

Communications

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Annual result of the Swiss National Bank for 2008

The Swiss National Bank's annual result for 2008 shows a loss of CHF 4.7 billion. This was primarily due to exchange rate losses on foreign currency investments. A year previously, a profit of CHF 8.0 billion had been generated; a result largely attributable to valuation gains on gold holdings.

Owing to the loss protection provided by UBS, the purchase of the illiquid assets from UBS did not affect the SNB's net result.

Volatile gold and foreign exchange prices

In recent years, the price of gold – which at times rose quite sharply – resulted in significant valuation gains for the National Bank. In the year under review, however, the SNB recorded a valuation loss of CHF 0.7 billion as at 31 December 2008. The sale of 250 tonnes of gold as announced on 14 June 2007 was concluded. Current gold holdings amount to 1,040 tonnes.

The loss on foreign currency investments came to CHF 4.4 billion, after having recorded a profit of CHF 1.3 billion a year earlier. This was due to major exchange rate losses: the pound sterling, for instance, lost over 30% against the Swiss franc. Share price losses were offset by price gains and receipts on coupons from interest-bearing securities.

The net result from Swiss franc investments amounting to CHF 0.6 billion was largely attributable to repo transactions.

Measures to stabilise the financial markets

In 2008, the SNB took various measures to stabilise the situation in the financial markets. This included expanding the volume of Swiss franc repo transactions and providing US dollar liquidity on a larger scale. In order to ensure the provision of Swiss francs to the European market, the SNB began to conclude CHF/EUR foreign exchange swaps as of October 2008. In addition, it issued its own debt certificates (SNB Bills) so as to be able to steer the money market in a more flexible manner. The range of measures undertaken led to a substantial lengthening of the SNB's balance sheet.

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Stabilisation fund

The stabilisation fund – the special purpose vehicle established to take over the illiquid assets of UBS – purchased the first tranche of assets in December 2008 amounting to USD 16.4 billion. Additional assets to the value of USD 22.7 billion are to be transferred in further tranches by the end of March 2009. The 2008 annual result also had to take into account the assets that have yet to be transferred.

The SNB conducted impairment tests for the assets already transferred; these assets were recorded as loans and receivables in accordance with internationally recognised accounting standards. The tests revealed that value adjustments of USD 996 million had to be made. The loss protection provided by UBS in the amount of USD 1.64 billion (the stabilisation fund's equity capital at year-end) for this initial tranche were able to cushion these value adjustments.

With retroactive effect from 1 October 2008, the stabilisation fund also bears all risks for the assets that have not yet been transferred. These assets were, for the most part, valued at current fair values, which led to considerable valuation losses. After taking into account the equity contribution to be provided by UBS for the purpose of loss protection for these assets, a loss of USD 890 million remained. This loss could not fully be offset by the stabilisation fund's remaining equity capital. Overall, the stabilisation fund showed a loss of USD 1.69 billion for the year ended 31 December 2008. This loss exceeds the stabilisation fund's equity contribution from UBS by roughly USD 50 million.

The SNB is, however, protected against this loss by a secondary loss protection (an option for 100 million UBS shares). Consequently, the stabilisation fund's financial situation has no impact on the SNB's annual result for 2008.

Owing to the establishment of the special purpose vehicle, the National Bank is preparing a consolidated financial statement for the first time. Apart from this change, the balance sheet and income statement have retained their previous structure. Thus, for the purposes of a year-on-year comparison, the individual financial statement of the SNB will be used.

Distribution of CHF 2.5 billion to the Confederation and the cantons

In accordance with art. 30 para. 1 of the National Bank Act, the SNB is required to set aside provisions permitting it to maintain the currency reserves at the level necessary for monetary policy. These provisions are increased in step with the growth of the economy. Pursuant to this requirement, a total of CHF 1.0 billion is set aside for the year under review.

As the SNB's results fluctuate very sharply due to market trends, the profit distributions to the Confederation and the cantons are fixed in advance in an agreement between the federal government and the SNB in order to smooth the payments in the medium term. This agreement provides for an annual distribution of CHF 2.5 billion. Any amounts remaining from the annual result are allocated to the distribution reserve so that

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payments can be made in years in which the National Bank records a loss. After the distribution for 2007, the distribution reserve stood at CHF 22.9 billion. It will be impacted by the negative result for 2008 and the annual distributions. The latter comprises the distribution in accordance with the agreement between the Confederation and the SNB as well as the payment of the legally prescribed maximum dividend of 6% to the shareholders. After taking into account the annual result and the aforementioned distributions, the distribution reserve totals CHF 14.6 billion.

Summary of results

The key figures on the annual result for the year under review are shown below.

In CHF billions	2008 Group	2007 National Bank	Change
Net result from gold	-0.70	6.45	-7.15
Net result from foreign currency investments	-4.40	1.34	-5.74
Net result from Swiss franc investments	0.55	0.43	+0.12
Net result from stabilisation fund investments	0.00		
Net result from other assets	0.02	0.03	-0.01
Operating expenses	-0.24	-0.24	-0.00
Annual result	-4.73	8.00	-12.73
Allocation to provisions for currency reserves	-1.01	-0.75	-0.26
Change to distribution reserve*	-5.74	7.24	-12.99

* Excluding distributions to shareholders and to the Confederation and cantons totalling CHF 2.50 billion.

Valuation prices	31.12.2008 In CHF	31.12.2007 In CHF	Change In percent
1 USD	1.07	1.13	-5.3%
1 EUR	1.49	1.66	-10.2%
1 GBP	1.56	2.26	-31.0%
1 kilogram of gold	29 640	30 328	-2.3%

As every year, the detailed financial statements will be presented in the *Annual Report* in spring. The General Meeting of Shareholders will take place on 17 April 2009.