

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Zuercher Kantonalbank's Aaa long-term deposit and issuer ratings, outlook stable

18 Sep 2024

Frankfurt am Main, September 18, 2024 -- Moody's Ratings (Moody's) has today affirmed all ratings of Zuercher Kantonalbank (ZKB), including its Aaa/P-1 backed long- and short-term bank deposit ratings and Aaa backed long-term issuer ratings. Concurrently, we affirmed the bank's a1 Baseline Credit Assessment (BCA) and its aa1 Adjusted BCA. The outlook on the long-term deposit and issuer ratings remains stable.

At the same time, we have affirmed the bank's Aa2 junior senior unsecured debt ratings on ZKB's bail-in bonds, its Aa2 subordinated debt ratings as well as the A1(hyb) preferred stock non-cumulative ratings on the bank's high-trigger Additional Tier 1 (AT1) instruments. The Aaa/P-1 backed long- and short-term Counterparty Risk Ratings (CRR) and the Aaa(cr)/P-1(cr) backed long- and short-term Counterparty Risk Assessments (CRA) have also been affirmed.

Please click on this link https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL495785 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

-- RATIONALE FOR THE AFFIRMATION OF THE BCA

Our affirmation of ZKB's a1 BCA reflects the bank's strong and stable intrinsic financial profile, including its solid and highly resilient asset quality, despite some concentration on real-estate activities in the Zurich region. The bank's strong capital base as well as its existing high loan loss reserves provide additional meaningful protection against adverse developments.

We also expect the bank's profitability to remain sound and subject to only very limited volatility, although retreating slightly from its unusually strong 2023 levels. This is largely owing to lower interest rates that will likely reduce ZKB's net interest income,

albeit the bank's increasing fee and commission income related to its growing asset management activities will help offset the anticipated decline and add to earnings diversification.

The affirmation further reflects ZKB's strong liquid resources, balancing the bank's meaningful exposure to confidence-sensitive market funding. The latter, however, strongly benefits from the full 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. This also results in comparatively low funding costs.

--RATIONALE FOR THE AFFIRMATION OF THE ADJUSTED BCA

Our affirmation of the ZKB's aa1 Adjusted BCA reflects the unchanged guarantee framework provided by its sole owner, the Canton of Zurich. The canton provides a guarantee on senior obligations, and is required to inject capital into ZKB, in case of need, with the guarantee on the senior obligations providing a strong incentive for early intervention.

--RATIONALE FOR THE AFFIRMATION OF ZKB'S RATINGS

The affirmation of ZKB's Aaa backed long-term bank deposit and backed long-term issuer ratings reflects the affirmation of the bank's a1 BCA and aa1 Adjusted BCA and unchanged results from our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss in resolution for ZKB's different liability classes and results in one notch of rating uplift for deposits and the issuer ratings. For the bank's junior senior unsecured debt and subordinated debt ratings, our Advanced LGF analysis leads to a rating positioning one notch below the bank's Adjusted BCA.

Finally, the affirmation of ZKB's deposit and issuer ratings incorporates an unchanged assumption of a moderate likelihood of government support because of ZKB's role as a systemically important institution in Switzerland. However, this does not provide additional rating uplift from government support because the ratings are already positioned at Aaa, the highest possible.

-- STABLE OUTLOOK ON LONG-TERM DEPOSIT AND ISSUER RATINGS

The stable outlook on ZKB's backed long-term deposit and issuer ratings reflects our expectation of the bank maintaining its current solvency and liquidity profile, combined with a stable credit profile for the Canton. The stable outlook also takes into account our expectation that ZKB will maintain sufficient volumes of bail-in-able liabilities safeguarding the currently assigned rating uplift resulting from our Advanced LGF analysis.

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

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.

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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
- Issuer Participation

- Participation: Access to Management
- Participation: Access to Internal Documents
- Lead Analyst
- Releasing Office

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.moodys.com/rating-definitions>.

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