

Registrierungsformular

vom

29. Juni 2021

für

Forderungspapiere (ohne Derivate) und für Derivate

der

Zürcher Kantonalbank

sowie der

Zürcher Kantonalbank Finance (Guernsey) Limited

Dieses Dokument wurde zum Zweck der Offenlegung von Informationen in Bezug auf die Zürcher Kantonalbank (nachfolgend auch als "**ZKB**" bezeichnet) sowie die Zürcher Kantonalbank Finance (Guernsey) Limited (nachfolgend auch als "**ZKB Guernsey**" bezeichnet) (zusammen die "**Emittentinnen**" und jeweils eine "**Emittentin**") erstellt und stellt ein Registrierungsformular (in der jeweiligen Fassung, einschliesslich mit Nachträgen, das "**Registrierungsformular**") im Sinne von Art. 44 Abs. 2 lit. a des Bundesgesetzes über die Finanzdienstleistungen vom 15. Juni 2018 in der jeweils geltenden Fassung ("**FIDLEG**") in Verbindung mit Art. 55 Abs. 2 sowie Anhang 2 und 3 der Verordnung über die Finanzdienstleistungen vom 6. November 2019 in der jeweils geltenden Fassung ("**FIDLEV**") dar.

Das Registrierungsformular ist datiert auf den 29. Juni 2021 und wurde am 25. Juni 2021 von der SIX Exchange Regulation AG als Prüfstelle im Sinne von Art. 52 FIDLEG genehmigt. Das Registrierungsformular dient als Grundlage für (a) den Basisprospekt der ZKB und der ZKB Guernsey für strukturierte Produkte, bestehend aus der betreffenden Zusammenfassung und der betreffenden Effektenbeschreibung in welchen auf dieses Registrierungsformular Bezug genommen wird sowie diesem Registrierungsformular (der "**Basisprospekt für strukturierte Produkte**"), und Prospekte, bestehend aus dem Basisprospekt für strukturierte Produkte und den betreffenden endgültigen Bedingungen i.S.d. Art. 45 Abs. 3 FIDLEG und Art. 56 FIDLEV, für Emissionen darunter, (b) den Basisprospekt der ZKB für Anleihen und Geldmarktpapiere, bestehend aus der betreffenden Zusammenfassung und der betreffenden

Effektenbeschreibung in welchen auf dieses Registrierungsformular Bezug genommen wird sowie diesem Registrierungsformular (der "**Basisprospekt für Anleihen und Geldmarktpapiere**"), und Prospekte, bestehend aus dem Basisprospekt für Anleihen und Geldmarktpapiere und den betreffenden endgültigen Bedingungen i.S.d. Art. 45 Abs. 3 FIDLEG und Art. 56 FIDLEV, für Emissionen darunter, sowie (c) weitere mehrteilige Prospekte i.S.d. Art. 44 FIDLEG (einschliesslich mehrteilige Basisprospekte) sowie andere Prospekte für die Ausgabe durch die Zürcher Kantonalbank oder die Zürcher Kantonalbank Finance (Guernsey) Limited von Forderungspapieren (ohne Derivate) oder von Derivaten in welchen auf dieses Registrierungsformular Bezug genommen wird.

Dieses Registrierungsformular kann von Zeit zu Zeit nachgetragen werden. In einem solchen Nachtrag enthaltene Erklärungen (einschliesslich der darin durch Verweis aufgenommenen Informationen) gelten, soweit anwendbar (ob ausdrücklich, stillschweigend oder anderweitig), als Änderung oder Ersatz von Erklärungen, die in diesem Registrierungsformular (einschliesslich der darin durch Verweis aufgenommenen Informationen) enthalten sind. Jede auf diese Weise geänderte oder ersetzte Erklärung stellt keinen Teil dieses Basisprospekts mehr dar, sondern es gilt die geänderte oder ersetzte Erklärung oder Information.

Dieses Registrierungsformular ist auf der frei zugänglichen Internetseite der Zürcher Kantonalbank (<https://zkb-finance.mdgms.com/products/stp/service/emission/index.html>) (oder eine Nachfolge- oder Ersatzwebsite) abrufbar.

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(gelten als integrierter Bestandteil dieses Registrierungsformulars)

ANLAGE 1A (Jahresabschluss 2019 der Zürcher Kantonalbank Finance (Guernsey) Limited)

ANLAGE 1B (Jahresabschluss 2020 der Zürcher Kantonalbank Finance (Guernsey) Limited)

WESENTLICHE RISIKEN IN BEZUG AUF DIE EMITTENTINNEN

In den folgenden Abschnitten werden von den Emittentinnen jeweils als wesentlich erachtete Risiken beschrieben, die sich ungünstig auf das Geschäftsergebnis oder die finanzielle Lage der Emittentinnen auswirken und gegebenenfalls zur Folge haben könnten, dass die Emittentinnen ihre Verpflichtungen aus Forderungspapieren (ohne Derivate) oder Derivaten (jeweils **"Instrumente"**) nicht oder nur teilweise erfüllen können.

Manifestiert sich eines oder verschiedene der nachstehenden wesentlichen Risiken, können Anleger in Derivate oder andere Forderungspapiere ihr gesamtes in solche Instrumente angelegtes Kapital oder einen Teil davon sowie eine etwaige darauf erwartete Rendite verlieren.

Die nachstehend beschriebenen wesentlichen Risiken sind in jedem Fall zusammen mit den übrigen in den betreffenden Effektenbeschreibungen und endgültigen Bedingungen sowie anderen Prospekten beschriebenen wesentlichen Risiken und weiteren Angaben sowie dem übrigen Inhalt des vorliegenden Registrierungsformulars zu lesen.

A. Zürcher Kantonalbank

I. Liquiditätsrisiko

Die Liquidität, sowie der zeitgerechte Zugang zu finanziellen Mitteln, ist für die Zürcher Kantonalbank von entscheidender Bedeutung. Die Liquidität der Zürcher Kantonalbank könnte beeinträchtigt werden, falls diese nachhaltig nicht in der Lage ist, Zugang zu den Kapitalmärkten zu erhalten oder ihre Vermögenswerte zu verkaufen, wenn ihre Liquiditätskosten sehr stark steigen oder wenn Kunden innert kurzer Zeit in wesentlichem Umfang ihre Einlagen zurückziehen, ohne dass im gleichen Umfang Forderungen der Zürcher Kantonalbank, zum Beispiel aus Hypothekar- oder anderen Krediten, befriedigt werden (bank run). Als Folge eines Liquiditätsproblems könnte die Zürcher Kantonalbank Probleme haben, den Zahlungsverpflichtungen unter den betreffenden Instrumenten nachzukommen und könnte die Eidgenössische Finanzmarktaufsicht FINMA (**"FINMA"**) Massnahmen anordnen. Dadurch könnten die Anleger in Instrumenten Verluste erleiden.

II. Konkursrisiko

Die Zürcher Kantonalbank ist insbesondere dem Risiko einer ungünstigen, wirtschaftlichen Entwicklung in der Schweiz und der Region Zürich ausgesetzt.

Diese Entwicklungen könnten sich auf die Kreditfähigkeit der Kunden und damit das Kreditrisiko der Zürcher Kantonalbank auswirken. Das Kreditrisiko ist ein integraler Bestandteil vieler Geschäftstätigkeiten der Zürcher Kantonalbank, unter anderem im Kredit- und Derivatgeschäft. Der Ausfall von Gegenparteien bzw. Schuldner der Zürcher Kantonalbank in grösserem Ausmass, unter Umständen verbunden mit Rückgängen bei den Werten von Sicherheiten wie z.B. Wertpapieren oder Schuldbriefen, könnte zu erheblichen Verlusten führen.

Die Zürcher Kantonalbank ist zudem erheblichen rechtlichen Risiken ausgesetzt. Sie kann nachteiligen Gerichts- und Behördenentscheidungen ausgesetzt sein, die sich in einem erheblichen Masse negativ auf die öffentliche Wahrnehmung und ihren Ruf auswirken, zu aufsichtsrechtlichen Massnahmen seitens der Aufsichtsbehörden oder zu Anordnungen von Gerichten führen könnten, die zu einer Überschuldung oder ernsthaften Liquiditätsproblemen führen.

Als Folge substantieller Verluste der Zürcher Kantonalbank könnte die FINMA Massnahmen anordnen, einschliesslich solcher im Rahmen eines von ihr eröffneten Sanierungsverfahrens, oder die Konkursliquidation anordnen, und könnten die Anleger in Instrumenten in deren Folge Verluste erleiden.

B. Zürcher Kantonalbank Finance (Guernsey) Limited

Die Zürcher Kantonalbank Finance (Guernsey) Limited ist eine Sonderzweckgesellschaft der Zürcher Kantonalbank. Sie weist nur ein beschränktes eigenes Kapital auf. Die Zürcher Kantonalbank Finance (Guernsey)

Limited ist daher von der Zürcher Kantonalbank weitgehend abhängig und die für die Zürcher Kantonalbank Finance (Guernsey) Limited relevanten Risiken entsprechen aufgrund des zwischen der Zürcher Kantonalbank Finance (Guernsey) Limited und der Zürcher Kantonalbank abgeschlossenen Keep-Well Agreements im Wesentlichen denjenigen der Zürcher Kantonalbank.

ZUKUNFTSGERICHTETE AUSSAGEN

Dieses Registrierungsformular sowie die mittels Verweis in dieses einbezogene Dokumente (vgl. den Abschnitt "Einbezug mittels Verweis" nachstehend) enthalten zukunftsgerichtete Aussagen bzw. es sind zukunftsgerichtete Aussagen durch Verweis einbezogen. Begriffe wie "glauben", "erwarten", "planen", "schätzen", "vorhersehen", "beabsichtigen", "anstreben", "annehmen", "kann", "könnte", "wird" und ähnliche Begriffe sollen solche zukunftsbezogenen Aussagen kennzeichnen, sind aber nicht das einzige Mittel zur Kennzeichnung derselben. Die in diesem Registrierungsformular enthaltenen oder per Verweis einbezogenen zukunftsbezogenen Aussagen basieren auf den Annahmen und Erwartungen, welche die Zürcher Kantonalbank zum heutigen Zeitpunkt für realistisch hält, die aber unsicher sind und sich als falsch herausstellen können. Für eine Beschreibung der für Anleger in Forderungspapiere (ohne Derivate) oder Derivate wesentlichen Risiken im Zusammenhang mit den Emittentinnen wird auf den vorstehenden Abschnitt "Wesentliche Risiken in Bezug auf die Emittentinnen" verwiesen.

Sollte eines oder mehrere dieser wesentlichen Risiken eintreten oder sollten sich die der Beschreibung der wesentlichen Risiken zugrundeliegenden Annahmen als falsch erweisen, können die effektiven Folgen und Resultate erheblich von der heutigen Einschätzung abweichen. Potenzielle Anleger sollten sich daher in keiner Weise auf zukunftsbezogene Aussagen verlassen. Sofern nicht durch das FIDLEG oder andere anwendbare wertpapierrechtliche Gesetze und Vorschriften vorgeschrieben, übernehmen die Emittentinnen keine Verpflichtung, zukunftsbezogene Aussagen oder die Beschreibung der wesentlichen Risiken zu aktualisieren oder zu ergänzen, selbst wenn diese aufgrund neuer Informationen, zukünftiger Ereignisse oder anderen Umstände unrichtig oder irreführend werden.

ALLGEMEINE ANGABEN ÜBER DIE ZÜRCHER KANTONALBANK UND DIE ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

A. Zürcher Kantonalbank

I. Firma, Sitz und Ort der Hauptverwaltung

Die Zürcher Kantonalbank hat ihren Sitz und ihre Hauptverwaltung an der Bahnhofstrasse 9, 8001 Zürich.

II. Gründung, Dauer

Die Gründung der Zürcher Kantonalbank im Jahr 1870 beruht auf dem Bankgesetz von 1869. Die Dauer der Zürcher Kantonalbank ist nicht beschränkt.

III. Rechtsordnung, Rechtsform

Die Zürcher Kantonalbank ist eine selbständige öffentlich-rechtliche Anstalt des Kantons Zürich und unterliegt der Oberaufsicht des Zürcher Kantonsrates. Das Bestehen der Zürcher Kantonalbank basiert auf dem Gesetz über die Zürcher Kantonalbank vom 28. September 1997 ("**Kantonalbankgesetz**"), in Kraft getreten am 1. Januar 1998.

Als Bank untersteht die Zürcher Kantonalbank dem Bundesgesetz über die Banken und Sparkassen vom 8. November 1934, und damit der bankengesetzlichen Aufsicht der FINMA.

Der Kanton Zürich haftet für alle Verbindlichkeiten der Zürcher Kantonalbank, soweit ihre eigenen Mittel nicht ausreichen, mit Ausnahme von nachrangigen Verbindlichkeiten (§ 6 Abs. 1 und 2 Kantonalbankgesetz).

IV. Zweck

Gemäss gesetzlichem Zweckartikel trägt die Zürcher Kantonalbank zur Lösung volkswirtschaftlicher und sozialer Aufgaben im Kanton Zürich bei und unterstützt eine umweltverträgliche Entwicklung. Sie verfolgt eine auf Kontinuität ausgerichtete Geschäftspolitik und befriedigt Anlage- und Finanzierungsbedürfnisse. Dabei berücksichtigt sie insbesondere die Anliegen der kleinen und mittleren Unternehmen, der Arbeitnehmerinnen und Arbeitnehmer, der Landwirtschaft und der öffentlich-rechtlichen Körperschaften. Darüber hinaus fördert die Zürcher Kantonalbank das Wohneigentum sowie den preisgünstigen Wohnungsbau (§ 2 Kantonalbankgesetz).

V. Register

Die Zürcher Kantonalbank ist seit dem 24. April 1883 als öffentlich-rechtliche Anstalt im Handelsregister des Kantons Zürich eingetragen. Die Registernummer der Zürcher Kantonalbank lautet CHE-108.954.607.

VI. Rating

Per Datum dieses Registrierungsformulars lauten die von den Ratingagenturen erteilten Ratings der Zürcher Kantonalbank wie folgt:

Ratingagentur	Datum	langfristig
Standard&Poor's	10. Dezember 2020	AAA
Moody's	26. März 2021	Aaa
FitchRatings	5. Mai 2021	AAA

B. Zürcher Kantonalbank Finance (Guernsey) Limited

I. Firma, Sitz und Ort der Hauptverwaltung

Die Zürcher Kantonalbank Finance (Guernsey) Limited hat ihren Sitz und ihre Hauptverwaltung in Bordage House, Le Bordage, St. Peter Port, Guernsey GY1 1BU, Channel Islands.

II. Gründung, Dauer

Die Zürcher Kantonalbank Finance (Guernsey) Limited wurde am 17. November 2000 gegründet. Die Dauer der Zürcher Kantonalbank Finance (Guernsey) Limited ist nicht beschränkt.

III. Rechtsordnung, Rechtsform

Die Zürcher Kantonalbank Finance (Guernsey) Limited ist eine als "limited liability company" (Gesellschaft mit beschränkter Haftung) ausgestaltete sogenannte "Non-Cellular Company Limited by Shares" nach dem Recht von Guernsey. Das vollständig einbezahlte Aktienkapital beträgt eine Million Schweizer Franken (CHF 1'000'000). Die aktualisierte Gründungsurkunde (Memorandum of Incorporation) und die aktualisierten Statuten (Articles of Incorporation) ("**Statuten**") sind gültig seit 14. März 2012 resp. 19. Oktober 2016. Die ursprünglichen Gründungsdokumente datieren vom 17. November 2000.

Die Zürcher Kantonalbank ist aufgrund eines Keep-Well Agreements verpflichtet, die Zürcher Kantonalbank Finance (Guernsey) Limited finanziell stets so auszustatten, dass diese jederzeit die Ansprüche der Gläubiger termingerecht zu befriedigen vermag.

IV. Zweck

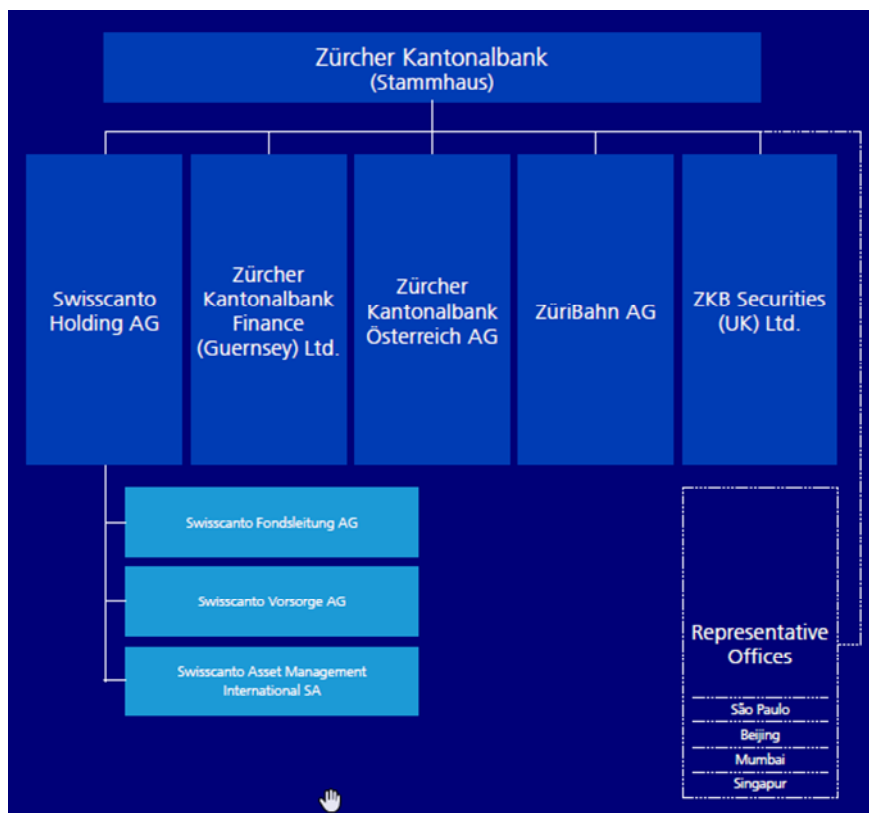
Gemäss dem Memorandum of Incorporation der Zürcher Kantonalbank Finance (Guernsey) Limited ist der Zweck der Gesellschaft unlimitiert (Art. 3 des Memorandum of Incorporation).

V. Register

Die Zürcher Kantonalbank Finance (Guernsey) Limited ist seit dem 17. November 2000 als Non Cellular Company im Guernsey Registry eingetragen. Die Registernummer der Zürcher Kantonalbank Finance (Guernsey) Limited lautet 37610.

C. Konzernstruktur

Die Zürcher Kantonalbank ist die Obergesellschaft verschiedener national und international ausgerichteter Tochtergesellschaften. Die Konzernstruktur gestaltet sich per Datum dieses Registrierungsformulars gemäss der nachfolgenden Darstellung.



Die Swisscanto Holding AG und ihre Tochtergesellschaften Swisscanto Fondsleitung AG, Swisscanto Vorsorge AG und Swisscanto Asset Management International SA, Luxemburg (zusammen "Swisscanto"), gehören zu 100 Prozent direkt bzw. im Fall der Tochtergesellschaften indirekt der Zürcher Kantonalbank. Als ausgewiesene Spezialistin entwickelt Swisscanto qualitativ hochstehende Anlage- und Vorsorgelösungen für private Anleger, Firmen und Institutionen.

Die Zürcher Kantonalbank Österreich AG gehört seit 1. Februar 2010 zu 100 Prozent der Zürcher Kantonalbank und erbringt Anlage- und Vermögensverwaltungsdienstleistungen für private Anleger. Neben dem Hauptsitz in Salzburg unterhält sie eine Niederlassung in Wien und beschäftigt rund 100 Mitarbeitende.

Die ZüriBahn AG ist eine im Sommer 2018 gegründete 100-prozentige Tochtergesellschaft der Zürcher Kantonalbank, die für den geplanten Bau einer Seilbahn über das Seebecken des Zürichsees zwecks Verbindung des rechten und des linken Seeufers zuständig ist.

Die ZKB Guernsey ist eine 100-prozentige Tochtergesellschaft der Zürcher Kantonalbank. Sie emittiert Strukturierte Anlageprodukte.

Die ZKB Securities (UK) Ltd gehört zu 100 Prozent der Zürcher Kantonalbank und agiert als Broker für professionelle Kunden in Grossbritannien und ermöglicht ihnen damit Investitionen in Schweizer Aktien (Equity Brokerage) einschliesslich Investitionen in aktienähnliche Fonds zu tätigen. Zudem wird der Zugang zu Aktienresearch-Publikationen (Sell-Side Research) angeboten.

Schliesslich ist auch die Repräsentanz Zürcher Kantonalbank Representações Ltda. eine Tochtergesellschaft der Zürcher Kantonalbank.

ANGABEN ÜBER VERWALTUNGSRAT, GESCHÄFTSLEITUNG, REVISIONSSTELLE UND WEITERE ORGANE DER ZÜRCHER KANTONALBANK UND DER ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

A. Zürcher Kantonalbank

Die Organe der Zürcher Kantonalbank sind der Bankrat, das Bankpräsidium und die Generaldirektion sowie die Revisionsstelle (§ 14 des Kantonalbankgesetzes). Die Kompetenzen zwischen Bankrat, Bankpräsidium, Generaldirektion und Revisionsstelle sind im Kantonalbankgesetz (§ 15 – § 18) und im Reglement über die Organisation des Konzerns der Zürcher Kantonalbank vom 23. Juni 2011 (§ 29 – § 37, § 39) geregelt. Die kantonale Oberaufsicht über die Zürcher Kantonalbank hat der Kantonsrat des Kantons Zürich. Zur Wahrnehmung dieser Oberaufsicht bestellt der Kantonsrat gemäss § 12 des Kantonalbankgesetzes die Kommission für die Aufsicht über die wirtschaftlichen Unternehmen (AWU).

Die Aufsicht gemäss Bankengesetz dagegen obliegt wie bei jeder anderen Bank ausschliesslich und uneingeschränkt der FINMA.

Die wichtigsten Kompetenzen der einzelnen Organe der Zürcher Kantonalbank sowie der kantonsrätlichen Kommission können dem Corporate Governance-Bericht der Zürcher Kantonalbank für das Geschäftsjahr 2020, der mittels Verweis in dieses Registrierungsformular einbezogen wurde (vgl. den Abschnitt "Einbezug mittels Verweis" nachstehend), entnommen werden.

I. Bankrat

Der Bankrat der Zürcher Kantonalbank setzt sich per Datum dieses Registrierungsformulars wie folgt zusammen:

Name	Funktion	Dauer
Dr. Jörg Müller-Ganz	Präsident Mitglied des Bankrats	seit 1. Juli 2011 seit 1. Juli 2007
Dr. János Blum	Vize-Präsident Mitglied des Bankrats	seit 1. Juli 2011 seit 6. Mai 2002
Roger Liebi	Vize-Präsident Mitglied des Bankrats	seit 1. Juli 2011 seit 1. Juli 2018
Amr Abdelaziz	Mitglied des Bankrats	seit 1. Juli 2015
Dr. Adrian Bruhin	Mitglied des Bankrats	seit 1. November 2020
Dr. Bettina Furrer	Mitglied des Bankrats	seit 1. Juli 2019
René Huber	Mitglied des Bankrats	seit 1. November 2014

Henrich Kisker	Mitglied des Bankrats	seit 1. Juli 2015
Mark Roth	Mitglied des Bankrats	seit 1. September 2013
Peter Ruff	Mitglied des Bankrats	seit 1. Juli 2011
Walter Schoch	Mitglied des Bankrats	seit 1. Juli 2015
Anita Sigg	Mitglied des Bankrats	seit 1. Juli 2011
Stefan Wirth	Mitglied des Bankrats	seit 1. Juli 2011

Die Geschäftsadresse aller Mitglieder des Bankrats ist an der Bahnhofstrasse 9 in 8001 Zürich.

II. Bankpräsidium

Das Bankpräsidium der Zürcher Kantonalbank setzt sich per Datum dieses Registrierungsformulars wie folgt zusammen:

Name	Funktion	Dauer
Dr. Jörg Müller-Ganz	Präsident	seit 1. Juli 2011
Dr. János Blum	Vize-Präsident	seit 1. Juli 2011
Roger Liebi	Vize-Präsident	seit 1. Juli 2019

Die Geschäftsadresse aller Mitglieder des Bankpräsidiums ist an der Bahnhofstrasse 9 in 8001 Zürich.

III. Generaldirektion

Die Generaldirektion der Zürcher Kantonalbank setzt sich per Datum dieses Registrierungsformulars wie folgt zusammen:

Name	Funktion	Dauer
Martin Schöll	Vorsitzender der Generaldirektion (CEO) Mitglied der Generaldirektion	seit 1. Juni 2007 seit 1. Januar 2002
Dr. Stephanino Isele	Stellvertretender CEO Leiter Institutionals & Multinationals, Mitglied der Generaldirektion	seit 1. Mai 2021 seit 1. April 2014
Dr. Jürg Bühlmann	Leiter Firmenkunden Mitglied der Generaldirektion	seit 1. Juli 2012
Heinz Kunz	Spezialmandate Mitglied der Generaldirektion	seit 1. Januar 2011
Florence Schnydrig Moser	Leiterin Private Banking Mitglied der Generaldirektion	seit 1. Januar 2021

Roger Müller	Leiter Risk Mitglied der Generaldirektion	seit 1. Januar 2014
Daniel Previdoli	Leiter Products, Services & Directbanking Mitglied der Generaldirektion	seit 1. Dezember 2007
Remo Schmidli	Leiter IT, Operations & Real Estate Mitglied der Generaldirektion	seit 1. Juli 2019
Rudolf Sigg	Leiter Finanz Mitglied der Generaldirektion	seit 27. November 2008

Die Geschäftsadresse von Martin Scholl, Florence Schnydrig Moser, Dr. Jürg Bühlmann und Heinz Kunz ist an der Bahnhofstrasse 9 in 8001 Zürich. Die Geschäftsadresse von Daniel Previdoli und Remo Schmidli ist an der Neue Hard 11 und 9 in 8005 Zürich. Die Geschäftsadresse von Dr. Stephanino Isele, Roger Müller und Rudolf Sigg ist an der Josefstr. 222 in 8005 Zürich.

IV. Kantonsrätliche Kommission

Die Kommission für die Aufsicht über die wirtschaftlichen Unternehmen (AWU) setzt sich per Datum dieses Registrierungsformulars wie folgt zusammen:

Name	Funktion
André Bender, SVP, Oberengstringen	Präsidium
Isabel Bartal, SP, Zürich	Mitglied
Carola Etter, FDP, Winterthur	Mitglied
Astrid Furrer, FDP, Wädenswil	Mitglied
Hanspeter Göldi, SP, Meilen	Mitglied
Barbara Günthard Fitze, EVP, Winterthur	Mitglied
Daniel Heierli, Grüne, Zürich	Mitglied
Stefanie Huber, GLP, Dübendorf	Mitglied
Thomas Lamprecht, EDU, Bassersdorf	Mitglied
Benjamin Walder, Grüne, Wetzikon	Mitglied
Orlando Wyss, SVP, Dübendorf	Mitglied

V. Revisionsstelle / Konzernprüfer

Als (externe) aktienrechtliche und bankengesetzliche Revisionsstelle und Konzernprüfer amtiert per Datum dieses Registrierungsformulars die Ernst & Young AG, Maagplatz 1, 8005 Zürich (seit 1989).

Das Revisionsorgan wird gemäss § 11 und § 18 des Kantonalbankgesetzes vom Kantonsrat jeweils für eine zweijährige Amtsdauer gewählt, muss von der FINMA anerkannt sein und ist im Register der für das

Revisionsorgan zuständigen Eidgenössischen Revisionsaufsichtsbehörde (RAB) eingetragen. Am 15. Juni 2020 bestätigte der Kantonsrat die Wahl der Ernst & Young AG als Revisionsorgan für die Jahre 2021 und 2022.

B. Zürcher Kantonalbank Finance (Guernsey) Limited

Das für die Leitung und Kontrolle der Zürcher Kantonalbank Finance (Guernsey) Limited zuständige Organ ist der Verwaltungsrat (Board of Directors).

Der Verwaltungsrat trägt die Verantwortung für alle Angelegenheiten, die nicht durch Gesetz, Statuten oder Reglement einem anderen Organ der Gesellschaft übertragen sind. Als oberstes Leitungsorgan trifft er die grundlegenden Entscheidungen für die ZKB Guernsey und ist berechtigt, die erforderlichen Weisungen zu erteilen. Der Verwaltungsrat bestimmt die Organisationsstruktur der ZKB Guernsey, die Struktur der Buchhaltungsabteilung, die Finanzkontrollen und die Finanzplanung, die für die Leitung der ZKB Guernsey erforderlich sind. Er ernennt auch die für die Leitung und Vertretung der Gesellschaft verantwortlichen Personen. Darüber hinaus beaufsichtigt der Verwaltungsrat die mit der Leitung der Gesellschaft betrauten Personen, insbesondere im Hinblick auf die Einhaltung der Gesetze und Vorschriften. Er kann auch die mit der Geschäftsführung betrauten Personen abberufen.

Der Verwaltungsrat erstellt den Jahresbericht (Jahresbericht und Jahresrechnung) und bereitet die Generalversammlung vor, an welcher er dieser seine Vorschläge für die langfristigen Ziele der ZKB Guernsey und die zu deren Erreichung erforderlichen Massnahmen zur Genehmigung unterbreitet.

I. Verwaltungsrat

Der Verwaltungsrat der Zürcher Kantonalbank Finance (Guernsey) Limited setzt sich per Datum dieses Registrierungsformulars wie folgt zusammen:

Name	Funktion	Hintergrund
Felix Oegerli	Präsident	Delegierter der Zürcher Kantonalbank, Zürich
Samuel Stadelmann	Vizepräsident	Delegierter der Zürcher Kantonalbank, Zürich
John William Renouf	Mitglied	Unabhängiger Berater, Guernsey
Richard Duchemin	Mitglied	Executive Director der Zürcher Kantonalbank Finance (Guernsey) Limited

Die Geschäftsadresse von Felix Oegerli und Samuel Stadelmann ist an der Josefstr. 222 in 8005 Zürich. Die Geschäftsadresse von John William Renouf ist Deo Juvante, Castel, Guernsey GY5 7TJ. Die Geschäftsadresse von Richard Duchemin ist Bordage House, Le Bordage, St. Peter Port, Guernsey GY1 1BU.

II. Geschäftsführer / Chief Executive Officer

Der Verwaltungsrat hat die Geschäftsführung und Vertretung der ZKB Guernsey an einen Direktor, der das Amt des Geschäftsführers ausübt, delegiert.

Der Geschäftsführer trägt die Gesamtverantwortung für die Leitung und Überwachung der Geschäfte der ZKB Guernsey. Er führt das Tagesgeschäft und vertritt das Unternehmen nach aussen. Er nimmt seine Aufgaben vor Ort in Guernsey wahr. Er kann einzelne Aufgaben an externe Dienstleister und/oder an die Muttergesellschaft

delegieren, behält aber die Verantwortung dafür. Eine solche Delegation, die in einem Vertrag festgelegt werden muss, bedarf der Zustimmung des Verwaltungsrates. Der Geschäftsführer wird vom Verwaltungsrat ernannt und kann von diesem abberufen werden.

Der Geschäftsführer der Zürcher Kantonalbank Finance (Guernsey) Limited per Datum dieses Registrierungsformulars ist:

Name	Funktion
Richard Duchemin	Chief Executive Officer

III. Leiter Finanzen / Chief Financial Officer

Die ZKB Guernsey hat einen CFO eingestellt, der den Geschäftsführer als Spezialist in den Themen Finanzbuchhaltung und Berichterstattung unterstützt. Der CFO untersteht direkt dem Geschäftsführer und im Rahmen der Konzernführung und Berichterstattung der Abteilung Finanzbuchhaltung der Zürcher Kantonalbank.

Der CFO kann einzelne Aufgaben delegieren, behält aber die Verantwortung für die Erfüllung dieser Aufgaben.

Der CFO der Zürcher Kantonalbank Finance (Guernsey) Limited per Datum dieses Registrierungsformulars ist:

Name	Funktion
Alex Margison	Chief Financial Officer

IV. Revisionsgesellschaft

Als Revisionsgesellschaft amtiert per Datum dieses Registrierungsformulars die Ernst & Young LLP, Royal Chambers, St Julian's Avenue, St. Peter Port, Guernsey GY1 4AF, Channel Islands (seit dem 17. November 2000).

Ernst & Young LLP ist vom Institute of Chartered Accountants in England und Wales autorisiert und reguliert, und ist als vorgeschriebenes Unternehmen bei der Guernsey Financial Services Commission registriert.

GESCHÄFTSTÄTIGKEIT DER ZÜRCHER KANTONALBANK UND DER ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

A. Zürcher Kantonalbank (Konzernobergesellschaft)

Die Zürcher Kantonalbank ist eine Konzernobergesellschaft, weshalb die nachfolgenden Angaben über die Geschäftstätigkeit konzernweit auf konsolidierter Basis erfolgen.

I. Haupttätigkeit

Die Zürcher Kantonalbank tätigt die Geschäfte einer Universalbank. Sie schliesst keine Eigengeschäfte ab, bei denen unverhältnismässige Risiken eingegangen werden. Sie betreibt eine Pfandleihkasse.

Der Geschäftsbereich umfasst in geografischer Hinsicht in erster Linie den Wirtschaftsraum Zürich. Geschäfte in der übrigen Schweiz und im Ausland sind zulässig, sofern der Zürcher Kantonalbank und ihren Tochtergesellschaften daraus keine unverhältnismässigen Risiken erwachsen und dadurch die Befriedigung der Geld- und Kreditbedürfnisse im Kanton Zürich nicht beeinträchtigt wird.

Die Einzelheiten der Geschäftstätigkeit werden durch das Organisationsreglement geregelt. Zudem können weitere Einzelheiten zur Geschäftstätigkeit der Zürcher Kantonalbank und ihrer Tochtergesellschaften dem Lagebericht der Zürcher Kantonalbank, der mittels Verweis in dieses Registrierungsformular einbezogen wurde (vgl. den Abschnitt "Einbezug mittels Verweis" nachstehend), entnommen werden.

II. Spezieller Leistungsauftrag

Der im Kantonalbankgesetz geregelte Leistungsauftrag des Kantons Zürich an die Zürcher Kantonalbank besteht aus dem Versorgungsauftrag, dem Unterstützungsauftrag und dem Nachhaltigkeitsauftrag.

III. Versorgungsauftrag

Die ZKB versorgt die Bevölkerung und Wirtschaft mit den Dienstleistungen einer Universalbank. Diese umfassen Zahlungsverkehr, Sparen, Anlegen, Finanzieren, Vorsorge, Finanzplanung, Steuern und Nachfolge. Dabei berücksichtigt die ZKB insbesondere die Anliegen der kleinen und mittleren Unternehmen, der Arbeitnehmerinnen und Arbeitnehmer, der Landwirtschaft und der öffentlich-rechtlichen Körperschaften. Zudem fördert die ZKB das Wohneigentum und den preisgünstigen Wohnungsbau. Sie bietet ein breites Spektrum von Produkten an. Dazu gehören auch Dienstleistungen, die nicht zum Geschäft von herkömmlichen Universalbanken zählen. Den Kundinnen und Kunden wird auf allen Kanälen, ob physisch oder digital, ein ausgezeichnetes Kundenerlebnis geboten.

IV. Unterstützungsauftrag

Der Unterstützungsauftrag verpflichtet die ZKB, den Kanton bei der Lösung von wirtschaftlichen und sozialen Aufgaben zu unterstützen. Heutzutage findet die Unterstützung insbesondere in Form von Engagements im Sponsoringbereich statt. Mit diesen Engagements wird angestrebt, die natürlichen Lebensgrundlagen zu schützen, den gesellschaftlichen Zusammenhalt zu wahren und die Wettbewerbsfähigkeit des Wirtschaftsraums Zürich zu stärken.

Deshalb setzt sich die ZKB für die Beziehung zu Natur und Tierwelt wie auch für die nachhaltige Mobilität, kulturelle Vielfalt und Chancengleichheit, für Innovation und Unternehmertum ein. Details zu diesen Aktivitäten finden Sie unter www.zkb.ch/sponsoring. Zudem ist die ZKB einer der grössten Lehrbetriebe und eine bedeutende Arbeitgeberin im Kanton.

V. Nachhaltigkeitsauftrag

Die ZKB verfolgt eine auf Nachhaltigkeit und Kontinuität ausgerichtete Geschäftspolitik, die Wirtschaft, Umwelt und Gesellschaft in Einklang bringt. Nachhaltigkeit bildet eine integrierte Dimension des Geschäftsmodells der ZKB. Das bedeutet, dass die ZKB bei ihren Aktivitäten ökologische, soziale und ökonomische Kriterien miteinbezieht und ihre Tätigkeit an den 17 Zielen der Vereinten Nationen für eine nachhaltige Entwicklung (Sustainable Development Goals, SDG) ausrichtet.

Die grösste Hebelwirkung liegt bei den Produkten und Dienstleistungen. So fördert die ZKB die Nachhaltigkeit bei Finanzierungen und Anlagen. Des Weiteren erfolgt das Engagement über Mitgliedschaften, Beteiligungen und Sponsoring-Engagements sowie in der Umsetzung im Bankbetrieb.

VI. Gerichts-, Schieds- und Administrativverfahren

Per Datum dieses Registrierungsformulars sind nach Kenntnis der Organe der Zürcher Kantonalbank keine Gerichts-, Schieds- oder Administrativverfahren angedroht oder hängig, die von wesentlicher Bedeutung für die Vermögens- oder Ertragslage der Zürcher Kantonalbank sind.

B. Zürcher Kantonalbank Finance (Guernsey) Limited

I. Haupttätigkeit

Die Zürcher Kantonalbank Finance (Guernsey) Limited begibt strukturierte Anlageprodukte und verkauft diese an die Zürcher Kantonalbank, welche sie im Markt platziert.

II. Gerichts-, Schieds- und Administrativverfahren

Per Datum dieses Registrierungsformulars sind nach Kenntnis der Organe der Zürcher Kantonalbank bzw. der Zürcher Kantonalbank Finance (Guernsey) Limited keine Gerichts-, Schieds- oder Administrativverfahren angedroht oder hängig, die von wesentlicher Bedeutung für die Vermögens- oder Ertragslage der Zürcher Kantonalbank Finance (Guernsey) Limited sind.

C. Angaben über die wesentlichen Geschäftsaussichten der Zürcher Kantonalbank und ihrer Tochtergesellschaften

Für Angaben über die wesentlichen Geschäftsaussichten der Zürcher Kantonalbank und ihrer Tochtergesellschaften wird auf den Teil "Lagebericht" (S. 26–101) des mittels Verweis in dieses Registrierungsformular aufgenommenen Geschäftsberichts 2020 der Zürcher Kantonalbank (vgl. den Abschnitt "Einbezug mittels Verweis" nachstehend) verwiesen. Es wird darauf hingewiesen, dass die Angaben im Lagebericht zu den wesentlichen Geschäftsaussichten der Zürcher Kantonalbank und ihrer Tochtergesellschaften mit Unsicherheit behaftet sind.

KAPITAL UND STIMMRECHTE DER EMITTENTINNEN UND ALLFÄLLIGER GARANTIE- ODER SICHERHEITENGEBER

A. Zürcher Kantonalbank

I. Kapitalstruktur

Das Gesellschaftskapital der Zürcher Kantonalbank besteht ausschliesslich aus dem Dotationskapital (§ 4 Kantonalbankgesetz) und beträgt derzeit 2'425 Mio. CHF. Das Dotationskapital wird der Zürcher Kantonalbank vom Kanton Zürich unbefristet zur Verfügung gestellt. Der Kantonsrat entschied per 2. November 2020, den zeitlich unbefristeten Dotationskapitalrahmen um 425 Mio. CHF auf 3'425 Mio. CHF zu erhöhen. Das durch den Kantonsrat bewilligte und noch nicht abgerufene Dotationskapital in der Höhe von CHF 1'000 Millionen wurde durch Beschluss des Bankrats vollumfänglich für die Notfallplanung der Bank reserviert und wird an die Gone-concern-Kapitalkomponente angerechnet. Die Dotationskapitalreserve kann demzufolge nur noch auf Anordnung der FINMA oder eines von dieser eingesetzten Sanierungsbeauftragten abgerufen werden. Weitere eigene Mittel beschafft sich die Zürcher Kantonalbank durch die Äufnung von Reserven sowie durch Aufnahme von nachrangigen Verbindlichkeiten (§ 5 Kantonalbankgesetz).

II. Ausstehende Wandel- und Optionsrechte und Anleihen

Per Stichtag des Jahresabschlusses für das Geschäftsjahr 2020 hatte die Zürcher Kantonalbank keine Wandel- oder Optionsrechte ausstehend.

Per Stichtag des Jahresabschlusses für das Geschäftsjahr 2020 hatte die Zürcher Kantonalbank Kassenobligationen mit einem Gesamtnennwert von CHF 158 Mio. (2019: CHF 143 Mio.), Obligationsanleihen mit einem Gesamtnennwert von CHF 25'385 Mio. (2019: CHF 13'329 Mio.) sowie Pfandbriefdarlehen mit einem Gesamtnennwert von CHF 10'743 Mio. (2019: CHF 9'778 Mio.) ausstehend.

III. Eigene Beteiligungspapiere

Per Stichtag des Jahresabschlusses für das Geschäftsjahr 2020 und per Datum dieses Registrierungsformulars hielt weder die Zürcher Kantonalbank noch eine ihrer Tochtergesellschaften eigene Beteiligungspapiere.

B. Zürcher Kantonalbank Finance (Guernsey) Limited

Die Zürcher Kantonalbank Finance (Guernsey) Limited ist eine juristische Person, deren Zweck unlimitiert ist, insbesondere aber die Ausgabe von Finanzinstrumenten bezweckt. Bei der Zürcher Kantonalbank Finance (Guernsey) Limited handelt es sich damit um eine sog. Sonderzweckgesellschaft (Special Purpose Vehicle) nach Art. 96 Abs. 2 FIDLEV, dessen Garantie- oder Sicherheitengeber (die Zürcher Kantonalbank) ein Institut nach Art. 70 Abs. 1 FIDLEG ist. Es wird daher an dieser Stelle auf die Angaben zur Zürcher Kantonalbank verwiesen.

ABSCHLÜSSE DER ZÜRCHER KANTONALBANK UND DER ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

A. Zürcher Kantonalbank

I. Jahresabschlüsse und damit im Zusammenhang stehende Dokumente

Der mittels Verweis in dieses Registrierungsformular einbezogene Teil "Finanzbericht" für die Geschäftsjahre 2019 und 2020 der Zürcher Kantonalbank (vgl. den Abschnitt "Einbezug mittels Verweis" nachstehend) enthält unter anderem die vom zuständigen Revisionsorgan geprüfte konsolidierte Jahresrechnung inkl. Revisionsstellenbericht der Zürcher Kantonalbank. Zusätzlich enthält der Finanzbericht den Einzelabschluss der Zürcher Kantonalbank (Stammhaus) inkl. dem dazugehörigen Revisionsstellenbericht.

Die konsolidierte Jahresrechnung der Zürcher Kantonalbank umfasst die Abschlüsse des Stammhauses der Zürcher Kantonalbank und der direkt und indirekt gehaltenen wesentlichen Tochtergesellschaften, an denen die Bank Beteiligungen von mehr als 50 Prozent am stimmberechtigten Kapital hält oder die auf eine andere Weise beherrscht werden. Die Darstellung der Konzernrechnung richtet sich nach der wirtschaftlichen Betrachtungsweise. Die Einzelabschlüsse der Konzerngesellschaften basieren auf einheitlichen, konzernweit gültigen Rechnungslegungsstandards.

II. Wesentliche Veränderungen seit dem letzten Jahresabschluss

Seit dem Jahresabschluss für das Geschäftsjahr 2020 haben sich keine wesentlichen Veränderungen in der Vermögens-, Finanz- und Ertragslage der Zürcher Kantonalbank ergeben.

B. Zürcher Kantonalbank Finance (Guernsey) Limited

I. Jahresabschlüsse und damit im Zusammenhang stehende Dokumente

In Anlage 1 befinden sich die Jahresabschlüsse der Zürcher Kantonalbank Finance (Guernsey) Limited für die Geschäftsjahre 2019 (Anlage 1A) und 2020 (Anlage 1B), welche jeweils auch den Revisionsstellenbericht enthalten.

II. Wesentliche Veränderung seit dem letzten Jahresabschluss

Seit dem Jahresabschluss für das Geschäftsjahr 2020 haben sich keine wesentlichen Veränderungen in der Vermögens-, Finanz- und Ertragslage der Zürcher Kantonalbank Finance (Guernsey) Limited ergeben.

EINBEZUG DURCH VERWEIS

Die folgenden Dokumente werden mittels Verweis in dieses Registrierungsformular aufgenommen und bilden einen Teil davon (die "Verweisdokumente"). Nur die Teile der Verweisdokumente, die in der nachstehenden Tabelle aufgeführt sind, werden in das Registrierungsformular aufgenommen und bilden Bestandteil dieses Registrierungsformulars. Die anderen Teile der Verweisdokumente, die nicht in der nachstehenden Tabelle aufgeführt sind, gelten ausdrücklich als nicht in das Registrierungsformular aufgenommen und bilden nicht Bestandteil des Registrierungsformulars.

Dokument	Per Verweis einbezogene Information	Ort der Veröffentlichung
Geschäftsbericht 2019 der Zürcher Kantonalbank	Teile "Lagebericht" (S. 20–61), "Corporate Governance" (S. 63–81), "Finanzbericht" (S. 94–185) und "Glossar" (S. 186–189)	https://www.zkb.ch/de/uu/nb/investor-relations/jahresbericht.html
Geschäftsbericht 2020 der Zürcher Kantonalbank	Teile "Lagebericht" (S. 26–101), "Corporate Governance" (S. 103–123), "Finanzbericht" (S. 136–233) und "Glossar" (S. 234–237)	https://www.zkb.ch/de/uu/nb/investor-relations/jahresbericht.html

VERANTWORTUNG FÜR DAS REGISTRIERUNGSFORMULAR

A. Zürcher Kantonalbank

Die Zürcher Kantonalbank übernimmt die Verantwortung für die in diesem Registrierungsformular enthaltenen Angaben. Die Zürcher Kantonalbank erklärt, dass ihres Wissens die Angaben in diesem Dokument richtig sind und keine Auslassungen vorgenommen wurden, die die Aussage dieses Dokuments verändern können.

B. Zürcher Kantonalbank Finance (Guernsey) Limited

Die Zürcher Kantonalbank Finance (Guernsey) Limited übernimmt die Verantwortung für die in diesem Registrierungsformular in Bezug auf die Zürcher Kantonalbank Finance (Guernsey) Limited enthaltenen Angaben. Die Zürcher Kantonalbank Finance (Guernsey) Limited erklärt, dass ihres Wissens die Angaben in diesem Dokument richtig sind und keine Auslassungen vorgenommen wurden, die die Aussage dieses Dokuments verändern können.

**ZÜRCHER KANTONALBANK FINANCE
(GUERNSEY) LIMITED**

ANNUAL REPORT & AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2019

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

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ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

COMPANY INFORMATION

Directors	<p>F O Oegerli, Chairman (i) S Stadelmann, Vice Chairman (i) P D H Hodgson (resigned 31 October 2019) R S Duchemin (appointed 31 October 2019) J W Renouf (ii)</p> <p>(i) Member of Audit Committee (ii) Chairman of Audit Committee</p>
Secretary	<p>Alter Domus (Guernsey) Limited (appointed 30 September 2019) Butterfield Management Services (Guernsey) Limited (resigned 30 September 2019)</p>
Registered office	<p>Bordage House Le Bordage St Peter Port Guernsey GY1 1BU</p>
Auditor	<p>Ernst & Young LLP Royal Chambers St Julian's Avenue St Peter Port Guernsey GY1 4AF</p>
Bankers	<p>Zürcher Kantonalbank Bahnhofstrasse 9 PO Box 8010 Zürich Switzerland</p> <p>NatWest International PO Box 62 Royal Bank Place 1 Gategny Esplanade St Peter Port Guernsey GY1 4BQ</p>
Custodian	<p>Zürcher Kantonalbank Bahnhofstrasse 9 PO Box 8010 Zürich Switzerland</p>

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements for the year ended 31 December 2019.

Activities

The principal activity of Zürcher Kantonalbank Finance (Guernsey) Limited ("the Company") is to carry on business as a finance company and to borrow or raise money by the issue of financial instruments of whatsoever nature.

Results

The results of the Company are shown in the Statement of Comprehensive Income on page 5.

Dividend

The Directors do not recommend the payment of a dividend.

Directors

The Directors of the Company are those listed in the Company Information.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting principles.

Guernsey company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.


Going concern

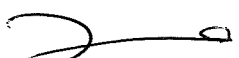
The Directors have assessed the potential impact of the Covid-19 global pandemic on the Company, and consider that the Company has adequate financial resources and believe that the Company has adopted appropriate measures to ensure that it can continue in operational existence for the foreseeable future. As such the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Auditor

A resolution to reappoint Ernst & Young LLP as auditor will be put to the members at the Annual General Meeting.

For and on behalf of the Board:



Director

Director

19 March 2020

Date

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

Opinion

We have audited the financial statements of Zürcher Kantonalbank Finance (Guernsey) Limited (the "Company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of the results for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.


Ernst & Young LLP
Guernsey, Channel Islands

Date: 19 March 2020

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	Year ended 31 December 2019		Year ended 31 December 2018	
		CHF	CHF	CHF	CHF
Net trading income	6		16,091,130		11,085,356
Operating expenses	7		(11,225,467)		(12,303,986)
Operating profit			<u>4,865,663</u>		<u>(1,218,630)</u>
Finance income		190		236	
Finance costs		(2,721)		-	
			<u>(2,531)</u>		<u>236</u>
Net comprehensive income/(loss) for the financial year			<u><u>4,863,132</u></u>		<u><u>(1,218,394)</u></u>

All of the items in the above are derived from continuing operations.

There were no other comprehensive income items in the period.

The notes on pages 9 to 28 form part of these financial statements.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	31 December 2019 CHF	31 December 2018 CHF
Assets			
Non-current assets			
Right-of-use assets	12	304,878	-
Total non-current assets		<u>304,878</u>	<u>-</u>
Current assets			
Cash, amounts due from banks, money at call	13	54,655,711	60,031,606
Financial assets at fair value through profit or loss			
Securities held for trading	8	1,385,114,812	1,456,768,432
Derivative financial instruments	8, 9	27,425,409	17,468,859
Accrued interest receivable and prepayments		9,137,206	9,540,952
Total current assets		<u>1,476,333,138</u>	<u>1,543,809,849</u>
Total assets		<u><u>1,476,638,016</u></u>	<u><u>1,543,809,849</u></u>
Liabilities			
Non-current liabilities			
Lease liabilities	14	277,822	-
Total Non-current liabilities		<u>277,822</u>	<u>-</u>
Current liabilities			
Amounts due to banks	13	48,593,322	41,294,977
Lease liabilities	14	57,337	-
Financial liabilities at fair value through profit or loss			
Structured products	8	1,285,066,091	1,230,161,103
Derivative financial instruments	8, 9	34,745,834	168,892,359
Accrued interest payable and accrued expenses		1,284,324	1,711,256
Total Current liabilities		<u>1,369,746,908</u>	<u>1,442,059,695</u>
Equity			
Share capital	16	1,000,000	1,000,000
Retained earnings		105,613,286	100,750,154
Total equity		<u>106,613,286</u>	<u>101,750,154</u>
Total liabilities and equity		<u><u>1,476,638,016</u></u>	<u><u>1,543,809,849</u></u>

The financial statements on pages 5 to 28 were approved by the Board of Directors on 19 March 2020 and are signed on its behalf by:



Director



Director

The notes on pages 9 to 28 form part of these financial statements.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED
 STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 December 2019

	Share capital CHF	Retained earnings CHF	Total equity CHF
At 1 January 2018	1,000,000	101,968,548	102,968,548
Net comprehensive loss for the financial year	-	(1,218,394)	(1,218,394)
Balance at 31 December 2018	<u>1,000,000</u>	<u>100,750,154</u>	<u>101,750,154</u>
At 1 January 2019	1,000,000	100,750,154	101,750,154
Net comprehensive income for the financial year	-	4,863,132	4,863,132
Balance at 31 December 2019	<u>1,000,000</u>	<u>105,613,286</u>	<u>106,613,286</u>

The notes on pages 9 to 28 form part of these financial statements.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Note	Year ended 31 December 2019 CHF	Year ended 31 December 2018 CHF
Operating activities			
Net comprehensive income for the financial year		4,863,132	(1,218,394)
Adjustments for:			
Depreciation of right-of-use assets	12	23,185	-
Revaluation of lease liabilities	12	18,035	-
Finance income		(190)	(236)
Finance costs		2,721	-
Adjustment for changes in working capital:			
Decrease / (increase) in accrued interest receivable and prepayments		403,746	(483,685)
Decrease in securities held for trading, designated at fair value through profit or loss		71,653,620	27,010,929
Increase / (decrease) in structured product financial liabilities held at fair value through profit or loss		54,904,988	(152,071,046)
(Increase) / decrease in derivative financial instruments held at fair value through profit or loss		(144,103,075)	133,807,861
Decrease in accrued interest payable and accrued expenses		(426,932)	(86,769)
		(12,660,770)	6,958,660
Interest received		190	236
Net cash (outflows)/inflows from operating activities		(12,660,580)	6,958,896
Financing activities			
Payment of principal portion of lease liabilities	12	(13,660)	-
Net cash outflows from financing activities		(13,660)	-
Net (decrease)/increase in cash and cash equivalents		(12,674,240)	6,958,896
Net cash and cash equivalents at 1 January		18,736,629	11,777,733
Net cash and cash equivalents at 31 December	13	<u>6,062,389</u>	<u>18,736,629</u>

The notes on pages 9 to 28 form part of these financial statements.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 Corporate information

Zürcher Kantonalbank Finance (Guernsey) Limited is a finance company and borrows or raises money by the issue of financial instruments of whatsoever nature. The Company was incorporated and is registered in Guernsey with the registered office being at Bordage House, Le Bordage, St Peter Port, Guernsey, GY1 1BU.

2 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company.

2 a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation to fair value through profit or loss of derivative financial instruments, over-the-counter ("OTC") options, securities, term deposits with banks and financial liabilities and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

2 b) Going concern

The Company's financial position, its cash flows and liquidity position are set out in the financial statements. In addition, note 11 to the financial statements includes the Company's risk management and policies, details of its financial instruments, its exposures to credit risk and liquidity risk and its objectives, policies and processes for managing its capital. Based on the review of the 2020 and 2021 financial forecasts, and having assessed the potential impact of the Covid-19 global pandemic on the Company, the Directors consider that the Company has adequate financial resources and believe that the Company has adopted appropriate measures to ensure that it can continue in operational existence for the foreseeable future. As such the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

2 c) Financial instruments

2 c) (i) Classification

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a designated and effective hedging instrument).

2 c) (i) (1) Financial assets

The Company classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The Company's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

Financial assets measured at amortised cost

A financial instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company includes in this category short-term non-financing receivables including accrued interest receivable and prepayments.

Financial assets measured at fair value through profit or loss ("FVTPL")

A financial asset is measured at FVTPL if:

- Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding; or
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- At initial recognition, it is irrevocably designated as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Company includes in this category:

- Equity instruments: these include investments in listed equities;
- Debt instruments: these include investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains; and
- Instruments held for trading: this includes equity instruments and debt instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative contracts in an asset position.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Significant accounting policies (continued)

2 c) (i) (2) Financial liabilities

Financial liabilities measured at FVTPL

A financial liability is measured at FVTPL if it meets the definition of held for trading.

The Company includes in this category derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Company includes in this category bank overdrafts and other short-term payables.

2 c) (ii) Recognition

The Company recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

2 c) (iii) Initial measurement

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as at FVTPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

2 c) (iv) Subsequent measurement

After initial measurement, the Company measures financial instruments which are classified as at FVTPL at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVTPL in the statement of comprehensive income as part of net trading income (see note 6). Interest and dividends earned or paid on these instruments are recorded in the statement of comprehensive income as part of net trading income (see note 6).

Debt instruments, other than those classified as at FVTPL, are measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the debt instruments are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at FVTPL, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

The effective interest method (EIR) is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instruments, but does not consider expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2 c) (v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Company has:

- Transferred substantially all of the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Significant accounting policies (continued)

2 d) Impairment of financial assets

The Company holds only trade receivables with no financing component and which are due in less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under IFRS 9 to all its trade receivables. Therefore, the Company does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date.

The Company's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company uses the provision matrix as a practical expedient to measuring ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

2 e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

2 f) Fair value measurement

The Company measures its investments in financial instruments, such as equity instruments, debt instruments, other interest bearing investments and derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

For assets and liabilities that are measured at fair value on a recurring basis, the Company identifies transfers between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole), and deems transfers to have occurred at the beginning of each reporting period.

2 g) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2 g) (i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office premises 6 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflect the exercise of a purchase option, depreciation is calculated using the estimates useful life of the asset.

The right-of-use assets are also subject to impairment (see note 2 h)).¹

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Significant accounting policies (continued)

2 g) (ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchased option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in interest-bearing loans and borrowings (see note 14).

2 h) Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash generating unit's ("CGU") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of any asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

2 i) Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the Company operates. The majority of the Company's transactions are in Swiss francs, the performance is evaluated and its liquidity is managed in Swiss francs, and the functional currency of its parent entity is Swiss francs. Therefore, the Company concludes that the Swiss franc is its functional currency.

The Company's presentation currency is also the Swiss franc.

2 j) Foreign currency translations

Transactions during the period, including purchases and sales of financial instruments, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at FVTPL are included in profit or loss in the statement of comprehensive income as part of net trading income (see note 6).

2 k) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less. Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Significant accounting policies (continued)

2 l) Investment income

Investment income comprises of interest receivable on the maturity of the Company's term deposits with banks. Interest income is recognised as it accrues and is included in the statement of comprehensive income.

2 m) Net trading income

Net trading income is comprised of gains and losses arising on the purchase, sale and revaluation of financial assets and liabilities at FVTPL, along with gains and losses arising on the revaluation and impairment of financial assets and liabilities held at amortised cost.

2 n) Operating expenses

Fees are recognised on an accrual basis. Refer to note 7 for details of administration fees, audit fees, Directors' fees and parent company service costs.

3 Changes in accounting policies and disclosures

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019.

The nature and the impact of each new standard and amendment is described below:

3 a) (i) Effect of first time adoption of IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

As the Company had no contracts which fell within the scope of IAS 17 and IFRIC 4 in prior years it has elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease. The Company adopted IFRS 16, with the date of initial application of 1 January 2019 and applied it to the lease which was entered during the year. The adoption of IFRS 16 in the current year has had no impact on any prior period figures.

3 a) (ii) Impact of adoption of IFRS 16

The effect of adopting IFRS 16 is as follows:

Impact on the statement of financial position (increase/(decrease)):

	31 December 2019 CHF	31 December 2018 CHF	1 January 2018 CHF
Assets			
Right-of-use assets	304,878	-	-
Total assets	<u>304,878</u>	<u>-</u>	<u>-</u>
Liabilities			
Lease liabilities	335,159	-	-
Total liabilities	<u>335,159</u>	<u>-</u>	<u>-</u>
Equity			
Retained earnings	(30,281)	-	-
Total equity	<u>(30,281)</u>	<u>-</u>	<u>-</u>
Total liabilities and equity	<u>304,878</u>	<u>-</u>	<u>-</u>

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 Changes in accounting policies and disclosures (continued)

3 a) (ii) Impact of adoption of IFRS 16 (continued)

Impact on the consolidated statement of income (increase/(decrease)):

	Year ended 31 December 2019 CHF	Year ended 31 December 2018 CHF
Operating expenses	(27,560)	-
Operating profit	(27,560)	-
Finance costs	(2,721)	-
Net comprehensive income/(loss) for the financial year	(30,281)	-

Impact on the consolidated statement of cash flows (increase/(decrease)):

	2019 CHF	2018 CHF
Operating lease payments	(10,939)	-
Interest paid	(2,721)	-
Net cash outflows from operating activities	(13,660)	-
Payment of principal portion of lease liabilities	(13,660)	-
Net cash outflows from financing activities	(13,660)	-

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the full retrospective method of adoption, the Company applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

3 b) Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments have had no impact on the financial statements of the Company.

3 c) Amendments to IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

These amendments have had no impact on the financial statements of the Company.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 Accounting standards, interpretations and amendments issued by not yet effective

At the date of authorisation of these financial statements, the following relevant standards and interpretations, which have not been applied, were in issue but not yet effective:

4 a) Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7

The amendments apply to all hedging relationships that are directly affected by the interest rate benchmark reform. Interest rate benchmark reform refers to the market-wide reform which includes the replacement of an LIBOR with an alternative RFR.

An exposure draft is expected in the first half of 2020 and is expected to be effective from 1 January 2020. These amendments are not expected to have any impact on the financial statements of the Company.

4 b) Definition of Material (Amendments to IAS 1 and IAS 8)

The changes relate to a revised definition of 'material' which is amended to include information that if omitted, misstated or obscured could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective for accounting periods beginning on or after 1 January 2020. They are not expected to have any impact on the financial statements of the Company.

5 Taxation

The Company is taxed at the Company standard rate (0%) in Guernsey.

6 Net trading income

	Year ended 31 December 2019 CHF	Year ended 31 December 2018 CHF
Gains less losses on instruments held for trading		
Foreign currency	(286,894)	(1,206,201)
Trading securities	4,891,742	(568,480)
Gains less losses on fair value hedging		
Gains less losses from fair value direct hedged items	465,338	201,010
Gains less losses from fair value direct hedging instruments	(227,604)	1,426,095
Gains less losses on instruments designated at fair value		
Financial liabilities designated at fair value through profit or loss	(182,495,621)	85,388,072
Derivatives managed with financial instruments designated at fair value through profit or loss	193,744,169	(74,155,140)
Net trading income	16,091,130	11,085,356

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7 Operating expenses

	Year ended 31 December 2019 CHF	Year ended 31 December 2018 CHF
Administrative expenses		
Administration fees	476,310	644,973
Audit fees	103,127	89,234
Directors' fees	8,903	9,009
Secretarial fees	5,131	-
Other expenses	175,946	63,514
Depreciation	23,185	-
Zürcher Kantonalbank service costs		
Development costs	1,500,000	1,500,000
Product issuing costs	1,500,000	1,500,000
Distribution costs	4,287,570	5,462,816
Risk management fee	2,000,000	2,000,000
Keep-well agreement charges	649,368	583,911
Employee expenses		
Salaries	428,787	398,634
Social security	27,971	26,451
Health insurance	26,880	21,871
Other staff expenses	12,289	3,573
	<u>11,225,467</u>	<u>12,303,986</u>

8 Financial assets and financial liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss	2019 CHF	2018 CHF
Securities held for trading		
Debt securities	1,385,114,812	1,456,492,514
Listed equity instruments	-	275,918
	<u>1,385,114,812</u>	<u>1,456,768,432</u>
Derivative financial instruments		
Currency forwards	-	456,560
Interest rate caps and floors	-	9,541
Interest rate swaps	12,598,679	8,991,171
Options	8,312,747	5,793,081
Total return swaps	6,513,983	2,218,506
	<u>27,425,409</u>	<u>17,468,859</u>
Total financial assets at fair value through profit or loss	<u>1,412,540,221</u>	<u>1,474,237,291</u>

In the comparative period the Company classified its equity instruments and debt instruments as financial assets held for trading and its derivative financial instruments were designated at FVTPL.

Financial liabilities at fair value through profit or loss	2019 CHF	2018 CHF
Structured product financial instruments		
Linked to commodities	983,782	971,037
Linked to credit derivatives	137,373,244	176,478,447
Linked to equities / equity indices	1,017,268,490	858,108,322
Linked to foreign exchange	103,590,780	105,004,914
Linked to interest instruments	17,464,885	75,973,743
Linked to mixed derivatives	8,384,910	13,624,640
	<u>1,285,066,091</u>	<u>1,230,161,103</u>

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8 Financial assets and financial liabilities at fair value through profit or loss (continued)

Financial liabilities at fair value through profit or loss (continued)	2019 CHF	2018 CHF
Derivative financial instruments		
Credit default swaps	10,986	48,804
Currency forwards	-	217,686
Interest rate swaps	8,154,791	9,271,188
Options	17,572,307	95,443,252
Total return swaps	9,007,750	63,911,429
	<u>34,745,834</u>	<u>168,892,359</u>
Total financial liabilities at fair value through profit or loss	<u><u>1,319,811,925</u></u>	<u><u>1,399,053,462</u></u>

9 Derivative contracts

Derivative contracts serve as components of the structured product financial liabilities of the Company. The derivative contracts that the Company may hold or issue include: futures; options; forward currency contracts; currency swaps; interest rate caps and floors; interest rate swaps; total return swaps; and credit default swaps.

The Company uses derivative financial instruments to economically hedge its risks associated with fluctuations in the value of structured product financial liabilities and interest rate risk associated with the Guernsey Risk Manager portfolio (the Company does not designate any derivative as a hedging instrument for hedge accounting purposes).

Derivatives often reflect, at their inception, only a mutual exchange of promises with little or no transfer of tangible consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the underlying of a derivative contract may have a significant impact on the value of the contract.

OTC derivatives may expose the Company to the risks associated with absence of an exchange market on which to close out an open position. The counterparty for all derivative contracts in force at the year-end was the Company's parent entity, Zürcher Kantonalbank, and as such no credit valuation adjustments or debit valuation adjustments have been made to the OTC derivatives in the current or previous year. As at the date of signing these financial statements, Standard & Poor's had assigned Zürcher Kantonalbank a credit rating of AAA.

The following table shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of the derivative are measured. The notional amounts indicate the volume of transactions outstanding at the reporting dates and are not indicative of either market risk or credit risk.

	2019			2018		
	Assets CHF	Liabilities CHF	Notional Amount CHF	Assets CHF	Liabilities CHF	Notional Amount CHF
Derivatives primarily held for trading purposes						
Credit default swaps	-	10,986	3,300,000	-	48,804	3,300,000
Interest rate caps and floors	-	-	-	9,541	-	6,198,005
Options	8,312,747	17,572,307	468,488,392	5,793,081	95,443,252	482,931,981
Total return swaps	6,513,983	9,007,750	654,996,978	2,218,506	63,911,429	629,236,828
	<u>14,826,730</u>	<u>26,591,043</u>	<u>1,126,785,370</u>	<u>8,021,128</u>	<u>159,403,485</u>	<u>1,121,666,814</u>
Derivatives primarily held for risk management purposes						
Interest rate swaps	12,598,679	8,154,791	1,507,678,730	8,991,171	9,271,188	1,504,820,340
Currency forwards	-	-	-	456,560	217,686	24,944,162
	<u>12,598,679</u>	<u>8,154,791</u>	<u>1,507,678,730</u>	<u>9,447,731</u>	<u>9,488,874</u>	<u>1,529,764,502</u>
Total derivatives	<u><u>27,425,409</u></u>	<u><u>34,745,834</u></u>	<u><u>2,634,464,100</u></u>	<u><u>17,468,859</u></u>	<u><u>168,892,359</u></u>	<u><u>2,651,431,316</u></u>

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10 Fair value of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows financial instruments recognised at fair value:

Recurring fair value measurement of assets and liabilities

	2019				2018			
	Level 1 CHF	Level 2 CHF	Level 3 CHF	Total CHF	Level 1 CHF	Level 2 CHF	Level 3 CHF	Total CHF
Financial assets								
Securities held for trading (note 8)								
Equity instruments	-	-	-	-	275,918	-	-	275,918
Debt instruments	1,336,256,543	48,858,269	-	1,385,114,812	1,429,850,953	26,641,561	-	1,456,492,514
Derivative financial instruments (note 9)								
Currency forwards	-	-	-	-	-	456,560	-	456,560
Interest rate caps and floors	-	-	-	-	-	9,541	-	9,541
Interest rate swaps	-	12,598,679	-	12,598,679	-	8,991,171	-	8,991,171
Options	-	8,312,747	-	8,312,747	-	5,793,081	-	5,793,081
Total return swaps	-	6,513,983	-	6,513,983	-	2,218,506	-	2,218,506
Total financial assets	1,336,256,543	76,283,678	-	1,412,540,221	1,430,126,871	44,110,420	-	1,474,237,291

Financial liabilities

Structured product financial instruments (note 8)								
Linked to commodities	-	983,782	-	983,782	-	971,037	-	971,037
Linked to credit derivatives	-	137,373,244	-	137,373,244	-	176,478,447	-	176,478,447
Linked to equities / equity indices	-	1,017,268,490	-	1,017,268,490	-	858,108,322	-	858,108,322
Linked to foreign exchange	-	103,590,780	-	103,590,780	-	105,004,914	-	105,004,914
Linked to interest instruments	-	17,464,885	-	17,464,885	-	75,973,743	-	75,973,743
Linked to mixed derivatives	-	8,384,910	-	8,384,910	-	13,624,640	-	13,624,640
Derivative financial instruments (note 9)								
Credit default swaps	-	10,986	-	10,986	-	48,804	-	48,804
Currency forwards	-	-	-	-	-	217,686	-	217,686
Interest rate swaps	-	8,154,791	-	8,154,791	-	9,271,188	-	9,271,188
Options	-	17,572,307	-	17,572,307	-	95,443,252	-	95,443,252
Total return swaps	-	9,007,750	-	9,007,750	-	63,911,429	-	63,911,429
Total financial liabilities	-	1,319,811,925	-	1,319,811,925	-	1,399,053,462	-	1,399,053,462

For all other financial assets and liabilities, the carrying value is an approximation of fair value, including: trade and other receivables; cash and cash equivalents; and trade and other payables.

There were no changes to valuation techniques or transfers between Levels 1, 2 and 3 during the year.

Where there are quoted prices in an active market for identical assets or liabilities, a security is included in Level 1. Where values are based on inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, or quoted prices for identical assets or liabilities in markets that are not active, they are included in Level 2.

The fair values of options are calculated using an option pricing model based on direct market data, e.g., bond or share prices, and indirect market data, e.g., interest, implied volatility and dividend estimates. The fair value of such options is included within Level 2.

The fair values of other derivatives are calculated based on quotes from counterparties to the agreements which are corroborated by market data. The fair value of such interest rate swaps is included within Level 2.

The fair values of structured product financial instruments, which are set up as combinations of the components of the respective structured product, are calculated based on the sum of the valuations of its components. As the fair values of the components of the structured products are either Level 1 (securities held for trading) or Level 2 (term deposits with banks and derivative financial instruments), the fair value of such structured products is included within Level 2.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

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For the year ended 31 December 2019

11 Financial risk and management objectives and policies

11 a) Introduction

The main risks that the Company is exposed to are credit risk, liquidity risk and market risk (which includes interest rate risk, currency risk and price risk). The Directors regularly review and agree policies for managing each of these risks as summarised below, which includes the use of derivatives and other financial instruments. The risk management guidelines for the Company set out guidelines for identifying, managing and monitoring the risks to which the Company is exposed and in particular:

- define the rules and procedures for managing credit, liquidity and market risks;
- set out the applicable long-term risk policies of the Company and Zürcher Kantonalbank;
- define the entity to which duties and responsibilities in relation to risk monitoring are assigned; and
- provide an overview of relevant powers and responsibilities.

The general guidelines are:

- credit, liquidity and market risks shall be managed in accordance with the rules and policies laid down in the guidelines on risk management for Zürcher Kantonalbank, and its subsidiaries (collectively, the "group") risk policies;
- subject to the constraints of the applicable group risk policies, the Company shall define appropriate limits with a view to mitigating default and market risks;
- Zürcher Kantonalbank shall be responsible for managing risks subject to approved limits;
- Zürcher Kantonalbank shall be responsible for quantifying risk, preparing reports on risk monitoring conducted, and reporting on risks; and
- the Directors of the Company shall be entitled to limit the level of risk exposure and the list of approved products at any time.

There were no changes to the Company's risk management guidelines during the reporting period.

11 b) Risk management structure

The Chief Executive Officer of the Company is responsible for monitoring both the liquidity and solvency of the Company and compliance with the Company's risk limits. Furthermore, the Chief Executive Officer is also responsible for documenting risks limits, defining actions to be taken in the event of a breach of any of those limits, informing the Directors of any limit breaches and subsequent actions taken.

The Directors supervise management and are ultimately responsible for the overall risk management of the Company.

11 c) Risk measurement and reporting system

Risk measurement, preparation of risk monitoring reports and risk reporting have been delegated to Zürcher Kantonalbank. To ensure a constant monitoring of risk by the Company's management, a risk report is prepared by Zürcher Kantonalbank on a daily basis and is sent to the management of the Company.

The Directors of the Company have defined the following sensitivity limits for credit risk, interest rate risk and currency risk, as well as counterparty exposure limits, which are calculated on a daily or weekly basis by Zürcher Kantonalbank.

11 c) (i) Credit spread risk sensitivity limits

Credit spread risk refers to debt instruments and is related to daily changes in the spread of an instrument's yield curve over the zero-coupon Treasury yield curve (the z-spread). The sensitivity limit defines the maximum profit and loss daily change limit permitted on the theoretical hedging costs on the Company's treasury management portfolio. The Directors have defined a maximum credit spread sensitivity ("DV01") per issuer with a view to mitigating the credit risk associated with debt instruments.

DV01 is calculated as the sensitivity of a contract to a 1 basis point fluctuation in the credit spread curve and is set at a level that the Directors believe allows for sufficient returns to be generated on the Company's securities held for trading without exposing it to excessive credit risk.

	2019		2018	
	Current	Maximum credit spread	Current	Maximum credit spread
	CHF	CHF	CHF	CHF
DV01 per issuer	9,522	< 35,000	6,023	< 35,000

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11 Financial risk and management objectives and policies (continued)

11 c) (ii) Counterparty exposure limits

Counterparty exposure refers to the debt instruments within securities held for trading and relates to the risk of issuer default. The Directors have defined minimum credit ratings and maximum permitted nominal holdings per issuer for each credit rating category with a view to mitigating the default risk associated with securities.

Counterparty exposure is calculated on an aggregate basis for all securities held for trading within the treasury management portfolio, and is based on the lower of the two ratings provided by Standard & Poors and Moody's ratings agencies.

	2019				2018			
	Nominal limit per issuer	Maximum exposure to any one issuer	Maximum residual term	Maximum residual term of any one issuer	Counterparty limit per issuer	Maximum exposure to any one issuer	Maximum residual term	Maximum residual term of any one issuer
	CHF	CHF			CHF	CHF		
Long term rating AAA	100,000,000	29,915,000	no limit	33 months	100,000,000	6,515,000	no limit	34 months
Long term rating between AA+ and AA-	50,000,000	37,735,000	no limit	45 months	50,000,000	42,241,500	no limit	57 months
Long term rating between A+ and A	30,000,000	29,915,000	no limit	46 months	30,000,000	29,946,950	no limit	34 months
Long term rating A-	30,000,000	15,257,045	15 months	35 months	30,000,000	8,251,986	15 months	21 months
Long term rating BBB+	15,000,000	13,891,941	15 months	7 months	15,000,000	25,245,000	15 months	14 months
Long term rating BBB	15,000,000	15,000,000	15 months	9 months	15,000,000	550,000	15 months	6 months
Long term rating BBB-	15,000,000	13,460,000	15 months	11 months	15,000,000	-	15 months	-
Long term rating BB+ and lower	0	-	n/a	-	0	-	n/a	-

The Directors have approved temporary exceptions to the counterparty limit policy in respect of the below holdings. It is the opinion of the Directors that these securities can continue to be held until their maturity or until market conditions allow for their disposal.

	Long term rating	Nominal holding	Residual term
		CHF	
Issuer A	A-	6,295,000	35 months
Issuer A	A-	5,449,061	32 months
Issuer A	A-	2,018,161	16 months

11 c) (iii) Interest rate sensitivity limits

Interest rate sensitivity is measured by reference to Rho, which is the rate at which the price of a derivative changes relative to a change in the risk free rate of interest. It is expressed as the amount of money, per share of the underlying, that the value of the option will gain or lose as the risk free interest rate rises or falls by one basis point.

	2019		2018	
	Limit	Sensitivity	Limit	Sensitivity
	CHF	CHF	CHF	CHF
Effect of 1 basis point movement in risk free interest rate	+/- 100,000	+/- 8,476	+/- 100,000	+/- 33,206

11 c) (iv) Foreign currency limits

The foreign exchange sensitivity limit is the maximum permitted movement in profit or loss caused by a 1% movement in the value of the Swiss franc.

	2019		2018	
	Limit	Sensitivity	Limit	Sensitivity
	CHF	CHF	CHF	CHF
Effect of 1% movement in the value of the Swiss franc	+/- 1,000,000	+/- 237	+/- 1,000,000	+/- 756

11 d) Risk mitigation

The Company uses derivatives and other financial instruments for trading purposes to manage exposures resulting from changes in credit risks, interest and foreign currency rates.

11 e) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the Company by failing to discharge an obligation. The Company is exposed to the risk of credit-related loss that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. These credit exposures exist within debt instruments, derivative assets, short term receivables and cash and cash equivalents.

Credit risk disclosures are segmented into two sections based on whether the underlying financial instrument is subject to IFRS 9's impairment disclosures or not.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

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11 Financial risk and management objectives and policies (continued)

11 e) (i) Financial assets subject to IFRS 9's impairment requirements

The Company's only financial assets subject to the ECL model within IFRS 9 are short term trade and other receivables. At 31 December 2019, the total of short-term trade and receivables was CHF nil, on which no loss allowance has been provided (31 December 2018: total of CHF nil, on which no loss had been incurred). There is not considered to be any concentration of credit risk within these assets. No assets are considered impaired and no amounts have been written off in the period.

As all trade and other receivables are impacted by IFRS 9 ECL model the Company has adopted the simplified approach. The loss allowance shown is therefore based on lifetime ECLs.

In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates. Items have been grouped by their nature into the following categories: accrued income; amounts due from counterparties; and other receivables.

11 e) (ii) Financial assets not subject to IFRS 9's impairment requirements

The Company is exposed to credit risk on debt instruments and derivative assets. These classes of financial assets are not subject to IFRS 9's impairment requirements as they are measured at FVTPL. The carrying value of these assets represent the Company's maximum exposure to credit risk on financial instruments not subject to the IFRS 9 impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

The following table analyses the sensitivity of the Company's treasury management portfolio to changes in credit spreads:

Securities held for trading - Guernsey treasury management portfolio	2019 CHF	2018 CHF
Market scenario:		
1 basis point change in the difference in yields between treasury and non-treasury securities	<u>172,416</u>	<u>160,215</u>

The following tables analyse the Company's securities held for trading by rating agency category:

Securities held for trading - Guernsey treasury management portfolio	Fair value CHF	Rating	Allocation
As at 31 December 2019:			
Bonds receivable	130,020,735	AAA	9%
Bonds receivable	347,794,694	AA	25%
Bonds receivable	803,248,380	A	59%
Bonds receivable	91,127,708	BBB	7%
	<u>1,372,191,517</u>		<u>100%</u>
As at 31 December 2018:			
Bonds receivable	44,775,904	AAA	3%
Bonds receivable	388,399,288	AA	28%
Bonds receivable	867,110,123	A	62%
Bonds receivable	40,648,885	BBB	3%
Bonds receivable	52,957,728	No rating	4%
	<u>1,393,891,928</u>		<u>100%</u>
Securities held for trading - as direct hedging instruments	Fair value CHF	Rating	Allocation
As at 31 December 2019:			
Bonds receivable	2,800,857	AAA	21%
Bonds receivable	206,983	AA	2%
Bonds receivable	552,605	A	4%
Bonds receivable	3,415,884	BBB	26%
Bonds receivable	3,196,957	BB	25%
Bonds receivable	2,536,970	B	20%
Bonds receivable	213,039	No rating	2%
	<u>12,923,295</u>		<u>100%</u>

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11 Financial risk and management objectives and policies (continued)

11 e) (ii) Financial assets not subject to IFRS 9's impairment requirements (continued)

As at 31 December 2018:

Bonds receivable	3,979,948	AAA	6%
Bonds receivable	853,286	AA	1%
Bonds receivable	5,670,946	A	9%
Bonds receivable	20,702,785	BBB	33%
Bonds receivable	22,841,974	BB	36%
Bonds receivable	2,107,251	B	3%
Bonds receivable	6,444,396	No rating	11%
Stocks held	275,918		1%
	<u>62,876,504</u>		<u>100%</u>

The securities listed above are held as direct hedging instruments for risk management purposes and are not subject to the counterparty limits shown in note 11 c) (ii).

Concentration of credit risk within securities held for trading is managed by counterparty, geographical region and industry sector. The Company has no major exposure to any one counterparty in the treasury management portfolio (see note 11 c) (ii)).

11 e) (ii) Financial assets not subject to IFRS 9's impairment requirements (continued)

The following table analyses the concentration of credit risk by geographical distribution (based on counterparties' country of domicile):

	2019		2018	
	% of debt instruments	% of derivatives	% of debt instruments	% of derivatives
Australia	7%	0%	7%	0%
China	13%	0%	13%	0%
European Union	41%	0%	38%	0%
New Zealand	5%	0%	10%	0%
Switzerland	6%	100%	2%	100%
United States of America	9%	0%	9%	0%
Others	19%	0%	21%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The following table analyses the concentration of credit risk in the Company's treasury management portfolio by industrial distribution:

	2019		2018	
	% of debt instruments	% of derivatives	% of debt instruments	% of derivatives
Financial	70%	100%	71%	100%
Industrial	5%	0%	7%	0%
Sovereign	6%	0%	8%	0%
Supranational	3%	0%	5%	0%
Others	16%	0%	9%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

11 f) Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity arises because of the possibility that the Company could be required to pay its liabilities earlier than expected. The Company is exposed to cash repayments of its structured product financial liabilities on a regular basis.

There is no direct matching of the maturity profiles of the structured products with the securities held, however the Company's liquidity profile is constantly monitored as an important part of the treasury management process. Liquidity risk management consists of short term (3 months) and long term (3 years) monitoring of cash flows.

The following tables show a net liquidity surplus for the next year, when the treasury management portfolio is classified according to final maturity dates. The securities held in the treasury management portfolio are primarily debt instruments which, under normal market conditions are readily convertible to cash. As such their final maturity dates are not intended to closely match the final maturity profile of financial liabilities held at FVTPL:

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

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11 Financial risk and management objectives and policies (continued)

11 f) Liquidity risk (continued)

	2019 Up to one year CHF	2019 From one to two years CHF	2019 From two to three years CHF	2019 From three to four years CHF	2019 From four to five years CHF	2019 Five years and over CHF	31 December 2019 Total CHF
Assets							
Cash, amounts due from banks, money at call	54,655,711	-	-	-	-	-	54,655,711
Accrued interest receivable and prepayments	9,137,206	-	-	-	-	-	9,137,206
Securities held for trading, designated at FVTPL	640,152,787	472,001,039	195,184,987	71,536,518	1,462,248	4,777,233	1,385,114,812
Derivative financial instruments held at FVTPL	9,527,534	4,501,199	1,667,356	1,486,024	3,825,529	6,417,767	27,425,409
Liabilities							
Lease liabilities	(335,159)	-	-	-	-	-	(335,159)
Amounts due to banks	(48,593,322)	-	-	-	-	-	(48,593,322)
Accrued interest payable and accrued expenses	(1,284,324)	-	-	-	-	-	(1,284,324)
Derivative financial instruments held at FVTPL	(20,240,145)	(8,941,748)	(2,190,433)	-	(412,847)	(2,960,661)	(34,745,834)
Financial liabilities held at FVTPL	(721,146,937)	(427,393,828)	(62,457,572)	(24,878,022)	(20,757,632)	(28,432,100)	(1,285,066,091)
Net Liquidity	(78,126,649)	40,166,662	132,204,338	48,144,520	(15,882,702)	(20,197,761)	106,308,408

The undiscounted contractual liabilities of the Company excluding accrued interest at 31 December 2019 are as follows:

Financial liabilities held at fair value through profit or loss	710,698,416	431,631,683	62,765,418	25,013,708	18,386,452	27,746,294	1,276,241,971
	2018 Up to one year CHF	2018 From one to two years CHF	2018 From two to three years CHF	2018 From three to four years CHF	2018 From four to five years CHF	2018 Five years and over CHF	31 December 2018 Total CHF
Assets							
Cash, amounts due from banks, money at call	60,031,606	-	-	-	-	-	60,031,606
Accrued interest receivable and prepayments	-	-	-	-	-	-	-
Securities held for trading, designated at FVTPL	612,311,315	682,480,871	113,826,971	7,716,459	5,277,179	35,155,637	1,456,768,432
Derivative financial instruments held at FVTPL	3,622,066	4,817,544	865,683	1,082,786	946,192	6,134,588	17,468,859
Liabilities							
Amounts due to banks	(41,294,977)	-	-	-	-	-	(41,294,977)
Accrued interest payable and accrued expenses	(1,087,843)	-	-	-	-	-	(1,087,843)
Derivative financial instruments held at FVTPL	(121,822,626)	(33,791,101)	(8,205,209)	(2,467,801)	(546,062)	(2,059,560)	(168,892,359)
Financial liabilities held at FVTPL	(633,465,479)	(388,006,013)	(126,380,066)	(11,957,929)	(33,286,560)	(37,065,056)	(1,230,161,103)
Net Liquidity	(121,705,938)	265,501,301	(19,892,621)	(5,626,485)	(27,609,251)	2,165,609	92,832,615

The undiscounted contractual liabilities of the Company excluding accrued interest at 31 December 2018 are as follows:

Financial liabilities held at fair value through profit or loss	629,853,873	328,963,143	300,096,877	56,180,033	11,088,835	42,608,620	1,368,791,381
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11 g) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The maximum risk resulting from financial instruments, except for written equity-linked derivatives, equals their fair value. With written equity-linked derivatives, the Company bears the market risk of an unfavourable change in the price of the security underlying the option.

11 g) (i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Company writes interest rate derivatives, mainly being interest rate swaps in which the Company agrees to exchange, at specified intervals. The difference between fixed and variable interest amounts is calculated by reference to an agreed-upon notional principal amount in an effort to manage these risks. The majority of interest rate exposure arises on investment in debt securities and the interest rate profile is shown below.

The following table analyses the Company's interest rate exposure. The Company's assets and liabilities are included at their carrying amount and are categorised by their maturity dates:

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

11 Financial risk and management objectives and policies (continued)

11 g) (i) Interest rate risk (continued)

	Total	Variable rate	Fixed rate	No net interest rate risk
	CHF	CHF	CHF	CHF
The interest rate profile of the Company at 31 December 2019:				
Assets				
Right-of-use assets	304,878	-	-	304,878
Cash, amounts due from banks, money at call	54,655,711	-	-	54,655,711
Accrued interest receivable and prepayments	9,137,206	-	-	9,137,206
Securities held for trading, designated at FVTPL	1,385,114,812	149,509,901	1,230,192,615	5,412,296
Derivative financial instruments held at FVTPL	27,425,409	12,598,679	-	14,826,730
Total Assets	1,476,638,016	162,108,580	1,230,192,615	84,336,821
Liabilities and Shareholder's funds				
Lease liabilities	335,159	-	-	335,159
Amounts due to banks	48,593,322	-	-	48,593,322
Accrued interest payable and accrued expenses	1,284,324	-	-	1,284,324
Derivative financial instruments held at FVTPL	34,745,834	8,154,791	-	26,591,043
Structured product financial liabilities held at FVTPL	1,285,066,091	44,012,116	-	1,241,053,975
Share capital	1,000,000	-	-	1,000,000
Retained earnings	105,613,286	-	-	105,613,286
Total Liabilities and Shareholder's Funds	1,476,638,016	52,166,907	-	1,424,471,109

	Total	Variable rate	Fixed rate	No net interest rate risk
	CHF	CHF	CHF	CHF
The interest rate profile of the Company at 31 December 2018:				
Assets				
Cash, amounts due from banks, money at call	60,031,606	471,854	-	59,559,752
Accrued interest receivable and prepayments	-	-	-	-
Securities held for trading, designated at FVTPL	1,456,768,432	238,922,885	1,217,569,629	275,918
Derivative financial instruments held at FVTPL	17,468,859	8,991,171	-	8,477,688
Total Assets	1,534,268,897	248,385,910	1,217,569,629	68,313,358
Liabilities and Shareholder's funds				
Amounts due to banks	41,294,977	-	-	41,294,977
Accrued interest payable and accrued expenses	1,087,843	-	-	1,087,843
Derivative financial instruments held at FVTPL	168,892,359	9,271,188	-	159,621,171
Structured product financial liabilities held at FVTPL	1,230,161,103	9,746,285	-	1,220,414,818
Share capital	-	-	-	-
Retained earnings	102,201,437	-	-	102,201,437
Total Liabilities and Shareholder's Funds	1,543,637,719	19,017,473	-	1,524,620,247

11 g) (ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company invests in securities and issues structured products that are denominated in currencies other than the Swiss franc. Accordingly, the value of the Company's assets and liabilities may be affected favourably or unfavourably by fluctuations in currency rates.

The Company writes derivatives, such as currency forwards, to hedge foreign currency denominated financial instruments and increases or decreases in the fair value of the Company's foreign currency denominated financial assets and liabilities are partially offset by gains and losses on the economic hedging instruments.

The following table indicates the currencies to which the Company had significant exposure as at 31 December on its monetary assets and liabilities.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

11 Financial risk and management objectives and policies (continued)

11 g) (ii) Currency risk (continued)

Currency profile of the Company as at 31 December 2019:

	Total CHF	Swiss Franc CHF	Euro CHF	US Dollar CHF	British Pound CHF	Other CHF
Assets						
Right of use assets	304,878	-	-	-	304,878	-
Cash, amounts due from banks, money at call	54,655,711	53,728,584	-	-	544,965	382,162
Accrued interest receivable and prepayments	9,137,206	6,646,832	1,103,325	1,262,278	43,483	81,288
Securities held for trading, designated at FVTPL	1,385,114,812	928,570,034	251,321,934	199,987,297	-	5,235,547
Derivative financial instruments held at FVTPL	27,425,409	18,637,299	3,186,566	5,587,265	-	14,279
Total Assets	1,476,638,016	1,007,582,749	255,611,825	206,836,840	893,326	5,713,276
	100.00%	68.23%	17.31%	14.01%	0.06%	0.39%
Liabilities						
Lease liabilities	335,159	-	-	-	335,159	-
Amounts due to banks	48,593,322	21,707,631	25,771,520	420,766	466,301	227,104
Accrued interest payable and accrued expenses	1,284,324	1,074,815	-	-	145,277	64,232
Derivative financial instruments held at FVTPL	34,745,834	24,277,934	7,098,219	3,360,731	8,950	-
Structured product financial liabilities held at FVTPL	1,285,066,091	856,597,597	222,504,179	202,917,445	264,366	2,782,504
Total Liabilities	1,370,024,730	903,657,977	255,373,918	206,698,942	1,220,053	3,073,840
	100.00%	65.96%	18.64%	15.09%	0.09%	0.22%

Currency profile of the Company as at 31 December 2018:

	Total CHF	Swiss Franc CHF	Euro CHF	US Dollar CHF	British Pound CHF	Other CHF
Assets						
Cash, amounts due from banks, money at call	60,031,606	56,586,765	-	-	3,179,547	265,294
Accrued interest receivable and prepayments	9,540,952	5,780,189	1,886,535	1,479,152	269,483	125,593
Securities held for trading, designated at FVTPL	1,456,768,432	913,826,629	311,874,408	213,570,403	8,738,000	8,758,992
Derivative financial instruments held at FVTPL	17,468,859	11,217,314	2,763,948	3,325,528	136,485	25,584
Total Assets	1,543,809,849	987,410,897	316,524,891	218,375,083	12,323,515	9,175,463
	100.00%	63.96%	20.50%	14.15%	0.80%	0.59%
Liabilities						
Amounts due to banks	41,294,977	12,640,103	21,581,815	6,575,535	411,858	85,666
Accrued interest payable and accrued expenses	1,711,256	1,473,693	-	-	237,563	-
Derivative financial instruments held at FVTPL	168,892,359	127,943,800	29,569,045	11,379,514	-	-
Structured product financial liabilities held at FVTPL	1,230,161,103	747,496,812	267,247,486	208,413,410	1,780,755	5,222,640
Total Liabilities	1,442,059,695	889,554,408	318,398,345	226,368,459	2,430,176	5,308,306
	100.00%	61.69%	22.08%	15.70%	0.17%	0.37%

11 g) (iii) Price risk

Equity price risk is the risk of unfavourable changes in the fair value of equity instruments or equity-linked derivatives as a result of changes in the levels of equity indices and the value of individual shares. The Company manages equity risk on its exposure to equity-linked structured products by writing equity-linked derivatives as a hedge against the movement in their price. The Company is therefore only exposed to equity price risk on the revaluation of equities purchased to meet obligations under equity-settled structured product liabilities which are valued based on the equity purchase price and are therefore subsequently settled at nil gain/loss.

Management's best estimate of the effect on profit or loss for a year due to a reasonably possible change in equity indices, with all other variables held constant, is indicated in the table below. There is no effect on other comprehensive income as the Company has no assets classified as fair value through other comprehensive income or designated hedging instruments. In practice the actual trading results may differ from the sensitivity analysis below and the difference could be material. An equivalent decrease in equity indices as shown below would have resulted in an equivalent, but opposite, impact.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

11 Financial risk and management objectives and policies (continued)

11 g) (iii) Price risk (continued)

	Change in	Effect on net income for the year	
	equity index	2019	2018
	%	CHF	CHF
Stoxx Europe 600 Index	+/- 10	-	+/- 7,370
Swiss All Share Index	+/- 10	-	+/- 20,221

The effect of changes in bond prices resulting from variations in interest rates are quantified in notes 11 c) (iii) and 11 g) (i).

12 Leases

The Company has a 6-year lease contract in respect of office premises used in its operations. The Company is restricted under the terms of this lease from assigning and subleasing the premises with the prior consent of the lessor.

Set out below of the carrying amount of right-to-use assets recognised and the movements during the year:

	Office Premises	Total
	CHF	CHF
As at 1 January 2018	-	-
As at 31 December 2018	-	-
Additions	322,425	322,425
Fair value adjustment	5,638	5,638
Depreciation expense	(23,185)	(23,185)
As at 31 December 2019	<u>304,878</u>	<u>304,878</u>

Set out below are the carrying amount of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the year:

	2019	2018
	CHF	CHF
As at 1 January	-	-
Additions	322,425	-
Fair value adjustment	5,638	-
Accretion of interest	2,721	-
Payments	(13,660)	-
Foreign exchange differences	18,035	-
As at 31 December	<u>335,159</u>	<u>-</u>
Current (see note 14)	57,337	-
Non-current (see note 14)	277,822	-

The maturity analysis of lease liabilities are disclosed in note 15.

The following are the amounts recognised in the statement of income:

	2019	2018
	CHF	CHF
Depreciation expense of right-of-use assets	23,185	-
Interest expense on lease liabilities	(2,721)	-
Gain/(loss) on revaluation of lease liabilities	18,035	-
Total amount recognised in statement of income	<u>38,499</u>	<u>-</u>

The Company had total cash outflows for leases of CHF 13,660 in 2019 (CHF nil in 2018).

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

13 Cash, amounts due from / to banks, money at call

	2019 CHF	2018 CHF
Due from banks, Guernsey	248,424	471,854
Due from banks, Zürcher Kantonalbank	54,407,287	59,559,752
	<u>54,655,711</u>	<u>60,031,606</u>
Due to banks, Zürcher Kantonalbank	(48,593,322)	(41,294,977)
	<u>(48,593,322)</u>	<u>(41,294,977)</u>
Total net cash, amounts due from / to banks, money at call	<u>6,062,389</u>	<u>18,736,629</u>

The amounts due from banks in Guernsey accrue interest income at variable market rates. The amounts due to and from Zürcher Kantonalbank do not accrue interest.

14 Lease liabilities

	Interest rate %	Maturity	2019 CHF	2018 CHF
Current interest-bearing loans and borrowings				
Lease liabilities (see note 12)	2.0	2020	57,337	-
Total current interest-bearing loans and borrowings			<u>57,337</u>	<u>-</u>
Non-current interest-bearing loans and borrowings				
Lease liabilities (see note 12)	2.0	2021 - 2025	277,822	-
Total non-current interest-bearing loans and borrowings			<u>277,822</u>	<u>-</u>
Total interest-bearing loans and borrowings			<u>335,159</u>	<u>-</u>

15 Changes in liabilities arising from financing activities

	1 January 2019 CHF	New leases CHF	Cash flows CHF	Foreign exchange Other differences CHF	31 December 2019 CHF
Assets					
Current lease liabilities (see note 12)	-	42,067	(13,660)	26,577	2,353
Non-current lease liabilities (see note 12)	-	280,358	-	(18,218)	15,682
Total Assets	<u>-</u>	<u>322,425</u>	<u>(13,660)</u>	<u>8,359</u>	<u>18,035</u>
					<u>335,159</u>

The 'other' column includes the effect of reclassification of non-current portion of interest-bearing lease liabilities due to the passage of time, the effect of accrued but not yet paid interest on lease liabilities and any fair value adjustments resulting from changes in contractual lease payments. The Company classifies interest paid as cashflows from operating activities.

16 Share capital

	2019 CHF	2018 CHF
Authorised		
1,000 Ordinary shares of CHF1,000 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid		
1,000 Ordinary shares of CHF1,000 each	<u>1,000,000</u>	<u>1,000,000</u>

Each holder of a fully paid ordinary share is entitled to one vote for each share owned. When and as dividends are declared upon the ordinary share capital of the Company, the holders of ordinary shares are entitled to share equally, share for share, in such dividends. In the event of liquidation of the Company, the holders of ordinary shares shall be entitled to receive any of the remaining assets of the Company after the distribution of all preferred amounts. The amount distributed will be in proportion to the number of equity shares held by the shareholders.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 Capital management

The Company considers its capital to comprise its share capital and retained earnings which amounted CHF 106,613,286 as at 31 December 2019 (2018: CHF 101,750,154). The Company's capital management objectives are to achieve consistent returns while safeguarding capital and to maintain sufficient liquidity to meet the expenses of the Company and to meet its liabilities as they arise.

To achieve the above objectives, the Company invests in term deposits with group approved banks and bonds with an appropriate credit rating (see note 11).

The Company is not subject to externally imposed capital requirements and has no restrictions on the issue or repurchase of ordinary shares.

18 Related party disclosures

Parent and ultimate controlling party

The immediate and ultimate parent undertaking is Zürcher Kantonalbank, a Company incorporated in Switzerland.

Transactions with related parties

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

		Income Year ended 31 December CHF	Expenses Year ended 31 December CHF	Due to related party 31 December CHF	Due from related party 31 December CHF
Parent:					
Zürcher Kantonalbank	2019	11,020,944	9,936,938	1,048,684	-
	2018	12,659,027	11,046,727	941,502	-
Bank accounts held with parent Company	2019	-	-	48,593,322	54,407,287
	2018	-	-	41,294,977	59,559,752
Derivative contracts with parent Company	2019	-	-	34,745,834	27,425,409
	2018	-	-	168,892,359	17,468,859
Structured products held by parent Company	2019	-	-	97,910,014	-
	2018	-	-	110,010,886	-
Other related parties:					
Butterfield Trust (Guernsey) Limited	2019	-	476,310	-	-
	2018	-	644,973	156,939	-

Terms and conditions of transactions with related parties

Outstanding balances at the year end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Transactions with key management personnel

Key management personnel, defined as the Board of Directors and Chief Executive Officer, received the following compensation during the

	Year ended 31 December 2019 CHF	Year ended 31 December 2018 CHF
Short-term employee benefits	175,148	180,438

Other Directors' interests

Mr PDH Hodgson, who was a Director of the Company until 31 October 2019, is also a Director of Butterfield Trust (Guernsey) Limited, who acted as administrators for Zürcher Kantonalbank Finance (Guernsey) Limited until 30 September 2019. Details of the fees paid to Butterfield Trust (Guernsey) Limited for services rendered are shown in the above table.

19 Events after the statement of financial position date

Since the reporting date, the Covid-19 global pandemic has caused significant volatility in financial markets and interruption to the operational activities of companies around the world.

There have been no significant changes to the composition of the statement of financial position since the reporting date. The Directors are of the opinion that the Company continues to have adequate financial resources to continue in operational existence for the foreseeable future, and appropriate operational measures have been taken by management to ensure that the business can continue to operate in the event that restrictions on the movement of employees is enforced.

**ZÜRCHER KANTONALBANK FINANCE
(GUERNSEY) LIMITED**

ANNUAL REPORT & AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

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ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

COMPANY INFORMATION

Directors

F O Oegerli, Chairman (i)
S Stadelmann, Vice Chairman (i)
R S Duchemin
J W Renouf (ii)

(i) Member of Audit Committee
(ii) Chairman of Audit Committee

Secretary Alter Domus (Guernsey) Limited

Registered office Bordage House
Le Bordage
St Peter Port
Guernsey GY1 1BU

Auditor Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey GY1 4AF

Bankers

Zürcher Kantonalbank
Bahnhofstrasse 9
PO Box 8010
Zürich
Switzerland

NatWest International
PO Box 62
Royal Bank Place
1 Gategny Esplanade
St Peter Port
Guernsey GY1 4BQ

Custodian Zürcher Kantonalbank
Bahnhofstrasse 9
PO Box 8010
Zürich
Switzerland

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements for the year ended 31 December 2020.

Activities

The principal activity of Zürcher Kantonalbank Finance (Guernsey) Limited ("the Company") is to carry on business as a finance company and to borrow or raise money by the issue of financial instruments of whatsoever nature.

Results

The results of the Company are shown in the Statement of Comprehensive Income on page 6.

Dividend

The Directors do not recommend the payment of a dividend.

Directors

The Directors of the Company are those listed in the Company Information.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting principles.

Guernsey company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.

Going concern


As detailed in note 2) (b) to these financial statements, the Directors have assessed the impact of the Covid-19 global pandemic on the Company and consider that the Company has adequate financial resources and believe that the Company has adopted appropriate measures to ensure that it can continue in operational existence for the foreseeable future. As such the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Auditor

A resolution to reappoint Ernst & Young LLP as auditor will be put to the members at the Annual General Meeting.

For and on behalf of the Board:



Director

Director

18 March 2021
Date

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

Opinion

We have audited the financial statements of Zürcher Kantonalbank Finance (Guernsey) Limited (the "company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cashflows and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its results for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern up until 30 June 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities in respect of the financial set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (International Financial Reporting Standards as adopted by the European Union and The Companies (Guernsey) Law, 2008);
- We understood how the company is complying with those frameworks by making enquiries of the directors and those responsible for compliance matters and corroborated this by reviewing quarterly compliance reports and reviewing minutes of meetings of the Board of Directors. We gained an understanding of the Board's approach to governance, demonstrated by its review of the monthly financial management reports, oversight by the Audit Committee and internal control processes;
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by identifying the manipulation of bond interest income as a fraud risk. We considered the controls the company has established to address risks identified by the directors or that otherwise seek to prevent, detect or deter fraud and how management and those charged with governance monitor those controls. We also considered the existence of any stakeholder influences which may cause management to seek to manipulate the financial performance and did not note any;
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved the review of minutes of meetings of the Board of Directors and compliance reports; making inquiries of those charged with governance; and performance of journal entry testing based on our risk assessment and understanding of the business, with a focus on non-standard journals and those relating to areas with an identified associated fraud risk, as described above. We performed a controls based audit and reviewed the controls in place regarding the calculation and recording of bond interest income.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

A blue DocuSigned signature box containing the handwritten signature of Ernst & Young LLP and the alphanumeric string 4753914588A54C3...

4753914588A54C3...

Ernst & Young LLP
Guernsey, Channel Islands

Date: March 18, 2021

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Notes	Year ended 31 December 2020		Year ended 31 December 2019	
		CHF	CHF	CHF	CHF
Net trading income	6		10,321,195		16,091,130
Operating expenses	7		(8,977,813)		(11,225,467)
Operating profit			<u>1,343,382</u>		<u>4,865,663</u>
Finance income		-		190	
Finance costs		(5,662)		(2,721)	
			<u>(5,662)</u>		<u>(2,531)</u>
Net comprehensive income for the financial year			<u><u>1,337,720</u></u>		<u><u>4,863,132</u></u>

All of the items in the above are derived from continuing operations.

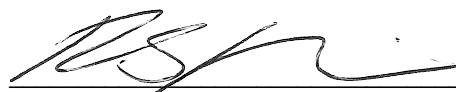
There were no other comprehensive income items in the period.

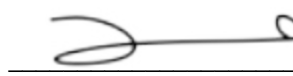
The notes on pages 10 to 29 form part of these financial statements.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Notes	31 December 2020 CHF	31 December 2019 CHF
Assets			
Non-current assets			
Right-of-use assets	12	253,420	304,878
Total non-current assets		<u>253,420</u>	<u>304,878</u>
Current assets			
Cash, amounts due from banks, money at call	13	203,109,566	54,655,711
Financial assets at fair value through profit or loss			
Securities held for trading	8	1,271,738,121	1,385,114,812
Derivative financial instruments	8, 9	19,330,928	27,425,409
Accrued interest receivable and prepayments		7,118,390	9,137,206
Total current assets		<u>1,501,297,005</u>	<u>1,476,333,138</u>
Total assets		<u><u>1,501,550,425</u></u>	<u><u>1,476,638,016</u></u>
Liabilities			
Non-current liabilities			
Lease liabilities	14	209,075	277,822
Total Non-current liabilities		<u>209,075</u>	<u>277,822</u>
Current liabilities			
Amounts due to banks	13	185,963,621	48,593,322
Lease liabilities	14	55,747	57,337
Financial liabilities at fair value through profit or loss			
Structured products	8	1,125,532,391	1,285,066,091
Derivative financial instruments	8, 9	80,470,947	34,745,834
Accrued interest payable and accrued expenses		1,367,638	1,284,324
Total Current liabilities		<u>1,393,390,344</u>	<u>1,369,746,908</u>
Equity			
Share capital	16	1,000,000	1,000,000
Retained earnings		106,951,006	105,613,286
Total equity		<u>107,951,006</u>	<u>106,613,286</u>
Total liabilities and equity		<u><u>1,501,550,425</u></u>	<u><u>1,476,638,016</u></u>

The financial statements on pages 6 to 29 were approved by the Board of Directors on March 18 2021 and are signed on its behalf by:


Director


Director

The notes on pages 10 to 29 form part of these financial statements.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED
 STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 December 2020

	Share capital CHF	Retained earnings CHF	Total equity CHF
At 1 January 2019	1,000,000	100,750,154	101,750,154
Net comprehensive income for the financial year	-	4,863,132	4,863,132
Balance at 31 December 2019	<u>1,000,000</u>	<u>105,613,286</u>	<u>106,613,286</u>
At 1 January 2020	1,000,000	105,613,286	106,613,286
Net comprehensive loss for the financial year	-	1,337,720	1,337,720
Balance at 31 December 2020	<u>1,000,000</u>	<u>106,951,006</u>	<u>107,951,006</u>

The notes on pages 10 to 29 form part of these financial statements.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	Note	Year ended 31 December 2020 CHF	Year ended 31 December 2019 CHF
Operating activities			
Net comprehensive (loss)/income for the financial year		1,337,720	4,863,132
Adjustments for:			
Depreciation of right-of-use assets	12	54,595	23,185
Revaluation of lease liabilities	12	(19,281)	18,035
Finance income		-	(190)
Finance costs		5,662	2,721
Adjustment for changes in working capital:			
Decrease in accrued interest receivable and		2,018,816	403,746
Decrease in securities held for trading, designated at fair value through profit or loss		113,376,691	71,653,620
(Decrease)/increase in structured product financial liabilities held at fair value through profit or loss		(159,533,700)	54,904,988
Decrease/(increase) in derivative financial instruments held at fair value through profit or loss		53,819,594	(144,103,075)
Increase/(decrease) in accrued interest payable and accrued expenses		83,314	(426,932)
		<u>11,143,411</u>	<u>(12,660,770)</u>
Interest received		-	190
Net cash inflows/(outflows) from operating activities		<u>11,143,411</u>	<u>(12,660,580)</u>
Financing activities			
Payment of principal portion of lease liabilities	12	(59,855)	(13,660)
Net cash outflows from financing activities		<u>(59,855)</u>	<u>(13,660)</u>
Net increase/(decrease) in cash and cash equivalents		11,083,556	(12,674,240)
Net cash and cash equivalents at 1 January		6,062,389	18,736,629
Net cash and cash equivalents at 31 December	13	<u><u>17,145,945</u></u>	<u><u>6,062,389</u></u>

The notes on pages 10 to 29 form part of these financial statements.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1 Corporate information

Zürcher Kantonalbank Finance (Guernsey) Limited is a finance company and borrows or raises money by the issue of financial instruments of whatsoever nature. The Company was incorporated and is registered in Guernsey with the registered office being at Bordage House, Le Bordage, St Peter Port, Guernsey, GY1 1BU.

2 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company.

2 a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation to fair value through profit or loss of derivative financial instruments, over-the-counter ("OTC") options, securities, term deposits with banks and financial liabilities and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

2 b) Going concern

The Company's financial position, its cash flows and liquidity position are set out in the financial statements. In addition, note 11 to the financial statements includes the Company's risk management and policies, details of its financial instruments, its exposures to credit risk and liquidity risk and its objectives, policies and processes for managing its capital.

Since the signing of the 2019 financial statements the Covid-19 pandemic has developed rapidly, and the impact on financial markets and from various governments' measures to contain the virus have affected the results of the Company in the following known ways:

- Increased volatility in financial markets has seen increased volatility in the value of the Company's financial assets and liabilities; and
- Temporary closure of the parent entity's offices and branch network had a negative impact on the issuance of structured products.

To date the Company has not taken advantage of any government funding scheme, and has in place remote operating procedures that enable it to continue to function if employees are advised to work from home.

Management have therefore used a range of scenarios that may occur up until 30 June 2022 based upon events occurring during 2020 and to date, including a reasonable worst-case scenario, to assess the whether the entity can continue as a going concern. These include, but are not limited to, the following:

- Restrictions on the movement of employees and/or access to the Company's office premises for public health reasons;
- Continued volatility and/or reduced liquidity in financial markets;
- The Company's existing reserves and future liquidity requirements;
- Future prolonged closure of the parent entity's office premises and/or ability to conduct business;
- The appropriateness of the expected credit loss rate on trade receivables;

Based on the results of the scenario analysis described above, the designation of the parent entity by the Swiss National Bank as a domestic systemically important bank, and the keepwell agreement in place between the parent entity and the Company, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

2 c) Financial instruments

2 c) (i) Classification

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a designated and effective hedging instrument).

2 c) (i) (1) Financial assets

The Company classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The Company's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

Financial assets measured at amortised cost

A financial instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company includes in this category short-term non-financing receivables including accrued interest receivable and prepayments.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2 Significant accounting policies (continued)

2 c) (i) (1) Financial assets (continued)

Financial assets measured at fair value through profit or loss ("FVTPL")

A financial asset is measured at FVTPL if:

- Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding; or
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- At initial recognition, it is irrevocably designated as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Company includes in this category:

- Equity instruments: these include investments in listed equities;
- Debt instruments: these include investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains; and
- Instruments held for trading: this includes equity instruments and debt instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative contracts in an asset position.

2 c) (i) (2) Financial liabilities

Financial liabilities measured at FVTPL

A financial liability is measured at FVTPL if it meets the definition of held for trading.

The Company includes in this category derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Company includes in this category bank overdrafts and other short-term payables.

2 c) (ii) Recognition

The Company recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

2 c) (iii) Initial measurement

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as at FVTPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

2 c) (iv) Subsequent measurement

After initial measurement, the Company measures financial instruments which are classified as at FVTPL at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVTPL in the statement of comprehensive income as part of net trading income (see note 6). Interest and dividends earned or paid on these instruments are recorded in the statement of comprehensive income as part of net trading income (see note 6).

Debt instruments, other than those classified as at FVTPL, are measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the debt instruments are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at FVTPL, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

The effective interest method (EIR) is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instruments, but does not consider expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2 Significant accounting policies (continued)

2 c) (v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Company has:

- Transferred substantially all of the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

2 d) Impairment of financial assets

The Company holds only trade receivables with no financing component and which are due in less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under IFRS 9 to all its trade receivables. Therefore, the Company does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date.

The Company's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company uses the provision matrix as a practical expedient to measuring ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

2 e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

2 f) Fair value measurement

The Company measures its investments in financial instruments, such as equity instruments, debt instruments, other interest bearing investments and derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

For assets and liabilities that are measured at fair value on a recurring basis, the Company identifies transfers between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole), and deems transfers to have occurred at the beginning of each reporting period.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2 Significant accounting policies (continued)

2 g) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2 g) (i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-to-use assets includes the amount of the lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office premises 6 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflect the exercise of a purchase option, depreciation is calculated using the estimates useful life of the asset.

The right-of-use assets are also subject to impairment (see note 2 h)).

2 g) (ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchased option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in interest-bearing loans and borrowings (see note 14).

2 h) Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash generating unit's ("CGU") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of any asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

ZÜRCHER KANTONALBANK FINANCE (GUERNSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2 Significant accounting policies (continued)

2 i) Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the Company operates. The majority of the Company's transactions are in Swiss francs, the performance is evaluated and its liquidity is managed in Swiss francs, and the functional currency of its parent entity is Swiss francs. Therefore, the Company concludes that the Swiss franc is its functional currency.

The Company's presentation currency is also the Swiss franc.

2 j) Foreign currency translations

Transactions during the period, including purchases and sales of financial instruments, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at FVTPL are included in profit or loss in the statement of comprehensive income as part of net trading income (see note 6).

2 k) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less. Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

2 l) Investment income

Investment income comprises of interest receivable on the maturity of the Company's term deposits with banks. Interest income is recognised as it accrues and is included in the statement of comprehensive income.

2 m) Net trading income

Net trading income is comprised of gains and losses arising on the purchase, sale and revaluation of financial assets and liabilities at FVTPL, along with gains and losses arising on the revaluation and impairment of financial assets and liabilities held at amortised cost.

2 n) Operating expenses

Fees are recognised on an accrual basis. Refer to note 7 for details of administration fees, audit fees, Directors' fees and parent company service costs.

3 Changes in accounting policies and disclosures

The Company applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2020, with the exception of the amendment to IFRS 16 which is effective for annual periods beginning on or after 1 June 2020.

The nature and the impact of each new standard and amendment is described below:

3 a) Interest Rate Benchmark Reform (Amendments to IFRS 7, IFRS 9 and IAS 39)

The amendments to IFRS 9 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. As the Company does not designate any derivative as a hedging instrument for hedge accounting purposes, these amendments have no impact on the financial statements of the Company.

3 b) Definition of Material (Amendments to IAS 1 and IAS 8)

The changes relate to a revised definition of 'material' which is amended to include information that if omitted, misstated or obscured could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments had no impact on the financial statements of, nor is there expected to be any future impact on, the Company.

3 c) Covid-19 Related Rent Concessions (Amendments to IFRS 16)

On 28 May 2020, the IASB issued Covid-19 Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct results of the Covid-19 pandemic.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Company.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3 Changes in accounting policies and disclosures (continued)

3 d) Revisions to the Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards

These contain amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 8, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32, and update those pronouncements with regard to, and quotes from, the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASB framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that the definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

These amendments, where they actually are updates, had no impact on the financial statements of the Company.

4 Accounting standards, interpretations and amendments issued by not yet effective

At the date of authorisation of these financial statements, the following relevant standards and interpretations, which have not been applied, were in issue but not yet effective:

4 a) Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendments are effective for annual reporting periods beginning on or after 1 January 2021 and are to be applied retrospectively. They are not expected to have any impact on the financial statements of the Company.

4 b) Annual Improvements to IFRS Standards 2018–2020

This makes amendments to the following standards:

- **IFRS 1** – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs;
- **IFRS 9** – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf; and
- **IFRS 16** – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. They are not expected to have any impact on the financial statements of the Company.

4 c) Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. They are not expected to have any impact on the financial statements of the Company.

4 d) Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments affect only the presentation of liabilities in the statement of position, not the amount or timing of recognition of any asset, liability, income or expense, or the information that entities disclose about those items. They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability. Furthermore, they also clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and are to be applied retrospectively. They are not expected to have any impact on the financial statements of the Company.

5 Taxation

The Company is taxed at the Company standard rate (0%) in Guernsey.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

6 Net trading income

	Year ended 31 December 2020 CHF	Year ended 31 December 2019 CHF
Gains less losses on instruments held for trading		
Foreign currency	216,318	(286,894)
Trading securities	(14,135)	4,891,742
Gains less losses on fair value hedging		
Gains less losses from fair value direct hedged items	20,629	465,338
Gains less losses from fair value direct hedging instruments	(783,764)	(227,604)
Gains less losses on instruments designated at fair value		
Financial liabilities designated at fair value through profit or loss	(5,714,355)	(182,495,621)
Derivatives managed with financial instruments designated at fair value through profit or loss	16,596,502	193,744,169
Net trading income	10,321,195	16,091,130

7 Operating expenses

	Year ended 31 December 2020 CHF	Year ended 31 December 2019 CHF
Administrative expenses		
Administration fees	-	476,310
Audit fees	108,376	103,127
Directors' fees	8,497	8,903
Secretarial fees	13,128	5,131
Other expenses	55,598	175,946
Depreciation	54,595	23,185
Zürcher Kantonalbank service costs		
Development costs	958,333	1,500,000
Product issuing costs	958,333	1,500,000
Distribution costs	3,522,872	4,287,570
Risk management fee	2,166,666	2,000,000
Keep-well agreement charges	567,439	649,368
Employee expenses		
Salaries	498,471	428,787
Social security	32,426	27,971
Health insurance	33,021	26,880
Other staff expenses	58	12,289
	8,977,813	11,225,467

8 Financial assets and financial liabilities at fair value through profit or loss

	2020 CHF	2019 CHF
Financial assets at fair value through profit or loss		
Securities held for trading		
Debt securities	1,271,581,945	1,385,114,812
Listed equity instruments	156,176	-
	1,271,738,121	1,385,114,812
Derivative financial instruments		
Currency forwards	316	-
Interest rate swaps	11,216,575	12,598,679
Options	4,769,781	8,312,747
Total return swaps	3,344,256	6,513,983
	19,330,928	27,425,409
Total financial assets at fair value through profit or loss	1,291,069,049	1,412,540,221

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

8 Financial assets and financial liabilities at fair value through profit or loss (continued)

In the comparative period the Company classified its equity instruments and debt instruments as financial assets held for trading and its derivative financial instruments were designated at FVTPL.

Financial liabilities at fair value through profit or loss	2020 CHF	2019 CHF
Structured product financial instruments		
Linked to commodities	-	983,782
Linked to credit derivatives	70,074,776	137,373,244
Linked to equities / equity indices	993,419,472	1,017,268,490
Linked to foreign exchange	-	103,590,780
Linked to interest instruments	12,997,751	17,464,885
Linked to mixed derivatives	8,216,194	8,384,910
Linked to precious metals	40,824,198	-
	<u>1,125,532,391</u>	<u>1,285,066,091</u>
Derivative financial instruments		
Credit default swaps	-	10,986
Currency forwards	65	-
Interest rate swaps	7,913,378	8,154,791
Options	34,074,241	17,572,307
Total return swaps	38,483,263	9,007,750
	<u>80,470,947</u>	<u>34,745,834</u>
Total financial liabilities at fair value through profit or loss	<u><u>1,206,003,338</u></u>	<u><u>1,319,811,925</u></u>

9 Derivative contracts

Derivative contracts serve as components of the structured product financial liabilities of the Company. The derivative contracts that the Company may hold or issue include: futures; options; forward currency contracts; currency swaps; interest rate caps and floors; interest rate swaps; total return swaps; and credit default swaps.

The Company uses derivative financial instruments to economically hedge its risks associated with fluctuations in the value of structured product financial liabilities and interest rate risk associated with the Guernsey Risk Manager portfolio (the Company does not designate any derivative as a hedging instrument for hedge accounting purposes).

Derivatives often reflect, at their inception, only a mutual exchange of promises with little or no transfer of tangible consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the underlying of a derivative contract may have a significant impact on the value of the contract.

OTC derivatives may expose the Company to the risks associated with absence of an exchange market on which to close out an open position. The counterparty for all derivative contracts in force at the year-end was the Company's parent entity, Zürcher Kantonalbank, and as such no credit valuation adjustments or debit valuation adjustments have been made to the OTC derivatives in the current or previous year. As at the date of signing these financial statements, Standard & Poor's had assigned Zürcher Kantonalbank a credit rating of AAA.

The following table shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of the derivative are measured. The notional amounts indicate the volume of transactions outstanding at the reporting dates and are not indicative of either market risk or credit risk.

	2020			2019		
	Assets CHF	Liabilities CHF	Notional Amount CHF	Assets CHF	Liabilities CHF	Notional Amount CHF
Derivatives primarily held for trading purposes						
Credit default swaps	-	-	3,300,000	-	10,986	3,300,000
Options	4,769,781	34,074,241	4,844,038	8,312,747	17,572,307	468,488,392
Total return swaps	3,344,256	38,483,263	670,223,732	6,513,983	9,007,750	654,996,978
	<u>8,114,037</u>	<u>72,557,504</u>	<u>678,367,770</u>	<u>14,826,730</u>	<u>26,591,043</u>	<u>1,126,785,370</u>

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9 Derivative contracts (continued)

	2020			2019		
	Assets CHF	Liabilities CHF	Notional Amount CHF	Assets CHF	Liabilities CHF	Notional Amount CHF
Derivatives primarily held for risk management purposes						
Interest rate swaps	11,216,575	7,913,378	1,613,319,255	12,598,679	8,154,791	1,507,678,730
Currency forwards	316	65	250,628	-	-	-
	<u>11,216,891</u>	<u>7,913,443</u>	<u>1,613,569,883</u>	<u>12,598,679</u>	<u>8,154,791</u>	<u>1,507,678,730</u>
Total derivatives	<u>19,330,928</u>	<u>80,470,947</u>	<u>2,291,937,653</u>	<u>27,425,409</u>	<u>34,745,834</u>	<u>2,634,464,100</u>

10 Fair value of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows financial instruments recognised at fair value:

Recurring fair value measurement of assets and liabilities

	2020				2019			
	Level 1 CHF	Level 2 CHF	Level 3 CHF	Total CHF	Level 1 CHF	Level 2 CHF	Level 3 CHF	Total CHF
Financial assets								
Securities held for trading (note 8)								
Equity instruments	156,176	-	-	156,176	-	-	-	-
Debt instruments	1,236,659,195	34,922,750	-	1,271,581,945	1,336,256,543	48,858,269	-	1,385,114,812
Derivative financial instruments (note 9)								
Currency forwards	-	316	-	316	-	-	-	-
Interest rate swaps	-	11,216,575	-	11,216,575	-	12,598,679	-	12,598,679
Options	-	4,769,781	-	4,769,781	-	8,312,747	-	8,312,747
Total return swaps	-	3,344,256	-	3,344,256	-	6,513,983	-	6,513,983
Total financial assets	<u>1,236,815,371</u>	<u>54,253,678</u>	<u>-</u>	<u>1,291,069,049</u>	<u>1,336,256,543</u>	<u>76,283,678</u>	<u>-</u>	<u>1,412,540,221</u>
Financial liabilities								
Structured product financial instruments (note 8)								
Linked to commodities	-	-	-	-	-	983,782	-	983,782
Linked to credit derivatives	-	70,074,776	-	70,074,776	-	137,373,244	-	137,373,244
Linked to equities / equity indices	-	993,419,472	-	993,419,472	-	1,017,268,490	-	1,017,268,490
Linked to foreign exchange	-	-	-	-	-	103,590,780	-	103,590,780
Linked to interest instruments	-	12,997,751	-	12,997,751	-	17,464,885	-	17,464,885
Linked to mixed derivatives	-	8,216,194	-	8,216,194	-	8,384,910	-	8,384,910
Linked to precious metals	-	40,824,198	-	40,824,198	-	-	-	-
Derivative financial instruments (note 9)								
Credit default swaps	-	-	-	-	-	10,986	-	10,986
Currency forwards	-	65	-	65	-	-	-	-
Interest rate swaps	-	7,913,378	-	7,913,378	-	8,154,791	-	8,154,791
Options	-	34,074,241	-	34,074,241	-	17,572,307	-	17,572,307
Total return swaps	-	38,483,263	-	38,483,263	-	9,007,750	-	9,007,750
Total financial liabilities	<u>-</u>	<u>1,206,003,338</u>	<u>-</u>	<u>1,206,003,338</u>	<u>-</u>	<u>1,319,811,925</u>	<u>-</u>	<u>1,319,811,925</u>

For all other financial assets and liabilities, the carrying value is an approximation of fair value, including: trade and other receivables; cash and cash equivalents; and trade and other payables.

There were no changes to valuation techniques or transfers between Levels 1, 2 and 3 during the year.

Where there are quoted prices in an active market for identical assets or liabilities, a security is included in Level 1. Where values are based on inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, or quoted prices for identical assets or liabilities in markets that are not active, they are included in Level 2.

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10 Fair value of financial instruments (continued)

The fair values of options are calculated using an option pricing model based on direct market data, e.g., bond or share prices, and indirect market data, e.g., interest, implied volatility and dividend estimates. The fair value of such options is included within Level 2.

The fair values of other derivatives are calculated based on quotes from counterparties to the agreements which are corroborated by market data. The fair value of such interest rate swaps is included within Level 2.

The fair values of structured product financial instruments, which are set up as combinations of the components of the respective structured product, are calculated based on the sum of the valuations of its components. As the fair values of the components of the structured products are either Level 1 (securities held for trading) or Level 2 (term deposits with banks and derivative financial instruments), the fair value of such structured products is included within Level 2.

11 Financial risk and management objectives and policies

11 a) Introduction

The main risks that the Company is exposed to are credit risk, liquidity risk and market risk (which includes interest rate risk, currency risk and price risk). The Directors regularly review and agree policies for managing each of these risks as summarised below, which includes the use of derivatives and other financial instruments. The risk management guidelines for the Company set out guidelines for identifying, managing and monitoring the risks to which the Company is exposed and in particular:

- define the rules and procedures for managing credit, liquidity and market risks;
- set out the applicable long-term risk policies of the Company and Zürcher Kantonalbank;
- define the entity to which duties and responsibilities in relation to risk monitoring are assigned; and
- provide an overview of relevant powers and responsibilities.

The general guidelines are:

- credit, liquidity and market risks shall be managed in accordance with the rules and policies laid down in the guidelines on risk management for Zürcher Kantonalbank, and its subsidiaries (collectively, the "group") risk policies;
- subject to the constraints of the applicable group risk policies, the Company shall define appropriate limits with a view to mitigating default and market risks;
- Zürcher Kantonalbank shall be responsible for managing risks subject to approved limits;
- Zürcher Kantonalbank shall be responsible for quantifying risk, preparing reports on risk monitoring conducted, and reporting on risks; and
- the Directors of the Company shall be entitled to limit the level of risk exposure and the list of approved products at any time.

There were no changes to the Company's risk management guidelines during the reporting period.

11 b) Risk management structure

The Chief Executive Officer of the Company is responsible for monitoring both the liquidity and solvency of the Company and compliance with the Company's risk limits. Furthermore, the Chief Executive Officer is also responsible for documenting risks limits, defining actions to be taken in the event of a breach of any of those limits, informing the Directors of any limit breaches and subsequent actions taken.

The Directors supervise management and are ultimately responsible for the overall risk management of the Company.

11 c) Risk measurement and reporting system

Risk measurement, preparation of risk monitoring reports and risk reporting have been delegated to Zürcher Kantonalbank. To ensure a constant monitoring of risk by the Company's management, a risk report is prepared by Zürcher Kantonalbank on a daily basis and is sent to the management of the Company.

The Directors of the Company have defined the following sensitivity limits for credit risk, interest rate risk and currency risk, as well as counterparty exposure limits, which are calculated on a daily or weekly basis by Zürcher Kantonalbank.

11 c) (i) Credit spread risk sensitivity limits

Credit spread risk refers to debt instruments and is related to daily changes in the spread of an instrument's yield curve over the zero-coupon Treasury yield curve (the z-spread). The sensitivity limit defines the maximum profit and loss daily change limit permitted on the theoretical hedging costs on the Company's treasury management portfolio. The Directors have defined a maximum credit spread sensitivity ("DV01") per issuer with a view to mitigating the credit risk associated with debt instruments.

DV01 is calculated as the sensitivity of a contract to a 1 basis point fluctuation in the credit spread curve and is set at a level that the Directors believe allows for sufficient returns to be generated on the Company's securities held for trading without exposing it to excessive credit risk.

	2020		2019	
	Current	Maximum credit spread	Current	Maximum credit spread
	CHF	CHF	CHF	CHF
DV01 per issuer	5,895	< 35,000	9,522	< 35,000

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11 Financial risk and management objectives and policies (continued)

11 c) (ii) Counterparty exposure limits

Counterparty exposure refers to the debt instruments within securities held for trading and relates to the risk of issuer default. The Directors have defined minimum credit ratings and maximum permitted nominal holdings per issuer for each credit rating category with a view to mitigating the default risk associated with securities.

Counterparty exposure is calculated on an aggregate basis for all securities held for trading within the treasury management portfolio, and is based on the lower of the two ratings provided by Standard & Poor's and Moody's ratings agencies.

	2020				2019			
	Nominal limit per issuer	Maximum exposure to any one issuer	Maximum residual term	Maximum residual term of any one issuer	Nominal limit per issuer	Maximum exposure to any one issuer	Maximum residual term	Maximum residual term of any one issuer
	CHF	CHF			CHF	CHF		
Long term rating AAA	100,000,000	35,900,000	no limit	44 months	100,000,000	29,915,000	no limit	33 months
Long term rating between AA+ and AA-	50,000,000	33,560,000	no limit	46 months	50,000,000	37,735,000	no limit	45 months
Long term rating between A+ and A	30,000,000	23,905,000	no limit	44 months	30,000,000	29,915,000	no limit	46 months
Long term rating A-	30,000,000	9,850,000	15 months	13 months	30,000,000	15,257,045	15 months	35 months
Long term rating BBB+	15,000,000	11,722,500	15 months	23 months	15,000,000	13,891,941	15 months	7 months
Long term rating BBB	15,000,000	9,050,000	15 months	11 months	15,000,000	15,000,000	15 months	9 months
Long term rating BBB-	15,000,000	-	15 months	-	15,000,000	13,460,000	15 months	11 months
Long term rating BB+ and lower	0	-	n/a	-	0	-	n/a	-

The Directors have approved temporary exceptions to the counterparty limit policy in respect of the below holdings. It is the opinion of the Directors that these securities can continue to be held until their maturity or until market conditions allow for their disposal.

	Long term rating	Nominal holding	Residual term
		CHF	
Issuer A	BBB+	6,295,000	23 months
Issuer A	BBB+	5,448,945	20 months

11 c) (iii) Interest rate sensitivity limits

Interest rate sensitivity is measured by reference to Rho, which is the rate at which the price of a derivative changes relative to a change in the risk free rate of interest. It is expressed as the amount of money, per share of the underlying, that the value of the option will gain or lose as the risk free interest rate rises or falls by one basis point.

	2020		2019	
	Limit	Sensitivity	Limit	Sensitivity
	CHF	CHF	CHF	CHF
Effect of 1 basis point movement in risk free interest rate	+/- 100,000	+/- 9'835	+/- 100,000	+/- 8,476

11 c) (iv) Foreign currency limits

The foreign exchange sensitivity limit is the maximum permitted movement in profit or loss caused by a 1% movement in the value of the Swiss franc.

	2020		2019	
	Limit	Sensitivity	Limit	Sensitivity
	CHF	CHF	CHF	CHF
Effect of 1% movement in the value of the Swiss franc	+/- 1,000,000	+/- 3,104	+/- 1,000,000	+/- 237

11 d) Risk mitigation

The Company uses derivatives and other financial instruments for trading purposes to manage exposures resulting from changes in credit risks, interest and foreign currency rates.

11 e) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the Company by failing to discharge an obligation. The Company is exposed to the risk of credit-related loss that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. These credit exposures exist within debt instruments, derivative assets, short term receivables and cash and cash equivalents.

Credit risk disclosures are segmented into two sections based on whether the underlying financial instrument is subject to IFRS 9's impairment disclosures or not.

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11 Financial risk and management objectives and policies (continued)

11 e) (i) Financial assets subject to IFRS 9's impairment requirements

The Company's only financial assets subject to the ECL model within IFRS 9 are short term trade and other receivables. At 31 December 2020, the total of short-term trade and receivables was CHF nil, on which no loss allowance has been provided (31 December 2019: total of CHF nil, on which no loss had been incurred). There is not considered to be any concentration of credit risk within these assets. No assets are considered impaired and no amounts have been written off in the period.

As all trade and other receivables are impacted by IFRS 9 ECL model the Company has adopted the simplified approach. The loss allowance shown is therefore based on lifetime ECLs.

In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates. Items have been grouped by their nature into the following categories: accrued income; amounts due from counterparties; and other receivables.

11 e) (ii) Financial assets not subject to IFRS 9's impairment requirements

The Company is exposed to credit risk on debt instruments and derivative assets. These classes of financial assets are not subject to IFRS 9's impairment requirements as they are measured at FVTPL. The carrying value of these assets represent the Company's maximum exposure to credit risk on financial instruments not subject to the IFRS 9 impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

The following table analyses the sensitivity of the Company's treasury management portfolio to changes in credit spreads:

Securities held for trading - Guernsey treasury management portfolio	2020 CHF	2019 CHF
Market scenario:		
1 basis point change in the difference in yields between treasury and non-treasury securities	194,020	172,416

The following tables analyse the Company's securities held for trading by rating agency category:

Securities held for trading - Guernsey treasury management portfolio	Fair value CHF	Rating	Allocation
As at 31 December 2020:			
Bonds receivable	223,925,027	AAA	18%
Bonds receivable	475,455,454	AA	38%
Bonds receivable	488,342,687	A	39%
Bonds receivable	72,027,272	BBB	5%
	<u>1,259,750,440</u>		<u>100%</u>
As at 31 December 2019:			
Bonds receivable	130,020,735	AAA	9%
Bonds receivable	347,794,694	AA	25%
Bonds receivable	803,248,380	A	59%
Bonds receivable	91,127,708	BBB	7%
	<u>1,372,191,517</u>		<u>100%</u>
Securities held for trading - as direct hedging instruments	Fair value CHF	Rating	Allocation
As at 31 December 2020:			
Bonds receivable	958,767	AAA	8%
Bonds receivable	398,422	BBB	3%
Bonds receivable	5,389,122	BB	45%
Bonds receivable	2,939,627	B	25%
Bonds receivable	948,528	CCC	8%
Bonds receivable	1,197,040	No rating	10%
Stocks held	156,176		1%
	<u>11,987,682</u>		<u>100%</u>

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11 Financial risk and management objectives and policies (continued)

11 e) (ii) Financial assets not subject to IFRS 9's impairment requirements (continued)

As at 31 December 2019:

Bonds receivable	2,800,857	AAA	21%
Bonds receivable	206,983	AA	2%
Bonds receivable	552,605	A	4%
Bonds receivable	3,415,884	BBB	26%
Bonds receivable	3,196,957	BB	25%
Bonds receivable	2,536,970	B	20%
Bonds receivable	213,039	No rating	2%
	<u>12,923,295</u>		<u>100%</u>

The securities listed above are held as direct hedging instruments for risk management purposes and are not subject to the counterparty limits shown in note 11 c) (ii).

Concentration of credit risk within securities held for trading is managed by counterparty, geographical region and industry sector. The Company has no major exposure to any one counterparty in the treasury management portfolio (see note 11 c) (ii)).

The following table analyses the concentration of credit risk by geographical distribution (based on counterparties' country of domicile):

	2020		2019	
	% of debt instruments	% of derivatives	% of debt instruments	% of derivatives
Australia	6%	0%	7%	0%
China	9%	0%	13%	0%
European Union	43%	0%	41%	0%
New Zealand	4%	0%	5%	0%
Switzerland	1%	100%	6%	100%
United States of America	13%	0%	9%	0%
Others	24%	0%	19%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The following table analyses the concentration of credit risk in the Company's treasury management portfolio by industrial distribution:

	2020		2019	
	% of debt instruments	% of derivatives	% of debt instruments	% of derivatives
Financial	67%	100%	70%	100%
Industrial	5%	0%	5%	0%
Sovereign	7%	0%	6%	0%
Supranational	4%	0%	3%	0%
Others	17%	0%	16%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

11 f) Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity arises because of the possibility that the Company could be required to pay its liabilities earlier than expected. The Company is exposed to cash repayments of its structured product financial liabilities on a regular basis.

There is no direct matching of the maturity profiles of the structured products with the securities held, however the Company's liquidity profile is constantly monitored as an important part of the treasury management process. Liquidity risk management consists of short term (3 months) and long term (3 years) monitoring of cash flows.

The following tables show a net liquidity surplus for the next year, when the treasury management portfolio is classified according to final maturity dates. The securities held in the treasury management portfolio are primarily debt instruments which, under normal market conditions are readily convertible to cash. As such their final maturity dates are not intended to closely match the final maturity profile of financial liabilities held at FVTPL:

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11 Financial risk and management objectives and policies (continued)

11 f) Liquidity risk (continued)

	2020 Up to one year CHF	2020 From one to two years CHF	2020 From two to three years CHF	2020 From three to four years CHF	2020 From four to five years CHF	2020 Five years and over CHF	31 December 2020 Total CHF
Assets							
Cash, amounts due from banks, money at call	203,109,566	-	-	-	-	-	203,109,566
Accrued interest receivable and prepayments	7,118,390	-	-	-	-	-	7,118,390
Securities held for trading, designated at FVTPL	421,642,481	439,944,801	343,624,071	55,763,875	5,322,976	5,439,917	1,271,738,121
Derivative financial instruments held at FVTPL	4,978,181	2,248,697	1,316,206	4,366,573	2,156	6,419,115	19,330,928
Liabilities							
Lease liabilities	(264,822)	-	-	-	-	-	(264,822)
Amounts due to banks	(185,963,621)	-	-	-	-	-	(185,963,621)
Accrued interest payable and accrued expenses	(1,367,638)	-	-	-	-	-	(1,367,638)
Derivative financial instruments held at FVTPL	(58,480,419)	(12,085,334)	(4,581,122)	(469,759)	(1,003,956)	(3,850,357)	(80,470,947)
Financial liabilities held at FVTPL	(792,981,319)	(219,148,141)	(57,574,142)	(21,279,040)	(3,549,862)	(30,999,887)	(1,125,532,391)
Net Liquidity	<u>(402,209,201)</u>	<u>210,960,023</u>	<u>282,785,013</u>	<u>38,381,649</u>	<u>771,314</u>	<u>(22,991,212)</u>	<u>107,697,586</u>

The undiscounted contractual liabilities of the Company excluding accrued interest at 31 December 2020 are as follows:

Financial liabilities held at fair value through profit or loss	826,090,124	227,609,909	58,244,083	18,501,494	3,729,760	28,933,369	1,163,108,739
	2019 Up to one year CHF	2019 From one to two years CHF	2019 From two to three years CHF	2019 From three to four years CHF	2019 From four to five years CHF	2019 Five years and over CHF	31 December 2019 Total CHF
Assets							
Cash, amounts due from banks, money at call	54,655,711	-	-	-	-	-	54,655,711
Accrued interest receivable and prepayments	9,137,206	-	-	-	-	-	9,137,206
Securities held for trading, designated at FVTPL	640,152,787	472,001,039	195,184,987	71,536,518	1,462,248	4,777,233	1,385,114,812
Derivative financial instruments held at FVTPL	9,527,534	4,501,199	1,667,356	1,486,024	3,825,529	6,417,767	27,425,409
Liabilities							
Lease liabilities	(335,159)	-	-	-	-	-	(335,159)
Amounts due to banks	(48,593,322)	-	-	-	-	-	(48,593,322)
Accrued interest payable and accrued expenses	(1,284,324)	-	-	-	-	-	(1,284,324)
Derivative financial instruments held at FVTPL	(20,240,145)	(8,941,748)	(2,190,433)	-	(412,847)	(2,960,661)	(34,745,834)
Financial liabilities held at FVTPL	(721,146,937)	(427,393,828)	(62,457,572)	(24,878,022)	(20,757,632)	(28,432,100)	(1,285,066,091)
Net Liquidity	<u>(78,126,649)</u>	<u>40,166,662</u>	<u>132,204,338</u>	<u>48,144,520</u>	<u>(15,882,702)</u>	<u>(20,197,761)</u>	<u>106,308,408</u>

The undiscounted contractual liabilities of the Company excluding accrued interest at 31 December 2019 are as follows:

Financial liabilities held at fair value through profit or loss	710,698,416	431,631,683	62,765,418	25,013,708	18,386,452	27,746,294	1,276,241,971
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11 g) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The maximum risk resulting from financial instruments, except for written equity-linked derivatives, equals their fair value. With written equity-linked derivatives, the Company bears the market risk of an unfavourable change in the price of the security underlying the option.

11 g) (i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Company writes interest rate derivatives, mainly being interest rate swaps in which the Company agrees to exchange, at specified intervals. The difference between fixed and variable interest amounts is calculated by reference to an agreed-upon notional principal amount in an effort to manage these risks. The majority of interest rate exposure arises on investment in debt securities and the interest rate profile is shown below.

The following table analyses the Company's interest rate exposure. The Company's assets and liabilities are included at their carrying amount and are categorised by their maturity dates:

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11 Financial risk and management objectives and policies (continued)

11 g) (i) Interest rate risk (continued)

	Total	Variable rate	Fixed rate	No net interest
	CHF	CHF	CHF	rate risk
				CHF
The interest rate profile of the Company at 31 December 2020:				
Assets				
Right-of-use assets	253,420	-	-	253,420
Cash, amounts due from banks, money at call	203,109,566	-	-	203,109,566
Accrued interest receivable and prepayments	7,118,390	-	-	7,118,390
Securities held for trading, designated at FVTPL	1,271,738,121	100,720,489	1,155,585,318	15,432,314
Derivative financial instruments held at FVTPL	19,330,928	11,216,575	-	8,114,353
Total Assets	1,501,550,425	111,937,064	1,155,585,318	234,028,043
Liabilities and Shareholder's funds				
Lease liabilities	264,822	-	-	264,822
Amounts due to banks	185,963,621	-	-	185,963,621
Accrued interest payable and accrued expenses	1,367,638	-	-	1,367,638
Derivative financial instruments held at FVTPL	80,470,947	7,913,378	-	72,557,569
Structured product financial liabilities held at FVTPL	1,125,532,391	17,361,720	-	1,108,170,671
Share capital	1,000,000	-	-	1,000,000
Retained earnings	106,951,006	-	-	106,951,006
Total Liabilities and Shareholder's Funds	1,501,550,425	25,275,098	-	1,476,275,327

	Total	Variable rate	Fixed rate	No net interest
	CHF	CHF	CHF	rate risk
				CHF
The interest rate profile of the Company at 31 December 2019:				
Assets				
Right-of-use assets	304,878	-	-	304,878
Cash, amounts due from banks, money at call	54,655,711	-	-	54,655,711
Accrued interest receivable and prepayments	9,137,206	-	-	9,137,206
Securities held for trading, designated at FVTPL	1,385,114,812	149,509,901	1,230,192,615	5,412,296
Derivative financial instruments held at FVTPL	27,425,409	12,598,679	-	14,826,730
Total Assets	1,476,638,016	162,108,580	1,230,192,615	84,336,821
Liabilities and Shareholder's funds				
Lease liabilities	335,159	-	-	335,159
Amounts due to banks	48,593,322	-	-	48,593,322
Accrued interest payable and accrued expenses	1,284,324	-	-	1,284,324
Derivative financial instruments held at FVTPL	34,745,834	8,154,791	-	26,591,043
Structured product financial liabilities held at FVTPL	1,285,066,091	44,012,116	-	1,241,053,975
Share capital	1,000,000	-	-	1,000,000
Retained earnings	105,613,286	-	-	105,613,286
Total Liabilities and Shareholder's Funds	1,476,638,016	52,166,907	-	1,424,471,109

11 g) (ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company invests in securities and issues structured products that are denominated in currencies other than the Swiss franc. Accordingly, the value of the Company's assets and liabilities may be affected favourably or unfavourably by fluctuations in currency rates.

The Company writes derivatives, such as currency forwards, to hedge foreign currency denominated financial instruments and increases or decreases in the fair value of the Company's foreign currency denominated financial assets and liabilities are partially offset by gains and losses on the economic hedging instruments.

The following table indicates the currencies to which the Company had significant exposure as at 31 December on its monetary assets and liabilities.

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11 Financial risk and management objectives and policies (continued)

11 g) (ii) Currency risk (continued)

Currency profile of the Company as at 31 December 2020:

	Total CHF	Swiss Franc CHF	Euro CHF	US Dollar CHF	British Pound CHF	Other CHF
Assets						
Right of use assets	253,420	-	-	-	253,420	-
Cash, amounts due from banks, money at call	203,109,566	202,845,833	-	-	137,661	126,072
Accrued interest receivable and prepayments	7,118,390	5,489,387	749,780	776,320	48,799	54,104
Securities held for trading, designated at FVTPL	1,271,738,121	839,650,753	256,562,355	173,533,466	-	1,991,547
Derivative financial instruments held at FVTPL	19,330,928	15,182,190	970,903	3,177,835	-	-
Total Assets	1,501,550,425	1,063,168,163	258,283,038	177,487,621	439,880	2,171,723
	100.00%	70.80%	17.20%	11.82%	0.03%	0.15%
Liabilities						
Lease liabilities	264,822	-	-	-	264,822	-
Amounts due to banks	185,963,621	7,364,592	74,769,297	102,280,831	495,042	1,053,859
Accrued interest payable and accrued expenses	1,367,638	1,237,044	-	-	130,594	-
Derivative financial instruments held at FVTPL	80,470,947	64,295,852	9,980,534	6,194,561	-	-
Structured product financial liabilities held at FVTPL	1,125,532,391	883,214,054	173,333,736	68,984,601	-	-
Total Liabilities	1,393,599,419	956,111,542	258,083,567	177,459,993	890,458	1,053,859
	100.00%	68.61%	18.52%	12.73%	0.06%	0.08%

Currency profile of the Company as at 31 December 2019:

	Total CHF	Swiss Franc CHF	Euro CHF	US Dollar CHF	British Pound CHF	Other CHF
Assets						
Right of use assets	304,878	-	-	-	304,878	-
Cash, amounts due from banks, money at call	54,655,711	53,728,584	-	-	544,965	382,162
Accrued interest receivable and prepayments	9,137,206	6,646,832	1,103,325	1,262,278	43,483	81,288
Securities held for trading, designated at FVTPL	1,385,114,812	928,570,034	251,321,934	199,987,297	-	5,235,547
Derivative financial instruments held at FVTPL	27,425,409	18,637,299	3,186,566	5,587,265	-	14,279
Total Assets	1,476,638,016	1,007,582,749	255,611,825	206,836,840	893,326	5,713,276
	100.00%	68.23%	17.31%	14.01%	0.06%	0.39%
Liabilities						
Lease liabilities	335,159	-	-	-	335,159	-
Amounts due to banks	48,593,322	21,707,631	25,771,520	420,766	466,301	227,104
Accrued interest payable and accrued expenses	1,284,324	1,074,815	-	-	145,277	64,232
Derivative financial instruments held at FVTPL	34,745,834	24,277,934	7,098,219	3,360,731	8,950	-
Structured product financial liabilities held at FVTPL	1,285,066,091	856,597,597	222,504,179	202,917,445	264,366	2,782,504
Total Liabilities	1,370,024,730	903,657,977	255,373,918	206,698,942	1,220,053	3,073,840
	100.00%	65.96%	18.64%	15.09%	0.09%	0.22%

11 g) (iii) Price risk

Equity price risk is the risk of unfavourable changes in the fair value of equity instruments or equity-linked derivatives as a result of changes in the levels of equity indices and the value of individual shares. The Company manages equity risk on its exposure to equity-linked structured products by writing equity-linked derivatives as a hedge against the movement in their price. The Company is therefore only exposed to equity price risk on the revaluation of equities purchased to meet obligations under equity-settled structured product liabilities which are valued based on the equity purchase price and are therefore subsequently settled at nil gain/loss.

Management's best estimate of the effect on profit or loss for a year due to a reasonably possible change in equity indices, with all other variables held constant, is indicated in the table below. There is no effect on other comprehensive income as the Company has no assets classified as fair value through other comprehensive income or designated hedging instruments. In practice the actual trading results may differ from the sensitivity analysis below and the difference could be material. An equivalent decrease in equity indices as shown below would have resulted in an equivalent, but opposite, impact.

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11 Financial risk and management objectives and policies (continued)

11 g) (iii) Price risk (continued)

	Change in equity index %	Effect on net income for the year 2020 CHF	2019 CHF
Stoxx Europe 600 Index	+/- 10	+/- 15,618	-

The effect of changes in bond prices resulting from variations in interest rates are quantified in notes 11 c) (iii) and 11 g) (i).

12 Leases

The Company has a 6-year lease contract in respect of office premises used in its operations. The Company is restricted under the terms of this lease from assigning and subleasing the premises with the prior consent of the lessor.

Set out below of the carrying amount of right-to-use assets recognised and the movements during the year:

	Office Premises CHF	Total CHF
As at 1 January 2019	-	-
Additions	322,425	322,425
Fair value adjustment	5,638	5,638
Depreciation expense	(23,185)	(23,185)
As at 31 December 2019	304,878	304,878
Fair value adjustment	3,137	3,137
Depreciation expense	(54,595)	(54,595)
As at 31 December 2020	253,420	253,420

Set out below are the carrying amount of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the year:

	2020 CHF	2019 CHF
As at 1 January	335,159	-
Additions	-	322,425
Fair value adjustment	3,137	5,638
Accretion of interest	5,662	2,721
Payments	(59,855)	(13,660)
Foreign exchange differences	(19,281)	18,035
As at 31 December	264,822	335,159
Current (see note 14)	55,747	57,337
Non-current (see note 14)	209,075	277,822

The maturity analysis of lease liabilities are disclosed in note 15.

The following are the amounts recognised in the statement of income:

	2020 CHF	2019 CHF
Depreciation expense of right-of-use assets	54,595	23,185
Interest expense on lease liabilities	5,662	(2,721)
(Gain)/loss on revaluation of lease liabilities	(19,281)	18,035
Total amount recognised in statement of income	40,976	38,499

The Company had total cash outflows for leases of CHF 59,855 in 2020 (CHF 13,660 in 2019).

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13 Cash, amounts due from / to banks, money at call

	2020 CHF	2019 CHF
Due from banks, Guernsey	117,225	248,424
Due from banks, Zürcher Kantonalbank	202,992,341	54,407,287
	<u>203,109,566</u>	<u>54,655,711</u>
Due to banks, Zürcher Kantonalbank	(185,963,621)	(48,593,322)
	<u>(185,963,621)</u>	<u>(48,593,322)</u>
Total net cash, amounts due from / to banks, money at call	<u>17,145,945</u>	<u>6,062,389</u>

The amounts due from banks in Guernsey accrue interest income at variable market rates. The amounts due to and from Zürcher Kantonalbank do not accrue interest.

14 Lease liabilities

	Interest rate %	Maturity	2020 CHF	2019 CHF
Current interest-bearing loans and borrowings				
Lease liabilities (see note 12)	2.0	2021	55,747	57,337
Total current interest-bearing loans and borrowings			<u>55,747</u>	<u>57,337</u>
Non-current interest-bearing loans and borrowings				
Lease liabilities (see note 12)	2.0	2022 - 2025	209,075	277,822
Total non-current interest-bearing loans and borrowings			<u>209,075</u>	<u>277,822</u>
Total interest-bearing loans and borrowings			<u>264,822</u>	<u>335,159</u>

15 Changes in liabilities arising from financing activities

	1 January 2020 CHF	New leases CHF	Cash flows CHF	Other CHF	Foreign exchange differences CHF	31 December 2020 CHF
Assets						
Current lease liabilities (see note 12)	57,337	-	(59,855)	61,563	(3,298)	55,747
Non-current lease liabilities (see note 12)	277,822	-	-	(52,764)	(15,983)	209,075
Total Assets	<u>335,159</u>	<u>-</u>	<u>(59,855)</u>	<u>8,799</u>	<u>(19,281)</u>	<u>264,822</u>
	1 January 2019 CHF	New leases CHF	Cash flows CHF	Other CHF	Foreign exchange differences CHF	31 December 2019 CHF
Assets						
Current lease liabilities (see note 12)	-	42,067	(13,660)	26,577	2,353	57,337
Non-current lease liabilities (see note 12)	-	280,358	-	(18,218)	15,682	277,822
Total Assets	<u>-</u>	<u>322,425</u>	<u>(13,660)</u>	<u>8,359</u>	<u>18,035</u>	<u>335,159</u>

The 'other' column includes the effect of reclassification of non-current portion of interest-bearing lease liabilities due to the passage of time, the effect of accrued but not yet paid interest on lease liabilities and any fair value adjustments resulting from changes in contractual lease payments. The Company classifies interest paid as cashflows from operating activities.

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16 Share capital

	2020 CHF	2019 CHF
Authorised		
1,000 Ordinary shares of CHF1,000 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid		
1,000 Ordinary shares of CHF1,000 each	<u>1,000,000</u>	<u>1,000,000</u>

Each holder of a fully paid ordinary share is entitled to one vote for each share owned. When and as dividends are declared upon the ordinary share capital of the Company, the holders of ordinary shares are entitled to share equally, share for share, in such dividends. In the event of liquidation of the Company, the holders of ordinary shares shall be entitled to receive any of the remaining assets of the Company after the distribution of all preferred amounts. The amount distributed will be in proportion to the number of equity shares held by the shareholders.

17 Capital management

The Company considers its capital to comprise its share capital and retained earnings which amounted CHF 107,951,006 as at 31 December 2020 (2019: CHF 106,613,286). The Company's capital management objectives are to achieve consistent returns while safeguarding capital and to maintain sufficient liquidity to meet the expenses of the Company and to meet its liabilities as they arise.

To achieve the above objectives, the Company invests in term deposits with group approved banks and bonds with an appropriate credit rating (see note 11).

The Company is not subject to externally imposed capital requirements and has no restrictions on the issue or repurchase of ordinary shares.

18 Related party disclosures

Parent and ultimate controlling party

The immediate and ultimate parent undertaking is Zürcher Kantonalbank, a Company incorporated in Switzerland.

Transactions with related parties

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

		Income Year ended 31 December CHF	Expenses Year ended 31 December CHF	Due to related party 31 December CHF	Due from related party 31 December CHF
Parent:					
Zürcher Kantonalbank	2020	10,098,383	8,173,643	1,052,941	-
	2019	11,020,944	9,936,938	1,048,684	-
Bank accounts held with parent Company	2020	-	-	185,963,621	202,992,341
	2019	-	-	48,593,322	54,407,287
Derivative contracts with parent Company	2020	-	-	80,470,947	19,330,928
	2019	-	-	34,745,834	27,425,409
Structured products held by parent Company	2020	-	-	102,479,703	-
	2019	-	-	97,910,014	-

Terms and conditions of transactions with related parties

Outstanding balances at the year end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Transactions with key management personnel

Key management personnel, defined as the Board of Directors and Chief Executive Officer, received the following compensation during the year:

	Year ended 31 December 2020 CHF	Year ended 31 December 2019 CHF
Short-term employee benefits	<u>219,485</u>	<u>175,148</u>

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19 Events after the statement of financial position date

Guernsey entered into a lockdown on 23 January 2021, with residents asked to stay at home except for essential circumstances. Management therefore enacted the Company's 'work from home' procedures, and the Company has continued to operate without interruption as all employees are able to fulfil their duties remotely.