

St.Galler Kantonalbank

Half Year Results June 30, 2013

August 15, 2013

Agenda

Results June 30, 2013

Strategy adjustment

Growth in Private Banking

Outlook

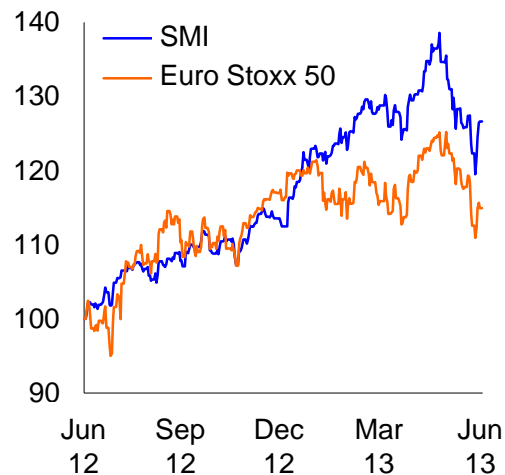
Overview: Successful operating activities

- Increase of operating income by 1.1% than the previous year
- Commission income has compensated net interest income
- Administrative expenses slightly reduced (-0.6%)
- Gross profit 3.4% above the previous year
- Special Effects:
 - Strategy adjustment 7.0 million
 - UK withholding tax 4.2 million
- Net profit 11.2% below the previous year (Reason: special effects)

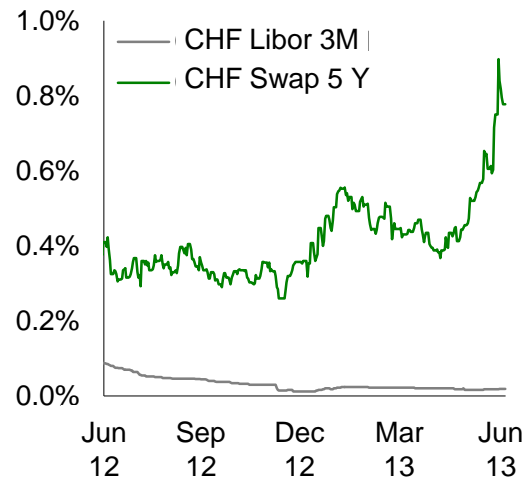
Rise in interest rates at the long end

Market performance 2013

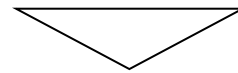
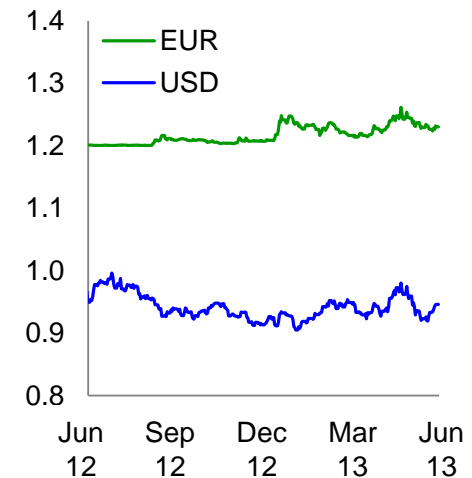
indexed June 30, 2012



Interest rates 2013



Exchange rates 2013



Moderate positive economic outlook for the Swiss economy

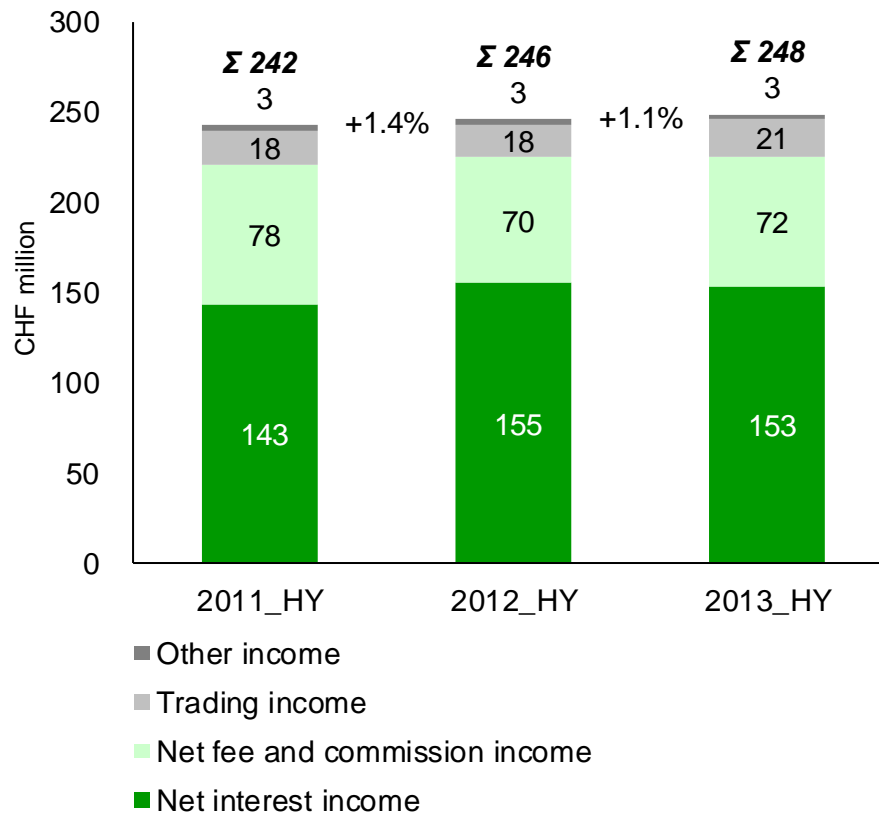
- GDP growth 1.4%
- Unemployment rate 3.3%
- Inflation -0.1%

Estimation seco June 11, 2013

Gross profit increased

CHF million	2011_HY	△	2012_HY	△	2013_HY
Operating income	242	1.4 %	246	1.1 %	248
Administrative expenses	-141	-1.7 %	-139	-0.6 %	-138
Gross profit	101	5.9 %	107	3.4 %	110
Depreciation	-14	8.8 %	-16	-3.1 %	-15
Valuation adjustments, provisions and losses	-1	-43.5 %	-1	-	-5
Operating profit	85	5.9 %	90	-0.7 %	90
Extraordinary amounts, net	4	-84.9 %	1	-	-7
Profit before taxes	90	1.5 %	91	-9.1 %	83
Taxes	-17	7.5 %	-18	-0.9 %	-18
Group net profit	73	0.1 %	73	-11.2 %	65

Higher operating income



- Operating income: +1.1%
- Interest income: -1.0%
 - Higher volumes in the balance sheet business
 - Yield curve situation presses on interest margin
 - Lower costs for interest hedging despite higher volume
- Net fee and commission income: +2.7%
 - Positive stock market performance in the first half year
 - Investors slightly more active
- Trading income: +13.1%
 - Recovery of currency trading (esp. EUR / CHF)

Overview interest income

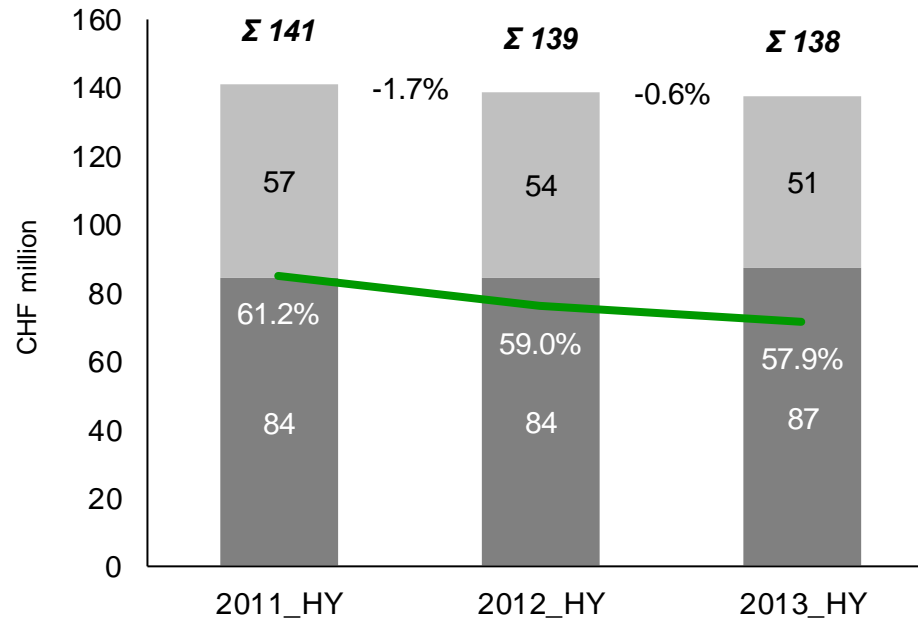
Actual comparison (June 30, 2012 → June 30, 2013)

Material volume effects*				Material price effects			
Due from banks	-670 million	Due to banks	-480 million	Loans to clients	-0.22%	Due to banks	-0.26%
Loans to clients	+1'120 million	Client funds	+845 million	Financial investments	-0.19%	Client funds	+0.09%
		Debts/loans	+470 million			Debts/loans	+0.41%
Assets: +9.2 million				Assets: -24.7 million			
Liabilities: -5.7 million				Liabilities: +14.1 million			
Total +3.5 million				Total -10.6 million			

△ Balance sheet	-7.1 million
△ Interest hedging costs	+5.5 million
△ Interest income compared to last year	-1.6 million

*based on average volumes

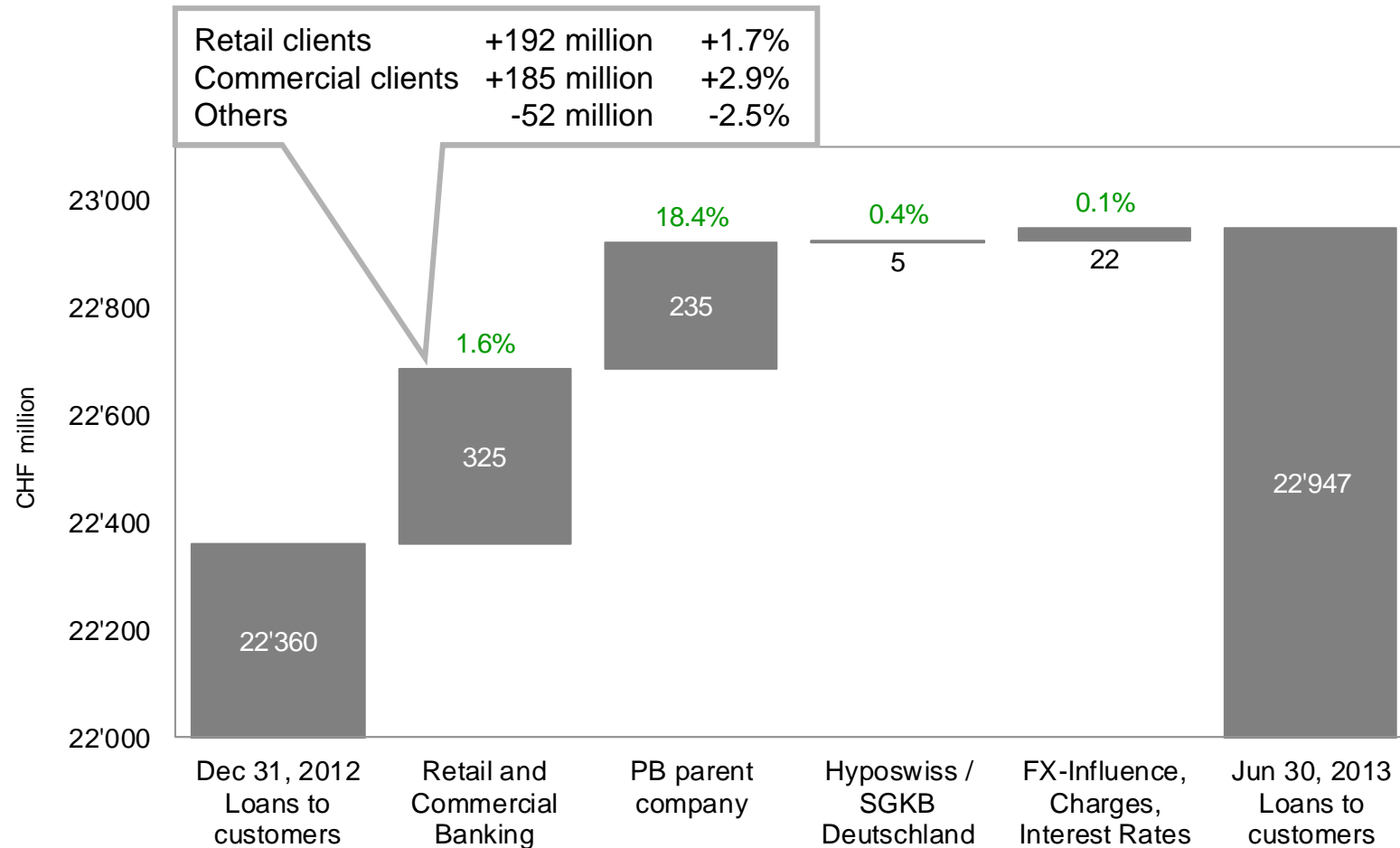
Administrative expenses decreased by 0.6%



- Personnel expenses due to growth initiatives higher (+3.3%)
- Other operating expenses further reduced (-6.8%)
- Cost / income ratio parent company 49.5%

Personnel expenses
 Other operating expenses
 cost/income-ratio

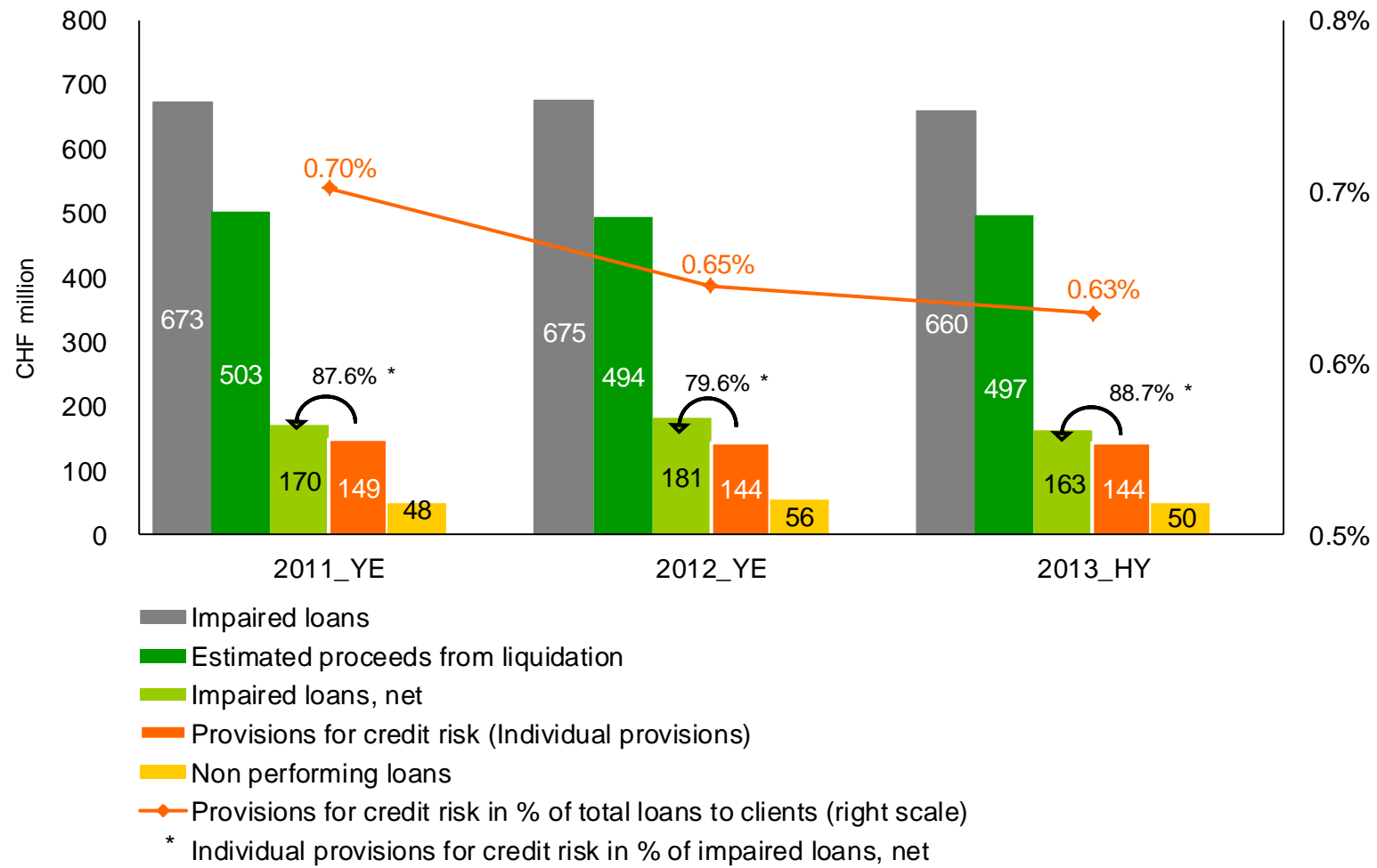
Net New Loans: Moderate growth in retail clients



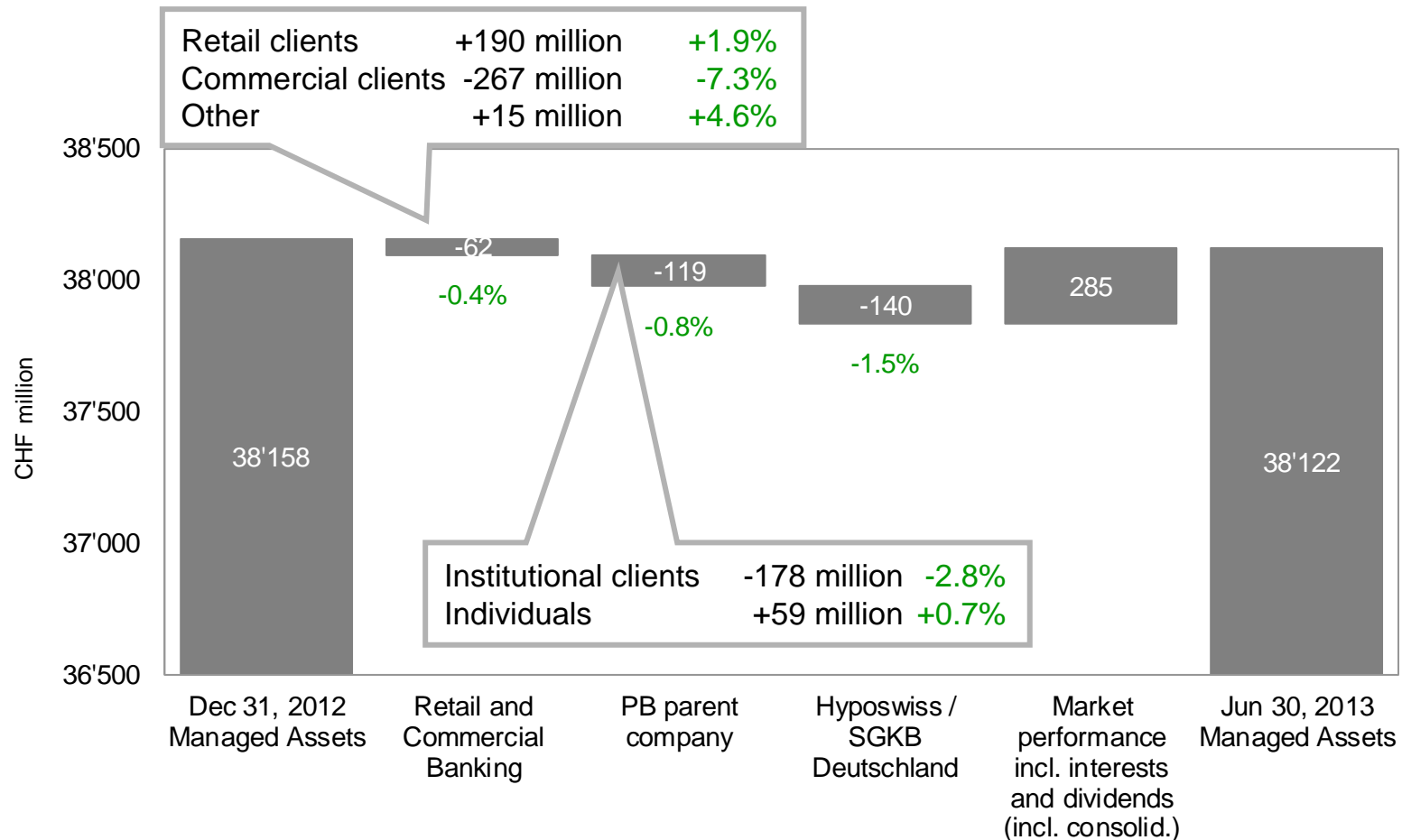
9 NNL Group CHF +565 million / +5.1%

All %-numbers relate to the change in the corresponding prior year market segment amounts

Quality of credit: Indicators remain very positive



NNM: Market performance compensating outflows



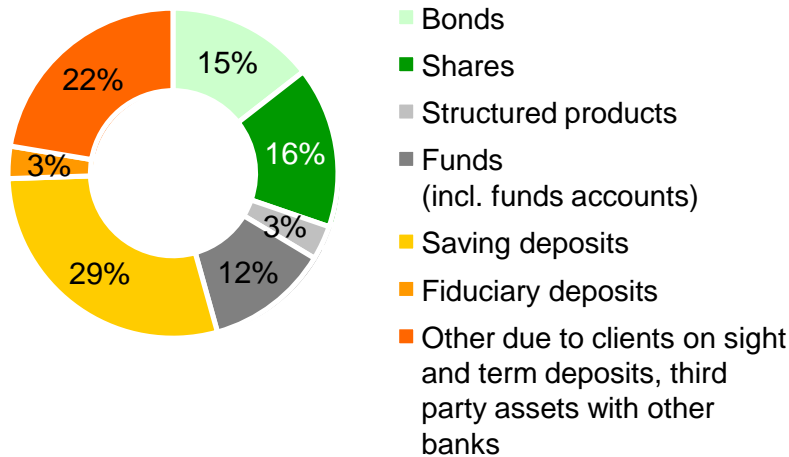
NNM Group CHF -237 million / -1.2% = \sum RCB+ PB SGKB + Hyposwiss + SGKB Deutschland + consolidation effect (+84 Mio.)

All %-numbers relate to the change in the corresponding prior year market segment amounts

Fee and commission income: AuM margin increased

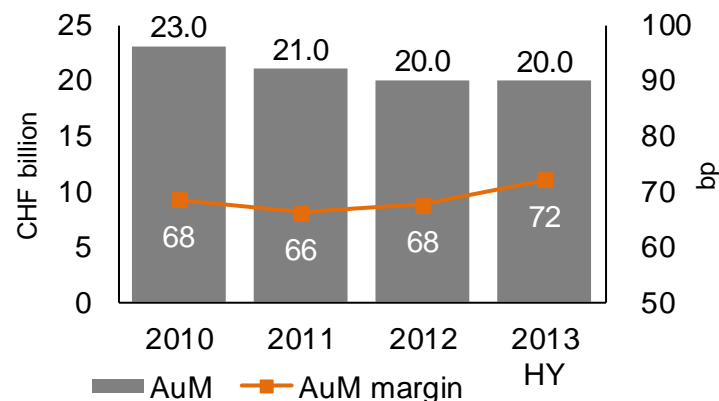
Asset allocation of managed assets

Total 38.1 billion



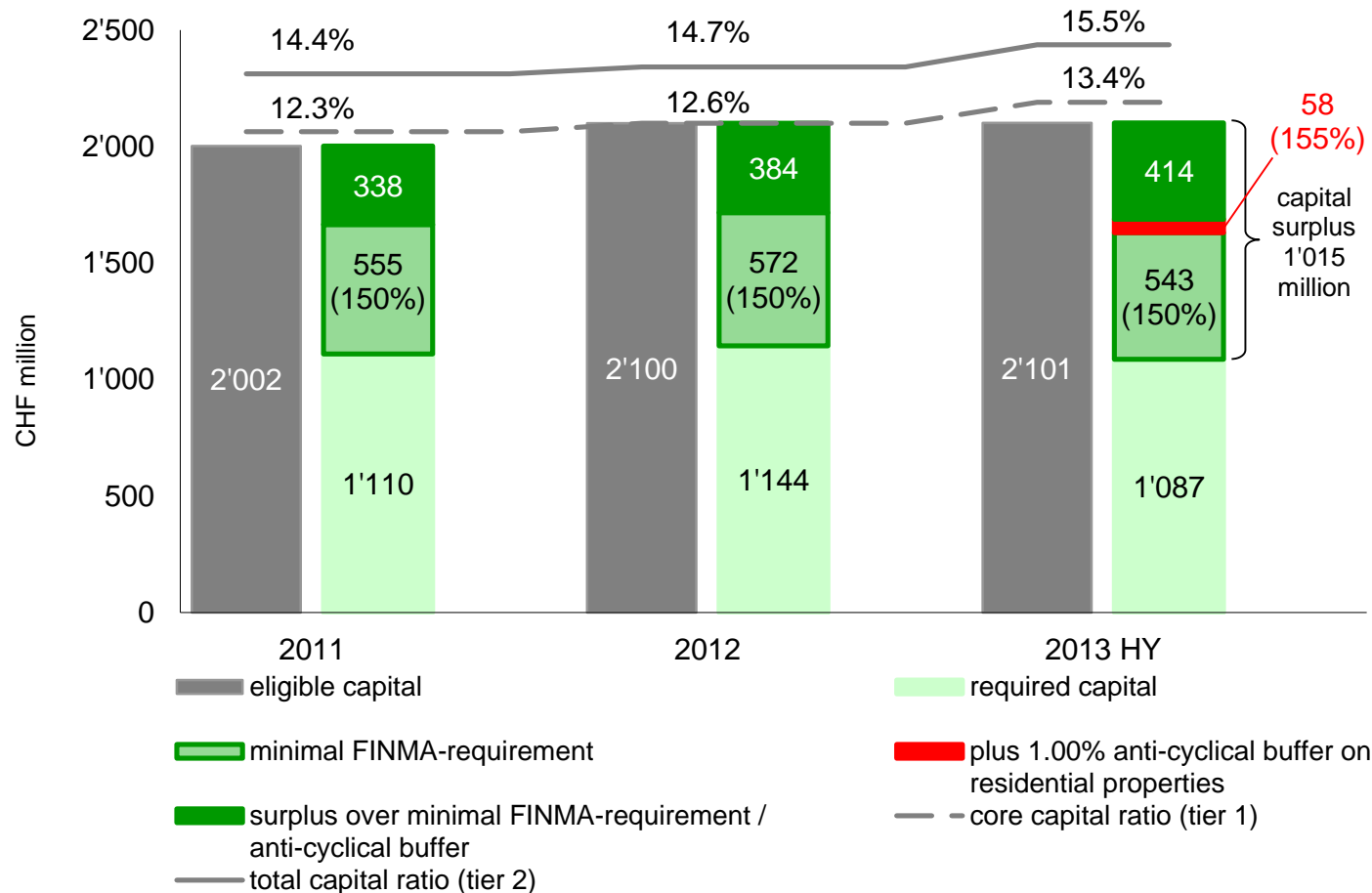
- Asset Allocation:
 - AuM at the previous year's level
 - Continued high liquidity holding
- AuM Margin*:
 - 72bp higher (+4 Bppa)
 - Positive stock markets
 - Slightly decreased investor caution
 - Increased trading activity

AuM-margin*



*AuM margin = Net fee and commission income / Ø AuM

Quality of balance sheet: Strong equity base



Agenda

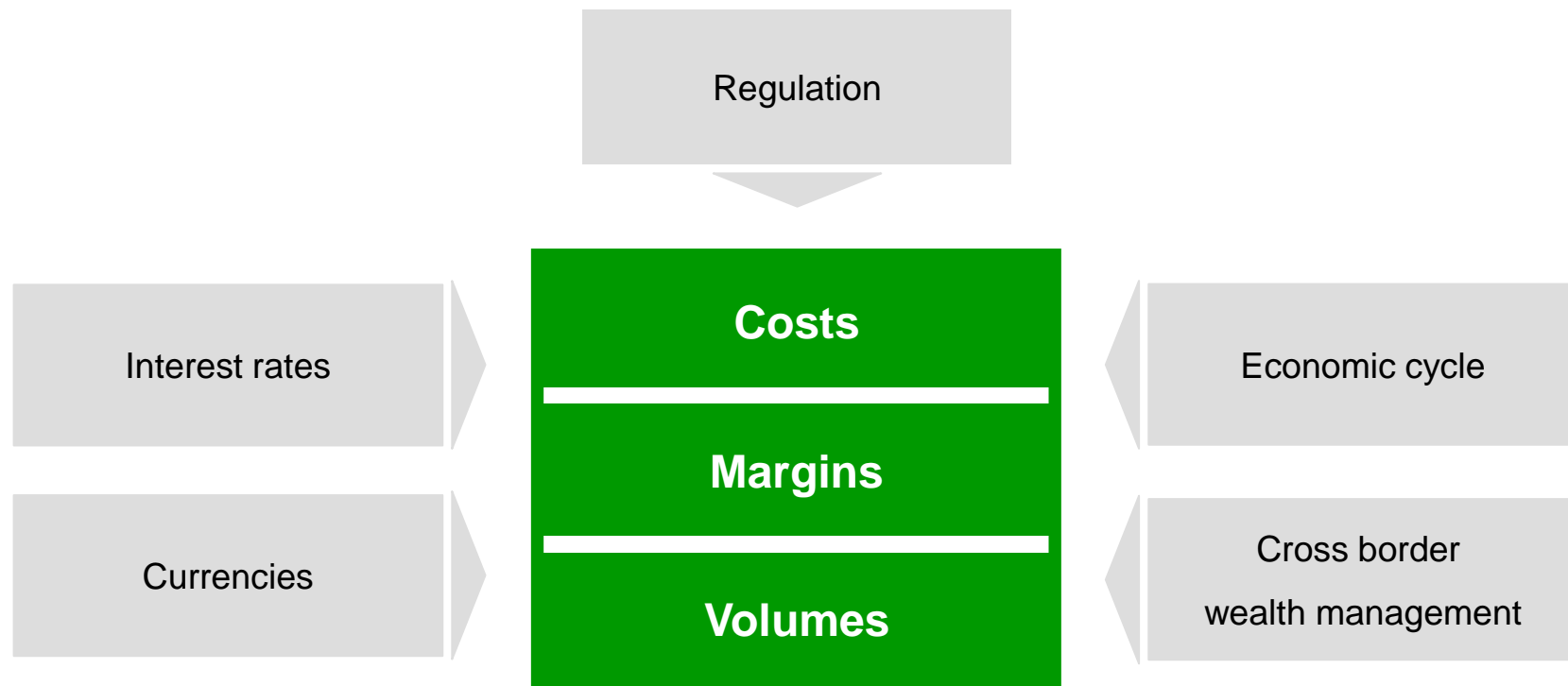
Results June 30, 2013

Strategy adjustment

Growth in Private Banking

Outlook

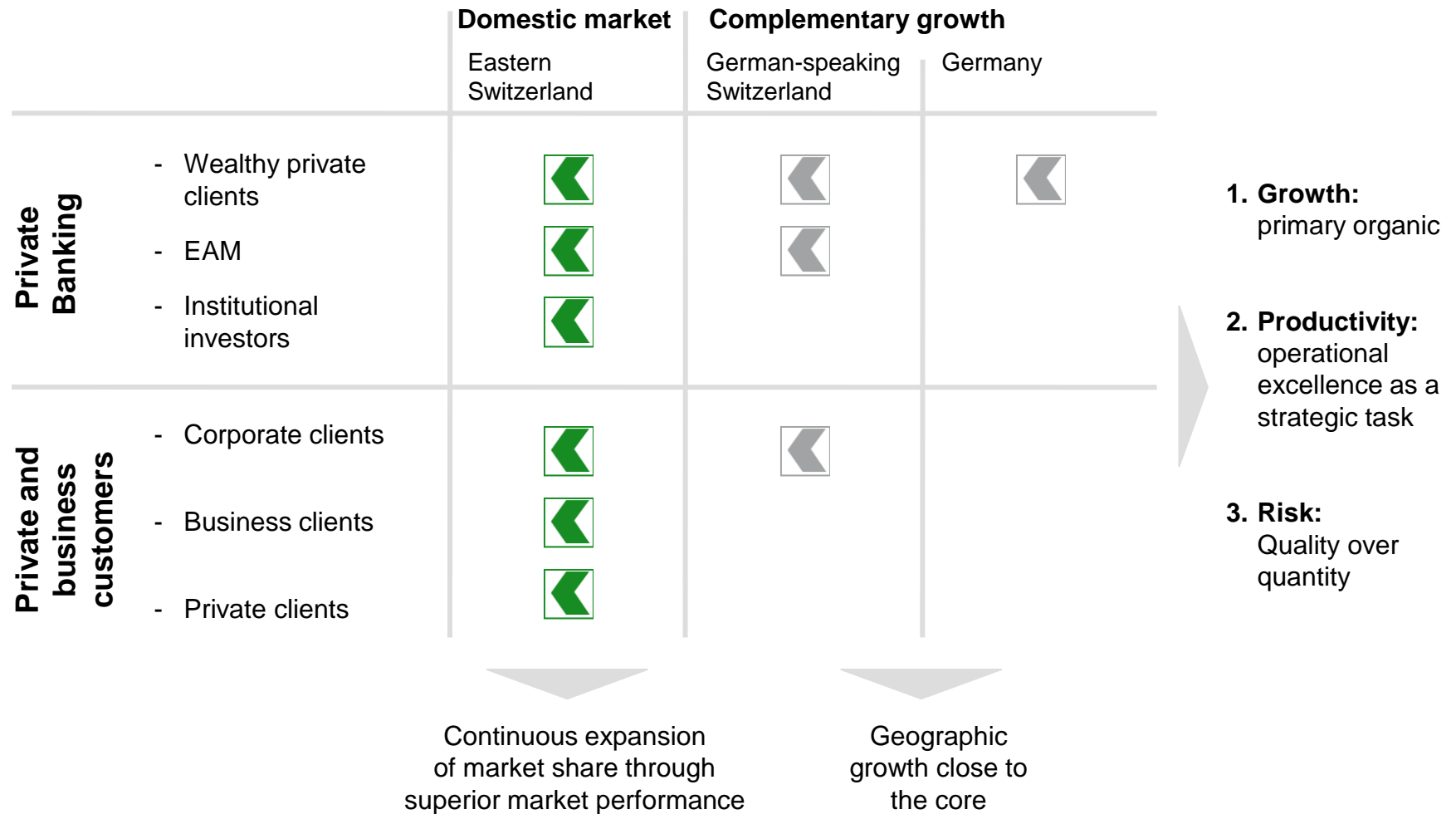
Financial industry in transition



Focusing, simplifying and reducing risk

- Private Banking
 - Focus on the domestic market Eastern Switzerland, and the additional growth markets of Germany and German-speaking Switzerland
- Corporate Center and Service Center
 - Bundling of tasks in St. Gallen and elimination of duplicate functions
- Group structure
 - Simplifying by reducing three subsidiary banks to one subsidiary bank

Focus on a few business segments and markets

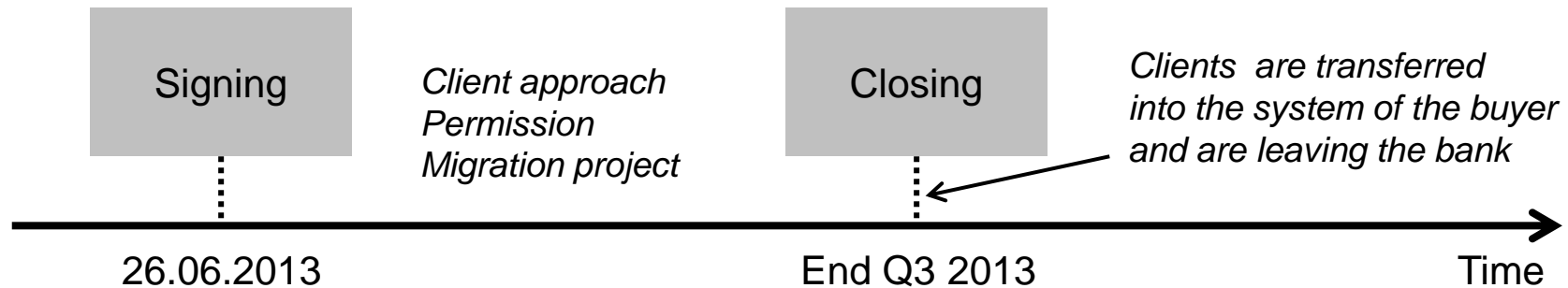


Estimation of financial impact

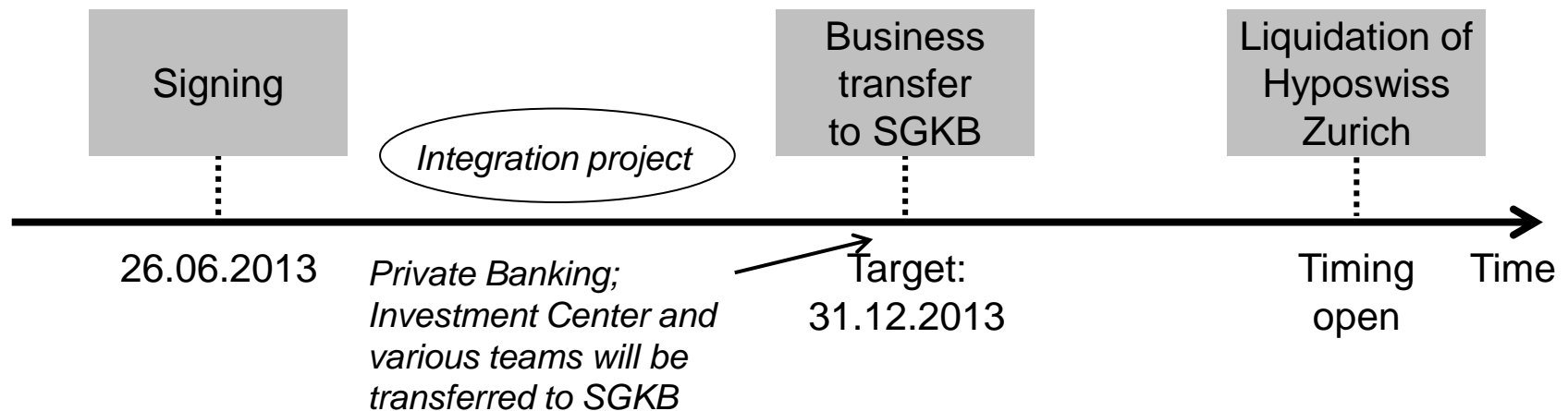
CHF million		△	2013	△	2014
Managed assets	CHF billion		-4.3		-4.3
Group net profit	CHF million		-7.0		+19.0
Core capital ratio (Tier1)			13.9% (+0.2%)		14.2% (+0.4%)

Timetable of implementation

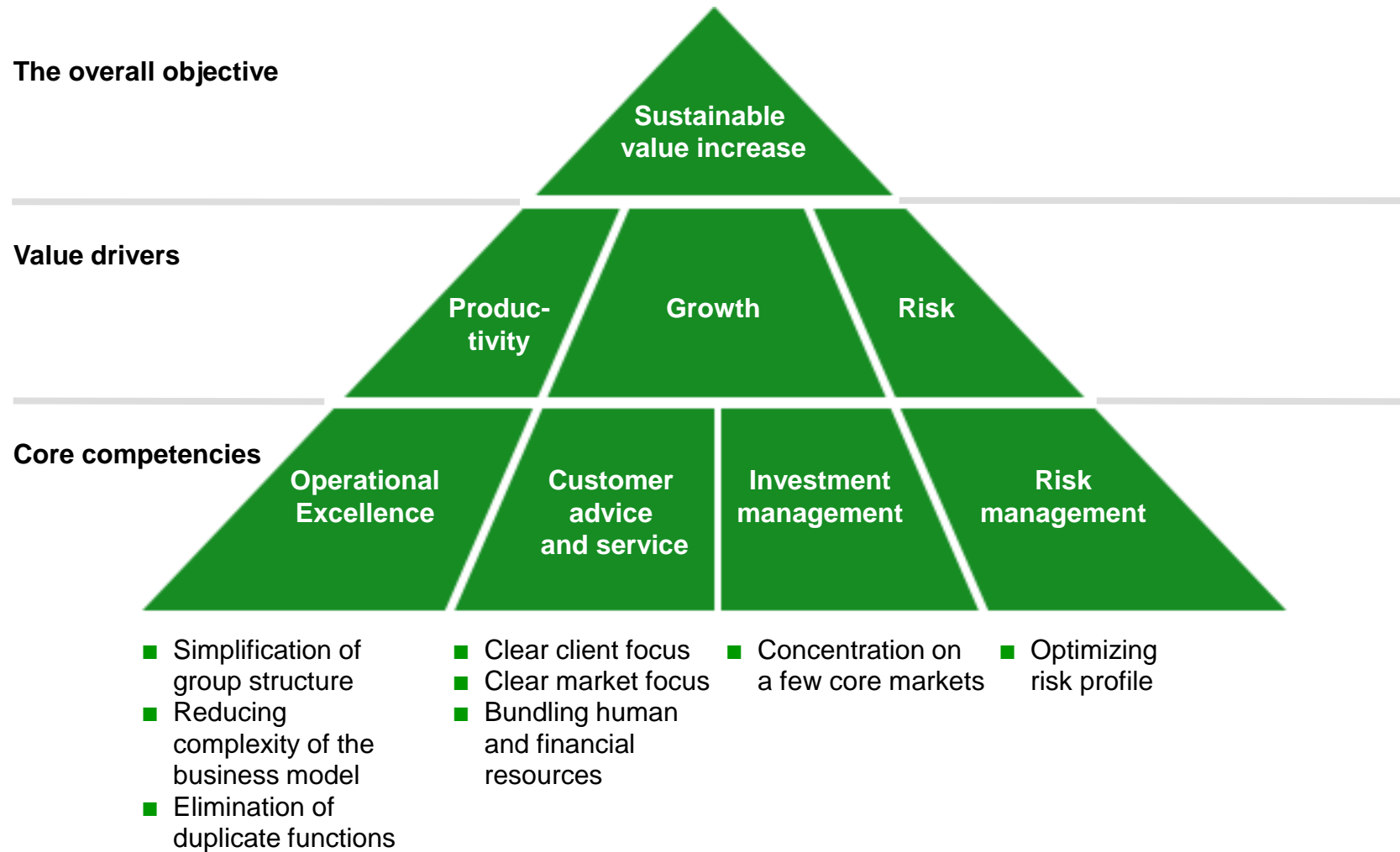
Hyposwiss Geneva, Team CEE und LATAM



Remaining Hyposwiss Zurich



Conclusion: Strengthening of core competencies



SGKB Group: Mid-term financial targets

Net New Loans in % total loans to client	3%
Net New Money in % managed assets*	4% (previously 5%)
Cost/Income-Ratio	50% (previously 55%)
Return on Equity (RoE) before taxes	10%

- Managed assets = AuM, client funds and fund assets minus double counting

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Growth in Private Banking

Private Banking License	Investment Advisory Process	Services
Client advisors meet our own high ambitions	Active support with focus on individual risk management	Clients choose the appropriate type of support

Licensing client advisors

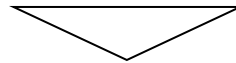
Yesterday

- Investment advice

Today

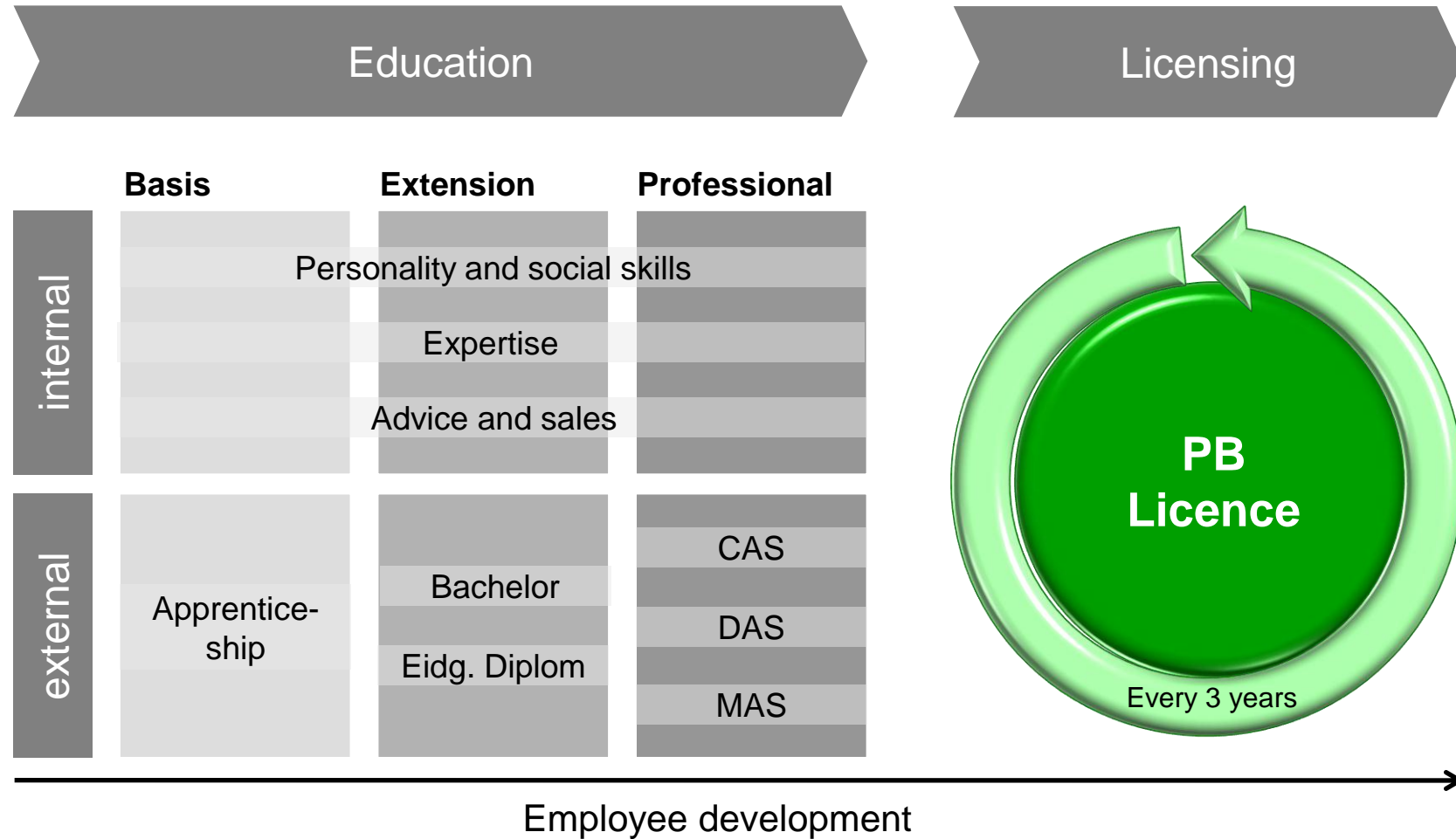
- Risk Management
- Asset Management
- Provisions
- Inheritance
- etc.

We have increased the standards to our client advisors.



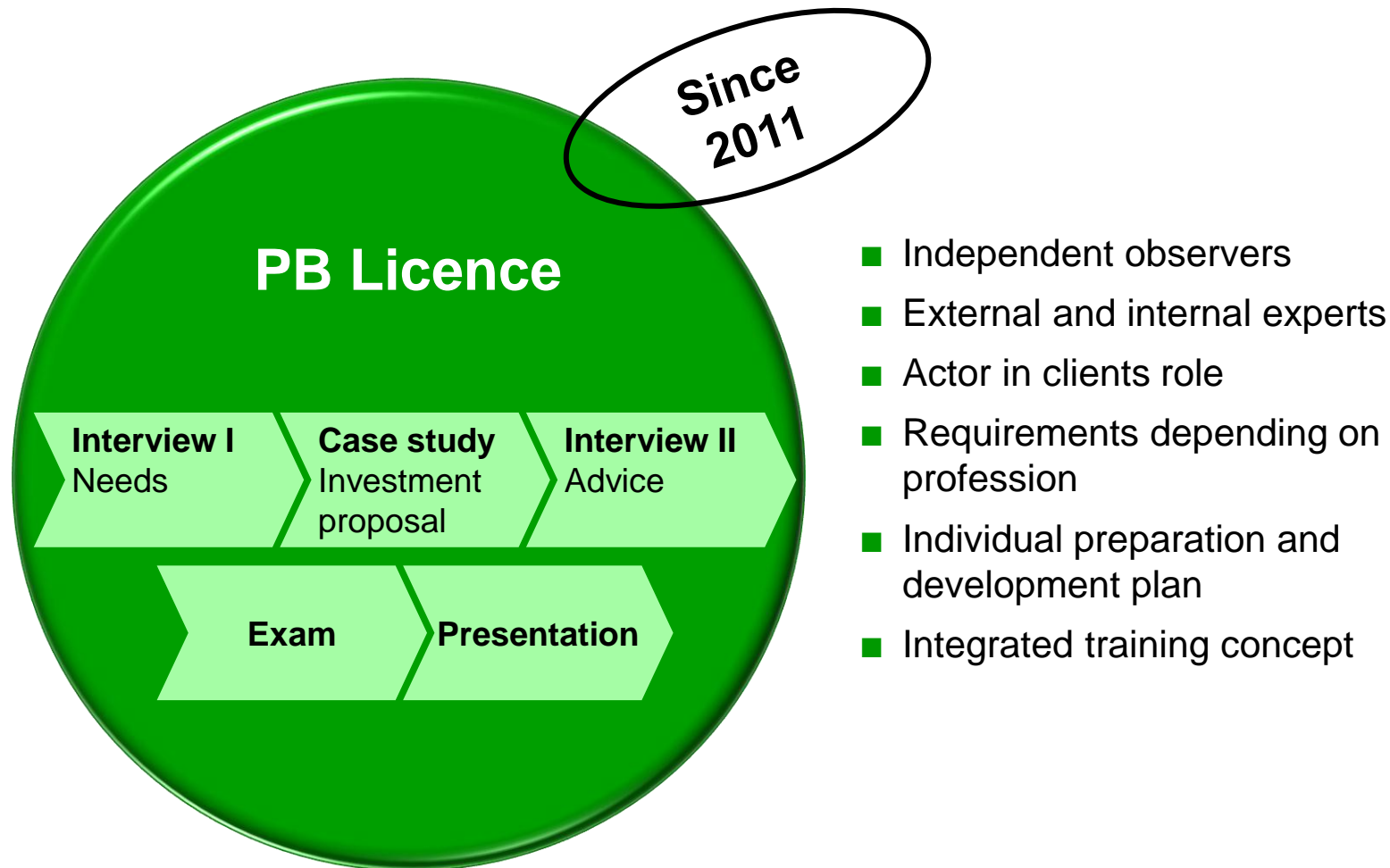
Private Banking Licence

Licensing client advisors



Ex: Assistant - Bachelor of Business Administration, Senior Client Advisor - MAS Financial Consulting

Licensing client advisors



Structured investment advisory process

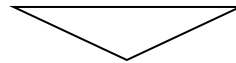
Yesterday

- Positive long-term market development
- "Buy-and-hold" investment style
- No systematic risk monitoring

Today

- Volatile markets
- Asset allocation determines investment performance
- Systematic monitoring of risks required

We determine with our clients their personal investment strategy and accompany them actively and aware of the risks.



Structured investment advisory process

Structured investment advisory process

- Reporting
- SMS alert for strategy breaches, bulk risks and depositions title

New

- Research with title recommendations
- FINFOX-investment proposal
- Customized investment strategy



- FIDLEG conform determination of the investor profile

- Backtesting
- Stresstests

Service packages

- **COMFORT**
- **CONSULT**
- **COMPACT**

New portfolio of services

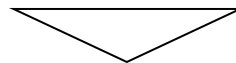
Yesterday

- Limited availability of information

Today

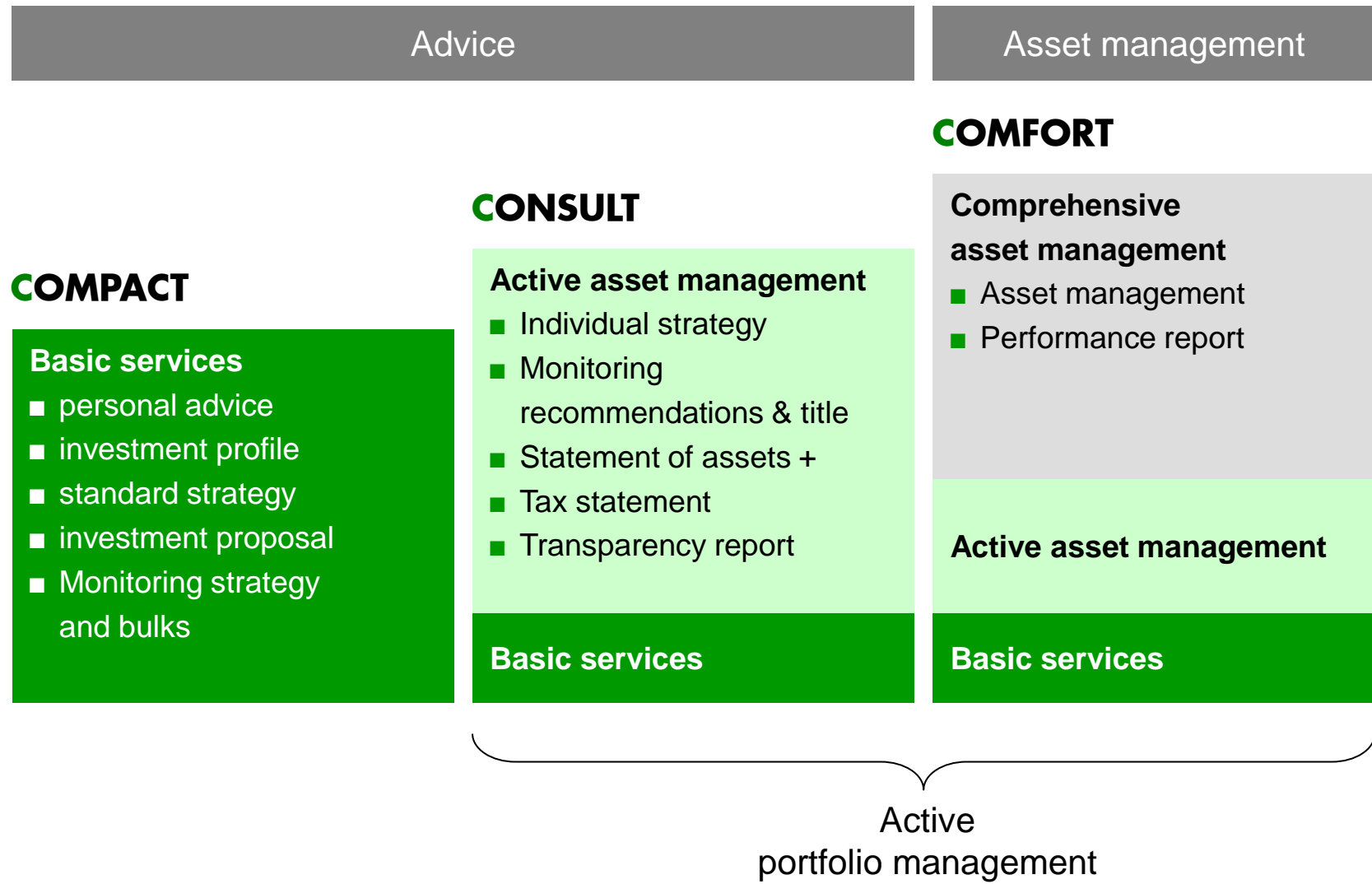
- Digitalization of society
- Fast pace of information
- Flood of information requires filtering relevant findings

We let the customer choose the type of support and professionalize its depot management.



CONSULT offers all benefits of active investment advice

New portfolio of services



Growth in Private Banking

Private Banking License	Investment Advisory Process	Services
Client advisors meet our own high ambitions	Active support with focus on individual risk management	Clients choose the appropriate type of support

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Outlook 2013

- Half year results: on the operational side, SGKB is doing well
- Given unchanged economic environment: Operating result at the previous year's level
- Special factors strategy adjustment and share in compensation due to CH-UK tax treaty to the extent of 11.2 million lead to a lower net profit in 2013

Share SGKB: Development of share price



Disclaimer

Caution regarding forward-looking statements

- This communication contains statements that constitute «forward-looking statements», including, but not limited to, statements relating to the implementation of strategic initiatives, such as the expansion in Private Banking, and other statements relating to our future business development and economic performance.
- While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.
- These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in local and international securities markets, currency exchange rates and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or creditworthiness of our customers, obligors and counterparties and developments in the markets in which they operate, (6) federal and local legislative developments, (7) management changes and changes to our Business Group structure.
- St.Galler Kantonalbank is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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