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Fitch Affirms Zuercher Kantonalbank at 'AAA'; Outlook Stable

Fitch Ratings - London - 18 Feb 2026: Fitch Ratings has affirmed Zuercher Kantonalbank's (ZKB) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook and Viability Rating (VR) at 'a+'. A full list of rating actions is below.

Key Rating Drivers

Support Drives Ratings: ZKB's IDRs are driven by support from its guarantor and sole owner, the Canton of Zurich (AAA/Stable/F1+). The bank's Shareholder Support Rating (SSR) is equalised with the canton's Long-Term IDR. The VR reflects ZKB's stable and resilient business model, conservative risk appetite, strong asset quality, funding and capitalisation and adequate profitability.

Cantonal Guarantee: The canton guarantees ZKB's non-subordinated liabilities according to a specific cantonal law (ZKB Law). The bank's size is large relative to the canton's budgetary resources, but its stable and resilient business model, funding and capital buffers mean that recapitalisation or liquidity support would be manageable in a realistic stress scenario.

ZKB has a recovery and resolution plan approved by the Swiss banking supervisor. Under this, the canton could be required to provide about CHF3 billion of capital to recapitalise ZKB. Fitch believes this would be manageable for the canton given its strong financial position, and would not on its own drive negative action on the canton's ratings or trigger a reassessment of our support assumptions

Timely Support Expected: The canton's guarantee does not address the timeliness of support, but we believe it would be provided timely, given ZKB's high importance for the canton and potential repercussions of a systemically important bank's failure for the Swiss financial sector. We also believe that a default of ZKB would constitute huge reputational risk to the canton. The canton's constitution requires it to have a cantonal bank, making support more likely.

Strong Regional Franchise: ZKB benefits from its leading franchise in deposit taking and residential mortgage lending in the Canton of Zurich, where operations are concentrated. Geographic concentration is mitigated by Zurich's economic strength and ZKB's diversified business model, covering retail and commercial banking. The bank is also the second-largest fund provider and one of the largest asset managers in Switzerland. This benefits its revenue diversification, with fee and commission income contributing about a third of total income.

Material Real Estate Exposure: ZKB's impaired loans ratio is low. Its main risk stems from its large real estate exposure in Zurich. We expect loan quality would be resilient to a significant decline in property values, due to the bank's strict underwriting standards and moderate loan-to-value ratios. ZKB's non-mortgage exposure (about 10% of gross loans) is more vulnerable to economic downturns. We expect the impaired loans ratio to remain below 1% in 2026 and 2027.

Stable Operating Profitability Expected: Our assessment of ZKB's profitability reflects its long record of adequate, stable and reasonably diversified earnings, with a material share of trading income. We expect operating profitability in 2025 to have benefited from lower risk-weighted assets (RWAs) following the introduction of the Basel III final rules in Switzerland. We expect operating profitability to remain broadly stable in 2026 (and above 1.5% of RWAs), supported by higher asset margins, loan growth, controlled cost development and broadly stable asset quality.

Strong Capitalisation: ZKB's common equity Tier 1 (CET1) ratio increased to 21.2% at end-2025 driven by a decline in RWAs following the introduction of the final Basel III rules in Switzerland and profit retention. The canton's guarantee covers half of ZKB's gone-concern capital requirement, which are fully phased in at 7.86% in 2026. The remaining half is mainly covered with bail-in debt (CHF2.3 billion at end-3Q25) and undrawn endowment capital (CHF1 billion).

Stable Funding: The large and mostly granular deposit base underpins funding, despite some more concentrated corporate and institutional deposits. Wholesale funding needs are moderate and benefit from the bank's cantonal guarantee and investors' perception of ZKB as a safe haven in times of market uncertainty. As a domestic systemically important bank, ZKB is subject to more stringent liquidity requirements, which it comfortably complies with.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

A downgrade of the Canton of Zurich's IDRs would result in a downgrade of ZKB's IDRs and SSR. A material increase in the canton's contingent liabilities, which are dominated by ZKB, could put pressure on ZKB's IDRs and SSR. Contingent liabilities could increase, for instance, because of sustained growth in the bank's balance sheet in excess of the canton's GDP growth, or due to a material delay by the canton in promptly addressing a potential capital shortfall at ZKB.

ZKB's IDRs and SSR are also sensitive to changes to its relationship with the canton, especially if the ZKB Law was amended in a way that would weaken the guarantee's effectiveness or that casts doubt on the timeliness of support. However, we view this scenario as unlikely.

We would likely downgrade the VR if large real estate-related losses, driven by a sharp drop in residential property prices in Zurich, led to a CET1 ratio materially below 16%, or an impaired loans ratio durably above 2%. The rating would also come under pressure if profitability deteriorated durably, or if the bank increased its risk appetite, which could be indicated by higher loan growth or by greater exposure to interest-rate risk in the loan book.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The Long-Term IDR is at the highest level on Fitch's scale and cannot be upgraded.

An upgrade of the VR is unlikely given the concentration of ZKB's business model on the Canton of Zurich, resulting in large exposure to the local property market. An upgrade would also require an improvement in the bank's profitability.

VR ADJUSTMENTS

The capitalisation & leverage score of 'a+' is below the 'aa' category implied score due to the following adjustment reason(s): capital flexibility and ordinary support (negative).

The funding & liquidity score of 'aa-' is above the 'a' category implied score due to the following adjustment reason(s): liquidity access and ordinary support (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

ZKB's IDRs and SRR are linked to the Canton of Zurich's ratings.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Zuercher Kantonalbank	LT IDR	AAA ⭘	Affirmed		AAA ⭘
	ST IDR	F1+	Affirmed		F1+
	Viability	a+	Affirmed		a+
	Shareholder Support	aaa	Affirmed		aaa

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◈	◆
STABLE	⭘	

Applicable Criteria

Bank Rating Criteria (pub.21 Mar 2025) (including rating assumption sensitivity)

Financial Institutions Climate Vulnerability Rating Criteria (pub.08 Dec 2025)

Additional Disclosures

Solicitation Status

Endorsement Status

Zuercher Kantonalbank	UK Issued, EU Endorsed

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