

[Financial Year 2008]



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Group Key Figures

Income Statement in CHF 000s	2008	2007	2006
Operating income	524 933	555 586	555 131
Administrative expenses	275 777	265 903	253 878
Operating profit (interim result)	183 932	246 089	252 772
Group net profit	171 135	226 682	228 555

Balance Sheet in CHF 000s	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Loans to customers	17 944 796	17 102 122	17 208 671
Customer funds	14 885 373	12 292 293	11 802 711
Balance sheet total	22 577 338	20 235 796	19 799 982
Shareholders' equity	1 744 273	1 739 533	1 705 676

Funds under Management in CHF 000s			
Funds under management	37 672 912	37 883 264	38 838 934

Headcount			
Full-time equivalents (in accordance with BAG-FINMA; apprentices calculated at 50%)	1 098	1 007	972
Number of employees:			
– Individuals	1 235	1 132	1 091
– of which trainees	115	111	108

Key Figures	2008	2007	2006
SGKB share in CHF			
Earnings per share	30.86	40.91	41.21
Dividend per share	20.00	26.00	0.00
Repayment of the par value per share	0.00	0.00	30.00
Market price			
– as of December 31	384.00	498.00	512.00
– Highest price	516.00	642.00	515.00
– Lowest price	363.25	445.00	390.00
Market capitalization as of December 31 (in CHF million)	2 140.20	2 775.60	2 853.60

Return on equity			
Return on equity, pre-tax (basis: operating profit)	11.4%	15.7%	16.7%
Return on equity, after tax (basis: group net profit)	10.6%	14.5%	15.1%

Cost/income ratio			
Cost/income ratio including depreciation on fixed assets and licences	55.6%	50.8%	48.4%

Equity key figures			
BIS ratio tier 1	13.7%	13.9%	13.5%
BIS ratio tier 2	14.2%	14.5%	14.2%
Excess capital ratio (CH standard)	72.2%	83.0%	74.8%
Shareholders' equity as % of balance sheet total	7.7%	8.6%	8.6%

¹ Recommendation of the Board of Directors for the financial year ended on December 31, 2008

For the first time, the accounts closed at December 31, 2008 include figures for Hyposwiss Private Bank Genève SA, consolidated since March 1, 2008. Scope for comparison with the previous year is limited, due to this first consolidation of Hyposwiss Geneva. The introduction of a new chart of accounts also means that expenditure on plastic card production previously shown under operating expenses is now recorded as commission expense. A corresponding reclassification from other operating expenses to operating income has been applied to the previous year. Further minor reclassifications were also made under the headings of operating income and administrative expenses.

Moody's Rating	2008	2007	2006
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 photo: exhibits from the archive of materials at Sitterwerk Art Foundry. The current report from the Cantonal Bank of St. Gallen features photographic portraits of people from eastern Switzerland who create and preserve value in the form of collections.



Dr. Franz Peter Oesch
Chairman of the Board of Directors



Roland Ledergerber
Chief Executive Officer

Dear Shareholders

We can look back on a year of movement in many respects. 2008 saw exceptional developments on the financial markets. Under these conditions, the Cantonal Bank of St.Gallen presents a sound net profit. The volume of new business acquired is pleasing, while risk exposure and costs are under control. Given the unpromising conditions, we are very satisfied. Despite deepening financial and economic recession, the Cantonal Bank of St.Gallen has continued further on its dynamic path and adopted or implemented many projects and investments in the future:

- to cut costs and modernize: introduction of the new IT platform Avaloq,
- to expand our investment activities: takeover and integration of Anglo Irish Bank (Suisse), now Hyposwiss Private Bank Genève SA,
- and to prospect effectively on the market in Germany: formation of a subsidiary bank in Munich (opening in spring 2009).

In the shadow of upheaval on the world financial markets, the great dedication of the staff of the Cantonal Bank of St.Gallen Group in the past year has brought these and many other projects to fruition. We are therefore particularly proud to be able to say, with a clear conscience, after this year, that the Cantonal Bank of St.Gallen is one of the most successful and most sound banks in Switzerland.

If the financial crisis does have a positive aspect, it comes as a reminder of lasting values. Unfortunately, many lost sight of this virtue in recent years, and this prepared the ground from which errors and excesses could arise in parts of the financial industry. Values such as closeness, security, trust and responsibility are now regaining significance. They are part of our daily work and the base of our relations with our customers. They are not a fashionable sales pitch. Our values are based on the conviction that we must know our customers personally, consider their needs carefully and thus serve them as a reliable and credible partner at all stages of their lives. This is in the interest of the customers, of the shareholders, and of the Bank itself.

Thank you most especially for the trust you have placed in us over the past, exceptional year. To continue to merit your confidence in future, we shall make every effort this year to meet your needs on the firm basis of our values, and be at your side as a reliable and credible partner.

Dr. Franz Peter Oesch

Roland Ledergerber

Financial Statements 2008

A satisfying result

The CHF 171.1 million profit earned in the financial year 2008 represent SGKB Group's third-best result ever. Given the situation on the financial markets, this is a remarkable performance. The only previous years to have bettered this figure were 2006 and 2007, two different records achieved in far more favourable economic circumstances. Considering the dramatically worsened situation on the financial markets in the second half of the year, the actual result is satisfactory. In these difficult conditions, SGKB's balanced business model has provided support, with net interest income enhancing stability and to some extent offsetting lower net fee and commission income, the source of much of SGKB Group's growth in previous years.

Stable net interest income

Net interest income has remained steady at last year's level, thus proving a stable source of earnings. The profit figure of CHF 305.0 million is therefore just 0.1 % lower than for the previous year. The immense influx of Net New Money in the fourth quarter only slightly affected net interest income because this money, deriving from concerns about risk, was soon reinvested securely at low interest rates.

Falling net fee and commission income

Net fee and commission income stands at CHF 188.0 million, down 11.2 % compared to the previous period. This decrease was expected, because of the financial crisis. Portfolio-related income (custody charges, asset management mandates and fund income) of CHF 127.8 million staged almost at last year's level. However, transaction-related income (brokerage, securities and foreign exchange) fell by 27.9 % to CHF 60.3 million, reflecting depressed trading on the stock market.

Administrative expenses under control

The financial crisis was not the only issue of 2008 for the Cantonal Bank of St. Gallen. Major projects were brought to a successful conclusion: first and foremost the integration of Hypo-

swiss Private Bank SA Genève, taken over on March 1, 2008. The new Avaloq IT system was also commissioned. Despite these exceptional projects, the rise in administrative expenses to CHF 275.8 million (+3.7 %) was of the same order as the previous year.

Strong growth in Net New Money

The Cantonal Bank of St. Gallen has recorded an impressive rise in funds under management. Excluding the first consolidation of Hyposwiss Geneva, Net New Money amounted to CHF 3.9 billion, the highest figure in the Bank's history. Loans to customers also recorded impressive growth. Excluding Hyposwiss Geneva, the rise was CHF 620.3 million (+3.6 %). This was driven mainly by strong growth in lending to SMEs, amounting to CHF 468.3 million (+10.0 %). Mortgage lending increased by CHF 384.4 million (+2.6 %).

Together with the increase in due from banks (interbank lending) these growth items overall have led to a sharp rise in balance sheet total, to CHF 22.6 billion (+11.6 %).

SGKB shares: Dividend of CHF 20

In view of the bank's business performance, the Board of Directors will recommend a dividend payment of CHF 20 per share at the Annual General Meeting, to be held on April 29, 2009. Based on the share price at the end of 2008, this represents a dividend yield of 5.2 %.

2009 net profit level with last year's figure

Given the background of recession, falling GDP and continued difficult conditions on the stock market, the Cantonal Bank of St. Gallen expects a profit for 2009 equal to last year. In the longer term, SGKB considers itself well positioned and expects firm and sustained growth. The main contribution to this should come from continuing further development of its balanced business model, with private banking and its traditional lending business as the two main pillars.

Group Balance Sheet

Assets in CHF 000s	Dec. 31, 2008	in %	Dec. 31, 2007	in %	Change	in %
Liquid funds	187 087	0.8	131 170	0.6	55 917	42.6
Receivables from money market instruments	22 111	0.1	331 860	1.6	(309 749)	(93.3)
Due from banks	2 728 647	12.1	1 397 815	6.9	1 330 832	95.2
Due from customers	2 886 156	12.8	2 427 839	12.0	458 317	18.9
Mortgage loans	15 058 640	66.7	14 674 283	72.5	384 357	2.6
Total loans to customers	17 944 796	79.5	17 102 122	84.5	842 674	4.9
Securities and precious metals trading portfolios	11 117	0.0	15 288	0.1	(4 171)	(27.3)
Financial investments	1 015 645	4.5	661 790	3.3	353 855	53.5
Non-consolidated participations	19 236	0.1	19 184	0.1	52	0.3
Fixed assets	172 995	0.8	172 399	0.9	596	0.3
Intangibles	135 027	0.6	42 786	0.2	92 241	–
Accrued income and prepaid expenses	105 910	0.5	97 399	0.5	8 511	8.7
Other assets	234 767	1.0	263 983	1.3	(29 216)	(11.1)
Total assets	22 577 338	100.0	20 235 796	100.0	2 341 542	11.6
Of which:						
– Total subordinated amounts receivable	0		0		0	–
– Total due from non-consolidated participations	73 697		77 912		(4 215)	(5.4)

Liabilities in CHF 000s

Due to money market instruments	360	0.0	528	0.0	(168)	(31.8)
Due to banks	561 239	2.5	344 595	1.7	216 644	62.9
Due to customers in savings and deposits	6 817 498	30.2	5 646 091	27.9	1 171 407	20.7
Other due to customers	6 944 182	30.8	5 748 122	28.4	1 196 060	20.8
Medium-term notes	1 123 693	5.0	898 080	4.4	225 613	25.1
Total customer funds	14 885 373	65.9	12 292 293	60.7	2 593 080	21.1
Debt and loans secured by mortgages	4 754 203	21.1	5 352 458	26.5	(598 255)	(11.2)
Accrued expenses and deferred income	173 698	0.8	207 277	1.0	(33 579)	(16.2)
Other liabilities	277 492	1.2	119 774	0.6	157 718	–
Valuation adjustments and provisions	180 700	0.8	179 338	0.9	1 362	0.8
Reserves for general banking risks	3 152	0.0	25 430	0.2	(22 278)	(87.6)
Share capital	390 140	1.7	390 140	1.9	0	0.0
Capital reserve	83 204	0.4	84 977	0.4	(1 773)	(2.1)
Profit reserve	1 109 002	4.9	1 027 229	5.1	81 773	8.0
less treasury shares	(12 360)	(0.1)	(14 925)	(0.1)	2 565	(17.2)
Group net profit	171 135	0.8	226 682	1.1	(55 547)	(24.5)
Total shareholders' equity	1 744 273	7.7	1 739 533	8.6	4 740	0.3
Total liabilities	22 577 338	100.0	20 235 796	100.0	2 341 542	11.6
Of which:						
– Total subordinated amounts payable	99 980		100 000		(20)	0.0
– Total due to non-consolidated participations	1 217 454		1 218 496		(1 042)	(0.1)
– Total due to the Canton of St.Gallen	792 873		330 203		462 670	–

Off-Balance-Sheet Transactions in CHF 000s

Contingent liabilities	358 293		234 620		123 673	52.7
Irrevocable commitments	147 300		164 580		(17 280)	(10.5)
Liabilities for calls on shares and other equities	60 390		39 559		20 831	52.7
Derivative financial instruments:						
– Contract volume	9 488 240		5 214 490		4 273 750	82.0
– Positive replacement values	203 283		36 126		167 157	–
– Negative replacement values	172 405		58 521		113 884	–
Fiduciary transactions	4 224 098		2 451 820		1 772 278	72.3

Group Income Statement

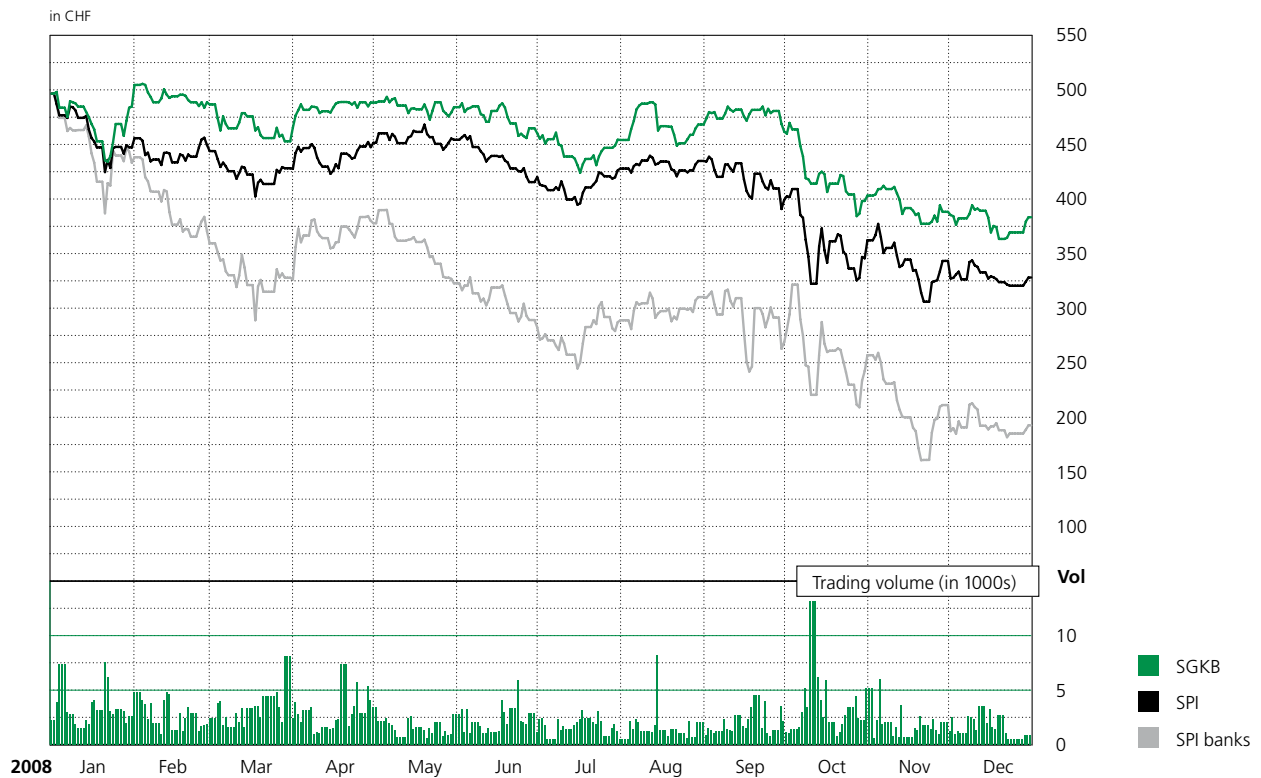
in CHF 000s	2008	2007	Change	in %
Interest and discount income	665 690	618 006	47 684	7.7
Interest and dividend income on trading portfolios	394	440	(46)	(10.5)
Interest and dividend income on financial investments	22 359	18 662	3 697	19.8
Interest expenses	383 486	331 810	51 676	15.6
Net interest income	304 956	305 298	(342)	(0.1)
Commission income from lending activities	2 326	2 302	24	1.1
Commission income from securities and investment activities	184 316	203 445	(19 129)	(9.4)
Commission income from other service fee activities	18 002	18 713	(711)	(3.8)
Commission expenses	16 633	12 643	3 990	31.6
Net fee and commission income	188 011	211 817	(23 806)	(11.2)
Net trading income	28 427	30 871	(2 444)	(7.9)
Results from the sale of financial investments	3 949	4 098	(149)	(3.6)
Income from participations accounted by equity method	118	0	118	–
Income from non-consolidated participations	2 148	2 127	21	1.0
Results from real estate	1 371	1 108	263	23.7
Other ordinary income	1 766	478	1 288	–
Other ordinary expenses	5 814	211	5 603	–
Net other income	3 538	7 600	(4 062)	(53.4)
Operating income	524 933	555 586	(30 653)	(5.5)
Personnel expenses	162 708	153 557	9 151	6.0
Other operating expenses	113 069	112 346	723	0.6
Administrative expenses	275 777	265 903	9 874	3.7
Gross profit	249 156	289 683	(40 527)	(14.0)
Depreciation and write-offs on fixed assets and participations	10 758	12 998	(2 240)	(17.2)
Depreciation of intangibles	44 392	26 732	17 660	66.1
Valuation adjustments, provisions and losses	10 074	3 864	6 210	–
Operating profit (interim result)	183 932	246 089	(62 157)	(25.3)
Extraordinary income	26 702	27 871	(1 169)	(4.2)
<i>of which dissolution of reserves for general banking risks</i>	<i>22 278</i>	<i>22 970</i>	<i>(692)</i>	<i>(3.0)</i>
Extraordinary expenses	744	0	744	–
Group profit before taxes	209 890	273 960	(64 070)	(23.4)
Taxes	38 755	47 278	(8 523)	(18.0)
Group net profit	171 135	226 682	(55 547)	(24.5)

Divisional Accounts

Income Statement in CHF 000s	Retail and Commercial banking		Private Banking		Corporate Center		Group	
	2008	2007	2008	2007	2008	2007	2008	2007
Operating income	269 233	307 449	223 670	239 853	32 030	8 284	524 933	555 586
Administrative expenses	126 839	137 195	101 390	88 134	47 548	40 574	275 777	265 903
Gross profit	142 394	170 255	122 280	151 718	(15 518)	(32 290)	249 156	289 683
Depreciation and write-offs on fixed assets and intangibles	0	0	2 200	1 464	52 951	38 266	55 150	39 730
Valuation adjustments, provisions and losses	(10 777)	1 873	18 886	1 377	1 966	614	10 074	3 864
Operating profit (interim result)	153 171	168 382	101 195	148 877	(70 434)	(71 170)	183 932	246 089
Extraordinary income, net	0	866	475	4 400	25 483	22 605	25 958	27 871
Taxes	20 161	22 454	16 692	25 286	1 901	(462)	38 755	47 278
Group net profit	133 010	146 794	84 977	127 991	(46 852)	(48 103)	171 135	226 682
Other data in CHF 000s								
Loans to customers	16 296 250	15 734 423	1 648 546	1 367 699	0	0	17 944 796	17 102 122
Customer funds	9 156 469	8 672 731	5 728 904	3 619 562	0	0	14 885 373	12 292 293
Funds under management	12 101 987	12 392 217	25 570 925	25 491 047	0	0	37 672 912	37 883 264
Full-time equivalents	488	484	339	246	271	277	1 098	1 007
Cost/income ratio	47.1%	44.6%	46.1%	37.4%	n/a	n/a	55.6%	50.8%

SGKB Share

The SGKB share price has fallen 23% since December 31, 2007, from CHF 498 to CHF 384. Though it has not proved immune to downward pressure on the banking market, it has not suffered the same setback as the Swiss Performance Index (SPI) for banks (-61.4%).

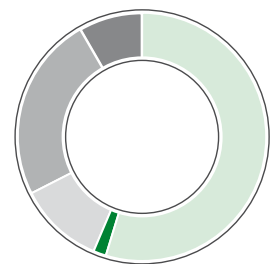


Ticker symbol: SGKN, Swiss security no.: 1148406, listed on: SIX Swiss Exchange, issued: April 2, 2001

Figures and Data	Dec. 31, 2008
Earnings per share	CHF 30.86
Proposed dividend per share	CHF 20.00 ¹
Total shares issued	5 573 426
Time-weighted number of dividend-bearing shares	5 545 752
Number of shares held by SGKB (average)	26 296
Shareholders	28 106
Issue price (IPO)	CHF 160.00
Market price	CHF 384.00
Market capitalization	CHF 2 140.2 million
Ratio of market capitalization/ shareholders' equity	122.7%
Reported shareholders' equity	CHF 1 744.3 million
Return on equity (basis: operating profit)	11.4%
Dividend yield	5.2%
Price-earnings ratio	12.4

¹ Recommendation of the Board of Directors for the financial year ended on December 31, 2008

Shareholder Structure



Canton of St. Gallen	54.8%
SGKB employees	1.7%
Corporates	11.1%
Individuals	24.3%
Registration pending	8.1%

Contact

[Shareholders]

St.Galler Kantonalbank
Investor Relations
Dr. Cornelia Gut-Villa
St. Leonhardstrasse 25
CH-9001 St. Gallen
Telephone +41 (0)71 231 36 92
Fax +41 (0)71 231 37 94
E-mail: cornelia.gut@sgkb.ch

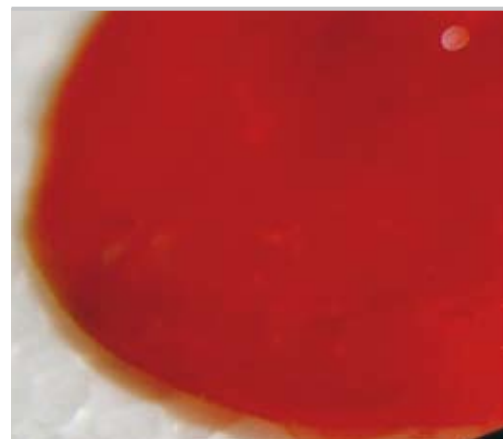
[Media]

St.Galler Kantonalbank
Media Spokesman
Simon Netzle
St. Leonhardstrasse 25
CH-9001 St. Gallen
Telephone +41 (0)71 231 32 18
Fax +41 (0)71 231 37 94
E-mail: simon.netzle@sgkb.ch

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	Dr. Claudia Zogg-Wetter
Hans-Peter Härtsch, Vice Chairman	Dr. Niklaus Fäh	Prof. Dr. Thomas A. Gutzwiller	

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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Brief Profile

The **Cantonal Bank of St. Gallen Group** comprises the Cantonal Bank of St. Gallen (SGKB), founded in 1868, its subsidiary Hyposwiss Privatbank AG, of Zurich, and Hyposwiss Private Bank Genève SA, acquired during 2008. 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 Appenzell Ausserrhoden. In addition, the Cantonal Bank of St. Gallen assumes responsibility for the economic, social and cultural development of the region as an employer, taxpayer and sponsorship partner. On December 31, 2008, the Group employed a total of 1098 staff (full-time equivalents). The parent company operates with a state guarantee and has an Aa1 credit rating from Moody's.