

ANNUAL REPORT 2005



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**St.Galler
Kantonalbank**

REVIEW AND PROSPECTS

The Cantonal Bank of St. Gallen recorded an outstanding result in 2005. Particularly impressive were the striking rises in gross profit and operating profit, where growth rates of 35.0% and 45.0% were realized respectively. Both the interest-related side of the business as well as securities trading contributed to this success.

Strong interest-related business

The first semester saw impressive growth in lending activities. This trend continued in the second half of the year: despite the aggressive competitive environment, mortgage lending to private clients showed a favorable net volume growth of 5.7%. In addition to brisk housing construction activities, measures to further boost the quality of our advisory services and customer relation management have paid off. Lending to small and medium-sized companies (+ 2.0%) was also positive, while there was a 5.2% decline in lending to large commercial companies. The latter was caused by the persistently subdued investment climate as well as the unusually large volume of early loan repayments due to high liquidity levels. The quality of the loan portfolio as at the end of 2005 remained extraordinarily robust, as is reflected by the 23.3% lower level of valuation adjustments for credit risks. These reached a historic low of CHF 7.9 million.

Strong inflow of new money

The SGKB Group also had a very successful year in the field of private banking. Net fee and commission income generated a total of CHF 184.8 million. This represents an impressive rise of 21.3% relative to the prior year. The most important sources of revenue on the securities trading side – specifically brokerage income and earnings from structured products and retrocessions from investment fund business – all rose strongly. Total funds under management rose by CHF 4.3 billion (+ 16.2%); particularly impressive was the inflow of net new money to the Group of over CHF 1.0 billion. The improved trading activities (+ CHF 11.5 million) also profi-

ted from higher transaction volumes on the securities trading side with non-domestic stocks as well as from the positive development of the most important currencies.

Modest rise in costs

In overall terms, administrative expenses rose by a total of 2.5%. Personnel expenses increased 10.9%; in this conjunction, a CHF 5.0 million contribution was made to the pension fund. By contrast, other operating expenses fell 7.8%. In view of the planned switch to a new IT platform by mid 2008, an amount of CHF 27.0 million was set aside as a reserve for general banking risks; the anticipated total cost of the IT migration project, amounting to CHF 61.0 million, has now been financed in advance. Valuation adjustments, provisions and losses rose 12.0%.

Further rise in employee satisfaction

As at 31 December 2005 the SGKB Group had 1073 employees (- 1.6%). The Group spent around CHF 2.0 million on staff training, equivalent to 1.3% of its total personnel expenses. As a reflection of the strong performance of the business in 2005, salaries were increased in overall terms by 2% with effect from 1 March 2006.

The employee survey, conducted for the third time after comparable surveys in 2002 and 2003, showed continued across-the-board improvements for all parameters. Particularly worth mentioning is the extremely strong identification shown by employees vis-à-vis their employer and the high level of workplace satisfaction. It is furthermore pleasing to note that the recorded satisfaction levels are also high on a sector comparison.

SGKB shares reach annual high – increased dividend

In October 2005 shares of the Cantonal Bank of St. Gallen hit an absolute high for the year of CHF 424.00. Over the year as a whole, the shares posted an impressive gain of 36.8%,

once again significantly outperforming the likewise substantial rise in the Swiss Performance Index (SPI). The strong performance of the business of the Cantonal Bank of St. Gallen in 2005 enabled the Board of Directors to propose to shareholders that the dividend be increased by CHF 4.00 to CHF 13.00 per share. The dividend yield consequently stands at 3.3%, which is very impressive for the sector.

Increasingly popular general meeting

On 20 April 2005 SGKB held its fourth public general meeting at the OLMA Hall in St. Gallen. Of the total of 24 542 shareholders, 3877 took part in the event. This was 723 more than in the previous year, representing a new record.

This growing interest is no doubt partly attributable to the strong performance of SGKB share price. Further interest is generated by the interesting supporting program organized each year by a different guest region. In 2005 St. Gallen's Rhine Valley fascinated shareholders with attractions and specialties, thereby once again promoting contacts between the populations of different regions of our market territory.

Following the stockmarket floatation in April 2001, the number of shareholders increased from the initial total of 16 000 to the new number of around 26 000 by the end of February 2006.

IT platform: decision has been taken

At the end of December, following a joint evaluation, the Cantonal Banks of Lucerne, St. Gallen and Thurgau which make up the AGI Cooperation took the decision to switch to the standard platform produced by the company Avaloq Evolution AG. The parent company and HYPOSWISS will then be working on the same system, opening up new perspectives in terms of cooperation. In conjunction with the migration to the new system by mid 2008, there will be a switch to a state-of-the-art infrastructure coupled with lower operating costs.

Positive outlook for 2006

The Cantonal Bank of St. Gallen is determined to continue strengthening its market position in the year 2006. For this purpose, the quality of its services will be subjected to continuous institutional controls – e.g. using periodical mystery shopping.

SGKB will be sticking to its established lending policy, thereby aiming to achieve a balanced development within the framework of the three components creditworthiness, profitability and growth. On the private banking side, the existing strategy is being maintained; in addition to organic growth, further potential acquisitions will continue to be assessed.

For the year 2006, SGKB is expecting a positive economic environment and generally healthy conditions within the corporate sector. Housing construction is set to remain an important pillar of the economy. In an environment of solid global economic growth, low inflation and moderate interest rates, robust corporate earnings are anticipated. This will support the development of stockmarkets.

Against this backdrop, and provided the interest rate turnaround materializes only gradually, SGKB is expecting to report an operating profit in line with the record year 2005.

RISK SITUATION

Like other banks or financial institutions, the Cantonal Bank of St. Gallen is also 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 Board of Directors. Risk Management is based on the risk policy as defined and annually reviewed by the Board of Directors. 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 valuation adjustments and provisions for credit risk are amended to ensure appropriate coverage of all credit risks.

Adequate coverage of credit risks has been confirmed, although provisions for credit risk have decreased by CHF 2.4 million to CHF 7.9 million. However, provisions for other business risks had to be increased by CHF 4.4 million to CHF 7.5 million. These were mainly due to the asbestos decontamination of the headquarters of the Bank and due to legal provisions.

Impaired loans

Loans with doubtful collectibility are managed by a specially assigned department. As at 31 December 2005, impaired loans amounted to CHF 720.4 million (prior year CHF 733.6 million).

Non-Performing loans

As at 31 December 2005, 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 was CHF 82.2 million (prior year CHF 129.7 million) or approximately 0.5% of the loans to clients (prior year 0.8%). The total amount of

accrued interest classified as at risk or for which valuation adjustments have already been provided was CHF 4.2 million or 0.8% of interest income (prior year CHF 7.2 million or 1.4%).

Risk diversification rules and the ten biggest borrowers

An internal procedural directive establishes detailed rules for the handling and registration of concentration risks. The team for Concentration Risks at the head office is responsible for the registration, calculation, reporting and monitoring of concentration risks, and for preparing the list of the ten biggest borrowers.

At 31 December 2005, the Group was exposed to two concentration risks with a risk-weighted exposure of CHF 192.7 million resp. CHF 167.0 million or 12.6% resp. 11.0% of eligible equity (prior year two concentration risk exposures of CHF 179.4 million resp. CHF 135.7 million or 13.7% resp. 10.4%), with permissible limit ceiling of 800%.

As at 31 December 2005, the Group's total exposure to its ten biggest commercial borrowers amounted to CHF 752.6 million or 4.6% of the Group's loans to customers (prior year CHF 729.0 million or 4.6%).

Country risks

As at 31 December 2005, non-Swiss exposures amounted to CHF 1 712.2 million or 9.0% of total assets (prior year CHF 1 195.8 million or 6.4%). 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 2005.

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 at 31 December 2005, the entire market value-at-risk was CHF 57.7 million (prior year CHF 39.9 million). The average for the year 2005 was CHF 43.8 million, with a minimum value of CHF 30.2 million and a maximum value of CHF 57.7 million.

Interest rate risks

The sensitivity of shareholders' equity (modified duration) in 2005 ranged from 7.0% to 8.2%. As at 31 December 2005, the modified duration of the group was 7.9% (prior year 7.0%).

Currency risks

The net foreign currency position of the Group including precious metals was CHF 52.3 million at the end of 2005. The Group's own positions in foreign currencies are mainly in USD and EUR.

Securities price and liquidity risks

The securities listed under financial investments as CHF 670.1 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. Precious metals are included in currency risks. As at 31 December 2005, the Group held 26 positions in real estate intended for resale, the book value of which was CHF 29.7 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 at 31 December 2005, there were no obligations.

For purposes of bridging any liquidity problems, the Cantonal Bank of St. Gallen 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 40.0 million, which was not utilised as at 31 December 2005.

Operational risks

Internal control system

The Group maintains an effective separation of functions, employs a well-developed internal control system and disposes of management controls. In the 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, one of 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). SCIS, its employees and agents are contractually bound to keep business and banking secrets confidential.

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 banks for which SCIS runs the IT operations. 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.

In December 2005, the Board of Directors of the Cantonal Bank of St. Gallen has decided that the future IT platform will be the Avaloq Banking System. According to the project plan, HYPO-SWISS will move to the new system early 2007, whereas the Cantonal Bank of St. Gallen will migrate to Avaloq in the first half of 2008.

Group Key Figures

INCOME STATEMENT in CHF 000s	2005	2004	2003
Operating income	533 163	451 984	457 054
Administrative expenses	(242 897)	(236 932)	(249 977)
Operating profit (interim result)	235 973	162 741	141 895
Group net profit	168 302	114 881	104 685
SGKB SHARE in CHF			
Earnings per share	30.99	22.91	21.00
Dividend paid out resp. proposed	13.00	9.00	8.50
Share price as at Dec. 31	390.00	285.00	233.25
Stockmarket capitalization as at Dec. 31 (CHF billion)	2 173.60	1 453.10	1 166.30
KEY FIGURES			
Return on equity, pre-tax (basis: operating profit)	17.1 %	13.6 %	12.8 %
Return on equity, after tax (basis: group net profit)	12.2 %	9.6 %	9.5 %
Cost/income-ratio including depreciation on fixed assets	48.2 %	55.6 %	58.1 %
BALANCE SHEET in CHF 000s			
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Loans to customers	16 435 880	16 002 915	15 911 512
Customer funds	10 959 905	10 332 968	10 536 306
Balance sheet total	19 117 331	18 553 653	18 912 789
Shareholders' equity	1 561 681	1 308 764	1 181 192
EQUITY KEY FIGURES			
BIS ratio tier 1	13.5 %	11.3 %	9.8 %
BIS ratio tier 2	14.5 %	12.7 %	11.4 %
Excess capital ratio (CH standard)	75.9 %	52.5 %	35.8 %
Shareholders' equity in % of balance sheet total	8.2 %	7.0 %	6.3 %
FUNDS UNDER MANAGEMENT in CHF 000s			
Funds under management	30 768 851	26 482 420	25 311 915
HEADCOUNT			
Full-time equivalents ¹	957	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 %

Group Balance Sheet

ASSETS in CHF 000s	Dec. 31, 2005	in %	Dec. 31, 2004	in %	Change	in %
Liquid funds	119 350	0.6	147 514	0.8	(28 164)	(19.1)
Receivables from money market instruments	343 071	1.8	291 217	1.6	51 854	17.8
Due from banks	1 011 850	5.3	907 287	4.9	104 563	11.5
Due from customers	2 502 392	13.1	2 437 206	13.1	65 186	2.7
Mortgage loans	13 933 488	72.9	13 565 709	73.1	367 779	2.7
<i>Total loans to customers</i>	<i>16 435 880</i>	<i>86.0</i>	<i>16 002 915</i>	<i>86.2</i>	<i>432 965</i>	<i>2.7</i>
Securities and precious metals trading portfolios	48 994	0.3	26 181	0.1	22 813	87.1
Financial investments	699 815	3.7	725 792	3.9	(25 977)	(3.6)
Non-consolidated participations	21 213	0.1	21 846	0.1	(633)	(2.9)
Fixed assets	156 938	0.8	164 008	0.9	(7 070)	(4.3)
Intangibles	76 305	0.4	99 784	0.6	(23 479)	(23.5)
Accrued income and prepaid expenses	84 400	0.4	82 178	0.4	2 222	2.7
Other assets	119 515	0.6	84 931	0.5	34 584	40.7
Total assets	19 117 331	100.0	18 553 653	100.0	563 678	3.0
Of which:						
– Total subordinated amounts receivable	1 575		0		1 575	100.0
– Total due from non-consolidated participations	128 150		86 458		41 692	48.2
– 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	822 460	4.3	837 249	4.5	(14 789)	(1.8)
Due to customers in savings and deposits	6 523 200	34.1	6 411 343	34.6	111 857	1.7
Other due to customers	3 818 579	20.0	3 251 022	17.5	567 557	17.5
Medium-term notes	618 126	3.2	670 603	3.6	(52 477)	(7.8)
<i>Total customer funds</i>	<i>10 959 905</i>	<i>57.3</i>	<i>10 332 968</i>	<i>55.7</i>	<i>626 937</i>	<i>6.1</i>
Debt and loans secured by mortgages	5 263 935	27.5	5 539 040	29.9	(275 105)	(5.0)
Accrued expenses and deferred income	180 446	0.9	190 366	1.0	(9 920)	(5.2)
Other liabilities	128 739	0.7	128 932	0.7	(193)	(0.1)
Valuation adjustments and provisions	199 959	1.1	216 124	1.2	(16 165)	(7.5)
Reserves for general banking risks	61 000	0.3	34 000	0.2	27 000	79.4
Share capital	557 343	2.9	509 856	2.7	47 487	9.3
Capital reserve	82 810	0.4	20 364	0.1	62 446	306.6
Profit reserve	702 155	3.7	633 162	3.4	68 993	10.9
less treasury shares	(9 929)	0.0	(3 499)	0.0	(6 430)	(183.8)
Group net profit	168 302	0.9	114 881	0.6	53 421	46.5
<i>Total shareholders' equity</i>	<i>1 561 681</i>	<i>8.2</i>	<i>1 308 764</i>	<i>7.0</i>	<i>252 917</i>	<i>19.3</i>
Total liabilities	19 117 331	100.0	18 553 653	100.0	563 678	3.0
Of which:						
– Total subordinated amounts payable	260 000		260 000		0	0.0
– Total due to non-consolidated participations	1 176 938		1 263 062		(86 124)	(6.8)
– Total due to the Canton of St. Gallen	377 856		59 286		318 570	537.3

OFF-BALANCE-SHEET TRANSACTIONS in CHF 000s

Contingent liabilities	286 021		164 450		121 571	73.9
Irrevocable commitments	175 943		105 815		70 128	66.3
Liabilities for calls on shares and other equities	40 411		40 411		0	0.0
Derivative financial instruments:						
– Contract volume	5 136 411		4 623 229		513 182	11.1
– Positive replacement values	69 784		64 765		5 019	7.7
– Negative replacement values	35 860		48 875		(13 015)	(26.6)
Fiduciary transactions	2 131 622		1 559 335		572 287	36.7

Group Income Statement

in CHF 000s	2005	2004	Change	in %
Interest and discount income	532 684	516 306	16 378	3.2
Interest and dividend income on trading portfolios	722	252	470	186.5
Interest and dividend income on financial investments	19 446	19 111	335	1.8
Interest expenses	(249 990)	(264 791)	14 801	5.6
<i>Net interest income</i>	<i>302 862</i>	<i>270 878</i>	<i>31 984</i>	<i>11.8</i>
Commission income from lending activities	1 925	1 766	159	9.0
Commission income from securities and investment activities	175 037	140 914	34 123	24.2
Commission income from other service fee activities	18 266	18 383	(117)	(0.6)
Commission expenses	(10 474)	(8 794)	(1 680)	(19.1)
<i>Net fee and commission income</i>	<i>184 754</i>	<i>152 269</i>	<i>32 485</i>	<i>21.3</i>
<i>Net trading income</i>	<i>39 383</i>	<i>27 887</i>	<i>11 496</i>	<i>41.2</i>
Results from the sale of financial investments	1 823	1 718	105	6.1
Income from non-consolidated participations	1 451	1 644	(193)	(11.7)
Results from real estate	1 444	1 232	212	17.2
Other ordinary income	4 353	1 336	3 017	225.8
Other ordinary expenses	(2 907)	(4 980)	2 073	41.6
<i>Net other income</i>	<i>6 164</i>	<i>950</i>	<i>5 214</i>	<i>548.8</i>
Operating income	533 163	451 984	81 179	18.0
Personnel expenses	(145 012)	(130 817)	(14 195)	(10.9)
Other operating expenses	(97 885)	(106 115)	8 230	7.8
<i>Administrative expenses</i>	<i>(242 897)</i>	<i>(236 932)</i>	<i>(5 965)</i>	<i>(2.5)</i>
Gross profit	290 266	215 052	75 214	35.0
Depreciation and write-offs on fixed assets and participations	(14 972)	(14 682)	(290)	(2.0)
Depreciation of intangibles	(23 479)	(23 479)	0	0.0
Valuation adjustments, provisions and losses	(15 842)	(14 150)	(1 692)	(12.0)
Operating profit (interim result)	235 973	162 741	73 232	45.0
Extraordinary income	1 285	22 296	(21 011)	(94.2)
Extraordinary expenses	(27 001)	(34 727)	7 726	22.2
<i>of which creation of reserves for general banking risks</i>	<i>(27 000)</i>	<i>(34 000)</i>	<i>7 000</i>	<i>20.6</i>
Group profit before taxes	210 257	150 310	59 947	39.9
Taxes	(41 955)	(35 429)	(6 526)	(18.4)
Group net profit	168 302	114 881	53 421	46.5

Divisional Accounts

in CHF 000s/Change in % compared to prior year	Retail and commercial banking		Private Banking		Corporate Center		Group	
	2005	Change	2005	Change	2005	Change	2005	Change
<i>Operating income</i>	<i>259 819</i>	<i>4.7</i>	<i>192 562</i>	<i>23.5</i>	<i>80 782</i>	<i>68.5</i>	<i>533 163</i>	<i>18.0</i>
<i>Administrative expenses</i>	<i>(139 214)</i>	<i>6.4</i>	<i>(79 600)</i>	<i>(7.2)</i>	<i>(24 083)</i>	<i>(73.6)</i>	<i>(242 897)</i>	<i>(2.5)</i>
<i>Gross profit</i>	<i>120 605</i>	<i>21.4</i>	<i>112 962</i>	<i>38.4</i>	<i>56 699</i>	<i>66.5</i>	<i>290 266</i>	<i>35.0</i>
Depreciation and write-offs on fixed assets and intangibles	0	0.0	(3 618)	16.9	(34 833)	(3.0)	(38 451)	(0.8)
Valuation adjustments, provisions and losses	(8 894)	13.1	(597)	16.4	(6 351)	(98.2)	(15 842)	(12.0)
<i>Operating profit (interim result)</i>	<i>111 711</i>	<i>25.3</i>	<i>108 747</i>	<i>42.1</i>	<i>15 515</i>	<i>625.9</i>	<i>235 973</i>	<i>45.0</i>
Extraordinary income, net	0	0.0	(11 000)	(100.0)	(14 716)	(18.4)	(25 716)	(106.9)
Taxes	(17 644)	(3.1)	(19 870)	(18.6)	(4 441)	(183.0)	(41 955)	(18.4)
<i>Group net profit</i>	<i>94 067</i>	<i>30.6</i>	<i>77 877</i>	<i>30.2</i>	<i>(3 642)</i>	<i>78.5</i>	<i>168 302</i>	<i>46.5</i>
<i>Other data</i>								
Loans to customers	15 025 711	1.1	1 410 169	22.9	0	0.0	16 435 880	2.7
Customer funds	7 900 946	5.2	3 058 959	8.4	0	0.0	10 959 905	6.1
Funds under Management	8 961 172	7.0	21 807 679	20.5	0	0.0	30 768 851	16.2
Headcount (in accordance with RRV-EBK) ¹	486	(0.8)	217	(0.9)	254	(1.6)	957	(1.0)
Cost/income-ratio including depreciation	53.6 %	(10.7)	43.2 %	(14.3)	n/a	n/a	48.2 %	(13.3)

¹ Full-time equivalents; apprentices calculated at 50%

STATEMENT OF EQUITY in CHF 000s	Share Capital	Capital reserve	Profit reserve	Less treasury shares	Reserves for general banking risks	Group net profit of the year	Total
<i>Equity at January 1, 2003</i>	500 000	4 823	512 030			99 185	1 116 038
Dividend		70				(40 000)	(39 930)
Allocation to reserves			59 185			(59 185)	0
Premium from initial consolidation		1 031					1 031
Issuance of options rights			250				250
Acquisition of treasury shares				(23 295)			(23 295)
Disposal of treasury shares				21 917			21 917
Valuation gains on treasury shares		496					496
Group net profit						104 685	104 685
Total equity at December 31, 2003	500 000	6 420	571 465	(1 378)	0	104 685	1 181 192
Capital increases	9 856	12 579					22 435
Dividend		114				(42 626)	(42 512)
Allocation to reserves		362	61 697			(62 059)	0
Premium from initial consolidation		55					55
Issuance of options rights		582					582
Acquisition of treasury shares				(22 287)			(22 287)
Disposal of treasury shares				20 166			20 166
Valuation gains on treasury shares		252					252
Allocation					34 000		34 000
Group net profit						114 881	114 881
Total equity at December 31, 2004	509 856	20 364	633 162	(3 499)	34 000	114 881	1 308 764
Capital increases	47 487	62 187					109 674
Dividend		11				(45 888)	(45 877)
Allocation to reserves			68 993			(68 993)	0
Transfer of accrual for option rights to other liabilities		(953)					(953)
Acquisition of treasury shares				(38 566)			(38 566)
Disposal of treasury shares				32 136			32 136
Valuation gains on treasury shares		1 201					1 201
Allocation					27 000		27 000
Group net profit						168 302	168 302
Total equity at December 31, 2005	557 343	82 810	702 155	(9 929)	61 000	168 302	1 561 681

<i>Reserves not subject to profit distribution</i>	2005	2004	2003
Statutory or legal reserves not subject to profit distribution	212 516	146 129	104 610

SHARE CAPITAL in CHF 000s	Dec. 31, 2005			Dec. 31, 2004		
	Nominal value	Number of shares	Capital subject to dividends	Nominal value	Number of shares	Capital subject to dividends
<i>Share capital</i>						
Registered shares (nom. CHF 100 per share)	557 343	5 573 426	557 343	509 856	5 098 561	509 856
Total share capital	557 343	5 573 426	557 343	509 856	5 098 561	509 856
<i>Authorized share capital</i>	0			0		
– of which realized capital increases	none			none		
<i>Conditional share capital</i>						
– January 1	60 144	601 439		70 000	700 000	
– of which realized capital increases	47 487	474 865		9 856	98 561	

As of 1 January 2005, the qualified share capital amounted to a total of CHF 60.1 million of which CHF 47.5 million were reserved for the convertible bond, which was exercised as of 10 May 2005. Accordingly, the qualified share capital was reduced to CHF 12.6 million and is dedicated to the employee share program.

SIGNIFICANT SHAREHOLDERS

AND GROUPS OF SHAREHOLDERS WITH POOLED VOTING RIGHTS

in CHF 000s	Dec. 31, 2005		Dec. 31, 2004	
	Nominal	in %	Nominal	in %
<i>With voting rights</i>				
Canton of St. Gallen	305 565	54.8	305 556	59.9

SUMMARY OF COLLATERALS in CHF 000s		Mortgage collateral	Other collateral	Without collateral ¹	Total
<i>Loans to customers</i>					
Due from customers		141 569	1 009 517	1 351 306	2 502 392
<i>Mortgage loans</i>					
– residential real estate		11 282 722	0	36 849	11 319 571
– office and business buildings		1 175 477	0	32 008	1 207 485
– trade and industry		1 059 380	0	34 472	1 093 852
– other		298 019	657	13 904	312 580
Total loans to customers	Dec. 31, 2005	13 957 167	1 010 174	1 468 539	16 435 880
	Dec. 31, 2004	13 581 368	777 704	1 643 843	16 002 915
<i>Off-balance sheet transactions</i>					
Contingent liabilities		28 235	126 578	131 208	286 021
Irrevocable commitments		0	0	175 943	175 943
Liabilities for calls on shares and other equities		0	0	40 411	40 411
Total off-balance sheet	Dec. 31, 2005	28 235	126 578	347 562	502 375
	Dec. 31, 2004	28 558	59 909	222 209	310 676

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, 2005	720 358	(538 410)	181 948	180 591
	Dec. 31, 2004	733 600	(525 593)	208 007	204 579

NON-PERFORMING LOANS in CHF 000s	Dec. 31, 2005	Dec. 31, 2004	Change	in %
Total non-performing loans	82 175	129 672	(47 497)	(36.6)
Non-performing loans are a component of impaired loans.				

VALUATION ADJUSTMENTS AND PROVISIONS FOR CREDIT RISK in CHF 000s	Dec. 31, 2005	Dec. 31, 2004	Change	in %
Valuation adjustments and provisions for credit risk (capital)	176 322	197 394	(21 072)	(10.7)
Valuation adjustments and provisions for credit risk (interest)	4 269	7 185	(2 916)	(40.6)
Total provisions	180 591	204 579	(23 988)	(11.7)
Valuation adjustments and provisions for credit risk (capital) in % of loans to customers	1.07 %	1.23 %		(13.0)
Non-performing loans in % of loans to customers	0.50 %	0.81 %		(38.3)
Rate of capital provisions ¹	0.05 %	0.06 %		(16.7)

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

**VALUATION ADJUSTMENTS
AND PROVISIONS/RESERVES FOR
GENERAL BANKING RISKS** in CHF 000s

	Dec. 31, 2004	Usage	Doubtful interest, recoveries	New creation to the debit of the income statement	Redemption in favour of the in- come statement	Dec. 31, 2005
Valuation adjustments and provisions for credit risk	204 579	(33 736)	1 873	38 117	(30 242)	180 591
Valuation adjustments and provisions for other business risks	6 219	(1 225)	123	7 545	(20)	12 642
<i>Total</i>	<i>210 798</i>	<i>(34 961)</i>	<i>1 996</i>	<i>45 662</i>	<i>(30 262)</i>	<i>193 233</i>
Provision for deferred taxes	5 326	0	0	1 600	(200)	6 726
Total valuation adjustments and provisions	216 124	(34 961)	1 996	47 262	(30 462)	199 959
Total reserves for general banking risks	34 000	0	0	27 000	0	61 000

**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	
<i>Current assets</i>									
Liquid funds	119 350							119 350	
Receivables from money market instruments	9 978		269 310	63 783				343 071	
Due from banks	353 869	366	565 775	91 840				1 011 850	
Due from customers	58 193	364 452	591 397	438 423	851 993	197 934		2 502 392	
Mortgage loans	5 948	1 648 422	1 066 886	2 077 009	8 383 900	751 323		13 933 488	
Securities and precious metals trading portfolios	48 994							48 994	
Financial investments	13 584		60 010	100 083	245 901	250 549	29 688	699 815	
Total	Dec. 31, 2005	609 916	2 013 240	2 553 378	2 771 138	9 481 794	1 199 806	29 688	18 658 960
	Dec. 31, 2004	521 204	2 728 887	1 812 931	2 353 423	9 698 532	940 520	45 409	18 100 906
<i>Liabilities</i>									
Due to money market instruments		206						206	
Due to banks	183 341		357 948	191 171	90 000			822 460	
Due to customers in savings and deposits		6 523 200						6 523 200	
Other due to customers	2 140 038	101 221	1 088 926	281 994	156 400	50 000		3 818 579	
Medium-term notes			33 499	116 594	435 820	32 213		618 126	
Debt and loans secured by mortgages			220 000	698 250	2 876 685	1 469 000		5 263 935	
Total	Dec. 31, 2005	2 323 585	6 624 421	1 700 373	1 288 009	3 558 905	1 551 213	0	17 046 506
	Dec. 31, 2004	2 358 832	6 576 230	1 392 187	640 337	3 739 049	2 002 832	0	16 709 467

FUNDS UNDER MANAGEMENT in CHF 000s

	Dec. 31, 2005	Dec. 31, 2004	Change	in %
Values in investment vehicles managed by the group	745 280	478 547	266 733	55.7
Values under asset administration mandate	3 511 940	2 791 653	720 287	25.8
Other customer funds	27 722 668	24 199 563	3 523 105	14.6
Total funds under management (incl. double countings)	31 979 888	27 469 763	4 510 125	16.4
thereof: double countings	(1 211 037)	(987 343)	(223 694)	(22.7)
Total funds under management (excl. double countings)	30 768 851	26 482 420	4 286 431	16.2

Funds under management include:

- Assets under management
- Due to customers in savings and deposits
- Medium-term notes

Funds under management do not include custody-only values.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

NET INTEREST INCOME in CHF 000s	2005	2004	Change	in %
<i>Interest and discount income</i>				
Interest income due from banks	15 405	10 213	5 192	50.8
Interest income due from loans to customers	493 987	509 169	(15 182)	(3.0)
Other interest, net	23 292	(3 076)	26 368	857.2
Total interest and discount income	532 684	516 306	16 378	3.2
<i>Interest expenses</i>				
Interest expenses due to banks	7 348	6 391	957	15.0
Interest expenses due to customer funds	82 956	85 278	(2 322)	(2.7)
Interest expenses on debt and loans secured by mortgages	159 640	173 043	(13 403)	(7.7)
Other interest expenses	46	79	(33)	(41.8)
Total interest expenses	249 990	264 791	(14 801)	(5.6)

NET FEE AND COMMISSION INCOME in CHF 000s	2005	2004	Change	in %
Commission income from lending activities	1 925	1 766	159	9.0
Commission income from securities and investment activities	175 037	140 914	34 123	24.2
– investment funds	36 915	31 664	5 251	16.6
– deposit operations	28 175	24 244	3 931	16.2
– brokerage	66 731	50 363	16 368	32.5
– asset administration mandates	33 442	26 512	6 930	26.1
– other	9 774	8 131	1 643	20.2
Commission income from other service fee activities	18 266	18 383	(117)	(0.6)
– payment transfer	5 841	6 507	(666)	(10.2)
– safe custody	811	830	(19)	(2.3)
– account keeping	7 555	6 862	693	10.1
– other	4 059	4 184	(125)	(3.0)
<i>Total commission income</i>	<i>195 228</i>	<i>161 063</i>	<i>34 165</i>	<i>21.2</i>
<i>Total commission expenses</i>	<i>(10 474)</i>	<i>(8 794)</i>	<i>(1 680)</i>	<i>(19.1)</i>
Total	184 754	152 269	32 485	21.3

NET TRADING INCOME in CHF 000s	2005	2004	Change	in %
Foreign exchange and dealings in foreign notes and coins	33 373	24 732	8 641	34.9
Precious metal trading	285	265	20	7.5
Securities trading	5 725	2 890	2 835	98.1
Total	39 383	27 887	11 496	41.2

PERSONNEL EXPENSES in CHF 000s	2005	2004	Change	in %
Salaries and bonuses	115 822	107 735	8 087	7.5
Contributions to personnel welfare institutions	14 890	8 854	6 036	68.2
Other social security benefits	8 040	7 731	309	4.0
Other personnel expenses	6 260	6 497	(237)	(3.6)
Total	145 012	130 817	14 195	10.9

OTHER OPERATING EXPENSES in CHF 000s	2005	2004	Change	in %
Rent and occupancy	10 591	10 891	(300)	(2.8)
Expenses for IT	45 209	54 468	(9 259)	(17.0)
Expenses for equipment, furniture, vehicles and other installations	2 557	2 264	293	12.9
Services of third parties	4 784	5 186	(402)	(7.8)
Compensation of government guarantee	5 796	4 399	1 397	31.8
Postage, transport and removals	4 134	4 899	(765)	(15.6)
Public relations	7 862	6 949	913	13.1
Other operating expenses	16 952	17 059	(107)	(0.6)
Total	97 885	106 115	(8 230)	(7.8)

DEPRECIATION AND WRITE-OFFS

ON FIXED ASSETS in CHF 000s	2005	2004	Change	in %
Depreciation on bank buildings	6 901	6 828	73	1.1
Depreciation on other real estate	338	412	(74)	(18.0)
Depreciation on other equipment	7 100	7 248	(148)	(2.0)
<i>Total depreciations on fixed assets</i>	<i>14 339</i>	<i>14 488</i>	<i>(149)</i>	<i>(1.0)</i>
Depreciation on non-consolidated participations	633	194	439	226.3
Depreciation on intangibles	23 479	23 479	0	0.0
Total	38 451	38 161	290	0.8

VALUATION ADJUSTMENTS, PROVISIONS AND LOSSES

in CHF 000s	2005	2004	Change	in %
Provisions for credit risk	7 875	10 263	(2 388)	(23.3)
Provisions for other business risks	7 525	3 089	4 436	143.6
Losses	442	798	(356)	(44.6)
Total	15 842	14 150	1 692	12.0

EXTRAORDINARY INCOME AND EXPENSES

in CHF 000s	2005	2004	Change	in %
<i>Extraordinary income</i>				
Gain on sale of fixed assets	1 012	643	369	57.4
Gain on sale of non-consolidated participations	3	20 428	(20 425)	(100.0)
Revaluation gain on non-consolidated participations	0	720	(720)	(100.0)
Other extraordinary income	270	505	(235)	(46.5)
Total	1 285	22 296	(21 011)	(94.2)
<i>Extraordinary expenses</i>				
Creation of reserves for general banking risks	27 000	34 000	(7 000)	(20.6)
Other extraordinary expenses	1	727	(726)	(99.9)
Total	27 001	34 727	(7 726)	(22.2)

TAXES

in CHF 000s	2005	2004	Change	in %
Federal taxes	13 006	9 871	3 135	31.8
State and communal taxes:				
– In cantons where the Group is located (St. Gallen, Appenzell-Ausserrhoden and Zurich)	27 523	22 293	5 230	23.5
– Other	26	65	(39)	(60.0)
Deferred taxes	1 400	3 200	(1 800)	(56.3)
Total	41 955	35 429	6 526	18.4

EARNINGS PER SHARE AND NUMBER OF SHARES

	2005	2004	2003
Net profit (in CHF 000s)			
Group net profit	168 302	114 881	104 685
Group net profit before depreciation of intangibles (goodwill)	191 781	138 360	128 164
Weighted average number of shares outstanding			
Weighted average number of shares outstanding	5 430 766	5 015 459	4 984 631
Diluted shares due to options outstanding	43 813	41 875	37 051
Diluted shares due to convertible bond (Jan. 1 to May 10, 2005; entire prior year)	131 337	542 483	0
<i>Weighted average number of shares outstanding for the diluted earnings per share</i>	<i>5 605 916</i>	<i>5 599 817</i>	<i>5 021 682</i>
Earnings per share (in CHF)			
Earnings per share	30.99	22.91	21.00
Earnings per share before depreciation of intangibles (goodwill)	35.31	27.59	25.71
Diluted earnings per share	30.02	20.52	20.85
Diluted earnings per share before depreciation of intangibles (goodwill)	34.21	24.71	25.52

CALCULATION OF RETURN ON EQUITY (ROE) in CHF 000s	2005	2004	Change	in %
Operating profit	235 973	162 741	73 232	45.0
Group net profit	168 302	114 881	53 421	46.5
Total equity after appropriation of retained earnings	1 489 227	1 262 877	226 350	17.9
Average equity for the calculation of the ROE ¹	1 376 052	1 200 721	175 332	14.6
Return on equity before taxes (basis: operating profit)	17.1 %	13.6 %		25.7
Return on equity after taxes (basis: group net profit)	12.2 %	9.6 %		27.1

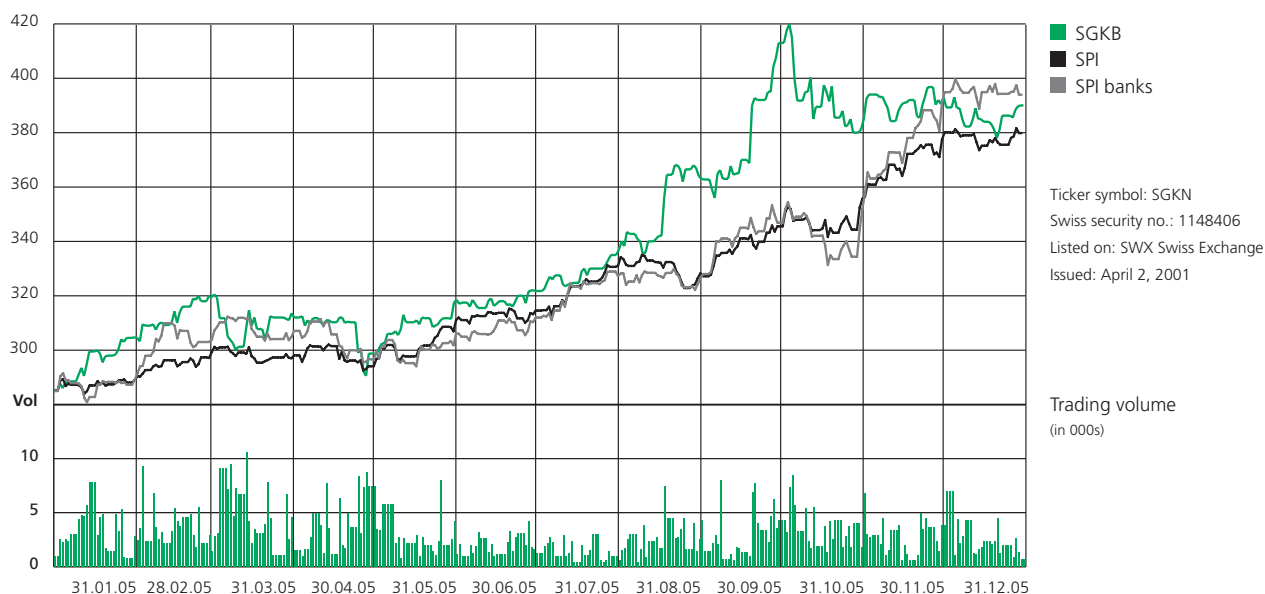
¹ The average is calculated from the beginning and ending balance after appropriation of retained earnings.

RISK-WEIGHTED POSITIONS AND EQUITY REQUIREMENTS BY BANKING LAW in CHF 000s	Dec. 31, 2005		Dec. 31, 2004	
	Nominal amount	Risk-weighted positions	Nominal amount	Risk-weighted positions
<i>Assets liable to direct equity underlying</i>				
Due from banks	1 011 850	251 486	907 287	225 648
Due from customers	2 502 392	1 333 058	2 437 206	1 450 010
Mortgage loans	13 933 488	7 932 811	13 565 709	7 752 307
Real estate in financial investments	29 688	111 330	45 409	170 284
Fixed assets	156 938	439 760	164 008	474 519
Accrued income and prepaid expenses	84 400	72 439	82 178	71 210
Other assets, replacement values	69 784	51 570	64 765	43 656
Other assets, other	49 731	46 277	20 166	9 280
<i>Total assets directly liable to equity underlying</i>		<i>10 238 731</i>		<i>10 196 914</i>
<i>Assets liable to indirect equity underlying</i>				
Net positions outside the trading book	1 014 149	256 146	972 618	299 453
Positions exposed to market risk		170 636		116 731
<i>Deductable liabilities</i>				
Deductable valuation adjustments and provisions	(180 591)	(135 444)	(204 579)	(153 434)
<i>Off-balance sheet items</i>				
Contingent liabilities	286 021	176 646	164 450	119 363
Irrevocable facilities granted	48 896	104 650	55 473	107 938
Add-ons on forward contracts and purchased options		23 120		21 368
Total risk-weighted positions		10 834 485		10 708 333
Required own means by Swiss Banking Law		866 759		856 667
Eligible own means		1 524 659		1 306 265
Excess capital		657 900		449 598
Excess capital ratio (CH standard)		75.9 %		52.5 %
BIS ratio tier 1		13.5 %		11.3 %
BIS ratio tier 2		14.5 %		12.7 %

Information for investors

PRICE DEVELOPMENT

In overall terms, the SGKB share price developed positively during the past year. From 1 January to 31 December 2005 the value of the share rose by 36.8%.



SHARE STATISTICS

DEC. 31, 2005

Earnings per share	CHF 30.99
Dividend per share	CHF 13.00 ¹
Total shares issued	5 573 426 (Floating 2 453 355)
Time-weighted number of dividend-bearing shares	5 430 766
Number of shares held by SGKB (av.)	10 475
Shareholders	25 457
Issue price (IPO)	CHF 160.00
Market price as at the end of the year	CHF 390.00
– Lowest price	CHF 282.00
– Highest price	CHF 422.00
Market capitalization	CHF 2 173.6 million
Ratio of market capitalization/ shareholders' equity	139.2 %
Return on equity (basis: operating profit)	17.1 %
Reported shareholders' equity	CHF 1 561.7 million
Dividend yield	3.3 %
Price-earnings ratio	12.6

¹ Recommendation of the Board of Directors for the financial year ended on 31 December 2005.

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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

For current publication and event dates, see www.sgkb.ch

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