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CREDIT OPINION
20 September 2022

Update

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RATINGS

St. Galler Kantonalbank AG

Domicile	St. Gallen, Switzerland
Long Term CRR	Aa2
Type	BACKED LT Counterparty Risk Rating - Fgn Curr
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.

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St. Galler Kantonalbank AG

Update to credit analysis

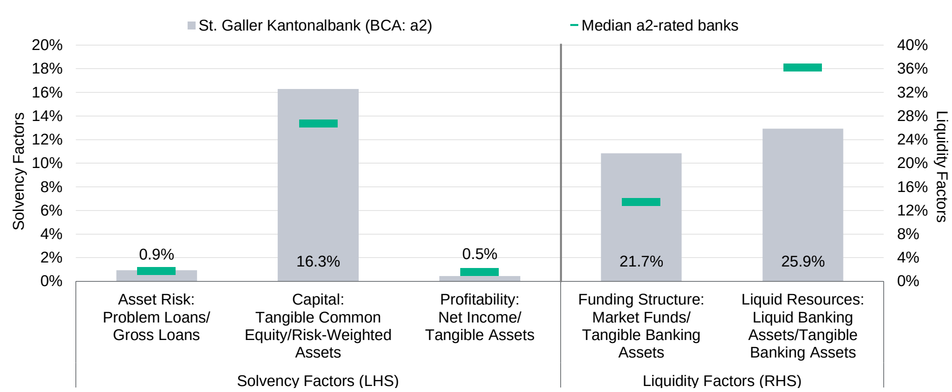
Summary

On 29 July 2022, we downgraded the backed Counterparty Risk Ratings (CRR) of St. Galler Kantonalbank (SGKB) to Aa2 from Aa1. Concurrently, we affirmed the backed senior unsecured debt rating of SGKB at Aa2 with a stable outlook and we affirmed the rating of the bank's currently outstanding Tier 2 instrument at A2. We also continue to assign Aa1(stable)/ P-1 backed deposit ratings, an a2 Baseline Credit Assessment (BCA), and an a1 Adjusted BCA to SGKB.

SGKB's Aa1 backed deposit ratings reflect its a2 BCA, a one-notch rating uplift from affiliate support because of the majority ownership by the Canton of St. Gallen, 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 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

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 strong 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 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]

	06-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (CHF Billion)	40.4	39.6	38.5	35.9	33.1	5.8[4]
Total Assets (USD Billion)	42.2	43.3	43.6	37.1	33.6	6.7[4]
Tangible Common Equity (CHF Billion)	2.7	2.7	2.6	2.6	2.4	3.2[4]
Tangible Common Equity (USD Billion)	2.8	2.9	2.9	2.7	2.4	4.0[4]
Problem Loans / Gross Loans (%)	0.7	0.9	1.1	1.1	1.2	1.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.3	16.6	16.6	17.5	16.2	16.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.2	9.0	11.8	10.9	12.4	10.2[5]
Net Interest Margin (%)	0.8	0.8	0.8	0.9	0.9	0.8[5]
PPI / Average RWA (%)	1.2	1.4	1.3	1.3	1.2	1.3[6]
Net Income / Tangible Assets (%)	0.5	0.5	0.4	0.5	0.5	0.5[5]
Cost / Income Ratio (%)	58.6	57.3	59.2	59.9	62.2	59.4[5]
Market Funds / Tangible Banking Assets (%)	22.7	21.7	23.0	22.3	17.3	21.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	24.9	25.9	25.3	22.7	19.0	23.6[5]
Gross Loans / Due to Customers (%)	113.5	111.0	115.5	119.5	116.5	115.2[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 2022, the bank operated through a network of 40 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.

Detailed credit considerations

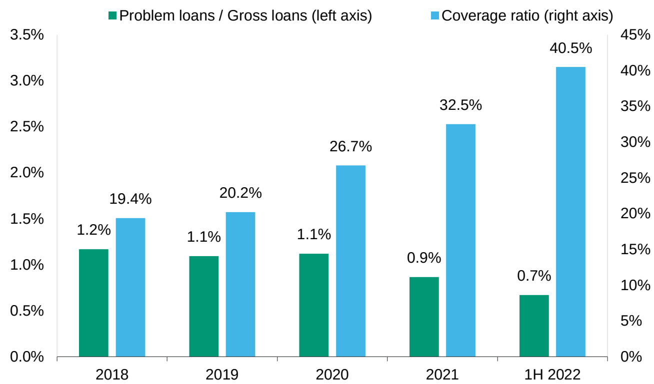
Narrow geographical focus and low loan-loss coverage are key drivers for asset risk

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

SGKB's problem loans to gross loans declined to 0.7% from 1.0% during the first half of 2022 (1H 2022), but the bank's problem loan ratio still remains somewhat elevated compared to its Swiss banking peers. In addition, its coverage ratio of 40.5% also remains relatively low despite a material improvement from 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 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.

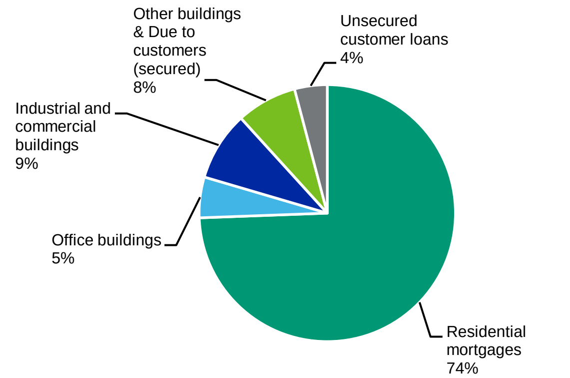
SGKB's residential and commercial mortgage loan book (CHF27.3 billion as of 30 June 2022), which is concentrated in the Canton of St. Gallen and Appenzell-Ausserrhoden, grew at a compound average growth rate of 4.4% during the 2008-2020 period, compared with

Exhibit 3
SGKB's stock of problem loans decreased
Coverage ratio remains below that of its peers



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: CHF28.6 billion as of year-end 2021



Source: Moody's Investors Service and company filings

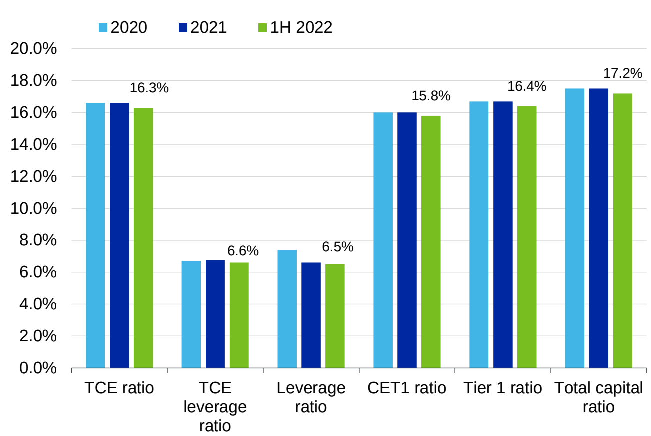
3.9% for the Swiss market, partially driven by the takeover of Vadian Bank in 2014. The bank's mortgage book expanded by a further 8.0% during 2021 and 1H 2022, which was again higher than the 5.1% growth in the overall Swiss domestic mortgage market. The above-average expansion of SGKB's mortgage book 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).

Solid capital ratios provide a 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 16.3% as of 30 June 2022, slightly down from 16.6% as of 31 December 2021, as well as solid leverage ratios.

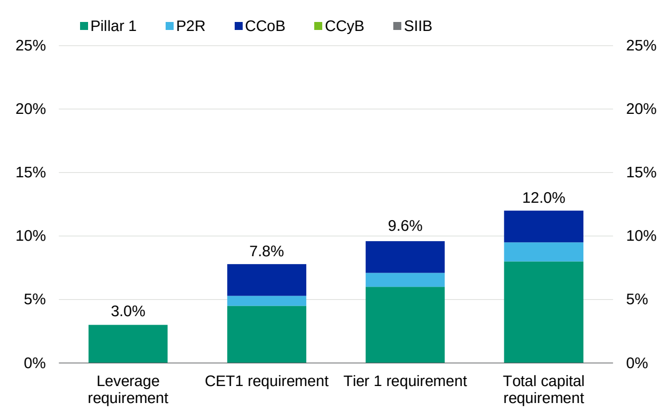
SGKB's total capital ratio stood at 17.2% as of 30 June 2022, providing a solid buffer[2] against the 12.0% minimum total capital ratio requirement that the Swiss Financial Market Supervisory Authority (FINMA) has set for SGKB, given its classification as a Category 3 banking institution. On a CET1 basis, SGKB reported a 15.8% CET1 capital ratio as of 30 June 2022, which declined slightly from the 16.0% reported as of 31 December 2021 because risk-weighted assets (RWA) increased by 1.5% in the period, while CET1 capital stayed stable. Compared to the bank's 7.8% minimum CET1 ratio requirement, the bank's headroom is still sizeable, though. No longer

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



CCoB = Capital conservation buffer; CCyB = Countercyclical capital buffer; SIIB = Systemically important institutions buffer
Source: Moody's Investors Service and company filings

included in the bank's capital requirements is the countercyclical capital buffer CCyB) 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. In September 2022, the CCyB will be reinstated at 2.5% of banks' RWA backed by domestic residential real estate, which will increase SGKB's capital requirements by more than one percentage point again.

Similar to the bank's risk-based capital ratios, SGKB's leverage ratios also declined marginally in 1H 2022, but remained overall solid. The regulatory leverage ratio reduced to 6.5% from 6.6%, while our leverage measure based on TCE to tangible banking assets softened to 6.6% from 6.8% due to 2.1% balance sheet growth[3]. With interest rates expected to move into positive territory in Switzerland as well, the carry trade opportunity from the negative interest rate exemption threshold will disappear, however, which is expected to lead to a reduction in market funding and liquid assets and, hence, to a decline in the overall balance sheet size, thereby bolstering SGKB's leverage metrics again.

Adequate profitability metrics, despite continued margin pressure in recent years

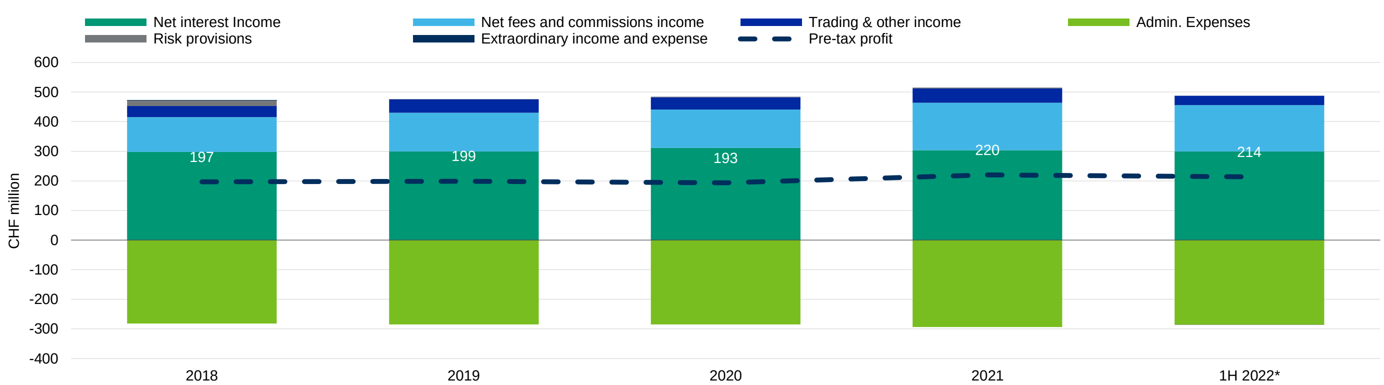
We assign a ba1 Profitability score to SGKB, in line with the initial score, reflecting the bank's 0.5% net income to tangible assets ratio in 1H 2022, which has been remarkably stable since 2016, as well the expectation that profitability will remain resilient over a 2-3 year horizon.

With net interest income representing about 60% of the bank's revenue, SGKB has aimed to increase the share of fee and commission income from its wealth management operations 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 over the last five years. While the credit environment has deteriorated, we expect SGKB to continue to report a broadly stable return on assets over a 2-3 year horizon as the higher interest rate environment should mostly balance higher loan loss provisions and the loss of carry income from the negative interest rate exemption threshold at the SNB. In the short-term, though, profitability might come somewhat under pressure since deposits might reprice faster than the aggregate loan book.

In 1H 2022, SGKB reported a marginally lower Moody's-adjusted net income of CHF91.2 million compared to H1 2021, when the bottom line result reached CHF92.5 million. The decline was driven by lower net interest income (down 2.4% or CHF3.6 million to CHF149.9 million) due to ongoing margin pressure, weaker trading revenues (down 15.8% or CHF3.3 million to CHF17.4 million), and CHF4.5 million lower other revenues, which reflected weaker financial markets. This was partly offset by stronger net fee and commission income (up 5.1% or CHF3.8 million to CHF78.0 million), as well as by CHF6.1 million lower loan loss and other provisions, while the bank's operating cost base increased only slightly (up 0.5% or CHF0.7 million to CHF142.9 million).

Exhibit 7

SGKB's revenue is driven by net interest income



*annualised 1H 2022 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 has risen again 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, this carry trade opportunity has declined and is expected to disappear once interest rates turn positive, which will likely lead to a decline in the market funds ratio again in the future.

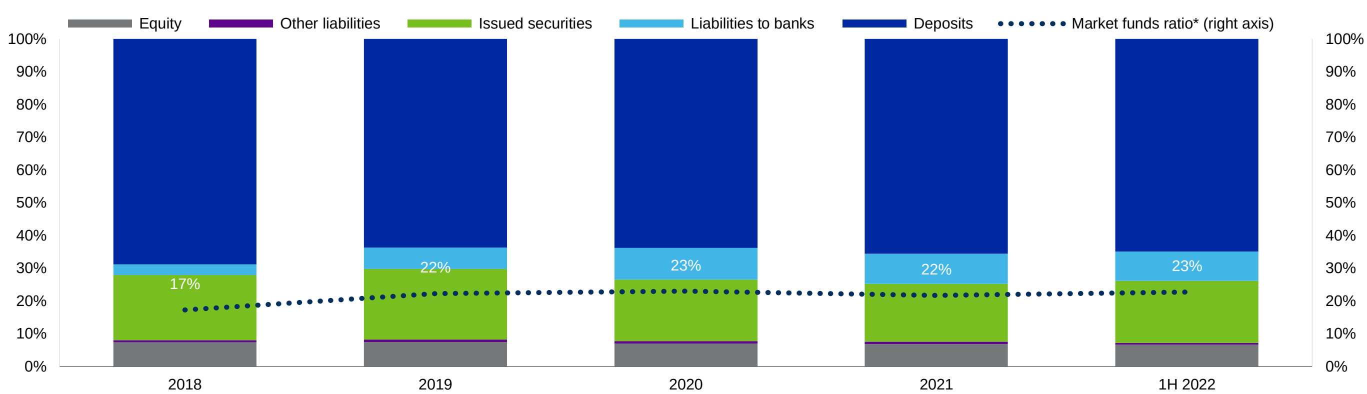
The bank's largest market funding source are covered bonds, which amounted to CHF4.2 billion as of 30 June 2022, limiting potential interest rate and refinancing risks for the bank owing to its more matched asset-liability profile. Additionally, market funding also comprised CHF3.6 billion of interbank deposits and CHF3.4 billion of senior unsecured funding as of 30 June 2021. Based on year-end 2021 data, 67% of the bank's covered bonds and 56% of its unsecured funding will mature after 2025.

SGKB's main funding source, however, remains its customer deposit base, which amounted to CHF26.0 billion as of 30 June 2022 (64% of total assets; including Kassenobligationen), up from CHF25.8 billion as of year-end 2021.

Exhibit 8

SGKB has a strong deposit franchise

Market funds ratio increased again since 2019



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

Source: Moody's Investors Service and company filings

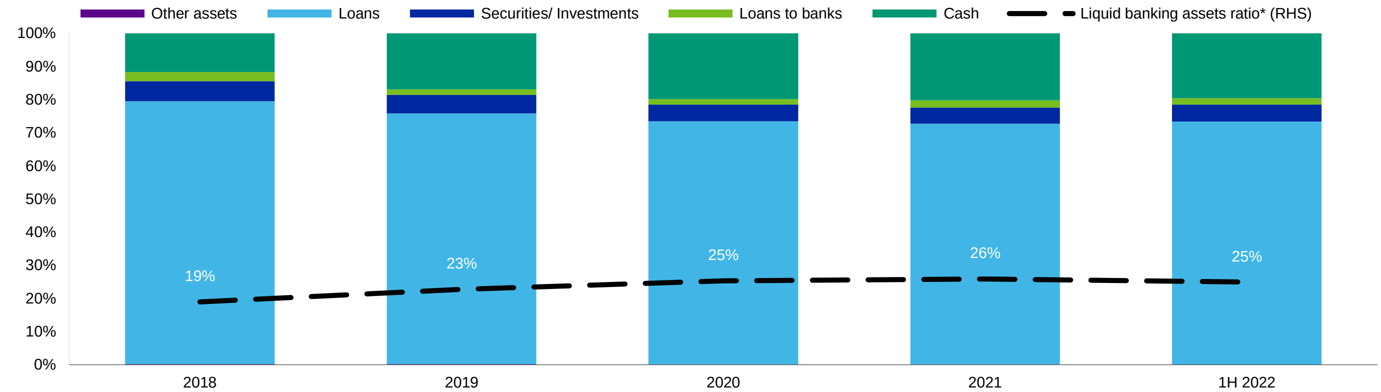
SGKB's liquid resources are adequate considering its market funding reliance

We assign a baa1 Liquid Resources score to SGKB, one notch below the a3 initial score, taking into account some limited asset encumbrance.

As a share of tangible banking assets, SGKB's liquid assets of 24.9% exceeded the bank's market funds of 22.7% as of 30 June 2022. 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 2022, SGKB's CHF10.1 billion of liquid resources were comprised of CHF7.9 billion of cash, CHF1.4 billion of liquid investment securities, CHF0.8 billion of interbank assets, and CHF0.2 billion of trading assets. With the carry trade opportunity from the negative interest rate exemption threshold expected to disappear in the near future, the bank's liquid resources are expected to decline again to levels seen prior to 2019. This could also have a limited impact on SGKB's Liquidity Coverage Ratio (LCR), which stood at 139% as of 30 June 2022, while the bank's Net Stable Funding Ratio (NSFR) reached 134% as of the same date.

Exhibit 9
SGKB's liquidity balance has improved



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

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 heat map[4] 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[5]). 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[6]. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

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 AT1 and subordinate 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.

Counterparty Risk Ratings

The Counterparty Risk Ratings (CRR) are positioned at Aa2/P-1, 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.

Counterparty Risk Assessment

The Counterparty Risk (CR) Assessment is positioned at Aa1(cr)/P-1(cr), 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 10

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		0.9%	aa2	↔	a2	Geographical concentration	Collateral and provisioning coverage
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		16.3%	aa2	↔	aa2	Risk-weighted capitalisation	Expected trend
Profitability							
Net Income / Tangible Assets		0.5%	ba1	↔	ba1	Return on assets	Expected trend
Combined Solvency Score			a1		a2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		21.7%	baa1	↔	a1	Extent of market funding reliance	Market funding quality
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		25.9%	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	**in-scope (CHF Million)**	**% in-scope**	**at-failure (CHF Million)**	**% at-failure**
Other liabilities	10,483	25.9%	13,121	32.5%
Deposits	25,864	64.0%	23,226	57.5%
Preferred deposits	19,139	47.4%	18,182	45.0%
Junior deposits	6,725	16.6%	5,043	12.5%
Senior unsecured bank debt	2,652	6.6%	2,652	6.6%
Dated subordinated bank debt	100	0.2%	100	0.2%
Preference shares (bank)	100	0.2%	100	0.2%
Equity	1,212	3.0%	1,212	3.0%
Total Tangible Banking Assets	40,411	100.0%	40,411	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	10.1%	10.1%	10.1%	10.1%	2	2	2	2	0	aa2
Counterparty Risk Assessment	10.1%	10.1%	10.1%	10.1%	3	3	3	3	0	aa1 (cr)
Deposits	22.5%	10.1%	22.5%	10.1%	3	3	3	3	0	aa1
Senior unsecured bank debt	10.1%	3.5%	10.1%	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 11

Category	Moody's Rating
ST. GALLER KANTONALBANK	
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 As of year-end 2020, SGKB's 7.4% regulatory leverage ratio was elevated due to a temporary exemption from FINMA, which allowed banks to exclude the deposits held at the SNB from the calculation of the leverage ratio in order to provide banks more leeway to provide credit to the real economy during the coronavirus crisis. In 2020, the SGKB's balance sheet had expanded by 7.2%, mainly reflecting an increase in liquid assets, though, following the SNB's decision to increase the amount of sight deposits that banks could hold at 0% interest at the central bank. 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. The multiplier was lowered again to 28x as part of the 50 basis point rate increase the SNB announced on 16 June 2022. If interest rates rise further from the current -0.25%, the carry trade opportunity for the Swiss banks will disappear.

4 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.

5 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.

6 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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