



Dear Shareholders

We have great pleasure in presenting a successful first half year result. In what remains a difficult economic setting, but an advantageous interest rate environment, we have once again been able to increase our earnings. Our customer advisors' intensive marketing efforts, which are particularly necessary during times of uncertainty, are showing results. The SGKB Group has succeeded in turning customer focus, as defined in our strategy, into business success. Our personal service as well as our high quality advice are highly regarded among our customers.

The SG2003 cantonal anniversary celebrations give us another opportunity to practise our policy of maintaining a close relationship with our customers and with the people of Saint Gall. The watchword coined for the celebrations was «Sich neu begegnen» which might be loosely translated as «New encounters» or «Acquaintanceship renewed». We too are keen to engage with our customers, and indeed encounters lay the foundations for any relationship. Trust can only develop through relationship. Even in the modern age, trust still forms the basis for any banking relationship. With this in mind, we have made SGKB's participation in the cantonal anniversary celebrations the focal point of this shareholder's letter.

We would like to express our sincere thanks for your loyalty to the Cantonal Bank of Saint Gall.

REVIEW AND OUTLOOK

2003 gets off to a successful first half year

The first half of 2003 was very successful for the SGKB Group. Compared with the previous year we saw increases in operating income, gross profit and group net profit. Apart from the positive business result, another key event in the first half of the year was the acquisition of Bank Thorbecke AG, which has enabled St.Galler Vermögensberatung to strengthen its presence in Saint Gall. Furthermore, the sale of isag KB Immoservice AG to Karl Steiner AG clearly reflects SGKB's focus on its core business as a universal bank.

Successful interest operations

Midway through the year, the Group's income statement presents a very successful picture. At CHF 231.8 million, our operating income is well up on the previous year's, as is our gross profit at CHF 108.0 million (+24.3%). In this context, it should also be considered that, in contrast with the first half of 2002, HYPOSWISS has been included in the income statement for the whole of the first half of 2003.

Interest operations once again made an important contribution to the positive first half year result: net interest income rose by CHF 9.9 million or 7.1% to CHF 149.9 million. The level of net fee and commission income could be fortunately maintained.

Tight cost management

The consolidation effect is also apparent in personnel and other operating expenses. In the first half of 2003, administrative expenses rose by a total of CHF 7.3 million to CHF 123.8 million (+6.3%). Isag's administrative expenses (previous year: CHF 4.1 million) are no longer included in the group income statement. Without HYPOSWISS and isag, administrative expenses would have remained almost on a level with last year – a fact which reflects the tight cost management in the SGKB Group. The positive development of the interest business, as well as cost control, led to a reduction in the ratio of

administrative expenses to operating income from 60.3% to 56.4% as of June 30, 2003. At CHF 13.0 million, the valuation adjustments, provisions and losses are up by around CHF 7.4 million on the previous year. The reasons for this lie in the depressed economic situation. However, because of the high quality of the loan portfolio the valuation adjustments for credit risks are still at a low level.

At CHF 76.3 million, operating profit was 10.5% higher than the previous year. After taxes, as of June 30, 2003 the SGKB Group shows a group net profit of CHF 60.2 million (+4.5%).

Increase in assets

Loans to customers increased by CHF 0.2 billion to CHF 15.9 billion. Newly approved and paid out loans to customers amounted to CHF 0.7 billion in 2003. Customer funds rose by CHF 489.8 million to CHF 10.7 billion. Assets under management (deposit volume and fiduciary placements) increased by CHF 1.1 billion or 6.1% to CHF 18.6 billion. This includes CHF 479.5 million of net new money, which resulted mainly from the private banking activities of SGVB and HYPOSWISS.

Into the second half of the year with optimism

At present there is no sign of an economic recovery. In the second half of 2003 we likewise expect little stimulus for the balance sheet business and constant volumes in the securities trading business. Due to the successful first half year and on the assumption of no worsening economic environment, the SGKB group anticipates a result in line with the previous year, maybe slightly higher.

In the medium term, net interest income will be adversely affected by the continuing trend toward the conversion of variable mortgages into lower-rate fixed-interest mortgages. This effect will begin in the year 2004.

GROUP KEY FIGURES

INCOME STATEMENT in CHF 000s	June 30, 2003	June 30, 2002	June 30, 2001
Operating income	231 786	203 346	176 121
Administrative expenses	(123 818)	(116 497)	(103 308)
Operating profit	76 309	69 087	60 017
Group net profit	60 233	57 665	51 263

EARNINGS PER SHARE in CHF

First-half earnings per share	12.07	11.56	10.25
Dividend paid	8.00	8.00	8.00

KEY FIGURES

Return on equity, pre-tax (basis: operating profit)	13.8%	13.2%	12.1%
Return on equity, after tax (basis: group net profit)	10.9%	11.0%	10.4%
Administrative expenses incl. depreciation of fixed assets/ operating income (before depreciation of intangibles)	56.4%	60.3%	62.1%

BALANCE SHEET in CHF 000s	June 30, 2003	Dec. 31, 2002	Dec. 31, 2001
Loans to customers	15 881 118	15 720 538	15 059 040
Customer funds	10 739 627	10 249 851	8 939 649
Balance sheet total	18 947 374	18 314 332	17 366 979
Shareholders' equity	1 133 963	1 116 038	1 056 625

EQUITY KEY FIGURES

BIS ratio tier 1	9.0%	9.1%	10.2%
BIS ratio tier 2	10.9%	11.0%	11.5%
Surplus of own means over required means by banking law	28.9%	30.5%	36.5%
Shareholders' equity in % of balance sheet total	6.0%	6.1%	6.1%

FUNDS UNDER MANAGEMENT in CHF 000s

Total customer funds and assets under management	28 674 876	26 962 114	20 619 525
Of which assets under management	18 621 699	17 550 435	12 518 369
– Deposit volume	16 703 898	15 785 870	12 241 809
– Assets with third banks	170 678	161 587	20 564
– Fiduciary placements	1 747 123	1 602 978	255 996

HEADCOUNT

Full-time equivalents ¹⁾	1 017	1 081	953
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MOODY'S RATING

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) Apprentices at 50%

SG2003

New encounters: the Cantonal Bank in the anniversary year

The Cantonal Bank of Saint Gall has a long tradition of active involvement in the public arena and for many years now has been one of the most important promoters of cultural, sporting and social events in the eastern part of Switzerland. However, there haven't been many years in which it has fulfilled its responsibilities with such a wide range of activities as in 2003. In addition to dozens of existing commitments, numerous events are being organized as part of the 200-year anniversary of the Canton of Saint Gall. The «bank of the people of Saint Gall» is helping to support the celebrations organized throughout the region in two ways – as an official partner of «SG2003» and as the principal sponsor of the «Talent Air 2003» talent contest.

200 years, 38 projects, 300 highlights

The programme of the anniversary year is as interesting and varied as the canton itself. From numerous proposals put forward by members of the public 38 projects emerged that together make up a total programme of more than 300 individual events – ranging from theatrical performances in local dialect to the virtual women's network, from the industry party to the circus gala and from the flying cathedral to the exchange programme for politicians. As a partner of «SG2003» the Cantonal Bank of Saint Gall is present throughout the year in all its market regions and among all its customer groups. At the same time, the anniversary concept fulfils our ambition to be involved wherever ambitious people are putting innovative ideas into practice. With most projects, the focus is less on the past and more on the creation of new and enduring value.

In search of the export hits of the future

One anniversary project that particularly epitomizes this focus on the future is undoubtedly the «Talent Air 2003» contest for budding young talent which was organized thanks to the assistance of the Cantonal Bank as principal sponsor. In eight

separate preliminary qualifying rounds, 31 bands and 14 disc jockeys from around the region were given the opportunity to qualify for the grand finale staged in Jonschwil between 13 and 15 June. In each of the two categories, the panel of specialist judges singled out those contestants who showed the greatest potential for a career in show business. Fittingly, the main prizes for the winning contestants were career-oriented: the recording contract awarded to the band Madatrix and the guest appearance at the closely followed «Housemaster Party» won by DJ Normen Hood will equip the young artistes with the «start-up capital» they need to gain a better foothold in show business and carry on developing their talent.

A birthday party for all generations

On April 15, the actual birthday of the Canton of Saint Gall, the Cantonal Bank took a further opportunity to demonstrate its active involvement in the community. In an event organized jointly with the Cantonal government, it surprised everyone with a very special idea: all 1502 citizens of Saint Gall whose birthday falls on the same day were personally invited to the official ceremony. Before the ceremony, a celebration in the Tonhalle gave birthday boys and girls of all ages (whether young or simply young at heart) a unique opportunity to toast their home region together and enjoy a birthday party organized especially for them, at which they were able to renew acquaintances – in keeping with the anniversary slogan.

Links

www.sg2003.ch

www.talentair.ch



INTERVIEW

Creating enduring value: three questions for Thomas Rüegg

What made the Cantonal Bank of Saint Gall decide to help sponsor the cantonal anniversary celebrations?

The simplest way to answer this question would probably be with another question: Was there any reason not to? As the «Bank of the people of Saint Gall» we feel that we should naturally be at the forefront of important cantonal events. Apart from that, the «SG2003» concept shares the same strengths as our bank: diversity, strong regional roots and a successful combination of individual initiative and a sense of civic spirit. Moreover: one of the five central ideas of the anniversary celebrations was «creating enduring value», a slogan that might have been tailor-made for our bank. As a core message, it therefore dominates almost all of our communication instruments and activities during the anniversary year. This not only underscores our ties with our canton, but also enables us to utilize the synergies for a popular and effective marketing approach.

The anniversary programme is in full swing. Are you satisfied with the results achieved?

One should never say what a good year it has been before the year is over, but judging by the results to date, we have every reason to be satisfied. Both the programme as a whole and the «Talent Air» and «Birthday Party» events specially promoted by the Cantonal Bank have attracted a great deal of attention and support. I was particularly impressed by the many happy faces I saw at the Tonhalle on April 15. Thanks to the fascinating idea of a celebration spanning several generations, we were able to achieve the impossible: a personal encounter involving the whole canton. We were pleased to receive such an enthusiastic response both from the participants and from our customers and employees.

Turning to the slogan «Creating enduring value»: What will be left to show for the Cantonal Bank's active involvement in the celebrations once the cantonal anniversary is over?

Initially nothing that we can or would wish to quantify in terms of figures, but the many enjoyable experiences that the people of Saint Gall will take pleasure in remembering are more important to us than any concrete results. After all, from the outset our primary objective was to play a key part in making this an unforgettable anniversary year. Incidentally, I would not be surprised if some of the anniversary ideas were to become regular events. The pledge to create enduring value could hardly be underlined more impressively than that. And, who knows? With the «Talent Air» competition we may even have paved the way for one or other of the contestants to embark on a long career in show business...



Thomas Rüegg
Head of Marketing since
1 October 2000

BALANCE SHEET (GROUP)

ASSETS in CHF 000s	June 30, 2003	in %	Dec. 31, 2002	in %	Change	in %
Liquid funds	130 747	0.7	167 578	0.9	(36 831)	(22.0)
Receivables from money market instruments	349 077	1.8	340 768	1.9	8 309	2.4
Due from banks	1 310 329	6.9	831 487	4.5	478 842	57.6
Due from customers	2 780 357	14.7	2 908 330	15.9	(127 973)	(4.4)
Mortgage loans	13 100 761	69.1	12 812 208	70.0	288 553	2.3
Total loans to customers	15 881 118	83.8	15 720 538	85.9	160 580	1.0
Securities and precious metals trading portfolios	11 650	0.1	24 962	0.1	(13 312)	(53.3)
Financial investments	711 714	3.8	659 060	3.6	52 654	8.0
Non-consolidated participations	34 904	0.2	33 405	0.2	1 499	4.5
Fixed assets	183 006	1.0	188 105	1.0	(5 099)	(2.7)
Intangibles	135 002	0.7	146 741	0.8	(11 739)	(8.0)
Accrued income and prepaid expenses	96 178	0.5	88 253	0.5	7 925	9.0
Other assets	103 649	0.5	113 435	0.6	(9 786)	(8.6)
Balance sheet total	18 947 374	100.0	18 314 332	100.0	633 042	3.5
Of which:						
– Total subordinated amounts receivable	7 152		14 376		(7224)	(50.3)
– Total due from non-consolidated participations	103 545		105 481		(1936)	(1.8)
– Total due from the canton of Saint Gall	284		0		284	100.0
LIABILITIES						
Due to money market instruments	235	0.0	410	0.0	(175)	(42.7)
Due to banks	973 140	5.1	1 170 724	6.4	(197 584)	(16.9)
Due to customers in savings and deposits	6 136 583	32.4	5 570 593	30.5	565 990	10.2
Other due to customers	3 755 604	19.8	3 740 698	20.4	14 906	0.4
Medium-term notes	847 440	4.5	938 560	5.1	(91 120)	(9.7)
Total customer funds	10 739 627	56.7	10 249 851	56.0	489 776	4.8
Debt and loans secured by mortgages	5 461 336	28.9	5 179 400	28.3	281 936	5.4
Accrued expenses and deferred income	207 544	1.1	164 614	0.9	42 930	26.1
Other liabilities	197 429	1.0	187 220	1.0	10 209	5.5
Valuation adjustments and provisions	234 100	1.2	246 075	1.3	(11 975)	(4.9)
Share capital	500 000	2.7	500 000	2.7	0	0.0
Capital reserve	5 624	0.0	4 862	0.0	762	15.7
Profit reserve	571 465	3.0	511 991	2.9	59 474	11.6
less treasury shares	(3 359)	0.0	0	0.0	(3 359)	(100.0)
Group net profit	60 233	0.3	99 185	0.5	(38 952)	(39.3)
Total shareholder's equity	1 133 963	6.0	1 116 038	6.1	17 925	1.6
Balance sheet total	18 947 374	100.0	18 314 332	100.0	633 042	3.5
Of which:						
– Total subordinated amounts payable	260 000		260 000		0	0.0
– Total due to non-consolidated participations	1 230 948		1 250 525		(19 577)	(1.6)
– Total due to the canton of Saint Gall	50 743		289 639		(238 896)	(82.5)
OFF-BALANCE-SHEET TRANSACTIONS						
Contingent liabilities	240 916		197 593		43 323	21.9
Irrevocable commitments	98 929		119 963		(21 034)	(17.5)
Liabilities for calls on shares and other equities	40 394		40 562		(168)	(0.4)
Derivative instruments:						
– Contract volume	3 219 080		3 262 190		(43 110)	(1.3)
– Positive replacement values	67 323		101 667		(34 344)	(33.8)
– Negative replacement values	87 685		88 021		(336)	(0.4)
Assets under management	18 621 699		17 550 435		1 071 264	6.1
– of which fiduciary transactions	1 747 773		1 603 693		144 080	9.0

INCOME STATEMENT (GROUP)

in CHF 000s	June 30, 2003	June 30, 2002	Change	in %
Interest and discount income	286 335	327 089	(40 754)	(12.5)
Interest and dividend income on trading portfolios	259	861	(602)	(69.9)
Interest and dividend income on financial investments	10 806	10 441	365	3.5
Interest expenses	(147 511)	(198 415)	50 904	25.7
Net interest income	149 889	139 976	9 913	7.1
Commission income from lending activities	919	640	279	43.6
Commission income from securities and investment activities	57 371	46 094	11 277	24.5
Commission income from other service fee activities	8 364	8 187	177	2.2
Commission expenses	(2 426)	(2 315)	(111)	(4.8)
Net fee and commission income	64 228	52 606	11 622	22.1
Net trading income	11 925	5 889	6 036	102.5
Results from the sale of financial investments	3 459	1 249	2 210	176.9
Income from non-consolidated participations	688	1 246	(558)	(44.8)
Results from real estate	1 698	2 185	(487)	(22.3)
Other ordinary results	1 825	4 413	(2 588)	(58.6)
Other ordinary expenses	(1 926)	(4 218)	2 292	54.3
Net other income	5 744	4 875	869	17.8
Operating income	231 786	203 346	28 440	14.0
Personnel expenses	(67 783)	(62 312)	(5 471)	(8.8)
Other operating expenses	(56 035)	(54 185)	(1 850)	(3.4)
Administrative expenses	(123 818)	(116 497)	(7 321)	(6.3)
Gross profit	107 968	86 849	21 119	24.3
Depreciation and write-offs of fixed assets	(6 913)	(6 072)	(841)	(13.9)
Depreciation of intangibles	(11 739)	(6 095)	(5 644)	(92.6)
Valuation adjustments, provisions and losses	(13 007)	(5 595)	(7 412)	(132.5)
Operating profit	76 309	69 087	7 222	10.5
Extraordinary income	2 063	5 516	(3 453)	(62.6)
Extraordinary expenses	0	(712)	712	100.0
Taxes	(18 139)	(16 226)	(1 913)	(11.8)
Group net profit	60 233	57 665	2 568	4.5

MANAGEMENT ACCOUNTS

in CHF 000s	Retail and commercial banking		SGVB		HYPOSWISS ²⁾		Corporate Center		Group	
	2003	Change	2003	Change	2003	Change	2003	Change	2003	Change
Operating income	160 159	10.9	29 011	(7.5)	34 768	72.4	7 848	4.9	231 786	14.0
Administrative expenses	(81 993)	1.4	(18 026)	5.8	(20 006)	(85.5)	(3 793)	(10.1)	(123 818)	(6.3)
Gross profit	78 166	27.7	10 985	(10.1)	14 762	57.4	4 055	0.5	107 968	24.3
– Depreciation and write-offs of fixed assets and intangibles	0	0.0	(1 749)	(39.9)	(72)	87.2	(16 831)	(62.6)	(18 652)	(53.3)
– Valuation adjustments, provisions and losses	(12 515)	(143.4)	(186)	(144.7)	(139)	21.9	(167)	16.5	(13 007)	(132.5)
Operating profit	65 651	17.1	9 050	(16.9)	14 551	68.4	(12 943)	98.5	76 309	10.5
– Extraordinary income, net	0	0.0	0	0.0	0	0.0	2 063	(57.1)	2 063	(57.1)
– Taxes	(9 140)	0.7	(1 916)	22.0	(3 638)	(74.7)	(3 445)	(38.4)	(18 139)	(11.8)
Group net profit	56 511	20.5	7 134	(15.4)	10 913	66.4	(14 325)	240.6	60 233	4.5
Assets under management¹⁾	2 979 472	5.1	9 634 332	2.7	6 007 895	12.7	0	0.0	18 621 699	6.1
Headcount ¹⁾	490	(1.8)	105	0.0	129	(7.2)	293	(13.1)	1 017	(5.9)

Comments:

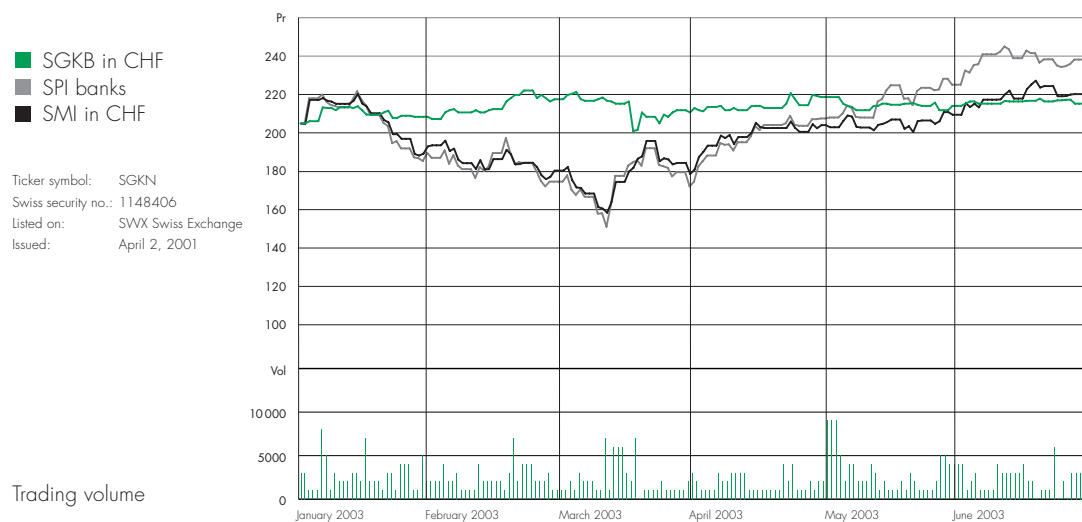
1) Changes in percent of other data refer to December 31, 2002.

2) Since the HYPOSWISS income statement of the prior year included only the 2nd quarter 2002, changes in percent are correspondingly high.

INVESTOR INFORMATION

SHARE PRICE

The price of SGKB shares performed very well in comparison with the Swiss markets as a whole. The value of our stock improved by 35.2% between the first day of listing (April 2, 2001) and June 30, 2003.



INFORMATION FOR INVESTORS

June 30, 2003

Earnings per share (not annualized)	CHF 12.07
Dividend per share	CHF 8.00 ¹⁾
Total shares issued	5 000 000 (Floating 1 945 000)
Time-weighted number of dividend bearing shares	4 990 505
Number of shares held by SGKB (ave.)	10 136
Shareholders	21 288
Issue price	CHF 160.00
Market price (June 30, 2003)	CHF 216.25
Market capitalization	CHF 1 081.3 million
Ratio of market capitalization/shareholders' equity	95.4%
Return on equity, pre-tax (basis: operating profit)	13.8%
Reported shareholders' equity	CHF 1 134.0 million
Dividend yield	3.7%
Price/earnings ratio (annualized)	9.0x
Payout ratio (annualized)	33.1%

1) For the financial year ended as of December 31, 2002

KEY DATES

General Meeting	April 28, 2004
Publication of annual results	February 26, 2004
Media conference	February 26, 2004

CONTACTS FOR SHAREHOLDERS & THE MEDIA

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