MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 May 2020

Update

Rate this Research

RATINGS

St. Galler Kantonalbank

Domicile	St. Gallen, Switzerland
Long Term CRR	Aa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa2
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Aa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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St. Galler Kantonalbank

Update following confirmation of the deposit ratings and downgrade of the senior unsecured rating

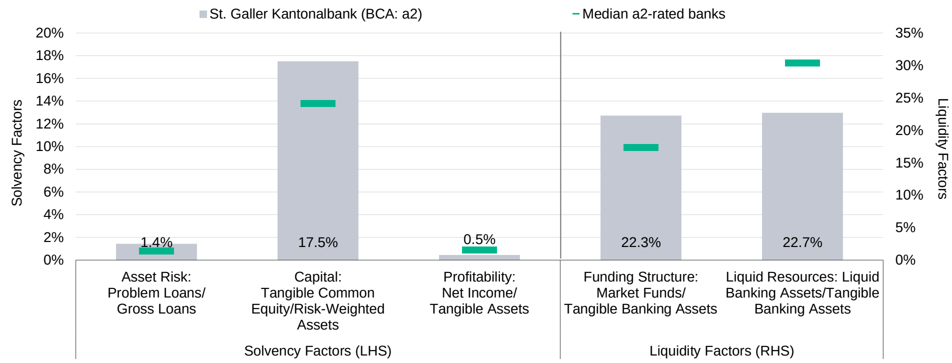
Summary
On 30 April 2020, we confirmed St. Galler Kantonalbank's (SGKB) Aa1 deposit ratings and downgraded the bank's senior unsecured debt rating to Aa2 from Aa1; the outlook was changed to stable from ratings under review. At the same time, we affirmed SGKB's a2 Baseline Credit Assessment (BCA) and upgraded the bank's Adjusted BCA to a1 from a2. We also upgraded the bank's junior instrument ratings by one notch.

SGKB's Aa1 deposit ratings reflect its a2 BCA, one notch rating uplift from affiliate support, because of the majority ownership by the Canton of St. Gallen and the bank's important role in the region, and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities. We do not incorporate rating uplift from sovereign government support for SGKB's deposit ratings due to the bank's small domestic market share and low importance to the Swiss banking system.

SGKB's a2 BCA reflects the bank's sound asset quality, despite significant geographical concentrations, adequate capitalization, and moderate, but stable profitability. Its liquidity and funding profiles are relatively balanced, with the bank benefiting from the deficiency guarantee provided by the Canton of St. Gallen, which results in low funding costs and strong market access even in a more stressed environment.

The bank's credit profile, in particular asset quality and profitability, could be challenged by a deterioration of the operating environment in Switzerland resulting from the coronavirus outbreak.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» The Canton of St. Gallen provides a deficiency guarantee (fully guaranteeing all the bank's senior liabilities)

» The bank's solid capital ratios provide a growing buffer against downside risks

» Market funding reliance is balanced by the deficiency guarantee of the canton

Credit challenges

» Geographically concentrated loan book with significant exposure to residential real estate

» Only moderate profitability

Outlook

The outlook on SGKB's deposit and senior unsecured debt ratings is stable, reflecting our expectation that the bank's standalone creditworthiness, its liability structure, and the creditworthiness of the Canton of St. Gallen will stay stable over the next 12-18 months. We also do not expect any change in the guarantee framework the canton provides to SGKB.

Factors that could lead to an upgrade

» Although unlikely given the already high level, SGKB's ratings could be upgraded if the bank's standalone creditworthiness improves significantly, resulting from a combination of materially reduced concentrations risks, significantly higher profitability and an improved combined liquidity profile.

» The bank's senior unsecured debt rating could be upgraded if the creditworthiness of the Canton of St. Gallen improves. The bank's subordinated, junior subordinated, and senior unsecured debt ratings could also benefit from higher rating uplift from our Advanced LGF analysis, if material volumes of additional subordinated instruments were to be issued.

Factors that could lead to a downgrade

» Downward pressure on the bank's ratings could result from a downgrade of the bank's BCA, or from a material deterioration of the canton's creditworthiness. The bank's Aa1 long-term ratings could also be downgraded as result of a change in the bank's liability structure, which could lead to a lower result from our Advanced LGF analysis.

» The bank's BCA could be downgraded if its asset risk, predominantly from its real estate lending book, would increase as reflected in sustainably higher problem loans, combined with lower cushions from its capital ratios and depressed profitability. Furthermore, a deteriorating liquidity profile could exert downwards rating pressure.

Key indicators

Exhibit 2
St. Galler Kantonalbank (Consolidated Financials) [1]

	12-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (CHF Billion)	35.9	33.1	32.6	32.2	31.2	3.6[4]
Total Assets (USD Billion)	37.1	33.6	33.5	31.7	31.2	4.5[4]
Tangible Common Equity (CHF Billion)	2.6	2.4	2.3	2.1	2.1	6.4[4]
Tangible Common Equity (USD Billion)	2.7	2.4	2.4	2.1	2.1	7.3[4]
Problem Loans / Gross Loans (%)	1.1	1.2	2.1	2.1	2.4	1.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.5	16.2	15.9	14.9	14.5	15.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.9	12.4	22.1	23.1	26.9	19.1[5]
Net Interest Margin (%)	0.9	0.9	0.9	1.0	1.0	0.9[5]
PPI / Average RWA (%)	1.3	1.2	1.3	1.2	1.2	1.2[6]
Net Income / Tangible Assets (%)	0.5	0.5	0.5	0.5	0.4	0.5[5]
Cost / Income Ratio (%)	59.9	62.2	59.9	59.8	61.8	60.7[5]
Market Funds / Tangible Banking Assets (%)	22.3	17.3	19.1	21.0	21.3	20.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	22.7	19.0	18.9	19.0	18.3	19.6[5]
Gross Loans / Due to Customers (%)	119.5	116.5	119.2	120.5	120.8	119.3[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3]May include rounding differences because of the scale of reported amounts. [4]Compound annual growth rate (%) based on the periods for the latest accounting regime. [5]Simple average of periods for the latest accounting regime. [6]Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

SGKB is a Swiss cantonal bank that operates mainly in the Canton of St. Gallen and Appenzell-Ausserrhoden, providing savings and credit services, as well as wealth management solutions to individuals and small and medium-sized businesses. The bank was founded in 1868 as a government-owned credit institution to promote regional economic development. As of 31 December 2019, the bank operated through a network of 38 banking outlets (including two German offices in Frankfurt and Munich) and employed about 1,100 full-time equivalent employees. As of the same date, the Canton of St. Gallen was the largest shareholder of the bank, with a 51% stake, which was reduced from 54.8% following a capital increase in May 2019. The canton is required by law to hold at least 51% of the bank's shares, which have been listed on the SIX Swiss Exchange since 2001.

For more information, please see our Swiss Banking System Profile.

Weighted Macro Profile of Strong (+)

SGKB is focused on the Swiss market and its Weighted Macro Profile is therefore Strong (+), in line with the Macro Profile of Switzerland. The bank also has limited operations in Germany.

Recent Developments

The coronavirus pandemic will cause an unprecedented shock to the global economy. The full extent of the economic downswing will be unclear for some time; however, G-20 economies, as well as Switzerland (Aaa stable), will contract in 2020. In Switzerland, the coronavirus outbreak adds to late-cycle risks for Swiss banks and the recession in 2020 will weigh on the banks' asset quality and profitability. We expect fiscal policy measures, as already announced by the Swiss government, to mitigate the economic contraction caused by the outbreak.

On 4 May 2020, the Swiss Parliament extended the coronavirus relief package, which, among other measures, increased the guarantee framework for loans to small and medium-sized enterprises (SME) to CHF 40 billion from the CHF 20 billion that were approved on 23 March 2020. Under the guarantee framework, the Swiss government guarantees 100% of loans amounting to CHF 0.5 million or less, while loans ranging from CHF 0.5 million to CHF 20 million are 85% guaranteed. Switzerland's banks are also supported by the country's reduced working-hour scheme, which will soften the increase in the unemployment rate, as well as by regulatory forbearance measures, such as the revocation of the 2% countercyclical capital buffer for domestic residential mortgage exposures and the temporary exclusion of central bank cash holdings from the leverage ratio.

In the current coronavirus-induced recession and its aftermath, capital levels will be a key differentiator of credit profiles among banks. Generally, banks are facing a sharp deterioration in asset quality and reductions in profitability from already low levels, while central banks are providing extraordinary levels of liquidity and governments have strong incentives to support banking systems to foster an eventual recovery. Thus, when comparing a bank to its peers, the level of capital with which it entered this recession and its ability to retain capital throughout the next several years take on particular importance.

Detailed credit considerations

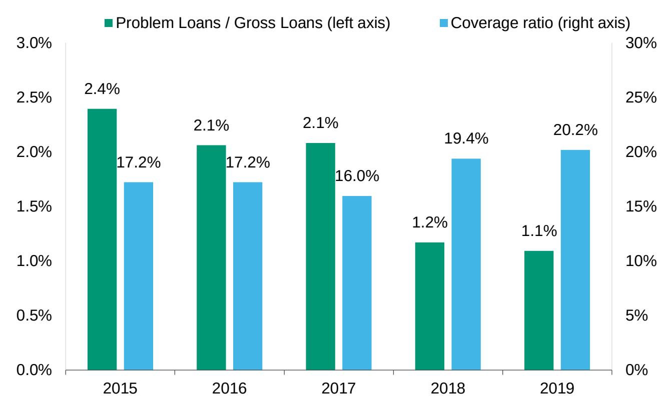
Narrow geographical focus and loan-loss coverage are key drivers for asset risk

We assign an a2 Asset Risk score to SGKB, which is set two notches below the aa3 initial score. The negative adjustment reflects the bank's narrow geographical footprint and its more limited loan-loss coverage than that of its peers.

With problem loans/gross loans of 1.1% as of year-end 2019, SGKB's problem loan ratio is now more in line with that of its closest Swiss banking peers, although its coverage ratio of 20.2% is only adequate and below average. The bank's exposure to regional corporates, and small and medium-sized enterprises results in somewhat higher problem loan ratios than what is reported in traditional retail mortgage loans. However, we believe that SGKB's risk management and controls allow for adequate assessment of the bank's inherent asset-quality risk, aided by a fair degree of diversification in its corporate loan book.

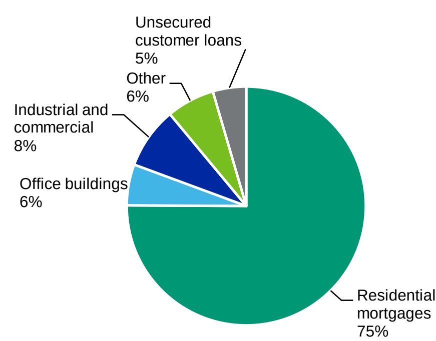
SGKB's mortgage loan book (CHF 24.7 billion as year-end 2019), which is concentrated in the Canton of St. Gallen and Appenzell-Ausserrhoden, grew at a compound average growth rate of 4.6% during 2008-19, compared with 4.0% for the Swiss market, partially driven by the takeover of Vadian Bank in 2014. Although growth had slowed to 2.5% in 2018, the mortgage book expanded again by 4.2% in 2019, which, in combination with the previous expansion of the mortgage book, increased the bank's susceptibility to potential shocks from the domestic real estate markets. However, we believe the bank is well positioned to absorb the impact of the mortgage book expansion with limited pressure on its capitalisation (for further details, see our report Swiss cantonal banks can absorb house price shock). The bank's loan book is highly granular, with only a small proportion having loan-to-value ratios above 60%.

Exhibit 3
SGKB's stock of problem loans decreased
Coverage ratio increased slightly



The problem loan ratio is in accordance with our definition; since 2018, according to IFRS 9 reporting standards
Source: Company reports and Moody's Investors Service

Exhibit 4
SGKB's loan book largely consists of residential mortgages
Total loan book: CHF 27.0bn as of year-end 2019



Source: Company reports and Moody's Investors Service

Solid capital ratios provide a growing buffer against downside risks

We assign an aa2 Capital score to SGKB, in line with the initial score. Our evaluation reflects the bank's improved tangible common equity (TCE) ratio of 17.5% as of 31 December 2019, following the capital increase in May 2019.

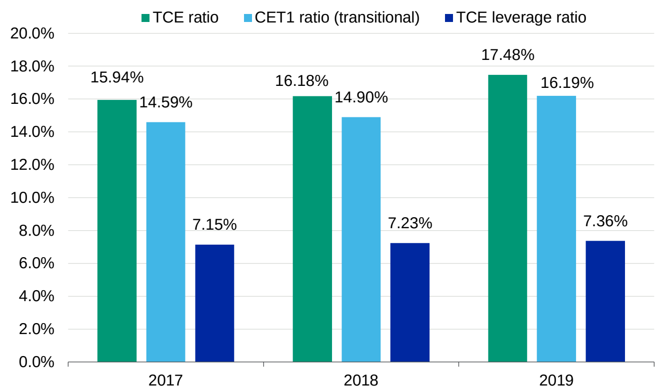
The capital hike, completed as of 27 May 2019, raised CHF 176.5 million (around 1% of 2018 risk-weighted assets [RWA]). These measures increased the bank's buffer relative to the regulatory minimum requirements, reducing risks for investors.

As of year-end 2019, the bank's total capital ratio stood at 17.8%, up from 16.8% as of year-end 2018, while the Common Equity Tier 1 (CET1) capital ratio stood at 16.2%, above the 14.9% recorded as of the end of 2018. SGKB's total regulatory capitalisation previously benefitted from the effect of the issuance of new high-trigger AT1 and Tier 2 instruments in 2017, which was the key driver for the increase in the bank's total capital ratio (to 16.9% in 2017 from 15.6% a year earlier).

SGKB is classified as a Category 3 institution according to the Swiss Financial Markets Authority's definition and must maintain a total capital ratio of at least 12.99%, including a 0.99% countercyclical capital buffer, reflecting the bank's exposure to mortgages.

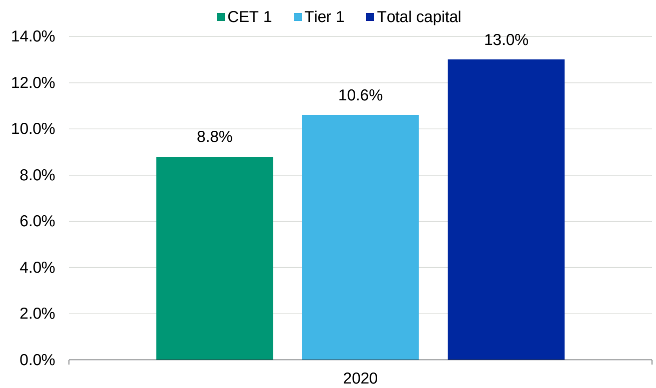
In addition to the bank's improved risk-based capital ratios, the bank also reported a slightly improved regulatory leverage ratio of 7.1% as of year-end 2019, compared to 7.0% as of year-end 2018.

Exhibit 5
SGKB exceeds its capital requirements



TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1
Source: Company reports and Moody's Investors Service

Exhibit 6
SGKB's capital requirements



Source: Company reports

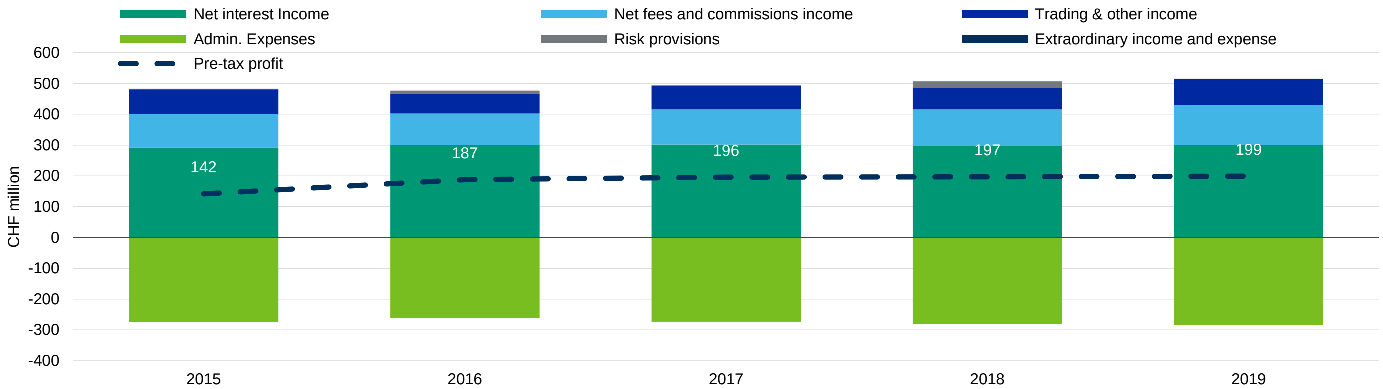
Adequate profitability metrics, despite a difficult market environment

We assign a ba1 Profitability score to SGKB, in line with the initial score, which represents the bank's average net income/tangible assets of 0.5% over the last three years. The score reflects the bank's resilient profitability metrics despite the difficult low-yield environment, which is likely to persist.

The assessment incorporates the bank's reliance on interest income (62% of revenue), with the bank aiming to increase the share of fee and commission income from its wealth management operations to balance the impact of the low-yield environment. This strategy is showing first signs of success. We expect SGKB's profitability, combined with cost discipline, to remain resilient even if risk provisions start to rise again from the extremely low levels prior to the coronavirus crisis.

For 2019, SGKB reported a higher consolidated net profit of CHF163.9 million, up from CHF158.6 million in 2018. Stronger fee and commission income (+11.0%) and a higher trading (+21.2%) result did compensate lower releases of risk reserves, while interest income and costs remained stable.

Exhibit 7
SGKB's revenue is driven by net interest income



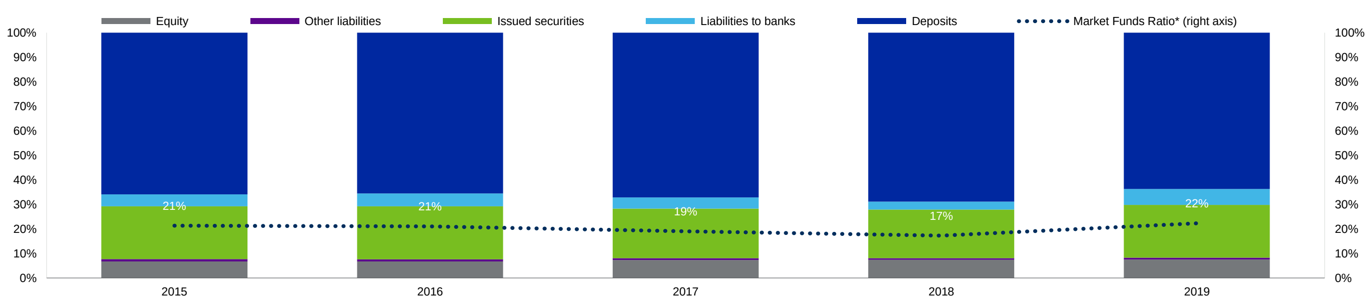
Sources: Company reports and Moody's Investors Service

Excellent access to capital markets and higher recourse to covered bonds imply strong market funding quality

The a1 assigned Funding Structure score is positioned three notches above the initial score. The score takes into account the deficiency guarantee provided by the Canton of St. Gallen on the bank's senior obligations and the decline in the bank's reliance on confidence-sensitive wholesale funding sources.

SGKB has a stable base of customer deposits, which amounted to CHF 22.6 billion as of year-end 2019 (63% of total assets; including Kassenobligationen). The bank's market funding increasingly consists of covered bonds (CHF 4.3 billion as of year-end 2019), limiting potential interest rate and refinancing risks for the bank, given its more matched asset-liability profile. Market funding also comprised CHF 2.3 billion of interbank deposits and CHF 3.5 billion of senior unsecured funding as of year-end 2019. 59% of the bank's covered bonds and 36% of its unsecured funding will mature after 2025.

Exhibit 8
SGKB has a strong deposit franchise
Market funds ratio decreased recently



*Market funding ratio = Market funds/tangible banking assets.
Sources: Company reports and Moody's Investors Service

SGKB's liquid resources are adequate considering its reduced market funding reliance

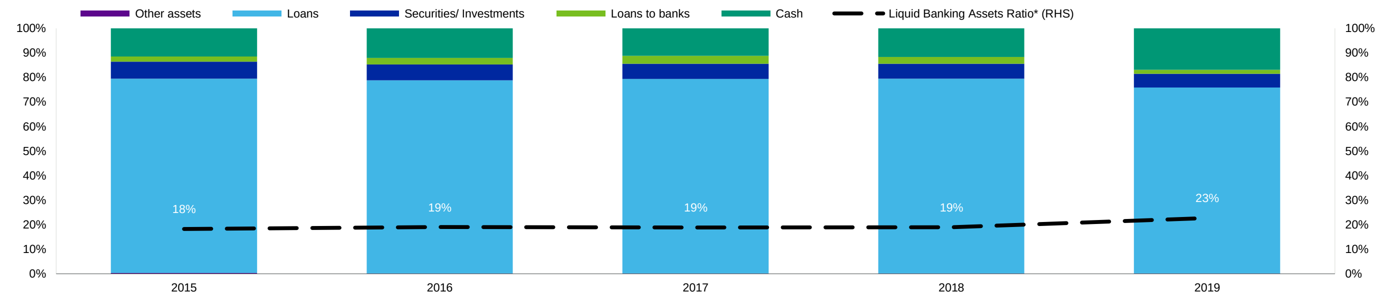
We assign a baa1 Liquid Resources score to SGKB, in line with the initial score, reflecting the bank's increased liquid balances following the Swiss National Bank's announcement in autumn 2019 to accept higher volumes of liquidity reserves at 0% interest.

As a share of tangible banking assets, SGKB's liquid assets (22.7%) now exceed the bank's market funds of 22.3%. Although some of its domestic peers still have stronger reserves compared with their market funding reliance, we do regard the bank's liquid resources as adequate, also in light of the term structure of the market funding and the available guarantee, with both factors limiting refinancing risks.

As of year-end 2019, the bank reported cash and interbank assets of CHF 6.6 billion and a liquid financial investment book of CHF 1.5 billion, which together made up 22.7% of its total balance sheet. SGKB's LCR stood at 149% as of year-end 2019.

Exhibit 11

SGKB's balance-sheet liquidity remains solid



*Liquid banking assets ratio = Liquid assets/tangible banking assets.

Sources: Company reports and Moody's Investors Service

Environmental, social and governance (ESG) considerations

In line with our general view on the banking sector, SGKB has a low exposure to environmental risks (see our Environmental risks heat map[1] for further information).

For social risks, we also place SGKB in line with our general view for the banking sector, which indicates a moderate exposure (see our Social risk heat map[2]). This includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety and deteriorating global economic outlook, creating a severe and extensive credit shock across many sectors, regions and markets.

Governance is highly relevant for SGKB, as it is to all participants in the banking industry. Governance risks are largely internal, rather than externally driven, and for SGKB, we do not have any particular governance concern[3]. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Notching considerations

Affiliate support

SGKB benefits from parental support from the Canton of St. Gallen. Parental support reduces the probability of default, as it would be available to stabilise a distressed bank and not just compensate for losses in resolution.

We consider a high level of support, reflecting that the Canton of St. Gallen owns 51% of the share capital of SGKB, which, combined with the bank's economic and social role as a cantonal bank in the region, provides an incentive for the canton to inject capital into SGKB prior to failure, in case of need. In this assessment, we also consider the deficiency guarantee, which is an incentive for the canton to inject capital prior to failure. Parental support provides one notch of rating uplift from the a2 BCA, leading to an a1 Adjusted BCA.

Loss Given Failure analysis

SGKB is subject to Swiss banking regulations, which we consider an operational resolution regime. We therefore apply our Advanced LGF analysis, which takes into consideration the risks faced by the different debt and deposit classes across the liability structure at failure. In our Advanced LGF analysis, we assign a 100% probability to deposits being preferred to senior unsecured debt, thereby reflecting depositor preference by law in Switzerland.

We further assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets. In addition, we assume a 26% share of deposits being “junior” wholesale deposits, for which we factor in a 25% run-off prior to failure, while we assume a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions. The results of our Advanced LGF analysis are:

» For deposits and counterparty risk liabilities, our LGF analysis indicates an extremely low loss-given-failure, leading us to position their Preliminary Rating Assessments at aa1, three notches above the a1 Adjusted BCA.

- For senior unsecured debt, our LGF analysis indicates a low loss-given-failure, leading us to position its Preliminary Rating Assessment at aa3, one notch above the a1 Adjusted BCA.
- For subordinated debt and junior subordinated debt (tier 2 hybrid instrument with a contractual write-down), our LGF analysis indicates a high loss-given-failure, leading us to position their Preliminary Rating Assessments at a2, one notch below the a1 Adjusted BCA (we deem it unlikely that the regulator will differentiate between the legacy Tier 2 instruments that are subject to bail-in and the new point of non-viability securities that have a contractual write-down or conversion in a theoretical bail-in situation).

Government support

We assess SGKB as government-backed by its regional authority, the Canton of St. Gallen, since it provides an explicit deficiency guarantee for its unsubordinated obligations.

However, since we expect that the Canton of St. Gallen will provide some support to SGKB prior to failure, and given the uplift provided by our Advanced LGF analysis for the bank's senior obligations, SGKB's deposit ratings, its Counterparty Risk Ratings and its Counterparty Risk Assessment do not benefit from further government support. The bank's Aa2 senior unsecured debt rating, however, incorporates one notch of (regional) government support uplift because of the deficiency guarantee.

SGKB's subordinate, junior subordinate, and high-trigger AT1 instruments are not covered by the deficiency guarantee from the Canton of St. Gallen and we therefore assume a low likelihood of support, resulting in no government support uplift for these securities.

We also do not incorporate rating uplift from sovereign government support for SGKB's senior ratings due to the bank's small domestic market share and low importance to the Swiss banking system.

High-trigger AT1 securities

The Baa1(hyb) rating assigned to the high-trigger, undated, deeply subordinated AT1 preferred stock non-cumulative instrument incorporates several considerations: the output of its model-based outcome; the determination of the rating level of a non-viability security for SGKB (because the high-trigger AT1 securities incorporate a pre-failure trigger breach risk and cannot be rated above a non-viability security) and a preferred security (for the same reason); as well as possible actions by Swiss Financial Market Supervisory Authority (FINMA) prior to any defined trigger breach. As such, the Baa1(hyb) rating reflects that FINMA can force the write-down of the high-trigger securities, once SGKB receives extraordinary support from the Canton of St. Gallen to avoid insolvency, which could happen prior to a contractual trigger breach.

Counterparty Risk Ratings

Counterparty Risk Ratings (CRR) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

SGKB's CRR are positioned at Aa1/P-1

The CRR are positioned three notches above the a1 Adjusted BCA because of uplift provided by our Advanced LGF analysis.

Counterparty Risk Assessment

The Counterparty Risk Assessment (CR Assessment) is an opinion of how counterparty obligations are likely to be treated if a bank fails and is distinct from debt and deposit ratings in that it (1) considers only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and (2) applies to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

SGKB's CR Assessment is positioned at Aa1(cr)/P-1(cr)

The CR Assessment is positioned three notches above the a1 Adjusted BCA because of uplift provided by our Advanced LGF analysis.

Methodology and scorecard

Methodology

The principal methodology we used in rating SGKB was Banks Methodology, published in November 2019.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 12

St. Galler Kantonalbank

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.4%	aa3	←→	a2	Geographical concentration	Collateral and provisioning coverage
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.5%	aa2	←→	aa2	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.5%	ba1	←→	ba1	Return on assets	Expected trend
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	22.3%	baa1	←→	a1	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	22.7%	baa1	←→	baa1	Stock of liquid assets	Quality of liquid assets
Combined Liquidity Score		baa1		a2		
Financial Profile				a2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a1 - a3		
Assigned BCA				a2		
Affiliate Support notching				-		
Adjusted BCA				a1		

Balance Sheet	**in-scope (CHF Million)**	**% in-scope**	**at-failure (CHF Million)**	**% at-failure**
Other liabilities	8,490	23.6%	10,794	30.0%
Deposits	22,585	62.8%	20,281	56.4%
Preferred deposits	16,713	46.5%	15,877	44.2%
Junior deposits	5,872	16.3%	4,404	12.3%
Senior unsecured bank debt	3,486	9.7%	3,486	9.7%
Dated subordinated bank debt	200	0.6%	200	0.6%
Junior subordinated bank debt	100	0.3%	100	0.3%
Equity	1,078	3.0%	1,078	3.0%
Total Tangible Banking Assets	35,939	100.0%	35,939	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	13.5%	13.5%	13.5%	13.5%	3	3	3	3	0	aa1
Counterparty Risk Assessment	13.5%	13.5%	13.5%	13.5%	3	3	3	3	0	aa1 (cr)
Deposits	25.8%	13.5%	25.8%	13.5%	3	3	3	3	0	aa1
Senior unsecured bank debt	13.5%	3.8%	13.5%	3.8%	1	1	1	1	0	aa3
Dated subordinated bank debt	3.8%	3.3%	3.8%	3.3%	-1	-1	-1	-1	0	a2
Junior subordinated bank debt	3.3%	3.0%	3.3%	3.0%	-1	-1	-1	-1	0	a2
Non-cumulative bank preference shares	3.0%	3.0%	3.0%	3.0%	-1	-1	-1	-1	-2	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa1	-	Aa1	Aa1
Counterparty Risk Assessment	3	0	aa1 (cr)	-	Aa1(cr)	
Deposits	3	0	aa1	-	Aa1	Aa1
Senior unsecured bank debt	1	0	aa3	-	Aa2	
Dated subordinated bank debt	-1	0	a2	-	A2	
Junior subordinated bank debt	-1	0	a2	-	A2 (hyb)	
Non-cumulative bank preference shares	-1	-2	baa1	-	Baa1 (hyb)	

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 13

Category	Moody's Rating
ST. GALLER KANTONALBANK	
Outlook	Stable
Counterparty Risk Rating	Aa1/P-1
Bank Deposits	Aa1/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a1
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Senior Unsecured -Dom Curr	Aa2
Subordinate -Dom Curr	A2
Jr Subordinate -Dom Curr	A2 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Baa1 (hyb)

Source: Moody's Investors Service

Endnotes

1 Environmental risks can be defined as environmental hazards encompassing the impact of air pollution, soil/water pollution, water shortages, and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, such as the impact of carbon regulation or other regulatory restrictions, including related transition risks such as policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

2 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting the demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

3 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of banks' financial profiles. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Further, factors such as specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA.

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