

**Rating Action: Moody's upgrades Zuercher Kantonalbank's AT1 instruments to A1(hyb)**

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28 Jul 2022

Frankfurt am Main, July 28, 2022 -- Moody's Investors Service (Moody's) has today upgraded the ratings of two Additional Tier 1 (AT1) instruments (ISIN CH0361532945 and CH0536893321) of Zuercher Kantonalbank (ZKB) to A1(hyb) from Baa1(hyb).

All other ratings and rating assessments of ZKB were unaffected by today's rating action.

**RATINGS RATIONALE**

**UPGRADE OF AT1 INSTRUMENTS**

ZKB's AT1 securities represent non-cumulative preferred stock instruments that have a 7% Common Equity Tier 1 (CET1) write-down trigger and carry a point of non-viability (PONV) loss absorption feature. The PONV can be declared by the Swiss Financial Market Authority (FINMA) if ZKB receives extraordinary support from the Canton of Zurich, the sole owner of ZKB, with extraordinary support being defined as support that is necessary to prevent an insolvency of the bank.

The upgrade reflects Moody's assessment that the risk of FINMA declaring such support being extraordinary is remote, because the rating agency expects support from the canton to flow early enough and well above the minimum capital levels stipulated by Swiss regulation, which the bank is comfortably exceeding at present.

Therefore, the instruments are now notched off the bank's aa1 Adjusted Baseline Credit Assessment(BCA), which incorporates the rating agency's assessment of the likelihood of cantonal support as well as the financial strength of the canton itself. This assessment reflects the maintenance guarantee, which requires the canton to inject capital into ZKB until the canton defaults itself, resulting in three notches of affiliate support uplift from the bank's a1 BCA.

As a result, the A1(hyb) rating of ZKB's AT1 instruments reflect ZKB's aa1 Adjusted BCA, the results of Moody's Advanced Loss Given Failure (LGF) analysis, yielding a three-notch downward adjustment from the bank's Adjusted BCA, and Moody's assumption of a low probability of sovereign government support for loss-absorbing instruments, resulting in no additional rating uplift. The three-notch negative adjustment derived from the rating agency's Advanced LGF analysis comprises (1) a one-notch deduction because of the high loss given failure that these securities are likely to face in a resolution scenario, reflecting their deep subordination, small volume, and limited protection from residual equity; and (2) two additional negative notches to reflect the higher risk associated with the non-cumulative coupon skip and contractual write-down mechanisms, which could take effect before the issuer reaches the PONV.

**FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS**

An upgrade of ZKB's AT1 instrument ratings could be driven by an upgrade of the bank's Adjusted BCA, which could be prompted by a strengthened credit profile of the Canton of Zurich.

A downgrade of ZKB's AT1 instrument ratings could be prompted by a downgrade of the bank's Adjusted BCA, which could be driven by a deterioration of the canton's creditworthiness. A removal of the maintenance guarantee, which is enshrined in article 109 of the cantonal constitution, could also result in a downgrade of the bank's Adjusted BCA, but Moody's deems such a scenario to be highly unlikely.

**PRINCIPAL METHODOLOGY**

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

**REGULATORY DISCLOSURES**

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

The rating for Preferred Stock Non-cumulative, CHF315 million (ISIN CH0536893321) is solicited.

The rating for Preferred Stock Non-cumulative, CHF750 million (ISIN CH0361532945) is unsolicited.

a. With Rated Entity or Related Third Party Participation: YES

b. With Access to Internal Documents: YES

c. With Access to Management: YES

For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moody.com>.

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