

St.Galler Kantonalbank

Year End Results December 31, 2015

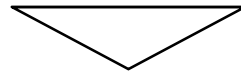
February 17, 2016

Agenda

- **Key factors financial year 2015**
- Results per December 31, 2015
- Strategic transformation
- Subsidiary SGKB Deutschland (Germany)
- Initiatives for the future
- Outlook 2016

Key factors in 2015

- Shaping influence of strong Swiss franc and negative interest rates
- Strategic transformation completed
- Vadian Bank successfully integrated
- Good development of subsidiary SGKB Deutschland (Germany)
- DOJ Swiss Bank Program completed for all company units



Group net profit 8.8% below previous year

Good operational result

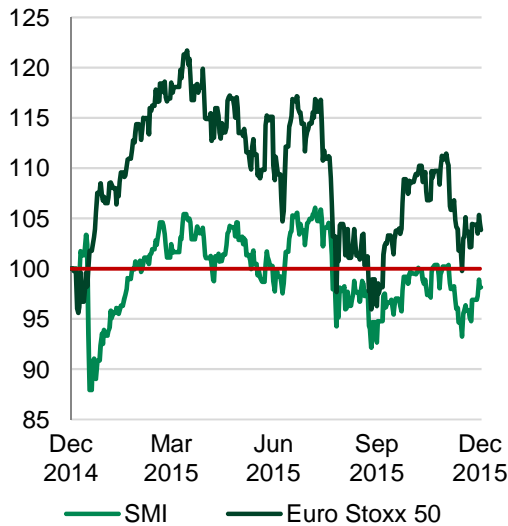
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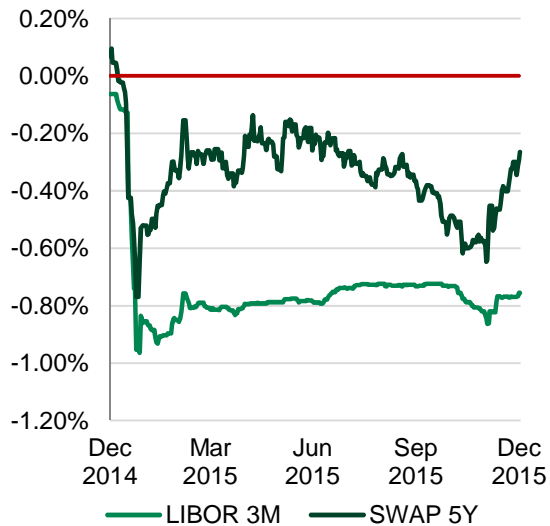
Market environment 2015: Affected by SNB decision

Market performance 2015

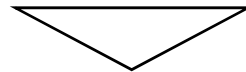
indexed 31.12.2014



Interest rates 2015



Exchange rates 2015



Swiss economy in 2015

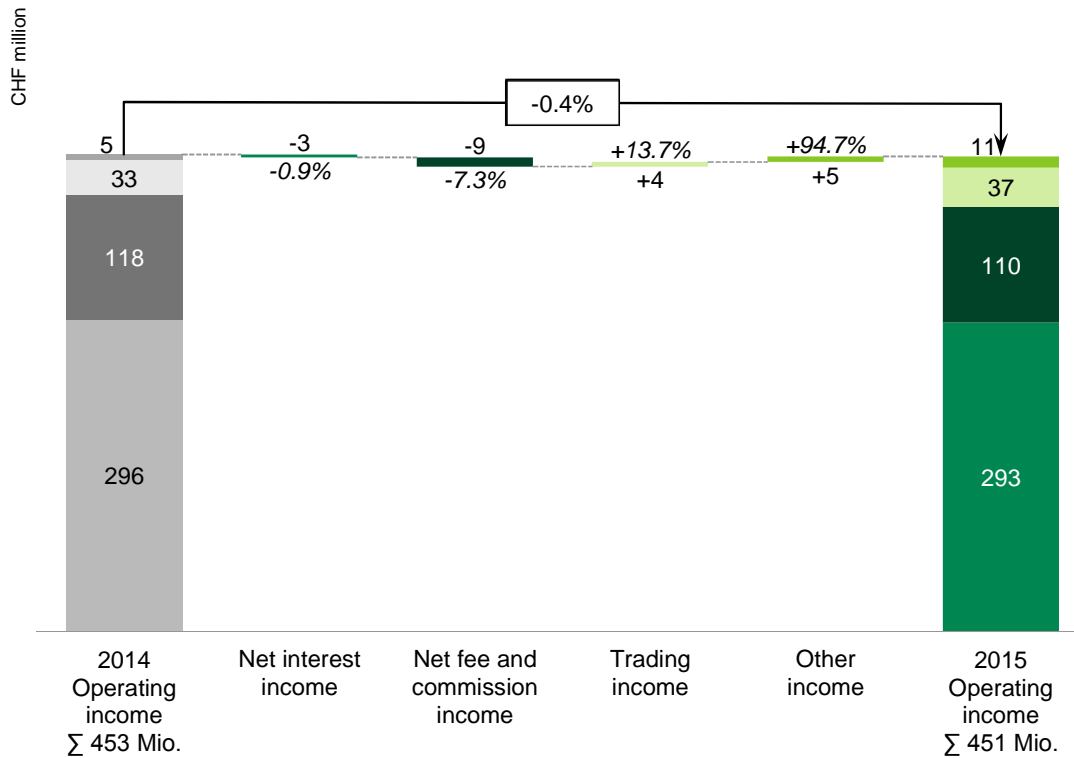
- GDP growth 0.8%
- Unemployment rate 3.3%
- Inflation -1.1%

Estimate seco 17.12.2015

Operating income on last year's level despite difficult market environment

(CHF million)	2014	2015	Delta in %
Operating income	453	451	-0.4
Operating expenses	-255	-258	+1.3
Gross profit	198	193	-2.6
Depreciation on fixed assets and goodwill	-13	-16	
Other Valuation adjustments, provisions & losses	-7	-35	
Operating result	178	142	-20.4
Extraordinary amounts, net	1	18	
Group profit before taxes	179	160	
Taxes	-32	-26	
Group net profit	146	133	-8.8

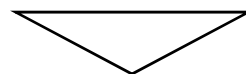
Operating income: compensating effect of trading activities



- Influence of SNB decision
 - Pressure on interest margin (no negative interest rates on traditional savings and private accounts)
 - Significantly higher interest expenses for hedging business
 - Lively foreign exchange business
- Higher hedging costs, mostly compensated by growth and adjustment of client rates
- Lower asset base due to adjustment of strategy and implementation of foreign clients tax compliance – last year's reduction now completely effective
- Proceeds from sale of Swisscanto shares in extraordinary income

Analysis of interest operations

Material volume effects				Material price effects			
Due from banks	-290 million	Due to banks	+70 million	Due from banks	+1.30%	Due to banks	+0.26%
Loans to clients	+860 million	Client funds	+850 million	Loans to clients	-0.11%	Client funds	+0.13%
Financial investments	+525 million	Bond issues*	+1'240 million	Financial investments	-0.34%	Bond issues*	+0.32%
↓				↓			
contribution	+33.3 million	contribution	-10.4 million	contribution	-36.5 million	contribution	+34.7 million
Volume effect		+23.1 million		Price effect		-1.9 million	



Δ Balance sheet	+21.2 million
Δ Interest hedging costs, changes in value adjustments for default risks	-23.9 million
Δ Net interest income compared to last year	-2.7 million

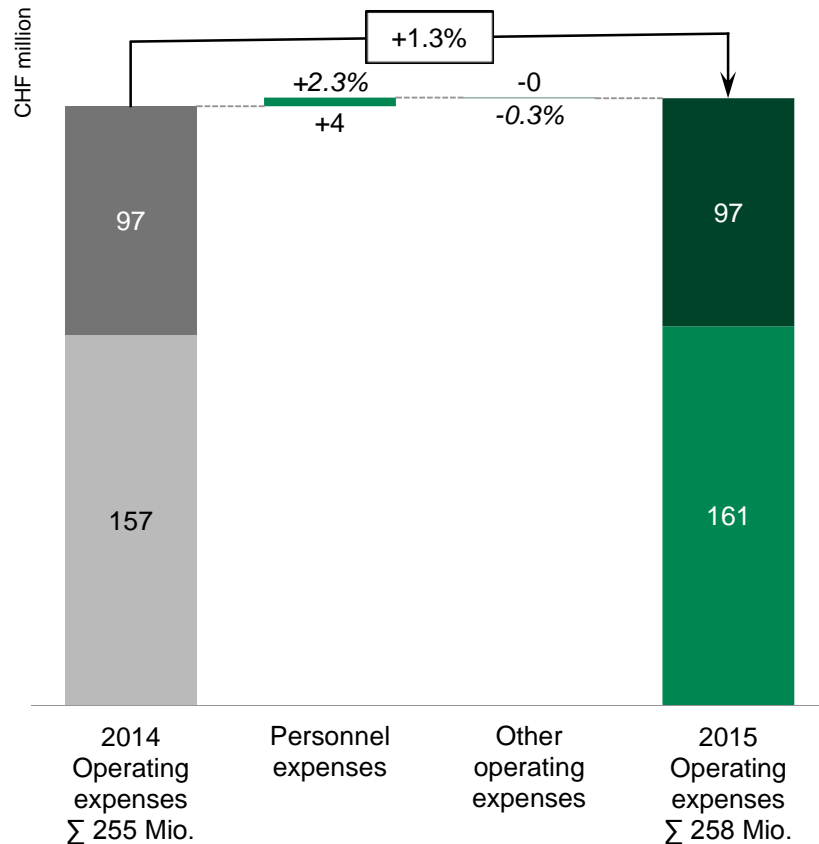
Based on average volumes

* incl. Central mortgage institution loans

Interest hedging costs

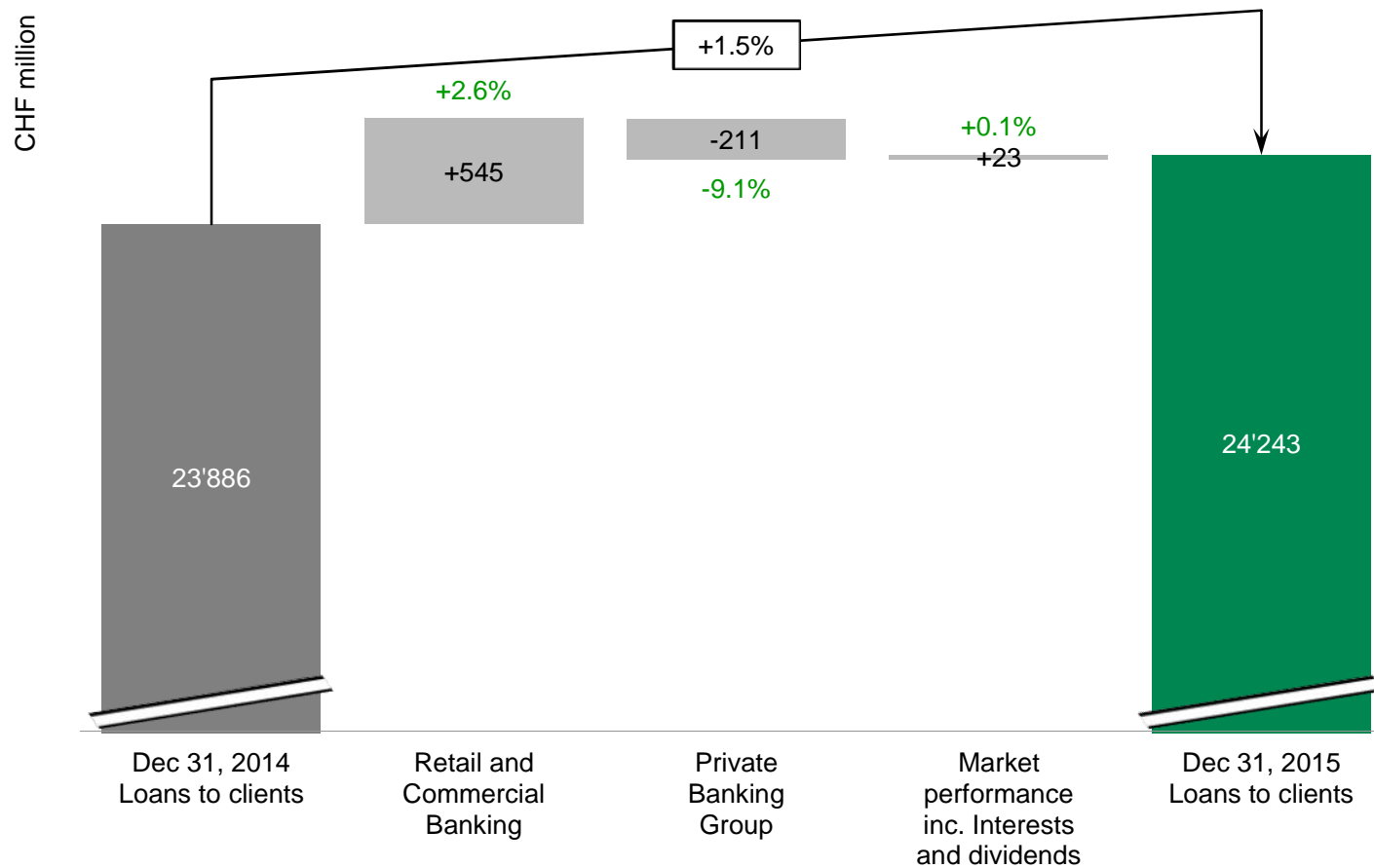
Ø Volume Swaps hedging	Ø Carry	Income (expenses)
Payer CHF 10.4 billion	-0.86 %	CHF -90.3 million
Receiver CHF 3.6 billion	2.27 %	CHF 80.7 million
Unwindings / swaption premiums / other		CHF -5.1 million
<i>Result from interest hedging 2015 (parent company)</i>		<i>CHF -14.7 million</i>
<i>Result from interest hedging 2015 (Vadian Bank)</i>		<i>CHF -0.8 million</i>
Result from interest hedging 2015 (group)		CHF -15.5 million
<i>Total result from interest hedging 2014</i>		<i>CHF +9.4 million</i>
<i>change to previous year</i>		<i>CHF -24.9 million</i>

Operating expenses: contribution to pension fund



- high cost awareness
- general and administrative expenses
 - on previous year's level – despite expenditures for integration of Vadian Bank and Swiss Bank Program of DOJ
- personnel expenses
 - contribution to pension fund 5 million
- cost/income ratio
 - group 60.1%
 - parent company 57.2%

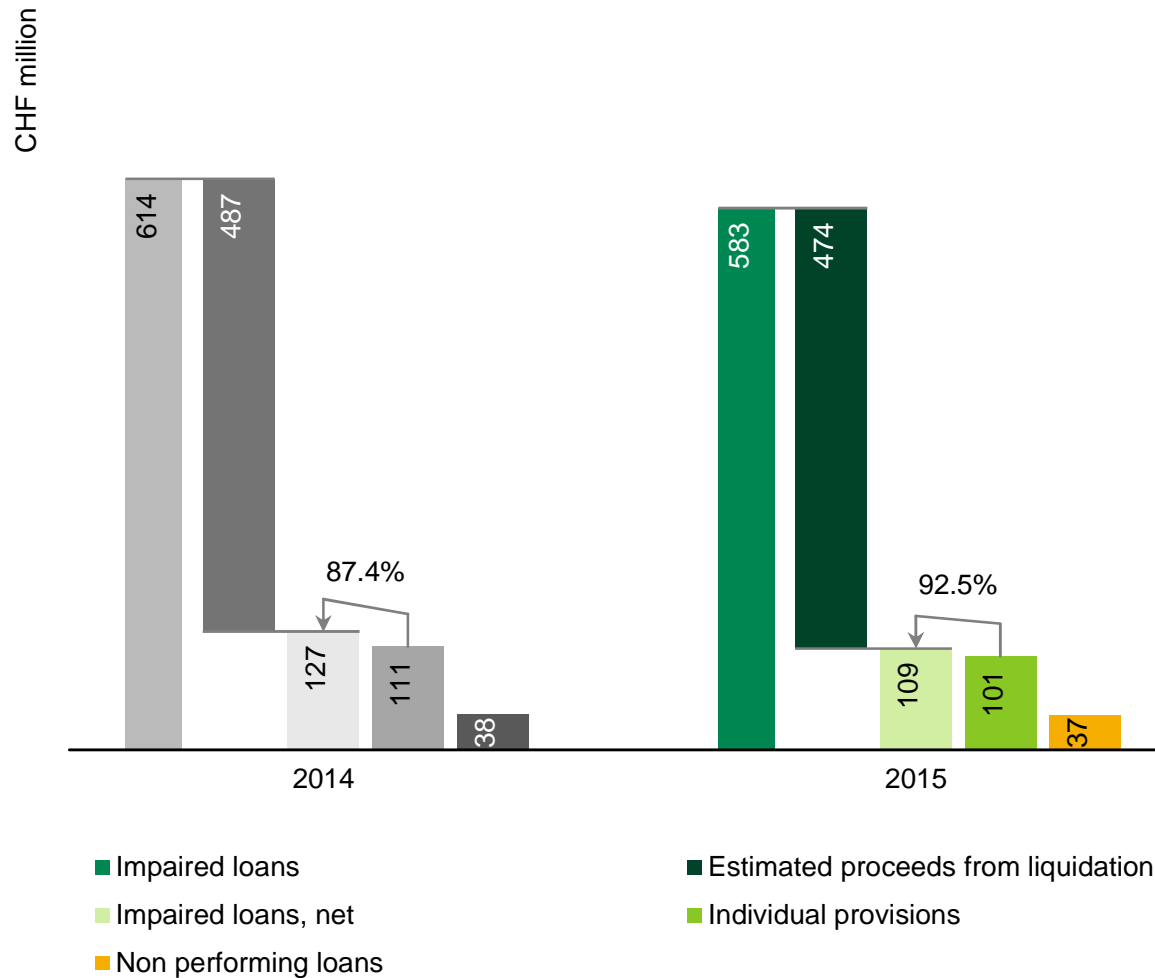
Loans to clients: moderate growth



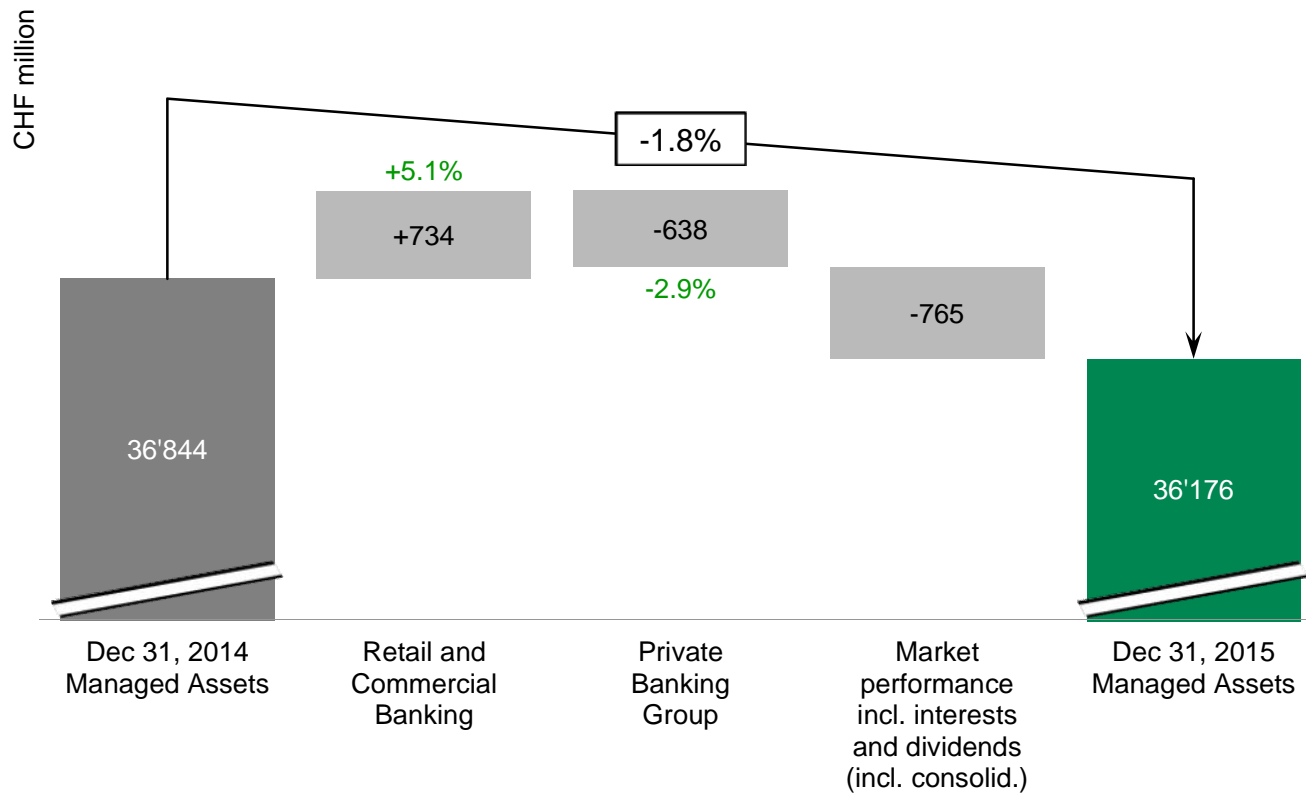
Net New Loans (NNL) Group CHF +335 million / +1.4%

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

Quality of loans: Indicators unchanged very positive



Managed assets: strong retail business



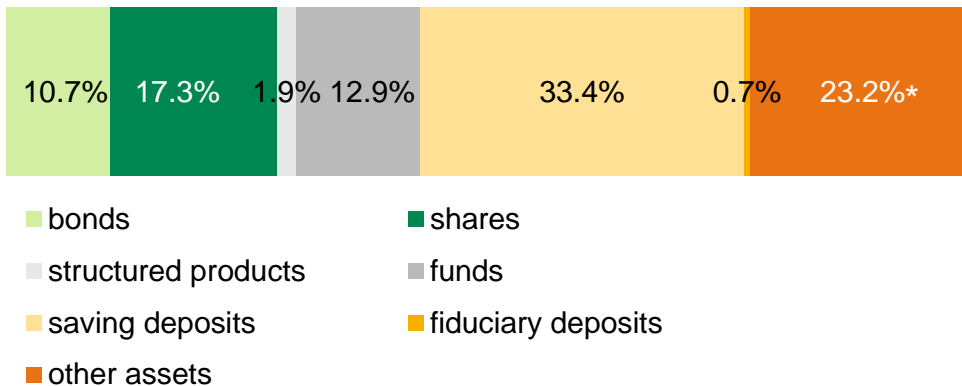
Net New Money Group CHF 96 million / +0.3%

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

Commission business: restrained investors, lower margins

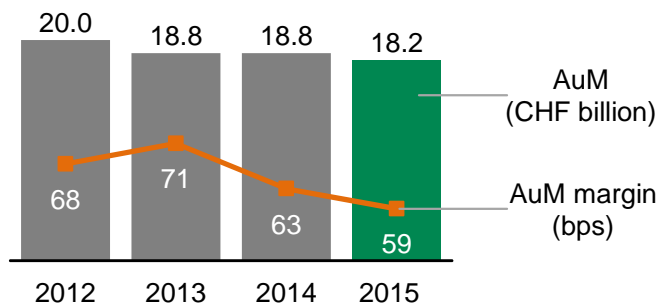
Asset allocation of managed assets

Total CHF 36.2 billion



- high liquidity held by investors
- small transaction volumes
- asset outflow caused by adjustment of strategy
- negative performance
- discontinuation of funds distribution fees due to sale of Swisscanto shares
- increasing discretionary mandate penetration

AuM margin**

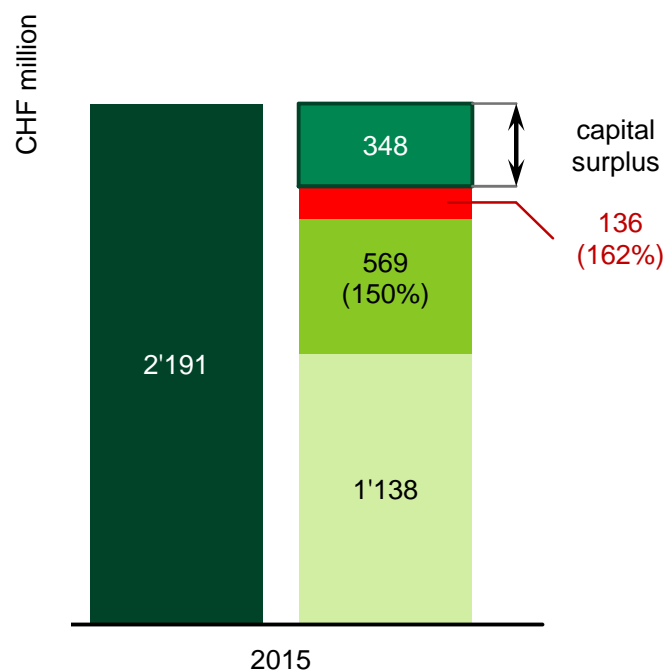


as of 31.12.2015

* Due in respect of client deposits, third party assets

** AuM margin = Result from commission business and services / Ø AuM

Quality of balance sheet: solid equity base



- Tier1-Ratio 13.9%
(13.8% 31.12.2014)
- Tier2-Ratio 15.4%
(15.6% 31.12.2014)

- surplus over minimal FINMA-requirement / anti-cyclical buffer
- plus 2.00% anti-cyclical buffer on residential properties
- minimal FINMA-requirement
- required capital

Anti-cyclical buffer per 31 December 2015: 2.0% - calculations according to Basel III rules

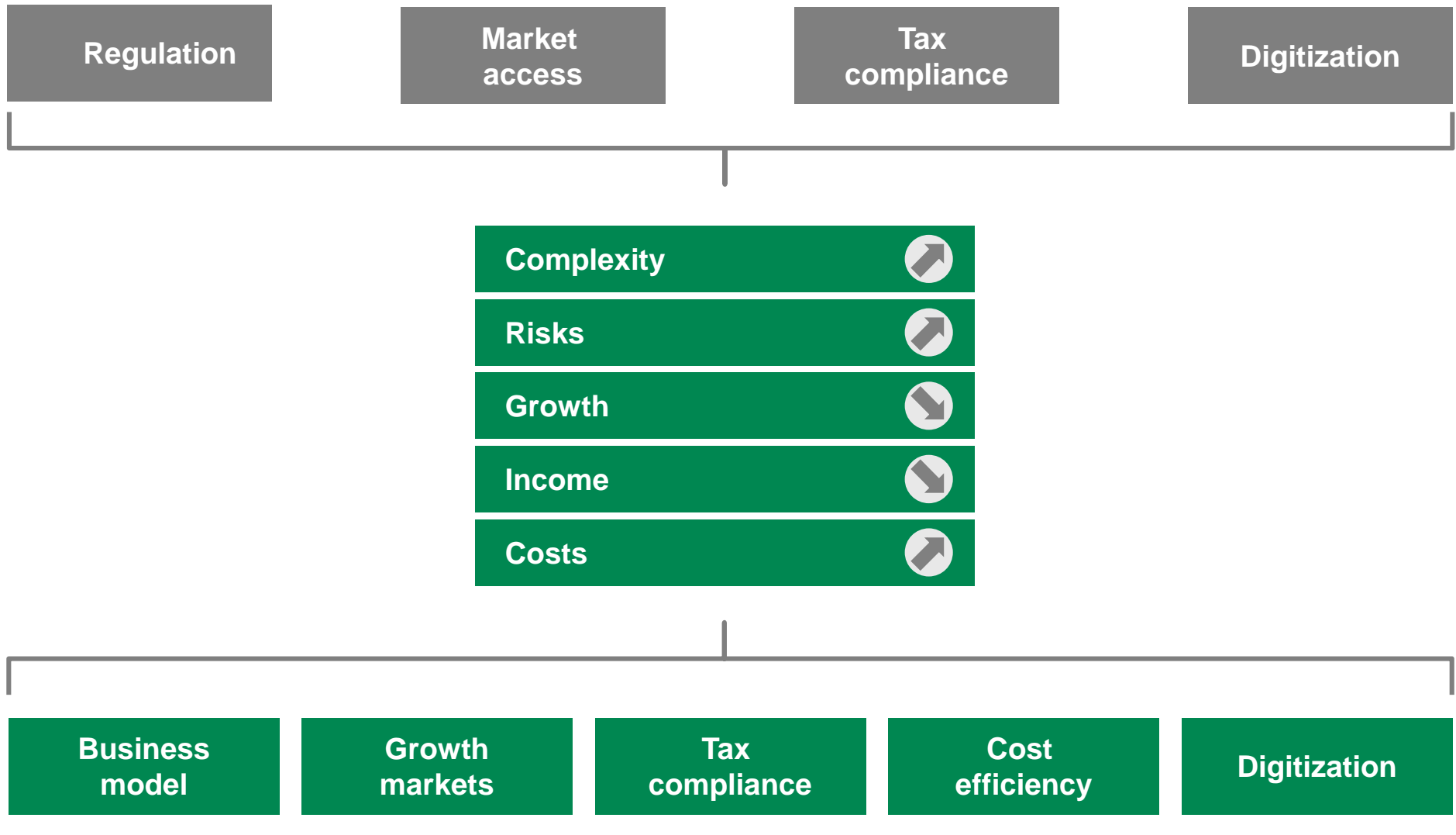
Special factors

▪ proceeds from sale of Swisscanto shares	+ 18.1 million
▪ contribution to pension fund	- 5.0 million
▪ tax compliance, integration of Vadian Bank, sale of former Hyposwiss subsidiaries	- 10.7 million
▪ DOJ Swiss Bank Program	- 35.9 million

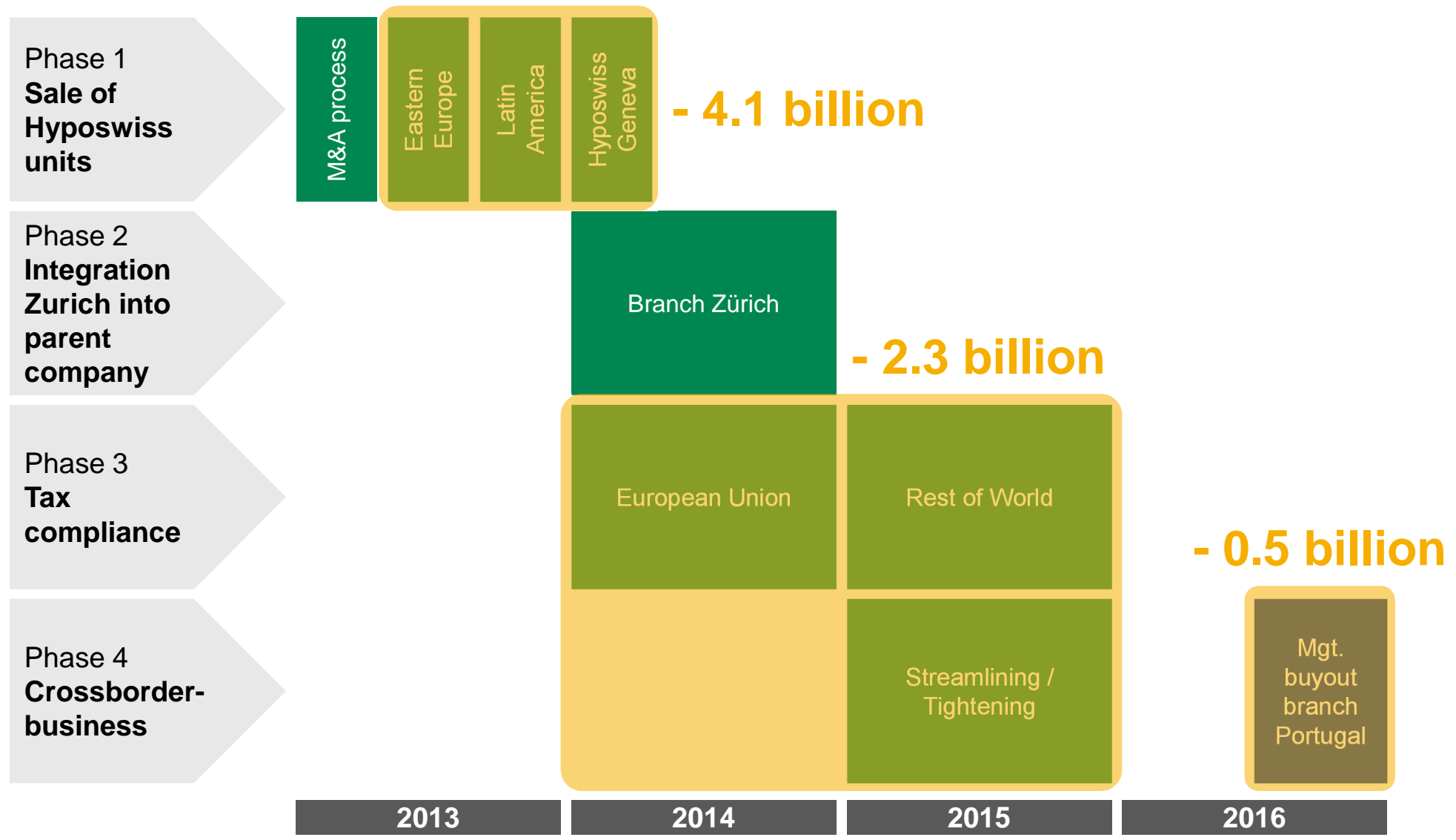
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Strategic adjustment 2013



Profound process of transformation



Completion of strategic transformation

- Focus on three core markets:
 - Domestic market Eastern Switzerland
 - German speaking Switzerland
 - Germany
- Complexity reduced, structures tightened, cost efficiency increased
- Operational risks reduced
- Level of operating profit 2012 maintained (excluding special factors)

Consolidated Profit



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SGKB Deutschland AG: strategic position within SGKB group

■ Strategic importance

- Regulatory law
- Balanced business model
- Germany = most important foreign market for SGKB group
- Two objectives:
 - Protection and development of offshore-business (booking base Switzerland)
 - Growth onshore-business (booking base Germany)
- Pied à terre in European Union

■ USP

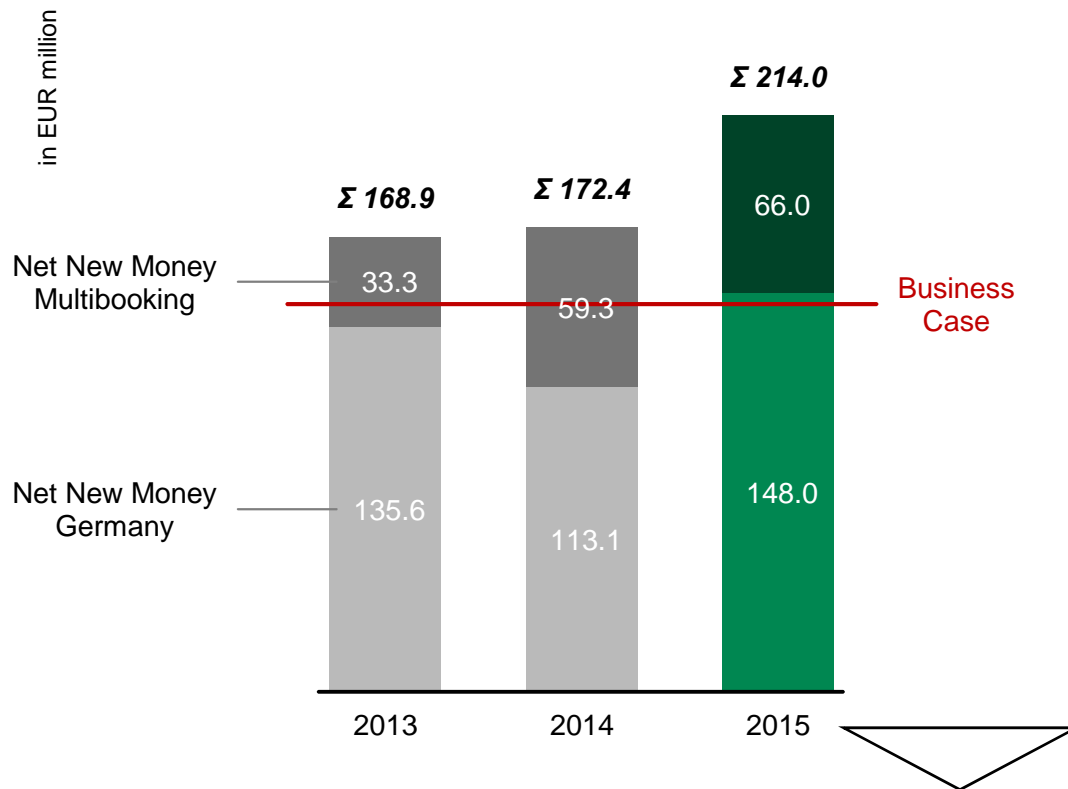
- "Swissness"
- Security: Canton of Saint-Gall as majority shareholder, parent company with government guarantee
- Independency: no own products
- Multibooking

■ Profile

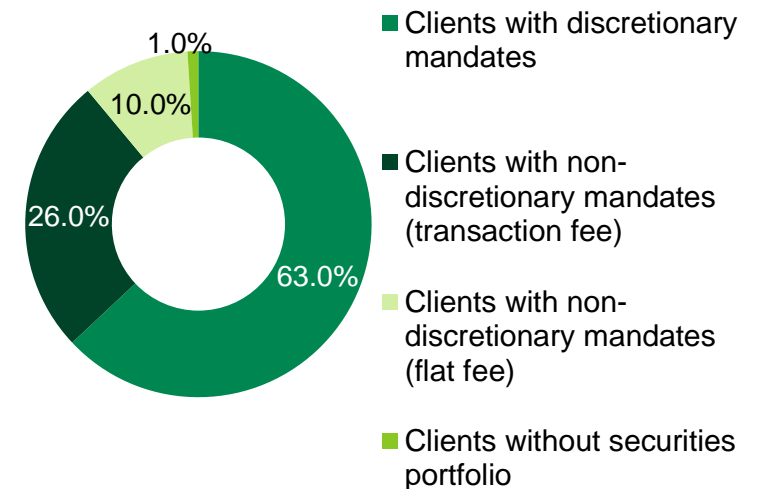
- founded in 2009
- Licences: full banking licence of German Federal Financial Supervisory Authority for SGKB Deutschland AG; licence to operate in Germany for parent company ("Freistellung")
- Two branches: Munich (2009), Frankfurt (2011)
- 52 employees (18 CRM)

SGKB Deutschland: Good development

Net new money 2013 - 2015



Mandate types Managed assets



**Managed assets onshore (CHF 0.7 billion) and offshore (CHF 2.4 billion)
→ One Market approach**

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Initiatives for the future on client focus

- **Retail and Commercial Banking**
 - Expand home market position with retail, commercial and corporate clients
 - Launch of development initiatives
 - Expand human resources
- **Private Banking**
 - Sharpen market performance and USP in asset management business
 - Positioning as integral advisor for asset, strategy and risk
 - Services for discretionary mandate-, consulting- and self-consulting-clients
 - Range of different investment styles
- **Digitization**
 - Total investment of CHF 30 million over the next five years
 - Current projects:
 - e-banking renewal
 - payment applications Paymit and Twint
 - mobile app offering a digital bank account statement and a budget tool
 - online extension of mortgages
 - digital client onboarding
 - expansion of social media activities

Mid-term financial targets SGKB group

	previous	new
Net New Loans in % of total loans to clients	3%	3%
Net New Money in % of managed assets*	4%	3%
Cost/Income ratio	50%	55%
Return On Equity (ROE) before taxes	10%	10%

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

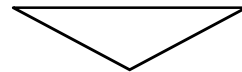
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Outlook 2016

■ Economic outlook

- No recession in Switzerland, but no economic revival either (0.8% moderate GDP growth, 0% inflation, stable EUR/CHF exchange rate, no interest rate hike expected before 2017)
- U.S. rate hike cycle to be continued
- Economic recovery in Euro zone, continuing ultra-expansive monetary policy of ECB



**Positive development, despite difficult conditions
Consolidated profit slightly higher than 2015**

Disclaimer

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- 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.
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- 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.
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