

[Interim Report 2008]



Group Key Figures	2
Letter to Shareholders	3
Half Yearly Accounts	4
Group Balance Sheet	5
Group Income Statement	6
Information for Investors	7
Brief Profile	8

Group Key Figures

Income Statement in CHF 000s	June 30, 2008	June 30, 2007	June 30, 2006
Operating income	266 225	283 919	276 139
Administrative expenses	141 108	131 866	121 886
Operating profit (interim result)	98 103	130 751	135 065
Group net profit	89 703	115 788	112 354

Balance Sheet in CHF 000s	June 30, 2008	Dec. 31, 2007	Dec. 31, 2006
Loans to customers	17 677 338	17 102 122	17 208 671
Customer funds	13 070 811	12 292 293	11 802 711
Balance sheet total	21 240 744	20 235 796	19 799 982
Shareholders' equity	1 675 863	1 739 533	1 705 676

Funds under Management in CHF 000s			
Funds under management	39 089 815	37 883 264	38 838 934

Headcount			
Full-time equivalents (in accordance with BAG-FBC; apprentices calculated at 50%)	1 076	1 007	972
Number of employees:			
– Individuals	1 205	1 132	1 091
– of which trainees	113	111	108

Key Figures	June 30, 2008	June 30, 2007	June 30, 2006
SGKB share in CHF			
Earnings per share	16.18	20.89	20.23
Dividend per share	26.00	0.00	13.00
Repayment of the par value per share	0.00	30.00	0.00
Market price as of June 30	461.50	607.00	420.00

Return on equity			
Return on equity, pre-tax (basis: operating profit)	12.0%	16.4%	17.5%
Return on equity, after tax (basis: group net profit)	11.0%	14.6%	14.6%

Cost/income-ratio			
Cost/income-ratio including depreciation on fixed assets	56.0%	49.1%	45.9%

Equity key figures	June 30, 2008	Dec. 31, 2007	Dec. 31, 2006
BIS ratio tier 1	12.8%	13.9%	13.5%
BIS ratio tier 2	13.3%	14.5%	14.2%
Excess capital ratio (CH standard)	65.9%	83.0%	74.8%
Shareholders' equity as % of balance sheet total	7.8%	8.5%	8.6%

The time series for the first half of 2008 includes for the first time the figures of Hyposwiss Private Bank Genève SA which have been consolidated since March 1st, 2008. 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. The implementation of a new chart of accounts resulted in the fact that expenditure for the production of cards are included as commission expenses under operating income. For the prior year the corresponding reclassification from other operating expenses to operating income has also been done.

Moody's Rating	June 30, 2008	Dec. 31, 2007	Dec. 31, 2006
Senior unsecured domestic currency	Aa1	Aa1	Aa1
Bank deposits	Aa1 / P-1	Aa1 / P-1	Aa1 / P-1
Bank financial strength	B-	B-	B

Cover photo

The present shareholders' reports of the Cantonal Bank of St. Gallen are illustrated by architectural and art impressions from the newly refurbished head-office. The title picture of the present half yearly report shows a work by Peter Z. Herzog.



Dr. Franz Peter Oesch
Chairman of the Board of Directors



Roland Ledergerber
Chief Executive Officer

Dear Shareholders,

Our Bank celebrates its 140th birthday this year. Ever since its formation in 1868 as a mortgage and savings bank, the Cantonal Bank of St. Gallen has developed into the St. Gallen inhabitants' favourite bank and to the ninth largest bank in Switzerland. We are able to look back with pride this birthday on our continuous and successful business activities. At the same time, we also take a look at the future. In order to continue to face a successful future, the SGKB has added during the first half of 2008 new important chapters to its history:

- With effect from March 1st, 2008, the newly acquired Geneva Private Bank Anglo Irish Bank (Suisse) has become part of the SGKB Group and has since been a subsidiary under the name of **Hyposwiss Private Bank Genève SA**.
- On the Tuesday after Easter, March 25th, 2008, the Cantonal Bank of St. Gallen successfully commissioned the **new IT platform** on time. The Avaloq Banking System is considered to be the most modern of its kind and is bound to result in lowering operating expenses in the long term.
- In June, we announced the opening of a **new subsidiary bank in Munich** in 2009. Germany is the most important private banking market in Europe. This new unit will enable us actively to deal with the German market for wealthy private individuals.

In addition, we introduced important personnel and organizational changes during the first half of the year:

- The Board of Directors filled the existing vacancies in the Group Management and completely renewed the Top Management. At the same time, by creating the new division Finance and Risk Management, we did justice to the growing importance of risk management.
- There has also been a change in the Board of Directors: the government of the Canton of St. Gallen delegated Martin Gehrer, the new head of the Finance Department, to represent it on the Board of Directors of the Cantonal Bank of St. Gallen. He took over on June 1st, 2008 from his predecessor Peter Schönenberger who has retired.

Our accounts for the first half year are characterized, on the one hand, by the above-mentioned investments in the future and, on the other hand, by the continuing unsatisfactory situation prevailing in the financial markets. As expected, we therefore have to accept a decrease in profits. Further comments on the figures can be found on the next page.

We are convinced that this situation prevailing in the banking sector is of a temporary nature and we continue to be confident. The SGKB is well positioned in the market and pursues a convincing strategy. The Bank is sound to the core and is in full control of the risks as well as expenses. We intend to persevere on the road taken and aim at sustained growth. The SGKB builds on its values of tradition, safety, reliability, credibility and professionalism – and not only since the most recent crisis in the financial markets. These are values which have taken priority for us for the last 140 years and by which we also feel bound in future.

Dr. Franz Peter Oesch

Roland Ledergerber

2008 Half Yearly Accounts

Hyposwiss Geneva included in the accounts for the first time.

Hyposwiss Geneva consolidated within the Group for the first time on March 1st, 2008 affects the income statement and balance sheet, but also the funds under management and this is the reason why a comparison with the previous year is only partly possible. By the same token, the increase in depreciation and write-offs is due to the new consolidation and the goodwill amortization resulting from the acquisition.

Expected decrease in profits

The Cantonal Bank of St. Gallen shows a Group net profit during the first half of 2008 which is about 22.5% lower than for the previous year. This confirms the forecast made at the media conference in February to the effect that the result will be below the excellent result of the previous year.

Interest business: rising volumes – lower income

Net interest income amounts to CHF 147.6 million and is thus 4.4% lower than for last year. Whilst loans to customers continued to increase and result in a satisfactory net production, interest income tends to decline. The reason for this is the continuous high pressure on margins in the lending business, as well as the switching from low interest savings products to more expensive fixed term deposits.

Commission and fee business: weak stock exchange rates

Net fee and commission income amounts to CHF 100.8 million and is thus 5.0% below the previous year's figure. This is chiefly the result of the severe correction in the financial markets, as well as the devaluation of important currencies. This resulted in a reduction of the funds under management and, accordingly, of the thus resulting income. In view of the bad market sentiment, transaction-related income also decreased, because clients were less active in the security business and, as pointed out above, switched their assets to fixed term deposits.

Trading business: unsatisfactory

The net trading income amounts to CHF 12.7 million and is thus CHF 8.7 million (–40.6%) below the previous year's figure. The reduction is largely due to the unsatisfactory performance of our own trading portfolio.

Administrative expenses: under control

Administrative expenses amounting to CHF 141.1 million increased by CHF 9.2 million or 7.0% over the previous year. This particularly reflected the acquisition of Hyposwiss Geneva. Without its first-time consolidation in the Group accounts, administrative expenses would only have risen by CHF 2.0 or 1.5%. The project costs for the transfer to the new IT platform continue to leave traces as before. On the whole, however, the overall costs of the project remain within the intended framework.

Portfolio: loans to customers and funds under management growing

Loans to customers rose during the first half of 2008 by CHF 575.2 million. In addition to the funds under management contributed by Hyposwiss Geneva, there was a pleasant inflow of net new money amounting to CHF 1.4 billion. This illustrates the extent of confidence placed by clients in the Cantonal Bank of St. Gallen. The SGK Group thus manages funds under management totalling CHF 39.1 billion (+ CHF 1.2 billion). The balance sheet total rose during the first half of the year by CHF 1.0 billion and now amounts to CHF 21.2 billion.

Prospects: continuing below the previous year

In view of the sustained uncertainty in the financial markets, the annual accounts for 2008 will continue to show a net profit below the level of the previous year. However, the Board of Directors and Group Management are optimistic in the long term and anticipate stronger profit growth once again during the first half of 2009.

Group Balance Sheet

Assets in CHF 000s	June 30, 2008	in %	Dec. 31, 2007	in %	Change	in %
Liquid funds	142 035	0.7	131 170	0.6	10 865	8.3
Receivables from money market instruments	322 380	1.5	331 860	1.6	(9 480)	(2.9)
Due from banks	1 691 390	7.9	1 397 815	6.9	293 575	21.0
Due from customers	2 813 875	13.2	2 427 839	12.0	386 036	15.9
Mortgage loans	14 863 463	70.0	14 674 283	72.5	189 180	1.3
Total loans to customers	17 677 338	83.2	17 102 122	84.5	575 216	3.4
Securities and precious metals trading portfolios	8 141	0.1	15 288	0.1	(7 147)	(46.7)
Financial investments	725 945	3.4	661 790	3.3	64 155	9.7
Non-consolidated participations	19 154	0.1	19 184	0.1	(30)	(0.2)
Fixed assets	171 697	0.8	172 399	0.9	(702)	(0.4)
Intangibles	156 959	0.7	42 786	0.2	114 173	266.8
Accrued income and prepaid expenses	145 091	0.7	97 399	0.5	47 692	49.0
Other assets	180 614	0.9	263 983	1.3	(83 369)	(31.6)
Total assets	21 240 744	100.0	20 235 796	100.0	1 004 948	5.0
Of which:						
– Total subordinated amounts receivable	0		0		0	0.0
– Total due from non-consolidated participations	75 146		77 912		(2 766)	(3.6)

Liabilities in CHF 000s

Due to money market instruments	522	0.0	528	0.0	(6)	(1.1)
Due to banks	924 912	4.4	344 595	1.7	580 317	168.4
Due to customers in savings and deposits	5 526 053	26.0	5 646 091	27.90	(120 038)	(2.1)
Other due to customers	6 574 434	31.0	5 748 122	28.40	826 312	14.4
Medium-term notes	970 324	4.6	898 080	4.40	72 244	8.0
Total customer funds	13 070 811	61.6	12 292 293	60.70	778 518	6.3
Debt and loans secured by mortgages	4 896 757	23.1	5 352 458	26.5	(455 701)	(8.5)
Accrued expenses and deferred income	233 339	1.1	207 277	1.0	26 062	12.6
Other liabilities	260 889	1.2	119 774	0.6	141 115	117.8
Valuation adjustments and provisions	177 651	0.8	179 338	0.9	(1 687)	(0.9)
Reserves for general banking risks	13 584	0.1	25 430	0.2	(11 846)	(46.6)
Share capital	390 140	1.8	390 140	1.9	0	0.0
Capital reserve	84 926	0.4	84 977	0.4	(51)	(0.1)
Profit reserve	1 109 001	5.2	1 027 229	5.1	81 772	8.0
less treasury shares	11 491	0.1	14 925	0.1	(3 434)	(23.0)
Group net profit	89 703	0.4	226 682	1.1	(136 979)	(60.4)
Total shareholders' equity	1 675 863	7.8	1 739 533	8.6	(63 670)	(3.7)
Total liabilities	21 240 744	100.0	20 235 796	100.0	1 004 948	5.0
Of which:						
– Total subordinated amounts payable	100 000		100 000		0	0.0
– Total due to non-consolidated participations	1 206 222		1 218 496		(12 274)	(1.0)
– Total due to the Canton of St. Gallen	345 628		330 203		15 425	4.7

Off-Balance-Sheet Transactions in CHF 000s

Contingent liabilities	274 409		234 620		39 789	17.0
Irrevocable commitments	143 356		164 580		(21 224)	(12.9)
Liabilities for calls on shares and other equities	57 494		39 559		17 935	45.3
Derivative financial instruments:						
– Contract volume	8 934 620		5 214 490		3 720 130	71.3
– Positive replacement values	55 445		36 126		19 319	53.5
– Negative replacement values	113 903		58 521		55 382	94.6
Fiduciary transactions	3 847 926		2 451 820		1 396 106	56.9

Group Income Statement

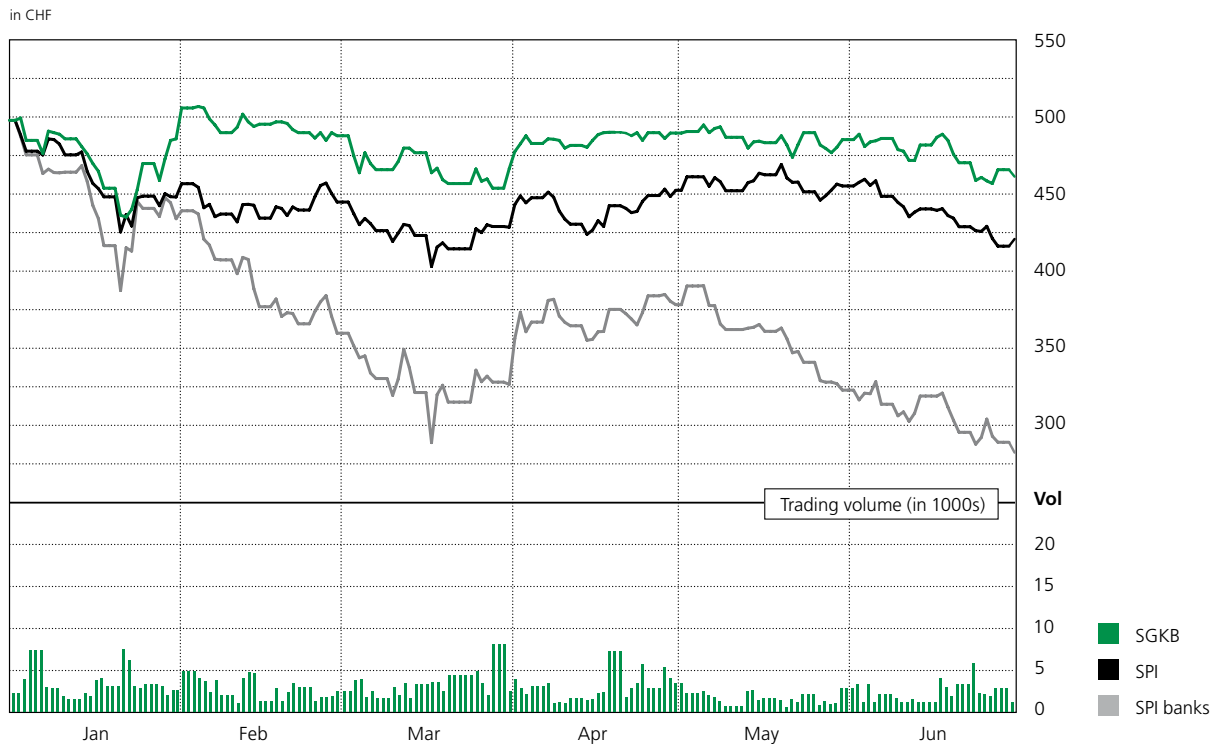
in CHF 000s	June 30, 2008	June 30, 2007	Change	in %
Interest and discount income	326 029	299 960	26 069	8.7
Interest and dividend income on trading portfolios	374	331	43	13.0
Interest and dividend income on financial investments	10 062	9 854	208	2.1
Interest expenses	188 869	155 708	33 161	21.3
Net interest income	147 596	154 437	(6 841)	(4.4)
Commission income from lending activities	1 167	1 194	(27)	(2.3)
Commission income from securities and investment activities	98 063	101 776	(3 713)	(3.6)
Commission income from other service fee activities	9 278	9 294	(16)	(0.2)
Commission expenses	7 727	6 216	1 511	24.3
Net fee and commission income	100 781	106 048	(5 267)	(5.0)
Net trading income	12 698	21 361	(8 663)	(40.6)
Results from the sale of financial investments	3 509	596	2 913	488.8
Income from non-consolidated participations	1 730	964	766	79.5
Results from real estate	628	594	34	5.7
Other ordinary income	688	219	469	214.2
Other ordinary expenses	1 405	300	1 105	368.3
Net other income	5 150	2 073	3 077	148.4
Operating income	266 225	283 919	(17 694)	(6.2)
Personnel expenses	80 883	77 803	3 080	4.0
Other operating expenses	60 225	54 063	6 162	11.4
Administrative expenses	141 108	131 866	9 242	7.0
Gross profit	125 117	152 053	(26 936)	(17.7)
Depreciation and write-offs on fixed assets and participations	5 478	6 297	(819)	(13.0)
Depreciation of intangibles	20 311	12 986	7 325	56.4
Valuation adjustments, provisions and losses	1 225	2 019	(794)	(39.3)
Operating profit (interim result)	98 103	130 751	(32 648)	(25.0)
Extraordinary income	12 729	11 304	1 425	12.6
<i>of which dissolution of reserves for general banking risks</i>	<i>11 846</i>	<i>9 100</i>	<i>2 746</i>	<i>30.2</i>
Extraordinary expenses	70	0	70	n/a
Group profit before taxes	110 762	142 055	(31 293)	(22.0)
Taxes	21 059	26 267	(5 208)	(19.8)
Group net profit	89 703	115 788	(26 085)	(22.5)

Divisional Accounts

Income Statement in CHF 000s	Retail and Commercial banking		Private Banking		Corporate Center		Group	
	June 30, 08	June 30, 07	June 30, 08	June 30, 07	June 30, 08	June 30, 07	June 30, 08	June 30, 07
Operating income	136 020	151 568	116 963	121 221	13 242	11 130	266 225	283 919
Administrative expenses	62 460	68 547	49 691	43 718	28 957	19 601	141 108	131 866
Gross profit	73 560	83 021	67 272	77 503	(15 715)	(8 471)	125 117	152 053
Depreciation and write-offs on fixed assets and intangibles	0	0	854	741	24 935	18 542	25 789	19 283
Valuation adjustments, provisions and losses	183	1 388	633	578	408	53	1 225	2 019
Operating profit (interim result)	73 377	81 633	65 785	76 184	(41 058)	(27 066)	98 103	130 751
Extraordinary income, net	0	866	790	2 900	11 868	7 538	12 658	11 304
Taxes	7 758	10 640	10 695	12 671	2 606	2 956	21 059	26 267
Group net profit	65 619	71 859	55 880	66 413	(31 796)	(22 484)	89 703	115 788
Other data in CHF 000s	June 30, 08	Dec. 31, 07	June 30, 08	Dec. 31, 07	June 30, 08	Dec. 31, 07	June 30, 08	Dec. 31, 07
Loans to customers	16 117 990	15 734 423	1 559 348	1 367 699	0	0	17 677 338	17 102 122
Customer funds	8 681 679	8 672 731	4 389 132	3 619 562	0	0	13 070 811	12 292 293
Funds under management	12 026 853	12 392 217	27 062 962	25 491 047	0	0	39 089 815	37 883 264
Full-time equivalents	491	484	313	246	272	277	1 076	1 007
Cost/income-ratio	45.9%	45.2%	43.2%	36.7%	n/a	n/a	56.0%	49.1%

Information for Investors

The price of the SGKB share has dropped since December 31st, 2007 by 7.33 % from CHF 498.00 to CHF 461.50. It was unable to resist the downward pressure in the banking market, but still beat the SPI banking index by about 33%.



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

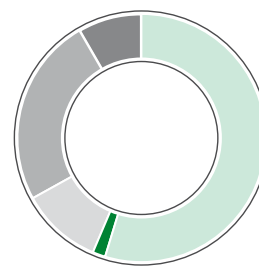
Information for Investors

June 30, 2008

Earnings per share	CHF 16.18
Proposed dividend per share	CHF 26.00 ¹
Total shares issued	5 573 426
Time-weighted number of dividend-bearing shares	5 542 775
Number of shares held by SGKB (average)	30 651
Shareholders	28 139
Issue price (IPO)	CHF 160.00
Market price	CHF 461.50
Market capitalization	CHF 2 572.1 million
Ratio of market capitalization / shareholders' equity	153.5%
Return on equity (basis: operating profit)	12.0%
Reported shareholders' equity	CHF 1 675.9 million
Dividend yield	5.6%
Price-earnings ratio	14.3

¹ For the financial year ended on Dec. 31, 2007.

Shareholder Structure



Canton of St.Gallen	54.8%
SGKB employees	1.8%
Corporates	10.5%
Individuals	24.6%
Registration pending	8.3%

Contact

[Shareholders]

St.Galler Kantonalbank
Investor Relations
Dr. Cornelia Gut-Villa
St. Leonhardstrasse 25
CH-9001 St. Gallen
Telefon +41 (0)71 231 36 92
Fax +41 (0)71 231 37 94
E-Mail: cornelia.gut@sgkb.ch

[Media]

St.Galler Kantonalbank
Media Relations
Simon Netzle
St. Leonhardstrasse 25
CH-9001 St. Gallen
Telefon +41 (0)71 231 32 18
Fax +41 (0)71 231 37 94
E-Mail: simon.netzle@sgkb.ch

Important Information Sources

	[Frequency]
Annual conference for media/analysts	annual
Annual report (German)	annual
Annual report (English)	annual
Shareholders' 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	Martin Gehrler	Dr. Claudia Zogg-Wetter
Hans-Peter Härtsch, Vice Chairman	Dr. Niklaus Fäh	Prof. Dr. Thomas A. Gutzwiller	

Group Management

Roland Ledergerber, Chairman (from Feb. 1, 2008)	Albert Koller, Vice Chairman (from Feb. 1, 2008, Vice Chairman from Apr. 1)	Daniel Lipp (from Dec. 1, 2008)	Dr. Felix Buschor (from Apr. 1, 2008)	Dr. Christian Schmid (from Aug. 1, 2008)
---	--	------------------------------------	--	---

Brief Profile

The **Cantonal Bank of St. Gallen Group** comprises the parent company Cantonal Bank of St. Gallen founded in 1868 (SGKB) and the two subsidiaries Hyposwiss Privatbank AG, Zurich, and Hyposwiss Private Bank Genève SA, Geneva. The SGKB has been listed at the SWX Stock Exchange since 2001. The Canton of St. Gallen is the majority shareholder and controls 54.8% of the share capital. Measured by the balance sheet total of the annual accounts for 2007, it is the ninth largest Swiss Universal Bank and the fifth largest Cantonal Bank. The parent company SGKB offers its clients in the Cantons of St. Gallen and Appenzell Ausserrhoden the entire range of financial services. In addition, the Cantonal Bank of St. Gallen as an employer, taxpayer and sponsoring partner assumes responsibility for the economic, social and cultural development of the region. On June 30th, 2008, the Group employed a total of 1205 male and female staff. The parent company enjoys a State guarantee and has an Aa1-Rating of Moody's.