

# Conflicts of interests and preventative measures

## 1. Background

St.Galler Kantonalbank AG (SGKB) takes appropriate organisational measures to prevent conflicts of interests that can arise in connection with the performance of financial services or to make sure that clients do not suffer any disadvantages due to conflicts of interests. If disadvantages for clients cannot be excluded, this must be disclosed to them. SGKB endeavours to design its business operations in such a way that the interests of the bank and employees are not in conflict with client interests and that the interests of individual clients do not conflict with each other.

## 2. Possible types of conflicts of interests

Possible conflicts of interests can arise between SGKB and its clients, between clients and employees, between individual clients, between different departments of the bank or between SGKB and third-parties who have been brought in. For example, conflicts of interests can arise in the following situations:

- in investment advisory or asset management,
- when selling the company's own products and services,
- if third-party payments are received for the performance of financial services,
- when creating, publishing and forwarding financial analyses and other information about financial instruments or their issuers, which represent or contain a direct or indirect recommendation in favour of a certain investment decision,
- when several client orders converge,
- when client orders and transactions of the bank or its employees converge,
- when buying and selling financial instruments,
- due to the success-based remuneration of employees and intermediaries,
- due to the personal interests of employees in client transactions and
- due to the participation of employees in boards of directors.

## 3. How the bank handles conflicts of interests

In line with a three-stage process (identify, prevent and mitigate, disclose), SGKB takes appropriate measures to handle conflicts of interests.

### 3.1 Identification of conflicts of interests

To identify potential conflicts of interests, the bank has released internal instructions and defined procedures determining responsibilities and modes of conduct. The bank sensitises its employees in internal training sessions and maintains a register of conflicts of interests. The principle that conflicts of interests must be identified as early as possible applies here.

### 3.2 Prevention and mitigation of conflicts of interests

Conflicts of interests are to be avoided whenever possible. If they cannot be avoided, measures and procedures must be developed to cope with the conflicts. The principles concerning the handling of conflicts of interests are transparently checked by an independent internal office within the bank and, if necessary, amended in collaboration with the relevant specialist departments. The experience gained throughout the bank is incorporated into any new considerations. By means of a reasonable salary policy, the bank discourages conflicts of interests and improper employee incentives. Employees can contact an internal or external independent reporting office directly at any time in order to draw the bank's attention to unlawful conduct or conflicts of interests.

### 3.3 Disclosure of conflicts of interests

SGKB discloses any conflicts of interests that cannot be avoided and, due to which a disadvantage for clients cannot be excluded, to the affected clients and documents them in the bank-wide register of conflicts of interests. This disclosure can occur personally, in contracts, product information or on the homepage of SGKB ([www.sgkb.ch](http://www.sgkb.ch)).

## 4. General principles for the avoidance of conflicts of interests

### 4.1 SGKB employees

- All employees are responsible for continually identifying and duly handling conflicts of interests. They are obliged to comply with the guidelines, regulations and instructions of SGKB on the identification and documentation of conflicts of interests.
- All employees comply with the execution policy of St.Galler Kantonalbank ("best execution") in order to process client orders concerning financial instruments in the best way possible.
- In the fulfilment of their duties and responsibilities in the bank, all employees act with due independence and objectivity. Employees are prohibited from executing transactions for their own account on the basis of their knowledge of client orders or from favouring their own orders over client orders.
- All employees observe the information barriers and non-disclosure obligations, as well as the regulations concerning the prevention of insider transactions as well as active and passive bribery.
- All employees avoid situations that could lead to conflicts of interests, e.g. due to personal financial interests, family members or close personal relationships, former, current or future involvement in activities in or outside the bank, or the exercising of various roles and responsibilities in the bank.

### 4.2 SGKB management

- The bank's management guarantees the independence of organisational units between which conflicts of interests exist or could arise. This independence is ensured, continually monitored, and if necessary further adjusted, by means of organisational measures such as internal instructions, processes, roles/responsibilities and an independent reporting office.
- The bank's management promotes a culture that ensures ethically responsible dealings with clients and due handling of conflicts of interests.
- The bank's management considers potential and actual conflicts of interests between the organisational units holistically and makes decisions that facilitate the approach in handling conflicts of interests.
- By means of a reasonable salary policy, the bank's management ensures the avoidance of improper incentives for its employees.

By identifying, averting, minimising and disclosing conflicts of interests, SGKB endeavours to ensure that these conflicts do not have any detrimental effect on clients.

## 5. Procedure in the event of breaches and disciplinary measures

Employees can face disciplinary consequences if the requirements recorded in this document are not observed. The decision on a disciplinary measure depends on the severity and frequency of the breach.

## 6. Conflicts of interests in the investment area

SGKB offer a wide range of financial instruments matching its financial services and covers a wide range of client needs here. The range of financial instruments includes the Group-owned financial instruments along with products of third-party providers. These proprietary products can constitute conflicts of interests, since apart from the distribution, SGKB assumes additional roles (e.g. asset management, trading) and can be compensated for this. This can lead to almost the entire price charged to clients remaining with the bank in the case of such financial instruments. As a result, an incentive can arise for SGKB to make preferential use of its own financial instruments. SGKB has taken measures to prevent such conflicts of interests. These measures are explained in the following financial services.

In order to avoid conflicts of interest, SGKB ensures the organizational separation of units responsible for creation or administration of financial instruments from sales units recommending these financial instruments.

## **6.1 Asset management**

In asset management, the Investment Center selects financial instruments on the basis of a structured, multi-stage process. This means all financial instruments are subjected to an identical analysis and selected according to uniform qualitative and quantitative criteria, irrespective of whether of the Group-owned financial instruments is involved or a third-party product.

### **6.1.1 Asset management mandates with exclusively Group-owned financial instruments**

Only Group-owned financial instruments are used in COMFORT KES. The portfolio is implemented with two portfolio modules and as a result meets the corresponding provisions of the Ordinance on asset management as part of a guardianship or wardship (VBVV). In addition, the mandate benefits from investment in the most favourably accessible tranche of financial instruments.

### **6.1.2 Asset management mandates with the group-owned financial instruments and third-party financial instruments**

For asset management, the Investment Center selects securities on the basis of a structured, multilevel procedure. During this process, all financial instruments are analysed identically and selected by uniform, qualitative and quantitative criteria regardless of whether the financial instrument is one of the Group-owned financial instruments or is a third-party product. The details of the structured multilevel selection process can be found here: "[www.sgkb.ch/interessenkonflikte-selektionsprozess-VV-en](https://www.sgkb.ch/interessenkonflikte-selektionsprozess-VV-en)" (filing as a second document at "[www.sgkb.ch/en/legal-guidelines](https://www.sgkb.ch/en/legal-guidelines)" under "Potential conflicts of interest" with the designation "Asset management selection process")

A share of a maximum of 35% can be invested in Group-owned financial instruments in the mandate types COMFORT strategy, COMFORT active, COMFORT premium, COMFORT premium helvetia, COMFORT premium dividend and COMFORT premium eco.

In the case of the COMFORT tail risk mandate type the share of bonds is invested up to a maximum of 100% in Group-owned financial instruments.

For the individual mandates COMFORT private and mandates for clients in the department "Institutional Investors", the share of Group-owned financial instruments can vary. The portfolio orientation and share of Group-owned financial instruments is defined by the clients in the separate mandate specifications.

## **6.2 Investment advisory**

In investment advisory (portfolio-related and transaction-based), the Investment Center selects the stocks for the recommendation universe. The financial instruments are selected here based on qualitative and quantitative criteria. In addition, in investment advisory the clients independently decide which SGKB recommendations are actually to be implemented. As a result, clients themselves can control the share of Group-owned financial instruments.

### **6.2.1 Portfolio-related investment advisory services with the group-owned financial instruments or third-party financial instruments**

For the CONSULT investment packages (basic, plus, top, expert, international), there is a broad recommendation universe with the Group-owned financial instruments and third-party products. SGKB does not offer its advisors any monetary or equivalent non-monetary incentives for selecting group-owned financial instruments. All investment decisions regarding choices of financial instruments are made independently by clients.

### **6.2.2 Transaction-based investment advisory services with the group-owned financial instruments**

Only group-owned financial instruments are available in the Investment Fund Savings Plan, for securities saving with pension funds (pillar 3a) and our Denk3a products. This allows clients to benefit from a favourable offer in terms of pricing. By using its own financial instruments SGKB emphasises its own investment competence. If clients do not wish to invest exclusively or at all in group-owned SGKB financial instruments, the pension account is available as an alternative to Denk3a and the securities saving with funds (pillar 3a). As an alternative to the Investment Fund Savings Plan, portfolio-related investment advisory is available with a broad universe of recommended securities.

### **6.2.3 Transaction-based investment advisory services with the group-owned own financial instruments and third-party financial instruments**

In the securities saving with vested benefits (pillar 2) of the Swisscanto Vested Benefits Foundation third-party products are also available alongside group-owned financial instruments. There is the option of combining several financial instruments. Securities are recommended on the basis of the investment strategy as well as by using objective criteria. All investment decisions regarding choices of financial instruments are made independently by clients.

### **6.2.4 Transaction-based investment advisory services "FX-Business"**

The transaction-based investment advisory service in foreign exchange hedging "FX-Business" offers structured products from one third party. The limited selection of counter parties may have an impact on the price and the product range.

## **7. Third-party payments**

**SGKB reimburses clients that have the mandate types COMFORT (asset management) and CONSULT (portfolio-related investment advisory services with the group-owned instruments) for the sales remuneration on collective investments.**

Structured products may be used for the CONSULT investment package, for which SGKB will receive third-party payments. These third-party payments will not be reimbursed to clients.

No third-party payments whatsoever will be reimbursed to clients for the Investment Fund Savings Plan. A conflict of interest can consist of SGKB being partially financially compensated by third parties for SGKB performing financial services (e.g. for selling and/or safekeeping financial instruments) such as commission, commission fees or discounts. SGKB can also receive compensation that cannot be passed on to clients because of the nature of the compensation, such as invitations. In addition, SGKB charges a custodian fee (double dipping) for these instruments. This could lead to the incentive of certain financial instruments being favoured for which SGKB receives third-party compensation or higher compensation as well as additional custodian fees. Investments in these kinds of financial instruments can be associated with higher costs or diminished yields for clients.

SGKB does not receive any third-party payments for securities saving with pension funds (pillar 3a), Denk3a or securities saving with vested benefits (pillar 2).

SGKB provides information about third-party payments in the "Third-party payments in investment business" fact sheet at "[www.sgkb.ch/drittverguetungen-anlagegeschaefte-en](http://www.sgkb.ch/drittverguetungen-anlagegeschaefte-en)". More information about the subject and amount (in percentage-based allocation bandwidths) of these third-party payments ("calculation figures") can be found in the current price list that can be viewed at "[www.sgkb.ch/preistabelle-anlegen-en](http://www.sgkb.ch/preistabelle-anlegen-en)".

Please feel free to contact your advisor if you have any questions concerning the handling of conflicts of interests.

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