

## ANNUAL REPORT 2004



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**St.Galler  
Kantonalbank**

## REVIEW AND PROSPECTS

### An extremely successful financial year

The financial 2004 year was once more very successful for the SGKB Group. Gross profit, the operating profit and Group net profit increased significantly in comparison to 2003. These results were primarily due to the increase in securities activities, strict control of administrative expenses and lower valuation adjustments and provisions in lending activities. The increase in Group net profit to CHF 114.9 million (+9.7%) was very positive, particularly since CHF 34.0 million have been assigned to the general banking risks reserve.

Consolidated operating income in 2004 amounted to CHF 452.0 million, almost matching the high figure achieved in the previous year (–CHF 5.1 million or –1.1%). Although the anticipated downturn on the net interest income occurred, this was more than offset by higher commission and service fee income. The planned diversification between interest-related operations and private banking was thus crowned with the desired positive effect. Personnel expenses fell by CHF 3.9 million or 2.9% and other operating expenses decreased by CHF 9.1 million or 7.9%. Consequently, gross profit rose by CHF 8.0 million to CHF 215.1 million (+3.9%). The risk situation is also highly pleasing: although credit risks were again very cautiously valued, valuation adjustments, provisions and losses were reduced by CHF 10.8 million to CHF 14.2 million (–43.2%). The operating profit therefore rose by CHF 20.8 million to CHF 162.7 million (+14.7%). The sale of AGI Holding AG resulted in a profit of CHF 20.1 million which may be seen in extraordinary income. The excellent business growth and the extraordinary sales revenue led to the formation of reserves for general banking risks amounting to CHF 34.0 million. These reserves will be partially used to finance the migration to a new IT platform, which is scheduled to take place by 2008.

#### Selective growth in credit business

In comparison to 2003, net interest income

declined by 4.7% or CHF 13.4 million to CHF 270.9 million. This was mainly due to the long maturities of fixed-interest mortgages and their extension at a lower rate of interest. The increase in client loans by CHF 91.4 million (+0.6%) may appear modest at first glance. Outflow primarily occurred for three reasons: firstly, low-margin business was, as in the previous year, deliberately reduced in order to strengthen the Bank's profitability; secondly, the adjustment of non-performing items was systematically continued; thirdly, the Berlin loans – tax-privileged investments that were issued for the financing of the reconstruction of Berlin – expired. In connection with the reduction of impaired loans, the balance of valuation adjustments and provisions was also reduced by CHF 9.4 million to CHF 216.1 million. A very pleasing increase of CHF 544.1 million or 4.1% was achieved in the core business, that is, loans to private clients and small and medium-sized companies. Customer funds decreased by CHF 203.3 million. This was mainly attributable to the reduction in volatile fixed-term deposits (–CHF 256.2 million) since these funds with lower medium- and long-term rates either flowed out or were changed into deposited securities. The development of interest rates also led to a decrease of CHF 88.8 million in medium-term notes. By contrast, amounts due to customers in savings and deposits and other amounts due to customers on sight increased by CHF 64.7 million and CHF 77.0 million respectively.

#### Increase of CHF 1.2 billion in funds under management

The acquisition of new funds and the improving mood of the stock market led to a substantial increase of CHF 1.2 billion in funds under management, reaching a total of CHF 26.5 billion (+4.6%). The proportion of new funds (net new money according to the definition of the Federal Banking Commission) is therefore CHF 602.2 million.

St.Galler Vermögensberatung (SGVB) was retrospectively incorporated in SGKB from 1 January 2004. Since then, the activities of the former SGVB have been managed in a separate market segment – «St.Galler Kantonalbank Private Banking» – within the parent company. The subsidiary HYPOSWISS Privatbank AG and Private Banking SGKB were combined in the divisional accounts to form the «Private Banking» Division, effective 1 January 2004. This move means that more emphasis is now being placed on the extension of the private banking segment as a strategic success factor in the SGKB Group.

This Division of the parent company concentrates its activities on private customers who have complex investment requirements and wish to make use of the entire range of services of SGKB, as well as on the institutional customers primarily involved in the area of pension funds. The market territory includes Eastern Switzerland and neighbouring regions in Austria and Germany. HYPOSWISS handles the asset management business in the Greater Zurich area and offshore banking, mainly in selected high-growth countries in Central and Eastern Europe and South America.

Due to the intensive market development measures and as a result of rising capital markets, the Private Banking Division increased its operating income in the year under review by CHF 24.4 million or 18.5% to CHF 155.9 million. Cost control in the Group also helped the Private Banking Division to reduce its administrative expenses by CHF 1.9 million or 2.5% to CHF 74.3 million. This led to a very high gross profit increase of 47.4%, rising from CHF 55.4 million to CHF 81.6 million (+ CHF 26.2 million).

#### **SGKB shares still flying high**

Just like the annual financial statements, the performance of SGKB shares was very good. In the year under review, share value improved by 22.2%. This performance occupies a leading position in comparison with other cantonal banks and the Bank Index. In order to allow shareholders to participate in these excellent

results, the Board of Directors will submit a resolution to the 2005 general meeting proposing a dividend increase to CHF 9.00 per share.

#### **A continuing success story**

The positive results achieved in 2004 mean that the SGKB Group has improved its operating results for the fourth year in a row. The Bank has managed to reduce the cost-income ratio, continuously increasing productivity and maintaining high levels of equity return. This achievement is a clear indication of the success of the strategy pursued since the stock market listing in 2001, which is a continuous increase in income through systematic concentration on attractive client segments and a purposeful extension of business activities into the private banking sector. The annual financial statements for 2004 furthermore clearly demonstrate that we were right to pursue the strategy of increasing the commission share and service fee business, thus diversifying the income base.

#### **Prospects for 2005: continuing success**

In 2005 SGKB will continue its present strategy in order to increase profitability still further. The focal points of this strategy will be to continuously develop and improve the results achieved to date. Specific measures will also be deployed to attain growth in strategically important business segments. In particular, the expansion activities in the private banking segment will be continued. In addition to intensification of market activities in Eastern Switzerland, more attention will be paid to selected key international markets. This will also enable SGKB to increase corporate value in future in the interest of shareholders. This goal will be achieved by both a continuous reduction in costs and a moderate risk policy. The SGKB Group is confident that it can achieve its targets yet again in 2005.

## RISK SITUATION

Like other banks or financial institutions, St. Galler Kantonalbank is faced with managing specific risks. Management of credit and market risks as well as operational risks is considered to be one of the major tasks of the Executive Board. The Board of Directors has implemented the risk management policy in order to set up a control framework for the entire risk management process of St. Galler Kantonalbank. The following descriptions focus on the actual exposure of the Bank.

### Credit risks

#### Credit assessment audits

The lending business is subject to additional controls in the form of extensive credit assessment audits conducted by Internal Audit and the statutory and banking auditors. The credit assessment audits are aimed at large exposures and other selected exposures. Based on the results of these audits, existing loan-loss provisions are adjusted to ensure appropriate coverage of all credit risks.

Adequate coverage of credit risks has been confirmed, although valuation adjustments, provisions and losses have decreased by CHF 10.8 million to CHF 14.2 million.

#### Impaired loans

Loans with doubtful collectibility are managed by a specially assigned department. As of 31 December 2004, impaired loans amounted to CHF 733.6 million.

#### Non-Performing loans

As of 31 December 2004, the total amount of loans for which interest payments are considered to be at risk or for which interests are not paid within a period of three months of the due date was CHF 129.7 million (prior year CHF 193.9 million) or approximately 0.8% of the loans to clients (prior year 1.2%). The total amount of accrued interest classified as at risk or for which valuation adjustments have already been provided was CHF 7.2 million or 1.4% of interest income (prior year CHF 8.8 million or 1.6%).

### Risk diversification rules and the ten biggest borrowers

An internal procedural directive establishes detailed rules for the handling and registration of concentration risks. The team for Concentration Risks at the head office is responsible for the registration, calculation, reporting and monitoring of concentration risks, and for preparing the list of the ten biggest borrowers.

As of 31 December 2004, the Group was exposed to two concentration risks with a risk-weighted exposure of CHF 179.4 million resp. CHF 135.7 million or 13.7 % resp. 10.4 % of eligible equity (prior year one concentration risk exposure totalling CHF 119.6 million or 10.1%), with a permissible limit ceiling of 800%.

As of 31 December 2004, the Group's total exposure to its ten biggest commercial borrowers amounted to CHF 729.0 million or 4.6% of the Group's loans to customers (prior year CHF 587.1 million or 3.7%).

### Country risks

As of 31 December 2004, non-Swiss exposures amounted to CHF 1195.8 million or 6.4% of total assets (prior year CHF 1828.6 million or 9.7%). Thus, they were within the limit defined for non-Swiss exposure, as a percentage of the total assets. These loans are mostly secured by collateral in developed countries. According to the risk domicile principle, valuation adjustments and provisions were insignificant by the end of 2004.

### Market risks

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

As of 31 December 2004, the entire market value-at-risk was CHF 39.9 million (prior year CHF 32.2 million). The average for the year

2004 was CHF 35.5 million, with a minimum value of CHF 28.1 million and a maximum value of CHF 42.2 million.

#### Interest rate risks

The sensitivity of shareholders' equity (modified duration) in 2004 ranged from 5.4% to 7.1%. As of 31 December 2004, the modified duration of the group was 7.0% (prior year 5.2%).

#### Currency risks

The net foreign currency position of the Group was CHF 45.6 million at the end of 2004. The Group's own positions in foreign currencies are mainly in USD and EUR.

#### Securities price and liquidity risks

The securities listed under financial assets of CHF 680.4 million are almost entirely composed of high-quality listed securities or securities traded on representative markets, most of which are bonds. Bonds are held until maturity. The holdings are incorporated into the value-at-risk calculations.

#### Other market risks

The Group holds no positions in commodities. As of 31 December 2004, the precious metal position of the Group amounted to CHF 0.1 million (prior year CHF 0.1 million).

As of 31 December 2004, the Group held 40 positions in real estate intended for resale, the book value of which was CHF 45.4 million.

#### Liquidity and funding risks

Compliance with the applicable liquidity regulations is assured through a permanent system. Those obligations regarded as concentrations within the meaning of Art. 18 of the Implementing Ordinance to the Federal Banking Law are duly reported to the banking auditors. As of 31 December 2004, there were no obligations.

For purposes of bridging any liquidity problems, St.Galler Kantonalbank has always been able to

raise funds in the inter-bank and/or capital markets in the past. Furthermore, the Group disposes of a Lombard credit facility in the amount of CHF 40 million, which was not utilised as of 31 December 2004.

#### Operational risks

##### Internal control system

The Group maintains an effective separation of functions, employs a well-developed internal control system and disposes of management controls. In management's opinion, the conditions required for assuring the orderly and adequate conduct of business and for quickly discovering any significant errors have been established.

##### Outsourcing risk

For a bank, the main operational risk lies in the security and reliability of its data processing operations. Computer services and data processing work have been largely outsourced to Swisscom IT Services AG (SCIS). SCIS, its employees and agents are contractually bound to keep business and banking secrets confidential.

St.Galler Kantonalbank indirectly held (via AGI Holding AG) 7.92% of the voting rights and capital in SCIS. As of 23 December 2004, the cantonal banks with a stake in SCIS have sold their participation in AGI Holding AG to Swisscom, which purchased 100% of the share capital of SCIS. Thus, the strategic realignment of SCIS has been completed. This transaction has no impact on the the data processing operations and the corresponding agreements.

Outsourced data processing is audited by the statutory auditors of SCIS. These audit reports are made available for the statutory and banking auditors of the bank which hold a stake in SCIS. Furthermore, IT risks are reviewed by Internal Audit of SCIS together with Internal Audit of the banks. According to these audit reports, the requirements of the Federal Banking Commission relating to outsourcing are met.

## Group Key Figures

<b>INCOME STATEMENT</b> in CHF 000s	2004	2003	2002 <sup>1</sup>
Operating income	451 984	457 054	417 954
Administrative expenses	(236 932)	(249 977)	(242 280)
Operating profit (interim result)	162 741	141 895	122 435
Group net profit	114 881	104 685	99 185
<b>EARNINGS PER SHARE</b> in CHF			
Earnings per share	22.91	21.00	19.87
Dividend paid out resp. proposed	9.00	8.50	8.00
<b>KEY FIGURES</b>			
Return on equity, pre-tax (basis: operating profit)	13.6%	12.8%	11.7%
Return on equity, after tax (basis: group net profit)	9.6%	9.5%	9.5%
Administrative expenses incl. depreciation on fixed assets/operating income	55.6%	58.1%	61.2%
<b>BALANCE SHEET</b> in CHF 000s			
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Loans to customers	16 002 915	15 911 512	15 720 538
Customer funds	10 332 968	10 536 306	10 249 851
Balance sheet total	18 553 653	18 912 789	18 314 332
Shareholders' equity	1 308 764	1 181 192	1 116 038
<b>EQUITY KEY FIGURES</b>			
BIS ratio tier 1	11.3%	9.8%	9.1%
BIS ratio tier 2	12.7%	11.4%	11.0%
Excess capital ratio (CH standard)	52.5%	35.8%	30.5%
Shareholders' equity in % of balance sheet total	7.0%	6.3%	6.1%
<b>FUNDS UNDER MANAGEMENT</b> in CHF 000s			
Funds under management	26 482 420	25 311 915	23 033 289
<b>HEADCOUNT</b>			
Full-time equivalents <sup>2</sup>	967	1 003	1 081
<b>MOODY'S RATING</b>			
Senior unsecured domestic currency	Aa1	Aa1	Aa2
Bank deposits	Aa1/P-1	Aa1/P-1	Aa2/P-1
Bank financial strength	B	B	B

<sup>1</sup> HYPOSWISS only nine months consolidated

<sup>2</sup> Apprentices calculated at 50%

## Group Balance Sheet

<b>ASSETS</b> in CHF 000s	Dec. 31, 2004	in %	Dec. 31, 2003	in %	Change	in %
Liquid funds	147 514	0.8	130 816	0.7	16 698	12.8
Receivables from money market instruments	291 217	1.6	285 515	1.5	5 702	2.0
Due from banks	907 287	4.9	1 339 291	7.1	(432 004)	(32.3)
Due from customers	2 437 206	13.1	2 689 118	14.2	(251 912)	(9.4)
Mortgage loans	13 565 709	73.1	13 222 394	69.9	343 315	2.6
<i>Total loans to customers</i>	<i>16 002 915</i>	<i>86.2</i>	<i>15 911 512</i>	<i>84.1</i>	<i>91 403</i>	<i>0.6</i>
Securities and precious metals trading portfolios	26 181	0.1	13 321	0.1	12 860	96.5
Financial investments	725 792	3.9	735 132	3.9	(9 340)	(1.3)
Non-consolidated participations	21 846	0.1	32 723	0.2	(10 877)	(33.2)
Fixed assets	164 008	0.9	181 108	0.9	(17 100)	(9.4)
Intangibles	99 784	0.6	123 262	0.7	(23 478)	(19.0)
Accrued income and prepaid expenses	82 178	0.4	81 683	0.4	495	0.6
Other assets	84 931	0.5	78 426	0.4	6 505	8.3
<b>Total assets</b>	<b>18 553 653</b>	<b>100.0</b>	<b>18 912 789</b>	<b>100.0</b>	<b>(359 136)</b>	<b>(1.9)</b>
Of which:						
– Total subordinated amounts receivable	0		4 287		(4 287)	(100.0)
– Total due from non-consolidated participations	86 458		91 870		(5 412)	(5.9)
– Total due from the Canton of St.Gallen	0		0		0	0.0
<b>LIABILITIES</b> in CHF 000s						
Due to money market instruments	210	0.0	254	0.0	(44)	(17.3)
Due to banks	837 249	4.5	1 027 408	5.4	(190 159)	(18.5)
Due to customers in savings and deposits	6 411 343	34.6	6 346 605	33.6	64 738	1.0
Other due to customers	3 251 022	17.5	3 430 296	18.1	(179 274)	(5.2)
Medium-term notes	670 603	3.6	759 405	4.0	(88 802)	(11.7)
<i>Total customer funds</i>	<i>10 332 968</i>	<i>55.7</i>	<i>10 536 306</i>	<i>55.7</i>	<i>(203 338)</i>	<i>(1.9)</i>
Debt and loans secured by mortgages	5 539 040	29.9	5 596 445	29.6	(57 405)	(1.0)
Accrued expenses and deferred income	190 366	1.0	191 571	1.0	(1 205)	(0.6)
Other liabilities	128 932	0.7	154 059	0.8	(25 127)	(16.3)
Valuation adjustments and provisions	216 124	1.2	225 554	1.2	(9 430)	(4.2)
Reserves for general banking risks	34 000	0.2	0	0.0	34 000	100.0
Share capital	509 856	2.7	500 000	2.6	9 856	2.0
Capital reserve	20 364	0.1	6 420	0.0	13 944	217.2
Profit reserve	633 162	3.4	571 465	3.1	61 697	10.8
less treasury shares	(3 499)	0.0	(1 378)	0.0	(2 121)	(153.9)
Group net profit	114 881	0.6	104 685	0.6	10 196	9.7
<i>Total shareholders' equity</i>	<i>1 308 764</i>	<i>7.0</i>	<i>1 181 192</i>	<i>6.3</i>	<i>127 572</i>	<i>10.8</i>
<b>Total liabilities</b>	<b>18 553 653</b>	<b>100.0</b>	<b>18 912 789</b>	<b>100.0</b>	<b>(359 136)</b>	<b>(1.9)</b>
Of which:						
– Total subordinated amounts payable	260 000		260 000		0	0.0
– Total due to non-consolidated participations	1 263 062		1 447 580		(184 518)	(12.7)
– Total due to the Canton of St.Gallen	59 286		239 393		(180 107)	(75.2)
<b>OFF-BALANCE-SHEET TRANSACTIONS</b> in CHF 000s						
Contingent liabilities	164 450		212 198		(47 748)	(22.5)
Irrevocable commitments	105 815		99 576		6 239	6.3
Liabilities for calls on shares and other equities	40 411		40 394		17	0.0
Derivative financial instruments:						
– Contract volume	4 623 229		4 590 246		32 983	0.7
– Positive replacement values	64 765		52 611		12 154	23.1
– Negative replacement values	48 875		73 299		(24 424)	(33.3)
Fiduciary transactions	1 559 335		1 397 712		161 623	11.6

## Group Income Statement

in CHF 000s	2004	2003	Change	in %
Interest and discount income	516 306	549 481	(33 175)	(6.0)
Interest and dividend income on trading portfolios	252	317	(65)	(20.5)
Interest and dividend income on financial investments	19 111	20 591	(1 480)	(7.2)
Interest expenses	(264 791)	(286 123)	21 332	7.5
<i>Net interest income</i>	<i>270 878</i>	<i>284 266</i>	<i>(13 388)</i>	<i>(4.7)</i>
Commission income from lending activities	1 766	2 105	(339)	(16.1)
Commission income from securities and investment activities	140 914	123 288	17 626	14.3
Commission income from other service fee activities	18 383	17 627	756	4.3
Commission expenses	(8 794)	(5 393)	(3 401)	(63.1)
<i>Net fee and commission income</i>	<i>152 269</i>	<i>137 627</i>	<i>14 642</i>	<i>10.6</i>
<i>Net trading income</i>	<i>27 887</i>	<i>26 784</i>	<i>1 103</i>	<i>4.1</i>
Results from the sale of financial investments	1 718	3 823	(2 105)	(55.1)
Income from participations accounted for under the equity method	0	475	(475)	(100.0)
Income from non-consolidated participations	1 644	1 735	(91)	(5.2)
Results from real estate	1 232	3 336	(2 104)	(63.1)
Other ordinary income	1 336	4 166	(2 830)	(67.9)
Other ordinary expenses	(4 980)	(5 158)	178	3.5
<i>Net other income</i>	<i>950</i>	<i>8 377</i>	<i>(7 427)</i>	<i>(88.7)</i>
<b>Operating income</b>	<b>451 984</b>	<b>457 054</b>	<b>(5 070)</b>	<b>(1.1)</b>
Personnel expenses	(130 817)	(134 746)	3 929	2.9
Other operating expenses	(106 115)	(115 231)	9 116	7.9
<i>Administrative expenses</i>	<i>(236 932)</i>	<i>(249 977)</i>	<i>13 045</i>	<i>5.2</i>
<b>Gross profit</b>	<b>215 052</b>	<b>207 077</b>	<b>7 975</b>	<b>3.9</b>
Depreciation and write-offs on fixed assets and participations	(14 682)	(16 793)	2 111	12.6
Depreciation of intangibles	(23 479)	(23 479)	0	0.0
Valuation adjustments, provisions and losses	(14 150)	(24 910)	10 760	43.2
<b>Operating profit (interim result)</b>	<b>162 741</b>	<b>141 895</b>	<b>20 846</b>	<b>14.7</b>
Extraordinary income	22 296	3 547	18 749	528.6
Extraordinary expenses	(34 727)	(8 325)	(26 402)	(317.1)
<i>of which creation of reserves for general banking risks</i>	<i>(34 000)</i>	<i>0</i>	<i>(34 000)</i>	<i>(100.0)</i>
Taxes	(35 429)	(32 432)	(2 997)	(9.2)
<b>Group net profit</b>	<b>114 881</b>	<b>104 685</b>	<b>10 196</b>	<b>9.7</b>

## Divisional Accounts

in CHF 000s / Change in % compared to prior year	Retail and commercial banking		Private Banking		Corporate Center		Group	
	2004	Change	2004	Change	2004	Change	2004	Change
<i>Operating income</i>	<i>248 151</i>	<i>(5.3)</i>	<i>155 896</i>	<i>18.5</i>	<i>47 937</i>	<i>(24.3)</i>	<i>451 984</i>	<i>(1.1)</i>
<i>Administrative expenses</i>	<i>(148 777)</i>	<i>7.2</i>	<i>(74 279)</i>	<i>2.5</i>	<i>(13 876)</i>	<i>(3.3)</i>	<i>(236 932)</i>	<i>5.2</i>
<i>Gross profit</i>	<i>99 374</i>	<i>(2.4)</i>	<i>81 617</i>	<i>47.4</i>	<i>34 061</i>	<i>(31.8)</i>	<i>215 052</i>	<i>3.9</i>
Depreciation and write-offs on fixed assets and intangibles	0	0.0	(4 354)	(16.1)	(33 807)	7.4	(38 161)	5.2
Valuation adjustments, provisions and losses	(10 232)	57.5	(714)	(19.6)	(3 204)	(1 151.6)	(14 150)	43.2
<i>Operating profit</i>	<i>89 142</i>	<i>14.7</i>	<i>76 549</i>	<i>50.1</i>	<i>(2 950)</i>	<i>(122.4)</i>	<i>162 741</i>	<i>14.7</i>
Extraordinary items, net	0	100.0	0	100.0	(12 431)	(4 216.3)	(12 431)	(160.2)
Taxes	(17 108)	(40.1)	(16 752)	(44.5)	(1 569)	81.8	(35 429)	(9.2)
<b>Group net profit</b>	<b>72 034</b>	<b>17.6</b>	<b>59 797</b>	<b>52.6</b>	<b>(16 950)</b>	<b>(500.8)</b>	<b>114 881</b>	<b>9.7</b>
<i>Other data</i>								
Funds under Management	8 378 045	2.5	18 104 375	5.6	0	100.0	26 482 420	4.6
Headcount (in accordance with RRV-EBK) <sup>1</sup>	490	(1.4)	219	(2.2)	258	(8.5)	967	(3.6)

<sup>1</sup> Full-time equivalents; apprentices calculated at 50%

Notes:

A number of changes have been made to the divisional accounts relative to the previous year: Following the reintegration of St. Galler Vermögensberatung (SGVB) into the Cantonal Bank of St. Gallen, SGVB now forms the segment Private Banking Group together with HYPOSWISS. The

interest structure contribution from the interest business and interest hedging results are now shown in the corporate center whereas they were included in the Retail and commercial banking segment in the prior year. Affected previous year's figures have been restated accordingly. Further changes were made with respect to the internal cost allocation. These changes result in a debit of the operating income of the Retail and commercial banking segment of CHF 12.3 Mio.



## STATEMENT OF EQUITY in CHF 000s

	2004	2003	2002
<i>Equity at the beginning of the year</i>			
Share capital	500 000	500 000	500 000
Capital reserve	6 420	4 862	5 774
Profit reserve	571 465	511 991	458 011
Less treasury shares	(1 378)	0	0
Group net profit of the prior year	104 685	99 185	92 840
<b>Total equity at the beginning of the year</b>	<b>1 181 192</b>	<b>1 116 038</b>	<b>1 056 625</b>
+ Capital increases	9 856	0	0
+ Paid-in surplus from capital increases	12 579	0	0
- Dividends paid to third parties	(42 513)	(39 930)	(39 888)
+ Allocation to reserves for general banking risks	34 000	0	0
+ Premium from initial consolidations	55	1 031	0
+ Agio from issuance of options rights	582	250	116
- Acquisition of treasury shares	(22 286)	(23 295)	0
+ Disposal of treasury shares	20 166	21 917	0
+ Valuation gains on treasury shares	252	496	0
+ Group net profit of the reporting year	114 881	104 685	99 185
<b>Total equity at the end of the year</b>	<b>1 308 764</b>	<b>1 181 192</b>	<b>1 116 038</b>
Of which:			
Share capital	509 856	500 000	500 000
Capital reserve	20 364	6 420	4 862
Profit reserve	633 162	571 465	511 991
Less treasury shares	(3 499)	(1 378)	0
Reserves for general banking risks	34 000	0	0
Group net profit	114 881	104 685	99 185
Statutory or legal reserves not subject to profit distribution	146 129	104 610	95 804

SHARE CAPITAL in CHF 000s	Dec. 31, 2004			Dec. 31, 2003		
	Nominal value	Number of shares	Capital subject to dividends	Nominal value	Number of shares	Capital subject to dividends
<i>Share capital</i>						
Registered shares (nom. CHF 100 per share)	509 856	5 098 561	509 856	500 000	5 000 000	500 000
<b>Total share capital</b>	<b>509 856</b>	<b>5 098 561</b>	<b>509 856</b>	<b>500 000</b>	<b>5 000 000</b>	<b>500 000</b>
<i>Authorized share capital</i>	0			0		
- of which realized capital increases	none			none		
<i>Conditional share capital</i>	70 000	700 000		70 000	700 000	
- of which realized capital increases	9 856	98 561		none		

The conditional share capital amounts to CHF 70 million of which CHF 55 million are reserved for the convertible bond, which has a maturity of May 15, 2007. CHF 15 million of the conditional share capital are reserved for employee participation programs.

## SIGNIFICANT SHAREHOLDERS AND GROUPS OF SHAREHOLDERS WITH POOLED VOTING RIGHTS in CHF 000s

	Dec. 31, 2004		Dec. 31, 2003	
	Nominal	in %	Nominal	in %
<i>With voting rights</i>				
Canton of St. Gallen	305 556	59.9	305 548	61.1

<b>SUMMARY OF COLLATERALS</b> in CHF 000s		Mortgage collateral	Other collateral	Without collateral <sup>1</sup>	Total
<i>Loans to customers</i>					
Due from customers		150 143	766 977	1 520 086	2 437 206
Mortgage loans					
– residential real estate		10 891 428	0	37 622	10 929 050
– office and business buildings		1 171 391	0	0	1 171 391
– trade and industry		1 089 866	10 727	77 950	1 178 543
– other		278 540	0	8 185	286 725
<b>Total loans to customers</b>	<b>Dec. 31, 2004</b>	<b>13 581 368</b>	<b>777 704</b>	<b>1 643 843</b>	<b>16 002 915</b>
	Dec. 31, 2003	13 227 148	734 102	1 950 262	15 911 512
<i>Off-balance sheet transactions</i>					
Contingent liabilities		28 558	59 909	75 983	164 450
Irrevocable commitments		0	0	105 815	105 815
Liabilities for calls on shares and other equities		0	0	40 411	40 411
<b>Total off-balance sheet</b>	<b>Dec. 31, 2004</b>	<b>28 558</b>	<b>59 909</b>	<b>222 209</b>	<b>310 676</b>
	Dec. 31, 2003	24 397	115 805	211 966	352 168

<sup>1</sup> including mortgage loans with provisions

<b>IMPAIRED LOANS</b> in CHF 000s		Total impaired loans, gross	Estimated proceeds from liquidation	Total impaired loans, net	Individual provisions
<b>Impaired loans</b>	<b>Dec. 31, 2004</b>	<b>733 600</b>	<b>(525 593)</b>	<b>208 007</b>	<b>204 579</b>
	Dec. 31, 2003	820 116	(595 390)	224 726	219 213

<b>NON-PERFORMING LOANS</b> in CHF 000s	Dec. 31, 2004	Dec. 31, 2003	Change	in %
<b>Total non-performing loans</b>	<b>129 672</b>	<b>193 945</b>	<b>(64 273)</b>	<b>(33.1)</b>
Non-performing loans are a component of impaired loans.				

<b>VALUATION ADJUSTMENTS AND PROVISIONS FOR CREDIT RISK</b> in CHF 000s	Dec. 31, 2004	Dec. 31, 2003	Change	in %
Valuation adjustments and provisions for credit risk (capital)	197 394	210 383	(12 989)	(6.2)
Valuation adjustments and provisions for credit risk (interest)	7 185	8 830	(1 645)	(18.6)
<b>Total provisions</b>	<b>204 579</b>	<b>219 213</b>	<b>(14 634)</b>	<b>(6.7)</b>
Valuation adjustments and provisions for credit risk (capital) in % of loans to customers	1.23%	1.32%		(6.7)
Non-performing loans in % of loans to customers	0.81%	1.22%		(33.5)
Rate of capital provisions <sup>1</sup>	0.06%	0.15%		(60.9)

<sup>1</sup> New valuation adjustments and provisions for credit risk (capital) in % of average loans to customers

**VALUATION ADJUSTMENTS  
AND PROVISIONS/RESERVES FOR  
GENERAL BANKING RISKS** in CHF 000s

	Dec. 31, 2003	Usage	Doubtful interest, recoveries	New creation to the debit of the income statement	Redemption in favour of the in- come statement	Dec. 31, 2004
Valuation adjustments and provisions for credit risk	219 213	(29 065)	6 816	41 668	(34 053)	204 579
Valuation adjustments and provisions for other business risks	4 216	(1 246)	160	3 559	(470)	6 219
<i>Total</i>	223 429	(30 311)	6 976	45 227	(34 523)	210 798
Provision for deferred taxes	2 125	0	0	3 400	(199)	5 326
<b>Total valuation adjustments and provisions</b>	<b>225 554</b>	<b>(30 311)</b>	<b>6 976</b>	<b>48 627</b>	<b>(34 722)</b>	<b>216 124</b>
<b>Total reserves for general banking risks</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>34 000</b>	<b>0</b>	<b>34 000</b>

**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	
<i>Current assets</i>									
Liquid funds	147 514							147 514	
Receivables from money market instruments	5		273 817	17 395				291 217	
Due from banks	266 946		599 340	41 001				907 287	
Due from customers	57 944	445 231	424 662	428 745	884 906	195 718		2 437 206	
Mortgage loans	8 369	2 283 656	504 790	1 806 637	8 466 420	495 837		13 565 709	
Securities and precious metals trading portfolios	26 181							26 181	
Financial instruments	14 245		10 322	59 645	347 206	248 965	45 409	725 792	
<b>Total</b>	<b>Dec. 31, 2004</b>	<b>2 358 832</b>	<b>6 576 230</b>	<b>1 392 187</b>	<b>640 337</b>	<b>3 739 049</b>	<b>2 002 832</b>	<b>0</b>	<b>16 709 467</b>
	<b>Dec. 31, 2003</b>	<b>2 025 578</b>	<b>6 505 731</b>	<b>1 527 679</b>	<b>1 319 785</b>	<b>4 092 176</b>	<b>1 689 464</b>	<b>0</b>	<b>17 160 413</b>
<i>Liabilities</i>									
Due to money market instruments	210							210	
Due to banks	301 097	74 950	321 938	39 264	100 000			837 249	
Due to customers in savings and deposits		6 411 343						6 411 343	
Other due to customers	2 057 525	89 937	807 380	112 430	138 750	45 000		3 251 022	
Medium-term notes			130 869	100 643	413 209	25 882		670 603	
Debt and loans secured by mortgages			132 000	388 000	3 087 090	1 931 950		5 539 040	
<b>Total</b>	<b>Dec. 31, 2004</b>	<b>2 358 832</b>	<b>6 576 230</b>	<b>1 392 187</b>	<b>640 337</b>	<b>3 739 049</b>	<b>2 002 832</b>	<b>0</b>	<b>16 709 467</b>
	<b>Dec. 31, 2003</b>	<b>2 025 578</b>	<b>6 505 731</b>	<b>1 527 679</b>	<b>1 319 785</b>	<b>4 092 176</b>	<b>1 689 464</b>	<b>0</b>	<b>17 160 413</b>

**FUNDS UNDER MANAGEMENT** in CHF 000s

	Dec. 31, 2004	Dec. 31, 2003	Change	in %
Values in investment vehicles managed by the group	478 547	292 620	185 927	63.5
Values under asset administration mandate	2 791 653	2 571 746	219 907	8.6
Other customer funds	24 199 563	23 349 219	850 344	3.6
<b>Total funds under management (incl. double countings)</b>	<b>27 469 763</b>	<b>26 213 585</b>	<b>1 256 178</b>	<b>4.8</b>
thereof: double countings	(987 343)	(901 670)	(85 673)	(9.5)
<b>Total funds under management (excl. double countings)</b>	<b>26 482 420</b>	<b>25 311 915</b>	<b>1 170 505</b>	<b>4.6</b>

Funds under management include:

- Assets under management
- Due to customers in savings and deposits
- Medium-term notes

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

NET INTEREST INCOME in CHF 000s	2004	2003	Change	in %
<i>Interest and discount income</i>				
Interest income due from banks	10 213	9 782	431	4.4
Interest income due from loans to customers	509 169	545 166	(35 997)	(6.6)
Other interest, net	(3 076)	(5 467)	2 391	43.7
<b>Total interest and discount income</b>	<b>516 306</b>	<b>549 481</b>	<b>(33 175)</b>	<b>(6.0)</b>
<i>Interest expenses</i>				
Interest expenses due to banks	6 391	8 633	(2 242)	(26.0)
Interest expenses due to customer funds	85 278	104 393	(19 115)	(18.3)
Interest expenses on debt and loans secured by mortgages	173 043	173 038	5	0.0
Other interest expenses	79	59	20	33.9
<b>Total interest expenses</b>	<b>264 791</b>	<b>286 123</b>	<b>(21 332)</b>	<b>(7.5)</b>

NET FEE AND COMMISSION INCOME in CHF 000s	2004	2003	Change	in %
Commission income from lending activities	1 766	2 105	(339)	(16.1)
Commission income from securities and investment activities	140 914	123 288	17 626	14.3
– investment funds	31 664	23 837	7 827	32.8
– deposit operations	24 244	24 003	241	1.0
– brokerage	50 363	50 325	38	0.1
– asset administration mandate <sup>1</sup>	26 512	15 932	10 580	66.4
– other	8 131	9 191	(1 060)	(11.5)
Commission income from other service fee activities	18 383	17 627	756	4.3
– payment transfer	6 507	6 530	(23)	(0.4)
– safe custody	830	859	(29)	(3.4)
– account keeping	6 862	6 753	109	1.6
– other	4 184	3 485	699	20.1
<i>Total commission income</i>	<i>161 063</i>	<i>143 020</i>	<i>18 043</i>	<i>12.6</i>
<i>Total commission expenses</i>	<i>(8 794)</i>	<i>(5 393)</i>	<i>(3 401)</i>	<i>(63.1)</i>
<b>Total</b>	<b>152 269</b>	<b>137 627</b>	<b>14 642</b>	<b>10.6</b>

<sup>1</sup> In 2003, the all-in fees for asset administration mandates have been divided between the lines deposit operations, brokerage and asset administration mandates.  
In 2004, these all-in fees have been entirely allocated to the asset administration mandates.

NET TRADING INCOME in CHF 000s	2004	2003	Change	in %
Foreign exchange and dealings in foreign notes and coins	24 732	22 807	1 925	8.4
Precious metal trading	265	660	(395)	(59.8)
Securities trading	2 890	3 317	(427)	(12.9)
<b>Total</b>	<b>27 887</b>	<b>26 784</b>	<b>1 103</b>	<b>4.1</b>

PERSONNEL EXPENSES in CHF 000s	2004	2003	Change	in %
Salaries and bonuses	107 735	109 720	(1 985)	(1.8)
Contributions to personnel welfare institutions	8 854	8 913	(59)	(0.7)
Other social security benefits	7 731	8 290	(559)	(6.7)
Other personnel expenses	6 497	7 823	(1 326)	(17.0)
<b>Total</b>	<b>130 817</b>	<b>134 746</b>	<b>(3 929)</b>	<b>(2.9)</b>

<b>OTHER OPERATING EXPENSES</b> in CHF 000s	2004	2003	Change	in %
Rent and occupancy	10 891	10 951	(60)	(0.5)
Expenses for IT	54 468	60 605	(6 137)	(10.1)
Expenses for equipment, furniture, vehicles and other installations	2 264	2 366	(102)	(4.3)
Services of third parties	5 186	6 261	(1 075)	(17.2)
Compensation of government guarantee	4 399	4 361	38	0.9
Postage, transport and removals	4 899	5 494	(595)	(10.8)
Public relations	6 949	7 519	(570)	(7.6)
Other operating expenses	17 059	17 674	(615)	(3.5)
<b>Total</b>	<b>106 115</b>	<b>115 231</b>	<b>(9 116)</b>	<b>(7.9)</b>

#### DEPRECIATION AND WRITE-OFFS

<b>ON FIXED ASSETS</b> in CHF 000s	2004	2003	Change	in %
Depreciation on bank buildings	6 828	8 722	(1 894)	(21.7)
Depreciation on other real estate	412	358	54	15.1
Depreciation on other equipment	7 248	6 572	676	10.3
<i>Total depreciations on fixed assets</i>	<i>14 488</i>	<i>15 652</i>	<i>(1 164)</i>	<i>(7.4)</i>
Depreciation on non-consolidated participations	194	1 141	(947)	(83.0)
Depreciation on intangibles	23 479	23 479	0	0.0
<b>Total</b>	<b>38 161</b>	<b>40 272</b>	<b>(2 111)</b>	<b>(5.2)</b>

#### VALUATION ADJUSTMENTS, PROVISIONS AND LOSSES

in CHF 000s	2004	2003	Change	in %
Provisions for credit risk	10 263	23 502	(13 239)	(56.3)
Provisions for other business risks	3 089	408	2 681	657.1
Losses	798	1 000	(202)	(20.2)
<b>Total</b>	<b>14 150</b>	<b>24 910</b>	<b>(10 760)</b>	<b>(43.2)</b>

#### EXTRAORDINARY INCOME AND EXPENSES

in CHF 000s	2004	2003	Change	in %
<i>Extraordinary income</i>				
Gain on sale of participations	20 428	2 045	18 383	898.9
Revaluation gain on non-consolidated participations	720	887	(167)	(18.8)
Gain on disposal of fixed assets	643	151	492	325.8
Other extraordinary income	505	464	41	8.8
<b>Total</b>	<b>22 296</b>	<b>3 547</b>	<b>18 749</b>	<b>528.6</b>
<i>Extraordinary expenses</i>				
Creation of reserves for general banking risks	34 000	0	34 000	100.0
Change of pension fund to defined contribution plan	0	5 000	(5 000)	(100.0)
Contribution for risk capital financing in the business area of the Cantonal Bank of St.Gallen	0	3 000	(3 000)	(100.0)
Loss on disposal of fixed assets	0	325	(325)	(100.0)
Other extraordinary expenses	727	0	727	100.0
<b>Total</b>	<b>34 727</b>	<b>8 325</b>	<b>26 402</b>	<b>317.1</b>

#### TAXES

in CHF 000s	2004	2003	Change	in %
Federal taxes	9 871	8 322	1 549	18.6
State and communal taxes				
– In cantons where the Group is located (St.Gallen, Appenzell-Ausserrhoden and Zurich)	22 293	24 087	(1 794)	(7.4)
– Other	65	223	(158)	(70.9)
Deferred taxes	3 200	(200)	3 400	1 700.0
<b>Total</b>	<b>35 429</b>	<b>32 432</b>	<b>2 997</b>	<b>9.2</b>

**EARNINGS PER SHARE AND NUMBER OF SHARES OUTSTANDING**

	2004	2003	2002
<b>Net profit</b> (in CHF 000s)			
Group net profit	114 881	104 685	99 185
Group net profit before depreciation of intangibles (goodwill)	138 360	128 164	116 794
<b>Weighted average number of shares outstanding</b>			
Weighted average number of shares outstanding	5 015 459	4 984 631	4 991 003
Diluted shares due to options outstanding	41 875	37 051	24 162
Diluted shares due to convertible bond	542 483	0	0
<i>Weighted average number of shares outstanding for the diluted earnings per share</i>	<i>5 599 817</i>	<i>5 021 682</i>	<i>5 015 165</i>
<b>Earnings per share</b> (CHF)			
Earnings per share	22.91	21.00	19.87
Earnings per share before depreciation of intangibles (goodwill)	27.59	25.71	23.40
Diluted earnings per share	20.52	20.85	19.78
Diluted earnings per share before depreciation of intangibles (goodwill)	24.71	25.52	23.29

**CALCULATION OF RETURN ON EQUITY (ROE)** in CHF 000s

	2004	2003	Change
Operating profit	162 741	141 895	20 846
Group net profit	114 881	104 685	10 196
Total equity after appropriation of retained earnings	1 262 877	1 138 564	124 313
Average equity for the calculation of the ROE <sup>1</sup>	1 200 721	1 107 301	93 420
<i>Return on equity before taxes (base: operating profit)</i>	<i>13.6%</i>	<i>12.8%</i>	<i>6.3%</i>
<i>Return on equity after taxes (base: group net profit)</i>	<i>9.6%</i>	<i>9.5%</i>	<i>1.1%</i>

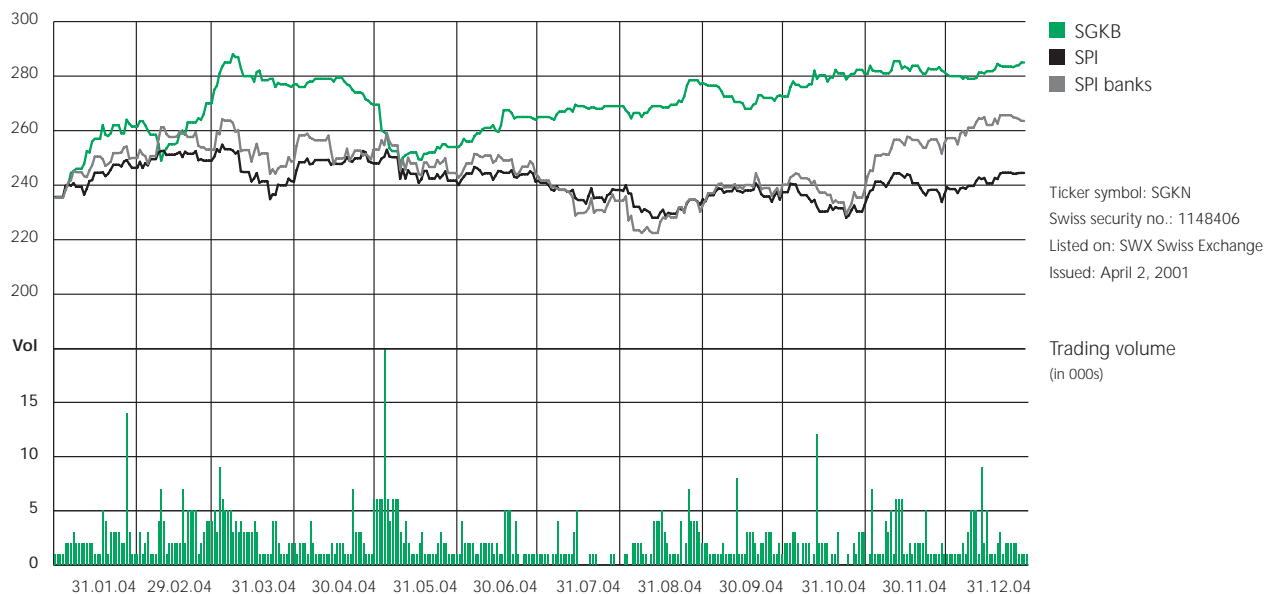
<sup>1</sup> The average is calculated from the beginning and ending balance after appropriation of retained earnings.

<b>RISK-WEIGHTED POSITIONS AND EQUITY REQUIREMENTS BY BANKING LAW</b> in CHF 000s	Dec. 31, 2004		Dec. 31, 2003	
	Nominal amount	Risk-weighted positions	Nominal amount	Risk-weighted positions
<i>Assets liable to direct equity underlying</i>				
Due from banks	907 287	225 648	1 339 291	335 212
Due from customers	2 437 206	1 450 010	2 689 118	1 668 378
Mortgage loans	13 565 709	7 752 307	13 222 394	7 566 767
Real estate in financial investments	45 409	170 284	59 527	223 226
Fixed assets	164 008	474 519	181 108	536 107
Accrued income and prepaid expenses	82 178	71 210	81 683	80 643
Other assets, replacement values	64 765	43 656	52 611	34 962
Other assets, other	20 166	9 280	13 295	6 815
<i>Total assets directly liable to equity underlying</i>		<i>10 196 914</i>		<i>10 452 110</i>
<i>Assets liable to indirect equity underlying</i>				
Net positions outside the trading book	972 618	299 453	962 332	240 150
Positions exposed to market risk		116 731		78 311
<i>Deductable liabilities</i>				
Deductable valuation adjustments and provisions	(204 579)	(153 434)	(219 213)	(164 410)
<i>Off-balance sheet items</i>				
Contingent liabilities	164 450	119 363	217 036	129 948
Irrevocable facilities granted	55 473	107 938	41 386	101 043
Add-ons on forward contracts and purchased options		21 368		20 054
<b>Total risk-weighted positions</b>		<b>10 708 333</b>		<b>10 857 206</b>
Required own means by Swiss Banking Law		856 667		868 576
Eligible own means		1 306 265		1 179 919
Excess capital		449 598		311 343
Excess capital ratio (CH standard)		52.5%		35.8%
BIS ratio tier 1		11.3%		9.8%
BIS ratio tier 2		12.7%		11.4%

## Information for investors

### PRICE DEVELOPMENT

In overall terms, the SGKB share price developed positively during the past year. From 1 January to 31 December 2004 the value of the share rose by 22.2%.



### SHARE STATISTICS

DEC. 31, 2004

Earnings per share	CHF 22.91
Dividend per share	CHF 9.00 <sup>1</sup>
Total shares issued	5 098 561 (Floating 2 043 000)
Number of shares held by SGKB	12 616
Shareholders	23 750
Issue price (IPO)	CHF 160.00
Market price	CHF 285.00
Market capitalization	CHF 1 453.1 Mio.
Ratio of market capitalization/ shareholders' equity	111.0%
Return on Equity (basis: operating profit)	13.6%
Reported shareholders' equity	CHF 1 308.8 Mio.
Dividend yield	3.2%
Price-earnings ratio	12.4 x
Payout ratio	40.5%
(basis: profit subject to distribution of the parent company)	

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<sup>1</sup> Recommendation of the Board of Directors for the financial year ended on Dec. 31, 2004.

### IMPORTANT INFORMATION SOURCES

Annual conference for media/analysts  
 Annual report (German)  
 Annual report (English)  
 Shareholders' Meeting  
 Interim report (newsletter to shareholders)  
 Interim conference for media/analysts  
 Newsletter to shareholders in German and English  
 Press releases  
[www.sgkb.ch](http://www.sgkb.ch)

#### Frequency

annual  
 annual  
 annual  
 annual  
 annual  
 annual  
 semi-annual  
 as required  
 ongoing

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