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INVESTORS SERVICE

CREDIT OPINION
17 February 2020

Update

Rate this Research

RATINGS

St. Galler Kantonalbank

Domicile	Switzerland
Long Term CRR	Aa1 , Possible Downgrade
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa1 , Possible Downgrade
Type	Senior Unsecured - Dom Curr
Outlook	Rating(s) Under Review
Long Term Deposit	Aa1 , Possible Downgrade
Type	LT Bank Deposits - Fgn Curr
Outlook	Rating(s) Under Review

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 the placement of ratings under review

Summary

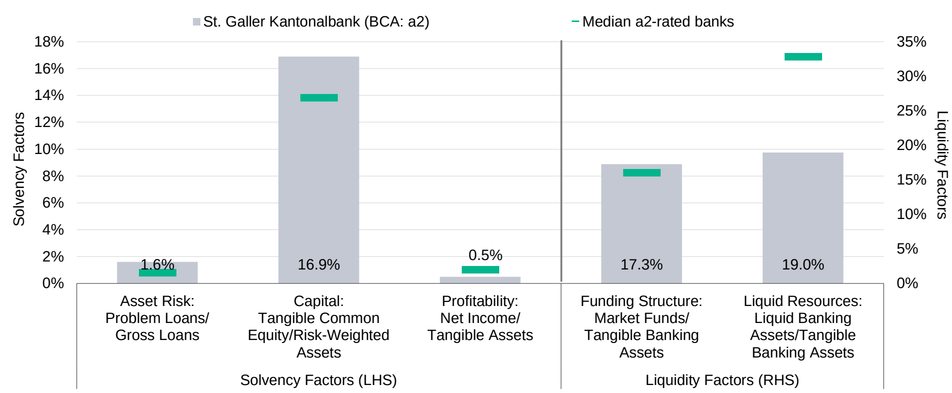
We placed St. Galler Kantonalbank's (SGKB) Aa1 deposit ratings and senior unsecured debt ratings on review for downgrade on 22 January 2020, while affirming the bank's a2 Baseline Credit Assessment (BCA) and A3 subordinated debt rating, and upgrading its high-trigger Additional Tier 1 (AT1) instrument rating to Baa2(hyb).

The Aa1 ratings reflect (1) the bank's a2 BCA and Adjusted BCA, and (2) four notches of government support uplift based on the guarantee framework provided by the Canton of St. Gallen.

The A3 subordinated debt rating reflects (1) SGKB's a2 Adjusted BCA; and (2) the result of our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution and indicates a high loss given failure, resulting in the rating's positioning one notch below the bank's Adjusted BCA.

SGKB's a2 BCA reflects the bank's generally sound solvency profile, stemming from its good asset quality and adequate capitalisation. Its liquidity and funding profiles are relatively balanced, with limited recourse to interbank liabilities in exchange of a higher share of covered bonds in the funding mix and a more moderate need to access confidence-sensitive market funding, while also benefitting from a guarantee provided by its majority owner.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Senior creditors and deposit holders benefit from the Canton of St. Gallen's full guarantee for all of the bank's senior liabilities.

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

» Reliance to market funding balanced by the deficiency guarantee of the canton

Credit challenges

» Potential pressure on the Canton of St. Gallen's creditworthiness stemming from its sizeable contingent liabilities as a result of the guarantee it provides to SGKB's non-subordinated liabilities

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

» Only moderate profitability

Outlook

SGKB's Aa1 deposit and senior unsecured ratings are under review for downgrade. The review reflects potential pressure on the canton's creditworthiness stemming from its sizeable contingent liabilities as a result of the guarantee it provides to the bank's non-subordinated liabilities. During the review period, the balance between potential costs for the canton in providing support to the bank, strict supervision and potential early intervention well ahead of a default scenario will be examined. The magnitude of the potential downgrade will be likely be limited, perhaps to one notch.

Factors that could lead to an upgrade

» For SGKB, there is no upward rating pressure on the deposit and senior unsecured ratings given the review for downgrade.

» SGKB's subordinated, junior subordinated and high-trigger AT1 ratings could face upward rating pressure if the bank's BCA is upgraded. The subordinated and junior subordinated debt ratings could also benefit from a higher rating uplift based on our Advanced LGF analysis if significant volumes of additional subordinated instruments were to be issued.

» While upward pressure on the bank's standalone creditworthiness is unlikely given the high BCA in place, a BCA upgrade could result from a combination of materially reduced concentration risks, significantly higher profitability and an improved combined liquidity profile.

Factors that could lead to a downgrade

» SGKB's senior debt and deposit ratings may be downgraded if the Canton of St. Gallen's creditworthiness deteriorates or if it withdraws its guarantee (though this is highly unlikely), or if the canton reduces its ownership below a 50% and one share stake.

» Downward rating pressure on SGKB's unguaranteed debt instruments, hence, its subordinated and lower ranking instruments could arise from a downgrade of SGKB's BCA. SGKB's BCA could be downgraded if asset risk, predominantly from its real estate lending book, increases as reflected in sustainably higher problem loans, combined with lower buffers from capital ratios and depressed profitability. Furthermore, a deteriorating liquidity profile could strain the ratings.

Key indicators

Exhibit 2

St. Galler Kantonalbank (Consolidated Financials) [1]

	06-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (CHF Billion)	34.1	33.1	32.6	32.2	31.2	2.6[4]
Total Assets (USD Billion)	35.0	33.6	33.4	31.7	31.1	3.4[4]
Tangible Common Equity (CHF Billion)	2.6	2.4	2.3	2.1	2.1	6.4[4]
Tangible Common Equity (USD Billion)	2.6	2.4	2.4	2.1	2.1	7.2[4]
Problem Loans / Gross Loans (%)	1.2	1.2	2.1	2.1	2.4	1.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.9	16.2	15.9	14.9	14.5	15.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	12.0	12.3	21.9	22.8	26.5	19.1[5]
Net Interest Margin (%)	0.9	0.9	0.9	1.0	1.0	0.9[5]
PPI / Average RWA (%)	1.2	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 (%)	59.4	62.2	59.9	59.8	61.8	60.6[5]
Market Funds / Tangible Banking Assets (%)	19.1	17.3	19.1	21.0	21.4	19.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	18.7	19.0	18.9	19.0	18.3	18.8[5]
Gross Loans / Due to Customers (%)	120.2	116.5	119.2	120.5	120.8	119.4[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 due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.

Source: Moody's Investors Service; Company Filings

Recent developments

St. Galler Kantonalbank (SGKB) reported a higher consolidated profit of CHF163.9 million for the year 2019, 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. An improved common equity tier 1 (CET1) ratio of 16.2% (up from 14.9% as of year-end 2018) increases investor protection, leaving the bank well prepared for any adverse scenarios.

Profile

SGKB is a Swiss cantonal bank that operates mainly in the Canton of St. Gallen and Appenzell-Ausserrhoden. SGKB provides savings and credit services 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 30 June 2019, the Canton of St. Gallen was the largest shareholder of the bank, with a 51% stake, after a capital hike in Q2 2019. Since 2001, SGKB's shares have been listed on the SIX Swiss Exchange. The canton is required by law to hold at least 51% of the bank's shares.

SGKB is predominantly active in Switzerland (Aaa, stable), and its Macro Profile is aligned with that of its home country at Strong+.

Detailed credit considerations

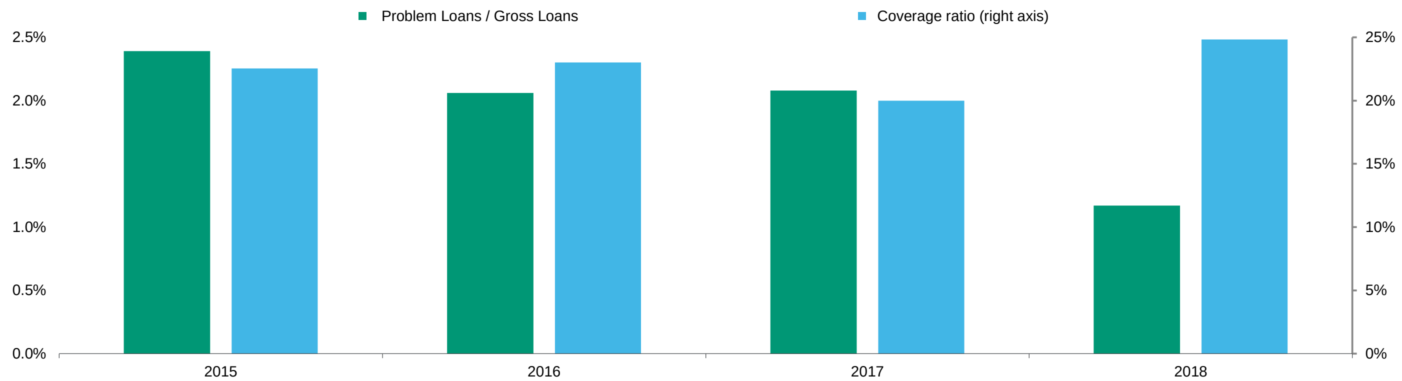
Narrow geographical focus and loan-loss coverage are key drivers for asset risk

We assign an a2 Asset Risk score to SGKB, which is one notch below the initial a1 score. The negative adjustment reflects the bank's narrow geographical footprint and its more limited loan-loss coverage than that of its peers.

With unchanged problem loans/gross loans of 1.2% as of the end of June 2019 compared with year-end 2018 (down from 2.1% in 2017) and loan-loss coverage of 25%, SGKB's problem loan ratio is now more in line with that of its closest Swiss banking peers, although its coverage ratio 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 (CHF24.3 billion as of the end of June 2019), which is concentrated in the Canton of St. Gallen and Appenzell-Ausserrhoden, grew at a compound average growth rate of 4.6% over 2008-18, compared with 4.0% for the Swiss market, partially driven by the takeover of Vadian Bank in 2014. Although growth slowed to 2.5% in 2018 and 2017 from 3.3% in 2016, the previous expansion of the mortgage book has 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.
Sources: Company reports and Moody's Investors Service

Solid capital ratios provide a growing buffer against downside risks

We assign a aa2 Capital score to SGKB, in line with the initial score. Our evaluation reflects the bank's improved tangible common equity (TCE) ratio of 16.9% as of the end of June 2019, after the capital increase in May 2019, and the expected growth in the business.

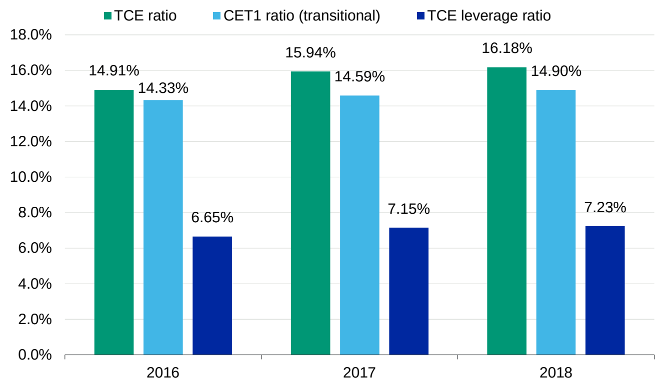
The capital hike, completed as of 27 May 2019, raised CHF176.5 million (around 1% of 2018 risk-weighted assets [RWA]). These measures not only increased the bank's buffer relative to the regulatory minimum, reducing risks for investors, but also form part of the preparation for the upcoming regulatory changes, which will lead to an increase in RWA.

As of the end of June 2019, the bank's total capital ratio stood at 17.5%, up from 16.8% as of year-end 2018, while the Common Equity Tier 1 (CET1) capital ratio stood at 15.7%, 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. As of December 2018, the bank's CET1 ratio stood at 14.9%, above the 14.6% recorded as of year-end 2017.

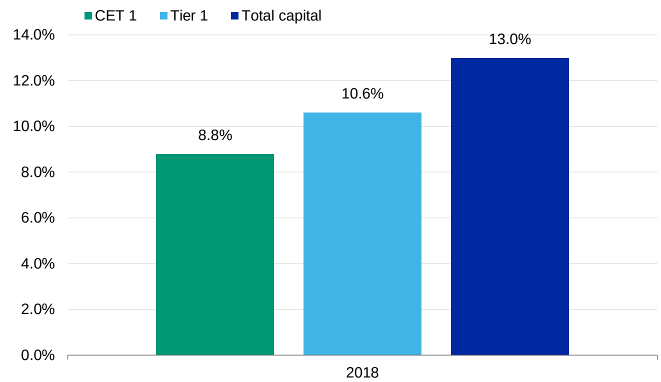
Moreover, the bank reported an improved regulatory leverage ratio of 7.2% as of the end of June 2019.

Exhibit 4
SGKB exceeds its capital requirements



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

Exhibit 5
SGKB's capital requirements



Source: Company reports

Adequate profitability metrics, despite a difficult market environment

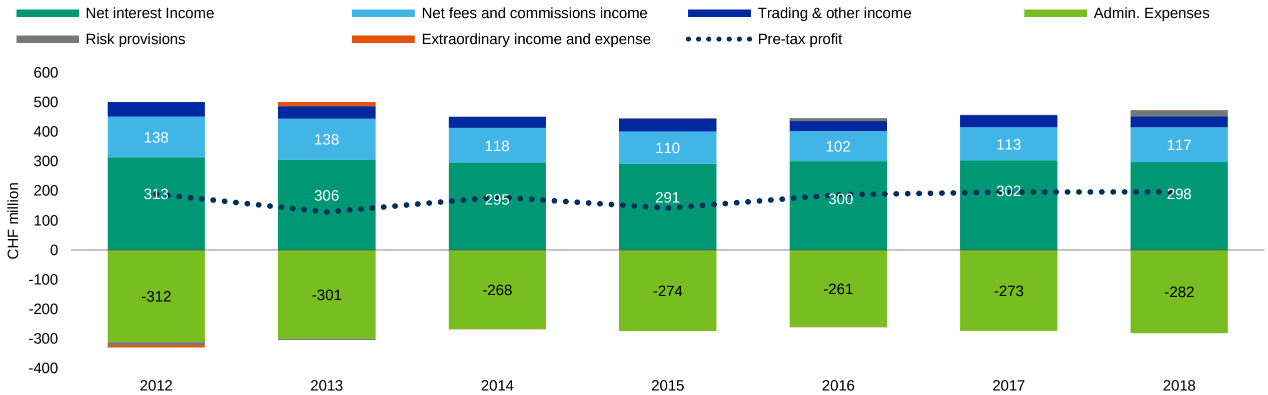
We assign a ba1 Profitability score to SGKB, in line with the initial score, which represents the bank's average net income/tangible assets of 0.5% over the last three years. The score reflects the bank's resilient profitability metrics despite the difficult low-yield environment, which is likely to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

The assessment incorporates the bank's reliance on interest income (62% of revenue), despite efforts to diversify into wealth/asset management, aimed at increasing the share of fee and commission income 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 now.

For the first half of 2019, SGKB reported a slightly improved net income of CHF82.5 million. Net interest income increased 1.3% to CHF148.9 million, although fee and commission income declined by 4.9% to CHF57.7 million, despite higher assets under management (up 3% to CHF44.3 billion). A higher trading revenue of CHF20.1 million almost offset this effect, while the 3.4% decline in costs (CHF129 million) underpins the bank's efforts to control the cost base.

For 2018, the bank reported a net income of CHF159 million, slightly above the CHF156 million for the previous year. Net interest income increased by 4.6% to CHF316 million. The higher fee and commission income of CHF117 million (up 3.5%), combined with an only slightly lower trading result of CHF33 million, supported its revenue. SGKB's fee and commission income benefits from the increase in the bank's assets under management, which grew to CHF43.0 billion in 2018 (2017: CHF42.4 billion; 2016: CHF38.3 billion). However, operating expenses were up 2.9%, driven by the bank's 150th anniversary celebrations and investments in digitalisation.

Exhibit 6
SGKB's revenue is driven by net interest income



Sources: Company reports and Moody's Investors Service

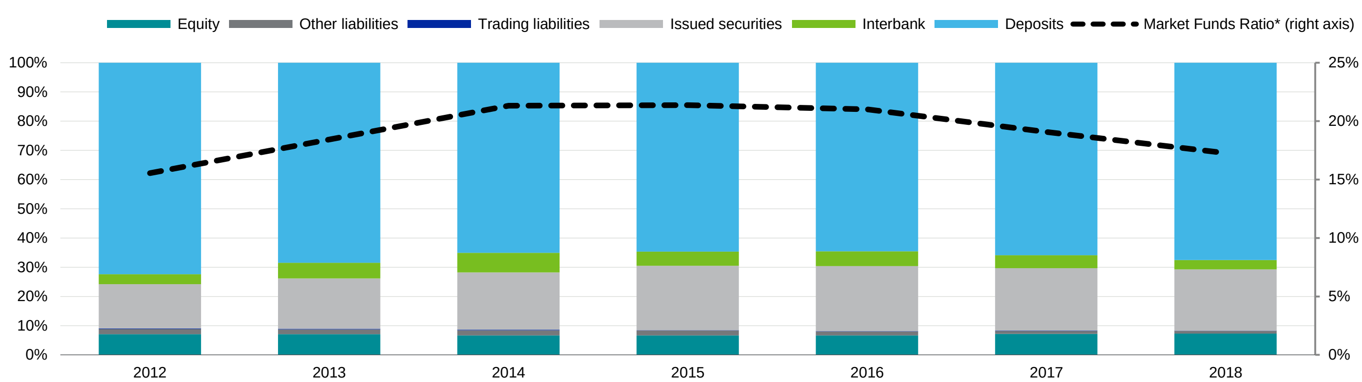
Excellent access to capital markets and higher recourse to covered bonds imply strong market funding quality

The aa3 Funding Structure score we have assigned is well above SGKB's initial score. The score takes into account the guarantee provided by the Canton of St. Gallen and the decline in the bank's reliance on confidence-sensitive wholesale funding sources. The stronger Funding Structure score is the key driver for the improved Combined Liquidity score of a2.

SGKB has a stable base of customer deposits, which amounted to CHF22.4 billion in 2018 (68% of total assets; including Kassenobligationen). The bank's market funding increasingly consists of covered bonds (Pfandbriefe of CHF4.0 billion in 2018, up from CHF2.9 billion in 2014), limiting potential interest rate and refinancing risks for the bank, given its more matched asset-liability profile. Two-thirds (or CHF2.7 billion) of the bank's covered bonds will mature after 2025, while 55% of its senior unsecured funding (CHF2.5 billion in 2018) will mature before 2025.

While senior unsecured and deposits are guaranteed by the canton, we largely incorporate the impact of the guarantee in our government support assumptions, although we recognise the bank's improved market access even under adverse market scenarios and the resultant lower funding costs.

Exhibit 7
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 in light of its reduced market funding reliance

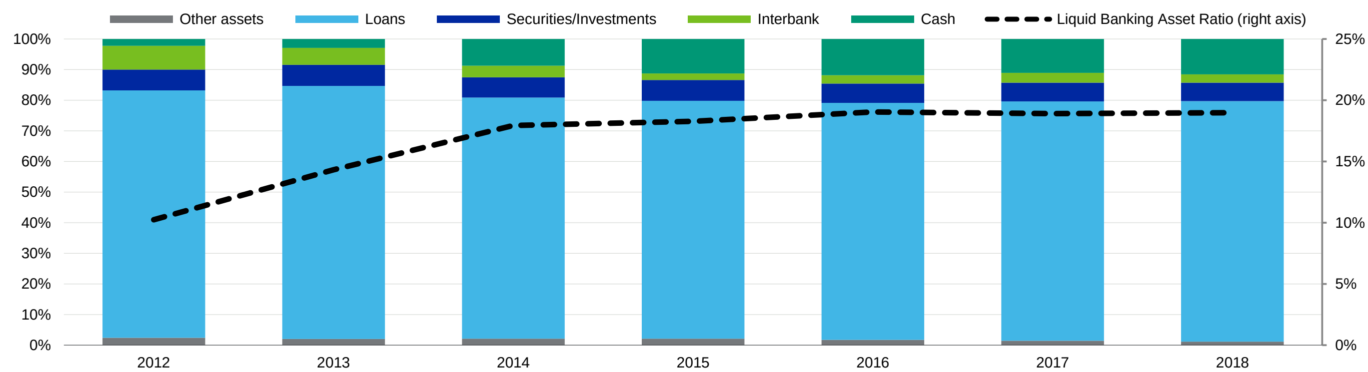
We assign a baa1 Liquid Resources score to SGKB, one notch above the initial score, reflecting the bank's adequate liquidity and our expectation of higher liquid reserves following the Swiss National Bank's announcement in autumn 2019 to accept higher volumes of liquidity reserves at 0% interest.

As a share of tangible banking assets, SGKB's liquid assets (19.0%) now exceed the bank's market funds of 17.3%. Although some of its peers (like Banque Cantonale Vaudoise [BCV, Aa2 stable, a2], Berner Kantonalbank AG [BEKB, Aa2/A2 stable, a2] and Zuercher Kantonalbank [ZKB, Aaa/Aaa review for downgrade, a1][1]) 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 2018, the bank reported cash and interbank assets of CHF4.7 billion and a liquid financial investment book of CHF1.5 billion, which together made up 19% of its total balance sheet.

Exhibit 8

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[2] 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[3]).

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[4]. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Notching considerations

Government support

In light of the explicit guarantee that the Canton of St. Gallen, the majority owner (51% stake), provides for all of SGKB's unsubordinated obligations, the bank's debt and deposit ratings receive a four-notch uplift to Aa1 from the current a2 BCA. This uplift is supported by our assessment of SGKB as a government-backed financial institution. In our view, the bank remains an important financial institution in the region, with a firmly entrenched franchise and close involvement in the regional economy.

Counterparty Risk Ratings (CRRs)

CRRs 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. CRRs 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 CRRs are positioned at Aa1/P-1, under review for possible downgrade

The CRRs are positioned four notches above the a2 Adjusted BCA because of the availability of government support through guarantees provided by the Canton of St. Gallen. In line with the deposit and senior unsecured ratings, the CRRs are under review for possible downgrade.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider 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) apply 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 (for example, swaps), letters of credit, guarantees and liquidity facilities.

SGKB's CR Assessment is positioned at Aa1(cr)/P-1(cr), under review for possible downgrade

The bank's CR Assessment is positioned four notches above the a2 Adjusted BCA because of the availability of government support through guarantees provided by the Canton of St. Gallen. In line with the deposit and senior unsecured ratings, the CR Assessment is under review for possible downgrade.

Subordinated debt ratings

The A3 rating of SGKB's subordinated debt (lower tier 2) does not benefit from any rating uplift, reflecting the instrument's subordinated nature and the absence of deferral triggers or principal write-down language. The guarantee provided by the Canton of St. Gallen to SGKB explicitly excludes support to subordinated instruments (according to the St. Gallen Cantonal Banking Act, Article 6.2). We, therefore, use our Advanced LGF analysis, which takes into account the amount of subordinated debt outstanding and the debt volume subordinated to it, to determine the loss severity of this debt class. Our Advanced LGF analysis indicates a high loss given failure for SGKB's subordinated debt, leading to a positioning one notch below the bank's a2 Adjusted BCA.

Junior subordinate debt (tier 2 hybrid instrument with a contractual write-down)

The A3(hyb) rating assigned to the tier 2 instrument reflects our approach to rate instruments minus one notch below the bank’s a2 Adjusted BCA if (1) the security is dated, (2) there is no coupon skip, or (3) the security includes language in contractual terms that it absorbs losses through conversion to equity or a principal write-down at the point of non-viability. However, 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.

High-trigger Additional Tier 1 securities (AT1)

The Baa2(hyb) rating assigned to the high-trigger, undated, deeply subordinated AT1 preferred stock non-cumulative instruments reflects our approach to the rating of high-trigger securities, where we rate to the lower of a model-based outcome and a non-viability security rating. This captures the credit risk associated with the distance to a trigger breach and the credit risk of these securities' non-viability component.

Methodology and scorecard

The principal methodology we use in rating SGKB is the Banks methodology, published in November 2019.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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 the conditions specific to each entity.

Rating methodology and scorecard factors

Exhibit 9

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	1.6%	a1	←→	a2	Geographical concentration	Collateral and provisioning coverage
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.9%	aa2	←→	aa2	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.5%	ba1	←→	ba1	Return on assets	Expected trend
Combined Solvency Score		a2		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.3%	a3	←→	aa3	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	19.0%	baa2	↑	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				0		
Adjusted BCA				a2		

Balance Sheet	**in-scope (CHF Million)**	**% in-scope**	**at-failure (CHF Million)**	**% at-failure**
Other liabilities	7,814	22.9%	10,197	29.9%
Deposits	22,379	65.6%	20,096	58.9%
Preferred deposits	16,560	48.5%	15,732	46.1%
Junior deposits	5,818	17.0%	4,364	12.8%
Senior unsecured bank debt	2,511	7.4%	2,511	7.4%
Dated subordinated bank debt	300	0.9%	200	0.6%
Junior subordinated bank debt	100	0.3%	100	0.3%
Equity	1,024	3.0%	1,024	3.0%
Total Tangible Banking Assets	34,127	100.0%	34,127	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	11.2%	11.2%	11.2%	11.2%	2	2	2	0	0	a2
Counterparty Risk Assessment	11.2%	11.2%	11.2%	11.2%	3	3	3	0	0	a2 (cr)
Deposits	24.0%	11.2%	24.0%	11.2%	3	3	3	0	0	a2
Senior unsecured bank debt	11.2%	3.9%	11.2%	3.9%	0	0	0	0	0	a2
Dated subordinated bank debt	3.9%	3.3%	3.9%	3.3%	-1	-1	-1	-1	0	a3
Junior subordinated bank debt	3.3%	3.0%	3.3%	3.0%	-1	-1	-1	-1	0	a3
Non-cumulative bank preference shares	3.0%	3.0%	3.0%	3.0%	-1	-1	-1	-1	-2	baa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	0	0	a2	-	Aa1 RUR Possible Downgrade	Aa1 RUR Possible Downgrade
Counterparty Risk Assessment	0	0	a2 (cr)	-	Aa1(cr) RUR Possible Downgrade	
Deposits	0	0	a2	-	Aa1 RUR Possible Downgrade	Aa1 RUR Possible Downgrade
Senior unsecured bank debt	0	0	a2	-	Aa1 RUR Possible Downgrade	
Dated subordinated bank debt	-1	0	a3	-	A3	
Junior subordinated bank debt	-1	0	a3	-	A3 (hyb)	
Non-cumulative bank preference shares	-1	-2	baa2	-	Baa2 (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 10

Category	Moody's Rating
ST. GALLER KANTONALBANK	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	Aa1/P-1[1]
Bank Deposits	Aa1/P-1[1]
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)[1]
Senior Unsecured -Dom Curr	Aa1[2]
Subordinate -Dom Curr	A3
Jr Subordinate -Dom Curr	A3 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Baa2 (hyb)

[1] Rating(s) within this class was/were placed on review on January 22 2020 [2] Placed under review for possible downgrade on January 22 2020
Source: Moody's Investors Service

Endnotes

1 The ratings shown are the respective banks' deposit rating/senior unsecured debt or issuer rating and outlook, and the BCA.

2 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.

3 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.

4 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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