
Trading portfolio assets	6,552	1,184	806	380	8,922
Positive replacement values of derivative financial instruments	1,330	112	86	6	1,535
Other financial instruments at fair value					
Financial investments	3,749	93	898	0	4,740
Accrued income and prepaid expenses	229	31	16	5	281
Non-consolidated participations	129	0	1	0	130
Tangible fixed assets	771		4		775
Intangible assets	191		1		192
Other assets	408	2	18	30	458
Total assets shown in balance sheet	143,417	11,087	8,536	840	163,881
Delivery entitlements from spot exchange, forward forex, forex options and precious metals transactions	103,941	104,194	61,642	18,505	288,283
Total assets	247,358	115,281	70,179	19,346	452,164
Liabilities					
Amounts due to banks	5,719	22,972	2,883	3,818	35,393
Liabilities from securities financing transactions	133	1,422	5,068		6,623
Amounts due in respect of customer deposits	73,133	3,339	4,154	754	81,381
Trading portfolio liabilities	1,176	560	89	34	1,859
Negative replacement values of derivative financial instruments	645	102	108	12	867
Liabilities from other financial instruments at fair value	2,023	293	539	13	2,869
Cash bonds	191				191
Bonds	9,050		3,369		12,419
Central mortgage institution loans	9,275				9,275
Accrued expenses and deferred income	555	53	16	9	634
Other liabilities	486	56	7	9	558
Provisions	584		1		585
Bank's capital	2,425				2,425
Retained earnings reserve	8,044		−18		8,026
Foreign currency translation reserve			−4		−4
Consolidated profit	781		1		782
Total liabilities shown in the balance sheet	114,219	28,799	16,214	4,649	163,881
Delivery obligations from spot exchange, forward forex, forex options and precious metal transactions	132,863	86,082	54,604	14,520	288,069
Total liabilities	247,082	114,881	70,818	19,169	451,950
Net position per currency in 2017	276	401	−639	177	214
Net position per currency in 2016	525	482	−1,336	155	−173

j) Information on off-balance-sheet transactions

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

28 Contingent liabilities and contingent assets

in CHF million	2017	2016
Guarantees to secure credits and similar	391	437
Performance guarantees and similar	2,961	3,299
Irrevocable commitments arising from documentary letters of credit	734	746
Other contingent liabilities		
Total contingent liabilities	4,086	4,483
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 variable purchase prices in October 2016 and October 2017. The purchase contract provides for the possibility of a further variable purchase price payment in 2018. Its amount depends on the individual sellers' contribution to results, the general market conditions and the success of the product range. The actual annual shares of the purchase price cannot fall below zero. The outstanding variable purchase price payment payable in October 2018 is not quantifiable at the current time, but will be determined in line with the following principle: the higher the net income generated with the sellers, the higher the variable purchase price payments.

29 Breakdown of credit commitments

There are no credit commitments as of 31 December 2017 and 31 December 2016.

30 Breakdown of fiduciary transactions

in CHF million	2017	2016
Fiduciary investments with third-party companies	218	243
Fiduciary investments with linked companies		
Fiduciary loans		
Fiduciary transactions arising from securities lending and borrowing (in the bank's own name for the account of customers)		
Other fiduciary transactions		
Total	218	243

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

Type of managed assets (in CHF million)	2017	2016
Assets in collective investment schemes managed by the bank	82,422	75,939
Assets under discretionary asset management agreements	65,861	57,303
Other managed assets	140,519	131,512
Total managed assets (including double counting) [1]	288,802	264,754
– of which, double counting	43,825	38,658

1 The managed client assets shown include all client assets of an investment nature held with Zürcher Kantonalbank, as well as client assets held with third-party banks and which are managed by Zürcher Kantonalbank. When reporting managed client assets, Zürcher Kantonalbank also includes client deposits that do not have an investment element. Non-inclusion of accounts that do not have an investment element would lead to greater volatility in the reported managed client assets and thus distort the meaningfulness of trends in managed client 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.

b) Presentation of the development of managed assets

in CHF million	2017	2016
Total managed assets (including double counting) at beginning	264,754	257,505
+/– net new money inflow or net new money outflow [1]	6,329	7,953
+/– price gains/losses, interest, dividends and currency gains/losses	16,689	6,430
+/– other effects	1,029	–7,134 [2]
Total managed assets (including double counting) at end	288,802	264,754

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

2 The restructuring of a major mandate (overlay mandate for the collective foundation) led to a reduction in eligible assets, but no actual outflow of assets. The CHF 7.1 billion reduction in assets is therefore shown under Other effects.

k) Information on the income statement

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

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

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

in CHF million	2017	2016
Trading result from foreign exchange, bank notes and precious metals	128	133
Trading result from bonds, interest rate and credit derivatives	87	144
Trading result from equities and structured products	60	48
Result from other trading activities [1]	58	54
Total	334	379

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

		Result from trading activities from:						
in CHF million	2017	Foreign exchange and bank notes	Precious metals	Securities lending and borrowing	Bonds, interest rate and credit derivatives	Equities and equity derivatives	Commodities and commodity derivatives	Other products [2]
Trading result from foreign exchange, bank notes and precious metals	128	90	38		0	0		
Trading result from bonds, interest rate and credit derivatives	87	0			80	7		
Trading result from equities and structured products	60	2	−13		14	60	−1	−2
Result from other trading activities	58	−0	−0	60	−1	0	−1	
Total	334	92	25	60	93	68	−2	−2
– of which, from fair value option on assets	−0				−0			
– of which, from fair value option on liabilities	−322	4	−0		−22	−294	−1	−8

1 The result from other trading activities includes results from securities lending and borrowing as well as positions for which the Executive Board or Asset Management is responsible.

2 Trading income from other products includes hybrid products and real estate derivatives.

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

In financial year 2017, income from refinancing trading positions of CHF –13.3 million (previous year: –12.1 million) was included in the item Interest and discount income.

The item Interest and discount income also includes the result from currency swaps in the amount of CHF 488.3 million (previous year: CHF 272.0 million) which were entered into solely for the purpose of engaging in interest arbitrage.

Negative interest on the lending business is recognised as a reduction in interest and discount income. Negative interest on the borrowing business is recognised as a reduction in interest expense.

in CHF million	2017	2016
Negative interest on lending business (reduction in interest and discount income)	204	148
Negative interest on borrowing business (reduction in interest expense)	114	117

34 Breakdown of personnel expenses

in CHF million	2017	2016
Salaries to governing bodies and personnel	788	796
– of which, alternative forms of variable compensation		
AHV, IV, ALV and other social security contributions[1]	187	249
Changes in book value for economic benefits and obligations arising from pension schemes		
Other personnel expenses	33	33
Total	1,008	1,079

1 Including the creation of provisions for pension benefit obligations (2017: CHF 8 million/2016: CHF 70 million).

35 Breakdown of general and administrative expenses

in CHF million	2017	2016
Office space expenses	33	35
Expenses for information and communications technology	163	172
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	2	2
Fees of audit firms	8	8
– of which, for financial and regulatory audits	8	8
– of which, for other services	1	0
Other operating expenses	220	215
– of which, compensation for any cantonal guarantee	23	22
Total	426	433

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

in CHF million	2017	2016
Extraordinary income		
Appreciation of other participations	6	5
Income from disposal of other real estate/bank premises	2	9
Income from disposal of participations		2
Other	0	1
Total	8	17
Extraordinary expenses		
Losses from disposal of other real estate/bank premises		0
Losses from disposals of participations		
Other	0	1
Total	0	1

In the financial year, no material value adjustments or provisions no longer required were recorded.

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

in CHF million		2017	2016
Participations	Registered office		
CLS Group Holdings AG	Lucerne	0	1
SWIFT	La Hulpe		0
Valiant Holding AG [1]	Lucerne	4	
Total		4	1

1 Appreciation in the first half of the year and reallocation into financial investments as at 01.07.2017.

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

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

	2017		2016	
in CHF million	Domestic	Foreign	Domestic	Foreign
Result from interest operations				
Interest and discount income	1,608	0	1,452	0
Interest and dividend income from financial investments	49	0	58	0
Interest expense	–446	–0	–311	–0
Gross result from interest operations	1,211	1	1,199	0
Changes in value adjustments for default risks and losses from interest operations	–9	0	–12	0
Subtotal net result from interest operations	1,201	1	1,187	0
Result from commission business and services				
Commission income from securities trading and investment activities	663	139	616	147
Commission income from lending activities	52	0	55	0
Commission income from other services	139	2	132	3
Commission expense	–176	–49	–170	–55
Subtotal result from commission business and services	678	92	633	95
Result from trading activities and the fair value option	311	22	357	22
Other result from ordinary activities				
Result from the disposal of financial investments	4		1	
Income from participations	16	0	14	0
– of which, participations valued using the equity method	3		3	
– of which, from other non-consolidated participations	13	0	11	0
Result from real estate	6	0	10	0
Other ordinary income	9	0	9	0
Other ordinary expenses	–4	–0	–3	0
Subtotal other result from ordinary activities	31	–0	30	0
Operating expenses				
Personnel expenses	–990	–18	–1,062	–16
General and administrative expenses	–414	–12	–422	–11
Subtotal operating expenses	–1,404	–30	–1,484	–27
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–118	–1	–123	–1
Changes to provisions and other value adjustments and losses	2	–0	–7	–1
Operating result	701	83	594	88
Extraordinary income	8	0	17	0
Extraordinary expenses	–0	–0	–1	–0
Taxes	–8	–3	–6	–1
Consolidated profit	701	81	604	87

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

in CHF million	2017	2016
Creation of provisions for deferred taxes		–0
Reversal of provisions for deferred taxes	0	0
Recognition of deferred taxes on losses carried forward	–0	–0
Recognition of other deferred taxes	0	
Expenses for current income and capital taxes	–10	–7
Total	–11	–7
Unrecognised tax reductions on losses carried forward, and tax credits not recognised under the principle of prudence		
Hypothetical deferred income taxes calculated at theoretical tax rates on revaluations of investments not relevant for tax purposes		

Figures in table: minus = expense; plus = income

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

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

Zürcher Kantonalbank has no listed equity securities.

41 Components of ROE

in %	2017	2016
Return on equity (ROE)	7.3	7.4

in CHF million	2017	2016
Relevant net annual result for calculating ROE		
Consolidated profit [1]	782	761
Total	782	761
Relevant average equity [2] for calculating ROE		
Average bank's capital	2,425	2,425
Average other equity components	8,222	7,869
Total	10,647	10,294

1 2016: Excludes the CHF 70 million non-recurring expense in connection with the creation of provisions for pension benefit obligations.
2 The average bank's capital and other equity components are calculated on a monthly basis.

I) Risk report

1.1.1 Risk profile

In the lending business, the volume of mortgage loans increased by 2.3 percent to CHF 79.1 billion. At CHF 58 billion, the vast majority of real estate financing can be attributed to retail clients. In light of the latest price trends on the real estate market for rented properties, Zürcher Kantonalbank has amended parts of its lending policy, with the maximum loan-to-value ratio for new financing being reduced in individual segments. There were no material changes in the rating structure of the various credit portfolios.

There was a little low-level volatility in the value at risk for the trading book for 2017. Only in December was there a visible spike in the trajectory, which took place due to strong market movements on the interest rate markets. The low risk figures for Trading reflect its strategy of focusing on the client business.

Asset and liability risk management continues to be impacted by the negative interest rates in Swiss francs. The interest-rate sensitivity of the banking book is slightly lower than in the previous year.

The key figures for liquidity risk indicate a comfortable liquidity situation for Zürcher Kantonalbank.

As regards operational risk, Zürcher Kantonalbank pays particular attention to restricting risks in relation to cybercrime. In addition to technical interventions, key measures also include the provision of information to clients and employees in order to raise awareness of the topic. The risk profile for compliance risks is stable. Adapting to the changing regulatory framework for financial service providers and its increasing complexity is tying up substantial resources.

1.1.2 Internal control system (ICS)

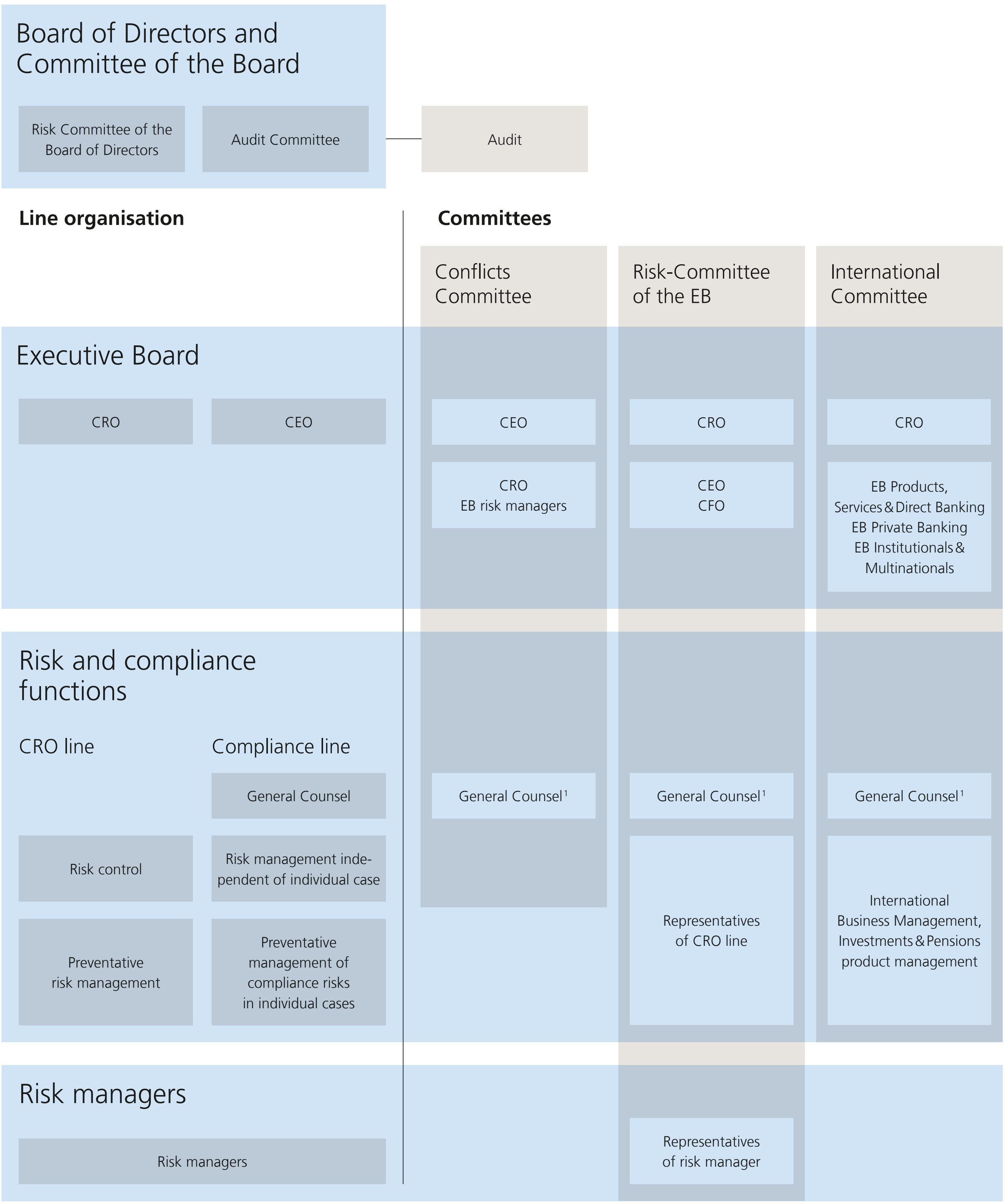
The ICS comprises all of the control structures and processes that constitute the basis for the achievement of the bank's business policy objectives and the proper operation of the institution at all levels. The ICS comprises not only retrospective checks but also planning and management activities. An effective ICS includes control activities that are integrated into workflows, suitable risk management and compliance processes, and appropriate supervisory bodies compared to the size, complexity and risk profile of the institution, in particular an independent risk control and compliance function.

1.1.3 Principles of risk management

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

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

Fig. 1: Risk and compliance organisation



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

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

1.1.4 Principles of compliance

The objective of compliance is to ensure that Zürcher Kantonalbank conducts its business operations in accordance with legal and ethical norms. The principles of the compliance policy are as follows: relevant legal and ethical norms; ethical and performance-related basic values in a code of conduct; duty of all employees and members of governing bodies to comply with laws, regulations, internal rules, industry standards and codes of conduct, including appropriate sanctions for any violations; special reporting procedure available to employees for identified violations of the rules (whistle-blowing); primary responsibility for compliance lies with the Executive Board; annual assessment of compliance risks based on the risk inventory with corresponding action plan; and an independent 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.

1.1.5 Risk and compliance organisation

The risk management organisation is based on the Three Lines of Defence model. The profit-driven business units form the first line. They actively manage risks and are responsible for constant compliance with internal and external risk tolerance and compliance requirements. The risk management and control units that are independent of management represent the second line of defence. Under the stewardship of the Chief Risk Officer (CRO) or the General Counsel, they identify, evaluate and monitor risks and submit regular reports to the Executive Board and the Board of Directors. The third line of defence is the Audit organisation unit, which is responsible for the internal auditing of the Zürcher Kantonalbank under the applicable laws and regulations. Each line is supported by the appropriate committees. (Figure 1)

Board of Directors and Committee of the Board. The Board of Directors approves the principles for risk management and compliance, the Code of Conduct, the framework for group-wide risk management and the risk tolerance regulations at group level. It is responsible for the regulation, organisation and monitoring of an effective risk management system as well as the management of overall risks. The Board of Directors is responsible for assuring a suitable risk and control environment within the group and arranges for an effective internal control system (ICS). It also approves transactions involving major financial exposure. The Risk Committee and Audit Committee of the Board of Directors support the Board in its tasks and duties in the areas of risk management and the internal control system.

The Committee of the Board approves limits and deals with transactions involving particular business policy risks, conflicts of interest or particular effects on the group's reputation where these exceed the remit of the Executive Board and do not fall within the remit of the Board of Directors.

Audit. Audit supports the Board of Directors in fulfilling its statutory supervisory and control tasks and discharges the monitoring tasks assigned to it by the Board of Directors. In particular, Audit independently and objectively evaluates the appropriateness and effectiveness of the internal control and risk management processes and contributes towards their improvement. Audit has unlimited rights of inspection, information and access within the entire group.

Executive Board. The Executive Board issues provisions for the identification, evaluation, control, management, monitoring and reporting of risks in the form of directives. The Executive Board is also responsible for approving transactions that entail particular business policy risks, conflicts of interest or particular effects on the reputation of Zürcher Kantonalbank, unless they are assigned to another officer under the applicable regulations.

Conflicts Committee. Based on the responsibilities delegated to them, the members of the Executive Board represented on the Conflicts Committee take decisions regarding transactions that entail particular business policy risks, conflicts of interest or particular effects on the group's reputation. The Conflicts Committee is chaired by the CEO; its escalation body is the Committee of the Board.

Risk Committee of the Executive Board. The Risk Committee assists the Executive Board in defining risk management processes. The Committee is chaired by the CRO and approves the methods of risk measurement on the basis of the responsibilities delegated to it. The risk managers represented on four separate sub-committees (credit, trading, treasury and operational risk) and members of the risk and compliance organisation discuss the Risk Committee's business before formulating proposals for its attention. In a crisis situation, individual crisis management teams reporting to the Risk Committee ensure that necessary and appropriate measures are defined and implemented.

International Committee. The International Committee is chaired by the CRO. It is responsible for defining the specific business policy requirements for transactions with an international dimension, monitoring and reporting on such transactions, and approving the permissible business activities per country.

Risk unit. The Chief Risk Officer (CRO) is a member of the Executive Board and heads the Risk unit. He has a right of intervention that permits measures to be assigned to the risk managers if required by the risk situation or to protect the bank. The CRO also enjoys direct access to the Committee of the Board at all times.

Risk control is responsible for identifying and monitoring risks at portfolio level, monitoring compliance with the risk tolerance requirements set out by the Board of Directors, and integrated risk reporting to the Executive Board and Board of Directors. The risk control function is responsible for defining methods of risk measurement, model validation, as well as execution and quality assurance in relation to the risk measurement implemented. Preventative risk management is responsible for the analysis and examination of transactions and systems prior to their conclusion or introduction in line with existing delineations of power and consultation duties, the definition of requirements at individual transaction or system level, the continuous local monitoring of risks, and the provision of support in the training of risk managers.

Compliance line. The General Counsel reports directly to the CEO and manages the Legal & 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 has the following duties: examining the compliance risk inventory on an annual basis and preparing the action plan with focal points relating to the management of compliance risks, formulating proposals and if necessary carrying out defined monitoring and control duties in the context of post-deal control, as well as defining risk management tools. Compliance also defines risk management measures independently of the individual case, such as the editing of directives in the context of the implementation of new directives and provision of training courses. The Compliance function is further responsible for providing forward-looking legal advice with the objective of avoiding or minimising individual identified risks and threats arising from legal requirements. Legal advice is provided in the context of existing mandatory consultations, as a pre-deal consultation or on request.

Risk managers. The risk managers bear responsibility for profits and losses generated on the risks entered into. They are responsible for the continuous, active management of risks and for constant compliance with internal risk tolerance regulations, relevant laws, ordinances, circulars and standards. The sales units are responsible for credit risks as risk managers and the Trading & Capital Markets organisational unit for market risks in the trading book. Interest rate risks in the banking book and liquidity risks are the responsibility of Treasury in the Finance unit. All units of the bank are responsible for managing operational and compliance risks.

Risk reporting. The Risk Control and Compliance functions report on a quarterly basis as part of integrated risk reporting to the Executive Board and Board of Directors on the development of the risk profile, on material internal and external events, and on findings from monitoring activities. Quarterly reports are supplemented by special analyses on relevant topics. Besides quarterly reporting, various reports are produced for the individual types of risk. In terms of the frequency with which they are published and the group of recipients, they are tailored to individual risks, and they provide comprehensive, objective and transparent information for decision-makers and supervisory bodies.

1.2 Regulatory capital adequacy and liquidity requirements

This section includes the minimum disclosure to be published in the Annual Report in accordance with FINMA Circular 2016/1. The other tables on qualitative and quantitative disclosure will be available online from the end of April 2018 at zkb.ch/disclosures.

Under Basel III, a selection of different approaches is available to banks for the calculation of capital adequacy requirements for credit, market and operational risks. The capital required for credit risks has been calculated using the IRB approach (F-IRB) since the end of 2017. For market risks, the model-based approach is used in combination with the standard approach (SA-BIS) for specific interest rate risks. The capital base needed for operational risks is calculated using the basic indicator approach.

Fig. 2: Minimum disclosure

	in CHF million (unless indicated otherwise)	Group 2017	Parent company 2017
1	Minimum capital based on risk-based requirements	5,106	5,077
2	Eligible capital	12,019	11,827
3	– of which, common equity Tier 1 (CET1)	10,506	10,313
4	– of which, Tier 1 (T1) capital	11,255	11,062
5	Risk-weighted assets (RWA)	63,822	63,458
6	CET1 ratio (common equity Tier 1 capital as a percentage of RWA)	16.5	16.3
7	Tier 1 capital ratio (Tier 1 capital as a percentage of RWA)[1]	17.6	17.4
8	Total capital ratio (as a percentage of RWA)[1]	18.8	18.6
9	Countercyclical capital buffer (as a percentage of RWA)	0.6	0.6
10	CET1 target ratio (as a percentage) in accordance with Annex 8 to the Swiss Capital Adequacy Ordinance (CAO) plus countercyclical capital buffer[2]	10.6	10.6
11	T1 target ratio (as a percentage) in accordance with Annex 8 to the Swiss Capital Adequacy Ordinance (CAO) plus countercyclical capital buffer[2]	13.6	13.6
12	Total capital target ratio (as a percentage) in accordance with Annex 8 to the Swiss Capital Adequacy Ordinance (CAO) plus countercyclical capital buffer[2]	14.6	14.6
13	Basel III leverage ratio (Tier 1 capital as a percentage of total exposure)	6.4	6.3
14	– Total exposure	177,195	176,943
15	Liquidity coverage ratio (LCR) as a percentage in the reference quarter[3]	153	152
16	– LCR numerator: total high-quality liquid assets (HQLA)	48,491	48,469
17	– LCR denominator: total net outflows of funds	31,680	31,818

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-systemically-important banks.

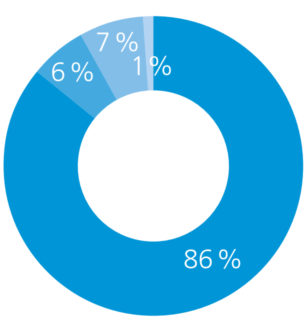
2 In accordance with the FINMA Ordinance of August 2014, Zürcher Kantonalbank's CET1 target ratio is 10.0 %, the T1 target ratio 13.0 % and the total capital target ratio 14.0 %, plus a countercyclical buffer of 0.6 % in each case.

3 Simple average of the closing values on the business days during the quarter under review. 63 recognised data points.

A FINMA Directive from 2012 permits Zürcher Kantonalbank to solo-consolidate the subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. in line with the individual institution provisions. Accordingly, the required capital is calculated on a solo-consolidated basis by the parent company.

As at 31 December 2017, the group had a minimum required capital of CHF 5,106 million, compared with eligible capital of CHF 12,019 million. Both the total capital ratio of 18.8 percent of risk-weighted assets and the leverage ratio of 6.4 percent reflect Zürcher Kantonalbank's solid equity base. The liquidity coverage ratio (LCR) of 153 percent points to a comfortable liquidity situation (Figure 2).

Fig. 3 Share of risk categories in regulatory required capital



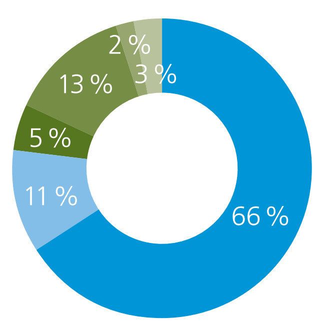
The breakdown of the regulatory minimum required capital of CHF 5,106 million shows the importance of the lending business to Zürcher Kantonalbank.

1.3 Capital allocation within internal risk management

Zürcher Kantonalbank employs a capital at risk approach to internal risk management. The Board of Directors defines the risk tolerance with the maximum risk capital. The Board of Directors determines the quantitative risk tolerance requirements by means of the allocation of risk capital to the risk categories credit risks, market risks and operational[1] risks. The models are based on a time horizon of one year and a maximum default probability of 0.1 percent per year. The risk capital for market and credit risks is allocated to the individual organisational units, and the cost of capital is charged to the units. In the case of operational risks, there is no internal allocation of the cost of capital.

Of the CHF 11,564 million in eligible capital at the end of 2016, a total of CHF 5,280 million was allocated to the risk business in 2017. The percentage breakdown by risk category of the allocated capital is shown in Figure 4.

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



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

1.4 Risk categories

Zürcher Kantonalbank divides risks into the following categories.

Fig. 5 Risk categories

Credit risk

Credit risk constitutes the risk of financial losses that can arise if clients or counterparties do not fulfil contractual obligations that are falling due or do not fulfil them on time. Loans, promises of payment and trading transactions all involve credit risks. Credit risks also include:

- Counterparty risks (credit risks in trading transactions, e.g. OTC derivatives and SLB transactions). Trading transactions usually includes mutual claims, which also depend on market parameters. Counterparty risks are also referred to as counterparty default risks.
- Settlement risks. These describe the risk of losses in connection with transactions involving mutual payment and delivery obligations, where the bank must meet its delivery obligation without first being able to ensure that counter-payment will be made.
- Country risks: The risk of losses as the result of country-specific events, such as transfer risks (payment of a liability is restricted or prevented by a country) and risks arising from political and/or macroeconomic events.

Market risk

Market risks comprise the risk of financial losses on securities and derivatives in the bank's own portfolio as a result of changes in market factors, such as share prices, interest rates, volatilities or exchange rates (general market risks), as well as for issuer-specific reasons (specific market risks). Market risks also include:

- Balance sheet interest rate risk is the risk that changes in market interest rates will impact negatively on the financial situation of the banking book. As well as affecting current interest income, changes in interest rates have implications for future results. The interest rate risk is managed based on the market interest method.
- Market liquidity risk is the risk that a product can no longer be easily sold (or purchased) on a market. The higher the market liquidity, the greater the chance of purchasing or selling a product for an appropriate price at the desired time.
- Issuer (default) risk is a special form of specific market risk. It is the risk that the issuer of a security is no longer able to meet its payment obligations. This risk represents the partial or even complete loss of the security holder's investment.

Liquidity risk

Liquidity refers to the bank's capacity to settle its liabilities promptly and without restrictions. The liquidity risk is the risk that this capacity to pay will be impaired under institution or market-related stress conditions. Liquidity risks also include (re)financing risk. Refinancing refers to the procurement of funds for the financing of assets. Refinancing risk is the risk that the bank is not in a position to procure sufficient funds at appropriate conditions for the ongoing financing of its lending business.

- Short-term liquidity ensures that the bank is able to make payments over a short period of time in the event of a systemic or institution-specific liquidity crisis by holding a sufficiently large inventory of high-quality liquid and unencumbered assets as a financial precaution against a temporary liquidity gap. Often, 30 calendar days are used as the definition period. The regulatory indicator for short-term liquidity is the liquidity coverage ratio (LCR).
- Structural liquidity has a medium-term horizon and ensures that refinancing as per the liquidity profile of the assets takes place with stable liabilities. Structural liquidity requirements specify that illiquid assets such as loans to private individuals and companies, as well as parts of the trading portfolio, are to be refinanced through long-term liabilities. The regulatory indicator for structural liquidity is the net stable funding ratio (NSFR).

Operational risk

Operational risks refer to potential damage caused by the inappropriateness or failure of persons, systems or procedures or due to external events. Operational risks also include:

- Security risks are operational risks with a negative effect on the security protection objectives (protection of the confidentiality, integrity and availability of data and functions in IT systems, protection of information, protection of persons and protection of assets).
- IT risks refer to potential damage caused by the loss of confidentiality, integrity and availability of data and functions in IT systems.
- Cyber risks comprise the risk of attacks from the Internet or similar networks (referred to as hacker attacks) on the confidentiality, integrity and availability of data and functions in IT systems.

Compliance risk

Compliance risks are behavioural risks. These are risks that are caused by breaches of the law, regulations or contracts and can result in legal and regulatory sanctions, financial losses and reputational damage.

Compliance is the observance of legal, regulatory and internal regulations as well as the adherence to industry standards and codes of conduct. Compliance involves ensuring the behaviour and actions of the Zürcher Kantonalbank and its employees meet applicable legal and ethical standards, and also comprises all organisational measures designed to prevent violations of the law and breaches of rules and ethical norms by Zürcher Kantonalbank, its governing bodies and its employees.

Strategic risk

Strategic risks are all possible factors of influence, events and decisions that have the potential to endanger the long-term success of the company.

Business risk

Business risk is the risk that lower business volumes and margins will reduce the group's operating income if the decline in income is not offset by a simultaneous drop in operating expenses. Business risks also include unplanned additional costs in the absence of correspondingly higher income. Business risks materialise when actual income falls short of the budgeted income. This can occur on a one-off and a recurring basis. Typical examples of business risks are unexpectedly decreasing margins and a lack of client demand following an economic downturn.

Reputation risk

Reputation risks involve the risk of damage to the bank's good reputation or, in extreme cases, the risk of losing the bank's good reputation altogether. Aligning business activities to the central core values of the company is the best way in which to guarantee that the company's excellent reputation is maintained and to prevent instances in which activities have a negative impact on the bank's reputation.

Reputation denotes the image that a company enjoys among its stakeholders, i.e. the bank's standing in terms of its integrity, competency, performance and reliability from the perspective of stakeholders. Reputational damage occurs when the perception of a stakeholder group differs from its expectations. The trustworthiness and credibility of the bank as aspects of its reputation are negatively influenced by this difference. Reputation is determined by constantly comparing perceptions and expectations over a period of time and is reflected in the company's values and identity.

Although Zürcher Kantonalbank treats reputational risks as a separate category, it also sees them as a derived risk: they are considered a reputation-affecting component of strategic risks, market and credit risks, liquidity risks, compliance risks, operational risks and business risks. Strategic risks and business risks are managed as part of the bank's strategy and controlling process. Risk management and the risk profile in the other risk categories are described in detail in the following sections.

1.5 Credit risks

1.5.1 Strategy, organisation and processes

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

The bank adopts a risk- and cost-based pricing policy, with transparent credit decisions and a selective, quality-oriented strategy for the acquisition of financing business. Particular attention is paid to environmental and social risks in the credit assessment process. In recognition of the total commitment of owners, higher risks may deliberately be accepted on occasion for SMEs from the Greater Zurich Area.

The preventative risk management and risk control functions are separated from risk management at Executive Board level. Preventative risk management is responsible for defining lending policy requirements, analysing and examining transactions in line with existing delineations of power, continuous local monitoring of risks, and providing support in the training of risk managers. Risk control is responsible for monitoring risks and risk reporting at portfolio level, as well as defining methods of risk measurement.

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

Expected losses are determined on the basis of the probability of default (PD), assumptions regarding the level of exposure at default (EAD) and the estimated loss given default (LGD). Rating models specific to individual segments are used to determine default probabilities. The rating system for retail and corporate clients as well as banks combines statistical procedures with many years of practical experience in the lending business and incorporates both qualitative and quantitative elements. Country ratings are in principle based on the ratings of external agencies (country ceiling ratings and sovereign default ratings).

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

The valuation of collateral for loans, and in particular the calculation of market and collateral values, is governed by an extensive set of internal rules setting out the relevant methods, procedures and responsibilities. These rules are continually reviewed and aligned with regulatory requirements and market changes. For the valuation of mortgage collateral, the bank uses recognised estimation methods that are tailored to the type of property, including hedonic models, income capitalisation approaches and expert appraisals, among others. The models used as well as the individual valuations are reviewed on a regular basis. The maximum loan-to-value ratio for mortgages depends on how realisable the collateral is and is influenced by factors such as location and type of property (family home or commercial property, for example). Readily marketable collateral (securities, precious metals, account balances, for example) is generally valued at current market prices. The lending of readily marketable collateral is subject to the deduction of specified margins. These margins differ primarily in terms of the collateral's susceptibility to fluctuations in value.

Credit exposures are restricted by limits. In addition to the limits at counterparty and counterparty group level, limits are placed on sub-portfolios, for instance for foreign exposures. All credit and contingent exposures are monitored on a daily basis, exposures from trading transactions on a real-time basis. In the case of trading transactions, pre-deal checks can be undertaken to examine and ensure adherence to counterparty limits. Any breaches of limits are reported promptly to the competent management level. An early-warning system identifies negative developments, which are communicated to the officers responsible. The rating of corporate clients is generally reviewed once a year on the basis of the annual financial statements. A supplementary review of ratings, limits and exposures in the retail and corporate client business is undertaken using risk-oriented criteria. Ratings, limits and exposures in the banking sector are reviewed periodically and on an extraordinary basis in the event of a deterioration in the credit rating of a particular institution.

Value adjustments. As part of their risk management role, the bank's relationship managers constantly monitor all positions in the credit portfolio to identify any signs of impairment of value. Should any signs be found, a standardised impairment test is used to determine whether a loan should be classed as impaired. Impaired loans are those where the borrower is unlikely to be able to meet his future obligations. Where it appears that the bank will be unable to collect all amounts due on a claim, the bank makes an allowance for the unsecured part of the loan, taking into account the borrower's creditworthiness. In determining the required value adjustment, mortgage collateral (including valuation discounts, settlement and holding costs) and readily marketable collateral (freely tradable securities as well as other easily realised assets such as deposits, precious metals, fiduciary investments, etc.) are considered at their current liquidation value. The recoverability of other collateral (e.g. leased assets, guarantees) has to be demonstrated in particular. The authority to approve the creation of new individual value adjustments rests with the risk managers. Above a certain amount, the approval of the risk organisation is also required.

Interest and associated commission payments that have not been received in full 90 days after becoming due are classified as past due. They are deemed to be impaired and fully adjusted if they are not covered by collateral. Collective individual valuation adjustments are made for overdrafts of up to CHF 30,000 and for interest and associated commission payments outstanding for more than 90 days; in all other cases, individual value adjustments are generally made.

A central, specialised unit manages impaired positions across all client segments. This unit steers the positions through the stabilisation and resolution process and ensures that existing value adjustments are regularly reviewed and adjusted where necessary.

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

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

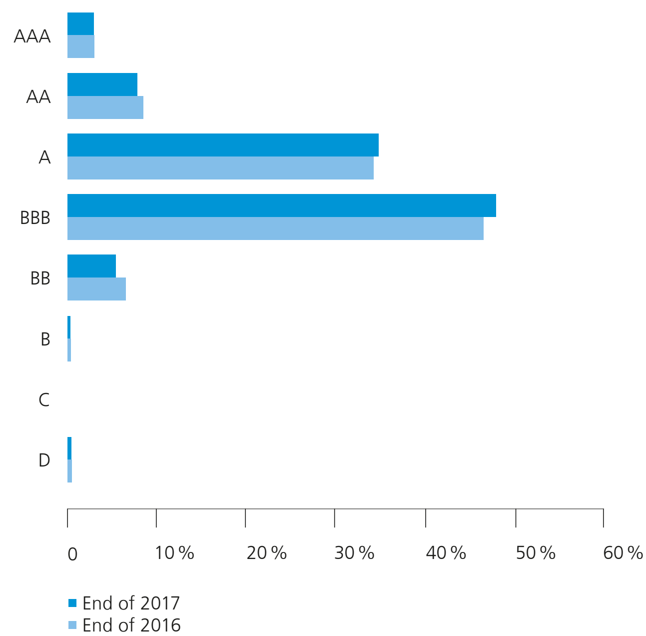
Concentration risks. Zürcher Kantonalbank uses a systems-based method for monitoring concentration risks. Besides measurement for the purpose of preparing regulatory reports, concentration risks are limited at product and client level using benchmarks that are reflected in the corresponding powers of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

1.5.2 Risk profile

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

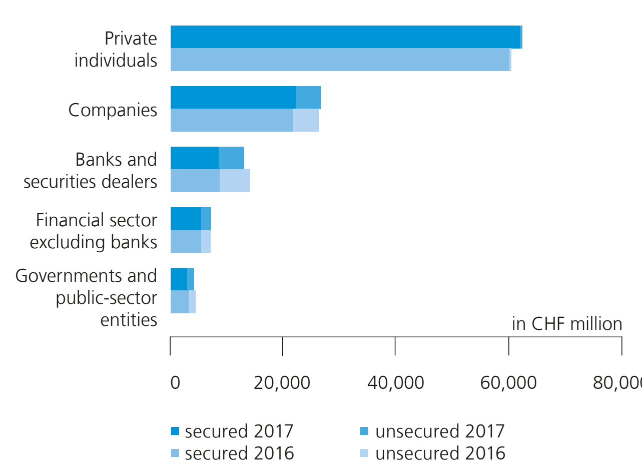
Credit exposures by rating category. Default probability ratings are assigned internally on the basis of a scale from 1 to 19. Figure 6 shows credit exposures to counterparties by rating category using Standard & Poor's rating scale.

Fig. 6: Credit exposures by rating category



Credit exposures by client portfolio. Figure 7 shows credit exposures classified in accordance with the bank's internally defined client portfolios.

Fig. 7: Credit exposures by client portfolio



Credit exposures in relation to "private individuals" consist almost entirely of receivables secured by mortgages and represent 55 percent (2016: 53 percent) of total credit exposures. The "corporates" portfolio consists of credit exposures in relation to clients of a commercial nature. The share of this client group in total credit exposures is 24 percent (2016: 23 percent), 83 percent (2016: 83 percent) of which is secured by mortgages or cash. In the "banks and securities dealers" portfolio, the largest share of credit exposures in volume terms is in the form of collateralised transactions such as reverse repo transactions. Other credit exposures in relation to banks arise as a result of trading operations and from the international trade financing business. Insurance companies, pension funds, financial holding companies, investment fund companies and similar companies together constitute the "Financial sector excluding banks" portfolio. "Governments and public entities" – the smallest portfolio, with a share of 4 percent of the volume of credit exposures – consists of positions with central banks, central governments and public authorities and institutions.

Mortgage loans to private individuals. Real estate financing for private individuals is part of Zürcher Kantonalbank's core business. Two-thirds of mortgage loans relate to owner-occupied residential property. The remaining loans are secured with rented residential properties or properties that are used for commercial purposes. Mortgage loans to private individuals increased by 2 percent in 2017. The median gross loan-to-value ratio for all properties in the private client portfolio was 50 percent (2016: 51 percent).

Unsecured loans. Of the unsecured loans in the "corporates" portfolio, 79 percent (2016: 75 percent) relate to clients in the AAA to BBB (investment grade) rating categories. The volume of unsecured loans in the corporate clients portfolio remained practically on a par with the previous year.

Fig. 8: Unsecured credit exposures to corporate clients by rating category

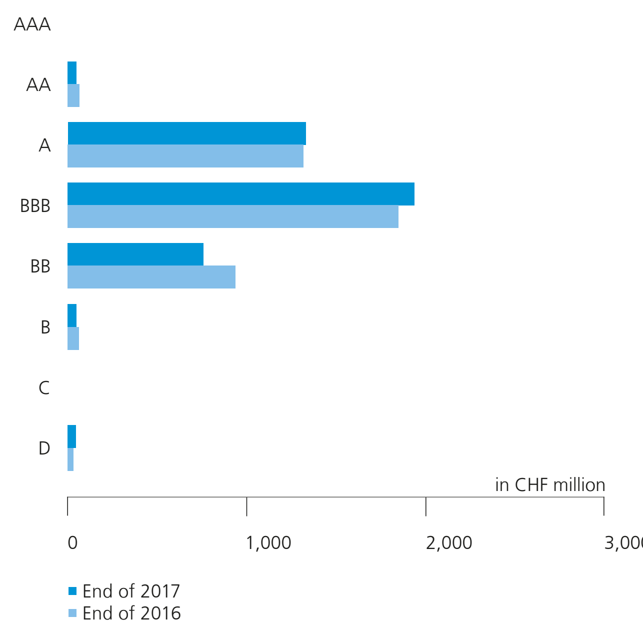
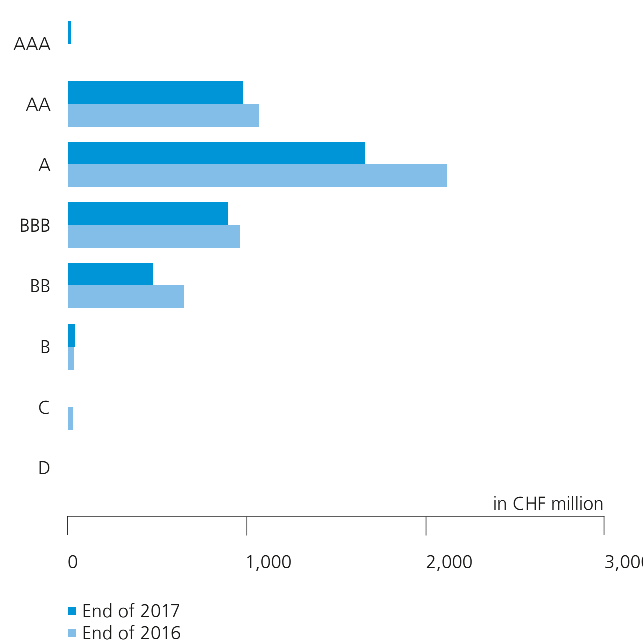


Fig. 9: Unsecured credit exposures to banks and securities traders by rating category



In the "banks and securities traders" client portfolio, the volume of unsecured loans is some 18 percent lower than on the reporting date at the end of 2016. The level of this exposure changes significantly every day, unlike other forms of lending, due to the influence of the bank's trading transactions. Of the unsecured exposure, 86 percent (2016: 83 percent) relates to clients in rating categories AAA to BBB (investment grade).

Impaired loans/receivables. Impaired loans amounted to CHF 472 million (2016: CHF 468 million). After deducting the estimated liquidation value of collateral, this equals net debt of CHF 197 million (2016: CHF 183 million, see also Note 2 to the balance sheet).

Non-performing loans/receivables. The nominal value of non-performing loans amounted to CHF 139 million at the end of the reporting period (2016: CHF 128 million). Loans are classified as non-performing when interest, commission or amortisation payments or the repayment of the principal have not been received in full 90 days after becoming due. This also includes claims against borrowers in liquidation, and loans with special conditions arising from a borrower's financial standing. Non-performing loans are also often a component of impaired loans.

Value adjustments and provisions. The volume of value adjustments and provisions for default risks decreased by CHF 4 million to CHF 308 million in 2017 (see also Note 16 to the balance sheet).

1.6 Market risks

1.6.1 Strategy, organisation and processes

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

The preventative risk management and risk control functions are separated from risk management at Executive Board level. The responsibilities of the preventative risk management function, which is independent of Trading, and the risk control function downstream of it include the monitoring of compliance with risk limits and trading mandates, the calculation and analysis of the result from trading activities (P&L) and risk figures, as well as the preventative analysis of potentially high-risk transactions. The risk organisation is also responsible for defining and implementing methods of risk measurement, their independent validation, and internal and external risk reporting.

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

The "market risks" capital at risk corresponds to the assigned risk capital for the market risks of trading transactions on a one-year horizon and at a confidence level of 99.9 percent. The modelling is based on a stressed value at risk (stressed VaR). Besides general market risks, the model also takes into account issuer default risks.

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

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

The bank additionally monitors the market liquidity risk of individual portfolios. In the equity derivatives sector, the potential trading volume resulting from the hedging strategy in the event of a change in the key risk factors is compared with the total market volume. Hypothetical offsetting expenses are calculated for bonds and bond-type products, based on observed bid-ask spreads and taking into account additional pricing supplements/discounts. Large positions are examined regularly to ensure there is sufficient liquidity; 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 the value at risk. Regulatory back-testing is based on a comparison of the value at risk for a holding period of one day with the back-testing result. Any breach of limits is reported to the competent management level 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.

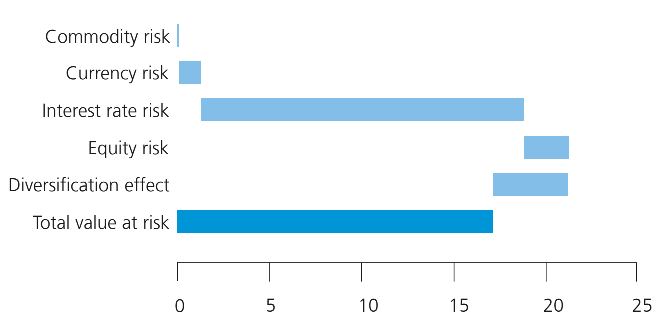
Fig. 10: Market risks in the trading book (group)

Risks including volatility risks in CHF million	Commodities[1]	Currencies[2]	Interest rates	Equities	Diversi-fication	Modelled total risk	Total risk[3]
Risks based on the model approach (value at risk with 10-day holding period)							
As at 31.12.2017	0	1	18	2	−4	17	20
Average current year 2017	0	1	8	2	−4	7	11
Maximum	1	3	18	5	−8	17	20
Minimum	0	0	7	1	−3	6	8
As at 31.12.2016	0	1	8	2	−5	7	9

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

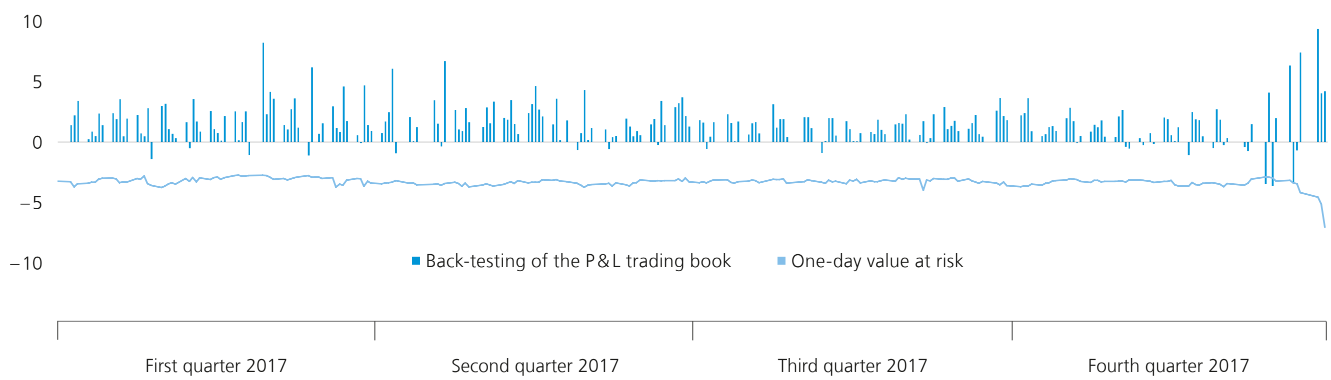
Risk profile. At CHF 11 million, the annual average value at risk remained on a par with the prior year. The end-2017 value at risk totalled CHF 20 million as a result of strong market movements, which was significantly greater than the average value (Figure 10). Interest rate risks continue to dominate in the composition of value at risk (Figure 11).

Fig. 11: Components of value at risk (in CHF million)



Back-testing results. The quality of the value at risk approach used is assessed by comparing the value at risk for a holding period of one day with the realised daily back-testing result (Figure 12). In the case of a one-day holding period and 99-percent quantile, the value at risk is expected to be exceeded two to three times each year. In 2017, the value at risk was exceeded twice. The back-testing result therefore corresponds to the statistically expected figure. The two breaches resulted from extraordinarily large market movements in December with respect to the short-term US dollar interest rates on the FX swap market.

Fig. 12: Comparison of back-testing results[1] and value at risk (in CHF million)



1 The back-testing result corresponds to the trading income used and adjusted for the purpose of methodological reviewing the quality of the risk model.

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

1.6.2.1 Interest rate risks in the balance sheet

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

The interest rate risk in the bank book is managed in strategic terms by the Board of Directors and in tactical terms by the CFO and Treasury. The strategic interest rate risk position is set by the Board of Directors on a periodic basis in the form of an investment strategy for equity (equity benchmark). The CFO and Treasury manage the deviation of the interest rate risk position in the banking book from the equity benchmark within the risk limits set by the Board of Directors. The Risk unit is responsible for the measurement and monitoring of risk as well as independent reporting on interest rate risk.

Banking book products without defined interest rates and capital commitment are variable products. These include, in particular, savings and transaction accounts as well as to a comparatively low extent variable mortgages. These products are modelled by replicating these (real) variable products through synthetic products with defined fixed interest rates on the basis of econometric analyses and expert-based empirical values. A key component of this modelling approach is the definition of a "floor", which can be considered a non-interest-rate-sensitive partial volume in terms of capital commitment. The duration of the replication of the floor is determined by the assumed setting of conditions in the event of interest rate changes. The model is subject to an annual review and is approved by the Risk Committee of the Executive Board.

Interest rate risk management takes account of the present value as well as earnings prospects. From the present value perspective, interest rate risks are managed by allocating risk capital in accordance with the capital at risk approach (risk horizon of one year, confidence level of 99.9 percent) and by applying value at risk limits (holding period of 20 trading days, confidence level of 99 percent). In addition, stress scenarios are simulated in order to analyse and limit the impact of extraordinary changes in the interest rate environment.
From the prospective earnings perspective, stress tests provide an indication of the structural contribution in the event of extraordinary changes in market interest rates

with unchanged positioning over a one-year period. Besides the structural contribution, margin effects are particularly significant for client deposits with variable interest. This applies especially in an environment of negative market interest rates for balance sheet items such as retail client deposits on which no negative interest is charged. Additional monitoring tools allow such margin effects to be analysed for different interest rate scenarios over a period of several years.

Risk profile. The maturity-dependent sensitivity data shown in Figure 13 indicate the change in value in Swiss francs when interest rates for each maturity band fall by one basis point (0.01 percentage points). The client deposits contained in the hedged item are represented via replicating portfolios with average maturities of between 15 and 26 months.

The interest rate sensitivity of the CHF banking book stood at CHF 8.0 million per basis point as at 31 December 2017, slightly down on the previous year (CHF 8.1 million). The interest rate exposure continues to serve as a strategic hedge against persistently low Swiss franc interest rates as well as the stabilisation of interest gains 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 the anticipated losses in terms of the structural contribution.

The euro and US dollar interest rate exposures are almost fully hedged as of the end of 2017.

The value at risk of the interest rate risk position of the banking book decreased due to lower volatility in interest rate markets (Figure 14).

Fig. 14: Value at risk of interest rate risk in the banking book

in CHF million	Value at risk (99 % quantile)
As at 31.12.2017	–110
As at 31.12.2016	–164

1.6.2.2 Risks in the investment portfolio

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

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

Fig. 13: 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		–106	3,947	6,035	9,875
Hedge		357	–2,169	–34	–1,847
Total as at 31.12.2017		250	1,778	6,000	8,028
Total as at 31.12.2016		–66	2,114	6,055	8,103

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 equals 0.01 percentage points.

The purchase of financial investments and real estate as well as the acquisition of participations are subject to detailed regulations and responsibilities. The investment strategy for the financial investments managed by Treasury is laid down in the risk tolerance requirements approved by the Risk Committee of the Executive Board. Only debt instruments with a first-class credit rating that are considered high-quality liquid assets (HQLA) may be purchased. The Risk unit is responsible for the measurement and monitoring of risk as well as independent reporting on investment portfolio risks.

Risks relating to the investment portfolio are managed internally by assigning risk capital. For the determination of this risk capital for financial investments and participations, Zürcher Kantonalbank uses an internal default model that takes diversification effects into account. For real estate owned by the bank, risk capital is allocated based on regulatory minimum capital adequacy requirements.

Risk profile. The carrying amount of debt securities in financial investments was CHF 4.4 billion as at 31 December 2017 (2016: CHF 3.9 billion). The portfolio consists of first-class bonds and is diversified in terms of counterparty groups and countries. The presentation of Financial investments and Participations can be found in Notes 5 and 6 to the balance sheet.

1.7 Operational risks

1.7.1 Strategy, organisation and processes

The objective of Zürcher Kantonalbank's management of operational risk is the risk-oriented protection of people, information, services and assets, and the maintenance and restoration of critical business functions in an operational emergency. The management of operational risk is therefore an essential part ensuring that the canton, clients, partners, public and regulator have confidence in the bank. The assessment of operational risks takes account of both direct financial losses and the consequences of a loss of client confidence and reputation.

The bank-wide inventory of operational risks constitutes the basis for the management of operational risks. Through periodic, systematic assessments, the operational risks with respect to individuals, critical information, services and assets are assessed, managed and documented. Bank-wide security management constitutes an important component of the management of operational risks.

Fig. 15: 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 the confidentiality, integrity and availability of data and functions in IT systems as well as physical information
Personal safety	Protecting people (life and limb)
Protection of property	Protecting physical infrastructures (power supply, buildings, systems) and tangible assets (cash, precious metals, physical securities and documents)

The measurement of operational risks is based on an estimate of potential claims and the probability of occurrence. To calculate the operational residual risks, inherent risks are set against existing risk-mitigating measures. If the residual risks exceed the risk tolerance, additional risk-mitigating measures are defined and implemented. The effectiveness of the risk-mitigating measures is monitored as part of the bank-wide internal control system (ICS). The specialist operational risk function of the Risk unit specifies the processes and methods, and provides tools for monitoring the internal control system.

1.7.2 Risk profile

There was no material change in the bank's risk profile for operational risks compared with the previous year. Zürcher Kantonalbank continues to pay particular attention to the identification of operational risk scenarios in relation to cybercrime. The Cybercrime sector is continuously becoming more specialised and professional. The bank's risk management teams are counteracting the heightened threat situation through the use of increasingly stringent security measures. In addition to technical and organisational measures, these in particular include internal and external information campaigns to raise awareness of cybersecurity among staff and clients.

1.8 Liquidity and refinancing risks

1.8.1 Strategy, organisation and processes

The Treasury organisational unit, which reports to the CFO, is responsible for managing the liquidity risks and refinancing of Zürcher Kantonalbank. Treasury delegates operational liquidity management to the Money Trading unit, which ensures the efficient use of liquidity based on internal and regulatory rules. In line with the requirements of the bank's risk policy, the Board of Directors defines the liquidity risk tolerance using an internal model. The risk organisation oversees compliance with the rules and reports to the Board of Directors in this regard on a regular basis.

The measurement, management and control of short-term liquidity risks are based both on the internal model and on the liquidity coverage ratio (LCR), a regulatory indicator. The internal model is based on a bank-specific stress scenario for balance-sheet and off-balance-sheet transactions. In this scenario, substantial outflows of varying intensity in the client and interbank business are assumed, among other things. The result of the liquidity risk measurement is an automatically produced daily report on the availability of liquid assets and securities eligible for repo transactions in financial investments and trading positions, liquidity inflows and outflows under the stress scenario as well the liquidity position left after the stress scenario. The related emergency plan constitutes a significant element of liquidity risk management. This supports the situationally appropriate conduct of the relevant functions in a crisis.

Zürcher Kantonalbank is subject to a minimum requirement of 100 percent for the LCR. The bank uses an internal model to divide wholesale deposits into operational and non-operational categories. Net outflows of funds from the collateralisation of derivatives due to changes in market values are calculated using the look-back method. Besides Swiss francs, which make up by far the largest part of the balance sheet of Zürcher Kantonalbank, the LCR is also monitored and periodically reported in other major currencies.

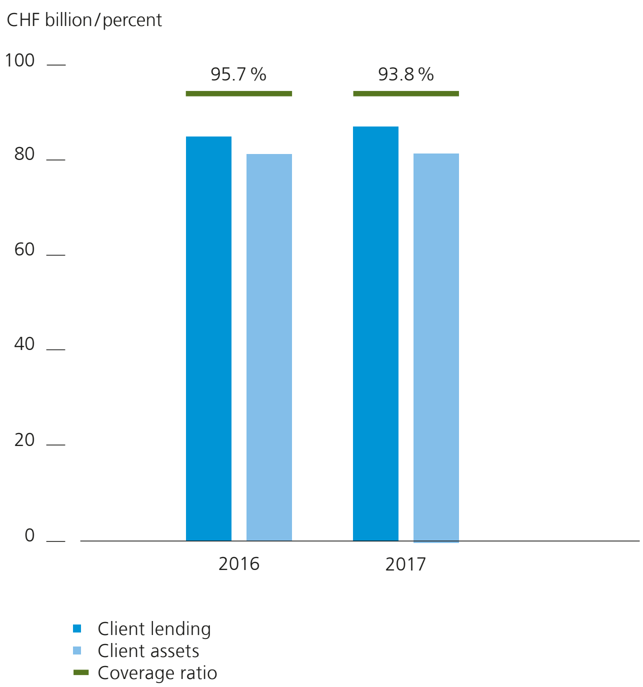
Zürcher Kantonalbank pursues a long-term refinancing policy that includes both cost and risk aspects. Refinancing risks are managed via a deliberate diversification in terms of maturities, refinancing instruments used and related markets, to limit dependence on funding sources. For this purpose, Treasury uses both short- and long-term instruments, which are placed on the domestic and international markets. The diversified refinancing base is reflected in a broad product portfolio, comprising client deposits, bank deposits and money and capital market refinancing.

1.8.2 Risk profile

The liquidity ratios increased year-on-year in 2017. The average LCR, which is calculated as a simple average of the end-of-day values of the business days during the quarter under review, lies between 125 percent and 153 percent. High-quality liquid assets (HQLA) average between CHF 38.6 billion and CHF 48.5 billion. These HQLA 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 through targeted management of time deposits, money-market instruments as well as SLB and repo transactions. The changes in the LCR and the internal statistical measures of liquidity risk are mainly driven by fluctuations in non-operational sight deposits, time deposits, money-market instruments and SLB and repo transactions with banks and major clients.

Figure 16 shows a year-on-year comparison of the coverage ratio for asset-side client transactions. Loans to clients amounted to CHF 86.9 billion and client assets to CHF 81.6 billion as at 31 December 2017. This results in a coverage ratio of 93.8 percent, which is slightly lower than in the previous year.

Fig. 16: Coverage ratio of client business



1.9 Compliance and legal risks

1.9.1 Processes and methods

The risk management instruments used to manage compliance and legal risks include information on the relevant legal frameworks, internal legal advice, training and education of employees as well as the implementation of ordinances through internal bank directives. They also include monitoring and controlling, investigations and clarifications in the event of violation of the rules, as well as the conducting and overseeing of civil, criminal and administrative proceedings.

The Compliance function maintains the bank-wide compliance risk inventory. It defines the risk management tools for compliance risks and supports the preventative management of compliance risks on a case-by-case basis. To fulfil its role, the Compliance function has unlimited rights of information, access and inspection.

1.9.2 Risk profile

The regulatory changes continue to clearly show that the requirements imposed on Zürcher Kantonalbank are becoming increasingly stringent, which in turn means that the bank is subject to ever greater exposure from a regulatory perspective.

Zürcher Kantonalbank is aware that the United States Department of Justice (DOJ) and the United States Internal Revenue Service (IRS) are investigating Zürcher Kantonalbank's cross-border business with US clients. These proceedings have been under way since September 2011, and the situation has not changed since last year. The bank is continuing to cooperate with the competent authorities and is working towards reaching an agreement. It is still unclear when the proceedings will be completed.

Zürcher Kantonalbank evaluates all its risks on a constant basis, including in this context, and takes appropriate risk-mitigating measures where necessary. All assessments are associated with a great deal of uncertainty.

m) Multi-year comparison

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

Income statement (in CHF million)	2017	2016	2015	2014
Net result from interest operations	1,202	1,187	1,162	1,127
Result from commission business and services	770	728	668	526
Result from trading activities and the fair value option	334	379	328	233
Other result from ordinary activities	31	31	47	43
Operating income	2,336	2,325	2,204	1,929
Operating expenses	–1,434	–1,441 [1]	–1,374	–1,191
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–120	–124	–106	–93
Changes to provisions and other value adjustments and losses	2	–8	–61	–38
Operating result	784	752 [1]	664	607
Extraordinary result	8	16	66	41
Taxes	–11	–7	–8	–0
Consolidated profit	782	761 [1]	722	647

Balance sheet (before appropriation of profit) (in CHF million)	2017	2016	2015	2014
Balance sheet total	163,881	157,985	154,410	145,872
Mortgage loans	79,087	77,275	73,623	71,349
Amounts due in respect of customer deposits	81,381	80,890	80,820	79,969
Provisions	585	636	584	539
Equity	11,228	10,793	10,429	9,487

Key figures (in %)	2017	2016	2015	2014
Return on equity (ROE)	7.3	7.4 [1]	7.5	7.2
Cost/Income ratio (CIR) [2]	61.1	61.7 [1]	62.4	61.7
Common equity Tier 1 ratio (CET1) [3/4]	16.5	15.6	15.8	14.6
Core capital ratio (Tier 1) [3/4]	18.8	17.5	16.8	15.6
Total capital ratio [3/4]	18.8	17.5	17.9	16.6
Leverage ratio [3]	6.8	6.7	7.0	5.8
Liquidity coverage ratio (LCR) [5]	153	132	128	–

Customers' assets (in CHF million)	2017	2016	2015	2014
Total customers' assets	288,802	264,754	257,505	208,677

Headcount/branches (Number)	2017	2016	2015	2014
Headcount after adjustment for part-time employees, as at the reporting date	5,117	5,173	5,179	4,844
Branches [6]	78	89	91	97

1 Excludes the CHF 70 million non-recurring personnel expense related to the creation of provisions for pension benefit obligations.
2 Calculation: Cost/income ratio (excl. changes in default-related value adjustments and losses from interest operations).
3 In accordance with the provisions for systemically important banks.
4 2017 incl. effects stemming from the changeover to IRB and SA-CCR.
5 2016 – average for the quarter; from 2017 a simple average of the end-of-day values on business days during the quarter under review.
6 Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as ATM banks.

Multi-year comparison (continued)

Profit distribution — in CHF million	2017	2016	2015	2014
Share paid to canton to defray cost of capital	18	21	26	34
Distribution to canton	230	220	200	164
Distribution to municipalities	115	110	100	82
Total profit distribution	363	351	326	280
Additional compensation for state guarantee	23	22	21	–
Additional payments from public service mandate	130	119	128	106

Rating agencies — Rating	2017	2016	2015	2014
Fitch	AAA	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa	Aaa
Standard & Poor's	AAA	AAA	AAA	AAA

EY
Building a better working world

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, 1 March 2018

Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the consolidated financial statements
as of 31 December 2017 of

Zürcher Kantonalbank, Zurich

Report of the statutory auditor on the consolidated financial statements

Mrs. 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 80 to 138), for the year ended 31 December 2017.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2017 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 2017, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 91.4 billion. Their share as a percentage of total assets amounted to 55.8% 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 88, 91, 92 and 93 as well as on pages 127 to 131 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 95 and 106 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 2017, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.5 billion, while that of the negative replacement values comes to CHF 0.9 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 642.3 billion. Furthermore, as of 31 December 2017, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 2.9 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 88, 89, 93, 94 as well as on pages 131 to 136 of their annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 96, 97 and 104 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.

EY
Building a better working world

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 2017 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 91 and 138 of their annual report. Furthermore, we refer to note 16 on page 106 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	Notes	2017	2016	Change	Change in %
Result from interest operations					
Interest and discount income		1,608	1,452	155	10.7
Interest and dividend income from financial investments		48	57	–9	–15.9
Interest expense		–446	–311	–135	43.2
Gross result from interest operations	33	1,210	1,199	12	1.0
Changes in value adjustments for default risk and losses from interest operations		–9	–12	3	–24.3
Subtotal net result from interest operations		1,201	1,186	15	1.2
Result from commission business and services					
Commission income from securities and investment activities		612	573	39	6.9
Commission income from lending activities		52	55	–3	–5.5
Commission income from other services		104	102	2	2.2
Commission expense		–111	–107	–5	4.4
Subtotal result from commission and business services		657	624	34	5.4
Result from trading activities and the fair value option	32	315	357	–42	–11.7
Other result from ordinary activities					
Result from disposal of financial investments		3	1	2	264.4
Income from participations		76	72	4	5.3
Result from real estate		9	13	–4	–28.4
Other ordinary income		21	18	2	12.6
Other ordinary expenses		–3	–3	–1	39.8
Subtotal other result from ordinary activities		106	102	4	3.9
Operating income		2,279	2,269	11	0.5
Operating expenses					
Personnel expenses	34	–965	–1,035 [1]	70	–6.8
General and administrative expenses	35	–407	–411	4	–1.0
Subtotal operating expenses		–1,372	–1,446	74	–5.1
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–117	–121	4	–3.6
Changes to provisions and other value adjustments and losses		2	–7	9	–
Operating result		792	694	98	14.1
Extraordinary income	36	9	17	–9	–49.7
Extraordinary expenses	36	–0	–6	6	–99.8
Changes in reserves for general banking risks	36		70 [2]	–70	–100.0
Result of the period		800	775	25	3.2

1 Includes a CHF 70 million non-recurring personnel expense in connection with the creation of provisions for pension benefit obligations.

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

Appropriation of profit

in CHF million	2017	2016	Change	Change in %
Result of the period	800	775	25	3.2
Profit carried forward	1	1	–0	–18.3
Distributable profit	801	776	25	3.2
Appropriation of profit				
Profit distribution				
Dividends	363	351	13	3.6
– of which, share paid to canton to defray cost of capital	18	21	–2	–12.1
– of which, dividends for the benefit of the canton	230	220	10	4.5
– of which, dividends for the benefit of the municipalities	115	110	5	4.5
Profit retained				
Allocated to reserves	437	425	12	2.8
– of which, allocated to voluntary retained earnings reserve	437	425	12	2.8
Profit carried forward	1	1	0	53.0

The appropriation of profit was approved by the Board of Directors on 25 January 2018. Approval of the annual financial statements by the Cantonal Parliament is scheduled for 14 May 2018.

Balance sheet
as at 31 December

in CHF million	Notes	2017	2016	Change	Change in %
Assets					
Liquid assets		41,145	35,292	5,853	16.6
Amounts due from banks		4,416	5,248	–832	–15.9
Amounts due from securities financing transactions	1	14,326	14,889	–563	–3.8
Amounts due from customers	2	7,814	7,541	273	3.6
Mortgage loans	2	79,087	77,275	1,812	2.3
Trading portfolio assets	3	7,651	7,834	–183	–2.3
Positive replacement values of derivative financial instruments	4	1,553	1,990	–437	–22.0
Other financial instruments at fair value	3			–	–
Financial investments	5	4,627	4,041	586	14.5
Accrued income and prepaid expenses		308	324	–16	–4.8
Participations		615	624	–9	–1.4
Tangible fixed assets		770	799	–29	–3.7
Intangible assets		1	3	–1	–49.8
Other assets	10	392	501	–109	–21.8
Total assets		162,706	156,360	6,345	4.1
Total subordinated claims		188	181	7	3.7
– of which, subject to conversion waiver and/or debt waiver		31	44	–13	–29.8
Liabilities					
Amounts due to banks		35,378	34,096	1,281	3.8
Liabilities from securities financing transactions	1	6,623	5,084	1,539	30.3
Amounts due in respect of customer deposits		81,463	80,957	506	0.6
Trading portfolio liabilities	3	1,859	2,656	–797	–30.0
Negative replacement values of derivative financial instruments	4	867	1,551	–684	–44.1
Liabilities from other financial instruments at fair value	3,14	1,699	1,581	118	7.5
Cash bonds		191	235	–44	–18.8
Bond issues		12,419	9,329	3,090	33.1
Central mortgage institution loans		9,275	8,384	891	10.6
Accrued expenses and deferred income		607	584	22	3.8
Other liabilities	10	521	499	22	4.4
Provisions	16	582	632	–50	–7.9
Reserves for general banking risks		4,836	4,836	–	–
Capital stock	21	2,425	2,425	–	–
Statutory retained earnings reserve	21	1,213	1,213	–	–
Voluntary retained earnings reserve	21	1,946	1,521	425	27.9
Profit carried forward	21	1	1	–0	–18.3
Result of the period	21	800	775	25	3.2
Equity	21	11,221	10,771	450	4.2
Total liabilities		162,706	156,360	6,345	4.1
Total subordinated liabilities		1,513	1,298	216	16.6
– of which, subject to conversion and/or debt waiver		1,513	1,298	216	16.6
Off-balance-sheet transactions					
Contingent liabilities	2	4,090	4,484	–395	–8.8
Irrevocable commitments	2	9,177	9,019	159	1.8
Obligations to pay up shares and make further contributions	2	233	233	–1	–0.3
Credit commitments					

Equity statement

in CHF million	Bank's capital	Statutory retained earnings reserve	Reserves for general banking risks	Voluntary retained earnings reserve	Distributable profit	Total equity
Total equity as at 01.01.2016						
Opening amount	2,425	1,213	4,906	1,163	685	10,392
Effect of any restatement						
Capital increase						
Capital decrease						
Other contributions / other capital paid in						
Reclassifications						
Capital costs on endowment capital					–26	–26
Allocation to the canton from previous year's profit					–200	–200
Allocation to municipalities from previous year's profit					–100	–100
Valuation adjustments with no income effect						
Other allocations to (transfers from) the reserves for general banking risks			–70			–70
Other allocations to (transfers from) other reserves				358	–358	
Result for the period					775	775
Total equity as at 31.12.2016	2,425	1,213	4,836	1,521	776	10,771
Total equity as at 01.01.2017						
Opening amount	2,425	1,213	4,836	1,521	776	10,771
Effect of any restatement						
Capital increase						
Capital decrease						
Other contributions / other capital paid in						
Reclassifications						
Capital costs on endowment capital					–21	–21
Allocation to the canton from previous year's profit					–220	–220
Allocation to municipalities from previous year's profit					–110	–110
Valuation adjustments with no income effect						
Other allocations to (transfers from) the reserves for general banking risks						
Other allocations to (transfers from) other reserves				425	–425	
Result for the period					800	800
Total equity as at 31.12.2017	2,425	1,213	4,836	1,946	801	11,221

Notes Parent Company

Under Art. 36 of the Swiss Ordinance on Banks and Savings Banks, institutions that draw up consolidated financial statements are exempt from disclosing certain information in the individual financial statements. For reasons of clarity, the same numbering has been used for the required tables as in the consolidated financial statements.

The portrait details, explanations relating to risk management, identification of default risks and definition of the need for value adjustments, valuation of coverage and details of business policy on the use of derivative financial instruments as well as on the use of hedge accounting in the group also apply to the parent company. This is also the case for material events occurring after the balance sheet date.

Accounting and valuation principles

Accounting, valuation and reporting are based on the provisions of the Code of Obligations and Swiss banking law, the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) according to Circular 15/1 issued by the Swiss Financial Market Supervisory Authority 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) Banking Ordinance ("Reliable assessment statutory single-entity financial statements").

They are generally based on the accounting and valuation principles of the group, with the following exceptions: All participations are recognised at the lower of cost or market in the statutory financial statements. Goodwill from acquisitions is included under participations.

In the single-entity financial statement, the reserves for general banking risks are shown as an individual item in the balance sheet. Creation and release of such reserves is shown under Changes in reserves for general banking risks.

i) Information on the balance sheet

1 Breakdown of securities financing transactions

in CHF million	2017	2016
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	14,326	14,889
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	6,623	5,084
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	3,401	3,325
– of which, with unrestricted rights to resell or pledge	3,401	3,325
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	43,042	43,457
– of which, repledged securities	140	358
– of which, resold securities	32,051	31,662

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

Overview by collateral

	Type of collateral			
in CHF million	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	70	977	6,885	7,931
Mortgage loans				
– Residential property	65,968	14	20	66,003
– Office and business premises	8,447	0	14	8,460
– Commercial and industrial premises	2,315	0	19	2,335
– Other	2,340	2	2	2,344
Total mortgage loans	79,070	17	55	79,142
Total loans (before netting with value adjustments) 2017	79,140	993	6,940	87,073
Total loans (before netting with value adjustments) 2016	77,397	874	6,709	84,980
Total loans (after netting with value adjustments) 2017	79,140	993	6,768	86,901
Total loans (after netting with value adjustments) 2016	77,347	869	6,601	84,816
Off-balance-sheet				
Contingent liabilities	73	1,527	2,490	4,090
Irrevocable commitments	1,047	57	8,073	9,177
Obligations to pay up shares and make further contributions			233	233
Credit commitments				
Total off-balance-sheet transactions 2017	1,120	1,584	10,796	13,500
Total off-balance-sheet transactions 2016	1,190	2,010	10,537	13,737

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

Information on impaired loans

Impaired loans	in CHF million	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments[1]
2017		471	275	197	177
2016		468	285	183	169

1 Individual value adjustments of 100 percent of the net debt amount are normally made.
Individual rates for value adjustments may apply in the case of major positions.

3 Trading portfolios and other financial instruments at fair value

Assets in CHF million	2017	2016
Debt securities, money market securities/transactions	3,033	3,574
– of which, listed[1]	2,970	3,469
Equity securities	2,724	2,472
Precious metals and commodities	1,682	1,532
Other trading portfolio assets	213	256
Total trading portfolio assets	7,651	7,834
Debt securities		
Structured products		
Other		
Total other financial instruments at fair value		
Total assets	7,651	7,834
– of which, determined using a valuation model	276	256
– of which, securities eligible for repo transactions in accordance with liquidity requirements	845	1,013

1 Listed = traded on a recognised exchange.

Liabilities in CHF million	2017	2016
Debt securities, money market securities/transactions	1,851	2,644
– of which, listed[1]	1,840	2,589
Equity securities	7	12
Precious metals and commodities	0	0
Other trading portfolio liabilities	0	0
Total trading portfolio liabilities	1,859	2,656
Debt securities		
Structured products	1,699	1,581
Other		
Total other financial instruments at fair value	1,699	1,581
Total liabilities	3,558	4,237
– of which, determined using a valuation model	1,711	1,581

1 Listed = traded on a recognised exchange.

4 Derivative financial instruments (assets and liabilities)

	Trading instruments			Hedging instruments		
in CHF million	Positive replacement values	Negative replacement values	Contract volume [1]	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments						
Forward contracts including FRAs	0	0	1,793			
Swaps	4,757	3,979	267,480	416	713	17,462
Futures			21,535			
Options (OTC)	59	40	3,634			
Options (exchange-traded)	0	0	29			
Total	4,816	4,019	294,471	416	713	17,462
Foreign exchange/ precious metals						
Forward contracts	2,237	2,118	277,032			
Combined interest rate/currency swaps	407	738	4,231	154	124	1,866
Futures			74			
Options (OTC)	232	73	36,580			
Options (exchange-traded)						
Total	2,876	2,929	317,916	154	124	1,866
Equity securities/indices						
Forward contracts						
Swaps	11	9	722			
Futures			2,423			
Options (OTC)	152	47	1,725			
Options (exchange-traded)	108	99	5,796			
Total	271	154	10,666			
Credit derivatives						
Credit default swaps	6	13	603			
Total return swaps	3	3	306			
First-to-default swaps						
Other credit derivatives						
Total	9	16	909			
Other [2]						
Forward contracts						
Swaps	16	16	1,056			
Futures			952			
Options (OTC)	0	1	23			
Options (exchange-traded)						
Total	16	18	2,031			
Total before netting agreements						
2017	7,988	7,136	625,993	570	837	19,329
– of which, determined using a valuation model	7,988	7,136	–	570	837	–
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	–

1 The contract volume shows the amount of underlying on which a derivative is based or the notional amount underlying the derivative in accordance with the requirements of FINMA Circular 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.
2 Includes commodities and hybrid derivatives.

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

Total after netting agreements[3]

in CHF million	Positive replacement values (cumulative)	Negative replacement values (cumulative)
2017	1,553	867
2016	1,990	1,551

Breakdown by counterparty

Positive replacement values (after netting agreements)	Central clearing houses	Banks and securities dealers	Other customers
2017	79	407	1,066

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

5 Financial investments

	Book value		Fair value	
in CHF million	2017	2016	2017	2016
Debt securities	4,300	3,813	4,468	4,028
– of which, intended to be held to maturity	4,300	3,813	4,468	4,028
– of which, not intended to be held to maturity (available for sale)				
Equity securities	59	10	75	21
– of which, qualified participations[1]				
Precious metals	268	217	268	217
Real estate		1		1
Total financial investments	4,627	4,041	4,811	4,267
– of which, securities eligible for repo transactions in accordance with liquidity requirements	4,215	3,720	4,380	3,930

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

Counterparties by rating

in CHF million						
Moody's	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Ba1 – Ba3	Lower than Ba3	Unrated
Standard & Poor's, Fitch	AAA – AA–	A+ – A–	BBB+ – BBB–	BB+ – B–	Lower than B–	Unrated
Debt securities: Book values						
2017	3,921	34				344

All debt instruments without a rating fulfil the conditions of high-quality liquid assets (HQLA) according to the Liquidity Ordinance (LiqV).
If two ratings exist with different risk weightings, the rating with the lower risk weighting is used.
If two or more ratings exist with different risk weightings, those ratings which correspond to the two lowest risk weightings are taken into consideration.
The higher of the two risk weightings is used. Top priority is given to the issue rating and second priority to the issuer rating.

10 Other assets and liabilities

in CHF million	Other assets 2017	Other assets 2016	Other liabilities 2017	Other liabilities 2016
Compensation account	188	315		
Deferred income taxes recognised as assets				
Amount recognised as assets in respect of employer contribution reserves				
Amount recognised as assets relating to other assets from pension schemes				
Negative goodwill				
Settlement accounts	24	46	356	355
Indirect taxes	153	118	38	42
Other	27	23	127	102
Total	392	501	521	499

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

in CHF million	2017 Book value	2017 Effective commitment	2016 Book value	2016 Effective commitment
Pledged/assigned assets				
Amounts due from banks	1,523	1,506	2,212	2,189
Amounts due from customers	1,419	1,368	1,692	1,643
Mortgage loans	11,725	9,275	10,101	9,642
Trading portfolio assets	11	11	50	50
Financial investments				
Total pledged/assigned assets	14,678	12,160	14,056	13,524

No assets are subject to reservation of ownership.
Note 1 shows instruments serving as collateral for which a right of resale or pledging has been granted in connection with securities financing.

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

Liabilities to own pension schemes from balance-sheet transactions

in CHF million	2017	2016	Change
Amounts due in respect of customer deposits	166	104	62
Cash bonds			
Negative replacement values of derivative financial instruments	10	11	–0
Accrued expenses and deferred income			
Total	176	115	62

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

13 Information on pension schemes

a) Employer contribution reserves (ECR)

	Nominal value	Waiver of use	Net amount	Net amount	Influence of ECR on personnel expenses	Influence of ECR on personnel expenses
in CHF million	End of 2017	End of 2017	End of 2017	End of 2016	2017	2016
Zürcher Kantonalbank pension scheme						
Total						

b) Economic benefit/obligations and the pension expenses

	Over-/underfunding	Economic interest of the bank		Change in economic interest versus previous year	Contributions paid	Pension expenses in personnel expenses	
in CHF million	End of 2017	2017	2016	2017	2017	2017	2016
Employer-sponsored funds/employer-sponsored pension schemes							
Pension plans without overfunding/underfunding[1]					115	115	179
Pension plans with overfunding							
Pension plans with underfunding							
Pension schemes without own assets							
Total					115	115	179

1 Including the creation of provisions for pension benefit obligations (2017: CHF 8 million/2016: 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					
	Without oDC					
Equity securities	With own debenture component					
	Without oDC		1,618			1,618
Foreign currencies	With own debenture component					
	Without oDC		22			22
Commodities/precious metals	With own debenture component					
	Without oDC		41			41
Loans	With own debenture component					
	Without oDC		9			9
Real estate	With own debenture component					
	Without oDC					
Hybrid instruments	With own debenture component					
	Without oDC		10			10
Total 2017			1,699			1,699
Total 2016			1,581			1,581

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

in CHF million	Amount at end of 2016	Use in conformity with designated purpose and reversals	Reclassifications	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at end of 2017
Provisions for deferred taxes								
Provisions for pension benefit obligations[1]	70	–36				8		42
Provisions for default risks	144	–7				59	–65	131
Provisions for other business risks[2]	219	–0		–6			–0	213
Provisions for restructuring[3]	0	–0						
Other provisions[4]	199	–0		–5		2	–0	196
Total provisions	632	–43		–10		69	–65	582
Reserves for general banking risks	4,836							4,836
Value adjustments for default and country risks	169	–11			3	88	–72	177
– of which, value adjustments for default risks in respect of impaired loans/receivables[5]	169	–11			3	88	–72	177
– of which, value adjustments for latent risks								

1 In line with its sustainable human resources policy, the Board of Directors decided in December 2016 that the bank would assume certain costs for the financing of transitional solutions in connection with the realignment of the pension fund to the changed environment. Owing to the recalculation, CHF 8 million was added to provisions in the year under review and recognised under personnel expenses.
2 Value adjustments and provisions for other business risks relate to provisions for settlement risks, for example, which cover identifiable risks as at the balance sheet date.
3 Provisions for restructuring were made in connection with the acquisition of the Swisscanto group and comprise personnel measures and various integration costs. The restructuring provisions were used in full in the year under review.
4 Other provisions primarily consist of provisions for litigation and provisions for employees' holiday credits.
5 Default risks consist primarily of counterparty risks, for which value adjustments of 100 percent of the net debt amount are generally made. Individual value adjustment rates may apply in the case of major positions.

Recoveries from amounts due derecognised in previous periods are reported directly in Changes in value adjustments for default risk and losses from interest operations (2017: CHF 13 million/2016: CHF 3 million).
Zürcher Kantonalbank is aware that the United States Department of Justice (DOJ) and the United States Internal Revenue Service (IRS) are investigating Zürcher Kantonalbank's cross-border business with US clients.
These proceedings have been under way since September 2011, and the situation has not changed since last year. The bank is continuing to cooperate with the competent authorities and is working towards reaching an agreement. It is still unclear when the proceedings will be completed.
Zürcher Kantonalbank evaluates all its risks on a constant basis, including risks in this connection. Where necessary, it takes 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 and legal and compliance risks, please refer to section I) of the Risk report.

17 Presentation of the bank's capital

in CHF million	Total par value 2017	Total par value 2016
Endowment capital	2,425	2,425
Total bank's capital	2,425	2,425

In April 2014, the Cantonal Parliament set the endowment capital ceiling, which has an indefinite time limit, of CHF 3,000 million.
Zürcher Kantonalbank's capital consists of endowment capital in the amount of CHF 2,425 million. The Board of Directors can call on the unused CHF 575 million of the endowment capital as needed.

The profit distribution takes place on the basis of the provisions in Section 26f Law on Zürcher Kantonalbank of 28 September 1997, as amended on 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

Neither Zürcher Kantonalbank nor its subsidiaries have employee participation schemes.

19 Amounts due from / to related parties

	Amounts due from		Amounts due to	
in CHF million	2017	2016	2017	2016
Holders of qualified participations	1	4	545	592
Group companies	422	542	264	294
Linked companies	596	547	1,258	1,629
Transactions with members of governing bodies	21	18	25	28
Other related parties				

Affiliated companies are public-law institutions of the respective canton or public-private enterprises in which the canton holds qualified participations.
On- and off-balance-sheet transactions with related parties are conducted at usual market conditions, with the exception of loans to members of governing bodies. Loans to governing bodies are granted on employee terms in some cases.

This primarily involved the usual balance sheet banking business, i.e. it was mainly amounts due from and due to customers. The totals above also include securities items and claims and liabilities from transactions in derivatives (positive and negative replacement values).
The off-balance-sheet transactions with related parties in the amount of CHF 1,408 million (2016: CHF 1,727 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	2017	2016
Reserves for general banking risks	4,836	4,836
Bank's capital	2,425	2,425
Statutory retained earnings reserve	1,213	1,213
Voluntary retained earnings reserve	1,946	1,521
Profit carried forward	1	1
Result of the period	800	775
Total equity	11,221	10,771

The bank does not hold any of its own shares.
The statutory retained earnings reserve cannot be distributed.

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

The requirements are not applicable for Zürcher Kantonalbank.

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

		31.12.17 Net foreign exposure		31.12.16 Net foreign exposure	
Rating system ZKB's own country rating	Moody's	in CHF million	Share as %	in CHF million	Share as %
A	Aaa / Aa1 / Aa2 / Aa3	9,167	79.7	11,127	84.2
B	A1 / A2 / A3	908	7.9	531	4.0
C	Baa1 / Baa2 / Baa3	791	6.9	815	6.2
D	Ba1 / Ba2	485	4.2	634	4.8
E	Ba3	63	0.5	75	0.6
F	B1 / B2 / B3	77	0.7	25	0.2
G	Caa1 / Caa2 / Caa3 / Ca / C	9	0.1	4	0.0
Total		11,501	100.0	13,210	100.0

For further information, please see the "Credit risks" section in the Risk Report.

j) Information on off-balance-sheet transactions

30 Breakdown of fiduciary transactions

in CHF million	2017	2016
Fiduciary investments with third-party companies	218	243
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	218	243

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

Type of managed assets (in CHF million)	2017	2016
Assets in collective investment schemes managed by the bank	82,422	75,939
Assets under discretionary asset management agreements	64,067	56,417
Other managed assets	140,017	131,027
Total managed assets (including double counting)[1]	286,506	263,384
– of which, double counting	43,825	38,658

1 The client assets shown include all client assets of an investment nature held with Zürcher Kantonalbank, as well as client assets held with third-party banks that are managed by Zürcher Kantonalbank. Zürcher Kantonalbank also includes client deposits that that are not of an investment nature in its reported client assets. Non-inclusion of accounts that do not have an investment element would lead to greater volatility in managed client assets and thus distort the meaningfulness of trends in client assets. Assets held with Zürcher Kantonalbank but managed by third parties (custody-only) are not included. Assets of banks and significant investment fund companies (including collective pension fund foundations, investment trusts, pension foundations and pension funds) for which Zürcher Kantonalbank acts exclusively as custodian bank are treated as custody-only.

b) Presentation of the development of managed assets

in CHF million	2017	2016
Total managed assets (including double counting) at beginning	263,384	256,214
+/– net new money inflow or net new money outflow[1]	5,650	7,887
+/– price gains/losses, interest, dividends and currency gains/losses	16,438	6,412
+/– other effects	1,034	–7,130[2]
Total managed assets (including double counting) at end	286,506	263,384

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

2 The restructuring of a major mandate (overlay mandate for the collective foundation) led to a reduction in eligible assets, without an actual outflow of assets. The CHF 7.1 billion reduction in assets is therefore shown under Other effects.

k) Information on the income statement

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

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

in CHF million	2017	2016
Result from foreign exchange, bank notes and precious metals	131	133
Result from bonds, interest rate and credit derivatives	87	144
Result from trading in equities and structured products	38	25
Result from other trading activities[1]	58	54
Total	315	357

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

		Result from trading activities from:						
in CHF million	2017	Foreign exchange and bank notes	Precious metals	Securities lending and borrowing	Bonds, interest rate and credit derivatives	Equities and equity derivatives	Commod-ities and commodity derivatives	Other products[2]
Result from trading in foreign exchange, bank notes and precious metals	131	93	38		0	0		
Result from trading in bonds, interest rate and credit derivatives	87	0			80	7		
Result from trading in equities and structured products	38	−2	−12		5	52	−1	−2
Result from other trading activities	58	−0	−0	60	−1	0	−1	
Total	315	91	25	60	84	59	−2	−2
– of which, from fair value option on assets								
– of which, from fair value option on liabilities	−216	−3	−0		−1	−210	−1	−2

1 The result from other trading activities includes results from securities lending and borrowing as well as positions for which the Executive Board or Asset Management is responsible.

2 Trading income from other products includes hybrid products and real estate derivatives.

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

During financial year 2017, refinancing income from trading activities of CHF –13.3 million (previous year: –12.1 million) was included in the item Interest and discount income.

The item Interest and discount income also includes the result of currency swaps in the amount of CHF 488.3 million (previous year: CHF 272.0 million), which were entered into solely for the purpose of engaging in interest arbitrage.

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

in CHF million	2017	2016
Negative interest on lending business (reduction in interest and discount income)	204	147
Negative interest on deposit-taking business (reduction in interest expenses)	115	117

34 Breakdown of personnel expenses

in CHF million	2017	2016
Salaries for members of the bank's governing bodies and personnel	755	762
– of which, alternative forms of variable compensation		
AHV, IV, ALV and other social security contributions[1]	178	241
Changes in book value for economic benefits and obligations arising from pension schemes		
Other personnel expenses	32	32
Total	965	1,035

1 Including the creation of provisions for pension benefit obligations (2017: CHF 8 million/2016: CHF 70 million).

35 Breakdown of general and administrative expenses

in CHF million	2017	2016
Office space expenses	32	32
Expenses for information and communications technology	158	168
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	1	1
Auditors' fees	4	5
– of which, for financial and regulatory audits	4	5
– of which, for other services	0	
Other operating expenses	212	205
– of which, compensation for state guarantee	23	22
Total	407	411

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	2017	2016
Extraordinary income		
Reversal of impairment on other participations	7	7
Income from sale of other real estate/bank premises	2	8
Income from sale of participations		2
Other	–0	0
Total	9	17
Extraordinary expenses		
Losses from sale of other real estate/bank premises		0
Loss from the sale of participations		
Other	0	6
Total	0	6
Changes 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 releases of hidden reserves or material freed-up value adjustments 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		2017	2016
Participations	Registered office		
Caleas AG	Zurich		0
CLS Group Holdings AG	Lucerne	0	1
Valiant Holding AG[1]	Lucerne	4	
Zürcher Kantonalbank Österreich AG	Salzburg	1	1
Zürcher Kantonalbank Representações Ltda.	São Paulo		0
Total		5	2

1 Appreciation in the first half of the year and reallocation to financial assets as at 1 July 2017.

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

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

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

Balance sheet (before appropriation of profit)

Assets in CHF 1,000	2017	2016
Cash	340	228
Postal account	17	12
Accounts receivable		
Loans	6,111	6,359
Inventory		0
Furniture, IT system	0	0
Accrued interest	239	242
Balance sheet total	6,708	6,841

Liabilities in CHF 1,000	2017	2016
Zürcher Kantonalbank	5,263	5,404
Surplus from auctions	200	225
Accounts payable	17	6
Provisions	140	140
Reserve fund	1,065	1,029
Profit carried forward	1	1
Operating profit	23	36
Balance sheet total	6,708	6,841

Annual results

Expenses in CHF 1,000	2017	2016
Operating expenses	912	949
Refinancing expenses	43	52
Losses	1	1
Depreciation and provisions		
Operating profit	23	36
Total	979	1,039

Income in CHF 1,000	2017	2016
Interest on loans	811	840
Other income	168	200
Total	979	1,039

Loan transactions

	Items	in CHF 1,000	Items	in CHF 1,000
Total loans at 31.12.2016			5,352	6,359
New loans in 2017 (incl. renewals)			10,498	12,883
Repayments in 2017	10,535	12,990		
Proceeds from auctions incl. inventory receipts	179	141		
Total loans at 31.12.2017			5,136	6,111

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, 1 March 2018

Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the financial statements as of 31 December 2017 of

Zürcher Kantonalbank, Zurich

Report of the statutory auditor on the financial statements

Mrs. 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 147 to 165), for the year ended 31 December 2017.

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 2017 comply with Swiss law and the Law on Zürcher Kantonalbank.

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

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

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

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 2017, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 91.3 billion. Their share as a percentage of total assets amounted to 56.1% 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 87, 88, 91, 92 and 93 as well as on pages 127 to 131 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 152, 153 and 158 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.

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 2017, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.6 billion, while that of the negative replacement values comes to CHF 0.9 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 645.3 billion. Furthermore, as of 31 December 2017, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 1.7 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 88, 89, 93, 94 as well as on pages 131 to 136 of their annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 153 to 155 and 157 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 2017 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.

Building a better working world

	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 91 and 138 of their annual report. Furthermore, we refer to note 16 on page 158 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

A

Assessment — Appraisal of a project, situation or participant.

Audit — The business unit Audit (the Inspectorate) is responsible for the group's internal auditing. In organisational terms, it reports directly to the Board of Directors and assists the latter in fulfilling its supervisory and control tasks.

B

Basel III — The reforms published by the Basel Committee for Banking Supervision in 2010, Basel III, include a further revision of the Basel Capital Accord. Besides stricter, risk-based capital requirements with a countercyclical effect, Basel III sets limits on leverage for the first time (leverage ratio). It also specifies a global minimum liquidity standard.

Basel Committee on Banking Supervision — The Basel Committee on Banking Supervision was established by the Bank for International Settlements (BIS) in 1974 and is made up of representatives of central banks and banking supervisory authorities from 27 countries. Switzerland is represented by 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.

C

Capital at risk — The maximum risk capital specified by the Board of Directors, divided between the various risk categories of credit, market and operational risks in order to limit the various business activities.

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

Clearing house — Financial sector institution that ensures the orderly settlement of financial transactions between two counterparties by acting as a central counterparty through which financial transactions between different parties are processed.

Confidence level — Also known as confidence interval or expectancy range. Indicates an interval for the accuracy of the estimated position of a parameter. The confidence interval is the range that contains the true position of the parameter with a specific frequency (confidence level) when random samples are drawn an infinite number of times.

Commodity trade finance — Financing for commodities trading in the form of loans.

Compliance — Compliance involves ensuring that the conduct and actions of the bank and its employees meet applicable legal and ethical standards and also covers all organisational measures designed to prevent violations of the law and breaches of rules and ethical norms by the bank, its governing bodies and employees.

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

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

Corporate governance — Corporate governance is the totality of principles aimed at safeguarding the owner's interests; it is intended to guarantee transparency and provide a proper system of checks and balances at the highest level of the company while preserving decision-making powers and efficiency.

Cost/income ratio (CIR) — The cost/income ratio is a key measure of the efficiency of a participant in the financial sector.

Countercyclical capital buffer — The countercyclical capital buffer is a preventative capital measure within the Basel III framework aimed at preventing excessive bank lending. The level and implementation timescale for the capital buffer are determined by the Federal Council at the Swiss National Bank's request, with FINMA monitoring implementation of the measure at bank level. The SNB can confine the countercyclical capital buffer to just one sector of the credit market (e.g. residential mortgages).

Credit valuation adjustment (CVA) — Additional capital requirement to account for the risk of a change in a counterparty's credit quality where OTC derivatives are not settled via a central counterparty.

Creditworthiness — Ability and willingness of an individual, company or country to repay debts.

E

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

Exception to policy — Procedure or approach that deviates from internal guidelines on an exceptional basis.

F

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

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

FERI Award — FERI EuroRating Services AG selects the best investment funds and fund companies across 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 to ensure the effectiveness of the financial markets.

I

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

IRB approach — The internal ratings-based (IRB) approach is a bank-specific modelling approach based on internal ratings, used to determine risk-weighted capital requirements for credit risk. IRB approaches are more risk-sensitive than the standard approach and have to be approved by FINMA.

Issuer — Issuer of securities such as equities or bonds.

K

Key rate sensitivity — The degree of sensitivity of an asset's net present value to minor changes in an interest rate, e.g. the effect on the net present value of a portfolio of financial investments of a reduction in the market interest rate by 0.01 percent.

L

Letter of credit — The (documentary) letter of credit is an instrument guaranteeing the settlement of payment and credit transactions in connection with international trade. An importer's bank issues a written commitment in which it agrees to make payment to the exporter of a good upon receipt of the documents specified in the letter of credit.

Leverage ratio — The leverage ratio is an unweighted equity ratio and measures a bank's degree of indebtedness. It defines the relationship between equity and the sum of all assets and various off-balance-sheet items.

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

M

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

N

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

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

O

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

P

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

R

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

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

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

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

Risk-weighted assets (RWA) — The term risk-weighted assets was introduced as part of the Basel Capital Accord (Basel III) and constitutes the main basis for measuring risk-weighted capital ratios such as the core capital ratio. Risk weighting assumes that not every position entails the same level of risk. For this reason, less risky positions require less equity to underpin them than riskier ones.

S

SLB transaction — Securities lending and borrowing (SLB) transactions involve a lender transferring a security to a borrower to use for a fixed or indefinite, but callable period; in return, they receive a fee from the borrower.

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

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. From the end of 2018, banks will only be permitted to use the international standard approach. Banks may also use additional, 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. Systemically important banks in Switzerland are subject to particularly strict requirements (“too big to fail”).

V

Value at risk (VaR) — The maximum loss not exceeded on a specific risk position (e.g. a securities portfolio) with a given probability (e.g. 95 percent) over a given period of time (e.g.10 days).

Variable compensation component deferred for three years — An unsecured entitlement to a future allocation of a cash sum that is deferred for a period of three years. It is also subject to additional conditions, in particular the sustainable success of the business.

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

Index

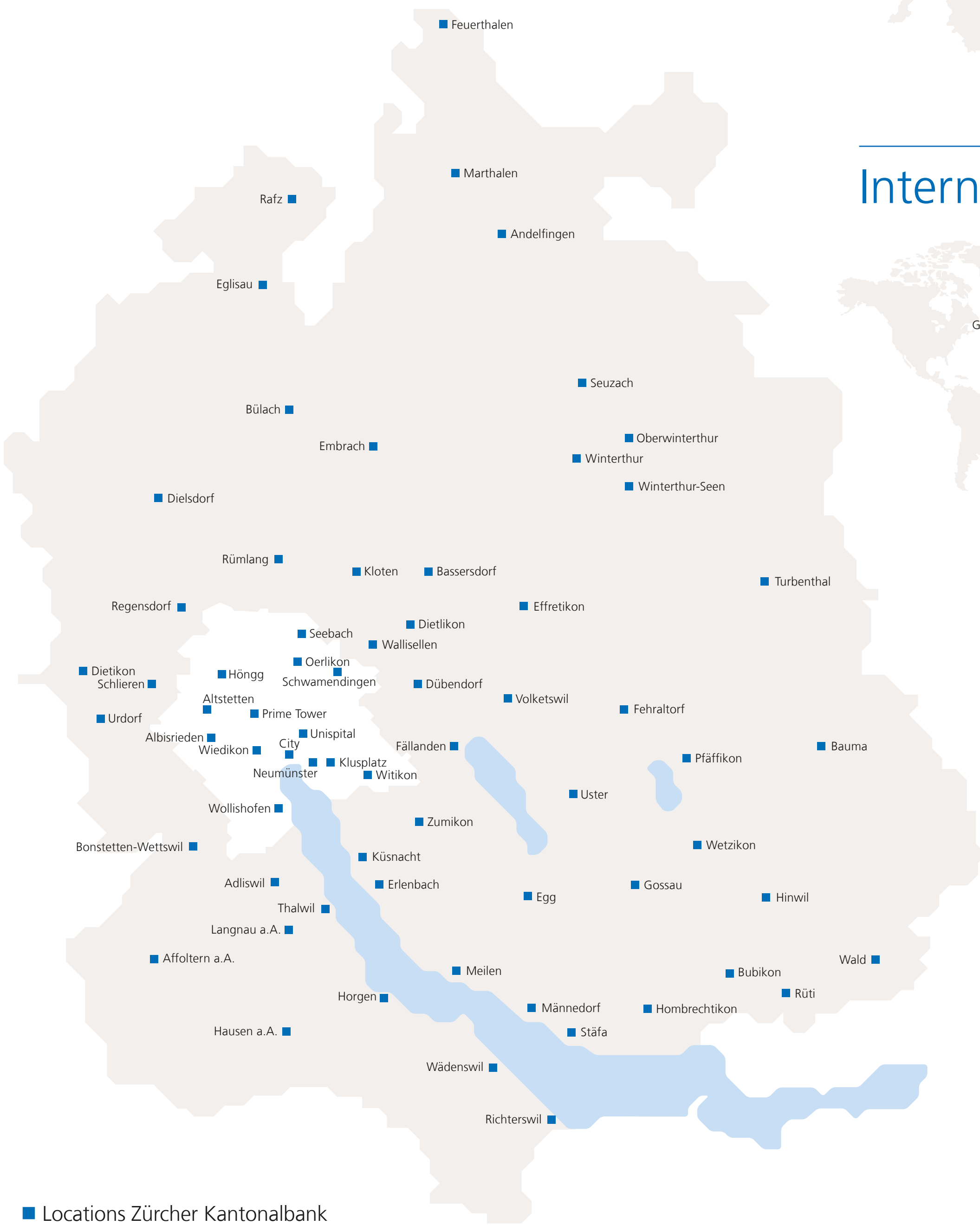
T

V

Branches

Canton of Zurich

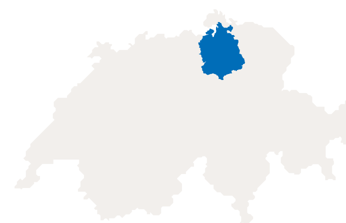
We have a strong local base. With 67 branches and 350 ATMs we have the densest network of ATMs and branches in the Canton of Zurich.



■ Locations Zürcher Kantonalbank
■ Locations Swisscanto Holding AG
* Representation Offices

As end of March 2018

Switzerland



International

Contacts

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

Retail Clients
+41 (0)844 843 823
kundenservice@zkb.ch

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

Corporate Clients
+41 (0)844 850 830
kundenservice@zkb.ch

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

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

You can also find further
information at zkb.ch

Imprint

Published by: Zürcher Kantonalbank, Zurich; Design and layout: hilda design matters, Zurich; Photography: Geri Krischker, Zurich (cover), Markus Bühler, Zurich (page 8), Dominique Meienberg, Zurich (pages 60 – 64); Printing: Multicolor Print AG (NZZ Mediengruppe); Copyright: Zürcher Kantonalbank; Reproduction is permitted with the editor’s permission and indication of the source. Printed in Switzerland on 100 % recycled paper.