MOODY'S INVESTORS SERVICE

CREDIT OPINION
28 June 2021

Update

Rate this Research

RATINGS

St. Galler Kantonalbank

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

Contacts

Goetz Thurm, CFA +49.69.70730.773
VP-Senior Analyst
goetz.thurm@moodys.com

Michael Rohr +49.69.70730.901
Senior Vice President
michael.rohr@moodys.com

Alexander Hendricks, CFA +49.69.70730.779
Associate Managing Director
alexander.hendricks@moodys.com

» Contacts continued on last page

St. Galler Kantonalbank

Update to credit analysis

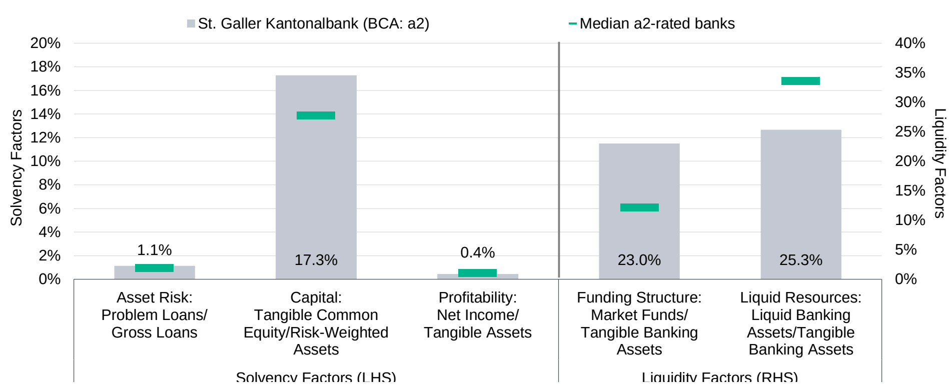
Summary

We assign Aa1(stable)/P-1 backed deposit ratings and a Aa2(stable) backed senior unsecured debt rating to St. Galler Kantonalbank (SGKB). Furthermore, we assign an a2 Baseline Credit Assessment (BCA) and an a1 Adjusted BCA to SGKB.

SGKB's Aa1 backed deposit ratings reflect its a2 BCA, one notch of 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, which indicates an extremely low loss-given-failure and results in three notches of rating uplift. We do not incorporate rating uplift from sovereign government support in SGKB's deposit ratings due to the bank's small domestic market share and relatively low importance to the Swiss banking system.

SGKB's a2 BCA reflects the bank's solid capitalisation and its balanced liquidity and funding profiles benefitting from low funding costs and continued market access even in a more stressed environment owing to the canton's deficiency guarantee. The BCA also takes account of SGKB's sound asset quality, despite significant geographical concentrations.

Exhibit 1
Rating Scorecard SGKB - 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 stable outlook reflects our expectation that the key credit metrics of SGKB, including its liability structure, will remain broadly unchanged. 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 backed 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 backed 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]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (CHF Billion)	38.5	35.9	33.1	32.6	32.2	4.6[4]
Total Assets (USD Billion)	43.6	37.1	33.6	33.5	31.7	8.3[4]
Tangible Common Equity (CHF Billion)	2.7	2.6	2.4	2.3	2.1	5.9[4]
Tangible Common Equity (USD Billion)	3.0	2.7	2.4	2.4	2.1	9.6[4]
Problem Loans / Gross Loans (%)	1.1	1.1	1.2	2.1	2.1	1.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.3	17.5	16.2	15.9	14.9	16.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	11.4	10.9	12.4	22.1	23.1	16.0[5]
Net Interest Margin (%)	0.8	0.9	0.9	0.9	1.0	0.9[5]
PPI / Average RWA (%)	1.3	1.3	1.2	1.3	1.2	1.2[6]
Net Income / Tangible Assets (%)	0.4	0.5	0.5	0.5	0.5	0.5[5]
Cost / Income Ratio (%)	59.0	59.9	62.2	59.9	59.8	60.2[5]
Market Funds / Tangible Banking Assets (%)	23.0	22.3	17.3	19.1	21.0	20.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	25.3	22.7	19.0	18.9	19.0	21.0[5]
Gross Loans / Due to Customers (%)	115.5	119.5	116.5	119.2	120.5	118.3[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 2020, the bank operated through a network of 39 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 has caused an unprecedented shock to the global economy and the strength of the economic recovery will vary across countries. We expect real GDP in all G-20 economies will collectively grow by 5.3% in 2021 and by 4.5% in 2022, after a 3.3% contraction in 2020. Economic activity in the second half of 2020 surprised to the upside. Nevertheless, the recovery will remain uneven and incomplete in 2021 as activity in contact-intensive sectors such as travel and tourism remains limited.

The Swiss economy has weathered the coronavirus crisis better than most other advanced economies. Real GDP contracted by just 3.0% in 2020. For 2021 and 2022, we forecast GDP growth of 2.8% and 2.9%, respectively. This sets the economy on track to surpass its pre-pandemic level in 2022. The softer downturn and quick rebound reflect the country's competitive and well diversified economy, high household wealth and a strong social security safety net.

Banks in Switzerland entered the coronavirus crisis with very low problem loans, strong capital ratios, and adequate profitability. All three metrics proved resilient in 2020 and will remain unaffected by ongoing pandemic-related disruptions over the outlook period as the economy recovers while government measures will be phased out but continue to support borrowers.

Lockdown measures were also less stringent than in other countries and sizeable government stimuli of CHF74 billion during the first wave of the pandemic and more than CHF23 billion in the second and third wave provided further support.

Detailed credit considerations

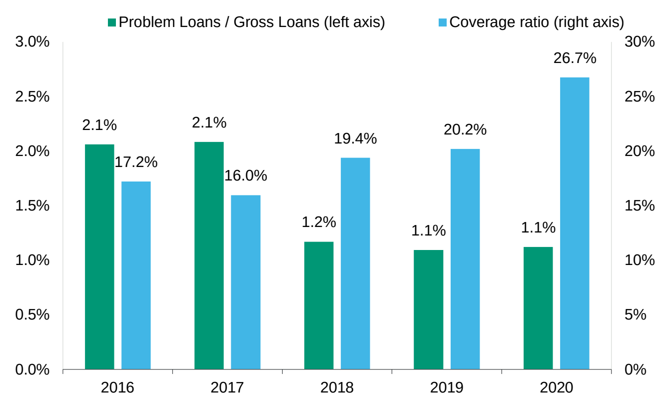
Narrow geographical focus and low loan-loss coverage are key drivers for asset risk

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 2020, SGKB's problem loan ratio remains elevated compared to its Swiss banking peers, while its coverage ratio of 26.7% as of year-end 2020 remains low when compared to its peers (despite a material improvement from the 20.2% recorded as of year-end 2019[1]). The bank's exposure to regional large corporates as well as small and medium-sized enterprises results in somewhat higher problem loan ratios than what is reported for traditional retail mortgage loans in Switzerland. However, we believe that SGKB's risk management and controls allow for adequate assessment of the bank's inherent asset-quality risks, aided by a fair degree of diversification in its corporate loan book.

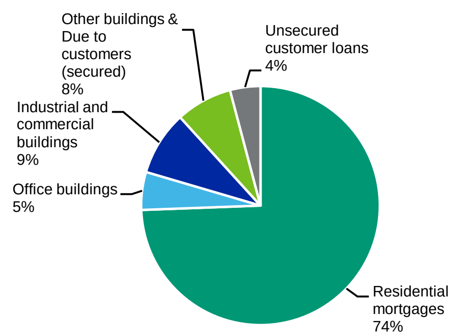
SGKB's residential and commercial mortgage loan book (CHF25.3 billion as of year-end 2020), which is concentrated in the Canton of St. Gallen and Appenzell-Ausserrhoden, grew at a compound average growth rate of 4.4% during 2008-20, compared with 3.9% for the Swiss market, partially driven by the takeover of Vadian Bank in 2014. Despite the fact that the above-average growth did not continue in 2020 (+2.5% at SGKB versus +3.2% for the Swiss domestic market), 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 would be well positioned to absorb any potential weakening of the Swiss housing market as its mortgage loan book is highly granular, with only a small proportion exhibiting a loan-to-value ratio above 60% (for further details, see our report Swiss cantonal banks can absorb house price shock).

Exhibit 3
SGKB's problem loan ratio remained stable
Coverage ratio remains below that of its peers



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: CHF28.1 billion as of year-end 2020



Source: Company reports and Moody's Investors Service

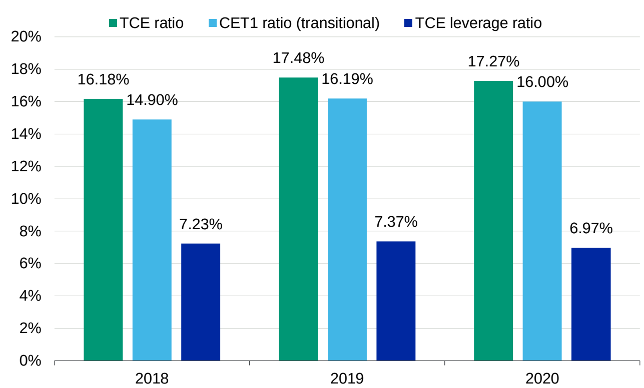
Solid capital ratios provide a growing buffer against downside risks

We assign a aa2 Capital score to SGKB, in line with the initial score. Our evaluation reflects the bank's tangible common equity (TCE) ratio of 17.3% as of year-end 2020, slightly down from 17.5% as of year-end 2019, as well as its solid leverage ratios.

On 27 May 2019, SGKB completed a CHF176.5 million capital increase, which bolstered the bank's Common Equity Tier 1 (CET1) capital ratio by about one percentage point. Previously, SGKB's total regulatory capitalisation had benefitted from the issuance of new high-trigger Additional Tier 1 (AT1) and Tier 2 instruments in 2017. Overall, this helped to lift the bank's total capital ratio to 17.5% as of year-end 2020 from 15.6% as of year-end 2016, providing a solid buffer against the 12.0% minimum total capital ratio requirement that the Swiss Financial Market Supervisory Authority (FINMA) has set for SGKB, given its classification as a Category 3 banking institution. On a CET1 basis, SGKB reported a 16.0% CET1 capital ratio as of year-end 2020, which was slightly down from 16.2% as of year-end 2019 due to balance sheet and, hence, risk-weighted asset (RWA) growth. Compared to the bank's 7.8% minimum CET1 ratio requirement, the bank's headroom is still sizeable. No longer included in the bank's capital requirements is the countercyclical buffer requirement for residential mortgage exposures, which was revoked by the Swiss National Bank (SNB) and FINMA in March 2020 and which had resulted in a 1.0% add-on for SGKB in 2019.

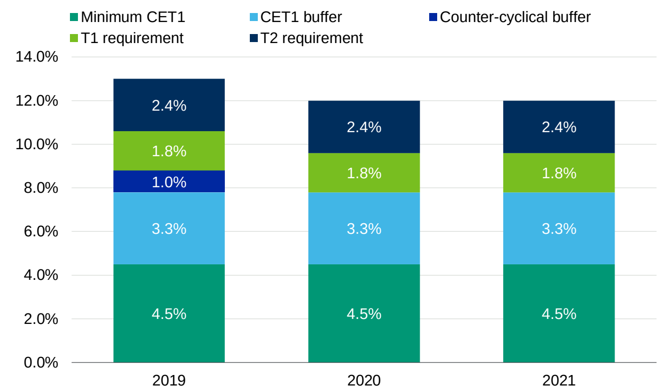
While the bank's risk-based capital ratios declined somewhat in 2020, the bank reported a slightly improved regulatory leverage ratio of 7.4% as of 31 December 2020, compared to 7.0% as of year-end 2019. This was due to the temporary exemption by FINMA, which allowed bank's to exclude the deposits held at the SNB from the calculation of the leverage ratio in 2020. Based on our leverage measure of TCE to tangible banking assets, the leverage ratio softened somewhat to 7.0% as of year-end 2020 from 7.4% as of year-end 2019, reflecting a CHF2.6 billion or 7.2% increase in the balance sheet. The driver behind the significant balance sheet expansion was an increase in liquid assets following the SNB's decision to increase the amount of sight deposits that banks can hold at 0% interest at the central bank[2].

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

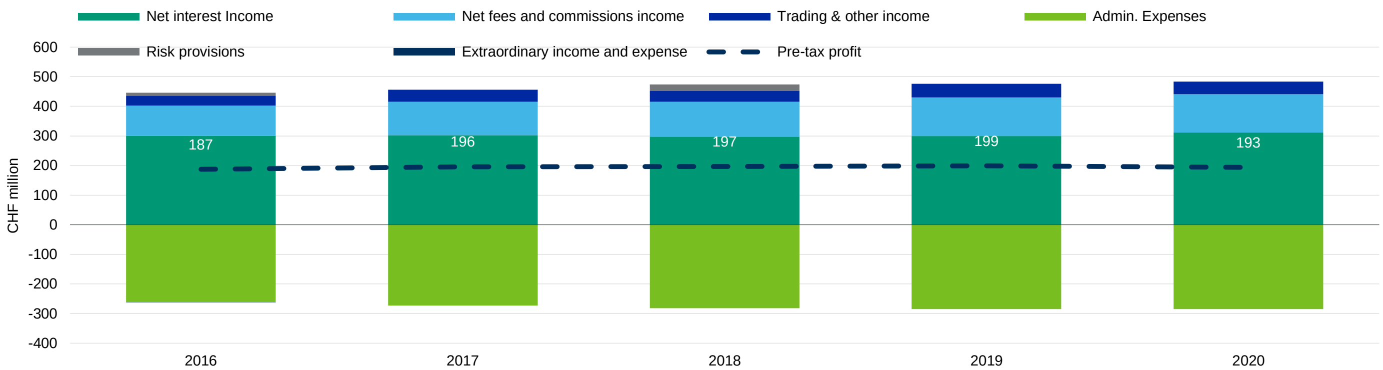
We assign a ba1 Profitability score to SGKB, in line with the initial score, which is derived from the bank's 0.4% net income to tangible assets in 2020. The bank's return on assets has softened somewhat in recent years because of the ultralow interest-rate environment, which is likely to persist.

With net interest income representing about two thirds of the bank's revenue and margin pressure continuing, SGKB aims to increase the share of fee and commission income from its wealth management operations to balance the impact of the ultralow interest-rate environment. This strategy was showing first signs of success in 2019 and 2020. Hence, we expect SGKB's profitability, combined with continued sound cost discipline, to remain relatively resilient even if risk provisions start to rise again from the extremely low levels prior to the coronavirus crisis.

In 2020, SGKB reported a slightly improved Moody's-adjusted net income of CHF168.7 million compared to 2019, when the bottom line result reached CHF164.5 million. Slightly lower net fee and commission income (down 0.7% to CHF129.4 million), because of lower performance-related fees in the bank's wealth management operations, and a 3.9% decline in trading revenues to CHF38.1 million were more than offset by increased net interest income (up 4.0% to CHF311.5 million), because of declining funding costs and carry gains related to the higher negative interest exemption threshold. Overall revenues thus increased by 1.6% to CHF482.7 million, while operating expenses remained broadly stable at CHF284.8 million. Loan loss provisions and other provisions and losses were also still well contained and amounted to a net total of CHF8.2 million.

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 baa1 initial score. The score takes into account the deficiency guarantee provided by the Canton of St. Gallen on the bank's senior obligations.

Following several years of declines, SGKB's share of market funding has increased again in 2019 and 2020 because of the increase in the amount of sight deposits that banks can hold at 0% interest at the SNB, which are refinanced by market funding sources at negative rates in order to generate carry income. The bank's market funding increasingly consists of covered bonds (CHF4.2 billion as of 31 December 2020), limiting potential interest rate and refinancing risks for the bank, given its more matched asset-liability profile.

Market funding also comprised CHF3.7 billion of interbank deposits and CHF3.0 billion of senior unsecured funding as of 31 December 2020. Based on year-end 2020 data, 61% of the bank's covered bonds and 42% of its unsecured funding will mature after 2025. SGKB's main funding source, however, remains its customer deposit base, which amounted to CHF24.3 billion as of year-end 2020 (63% of total assets; including Kassenobligationen), up from CHF22.6 billion as of year-end 2019.

Exhibit 8

SGKB has a strong deposit franchise

Market funding ratio recently increased again

Exhibit 9

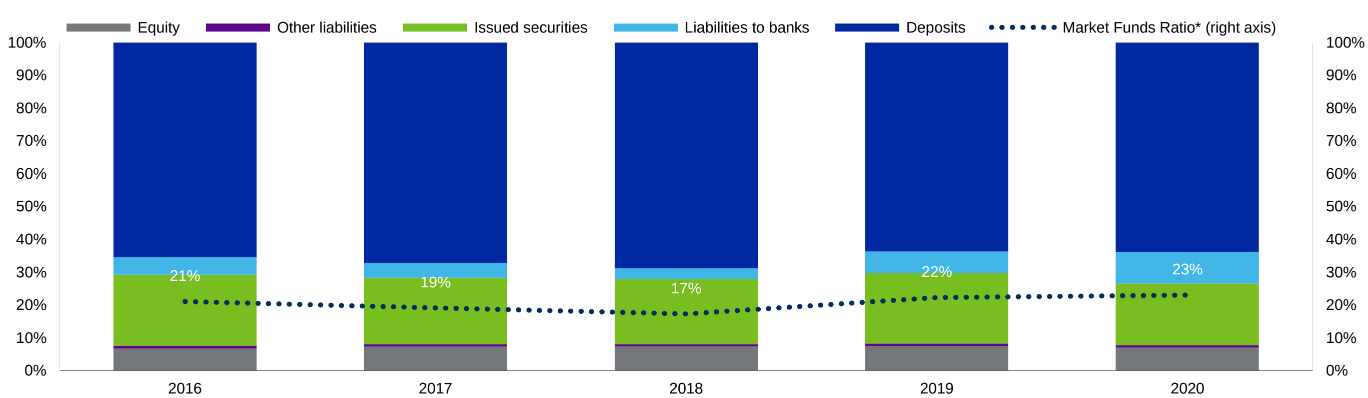


Exhibit 10

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

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

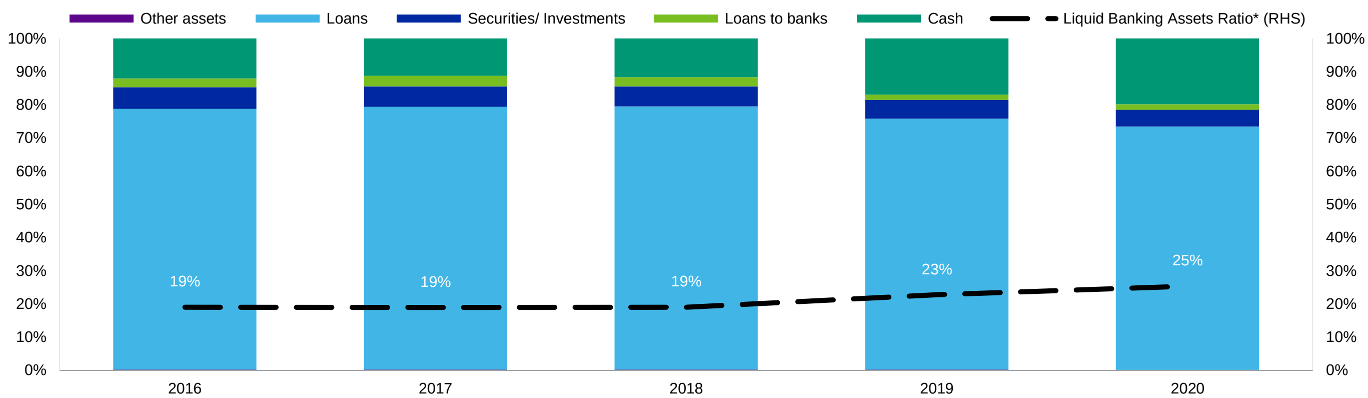
We assign a baa1 Liquid Resources score to SGKB, one notch below the a3 initial score, reflecting the bank's increased liquidity balances following the SNB's consecutive increase in the negative interest exemption threshold in November 2019 and April 2020, as well as some limited asset encumbrance.

As a share of tangible banking assets, SGKB's liquid assets of 25.3% exceeded the bank's market funds of 23.0% as of 31 December 2020. 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 CHF6.6 billion and a liquid financial investment book of CHF1.5 billion, which together comprised 22.6% of its total balance sheet. During 2020, SGKB's cash and interbank assets increased to CHF8.2 billion, as a result of the higher volumes of sight deposits that can be placed at the SNB at 0% interest. Together with its CHF1.5 billion investment portfolio, which was broadly unchanged from year-end 2019, liquid assets thus represented 25.3% of SGKB's balance sheet as of 31 December 2020, while the bank's Liquidity Coverage Ratio (LCR) stood at 143% as of the same date.

Exhibit 11

SGKB's liquidity balance has improved



*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[3] 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[4]). This includes considerations in relation to the coronavirus outbreak, given the substantial implications for public health and safety and the severe and extensive credit shock the pandemic has caused 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[5]. 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 backed deposit ratings, its backed Counterparty Risk Ratings and its backed Counterparty Risk Assessment do not benefit from further government support. The bank's Aa2 backed 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, including 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 possible actions by 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 backed 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 backed 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 March 2021.

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		1.1%	aa3	↔	a2	Geographical concentration	Collateral and provisioning coverage
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		17.3%	aa2	↔	aa2	Risk-weighted capitalisation	Expected trend
Profitability							
Net Income / Tangible Assets		0.4%	ba1	↔	ba1	Return on assets	Expected trend
Combined Solvency Score			a1		a2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		23.0%	baa1	↔	a1	Extent of market funding reliance	Market funding quality
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		25.3%	a3	↔	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 is not applicable.

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	-	-	-	-	-	-	-	3	0	aa1
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	aa1 (cr)
Deposits	-	-	-	-	-	-	-	3	0	aa1
Senior unsecured bank debt	-	-	-	-	-	-	-	1	0	aa3
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	a2
Junior subordinated bank debt	-	-	-	-	-	-	-	-1	0	a2
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-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
Bkd Bank Deposits	Aa1/P-1
Bkd Counterparty Risk Rating	Aa1/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a1
Bkd Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Bkd 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 In 2020, SGKB for the first time accounted for the expected credit loss on its performing balance sheet and off-balance sheet exposures (following an approach similar to IFRS 9), which increased the bank's coverage ratio. The CHF36.1 million first-time implementation effect of this accounting change was mostly offset against the bank's reserve for general banking risk within shareholders' equity, which was reduced to zero as of year-end 2020 from CHF33.0 million as of year-end 2019, while the remaining CHF3.1 million charge was booked as loan loss provisions through the bank's income statement.

2 The SNB raised the negative interest exemption threshold for sight deposits to 25x the minimum reserve requirement from 20x on 1 November 2019, and to 30x on 1 April 2020.

3 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.

4 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.

5 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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Contacts

Simon Boemer
Associate Analyst

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454