

St.Galler Kantonalbank

Half year results Jun 30, 2011

August 18, 2011

Agenda

- Result Jun 30, 2011 R. Ledergerber
- Group
- Quality of credit
- Quality of balance sheet
- Private Banking – Answers to the „new reality“ S. Peyer
- Engagement in home market R. Ledergerber
- Outlook R. Ledergerber

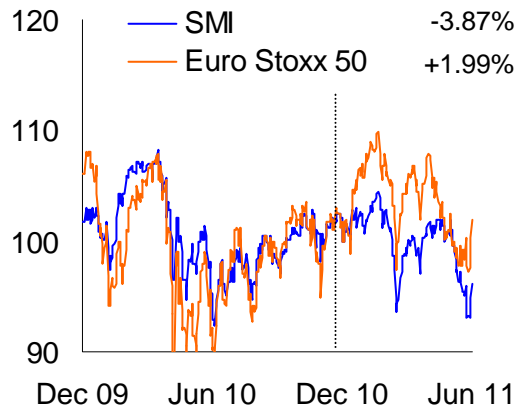
Encouraging new business - stable result

- **Volume / portfolios increased**
continued strong growth in new business in client assets and loans to clients
- **Income** held if adjusted for currency effects
- **Higher other operating expenses as expected**
due to merging IT platform - SGKB with subsidiary Hyposwiss Zurich
- **Group net profit** 3.9% above previous year's level
- **Outlook 2011**
Given the current market distortion, a forecast for the second half year is difficult. If this economic constellation is to continue, we expect a net profit below last year

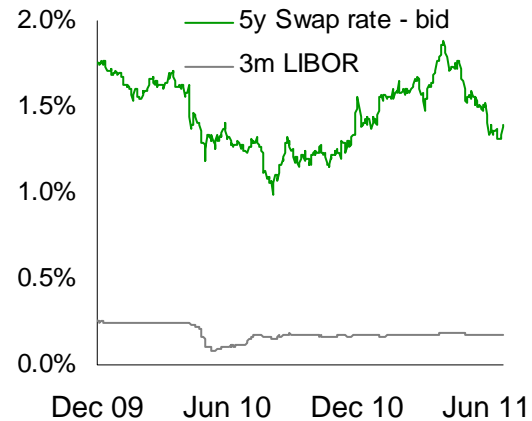
Accentuated situation on the financial markets

Market performance 2011

indexed Dec 31, 2010

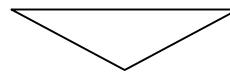
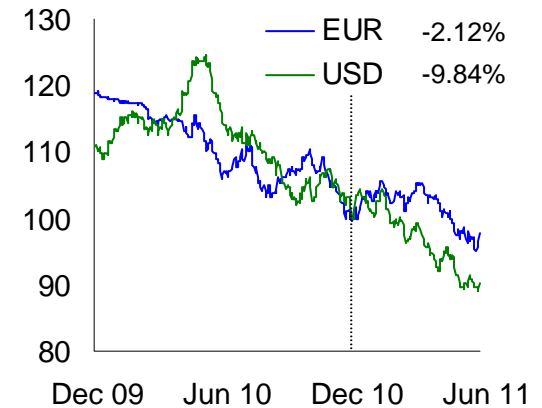


Interest rates 2011



Exchange rates 2011

indexed Dec 31, 2010



Swiss Economy: Solid growth

- GDP growth 2.1%
- Unemployment rate 3.1%
- Inflation 0.7%

Estimation seco Jun 14, 2011

Net profit increased by 3.9%

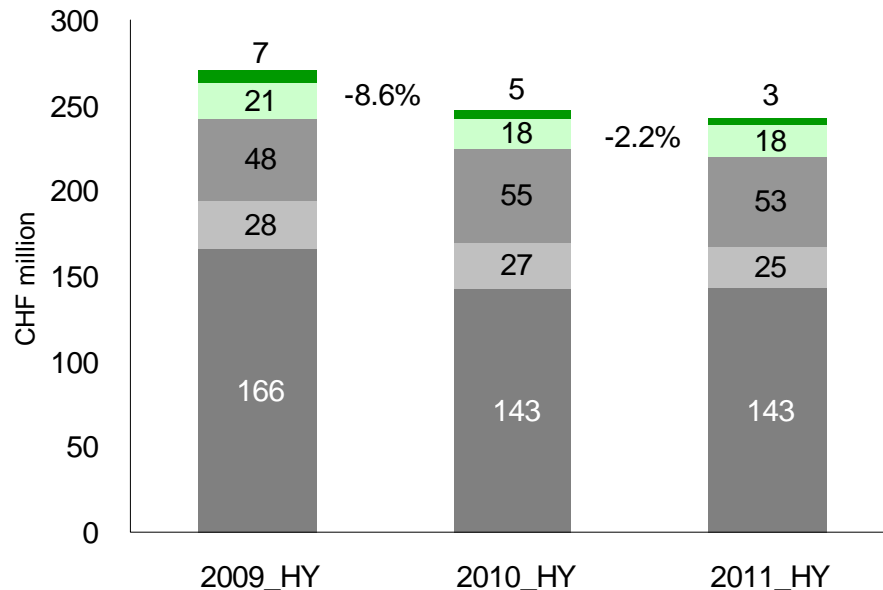
CHF million	2011_HY	△	2010_HY	△	2009_HY
Operating income	242	-2.2 %	248	-8.6 %	271
Administrative expenses	-141	0.1 %	-141	1.1 %	-140
Gross profit	101	-5.4 %	106	-18.9 %	131
Depreciation	-14	-17.7 %	-18	-24.8 %	-23
Valuation adjustments, provisions and losses	-1	-55.1 %	-2	-79.0 %	-10
Operating profit	85	-1.7 %	87	-11.5 %	98
Extraordinary amounts, net	4	-	0	-	4
Profit before taxes	90	3.4 %	87	-14.6 %	102
Taxes	-17	1.2 %	-17	1.1 %	-16
Group net profit	73	3.9 %	70	-17.6 %	85

SGKB Group: Divisional accounts

CHF million	Retail- and commercial clients		Private Banking		Corporate Center		SGKB Group	
	2011 HY	2010 HY	2011 HY	2010 HY	2011 HY	2010 HY	2011 HY	2010 HY
Net interest income*	62	72	9	10	72	60	143	143
Net fee and commission income	18	20	60	63	-1	-1	78	82
Net trading income	8	8	11	13	0	-3	18	18
Net other income	0	0	0	0	3	5	3	5
Operating income	88	100	81	86	73	61	242	248
Administrative expenses	-65	-63	-63	-61	-14	-17	-141	-141
Gross profit	24	37	18	25	59	44	101	106
Depreciation	0	0	-2	-1	-13	-16	-14	-18
Valuation adjustments, provisions and losses	-1	0	0	-2	0	0	-1	-2
Operating profit	23	37	16	22	46	28	85	87
Group net profit	20	32	16	17	37	21	73	70

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

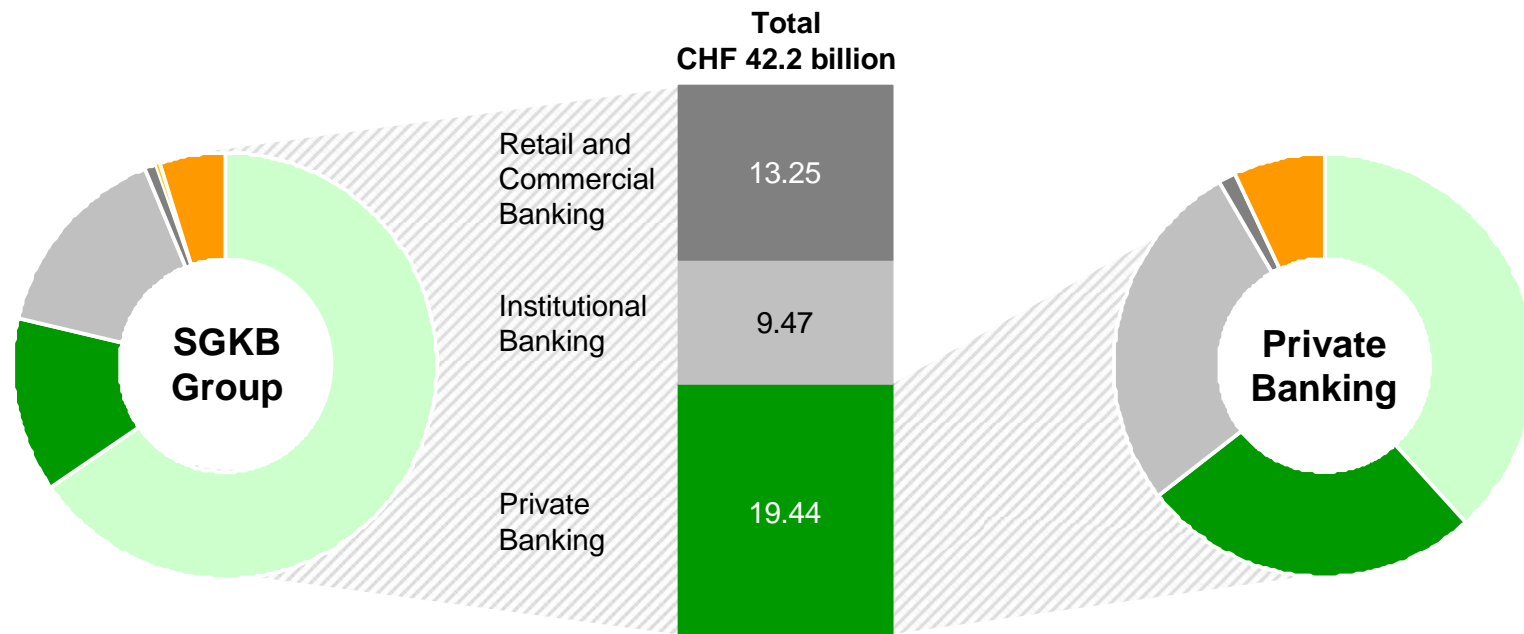
EUR and USD weakness burdened operating income



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

- Stable net interest income (+0.3%). Interest rate hedging costs neutralize the extra income from growth of loans to clients
- Currency effects are responsible for decline in net fee and commission income (-5.7%)
- Net trading income slightly higher (+3.2%)

Client assets: Currency mix



SGKB Group

Currency	Percentage
CHF	65.1 %
USD	13.4 %
EUR	15.4 %
GBP	0.8 %
JPY	0.1 %
Other	5.2 %

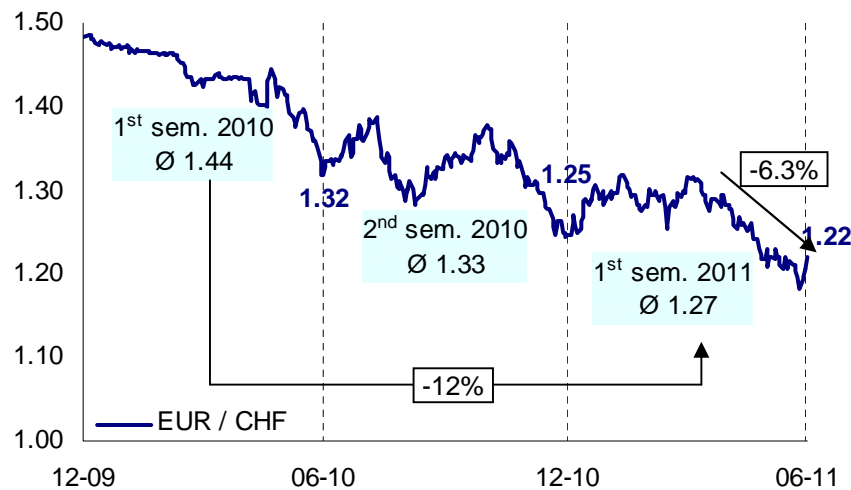
Jun 30, 2011

Private Banking

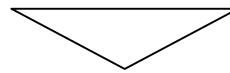
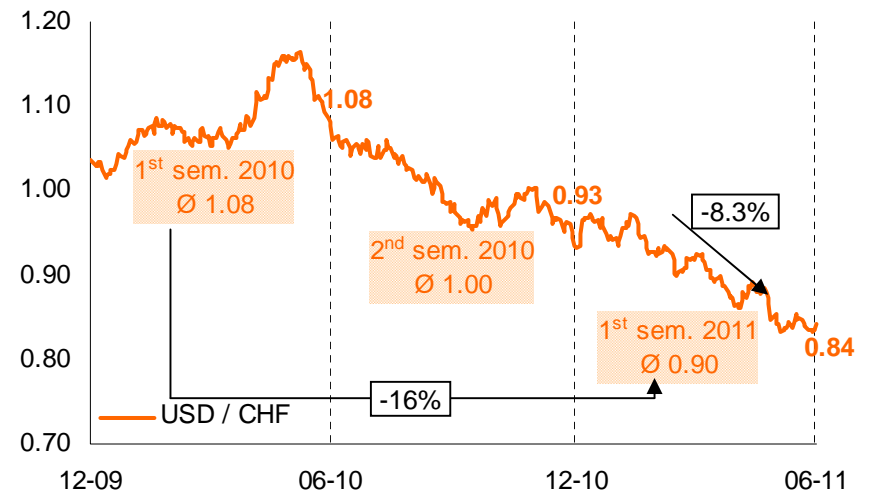
Currency	Percentage
CHF	38.3 %
USD	26.1 %
EUR	27.3 %
GBP	1.4 %
JPY	0.1 %
Other	6.8 %

Currency impact on client assets and operating income

Euro / CHF



USD / CHF

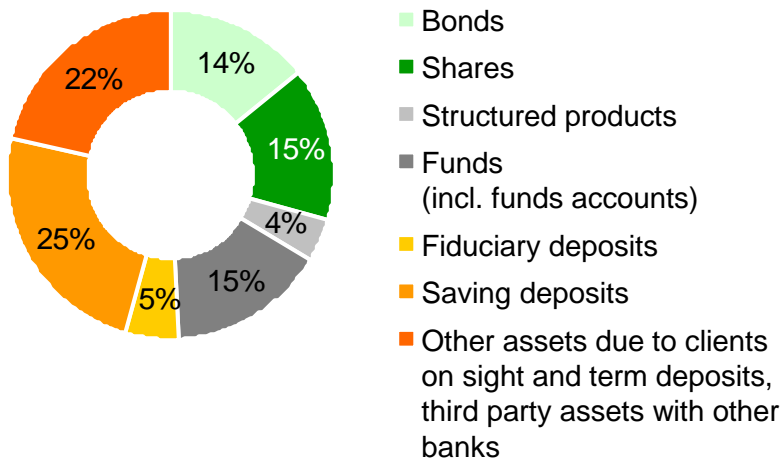


- **Client assets:**
Strong net new money neutralizes negative currency effect
- **Operating income:**
Excluding currency effect, operating income on previous year's level

Net fee and commission income: AuM margin once again lower

Asset allocation client assets

Total 42.2 billion



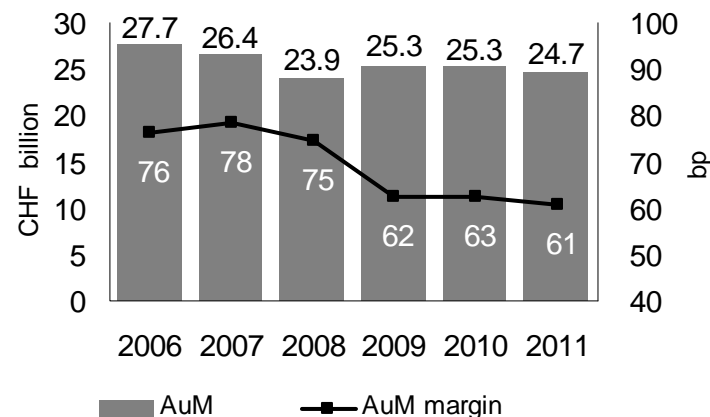
Customer behavior: significant uncertainty

- no shifts in AuM
- NNM flows into balance sheet
- low trading activity

AuM: Since Jan 1, 2011 decline by 2.6%

- Drop in the second quarter by 6.1%
- Reasons: Dollar and Euro crisis, risk aversion of customers

AuM margin



Net fee and commission income declined by 5.7%

- caused by currency effects

Interest hedging costs neutralize growth

Volume effect*	
Due from banks	- 350 million
Loans to clients	+ 1'470 million
Financial investments	- 125 million
Client funds	+ 1'120 million
Debt/loans	- 70 million
Total +15.5 million	

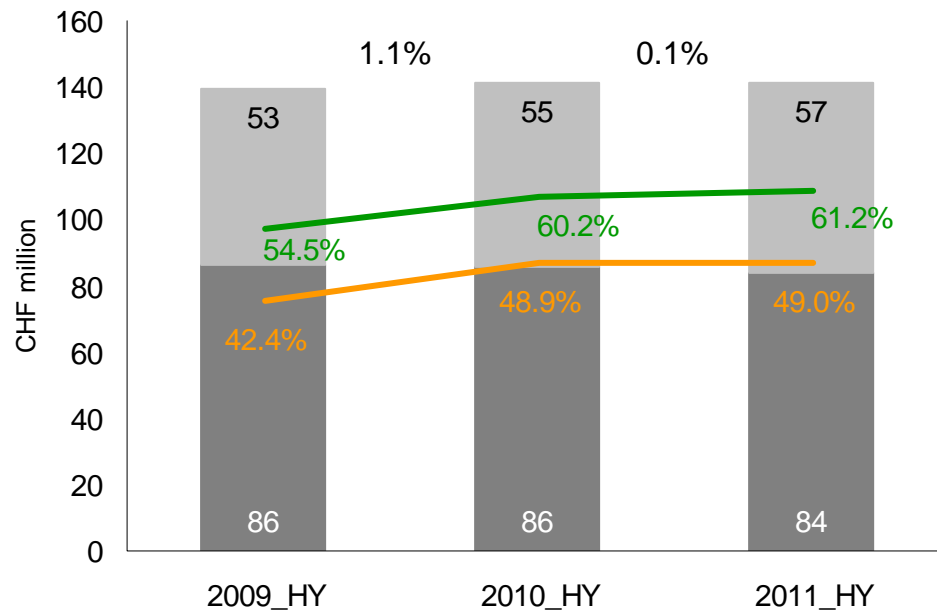
Pricing effect	
Due from banks	+0.17 %
Loans to clients	-0.24 %
Financial investments	-0.08 %
Client funds - Savings and deposits	+0.13 %
- Due to clients	+0.14 %
- Debt/loans	+0.01 %
	+0.09 %
Total -8.7 million	



Balance Sheet
CHF +15.5 million
CHF -8.7 million
CHF +6.8 million

Interest rate hedge
CHF -6.5 million
Interest income compared to last year
CHF +0.4 million

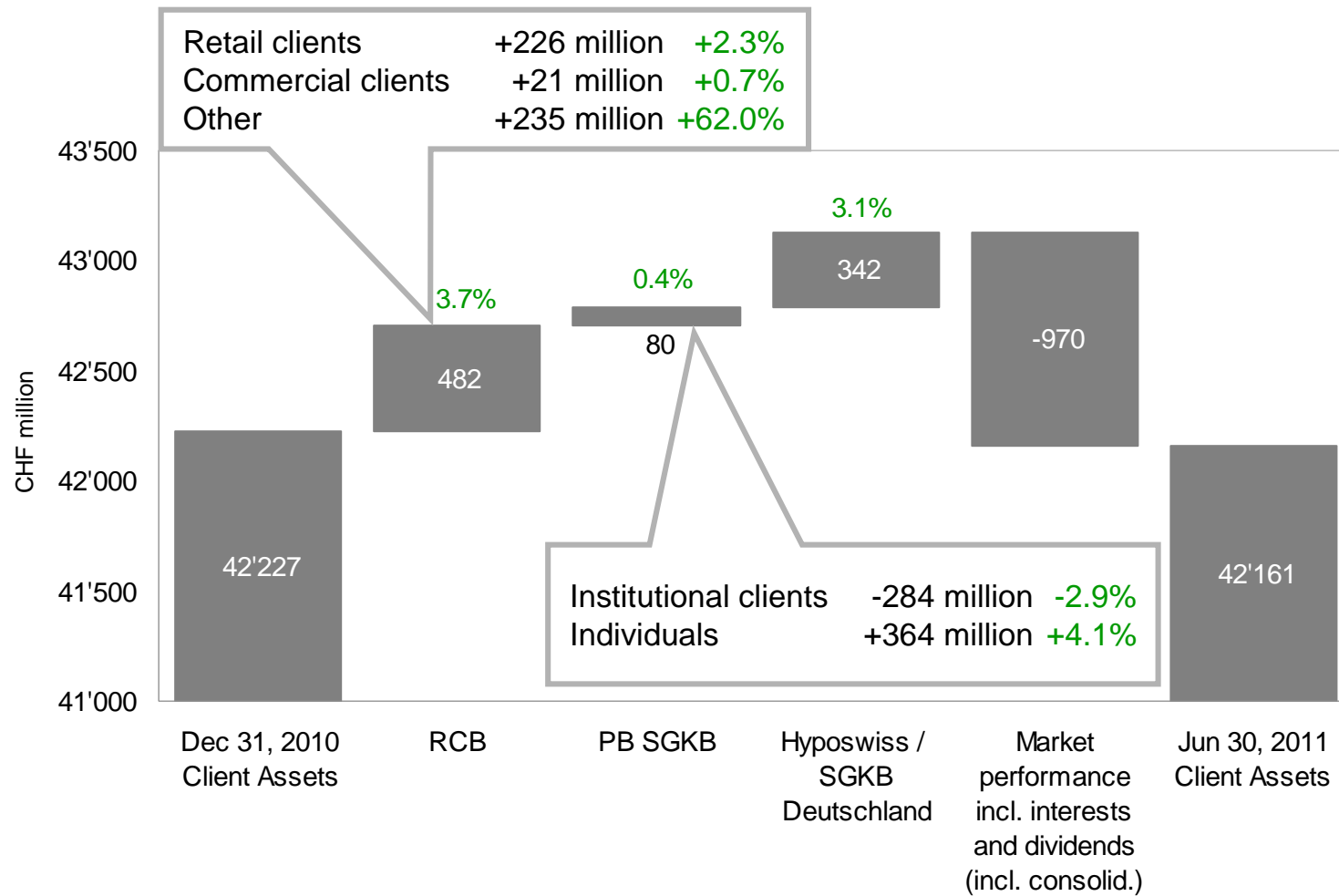
Administrative expenses: Stable and under control



- Other operating expenses
- Personnel expenses
- cost/income-ratio parent company
- cost/income-ratio group

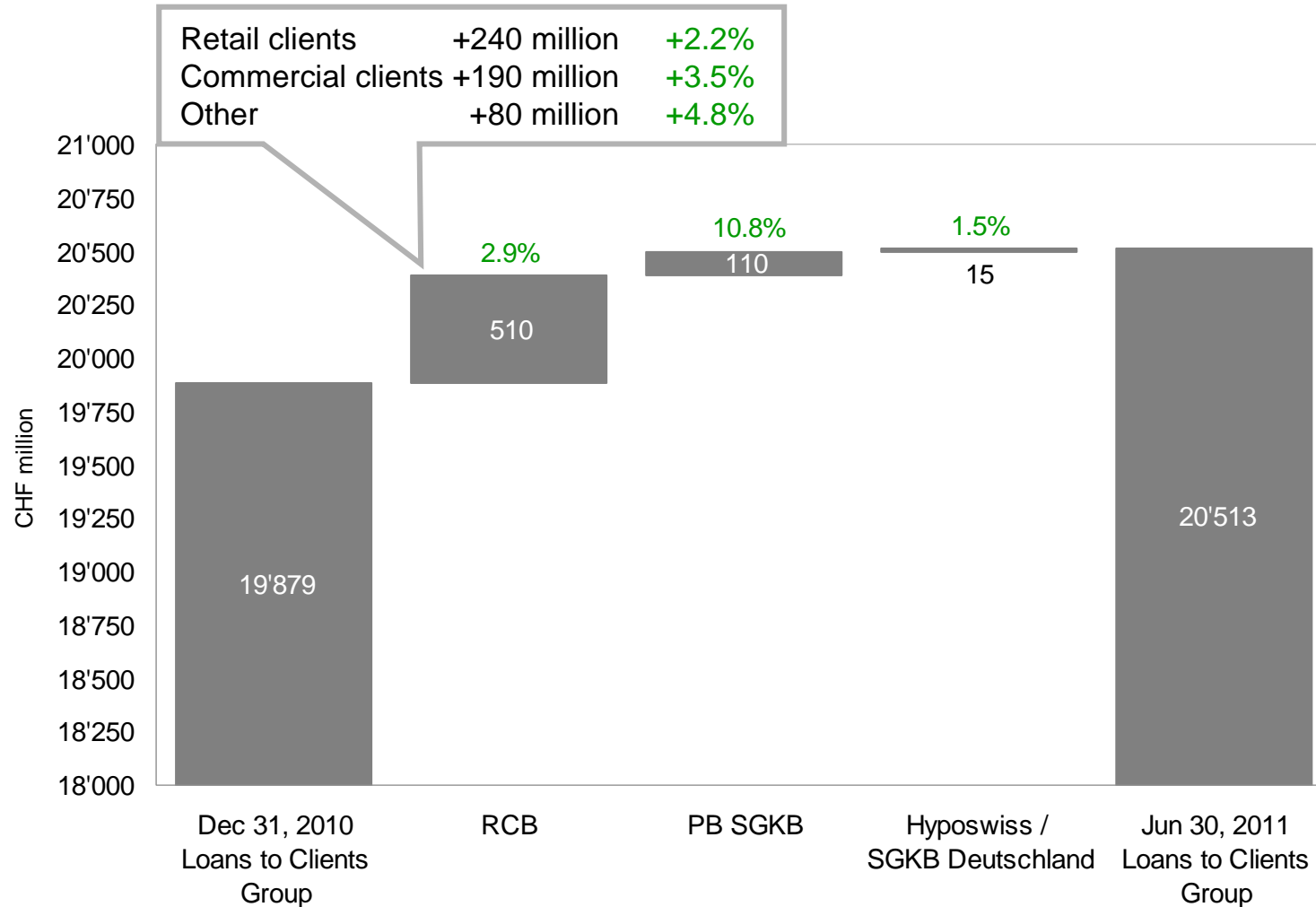
- Higher other operating expenses by consolidating IT platforms SGKB with - Hyposwiss
- Personnel expenses: slightly reduced mainly due to lower headcount

Client assets: Strong new business with retail clients



NNM Group CHF 904 million = sum PGK + PB SGKB + Hyposwiss + SGKB D + consolidation effect (0.2 million)

Loans to clients: Growth in home market



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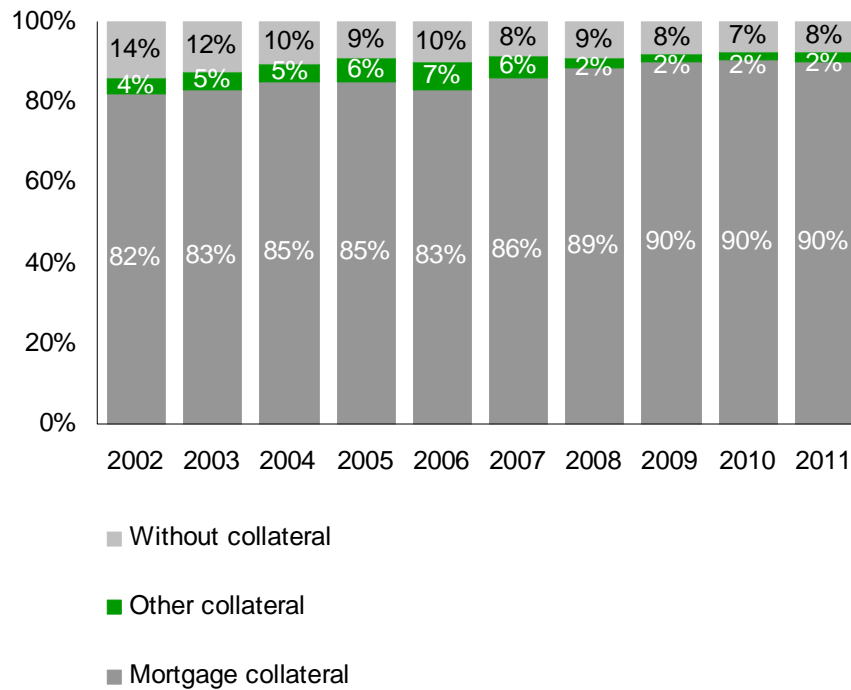
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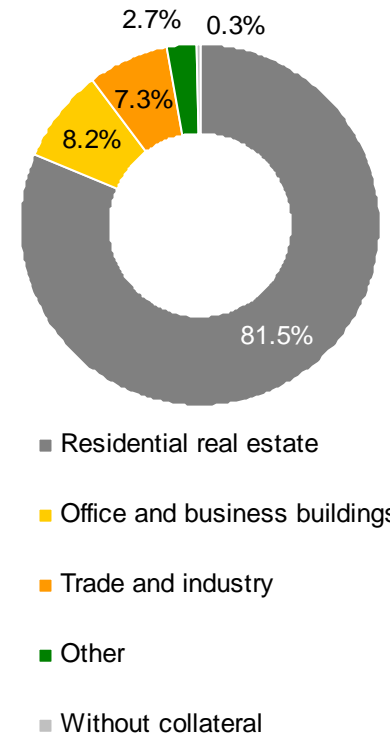
Credit quality: Solid collateralisation

Collateral character of loans to clients



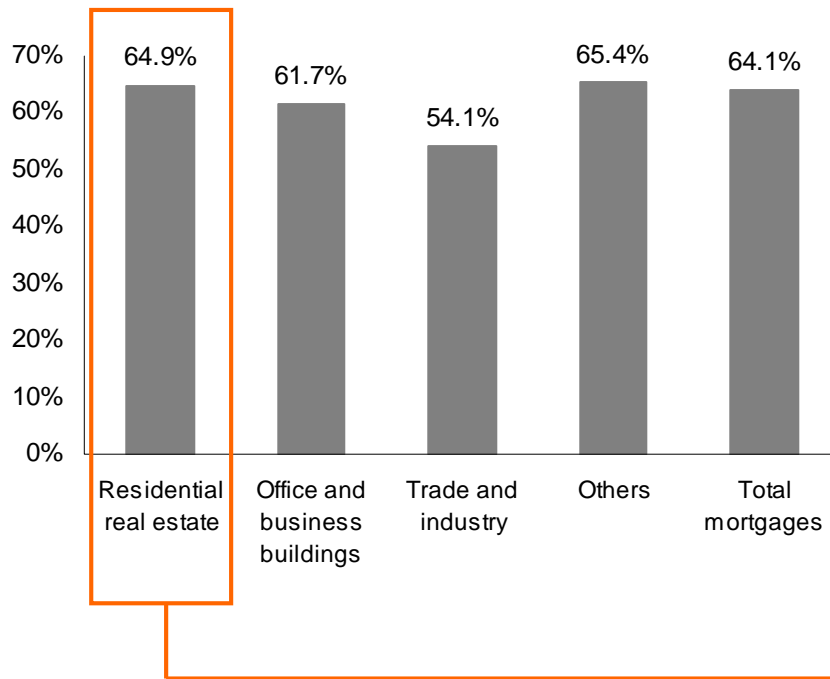
Collateral of mortgage loans

Total CHF 17.1 billion

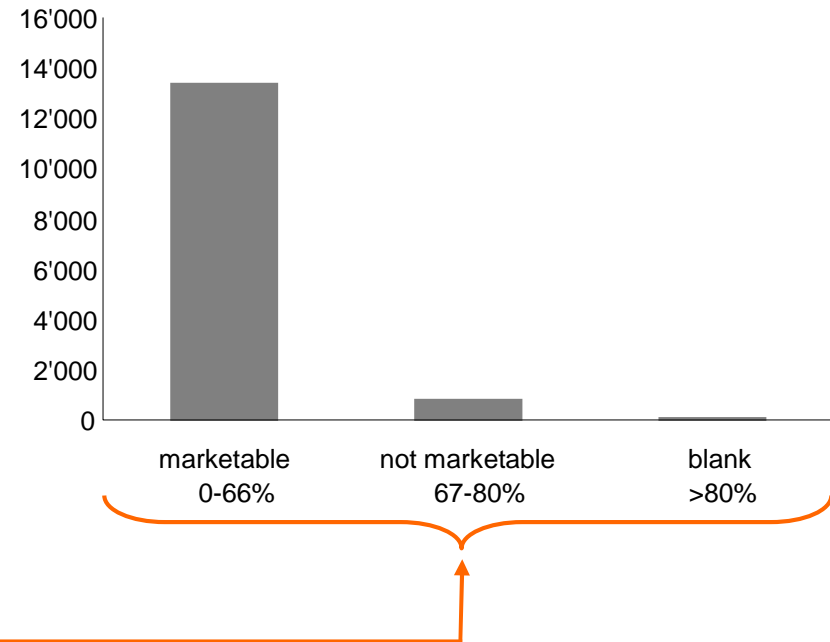


Credit quality: Cautious credit risk management

Loan-to-value ratios

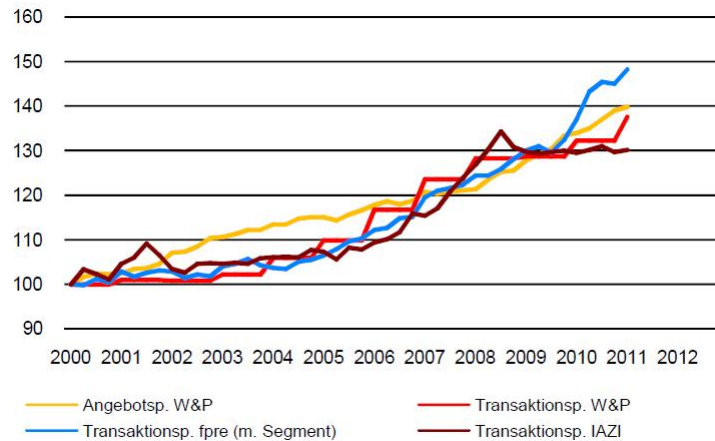


Reinsurance arrangements of residential mortgage loans (82% of all mortgages)

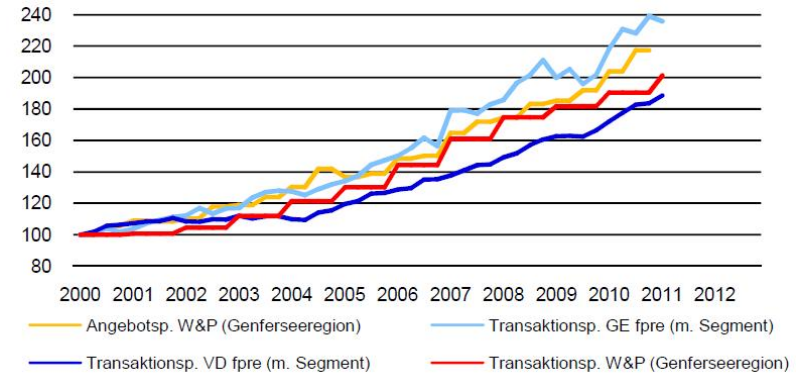


Real estate prices (1-Family-Houses): Regional Comparison

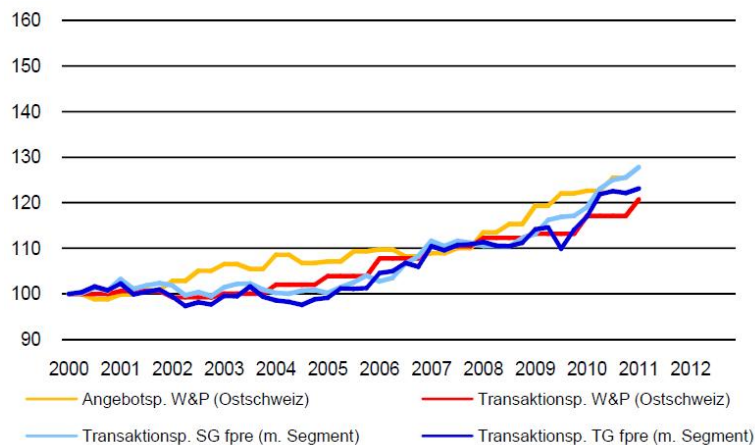
Switzerland



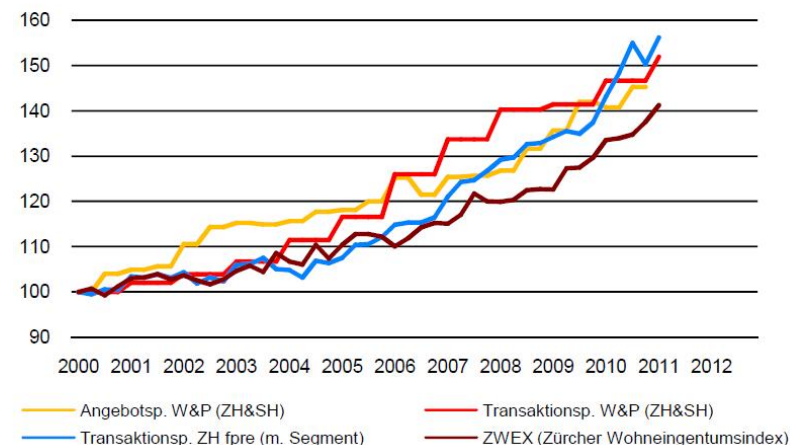
Lake Geneva



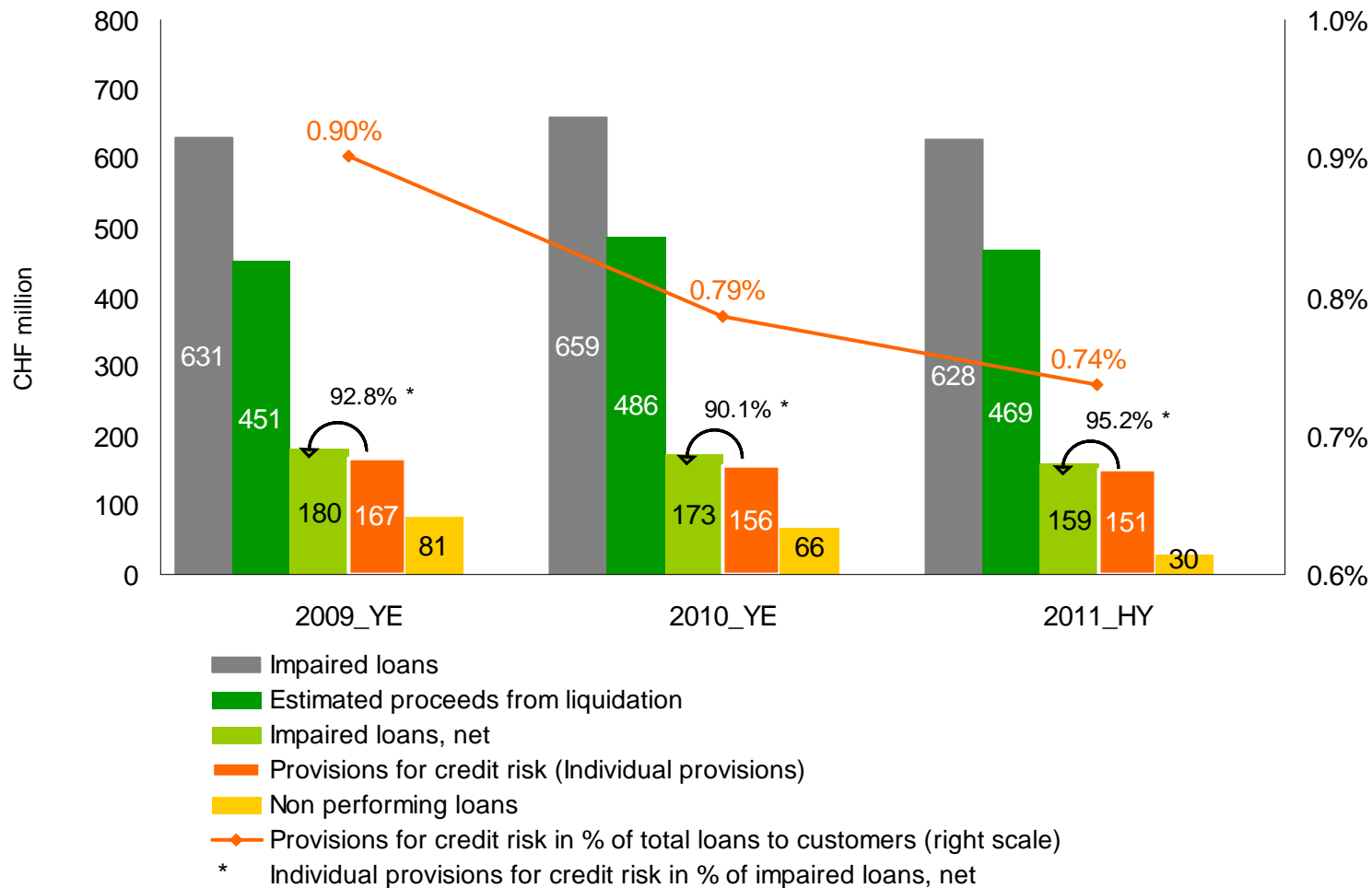
Eastern Switzerland



Zurich



Quality of credit: Steady risk provisioning



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Quality of balance sheet: Due from banks

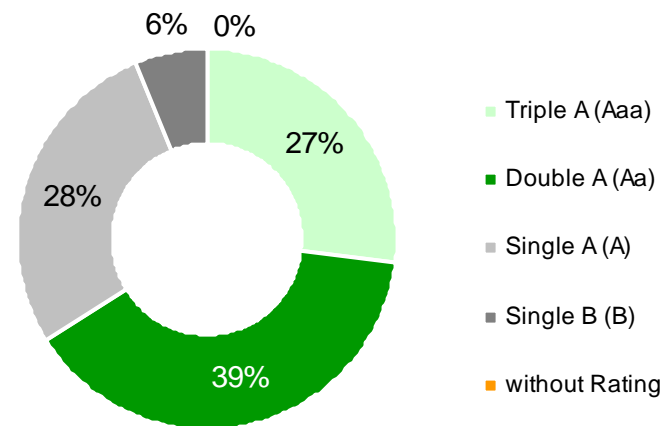
Total due from banks

CHF 2.0 billion

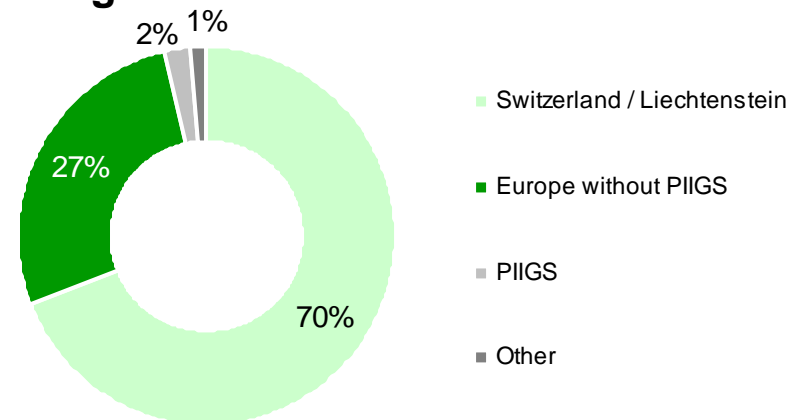
- Excellent quality of portfolios (Triple A to A)
- Counterparty risk broadly diversified
- Still low limits for banks in PIIGS countries
- Periodic review of the risk situation

Distribution

Rating*



Regions



* Sequence of ratings: Moody's, S&P, Fitch, ZKB

Quality of balance sheet: Financial investments

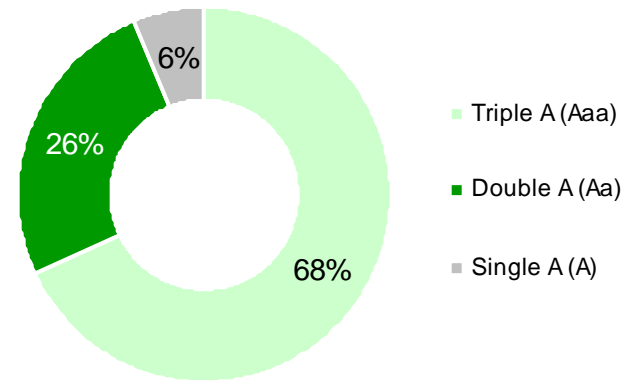
Total financial investments

CHF 1.7 billion

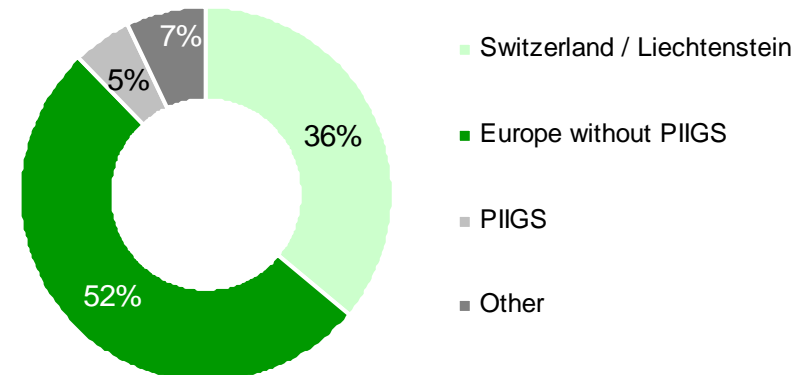
■ Bonds	76%
■ Loans secured by mortgages (Pfandbriefe)	23%
■ Shares and properties for resale	1%

Distribution

Rating*

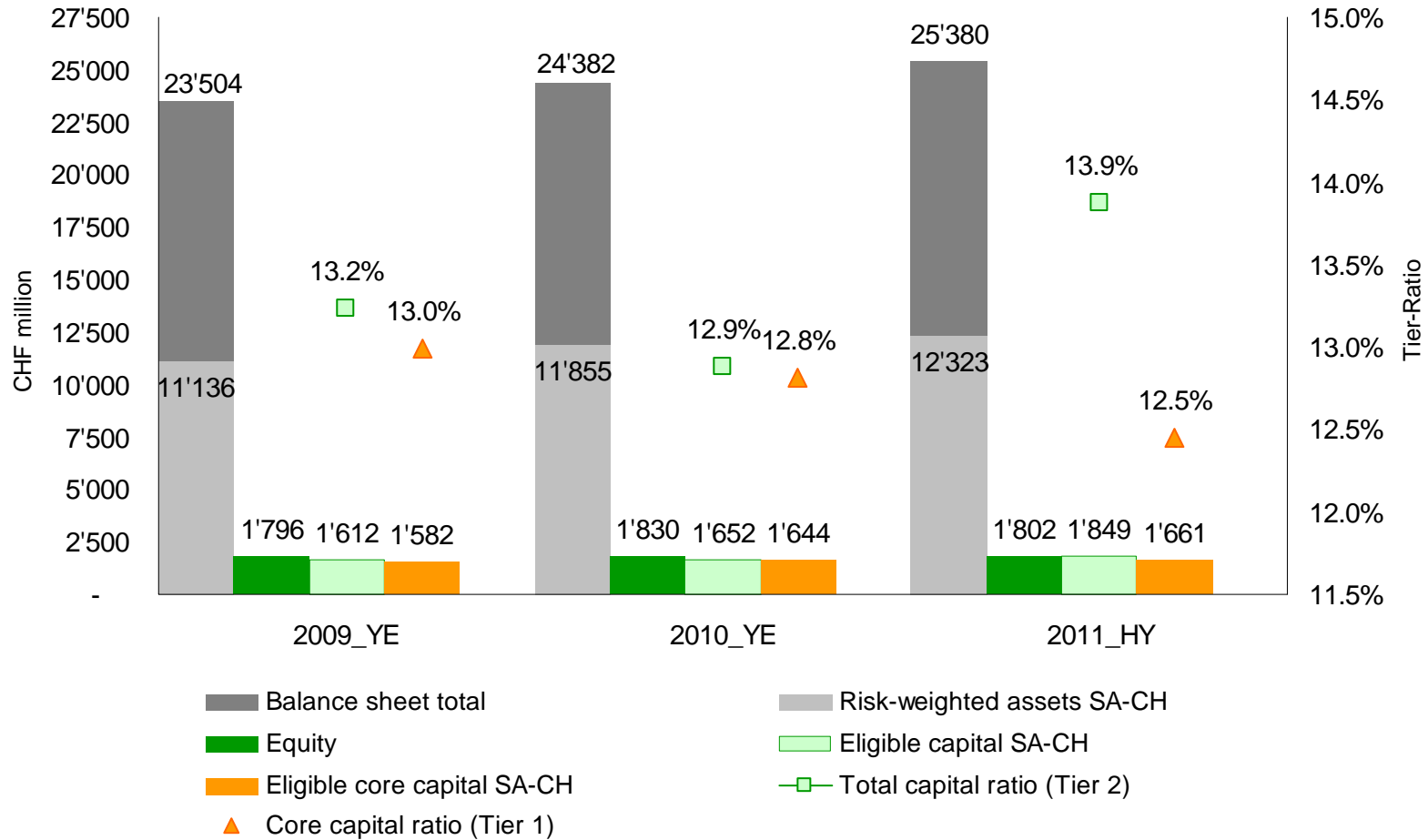


Regions

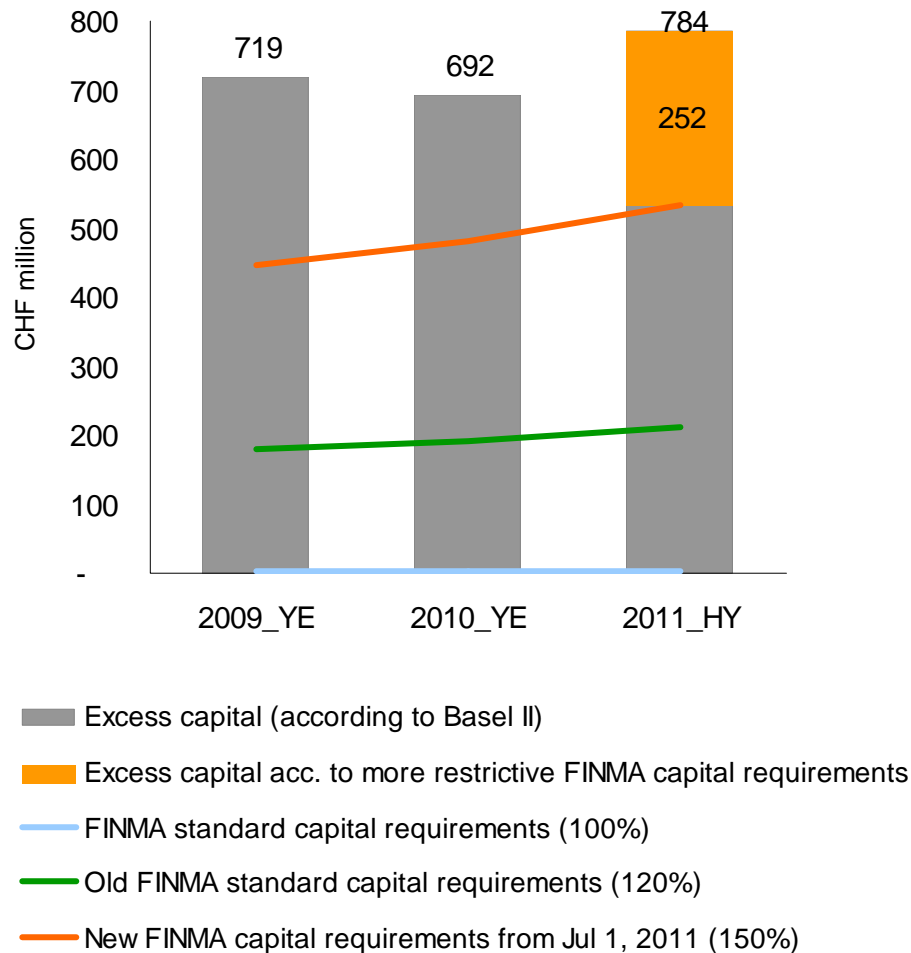


* Sequence of ratings: Moody's, S&P, Fitch, ZKB

Quality of balance sheet: Strong equity base



Quality of balance sheet: New FINMA* capital requirements



- Increase of the target size for the equity excess from 20% to 50% (as of Jul 1, 2011)
- Elimination of cantonal bank discount of 12.5%
- To ensure the strategic flexibility, a subordinated bond was placed (200 million, 2.625%, maturity 10 years)
- SGKB exceeds higher FINMA requirements by CHF 252 million

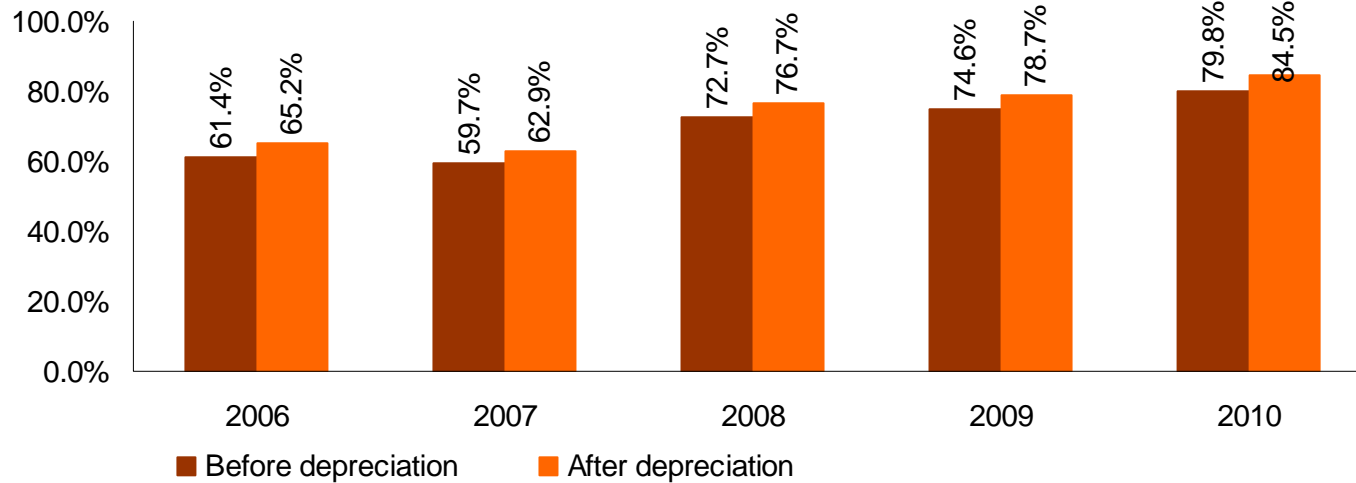
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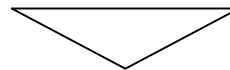
New reality in Private Banking

Development Private Banking Switzerland

Cost/Income-Ratio („CIR“)



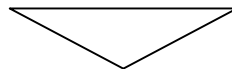
Source: Global Private Banking & Wealth Management Survey 2011, Jun 28, 2011



Compared to the industry average, the cost-income-ratio of SGKB Group is 72.8% (before depreciation) and 74.1% (after depreciation)

New reality in Private Banking: Findings

- In a sectorial overview, SGKB group has neither a margin nor a cost problem
- However - like all market participants - SGKB must respond to the changes in earnings models (lower ROA, higher fixed costs) with cost optimization, focusing and scaling
- In the field of cost optimization, SGKB has already acted proactively:
 - Merging of back office and trade of Hyposwiss Zurich and SGKB is completed (project costs 2010 CHF 2.6 million, project benefits from 2011 by CHF 1.9 million p.a.)
 - IT integration Hyposwiss Zurich and SKGB; ongoing project, completion by end 2011 (2011 CHF 4.6 million project cost, project benefits from 2012, 1.9 million p.a.)
 - Cost reduction programs (Hyposwiss Geneva savings total 3.8 million p.a.; Hyposwiss Zurich: ongoing)



Strategic focus on focusing and scaling (growth)

New reality in Private Banking: Investments

- Investments in staff
 - 30 new client advisors in the last 2 ½ years
- Investments in infrastructure of Hyposwiss Zurich
 - New office infrastructure in the "Apollo" building in Zurich
 - All under one umbrella → Increase in efficiency

New reality in Private Banking: Investments

- Investment in the brand „Hyposwiss Privatbank“
 - Focus on traditional values: Responsibility, client orientation, professional skills
 - No empty promises
 - Open plain language

“Don’t let your money work for you. Because it doesn’t.”

HYPOSWISS
PRIVATE BANK

Expect the expected

“In private banking, it’s time for common sense to be more common.”

HYPOSWISS
PRIVATE BANK

Expect the expected

“Luck shouldn’t be part of your portfolio.”

HYPOSWISS
PRIVATE BANK

Expect the expected

New reality in Private Banking: Agreement with Germany

- SGKB supports agreement - maintains interests of finance place Switzerland
- Agreement provides a good opportunity to establish relations with the German clients on a sustainable and secure basis (9% share of German SGKB Private Banking clients in client assets of CHF 29.1 billion at Dec 31, 2010)
 - tax rate old: mostly 20-25%, max. 34%
 - tax rate new: equivalent of current rate of German income tax: 26.375%
- SGKB will make down payment according the amount of business with affected client group (deadline Dec 31, 2010)
- Clients are responsible for the regulation of their tax matters – SGKB and Hyposwiss provide the necessary documents in order to satisfy tax requirements
- Earliest entry into force by Jan 1, 2013
 - Debiting of client account: 5 months after entry into force (expected May 30, 2013)

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„Meine erste Bank“

New campaign



- Market leadership and customer proximity

- Based on the vision of "first choice", the new campaign underscores the leading market position in Eastern Switzerland. As a traditional universal bank, the emotional proximity to the population of the canton is put forward.

- Lifelong advisory service

- SGKB guides people through every stage of life. From the first savings over the first mortgage to sensitive issues such as inheritance and succession solutions for small and middle enterprises.

STARTFELD: SGKB supports Start-ups



- **SME-Initiative**
 - SGKB group started a major package of SME initiatives of total CHF 15 million this year. Part of it is the “STARTFELD” foundation, for which SGKB contributed a starting capital of CHF 5 million.
 - In April, SGKB took part in the founding of the foundation "STARTFELD". This initiative has the purpose of advising innovative young start-ups in their early stages as well as to finance and assist in searching suitable enterprise premises.
- **SGKB Start-up-Award**
 - The newly launched "STARTFELD Diamant" is a commitment of SGKB for the promotion of innovative projects in Eastern Switzerland. The price is focussing on young companies with bright business ideas.

Agenda

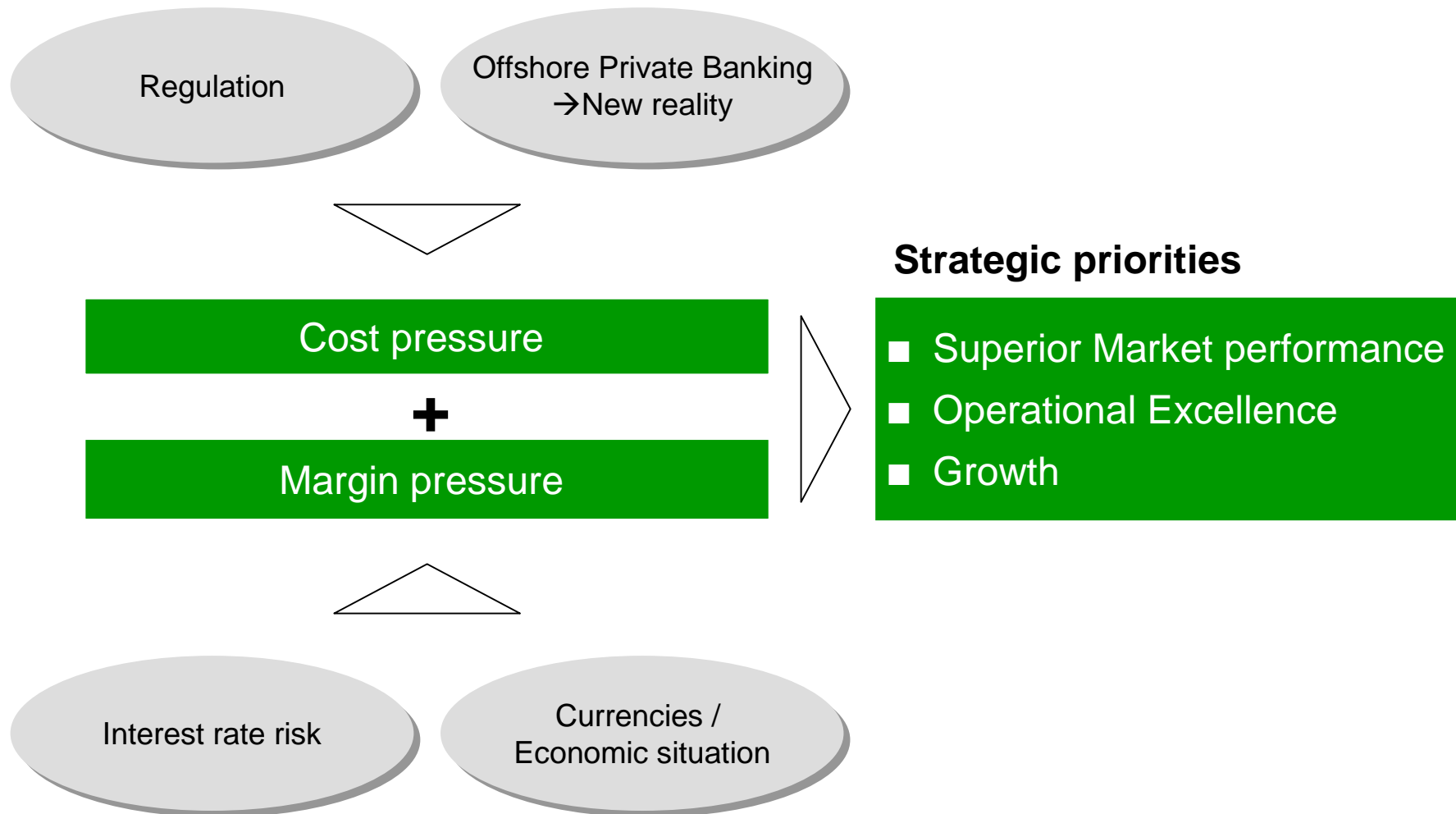
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Strategic challenges



Strategic priorities

Superior market performance

- Investment advice and performance
- Expand e-services
- Human resource development
- Error-free
 - IT
 - Processes
 - Documents

Operational excellence

Cost management

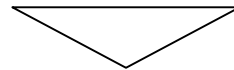
- Cost structure of Private Banking subsidiaries
- Increase efficiency in financing process
- Process management (Six Sigma Approach)
- Interactive document management

Risk management

- Compliance
- Offshore Banking
 - Cross Border
 - USA
- IT security
- Integral risk management concept

Growth

- RCB
 - Client segments < 30 years and > 50 years
 - Real estate financing ZH & GE
- Private Banking
 - Key clients
 - External asset manager
 - Sales + product management
- Institutional banking
- Hyposwiss ZH/GE strategic key markets
- SGK Deutschland



Secures SGK Group's sustained growth, incl. optimisation of cost structure

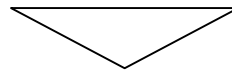
SGKB Group: Mid-term financial targets

Growth of loans to clients	3%
Growth of client assets* (Net new money)	5%
Cost/Income-Ratio	55%
Return on Equity (RoE) before taxes	12%

* Client assets = AuM and client funds without double counting

Market distortions: result 2011 below prior year

- In the short term no signs of decreasing economic uncertainty
- No significant improvement in the market environment in sight
- Concrete earnings forecast depends on the following points:
 - Further development of the major currencies EUR and USD
 - Uncertainty regarding the government debts in the euro area
 - Timing and extent of any interest rate increases
 - Recovering investor confidence in markets
 - Reducing high liquidity
 - Increasing transaction volume



At the beginning of the second half, the situation in financial markets, particularly with regard to currency and interest rates, further accentuated. If this economic constellation continues, we expect a Group net profit 2011 below last year.

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

www.sgkb.ch

Investor Relations:

Dr. Cornelia Gut-Villa

cornelia.gut@sgkb.ch

Phone +41 (0)71 231 36 92