CREDIT OPINION

26 August 2025

Update

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Zuercher Kantonalbank

Update to credit analysis

RATINGS

Zuercher Kantonalbank

Domicile	Zurich, Switzerland
Long Term CRR	Aaa
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Dom Curr
Outlook	Rating(s) WithDrawn
Long Term Deposit	Not Assigned

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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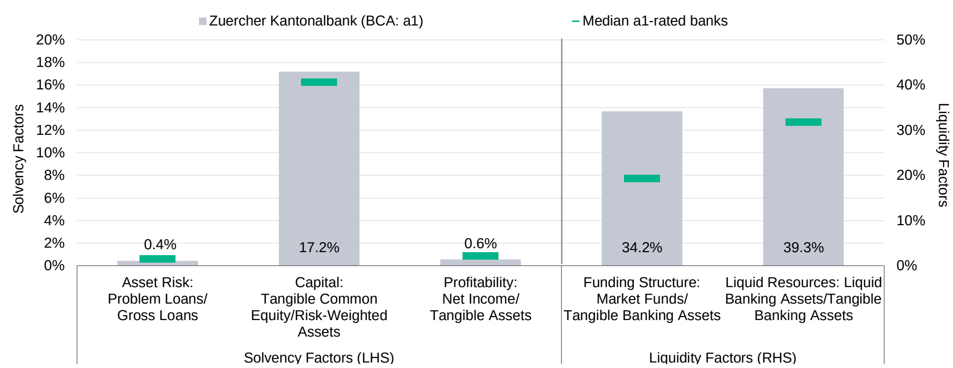
Summary

Zuercher Kantonalbank's (ZKB) Aaa backed deposit ratings reflect its a1 BCA, three notches of rating uplift from affiliate support derived from the maintenance guarantee provided by the bank's sole owner, the Canton of Zurich, which results an aa1 Adjusted BCA, and one notch of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class. While we consider ZKB as a domestic systemically important bank and assume a moderate likelihood of government support, it does not result in rating uplift, because the ratings are already at the Aaa level prior to government support considerations.

ZKB's a1 BCA reflects the bank's very strong and highly resilient asset quality, despite some concentration on real-estate activities in the Zurich region. Its strong capital base as well as its existing high loan loss reserves provide additional meaningful protection against adverse developments and its profitability remains sound and stable, despite some challenges from moderating interest rates. The BCA further reflects still strong liquid resources, balancing the bank's meaningful exposure to confidence-sensitive market funding. The latter, however, strongly benefits from the guarantee provided by the Canton of Zurich, which helps ensure uninterrupted access to domestic and international capital markets at very attractive rates owing to the bank's status as a quasi-subsovereign prime issuer.

Exhibit 1

Rating Scorecard Zuercher Kantonalbank - Key financial ratios



Source: Moody's Ratings and company filings

Credit strengths

» The Canton of Zurich provides a maintenance guarantee and a deficiency guarantee (fully guaranteeing all of the bank's senior liabilities)

» Strong capitalisation and further improved profitability metrics

» Very solid liquidity buffers with the guarantee by the Canton ensuring good market access as a quasi sub-sovereign issuer

Credit challenges

» Growth in the bank's residential mortgage loan portfolio

» Managing operational risks inherent in the bank's customer-driven trading activities and litigation risks stemming from its significant wealth and asset management operations

Outlook

» The stable outlook reflects our expectation that the key credit metrics of ZKB, including its liability structure, will remain broadly unchanged. We also do not expect any change in the guarantee framework the canton provides to ZKB.

Factors that could lead to an upgrade

» ZKB's senior ratings are already positioned at the highest possible level and cannot be upgraded. An upgrade of the bank's junior senior and subordinated debt ratings could be triggered by additional rating uplift as a result of our Advanced LGF analysis, following significant issuance of instruments ranking below senior unsecured debt, in particular capital instruments. Both liability classes as well as the bank's AT1 ratings could also be upgraded in case the Canton of Zurich creditworthiness improves.

» A BCA upgrade, although unlikely given its already very high level, could result from a combination of significantly higher profitability and a significant shift towards granular and stable deposit funding while maintaining a very high level of liquid resources.

Factors that could lead to a downgrade

» The bank's ratings could be downgraded if the bank's BCA is downgraded or if the canton's creditworthiness deteriorates.

» The bank's BCA could be downgraded if its asset quality, predominantly from its real estate lending book, would meaningfully deteriorate as indicated by a sustained higher problem loans ratio and significantly lower reserves. In addition, persistently lower capitalisation and profitability levels in conjunction with a weaker liquidity profile could lead to a BCA downgrade.

Key indicators

Exhibit 2

Zuercher Kantonalbank (Consolidated Financials) [1]

	12-24 [2]	12-23 [2]	12-22 [2]	12-21 [2]	12-20 [2]	CAGR/Avg. [3]
Total Assets (CHF Billion)	202.6	201.3	199.8	192.1	188.4	1.8 [4]
Total Assets (USD Billion)	223.6	239.1	215.9	210.2	213.1	1.2 [4]
Tangible Common Equity (CHF Billion)	14.9	14.3	13.3	12.6	12.6	4.3 [4]
Tangible Common Equity (USD Billion)	16.4	16.9	14.4	13.8	14.2	3.6 [4]
Problem Loans / Gross Loans (%)	0.4	0.4	0.4	0.4	0.5	0.4 [5]
Tangible Common Equity / Risk Weighted Assets (%)	17.2	18.1	17.4	17.6	18.3	17.7 [6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.3	3.3	3.1	3.2	3.9	3.3 [5]
Net Interest Margin (%)	0.9	0.9	0.7	0.7	0.7	0.8 [5]
PPI / Average RWA (%)	1.6	1.9	1.4	1.4	1.3	1.5 [6]
Net Income / Tangible Assets (%)	0.5	0.7	0.5	0.5	0.4	0.5 [5]
Cost / Income Ratio (%)	57.6	54.5	61.7	63.2	65.2	60.4 [5]
Market Funds / Tangible Banking Assets (%)	34.2	36.3	36.7	38.3	39.5	37.0 [5]
Liquid Banking Assets / Tangible Banking Assets (%)	39.3	42.5	44.7	45.4	46.7	43.7 [5]
Gross Loans / Due to Customers (%)	110.9	110.8	104.3	105.6	104.7	107.3 [5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

ZKB is Switzerland's largest cantonal bank, measured by its total assets of CHF202.6 billion as of 31 December 2024. The bank was established in 1870 by the Canton of Zurich, which is still its sole owner and extends to ZKB a maintenance guarantee, according to article 109 of the cantonal constitution. The maintenance guarantee requires the canton to inject capital into ZKB, in case of need, until the canton defaults itself. In addition, the Canton of Zurich provides a deficiency guarantee on the bank's unsubordinated obligations, as stipulated in the Cantonal Banking Act.

ZKB operates an universal banking model, providing financial services to retail, corporate, and institutional clients primarily in the Canton of Zurich, including financing, investment and asset management, trading and capital markets services, payment transactions, and debit and credit cards. The bank has a very strong position in the Canton of Zurich, and a 7.9% share of total Swiss domestic banking assets as of 31 December 2024. The bank also distributes its products and services through representative offices in China, India, Singapore, and Brazil. Employing more than 5,700 staff, ZKB was classified a domestic systemically important institution by the Swiss National Bank (SNB) in November 2013.

For more information, please see ZKB's Issuer Profile and our Swiss Banking System Profile.

Weighted Macro Profile of Strong (+)

ZKB is focused on the Swiss market and its Weighted Macro Profile is therefore Strong (+), in line with the Macro Profile of Switzerland. The bank also has limited operations in the EU and other countries.

Detailed credit considerations

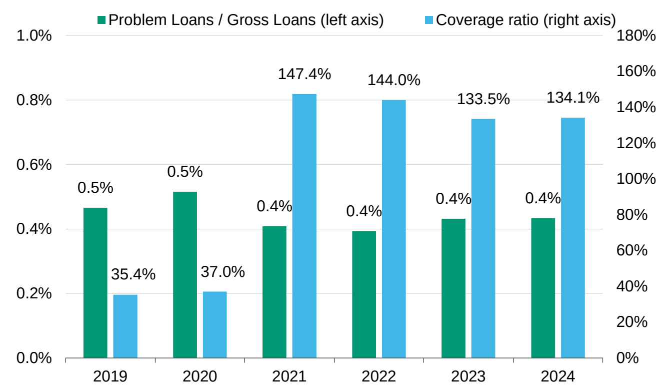
ZKB's asset quality is good, with strong coverage providing protection from sector concentrations in real estate and tail risks in its asset management activities

We assign an a1 Asset Risk score, positioned three notches below the aa1 initial score. The assigned score captures ZKB's strong asset quality, as reflected in its low level of nonperforming loans, its extremely strong coverage levels and tail risks stemming from its significant wealth and asset management operations.

As of 31 December 2024, ZKB's residential and commercial mortgage book stood at CHF107.0 billion (53% of the bank's total assets), rendering the bank susceptible to a significant slowdown in the Zurich and Swiss housing markets or a prolonged period of weaker economic growth in Switzerland. The risks related to a potential slowdown are mitigated by the bank's solid capital buffers and an outstandingly strong coverage ratio of 134.1% as of the end of 2024, providing a very solid buffer against adverse developments, both shielding profitability and capital metrics. ZKB's increased provisions during the pandemic, and has only released a limited portion over time. Finally, the bank's loan book is highly granular and has limited exposure to the high-end luxury segments within the retail residential mortgage market.

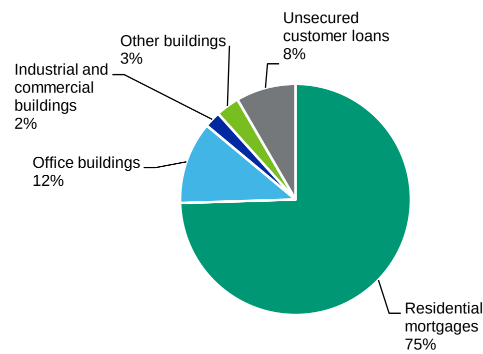
ZKB has positioned itself as one of the larger providers of wealth and asset management offerings, both nationally and internationally. The bank had total client assets under management of CHF457.3 billion as of the end of December 2024, up CHF61.5 billion compared with the previous year, mainly market-performance related, and displaying solid net new money of CHF29.8 billion. ZKB's private banking operations will continue to be accompanied by certain execution as well as litigation, operational and reputational risks inherent to these activities.

Exhibit 3
ZKB's asset quality is excellent and potential risks are covered by very high loan loss reserves



Source: Moody's Ratings and company filings

Exhibit 4
ZKB's loan book largely consists of residential mortgages
Total loan book: CHF117 billion as of year-end 2024



Source: Moody's Ratings and company filings

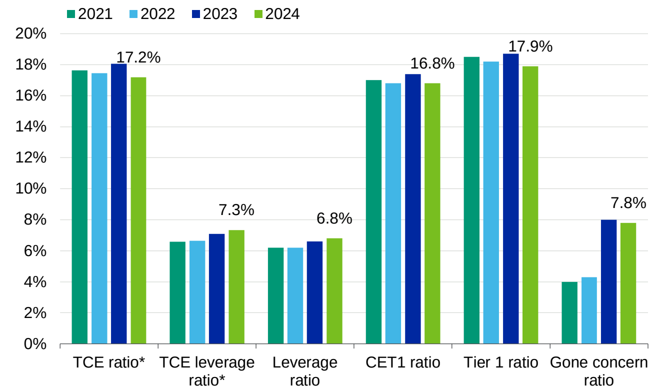
ZKB´s solid capitalisation provides a strong buffer against adverse developments

Our aa2 assigned Capital score, in line with the initial score, reflects ZKB's solid capitalisation levels as well as our expectation of broadly stable capital ratios in the future, as increases in risk-weighted assets are expected to be offset by retained earnings.

ZKB's capitalisation remains solid, providing a good buffer against rising regulatory minima because of the bank's role as a domestic systemically important bank[1]. The position is accompanied by a regulatory leverage ratio of 6.8% (going-concern), also well above the 4.5% requirement for systemically important banks. We expect the bank's capitalisation to remain stable at least, profit retention should balance potential growth in risk weighted assets.

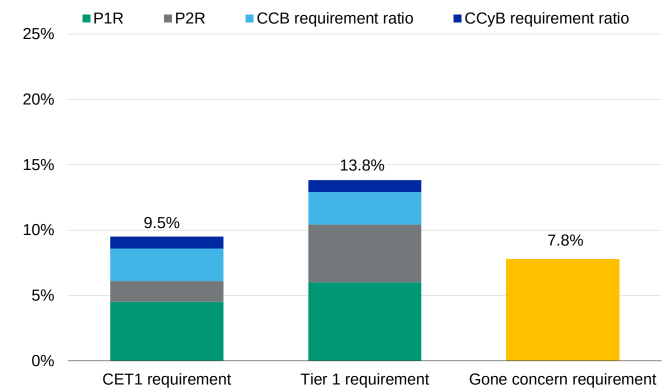
Further, the bank's sole owner, the Canton of Zurich provides a dotation capital frame of CHF3.4 billion. Of this capital frame, CHF2.4 billion has been drawn by ZKB and the remaining dotation capital of CHF1.0 billion is dedicated in full to the emergency planning of the bank, making the dotation capital reserve eligible as gone concern capital. As a consequence, the related amount can only be called by order of the Swiss Financial Market Supervisory Authority (FINMA) or by a person in charge of the restructuring designated by FINMA. Furthermore, we expect the canton to provide further capital support in the unlikely scenario that the bank's solvability is significantly strained.

Exhibit 5
ZKB comfortably exceeds its capital requirements



TCE = Tangible Common Equity (Moody's calculation; excludes high-trigger Additional Tier 1 instruments for all periods); CET1 = Common Equity Tier 1
Source: Moody's Ratings and company filings

Exhibit 6
ZKB's capital requirements as a percentage of RWA as of year-end 2024



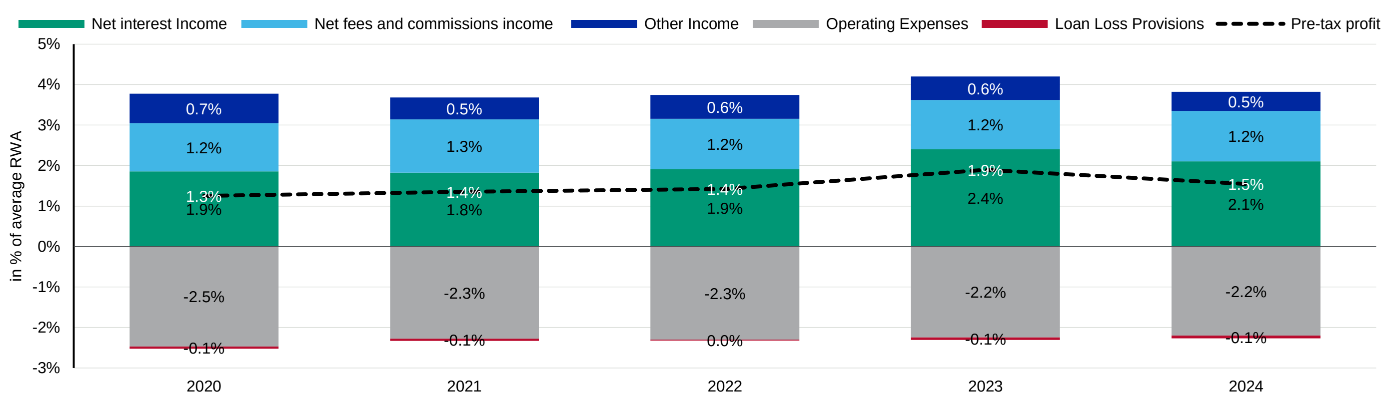
P1R = Pillar 1 requirement; P2R = Pillar 2 requirement; CCoB = Capital conservation buffer requirement; CCyB = Countercyclical capital buffer requirement
Source: Moody's Ratings and company filings

ZKB's diversified and stable earnings support its capital generation capacity

We assign a baa2 Profitability score, in line with the initial score, reflecting the bank's 0.5% average net income to tangible assets ratio during the 2022 to 2024 period and the bank's track record of very stable and increasingly diversified returns.

In 2024, profitability decreased, mainly due to the decline in rates, a trend that we expect to continue in 2025. These risks are at least partially offset by the positive effects the acquisition of asset manager Swisscanto has had on ZKB's revenue mix, lifting the bank's proportion of fee and commission (FCC) income, as evidenced in the 2024 numbers. ZKB's net profit was down from the record year 2023, mainly driven by lower interest income, with the decrease in revenues only partially compensated by stronger FCC.

Exhibit 7
ZKB's large share of fee and commission income diversifies its earnings stream



Source: Moody's Ratings and company filings

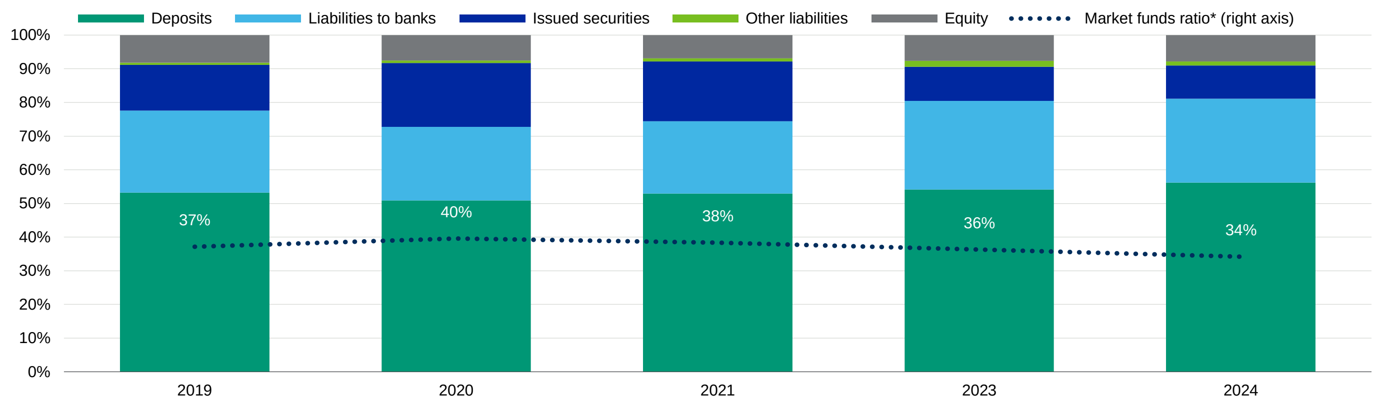
ZKB's exposure to wholesale funding sources is high, but mitigated by the guarantee

The assigned a1 Funding Structure score, seven notches above the ba2 initial score, reflects the guarantee provided by the canton on ZKB's senior obligations, which results in the bank being regarded as a safe haven in times of market turmoil.

ZKB's market funding dependence remains high. With repo and interbank liabilities of CHF47.7 billion as of 31 December 2024, ZKB is a net borrower in the interbank market and is a frequent bond issuer. Both the bank's interbank liability structure and its market funding benefit from the guarantee provided by the canton.

As of year-end 2024, ZKB's market funding also consisted of CHF7.6 billion of senior unsecured bond issuances, CHF11.2 billion of covered bonds (sourced via the Pfandbriefzentrale of the Swiss cantonal banks), CHF4.4 billion of structured notes, CHF3.9 billion of trading and derivative liabilities, and CHF1.8 billion of issued bail-in bonds, which represents junior senior unsecured debt that counts towards the bank's gone-concern capital requirement. However, the primary funding source for ZKB was its CHF107.2 billion customer deposit base, which increased by CHF5.5 billion from year-end 2023 with a higher demand in certificate deposits, resulting in a largely unchanged loan-to-deposit ratio of 111% as of year-end 2024.

Exhibit 8
ZKB's market funding reliance remains elevated, but is mostly mitigated by the deficiency guarantee



Market funds ratio = Market funds/tangible banking assets.
Source: Moody's Ratings and company filings

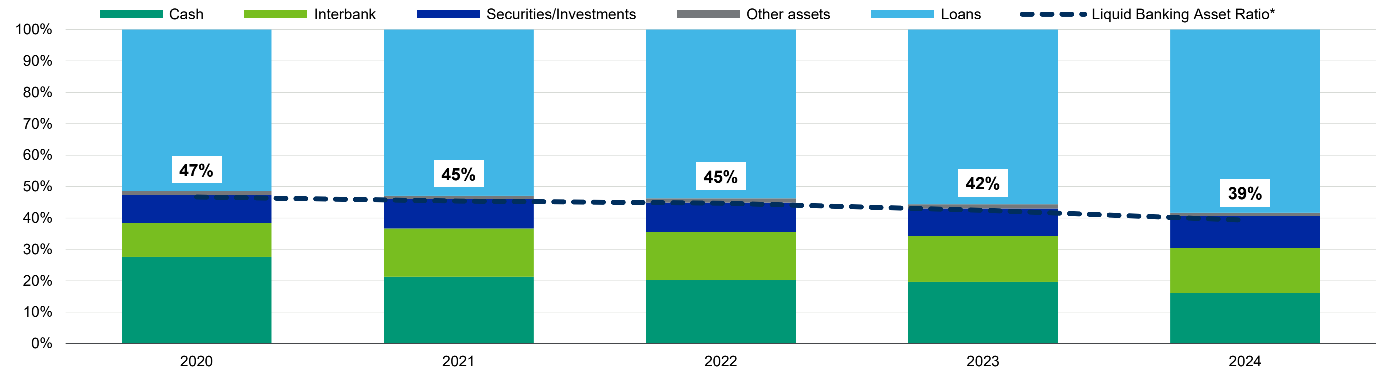
ZKB benefits from a highly liquid balance sheet

Our a1 assigned Liquid Resources score, in line with the initial score, takes into account ZKB's highly liquid balance sheet, but also the bank's conservative liquidity management in the context of its high share of wholesale funding displaying moderate outflow risks. In addition, the bank has leeway to source additional liquidity from the SNB if required. ZKB, as a systemically important bank has to adhere to stricter LCR requirements that exceed the usual 30 day period, ensuring liquidity over a longer time horizon, though coverage goes beyond highly liquid assets and includes alternative instruments and measures.

As a share of tangible banking assets, ZKB's liquid banking assets stood at 39.3% as of December 2024, compared to 42.5% in December 2023, exceeding the bank's market funding ratio of 34.2%. While liquidity has declined, it remains strong, particular on the back of the term structure of the market funding and the available guarantees, both limiting refinancing risks.

As of year-end 2024, ZKB's CHF79.6 billion of liquid banking assets were comprised of CHF32.7 billion of cash and central bank deposits, CHF28.8 billion of interbank and other financial institution assets, CHF13.4 billion of trading assets, and CHF2.4 billion of repo-eligible liquid securities as of 31 December 2024. With the SNB carry trade opportunity having vanished with higher rates and a change in the SNB's renumeration policy for banks' sight deposits, the incentives to hold high liquid reserves were reduced further. At the same time, stricter liquidity requirements for systemically important banks in Switzerland that came into effect on 1 January 2024 support ZKB's Liquidity Coverage Ratio (LCR), which stood at 142% on average at the end of 2024. Furthermore, ZKB's Net Stable Funding Ratio (NSFR) reached 116% as of year-end 2024.

Exhibit 9
ZKB's balance sheet remains highly liquid

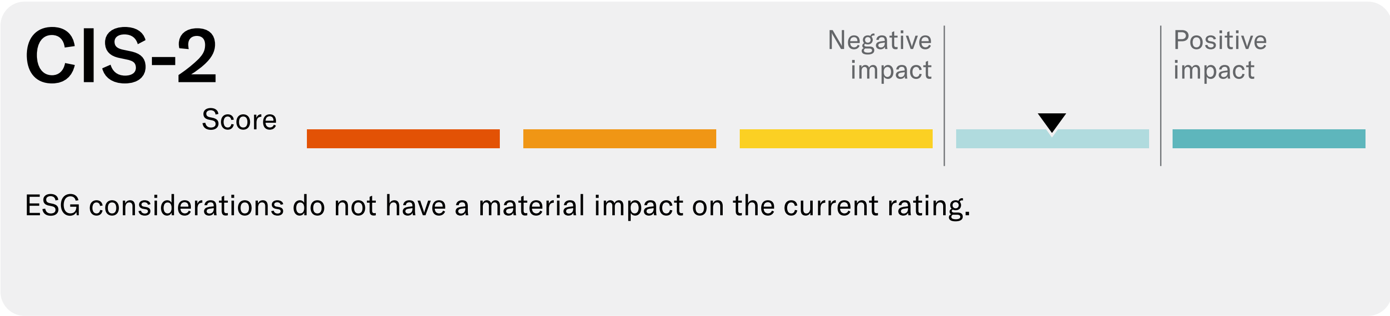


Liquid banking assets ratio = Liquid banking assets/tangible banking assets.
Source: Moody's Ratings and company filings

ESG considerations

Zuercher Kantonalbank's ESG credit impact score is CIS-2

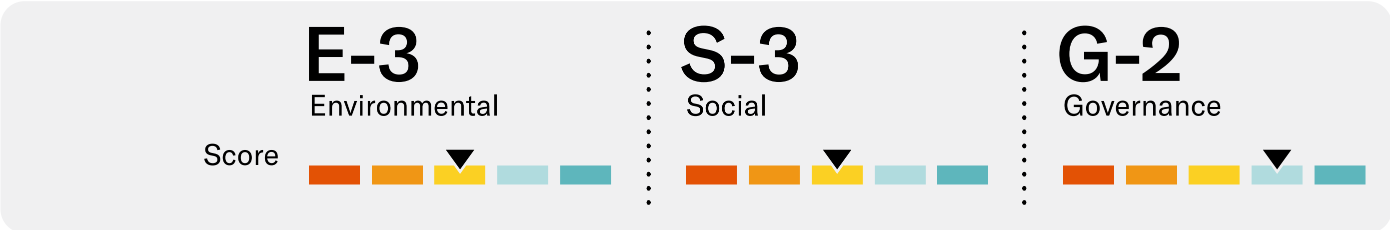
Exhibit 10
ESG credit impact score



Source: Moody's Ratings

ZKB's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 11
ESG issuer profile scores



Source: Moody's Ratings

Environmental

ZKB faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk as a mostly regional banking group. In line with its peers, ZKB is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. Carbon transition risks relate mostly to its corporate loan book, which represents about a quarter of the bank's lending portfolio, with the remainder comprising residential real estate.

Social

ZKB faces moderate social risks related to customer relations and associated regulatory risks, litigation exposure, and high compliance standards. These risk exposures emerge primarily from its retail as well as its wealth and asset management operations and they are mitigated by the bank's developed policies and procedures. Furthermore, the bank's long track record of handling sensitive customer data as well as technology solutions and organizational measures to prevent data breaches and business disruption help to manage high cyber and personal data risks.

Governance

ZKB faces low governance risks, and its risk management, policies and procedures are in line with industry practices, and commensurate with its universal banking model. Also, despite the fact that the bank is fully owned by the Canton of Zurich, all the members of its board of directors are considered independent.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

ZKB benefits from parental support from the Canton of Zurich. Parental support materially reduces the probability of default, as it would be available to stabilise a distressed bank and not just compensate for losses in resolution.

We consider an “affiliate-backed” level of support, given the maintenance guarantee the Canton of Zurich extends to ZKB. The maintenance guarantee requires the canton to inject capital into ZKB, in case of need, until the canton defaults itself. Parental support provides three notches of rating uplift from the a1 BCA, leading to an aa1 Adjusted BCA.

Loss Given Failure analysis

ZKB is subject to Swiss banking regulations, which we consider an operational resolution regime. We therefore apply our Advanced LGF analysis, which takes into consideration the risks faced by the different debt and deposit classes across the liability structure at failure. In our Advanced LGF analysis, we apply our standard assumptions, but assign a 100% probability to deposits being preferred to senior unsecured debt, thereby reflecting depositor preference by law in Switzerland.

ZKB's senior unsecured debt includes structured products, which are a potentially more volatile funding source. The amount incorporated in our Advanced LGF analysis is the lower of the last reported or three-year average structured product volume and we assume a 50% run-off prior to failure. Structured products issued by Zuercher Kantonalbank Finance (Guernsey) Ltd. are out of scope for our Advanced LGF analysis, since we believe that the Swiss regulator FINMA would have no bail-in powers over this entity. The results of our Advanced LGF analysis are:

- For junior deposits, our Advanced LGF analysis indicates an extremely low loss given failure, leading to one notch (rather than three notches) of rating uplift (because of the Aaa rating ceiling) from the bank’s aa1 Adjusted BCA, resulting in a aaa Preliminary Rating Assessment.
- For senior unsecured debt, from which ZKB's backed issuer ratings are derived, our Advanced LGF analysis indicates a low loss given failure, leading to one notch of rating uplift from the bank’s aa1 Adjusted BCA, resulting in a aaa Preliminary Rating Assessment.
- For junior senior unsecured and subordinated debt, our Advanced LGF analysis indicates a high loss given failure, leading us to position their Preliminary Rating Assessments at aa2, one notch below the aa1 Adjusted BCA.

Government support

We assess the probability of sovereign support for ZKB's senior obligations in a stress scenario to be moderate because of the bank's high national market shares in key banking products and its relative importance to Switzerland's banking system. However, since the Canton of Zurich must provide support to ZKB prior to failure because of the maintenance guarantee and given the uplift provided by our Advanced LGF analysis for the bank’s senior obligations, ZKB’s senior ratings do not benefit from further sovereign government support.

Methodology and scorecard

Methodology
The principal methodology we used in rating ZKB was our Banks Methodology, published in November 2024.

About Moody's Bank Scorecard
Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard 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 methodology and scorecard factors

Exhibit 12
Rating Factors

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.4%	aa1	↔	a1	Quality of assets	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.2%	aa2	↔	aa2	Expected trend	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.5%	baa2	↔	baa2	Return on assets	Expected trend
Combined Solvency Score		aa3		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	34.2%	ba1	↔	a1	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	39.3%	a1	↔	a1	Stock of liquid assets	Quality of liquid assets
Combined Liquidity Score		baa1		a1		
Financial Profile		a1		a1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				-		
BCA Scorecard-indicated Outcome - Range				aa3 - a2		
Assigned BCA				a1		
Affiliate Support notching				-		
Adjusted BCA				aa1		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	1	0	aaa
Counterparty Risk Assessment	-	-	-	-	-	-	-	1	0	aaa (cr)
Deposits	-	-	-	-	-	-	-	1	0	aaa
Senior unsecured bank debt	-	-	-	-	-	-	-	1	0	aaa
Junior senior unsecured bank debt	-	-	-	-	-	-	-	-1	0	aa2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	aa2
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-1	-2	a1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	aaa	0	Aaa	Aaa
Counterparty Risk Assessment	1	0	aaa (cr)	0	Aaa(cr)	
Deposits	1	0	aaa	0	Aaa	Aaa
Senior unsecured bank debt	1	0	aaa	0	Aaa	Aaa
Junior senior unsecured bank debt	-1	0	aa2	0	Aa2	Aa2
Dated subordinated bank debt	-1	0	aa2	0		Aa2
Non-cumulative bank preference shares	-1	-2	a1	0	A1 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 13

Category	Moody's Rating
ZUERCHER KANTONALBANK	
Outlook	Stable
Bkd Bank Deposits	Aaa/P-1
Baseline Credit Assessment	a1
Adjusted Baseline Credit Assessment	aa1
Bkd Issuer Rating	Aaa
Junior Senior Unsecured	Aa2
Subordinate	Aa2
Pref. Stock Non-cumulative -Dom Curr	A1 (hyb)

Source: Moody's Ratings

Endnotes

1 As of January 2019, new gone concern capital requirements, equal to 40% of the going concern capital requirements for domestic systemically important banks such as ZKB came into effect, phasing in until January 2026. Moreover, in September 2019, FINMA levied additional gone concern capital requirements on ZKB, which will also phase in and result in a total gone concern capital requirement of 7.9% of RWA in 2026

REPORT NUMBER 1451358

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