Supplementary Analysis:
Zurich (Canton of)

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Table Of Contents

Rationale
Outlook
Institutional Framework: Predictable And Supportive
Economy: Very Wealthy With A Focus On Banking
Financial Management: Very Positive, But Still Room For Improvement
Budgetary Flexibility: Broad Autonomy To Raise Taxes
Budgetary Performance: Obstacles Remain
Debt Burden: Low Debt Maintained After Pension Fund Contribution
Contingent Liabilities: Moderate Due To Cantonal Bank
Published Rating Factor Scores
Key Statistics
Key Sovereign Statistics
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This report supplements Standard & Poor's Ratings Services' research update "Swiss Canton of Zurich Affirmed At 'AAA' On Strong Economy And Very Positive Liquidity; Outlook Stable," published on Nov. 29, 2013. To provide the most current information, we may cite more recent data than that stated in the previous publication. These differences have been determined not to be sufficiently significant to affect the rating and our main conclusions.

Rationale

The rating on the Swiss Canton of Zurich (Zurich) reflects our view of the canton's very wealthy and diversified economy, as well as Switzerland's "predictable and supportive" institutional framework in which Zurich contributes to the equalization system. Zurich displays a "very positive" liquidity position and "high" budgetary flexibility, in our view. This should allow the canton's management to maintain a fair budgetary performance over the coming years. Nevertheless, we expect a slight deterioration of Zurich's budgetary performance and, consequently, larger funding needs over 2013-2016. Zurich's debt increases because of financing the pension fund gap and investment needs to a moderately low level. However, we note the canton's strong political commitment to balancing accounts over the medium term, as shown by its track record of positive results. The ratings are constrained by moderate contingent liabilities from the canton's guarantee to Zuercher Kantonalbank (ZKB).

In our view, Zurich has a very wealthy regional economy, relative to national and international peers. The canton is the core financial center of Switzerland, and it contributes more than one-fifth of the national gross value added. We estimate Zurich's GDP per capita at about Swiss franc (CHF) 91,000 in 2013, which is almost 200% of the EU-28 average. As a result, Zurich contributes the largest amount to the national equalization system, equaling almost 3% of its adjusted operating expenditures. We classify the Swiss institutional framework as "predictable and supportive," owing to its strong and stable equalization system, which we expect to remain largely unchanged over the medium term.

Some of Zurich's expenditure items--such as payments to the equalization system--are rather inflexible. But the canton's overall budgetary flexibility is stronger than that of most of its Swiss peers, due to a very high share of modifiable revenues. Even though tax competition and public opposition somewhat limit the canton's willingness to raise taxes, the medium-term balancing requirement partly offsets this effect, and we believe the canton would use its flexibility if needed. Nevertheless, we observe a greater focus on expenditure management with respect to investments and operating costs. While the canton contains costs and continues to implement its savings program for 2011-2014, it is also prioritizing investment projects, targeting an investment volume of about 65% of the total projects proposed. This more detailed approach is part of the canton's budgetary process-improvement plans, as the government is strengthening its grip on consolidation. The plan includes setting financial cornerstones far in advance of the budgeting and planning process, which should result in firmer budgets and financial plans and a quicker return to annually balanced budgets. Also, Zurich ultimately intends to cease applying global savings measures in the budgetary process.
Overall, we continue to view the canton's financial management as "very positive" for the rating, due to its approval-based annual budgeting process and strong commitment to balancing accounts over the medium term of a rolling eight-year period.

Nevertheless, we have observed some slippage. Zurich's results were weaker in 2012 than in 2011, albeit similar to our projections. We do not see the canton's ongoing cost-cutting measures over the forecast period as sufficient to achieve balanced budgets in the planning period. Although the 2010-2012 average operating balance was 8% of adjusted operating revenues, and the balance after capital accounts was positive, our base-case scenario assumes weaker results for the next three years with deficits after capital accounts.

In our base case for 2013, the canton's budget reflects the financing of the pension fund as a capital expense of CHF2 billion. Even excluding this one-time measure, we forecast an operating surplus of 3.4% of operating revenues and a deficit after capital accounts of 2.3% of adjusted total revenues, weaker than in previous years. There are several reasons for this decline, including the impact of the hospital funding reform and lower tax revenue growth. Zurich's recapitalization of the pension fund resulted in a provision of CHF2.6 billion in 2011 in its accounts, which we, however, excluded as a non-cash item. Still, we include the annual pension fund consolidation contributions as a cash-relevant expense item and the above mentioned cash injection. Overall, these factors lead to our base-case forecast of moderate budgetary performance. Including the adjustments for the pension fund recapitalization, the average results over 2011-2015 are an operating surplus of almost 5% of adjusted operating revenues and a deficit after capital accounts of about 4% of total adjusted revenues.

Zurich's nominal debt has increased substantially, due to the pension fund contribution of CHF2 billion in 2013, and we expect it to rise further if the canton finances its budgetary deficits with debt issues. However, we estimate that the canton's low tax-supported debt will remain at about 40% of consolidated operating revenues by 2016, depending on its use of liquidity reserves and conditions in capital markets.

The canton has also given a legal guarantee for practically all of ZKB's liabilities. The rating on the canton would be put under pressure if ZKB were to call on the guarantee or rely on the canton for a considerable capital injection. We currently view the likelihood of this occurring as very low, given the bank's strong stand-alone credit profile of 'aa-'. Consequently, we assess the canton's contingent liabilities as moderate.

Liquidity

We view Zurich's liquidity position as very positive. Our assessment takes into account the canton's high level of cash reserves, committed bank lines, and strong access to Switzerland's deep and liquid capital market, as demonstrated by bond issuances throughout 2013. Furthermore, in the event of financial distress, the canton could benefit from its ties with the cantonal bank, which has access to central bank refinancing.

The canton's available cash reserves totalled CHF770 million on Oct. 31, 2013. These amounts, combined with the canton's bank lines, are sufficient to cover the next 12 months' debt service of CHF1.14 billion (principal and interest). However, we observe a drop in free cash and liquid assets compared with year-end 2012 because the canton had reserved liquidity for the pension fund contribution in 2013.

In our view, the canton has highly predictable cash flows, which form the basis of its liquidity planning. Yearly interest
payments are low and stable at about 1% of operating revenues. Debt service, however, will be higher than in the past two years due to substantial repayments in 2014 (CHF1 billion) and 2016 (CHF500 million).

Zurich plans for an average minimum cash position of CHF500 million, slightly below 4% of operating expenditures. The canton has access to a variety of international banks and two credit lines totalling CHF500 million that we regard as committed under our criteria.

**Outlook**

The stable outlook reflects our base-case scenario that, in 2014-2015, Zurich's balance after capital accounts will stabilize and its management will remain committed to consolidating the budget. Therefore, besides tax revenue growth, we expect further cost-containment measures that would allow the canton to balance results after capital accounts over the medium to long term. Furthermore, our base case assumes that debt levels will not deviate substantially from about 40% of operating revenues over the forecast period.

We could lower the rating if Zurich's fiscal performance deteriorated further, resulting in operating and after-capital accounts deficits, the latter beyond 5% of total adjusted revenues on average. In addition to signaling a weakening of managerial strength, such deficits could lead to a substantial increase of debt, above 60% of consolidated operating revenues. Moreover, significant financial difficulties at ZKB could burden the ratings. However, we currently view these events as highly unlikely.

**Institutional Framework: Predictable And Supportive**

**Resource index decreases further for 2014**

Swiss cantons benefit from what we view as a "predictable and supportive" institutional framework. Cantons are constituting elements in the Swiss federal system and have significant budgetary flexibility, leading to greater potential for expenditure efficiency compared with most local and regional governments worldwide. Our view primarily reflects our opinion of the Swiss equalization system, Neugestaltung des Finanzausgleichs und der Aufgabenteilung zwischen Bund und Kantonen (NFA), which came into effect in 2008. NFA combines three major elements or financial pools:

- Pool 1 provides horizontal and vertical equalization based on tax-revenue potential;
- Pool 2 provides equalization based on specific burdens, such as geographic-topographical and socio-demographic burdens; and
- Pool 3 will exist for a limited period, and provides compensation for any hardship caused by the change in the system.

The system is designed to share resources among the various cantons according to their respective tax revenue potential (see "Public Finance System Overview: Swiss Cantons," published on July 30, 2009). Under this system, a resource index is calculated for each canton, whereby 100 is the average. This calculation leads to the computation of an index of standardized tax revenues, which primarily defines contributors (above 100) or recipients (below 100). This is used to share out pool 1. NFA then allows for the additional equalization pools to be shared according to financial need across the cantons.
The NFA metrics used to determine the index values for the year 2014 are based on the tax revenue potential from 2008 to 2010, which leads to an anti-cyclical effect for Zurich. It remains the largest nominal contributor to NFA. The canton's index value is set at 117.7 in 2014 (from 123.0 in 2012 versus the Swiss average of 100), indicating the financial strength of the canton. As Standard & Poor's expected, the index value for the canton has decreased for 2014, as have the corresponding payments to other cantons, due to a lower crisis-driven tax base among other technical changes in the calculation. However, the canton's diversified economic structure and lower reliance on exports will continue to underpin its relative strength over the medium term.

The Swiss Federal Council (Bundesrat) last evaluated NFA in mid-2010, and we understand that it will publish the next report in spring 2014. We believe that Bundesrat is likely to leave the main elements of the system unchanged over 2014-2017. Although the volumes of the equalization pools are the source of much debate, changes may only be implemented with the approval of a majority of cantons.

Economy: Very Wealthy With A Focus On Banking

Cantonal economy remains resilient despite risks from the European macroeconomic environment

The Canton of Zurich is Switzerland's core economic region. The canton has a dominant position in the Swiss economy and contributes more than one-fifth of Swiss gross value added. As major financial institutions have their corporate headquarters in the region, it is a financial center of global importance.

At least 30% of Zurich's economic strength depends directly or indirectly on the development of the financial services sector, reflecting the dominant role of this sector in the canton. The large shares of financial services, in the canton's gross value added and in employment, underpin the canton's exposure to cyclical fluctuations and structural changes of this industry, and to changes in its regulatory environment. As result, the canton's tax revenues mirror past developments in the financial industry.

The weaker macroeconomic environment in surrounding Europe somewhat affects the canton's economy. But because the canton contributes only about 9% to the total Swiss exports, the region is not overly export dependent and so the impact is contained. We expect Swiss real GDP will expand by 1.6% in 2013, and we forecast 1.8% real GDP growth in 2014. For Zurich, GDP growth rates should lie roughly in line with the Swiss average, in our opinion. We note that prices in the real estate sector have continued to increase, but at a lower rate. This trend could continue if, in conjunction with macroeconomic factors, demand-driven immigration to the region structurally slows down. The 1.1% year-on-year population growth in 2012, compared with an average annual rate of 1.5% in 2005-2012, indicates such a reduction in growth.

We believe that the domestic banking sector is performing rather well, albeit lingering uncertainties concerning the impact of restructuring and reorganization of international operations of domestic banks. The financial industry, including a well-performing insurance industry, generates more than 20% of the canton's gross value added. The secondary sector, however, has less significance for the canton's economic profile compared with the Swiss average. So far, the Swiss National Bank's commitment to stabilizing the Swiss franc exchange rate to the euro has helped avoid further negative developments for the cantonal economies, in our opinion.
Unemployment stays in line with the Swiss average
The Canton of Zurich's unemployment rate stood at 3.1% in September 2013 (Swiss average of 3.0%), compared with 2.9% in September 2012. In light of the relatively resilient economic structure in Switzerland and the canton, we do not expect unemployment levels—which we consider low from an international perspective—to change structurally over the medium term.

Chart 1

Population still growing, but with somewhat lower rates
Positive net migration, in particular from neighboring EU countries, has underpinned the canton's continuous population growth in the past few years. The canton's population was 1,406,083 at end-2012. This is an increase of 1.1% from the previous year, driven by immigration and natural growth. This growth rate is below the rates observed in the past seven years, which averaged 1.5% annually, reflecting the moderate growth in Switzerland and potentially an indication of slightly lower population growth dynamics going forward.

However, the canton estimates that population growth will continue at rates near 1% in the medium term. The continuing, yet slowing population growth reflects the canton's ongoing appeal due to its diversified economic structure, relatively stable employment possibilities, and high standards of living.
The financial sector's contribution to the cantonal economy
Following strong pre-crisis growth, the Swiss financial sector has been the driving force behind the Canton of Zurich's economy for more than 10 years, making up close to 22% of GDP in 2011. This sector's contribution to employment is less pronounced, with a share of roughly 10%. In our opinion, the strength of the Swiss financial sector's franchise in private wealth and asset management, compounded with Switzerland's status as a politically stable and wealthy economy, has allowed financial institutions to weather negative effects of the 2008-2009 global financial turmoil and ongoing uncertainties related to the sovereign crisis in the eurozone.

However, we anticipate further changes within the financial sector, including a stronger focus on private banking and asset management, and less global corporate financing and proprietary trading activities. This shift could increasingly pose a challenge as it takes places amid international competition with emerging and existing financial centers. A consolidation process is also underway, boosted by the need to increase efficiencies and profits. We believe that, in addition to higher capital requirements, Swiss banks' success from their new positioning will depend on regaining international confidence, strengthening the cooperation of the Swiss government and the banks themselves with the international community. We believe that this cooperation will safeguard against money laundering and tax evasion to maintain banks' strong franchise and increase profitability. In our view, this is paramount to the canton's economic performance over the next few years, until the canton further broadens its economic base.

Financial Management: Very Positive, But Still Room For Improvement

The middle of a political cycle–next elections 2015
The last cantonal government and parliament elections were in April 2011, and the next elections will take place in 2015. In line with our expectations, there was no substantial change to the fairly stable composition of the parliament, where parties positioned at the center of the political spectrum tend to gain more votes. This composition might lead to shifting majorities in parliament, depending on the political matters at hand, making it more demanding for the government's policy proposals.

We did not observe and do not expect any deterioration in the canton's commitment to fiscal consolidation. We understand that there is political consensus regarding fiscal soundness, and that this has been anchored by law. However, we believe that the pace of fiscal consolidation might be threatened by economic considerations in the medium term, if the country's economy remains subdued. The rejection of the government's proposal to increase the tax rate multiplier in the context of the 2012 budget and medium-term financial plan reflects this.

Positive contribution of management and fiscal policies to the canton's creditworthiness
The cantonal parliament approves annual budgets and annual accounts proposed by the government. The parliament has the right to recognize–not approve or refuse–the government's four-year financial plan (current plan 2014-2017). Zurich's financial accounts are well documented and disclosed in a timely manner, although we think that changes in consolidation complicate the comparison with previous years.

Cantonal financial regulation requires balancing of accrual operating accounts over an eight-year period, currently 2010-2017. If the government misses its goal of balanced accounts on average, it must propose compensating measures. Although the government introduced a savings program of CHF1.9 billion in 2010 (Sanierungsprogramm...
2010), which affects the budget years 2011 to 2014, the CHF2.6 billion pension fund gap would require additional saving measures to comply with this financial regulation. The government therefore proposed an alternative calculation method for the balanced budget requirement for the coming years.

The popular referendum on March 3, 2013, approved this calculation method. As such, only CHF400 million (through the incorporation of the gold sale of 2005) and the yearly contributions will affect the budgeting calculation. However, this does not impact our assessment of the canton’s budgetary developments, as we analyze these under cash accounting, which affects performance in years when the canton makes payments. Nevertheless, there might be challenges ahead for the canton, once the high-performing years are no longer considered (i.e. toward 2019). Until then, new developments around the corporate tax reform III—which aims to address EU and OECD concern on tax treatments within Switzerland—might also strain cantons’ resources.

Still, we believe that this balanced budget requirement enables the canton to follow a prudent financial policy over the business cycle because it is a highly ranked goal in political discussions. Referendums (compulsory or facultative) and initiatives concerning cantonal or federal matters are held several times a year.

Additionally, we understand that the cantonal government is aware of its unsatisfactory progress in achieving a structurally balanced budget, using global savings measures as its target. To strengthen its grip on consolidation, the cantonal government now sets the financial cornerstones before commencing the budgeting and planning process, which we believe will result in a more disciplined approach to setting the budget and financial plans and a quicker return to annually balanced budgets. Furthermore, we understand the cantonal government is considering combining budgeting and financial planning more stringently. However, even at present, the parliament has the authority to propose specific savings measures.

### Accounting standards

Since 2009, Zurich’s accounts are based on International Public Sector Accounting Standards (IPSAS), which puts the canton in a leading position concerning accounting standards, transparency, and comparability. We view this as highly positive. Our data do not reflect the pension fund provisioning in 2011 as we adjust for non-cash items. But we include the financing of this pension fund gap in 2013 as capital expenditures and account for the yearly ongoing special transfers (Sanierungsbeiträge) to the pension fund. Standard & Poor’s bases its adjustments on cash revenues and expenditures.

The canton reports budgets, accounts, and financial plans following detailed rules, and it has to follow procedures for establishing budgets and their schedules. If the canton’s parliament failed to approve the following year’s budget before year-end, provisional rules would come into force.

### Budgetary Flexibility: Broad Autonomy To Raise Taxes

**Political goal to keep tax rates competitive limits revenue flexibility**

Although the Canton of Zurich has the right to set rates for income, wealth, corporate profit, and capital taxes, increases in the tax multiplier are sensitive because there is still competition between the cantons. In addition, the main political goal for major parties and the government is to lower taxes or to keep them at least stable. Since 2003,
the tax multiplier has been set at 100%. In December 2011, the cantonal parliament rejected the government’s proposal to increase the tax multiplier for 2012-2013. This rejection, in line with an earlier parliamentary rejection of tax increases in 2005, demonstrates the obstacles Zurich faces to increase revenue and limits financial flexibility somewhat. Other cantons, however, increased their tax multipliers according to budgetary needs. In our view, tax increases are currently unlikely to be implemented. This assessment could alter, if budgetary needs—such as a breach of the balancing requirement—would call for measures and thus potentially increase the willingness both politically and within the population to support tax changes.

On the expenditure side, Swiss cantons are more flexible than most local and regional governments worldwide. Their ability to determine yearly payment increases is above average. For 2014, the central government's budget accounts for moderate 0.2% inflation adjustment and 0.4% pay rises. However, transfers to financially weaker cantons under NFA are inflexible. We expect these amounts to remain at the lately reduced levels, in particular as from 2012 the effect of the crisis years kicked in.

In general, the balance after capital account offers room for further savings because the high standard of infrastructure would allow for projects to be postponed. This applies particularly to complex and costly projects. For the current planning period 2014-2017, the canton will be prioritizing infrastructure projects and continue to budget conservatively. The canton plans to budget 65% of all proposed investment projects, and factors in the past experience of 80% completion rate. Little room in the budget remains for capital revenues, as only assets not required for public administration can be sold easily. For further information on the flexibility of Swiss cantons, please refer to "Fiscal Flexibility Index For International Local and Regional Governments", published on Dec. 17, 2007, on RatingsDirect.

**Budgetary Performance: Obstacles Remain**

**Challenging fiscal performance despite cost-cutting measures**

The canton's fiscal performance in 2012 was better than anticipated in the yearly budget, on the basis of larger tax revenues and the non-budgeted Swiss National Bank profit distribution. However, the results are in line with our previous expectations for 2012. As higher tax revenues and profit distribution became apparent, the cantonal administration eased its attempt to implement CHF300 million in unspecified overall savings, which had initially been planned to balance the budget. We view this as a sign of managerial weakness in the context of budget execution.

Nevertheless, control mechanisms require the cantonal government to suggest savings measures if it will not be able to balance operating accounts in the medium term (based on accrual accounting standards, including amortization) and still serve as an efficient tool to budgetary consolidation. We believe that the canton’s ongoing cost-cutting measures over our 2013-2015 forecast period will not be sufficient to achieve balanced budgets in the canton's current planning period in our base-case scenario.

The government’s budget proposal for 2014 shows a further gradual weakening in the financial performance of the cantonal budget compared with previous years. We forecast an operating surplus of 1.6% of adjusted operating revenues and a deficit of the balance after capital accounts of 3.6% of adjusted total revenues. While we expected the result for 2013 to only be slightly weaker for the operating budget, the capital balance is heavily affected by the capital injection into the pension fund. In our adjusted cash accounts, the 2013 budget will reflect the financing of the pension
fund as a capital expense of CHF2 billion. However, excluding the one-off transaction, the balance after capital accounts is also expected to reach a slightly worse result than 2012 at a 2.3% deficit of adjusted total revenues. Pressure on the budget comes from a growing population, leading to higher expenditures although somewhat mitigated by higher revenues. Furthermore, the hospital financing reform has left its mark on the canton's budget, albeit to a lesser extent than in some other cantons, along with additional costs from the attempt to close the pension fund gap (CHF416 million for the next five years, including 2013).

Under our base-case scenario for 2013-2015, we expect the budgetary performance will return weaker results than the past three years, reversing the previous trend. The operating performance will more than half (2.6% of operating revenues) and the performance after capital account is expected to migrate into deficits (negative 2.7% of adjusted total revenues) on average, even excluding the one-off measure, from 8% average operating balance as percentage of adjusted operating revenues for 2010-2012 and a positive balance after capital accounts on average.

The decision to recapitalize the pension fund affected the canton's 2011 accounts by provisioning CHF2.6 billion, which we excluded as a non-cash item in 2011. However, we do include the annual pension fund consolidation contributions as a cash expense item. This leads to our base-case assumption of a moderate budgetary performance, with an operating surplus of almost 5% of adjusted operating revenues and a deficit after capital accounts of about 4% of total adjusted revenues on average over 2011-2015, including the adjustments for the pension fund recapitalization in 2013 and beyond.

Our downside scenario is based on a negative budgetary development, with significantly lower tax revenues on weaker than expected economic performance, and higher costs (i.e. for the hospital financing). Furthermore, we assumed higher capital expenditures compared with our base case, in part as a result of lenient investment project prioritization. According to our assumptions, the canton's operating performance would deteriorate with cash deficits of roughly 2% of adjusted operating revenues in 2015 and a higher deficit after capital accounts at about 9% of adjusted total revenues. We do not, however, believe that this scenario is very likely.
Debt Burden: Low Debt Maintained After Pension Fund Contribution

Capital injection into the cantonal pension fund and the expected budget deficits weigh on debt

The canton agreed in 2011 on the recapitalization of the cantonal pension fund and provisioned CHF2.6 billion in 2011. Throughout 2013 the pension fund received CHF2 billion in several cash instalments, and, over 2013-2017, additional yearly contributions from the canton totaling about CHF420 million are expected to be paid. The cantonal pension fund's cover ratio returned to about 94% in September 2013, from over 87.5% at year-end 2012. Under the new bylaws of 2011, the pension fund managers are obliged to implement measures if the cover ratio falls below 90%, which is what subsequently occurred and resulted in the current transaction. Although the canton is not obliged to inject capital into the fund, it has decided to cover the gap and other saving measures. This is an effect of the canton’s commitment to ensure full coverage until 2017 and to legally separate the cantonal pension fund.

Relatively large refinancing needs in 2014

Tax-supported debt decreased to just over 26% in 2011 from about 60% in 2008. By 2016, we expect this level to have increased to 40%. We regard this ratio as moderately low by international standards.

In 2014 repayments in conjunction with slight deficits after capital accounts will require the canton to access capital
markets for additional borrowing, provided that the canton does not draw down on its reserves beyond its expected minimum liquidity level of CHF500 million. The magnitude of additional debt will ultimately depend on the government's success in reining in deficits.

The canton currently has no debt denominated in foreign currency and does not intend to issue any foreign-currency debt. The canton is allowed to use derivative instruments such as currency and interest swaps only for debt management purposes. We note that none are in place currently.

**Top address with huge market demand**

After a period of limited capital market activity since 2006, with only one CHF200 million bond issue in 2010, the canton placed several bonds throughout 2012 and 2013. The most recent bond issues in July 2013 demonstrated how limited issues in the past and Zurich's top credit quality have benefited the canton on domestic and international money and capital markets, and have resulted in excellent access to investors and very favorable rates. This limits the risk it runs by depending on refinancing. After years of very low credit demand by Swiss cantons, following the additional revenues received from the Swiss National Bank gold sale, we expect investors' demand for cantonal debt, especially for Zurich, to continue at high levels. We understand that this is the case, due to ample liquidity and higher risk aversion by Swiss and foreign investors.

**Contingent Liabilities: Moderate Due To Cantonal Bank**

**Guarantee for the cantonal bank is the largest contingent liability**

In our view, the canton's 100% ownership of ZKB constitutes Zurich's largest contingent liability, which we regard as moderate in an international comparison as ZKB is well capitalized. In addition to the capital already injected into the bank, the canton is legally required to guarantee most of the bank's liabilities. ZKB has recently asked for an amendment to its cantonal bank law--including an increase in the limit of its share capital to be drawn by up to CHF2 billion in coming years. However, we believe it is still uncertain if the full amount of additional available capital will be granted. Nevertheless, we estimate that the contingent liability from the ownership of ZKB for the state amounts to less than 15% of Zurich's operating revenues in an 'A'-type stress scenario (as defined in "Understanding Standard & Poor's Ratings Definitions", published on June 3, 2009).

We currently view the likelihood of the guarantee being called as very low, given the bank's strong 'aa-' stand-alone credit profile. We also think that ZKB's financial risk remains manageable with regards to the prosecutions of Swiss banks by U.S. tax authorities. We also believe that potential fines would be offset by the group's annual earnings. However, if a problem at the bank arises, followed by large cash payouts (for example due to a bank run), this could notably hamper the canton's creditworthiness.

Besides ZKB, Zurich has interests in a variety of public and private companies. It is committed to further supporting and developing Zurich Airport (Flughafen Zurich AG). In July 2008, the canton entered into an agreement with the airport to jointly prefinance future liabilities arising from indemnifications related to airplane noise, estimated at about CHF1.1 billion in the worst-case scenario. We understand that the risk for the canton is limited because the financing of future indemnifications is to be covered by noise fees charged to each departing passenger. Any liability beyond the agreed amount will be covered by the airport.
Other contingent liabilities are small in size or covered by provisions, such as the decontamination of the site of Koelliken. The site's burden is shared by the neighboring Canton of Aargau, and contains only a small risk for the Canton of Zurich.

Other risks, including law suits, are small and contain only very limited financial risks for the canton according to our knowledge.

### Published Rating Factor Scores

**Table 1**

<table>
<thead>
<tr>
<th>Rating factor</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional framework</td>
<td>Supportive and predictable</td>
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<tr>
<td>Financial management</td>
<td>Very positive</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Very positive</td>
</tr>
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</table>

*Standard & Poor's ratings on local and regional governments are based on, among other things, a scoring system that covers eight main rating factors. We publish our scores for the three rating factors above.

### Key Statistics

**Table 2**

<table>
<thead>
<tr>
<th>Canton of Zurich Financial Statistics</th>
<th>--Financial year ending Dec. 31--</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>(Mil. CHF)</td>
<td></td>
</tr>
<tr>
<td>Operating revenues</td>
<td>11,552</td>
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<tr>
<td>Operating expenditures</td>
<td>11,220</td>
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<tr>
<td>Operating balance</td>
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<tr>
<td>Operating balance (% of operating revenues)</td>
<td>2.9</td>
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<tr>
<td>Capital revenues</td>
<td>184</td>
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<td>Capital expenditures (capex)</td>
<td>948</td>
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<td>Balance after capital accounts</td>
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<td>Balance after capital accounts (% of total revenues)</td>
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<td>Debt repaid</td>
<td>925</td>
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<td>Balance after debt repayment and onlending</td>
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<td>Balance after debt repayment and onlending (% of total revenues)</td>
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<td>Gross borrowings</td>
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<td>Balance after borrowings</td>
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<td>Operating revenue growth (%)</td>
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<td>Operating expenditure growth (%)</td>
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<td>Modifiable revenues (% of operating revenues)</td>
<td>75.3</td>
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<td>Capex (% of total expenditures)</td>
<td>7.8</td>
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### Table 2

**Canton of Zurich Financial Statistics (cont.)**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013bc</th>
<th>2014bc</th>
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<tbody>
<tr>
<td>Direct debt (outstanding at year-end)</td>
<td>3,772</td>
<td>3,400</td>
<td>3,350</td>
<td>4,300</td>
<td>5,100</td>
<td>5,300</td>
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<tr>
<td>Direct debt (% of operating revenues)</td>
<td>32.6</td>
<td>26.8</td>
<td>25.2</td>
<td>31.9</td>
<td>37.9</td>
<td>38.7</td>
</tr>
<tr>
<td>Tax-supported debt (% of consolidated operating revenues)</td>
<td>32.8</td>
<td>26.9</td>
<td>25.3</td>
<td>32.0</td>
<td>38.0</td>
<td>38.8</td>
</tr>
<tr>
<td>Interest (% of operating revenues)</td>
<td>1.5</td>
<td>1.3</td>
<td>1.6</td>
<td>1.6</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Debt service (% of operating revenues)</td>
<td>9.6</td>
<td>5.8</td>
<td>2.0</td>
<td>2.0</td>
<td>6.3</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Note: The data and ratios above result in part from Standard & Poor's own calculations, drawing on national and international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc—Standard & Poor's base-case forecast, reflecting its expectations of the most likely scenario. CHF—Swiss franc.

### Table 3

**Canton of Zurich Economic Statistics**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013bc</th>
<th>2014bc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>1,351,300</td>
<td>1,373,100</td>
<td>1,392,400</td>
<td>1,408,600</td>
<td>1,428,320</td>
<td>1,448,320</td>
</tr>
<tr>
<td>Population growth (%)</td>
<td>1.4</td>
<td>1.6</td>
<td>1.4</td>
<td>1.2</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>GDP per capita (CHF)</td>
<td>90,888</td>
<td>90,160</td>
<td>92,553</td>
<td>91,126</td>
<td>90,856</td>
<td>91,215</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>3.7</td>
<td>3.6</td>
<td>2.9</td>
<td>3.0</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national and international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices, Eurostat, and Experian Limited. bc—Standard & Poor's base-case forecast, reflecting its expectations of the most likely scenario. CHF—Swiss franc. N/A—Not applicable.

**Key Sovereign Statistics**

- **Sovereign Risk Indicators, July 1, 2013**

**Related Criteria And Research**

**Related criteria**

- International Local And Regional Governments Default And Transition Study: 2012 Saw Defaults Spike, March 28, 2013
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- Public Finance System Overview: Swiss Cantons, July 30, 2009
- Understanding Standard & Poor's Ratings Definitions, June 3, 2009
- Fiscal Flexibility Index For International Local and Regional Governments, Dec. 17, 2007
Supplementary Analysis: Zurich (Canton of)

Related research
- Swiss Canton of Zurich Affirmed At 'AAA' On Strong Economy And Very Positive Liquidity; Outlook Stable, Nov. 29, 2013
- Zuercher Kantonalbank, Dec. 2, 2013

<table>
<thead>
<tr>
<th>Zurich (Canton of)</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Issuer Credit Rating</td>
<td>AAA/Stable/--</td>
</tr>
<tr>
<td>Senior Unsecured</td>
<td>AAA</td>
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</table>

**Issuer Credit Ratings History**

<table>
<thead>
<tr>
<th>Date</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-May-1994</td>
<td>AAA/Stable/--</td>
</tr>
</tbody>
</table>

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com