
Media Release

St.Gallen, August 12, 2020

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This text is a translation from the media release in German, which version shall be decisive.

Half-year results of St.Galler Kantonalbank: Well on track in a memorable first half year

In the memorable first half of 2020, St.Galler Kantonalbank recorded a good, stable business result. Consolidated profit rose by 1.4% to CHF 83.6 million. The net new business volume of CHF 2.3 billion is very pleasing (+3.2%). To this, loans to clients contributed CHF 0.5 billion (+1.9%) and assets under management with net new money of CHF 1.8 billion (+3.9%). The risk situation is stable; nevertheless, for reasons of prudence, for the first time since 2015, more provisions for credit default risks are set up than dissolved.

First half of 2020 marked by COVID-19 pandemic

The COVID-19 pandemic has had a severe impact on society, the economy and the financial markets. Numerous clients and business partners of St.Galler Kantonalbank have to cope with very painful cuts. The bank is also considerably challenged, although the direct effects of the corona crisis are comparatively mild. All branches were open without interruption and banking services were always fully available. The primary objective was and remains the protection of the health of employees and clients. In addition, the banks played a central role in setting up the bridging loans (COVID-19 Credit) in order to provide affected companies with liquidity in an unbureaucratic, targeted and rapid manner. All this was only possible because our employees continued to carry out their work with great dedication, whether at their workplace in the bank or in their home office. We are proud of their great commitment and proven flexibility and thank our employees most sincerely for their excellent performance.

The outlook for the second half of 2020 is subject to an exceptionally high degree of uncertainty. We are in a painful recession, interest rates are low and the financial markets are volatile. Although economic activity is picking up again, a rapid recovery to the level before the corona crisis is not to be expected. Various factors continue to hamper domestic consumption and demand from abroad. Corporate investment activity is also restrained. Nevertheless, the current situation offers opportunities, also for St.Galler Kantonalbank. During the corona phase, we responded quickly used technical ways and means to advise clients as well as to collaborate internally and with external partners from a distance. We want to take the good experiences gained from this into the future in order to further improve our services, our processes and the attractiveness of St.Galler Kantonalbank for the clients and as an employer.

Pleasing growth

In the first half of 2020, loans to clients increased by CHF 496 million (+1.8%) to CHF 27.4 billion. CHF 304 million, or around 60%, of this is attributable to mortgage loans, which grew by 1.2%. Within due from clients, which rose by CHF 192 million (+8.4%), the share of COVID-19 credits in connection with the support programmes of the Swiss Confederation and the Canton of St.Gallen is CHF 93 million.

From 26th March to 31st July 2020, St.Galler Kantonalbank issued a total of 1753 COVID-19 credit limits with a total amount of CHF 233 million, of which 43% were drawn as of 31st July 2020. The largest part is made up by the 1730 COVID-19 credits up to CHF 500'000, with an interest rate of 0% and fully secured by the Swiss Confederation. They amount to a total of CHF 185 million, with an average of CHF 107'000.

Assets under management again recorded excellent net new money of CHF 1.8 billion, which corresponds to a strong growth rate of 3.9% for the first half year. Due to the global setbacks on the equity markets, however, a negative performance of CHF 1.7 billion (-3.8%) was recorded.

Positive income situation

Gross profit for the first half of 2020 is CHF 116.3 million, CHF 8.2 million or 7.6% more than in the previous year. This is the result of an increase in operating income of CHF 9.5 million (4.0%) and relatively stable operating expenses, which rose by CHF 1.3 million (1.0%).

Gross result from interest operations increased by CHF 6.8 million (4.6%) to CHF 155.7 million. Interest and discount income declined (CHF -6.9 million, -3.7%); this was particularly due to mortgage loans, where the renewal of expiring positions continued to be carried out at lower interest rates. In the first half of 2020, however, this was offset by a significant reduction in interest expenses of CHF 14.4 million. The main reasons for this are lower refinancing costs in bonds and mortgage bonds, lower interest rates on client deposits and the active management of the increased exemption threshold defined by the Swiss National Bank (SNB).

In an environment of volatile markets, result from commission business and services increased by a striking 12.3% or CHF 7.1 million. Mainly as a result of the negative market performance of the bank's own asset management mandate in the first half of 2020, the result from trading activities was CHF 4.0 million (-19.7%) lower than in the previous year. Lower income from participations and valuation losses in the financial investments of the bank led to a decline of CHF 2.9 million in the other result from ordinary activities.

Stable operating expenses

Operating expenses increased by CHF 1.3 million, or 1.0%, compared with the previous year. The expansion of the workforce is the main reason for the CHF 1.7 million (2.1%) increase in personnel expenses. General and administrative expenses however are slightly lower. On the one hand, the extraordinary situation meant that various costs were either not incurred at all or only to a significantly reduced extent. On the other hand, additional expenses were incurred due to the measures taken to protect against the spread of the corona virus. In addition, the charitable fund of St.Galler Kantonalbank will be provided with CHF 0.5 million as per 30th June 2020. This amount is to be increased to CHF 1.0 million by the end of 2020 and will also benefit charitable projects in connection with the corona crisis.

Solid risk situation

The development of credit default risks has been monitored particularly closely in recent months. The credit portfolio has been reviewed and is still in a very good condition. Although no increased risks have been identified to date, based on the current assessment of economic developments, a net amount of CHF 4.4 million in value adjustments and provisions has been set up for reasons of prudence.

The corona pandemic is challenging St.Galler Kantonalbank in various ways. With the primary objective of protecting the health of employees and clients, targeted measures were implemented which enabled the bank to offer its full range of banking services anytime. St.Galler Kantonalbank's business continuity management has also proven itself very well in this extraordinary situation.

The persistently low interest rates influence the risks in the interest operations. Expiring fixed mortgage loans are being extended with relatively long maturities. However, compared to previous years, fewer conversions of money market mortgages with short fixed interest periods into fixed-rate mortgages can be observed. Overall, however, the pressure from mismatch of maturities in the balance sheet remains and the risks in the interest operations are slightly higher than in the previous year.

Outlook 2020

Provided that the recovery of consumption and the economy continues and is not halted by a second wave of the pandemic and new restrictive measures, St.Galler Kantonalbank continues to expect for the 2020 financial year an operating result slightly below the previous year's level.

Key figures

In CHF million	1st half-year 2020	1st half-year 2019	change
Operating income	246.7	237.2	+4.0%
Operating result	98.6	100.0	-1.5%
Consolidated profit	83.6	82.5	+1.4%

In CHF million	June 30, 2020	Dec. 31, 2019	change
Balance sheet total	38'817	35'944	+8.0%
Loans to clients	27'432	26'937	+1.8%
Managed assets ¹	45'842	45'763 ²	+0.2%
Shareholders' equity	2'542	2'552	-0.4%
Employees Full-time equivalents ³	1'282 1'107	1'276 1'099	+0.5% +0.7%

Alternative Performance Measures:

The alternative performance measures used outside the scope of generally accepted accounting principles as defined in the corresponding SIX Directive are explained (in German) on the SGKB website (www.sgkb.ch/alternative-performance-kennzahlen).

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The **St.Galler Kantonalbank AG (SGKB)**, founded in 1868, has been listed on the SIX Swiss Exchange since 2001. The Canton of St. Gallen is the majority shareholder, with 51% of the share capital. The St.Galler Kantonalbank offers a comprehensive range of financial services to its clients in the cantons of St. Gallen and Appenzell Ausserrhoden. While SGKB operates out of Zurich in the remaining parts of German-speaking Switzerland in private banking and corporate banking segments, it is actively engaged in the German market through its subsidiary SGKB Germany. SGKB meets its responsibilities for the economic, social and cultural development of the region as an employer, taxpayer and sponsorship partner. The parent company operates with a state guarantee and has an Aa1 Deposit Rating as well as an Aa2 Senior Unsecured Debt Rating from Moody's. Further information at: www.sgkb.ch/en

¹ Managed assets = Client funds (Due to clients in savings and deposits, other due to clients, medium-term notes) and assets under management. Not included are custody assets (=assets that are held solely for transaction and storage purposes and for which the Bank offers no advice to the clients).

² As of Dec. 31, 2019, an adjustment of CHF 584.8 million was made to the double counting of self-issued funds in global custody accounts with third-party banks. Reported assets under management decreased by this amount.

³ Average balance