

St.Galler Kantonalbank

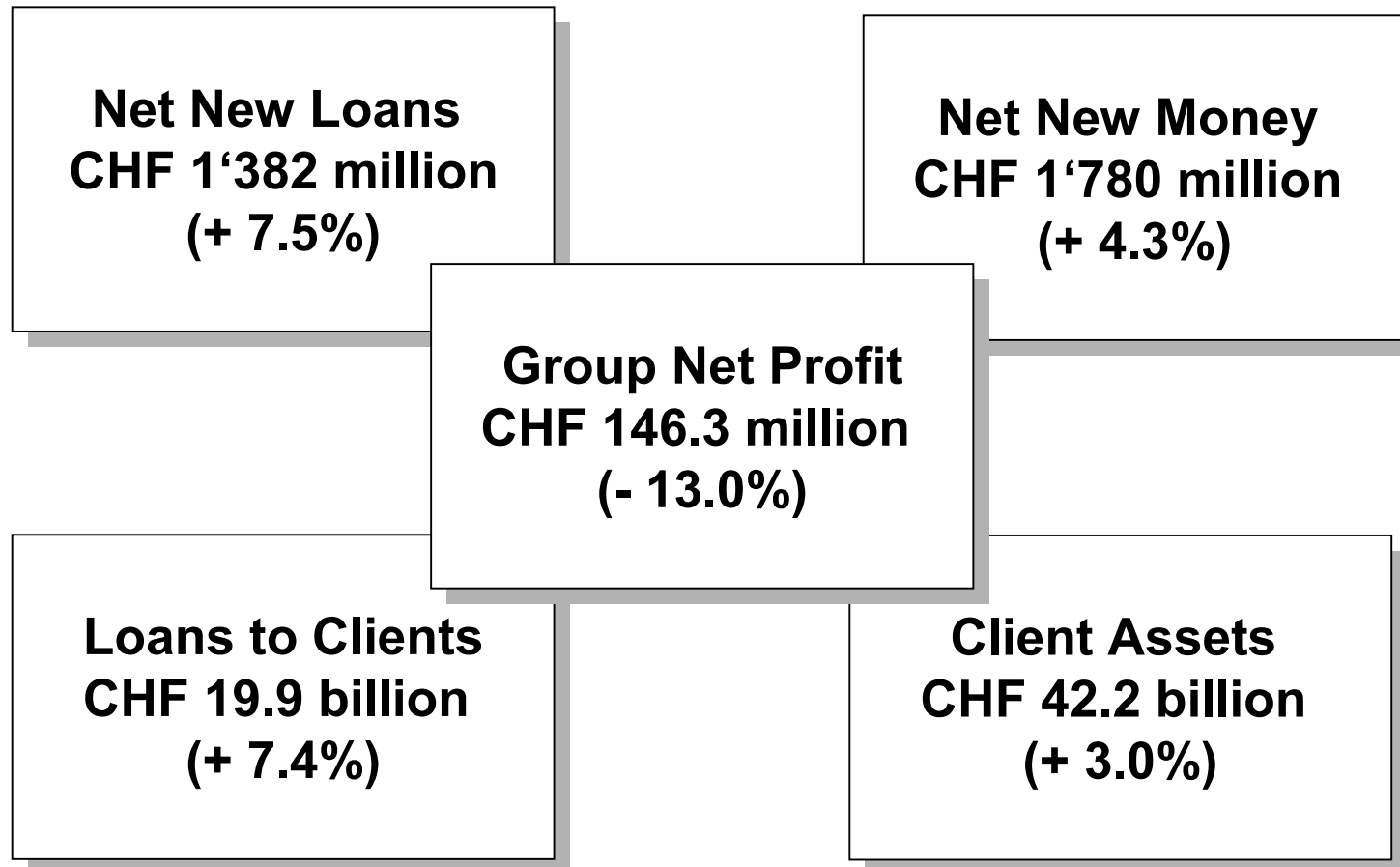
Strategy and year end results 2010

February 9, 2011

Agenda

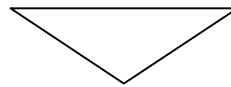
- Results 31-12-2010 R. Ledergerber
 - Group
 - Quality of credit
 - Quality of balance sheet
- Implementation of private banking strategy at Hyposwiss S. Peyer
 - Strategic focus on Central and Eastern Europe
 - Cross border business
 - New products of investment center
- Engagement in home market R. Ledergerber
- Outlook R. Ledergerber

Strong New Business



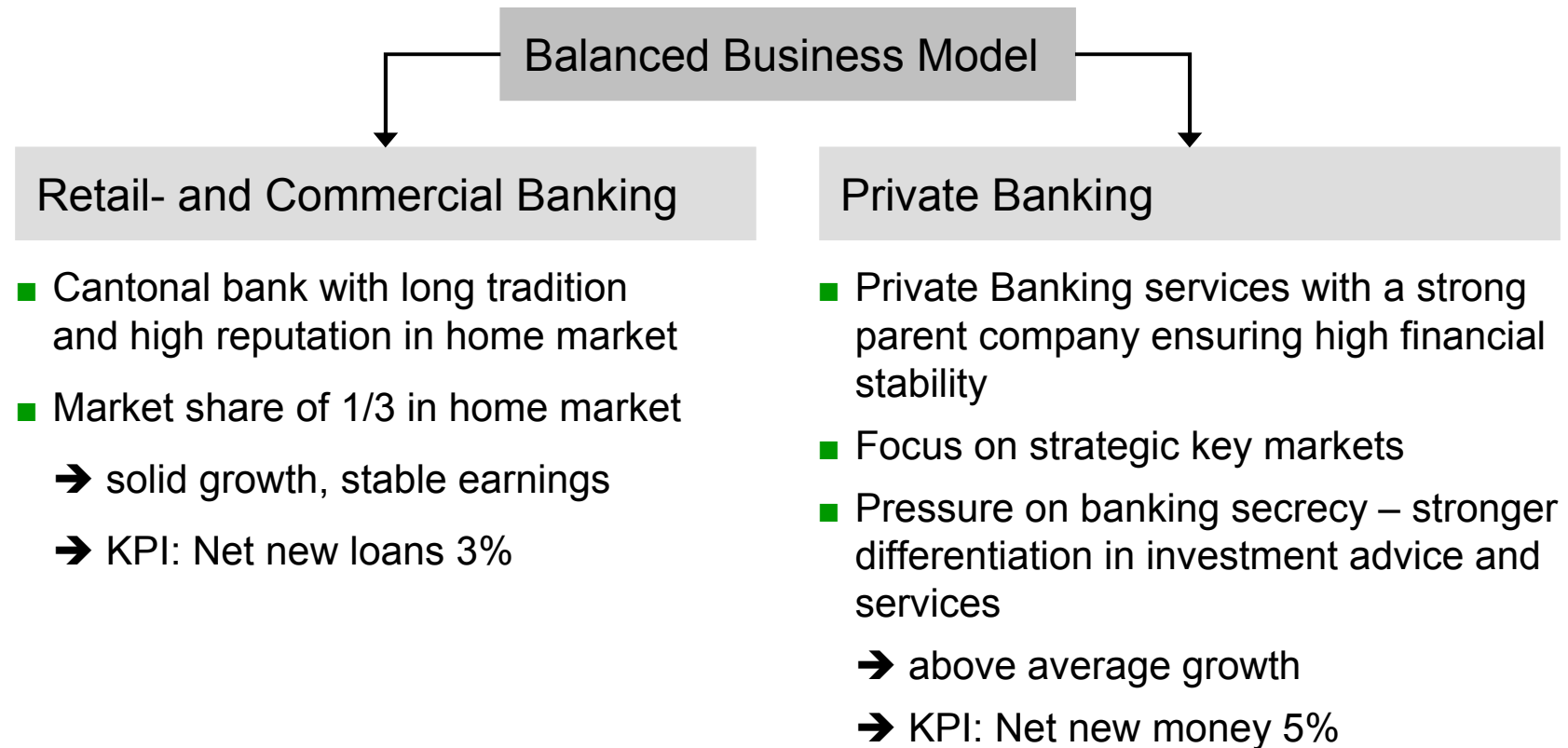
Balanced business model

- Income sources:
The aim is to strike a balance between interest and commission business.
- Client segments:
It is intended that the profit contribution from the Retail and Commercial Banking Division and the Private Banking Division is balanced.
- Geographic markets:
Fundament of income: home market
Additional growth: investment advisory in on- and offshore banking.

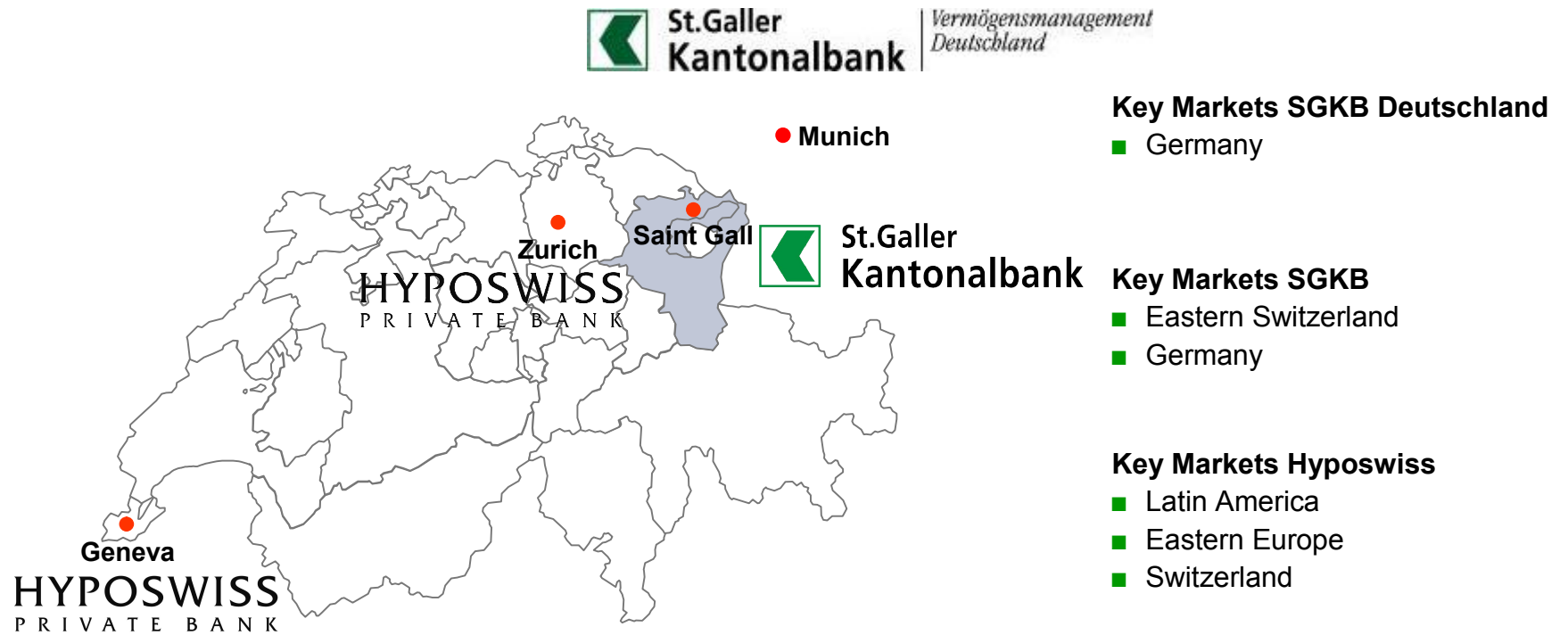


The focus is on growing and profitable markets and client segments.

Balanced Business Model



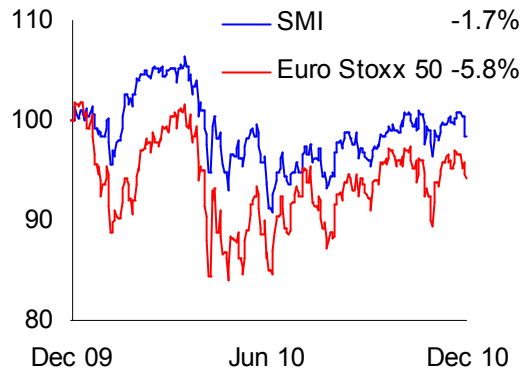
SGKB Group: subsidiaries and markets



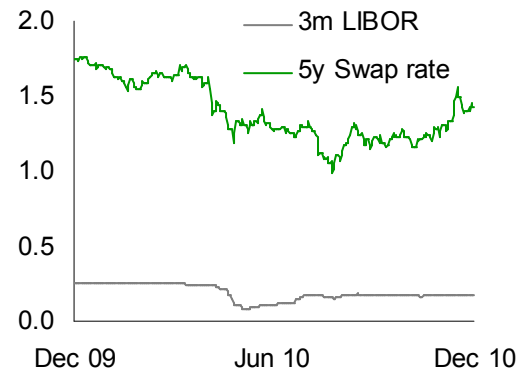
Challenging market condition

Market performance 2010

indexed

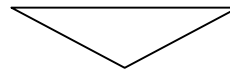
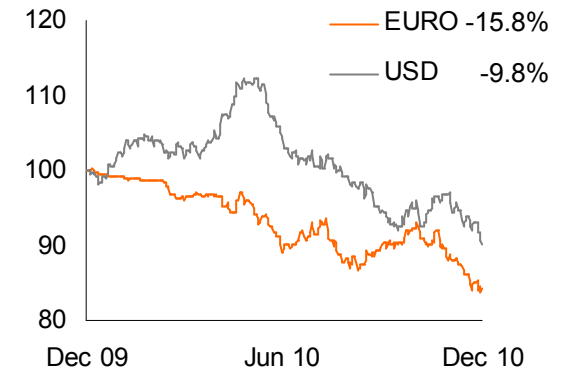


Interest rates 2010



Exchanges rates 2010

indexed



Good Swiss Economy 2010

- GDP growth 2.7%
- Unemployment rate 3.8%
- Inflation 0.7%

Estimate seco 10-12-2010

Income statement reflects interest hedging

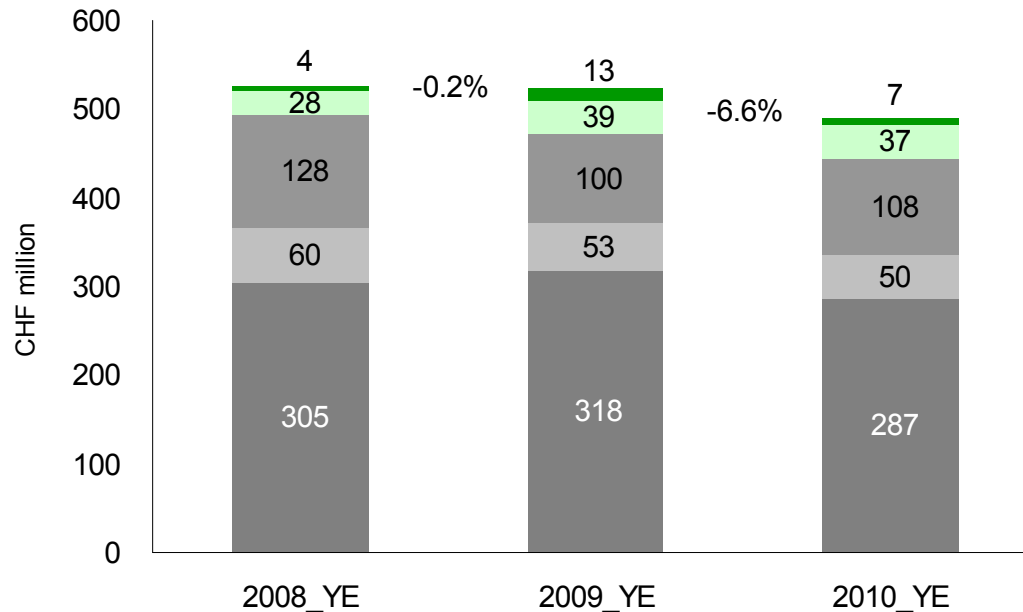
CHF million	2010_YE	△	2009_YE	△	2008_YE
Operating income	489	-6.6 %	524	-0.2 %	525
Administrative expenses	-277	1.3 %	-273	-1.0 %	-276
Gross profit	213	-15.2 %	251	0.8 %	249
Depreciation	-35	-15.9 %	-42	-24.7 %	-55
Valuation adjustments, provisions and losses	-3	-74.2 %	-13	25.4 %	-10
Operating profit	175	-11.2 %	197	7.0 %	184
Extraordinary income, net	6	-28.5 %	9	-65.4 %	26
Profit before taxes	181	-12.0 %	206	-1.9 %	210
Taxes	-35	-7.6 %	-38	-2.6 %	-39
Group net profit	146	-13.0 %	168	-1.7 %	171

Income statement – Divisional accounts

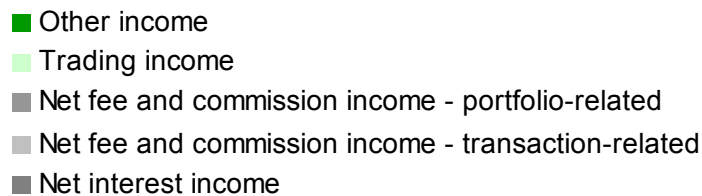
CHF million	Retail- and commercial clients		Private Banking		Corporate Center		SGKB Group	
	2010 YE	2009 YE	2010 YE	2009 YE	2010 YE	2009 YE	2010 YE	2009 YE
Net interest income*	134	178	20	35	133	105	287	318
Net fee and commission income	39	36	122	119	-3	-2	158	153
Net trading income	15	13	25	23	-3	4	37	39
Net other income	0	0	0	0	7	13	7	13
Operating income	189	228	166	177	135	120	489	524
Administrative expenses	-126	-127	-121	-120	-30	-26	-277	-273
Gross profit	63	101	45	57	105	93	213	251
Depreciation and write-offs on fixed assets and intangibles	0	0	-3	-3	-32	-38	-35	-42
Valuation adjustments, provisions and losses	-1	-1	-2	-15	0	3	-3	-13
Operating profit	62	100	40	38	73	58	175	197
Group net profit	53	86	34	36	59	46	146	168

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

Positive net fee and commission income



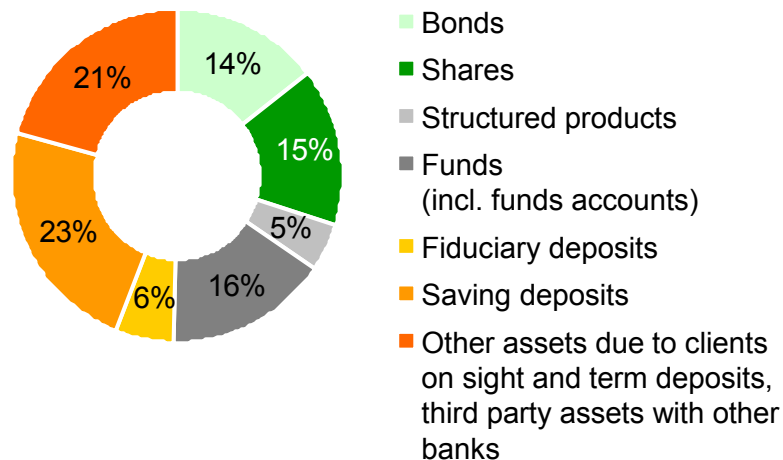
- Declining net interest income (-9.7%), due to interest hedging
- Increased net fee and commission income (+3.3%)
- Net trading income lower (-6.9%)



Net fee and commission income - Affected by market conditions

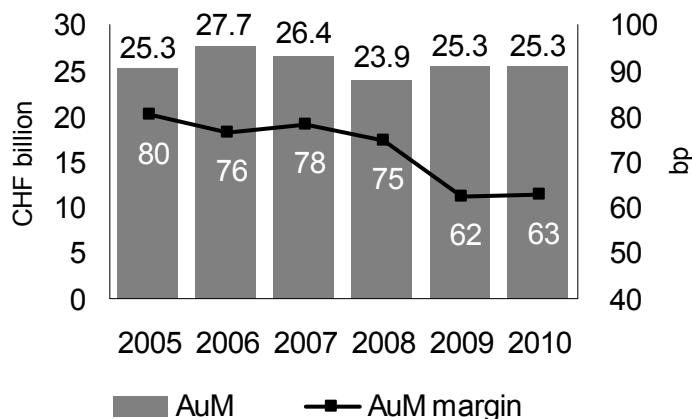
Asset allocation of client assets

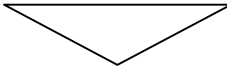
Total 42.2 billion



- Increase of client assets by CHF 1.3 billion
- Asset allocation
 - Excellent NNM result of CHF 1.8 billion
 - NNM attributed to balance sheet
 - Missing shift in securities depot volume
- Negative exchange rate effect of USD and EUR of CHF -10 million
- Difficult markets:
 - SMI -1.7%
 - Euro Stoxx -5.8%

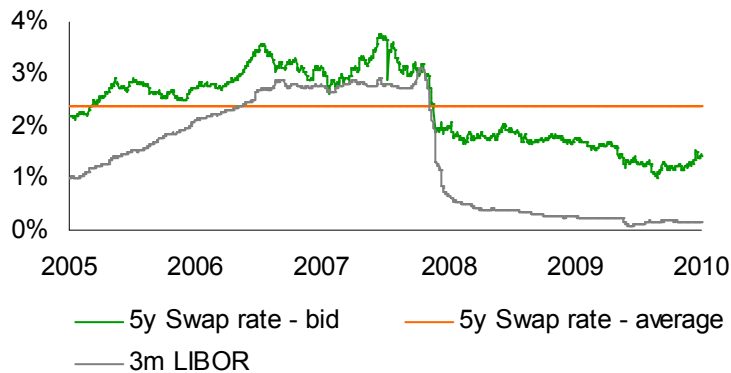
AuM Margin




Increase of net fee and commission income by 3.3% (CHF +5.0 million)

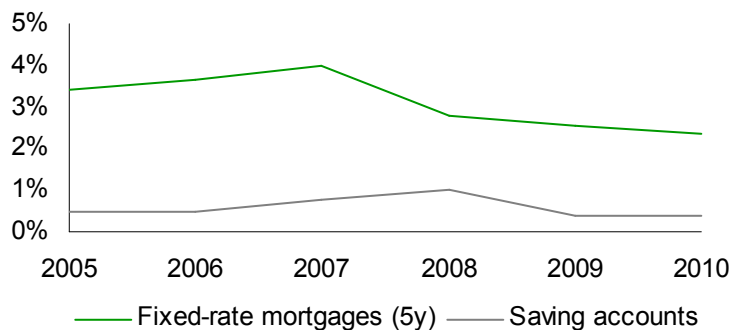
Interest income - Hedging affects interest result

Market interests rates



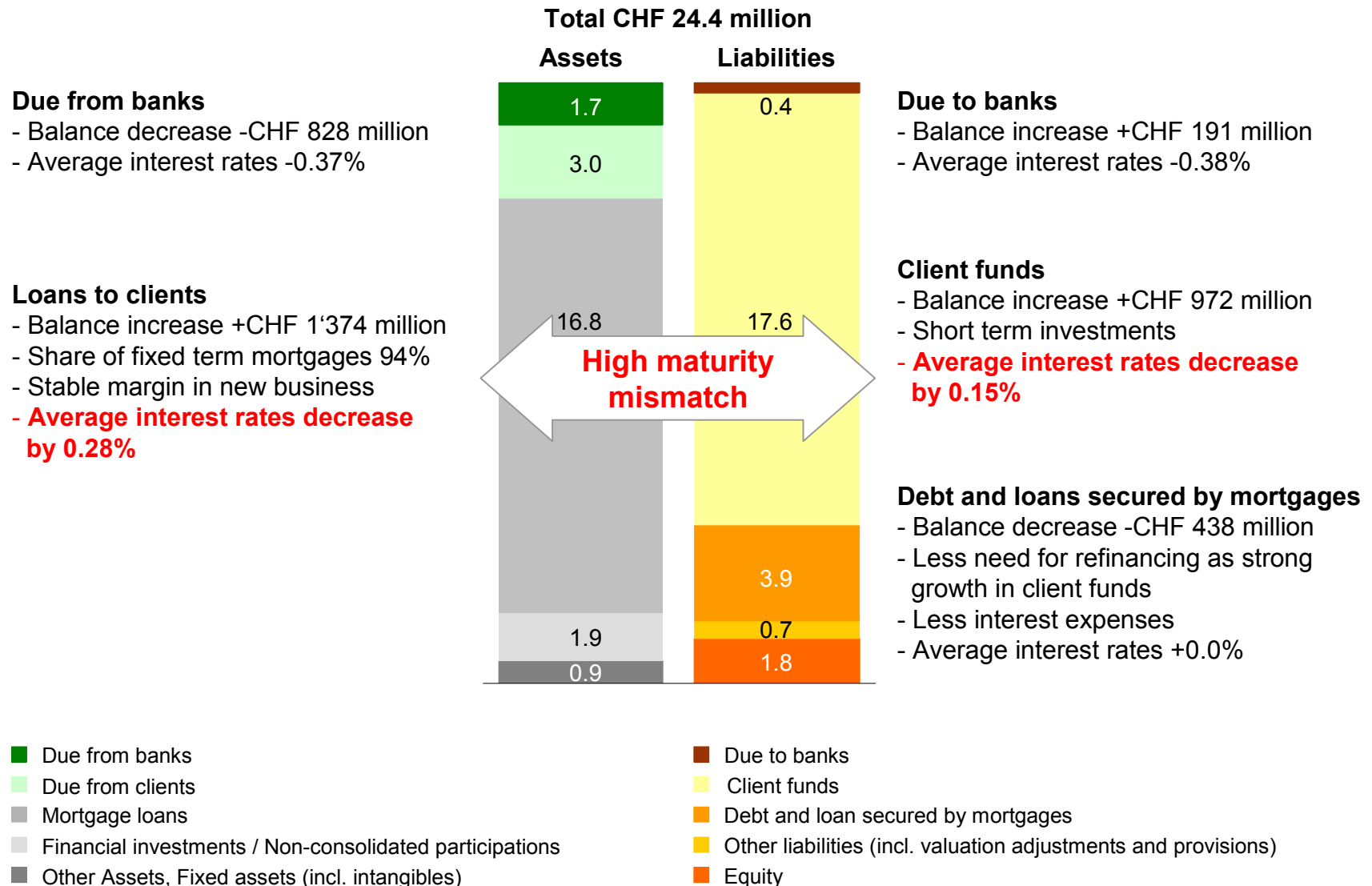
- Customer behaviour
 - Borrowers: long-term interest fixing
 - Investors: short-term interest fixing
- Consequences
 - Mismatch of maturity transformation in balance sheet
 - Risk of rising interest rates

Client interest rates



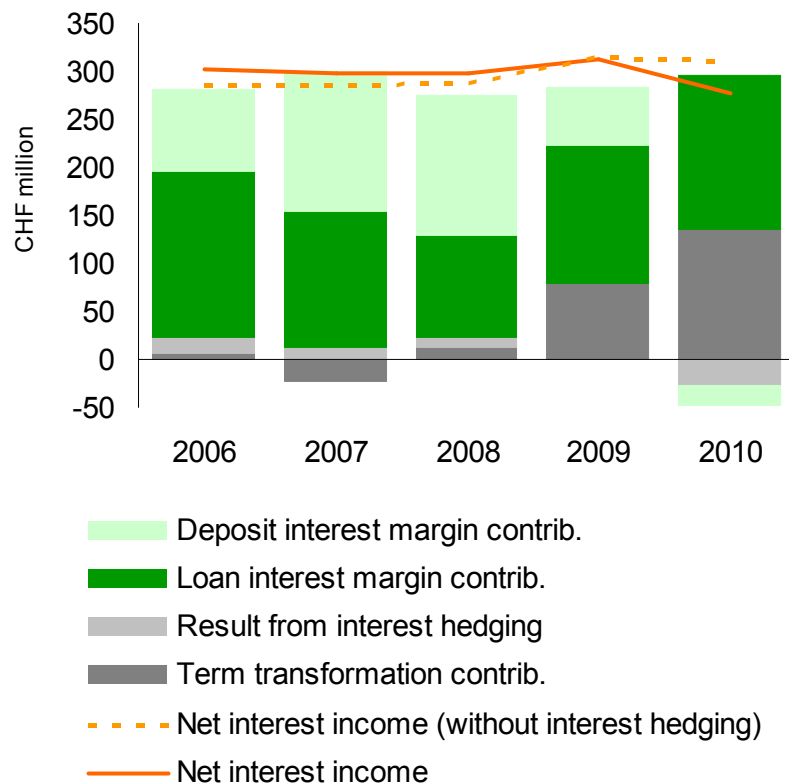
Interest rate hedge (CHF 27.9 million in 2010)
required against rising interest rates to reduce risk

Interest income - Customer behaviour influences balance sheet structure



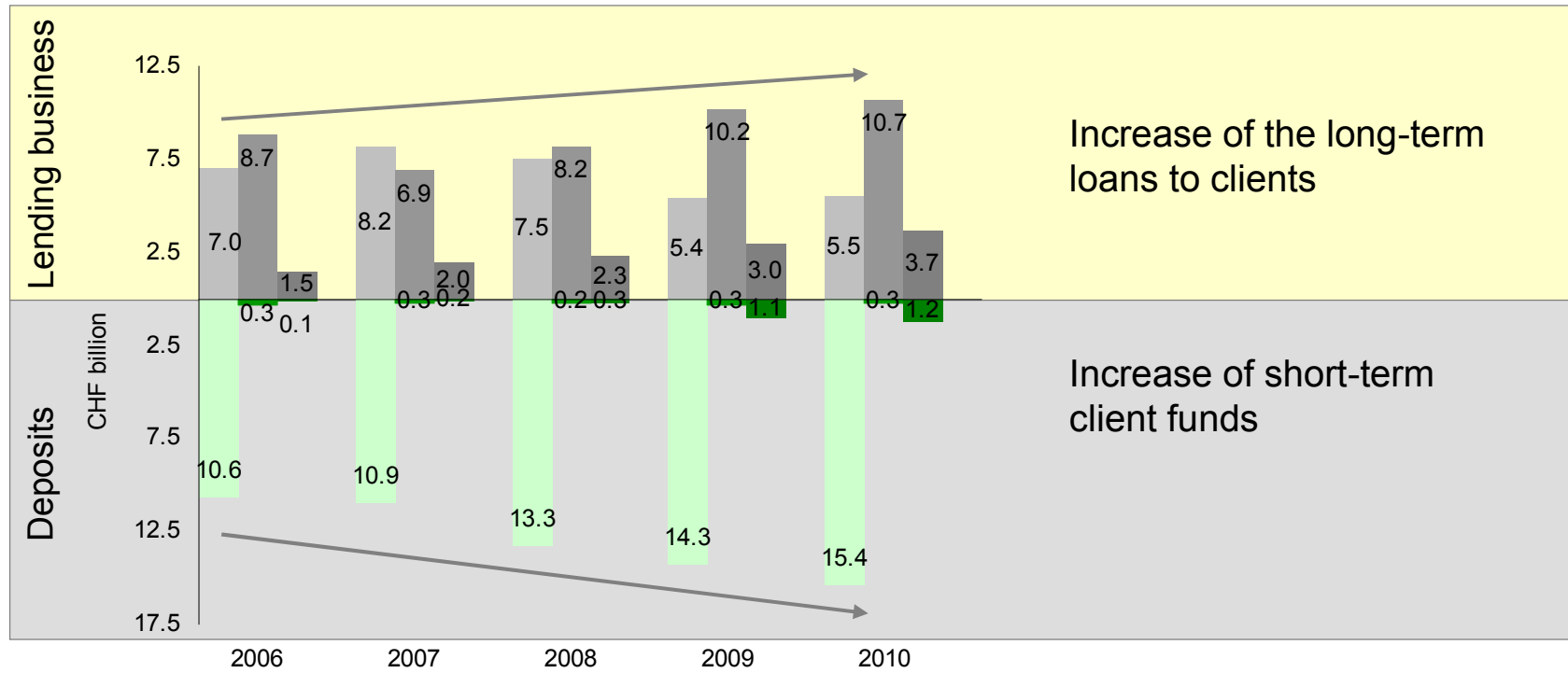
Interest income - Historical analysis

Development of interest income (applying the „funds transfer pricing method“): Interest margin contribution and term transformation contribution



- Loan interest margin contribution is stable
- Relative to the market rates the saving and deposits accounts have above market interest rates. Therefore the deposit interest margin contribution collapsed
- As a consequence the term transformation contribution increased
- Without interest hedging the interest income would be on previous years level

Interest income - Increasing maturity mismatch



- < 1 year
- between 1 and 5 years
- > 5 years
- < 1 year
- between 1 and 5 years
- > 5 years

Increase of long term assets plus increase of short term liabilities = higher maturity mismatch

Interest income - Prior period comparison

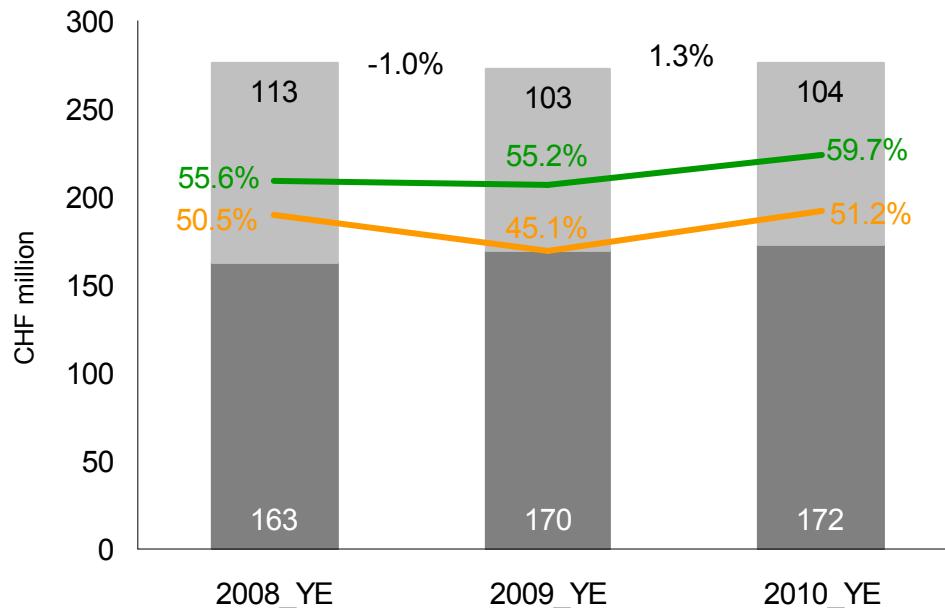
Volume effect*			
Due from banks	- 560 million	Client funds	+ 1'020 million
Loans to clients	+ 840 million	Debt/loans	- 510 million
Financial investments	+ 350 million		
		Growth: ~ 0.7 billion	
		Assets: +25.5 million	
		Liabilities: +12.0 million	
		Total +37.5 million	
Pricing effect			
Due from banks	-0.37%	Client funds	-0.15%
Loans to clients	-0.28%	- Savings and deposits	-0.04%
Financial investments	-0.27%	- Due to clients	-0.22%
		- Debt/loans	0.00%
		Assets: -65.4 million	
		Liabilities: +23.9 million	
		Total -41.4 million	

Balance Sheet	
CHF	+37.5 million
CHF	-41.4 million
CHF	-3.9 million

Interest rate hedge	
CHF	-27.0 million

Interest income compared to last year	
CHF	-30.9 million

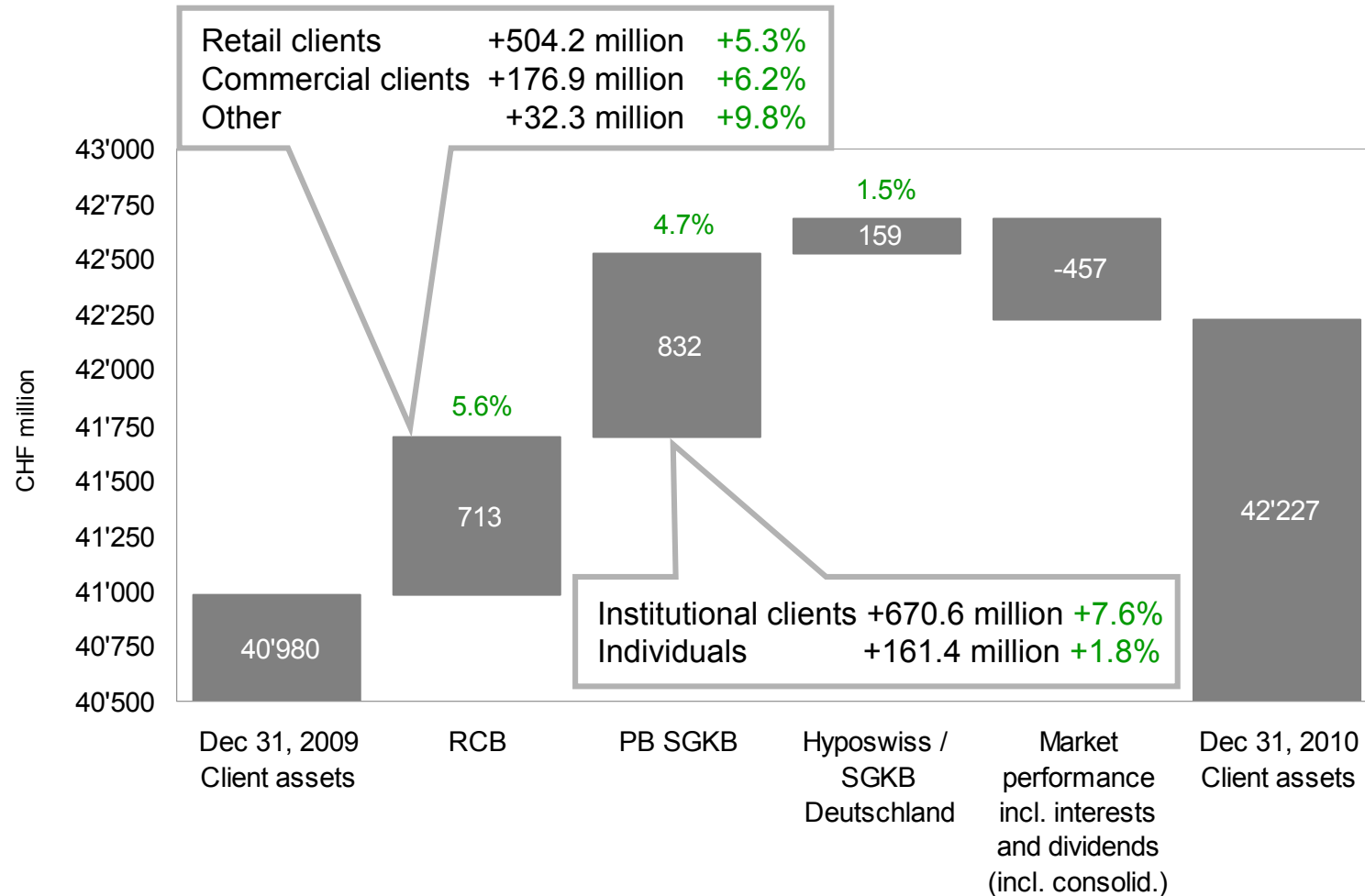
Administrative expenses – Stable and under control



- Administrative expenses on last years level
- Expenses stable despite growing new business
- Result of increased productivity and tight cost management

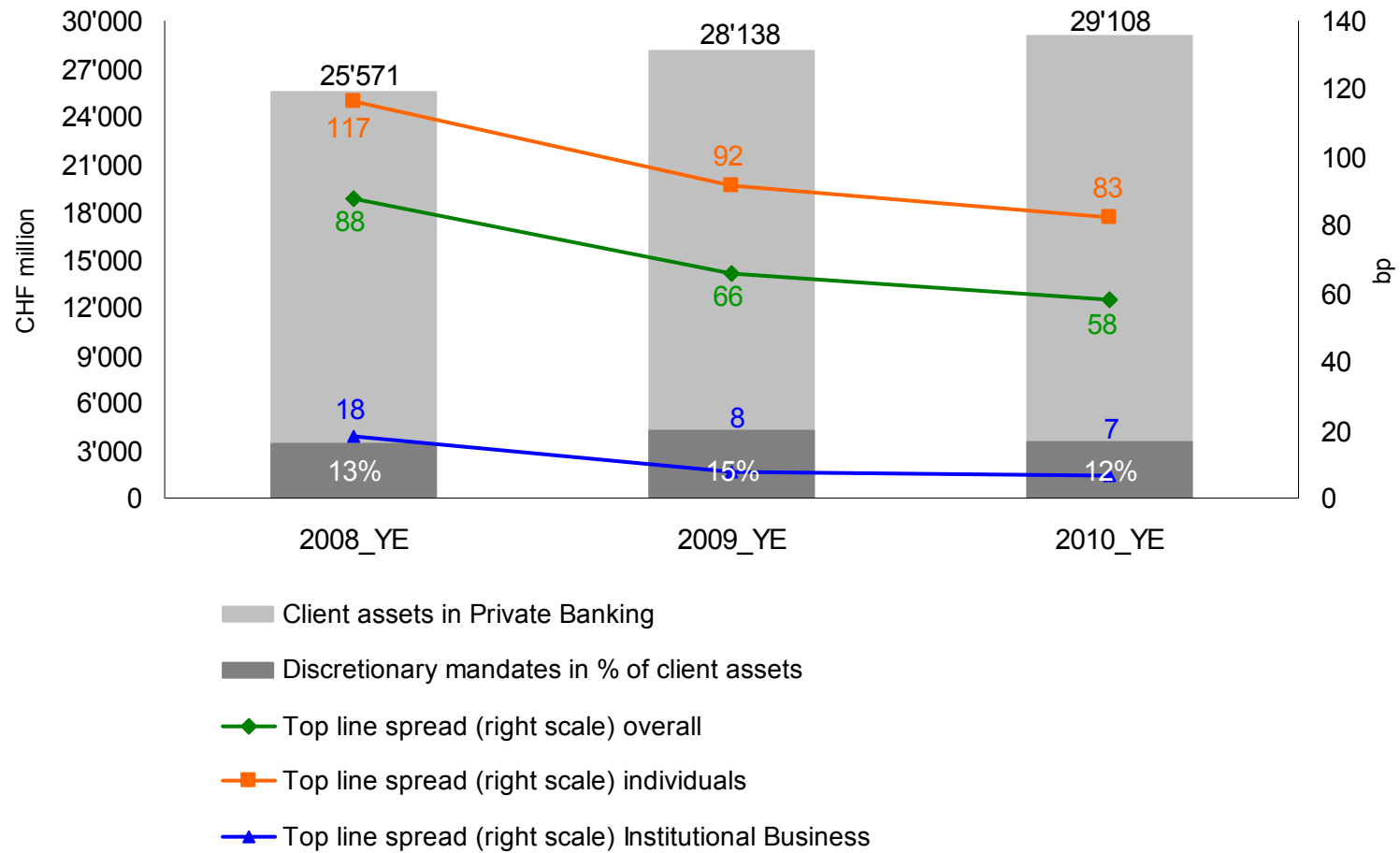
Other operating expenses
 Personnel expenses
 cost/income-ratio parent company
 cost/income-ratio group

Client assets – New business confirms costumer confidence



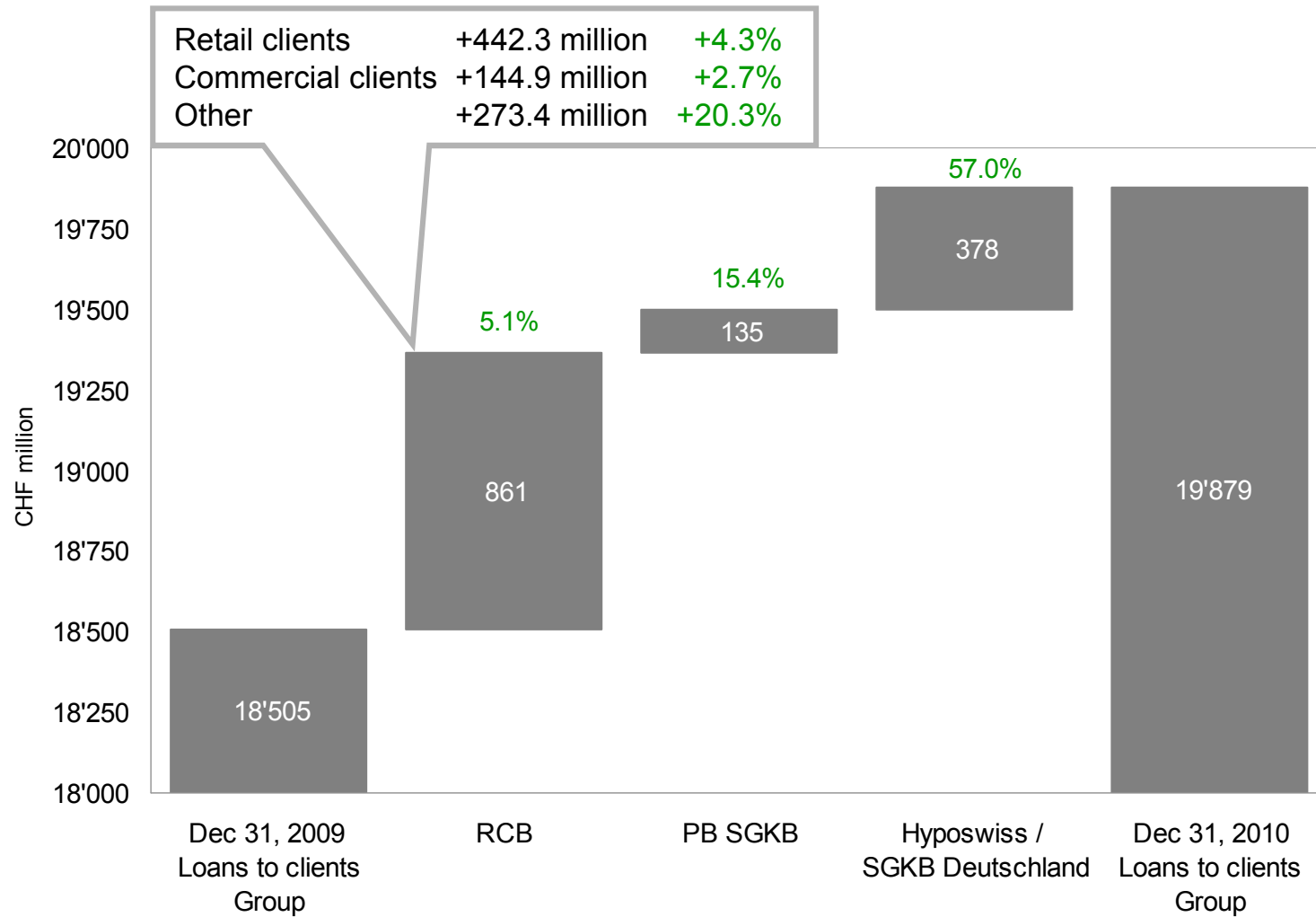
NNM Group CHF 1780 million = RCB + PB SGKB + Hyposwiss + SGKB Deutschland + consolidation effect (CHF +73 million)

PB SGKB Group - Top Line Spread



Top line spread = Operating Income / average client assets

Loans to clients - Growth in core business



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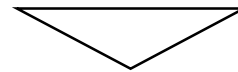
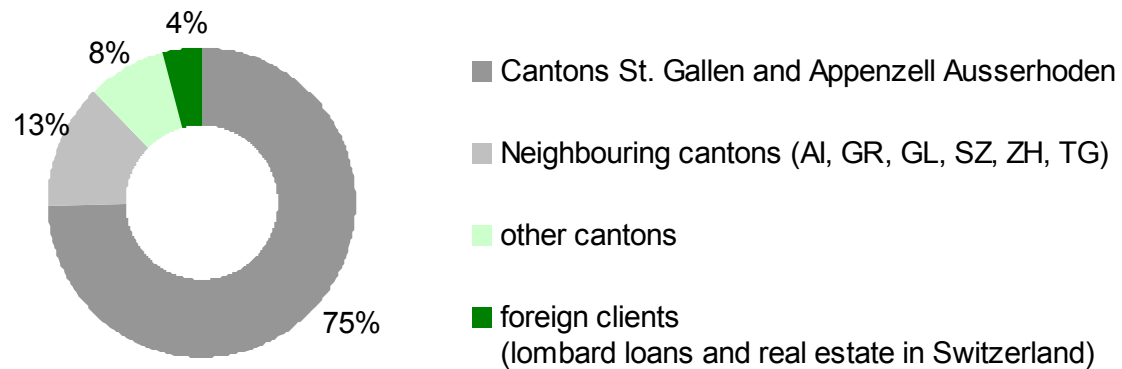
Quality of credit – Unchanged lending policy

- Actual valuation
 - Independent valuation, lower value of market price estimation and purchase price, no financing on the basis of initial costs
- Loan to value
 - Self-inhabited properties: Calculative minimum credit interest rate of 5-6%
 - Other properties: debt capacity
 - Residential buildings: Mortgage up to 80% (amortisation of second mortgage up to 66%)
 - Commercial buildings: Mortgage up to 70% (amortisation up to 60%)
 - Industrial buildings: Mortgage up to 60% (amortisation to zero)
- Affordability by self-inhabited properties
 - Interest rate cost, amortisation and additional expenses should not exceed 1/3 of the sustainable income
- Pledge of pension money
 - The client has to contribute 10% of own capital
 - Contribution of maximum one half of the pension money pledgeable by law
 - Amortisation of pledged portion until retirement at the latest

Quality of credit – Credit portfolio focus on home market

Loans to clients

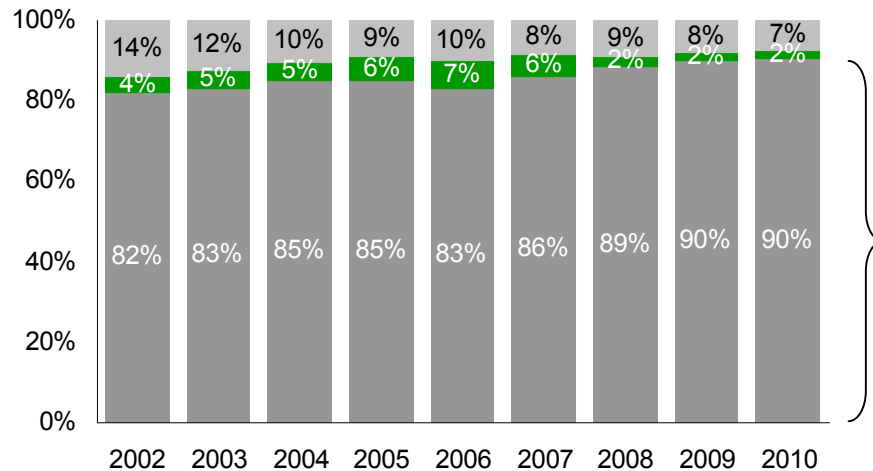
Total CHF 18.9 billion



**Focus on business activity in the
cantons St. Gallen and Appenzell Auser Rhoden**

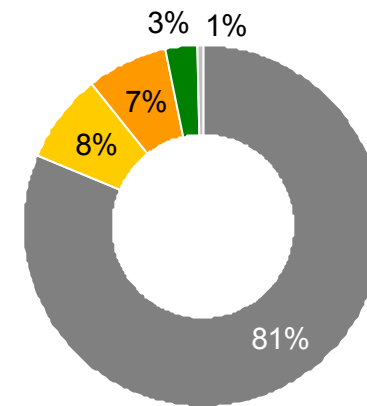
Credit quality – Solid collateralisation

Collateral character of loans to clients



- Without collateral
- Other collateral
- Mortgage collateral

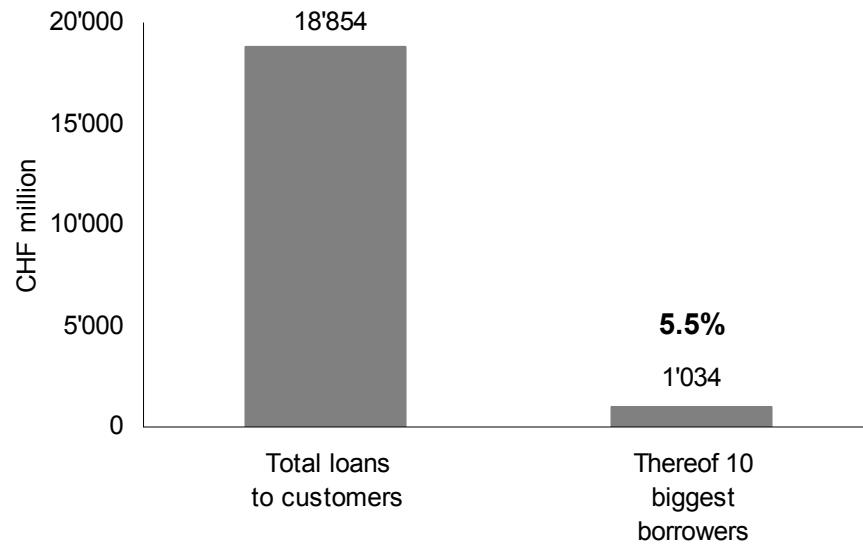
Collateral of mortgage loans 2010 16.6 billion CHF



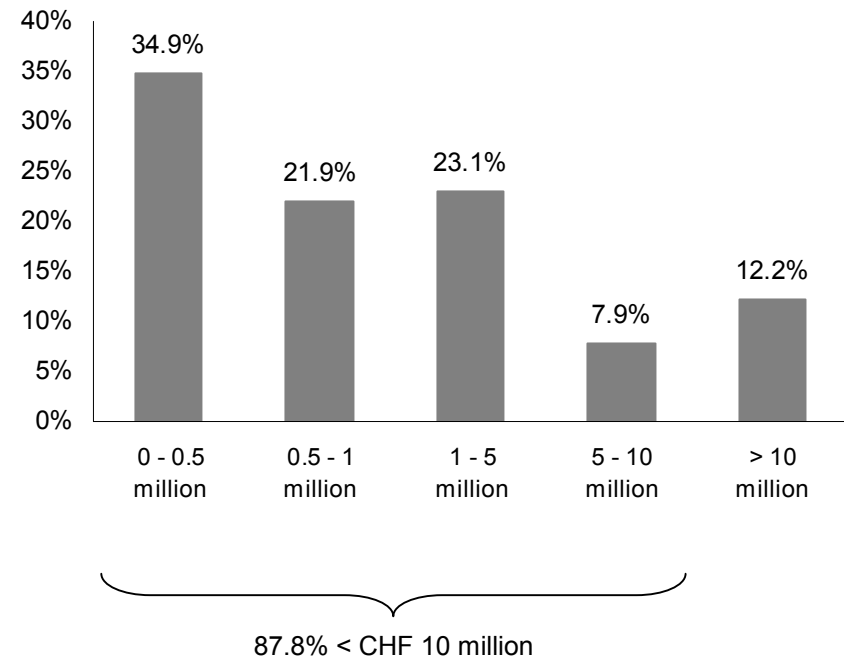
- Residential real estate
- Office and business buildings
- Trade and industry
- Other
- Without collateral

Quality of credit – No concentration risks

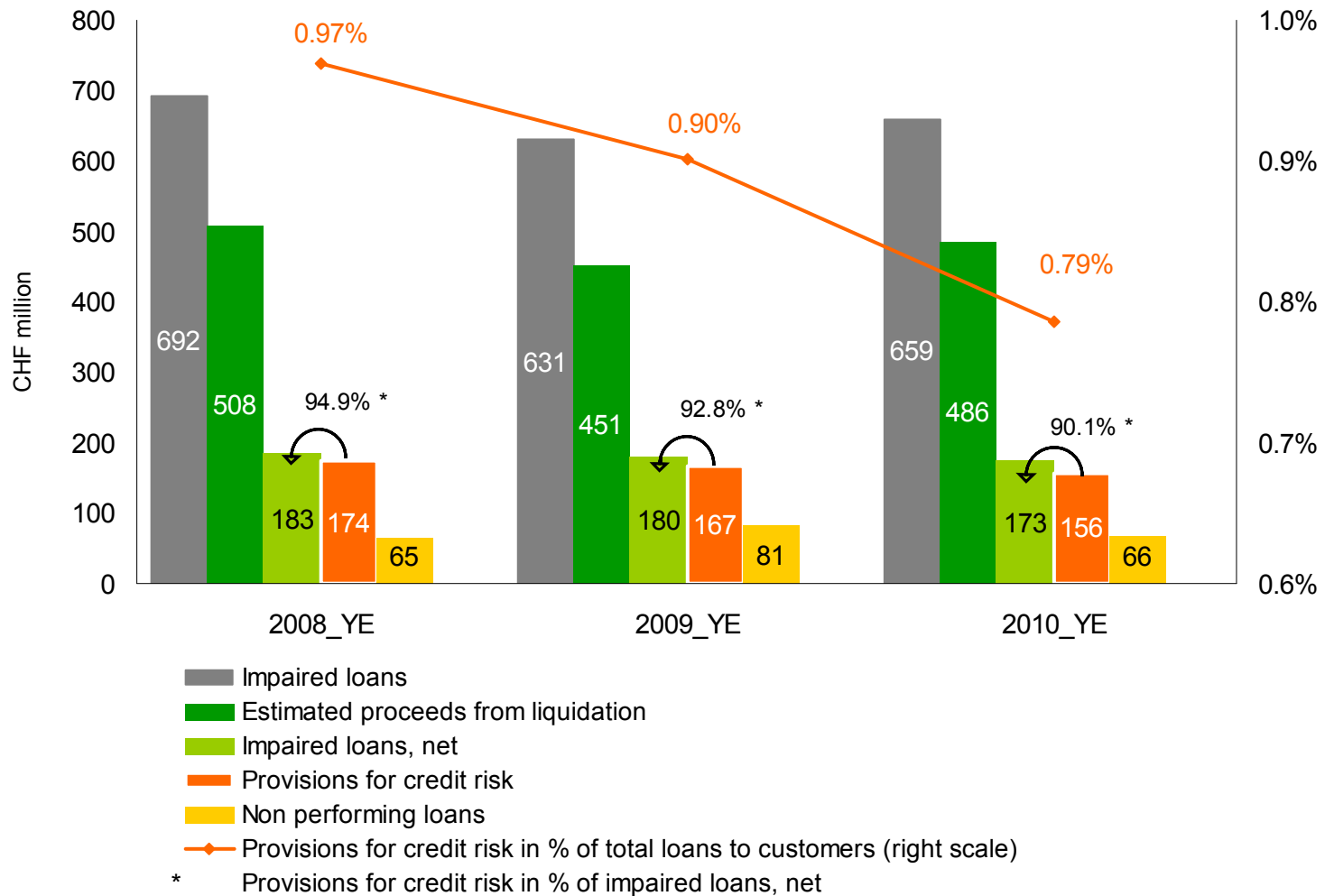
Share of 10 largest borrowers



Credit portfolio by size



Quality of credit – Low NPL and high risk provision



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-

Quality of balance sheet – Due from banks

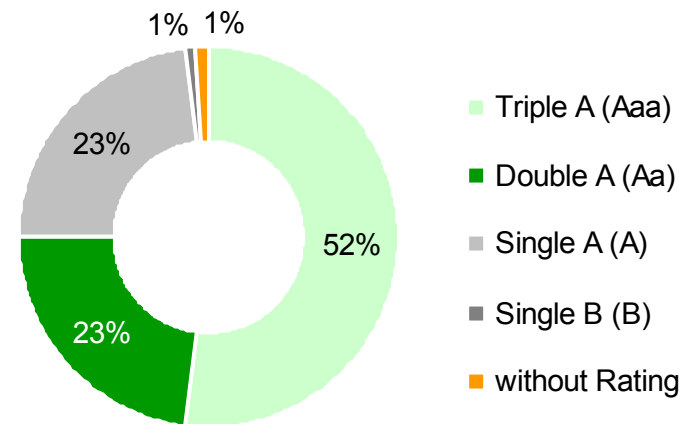
Total due from banks

CHF 1.7 billion

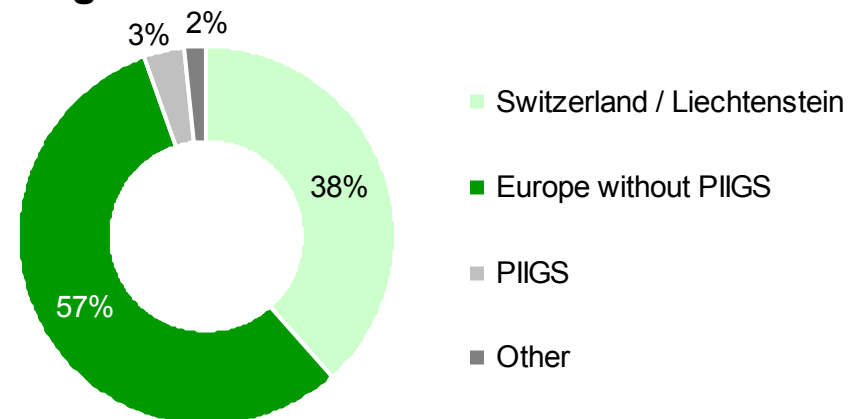
- Excellent quality of portfolios (Triple A to A)
- Counterparty risk broadly diversified
- Still low limits for banks in PIIGS countries

Distribution

Rating (Moody's)



Regions



Quality of balance sheet – Financial investments

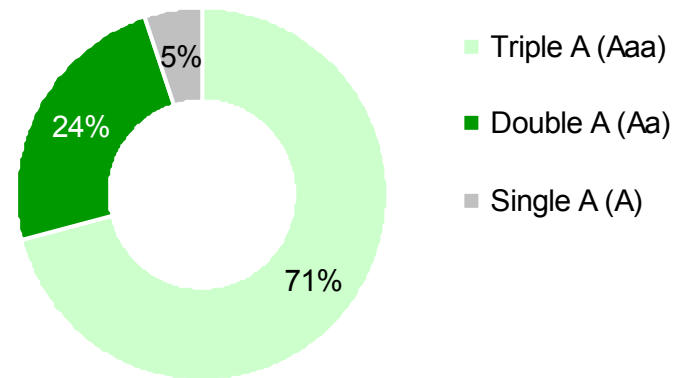
Total financial investments

CHF 1.9 billion

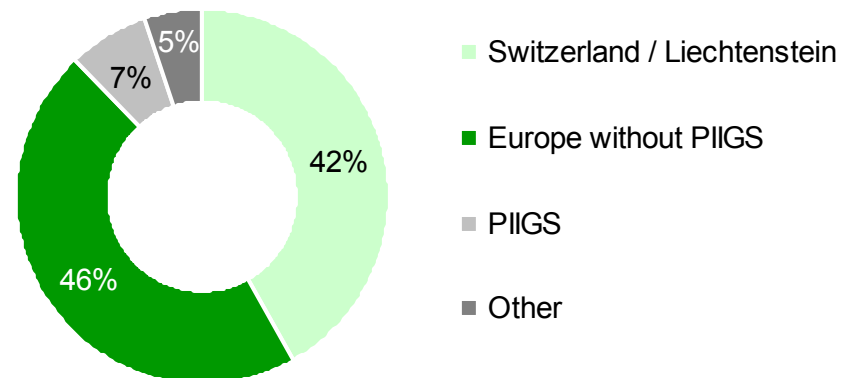
■ Bonds	73%
■ Loans secured by mortgages (Pfandbriefe)	26%
■ Shares and properties for resale	1%

Distribution

Rating*

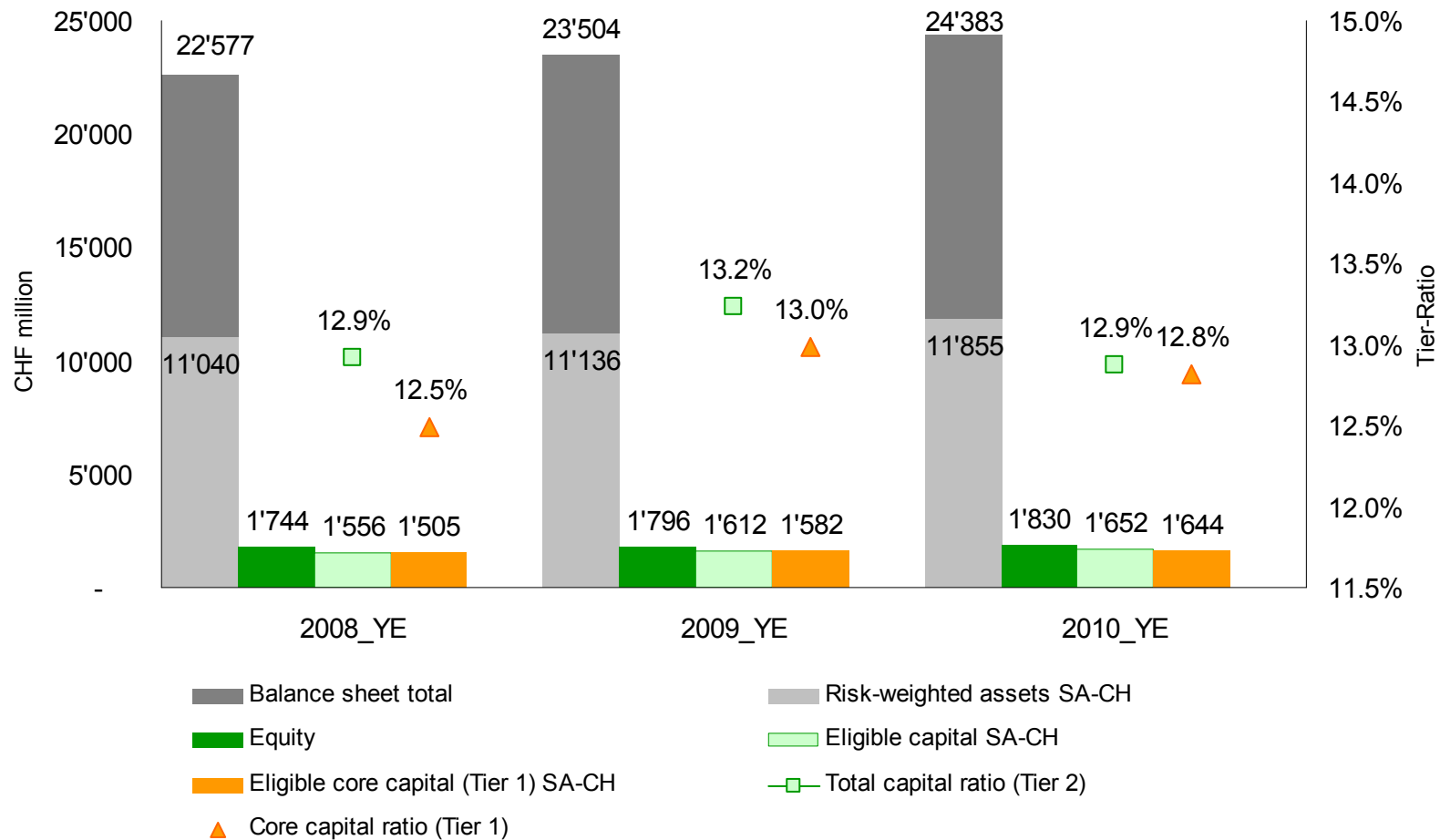


Regions

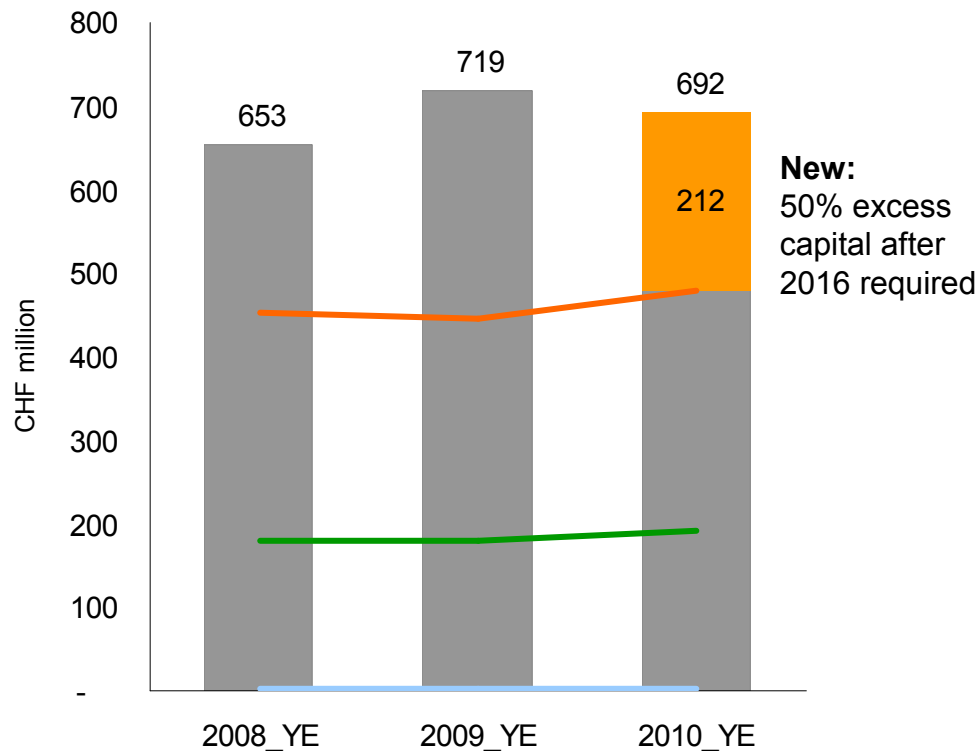


* Sequence of ratings: Moody's, S&P, Fitch, ZKB

Quality of balance sheet – Strong equity base



Quality of balance sheet – New FINMA* capital requirements



- Excess capital
- Excess capital acc. more restrictive FINMA capital requirements
- FINMA standard capital requirements (100%)
- current FINMA standard capital requirements (120%)
- new FINMA capital requirements from 31/12/2016 (150%)

- According to the FINMA* circular draft SGKB is allocated in category 3
- Increase of required excess capital from 20% to 50%
- Transition period until 31-12-2016
- Conceivable increase in requirement can already be met today

Agenda

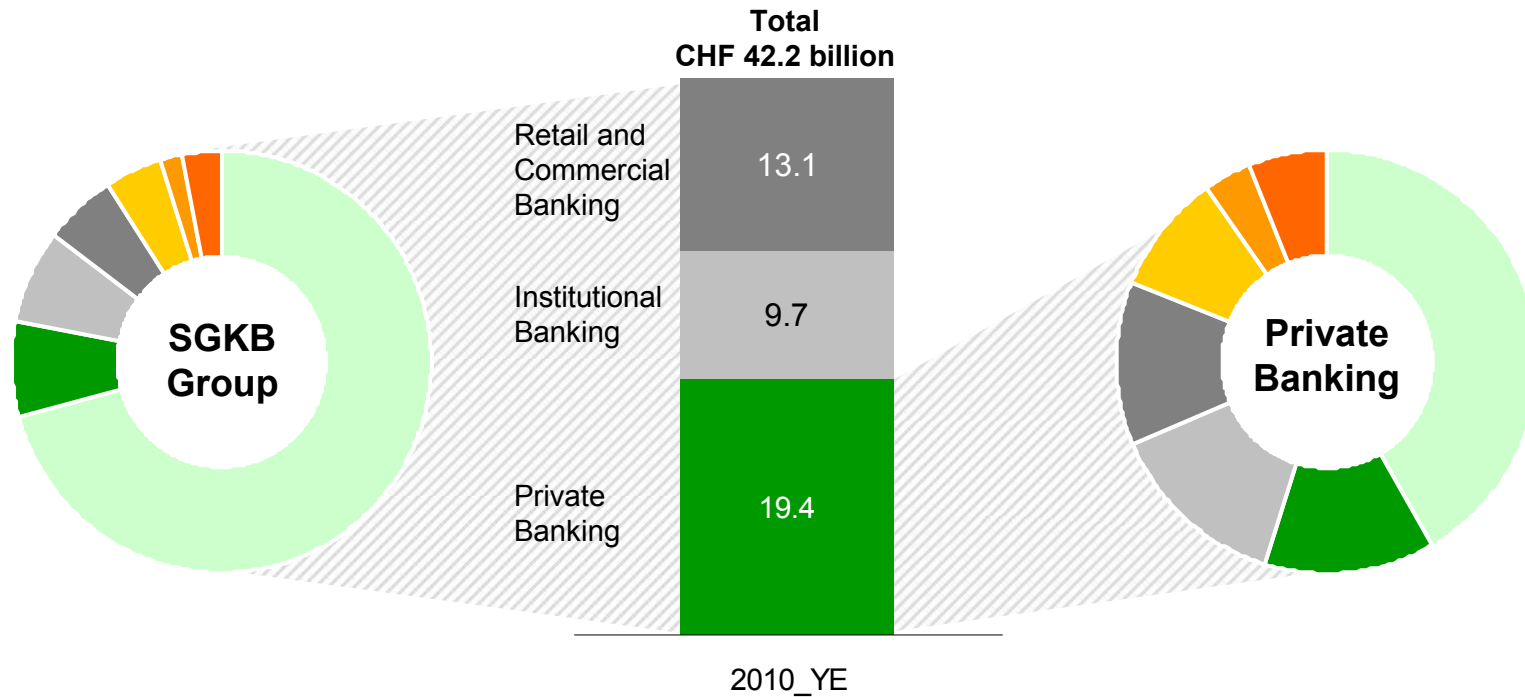
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Origin of client assets



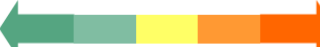
Switzerland	70.7%
Germany	7.3%
Other Western Europe	7.1%
Eastern Europe	5.8%
Middle- and South America	4.3%
North America	1.8%
Others	3.0%

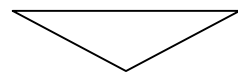
Switzerland	41.7%
Germany	13.0%
Other Western Europe	13.9%
Eastern Europe	12.4%
Middle- and South America	9.1%
North America	3.7%
Others	6.2%

Offshore strategy – Focus on key markets

		„Macro priority“: regions			
		Prio 1 Eastern Europe/CIS	Prio 2 Latam / Iberia	Prio 3 Africa Mid' East	
„Micro-Priority“: countries	Prio High				
	Prio Middle				
	Prio Low				

Strategic priority regarding
development of markets /
resource allocation

high ←  → low



Long experience in key markets – Priority in Eastern Europe

Key markets of Hyposwiss in Eastern Europe

		"Macro priority" regions			
		Prio 1 Eastern Europe/CIS	Prio 2 Latam / Iberia	Africa	Prio 3 Mid' East
"Micro priority" countries	Prio High				
	Prio Middle				
	Prio Low				

Poland

- Acquisition of a team
- Building up market

		"Macro priority" regions			
		Prio 1 Eastern Europe/CIS	Prio 2 Latam / Iberia	Africa	Prio 3 Mid' East
"Micro priority" countries	Prio High				
	Prio Middle				
	Prio Low				

Russia

- Strategic top priority
- Biggest and most important CEE-market* of Hyposwiss
- Long tradition
- Most important source for NNM for Hyposwiss

		"Macro priority" regions			
		Prio 1 Eastern Europe/CIS	Prio 2 Latam / Iberia	Africa	Prio 3 Mid' East
"Micro priority" countries	Prio High				
	Prio Middle				
	Prio Low				

Bulgaria / Czech Republic

- Hyposwiss established
- Further market development

		"Macro priority" regions			
		Prio 1 Eastern Europe/CIS	Prio 2 Latam / Iberia	Africa	Prio 3 Mid' East
"Micro priority" countries	Prio High				
	Prio Middle				
	Prio Low				

Ukraine

- Market with high potential
- Synergies with market development Russia



* CEE: Central and Eastern Europe

Russia as strategic top priority

Market with high potential

- Political and economic stabilisation of Russia in the last years
- Russia participates with commodity exports in continued strong growth in China, India etc.
- Big investments in infrastructure projects: international events (Olympia 2014, World Cup 2018)
- Next wave of privatisation
- Further diversification of Russia's economy supported

Strong niche position of Hyposwiss Private Banks

- Since 1997 active in Russia; many years of commitment and tradition
- Senior client advisor team with market experience and language skills
- Networking with intermediaries and partners (lawyers in Russia / Switzerland)
- Broad service offering and competences – not only in the traditional investment advisory business but also outside core business: lombard loans, payments, etc.
- High flexibility / speed in decision making
- Security of mother through Aa1-Rating
- Still strong position of „Swiss offshore banking“ in the competition for Russian clients

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Cross border business – FINMA compliant (1/2)

- **FINMA compliant group wide regulation** for cross border business
- **Risk-oriented compliance:** Business in key markets of the group is aligned with local regulation – especially in consideration of reputation risk

Group-wide compliance structure, guidelines and monitoring

Country specific regulations and monitoring of key countries

Management SGKB

Management Hyposwiss Private Banks

Europe

America

Other

■ Germany

■ Russia

■ USA

■ Israel

■ Austria

■ France

■ Brazil

■ South-

■ Portugal

■ Argentina

Africa

■ Spain

■ UK

Cross border business – FINMA compliant (2/2)

- Establish **specialised country desks** for our key markets
 - First country desk Germany: 1. Quarter 2011
 - Establish the other desks until end of the year 2011
- Great attention to the **qualification of our employees**
 - Internal training
 - Own SGKB-licence
 - For all employees affected by cross border-issues
 - Country licence for CRM in key markets
- Current and comprehensive **monitoring of legal situation** in key markets

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Discretionary mandates - New products

- The range of mandates was restructured at the beginning of 2010
- The investment policy is implemented with different instruments based on the type of mandate

Mandate type	Implementation bonds	Implementation equities
Basic	Proprietary bonds fund as a cost efficient building block	ETF
Standard	Direct investments	Active investment funds
Premium	Direct investments	Direct investments

SGKB Finreon Swiss Equity Iso Pro®

- Equity fund for Swiss equities - based on quantitative model in partnership with Finreon AG (Spin-Off University St. Gallen)
- Product very successfully launched for institutional clients
- Performance of Swiss Equity Iso Pro® Mandate 2010: +11.5% (SPI: +2.9%)
- Launch spring 2011

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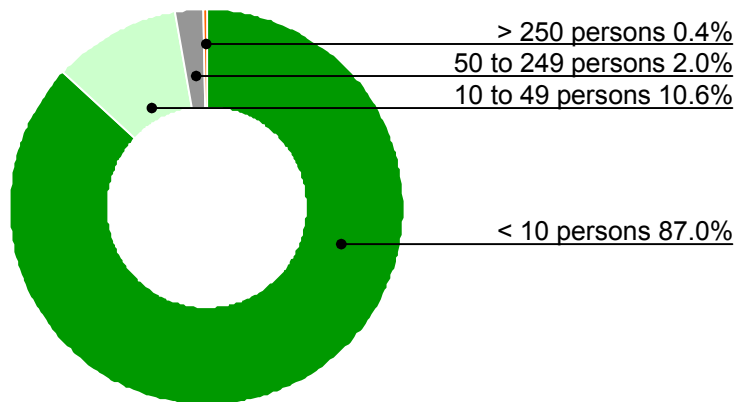
Commitment for SMEs - New start-up-financing

SGKB Commitment

Starting limit	Risk funds	Foundation STARTFELD
for business enterprises	for companies	for high-tech companies from university/industry
Financing current assets	Financing fixed assets	total financing (Seed-Money)
up to CHF 100'000	up to CHF 500'000	up to CHF 300'000
Duration: limited to 7 years	Duration: limited to 5 till 10 years	Duration: limited to 3 till 8 years
Debt capital	'Mezzanine' capital	equity capital
New instrument	Instrument since 2004, 13 enterprises claim altogether CHF 3.2 million	Formation planned for April 2011 in cooperation with the city St.Gallen, FHS St. Gallen, Uni St. Gallen and technology center tebo
CHF 5 million	CHF 5 million	CHF 5 million

Commitment for SMEs - Competence centre for succession planning

There are about 312'800 enterprises in Switzerland



Source: Bundesamt für Statistik,
Betriebszählung Stand 29.3.2010

- Succession planning especially for SME
- 50 – 70'000 succession planning in Switzerland
- SGKB business customers ~ 500 companies with succession issues

In order to support the whole succession process, SGKB is developing a centre of competence. We broker the necessary contacts between our clients and our broad business network.



Agenda

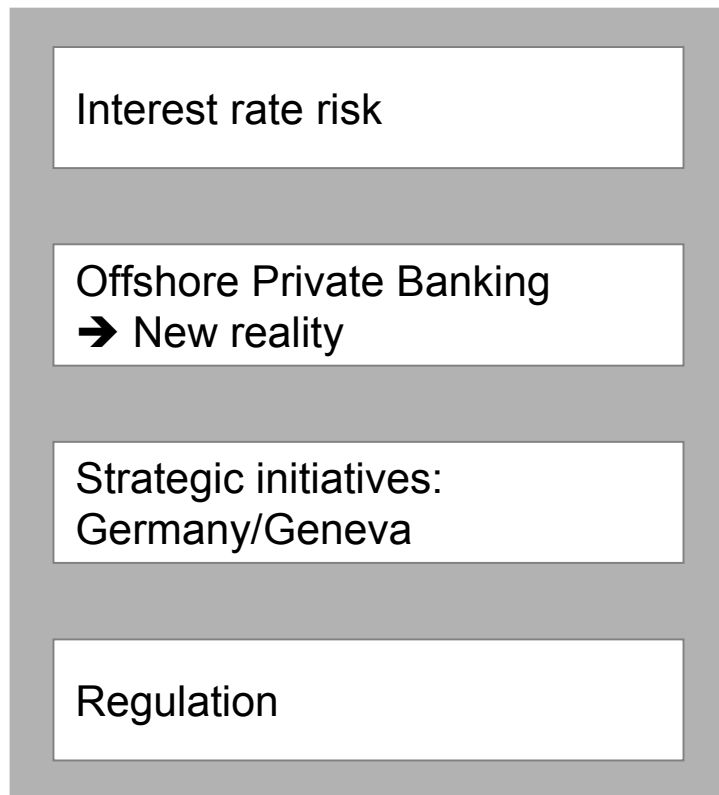
- Results 31-12-2010 R. Ledergerber
 - Group
 - Quality of credit
 - Quality of balance sheet

- Implementation of private banking strategy at Hyposwiss S. Peyer
 - Strategic focus on central and Eastern Europe
 - Cross border business
 - New products of investment center

- Engagement in home market R. Ledergerber

- Outlook R. Ledergerber

Strategic challenges



Strategic priorities

- Superior market performance
- Operational Excellence
- Growth

Strategic priorities

Superior market performance

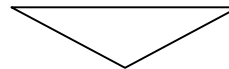
- Investment advice and performance
- Expand e-services
- Human resource development
- Error-free
 - IT
 - Processes
 - Documents

Operational excellence

- | | |
|--|---|
| <p>Cost management</p> <ul style="list-style-type: none"> ■ Cost structure of Private Banking subsidiaries ■ Increase efficiency in financing process ■ Process management (Six Sigma Approach) ■ Interactive document management | <p>Risk management</p> <ul style="list-style-type: none"> ■ Compliance ■ Offshore Banking <ul style="list-style-type: none"> - Cross Border - USA ■ IT security ■ Total risk management concept |
|--|---|

Growth

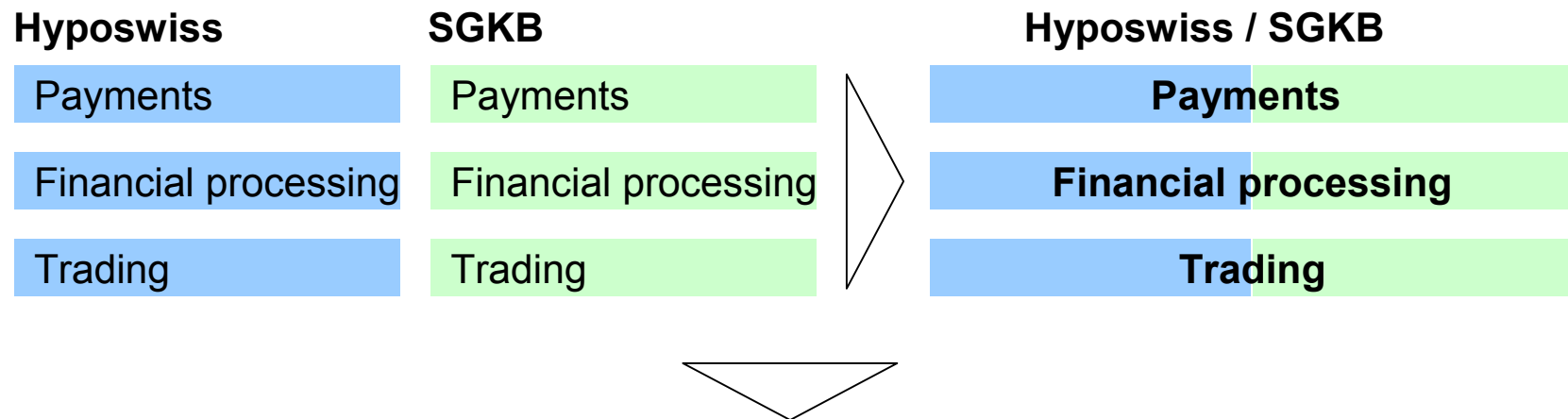
- RCB
 - Client segments < 30 years and > 50 years
 - Real estate financing ZH & GE
- Private Banking
 - Key clients
 - External asset manager
 - Sales + product management
- Institutional banking
- Hyposwiss ZH/GE strategic key markets
- SGK Deutschland



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

Optimizing cost structure in Private Banking (1/2)

Consolidation of back office units and trading

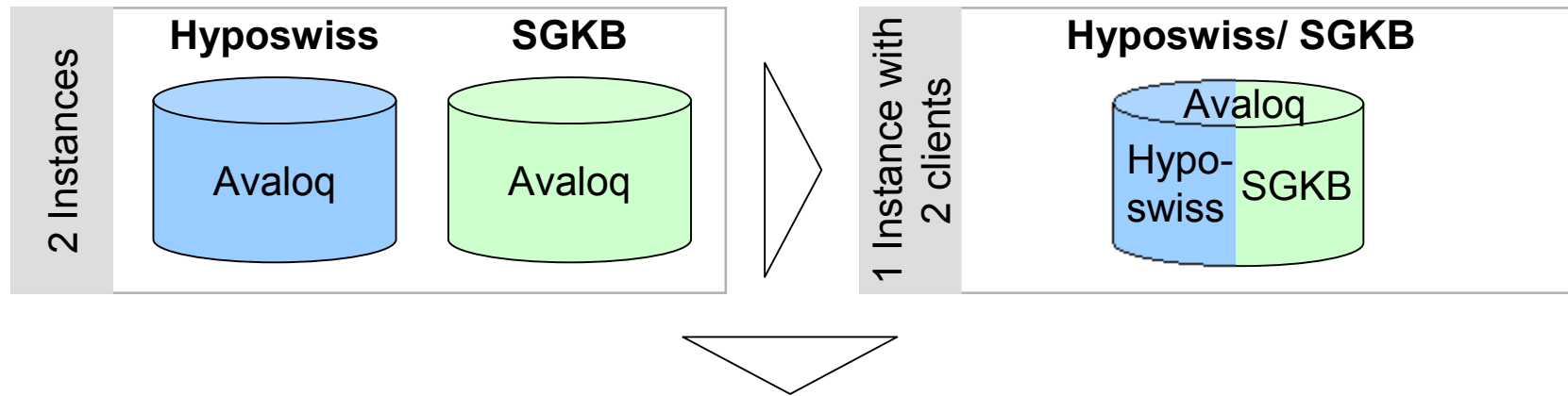


Project costs 2010	
Project costs	2.6 million
Hyposwiss	1.2 million
SGKB	1.4 million

Project benefits after 2011	
Annual savings*	1.9 million
Hyposwiss	4.1 million
SGKB	-2.2 million

Optimizing cost structure in Private Banking (2/2)

Consolidation of Avaloq-Platforms



Project costs 2011

Project costs	4.6 million
Project costs gross	7.1 million
Prevention release-change Hyposwiss	-2.5 million

Project benefits

80% in 2012 / 100% after 2013

Annual savings*	1.9 million
- IT-expenses	1.8 million
- personnel-expenses	0.1 million

SGKB Group – Mid-term financial targets

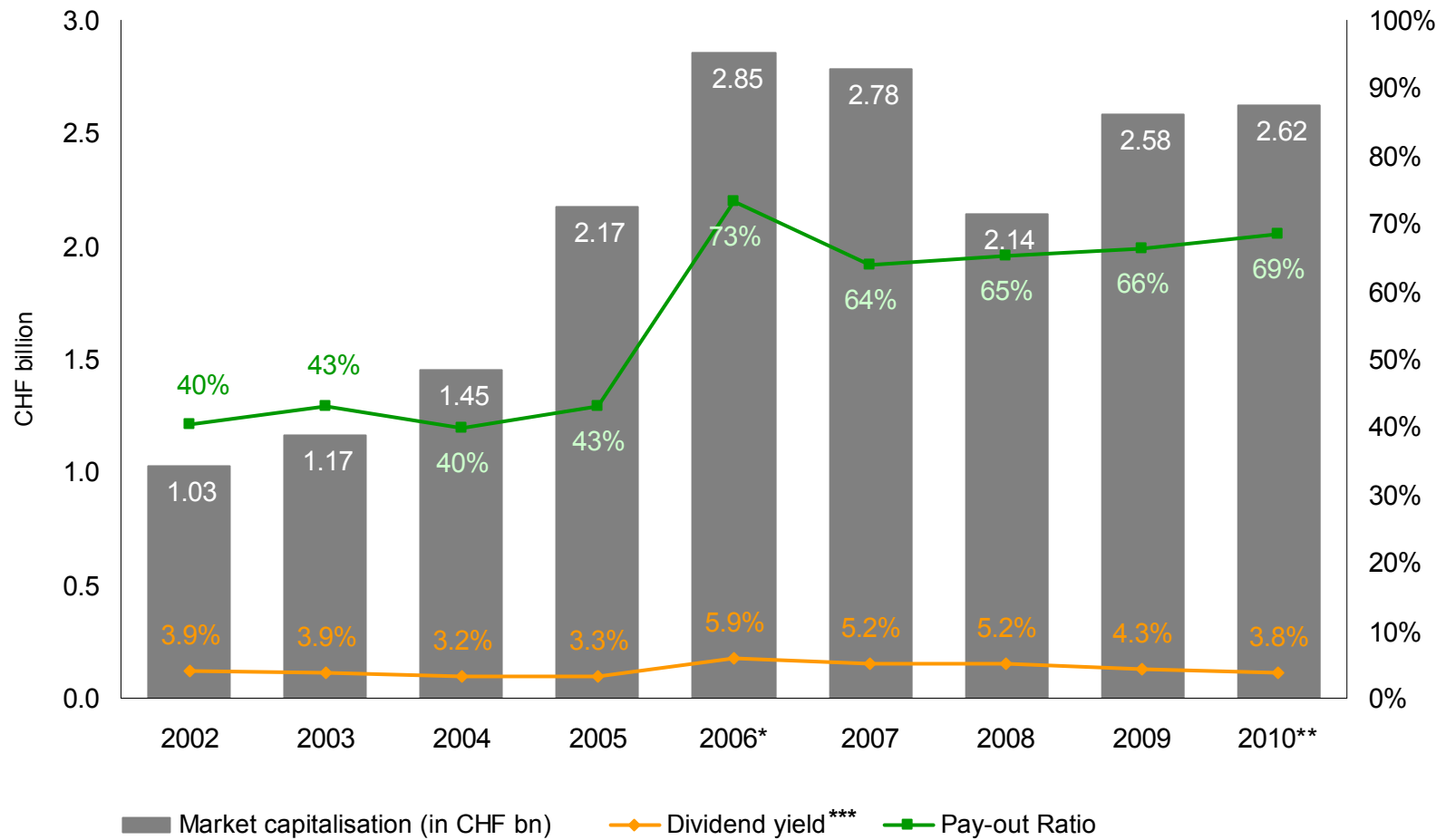
Growth of loans to clients	3%	(unchanged)
Growth of client assets* (Net new money)	5%	(unchanged)
Cost/Income-Ratio	55%	(to date: 50%)
Return on Equity (RoE) before taxes	12%	(to date: 15%)

* Client assets = AuM and client funds without double counting

Dividend policy

- New FINMA-Circular on capital requirements leads to an increase in capital required:
 - Adherence is possible
 - However, reduction in flexibility re. acquisitions, since excess capital will be reduced based on planned organic growth and increase in requirement due to change in regulations
- Dividend policy
 - Adhere to current pay-out ratio of 50-70% of Group result
 - New excess capital target of CHF 400 million defined in order to regain flexibility for acquisitions
 - Planned placement of subordinated debt in order to strengthen capital ratios
- Dividend for the financial year 2010
 - CHF 18 (= 69% pay-out ratio of Group result)
 - Capital contribution principle: CHF 74 million of equity classified as capital investment (confirmation Federal Tax Authorities pending)
 - CHF 7 of dividend to be sourced from capital contribution:
 - Income tax exempt for shareholders, who do not need to keep accounts
 - Withholding tax exempt for all shareholders

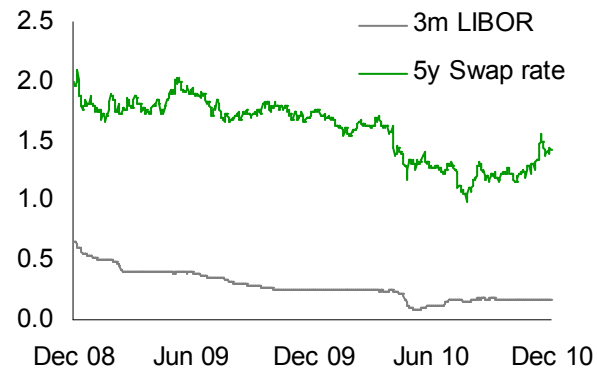
Shareholder oriented dividend policy



*Repayment of the par value per share **Proposal to AGM ***Dividend yield = expected dividend / share price year end

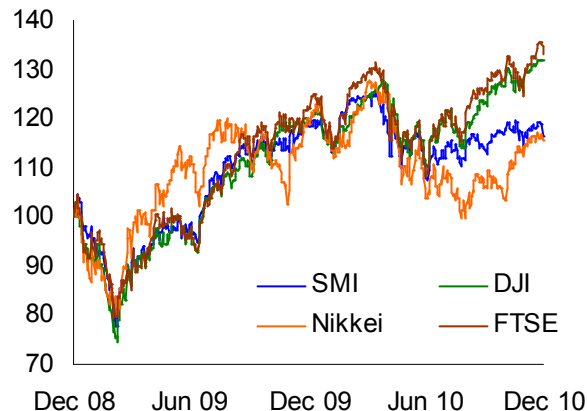
Secure positioning of SGKB Group

Interest rates



- Increase of yield curve expected second half of 2011
- Hedging strategy confirmed to control the interest rates risk
- ➔ Interest income will stay under pressure

Stock market



- Performance and exchange rates influence client assets
- Normalization of investment behaviour (activities, product mix)
- ➔ Increase of fee and commission income, potential for recovery

Changes to Board of Directors



Dr. Niklaus Fäh

- Resignation at 27 April 2011
- in office since 2000



Dr. Claudia Zogg-Wetter

- Standing for re-election at 27 April 2011
- in office since 2000

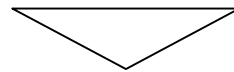


Dr. Adrian Rüesch

- Standing for election at 27 April 2011
- born 1954
- Lawyer
- resident of St. Gallen

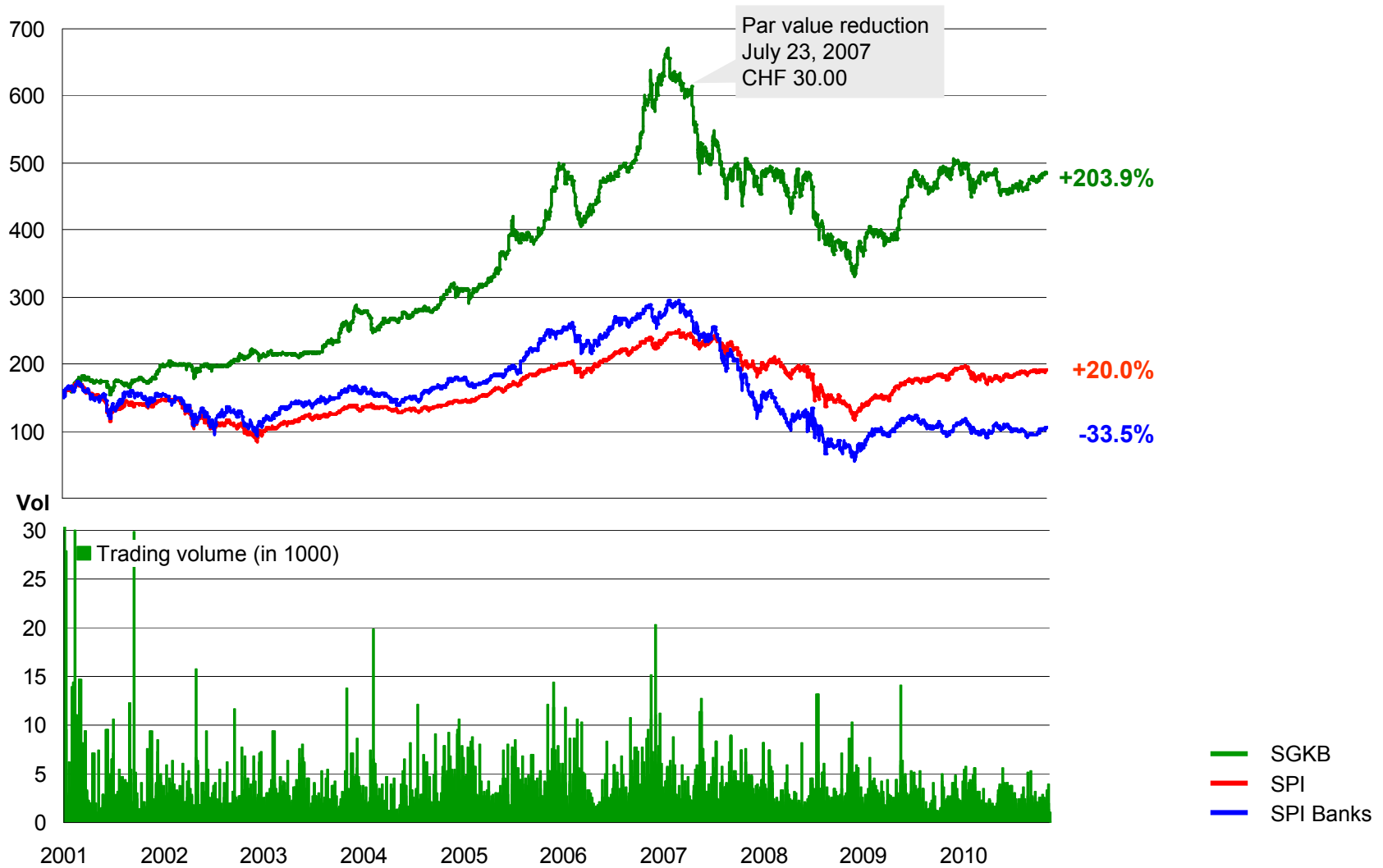
Outlook 2011 - Result slightly higher than previous year

- Demanding market environment continues in 2011:
 - Time and extent of increase of interest rates
 - Uncertainty in Europe regarding state solvency
 - Regain of investors trust in markets
 - Downsizing of high liquidity
 - Increase of transaction-oriented volumes



Volatile environment, many unknowns,
in principal a positive economic development 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.

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