

St.Galler Kantonalbank

Strategy and half year results 2010

August 2010

Agenda

- Results 30/6/2010
 - St. Galler Kantonalbank Group
 - Private Banking
- Private Banking
 - Development in Private Banking
 - New products and intensified market development
- Credit portfolio
- Outlook

Overview 2010 HY1 (1/2)

- Strong net new assets
 - Net New Loans CHF 596.0 million (+3.2%)
 - Net New Money CHF 1'207.6 million (+2.9%)
- Extraordinary, difficult market environment
 - Negative influence on interest income (-14.1%)
 - Positive influence on net fee and commission income (+8.0%)
- Stable administrative expenses
 - On last years level (CHF 141.1 million) (+1.1%)
 - Personnel expenses CHF 0.4 million below last year
- Bottom line affected by net interest income
 - Group net profit of CHF 70.3 million 17.6% below last year

Overview 2010 HY2 (2/2)

- High quality of the credit portfolio and continuing, risk conscious policy of granting loans
- Value adjustments, provisions and losses with CHF 2.0 million on a very low level
- Strong equity base
 - Shareholders equity of CHF 1.8 bn
 - 71.8% above Basel II-requirements
- Outlook 2010 – below last year
 - Continuing demanding market environment and low interest level
 - Result 2010 below last year as expected

Operating profit reflects difficult financial environment

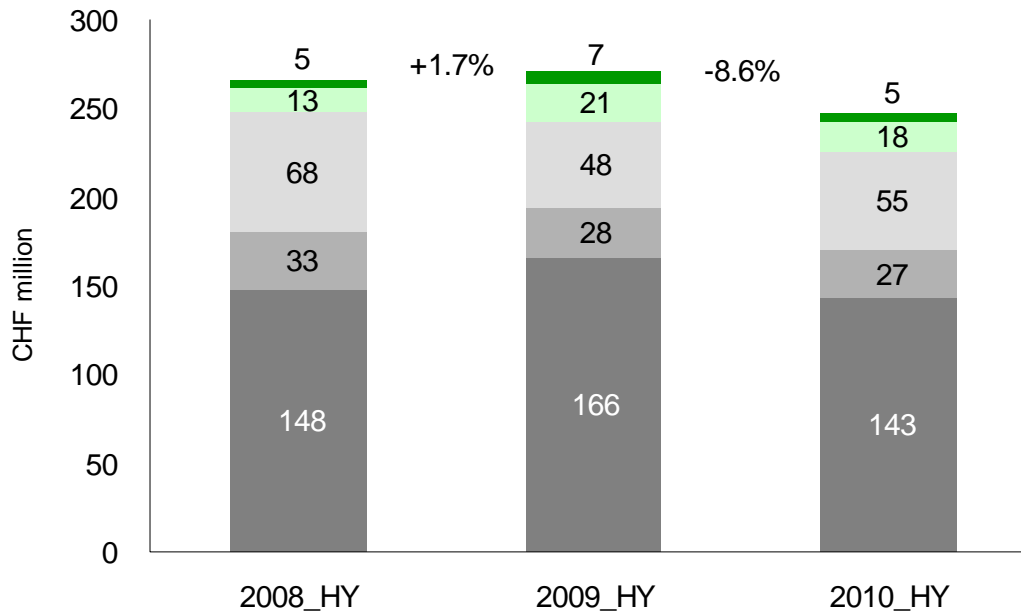
CHF million	2010_HY	△	2009_HY	△	2008_HY
Operating income	248	-8.6 %	271	1.7 %	266
Administrative expenses	-141	1.1 %	-140	-1.1 %	-141
Gross profit	106	-18.9 %	131	4.8 %	125
Depreciation	-18	-24.8 %	-23	-9.5 %	-26
Valuation adjustments, provisions and losses	-2	-79.0 %	-10	-	-1
Operating profit	87	-11.5 %	98	0.0 %	98
Extraordinary amounts, net	0	-	4	-71.9 %	13
Profit before taxes	87	-14.6 %	102	-8.2 %	111
Taxes	-17	1.1 %	-16	-22.3 %	-21
Group net profit	70	-17.6 %	85	-4.9 %	90

Income statement – Divisional accounts

CHF million	Retail- and commercial clients		Private Banking		Corporate Center		SGKB Group	
	2010 HY	2009 HY	2010 HY	2009 HY	2010 HY	2009 HY	2010 HY	2009 HY
Net interest income*	72	105	10	25	60	35	143	166
Net fee and commission income	20	18	63	60	-1	-1	82	76
Net trading income	8	6	13	12	-3	3	18	21
Net other income	0	0	0	0	5	7	5	7
Operating income	100	129	86	97	61	44	248	271
Administrative expenses	-63	-66	-61	-62	-17	-11	-141	-140
Gross profit	37	63	25	35	44	33	106	131
Operating profit	37	62	22	25	28	11	87	98
Group net profit	32	56	17	20	21	10	70	85

* Funds transfer pricing method is used – therefore results from term transformation and results from interest hedging is booked in Corporate Center

Commission income cannot compensate interest income

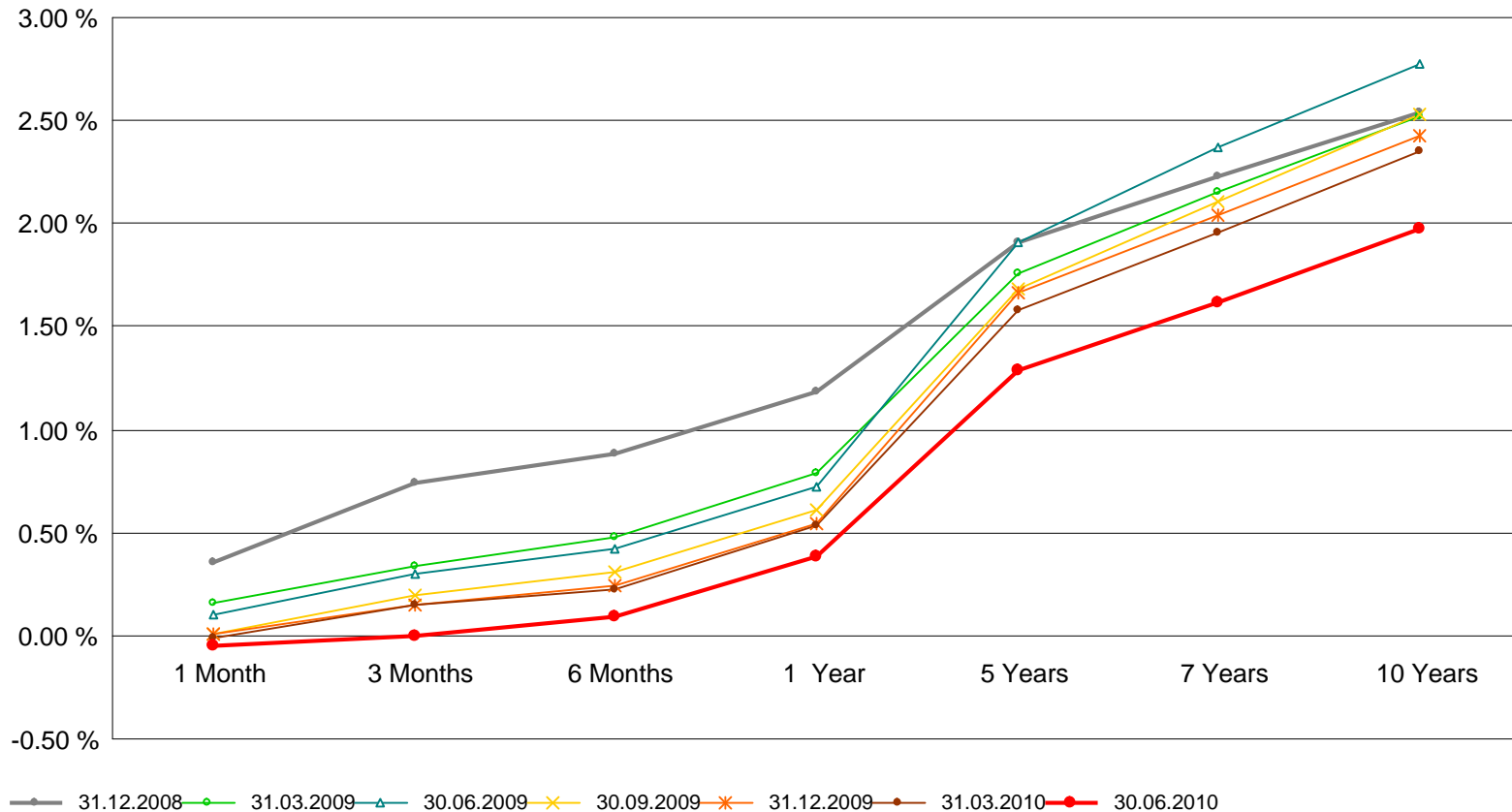


- Decreased net interest income (-14.1 %)
- Increased net fee and commission income (+8.0%)
- Lower administrative expenses (-17.5%)

- Other income
- Trading income
- Net fee and commission income - portfolio-related
- Net fee and commission income - transaction-related
- Net interest income

Interest curve

- Continuing decrease and flattening of interest curve in the last 18 months. 5Y-market rate has decreased by 62 bp within the one-year period.



Prior period comparison in interest income

Total net interest income compared to last year:	-23.4 million
Balance-Sheet Transactions:	-10.1 million
Interest rate hedge:	-13.3 million

Effect of assets*

Due from banks	- 600 Mio.	Client Funds	+ 1'100 Mio.
Loans to clients	+ 700 Mio.	Debt/loans	- 500 Mio.
Financial investm.	+ 500 Mio.		

Growth ~ 0.5 billion

Assets: +12.9 million
Liabilities: +5.2 million

Total: +18.1 million

Effect of price

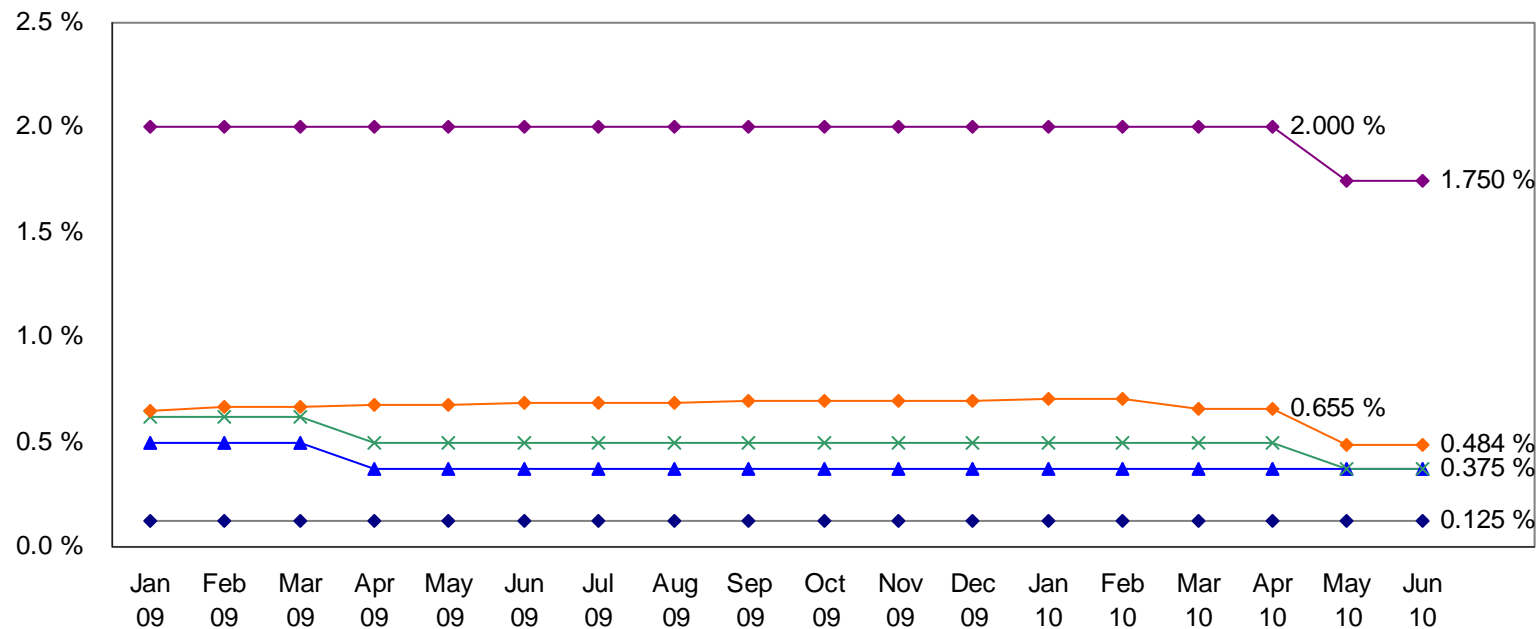
Due from banks	-0.74 %	Client Funds	-0.19 %
Loans to clients	-0.33 %	- Saving and deposits	0.0 %
Financial Investments	-0.38 %	- Due to clients	-0.37 %
		Debt/loans	0.0 %

Assets: -43.9 million
Liabilities: +15.7 million

Total: -28.2 million

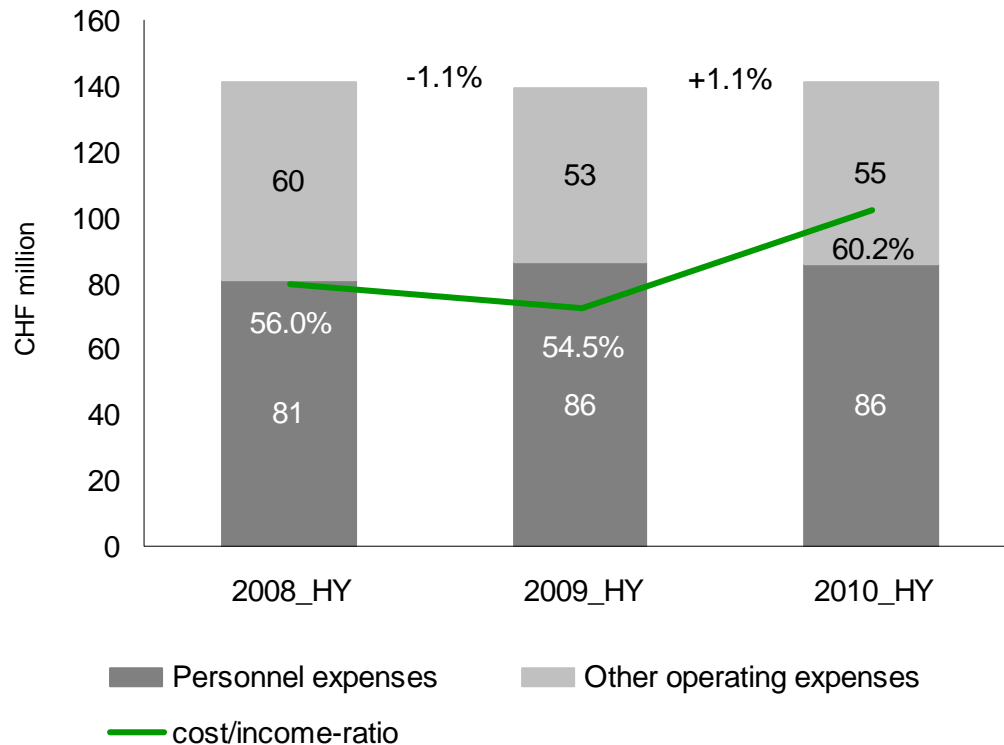
Client interest rates

- Last decrease of client interest rates in May (products „Sparen 3“, „Unica“ and savings account for elderly people)



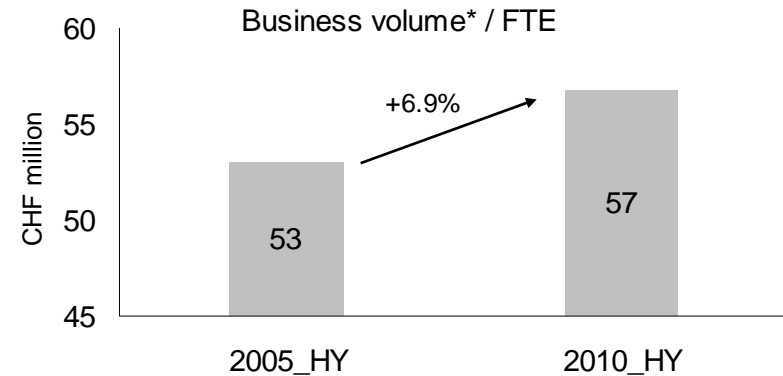
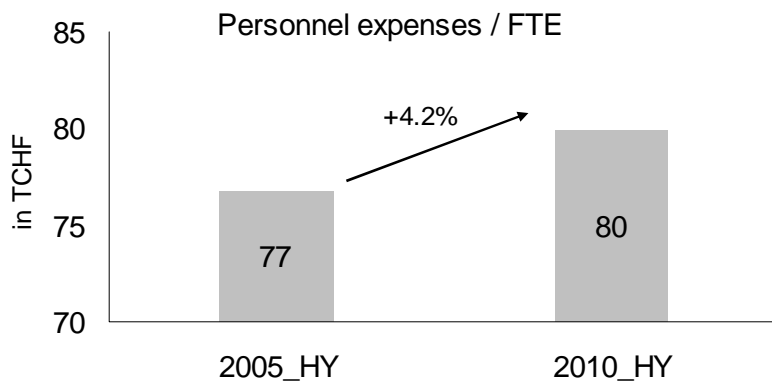
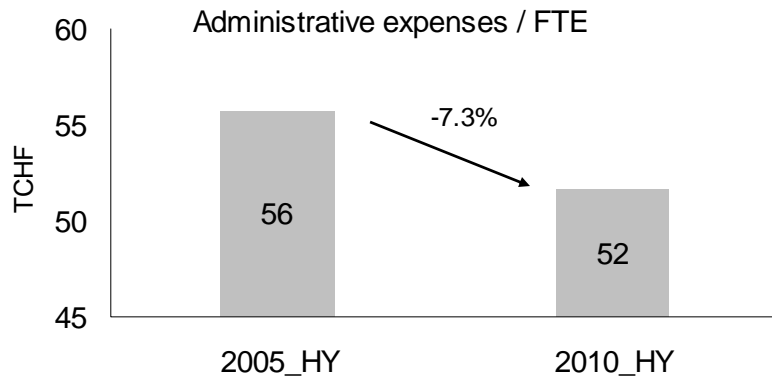
- ◆ Private account / Private account for elderly persons
- ◆ Savings account for elderly persons
- ◆ Savings account for SGKB investors ("Unica")
- ▲ Savings account
- ◆ Savings account for private provision ("Sparen 3")

Administrative expenses – Costs under control



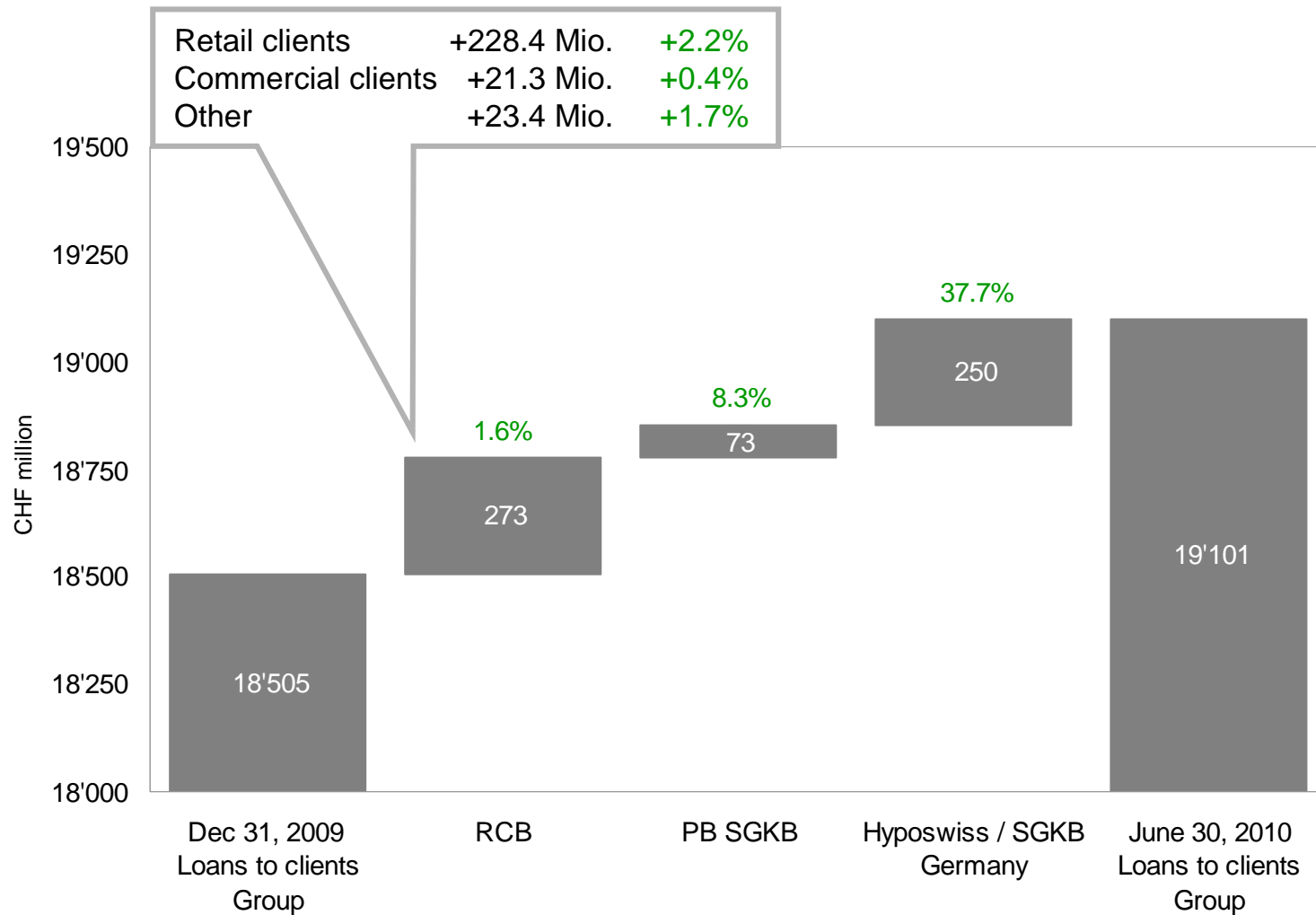
- Administrative expenses on last years level
- Measures have been taken to save on projects and ordinary administrative expenses
- Decrease of earnings in first semester put pressure on cost / income-ratio

Increase of productivity

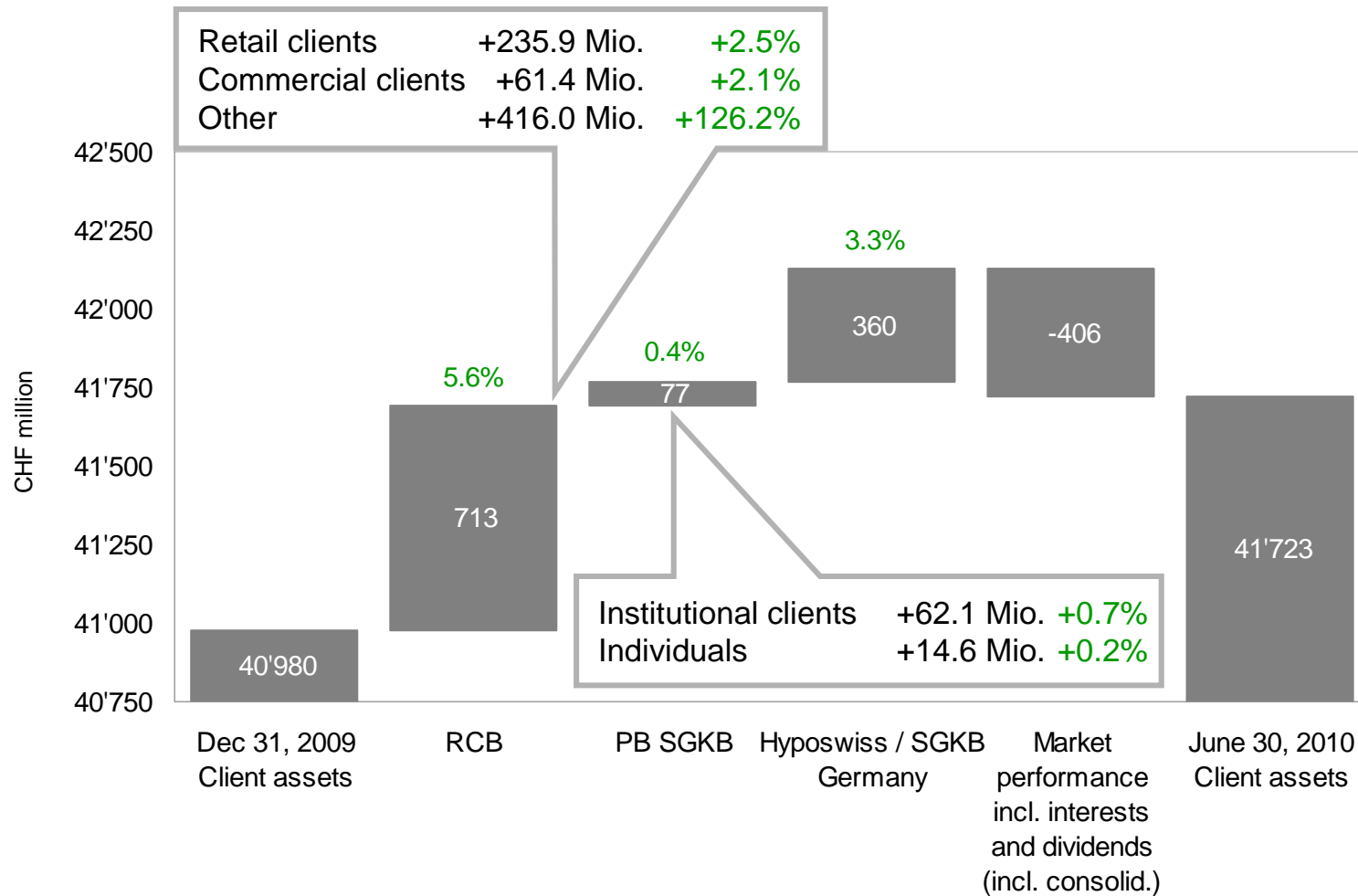


- Remarkable decrease of administrative expenses / FTE
- Moderate increase of personnel expenses reflected particularly by inflation
- **Business volume / FTE increased by 7%**

Strong growth in loans to clients



Client assets – New record level



NNM Group CHF 1208 million = RCB + PB SGKB + Hyposwiss + SGKB Germany + consolidation effect (CHF +57 million)

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Private Banking (PB) SGKB group: Overview

- Strong Net New Money in Private Banking
- Net fee and commission income: + 6.6%
- Result influenced by market environment
- Successful market entry of subsidiary in Munich
- Optimization of cost structure in Hyposwiss

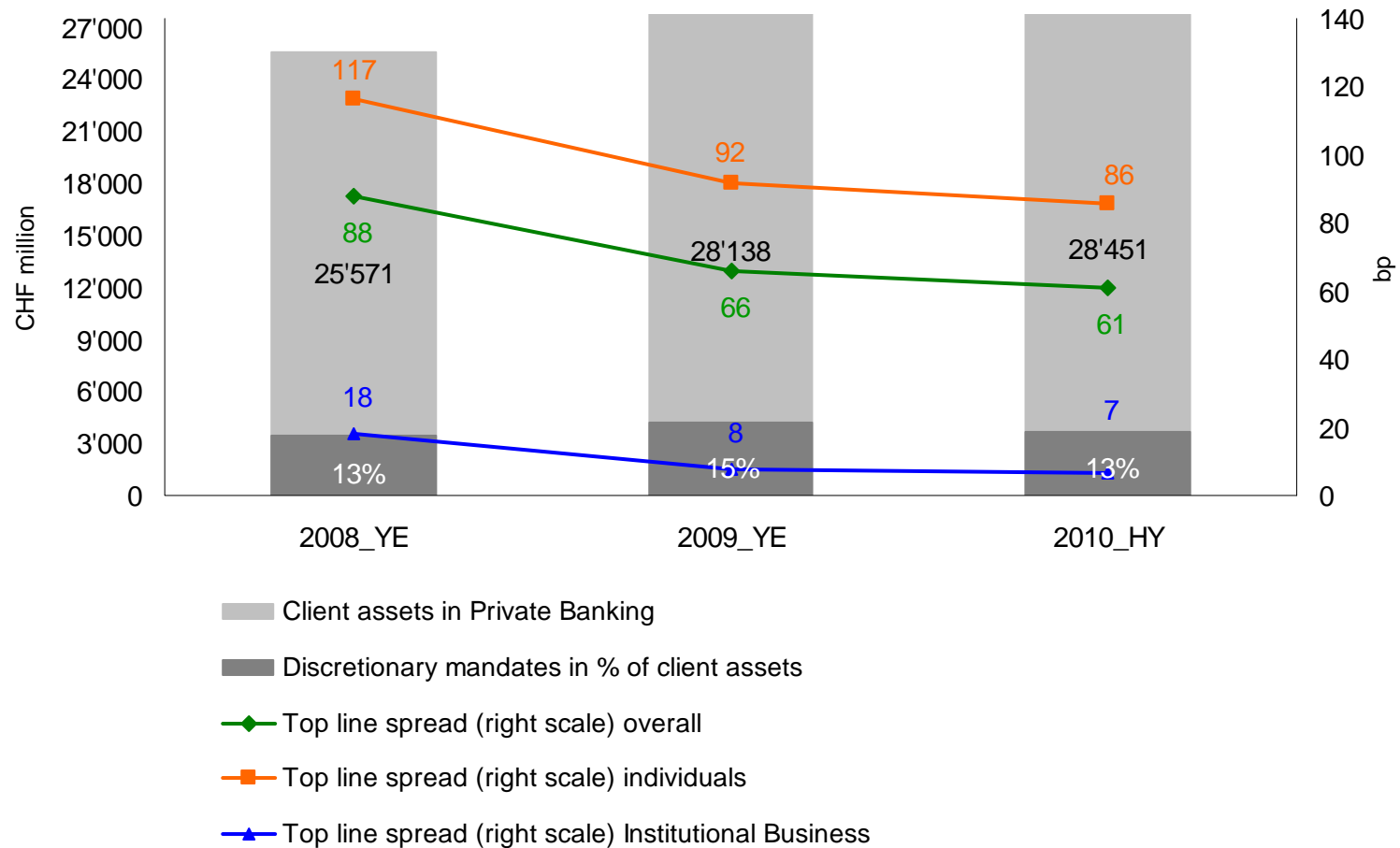
Private Banking (PB) SGKB Group: Results

CHF million	2010_HY	△	2009_HY	△	2008_HY
Operating income	86	-11.4 %	97	-16.8 %	117
Administrative expenses	-61	-2.3 %	-62	25.1 %	-50
Gross profit	25	-27.6 %	35	-47.8 %	67
Depreciation	-1	0.9 %	-1	72.2 %	-1
Val. adjust., prov. and losses	-2	-81.2 %	-9	-	-1
Operating profit	22	-10.7 %	25	-62.0 %	66
Group net profit	17	-12.4 %	20	-64.5 %	56
Top line spread (bp)	61	-	74	-	89
Institutional clients (bp)	7	-	11	-	22
Private clients (bp)	86	-	102	-	117
Cost/Income-Ratio	71.8 %	-	65.1 %	-	43.2 %

PB SGKB Group: Positive condition for growth

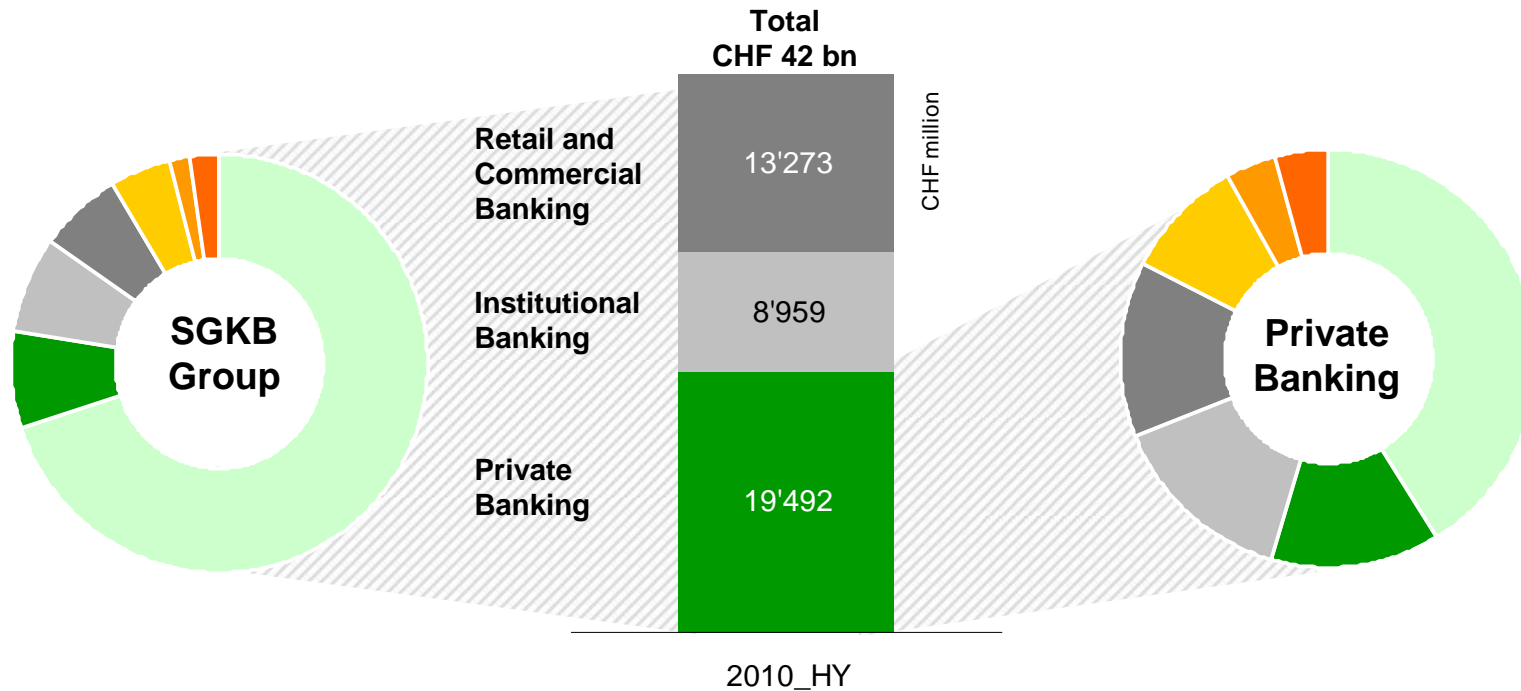
CHF million	2010_HY	△	2009_YE	△	2008_YE
Client assets	28'451	1.1 %	28'138	10.0 %	25'571
Employees (Headcount)	354	-1.8 %	361	6.3 %	339
- of which CRMs	105	-3.7 %	109	21.1 %	90
CHF million	2010_HY	△	2009_HY	△	2008_HY
NNM (ytd)	494	37.4 %	360	-74.5 %	1'409

PB SGKB Group: Top Line Spread



Top line spread = Operating Income / average client assets

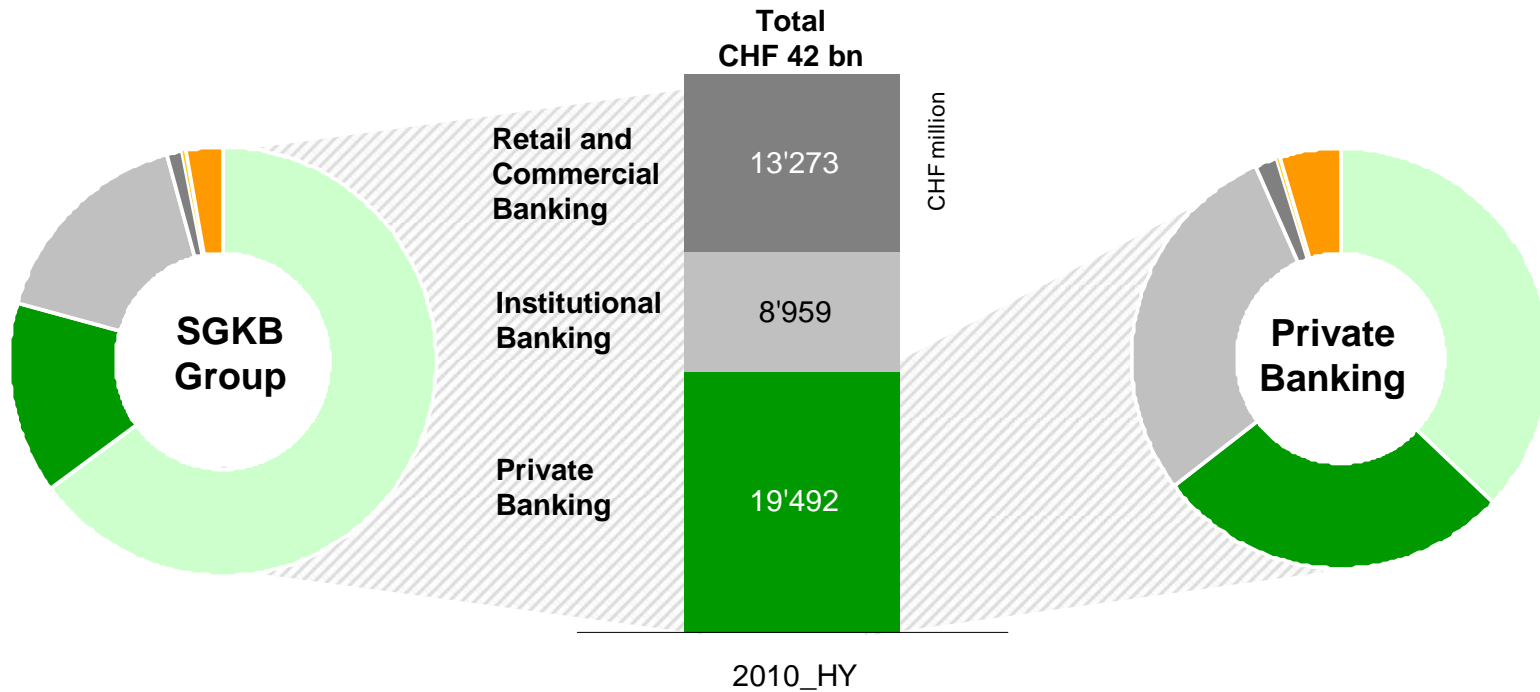
Client assets: Origin



Switzerland	70.2%
Germany	7.5%
Other Western Europe	7.4%
Eastern Europe	6.5%
Middle- and South America	4.5%
North America	1.8%
Others	2.1%

Switzerland	41.4%
Germany	13.1%
Other Western Europe	14.3%
Eastern Europe	13.8%
Middle- and South America	9.5%
North America	3.7%
Others	4.2%

Client assets: Currency Mix



CHF	65.0 %
USD	14.4 %
EUR	16.5 %
GBP	1.1 %
JPY	0.2 %
Others	2.8 %

CHF	36.9 %
USD	27.9 %
EUR	28.4 %
GBP	1.9 %
JPY	0.2 %
Others	4.7 %

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SGKB group: Focus of Private Banking strategy



HYPOSWISS
PRIVATE BANK

Location

Saint-Gall, Munich

Zurich, Geneva, Lisbon

Strategic focus

- Cognition as leading bank for investment advice in the home market
- Establishment of a subsidiary and market access in Germany
- Expansion / Repositioning of business with institutional investors
- Establishment of Key Client Desks (SME exponents, etc.)
- Systematic cooperation with RCC

- Private Banking specialist within SGKB group
- State-of-the-art Investment Management for SGKB group
- Focus on growth in offshore core markets
- Expansion of onshore business in Switzerland (via Hyposwiss Zurich and Geneva)

Markets

- Cantons of Saint-Gall and Appenzell Ausserrhoden
- Germany

- Offshore: focus on Eastern Europe/GUS und Latin America
- Onshore Switzerland

„Back to the roots“ in Private Banking

	Before financial crisis	After financial crisis
Products	Complex = smart	Simple, customer-friendly solutions
Incentive systems	Dissimilar allocation of risks between CRM and bank	Long term oriented compensation models
Pricing	„Jungle of fees in banks“ (NZZ, June 2010)	Transparent fee structures
Attitude of market participants	Performance	„Peace of mind“
Trust	„Big is beautiful“	Credibility is complex and has to be maintained in the long run
Relationship Customer - CRM	Transaction oriented	Quality of advisory service, relationship of trust

PB SGKB Group: Policy and positioning

- Customer-oriented model of advice
 - Long-term oriented service by same CRM
 - Minimal segmentation
- Business policy
 - „Open architecture“
 - No „Product-Pushing“
- Fundamentally new line-up of mandates in asset management
- Simple pricing model

Agenda

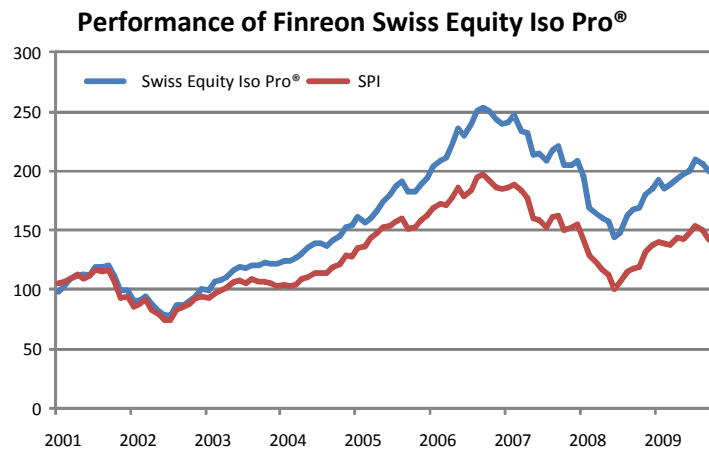
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Private Banking: New products

- Total revision of mandates in asset management
- Launch of retail mandate „Futura“; asset accumulation from CHF 25'000.-
- Partnership with enterprises from the environment of University of St. Gallen
 - Asset Liability Management for pension funds (c-alm AG)
 - Institutional mandate Swiss Equity Iso Pro Mandate (Finreon AG)

Institutional mandate: Finreon Swiss Equity Iso Pro

- „Swiss“: 75 largest shares of Swiss stock market
- „Iso“: balanced shares
- „Pro“: Quantitative optimization with inclusion of minimum variance portfolios
- maximum weighting of share: 5%
- Investment Advisor: Finreon AG / Investment Manager: St.Galler Kantonalbank



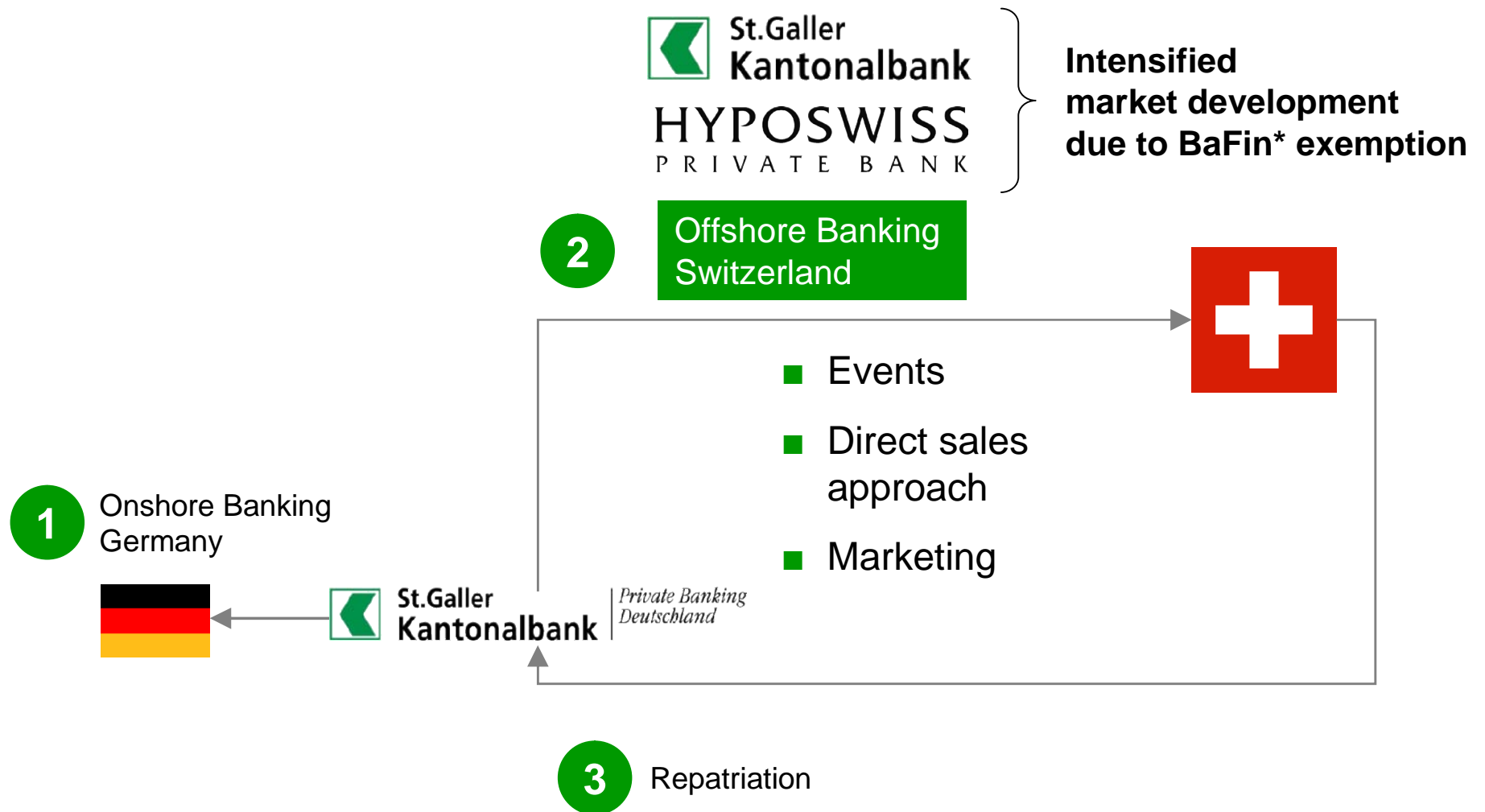
Historic performance data*

	SEIP®	SPI
October 2001 - June 2010		
Return (p.a.)	8.3%	3.3% (+5.1%)
Volatility (p.a.)	14.6%	15.3%
Return/Risk	0.57	0.21
Tracking Error (for SPI)	6.1%	-
Last 3 years		
Return (p.a.)	-7.6%	-10.3% (+2.8%)
Volatility (p.a.)	16.1%	17.1%

*Backtesting: January 1998 - December 2009
Real data: January 2010 - June 2010

2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Swiss Equity Iso Pro®	1.7%	1.2%	5.3%	-1.7%	-2.8%	-1.5%							2.0%
SPI	-1.0%	3.5%	4.2%	-2.6%	-4.9%	-2.8%							-3.9%
Relative Performance (net)	2.7%	-2.3%	1.0%	0.8%	2.1%	1.3%							5.9%

Market development of Germany – Exemption

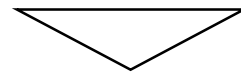
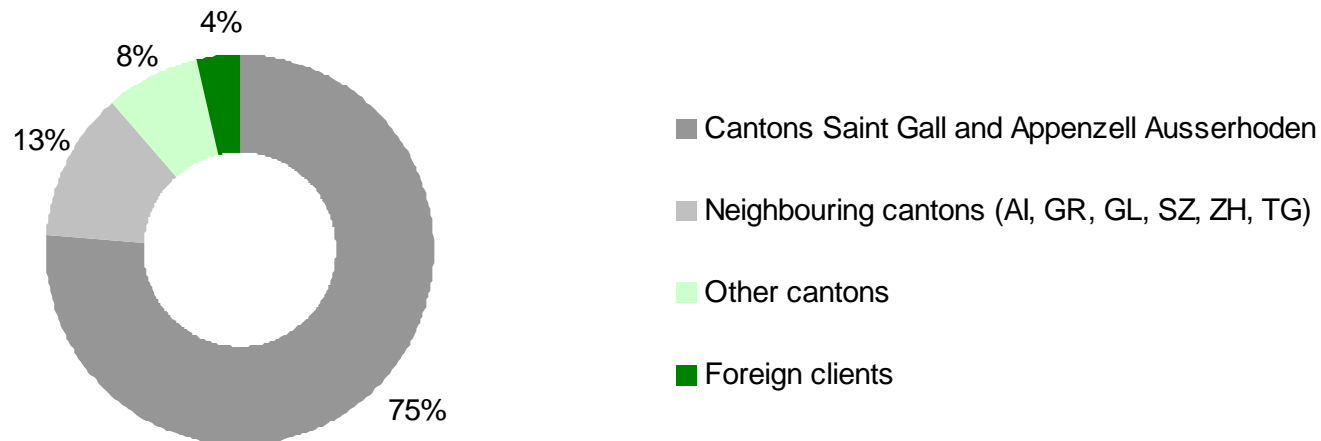


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Credit portfolio – Focus on home market

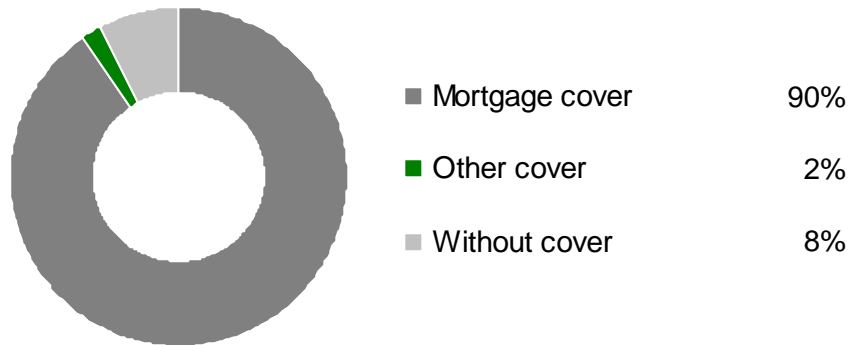
Loans to clients Total CHF 18.2 bn



Focus on business activity in the
cantons of Saint-Gall and Appenzell Ausserrhoden

Credit risk management – Solid collateralisation

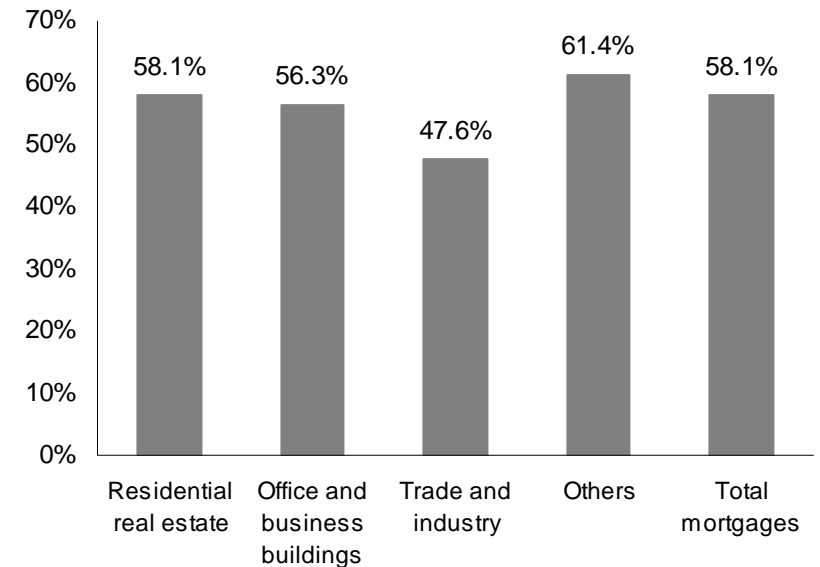
Collateral character of loans to clients (Total CHF 18.2 bn)



Collateral of mortgage loans (Total CHF 16.0 bn)

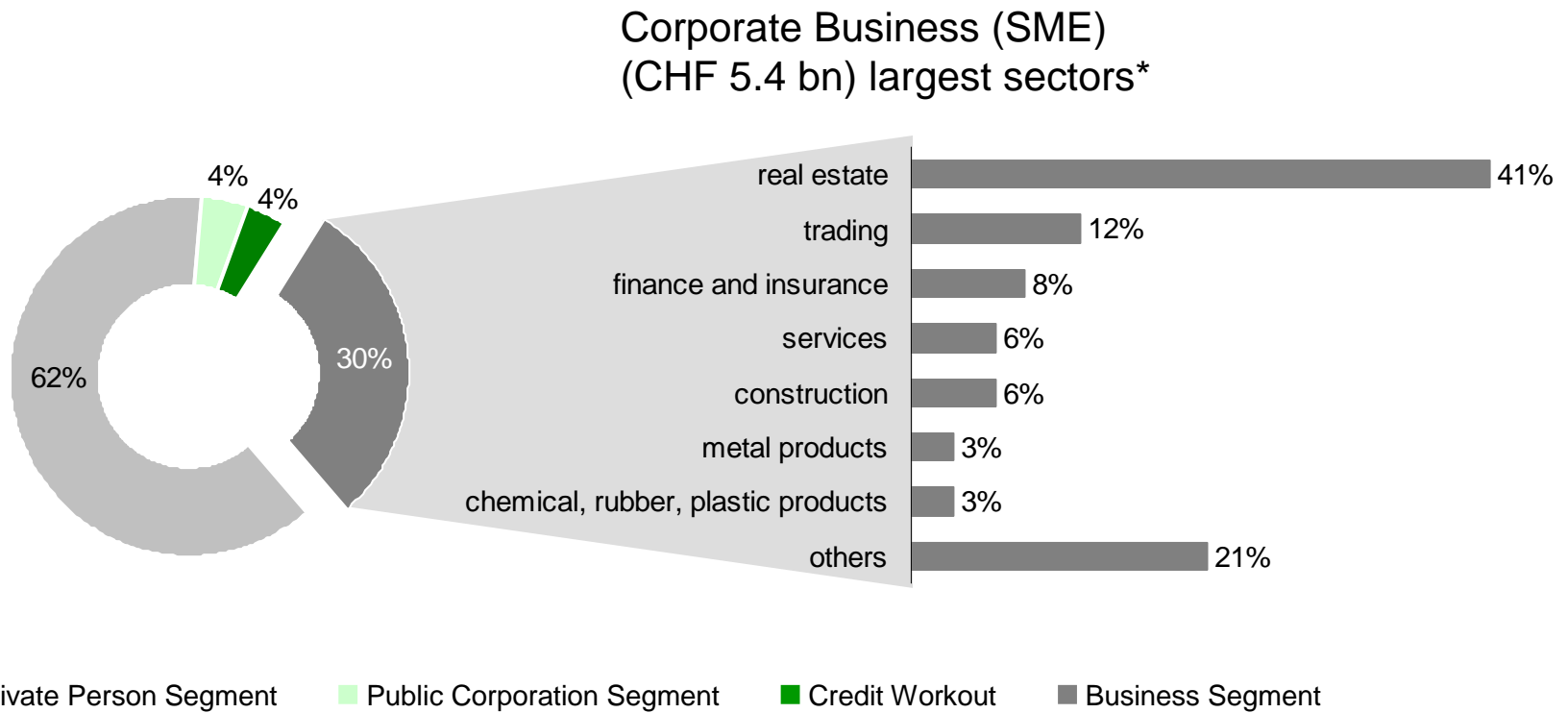


Loan-to-value ratios



Broad diversification (1/2) – Credit portfolio

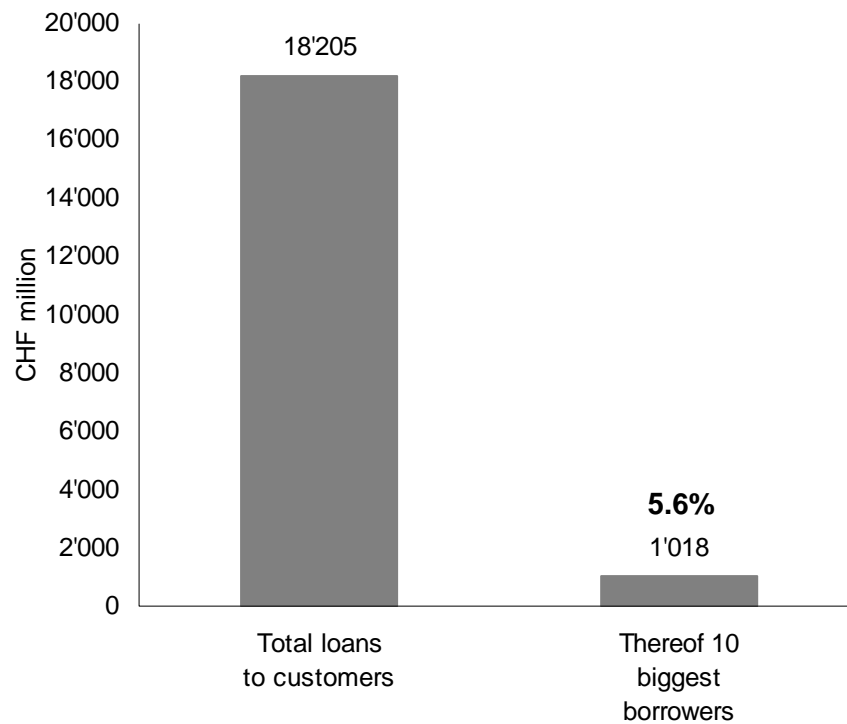
Loans to clients (Total CHF 18.2 bn)



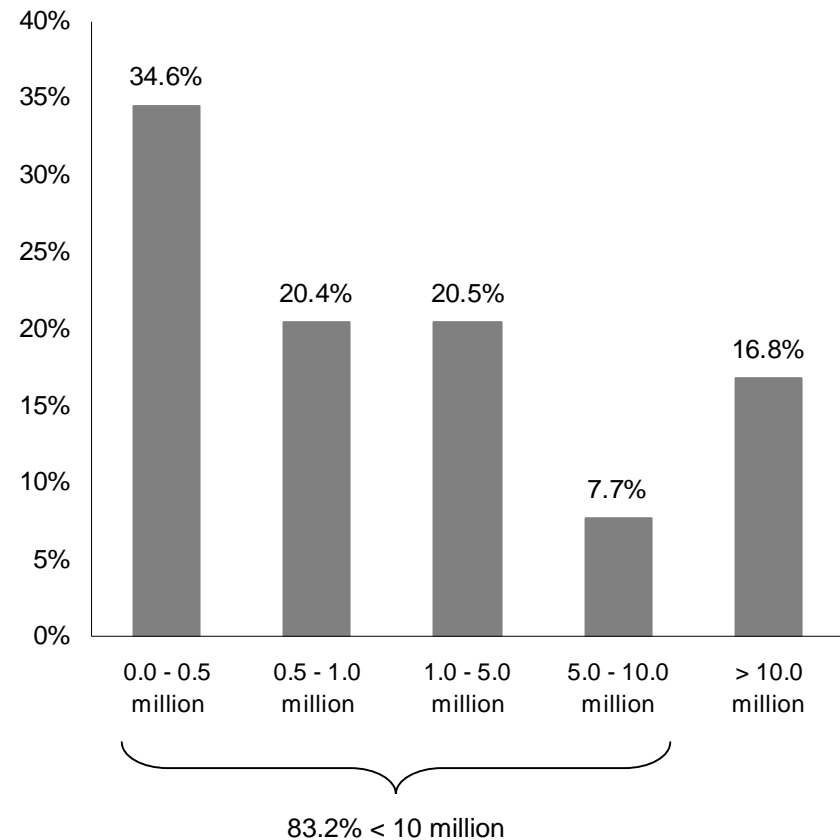
* Categorization according to NOGA codes

Broad diversification (2/2) – No risk concentration

Share of 10 largest borrowers

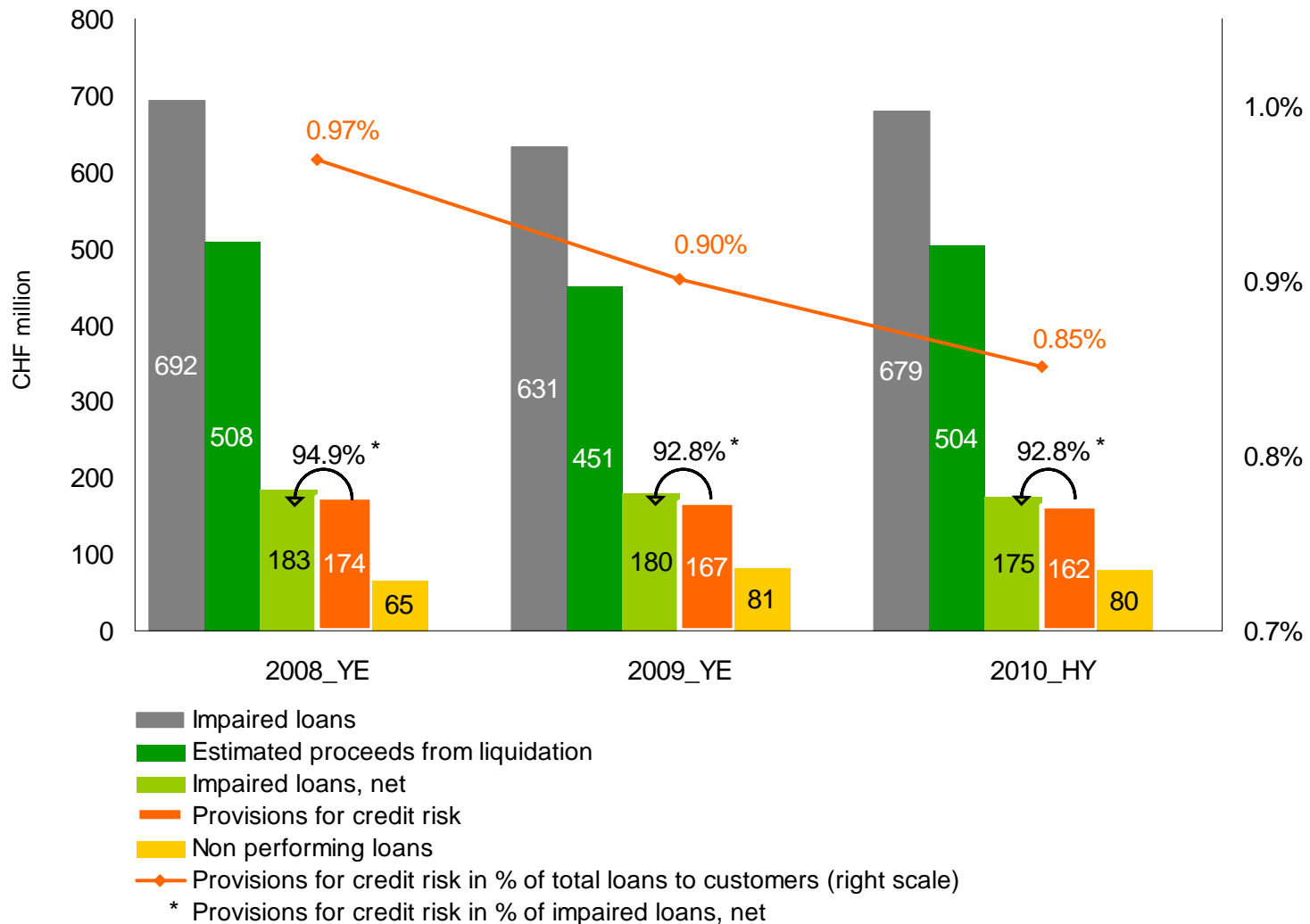


Distribution of credit portfolio by size



* Limits without public corporation segment

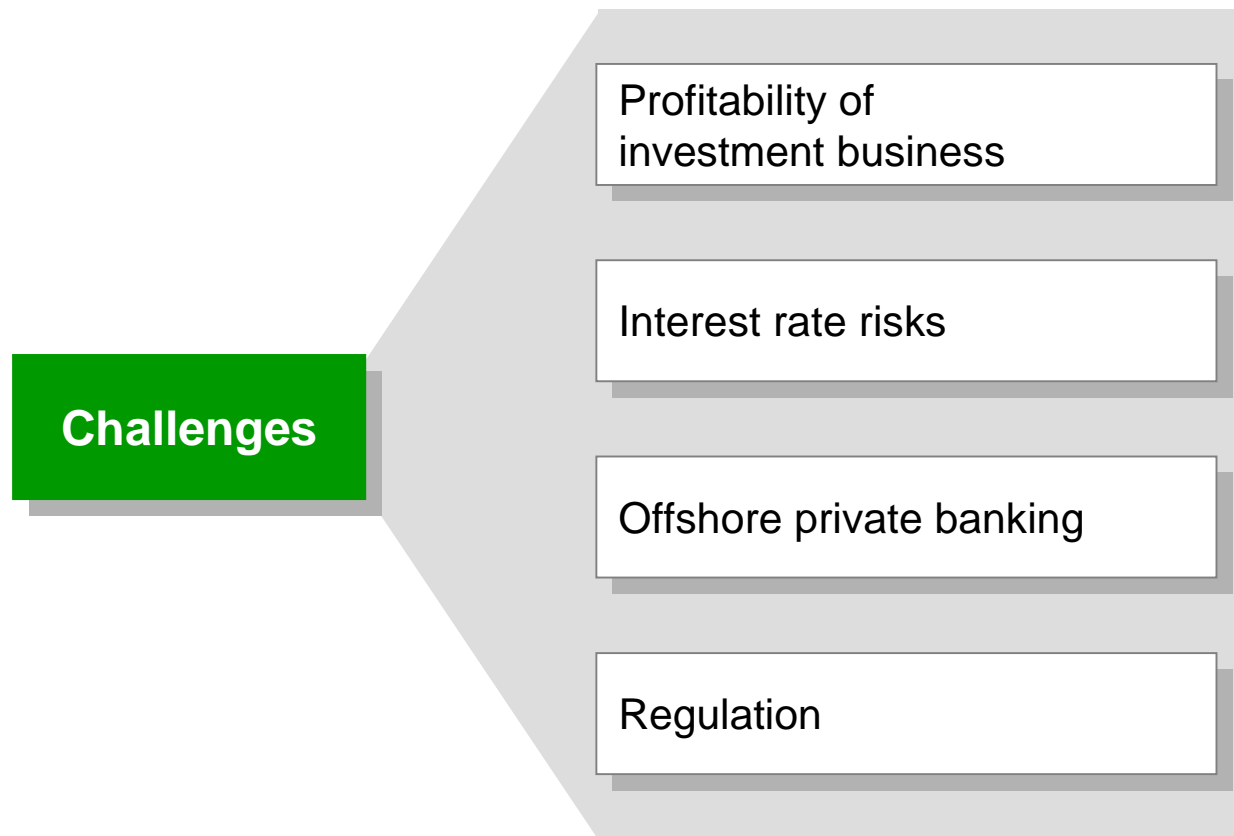
Credit risk management – Steady development



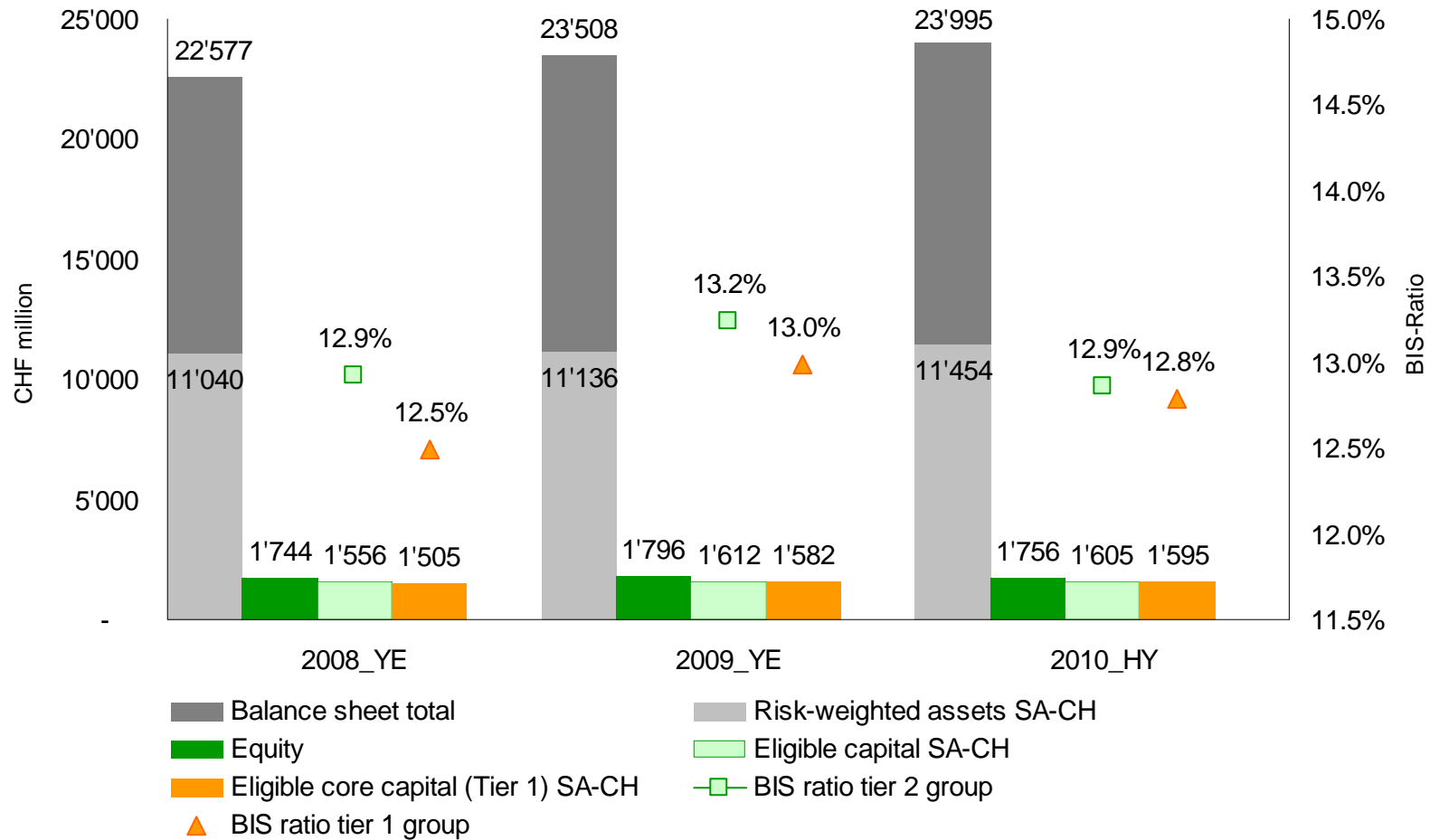
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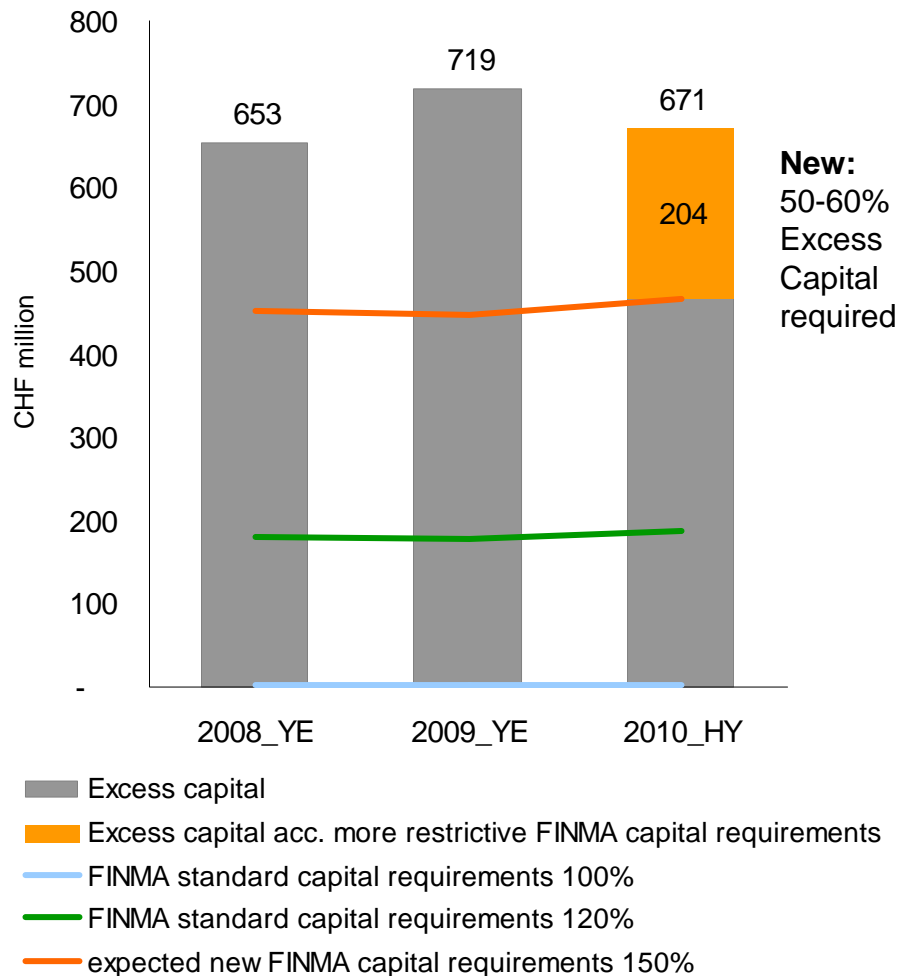
Strategic challenges



Strong equity base



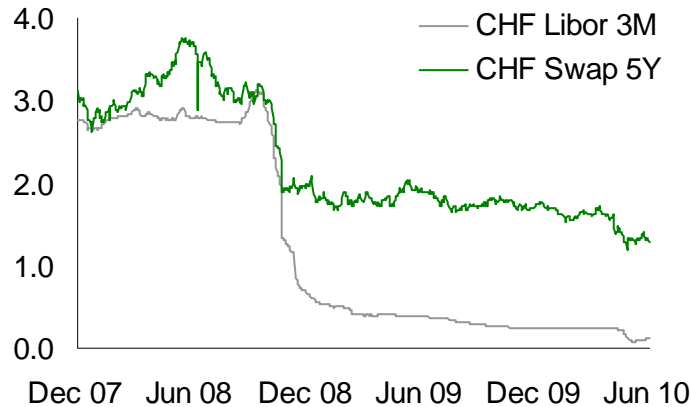
New FINMA* Capital Requirements



- According to the discussion paper of the FINMA* the SGKB will be allocated in future in the category with 50-60% excess capital requirements (Excess above 1st pillar acc. Basle II)
- Bank-individual excess capital is set by FINMA
- The SGKB can fully comply with the expected accentuation of capital requirements of FINMA (from +20% to +50 - 60% excess capital)

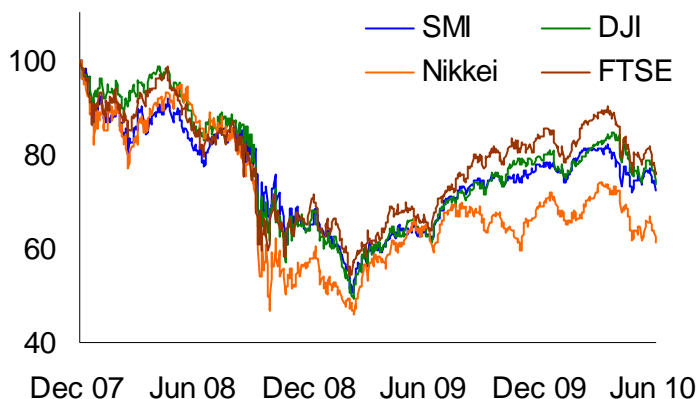
Market environment confirms policy

Interests



- Expected increase of interest rates cycle at the end of 2010
- Interest rate hedge conducted
- ➔ short-term reduction in interest income

Stock market



- Strong currency fluctuation and monetary influence on client assets
- Normalization of the investment behaviour not yet happened (activities, product mix)
- ➔ Increase of fee and commission income, further recovery-potential

SGKB Group – Financial targets

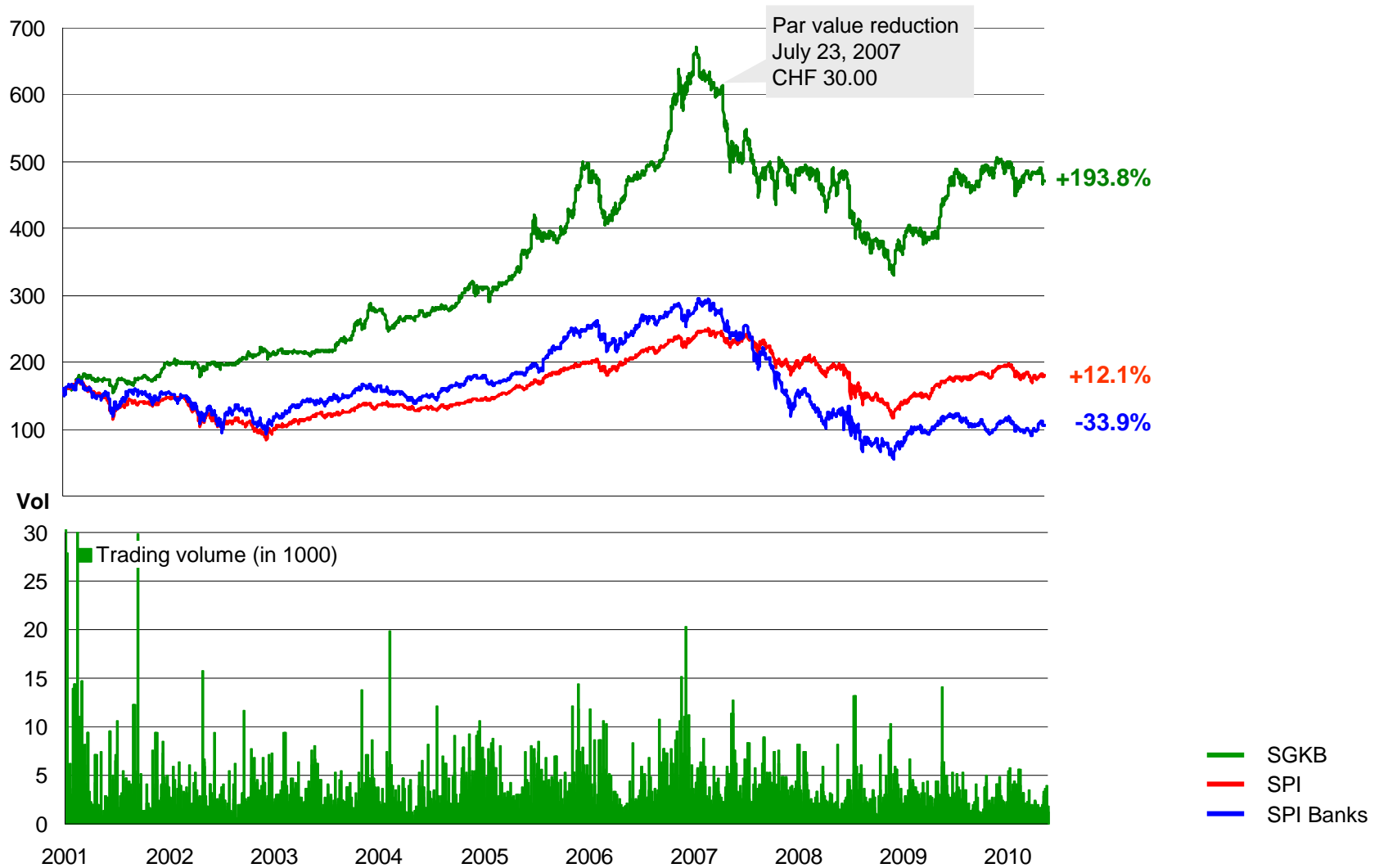
Growth of loans to clients	3%
Growth of client assets* (Net New Money)	5%
Cost/Income-Ratio	50%
Return on Equity (RoE) before taxes	15%

* Client assets = AuM and customer funds without double counting

Outlook 2010: Results below last year

- Continuing demanding market environment
- Precise forecast depends on various factors
 - Time and extent of increase of interest rates
 - Regain of investors' trust in markets
 - Downsizing of high liquidity
 - Increase of transaction-oriented volumes
 - Lower value adjustments expected

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.

Contact

St. Galler Kantonalbank
St. Leonhardstrasse 25
9001 St. Gallen
Switzerland
www.sgkb.ch

Investor Relations:
Dr. Cornelia Gut-Villa
cornelia.gut@sgkb.ch
Tel. +41 (0)71 231 36 92