

## 2003 FINANCIAL YEAR



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**St.Galler  
Kantonalbank**

## EDITORIAL

### Well equipped to tackle fresh challenges

Dear Shareholders,

The year-end financial statement for 2003 makes extremely enjoyable reading. Following the pattern of preceding years, the Cantonal Bank of St. Gallen (SGKB) was able to achieve an outstanding operating result which once again bears witness to its long-term business management skills.

These figures provide impressive evidence of our Bank's excellent state of health. In order to retain our competitive edge, we have continued to optimise our organisation and to rationalise our processes. We have taken a major step forwards in the Private Banking sector: the inclusion of HYPOSWISS is now virtually complete, creating new synergies which will also enable us to reintegrate St. Galler Vermögensberatung into the SGKB parent establishment as from early March 2004. The integration of Bank Thorbecke AG is another project which we have completed successfully and to our customers' satisfaction. These strategic projects will strengthen our ability to continue our Private Banking activities on a consistent basis in the face of increasingly intense competition.

We were also very pleased to see the results of the latest employee survey. This survey revealed a high level of satisfaction among our employees, indicating that they identify strongly with «their» Cantonal Bank of St. Gallen. We consider that this trust was reflected once again during 2003 by the steady increase in our share price, which actually touched an all-time high towards the end of the year.

Strengthened by our conviction that we are well equipped to tackle the challenges that await us, we continue to look to the future with cautious but undiminished optimism. We would like to thank all our investors and customers for the trust they have placed in the Cantonal Bank of St. Gallen, and we also offer our thanks to our employees for the efforts they have made.



Dr. Franz Peter Oesch  
Chairman  
of the Board of Directors



Dr. Urs Rügsegger  
Chairman  
of the Management Board

Dr. Franz Peter Oesch

Dr. Urs Rügsegger

## REVIEW AND PROSPECTS

### Sustained success in the face of challenging market conditions

The Cantonal Bank of St. Gallen can look back over a very good year which saw increases in operating income, gross profit and group net profit as compared with the preceding twelve months. This sustained success is based on several factors: the interest business continues to be good, there was further growth in the net fee and commission business (in contrast to 2002), and strict cost management has been implemented. Given the stagnation of the economy as a whole and taking one-off expenditure items into account, the increase of CHF 5.5 million in the group's net profit (+5.5%) is regarded as positive. Consolidated operating income reached CHF 457.1 million in 2003, well ahead of the result for the preceding year (+9.4%). At the same time, personnel expenses rose slightly (by 0.9%) while other operating expenses increased by 5.9%. The primary factors behind this increase were the consolidation effect due to HYPOSWISS, and the IT sector. The extraordinary expenditure section of the profit and loss statement reflects an additional burden caused by changing the pension scheme over from a defined benefit basis to a defined contribution basis; this decision, together with the guarantees for older employees which it involves, came into effect as of 1 January 2004.

#### Growth in balance sheet business

The interest business continues to be the main source of revenue for the Cantonal Bank of St. Gallen; a slight increase was posted in the result from this sector (CHF 284.3 million) despite the sharp rise in fixed-interest mortgages. The key factors here were that the interest level remained low while the interest structure curve continued to progress favourably. In overall terms, the increase of CHF 191.0 million in loans to customers appears moderate at first sight. The core business – i.e. our business with private customers and regional SME's – posted extremely encouraging growth of 4.8%. On the other hand, there was a drastic – and targeted – decrease in low-margin business and impaired positions. As a result, we were not only

able to keep margins at a stable level, but also to reduce valuation adjustments and reserves by CHF 20.5 million to CHF 225.6 million in 2003; this was mainly achieved by adjusting impaired items. Finally, customer funds grew by CHF 0.3 billion over the financial year just ended to reach a figure of CHF 10.5 billion. In the first half of the year, the uncertain situation on the stock markets and the continued «wait-and-see» approach adopted by consumers were the main factors encouraging the inflow of savings deposits, which posted an impressive increase of 13.9%. In contrast, the positive performance of the international financial markets in the second half year prompted an increase of CHF 2.3 billion in funds under management (as defined by the Federal Banking Commission), bringing them to CHF 25.3 billion. This total was increased even further thanks to the acquisition of new funds (approximately CHF 0.9 billion net).

#### Expansion of private banking

Another hallmark of 2003 was the ongoing strategic expansion of the private banking sector. By acquiring Bank Thorbecke AG, the Group was able to continue expanding its customer base in its core region of Eastern Switzerland. In line with the objective of simplifying structures, a decision was taken to reintegrate St. Galler Vermögensberatung (SGVB) into the parent company, the Cantonal Bank of St. Gallen, with retroactive effect as from 1 January 2004. This step will have the additional benefit of enhancing cooperation with the private and business customers sector. Wealthy private customers in Eastern Switzerland and the neighbouring regions of Germany and Austria will continue to choose services from the SGKB to meet their needs for wide-ranging investment advice, flanked by a range of basic and credit products. On the other hand, Swiss and foreign customers who are only looking for a private banking partner within the Group will find that their requirements are primarily met by HYPOSWISS. The renewed upturn on the capital markets in the second half of 2003

has boosted activity in the private banking sector. SGVB was able to increase its result from the net fee and commission business by CHF 5.8 million, bringing the figure to CHF 59.0 million.

Gross profit rose by CHF 5.1 million to reach CHF 28.7 million. As compared with the previous year, HYPOSWISS was able to post a slight improvement in its earnings from the net fee and commission income business at CHF 54.9 million, although earnings from the interest business dropped by about CHF 4.9 million. As a result, gross profit fell by CHF 4.5 million to CHF 29.3 million.

The first benefits of the closer cooperation between SGVB and HYPOSWISS were also evident: in August, an investment committee was set up with responsibility for implementing a uniform investment strategy in the private banking sector. Our professionalism in the investment business was also enhanced by merging the Portfolio Management departments of both units to create a joint Investment Center. In the future, this Center will handle the selection and development of investment products for the entire SGKB Group.

Turning to professional credit risk management, the Cantonal Bank of St. Gallen has once again improved the quality of its credit portfolio. Our consistent lending policy coupled with ongoing action to reduce problematic positions led to a reduction of 16.5% in non-performing loans (now running at CHF 193.9 million) in spite of the increased loan volume already mentioned.

#### **SGKB shares at all time high**

SGKB shares are continuing to develop positively. The last quarter saw a significant increase in the share price, which peaked at an all-year high of CHF 237 in mid-December and continued to soar in the new year (share performance in 2003: +13.8%). The Board is proposing that the Annual General Meeting should increase the dividend to CHF 8.50 so that shareholders can benefit from the good result.

#### **Staff are satisfied with their employer**

The headcount fell by 7.2% as compared with the previous year due to the sale of isag KB Immoservice AG,

although the staff turnover rate of 4.4% was below the previous year's figure (6.5%). Continued pressure on the labour market and the high level of job satisfaction in the bank were the key factors behind these figures. This year, employees in the SGKB Group were surveyed for the second time and the results showed positive development for all the aspects covered. One very striking feature was our employees' high level of identification with the company. Actions always follow on directly from these surveys, which will be repeated at intervals of two years.

#### **Growth continues in spite of the intense competition**

In view of the emergent economic recovery, the Cantonal Bank of St. Gallen sees further opportunities for growth during 2004. After several years of declining investment activity, the bank is now expecting to see growth in spite of the moderate pace of economic development. The SGKB intends to carry on consolidating its leading position in the banking business for private customers and SME's in its core market area of St. Gallen and Appenzell-Ausserrhoden. The bank views its main sources of competition as the Raiffeisen cooperative banks together with UBS and CS, whose pricing policy is sometimes aggressive. Our bank expects to continue expanding the share of the corporate customer market which it has built up over the past few years, thanks to its firmly established position on the local scene and the higher quality of the advice it offers. In the investment sector, the Cantonal Bank is convinced that the problems being experienced by the social insurance organisations (the AHV survivors' and old age pension scheme and the pension funds) will stimulate the private pensions sector. As regards the interest business, the SGKB assumes that it will not be possible to repeat the interest result for 2003 this year, due to high number of conversions to fixed-interest mortgages and the hedging costs. Closer cooperation between the Retail and Commercial Banking Division and the Private Banking Division mean that the SGKB can now offer a wide range of services which provide the basis for ongoing successful and professional development of the market.

## INTERVIEW

### Group Management responses: Six questions for Urs Rügsegger

The Cantonal Bank of St. Gallen was one of the main sponsors of the «SG2003» Jubilee Year. Which of the year's events will you remember most vividly?

Alongside the many valuable meetings at the wide range of events which I attended, I love to recall the spectacular opening event in the Abbey precinct, and our party for 1 502 St. Gallen citizens who were celebrating their own birthdays on 15 April, the same day as the Canton's anniversary. Also, I saw the «flying abbey» as a symbol of the heights that our Canton can attain if our people keep on making new contacts with each other, as the jubilee motto encouraged us to do.

What is your overall assessment of the year-end results for the Cantonal Bank of St. Gallen?

Our bank's operating income was encouraging, and that pleases me – all the more so as this excellent result was achieved against an economic background that continues to be difficult, with competition becoming harsher all the time. Without doubt, one consequence of the result is the stable development of our share price which actually soared to record heights in the last quarter.

We also saw the first successful and highly promising results from the closer cooperation between our Retail and Commercial Banking Division and the St. Galler Vermögensberatung (SGVB). Another point: we have maximised the scope for exploiting our advantages in the Private Banking sector by bringing our whole Group's investment activities together in an Investment Center, and by integrating SGVB into the Cantonal Bank of St. Gallen (the parent company).

What role does the government guarantee still play for the Cantonal Bank of St. Gallen?

The government guarantee is one of the basic factors in our rating, alongside sound financing,

a good earnings situation and a strong market position. The SGKB makes an annual payment of CHF 4.4 million for the rating, which is certainly not a government «bill of clean health» for speculative financial adventures: on the contrary, the government guarantee obliges us to maintain regular risk monitoring. After all, the aim is for assets to be safeguarded so that the cases covered by the guarantee never actually materialise – which is in the interests of all shareholders and taxpayers.

Public interest became increasingly focused on the banks' lending practice last year.

What basic principles does the Cantonal Bank of St. Gallen follow in this respect?

We treat every application for a loan according to several criteria: first, the project involved must hold out some prospects of success; second, the borrower should contribute an appropriate percentage of his or her own funds; and thirdly, we expect co-operation based on partnership in terms of transparency and disclosure. We do not regard lending as passing the risk from the owner to the Bank, nor as supporting unprofitable projects in order to preserve the structure at any price.

The Cantonal Bank of St. Gallen enters into many commitments to ensure that our region enjoys a vigorous economy. What opportunities do you see for our region in 2004?

Our bank is looking to 2004 with optimism. The signals we are receiving through our cooperation with the St. Gallen-Appenzell Chamber of Commerce (IHK) and the St. Gallen-Appenzell Business Association suggest an upturn in the major markets, with expectations by firms in Eastern Switzerland gradually becoming more positive. Even so, I would not want to underestimate the dangers here, given that our economy is too dependent on foreign countries. That's why our confidence should still be tinged with a little caution.

Which SGKB projects do you consider most important for 2004?

I believe that the focus is on four subjects. First, we shall continue to press ahead with our efforts towards joint market development for the two sales sectors of private and business customers and private banking. Especially in Eastern Switzerland, we shall see a dramatic improvement in our private banking position thanks to our integration of SGVB into the Cantonal Bank of St. Gallen, the parent company. Our subsidiary HYPOSWISS is also about to experience an internal change: on 1 April, Urs Bolzern will take over as CEO there when Theodor Horat retires.

Another of our objectives is to enhance the quality of our advice and services. With this aim in mind, we are adding some new dimensions to our training programme for customer advisers. We are convinced that this move will help us to hold our own amid a challenging market environment, so that we can continue to ensure a high level of satisfaction for our customers and investors.

Third, ongoing cost management will continue to be a crucial priority in the future, so that we can retain our competitive edge.

One of the key aspects here is keeping our cooperation arrangements under constant review, and we also aim to improve internal processes within the bank.

Fourth, there is risk management, which is always a priority for us. As competition intensifies, a battle is developing for customers with good creditworthiness ratings. The only banks that will survive are the ones that can maintain the quality of their credit portfolios and keep other major risks under control — especially risks caused by changes in interest rates.

Taken as a whole, these measures will enable us to become even more professional as we serve our customers and investors.

## RETAIL AND COMMERCIAL BANKING

### Risk management at the Cantonal Bank of St. Gallen

Like other banks and financial institutions, the Cantonal Bank of St. Gallen Group is confronted by various risks which have to be managed. One of our Group Management's most important tasks is handling credit, market and operational risks. The Group's major commitment in the lending business inevitably exposes it to credit and creditworthiness risks. The growing number of firms that have collapsed in the recent past have also focused more attention on this aspect.

#### **A more dynamic economy calls for more sophisticated instruments**

The Cantonal Bank of St. Gallen treats risk management as a high priority and of course, it also conforms to international standards in this area of activity. However, even the most sophisticated system will not always be able to prevent losses in the future. As the economy becomes more dynamic and specialised, and with networking constantly on the increase, the instruments used to measure, control and compensate for risks have to meet ever higher requirements. Scientists and financiers have been able to achieve encouraging progress here in recent years, for example so that theoretical knowledge of the financial markets can be applied to credit risk management. At the same time, the integration of operational risks has increasingly led to close scrutiny of a bank's business procedures — i.e. its structures, processes and instruments. Last but not least, the new «Basel II» Capital Accord will also strengthen risk management and promote further development. For example, «Basel II» obliges banks to take their customers' creditworthiness into account when they calculate the capital which they have to keep available for every loan. This means that financial institutions have to provide less capital to back loans for customers with a good creditworthiness rating than for those with a poorer rating. As a result, poorly-rated customers will have to expect less favourable conditions, because the bank's costs

will rise in proportion to the capital that is tied up in this way.

### **Basel II: The banks have taken precautions**

There are certainly good reasons for asking whether this new Capital Accord might have any negative effects, but the frequently emotional public discussion of this issue has reduced it to a matter of the relationship between the banks and the SME's. As things stand at present, we see no cause for concern about the interest level for corporate loans in Switzerland on account of «Basel II». Like most banks which are active in the SME business, the Cantonal Bank of St. Gallen had introduced risk-oriented pricing by the end of the 1990s (SGKB: 1999). On the other hand, maximum attention was paid to the aspect of «SME-compatibility» in the various consultation procedures. Furthermore, there is still no definite information as to when and in what form «Basel II» will actually be implemented. Current planning assumes that the Accord will enter into force on 1 January 2007.

### **Innovation through co-operation**

The Cantonal Bank of St. Gallen is fully aware of present requirements and future challenges in risk management, and our objective is to continue developing this activity and adapting it to our bank's business activities. Last year, the Cantonal Bank of St. Gallen established a subsidiary, RSN Risk Solution Network AG, on a joint basis with the Cantonal Banks of Basel and Lucerne: this was a pioneering step towards cooperation on credit risk management by the three cantonal banks, and it also emphasised their intention to take an innovative approach to the challenges in this area. We can now state with some pride that the standard of our credit risk management is a high one.

### **On-the-spot dialogue with SME's**

We have maintained relations with many small and medium-sized enterprises over the years, from one generation to the next. The Cantonal Bank of St. Gallen believes that it is especially important for our region to be attractive to business, and vigorous SME's naturally have a key part to play here. This belief is reflected in last year's 4.4% increase in loans to commercial and corporate customers, to cite just one example. The Cantonal Bank of St. Gallen is also very keen to encourage direct contact both with and between entrepreneurs. In 2004, we shall again be promoting this dialogue with numerous events and seminars such as the «SMEprofil» and the «Progress» forum to stimulate new initiatives, and also through the new series of events focusing on regional economic development which are being jointly organised with the St. Gallen and Appenzell Chamber of Commerce (IHK). An aspect which deserves special mention in this context is the «SMEPrimus» business prize worth CHF 50 000 which the Cantonal Bank of St. Gallen awards every year.

Nevertheless, ingenious measuring tools are only part of the story – the private, trusting relationship between the customer and the bank continues to be equally important, alongside accountability and reliability as the core values of our business philosophy. These are the yardsticks by which we want to measure ourselves in the future as well.



Roland Ledergerber  
Head of Retail and Commercial Banking  
Member of Management



## Group Balance Sheet

<b>ASSETS</b> in CHF 000s	Dec. 31, 2003	in %	Dec. 31, 2002	in %	Change	in %
Liquid funds	130 816	0.7	167 578	0.9	(36 762)	(21.9)
Receivables from money market instruments	285 515	1.5	340 768	1.9	(55 253)	(16.2)
Due from banks	1 339 291	7.1	831 487	4.5	507 804	61.1
Due from customers	2 689 118	14.2	2 908 330	15.9	(219 212)	(7.5)
Mortgage loans	13 222 394	69.9	12 812 208	70.0	410 186	3.2
Total loans to customers	15 911 512	84.1	15 720 538	85.9	190 974	1.2
Securities and precious metals trading portfolios	13 321	0.1	24 962	0.1	(11 641)	(46.6)
Financial investments	735 132	3.9	659 060	3.6	76 072	11.5
Non-consolidated participations	32 723	0.2	33 405	0.2	(682)	(2.0)
Fixed assets	181 108	0.9	188 105	1.0	(6 997)	(3.7)
Intangibles	123 262	0.7	146 741	0.8	(23 479)	(16.0)
Accrued income and prepaid expenses	81 683	0.4	88 253	0.5	(6 570)	(7.4)
Other assets	78 426	0.4	113 435	0.6	(35 009)	(30.9)
<b>Total assets</b>	<b>18 912 789</b>	<b>100.0</b>	<b>18 314 332</b>	<b>100.0</b>	<b>598 457</b>	<b>3.3</b>
Of which:						
– Total subordinated amounts receivable	4 287		14 376		(10 089)	(70.2)
– Total due from non-consolidated participations	91 870		105 481		(13 611)	(12.9)
– Total due from the Canton of St. Gallen	0		0		0	0.0

### LIABILITIES in CHF 000s

Due to money market instruments	254	0.0	410	0.0	(156)	(38.0)
Due to banks	1 027 408	5.4	1 170 724	6.4	(143 316)	(12.2)
Due to customers in savings and deposits	6 346 605	33.6	5 570 593	30.4	776 012	13.9
Other due to customers	3 430 296	18.1	3 740 698	20.5	(310 402)	(8.3)
Medium-term notes	759 405	4.0	938 560	5.1	(179 155)	(19.1)
Total customer funds	10 536 306	55.7	10 249 851	56.0	286 455	2.8
Debt and loans secured by mortgages	5 596 445	29.6	5 179 400	28.3	417 045	8.1
Accrued expenses and deferred income	191 571	1.0	164 614	0.9	26 957	16.4
Other liabilities	154 059	0.8	187 220	1.0	(33 161)	(17.7)
Valuation adjustments and provisions	225 554	1.2	246 075	1.3	(20 521)	(8.3)
Share capital	500 000	2.6	500 000	2.7	0	0.0
Capital reserves	6 420	0.0	4 862	0.0	1 558	32.0
Profit reserves	571 465	3.1	511 991	2.9	59 474	11.6
less treasury shares	(1 378)	0.0	0	0.0	(1 378)	0.0
Group net profit	104 685	0.6	99 185	0.5	5 500	5.5
Total shareholders' equity	1 181 192	6.3	1 116 038	6.1	65 154	5.8
<b>Total liabilities</b>	<b>18 912 789</b>	<b>100.0</b>	<b>18 314 332</b>	<b>100.0</b>	<b>598 457</b>	<b>3.3</b>
Of which:						
– Total subordinated amounts payable	260 000		260 000		0	0.0
– Total due to non-consolidated participations	1 447 580		1 250 525		197 055	15.8
– Total due to the Canton of St. Gallen	239 393		289 639		(50 246)	(17.3)

### OFF-BALANCE-SHEET TRANSACTIONS in CHF 000s

Contingent liabilities	212 198		197 593		14 605	7.4
Irrevocable commitments	99 576		119 963		(20 387)	(17.0)
Liabilities for calls on shares and other equities	40 394		40 562		(168)	(0.4)
Derivative financial instruments:						
– Contract volume	4 590 246		3 262 190		1 328 056	40.7
– Positive replacement values	52 611		101 667		(49 056)	(48.3)
– Negative replacement values	73 299		88 021		(14 722)	(16.7)
Fiduciary transactions	1 397 712		1 603 693		(205 981)	(12.8)



## Group Income Statement

in CHF 000s	2003	2002	Change	in %
Interest and discount income	549 481	635 585	(86 104)	(13.5)
Interest and dividend income on trading portfolios	317	930	(613)	(65.9)
Interest and dividend income on financial investments	20 591	21 004	(413)	(2.0)
Interest expenses	(286 123)	(377 163)	91 040	24.1
Net interest income	284 266	280 356	3 910	1.4
Commission income from lending activities	2 105	1 741	364	20.9
Commission income from securities and investment activities	123 288	100 356	22 932	22.9
Commission income from other service fee activities	17 627	16 486	1 141	6.9
Commission expenses	(5 393)	(4 719)	(674)	(14.3)
Net fee and commission income	137 627	113 864	23 763	20.9
Net trading income	26 784	13 985	12 799	91.5
Results from the sale of financial investments	3 823	1 950	1 873	96.1
Income from participations accounted for under the equity method	475	0	475	0.0
Income from non-consolidated participations	1 735	1 790	(55)	(3.1)
Results from real estate	3 336	4 928	(1 592)	(32.3)
Other ordinary results	4 166	8 690	(4 524)	(52.1)
Other ordinary expenses	(5 158)	(7 609)	2 451	32.2
Net other income	8 377	9 749	(1 372)	(14.1)
<b>Operating income</b>	<b>457 054</b>	<b>417 954</b>	<b>39 100</b>	<b>9.4</b>
Personnel expenses	(134 746)	(133 515)	(1 231)	(0.9)
Other operating expenses	(115 231)	(108 765)	(6 466)	(5.9)
Administrative expenses	(249 977)	(242 280)	(7 697)	(3.2)
<b>Gross profit</b>	<b>207 077</b>	<b>175 674</b>	<b>31 403</b>	<b>17.9</b>
Depreciation and write-offs on fixed assets and participations	(16 793)	(13 680)	(3 113)	(22.8)
Depreciation on intangibles	(23 479)	(17 609)	(5 870)	(33.3)
Valuation adjustments, provisions and losses	(24 910)	(21 950)	(2 960)	(13.5)
<b>Operating result (interim result)</b>	<b>141 895</b>	<b>122 435</b>	<b>19 460</b>	<b>15.9</b>
Extraordinary income	3 547	5 650	(2 103)	(37.2)
Extraordinary expenses	(8 325)	(871)	(7 454)	(855.8)
Taxes	(32 432)	(28 029)	(4 403)	(15.7)
<b>Group net profit</b>	<b>104 685</b>	<b>99 185</b>	<b>5 500</b>	<b>5.5</b>

## Divisional Accounts

in CHF 000s	Retail and commercial banking		SGVB		HYPOSWISS <sup>1</sup>		Corporate Center		Group	
	2003	Change	2003	Change	2003	Change	2003	Change	2003	Change
Operating income	306 643	6.4%	65 125	10.5%	70 399	24.1%	14 887	5.1%	457 054	9.4%
Administrative expenses	(166 893)	(1.0%)	(36 383)	(3.1%)	(41 058)	(30.1%)	(5 643)	44.7%	(249 977)	(3.2%)
Gross profit	139 750	13.7%	28 742	21.6%	29 341	16.6%	9 244	133.6%	207 077	17.9%
Depreciation and write-offs on fixed assets and intangibles	0	0.0%	(3 536)	(24.9%)	(213)	0.9%	(36 523)	(29.3%)	(40 272)	(28.7%)
Valuation adjustments, provisions and losses	(24 057)	(15.6%)	(353)	(90.8%)	(244)	54.6%	(256)	37.7%	(24 910)	(13.5%)
Operating result	115 693	13.3%	24 853	20.6%	28 884	18.3%	(27 535)	(11.5%)	141 895	15.9%
Extraordinary income, net	(4 272)	–	(218)	–	0	(100.0%)	(288)	(108.8%)	(4 778)	(200.0%)
Taxes	(18 443)	(3.3%)	(5 042)	(14.4%)	(7 221)	(20.7%)	(1 726)	(884.5%)	(32 432)	(15.7%)
Group net profit	92 978	10.4%	19 593	20.9%	21 663	8.8%	(29 549)	(39.5%)	104 685	5.5%
Other data										
Funds under Management	8 171 099	6.0%	11 568 688	12.6%	5 644 651	11.8%	(72 524)	0.0%	25 311 915	9.9%
Headcount	497	(0.4%)	97	(7.6%)	127	(8.6%)	282	(16.6%)	1 003	(7.2%)

Notes:

<sup>1</sup> The HYPOSWISS income statement of the prior year only covered the 2<sup>nd</sup> to 4<sup>th</sup> quarters; the changes are correspondingly major for this reason.

## Group Key Figures

<b>INCOME STATEMENT</b> in CHF 000s	2003	2002 <sup>1</sup>	2001
Operating income	457 054	417 954	349 700
Administrative expenses	(249 977)	(242 280)	(208 271)
Operating profit	141 895	122 435	113 212
Group net profit	104 685	99 185	92 840

### EARNINGS PER SHARE in CHF

Earnings per share	21.00	19.87	18.60
Dividend proposed (2003) and paid out (2002, 2001)	8.50	8.00	8.00

### KEY FIGURES

Return on equity, pre-tax (basis: operating profit)	12.8%	11.7%	11.4%
Return on equity, after tax (basis: group net profit)	9.5%	9.5%	9.4%
Administrative expenses incl. depreciation on fixed assets/operating income	58.1%	61.2%	63.3%

### BALANCE SHEET in CHF 000s

	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2001
Loans to customers	15 911 512	15 720 538	15 059 040
Customer funds	10 536 306	10 249 851	8 939 649
Balance sheet total	18 912 789	18 314 332	17 366 979
Shareholders' equity	1 181 192	1 116 038	1 056 625

### EQUITY KEY FIGURES

BIS ratio tier 1	9.8%	9.1%	10.2%
BIS ratio tier 2	11.4%	11.0%	11.5%
Surplus of own means over required means as per Swiss banking law	35.8%	30.5%	36.5%
Shareholders' equity in % of balance sheet total	6.3%	6.1%	6.1%

### FUNDS UNDER MANAGEMENT in CHF 000s

Funds under Management	25 311 915 <sup>2</sup>	23 033 289 <sup>2</sup>	20 619 525
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### HEADCOUNT

Full-time equivalents <sup>3</sup>	1 003	1 081	953
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### MOODY'S RATING

Senior unsecured domestic currency	Aa1	Aa2	Aa2
Bank deposits	Aa1/P-1	Aa2/P-1	Aa2/P-1
Bank financial strength	B	B	B

<sup>1</sup> HYPOSWISS included only for the 2<sup>nd</sup> quarter up to the 4<sup>th</sup> quarter

<sup>2</sup> According to definition of the Federal Banking Commission

<sup>3</sup> Apprentices calculated at 50%

## Board of Directors and Group Management 2003

### BOARD OF DIRECTORS

Dr. Franz Peter Oesch, Chairman	Dr. Niklaus Fäh	Dr. Hubertus Schmid	Dr. Claudia Zogg-Wetter
Hans-Peter Härtsch, Vice-Chairman	Dr. Markus Rauh	Peter Schönenberger	

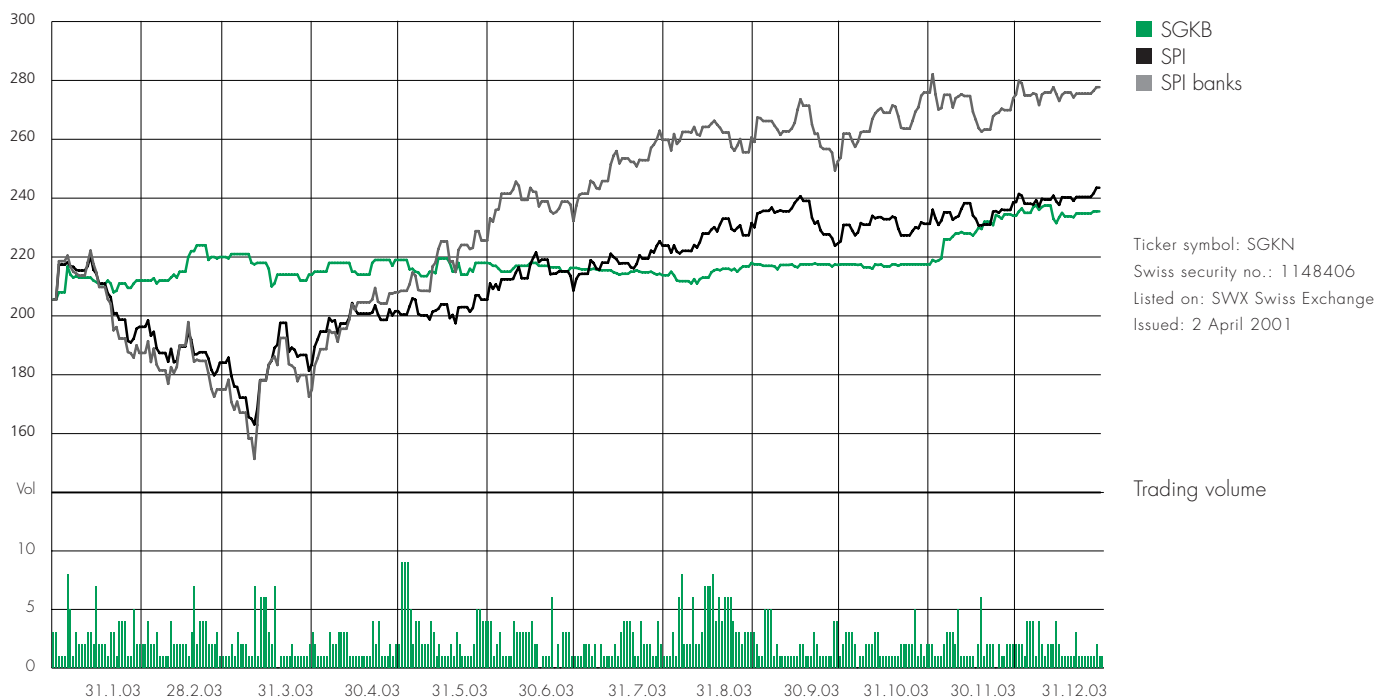
### GROUP MANAGEMENT

Dr. Urs Rügsegger, Chairman	Marcel Zoller, Vice-Chairman	Roland Ledergerber	Urs Bolzern
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## Information for investors

### PRICE DEVELOPMENT

In overall terms, the price of SGKB shares has developed positively over the past year. The security improved by 13.8% between 1 January and 31 December 2003.



### SHARE STATISTICS

DEC. 31, 2003

Earnings per share	CHF 21.00
Dividend per share	CHF 8.50 <sup>1</sup>
Total shares issued	5 000 000 (Floating 1 944 524)
Time-weighted number of dividend-bearing shares	4 984 631
Number of shares held by SGKB (ave.)	15 369
Shareholders	22 406
Issue price (IPO)	CHF 160.00
Market price	CHF 233.25
Market capitalization	CHF 1 166.3 million
Ratio of market capitalization / shareholders' equity	98.7%
Return on equity (basis: operating result)	12.8%
Reported shareholders' equity	CHF 1 181.2 million
Dividend yield	3.6%
Price-earnings ratio	11.1 x
Payout ratio	40.5%

<sup>1</sup> Recommendation of the Board for the financial year ended on Dec. 31, 2003.

### IMPORTANT SOURCES OF INFORMATION

Annual media/ analysts' conference	yearly	26 February 2004
Annual report	yearly	23 March 2004
Annual General Meeting	yearly	28 April 2004
Half-year report	yearly	12 August 2004
Half-year media/ analysts' conference	yearly	12 August 2004
Media releases	as necessary	
www.sgkb.ch	ongoing	

### CONTACT FOR SHAREHOLDERS

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## The Cantonal Bank of St. Gallen

Established in 1868, the Cantonal Bank of St. Gallen is a universal bank which offers the full range of classic banking services. With 37 branches in the Canton of St. Gallen and offices in both Herisau and Zurich, the bank maintains excellent relationships with private and institutional customers in Eastern Switzerland and beyond. By acquiring two private banks, HYPOSWISS (as of 1 April 2002) and Bank Thorbecke (as of 1 January 2003), the Cantonal Bank of St. Gallen has dramatically strengthened its position on the private banking market. On 31 December 2003, the Group had a total of 1 131 employees.