

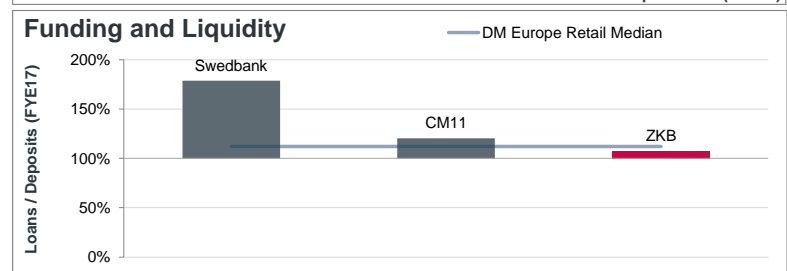
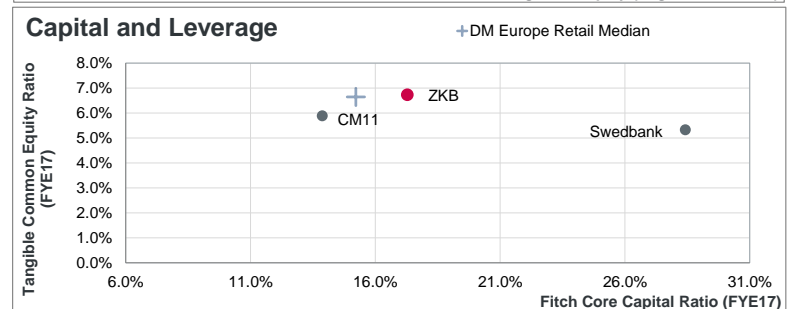
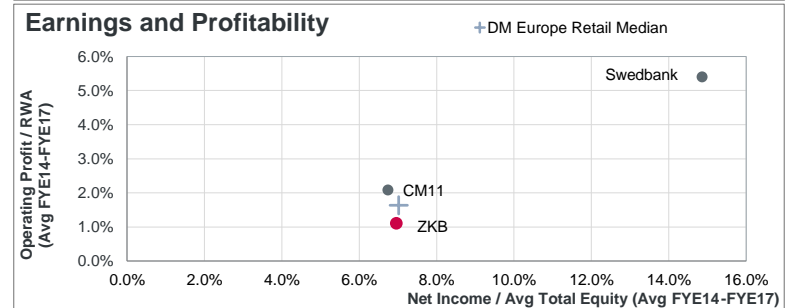
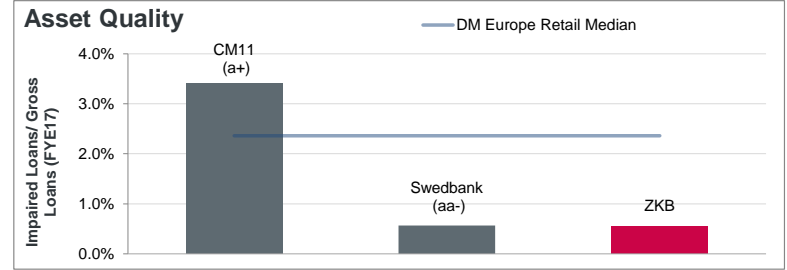
Banks Ratings Navigator		
Navigator date:	05 Oct 2018	
Last rating action:	26 Sep 2018	
Sector Details:		
Bank sector:	Retail	
Region:	DM Europe	
Country:	Switzerland	
Country IDR:	AAA Stable	
Last action:	21 Sep 18 Affirmed	
Country ceiling:	AAA	
Macro prudential indicator:	2	
Bank systemic indicator:	a	
Bank Rating History		
Viability Rating (VR)		
26 Sep 18	a+	Affirmed
24 Oct 17	a+	Affirmed
17 Nov 16	a+	Affirmed
Issuer Default Rating (IDR)		
26 Sep 18	AAA Stable	Affirmed
24 Oct 17	AAA Stable	Affirmed
17 Nov 16	AAA Stable	Affirmed
Support Rating Floor (SRF)		
21 May 15	NF	SRF Rev
02 Dec 14	AAA	Affirmed
Bar Chart Legend:		
Vertical bars = VR range of Rating Factor		
Bar Colors = Influence on final VR		
■	Higher Influence	
■	Moderate Influence	
■	Lower Influence	
Bar Arrows = Rating Factor Outlook		
↑	Positive	↓ Negative
↕	Evolving	□ Stable
Peer Ratings bars = Count of banks		
70	DM Europe Retail	
5	Switzerland Retail	
Relevant Criteria & References		
Bank Rating Criteria (Jun 2018)		
Macro-Prudential Risk Monitor (Mar 2018)		
Analysts		
Krista Davies (+44 20 3530 1579)		
Maria Shishkina (+44 20 3530 1379)		

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Institutional Support	Issuer Default Rating
aaa										aaa	AAA	AAA Stable
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Institutional Support	Value		
Parent IDR	AAA		
Total Adjustments (notches)	+0		
Institutional Support:	AAA		
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation	✓		
Relative size		✓	
Country risks	✓		
Parent Propensity to Support			
Role in group	✓		
Potential for disposal	✓		
Implication of subsidiary default	✓		
Integration		✓	
Size of ownership stake	✓		
Support track record	✓		
Subsidiary performance and prospects	✓		
Branding	✓		
Legal commitments	✓		
Cross-default clauses			✓

Drivers & Sensitivities	
Ratings Equalised With Canton's	ZKB's IDRs are equalised with those of the bank's sole owner, the Canton of Zurich, which guarantees all of ZKB's non-subordinated liabilities according to a specific cantonal law (ZKB Law).
Manageable Recapitalisation Needs, Timely Support	ZKB's balance sheet is large relative to the canton's budgetary resources, but Fitch believes the bank's stable and resilient business model and strong capitalisation would trigger manageable recapitalisation needs in a realistic stress scenario and that support would be timely.
Market Leader in Country's Largest Economic Region	ZKB's activities focus on retail banking, and particularly mortgage lending, in the Canton of Zurich where it has a leading retail franchise. This geographical concentration is mitigated by Zurich's economic strength.
Material Zurich Property Exposure Mitigated by Underwriting	ZKB's main risk is from a large property loans exposure to Zurich, which is mitigated by the sound credit underwriting standards, with moderate loan/value ratios. In a stress situation, we believe ZKB could comfortably absorb credit losses from a meaningful fall in property prices.
Stable Profits Despite Negative Rate Environment	ZKB's profits have been stable through the economic cycle but are under pressure from negative interest rates. This is somewhat mitigated by ZKB's good earnings diversification, with growing fee income forming one third of total 1H18 revenue.
Strong Asset Quality, Capitalisation and Funding	Risk costs are low and are likely increase only moderately through the cycle. ZKB's end-1H18 CET1 ratio of 16.3% reflects the high regulatory requirements imposed on domestically significant Swiss banks. ZKB's funding is underpinned by a large and mostly granular deposit base.
IDRs Sensitive to Cantonal Support	ZKB's IDRs are sensitive to changes in its owner's ability or propensity to provide support. A downgrade of the Canton of Zurich's IDRs would lead to a downgrade of ZKB's IDRs. A material increase in the Canton of Zurich's contingent liabilities could pressure its IDRs and ZKB's IDRs.
VR Sensitive to Sharp Property Market Downturn	A Viability Rating (VR) upgrade is unlikely given the geographical concentration of the business model. Downward pressure on the VR could be driven by large property-related losses from a sharp reduction in property prices in Zurich, or by an increase in the bank's risk appetite.

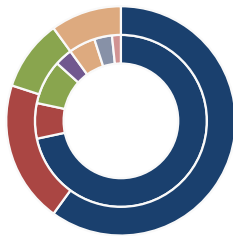
Key Financial Ratios (01 Oct 2018)	ZKB				Direct Peers Median				Region Sector Median			
	Number of Banks: Statement:				3	3	3	3	FYE17	FYE16	FYE15	FYE14
Size (USDbn)	FYE17	FYE16	FYE15	FYE14	FYE17	FYE16	FYE15	FYE14	FYE17	FYE16	FYE15	FYE14
Total assets	168	155	156	147	269	238	255	274	50	40	42	44
Risk weighted assets (RWA)	65	65	63	59	65	65	63	59	19	14	15	19
Total equity	12	11	11	10	16	14	15	15	3	2	3	3
Fitch core capital (FCC)	11	10	10	10	14	12	12	13	3	2	2	2
Asset Quality												
Impaired loans/gross loans	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	2.4%	3.2%	3.3%	4.0%
Growth of gross loans	2.5%	4.3%	3.1%	-2.2%	3.6%	5.8%	3.1%	3.9%	2.6%	2.2%	1.8%	1.8%
Loan loss allowances/impaired loans	37.5%	36.1%	34.8%	37.9%	45.3%	46.4%	55.9%	52.5%	51.9%	52.9%	55.7%	54.8%
Loan impairment charges/avg gross loans	0.0%	0.0%	0.0%	-0.1%	0.1%	0.1%	0.0%	0.0%	0.2%	0.1%	0.4%	0.4%
Earnings and Profitability												
Operating profit/risk weighted assets	1.2%	1.1%	1.1%	1.0%	2.2%	2.0%	2.2%	2.0%	1.6%	1.8%	1.7%	1.4%
Net interest income/average earning assets	1.0%	1.0%	1.0%	0.9%	1.1%	1.0%	1.1%	1.2%	1.6%	1.5%	1.6%	1.6%
Non-interest expense/gross revenues	65.9%	67.3%	71.1%	72.4%	60.4%	61.7%	61.7%	63.0%	61.4%	64.0%	62.7%	60.6%
Loans & secs imp charges/pre-imp op. profit	3.1%	2.7%	-0.9%	-10.6%	5.1%	5.9%	2.8%	2.0%	10.7%	13.3%	20.7%	31.6%
Operating profit/average total assets	0.5%	0.5%	0.4%	0.4%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.6%
Net income/average total equity	7.1%	6.5%	7.2%	7.0%	7.1%	6.8%	7.2%	7.2%	7.2%	7.5%	7.2%	6.1%
Capital and Leverage												
FCC/FCC-adjusted risk weighted assets	17.3%	16.1%	16.4%	16.2%	17.3%	16.1%	16.4%	16.2%	15.2%	15.6%	15.1%	13.8%
CET1 capital ratio	16.5%	15.6%	15.8%	14.6%	16.5%	15.6%	15.8%	14.6%	14.7%	15.0%	13.9%	12.9%
Basel leverage ratio	6.4%	6.7%	7.0%	5.8%	6.1%	6.0%	5.7%	5.8%	6.3%	6.3%	6.0%	5.6%
Tangible common equity/tangible assets	6.7%	6.7%	6.7%	6.5%	5.9%	5.7%	5.8%	5.6%	6.7%	6.7%	6.6%	6.1%
Imp loans less loan loss allowances/FCC	2.7%	2.8%	3.0%	3.1%	4.1%	3.9%	3.0%	3.1%	8.4%	9.9%	8.9%	18.9%
Funding and Liquidity												
Loans/customer deposits	107.0%	105.0%	100.8%	98.8%	120.3%	120.9%	124.1%	127.5%	112.0%	111.6%	108.3%	108.3%
Liquidity coverage ratio	153.0%	132.0%	128.0%	n.a.	153.0%	140.3%	140.0%	115.5%	171.0%	158.3%	144.0%	159.0%
Customer deposits/total funding excl derivs	54.3%	56.3%	57.5%	60.0%	54.3%	56.3%	57.5%	58.5%	74.7%	77.5%	74.2%	72.1%



Business Mix

(by profit or revenue)

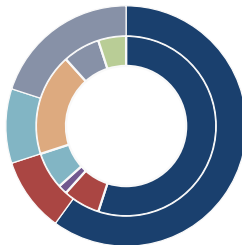
- Retail banking (60%)
- SME banking (20%)
- Corporate banking (10%)
- Investment banking (0%)
- Transaction banking (0%)
- Asset management (10%)
- Insurance (0%)
- Other (0%)



Outer: ZKB
Inner: Direct Peers Average

Lending Type

- Resi mortgages (60%)
- Comm mortgages (10%)
- Asset finance (0%)
- Other secured (0%)
- Personal unsecured (10%)
- Comm unsecured (0%)
- Fis & Sovs (20%)
- High yield (0%)
- Other unsecured (0%)



Outer: ZKB
Inner: Direct Peers Average

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