Tradition
builds trust

St.Galler Kantonalbank

Earliest depiction of Gallus and the bear: ivory plaque from the Evangelium Longum in the Abbey Library, carved around 895.

Annual Report 2012

The full annual report in German is available at www.sgkb.ch

St.Galler Kantonalbank

The Cantonal Bank of St. Gallen Group

Organisation

St.Galler Kantonalbank

Parent Company | 100%-owned subsidiaries

Retail and Commercial Clients

- Real estate and commercial finance
- Investment advice and asset management
- Clients: private individuals, industry and commerce
- Region: Eastern Switzerland
- 35 branches in Canton of St. Gallen
- 2 branches in Canton of Appenzell Ausserrhoden

Private Banking

- Investment advice and asset management
- Clients: individuals, institutional investors, external asset managers
- Region: Eastern Switzerland
- 5 branches in Canton of St. Gallen

Service Center

- Central finance, credit processing and payment transactions
- Foreign exchange, money market and securities transactions
- Information technology
- Project and process management
- Central services
- Construction and maintenance of bank properties

Finance and Risk Management

- Risk management
- Controlling and accounting
- Legal affairs and compliance
- Personnel
- Business development
- Corporate communications

Holding

HYPOSWISS PRIVATE BANK Zurich

- Investment advice and asset management
- Clients: private individuals, national and international
- Region: Switzerland and strongly growing key markets

HYPOSWISS PRIVATE BANK Geneva

- Investment advice and asset management
- Clients: private individuals, national and international
- Region: Switzerland and strongly growing key markets

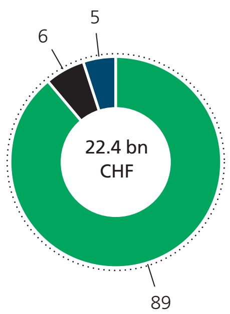
St.Galler Kantonalbank Deutschland AG

- Investment advice and asset management
- Clients: private investors and financial intermediaries
- Region: Germany

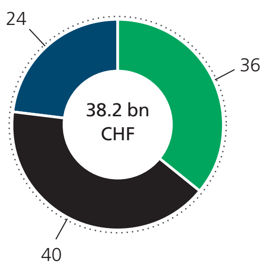
as of Dec. 31, 2012

Operating Income and Client Assets

Loans to clients (in %)

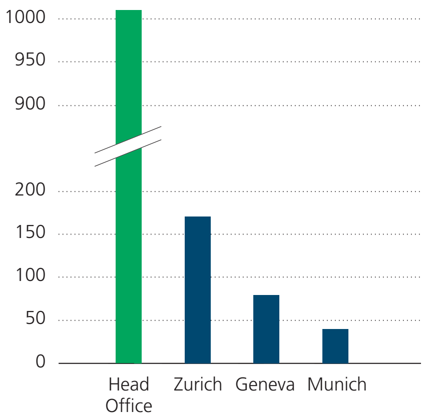


Managed assets (in %)



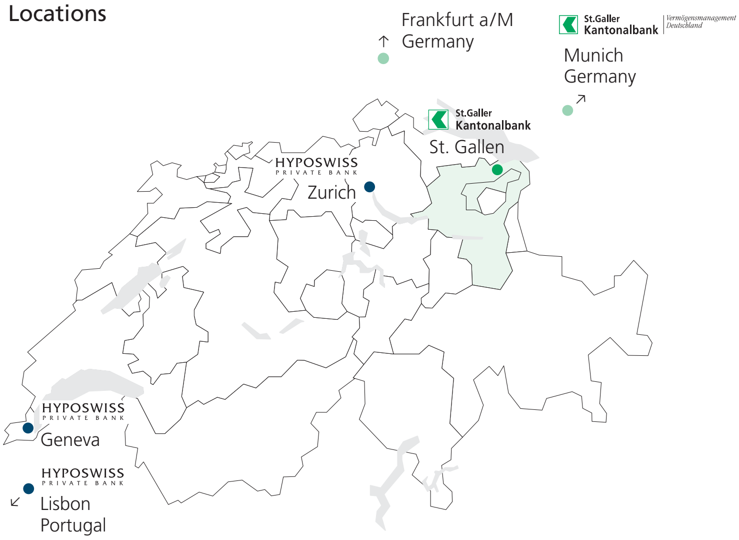
- Retail and Commercial Clients
- Private Banking (parent company)
- Private Banking (subsidiaries)

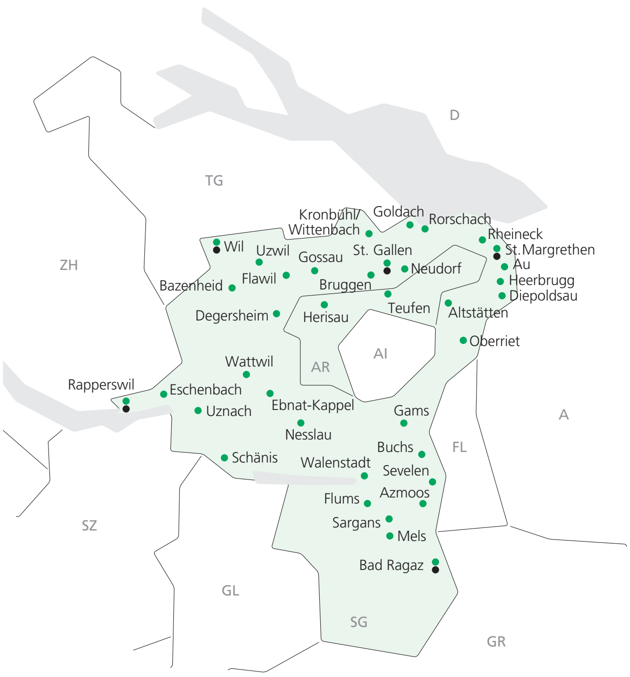
Headcount



as of Dec. 31, 2012

Locations





- Retail and Commercial Clients
- Private Banking
- Hyposwiss
- St.Galler Kantonalbank Deutschland AG

For information about the branches, visit www.sgkb.ch (→ Your SGKB → Branches).

Milestones and Facts

1868	The Cantonal Bank of St.Gallen is founded
1996	New Cantonal Law concerning the Cantonal Bank
2001	IPO (Initial Public Offering)
2002	Acquisition of Hyposwiss Privatbank AG, Zürich
2008	Acquisition of Hyposwiss Private Bank Genève SA
2009	St.Galler Kantonalbank Deutschland AG founded in Munich

- Over 290 000 clients
- Rated Aa1 by Moody's
- State guarantee

  Under the Law concerning the Cantonal Bank, the Canton of St. Gallen is answerable for the liabilities of the SGKB parent company if its own equity base are not sufficient. The Bank makes an annual payment to the state for this guarantee (2012: CHF 7.3 million).

SGKB Group

The Cantonal Bank of St.Gallen Group was founded in 1868 to offer savings and credit services to the population and small businesses within their own canton, and thereby promote the development of the regional economy. The new Cantonal Law of 1996 concerning the Cantonal Bank created the conditions for partial privatization, which took place in 2001. A central element of this was the refocusing of business strategy, especially by expanding investment as a second core business, alongside lending.

Group Key Figures

Income Statement in CHF 000s	2012	2011	2010
Operating income	501 586	477 943	489 480
Administrative expenses	279 527	288 325	276 556
Operating profit (interim result)	181 253	154 965	174 772
Group net profit	151 358	135 740	146 332

Balance Sheet in CHF 000s	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Loans to clients	22 360 235	21 271 491	19 878 770
Client funds	19 902 278	18 921 802	17 557 038
Balance sheet total	27 638 213	26 074 203	24 382 397
Shareholders' equity	1 934 055	1 863 148	1 829 953
Eligible capital	2 100 213	2 002 494	1 651 840
Managed assets in CHF 000s			
Managed assets	38 158 458	37 484 933	37 700 044
Headcount			
Full-time equivalents (in accordance with FINMA; apprentices calculated at 50 %)	1 151	1 135	1 133
Number of employees:			
– individuals	1 315	1 296	1 285
– of which trainees	120	120	114

Key Figures	2012	2011	2010
SGKB share in CHF			
Earnings per share	27.28	24.49	26.38
Dividend per share[1]	15.00	15.00	18.00
Market price			
– as of December 31	376.00	354.00	470.00
– highest price	389.00	495.00	507.00
– lowest price	326.00	324.00	449.50
Market capitalization as of December 31 (in CHF million)	2 095.60	1 973.00	2 619.50
Return on equity			
Return on equity, pre-tax (basis: operating profit)	10.0 %	8.8 %	10.2 %
Return on equity, after tax (basis: group net profit)	8.3 %	7.7 %	8.6 %
Cost/income ratio			
Cost/income ratio including depreciation on fixed assets	58.1 %	63.1 %	59.7 %
Equity key figures			
Core capital ratio (Tier 1)	12.6 %	12.3 %	12.8 %
Total capital ratio (Tier 2)	14.7 %	14.4 %	12.9 %
Excess capital ratio (CH standard)	83.5 %	80.4 %	72.1 %
Shareholders' equity as % of balance sheet total	7.0 %	7.1 %	7.5 %

Moody's Rating	2012	2011	2010
Senior unsecured domestic currency	Aa1	Aa1	Aa1
Bank deposits	Aa1 / P-1	Aa1 / P-1	Aa1 / P-1
Bank financial strength	C+	C+[2]	B–

[1] Recommendation of the Board of Directors for the financial year ended on Dec. 31, 2012.
[2] Adjustment as at 14 March 2011. The C+ rating of "Bank Financial Strength" takes into account only the intrinsic factors of SGKB and corresponds to a rating for the "Baseline Risk Assessment" of A2, still attributing SGKB a high credit rating.

[1] Strategy

The Cantonal Bank of St. Gallen is the largest bank in its region. Its continuous and sustained growth makes a consistent contribution to the economic prosperity of the Canton of St. Gallen.

Strategic positioning

Balanced business model

The Cantonal Bank of St. Gallen Group applies a balanced business model. This broadens the base of growth and income, while reducing risk exposure.

- Income sources: the aim is to strike a balance between interest and other income sources.
- Client segments: the intention is to balance contributions to profit from the Retail and Commercial Clients Division, on the one hand, with Private Banking, on the other hand.
- Geographical markets: the home market remains the stable foundation of the bank's income. Additional growth is achieved in the investment advisory business at home and abroad through the independent subsidiaries.

Success factors

SGKB Group's overriding objective is to increase value sustainably, in which the critical success factors are as follows:

Growth

The Cantonal Bank of St. Gallen pursues sustained, healthy growth. Given the limited possibilities in Retail and Commercial Banking, the main impetus for growth comes from Private Banking. Thus, among our fields of business, the relative importance is shifting in the longer term towards the investment advisory business. As this shift takes place, SGKB relies on its core competences of client service and asset management. This growth is primarily organic, i.e. achieved through greater market penetration or the development of new markets, though acquisitions do form a secondary source of growth.

Productivity

The constant improvement of productivity is of central importance, in view of the strong competitive pressure, falling margins and tighter regulation. In addition to continuous cost control, institutionalized process management within SGKB Group serves the ongoing optimization and streamlining of internal operating processes and the enhancement of efficiency and quality. The main priorities are standardization, automation and breaking up the value chain. Co-operation takes place with external partners, where this allows concentration on core skills and the exploitation of synergies.

Risk optimization

SGKB Group limits itself to its core competences and its core business. It is engaged especially in business areas in which it possesses the necessary competence and knowledge. Central to its strategy is the management of credit risk, interest rate risk and reputation risk.

Employees

Well-educated, experienced and motivated employees are the critical factor in SGKB Group's success. Employee surveys are conducted periodically and yield consistently good results. This underlines the attractiveness of SGKB Group as an employer.

Brands and markets

The continuous and sustained growth of the Cantonal Bank of St.Gallen makes a consistent contribution to the Canton's economic prosperity. To achieve this purpose, SGKB engages in the classic business of cantonal banks for individual, corporate and institutional clients. Through its independent subsidiaries, it also offers private banking, both in Switzerland and abroad.

Cantonal Bank of St.Gallen

Part of the word mark "St.Galler Kantonalbank" is itself an umbrella brand: "Cantonal Bank" is evocative of a strong regional base. It communicates a bank which is local to its clients and emphasises its personal bond with them. The reference to St. Gallen confirms that the presence is specifically in the Eastern Swiss market. As a universal bank with a distinguished tradition, the Cantonal Bank of St.Gallen belongs to the people of St. Gallen and is closely associated with the economic, cultural and social development of Eastern Switzerland.

SGKB holds a 30 % market share, making it the leading bank in the Canton of St. Gallen. Its traditional home market comprises the Cantons of St. Gallen and Appenzell Ausserrhoden and adjacent areas. Values such as security, accountability, credibility and closeness are powerful brand features. Financial security and the dependability of sincerely held traditional values are of special importance in the aftermath of the financial crisis.

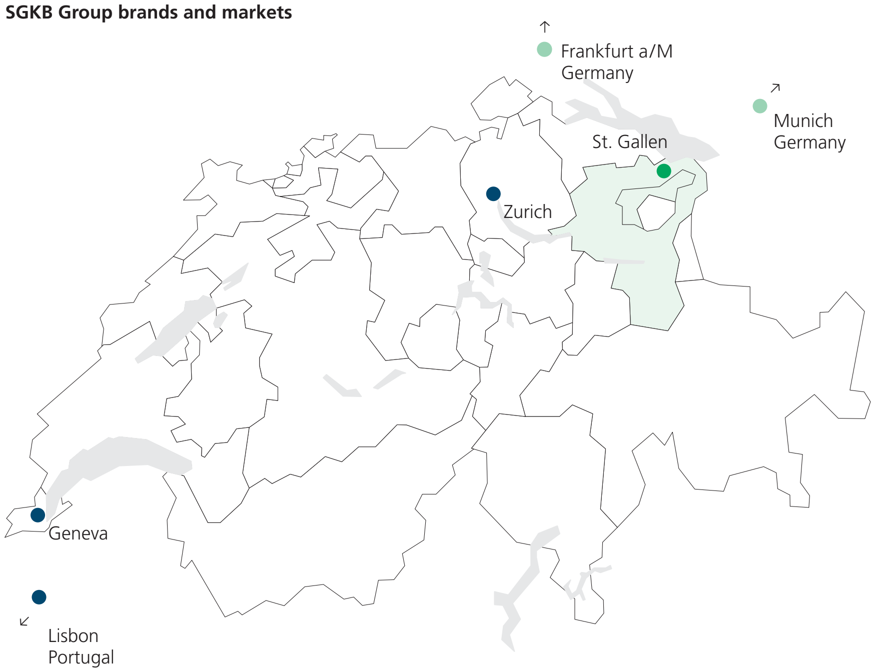
The aim is to expand market share continuously, especially in the traditional mortgage and corporate loan business, but also through developing the investment advisory business. Systematic co-operation between the Retail and Commercial Clients and Private Banking divisions plays a major role here.

The home market is served by 37 branches in the Retail and Commercial Clients division, and by six branches in Private Banking. This is the ideal distribution network size for the relevant market activities. SGKB holds a state guarantee with statutory backing, though it is under no obligation to implement any public policy. By law, it must pay compensation for this state guarantee at a level of 0.3 to 0.8 % of its required capital. As a rule, in recent years, the percentage has stood at the upper end of this range.

Client satisfaction

The Cantonal Bank of St.Gallen regularly reviews its clients' satisfaction and their willingness to recommend the Bank. It also checks the quality of the advice and service given by its client advisers.

SGKB Group brands and markets



St.Galler Kantonalbank

- Eastern Switzerland
- Germany

St.Galler Kantonalbank | Vermögensmanagement Deutschland

- Germany

HYPOSWISS PRIVATE BANK

Zurich and Geneva

- Latin America
- Eastern Europe
- Switzerland
- Germany

SGKB monitors development in the individual client groups (private persons) by means of mystery shopping and calling, and surveys by outside institutions. It then takes the necessary measures. In the past 10 years, the satisfaction of clients and their willingness to recommend the bank have remained at a consistently high level, and have actually slightly increased.

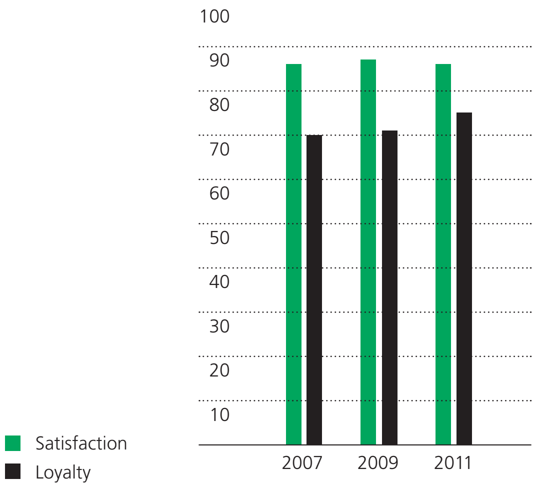
Brand Management

The Association of Swiss Cantonal Banks (ASCB) compiles an annual index to measure responses to the "Cantonal Bank" brand and compare it with major competing brands. The findings also yield important evidence for SGKB about its public image. Around 9% of total brand management costs in 2012 were for managing the nationwide umbrella brand.

There has been little change in the index ratings since 2010. As ever, the brand "Cantonal Bank" comes across as strong, positively charged and convincing (positive attitudes and emotions). As far as closeness to the client, brand perception and client loyalty are concerned, "Cantonal Bank" scores highest. The brand is well liked and trusted, especially in German-speaking Switzerland.

The Cantonal Bank of St.Gallen launched its rebranding as "My first bank" in 2011. The rebranding expresses its core values, such as security, responsibility, experience, expertise and closeness. The claim is to be the bank of choice for individuals and businesses and recommended by them as such.

Retail client satisfaction and loyalty 2011 (in %)



Source: VKB retail market research 2011

Hyposwiss subsidiaries

Hyposwiss Privatbank AG in Zurich and Hyposwiss Private Bank Genève SA are engaged in the investment advisory business in the economic regions of Zurich and Geneva, as well as abroad.

- Onshore: Switzerland (only the Cantons of Appenzell Ausserrhoden and St. Gallen)
- Offshore: focus on strongly growing key markets, especially in Eastern Europe and Latin America

Both banks position themselves in their markets as high-quality, flexible and transparent boutique private banks. Both benefit from the financial soundness, security and excellent reputation of the parent bank, and offer their clients a definitely individual service, entrepreneurial solutions, excellent investment know-how and solid performance.

The profile of the two banking subsidiaries, Hyposwiss Zurich and Geneva, convey modesty, reliability and expertise.

St.Galler Kantonalbank Deutschland AG

The subsidiary St.Galler Kantonalbank Deutschland AG was founded in 2009 and concentrates on the asset management business for private investors and financial intermediaries in Germany. This has traditionally been a very important market for the Cantonal Bank of St.Gallen, because of its border location. This physical presence of SGKB and Hyposwiss Zurich in Germany meets the German statutory requirements and enables them actively to prospect and serve the German market and their existing German clients. The brand name of "St.Galler Kantonalbank Deutschland AG" underlines the bank's onshore character and exploits the profile of the place name "St. Gallen" in Germany.

Fields of strategic action

Market performance

The Cantonal Bank of St.Gallen seeks to position itself in segments of strong growth and returns, by means of its superior performance. Special attention is paid to the strong professional and social skills of its client advisers, personal interaction with clients and attractive investment performance.

"Operational Excellence"

The ongoing improvement of operational sequences is especially topical, because of the constant erosion of margins. With "operational excellence" as its watchword, the Cantonal Bank of St.Gallen has pursued various initiatives since 2009 to increase efficiency and productivity within its Group. Examples include the move of the Hyposwiss Zurich back-office to St. Gallen and the unified IT platform. Measures have also been taken to minimize risk, e.g. by regulating cross-border business. With increasing background regulatory pressure, and generally increased risks in the banking industry, the latter aspect has acquired a key role. That is a major reason why the Bank is again strengthening the organization and staffing of its risk management function. This will form a separate, centralized department from 1 April 2013.

Ongoing adaptation of investment business model

Private banking has been undergoing radical change since the emergence of the financial crisis in 2008. This new reality implies focusing on selected markets. One reason is to ensure compliance with the tightened legal and regulatory requirements; the other is to target growth initiatives at these markets.

Germany has traditionally been the Cantonal Bank of St.Gallen's most important foreign market. Hence the continuous expansion of SGKB's Munich subsidiary is a key element of its growth strategy. As a logical development from these activities, in 2012 the Bank opened a further representative office in Frankfurt am Main and invested in the expansion of its client advisory business.

Future challenges

Offshore banking/compliance

Due to the fundamental changes in offshore banking, the Cantonal Bank of St.Gallen attributes the utmost importance to uncompromising compliance. Core concerns are the fulfilment of the highest regulatory standards, a focus on taxed assets and concentration of efforts on a few, selected countries of key strategic importance.

Demographic change

Success in the service sector depends principally on employees. Structural trends in population are leading to a growing shortage of well-educated staff. The ability to recruit and retain qualified personnel for the Cantonal Bank of St.Gallen is essential to sustained success on the market.

Changed client behaviour

Digitalization, as a central component of social life, is applied across a very wide range of daily needs. The services and products offered have to be transparent and comparable. The consequences of this are steady expansion of e-services coupled with close attention to online and mobile channels. New social communities and networks are also arising and becoming more important for sales and marketing. In 2012, the Cantonal Bank of St.Gallen has launched specific projects and has increased its personal resources on this topic.

Further steps towards privatization

In April 2008 the Cantonal Parliament of St. Gallen passed a motion calling on the Government of the Canton to draft an amendment to the Cantonal Bank Law which would allow further steps to be taken towards SGKB's privatization and modification of its state guarantee. Essentially, the aim of the proponents of the motion was in line with the ownership strategy of the Government, which considered full privatization as a longer-term option in 1994. The parliamentary motion set political wheels turning. That process culminated in an official government proposal in April 2012. The essence of the draft legislation was to reduce the Canton's minimum shareholding from 51% to 34%, and to couple this with a ceiling of CHF 250 000 per depositor on the state guarantee.

The lowering of the Canton's minimum shareholding stirred controversy during the procedure to formulate the official proposal. A majority of the political parties rejected the government proposal to limit the state guarantee. Overall, the opinions expressed during the procedure highlighted the important role of the Cantonal Bank of St.Gallen and the high profile it enjoys among much of the population. The Cantonal Government will decide how to proceed further during 2013.

The Cantonal Bank of St.Gallen takes the view that the current state guarantee should stand unaltered. As a token of the main shareholder's confidence, it offers clients an assurance of security and reliability. On the other hand, the Cantonal Bank of St.Gallen would welcome a minimum 34% holding by the Canton in its share capital. This would preserve its institutional character as a cantonal bank, while leaving scope for entrepreneurial freedom.

Investments and objectives

Investments in 2013

In addition to the continued investment in private banking growth initiatives (client advisory, Geneva and Munich), the 2013 project budget amounts to around CHF 23 million. Of this total, CHF 9 million is being invested in built infrastructure, while around CHF 14 million is earmarked for projects focusing on quality of market performance, risk management and cost efficiency.

Strategic objectives

The Cantonal Bank of St.Gallen ranks high in peer group comparison, in terms of growth, profitability and productivity. The bank is Number One on its home market in the traditional cantonal banking business. Also, it is improving its market position in strategically important client segments, enjoys excellent soundness and has sufficient financial freedom of action to grow through acquisitions.

The Cantonal Bank of St.Gallen is continuing on its strategic course, applying its balanced business model. It has reviewed its target figures during 2012, in line with changed outline conditions and increased equity requirements. Consequently it has reduced its return on equity (pre-tax) from 12% to 10%. It has confirmed its other targets at their current ambitious levels, which it considers achievable in the medium term.

Key performances indicators (%)	2009	2010	2011	2012		2013–2015
	Actual	Actual	Actual	Target	Actual	Target
Net new loans (in % of total loans to clients)	2.5	7.5	6.7	3	4.9	3
Net new money (in % of managed assets)	1.8	4.2	3.5	5	–0.5	5
Cost/income ratio	55.2	59.7	63.1	55	58.1	55
Return on equity (pre-tax)	11.9	10.2	8.8	12	10.0	10

[2] Financial Year 2012

Cantonal Bank of St. Gallen Group The Group net profit earned by the Cantonal Bank of St. Gallen (SGKB) was 12 % higher in 2012 than in the previous year. The factors determining this much improved result were a higher operating income and a sustained reduction in costs.

→ Portrait, p. 4 → Strategy, pp. 7–11 → Outlook 2012, p. 16

Market environment

Regional economy

Overall, 2012 proved a challenging year for business in Eastern Switzerland. The debt crisis and economic weakness in Europe and the strong Swiss franc had an impact, which was felt especially by the export industry.

Eastern Swiss industry remained under pressure throughout the past year. Although many companies had now adjusted to the strength of the franc, their earnings were still constrained. The region's industry felt the effects of stagnant foreign markets especially severely, because of its strong emphasis on capital goods. Insufficient demand from abroad created particular problems for many companies and was reflected in falling capacity utilization and lower order books.

Bucking the trend, the construction industry of Eastern Switzerland performed very well and the sector can look back on a successful year. The main driver of increased building activity and high capacity utilization was residential property construction. This has flourished due to low interest rates and population growth. However, despite higher sales, the continued pressures of competition and prices meant that there was hardly any improvement in the sector's income.

After a faltering start, domestic consumption recovered well in the first few months of last year. Continued immigration and strong real income growth prompted a steady rise in retail turnover over the year. The lower limit on the CHF/EUR exchange rate also dampened growth in shopping tourism and stemmed the fall in prices.

Financial markets and interest rates

Contrary to early expectations, 2012 turned into a surprisingly good year on the stock markets. The markets defied the eurozone crisis, while phases of weakness in the economic cycle left the equity markets unperturbed. Investors remained worried in the first half of the year, partly because of escalating problems in Greece and Spain. These in fact led to a marked fall in share prices in the second quarter. In the second half of the year, further efforts by the central banks calmed the financial markets, and share prices put on a spurt (SMI: +15 %). Action by the note-issuing banks swelled liquidity and led to a further decline in interest rates, which remained at a historic low from mid-year.

Foreign currencies

The EUR/CHF exchange rate set by the Swiss National Bank (SNB) de facto ties the Swiss franc to the euro. As a result, the currency situation has largely stabilized. The SNB's large-scale defensive buying of euro was successful in preserving the lower limit of CHF 1.20. Exchange rate fluctuations against other currencies such as the US dollar were less marked than in previous years.

2012 result

Significant increase in net profit by 12%

In the financial year 2012, the Cantonal Bank of St.Gallen achieved a gross profit of CHF 222.1 million, which is CHF 32.4 million or 17.1% higher than the previous year. A higher operating income of CHF 501.6 million, up CHF 23.6 million or 4.9% and lower administrative expenses of CHF 279.5 million, down CHF 8.8 million or 3.1%, have contributed to this result. As a consequence, Group net profit was above the previous year, at CHF 151.4 million (+CHF 15.6 million, +11.5%).

Improved net interest income

Net interest income in 2012 amounted to CHF 313.3 million and is CHF 24.2 million or 8.4% above the previous year. The continued low interest rates led to considerable reductions of income on loans to clients. However, this was substantially offset by the higher amount of loans to clients and lower refinancing costs of client funds, which have again increased significantly. In the current interest rate environment, the Cantonal Bank of St.Gallen further increased its protection against rising interest rates and has made the relating hedging transactions at much lower rates. This also has contributed significantly to the higher net interest income.

Net fee and commission income as expected

In 2012, net fee and commission income is CHF 138.5 million and thus reduced from the previous year by CHF 7.0 million, or 4.8%. General structural shifts in the investment business, as well as the prevailing risk aversion and the high holding of liquidity by investors led to this result.

Strong net trading income

Net trading income is CHF 45.4 million (+17.5%, +CHF 6.8 million), thus contributing to the improved operating income. The reason for this increase lies in higher gains on securities held on own account.

Sustainably lowered administrative expenses

Administrative expenses declined by 3.1% or CHF 8.8 million to CHF 279.5 million. Other operating expenses were reduced by 5.0% or CHF 5.6 million to CHF 105.8 million, reflecting the efficiency gains in the operation and maintenance of the consolidated IT platforms and the effect of the cost-cutting measures taken in the last few years. This is all the more remarkable as expenditure due to regulatory and legal requirements, such as the implementation of the tax settlements, has generally increased in the financial sector. In addition, due to the reduced personnel expenses of CHF 173.7 million (–CHF 3.2 million, –1.8%), administrative expenses were generally lower.

Continued strong growth in the domestic market

Both loans to clients and managed assets (client funds and assets under management) have again increased in 2012, to CHF 22.4 billion and CHF 38.2 billion respectively. Loans to clients grew healthily due to net new loans amounting to CHF 1.0 billion (+4.9%). This includes growth of 4.2% in the core business in residential mortgages for retail clients. The loan portfolio shows a consistently high quality: the volume growth was achieved without weakening the proven credit policy. Valuation adjustments are still at a very low level. Concerning managed assets, the trend of solid growth in the domestic market and the drain in the cross-border business continues as expected. This results in a negative net new money (net outflow) of CHF 177 million, or –0.5%. Thanks to the inflows of investment clients in Eastern Switzerland and the very good stock performance, managed assets are still above the previous year and stand at CHF 38.2 billion (+1.8%). The structure of assets reflects the noticeable reluctance of investors, since client funds increased and assets under management declined.

Shareholders and Dividend

Broadly based shareholding

As of 31 December 2012, 33753 people held SGKB shares (+442 since 31 December 2011). Nearly 40% held fewer than 10 shares each – evidence of a broad spread. At the same time, around 80% of shareholders were based in the Cantons of St. Gallen and Appenzell Ausserrhoden, further demonstrating the bank's strong regional roots.

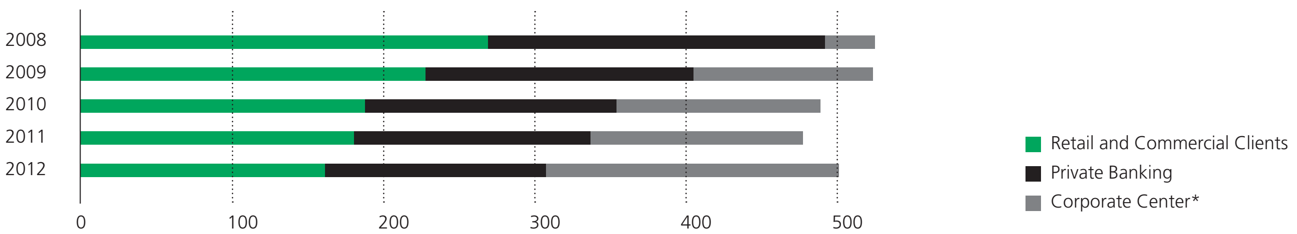
Comfortable equity situation

As of 31 December 2012 the Cantonal Bank of St.Gallen recorded an eligible capital of CHF 2.1 billion, clearly surpassing the stricter capital adequacy requirements of 50% asked for by the Swiss Financial Market Supervisory for Authority FINMA since July 1, 2011. SGKB exceeded these requirements by CHF 384 million or 22.4%. The bank would also have fulfilled the requirements in case of the activation of the countercyclical buffer to residential mortgages of 1%.

Unchanged dividend of CHF 15 per share

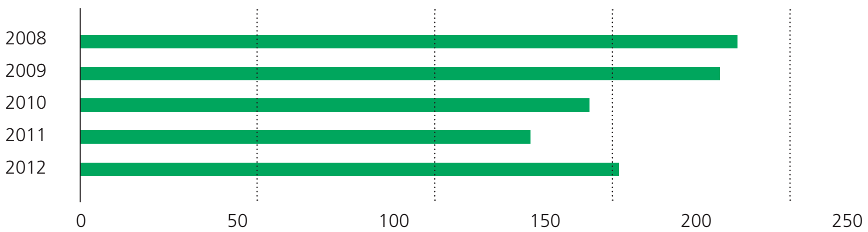
The Board of Directors will propose a dividend of CHF 15 per share at the Annual General Meeting on April 24, 2013. The dividend of CHF 15 is equivalent to a payout ratio of 55.2% and a dividend yield of 4.0% – based on the closing price of CHF 376 as of December 31, 2012. The Cantonal Bank of St.Gallen confirmed its dividend policy with a payout ratio of 50 to 70% of its Group net profit. This guarantees a balance between a further strengthening of its capital base and an attractive dividend yield.

Group operating income since 2008 (CHF million)

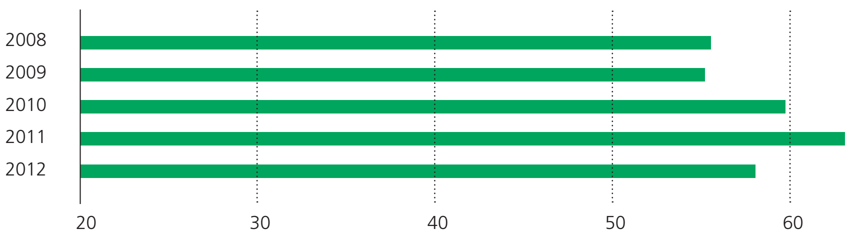


*Accounting by the funds transfer pricing method: Term transformation and result from interest rate hedging reported in the Corporate Center.

Group net profit since 2008 (CHF million)



Group cost/income ratio since 2008 (in %)



Major Events

Changes on the Board of Directors

The Annual General Meeting on 25 April 2012 confirmed Franz Peter Oesch in office for a one-year term as Chairman of the Board of Directors. His fellow directors Thomas A. Gutzwiller and Kurt Rüegg, who joined the Board in 2006 and 2009 respectively, were elected for a further three-year term of office. Hans-Peter Härtsch did not stand for re-election as Vice-Chairman of the Board of Directors. After 12 years in that post, he received enthusiastic applause from the meeting. In line with the Board of Directors' succession plan, Thomas A. Gutzwiller now takes over the office of Vice-Chairman, and his name will be proposed to the 2013 AGM to serve as Chairman.

→ For further information see Corporate Governance, pp. 23–26

Reinforced risk management

Risk evaluation and control is becoming increasingly important to the whole Bank. Such is the background to the Cantonal Bank of St. Gallen's decision to expand the organization of its risk management function and strengthen its staffing. The Bank has appointed Daniel Niehus to head the newly created Risk Office within Corporate Center as of 1 April 2013.

New executive posts in Client Service

The Cantonal Bank of St. Gallen has filled the following executive posts in its market units:

Retail and Commercial Clients

- Roger Thomet, new Manager of the German-speaking Switzerland market territory (as of 6 November 2012)
- Stephan Egger, new Manager of the Succession Centre of Expertise (as of 1 March 2012)
- Werner Britt, new Manager of Degersheim Branch (as of 1 July 2012)
- David Ruess, new Manager of Diepoldsau Branch (as of 1 November 2012)
- Karl Pareth, new Manager of Buchs Branch (as of 1 January 2013)

Private Banking

- Titus Hürlimann, new Head of Private Banking in West St. Gallen (as of 1 May 2012)
- Albert Kuster, new Head of Private Banking in Rapperswil-Jona (as of 1 November 2012)

Two Rhine Valley branches refurbished

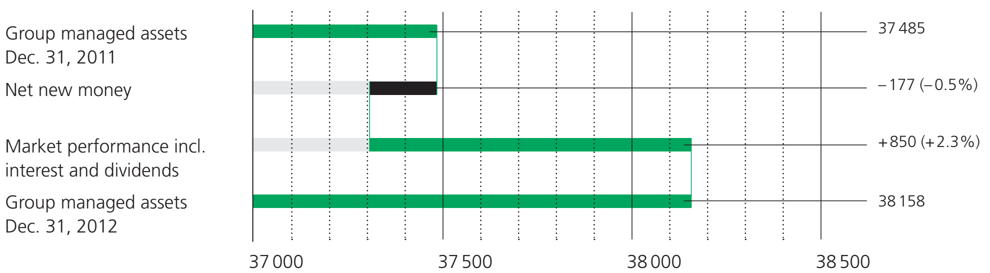
Two branches re-opened their doors in November 2012 after several months of renovation work. The lobby in Altstätten has been redesigned for client comfort and now has a more modern look. In Diepoldsau the fabric of the former "Sparkassa" savings bank building has been thoroughly renovated and is now appropriate for a branch of a Cantonal Bank. Like all recent conversion projects at the Cantonal Bank of St. Gallen, both buildings conform to the MINERGIE standard. Services and technical equipment were also upgraded to the latest level.

→ For further information, see chapter on Sustainable Building, in the German version of the annual report, pp. 50 – 51

All money laundering charges against Hyposwiss Zurich refuted

At the end of October 2011, the SGKB subsidiary, Hyposwiss Zurich, found itself accused of money laundering in media coverage of a criminal prosecution brought against third parties. The background to the case was a battle fought

Group managed assets (CHF million)



worldwide between two Russian major shareholders for control of the commodity firm, Norilsk Nickel. The Federal Prosecutor's Office had previously dismissed the case, on grounds of insufficient evidence, in August 2011. Then, in a judgment dated 20 April 2012, the Federal Criminal Court dismissed an appeal in its entirety. Although Hyposwiss Privatbank AG was never a party in any lawsuit, the Federal Criminal Court judgment confirmed that the charges of money laundering aired in connection with the prosecution were groundless. It also confirmed an earlier audit by PricewaterhouseCoopers (PwC), auditors, which had reached the same conclusion in December 2011. The Cantonal Bank of St.Gallen had commissioned the audit by PwC at the time, to provide a thorough investigation of the accusations levelled against it. The PwC report stated that Hyposwiss had complied with the provisions of criminal law against money laundering. It found no evidence of the offence of money laundering and noted that no reporting obligations had been breached. The Swiss Banks' Code of Conduct with regard to the Exercise of Due Diligence (VSB) had been followed. In January 2013 the Swiss Financial Market Supervisory Authority FINMA endorsed the relevant points of this audit, bringing the proceedings to a close.

→ Cf. also Risk Situation, p. 96 (German version)

Branding

Investing and retirement planning

The Cantonal Bank of St.Gallen has concentrated its role as a bank for personal investment on a few, high-impact activities. In spring 2012, it began a new regional series of events entitled "Finanzplatz" (Financial Center) for private clients. The focus of each event is a current topic relating to financial services and management. The Cantonal Bank of St.Gallen hosted around 1300 guests at three events: in St. Gallen, Buchs and Pfäffikon (Canton of Schwyz).

In autumn 2011 a client magazine was launched as an effective way of setting the scene for "Vivanti", the package of services for the 50+ client age group. A series of events followed, in spring 2012, on the theme of "Work-Life Balance". Held at five venues, the series attracted a total of 850 interested participants.

Succession planning for SMEs

In 2011 the Cantonal Bank of St.Gallen had consolidated its leading role as bank for SMEs by measures including a new market services package "Gründen" (Starting Up) and by its commitment to the STARTFELD Project for young entrepreneurs. In 2012 the topic of "succession" took centre stage. The Bank now has its own Centre of Expertise offering comprehensive free advice to companies, proprietors and executives in its market territory. Backed by an extensive network of subject specialists, it can advise on finding the best solution to all aspects of succession. The Centre of Expertise also offers its clients an online platform, in co-operation with the provider companymarket. This platform makes it easier for them to pass on their business to an external successor.

→ For further information on commitment to SMEs,
see p. 47 (German version)

New prize for entrepreneurs awarded

SGKB has created STARTFELD Diamant, an award for young and innovative businesses in Eastern Switzerland. The prize was awarded for the first time on 27 June 2012. First prize of CHF 50 000 went to the packaging company Weibel CDS, of Waldstatt.

→ For detailed information about STARTFELD Diamant,
see p. 47 (German version)

Outlook for 2013

For the current year, the Cantonal Bank of St.Gallen anticipates that the income and expenditure stay at current levels. Overall, the Bank therefore expects the 2012 level of Group net profit to be repeated in 2013.

Retail and Commercial Clients Excellent growth in customer loans and assets management business confirms the good domestic market anchorage of the Cantonal Bank of St. Gallen.

→ Portrait, p. 4

2012 result

Excellent growth in loans to clients

At CHF 1.0 billion or 5.1%, growth in loans to clients was slightly below the previous year but still at a pleasing level. Further declines in interest rates and continuing immigration sustained demand for property finance. The two main segments, retail clients and SMEs, recorded equal growth, which underlines the Bank's good positioning in its market territory.

Growth among retail clients and SMEs

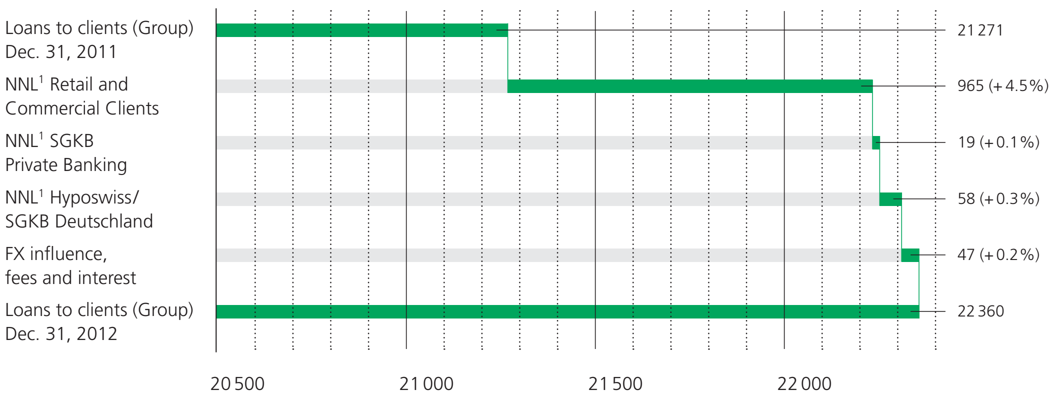
The Retail and Commercial Clients Division can also look back on a successful year, with net new money of around CHF 700 million or 5.3%. This built on the successes of previous years. Supported by firm roots in the home market of St. Gallen and Appenzell Ausserrhoden, growth in retail clients again turned out very well. Another driver of growth was the SME segment. Continuing economic uncertainty made industrials reluctant to invest; instead, they accumulated capital in the form of cash at banks. There was an inevitable outflow of assets belonging to foreign clients.

Low interest rates depress income

Good growth resulted in a clear rise in interest received on mortgage loans. On the other hand, low interest rates had a negative impact on margins earned on client money, which depressed the divisional result (in favour of Corporate Center).

Despite good progress on the equity markets in the second half of the year, investors remained very unsure and noticeably risk averse. This is clearly reflected in the structure of client assets and the number of transactions. Playing safe, clients invested most of their money in bank ac-

Loans to clients (Group) (CHF million)



[1] NNL = Net new loans

counts rather than on the investment markets. Net fee and commission income fell slightly under these circumstances.

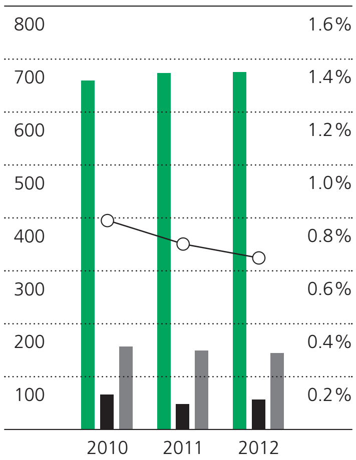
Costs below previous year; provisions at low level

A stable trend in costs was once again confirmed in 2012. Good cost discipline at all levels brought administrative expenses down 1.5% on the previous year.

The trend was also stable in provisions for credit risks, which have stood at a very low level for years. Despite the economic uncertainty, precursors indicating a top-quality loan portfolio include: outstanding interest and capital repayments; use of revolving facilities; and the credit rating allocated.

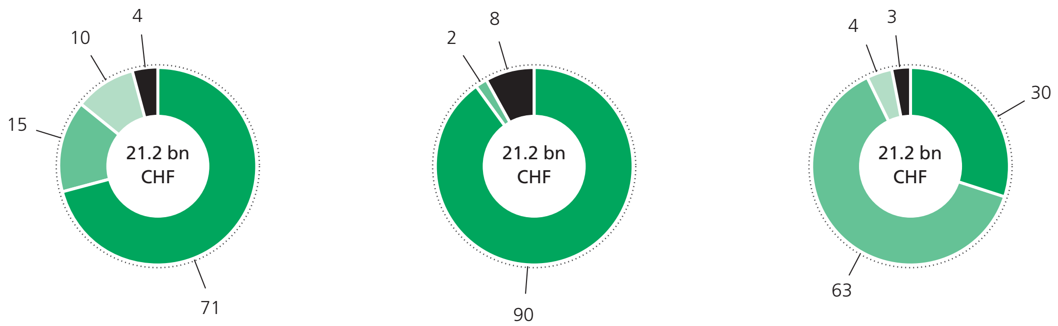
In the opinion of the Cantonal Bank of St. Gallen, the property market in Eastern Switzerland remains fit and healthy. Recognized market research demonstrates that property prices have continued to record very good growth and that there are no apparent signs of overheating.

Credit risk (CHF million)



→ Details, p. 36

Loan portfolio 2012 (loans to clients by parent bank, %)



Geographical spread

- Cantons of St. Gallen and Appenzell Ausserrhoden
- Adjacent cantons (GR, TG, ZH, AI, SZ, GL)
- Other cantons
- Foreign clients (providing marketable collateral)

Forms of cover

- Mortgage cover
- Other cover
- No cover

Client segments

- Industrial and corporate
- Individuals
- Corporations in public law
- Credit workout

Credit policy

The Cantonal Bank of St. Gallen operates a cautious credit policy oriented towards the principles of the market economy. Even if there is no express statutory requirement to implement public policy, the Bank accepts that it has a responsibility for the cantonal economy through its credit policy. Whenever it agrees to a loan, key factors in the assessment are creditworthiness and affordability. The business is oriented primarily towards the cantons of St. Gallen and Appenzell Ausserrhoden (including the adjacent municipalities outside those cantons). The Bank is very restrictive and selective in other credit relations outside the cantons (extra-cantonal finance to extra-cantonal clients). The Bank only grants loans to foreign debtors against provision of collateral security at the Cantonal Bank of St. Gallen (lombard loans). The assessment of creditworthiness of every credit transaction also examines ecological risks.

Private Banking In another extremely challenging year, Private Banking operating income declined despite slightly higher deposits. Investment performance was very good, however, also by cross comparison.

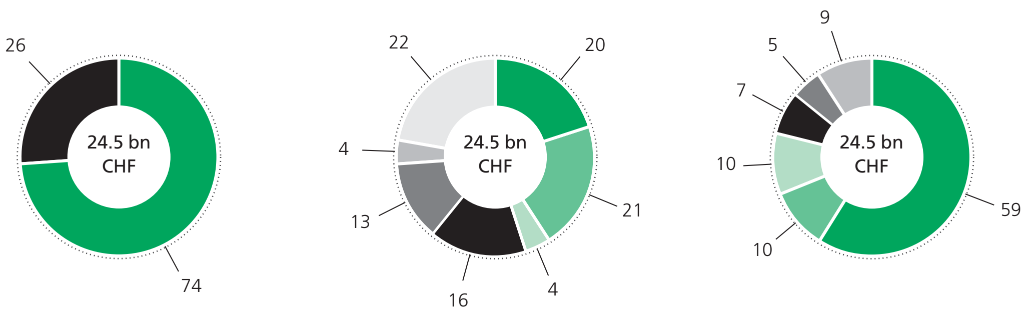
→ Portrait, p. 4

2012 result

It has been another extremely challenging year for the Private Banking division (the parent bank SGKB, the subsidiaries Hyposwiss Zurich and Geneva and the subsidiary bank in Munich). Operating income amounted to CHF 146.3 million, down 6.5 % on the previous year. The decline is largely attributable to reduced net interest income, with a negative effect coming especially from the market interest rate method applied especially by the parent bank, for the distribution of interest income.

Continuing uncertainty on the financial markets prompted clients to keep more of their assets liquid rather than invested. This reduced fee and commission income by 5.2 %. The factor accounting for most of the fall was income from managed assets (client funds and assets under management). On the other hand, transaction-related income (securities

Private Banking managed assets 2012 (%)



Client segments

- Private Banking
- Institutional investors

Investment categories

- Bonds
- Equities
- Structured products
- Fund shares
- Fiduciary investments
- Savings
- Other assets

Origin

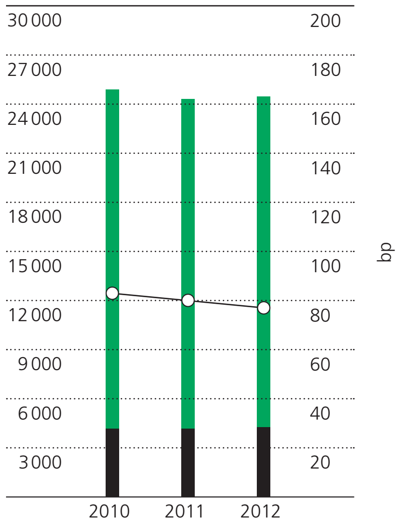
- Switzerland
- Germany
- Rest of Western Europe
- Eastern Europe
- Central and South America
- Others

trading) remained at its existing level. Trading income was up 13.1%.

The investment performance achieved by the Investment Center in 2012 on clients' security portfolios was very good. The returns achieved, both in absolute terms and by peer group comparison, were pleasing.

Assets under management rose by CHF 158.5 million to CHF 24.5 billion. Thus positive investment performance offset the net new money. There was in fact an outflow of CHF 884.7 of client assets from the Private Banking division. These withdrawals are basically symptomatic of client worries prompted by the discussion about the tax conventions. Another reason is the Cantonal Bank of St. Gallen's decision to withdraw from business with clients domiciled in the USA. It had made this decision in November 2011, because of regulatory changes and considerations of risk.

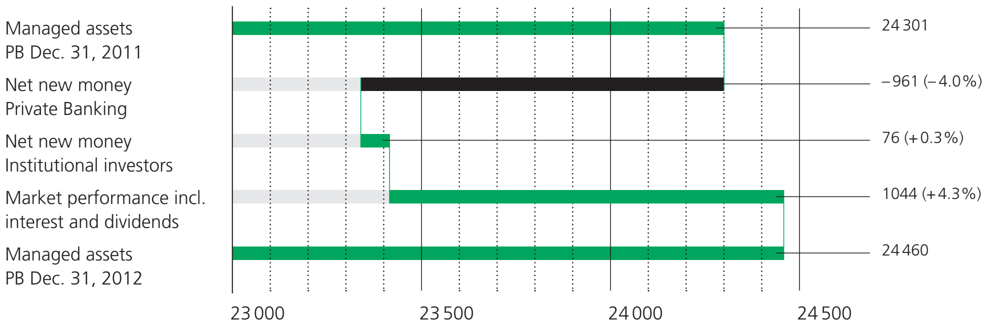
Proportion of managed assets (CHF million)



Managed assets in Private Banking
Discretionary proportion of managed assets
Top-line spread of natural persons (right-hand scale)

Top-line spread: income margin (= operating income / average managed assets)

Net new money in Private Banking (PB) (CHF million)



Investment policy

Investment policy is determined by the Investment Committee of the Cantonal Bank of St.Gallen Group. It is then implemented by the centralized Investment Center at the Hyposwiss Zurich subsidiary. Under the asset management mandates, portfolios are offered with five different investment goals, which vary according to risk profile. Special mandates are used to act on specific client requirements. SGKB Group also offers eleven proprietary investment funds.

SGKB Group follows an active investment style based on thorough background analysis. This seeks to exploit inefficiencies present in the investment markets, both at asset allocation level and in product picking. The quantitative target is a risk-adjusted return over an agreed benchmark over a three-year period. Investment performance is measured according to the Global Investment Performance Standards (GIPS).

SGKB enjoys total independence to determine its own investment policy and follows the open architecture principle. This means that SGKB picks products according to the "best in class" approach, irrespective of supplier.

[3] Corporate Governance

As a stock corporation listed on the stock market, the Cantonal Bank of St.Gallen provides information on its corporate governance in accordance with the SIX Swiss Exchange Directive Corporate Governance. The complete report is included in the German version of the annual report, starting on page 61. The following chapters are an excerpt.

Group structure and shareholders

The Cantonal Bank of St.Gallen is a stock corporation with head office in St. Gallen. St.Galler Kantonalbank AG is the parent company of the Cantonal Bank of St.Gallen Group. A diagram of the Group operating structure appears on page 4. Further details of the consolidation are given in the financial section of the German version, on page 98. Full details of the SGKB share can be found on page 48. Holding 54.8% of the share capital, the Canton of St. Gallen is the only shareholder registered with a stake of 3% or more in the total share capital. Cantonal legislation prescribes that the canton's stake must be at least 51%. There are no cross-shareholdings with other organisations.

Capital structure

Detailed information on the capital and changes in it for the past three reporting years can be found in the financial section of the German version, on page 112. In accordance with Article 3b of the Articles of Association of the Cantonal Bank of St.Gallen, the conditional capital is reserved for the employee share ownership programmes, approved by the Board of Directors. The Board of Directors passes the resolution to issue the relevant shares or option rights and stipulates the issue and option conditions. Current shareholders have no rights of subscription or pre-emption.

Under the Articles of Association, the registered shares of the Cantonal Bank of St.Gallen are transferable without restriction. Each share carries one vote. However, shareholders may only exercise voting rights if they expressly declare that they bought the shares in their own name and on their own account. When new shares are issued, shareholders are entitled to buy a percentage proportionate to their existing shareholdings. The general meeting of shareholders may cancel this subscription right for good cause.

The Board of Directors may enter nominees in the share register, with voting rights, for up to 3% of the share capital entered in the commercial register. An entry may be made above this limit, subject to disclosure of the names, addresses and shareholdings of holders of 0.5% or more of the share capital.

The only outstanding options were 32656 employee options, which are described on page 35. For the exercise of these options, shares are taken from the bank's own portfolios or from the conditional share capital created for this purpose. This would increase the share capital by a maximum of CHF 2.3 million.

Compensation, shareholdings and loans

The Board of Directors uses due discretion to establish criteria for determining the remuneration payable to the members of the Board of Directors and Management Board, and its actual amount. It uses comparable enterprises as a guide. The Human Resources and Organisation Committee establishes the relevant decision-making principles. The Management Board is not present when agenda items relating to remuneration of the Board of Directors and the Management Board are dealt with, though the CEO is involved, in a consultative role, in the discussion of remuneration of the members of the Management Board. The details of the remuneration of the Board of Directors and the Management Board in financial year 2012 are available in the financial section, on pages 38 and 39.

Board of Directors

In setting the amount, the Board of Directors was guided by the average total remuneration package in the years 2005–2008. The Board of Directors' remuneration consists of a basic fee for all members of the Board, plus additional payments to the Vice-Chairman, for chairmanship or committee membership, and to the Chairman of the Pension Scheme. An attendance allowance of CHF 500 is paid per meeting. The purchase price of the allocated shares is determined annually by the Human Resources and Organisation Committee. In the 2012 remuneration package, it amounts to 80% of the qualifying stock market price (average volume-weighted price of the trading days in January 2013: CHF 389.75). The terms of all business relations with the members of the Board of Directors are equal to those applied to comparable transactions with outsiders. Directors in particular do not benefit from staff terms for banking services.

Management Board

The remuneration paid to the Management Board consists of a fixed salary, variable remuneration, payments in kind and social security contributions. The social security contributions include employer's contributions to the statutory old-age and survivors' pension, disability insurance, loss of wages insurance, unemployment insurance schemes and the pension fund. The pension scheme consists of two defined-contribution plans: one annuity plan for the fixed salary and one bonus plan for the variable salary. The risks of death and invalidity are also separately insured under the bonus plan. A company car is placed at the disposal of each member of the Management Board. The Cantonal Bank of St.Gallen also grants all its employees, including members of the Management Board, staff terms for its banking services. The remuneration system and the level of remuneration paid to the Management Board are reviewed periodically, usually every three years, by the Human Resources and Organisation Committee (VRA-P). Studies and rankings available in the public domain, and peer group comparisons compiled from information in the public domain, are used for comparison. This takes account of Swiss enterprises of similar sector, size or activity to the Cantonal Bank of St.Gallen. Any adjustment applications are submitted to the Board of Directors for decision. This occurred most recently in 2010, with appropriate adjustments as of 1 January 2011.

The level of fixed salary is determined, at its due discretion, by the Board of Directors and contractually agreed with the members of the Management Board. The fixed salary element is paid in cash.

The Board of Directors, at its due discretion, sets the level of variable remuneration each year. For the financial year 2012, it did so at its meeting of 6 February 2013. The amount is based on profit and on performance in relation to the annual targets. These, in turn, are based on the course of business of the Cantonal Bank of St.Gallen (Group targets) and on individual quantitative and qualitative requirements from the areas managed by the Management Board. The targets relate both to strategic development and to short-term operating performance. At Group level, the decisive factors are net profit, net new loans, net new money and the cost/income ratio. The Board of Directors sets the Group targets and the individual targets for the CEO at the beginning of the financial year. The CEO sets the individual targets for the members of the Management Board. The three factors of net profit, Group targets and individual targets each determine around one-third of the level of variable remuneration. A ceiling applies to variable remuneration payments to the Management Board. In

2012 variable remuneration accounted for between 52 and 68% of fixed salary for Management Board members and 78% for the CEO. Compared with the previous year, variable remuneration of the members of the Management Board raised by 12%. For the CEO, the raise amounted to 10%.

Half of the variable remuneration is paid in cash, and half in the form of shares in the Cantonal Bank of St.Gallen with a three-year holding period. Four free options are also granted per share. The basis of calculation of the purchase price of the allocated shares and the exercise price of the options is the qualifying stock market price (average volume-weighted price on the trading days of January 2013: CHF 389.75). The Human Resources and Organisation Committee (VRA-P) of the Board of Directors determines the purchase price of the shares each year. For the 2012 variable remuneration, the purchase price amounts to 80% of the qualifying stock market price, and the exercise price of the options corresponds to the qualifying stock market price. Time to maturity is four years from allocation. The exercise period of one year begins on expiry of a three-year holding period. One third of the total allocated options are transferred to the beneficiaries' ownership annually. This first takes place one year after allocation. One option confers entitlement to buy one share. The outstanding options thus confer entitlement to subscribe to a total of 28864 shares, of nominal value CHF 2.0 million. Cashless exercise is possible. Details of the outstanding options appear in the financial section on page 40.

Staff loans

The Cantonal Bank of St.Gallen allows credit lines, mortgages and loans on special terms to all employees, including the Management Board. These terms are limited to a preferential interest rate, which is customary in the sector. Members of the Board of Directors are expressly excluded. The Audit Committee of the Board of Directors decides on the granting of credit lines, mortgages or loans to members of the Board of Directors and of the Management Board. More details of the loans and credit lines to members of the Board of Directors, Management Board and related persons are to be found in the financial section on page 40.

Shareholders' participation, changes of control and defence measures

There are no restrictions on shareholders' voting rights within the Cantonal Bank of St.Gallen. The provisions of the Articles of Association concerning the exercise of these rights, the majorities required for shareholder resolutions, convening the general meeting of shareholders, the obligation to make an offer in cases of intended acquisition and the register of shareholders are governed by the Swiss Code of Obligations and the Stock Exchange Act. Shareholders who represent shares with a nominal value of CHF 350 000 may request that items for discussion be placed on the agenda for submission to the Annual General Meeting. The deadline for submitting such requests is published in the Swiss Official Trade Journal (SOTJ) and at least one daily newspaper with cantonal circulation.

As a rule, the share register is closed for entries one month before the ordinary general meeting. Shareholders entered in the share register on 28 March 2013 as entitled to vote are eligible to be present and vote at the Annual General Meeting on 24 April 2013. From 28 March to 24 April 2013, inclusive, no entries are made in the share register. The Articles of Association prescribe no obligation to offer in the terms of the Stock Exchange Act. There are also no "change of control" clauses in favour of members of the Board of Directors or Management Board.

Auditor

PricewaterhouseCoopers AG, of St. Gallen, have acted as the external auditors of the Cantonal Bank of St.Gallen since the financial year 1995. The firm is recognized auditor of banks. The auditor is elected by the Annual General Meeting for one year. The Auditor in charge may execute the commission for seven years. The Auditor in charge since the financial year 2009 has been Beat Rütsche. Total group-wide auditing fees in the year under review amounted to CHF 1 092 000. The auditor charged CHF 884 000 in extra fees, including CHF 464 000 for tax advice and CHF 420 000 for additional auditing and advisory services.

All audit reports are examined by the Audit Committee of the Board of Directors and brought to the attention of the plenary Board of Directors. In principle the Auditor in charge is present when the reports are dealt with in the Board of Directors or Audit Committee. Each year, the Audit Committee also appraises the risk assessment and the audit plan derived from it by the external auditors and the internal audit. It discusses these in the presence of the Auditor in charge and of the Head of Internal Audit. Based on the reporting and the joint meetings with the Auditor in charge, the Audit Committee decides on the auditor's performance and independence.

Information policy

The latest information and the complete Articles of Association of the Cantonal Bank of St.Gallen are available on the Internet at www.sgkb.ch/statuten. Any interested party may register at this site (www.sgkb.ch/adhoc-abo) to receive notification of potentially price-sensitive facts. Public announcements are published in the SOTJ and at least one daily newspaper with cantonal circulation. If the law does not stipulate personal notification, the prescribed notifications to shareholders are effective upon publication in the SOTJ.

The Cantonal Bank of St.Gallen publishes its financial results half-yearly. All registered shareholders receive a short report (letter to shareholders) which provides an overview of the course of business and activities. The annual report and the letters to shareholders are available at the website of the Cantonal Bank of St.Gallen or may be ordered from the addresses mentioned on page 49.

[4] Risk Situation

Like other banks or financial institutions, the Cantonal Bank of St. Gallen Group also faces various risks. Managing credit and market risks as well as operational risks is considered one of the most important tasks of the Management Board. Risk management is based on the risk policy issued by the Board of Directors, which it reviewed during the year of this report. General information on the risk management process appears in the Risk Management section of the Annexe to the Group Financial Statements in the German annual report. The following is a description of the Group's current risk exposure, broken down into the various risk types.

Credit risks

Credit assessment

Controls were applied to lending activities in the form of comprehensive credit assessments by both the internal and external audit functions. Large individual exposures and a targeted selection of positions underwent more detailed assessment. The main working processes were also appraised. In 2012, the assessment covered 7% of all loans to clients (previous year 8%) and 38% of impaired loans (previous year 16%). This confirmed adequate coverage of risk exposure by valuation adjustments. Thus the Group shows expense of CHF 9.7 million for valuation adjustments, provisions and losses for the year under review (previous year CHF 4.6 million).

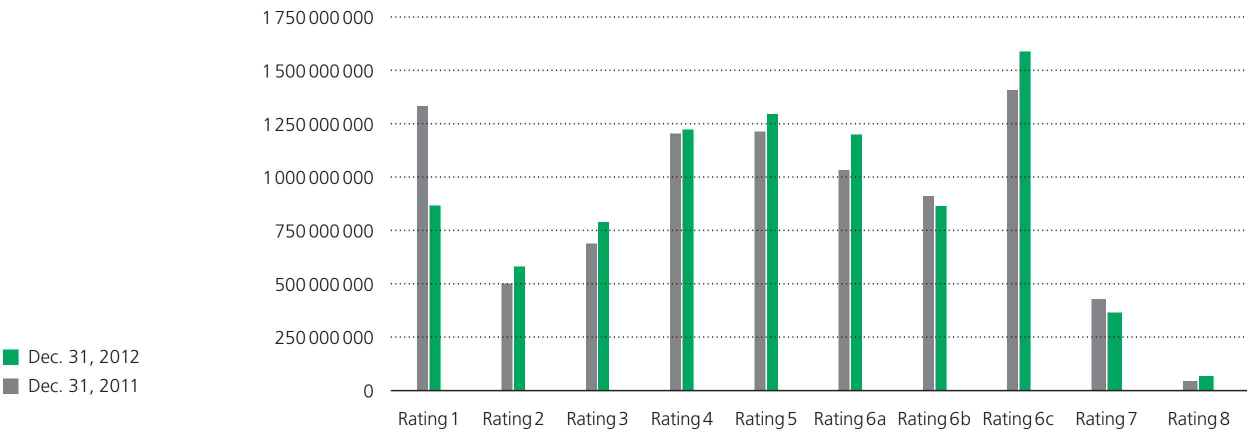
Ratings and their categorization

General information on the rating system appears in the Risk Management section of the Annexe to the Group Financial Statements in the German annual report.

The chart below shows the distribution of credit lines across the rating categories, for clients subject to account-keeping obligations.

Rating 1 represents the best risk, and rating 8 the worst. In view of the very large proportion of client

Distribution of credit limits for clients subject to account-keeping obligations (parent company) (CHF)



volume rated 6, this category has been divided into sub-categories a to c, to present a more detailed picture.

Credit lines rated 6 (a, b and c) total 41.3% (or CHF 3.65 billion). These represent the largest proportion, as last year (38.3%).

Individuals are rated 1 to 6, where a rating of 6 represents the lowest risk and a rating of 1 the highest risk.

The largest proportion (CHF 10.8 billion or 72.3%) of credit lines for individuals falls into the second-best risk level of 5 (previous year CHF 11.1 billion or 76.6%). CHF 3.7 billion (24.8%) was allocated to risk level 4 (previous year CHF 2.8 billion or 19.7%). The shift from risk level 5 to risk level 4 is due to reallocation of all exception to policy positions. The risk level 1 contains for the most part public corporations. The decrease in the year 2012 is based on the lower usage of credit lines.

Overall, the credit portfolio of the parent company and of the Group is stable and of high quality.

Impaired loans

The Special Finance Department manages loans, recovery of which is thought to be in serious doubt. The volume of these impaired loans amounted to CHF 675.3 million (previous year 673.0 million), spread across 565 positions (previous year 534). In the year under review 99 positions at risk were settled (previous year 122), while there were 130 new cases (previous year 115), especially of minor exposures. The average exposure level has decreased slightly.

Non-performing loans

At the end of the year, loans on which interest or capital repayments were thought to be at risk totalled CHF 55.7 million, or 0.2% of loans to clients (previous year: CHF 48.4 million or 0.2%). As a rule, these are amounts which have been outstanding for more than 90 days. The corresponding provisions for interest amounted to CHF 1.3 million or 0.3% of interest and discount income (previous year CHF 0.9 million or 0.2%). Interest actually lost in 2012 totalled CHF 0.1 million, or 0.0% of interest and discount income (previous year CHF 0.6 million or 0.1%).

Risk diversification rules

As of 31 December 2012, there were no reportable concentration risks, and the credit volume of the ten biggest commercial debtors amounted to CHF 1.3 billion as of 31 December 2012, or 5.8% of loans to clients (previous year CHF 1.1 billion or 5.3%).

Country risks

As of the balance sheet cut-off date, non-Swiss exposures amounted to CHF 3.3 billion or 11.8% of the balance sheet total (previous year CHF 3.3 billion or 12.7%). Most of these are triple A to single A rated debt obligations to banks and financial assets. According to the risk domicile principle, the need for valuation adjustment at the end of 2012 was insignificant.

Market risks

The Group has a strategic risk limit for all market risks. This limit is based on the value-at-risk (VAR) method and is in reasonable proportion to the Group's available funds. Modern standard software is used to measure the risk.

As at the end of 2012 as against 2011, market VAR for all positions was as follows:

(in CHF 000s)	**Dec. 31, 2012**	Dec. 31, 2011
Interest rate risk	107 789	102 700
Currency risk	1 478	642
Share price risk	7 510	6 489
Precious metal risk	0	0
Diversification effect	–9 261	–7 204
Total risk	107 516	102 627

Market VAR was higher than the previous year, due to higher volatility of the underlying risk factors. A historic VAR is calculated from a 500-day observation period and a 30-day holding period. The confidence interval amounts to 99%.

Trading positions

The market risk of trading positions is measured by the same value-at-risk method and is monitored with a limit. Trading portfolio VAR as of 31 December 2012 is CHF 3.1 million. The increase in comparison with the previous year's figure (CHF 1.7 million) is mainly due to the higher trading position.

Balance sheet interest rate risks

Interest rate risks in the balance sheet structure are also monitored with a value-at-risk limit. Before allowance for diversification, VAR in 2012 ranged from CHF 64.4 million to CHF 107.8 million (previous year CHF 101.1 million to CHF 185.5 million). Exposure to interest rate risks in comparison to the book shareholders' equity of CHF 2.1 billion as of 31 December 2012 (previous year CHF 1.9 billion) was thus lower than the previous year. The sensitivity of shareholders' equity (modified duration) in 2012 ranged from 6.8% to 13.0%, averaging 9.4% (previous year 8.3% to 12.0%; average 10.5%). On 31 December 2012, the sensitivity of shareholders' equity stood at 9.1% (previous year 12.0%). This rather high risk indicator is attributable to the very conservative replication model for variable rate products, which accentuates the influence of non-parallel interest rate curve shifts. Thus, because of the method used, SGKB Group shows a much higher sensitivity of its shareholders' equity than other banks.

Currency risks

The net foreign currency position of the Group, including precious metals, was CHF 69.4 million at the end of 2012 (previous year CHF 53.7 million). This includes the shareholders' equity of St. Galler Kantonalbank Deutschland AG which is invested in Euro-denominated dues from banks and financial assets by this subsidiary.

The positions in foreign currencies are mainly in EUR and USD.

Security price and liquidity risks

The securities shown on the balance sheet under financial investments total CHF 1.8 billion (previous year CHF 1.8 billion). Most consist of good-quality listed securities or securities traded on representative markets and most are fixed-interest papers. These securities are usually held until maturity and serve to guarantee the liquidity required by banking law. The interest rate risk arising from these portfolios is monitored in the context of the control of balance sheet interest risks. In addition, the credit ratings of bonds are regularly reviewed. The proportion of securities from Portugal, Italy, Ireland, Greece and Spain (the PIIGS countries) stands at just CHF 29.0 million (previous year CHF 76.1 million) and is very closely monitored.

Other market risks

The Group held no positions in commodities. As of 31 December 2012, the Group held CHF 0.1 million in real estate for resale (previous year CHF 0.3 million). The number of properties fell in the year under review from 3 to 1.

Liquidity and refinancing risks

The liquidity regulations were always complied with. Liabilities regarded as concentrated in the terms of Article 18 of the Ordinance Implementing the Federal Banking Act are duly reported to the auditors. As of 31 December 2012, no position exceeded the reportable limit.

Not least because of its good rating, the Cantonal Bank of St.Gallen can always meet its needs for finance on the inter-bank or capital markets. The upheavals and strains on the international financial markets had no negative impact on the Group's liquidity situation. As in prior year, in the year under review net new money continued to flow into the Cantonal Bank of St.Gallen. To bridge any liquidity shortfalls, the Cantonal Bank of St.Gallen also holds securities, in the form of financial investments, eligible for repurchase agreements, amounting to CHF 1.5 billion. These allow refinancing by the Swiss National Bank at any time.

Operational risks

Internal control system

The Group maintains an effective separation of functions and a well-established internal control system (ICS). It performs sufficient management controls. In the opinion of the Management, the conditions of orderly conduct of business and prompt detection of any major errors are met. Auditing the ICS is an important part of the work of the Internal Audit Department. The quality of the central handling processes is monitored and reported continuously.

Outsourcing

For a financial service provider, one of the main operational risks lies in the security and reliability of electronic data processing. All Group companies have outsourced most of their IT operations. Further information can be found in the explanatory notes on business activity, in the Annexe to the Group Financial Statements in the German annual report. The outsourcing is governed by contract. SGKB also has a security plan which meets modern requirements and is constantly updated.

According to the audit reports, the FINMA requirements on outsourcing are met.

Legal and compliance risks

The Legal Affairs and Compliance Department closely monitors the requirements of the laws and regulations and implements them internally. It makes every effort to prevent breaches of the law or rules by the Bank, its organs or employees. This involves chiefly, though not only, the Agreement on the Swiss Banks' Code of Conduct with regard to the Exercise of Due Diligence (VSB 08) and the relevant laws and ordinances to combat money laundering. The Department is also responsible for ongoing internal training of its staff, and for training client advisors and managers in the matters for which it is responsible. Client relationships are treated differently according to risk estimation. Where applicable, a graduated due diligence obligation must be met. Regular reporting also assures the flow of information from the subsidiaries to the department of the parent company with specific responsibility for the subject matter. In addition to five threatened lawsuits, eight court cases are pending against SGKB or its subsidiaries. The appropriate provisions for lawsuits have been made where this was considered necessary.

Resolution of legal proceedings in connection with the bankruptcy of Bernard L. Madoff

The bankruptcy trustee for Bernard L. Madoff Investment Securities LLC (BLMIS) had initiated legal proceedings against the subsidiary Hyposwiss Private Bank Geneva SA for claw back claims in the amount of USD 182 million, which is similar to a "Pauliana"-claim in Switzerland. The action has been resolved by way of a settlement, which did not result in a loss to the bank.

No legal or tax proceedings against the Bank

A reportedly possible claim against Hyposwiss Zürich of allegedly more than a billion in connection with a dispute over the Russian commodity group Norilsk Nickel, which has been speculated about in the media in late fall 2011, has never been filed, same as a threatened tax proceeding against the bank. The opponents of the dispute have resolved their differences in the meantime.

On a journey of discovery: the Gallus Jubilee included opportunities for reflection and reinvigoration at “places of power” such as the Tamina gorge, June to August 2012.

[5] Financial Information

Figures shown in the financial section have been rounded up or down. Hence the respective totals may not add up exactly.

Group Balance Sheet

Assets in CHF 000s	Dec. 31, 2012	in %	Dec. 31, 2011	in %	Change	in %
Liquid funds	614 133	2.2	230 706	0.9	383 427	–
Receivables from money market instruments	21 127	0.1	21 141	0.1	(14)	(0.1)
Due from banks	2 134 367	7.7	1 952 323	7.5	182 044	9.3
Due from clients	3 231 287	11.7	3 267 000	12.5	(35 713)	(1.1)
Mortgage loans	19 128 948	69.2	18 004 491	69.1	1 124 458	6.2
Total loans to clients	**22 360 235**	**80.9**	**21 271 491**	**81.6**	**1 088 745**	**5.1**
Securities and precious metals trading portfolios	20 472	0.1	9 341	0.0	11 130	–
Financial investments	1 792 952	6.5	1 827 446	7.0	(34 494)	(1.9)
Non-consolidated participations	26 940	0.1	27 292	0.1	(352)	(1.3)
Fixed assets	177 892	0.6	180 630	0.7	(2 737)	(1.5)
Intangibles	40 540	0.1	59 172	0.2	(18 632)	(31.5)
Accrued income and prepaid expenses	82 089	0.3	97 253	0.4	(15 164)	(15.6)
Other assets	367 466	1.3	397 411	1.5	(29 944)	(7.5)
Total assets	**27 638 213**	**100.0**	**26 074 203**	**100.0**	**1 564 010**	**6.0**
Of which:						
– Total subordinated amounts receivable	10 201		10 200		1	0.0
– Total due from non-consolidated participations	86 040		83 685		2 355	2.8

Liabilities in CHF 000s	Dec. 31, 2012	in %	Dec. 31, 2011	in %	Change	in %
Due to money market instruments	2 839	0.0	897	0.0	1 942	–
Due to banks	930 682	3.4	593 494	2.3	337 188	56.8
Due to clients in savings and deposits	11 275 225	40.8	10 748 437	41.2	526 787	4.9
Other due to clients	8 280 836	30.0	7 687 827	29.5	593 009	7.7
Medium-term notes	346 217	1.3	485 538	1.9	(139 321)	(28.7)
Total client funds	**19 902 278**	**72.0**	**18 921 802**	**72.6**	**980 476**	**5.2**
Debt and loans secured by mortgages	4 189 475	15.2	3 985 110	15.3	204 365	5.1
Accrued expenses and deferred income	124 225	0.4	114 087	0.4	10 138	8.9
Other liabilities	394 799	1.4	436 342	1.7	(41 543)	(9.5)
Valuation adjustments and provisions	159 860	0.6	159 324	0.6	537	0.3
Share capital	390 140	1.4	390 140	1.5	0	0.0
Capital reserve	13 802	0.0	46 319	0.2	(32 517)	(70.2)
Profit reserve	1 389 368	5.0	1 303 763	5.0	85 604	6.6
Less treasury shares	(10 613)	(0.0)	(12 814)	(0.0)	2 201	(17.2)
Group net profit	151 358	0.5	135 740	0.5	15 618	11.5
Total shareholders' equity	**1 934 055**	**7.0**	**1 863 148**	**7.1**	**70 907**	**3.8**
Total liabilities	**27 638 213**	**100.0**	**26 074 203**	**100.0**	**1 564 010**	**6.0**
Of which:						
– Total subordinated amounts payable	302 703		400 000		(97 297)	(24.3)
– Total due to non-consolidated participations	1 619 020		1 082 805		536 215	49.5
– Total due to the Canton of St. Gallen	259 447		525 341		(265 893)	(50.6)

Off-Balance Sheet Transactions in CHF 000s	Dec. 31, 2012	Dec. 31, 2011	Change	in %
Contingent liabilities	268 854	320 191	(51 337)	(16.0)
Irrevocable commitments	249 073	193 879	55 193	28.5
Liabilities for calls on shares and other equities	42 347	43 451	(1 104)	(2.5)
Derivative financial instruments:				
– Contract volume	16 964 939	13 081 580	3 883 359	29.7
– Positive replacement values	340 237	358 222	(17 985)	(5.0)
– Negative replacement values	217 601	285 553	(67 952)	(23.8)
Fiduciary transactions	1 088 785	1 872 067	(783 282)	(41.8)

Group Income Statement

in CHF 000s	2012	2011	Change	in %
Interest and discount income	479 122	465 863	13 259	2.8
Interest and dividend income on trading portfolios	274	530	(256)	(48.2)
Interest and dividend income on financial investments	27 933	30 221	(2 288)	(7.6)
Interest expenses	193 984	207 507	(13 523)	(6.5)
Net interest income	**313 345**	**289 107**	**24 239**	**8.4**
Commission income from lending activities	2 704	2 746	(43)	(1.5)
Commission income from securities and investment activities	132 831	139 798	(6 967)	(5.0)
Commission income from other service fee activities	19 640	19 258	382	2.0
Commission expenses	16 718	16 320	398	2.4
Net fee and commission income	**138 458**	**145 482**	**(7 025)**	**(4.8)**
Net trading income	**45 446**	**38 690**	**6 756**	**17.5**
Results from the sale of financial investments	394	2 788	(2 393)	(85.9)
Income from non-consolidated participations	2 016	2 181	(165)	(7.6)
Results from real estate	1 664	1 398	266	19.0
Other ordinary income	1 514	1 643	(130)	(7.9)
Other ordinary expenses	1 252	3 347	(2 095)	(62.6)
Net other income	**4 337**	**4 664**	**(327)**	**(7.0)**
Operating income	**501 586**	**477 943**	**23 643**	**4.9**
Personnel expenses	173 706	176 889	(3 182)	(1.8)
Other operating expenses	105 821	111 437	(5 616)	(5.0)
Administrative expenses	**279 527**	**288 325**	**(8 798)**	**(3.1)**
Gross profit	**222 058**	**189 617**	**32 441**	**17.1**
Depreciation and write-offs on fixed assets and participations	12 489	13 107	(618)	(4.7)
Depreciation of intangibles	18 632	16 911	1 720	10.2
Valuation adjustments, provisions and losses	9 684	4 634	5 050	109.0
Operating profit (interim result)	**181 253**	**154 965**	**26 288**	**17.0**
Extraordinary income	8 210	10 928	(2 718)	(24.9)
Extraordinary expenses	343	408	(65)	(15.9)
Group profit before taxes	**189 121**	**165 485**	**23 636**	**14.3**
Taxes	37 763	29 745	8 017	27.0
Group net profit	**151 358**	**135 740**	**15 618**	**11.5**

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
Total equity at January 1, 2010	**390 140**	**86 808**	**1 167 664**	**(16 383)**	**0**	**168 143**	**1 796 373**
Dividend		505	(111 468)				(110 964)
Allocation to reserves			168 143			(168 143)	0
Acquisition of treasury shares				(25 894)			(25 894)
Disposal of treasury shares				28 522			28 522
Valuation gains on treasury shares		587					587
Group net profit						146 332	146 332
Exchange rate difference			(5 003)				(5 003)
Total equity at December 31, 2010	**390 140**	**87 900**	**1 219 336**	**(13 754)**	**0**	**146 332**	**1 829 953**
Dividend		(38 558)	(61 308)				(99 866)
Allocation to reserves			146 332			(146 332)	0
Acquisition of treasury shares				(23 268)			(23 268)
Disposal of treasury shares				24 208			24 208
Valuation losses on treasury shares		(3 023)					(3 023)
Group net profit						135 740	135 740
Exchange rate difference			(597)				(597)
Total equity at December 31, 2011	**390 140**	**46 319**	**1 303 763**	**(12 814)**	**0**	**135 740**	**1 863 148**
Dividend		(33 313)	(49 970)				(83 283)
Allocation to reserves			135 740			(135 740)	0
Acquisition of treasury shares				(7 149)			(7 149)
Disposal of treasury shares				9 351			9 351
Valuation gains on treasury shares		796					796
Group net profit						151 358	151 358
Exchange rate difference			(165)				(165)
Total equity at December 31, 2012	**390 140**	**13 802**	**1 389 368**	**(10 613)**	**0**	**151 358**	**1 934 055**

Reserves not subject to profit distribution (Swiss GAAP FER 24)	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Statutory or legal reserves not subject to profit distribution	205 683	207 884	208 824

Share Capital in CHF 000s

	Dec. 31, 2012			Dec. 31, 2011		
	Nominal value	Number of shares	Capital subject to dividends	Nominal value	Number of shares	Capital subject to dividends
Share capital						
Registered shares (nominal CHF 70 per share)	390 140	5 573 426	390 140	390 140	5 573 426	390 140
Total share capital	**390 140**	**5 573 426**	**390 140**	**390 140**	**5 573 426**	**390 140**
Authorized share capital	0			0		
– of which realized capital increases	none			none		
Conditional share capital						
– January 1	8 806	125 800		8 806	125 800	
– increase	0	0		0	0	
– decrease	0	0		0	0	
– December 31	8 806	125 800		8 806	125 800	

Significant Shareholders and Groups of Shareholders with Pooled Voting Rights in CHF 000s

	Dec. 31, 2012 Nominal	in %	Dec. 31, 2011 Nominal	in %
With voting rights: Canton of St. Gallen	213 930	54.8	213 923	54.8

Own shares and options on registered shares

	2012		2011	
Registered shares in own portfolio	Number	Average transaction price	Number	Average transaction price
Own shares at January 1	36 198	354.00	29 264	470.00
+ Purchases	20 077	356.10	57 488	404.75
– Sales	(28 049)	361.76	(50 554)	419.06
Option exercise transactions:				
+ Purchases	0	0.00	0	0.00
– Sales	0	0.00	0	0.00
Portfolio at December 31	**28 226**	**376.00**	**36 198**	**354.00**
including reserves for employee share ownership programmes	0	0.00	21 111	354.00
Options on registered shares held by related persons	Number	Average exercise price	Number	Average exercise price
Allocated options				
Portfolio at January 1	26 340	452.73	20 976	454.13
Allocation	8 984	362.00	7 620	478.80
Exercise	0	0.00	0	0.00
Expired	(2 668)	468.85	(2 256)	553.75
Portfolio at December 31	**32 656**	**426.45**	**26 340**	**452.73**
of which options transferred to ownership				
Portfolio at January 1	10 455	432.15	6 471	464.93
Allocation	7 893	450.92	6 240	442.12
Exercise	0	0.00	0	0.00
Expired	(2 668)		(2 256)	
Portfolio at December 31	**15 680**	**432.15**	**10 455**	**432.15**
of which exercisable on Dec. 31	7 308	379.80	2 668	468.85
Registered shares held by related persons	Number		Number	
Members of the Board of Directors	7 210		7 699	
Members of the Management Board	12 922		11 046	
Total at December 31	**20 132**		**18 745**	

The section on Corporate Governance contains explanatory information on the share ownership and option programmes.

Option portfolio at Dec. 31, 2012[1]

Year of allocation	2012	2011	2010	2009	2008	Total
Exercisable at	22.03.15	22.03.14	22.03.13	22.03.12		
Option expiry date	22.03.16	22.03.15	22.03.14	22.03.13		
Subscription ratio	1:1	1:1	1:1	1:1		
Exercise price (CHF)	362.00	478.80	486.05	379.80		
Total option portfolio (allocated)	**8 984**	**7 620**	**8 744**	**7 308**		**32 656**
Previous year		7 620	8 744	7 308	2 668	26 340

[1] Including management members who are not part of the Management Board.

Summary of Collaterals in CHF 000s

		Mortgage collateral	Other collateral	Without collateral [1]	Total
Loans to clients					
Due from clients		476 084	1 108 918	1 646 285	3 231 287
Mortgage loans:					
– residential real estate		15 638 913	0	15 755	15 654 668
– office and business buildings		1 328 671	0	15 440	1 344 111
– trade and industry		1 618 407	0	26 630	1 645 037
– other		405 731	31 608	47 794	485 133
Total loans to clients	**Dec. 31, 2012**	**19 467 806**	**1 140 526**	**1 751 904**	**22 360 235**
	Dec. 31, 2011	18 347 509	1 196 279	1 727 703	21 271 491
Off-balance sheet transactions					
Contingent liabilities		48 686	58 326	161 842	268 854
Irrevocable commitments		54 730	2 470	191 873	249 073
Liabilities for calls on shares and other equities		0	0	42 347	42 347
Total off-balance sheet	**Dec. 31, 2012**	**103 416**	**60 796**	**396 062**	**560 274**
	Dec. 31, 2011	70 202	66 982	420 337	557 521

[1] Including loans to clients with provisions.

Impaired Loans in CHF 000s

	Dec. 31, 2012	Dec. 31, 2011	Change	in %
Total impaired loans, gross	675 383	673 035	2 348	0.3
Estimated proceeds from liquidation	(494 170)	(502 591)	8 421	(1.7)
Total impaired loans, net	**181 213**	**170 444**	**10 769**	**6.3**
Individual provisions	144 302	149 352	(5 051)	(3.4)
Provisions for credit risk in % of impaired loans, net	79.6%	87.6%		
Impaired loans in % of loans to clients	0.8%	0.8%		

Non-Performing Loans in CHF 000s

	Dec. 31, 2012	Dec. 31, 2011	Change	in %
Total non-performing loans	**55 675**	**48 424**	**7 251**	**15.0**

Non-performing loans are a component of impaired loans.

Valuation Adjustments and Provisions for Credit Risk in CHF 000s

	Dec. 31, 2012	Dec. 31, 2011	Change	in %
Valuation adjustments and provisions for credit risk (capital)	142 978	148 473	(5 495)	(3.7)
Valuation adjustments and provisions for credit risk (interest)	1 323	879	444	(3.7)
Total provisions for credit risk	**144 302**	**149 352**	**(5 051)**	**(3.7)**
Valuation adjustments and provisions for credit risk (capital) in % of loans to clients	0.65%	0.70%		
Non-performing loans in % of loans to customers	0.25%	0.23%		
Rate of capital provisions (dissolution) [1]	0.00%	0.00%		

[1] New valuation adjustments and provisions for credit risk (capital) in % of average loans to clients.

Valuation Adjustments and Provisions in CHF 000s

	Dec 31, 2011	Usage	Doubtful interest, recoveries	Creation to the debit of the income statement	Redemption to the credit of the income statement	Dec 31, 2012
Valuation adjustments and provisions for credit risk	149 352	(8 095)	2 045	23 417	(22 417)	144 302
Valuation adjustments and provisions for other business risks	5 662	(1 112)	(3)	6 707	(245)	11 010
Other provisions	444	(46)	(1)	302	0	699
Total	**155 458**	**(9 253)**	**2 042**	**30 426**	**(22 662)**	**156 010**
Provision for deferred taxes	3 865	0	0	0	(15)	3 850
Total valuation adjustments and provisions	**159 324**	**(9 253)**	**2 042**	**30 426**	**(22 677)**	**159 860**

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		614 133							614 133
Receivables from money market instruments		31		1 895	19 201				21 127
Due from banks		753 395	78 108	960 964	231 900	100 000	10 000		2 134 367
Due from clients		60 857	285 446	1 252 280	401 687	815 444	415 573		3 231 287
Mortgage loans		32 972	904 575	711 043	2 476 475	10 578 281	4 425 602		19 128 948
Securities and precious metals trading portfolios		20 472							20 472
Financial investments		20 670		96 258	140 299	1 315 352	220 158	215	1 792 952
Total	**Dec. 31, 2012**	**1 502 530**	**1 268 129**	**3 022 440**	**3 269 562**	**12 809 077**	**5 071 333**	**215**	**26 943 286**
	Dec. 31, 2011	783 003	973 549	3 603 369	2 618 993	13 200 922	4 132 292	320	25 312 448
Liabilities									
Due to money market instruments		2 839							2 839
Due to banks		191 258		640 537	98 887				930 682
Due to clients in savings and deposits		632 490	10 611 951	19 308	10 063	1 413			11 275 225
Other due to clients		6 600 175	220 673	793 384	215 604	43 000	408 000		8 280 836
Medium-term notes				41 646	64 370	214 363	25 838		346 217
Debt and loans secured by mortgages				52 000	721 310	1 521 200	1 894 965		4 189 475
Total	**Dec. 31, 2012**	**7 426 762**	**10 832 624**	**1 546 875**	**1 110 234**	**1 779 976**	**2 328 803**	**0**	**25 025 274**
	Dec. 31, 2011	6 113 222	10 605 324	1 767 973	858 465	2 069 089	2 087 230	0	23 501 303

Remuneration payable to the members of the Board of Directors in CHF 000s

The remuneration payable to the Board of Directors consists of fixed fees, a fixed portion in shares, meeting attendance allowances and social security contributions. Further information on the remuneration appears in the Corporate Governance section on pp. 23–26. The total amount in the year under review was CHF 1.178 million. The breakdown between the individual members appears in the tables below. The notes on position and social security contributions apply accordingly to all tables in this section.

	Position [1]	Fixed fee	Fixed share portion	Attendance allowances	Total remuneration	Social security[5]	Total expenditure
Franz Peter Oesch	Chairman SGKB Board of Directors	189	85	24	298	14	312
Thomas A. Gutzwiller	Vice-Chairman Board of Directors	83	37	8	128	8	136
Manuel Ammann [2]		85	30	7	121	6	128
Hans-Jürg Bernet [3]	Chairman Pension Scheme	74	33	11	117	7	124
Adrian Rüesch	Chairman VRA-P	71	32	7	110	7	117
Martin Gehrer [4]		67	0	7	73	5	78
Kurt Rüegg	Chairman VRA-F	71	32	9	112	7	119
Claudia Zogg-Wetter	Chairman VRA-AC	74	33	8	114	7	121
Total 2012		**713**	**281**	**79**	**1073**	**62**	**1135**

[1] Committees of the Board of Directors: Human Resources and Organization Committee (VRA-P); Finance and External Relations Committee (VRA-F); Audit Committee (VRA-AC).
[2] Including CHF 18 000 fees for services rendered to the SGKB.
[3] Including CHF 10 000 fees for services rendered to the SGKB Pension Scheme and CHF 4000 for attendance at meetings.
[4] 91 shares of countervalue CHF 30 000 were allocated to the Canton of St. Gallen.
[5] The social security contributions include employer's contributions to the statutory old-age and survivors' pension, disability insurance, loss of wages insurance, unemployment insurance schemes and the pension fund.

The Corporate Governance section explains the directors' independence in the terms of FINMA Circular 2008/24.

The share valuation is based on the average SGKB share price in January 2013. This was discounted because of the three-year holding period, like the calculation for tax purposes. The discounted value per share was CHF 327.25.

Hans-Peter Härtsch withdrew from the Board of Directors during the year under review (in CHF 000s):

	Position	Fixed fee	Fixed share portion	Attendance allowances	Total remuneration	Social security	Total expenditure
Hans-Peter Härtsch (until April 30, 2012)	Vice-Chairman Board of Directors, Chairman VRA-P	27	12	2	41	3	43

Previous year in CHF 000s

The remuneration payable to the Board of Directors consisted of fixed fees, a fixed portion in shares, meeting attendance allowances and social security contributions. The total amount was CHF 1.220 million in the previous year, and was broken down between the individual members (CHF 000s) according to the tables below.

	Position	Fixed fee	Fixed share portion	Attendance allowances	Total remuneration	Social security	Total expenditure
Franz Peter Oesch	Chairman SGKB Board of Directors	189	85	24	298	14	312
Hans-Peter Härtsch	Vice-Chairman Board of Directors, Chairman VRA-P	81	36	6	122	8	130
Manuel Ammann		67	30	6	102	6	109
Hans-Jürg Bernet [1]	Chairman Pension Scheme since April 1, 2011	76	34	12	121	8	129
Adrian Rüesch (since May 1, 2011) [2]		45	20	4	68	4	72
Martin Gehrer [3]		67	0	6	73	5	77
Thomas A. Gutzwiller	Chairman VRA-F	74	33	7	113	7	120
Kurt Rüegg		67	30	7	103	6	109
Claudia Zogg-Wetter	Chairman VRA-AC	74	33	6	113	7	120
Total 2011		**737**	**300**	**75**	**1112**	**65**	**1178**

[1] Including CHF 7500 fees for services rendered to the SGKB Pension Scheme and CHF 4500 for attendance at meetings.
[2] Including CHF 1000 fees for services rendered to the SGKB.
[3] 98 shares of countervalue CHF 30 000 were allocated to the Canton of St. Gallen.

The share valuation was based on the average SGKB share price in January 2012. This was discounted because of the three-year holding period, like the calculation for tax purposes. The discounted value per share was CHF 303.95.

Niklaus Fäh withdrew from the Board of Directors during the year under review (CHF 000):

	Position	Fixed fee	Fixed share portion	Attendance allowances	Total remuneration	Social security	Total expenditure
Niklaus Fäh (until April 30, 2011)[1]	Chairman Pension Scheme until March 31, 2011	25	11	5	40	2	42

[1] Including CHF 2500 fees for services rendered to the SGKB Pension Scheme and CHF 2500 for attendance at meetings.

Remuneration payable to the members of the Management Board in CHF 000s

The remuneration payable to the Management Board consists of fixed salaries, variable remuneration, payments in kind and social security contributions. The variable remuneration consists of a cash portion, a share portion and allocated options. The social security contributions include employer's contributions to the statutory old-age and survivors' pension, disability insurance, loss of wages insurance, unemployment insurance schemes and the pension fund. Further information on the remuneration appears in the Corporate Governance section on pp. 23–26. The total amount paid to the five members in the year under review was CHF 4.1 million.

		Variable remuneration					
	Fixed salary	Cash	Shares	Options	Total remuneration	Other expenses including social security	Total expenditure
Roland Ledergerber Chief Executive Officer	550	175	184	72	980	176	1 157
Other four members of the Management Board	1 537	390	410	160	2 496	448	2 944
Total 2012	**2 087**	**565**	**593**	**232**	**3 477**	**624**	**4 101**

The valuation of the shares is based on the average price of the SGKB share in January 2013, which was discounted for the three-year holding period, in line with the calculation for tax purposes. The discounted value per share was CHF 327.25.

The calculated value of the options is also based on the average price of the SGKB share in January 2013. The value per option as of December 31, 2012, was CHF 32.00. The valuation was based on the ordinary market trinomial model, as mentioned in the accounting and valuation principles in the German annual report.

Previous year in CHF 000s

		Variable remuneration					
	Fixed salary	Cash	Shares	Options	Total remuneration	Other expenses including social security	Total expenditure
Roland Ledergerber Chief Executive Officer	550	160	168	62	940	171	1 111
Other four members of the Management Board	1 520	350	368	137	2 374	426	2 800
Total 2011	**2 070**	**510**	**536**	**199**	**3 315**	**596**	**3 911**

The valuation of the shares was based on the average price of the SGKB share in January 2012, which was discounted for the three-year holding period, in line with the calculation for tax purposes. The discounted value per share was CHF 303.95.

The calculated value of the options was also based on the average price of the SGKB share in January 2012. The value per option as of December 31, 2011, was CHF 28.30. The valuation was based on the ordinary market trinomial model, as mentioned in the accounting and valuation principles in the German annual report.

Participating interests of the members of the Board of Directors and Management Board

As of December 31, 2012, the members of the organs and persons related to them held the following participating interests (quoted in units). The unlisted options are allocated to the Management Board in the context of the participation programme.

	Dec. 31, 2012			Dec. 31, 2011		
	Shares	Options not listed [1]	Listed options	Shares	Options not listed [1]	Listed options
Board of Directors						
Franz Peter Oesch, Chairman	2955			2676		
Hans-Peter Härtsch, Vice-Chairman (till April 30, 2012)	n/a			1537		
Manuel Ammann	147			49		
Hans-Jürg Bernet	757			645		
Martin Gehrer	40			40		
Thomas A. Gutzwiller	728			620		
Kurt Rüegg	750			472		
Adrian Rüesch (since May 1, 2011)	643			578		
Claudia Zogg-Wetter	1190			1082		
Management Board						
Roland Ledergerber, Chairman	5871	9500		5299	9960	
Albert Koller, Head Retail and Commercial Clients	2015	6260		1667	4948	
Felix Buschor, Head Service Center	2760	5616		2446	4440	
Daniel Lipp, Head Private Banking	922	3352		594	2176	
Christian Schmid, Head Finance and Risk Management	1354	4136		1040	2960	
Total	**20132**	**28864**	**0**	**18745**	**24484**	**0**

[1] The difference of 3792 options (prior year: 1856 options) between the total holding and the table of holding of allocated options derives from options which are held by management members who are not part of the Management Board and which do not appear in the above listing.

Loans and credit lines to members of the Board of Directors and Management Board in CHF 000s

SGKB granted Hans-Jürg Bernet a mortgage-backed loan of CHF 630 000 (previous year: CHF 300 000) and Kurt Rüegg a mortgage-backed credit facility of CHF 2.275 million (previous year: CHF 2.375 million). There were no other credit facilities to members of the Board of Directors as of December 31, 2012.

The members of the Board of Directors did not benefit from staff terms.

Five members of the Management Board (previous year: five) were granted loans or borrowing limits totalling CHF 5.430 million (previous year CHF 5.459 million), the vast majority of which have mortgage collateral. Of this, CHF 1.341 million was granted to the CEO, Roland Ledergerber (previous year: CHF 1.356 million). The concessionary terms allowed to staff also apply to lines of credit to members of the Management Board.

Current special benefits

Ordinary market terms apply to relations with persons related to members of the Board of Directors.

The Cantonal Bank of St.Gallen provides persons related to members of the Management Board with banking services on the same staff conditions as to persons related to other Cantonal Bank of St.Gallen staff. The relevant business volume was so small during the past financial year that a statement is waived for reasons of materiality.

Amounts owed by and to Group undertakings and lines of credit granted to members of executive bodies in CHF 000s

	Dec. 31, 2012	Dec. 31, 2011	Change	in %
Amounts owed by and to Group undertakings:				
– Amounts owed by Group undertakings	0	0	0	–
– Amounts owed to Group undertakings	68 992	56 909	12 084	21.2
Amounts owed by members of organs, including related persons (lines of credit):				
– Non-executive members (Board of Directors)	28 340	23 155	5 185	22.4
– Executive members (Management Board)	5 572	5 459	113	2.1
Total	**33 912**	**28 614**	**5 298**	**18.5**

Managed assets in CHF 000s

	Dec. 31, 2012	Dec. 31, 2011	Change	in %
Values in investment vehicles managed by the Group	572 494	598 093	(25 598)	(4.3)
Values under discretionary mandate	4 242 324	4 163 621	78 702	1.9
Other clients assets	34 285 015	33 796 695	488 320	1.4
Total managed assets (incl. double countings)	**39 099 834**	**38 558 409**	**541 424**	**1.4**
Thereof: double countings	(941 375)	(1 073 477)	132 101	(12.3)
Total managed assets (excl. double countings)	**38 158 458**	**37 484 933**	**673 526**	**1.8**
Net new money (excl. double countings)	**(177 408)**	**1 331 221**	**(1 508 630)**	**–**

Managed assets include:
- Deposited values including fiduciary placements
- Due to clients in savings and deposits
- Other due to clients
- Medium-term notes

Managed assets do not include custody-only client relationships. The definition of custody assets encompasses positions that are held solely for transactional and depositary purposes and for which the Bank typically does not render advisory and/or discretionary services. Consequently, custody assets do not include relationships with institutional investors if the business activity consists only in placing liquidity with the Bank and/or repo business.

In 2012, a restatement had to be made to the previous year figures. The values under discretionary mandate of institutional clients, which are kept in custody by third banks, amounted to CHF 0.8 billion in 2011. This value had to be reclassified from the category "Other clients assets" to "Values under discretionary mandate". The new reported amount for Values under discretionary mandate in 2011 is therefore CHF 4.2 billion (instead of CHF 3.3 billion). The new amount for Other clients assets is CHF 33.8 billion (instead of CHF 34.6 billion).

The calculation of net new money is based on managed assets and is effected according to the direct method, i.e. money in- and outflows on individual client transactional level. Shifting of assets between managed assets and custody assets is included in the net new money computation.

Notes to the Income Statement

Net Interest Income in CHF 000s	2012	2011	Change	in %
Interest and discount income				
Interest income due from banks	14 069	13 015	1 054	8.1
Interest income due from loans to clients	470 882	484 894	(14 012)	(2.9)
Other interest, net	(5 829)	(32 046)	26 217	(81.8)
Total interest and discount income	**479 122**	**465 863**	**13 259**	**2.8**
Interest expenses				
Interest expenses due to banks	4 199	540	3 659	–
Interest expenses due to clients funds	81 551	92 522	(10 971)	(11.9)
Interest expenses on debt and loans secured by mortgages	108 234	114 445	(6 211)	(5.4)
Other interest expenses	0	0	0	–
Total interest expenses	**193 984**	**207 507**	**(13 523)**	**(6.5)**

Net Fee and Commission Income in CHF 000s	2012	2011	Change	in %
Commission income from lending activities	2 704	2 746	(43)	(1.5)
Commission income from securities and investment activities	132 831	139 798	(6 967)	(5.0)
– investment funds	25 008	27 083	(2 075)	(7.7)
– deposit operations	28 255	29 291	(1 036)	(3.5)
– brokerage	41 294	42 121	(826)	(2.0)
– asset administration mandates	32 580	34 455	(1 874)	(5.4)
– other	5 694	6 849	(1 155)	(16.9)
Commission income from other service fee activities	19 640	19 258	382	2.0
– payment transfer	8 503	8 024	479	6.0
– safe custody	899	856	43	5.1
– account keeping	7 228	7 574	(346)	(4.6)
– other	3 010	2 804	206	7.4
Total commission income	**155 175**	**161 803**	**(6 627)**	**(4.1)**
Total commission expenses	**16 718**	**16 320**	**398**	**2.4**
Total	**138 458**	**145 482**	**(7 025)**	**(4.8)**

Net Trading Income in CHF 000s	2012	2011	Change	in %
Foreign exchange and dealings in foreign notes and coins	39 841	39 689	151	0.4
Precious metal trading	937	1 025	(89)	(8.7)
Securities trading	4 669	(2 024)	6 693	–
Total	**45 446**	**38 690**	**6 756**	**17.5**

Personnel Expenses in CHF 000s	2012	2011	Change	in %
Salaries and bonuses	140 315	138 761	1 554	1.1
Expenses for pension fund [1]	13 226	17 832	(4 606)	(25.8)
Other social security benefits	11 226	11 433	(207)	(1.8)
Other personnel expenses	8 939	8 862	77	0.9
Total	**173 706**	**176 889**	**(3 182)**	**(1.8)**

[1] 2011: Thereof CHF 5.2 million due to a one-off contribution to the pension fund of Cantonal Bank of St.Gallen.

Other Operating Expenses in CHF 000s

	2012	2011	Change	in %
Rent and occupancy	12 842	14 088	(1 246)	(8.8)
Expenses for IT	46 120	51 818	(5 698)	(11.0)
Expenses for equipment, furniture, vehicles and other installations	1 738	1 816	(78)	(4.3)
Services of third parties (lending business, investment advice, cards and payment transactions)	6 856	7 304	(448)	(6.1)
Compensation of government guarantee	7 315	6 762	553	8.2
Postage, transport and removals	2 843	3 180	(337)	(10.6)
Marketing	12 734	12 072	662	5.5
Other operating expenses	15 372	14 397	975	6.8
Total	**105 821**	**111 437**	**(5 616)**	**(5.0)**

Depreciation and Write-Offs on Fixed Assets in CHF 000s

	2012	2011	Change	in %
Depreciation on bank buildings	6 535	6 640	(105)	(1.6)
Depreciation on other real estate	27	32	(5)	(15.4)
Depreciation on other equipment	5 317	6 396	(1 080)	(16.9)
Total depreciation on fixed assets	11 879	13 069	(1 190)	(9.1)
Depreciation on non-consolidated participations	610	38	572	–
Depreciation on intangibles	18 632	16 911	1 720	10.2
Total	**31 121**	**30 018**	**1 103**	**3.7**

Valuation Adjustments, Provisions and Losses in CHF 000s

	2012	2011	Change	in %
Provisions for credit risk	2 437	474	1 962	–
Provisions for other business risks	6 462	2 997	3 465	–
Other provisions	0	0	0	–
Losses	786	1 163	(377)	(32.4)
Total	**9 684**	**4 634**	**5 050**	**–**

Extraordinary Income and Expenses in CHF 000s

	2012	2011	Change	in %
Extraordinary income				
Release of risk fund	5 000	0	5 000	–
Release of provisions no longer required	1 438	213	1 224	–
Realized gain on sale of fixed assets	732	185	547	–
Realized gain on sale of non-consolidated participations	949	0	949	–
Correction of matured positions	64	16	49	–
Settlement payments in connection with the purchase of Hyposwiss Geneva	0	10 513	(10 513)	(100.0)
Other extraordinary income	27	1	26	–
Total	**8 210**	**10 928**	**(2 718)**	**(24.9)**
Extraordinary expenses				
Losses on sale of fixed assets	40	0	40	–
Other extraordinary expenses	303	408	(105)	(25.7)
Total	**343**	**408**	**(65)**	**(15.9)**

Taxes in CHF 000s

	2012	2011	Change	in %
Federal taxes	15 305	11 213	4 092	36.5
State and communal taxes:				
– In cantons where the Group is located (St. Gallen, Zurich, Geneva and Appenzell Ausserrhoden)	22 468	16 503	5 965	36.1
– Other	4	181	(177)	(97.7)
Deferred taxes	(15)	1 848	(1 863)	–
Total	**37 763**	**29 745**	**8 017**	**27.0**

Income from ordinary banking business, broken down into domestic and foreign activity (principle: place of establishment)

The SGKB Group disposes of a subsidiary in Munich since the foundation of SGKB Deutschland AG in 2009. Hyposwiss Private Bank Geneva SA also has a branch in Lisbon, Portugal, since 2007.

These two establishments abroad generated total operating income of CHF 5.1 million in the year under review (previous year CHF 3.4 million). Their total administrative expenses amounted to CHF 14.6 million (previous year CHF 11.0 million).

Gross profit amounts to CHF –9.5 million (previous year CHF –7.7 million). These business units play a subordinate role in relation to the Group. Hence no further information is given.

Earnings per Share and Number of Shares outstanding in CHF 000s	2012	2011	Change	in %
Net profit				
Group net profit	151 358	135 740	15 618	11.5
Weighted average number of shares outstanding				
Weighted average number of shares outstanding	5 547 497	5 543 276	4 221	0.1
Diluted shares due to options outstanding	31 198	24 999	6 199	24.8
Weighted average number of shares outstanding for the diluted earnings per share	**5 578 695**	**5 568 275**	**10 420**	**0.2**
Earnings per share in CHF				
Earnings per share	27.28	24.49	3	11.4
Diluted earnings per share	27.13	24.38	3	11.3

Calculation of Return on Equity (ROE) in CHF 000s	2012	2011	Change	in %
Operating profit (interim result)	181 253	154 965	26 288	17.0
Group net profit	151 358	135 740	15 618	11.5
Equity after dividend payment, respectively after appropriation of retained earnings	1 850 454	1 779 547	70 907	4.0
Average equity for the calculation of the ROE [1]	1 815 159	1 754 817	60 342	3.4
Return on equity, pre-tax (basis: operating profit)	10.0%	8.8%	1.2	13.6
Return on equity, after tax (basis: Group net profit)	8.3%	7.7%	0.6	7.8

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

Capital adequacy computation

Eligible Capital in CHF 000s	Dec. 31, 2012	Dec. 31, 2011	Change
Gross core capital (after taking into account treasury shares which are to be deducted)	1 861 066	1 784 887	76 179
of which minority shareholding interests	0	0	0
of which "innovative" instruments	0	0	0
– Regulatory deduction	0	0	0
– Other components to be deducted from core capital	(50 697)	(70 783)	20 086
Eligible core capital	**1 810 369**	**1 714 105**	**96 265**
+ Supplementary capital and additional capital	300 000	300 000	0
– Other deductions from supplementary capital, from additional capital and from total capital	(10 157)	(11 611)	1 454
Eligible capital	**2 100 213**	**2 002 494**	**97 718**

Required Capital in CHF 000s	Dec. 31, 2012	Dec. 31, 2011	Change
Credit risk	**1 014 863**	**985 538**	**29 325**
of which price risk relating to equity-type securities in the banking book	18 997	12 269	6 728
Non-counterparty-related risks	**42 313**	**43 260**	**(947)**
Market risk	**16 247**	**10 912**	**5 335**
of which on interest rate instruments (general and specific market risk)	2 198	669	1 529
of which on equity-type securities	4 771	2 612	2 159
of which on currencies and precious metals	7 365	5 629	1 736
of which on commodities	1 912	2 001	(89)
Operational risk	**71 883**	**71 315**	**568**
Total	**1 145 306**	**1 111 026**	**34 280**
Deduction	**(1 005)**	**(1 194)**	**189**
of which overall valuation adjustments	(1 005)	(1 194)	189
of which discount for cantonal banks	0	0	0
Total	**1 144 301**	**1 109 832**	**34 469**
Surplus of eligible capital over required capital	**955 912**	**892 663**	**63 249**
Surplus in %	**83.5%**	**80.4%**	
Relation of eligible/required capital according to SA-CH regulations	**1.84**	**1.80**	
Capital ratios			
Core capital ratio (Tier 1)	12.6%	12.3%	
Total capital ratio (Tier 2)	14.7%	14.4%	

Divisional Accounts

Income Statement in CHF 000s	Retail and Commercial Banking 2012	2011	Private Banking 2012	2011	Corporate Center 2012	2011	Group 2012	2011
Net interest income [1]	110 082	128 005	14 399	21 635	188 865	139 466	313 345	289 107
Net fee and commission income	34 784	36 458	105 751	111 515	(2 077)	(2 490)	138 458	145 482
Net trading income	16 918	16 600	26 500	23 434	2 027	(1 344)	45 446	38 690
Net other income	293	191	(390)	(239)	4 434	4 712	4 337	4 664
Operating income	**162 076**	**181 254**	**146 260**	**156 345**	**193 249**	**140 344**	**501 586**	**477 943**
Personnel expenses	60 609	59 939	68 919	67 992	44 178	48 958	173 706	176 889
Other operating expenses	65 231	67 846	53 453	61 119	(12 863)	(17 527)	105 821	111 437
Administrative expenses	125 840	127 784	122 372	129 111	31 315	31 430	279 527	288 325
Gross profit	**36 236**	**53 469**	**23 888**	**27 234**	**161 934**	**108 914**	**222 058**	**189 617**
Depreciation and write-offs on fixed assets and intangibles	0	0	3 445	3 631	27 676	26 387	31 121	30 018
Valuation adjustments, provisions and losses	2 206	3 805	6 945	797	533	33	9 684	4 634
Operating profit (interim result)	**34 030**	**49 665**	**13 498**	**22 807**	**133 725**	**82 493**	**181 253**	**154 965**
Extraordinary income, net	0	0	1 475	10 591	6 393	(71)	7 868	10 520
Taxes	5 636	7 240	5 288	8 376	26 838	14 129	37 763	29 745
Group net profit	**28 394**	**42 424**	**9 685**	**25 022**	**113 279**	**68 294**	**151 358**	**135 740**

Other data in CHF 000s	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Loans to clients	19 953 816	18 974 279	2 406 419	2 297 212	0	0	22 360 235	21 271 491
Clients funds	11 359 463	10 791 067	8 542 815	8 130 735	0	0	19 902 278	18 921 802
Managed assets [2]	13 931 043	13 417 356	24 460 097	24 301 264	(232 681)	(233 687)	38 158 458	37 484 933
Headcount								
Full-time equivalents	503	502	377	360	271	273	1 151	1 135
Key Figures								
Cost/income ratio (including depreciation on fixed assets and licences)	77.6%	70.5%	85.6%	84.5%	n/a	n/a	58.1%	63.1%

[1] Financial statements based on funds transfer pricing method: Term transformation and result from interest rate hedging reported in the Corporate Center.
[2] The funds which are issued by the SGKB Group are fully disclosed in the Private Banking. The values in the Corporate Center represent the part of the own funds for which the Retail and Commercial Banking acts as client advisor. These funds therefore must be eliminated as double countings from the Group perspective.

[6] PricewaterhouseCoopers audit opinion

Report of the auditor
to the Board of Directors of
Cantonal Bank of St.Gallen Ltd.
St. Gallen

The accompanying summarised consolidated financial statements have been derived from the consolidated financial statements of the Cantonal Bank of St.Gallen Ltd., for the year ended 31 December 2012.

These summarised consolidated financial statements are the responsibility of the company's Board of Directors. Our responsibility is to express an opinion on whether these summarised consolidated financial statements (pages 32 to 46) are consistent, in all material respects, with the consolidated financial statements from which they were derived.

We have audited the consolidated financial statements of the Cantonal Bank of St.Gallen Ltd. for the year ended 31 December 2012, from which these summarised consolidated financial statements were derived, in accordance with Swiss Auditing Standards. In our report dated 21 February 2013 we expressed an unqualified opinion on the consolidated financial statements from which the summarised consolidated financial statements were derived.

In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

For a better understanding of the company's financial position and the results of its operations for the period and of the scope of our audit, the summarised consolidated financial statements should be read in conjunction with the consolidated financial statements from which the summarised consolidated financial statements were derived and our audit report thereon.

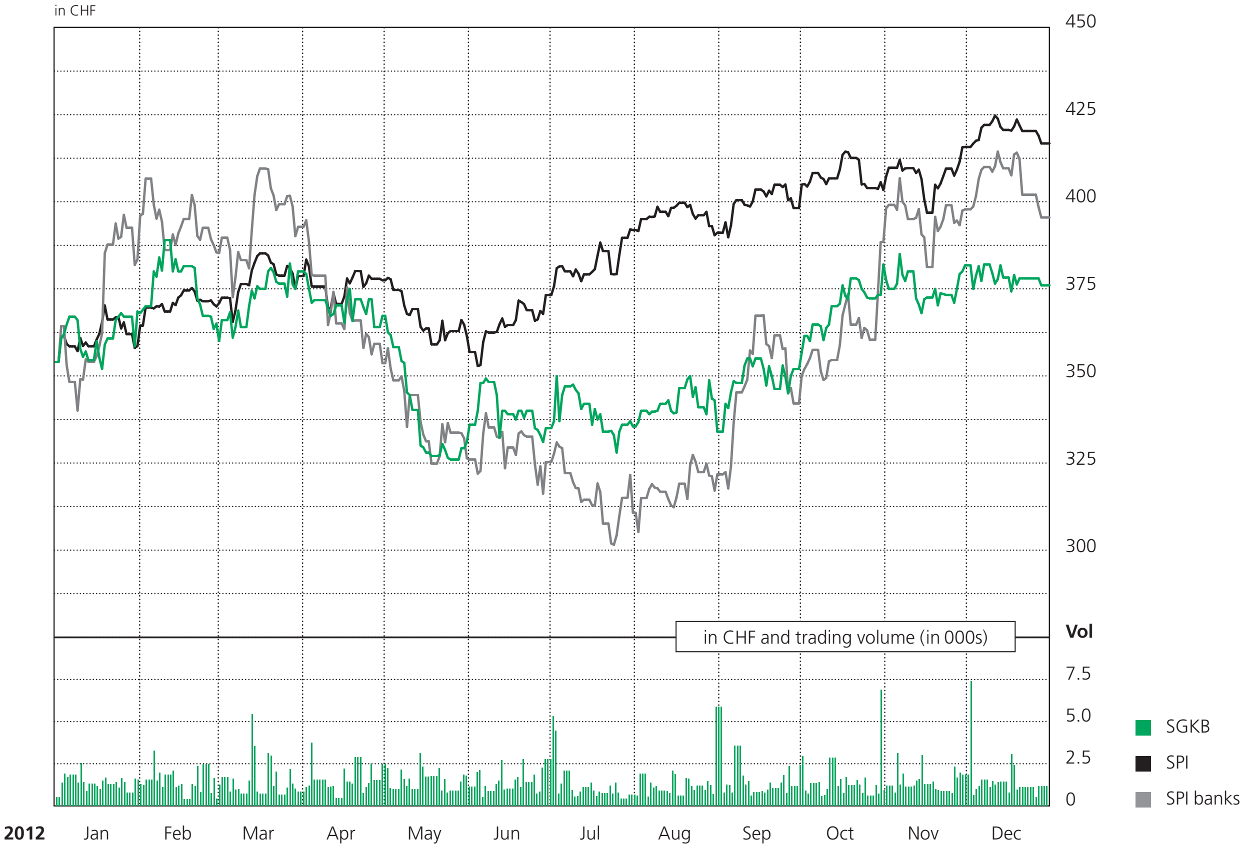
PricewaterhouseCoopers AG

Beat Rütsche	Patrick Hagen
Audit expert	Audit expert
Auditor in charge	

St. Gallen, 21 February 2013

[7] SGKB Share

The value of the SGKB stock was CHF 354.00 at the beginning of 2012 and CHF 376.00 at December 31, 2012. This corresponds to a performance of 6.2%.

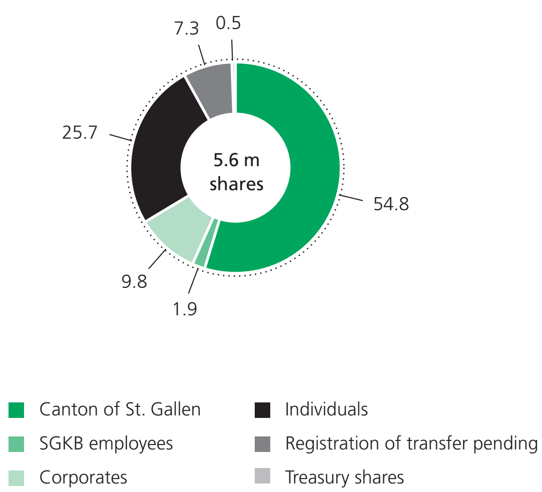


Ticker symbol: SGKN, Swiss security no.: 1'148'406, ISIN: CH0011484067, listed on: SIX Swiss Exchange, issued: April 2, 2001.

Figures and Data	December 31, 2012
Earnings per share	27.28
Dividend per share	CHF 15.00[1]
Total shares issued	5573426
Time-weighted number of dividend-bearing shares	5547497
Number of shares held by SGKB (average)	25929
Shareholders	33753
Issue price (IPO)	CHF 160.00
Market price	CHF 376.00
Market capitalization	CHF 2095.6 Mio.
Ratio of market capitalization/ shareholders' equity	108.4%
Return on equity (basis: operating profit)	10.0%
Reported shareholders' equity	CHF 1934.1 Mio.
Dividend yield	4.0%
Price-earnings ratio	13.8

[1] Recommendation of the Board of Directors for the financial year ended on December 31, 2012.

Shareholder Structure (as of December 31, 2012 in %)



Contact

[**Shareholders**]	[**Media**]
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Investor Relations	*Media Spokesman*
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Telephone +41 (0)71 231 36 92	Telephone +41 (0)71 231 32 18
Fax +41 (0)71 231 36 90	Fax +41 (0)71 231 36 90
E-mail: cornelia.gut@sgkb.ch	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	Prof. Dr. Manuel Ammann	Dr. Hans-Jürg Bernet	Martin Gehrer
Prof. Dr. Thomas A. Gutzwiller, Vice-Chairman	Dr. Adrian Rüesch	Kurt Rüegg	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 Corporate Center

Brief 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 Private Bank 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 Swiss Exchange since 2001. The Canton of St. Gallen is the majority shareholder, with 54.8% of the share capital. The parent company, SGKB, offers the full range of financial services to its clients in the cantons of St. Gallen and Appenzell 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 31 December 2012 the Group employed 1315 full-time staff. The parent company holds a state guarantee and has an Aa1 rating from Moody's.

Organisation

St.Galler Kantonalbank

[Retail and Commercial Clients] [Private Banking] [Service Center] [Corporate Center]

Board of Directors
Dr. Franz Peter Oesch, *Chairman*
Prof. Dr. Thomas A. Gutzwiller, *Vice-Chairman*
Prof. Dr. Manuel Ammann
Dr. Hans-Jürg Bernet
Martin Gehrer
Kurt Rüegg
Dr. Adrian Rüesch
Dr. Claudia Zogg-Wetter

Management Board
Roland Ledergerber, *Chairman*
Dr. Felix Buschor
Albert Koller
Daniel Lipp
Dr. Christian Schmid

Internal Audit
Raphael Sidler

General Secretariat
Adrian Kunz

[Retail and Commercial Clients]
Albert Koller

St. Gallen Market Region
Charles Lehmann

Western Market Region
Urs Cavelti

Eastern Market Region
René Walser

Switzerland Market Region
Roger Thomet

Divisional Development
Marcel Camiu

Credit Office
Bruno Katheder

Advisory and Sales Competence Center
Guido Schindler

Marketing
Thomas Rüegg

Multichannel
Paul Eggenschwiler

Product Management
Reto Fischer

Special Finance
Dario Merri

[Private Banking]
Daniel Lipp

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Bruno Holenstein

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Martin Künzler

Foreign Clients
Hans-Peter Tritschler

External Asset Managers
Tobias Wehrli

Divisional Control
Joseph M. Steiger

[Service Center]
Dr. Felix Buschor

Financial Processing
Andreas Barattiero

Trading
Roland Schneiter

IT and Organisation
Urs Halter

Infrastructure
Helmut Capol

Loan Processing
Michael Knöpfel

Payment Transactions and Client Data
Jürg Hofmann

Management Support
Massimo Ciampa

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Business Development
Dr. Cornelia Gut-Villa

Subsidiary

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[Holding]

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Board of Directors
Kurt Soentgerath
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[1] The Boards of Directors of Hyposwiss Holding, Hyposwiss Private Bank AG, Zurich, and Hyposwiss Private Bank Genève SA have identical memberships.

as of April 10, 2013

Admiration, laughter and song: some of the responses to street artists in the Abbey quarter during the Gallus celebrations, 4–5 May 2012.


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