

St.Galler Kantonalbank

Year End Results December 31, 2013

February 12, 2014

Agenda

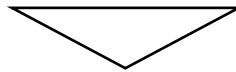
- **Results December 31, 2013**
- Strategy adjustment Private Banking
- Outlook 2014

Determining factors in 2013

- Economic environment
 - Economy
 - Stock exchange
 - Interest rates
 - Real estate market
- Transformation process asset management
 - Strategic adjustment
 - Strategy tax transparency
 - Retrocession solution
 - Withholding tax (UK)
 - U.S. program

Results influenced by transformation process

- Good operating result
 - Operating income 2.6% below the previous year
 - Low interest rates burden interest income (-2.4%)
 - Administrative expenses substantially reduced (-4.2%)
- Gross profit on the previous year's level (-0.5%)
- Special factors:
 - Strategy adjustment net 9.6 million after taxes (project costs, deconsolidation)
 - UK withholding tax 4.2 million (3.4 million after tax)
 - Expenses and provisions for U.S. tax program 42.0 million (36.7 million after tax)
- Net profit due to special effects 28.2% below the previous year

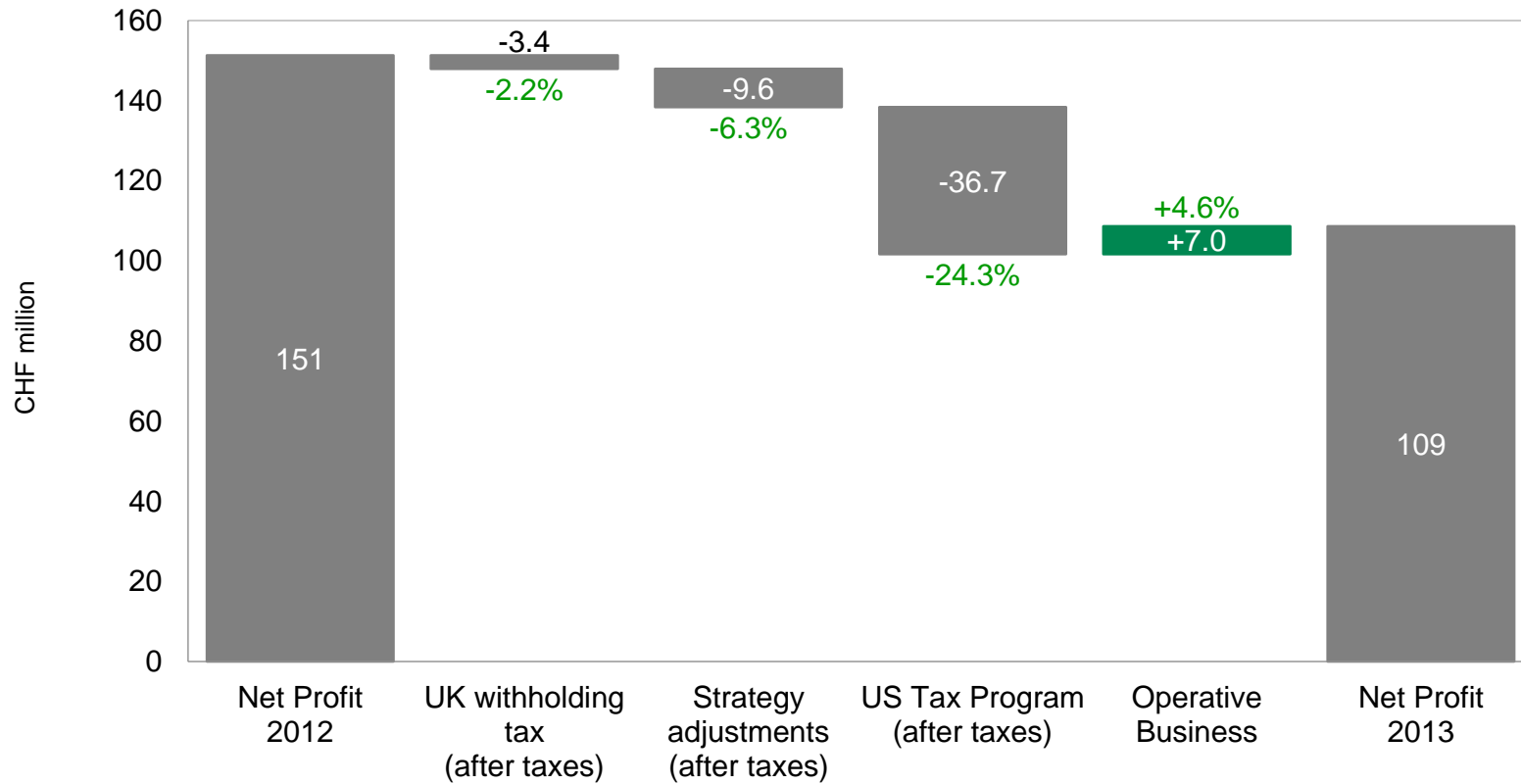


Comparability with the previous year is distorted by special factors

Gross profit on last year's level

CHF million	2011_YE	△	2012_YE	△	2013_YE
Operating income	478	4.9 %	502	-2.6 %	489
Administrative expenses	-288	-3.1 %	-280	-4.2 %	-268
Gross profit	190	17.1 %	222	-0.5 %	221
Depreciation	-30	3.7 %	-31	1.5 %	-32
Valuation adjustments, provisions and losses	-5	-	-10	-	-48
Operating profit	155	17.0 %	181	-21.8 %	142
Extraordinary amounts, net	11	-25.2 %	8	-	-13
Profit before taxes	165	14.3 %	189	-32.1 %	128
Taxes	-30	27.0 %	-38	-47.6 %	-20
Group net profit	136	11.5 %	151	-28.2 %	109

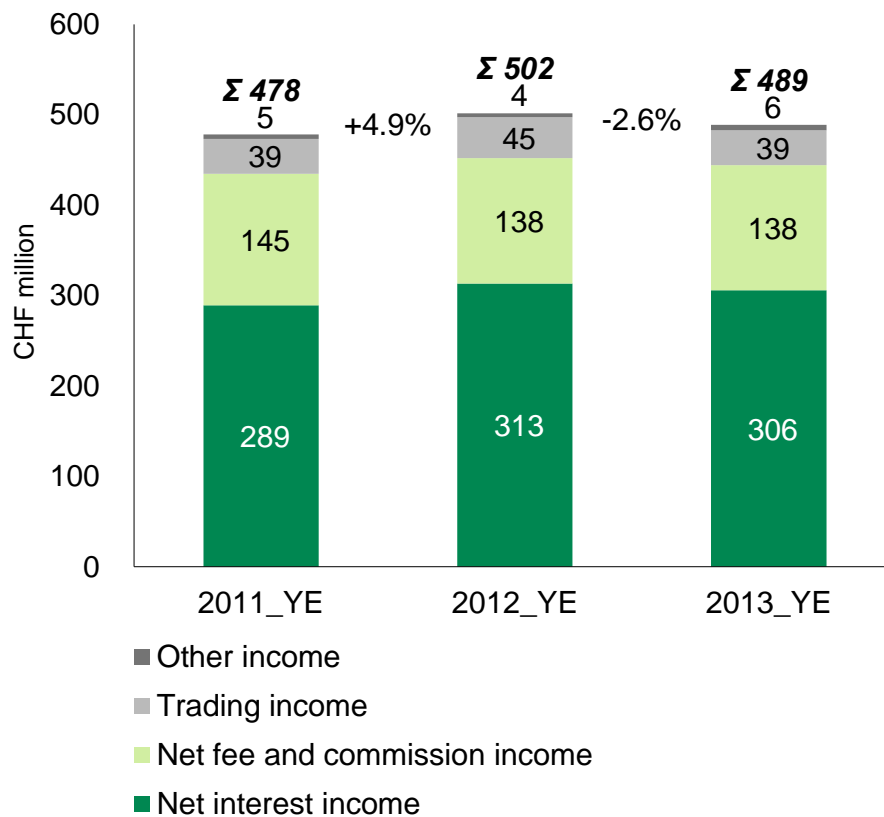
Special factors affect group net profit 2013



Impact of special factors

CHF million	2012_YE	2013_YE	Special factors in 2013	2013_YE adjusted	Δ 2013_adj. vs. 2012_YE
Operating income	502	489	-3	492	-1.9%
Administrative expenses	-280	-268	-1	-267	-4.6%
Gross profit	222	221	-5	226	+1.6%
Depreciation	-31	-32	0	-32	+1.5%
Valuation adjustments, provisions and losses	-10	-48	-44	-3	-65.6%
Operating profit	181	142	-49	191	+5.2%
Extraordinary amounts, net	8	-13	-16	3	-59.9%
Profit before taxes	189	128	-65	194	+2.5%
Taxes	-38	-20	16	-35	-6.0%
Group net profit	151	109	-50	158	+4.6%

Interest income inhibits operating income



- Operating income: -2.6%
- Interest income: -2.4%
 - Higher volumes in the balance sheet business
 - Yield curve situation presses on interest margin
 - Increased margin in the retail business
 - Lower costs for interest hedging
- Net fee and commission income: -0.3%
 - Positive stock market in the first half and the last quarter of 2013
 - Investors slightly more active
- Trading income: -14.8%
 - Currency trading after good year again slightly weaker
 - Success of Nostro trading portfolio is unable to keep up with the previous year

Analysis of interest income

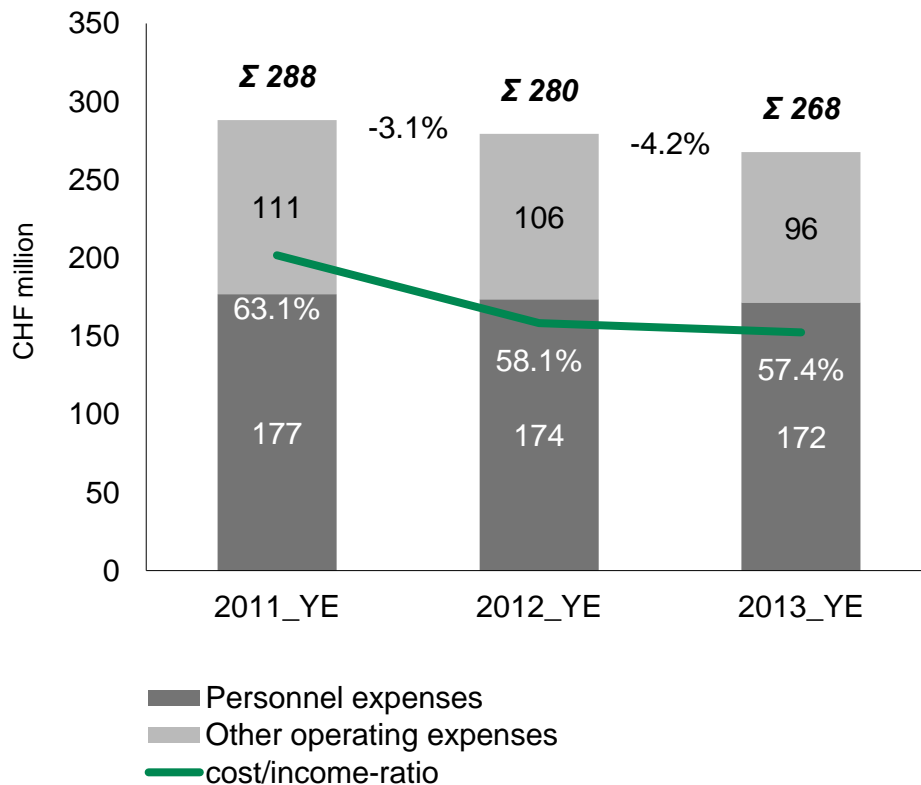
Actual comparison (December 31, 2012 → December 31, 2013)

Material volume effects*				Material price effects			
Due from banks	-600 million	Due to banks	-210 million	Loans to clients	-0.22%	Due to banks	-0.39%
Loans to clients	+ 1'040 million	Client funds	+310 million	Financial investments	-0.15%	Client funds	+0.08%
		Debts/loans	+525 million			Debts/loans	+0.46%
<u>Interest income / expense:</u>							
Assets:	+17.9 million			Assets:	-50.8 million		
Liabilities:	-10.7 million			Liabilities:	+28.9 million		
Total	+7.2 million			Total	-21.9 million		

△ Balance sheet	-14.7 million
△ Interest hedging costs	+7.4 million
△ Interest income compared to last year	-7.4 million

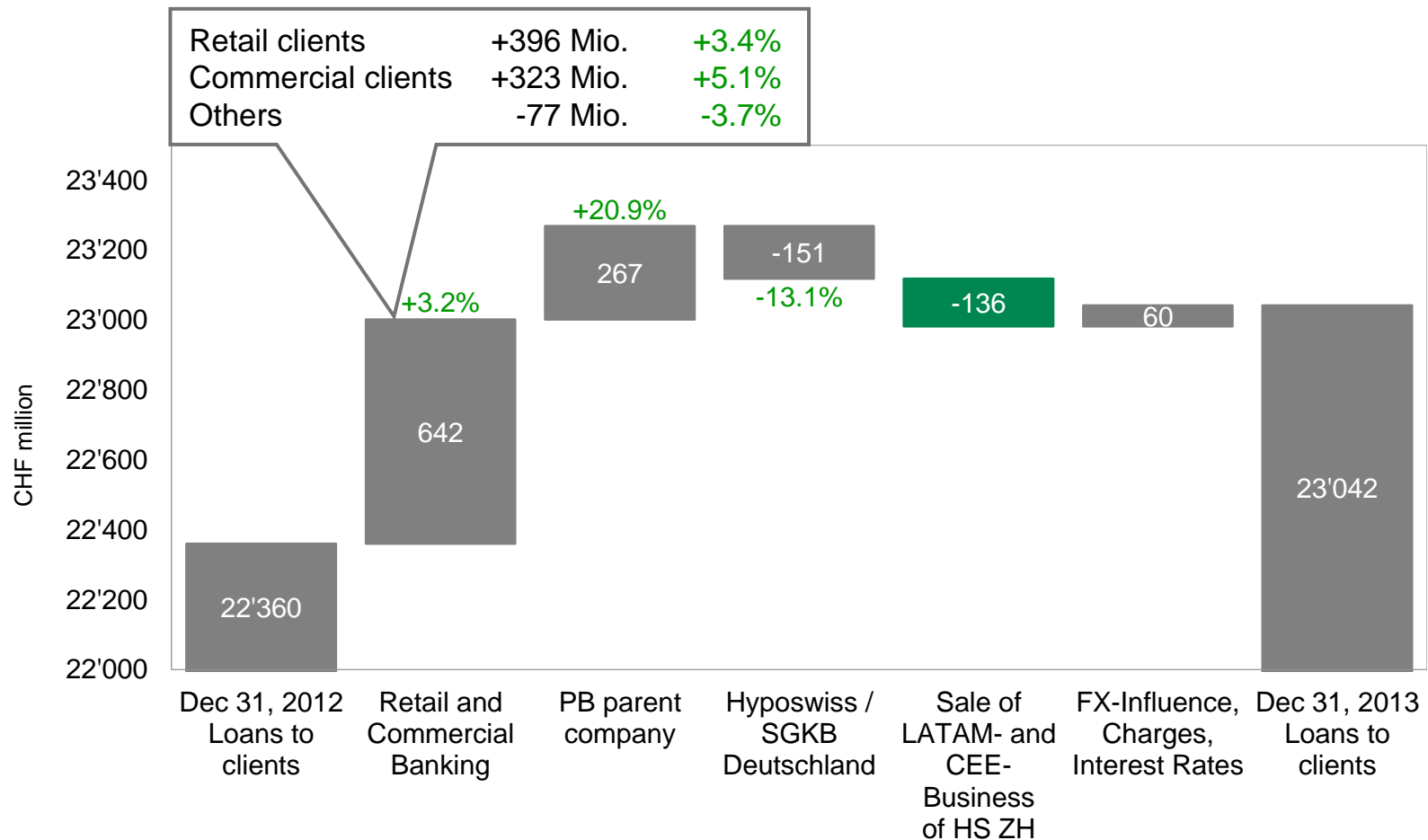
* based on average volumes

Administrative expenses decreased by 4.2%



- Personnel expenses (-1.2%) decrease due to lower variable compensation and lower other employee costs
- Other operating expenses (-9.0%) significantly reduced by savings in IT costs
- Cost/income ratio parent company 48.8%

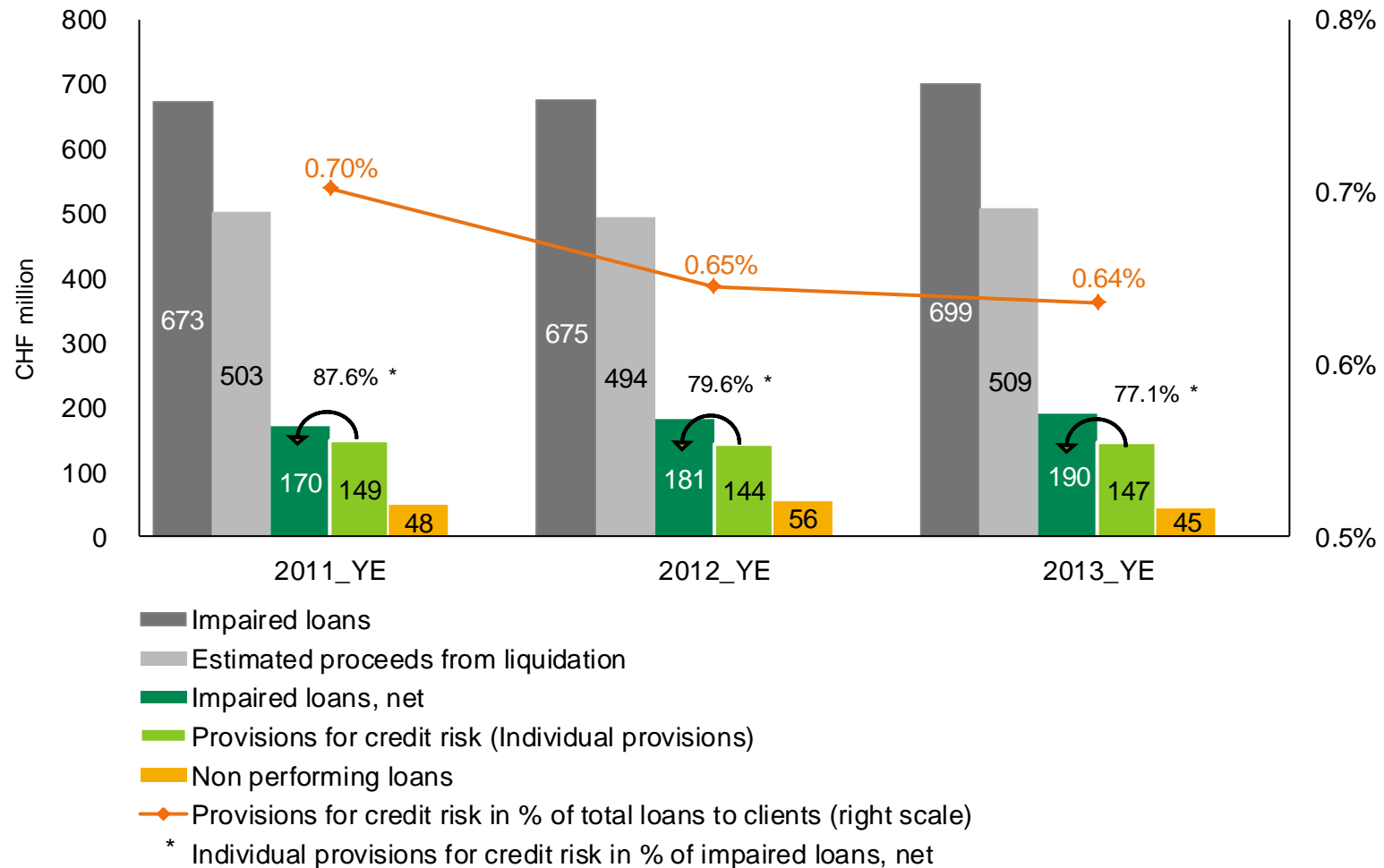
Loans to clients: Solid growth of Net New Loans 3.4%



Net New Loans (NNL) Group CHF +758 Mio. / +3.4%

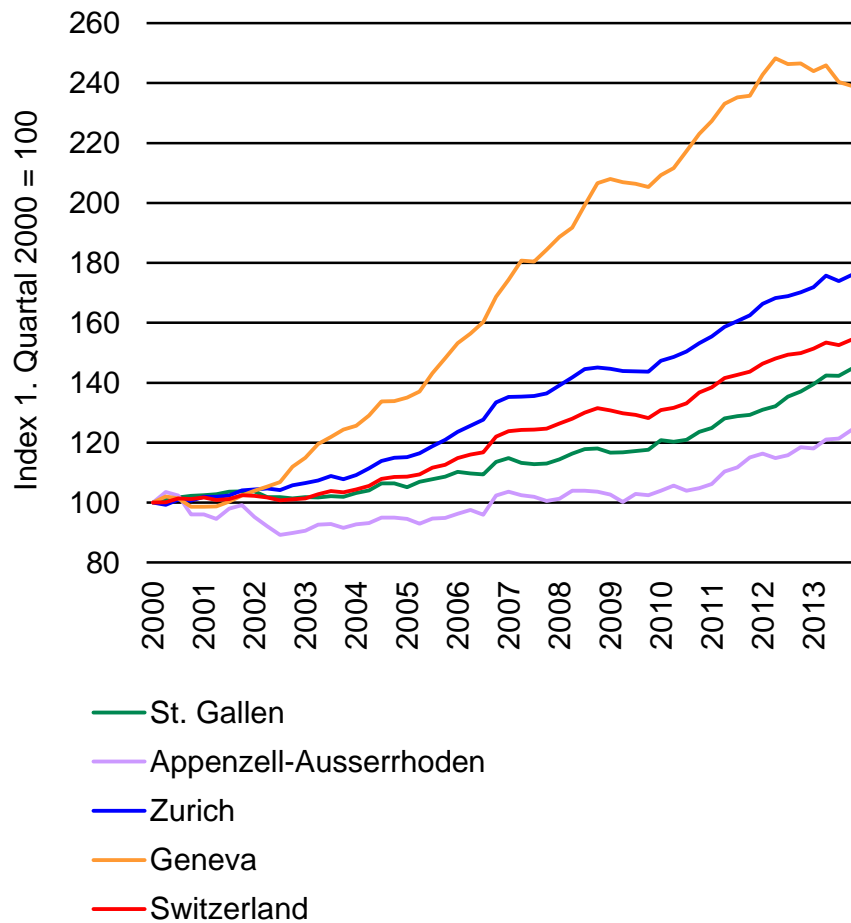
All %-numbers relate to the change in the corresponding prior year market segment amounts

Quality of credit: Indicators remain very positive

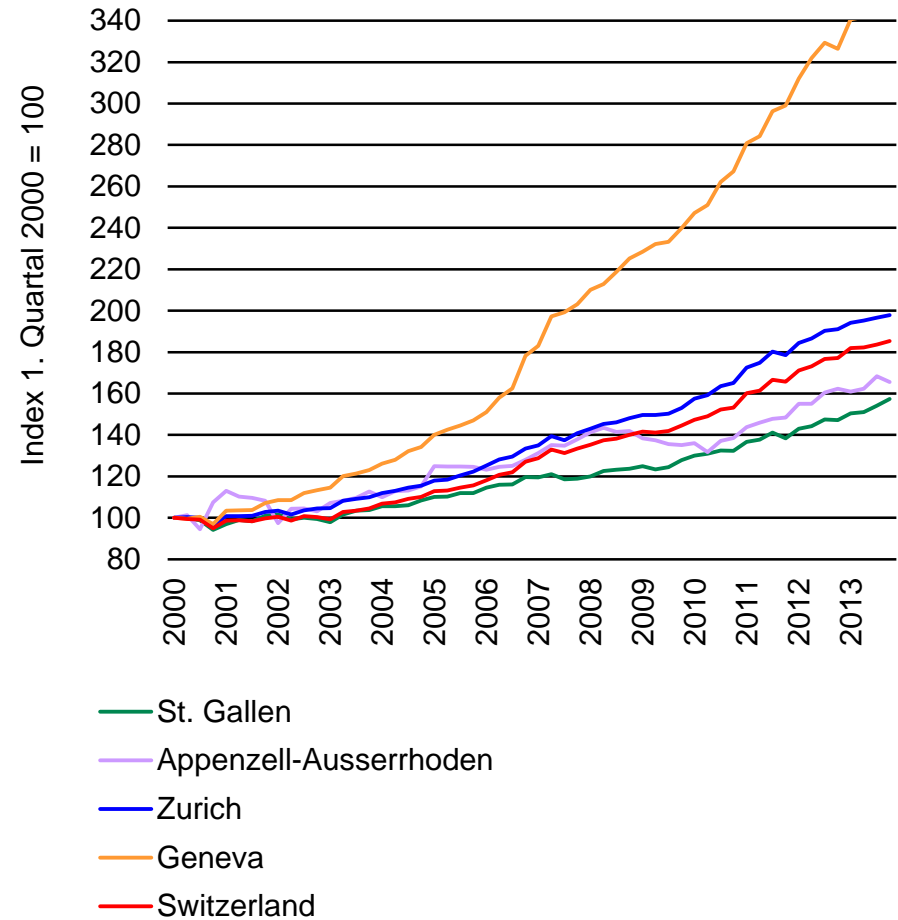


Real Estate Market Eastern Switzerland: Solid development

Transaction prices single-family house

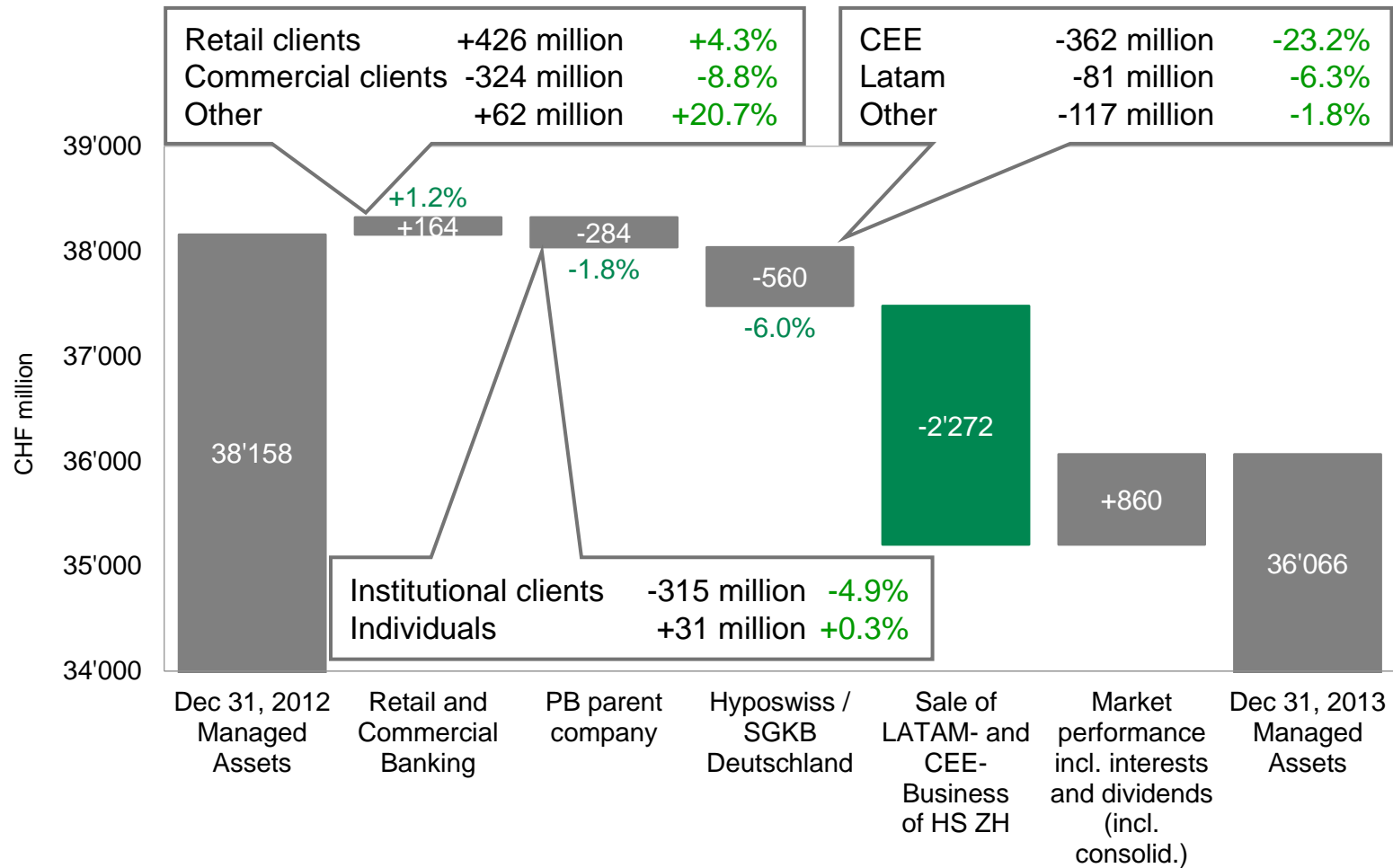


Transactions prices owner-occupied flats



Quelle: Wüest & Partner

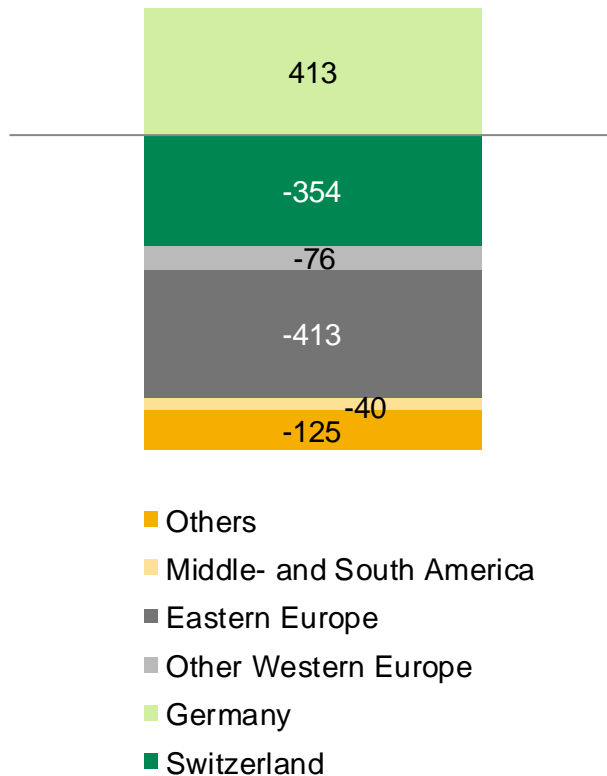
Managed assets: Expected outflows



Net New Money Group CHF -596 million / -1.6% = \sum RCB+ PB SGKB + Hyposwiss + SGKB Deutschland + consolidation effect (+84 million)

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

Origin of Net New Money by region

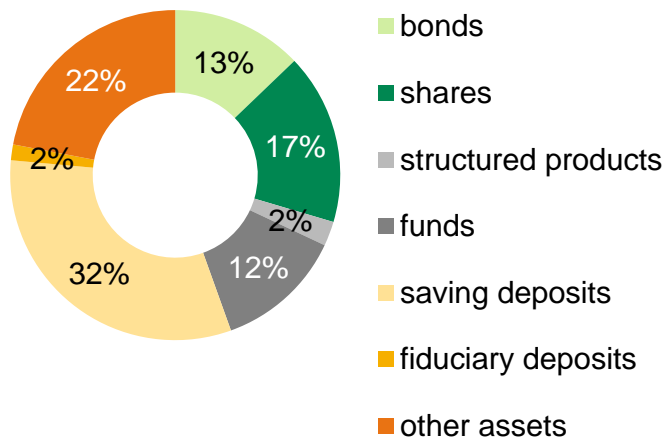


- Net New Money
Total CHF -596 Mio.
- Market Switzerland influenced by negative NNM in the Institutional business
- Market Germany and the business with individuals in the Market Switzerland have a positive net new money
- The outflows in Eastern Europe are directly related to the sale of the CEE business of Hyposwiss Zurich

Fee and commission income: AuM margin increased

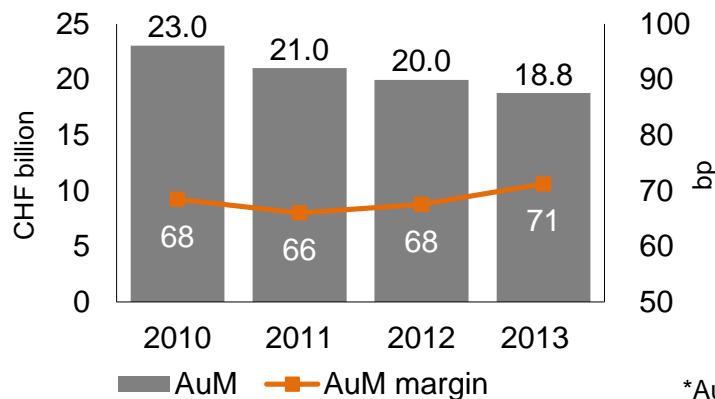
Asset allocation of managed assets

Total 36.1 billion



- Asset Allocation:
 - Continued high liquidity holdings
- AuM-margin:
 - Increased by 3bp to 71bp
 - Friendly stock markets in the first half and the fourth quarter of 2013
 - Slightly decreased investor caution
 - Increased trading activity

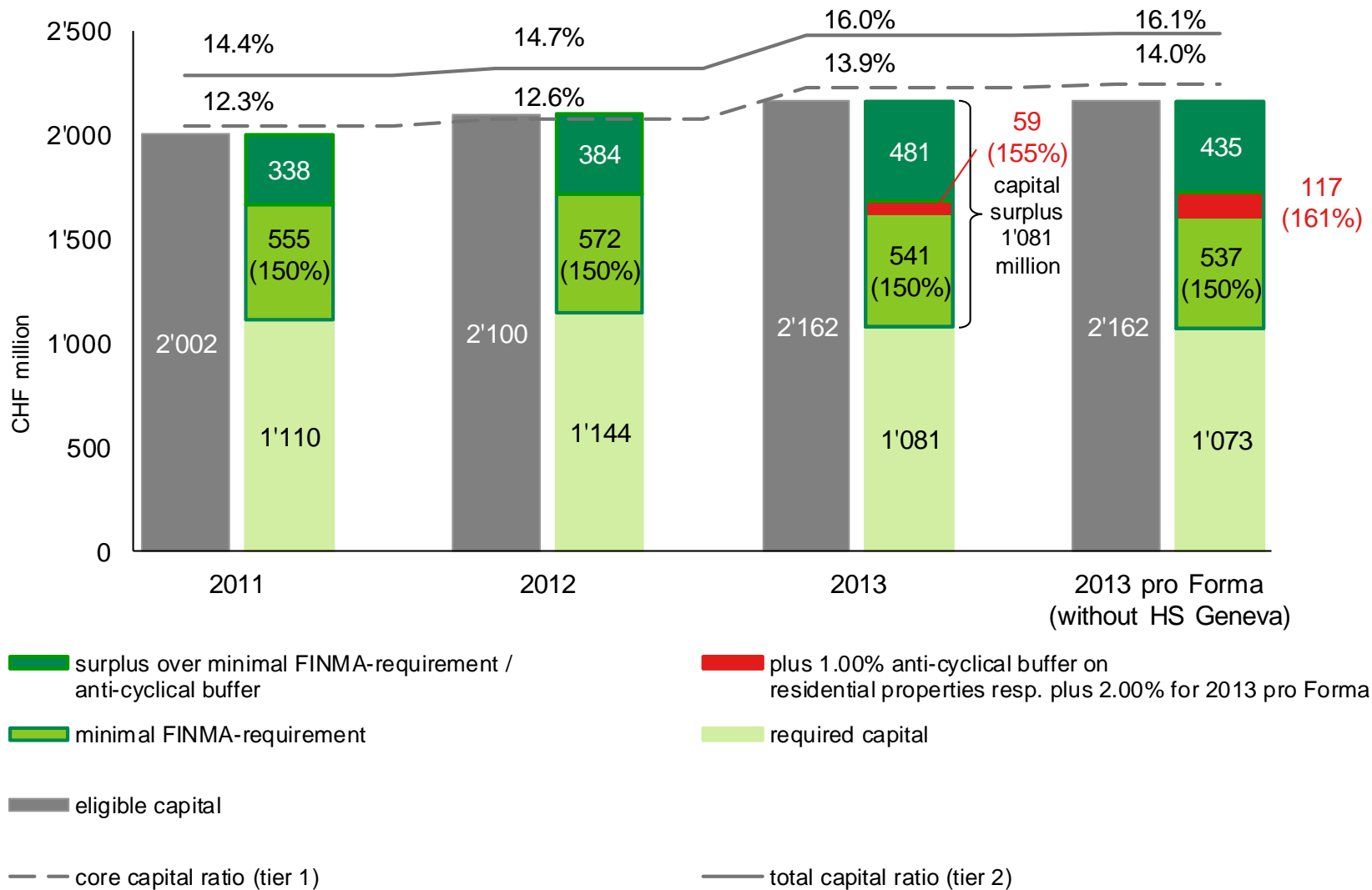
AuM-margin*



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

as of December 31, 2013

Quality of balance sheet: Strong equity base



* Calculations according to Basel III

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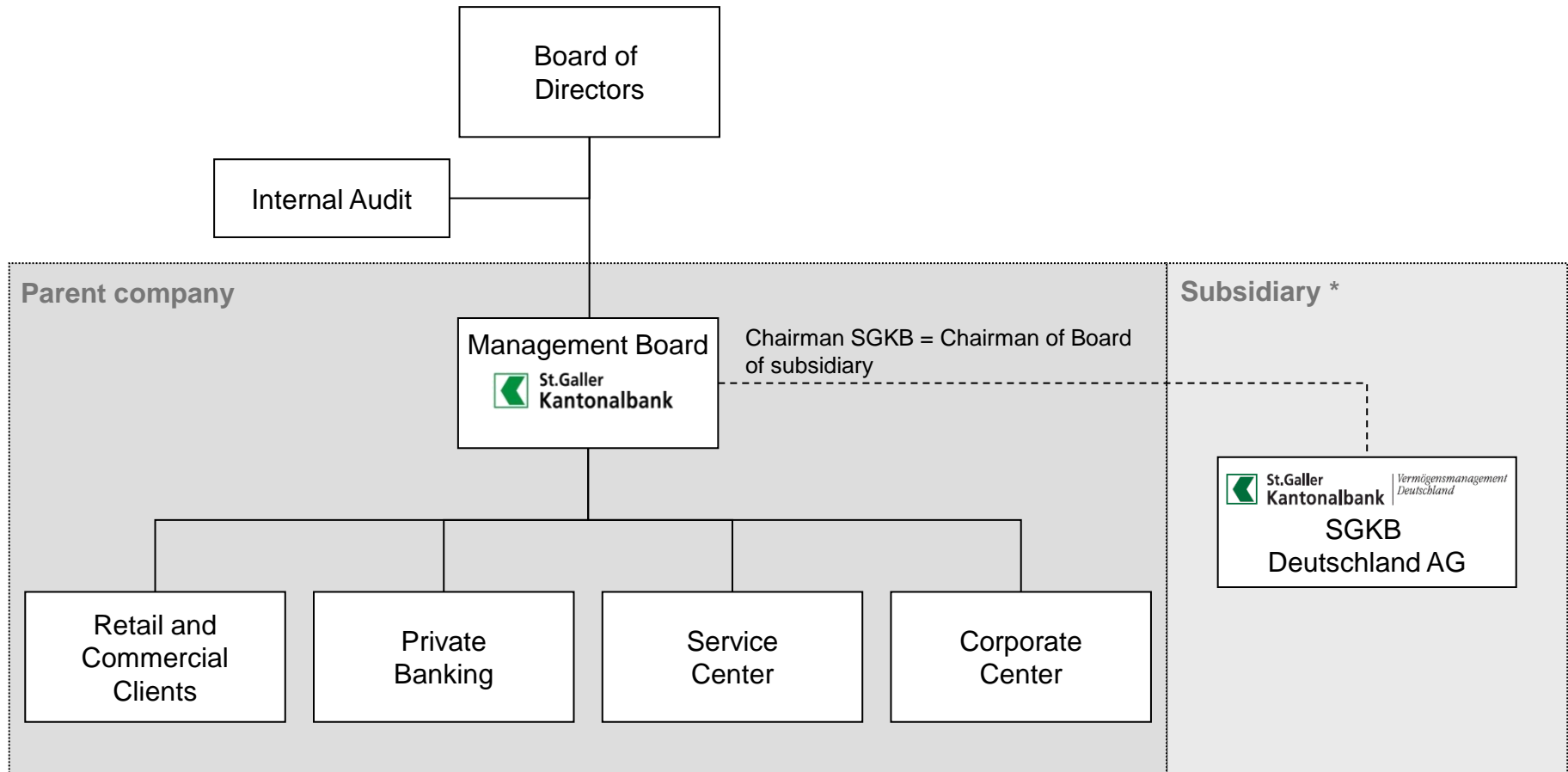
Focusing, simplifying and reducing risk

- **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

Strategic decisions implemented:

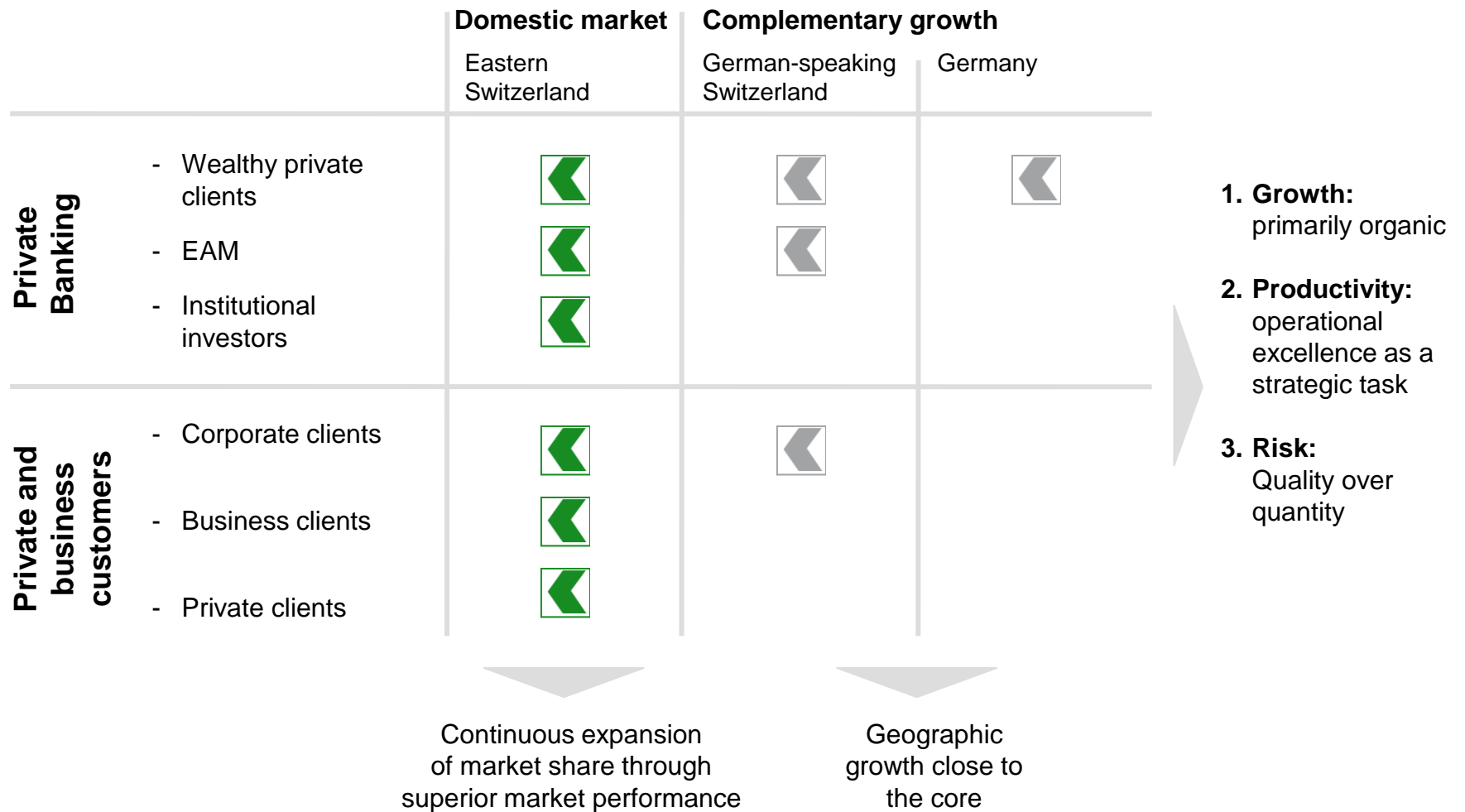
- Sale of Latam and Eastern Europe business of Hyposwiss Zurich in the 4th Quarter and deconsolidated in 2013
- Sale of Hyposwiss Geneva retroactive to January 1, 2014
- Transfer of the remaining business of Hyposwiss Zurich into the parent company
- Renaming of Hyposwiss Zurich in HSZH Verwaltungs AG and then decommissioning

Organisation of SGKB Group



* As the legal successor of Hyposwiss Privatbank AG Zurich, the HSZH Verwaltungs AG serves at the time being. HSZH Verwaltungs AG continues the residual business of Hyposwiss Privatbank AG Zurich until the complete liquidation.

Focus on a few business segments and markets



SGKB Private Banking Zurich



**St.Galler
Kantonalbank**

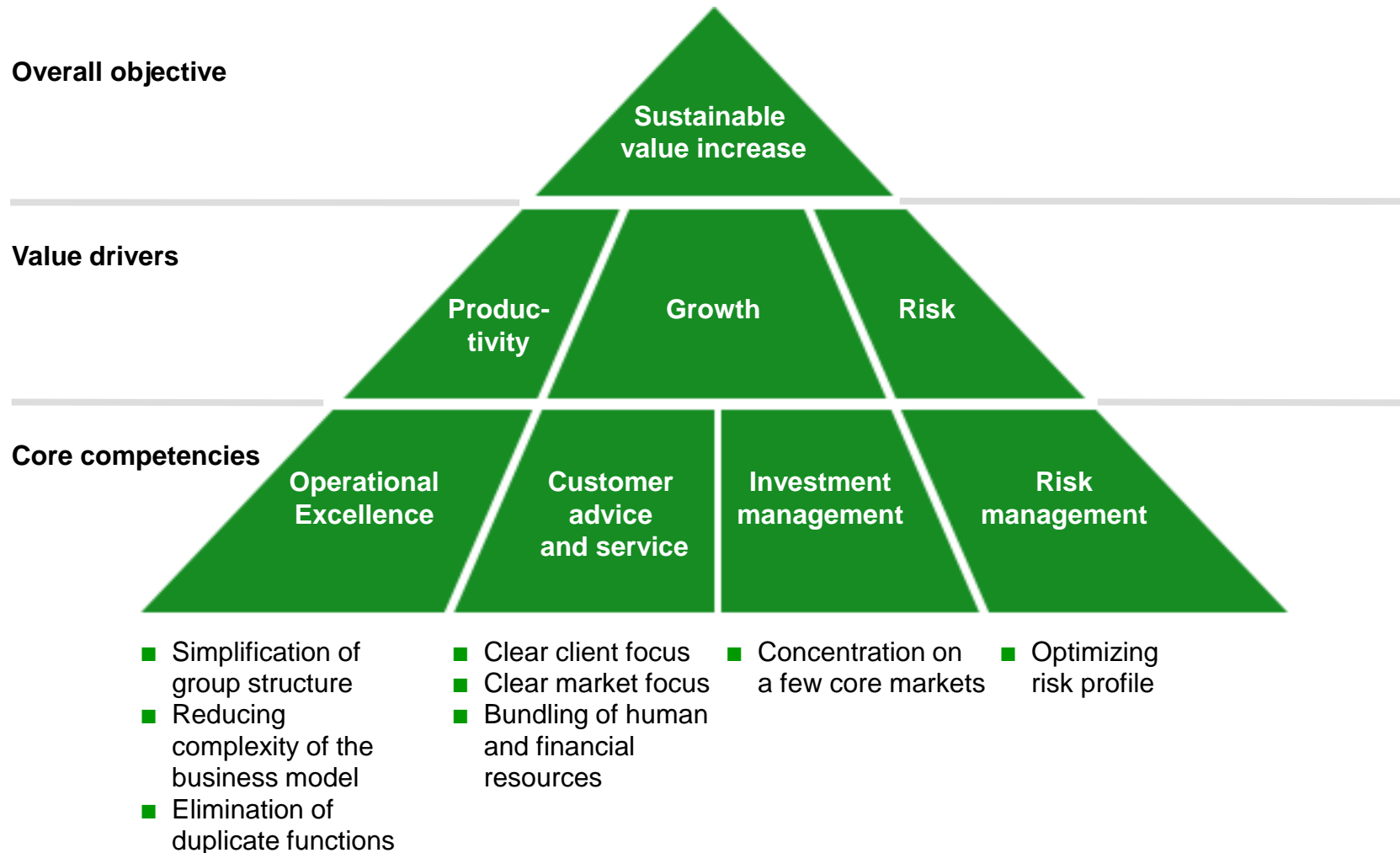
*Private
Banking*



- **Closeness:** Anchored in the Greater Zurich area
- **Security:** Solid ownership and state guarantee
- **Tradition:** Private Banking experience over decades with an established client base
- **Professionalism:** Proven investment expertise thanks to own investment center

Quality and experience of a traditional private bank paired with the security and solidity of a successful cantonal bank

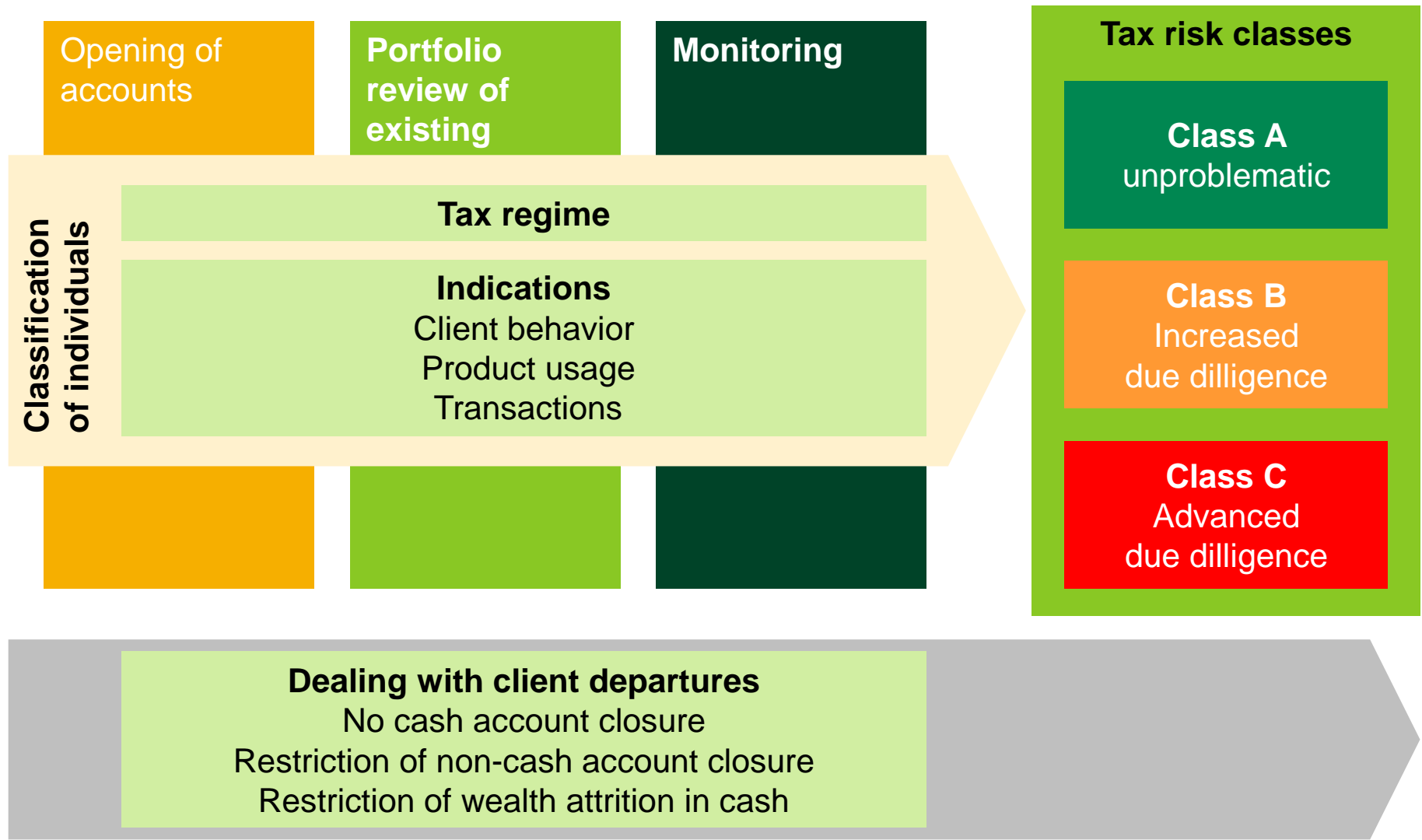
Value creation by strengthening core competencies



Transformation of asset management: additional building blocks

- Strategy of tax transparency for foreign customers
 - EU customers until the end of 2014
 - Rest of the world until the end of 2015
- Retrocessions
 - Past: Refund
 - Future: Transparency, new product offer
(PAC service packages: Compact, Consult, Comfort)

Implementation of tax transparency: Conceptual overview



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Mid-term financial targets

Net New Loans in % of total loans to clients	3%
Net New Money in % of managed assets*	4%
Cost/Income ratio	50%
Return on Equity (RoE) before taxes	10%

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

Impact of restructuring on financial year 2014

■ Results as of December 31, 2013

- Hyposwiss Geneva yet fully included in the consolidated financial statements; sale with retroactive effect to January 1, 2014; elimination of business volume of around CHF 1.6 billion
- Assets and employees of the CEE and Latam business no longer included
- Income and expenses of the CEE and Latam business are included until the time of sale

■ Impact on financial year 2014

- Basis of comparison: Adjusted income statement 2013 and assets as of December 31, 2013
 - Discontinuation operating income CEE, Latam business and HS Geneva CHF -38 million
 - Discontinuation administrative expenses CEE, Latam business and HS Geneva CHF 28 million
 - Savings in IT and premises costs CHF 6 million
 - Reduction gross profit CHF 4 million
 - No charge from depreciation of the goodwill
- Discontinuation employees HS Geneva (FTE) -57
- Discontinuation employees ex HS Zurich by the end of 2014 (FTE) -26

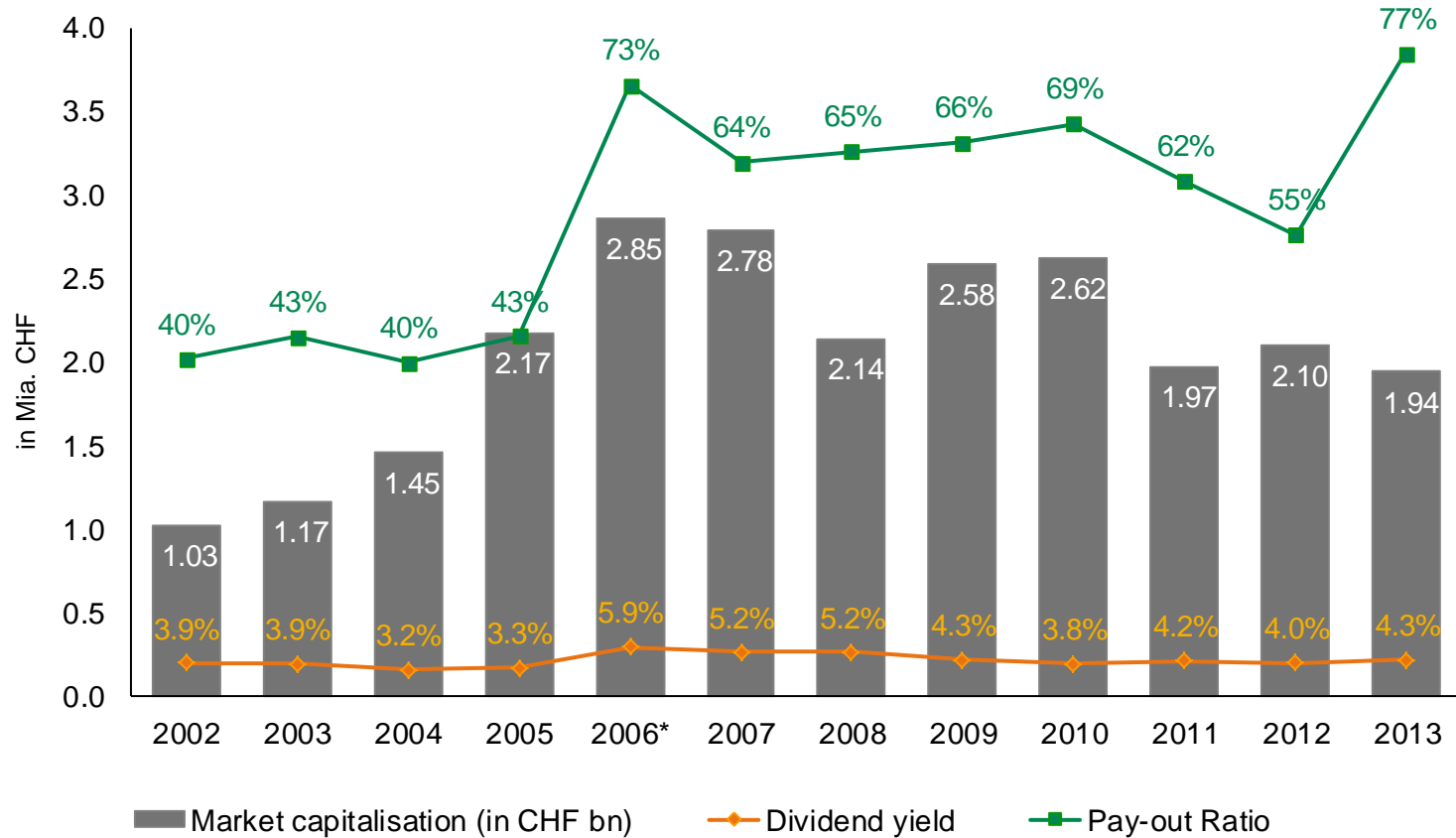
Key topics 2014

- Implementation of growth initiatives:
 - Market German-speaking Switzerland Private Banking
 - Market German-speaking Switzerland Corporate clients
 - SGK Germany
- Increase in earnings quality in the lending and investment business
- Implementation of the strategy of tax transparency for foreign customers
- Digitization: Expanding social media presence as well as new and interoperable internet presence

Outlook 2014

- Due to the special factors which impacted the consolidated group net profit in 2013, the Bank expects for the 2014 financial year a net profit about in the range of the fiscal year of 2012.
- In this forecast, the deconsolidation of the units sold is taken into account.

Shareholder-friendly dividend policy

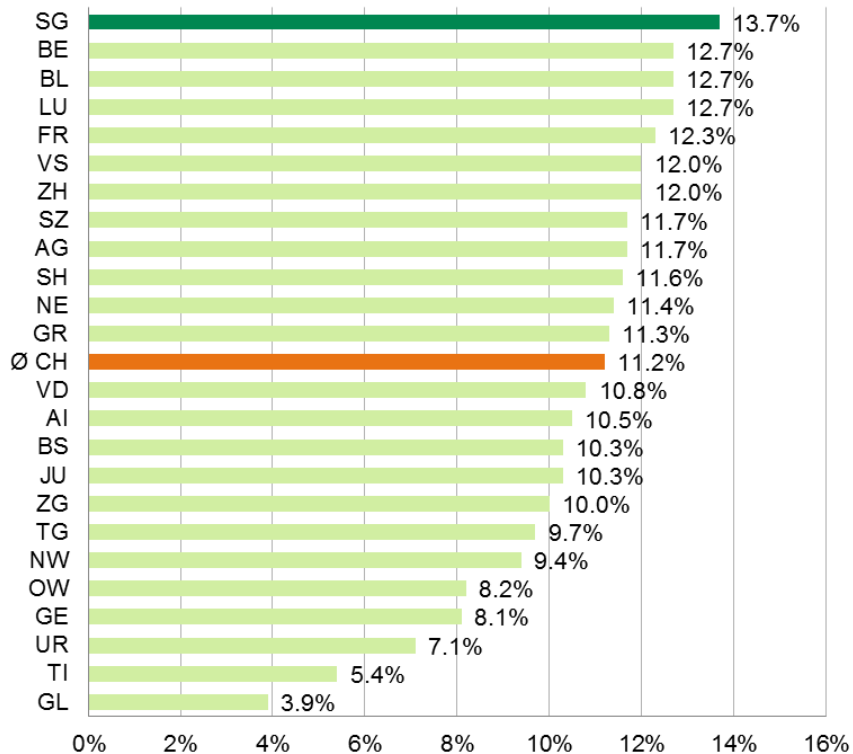


* repayment of nominal value

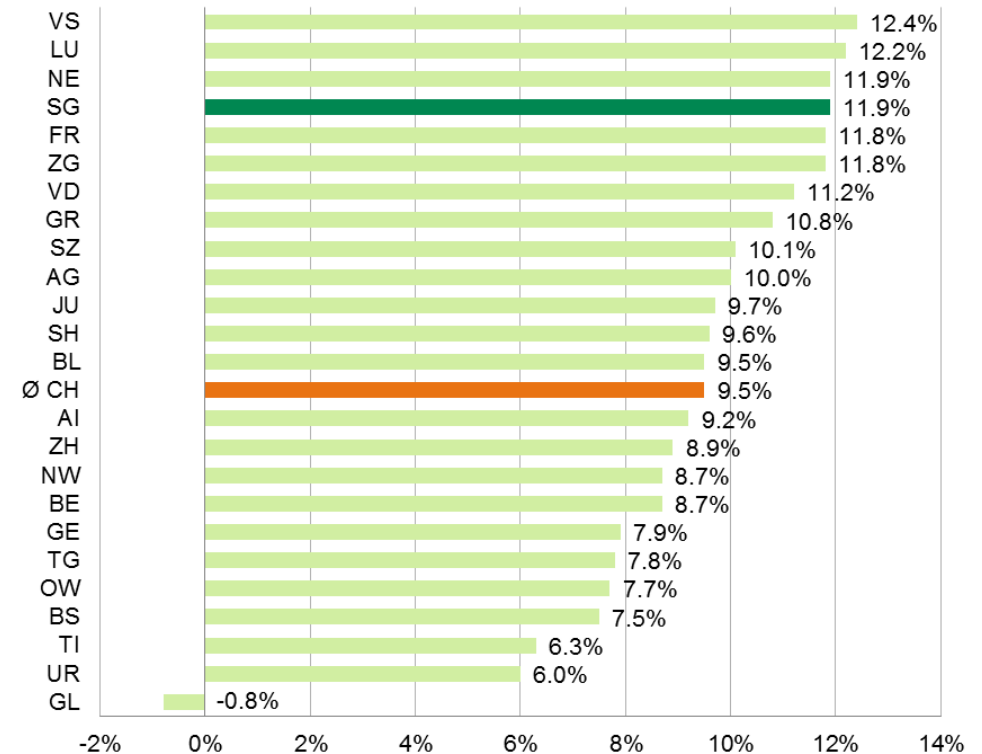
SGKB as a worthwhile investment for the Canton of St.Gallen

Profitability of the cantonal banks for the cantons based on book value, dividend and capital transactions

10 years (IRR 2002-2012)



5 years (IRR 2007 -2012)



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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