# [ Annual Report 2007 ]

St.Galler Kantonalbank

Cover photo

New spaces in familiar surroundings: The images depicted in the Cantonal Bank of St. Gallen's annual report for 2007 reflect architectural and artisitic impressions of the Bank's newly designed head office, which was opened in April 2007.

# [ Annual Report 2007 ]



The full annual report in German is available at www.sgkb.ch

St.Galler Kantonalbank

# Group Key Figures

| Income Statement in CHF 000s | 2007 | 2006 | 2005 |
|---|---|---|---|
| Operating income | 559 789 | 555 131 | 533 163 |
| Administrative expenses | 270 106 | 253 878 | 242 897 |
| Operating profit | 246 089 | 252 772 | 235 973 |
| Group net profit | 226 682 | 228 555 | 168 302 |

| Balance Sheet in CHF 000s | Dec. 31, 2007 | Dec. 31, 2006 | Dec. 31, 2005 |
|---|---|---|---|
| Loans to clients | 17 102 122 | 17 208 671 | 16 435 880 |
| Customer funds | 12 292 293 | 11 802 711 | 10 959 905 |
| Balance sheet total | 20 235 796 | 19 799 982 | 19 117 331 |
| Shareholders' equity | 1 739 533 | 1 705 676 | 1 561 681 |

| Funds under Management in CHF 000s | | | |
|---|---|---|---|
| Funds under management | 37 883 264 | 38 838 934 | 33 323 426 |

| Headcount | | | |
|---|---|---|---|
| Full-time equivalents (in accordance with BAG-FBC; apprentices calculated at 50 %) | 1 007 | 972 | 957 |
| Number of employees: | | | |
| – Individuals | 1 132 | 1 091 | 1 073 |
| – of which trainees | 111 | 108 | 108 |

| Key Figures | 2007 | 2006 | 2005 |
|---|---|---|---|
| **SGKB share** in CHF | | | |
| Earnings per share | 40.91 | 41.21 | 30.99 |
| Dividend per share [1] | 26.00 | 0.00 | 13.00 |
| Repayment of the par value per share | 0.00 | 30.00 | 0.00 |
| Market price | | | |
| – as of December 31 | 498.00 | 512.00 | 390.00 |
| – Highest price | 642.00 | 515.00 | 422.00 |
| – Lowest price | 445.00 | 390.00 | 282.00 |
| Market capitalization as of December 31 (in CHF million) | 2 775.60 | 2 853.60 | 2 173.60 |
| **Return on equity** | | | |
| Return on equity, pre-tax (basis: operating profit) | 15.7 % | 16.7 % | 17.1 % |
| Return on equity, after tax (basis: group net profit) | 14.5 % | 15.1 % | 12.2 % |
| **Cost/income-ratio** | | | |
| Cost/income-ratio including depreciation on fixed assets | 51.2 % | 48.4 % | 48.2 % |
| **Equity key figures** | | | |
| BIS ratio tier 1 | 13.9 % | 13.5 % | 13.5 % |
| BIS ratio tier 2 | 14.5 % | 14.2 % | 14.5 % |
| Excess capital ratio (CH standard) | 83.0 % | 74.8 % | 75.9 % |
| Shareholders' equity as % of balance sheet total | 8.5 % | 8.6 % | 8.2 % |

[1] Recommendation of the Board of Directors for the financial year ended on Dec. 31, 2007

A historical data comparison with prior years is difficult due to the major project of migrating the Bank's IT platform. This concerns administrative expenses, operating profit, pre-tax return on equity and the cost/income-ratio.

| Moody's Rating | 2007 | 2006 | 2005 |
|---|---|---|---|
| Senior unsecured domestic currency | Aa1 | Aa1 | Aa1 |
| Bank deposits | Aa1 / P-1 | Aa1 / P-1 | Aa1 / P-1 |
| Bank financial strength | B- | B | B |

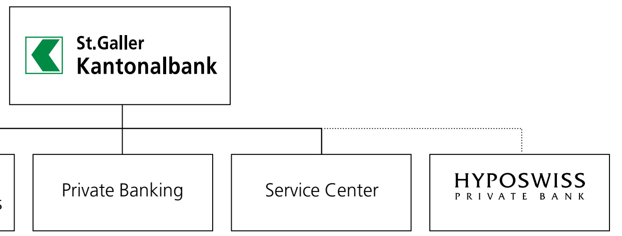
# [ 1 ] Profile

## Cantonal Bank of St. Gallen Group

The Cantonal Bank of St. Gallen (SGKB) was founded in the year 1868, in order – like all cantonal banks – to offer savings and credit services to the general population and small enterprises within the Canton of St. Gallen, and by this means to promote the development of the regional economy. The new Cantonal Bank Act of 1996 created the conditions necessary for the Bank to be converted into a stock corporation in the year 2000. In the year 2001, it was then partially privatised. A central element in this respect was the refocusing of the business strategy, in particular the successful expansion of its private banking activities.

The Cantonal Bank of St. Gallen Group comprises the retail division Retail and Commercial Clients (RCC), the Private Banking division of the parent company and the subsidiaries Hyposwiss Privatbank AG in Zurich, and Hyposwiss Private Bank Genève SA since February 29, 2008. The Presidium (from August 1, 2008: Finance and Risk Management) and the Service Center, which together comprise the Corporate Center, are responsible for the support services. Appropriate competence centers (specialist centers) also assist with market coverage. They avoid duplications by focusing on specific expertise. There are currently four competence centers: Investment Center, Financial Planning, External asset manager (EAM) Desk and Lombard Credits.

**Group structure** (as at Dec. 31, 2007)




Subsidiary company (100 %)

- Founded in 1868
- 2001 IPO (Initial Public Offering)
- 2002 acquisition of Hyposwiss Privatbank AG, Zurich
- 2008 acquisition of Hyposwiss Private Bank Genève SA, formerly Anglo Irish Bank (Suisse)

→ 2007 Financial Year, pp. 10–15

## Retail and Commercial Clients

The Retail and Commercial Clients division offers its clients a comprehensive range of products as well as consultancy services tailored to meet their payment, savings, investment, pension and financial requirements. The division covers all segments, with private, commercial and corporate clients, and offers its services at 37 branches throughout the Swiss Cantons of St.Gallen and Appenzell Ausserrhoden.

→ 2007 Results, pp. 16–18

## Private Banking

The SGKB Group offers private clients at home and abroad tailor-made products and services for capital formation and asset management. The parent company of the Cantonal Bank of St.Gallen has its own private banking teams at six locations in the Canton of St.Gallen. The wholly owned Hyposwiss subsidiaries in Zurich, Geneva and Portugal manage the onshore activities in Switzerland and offshore activities in the fast-growing key markets. The Investment Center at Hyposwiss in Zurich is the competence center for the entire Group and is in charge of investment policy, managing discretionary mandates and developing new products and in-house investments funds.

→ 2007 Results, pp. 19–21

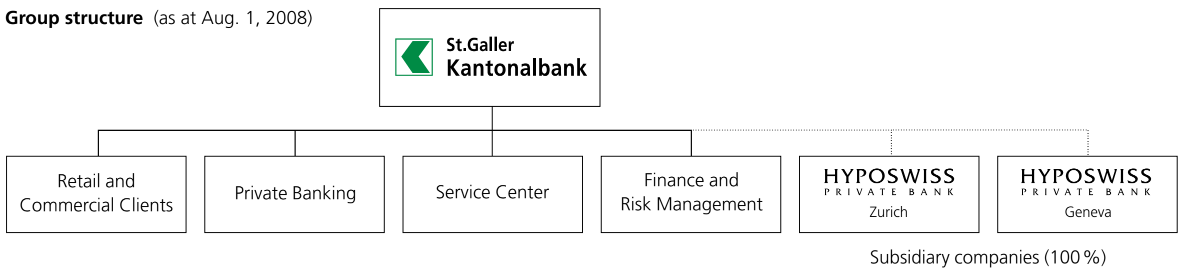
## Presidium

The Governing Board provides services in the areas of controlling and accounting, human resources as well as corporate development and corporate communication. On August 1, 2008, the division will be renamed "Finance and Risk Management". As of this date it will no longer be run by the Chief Executive Officer but will have its own manager who will be a member of the Executive Board. The new name reflects the increasing importance that the Group attaches to risk management. The Internal Audit reports to the Board of Directors, although in administrative terms it is part of the Presidium and monitors the activities of all divisions.

## Service Center

The Service Center acts as the central finance and credit processing unit and also handles payment transactions on behalf of the parent company. In addition, the Trading Desk executes foreign exchange and securities transactions for clients as well as own-account trades. The IT and Projects Department is also an integral part of the Service Center. It has a dual function in that it is in charge of coordinating IT throughout the Group as well as handling project management. The Infrastructure Department is ultimately responsible for the central services as well as for the construction and maintenance of the bank premises owned by the parent company. A department has also been created specifically to handle the IT migration project.

**Group structure** (as at Aug. 1, 2008)




→ Corporate Governance, pp. 22–25

# [ 2 ] Strategy

The primary strategy pursued by the Cantonal Bank of St. Gallen group (SGKB group) is to secure a sustained increase in the value of the company in the interests of its shareholders. The key success factors are the uncompromising focus on the needs of clients, ongoing cost controls and the rigorous application of the risk policy. The SGKB group is firmly convinced that a key determinant of the future success of the business will be differentiation and the strength of growth.

## Market and Competition

The market territory covered by the parent company of the Cantonal Bank of St. Gallen primarily comprises the Cantons of St. Gallen and Appenzell Ausserrhoden as well as the neighbouring regions in Switzerland and abroad. The domestic market is covered by a dense network of branches at 37 locations that cater for the private and business client segment. The parent company's private banking services are also offered at six locations. The size of the branch network is ideal for its marketing activities and ensures a strong local presence in all the economic regions. The branch network is supplemented by alternative sales channels in the form of cash dispensers (53 locations), e-banking (90 868 clients) as well as a central call center which provides clients with support and advice over the telephone. The subsidiaries Hyposwiss Privatbank AG and Hyposwiss Private Bank Genève SA operate in the financial centers of Zurich and Geneva as well as abroad. They place particular emphasis on active market coverage of the key markets South America and Eastern Europe.

Eastern Switzerland is one of the regions with the densest bank networks in Switzerland. Competition for Retail and Commercial Clients as well as for private and institutional investors in the Cantons of St. Gallen and Appenzell Ausserrhoden is intense. Moreover, the last decade has witnessed the growing presence of new domestic and foreign financial services providers on the market in addition to the established competitors such as large banks, regional banks and Raiffeisen banks.

The Cantonal Bank of St. Gallen specifically positions itself between the regional and Raiffeisen banks on the one hand and the large banks on the other hand. The combination of client proximity and local establishment, coupled with professionalism and good quality advice, is ideal and secures the SGKB a promising market position. Unlike other banks, the Cantonal Bank of St. Gallen has a state guarantee, but is not bound by a public service commitment.

## Cantonal Bank of St. Gallen Group

The strategic focus of the SGKB Group is reviewed annually by the Board of Directors and the Management Board. This review is prepared by the Management Board in two-day workshops that are devoted exclusively for the strategy. While the first workshop chiefly focuses on review and analysis, the second defines the strategic measures. At the invitation of the Management Board, the Board of Directors holds a one-day meeting to analyse the strategy. This process ensures that the Bank's activities remain closely focused on the requirements of the market.

The chief objectives pursued by the SGKB Group are to ensure a steady increase in its value as a going concern and above-average growth. The main success factors in this respect are:

- its uncompromising focus on client requirements
- continuous cost controls
- rigorous application of its risk policy

Within this framework, the Cantonal Bank of St.Gallen aims to maintain a balance between interest income and other revenues. This permits diversification of revenue sources, which offsets the shrinking margins in lending activities, boosts additional growth potential and ensures steady earnings growth.

In its current strategy, the SGKB has concentrated on the following focal points and growth initiatives:

### Quality of advice and client service

The SGKB Group is positioning itself as the leading advisory partner in every segment. The combination of distinct client proximity, above-average support intensity and good quality advice set it apart from the competition. Great importance is attached to further expansion of the high-margin investment activities.

Further streamlining of the operational procedures has taken place to enable client service advisers to devote more of their time and attention to the concerns of clients.

### Positioning of the parent company as the leading investment advisory bank in Eastern Switzerland

The Investment Center situated in the Hyposwiss subsidiary provides the Cantonal Bank of St.Gallen Group with access to excellent investment expertise. The Group demonstrates its efficiency by the fact that the discretionary mandates and its own funds repeatedly outperform the benchmarks as well as by the range of demand-led products. The aim henceforth is to boost the image of competence among existing and potential clients. There are plans to specifically extend the "Cantonal Bank of St.Gallen" brand to the investment activities. The emphasis is on four key measures. Firstly, employment of a communication initiative with a view to targeting clients in Eastern Switzerland. Secondly, improvement of the positioning of the Investment Center in professional circles to support this objective pursued by the Cantonal Bank of St.Gallen Group. Thirdly, a structured advisory approach to guarantee the high level of quality of our advisory service. Fourthly, development of goal leadership in issues such as pension planning or retirement. This strategic focus attaches great importance to cooperation between the retail and commercial client segment and private banking. At the same time, this will also open up additional potential for providing services to company owners and senior managers who are existing commercial and corporate clients.

### Strategic key markets

To enable us to benefit from the economic growth in the regions of South America and Eastern Europe, Hyposwiss is stepping up its market coverage activities in these areas. Special emphasis is placed on an increased presence in these markets, development of the advisory teams in terms of quality and quantity as well as strengthening the existing networks with business partners. The aim is to boost the growth of new money from these regions by encouraging high-net worth individuals who are keen to diversify their assets geographically and politically to become clients of Hyposwiss.

### Attractive employer

The demographic trend clearly demonstrates that the labour market is set to tighten from the middle of the next decade. The SGKB Group consequently anticipates increased competition for well qualified employees. By specifically enhancing its attractiveness as an employer, the image of the SGKB Group will continue to improve among employees and job seekers. This will create the conditions required to ensure that the SGKB Group is able to continue drawing upon a pool of well-trained, experienced and motivated employees.

### Growth though acquisitions

Increasingly tough competition will continue to accelerate the process of consolidation in the banking sector. Thanks to its excellent positioning, the Cantonal Bank of St. Gallen Group is confident that it will also be able to benefit from this development in future. Equity capital for specific acquisitions has been built up in recent years. SGKB was consequently able to acquire the Anglo Irish Bank (Suisse) private bank based in Geneva in the year under review. The Cantonal Bank of St. Gallen still has a comfortable equity base even after this purchase and is on the look out for further acquisitions. The bulk of further potential acquisitions will lie in private banking. Opportunities in the retail segment will also be carefully examined. The primary considerations for an acquisition are strategic compatibility and the price level. Both aspects are important preconditions for ensuring that acquisitions make a positive contribution to value.

### Future challenges

- The Cantonal Bank of St. Gallen will spend much of its time dealing with the integration of the recently acquired Hyposwiss Private Bank Genève SA and achieving the concomitant potential for growth and increased value in the coming 12 to 24 months.
- Top priority will also be given to accelerating our increased coverage of the important private banking market in Germany.
- In the medium to long term the steady erosion of margins in the traditional mortgage business and the trend towards diminishing client loyalty are a challenge for the traditional business model adopted by the banks.

### Strategic aims

Overall, the strategic approaches outlined above will enable the Group to maintain its focus on increasing its volume and earnings. The Board of Directors and Management Board are confident that differentiation and strong growth will also have a significant impact on future commercial success. By implementing the strategy, the SGKB hopes to achieve the following objectives in the medium term:

| **Targets** (p.a.) | |
|---|---|
| Growth of loans to clients | > 3 % |
| Growth of funds under management (Net new money) | 4 – 5 % |
| Cost/income-ratio | < 46 % |
| Return on equity, pre-tax | > 15 % |

Provided that economic growth remains intact and stock markets remain positive, the SGKB Group will also be able to increase the value of the company in future for the benefit of its shareholders.

# [3] 2007 Financial Year

## Cantonal Bank of St. Gallen Group

The SGKB once again far surpassed the 200 million mark with its consolidated profit for 2007 and succeeded in maintaining the level of the previous record year 2006 in a difficult financial environment. The additional increase in the net fee and commission income made a particular contribution to this result.

→ Profile, p. 5 → Strategy, pp. 7–9

### Current market environment

Ups and downs set the tone for the year on the financial markets. In the first half of the year, interest rates on the capital markets soared initially and share prices reached record levels. A good year on the stock market was forecast due to the stable global economic environment and the national banks were expected to increase their base lending rates. In August however, the problems on the US American subprime market began affecting the international financial system, which gave way to a crisis of confidence with hugely fluctuating share prices. The overall picture on the stock markets was not only negative, however: stocks in the emerging markets in particular experienced above-average price rises. The same also applies to most commodities, which in turn benefited from the excess demand from the emerging economies. Bond prices trends were negative, and particularly suffered from the increase in interest rates in the middle of the year, the same trends affected bank and insurance company securities as well as foreign exchange assets in the US dollar. The US dollar plummeted against virtually all currencies as a result of the subprime crisis and the associated risks of a recession in the USA. Conversely, the euro strengthened and drove down the value of the Swiss franc.

Until the end of 2007 the American subprime crisis had not put pressure on the European and Swiss economy. Economic growth in Switzerland remained at the same high level as in recent years.

The economy in Eastern Switzerland was also in good shape in 2007, thus continuing the positive trend that had been sustained since 2004. This applies to the export-driven industry as well as to the service sector. In the construction industry, the backlog of orders is encouragingly high and construction activity has steadily increased throughout the year. However, there are increasing signs that the boom is gradually coming to an end. The retail trade also benefited from the strong economy in the first half of 2007, which was reflected in increased employment and income. Foreign trade in Eastern Switzerland surpassed Swiss export growth, with double-digit growth gains in all sectors. This growth is attributable to exports to Germany and the USA. Exports of consumer goods have grown faster than those of capital goods.

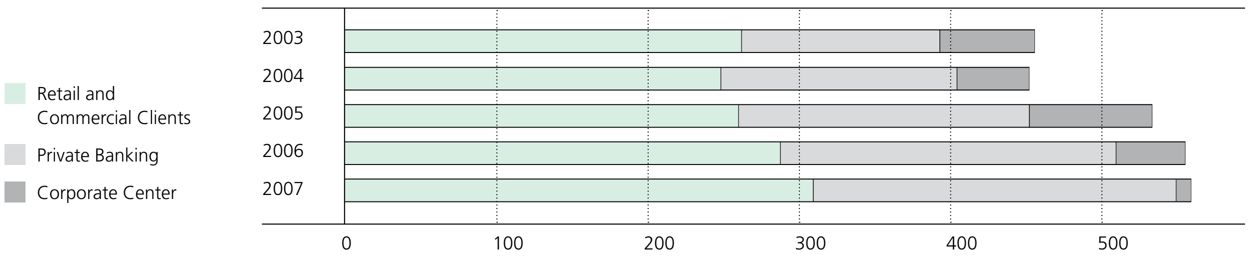
## 2007 Results

The Cantonal Bank of St. Gallen has achieved a very good result in view of the difficult situation on the financial markets. As forecasted at the end of the fist half of the year, the consolidated result was on a par with last year's record figure. Pre-tax profit rose by 2.4 % to CHF 274.0 million, while group net profit of CHF 226.7 million was 0.8 % lower than the previous year. In comparison to 2006, the financial year 2007 was burdened with non-recurring project costs incurred by the IT platform migration and by a far higher rate of taxation as a result of the elimination of tax-deductible values. The SGKB Group was able to maintain a high level of profitability and keep its costs under control at the same time. The provisions for credit risks are still very low.

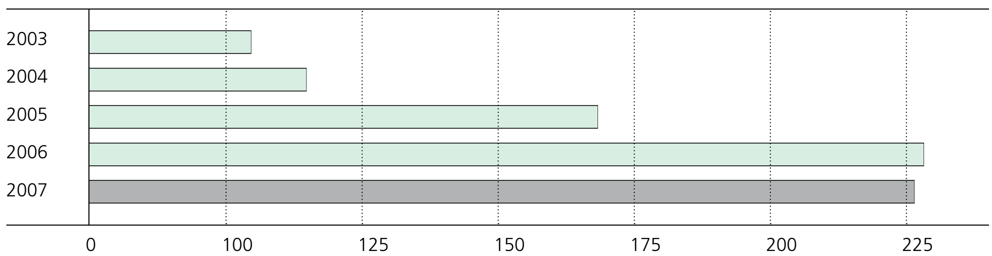
*Net interest income* of CHF 305.3 million was about one per cent below the figure for the previous year. Decisive factors were the sustained flat interest-rate curve and the falling levels of savings deposits, the bulk of which were switched to high interest-bearing fixed term deposits. This resulted in higher interest expenditure. Total client funds rose by 4.1% over the previous year, whereas client loans fell slightly (–0.6 %). This fall was largely due to reduced borrowing and loans (loans to clients). This was due to repatriation of lombard loans, mainly in connection with the divestiture of a large position in the private banking sector that was already announced in 2006. Conversely, mortgage loans increased by 2.8 %, and there was a two thirds increase in variable mortgages in particular over the previous year. The relationship of fixed-rate mortgages to variable mortgages was around 80:20 at the end of the year under review.

There was a significant increase in *net fee and commission income* from an already high base

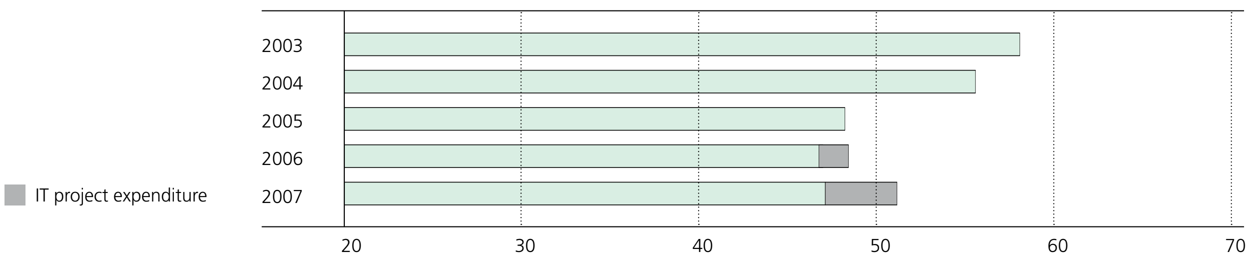
**Group operating income since 2003** (in CHF million)




**Group net profit since 2003** (in CHF million)




**Group cost/income-ratio since 2003** (in %)



(+6.7 % to CHF 215.2 million). This is regarded as encouraging in view of the eventful year on the stock market. The top-line spread (the ratio of operating income to funds under management) of 1.2 % in Private Banking is evidence of the strong profitability of the SGKB Group. Portfolio-dependent earnings as a proportion of total commission and service activities were 60.1 % (previous year: 59.1 %), whereas transaction-dependent fees accounted for 39.9 % (previous year: 40.9 %). Overall, net fee and commission income now accounts for 38.4 % of total revenues.

The corrections on the financial markets led to a fall in *net trading income* (CHF 30.9 million, –17.6 %), which is mainly attributable to the poorer performance of the nostro portfolio and forex trading.

*Net other income* totalling CHF 8.4 million is around 15.9 % above the previous year and mainly comprises the proceeds from the disposal of financial assets and the sale of a fairly large property that was not required by the business. Overall, *operating income* was 0.8 % above the previous year.

*Administrative expenses* increased relative to 2006 and totalled CHF 270.1 million. This increase of 6.4 % was mainly attributable to the ongoing migration project to the new Avaloq Banking System IT platform. Consequently, other operating expenses increased by 11.0 % relative to the previous year to CHF 116.2 million. Personnel expenses rose by 3.2 % to CHF 153.9 million due to a slight increase in the workforce, regular salary increases and individual and performance-related payment adjustments. Overall, gross profit of CHF 289.7 million was 3.8 % below that of the previous year. Excluding the impact of the IT project, gross profit would have amounted to CHF 313.1 million, placing it in line with the similarly adjusted record result in 2006.

*Valuation adjustments, provisions and losses* declined relative to 2006 to CHF 3.9 million. In the year under review, CHF 23.0 million of the *reserves for general banking risks* created in past years specifically for the IT platform migration were released to offset the corresponding expenditure on the project, which accrued as operating expenses. However, *tax expenditure* totalling CHF 47.3 million was over one fifth higher because the bulk of the tax deductible in values from the repatriation of the former subsidiary St.Gallen Asset Management (SGVB) had been utilised in previous years.

Overall, these effects resulted in a *group net profit* of CHF 226.7 million in 2007, which is only 0.8 % below the record level of the previous year, despite the above-mentioned rise in the rate of taxation.

*Balance sheet total* advanced by 2.2 % relative to 2006 to CHF 20.2 billion. This increase was mainly attributable to growth in customer funds.

As previously announced, the SGKB Group recorded a decline in *funds under management* due to one major transaction, as well as an outflow of assets from the South American business. This resulted in negative net new money of CHF 1.8 billion (previous year positive net new money of CHF 3.6 billion). Consequently, total funds under management fell to CHF 37 883.3 million (–2.5 %).

## Major events

### Hyposwiss has a new IT platform

At the beginning of 2007, the subsidiary Hyposwiss Privatbank, Zurich, successfully introduced the Avaloq Banking System. The Bank uses this standard software for all its banking transactions. This migration was the first step towards standardising the IT systems of Hyposwiss and the Cantonal Bank of St.Gallen used throughout the Group. It will also serve as a basis for introducing the Avaloq Banking System to the parent company in 2008.

### Shareholder-friendly dividend policy

Around 4000 shareholders attended the Annual General Meeting in 2007 and approved a distribution based on a repayment of the nominal value of CHF 30 per share instead of a dividend payment. The share capital subsequently fell from CHF 557.3 million to CHF 390.1 million. The payout rate was around 80 % of the parent company's net profit in 2006. Despite the repayment of the nominal value, the equity capital as at December 31, 2007 rose, namely by around CHF 34 million to CHF 1739.5 million.

### Changes in the Board of Directors

The Annual General Meeting in 2007 elected 58-year-old Hans-Jürg Bernet to the Board of Directors. As a new member, the native of St. Gallen, with over 30-years of experience in the insurance sector, he will contribute his broad financial and economic expertise and many years of management experience to the Board of Directors. The previous members, Hubertus Schmid and Markus Rauh, did not put themselves up for re-election. Both had sat on the Board of Directors since 2000 and, as Chairmen of the Audit Committee and the Financial Committee respectively, had played a crucial role in the IPO and subsequent extremely successful expansion of the Cantonal Bank of St. Gallen. After these changes, the Board of Directors of the Cantonal Bank of St.Gallen will comprise seven members.

### Greater rights to participate in administration

Shareholders at the Annual General Meeting also voted to facilitate the exercise of their rights to participate in the administration. The threshold level for submitting motions for the agenda was reduced from CHF 1 million to CHF 350 000.

→ Corporate Governance, pp. 22–25

### Stake in the Bank CA St.Gallen

The Cantonal Bank of St. Gallen has held a stake of just over 5 % in the Bank CA St. Gallen since the beginning of May 2007. The Board of Directors had decided to buy one of the blocks of shares offered to the Cantonal Bank of St. Gallen in order to retain other options as part of the structural adjustment taking place in the Swiss banking sector. The SGKB simultaneously offered the Board of Directors of the Bank CA St. Gallen strategic cooperation while maintaining the independence of the Bank CA. The Bank CA did not take up this offer.

### Attractive yield of the SGKB shares

On April 23, 2007, the shares of the Cantonal Bank of St. Gallen achieved a record high of CHF 641.92 each (adjusted by the repayment of the nominal value of CHF 30). Financial securities came under considerable pressure in the course of the turmoil on the stock markets, which was triggered by the subprime crisis in the USA, a turmoil which the shares of the Cantonal Bank of St. Gallen were also unable to escape. The year-end price of CHF 498 was 2.7 % below that of one year ago.

The company performance in 2007 induced the Board of Directors to recommend to the Annual General Meeting to make a dividend payment of CHF 26 per share. The dividend yield is consequently valued at 5.2 % – based on the year-end price.

### Greater social commitment

The Cantonal Bank of St. Gallen is committed to assisting the day nursery network in the Canton of St. Gallen (kita-network sg) and has donated CHF 100 000. Most of this sum came from the entry fees for a series of golf tournaments, which the Cantonal Bank organised on its market regions this summer.

### Expansion of Private Banking

In November 2007, the SGKB Group announced that it would strengthen the positioning of the subsidiary Hyposwiss Privatbank AG as an independent company within the Cantonal Bank of St. Gallen Group. It will continue to increase its market opportunities by acting even more resolutely as an independent private banking "boutique" with an individual and tailor-made service. This positioning will be followed by an adjustment of its management structure in that centralised management of private banking at Group level will be eliminated. In future Hyposwiss will be managed solely by its Board of Directors, which will be chaired by the CEO of the Cantonal Bank of St. Gallen.

### Acquisition of the Anglo Irish Bank (Suisse) SA

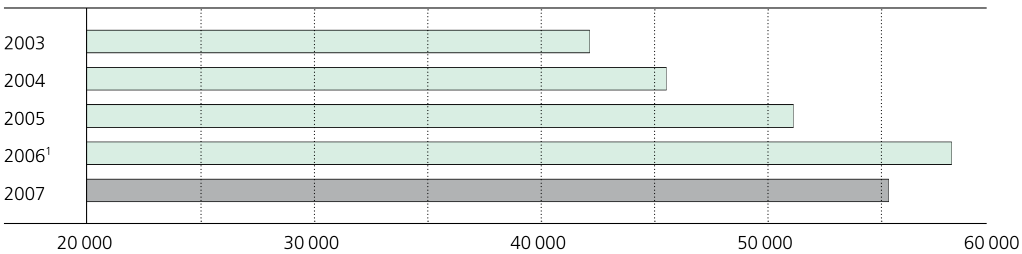
The acquisition of the Anglo Irish Bank (Suisse) SA private bank, based in Geneva, together with the Anglo Irish Bank (Portugal) based in Lisbon and Porto, which was announced in December 2007, is in line with the continued expansion of its investment activities. The two units employ 67 staff (full-time equivalents) and manage assets totalling around CHF 2.7 billion. They offer high net-worth private clients comprehensive portfolio management and advisory services, and only accept high net-worth individuals as their clientele. This is one of the reasons for the very attractive top-line spread of around 1.5 % achieved by the Anglo Irish Bank (Suisse). During the last 15 years, the company has also acquired a high level of expertise in the "Alternative Investments" category, an area in which the Cantonal Bank of St. Gallen and Hyposwiss in Zurich have merely had a marginal involvement until now. The range of products will be made accessible to the entire Group. The acquisition of a private banking unit at the locations in Geneva and Portugal, which was completed on February 29, 2008, will enable the Cantonal Bank of St. Gallen Group to continue expanding its onshore activities in Switzerland and its offshore activities in selected key markets.

### Changes in the Executive Board and the Group structure

The Group structure was adapted in line with the implementation of the growth strategy in the private banking segment, the firm positioning of Hyposwiss as a private banking "boutique" and the greater importance attached to risk management. Moreover, the three members of the Group Management Board, Dr. Urs Rüegsegger, Marcel Zoller and Marcel W. Schmid, announced their resignation. The changes in detail: CEO, Dr. Urs Rüegsegger, announced his resignation in September 2007. On February 1, 2008, he took up the post of Group CEO at the recently established financial center holding Swiss Financial Market Services AG. In the just under seven years of Urs Rüegsegger's overall responsibility, the Cantonal Bank of St. Gallen has successfully developed as a quoted company and expanded. The private banking sector has expanded significantly and group net profit has soared. The Board of Directors thanks Urs Rüegsegger for his strong commitment to serving the Cantonal Bank of St. Gallen and wishes him every success and personal satisfaction in his new position. The Board of Directors wishes his successor, Roland Ledergerber, all the best in his new challenge.

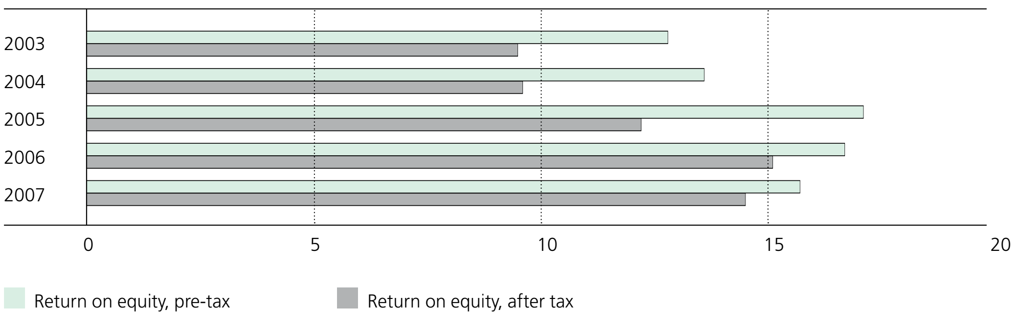
The Board of Directors is also deeply indebted to two other outgoing members of the Group Management Board: at the end of November 2007, Marcel Zoller announced his resignation from the Management Board effective at the end of March 2008. He has been employed by the Cantonal Bank for 30 years and has been

**Group business volumes (loans to clients plus funds under management) per personnel unit since 2003** (in CHF 000s)




[1] affected by a large transaction

**Group return on equity since 2003** (in %)



in the Group Management for 12 years. The Board of Directors is grateful for his many years of dedicated service. Marcel W. Schmid left the SGKB Group at the end of November as a consequence of the new positioning of Hyposwiss and the resulting adjustment of the management structure. Under his management, the private banking sector has made enormous progress in terms of profitability and introduced important strategic measures for future expansion.

The new members of the Group Management Board are Albert Koller (Head of the Retail and Commercial Clients Division, from February 1, 2008), Dr. Felix Buschor (Head of the Service Center, from April 1, 2008), and Dr. Christian Schmid (Head of Finance and Risk Management, from August 1, 2008). Siegfried Peyer is also joining the SGKB Group. He will hold the post of CEO at Hyposwiss in Zurich commencing from September 2008. 55-year-old Siegfried Peyer has many years of management and marketing experience in the private banking sector and his last post was as deputy CEO at HSBC Guyerzeller Bank AG in Switzerland.

## Retail and Commercial Clients

The Retail and Commercial Clients Division managed to achieve an excellent result again in a difficult economic environment. The operating result, gross profit and net profit reached record levels. Operating efficiency continued to improve and achieved, expressed as a cost/income-ratio, an all-time high at 45.3 %.

→ Profile p.6 → Strategy pp. 7–9

### 2007 Results

The net profit from the Retail and Commercial Clients division rose by 16.1 % and achieved a new record at CHF 146.8 million. The strong growth in the operating income of 8.4 %, the under-proportionate increase in operating expenses by a modest 1.3 % and low credit risk with valuation adjustments, provisions and losses totalling a mere CHF 1.9 million were the decisive factors for this excellent result.

The rising and simultaneously flattening interest-rate curve with only a slightly higher interest rates for longer terms than for shorter terms led to massive shifts on the assets side as well as the liabilities side of the balance sheet. In lending activities, i.e. on the assets side of the balance sheet, variable mortgages were concluded to the detriment of fixed-rate mortgages. The proportion of variable mortgages in the total portfolio consequently soared from 12.6 % to 20.3 %. With respect to customer funds, i.e. the liabilities side of the balance sheet, traditional savings deposits and deposits were allocated to products with higher interest rates, in particular fixed-term deposits and medium-term notes, which made refinancing correspondingly more expensive and consequently drove the interest rate margin down.
The mortgage business with private clients was characterised by increasingly tough competition among the banks and slackening building activity. We were able to successfully defend our market position with 4.0 % growth and a positive repayment balance in loans to clients against our competitors. However, a falling interestrate margin in client activities had to be taken into account as a consequence of the aggressive price competition.

Commercial and business clients enjoyed excellent liquidity. Customer funds in this segment rose by CHF 328.2 million or an impressive 17.0 %. Loans totalling CHF 335.3 million were redeemed, however Loans to SMEs grew faster from 2.7 % in the previous year to 3.6 %, as a result of the strong economy and active market coverage.

In the core business with private, commercial and business clients, client assets, i.e. customers funds and deposited securities totalling CHF 482.3 million were acquired, which is equivalent to growth of a very good 4.4 %. The trend in the small and medium sized enterprises (SME) segment with an increase of 14.3 % was far more dynamic than the private client segment with net new money growth of 1.7 %.

Client acquisitions and the growth in the core business with private, commercial and business clients was very encouraging overall. The recently acquired business volume surpassed the billion franks mark with CHF 1008.6 million and rose by 4.1 %. Apart from the traditional core business, the total business volume fell by CHF 338.4 million overall, with the credit volume falling by CHF 127.9 million and client assets by CHF 210.5 million.

## Major events

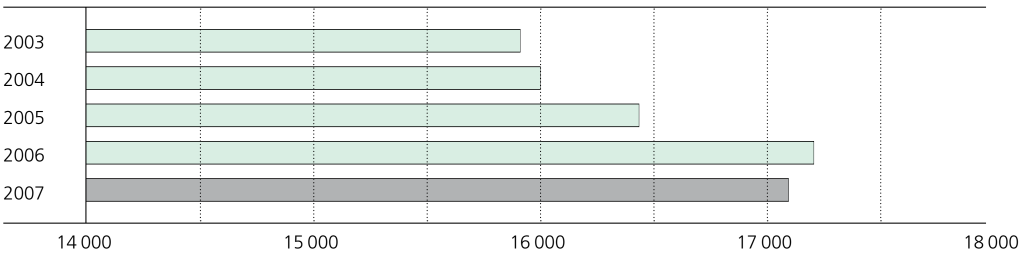
### Expansion of the investment business

The Cantonal Bank of St. Gallen has again implemented a comprehensive set of measures in an endeavour to considerably strengthen its market position in the investment activities sector in the long term. The measures included in-house training courses for client service advisors, regular launches of investment ideas geared towards the respective market situation and continued development of quality assurance in the investment process. In autumn 2007, the Cantonal Bank of St. Gallen informed its clients about the nature and function of structured products at 16 special events throughout the canton. These events were attended by around 850 clients, who were able to form an impression of these new products. Clients as well as the media showed a great deal of interest again in the launch of the second structured financial product in the field of tax-privileged pension savings for the so-called "third pillar" (Performer 3a/2012). As is well known, the Cantonal Bank of St. Gallen was the first bank in Switzerland to issue a product of this nature in autumn 2006 and received the Swiss Derivative Awards 2007 for this innovation with the special prize for outstanding services.

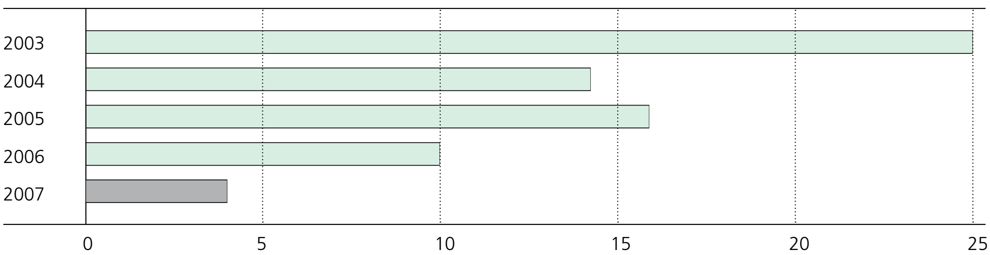
### Range of services for clients aged 50 and over

The Cantonal Bank of St. Gallen has devised a complete range of services on the subject of retirement under the "Vivanti" brand name. This range is completely geared to the individual situation of the client, an analysis of the need to act and a tailor-made range of products based on this analysis. Over 1300 participants obtained information about the problems of retirement and early retirement and the opportunities for optimisation. The next phase was devoted to the topics of inheritance and heredity and commences in the first quarter of 2008.

**Group loans to clients since 2003** (in CHF million)




**Group valuation adjustments, provisions and losses since 2003** (in CHF million)



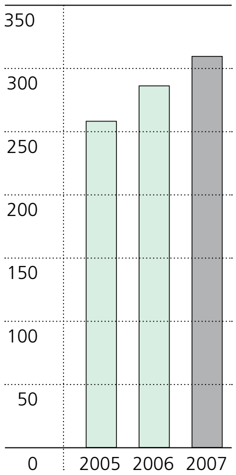
## Excellent quality of the loan portfolio

The loan portfolio of the Cantonal Bank of St.Gallen proved to be in perfect condition owing to the robust economic expansion in Eastern Switzerland and the unchanged risk-conscious application of its proven and tested lending policy. All the risk indicators, such as valuation adjustments, repayment arrears, interest arrears, rating structure or risky loans continued to grow positively. The Cantonal Bank of St.Gallen has no direct or indirect involvement in the American mortgage market.

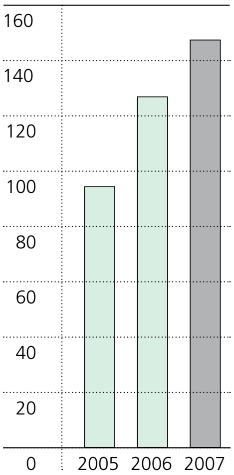
## Client service at the call center

The call center was expanded further in an endeavour to offer all clients a first-class service. Around 150 000 clients with a clearly defined need for advice and client service will be provided with a complete, speedy, competent and demand-led service by the staff at the call center. Mystery calling tests by a company specialising in such tests corroborated the high level of quality. The basis for this and for the extremely encouraging sales figures was constituted by sales-oriented advisory aids, clients-focused processes, intensive staff training courses and coaching as well as selected clients responses thanks to data analyses.

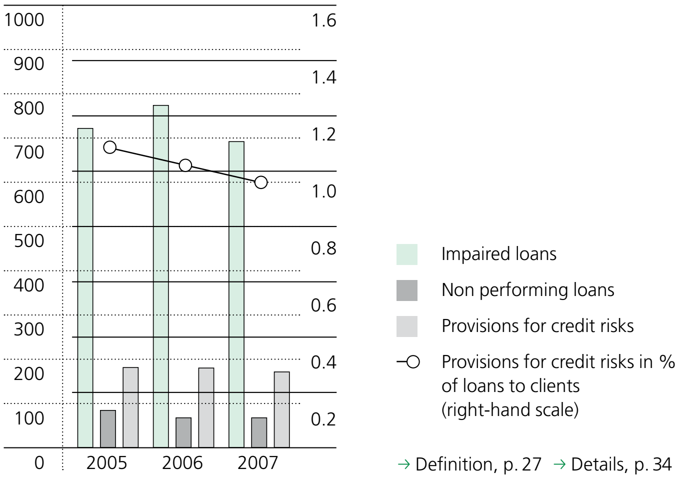
**Operating income**
(in CHF million)




**Net profit**
(in CHF million)




**Credit risk**
(in CHF million) (in %)




→ Definition, p. 27 → Details, p. 34

## Private Banking

The private banking segment of the Cantonal Bank of St.Gallen Group surpassed last year's record result again. Net profit rose by 12.3 % to CHF 128 million and the cost/income-ratio fell to an excellent 37.4 %. The firm positioning of Hyposwiss as a private banking "boutique", a new management structure and the acquisition of Anglo Irish Bank (Suisse) SA, based in Geneva, were landmark decisions made for the future.

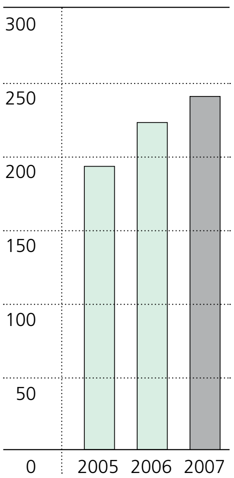
→ Profile, p. 6 → Strategy, pp. 7–9

### 2007 Results

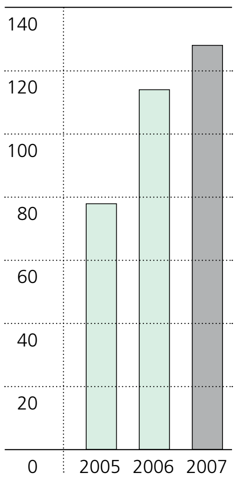
The private banking segment has again succeeded in breaking all previous records. The operating profit rose by 18.1 % to CHF 148.9 million despite the turmoil on the financial markets in the second half of the year and the expected divestiture of a large position. The segment thus demonstrated its profitability again.

The operating income rose by 8.2 %. Interest income has made a significant contribution to this figure with an increase of 17.1 % to CHF 57.4 million, and benefited from the product structure alongside the portfolio growth in the current interest-rate environment. The commission business grew by 6.9 % to CHF 166.3 million and may be regarded as very encouraging against the background of already high profitability and the difficult market conditions in the second half of the year. Both the transaction and portfolio linked earnings made an equally important contribution to the excellent result. Earnings from the fund business continued to grow very dynamically. But the very good mandate performance and the proceeds from the sale of structured products also assisted in achieving the good result.

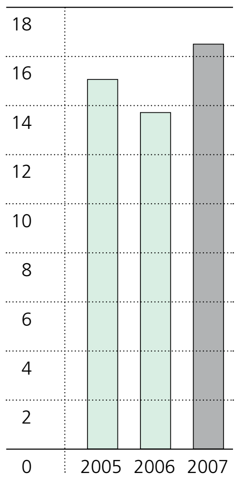
**Operating income**
(in CHF million)




**Net profit**
(in CHF million)




**Discretionary mandates in funds under management** (in %)



A reduction of 1.4 % was made in the operating expenses. While personnel expenses rose by 6.3 % in line with the increase in the workforce, general operating expenses fell by CHF 4.2 million or 10 % over the previous year, which was mainly attributable to the completion of the IT platform migration project at Hyposwiss.

The transaction volume experienced negative growth due to the expected and previously announced divestiture of a large position. Net new money client assets totalled –CHF 2.1 billion, and there was a net fall of CHF 0.5 billion in client loans. Moreover, headhunting of client relationship managers had an adverse impact on acquisition activities.

## Major Events

### Successful migration of the IT platform at Hyposwiss

Hyposwiss Privatbank AG in Zurich was the first bank in the cantonal bank environment to commission the Avaloq IT platform which began operating on January 3, 2007. Hyposwiss consequently paved the way for several forthcoming implementations of this platform in the cantonal bank environment. The parent company of the Cantonal Bank of St. Gallen is scheduled to migrate to the new IT platform in the first six months of 2008.

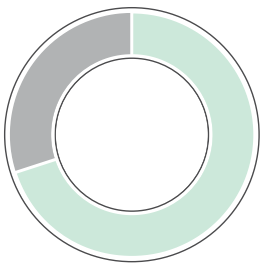
### Excellent performance by the Investment Center

The Investment Center also demonstrated its efficiency again in the year under review with an excellent performance. The discretionary mandates succeeded in producing a yield that surpassed the respective benchmark for almost every type of mandate. Seven of our own funds also showed an above-average performance in the internationally renowned Lipper database, and four of these five funds closed up against all the comparable funds in the first quarter.

In January 2008, the Hyposwiss Euroland Fund received the Lipper Fund Award as the best fund in the "Euroland Shares over 3 years" category. The three flagships for the range of funds, Hyposwiss Donau Tiger, Hyposwiss Euroland and SGKB Multi Focus all show above-average growth in volume and ranked among the top twenty-five per cent in terms of performance, compared to similar funds by other providers.

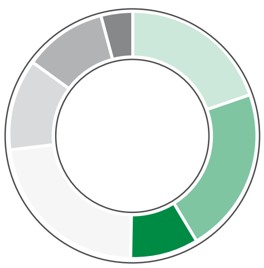
**Funds under magement Private Banking**

Total CHF 25.5 billion



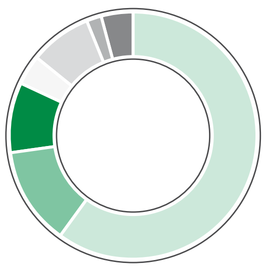
**Structure**

| | |
|---|---|
| Individuals | 70 % |
| Institutional clients | 30 % |



**Investment categories**

| | |
|---|---|
| Bonds | 20 % |
| Equities | 22 % |
| Fiduciary investments | 9 % |
| Investment fund units (incl. fund accounts) | 23 % |
| Other assets | 12 % |
| Structured products | 11 % |
| Saving and deposit accounts | 3 % |



**Origin**

| | |
|---|---|
| Switzerland | 60 % |
| Germany | 13 % |
| Other Western Europe | 9 % |
| Eastern Europe | 4 % |
| Central and South America | 8 % |
| North America and Canada | 2 % |
| Other | 4 % |

The total volume of our own funds rose by 50 % to CHF 1595 million, the bulk of this increase was attributable to net inflows. The Hyposwiss Euroland Fund is worth mentioning. Its inflow is justified by its good performance during the last three years, related publicity in the German media and its inclusion in the fund mandates of a large global bank.

### Structured products

In 2007, 86 products in all with a volume of CHF 1237 million were issued. The parent company accounted for two thirds and Hyposwiss for one third. The volume issued in the previous year was CHF 1085 million. The "reverse convertible" type of structured products and share baskets predominated in the issues.

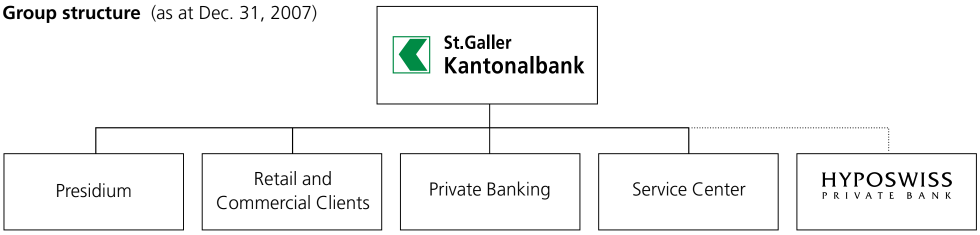
### Positioning as an investment advisory bank

The Investment Center's market presence was completely revised and focused to continue boosting its image as an investment advisory bank. This included a complete revision and redesign of all its publications. Furthermore, various series of special events and platforms for direct client contact were redesigned, namely Investors' Lunch, Investors' Day, Investors' Breakfast, Investors' Aperitif or special events for structured products. Product management in the Investment Center has been improved to provide client service advisers with even better and more timely information and product ideas. The imagery in our advertising presence has been redesigned.

# [ 4 ] Corporate Governance

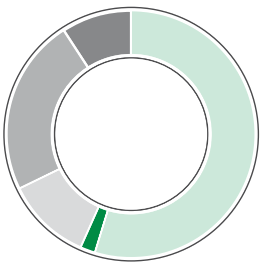
As a listed company, the Cantonal Bank of St.Gallen is under an obligation to plan its information on corporate governance in accordance with the Corporate Governance Direktive (DCG) of the SWX Swiss Exchange. The complete report is included in the German version of the Annual Report, starting on page 60. The following chapters are an excerpt .

**Group structure** (as at Dec. 31, 2007)




Subsidiary company (100 %)

**Shareholder Structure**



| | |
|---|---|
| Canton of St.Gallen | 54.8 % |
| SGKB employees | 1.9 % |
| Corporates | 11.1 % |
| Individuals | 23.1% |
| Registration pending | 9.1% |

## Group structure and shareholders

The Cantonal Bank of St.Gallen is a stock corporation listed on the SWX Swiss Exchange and is based in St.Gallen. Apart from the parent company, the consolidated companies include the 100 % owned subsidiary Hyposwiss Privatbank AG, Zurich (Hyposwiss). With 54.8 % of the share capital, the Canton of St.Gallen is the only shareholder registered with a stake of 3 % or more in the entire share capital. The cantonal legislation prescribes that the canton's share must be at least 51 %. There are no cross-shareholdings with other organisations.

## Capital structure

The share capital of the Cantonal Bank of St. Gallen is CHF 390.1 million, divided into 5.573 million registered shares with a nominal value of CHF 70 each. The conditional capital was CHF 8.8 million on December 31, 2007 and is reserved for the employee share ownership programme approved by the Board of Directors, in accordance with Art. 3b of the Articles of Association of the Cantonal Bank of St. Gallen. The Board of Directors passes the resolution to issue the relevant shares or option rights and stipulates the issue and option conditions. The current shareholders are not entitled to a subscription right and pre-emptive right. The financial section contains detailed information on changes to capital during the last three years (see p. 33).

| | |
|---|---|
| Ordinary share capital | CHF 390 139 820 |
| Authorised share capital | – |
| Conditional share capital | CHF 8 806 000 |
| Registered shares (nominal value CHF 70.00) | 5 573 426 units |
| Outstanding employee options | 30 852 units |
| Ticker symbol/security identification number | SGKN/1148406 |

as at Dec. 31, 2007

The shares of the Cantonal Bank of St. Gallen are not subject to any statutory limitations on transferability. Each share has one vote. The voting right may, however, only be exercised if the bearer expressly states that he has purchased the shares in his own name and for his own account. The Board of Directors may register nominees up to 3 % of the share capital with a voting right that is entered in the register of shareholders. An entry may be made above this limit, provided the names, addresses and shareholdings of the persons with 0.5 % or more of the share capital are disclosed. When new shares are issued, each shareholder is entitled to the percentage that is proportionate to his current investment. The General Shareholders' Meeting may abolish this subscription right if there are important reasons for doing so.

The only outstanding options were 30 852 employee options, which are described in the table on page 24. Shares from the conditional share capital that was created for this purpose or from the Bank's own portfolios were drawn upon to exercise these options. This would increase the share capital by a maximum CHF 2.2 million.

**Changes in 2008**

On December 13, 2007, the Cantonal Bank of St. Gallen concluded a binding purchase agreement with the Anglo Irish Bank plc based in Dublin, Ireland, to acquire the entire Anglo Irish Bank (Suisse) SA, to which the Anglo Irish Bank (Portugal) branch also belongs. It will be present on the market as an independent subsidiary under the name of Hyposwiss Private Bank Genève SA. The acquisition was completed on February 29, 2008.

As at August 1, 2008, the Finance and Risk Management Division will be created from the Presidium which until then had been under the CEO. This Division will comprise the controlling and finance, legal and compliance, personnel and corporate development departments. The creation of the new division emphasises the great importance attached to risk management. The division also plays a major role in strategic and corporate development. Newly elected member of the Group Management Christian Schmid will be in charge of managing the division.

## Compensation, shareholdings and loans

Upon application by the Human Resources and Organisation Committee (VRA-P), the Board of Directors specifies the criteria for determining the remuneration and the amount of remuneration payable to the members of the Board of Directors and the Group Management Board. Remuneration for the members of the Board of Directors comprises the fees, the cash elements of the bonus, the shares allocated from the bonus as well as attendance fees and social security benefits. Remuneration for the Group Management Board comprises salaries, the cash elements of the bonus, the shares and options allocated from the bonus as well as benefits in kind and social security benefits. The details are to be found in the financial section on pages 36–38. The fees and attendance fees for the Board of Directors as well as the salaries for the Group Management Board are set once and reviewed periodically. The bonus is set annually.

### Bonus

The amount of the 2007 bonus was set by the Board of Directors at its meeting on February 7, 2008. It depends on earnings and performance, which are based on target figures. Group profit is a decisive factor for the amount of bonus paid to the Board of Directors. The target figures for the Group Management Board are set individually at the beginning of the financial year. They are based on the business trend and the strategic development of the SGKB as well as on the individual quantitative and qualitative targets in the management remit of the Group Management Board members. At Group level, net profit as well as the net growth of customer loans and funds under management are crucial. Achievement of the Group targets has an impact on around ⅔ of the amount of the bonus, whereas around ⅓ of the bonus is determined by the extent to which individual targets have been met. Group targets as well as the individual annual targets for the CEO are set by the Board of Directors. The CEO sets the individual targets for the Group Management Board members. The members of the Board of Directors and the Group Management Board receive 50 % of their bonus in the form of shares of the Bank with a three-year holding period. The purchase price is set annually by the Human Resources and Organisation Committee (VRA-P). For the 2007 bonus it is 80 % of the qualifying stock market price (volume-weighted average price on the trading days in January: CHF 468.85).

The Group Management Board members are allocated four free options for each share received as part of their bonus; each option entitles them to purchase one share at the qualifying stock market price. The term of the options is four years commencing from the allocation date. The period for the exercise of the option commences upon expiry of the three-year holding period. A third of the total number of options allocated are transferred to the ownership of the beneficiaries each year (vested), the initial transfer is made on expiry of one year after allocation. The outstanding options entitle their holders to purchase a total of 30 852 shares with a nominal value of CHF 2.2 million. Cashless exercise is possible.

**Option holding as at Dec. 31, 2007 – Group Management Board Members[1]**

| Allocation year | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| freely available on | 22.03.10 | 22.03.09 | 22.03.08 | 22.03.07 |
| Expiry date | 22.03.11 | 22.03.10 | 22.03.09 | 22.03.08 |
| Subscription ratio | 1:1 | 1:1 | 1:1 | 1:1 |
| Striking price CHF | 553.75 | 404.85 | 294.85 | 257.20 |
| Option portfolio | 9 840 | 9 384 | 10 088 | 1 540 |
| Total (allocated) | **30 852** | | | |

[1] including former executive body members

**Loans to the executive bodies**

The General Conditions of Employment of the Cantonal Bank of St.Gallen stipulate special conditions for credit lines, mortgages and loans for all employees, trainees and recipients of a pension. These conditions are confined to a preferential interest rate that is customary in this sector. Members of the Board of Directors are expressly excluded. More details on the loans and credit lines available to members of the Board of Directors, the Group Management Board and related persons are to be found on page 38 of the financial section.

## Shareholders' participation, changes of control and auditors

There are no restrictions on shareholders' voting rights within the Cantonal Bank of St.Gallen. The statutory provisions concerning the exercise of these rights, the majorities required for shareholder resolutions, convening the General Shareholders' Meeting, the mandatory bid obligation for potential acquisitions as well as the register of shareholders are governed by the Swiss Law of Obligations and the Securities Trading Act. Shareholders, who represent shares with a nominal value of CHF 350 000, may request the agenda of items for discussion, which is to due for presentation to the Annual General Meeting. The deadline for submitting such requests is published in the Schweizerisches Handelsamtblatt (SHAB) as well as in at least one daily newspaper with cantonal circulation.

The shareholders entitled to vote who were entered in the register of shareholders on March 20, 2008 are entitled to take part in and vote at the General Shareholders' Meeting on April 23, 2008. This means that March 17, 2008 is the final deadline for purchasing shares in the Cantonal Bank of St.Gallen for entry in the register of shareholders. Entries will not be made in the register of shareholders from March 20, to April 23, 2008 inclusive. Furthermore, the Group has no rules in its Articles of Association that refer to a mandatory bid obligation and no change of control clauses in favour of the members of the Board of Directors and Group Management Board.

PricewaterhouseCoopers AG, St.Gallen have acted as the external auditors of the Cantonal Bank of St.Gallen since the financial year 1995. The firm has also been acting as the Group auditors since the financial year 2000. The firm is elected for one year respectively and is approved as an auditor for banks. Pascal Portmann was appointed chief auditor in the financial year 2002. The audit fee for the entire Group for the year under review is CHF 641 000. In the same period, the audit firm charged CHF 39 000 for tax advice and additional services commissioned by the parent company and the subsidiaries.

All audit reports are examined by the Audit Committee of the Board of Directors and usually discussed with the Board of Directors or the Audit Committee in the presence of the chief auditor. The Audit Committee is also responsible for risk assessment and the resultant audit planning as well as the performance and independence of the Audit Committee.

## Information policy

The latest information and the complete Articles of Association of the Cantonal Bank of St.Gallen are available on the Internet at www.sgkb.ch. Anyone with an interest may register on this site to receive potentially pertinent information on prices from the Cantonal Bank of St.Gallen. Public announcements are published in the SHAB as well as in at least one daily newspaper with cantonal circulation. If the law does not stipulate personal notification, the prescribed notifications to the shareholders are effective upon publication in the SHAB.

The Cantonal Bank of St.Gallen publishes its company results every six months. All registered shareholders receive a short report (letter to the shareholders) which provides an overview of the business trend and activities. The business report and the letter of information to the shareholders are available on the homepage of the Cantonal Bank of St.Gallen or may be ordered from the following addresses.

# [ 5 ] Risk Situation

Like other banks or financial institutions, the Cantonal Bank of St. Gallen also faces the challenge of managing specific risks. Managing credit and market risks as well as operational risks is considered to be one of the main tasks of the Board of directors. Risk management is based on the risk policy, as defined and reviewed annually by the Board of Directors. The following descriptions focus on the Bank's actual exposure.

## Credit Risks

### Credit assessment audits

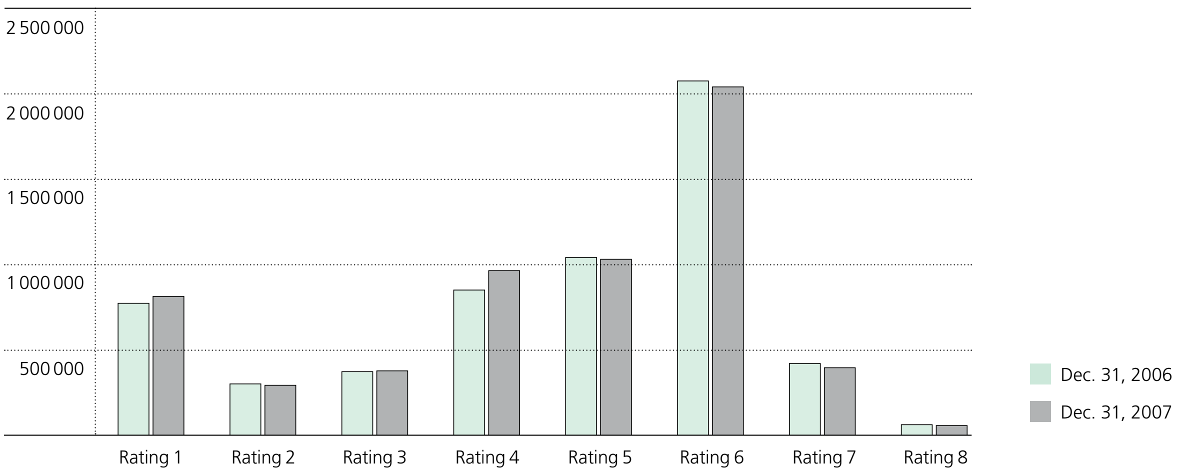
Additional controls are imposed on lending activities in the form of comprehensive loan assessment audits conducted by the Internal Audit Department and the statutory and banking auditors. The credit assessment audits target large exposures and other specific exposures. The results of these audits are used to adjust existing valuation adjustments and credit risk provisions to ensure appropriate coverage of all credit risks. In autumn 2007, the audit covered 9 % of all loans to clients (previous year 11 %) and 15 % of impaired loans (previous year 34 %). Adequate coverage of credit risks has been confirmed and has resulted in provisions for credit risk of CHF 1.5 million (previous year CHF 8.4 million).

### Breakdown of rating categories

Clients who are obliged to keep accounts are rated by means of a statistical, mathematical system which measures the default probability of the counterparty. The method is based on the concepts used by external rating agencies and covers 10 rating classes.

Credit limits for clients who are obliged to keep accounts may be broken down into the following rating categories; the figures apply to the parent company only:

**Distribution of credit limits for clients subject to account-keeping obligations** (in CHF 000s)



Rating 1 represents the lowest risk whereas rating levels 8 to 10 represent the highest risks. Ratings 9 and 10 are usually impaired loans and are managed by a specialist department. They are consequently not included in the above figures. The distribution of ratings remained almost constant in 2007. Slight increases in rating classes 1 and 4 are offset by a moderate decrease in the other rating classes.

Individuals are classified on the basis of risk levels ranging from 1 to 6 – with level 6 representing the lowest risk and level 1 the highest risk. CHF 8.6 billion or 78.5 % of credit lines for individuals fall into rating class 5 (previous year CHF 8.5 billion or 78.2 %). CHF 1.9 billion (17.3 %) of loans to individuals fall into risk level 4 (previous year CHF 1.8 billion or 16.8 %). The aforementioned risk levels showed signs of improvement. There are only insignificant credit lines in rating classes 1 and 2.

Overall, the credit portfolio of the Group is stable and of very good quality.

### Impaired loans

Doubtful loans are managed by a specialised department. As at December 31, 2007, impaired loans amounted to CHF 691.9 million (previous year CHF 770.9 million).

### Non performing loans

As at December 31, 2007, the total amount of loans for which interest payments are considered to be at risk or for which interest is not paid within a period of three months of the due date was CHF 68.2 million (previous year CHF 68.3 million) or approximately 0.4 % of client loans (previous year 0.4 %). The total amount of accrued interest which is classified as at risk or for which valuation adjustments have already been made was CHF 5.0 million or 0.8% of interest income (previous year CHF 4.5 million or 0.8 %).

### Risk diversification rules and the ten biggest borrowers

An internal procedural directive provides detailed rules for handling and registering concentrated risks. The Concentrated Risks Team at Head Office is responsible for registering, assessing, reporting and monitoring concentrated risks, and for preparing the list of the ten biggest borrowers. As at December 31, 2007, the Group was exposed to four concentrated risks with a risk-weighted exposure of between CHF 219.0 million and CHF 168.3 million or 13.5 % to 10.4 % of eligible equity (previous year three concentrated risk exposures of between CHF 213.7 million and CHF 156.8 million or 13.6 % to 10.0%), with a permissible upper limit of 800 %.

As at December 31, 2007, the Group's total exposure to its ten biggest commercial borrowers amounted to CHF 786.0 million or 4.6 % of the Group's loans to clients (previous year CHF 1249.8 million or 7.3 %).

### Country risks

As at December 31, 2007, non-Swiss exposures amounted to CHF 1596.1 million or 7.9 % of total assets (previous year CHF 2059.1 million or 10.4 %). They were therefore within the limit of 15 % defined for non-Swiss exposure as a percentage of the total assets. The majority of these loans are secured by collateral in developed countries. According to the risk domicile principle, valuation adjustments and provisions were insignificant by the end of 2007.

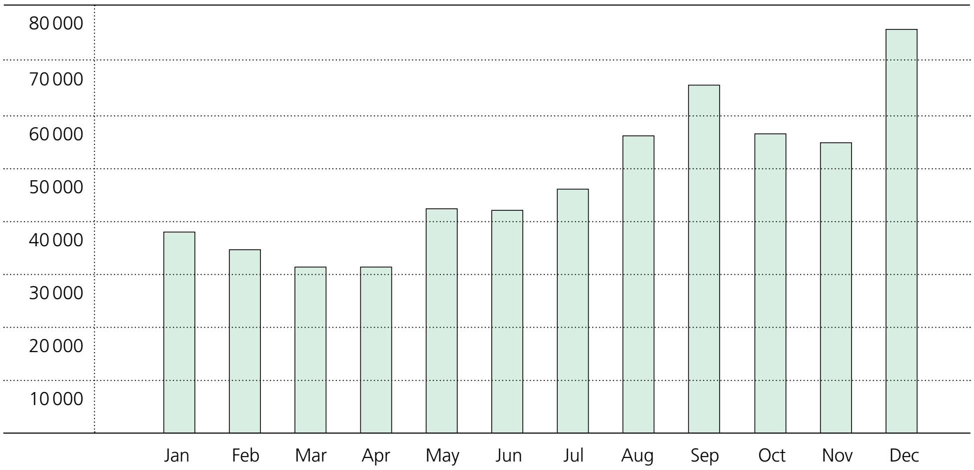
## Market Risks

The Bank has a strategic risk limit for all market risks. This limit is based on the value-at-risk method and the RiskMetrics™ data. Modern modular standard software is used to measure his risk.

| (in CHF 000s) | as at Dec. 31, 2007 | as at Dec. 31, 2006 |
|---|---|---|
| Interest-rate risk | 81 075 | 40 760 |
| Currency risk | 5 054 | 3 788 |
| Share price risk | 3 972 | 3 502 |
| Precious metal risk | 21 | 11 |
| Diversification effect | –13 872 | – 8 869 |
| **Total risk** | **76 250** | **39 192** |

The value-at-risk was higher than the previous year, which was mainly due to a strategic increase of the term transformation. Market risk developed as follow during 2007:

**Value-at-risk 2007 (group)** (in CHF 000s)




The increase in the interest risk or the overall market risk, which started in May, was mainly due to a shift to higher terms in the bank's books. However, the increase in the value-at-risk in December was due to increased volatilities in the interest rate curve.

### Trading positions

The market risk of trading positions is also monitored with a value-at-risk limit. Value-at-risk as at December 31, 2007 amounted to CHF 0.6 million (previous year CHF 2.7 million) and ranged between CHF 0.6 million to CHF 4.5 million in 2007 (previous year CHF 2.2 million to CHF 4.9 million). Responsibility for managing a large proportion of the positions was assigned to Hyposwiss.

### Interest rate risks

Interest rate risks on the balance sheet are also monitored with a value-at-risk limit. Value-at-risk in 2006 was between CHF 36.7 million and CHF 81.1 million (previous year CHF 40.8 million to CHF 64.7 million).

The sensitivity of shareholders' equity (modified duration) in 2007 ranged from 6.1 % to 8.3 % (previous year 7.2 % to 9.5 %). As at December 31, 2007, the modified duration of the Group was 7.8 % (previous year 7.2 %).

### Currency risks

The net foreign currency position of the Group, including precious metals, was CHF 15.6 million at the end of 2007 (previous year CHF 40.6 million). The Group's own positions in foreign currencies are mainly in EUR and USD.

### Securities price and liquidity risks

The securities listed under financial investments totalling CHF 651.5 million (previous year CHF 659.1 million) are almost entirely composed of high-quality listed securities or securities traded on representative markets, most of which are bonds. Bonds are usually held until maturity and are used to guarantee adequate liquidity, as required by banking law. The holdings are included in the value-at-risk calculations.

### Other market risks

The Group holds no positions in commodities. As at December 31, 2007, the Group held 11 positions in real estate intended for resale; their book value was CHF 10.3 million (previous year 15 positions totalling CHF 16.3 million).

### Liquidity and funding risks

The applicable liquidity regulations were constantly adhered to. Those obligations regarded as concentrated within the meaning of Art.18 of the Implementing Ordinance to the Federal

Banking Law are duly reported to the banking auditors. There were no obligations as at December 31, 2007.

Due to its excellent rating from Moody's, the Cantonal Bank of St. Gallen has always been able to raise funds in the inter-bank and/or capital markets in the past to bridge any shortfalls in liquidity. In addition, the Group has a bridge financing facility with the Swiss National Bank of CHF 80.0 million, which had not been used as at December 31, 2007.

## Operational Risks

### Internal control system

The group maintains an effective separation of functions, employs a very effective internal control system and performs management controls. Management is of the opinion that the conditions required to ensure the orderly and adequate conduct of business and for prompt discovery of any major errors have been established. Auditing the system of internal controls is an important part of the work of the Internal Audit Department. The quality of the central transaction processes is monitored continuously and reported.

### Outsourcing risk

For a bank, one of the main operational risks lies in the security and reliability of its data processing operations. Computer services and data processing work have been largely outsourced to COMIT AG, a 100 % subsidiary of Swisscom IT Services AG. COMIT AG, its employees and agents are contractually bound to keep business and banking secrets confidential. Outsourced data processing is audited by the statutory auditors of COMIT AG. These audit reports are made available to the statutory and banking auditors of the banks for which COMIT AG runs the IT operations. Furthermore, IT risks are reviewed by the Internal Audit Department of COMIT AG together with the Internal Audit Department of the banks. The requirements of the Federal Banking Commission on outsourcing are satisfied, according to these audit reports.

In December 2005, the Board of Directors of the Cantonal Bank of St. Gallen passed a resolution to make the Avaloq Banking System the future IT platform. The project is on schedule and Hyposwiss switched over to the new system on January 1, 2007; the Cantonal Bank of St. Gallen will migrate to Avaloq in the first half of 2008.

### Legal and compliance risks

The Legal and Compliance Department monitors continuous adherence to the relevant internal and external regulations, and takes appropriate action in these areas where necessary. This chiefly concerns the professional rules on compliance with the banking due diligence obligations (VSB 03), and the relevant statutory provisions and ordinances in the field of combating money laundering. It is also responsible for ongoing further vocational training of the staff in the Department itself, as well as for all client relationship managers and executives. Client relationships of politically exposed persons, i.e. individuals whose political office raises their public profile, need to satisfy heightened due diligence criteria. The same applies to relationships which are maintained with clients in specially designated countries. In addition to eight threatened legal proceedings, two court cases are currently pending against the SGKB or Hyposwiss respectively. The appropriate provisions for lawsuits have already been made where this was considered necessary.

# [ 6 ] Financial Information

## Group Balance Sheet

| Assets in CHF 000s | Dec. 31, 2007 | in % | Dec. 31, 2006 | in % | Change | in % |
|---|---|---|---|---|---|---|
| Liquid funds | 131 170 | 0.6 | 111 158 | 0.6 | 20 012 | 18.0 |
| Receivables from money market instruments | 331 860 | 1.6 | 335 959 | 1.7 | (4 099) | (1.2) |
| Due from banks | 1 397 815 | 6.9 | 1 030 030 | 5.2 | 367 785 | 35.7 |
| Due from clients | 2 427 839 | 12.0 | 2 930 849 | 14.8 | (503 010) | (17.2) |
| Mortgage loans | 14 674 283 | 72.5 | 14 277 822 | 72.1 | 396 461 | 2.8 |
| **Total loans to clients** | **17 102 122** | **84.5** | **17 208 671** | **86.9** | **(106 549)** | **(0.6)** |
| Securities and precious metals trading portfolios | 15 288 | 0.1 | 56 621 | 0.3 | (41 333) | (73.0) |
| Financial investments | 661 790 | 3.3 | 675 387 | 3.4 | (13 597) | (2.0) |
| Non-consolidated participations | 19 184 | 0.1 | 19 275 | 0.1 | (91) | (0.5) |
| Fixed assets | 172 399 | 0.9 | 172 733 | 0.9 | (334) | (0.2) |
| Intangibles | 42 786 | 0.2 | 60 209 | 0.3 | (17 423) | (28.9) |
| Accrued income and prepaid expenses | 97 399 | 0.5 | 83 775 | 0.4 | 13 624 | 16.3 |
| Other assets | 263 983 | 1.3 | 46 164 | 0.2 | 217 819 | 471.8 |
| **Total assets** | **20 235 796** | **100.0** | **19 799 982** | **100.0** | **435 814** | **2.2** |
| Of which: | | | | | | |
| – Total subordinated amounts receivable | 0 | | 525 | | (525) | (100.0) |
| – Total due from non-consolidated participations | 77 912 | | 78 580 | | (668) | (0.9) |

| Liabilities in CHF 000s | Dec. 31, 2007 | in % | Dec. 31, 2006 | in % | Change | in % |
|---|---|---|---|---|---|---|
| Due to money market instruments | 528 | 0.0 | 222 | 0.0 | 306 | 137.8 |
| Due to banks | 344 595 | 1.7 | 665 212 | 3.4 | (320 617) | (48.2) |
| Due to clients in savings and deposits | 5 646 091 | 27.9 | 6 193 089 | 31.30 | (546 998) | (8.8) |
| Other due to clients | 5 748 122 | 28.5 | 4 900 653 | 24.70 | 847 469 | 17.3 |
| Medium-term notes | 898 080 | 4.4 | 708 969 | 3.60 | 189 111 | 26.7 |
| **Total customer funds** | **12 292 293** | **60.8** | **11 802 711** | **59.60** | **489 582** | **4.1** |
| Debt and loans secured by mortgages | 5 352 458 | 26.5 | 5 154 629 | 26.0 | 197 829 | 3.8 |
| Accrued expenses and deferred income | 207 277 | 1.0 | 174 475 | 0.9 | 32 802 | 18.8 |
| Other liabilities | 119 774 | 0.6 | 105 841 | 0.5 | 13 933 | 13.2 |
| Valuation adjustments and provisions | 179 338 | 0.9 | 191 216 | 1.0 | (11 878) | (6.2) |
| Reserves for general banking risks | 25 430 | 0.1 | 48 400 | 0.3 | (22 970) | (47.5) |
| Share capital | 390 140 | 1.9 | 557 343 | 2.8 | (167 203) | (30.0) |
| Capital reserve | 84 977 | 0.4 | 83 615 | 0.4 | 1 362 | 1.6 |
| Profit reserve | 1 027 229 | 5.1 | 798 672 | 4.0 | 228 557 | 28.6 |
| less treasury shares | 14 925 | 0.1 | 10 909 | 0.1 | 4 016 | 36.8 |
| Group net profit | 226 682 | 1.1 | 228 555 | 1.2 | (1 873) | (0.8) |
| **Total shareholders' equity** | **1 739 533** | **8.5** | **1 705 676** | **8.6** | **33 857** | **2.0** |
| **Total liabilities** | **20 235 796** | **100.0** | **19 799 982** | **100.0** | **435 814** | **2.2** |
| Of which: | | | | | | |
| – Total subordinated amounts payable | 100 000 | | 260 000 | | (160 000) | (61.5) |
| – Total due to non-consolidated participations | 1 218 496 | | 1 286 918 | | (68 422) | (5.3) |
| – Total due to the Canton of St.Gallen | 330 203 | | 429 991 | | (99 788) | (23.2) |

| Off-Balance-Sheet Transactions in CHF 000s | Dec. 31, 2007 | Dec. 31, 2006 | Change | in % |
|---|---|---|---|---|
| Contingent liabilities | 234 620 | 326 467 | (91 847) | (28.1) |
| Irrevocable commitments | 164 580 | 169 583 | (5 003) | (3.0) |
| Liabilities for calls on shares and other equities | 39 559 | 40 411 | (852) | (2.1) |
| Derivative financial instruments: | | | | |
| – Contract volume | 5 214 490 | 4 475 089 | 739 401 | 16.5 |
| – Positive replacement values | 36 126 | 33 534 | 2 592 | 7.7 |
| – Negative replacement values | 58 521 | 28 005 | 30 516 | 109.0 |
| Fiduciary transactions | 2 451 820 | 4 646 171 | (2 194 351) | (47.2) |

## Group Income Statement

| in CHF 000s | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| Interest and discount income | 618 006 | 560 272 | 57 734 | 10.3 |
| Interest and dividend income on trading portfolios | 440 | 537 | (97) | (18.1) |
| Interest and dividend income on financial investments | 18 662 | 18 897 | (235) | (1.2) |
| Interest expenses | 331 810 | 271 037 | 60 773 | 22.4 |
| **Net interest income** | **305 298** | **308 669** | **(3 371)** | **(1.1)** |
| Commission income from lending activities | 2 302 | 2 230 | 72 | 3.2 |
| Commission income from securities and investment activities | 203 445 | 190 478 | 12 967 | 6.8 |
| Commission income from other service fee activities | 18 061 | 17 994 | 67 | 0.4 |
| Commission expenses | 8 632 | 9 010 | (378) | (4.2) |
| **Net fee and commission income** | **215 176** | **201 692** | **13 484** | **6.7** |
| **Net trading income** | **30 871** | **37 482** | **(6 611)** | **(17.6)** |
| Results from the sale of financial investments | 4 098 | 2 470 | 1 628 | 65.9 |
| Income from non-consolidated participations | 2 127 | 1 963 | 164 | 8.4 |
| Results from real estate | 1 108 | 722 | 386 | 53.5 |
| Other ordinary income | 1 322 | 3 493 | (2 171) | (62.2) |
| Other ordinary expenses | 211 | 1 360 | (1 149) | (84.5) |
| **Net other income** | **8 444** | **7 288** | **1 156** | **15.9** |
| **Operating income** | **559 789** | **555 131** | **4 658** | **0.8** |
| Personnel expenses | 153 875 | 149 143 | 4 732 | 3.2 |
| Other operating expenses | 116 231 | 104 735 | 11 496 | 11.0 |
| **Administrative expenses** | **270 106** | **253 878** | **16 228** | **6.4** |
| **Gross profit** | **289 683** | **301 253** | **(11 570)** | **(3.8)** |
| Depreciation and write-offs on fixed assets and participations | 12 998 | 12 994 | 4 | 0.0 |
| Depreciation of intangibles | 26 732 | 25 200 | 1 532 | 6.1 |
| Valuation adjustments, provisions and losses | 3 864 | 10 287 | (6 423) | (62.4) |
| **Operating profit (interim result)** | **246 089** | **252 772** | **(6 683)** | **(2.6)** |
| Extraordinary income | 27 871 | 16 876 | 10 995 | 65.2 |
| *of which dissolution of reserves for general banking risks* | *22 970* | *12 600* | *10 370* | *82.3* |
| Extraordinary expenses | 0 | 2 002 | (2 002) | (100.0) |
| **Group profit before taxes** | **273 960** | **267 646** | **6 314** | **2.4** |
| Taxes | 47 278 | 39 091 | 8 187 | 20.9 |
| **Group net profit** | **226 682** | **228 555** | **(1 873)** | **(0.8)** |

# Notes to the Balance Sheet

## Statement of Equity in CHF 000s

| Statement of Equity in CHF 000s | Share Capital | Capital reserve | Profit reserve | Less treasury shares | Reserves for general banking risks | Group net profit of the year | Total |
|---|---|---|---|---|---|---|---|
| **Equity at January 1, 2005** | **509 856** | **20 364** | **633 162** | **(3 499)** | **34 000** | **114 881** | **1 308 764** |
| Capital increases | 47 487 | 62 187 | | | | | 109 674 |
| Dividend | | 11 | | | | (45 888) | (45 877) |
| Allocation to reserves | | | 68 993 | | | (68 993) | 0 |
| Transfer of accrual for option rights to other liabilities | | (953) | | | | | (953) |
| Acquisition of treasury shares | | | | (38 566) | | | (38 566) |
| Disposal of treasury shares | | | | 32 136 | | | 32 136 |
| Valuation gains on treasury shares | | 1 201 | | | | | 1 201 |
| Allocation | | | | | 27 000 | | 27 000 |
| Group net profit | | | | | | 168 302 | 168 302 |
| **Total equity at December 31, 2005** | **557 343** | **82 810** | **702 155** | **(9 929)** | **61 000** | **168 302** | **1 561 681** |
| Capital increases | | | | | | | 0 |
| Dividend | | 266 | | | | (72 454) | (72 188) |
| Allocation to reserves | | | 95 848 | | | (95 848) | 0 |
| Acquisition of treasury shares | | | | (46 572) | | | (46 572) |
| Disposal of treasury shares | | | | 45 592 | | | 45 592 |
| Valuation gains on treasury shares | | 539 | 2 | | | | 541 |
| First application of Swiss GAAP FER 16 | | | 667 | | | | 667 |
| Usage | | | | | (12 600) | | (12 600) |
| Group net profit | | | | | | 228 555 | 228 555 |
| **Total equity at December 31, 2006** | **557 343** | **83 615** | **798 672** | **(10 909)** | **48 400** | **228 555** | **1 705 676** |
| Par value repayment | (167 203) | | | 560 | | | (166 643) |
| Allocation to reserves | | | 228 555 | | | (228 555) | 0 |
| Acquisition of treasury shares | | | | (89 641) | | | (89 641) |
| Disposal of treasury shares | | | | 85 065 | | | 85 065 |
| Valuation gains on treasury shares | | 1 362 | 2 | | | | 1 364 |
| Usage | | | | | (22 970) | | (22 970) |
| Group net profit | | | | | | 226 682 | 226 682 |
| **Total equity at December 31, 2007** | **390 140** | **84 977** | **1 027 229** | **(14 925)** | **25 430** | **226 682** | **1 739 533** |

| Reserves not subject to profit distribution (Swiss GAAP FER 24) | Dec. 31, 2007 | Dec. 31, 2006 | Dec. 31, 2005 |
|---|---|---|---|
| Statutory or legal reserves not subject to profit distribution | 223 116 | 219 116 | 212 516 |

## Share Capital in CHF 000s

| Share Capital in CHF 000s | Dec. 31, 2007 | | | Dec. 31, 2006 | | |
|---|---|---|---|---|---|---|
| | Nominal value | Number of shares | Capital subject to dividends | Nominal value | Number of shares | Capital subject to dividends |
| **Share capital** | | | | | | |
| Registered shares (nom. CHF 70 per share) | 390 140 | 5 573 426 | 390 140 | | | |
| Registered shares (nom. CHF 100 per share) | | | | 557 343 | 5 573 426 | 557 343 |
| **Total share capital** | **390 140** | **5 573 426** | **390 140** | **557 343** | **5 573 426** | **557 343** |
| **Authorized share capital** | 0 | | | 0 | | |
| – of which realized capital increases | none | | | none | | |
| **Conditional share capital** | | | | | | |
| – January 1 | 12 580 | 125 800 | | 12 580 | 125 800 | |
| – of which par value repayment | (3 774) | | | | | |
| – expired, as it failed to take part in the capital increase | | | | | | |
| – December 31 | 8 806 | 125 800 | | 12 580 | 125 800 | |

## Significant Shareholders and Groups of Shareholders with Pooled Voting Rights in CHF 000s

| Significant Shareholders and Groups of Shareholders with Pooled Voting Rights in CHF 000s | Dec. 31, 2007 Nominal | in % | Dec. 31, 2006 Nominal | in % |
|---|---|---|---|---|
| With voting rights: Canton of St.Gallen | 213 904 | 54.8 | 305 572 | 54.8 |

## Own shares and on own shares options

| Own portfolio of registered shares | 2007 Number | 2007 Average transaction price | 2006 Number | 2006 Average transaction price |
|---|---|---|---|---|
| Own shares on Jan. 1 | 25041 | 435.65 | 25356 | 391.57 |
| + Purchases | 148694 | 557.05 | 86546 | 449.14 |
| – Sales | (143823) | 553.57 | (86861) | 442.42 |
| Option exercise transactions: | | | | |
| + Purchases | 10948 | 622.12 | 16109 | 478.05 |
| – Sales | (10948) | 257.20 | (16109) | 220.73 |
| **Portfolio on Dec. 31** | **29912** | **498.97** | **25041** | **435.65** |
| of which reserved for employee share ownership programmes | 21661 | 498.00 | 19955 | 419.80 |

| Registered share options held by related persons | 2007 Number | 2007 Average striking price | 2006 Number | 2006 Average striking price |
|---|---|---|---|---|
| **Allocated options** | | | | |
| Portfolio on Jan. 1 | 31960 | 312.43 | 38685 | 251.83 |
| Allocation | 9840 | 553.75 | 9384 | 404.85 |
| Exercise | (10948) | 257.20 | (16109) | 220.73 |
| Lapsed | 0 | 0.00 | 0 | 0.00 |
| **Portfolio on Dec. 31** | **30852** | **409.00** | **31960** | **312.43** |
| **of which transferred to ownership** | | | | |
| Portfolio on Jan. 1 | 11687 | 268.03 | 12842 | 226.20 |
| Allocation | 10656 | 312.43 | 14954 | 253.00 |
| Exercise | (10948) | 257.20 | (16109) | 220.73 |
| **Portfolio on Dec. 31** | **11395** | **319.97** | **11687** | **268.03** |
| of which exercisable on Dec. 31 | 1540 | 257.20 | 0 | 0.00 |

| Registered shares held by related persons | 2007 Number | 2006 Number |
|---|---|---|
| Members of the Board of Directors | 5703 | 7860 |
| Members of the Group Management Board | 14835 | 12295 |
| **Total on Dec. 31** | **20538** | **20155** |

Explanatory notes on the share ownership programmes and the option programme are to be found in the chapter on corporate governance.

## Summary of Collaterals in CHF 000s

| | | Mortgage collateral | Other collateral | Without collateral [1] | Total |
|---|---|---|---|---|---|
| **Loans to clients** | | | | | |
| Due from clients | | 141 178 | 953 689 | 1 332 972 | 2 427 839 |
| Mortgage loans: | | | | | |
| – residential real estate | | 11 894 249 | | 25 951 | 11 920 200 |
| – office and business buildings | | 1 271 265 | | | 1 271 265 |
| – trade and industry | | 1 128 161 | | 51 215 | 1 179 376 |
| – other | | 290 145 | 2 172 | 11 125 | 303 442 |
| **Total loans to clients** | **Dec. 31, 2007** | **14 724 998** | **955 861** | **1 421 263** | **17 102 122** |
| | Dec. 31, 2006 | 14 335 957 | 1 155 031 | 1 717 683 | 17 208 671 |
| **Off-balance sheet transactions** | | | | | |
| Contingent liabilities | | 34 741 | 110 414 | 89 465 | 234 620 |
| Irrevocable commitments | | | | 164 580 | 164 580 |
| Liabilities for calls on shares and other equities | | | | 39 559 | 39 559 |
| **Total off-balance sheet** | **Dec. 31, 2007** | **34 741** | **110 414** | **293 604** | **438 759** |
| | Dec. 31, 2006 | 36 130 | 140 316 | 360 015 | 536 461 |

[1] including mortgage loans with provisions

| Impaired Loans in CHF 000s | Dec. 31, 2007 | Dec. 31, 2006 | Change | in % |
|---|---|---|---|---|
| Total impaired loans, gross | 691 922 | 770 948 | (79 026) | (10.3) |
| Estimated proceeds from liquidation | (512 813) | (587 926) | 75 113 | (12.8) |
| **Total impaired loans, net** | **179 109** | **183 022** | **(3 913)** | **(2.1)** |
| Individual provisions | 171 856 | 180 237 | (8 381) | (4.6) |
| Provisions for credit risk in % of impaired loans, net | 96.0 % | 98.5 % | | |
| Impaired loans in % of loans to clients | 1.0 % | 1.1 % | | |

| Non Performing Loans in CHF 000s | Dec. 31, 2007 | Dec. 31, 2006 | Change | in % |
|---|---|---|---|---|
| **Total non performing loans** | **68 166** | **68 292** | **(126)** | **(0.2)** |

Non performing loans are a component of impaired loans.

| Valuation Adjustments and Provisions for Credit Risk in CHF 000s | Dec. 31, 2007 | Dec. 31, 2006 | Change | in % |
|---|---|---|---|---|
| Valuation adjustments and provisions for credit risk (capital) | 166 876 | 175 718 | (8 842) | (5.0) |
| Valuation adjustments and provisions for credit risk (interest) | 4 980 | 4 519 | 461 | 10.2 |
| **Total provisions for credit risk** | **171 856** | **180 237** | **(8 381)** | **(4.6)** |
| Valuation adjustments and provisions for credit risk (capital) in % of loans to clients | 1.00 % | 1.02 % | | |
| Non performing loans in % of loans to clients | 0.40 % | 0.40 % | | |
| Rate of capital provisions [1] | 0.01 % | 0.05 % | | |

[1] New valuation adjustments and provisions for credit risk (capital) in % of average loans to clients

| Valuation Adjustments and Provisions/Reserves for General Banking Risks in CHF 000s | Dec. 31, 2006 | Usage | Doubtful interest, recoveries | New creation to the debit of the income statement | Redemption to the credit of the income statement | Dec. 31, 2007 |
|---|---|---|---|---|---|---|
| Valuation adjustments and provisions for credit risk | 180 237 | (12 070) | 2 196 | 22 701 | (21 208) | 171 856 |
| Valuation adjustments and provisions for other business risks | 4 953 | (823) | 28 | 150 | (652) | 3 656 |
| Total | 185 190 | (12 893) | 2 224 | 22 851 | (21 860) | 175 512 |
| Provision for deferred taxes | 6 026 | | | | (2 200) | 3 826 |
| **Total valuation adjustments and provisions** | **191 216** | **(12 893)** | **2 224** | **22 851** | **(24 060)** | **179 338** |
| **Total reserves for general banking risks** | **48 400** | | | | **(22 970)** | **25 430** |

## Maturity Structure of Current Assets, Financial Investments and Liabilities to third Parties in CHF 000s

| | On demand | Redeemable | Due within 3 months | Due within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Immobilized | Total |
|---|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | | |
| Liquid funds | 131 170 | | | | | | | 131 170 |
| Receivables from money market instruments | 1 | | 314 439 | 17 420 | | | | 331 860 |
| Due from banks | 645 442 | 5 402 | 706 323 | 40 648 | | | | 1 397 815 |
| Due from clients | 40 615 | 355 252 | 638 909 | 454 465 | 669 520 | 269 078 | | 2 427 839 |
| Mortgage loans | 69 971 | 2 987 914 | 1 586 389 | 2 051 641 | 6 243 205 | 1 735 163 | | 14 674 283 |
| Securities and precious metals trading portfolios | 15 288 | | | | | | | 15 288 |
| Financial investments | 25 247 | 300 | 19 502 | 30 042 | 339 865 | 236 550 | 10 284 | 661 790 |
| **Total Dec. 31, 2007** | **927 734** | **3 348 868** | **3 265 562** | **2 594 216** | **7 252 590** | **2 240 791** | **10 284** | **19 640 045** |
| Dec. 31, 2006 | 608 119 | 2 138 841 | 2 969 632 | 2 871 111 | 9 050 267 | 1 763 519 | 16 337 | 19 417 826 |
| **Liabilities** | | | | | | | | |
| Due to money market instruments | 528 | | | | | | | 528 |
| Due to banks | 80 930 | | 203 696 | 59 969 | | | | 344 595 |
| Due to clients in savings and deposits | | 5 646 091 | | | | | | 5 646 091 |
| Other due to clients | 1 844 460 | 267 027 | 2 548 851 | 621 934 | 280 850 | 185 000 | | 5 748 122 |
| Medium-term notes | | | 63 071 | 194 446 | 621 747 | 18 816 | | 898 080 |
| Debt and loans secured by mortgages | | | 254 785 | 727 400 | 2 254 043 | 2 116 230 | | 5 352 458 |
| **Total Dec. 31, 2007** | **1 925 918** | **5 913 118** | **3 070 403** | **1 603 749** | **3 156 640** | **2 320 046** | **0** | **17 989 874** |
| Dec. 31, 2006 | 2 218 572 | 6 317 536 | 2 240 921 | 1 228 046 | 3 589 582 | 2 028 117 | 0 | 17 622 774 |

## Fees payable to the Members of the Board of Directors in CHF 000s

The remuneration of the Board of Directors is made up of the fixed fee, the cash elements of the 2007 bonus, the value of the shares granted from the bonus as well as attendance fees and social security benefits. The total amount, including those members who have resigned, was TCHF 1022 in the year under review and is distributed among the individual members as shown in the table below (in CHF 000s):

| | Role[1] | Fixed fee | Bonus cash element | Bonus share grant | Attendance fees | Social security benefits[4] | Total |
|---|---|---|---|---|---|---|---|
| Franz Peter Oesch | Chairman of the Board of Directors | 150 | 50 | 52 | 24 | 15 | 291 |
| Hans-Peter Härtsch | Vice-Chairman of the Board of Directors, Chairman of VRA-P | 60 | 25 | 26 | 9 | 7 | 127 |
| Hans-Jürg Bernet (since Apr. 25, 2007) | | 23 | 16 | 17 | 8 | 4 | 68 |
| Niklaus Fäh[2] | Chairman of the Pension Scheme | 60 | 25 | 26 | 12 | 7 | 130 |
| Thomas A. Gutzwiller | Chairman of VRA-F | 55 | 25 | 26 | 8 | 7 | 121 |
| Peter Schönenberger[3] | | 45 | 25 | | 7 | 5 | 82 |
| Claudia Zogg-Wetter | Chairman of VRA-AC | 55 | 25 | 26 | 8 | 7 | 121 |
| **Total** | | **448** | **191** | **173** | **76** | **52** | **940** |

[1] Board Committees: Committee for Personnel and Organisational Issues (VRA-P), Committee for Finance and External Relations (VRA-F), Audit Committee (VRA-AC)
[2] of which TCHF 15 in fees and TCHF 4 in attendance fees for services provided to the SGKB pension scheme
[3] 67 shares with an equivalent value of TCHF 26 were allocated to the Canton of St. Gallen
[4] Social security benefits include employer contributions to the old-age and surviving dependants' insurance scheme and the unemployment insurance scheme

Valuation of the shares is based on the average price of the SGKB share in January 2008, which was discounted similarly to the calculation for tax purposes due to the three-year holding period. The discounted value per share as at December 31, 2007 was CHF 393.65.

Markus Rauh and Hubertus Schmid resigned from the Board of Directors in the year under review (in CHF 000s):

| | Role[1] | Fixed fee | Bonus cash element | Bonus share grant | Attendance fees | Social security benefits[2] | Total |
|---|---|---|---|---|---|---|---|
| Markus Rauh (until Apr. 25, 2007) | Chairman of VRA-F | 20 | 17 | | 2 | 2 | 41 |
| Hubertus Schmid (until Apr. 25, 2007) | Chairman of VRA-AC | 20 | 17 | | 2 | 2 | 41 |

[1] Board Committees: Committee for Finance and External Relations (VRA-F), Audit Committee (VRA-AC)
[2] Social security benefits include employer contributions to the old-age and surviving dependants' insurance scheme and the unemployment insurance scheme

## Fees payable to the Members of the Group Management Board in CHF 000s

The remuneration of the Group Management Board is made up of salaries, the cash elements of the 2007 bonus, the value of the shares granted from the bonus as well benefits in kind and social security benefits. The total amount payable to the four members (including one member who has resigned) was TCHF 3756 in the year under review.

| | Fixed salary | Bonus cash element | Bonus share grant | Bonus option grant | Social security benefits[2] | Total |
|---|---|---|---|---|---|---|
| Urs Rüegsegger<br>Managing Director[1] | 436 | 500 | | | 117 | 1053 |
| Other members of the Group Management Board | 1010 | 900 | 263 | 147 | 383 | 2703 |
| **Total** | **1446** | **1400** | **263** | **147** | **500** | **3756** |

[1] As Urs Rüegsegger's contract of employment was terminated with effect from December 31, 2007, his bonus for the financial year 2007 was paid in cash. The current employee share purchase programme of the Cantonal Bank of St. Gallen does not provide an entitlement to a grant of shares and options.
[2] Social security benefits include employer contributions to the old-age and surviving dependants' insurance scheme, the unemployment insurance scheme and the pension scheme.

Valuation of the shares is based on the average price of the SGKB share in January 2008, which was discounted similarly to the calculation for tax purposes due to the three-year holding period. The discounted value per share as at December 31, 2007 was CHF 393.65.

The calculated value of the options is also based on the average price of the SGKB share in January 2008. The options were discounted similarly to the calculation of the value of each share due to the three-year holding period. The discounted value per option as at December 31, 2007 was CHF 55.25. The valuation was made using a customary binomial model.

## Participations of the Members of the Board of Directors and the Group Management Board

As at December 31, 2007, the following possessory interests on the part of the executive bodies and related persons (data indicated in units). The unlisted options are granted to the Group Management Board as part of the employee share purchase programme.

| | Shares | Unlisted options | Listed options |
|---|---|---|---|
| Board of Directors | | | |
| Franz Peter Oesch, Chairman | 2009 | | |
| Hans-Peter Härtsch, Vice-Chairman | 1424 | | |
| Hans-Jürg Bernet | 165 | | |
| Niklaus Fäh | 649 | | |
| Thomas A. Gutzwiller | 302 | | |
| Peter Schönenberger | 360 | | |
| Claudia Zogg-Wetter | 794 | | |
| Group Management Board | | | |
| Urs Rüegsegger, CEO[1] | 6946 | 11796 | |
| Roland Ledergerber, Head of Retail and Commercial Clients | 3100 | 7860 | |
| Marcel W. Schmid, Head of Private Banking (until Nov. 21, 2007) | 948 | 3712 | |
| Marcel Zoller, Head of the Service Center[2] | 3841 | 7484 | |
| **Total** | **20538** | **30852** | **0** |

[1] As Urs Rüegsegger's contract of employment was terminated with effect from December 31, 2007, 7513 options which have not yet been transferred to his ownership have ceased to be exercisable under the current employee share purchase programme of the Cantonal Bank of St. Gallen. They lapsed on January 31, 2008.
[2] As Marcel Zoller's contract of employment was terminated with effect from December 31, 2007, 3801 options which have not yet been transferred to his ownership have ceased to be exercisable under the current employee share purchase programme of the Cantonal Bank of St. Gallen. They lapsed on March 31, 2008.

## Loans and credit lines to the Members of the Board of Directors and the Group Management Board in CHF 000s

On December 31, 2007, SGKB granted two members of the Board of Directors mortgage-backed credit loans totalling TCHF 1300.They are divided among the following members:

| | Dec. 31, 2007 |
|---|---|
| Hans-Peter Härtsch, Vice Chairman | 600 |
| Peter Schönenberger | 700 |
| **Total** | **1 300** |

The members of the Board of Directors did not benefit from staff conditions.

Loans or credit lines totalling TCH 3620, which were predominantly mortgage backed, were granted to three members of the Group Management Board. The CEO, Urs Rüegsegger, accounts for TCH 1293 of this sum. Special rates for employees also apply to the credit lines granted to the members of the Group Management Board.

## Current special conditions

Dealings with related persons of the Board of Directors take place at market-rate conditions.

The Cantonal Bank of St.Gallen provides close relatives of the members of the Group Management Board with banking services at the same staff conditions as the close relatives of the other Cantonal Bank of St.Gallen staff. The relevant business volume was so small during the past financial year that a statement is waived for reasons of materiality.

## Loans and liabilities to affiliated companies and credit lines granted to executive bodies in CHF 000s

| | Dec. 31, 2007 | Dec. 31, 2006 | Change | in % |
|---|---|---|---|---|
| Loans and liabilities to affiliated companies: | | | | |
| – Loans | 0 | 22 | (22) | (100.0) |
| – Liabilities | 54 501 | 37 271 | 17 230 | 46.2 |
| Loans to members of the executive bodies incl. close associates (credit lines for executive bodies): | | | | |
| – Non-executive members (Board of Directors) | 9 320 | 13 720 | (4 400) | (32.1) |
| – Executive members (Group Management Board) | 3 620 | 3 696 | (76) | (2.1) |
| **Total** | **12 940** | **17 416** | **(4 476)** | **(25.7)** |

## Funds under Management in CHF 000s

| | Dec. 31, 2007 | Dec. 31, 2006 | Change | in % |
|---|---|---|---|---|
| Values in investment vehicles managed by the group | 1 185 692 | 960 465 | 225 227 | 23.4 |
| Values under discretionary mandate | 4 292 138 | 3 923 019 | 369 119 | 9.4 |
| Other customer funds | 34 441 601 | 35 562 500 | (1 120 899) | (3.2) |
| **Total funds under management (incl. double countings)** | **39 919 431** | **40 445 984** | **(526 553)** | **(1.3)** |
| thereof: double countings | (2 036 167) | (1 607 050) | (429 117) | 26.7 |
| **Total funds under management (excl. double countings)** | **37 883 264** | **38 838 934** | **(955 670)** | **(2.5)** |
| Net new money (excl. double countings) | (1 785 570) | 3 598 157 | (5 383 727) | (149.6) |

Funds under management include:
- Assets under management
- Due to clients in savings and deposits
- Other due to clients
- Medium-term notes

Funds under management do not include custody-only values.

# Notes to the Income Statement

## Net Interest Income in CHF 000s

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| **Interest and discount income** | | | | |
| Interest income due from banks | 36 356 | 24 447 | 11 909 | 48.7 |
| Interest income due from loans to clients | 559 411 | 510 915 | 48 496 | 9.5 |
| Other interest, net | 22 239 | 24 910 | (2 671) | (10.7) |
| **Total interest and discount income** | **618 006** | **560 272** | **57 734** | **10.3** |
| **Interest expenses** | | | | |
| Interest expenses due to banks | 15 741 | 11 241 | 4 500 | 40.0 |
| Interest expenses due to customer funds | 156 138 | 102 256 | 53 882 | 52.7 |
| Interest expenses on debt and loans secured by mortgages | 159 957 | 157 552 | 2 405 | 1.5 |
| Other interest expenses | (26) | (12) | (14) | 116.7 |
| **Total interest expenses** | **331 810** | **271 037** | **60 773** | **22.4** |

## Net Fee and Comission Income in CHF 000s

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| Commission income from lending activities | 2 302 | 2 230 | 72 | 3.2 |
| Commission income from securities and investment activities | 203 445 | 190 478 | 12 967 | 6.8 |
| – investment funds | 49 281 | 44 142 | 5 139 | 11.6 |
| – deposit operations | 33 237 | 30 752 | 2 485 | 8.1 |
| – brokerage | 72 033 | 68 697 | 3 336 | 4.9 |
| – asset administration mandates | 36 708 | 34 376 | 2 332 | 6.8 |
| – other | 12 186 | 12 511 | (325) | (2.6) |
| Commission income from other service fee activities | 18 061 | 17 994 | 67 | 0.4 |
| – payment transfer | 6 304 | 5 490 | 814 | 14.8 |
| – safe custody | 793 | 793 | 0 | 0.0 |
| – account keeping | 6 698 | 6 892 | (194) | (2.8) |
| – other | 4 266 | 4 819 | (553) | (11.5) |
| Total commission income | 223 808 | 210 702 | 13 106 | 6.2 |
| Total commission expenses | 8 632 | 9 010 | (378) | (4.2) |
| **Total** | **215 176** | **201 692** | **13 484** | **6.7** |

## Net Trading Income in CHF 000s

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| Foreign exchange and dealings in foreign notes and coins | 29 028 | 27 893 | 1 135 | 4.1 |
| Precious metal trading | 768 | 462 | 306 | 66.2 |
| Securities trading | 1 075 | 9 127 | (8 052) | (88.2) |
| **Total** | **30 871** | **37 482** | **(6 611)** | **(17.6)** |

## Personnel Expenses in CHF 000s

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| Salaries and bonuses | 125 762 | 121 827 | 3 935 | 3.2 |
| Contributions to personnel welfare institutions | 10 820 | 12 312 | (1 492) | (12.1) |
| Other social security benefits | 8 043 | 8 188 | (145) | (1.8) |
| Other personnel expenses | 9 250 | 6 816 | 2 434 | 35.7 |
| **Total** | **153 875** | **149 143** | **4 732** | **3.2** |

## Other Operating Expenses in CHF 000s

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| Rent and occupancy | 10 546 | 10 946 | (400) | (3.7) |
| Expenses for IT | 62 493 | 51 702 | 10 791 | 20.9 |
| Expenses for equipment, furniture, vehicles and other installations | 3 041 | 2 873 | 168 | 5.8 |
| Services of third parties (Lending business, investment advice, cards and payment transactions) | 9 623 | 10 389 | (766) | (7.4) |
| Compensation of government guarantee | 6 141 | 5 870 | 271 | 4.6 |
| Postage, transport and removals | 3 109 | 3 262 | (153) | (4.7) |
| Marketing | 9 138 | 8 683 | 455 | 5.2 |
| Other operating expenses | 12 140 | 11 010 | 1 130 | 10.3 |
| **Total** | **116 231** | **104 735** | **11 496** | **11.0** |

## Depreciation and Write-Offs on Fixed Assets in CHF 000s

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| Depreciation on bank buildings | 7 960 | 7 787 | 173 | 2.2 |
| Depreciation on other real estate | 322 | 322 | 0 | 0.0 |
| Depreciation on other equipment | 4 716 | 4 874 | (158) | (3.2) |
| **Total depreciation on fixed assets** | **12 998** | **12 983** | **15** | **0.1** |
| Depreciation on non-consolidated participations | | 11 | (11) | (100.0) |
| Depreciation on intangibles | 26 732 | 25 200 | 1 532 | 6.1 |
| **Total** | **39 730** | **38 194** | **1 536** | **4.0** |

## Valuation Adjustments, Provisions and Losses

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| Provisions for credit risk | 1 493 | 8 374 | (6 881) | (82.2) |
| Provisions for other business risks | 150 | 362 | (212) | (58.6) |
| Losses | 2 221 | 1 551 | 670 | 43.2 |
| **Total** | **3 864** | **10 287** | **(6 423)** | **(62.4)** |

## Extraordinary Income and Expenses in CHF 000s

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| **Extraordinary income** | | | | |
| Usage of reserve for general banking risks | 22 970 | 12 600 | 10 370 | 82.3 |
| Gain on sale of non-consolidated participations | 652 | 2 233 | (1 581) | (70.8) |
| Revaluation gain on non-consolidated participations | 1 094 | 1 540 | (446) | (29.0) |
| Gain on sale of fixed assets | 546 | 37 | 509 | 1 375.7 |
| Other extraordinary income | 2 609 | 466 | 2 143 | 459.9 |
| **Total** | **27 871** | **16 876** | **10 995** | **65.2** |
| **Extraordinary expenses** | | | | |
| Contribution for risk capital financing in the business area of Cantonal Bank of St. Gallen | | 2 000 | (2 000) | (100.0) |
| Other extraordinary expenses | | 2 | (2) | (100.0) |
| **Total** | **0** | **2 002** | **(2 002)** | **(100.0)** |

## Taxes in CHF 000s

| | 2007 | 2006 | Change | in % |
|---|---|---|---|---|
| Federal taxes | 14 154 | 12 815 | 1 339 | 10.4 |
| State and communal taxes: | | | | |
| – In cantons where the group is located (St. Gallen, Zurich and Appenzell-Ausserrhoden) | 35 270 | 26 944 | 8 326 | 30.9 |
| – Other | 54 | 32 | 22 | 68.8 |
| Deferred taxes | (2 200) | (700) | (1 500) | 214.3 |
| **Total** | **47 278** | **39 091** | **8 187** | **20.9** |

## Earnings per Share and Number of Shares outstanding in CHF 000s

| | **2007** | 2006 | Change | in % |
|---|---|---|---|---|
| **Net profit** | | | | |
| Group net profit | 226 682 | 228 555 | (1 873) | (0.8) |
| **Weighted average number of shares outstanding** | | | | |
| Weighted average number of shares outstanding | 5 541 008 | 5 546 748 | (5 740) | (0.1) |
| Diluted shares due to options outstanding | 32 041 | 39 956 | (7 915) | (19.8) |
| **Weighted average number of shares outstanding for the diluted earnings per share** | **5 573 049** | **5 586 704** | **(13 655)** | **(0.2)** |
| **Earnings per share in CHF** | | | | |
| Earnings per share | 40.91 | 41.21 | (0.30) | (0.7) |
| Diluted earnings per share | 40.67 | 40.91 | (0.24) | (0.6) |

## Calculation of Return on Equity (ROE) in CHF 000s

| | **2007** | 2006 | Change | in % |
|---|---|---|---|---|
| Operating profit | 246 089 | 252 772 | (6 683) | (2.6) |
| Group net profit | 226 682 | 228 555 | (1 873) | (0.8) |
| Equity after par value repayment resp. appropriation of retained earnings | 1 594 624 | 1 538 473 | 56 151 | 3.6 |
| Average equity for the calculation of the ROE [1] | 1 566 549 | 1 513 850 | 52 699 | 3.5 |
| Return on equity, pre-tax (basis: operating profit) | 15.7% | 16.7% | (1.0) | (6.0) |
| Return on equity, after tax (basis: group net profit) | 14.5% | 15.1% | (0.6) | (4.0) |

[1] The average is calculated from the beginning and ending balance after appropriation of retained earnings.

## Risk-weighted Positions and Equity required by Banking Law in CHF 000s

| | Dec. 31, 2007 Nominal amount | Dec. 31, 2007 Risk-weighted positions | Dec. 31, 2006 Nominal amount | Dec. 31, 2006 Risk-weighted positions |
|---|---|---|---|---|
| **Assets liable to direct equity underlying** | | | | |
| Due from banks | 1 397 815 | 349 231 | 1 030 030 | 255 642 |
| Due from clients | 2 427 840 | 1 383 073 | 2 930 849 | 1 676 733 |
| Mortgage loans | 14 674 282 | 8 354 981 | 14 277 822 | 8 111 959 |
| Real estate in financial investments | 10 284 | 38 565 | 16 337 | 61 264 |
| Fixed assets | 185 837 | 555 506 | 180 116 | 526 426 |
| Accrued income and prepaid expenses | 97 399 | 87 322 | 83 775 | 73 023 |
| Other assets, replacement values | 36 127 | 22 202 | 33 534 | 20 941 |
| Other assets, other | 227 856 | 190 944 | 12 630 | 7 612 |
| **Total assets directly liable to equity underlying** | | **10 981 824** | | **10 733 600** |
| **Assets liable to indirect equity underlying** | | | | |
| Net positions outside the trading book | 984 303 | 294 801 | 995 946 | 274 947 |
| Market risk positions – Foreign exchange, gold and commodities | | 31 928 | | 62 383 |
| Market risk positions – Other | | 30 179 | | 107 553 |
| **Deductable liabilities** | | | | |
| Deductable valuation adjustments and provisions | (171 857) | (128 893) | (180 239) | (135 179) |
| **Off-balance sheet items** | | | | |
| Contingent liabilities | 238 107 | 145 667 | 326 467 | 210 544 |
| Irrevocable facilities granted | 113 270 | 102 998 | 106 176 | 104 502 |
| Add-ons on forward contracts and purchased options | | 36 416 | | 22 224 |
| **Total risk-weighted positions** | | **11 494 920** | | **11 380 574** |
| **Required equity, gross (8% of the risk-weighted positions)** | | **919 594** | | **910 446** |
| – Deducation for cantonal banks (max. 12.5%) | | (34 949) | | (13 806) |
| **Required equity, net** | | **884 645** | | **896 640** |
| Eligible core capital (tier 1)[1] | | 1 556 876 | | 1 485 647 |
| + Eligible supplementary capital (tier 2) | | 80 000 | | 100 000 |
| – Deductions from supplementary capital | | (18 247) | | (18 337) |
| **Eligible own means** | | **1 618 629** | | **1 567 310** |
| **Surplus capital** | | **733 984** | | **670 670** |
| Surplus capital ratio (CH standard) (surplus capital in % of required equity) | | 83.0% | | 74.8% |
| BIS ratio tier 1 | | 13.9% | | 13.5% |
| BIS ratio tier 2 | | 14.5% | | 14.2% |

[1] 2006 calculation following capital reduction by par value repayment per share, totalling TCHF 167 203

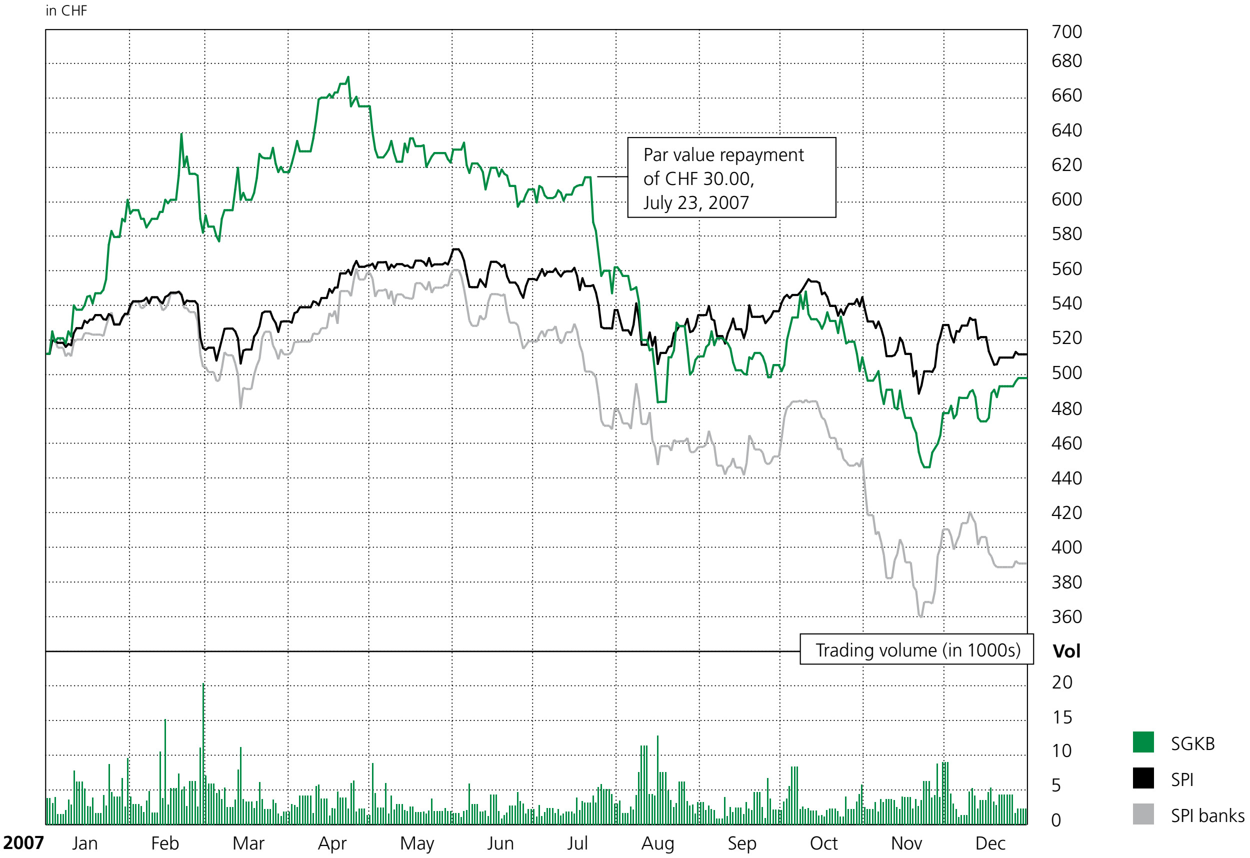
# Divisional Accounts

| Income Statement in CHF 000s | Retail and Commercial banking 2007 | 2006 | Private Banking 2007 | 2006 | Corporate Center 2007 | 2006 | Group 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 242 116 | 222 570 | 57 429 | 49 024 | 5 753 | 37 075 | 305 298 | 308 669 |
| Net fee and commission income | 52 850 | 50 176 | 166 252 | 155 490 | (3 926) | (3 974) | 215 176 | 201 692 |
| Net trading income | 13 084 | 13 348 | 15 352 | 16 902 | 2 435 | 7 232 | 30 871 | 37 482 |
| Net other income | 3 410 | 1 329 | 820 | 351 | 4 214 | 5 608 | 8 444 | 7 288 |
| **Operating income** | **311 460** | **287 423** | **239 853** | **221 767** | **8 476** | **45 941** | **559 789** | **555 131** |
| Personnel expenses | 60 505 | 59 090 | 50 032 | 47 081 | 43 338 | 42 972 | 153 875 | 149 143 |
| Other operating expenses | 80 700 | 80 330 | 38 102 | 42 330 | (2 571) | (17 925) | 116 231 | 104 735 |
| Administrative expenses | 141 205 | 139 420 | 88 134 | 89 411 | 40 767 | 25 047 | 270 106 | 253 878 |
| **Gross profit** | **170 255** | **148 003** | **151 719** | **132 356** | **(32 291)** | **20 894** | **289 683** | **301 253** |
| Depreciation and write-offs on fixed assets and intangibles | 0 | 0 | 1 464 | 1 305 | 38 266 | 36 889 | 39 730 | 38 194 |
| Valuation adjustments, provisions and losses | 1 873 | 4 656 | 1 377 | 4 973 | 614 | 658 | 3 864 | 10 287 |
| **Operating profit (interim result)** | **168 382** | **143 347** | **148 878** | **126 078** | **(71 171)** | **(16 653)** | **246 089** | **252 772** |
| Extraordinary income, net | 866 | 0 | 4 400 | 8 024 | 22 605 | 6 850 | 27 871 | 14 874 |
| Taxes | 22 454 | 16 917 | 25 286 | 20 114 | (462) | 2 060 | 47 278 | 39 091 |
| **Group net profit** | **146 794** | **126 430** | **127 992** | **113 988** | **(48 104)** | **(11 863)** | **226 682** | **228 555** |

| Other data in CHF 000s | Retail and Commercial banking 2007 | 2006 | Private Banking 2007 | 2006 | Corporate Center 2007 | 2006 | Group 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|
| Loans to clients | 15 734 423 | 15 323 425 | 1 367 699 | 1 885 246 | | | 17 102 122 | 17 208 671 |
| Customer funds | 8 672 731 | 8 377 696 | 3 619 562 | 3 425 015 | | | 12 292 293 | 11 802 711 |
| Funds under management | 12 392 217 | 11 936 930 | 25 491 047 | 26 902 004 | | | 37 883 264 | 38 838 934 |
| **Headcount** | | | | | | | | |
| Full-time equivalents | 484 | 485 | 246 | 229 | 277 | 258 | 1 007 | 972 |
| **Key Figures** | | | | | | | | |
| Cost/income-ratio (including depreciation on fixed assets) | 45.3% | 48.5% | 37.4% | 40.9% | n/a | n/a | 51.2% | 48.4% |

# [ 7 ] Information for Investors

Having reached an all-time high in April 2007, the SGKB share was unable to avoid the downside pressure on banking stocks witnessed in the second half of the year. Overall, the stock's valuation fell by 2.73 %, but outperformed the SPI Banking Index by around 20 %.




Ticker symbol: SGKN, Swiss security no.: 1148406, Listed on: SWX Swiss Exchange, Issued: April 2, 2001

| **Information for Investors** | Dec. 31, 2007 |
|---|---|
| Earnings per share | CHF 40.91 |
| Proposed dividend per share | CHF 26.00[1] |
| Total shares issued | 5 573 426 |
| Time-weighted number of dividend-bearing shares | 5 541 008 |
| Number of shares held by SGKB (average) | 32 627 |
| Shareholders | 27 217 |
| Issue price (IPO) | CHF 160.00 |
| Market price | CHF 498.00 |
| Market capitalization | CHF 2 775.6 million |
| Ratio of market capitalization/ shareholders' equity | 159.6% |
| Return on equity (basis: operating profit) | 15.7% |
| Reported shareholders' equity | CHF 1 739.5 million |
| Dividend yield | 5.2% |
| Price-earnings ratio | 12.2 |

[1] Recommendation of the Board of Directors for the financial year ended on December 31, 2007

## Contact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## Important Sources of Information

| | **[ Frequency ]** |
|---|---|
| Annual conference for media/analysts | annual |
| Annual report (German) | annual |
| Annual report (English) | annual |
| Annual General Meeting | annual |
| Interim report (newsletter to shareholders) | annual |
| Interim conference for media/analysts | annual |
| Newsletter to shareholders in German and English | semi-annual |
| Press releases | as required |
| www.sgkb.ch | ongoing |

Current publication and event dates are available at
www.sgkb.ch (→ Media/Investors)

## Board of Directors and Group Management

### Board of Directors

| | | | |
|---|---|---|---|
| Dr. Franz Peter Oesch, Chairman | Dr. Hans-Jürg Bernet | Prof. Dr. Thomas A. Gutzwiller | Dr. Claudia Zogg-Wetter |
| Hans-Peter Härtsch, Vice Chairman | Dr. Niklaus Fäh | Peter Schönenberger | |

### Group Management

| | | | | |
|---|---|---|---|---|
| **2007** | Dr. Urs Rüegsegger, Chairman (until Jan. 31, 2008) | Marcel Zoller, Vice Chairman (until Mar. 31, 2008) | Roland Ledergerber | Marcel W. Schmid (until Nov. 21, 2007) |
| **2008** | Roland Ledergerber, Chairman (from Feb. 1, 2008) | Dr. Felix Buschor (from Apr. 1, 2008) | Albert Koller, Vice Chairman (from Feb. 1, 2008, Vice Chairman from Apr. 1) | Dr. Christian Schmid (from Aug. 1, 2008) |

## Brief Profile

The **Cantonal Bank of St.Gallen Group** comprises the Cantonal Bank of St.Gallen (SGKB), the parent company founded in 1868, and its subsidiary Hyposwiss Privatbank AG, which was acquired in 2002. The SGKB has been listed on the SWX exchange since 2001. The canton of St.Gallen is the majority shareholder with 54.8 % of the share capital. Measured in terms of the balance sheet total reported in the group's annual results for 2006, the SGKB is Switzerland's ninth largest universal bank and fifth largest cantonal bank. As the parent company, the SGKB offers a comprehensive range of financial services to its clients in the cantons of St.Gallen and Appenzell Ausserrhoden.
In addition, the Cantonal Bank of St.Gallen assumes responsibility for the economic, social and cultural development of the region in its capacities as an employer, taxpayer and sponsorship partner. On December 31, 2007, the Group employed a total of 1132 staff. The parent company operates with a state guarantee and has an Aa1 credit rating from Moody's.

# Organisation

St.Galler Kantonalbank

## Board of Directors

Dr. Franz Peter Oesch, *Chairman*
Hans-Peter Härtsch, *Vice-Chairman*
Dr. Hans-Jürg Bernet
Dr. Niklaus Fäh
Prof. Dr. Thomas A. Gutzwiller
Peter Schönenberger
Dr. Claudia Zogg-Wetter

## Internal Audit

Jakob Schnider

## Group Management

Roland Ledergerber, *Chairman*
Albert Koller, *Vice-Chairman*
Dr. Felix Buschor

### [ Presidium ] [1]

Roland Ledergerber

**Secretary General**
Adrian Kunz

**Controlling & Finance**
Stefan Klinger

**Legal & Compliance**
Dr. Roger Dornier

**Human Resources**
Baptist Gmünder

**Corporate Development**
Dr. Cornelia Gut-Villa

### [ Retail and Commercial Clients ]

Albert Koller

**Sales Territory St.Gallen**
Charles Lehmann

**Sales Territory West**
Bruno Holenstein

**Sales Territory East**
Albert Koller a.i.

**Divisional Development**
Daniel Stehrenberger

**Credit Office**
Bruno Katheder

**Competence Center Advice and Sales**
Guido Schindler

**Marketing**
Thomas Rüegg

**Multichannel**
Paul Eggenschwiler

**Product Management**
Reto Fischer

**Special financing**
Alex Spillmann

### [ Private Banking ]

Roland Ledergerber a.i.

**Sales Territory Eastern Switzerland**
Pius Seitz

**Institutional Investors**
Markus Egger a.i.

### [ Service Center ] [1]

Dr. Felix Buschor

**Management Support**
Markus Plüss

**Financial Processing**
Dr. Felix Buschor a.i.

**Trade**
Josef Geel

**Information Technology and Projects**
Urs Halter

**Infrastructure**
Helmut Capol

**Loan Processing**
Rolf Gersbach

**Payment Transactions**
Jürg Hofmann

**IT Migration**
Dr. Felix Buschor

## [ Subsidiary companies ]

HYPOSWISS PRIVATE BANK

### Zurich

**Board of Directors**

Roland Ledergerber, *Chairman*
Dr. Rico Jenny, *Vice-Chairman*
Dr. Franz Peter Oesch

**CEO**
Theodor Horat a.i.

**Markets**
Theodor Horat a.i.

**Investment Center**
Dr. Thomas Stucki

**Products**
Anton Schaad

**Services/Logistics**
Stefan Betschart

**Controlling**
Gregor Neidhart

**Risk Management**
Adrian Koller

**Business Management**
Hansjürg Christen

### Geneva

**Board of Directors**

Roland Ledergerber, *Chairman*
Yves Burrus, *Vice-Chairman*
Georges Bindschedler
Jean-Luc de Buman
Jean-Pierre Jacquemoud
Maurice Turrettini

**CEO**
Declan Mc Adams

**Chief Financial Officer**
Simon Cole

**Investment Policy**
Stephen Rufino

**Trading desk/Advisory**
René Morgenthaler

**Services**
Jean-Denis Braillard

[1] The Presidium and Service Center appear as the Corporate Center in the segment account.

Updated: Apr. 1, 2008

→ See pp. 5–6, 14–15 for Group structure and changes in the Group Management Board. Current status of the organigram: www.sgkb.ch (The SGKB).