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CREDIT OPINION
24 November 2023

Update

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St.Galler Kantonalbank AG

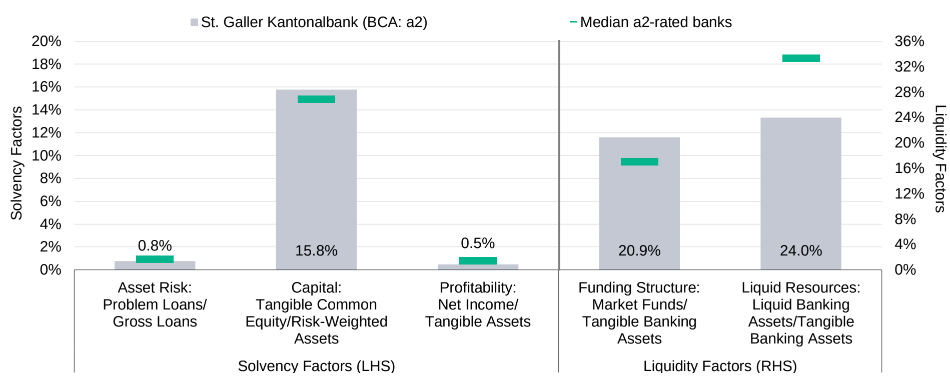
Update to credit analysis

Summary

St.Galler Kantonalbank AG's (SGKB) 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 Investors Service and company filings

RATINGS

St.Galler Kantonalbank AG

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

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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Credit strengths

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

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

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

Credit challenges

» Geographically concentrated loan book

» Significant exposure to residential real estate

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 concentration risks, significantly higher profitability, and an improved combined liquidity profile.

» The bank's backed CRR and the backed senior unsecured debt rating could also be upgraded if the creditworthiness of the Canton of St.Gallen improves. The bank's backed CRR could also benefit from higher rating uplift from our Advanced LGF analysis if additional senior unsecured or 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 potentially leading to a lower rating uplift as a result of our Advanced LGF analysis.

» The bank's BCA could be downgraded if its asset risk – predominantly stemming 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 AG (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (CHF Billion)	42.3	40.8	39.6	38.5	35.9	4.8[4]
Total Assets (USD Billion)	47.3	44.1	43.3	43.6	37.1	7.2[4]
Tangible Common Equity (CHF Billion)	2.8	2.8	2.7	2.6	2.6	1.5[4]
Tangible Common Equity (USD Billion)	3.1	3.0	2.9	2.9	2.7	3.8[4]
Problem Loans / Gross Loans (%)	0.5	0.6	0.9	1.1	1.1	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.8	16.3	16.6	16.6	17.5	16.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.2	6.2	9.0	11.8	10.9	8.6[5]
Net Interest Margin (%)	0.9	0.8	0.8	0.8	0.9	0.8[5]
PPI / Average RWA (%)	1.6	1.3	1.4	1.3	1.3	1.4[6]
Net Income / Tangible Assets (%)	0.6	0.5	0.5	0.4	0.5	0.5[5]
Cost / Income Ratio (%)	53.2	58.3	57.3	59.2	59.9	57.6[5]
Market Funds / Tangible Banking Assets (%)	20.6	20.9	21.7	23.0	22.3	21.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	23.9	24.0	25.9	25.3	22.7	24.3[5]
Gross Loans / Due to Customers (%)	112.3	113.1	111.0	115.5	119.5	114.3[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [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 30 June 2023, the bank operated through a network of 40 banking outlets (including two German offices in Frankfurt and Munich) and employed 1,144 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.

Detailed credit considerations

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

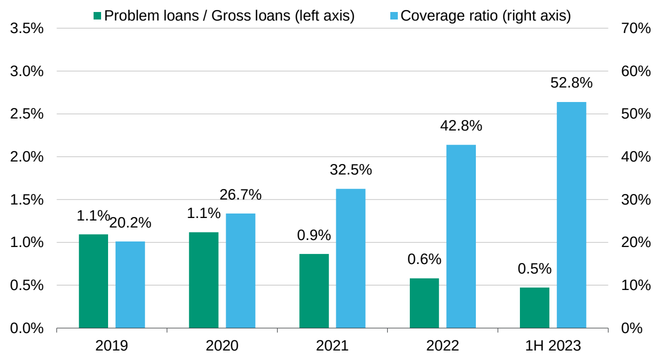
We assign an a2 Asset Risk score, which is set three notches below the aa2 initial score. The negative adjustment reflects the bank's narrow geographical footprint and its improved, but still limited loan-loss coverage compared to some peers.

SGKB's problem loans to gross loans ratio reduced further to 0.5% as of 30 June 2023, a steady decline from the 1.1% recorded as of year-end 2020. In addition, its coverage ratio of 52.8% as of 30 June 2023 has also improved materially 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 has historically resulted in higher problem loan ratios than what is reported for traditional retail mortgage loans in Switzerland. However, SGKB's risk management and controls allowed for adequate assessment of the bank's inherent asset-quality risks and was aided by a fair degree of diversification in its corporate loan book, bringing down the bank's overall problem loan ratio over time.

SGKB's residential and commercial mortgage loan book (CHF29.0 billion as of 30 June 2023), which is concentrated in the Canton of St.Gallen and Appenzell-Ausserrhoden, grew at a compound average growth rate of 4.4% during the 2008-2020 period, compared with 3.9% for the Swiss market, partially driven by the takeover of Vadian Bank in 2014. The bank's mortgage book expanded by a further 12.3% during 2021, 2022, and the first half of 2023 (1H 2023), which was again higher than the 8.3% growth in the overall Swiss domestic mortgage market.

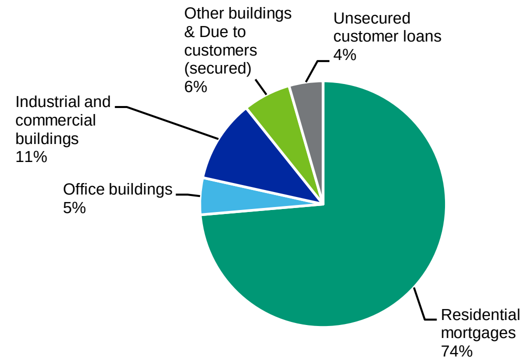
The above-average expansion of SGKB's mortgage book in recent years has increased the bank's susceptibility to potential shocks from the domestic real estate markets. However, we believe the bank would be well positioned to absorb any potential weakening of the Swiss housing market as its mortgage loan 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 and coverage ratio improved in recent years



The problem loan ratio is in accordance with our definition.
Source: Moody's Investors Service and company filings

Exhibit 4
SGKB's loan book largely consists of residential mortgages
Total loan book: CHF30.5 billion as of year-end 2022



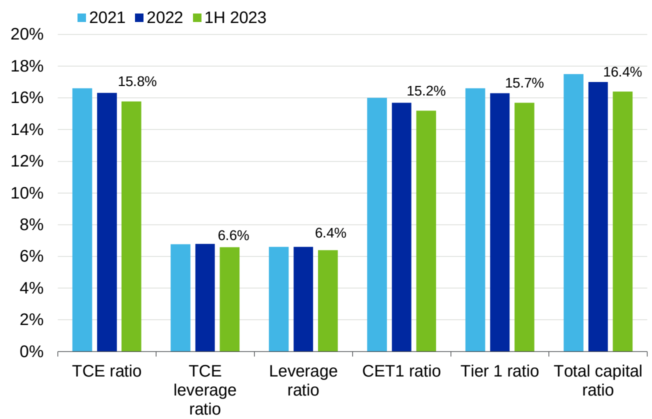
Source: Moody's Investors Service and company filings

Solid capital ratios provide a buffer against downside risks

We assign a aa3 Capital score, in line with the initial score. Our evaluation reflects the bank's tangible common equity (TCE) ratio of 15.8% as of 30 June 2023, slightly down from 16.3% as of 31 December 2022, as well as solid leverage ratios.

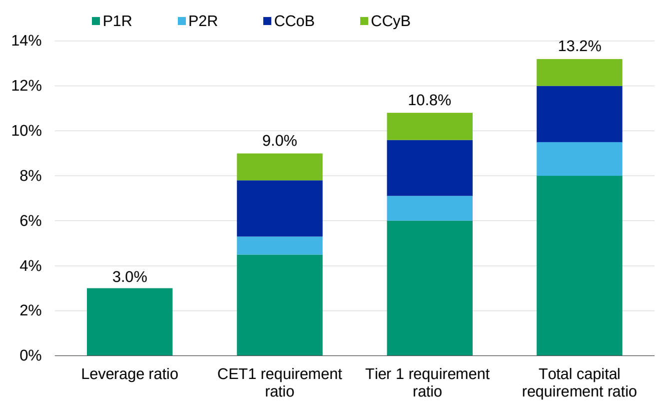
SGKB's total capital ratio stood at 16.4% as of 30 June 2023, providing a solid buffer[2] against the 13.2% minimum regulatory requirement[3]. On a Common Equity Tier 1 (CET1) basis, SGKB reported a 15.2% CET1 capital ratio as of 30 June 2023, which declined slightly from the 15.7% reported as of 31 December 2022 because risk-weighted assets (RWA) increased by 4.1% in the period, while CET1 capital only rose by 0.4%. Compared to the bank's 9.0% minimum CET1 ratio requirement, the bank's headroom is still sizeable.

Exhibit 5
SGKB exceeds its regulatory capital requirements



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

Exhibit 6
SGKB's regulatory capital requirements as of 30 June 2023



P1R = Pillar 1 requirement; P2R = Pillar 2 requirement; CCoB = Capital conservation buffer requirement; CCyB = Countercyclical capital buffer requirement
Source: Moody's Investors Service and company filings

SGKB's capital requirements include again a countercyclical capital buffer (CCyB) requirement for residential mortgage exposures, which was revoked by the Swiss National Bank (SNB) and FINMA in March 2020 at the start of the pandemic, but was reinstated at 2.5% of banks' RWA backed by domestic residential real estate in September 2022. As of 30 June 2023, this resulted in a 1.2% CCyB for SGKB.

Similar to the bank's risk-based capital ratios, SGKB's leverage ratios also declined marginally in 1H 2023, but remained overall solid. The regulatory leverage ratio reduced to 6.4% from 6.6%, while our leverage measure based on TCE to tangible banking assets softened to 6.6% from 6.8% mainly owing to 3.7% balance sheet growth.

Profitability has improved in the higher interest rate environment

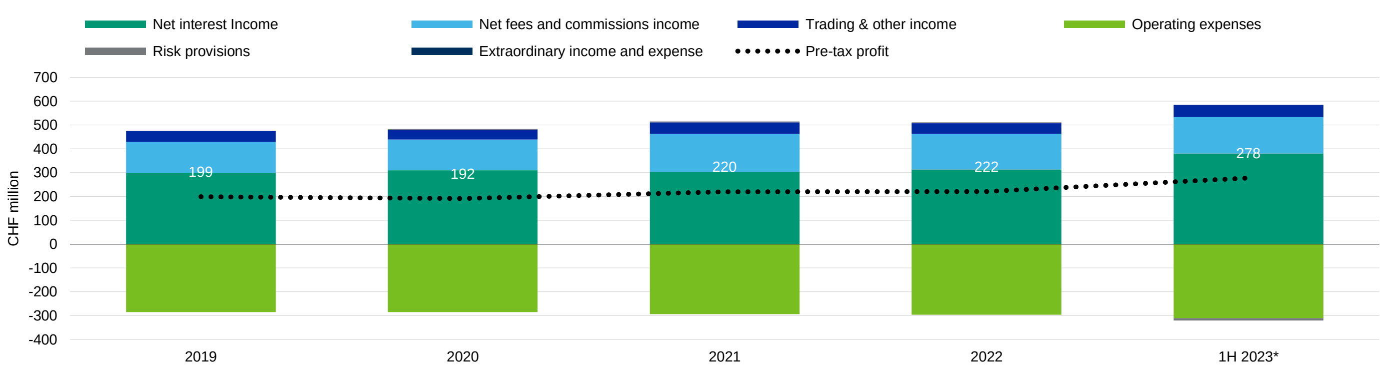
We assign a ba1 Profitability score, in line with the initial score, reflecting the bank's 0.5% average net income to tangible assets ratio during the 2020 to 1H 2023 period. While the return on assets has improved to 0.6% in 1H 2023, we expect that in 2024 and beyond, profitability might soften again.

With net interest income representing more than 60% of the bank's revenue base, SGKB has aimed to increase the share of fee and commission income from its wealth management operations in recent years to balance the impact of the ultralow interest rate environment on its net interest margin. This strategy has been broadly successful, supported by continued cost discipline and limited risk provisions, which enabled the bank to report resilient profitability metrics during the 2016 to 2022 period. In 1H 2023, profitability ticked up, aided by the higher interest rate environment as well as by new client inflows following the failure of Credit Suisse Group. For the full year 2023, SGKB will likely report continued strong earnings, but in 2024 and beyond, the return on assets might soften again somewhat owing to deposits potentially repricing faster than the aggregate loan book, the SNB carry trade income declining (see the Funding Structure section for more detail), and markets potentially being less constructive due to geopolitical risks.

In 1H 2023, SGKB recorded a substantial growth in Moody's-adjusted net income, which rose by 29.9% to CHF118.4 million from CHF91.2 million in 1H 2022. The primary driver of the improved result was an uptick in net interest income, which increased by 27.2% or CHF40.8 million to CHF190.6 million, reflecting the improved interest rate environment as well as loan growth. In addition, trading revenues advanced by 26.4% or CHF4.6 million to CHF22.0 million, due to more constructive markets than in 1H 2022 when the war in Ukraine started. Conversely, net fee and commission income decreased by 2.2% or CHF1.7 million to CHF76.2 million, owing to lower client trading commissions. The resulting 20.0% increase in the revenue base was partly offset by 8.8% or CHF12.6 million higher operating expenses, which reached CHF155.5 million on the back of 4.1% higher personnel expenses due to staff growth and inflation and 12.1% higher administrative expenses following additional investments in buildings and IT. Furthermore, SGKB recorded CHF4.4 million of loan loss provisions in 1H 2023 compared to CHF0.1 million in 1H 2022. As a result, the bank's pretax profit also accelerated by 29.9% to CHF138.9 million in 1H 2023 from CHF106.9 million in 1H 2022, while the cost-income ratio dropped to 53.2% from 58.6%.

Exhibit 7

SGKB's revenue is driven by net interest income



*annualised 1H 2023 figures

Source: Moody's Investors Service and company filings

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 market funding dependence had risen since 2019 because of the increase in the amount of sight deposits that banks could hold at 0% interest at the SNB, which have been refinanced by market funding sources at negative rates in order to generate carry income. With the increase in interest rates starting in 2022, this carry trade opportunity has declined but not disappeared because the SNB continued to remunerate banks' sight deposits at rates that remained above market funding rates. On 30 October 2023, however, the SNB communicated that as of 1 December 2023, it will no longer remunerate sight deposits up to the level of the minimum reserve requirement (minus cash holdings), and that the amount of sight deposits above that level that will be remunerated at the SNB policy rate will be lowered to 25 times the minimum reserve requirement from 28 times previously. Any sight deposits beyond that will be remunerated at the SNB policy rate minus a discount of 0.5 percentage points. Hence, the carry trade opportunity will decline further in the future, which might also lead to a further reduction in the market funds ratio at SGKB, which has already softened again since interest rates started to rise.

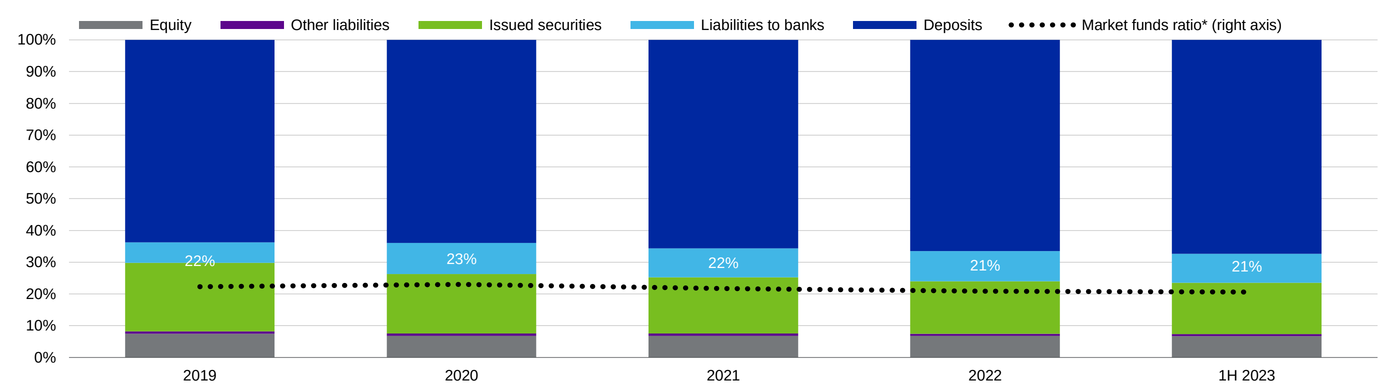
SGKB's largest market funding source are covered bonds, which amounted to CHF4.3 billion as of 30 June 2023, limiting potential interest rate and refinancing risks for the bank owing to its more matched asset-liability profile. Additionally, market funding also comprised CHF3.8 billion of interbank deposits and CHF2.5 billion of senior unsecured funding as of 30 June 2023. Based on year-end 2022 data, 76% of the bank's covered bonds and 87% of its unsecured funding will mature after 2026.

SGKB's main funding source, however, remains its customer deposit base, which amounted to CHF28.2 billion as of 30 June 2023 (67% of total assets; including Kassenobligationen), up from CHF27.0 billion as of year-end 2022.

Exhibit 8

SGKB has a strong deposit franchise

The market funds ratio softened slightly again since interest rates started to rise



*Market funds ratio = Market funds/tangible banking assets.

Source: Moody's Investors Service and company filings

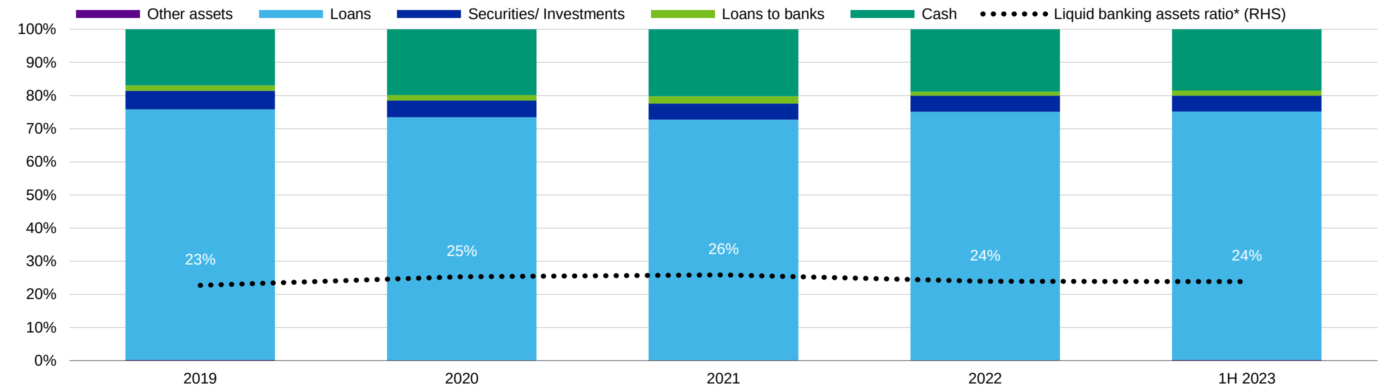
SGKB's liquid resources are adequate considering its market funding reliance

We assign a baa1 Liquid Resources score, in line with the initial score, taking into account some limited asset encumbrance.

As a share of tangible banking assets, SGKB's liquid banking assets of 23.9% exceeded the bank's market funds of 20.6% as of 30 June 2023. 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 30 June 2023, SGKB's CHF10.1 billion of liquid banking assets were comprised of CHF7.8 billion of cash and central bank deposits, CHF1.6 billion of liquid investment securities, CHF0.6 billion of interbank assets, and CHF0.1 billion of trading assets. With the SNB carry trade opportunity declining from December 2023, the bank's liquid resources are expected to reduce somewhat in the future. This could also have a limited impact on SGKB's Liquidity Coverage Ratio (LCR), which stood at 132.0% as of 30 June 2023, while the bank's Net Stable Funding Ratio (NSFR) reached 130.6%.

Exhibit 9
SGKB's liquid resources are adequate
The liquid banking assets ratio also declined again since interest rates started to rise

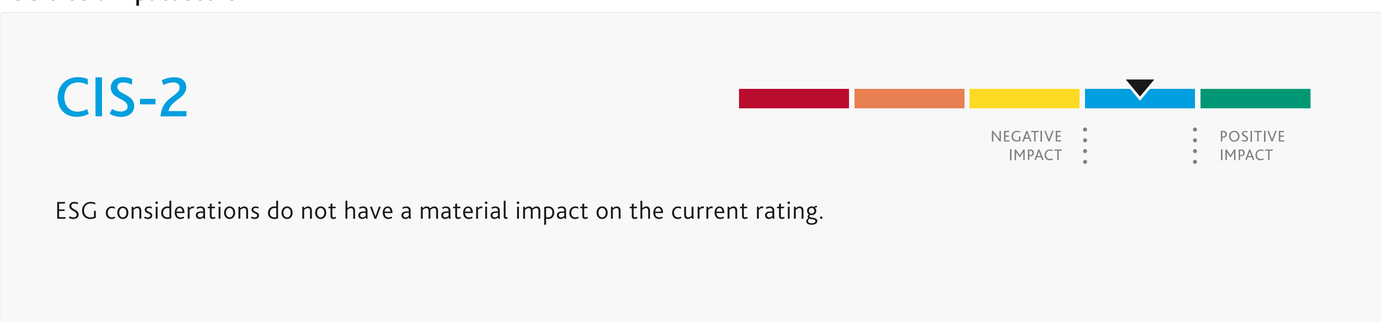


*Liquid banking assets ratio = Liquid banking assets/tangible banking assets.
Source: Moody's Investors Service and company filings

ESG considerations

SGKB's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 10
ESG credit impact score



Source: Moody's Investors Service

SGKB's CIS-2 indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 11
ESG issuer profile scores

Source: Moody's Investors Service

Environmental
SGKB faces moderate exposure to environmental risks primarily because of its loan portfolio exposure to carbon transition risks as a diversified regional banking group. Carbon transition risks relate mostly to its corporate loan book, which represents about a quarter of the bank's lending portfolio, with the remainder comprising residential real estate. In line with its peers, SGKB is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

Social
SGKB faces moderate social risks related to customer relations and associated regulatory risks, litigation exposure, and high compliance standards. These risk exposures emerge primarily from its retail as well as its wealth and asset management operations and they are mitigated by the bank's developed policies and procedures. Furthermore, the bank's long track record of handling sensitive customer data as well as technology solutions and organizational measures to prevent data breaches and business disruption help to manage high cyber and personal data risks.

Governance
SGKB faces low governance risks, and its risk management, policies and procedures are in line with industry best practices and commensurate with its universal banking model. Also, even though the bank is 51% owned by the Canton of St.Gallen, seven of the nine members of its board of directors are considered independent.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural 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, our LGF analysis indicates an extremely low loss given failure, leading us to position their Preliminary Rating Assessment at aa1, three notches above the a1 Adjusted BCA.

» For CRR liabilities, our LGF analysis indicates a very low loss given failure, leading us to position their Preliminary Rating Assessment at aa2, two notches above the a1 Adjusted BCA.

» For senior unsecured debt, our LGF analysis indicates a moderate loss given failure, leading us to position its Preliminary Rating Assessment at a1, in line with the a1 Adjusted BCA.

» For subordinated debt, our LGF analysis indicates a high loss given failure, leading us to position its Preliminary Rating Assessment at a2, one notch below the a1 Adjusted BCA.

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 CRR and its backed Counterparty Risk Assessment do not benefit from further government support. The bank's Aa2 backed senior unsecured debt rating, however, incorporates two notches of (regional) government support uplift because of the deficiency guarantee.

SGKB's high-trigger Additional Tier 1 (AT1) and subordinated Tier 2 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.

Additional Tier 1 (AT1) instrument

The Baa1(hyb) rating assigned to SGKB's high-trigger AT1 instrument is positioned three notches below the bank's a1 Adjusted BCA. One notch reflects the high loss given failure that these securities are likely to face in a resolution scenario because of their deep subordination, small volume and limited protection from residual equity. Our rating for non-viability securities incorporates two additional notches to reflect the higher risk associated with the non-cumulative coupon skip and contractual write-down mechanisms, which could take effect before the issuer reaches the point of non-viability.

Aa2/P-1 Counterparty Risk Ratings

The Counterparty Risk Ratings (CRR) are positioned two notches above the a1 Adjusted BCA, reflecting the very low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

Aa1(cr)/P-1(cr) Counterparty Risk Assessment

The Counterparty Risk (CR) Assessment is positioned three notches above the a1 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we used in rating SGKB was Banks Methodology, published in July 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 AG

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	0.8%	aa2	↔	a2	Geographical concentration	Collateral and provisioning coverage
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.8%	aa3	↔	aa3	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.5%	ba1	↔	ba1	Return on assets	Expected trend
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	20.9%	baa1	↔	a1	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	24.0%	baa1	↔	baa1	Stock of liquid assets	Quality of liquid assets
Combined Liquidity Score		baa1		a2		
Financial Profile				a2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a1 - a3		
Assigned BCA				a2		
Affiliate Support notching				-		
Adjusted BCA				a1		

BALANCE SHEET	IN-SCOPE (CHF MILLION)	% IN-SCOPE	AT-FAILURE (CHF MILLION)	% AT-FAILURE
Other liabilities	10,146	24.0%	12,767	30.2%
Deposits	28,048	66.3%	25,187	59.5%
Preferred deposits	20,755	49.0%	19,718	46.6%
Junior deposits	7,292	17.2%	5,469	12.9%
Senior unsecured bank debt	2,652	6.3%	2,892	6.8%
Dated subordinated bank debt	100	0.2%	100	0.2%
Preference shares (bank)	100	0.2%	100	0.2%
Equity	1,269	3.0%	1,269	3.0%
Total Tangible Banking Assets	42,315	100.0%	42,315	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	10.3%	10.3%	10.3%	10.3%	2	2	2	2	0	aa2
Counterparty Risk Assessment	10.3%	10.3%	10.3%	10.3%	3	3	3	3	0	aa1 (cr)
Deposits	23.2%	10.3%	23.2%	10.3%	3	3	3	3	0	aa1
Senior unsecured bank debt	10.3%	3.5%	10.3%	3.5%	0	0	0	0	0	a1
Dated subordinated bank debt	3.5%	3.2%	3.5%	3.2%	-1	-1	-1	-1	0	a2
Non-cumulative bank preference shares	3.2%	3.0%	3.2%	3.0%	-1	-1	-1	-1	-2	baa1

INSTRUMENT CLASS	LOSS GIVEN FAILURE NOTCHING	ADDITIONAL NOTCHING	PRELIMINARY RATING ASSESSMENT	GOVERNMENT SUPPORT NOTCHING	LOCAL CURRENCY RATING	FOREIGN CURRENCY RATING
Counterparty Risk Rating	2	0	aa2	-	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa1 (cr)	-	Aa1(cr)	
Deposits	3	0	aa1	-	Aa1	Aa1
Senior unsecured bank debt	0	0	a1	-	Aa2	
Dated subordinated bank debt	-1	0	a2	-	A2	
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 AG	
Outlook	Stable
Bkd Bank Deposits	Aa1/P-1
Bkd Counterparty Risk Rating	Aa2/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
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 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 17.2% as of 30 June 2021 from 15.6% as of year-end 2016.

3 Set by the Swiss Financial Market Supervisory Authority (FINMA), reflecting SGKB's classification as a Category 3 banking institution

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