Annual Report

Financial year 2018

Zürcher Kantonalbank

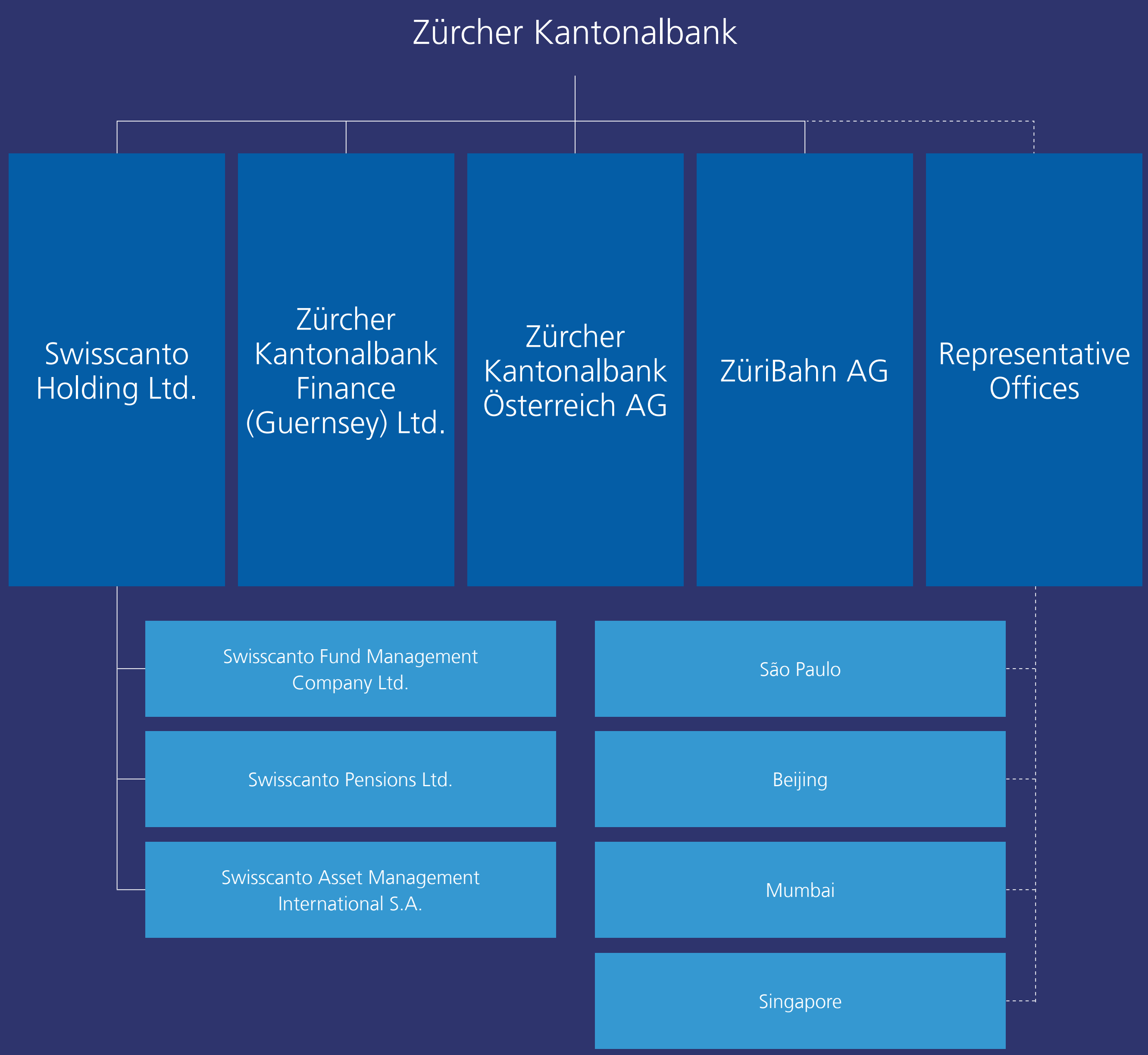
Close
to you.

Key figures (group)

	2018	2017	Change in %
Income statement in CHF million			
Net result from interest operations	1,213	1,202	0.9
Result from commission business and services	776	770	0.8
Result from trading activities and the fair value option	286	334	–14.4
Other result from ordinary activities	46	31	49.2
Operating income	**2,320**	**2,336**	**–0.7**
Operating expenses	–1,430	–1,434	–0.2
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–192	–120	60.4
Changes to provisions and other value adjustments and losses	194	2	n/a
Operating result	**892**	**784**	**13.7**
Extraordinary result	103	8	n/a
Changes in reserves for general banking risks	–200	–	n/a
Taxes	–7	–11	–34.9
Consolidated profit	**788**	**782**	**0.8**
Balance sheet (before appropriation of profit) in CHF million			
Balance sheet total	169,408	163,881	3.4
Mortgage loans	81,256	79,087	2.7
Amounts due in respect of customer deposits	85,537	81,381	5.1
Provisions	255	585	–56.3
Shareholders' equity	11,852	11,228	5.6
Key figures in %			
Return on equity (RoE)	7.1	7.3	
Cost / income ratio (CIR) [1]	61.4	61.1	
Common equity Tier 1 ratio (CET1) [2]	17.8	16.5 [3]	
Core capital ratio (Tier 1) [2]	20.2	18.8 [3]	
Total capital ratio [2]	20.2	18.8 [3]	
Leverage ratio [2]	6.8	6.8	
Liquidity coverage ratio (LCR) [4]	127	153	
Customers' assets in CHF million			
Total customers' assets	**295,194**	**288,802**	**2.2**
Headcount / branches Number			
Headcount after adjustment for part-time employees, as at the reporting date	5,087	5,117	–0.6
Branches [5]	75	78	
Profit distribution in CHF million			
Share paid to canton to defray cost of capital	13	18	–28.5
Distribution to canton	230	230	–
Distribution to municipalities	115	115	–
Total profit distribution	**358**	**363**	**–1.4**
Additional compensation for state guarantee	22	23	–3.5
Additional payments from public service mandate	140	131	6.8
Rating agencies Rating			
Fitch	AAA	AAA	
Moody's	Aaa	Aaa	
Standard & Poor's	AAA	AAA	

1 Calculation: cost / income ratio (excl. changes in default-related value adjustments and losses from interest operations).
2 In accordance with the provisions for systemically important banks.
3 Including effects stemming from the changeover to IRB and SA-CCR.
4 Simple average of the closing values on the business days during the quarter under review.
5 Including branches of Zürcher Kantonalbank Österreich AG in Salzburg and Vienna as well as six automated banks.

Group structure



Group mission statement

Our vision

Close to you

We support, advise and offer solutions.
Always, everywhere.
Throughout your life.

— No. 1 in the Greater Zurich Area
— Nationally strong
— Internationally successful

Our goals

Powerful Swiss universal bank

— Happy clients
— Committed staff
— High financial stability
— Sustainable success

Our values

Inspiring
Motivate, think ahead, show courage

Responsible
Be reliable, create value, be present

Passionate
Be involved, enthuse, persevere

Our roots

The bank of the people of Zurich

— For the population and the economy
— Continuity in business policy
— Economic, ecological and social engagement

Our 2018 financial reporting includes the publications on our financial year and our company profile. It illustrates how Zürcher Kantonalbank creates sustainable value for Zurich as an economic area and a place to live. This year's thematic focus lies on Zurich as a centre of business and education. The cover features René Kalt, Director of Stiftung Innovationspark Zürich, Claudia Bürgler (right), Deputy Director of Innovationspark Zürich, and Susanna von Känel, responsible for Büro Züri at Zürcher Kantonalbank, photographed in the pavilion of the Innovation Park in Dübendorf.

Read our company profile to find out more about our commitment. **zkb.ch/unternehmensprofil**

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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.

0 (0 or 0.0) Figure that is smaller than half the unit of account used
– Figure not available or not meaningful

Martin Scholl (left) and Dr Jörg Müller-Ganz at the newly modernised Zurich-Neumünster branch, which reopened in 2018

Interview

"If you're inspiring, you're a step ahead of the rest"

Zürcher Kantonalbank has adopted a new group mission statement. Dr Jörg Müller-Ganz, Chairman of the Board of Directors, and Martin Scholl, Chief Executive Officer, explain what that means for employees and the future.

Mr Müller-Ganz, Mr Scholl, Zürcher Kantonalbank presented encouraging figures again in 2018, despite the challenging environment. Why is that?

Müller-Ganz: For years now, the sustained success of our bank has been largely shaped by four factors: our values, ownership, strategy and organisation and staff. Values you associate with Zurich, including a focus on performance, reliability, transparency, accountability, restraint, continuity and sustainability, are in our DNA. Our owner representatives, Zurich's Parliament, are another factor in our success – they define the scope of our business activities: a business policy focused on continuity, the requirement that we refrain from entering into any inappropriate risks yet generate appropriate profit, and finally the state guarantee, which exerts discipline over the governing bodies and staff and motivates them to act in moderation.

Scholl: Another success factor is the long-term strategy, which we have essentially been pursuing unchanged for 20 years. We strive for profit-oriented growth in our various client groups, in geographically clearly defined markets. Here we are helped by the fact that our organisation is characterised by high consistency and low staff turnover in key positions.

Is there any danger of becoming spoiled by success?

Scholl: No. It's a matter of mentality – much like athletes who have won a competition several times in a row but who are still aiming for top results. That's why it's so important for us to have people with the right kind of drive in the company. We want to combine the power of our 150-year-old institution with the athletic spirit of a start-up.

Zürcher Kantonalbank launched its new investment offering in 2018. Has it met your expectations?

Scholl: Absolutely. Our clients place enormous trust in our new investment offering. That has a positive effect on the entire bank.

In 2018, you were able to wrap up the legal dispute with the US Department of Justice with a fine. All's well that ends well?

Müller-Ganz: A USD 98.5 million penalty hurts. I'm still relieved, though, that we reached an agreement with the US Department of Justice on the bank's legacy business with US clients. The fine will have neither a negative impact on our business performance for 2018 nor on our equity and distributions. We remain one of the best-capitalised banks in the world.

Which of the Board of Directors' tasks were most intensive in 2018?

Müller-Ganz: In addition to many other things, we looked ahead to the succession planning for the Executive Board, since many members will reach retirement age at around the same time in a few years. In December, Board member Jürg Bühlmann, previously Head of Logistics, was appointed as the new Head of Corporate Banking. Now we are working on promptly filling this new vacancy in the Logistics business unit.

How will the Board of Directors ensure this succession plan?

Müller-Ganz: It's based on sound groundwork. The Board of Directors is composed of individuals with an extremely diverse range of professional, entrepreneurial and specialist experience. This is a good prerequisite for taking a well-considered approach on multidimensional issues like these. For years now, our bank has been making a targeted effort towards promoting young talent at all levels of management, including the Executive Board. The result is that we always have internal candidates for every function. Plus, Zürcher Kantonalbank is an attractive bank at every level of the employee hierarchy, also for people hired from outside. So you can expect us to find the most suitable staff for every function.

How does the bank promote staff at every level?

Scholl: Our managers cultivate the dialogue with their staff in such a way that they're able to develop their employees' skills and pinpoint interesting prospects. The intensity of these discussions has picked up even further since we introduced our "Performance & Development" management approach. With over 5,000 jobs at our bank, we offer innumerable further development opportunities – even if somebody wants to try out something entirely different.

What is the relevance of innovations like ZKB TWINT, the SME Financial Assistant and the ZKB Real Estate Portal?

Scholl: While some clients still prefer using bank counters, others want to conduct as many banking transactions as possible online. The innovations you listed help us to pleasantly surprise our clients in the digital world. Incidentally, 20 years ago we became the first bank to open an online bank. We want to create proximity to our clients – both online and offline – and this is one of our strategic priorities.

The Board of Directors defined a new group mission statement during the year under review. What prompted this?

Müller-Ganz: Our world, economic and societal requirements as well as our clients' needs and behaviour are in an accelerating state of transformation; this has been the case for some time already of course, but the momentum of this transformation continues to grow, increasingly producing new and disruptive solution models. We therefore decided to adapt and refine our mission statement to reflect these new requirements; using an evolutionary approach, not revolutionary.

What do the new company values mean?

Müller-Ganz: We are and will always be "responsible". That lays the foundation for our business. We also remain "personal", but want to be perceived as "passionate", that is, we want to noticeably increase our own personal enthusiasm about the work we do and we want this to show through more strongly in our interactions with clients. We took our old value of "competent" and stepped it up to "inspiring". Our clients expect professional competence as a given, but we want to go above and beyond this by being "inspiring". The Board of Directors expects all employees to think ahead and inspire our clients, partners and suppliers alike. If you're inspiring, you're a step ahead of the rest.

Responsible, passionate, inspiring: what do you want to emphasise?

Scholl: We strive to live by each and every one of our values every single day. But it's about more than just setting an example. We want our values to motivate our employees. They give our staff a great deal of leeway, but also responsibility. For us, it's important that employees don't just sit back and wait for us to take the initiative, but rather take it themselves.

Which developments will pose a challenge to the bank over the next few years?

Müller-Ganz: Digitisation, globalisation, automation: the pace of change is accelerating. The Board of Directors is responsible for creating the strategic conditions that will allow Zürcher Kantonalbank to continue meeting its clients' needs as a secure and sustainably successful universal bank – over the course of the next decade and beyond. To do so, we are defining a path to navigate between seemingly contradictory aspects and aspirations: stability and development, reliability and innovativeness, local roots and global needs, analogue and digital worlds, simplicity and complexity.

Does the strategy already reflect these challenges?

Scholl: 100 percent! What counts, though, is how we implement it. As an organisation, we want to embark on this journey with our clients and our staff – and make sure we don't lose anybody along the way. Innovations need to be administered in doses to make sure everybody stays on board.

One strategic priority is to "become simpler and more agile". But the regulatory burden in the financial market is growing…

Müller-Ganz: One important duty of the Committee of the Board is to help prevent legal regulations on the Swiss financial market from restricting the scope of national banks, and

Zürcher Kantonalbank in particular, even further.

Would you be willing to risk a market outlook for 2019?
Scholl: Interest rates will probably remain low for the time being and the threat of a recession is minor. Investors should remain invested, but pay attention to quality and broad diversification. We still consider equities to be more attractive than bonds. Recommending any "timing" is almost impossible, though, if only due to geopolitical risks. Finally, greater volatility in trading could lead to opportunities.

A growing number of insurance companies, online providers and pension funds are rushing into the mortgage market. Will your bank be able to defend its position as leader?
Scholl: While we're growing with the market, we define ourselves by the services we provide, not price. Quality comes before quantity. History seems to be repeating itself with respect to some "new" competitors. There was a time around 20 years ago when we bought mortgages back from pension funds because they discovered that other asset classes had become more profitable again.

Zürcher Kantonalbank has to meet higher capital adequacy requirements from 2019 onwards. What does that mean?
Müller-Ganz: The Federal Council differentiates between the two globally active, system-relevant large banks and the three nationally active, system-relevant banks, of which Zürcher Kantonalbank is one. It defined the capital adequacy requirements for a potential crisis for the nationally active, system-relevant banks at the end of the year. When doing so, it factored in the state guarantee of Zürcher Kantonalbank and defined lower requirements. While these requirements will only apply in six years, we already exceed them thanks to our targeted equity capital policy.

What is Zürcher Kantonalbank doing to promote innovation in the Greater Zurich Area?
Müller-Ganz: Zürcher Kantonalbank is the largest private promoter of innovation – across all of Switzerland. We promote basic research through long-term cooperation with all four universities in the canton. We also enable young entrepreneurs to set up their own businesses by financing various platforms. Plus we donate space for start-ups in all relevant technology and innovation parks in our canton. Finally, we support young, innovative companies through the provision of equity capital: we currently have a financial stake in 100 start-ups. In addition, we recently launched a growth fund for institutional investors, making CHF 150 million available to promising young companies.

How do you interpret the public service mandate in today's world?
Müller-Ganz: The focus is on ensuring that the people and companies in the canton have access to financial services. What this means became apparent after the financial crisis of 2008, for example. Zürcher Kantonalbank proved to be a safe haven for clients' money back then. We continued to serve all companies as a reliable financing partner, while other banks severely restricted their lending. What's more, we are fulfilling the bank's legal mandate to contribute towards efforts to address economic and social issues and support environmentally sustainable development in the Canton of Zurich. Last year, we committed CHF 140 million in a wide range of different ways to do just that.

The bank's 150th anniversary is approaching. There is a controversial debate surrounding the cable car across Lake Zurich. Would you decide in favour of this project again?
Scholl: Yes. Even when we were planning this major project, experts told us that objections would be raised. According to surveys, however, our project with ZüriBahn enjoys a very high approval rating, even in the affected districts of Riesbach and Wollishofen. To us, it's not about marketing, but about creating an innovative project for the city and the canton. And the same applies to the ErlebnisGarten recreational park and ZeitReise, which takes you back 150 years in time.

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.

Interview: Stephan Lehmann-Maldonado

Zürcher Kantonalbank has successfully positioned itself as a universal bank with a regional base as well as a national and international network. We are not only the leading 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: responsible, inspiring, passionate. We are part of life in the Canton of Zurich.

Looking back

We are extremely satisfied with our key figures for financial year 2018. The return on equity amounted to 7.1 percent. The cost / income ratio was 61.4 percent. We have further strengthened our capital base in recent years, and at the end of 2018 had a total capital ratio of 20.2 percent. This far exceeded the minimum regulatory requirement of 14.7 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 this would raise the total capital ratio by 0.9 percentage points.

The financial year in numbers

Switzerland's only AAA bank

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 the state guarantee, 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. In the view of ratings agency Standard & Poor's, Zürcher Kantonalbank is among the safest banks in the world. Given its "stand-alone credit profile" of aa-, the bank's creditworthiness is rated as extremely good, even without taking the state guarantee into account. The bank reported equity of CHF 11.9 billion at the end of 2018. The total capital ratio amounted to 20.2 percent. These figures confirm our standing as one of the best-capitalised banks in the world. Based on our total assets of more than CHF 169.4 billion, we are the largest cantonal bank in Switzerland and the fourth-largest bank in the country.

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 branches and ATMs, our clients are conducting a growing number of banking transactions via our support centres, eBanking and eBanking Mobile services. Over the course of the last year, we committed CHF 140 million to providing financial support in the Canton of Zurich in the economic, social and environmental arenas. Through more than 150 sponsorship

Figures achieved

Indicators	Objectives	2018	2017	2016
Return on equity (RoE) [1]		**7.1**	7.3	7.4
Cost/income ratio (CIR)	58–64 %	**61.4**	61.1	61.7
Total capital ratio [2]	16–19 %	**20.2**	18.8	17.5
Group rating	AAA, Aaa	**AAA, Aaa**	AAA, Aaa	AAA, Aaa
Employee satisfaction [3]	≥ 70 points	**–**	84	72
Brand performance [3]	≥ 60 points	**–**	64	66
Customer satisfaction [4]				
Retail and commercial clients	≥ 75 points	**82**	–	75
Corporate clients	≥ 75 points	**86**	–	83
Private banking clients	≥ 75 points	**82**	–	79

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 in relation to credit risk (F-IRB, applied since 2017).
3 Surveyed every two years; 2017 results, next survey in 2019.
4 Surveyed every two years; 2018 results, next survey in 2020.

commitments, we are also actively helping to make the Canton of Zurich liveable.

Diversified income

Our economic strength is based on a broadly diversified business model, which has an impact on our income structure. We therefore aim for qualitative growth, particularly in the investment and asset management business. With nearly CHF 150 billion in assets under management, Swisscanto Invest by Zürcher Kantonalbank is also Switzerland's third-largest fund provider. Commission business accounted for 33 percent of the bank's operating income at the end of 2018, with the net result from interest operations contributing 52 percent, and 12 percent stemming from the trading business.

Profit

With consolidated profit of CHF 788 million, 2018 marks yet another gratifying result. The appropriation of profit includes a dividend of CHF 358 million. Of this, CHF 243 million will go to the canton and CHF 13 million will be used as payment for the cost of capital. Around CHF 115 million will go to the municipalities.

Important employer

5,855 people work at Zürcher Kantonalbank (group) in 5,087 full-time positions. With 410 traineeships in the areas of banking, IT, logistics and general administration, we are one of the largest training centres in the Zurich region.

Milestones and material events

New group mission statement

Zürcher Kantonalbank's mission statement was revised during the year under review. The change was made alongside the introduction of our new brand values: responsible, inspiring and passionate. The group mission statement describes the identity of Zürcher Kantonalbank and serves as a compass for our conduct and the future development of our company and our subsidiaries.

Anniversary

Zürcher Kantonalbank will be celebrating its 150th anniversary in 2020. Our bank has been uniquely shaping and promoting the way people live and work in the canton since 1870. To express our deep sense of solidarity with the region, we would like our anniversary activities to be a continuation of the factors that have always been behind each and every thing we do: building bridges, providing inspiration and creating encounters. We will be celebrating our anniversary with three lighthouse projects – ZüriBahn (cable car), ErlebnisGarten (recreational park) and ZeitReise (historical exhibit) – as well as numerous other activities.

ZüriBahn will connect the right lake shore with the left shore for five years and not only serve as an attraction for locals and tourists offering an amazing view of Zurich and the Alpine panorama but also inspire the solution-finding process for transportation-related issues of the future. The design and architecture of ZüriBahn's cabins, supports and stations have already been finalised. Key framework conditions related to the realisation of the ZüriBahn project were clarified upon the submission of the dossier for the plan approval process to the Federal Office of Transport in autumn 2018.

ErlebnisGarten will be an inspirational park landscape at Zurich's Landiwiese recreational area. The plan includes: a restaurant pavilion, cultural high-lights from our approximately 150 sponsorship partners, hanging gardens with native Swiss plants, space to work and installations that offer plenty of room to play. The building permit request was submitted in autumn 2018 and the permit to start work on ErlebnisGarten is expected in spring 2019. ErlebnisGarten will be freely accessible to the public for 45 days, from the end of May to mid-July 2020.

ZeitReise will be an installation partially housed in a pavilion of ErlebnisGarten. This exhibit will present the history of our bank and that of the Canton of Zurich within the context of Switzerland's social and economic history. It will be an interactive display of the bank's history, from its origins in the 19th century to the present day and beyond. This will all be made possible by historians of our bank, who have dedicated years to combing through Zürcher Kantonalbank's historical archives for interesting and unusual stories in collaboration with external historians and experts.

Agreement with US Department of Justice

Zürcher Kantonalbank has concluded the US Department of Justice's investigation into the bank's legacy business with US clients with a Deferred Prosecution Agreement (DPA). Under this settlement, the bank has promised to make a payment of USD 98.5 million. The agreement will have no negative impact on the bank's 2018 financial results, its capital strength, or on the distribution of profits to the canton and municipalities. Zürcher Kantonalbank has successively adjusted its cross-border wealth management business since 2009. It is committed to a strict tax-compliant business policy, and in terms of geographic coverage focuses on selected core markets with an emphasis on Europe.

Digital identity

The SwissSign Group AG was founded in 2018 as a joint venture to create and implement a digital identity in Switzerland. Zürcher Kantonalbank has joined together with Swiss Post, SBB, Swisscom and other banks and insurance companies to form a broad-based, state-affiliated group of sponsors for this newly founded joint venture. This group's declared goal is to work out a solution for creating a digital identity in Switzerland – the SwissID. The planned SwissID would enable people to safely navigate the digital world and simplify the use of online services. A widely accepted digital identity would make it possible to structure and conduct business and administrative processes on the Internet much more efficiently.

In addition, Zürcher Kantonalbank represents Switzerland's cantonal banks on the "Digitisation" expert commission recently founded by the Swiss Bankers Association.

Innovation Park

Innovation is the motor that drives our economy. When innovation combines with entrepreneurship, this lays the foundation for outstanding and sustainable pioneering achievements. Switzerland still tops the list of highly innovative countries and Innovation Park Zurich is now helping to hone Zurich's competitive edge as a business location. Stiftung Innovationspark Zürich is the foundation working to create a new platform for research, development and innovation at Dübendorf airport. It was jointly founded and financed by the Canton of Zurich, ETH Zurich and Zürcher Kantonalbank; the bank is also involved in the foundation's Board of Trustees. The Innovation Park's pavilion opened its gates in spring 2018, and that in turn signalled the start of this intergenerational project.

Green bond successfully placed

In a challenging market environment, Zürcher Kantonalbank issued its first green bond, which was met with encouraging demand. The volume of the bond, which was issued in accordance with international standards (ICMA Green Bond Principles), reached CHF 325 million with a 7-year term. Funds generated through green bonds are earmarked for use in projects and investments in the area of climate and environmental protection. Given that sustainability is part of our public service mandate, it goes to follow that it is also a strategic goal of Zürcher Kantonalbank. The proceeds from the issue will therefore be used to refinance existing and future ZKB environmental loans. Zürcher Kantonalbank is the first Swiss financial institution to issue a green bond in Swiss francs.

Swisscanto Funds Centre sold to Clearstream

Swisscanto Funds Centre Ltd., London (SFCL), a wholly-owned subsidiary of Swisscanto Holding Ltd., was acquired by a post-trade services provider of the Deutsche Börse Group, Clearstream International S.A. With the fund platform market fragmented and currently undergoing global consolidation, significant growth is mainly attainable outside Switzerland or by actively participating in the consolidation process. In that context and given our standing as a bank that focuses on the Greater Zurich Area, we decided to sell the platform. Zürcher Kantonalbank will still be one of SFCL's main distribution partners in the future.

Changes in the Executive Board of Zürcher Kantonalbank

The Board of Directors of Zürcher Kantonalbank elected Dr Jürg Bühlmann as new Head of Corporate Banking during the year under review. He will be taking over for Heinz Kunz, who will be stepping down from his position as Head of Corporate Banking at the end of 2019. Jürg Bühlmann will hand over his function as Head of Logistics in mid-2019.

Streamlining of the branch network

Our clients' needs are changing constantly and the importance of traditional counter-based business continues to decline. Today, well over 90 percent of clients withdraw their cash from ATMs while the popularity of cashless payments is also on the rise. At the same time, use of digital channels, like eBanking and eBanking Mobile, is increasing markedly. In light of these changes, Zürcher Kantonalbank has decided to close its Embrach, Erlenbach, Marthalen, Bonstetten, Hausen a. A., Langnau a. A. and Zurich-Albisrieden locations by mid-2020. The locations affected are branches that primarily offer counter-based services and are used mainly for making deposits and withdrawals. The ATMs will remain in each of these municipalities and all affected members of our staff will be offered jobs within the bank.

"Kantonalbank" tram stop

The tram stop outside the City site at Bahnhofstrasse 9 was renamed at the time of the timetable change in December. It is now called "Kantonalbank" (previously: "Börsenstrasse"). The "Börsenstrasse" tram stop was named after the former stock exchange [Börse], which was built in 1877 at the corner of Bahnhofstrasse / Börsenstrasse (Bahnhofstrasse 3) and which saw active trading until 1930. As the "Börsenstrasse" tram stop is directly in front of Zürcher Kantonalbank at Bahnhofstrasse 9 – and not in the Börsenstrasse – the new name should make the stop's geographical location clearer for passengers.

Impressive customer satisfaction

The 2018 study reveals yet another significant improvement in customer satisfaction across all business units. We received extremely good marks for the service quality offered at the info desks, counters and in the support centre as well as for our advisory quality and client focus. The survey results show that our clients trust us and want high-quality advice. Commitment, a desire to improve and a high affinity for service reinforce our claim of being responsible, inspiring and passionate – close to you.

Corporate clients: magic milestone achieved

In Corporate Banking we achieved a market penetration rate of 50 percent in the Canton of Zurich. Plus, more than one-third of the companies in Zurich call us their principle bank. That makes us the clear number one in Corporate Banking in the Greater Zurich Area.

New investment offering successfully launched

The model employed in our new investment offering 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. With this new approach, we recorded strong growth among both traditional asset management mandates and the new advisory mandates. Client assets were boosted by CHF 6.4 billion to CHF 295.2 billion during the year under review. The net new money inflow was CHF 18 billion.

Sustainable investment solutions

Swisscanto Invest by Zürcher Kantonalbank, the asset management division of Zürcher Kantonalbank, expanded and consolidated its portfolio of sustainable investment solutions during the year under review. Its solutions differ from traditional investments in that companies are evaluated in accordance with sustainability criteria before any investment is made by the fund. Two product lines were defined: "Responsible" and "Sustainable". Both of these implement the concept of sustainability to different degrees. The Responsible approach avoids companies with the lowest sustainability ratings from the very start while the Sustainable approach exclusively considers companies that not only earn an attractive return but also benefit society. Both product lines are available for both equities and bonds. Zürcher Kantonalbank has been managing sustainable investments for 20 years and is a pioneer in this area. Our funds are also monitored externally by an interdisciplinary board of proven sustainability specialists. Swisscanto Invest actively exercises its voting rights and has developed its own voting guidelines. Last but not least, all our sustainability funds bear the European Transparency Code logo.

Private Markets Initiative

Swisscanto Invest by Zürcher Kantonalbank launched a private equity fund with participations in innovative companies in their growth phase. This fund offers qualified investors opportunities to earn attractive yields and gives them easy access to unlisted Swiss growth companies that are currently in the expansion phase. The fund also helps close the gap for follow-up financing and improves

Switzerland's appeal as a financial centre to young companies. The growth fund is the first product offered by the Private Markets Initiative of the Asset Management division of Zürcher Kantonalbank. With capital commitments of around CHF 150 million as of December 2018, interest in this fund has significantly exceeded expectations. This initiative addresses institutional investors' growing need for private market investments. Other exclusive investment vehicles are planned in the areas of private equity and private debt.

New banking packages

With the revision of our "ZKB inklusiv"package solutions, we offer our clients a clear and simple range of combinations between personal and savings accounts, debit and credit cards. We also launched a digital product advisor, which looks at a wide range of client needs, including saving, online shopping and making payments abroad, and offers a product recommendation on that basis. The product advisor makes it easier for our clients to select their banking products.

We have revised our range of offerings to better meet the needs of small and medium-sized enterprises as well. Our new "SME Package" comprises comprehensive advisory services and quick, secure payment transaction solutions with discounts. This lets us make our clients' day-to-day lives easier while also helping to simplify their processes.

Smart search for real estate

A commute of no more than 45 minutes, a school within a one-kilometre radius and, if possible, a local recreational area within this range too: these and other criteria can be entered into the search function of our real estate hub at zkb.ch/cleversuchen to help prospective buyers find the property that perfectly meets their needs. By the end of 2018, we had expanded the digital self-service options for people wishing to buy their own home and linked them to personal advisory consultations.

Workplace of the future

Since Zürcher Kantonalbank values short, quick decision-making paths and personal communication among staff, it has equipped all employees with new laptops to help them work more flexibly – at their own workplace, on the bank's premises, during advisory consultations or from home. The office concept is also being revised as part of a strategic spatial planning initiative. Zürcher Kantonalbank provides its staff with modern workspaces and tools, which it updates on an ongoing basis. Among other things, we take into account the latest findings with respect to collaboration, recent technological developments (digital workplace) and user-friendly workplace and room design. Flexible working methods promote entrepreneurial thinking and action, customer proximity, creativity, motivation, satisfaction and productivity. The goal is to simplify collaboration while also boosting efficiency and the quality of both internal and external services.

Commercial apprenticeship of tomorrow

Rapidly changing client needs, digital transformation, regulation, new competitors: what does that mean with respect to the skills required of banking specialists? That is the focus of our "Employees of the Future" project. The first step we took was to review the commercial apprenticeship and adapt the curriculum. As one of the largest providers of vocational training in the Canton of Zurich, Zürcher Kantonalbank wants to actively shape the future of the commercial apprenticeship and keep the programme's quality high. We therefore began looking at the requirements of commercial apprenticeships at an early stage and worked on ways that these could be taken to the next level. The new curriculum involves shorter, alternating assignments and links them to the skills that apprentices need to acquire. Efficient and systematic learning and working, the use of technical aids when providing advisory services, conceptual skills and empathy will be areas of focus. Successful, motivated graduates who have completed their apprenticeship also have the opportunity to complete their first assignment within the framework of a newly launched thematic programme.

Outlook

We expect the environment to remain challenging in 2019. Nevertheless, we are confident in our ability to generate attractive results again in 2019 thanks to our extremely sound footing, balanced business model and clear strategy. As a strategically well-positioned universal bank, we aim to systematically expand our market leadership in the years ahead.

Despite major challenges on the geopolitical agenda, such as the US-China trade conflict, Brexit and unresolved structural problems in the EU, we expect global economic growth to continue in 2019, albeit at a much lower pace. In terms of monetary policy, the US Federal Reserve will continue to normalise interest rates, while the European Central Bank will not raise the key rate before autumn 2019. The further increase in volatility in the financial markets represents a return to normality.

Competition in the banking business will presumably continue to grow in the years ahead, and the digitisation, 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 playedby banks, particularly that of domestic banks, with respect to society and the economy.

Since the general conditions will remain challenging, we need to respond swiftly and appropriately to changes with a view to safeguarding 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 developing our 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.

Our investment and retirement planning business continues to be a strategic priority for us. We show our clients how they can build up assets in the long term amid a low interest rate environment and take the growing importance of private retirement planning into consideration.

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. Our clients should experience our brand promise through every channel.

Management Report

Management Report

The bank of the people of Zurich

Over the past 150 years, the Canton of Zurich has developed into an economic and cultural centre. And at its side, Zürcher Kantonalbank has grown as well. We continuously seek out ways of meeting our present-day challenges in order to fulfil our public service mandate. If our business activities are successful, everybody wins: the canton, the communities, the companies – to the benefit of everybody in Zurich.

History

Zürcher Kantonalbank was founded in 1870 as the "Bank of the people of Zurich". As a universal bank with a comprehensive range of products and services, we offer a counterweight to the major and private banks. Our vision has remained unchanged since the bank was first founded: close to you.

Founding years

When Zürcher Kantonalbank opened its first counter back on 15 February 1870, it did so during a time when private banks largely neglected to serve tradesmen, employees and small factory owners who needed mortgages and had other capital-related requirements for their agricultural and commercial businesses. This is where the "Bank of the people of Zurich" was to step in, at least that was the idea of Johann Jakob Keller, a member of the Cantonal Parliament and one of the driving forces behind the bank's founding.

The Canton of Zurich provided the endowment capital, guaranteed the bank's liabilities (state guarantee) and appointed its most senior governing bodies. The public service mandate and therefore the bank's social responsibility were then written into law.

Upswing

Zurich's economy experienced an enormous upswing towards the end of the 19th and in the early 20th century, which triggered rapid growth both in terms of the canton's population and rent levels. The mortgage portfolio of Zürcher Kantonalbank grew significantly.

Despite war- and crisis-related setbacks between 1914 and 1950, Zürcher Kantonalbank remained a reliable pillar of support within the canton. By virtue of its legal mandate, it refused to engage in speculative transactions and even survived the credit crisis of the early 1930s.

Mortgage and commercial bank

Zurich evolved into one of the world's most important financial centres during the second half of the 20th century. Zürcher Kantonalbank responded to this development by expanding its range of products and services and enlarging its business volume in the process. The main focus of the bank's operations during these years was on the savings and mortgage business.

Leading universal bank

Towards the end of the century, the mortgage bank had evolved into an innovative universal bank with an international network, which allowed it to address the needs of an increasingly global economy. The real estate crisis in the mid-1990s also forced Zürcher Kantonalbank to make some adjustments. The bank reorganised and focused on client segments.

Stability and sustainability

2008 brought the financial industry's biggest crisis since the 1930s. Zürcher Kantonalbank's business model, which focuses on income diversification and sustainability, proved successful in the midst of a global crisis of confidence. While the trading business collapsed to some extent, the interest arbitrage business continued to provide a steady income stream. In the Greater Zurich Area, Zürcher Kantonalbank achieved a position as market leader among private, corporate and business clients. It expanded its business structure to nine business units and launched a growth initiative that was expected to boost income even further. The Swiss National Bank categorised Zürcher Kantonalbank as systemically relevant in 2013 on the basis of its importance as the market leader in the Swiss canton with the strongest economy. Ownership of Swisscanto and its fund management company was transferred to Zürcher Kantonalbank in 2015.

Public service mandate

Zürcher Kantonalbank is an independent public-law institution under the cantonal law of Zurich. We have a public service mandate from the Canton of Zurich. The scope of this mandate is formulated in the Cantonal Bank Act and the Guidelines for the Fulfilment of the Public Service Mandate of the Board of Directors.

Market economy and state guarantee

The endowment capital forms the corporate capital of Zürcher Kantonalbank and is provided by the Canton of Zurich. The canton also provides the bank with a state guarantee. In doing so, it is liable for all the bank's (non-subordinate) liabilities should the bank's resources prove inadequate. This is a security measure that has never had to be drawn upon.

In exchange for the provision of the state guarantee, we pay annual compensation to the canton, the amount of which is specified in the regulations. This came to CHF 22 million in 2018.

Profit distribution to the canton and municipalities

Zürcher Kantonalbank fulfils its public service mandate on the basis of a business strategy aimed at long-term continuity. It is based on market-oriented principles and intended to achieve an adequate level of profitability. Zürcher Kantonalbank will pay a dividend of CHF 358 million for 2018. The canton uses this to first cover capital costs incurred for the refinancing of its endowment capital (2018: CHF 13 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 236 per person in the success of the bank.

Threefold mandate

The public service mandate enshrined in the Law on Zürcher Kantonalbank consists of the service mandate, the support mandate and the sustainability mandate.

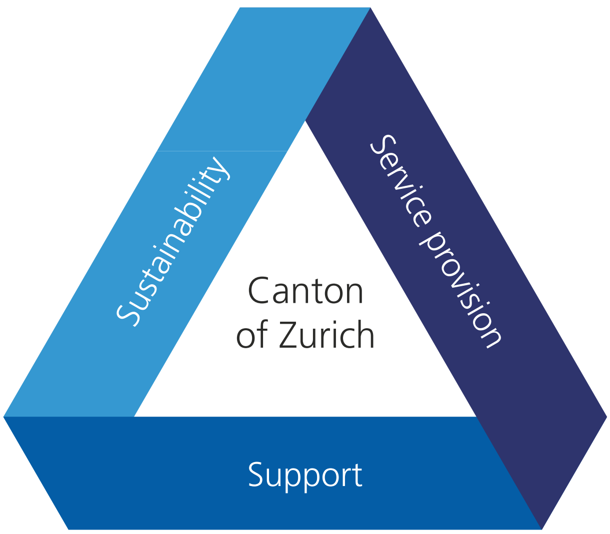
The service mandate is designed to ensure that the people of the canton are provided with banking services. Further, we help solve economic and social problems in the Canton of Zurich under the support mandate – always in accordance with sustainable criteria as dictated by the sustainability mandate. Our business activities therefore benefit the canton, the municipalities, companies and the population. In the next section, we will look at what this public service mandate means in practice.

The service mandate

The service obligation is at the heart of our public service mandate. Its purpose is to ensure that the people and companies in the canton have reliable access to banking services. This includes payment transactions, the investment and financing business and services that cover their other financial needs.

We offer a wide range of products, including state-of-the-art digital solutions, to satisfy this service mandate. We operate the canton's densest network of ATMs and branches. For more complex transactions, our client advisors are available to provide personal consultations. The bank can also be contacted by phone, via the electronic

Public service mandate in the Canton of Zurich



Service mandate

We provide people and businesses in the canton with comprehensive banking services.

Support mandate

We assist the Canton of Zurich in the economic, social and environmental arenas.

Sustainability mandate

Our operations in all areas follow a sustainable business model.

channels of the eBanking and eBanking Mobile services, via the smartwatch app and through various social media channels. Zürcher Kantonalbank also performs services outside the scope of services provided by traditional universal banks. We provide non-cost-covering micro-loans and operate a pawnbroking agency, for example.

We make an ongoing effort to expand our state-of-the-art applications. Today, around half of our clients have an eBanking agreement. Our goal is to offer them an excellent experience across all our channels.

Promotion of home ownership

We have been promoting home ownership and affordable housing for decades. First-time buyers of residential property benefit from ZKB starter mortgages, which have a reduced interest rate that is lower than the normal ZKB fixed-rate mortgage. All in all, ZKB starter mortgages worth more than CHF 5.3 billion were granted in 2018.

Commitment to SMEs

We put a special focus on the concerns of small and medium-sized enterprises (SMEs), which make up 99 percent of Zurich's businesses. Zürcher Kantonalbank has supported SMEs since it was first founded and, for several years now, has also been providing support to innovative start-ups. This support is offered at different levels and can include funding as well as specific support measures. With an annual investment volume of between CHF 10 million and CHF 15 million, we are one of the largest providers of risk capital in Switzerland.

The support mandate

As the canton with both the largest economy and the largest population in the country, the Canton of Zurich is responsible for addressing numerous economic and social issues. The support mandate obligates us to help the canton resolve these issues. Nowadays, our support frequently comes in the form of sponsorship commitments. For detailed information about our activities in this area, please go to zkb.ch/sponsoring.

Sponsorship

With more than 150 sponsorship partners in the areas of nature, culture, sport, social activities and entrepreneurship, we make a daily contribution towards making the canton an appealing place to live and work. We are committed to protecting our natural resources, preserving social cohesion and strengthening the competitiveness of the Greater Zurich Area. It only goes to follow that we advocate a balanced relationship with nature and wildlife as well as sustainable mobility, cultural diversity, equal opportunity, innovation and entrepreneurship.

In all likelihood, anybody who spends time in the Canton of Zurich has already encountered and taken advantage of our offerings. Here's a small sampling of our commitments:

Environment & mobility

Züri Velo Promoting sustainable mobility is a matter of great concern to us. In April 2018, we collaborated with the City of Zurich and PubliBike to launch the Züri Velo bike rental system. Any of our clients with an eBanking agreement who also use the eBanking Mobile app enjoy a 20 percent discount on PubliBike's entire bike sharing network in Switzerland.

Zurich Zoo We have been supporting Zurich Zoo for decades. A savannah landscape, Lewa Savanne, is scheduled to open there in 2020. Last year, we organised a charity concert at the Schauspielhaus to help promote this unique project. Since we feel very strongly that everybody should have an opportunity to enjoy the zoo's nearly 400 different species of animals, we organised events including a zoo day for people with autism as well as a tour of the zoo for people suffering from dementia and their family members.

ZVV nighttime network We have served as the main sponsor of the ZVV nighttime network for 16 years to make sure nighttime revellers get back home safely. This offer eliminates the mandatory nighttime supplement of CHF 5 on every trip on the ZVV nighttime network for youths and students with a ZKB youngworld package.

Culture & stage

Schauspielhaus Zürich Every season features around 20 new productions on the performance schedule of Schauspielhaus Zürich. Attracting 150,000 patrons every year to its two buildings, Pfauen and Schiffbau, Schauspielhaus Zürich is not only the largest stage for spoken theatre in Switzerland but also one of the most prominent in all of Europe. We have been helping to ensure the success of this theatre since 2017 and our clients have the option of upgrading their tickets to better seats.

Zwingli – der Reformator Ulrich Zwingli's reformation left an indelible mark on our society, culture and economy, one which can still be felt today. Our support for the feature film "Zwingli – der Reformator" is an important contribution towards preserving our cultural and historical heritage.

Awards We present awards every year to reward people for their extraordinary contributions towards the arts. These are divided into four categories – literature, theatre, music and film – and include the ZKB Schiller Award, the prizes awarded during the Zurich Theatre Spectacle and the ZKB Jazz Award, to name just a few.

Zauberlaterne In 2019 we are starting a new partnership with the Zauberlaterne, or Magic Lantern, a film club for children. This non-profit association has 75 film clubs across Switzerland and presents high-quality, age-appropriate films. Zauberlaterne not only aims to familiarise children with the world of cinema, but also to raise awareness of the importance of a responsible approach to audiovisual media. More than 80 showings are planned in the Canton of Zurich for the current season, which goes from September 2018 to June 2019.

Literaturhaus Zürich Literaturhaus Zürich celebrates its 20th anniversary in 2019 and we have been supporting it since 2000. It organises more than 100 public events every year including readings by authors, discussions, lectures, symposiums and workshops. It is located in the Museumsgesellschaft (Museum Society) building at Limmatquai 62.

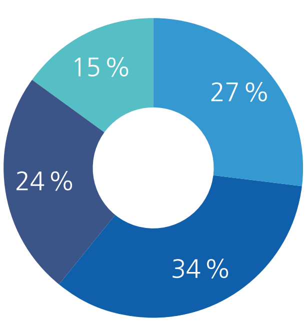
Sport & health

Recreational sports and ZKB ZüriLaufCup Through our commitment to recreational sports, we are able to promote the good health of people throughout the canton. The regional gymnastics festival in Dinhard, for example, profited from this engagement in 2018. In 1986 we initiated the ZKB ZüriLaufCup, Switzerland's largest and oldest series of races, and remain its main sponsor to this day. The new season, comprising 13 events held across the canton, was kicked off in January 2019.

"Hosenlupf" in the canton "Schwingen", a form of wrestling native to Switzerland, has been popular for centuries. Top athletes use speed, dexterity and strength to force their opponents into the sawdust – showing fairness and a great deal of respect at all times. Our decision to support the Zürcher Kantonalschwingfest (Swiss Wrestling Festival of the Canton of Zurich) and the Zürcher Kantonal-Schwingerverband (Swiss Wrestling Association of the Canton of Zurich) is based on these shared values.

Spitex Spitex organisations work to ensure the well-being of people in need of care and practical assistance in their own homes. This type of support is provided to more than 40,000 people in the Canton of Zurich. Zürcher Kantonalbank is a sponsor of the cantonal Spitex Association.

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 %

Entrepreneurship & education

Start-ups and universities We promote young companies at different levels to ensure that the Canton of Zurich is an attractive place to do business, both now and in the future. Every year, we finance between 60 and 90 young companies and also provide innovative start-ups with risk capital. We are also increasingly supporting projects that combine science with business, as evidenced by the support we provide to Zurich's universities and their initiatives (e.g. Zurich Information Security & Privacy Center and the Center for Corporate Responsibility and Sustainability), the Technoparks in Zurich and Winterthur and the ZKB Technopark Pioneer Award. We also co-founded Innovation Park Zurich, which is located on the grounds of Dübendorf airport.

Dual system of vocational training The dual system of vocational training is one of the secrets to Switzerland's success. We promote this system as a member of the Pro Duale Berufsbildung Schweiz association. We also have a commitment to Berufsmesse Zürich, the country's largest career fair, and present an annual sustainability award, the ZKB Nachhaltigkeitspreis, to vocational trainees.

Neustarter Stiftung Some people want to shift gears before retiring and take their careers in a completely different direction. The Neustarter Stiftung is a foundation devoted to precisely this, and its "Reboot 50plus/Post-career Career" campaign is designed to inspire, motivate and network. Neustarter Stiftung is the successor organisation of the Tertianum-Stiftung, a foundation we have been supporting for decades.

Pro Juventute "Money Management" We support Pro Juventute in its efforts to teach children how to manage money and prevent young people from accumulating debt. This is particularly important because children are exposed to consumer desires from a very young age. Pro Juventute has been committed to the concerns and needs of children and young people for over 100 years.

The sustainability mandate

Sustainability is an integral aspect of our business model. That means we incorporate environmental, social and economic criteria into everything we do. This mindset is reflected in our products, the way we manage our staff, our commitments and how we configure our value chain. For example, we use 100 percent green "naturemade star" electricity, which helps us gradually reduce our CO_2 emissions. Our head office was built in compliance with the MINERGIE renovation standard and is much better insulated than required by the criteria set forth in the standard.

Products and services

Our products and services allow us to have the biggest impact. ZKB environmental loans, for example, have been encouraging environmentally friendly construction and renovations for more than 25 years now. They grant property owners a reduction in the interest rate due on their selected ZKB fixed-rate mortgage for a five-year period. For these terms to be granted, however, several criteria must be met, including MINERGIE or 2000-Watt Site certification, which are seals of approval for energy-efficient buildings.

Our Sustainable Investments product line helps our clients invest responsibly. We launched our first sustainable investment solutions more than 20 years ago and currently manage assets of more than CHF 11 billion, which are invested in accordance with sustainability criteria that take environmental friendliness, fairness and corporate governance into consideration.

Apart from that, we also have a commitment to a variety of organisations dedicated to promoting sustainable development – including the Minergie Association and the Sustainable Construction Network Switzerland.

The Sustainability Report for 2018 shows how Zürcher Kantonalbank exemplifies sustainability as an integrated business principle. In the section of the report prepared in accordance with the requirements of the Global Reporting Initiative (GRI), all key indicators are presented in accordance with the GRI standard. Our current operational environmental programme for 2018–2022 is running successfully and right on target.

Management Report

Group mission statement and strategy

Our vision is "Close to you". Our mission statement describes our identity and serves as a compass for our conduct. Our strategy describes the path we need to follow in order to fulfil our public service mandate, both now and in the future: we want to become simpler and more agile, strengthen our investment and retirement planning business and create proximity, both online and offline.

Zürcher Kantonalbank is characterised by continuity and stability. As the market's leading bank, we have a responsibility to address economic, social and technological developments and, in keeping with our standing as a pioneer, to come up with promising solutions for them.

We align our strategy, our organisation and our processes in a way that ensures our ability to act flexibly in the market so that we can continuously fulfil our role as the bank that's "Close to you".

Group mission statement

The group mission statement serves as a compass for our conduct and the future development of our company and our subsidiaries.

The more fast-paced the environment, the more important it is that a long-term vision, goals and values guide our actions. Our Board of Directors has reformulated what this means in today's world in a new mission statement.

Yet one thing is unalterable, and that is the fact that we will always be a bank dedicated to the people and companies of Zurich. We engage in economic, environmental and social activities to fulfil our public service mandate.

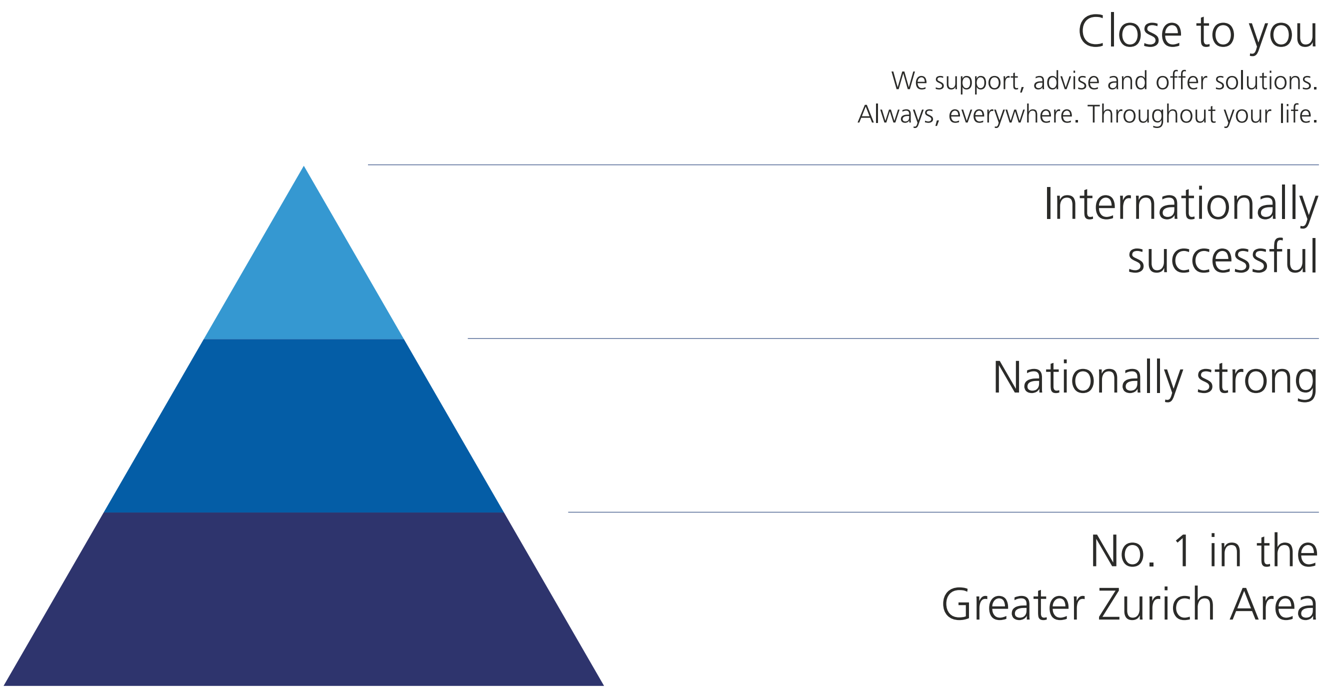
Stakeholder groups

We want to enthuse our clients. In order to position ourselves successfully in this rapidly changing world, we continuously strive to improve our understanding of proximity: in the future, we want to advise our clients not only as financial experts, but also expand their own financial expertise, provide them with them lifelong support and offer them solutions to challenges they are not even aware of yet.

As an institution under public law, we are accountable in particular to our owner, the Canton of Zurich. Because of this, we conduct our business activities with a focus on maximum financial security and reliability at all times.

Since this is only possible through the efforts of committed employees who identify with our vision, goals and values, we provide them with comprehensive, long-term support. We do this not only so they can actively contribute to the development of our organisation, but also to enable them to successfully enhance their qualifications and skills.

Our vision



Our values

In line with our broader understanding of proximity, we have redefined our values to be more active and succinct: responsible, inspiring and passionate. These three values shape and reflect our culture and the conduct of our staff.

We conduct ourselves responsibly in every situation and with respect to all stakeholder groups. We are a reliable partner, make a positive impact and are at hand when needed. Responsible decisions always also focus on creating sustainable added value – for both society and the environment.

Those who take initiative and inspire do not wait to see what others do. We think ahead, anticipate trends, show courage and assume a pioneering role, and in doing so motivate others. If we internalise our value of "inspiring" within our culture, we will become the bank that sets the pace beyond the Zurich area.

Our actions do not revolve around processes but around people – regardless of whether these contacts take place online or in the physical world. Our passion is palpable, because we invest our heart and soul into every one of our encounters and in everything we do, our commitment is full of enthusiasm and perseverance.

Our strategy

We are a universal bank and a leader in our home market, the Greater Zurich Area. For certain client segments, we also provide services throughout Switzerland and in selected other countries.

Despite this excellent basis, we must still face the challenges presented by our modern-day world – globalisation, digitisation, regulation of the financial sector, demographic change – and find contemporary solutions for our clients.

Our strategy tells us which path we must take as Zürcher Kantonalbank. It defines our future business activities and priorities.

Broad-based universal bank

We firmly believe that the only way for us to fulfil our broad public service mandate is by being a universal bank. This puts us in a position to offer the full range of banking services from one source and generate added value in the process.

We issue clear value propositions for each of our client segments: Retail & Commercial clients, Private Banking, Corporate Clients and Financial Institutions & Multinationals. We support our clients at every stage of life and in all business circumstances, fully in line with our company values: responsible, inspiring and passionate.

Strategy

Our core business includes monetary transactions, the borrowing business, loans, the investment and retirement planning business as well as the trading and capital market business. Our entire value chain is focused on the Greater Zurich Area, where our proximity to the market and systematic, cross-divisional collaboration give us a competitive edge. We also offer certain services across Switzerland and selected services internationally.

We pursue a diversification strategy: we generate our income in several different business areas to spread risks. To achieve broad income diversification, we aim for qualitative growth in the investment and asset management business. We wish to grow mainly organically. Our focus is on the Greater Zurich Area. We are not planning any substantial expansion abroad or disproportionately risky business.

Three strategic priorities

We have defined three priorities, which will enable us to systematically implement our strategy. We want to become simpler and more agile, strengthen the investment and retirement planning business and create proximity across all channels, both online and offline.

Become simpler and more agile

Agility is a prerequisite for responding swiftly to changes in a complex environment. We want to keep our business model, our organisation, our infrastructure and our processes both agile and flexible.

This lets us vastly simplify the financing process for owner-occupied properties, for example. Prospective buyers can now use the "clever search" tool to conduct a more targeted search for the properties that would best suit their wants and needs. The new approach employs a matching score that focuses their search on relevant needs rather than merely a geographic location. This is possible because we link specific, individual needs – like a child's walk to school, shopping opportunities or the commute to work – with real estate offers and information. In doing so, the online tool creates an ideal starting point that can be seamlessly integrated into the consultation.

When we say "simpler and more agile", we also refer to structuring our products and services in every business area in a clear, easy-to-understand way. We do this to ensure that our clients can navigate quickly through our broad range of offers. Our banking packages, for example, bundle several different services together. We constantly strive to streamline our processes and automate them where this makes sense. We are making ongoing additions to the range of self-service options in eBanking and eBanking Mobile. Our new investment offering is also structured in a way that ensures every step in the investment process is efficient and effective. Any efficiency we gain as a result benefits the services we provide our clients.

Last but not least, we also promote agility internally. We offer our employees interesting platforms for personal development and encourage them to take responsibility for their own actions. One of the consequences of this was that we replaced the static annual objective-setting agreement with the dialogue-oriented "Performance and Development" approach.

Strengthen the investment and retirement planning business

The investment and retirement planning business is our second priority. With interest rates still at a historically low level, the current environment makes it nearly impossible to generate returns through conventional savings. In line with our brand promise of being "Close to you", it is our duty to show clients how they can build their assets over the long term – always in line with their risk profile. We reached a milestone with the launch of our new investment offering.

At the same time, demographic trends are putting retirement benefit plans – especially the AHV and pension funds – under more and more pressure. The importance of individual pension arrangements (pillar 3) is rising as a result. Rising life expectancy and better long-term health are also ushering in a trend towards flexible retirement arrangements. To accommodate this development, we have expanded our retirement and financial planning services even further and launched new products, including a pillar 3a pension fund with an equity weighting of 75 percent. Given that any changes made to retirement planning, investments and taxes can impact the other areas, our clients appreciate the fact that they receive competent support for their third phase of life.

Create proximity both online and offline

Because our clients expect to be able to conduct their banking transactions around the clock and from any location, we are continuing to develop our digital interfaces such as eBanking, eBanking Mobile and cashless payment options.

We firmly believe, however, that personal advice is still indispensable when it comes to more complex financial matters, a stance confirmed every day by both our clients and our client advisors. Which is why we are also upgrading our advisory services. We will invest further in both our branches and the expertise of our staff.

Whether contact takes place in the digital or physical world is no longer important. What matters is that we harmonise our client interfaces. The digital self-service options will become more personalised and personal advisory services will become more digital. Our brand promise is to be "Close to you", and we want our clients to experience this consistently.

Management Report

Business environment and risk assessment

Ten years after the outbreak of the financial crisis, the Swiss economy and financial centre appear to be in strong shape. Digitisation represents an opportunity for banks. However, competition in the industry is becoming fiercer, and regulatory requirements are likely to be tightened further.

General economic situation

While 2017 was regarded as a year of steadily rising share prices, exceptionally low volatility and a very good global economy, 2018 was a year characterised by significant change. The fantastic start to the year for the global equity markets was followed by an unexpectedly sharp correction of around 10 percent in February. There were many factors behind this downturn, including concerns that the US Federal Reserve (Fed) would increase interest rates too rapidly. The markets enjoyed a surprisingly fast recovery over the subsequent months, before suffering the next tangible decline in October.

Investors worried in particular about a potential slowdown of the global economy. The main driver behind this was the trade dispute that the United States initiated with China. The President of the United States Donald Trump levied tariffs on goods from the Asian superpower in several escalation steps. In return, China likewise issued punitive tariffs on US goods.

Meanwhile, the tailwind in monetary policy dropped once again in 2018. In the United States, at least, the Fed raised key interest rates several times due to the good economic situation. In Europe, Switzerland and Japan, the monetary policy remained very loose. There is still a long way to go in these regions before interest rates are normalised. While US yields continued to rise, the yield on the Swiss Confederation bond in 2018 continued to fluctuate around the zero line. The US dollar appreciated against most currencies, while the commodities markets tumbled in the second half of the year.

There were important changes on the geopolitical stage. For example, US President Donald Trump improved relations with North Korea, which was still perceived as a threat last year. Of greater concern to the financial markets, however, was United Kingdom's wrangling to leave the EU following the Brexit referendum decision made by its people. The value of the British pound fell significantly due to the unclear outcome of the Brexit negotiations. The dispute over Italy's planned budget deficit, which from the perspective of the EU was too high, caused resentment between Italy and the EU and created uncertainty. All the same, Rome came around in December and made concessions regarding its new debts.

In 2018, there was a significant increase in volatility on the financial markets, which we see as a return to normality after two years of unusually low market fluctuations. In light of the geopolitical uncertainties, it is worth keeping a cool head and examining the still intact macroeconomic fundamentals. Despite all the prophecies of doom, we assume that solutions will yet be found for many of the prevailing political problems.

So what is the outlook for the global economy in 2019? The global economy has bravely held its own to date and is still operating at a satisfactory level. Despite the upswing in the US which is already in line to break records in terms of its length, an imminent recession there seems unlikely. This also applies to most of the other industrialised countries. Although the majority of leading economic indicators point to a slowdown in global economic growth, the strong growth in the employment markets of the industrialised nations – which is usually accompanied by wage growth – has caused household incomes to rise, with a significant portion of this likely to flow back into consumer spending. The more expansive fiscal policies of major countries will also continue to provide support for the economy.

The strong growth in the United States in 2018 is not sustainable. Even with the anticipated 2 percent deceleration in economic output in 2019, however, the US economy is still a long way from a worrying slowdown. In export-oriented Switzerland, the economy will likewise shift down a gear in 2019, as from an economic point of view it is dependent on European and global demand. Despite stagnating real wages, private consumption will be one of the pillars of growth over the next few quarters. Following growth of 2.7 percent this year, we anticipate GDP growth of 1.7 percent for 2019.

We expect the US Fed to maintain its more restrictive monetary policy with two further interest rate hikes in 2019. In the euro zone, we do not expect the European Central Bank (ECB) to raise interest rates before autumn 2019. The Swiss National Bank (SNB) wants to avoid any upward pressure from being exerted on the Swiss franc and is therefore unlikely to raise the key interest rate before the ECB.

The Swiss banking centre

In September 2008, around ten years ago, the financial crisis was triggered by the bankruptcy of Lehman Brothers, which in turn impacted the real economy. Contrary to the negative forecasts at the time, the Swiss financial centre still makes an important contribution to the Swiss economy. Just under 260 banks account for almost 5 percent of the local value chain and for over 7 percent of taxes. In addition, the Swiss banking sector provides as many jobs as it did before the financial crisis. Switzerland is still the number one in the world for cross-border private banking.

Switzerland – a competitive market

Margins have come under pressure in many business areas, and competition in the Swiss market is particularly fierce. The major Swiss banks have rediscovered their home market, while foreign banks are also re-entering the Swiss market. In addition to Postfinance, to which the Federal Council now also intends to grant authorisation to enter the mortgage business, pension funds and life insurers have also discovered this business area for themselves.

The general conditions in banking operations remain challenging. Banks have to face up to increasingly stringent international and national regulatory requirements, find the right solutions to meet changing client needs, make good use of the opportunities offered by digitisation and deal with the negative interest rate environment.

Despite all of this, Swiss banks are back on track in terms of growth. Assets under management have increased, and the commission business has experienced a revival. In the interest business, the banks recorded an increase in mortgage lending. There were no large-scale loan defaults. At the same time, the banks continued to focus on cost management.

Increase in client activity

Although the financial markets trended sideways and their performance was much less euphoric than in 2017, client activity in asset management was, in fact, higher. As interest rates in Europe and Switzerland remained stuck at record low levels and there did not seem to be an end to the "investment crisis" in sight, the banks attempted to increase the penetration rate of asset management mandates.

Negative interest rates in Switzerland remain challenging for the banks. It costs a great deal of money to use savings for refinancing, which is why there is an increasing shift to bonds. Growth on the mortgage market is gradually slowing. In the case of investment properties, demand appears to have been met in some regions, while there is an oversupply in others. Additionally, fixed-rate mortgages are expiring and being renewed with lower interest rates. We do not expect to see a turnaround in terms of interest rates until the end of 2019 at the earliest.

In the corporate lending business, companies are increasingly evaluating alternative sources of financing such as the capital market. Most SMEs are confident about the future.

Digitisation solutions

Digitisation is helping new fintech companies to gain a foothold in the market. It is also providing the established banks with numerous opportunities – partly through collaborative partnerships with innovative fintech start-ups. These collaborative partnerships are seen by most financial services providers in Switzerland as a key means of providing solid quality at reasonable prices.

Most of the institutions working in retail banking overhauled their mobile banking solutions in 2018. Ultimately, however, the digital channels are more useful for maintaining the loyalty of existing clients than for acquiring new clients, not least because digitisation provides a wide range of clients with easy access to banking services.

Regulation

After the financial crisis, a trend towards tightening supervisory law began, which is becoming more pronounced. This means that financial products, services and markets are subject to more comprehensive regulation.

Supervisory legislation

Based on the latest standards issued by the Basel Committee (Basel III), FINMA has revised numerous circulars and introduced stricter regulations, for example with regard to credit risks (Circular 2019/02) as well as risk diversification and interest rate risks (Circular 2019/01), both of which entered into force on 1 January 2019. The new Capital Adequacy Ordinance for systemically relevant domestic banks likewise entered into force on this date. In parallel to this, the restructuring law set out in the Swiss Banking Act (BankA) is being revised and the regulations on deposit protection are being amended in reaction to the EU package of measures of November 2016, which are intended to strengthen bank resilience.

Increased transparency

Switzerland has implemented the agreement on the automatic exchange of information (AEOI) and the multilateral agreement on the exchange of country-by-country reports (ALBA). This relieves some of the pressure exerted on the Swiss financial centre.

The Swiss Federal Act on Tax Reform and AHV Financing (STAF) remains a challenge. The aim of the proposal is to create competitive tax conditions in Switzerland – despite the replacement of existing tax regimes – which are more in line with international standards. The population should also benefit from the link between the tax reform and AHV financing.

Investor protection

The Swiss Financial Services Act (FinSA) and the Swiss Financial Institutions Act (FinIA) are scheduled to enter into force, along with the ordinances, on 1 January 2020. It is in the interests of our clients that all financial service providers will be required to comply with these standardised rules, which are designed to ensure sufficient investor protection. Legislation sets out the established practice, but it goes into further detail for areas such as information obligations. FinSA/FinIA adopt the main provisions set out in the European MiFID II/MiFIR regulations. Zürcher Kantonalbank has already anticipated the requirements as far as possible with the “new investment offering”.

Combating money laundering

Another area on which regulators are focusing is the combating of money laundering. The current agenda includes the revision of corporate law in line with the recommendations made by the Global Forum to increase transparency as well as the revision of the Anti-Money Laundering Act and anti-money laundering legislation based on the recommendations of the Financial Action Task Force on Money Laundering.

Data becoming increasingly important

Data and the way in which it is handled is constantly growing in importance in light of increasing digitisation. This megatrend is reflected in regulatory terms in, among other things, the strengthening of data protection, increasing regulation to support digital business models (fintech) and the growing need for effective cyber security.

The pending revision of the Swiss Federal Act on Data Protection (FADP) is a reaction to the new, more stringent General Data Protection Regulation (GDPR) issued by the EU. The aim of the revision is to maintain the current equivalence with EU data protection legislation. This is all the more important as the GDPR is designed for extraterritorial application in various scenarios, which means that it would apply directly to Swiss companies unless there was an equivalent Swiss regulation. Maintaining the proven principle-based character of the FADP is also in the interest of Swiss SMEs.

In the fintech sector, the legislative project for the creation of an electronic identity (Swiss Federal Act on Electronic Identification Services, E-ID Act, BGEID) currently stands out from numerous other regulatory initiatives because of its importance for the basic infrastructure of a functioning digital world. The Swiss Federal Government issues Swiss passports, ID cards and Foreign National Identity Cards in order to provide a transparent means of identification for the physical world. In addition, an electronic proof of identity (a so-called "E-ID") is now to be created for the digital world. Discussions are being held in parliament as regards the legal basis needed for this E-ID. The legal basis would give rise to a legally recognised, user-friendly and secure solution that can be used throughout the digital world and that sets a benchmark.

Risk assessment

Zürcher Kantonalbank fosters a risk culture that is geared towards responsible behaviour and ensures that risks are handled professionally. Every aspect of risk is monitored on an ongoing business. The Executive Board and the Board of Directors are provided with comprehensive reports on credit, market and liquidity risks, compliance risks, operational risks and reputational risks on a quarterly basis.

A task for the Board of Directors

Risk management is practised at every level within the bank. The Board of Directors is responsible for the management of overall risks – it approves the principles for risk management and compliance, the Code of Conduct, the framework for group-wide risk management and the risk tolerance regulations at group level. The Board of Directors is responsible for assuring a suitable risk and control environment within the group and arranges for an effective internal control system (ICS). It also approves transactions involving major financial exposure.

Credit, market and liquidity risks

All in all, the risk profile of Zürcher Kantonalbank did not change much in 2018.

With our credit policy, we observe a risk policy geared towards continuity. The evaluation of environmental and social risks forms an important part of the credit assessment process. In line with our public service mandate, Zürcher Kantonalbank consciously takes on higher risks by providing equity financing to start-ups.

In the lending business, the volume of mortgage loans also increased in 2018, growing by 2.7 percent to CHF 81.3 billion. The lion's share of real estate financing is used for properties owned by private clients in the Greater Zurich Area. In light of the latest price trends on the real estate market for investment properties, we have reduced the maximum loan-to-value ratio for new financing in individual segments. There were no material changes in the rating structure of the various credit portfolios.

In the trading business, we pursue a strategy geared towards client transactions. The "Value at Risk" risk indicator for trading in 2018 was comparable to that of 2017. Asset and liability risk management continues to be impacted by the negative interest rates in Swiss francs. The key figures for liquidity risk indicate a comfortable liquidity situation for Zürcher Kantonalbank.

Operational and compliance risks

In terms of operational risks, we are focusing on limiting cyber and process risks. The bank is responding to the dynamic threat situation by implementing technical protective and awareness-raising measures as well as by constantly formulating and developing rule- and model-based detection and monitoring measures.

As in the previous years, the regulatory changes show that an increasing number of requirements are being imposed on Zürcher Kantonalbank. This increasing complexity requires adjustments to constantly be made.

In the previous financial year, Zürcher Kantonalbank reached a settlement with the US Department of Justice (DoJ) in connection with its legacy business with US clients. The cross-border asset management business has been adjusted gradually since 2009. Zürcher Kantonalbank is committed to a strict tax-compliant business policy, and in terms of geographic coverage focuses on selected core markets with an emphasis on Europe.

Further information on risk management and the risk profile is available in the Risk Report (Note I in the Financial Report).

Management Report

Banking services for individuals and companies

In a challenging market environment, we have delivered a strong performance in all business areas. Our efforts to consistentlyalign our bank structure with the needs of our clients have really paid off. We are constantly working to provide our clients with an excellent client experience across all channels, regardless of whether it is in the physical or digital world.

In order to understand the financial needs of our clients as accurately as possible and to develop the best solutions for them, we differentiate between the following client groups: Retail & Commercial Clients, Private Banking, Corporate Clients as well as Financial Institutions & Multinationals. We offer specialist services to each of these client groups and have organised our business units accordingly. Each of these business units posted healthy results in the year under review. This reflects the trust that our clients have in us, and is confirmation that we are on the right track in terms of our strategy.

Number 1 in the Greater Zurich Area

Our economic strength is based on a broadly diversified business model. We are the number 1 address in the Canton of Zurich for basic services such as payment transactions and savings. Almost half of all Zurich residents have an account with Zürcher Kantonalbank. At the end of 2018, we had around 878,000 relationships with retail clients. With a market share of around 50 percent, we are the market leader in both retail and corporate banking. In terms of loans, we are the clear number 1 in the Greater Zurich Area. Furthermore, we are one of the preferred partners in a number of client segments, both in Switzerland and internationally in a selection of other countries. With Swisscanto Invest by Zürcher Kantonalbank, we are also the third-largest fund provider in Switzerland.

Client proximity

We ensure proximity to our clients every single day, whether it be during advisory consultations or in our client lobbies. To this end, we run around 70 branch offices and thus have the densest network of branches and ATMs in the Canton of Zurich. Both retail and corporate clients use our branches as important points of contact for advice, which is why we modernised our three branches in Regensdorf, Richterswil and Zurich-Neumünster. In view of the changing client needs in terms of being able to make payments anywhere and at any time as well as the simultaneous upgrading of digital channels, we also made substantial investments in our eBanking, eBanking Mobile and cashless payment solutions in the year under review. We continuously tailor our digital services to the needs of our clients and add new functions, where necessary.

Digitisation and innovation

Digitisation influences the way in which we work and the demands of our clients. We meet the changing needs of our clients by constantly developing our banking services. Every business unit within Zürcher Kantonalbank is working on promising new solutions.

We foster a corporate culture that supports innovation at every level. All of our divisions are constantly looking to develop innovations that provide economic benefits. As part of the annual strategic planning and controlling process, we develop solutions for every client segment in the bank. To this end, trends are analysed systematically and across all industries, innovation is promoted and meaningful partnerships and collaborations are examined. Numerous innovations – such as the "new investment offering" – have made a major contribution to the bank's success in the past financial year.

Projects and processes

Including clients in product development

In order to find out exactly what our clients value, we are taking a new interdisciplinary approach. This approach factors client perspectives into the initial stage of a product or service being created, which leads to well-rehearsed procedures and entrenched assumptions also being scrutinised.

Smart search for real estate

Since the end of 2017, our website has featured the "clever search" function, which allows visitors to define their specific needs when searching for a residential property to buy or rent. By the end of 2018, we had further expanded the digital self-service options for people wishing to buy their own home. We do not want to use this function as a means of replacing the advisory discussion, but wish to seamlessly link up the channels for financing advice by 2019.

Swisscom as a partner in payment transactions

Since March 2017, Swisscom has been processing payment transactions for Zürcher Kantonalbank reliably and stably. Thanks to the successful outsourcing of this processing, the quality and efficiency of this work was further optimised. Furthermore, the new international payment transaction standards as set out in ISO 20022 are now available to all clients.

Digital identity

In collaboration with Swiss Post, Swiss Federal Railways, Swisscom and other banks and insurance companies, we founded the Swiss Sign Group at the start of 2018. The aim of this group is to create a solution for a digital identity for Switzerland – the SwissID. The SwissID will allow users to operate securely in the digital world, and it will make online services easier to use. In addition, Zürcher Kantonalbank represents the Swiss cantonal banks in the "Digitisation" expert commission recently founded by the Swiss Bankers Association.

From a hackathon to a kickbox

Different mindsets and perspectives are important drivers of innovation. We thus conducted our very first hackathon for our employees in 2017. A hackathon – a new word coined by joining "hack" and "marathon" together – is a collaborative event in which the participants organise themselves into small, cross-functional teams. The aim is to develop ideas for a given task or to find solutions for given problems in the shortest possible time. 22 agile teams delivered impressive performances, showcasing their creativity, commitment and team spirit. Some of the ideas developed were taken further in 2018 by means of a "kickbox" –

an empowerment programme for promoting innovation. In this programme, we apply a systematic method that motivates employees to actively and independently tackle the realisation of business ideas.

Commitment to innovation management

We have been a member of the "F10 Fintech Incubator & Accelerator" innovation centre since 2017. This allows us to work together with other companies to further develop digital transformation within the financial sector. It also offers us an opportunity to provide start-ups with professional guidance. In addition, we have strengthened our collaboration with the "Bluelion" incubator. Another example of our commitment to innovation is the ZKB Technopark Pioneer Award – one of the most important innovation prizes in Switzerland.

Retail & Commercial Clients

Our support centre provides advice and support for more than 600,000 retail and 40,000 commercial clients, and at the same time acts as the central processing centre for Zürcher Kantonalbank. Our wide range of services includes the execution of our daily business activities, the business opening and closing, maintenance of master data as well as availability and deputisation management. We also offer a telephone service (with over 700,000 calls made to the service in 2018) and deal with complex issues relating to legal estates and court-appointed guardians. A wide range of cutting-edge digital self-service options also bring us close to our clients. We are constantly developing services that are provided via mobile channels in particular, as they are becoming increasingly important. As a result, clients can carry out their banking activities regardless of the time or location via the eBanking and eBanking Mobile services as well as our smartwatch app. We are of the opinion that security, user-friendliness and service quality are of the utmost importance, which is why we continuously review and optimise our processes.

Self-service options expanded

To ensure that our clients are provided with an excellent experience on all of our channels, we are constantly developing our eBanking and eBanking Mobile services as well as other channels, including the smartwatch app. The constantly available self-service options are to become more comprehensive and easier to access. For example, clients can now block debit cards and order replacement cards and new PINs in both eBanking and eBanking Mobile. The new payment functions in eBanking Mobile are also proving to be worthwhile, as the app can now be used to scan both red and orange payment slips as well as to make all types of payment, incl. domestic and international payments.

Further development of the TWINT payment app

Working together with other large Swiss financial institutions, we launched the TWINT payment app in spring 2017. It has since become established in Switzerland. TWINT users can send and request money in a process that is as easy as sending a text message. In addition, TWINT can be used to make payments at an ever-increasing number of store checkouts and online shops. We have introduced the option of charging payments to multiple accounts and credit cards, as well as a simple TWINT payment process for small businesses. As at the end of 2018, over 1 million people had registered as TWINT users across Switzerland, with this number looking likely to increase.

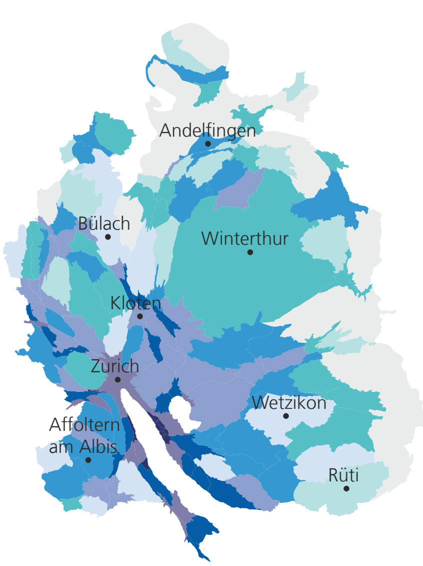
Banking packages revised

We have revised the image of our banking packages and launched the new "ZKB inklusiv Basis" package on the market. The cost-effective basic package is suitable for young clients or those who are looking for a new package following the expiration of their "ZKB young" or "ZKB student" package. The package provides everything a client needs – from an account to a credit card – from a single source. The offering is aimed at both existing and potential clients who want a streamlined package at a low price. The sales figures show that there is a great deal of interest being shown in this starter package. There has also been great demand for the other banking packages. In total, more than 165,000 clients use one of the four "ZKB inklusiv" packages and thus take part in our bonus programme.

Single-family homes under CHF 1 million

The map is skewed according to the number of detached houses < 1 million. Municipalities with the same number of inexpensive properties are shown in the same size. The colour of each area represents the percentage of low-cost properties in the municipality.

- < 2 %
- 2.1 % to 5 %
- 5.1 % to 10 %
- 10.1 % to 20 %
- 20.1 % to 30 %
- 30.1 % to 35 %
- 35.1 % to 45 %
- 45.1 % to 50 %
- > 50 %



Private Banking

Our Private Banking client advisors are on hand to meet the various needs of a discerning clientele. The client advisors will act as your personal primary contact for any questions you may have on investment, financing, taxes, pensions and succession planning. Additional specialists may also be consulted, depending on the complexity of the matter. We provide comprehensive solutions to meet individual client requirements and support more than 180,000 Private Banking clients at every stage of their lives. Our client satisfaction survey revealed that this is really appreciated.

In the year under review, we focused on providing support to our clients in connection with the "new investment offering".

Asset management and investment advice up considerably

The launch of our "new investment offering" at the start of 2018 has had a positive impact on all business units within our bank.

The declared goal for the new investment advice service is to create added value for clients and the bank itself. This goal is based on our model of success, which is made up of three levels:

The client stands at the heart of everything we do and is in personal contact with the client advisor, who acts as the intermediary between the requests of the clients and the knowledge of the experts. Personal contact forms the first level of the model. CIO and expert knowledge make up the second key level, with clients benefiting from the bank's pooled expertise. The third level of success is built on future-oriented technology, which can be used to compare each client portfolio with the CIO reference portfolio and show the differences.

The new advisory approach is always based on the portfolio context. The client is always provided directly with expert opinions and the best investment proposal.

A tablet is available to use throughout the entire advisory process to help illustrate complex ideas in a clear and simple manner. Furthermore, the eBanking platform also features extensive advisory functionality.

We posted strong growth in both traditional asset management mandates and new advisory mandates. Client assets increased by CHF 6.4 billion to CHF 295.2 billion in the year under review, while net new money inflow amounted to CHF 18 million.

Leading position in the mortgage business

We finance half of the owner-occupied homes in the Canton of Zurich. We thus find ourselves in the excellent position of being the market leader. There is fierce competition within the mortgage market, and the low interest rate environment and the negative interest rates are causing an increasing number of players from outside of the industry to force their way in. Our strategy remains the same and will continue to focus on the quality of our loans. Our affordability calculation therefore continues to be based on the imputed minimum interest rate of 5 percent, which is a sustainable rate.

In the year under review, our mortgage loans increased by CHF 2.2 billion to CHF 81.3 billion. This corresponds to an increase of 2.7 percent, whereas the market as a whole (just banks, excluding mortgage investment companies and insurers) grew by 3.6 percent. Clients preferred terms of 2, 5 and 10 years. 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.

Zurich real estate market valued

For the first time ever, Zürcher Kantonalbank valued every single-family home in the Canton of Zurich (more than 100,000 properties) using publicly accessible data as the basis and visualised the geographical price distribution on a digital map. The new map application makes it easy to obtain a detailed picture of the real estate market within a specific region. The prices for purchasing residential property in the Canton of Zurich increased by 3.7 percent in 2018. The transaction prices actually paid remained at the same level, however, as older properties were traded.

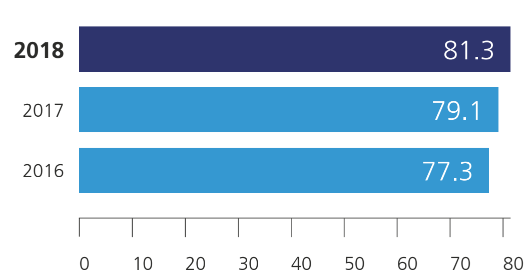
Criteria expanded for ZKB environmental loans

There are many old buildings that still need to be renovated and thus represent an opportunity to significantly reduce the energy consumption of a property. In line with our sustainability mandate, we provide our clients with assistance in this process. Thanks to our ZKB environmental loans, we have been promoting energy-efficient construction and renovation for over a quarter of a century. Clients with such loans benefit from an interest-rate reduction of up to 0.8 percentage points on their selected ZKB fixed-rate mortgage for up to five years. In 2018, the total volume of ZKB environmental loans taken out stood at approximately CHF 1.2 billion. Our environmental loans are used to construct new buildings and carry out renovations with proven energy-efficient characteristics. It is vital here that such projects receive the relevant certification from the GEAK, i.e. the building energy certificate issued by the cantons. In 2018, we extended the criteria for such loans to include 2000-Watt Site certification for superstructures. This supports energy-efficient construction projects.

Greater demand for ZKB starter mortgages

In line with our public service mandate, we have supported first-time home buyers for over 30 years by providing them with ZKB starter mortgages. To get them off to a good start, we grant them a reduced interest rate in comparison with the normal ZKB fixed-rate mortgage. In 2018, the ZKB starter mortgage portfolio amounted to CHF 5.3 billion. This corresponds to year-on-year growth of 9.2 percent.

Mortgage loans (in CHF billion)



Unrivalled commitment to the promotion of innovation

Switzerland and Zurich are world leaders in the area of research. It is crucial that this excellent research is successfully transferred into the economy. Zürcher Kantonalbank makes a significant contribution here by providing wide-ranging support for basic research and making office space available to young companies, as well as helping such young companies to network and secure equity financing. As part of the "Pioneer" initiative alone, Zürcher Kantonalbank has granted over CHF 125 million in start-up and development financing since 2005. A further contribution will be made by Swisscanto Invest's Swiss growth fund, which was launched at the end of 2018 and secures follow-on financing for start-ups.

New companies in traditional sectors, such as a painting business or a medical practice, are part of the regular financing business of the Zürcher Kantonalbank. In 2018, Zürcher Kantonalbank provided CHF 36.4 million in funding to practically 120 start-ups. The bank also works closely with the "GO! Ziel selbstständig" association, helping people to become freelance entrepreneurs with ZKB micro-loans.

"Pioneer" for start-ups

For start-ups with new, innovative products and services, the traditional forms of financing are only suitable to a limited extent in view of the increased risks and the often tight liquidity – especially before entering the market, when a prototype is being further developed for mass production, and the first clients are being acquired. To meet these financing needs, Zürcher Kantonalbank launched the sustainable "Pioneer" start-up financing initiative in 2005, which provides innovative start-ups with risk capital on a targeted basis. By setting aside provisions for risk financing, the bank provides risk capital to recently founded companies with new, innovative business ideas at an early stage of the business cycle. An innovative company is one that offers a product, a service or a distribution model that does not yet exist on the market.

As part of the "Pioneer" programme, Zürcher Kantonalbank has supported around 200 innovative young companies with over CHF 125 million since 2005. As a result, companies exhibiting a growth rate that is above average have created more than 1,200 new jobs. Over 80 percent of the financing was arranged in the Canton of Zurich, primarily in the form of equity. With this commitment, the bank participates in future profits, depending on how the start-ups perform. In addition, the high level of commitment can be attributed to the public service mandate. The mandate to support innovation is taken directly from the Law on Zürcher Kantonalbank. The bank's purpose is "to contribute to addressing economic and social issues in the Canton of Zurich" and "in doing so, it shall particularly take into account the concerns of small and medium-sized companies".

Widespread participation in the start-up ecosystem

By providing all four universities in the canton with support in fundamental research, the bank ensures that the conditions for start-ups in the Greater Zurich Area are excellent. ETH Zurich is supported in the field of information security, while the University of Zurich is supported in the fields of sustainability and behavioural economics. Entrepreneurship is promoted at Zurich University of Applied Sciences, and creative industries are focused on at Zurich University of the Arts. This positive environment includes numerous other institutions such as the Technoparks in Zurich and Winterthur, the Bio-Technopark Schlieren-Zurich, the Startzentrum Zurich, Startup Invest, Venture Incubator and the planned Innovation Park in Dübendorf. In this start-up ecosystem, Zürcher Kantonalbank is involved in all areas as an investor, donor, sponsoring partner and co-sponsor as well as participating in executive committees, boards of directors and foundation boards. Special mention must go to the "investiere" platform, in which Zürcher Kantonalbank is a significant minority shareholder. The platform provides start-ups with risk capital, expertise and a network to drive their growth. In

2018, CHF 30 million was invested in 34 start-ups via "investiere". By presenting the ZKB Technopark Pioneer Award, providing helpful information platforms for company founders and maintaining a close network with partner organisations, Zürcher Kantonalbank underpins its position as a key supporter of start-ups.

New Swisscanto Invest growth fund

For many promising young companies, it is often difficult to secure long-term growth financing after a successful start-up phase. The growth fund launched by Swisscanto Invest at the end of 2018 aims to address this critical point. The fund invests in companies in the expansion phase that have successfully navigated the high-risk start-up phase. The portfolio companies already have an experienced management team, established corporate structures and sophisticated products or services with great market potential. By providing risk capital in the growth phase, Swisscanto Invest closes a financing gap and helps increase the attractiveness of Switzerland as a business location.

The new growth fund draws on the expertise that Zürcher Kantonalbank has acquired as one of the most active supporters of and investors in Swiss start-ups. Thanks to this know-how, it can identify the most promising high-growth companies. Following the selection and investment phases, the responsible investment managers actively support the high-growth companies. The fund focuses on companies with innovative technologies and business models in the health, information and data services, environment and energy sectors. It is planned that around 70 to 80 percent of the investments will be made within Switzerland. The new fund is aimed at institutional investors that have a medium to long-term investment horizon and are qualified for illiquid investments. With capital commitments in line with the target volume of around CHF 150 million, the fund significantly exceeded expectations within less than three months in December 2018.

Our partnerships

Universities

- Swiss Federal Institute of Technology Zurich
- University of Zurich
- Zurich University of Applied Sciences
- Zurich University of the Arts

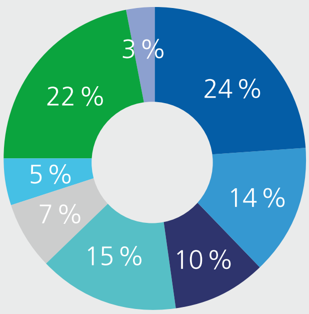
Innovation parks

- Switzerland Innovation Park Zurich
- Technopark Zurich
- Technopark Winterthur
- Bio-Technopark Schlieren-Zurich
- BlueLion
- Grow

Platforms for transferring knowledge, networking and financing

- ESA BIC Switzerland
- F10 FinTech Incubator & Accelerator
- Fasoon
- gruenden.ch
- investiere | venture capital
- Runway Startup Incubator
- Startup INVEST
- startupticker.ch
- Startzentrum Zurich
- Swiss Fintech Innovations
- Venture Incubator
- GO! association Microloans

Composition of the "Pioneer" start-up portfolio



Biotech 24 %	Fintech 7 %
Medtech 14 %	Cleantech 5 %
Healthcare IT 10 %	Hightech[1] 22 %
ICT 15 %	Consumer Products 3 %

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

Worry-free home ownership in the third phase of life

Almost 50 percent of homeowners in the Canton of Zurich are over 55 years old. Nevertheless, many people in this phase of life feel insecure about their mortgage solution because their income usually declines. Very few pensioners who finance the purchase of their own home default on their mortgages, however. Therefore, financing for clients in the third phase of life is not a problem for Zürcher Kantonalbank. This includes the continuation of existing financing as well as increases in the amount being financed, for example to carry out renovations or to cover living costs.

Pension advice for private individuals

The first two pillars of the Swiss pension system are in need of reform. This is why we proactively and systematically address our clients' pension needs. The areas of pensions, taxes and investments are generally connected to one another, which is why a holistic approach usually offers more scope for financial planning. In doing so, we frequently make it possible for clients to realise their wishes and dreams – and thus come closer to our goal of being the number 1 pension contact in the Greater Zurich area.

Corporate Clients

Our employees in the corporate client business accompany companies through every phase of the business life cycle and support them in overcoming the financial challenges they will face – from the foundation of the company to succession planning. As a universal bank, we are in a position to put our entire range of services into operation for companies in a targeted manner – in other countries too, if necessary. In this respect, our specialised corporate client advisors act as personal contacts for all financial matters. We place a great deal of emphasis on our credit exposure to small and medium-sized enterprises (SMEs).

Thanks to a consistent lending policy, we make a significant contribution to the functioning of the economy by supplying credit to SMEs in the Canton of Zurich as well as to medium-sized and large companies throughout Switzerland. Our credit exposure to companies increased to CHF 26.1 billion in the year under review, which represents positive growth of 4.8 percent.

The negative interest rate situation was once again a key topic in the year under review, particularly among our larger clients. There was a tangible increase in demand for capital market and bond financing on the market. In addition, the para-banking sector and crowdlending platforms have enjoyed greater public recognition as providers of financing solutions. Looking to the future, we would like to further simplify our business processes for financing SMEs so that we can realise even greater client benefits.

Overall, the corporate client business recorded a positive result, with growth in mortgage and corporate loans as well as in the leasing business and, above all, in fixed assets.

Magic 50 percent mark reached

We are extremely delighted to have achieved a market penetration rate of 50 percent in the corporate client business in the Canton of Zurich. Just over one-third of Zurich companies even call us their principal bank. We see growth opportunities in expanding our business with existing clients. Occupational pensions also play a very important role, both from a company perspective and for the individual entrepreneur. In this area, we established ourselves as a broker of pension solutions last year.

SME package launched

Start-ups stimulate Zurich's economy. One of the products we offer is an SME package for start-ups and new clients, which includes all of the banking products an SME will need for everyday business as well as discounted access to SecureSafe, a central cloud storage facility in which all business documents can be stored and accessed securely at any time and from any location.

SME financial assistant now an established tool

In November 2017, we launched a practical tool for liquidity planning for small and medium-sized enterprises within our eBanking platform. The tool provides companies with a quick and easy overview of their income and expenses. In addition, various business development scenarios can be simulated within the tool. SME clients can also benefit from new discounts on business software, a secure cloud solution and the provision of payment terminals.

Mobile payment terminals introduced

One of our main priorities is to provide our clients with effective and efficient cash management. In order to make payment processing easier for companies, we have introduced the mPRIME mobile card reader from Six Payment Services. This solution makes it easy to turn a smartphone or tablet into a mobile payment terminal, thus allowing companies to accept payments flexibly and regardless of their location. In the next few years, we will face the challenge of digitising our processes in sync with those of our corporate clients – so that communication can take place smoothly on our various interfaces.

Start-ups and entrepreneurship promoted

In 2005, we launched the "Pioneer" initiative (see "Commitment to promoting innovation" on page 40) with the aim of meeting the financing needs of innovative start-ups and making risk capital available. During the year under review, a total of CHF 24.5 million in risk capital financing was approved for 49 promising start-ups.

Start-ups in traditional sectors are part of our normal financing business. In the year under review, we provided CHF 36.4 million in funding to almost 120 company start-ups. We also work in partnership with the "GO! Ziel selbstständig" association, helping people to become freelance entrepreneurs with ZKB micro-loans.

Succession planning offering expanded

Thousands of Zurich-based SMEs need to work out their succession plans and require both financial and specialist support during this phase. Our priority is to ensure that the generational change at SMEs is a success, as it is also important to the economy. We have therefore further expanded our offering – including by launching our succession planning check at zkb.ch/nachfolgecheck. This check allows for a simple assessment of the current situation as regards succession planning and is an ideal basis for discussion for an advisory consultation. In the year under review, we provided personal support through more than 140 advisory mandates and 34 acquisition loans to help ensure that the generational change proceeds smoothly.

Consistent demand for micro-loans and leasing

Microbusinesses and small enterprises make an important contribution to the vibrant Zurich economy. We therefore ensure that these companies have access to professional advice and a wide range of services with fair conditions. For this reason, we provided almost 4,100 non-cost-covering micro-loans of less than CHF 200,000 for SMEs in 2018. Capital goods leasing is increasingly important in this area. For SMEs and the agriculture sector in particular, this represents a liquidity-preserving alternative to a traditional investment loan. Zürcher Kantonalbank is a major provider of capital goods leases throughout Switzerland. Overall, in the joint distribution network with other cantonal banks, nearly 3,000 lease agreements with a volume of approximately CHF 265 million were concluded.

Financial Institutions & Multinationals

We meet the needs of major domestic and international companies, cantons and cities, commodity trading companies and financial service providers such as banks, insurance companies, asset managers, investment funds and brokers with a wide range of products. These range from financing, trading products and capital market services to custody and asset management services, payment transactions and trade finance. As a universal bank with a diverse service portfolio, we also operate as a supplier for third-party institutions.

Partner to major clients and international banks

In addition to providing financing through loans or the capital market, our services also include trade finance and export financing for all of the bank's client groups. This is why we cultivate international banking relationships as well as major Swiss clients and are responsible for a high-calibre network of correspondent banks. We have representative offices in our clients' most important export markets around the world, which also support us by providing their local knowledge in the risk assessment process.

In the year under review, we successfully expanded our range of insurance products and gained new clients. We also demonstrated our strengths in other client segments, such as corporate clients, infrastructure companies and commodity trading companies, with tailored offerings developed in a timely manner.

We are currently launching a new IT system to increase efficiency in our trade finance business and are working on automation solutions that will help us meet regulatory requirements. Many Swiss companies are heavily geared towards foreign markets and have thus established strong international positions. We therefore expect the healthy business environment to remain unchanged. The solutions being demanded from us by our clients are increasing in complexity. Our job is to provide services securely, simply and quickly despite the increasingly stringent regulatory requirements. Our clients can rely on our continuity regardless of economic and market trends.

Supplier for financial service providers in Switzerland and Liechtenstein

The accelerated structural change in the financial sector is increasingly leading to the breakdown of value chains, with financial services providers, such as regional banks and other cantonal banks, buying an ever-increasing number of individual components from third parties. As a nationally significant universal bank with roots in the local area and an outstanding credit rating, we are the natural partner for other financial service providers. The solutions we provide are used every day by our own clients and thus prove their competitiveness. In order to take advantage of the opportunities arising from this structural change, dedicated teams provide support to financial service providers (e.g. banks and asset managers) based in Switzerland and Liechtenstein. These teams are also responsible for looking after all investment fund vehicles, regardless of their domicile.

In this challenging and increasingly complex environment for all financial service providers, Zürcher Kantonalbank has performed very well. It has further expanded its role as a supplier for third-party institutions. Traditionally, Zürcher Kantonalbank has close ties to the cantonal banking sector. The range of services it offers is also becoming increasingly popular outside of the cantonal banking world, for example in the investment process, which includes our research as well as strategic and tactical asset allocation.

For most financial service providers in Switzerland, cooperative partnerships will be a main driver of medium- and long-term success. Thanks to our great innovative strength, the stable and long-term business model and the solutions that have proven their worth in our day-to-day business, we see excellent opportunities for further sustainable growth in our business with Swiss financial service providers.

The increasing importance of custody

Custody and asset services are growing dramatically in importance for our institutional clients. We offer them numerous services in this area, including safekeeping and administration services, securities accounting, performance reporting and investment compliance services as well as custodian bank services for investment funds.

Although the market is largely saturated, we are seeing continued growth in this area among custody and custodian bank clients. Our strengths are flexibility in the development of solutions as well as our wide range of offerings.

We are currently focusing on the further development of our reporting capabilities, our expertise in alternative investment services and client interfaces.

Added value via research services

Our equity and bond research is renowned, covering 129 companies and around 200 issuers throughout Switzerland – more than any other institution. Our equity recommendations have been generating an above-average performance and thus added value for our clients for years now. In addition, Zürcher Kantonalbank also organises events, such as roadshows and investor meetings, to support platforms that promote information exchange between investors as well as small and medium-sized Swiss firms and global players.

In 2019, Zürcher Kantonalbank will hold its first major two-day investor conference for Swiss companies. This gives us the opportunity to consolidate our position in the research and brokerage business and complements our existing offering of approximately 100 roadshows every year. The ratings awarded to issuers by the Bond Research team of Zürcher Kantonalbank are relevant for the composition of the Swiss Bond Index and are an important investment criterion for institutional investors.

Developments on the financial markets, such as trade disputes, diverging economic trends and interest rate hikes, also present our analysts with challenges. Overall, the research recommendations did not systematically outperform the benchmark for the first time in quite some time. Although ZKB’s annual favourites and its recommendation for small caps were above the benchmark indices, a below-average performance was recorded in other universes. In addition to day-to-day business, extensive research reports were prepared on both the bond side (8) and the equity side (8) in connection with new cover and capital market projects.

The 2018 reporting year was the first year in which MiFID II, and thus the unbundling of trading and research services among other things, was relevant. During this year, Zürcher Kantonalbank was successful in maintaining its market share and winning new clients.

Trading and capital markets as the central offering in an integrated value chain

We are one of the leading providers in the trading business as well as in the issuing of debt capital and equity instruments (capital market). In trading, we cover all of the important products and asset classes, such as equities, foreign currencies, precious metals, interest rate and credit instruments and structured products. In the consolidating market environment, we position ourselves as an "insourcer" in our domestic market of Switzerland and provide our clients with our integrated value chain and cutting-edge interfaces. The Trading and Capital Markets division is also an important service provider for the parent company.

The 2018 reporting year was marked by a challenging market environment in which political developments (e.g. imminent trade war, lira crisis in Turkey, elections in Italy and Brexit) had not or not yet been translated into economic reality. Our business strategy is based on client activities. In light of recent political developments and the ongoing low interest rate phase, our clients are taking a cautious approach, which is reflected in restrained client activity.

In addition to income from trading operations, our trading and capital markets operations also generate interest earnings and income from commission business and service. While the latter items posted pleasing growth, income from trading operations in the year under review amounted to CHF 286 million, which is 14.4 percent down on the previous year. The market risks in the trading book (value-at-risk) amounted to CHF 12 million on average and were likewise slightly lower.

We were successful in consolidating our position in the capital market business. On the debt capital markets, Zürcher Kantonalbank supervised the issue of a total of 62 bonds worth CHF 5,543 million. Additionally, 34 transactions were carried out for the Central Mortgage Bond Institution of the Swiss Cantonal Banks, worth CHF 6,946 million. On the equity capital markets, we supervised a total of 28 transactions, 23 of which were for companies listed on SIX Swiss Exchange. As the Joint Global Coordinator, we floated Medartis Holding AG on the market in an IPO.

On 1 October 2018, our subsidiary Swisscanto Funds Centre Ltd., London (SFCL) was taken over by Clearstream International S.A., the post-trading service provider of Deutsche Börse Group. It was important to us to ensure the fund platform for clients, fund providers and employees would operate on a sustainable and long-term basis. Zürcher Kantonalbank remains one of the main sales partners of Clearstream Funds Centre Limited (CFCL).

Asset management offering expanded

Swisscanto Invest by Zürcher Kantonalbank is the Asset Management division of Zürcher Kantonalbank. This competence centre is responsible for the development and management of investment solutions, such as investment funds and individual, mainly institutional mandates. As such, Asset Management provides professional and innovative investment solutions to meet client needs in the various business units and provides clients with support in connection with technical issues and sales. At the end of 2018, managed assets amounted to CHF 149.1 billion. The fund business as well as institutional and private asset management mandates were growth drivers.

The global trade disputes, political uncertainties in emerging markets, an economic slowdown in China and the US Federal Reserve interest rate policy created momentum on the markets, which presented our active portfolio managers in the equities sector with a challenging remit. Meanwhile, bond portfolio managers continued to look for yield opportunities in the ongoing low interest rate environment. In the real estate sector, changes occurred among tenants and investors, which brought about both opportunities and challenges. In Asset Management, we also dealt with the implementation of regulatory changes such as the European directive MIFID II.

We launched our first private equity fund with a volume of around CHF 150 million prior to the year-end. The fund invests in participations in innovative non-listed companies in the growth phase. With this activity, the fund supports our commitment towards start-ups. The roadshows held throughout the year provided us with confirmation that we have answered a client need with the launch of the fund. Preparations are under way for further new investment products to be launched in the over-the-counter "Private Markets" area in 2019, e.g. for a private debt fund. Clients can also expect new solutions in the areas of sustainability, real estate and innovative passive investment products.

As part of our sustainability mandate, we have consistently integrated environmental, social and governance factors – ESG factors – into our financial analysis for our investment products. The use of these sustainable criteria will lead to better investment decisions in the long term. In addition, global climate and environmental challenges are associated with growth opportunities for innovative companies. We will therefore continue to expand our investment solutions in the area of sustainability in the future.

Management Report

Employees

We treat our employees just as responsibly as our clients. Our culture is characterised by respect and fairness. We support all of our employees, regardless of their age, gender, sexual orientation, nationality, religion or physical ability. We are one of the largest providers of vocational training in the canton, enabling countless young adults to launch their careers.

We also live our strategy and our corporate culture within the bank. Maintaining a continuous dialogue with our employees is thus at the heart of our management philosophy. We provide them with personal development opportunities and the freedom to respond to challenges in a flexible manner. This is because it is important to us that we can continue to fulfil our brand promise of being "Close to you" in the future.

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

Headcount

In 2018, the group's headcount fell by 0.6 percent from 5,117.2 to 5,087.0 full-time positions (FTE). 19.7 full-time positions were filled by temporary employees. 343 employees were on a banking or IT apprenticeship or high-school internship.

Performance & Development

As part of our "Performance & Development" approach, we develop measures that are more in line with our strategic priorities of simplicity and agility. They allow us to react quicker to changes in the market.

We have a number of different instruments that can be used to promote dialogue between line managers, employees and teams, including development discussions, development plans and short meetings. The focus is on employee development, which is geared to the performance, behaviour and potential of each individual employee so as to keep pace with change.

Promoting talented employees

Continuous dialogue shows how much potential our employees have and where their strengths lie. We are therefore investing in a comprehensive talent management programme. Our aim here is not just to train young people, but to promote lifelong learning at all levels. Our approaches to talent management focus as much on our employees' personal objectives as on the strategic direction of the bank. It is important to us that all measures are always transparent and that we foster our employees' networking.

We also offer additional special opportunities for employees with potential. In the year under review, 20 high-achieving employees with huge potential were given the opportunity to develop their professional and personal skills through tailored development programmes.

We have planned new and very promising talent management measures for the second half of 2019. All in all, we will be addressing a larger group of talents.

Identification with the company

Our culture helps us to pursue our strategy at all levels and achieve our corporate goals. For example, we take various measures to ensure that all of our employees have the same comprehensive view. Since October 2017, for example, our employees have been able to review our strategy in a hands-on manner with the "blauweiss" app.

Our strategic focus also means that we are considered an attractive employer. As regular surveys show, we successfully increase employee loyalty and have succession plans in place.

Young professionals

With 410 apprenticeships, we are one of the largest providers of vocational training in the Canton of Zurich. We offer vocational training in the areas of banking and information technology. In 2018, 98 apprentices started their training with us. As part of the "Employees of the Future" project, we are paving the way for the future by fostering the skills our young employees will need to cope with the future demands of the working environment. This project is specifically for young people and thus for vocational training. Starting in 2019, the commercial apprenticeship programme will follow a new syllabus, which will involve shorter, alternating assignments during the apprenticeship period and combine these with the skills that the apprentices are to acquire. This provides added value for both the apprentices and the bank. In 2018, we comprehensively overhauled our trainee programme for university graduates. The new programme will be implemented for the first time in summer 2019.

We take good care of our apprentices, as is confirmed by the "high quality of apprentice support" label. Aside from receiving specialist training, each apprentice is supported by a supervisor who attaches great value to the development of their social and personal skills. In 2018, 95 apprentices sat their final exams, with 43 of them obtaining the Federal Vocational Baccalaureate and 92 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 86.3 percent of those who graduated in the year under review 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 trainee programmes for university graduates, and trainee from universities of applied sciences as well as for graduates of an apprenticeship programme. In 2018, there were 45 interns and 66 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 more than CHF 10.5 million in basic training and further education. 628 employees are currently taking part in a training course.

Among other things, we have expanded our learning portal with topics related to transformation and agility, as we consider the acquisition of key skills to be important. We have also created a new offering for managers and a new management training landscape.

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, and reserved and subsidised crèche places. Furthermore, employees can draw on tailored advice on matters relating to childcare, caring for elderly relatives and home nursing care.

In total, 27.7 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 also increased once again.

Political engagement Zürcher Kantonalbank supports employees who hold a political office.

A total of around 120 employees are involved in politics, thus making a valuable contribution towards embedding our bank in the political and social life of the Canton of Zurich. The bank supports these non-profit activities with attractive working conditions such as a month's worth of paid days off without any reduction in annual leave.

As a sign of the gratitude and appreciation we have for the commitment shown by these employees, the Committee of the Board's "Politics and Commitment" event was held in the year under review for the second time. Two guests from the national and Zurich political arena – Federal Councillor Ueli Maurer and Cantonal Council President Yvonne Bürgin – were in attendance for an inspiring political programme.

Diversity We consider the diversity of our employees to be a substantial added value. We wish to make the most of this social diversity. Furthermore, it reflects our equally diverse client structure. We are firmly committed to fairness and respect and promote equal opportunities – regardless of age, gender, sexual orientation, nationality, religion or physical ability.

Integration 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.

Health Our systematic approach to health management is one of the main factors for our success. We continue to attach great importance to healthcare and health promotion. 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, which marks the second time we have been granted this seal of approval.

Our measures include, for example, financial support for health checks, free flu vaccinations in collaboration with the Swiss Association of Pharmacists, and support for sporting activities such as the "Bike to Work" campaign to promote health throughout Switzerland. We also provide our employees with ergonomically designed workstations and, where necessary, additional resources. We are constantly optimising our measures with the aim of helping our employees to stay fit and healthy. In 2018, 178 people attended the seminars and workshops to help increase personal resilience and prevent burnout that we have been offering for two years now.

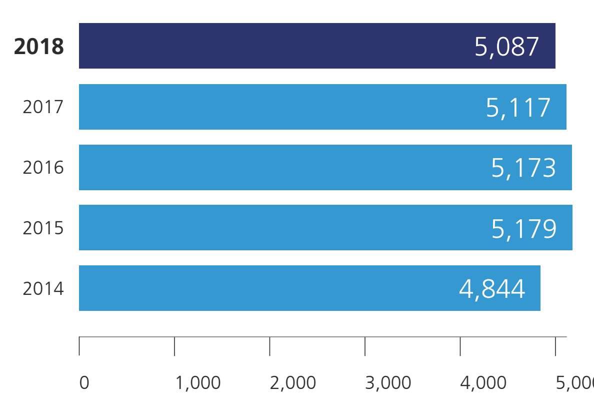
Staff association replaced by the employee representation committee

The Zürcher Kantonalbank staff association was dissolved at the end of September 2018. A decision was made prior to this to introduce an employee representation committee elected by the employees. Nineteen candidates stood for election for the five employee representative positions. The employee representatives of Zürcher Kantonalbank are supported by an employee committee.

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 77 onwards.

Group headcount (FTE) as at 31 December



GRI key figures[1] Employees

		2018	2017	2016	2015	2014
Employment (parent company)						
Number of employees (full-time equivalent)	Number	4,859	4,866	4,910	4,879	4,704
Turnover rate	%	6.3	5.7	5.9	6.8	7.7
Change in the number of jobs	%	–0.2	–0.9	0.6	3.7	0.6
Health and occupational safety (parent company)						
Lost days per employee as a result of sickness or occupational and non-occupational accidents	Days/ employee	6.7	6.8	7.1	7	6.1
Basic training and further education (parent company)						
Internal basic training and further education per employee	Hours/ employee	14.3	22.8	20.5	19.3	14.2
Percentage of employees on external courses	%	12.9	13.1	11.3	10.4	14.6
Diversity and equal opportunities (parent company)						
Percentage of women in total workforce	%	37.2	37.3	37.7	38.1	38.5
Percentage of women in middle management	%	35.1	34.3	34.2	33.2	33.2
Percentage of women in senior management	%	13.1	11.9	11.2	10.6	10.2

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

In the year under review, the Zürcher Kantonalbank pension fund covered 5,336 active insured persons and 2,192 retirees. As at 31 December 2018, it managed assets of approximately CHF 4.066 billion and had a coverage ratio of 108.2 percent (unaudited). For further information on occupational pensions and employee benefits, please see Note 13.

Business development

Material events

19 April 2018 Zürcher Kantonalbank launches its first green bond in accordance with international standards in the amount of CHF 210 million.

23 April 2018 Clearstream acquires Swisscanto Funds Centre Ltd. from Zürcher Kantonalbank. The closing takes place in the third quarter.

13 August 2018 Zürcher Kantonalbank concludes the US Department of Justice's investigation into the bank's legacy business with US clients with a Deferred Prosecution Agreement (DPA). Zürcher Kantonalbank's related payment to the US authorities does not have any negative impact on the bank's 2018 financial results.

1 October 2018 Clearstream concludes the acquisition of Swisscanto Funds Centre Ltd., London, from Zürcher Kantonalbank.

18 December 2018 In September, Swisscanto Invest launches a private equity fund with participations in innovative companies in the growth phase. Thanks to better-than-expected interest and capital commitments of CHF 150 million, the subscription period is ended early after just three months and investment activities are able to commence promptly.

19 December 2018 Standard & Poor's once again awards the bank the AAA rating, after the two rating agencies Moody's and Fitch had already awarded top marks to Zürcher Kantonalbank in September. This means that Zürcher Kantonalbank is the only Swiss bank to be given the highest rating again by all three leading rating agencies.

Sustainable group results

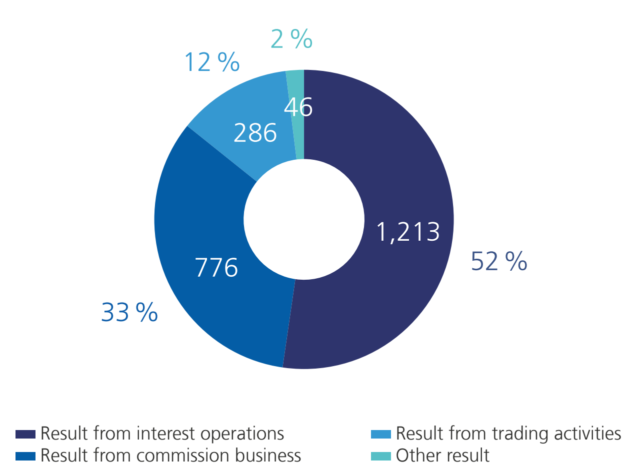
Financial year 2018 was marked by various geopolitical events, a continuation of the negative interest rate environment and market turbulence. Nevertheless, a profit of CHF 788.2 million was achieved, which was slightly higher than in the previous year.

Zürcher Kantonalbank's cautious business policy and diversified business model once again proved their worth. This was reflected in the operating income generated, which equalled the previous year at CHF 2.3 billion. With the exception of trading income, all income categories recorded an increase on the previous year. Stable operating expenses were also achieved thanks to a cost-conscious management approach. The group results also include the creation and recognition of CHF 200 million of reserves for general banking risks in the income statement. The comments below on the main income statement and balance sheet items and their development in the financial year 2018 detail any effects arising from the material events listed.

Pleasing interest operations

At CHF 1,212.9 million, the net result from interest operations exceeded the already ambitious target from the previous year (CHF 1,201.8 million). The expenses for default-related value adjustments and the losses from

Breakdown of operating income (in CHF million / percent)



interest operations totalled CHF 10.1 million, slightly higher than in the previous year (2017: CHF 9.4 million). The negative interest charged by the Swiss National Bank exceeded the figure charged last year (CHF 132.6 million), amounting to CHF 135.6 million. This negative interest continued to be passed on in different ways on the interbank market and on the credit balances of corporate clients in financial year 2018. Retail clients, on the other hand, were not charged any negative interest.

Positive commission business and services

The result from commission business and services in the amount of CHF 775.8 million in financial year 2018 represents a slight increase of CHF 5.9 million on the previous year.

The composition of the commission and fee income remained stable. The commission income from securities trading and investment business continues to be the biggest income driver, followed by commission income from other services.

Slight decline in trading operations

In the financial year 2018, trading activities once again focused primarily on client business. The income from trading operations of CHF 285.6 million was down on the CHF 333.7 million recorded in the previous year. This can be mainly attributed to lower currency gains. The result from trading in bonds, interest rate and credit derivatives also fell year-on-year.

The result from trading in foreign exchange, bank notes and precious metals once again provided the largest contribution with 37 percent, followed by the result from trading in bonds, interest rate and credit derivatives, which was slightly decreased (–3 percent). The result from trading in equities and structured products (+4 percent) and the result from other trading activities (+1 percent) both increased. For further information, please see Note 32 to the Financial Report.

Stable operating expenses

Thanks to the constant monitoring of costs and cost discipline, operating expenses declined slightly year-on-year to CHF 1,430.4 million (2017: CHF 1,433.7 million). General and administrative expenses amounted to CHF 428.5 million (2017: CHF 426.0 million). Personnel expenses were CHF 1,001.9 million, slightly lower than in the previous year (CHF 1,007.7 million).

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

Higher depreciation expenses

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 191.8 million (2017: CHF 119.6 million).

The reason for the increase is as follows: the sale of Swisscanto Funds Centre Ltd., London, resulted in a lower valuation of the Swisscanto Group and an immediate goodwill amortisation of CHF 59 million. In connection with this sale, we also refer to the income from the sale in the extraordinary result and Note 9 to the Financial Report.

Higher participation income

Other ordinary income totalled CHF 45.9 million, which is up 49 percent on the previous year's figure of CHF 30.8 million. The main reason for this increase is higher income from participations (CHF +15.8 million).

Breakdown of the result from commission business (in CHF million)

Net release of provisions

As in the previous year, the income statement item "Changes to provisions and other value adjustments and losses" for 2018 recorded a positive balance (net release) of CHF 194.1 million (previous year: CHF 1.7 million).

The increase on the previous year can mainly be attributed to the release of provisions no longer required in connection with the conclusion of the investigation by the US Department of Justice. For further information, please see Notes 16 and 36 to the Financial Report. Default risks as well as all other identifiable risks are constantly analysed. Where necessary, the appropriate value adjustments and provisions are made.

Changes in the item "Value adjustments for default risks and losses from interest operations" is a component of the result from interest operations.

Increase in extraordinary result, the creation of new reserves for general banking risks and lower taxes

The extraordinary result amounted to CHF 103.1 million (2017: CHF 7.9 million). This result can be mainly attributed to the profit generated by the sale of Swisscanto Funds Centre Ltd., London, which amounted to CHF 80.1 million. An extraordinary profit of CHF 21.5 million was generated from the sale of bank buildings.

The high net releases of provisions allowed for CHF 200 million of reserves for general banking risks to be created and recognised in the income statement.

Tax expenses amounted to CHF 6.9 million compared to CHF 10.5 million in the previous year.

Analysis of the financial and capital position

Higher balance sheet total

The balance sheet total amounted to CHF 169.4 billion at the end of 2018, which represents a year-on-year increase of CHF 5.5 billion or 3.4 percent.

On the assets side, mortgage growth of 2.7 percent (CHF +2.2 billion) and the securities financing business (CHF +2.7 billion) led to an increase. On the liabilities side, client deposits (CHF +4.2 billion) in particular posted growth.

The assets side of the balance sheet was dominated by liquid assets of 24 percent and mortgage receivables, which made up 48 percent of the balance sheet total. The liabilities side was mainly characterised by amounts due in respect of client deposits, which was the largest balance sheet item at approximately 51 percent.

Disclosures on significant components of the balance sheet

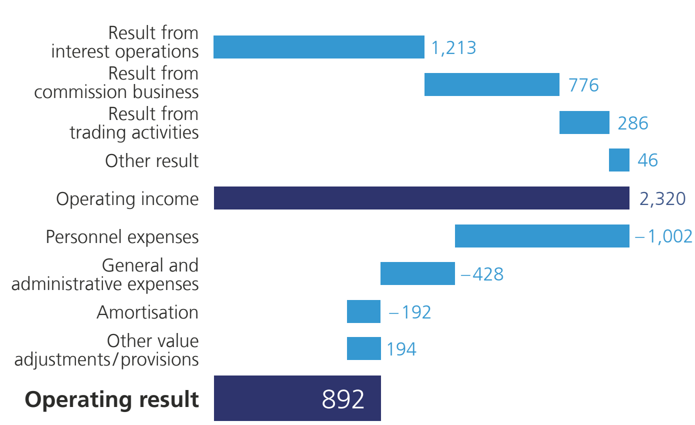
Stable liquidity and financial investments

Liquid assets consisted mainly of deposits with the Swiss National Bank and totalled CHF 41.0 billion at the end of the year under review (2017: CHF 41.1 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.

The high-quality fixed-interest securities held as financial investments are likewise used to manage liquidity. The portfolio of financial investments amounted to CHF 4.7 billion, remaining at a stable level in comparison with the previous year.

Zürcher Kantonalbank's comfortable liquidity situation is also reflected in its liquidity coverage ratio (LCR) of 127 percent, which continues to be significantly greater than the required 100 percent.

Breakdown of operating result (in CHF million)



The interbank and securities financing business

The interbank and securities financing business is used for short and medium-term liquidity management. At the end of the financial year 2018, amounts due from banks amounted to CHF 4.8 billion and were thus higher than in the previous year (CHF 4.5 billion). This was also the case for amounts due to banks, which was slightly up on the previous year at CHF 37.0 billion.

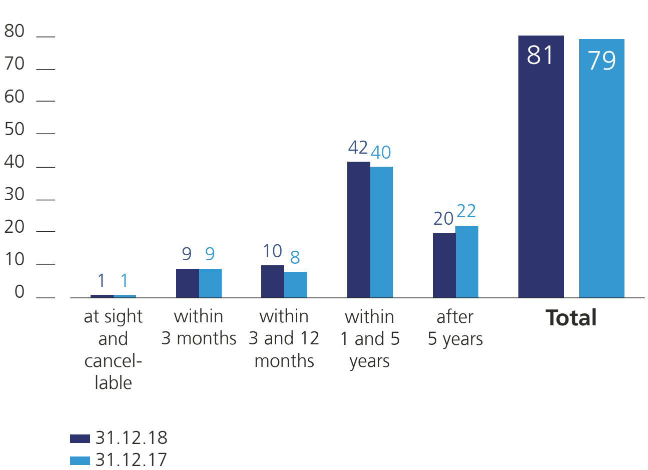
The securities financing business presented a similar picture. Both amounts due from securities financing transactions (CHF 17.0 billion) and liabilities from securities financing transactions (CHF 6.9 billion) rose slightly in comparison with the previous year.

Mortgage loans

At the end of 2018, mortgage loans amounted to CHF 81.3 billion (previous year: CHF 79.1 billion). This constitutes an increase of 2.7 percent, which is slightly below the market. There was no material change in the maturity structure.

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.

Mortgage loan maturity structure (in CHF billion)



Amounts due from clients

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 2018 totalled CHF 8.5 billion and were CHF 0.6 billion higher than in the previous year.

Trading business

Trading activities were shaped by client transactions. Trading positions posted slight year-on-year growth, standing at CHF 9.4 billion (2017: CHF 8.9 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.

The positive and negative replacement values of derivative financial instruments declined slightly in comparison with the previous year. Please see Note 4 for detailed information. Information on market risk management is available in section 1.6 of the Risk Report.

Participations, tangible fixed assets and intangible assets

Significant participations that are not consolidated totalled CHF 138.1 million. Further information, including the share of capital and voting rights, is provided in Notes 6 and 7 to the Financial Report.

The tangible fixed assets in the amount of CHF 677.3 million consist of real estate and other tangible fixed assets. Investments in tangible fixed assets in the financial year amounted to CHF 39.9 million.

In addition to the fixed purchase price, a variable component was also agreed for the acquisition of the Swisscanto Group completed in 2015. The variable component depends on the contribution to results of the individual sellers and the general success of the product range. In 2016 it amounted to CHF 63.2 million and approximately CHF 53.4 million in 2017. The last variable purchase price payment of CHF 49.3 million was due in 2018 and was included in goodwill. Goodwill is recognised under intangible assets. As at the end of 2018, intangible assets consisted mainly of goodwill and stood at CHF 141.7 million. This represents a decline of CHF 50.1 million in comparison with the previous year. This decline comprises the recognition of the variable purchase price component in financial year 2018, the ordinary amortisations and the extraordinary amortisation of CHF 59 million in connection with the sale of Swisscanto Funds Centre Ltd., London.

Amounts due in respect of client deposits

Amounts due in respect of client deposits include sight and time deposits in savings accounts and other client accounts and totalled CHF 85.5 billion at the end of the year under review, which represents an increase of 5.1 percent or CHF 4.2 billion on the previous year.

Cash bonds, bond issues and central mortgage institution loans

In contrast to the central mortgage institution loans, the maturing bonds were not fully replaced by new issues. Longer-term refinancing fell by CHF 0.6 billion to CHF 21.3 billion at the end of 2018.

For further information, please see Note 15 to the Financial Report.

Equity

At group level, the equity reported in the balance sheet comprises the bank's capital (CHF 2.4 billion), retained earnings reserves and foreign currency translation reserves (CHF 8.4 billion), consolidated profit (CHF 788.2 million) and the reserves established in financial year 2018 for general banking risks (CHF 200 million). 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 2018, equity before appropriation of profit totalled CHF 11.9 billion (2017: CHF 11.2 billion).

Client assets

Assets under management increased by CHF 6.4 billion to CHF 295.2 billion in financial year 2018. Thereof, approximately CHF 11.5 billion can be attributed to the negative performance (i.e. price gains/losses, interest, dividends and currency gains/losses). The net inflow of assets under management amounted to CHF 17.9 billion.

Further information can be found in Notes 31a and 31b to the Financial Report.

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 20 March 2018 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 2018.

Structure and ownership

Zürcher Kantonalbank is a public-law institution under the cantonal law of Zurich. In accordance with the Law on Zürcher Kantonalbank of 28 September 1997, 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 the outside back cover and page 94. For information on the development of equity, please see page 92.

Board of Directors and Committee of the Board

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

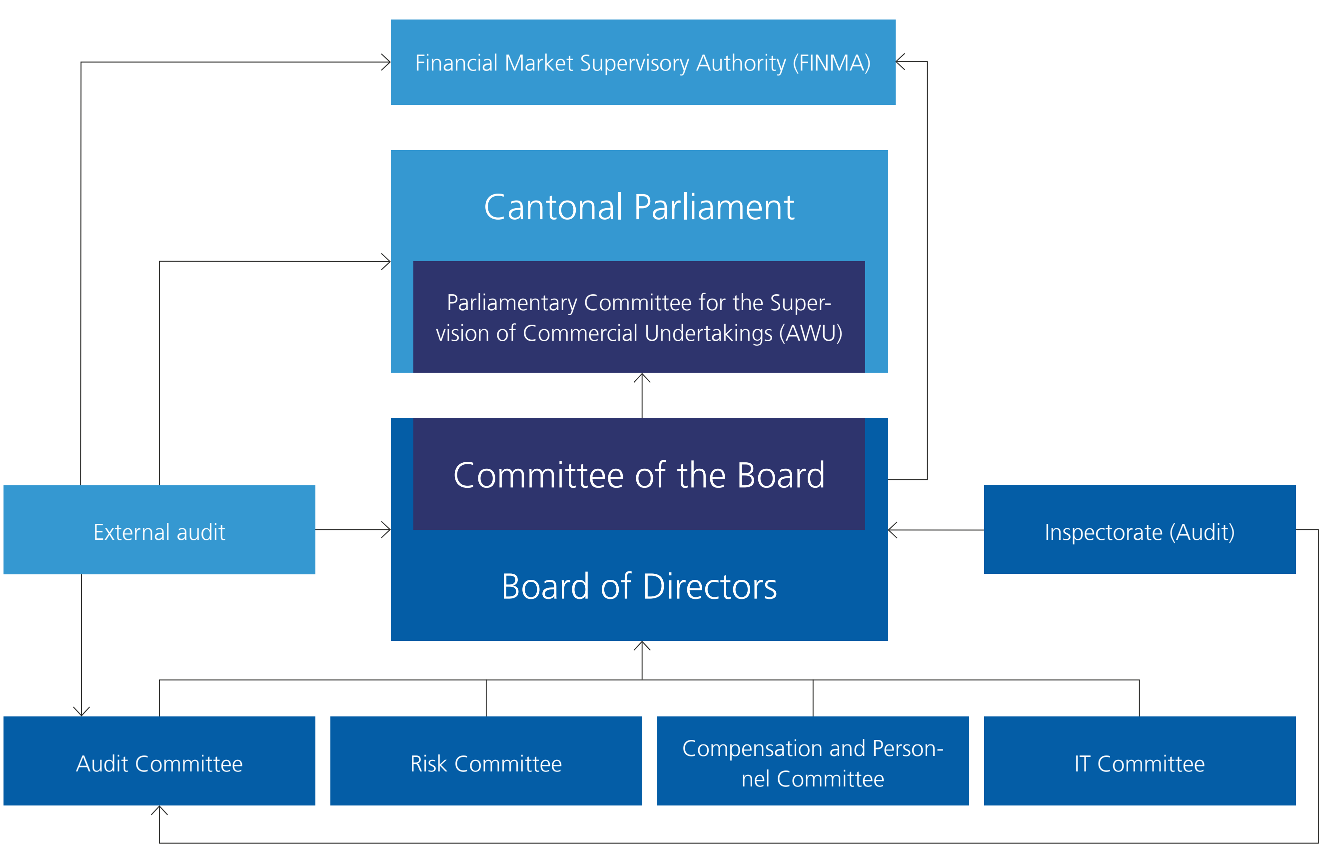
All of the members of the Board of Directors are Swiss citizens resident in the Canton of Zurich and are independent within the meaning of FINMA Circular 2017/01 "Corporate Governance – Banks". No member has ever served on the bank's Executive Board. None of the part-time members of the Board of Directors 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 12 years. The term of office for members of the Board of Directors ends at the latest on their 70th birthday. If members of the Committee of the Board reach their 65th birthday during their term of office, their time in office ends when their term of office expires.

For the current legislative period (July 2015 – end of June 2019), the Board of Directors consists of the persons listed in the table on page 59:

Corporate Governance at Board of Directors level



Members of the Board of Directors for the 2015–2019 legislative period

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 until 30.06.2018
Henrich Kisker	Member of the Board of Directors	since 01.07.2015
Roger Liebi (to replace Hans Kaufmann)	Member of the Board of Directors	since 01.07.2018
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

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 he Executive Board
- 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.

During the year under review, the Committee of the Board was involved in preliminary work and other activities related to reaching an agreement in the US trade dispute. It also kept itself up to date on regulatory changes, monitored the development of important bank projects and obtained guidance on the initial experiences gained with the implementation of "Performance & Development". 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. Besides deciding on any immediate measures to address objections in audit reports, the Committee of the Board closely oversaw the implementation of regulatory requirements 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 continued to strengthen 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.

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, group-wide risk and global limits, equity investments and the general framework for group-wide risk management
- establishes and closes branches and establishes subsidiaries
- sets up an internal control system (ICS)
- determines the group and financial planning
- issues guidelines on human resources policy as part of the group strategy
- is informed quarterly on risk concentration in accordance with article 95, paragraph 1, of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers
- is informed of the reporting on country limits
- consults the detailed quarterly reports of the Executive Board
- is regularly informed by the Executive Board of all relevant aspects of risk management
- approves unsecured loans in excess of CHF 1 billion
- is regularly informed of lending transactions that fall within the remit of the Committee of the Board
- approves the annual planning, annual and semi-annual financial statements and the annual report including the compensation report

– hires and dismisses the members of the Executive Board and their deputies, branch managers at senior level, and the Head of Audit and his/her deputy
– decides on the annual distribution of profit to the canton and municipalities

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

The Board of Directors follows a structured annual cycle and examines the group strategy and analyses Zürcher Kantonalbank's strengths and weaknesses, opportunities and risks as well as the associated strategic risks. This includes the related planning, controlling and reporting activities, as well as regular examination of risk management, risk reporting, the regulatory audit report by auditors Ernst & Young AG (EY), and measures and reports relating to the public service mandate and sustainability. The Board of Directors also takes decisions on loan and limit applications as well as other transactions that fall within its remit.

Zürcher Kantonalbank reached an agreement with the US Department of Justice in its multi-year tax dispute during the year under review, and the settlement reached with the US authorities was approved by the Board of Directors in August. The Board of Directors additionally approved the sale of the Funds Centre in London, which it had taken over as part of the Swisscanto Group acquisition. It also discussed and approved the mission statement and the new, forward-looking brand values of Zürcher Kantonalbank during the year under review. As it does every year, the Board of Directors sought guidance on the effects on the bank of national and geopolitical events and conditions on the financial markets. In this context, it monitored developments in the negotiations regarding the bilateral agreement with the EU as well as developments related to national and international laws and regulations. Due to the systemic importance of our bank, the Board also focused closely on both the contingency plan and the revision of the Capital Adequacy Ordinance and approved the updated recovery plan. Within the scope of the implementation of FINMA Circular 2017/01 "Corporate Governance – Banks", it approved parts of the internal regulations that had not yet been approved by the end of the previous year. Moreover, it addressed the topics of cyber and interest rate risks, outsourcing of payment transactions, retirement planning and investment advice, succession planning for key individuals, the implementation of "Performance & Development" as well as the anniversary activities planned for 2020. It was further informed about the transition from LIBOR to SARON, fintech innovations and key projects.

The Board of Directors appointed Jürg Bühlmann to take over as new Head of Corporate Banking from 1 January 2020, Marcel Zehnder to serve as Deputy Chief Risk Officer and two new branch managers. Ten regular meetings and one extraordinary meeting were held; they were attended by the Executive Board as well as the Head of Audit. Representatives of EY attended three meetings. The Board of Directors also held a two-day retreat to discuss strategic issues, namely the mission statement and the new values. Subsequent to the meetings, it also held workshops to regularly address individual topics such as cyber risks in greater depth. Two members of the Board of Directors also made visits to ten branches and five specialist units.

Board of Directors Committees

Four committees assist the Board of Directors in its decisions by providing preliminary advice:
– Audit Committee
– Risk 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.

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 2017/01 "Corporate Governance – Banks". Within its area of responsibility, it prepares specialist resolutions of the 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 2018, this Committee comprised Mark Roth (Chairman), Amr Abdelaziz, René Huber, Henrich Kisker and Roger Liebi. 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 2018. 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 the Committee of the Board. The relevant management decision-makers were also involved in the discussions on a regular basis where needed.

At each meeting, attention focused on financial reporting (monthly, quarterly, half-yearly and annual reports including disclosures) as well as the external and internal audit reports. A total of 54 internal and 20 external audit reports were discussed. This also involved the assessment of the appropriateness of measures taken by the entities audited, the assessment of internal audit reports and reporting by Audit on the current implementation status of the measures decided.

At several meetings and at the annual workshop organised by Audit, key changes in the risk profile as well as the consequent setting of audit objectives for internal and external auditing were discussed, 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 activity report by Legal, Tax & Compliance and a forward-looking assessment of statutory and regulatory developments
- critical assessment of the regulatory audit report, the comprehensive financial audit report and the special report from the external auditor for the attention of the Parliamentary Committee (AWU) regarding the bank's economic standing with respect to the state guarantee
- assessment of the performance of Audit
- assessment of the performance and compensation of the external auditors

With regard to financial management, the Audit Committee also examined the bank's financial strategic parameters in the year under review. 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 as well as annual and multi-year financial planning.

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 2018, 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 ten 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 current and future developments and challenges in Human Resources. Depending on the topic, the CEO, CFO, Head of Institutionals & Multinationals and other representatives of the specialist units participated in the meetings.

As is standard, the Compensation and Personnel Committee attended to succession planning, the implementation of the human resources strategy as well as to, in particular, matters related to compensation, 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 group-wide salary and bonus system, and the parameters for the 2018–20 long-term deferred component. The Compensation and Personnel Committee additionally 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. 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 Risk. It again examined measures aimed at increasing the percentage of women in management positions in the year under review and sought information about the future-oriented strategic personnel projects. It also obtained guidance regarding experiences gained with the new performance management system, "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 2018, this committee comprised Rolf Walther (Chairman), János Blum, René Huber, Henrich Kisker 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, 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, evaluates the appropriateness of our bank's risk management processes, the completeness of the risk inventory and the risk profiles for both operational and compliance risk on an annual basis, and submits recommendations concerning the group-wide risk framework which addresses the requirements of the bank's risk policy and strategic risks to the Board of Directors. The Risk Committee also examines the findings in the risk-relevant audit reports and notes the minutes of the Risk Committee of the Executive Board.

The Risk Committee 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. In the year under review, the committee once again addressed the impact of negative interest rates and sought information about experience gained in connection with the introduction of IRB and the implementation of FINMA Circular 2017/01 "Corporate Governance – Banks". It was also briefed on the topics of regulating market risk within the framework of Basel III, risk management in the investment and asset management business, documentary transactions and the impact of the possible elimination of imputed rental values. It followed international developments with respect to country risks and also paid particular attention to specific industries in Switzerland and developments such as Industry 4.0. 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 for the group and provides it with relevant recommendations. For this purpose, it works to obtain a picture of the contribution of IT to the bank's performance. Furthermore, it assesses the cost 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 2018, the IT Committee comprised Walter Schoch (Chairman) as well as Jörg Müller-Ganz, Stefan Wirth and Henrich Kisker as members; Henrich Kisker was replaced by Roger Liebi in the middle of the year. The IT Committee held five regular meetings as well as a training event, which were each attended by the Head of Logistics.

The IT Committee examined a total of 13 audit reports with relevance to IT. It was informed on a regular basis about the status of relevant findings by the external auditor. The IT Committee reviewed the 2017 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 programmes. In this respect, the committee obtained guidance on the most important programmes in the portfolio from individuals directly responsible for them. In addition, IT planning and the reduction of IT operating costs 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 with matters related to IT security on a regular basis. It was thus briefed on a wide variety of issues, including the current threat situation and measures, the quantification of IT risks and the restoration of data. The topic of cyber security was addressed in greater depth during a training event.

For the purpose of gaining an overview of important IT matters, the committee addressed the portfolio descriptions for monetary transactions and the lending business, blockchain technology and various IT-related directives and sought guidance regarding the conclusion of the data centre outsourcing arrangement.

Other topics of focus included the trading workplace, the migration to Windows 10, mobile and e-banking as well as the securities application. In addition, the IT Committee was also briefed on further strategic IT projects, such as enterprise document management and the further development of the partner and business development process.

Audit

Audit is responsible for the group's internal audit. It is headed by Walter Seif and as at the end of 2018 had 51 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 auditor

Under the Law on Zürcher Kantonalbank, the Cantonal Parliament appoints the external auditors for a two-year period. The external auditors must be recognised by the Swiss Financial Market Supervisory Authority (FINMA). On

14 May 2018, the Cantonal Parliament confirmed the appointment of EY (since 1989) as external auditors for 2019 and 2020. Bruno Patusi was the lead auditor for the financial audit (since 2018). Prof. Andreas Blumer is the lead auditor for the regulatory audit (and has been since 2013). In the year under review, EY charged CHF 4.3 million (2017: CHF 4.3 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. EY charged CHF 32,000 (2017: CHF 117,000) for additional consulting services and CHF 87,000 (2017: CHF 1,500) for audit-related services. Furthermore, EY charged CHF 3.5 million (2017: CHF 3.5 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 activities, course and results of the bank's business and any important events. As at 31 December 2018, 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
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
Christina Zurfluh Fräfel, SVP	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 128 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 et seqq. FINMA Circular 2017/01. 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

Executive Board organisational chart

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, coordinating the business activities of the Executive Board, and ensuring that the duties assigned by the Board of Directors and the Committee of the Board are carried out. The Chief Executive Officer reports to the Committee of the Board and Board of Directors. Subject to the responsibilities of the Board of Directors and the Committee of the Board, the individual members of the Executive Board report to the CEO.

Members of the Executive Board

All members of the Executive Board are Swiss nationals. For information on compensation, profit-sharing and loans, please see page 84 of the Compensation Report. As at 31 December 2018, 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 73 to 75.

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 2018 annual results were announced on 8 February 2019 and the Annual Report is set to be approved by the Cantonal Parliament on 29 April 2019. The bank's half-yearly results are expected to be published at the end of August 2019.

Committee of the Board

Jörg Müller-Ganz

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

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

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 of the Board of Directors of Zürcher Kantonalbank. He was appointed Chairman of the Board of Directors of Opo Oeschger AG, Kloten, in 2015.

János Blum

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

Key mandates:
Chairman of the Management Committee and employer representative of the Pension Fund of Zürcher Kantonalbank, Zurich; Chairman of the Board of Trustees and employer representative of the Marienburg Foundation of Zürcher Kantonalbank, Zurich; member of the Boards of Trustees of the Center for Corporate Responsibility and Sustainability at the University of Zurich, Zurich, and the Chance foundation, Zurich; 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 representative of the Pension Fund and the Marienburg Foundation of Zürcher Kantonalbank as well as a member of the Zürcher Kantonalbank Risk Committee, which he chaired between 2003 and 2011. Dr János Blum is a partner in Blum Real GmbH, Hungary.

Bruno Dobler

Deputy Chairman
Executive MBA HSG
Swiss national; born in 1952

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

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 Parliament 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 the Board of Directors 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

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

Key mandates:
None

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

René Huber

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

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

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

Henrich Kisker

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

Key mandates:
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 Finance Committee/Business Manager of the Association of Reformed Churches of Zurich (from 2019: Kirchgemeinde Stadt Zürich (Church Community of the City of Zurich))

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

Roger Liebi

Member of the Board of Directors
Banker, BoD certification from SAQ
Swiss national; born in 1961

Key mandates: CEO and owner of Roger Liebi, Management & Consulting, Zurich

Roger Liebi joined the Board of Directors in 2018. He started his professional career in 1981 at the Union Bank of Switzerland in Thun. He then went on to gain more specialised experience in commerce, the retail client business and as a foreign exchange and money market dealer in Thun, Gstaad, Berne and Neuchâtel. Next, his path led him to a position with the rank of Vice-Director in the world of international private banking. From 2004 to 2015, for instance, he worked for the partially state-owned Scandinavian Nordea Bank (Switzerland) as regional manager in charge of several countries. In 2017, Roger Liebi became a self-employed executive search consultant and sports agent. In addition to this, he was also involved in the Zurich Banking Association, entrepreneur groups and as the chairman of an NGO. He was a member of Zurich City Parliament from 2002 to 2017. From 2015 to 2018, Roger Liebi served as a member of the Cantonal Parliament, where he headed up the Committee for Economic Affairs and Taxation of the Cantonal Parliament of Zurich. He is a member of the Audit Committee and the IT Committee of the Board of Directors of Zürcher Kantonalbank.

Mark Roth

Member of the Board of Directors
Swiss Certified Accountant
Swiss national; born in 1974

Key mandates:
Member of the Boards of Directors of BTAG Management AG, Zurich, Budliger Treuhand AG, Zurich, Treuhandgesellschaft Hebeisen Kälin AG, Zurich, Delta Technik AG, Zug, and Energy Invest Consulting 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 Energy Invest Consulting AG, Zurich, since 2018; BTAG Management AG, Zurich, since 2017; Delta Technik AG, Zug, since 2016; Budliger Treuhand AG, Zurich, since 2014; 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, Zurich, in both Zurich and Amman (Jordan). Mark Roth is Chairman of the Audit Committee of the Board of Directors of Zürcher Kantonalbank.

Peter Ruff

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

Key mandates:
Chairman of the Board of Trustees of Grüningen Botanical Garden, Grüningen; member of the Boards of Directors of Exploris AG, Zurich, and Exploris Health 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 and Exploris Health AG, which specialise in diagnostic solutions and data analysis in the healthcare industry, since 2002 and 2018, respectively. 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 Committee and the Personnel Committee of the Board of Directors of Zürcher Kantonalbank.

Walter Schoch

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

Key mandates:
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 of the Board of Directors of Zürcher Kantonalbank.

Anita Sigg

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

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

Anita Sigg has been a member of the Board of Directors since 2011. Since 2003, she has been a lecturer 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 the Board of Directors of Zürcher Kantonalbank.

Rolf Walther

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

Key mandates:
Chairman of the Board of Directors and CEO of Walther Beratungen AG, Zurich; member of the Board of Trustees of Wildnispark, Horgen

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. He has chaired the Risk Committee of the Board of Directors of Zürcher Kantonalbank since 2011.

Audit

Stefan Wirth

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

Key mandates:
None

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

Walter Seif

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

Key mandates:
Chairman of the Internal Audit Association of the Swiss Cantonal Banks; 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

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

Key mandates:
Member of the Board of Directors of the Swiss Bankers Association, Basel; member of the Board of Directors of the Association of Swiss Cantonal Banks, Basel; member of the Board of economiesuisse, Zurich; Chairman of the Board of Directors of ZüriBahn AG, Zurich

Martin Scholl became Chief Executive Officer in 2007. He has been a member of the Executive Board since 2002. Martin Scholl was Head of Corporate Banking until 2005, before being appointed Head of Retail Banking in 2006. After completing his apprenticeship in banking at Zürcher Kantonalbank, he was employed in various roles. In 2001, he led the credit management department, and from 1996 to 2001 was Head of Distribution for Commercial and Corporate Clients. Martin Scholl is a member of the Board of Directors of the Swiss Bankers Association; Deputy Chairman of the Association of Swiss Cantonal Banks, Basel; member of the Board of economiesuisse, Zurich; Chairman of the Board of ZüriBahn AG, Zurich; member of the Board of Directors of Venture Incubator AG, Zug; and member of the Board of Trustees of the FCZ Museum Foundation, Zurich.

Christoph Weber

Head of Private Banking, Deputy Chairman of the Executive Board
Swiss certified banking expert
Swiss national; born in 1959

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 retail 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

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

Key mandates:
Member of the Board of Directors of SIX Group

Jürg Bühlmann was appointed Head of Logistics 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. From 2002 until his appointment as a member of the Executive Board, he held a variety of positions within the Logistics business unit. His main duties were the management of strategic IT projects, a sub-area of the IT unit and the Real Estate unit.

Stephanino Isele

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

Key mandates:
Member of the Board of Directors of Swisscanto Holding Ltd. and Swisscanto Swiss Red Cross Charity Fund (SICAV), Zurich; Vice Chairman 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

Dr 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, most recently as COO, where he dealt with equity derivatives. He has been Vice Chairman of the Boards of Trustees of Swisscanto Anlagestiftung, Zurich, and Swisscanto Anlagestiftung Avant, Zurich, since 2017, as well Vice Chairman of the Board of Directors of Swisscanto Holding Ltd since 2018. He has also been a member of the Board of Directors of 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

Head of Corporate Banking
Swiss certified banking expert
Swiss national; born in 1961

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 a member of the Board of Directors of Swisscanto Holding Ltd, and Chairman of the Board of Directors of Swisscanto Pensions Ltd., Zurich, since 2015. 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

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

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

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

Key mandates:
Chairman of the Board of Directors of Swisscanto Fund Management Company Ltd., Zurich; member of the Boards of Directors of Swisscanto Holding Ltd., Zurich, 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

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

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

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 in line with the market and based on performance. It is geared towards the long-term financial interests of Zürcher Kantonalbank.

Basic principles

As a public-law institution, Zürcher Kantonalbank aligns its compensation policy 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.

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.

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

Competencies and responsibilities

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

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 held seven 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

Board of Directors

The compensation of the members of the Board of Directors and the Committee of the Board is based on the regulations governing the compensation of members of the Board of Directors of Zürcher Kantonalbank, as approved by the Cantonal Parliament of Zurich on 25 November 2004. 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.

2018 Agreed sign-on and severance payments

in CHF 1,000	No. of employees	Total	Paid in 2018	Amounts due in 2019 or later
Total sign-on payments	5	159	11	148
– of which Key Risk Takers	–	–	–	–
Total severance payments	–	–	–	–
– of which Key Risk Takers	–	–	–	–
Total compensation	5	159	11	148

Senior management

Senior management has a sustained influence on the bank's business operations (risks, image, etc.), on the group's result and therefore on the implementation of the strategy. Senior management accounts for approximately 1 percent of the total headcount. As with the Executive Board, variable compensation is paid in addition to the base salary. The variable compensation is linked to the group's result and individual managers' performance. Part of the variable compensation (long-term deferred component) is deferred as in the case of the Executive Board.

Other management and employees

In principle, all the bank's employees are entitled to a variable element of compensation for good performance. Selected employees in 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:

- 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 79 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. The findings of salary comparisons serve to, among other things, determine individual salaries. Base-salary levels are usually reviewed annually. The amount of the base salary is determined by the employee's position, experience and skills, and takes account of their individual sustainable performance. Adjustments are made to reflect market conditions, affordability, individual performance and the overall financial position of Zürcher Kantonalbank.

Variable compensation

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

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 leave the bank or inappropriate risk-taking outside of the ordinary risk processes

Consideration of risks

Risk-adjusted variable compensation pool

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

The model for standard risk costs is based on the default rates for an entire economic cycle. This evens out the annual default risk costs, which would otherwise be irregular. By taking account of standard risk costs, the annual accounts include risk costs arising from current business volumes under the model. This means that management decisions to focus on specific products or markets immediately incur the relevant risk costs. Using this procedure ensures that the basis for calculating the variable compen-

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 three years	Yes	Amount of cash sum paid out on due date depends on development of economic profit.	Yes
Deferred variable compensation exposed to risk	Certain employees in Trading, Sales & Capital Markets	Payment in equal shares over two years	Yes	Amount of cash sum paid out on due date depends on whether a penalty has been imposed.	Yes

1 Taking capital and risk costs into account

sation 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 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 section "Competencies and responsibilities" (page 78), the Board of Directors determines the compensation of the members of the Executive Board at the request of the Committee of the Board. The Executive Board determines the compensation of Key Risk Takers in senior management at the request of the relevant member of the Executive Board. The Head of Institutionals & Multinationals determines the compensation of Key Risk Takers in Trading, Sales & Capital Markets at the request of the head of the relevant organisational unit.

Risk adjustment in relation to deferred compensation

Deferred components of compensation are subject to further risk adjustment. They may lapse in full or in part if negative business developments or other predefined conditions occur (see "Variable compensation component deferred for three years" (page 81), "Deferred variable compensation exposed to risk" (page 81) and "Penalty clause" (page 82) 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 2018

Total personnel expenses for all 4,859 (2017: 4,866) employees (full-time equivalents) amounted to CHF 958.6 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 2018 (parent company)

in CHF million	2018	2017
Base salary[1]	529.8	527.1
Total amount of variable compensation	230.9	227.8
Social security contributions	165.8	178.1
Other personnel expenses[2]	32.1	32.1
Total personnel expenses	958.6	965.0

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

In its annual review of base salaries, Zürcher Kantonalbank decided to raise base salaries for 2018 by CHF 4.2 million (+0.8 percent) compared with the previous year, mainly for the purpose of bringing its employees closer in line with standard market rates as well as to better reward employees who assumed more responsibility or put in an outstanding performance. Total variable compensation rose by CHF 3.1 million. The total amount of deferred compensation was CHF 10.7 million.

Details of variable compensation (parent company)

	2018		2017	
	No. of employees[1]	in CHF million	No. of employees[1]	in CHF million
Total amount of variable compensation	4,859	230.9	4,866	227.8
– of which deferred compensation	79	10.7	82	11.6
– of which sign-on and severance payments	5	0.2	2	0.2

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.

No other compensation or benefits in kind were paid to current or former members of the Board of Directors or related parties during the year under review. There are no unusual commitments between Zürcher Kantonalbank and the members of the Board of Directors or related parties.

No loans on unusual terms were granted to part-time members of the Board of Directors or related parties.

The members of the Board of Directors and related parties received no other fees or payments for additional services rendered to the Zürcher Kantonalbank group or any of its subsidiaries during the year under review.

Compensation for members of the Executive Board

The total compensation of the individual members of the Executive Board takes account of their performance in their areas of responsibility. Total compensation for the Executive Board in 2018 amounted to CHF 13,810,197 (2017: CHF 13,170,096). The highest sum paid to a member of the Executive Board during the year under review was CHF 2,018,782 in salary and variable compensation plus CHF 210,827 in pension payments and other remuneration, and was paid to Martin Scholl, CEO (2017: CHF 2,119,924).

In addition, deferred components amounting to CHF 2,297,500 (2017: CHF 2,192,500) were set aside for the members of the Executive Board, of which CHF 382,500 were allocated to the highest paid member (2017: CHF 365,000); 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 13,745,500 (of which CHF 10,644,000 on employee terms). No loans on unusual terms were granted to related parties of the Executive Board.

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

	Year	Annual compensation	Attendance fee	Expense allowance[1]	Benefits in kind[2]	Employer contributions to pillar 2	Total	Loans as at 31.12 in CHF
Committee of the Board								
Jörg Müller-Ganz	2018	342,650	–	14,040	10,065	89,798	456,553	1,300,000
	2017	342,650	–	14,040	8,315	91,941	456,946	1,300,000
János Blum	2018	311,500	–	14,040	1,900	83,411	410,852	1,400,000
	2017	311,500	–	14,040	6,900	85,555	417,995	1,400,000
Bruno Dobler	2018	311,500	–	14,040	–	46,019	371,559	972,000
	2017	311,500	–	14,040	–	59,555	385,095	976,000
Other members of the Board of Directors								
Amr Abdelaziz	2018	30,000	28,350	6,000	–	–	64,350	–
	2017	30,000	26,250	6,000	–	–	62,250	–
René Huber	2018	30,000	25,900	6,000	–	–	61,900	4,262,500
	2017	30,000	23,450	6,000	–	–	59,450	5,197,500
Hans Kaufmann	2018 (until 30.06.2018)	15,000	16,450	3,000	–	–	34,450	–
	2017	30,000	28,700	6,000	–	–	64,700	1,065,000
Henrich Kisker	2018	30,000	24,850	6,000	–	–	60,850	–
	2017	30,000	23,800	6,000	–	–	59,800	–
Roger Liebi	2018 (since 01.07.2018)	15,000	12,600	3,000	–	–	30,300	–
	2017	–	–	–	–	–	–	–
Mark Roth	2018	24,000	38,150	6,000	–	–	68,150	–
	2017	24,000	34,650	6,000	–	–	64,650	–
Peter Ruff	2018	24,000	30,100	6,000	–	–	60,100	–
	2017	24,000	31,150	6,000	–	–	61,150	–
Walter Schoch	2018	24,000	25,550	6,000	–	–	55,550	–
	2017	24,000	28,000	6,000	–	–	58,000	–
Anita Sigg[3]	2018	30,000	22,750	6,000	–	–	58,750	2,240,000
	2017	30,000	21,700	6,000	–	–	57,700	2,246,000
Rolf Walther	2018	24,000	27,300	6,000	–	–	57,300	–
	2017	24,000	27,650	6,000	–	–	57,650	–
Stefan Wirth	2018	30,000	23,100	6,000	–	–	59,100	–
	2017	30,000	25,200	6,000	–	–	61,200	–
Total	2018	1,241,651	275,100	102,120	11,965	219,228	1,850,064	10,174,500
Total	2017	1,241,651	270,550	102,120	15,215	237,050	1,866,586	12,184,500

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 540,000.

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

Consolidated income statement

in CHF million	Notes	2018	2017	Change	Change in %
Result from interest operations					
Interest and discount income		1,812	1,608	203	12.6
Interest and dividend income from financial investments		44	49	–5	–10.3
Interest expense		–633	–446	–187	41.8
Gross result from interest operations	33	1,223	1,211	12	1.0
Changes in value adjustments for default risk and losses from interest operations		–10	–9	–1	7.5
Subtotal net result from interest operations		1,213	1,202	11	0.9
Result from commission business and services					
Commission income from securities trading and investment activities		803	802	2	0.2
Commission income from lending activities		50	52	–2	–4.1
Commission income from other services		147	141	6	3.9
Commission expense		–224	–225	1	–0.4
Subtotal result from commission business and services		776	770	6	0.8
Result from trading activities					
Result from trading activities and the fair value option	32	286	334	–48	–14.4
Other result from ordinary activities					
Result from the disposal of financial investments		2	4	–2	–48.8
Income from participations		32	16	16	96.9
– of which, participations valued using the equity method		2	3	–1	–40.7
– of which, from other non-consolidated participations		30	13	17	125.5
Result from real estate		6	6	–0	–3.8
Other ordinary income		9	9	1	8.5
Other ordinary expenses		–4	–4	1	–17.4
Subtotal other result from ordinary activities		46	31	15	49.2
Operating income		2,320	2,336	–16	–0.7
Operating expenses					
Personnel expenses	34	–1,002	–1,008	6	–0.6
General and administrative expenses	35	–428	–426	–2	0.6
Subtotal operating expenses		–1,430	–1,434	3	–0.2
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–192	–120	–72	60.4
Changes to provisions and other value adjustments and losses		194	2	192	–
Operating result		892	784	108	13.7
Extraordinary income	36	103	8	95	–
Extraordinary expenses	36	–0	–0	–0	509.3
Changes in reserves for general banking risks	36	–200	–	–200	–
Taxes	39	–7	–11	4	–34.9
Consolidated profit		788	782	6	0.8

Consolidated balance sheet
as at 31 December

in CHF million	Notes	2018	2017	Change	Change in %
Assets					
Liquid assets		40,989	41,147	–158	–0.4
Amounts due from banks		4,803	4,457	345	7.8
Amounts due from securities financing transactions	1	17,004	14,326	2,678	18.7
Amounts due from customers	2	8,469	7,832	637	8.1
Mortgage loans	2	81,256	79,087	2,169	2.7
Trading portfolio assets	3	9,364	8,922	442	5.0
Positive replacement values of derivative financial instruments	4	1,278	1,535	–257	–16.7
Other financial instruments at fair value	3	–	–	–	–
Financial investments	5	4,705	4,740	–35	–0.7
Accrued income and prepaid expenses		293	281	13	4.5
Non-consolidated participations	6, 7	138	130	8	6.5
Tangible fixed assets	8	677	775	–97	–12.6
Intangible assets	9	142	192	–50	–26.1
Other assets	10	291	458	–167	–36.4
Total assets		169,408	163,881	5,528	3.4
Total subordinated claims		166	188	–21	–11.4
– of which, subject to conversion and/or debt waiver		46	31	16	50.8
Liabilities					
Amounts due to banks		37,019	35,393	1,626	4.6
Liabilities from securities financing transactions	1	6,876	6,623	254	3.8
Amounts due in respect of customer deposits		85,537	81,381	4,157	5.1
Trading portfolio liabilities	3	2,418	1,859	559	30.1
Negative replacement values of derivative financial instruments	4	752	867	–115	–13.3
Liabilities from other financial instruments at fair value	3, 14	2,472	2,869	–397	–13.8
Cash bonds	15	167	191	–24	–12.4
Bond issues	15	11,666	12,419	–753	–6.1
Central mortgage institution loans	15	9,463	9,275	188	2.0
Accrued expenses and deferred income		725	634	91	14.4
Other liabilities	10	205	558	–353	–63.3
Provisions	16	255	585	–330	–56.3
Reserves for general banking risks	16	200	–	200	–
Bank's capital	21	2,425	2,425	–	–
Retained earnings reserve	21	8,445	8,026	419	5.2
Foreign currency translation reserve	21	–6	–4	–2	38.7
Consolidated profit	21	788	782	6	0.8
Equity	21	11,852	11,228	623	5.6
Total liabilities		169,408	163,881	5,528	3.4
Total subordinated liabilities		1,491	1,513	–23	–1.5
– of which, subject to conversion and/or debt waiver		1,491	1,513	–23	–1.5
Off-balance-sheet transactions					
Contingent liabilities	2, 28	4,102	4,086	16	0.4
Irrevocable commitments	2	7,698	8,015	–317	–4.0
Obligations to pay up shares and make further contributions	2	263	233	30	13.1
Credit commitments	2, 29	–	–	–	–

Consolidated cash flow statement

in CHF million	Cash inflow 2018	Cash outflow 2018	Cash inflow 2017	Cash outflow 2017
Cash flow from operating activities (internal financing):				
Result of the period	788	–	782	–
Change in reserves for general banking risks	200	–	–	–
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	192	–	120	–
Provisions and other value adjustments	91	420	69	120
Changes in value adjustments for default risks and losses	64	60	91	83
Accrued income and prepaid expenses	–	13	80	–
Accrued expenses and deferred income	91	–	–	49
Other items	0	1	–	7
Previous year's dividend	–	363	–	351
Total	569	–	531	–
Cash flow from shareholder's equity transactions:				
Share capital/participation capital/cantonal banks' endowment capital etc.	–	–	–	–
Recognised in reserves	–	2	4	–
Total	–	2	4	–
Cash flow from transactions in respect of non-consolidated participations, tangible fixed assets and intangible assets:				
Non-consolidated participations	1	15	–	1
Real estate	54	22	0	32
Other tangible fixed assets	1	18	–	20
Intangible assets	0	53	–	58
Mortgages on own real estate	–	–	–	–
Total	–	52	–	111

Consolidated cash flow statement
(continued)

in CHF million	Cash inflow 2018	Cash outflow 2018	Cash inflow 2017	Cash outflow 2017
Cash flow from banking operations:				
Medium and long-term business (> 1 year):				
Amounts due to banks	–	249	–	208
Amounts due in respect of customer deposits	–	6	452	–
Liabilities from other financial instruments at fair value	–	40	61	–
Cash bonds	0	25	2	46
Bond issues	5,802	6,619	6,647	3,744
Central mortgage institution loans	1,314	1,126	1,407	516
Loans of central issuing institutions	–	–	–	–
Other obligations (other liabilities)	–	353	52	–
Amounts due from banks	119	–	141	–
Amounts due from customers	–	154	74	–
Mortgage loans	–	2,179	–	1,817
Other financial instruments at fair value	–	–	–	–
Financial investments	132	–	–	316
Other accounts receivable (other assets)	167	–	62	–
Short-term business:				
Amounts due to banks	1,876	–	1,463	–
Liabilities from securities financing transactions	254	–	1,539	–
Amounts due in respect of customer deposits	4,162	–	39	–
Trading portfolio liabilities	559	–	–	797
Negative replacement values of derivative financial instruments	–	115	–	684
Liabilities from other financial instruments at fair value	–	357	–	292
Amounts due from banks	–	464	766	–
Amounts due from securities financing transactions	–	2,678	563	–
Amounts due from customers	–	477	–	400
Trading portfolio assets	–	377	736	–
Positive replacement values of derivative financial instruments	257	–	398	–
Other financial instruments at fair value	–	–	20	–
Financial investments	–	97	–	215
Liquidity:				
Liquid assets	158	–	–	5,811
Total	–	516	–	424

Consolidated statement of changes in equity

in CHF million	Bank's capital	Retained earnings reserve	Reserves for general banking risks	Consolidated profit	Currency translation reserves	Total equity
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 reserves for general banking risks	–	–	–	–	–	–
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
2018						
Opening amount	2,425	8,808	–	–	–4	11,228
Effect of any restatement	–	–	–	–	–	–
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Increase in scope of capital consolidation	–	–	–	–	–	–
Decrease in scope of capital consolidation	–	–	–	–	–	–
Other contributions/other capital paid in	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Currency translation differences	–	–	–	–	–2	–2
Dividends and other distributions	–	–363	–	–	–	–363
Valuation adjustments with no income effect	–	–0	–	–	–	–0
Other allocations to (transfers from) the reserves for general banking risks	–	–	200	–	–	200
Other allocations to (transfers from) the other reserves	–	–	–	–	–	–
Consolidated profit	–	–	–	788	–	788
Total equity as at 31.12.2018	2,425	8,445	200	788	–6	11,852

Notes

a) Portrait

Zürcher Kantonalbank is "Close to you". We have successfully positioned ourselves as a universal bank with a regional base as well as an international network. Within the Greater Zurich Area we are the leaders in universal banking. Our clients profit from a broad range of products and services. Our core business includes the following: financing, investment and asset management, trading and capital markets, the borrowing business, payment transactions and the card business.

Since its foundation in 1870, Zürcher Kantonalbank has been an independent public-law institution of the Canton of Zurich.

Broad diversification

We pursue a diversification strategy: we generate our income in various business areas, thereby reducing our risks. To achieve broad income diversification, we aim for qualitative growth in the investment and asset management business. We wish to grow mainly organically. Our focus is on the Greater Zurich Area. We are not planning either substantial expansion abroad or disproportionately risky business. The group includes as parent company the largest cantonal bank in Switzerland and the fourth-largest Swiss bank. The broadly diversified consolidated group also includes Swisscanto Holding AG with its subsidiaries and their subsidiaries (Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd., Swisscanto Private Equity CH I Ltd and Swisscanto Asset Management International SA), which are mainly engaged in asset management business. Zürcher Kantonalbank Finance (Guernsey) Ltd., which focuses on issuing structured investment products, and Zürcher Kantonalbank Österreich AG, which operates in international private banking, are also part of the group. In 2020, we will be celebrating our 150th anniversary. As part of this we are planning to construct a cable car across the lake. ZüriBahn AG was set up as an additional group company for this purpose in summer 2018, but this is not consolidated on grounds of materiality. 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 2018/03 "Outsourcing – banks and insurers" – 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

The following changes were made during the year to accounting and valuation principles: Property gains tax is a direct tax, like tax on profits and capital. It is charged on the sale of a property. In cantons with a two-tier system (such as Lucerne), this is taxed as ordinary tax on profits. In cantons with a one-tier system (such as Zurich), property gains are subject to a special tax. Previously, property gains tax was offset against gains from the sale of real estate and was recognised as extraordinary income. To improve comparability, property gains tax is now recognised separately in the income statement position taxes, with a corresponding impact on the position.

To date, reserves for general banking risks have been created solely at the parent company. Creation has been shown in a separate position in the income statement (Changes in reserves for general banking risks). The position was also reported in a specific item in the balance sheet (Reserves for general banking risks). This position has been allocated to the retained earnings reserve within the Group. From this year onwards, reserves for general banking risks will also be created in the Group in specific items and the positions reported. There is no change to the reporting and release of reserves for general banking risks created before 2018.

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".

	2018		2017	
	Rates on the balance sheet date	Average annual rates	Rates on the balance sheet date	Average annual rates
USD	0.9858	0.9769	0.9745	0.9797
EUR	1.1269	1.1506	1.1702	1.1160

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 financial instruments as well as the related cash collateral are offset (netting). For this purpose, a relevant bilateral agreement with the affected counterparties must be in place. This agreement must be proven to be recognised and legally enforceable.

Liquid assets

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

Amounts due from and to banks

Unless stated otherwise in a different item, amounts due from and to banks 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 a loan. Reimbursement claims in the context of securities borrowing which arise from cash collateral for the borrowed, non-monetary values are also included.

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

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

These items are recognised at nominal value. Book claims in precious metals are stated at market values. 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 homogeneous 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 recognised by compensating the result from trading activities within net interest. With the exception of the physical precious metal portfolios accounted for under Financial investments, all other precious metals that are physical and held in account form are accounted for as Trading portfolio assets and at fair value.

Short positions are also accounted for at fair value and stated under the item "Trading portfolio liabilities". In the case of trading in combinations of money market transactions and currency swaps, the aim is to report the interest income or trading result in the way that most closely captures the economic impact, following the principle of substance over form. As a result, the gain on the currency swaps is compensated under the result from interest operations. Hence the results from these combined transactions are posted uniformly in the result from interest operations. This avoids inflating the income statement and shifting amounts between interest operations and trading activities with no substantive or economic rationale.

Positive and negative replacement values of derivative financial instruments

Derivative financial instruments are valued at fair value and, in principle, represent trading activities. Comments on the business policy parameters for the use of derivative financial instruments and explanations in connection with the application of hedge accounting can be found under section f). Replacement values of derivative financial instruments from client transactions resulting from contracts traded over-the-counter (bank as agent) are, in principle, accounted for. Exchange-traded contracts from client transactions are accounted for if no daily margining takes place. Replacement values from trading activities are accounted for under "Positive replacement values of derivative financial instruments" on the asset side or the item "Negative replacement values of derivative financial instruments" on the liability side. Valuation gains are recognised through income in the item "Result from trading activities and the fair value option".

Hedging transactions are also measured at fair value, except for the derivative financial instruments used to hedge interest rate risk within the scope of asset and liability management. In this case, value changes are recognised in the Compensation account 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. These are recognised 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 on 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 participations in Zürcher Kantonalbank Representações Ltda. and ZüriBahn AG, are stated in accordance with the equity method in proportion to the equity held on the balance sheet date. The proportionate net annual result is included in the equity valuation and is recognised in the consolidated income statement as participation income.

Tangible fixed assets

Bank premises, including installations and fittings in rented properties, are recognised at cost value plus major investments and amortised on a straight-line basis over their estimated useful life. Other properties acquired as a long-term investment are also recognised at the lower of cost value less straight-line amortisation or capitalised earnings value. The remaining tangible fixed assets comprise IT systems and equipment, furniture, vehicles and machinery. Smaller acquisitions are charged in full to General and administrative expenses in the year of acquisition. Larger investments are capitalised and amortised in full over their estimated useful life on the basis of business criteria or, in the case of acquired data processing programs, generally over 12 months. Estimated useful life for depreciation purposes (in years):

Land	no depreciation
Bank premises and other properties	
– Shell	max. 80
– Building envelope	max. 30
Installations (fitting out, technical installations)	max. 25
Fittings in rented properties	remaining duration of rental agreement[1]
IT systems and equipment	2 to max. 5
Acquired IT programmes	max. 1
Furniture/vehicles/machines	max. 5

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

An impairment test of all tangible fixed assets is undertaken on a regular basis. An asset is subject to impairment if its book value exceeds the recoverable amount. In the real estate sector, the recoverable amount is determined by a property valuer. For other tangible fixed assets, the recoverable amount is equivalent to the value-in-use, which is defined according to business criteria.

Intangible assets

Goodwill

If the purchase cost of an acquisition is greater than the net assets valued in accordance with standard group-wide accounting principles, the remaining amount is capitalised as goodwill. This goodwill is 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".

Reserves for general banking risks

This item includes reserves for general banking risks created and/or released in 2018 or thereafter. Creation and release of such reserves is shown in the income statement under Changes in reserves for general banking risks.

Please see the next section "Retained earnings reserve" for reserves for general banking risks created / released prior to 2018 and solely at the parent company.

Retained earnings reserve

The group's self-generated funds are recognised under the retained earnings reserve. This item includes reserves for general banking risks created at the parent company prior to 2018.

Pension schemes

An annual evaluation is performed to assess whether, from the group's perspective, an economic benefit or economic obligation arises for the bank or the group as a result of a pension fund. The determination is based on agreements and annual financial statements of the pension funds, which, in Switzerland, are prepared according to Swiss GAAP FER 26. Other calculations showing the financial situation and existing surplus / shortfall for each pension fund in accordance with actual circumstances are also taken into account. Zürcher Kantonalbank has no obligations that go beyond the legal and regulatory basis, with the exception of the assumption of certain costs, as indicated in Note 16, to finance the transitional solution in connection with the restructuring of the pension fund due to the changed environment discussed.

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

With the exception of commitments under currency swaps facilities, off-balance-sheet transactions are reported at nominal value. Commitments under currency swaps facilities are reported in accordance with the principle of substance over form at 5 % of the nominal value. Appropriate provisions are set aside for identifiable risks. Irrevocable commitments also include forward commitment mortgages.

Taxes

As an independent public-law institution, Zürcher Kantonalbank is exempt from taxes on its income and capital under cantonal tax law (§ 61) and the federal law on direct taxation (§ 56). The subsidiary Zürcher Kantonalbank Finance (Guernsey) Ltd. is a finance company under Companies Law in Guernsey. In terms of tax law, as of 1 January 2008 the company is deemed to be resident and is liable to pay tax. As it does not perform any banking activities that are subject to income tax or any other regulated transactions that are subject to tax, Zürcher Kantonalbank Finance (Guernsey) Ltd. pays only a fixed "validation fee", which is included in General and administrative expenses. Zürcher Kantonalbank Finance (Guernsey) Ltd. is not liable for any federal, cantonal or municipal taxes in Switzerland.

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

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

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

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

The property gains tax charged on the sale of land is separated from the gain on the sale of properties and booked to the income statement under taxes.

c) Explanations of risk management

For explanations on risk management in general and the treatment of the interest rate risk, other market risks and credit risks specifically, please refer to the statements in section l) "Risk report" (page 128 ff).

d) Explanation of the methods used for identifying default risks and determining the need for value adjustments

The methods used to identify default risks and determine the need for value adjustments are set out in the section "Value adjustments for default risks, 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 137 ff).

e) Explanation of the valuation of collateral

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

Mortgage claims

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

The key valuation factors for a property assessment are:

- Land (macro and micro position, area)
- Building (construction standard, condition, room concept, sustainability)
- Type of use (private, commercial, non-profit)
- Legal regulations
- Situation under property law and contractual agreements (rights, encumbrances)
- Result from rented properties

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

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

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

The valuation of mortgage claims is reviewed on a regular basis. The frequency depends on the type of property. Special developments in the real estate market or 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 of 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 of 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	2018	2017
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	17,004	14,326
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	6,876	6,623
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	4,480	3,401
– of which, with unrestricted right to resell or pledge	4,480	3,401
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	49,237	43,042
– of which, repledged securities	114	140
– of which, resold securities	34,889	32,051

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

Overview by collateral

in CHF million	Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	68	1,233	7,279	8,580
Mortgage loans				
– Residential property	67,751	14	19	67,784
– Office and business premises	8,758	–	13	8,770
– Commercial and industrial premises	2,369	0	33	2,402
– Other	2,362	1	1	2,364
Total mortgage loans	81,239	16	66	81,321
Total loans (before netting with value adjustments) 2018	81,307	1,249	7,344	89,900
Total loans (before netting with value adjustments) 2017	79,140	1,060	6,891	87,091
Total loans (after netting with value adjustments) 2018	81,307	1,249	7,168	89,725
Total loans (after netting with value adjustments) 2017	79,140	1,060	6,720	86,919
Off-balance-sheet				
Contingent liabilities	85	1,248	2,770	4,102
Irrevocable commitments	1,040	58	6,601	7,698
Obligations to pay up shares and make further contributions	–	–	263	263
Credit commitments	–	–	–	–
Total off-balance-sheet transactions 2018	1,125	1,305	9,634	12,064
Total off-balance-sheet transactions 2017	1,120	1,593	9,621	12,334

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]
2018		504	286	218	181
2017		472	275	197	177

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	2018	2017
Debt securities, money market securities / transactions	4,970	4,517
– of which, listed[1]	4,897	4,413
Equity securities	2,671	2,724
Precious metals and commodities	1,724	1,682
Other trading portfolio assets	–	–
Total trading transactions	9,364	8,922
Debt securities	–	–
Structured products	–	–
Other	–	–
Total other financial instruments at fair value	–	–
Total assets	9,364	8,922
– of which, determined using a valuation model	73	104
– of which, securities eligible for repo transactions in accordance with liquidity requirements	1,308	1,109

1 Listed = traded on a recognised exchange.

Liabilities in CHF million	2018	2017
Debt securities, money market securities / transactions	2,400	1,851
– of which, listed[1]	2,392	1,840
Equity securities	9	7
Precious metals and commodities	2	0
Other trading portfolio liabilities	7	0
Total trading transactions	2,418	1,859
Debt securities	–	–
Structured products	2,472	2,869
Other	–	–
Total other financial instruments at fair value	2,472	2,869
Total liabilities	4,890	4,728
– of which, determined using a valuation model	2,479	2,880

1 Listed = traded on a recognised exchange.

4 Derivative financial instruments (assets and liabilities)

in CHF million	Trading instruments: Positive replacement values	Trading instruments: Negative replacement values	Trading instruments: Contract volume [1]	Hedging instruments: Positive replacement values	Hedging instruments: Negative replacement values	Hedging instruments: Contract volume
Interest rate instruments						
Forward contracts including FRAs	12	5	30,425	–	–	–
Swaps	4,799	4,209	345,173	348	460	14,607
Futures	–	–	26,987	–	–	–
Options (OTC)	45	15	3,009	–	–	–
Options (exchange-traded)	–	–	2	–	–	–
Total	4,856	4,230	405,595	348	460	14,607
Foreign exchange/precious metals						
Forward contracts	1,821	1,841	327,706	–	–	–
Combined interest rate/currency swaps	414	685	3,689	104	8	1,561
Futures	–	–	80	–	–	–
Options (OTC)	204	119	52,554	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	2,440	2,645	384,028	104	8	1,561
Equity securities/indices						
Forward contracts	–	–	–	–	–	–
Swaps	6	44	307	–	–	–
Futures	–	–	4,265	–	–	–
Options (OTC)	120	65	1,637	–	–	–
Options (exchange-traded)	207	185	5,531	–	–	–
Total	332	294	11,740	–	–	–
Credit derivatives						
Credit default swaps	6	5	534	–	–	–
Total return swaps	2	2	178	–	–	–
First-to-default swaps	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–
Total	8	7	712	–	–	–
Other [2]						
Forward contracts	–	–	–	–	–	–
Swaps	17	17	507	–	–	–
Futures	–	–	752	–	–	–
Options (OTC)	0	–	0	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	17	17	1,258	–	–	–
Total before netting agreements						
2018	7,652	7,191	803,333	452	468	16,168
– of which, determined using a valuation model	7,652	7,191	–	452	468	–
2017	7,944	7,109	622,958	570	837	19,329
– of which, determined using a valuation model	7,944	7,109	–	570	837	–

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 2015/01, 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)
2018	1,278	752
2017	1,535	867

Breakdown by counterparty

Positive replacement values (after netting agreements)	Central clearing houses	Banks and securities dealers	Other customers
2018	135	338	805

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	**2018**	2017	**2018**	2017
Debt securities	4,431	4,412	4,579	4,583
– of which, intended to be held to maturity	4,431	4,412	4,579	4,583
– of which, not intended to be held to maturity (available for sale)	–	–	–	–
Equity securities	51	59	67	75
of which, qualified participations[1]	–	–	–	–
Precious metals	219	268	219	268
Real estate[2]	4	–	4	–
Total financial investments	4,705	4,740	4,869	4,926
– of which, securities eligible for repo transactions in accordance with liquidity requirements	4,341	4,306	4,486	4,472

1 At least 10 percent of the capital or votes.
2 The insurance value of the real estate within financial investments amounted to CHF 3.3 million.

Counterparties by rating

in CHF million						
Moody's	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Ba1 – Ba3	Lower than Ba3	Unrated
Standard & Poor's, Fitch	AAA – AA–	A+ – A–	BBB+ – BBB–	BB+ – B–	Below B–	Unrated
Debt securities: Book values						
2018	4,126	26	–	–	–	279

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 adjustment / changes in book value (equity valuation)	Book value end of 2017	Reclassifi- cations	Addi- tions	Disposals (incl. any FC differences)	Value adjustments	Changes in book value for participations using the equity method / depre- ciation reversals	Book value end of 2018	Market value end of 2018
Participations valued using the equity method										
– with market value	–	–	–	–	–	–	–	–	–	–
– without market value	30	−13	17	–	9	−0	−3	1	22	–
Other participations										
– with market value	–	–	–	–	–	–	–	–	–	–
– without market value	120	−7	113	–	6	−0	−3	0	116	–
Total participations[1]	150	−20	130	–	15	−1	−7	1	138	–

1 No material impairment losses or partial or full reversals of impairment to be recorded.

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

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.[2]	Zurich	Fund management	CHF	5	100.0	100.0		■
Swisscanto Pensions Ltd.	Zurich	Financial services	CHF	1	100.0	100.0		■
Swisscanto Private Equity CH I Ltd	Zurich	Financial services	CHF	0	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:[3]								
– of which, participations valued using the equity method								
Technopark Real Estate Ltd.	Zurich	Project planning, construction, maintenance	CHF	40	33.3	33.3	■	
– of which, from other non-consolidated participations								
Pfandbriefzentrale der schweizerischen Kantonalbanken AG	Zurich	Pfandbrief institution	CHF	1,625[4]	17.8	17.8	■	
Aduno Holding Ltd.[5]	Zurich	Participations	CHF	25	14.7	14.7	■	
Subsidiaries not fully consolidated								
Zürcher Kantonalbank Representações Ltda.[6]	São Paulo	Representative office	BRL	0	100.0	100.0	■	
ZüriBahn AG[7]	Zurich	Cable car	CHF	5	100.0	100.0	■	

1 Swisscanto Holding Ltd. holds 100 percent of the shares in Swisscanto Fund Management Company Ltd., Swisscanto Pensions Ltd. and Swisscanto Asset Management International S.A. Swisscanto Funds Centre Ltd. in London was sold on 1 October 2018 to Clearstream International SA, Luxembourg, the post-trade services provider of the Deutsche Börse Group.
2 Swisscanto Fund Management Company Ltd. holds 100 percent of the shares of Swisscanto Private Equity CH I Ltd.
3 All non-consolidated participations whose share of capital is more than 10 percent are shown. In addition, either the share of the participations in the bank's capital must be more than CHF 2 million or the book value must be more than CHF 15 million.
4 Of which, CHF 325 million has been paid up.
5 Requirement to surrender shares when new shareholders are admitted in accordance with the shareholder agreement.
6 Total assets in CHF thousand (2017: 208, 2016: 165); result for the period in CHF thousand (2017: 42, 2016: 65).
7 Total assets in CHF thousand (2018: 5,000); loss for the period in CHF thousand (2018: 145).

8 Presentation of tangible fixed assets

in CHF million	Acquisition cost	Accumulated depreciation	Book value at end 2017	Change to scope of consolidation	Additions	Disposals	Depreciation	Reversals	Book value at end 2018
Bank buildings	1,516	–781	735	–	22	–54	–59	–	644
Other real estate	8	–6	2	–	–	–	–0	–	2
Proprietary or separately acquired software	0	–0	–	–	0	–	–0	–	–
Other tangible fixed assets	228	–191	37	–1	18	–0	–23	–	32
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	1,753	–978	775	–1	40	–54	–82	–	677

The insurance value of the real estate within tangible fixed assets amounted to CHF 1,257 million.
The insurance value of the other tangible fixed assets amounted to CHF 388 million.

8 Presentation of tangible fixed assets (continued)

Operating leases

Leasing obligations not recognised in the balance sheet (in CHF million)	2018	2017
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 2017	Changes to scope of consolidation	Additions	Disposals	Amortisation	Reversals	Book value end of 2018
Goodwill[1]	266	–76	190	–	49	–	–98	–	141
Patents	–	–	–	–	–	–	–	–	–
Licences	47	–45	2	–	4	–0	–5	–	0
Other intangible assets	–	–	–	–	–	–	–	–	–
Total intangible assets	313	–121	192	–	53	–0	–103	–	142

1 On 1 October 2018 Clearstream International SA, Luxembourg, the post-trade services provider of the Deutsche Börse Group, completed the acquisition of Swisscanto Funds Centre Ltd. (SFCL) from Zürcher Kantonalbank. Consequently, the Swisscanto Group can expect a lower income base in future. This resulted in a non-recurring extraordinary goodwill amortisation charge of CHF 59 million.

10 Other assets and liabilities

	Other assets		Other liabilities	
in CHF million	2018	2017	2018	2017
Compensation account	124	188	–	–
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	45	71	135	387
Indirect taxes	64	154	33	40
Other	47	35	37	131
Total	291	458	205	558

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

	2018		2017	
in CHF million	Book value	Effective commitment	Book value	Effective commitment
Pledged/assigned assets				
Amounts due from banks	1,289	1,271	1,523	1,506
Amounts due from customers	1,980	1,910	1,419	1,368
Mortgage loans	11,828	9,463	11,725	9,275
Trading portfolio assets	2	2	11	11
Financial investments	–	–	15	–
Total pledged/assigned assets	15,100	12,646	14,694	12,160

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	2018	2017	Change
Amounts due in respect of customer deposits	148	166	–18
Cash bonds	–	–	–
Negative replacement values of derivative financial instruments	4	10	–6
Accrued expenses and deferred income	–	–	–
Other liabilities	0	–	0
Total	152	176	–24

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[1] principle. The capital plan insures any paid variable compensation (bonus) subject to AHV. The capital plan is also based on a combined defined benefit/defined contribution principle. The third vehicle – the supplementary account – enables insured individuals to pre-finance the reduction in benefits on early retirement between the ages of 58 and 64.

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

An additional plan is operated in the form of a separate trust, the Marienburg Foundation of Zürcher Kantonalbank, for the senior management of affiliated employers. Structured on a defined contribution basis, this solution insures the element of the base salary in excess of a specific minimum amount. The Marienburg Foundation of Zürcher Kantonalbank is funded jointly by the insured individuals and the bank. However, employer contributions for salary components insured in the Marienburg Foundation are lower than those in

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

the 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

in %	Coverage ratio as at 31.12.2018 (not yet audited)	Coverage ratio as at 31.12.2017 (audited)
Zürcher Kantonalbank pension fund	108	113
Marienburg Foundation of Zürcher Kantonalbank (solution for senior management)	108	113

Coverage ratio pursuant to Article 44 BVV2

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

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	Net amount	Net amount	Influence of ECR on personnel expenses	Influence of ECR on personnel expenses
in CHF million	End of 2018	End of 2018	End of 2018	End of 2017	2018	2017
Zürcher Kantonalbank pension fund	1	–	1	1	0	0
Total	1	–	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 2018	2018	2017	2018	2018	2018	2017
Employer-sponsored funds/employer-sponsored pension schemes	–	–	–	–	–	–	–
Pension plans without overfunding/underfunding[1]	–	–	–	–	108	108	120
Pension plans with overfunding	–	–	–	–	–	–	–
Pension plans with underfunding	–	–	–	–	–	–	–
Pension schemes without own assets	–	–	–	–	–	–	–
Total	–	–	–	–	108	108	120

1 Including change in provisions for pension benefit obligations (2018: release CHF 1 million/2017: creation CHF 8 million).

14 Issued structured products

Underlying risk of the embedded derivative		Book value: Valued as a whole: Booked in trading portfolio	Book value: Valued as a whole: Booked in other financial instruments at fair value	Book value: Valued separately: Value of the host instrument	Book value: Valued separately: Value of the derivative	Total
in CHF million						
Interest rate instruments	With own debenture component	–	63	–	–	63
	Without oDC	–	–	–	–	–
Equity securities	With own debenture component	–	1,969	–	–	1,969
	Without oDC	–	–	–	–	–
Foreign currencies	With own debenture component	–	176	–	–	176
	Without oDC	–	–	–	–	–
Commodities/precious metals	With own debenture component	–	63	–	–	63
	Without oDC	–	–	–	–	–
Loans	With own debenture component	–	184	–	–	184
	Without oDC	–	–	–	–	–
Real estate	With own debenture component	–	–	–	–	–
	Without oDC	–	–	–	–	–
Hybrid instruments	With own debenture component	–	16	–	–	16
	Without oDC	–	–	–	–	–
Total 2018		–	2,472	–	–	2,472
Total 2017		–	2,869	–	–	2,869

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
31.12.2018	167	0.70	2019–2028
31.12.2017	191	0.80	2018–2027

Maturity structure in CHF million	2019	2020	2021	2022	2023	after 2023	Total
Cash bonds	27	16	33	39	3	49	167

Bonds and mandatory convertible bonds

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2018 (Issuer: Zürcher Kantonalbank)	11,666		
– of which, non-subordinated	10,176	0.72	2019–2044
– of which, subordinated without PONV clause[1]	–	–	–
– of which, subordinated with PONV clause	1,491	2.18	2025–perpetual
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

Maturity structure in CHF million	2019	2020	2021	2022	2023	after 2023	Total
Bonds	3,057	671	1,114	1,304	250	5,271	11,666

1 Point of non-viability (PONV).

Central mortgage institution loans

	Outstanding amount in CHF million	Weighted average interest rate	Maturities
31.12.2018	9,463	0.64	2019–2030
31.12.2017	9,275	0.69	2018–2030

Maturity structure in CHF million	2019	2020	2021	2022	2023	after 2023	Total
Central mortgage institution loans[1]	742	962	794	616	1,229	5,120	9,463

1 Pfandbriefzentrale der schweizerischen Kantonalbanken AG loans.

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

in CHF million	Balance at end of 2017	Changes to scope of consolidation	Use in conformity with designated purpose and reversals	Reclassifi-cations	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at end of 2018
Provisions for deferred taxes	0	–0	–	–	–	–	0	–	0
Provisions for pension benefit obligations[1]	42	–	–11	–	–	–	–	–1	30
Provisions for default risks	131	–	–22	–	–	–	67	–44	133
Provisions for other business risks[2]	213	–	–29	–	2	–	2	–126	62
Provisions for restructuring	–	–	–	–	–	–	–	–	–
Other provisions[3]	198	–0	–74	–	1	–	19	–114	31
Total provisions	585	–0	–136	–	3	–	87	–284	255
Reserves for general banking risks	–	–	–	–	–	–	200	–	200
Value adjustments for default and country risks	177	–	–11	–	–0	2	62	–50	181
– of which, value adjustments for default risks in respect of impaired loans/receivables[4]	177	–	–11	–	–0	2	62	–50	181
– 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.
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 Other provisions include provisions for litigation, provisions for employees' holiday credits and provisions for the ZKB company anniversary in 2020.
4 Default risks consist primarily of counterparty risks, for which value adjustments of 100 percent of the net debt amount are generally made. Individual value adjustment rates may apply in the case of major positions.

Recoveries from amounts due derecognised in previous periods are reported directly in Changes in value adjustments for default risk and losses from interest operations (2018: CHF 7 million/2017: CHF 13 million).
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.

On 13 August 2018, Zürcher Kantonalbank concluded the US Department of Justice's investigation into the bank's legacy business with US clients with a Deferred Prosecution Agreement (DPA).
Pursuant to this settlement, the bank agreed to make a payment of USD 98.5 million. The payment was made in the second half of 2018. The provisions made for this purpose were sufficient. For further information on provisions no longer required in this regard, please see Note 36.

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 168).

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

Neither Zürcher Kantonalbank nor its subsidiaries have employee participation schemes.

19 Amounts due from/to related parties

in CHF million	Due from 2018	Due from 2017	Due to 2018	Due to 2017
Holders of qualified participations	7	2	839	545
Group companies	–	–	4	–
Linked companies	573	596	810	1,258
Transactions with members of governing bodies	21	21	24	25
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 182 million (2017: CHF 234 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 169).

21 Disclosure of own shares and composition of equity capital

in CHF million	2018	2017
Reserves for general banking risks	200	–
Bank’s capital	2,425	2,425
Retained earnings reserve	8,445	8,026
Foreign currency translation reserve	–6	–4
Consolidated profit	788	782
Total equity	11,852	11,228

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 170).

23 Maturity structure of financial instruments

in CHF million	At sight	Callable	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after 5 years	No maturity	Total
Assets/financial instruments								
Liquid assets	40,989	–	–	–	–	–	–	40,989
Amounts due from banks	1,472	0	1,389	1,720	165	56	–	4,803
Amounts due from securities financing transactions	–	1,866	13,671	1,186	282	–	–	17,004
Amounts due from customers	206	1,482	2,505	1,281	2,265	728	–	8,469
Mortgage loans	95	538	8,752	9,808	41,710	20,352	–	81,256
Trading portfolio assets	9,364	–	–	–	–	–	–	9,364
Positive replacement values of derivative financial instruments	1,278	–	–	–	–	–	–	1,278
Other financial instruments at fair value	–	–	–	–	–	–	–	–
Financial investments	270	–	63	472	1,678	2,219	4	4,705
Total assets/financial instruments 2018	53,674	3,886	26,380	14,467	46,100	23,356	4	167,867
Total assets/financial instruments 2017	53,395	6,336	22,801	10,232	44,178	25,105	–	162,046
Debt capital/financial instruments								
Amounts due to banks	2,167	5	31,622	2,513	–	713	–	37,019
Liabilities from securities financing transactions	–	3,271	3,605	–	–	–	–	6,876
Amounts due in respect of customer deposits	25,017	55,896	2,479	393	574	1,180	–	85,537
Trading portfolio liabilities	2,418	–	–	–	–	–	–	2,418
Negative replacement values of derivative financial instruments	752	–	–	–	–	–	–	752
Liabilities from other financial instruments at fair value	2,472	–	–	–	–	–	–	2,472
Cash bonds	–	–	6	21	91	49	–	167
Bond issues	–	1,491	1,591	1,466	3,338	3,780	–	11,666
Central mortgage institution loans	–	–	–	742	3,601	5,120	–	9,463
Total debt capital/financial instruments 2018	32,825	60,663	39,303	5,134	7,605	10,842	–	156,371
Total debt capital/financial instruments 2017	31,237	57,408	37,872	6,962	7,165	10,233	–	150,876

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

	2018		2017	
in CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	40,937	52	41,133	14
Amounts due from banks	777	4,026	1,063	3,394
Amounts due from securities financing transactions	7,277	9,727	6,044	8,282
Amounts due from customers	6,508	1,960	6,164	1,668
Mortgage loans	81,255	0	79,087	0
Trading portfolio assets	5,566	3,798	5,070	3,852
Positive replacement values of derivative financial instruments	970	308	1,267	268
Other financial instruments at fair value	–	–	–	–
Financial investments	3,147	1,558	2,982	1,757
Accrued income and prepaid expenses	274	19	258	22
Non-consolidated participations	137	1	128	1
Tangible fixed assets	674	3	770	4
Intangible assets	141	0	191	1
Other assets	282	9	440	18
Total assets	147,947	21,461	144,598	19,283
Liabilities				
Amounts due to banks	2,835	34,184	2,604	32,788
Liabilities from securities financing transactions	9	6,868	18	6,604
Amounts due in respect of customer deposits	78,803	6,735	75,650	5,731
Trading portfolio liabilities	1,029	1,390	858	1,001
Negative replacement values of derivative financial instruments	329	422	416	451
Liabilities from other financial instruments at fair value	1,351	1,120	1,699	1,169
Cash bonds	167	–	191	–
Bond issues	11,666	–	12,419	–
Central mortgage institution loans	9,463	–	9,275	–
Accrued expenses and deferred income	711	14	620	14
Other liabilities	204	1	549	9
Provisions	254	2	583	1
Reserves for general banking risks	200	–	–	–
Bank's capital	2,425	–	2,425	–
Retained earnings reserve	8,326	118	7,918	108
Foreign currency translation reserve	–6	–	–4	–
Consolidated profit	781	7	769	13
Total liabilities	118,547	50,861	115,991	47,889
Off-balance-sheet transactions				
Contingent liabilities	1,749	2,353	1,679	2,407
Irrevocable commitments	6,668	1,030	6,352	1,664
Obligations to pay up shares and make further contributions	262	1	232	1
Credit commitments	–	–	–	–

25A Assets by country or group of countries

	2018		2017	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	147,947	87.3	144,598	88.2
Rest of Europe	14,272	8.4	12,296	7.5
– of which, Germany	4,256	2.5	3,101	1.9
– of which, France	554	0.3	722	0.4
– of which, United Kingdom	3,972	2.3	3,596	2.2
– of which, Guernsey	55	0.0	29	0.0
Americas	4,911	2.9	4,832	2.9
– of which, USA	3,442	2.0	3,471	2.1
Asia and Oceania	2,255	1.3	2,120	1.3
Africa	23	0.0	35	0.0
Total assets	169,408	100.0	163,881	100.0

25B Liabilities by country or group of countries

	2018		2017	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	118,547	70.0	115,991	70.8
Rest of Europe	24,217	14.3	23,160	14.1
– of which, Germany	3,487	2.1	3,924	2.4
– of which, France	1,930	1.1	2,513	1.5
– of which, United Kingdom	5,614	3.3	6,113	3.7
– of which, Guernsey	1,795	1.1	1,823	1.1
Americas	15,071	8.9	12,477	7.6
– of which, USA	5,833	3.4	4,872	3.0
Asia and Oceania	10,445	6.2	11,079	6.8
Africa	1,128	0.7	1,174	0.7
Total liabilities	169,408	100.0	163,881	100.0

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

	2018		2017	
	in CHF million	Share as %	in CHF million	Share as %
Switzerland	8,679	71.9	8,262	67.0
Rest of Europe	2,127	17.6	2,991	24.2
– of which, Germany	57	0.5	62	0.5
– of which, France	0	0.0	2	0.0
– of which, United Kingdom	210	1.7	1,519	12.3
– of which, Guernsey	1,484	12.3	994	8.1
Americas	693	5.7	621	5.0
– of which, USA	40	0.3	24	0.2
Asia and Oceania	525	4.4	426	3.5
Africa	39	0.3	34	0.3
Total	12,064	100.0	12,334	100.0

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

		2018 Net foreign exposure		2017 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	11,383	82.1	10,109	80.2
B	A1/A2/A3	915	6.6	1,041	8.3
C	Baa1/Baa2/Baa3	792	5.7	817	6.5
D	Ba1/Ba2	430	3.1	485	3.9
E	Ba3	256	1.8	63	0.5
F	B1/B2/B3	90	0.6	77	0.6
G	Caa1/Caa2/Caa3/Ca/C	1	0.0	9	0.1
Total		13,867	100.0	12,602	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	40,869	7	109	4	40,989
Amounts due from banks	600	3,342	671	190	4,803
Amounts due from securities financing transactions	4,946	6,006	6,027	25	17,004
Amounts due from customers	5,830	1,343	1,012	284	8,469
Mortgage loans	81,106	118	32	–	81,256
Trading portfolio assets	7,229	1,171	668	297	9,364
Positive replacement values of derivative financial instruments	1,052	127	89	9	1,278
Other financial instruments at fair value	–	–	–	–	–
Financial investments	3,811	94	801	0	4,705
Accrued income and prepaid expenses	231	43	16	4	293
Non-consolidated participations	137	0	1	0	138
Tangible fixed assets	674	–	3	–	677
Intangible assets	141	–	0	–	142
Other assets	258	17	15	0	291
Total assets shown in balance sheet	146,884	12,268	9,443	813	169,408
Delivery entitlements from spot exchange, forward forex, forex options and precious metal transactions	109,994	124,435	78,906	23,598	336,932
Total assets	256,878	136,703	88,348	24,411	506,340
Liabilities					
Amounts due to banks	6,158	23,964	3,438	3,460	37,019
Liabilities from securities financing transactions	62	1,957	4,858	–	6,876
Amounts due in respect of customer deposits	76,034	3,717	4,876	910	85,537
Trading portfolio liabilities	1,464	797	100	57	2,418
Negative replacement values of derivative financial instruments	543	94	111	4	752
Liabilities from other financial instruments at fair value	1,513	373	575	11	2,472
Cash bonds	167	–	–	–	167
Bonds	9,452	–	2,214	–	11,666
Central mortgage institution loans	9,463	–	–	–	9,463
Accrued expenses and deferred income	582	105	25	14	725
Other liabilities	150	31	3	20	205
Provisions	254	–	1	–	255
Reserves for general banking risks	200	–	–	–	200
Bank’s capital	2,425	–	–	–	2,425
Retained earnings reserve	8,462	–	–17	–	8,445
Foreign currency translation reserve	–	–	–6	–	–6
Consolidated profit	788	–	1	–	788
Total liabilities shown in the balance sheet	117,716	31,038	16,179	4,476	169,408
Delivery obligations from spot exchange, forward forex, forex options and precious metal transactions	139,359	105,493	72,216	19,774	336,843
Total liabilities	257,075	136,531	88,395	24,250	506,251
Net position per currency in 2018	–197	172	–47	161	89
Net position per currency in 2017	276	401	–639	177	214

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	2018	2017
Guarantees to secure credits and similar	372	391
Performance guarantees and similar	2,893	2,961
Irrevocable commitments arising from documentary letters of credit	838	734
Other contingent liabilities	–	–
Total contingent liabilities	4,102	4,086
Contingent assets arising from tax losses carried forward	–	–
Other contingent assets	–	–
Total contingent assets	–	–

29 Breakdown of credit commitments

There are no credit commitments as of 31 December 2018 and 31 December 2017.

30 Breakdown of fiduciary transactions

in CHF million	2018	2017
Fiduciary investments with third-party companies	398	218
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	398	218

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

Type of managed assets in CHF million	2018	2017
Assets in collective investment schemes managed by the bank	80,345	82,422
Assets under discretionary asset management agreements	63,272	65,861
Other managed assets	151,577	140,519
Total managed assets (including double counting)[1]	295,194	288,802
– of which, double counting	46,108	43,825

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

b) Presentation of the development of managed assets

in CHF million	2018	2017
Total managed assets (including double counting) at beginning	288,802	264,754
+/– net new money inflow or net new money outflow[1]	17,995	6,329
+/– price gains / losses, interest, dividends and currency gains / losses	– 11,497	16,689
+/– other effects	– 106	1,029
Total managed assets (including double counting) at end	295,194	288,802

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

k) Information on the income statement

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

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

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

in CHF million	2018	2017
Result from trading in foreign exchange, bank notes and precious metals	105	128
Result from trading in bonds, interest rate and credit derivatives	65	87
Result from trading in equities and structured products	63	60
Result from other trading activities[1]	52	58
Total	286	334

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

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

		Result from trading activities from:						
in CHF million	2018	Foreign exchange and bank notes	Precious metals	Securities lending and borrowing	Bonds, interest rate and credit derivatives	Equities and equity derivatives	Commodities and commodity derivatives	Other products[2]
Result from trading in foreign exchange, bank notes and precious metals	105	61	44	–	–1	0	–	–
Result from trading in bonds, interest rate and credit derivatives	65	0	–	–	63	2	–	–
Result from trading in equities and structured products	63	1	0	–	–7	69	–1	1
Result from other trading activities	52	0	–0	57	–1	–5	0	–
Total	286	62	44	57	55	67	–1	1
– of which, from fair value option on assets	–	–	–	–	–	–	–	–
– of which, from fair value option on liabilities	358	–1	0	–	11	336	9	2

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 2018, refinancing income from trading activities of CHF –50.0 million (previous year: CHF –13.3 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 626.5 million (previous year: CHF 488.3 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	2018	2017
Negative interest on lending business (reduction in interest and discount income)	204	204
Negative interest on deposit-taking business (reduction in interest expenses)	117	114

34 Breakdown of personnel expenses

in CHF million	2018	2017
Salaries for members of the bank's governing bodies and personnel	795	788
– of which, alternative forms of variable compensation	–	–
AHV, IV, ALV and other social security contributions[1]	174	187
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	33	33
Total	1,002	1,008

1 Including change in provisions for pension benefit obligations (2018: release CHF 1 million/2017: creation CHF 8 million).

35 Breakdown of general and administrative expenses

in CHF million	2018	2017
Office space expenses	33	33
Expenses for information and communications technology	163	163
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	0	1
Other operating expenses	222	220
– of which, compensation for any cantonal guarantee	22	23
Total	428	426

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

in CHF million	2018	2017
Extraordinary income		
Reversal of impairment on other participations	0	6
Income from sale of other real estate/bank premises	21	2
Income from sale of participations	80	–
Other	1	0
Total	103	8
Extraordinary expenses		
Losses from disposal of other real estate/bank premises	0	–
Losses from disposal of participations	0	–
Other	0	0
Total	0	0
Changes in reserves for general banking risks		
Creation of reserves for general banking risks[1]	200	–
Release of reserves for general banking risks	–	–
Total	200	–

1 CHF 200 million of reserves for general banking risks were created during the year. This was directly related to the release of provisions for other business risks and other provisions that were no longer required following the completion of the investigation by the US Department of Justice into the bank's legacy business with US clients. Please see Note 16 for the level of reserves for general banking risks, provisions for other business risks and other provisions.

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

in CHF million		2018	2017
Participations	Registered office		
CLS Group Holdings AG	Lucerne	0	0
Valiant Holding AG [1]	Lucerne	–	4
Total		0	4

1 Appreciation in the first half of 2017 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.

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

	2018		2017	
in CHF million	Domestic	Foreign	Domestic	Foreign
Result from interest operations				
Interest and discount income	1,811	1	1,608	0
Interest and dividend income from financial investments	44	0	49	0
Interest expense	–633	–0	–446	–0
Gross result from interest operations	1,222	1	1,211	1
Changes in value adjustments for default risks and losses from interest operations	–10	0	–9	0
Subtotal net result from interest operations	1,212	1	1,201	1
Result from commission business and services				
Commission income from securities trading and investment activities	679	124	663	139
Commission income from lending activities	50	0	52	0
Commission income from other services	145	2	139	2
Commission expense	–181	–43	–176	–49
Subtotal result from commission business and services	693	83	678	92
Result from trading activities				
Result from trading activities and the fair value option	274	12	311	22
Other result from ordinary activities				
Result from disposal of financial investments	2	–0	4	–
Income from participations	32	0	16	0
– of which, participations valued using the equity method	2	0	3	–
– of which, from other non-consolidated participations	30	0	13	0
Result from real estate	6	0	6	0
Other ordinary income	9	0	9	0
Other ordinary expenses	–3	–0	–4	–0
Subtotal other result from ordinary activities	46	–0	31	–0
Operating expenses				
Personnel expenses	–983	–18	–990	–18
General and administrative expenses	–416	–12	–414	–12
Subtotal operating expenses	–1,400	–31	–1,404	–30
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–190	–2	–118	–1
Changes to provisions and other value adjustments and losses	194	–0	2	–0
Operating result	829	63	701	83
Extraordinary income	103	0	8	0
Extraordinary expenses	–0	–	–0	–0
Changes in reserves for general banking risks	–200	–	–	–
Taxes	–5	–1	–8	–3
Consolidated profit	727	61	701	81

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

in CHF million	2018	2017
Creation of provisions for deferred taxes	–0	–
Reversal of provisions for deferred taxes	–	0
Recognition of deferred taxes on losses carried forward	–0	–0
Recognition of other deferred taxes	–0	0
Expenses for current income and capital taxes	–6	–10
Expenses for property gains taxes	–0	–
Total	–7	–11
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 income and capital taxes, no weighted average interest rate is disclosed.

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

Zürcher Kantonalbank has no listed equity securities.

41 Components of return on equity

in %	2018	2017
Return on equity (RoE)	7.1	7.3

in CHF million	2018	2017
Relevant net annual result for calculating ROE		
Consolidated profit	788	782
Total	788	782
Relevant average equity[1] for calculating ROE		
Average bank's capital	2,425	2,425
Average other equity components	8,683	8,222
Total	11,108	10,647

1 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 2.7 percent to CHF 81.3 billion. At CHF 58.6 billion, the vast majority of real estate financing can be attributed to retail clients. The average prices on the real estate market and the number of vacant rental properties in peripheral locations once again rose in 2018. In light of these increases, the bank has adjusted the awarding criteria for new financing by tightening the requirements for the loan-to-value ratio of rented residential properties. 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 market risks in the trading book for 2018. The low risk figures for Trading reflect its strategy of focusing on the client business.

Asset and liability risk management was impacted by the negative interest rates in Swiss francs. The interest-rate sensitivity of the banking book is slightly higher than in the previous year. The interest rate position serves to stabilise interest gains and as a strategic hedge against persistently low interest rates.

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

There was no fundamental change in the bank's environment for the management of operational risks compared with the previous year. The management of process and cyber risks continues to require a high level of attention.

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. In 2018, Zürcher Kantonalbank reached a settlement with the US Department of Justice (DoJ) in connection with its legacy business with US clients.

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.

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 (see Fig. 1).

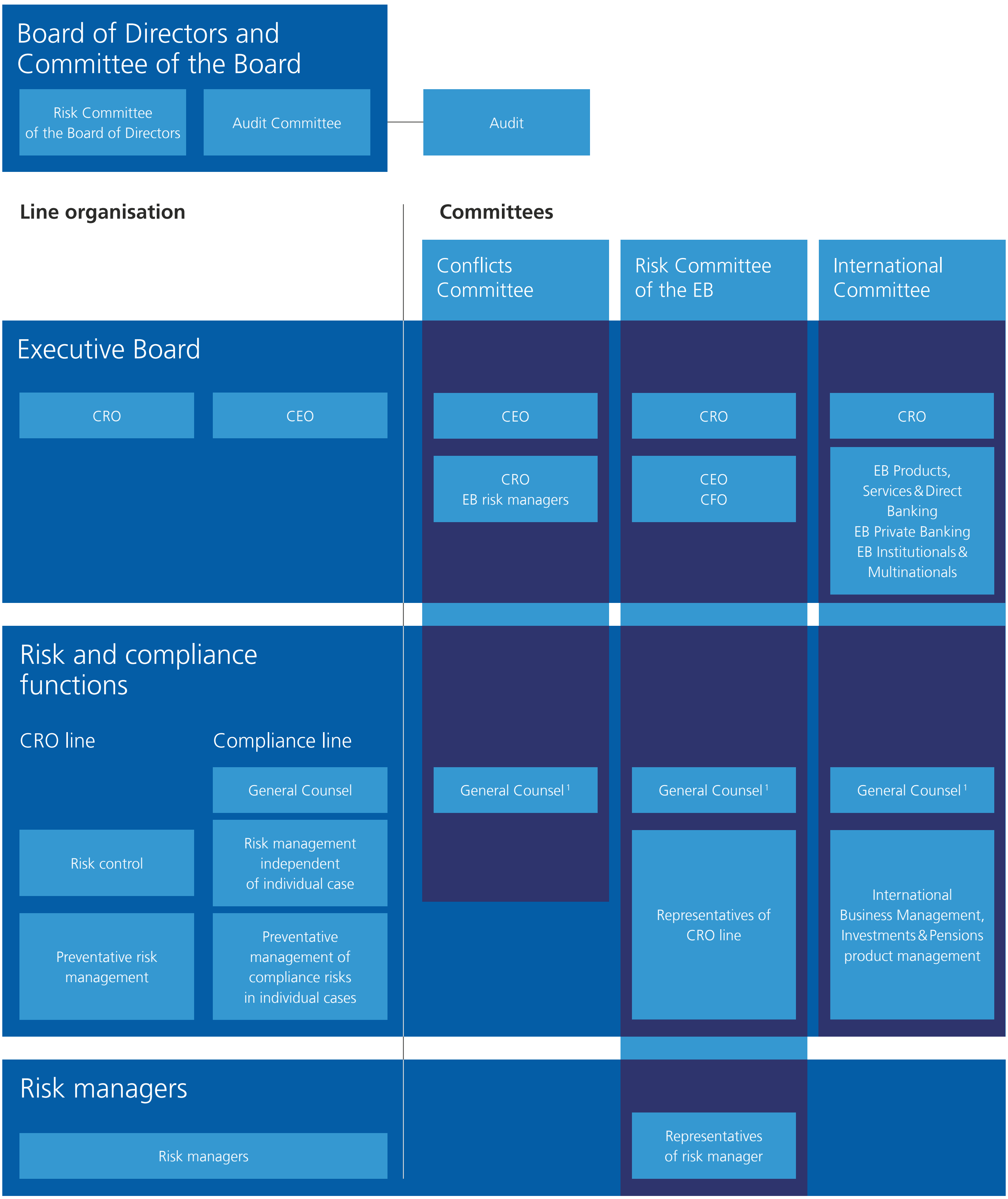
Board of Directors and Committee of the Board. The Board of Directors approves the principles for risk management and compliance, the Code of Conduct, the framework for group-wide risk management and the risk tolerance regulations at group level. It is responsible for the regulation, organisation and 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 also checks the bank's compliance with regulatory provisions, internal directives and guidelines. Audit has unlimited rights of inspection, information and access within the entire group. Audit provides line managers with support in the form of consulting services that help to increase the efficiency of organisational structures and processes.

Executive Board. The Executive Board issues provisions for the identification, evaluation, control, management, monitoring and reporting of risks in the form of directives. The Executive Board 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

Fig. 1: Risk and compliance organisation



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

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. Preventive risk management in the area of operational risk security is carried out outside the Risk business unit by the respective process managers and in the Security department of the Logistics business unit.

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 2016/01. The other tables on qualitative and quantitative disclosure will be available online from the end of April 2019 at www.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 international standard approach (SA-BIS) for specific interest rate risks. The capital base needed for operational risks is calculated using the basic indicator approach.

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

Fig. 2a: Minimum disclosure requirements for the group

in CHF million (unless indicated otherwise)		a 31.12.2018	b 30.09.2018	c 30.06.2018	d 31.03.2018	e 31.12.2017
Eligible capital [1]						
1	Common equity Tier 1 (CET1)	11,171	10,523	10,519	10,514	10,506
2	Tier 1 capital (T1)	11,910	11,262	11,259	11,261	11,255
3	Total capital	12,658	12,008	12,013	12,025	12,019
Risk-weighted assets (RWA)						
4	RWA	62,674	64,345	64,673	65,065	63,822
Minimum required capital						
4a	Minimum required capital	5,014	5,148	5,174	5,205	5,106
Risk-based capital ratios (as a % of RWA) [1,2]						
5	CET1 ratio	17.8 %	16.4 %	16.3 %	16.2 %	16.5 %
6	Tier 1 capital ratio	19.0 %	17.5 %	17.4 %	17.3 %	17.6 %
7	Total capital ratio	20.2 %	18.7 %	18.6 %	18.5 %	18.8 %
CET1 buffer requirements (in % of RWA)						
8	Capital conservation buffer as per the Basel minimum standards (2.5 % from 2019)	1.9 %	1.9 %	1.9 %	1.9 %	1.3 %
9	Countercyclical capital buffer (Art. 44a CAO) in accordance with the Basel minimum standards	–	–	–	–	–
10	Additional capital buffer due to international or national system relevance	–	–	–	–	–
11	Total of bank CET1 specific buffer requirements	1.9 %	1.9 %	1.9 %	1.9 %	1.3 %
12	CET1 available after meeting the bank's minimum requirements	12.2 %	10.7 %	10.6 %	10.5 %	10.8 %
Capital target ratios as per Annex 8 to the CAO (as a % of RWA) [3]						
12a	Capital conservation buffer in accordance with Annex 8 to the CAO	–	–	–	–	–
12b	Countercyclical capital buffers (Art. 44 and 44a CAO)	–	–	–	–	–
	Countercyclical capital buffer (Art. 44 CAO)	0.7 %	0.6 %	0.6 %	0.6 %	0.6 %
12c	CET1 total requirement in accordance with Annex 8 to the CAO plus the countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
12d	T1 target ratio in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
12e	Total capital target ratio in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
Basel III leverage ratio [1]						
13	Total Basel III leverage ratio exposure measure	185,574	179,300	177,504	179,916	177,195
14	Basel III leverage ratio (Tier 1 capital in % of leverage exposure measure)	6.4 %	6.3 %	6.3 %	6.3 %	6.4 %
Liquidity coverage ratio (LCR) [4]						
15	LCR numerator: total high-quality liquid assets (HQLA)	43,393	44,389	47,860	45,284	48,491
16	LCR denominator: total net outflows of funds	34,184	34,077	35,152	34,167	31,680
17	Liquidity coverage ratio (LCR)	127 %	130 %	136 %	133 %	153 %
Financing ratio (NSFR) [5]						
18	Available stable refinancing	–	–	–	–	–
19	Required stable refinancing	–	–	–	–	–
20	Financing ratio (NSFR)	–	–	–	–	–

1 Banks for which expected loss accounting is not applicable as well as banks that are not using the transitional regulations can ignore the relevant rows in accordance with FINMA Circular 2016/01. Zürcher Kantonalbank does not use expected loss accounting, which is why these rows are not applicable and not listed in this table.
2 Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules. The figures are calculated in accordance with the provisions of the CAO for non-systemically-important banks.
3 Systemically important banks can forego the information in rows 12a to 12e, as Annex 8 to the CAO does not apply to them. In this instance, they must nevertheless provide information on the countercyclical capital buffer in accordance with Art. 44 CAO.
4 Simple average of the closing values on the business days during the quarter under review.
5 Rows 18–20 must only be disclosed once the NSFR regulation has entered into force.

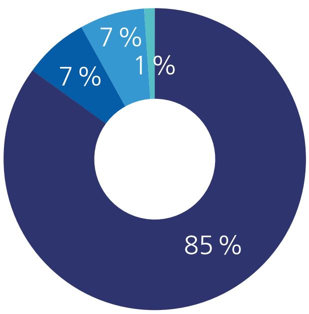
As at 31 December 2018, the group had a minimum required capital of CHF 5,014 million, compared with eligible capital of CHF 12,658 million. Both the total capital ratio of 20.2 percent of risk-weighted assets and the leverage ratio of 6.4 percent reflect Zürcher Kantonalbank's solid equity base. The liquidity coverage ratio (LCR) of 127 percent points to a comfortable liquidity situation (Figure 2a). The following minimum disclosure requirements for the parent company essentially present the same picture of the capital and liquidity situation.

Fig. 2b: Minimum disclosure requirements for the parent company

in CHF million (unless indicated otherwise)		a 31.12.2018	b 30.09.2018	c 30.06.2018	d 31.03.2018	e 31.12.2017
Eligible capital [1]						
1	Common equity Tier 1 (CET1)	10,931	10,332	10,327	10,321	10,313
2	Tier 1 capital (T1)	11,671	11,072	11,067	11,067	11,062
3	Total capital	12,418	11,817	11,821	11,832	11,827
Risk-weighted assets (RWA)						
4	RWA	62,493	64,039	64,347	64,715	63,458
Minimum required capital						
4a	Minimum required capital	4,999	5,123	5,148	5,177	5,077
Risk-based capital ratios (as a % of RWA) [1,2]						
5	CET1 ratio	17.5 %	16.1 %	16.0 %	15.9 %	16.3 %
6	Tier 1 capital ratio	18.7 %	17.3 %	17.2 %	17.1 %	17.4 %
7	Total capital ratio	19.9 %	18.5 %	18.4 %	18.3 %	18.6 %
CET1 buffer requirements (in % of RWA)						
8	Capital conservation buffer as per the Basel minimum standards (2.5 % from 2019)	1.9 %	1.9 %	1.9 %	1.9 %	1.3 %
9	Countercyclical capital buffer (Art. 44a CAO) in accordance with Basel minimum standards	–	–	–	–	–
10	Additional capital buffer due to international or national system relevance	–	–	–	–	–
11	Total of bank CET1 specific buffer requirements	1.9 %	1.9 %	1.9 %	1.9 %	1.3 %
12	CET1 available after meeting the bank's minimum requirements	11.9 %	10.5 %	10.4 %	10.3 %	10.6 %
Capital target ratios as per Annex 8 to the CAO (as a % of RWA) [3]						
12a	Capital conservation buffer in accordance with Annex 8 to the CAO	–	–	–	–	–
12b	Countercyclical capital buffers (Art. 44 and 44a CAO)	–	–	–	–	–
	Countercyclical capital buffer (Art. 44 CAO)	0.7 %	0.7 %	0.6 %	0.6 %	0.6 %
12c	CET1 total requirement in accordance with Annex 8 to the CAO plus the countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
12d	T1 target ratio in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
12e	Total capital target ratio (in %) in accordance with Annex 8 to the CAO plus countercyclical capital buffers in accordance with Art. 44 and 44a CAO	–	–	–	–	–
Basel III leverage ratio [1]						
13	Total Basel III leverage ratio exposure measure	185,361	179,046	177,161	179,602	176,943
14	Basel III leverage ratio (Tier 1 capital in % of leverage exposure measure)	6.3 %	6.2 %	6.2 %	6.2 %	6.3 %
Liquidity coverage ratio (LCR) [4]						
15	LCR numerator: total high-quality liquid assets (HQLA)	43,370	44,353	47,825	45,261	48,469
16	LCR denominator: total net outflows of funds	34,366	34,148	35,284	34,326	31,818
17	Liquidity coverage ratio (LCR)	126 %	130 %	136 %	132 %	152 %
Financing ratio (NSFR) [5]						
18	Available stable refinancing	–	–	–	–	–
19	Required stable refinancing	–	–	–	–	–
20	Financing ratio (NSFR)	–	–	–	–	–

1 Banks for which expected loss accounting is not applicable as well as banks that are not using the transitional regulations can ignore the relevant rows in accordance with FINMA Circular 2016/01. Zürcher Kantonalbank does not use expected loss accounting, which is why these rows are not applicable and not listed in this table.
2 Figures for capital are net values in accordance with the definitive Basel III provisions. Zürcher Kantonalbank chose not to make use of the transitional provisions under Art. 140–142 CAO, which allow a gradual introduction of the new rules. The figures are calculated in accordance with the provisions of the CAO for non-systemically-important banks.
3 Systemically important banks can forego the information in rows 12a to 12e, as Annex 8 to the CAO does not apply to them. In this instance, they must nevertheless provide information on the countercyclical capital buffer in accordance with Art. 44 CAO.
4 Simple average of the closing values on the business days during the quarter under review.
5 Rows 18–20 must only be disclosed once the NSFR regulation has entered into force.

Fig. 3: Breakdown of the regulatory risk-weighted minimum required capital as at 31.12.2018, by risk category



Credit and counterparty credit risk
85 %
Market risks
7 %
Operational risk
7 %
Non-counterparty-related risk
1 %

The breakdown of the regulatory minimum required capital within the group of CHF 5,014 million shows the importance of the lending business to Zürcher Kantonalbank.

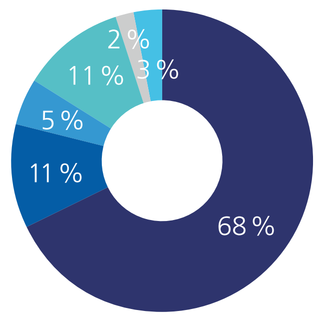
1.3 Capital allocation within internal risk management

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.

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

Of the CHF 12,019 million in eligible capital at the end of 2017, a total of CHF 5,430 million was allocated to the risk business in 2018. 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



Credit risks
68 %
Operational risks
11 %

Market risks:
Trading portfolio assets
5 %
Assets and liabilities
11 %
Real estate
2 %
Financial investments and participations
3 %

1.4 Risk categories

Zürcher Kantonalbank divides risks into the following categories.

Fig. 5: Risk categories

Credit risk

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

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

Market risks

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

- Balance sheet interest rate risk is the risk that changes in market interest rates will impact negatively on the financial situation of the banking book. As well as affecting current interest income, changes in interest rates have implications for future results. The interest rate risk is managed based on the market interest method.
- Market liquidity risk is the risk that a product can no longer be easily sold (or purchased) on a market. The higher the market liquidity, the greater the chance of purchasing or selling a product for an appropriate price at the desired time.
- Issuer (default) risk is the risk of a loss arising from a change in fair value resulting from a credit event affecting an issuer to which the bank is exposed through marketable securities or derivatives from this issuer.

Liquidity risk

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

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

Operational risk

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

- IT risks refer to the potential damage caused by the loss of confidentiality, integrity and availability of data and functions in IT systems.
- Cyber risks comprise the risk of attacks from the Internet or similar networks (referred to as hacker attacks) on the confidentiality, integrity and availability of data and functions in IT systems.

Compliance risk

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

Compliance is the observance of legal, regulatory and internal regulations as well as the adherence to industry standards and codes of conduct. Compliance involves ensuring 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 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 are usually fully adjusted if they are not covered by collateral. Individual value adjustment rates may apply in the case of major positions. 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 bank's best internal rating category are subject to limits, adherence to which is monitored on a constant basis.

Settlement risks. A settlement risk arises in the case of transactions with mutual payment and delivery obligations where Zürcher Kantonalbank must meet its obligations without being able to ensure that counterpayment 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.

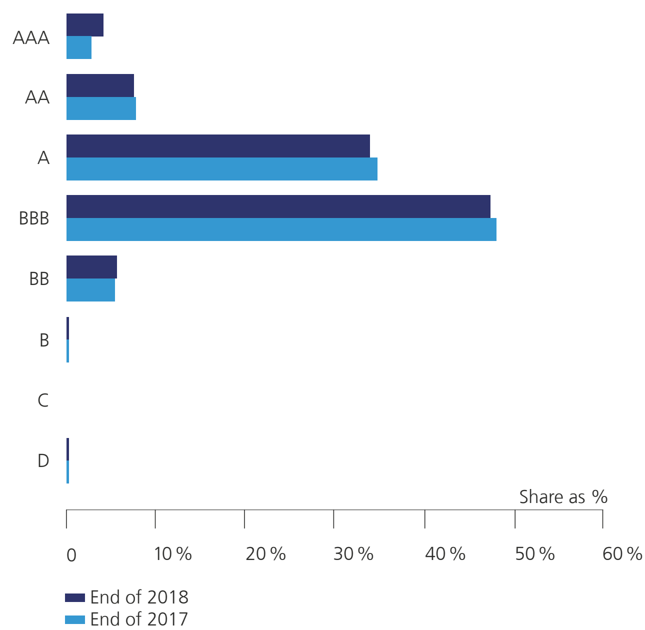
Concentration risks. Zürcher Kantonalbank uses a systems-based method for monitoring concentration risks. Besides measurement for the purpose of preparing regulatory reports, concentration risks are limited at product and client level using benchmarks that are reflected in the corresponding powers of 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, a large concentration risk in the credit portfolio takes the form of geographical concentration risk in the mortgage portfolio.

1.5.2 Risk profile

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

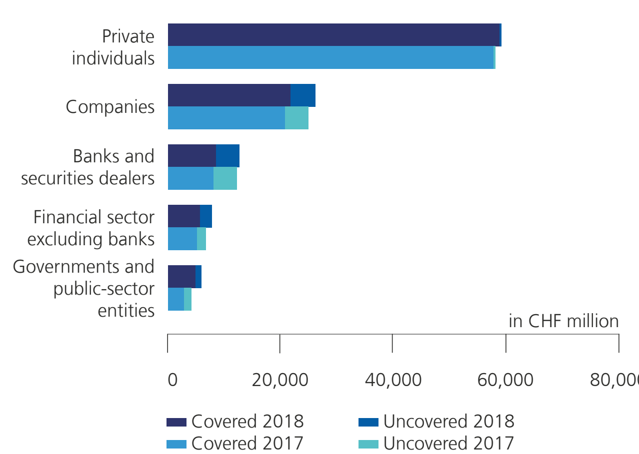
Credit exposures by rating category. Default probability ratings are assigned internally on the basis of a scale from 1 to 19. Figure 6 shows credit exposures to counterparties by rating category using Standard & Poor's rating scale.

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 53 percent (2017: 55 percent) of total credit exposures. The "corporates" portfolio consists of credit exposures in relation to clients of a commercial nature (incl. real estate companies and cooperative building associations). The share of this client group in total credit exposures is 23 percent (2017: 24 percent), 83 percent (2017: 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 5 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 2018. The median gross loan-to-value ratio for all properties in the private client portfolio was 49 percent (2017: 50 percent).

Unsecured loans. Of the unsecured loans in the "corporates" portfolio, 76 percent (2017: 79 percent) relate to clients in the AAA to BBB (investment grade) rating categories. The volume of unsecured loans in the corporate clients portfolio grew by approximately 6 percent in comparison with the previous year.

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

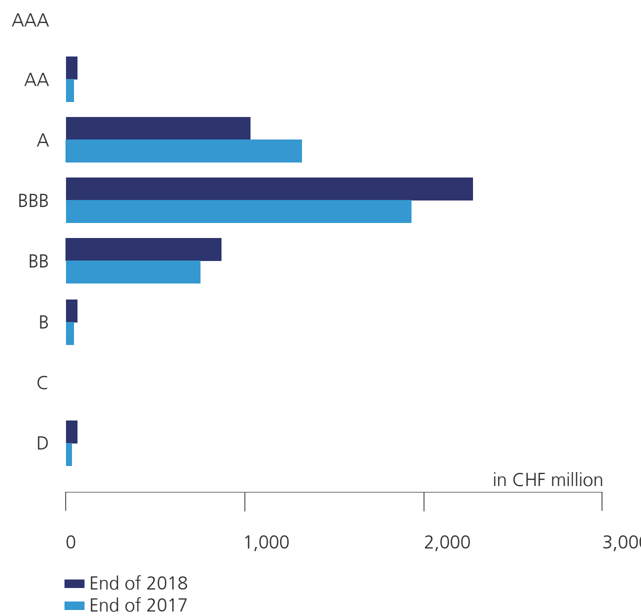
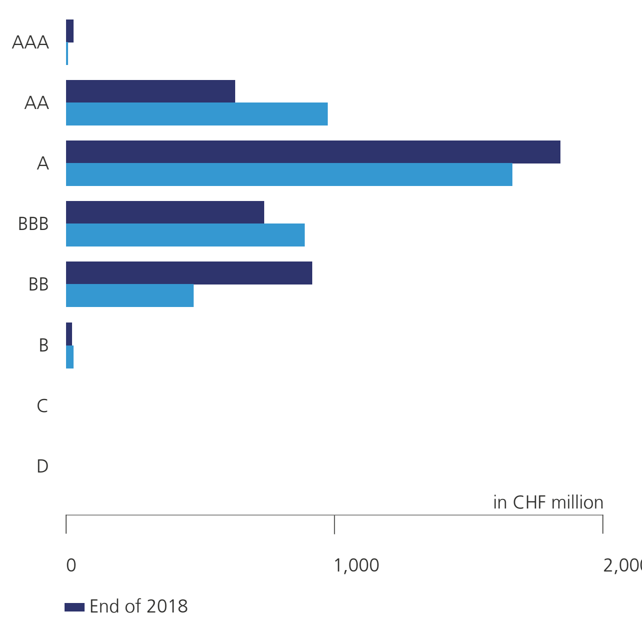


Fig. 9: Unsecured credit exposures to banks and securities traders by rating category



In the “banks and securities traders” client portfolio, the volume of unsecured loans is some 5 percent higher than on the reporting date at the end of 2017. The level of this exposure changes significantly every day, unlike other forms of lending, due to the influence of the bank’s trading transactions. 75 percent (2017: 86 percent) relates to clients in rating categories AAA to BBB (investment grade). The higher volumes in the BB rating category mainly relate to foreign trade financing in various emerging markets.

Impaired loans/receivables. Impaired loans amounted to CHF 504 million (2017: CHF 472 million). After deducting the estimated liquidation value of collateral, this equals net debt of CHF 218 million (2017: CHF 197 million, see also Note 2 to the balance sheet).

Non-performing loans/receivables. The nominal value of non-performing loans amounted to CHF 125 million at the end of the reporting period (2017: CHF 139 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 increased by CHF 5 million to CHF 314 million in 2018 (see also Note 16 to the balance sheet).

1.6 Market risk

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

Zürcher Kantonalbank calculates value at risk for a 10-day period and at a confidence level of 99 percent using a Monte Carlo simulation. The loss distribution is arrived at from the valuation of the portfolio using a large number of 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 group trading book

Risks including volatility risks in CHF million	Commodities[1]	Currencies[2]	Interest rates	Equities	Diversification	Modelled total risk	Total risk[3]
Risks based on the model approach (value at risk with 10-day holding period)							
as at 31.12.2018	1	1	10	6	−7	11	13
Average current year 2018	0	1	10	3	−5	10	12
Maximum	1	4	14	12	−9	14	17
Minimum	0	0	7	1	−3	6	9
As at 31.12.2017	0	1	18	2	−4	17	20

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 12 million, the annual average value at risk remained on a par with the prior year (CHF 11 million) (Figure 10). Interest rate risks continue to dominate in the composition of value at risk (Figure 11). The amount of equity risk in value at risk as at 31 December 2018 is significantly higher than the average for 2018 due to the turbulence observed on the equity markets in the fourth quarter.

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. The value at risk was not exceeded in 2018.

Fig. 11: Components of value at risk as at 31.12.2018 (in CHF million)

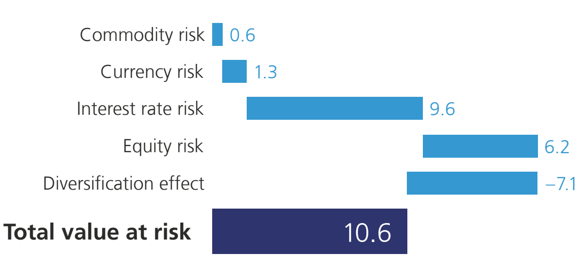
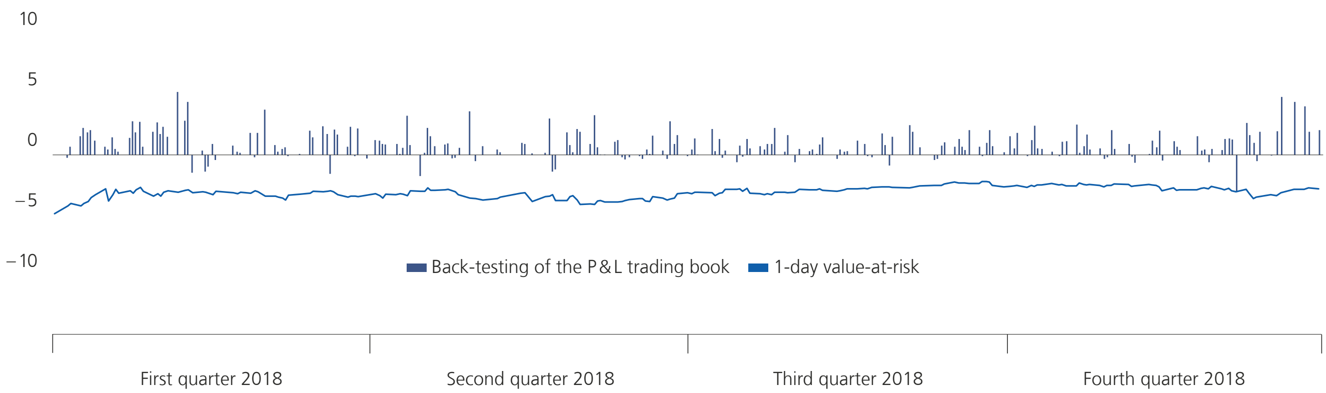


Fig. 12: Comparison of back-testing results[1] and value at risk (in CHF million)



1 The back-testing result corresponds to the trading income used and adjusted for the purpose of methodological reviewing of 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 14 and 26 months.

The interest rate sensitivity of the CHF banking book stood at CHF 8.7 million per basis point as at 31 December 2018, approximately 8 percent up on the previous year (CHF 8.0 million). The increase occurred in the strategic interest rate risk position (equity benchmark) defined by the Board of Directors, which accounts for more than two thirds of the total interest rate exposure, and is largely a result of the increase in equity. The interest rate exposure serves as a strategic hedge against persistently low Swiss franc interest rates as well as the stabilisation of interest gains. In the event of an interest rate rise, the positive margin effects successively compensate 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 2018.

The value at risk of the interest rate risk position of the banking book is the same as the previous year. (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 31.12.2018	–118
As at 31.12.2017	–110

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	–82	3,764	6,087	9,769
Hedge	285	–1,643	249	–1,110
Total as at 31.12.2018	203	2,120	6,336	8,659
Total as at 31.12.2017	250	1,778	6,000	8,028

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 4.5 billion as at 31 December 2018 (2017: CHF 4.4 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 group-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.

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 fundamental change in the bank's environment for the management of operational risks compared with the previous year. There are two significant risk factors – a professional cyber-crime industry that is constantly specialising and an increase in the potential for attacks due to the continuing advance of digitisation. Zürcher Kantonalbank is therefore continuing to give the management of cyber and process risks a high level of attention. Fraud attempts that are detected too late and operational errors can quickly result in consequential damage in the technologically interconnected business environment. The bank is responding to this challenging environment with a large number of technical protective measures, by raising the awareness of employees and clients, and by developing rule- and model-based instruments for detecting erroneous or fraudulent transactions.

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 unencumbered 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.

The minimum requirement for the regulatory liquidity ratio LCR is 100 percent. 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.

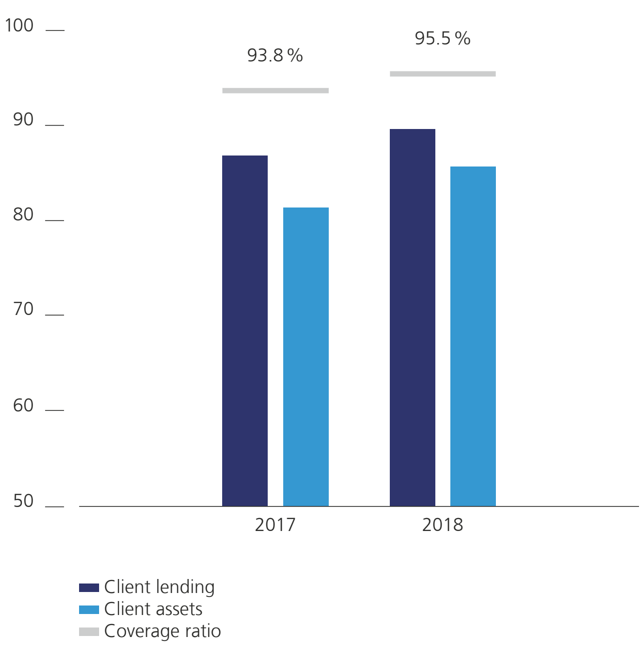
Zürcher Kantonalbank pursues a long-term refinancing policy that includes both cost and risk aspects. Refinancing risks are managed via a deliberate diversification in terms of maturities, refinancing instruments used and related markets, to limit dependence on funding sources. For this purpose, Treasury 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 fell slightly year-on-year in 2018. 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 127 percent and 136 percent. High-quality liquid assets (HQLA) average between CHF 43.4 billion and CHF 47.9 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 15 shows a year-on-year comparison of the coverage ratio for asset-side client transactions. Loans to clients amounted to CHF 89.7 billion and client assets to CHF 85.7 billion as at 31 December 2018. This results in a coverage ratio of 95.5 percent, which is slightly higher than in the previous year.

Fig. 15: Coverage ratio of client business (in CHF billion)



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.

In the previous financial year, Zürcher Kantonalbank reached a settlement with the US Department of Justice (DoJ) in connection with its legacy business with US clients. The cross-border asset management business has been adjusted gradually since 2009. Zürcher Kantonalbank is committed to a strict tax-compliant business policy, and in terms of geographic coverage focuses on selected core markets with an emphasis on Europe. 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.

m) Multi-year comparison

All figures in the multi-year comparison are based on the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB).

	2018	2017	2016	2015	2014
Income statement in CHF million					
Net result from interest operations	1,213	1,202	1,187	1,162	1,127
Result from commission business and services	776	770	728	668	526
Result from trading activities and the fair value option	286	334	379	328	233
Other result from ordinary activities	46	31	31	47	43
Operating income	2,320	2,336	2,325	2,204	1,929
Operating expenses	−1,430	−1,434	−1,441[1]	−1,374	−1,191
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	−192	−120	−124	−106	−93
Changes to provisions and other value adjustments and losses	194	2	−8	−61	−38
Operating result	892	784	752[1]	664	607
Extraordinary result	103	8	16	66	41
Changes in reserves for general banking risks	−200	–	–	–	–
Taxes	−7	−11	−7	−8	−0
Consolidated profit	788	782	761[1]	722	647
Balance sheet (before appropriation of profit) in CHF million					
Balance sheet total	169,408	163,881	157,985	154,410	145,872
Mortgage loans	81,256	79,087	77,275	73,623	71,349
Amounts due in respect of customer deposits	85,537	81,381	80,890	80,820	79,969
Provisions	255	585	636	584	539
Equity	11,852	11,228	10,793	10,429	9,487
Key figures in %					
Return on equity (RoE)	7.1	7.3	7.4[1]	7.5	7.2
Cost/income ratio (CIR)[2]	61.4	61.1	61.7[1]	62.4	61.7
Common equity Tier 1 ratio (CET1)[3]	17.8	16.5[4]	15.6	15.8	14.6
Core capital ratio (Tier 1)[3]	20.2	18.8[4]	17.5	16.8	15.6
Total capital ratio[3]	20.2	18.8[4]	17.5	17.9	16.6
Leverage ratio[3]	6.8	6.8	6.7	7.0	5.8
Liquidity coverage ratio (LCR)[5]	127	153	132	128	–
Customers' assets in CHF million					
Total customers' assets	295,194	288,802	264,754	257,505	208,677
Headcount/branches Number					
Headcount after adjustment for part-time employees, as at the reporting date	5,087	5,117	5,173	5,179	4,844
Branches[6]	75	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 Including effects stemming from the changeover to IRB and SA-CCR.
5 Up until 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)	2018	2017	2016	2015	2014
Share paid to canton to defray cost of capital	13	18	21	26	34
Distribution to canton	230	230	220	200	164
Distribution to municipalities	115	115	110	100	82
Total profit distribution	358	363	351	326	280
Additional compensation for state guarantee	22	23	22	21	–
Additional payments from public service mandate	140	131	119	128	106

Rating agencies (Rating)	2018	2017	2016	2015	2014
Fitch	AAA	AAA	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Standard & Poor's	AAA	AAA	AAA	AAA	AAA

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Report of the statutory auditor to the Cantonal Parliament of Zurich
on our audit of the consolidated financial statements
as of 31 December 2018 of

Zurich, 28 February 2019

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 88 to 148), for the year ended 31 December 2018.

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 2018 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 2018, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 94.5 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 95, 96, 99, 100 and 101 as well as on pages 137 to 141 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 103, 104 and 114 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 of significant accounting principles as well as the appropriateness of the disclosures in the notes to the consolidated financial statements. Our audit procedures did not lead to any reservations concerning the impairment of client loans and amounts due from banks as well as determination of allowances and provisions.

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 2018, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.3 billion, while that of the negative replacement values comes to CHF 0.8 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 819.5 billion. Furthermore, as of 31 December 2018, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 2.5 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 96, 97, 101, 102 as well as on pages 141 to 146 of their annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 104, 105, 106 and 112 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. Our audit procedures did not lead to any reservations concerning the fair value measurement of financial instruments.

Building a better working world

Report on other legal requirements

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

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

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

Ernst & Young Ltd

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

Parent Company Financial Statements

Income statement

in CHF million	Notes	2018	2017	Change	Change in %
Result from interest operations					
Interest and discount income		1,811	1,608	203	12.6
Interest and dividend income from financial investments		43	48	–5	–11.3
Interest expense		–632	–446	–186	41.8
Gross result from interest operations	33	1,221	1,210	11	0.9
Changes in value adjustments for default risk and losses from interest operations		–10	–9	–1	10.1
Subtotal net result from interest operations		1,211	1,201	10	0.9
Result from commission business and services					
Commission income from securities and investment activities		622	612	9	1.5
Commission income from lending activities		50	52	–2	–4.1
Commission income from other services		110	104	5	5.0
Commission expense		–110	–111	1	–1.3
Subtotal result from commission business and services		671	657	14	2.1
Result from trading activities					
Result from trading activities and the fair value option	32	272	315	–43	–13.5
Other result from ordinary activities					
Result from disposal of financial investments		2	3	–1	–42.3
Income from participations		91	76	15	20.1
Result from real estate		9	9	–0	–2.0
Other ordinary income		24	21	3	15.6
Other ordinary expenses		–3	–3	0	–14.0
Subtotal other result from ordinary activities		123	106	17	16.4
Operating income		2,278	2,279	–1	–0.1
Operating expenses					
Personnel expenses	34	–959	–965	6	–0.7
General and administrative expenses	35	–407	–407	–0	0.0
Subtotal operating expenses		–1,366	–1,372	6	–0.5
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		–189	–117	–72	61.6
Changes to provisions and other value adjustments and losses		195	2	193	–
Operating result		917	792	126	15.9
Extraordinary income	36	24	9	15	172.2
Extraordinary expenses	36	–0	–0	–0	547.1
Changes in reserves for general banking risks	36	–200	–	–200	–
Taxes	39	–0	–	–	–
Result of the period		741	800	–60	–7.5

Appropriation of profit

in CHF million	2018	2017	Change	Change in %
Result of the period	741	800	−60	−7.5
Profit carried forward	1	1	−0	53.0
Distributable profit	742	801	−60	−7.4

Appropriation of profit

Profit distribution				
Dividend	358	363	−5	−1.4
– of which, share paid to canton to defray cost of capital	13	18	−5	−28.5
– of which, dividends for the benefit of the canton	230	230	0	0.0
– of which, dividends for the benefit of the municipalities	115	115	0	0.0
Profit retained				
Allocated to reserves	383	437	−54	−12.4
– of which, allocated to voluntary retained earnings reserve	383	437	−54	−12.4
Profit carried forward	1	1	−0	−33.1

The appropriation of profit was approved by the Board of Directors on 24 January 2019. Approval of the annual financial statements and the appropriation of profit by the Cantonal Parliament is scheduled for 29 April 2019.

Balance sheet
as at 31 December

in CHF million	Notes	2018	2017	Change	Change in %
Assets					
Liquid assets		40,940	41,145	–204	–0.5
Amounts due from banks		4,792	4,416	377	8.5
Amounts due from securities financing transactions	1	17,004	14,326	2,678	18.7
Amounts due from customers	2	8,435	7,814	621	7.9
Mortgage loans	2	81,256	79,087	2,169	2.7
Trading portfolio assets	3	8,017	7,651	366	4.8
Positive replacement values of derivative financial instruments	4	1,431	1,553	–121	–7.8
Other financial instruments at fair value	3	–	–	–	–
Financial investments	5	4,606	4,627	–21	–0.5
Accrued income and prepaid expenses		322	308	14	4.4
Participations		574	615	–41	–6.7
Tangible fixed assets		674	770	–96	–12.5
Intangible assets		0	1	–1	–81.7
Other assets	10	274	392	–118	–30.1
Total assets		168,326	162,706	5,620	3.5
Total subordinated claims		166	188	–21	–11.4
– of which, subject to conversion and/or debt waiver		46	31	16	50.8
Liabilities					
Amounts due to banks		37,049	35,378	1,671	4.7
Liabilities from securities financing transactions	1	6,876	6,623	254	3.8
Amounts due in respect of customer deposits		85,618	81,463	4,155	5.1
Trading portfolio liabilities	3	2,418	1,859	559	30.1
Negative replacement values of derivative financial instruments	4	753	867	–114	–13.1
Liabilities from other financial instruments at fair value	3, 14	1,351	1,699	–348	–20.5
Cash bonds		167	191	–24	–12.4
Bond issues		11,666	12,419	–753	–6.1
Central mortgage institution loans		9,463	9,275	188	2.0
Accrued expenses and deferred income		712	607	105	17.3
Other liabilities	10	199	521	–322	–61.9
Provisions	16	253	582	–329	–56.5
Reserves for general banking risks	16	5,036	4,836	200	4.1
Bank's capital	17, 21	2,425	2,425	–	–
Statutory retained earnings reserve	21	1,213	1,213	–	–
Voluntary retained earnings reserve	21	2,383	1,946	437	22.5
Profit carried forward	21	1	1	0	53.0
Result of the period	21	741	800	–60	–7.5
Equity	21	11,799	11,221	577	5.1
Total liabilities		168,326	162,706	5,620	3.5
Total subordinated liabilities		1,491	1,513	–23	–1.5
– of which, subject to conversion and/or debt waiver		1,491	1,513	–23	–1.5
Off-balance-sheet transactions					
Contingent liabilities	2	4,100	4,090	10	0.2
Irrevocable commitments	2	8,806	9,177	–371	–4.0
Obligations to pay up shares and make further contributions	2	263	233	30	13.1
Credit commitments	2	–	–	–	–

Statement of changes in equity

in CHF million	Bank's capital	Statutory retained earnings reserve	Reserves for general banking risks	Voluntary retained earnings reserve	Distributable profit	Total equity
2017						
Opening amount	2,425	1,213	4,836	1,521	776	10,771
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Other contributions/other capital paid in	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Capital costs of 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 of the period	–	–	–	–	800	800
Total equity as at 31.12.2017	2,425	1,213	4,836	1,946	801	11,221
2018						
Opening amount	2,425	1,213	4,836	1,946	801	11,221
Capital increase	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–
Other contributions/other capital paid in	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Capital costs of endowment capital	–	–	–	–	–18	–18
Allocation to the canton from previous year's profit	–	–	–	–	–230	–230
Allocation to municipalities from previous year's profit	–	–	–	–	–115	–115
Valuation adjustments with no income effect	–	–	–	–	–	–
Other allocations to (transfers from) the reserves for general banking risks	–	–	200	–	–	200
Other allocations to (transfers from) other reserves	–	–	–	437	–437	–
Result of the period	–	–	–	–	741	741
Total equity as at 31.12.2018	2,425	1,213	5,036	2,383	742	11,799

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 2015/01 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. At group level, retained earnings reserves include reserves for general banking risks created before 2018. Creation and release of such reserves is shown under Changes in reserves for general banking risks.

i) Information on the balance sheet

1 Breakdown of securities financing transactions

in CHF million	2018	2017
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	17,004	14,326
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	6,876	6,623
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	4,480	3,401
– of which, with unrestricted rights to resell or pledge	4,480	3,401
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	49,237	43,042
– of which, repledged securities	114	140
– of which, resold securities	34,889	32,051

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	68	1,158	7,320	8,546
Mortgage loans				
– Residential property	67,751	14	19	67,784
– Office and business premises	8,758	–	13	8,770
– Commercial and industrial premises	2,369	0	33	2,402
– Other	2,362	1	1	2,364
Total mortgage loans	81,239	16	66	81,321
Total loans (before netting with value adjustments) 2018	81,307	1,174	7,385	89,867
Total loans (before netting with value adjustments) 2017	79,140	993	6,940	87,073
Total loans (after netting with value adjustments) 2018	81,307	1,174	7,209	89,691
Total loans (after netting with value adjustments) 2017	79,140	993	6,768	86,901
Off-balance-sheet				
Contingent liabilities	85	1,246	2,770	4,100
Irrevocable commitments	1,040	45	7,722	8,806
Obligations to pay up shares and make further contributions	–	–	263	263
Credit commitments	–	–	–	–
Total off-balance-sheet transactions 2018	1,125	1,290	10,754	13,169
Total off-balance-sheet transactions 2017	1,120	1,584	10,796	13,500

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]
2018	503	286	217	181
2017	471	275	197	177

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	2018	2017
Debt securities, money market securities/transactions	3,513	3,033
– of which, listed[1]	3,467	2,970
Equity securities	2,671	2,724
Precious metals and commodities	1,724	1,682
Other trading portfolio assets	110	213
Total trading transactions	8,017	7,651
Debt securities	–	–
Structured products	–	–
Other	–	–
Total other financial instruments at fair value	–	–
Total assets	8,017	7,651
– of which, determined using a valuation model	156	276
– of which, securities eligible for repo transactions in accordance with liquidity requirements	1,143	845

1 Listed = traded on a recognised exchange.

Liabilities in CHF million	2018	2017
Debt securities, money market securities/transactions	2,400	1,851
– of which, listed[1]	2,392	1,840
Equity securities	9	7
Precious metals and commodities	2	0
Other trading portfolio liabilities	7	0
Total trading transactions	2,418	1,859
Debt securities	–	–
Structured products	1,351	1,699
Other	–	–
Total other financial instruments at fair value	1,351	1,699
Total liabilities	3,770	3,558
– of which, determined using a valuation model	1,359	1,711

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	12	5	30,425	–	–	–
Swaps	4,809	4,218	346,678	348	460	14,607
Futures	–	–	26,987	–	–	–
Options (OTC)	45	15	3,016	–	–	–
Options (exchange-traded)	–	–	2	–	–	–
Total	4,865	4,239	407,106	348	460	14,607
Foreign exchange / precious metals						
Forward contracts	1,822	1,841	327,731	–	–	–
Combined interest rate / currency swaps	414	685	3,689	104	8	1,561
Futures	–	–	80	–	–	–
Options (OTC)	204	120	53,029	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	2,440	2,646	384,528	104	8	1,561
Equity securities / indices						
Forward contracts	–	–	–	–	–	–
Swaps	67	44	752	–	–	–
Futures	–	–	4,265	–	–	–
Options (OTC)	215	69	2,008	–	–	–
Options (exchange-traded)	207	185	5,531	–	–	–
Total	489	298	12,557	–	–	–
Credit derivatives						
Credit default swaps	6	5	537	–	–	–
Total return swaps	4	4	356	–	–	–
First-to-default swaps	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–
Total	10	9	893	–	–	–
Other[2]						
Forward contracts	–	–	–	–	–	–
Swaps	17	17	512	–	–	–
Futures	–	–	752	–	–	–
Options (OTC)	0	0	6	–	–	–
Options (exchange-traded)	–	–	–	–	–	–
Total	17	17	1,270	–	–	–
Total before netting agreements						
2018	7,821	7,209	806,354	452	468	16,168
– of which, determined using a valuation model	7,821	7,209	–	452	468	–
2017	7,988	7,136	625,993	570	837	19,329
– of which, determined using a valuation model	7,988	7,136	–	570	837	–

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 2015/01, 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)
2018	1,431	753
2017	1,553	867

Breakdown by counterparty

Positive replacement values (after netting agreements)	Central clearing houses	Banks and securities dealers	Other customers
2018	135	338	958

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	**2018**	2017	**2018**	2017
Debt securities	4,332	4,300	4,478	4,468
– of which, intended to be held to maturity	4,332	4,300	4,478	4,468
– of which, not intended to be held to maturity (available for sale)	–	–	–	–
Equity securities	51	59	67	75
of which, qualified participations[1]	–	–	–	–
Precious metals	219	268	219	268
Real estate[2]	4	–	4	–
Total financial investments	4,606	4,627	4,768	4,811
– of which, securities eligible for repo transactions in accordance with liquidity requirements	4,258	4,215	4,402	4,380

1 At least 10 percent of the capital or votes.
2 The insurance value of the real estate within financial investments amounted to CHF 3.3 million.

Counterparties by rating

in CHF million						
Moody's	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Ba1 – Ba3	Lower than Ba3	Unrated
Standard & Poor's, Fitch	AAA – AA–	A+ – A–	BBB+ – BBB–	BB+ – B–	Below B–	Unrated
Debt securities: Book values						
2018	4,029	25	–	–	–	278

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 2018	Other assets 2017	Other liabilities 2018	Other liabilities 2017
Compensation account	124	188	–	–
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	45	24	135	356
Indirect taxes	63	153	33	38
Other	41	27	31	127
Total	274	392	199	521

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

in CHF million	2018 Book value	2018 Effective commitment	2017 Book value	2017 Effective commitment
Pledged/assigned assets				
Amounts due from banks	1,289	1,271	1,523	1,506
Amounts due from customers	1,980	1,910	1,419	1,368
Mortgage loans	11,828	9,463	11,725	9,275
Trading portfolio assets	2	2	11	11
Financial investments	–	–	–	–
Total pledged/assigned assets	15,100	12,646	14,678	12,160

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)	2018	2017	Change
Amounts due in respect of customer deposits	148	166	–18
Cash bonds	–	–	–
Negative replacement values of derivative financial instruments	4	10	–6
Accrued expenses and deferred income	–	–	–
Other liabilities	–	–	–
Total	152	176	–24

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 2018	End of 2018	End of 2018	End of 2017	2018	2017
Zürcher Kantonalbank pension fund	–	–	–	–	–	–
Total	–	–	–	–	–	–

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 2018	2018	2017	2018	2018	2018	2017
Employer-sponsored funds/employer-sponsored pension schemes	–	–	–	–	–	–	–
Pension plans without overfunding/underfunding[1]	–	–	–	–	105	105	115
Pension plans with overfunding	–	–	–	–	–	–	–
Pension plans with underfunding	–	–	–	–	–	–	–
Pension schemes without own assets	–	–	–	–	–	–	–
Total	–	–	–	–	105	105	115

1 Including change in provisions for pension benefit obligations (2018: release CHF 1 million/2017: creation CHF 8 million).

14 Issued structured products

Underlying risk of the embedded derivative		Book value: Valued as a whole		Book value: Valued separately		Total
in CHF million		Booked in trading portfolio	Booked in other financial instruments at fair value	Value of the host instrument	Value of the derivative	
Interest rate instruments	With own debenture component	–	–	–	–	–
	Without oDC	–	–	–	–	–
Equity securities	With own debenture component	–	1,199	–	–	1,199
	Without oDC	–	–	–	–	–
Foreign currencies	With own debenture component	–	74	–	–	74
	Without oDC	–	–	–	–	–
Commodities/precious metals	With own debenture component	–	62	–	–	62
	Without oDC	–	–	–	–	–
Loans	With own debenture component	–	8	–	–	8
	Without oDC	–	–	–	–	–
Real estate	With own debenture component	–	–	–	–	–
	Without oDC	–	–	–	–	–
Hybrid instruments	With own debenture component	–	8	–	–	8
	Without oDC	–	–	–	–	–
Total 2018		–	1,351	–	–	1,351
Total 2017		–	1,699	–	–	1,699

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

in CHF million	Balance at end of 2017	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 2018
Provisions for deferred taxes	–	–	–	–	–	–	–	–
Provisions for pension benefit obligations[1]	42	–11	–	–	–	–	–1	30
Provisions for default risks	131	–22	–	–	–	67	–44	133
Provisions for other business risks[2]	213	–29	–	2	–	1	–126	62
Provisions for restructuring	–	–	–	–	–	–	–	–
Other provisions[3]	196	–74	–	1	–	19	–113	29
Total provisions	582	–135	–	3	–	87	–284	253
Reserves for general banking risks	4,836	–	–	–	–	200	–	5,036
Value adjustments for default and country risks	177	–11	–	–	2	62	–49	181
– of which, value adjustments for default risks in respect of impaired loans/receivables[4]	177	–11	–	–	2	62	–49	181
– 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.
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 Other provisions include provisions for litigation, provisions for employees' holiday credits and provisions for the ZKB company anniversary in 2020.
4 Default risks consist primarily of counterparty risks, for which value adjustments of 100 percent of the net debt amount are generally made. Individual rates for value adjustments 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 (2018: CHF 7 million/2017: CHF 13 million).
For more details on the management of credit risks, operational risks and legal and compliance risks, please refer to section I) Risk report.

On 13 August 2018, Zürcher Kantonalbank concluded the US Department of Justice's investigation into the bank's legacy business with US clients with a Deferred Prosecution Agreement (DPA).
Pursuant to this settlement, the bank agreed to make a payment of USD 98.5 million. The payment was made in the second half of 2018. The provisions made for this purpose were sufficient. For further information on provisions no longer required in this regard, please see Note 36.

17 Presentation of the bank's capital

in CHF million	Total par value 2018	Total par value 2017
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 of the Law on Zürcher Kantonalbank of 28 September 1997, as amended on 1 January 2015, and has no direct link to the endowment capital.

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

	Due from		Due to	
in CHF million	**2018**	2017	**2018**	2017
Holders of qualified participations	6	1	839	545
Group companies	397	422	337	264
Linked companies	573	596	810	1,258
Transactions with members of governing bodies	21	21	24	25
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 1,303 million (2017: CHF 1,408 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	2018	2017
Reserves for general banking risks	5,036	4,836
Bank's capital	2,425	2,425
Statutory retained earnings reserve	1,213	1,213
Voluntary retained earnings reserve	2,383	1,946
Profit carried forward	1	1
Result of the period	741	800
Total equity	11,799	11,221

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)

Rating system		2018 Net foreign exposure		2017 Net foreign exposure	
ZKB's own country rating	Moody's	in CHF million	Share as %	in CHF million	Share as %
A	Aaa / Aa1 / Aa2 / Aa3	10,414	81.8	9,167	79.7
B	A1 / A2 / A3	743	5.8	908	7.9
C	Baa1 / Baa2 / Baa3	792	6.2	791	6.9
D	Ba1 / Ba2	430	3.4	485	4.2
E	Ba3	256	2.0	63	0.5
F	B1 / B2 / B3	90	0.7	77	0.7
G	Caa1 / Caa2 / Caa3 / Ca / C	1	0.0	9	0.1
Total		12,725	100.0	11,501	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	2018	2017
Fiduciary investments with third-party companies	398	218
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	398	218

31 Breakdown of managed assets and presentation of their development

a) Breakdown of managed assets

Type of managed assets in CHF million	2018	2017
Assets in collective investment schemes managed by the bank	78,821	82,422
Assets under discretionary asset management agreements	62,735	64,067
Other managed assets	150,484	140,017
Total managed assets (including double counting)[1]	292,040	286,506
– of which, double counting	45,296	43,825

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

b) Presentation of the development of managed assets

in CHF million	2018	2017
Total managed assets (including double counting) at beginning	286,506	263,384
+/– net new money inflow or net new money outflow[1]	17,671	5,650
+/– price gains/losses, interest, dividends and currency gains/losses	–11,140	16,438
+/– other effects	–997	1,034
Total managed assets (including double counting) at end	292,040	286,506

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

k) Information on the income statement

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

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

in CHF million	2018	2017
Result from trading in foreign exchange, bank notes and precious metals	102	131
Result from trading in bonds, interest rate and credit derivatives	65	87
Result from trading in equities and structured products	52	38
Result from other trading activities[1]	52	58
Total	272	315

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

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

		Result from trading activities from:						
in CHF million	2018	Foreign exchange and bank notes	Precious metals	Securities lending and borrowing	Bonds, interest rate and credit derivatives	Equities and equity derivatives	Commodities and commodity derivatives	Other products[2]
Result from trading in foreign exchange, bank notes and precious metals	102	59	44	–	–1	0	–	–
Result from trading in bonds, interest rate and credit derivatives	65	0	–	–	63	2	–	–
Result from trading in equities and structured products	52	3	0	–	–1	50	–1	1
Result from other trading activities	52	0	–0	57	–1	–5	0	–
Total	272	62	44	57	61	48	–0	1
– of which, from fair value option on assets	–	–	–	–	–	–	–	–
– of which, from fair value option on liabilities	246	2	0	–	1	233	9	1

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 2018, refinancing income from trading activities of CHF –50.0 million (previous year: CHF –13.3 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 626.5 million (previous year: CHF 488.3 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	2018	2017
Negative interest on lending business (reduction in interest and discount income)	204	204
Negative interest on deposit-taking business (reduction in interest expenses)	117	115

34 Breakdown of personnel expenses

in CHF million	2018	2017
Salaries for members of the bank's governing bodies and personnel	761	755
– of which, alternative forms of variable compensation	–	–
AHV, IV, ALV and other social security contributions[1]	166	178
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	32	32
Total	959	965

1 Including change in provisions for pension benefit obligations (2018: release CHF 1 million / 2017: creation CHF 8 million).

35 Breakdown of general and administrative expenses

in CHF million	2018	2017
Office space expenses	32	32
Expenses for information and communications technology	158	158
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	1	1
Fees of audit firms	4	4
– of which, for financial and regulatory audits	4	4
– of which, for other services	0	0
Other operating expenses	212	212
– of which, compensation for any cantonal guarantee	22	23
Total	407	407

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	2018	2017
Extraordinary income		
Reversal of impairment on other participations	1	7
Income from sale of other real estate / bank premises	21	2
Income from sale of participations	0	–
Other	1	–0
Total	24	9
Extraordinary expenses		
Losses from disposal of other real estate / bank premises	0	–
Losses from disposal of participations	0	–
Other	0	0
Total	0	0
Changes in reserves for general banking risks		
Creation of reserves for general banking risks[1]	200	–
Release of reserves for general banking risks	–	–
Total	200	–

1 CHF 200 million of reserves for general banking risks were created during the year. This was directly related to the release of provisions for other business risks and other provisions that were no longer required following the completion of the investigation by the US Department of Justice into the bank's legacy business with US clients. Please see Note 16 for the level of reserves for general banking risks, provisions for other business risks and other provisions.

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

in CHF million		2018	2017
Participations	Registered office		
CLS Group Holdings AG	Lucerne	0	0
Valiant Holding AG [1]	Lucerne	–	4
Zürcher Kantonalbank Österreich AG	Salzburg	1	1
Total		1	5

1 Appreciation in the first half of 2017 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

in CHF million	2018	2017
Creation of provisions for deferred taxes	–	–
Reversal of provisions for deferred taxes	–	–
Recognition of deferred taxes on losses carried forward	–	–
Recognition of other deferred taxes	–	–
Expenses for current income and capital taxes	–	–
Expenses for property gains taxes	–0	–
Total	–0	–
Unrecognised tax reductions on losses carried forward, and tax credits not recognised under the principle of prudence	–	–
Hypothetical deferred income taxes calculated at theoretical tax rates on revaluations of investments not relevant for tax purposes	–	–

Figures in table: minus = expense; plus = income

As Zürcher Kantonalbank is an independent public-law institution that is exempt from taxes on its income and capital under both cantonal tax law (Art. 61) and the federal law on direct taxation (Art. 56), no weighted average tax rate is disclosed.

Pawnbroking agency
of Zürcher Kantonalbank

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

Balance sheet (before appropriation of profit)

Assets in CHF 1,000	2018	2017
Cash	371	340
Postal account	19	17
Accounts receivable	–	–
Loans	6,357	6,111
Inventory	–	–
Furniture, IT system	0	0
Accrued interest	245	239
Balance sheet total	6,992	6,708

Liabilities in CHF 1,000	2018	2017
Zürcher Kantonalbank	5,555	5,263
Surplus from auctions	185	200
Accounts payable	10	17
Provisions	140	140
Reserve fund	1,088	1,065
Profit carried forward	1	1
Operating profit	12	23
Balance sheet total	6,992	6,708

Income statement

Expenses in CHF 1,000	2018	2017
Operating expenses	946	912
Refinancing expenses	41	43
Losses	1	1
Depreciation and provisions	–	–
Operating profit	12	23
Total	1,000	979

Income in CHF 1,000	2018	2017
Interest on loans	816	811
Other income	183	168
Total	1,000	979

Loan transactions

	Items	in CHF 1,000	Items	in CHF 1,000
Total loans at 31.12.2017	–	–	5,136	6,111
New loans in 2018 (incl. renewals)	–	–	10,480	13,406
Repayments in 2018	10,306	13,027	–	–
Proceeds from auctions incl. inventory receipts	199	134	–	–
Total loans at 31.12.2018			5,111	6,357

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Report of the statutory auditor to the Cantonal Parliament of Zurich on our audit of the financial statements as of 31 December 2018 of

Zurich, 28 February 2019

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 157 to 175), for the year ended 31 December 2018.

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 2018 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 2018, Zürcher Kantonalbank discloses client loans and amounts due from banks totaling CHF 94.5 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 95, 96, 99, 100 and 101 as well as on pages 137 to 141 of the bank's annual report. Furthermore, we refer to notes 2 and 16 on pages 162, 163 and 168 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 of significant accounting principles as well as the appropriateness of the disclosures in the notes to the financial statements. Our audit procedures did not lead to any reservations concerning the impairment of client loans and amounts due from banks as well as determination of allowances and provisions.

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 2018, the fair value of positive replacement values of derivative financial instruments amounts to CHF 1.4 billion, while that of the negative replacement values comes to CHF 0.8 billion. The underlying contract volume before taking into account netting agreements amounts to CHF 822.5 billion. Furthermore, as of 31 December 2018, Zürcher Kantonalbank discloses obligations that were determined using a valuation model from other financial instruments at fair value measurement totaling CHF 1.4 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 96, 97, 101, 102 as well as on pages 141 to 146 of their annual report. Furthermore, we refer to notes 3, 4 and 14 on pages 163 to 165 and 167 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. Our audit procedures did not lead to any reservations concerning the fair value measurement of financial instruments.

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

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

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

Ernst & Young Ltd

Bruno Patusi
Licensed audit expert
(Auditor in charge)

Timo D’Ambrosio
Licensed audit expert

Glossary

A

Assessment — Appraisal of a project, situation or participant.

Audit — The business unit Audit (the Inspectorate) is responsible for the group's internal auditing. In organisational terms, it reports directly to the Board of Directors and assists the latter in fulfilling its supervisory and control tasks.

B

Basel III — The reforms published by the Basel Committee for Banking Supervision in 2010, Basel III, include a further revision of the Basel Capital Accord. Besides stricter, risk-based capital requirements with a countercyclical effect, Basel III sets limits on leverage for the first time (leverage ratio). It also specifies a global minimum liquidity standard.

Basel Committee on Banking Supervision — The Basel Committee on Banking Supervision was established by the Bank for International Settlements (BIS) in 1974 and is made up of representatives of central banks and banking supervisory authorities from 27 countries. Switzerland is represented by 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.

Commodity trade finance — Financing for commodities trading in the form of loans.

Compliance — Compliance involves ensuring that the conduct and actions of the bank and its employees meet applicable legal and ethical standards and also covers all organisational measures designed to prevent violations of the law and breaches of rules and ethical norms by the bank.

Confidence level — Also known as confidence interval or expectancy range. Indicates an interval for the accuracy of the estimated position of a parameter. The confidence interval is the range that contains the true position of the parameter with a specific frequency (confidence level) when random samples are drawn an infinite number of times.

Core capital — This term was introduced as part of the Basel Capital Accord (Basel III) and refers to the equity available to a company on a permanent basis in order to cover losses in its operations. 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.

Key risk takers — Key risk takers have a sustained influence on the bank's business operations (risks, image, etc.), on the group's result and therefore on the implementation of the strategy. (See remuneration report, p. 80)

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

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

Risk-weighted assets (RWA) — The term risk-weighted assets was introduced as part of the Basel Capital Accord (Basel III) and constitutes the 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 were previously 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. With effect from the end of 2018, banks are only 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 — 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.

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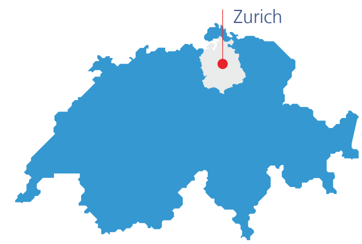
Branches

Canton of Zurich

We have a strong local base. With 67 branches and around 340 ATMs we have the densest network of branches and ATMs in the Canton of Zurich.

In Switzerland



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