FitchRatings

Banks
Universal Commercial Banks
Switzerland

Zuercher Kantonalbank

Update

Key Rating Drivers

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

Cantonal Guarantee: The canton guarantees all of ZKB's non-subordinated liabilities according to a specific cantonal law (ZKB Law). ZKB's balance sheet 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.

Timely Support Expected: The canton's guarantee does not explicitly address the timeliness of support, but Fitch Ratings believes it would be provided in a timely fashion, given ZKB's high importance for the canton and the potential repercussions of a systemically important bank's failure for the Swiss financial sector. The canton's constitution requires it to have a cantonal bank, making the owner more likely to support the bank in periods of financial distress.

Strong Regional Franchise: ZKB's leading franchise in deposit-taking and residential mortgage lending in the Canton of Zurich, where its operations are concentrated, supports its VR. This high concentration is mitigated by Zurich's economic strength and ZKB's diversified business model, covering retail and commercial banking. ZKB is also the third-largest fund provider and one of the largest asset managers in Switzerland.

Material Real Estate Exposure: The bank's impaired loans ratio is very low compared with international peers'. Its main risk stems from large real estate exposure in Zurich. We believe 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, which comprises 10% of gross loans, is more vulnerable to adverse economic conditions. We expect ZKB's impaired loans ratio to remain below 1% in 2025.

Declining Earnings on Lower Rates: Our assessment of ZKB's profitability reflects its long record of adequate, stable and fairly diversified earnings, with a material share of trading income. Operating profitability moderated in 2024 due to declining policy rates, and we expect it to moderate further in 2025, but to remain above pre-2022 levels.

Strong Capitalisation: ZKB's common equity Tier 1 ratio declined to 16.8% at end-2024, but remains comfortably above regulatory requirements. The canton's guarantee covers half of ZKB's gone-concern capital requirement, which will be fully phased in at 7.86% in 2026. The remaining half is mainly covered with bail-in debt and undrawn endowment capital (CHF1 billion).

Stable Funding: The large and mostly granular deposit base underpins the bank's 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.

Recovery and Resolution Plan: ZKB has a recovery and resolution plan approved by the Swiss banking supervisor. According to this plan, the canton could be required to provide around CHF3 billion of capital to recapitalise ZKB. Fitch believes the provision of this capital 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.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Viability Rating	a+
Shareholder Support Rating	aaa
Sovereign Risk (Switzerland)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Affirms Zuercher Kantonalbank at 'AAA'; Outlook Stable (July 2024)

Zuercher Kantonalbank (July 2024)

Fitch Affirms Switzerland at 'AAA'; Outlook Stable (October 2024)

Global Economic Outlook (December 2024)

Fitch Affirms Canton of Zurich at 'AAA'; Outlook Stable (May 2024)

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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 the bank's 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 be likely to downgrade the VR if large real estate-related losses, which could arise from a sharp drop in residential property prices in Zurich, led to a common equity Tier 1 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.

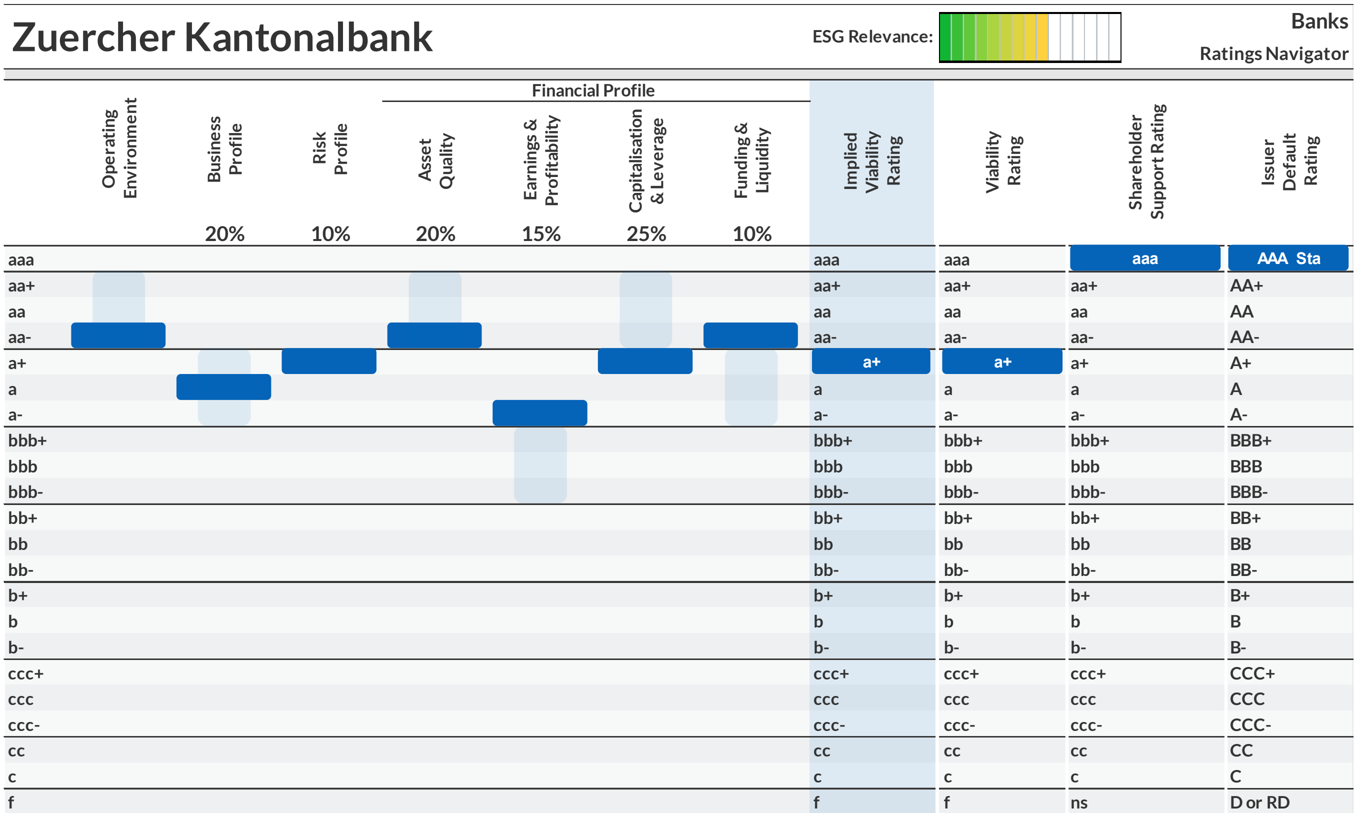
Significant Changes from Last Review

ZKB's profitability moderated in 2024 after record results in 2023, but remained adequate, supported by the bank's diversified revenue streams. Operating profit decreased by 3% year on year as operating costs went up and as higher fees and commissions did not fully compensate for lower net interest and trading income, which is a significant but also volatile revenue source for ZKB.

We expect net interest income to moderate further in 2025, as liability margins continue to decline following the latest interest rate cut by the Swiss National Bank in December 2024. As ZKB pursues a strategy of balance-sheet-light growth, we expect fee and commission income to remain strong and assets under management to continue growing (CHF457 billion at end-2024, up 16% from CHF396 billion a year earlier). Associated staff cost increases and continued IT infrastructure investments will push up operating costs, resulting in a moderation of operating profitability, which, however, should remain above pre-2022 levels.

The bank's asset quality, which we consider as one of its relative strengths, proved resilient in 2024. We expect it to remain strong in 2025, supported by the Canton of Zurich's strong economic fundamentals and housing market. Although ZKB paid out record compensation to the canton and its municipalities in 2024, its capital ratios remained comfortably above the regulatory requirements on both a going- and gone-concern basis, as capital is prudently managed. We do not expect any significant changes to ZKB's funding and liquidity profile from the increased liquidity requirements for systemically important banks in Switzerland from 2024.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The earnings and profitability score of ‘a-’ has been assigned above the ‘bbb’ category implied score due to the following adjustment reason: earnings stability (positive).

The capitalisation and leverage score of ‘a+’ has been assigned below the ‘aa’ category implied score due to the following adjustment reason: capital flexibility and ordinary support (negative).

The funding and liquidity score of ‘aa-’ has been assigned above the ‘a’ category implied score due to the following adjustment reason: liquidity access and ordinary support (positive).

Financials

Financial Statements

	31 Dec 24		31 Dec 23	31 Dec 22	31 Dec 21
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(CHFm)	(CHFm)	(CHFm)	(CHFm)
	Not disclosed	Not disclosed	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,937	1,737	1,870	1,421	1,287
Net fees and commissions	1,142	1,024	940	926	926
Other operating income	429	385	434	423	371
Total operating income	3,509	3,146	3,244	2,770	2,584
Operating costs	2,021	1,812	1,726	1,693	1,594
Pre-impairment operating profit	1,488	1,334	1,518	1,077	990
Loan and other impairment charges	64	57	49	18	39
Operating profit	1,424	1,277	1,469	1,059	951
Other non-operating items (net)	13	12	-224	8	0
Tax	188	169	7	8	9
Net income	1,249	1,120	1,238	1,059	942
Fitch comprehensive income	1,249	1,120	1,238	1,059	942
Summary balance sheet					
Assets					
Gross loans	131,855	118,221	112,776	108,017	102,365
- Of which impaired	n.a.	n.a.	487	425	418
Loan loss allowances	n.a.	n.a.	650	612	627
Net loans	131,855	118,221	112,126	107,405	101,738
Interbank	3,798	3,405	3,401	2,937	3,173
Derivatives	2,977	2,669	968	1,190	1,272
Other securities and earning assets	49,238	44,147	43,351	46,520	43,645
Total earning assets	187,867	168,442	159,846	158,052	149,828
Cash and due from banks	36,508	32,733	39,706	40,302	40,883
Other assets	1,583	1,419	1,707	1,437	1,394
Total assets	225,958	202,594	201,259	199,791	192,105
Liabilities					
Customer deposits	119,317	106,980	101,452	103,351	96,777
Interbank and other short-term funding	53,256	47,749	50,131	49,791	39,300
Other long-term funding	29,932	26,837	24,864	25,473	38,608
Trading liabilities and derivatives	4,313	3,867	5,682	5,702	3,059
Total funding and derivatives	206,818	185,433	182,129	184,317	177,744
Other liabilities	2,565	2,300	3,333	2,175	1,687
Total equity	16,575	14,861	14,268	13,299	12,674
Total liabilities and equity	225,958	202,594	201,259	199,791	192,105
Exchange rate		USD1 = CHF0.8966	USD1 = CHF0.8547	USD1 = CHF0.9303	USD1 = CHF0.9202

Source: Fitch Ratings, Fitch Solutions, Zuercher Kantonalbank

Key Ratios

	31 Dec 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%, annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	1.9	1.4	1.3
Net interest income/average earning assets	1.1	1.2	0.9	0.9
Non-interest expense/gross revenue	57.9	53.4	61.4	62.0
Net income/average equity	7.7	9.0	8.2	7.5
Asset quality				
Impaired loans ratio	n.a.	0.4	0.4	0.4
Growth in gross loans	4.8	4.4	5.5	5.4
Loan loss allowances/impaired loans	n.a.	133.5	144.0	150.0
Loan impairment charges/average gross loans	0.1	0.0	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	16.8	17.4	16.8	17.0
Tangible common equity/tangible assets	7.3	7.1	6.7	6.6
Basel leverage ratio	6.8	6.6	6.2	6.2
Net impaired loans/common equity Tier 1	n.a.	-1.2	-1.5	-1.7
Funding and liquidity				
Gross loans/customer deposits	110.5	111.2	104.5	105.8
Gross loans/customer deposits + covered bonds	100.1	99.8	93.7	94.7
Liquidity coverage ratio	142.0	147.0	146.0	160.0
Customer deposits/total non-equity funding	58.0	56.0	56.7	54.8
Net stable funding ratio	116.0	117.0	124.0	118.0

Source: Fitch Ratings, Fitch Solutions, Zuercher Kantonalbank

Support Assessment

Shareholder Support	
Parent IDR	AAA
Total Adjustments (notches)	0
Shareholder Support Rating	aaa
Shareholder ability to support	
Shareholder Rating	AAA/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	1 Notch
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	Equalised

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

ZKB's SSR is equalised with the canton's Long-Term IDR. The canton guarantees all of ZKB's non-subordinated liabilities under the ZKB Law. Despite ZKB's large balance-sheet size relative to the canton's budgetary resources, Fitch believes that capital or liquidity support from the owner, if needed, would be manageable in a realistic stress scenario and provided in a timely manner due to ZKB's significance to the canton and the Swiss financial system, as well as the constitutional requirement for a cantonal bank. ZKB's strategic importance is underpinned by the bank's mandate to provide financial services to individuals and companies in the canton. The bank's nationwide and international activities are limited.

Environmental, Social and Governance Considerations

FitchRatings **Zuercher Kantonalbank**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Zuercher Kantonalbank has 5 ESG potential rating drivers				ESG Relevance to Credit Rating
Zuercher Kantonalbank has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.	key driver	0	issues	5
Governance is minimally relevant to the rating and is not currently a driver.	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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