

General information on MiFID II

1. General information

1.1 St. Galler Kantonalbank AG (SGKB)

Founded in 1868, SGKB is a universal bank with regional roots, licensed and supervised by the "Swiss Financial Market Supervisory Authority" (FINMA), based in Bern (Swiss Financial Market Supervisory Authority FINMA, Laupenstrasse 27, CH-3003 Bern). The majority shareholder is the Canton of St. Gallen. The Canton of St. Gallen is liable for all liabilities of SKGB if its own funds are insufficient ("state guarantee"). Subordinate loans and the bank stock are excluded from the state guarantee.

SKGB is organised as a joint stock company under Swiss private law. It is listed in the cantonal Commerce Register and listed on the SIX Swiss Exchange.

Like every bank and securities trader in Switzerland, SKGB is also a member of "esisuisse". The esisuisse association guarantees the deposit insurance prescribed by the Swiss Bank Act. This deposit insurance guarantees client deposits at Swiss branches of the bank up to CHF 100,000 per client (and bank). Medium-term bonds deposited at the issuing bank in the name of the depositor are also regarded as deposits. All of the relevant information on the deposit insurance system can be found at www.esisuisse.ch/en.

Approximately 1200 SGKB employees work at the headquarters in St. Gallen and in 38 branches.

You can find more information about the organisation and structure of SKGB in the Annual Report, which is available on our website at <https://www.sgkb.ch/en/about-us> or which we would be pleased to send to you.

1.2 Language and means of communication

Clients can engage in unrestricted communication with SGKB in German. In general, German is also the contractual language. SGKB can at its discretion offer to communicate with the client in whole or in part in other languages, especially English, and to provide corresponding client documents.

SGKB normally communicates by letter. In e-banking, it offers the option of secure and confidential digital communication with SGKB.

Orders can be issued on physical writing media, digitally in e-banking, by telephone and of course through direct conversation.

You can find more information on the various communication options on our website at <https://www.sgkb.ch/en/about-us/contact>.

1.3 Complaints management

The satisfaction of clients and potential clients is important to SGKB. Complaints can be made directly to the responsible client advisor or centrally to the Advice Centre of SGKB (tel. 0844 811 811, contact form at <https://www.sgkb.ch/en/about-us/contact>). SGKB ensures that every complaint is recorded and processed promptly. It is determined to identify improvement potential from the complaints received and to improve its processes on this basis.

If the complainant is not satisfied with SGKB's reply, it is possible to contact the Swiss banking ombudsman (www.bankingombudsman.ch/en/). The banking ombudsman is an independent mediator. Arbitration proceedings before the banking ombudsman are free of charge for the client.

2. Client classification

2.1 SGKB client classification

SGKB classifies its clients domiciled in an EU/EEA country according to the criteria prescribed by MiFID II into the categories “Private clients”, “Professional clients” and “Eligible counterparties”. Different levels of protection are associated with the classification. Clients are informed of their classification.

2.1.1 Private client

A private client is one who is not a professional client. The private client enjoys the highest level of investor protection under MiFID II. This is in particular characterised by SGKB having to check, depending on the security service and on the basis of particular criteria, whether a financial instrument or security service is suitable or appropriate for the client (see Ch. 3.3.1 **Asset management and investment advice** and Ch. 3.3.2 **Non-advisory transactions**).

2.1.2 Professional client

A professional client in the meaning of MiFID II is a client in whose case SGKB can assume without additional clarifications that it has adequate experience, knowledge and expertise to make its own investment decisions and can appropriately evaluate the associated risks. The professional client does not need any special clarification in this regard for its protection. Particular institutions and companies, such as those operating on the stock exchange subject to a licensing or regulatory obligation, large companies that meet clearly defined financial key figures at the corporate level, national and international institutions or institutional investors, whose main activity consists in investment in financial instruments and highly rated private clients, are regarded as professional clients (see Chapter 2.2 Reclassification).

2.1.3 Eligible counterparty

Companies or institutions from a sub-group of professional clients are recognised as eligible counterparties: securities firms, credit institutes, insurance companies, undertakings for collective investment in transferable securities (UCITS) and their management companies, pension funds and their management companies, other financial institutes that are licensed or financial institutes subject to supervision under EU law or the laws of a member state, national governments and their institutions, including public debt administration bodies at the national level, central banks and supranational organisations. The lowest protection level applies to eligible counterparties.

2.2 Reclassification

A private client can apply in writing to be classified as a “professional client” (opting-out). The private client gives up the highest protection level provided by law it by opting out. Opting-out can only be considered if at least two of the following criteria are met:

- During the previous four quarters, the client has on average concluded ten transactions of considerable scope per quarter.
- Liquid funds and financial instruments worth more than EUR 500,000 are available.
- The client is or was employed for at least one year in a professional position in the financial sector that requires knowledge of the planned transactions or services.

SGKB is also at liberty to reject the application for opting-out if the criteria mentioned above have been met.

A professional client who wants a higher protection level than the one provided for it can apply in writing not to be regarded as a professional client (opting-in). An agreement specifies what custody accounts this applies.

An eligible counterparty can apply to be treated like a professional client or private client (opting-in). As a result, it obtains a higher protection level.

3. Information on financial instruments and securities services offered

3.1 Financial instruments

Trading in financial instruments involves financial risks. Depending on the financial instrument, these risks can differ widely. In general, statutory provisions distinguish between “non-complex financial instruments” and “complex financial instruments”. The brochure “Risks Involved in Trading Financial Instruments” explains what kinds of financial instruments exist and the risks associated with them in detail. You can retrieve the brochure at <https://www.sgkb.ch/download/online/RisksInvolvedinTradingFinancialInstruments.pdf>. SGKB would be pleased to provide a free physical copy on request.

3.2 Type of financial instruments that can be included in the client portfolio and type of transactions that can be executed with these instruments, including any restrictions

The contracts on investment advice or asset management regulate the type of financial instruments that can be included in the client portfolio and the type of transactions that can be executed with these instruments.

Leveraged financial instruments are offered neither in investment advice nor in asset management.

3.3 Securities services

SGKB operates as a universal bank on the domestic market and is open to all clients. In foreign markets, it concentrates on particular target markets, for which it has defined various service models. Depending on their domicile, only particular services are available to clients whose place of residence or registered office is not in Switzerland.

SGKB provides the following asset management services:

- Asset management (also called portfolio management)
- Investment advice, including execution of orders to buy or sell financial instruments
- Execution of orders to buy or sell financial instruments without advice (“non-advisory transaction”), especially in the context of execution-only transactions.

3.3.1 Asset management and investment advice

On request, SGKB provides asset management or investment advice. For asset management, it manages a security custody account in accordance with the investment strategy agreed with the client; SGKB takes the decisions regarding the individual investments. For investment advice, the bank provides the client with advice, taking the client’s personal circumstances and investment goals into account. Both asset management as well as investment advice are performed based on a separate written contract.

For these services, the bank obtains various kinds of information in advance. These include – if of importance – information about:

- knowledge and experience of the client in the investment business, especially regarding the type of services and financial instruments with which it is familiar, about the type, scope and frequency of transactions with financial instruments executed in the past; if necessary, also regarding the client’s professional activity and education
- the investment goals, especially regarding the planned investment purpose, investment time horizon and risk tolerance
- the financial circumstances and ability to bear losses, especially regarding the origin and amount of regular income, obligations and total assets

The information obtained enables the bank to propose a suitable investment strategy as part of its asset management and to recommend suitable financial instruments as part of its investment advice. The following investment strategies and financial instruments are suitable:

- those that correspond to the investment goals of the client
- those whose investment risks are financially tolerable for the client
- those whose risks the client understands due to its knowledge or experience (the bank may assume this in the case of professional clients)

When evaluating knowledge and experience in the case of legal entities or where there is a power of attorney, SGKB orients itself according to the person it deals with. If authorised persons have collective signing authority, all of the persons signing must possess the knowledge and experience required.

When evaluating financial circumstances and investment goals, SGKB always orients itself according to the account holder. Where an account has two or more account holders, the financial circumstances of the economically weaker account holder are taken into account. The account holder with lower return expectations or the lower risk tolerance is taken into account with regard to investment goals.

SGKB has defined an investment universe for asset management and investment advice that includes all of the kinds of financial instruments listed in the Swiss Financial Services Act. The investment universe takes both financial instruments of third party providers as well as financial instruments of SGKB or companies affiliated with it into account. If it is as suitable for the client as a product of a third party provider, SGKB may prefer a financial instrument of its own or the product of a company affiliated with it for asset management or recommend it during investment advice. SGKB does not provide investment advice on an independent basis in the meaning of Article 24 (4) a i) of MiFID II. SGKB provides the client with a regular evaluation of the suitability of financial instruments as part of its asset management and investment advice.

3.3.2 Non-advisory transactions

SGKB handles purchase or selling orders that are issued without advice and whose object is non-complex financial instruments as "execution-only." SGKB does not check whether the client possesses knowledge or experience with regard to the transaction involved and whether the transaction is appropriate for the client.

In the case of purchase or selling orders that are issued without advice and whose object is complex financial instruments, SGKB determines the knowledge and experience of the client with regard to transactions with such financial instruments. It does so in order to be able to evaluate whether the client understands the risks associated with the transaction and whether the transaction is appropriate for the client (appropriateness test). In the case of professional clients and eligible counterparties (2.1.2 and 2.1.3 above), it is entitled to assume that they have adequate knowledge or experience. SGKB orients itself according to the person it deals with where a power of attorney exists. If authorised persons have collective signing authority, all of the persons acting must possess the knowledge or experience required.

If SGKB reaches the conclusion during its evaluation that the intended transaction is inappropriate for the client, or not all of the information required to evaluate the appropriateness is available to SGKB, the client receives an appropriate warning. The bank reserves the right not to execute the transaction if it cannot reach the client with such a warning.

No check is made whether the client can bear the risk of loss associated with the transaction and whether the transaction is appropriate for the investment goals of the client in the case of non-advisory transactions.

4. Order execution principles

SGKB renders its services honestly, ethically and professionally in the best interests of the client. It has defined principles that enable it to achieve the best possible result for the client for the execution of orders. These principles are published at <https://www.sgkb.ch/mifid-en> ("Execution principles of St. Galler Kantonalbank AG"). For every class of financial instruments, SGKB also provides an annual summary of the five most important trading locations, based on trading volumes, as well as information on the execution quality achieved and likewise publishes this at the address stated ("The five most important trading locations", "Report on execution quality").

5. Information on costs and ancillary costs

5.1 Ex-ante disclosure

SGKB discloses the costs and ancillary costs of securities services (service costs) in advance (ex-ante). The disclosure is made based on estimates. SGKB lists the costs in a flat-rate cost summary based on potential transactions. They are available at the link <https://www.sgkb.ch/mifid-en>. The costs are based on the brochure "Services and prices for investment transactions" and can be viewed at <https://www.sgkb.ch/download/online/preistabelle-anlegen-sgkb-EN.pdf>.

5.2 Ex-post disclosure

In any event, SGKB discloses the actually incurred service costs retrospectively (ex-post) pursuant to the periodicity specified in Section 7 "Client settlement and reporting". In exceptional cases, retrospective correction is possible, because in the case of the ex-post cost presentation SGKB is dependent on the supply of data from product suppliers and information service providers, which in some cases use different settlement dates, different prices (e.g. average daily prices, stock market closing prices) and different conversion prices and conversion times in connection with foreign currencies. The ex-post presentation may diverge from the flat-rate ex-ante estimate.

6. Handling of conflicts of interests

SGKB has taken a series of measures to avoid conflicts of interest between it, its employees, the third parties associated with it and clients. SGKB would be pleased to provide more detailed information if clients request it.

6.1 Receipt of gratuities from third parties

6.1.1 Sales remuneration

When selling securities, SGKB may in the normal course of business receive gratuities from investment companies and issuers of securities. These include sales-dependent follow-up commissions (also called turnover commission), which are paid to SGKB by investment companies from the management fees they levy and sales commissions paid by issuers of securities in the form of sales commissions, corresponding reductions on the issue price (discount) and sales follow-up commissions.

In addition, SGKB may collect front-end loads (turnover fees) provided it levies them when selling investment shares or other securities.

The gratuities help to facilitate improved access to advisory services, for example, through the provision of a widely distributed branch network, which ensures on the spot availability of qualified investment advisors for clients in the domestic market of SGKB. As a result, the gratuities promote the quality of the services for the client and do not impair the obligation of SGKB to act in the best interests of the client.

SGKB either does not accept any gratuities from third parties in connection with investment advice or asset management or pays them after receipt as quickly as possible in full to the client (possible exception: trivial non-monetary gratuities). SGKB will inform the client of monetary gratuities paid out.

The client is informed in good time of the precise amount of the gratuities. Since the gratuities are in part paid to SGKB on a regular basis, the client is informed at least once a year of the actual amount of the payments received.

6.1.2 Performance-related remuneration

A conflict of interest can arise during asset management if performance-related remuneration is agreed. In this case, it cannot be ruled out that the manager incurs greater risks in order to achieve the highest possible performance and as a result higher remuneration. Risk reduction is achieved here by, among other things, internal monitoring of the investment decisions taken and through combination with other fixed remuneration components.

6.1.3 Other gratuities

In the context of asset management, SGKB may only receive minor non-monetary benefits, which are suitable to improve the quality of the asset management provided to the client and which are reasonable and proportionate with regard to their scope and nature, e.g. information or documentation on financial instruments or securities services provided they are created generally or tailored individually to the situation of a particular client, written information material on issuers or potential issuers from the corporate sector, participation in conferences, seminars and other educational events held on the advantages and features of a particular financial instrument or a particular securities service and entertainment whose value does not exceed a reasonable de minimis threshold.

7. Client settlement and reporting

7.1 Non-advisory transactions and investment advice

The bank sends the corresponding settlement (transaction settlement) to the client at the latest on the business day following the execution of a security trading transaction. In addition, it periodically provides the client, normally at the end of the calendar quarter, with a statement of the financial instruments kept for the client (asset statement) unless the client has already received such a statement in another periodic statement. This remains subject to divergent arrangements with the client.

7.2 Asset management

The client receives quarterly – normally after conclusion of the calendar month – a comprehensive asset statement with performance details and the portfolio analysis. Among other things, this statement includes information on the composition and valuation of the portfolio, income generated, performance in the reporting period compared to a benchmark, costs incurred and transactions executed. In addition, the bank provides the client with a transaction list, income statement, a Swiss tax statement and an application for repayment of Swiss withholding tax.

7.3 Form

In general, the transaction settlements, asset statements and reports on asset management are provided in paper form. On request, the client can receive the documents digitally in e-banking.

7.4 Loss threshold reporting

In the context of asset management, SGKB informs the client if the total value of the managed portfolio – compared to the last asset management report – has fallen by 10% as well as subsequently of any further value loss in 10% increments. Such notification occurs at the latest at the end of the business day on which the threshold is exceeded. If this does not occur on a business day, the report is made at the end of the following business day.

8. Additional information on asset management

8.1 Valuation and comparison method

To enable the client to evaluate the performance of the asset manager, a benchmark is stated as a standard of comparison when determining the investment strategy for the client's portfolio. The benchmark is determined taking the investment goals of the client and the type of financial instruments used for asset management into account. For example, it is possible to state an index or an interest rate as a benchmark. A specific benchmark for the client portfolio is only determined when agreeing the individual investment strategy when concluding the contract. The benchmark serves only as a standard of comparison for reporting on asset management. The asset manager is not obliged to achieve the benchmark in the form of the further development of the client portfolio that is managed.

8.2 Nature and frequency of valuation

Prices are available on every trading day for financial instruments traded on an organised market. As a result, valuation of these financial instruments occurs on every trading day. In the case of financial instruments not listed on a stock exchange, valuation of the financial instrument occurs when the particular issuer of the financial instrument based on the statutory regulations determines the prices. Moreover, valuation of all of the financial instruments held in the client portfolio occurs at the end of the particular reporting period as part of reporting on the client portfolio.

8.3 Management goals, risk level to be observed and discretionary guidelines

The management goals of asset management, the risk level to be observed and guidelines at the discretion of SGK B are derived from the investment strategy pursued. This is agreed with the client based on its statements on its investment goals, knowledge and experience and its financial situation.

St. Galler Kantonalbank, January 2020