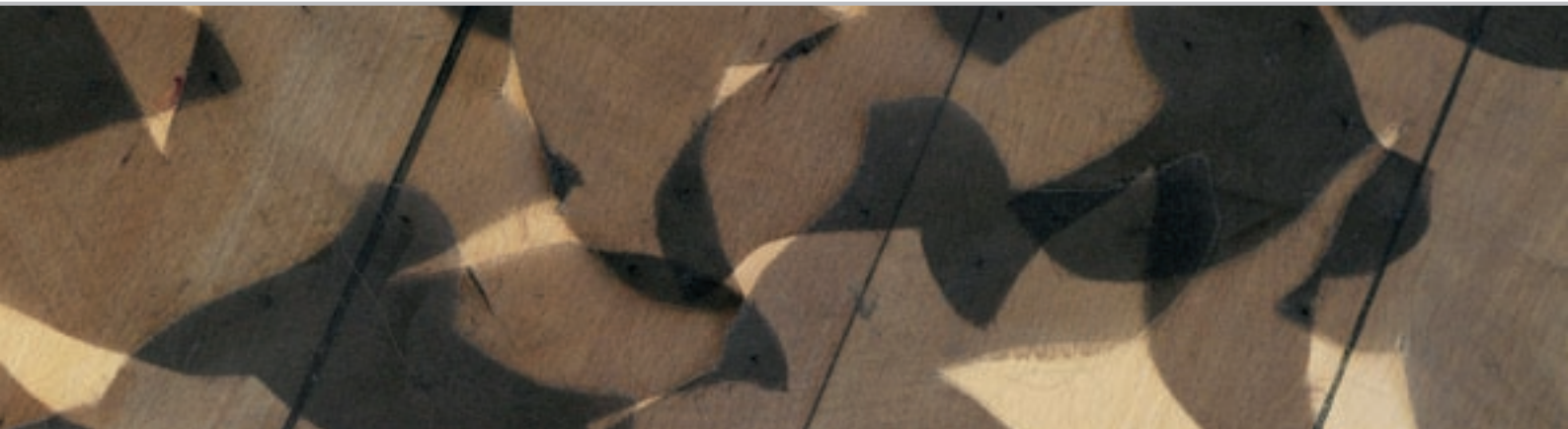


[Financial Year 2006]



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Group Key Figures

Income Statement in CHF 000s	2006	2005	2004
Operating income	555 131	533 163	451 984
Administrative expenses	(253 878)	(242 897)	(236 932)
Operating profit (interim result)	252 772	235 973	162 741
Group net profit	228 555	168 302	114 881

Balance Sheet in CHF 000s	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Loans to customers	17 208 671	16 435 880	16 002 915
Customer funds	11 802 711	10 959 905	10 332 968
Balance sheet total	19 799 982	19 117 331	18 553 653
Shareholders' equity	1 705 676	1 561 681	1 308 764

Funds under Management in CHF 000s			
Funds under management ¹	38 838 934	33 323 426	28 832 090

Headcount			
Full-time equivalents (in accordance with RRV-EBK; apprentices calculated at 50%)	972	957	967

¹ Restatement of the definition of funds under management, which now include other amounts due to customers and exclude SGKB shares held by the Canton of St. Gallen. The figures for previous years have been restated accordingly.

Key Figures	2006	2005	2004
SGKB share in CHF			
Earnings per share	41.21	30.99	22.91
Dividend per share	–	13.00	9.00
Proposed repayment of the par value per share	30.00	–	–
Market price as of December 31	512.00	390.00	285.00
Market capitalization as of December 31 (in CHF million)	2 853.60	2 173.60	1 453.10

Return on equity			
Return on equity, pre-tax (basis: operating profit)	16.7%	17.1%	13.6%
Return on equity, after tax (basis: group net profit)	15.1%	12.2%	9.6%

Cost/income-ratio			
Cost/income-ratio including depreciation on fixed assets	48.1%	48.2%	55.6%

Equity key figures			
BIS ratio tier 1	13.5%	13.5%	11.3%
BIS ratio tier 2	14.2%	14.5%	12.7%
Excess capital ratio (CH standard)	74.8%	75.9%	52.5%
Shareholders' equity in % of balance sheet total	8.5%	8.2%	7.0%

Moody's Rating	2006	2005	2004
Senior unsecured domestic currency	Aa1	Aa1	Aa1
Bank deposits	Aa1/P-1	Aa1/P-1	Aa1/P-1
Bank financial strength	B	B	B

Board of Directors and Group Management 2006

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	Prof. Dr. Thomas A. Gutzwiller

Group Management

Dr. Urs Rüeeggger, CEO	Marcel Zoller, Deputy CEO	Roland Ledergerber	Marcel W. Schmid
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Dr. Franz Peter Oesch
Chairman of the Board of Directors



Dr. Urs Rügsegger
Chief Executive Officer

Dear Shareholders,

The Cantonal Bank of St.Gallen is in a constant state of interplay between tradition and innovation. We pride ourselves on traditional values. At the same time, the rapidly changing environment demands permanent renewal. Against this backdrop, we once again achieved an outstanding set of results in 2006.

The Cantonal Bank of St.Gallen Group is in extremely good shape. In 2006, the group surpassed the first-rate results it had achieved in 2005. For the first time, group net profit surpassed the 200 million mark, reaching a total of 228.6 million Swiss francs (+35.8%). The fact that all of the bank's business segments – both our interest-related business and our investment business – contributed to this result was particularly pleasing. There was a renewed increase in both loans to customers of 772.8 million Swiss francs (+4.7%) and in customer funds of 842.8 million Swiss francs (+7.7%). In addition, funds under management advanced by an impressive 5.5 billion Swiss francs (16.6%). At the same time, the group's costs are under control: administrative expenses advanced by only 4.5%, and this increase was due to the project costs associated with the bank's forthcoming migration to a new IT platform. Nevertheless, the Cantonal Bank of St.Gallen was able to maintain its very high productivity levels. The advances made in recent years have been consolidated. Our strategy has proved successful. We are on the right course.

“Our core values are responsibility, professionalism and quality.”

Our positive business results are based not least on the trust that you, our shareholders, place in us. We are delighted that we have been able to justify this confidence by achieving record results and an extremely good performance – and also, in concrete terms, in the form of a renewed increase in shareholder distributions. The Board of Directors will propose to the Annual General Meeting that, instead of a dividend distribution, a par value repayment of 30 Swiss francs per share be carried out. The substantial increase in the distribution amount relative to the previous year (+130.8%) reflects the fact that the Cantonal Bank of St.Gallen has reached its targeted equity base. In addition, par value repayments have specific tax advantages compared to dividend distributions. As a result, the group's share capital will be reduced from 557.3 million Swiss francs to 390.1 million Swiss francs. It should be noted, however, that even following the par value repayment, the Cantonal Bank of St.Gallen will still have sufficient equity to carry out targeted acquisitions.

Dear shareholders, our success has also been attested to by external sources. Independently of one another, the two renowned consulting companies Accenture and IFBC reached the conclusion that the Cantonal Bank of St.Gallen is the frontrunner in terms of value growth. Within the group of cantonal banks, we have generated the most added value for our shareholders. Moreover, we are one of only a very select few institutions that have been able to deliver a return in excess of the cost of equity. We are also one of the leading banks in terms of growth: our institution has achieved above-average advances in operating income. This not only holds true for one specific year, but has now been the case for a period of six years.

The value of the Cantonal Bank of St.Gallen has been constantly increasing, a fact that has also been reflected in our share price. At the end of December 2006, our share reached a price of 512 Swiss francs, close to its high for the year. During the year as a whole, the share-price performance was an impressive 31.3%. Combined with the dividend payment

of 13 Swiss francs distributed last year, investors enjoyed a total return – relative to the share price at the beginning of the year – of 34.6%.

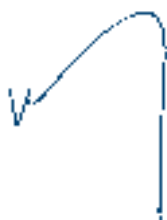
The Cantonal Bank of St. Gallen is in an excellent position. We are extremely well equipped for the future and confident that we will be able to successfully meet the challenges ahead. To this end, we place particular emphasis on the following three targets:

- The resolute positioning of the Cantonal Bank of St. Gallen as a leading investment advisor
- The successful upgrading of our IT platform as a basis for further growth
- The reinforcement of our market leadership in the face of increasing competitive pressure

Continued growth is our aim, one which we will undoubtedly achieve. Our target is to further strengthen the position of the Cantonal Bank of St. Gallen in the Private Banking business – in the region, in Switzerland and abroad. We have created the ideal conditions to achieve this objective in the form of our subsidiary HYPOSWISS Privatbank AG, as well as the private and retail banking businesses of the parent company. In addition, the high level of competence afforded by our Investment Center enables us to manage even the most complex of mandates. In all of these processes, information technology plays a key role. In this area too, we have been prompt to lay the groundwork: our new, state-of-the-art IT platform Avaloq was launched at HYPOSWISS at the start of 2007 and will be introduced at the parent company by mid-2008.

The past year was one of dynamic change for the banking sector in eastern Switzerland. An increasing number of financial service providers from both Switzerland and neighboring countries are attempting to gain a foothold in the region. This trend will continue in 2007. We accept this challenge, indeed we look forward to it with a certain sense of composure. We are operating from a position of strength. In terms of our range of services, our strategy and its implementation, we are on the right course. We enjoy a combination of excellent products and highly motivated employees. Last but not least, we have a modern Head Office in the city of St. Gallen whose renovation will be completed in spring this year with the opening of our new customer lobby.

As you can see, the Cantonal Bank of St. Gallen Group has an optimistic outlook, for both the current financial year and in terms of our long-term future. In the interplay between tradition and innovation we regard ourselves as the guardians of continuity – in order to ensure further shared success with our shareholders.



Dr. Franz Peter Oesch



Dr. Urs Rügsegger

Cover photo

A tailor-made commitment to culture: Our 2006 Annual Report is illustrated with images from last year's "Schnittpunkt Kunst + Kleid" exhibition. The cover photograph is from the Akris display at the St. Gallen Textile Museum.

Group Balance Sheet

Assets in CHF 000s	Dec. 31, 2006	in %	Dec. 31, 2005	in %	Change	in %
Liquid funds	111 158	0.6	119 350	0.6	(8 192)	(6.9)
Receivables from money market instruments	335 959	1.7	343 071	1.8	(7 112)	(2.1)
Due from banks	1 030 030	5.2	1 011 850	5.3	18 180	1.8
Due from customers	2 930 849	14.8	2 502 392	13.1	428 457	17.1
Mortgage loans	14 277 822	72.1	13 933 488	72.9	344 334	2.5
Total loans to customers	17 208 671	86.9	16 435 880	86.0	772 791	4.7
Securities and precious metals trading portfolios	56 621	0.3	48 994	0.3	7 627	15.6
Financial investments	675 387	3.4	699 815	3.7	(24 428)	(3.5)
Non-consolidated participations	19 275	0.1	21 213	0.1	(1 938)	(9.1)
Fixed assets	172 733	0.9	156 938	0.8	15 795	10.1
Intangibles	60 209	0.3	76 305	0.4	(16 096)	(21.1)
Accrued income and prepaid expenses	83 775	0.4	84 400	0.4	(625)	(0.7)
Other assets	46 164	0.2	119 515	0.6	(73 351)	(61.4)
Total assets	19 799 982	100.0	19 117 331	100.0	682 651	3.6
Of which:						
– Total subordinated amounts receivable	525		1 575		(1 050)	(66.7)
– Total due from non-consolidated participations	78 580		128 150		(49 570)	(38.7)
– Total due from the Canton of St. Gallen	0		0		0	0.0

Liabilities in CHF 000s

Due to money market instruments	222	0.0	206	0.0	16	7.8
Due to banks	665 212	3.4	822 460	4.3	(157 248)	(19.1)
Due to customers in savings and deposits	6 193 089	31.3	6 523 200	34.1	(330 111)	(5.1)
Other due to customers	4 900 653	24.8	3 818 579	20.0	1 082 074	28.3
Medium-term notes	708 969	3.6	618 126	3.2	90 843	14.7
Total customer funds	11 802 711	59.7	10 959 905	57.3	842 806	7.7
Debt and loans secured by mortgages	5 154 629	26.0	5 263 935	27.5	(109 306)	(2.1)
Accrued expenses and deferred income	174 475	0.9	180 446	0.9	(5 971)	(3.3)
Other liabilities	105 841	0.5	128 739	0.7	(22 898)	(17.8)
Valuation adjustments and provisions	191 216	1.0	199 959	1.1	(8 743)	(4.4)
Reserves for general banking risks	48 400	0.2	61 000	0.3	(12 600)	(20.7)
Share capital	557 343	2.8	557 343	2.9	0	0.0
Capital reserve	83 615	0.4	82 810	0.4	805	1.0
Profit reserve	798 672	4.0	702 155	3.7	96 517	13.7
less treasury shares	(10 909)	(0.1)	(9 929)	0.0	(980)	(9.9)
Group net profit	228 555	1.2	168 302	0.9	60 253	35.8
Total shareholders' equity	1 705 676	8.5	1 561 681	8.2	143 995	9.2
Total liabilities	19 799 982	100.0	19 117 331	100.0	682 651	3.6
Of which:						
– Total subordinated amounts payable	260 000		260 000		0	0.0
– Total due to non-consolidated participations	1 286 918		1 176 938		109 980	9.3
– Total due to the Canton of St. Gallen	429 991		377 856		52 135	13.8

Off-Balance-Sheet Transactions in CHF 000s

Contingent liabilities	326 467		286 021		40 446	14.1
Irrevocable commitments	169 583		175 943		(6 360)	(3.6)
Liabilities for calls on shares and other equities	40 411		40 411		0	0.0
Derivative financial instruments:						
– Contract volume	4 475 089		5 136 411		(661 322)	(12.9)
– Positive replacement values	33 534		69 784		(36 250)	(51.9)
– Negative replacement values	28 005		35 860		(7 855)	(21.9)
Fiduciary transactions	4 646 171		2 131 622		2 514 549	118.0

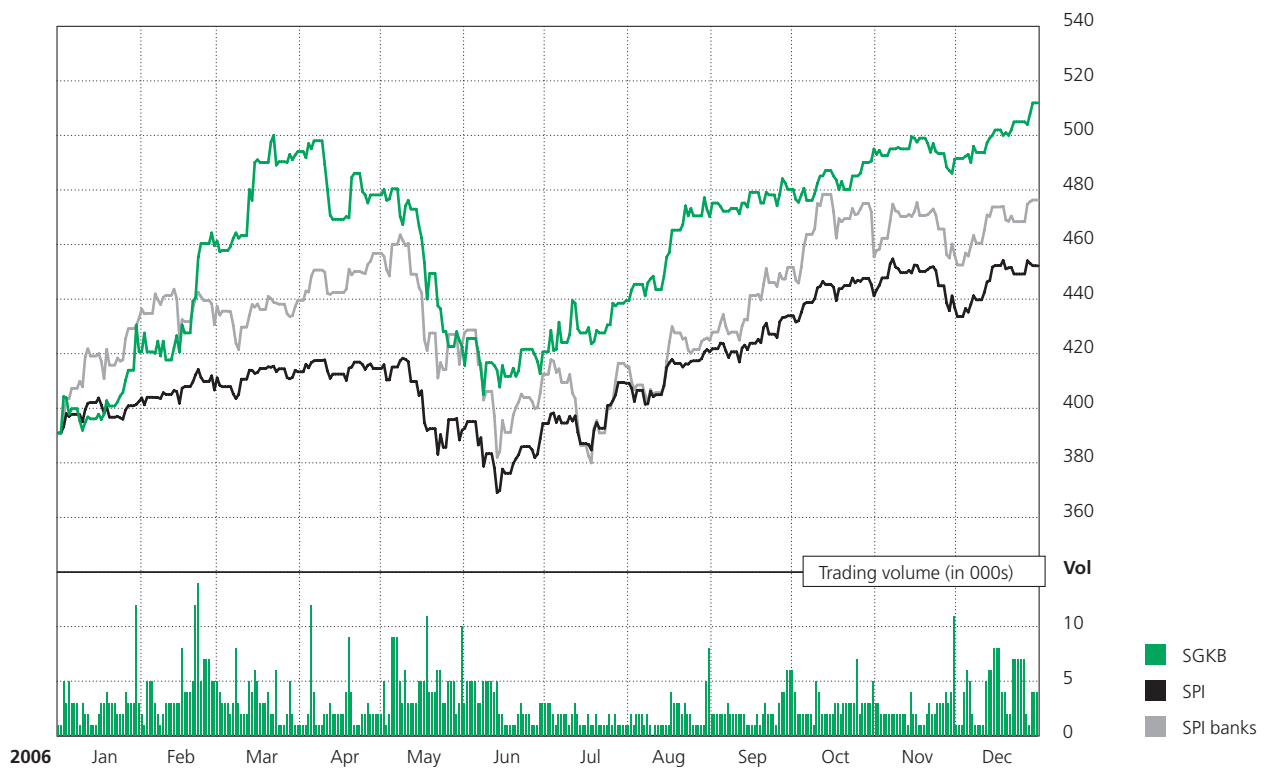
Group Income Statement

in CHF 000s	2006	2005	Change	in %
Interest and discount income	560 272	532 684	27 588	5.2
Interest and dividend income on trading portfolios	537	722	(185)	(25.6)
Interest and dividend income on financial investments	18 897	19 446	(549)	(2.8)
Interest expenses	(271 037)	(249 990)	(21 047)	(8.4)
Net interest income	308 669	302 862	5 807	1.9
Commission income from lending activities	2 230	1 925	305	15.8
Commission income from securities and investment activities	190 478	175 037	15 441	8.8
Commission income from other service fee activities	17 994	18 266	(272)	(1.5)
Commission expenses	(9 010)	(10 474)	1 464	14.0
Net fee and commission income	201 692	184 754	16 938	9.2
Net trading income	37 482	39 383	(1 901)	(4.8)
Results from the sale of financial investments	2 470	1 823	647	35.5
Income from non-consolidated participations	1 963	1 451	512	35.3
Income from real estate	722	1 444	(722)	(50.0)
Other ordinary income	3 493	4 353	(860)	(19.8)
Other ordinary expenses	(1 360)	(2 907)	1 547	53.2
Net other income	7 288	6 164	1 124	18.2
Operating income	555 131	533 163	21 968	4.1
Personnel expenses	(149 143)	(145 012)	(4 131)	(2.8)
Other operating expenses	(104 735)	(97 885)	(6 850)	(7.0)
Administrative expenses	(253 878)	(242 897)	(10 981)	(4.5)
Gross profit	301 253	290 266	10 987	3.8
Depreciation and write-offs on fixed assets and participations	(12 994)	(14 972)	1 978	13.2
Depreciation of intangibles	(25 200)	(23 479)	(1 721)	(7.3)
Valuation adjustments, provisions and losses	(10 287)	(15 842)	5 555	35.1
Operating profit (interim result)	252 772	235 973	16 799	7.1
Extraordinary income	16 876	1 285	15 591	1 213.3
<i>of which dissolution of reserves for general banking risks</i>	<i>12 600</i>	<i>0</i>	<i>12 600</i>	<i>n/a</i>
Extraordinary expenses	(2 002)	(27 001)	24 999	92.6
<i>of which creation of reserves for general banking risks</i>	<i>0</i>	<i>(27 000)</i>	<i>27 000</i>	<i>100.0</i>
Group profit before taxes	267 646	210 257	57 389	27.3
Taxes	(39 091)	(41 955)	2 864	6.8
Group net profit	228 555	168 302	60 253	35.8

Divisional Accounts	Retail and commercial banking		Private Banking		Corporate Center		Group	
	2006	2005	2006	2005	2006	2005	2006	2005
in CHF 000s								
Operating income	287 423	259 819	221 767	192 562	45 941	80 782	555 131	533 163
Administrative expenses	(139 420)	(139 214)	(89 411)	(79 600)	(25 047)	(24 083)	(253 878)	(242 897)
Gross profit	148 003	120 605	132 356	112 962	20 894	56 699	301 253	290 266
Depreciation and write-offs on fixed assets and intangibles	0	0	(1 305)	(3 618)	(36 889)	(34 833)	(38 194)	(38 451)
Valuation adjustments, provisions and losses	(4 656)	(8 894)	(4 973)	(597)	(658)	(6 351)	(10 287)	(15 842)
Operating profit (interim result)	143 347	111 711	126 078	108 747	(16 653)	15 515	252 772	235 973
Extraordinary income	0	0	8 024	(11 000)	6 850	(14 716)	14 874	(25 716)
Taxes	(16 917)	(17 644)	(20 114)	(19 870)	(2 060)	(4 441)	(39 091)	(41 955)
Group net profit	126 430	94 067	113 988	77 877	(11 863)	(3 642)	228 555	168 302
Other data								
Loans to customers	15 323 425	15 025 711	1 885 246	1 410 169	0	0	17 208 671	16 435 880
Customer funds	8 377 696	7 900 946	3 425 015	3 058 959	0	0	11 802 711	10 959 905
Funds under management	11 936 930	11 087 491	26 902 004	22 235 935	0	0	38 838 934	33 323 426
Headcount	485	486	229	217	258	254	972	957
Cost/income-ratio	48.5%	53.6%	40.8%	43.2%	n/a	n/a	48.1%	48.2%

Information for Investors

In overall terms, the SGKB share price developed positively during the past year. From 1 January to 31 December 2006 the value of the share rose by 31.3 %.



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

Share Statistics

Dec. 31, 2006

Earnings per share	CHF 41.21
Proposed repayment of the par value per share	CHF 30.00 ¹
Total shares issued	5 573 426
Tradable shares (free float)	2 440 139
Time-weighted number of dividend-bearing shares	5 546 748
Number of shares held by SGKB (average)	26 814
Shareholders	25 944
Issue price (IPO)	CHF 160.00
Market price	CHF 512.00
– Highest price (Dec. 29, 2006)	CHF 515.00
– Lowest price (Jan. 3, 2006)	CHF 390.00
Market capitalization	CHF 2 853.6 Mio.
Ratio of market capitalization/ shareholders' equity	167.3%
Return on equity (basis: operating profit)	16.7%
Reported shareholders' equity	CHF 1 705.7 Mio.
Yield relating to the repayment of the par value per share	5.9%
Price-earnings ratio	12.4

Shareholder Structure



Canton of St. Gallen	54.8%
SGKB employees	1.8%
Corporates	13.1%
Individuals	22.9%
Registration pending	7.4%

¹ Recommendation of the Board of Directors for the financial year ended on Dec. 31, 2006

Contact

[Shareholders]

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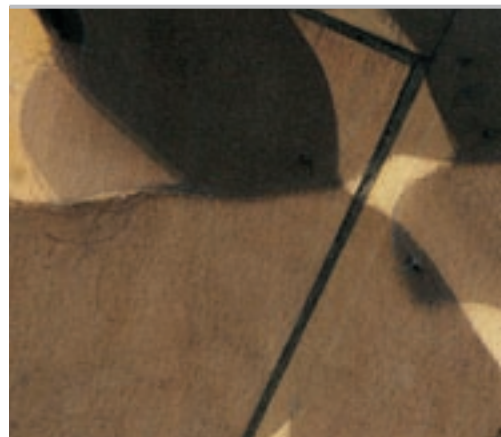
[Media]

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Important Information Sources

	[Frequency]
Annual conference for media/analysts	annual
Annual report (German)	annual
Annual report (English)	annual
Shareholders' Meeting	annual
Interim report (newsletter to shareholders)	annual
Interim conference for media/analysts	annual
Newsletter to shareholders in German and English	semi-annual
Press releases	as required
www.sgkb.ch	ongoing

Current publication and event dates are available at www.sgkb.ch (→ Media/Investors)



Brief profile

The **Cantonal Bank of St.Gallen Group** comprises the Cantonal Bank of St.Gallen (SGKB), the parent company founded in 1868, and its subsidiary HYPOSWISS Privatbank AG, which was acquired in 2002. The SGKB has been listed on the SWX exchange since 2001; the canton of St.Gallen is the majority shareholder with 54.8% of the share capital. Measured in terms of the balance sheet total reported in the group's results for the first half of 2006, the SKGB is Switzerland's ninth largest universal bank and fifth largest cantonal bank. As the parent company, the SGKB offers a comprehensive range of financial services to its customers in the cantons of St.Gallen and Appenzell Ausserrhoden. In addition, the Cantonal Bank of St.Gallen assumes responsibility for the economic, social and cultural development of the region in its capacities as an employer, taxpayer and sponsorship partner. On 31 December 2006, the Group employed a total of 1091 staff. The parent company operates with a state guarantee and has an Aa1 credit rating from Moody's.