


INTERIM REPORT 2/2005



Dear Shareholders

Do you like surprises? You might be amazed to read this question in a Letter to Shareholders because after all, you are mainly interested in a bank that can be relied on – the Cantonal Bank of St. Gallen. That is precisely why we are so pleased to report on our excellent first half of 2005 on the following pages. Our employee Stefan Rava, who you can see in the front cover, also prefers pleasant surprises to nasty ones – not only in his job as a customer adviser, but also as a voluntary helper in the Rapperswil Lake Rescue Service. Together, we intend to remain on the course that we have begun. We thank you for the trust that you have placed in us along the successful path that we have travelled up to now.


Dr. Franz Peter Oesch
Chairman of the Board of Directors


Dr. Urs Rügsegger
Chief Executive Officer



**St.Galler
Kantonalbank**

REVIEW AND PROSPECTS

An excellent first half of 2005

The Cantonal Bank of St. Gallen started out very well in 2005. The results from all the divisions of the Group played their parts in this achievement. At the same time, it was possible to keep costs down to a low level (–0.3%). The Cantonal Bank of St. Gallen was consequently able to achieve further substantial increases in its operating income, gross profit and Group net profit as compared with the figures for the prior year, which were already very good. Another key feature of the first half was the successful strengthening of the shareholders' equity base, which was achieved by exercising the convertible bond.

Operating income rises sharply

The mid-year Group income statement makes very pleasant reading: both the operating income (CHF 262.3 million) and the gross profit (CHF 143.0 million) are significantly above the figures for the prior year. Factors contributing towards this outcome were the improved results from the net fee and commission income (+ CHF 12.0 million) but also in the interest-related business (+ CHF 15.9 million). The increase in interest earnings can also be attributed to the management of the balance-sheet structure (Asset and Liability Management, or ALM), while the net fee and commission income is benefiting from the favourable climate on the stock exchanges and capital markets. The Cantonal Bank of St. Gallen's private banking was especially successful in this regard; in addition, newly-developed investment products met our customers' requirements, including the Multi-Focus Fund, the first time that SGKB has ever launched a fund of its own. Moreover, the encouraging situation on the stock markets had a positive effect on the net trading income, where foreign exchange income was also running ahead of the previous year's figures (+ CHF 4.0 million).

Major increase in clients' assets

The cheerful market environment and the high

quality and intensity of consulting activities had positive effects on clients' assets, which rose by CHF 2.6 billion (9.7%) to reach CHF 29.0 billion. Alongside the positive performance, this also led to a pleasing influx of net new money amounting to CHF 1.0 billion (+ 3.7%).

In the first six months of 2005, loans to customers rose by CHF 102.5 million to reach CHF 16.1 billion. Despite sustained stagnation in the economy and unchanged competitive pressure in the credit business, the high quality of our credit portfolio was maintained.

Successful capital increase

The convertible bond that was terminated as of 10 May 2005 meant that the shareholders' equity rose by a total of some CHF 109.7 million or 9% since the end of 2004, and the share capital rose by CHF 47.5 million to CHF 557.3 million. At the same time, the quota of freely tradable shares (the «Free Float») increased to 44%. The participating interest of the Canton of St. Gallen is now approximately 55%.

Change in management

Marcel W. Schmid is joining the Group Management of the SGKB on 1 October 2005. He will be heading the Group's Private Banking Division and will hold the post of CEO of HYPOSWISS at the same time. Marcel Schmid is replacing Urs Bolzern, who left the Group on 1 July. The Board of Directors wishes to thank Urs Bolzern for his services and the successes that were achieved during his leadership. Until Marcel Schmid takes up his position, Dr. Urs Rügsegger will head the division on an interim basis.

Second half of the year: confident outlook

The Board of Directors and the Management are assuming that the economy will not see substantial movement in the second half of 2005. Nevertheless, the SGKB Group is confident that it will be able to surpass the previous year's very good result in the 2005 financial year.

About the front cover

This picture is one of a series of photographs on the theme of «Growing together» taken from the 2004 Annual Report. The series depicts SGKB employees who also follow our company's basic principle in their leisure time, for example as active member of the lake rescue service.

(Photography: Daniel Ammann, St. Gallen)

Group Key Figures

INCOME STATEMENT in CHF 000s	June 30, 2005	June 30, 2004	June 30, 2003
Operating income	262 323	230 236	231 786
Administrative expenses	(119 367)	(119 696)	(123 818)
Operating profit (interim result)	117 809	78 309	76 309
Group net profit	80 761	61 540	60 233
EARNINGS PER SHARE in CHF			
Earnings per share	15.54	12.24	12.07
Dividend paid out	9.00	8.50	8.00
KEY FIGURES			
Return on equity, pre-tax (basis: operating profit)	17.2%	13.4%	13.8%
Return on equity, after tax (basis: group net profit)	11.8%	10.5%	10.9%
Cost/income-ratio including depreciation on fixed assets	48.4%	55.1%	56.4%
BALANCE SHEET in CHF 000s			
	June 30, 2005	Dec. 31, 2004	Dec. 31, 2003
Loans to customers	16 105 369	16 002 915	15 911 512
Customer funds	10 661 820	10 332 968	10 536 306
Balance sheet total	18 625 924	18 553 653	18 912 789
Shareholders' equity	1 469 004	1 308 764	1 181 192
EQUITY KEY FIGURES			
BIS ratio tier 1	12.5%	11.3%	9.8%
BIS ratio tier 2	13.9%	12.7%	11.4%
Excess capital ratio (CH standard)	66.9%	52.5%	35.8%
Shareholders' equity in % of balance sheet total	8.0%	7.0%	6.3%
FUNDS UNDER MANAGEMENT in CHF 000s			
Funds under management	29 042 389	26 482 420	25 311 915
HEADCOUNT			
Full-time equivalents ¹	959	967	1 003
MOODY'S RATING			
Senior unsecured domestic currency	Aa1	Aa1	Aa1
Bank deposits	Aa1/P-1	Aa1/P-1	Aa1/P-1
Bank financial strength	B	B	B

¹ Apprentices calculated at 50%

RETAIL AND COMMERCIAL BANKING

Company succession with the Cantonal Bank of St.Gallen

One of the most important tasks of any company owner is to make early plans for his succession, and to guide his company through this process which can sometimes be psychologically difficult too. However, this is also a highly important subject in terms of the national economy, given that small and medium-sized enterprises (SMEs) create and maintain most of the jobs in Switzerland. Furthermore, a succession process is imminent in about 15 to 20% of SMEs in the next five years, with some 50 000 companies due to be affected.

Continuing the partnership

The Cantonal Bank of St.Gallen (SGKB) is the ideal partner for this key issue. The bank is thoroughly familiar with local conditions, and it maintains long-lasting business relationships with the SMEs. This partnership based on trust builds up a profound understanding of each enterprise's economic situation and personal circumstances. These reasons explain why our customer advisers are well trained to approach the succession arrangements together with the company owner at an early stage. As well as continuing the cooperation with the company, another objective is to support the departing owner with our financial services as he embarks upon a new phase of his life.

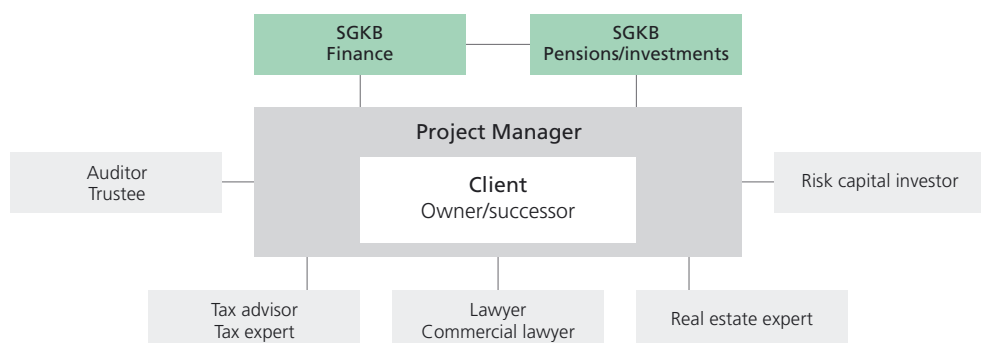
Making use of the local network

When it comes to arranging company successions, the SGKB is supported by its sound know-how as regards finance, investment and pension schemes. The bank also takes advantage of its extensive network of contacts to put SME owners in touch with regionally-based experts. Experienced specialists such as management consultants, auditors, tax advisers and lawyers are on hand to cover the various aspects linked to the succession. This network enables an entrepreneur to benefit from individual solutions that are tailored to his needs, allowing him to select partners with whom a trusting relationship already exists.

Making a contribution to the economy

Thanks to this range of services for succession arrangements, the Cantonal Bank of St.Gallen is able to offer its clients professional support when there is a change of ownership. In this way, the SGKB not only provides an important service for a key phase in the life-cycle of the region's SMEs, but also makes a vital contribution towards the economy of Eastern Switzerland.

OUR NETWORK OF EXPERTS



INTERVIEW

The sooner the better – planning the succession properly: three questions to Peter Diethelm, Corporate Client Advisor at the St. Gallen Branch

Mr Diethelm, as a corporate client adviser you also deal with succession planning for SMEs. What are the most frequent problems that you encounter?

Most succession arrangements are planned too late, or are not planned at all. Many entrepreneurs underestimate the time required to make succession arrangements. Several years are often needed to deal properly with the tax aspects of the handover, for instance. As well as the value of the company, which has to be determined, another aspect that I regard as a problem is the financing of the takeover price by the new owners. Balance-sheets are often «burdened» with assets that are not necessary for operating purposes, and this increases the acquisition price unnecessarily. A decision by the Federal Court in June 2004 does not make matters any easier: if the successor is financing the purchase price from the future income of the firm that he is acquiring, this may be regarded as an indirect partial liquidation, which can lead to a tax liability. For all these reasons, I approach the subject at an early stage. Practice clearly shows that anyone who tackles the preparations for succession in good time instead of putting them off until «later» will be able to ensure the company's continued survival.

Why does succession cause difficulties for many entrepreneurs?

This is a highly emotional subject, because – after all – it involves the lifetime's work of the entrepreneur in many cases. First of all, the owner of the company has to ask himself what is to happen to his firm after he retires. Is a succession possible within the family, or the existing management? Should he sell to someone outside the company? How does his current

and future assets situation look – especially his retirement pension? Does he have to take any precautions related to the laws on marriage, property or inheritance? These questions have to be tackled in the overall context, and it is perfectly obvious that a number of experts should be called in to assist.

Trustees and lawyers usually deal with succession planning for SMEs. Why should a company owner turn to the Cantonal Bank of St. Gallen in particular?

As the bank for the people and the business sector of St. Gallen and Appenzell Ausserrhoden, we maintain close relationships with the owners of companies in the region. In most cases, we have known the entrepreneurs for many years, and we have helped them with their businesses on a basis of partnership and trust. This is why I am convinced that a departing company owner will also trust the Cantonal Bank of St. Gallen to deal professionally with the various aspects of planning for his succession – not only in terms of finance or tax law, but also at the emotional level. One adviser on his own is hardly able to provide all the specialist knowledge that is needed on every subject, so the Cantonal Bank of St. Gallen is backed up by a network of specialists. Again, we know these experts personally, and we work jointly with them to develop the best solution for our clients.



Peter Diethelm, Corporate Client Advisor,
Cantonal Bank of St. Gallen

Group Balance Sheet

ASSETS in CHF 000s	June 30, 2005	in %	Dec. 31, 2004	in %	Change	in %
Liquid funds	116 015	0.6	147 514	0.8	(31 499)	(21.4)
Receivables from money market instruments	340 541	1.8	291 217	1.6	49 324	16.9
Due from banks	816 204	4.4	907 287	4.9	(91 083)	(10.0)
Due from customers	2 334 599	12.6	2 437 206	13.1	(102 607)	(4.2)
Mortgage loans	13 770 770	73.9	13 565 709	73.1	205 061	1.5
<i>Total loans to customers</i>	<i>16 105 369</i>	<i>86.5</i>	<i>16 002 915</i>	<i>86.2</i>	<i>102 454</i>	<i>0.6</i>
Securities and precious metals trading portfolios	40 738	0.2	26 181	0.1	14 557	55.6
Financial investments	717 528	3.9	725 792	3.9	(8 264)	(1.1)
Non-consolidated participations	21 693	0.1	21 846	0.1	(153)	(0.7)
Fixed assets	157 888	0.8	164 008	0.9	(6 120)	(3.7)
Intangibles	88 045	0.5	99 784	0.6	(11 739)	(11.8)
Accrued income and prepaid expenses	88 123	0.5	82 178	0.4	5 945	7.2
Other assets	133 780	0.7	84 931	0.5	48 849	57.5
Total assets	18 625 924	100.0	18 553 653	100.0	72 271	0.4
Of which:						
– Total subordinated amounts receivable	0		0		0	0.0
– Total due from non-consolidated participations	80 514		86 458		(5 944)	(6.9)
– Total due from the Canton of St.Gallen	0		0		0	0.0

LIABILITIES in CHF 000s

Due to money market instruments	206	0.0	210	0.0	(4)	(1.9)
Due to banks	778 873	4.2	837 249	4.5	(58 376)	(7.0)
Due to customers in savings and deposits	6 291 121	33.8	6 411 343	34.6	(120 222)	(1.9)
Other due to customers	3 748 598	20.1	3 251 022	17.5	497 576	15.3
Medium-term notes	622 101	3.3	670 603	3.6	(48 502)	(7.2)
<i>Total customer funds</i>	<i>10 661 820</i>	<i>57.2</i>	<i>10 332 968</i>	<i>55.7</i>	<i>328 852</i>	<i>3.2</i>
Debt and loans secured by mortgages	5 120 935	27.5	5 539 040	29.9	(418 105)	(7.5)
Accrued expenses and deferred income	212 143	1.1	190 366	1.0	21 777	11.4
Other liabilities	189 758	1.0	128 932	0.7	60 826	47.2
Valuation adjustments and provisions	193 185	1.0	216 124	1.2	(22 939)	(10.6)
Reserves for general banking risks	47 000	0.3	34 000	0.2	13 000	38.2
Share capital	557 343	3.0	509 856	2.7	47 487	9.3
Capital reserve	84 069	0.5	20 364	0.1	63 705	312.8
Profit reserve	702 065	3.8	633 162	3.4	68 903	10.9
less treasury shares	(2 234)	0.0	(3 499)	0.0	1 265	36.2
Group net profit	80 761	0.4	114 881	0.6	(34 120)	(29.7)
<i>Total shareholders' equity</i>	<i>1 469 004</i>	<i>8.0</i>	<i>1 308 764</i>	<i>7.0</i>	<i>160 240</i>	<i>12.2</i>
Total liabilities	18 625 924	100.0	18 553 653	100.0	72 271	0.4
Of which:						
– Total subordinated amounts payable	260 000		260 000		0	0.0
– Total due to non-consolidated participations	1 131 438		1 263 062		(131 624)	(10.4)
– Total due to the Canton of St.Gallen	357 986		59 286		298 700	503.8

OFF-BALANCE-SHEET TRANSACTIONS in CHF 000s

Contingent liabilities	223 979		164 450		59 529	36.2
Irrevocable commitments	94 074		105 815		(11 741)	(11.1)
Liabilities for calls on shares and other equities	40 538		40 411		127	0.3
Derivative financial instruments:						
– Contract volume	5 099 744		4 623 229		476 515	10.3
– Positive replacement values	98 397		64 765		33 632	51.9
– Negative replacement values	73 489		48 875		24 614	50.4
Fiduciary transactions	2 484 180		1 559 335		924 845	59.3

Group Income Statement

in CHF 000s	June 30, 2005	June 30, 2004	Change	in %
Interest and discount income	266 323	256 780	9 543	3.7
Interest and dividend income on trading portfolios	475	85	390	458.8
Interest and dividend income on financial investments	9 777	9 765	12	0.1
Interest expenses	(127 537)	(133 530)	5 993	4.5
<i>Net interest income</i>	<i>149 038</i>	<i>133 100</i>	<i>15 938</i>	<i>12.0</i>
Commission income from lending activities	773	845	(72)	(8.5)
Commission income from securities and investment activities	85 063	72 756	12 307	16.9
Commission income from other service fee activities	8 965	8 933	32	0.4
Commission expenses	(3 960)	(3 713)	(247)	(6.7)
<i>Net fee and commission income</i>	<i>90 841</i>	<i>78 821</i>	<i>12 020</i>	<i>15.2</i>
<i>Net trading income</i>	<i>19 239</i>	<i>15 223</i>	<i>4 016</i>	<i>26.4</i>
Results from the sale of financial investments	1 651	917	734	80.0
Income from non-consolidated participations	979	981	(2)	(0.2)
Results from real estate	795	1 373	(578)	(42.1)
Other ordinary income	2 323	1 327	996	75.1
Other ordinary expenses	(2 543)	(1 506)	(1 037)	(68.9)
<i>Net other income</i>	<i>3 205</i>	<i>3 092</i>	<i>113</i>	<i>3.7</i>
Operating income	262 323	230 236	32 087	13.9
Personnel expenses	(69 112)	(62 997)	(6 115)	(9.7)
Other operating expenses	(50 255)	(56 699)	6 444	11.4
<i>Administrative expenses</i>	<i>(119 367)</i>	<i>(119 696)</i>	<i>329</i>	<i>0.3</i>
Gross profit	142 956	110 540	32 416	29.3
Depreciation and write-offs on fixed assets and participations	(8 119)	(7 651)	(468)	(6.1)
Depreciation of intangibles	(11 739)	(11 739)	0	0.0
Valuation adjustments, provisions and losses	(5 289)	(12 841)	7 552	58.8
Operating profit (interim result)	117 809	78 309	39 500	50.4
Extraordinary income	69	1 691	(1 622)	(95.9)
Extraordinary expenses	(13 001)	0	(13 001)	(100.0)
<i>of which creation of reserves for general banking risks</i>	<i>(13 000)</i>	<i>0</i>	<i>(13 000)</i>	<i>(100.0)</i>
Taxes	(24 116)	(18 460)	(5 656)	(30.6)
Group net profit	80 761	61 540	19 221	31.2

Divisional Accounts

in CHF 000s/Change in % compared to prior year	Retail and commercial banking		Private Banking		Corporate Center		Group	
	2005	Change in %	2005	Change in %	2005	Change in %	2005	Change in %
<i>Operating income</i>	<i>129 831</i>	<i>3.5</i>	<i>94 021</i>	<i>18.7</i>	<i>38 471</i>	<i>50.3</i>	<i>262 323</i>	<i>13.9</i>
<i>Administrative expenses</i>	<i>(69 306)</i>	<i>7.6</i>	<i>(40 419)</i>	<i>(11.5)</i>	<i>(9 642)</i>	<i>(14.2)</i>	<i>(119 367)</i>	<i>0.3</i>
<i>Gross profit</i>	<i>60 525</i>	<i>20.1</i>	<i>53 602</i>	<i>24.7</i>	<i>28 829</i>	<i>68.1</i>	<i>142 956</i>	<i>29.3</i>
Depreciation and write-offs on fixed assets and intangibles	0	0.0	(2 272)	(6.5)	(17 586)	(1.9)	(19 858)	(2.4)
Valuation adjustments, provisions and losses	(5 052)	59.3	(68)	60.7	(169)	29.6	(5 289)	58.8
<i>Operating profit (interim result)</i>	<i>55 473</i>	<i>46.0</i>	<i>51 262</i>	<i>26.0</i>	<i>11 074</i>	<i>3 255.0</i>	<i>117 809</i>	<i>50.4</i>
Extraordinary income, net	0	0.0	0	0.0	(12 932)	(864.8)	(12 932)	(864.8)
Taxes	(9 910)	(55.1)	(10 121)	(21.0)	(4 085)	(10.1)	(24 116)	(30.6)
<i>Group net profit</i>	<i>45 563</i>	<i>44.2</i>	<i>41 141</i>	<i>27.3</i>	<i>(5 943)</i>	<i>(150.9)</i>	<i>80 761</i>	<i>31.2</i>
<i>Other data¹</i>								
Loans to customers	14 917 392	0.4	1 187 977	3.6	0	0.0	16 105 369	0.6
Customer funds	7 531 214	0.3	3 130 606	11.0	0	0.0	10 661 820	3.2
Funds under Management	8 534 951	1.9	20 507 438	13.3	0	0.0	29 042 389	9.7
Headcount (in accordance with RRV-EBK) ²	482	(1.6)	224	2.3	253	(1.9)	959	(0.8)
Cost/income-ratio	53.4%	(10.7)	45.4%	(6.3)	n/a	n/a	48.4%	(12.1)

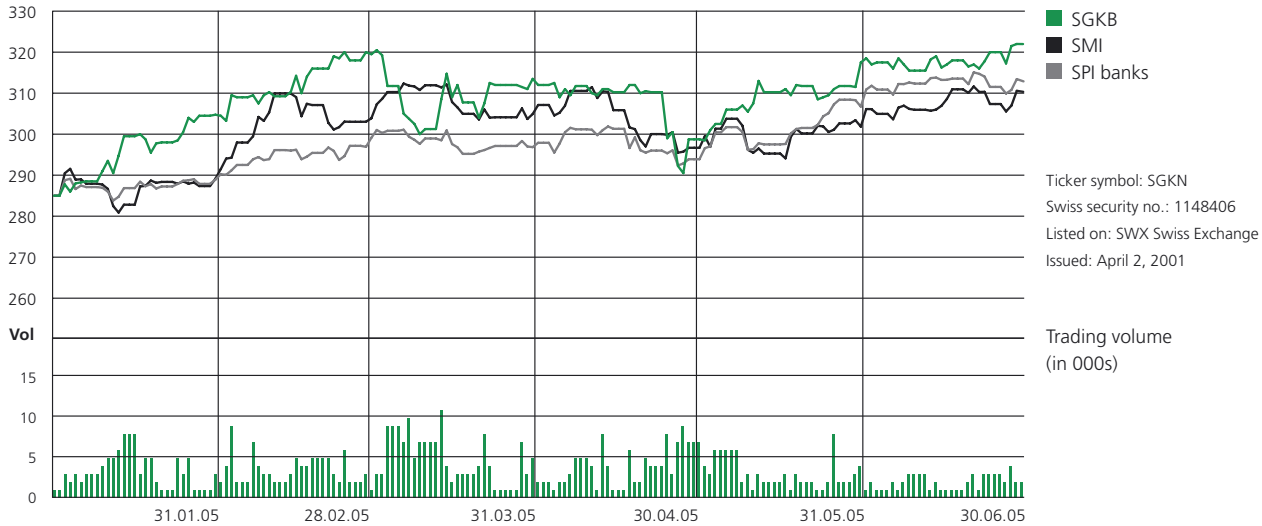
¹ Changes in percent of other data refer to December 31, 2004.

² Full-time equivalents; apprentices calculated at 50%

Information for investors

PRICE DEVELOPMENT

In overall terms, the SGKB share price developed positively during the past year. From 1 January to 30 June 2005 the value of the share rose by 13.0%.



SHARE STATISTICS

JUNE 30, 2005

CONTACT

Earnings per share	15.54
Dividend per share	CHF 9.00 ¹
Total shares issued	5 573 426 (Floating 2 453 355)
Time-weighted number of dividend-bearing shares	5 197 501
Number of shares held by SGKB (ave.)	8 758
Shareholders	25 509
Issue price (IPO)	CHF 160.00
Market price	CHF 322.00
Market capitalization	CHF 1 794.6 million
Ratio of market capitalization/ shareholders' equity	122.2%
Return on equity (basis: operating profit)	17.2%
Reported shareholders' equity	CHF 1 469.0 million
Dividend yield	2.8%
Price-earnings ratio	10.4 x (annualized)

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¹ For the financial year ended as of December 31, 2004.

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