

Credit Opinion: Zuercher Kantonalbank

Global Credit Research - 20 Mar 2012

Zurich, Switzerland

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Aaa/P-1
Bank Financial Strength	C+
Baseline Credit Assessment	(A2)
Adjusted Baseline Credit Assessment	(A2)
Senior Unsecured -Dom Curr	Aaa

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Key Indicators

Zuercher Kantonalbank (Consolidated Financials)[1]

	[2]12-11	[2]12-10	[2]12-09	[2]12-08	[2]12-07	Avg.
Total Assets (CHF million)	133,425.0	125,739.0	116,575.0	112,703.0	102,661.0	[3]6.8
Total Assets (EUR million)	109,914.7	100,554.8	78,598.9	76,176.6	62,021.0	[3]15.4
Total Assets (USD million)	142,685.3	134,898.6	112,769.0	105,889.0	90,677.9	[3]12.0
Tangible Common Equity (CHF million)	8,555.0	8,167.0	7,832.0	7,431.0	7,330.0	[3]3.9
Tangible Common Equity (EUR million)	7,047.6	6,531.2	5,280.6	5,022.7	4,428.3	[3]12.3
Tangible Common Equity (USD million)	9,148.8	8,761.9	7,576.3	6,981.7	6,474.4	[3]9.0
Net Interest Margin (%)	0.9	0.9	1.0	1.2	1.3	[4]1.1
PPI / Avg RWA (%)	1.3	1.4	1.7	1.1	1.7	[5]1.4
Net Income / Avg RWA (%)	1.3	1.4	1.4	1.0	1.6	[5]1.3
(Market Funds - Liquid Assets) / Total Assets (%)	-3.0	0.1	-2.5	-4.3	6.4	[4]-0.7
Core Deposits / Average Gross Loans (%)	96.0	90.7	95.1	96.4	78.5	[4]91.3
Tier 1 Ratio (%)	13.7	14.3	14.2	13.0	13.4	[5]13.7
Tangible Common Equity / RWA (%)	14.3	15.0	14.9	13.7	14.2	[5]14.4
Cost / Income Ratio (%)	64.0	62.5	59.2	68.4	59.3	[4]62.7
Problem Loans / Gross Loans (%)	1.9	1.8	2.0	1.5	1.7	[4]1.8
Problem Loans / (Equity + Loan Loss Reserves) (%)	15.7	14.6	16.2	12.1	13.0	[4]14.3

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [4] LOCAL GAAP reporting periods have been used for average calculation [5] Basel II & LOCAL GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a standalone bank financial strength rating (BFSR) of C+ to Zuercher Kantonalbank (Zuercher KB), which

maps to A2 on the long-term rating scale. Zuercher KB's BFSR reflects (i) its well entrenched franchise in the Zurich area; (ii) its robust market position in wealth management and private banking; and (iii) its solid financial performance. However, the BFSR remains constrained by Zuercher KB's intrinsic concentration in the Zurich area including its exposure to the real-estate markets in the region and its comparatively high dependence on fee and trading income revenues.

Zuercher KB's Aaa/Prime-1 long-term and short-term global local currency (GLC) deposit ratings reflect its importance in the local economy as well as its full ownership and statutory guarantee by the Canton of Zurich (unrated). Under our Joint Default Analysis (JDA) methodology, we assess the probability of regional local government (RLG) support as very high and the probability of systemic support as high, which together result in a five-notch uplift in the deposit ratings to Aaa from the bank's standalone credit strength of A2.

Credit Strengths

- The Canton of Zurich fully owns Zuercher KB and provides it with a statutory guarantee
- A solid regional franchise in retail, corporate and SME banking in the Zurich agglomeration
- Solid market positions in on-shore and off-shore private banking and in Swiss capital market activities
- Good diversification of revenues and earnings between on and off-balance-sheet activities
- Zuercher KB's financial profile is sound, in our view, including solid funding and liquidity

Credit Challenges

- Elevated exposure to the real-estate markets in the greater Zurich area, which may be subject to "overheating" (i.e., price inflation)
- Competition for banking services and deposits remains intense, which exerts pressure on Zuercher KB's market shares and margins
- Zuercher KB's business risks are generally related to private banking and wealth managers, including: strategic risks in a highly fragmented global wealth-management market, reputational risk, legal and operational risks as exemplified by recent tax evasion investigations by US authorities
- Macro-economic conditions remain challenging, especially in terms of elevated exchange-rate levels, which over time might exert pressure on Switzerland's export-oriented economy, thereby affecting loan book performance
- There is increasing pressure on Switzerland as an offshore private banking centre - with Switzerland entering into bilateral tax agreements and relaxing its banking secrecy rules - that could affect Zuercher KB's growth plans in private banking

Rating Outlook

The outlook is stable on all Zuercher KB's ratings.

What Could Change the Rating - Up

A reversal of some recent market-share declines, improved geographical diversification, reduced credit concentrations or sustainable improvement in recurring earnings power could exert positive pressure on the BFSR. However, this would be contingent on Zuercher KB not increasing its risk appetite or compromising its underwriting standards.

The debt and deposit ratings are already at the Aaa ceiling level.

What Could Change the Rating - Down

Zuercher KB's BFSR could be negatively affected by signs of price inflation in the Zurich area property market or adverse macro-economic conditions (e.g., a prolonged period of elevated exchange rates); both factors could materially impair Zuercher KB's asset-quality indicators. Additionally, downward pressure on the BFSR could stem from a meaningful deterioration in market shares that could weaken Zuercher KB's financial profile, or erosion of the bank's asset and wealth-management franchise, and/or litigation charges in connection with typical private wealth management suits (tax cases or reputational cases), that may be significant compared to the bank's annual operating cash flow or its capital position.

The debt and deposit ratings could possibly suffer from lower systemic or RLG support, for example, if we believe that the creditworthiness of the canton of Zurich has weakened, or if the guarantee for Zuercher KB were to be removed; however, we consider that both negative scenarios are unlikely to occur at present.

Recent Results and Company Events

For the full year 2011, Zuercher KB reported net income of CHF769 million, up 5.5% compared to CHF729 million in 2010. The

increase was mainly driven by 7.5% higher net interest income amounting to CHF 1.2 billion which -- in turn -- also led to an increase in net revenue to CHF2,1 billion, up 3.2% compared with 2010. Fee and commission income came down by moderate 1.3% to CHF525 million while net trading income decreased by 2.9% to CHF356 million. Additionally, reduced cost of risk (to CHF29 million from CHF58 million in 2010 and CHF181 million in 2009) supported bottom line profitability.

As at December 2011, Zuercher KB reported total assets of CHF134 billion, an increase of CHF7.6 billion (6%) year-to-date. This growth in size was primarily driven by an increase in customer loans of CHF2.8 billion to CHF73.9 billion on the back of growing customer deposits (by CHF6.9 billion or 11%) to CHF69.9 billion.

Zuercher KB's balance-sheet equity stood at CHF8.6 billion as of YE 2011 (YE 2010: CHF8.2 billion). As at YE 2011, Zuercher KB's regulatory capitalization stood at 13.4%, down from 14.1% at year-end 2010. The main reasons for the decline were higher capital charges for market risk (Basel 2.5), but also regular business growth. In order to further strengthen its regulatory capitalisation, in January 2012, Zuercher KB issued CHF590 million contingent capital with loss-absorption features that would be triggered if Zuercher KB's capitalisation falls below 7%. We expect that profit retention for 2011 - coupled with the aforementioned contingent capital issuance - should lift Zuercher KB's regulatory capitalization well into the new target capital range of 13.6% to 14.4%.

Zuercher KB's private banking arm had assets under management (AuM) of CHF176.6 billion at YE 2011 and overall, net new money inflows reached CHF12.3 billion (2010: CHF12.0 billion). As a sign of closer integration, Zuercher KB renamed Privatinvest Bank AG into Zürcher Kantonalbank Österreich AG in October 2011, effectively ending the restructuring phase. Zuercher KB acquired Privatinvest Bank AG in February 2010 from Commerzbank and the Sparkasse Salzburg.

The tax investigation into Zuercher KB's US offshore business by the US authorities led to a full pull-back from these banking activities in the US, after Zuercher KB had already partially pulled-out from business in this off-shore market in 2009. Accordingly, Zuercher KB has no net new-money goals within the US and decided - in January 2012 - to close all its US customer accounts. This should only have a minor impact on the bank, as the business represents a very small portion of Zuercher KB's total wealth-management (including offshore) business. More generally, however, we believe that heightened (non US) customer concerns about the degree to which Swiss bank secrecy laws can continue to protect their privacy represent by far greater risks for the sustainability of franchises of Swiss banks active in private banking given unresolved discussions with various European countries about double taxation.

DETAILED RATING CONSIDERATIONS

Franchise Value

As Switzerland's third-largest financial institution, Zuercher KB has a solid retail and commercial banking franchise with a leading market share and a well entrenched regional presence primarily in the Zurich agglomeration, one of Switzerland's economically strongest and balanced, but competitive, regions. Additionally, Zuercher KB benefits from strong market positions in commercial and investment banking services for mid-sized and large corporate clients based in Zurich and across Switzerland. Internationally, Zuercher KB selectively supports Swiss corporates abroad with interbank and trade-finance services. Given its strong home-market position in Zurich and its ability to provide national and selective international commercial banking services, Zuercher KB has successfully positioned itself as one of Switzerland's top banking institutions.

While the effects of competition are being reflected in slightly declining market shares, Zuercher KB has a very strong position in the Canton of Zurich, with market shares of approximately 40% of the mortgage-lending market and a share of roughly 35% of the retail deposit base. It is arguably one of the leaders in terms of domestic investment banking operations in Switzerland. Within the Swiss market, Zuercher KB is the third-largest equity derivative market counterparty behind Deutsche Bank and Vontobel and has, over the past five years, ranked as the number one originator of Swiss franc domestic bond issuances, ahead of Credit Suisse and UBS (second, when including covered bonds - or "Pfandbriefe" - issues). With respect to Swiss equity origination, Zuercher KB ranks third.

Additionally, Zuercher KB has positioned itself as one of the larger providers of wealth-management both nationally and internationally. Zuercher KB has continuously expanded its AuM and has established a sizeable private-banking franchise. Over recent years, Zuercher KB acquired several new funds, launched new products and acquired Austrian Privatinvest Bank (later renamed "Zürcher Kantonalbank Österreich AG"). This reflects the management's commitment to wealth and asset management and demonstrates that Zuercher KB aims to access surrounding markets and those in Eastern Europe.

During recent years, the limited housing supply combined with the high rate of immigration of highly qualified workers has positioned the city area of Zurich as one of Switzerland's stronger property markets, with steadily increasing prices. This, together with very low interest rates has led to our assessment that the regional real-estate market may be subject to price inflation.

Zuercher KB's 100% ownership and explicit guarantee by the canton of Zurich are key factors underpinning the strength and resilience of Zuercher KB, but also impose a public-service mandate on the bank.

Risk Positioning

Zuercher KB was established to perform the function of a house-bank for the canton of Zurich, and therefore maintains business relations with the canton. Whilst fully owned by the canton, Zuercher KB's credit exposure related to its owner was lower than 1% of the Tier 1 capital and below the materiality threshold under our methodology. Hence, Zuercher KB has a D score for ownership and organisational complexity and a neutral score for related and insider-party risks.

We recognise the progress Zuercher KB has made in enhancing its control procedures and processes. These efforts have contributed to the creation of a new risk-management structure including the position of a dedicated CRO with a presence on the executive board since 2008. In addition, the CRO supervises the risk-management function and attends risk-management-related banking committees.

While Zuercher KB's loan book is adequately diversified by industry (scoring C for industry concentration), the Top 20 exposures exceed 200% of its Tier 1 capital, thus triggering an E score for credit-risk concentrations.

We believe that Zuercher KB's liquidity management is conservative. Zuercher KB ensures it has sufficient liquidity buffers to survive specific stress scenarios of a shutdown in wholesale markets, in addition to assumed outflows in retail and corporate deposits.

Zuercher KB's market-risk appetite - whilst higher than that of other cantonal banks, given Zuercher KB's business mix - is adequate in light of the available amounts of capital and its robust control procedures. Unlike smaller players, Zuercher KB builds its own derivative products, which implies some risk retention, despite the hedging strategies it uses. In addition, Zuercher KB has expanded its market-making activities in the Eurobond market.

We note, however, that Zuercher KB has made notable progress to mitigate risks in its hedging and derivatives activities. Risk capital is allocated through a Capital at Risk (CaR) approach, whilst strict limits are set following a Value at Risk (VaR) model. In addition to regular back-testing, this is then complemented by periodic stress tests and controls on market liquidity levels.

Profitability and Efficiency

Zuercher KB's three-year average to 2010 for risk-weighted recurring earnings power stood at 1.4%, which compares favourably with those of its European peers. Zuercher KB benefits from well diversified revenue and earnings streams, with comparatively granular and stable contributions from its retail and corporate banking activities and from its (more volatile) capital-markets and private banking business. The trading income contribution-to-operating income (as of December 2011) fell slightly to 17% from around 18% in 2010. We currently see limited potential for improvements in operating efficiency and profitability, as competitive pressures are likely to continue to weigh on lending, deposit margins and wealth-management margins.

At the same time, we note that Zuercher KB has been diversifying its earnings base in recent years from net interest income more towards non-interest income, especially from fee, commission and trading income. This has increased following healthy growth in wealth-management operations and improved asset-management activities. In addition, we positively note the shift in earnings diversification over recent years, with net fee and commission income contributing 25% of total revenue as of YE 2011, from around 23% in 2009.

In our opinion, Zuercher KB's profitability metrics will further decrease, even though we do not expect a significant drop, due to (i) high competition; (ii) low interest rates; (iii) a macroeconomic slowdown coupled with deterioration in the credit cycle (including higher cost of risk); and (iv) medium-term investment requirements in the IT platform and back-office operations.

Liquidity

Zuercher KB benefits from a strong liquidity structure, with a loan-to-deposit ratio of 106% as of YE 2011 (2010: 113%) and sound liquidity management, supported by:

- (i) A liquid balance sheet representing around 42.6% of total assets (H1 2011), comprising mainly repo-eligible trading securities and interbank assets;
- (ii) Around 53% of total funding consists of core deposits, which has increased by 37% since 2007, attracting significant amounts of client deposits benefiting from the safety net of the state guarantee;
- (iii) A stable level of long-term market funding, over recent years, with CHF11.5 billion - or 21% of total market funding as of FY2011 - including CHF6.5 billion in bond issuances, CHF4.0 billion in covered bonds (Pfandbriefe) and CHF0.9 billion in medium-term notes. In our view, the Pfandbrief - as a level 2 asset - is less dependent on immediate market movements because these assets are not valued mark-to-market.

Furthermore, we note, that Zuercher KB might be able to cover higher liquidity needs, as it has some options left to bolster its liquidity buffer by:

- (i) Creating a liquidity facility at the Pfandbriefbank (the legal intermediary for the issuance of covered bonds), with a potential issuance volume of CHF1.7 billion;

(ii) Implementing a new savings account for corporates, with an extended pull-out period of 60 days from 35 days, likely generate another CHF1 billion in liquidity; and

(iii) Planned issuances abroad, with issuance volumes above CHF1 billion per year. Demand for senior unsecured issuances from Zuercher KB is strong, benefiting from the cantonal backing and changed regulatory and legislative framework.

Capital Adequacy

Since June 2011, Zuercher KB has been classified as a category 2 institution according to the definition of the Swiss financial market authority (FINMA) and must maintain target capital ranging between 13.6% to 14.4%. FINMA can require Zuercher KB to recapitalize if levels fall below the new target range and - at the intervention level of 11.5% - even force the sale of assets (e.g., subsidiaries).

As at YE 2011, Zuercher KB's regulatory capitalization stood at 13.4%, down from 14.1% at year-end 2010. While the half-year net income of CHF151 million was not yet recognised, the main reasons for the decline were higher capital charges for market risk (Basel 2.5), but also regular business growth. In order to further strengthen its regulatory capitalisation, in January 2012, Zuercher KB issued CHF590 million contingent capital with loss-absorption features that would be triggered if Zuercher KB's capitalisation falls below 7%. We expect that profit retention for 2011 - coupled with the aforementioned contingent capital issuance - should lift Zuercher KB's regulatory capitalization well into the new target capital range.

The dividend payout strategy and the compensation for the capital costs of the endowment capital to the canton of Zurich (equivalent to around 2-3% of cantonal income) follow a stable and predictable path, and have remained constant over recent years.

Regulatory risk-weighted assets are calculated under Basel II standards, using the Swiss standard approach for credit risk and the i

nternal model for market risk. The internal-ratings-based approach has never been applied at Zuercher KB, but it would lead to significant reductions in RWA's and cost savings if applied. While having introduced capital charges for market risk (Basel 2.5) in 2011, Zuercher KB is not yet Basel III compliant and expects the technical implementation process to start in 2012. The Swiss regulator will be requesting test-reporting on a nationwide scale, from 2012 onwards.

Asset Quality

Zuercher KB's loan book grew by 3.9% in 2011 to CHF73.9 billion, including CHF65 billion from collateralised lending, typically secured by mortgages on single and multi-family residential housing (predominantly in the Zurich region). Half of these lending commitments account for traditional retail and SME loans, lent mainly in the Zurich area and its proximity. We note that the retail-loan portfolio is highly granular, whilst the SME or corporate exposures are less granular, but remain moderate.

In line with our Banking System Outlook on Switzerland, published in June 2011, we expect the residential property market in Switzerland to remain under pressure in 2012, against the background of the challenging macro-economic environment. In our opinion, the Swiss housing market is showing early signs of overheating, particularly in some popular urban hotspots and some luxury segments of the retail mortgage market. Zuercher KB is very active in real-estate-related lending in the Zurich area, exposing it to a certain degree of re-pricing risk in a downturn scenario. However, we acknowledge that the following factors have mitigating effects on the real-estate market pressures affecting Zuercher KB:

- (i) The group has expanded moderately, displaying a 19% growth rate between 2007-10;
- (ii) Its credit portfolio is well diversified and largely collateralised by owner-occupied residential properties;
- (iii) It has limited exposure to luxury segments within the retail mortgage market; and
- (iv) Zuercher KB's underwriting standards have been prudent, to-date.

Over the near term as economic growth slows, we cannot rule out additional deterioration in asset quality especially in the segment of export-oriented corporate and SME exposures vulnerable to elevated exchange-rates.

Problem loans stood at CHF1.3 billion at year-end 2010 (2009: CHF1.4 billion in 2009), but remain 30% above the CHF1.0 billion reported in 2008. Zuercher KB's problem-loans-to-gross loan ratio was 1.8% for the three-year average to 2010. The overall net lending exposure is estimated at CHF581 million, after deducting for collateral, whilst total reserves are at CHF671 million, which would cover around 60% of gross problem loans. Nevertheless, a prolonged period of adverse macroeconomic conditions might exert additional strain on Zuercher KB's asset-quality indicators.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign a GLC deposit rating of Aaa to Zuercher KB. This rating is supported by Zuercher KB's standalone credit strength of A2 as well as by the ratings of its underlying support providers: the Canton of Zurich's creditworthiness and Switzerland's Aaa local-currency deposit ceiling (LCDC). Zuercher KB thus receives a five-notch uplift to Aaa from its A2 standalone credit

strength.

We assess a very high probability of RLG support from the Canton of Zurich, as it is the sole owner of Zuercher KB and provides an explicit guarantee for Zuercher KB's unsubordinated obligations. In our view, Zuercher KB continues to play an important role within the regional economy. Legally, Zuercher KB is a public-law institute ("öffentlich-rechtliche Anstalt") of the Canton and is included as an investment within the Canton's financial balance sheet. It is our understanding that the Canton has no current plans to reduce the government's ownership of the institution. In 1997, the Canton reaffirmed its commitment to Zuercher KB through a public referendum that showed roughly 80% support for the continuation of the Canton's guarantee and ownership.

We believe that there is a high probability of systemic support for Zuercher KB in the event of a stress situation. We base our view on Zuercher KB's national market share and relative importance to the country's banking system, and that the government's support for Zuercher KB - in case of need - is unlikely to weaken.

Foreign Currency Deposit Rating

Zuercher KB's foreign-currency deposit ratings are Aaa/Prime-1.

Foreign Currency Debt Rating

Zuercher KB's foreign-currency debt ratings are Aaa/Prime-1.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognise the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Ratings

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and

typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Zuercher Kantonalbank

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C	
Factor: Franchise Value						C	Neutral
Market Share and Sustainability		x					
Geographical Diversification			x				
Earnings Stability				x			
Earnings Diversification [2]							
Factor: Risk Positioning						D+	Neutral
Corporate Governance [2]				x			
- Ownership and Organizational Complexity				x			
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management			x				
- Risk Management				x			
- Controls		x					
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information		x					
Credit Risk Concentration					x		
- Borrower Concentration					x		
- Industry Concentration			x				
Liquidity Management		x					
Market Risk Appetite			x				
Factor: Operating Environment						A	Neutral
Economic Stability	x						
Integrity and Corruption	x						
Legal System	x						
Financial Factors (50%)						B-	
Factor: Profitability						C	Weakening
PPI / Average RWA - Basel II			1.47%				
Net Income / Average RWA - Basel II			1.36%				
Factor: Liquidity						B	Neutral
(Mkt funds-Liquid Assets) / Total Assets		-1.79%					
Liquidity Management		x					
Factor: Capital Adequacy						A	Neutral

Tier 1 Ratio - Basel II	14.05%						
Tangible Common Equity / RWA - Basel II	14.73%						
Factor: Efficiency						C	Neutral
Cost / Income Ratio			61.92%				
Factor: Asset Quality						B	Weakening
Problem Loans / Gross Loans		1.93%					
Problem Loans / (Equity + LLR)		15.48%					
Lowest Combined Score (15%)						C	
Economic Insolvency Override						Neutral	
Aggregate Score						C+	
Assigned BFSR						C+	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral



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