

St.Galler Kantonalbank Year end results 2011

February 15, 2012

Agenda

Results 31-12-2011

■ Group

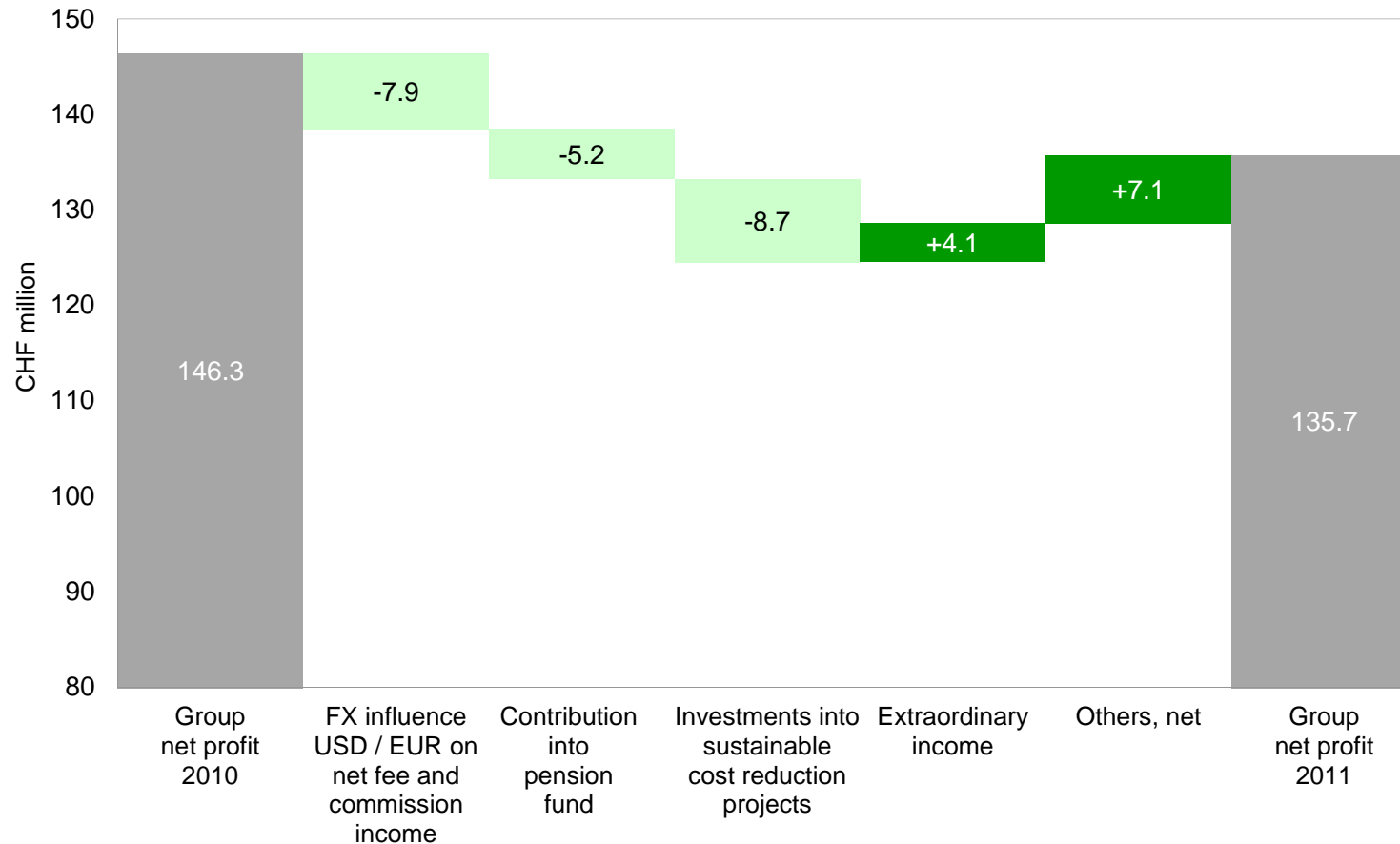
- Quality of credit
- Quality of balance sheet

Strategy

Private Banking – «new reality»

Outlook

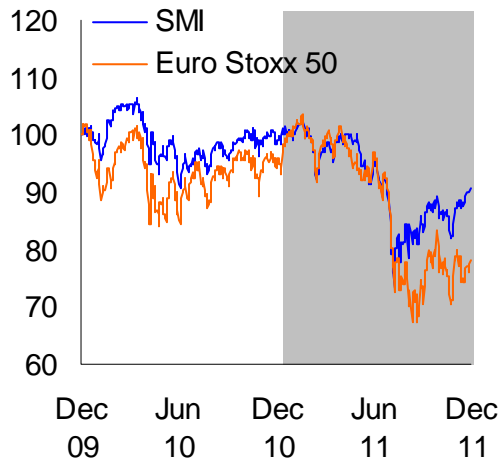
Result 2011 strongly influenced by special factors



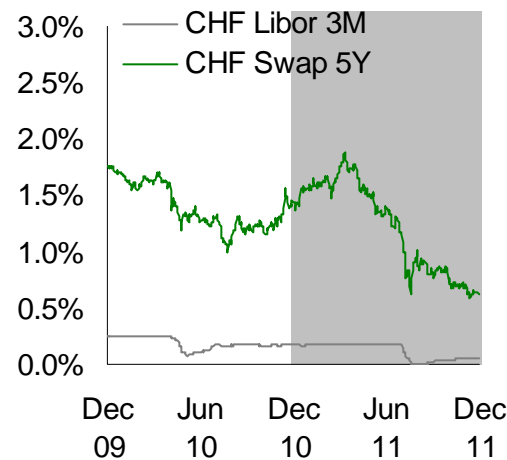
Still no support from the financial markets

Market performance 2011

indexed Dec 31, 2009

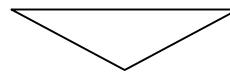
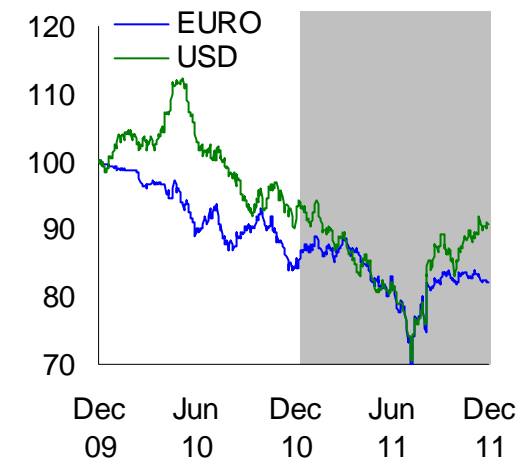


Interest rates 2011



Exchange rates 2011

indexed Dec 31, 2010



Swiss Economy: Weak growth 2012

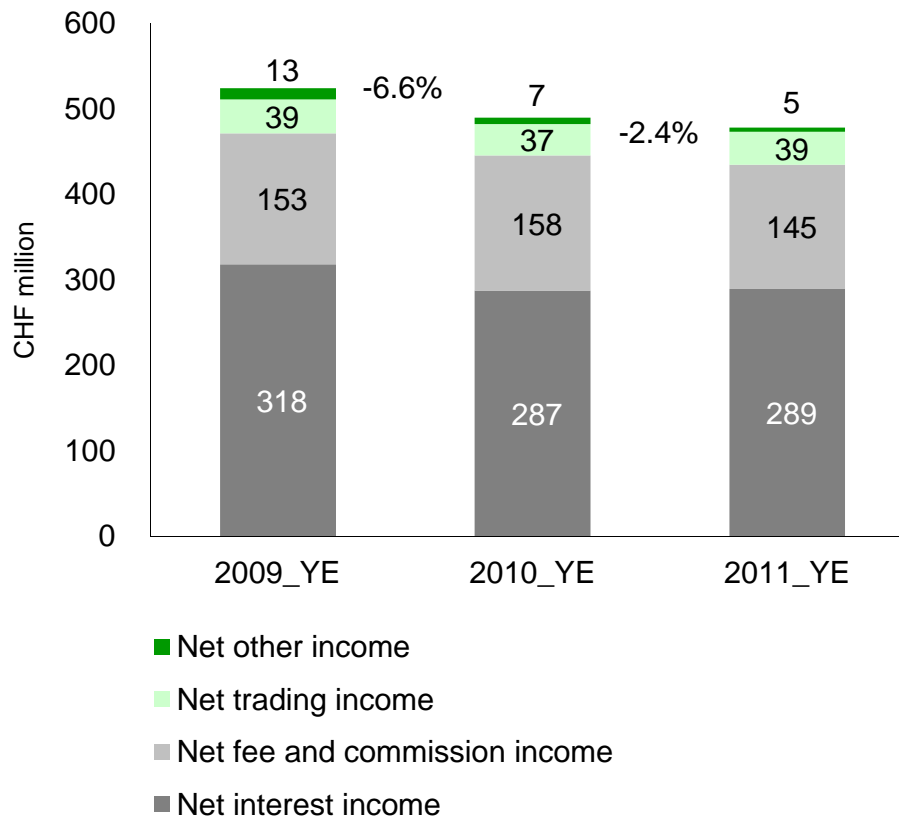
- GDP growth 0.5%
- Unemployment rate 3.6%
- Inflation -0.3%

Estimation seco Jun 14, 2011

Results in line with expectations

CHF million	2011_YE	△	2010_YE	△	2009_YE
Operating income	478	-2.4 %	489	-6.6 %	524
Administrative expenses	-288	4.3 %	-277	1.3 %	-273
Gross profit	190	-10.9 %	213	-15.2 %	251
Depreciation	-30	-14.0 %	-35	-15.9 %	-42
Valuation adjustments, provisions and losses	-5	42.4 %	-3	-74.2 %	-13
Operating profit	155	-11.3 %	175	-11.2 %	197
Extraordinary amounts, net	11	63.7 %	6	-28.5 %	9
Profit before taxes	165	-8.7 %	181	-12.0 %	206
Taxes	-30	-14.7 %	-35	-7.6 %	-38
Group net profit	136	-7.2 %	146	-13.0 %	168

Operating income defies the weakness of dollar and euro

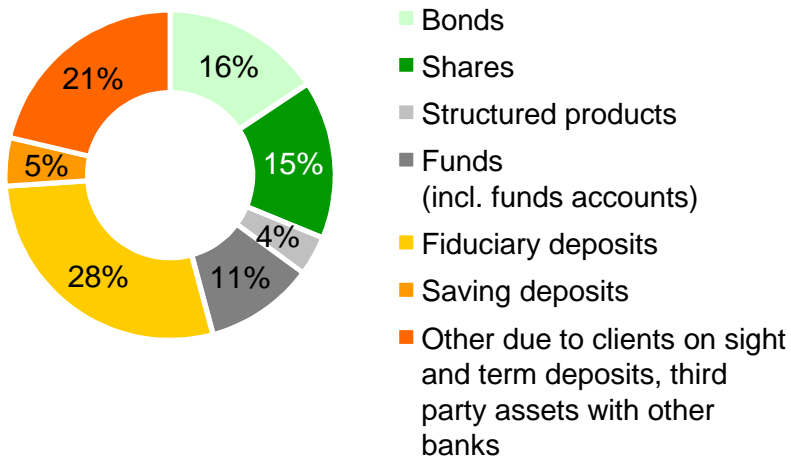


- Slightly higher net interest income (+0.7%). Interest rate hedging costs and balance sheet effects neutralize the additional income from the growth of loans to customers
- Currency effects largely responsible for the decline in net fee and commission income (-8.1%)
- The asset-based revenues decreased by 7.3%, the transaction-based revenues decreased by about 10%
- Net trading income increased by 5.2%

Fee and commission income: high liquidity

Asset allocation of clients assets

Total 37.5 billion



■ Customers: ongoing uncertainty and cautious attitude

- No shift into AuM
- NNM attributed to balance sheet → high liquidity
- trading activities low

■ AuM:

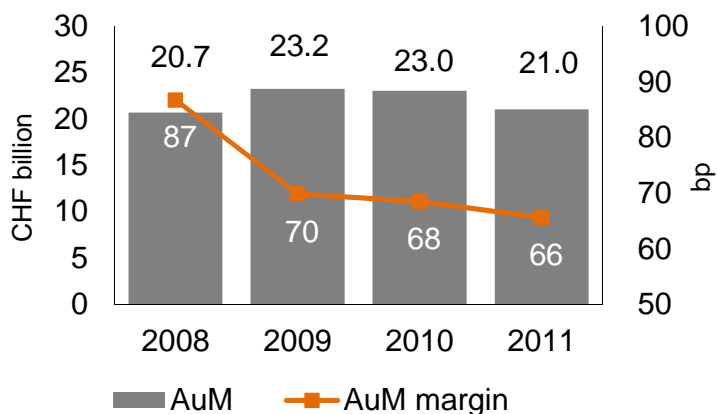
Decline by 8.8% since Jan 2011

- Significant decline in the 2nd/3rd quarter and a slight recovery in the 4th quarter
- Reasons: Dollar and Euro crisis, market performance, risk aversion of clients

■ Net fee and commission income declined by 8.1%

- Total decline, 60% caused by currency effects

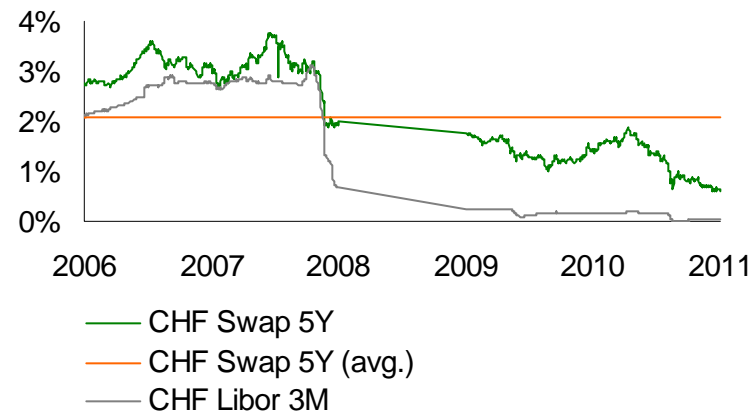
AuM margin*



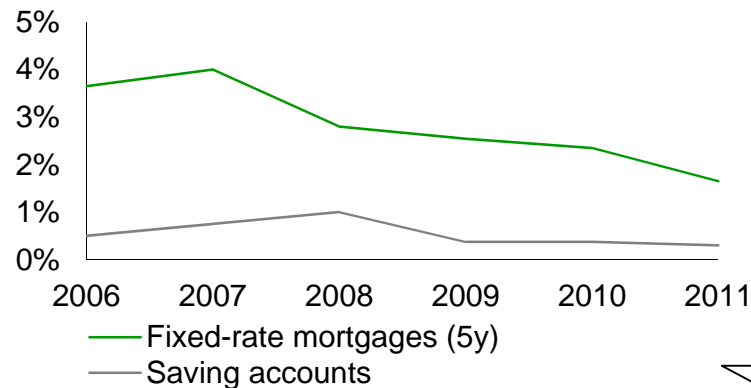
*AuM margin = Net fee and commission income / Ø AuM (Client assets with client funds and double counting)

Interest income: Flat and lower lying interest rate curve

Market interest rates



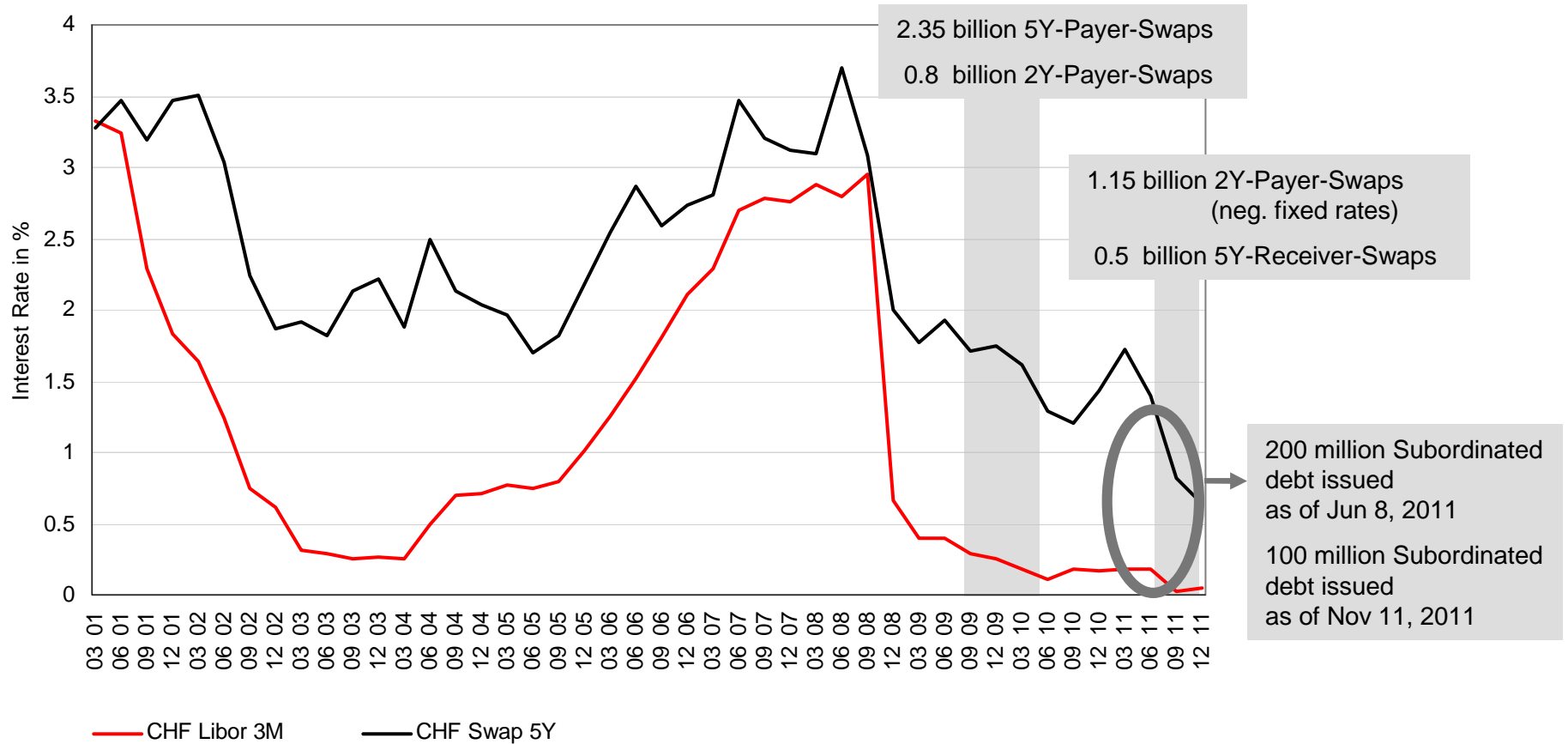
Client interest rates



- 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

Hedge against rising interest rates necessary
(interest hedge costs 2011: CHF 33.5 million)

Interest rate trend and ALM-strategy



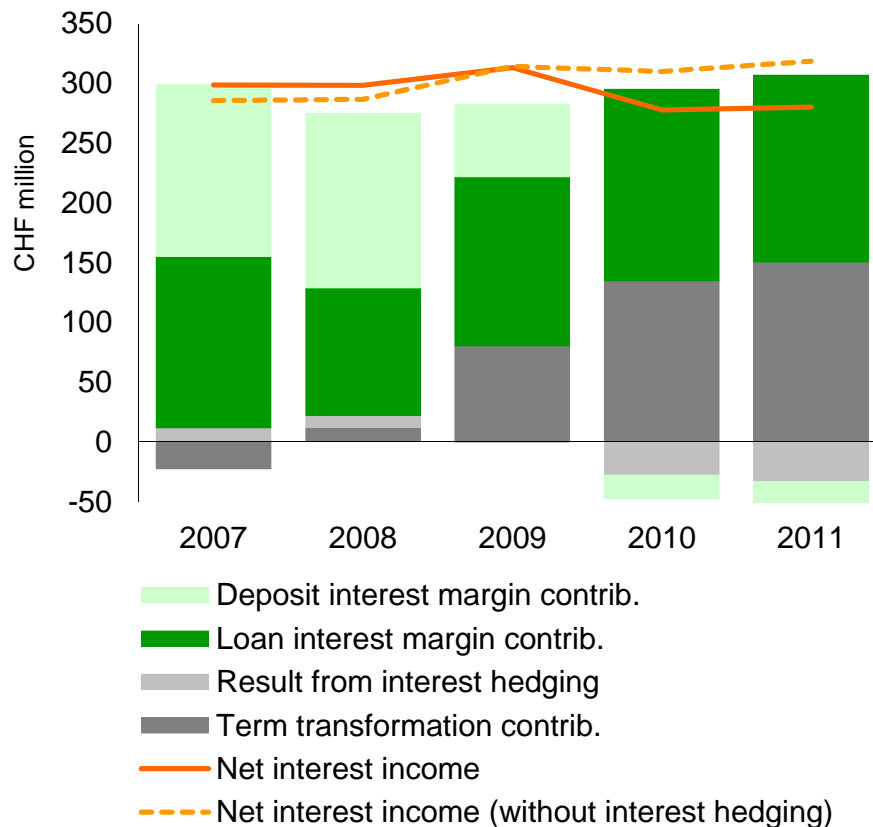
Interest rate hedging costs 2011

The previously existing swap portfolio and the various measures have led to the following portfolios:

Ø portfolios swaps hedging	Ø Carry	Income (expenses)
Payer CHF 6.5 billion	-1.54 %	-100.7 million
Receiver CHF 3.2 billion	2.00 %	63.0 million
Unwindings / swaption premiums / others		4.2 million
Total interest rate hedging cost 2011		-33.5 million

Interest income: Deposit business suffers from interest level

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



- The net interest contribution margin (ZKB) in the lending business is stable resp. slightly increasing
- Relative to the market rates the saving and deposits accounts have above market interest rates. Therefore the deposit interest margin contribution continues to be negative
- As a consequence, the term transformation contribution has increased at the expense of the net interest contribution margin
- Without additional interest hedging cost the interest income would be about 7.7 million over the previous year

Balance sheet effects and interest hedging cost = growth

Actual comparison (31 Dec 2011 → 31 Dec 2010)

Volume effect*			
Due from banks	- 145 million	Client funds	+ 1'005 million
Loans to clients	+ 1'420 million	Debts/loans	+ 15 million
Financial investments	- 135 million		
		Assets:	+29.6 million
		Liabilities:	-1.8 million
		Total	+27.8 million

Price effect			
Due from banks	+0.14%	Client funds	+0.11%
Loans to clients	-0.23%	- Savings and deposits	+0.12%
Financial investmens	-0.07%	- Due to clients	+0.02%
		Debts/loans	+0.09%
		Assets:	-39.3 million
		Liabilities:	+19.2 million
		Total	-20.1 million

Balance Sheet

CHF +27.8 million

CHF -20.1 million

CHF +7.7 million

*based on average volumes

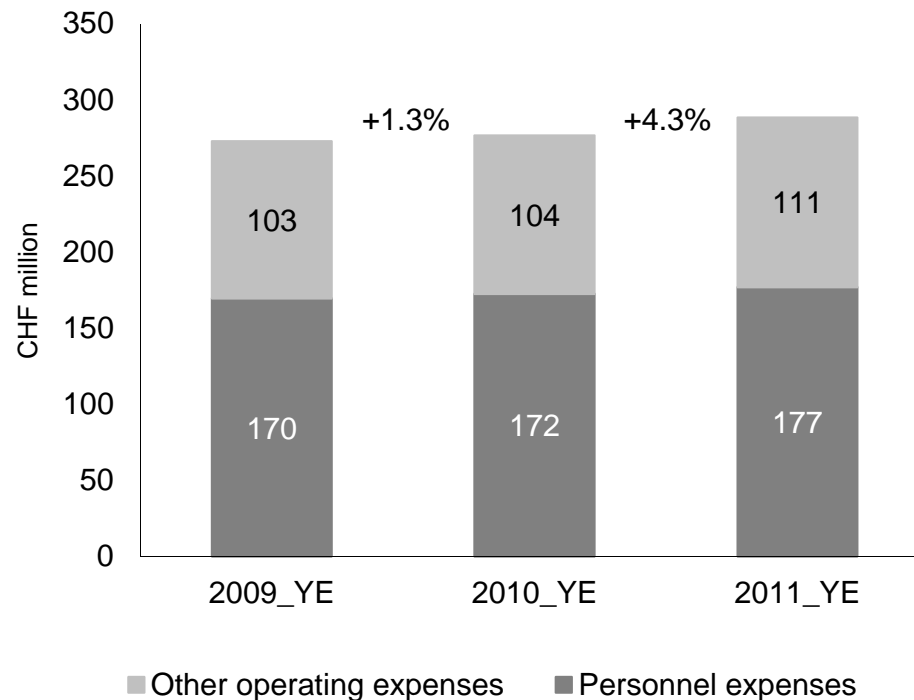
Interest hedge cost

CHF -5.6 million

Interest income compared to last year

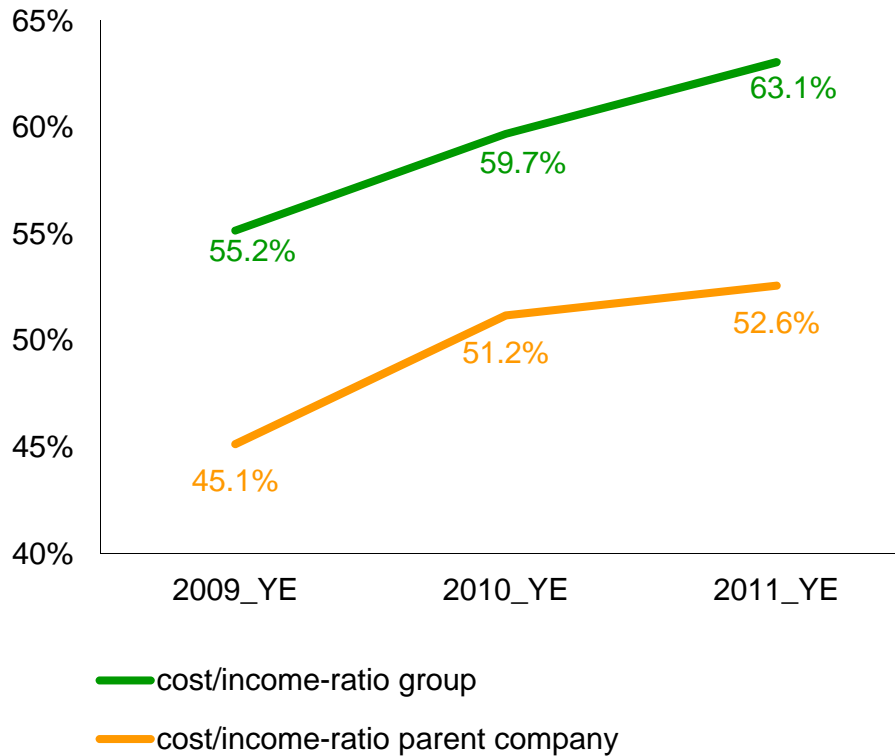
CHF +2.1 million

Operating expenses stable without special effects



- Significant increase of other operating expenses by 7% (+7.3 million) due to investments in sustainable improvement of the cost structure (8.7 million)
- Personnel expenses increased by 2.6% (+4.5 million) caused by a contribution into the pension fund (5.2 million)

Special effects influence cost / income ratio

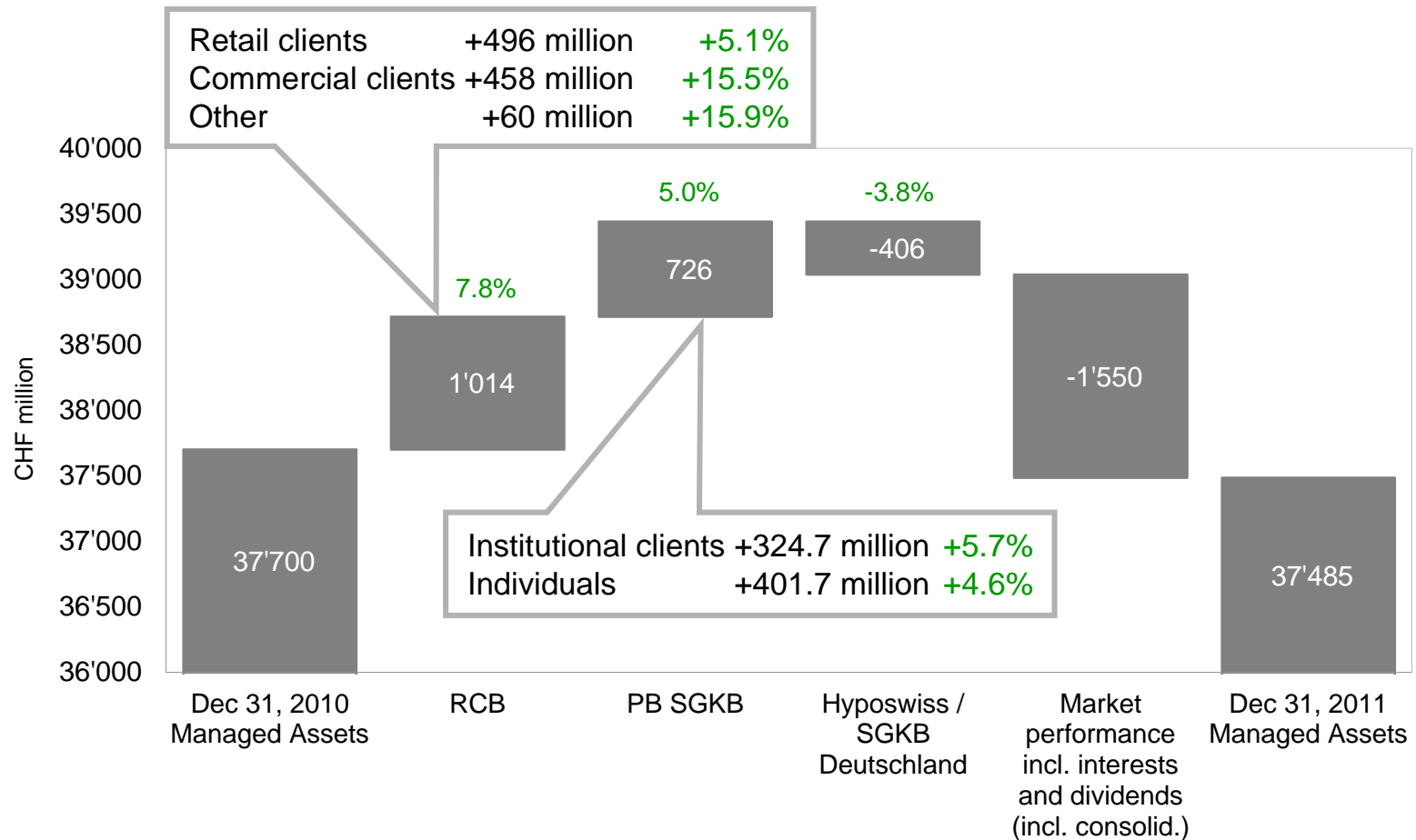


Increase by 3.4% points:

This increase is influenced by the following special effects:

- 0.4 % points FX-effect
- 1.1 % points contribution to pension fund
- 1.8 % points investments (projects)
- 0.1 % others

NNM: Acquisition success of 3.5%

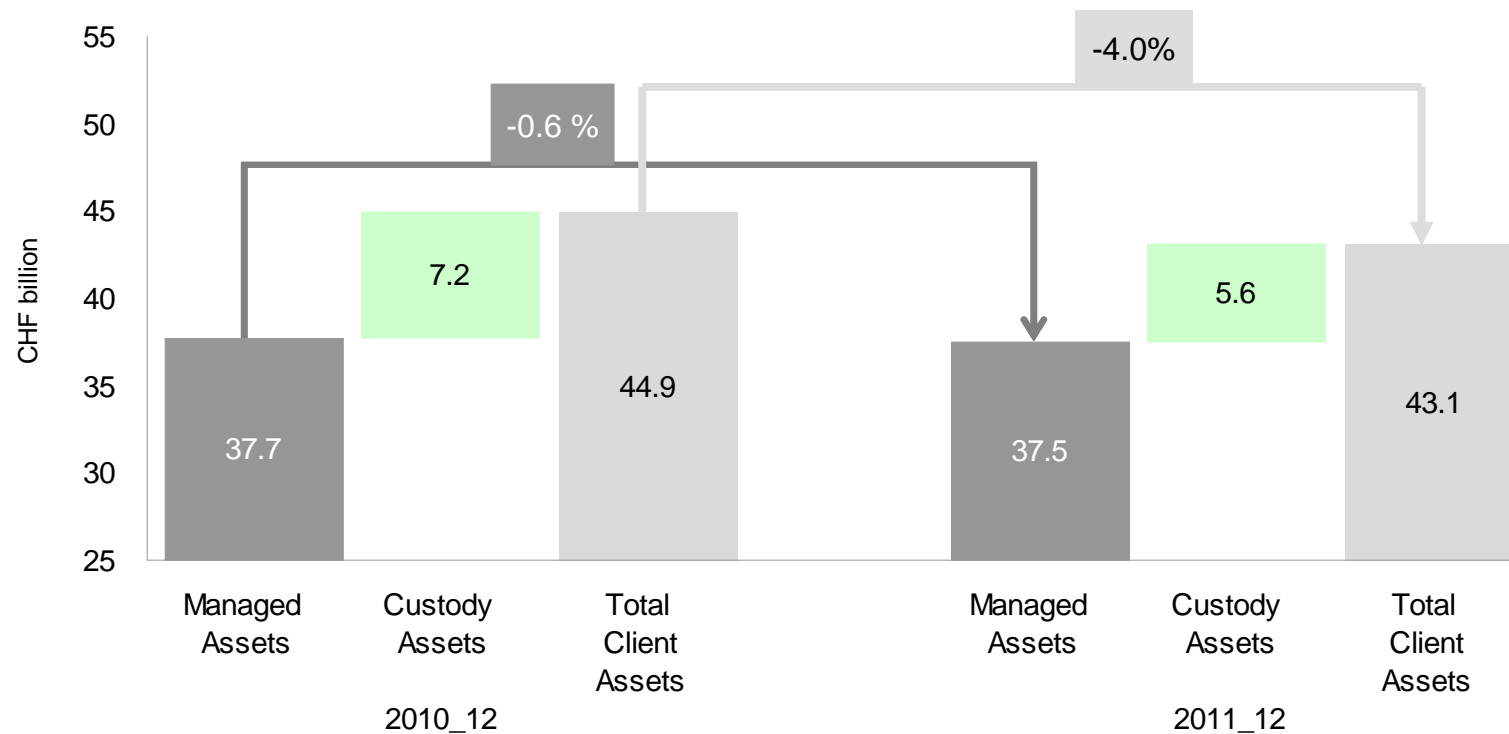


NNM Group CHF 1'331 million = Sum RCB + PB SGKB + Hyposwiss + SGKB Deutschland

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

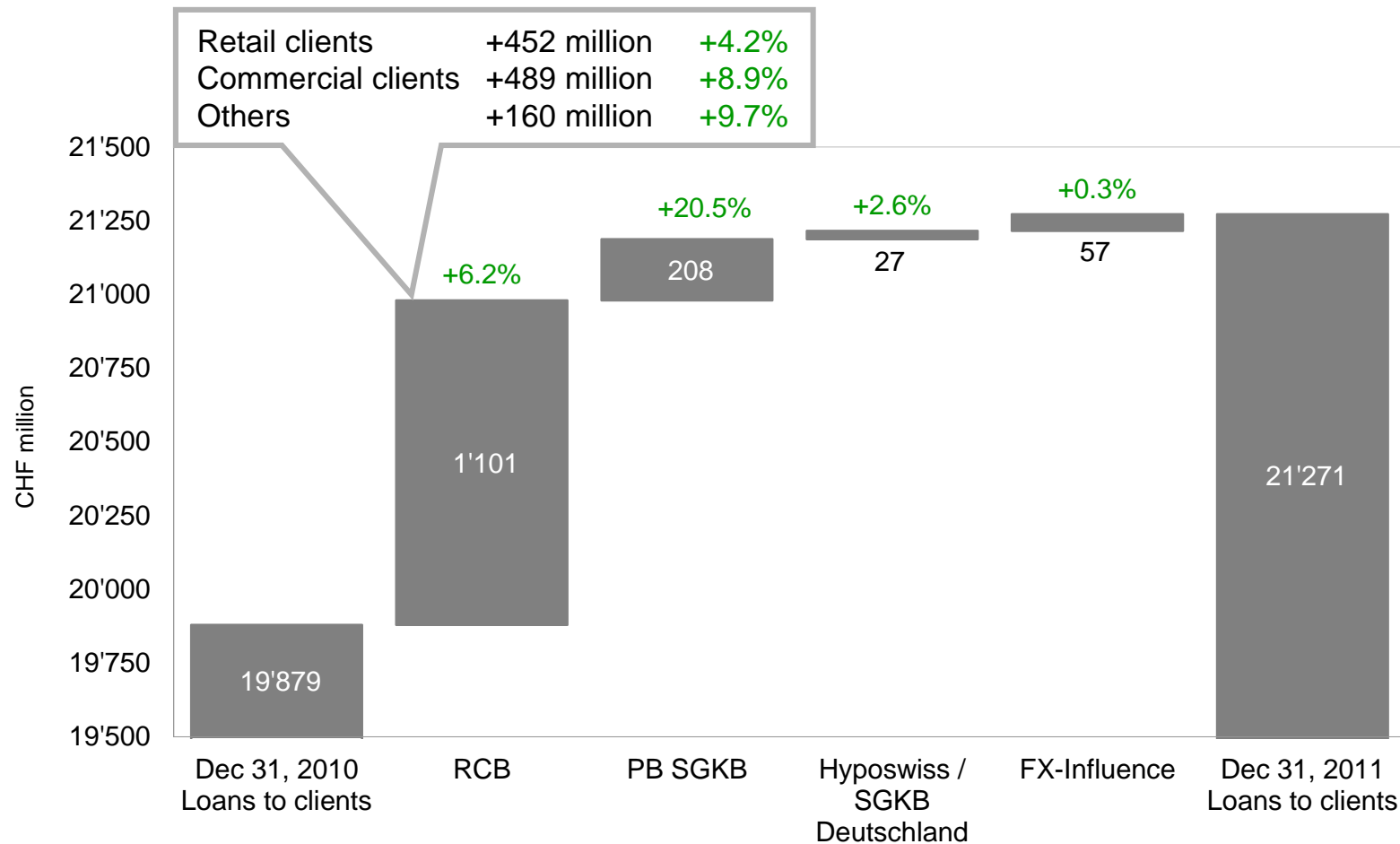
Restatement client assets

- New term «managed assets» = client funds and assets under management without custody assets*
- Managed assets include all for investment purposes managed or deposited assets



* Restatement: Managed assets = Client funds (Due to clients in savings and deposits, other due to clients, medium-term notes) and assets under management. No longer included are custody assets (= assets that are held solely for transaction and storage purposes and for which the Bank offers no advice to the clients).

Net New Loans: Growth in the home market



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

Agenda

Results 31-12-2011

■ Group

■ Quality of credit

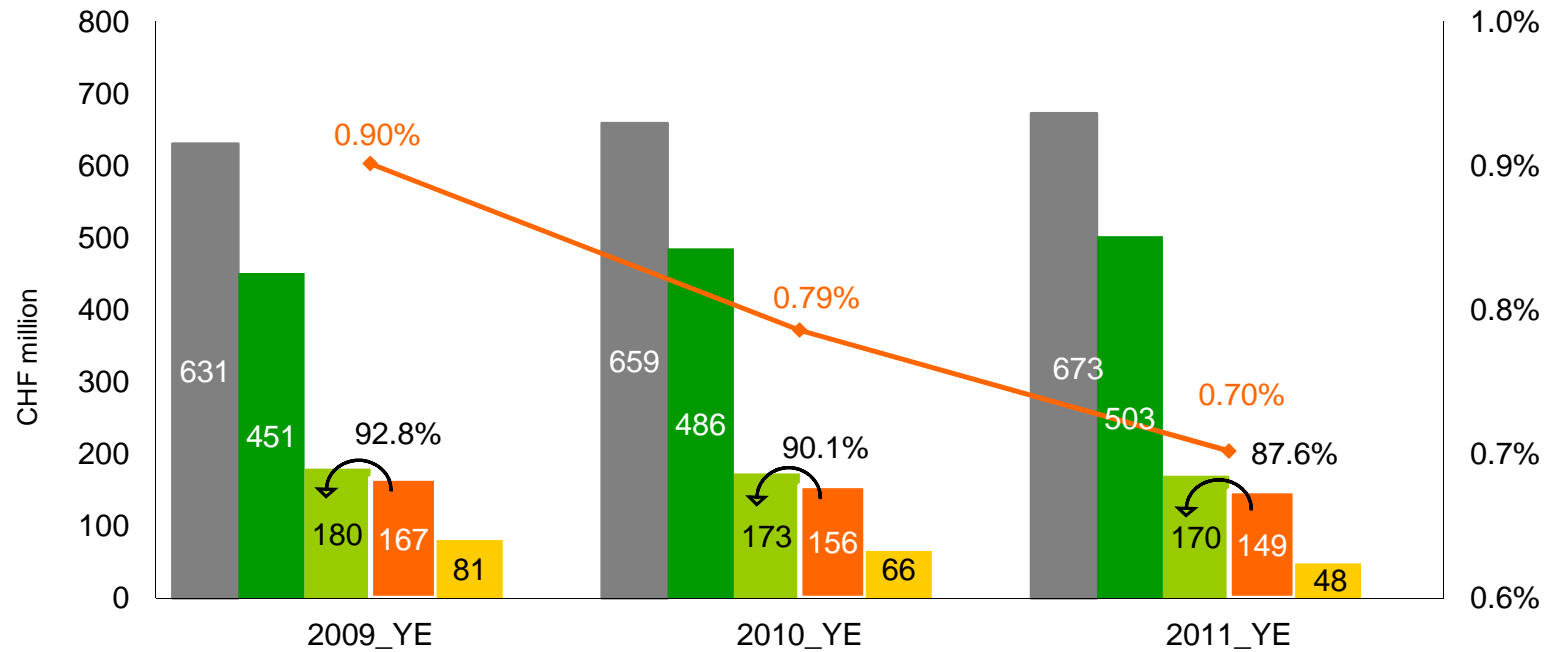
■ Quality of balance sheet

Strategy

Private Banking – «new reality»

Outlook

Quality of credit: steady risk provisioning



- Impaired loans
- Estimated proceeds from liquidation
- Impaired loans, net
- Provisions for credit risk (Individual provisions)
- Non performing loans
- Provisions for credit risk in % of total loans to clients (right scale)
- * Individual provisions for credit risk in % of impaired loans, net

Agenda

Results 31-12-2011

- Group
- Quality of credit
- **Quality of balance sheet**

Strategy

Private Banking – «new reality»

Outlook

Quality of balance sheet: Due from banks

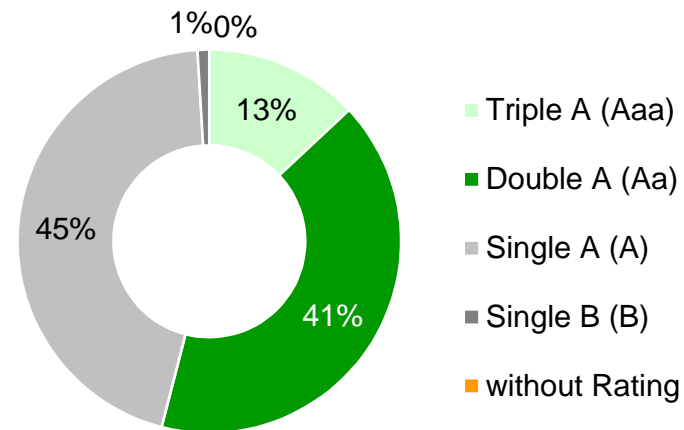
Total due from banks

CHF 2.0 billion

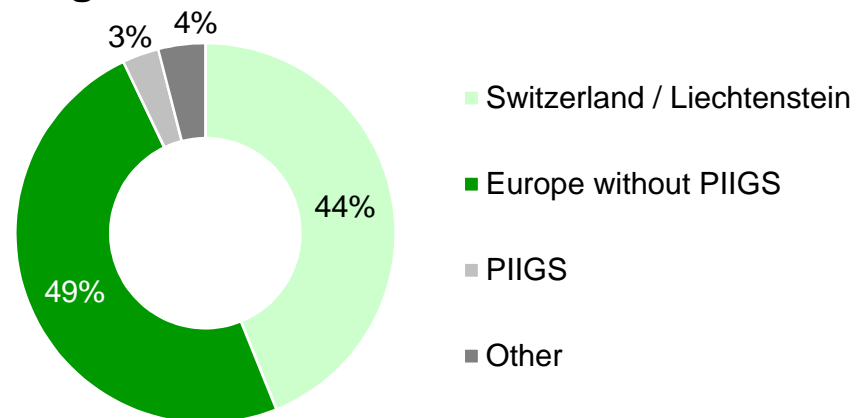
- Excellent quality of portfolio (Triple A to single A)
- Counterparty risk broadly diversified
- Still low limits for banks in PIIGS countries
- Continuous monitoring of risk exposure of the counterparty

Distribution

Rating (Moody's)



Regions



Quality of balance sheet: Financial investments

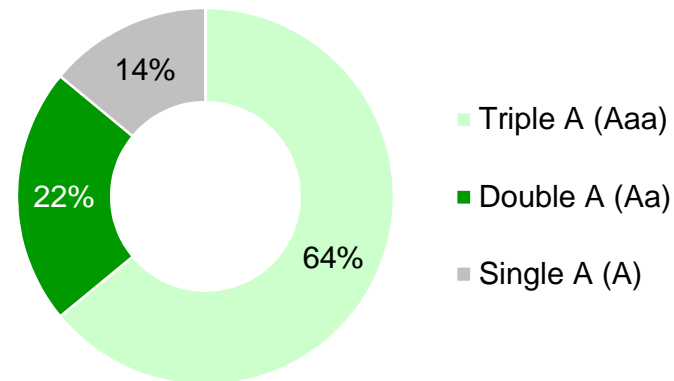
Total financial investments

CHF 1.8 billion

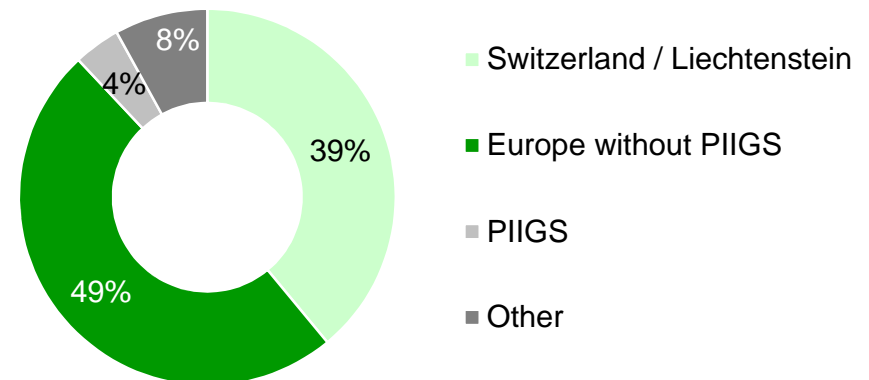
■ Bonds	74%
■ Loans secured by mortgages (Pfandbriefe)	25%
■ Shares and properties for resale	1%

Distribution

Rating*

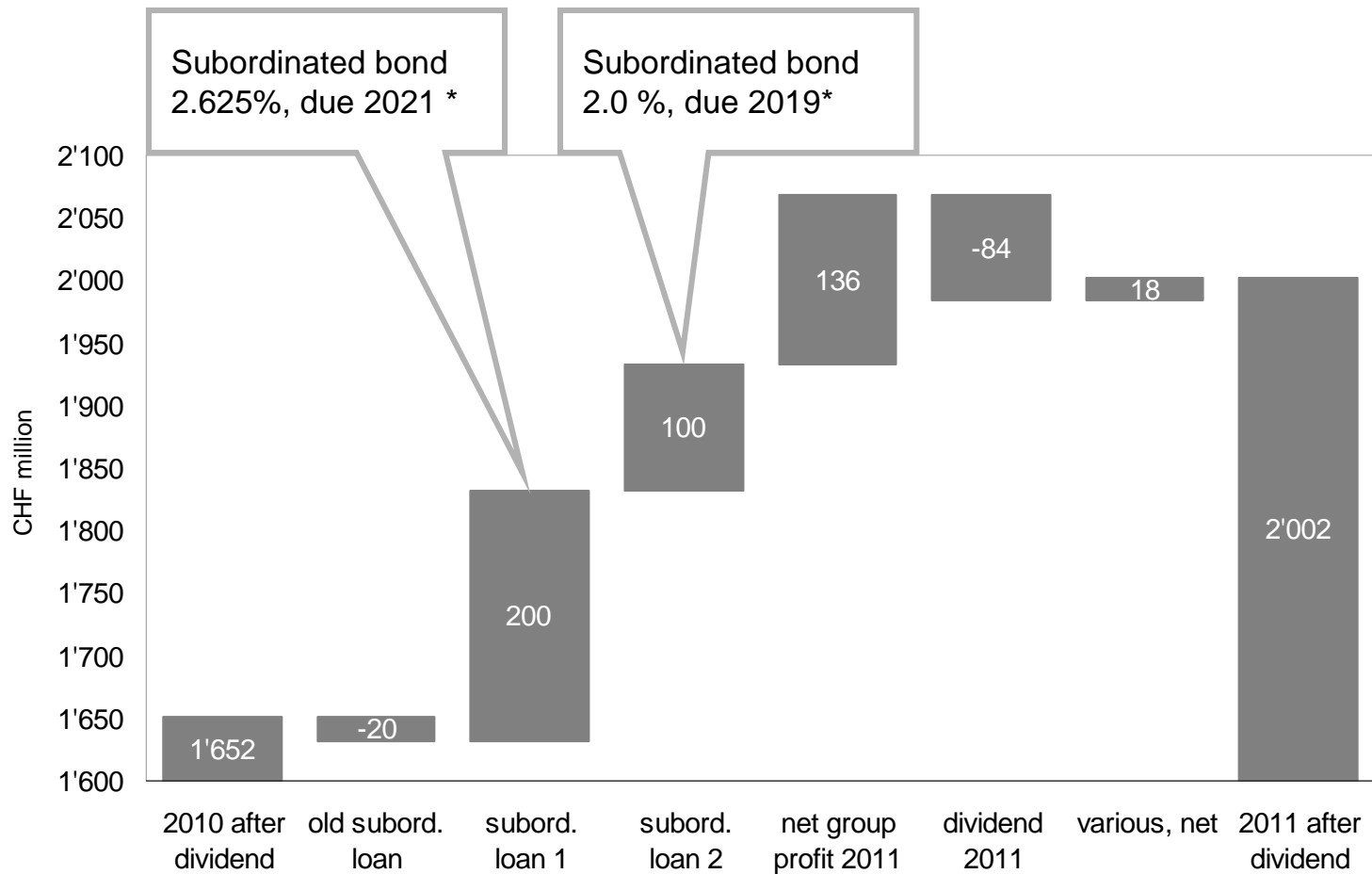


Regions

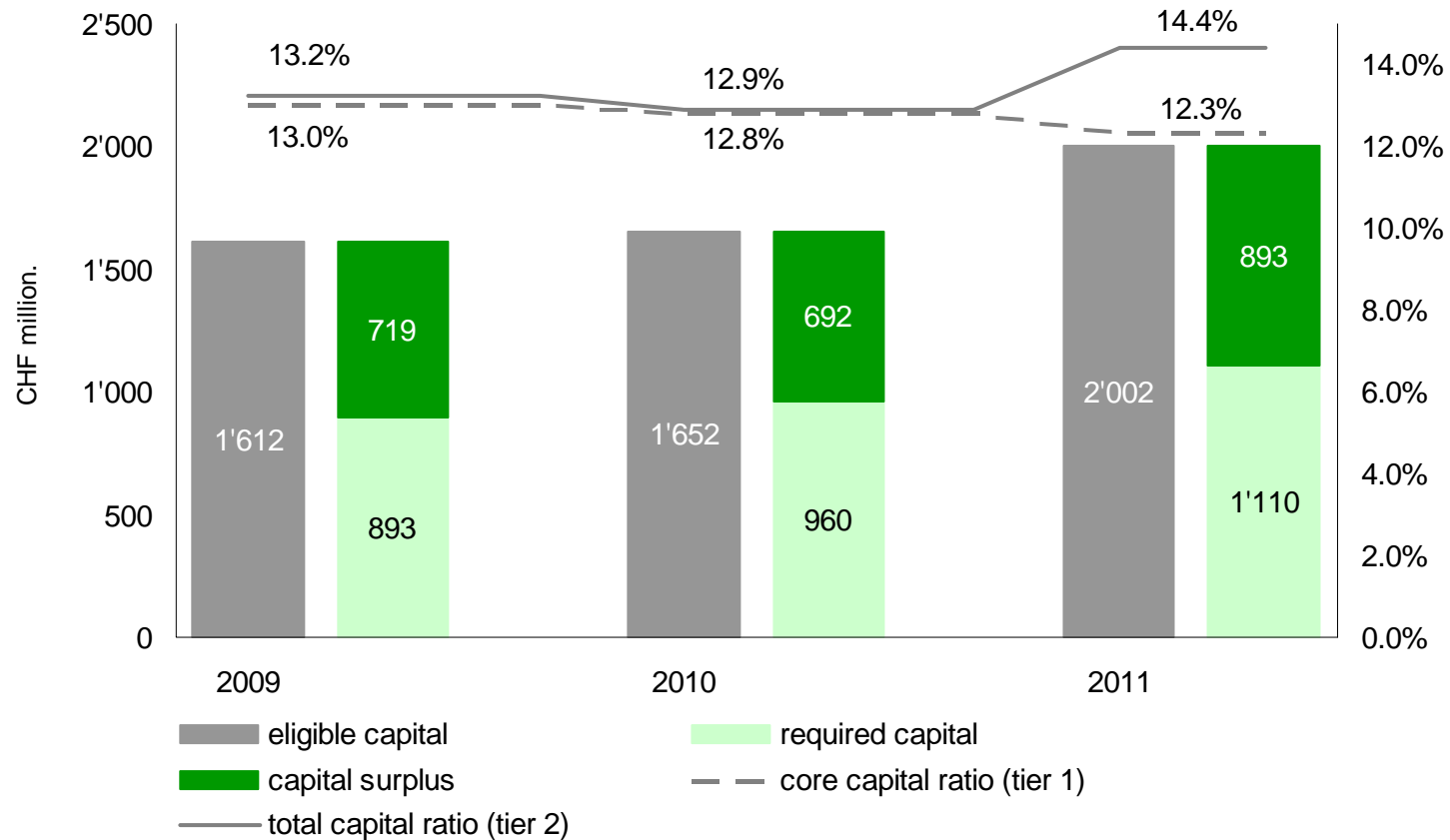


* Sequence of ratings: Moody's, S&P, Fitch, ZKB

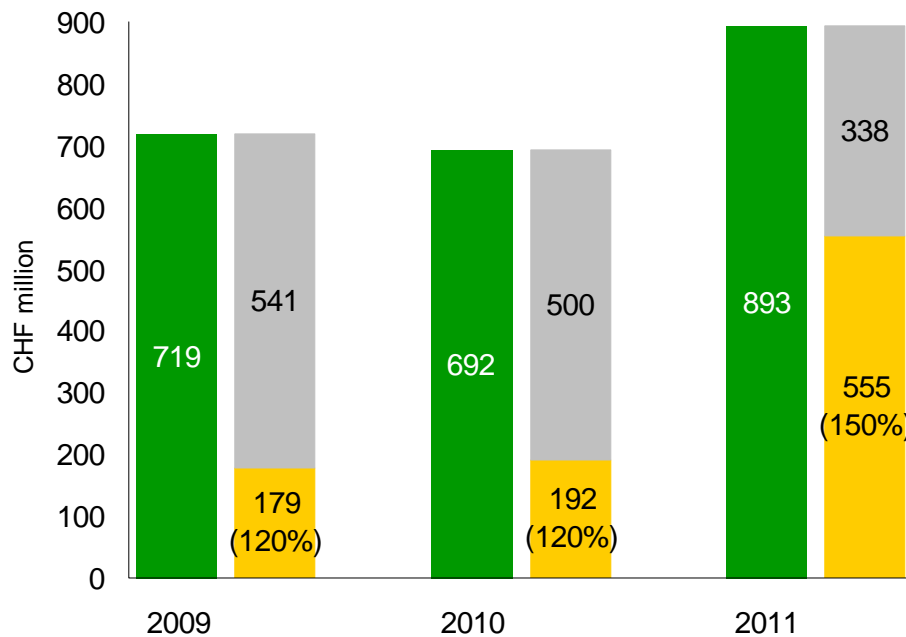
Strengthening of eligible equity base: subordinated bonds



Solid capital base



FINMA capital requirements comfortably met



- Increase of the target size for capital surplus from 20% to 50% (as of Jul 1, 2011)
- Elimination of cantonal bank discount of 12.5% step by step
- SGKB exceeds higher FINMA requirements by CHF 338 million

■ surplus over minimal FINMA-requirement
 ■ minimal FINMA-requirement
 ■ capital surplus

Dividend policy

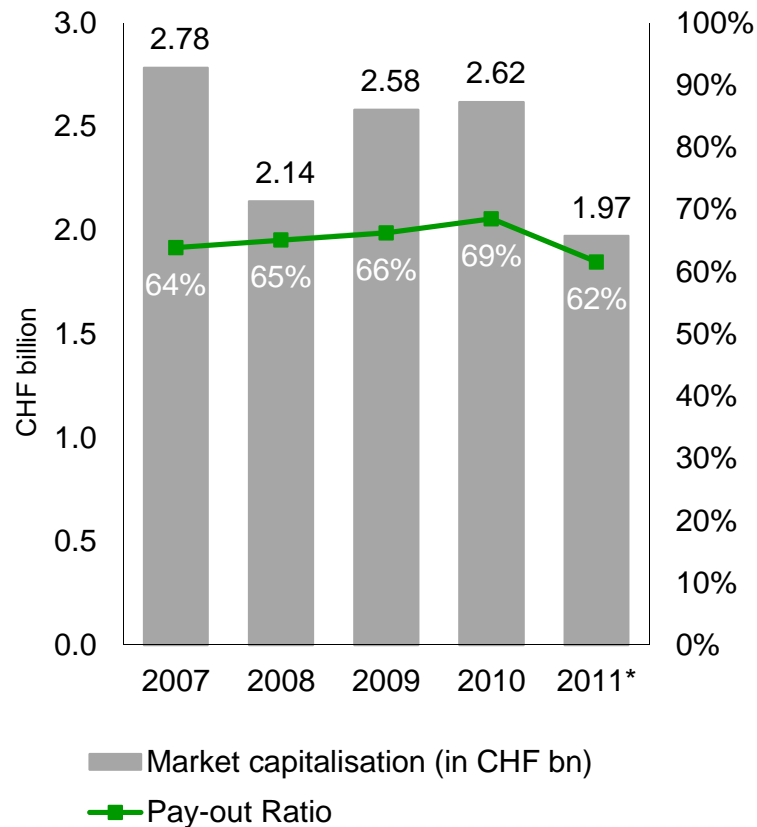
- Adhere to previous payout ratio of 50 to 70% of the group net profit with positioning in the middle of this range
- Goal of a equity surplus of CHF 400 million above the statutory minimum confirmed
 - Strategic freedom
 - Cover of potential future capital requirements (such as counter-cyclical buffer)

Dividend for the financial year 2011

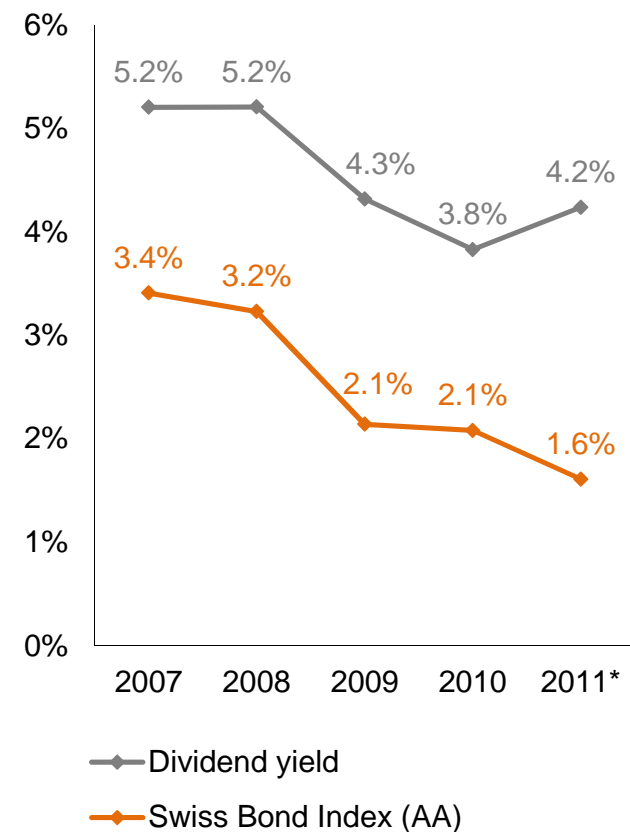
- CHF 15 (= 62 % pay-out ratio of Group net profit)
- Capital contribution principle: CHF 75 million of equity classified as capital investment reserve
 - Thereof CHF 39 million used for the dividend of the financial year 2010
 - Thereof CHF 33 million to be used for the dividend of the financial year 2011
- CHF 6 per share of the dividend for the financial year 2011 to be used from capital investment reserves
 - Tax exempt for shareholders who need not keep books of account and who keep the shares in the private fortune
 - No withholding tax for all shareholders

Shareholder oriented dividend policy

Dividend policy



Attractive dividend yield



*Proposal to AGM

Agenda

Results 31-12-2011

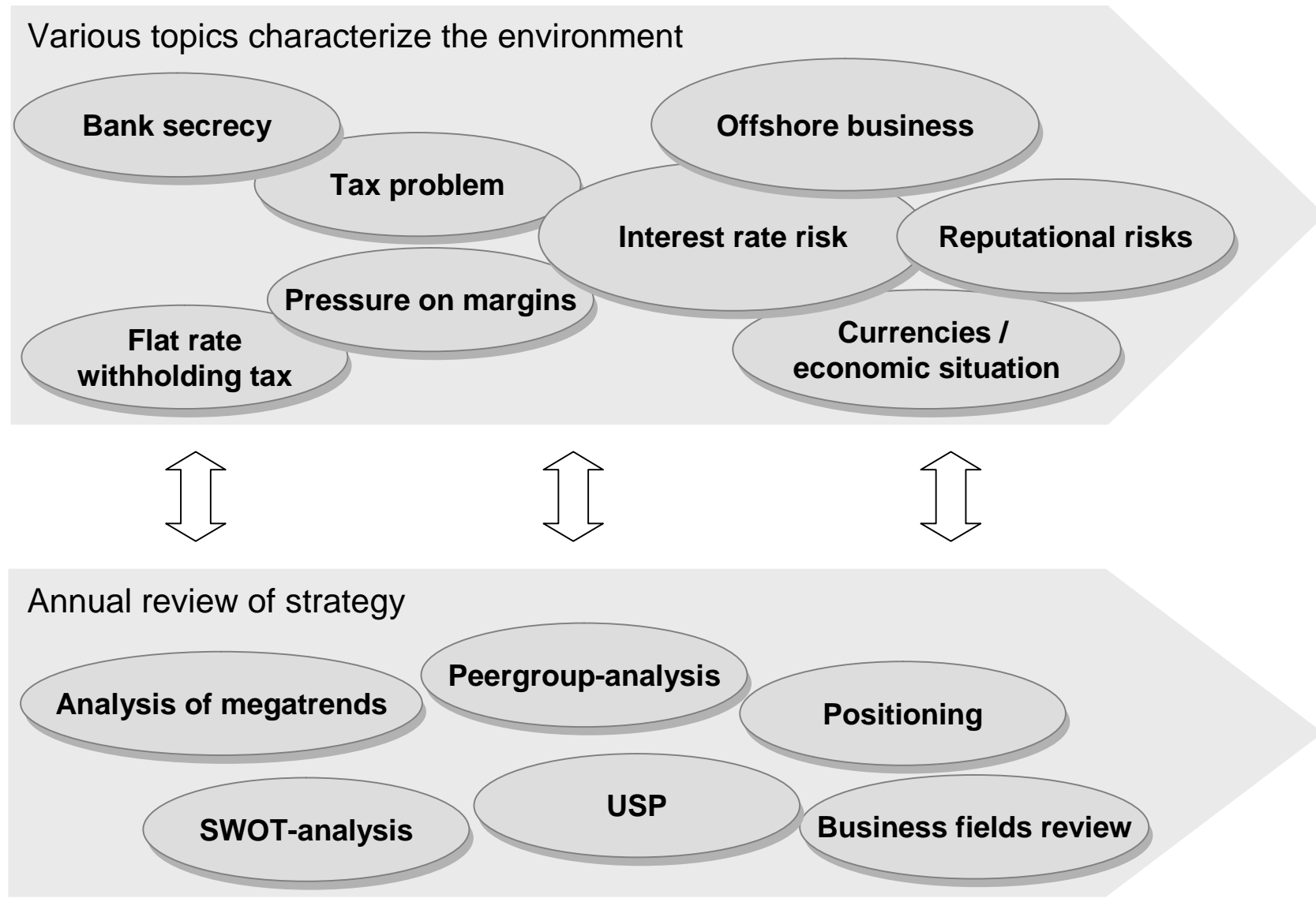
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Strategy

Private Banking – «new reality»

Outlook

Integrated strategy process



Long-term strategic goals

Risk minimization

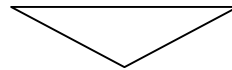
- Diversification of income flows
- Reduction of dependency from the economic development of the domestic market

Growth

- Investment advisory business with stronger market growth potential
- Geographic expansion outside of the Canton St. Gallen

Differentiation

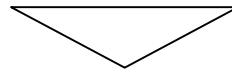
- Expansions of investment advisory business enables potential for differentiation



Balanced business model

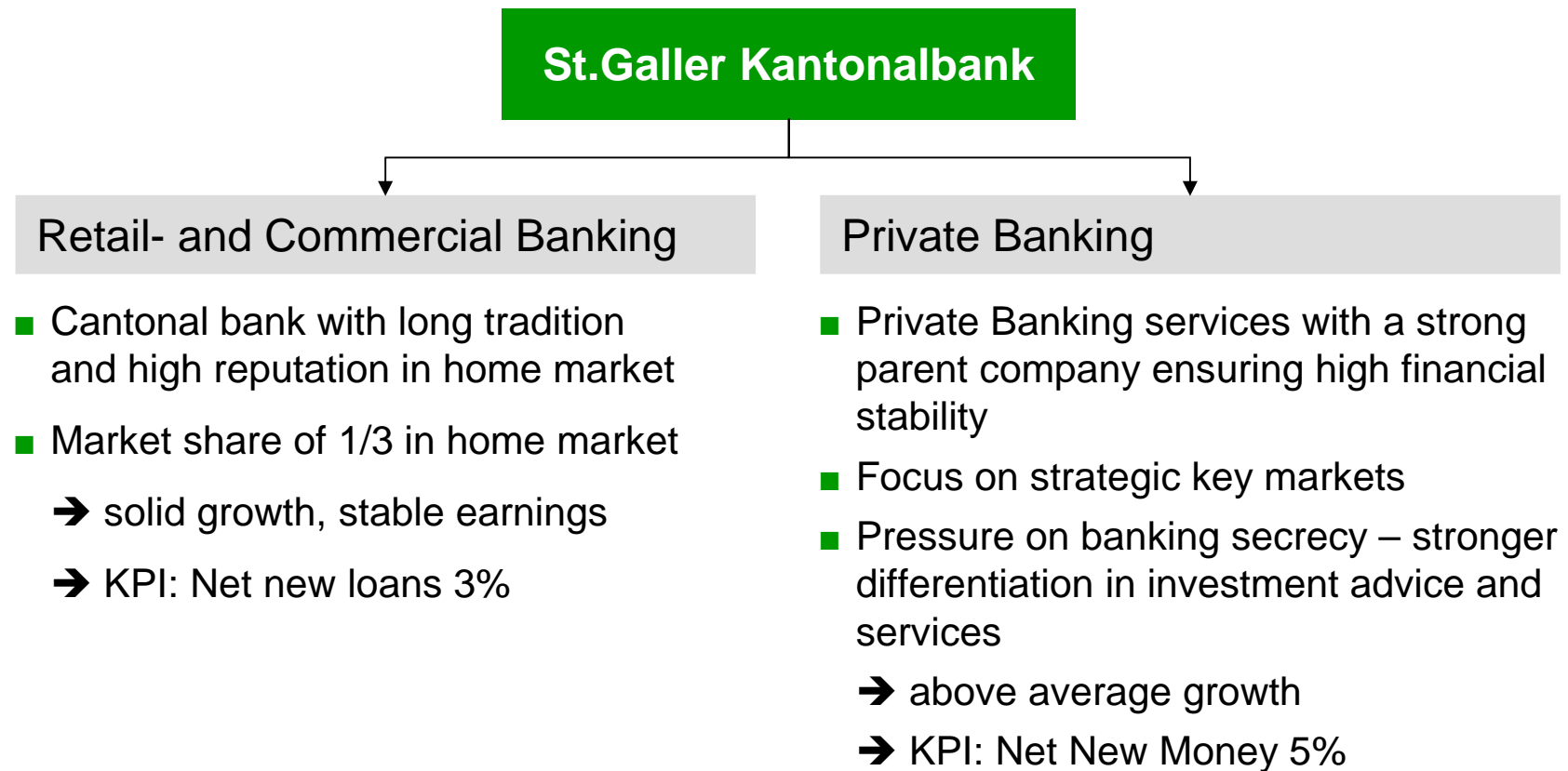
Balanced business model

- Income sources
 - The aim is to strike a balance between interest and commission business
- Clients 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.

Two pillars of the St. Galler Kantonalbank



Agenda

Results 31-12-2011

- Group
- Quality of credit
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Strategy

Private Banking – «new reality»

Outlook

«New reality»: Key challenges for the private banking

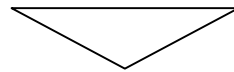
Cost pressure

+

Margin pressure

Response to «new reality» in Private Banking

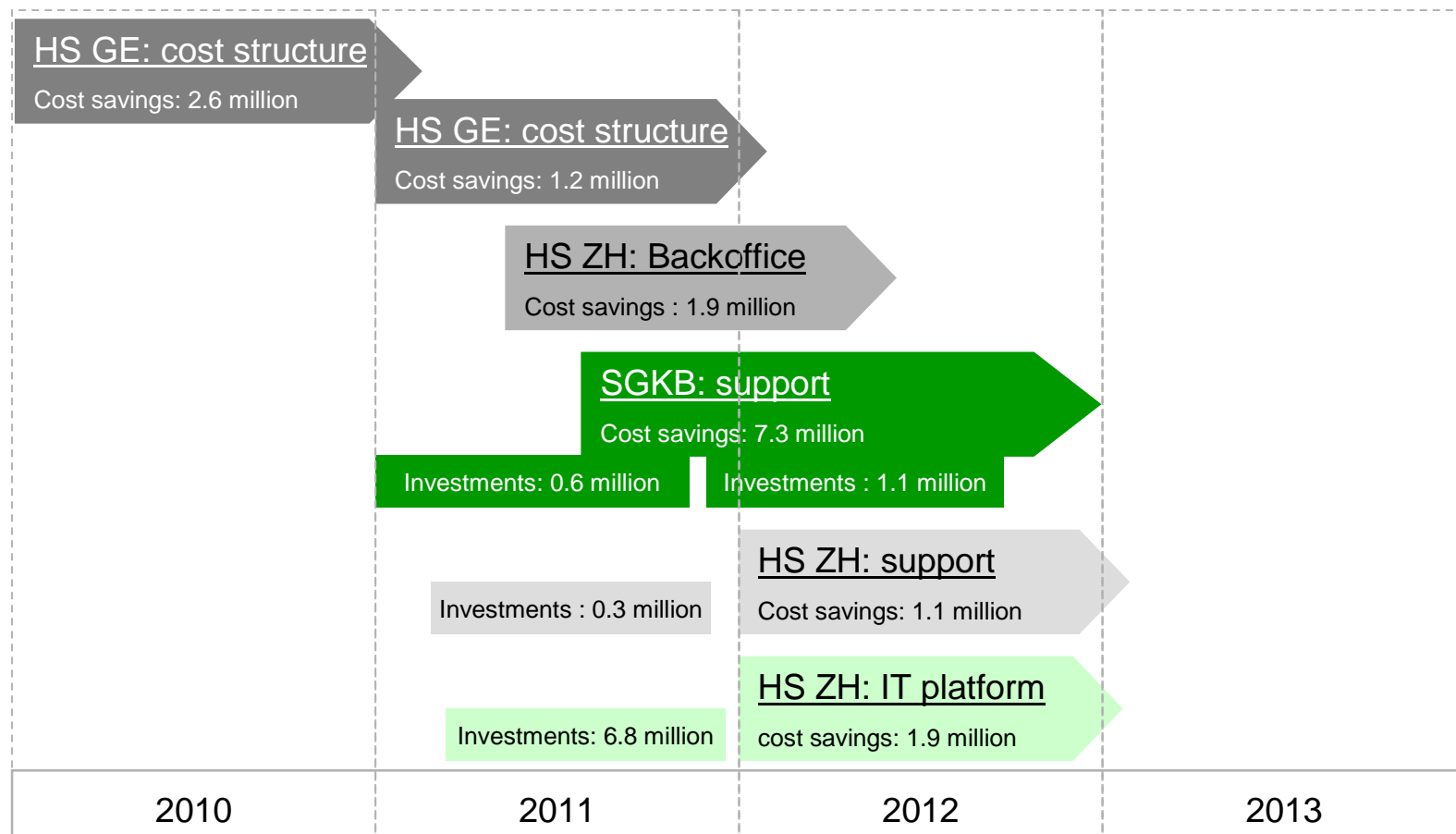
- Focus on a few markets
- Development onshore banking Germany
- Development cross-border organization
- Cost structure optimization
- Innovative products offer



SGKB is well positioned

Proactive and sustainable cost optimization

With strong focus on effectiveness and efficiency sustainable cost savings of CHF 16 million can be achieved



«Apollo» – Hyposwiss Zürich

- Move to new facilities in August 2011
- Merger of the two sites (Schützengasse and Sihlquai) in Zurich
- Attractive platform for further growth

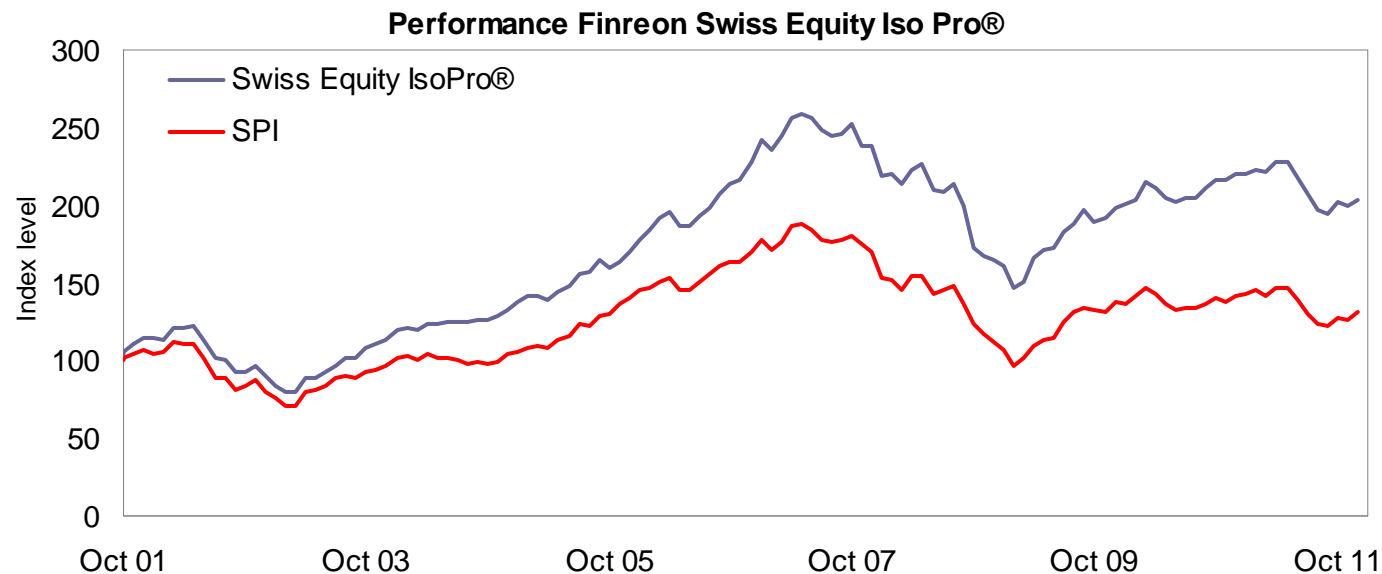


Initiatives against the pressure on margins

Approach	Quality of advice / competence	Differentiation in competition
Aspects	<ul style="list-style-type: none"> ■ Systems ■ Education / training (PB-license) ■ Attractiveness as an employer / employee satisfaction 	<ul style="list-style-type: none"> ■ Niche products ■ Customer experience ■ Time to market ■ Pricing models
Initiatives and results	<ul style="list-style-type: none"> ■ «Roll out» Finfox (SGKB parent company) ■ Intensive training of Hyposwiss CRMS in 2011 	<ul style="list-style-type: none"> ■ Launch Finreon Fonds ■ Launch «African Dawn» Fonds

New mandate: Finreon Swiss Equity

- «Swiss»: 75 largest shares of Swiss stock market
- «Iso»: equal weighting of all shares
- «Pro»: Quantitative optimization with inclusion of minimum variance portfolios
- Maximum weighting per share: 5%
- Investment Advisor: Finreon AG / Investment Manager: St.Galler Kantonalbank
- Volume: Mandates CHF 508 million
Fonds - SGKB (CH) Finreon Swiss Equity IsoPro 57 million



Hyposwiss (Lux) Fund African Dawn (USD)

- Launch: Dec 8, 2011
- Investment Manager
 - Hyposwiss Privatbank
- Investment Case
 - Advantageous demographics, «new generation»
 - Improved macro data, high growth rates
 - Urbanization, growing middle class, increasing consumption and starting of inter-regional trade
 - Demand for raw materials from abroad (China, India, etc.)
 - Foreign direct investment, mainly from China
 - Improved policy environment
 - High and rising capital inflows
 - Financial markets are in development, few African funds
 - Favorably valued
 - Low correlation to developed countries

Agenda

Results 31-12-2011

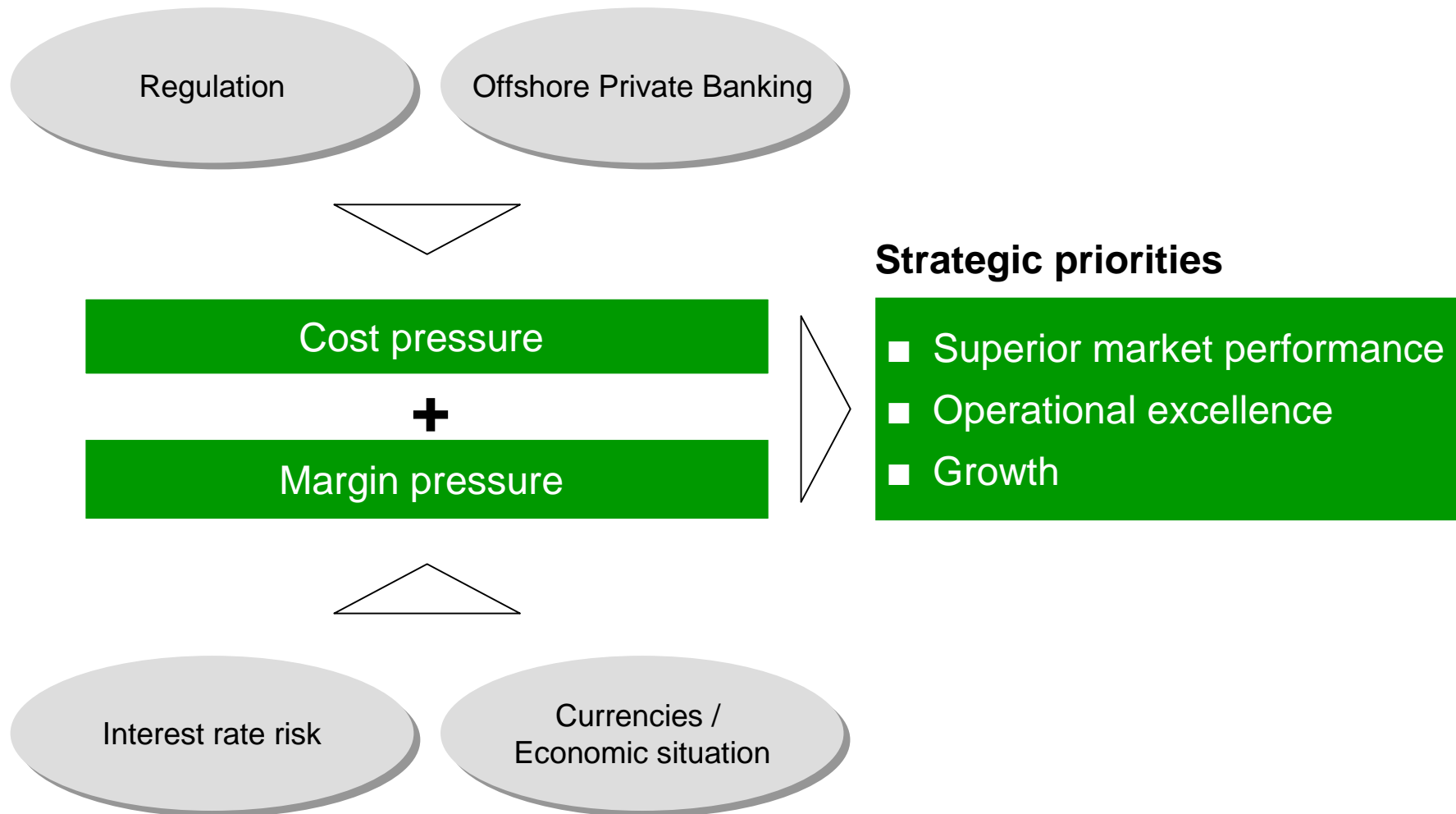
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Strategy

Private Banking – «new reality»

Outlook

Strategic Challenges



Strategic priorities

Superior market performance

- Investment advice and performance
- Bank for SMEs
- Expand e-services
- HR development
- Error-free
 - IT
 - Processes
 - Documents

Operational Excellence

Cost management

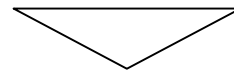
- Cost structure of Private Banking subsidiaries
- Project ICE
- Process management (Six Sigma) / Kaizen)

Risk management

- Cross Border Banking/ Compliance
- IT-security
- Integral risk management concept

Growth

- RCB
 - Client segments: < 30 years and > 50 years
 - SME: Founding and succession
- Private Banking
 - Key Clients
 - eVV
 - Sales + Produkt management
- Hyposwiss ZH/GE strategic key markets
- SGKB München



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

Outlook 2012: Net profit within the previous year

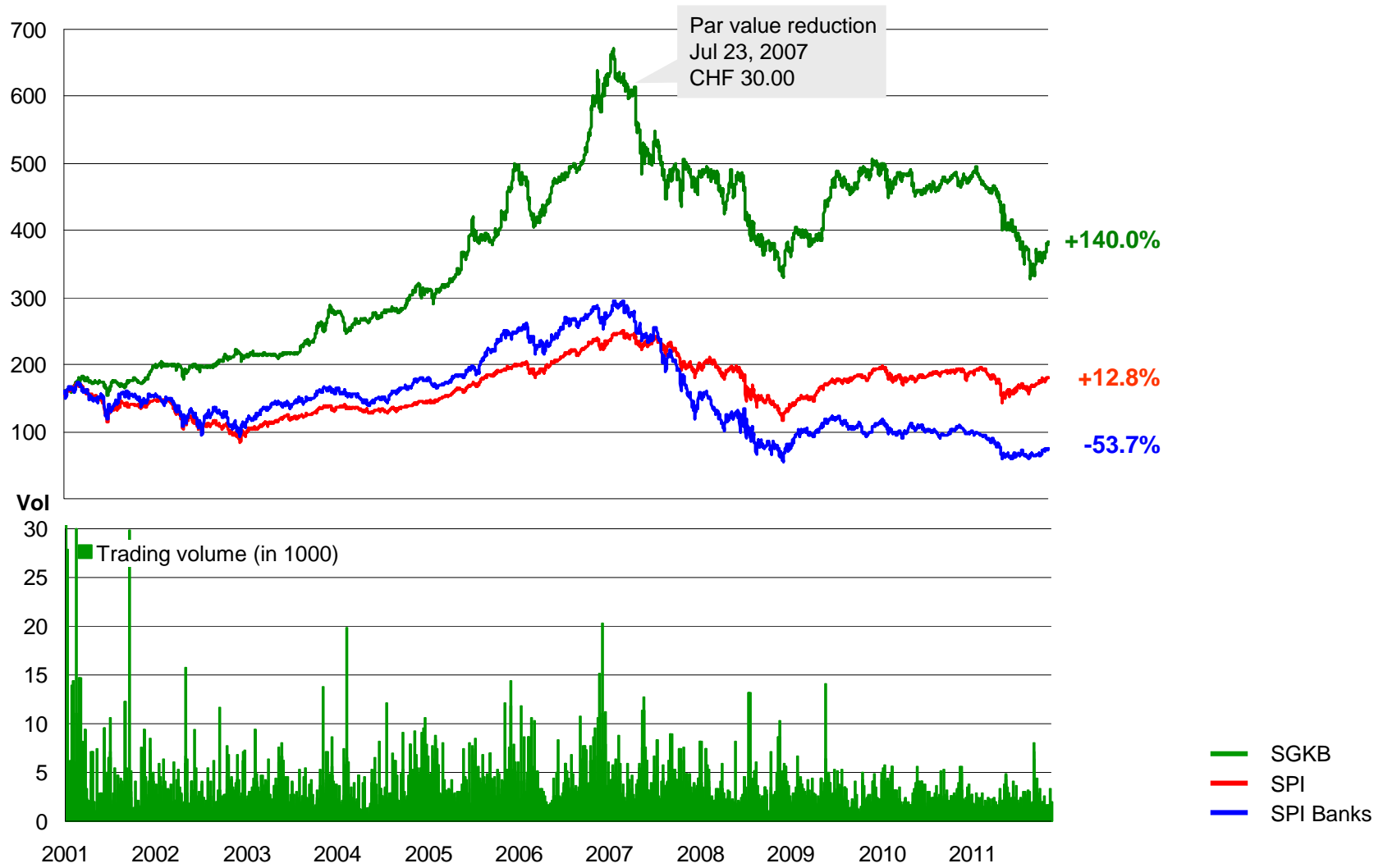
- In the short term no signs of decreasing economic uncertainty
- Slowdown in the global economy
- No significant improvement in the market environment can be seen
- Actual earnings forecast depends on the following points:
 - Further development of the major currencies EUR and USD
 - Solution of the problem of public debt in the euro area
 - Timing and extent of any interest rate increases
 - Recovery of investor trust into the markets
 - Reduction of high liquidity
 - Increase in transaction volume

Assumptions:

low interest rates and hardly any recovery in net fee and commission income

→ Net profit in line with the previous 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.

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