

# Financial Report

# 1 Income statement and appropriation of profit for 2005

In CHF millions

		2005	2004	Change
	Item no. in Notes			
Net result from gold	01	7 456.9	-900.7	+8 357.6
Net result from foreign currency investments	02	5 327.3	1 191.2	+4 136.1
Net result from Swiss franc investments	03	296.1	304.4	-8.3
Net result from other assets	04	13.2	22.4	-9.2
<b>Gross income</b>		<b>13 093.5</b>	<b>617.3</b>	<b>+12 476.2</b>
Banknote expenses		-39.7	-41.8	+2.1
Personnel expenses	05, 06	-106.2	-99.7	-6.5
General overheads	07	-49.1	-45.6	-3.5
Depreciation on tangible assets	15	-77.3	-26.6	-50.7
<b>Net income</b>		<b>12 821.2</b>	<b>403.6</b>	<b>+12 417.6</b>
Released from provisions				
for the assignment of free assets			96.0	-96.0
Write-back of provisions				
for the assignment of free assets			21 113.2	-21 113.2
<b>Annual result</b>		<b>12 821.2</b>	<b>21 612.9</b>	<b>-8 791.7</b>
Allocation to provisions for currency reserves		-794.7	-885.3	+90.6
<b>Distributable annual profit</b>		<b>12 026.5</b>	<b>20 727.6</b>	<b>-8 701.1</b>
Allocated to (-) / released from (+)				
distribution reserve		-9 525.0	3 287.1	-12 812.1
<b>Total distribution of profit</b>		<b>2 501.5</b>	<b>24 014.7</b>	<b>-21 513.2</b>
of which				
Payment of a dividend of 6%		1.5	1.5	-
Ordinary distribution of profit to the Confederation and the cantons (Agreement of 5 April 2002)		2 500.0	2 500.0	-
Supplementary distribution of profit to the Confederation and the cantons (Agreement of 12 June 2003)			400.0	-400.0
Distribution of proceeds from the sale of 1,300 tonnes of gold (Agreement of 25 February 2005)			21 113.2	-21 113.2

## 2 Balance sheet as at 31 December 2005

In CHF millions

		31.12.2005	31.12.2004	Change
<b>Assets</b>	<b>Item no. in Notes</b>			
Gold holdings	08	25 066.0	19 485.8	+5 580.2
Claims from gold transactions	09	2 984.2	2 153.4	+830.8
Foreign currency investments	10	46 585.5	60 708.0	-14 122.5
Reserve position in the IMF	11	1 079.8	2 035.1	-955.3
International payment instruments	27	78.9	80.1	-1.2
Monetary assistance loans	12, 27	270.2	291.3	-21.1
Claims from Swiss franc repo transactions	26	26 198.6	24 502.7	+1 695.9
Lombard advances	26	-	6.6	-6.6
Claims against domestic correspondents		5.3	11.8	-6.5
Swiss franc securities	13	5 729.1	7 393.6	-1 664.5
Banknote stocks	14	137.6	144.0	-6.4
Tangible assets	15	355.5	393.3	-37.8
Participations	16, 28	122.3	96.7	+25.6
Other assets	17, 30	375.2	606.3	-231.1
<b>Total assets</b>		<b>108 988.2</b>	<b>117 908.8</b>	<b>-8 920.6</b>

		31.12.2005	31.12.2004	Change
<b>Liabilities</b>	<b>Item no. in Notes</b>			
Banknotes in circulation	18	41 366.5	39 719.3	+1 647.2
Sight deposits of domestic banks		5 852.7	6 541.7	-689.0
Liabilities towards the Confederation	19	3 126.3	2 154.8	+971.5
Sight deposits of foreign banks and institutions		483.9	329.4	+154.5
Other sight liabilities	20	189.9	165.0	+24.9
Liabilities from Swiss franc repo transactions		-	-	-
Foreign currency liabilities	21	230.8	0.5	+230.3
Other liabilities	22, 30	90.7	160.9	-70.2
Provisions for operating risks	23	11.7	8.1	+3.6
Provisions for currency reserves		37 841.0	36 955.7	+885.3
Share capital	24	25.0	25.0	-
Distribution reserve		6 948.4	10 235.5	-3 287.1
Annual result <sup>1</sup>		12 821.2	21 612.9	-8 791.7
<b>Total liabilities</b>		<b>108 988.2</b>	<b>117 908.8</b>	<b>-8 920.6</b>

1 Before allocation to provisions for currency reserves.

### 3 Changes in equity capital

In CHF millions

	Share capital	Non-paid-up share capital
<b>Equity capital as at 1 January 2004</b>	<b>50.0</b>	<b>-25.0</b>
Endowment of provisions for currency reserves pursuant to the NBA		
Released from distribution reserve		
Allocation to reserve fund		
Distribution of dividends to the shareholders		
Per capita distribution to the cantons		
Profit distribution to the Confederation and the cantons		
Reduction of nominal value	-25.0	25.0
Liquidation of reserve fund		
Annual result of the year under review		
<b>Equity capital as at 31 December 2004 (before appropriation of profit)</b>	<b>25.0</b>	<b>-</b>
<b>Equity capital as at 1 January 2005</b>	<b>25.0</b>	<b>-</b>
Endowment of provisions for currency reserves pursuant to the NBA		
Released from distribution reserve		
Distribution of dividends to the shareholders		
Profit distribution to the Confederation and the cantons		
Distribution of proceeds from the sale of 1,300 tonnes of gold		
Annual result of the year under review		
<b>Equity capital as at 31 December 2005 (before appropriation of profit)</b>	<b>25.0</b>	<b>-</b>
<b>Proposed appropriation of profit</b>		
Endowment of provisions for currency reserves pursuant to the NBA		
Allocation to distribution reserve		
Distribution of dividends to the shareholders		
Profit distribution to the Confederation and the cantons		
<b>Equity capital after appropriation of profit</b>	<b>25.0</b>	<b>-</b>

Reserve fund	Provisions for currency reserves	Distribution reserve	Annual result (net profit)	Total
<b>68.0</b>	<b>36 057.4</b>	<b>10 728.5</b>	<b>3 144.6</b>	<b>50 023.5</b>
	829.3		-829.3	
		-493.0	493.0	
1.0			-1.0	
			-1.5	-1.5
			-5.8	-5.8
			-2 800.0	-2 800.0
-69.0	69.0		21 612.9	21 612.9
-	<b>36 955.7</b>	<b>10 235.5</b>	<b>21 612.9</b>	<b>68 829.1</b>
-	<b>36 955.7</b>	<b>10 235.5</b>	<b>21 612.9</b>	<b>68 829.1</b>
	885.3		-885.3	
		-3 287.1	3 287.1	
			-1.5	-1.5
			-2 900.0	-2 900.0
			-21 113.2	-21 113.2
			12 821.2	12 821.2
-	<b>37 841.0</b>	<b>6 948.4</b>	<b>12 821.2</b>	<b>57 635.6</b>
	794.7		-794.7	
		9 525.0	-9 525.0	
			-1.5	-1.5
			-2 500.0	-2 500.0
-	<b>38 635.7</b>	<b>16 473.4</b>	-	<b>55 134.1</b>

## 4 Notes to the accounts as at 31 December 2005

### 4.1 Accounting and valuation principles

#### General

#### General principles

The present Financial Report has been drawn up in accordance with the provisions of the National Bank Act (NBA), the Swiss Code of Obligations (SCO) and – with due account being taken of circumstances specific to the National Bank – in compliance with the Swiss GAAP FER accounting principles. The Financial Report gives a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER.

As a company listed in the main segment of the Swiss stock exchange SWX, the National Bank would be obliged to present its accounts in accordance with the International Financial Reporting Standards (IFRS) or the United States Generally Accepted Accounting Principles (US GAAP). Citing art. 27 NBA, the National Bank requested to be exempted from this obligation. By letter of 5 November 2004, the SWX granted the exempt status.

#### Changes from previous year

The employee benefits obligations statement was brought in line with the revised Swiss GAAP FER 16 standard.

#### Cash flow statement

The National Bank does not prepare a cash flow statement. Since the National Bank can autonomously create money as a central bank, such a statement is not meaningful.

#### Interim reporting

Since the 2005 financial year, the National Bank has been publishing quarterly interim results in accordance with Swiss GAAP FER 12.

#### Segment information

The National Bank operates exclusively as a central bank. For this reason, the Financial Report does not include any segment information.

#### Consolidated financial report

The National Bank does not hold any material participating interests which are subject to consolidation according to Swiss GAAP FER 2. For this reason, the Annual Report does not include a consolidated financial report.

#### Recording of transactions

All business transactions are recorded and valued on the day the transaction is concluded (trade day accounting). However, they are only posted on the value date. Transactions completed by the balance-sheet date with a value date in the future are stated under off-balance-sheet transactions.

#### Accrual reporting

Expenses are recognised in the financial year in which they are incurred, and income in the financial year in which it is earned.

#### Profit tax

Pursuant to art. 8 NBA, the National Bank is exempt from profit taxes. Tax exemption applies to both direct federal taxes and cantonal and municipal taxes.

#### Transactions with related parties

Shareholders of the National Bank have very limited rights; for this reason, they cannot exert any influence on financial and operative decisions. No material transactions are concluded with members of the SNB's executive bodies or the Bank Council.

## Balance sheet and income statement

Gold and negotiable financial instruments are stated in the balance sheet at market value or fair value. Tangible assets are stated at their acquisition cost less required depreciation. Other items are stated at their nominal value inclusive of accrued interest. Foreign currency items are translated at year-end rates. Income and expenses in foreign currency are translated at the exchange rates applicable at the time the income/expenses was/were posted to the accounts. All valuation changes are reported in the income statement.

Physical gold holdings, consisting of gold ingots and gold coins, are stored at various locations in Switzerland and abroad. These holdings are stated at market value. Valuation gains and losses are reported in *net result from gold*.

In managing its investment portfolio, the National Bank lends a part of its gold holdings to first-class domestic and foreign financial institutions. The National Bank receives interest on the gold loaned. Gold lending transactions are effected on a secured and unsecured basis. The gold price risk remains with the National Bank. Gold lent is entered in the balance sheet under *claims from gold transactions* and stated at market value inclusive of accrued interest. The valuation result and interest are stated in *net result from gold*.

In *foreign currency investments*, negotiable securities (money market paper, bonds and shares) as well as credit balances (sight deposit accounts, call money, time deposits and repos) denominated in foreign currency are recorded. Securities, which make up the bulk of the foreign currency investments, are stated at market value inclusive of accrued interest. The credit balances are stated at their nominal value inclusive of accrued interest. Gains and losses from revaluation at market value, interest earnings and exchange rate gains and losses are stated in *net result from foreign currency investments*.

Securities lending transactions are concluded as part of the management of foreign currency investments. The SNB loans securities from its own portfolio in exchange for collateral securities. It receives interest on the securities loaned. Loaned securities remain in the *foreign currency investments* item and are disclosed in the notes to the accounts. Interest income from securities lending is stated in *net result from foreign currency investments*. The National Bank does not engage in securities borrowing.

The reserve position in the International Monetary Fund (IMF) comprises the Swiss quota less the IMF's sight balances at the National Bank. The quota is Switzerland's portion of the IMF capital financed by the National Bank. It is held in the form of Special Drawing Rights (SDRs), which are the IMF's currency. A part of the quota was not transferred to the IMF, but remained in a sight deposit account. The IMF can dispose of these assets for its transactions at any time. The income from interest on the reserve position as well as the exchange rate gains and losses from revaluation of the Special Drawing Rights are stated in *net result from foreign currency investments*.

Summary

Gold holdings

Claims from gold transactions

Foreign currency investments

Securities lending

Reserve position in the IMF



**International payment instruments**

Claims from two-way arrangements with the IMF are stated in *international payment instruments*. The National Bank has committed itself to purchase up to SDR 400 million against foreign currency. These sight deposits attract interest at market conditions. Interest earnings and exchange rate gains and losses are stated in *net result from foreign currency investments*.

**Monetary assistance loans**

In the context of international cooperation, Switzerland may participate in the IMF's internationally coordinated, medium-term balance-of-payments aid. It may do so in the form of a credit tranche or by granting bilateral monetary assistance loans to countries with balance of payments problems. In addition to one bilateral monetary assistance loan, currently outstanding claims include those under the Poverty Reduction and Growth Facility (PRGF). This is a fiduciary fund administered by the IMF which finances long-term loans at reduced interest rates to poor developing countries. The Confederation guarantees the interest and principal repayments both on the bilateral loans and on Switzerland's participation in the PRGF credit account. These loans are stated at their nominal value inclusive of accrued interest. Interest earnings and exchange rate gains and losses are stated in *net result from foreign currency investments*.

**Claims and liabilities from repo transactions in Swiss francs**

Repo transactions in Swiss francs are the National Bank's major monetary policy instrument. Repo transactions are used to provide the banking system with liquidity or to withdraw liquidity from it. Claims from repo transactions are fully backed by securities from the SNB General Collateral Basket. Claims and liabilities from repo transactions are stated at their nominal value inclusive of accrued interest. Interest earnings and expenses are stated in *net result from Swiss franc investments*.

**Lombard advances**

Lombard loans were used by the banks to bridge unforeseeable liquidity shortfalls in the short term. These claims attracted interest at the call money rate plus 200 basis points. They were stated at their nominal value inclusive of accrued interest. Interest earnings were stated in *net result from Swiss franc investments*. Since 1 January 2006, the Lombard facility has no longer been offered and has been superseded by special-rate repo transactions.

**Claims against domestic correspondents**

On behalf of the National Bank, domestic correspondents perform local cash redistribution transactions and cover the cash requirements of federal agencies and enterprises associated with the Federal Government (Swiss Post and Swiss Federal Railways). This results in short-term claims of the National Bank which attract interest at the call money rate. They are stated at their nominal value inclusive of accrued interest. Interest earnings are stated in *net result from Swiss franc investments*.

**Swiss franc securities**

Swiss franc securities are made up exclusively of negotiable bonds. They are stated at their nominal value inclusive of accrued interest. Valuation gains/losses and interest earnings are stated in *net result from Swiss franc investments*.

**Banknote stocks**

Freshly printed banknotes which have never been put into circulation are capitalised at their acquisition cost and stated in *banknote stocks*. At the time a banknote first enters into circulation, its acquisition cost is charged to *banknote expenses*.

Tangible assets comprise land and buildings, fixed assets under construction, and sundry tangible assets. Software is also included in the tangible assets. For materiality reasons, the intangible asset software is not shown separately in the balance sheet, but only disclosed in the notes to the accounts. Day-to-day maintenance expenses for real estate and sundry tangible assets are stated in *general overheads*. The minimal value for capitalisation is CHF 1,000. Acquisitions below this amount are charged directly to *general overheads*. Tangible assets are stated at their acquisition cost less required depreciation. Depreciation is always carried out on a straight-line basis. In the case of real estate (including conversions), sub-categories were redefined in the 2005 financial year and assets were reallocated. Previously, buildings and the corresponding land were recorded under the heading "real estate" and written down over 100 years. In future, land will no longer be written down, while buildings are written down over 50 years. Conversions are written down over 10 years and also subsumed under the heading "land and buildings". These changes have no major impact.

#### Period of depreciation

Land and buildings	
Land	no depreciation
Buildings (building structure)	50 years
Conversions (technical equipment and interior finishing work)	10 years
Fixed assets under construction	
Software	3 years
Sundry tangible assets	
Hardware	3 years
Machinery and equipment	5–10 years
Furnishings	5 years
Motor vehicles	6–12 years

The recoverable value is checked periodically. If this results in a decrease in value, an impairment loss is recorded. Scheduled and unscheduled depreciations are reported in the income statement item *depreciation on tangible assets*.

Profits and losses from the sale of tangible assets are stated in *net result from other assets*.

Minority interests in excess of 20% qualify as an associated company and are valued according to the equity method. The remaining minority interests in companies in which the National Bank exercises no material influence or non-essential majority interests are valued at acquisition cost less required value adjustments. The entire income from participations is stated in *net result from other assets*.

**Derivative financial instruments**

The National Bank uses foreign currency forward transactions, futures and interest rate swaps to manage its currency reserves. All derivative financial instruments are stated at market value. Official prices are applied, if available. If not, fair value is established in accordance with generally recognised financial mathematical methods. Valuation changes are recorded in the income statement and stated in *net result from foreign currency investments*. Unrealised gains and losses (positive and/or negative replacement values) are stated in *other assets* or *other liabilities*.

**Accrued expenses and deferred income**

The National Bank does not state accrued expenses and deferred income as separate items in its balance sheet. For materiality reasons, they are reported in *other assets* or *other liabilities* and are disclosed in the notes to the accounts.

**Banknotes in circulation**

The *banknotes in circulation* item shows the nominal value of all banknotes held by the public and by the banks, including recalled, still exchangeable notes from previous series.

**Sight deposits of domestic banks**

Sight deposits of domestic banks in Swiss francs form the basis on which the National Bank controls monetary policy. They also facilitate cashless payments in Switzerland. These sight deposits are non-interest-bearing accounts which are stated at their nominal value.

**Liabilities towards the Confederation**

The National Bank holds a sight deposit account for the Confederation which bears interest at the call money rate. Until 31 December 2005, interest was payable for amounts up to CHF 600 million. With effect from 1 January 2006, this amount was lowered to CHF 200 million. Moreover, the Confederation may place time deposits with the National Bank at market rates. The liabilities towards the Confederation are stated at their nominal value inclusive of accrued interest. Interest expenses are recorded in *net result from Swiss franc investments*.

**Sight deposits of foreign banks and institutions**

The National Bank holds sight deposit accounts for foreign banks and institutions which facilitate payment transactions in Swiss francs. These sight deposits do not bear interest and are stated at their nominal value.

**Other sight liabilities**

Sight deposits of non-banks, accounts of active and retired staff members and of the SNB's pension funds as well as liabilities in the form of bank cheques drawn on the National Bank but not yet cashed are stated in *other sight liabilities*. They are stated at their nominal value inclusive of accrued interest. Interest expenses are stated in *net result from Swiss franc investments*.

**Foreign currency liabilities**

*Foreign currency liabilities* comprise liabilities towards the Confederation and repo transactions related to the management of foreign currency investments. They are stated at their nominal value inclusive of accrued interest. Interest expenses and exchange rate gains and losses are stated in *net result from foreign currency investments*.

**Provisions for operating risks**

Provisions for operating risks comprise reorganisation and other provisions pursuant to Swiss GAAP FER 23. The bulk of reorganisation provisions are financial obligations to staff members taking early retirement as a result of reorganisation.

Art. 30 para. 1 NBA stipulates that the National Bank set up provisions permitting it to maintain the currency reserves at a level necessary for monetary policy. In so doing, it must take into account economic developments in Switzerland. Under the profit distribution agreement concluded between the Federal Department of Finance (FDF) and the SNB on 5 April 2002, the provisions for currency reserves must expand in line with the growth in nominal gross domestic product. These special-law provisions are equity-like in nature and are incorporated in the table "Changes in equity capital". The allocation is made as a part of the profit appropriation.

**Provisions for currency reserves**

With the exception of the dividend which – pursuant to the NBA – may not exceed 6%, the Confederation and the cantons are entitled to the total remaining profit after adequate provisions for currency reserves have been set aside. To achieve a steady flow of payments in the medium term, the profit distributions are fixed in advance in an agreement concluded between the Confederation and the National Bank. The distribution reserve contains the as yet non-distributed profits.

**Distribution reserve**

The National Bank's pension plans comprise two staff pension fund schemes under the defined benefit system. Contributions are made by the National Bank and the employees. Ordinary employee contributions are 8% of the insured salary and those of the SNB 16%. In accordance with Swiss GAAP FER 16, any share of actuarial surplus or deficit is shown on the asset side or reported as a liability.

**Pension schemes**

#### **Off-balance-sheet transactions**

Contingent liabilities are obligations entered into in the past as a result of contracts, laws or implied actions. A resultant future outflow of funds is possible, but will probably not materialise. The maximum amount owed from contingent liabilities is stated in the notes under off-balance-sheet transactions.

**Contingent liabilities**

Fiduciary transactions encompass investments which the National Bank makes in its own name but exclusively on the basis of a written contract for the account and at the risk of the Confederation. These transactions are shown in the notes at market value under off-balance-sheet transactions.

**Fiduciary transactions**

Irrevocable undertakings include credit arrangements the National Bank has granted to the IMF in the context of international cooperation and credit lines extended to banks in the form of liquidity-shortage financing facilities (Lombard advances and special-rate repos). The maximum of resulting liabilities are stated in the notes under off-balance-sheet transactions.

**Irrevocable undertakings**

## 4.2 Foreign currency exchange rates and gold price

	31.12.2005 CHF	31.12.2004 CHF	Change In percent
1 US Dollar (USD)	1.32	1.13	+16.8
1 euro (EUR)	1.56	1.54	+1.3
1 British pound (GBP)	2.27	2.18	+4.1
100 Danish kroner (DKK)	20.86	20.74	+0.6
1 Canadian dollar (CAD)	1.13	0.94	+20.2
100 Japanese yen (JPY)	1.12	1.10	+1.8
1 Special Drawing Right (SDR)	1.88	1.76	+6.8
1 kilogram of gold	21 692.03	15 939.44	+36.1

## 4.3 Notes to the income statement and balance sheet

### Item no. 01

### Net result from gold

In CHF millions	2005	2004	Change
Net result from changes in market value	7 438.7	-927.6	+8 366.3
Interest income from gold lending transactions	34.9	22.8	+12.1
Net result from hedging transactions <sup>1</sup>	-16.7	4.2	-20.9
<b>Total</b>	<b>7 456.9</b>	<b>-900.7</b>	<b>+8 357.6</b>

<sup>1</sup> Foreign currency forward transactions concluded to hedge proceeds from gold sales in US dollars.

## Net result from foreign currency investments

Item no. 02

Breakdown of net result by type	2005	2004	Change
In CHF millions			
Interest and capital gain/loss	2 090.9	3 203.6	-1 112.7
Dividend income and price gain/loss	741.7	-	+741.7
Interest expenses	-1.0	-12.5	+11.5
Exchange rate gain/loss	2 507.3	-1 989.5	+4 496.8
Asset management and safe custody account fees	-11.6	-10.4	-1.2
<b>Total</b>	<b>5 327.3</b>	<b>1 191.2</b>	<b>+4 136.1</b>

Breakdown of net result by origin	2005	2004	Change
In CHF millions			
Foreign currency investments	5 138.1	1 282.5	+3 855.6
Reserve position in the IMF	160.6	-70.6	+231.2
International payment instruments	4.0	0.6	+3.4
Monetary assistance loans	25.7	-8.8	+34.5
Foreign currency liabilities	-1.0	-12.5	+11.5
<b>Total</b>	<b>5 327.3</b>	<b>1 191.2</b>	<b>+4 136.1</b>

Breakdown of net result by currency	2005	2004	Change
In CHF millions			
USD	2 574.4	-615.0	+3 189.4
EUR	1 413.3	1 575.6	-162.3
GBP	530.9	156.4	+374.5
DKK	127.6	179.0	-51.4
CAD	281.3	54.1	+227.2
JPY	221.6	-70.2	+291.8
SDR	189.6	-79.1	+268.7
Other	-11.4	-9.7	-1.7
<b>Total</b>	<b>5 327.3</b>	<b>1 191.2</b>	<b>+4 136.1</b>

Breakdown of exchange rate gain/loss by currency	2005	2004	Change
In CHF millions			
USD	1 916.8	-1 293.2	+3 210.0
EUR	143.5	-313.5	+457.0
GBP	192.1	-157.2	+349.3
DKK	11.8	-11.2	+23.0
CAD	205.6	-23.7	+229.3
JPY	-107.0	-70.2	-36.8
SDR	144.5	-121.2	+265.7
Other	0.0	0.6	-0.6
<b>Total</b>	<b>2 507.3</b>	<b>-1 989.5</b>	<b>+4 496.8</b>

## Net result from Swiss franc investments

Breakdown by type	2005	2004	Change
In CHF millions			
Interest and capital gain/loss	324.3	327.2	-2.9
Interest expenses	-25.3	-19.4	-5.9
Trading and safe custody account fees	-2.9	-3.3	+0.4
<b>Total</b>	<b>296.1</b>	<b>304.4</b>	<b>-8.3</b>

Breakdown by origin	2005	2004	Change
In CHF millions			
Swiss franc securities	184.0	265.1	-81.1
Swiss franc repo transactions	137.3	58.7	+78.6
Other assets	0.2	0.1	+0.1
Liabilities towards the Confederation	-19.3	-13.0	-6.3
Other sight liabilities	-5.9	-6.4	+0.5
<b>Total</b>	<b>296.1</b>	<b>304.4</b>	<b>-8.3</b>

## Net result from other assets

Item no. 04

In CHF millions	2005	2004	Change
Commission income	14.5	16.3	-1.8
Commission expenses	-11.6	-15.5	+3.9
Income from participations	6.0	17.1	-11.1
Income from real estate	3.7	3.7	-
Other ordinary income	0.6	0.7	-0.1
<b>Total</b>	<b>13.2</b>	<b>22.4</b>	<b>-9.2</b>

## Personnel expenses

Item no. 05

In CHF millions	2005	2004	Change
Wages, salaries and allowances	77.9	78.3	-0.4
Social insurance	16.9	15.4	+1.5
Other personnel expenses <sup>1</sup>	11.4	6.0	+5.4
<b>Total</b>	<b>106.2</b>	<b>99.7</b>	<b>+6.5</b>

<sup>1</sup> Including reorganisation costs (cf. p. 78).

## Employee benefit obligations<sup>1</sup>

Item no. 06

Share of actuarial surplus of pension plans <sup>2</sup>	31.12.2005	31.12.2004	Change
In CHF millions			
Overfunding in accordance with Swiss GAAP FER 26	127.5	102.0	+25.5
SNB's share of actuarial surplus	-	-	-

Employee benefit expenses	2005	2004	Change
In CHF millions			
Employer contributions	11.3	9.9	+1.4
Change in share of actuarial surplus	-	-	-
<b>Employee benefit expenses as part of personnel expenses</b>	<b>11.3</b>	<b>9.9</b>	<b>+1.4</b>

<sup>1</sup> Pension funds do not have any employer contribution reserves.  
<sup>2</sup> Overfunding (actuarial surplus) is not used in favour of the employer but in favour of the insured.



## Item no. 07

## General overheads

	2005	2004	Change
In CHF millions			
Premises	11.5	9.0	+2.5
Maintenance of mobile tangible assets and software	7.5	8.5	-1.0
Consulting and other third-party support	5.1	3.7	+1.4
Administrative expenses	12.5	11.9	+0.6
Operating contributions <sup>1</sup>	7.0	6.6	+0.4
Other general overheads	5.5	5.9	-0.4
<b>Total</b>	<b>49.1</b>	<b>45.6</b>	<b>+3.5</b>

1 Mainly contributions towards the Study Center Gerzensee (a Swiss National Bank foundation).

## Item no. 08

## Gold

Breakdown by type	31.12.2005		31.12.2004	
	Tonnes	CHF millions	Tonnes	CHF millions
Gold ingots	980.3	21 265.7	1 047.3	16 693.3
Gold coins	175.2	3 800.3	175.2	2 792.5
<b>Total</b>	<b>1 155.5</b>	<b>25 066.0</b>	<b>1 222.5</b>	<b>19 485.8</b>

Breakdown by purpose	31.12.2005		31.12.2004	
	Tonnes	CHF millions	Tonnes	CHF millions
Monetary gold	1 155.5	25 066.0	1 158.4	18 463.5
Gold from free assets	-	-	64.1	1 022.3
<b>Total</b>	<b>1 155.5</b>	<b>25 066.0</b>	<b>1 222.5</b>	<b>19 485.8</b>

Free assets: Gold sales per annum <sup>1</sup>	Amount sold	Sales proceeds	Price per kilogram
	Tonnes	CHF millions	CHF
2000	170.8	2 589.9	15 167
2001	220.8	3 252.8	14 730
2002	281.9	4 376.0	15 524
2003	283.4	4 458.8	15 733
2004	279.0	4 567.6	16 372
2005	64.1	1 039.7	16 210
<b>Total</b>	<b>1 300.0</b>	<b>20 284.8<sup>2</sup></b>	<b>15 604</b>

1 Excluding net result from hedging transactions.

2 In spring 2005, the special distribution to the Confederation and the cantons totalled

CHF 21,113.2 million. This amount included the proceeds from gold sales concluded until the end of 2004, the net result from hedging

transactions as well as the market value of the as yet unsold 64.1 tonnes of gold (cf. 97<sup>th</sup> Annual Report 2004, p. 124).

## Claims from gold transactions

Item no. 09

	31.12.2005		31.12.2004	
	Tonnes	CHF millions	Tonnes	CHF millions
Claims from unsecured gold lending	10.9	237.8	31.9	514.6
Claims from secured gold lending <sup>1</sup>	123.5	2 743.9	99.8	1 637.4
Claims on metal accounts	0.1	2.4	0.1	1.4
<b>Total</b>	<b>134.6</b>	<b>2 984.2</b>	<b>131.8</b>	<b>2 153.4</b>

<sup>1</sup> Secured by securities eligible for repo transactions (CHF Basket) with a market value of CHF 2,857.8 million (2004: CHF 1,865.9 million).

## Foreign currency investments

Item no. 10

Breakdown by investment type	31.12.2005	31.12.2004	Change
In CHF millions			
Sight deposits and call money	1 265.8	1 201.4	+64.4
Time deposits	595.2	362.7	+232.5
Money market paper	2 648.8	2 680.3	-31.5
Bonds <sup>1</sup>	38 408.6	56 463.7	-18 055.1
Equities	3 667.0	-	+3 667.0
<b>Total</b>	<b>46 585.5</b>	<b>60 708.0</b>	<b>-14 122.5</b>

<sup>1</sup> Of which CHF 71.7 million (2004: CHF 320.3 million) lent under securities lending operations.

Breakdown by borrower category	31.12.2005	31.12.2004	Change
In CHF millions			
Governments	31 988.7	45 546.8	-13 558.1
Monetary institutions <sup>1</sup>	1 675.5	1 919.7	-244.2
Corporations	12 921.2	13 241.5	-320.3
<b>Total</b>	<b>46 585.5</b>	<b>60 708.0</b>	<b>-14 122.5</b>

<sup>1</sup> Investments at the BIS, at central banks and multilateral development banks.

Breakdown by currency <sup>1</sup>	31.12.2005	31.12.2004	Change
In CHF millions			
USD	16 281.8	20 405.0	-4 123.2
EUR	21 570.2	28 854.9	-7 284.7
GBP	4 816.9	6 944.8	-2 127.9
DKK	2 002.6	3 130.5	-1 127.9
CAD	1 045.7	1 371.8	-326.1
JPY	867.5	0.2	+867.3
Other	0.7	0.7	-0.0
<b>Total</b>	<b>46 585.5</b>	<b>60 708.0</b>	<b>-14 122.5</b>

<sup>1</sup> No account being taken of foreign exchange derivatives. For a breakdown of currency positions including foreign exchange derivatives, cf. Risks posed by financial instruments, p. 113.

**Item no. 11****Reserve position in the IMF**

	31.12.2005	31.12.2004	Change
In CHF millions			
Swiss quota in the IMF <sup>1</sup>	6 505.4	6 080.7	+424.7
less: IMF's Swiss franc sight balances at the National Bank	-5 425.6	-4 045.6	-1 380.0
<b>Total</b>	<b>1 079.8</b>	<b>2 035.1</b>	<b>-955.3</b>

<sup>1</sup> This quota amounts to SDR 3,458.5 million: change due entirely to exchange rates.

**Item no. 12****Monetary assistance loans**

	31.12.2005	31.12.2004	Change
In CHF millions			
Bilateral loan to Bulgaria	22.4	22.2	+0.2
PRGF credit facility	166.7	193.7	-27.0
Interim PRGF credit facility <sup>1</sup>	81.2	75.4	+5.8
<b>Total</b>	<b>270.2</b>	<b>291.3</b>	<b>-21.1</b>

<sup>1</sup> Undrawn loan commitments cf. p. 110, Item no. 27.

## Swiss franc securities

Item no. 13

Breakdown by borrower category	31.12.2005	31.12.2004	Change
In CHF millions			
Governments	3 261.3	4 368.0	-1 106.7
Corporations	2 467.8	3 025.6	-557.8
Total	5 729.1	7 393.6	-1 664.5

Breakdown of the <i>Governments</i> borrower category	31.12.2005	31.12.2004	Change
In CHF millions			
Swiss Confederation	1 876.4	2 249.4	-373.0
Cantons	580.2	862.4	-282.2
Municipalities	336.6	417.4	-80.8
Foreign states	468.1	838.8	-370.7
Total	3 261.3	4 368.0	-1 106.7

Breakdown of the <i>Corporations</i> borrower category	31.12.2005	31.12.2004	Change
In CHF millions			
Domestic banks	19.1	137.7	-118.6
Domestic mortgage bond institutions	787.6	1 063.2	-275.6
Other domestic corporations <sup>1</sup>	135.8	126.4	+9.4
Foreign corporations <sup>2</sup>	1 525.2	1 698.2	-173.0
Total	2 467.8	3 025.6	-557.8

1 International organisations headquartered in Switzerland.  
2 Banks, international organisations and other corporations.

## Banknote stocks

Item no. 14

In CHF millions	Banknote stocks
Position as at 1 January 2004	147.0
Additions	37.4
Disposals	-40.4
Position as at 31 December 2004	144.0
Position as at 1 January 2005	144.0
Additions	31.3
Disposals	-37.6
Position as at 31 December 2005 <sup>1</sup>	137.6

1 Of which CHF 26.8 million advance payments.

## Tangible assets

	Land and buildings <sup>1</sup>	Assets under construction <sup>2</sup>	Software	Sundry tangible assets <sup>3</sup>	Total
In CHF millions					
<b>Historical cost</b>					
1 January 2005	375.0	24.0	24.0	68.0	491.1
Additions	15.7	11.1	8.2	4.4	39.4
Disposals	–	–	–9.6	–6.2	–15.8
Reclassified	20.0	–20.1	–	0.1	
31 December 2005	410.7	15.0	22.6	66.3	514.7
<b>Cumulative value adjustments</b>					
1 January 2005	38.7		10.7	48.3	97.6
Scheduled depreciation	9.9		9.0	9.1	28.0
Impairment loss <sup>4</sup>	49.3		–	–	49.3
Disposals	–		–9.6	–6.2	–15.8
Reclassified	–		–	–	
31 December 2005	97.9		10.1	51.2	159.2
<b>Net book values</b>					
1 January 2005	336.4	24.0	13.3	19.7	393.3
31 December 2005	312.8	15.0	12.5	15.1	355.5

1 Insured value: CHF 374.5 million (2004: CHF 362.6 million).

2 Renovation projects at the Zurich head office.

3 Insured value: CHF 83.3 million (2004: CHF 83.3 million).

4 In the 2005 financial year, the buildings underwent a periodic impairment test. As a result, an impairment loss was recorded for two buildings.

## Participations (not consolidated)

Item no. 16

In CHF millions	Orell Füssli <sup>1</sup>	BIS <sup>2</sup>	Others	Total
Equity participation	33%	3%		
Book value as at 1 January 2004	27.0	60.9	0.6	88.6
Investments	-	-	-	-
Divestments	-	-	-	-
Valuation changes	8.1	-	-	8.1
Book value as at 31 December 2004	35.1	60.9	0.6	96.7
Book value as at 1 January 2005	35.1	60.9	0.6	96.7
Investments	-	29.3	-	29.3
Divestments	-	-	-	-
Valuation changes	-3.7	-	-	-3.7
Book value as at 31 December 2005	31.4	90.2	0.6	122.3

1 Orell Füssli Holding Ltd, Zurich, whose subsidiary Orell Füssli Security Documents Ltd produces Switzerland's bank-notes.

2 The interest in the Bank for International Settlements (BIS) is held by reason of collaboration on monetary policy. The equities purchased

during the year under review originate from newly issued shares the BIS had repurchased from private investors in 2001.

## Other assets

Item no. 17

In CHF millions	31.12.2005	31.12.2004	Change
Coins <sup>1</sup>	211.1	266.4	-55.3
Foreign notes	0.7	0.7	-
Other accounts receivable	42.9	19.6	+23.3
Prepayments and accrued income	7.1	3.2	+3.9
Cheques and bills of exchange (collection business)	1.2	0.3	+0.9
Positive replacement values <sup>2</sup>	112.3	316.1	-203.8
Total	375.2	606.3	-231.1

1 Commemorative coins acquired from Swissmint which are placed in circulation by the National Bank.

2 Positive replacement values correspond to unrealised gains on derivative financial instruments and outstanding spot transactions (cf. p. 112, Item no. 30).

**Item no. 18****Banknotes in circulation**

<b>Breakdown by issue</b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>Change</b>
In CHF millions			
8 <sup>th</sup> issue	39 654.8	37 852.9	+1 801.9
6 <sup>th</sup> issue <sup>1</sup>	1 711.8	1 866.3	-154.5
<b>Total</b>	<b>41 366.5</b>	<b>39 719.3</b>	<b>+1 647.2</b>

1 Exchangeable at the National Bank until 30 April 2020.

**Item no. 19****Liabilities towards the Confederation**

	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>Change</b>
In CHF millions			
Sight liabilities	67.2	54.3	+12.9
Term liabilities	3 059.0	2 100.5	+958.5
<b>Total</b>	<b>3 126.3</b>	<b>2 154.8</b>	<b>+971.5</b>

**Item no. 20****Other sight liabilities**

	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>Change</b>
In CHF millions			
Sight deposits of non-banks	19.6	20.5	-0.9
Deposit accounts <sup>1</sup>	169.8	144.0	+25.8
Cheque liabilities <sup>2</sup>	0.5	0.5	-
<b>Total</b>	<b>189.9</b>	<b>165.0</b>	<b>+24.1</b>

1 These mainly comprise accounts of active and retired employees, and liabilities towards SNB pension schemes.

Current account liabilities towards the latter amounted to CHF 16.8 million on 31 December 2005 (2004:

CHF 16.2 million).  
2 Bank cheques drawn on the National Bank but not yet cashed.

## Foreign currency liabilities

Item no. 21

In CHF millions	31.12.2005	31.12.2004	Change
Sight liabilities towards the Confederation	0.3	0.5	-0.2
Liabilities from repo transactions <sup>1</sup>	230.6	-	+230.6
<b>Total</b>	<b>230.8</b>	<b>0.5</b>	<b>+230.3</b>

<sup>1</sup> Relating to the management of foreign currency investments.

## Other liabilities

Item no. 22

In CHF millions	31.12.2005	31.12.2004	Change
Other liabilities	6.4	10.8	-4.4
Accrued liabilities and deferred income	6.2	5.3	+0.9
Negative replacement values <sup>1</sup>	78.2	144.7	-66.5
<b>Total</b>	<b>90.7</b>	<b>160.9</b>	<b>-70.2</b>

<sup>1</sup> Negative replacement values correspond to unrealised losses on derivative financial instruments and outstanding spot transactions (cf. p. 112, Item no. 30).

## Provisions for operating risks

Item no. 23

In CHF millions	Provisions due to reorganisation	Other provisions	Total
Book value as at 1 January 2004	11.5	-	11.5
Formation	0.7	0.7	1.3
Release	-4.5	-	-4.5
Write-back	-0.2	-	-0.2
Book value as at 31 December 2004	7.5	0.7	8.1
Position as at 1 January 2005	7.5	0.7	8.1
Formation	5.6	0.3	5.9
Release	-2.2	-0.1	-2.4
Write-back	-	-0.0	-0.0
Book value as at 31 December 2005	10.9	0.8	11.7



## Share capital

## Shares

	2005	2004
Share capital in CHF	25 000 000	25 000 000
Nominal value in CHF	250	250
Number of shares	100 000	100 000
Symbol/ISIN <sup>1</sup>	SNBN/CH0001319265	
Closing price as at 31 December in CHF	1 130	1 000
Annual high in CHF	1 205	1 275
Annual low in CHF	914	910
Average daily trading volume in number of shares	83	140

<sup>1</sup> The SNB share is listed in the main segment of the Swiss stock exchange (SWX).

## Shareholder structure

	Number of shares	In percentage of shares registered
<b>2,309 private shareholders with a total of</b>	<b>35 589</b>	<b>39.5<sup>1</sup></b>
of whom 1,993 shareholders with 1–10 shares each		
of whom 283 shareholders with 11–100 shares each		
of whom 13 shareholders with 101–200 shares each		
of whom 20 shareholders with over 200 shares each		
<b>80 public-sector shareholders with a total of</b>	<b>54 515</b>	<b>60.5</b>
of whom 26 cantons with a total of	38 981	
of whom 24 cantonal banks with a total of	14 473	
of whom 30 other public authorities and institutions with a total of	1 061	
<b>Total 2,389 shareholders with a total of<sup>2</sup></b>	<b>90 104<sup>3</sup></b>	<b>100</b>
Registration applications pending or outstanding for	9 896	
<b>Total shares</b>	<b>100 000</b>	

<sup>1</sup> 14.7% are legal entities and 24.8% private individuals.  
<sup>2</sup> In the 2005 financial year, the transfer of 24,481 shares (2004: 21,912) to new holders was authorised. The number of shareholders decreased by 87 year-on-year.  
<sup>3</sup> 6,280 shares are in foreign ownership.

## Principal shareholders

	31.12.2005		31.12.2004	
	Number of shares	Equity participation	Number of shares	Equity participation
Canton of Berne	6 630	6.63%	6 630	6.63%
Fritz Aeschbach-Müller, Monaco			6 232	6.23%
Canton of Zurich	5 200	5.20%	5 200	5.20%

## 4.4 Notes regarding off-balance-sheet business

### Contingent liabilities

Item no. 25

In CHF millions	31.12.2005	31.12.2004	Change
Documentary credits <sup>1</sup>	1.0	1.8	-0.8
Other contingent liabilities	0.3	0.5	-0.2
<b>Total</b>	<b>1.3</b>	<b>2.3</b>	<b>-1.0</b>

1 Chiefly in connection with development aid provided by the Confederation (covered by balances earmarked for this purpose).

### Irrevocable undertakings

Item no. 26

Undrawn credit lines provided to banks under the liquidity-shortage financing facilities In CHF millions	31.12.2005	31.12.2004	Change
Credit lines for Lombard advances	699.3	6 551.4	-5 852.1
Credit lines for special-rate repos	10 229.5	3 170.5	+7 059.0
<b>Total</b>	<b>10 928.8</b>	<b>9 721.9</b>	<b>+1 206.9</b>

Credit lines for Lombard advances in detail In CHF millions	31.12.2005	31.12.2004	Change
of which drawn down	-	6.6	-6.6
of which not yet drawn down	699.3	6 551.4	-5 852.1
<b>Total</b>	<b>699.3</b>	<b>6 558.0</b>	<b>-5 858.7</b>

Credit lines for special-rate repos in detail In CHF millions	31.12.2005	31.12.2004	Change
of which drawn down	-	-	-
of which not yet drawn down	10 229.5	3 170.5	+7 059.0
<b>Total</b>	<b>10 229.5</b>	<b>3 170.5</b>	<b>+7 059.0</b>

**Item no. 27**

<b>Undrawn credit lines provided to the IMF</b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>Change</b>
In CHF millions			
Two-way arrangement	673.7	623.3	+50.4
Interim PRGF	390.3	364.8	+25.5
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)	2 896.7	2 707.6	+189.1
<b>Total</b>	<b>3 960.7</b>	<b>3 695.7</b>	<b>+265.0</b>

1 National Bank undertaking to purchase Special Drawing Rights against currency up to the agreed maximum of SDR 400 million or to return the Special Drawing Rights in exchange for currency (cf. p. 92).  
2 Change due entirely to exchange rates.

<b>Two-way arrangement in detail<sup>1</sup></b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>Change</b>
In CHF millions			
Credit undertaking	752.4	703.3	+49.1 <sup>2</sup>
of which drawn down	78.7	80.0	-1.3
of which not yet drawn down	673.7	623.3	+50.4

1 Limited-term credit undertaking to the IMF's trust fund amounting to SDR 250 million (cf. p. 102, Item no. 12) with federally guaranteed repayment of principal and payment of interest.  
2 Change due entirely to exchange rates.

<b>Interim PRGF in detail<sup>1</sup></b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>Change</b>
In CHF millions			
Credit undertaking	470.2	439.5	+30.7 <sup>2</sup>
of which drawn down	79.9	74.7	+5.2
of which not yet drawn down	390.3	364.8	+25.5

1 Credit lines totalling SDR 1,540 million (of which a maximum of SDR 1,020 million in the context of the GAB) in favour of the IMF for special cases, without a federal guarantee (cf. p. 92).  
2 Change due entirely to exchange rates.

<b>General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) in detail<sup>1</sup></b>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>Change</b>
In CHF millions			
Credit undertaking	2 896.7	2 707.6	+189.1 <sup>2</sup>
of which drawn down	-	-	-
of which not yet drawn down	2 896.7	2 707.6	+189.1

## Other obligations not carried on the balance sheet

Item no. 28

In CHF millions	31.12.2005	31.12.2004	Change
Additional funding BIS <sup>1</sup>	121.5	105.5	+16.0
Liabilities from long-term rental, maintenance and leasing contracts	25.9	26.2	-0.3
Total	147.4	131.7	+15.7

1 The BIS shares are 25% paid up. The additional funding obligation is stated in Special Drawing Rights.

## Assets pledged or assigned as collateral for own liabilities

Item no. 29

In CHF millions	31.12.2005	31.12.2004	Change
Foreign currency investments in USD	35.7	16.3	+19.4
Foreign currency investments in EUR	66.9	77.4	-10.5
Foreign currency investments in GBP	231.0	-	+231.0
Securities in CHF	11.3	-	+11.3
Total <sup>1</sup>	345.0	93.7	+251.3

1 Collateral lodged in connection with repo and futures transactions.

## Item no. 30

## Outstanding derivative financial instruments

In CHF millions	Contract value	Replacement value	
		Positive	Negative
<b>Interest rate instruments</b>	<b>29 866.9</b>	<b>70.6</b>	<b>37.9</b>
Forward contracts <sup>1</sup>	15 780.5	5.7	2.8
Interest rate swaps	7 130.1	64.9	35.1
Futures	6 956.3	0.1	0.1
<b>Foreign exchange</b>	<b>5 289.9</b>	<b>40.9</b>	<b>40.1</b>
Forward contracts <sup>1</sup>	5 289.9	40.9	40.1
<b>Precious metals</b>	<b>237.5</b>	<b>-</b>	<b>-</b>
Forward contracts <sup>2</sup>	237.5	-	-
<b>Equities/indices</b>	<b>836.1</b>	<b>0.7</b>	<b>0.2</b>
Forward contracts <sup>1</sup>	1.8	0.0	0.0
Futures	834.2	0.7	0.2
<b>Total as at 31 December 2005</b>	<b>36 230.4</b>	<b>112.3</b>	<b>78.2</b>
Total as at 31 December 2004	32 080.0	316.1	144.7

1 Including spot transactions with value date in the new year.

2 From gold lending transactions with value date in the new year.

## Item no. 31

## Fiduciary investments

In CHF millions	31.12.2005	31.12.2004	Change
	Fiduciary investments of the Confederation	621.6	745.3

## 4.5 Risks posed by financial instruments

The National Bank's activities in the financial markets are based on its statutory mandate. Asset management is governed by the primacy of monetary policy and is carried out according to the criteria of security, liquidity and performance. When implementing its monetary and investment policies, the SNB enters into a variety of financial risks, with its risk profile being determined by the risk on investments.

The National Bank uses a multiple-stage investment and risk control process to manage and limit its risks. This process is overseen by the Bank Council. The Governing Board defines the strategic guidelines. Compliance with these guidelines is monitored on a daily basis. The Governing Board and the Bank Council's Risk Committee receive quarterly reports informing them about investment activities and the associated risks. A detailed description of the risk control process may be found on pages 52–53 of the Accountability Report to the Federal Assembly.

The main risks to investments are market risks, i.e. risks related to the gold price, exchange rates, share prices and interest rates. These risks are managed primarily through diversification.

The National Bank holds currency reserves in the form of foreign currency and gold, thereby ensuring that it has room for manoeuvre in its monetary policy at all times. Consequently, the risk of exchange rate fluctuations against the Swiss franc is not hedged. Gold and the US dollar represent the most important risk factors with respect to investments because they account for a large proportion of total reserves and are very prone to fluctuations.

**Risks faced by the National Bank**

**Risk control process**

**Market risk**

**... gold and foreign currency risk**

### Balance sheet by currency

In CHF millions	CHF	Gold	USD	EUR	Other	Total
Gold		25 066				25 066
Claims from gold transactions		2 919	65			2 984
Foreign currency investments			16 282	21 570	8 733	46 585
Reserve position in the IMF					1 080	1 080
International payment instruments					79	79
Monetary assistance loans				22	248	270
Sundry assets	32 810		109	4	1	32 924
<b>Total assets as per balance sheet</b>	<b>32 810</b>	<b>27 985</b>	<b>16 455</b>	<b>21 597</b>	<b>10 141</b>	<b>108 988</b>
<b>Total liabilities as per balance sheet</b>	<b>-108 679</b>		<b>-57</b>	<b>-4</b>	<b>-248</b>	<b>-108 988</b>
Foreign exchange derivatives (net) <sup>1</sup>	64		-3 261	454	2 794	51
Net exposure as at 31.12.2005	-75 805	27 985	13 137	22 047	12 687	51
Net exposure as at 31.12.2004	-75 559	21 586	13 884	26 033	14 207	151

<sup>1</sup> Delivery claims and delivery obligations from foreign exchange spot and forward transactions.

### ... interest rate risk

Movements in market interest rates affect the market value of fixed income financial investments. The longer the maturity of a fixed interest-bearing investment, the higher its interest risk. Interest rate risks are limited through the specification of benchmarks and management guidelines. Various means, including the use of derivative instruments such as interest rate swaps and futures, are used to manage these risks. The effect of interest rate fluctuations is calculated with a measure referred to as the “present value of one basis point” (PVBP), which shows the impact on valuation of a simultaneous rise of one basis point (0.01 percentage points) in the yield curves for all investment currencies. If PVBP is positive, a loss is recorded. Duration is a measure of the average time prior to the receipt of payment, and thus is another indicator of interest rate risk. The longer the residual maturity of investments and the lower the coupon rates, the higher the duration.

Interest-bearing investments	Duration	Market value	PVBP
Position as at 31 December 2005	In years	CHF millions	CHF millions
Gold lending		2 982	
Investments in CHF <sup>1</sup>	5.1	5 729	3.0
Investments in USD	3.6	14 393	5.3
Investments in EUR	4.0	20 016	8.0
Investments in other currencies	4.1	6 577	2.8

1 Excluding repos.

### ... and share price risk

Investments in shares are made in order to optimise the risk/return profile. A passive equity investment strategy is used, in which broad-based indices are replicated. At the end of 2005, CHF 3,667 million were invested in shares. In addition, the SNB held a contract volume of CHF 836 million in equity index futures for the purpose of tactical fine-tuning.

### Total market risk

One way of estimating the total market risk of assets is by calculating the Value-at-Risk (VaR, cf. explanations on page 56 of the Accountability Report). The VaR calculated with respect to the composition of assets at the end of 2005 amounted to CHF 6.1 billion, or about 6% of assets. In other words, only one year in twenty, at the most, would see a loss of more than CHF 6.1 billion. The major part of the VaR originates from gold price and exchange rate risks. Share price and interest rate risks are less significant. The VaR is only a rough guide to the risks posed by assets. Additional parameters as well as periodic supplementary analyses, such as stress and scenario analyses, are also used for risk assessment.

### Default risk: credit risk

Credit risk results from the possibility that counterparties or other issuers of securities will fail to meet their obligations. The National Bank incurs credit risk through its investments in securities and through over-the-counter business (OTC) with banks. Credit risk in OTC business originates from deposits, derivatives contracts (the amounts at risk are the replacement values) and from gold lending. In addition, there are credit risks due to commitments to the IMF that are not guaranteed by the Confederation (cf. p. 110, Item no. 27).

The SNB controls its credit risk with respect to counterparties by means of a system of limits that restricts the aggregated exposure for all types of business. An above-average rating is required for counterparties, and the vast majority are rated AA or similar. Also, certain transactions are secured by collateral. At the end of 2005, the National Bank's total unsecured exposure with respect to the international banking sector amounted to approx. CHF 3.4 billion. For borrowers in the bond market, a minimum rating of "investment grade" is required. The rating allocation for investments is shown on page 57 of the Accountability Report. In total, credit risks were an insignificant part of the total risk.

The country risk arises from the possibility that a country may hinder payments by borrowers domiciled in its sovereign territory or block the right to dispose of assets held there. In order to avoid entering into any unbalanced country risks, the SNB takes care to distribute assets amongst a number of different depositories and countries.

National Bank liquidity risks relate to the danger that, should investments in foreign currencies need to be sold, this can only be done partially or subject to considerable price concessions. The restricted liquidity of the investments may be due to technical or market disruptions, or to regulatory changes. The SNB ensures a high level of liquidity for its foreign currency reserves by holding a large number of liquid government bonds in the major currencies, EUR and USD. Liquidity risk is reassessed periodically.

**... and country risk**

**Liquidity risk**