

ANNUAL REPORT 2003



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**St.Galler
Kantonalbank**

REVIEW AND PROSPECTS

Sustained success in the face of challenging market conditions

The Cantonal Bank of St. Gallen can look back over a very good year which saw increases in operating income, gross profit and group net profit as compared with the preceding twelve months. This sustained success is based on several factors: the interest business continues to be good, there was further growth in the net fee and commission business (in contrast to 2002), and strict cost management has been implemented. Given the stagnation of the economy as a whole and taking one-off expenditure items into account, the increase of CHF 5.5 million in the group's net profit (+5.5%) is regarded as positive. Consolidated operating income reached CHF 457.1 million in 2003, well ahead of the result for the preceding year (+9.4%). At the same time, personnel expenses rose slightly (by 0.9%) while other operating expenses increased by 5.9%. The primary factors behind this increase were the consolidation effect due to HYPOSWISS, and the IT sector. The extraordinary expenditure section of the profit and loss statement reflects an additional burden caused by changing the pension scheme over from a defined benefit basis to a defined contribution basis; this decision, together with the guarantees for older employees which it involves, came into effect as of 1 January 2004.

Growth in balance sheet business

The interest business continues to be the main source of revenue for the Cantonal Bank of St. Gallen; a slight increase was posted in the result from this sector (CHF 284.3 million) despite the sharp rise in fixed-interest mortgages. The key factors here were that the interest level remained low while the interest structure curve continued to progress favourably. In overall terms, the increase of CHF 191.0 million in loans to customers appears moderate at first sight. The core business – i.e. our business with private customers and regional SME's – posted extremely encouraging growth of 4.8%. On the other hand, there was a drastic – and targeted – decrease in low-margin business and impaired positions. As a result, we were not only

able to keep margins at a stable level, but also to reduce valuation adjustments and reserves by CHF 20.5 million to CHF 225.6 million in 2003; this was mainly achieved by adjusting impaired items. Finally, customer funds grew by CHF 0.3 billion over the financial year just ended to reach a figure of CHF 10.5 billion. In the first half of the year, the uncertain situation on the stock markets and the continued «wait-and-see» approach adopted by consumers were the main factors encouraging the inflow of savings deposits, which posted an impressive increase of 13.9%. In contrast, the positive performance of the international financial markets in the second half year prompted an increase of CHF 2.3 billion in funds under management (as defined by the Federal Banking Commission), bringing them to CHF 25.3 billion. This total was increased even further thanks to the acquisition of new funds (approximately CHF 0.9 billion net).

Expansion of private banking

Another hallmark of 2003 was the ongoing strategic expansion of the private banking sector. By acquiring Bank Thorbecke AG, the Group was able to continue expanding its customer base in its core region of Eastern Switzerland. In line with the objective of simplifying structures, a decision was taken to reintegrate St. Galler Vermögensberatung (SGVB) into the parent company, the Cantonal Bank of St. Gallen, with retroactive effect as from 1 January 2004. This step will have the additional benefit of enhancing cooperation with the private and business customers sector. Wealthy private customers in Eastern Switzerland and the neighbouring regions of Germany and Austria will continue to choose services from the SGK to meet their needs for wide-ranging investment advice, flanked by a range of basic and credit products. On the other hand, Swiss and foreign customers who are only looking for a private banking partner within the Group will find that their requirements are primarily met by HYPOSWISS. The renewed upturn on the capital markets in the second half of 2003

has boosted activity in the private banking sector. SGVB was able to increase its result from the net fee and commission business by CHF 5.8 million, bringing the figure to CHF 59.0 million.

Gross profit rose by CHF 5.1 million to reach CHF 28.7 million. As compared with the previous year, HYPOSWISS was able to post a slight improvement in its earnings from the net fee and commission income business at CHF 54.9 million, although earnings from the interest business dropped by about CHF 4.9 million. As a result, gross profit fell by CHF 4.5 million to CHF 29.3 million.

The first benefits of the closer cooperation between SGVB and HYPOSWISS were also evident: in August, an investment committee was set up with responsibility for implementing a uniform investment strategy in the private banking sector. Our professionalism in the investment business was also enhanced by merging the Portfolio Management departments of both units to create a joint Investment Center. In the future, this Center will handle the selection and development of investment products for the entire SGKB Group.

Turning to professional credit risk management, the Cantonal Bank of St. Gallen has once again improved the quality of its credit portfolio. Our consistent lending policy coupled with ongoing action to reduce problematic positions led to a reduction of 16.5% in non-performing loans (now running at CHF 193.9 million) in spite of the increased loan volume already mentioned.

SGKB shares at all time high

SGKB shares are continuing to develop positively. The last quarter saw a significant increase in the share price, which peaked at an all-year high of CHF 237 in mid-December and continued to soar in the new year (share performance in 2003: +13.8%). The Board is proposing that the Annual General Meeting should increase the dividend to CHF 8.50 so that shareholders can benefit from the good result.

Staff are satisfied with their employer

The headcount fell by 7.2% as compared with the previous year due to the sale of isag KB Immoservice AG,

although the staff turnover rate of 4.4% was below the previous year's figure (6.5%). Continued pressure on the labour market and the high level of job satisfaction in the bank were the key factors behind these figures. This year, employees in the SGKB Group were surveyed for the second time and the results showed positive development for all the aspects covered. One very striking feature was our employees' high level of identification with the company. Actions always follow on directly from these surveys, which will be repeated at intervals of two years.

Growth continues in spite of the intense competition

In view of the emergent economic recovery, the Cantonal Bank of St. Gallen sees further opportunities for growth during 2004. After several years of declining investment activity, the bank is now expecting to see growth in spite of the moderate pace of economic development. The SGKB intends to carry on consolidating its leading position in the banking business for private customers and SME's in its core market area of St. Gallen and Appenzell-Ausserrhoden. The bank views its main sources of competition as the Raiffeisen cooperative banks together with UBS and CS, whose pricing policy is sometimes aggressive. Our bank expects to continue expanding the share of the corporate customer market which it has built up over the past few years, thanks to its firmly established position on the local scene and the higher quality of the advice it offers. In the investment sector, the Cantonal Bank is convinced that the problems being experienced by the social insurance organisations (the AHV survivors' and old age pension scheme and the pension funds) will stimulate the private pensions sector. As regards the interest business, the SGKB assumes that it will not be possible to repeat the interest result for 2003 this year, due to a high number of conversions to fixed-interest mortgages and the hedging costs. Closer cooperation between the Retail and Commercial Banking Division and the Private Banking Division means that the SGKB can now offer a wide range of services which provide the basis for ongoing successful and professional development of the market.

RISK SITUATION

Like other banks or financial institutions, the Cantonal Bank of St. Gallen (SGKB) is faced with managing specific risks. Management of credit and market risks as well as operational risks is considered to be one of the major tasks of the Executive Board. The Board of Directors has implemented the risk management policy in order to set up a control framework for the entire risk management process of SGKB. The following descriptions focus on the actual exposure of the Bank.

Credit risks

Credit assessment audits

The lending business is subject to additional controls in the form of extensive credit assessment audits conducted by Internal Audit and the statutory and banking auditors. The credit assessment audits are aimed at large exposures and other selected exposures. Based on the results of these audits, existing loan-loss provisions are adjusted to ensure appropriate coverage of all credit risks. Adequate coverage of credit risks has been confirmed.

Although valuation adjustments, provisions and losses have increased by CHF 3.7 million to CHF 23.5 million, the quality of the credit portfolio has not decreased; the increase is rather due to a larger position which had to be provided.

Impaired loans

Loans with doubtful collectibility are managed by a specially assigned department. As of 31 December 2003, impaired loans amount to CHF 820.1 million.

Non-Performing loans

As of 31 December 2003, the total amount of loans for which interest payments are considered to be at risk or for which interests are not paid within a period of three months of the due date is CHF 193.9 million (prior year CHF 232.2 million) or approximately 1.2% of the loans to clients (prior year 1.5%). The total amount of accrued interest classified as at risk or for which valuation adjustments have already been provided is CHF 8.8 million or 1.6% of interest income (prior year CHF 10.7 million or 1.7%).

Risk diversification rules and the ten biggest borrowers

At present, the Group is exposed to one concentration risk with a risk-weighted exposure of CHF 119.6 million or 10.1% of eligible equity (prior year two concentration risk exposures totalling CHF 285.3 million or 25.4%), with a permissible limit ceiling of 800%. The exposure has been duly reported to the external auditors.

As of 31 December 2003, the Group's total exposure to its ten biggest commercial borrowers amounted to CHF 587.1 million or 3.7% of the Group's loans to customers (prior year CHF 626.9 million or 4.0%).

Country risks

As of 31 December 2003, non-Swiss exposures amounted to CHF 1828.6 million or 9.7% of total assets (prior year CHF 1438.9 million or 7.9%). Thus, they were within the limit defined for non-Swiss exposure, as a percentage of the total assets. These loans are mostly secured by collateral in developed countries. According to the risk domicile principle, valuation adjustments and provisions were insignificant by the end of 2003.

Market risks

The Bank has a strategic risk limit for all market risks that is based on the value-at-risk method and the RiskMetrics™ data. Modern modular standard software is used for measuring this risk.

As of 31 December 2003, the entire market value-at-risk was CHF 32.2 million (prior year CHF 14.8 million). The average for the year 2003 was CHF 29.2 million, with a minimum value of CHF 9.3 million and a maximum value of CHF 42.8 million.

Interest rate risks

The sensitivity of shareholders' equity (modified duration) in 2003 ranged from 3.4% to 5.7%. As of 31 December 2003, the modified duration of the Group was 5.2% (prior year 5.0%).

Currency risks

The net foreign currency position of the Group was CHF 32.0 million at the end of 2003 (prior year CHF 31.0 million). The Group's own positions in foreign currencies are mainly in USD and EUR.

Securities price and liquidity risks

The securities listed under financial assets as CHF 675.6 million are almost entirely composed of high-quality listed securities or securities traded on representative markets, most of which are bonds. Bonds are held until maturity. The holdings are incorporated into the value-at-risk calculations.

Other market risks

The Group holds no positions in commodities or precious metals in its banking book.

As of 31 December 2003, the Group held 63 positions in real estate intended for resale, the book value of which was CHF 59.5 million (prior year CHF 84.1 million).

Liquidity and funding risks

Compliance with the applicable liquidity regulations is assured through a permanent system. Those obligations regarded as concentrations within the meaning of Art. 18 of the Implementing Ordinance to the Federal Banking Law are duly reported to the banking auditors. As of 31 December 2003, there were no obligations.

For purposes of bridging any liquidity problems, SGKB has always been able to raise funds in the inter-bank and /or capital markets in the past. Furthermore, the Group disposes of a Lombard credit facility in the amount of CHF 40 million, which was not utilised as of 31 December 2003.

Operational risks

Internal control system

The Group maintains an effective separation of functions and employs a well-developed internal control system and management controls. In management's opinion, the conditions required for assuring the orderly and adequate conduct of business and for quickly discovering any significant errors have been established.

Outsourcing risk

For a bank, the main operational risk lies in the security and reliability of its data processing operations. Computer services and data processing work have been largely outsourced to Swisscom IT Services AG (SCIS). The outsourcing is formally ruled. Furthermore, SGKB disposes of an IT security concept which is based on relevant IT security requirements. SCIS, its employees and agents are contractually bound to keep business and banking secrets confidential. The Cantonal Bank of St. Gallen indirectly holds (via AGI Holding AG) 7.92% of the voting rights and capital in SCIS. Outsourced data processing is audited by the statutory auditors of SCIS. These audit reports are made available for the statutory and banking auditors of the bank which hold a stake in SCIS. Furthermore, IT risks are reviewed by Internal Audit of SCIS together with Internal Audit of the banks. According to these audit reports, the requirements of the Federal Banking Commission relating to outsourcing are met.

Group Key Figures

INCOME STATEMENT in CHF 000s	2003	2002 ¹	2001
Operating income	457 054	417 954	349 700
Administrative expenses	(249 977)	(242 280)	(208 271)
Operating profit	141 895	122 435	113 212
Group net profit	104 685	99 185	92 840

EARNINGS PER SHARE in CHF

Earnings per share	21.00	19.87	18.60
Dividend proposed (2003) and paid out (2002, 2001)	8.50	8.00	8.00

KEY FIGURES

Return on equity, pre-tax (basis: operating profit)	12.8%	11.7%	11.4%
Return on equity, after tax (basis: group net profit)	9.5%	9.5%	9.4%
Administrative expenses incl. depreciation on fixed assets/operating income	58.1%	61.2%	63.3%

BALANCE SHEET in CHF 000s

	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2001
Loans to customers	15 911 512	15 720 538	15 059 040
Customer funds	10 536 306	10 249 851	8 939 649
Balance sheet total	18 912 789	18 314 332	17 366 979
Shareholders' equity	1 181 192	1 116 038	1 056 625

EQUITY KEY FIGURES

BIS ratio tier 1	9.8%	9.1%	10.2%
BIS ratio tier 2	11.4%	11.0%	11.5%
Surplus of own means over required means as per Swiss banking law	35.8%	30.5%	36.5%
Shareholders' equity in % of balance sheet total	6.3%	6.1%	6.1%

FUNDS UNDER MANAGEMENT in CHF 000s

Funds under management	25 311 915 ²	23 033 289 ²	20 619 525
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HEADCOUNT

Full-time equivalents ³	1 003	1 081	953
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MOODY'S RATING

Senior unsecured domestic currency	Aa1	Aa2	Aa2
Bank deposits	Aa1/P-1	Aa2/P-1	Aa2/P-1
Bank financial strength	B	B	B

¹ HYPOSWISS included only for the 2nd quarter up to the 4th quarter

² According to definition of the Federal Banking Commission

³ Apprentices calculated at 50%

Group Balance Sheet

ASSETS in CHF 000s	Dec. 31, 2003	in %	Dec. 31, 2002	in %	Change	in %
Liquid funds	130 816	0.7	167 578	0.9	(36 762)	(21.9)
Receivables from money market instruments	285 515	1.5	340 768	1.9	(55 253)	(16.2)
Due from banks	1 339 291	7.1	831 487	4.5	507 804	61.1
Due from customers	2 689 118	14.2	2 908 330	15.9	(219 212)	(7.5)
Mortgage loans	13 222 394	69.9	12 812 208	70.0	410 186	3.2
Total loans to customers	15 911 512	84.1	15 720 538	85.9	190 974	1.2
Securities and precious metals trading portfolios	13 321	0.1	24 962	0.1	(11 641)	(46.6)
Financial investments	735 132	3.9	659 060	3.6	76 072	11.5
Non-consolidated participations	32 723	0.2	33 405	0.2	(682)	(2.0)
Fixed assets	181 108	0.9	188 105	1.0	(6 997)	(3.7)
Intangibles	123 262	0.7	146 741	0.8	(23 479)	(16.0)
Accrued income and prepaid expenses	81 683	0.4	88 253	0.5	(6 570)	(7.4)
Other assets	78 426	0.4	113 435	0.6	(35 009)	(30.9)
Total assets	18 912 789	100.0	18 314 332	100.0	598 457	3.3
Of which:						
– Total subordinated amounts receivable	4 287		14 376		(10 089)	(70.2)
– Total due from non-consolidated participations	91 870		105 481		(13 611)	(12.9)
– Total due from the Canton of St. Gallen	0		0		0	0.0

LIABILITIES in CHF 000s

Due to money market instruments	254	0.0	410	0.0	(156)	(38.0)
Due to banks	1 027 408	5.4	1 170 724	6.4	(143 316)	(12.2)
Due to customers in savings and deposits	6 346 605	33.6	5 570 593	30.4	776 012	13.9
Other due to customers	3 430 296	18.1	3 740 698	20.4	(310 402)	(8.3)
Medium-term notes	759 405	4.0	938 560	5.1	(179 155)	(19.1)
Total customer funds	10 536 306	55.7	10 249 851	56.0	286 455	2.8
Debt and loans secured by mortgages	5 596 445	29.6	5 179 400	28.3	417 045	8.1
Accrued expenses and deferred income	191 571	1.0	164 614	0.9	26 957	16.4
Other liabilities	154 059	0.8	187 220	1.0	(33 161)	(17.7)
Valuation adjustments and provisions	225 554	1.2	246 075	1.3	(20 521)	(8.3)
Share capital	500 000	2.6	500 000	2.7	0	0.0
Capital reserves	6 420	0.0	4 862	0.0	1 558	32.0
Profit reserves	571 465	3.1	511 991	2.9	59 474	11.6
less treasury shares	(1 378)	0.0	0	0.0	(1 378)	0.0
Group net profit	104 685	0.6	99 185	0.5	5 500	5.5
Total shareholders' equity	1 181 192	6.3	1 116 038	6.1	65 154	5.8
Total liabilities	18 912 789	100.0	18 314 332	100.0	598 457	3.3
Of which:						
– Total subordinated amounts payable	260 000		260 000		0	0.0
– Total due to non-consolidated participations	1 447 580		1 250 525		197 055	15.8
– Total due to the Canton of St. Gallen	239 393		289 639		(50 246)	(17.3)

OFF-BALANCE-SHEET TRANSACTIONS in CHF 000s

Contingent liabilities	212 198		197 593		14 605	7.4
Irrevocable commitments	99 576		119 963		(20 387)	(17.0)
Liabilities for calls on shares and other equities	40 394		40 562		(168)	(0.4)
Derivative financial instruments:						
– Contract volume	4 590 246		3 262 190		1 328 056	40.7
– Positive replacement values	52 611		101 667		(49 056)	(48.3)
– Negative replacement values	73 299		88 021		(14 722)	(16.7)
Fiduciary transactions	1 397 712		1 603 693		(205 981)	(12.8)

Group Income Statement

in CHF 000s	2003	2002	Change	in %
Interest and discount income	549 481	635 585	(86 104)	(13.5)
Interest and dividend income on trading portfolios	317	930	(613)	(65.9)
Interest and dividend income on financial investments	20 591	21 004	(413)	(2.0)
Interest expenses	(286 123)	(377 163)	91 040	24.1
Net interest income	284 266	280 356	3 910	1.4
Commission income from lending activities	2 105	1 741	364	20.9
Commission income from securities and investment activities	123 288	100 356	22 932	22.9
Commission income from other service fee activities	17 627	16 486	1 141	6.9
Commission expenses	(5 393)	(4 719)	(674)	(14.3)
Net fee and commission income	137 627	113 864	23 763	20.9
Net trading income	26 784	13 985	12 799	91.5
Results from the sale of financial investments	3 823	1 950	1 873	96.1
Income from participations accounted for under the equity method	475	0	475	0.0
Income from non-consolidated participations	1 735	1 790	(55)	(3.1)
Results from real estate	3 336	4 928	(1 592)	(32.3)
Other ordinary results	4 166	8 690	(4 524)	(52.1)
Other ordinary expenses	(5 158)	(7 609)	2 451	32.2
Net other income	8 377	9 749	(1 372)	(14.1)
Operating income	457 054	417 954	39 100	9.4
Personnel expenses	(134 746)	(133 515)	(1 231)	(0.9)
Other operating expenses	(115 231)	(108 765)	(6 466)	(5.9)
Administrative expenses	(249 977)	(242 280)	(7 697)	(3.2)
Gross profit	207 077	175 674	31 403	17.9
Depreciation and write-offs on fixed assets and participations	(16 793)	(13 680)	(3 113)	(22.8)
Depreciation on intangibles	(23 479)	(17 609)	(5 870)	(33.3)
Valuation adjustments, provisions and losses	(24 910)	(21 950)	(2 960)	(13.5)
Operating result (interim result)	141 895	122 435	19 460	15.9
Extraordinary income	3 547	5 650	(2 103)	(37.2)
Extraordinary expenses	(8 325)	(871)	(7 454)	(855.8)
Taxes	(32 432)	(28 029)	(4 403)	(15.7)
Group net profit	104 685	99 185	5 500	5.5

Divisional Accounts

in CHF 000s	Retail and commercial banking		SGVB		HYPOSWISS ¹		Corporate Center		Group	
	2003	Change	2003	Change	2003	Change	2003	Change	2003	Change
Operating income	306 643	6.4%	65 125	10.5%	70 399	24.1%	14 887	5.1%	457 054	9.4%
Administrative expenses	(166 893)	(1.0%)	(36 383)	(3.1%)	(41 058)	(30.1%)	(5 643)	44.7%	(249 977)	(3.2%)
Gross profit	139 750	13.7%	28 742	21.6%	29 341	16.6%	9 244	133.6%	207 077	17.9%
Depreciation and write-offs on fixed assets and intangibles	0	0.0%	(3 536)	(24.9%)	(213)	0.9%	(36 523)	(29.3%)	(40 272)	(28.7%)
Valuation adjustments, provisions and losses	(24 057)	(15.6%)	(353)	(90.8%)	(244)	54.6%	(256)	37.7%	(24 910)	(13.5%)
Operating result	115 693	13.3%	24 853	20.6%	28 884	18.3%	(27 535)	(11.5%)	141 895	15.9%
Extraordinary income, net	(4 272)	-	(218)	-	0	(100.0%)	(288)	(108.8%)	(4 778)	(200.0%)
Taxes	(18 443)	(3.3%)	(5 042)	(14.4%)	(7 221)	(20.7%)	(1 726)	(884.5%)	(32 432)	(15.7%)
Group net profit	92 978	10.4%	19 593	20.9%	21 663	8.8%	(29 549)	(39.5%)	104 685	5.5%
Other data										
Funds under Management	8 171 099	6.0%	11 568 688	12.6%	5 644 651	11.8%	(72 524)	0.0%	25 311 915	9.9%
Headcount	497	(0.4%)	97	(7.6%)	127	(8.6%)	282	(16.6%)	1 003	(7.2%)

Notes:

¹ The HYPOSWISS income statement of the prior year only covered the 2nd to 4th quarters; the changes are correspondingly major for this reason.

STATEMENT OF EQUITY in CHF 000s	2003	2002	2001
Equity at the beginning of the year			
Share capital	500 000	500 000	500 000
Capital reserve	4 862	5 774	4 823
Profit reserve	511 991	458 011	409 969
less treasury shares	0	0	0
Group net profit of the prior year	99 185	92 840	88 993
Total equity at the beginning of the year	1 116 038	1 056 625	1 003 785
- dividends paid to third parties	(39 930)	(39 888)	(40 000)
+ agio from consolidation of Bank Thorbecke AG	1 031	0	0
+ agio from issue of option rights	250	116	0
- treasury shares	(1 378)	0	0
+ valuation gains on treasury shares	496	0	0
+ Group net profit	104 685	99 185	92 840
Total equity at the end of the year	1 181 192	1 116 038	1 056 625
Of which:			
Share capital	500 000	500 000	500 000
Capital reserve	6 420	4 862	5 774
Profit reserve	571 465	511 991	458 011
less treasury shares	(1 378)	0	0
Group net profit	104 685	99 185	92 840

	Number of shares		
	2003	2002	2001
Treasury shares			
Treasury shares as of January 1	3 847	10 389	0
+ acquisitions	105 153	32 545	38 784
- disposals	(102 973)	(39 087)	(28 395)
Treasury shares as of December 31	6 027	3 847	10 389

SIGNIFICANT SHAREHOLDERS AND GROUPS OF SHAREHOLDERS WITH POOLED VOTING RIGHTS in CHF 000s	Dec. 31, 2003		Dec. 31, 2002	
	Nominal	in %	Nominal	in %
With voting rights				
Canton of St. Gallen	305 548	61.1	315 007	63.0

SUMMARY OF COLLATERALS in CHF 000s		Mortgage collateral	Other collateral	Without collateral ¹	Total
Loans to customers					
Due from customers		157 521	723 044	1 808 553	2 689 118
Mortgage loans					
– residential real estate		10 550 136		49 276	10 599 412
– office and business buildings		1 204 928			1 204 928
– trade and industry		1 030 301	11 058	79 058	1 120 417
– other		284 262		13 375	297 637
Total loans to customers	Dec. 31, 2003	13 227 148	734 102	1 950 262	15 911 512
	Dec. 31, 2002	12 891 575	641 754	2 187 209	15 720 538
Off-balance sheet transactions					
Contingent liabilities		24 397	115 805	71 996	212 198
Irrevocable commitments				99 576	99 576
Liabilities for calls on shares and other equities				40 394	40 394
Total off-balance sheet	Dec. 31, 2003	24 397	115 805	211 966	352 168
	Dec. 31, 2002	24 869	101 510	231 739	358 118

¹ including mortgage loans with provisions

IMPAIRED LOANS in CHF 000s		Total impaired loans, gross	Estimated proceeds from liquidation	Total impaired loans, net	Individual provisions
Impaired loans	Dec. 31, 2003	820 116	(595 390)	224 726	219 213

NON-PERFORMING LOANS in CHF 000s	Dec. 31, 2003	Dec. 31, 2002	Change	in %
Loans, of which interest is overdue for more than three months	179 903	179 362	541	0.3
Loans without interest	14 042	52 982	(38 940)	(73.5)
Total non-performing loans	193 945	232 344	(38 399)	(16.5)

Non-performing loans are a component of impaired loans.

VALUATION ADJUSTMENTS AND PROVISIONS FOR CREDIT RISK in CHF 000s	Dec. 31, 2003	Dec. 31, 2002	Change	in %
Valuation adjustments and provisions for credit risk (capital)	210 383	227 274	(16 891)	(7.4)
Valuation adjustments and provisions for credit risk (interest)	8 830	10 675	(1 845)	(17.3)
Total provisions	219 213	237 949	(18 736)	(7.9)
Valuation adjustments and provisions for credit risk (capital) in % of loans to customers	1.32%	1.45%		(8.5)
Non-performing loans in % of loans to customers	1.22%	1.48%		(17.5)
Rate of capital provisions ¹	0.15%	0.13%		18.1

¹ New valuation adjustments and provisions for credit risk (capital) in % of average loans to customers

VALUATION ADJUSTMENTS AND PROVISIONS in CHF 000s	Dec. 31, 2002	Acquisition of Bank Thorbecke AG	Usage	Doubtful interest, recoveries	New creation to the debit of the income statement	Redemption in favour of the income statement	Dec. 31, 2003
Valuation adjustments and provisions for credit risk	237 949	682	(48 791)	5 871	53 922	(30 420)	219 213
Valuation adjustments and provisions for other business risks	5 577	600	(2 369)	0	833	(425)	4 216
Total	243 526	1 282	(51 160)	5 871	54 755	(30 845)	223 429
Provision for deferred taxes	2 549	0	(224)	0	0	(200)	2 125
Total valuation adjustments and provisions	246 075	1 282	(51 384)	5 871	54 755	(31 045)	225 554

MATURITY STRUCTURE OF CURRENT ASSETS, FINANCIAL INVESTMENTS AND LIABILITIES TO THIRD PARTIES in CHF 000s

	on demand	redeemable	due within 3 months	due within 3 to 12 months	due within 12 months to 5 years	due after 5 years	immobilized	Total	
Current assets									
Liquid funds	130 816							130 816	
Receivables from money market instruments	49		245 878	39 588				285 515	
Due from banks	111 900		1 091 791	135 600				1 339 291	
Due from customers	45 991	461 499	386 768	578 685	1 031 094	185 081		2 689 118	
Mortgage loans	19 281	2 593 609	845 257	1 900 228	7 441 622	422 397		13 222 394	
Securities and precious metals trading portfolios	13 321							13 321	
Financial instruments	8 598		150	96 755	343 487	226 615	59 527	735 132	
Total	Dec. 31, 2003	329 956	3 055 108	2 569 844	2 750 856	8 816 203	834 093	59 527	18 415 587
	Dec. 31, 2002	346 404	5 081 511	1 850 666	2 375 345	7 431 738	574 599	84 130	17 744 393
Liabilities									
Due to money market instruments	254							254	
Due to banks	44 782	67 928	517 498	157 200	240 000			1 027 408	
Due to customers in savings and deposits		6 346 605						6 346 605	
Other due to customers	1 980 542	91 198	855 405	224 501	243 650	35 000		3 430 296	
Medium-term notes			84 576	202 884	456 776	15 169		759 405	
Debt and loans secured by mortgages			70 200	735 200	3 151 750	1 639 295		5 596 445	
Total	Dec. 31, 2003	2 025 578	6 505 731	1 527 679	1 319 785	4 092 176	1 689 464	0	17 160 413
	Dec. 31, 2002	1 739 753	5 664 252	1 957 555	918 131	4 117 386	2 203 308	0	16 600 385

FUNDS UNDER MANAGEMENT in CHF 000s	Dec. 31, 2003	Dec. 31, 2002	Change	in %
Values in investment vehicles managed by the group	292 620	130 726	161 894	123.8
Values under asset administration mandate	2 571 746	2 081 007	490 739	23.6
Other customer funds	23 349 219	21 727 580	1 621 639	7.5
Total funds under management (incl. double countings)	26 213 585	23 939 313	2 274 272	9.5
thereof: double countings	(901 670)	(906 024)	4 354	0.5
Total funds under management (excl. double countings)	25 311 915	23 033 289	2 278 626	9.9

Funds under management include:
– Assets under management
– Due to customers in savings and deposits
– Medium-term notes

The above definition conforms to the definition of the Federal Banking Commission. Figures of the prior year have been restated accordingly.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

NET INTEREST INCOME in CHF 000s	2003	2002	Change	in %
Interest and discount income				
Interest income due from banks	9 782	24 651	(14 869)	(60.3)
Interest income due from loans to customers	545 166	612 834	(67 668)	(11.0)
Other interest income	(5 467)	(1 900)	(3 567)	(187.7)
Total interest and discount income	549 481	635 585	(86 104)	(13.5)
Interest expenses				
Interest expenses due to banks	8 633	22 676	(14 043)	(61.9)
Interest expenses due to customer funds	104 393	162 603	(58 210)	(35.8)
Interest expenses on debt and loans secured by mortgages	173 038	191 661	(18 623)	(9.7)
Other interest expenses	59	223	(164)	(73.5)
Total interest expenses	286 123	377 163	(91 040)	(24.1)

NET FEE AND COMMISSION INCOME in CHF 000s

Commission income from lending activities	2 105	1 741	364	20.9
Commission income from securities and investment activities	123 288	100 356	22 932	22.9
– investment funds	23 837	19 786	4 051	20.5
– deposit operations	24 003	20 667	3 336	16.1
– brokerage	50 325	40 330	9 995	24.8
– asset administration mandate	15 932	12 148	3 784	31.1
– other	9 191	7 425	1 766	23.8
Commission income from other service fee activities	17 627	16 486	1 141	6.9
– payment transfer	6 530	6 073	457	7.5
– safe custody	859	816	43	5.3
– account keeping	6 753	6 856	(103)	(1.5)
– other	3 485	2 741	744	27.1
Total commission income	143 020	118 583	24 437	20.6
Total commission expenses	(5 393)	(4 719)	(674)	(14.3)
Total	137 627	113 864	23 763	20.9

NET TRADING INCOME in CHF 000s

Foreign exchange and dealings in foreign notes and coins	22 807	20 027	2 780	13.9
Precious metal trading	660	100	560	560.0
Securities trading	3 317	(6 142)	9 459	154.0
Total	26 784	13 985	12 799	91.5

PERSONNEL EXPENSES in CHF 000s

Salaries and bonuses	109 720	106 052	3 668	3.5
Contributions to personnel welfare institutions	8 913	11 343	(2 430)	(21.4)
Other social security benefits	8 290	8 413	(123)	(1.5)
Other personnel expenses	7 823	7 707	116	1.5
Total	134 746	133 515	1 231	0.9

OTHER OPERATING EXPENSES in CHF 000s	2003	2002	Change	in %
Rent and occupancy	10 951	8 018	2 933	36.6
Expenses for IT	60 605	55 931	4 674	8.4
Expenses for equipment, furniture, vehicles and other installations	2 366	2 279	87	3.8
Services of third parties	6 261	5 231	1 030	19.7
Compensation of government guarantee	4 361	4 376	(15)	(0.3)
Postage, transport and removals	5 494	6 448	(954)	(14.8)
Public relations	7 519	9 746	(2 227)	(22.9)
Other operating expenses	17 674	16 736	938	5.6
Total	115 231	108 765	6 466	5.9

DEPRECIATION AND WRITE-OFFS ON FIXED ASSETS in CHF 000s

Bank buildings	8 722	6 722	2 000	29.8
Other real estate	358	408	(50)	(12.3)
Other equipment	6 572	6 450	122	1.9
Total depreciations of fixed assets	15 652	13 580	2 072	15.3
Non-consolidated participations	1 141	100	1 041	1 041.0
Intangibles	23 479	17 609	5 870	33.3
Total	40 272	31 289	8 983	28.7

VALUATION ADJUSTMENTS, PROVISIONS AND LOSSES in CHF 000s

Provisions for credit risk	23 502	19 773	3 729	18.9
Other provisions	408	770	(362)	(47.0)
Losses	1 000	1 407	(407)	(28.9)
Total	24 910	21 950	2 960	13.5

EXTRAORDINARY INCOME AND EXPENSES in CHF 000s

Extraordinary income				
Book-profits on sale of fixed assets	2 196	4 505	(2 309)	(51.3)
Revaluations of non-consolidated participations	887	0	887	0.0
Other extraordinary income	464	1 145	(681)	(59.5)
Total	3 547	5 650	(2 103)	(37.2)
Extraordinary expenses				
Change of pension fund to defined contribution plan	5 000	0	5 000	0.0
Contribution for risk capital financing in the business area of the Cantonal Bank of St. Gallen	3 000	0	3 000	0.0
Book-losses on sale of fixed assets	325	65	260	400.0
Expenses for claims without notice	0	309	(309)	(100.0)
Other extraordinary expenses	0	497	(497)	(100.0)
Total	8 325	871	7 454	855.8

TAXES in CHF 000s

Federal taxes	8 322	8 503	(181)	(2.1)
State and communal taxes				
– in cantons where the Group is located (St. Gallen, Zurich, Appenzell-Ausserrhodon and Schaffhausen)	24 087	19 168	4 919	25.7
– Other	223	503	(280)	(55.7)
Deferred taxes	(200)	(145)	(55)	(37.9)
Total	32 432	28 029	4 403	15.7

EARNINGS PER SHARE AND NUMBER OF SHARES OUTSTANDING	2003	2002	2001
Net profit (in CHF 000s)			
Group net profit	104 685	99 185	92 840
Group net profit before depreciation of intangibles (goodwill)	128 164	116 794	92 840
Weighted average of number of shares outstanding			
Weighted average of number of shares outstanding	4 984 631	4 991 003	4 991 187
Diluted shares due to options outstanding	37 051	24 162	15 227
Weighted average of number of shares outstanding for the diluted earnings per share	5 021 682	5 015 165	5 006 414
Earnings per share (in CHF)			
Earnings per share	21.00	19.87	18.60
Earnings per share before depreciation of intangibles (goodwill)	25.71	23.40	18.60
Diluted earnings per share	20.85	19.78	18.54
Diluted earnings per share before depreciation of intangibles (goodwill)	25.52	23.29	18.54

CALCULATION OF RETURN ON EQUITY (ROE) in CHF 000s	2003	2002	Change
Operating profit	141 895	122 435	19 460
Group net profit	104 685	99 185	5 500
Total equity after appropriation of retained earnings	1 138 692	1 076 038	62 654
Average equity for the calculation of the ROE ¹	1 107 365	1 046 332	61 033
Return on equity before taxes (base: operating profit)	12.8%	11.7%	9.4%
Return on equity after taxes (base: group net profit)	9.5%	9.5%	0.0%

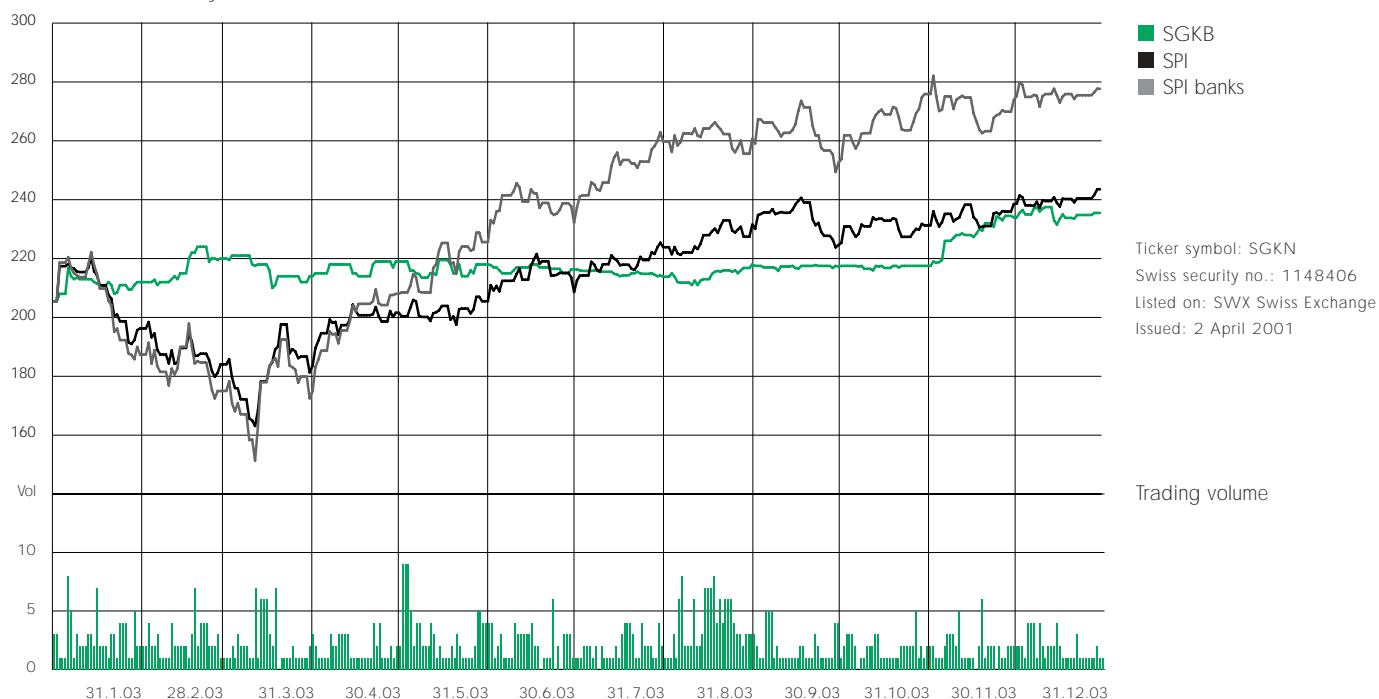
¹ The average is calculated from the beginning and ending balance after appropriation of retained earnings.

RISK-WEIGHTED POSITIONS AND EQUITY REQUIREMENTS BY BANKING LAW in CHF 000s	Dec. 31, 2003		Dec. 31, 2002	
	Nominal amount	Risk-weighted positions	Nominal amount	Risk-weighted positions
Assets liable to direct equity underlying				
Due from banks	1 339 291	335 212	831 487	207 991
Due from customers	2 689 118	1 668 378	2 908 330	1 895 602
Mortgage loans	13 222 394	7 566 767	12 812 208	7 308 625
Real estate in financial investments	59 527	223 226	84 130	315 488
Fixed assets	181 108	536 107	188 105	540 020
Accrued income and prepaid expenses	81 683	80 643	88 253	87 322
Other assets, replacement values	52 611	34 962	101 667	32 169
Other assets, other	13 295	6 815	11 768	9 112
Total assets directly liable to equity underlying		10 452 110		10 396 329
Assets liable to indirect equity underlying				
Net positions outside the trading book	962 332	240 150	917 365	243 088
Positions exposed to market risk		78 311		79 291
Deductable liabilities				
Deductable valuation adjustments and provisions	(219 213)	(164 410)	(237 949)	(178 462)
Off-balance sheet items				
Contingent liabilities	217 036	129 948	201 530	116 533
Irrevocable facilities granted	41 386	101 043	43 191	102 281
Add-ons on forward contracts and purchased options		20 054		16 361
Total risk-weighted positions		10 857 206		10 775 421
Required own means by Swiss Banking Law		868 576		862 034
Eligible own means		1 179 919		1 125 065
Surplus of own means over required means by banking law		311 343		263 031
Surplus of own means over required means by banking law in %		35.8%		30.5%
BIS ratio tier 1		9.8%		9.1%
BIS ratio tier 2		11.4%		11.0%

Information for investors

PRICE DEVELOPMENT

In overall terms, the price of SGKB shares has developed positively over the past year. The security improved by 13.8% between 1 January and 31 December 2003.



SHARE STATISTICS

DEC. 31, 2003

Earnings per share	CHF 21.00
Dividend per share	CHF 8.50 ¹
Total shares issued	5 000 000 (Floating 1 944 524)
Time-weighted number of dividend-bearing shares	4 984 631
Number of shares held by SGKB (ave.)	15 369
Shareholders	22 406
Issue price (IPO)	CHF 160.00
Market price	CHF 233.25
Market capitalization	CHF 1166.3 million
Ratio of market capitalization/shareholders' equity	98.7%
Return on equity (basis: operating result)	12.8%
Reported shareholders' equity	CHF 1181.2 million
Dividend yield	3.6%
Price-earnings ratio	11.1 x
Payout ratio	40.5%

¹ Recommendation of the Board for the financial year ended on Dec. 31, 2003.

IMPORTANT SOURCES OF INFORMATION

Annual media/ analysts' conference	yearly	26 February 2004
Annual report	yearly	23 March 2004
Annual General Meeting	yearly	28 April 2004
Half-year report	yearly	12 August 2004
Half-year media/ analysts' conference	yearly	12 August 2004
Media releases	as necessary	
www.sgkb.ch	ongoing	

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