

[Financial Year 2009]



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Group Key Figures

Income Statement in CHF 000s	2009	2008	2007
Operating income	523 928	524 933	555 586
Administrative expenses	272 889	275 777	265 903
Operating profit (interim result)	196 894	183 932	246 089
Group net profit	168 143	171 135	226 682
Balance Sheet in CHF 000s	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Loans to customers	18 504 562	17 944 796	17 102 122
Customer funds	16 584 666	14 885 373	12 292 293
Balance sheet total	23 504 195	22 577 338	20 235 796
Shareholders' equity	1 796 372	1 744 273	1 739 533
Clients assets in CHF 000s			
Clients assets	40 979 634	37 672 912	37 883 264
Headcount			
Full-time equivalents (in accordance with FINMA; apprentices calculated at 50%)	1 124	1 098	1 007
Number of employees:			
– Individuals	1 273	1 235	1 132
– of which trainees	117	115	111
Key Figures	2009	2008	2007
SGKB share in CHF			
Earnings per share	30.39	30.86	40.91
Dividend per share	20.00	20.00	26.00
Market price			
– as of December 31	463.25	384.00	498.00
– Highest price	489.00	516.00	642.00
– Lowest price	330.00	363.25	445.00
Market capitalization as of December 31 (in CHF million)	2 581.90	2 140.20	2 775.60
Return on equity			
Return on equity, pre-tax (basis: operating profit)	11.9%	11.4%	15.7%
Return on equity, after tax (basis: Group net profit)	10.1%	10.6%	14.5%
Cost/income ratio			
Cost/income ratio including depreciation on fixed assets and licences	55.2%	55.6%	50.8%
Equity key figures²			
BIS ratio tier 1	13.0%	12.5%	13.9%
BIS ratio tier 2	13.2%	12.9%	14.5%
Excess capital ratio (CH standard)	80.6%	72.2%	83.0%
Shareholders' equity as % of balance sheet total	7.6%	7.7%	8.6%

¹ Recommendation of the Board of Directors for the financial year ended on Dec. 31, 2009

² BIS ratios 2008 and 2009 according to FINMA-Circ. 08/22, Appendix 2 (Restatement 2008). Up to 2007 according to Basel I.

The closing as of December 31, 2009, includes SGKB Deutschland AG in Munich for the first time. This subsidiary became operative in the financial year 2009. Furthermore, Hyposwiss Private Bank Genève SA in Geneva is consolidated for 12 months in the financial year 2009. In the prior year, it was consolidated for 10 months starting from the date of acquisition. Both facts make the comparison with the prior year more challenging.

Moody's Rating	2009	2008	2007
Senior unsecured domestic currency	Aa1	Aa1	Aa1
Bank deposits	Aa1 / P-1	Aa1 / P-1	Aa1 / P-1
Bank financial strength	B-	B-	B-

Cover picture: FC St. Gallen kicked off in the 2009–2010 Super League with the Cantonal Bank of St. Gallen as its main sponsor. Football is an exciting sport at both amateur and professional levels, making it an ideal theme to accompany this year's Annual Report and Letter to Shareholders.



Dr. Franz Peter Oesch
Chairman of the Board of Directors



Roland Ledergerber
Chief Executive Officer

Dear Shareholders

Our end-of-year figures confirm what was already apparent from last year's interim report: while market conditions have remained challenging, the Cantonal Bank of St. Gallen Group has achieved a very good result in 2009. This healthy result matches last year's high level and reflects sustained profitability. Record levels of client assets and customer loans are testimony to the firm trust of our clientele. Our net interest income is especially pleasing, having risen by at least four percent to a new high. Our top-quality loan portfolio and sound equity cover indicate that ours is a Bank on firm foundations, with its risk exposure under control.

In this turbulent year, the Cantonal Bank of St. Gallen has proved its stability by holding on to its values and strategy. These is our enterprise's defining purpose – especially in difficult economic times – and its core identity answers a basic need on the part of many customers. The stability and security of the Cantonal Bank of St. Gallen have attracted substantial new money, and many new customers, during the last few years. Our task now is constantly to strengthen this trust which exists among all our banking customers.

You, our shareholders, have also shown constant loyalty to the Cantonal Bank of St. Gallen, despite fraught conditions on the financial markets. Our institution not only enjoys the confidence of more and more customers, but also of an ever-growing number of shareholders. By the end of last year, 30,866 people held SGKB shares: 2760 more than the previous year. Almost 60% of our shareholders hold less than 25 shares, documenting a wide spread of shareholders. At the same time, around 80% are from the Canton of St. Gallen, reflecting the Bank's strong regional roots.

We reward your loyalty with attractive returns. Good business course and a strong equity base will enable us to offer our shareholders a dividend unchanged at CHF 20. This will be proposed at the annual general meeting on April 28, 2010. By distributing around two thirds of Group net profit to shareholders, the SGKB is pursuing its shareholder-friendly dividend policy.

We would like to thank you for your confidence as shareholders in us over the past year.

Dr. Franz Peter Oesch

Roland Ledergerber

Accounts for 2009

A steady result

The results of the core business segments both confirmed the sustainable earnings power and the balanced business model of SGKB Group, which with the lending and investment business built on two equally strong pillars of success. At December 31, 2009, the Group generated a 0.8% higher gross profit of 251.0 million Swiss francs in comparison to last year. The collapse of the financial markets in the first quarter of 2009, the subsequent recovery as well as the influence of the build-up of the subsidiary in Munich have shaped the financial year of St.Galler Kantonalbank. Group net profit of 168.1 million francs stands as expected in previous years' range (-1.7%).

Interest income: up 4.3% on previous year

Net interest income amounted to 317.9 million francs, which represents an increase over the previous year of 4.3% and a new high. Higher loans to customer and a steep and low interest yield curve contributed to this result. Due to risk considerations SGKB has increased protection against rising interest rates by additional hedges in the second half of 2009. Without this measure, net interest income would have been higher.

Fee and commission income: down as expected

The rise in net interest income offset partially the net fee and commission income, which decreased along expectations by 34.6 million Swiss francs or 18.4% to 153.4 million Swiss francs. Despite a strong recovery on the stock markets starting in the second quarter, clients remained reluctant, therefore the transaction-related income (commissions, income securities, foreign currencies) decreased by 11.7%. Because of the cautious investor behaviour (keeping of liquidity and re-balancing) portfolio-related income (custody fees, asset management fees, fund revenues) experienced a 21.6% decline.

Lower administrative expenses

With 272.9 million Swiss francs, administrative expenses in the SGKB Group were slightly lower than in the previous year (-2.9 million Swiss francs, or -1.0%) – despite the start in 2009 of the newly formed subsidiary St.Galler Kantonalbank Deutschland AG in Munich and Hyposwiss Geneva, which was consolidated for the first time for a whole year. Mainly these two investments led to the last years' increase in personnel expenses of 6.8 million Swiss francs, or 4.2% to a total of 169.6 million Swiss francs. However, the other operating expenses fell to 103.3 million Swiss francs, by approximately 9.7 million Swiss francs, or 8.6%. Savings were made after completion of the information technology (IT) migration project by lower IT costs on the one hand and further achieved through a strict cost management on the other hand.

Customer bases on record levels

Particularly strong was the development of the customer base. By the end of 2009 the client assets (customer funds and assets under management) reached a new high of 41.0 billion francs. Compared with the previous year it rose by 3.3 billion Swiss francs or around 8.8%.

Similarly, loans to customers registered a pleasing growth as well. Over the previous year they climbed by 559.8 million Swiss francs, or about 3.1% to 18.5 billion Swiss francs. The continuing high quality of the loan portfolio and the positive result of net interest income demonstrate that the volume growth was achieved without taking any risk or price concessions. Therefore, SGKB continues to hold firmly to its long-term and reasonable credit policy.

Outlook slightly below last year

In the current economic conditions, results are difficult to forecast. The Bank expects a Group net profit slightly below this year's result.

Group Balance Sheet

Assets in CHF 000s	Dec. 31, 2009	in %	Dec. 31, 2008	in %	Change	in %
Liquid funds	191 701	0.8	187 087	0.8	4 614	2.5
Receivables from money market instruments	17 983	0.1	22 111	0.1	(4 128)	(18.7)
Due from banks	2 491 912	10.6	2 728 647	12.1	(236 735)	(8.7)
Due from customers	2 596 269	11.0	2 886 156	12.8	(289 887)	(10.0)
Mortgage loans	15 908 293	67.7	15 058 640	66.7	849 653	5.6
Total loans to customers	18 504 562	78.7	17 944 796	79.5	559 766	3.1
Securities and precious metals trading portfolios	9 897	0.0	11 117	0.0	(1 220)	(11.0)
Financial investments	1 692 654	7.2	1 015 645	4.5	677 009	66.7
Non-consolidated participations	21 255	0.1	19 236	0.1	2 019	10.5
Fixed assets	167 735	0.7	172 995	0.8	(5 260)	(3.0)
Intangibles	106 791	0.5	135 027	0.6	(28 236)	(20.9)
Accrued income and prepaid expenses	95 461	0.4	105 910	0.5	(10 449)	(9.9)
Other assets	204 246	0.9	234 767	1.0	(30 521)	(13.0)
Total assets	23 504 195	100.0	22 577 338	100.0	926 857	4.1
Of which:						
– Total subordinated amounts receivable	190		0		190	–
– Total due from non-consolidated participations	72 971		73 697		(726)	(1.0)

Liabilities in CHF 000s

Due to money market instruments	1 317	0.0	360	0.0	957	–
Due to banks	168 754	0.7	561 239	2.5	(392 485)	(69.9)
Due to customers in savings and deposits	8 840 269	37.6	6 817 498	30.2	2 022 771	29.7
Other due to customers	6 813 818	29.0	6 944 182	30.8	(130 364)	(1.9)
Medium-term notes	930 578	4.0	1 123 693	5.0	(193 115)	(17.2)
Total customer funds	16 584 666	70.6	14 885 373	65.9	1 699 293	11.4
Debt and loans secured by mortgages	4 363 307	18.6	4 754 203	21.1	(390 896)	(8.2)
Accrued expenses and deferred income	148 930	0.6	173 698	0.8	(24 768)	(14.3)
Other liabilities	257 584	1.1	277 492	1.2	(19 908)	(7.2)
Valuation adjustments and provisions	183 264	0.8	180 700	0.8	2 564	1.4
Reserves for general banking risks	0	0.0	3 152	0.0	(3 152)	(100.0)
Share capital	390 140	1.7	390 140	1.7	0	0.0
Capital reserve	86 808	0.4	83 204	0.4	3 604	4.3
Profit reserve	1 167 664	5.0	1 109 002	4.9	58 662	5.3
less treasury shares	(16 383)	(0.1)	(12 360)	(0.1)	(4 022)	32.5
Group net profit	168 143	0.7	171 135	0.8	(2 992)	(1.7)
Total shareholders' equity	1 796 372	7.6	1 744 273	7.7	52 099	3.0
Total liabilities	23 504 195	100.0	22 577 338	100.0	926 857	4.1
Of which:						
– Total subordinated amounts payable	99 780		99 980		(200)	(0.2)
– Total due to non-consolidated participations	1 144 905		1 217 454		(72 550)	(6.0)
– Total due to the Canton of St. Gallen	715 728		792 873		(77 145)	(9.7)

Off-Balance-Sheet Transactions in CHF 000s

Contingent liabilities	275 707		358 293		(82 586)	(23.0)
Irrevocable commitments	264 196		147 300		116 896	79.4
Liabilities for calls on shares and other equities	57 427		60 390		(2 963)	(4.9)
Derivative financial instruments:						
– Contract volume	12 977 176		9 488 240		3 488 936	36.8
– Positive replacement values	175 302		203 283		(27 981)	(13.8)
– Negative replacement values	173 170		172 405		765	0.4
Fiduciary transactions	2 476 935		4 224 098		(1 747 163)	(41.4)

Group Income Statement

in CHF 000s	2009	2008	Change	in %
Interest and discount income	547 090	665 690	(118 599)	(17.8)
Interest and dividend income on trading portfolios	192	394	(202)	(51.3)
Interest and dividend income on financial investments	32 431	22 359	10 072	45.0
Interest expenses	261 763	383 486	(121 723)	(31.7)
Net interest income	317 950	304 956	12 993	4.3
Commission income from lending activities	2 963	2 326	637	27.4
Commission income from securities and investment activities	146 447	184 316	(37 869)	(20.5)
Commission income from other service fee activities	18 522	18 002	519	2.9
Commission expenses	14 556	16 633	(2 076)	(12.5)
Net fee and commission income	153 375	188 011	(34 636)	(18.4)
Net trading income	39 496	28 427	11 069	38.9
Results from the sale of financial investments	5 567	3 949	1 618	41.0
Income from participations accounted by equity method	524	118	406	–
Income from non-consolidated participations	3 966	2 148	1 818	84.6
Results from real estate	1 699	1 371	328	23.9
Other ordinary income	1 536	1 766	(230)	(13.0)
Other ordinary expenses	185	5 814	(5 629)	(96.8)
Net other income	13 107	3 538	9 569	–
Operating income	523 928	524 933	(1 005)	(0.2)
Personnel expenses	169 554	162 708	6 846	4.2
Other operating expenses	103 336	113 069	(9 733)	(8.6)
Administrative expenses	272 889	275 777	(2 888)	(1.0)
Gross profit	251 039	249 156	1 883	0.8
Depreciation and write-offs on fixed assets and participations	10 189	10 758	(569)	(5.3)
Depreciation of intangibles	31 323	44 392	(13 069)	(29.4)
Valuation adjustments, provisions and losses	12 633	10 074	2 559	25.4
Operating profit (interim result)	196 894	183 932	12 962	7.0
Extraordinary income	9 547	26 702	(17 155)	(64.2)
<i>of which dissolution of reserves for general banking risks</i>	<i>3 152</i>	<i>22 278</i>	<i>(19 126)</i>	<i>(85.9)</i>
Extraordinary expenses	565	744	(179)	(24.1)
Group profit before taxes	205 876	209 890	(4 014)	(1.9)
Taxes	37 733	38 755	(1 022)	(2.6)
Group net profit	168 143	171 135	(2 992)	(1.7)

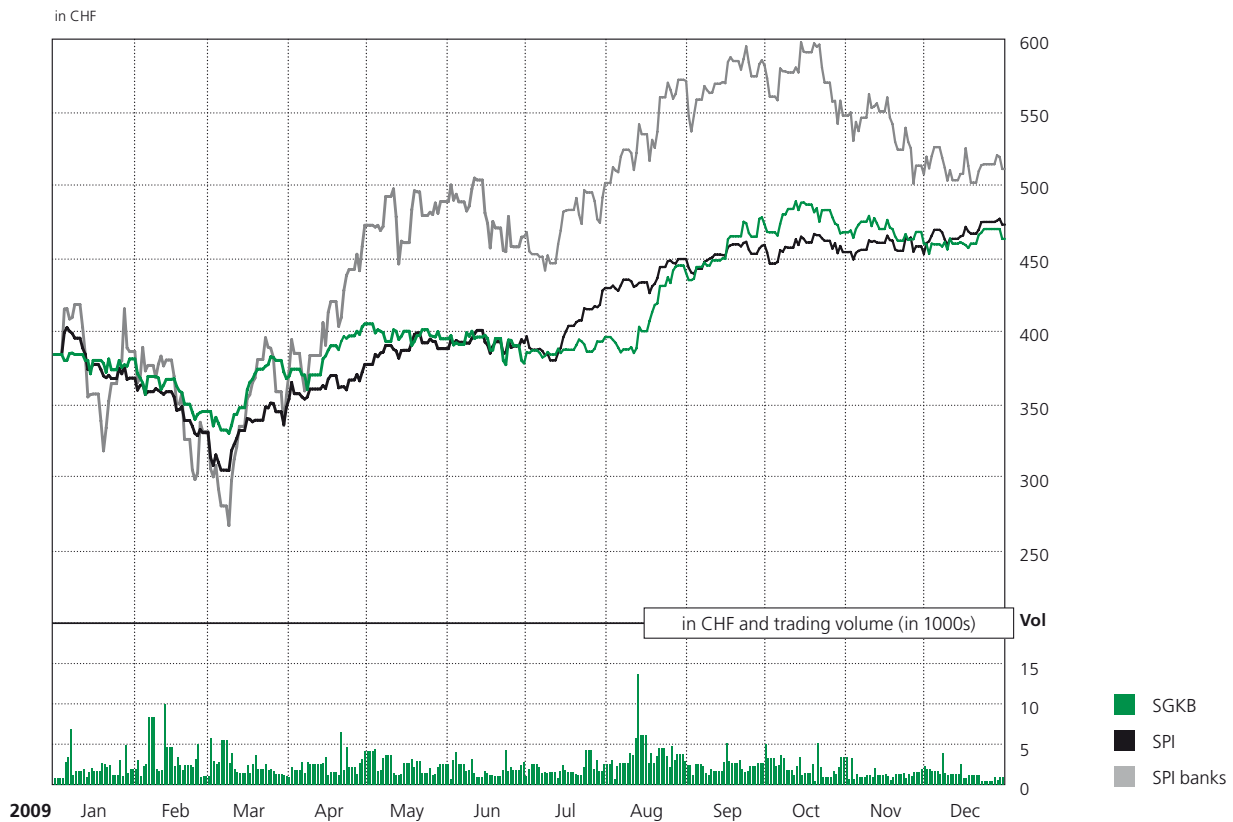
Divisional Accounts

Income Statement in CHF 000s	Retail and Commercial Banking		Private Banking		Corporate Center		Group	
	2009	2008	2009	2008	2009	2008	2009	2008
Operating income¹	227 572	269 233	176 809	223 670	119 547	32 030	523 928	524 933
Administrative expenses	126 674	126 839	120 137	101 390	26 079	47 548	272 889	275 777
Gross profit	100 898	142 394	56 672	122 280	93 469	(15 518)	251 039	249 156
Depreciation and write-offs on fixed assets and intangibles	0	0	3 053	2 200	38 459	52 951	41 512	55 150
Valuation adjustments, provisions and losses	793	(10 777)	15 246	18 886	(3 407)	1 966	12 633	10 074
Operating profit (interim result)	100 105	153 171	38 373	101 195	58 416	(70 434)	196 894	183 932
Extraordinary income, net	625	0	6 442	475	1 915	25 483	8 982	25 958
Taxes	14 707	20 161	8 891	16 692	14 135	1 901	37 733	38 755
Group net profit	86 022	133 010	35 924	84 977	46 196	(46 852)	168 143	171 135
Other data in CHF 000s								
Loans to customers	16 978 614	16 296 250	1 525 948	1 648 546	0	0	18 504 562	17 944 796
Customer funds	9 705 129	9 156 469	6 879 536	5 728 904	0	0	16 584 666	14 885 373
Clients assets	12 842 024	12 101 987	28 137 610	25 570 925	0	0	40 979 634	37 672 912
Full-time equivalents	497	488	361	339	266	271	1 124	1 098
Cost/income ratio	55.7%	47.1%	69.3%	46.1%	n/a	n/a	55.2%	55.6%

¹ Financial statements based on funds transfer pricing method: Term transformation and result from interest rate hedging reported in the Corporate Center.

SGKB Share

Since December 31, 2008 the price of SGKB shares has risen by 20.64% from CHF 384 to CHF 463.25.

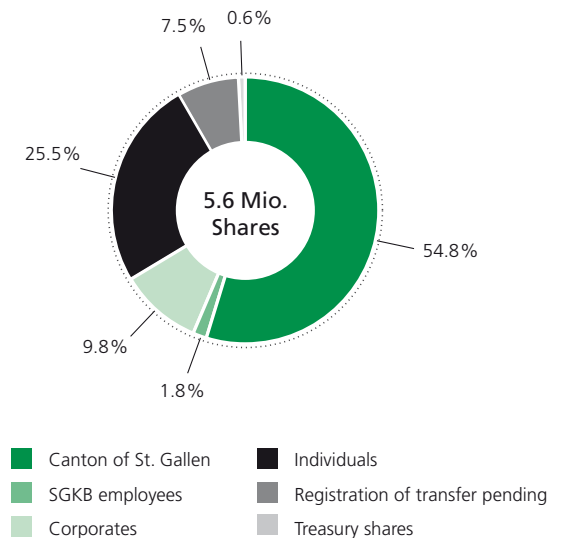


Ticker symbol: SGKN, Swiss security no.: 1148406, listed on: SIX Swiss Exchange, issued: April 2, 2001

Figures and Data	Dec. 31, 2009
Earnings per share	CHF 30.39
Proposed dividend per share	CHF 20.00 ¹
Total shares issued	5 573 426
Time-weighted number of dividend-bearing shares	5 532 361
Number of shares held by SGKB (average)	37 536
Shareholders	30 866
Issue price (IPO)	CHF 160.00
Market price	CHF 463.25
Market capitalization	CHF 2 581.9 million
Ratio of market capitalization/ shareholders' equity	143.7%
Reported shareholders' equity	CHF 1 796.4 million
Return on equity (basis: operating profit)	11.9%
Dividend yield	4.3%
Price-earnings ratio	15.2

¹ Recommendation of the Board of Directors for the financial year ended on Dec. 31, 2009.

Shareholder Structure



Contact

[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 (→ Engl. site: Financial calendar)



Board of Directors and Group Management

Board of Directors

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

Group Management

Roland Ledergerber Chief Executive Officer	Albert Koller Retail and Commercial Clients	Daniel Lipp Private Banking	Dr. Felix Buschor Service Center	Dr. Christian Schmid Finance and Risk Management
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Profile

The **Cantonal Bank of St.Gallen Group** comprises the parent company, the Cantonal Bank of St.Gallen (SGKB), founded in 1868, and its subsidiaries: Hyposwiss Privatbank AG of Zurich, Hyposwiss Private Bank Genève SA, of Geneva, and St.Galler Kantonalbank Deutschland AG, of Munich. SGKB has been listed on the SIX Exchange since 2001. The Canton of St. Gallen is the majority shareholder, with 54.8% of the share capital. The parent company, SGKB, offers a comprehensive range of financial services to its customers in the cantons of St. Gallen and Appenzel Ausserrhoden. In addition, the Cantonal Bank of St.Gallen meets its responsibility for the economic, social and cultural development of the region as an employer, taxpayer and sponsorship partner. On December 31, 2009 the Group employed a total of 1124 full-time staff. The parent company operates with a state guarantee and has an Aa1 credit rating from Moody's.