

## Interim Report 2/2002



Dear Shareholders

### **FOCUSING ON OUR VISION**

The second quarter of 2002 saw the first anniversary of the successful flotation of the Cantonal Bank of Saint Gall. You as shareholders expressed your interest in the trend of business by attending the General Meeting on 24 April in large numbers. We are pleased to note the steady growth in the number of our shareholders as this anchors our bank even more firmly among the public.

Step by step, we are implementing our strategy of value enhancement through high-quality services and targeted growth. In this context, we are paying special attention to expanding asset consulting services. With the acquisition of the Zurich-based HYPOSWISS Privatbank AG, which has been an independent subsidiary within our Group since the second quarter of the current financial year, we are decisively increasing our competences and earnings potential. At the same time, interest operations remain our main source of revenues.

Today, despite turbulent trends on the stock markets, we are able to present to you an enjoyable first-half statement.



**St.Galler  
Kantonalbank**

Dr Franz Peter Oesch  
Chairman of the Board of Directors

Dr Urs Rügsegger  
CEO

## Enjoyable first half of 2002

In terms of our corporate strategy, one of the most important steps taken in the first half of 2002 was the acquisition of Zurich-based HYPOSWISS Privatbank AG (HYPOSWISS). HYPOSWISS's strong position among high net worth private clients enabled us to decisively increase the potential for added value in the field of asset management. This business will partly be financed through the first convertible bond issue in the history of the Cantonal Bank of Saint Gall (SGKB), which went ahead at the beginning of May and proved a great success. The HYPOSWISS figures have been incorporated into the Group financial statements since 1 April; the income statement for the second quarter of 2002 and the balance sheet positions were consolidated as of 30 June 2002.

### Profitable interest operations

Mid-way through the year, the Group's income statement presents a enjoyable picture. At CHF 203.3 million, our operating income is well up on the year-back result, as is our gross profit at CHF 86.8 million (+19.3%). Interest operations made a particularly positive contribution to the interim result, with net interest income rising CHF 19.5 million to CHF 140.0 million (+16.2%) despite a reduction in mortgage interest rates at the end of February. HYPOSWISS accounts for 2.6% of this figure (CHF 3.7 million).

The sharp falls on stock markets across the globe had a negative impact on fee and commission income. The acquisition of HYPOSWISS enabled us to increase our income by CHF 6.3 million (+13.6%) compared to the previous year, bringing the total to CHF 52.6 million.

In the first half of 2002, personnel and other operating expenses rose by CHF 13.2 million to a total of CHF 116.5 million (+12.8%). This performance is attributable to the integration of HYPOSWISS; without HYPOSWISS these administrative expenses would have been at a similar level as in 2001. Valuation adjustments for credit risks remained at the same low level as in the previous year and reflect the sustained and welcome improvement in the quality of the loan portfolio.

At CHF 69.1 million, operating profit was 15.1% higher than the previous year. After deduction of

taxes, the Group's net profit for the first half of 2002 stands at CHF 57.7 million. This represents an increase of CHF 6.4 million (12.5%) on last year. HYPOSWISS contributed CHF 6.6 million to this result.

### Growth thanks to HYPOSWISS

In the first half of 2002, the Group balance sheet total increased by CHF 1.7 billion to CHF 19.1 billion, almost all of this growth (CHF 1.6 billion) being attributable to HYPOSWISS. Loans to customers increased by CHF 0.4 billion to CHF 15.5 billion, again mainly as a result of the HYPOSWISS positions.

At SGKB, the main increase was witnessed by loans to private and business customers, the latter being a reflection of the good business relationship between the Cantonal Bank and SMEs. We also continued to improve the quality of the loan portfolio by reducing non-performing positions.

Customer funds increased by CHF 1.7 billion to a total of CHF 10.6 billion. The position valuation adjustments and provisions decreased once again, down by CHF 8.6 million to CHF 264.7 million. By contrast, shareholders' equity before appropriation of earnings rose by CHF 24.3 million to CHF 1080.9 million.

As a result of the purchase of HYPOSWISS, the volume of assets under management (volume of deposits and fiduciary placements) increased by CHF 5.5 billion or 44.1% to a total of CHF 18.0 billion.

### Into the second half of the year with cautious optimism

There appears to be a delay in the economic recovery announced for the second half of the year. We therefore anticipate sustained low investment willingness and correspondingly little stimulus for the balance sheet business, although the low level of interest rates offers some support. Given the continuing very difficult situation on the stock markets, trading and commission income will remain at its present level. Under these operating conditions, SGKB expects the Group operating result to be on a par with last year.

# Group Key Figures

<b>INCOME STATEMENT</b> in CHF 000s	30 June 2002	30 June 2001	30 June 2000
Operating income	203 346	176 121	178 583
Administrative expenses	(116 497)	(103 308)	(93 151)
Operating profit	69 087	60 017	76 042
Group net profit	57 665	51 263	47 899
<b>EARNINGS PER SHARE</b> in CHF			
Earnings per share	11.56 <sup>1)</sup>	10.25	9.58
<b>KEY FIGURES</b>			
Return on equity, pre-tax (basis: Operating profit)	13.2%	12.1%	16.3%
Return on equity, after tax (basis: Group net profit)	11.0%	10.4%	10.3%
Administrative expenses incl. write-offs of fixed assets / Operating income (before depreciation of intangibles)	60.3%	62.1%	54.5%
<b>BALANCE SHEET</b> in CHF 000s			
Loans to customers	15 472 632	15 059 040	14 910 434
Customer funds	10 612 929	8 939 649	8 866 205
Balance sheet total	19 075 277	17 366 979	17 143 907
Shareholders' equity	1 080 930	1 056 625	1 003 785
<b>ASSETS UNDER MANAGEMENT</b> in CHF 000s			
Total customer funds and assets under management	27 759 844	20 598 961	21 552 374
Of which assets under management	18 005 750	12 497 805	13 479 941
– Custody volume	16 223 960	12 241 809	13 253 001
– Fiduciary placements	1 781 790	255 996	226 940
<b>HEADCOUNT</b>			
Full-time equivalents	1 074	953	930
<b>MOODY'S RATING</b>			
Senior unsecured domestic currency	Aa2	Aa2	Aa2
Bank deposits	Aa2/P-1	Aa2/P-1	Aa2/P-1
Bank financial strength	B	B	B

1) Subject to the convertible bond and to granted options, diluted earnings per share amount to CHF 11.45

## New income potential in asset management

Over half of the total value creation of Swiss banks stems from the management of private and institutional assets. 85% of this is in turn attributable to the retail business. Services for foreign clients form a very important part of the Swiss private banking sector. 50% of custody accounts under management originate from abroad and indeed at global level Swiss banks lead the field in cross-border asset management with an estimated market share of 30%.

Despite adverse conditions on the financial markets, the Cantonal Bank of Saint Gall still sees medium to long-term growth potential in private banking and is therefore expanding its operations in this sector. The transfer of the investment business to the legally independent St. Galler Vermögensberatung SGVB on 1 January 2001 marked the start to the realization of our expansion plans. In a second move, this was followed by the purchase of Zurich-based HYPOSWISS Privatbank AG in the spring of 2002.

### Two major private banking operations

In St. Galler Vermögensberatung and HYPOSWISS, the SGKB Group has two independent subsidiaries both engaged in private banking, although they focus on different market segments and will continue to be managed independently of each other. In an initial phase, continuity of operations and corporate identity are important preconditions for a successful transition. Preserving the well-known brand name makes it easier to retain the loyalty of HYPOSWISS customers. The fact that the SGKB enjoys the same Aa2 Moody's rating as its former owner UBS was certainly beneficial. The aim is to make our marketing endeavours in the private banking sector even more effective.

### Working on different market segments

SGVB manages client assets totalling CHF 9.4 billion, while HYPOSWISS Privatbank AG services clients with total assets of some CHF 5.8 billion. 60% of SGVB's clients are private investors and 40% are institutional clients. The activities of HYPOSWISS concentrate exclusively on private client business. Both SGVB and HYPOSWISS normally manage assets with a custody account volume of at least CHF 500,000. However, with an ave-

rage investment volume of CHF 1 million per client, HYPOSWISS's customers are in a higher net worth segment.

Both private banks provide their clients with products and services that they can basically buy on the market from all suppliers. The decisive factor is the quality of the offerings. One of SGVB's main points of focus is on comprehensive financial planning and its approach to service is geared to specific life phases. From a custody account size of CHF 2 - 3 million, HYPOSWISS's investment specialists offer tailor-made solutions which also include products developed in-house.

### Future challenges

External conditions in the private banking sector are becoming more difficult. On one hand, the banks find themselves facing tougher competition and on the other hand, the general market climate has recently undergone a drastic change. A spate of adverse news reports – not just confined to the US business world – has led to a real crisis of confidence which has taken its toll on stock markets around the world. Historic low interest rates will help the economy, but the stock markets can only stage a long-term recovery if confidence can be restored. We therefore see it as our task to satisfy the investment needs of our clients and offer them high-quality services even in a difficult economic environment. Against this background, the future success of private banks will be determined by the extent to which they intensify their service and secure the loyalty of their increasingly demanding clients. SGVB and HYPOSWISS are prepared.

## Questions to Roland Ledergerber

*You are the new divisional head of Retail and commercial banking (PGK). What visions do you have for this sector?*

As far as our customers are concerned, we aim to create sustained added value by providing high-quality advice, reliable individual client care and attractive products and services. Retail clients and SMEs should choose and experience us as their relationship and service bank and go on to recommend us to others. Customer-oriented service is the top priority.

As far as our employees are concerned, I would like them to develop a passion for the personal esteem of our customers and for quality of service based on solid professionalism.

And finally, as far as the market is concerned, I would like us to maintain, and if possible expand, our leading position in the canton of Saint Gall and gain a decisive market share in the canton of Appenzell Ausserrhoden.

*In 2001, the Retail and commercial banking division accounted for 76.4% of Group operating income and 83.5% of Group profit. With the acquisition of HYPOSWISS, asset consulting has now been expanded. What implications does this have for the role of Retail and commercial banking within the Cantonal Bank of Saint Gall?*

It makes no difference to our role, but by joining forces we have greater opportunities. I am absolutely convinced of this. Our task is to create sustained added value for our customers and shareholders. Whether my division contributes 83.5%, 70% or 50% to the Group result is beside the point. From a strategic perspective, it undoubtedly makes sense to be rooted in two forward-looking divisions of roughly equal strength. The state guarantee means that our balance sheet business is largely restricted to the territory of the canton, whereas Private Banking can systematically develop growth potential outside the canton.

*The Cantonal Bank of Saint Gall is the market leader in the retail and SME sector. Where can Retail and commercial banking make further gains?*

Over the years, we have earned our position as market leader through hard work and despite strong



competition. This success carries obligations. Because banking products are becoming increasingly interchangeable, we are placing the focus on providing our customers with advisory services. In future, this will be the area that determines who is successful and who is not. This means firstly that we need to systematically improve the quality of service and advice in our retail and SME business, for example, by implementing the Customer Relationship Management philosophy, and secondly we need to expand our leading position as the bank for all housing-related matters. Thirdly, we need to continue to develop financial planning as a service for our retail and SME business so as to create added value for our private clients by looking at and interlinking taxes, pensions and insurance, financial assets and financing on a comprehensive basis. And at last, we need to ensure refinancing with stable customer funds.

**PERSONAL DETAILS** Roland Ledergerber has been a member of the Executive Board and head of the Retail and commercial banking (PGK) division since 1 June 2002. He joined SGKB in December 1998 and was initially head of Commercial banking. Later, after retail and commercial banking operations were combined to form the Retail and commercial banking division (PGK), he became head of sales and deputy divisional head. Before moving to SGKB, Roland Ledergerber spent twelve years with UBS AG in Switzerland and abroad – in Controlling, Corporate and Institutional Banking Europe and Corporate Clients Switzerland. Roland Ledergerber holds a degree in economics from the University of St. Gall.

# Group Balance Sheet

<b>ASSETS</b> in CHF 000s	30 June 2002	in %	31 Dec. 2001	in %	Change	in %
Liquid funds	132 709	0.7	144 580	0.8	(11 871)	(8.2)
Receivables from money market instruments	537 933	2.8	506 307	2.9	31 626	6.2
Due from banks	1 625 078	8.5	510 553	3.0	1 114 525	218.3
Due from customers	2 967 365	15.6	2 917 528	16.8	49 837	1.7
Mortgage loans	12 505 267	65.6	12 141 512	69.9	363 755	3.0
<b>Total loans to customers</b>	<b>15 472 632</b>	<b>81.2</b>	<b>15 059 040</b>	<b>86.7</b>	<b>413 592</b>	<b>2.7</b>
Securities and precious metals trading portfolios	19 927	0.1	117 633	0.7	(97 706)	(83.1)
Financial investments	637 342	3.3	590 846	3.4	46 496	7.9
Non-consolidated participations	33 813	0.2	33 351	0.2	462	1.4
Fixed assets and intangibles	352 686	1.8	181 486	1.0	171 200	94.3
Accrued income and prepaid expenses	115 791	0.6	96 145	0.6	19 646	20.4
Other assets	147 366	0.8	127 038	0.7	20 328	16.0
<b>Balance sheet total</b>	<b>19 075 277</b>	<b>100.0</b>	<b>17 366 979</b>	<b>100.0</b>	<b>1 708 298</b>	<b>9.8</b>
Of which:						
– Total subordinated amounts receivable	14 367		21 975		(7 608)	(34.6)
– Total due from non-consolidated participations	107 423		104 571		2 852	2.7
– Total due from the canton of St.Gall	0		0		0	0.0
<b>LIABILITIES</b>						
Due to banks	1 389 771	7.3	1 626 010	9.4	(236 239)	(14.5)
Due to customers in savings and deposits	5 226 516	27.4	5 203 470	30.0	23 046	0.4
Other due to customers	4 428 860	23.2	2 834 295	16.3	1 594 565	56.3
Medium-term notes	957 553	5.0	901 884	5.2	55 669	6.2
<b>Total customer funds</b>	<b>10 612 929</b>	<b>55.6</b>	<b>8 939 649</b>	<b>51.5</b>	<b>1 673 280</b>	<b>18.7</b>
Debt and loans secured by mortgages	5 333 300	28.0	5 074 900	29.2	258 400	5.1
Accrued expense and deferred income	235 061	1.2	198 540	1.1	36 521	18.4
Other liabilities	158 547	0.8	197 920	1.1	(39 373)	(19.9)
Valuations adjustments and provisions	264 739	1.4	273 335	1.6	(8 596)	(3.1)
Share capital	500 000	2.6	500 000	2.9	0	0.0
Capital reserve	11 883	0.1	5 774	0.0	6 109	105.8
Profit reserve	511 382	2.7	458 011	2.7	53 371	11.7
Group net profit	57 665	0.3	92 840	0.5	(35 175)	(37.9)
<b>Total shareholders' equity</b>	<b>1 080 930</b>	<b>5.7</b>	<b>1 056 625</b>	<b>6.1</b>	<b>24 305</b>	<b>2.3</b>
<b>Balance sheet total</b>	<b>19 075 277</b>	<b>100.0</b>	<b>17 366 979</b>	<b>100.0</b>	<b>1 708 298</b>	<b>9.8</b>
Of which:						
– Total subordinated amounts payable	260 000		160 000		100 000	62.5
– Total due to non-consolidated participations	1 299 852		1 427 510		(127 658)	(8.9)
– Total due to the canton of St.Gall	331 736		290 317		41 419	14.3
<b>OFF-BALANCE-SHEET TRANSACTIONS</b>						
Contingent liabilities	239 509		173 230		66 279	38.3
Irrevocable commitments	68 901		93 804		(24 903)	(26.5)
Liabilities for calls on shares and other equities	40 562		38 882		1 680	4.3
Derivative instruments:						
– Contract volume	3 910 962		3 277 055		633 907	19.3
– Positive replacement values	39 600		22 329		17 271	77.3
– Negative replacement values	75 194		92 235		(17 041)	(18.5)
Assets under management	18 005 750		12 497 805		5 507 945	44.1
Fiduciary placements	1 781 790		255 996		1 525 794	596.0
Fiduciary credits	837		0		837	100.0

# Group Income Statement

in CHF 000s	30 June 2002	30 June 2001	Change	in %
Interest and discount income	327 089	347 795	(20 706)	(6.0)
Interest and dividend income on trading portfolios	861	2 123	(1 262)	(59.5)
Interest and dividend income on financial investments	10 441	7 293	3 148	43.2
Interest expense	(198 415)	(236 702)	38 287	(16.2)
<b>Net interest income</b>	<b>139 976</b>	<b>120 509</b>	<b>19 467</b>	<b>16.2</b>
Commission income from lending activities	640	611	29	4.7
Commission income from securities and investment activities	46 094	39 627	6 467	16.3
Commission income from other service fee activities	8 187	7 786	401	5.1
Commission expense	(2 315)	(1 722)	(593)	34.4
<b>Net fee and commission income</b>	<b>52 606</b>	<b>46 302</b>	<b>6 304</b>	<b>13.6</b>
<b>Net trading income</b>	<b>5 889</b>	<b>3 645</b>	<b>2 244</b>	<b>61.6</b>
Results from the sale of financial investments	1 249	723	526	72.8
Income from non-consolidated participations	1 246	1 027	219	21.3
Results from real estate	2 185	1 810	375	20.7
Other ordinary results	4 413	5 060	(647)	(12.8)
Other ordinary expenses	(4 218)	(2 955)	(1 263)	42.7
<b>Net other income</b>	<b>4 875</b>	<b>5 665</b>	<b>(790)</b>	<b>(13.9)</b>
<b>Operating income</b>	<b>203 346</b>	<b>176 121</b>	<b>27 225</b>	<b>15.5</b>
Personnel expenses	(62 312)	(53 363)	(8 949)	16.8
Other operating expenses	(54 185)	(49 945)	(4 240)	8.5
<b>Administrative expenses</b>	<b>(116 497)</b>	<b>(103 308)</b>	<b>(13 189)</b>	<b>12.8</b>
<b>Gross profit</b>	<b>86 849</b>	<b>72 813</b>	<b>14 036</b>	<b>19.3</b>
Depreciation and write-offs of fixed assets	(6 072)	(6 088)	16	(0.3)
Depreciation of intangibles	(6 095)	0	(6 095)	
Valuation adjustments, provisions and losses	(5 595)	(6 708)	1 113	(16.6)
<b>Operating profit</b>	<b>69 087</b>	<b>60 017</b>	<b>9 070</b>	<b>15.1</b>
Extraordinary income	5 516	2 045	3 471	169.8
Extraordinary expenses	(712)	(45)	(667)	
Taxes	(16 226)	(10 754)	(5 472)	50.9
<b>Group net profit</b>	<b>57 665</b>	<b>51 263</b>	<b>6 402</b>	<b>12.5</b>

## Management accounts

in CHF 000s	Retail and commercial banking		SGVB		HYPOSWISS <sup>1)</sup>		Corporate Center		Group	
	2002	Change in %	2002	Change in %	2002	Change in %	2002	Change in %	2002	Change in %
<b>Operating income</b>	<b>144 358</b>	<b>12.4</b>	<b>31 348</b>	<b>-11.1</b>	<b>20 162</b>	<b>-</b>	<b>7 478</b>	<b>-39.8</b>	<b>203 346</b>	<b>15.5</b>
<b>Administrative expenses</b>	<b>-83 138</b>	<b>7.4</b>	<b>-19 132</b>	<b>-2.9</b>	<b>-10 782</b>	<b>-</b>	<b>-3 445</b>	<b>-44.6</b>	<b>-116 497</b>	<b>12.8</b>
<b>Gross profit</b>	<b>61 220</b>	<b>19.9</b>	<b>12 216</b>	<b>-21.4</b>	<b>9 380</b>	<b>-</b>	<b>4 033</b>	<b>-35.0</b>	<b>86 849</b>	<b>19.3</b>
- Depreciation and write-offs of fixed assets and intangibles	0	-	-1 250	-	-563	-	-10 354	74.0	-12 167	99.9
- Valuation adjustments, provisions and losses	-5 141	-3.0	-76	-88.0	-178	-	-200	-74.2	-5 595	-16.6
<b>Operating profit</b>	<b>56 079</b>	<b>22.6</b>	<b>10 890</b>	<b>-26.3</b>	<b>8 639</b>	<b>-</b>	<b>-6 521</b>	<b>-</b>	<b>69 087</b>	<b>15.1</b>
- Extraordinary income	0	-	0	-	-	-	4 804	140.2	4 804	140.2
- Taxes	-9 200	19.1	-2 455	-11.0	-2 082	-	-2 489	-	-16 226	50.9
<b>Group net profit</b>	<b>46 879</b>	<b>23.2</b>	<b>8 435</b>	<b>-29.8</b>	<b>6 557</b>	<b>-</b>	<b>-4 206</b>	<b>-</b>	<b>57 665</b>	<b>12.5</b>
<b>Assets under management<sup>2)</sup></b>	<b>2 784 602</b>	<b>-1.8</b>	<b>9 409 148</b>	<b>-2.6</b>	<b>5 812 000</b>	<b>-</b>			<b>18 005 750</b>	<b>44.1</b>
Headcount <sup>2)</sup>	495	-0.8	107	2.7	130	-	342	-1.9	1 074	12.8

1) The income statement of HYPOSWISS consists of the 2nd quarter of 2002 2) Changes in percent refer to 31 December 2001



