

[Financial Year 2007]



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Group Key Figures

Income Statement in CHF 000s	2007	2006	2005
Operating income	559 789	555 131	533 163
Administrative expenses	270 106	253 878	242 897
Operating profit (interim result)	246 089	252 772	235 973
Group net profit	226 682	228 555	168 302

Balance Sheet in CHF 000s	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Loans to customers	17 102 122	17 208 671	16 435 880
Customer funds	12 292 293	11 802 711	10 959 905
Balance sheet total	20 235 796	19 799 982	19 117 331
Shareholders' equity	1 739 533	1 705 676	1 561 681

Funds under Management in CHF 000s			
Funds under management	37 883 264	38 838 934	33 323 426

Headcount			
Full-time equivalents (in accordance with BAG-FBC; apprentices calculated at 50%)	1 007	972	957
Number of employees:			
– Individuals	1 132	1 091	1 073
– of which trainees	111	108	108

Key Figures	2007	2006	2005
SGKB share in CHF			
Earnings per share	40.91	41.21	30.99
Dividend per share	26.00	0.00	13.00
Repayment of the par value per share	0.00	30.00	0.00
Market price			
– as of December 31	498.00	512.00	390.00
– Highest price	642.00	515.00	422.00
– Lowest price	445.00	390.00	282.00
Market capitalization as of December 31 (in CHF million)	2 775.60	2 853.60	2 173.60

Return on equity			
Return on equity, pre-tax (basis: operating profit)	15.7 %	16.7 %	17.1 %
Return on equity, after tax (basis: group net profit)	14.5 %	15.1 %	12.2 %

Cost/income-ratio			
Cost/income-ratio including depreciation on fixed assets	51.2 %	48.4 %	48.2 %

Equity key figures			
BIS ratio tier 1	13.9 %	13.5 %	13.5 %
BIS ratio tier 2	14.5 %	14.2 %	14.5 %
Excess capital ratio (CH standard)	83.0 %	74.8 %	75.9 %
Shareholders' equity as % of balance sheet total	8.5 %	8.6 %	8.2 %

¹ Recommendation of the Board of Directors for the financial year ended on Dec. 31, 2007

A historical data comparison with prior years is difficult due to the major project of migrating the Bank's IT platform. This concerns administrative expenses, operating profit, pre-tax return on equity and the cost/income-ratio.

Moody's Rating	2007	2006	2005
Senior unsecured domestic currency	Aa1	Aa1	Aa1
Bank deposits	Aa1 / P-1	Aa1 / P-1	Aa1 / P-1
Bank financial strength	B-	B	B



Dr. Franz Peter Oesch
Chairman of the Board of Directors



Roland Ledergerber
Chief Executive Officer

Dear Shareholders,

“Bright, welcoming and modern” was just one of the many positive descriptions of our new head office following the successful renovation of the building last spring. After 18 months of construction, it was as if a completely new building had been created, with an interior design as striking in its spaciousness as in its transparency. The new office spaces, which are bathed in natural light and boast state-of-the-art infrastructure, allow completely new perspectives and encounters, bringing our clients and staff closer together on an emotional level – in keeping with our motto of “mutual growth”.

At the same time, the new headquarters are a symbol of the “new” Cantonal Bank of St.Gallen, which has exhibited impressive dynamism and an outstanding track record of successes since its listing on the stock exchange. During the past seven years, there has been a pronounced change in the Bank’s culture, performance and customer service. It is with pride that we can state that the Cantonal Bank of St.Gallen is today one of the most successful and most robust banks in Switzerland. This assessment has once again been corroborated by the most recent report published by consulting firm IFBC, according to which the SGKB is among only a handful of financial institutions in Switzerland that have been able to create added value for their shareholders (www.ifbc.ch).

As we reported in our last Letter to Shareholders following the announcement of the Group’s half-year results, the Cantonal Bank of St.Gallen has ended the 2007 fiscal year on a par with the record result achieved in the previous year. The Group, including subsidiary Hyposwiss, was able to maintain a high level of earnings power while simultaneously keeping costs under control. In addition, the Bank continues to benefit from an extremely low level of credit risk provisions. Against the backdrop of a difficult financial market environment in 2007, we are extremely pleased with this result.

The SGKB Group was able to replicate the record level achieved in the previous year despite a difficult financial market environment in 2007.

The Cantonal Bank of St.Gallen Group once again recorded a moderate increase in operating income (CHF 559.8 million, + 0.8%), primarily driven by a further improvement in the Bank’s net fee and commission income. Net interest income came in at CHF 305.3 million, around one percent lower than the previous year’s total. This result was attributable to the ongoing flatness of the interest-rate curve, as well as a decline in customer savings accounts, a large proportion of which were reallocated into high-interest term deposits. This resulted in higher interest expenses. Overall, customer funds increased by 4.1% relative to the prior year, while there was a moderate decrease in loans to customers (–0.6%). The latter were primarily impacted by a decline in credit and loans (due from customers). By contrast, there was a 2.8% increase in mortgage loans, with variable mortgages in particular advancing by two-thirds relative to the previous year. The ratio of fixed-rate mortgages to variable mortgages was around 80 : 20 at the end of the year under review. Once again, the Bank was able to record a substantial increase in its net fee and commission income (+6.7% to CHF 215.2 million). This result is particularly pleasing in light of the volatility witnessed on the equity markets throughout the year. The high top-line spread (ratio of operating income to funds under management) in Private Banking of 1.19% provides further evidence of the high level of profitability of the SGKB Group. Portfolio-related fees accounted for 60.1% (previous year: 59.1%) of total fee and commission income, while transaction-related fees accounted for 39.9% (previous year: 40.9%). Net fee and commission income now constitutes 38.4% of the Bank’s overall income.

Profit before taxes increased by 2.4% to CHF 274.0 million, underlining the substantial earnings power of the SGKB Group. Due to a higher tax expenses and the migration to a new IT platform, group net profit declined by 0.8% to CHF 226.7 million. As these figures clearly demonstrate, the Cantonal Bank of St.Gallen continues to display a high level of earnings and profitability. This is reflected in the Bank's excellent cost/income-ratio of 51.2% (47.0% excluding the IT project), as well as its high return on equity before taxes of 15.7%. In light of the Bank's outstanding business performance in 2007, the Board of Directors and the Executive Board will recommend to you, esteemed shareholders, a dividend payment of CHF 26 per share at the Annual General Meeting to be held on 23 April 2008.

Transparency – a principle to which we, as a listed company, are firmly committed – does not only come into play at the Cantonal Bank of St.Gallen when we announce our business results. As the recent subprime crisis has clearly demonstrated, our strategy based on quality and solidity has proved to be the right one. This is particularly true in the lending segment; in the interests of both our clients and our shareholders, we do not make any ill-considered concessions when granting loans. Although our adherence to these strict guidelines may result in the Bank missing out on certain transactions, it also ensures that we are in no way exposed to circumstances such as those currently prevalent in the US mortgage market. For the same reason, we do not invest in related financial derivatives. All in all, this allows us to state, with a clear conscience, that we are in no way impacted by the credit crisis. Nevertheless, the SGKB share was unable to avoid the downside pressure on banking stocks witnessed in the second half of 2007.

Despite these temporary fluctuations on the financial markets, we continued to adhere to our long-term corporate policy and made a number of important strategic decisions aimed at ensuring the ongoing success and growth-oriented future of the Cantonal Bank of St.Gallen:

- The resolute positioning of our subsidiary Hyposwiss as a “boutique” provider in the private banking segment, enabling a more individually-tailored processing of both domestic and foreign markets.
- The acquisition of Anglo Irish Bank (Switzerland), a private bank based in Geneva, which secures us a strong foothold in this traditional bastion of private banking and affords us the opportunity to expand our product range and know-how in the area of alternative investments.
- The creation of a new, central support unit – “Finance and Risk Management” – which reflects the importance that the Cantonal Bank of St.Gallen attaches to risk management.

Moreover our next steps on the path toward growth will be taken with a new executive team. Former Chairman of the Executive Board Dr. Urs Rügsegger, who left the Bank at the end of January 2008, not only played a decisive role in advancing the successful momentum of the Cantonal Bank of St.Gallen, but also strongly influenced the Bank's culture. The Board of Directors would like to thank Urs Rügsegger for his extraordinary dedication; we wish him all the very best for the future, both professionally and personally. A process of staff replacement at the senior management level has been promptly initiated and is progressing on a solid basis – just as the renovated head office building rests on secure foundations.

We would like to thank you for the trust that you have placed in the Cantonal Bank of St.Gallen, particularly given the turbulent situation on the financial markets in 2007. We will continue to do our utmost to live up to this confidence in future – especially in 2008, a year in which our Bank will be able to look back on 140 years of history.



Dr. Franz Peter Oesch



Roland Ledergerber

Cover photo

New spaces in familiar surroundings: The images depicted in the Cantonal Bank of St. Gallen's annual report for 2007 reflect architectural and artistic impressions of the Bank's newly designed head office, which was opened in April 2007.

Group Balance Sheet

Assets in CHF 000s	Dec. 31, 2007	in %	Dec. 31, 2006	in %	Change	in %
Liquid funds	131 170	0.6	111 158	0.6	20 012	18.0
Receivables from money market instruments	331 860	1.6	335 959	1.7	(4 099)	(1.2)
Due from banks	1 397 815	6.9	1 030 030	5.2	367 785	35.7
Due from customers	2 427 839	12.0	2 930 849	14.8	(503 010)	(17.2)
Mortgage loans	14 674 283	72.5	14 277 822	72.1	396 461	2.8
Total loans to customers	17 102 122	84.5	17 208 671	86.9	(106 549)	(0.6)
Securities and precious metals trading portfolios	15 288	0.1	56 621	0.3	(41 333)	(73.0)
Financial investments	661 790	3.3	675 387	3.4	(13 597)	(2.0)
Non-consolidated participations	19 184	0.1	19 275	0.1	(91)	(0.5)
Fixed assets	172 399	0.9	172 733	0.9	(334)	(0.2)
Intangibles	42 786	0.2	60 209	0.3	(17 423)	(28.9)
Accrued income and prepaid expenses	97 399	0.5	83 775	0.4	13 624	16.3
Other assets	263 983	1.3	46 164	0.2	217 819	471.8
Total assets	20 235 796	100.0	19 799 982	100.0	435 814	2.2
Of which:						
– Total subordinated amounts receivable	0		525		(525)	(100.0)
– Total due from non-consolidated participations	77 912		78 580		(668)	(0.9)

Liabilities in CHF 000s

Due to money market instruments	528	0.0	222	0.0	306	137.8
Due to banks	344 595	1.7	665 212	3.4	(320 617)	(48.2)
Due to customers in savings and deposits	5 646 091	27.9	6 193 089	31.30	(546 998)	(8.8)
Other due to customers	5 748 122	28.5	4 900 653	24.70	847 469	17.3
Medium-term notes	898 080	4.4	708 969	3.60	189 111	26.7
Total customer funds	12 292 293	60.8	11 802 711	59.60	489 582	4.1
Debt and loans secured by mortgages	5 352 458	26.5	5 154 629	26.0	197 829	3.8
Accrued expenses and deferred income	207 277	1.0	174 475	0.9	32 802	18.8
Other liabilities	119 774	0.6	105 841	0.5	13 933	13.2
Valuation adjustments and provisions	179 338	0.9	191 216	1.0	(11 878)	(6.2)
Reserves for general banking risks	25 430	0.1	48 400	0.3	(22 970)	(47.5)
Share capital	390 140	1.9	557 343	2.8	(167 203)	(30.0)
Capital reserve	84 977	0.4	83 615	0.4	1 362	1.6
Profit reserve	1 027 229	5.1	798 672	4.0	228 557	28.6
less treasury shares	14 925	0.1	10 909	0.1	4 016	36.8
Group net profit	226 682	1.1	228 555	1.2	(1 873)	(0.8)
Total shareholders' equity	1 739 533	8.5	1 705 676	8.6	33 857	2.0
Total liabilities	20 235 796	100.0	19 799 982	100.0	435 814	2.2
Of which:						
– Total subordinated amounts payable	100 000		260 000		(160 000)	(61.5)
– Total due to non-consolidated participations	1 218 496		1 286 918		(68 422)	(5.3)
– Total due to the Canton of St.Gallen	330 203		429 991		(99 788)	(23.2)

Off-Balance-Sheet Transactions in CHF 000s

Contingent liabilities	234 620		326 467		(91 847)	(28.1)
Irrevocable commitments	164 580		169 583		(5 003)	(3.0)
Liabilities for calls on shares and other equities	39 559		40 411		(852)	(2.1)
Derivative financial instruments:						
– Contract volume	5 214 490		4 475 089		739 401	16.5
– Positive replacement values	36 126		33 534		2 592	7.7
– Negative replacement values	58 521		28 005		30 516	109.0
Fiduciary transactions	2 451 820		4 646 171		(2 194 351)	(47.2)

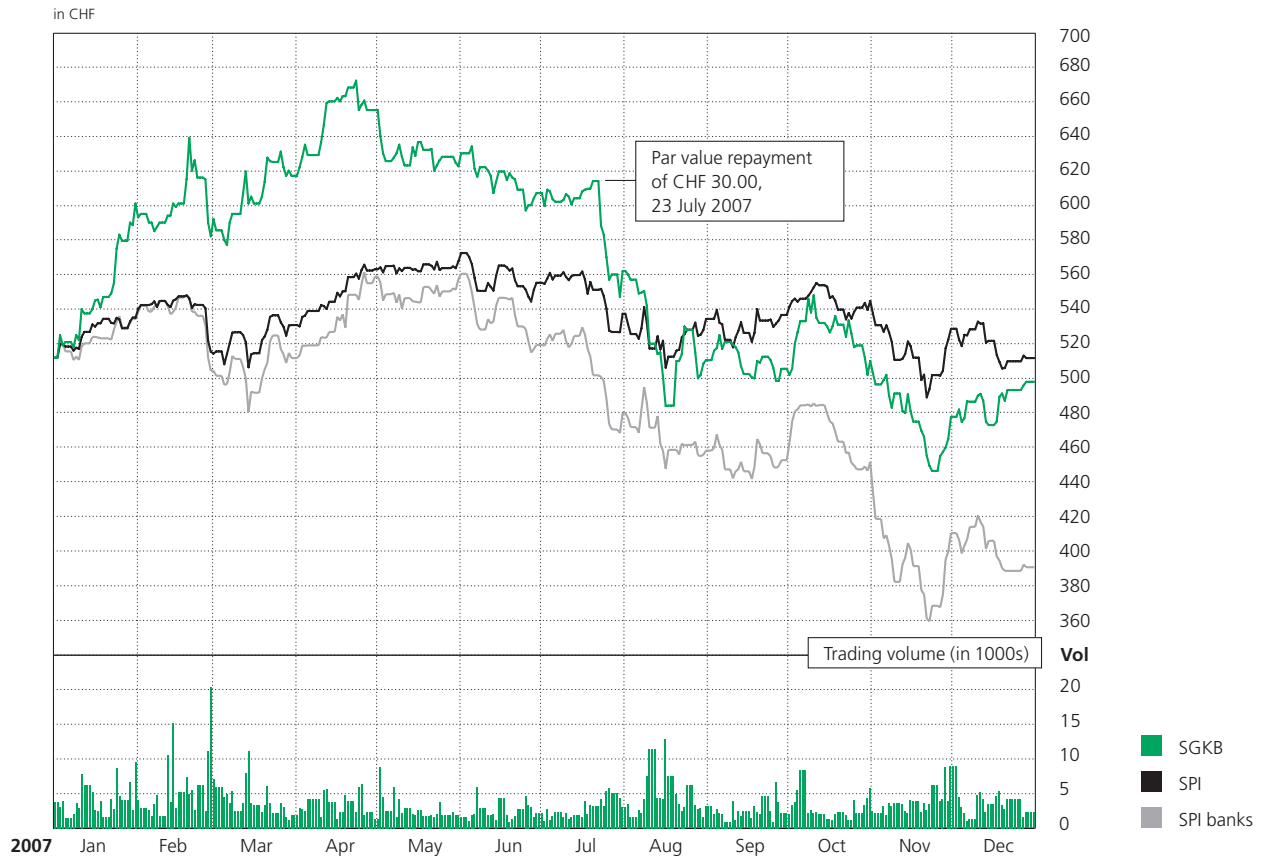
Group Income Statement

in CHF 000s	2007	2006	Change	in %
Interest and discount income	618 006	560 272	57 734	10.3
Interest and dividend income on trading portfolios	440	537	(97)	(18.1)
Interest and dividend income on financial investments	18 662	18 897	(235)	(1.2)
Interest expenses	331 810	271 037	60 773	22.4
Net interest income	305 298	308 669	(3 371)	(1.1)
Commission income from lending activities	2 302	2 230	72	3.2
Commission income from securities and investment activities	203 445	190 478	12 967	6.8
Commission income from other service fee activities	18 061	17 994	67	0.4
Commission expenses	8 632	9 010	(378)	(4.2)
Net fee and commission income	215 176	201 692	13 484	6.7
Net trading income	30 871	37 482	(6 611)	(17.6)
Results from the sale of financial investments	4 098	2 470	1 628	65.9
Income from non-consolidated participations	2 127	1 963	164	8.4
Results from real estate	1 108	722	386	53.5
Other ordinary income	1 322	3 493	(2 171)	(62.2)
Other ordinary expenses	211	1 360	(1 149)	(84.5)
Net other income	8 444	7 288	1 156	15.9
Operating income	559 789	555 131	4 658	0.8
Personnel expenses	153 875	149 143	4 732	3.2
Other operating expenses	116 231	104 735	11 496	11.0
Administrative expenses	270 106	253 878	16 228	6.4
Gross profit	289 683	301 253	(11 570)	(3.8)
Depreciation and write-offs on fixed assets and participations	12 998	12 994	4	0.0
Depreciation of intangibles	26 732	25 200	1 532	6.1
Valuation adjustments, provisions and losses	3 864	10 287	(6 423)	(62.4)
Operating profit (interim result)	246 089	252 772	(6 683)	(2.6)
Extraordinary income	27 871	16 876	10 995	65.2
<i>of which dissolution of reserves for general banking risks</i>	22 970	12 600	10 370	82.3
Extraordinary expenses	0	2 002	(2 002)	(100.0)
Group profit before taxes	273 960	267 646	6 314	2.4
Taxes	47 278	39 091	8 187	20.9
Group net profit	226 682	228 555	(1 873)	(0.8)

Divisional Accounts Income Statement in CHF 000s	Retail and Commercial banking		Private Banking		Corporate Center		Group	
	2007	2006	2007	2006	2007	2006	2007	2006
Operating income	311 460	287 423	239 853	221 767	8 476	45 941	559 789	555 131
Administrative expenses	141 205	139 420	88 134	89 411	40 767	25 047	270 106	253 878
Gross profit	170 255	148 003	151 719	132 356	(32 291)	20 894	289 683	301 253
Depreciation and write-offs on fixed assets and intangibles	0	0	1 464	1 305	38 266	36 889	39 730	38 194
Valuation adjustments, provisions and losses	1 873	4 656	1 377	4 973	614	658	3 864	10 287
Operating profit (interim result)	168 382	143 347	148 878	126 078	(71 171)	(16 653)	246 089	252 772
Extraordinary income, net	866	0	4 400	8 024	22 605	6 850	27 871	14 874
Taxes	22 454	16 917	25 286	20 114	(462)	2 060	47 278	39 091
Group net profit	146 794	126 430	127 992	113 988	(48 104)	(11 863)	226 682	228 555
Other data in CHF 000s								
Loans to customers	15 734 423	15 323 425	1 367 699	1 885 246	0	0	17 102 122	17 208 671
Customer funds	8 672 731	8 377 696	3 619 562	3 425 015	0	0	12 292 293	11 802 711
Funds under management	12 392 217	11 936 930	25 491 047	26 902 004	0	0	37 883 264	38 838 934
Full-time equivalents	484	485	246	229	277	258	1 007	972
Cost/income-ratio	45.3%	48.5%	37.4%	40.9%	n/a	n/a	51.2%	48.4%

Information for Investors

Having reached an all-time high in April 2007, the SGKB share was unable to avoid the downside pressure on banking stocks witnessed in the second half of the year. Overall, the stock's valuation fell by 2.73 %, but outperformed the SPI Banking Index by around 20 %.



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

Information for Investors	Dec. 31, 2007
Earnings per share	CHF 40.91
Proposed dividend per share	CHF 26.00 ¹
Total shares issued	5 573 426
Time-weighted number of dividend-bearing shares	5 541 008
Number of shares held by SGKB (average)	32 627
Shareholders	27 217
Issue price (IPO)	CHF 160.00
Market price	CHF 498.00
Market capitalization	CHF 2 775.6 million
Ratio of market capitalization/ shareholders' equity	159.6%
Return on equity (basis: operating profit)	15.7%
Reported shareholders' equity	CHF 1 739.5 million
Dividend yield	5.2%
Price-earnings ratio	12.2

Shareholder Structure



Canton of St.Gallen	54.8%
SGKB employees	1.9%
Corporates	11.1%
Individuals	23.1%
Registration pending	9.1%

¹ Recommendation of the Board of Directors for the financial year ended on Dec. 31, 2007

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[Shareholders]

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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)



Board of Directors and Group Management

Board of Directors

Dr. Franz Peter Oesch, Chairman	Dr. Hans-Jürg Bernet	Prof. Dr. Thomas A. Gutzwiller	Dr. Claudia Zogg-Wetter
Hans-Peter Härtsch, Vice Chairman	Dr. Niklaus Fäh	Peter Schönenberger	

Group Management

2007	Dr. Urs Rüeeggsegger, Chairman (until Jan. 31, 2008)	Marcel Zoller, Vice Chairman (until Mar. 31, 2008)	Roland Ledergerber	Marcel W. Schmid (until Nov. 21, 2007)
2008	Roland Ledergerber, Chairman (from Feb. 1, 2008)	Dr. Felix Buschor (from Apr. 1, 2008)	Albert Koller, Vice Chairman (from Feb. 1, 2008, Vice Chairman from Apr. 1)	Dr. Christian Schmid (from Aug. 1, 2008)

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 annual results for 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 2007, the Group employed a total of 1132 staff. The parent company operates with a state guarantee and has an Aa1 credit rating from Moody's.