

## CREDIT OPINION

14 January 2020

Update

✓ Rate this Research

### RATINGS

#### St. Galler Kantonalbank

Domicile	Switzerland
Long Term CRR	Aa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa1
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 to credit analysis

#### Summary

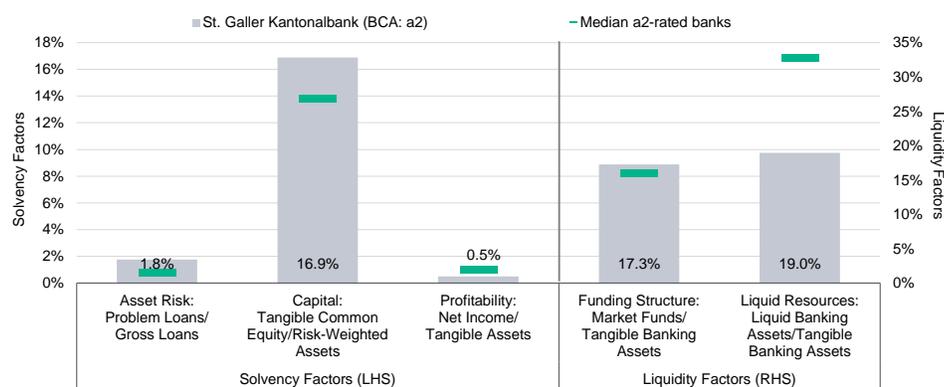
We assign an a2 Baseline Credit Assessment (BCA) and Adjusted BCA to [St. Galler Kantonalbank's](#) (SGKB). Further, we assign subordinated debt and junior subordinated debt ratings of A3 and A3(hyb), respectively, as well as Aa1(stable)/P-1 deposit ratings, an Aa1(stable) senior unsecured debt rating and a Baa3(hyb) rating to SGKB's high-trigger Additional Tier 1 (AT1) instruments.

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 different liability classes in resolution and indicates a high loss given failure, resulting in a positioning one notch below the bank's Adjusted BCA.

SGKB a2 BCA reflects the bank's generally sound solvency profile, stemming from an improved asset quality, which is now more in line with its Swiss peer group and adequate capitalization. Its liquidity and funding profile has improved and is now more balanced with lower recourse to interbank liabilities in exchange of a higher share of covered bonds in the funding mix. SGKB's BCA continues to reflect its still significant geographical concentrations and moderate, but stable risk-adjusted profitability.

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 an increasing buffer for downside risks.
- » The bank's asset quality is sound and improving.

## Credit challenges

- » Partial reliance on market funding and adequate liquid resources
- » Geographically concentrated loan book, with significant exposure to residential real estate

## Outlook

The outlook on SGKB's ratings is stable because we do not expect any material changes in (1) the bank's full ownership by and the statutory guarantee from the Canton of St. Gallen; or (2) the bank's credit fundamentals over the next 12-18 months.

## Factors that could lead to an upgrade

- » SGKB's senior debt and deposit ratings may be upgraded if the Canton of St. Gallen's creditworthiness improves, provided the canton maintains its guarantee. Improvements in the bank's standalone credit profile will not lead to an upgrade of the senior debt and deposit ratings, given the government-backed support assumption factored into the ratings.
- » SGKB's ratings that do not benefit from the canton's guarantee framework could be upgraded if the BCA is upgraded. Subordinated debt instruments could also be upgraded if a significant increase of subordinated instruments would reduce our loss-given-failure assumption, so that it leads to a rating uplift from our Advanced LGF analysis, and the AT1 instruments could also be upgraded if the model results a higher outcome, for example because of an increasing CET1 buffer to the trigger level.
- » Upward pressure on SGKB's BCA could arise only from a combination of all of the following factors: (1) a meaningful further reduced exposure to capital-market funding; (2) a significant and sustainable increase in the bank's liquid resources; (3) significantly higher capital ratios; (4) strongly improved profitability and (5) a clear further reduction in asset risks.

## 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, so its subordinated and lower ranking instruments could arise from a downgrade of SGKB's BCA. Downward pressure on SGKB's BCA could result from (1) a reversion of the improvement in its funding structure, for example due to market funds being larger than liquid resources; (2) a material, prolonged erosion in asset quality, and (3) a noticeable deterioration of capitalization.
- » A change in the Swiss Macro Profile to Strong+ could strain the bank's BCA, all else being equal.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### St. Galler Kantonalbank (Consolidated Financials) [1]

	06-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	12-16 <sup>2</sup>	12-15 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (CHF Billion)	34.1	33.1	32.6	32.2	31.2	2.6 <sup>4</sup>
Total Assets (USD Billion)	35.0	33.6	33.4	31.7	31.1	3.4 <sup>4</sup>
Tangible Common Equity (CHF Billion)	2.6	2.4	2.3	2.1	2.1	6.4 <sup>4</sup>
Tangible Common Equity (USD Billion)	2.6	2.4	2.4	2.1	2.1	7.2 <sup>4</sup>
Problem Loans / Gross Loans (%)	1.2	1.2	2.1	2.1	2.4	1.8 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	16.9	16.2	15.9	14.9	14.5	15.7 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	12.0	12.3	21.9	22.8	26.5	19.1 <sup>5</sup>
Net Interest Margin (%)	0.9	0.9	0.9	1.0	1.0	0.9 <sup>5</sup>
PPI / Average RWA (%)	1.2	1.2	1.3	1.2	1.2	1.2 <sup>6</sup>
Net Income / Tangible Assets (%)	0.5	0.5	0.5	0.5	0.4	0.5 <sup>5</sup>
Cost / Income Ratio (%)	59.4	62.2	59.9	59.8	61.8	60.6 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	19.1	17.3	19.1	21.0	21.4	19.6 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	18.7	19.0	18.9	19.0	18.3	18.8 <sup>5</sup>
Gross Loans / Due to Customers (%)	120.2	116.5	119.2	120.5	120.8	119.4 <sup>5</sup>

[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

## Profile

St. Galler Kantonalbank (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. Since 2001, SGKB's shares are 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](#), and its Macro Profile is aligned with that of its home country at Very Strong-.

## Detailed credit considerations

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

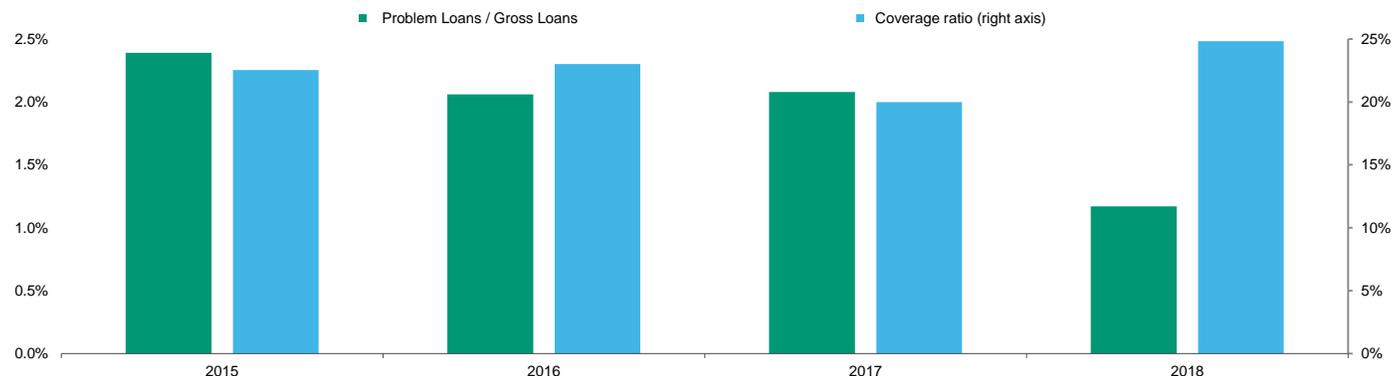
We assign an a2 Asset Risk score to SGKB, which is two notches below the initial aa3 score. The negative adjustment reflects the bank's narrow geographical footprint, but also its more limited loan-loss coverage than that of its peers.

With unchanged problem loans/gross loans of 1.2% as of half-year 2019 compared with year-end 2018 (down from 2.1% in 2017) and loan-loss coverage of 25%, SGKB' problem loan ratio is now more in line with its closest Swiss banking peers, though its coverage ratio is adequate only and below average. The bank's exposure to regional corporates, and small and medium-sized enterprises entails somewhat higher problem loan ratios than 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 half-year 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 down 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 digest 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 slightly increased



Problem loan ratio is in accordance with our definition; since 2018, according to IFRS 9 reporting standards

Source: Company reports, Moody's Investors Service

### Solid capital ratios provide an increasing buffer for 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 16.9% as of half-year 2019 after the implemented capital increase in May 2019, and the expected growth in the business.

SGKB's capital hike, completed as of 27th May 2019, raised CHF176.5 million (around 1% of 2018 RWA). The measures raised the bank's buffer vs regulatory minima, reducing risks for investors, but also represent a preparation for upcoming regulatory changes, that will lead to an increase in RWA.

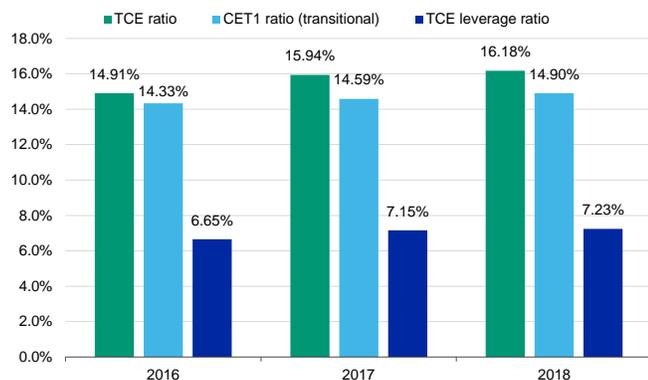
As of half-year, the bank's total capital ratio stood at 17.5%, up from 16.8% as of year-end 2018, while the bank's CET1 capital ratio stood at 15.7%, above the 14.9% recorded as of the end of 2018. SGKB's total regulatory capitalisation previously benefitted from the effect of the issuance of new high-trigger 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 capital ratio stood at 14.9%, above the 14.6% recorded as of the end of 2017.

Moreover, the bank reported an improved regulatory leverage ratio of 7.2% as of half-year 2019.

Exhibit 4

### SGKB exceeds its capital requirements

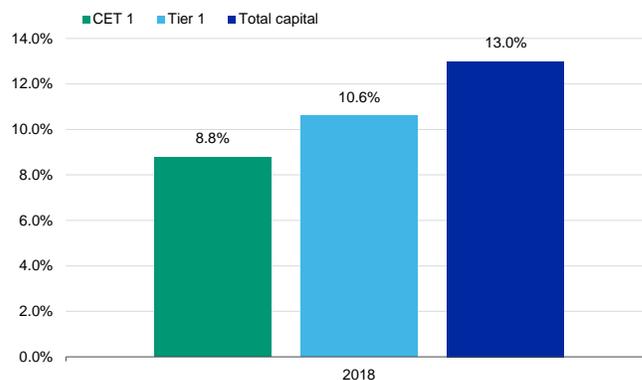


TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1

Source: Company reports, Moody's Investors Service

Exhibit 5

### SGKB's capital requirements



Source: Company reports

### Adequate profitability metrics, despite a challenging market environment

We assign a baa3 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 challenging low-yield environment that is likely to persist.

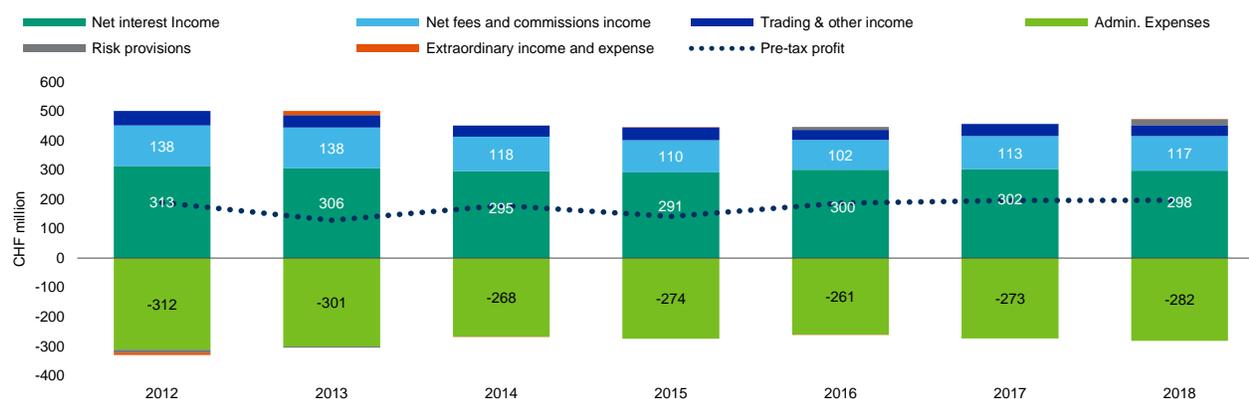
The assessment incorporates the bank's reliance on interest income (62% of revenues), despite efforts to diversify into wealth/asset management, aimed to increase the share of fee and commission income to balance the impact of the low-yield environment. This strategy shows first signs of success. Combined with cost discipline, we expect SGKB's profitability to remain resilient, even if risk provisions should start to rise again from the currently extremely low levels.

For the half-year 2019, SGKB reported a slightly improved net income of CHF82.5 million. Net interest income increased 1.3% to CHF148.9 million, though fee and commission income declined by 4.9% to CHF57.7 million, despite higher assets under management (growing 3% to CHF44.3bn). Higher trading revenues of CHF20.1 million almost offset this effect, while 3.4% lower costs (CHF129 million) underpin the bank's efforts to control the cost base.

In 2018, the bank reported net income of CHF159 million, slightly above CHF156 million of previous year. Net interest income increased by 4.6% to CHF316 million. Higher fee and commission income of CHF117 million (up 3.5%), combined with a relatively and only slightly lower trading result of CHF33 million, supported its revenue. SGKB's fee and commission income benefits from the bank's increased assets under management business, 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 revenues are driven by net interest income



Source: Company reports, Moody's Investor Service

### Stronger recourse to covered bonds implies better quality of market funding

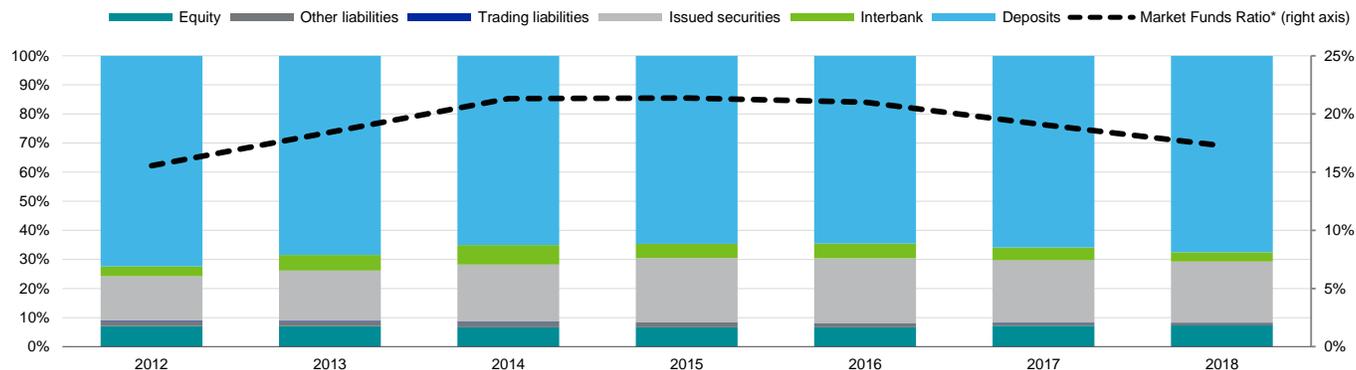
Our assigned a2 Funding Structure score is in line with SGKB's initial score. The score takes into account the decline in the bank's reliance on confidence-sensitive wholesale funding sources to 17.3% in 2018 and our re-assessment around the bank's funding sources, predominantly consisting of deposits and covered bonds. Overall, we deem the bank's funding and liquidity profile to be more balanced than in the past.

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) covered bonds will mature after 2025, while 55% of the bank's senior unsecured funding (CHF2.5 billion in 2018) will mature before.

While senior unsecured and deposits are guaranteed by the Canton, we largely incorporate the impact of the guarantee in our government support assumptions, though we recognise better market access even under adverse market scenarios and lower funding costs as a consequence.

Exhibit 7

### SGKB has a strong deposit franchise Market Funds Ratio decreased recently



\*Market funding ratio = Market funds/tangible banking assets

Source: Company reports, Moody's Investors Service

### SGKB's liquid resources are adequate in light of reduced market funding reliance

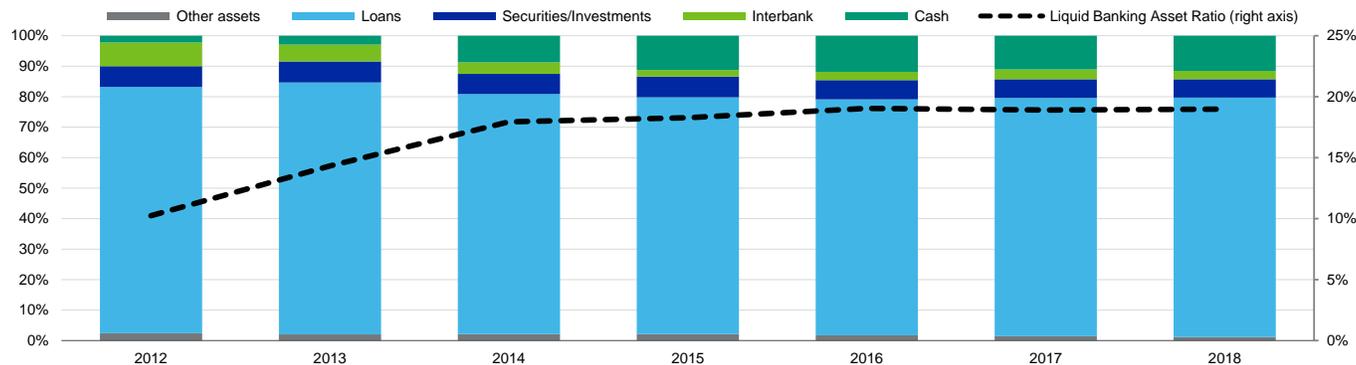
We assign a baa2 Liquid Resources score to SGKB, in line with the initial score, reflecting the bank's adequate liquidity.

SGKB's liquid assets of 19.0% of tangible banking assets now exceed the bank's market funds of 17.3%. Though some of its peers (like Banque Cantonale Vaudoise (BCV, Aa2 stable, a2), Berner Kantonalbank (BEKB, Aa1/A1 stable, a1) and Zuercher Kantonalbank (ZKB, Aaa/Aaa stable, a2)<sup>1</sup>) still show stronger reserves compared with its market funding reliance, we do regard the bank's liquid resources as adequate, also in light of the term structure of market funding and the available guarantee, 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 at solid levels



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

Source: Company reports, 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 risk heatmap<sup>2</sup>](#) 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 heatmap<sup>3</sup>](#)).

Governance is highly relevant for SGKB, as it is to all players in the banking industry. Governance risks are largely internal rather than externally driven, and for SGKB we do not have any particular governance concern<sup>4</sup>. 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

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.

### 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)

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.

### 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 Baa3(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<sup>5</sup>.

### Methodology

The principal methodology we use in rating SGK is [Banks](#), 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

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>		<b>Very Strong -</b>	<b>100%</b>				
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.6%	aa3	↔	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%	baa3	↔	baa3	Return on assets	Expected trend	
Combined Solvency Score		a1		a2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	17.3%	a2	↔	a2	Extent of market funding reliance	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	19.0%	baa2	↔	baa2	Stock of liquid assets	Expected trend	
Combined Liquidity Score		a3		a3			
Financial Profile							
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			
<b>Balance Sheet</b>							
		<b>in-scope (CHF Million)</b>		<b>% in-scope</b>		<b>at-failure (CHF Million)</b>	<b>% at-failure</b>
Other liabilities		6,823		20.6%		9,104	27.5%
Deposits		22,379		67.6%		20,197	61.0%
Preferred deposits		16,560		50.0%		15,812	47.8%
Junior deposits		5,818		17.6%		4,386	13.2%
Senior unsecured bank debt		2,511		7.6%		2,511	7.6%
Dated subordinated bank debt		300		0.9%		200	0.6%
Junior subordinated bank debt		100		0.3%		100	0.3%
Equity		993		3.0%		993	3.0%
Total Tangible Banking Assets		33,105		100.0%		33,105	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	11.5%	11.5%	11.5%	11.5%	2	2	2	0	0	a2
Counterparty Risk Assessment	11.5%	11.5%	11.5%	11.5%	3	3	3	0	0	a2 (cr)
Deposits	24.7%	11.5%	24.7%	11.5%	3	3	3	0	0	a2
Senior unsecured bank debt	11.5%	3.9%	11.5%	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	-3	baa3

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	Aa1
Counterparty Risk Assessment	0	0	a2 (cr)	-	Aa1(cr)	
Deposits	0	0	a2	-	Aa1	Aa1
Senior unsecured bank debt	0	0	a2	-	Aa1	
Dated subordinated bank debt	-1	0	a3	-	A3	
Junior subordinated bank debt	-1	0	a3	-	A3 (hyb)	
Non-cumulative bank preference shares	-1	-3	baa3	-	Baa3 (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
<b>ST. GALLER KANTONALBANK</b>	
Outlook	Stable
Counterparty Risk Rating	Aa1/P-1
Bank Deposits	Aa1/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Senior Unsecured -Dom Curr	Aa1
Subordinate -Dom Curr	A3
Jr Subordinate -Dom Curr	A3 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)

Source: Moody's Investors Service

## Endnotes

- The ratings shown are the relevant bank's deposit rating/senior unsecured debt or issuer rating and outlook, and its BCA
- Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like 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.
- 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 toward digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.
- Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile.

Further factors like 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.

[5](#) For more information, see our report [Moody's rates SGKB's proposed Additional Tier 1 securities at \(P\)Baa3\(hyb\)](#), published on 14 November 2017.

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