99th Annual Report

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

2006

Goals and responsibilities of the Swiss National Bank

Mandate

The Swiss National Bank conducts the country's monetary policy as an independent central bank. It is obliged by Constitution and statute to act in accordance with the interests of the country as a whole. Its primary goal is to ensure price stability, while taking due account of economic developments. In so doing, it creates an appropriate environment for economic growth.

Price stability

Price stability is an important condition for growth and prosperity. Inflation and deflation are inhibiting factors for the decisions of consumers and producers; they disrupt economic activity and put the economically weak at a disadvantage. The National Bank equates price stability with a rise in the national consumer price index of less than 2% per annum. Monetary policy decisions are made on the basis of an inflation forecast and implemented by steering the three-month Libor.

Cash supply and distribution

The National Bank is entrusted with the note-issuing privilege. It supplies the economy with banknotes that meet high standards with respect to quality and security. It is also charged by the Confederation with the task of coin distribution.

Supplying the money market with liquidity

The National Bank provides the Swiss franc money market with liquidity via repo transactions, thereby implementing monetary policy.

Cashless payment transactions

In the field of cashless payment transactions, the National Bank provides services for high-value payments between banks. These are settled in the Swiss Interbank Clearing (SIC) system via sight deposit accounts held with the SNB.

Investment of currency reserves

The National Bank manages the currency reserves. These engender confidence in the Swiss franc, help to prevent and overcome crises, and may be utilised for interventions in the foreign exchange market.

Financial system stability

Within the context of its task to contribute to the stability of the financial system, the National Bank analyses sources of risk emanating from the financial system. It oversees the systemically important payment and securities settlement systems and helps to promote an operational environment for the financial sector.

Banker to the Confederation

The National Bank acts as banker to the Confederation. It processes payments on behalf of the Confederation, issues money market debt register claims and bonds, handles the safekeeping of securities and carries out money market and foreign exchange transactions.

International monetary cooperation

Together with the federal authorities, the National Bank participates in international monetary cooperation and provides technical assistance.

Statistics

The National Bank compiles statistical data on banks and financial markets, the balance of payments, the international investment position and the Swiss financial accounts.

Swiss National Bank
99th Annual Report 2006

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Preface

Ladies and Gentlemen

In accordance with art. 7 para. 2 of the National Bank Act (NBA), the Swiss National Bank (SNB) is obliged to submit an annual accountability report to the Federal Assembly in which it outlines how it has fulfilled its mandate as defined in art. 5 NBA. Furthermore, art. 7 para. 1 NBA requires the SNB to submit its Business and Financial Report to the Federal Council for approval, before handing it, together with the Audit Board's report, to the General Meeting of Shareholders for subsequent approval.

The first part of this year's report – the *99th Annual Report* of the SNB – comprises the Accountability Report for the Federal Assembly (pp. 7–68). This is submitted to the General Meeting of Shareholders for information purposes only, and does not require their approval. It explains in detail how the National Bank has fulfilled its statutory mandate – in particular the conduct of monetary policy – and also describes the economic and monetary developments in the year under review. A summary of the Accountability Report is provided on pages 7–9.

The Business Report, for the attention of the Federal Council and General Meeting of Shareholders, deals with organisational and operational developments at the SNB and its business activities, and includes the Financial Report, which contains the income statement, balance sheet and notes (pp. 70–134).

The SNB was pleased with the outcome of the national vote – held on 24 September – on the people's initiative "National Bank profits for the Old Age and Survivors' Insurance Fund (AHV/AVS)", better known as the Cosa initiative. By clearly rejecting the people's initiative, Swiss voters avoided establishing a link between the funding of a major Swiss social security institution and the profits of the SNB. This would have caused problems in conducting a stability-oriented monetary policy. The existing distribution formula for National Bank profits – two-thirds to the cantons and one-third to the Confederation – thus remains unchanged.

At the end of 2006, the cash office in Lugano was closed, as it no longer had the processing volume required for efficient operations. Nevertheless, the SNB will maintain its presence in Ticino with a delegate for regional economic relations.

The 2006 annual result amounted to CHF 5.0 billion (2005: CHF 12.8 billion). As in the previous year, the rise in the price of gold was the key factor contributing to this positive result. In accordance with the current profit distribution agreement, the amount to be paid out to the Confederation and the cantons for 2006 totals CHF 2.5 billion.

In 2007, the Swiss National Bank is celebrating its centenary. We are happy that this anniversary takes place at a time when Switzerland's economy is in good shape and that we can look back upon a long phase of price stability. We realise that one important reason why we have been able to achieve this goal is that the SNB's stability-oriented policy has, time and again, enjoyed broad public support.

We wish to thank the bank authorities as well as our employees for their valuable support over the past year.

Berne and Zurich, 23 February 2007

Hansueli Raggenbass	**Jean-Pierre Roth**
President of the Bank Council	Chairman of the Governing Board

Accountability Report for the Federal Assembly

On 21 February 2007, the Governing Board of the Swiss National Bank submitted its 2006 Accountability Report to the Federal Assembly in accordance with art. 7 para. 2 of the National Bank Act. The following Accountability Report is submitted to the Federal Council and the General Meeting of Shareholders for information purposes only, and does not require their approval.

Summary

In accordance with art. 7 para. 2 of the National Bank Act (NBA), the Swiss National Bank (SNB) submits an annual accountability report to the Federal Assembly in which it outlines how it has fulfilled its mandate. This report on the year 2006 is structured in line with art. 5 NBA, with a separate section devoted to each of the eight tasks listed there.

Monetary policy

(1) Monetary policy must serve the interests of the country as a whole. It must ensure price stability, while taking due account of economic developments. Monetary policy has an impact on production and prices with a considerable time lag. Consequently, monetary policy is directed at future rather than current inflation. The monetary policy concept consists of three elements: the definition of price stability, a medium-term inflation forecast and an operational target range for the targeted money market rate.

In 2006, the global economy was experiencing the third year of a powerful upsurge. While the US was losing economic momentum, Europe was gaining ground and Asia continued to expand. Oil prices shot up, only to sink back to their original level. Inflation was not unaffected by these developments, but nevertheless remained largely under control.

In Switzerland, too, the recovery was strong. It began with exports and then moved into domestic sales and industrial products. While there was little activity on the labour market in the early stages, the utilisation of technical capacities reached unusually high levels. The initial hesitation with respect to equipment investment disappeared, and consumer confidence firmed. The only area in which momentum declined was investment in construction, which had seen lively activity for a number of years. Employment increased in the form of higher participation and through migration.

Within this context of economic recovery, the SNB continued its process of monetary policy normalisation. It increased the target range for the three-month Libor in four equal steps to 1.5–2.5%. The increases were moderate and carried out at regular intervals. Despite the rise in oil prices in the middle of the year, the recovery proceeded steadily and the outlook for inflation remained unchanged, permitting the SNB to gradually tighten the monetary policy reins. This approach was intended to ensure price stability in the medium term while taking the best possible account of the economic situation.

Liquidity supply

(2) The Swiss National Bank provides the money market with liquidity. It thereby implements monetary policy and acts as lender of last resort when necessary. The NBA sets out the admissible central bank transactions, while the Guidelines on Monetary Policy Instruments specify the instruments and procedures, the eligible securities as well as the conditions for lending of last resort. The supply of money was ensured through a range of instruments which are based on repo transactions. Within the context of monetary policy normalisation, repo rates were increased from 0.73% to 1.90%, and average sight deposits at the end of the day rose by CHF 0.4 billion to CHF 5.2 billion.

Cash supply and distribution

(3) The Swiss National Bank holds the note-issuing privilege. Through the banks and the postal service, it supplies the economy with banknotes and coins, the latter on behalf of the Swiss Confederation. In 2006, it again focused on maintaining the quality of banknotes and of cash transactions, on further developing security features and on precautionary measures to prevent counterfeiting. As part of the project to develop a future series of banknotes, the content, design and production technology aspects of the previous year's winning designs were advanced further. At the end of the year, the Lugano cash office was closed.

Payment systems

(4) In the area of cashless payments, the Swiss National Bank is mandated to facilitate and secure the functioning of the appropriate systems. It operates accounts for the banks, guides the SIC interbank payment system and oversees payment and securities settlement systems. In 2006, for the first time, the SNB required system operators to provide their own estimates on compliance with the minimum requirements. In addition, it judged a fifth system operator to be systemically important and included it in its oversight activities.

Currency reserves

(5) The Swiss National Bank manages Switzerland's currency reserves. Currency reserves serve to prevent and overcome potential crises. Asset management is governed by the primacy of monetary policy and is carried out according to the criteria of security, liquidity and performance. Guidelines laid down by the Governing Board define the investment principles and investment instruments as well as the investment and risk control processes. Investments, most of them in foreign exchange, gold and Swiss franc claims from repo transactions, remained focused on liquid currencies and investment markets, and on the highest credit ratings. The investment universe and portfolio breakdown was almost unchanged. Earnings exceeded long-term return expectations. Once again, gold was particularly outstanding. However, it also bears the greatest risk.

Financial system stability

(6) The Swiss National Bank is charged with helping to secure the stability of the financial system. Monetary policy depends on a stable financial system and well-functioning financial markets in order to achieve its goals. At the same time, good monetary policy is an important prerequisite for the stability of the financial system. The SNB seeks to identify potential risks at an early stage and to create an environment that is conducive to stability. In its Financial Stability Report, the SNB judged the banking system and financial market infrastructure to be stable. It took part in preparatory work for the implementation of the new Basel Capital Accord (Basel II) in the Basel Committee, and was a member of the Swiss Federal Banking Commission (SFBC) working group which translated Basel II into Swiss banking regulations. The SNB also contributed to the reform of securities legislation.

Monetary cooperation

(7) The Swiss National Bank participates in international monetary cooperation activities. Important bodies are the International Monetary Fund (IMF), the Group of Ten (G10), the Bank for International Settlements (BIS) and the Organisation for Economic Cooperation and Development (OECD). The main activities of the IMF were the surveillance of member states and the reform of quotas and voting rights. The IMF introduced multilateral consultations with systemically important countries and economic blocs, and planned a liquidity instrument for emerging markets that pursue a sound economic policy but are still vulnerable in the area of foreign trade. The BIS committees in which the SNB participates were concerned with banking supervision, payment transactions, the global financial system and financial markets. SNB technical assistance focused on the countries that belong to its IMF constituency.

Banker to the Confederation

(8) The Swiss National Bank provides the Swiss Confederation with banking services in the areas of payment transactions as well as liquidity and securities management. In 2006, the SNB issued money market debt register claims and bonds for a total value of CHF 51.7 billion and carried out 150,000 payment transactions on behalf of the Confederation.

1 Monetary policy

Overview

Favourable conditions prevailed in the domestic and global economies in 2006. The Swiss National Bank maintained the normalisation of its monetary policy, lifting the target range for the three-month Libor (money market rate for three-month investments in Swiss francs) at each of its quarterly monetary policy assessments in 2006. Price stability was assured.

Section 1.1 presents the legal basis underlying the SNB's monetary policy, its mandate and its monetary policy strategy. Sections 1.2 and 1.3 examine economic developments in Switzerland and abroad. Section 1.4 reviews monetary policy in 2006 and discusses the Governing Board's decisions, placing them in the context within which they were made. Finally, section 1.5 is devoted to SNB activities in the field of statistics.

1.1 Monetary policy approach

Constitutional and legal mandate

The Federal Constitution entrusts the Swiss National Bank, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole (art. 99 FC). The mandate is explained in detail in the National Bank Act (art. 5 para. 1), which requires the SNB to ensure price stability and, in so doing, to take due account of economic developments.

The SNB is thus charged with resolving in the best general interests any conflicts arising between the objective of price stability and business cycle considerations, giving priority to price stability. The requirement to act in the 'interests of the country as a whole' requires the National Bank to gear its policy to the needs of the Swiss economy as a whole rather than the interests of individual regions or industries.

Significance of price stability

Price stability contributes to economic growth. Stable prices are an important prerequisite for the smooth functioning of the economy, as both inflation and deflation impede decision-making by consumers and producers, and generate high social costs.

The aim of the SNB's monetary policy is to ensure price stability in the medium and long term; in other words, it strives to prevent both sustained inflation and deflation. Short-term price fluctuations, however, cannot be counteracted by monetary policy. By keeping prices stable, monetary policy creates an environment in which the economy can exploit its production potential.

To secure price stability, the SNB must provide appropriate monetary conditions. If interest rates are too low for a lengthy period, the supply of money and credit to the economy is too high, thus triggering an inordinate demand for goods and services. Although this boosts production initially, bottlenecks occur in the course of time and production capacity is stretched, thus causing a rise in the level of prices. Conversely, if interest rates are too high for a lengthy period, this reduces the supply of money and credit to the economy and, consequently, leads to a shortage of aggregate demand. This has a dampening effect on the prices of goods and services.

Taking economic activity into account

The economy is subject to numerous domestic and foreign shocks. These cause fluctuations in the business cycle which generate pressures on prices that are more or less pronounced. Such fluctuations are inevitable. Although monetary policy is medium and long-term in nature, it can help to limit these fluctuations. In this sense, the National Bank also takes the economic development into account when formulating its monetary policy.

The SNB faces highly diverse situations. The most common cause of inflationary or deflationary phases is when aggregate demand for goods and services does not develop in line with the economy's production capacity. Such situations can arise, for example, as a result of unforeseen fluctuations in the international economy, persistent exchange rate distortions, serious government budget problems or inappropriate money supply levels in the past. Inflationary pressures increase in phases of economic overheating and decrease in phases when production capacity is not fully utilised. The National Bank will thus tend to tighten monetary policy in the first case and ease it in the latter. Consequently, monetary policy that is geared to price stability has a corrective influence on aggregate demand and thus helps to smooth economic activity. The SNB's strategy must therefore aim at gradually restoring price stability.

The situation is more complex when prices rise owing to shocks that drive up corporate costs and curb production. A continuous rise in the oil price is an example of such a shock. Under such circumstances, monetary policy must make sure that the higher production costs do not result in an inflationary spiral. It should also see to it that the companies affected by the shocks are not excessively disadvantaged. A too hasty restoration of price stability might have adverse effects on the business cycle and employment.

Even though the SNB takes economic developments into consideration when formulating its monetary policy, it cannot be expected to fine-tune them. There are too many uncertainties regarding the cause and duration of the shocks that impair economic performance, the transmission mechanisms, the time lag that elapses before monetary policy affects the business cycle and prices, and the extent of its impact.

Monetary policy approach

The monetary policy in force since 2000 consists of the following three elements: (1) a definition of price stability, (2) a medium-term inflation forecast, and (3) a target range for a reference interest rate, the three-month Libor (London Interbank Offered Rate) for Swiss francs – an operational level element.

Definition of price stability

The Swiss National Bank equates price stability with a rise in the national consumer price index (CPI) of less than 2% per annum. In so doing, it takes account of the fact that not every price movement is necessarily inflationary in nature. Furthermore, it believes that inflation cannot be measured accurately. Measurement problems arise, for example, when the quality of goods and services improves. Such changes are not properly accounted for in the CPI; as a result, the measured level of inflation will tend to be slightly overstated.

Quarterly publication of inflation forecast

The SNB reviews its monetary policy on a regular basis to ensure that it is appropriate for the maintenance of price stability. With this in mind, it publishes a quarterly forecast of the development of inflation over the three subsequent years. The period of three years corresponds more or less to the time required for the transmission of monetary stimuli to the economy. Forecasts over such a long time horizon are, however, fraught with considerable uncertainties. By publishing a medium to long-term forecast, the SNB emphasises the need to adopt a forward-looking stance and to react at an early stage to any inflationary or deflationary threats.

The SNB's inflation forecast is based on a scenario for global economic developments and on the assumption that the Libor will remain constant over the entire forecasting period. The forecast thus maps the future development of prices based on a specific world economic scenario and an unchanged monetary policy in Switzerland. For this reason, it is not directly comparable with forecasts incorporating expected monetary policy decisions.

Indicators of relevance to the inflation forecast

In the medium and long term, price developments depend decisively on the supply of money. The monetary aggregates and loans thus hold a relatively important position among the many indicators employed in the various quantitative models used for forecasting inflation over the next two to three years. For shorter-term inflation forecasts, other indicators relating, for instance, to economic activity, exchange rates or oil prices, are generally of greater importance.

The SNB regularly issues statements on the development of the principal monetary policy indicators factored into its inflation forecast. It has provided details of the models it uses in several of its publications.

Review of monetary policy based on the inflation forecast

If the inflation forecast indicates a deviation from the level of inflation that the SNB equates with price stability, monetary policy needs to be adjusted. Should inflation threaten to exceed 2% permanently, the SNB would consider tightening its monetary policy. Conversely, it would loosen the monetary reins if there were a danger of deflation. The National Bank does not, however, react mechanically to its inflation forecast; it takes account of the general economic situation in its decisions on monetary policy measures.

If inflation temporarily exceeds the 2% ceiling in extraordinary circumstances, for example following a sudden massive rise in oil prices or strong exchange rate fluctuations, monetary policy does not necessarily need to be adjusted. The same applies to short-term deflationary pressures.

Target range for three-month Libor

The SNB implements its monetary policy by influencing the interest rate level in the money market. It fixes a target range for the three-month Libor, which is the most important interest rate for short-term Swiss franc investments, and publishes it regularly. As a rule, this target range extends over one percentage point, and the SNB generally aims to keep the Libor in the middle of the range.

The SNB undertakes quarterly economic and monetary assessments at which it reviews its monetary policy. It sets out the reasons for its decisions in a press release. If circumstances so require, it will also adjust the target range for the three-month Libor between these quarterly assessments.

1.2 International economic developments

Strong global growth and fewer regional disparities

The global economy grew strongly in 2006, achieving a growth rate of around 5% for the third year in a row. Furthermore, this development was more balanced than in previous years, since the regional growth differentials dissipated over the course of the year.

In Europe, the rate of expansion exceeded the potential growth rate for the first time since 2000, while a correction in the US real estate sector led to a slowdown in the economy over the course of the year. Once again, the principal emerging economies of Asia (China, Hong Kong, Singapore, South Korea and Taiwan) experienced rapid growth and continued to transmit major stimuli to the global economy.

The performance of the global economy in the first six months of the year is all the more remarkable in view of the extreme volatility of oil prices in this period, as well as the sharp increase in metal prices. The barrel price for crude oil exploded from USD 57 to over USD 75 between December 2005 and the beginning of August 2006. It then dropped to about USD 60 and subsequently fluctuated around that level. The decline in the price of oil was mainly due to a relaxation in the level of world political tension, a high level of stocks, a mild hurricane season in the Atlantic and – probably – the slowdown in the US economy.

Moderate global inflation

In 2006, inflation was restrained and most price fluctuations were attributable to volatility in oil prices. Although the first half of the year saw a surge in inflation, inflationary pressure gave way markedly in the second half of the year due to the fall in oil prices.

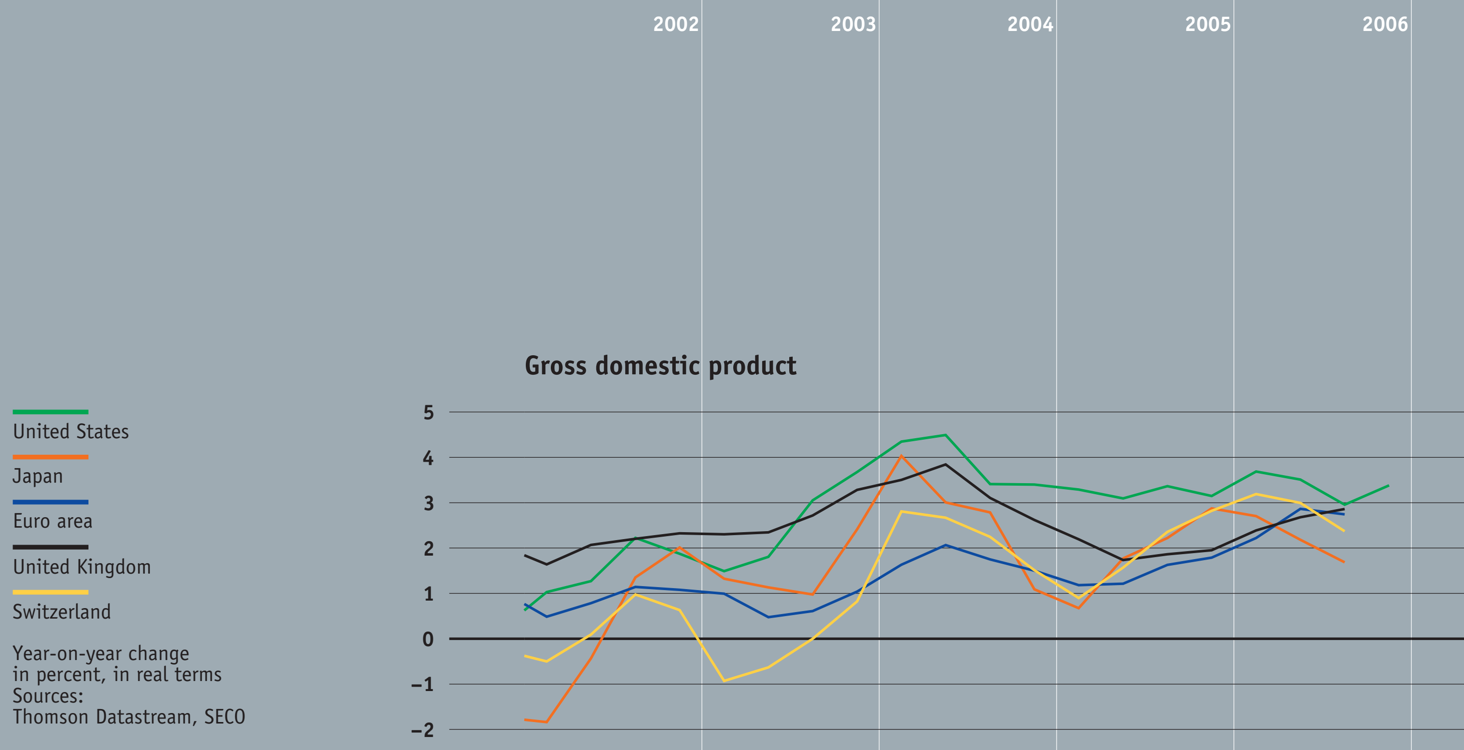
Year-on-year, US inflation thus dropped from 4% in the second quarter to 1.9% in the fourth quarter. However, core inflation (which factors out energy and food prices) continued to rise for most of the year. In the third quarter it reached 2.8%, its highest level since 2001. In the Euro area, inflation amounted to 2.5% in the second quarter. Subsequently, it fell back a little to end the year below 2%. In Japan, high energy prices, the soft yen and the reduction of excess capacity were factors contributing to the gradual end of the deflationary period. From May onwards, figures for inflation were back in the positive zone.

Gradual slowdown in US economy

In 2006, economic activity in the US was occasionally a little uneven. Although, at 3.4%, GDP growth was comparable to that of 2005, the figure for the previous year had in fact been distorted by the hurricanes that hit the United States in the autumn of that year. Bearing this in mind, a progressive slowdown in the economy may be observed, with growth slipping below its long-term potential. This fall-off largely reflects the correction in the real estate market, which held back growth by an average of one percentage point in the second, third and fourth quarters. It also arose out of a dip in spending on consumer durables, which was partly attributable to the rise in fuel prices. Finally, the normalisation in monetary conditions had a dampening effect on equipment investment.

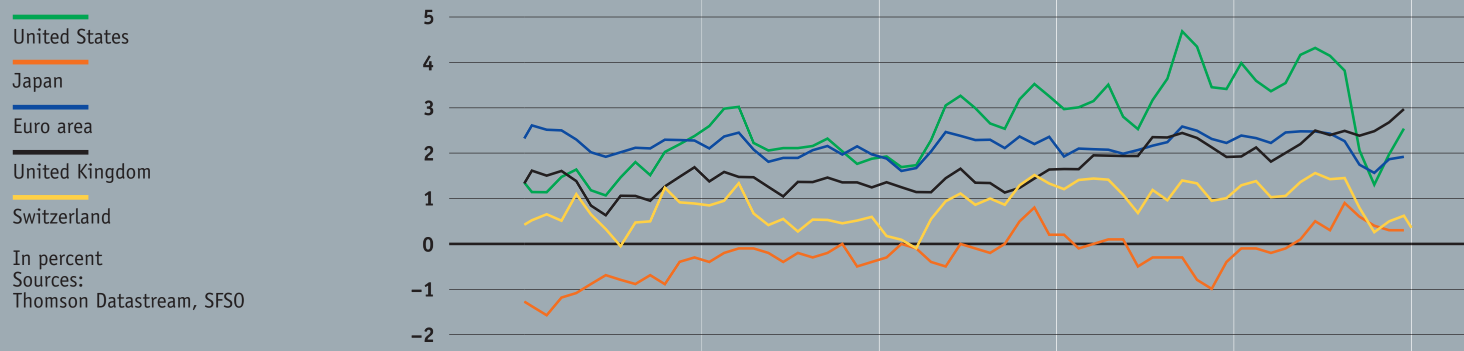
Since the adjustments in the real estate market did not really spread into other sectors, the overall economic situation remained sound. Household consumption of services, non-residential construction and government sector spending all contributed to growth. In addition, the net contribution of foreign trade improved. As a result of the healthy state of the economy, unemployment fell to 4.5% at the end of the year. This was the lowest rate of unemployment recorded since May 2001. Historical comparisons show this rate to be below the level of full employment. This situation contributed to a rise in salaries.

Gross domestic product



Year-on-year change
in percent, in real terms
Sources:
Thomson Datastream, SECO

Inflation



In percent
Sources:
Thomson Datastream, SFSO

Strengthening European demand

In the first six months of 2006, economic activity in Europe increased, with the momentum of foreign trade passing through into the domestic economy. Growth soared to 4% in the third quarter – the highest level for six years. Well-filled order books spurred companies to extend their production capacity, thereby increasing expenditure on equipment investment. However, the increase in consumer spending was tentative as compared to previous recoveries. Due to the economic upswing, more jobs were created and unemployment continued the descent begun in 2005, dropping below 8% in the second quarter.

Germany made a substantial contribution to the European recovery with its 2.7% GDP growth as against an average of only 1.1% since 2000. Furthermore, a better equilibrium was achieved in the area of demand, with exports – which had constituted the main engine of growth over the past few years – receiving increasing support from domestic demand. Thus, after many years of restructuring, companies began investing again from the beginning of 2006. Household consumption, traditionally a weak link in the chain, recorded an increase which was due, in particular, to the upcoming three percentage point hike in VAT on 1 January 2007. Moreover, Germany's competitive strength was confirmed, with exports remaining dynamic throughout the year. The economic upswing improved the situation in the labour market, and new jobs with obligatory social security deductions were created. The government deficit also declined as a result of the recovery, dropping below the level of 3% of GDP for the first time since 2001.

Unabated vitality in emerging Asian economies

Once again, in 2006, the main emerging economies of Asia recorded extremely vigorous growth. The Chinese economy, in particular, achieved growth of over 10%. Nevertheless, indications of a slowdown became evident in investment and industrial production during the second half of the year, due in particular to the implementation of more restrictive credit policies. Foreign trade also remained very lively, supporting the economies of the entire region.

Sustained recovery in Japan

Japan's growth appears to have moved into a sustained phase in 2006. The uptrend in the economy continued, giving the country the longest expansionary period it has known since the Second World War. Corporate investment soared, attaining two-figure growth rates over the year as a whole. This economic recovery is partly attributable to restructuring in the past, partly to substantial growth in profits and partly to a global environment favouring exports. Japanese exports have also benefited from the weakness of the yen. At the same time, however, consumption has remained feeble, with households playing a waiting game as salary increases have failed to ensue despite a marked improvement in the employment situation.

Further normalisation of monetary conditions

Monetary conditions varied from one country to another, reflecting their differing positions in the business cycle. In June, the Fed interrupted its gradual tightening of the monetary reins, having raised the federal funds rate by four additional steps of 25 basis points each between January and June. The rate was finally established at 5.25%. This was justified by the good performance of the economy and a relatively high level of core inflation.

In the euro area, the European Central Bank (ECB) decided to maintain the policy of progressively increasing its key rate which it had initiated in December 2005, in view of the strength of the economy and the fact that growth rates for monetary aggregates and loans remained high. As a result, its main key rate rose from 2.25% to 3.5% during the course of 2006.

In March, due to favourable developments in the area of both prices and the business cycle, the Bank of Japan was able to put an end to the quantitative monetary policy introduced five years previously. In addition, in July, it lifted the rate of interest for the first time in six years, increasing its overnight rate to 0.25% and then keeping it at this level for the rest of the year.

Favourable growth outlook for 2007 ...

The global growth outlook remains favourable overall, and in 2007 the major economies should return to growth rates close to their long-term equilibrium.

The correction in the US real estate market is gradually tapering off, and therefore the US economy is likely to remain robust. The good financial situation of companies along with the high level of capacity utilisation in manufacturing will probably shore up investment. In the euro area, more restrictive fiscal policies in both Germany and Italy could lead to a slowdown in economic activity in the first half of 2007, and this could dampen domestic demand. However, this effect may be partially offset by the improvement in employment as well as monetary conditions that remain accommodative. In Asia, the growth outlook also remains favourable. Japan, in particular, is benefiting from the vitality of the global environment, and its exports are likely to remain strong while domestic demand should strengthen on the back of the improvement in the labour market.

... but not without risks

The main risk casting its shadow over this outlook relates to the US economy, where the correction in the real estate sector could be more severe than was expected and then spill over into consumption. Another rise in the price of oil is a second risk that cannot be entirely discounted. Over the past few years, it has become evident how quickly the situation on this market – always very stretched – can spiral out of control due to the shortage of surplus production and refining capacity. Finally, the imbalances in current accounts continue to represent a major risk due to the fact that, if there were a rapid correction in these imbalances, the global economy could be destabilised.

1.3 Economic developments in Switzerland

In 2006, the Swiss economy was in much better shape overall than had been expected at the end of the previous year.

Favourable conditions at the start of the year

At the beginning of 2006, the outlook was bright. Estimated GDP at the end of 2005 showed growth to be above potential. Moreover, the initial leading indicators for 2006 suggested that this trend would continue for the first few months of the year. For manufacturing, in particular, the corporate outlook improved and the level of new orders continued increasing.

Still signs of weakness

Nevertheless, certain macroeconomic indicators suggested that the recovery did not embrace all sectors and that, consequently, it was still a little fragile at the beginning of the year. First of all, equipment investment was advancing only moderately as compared with production. This delay was striking as the level of capital utilisation in manufacturing was at a historically high level. Second, there had been scarcely any improvement in the labour market and unemployment had remained virtually unchanged for some considerable time. Given this situation, consumer confidence was low, and the rate of growth in consumption was below the long-term average.

Gross domestic product and components
Year-on-year change in real terms in percent

	2002	2003	2004	2005	2006[1]
Private consumption	–0.0	0.8	1.5	1.3	1.9
Consumption by government and social security schemes	1.7	2.6	–0.8	–1.6	–0.6
Investment in fixed assets	0.3	–1.4	4.5	3.2	3.6
Construction	2.2	1.8	3.9	3.5	–0.3
Equipment	–1.2	–3.9	4.9	2.9	7.1
Domestic demand	**–0.5**	**0.4**	**1.5**	**1.1**	**2.0**
Exports of goods and services	–0.7	–0.4	8.4	6.4	9.6
Aggregate demand	**–0.5**	**0.1**	**3.7**	**2.9**	**4.6**
Imports of goods and services	–2.6	1.0	7.4	5.3	8.9
Gross domestic products	**0.3**	**–0.2**	**2.3**	**1.9**	**2.8**

1 Average of first three quarters of 2006

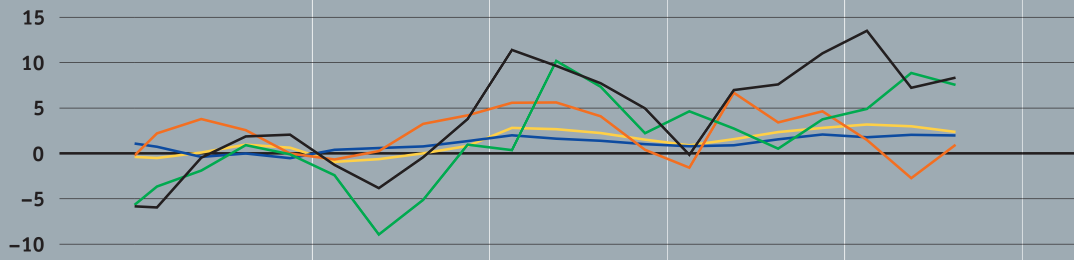
Sources: SFSO, SECO

2002 2003 2004 2005 2006

Gross domestic product and components

GDP
Private consumption
Investment in construction
Investment in equipment
Exports

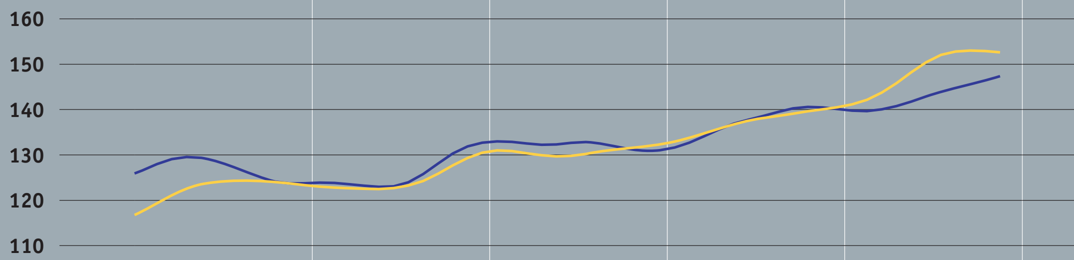
Year-on-year change
in percent, in real terms
Source: SECO



Foreign trade

Imports
Exports

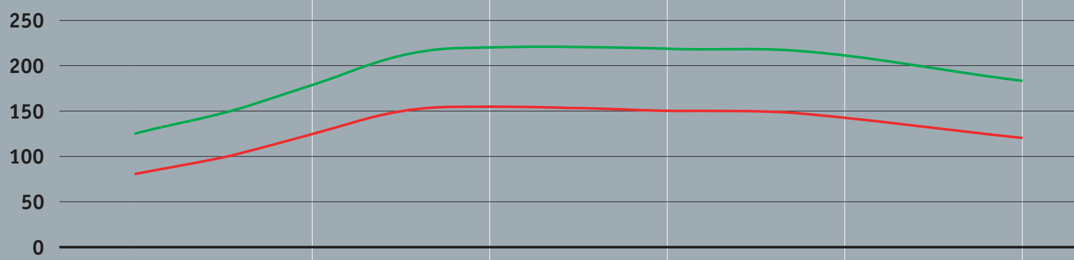
Volume, seasonally adjusted
and smoothed
Index: 1997 = 100
Source:
Federal Customs Administration



Labour market

Unemployed persons
Job seekers

In thousands,
seasonally adjusted
and smoothed
Source: SECO



Exports remain vigorous

During the initial months of 2006, exports to the US and Asia of goods as well as financial services and tourism remained robust. Moreover, exports to the European Union grew in the first quarter, with the main accent on equipment goods, thereby supporting manufacturing. This strength was maintained in the second quarter thanks in particular to the outstanding economic performance of Germany, which is Switzerland's main trading partner. Also, the weakening in the Swiss franc against the euro in the second half of the year had a favourable impact on exports towards the end of the year.

Rapid growth in equipment investment

Alongside the healthy business activity recorded in manufacturing, equipment investment also grew strongly in the first half of the year. This development was supported by favourable conditions, including low interest rates and an auspicious growth outlook. In the area of imports, equipment goods also played an important role.

In the second half of the year, the capital stock was better adapted to production, indicating that the short-fall in production was being made up. Nevertheless, the rate of utilisation of capital maintained its upward trend. To some extent, this can be explained by the fact that, even after an investment has been made, it can take several months before the new equipment is being fully utilised in the production process.

Slower growth in construction investment

As opposed to equipment investment, growth in construction investment dropped back during the course of the year. To a large extent, this was due to a downturn in the growth of residential construction after three years of rapid advances. In the year as a whole, the number of new dwellings exceeded 41,000, which was the highest number since 1996. The demand for new dwellings – created mainly by higher income and favourable interest rates – was largely met. The fact that movement in average real estate prices was no more than moderate suggests that supply and demand followed similar paths. Construction of commercial premises recorded positive growth figures in line with the economy in general.

Consumption at a high level

The growth in employment had a favourable impact on consumption. On the one hand, the fall in the rate of unemployment led to an improvement in the consumption climate while, on the other hand, salary increases resulted in greater household purchasing power. Consequently, consumption rose gradually throughout the year. New car sales rose strongly at the start of the year, followed subsequently by retail sales. The number of overnight stays in Switzerland, an important indicator for the consumption of services, grew throughout the year.

Although GDP was clearly growing, the situation in the labour market remained unclear for quite some time. In manufacturing and construction, employment improved markedly, but in the services sector it remained anaemic despite clear signs of recovery in certain industries, in particular those associated with financial services. Given that more than four jobs in five can be attributed to the service sector, this meant that, overall, there was little job creation. Consequently, substantial job creation could be expected for the quarters ahead. The presumption that the figures could have been underestimated was confirmed when the Swiss Federal Statistical Office (SFSO) published its data on employment in the third quarter, together with an upward revision in the figures for the entire year. According to the new figures, in the second half of the year there was no longer any major discrepancy between the production level and the number of persons employed.

Clear improvement in employment situation

In 2006, however, the drop in unemployment was somewhat disappointing. The seasonally adjusted rate of unemployment edged down from 3.6% in January to 3.1% in December while the rate of job seekers declined to 4.7%. In addition to unemployed persons, this latter indicator includes people looking for jobs who are either temporarily engaged in employment or training programmes, or who receive temporary earnings.

... with only modest drop in unemployment so far

Nevertheless, the Swiss participation rate rose substantially and the flow of workers entering Switzerland from the European Union increased. Thus, it appears that the relationship between job creation and unemployment has shifted over the past few years.

Labour market

	2001	2002	2003	2004	2005	2006
Employment in terms of full-time equivalents[1,2]	1.9	–0.2	–1.3	–0.4	–0.2	0.8
Unemployment rate in percent	1.7	2.5	3.7	3.9	3.8	3.3
Number of job seekers in percent	2.8	3.8	5.2	5.6	5.5	5.0
Swiss nominal wage index[1]	2.5	1.8	1.4	0.9	1.0	–
Total wage bill index, nominal[1,2,3]	2.2	5.4	1.5	0.7	2.6	3.2

1 Year-on-year change in percent
2 Average of first three quarters of 2006
3 Wage contributions to AHV/AVS
Sources: AHV/AVS, SFSO, SECO

Real salary levels rising

With the increasing demand in the labour market, substantial salary increases have been observed. Using salary-based contributions to the Old Age and Survivors' Insurance Fund (AHV/AVS), it is possible to calculate a figure close to the total wage bill concept used in the national accounts. The average real wage per full-time equivalent job can be calculated on the basis of this total wage bill. In the first three quarters of the year, this figure rose by 2%.

The Swiss wage index compiled by the SFSO in fact indicates a slight decline in real salaries in the first half of the year. However, this index excludes changes to the structure of employment as well as bonus payments, thereby underestimating the increase in salary levels.

Optimistic outlook for the economy in 2007

At the end of 2006, growth prospects for the new year remained good. At its press conference on 14 December 2006, the SNB forecast GDP growth of about 2% for 2007. Although the SNB expected the expansion in exports to slow gradually in line with the economies of our main trading partners, both equipment investment and employment were likely to grow substantially. By contrast, a restrained growth path was forecast for investment in construction and continued strong growth in consumption, which was likely to support economic growth.

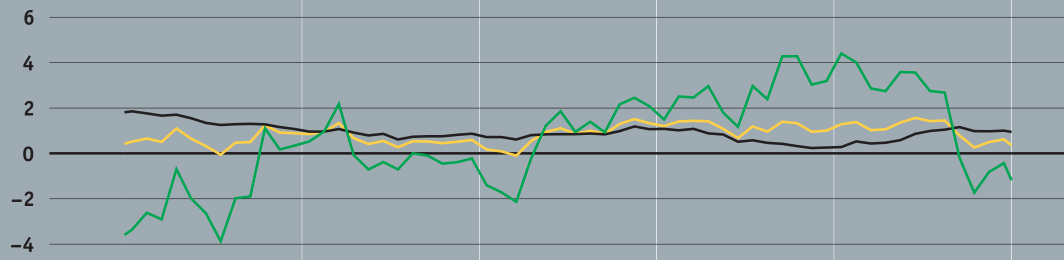
National consumer price index and components
Year-on-year change in percent

	2005	2005	2006 Q1	Q2	Q3	Q4
Overall CPI	**1.2**	**1.1**	**1.2**	**1.3**	**1.2**	**0.5**
Domestic goods and services	0.6	0.8	0.4	0.6	1.1	1.0
Goods	–0.4	–0.2	–0.2	–0.3	–0.1	–0.1
Services	1.0	1.1	0.6	0.9	1.4	1.3
Private services (excluding rents)	0.5	0.4	–0.1	0.2	0.9	0.7
Rents	1.4	2.0	1.5	2.1	2.2	2.2
Public services	1.5	1.2	0.9	1.0	1.3	1.4
Imported goods and services	2.7	1.9	3.8	3.3	1.7	–1.0
Excluding oil products	–0.3	0.4	0.3	0.3	0.6	0.2
Oil products	18.5	9.3	21.4	18.1	7.7	–6.3
Core inflation						
Core inflation (SNB)	0.8	1.0	0.7	1.1	1.1	0.9
Core inflation 1 (SFSO)	0.5	0.6	0.4	0.6	0.8	0.7
Core inflation 2 (SFSO)	0.3	0.7	0.2	0.6	0.9	1.0

Sources: SFSO, SNB

2002 2003 2004 2005 2006

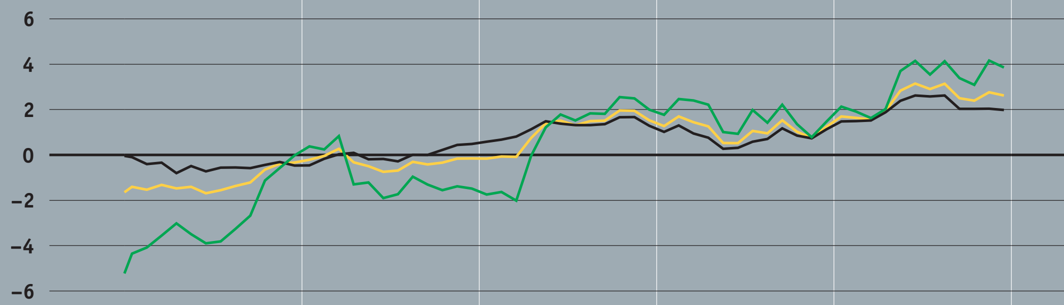
Consumer prices



Consumer prices
Domestic goods
Imported goods

Year-on-year change
in percent
Source: SFSO

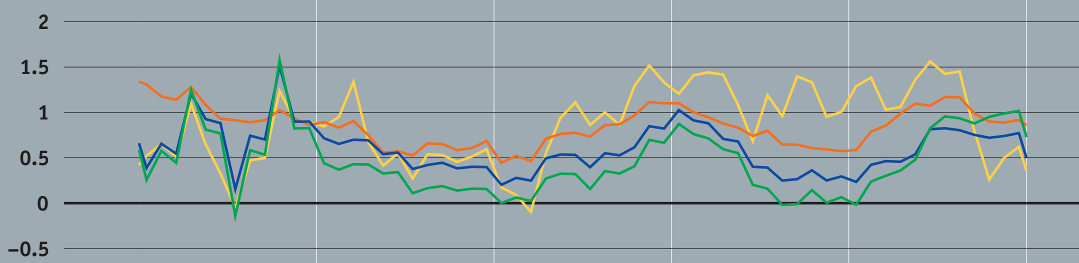
Producer and import prices



Producer and import prices
Producer prices
Import prices

Year-on-year change
in percent
Source: SFSO

Core inflation



Consumer prices
Core inflation (SNB)
Core inflation 1 (SFSO)
Core inflation 2 (SFSO)

Year-on-year change
in percent
Sources: SFSO, SNB

2002 2003 2004 2005 2006

Inflation under control

In 2006, movements in price indices were strongly influenced by fluctuations in oil prices. The year-on-year increase in import prices rose from 2.1% in January to 4.1% in August, while that for production prices was up from 1.5% to 2.6% over the same period. From September to December, growth in import prices slowed to 3.9%, while the increase in production prices was down to 2%.

Until August, the consumer price index (CPI) remained relatively stable within a band of 1–1.6%. In the first half of the year, the downward price pressure on Swiss goods as well as the stagnation in the prices of private services slowed down overall inflation. In addition, the prices of imported drugs dropped from April onwards, after the conclusion of an agreement between the pharmaceutical industry and the government. The decline in oil prices in autumn led to a substantial decline in inflation, which fell to 0.6% in December.

The easing off in inflation towards the end of the year was broad-based. Having risen from 0.6% in January to 1.2% in August, the SNB measure of core inflation, which excludes the strongest price fluctuations, subsequently declined, amounting to 0.9% in December. It reflected subdued inflationary trends in 2006.

Gradual upward movement in Libor

The Libor began 2006 at around 1% and held that level until mid-February. With financial markets anticipating another 25 basis point increase at the monetary policy assessment in March, the Libor then embarked on a gradual upward climb in advance of the decision of the Governing Board. On 16 March 2006, the SNB increased the target range, thereby confirming market expectations. At the three following monetary assessments in 2006, the Libor followed the same pattern, rising gradually on each occasion. Following the last increase in the target range to 1.5–2.5% in December 2006, the Libor stood at 2%, i.e. the middle of the new target range.

Return on investment slightly higher

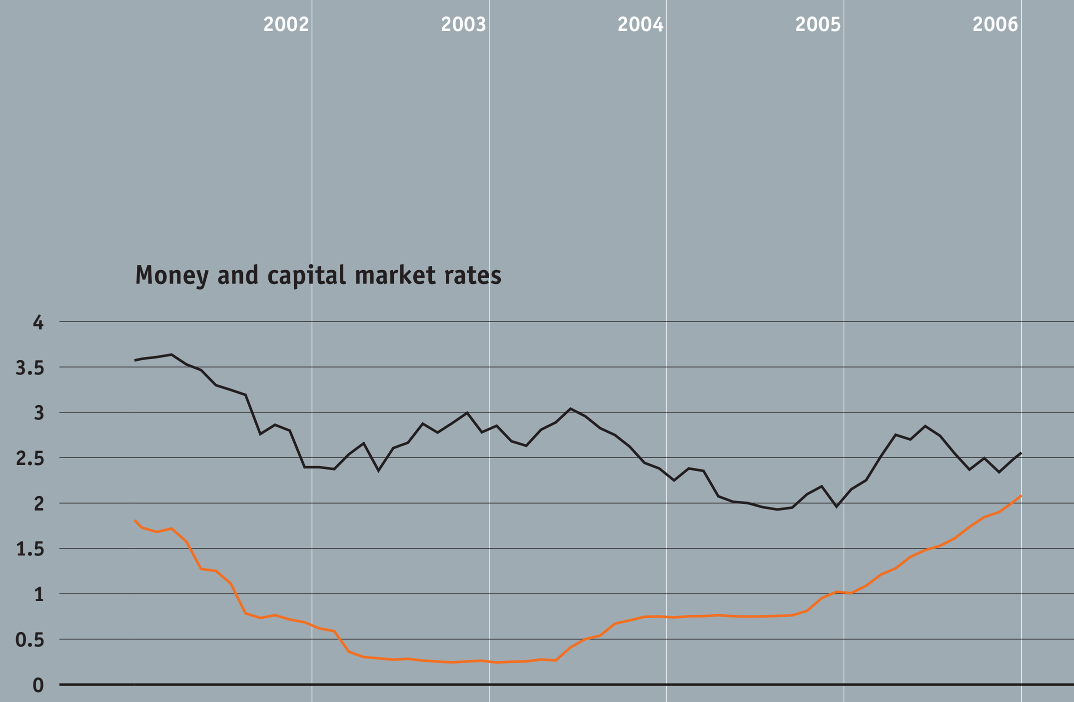
Long-term interest rates, as well as yields on Confederation bonds, experienced a substantial correction in the first half of 2006, climbing from 2% at the end of 2005 to virtually 3% in mid-2006. Subsequently, yields on Confederation bonds declined gradually to end the year at about 2.5%. Consequently, they rose only 50 basis points in 2006.

Money and capital market rates

Three-month Libor

Yield on ten-year Swiss Confederation bonds (spot interest rate)

In percent

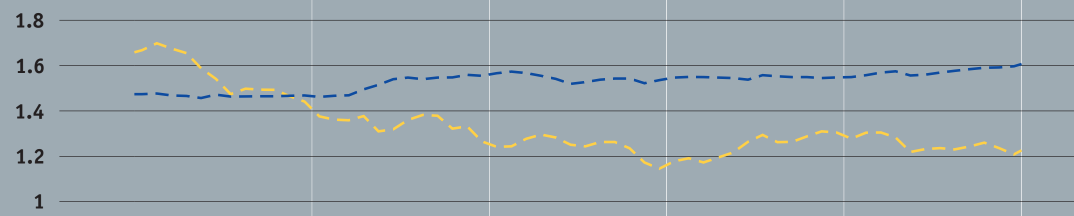


Exchange rates

CHF/USD

CHF/EUR

Nominal

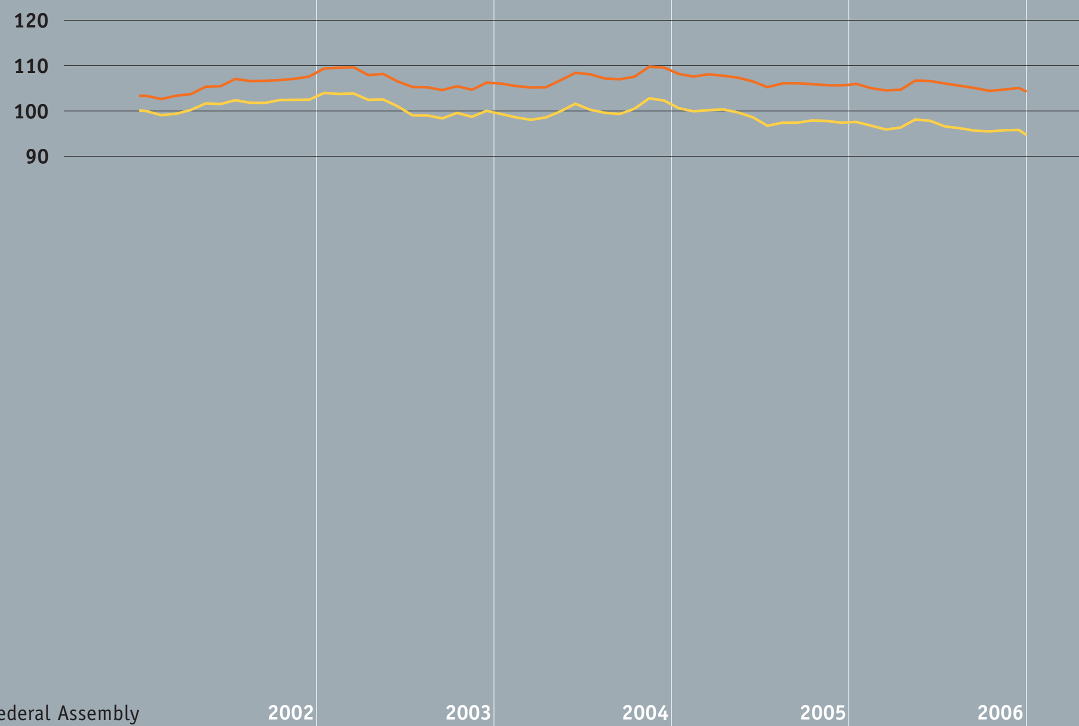


Export-weighted Swiss franc exchange rates

Real

Nominal

24 trading partners
Index: January 1999 = 100



Swiss franc weakens against euro

Although the exchange rate of the Swiss franc against the euro fluctuated within a relatively narrow margin of CHF/EUR 1.54–1.60, the year 2006 saw a continued appreciation of the euro against the Swiss franc. This phenomenon was particularly marked towards the end of the year.

Swiss franc strengthens against US dollar

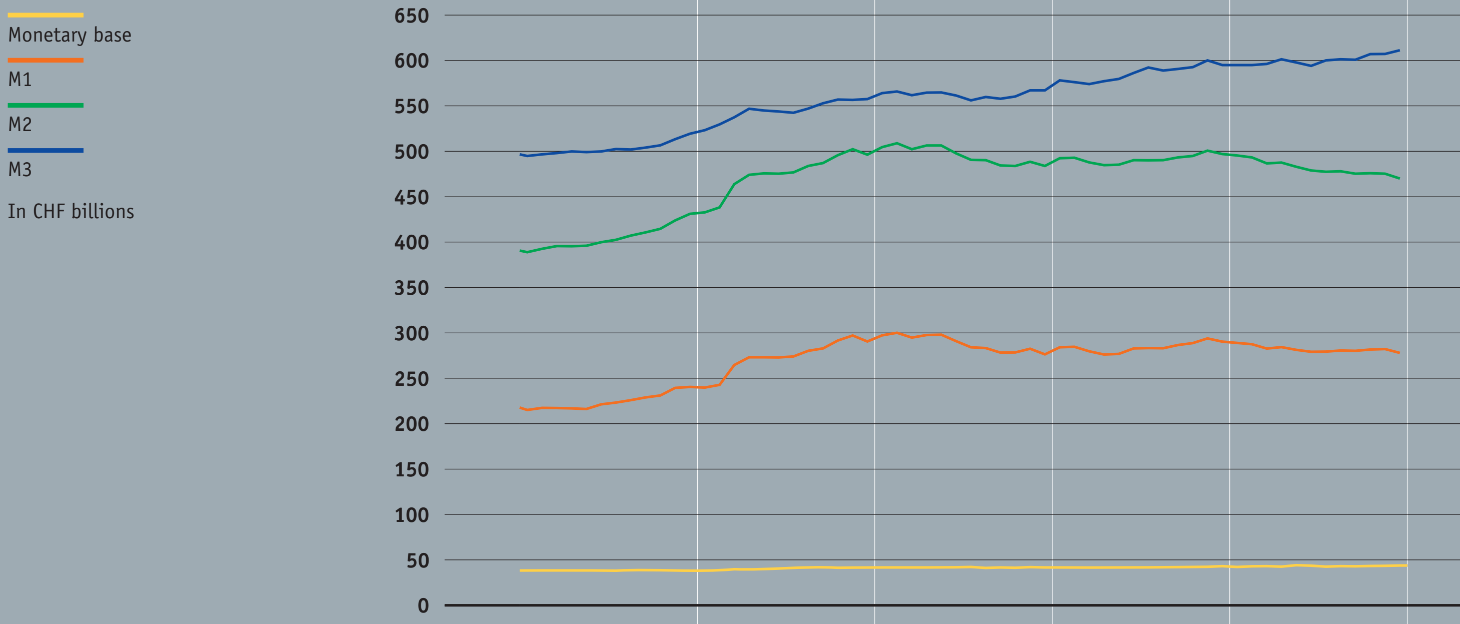
By contrast, in 2006 the US dollar lost all it had gained in the year before. Following a relatively stable period when it fluctuated around the CHF/USD 1.30 mark, it depreciated in the second six months to end the year slightly below CHF/USD 1.20. Following a temporary improvement in the wake of the Fed's normalisation of interest rates, the downward movement in the Swiss franc exchange rate against the US dollar – a trend which has been observed for many years now – appeared to have established itself once more.

The external value of the Swiss franc weighted by nominal and real trade flows declined throughout 2006 apart from a brief surge in the middle of the year.

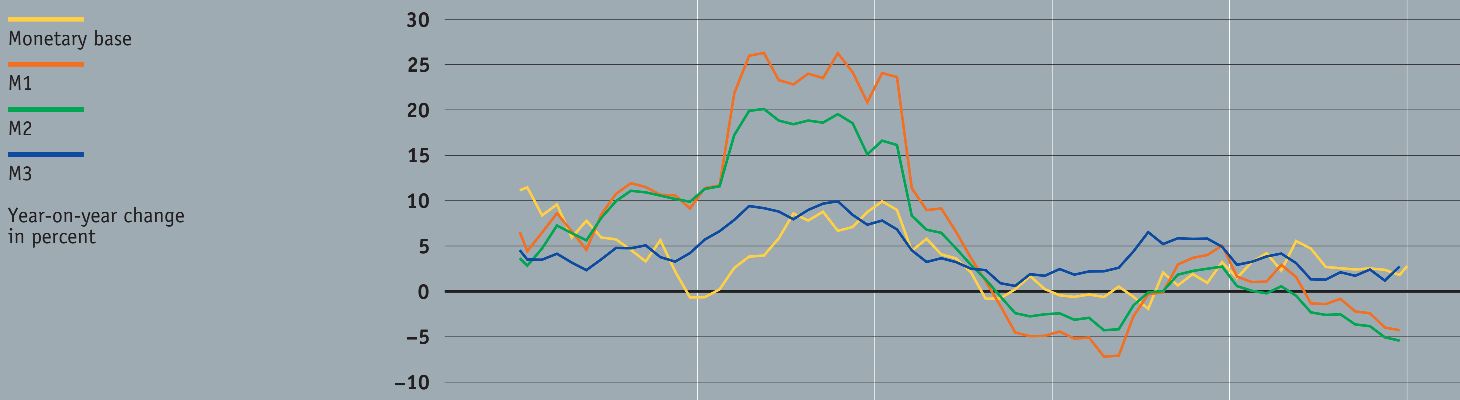
Continued absorption of money overhang

The monetary aggregates responded rapidly to the two increases in the Libor target range in 2004. M1 and M2 declined until mid-2005, while growth in M3 was very slow. In the second half of 2005, along with the improvement in the economy, the three aggregates returned to positive growth figures. However, their rate of expansion declined again after the resumption of monetary policy normalisation in December 2005, and in the wake of successive increases in the Libor in 2006. M3 continued growing, but at a weaker rate, while M1 and M2 retreated from the middle of the year onwards. Consequently, the money overhang, which has existed since 2003, receded further.

Level of monetary aggregates



Growth in monetary aggregates



2002 2003 2004 2005 2006

1.4 Monetary policy decisions

Four times a year, in March, June, September and December, the SNB's Governing Board conducts an assessment of the monetary policy situation. Each of these assessments results in an interest rate decision. In addition, if circumstances so require, the SNB also adjusts the Libor target range for three-month investments in Swiss francs between regular assessment dates. In 2006, however, this was not the case.

Monetary policy challenges in 2006

In 2005, the SNB had demonstrated its flexibility by pausing temporarily in the normalisation of its monetary policy course. With long-term inflation risks declining, it was able to make use of the available leeway for further pursuing its expansionary policy. By December 2005, the indications of a robust and sustained recovery had become so clear that the National Bank resumed normalisation of its monetary policy. There was no doubt that this course would need to be pursued in 2006; the inflation forecasts of the final monetary assessments in 2005 had made this abundantly clear. However, it was the magnitude and frequency of these interest rate increases which constituted the principal challenges of monetary policy in 2006.

Four increases in the Libor target range

In 2006, the SNB raised its target interest rate on four occasions, by 25 basis points each time. This took the Libor to 2% by the end of the year. The National Bank pursued its policy of normalising interest rates through moderate increases, carried out at regular intervals, an approach which should ensure price stability in the medium and long term while also taking the best possible account of economic reality. Despite the rise in oil prices in mid-2006, the economic and inflationary perspectives developed evenly, thereby allowing the SNB to gradually tighten the monetary policy reins.

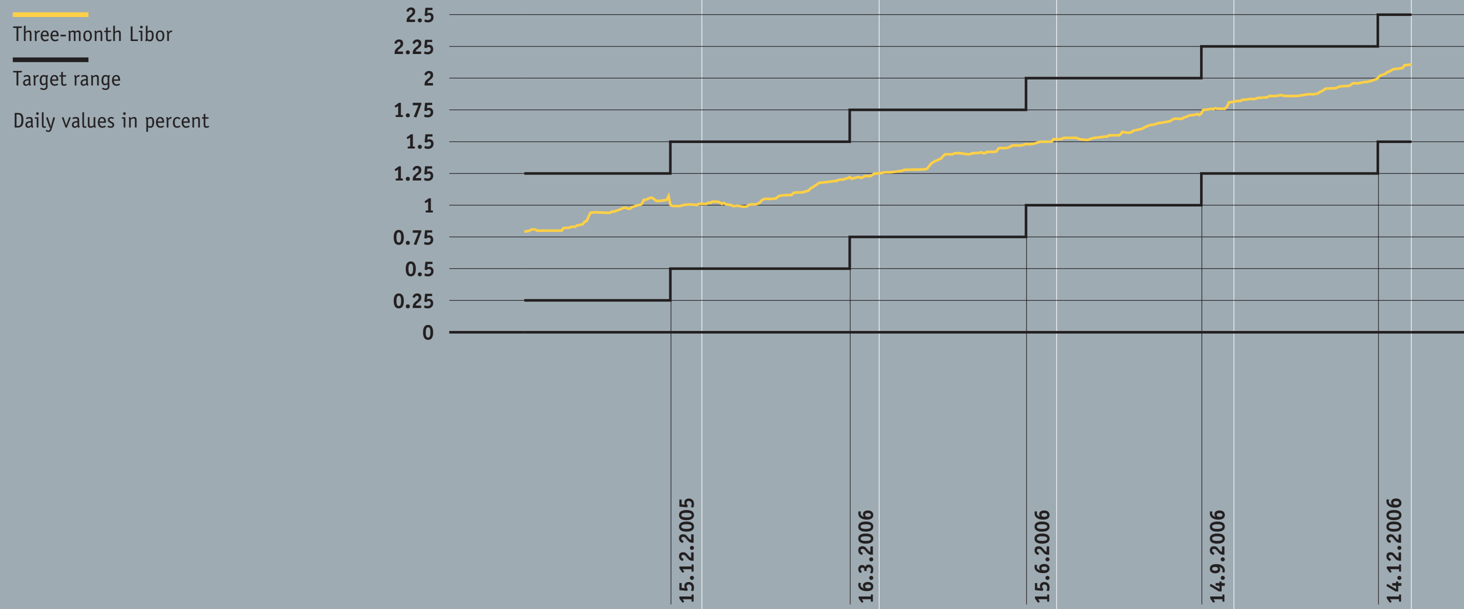
Monetary policy risks in 2006

As in previous years, monetary policy in 2006 was subject to numerous risks in the short, medium and long term. The National Bank regularly evaluates the probability of such risks, their consequences for the economy and their implications for monetary policy.

Short-term risks

The vagaries of oil prices represented the chief short-term risk in 2006. However, the volatility in energy prices did not induce the SNB to take any special measures. On the one hand, it would have been inappropriate to act against the inflationary effects of higher oil prices, since a tightening in monetary policy could have added force to the moderating impact of increased oil prices on the economy. On the other hand, since there was no reason to fear a greater slowdown, it would also have been wrong to intervene by lowering interest rates.

Three-month Libor



Medium-term risks

Uncertainties with respect to the global and Swiss economies remain the principal risks in the medium term. Neither Europe nor Switzerland gave rise to any major concern in 2006. However, there were repeated indications, particularly in the second part of the year, that the US economy might be facing a more substantial slowdown in the future. This kind of scenario represented a major risk to the economic situation since investment and exports are largely dependant on international conditions. Furthermore, the appreciation of the euro against the Swiss franc – in particular at the end of the year – created an additional risk which the SNB needed to keep a careful eye on.

Long-term risks

The outlook for inflation in the medium and long term would have deteriorated if the SNB had not resumed the normalisation of its monetary policy and continued on this path in 2006. Thus, raising the rate of interest was necessary if favourable perspectives for price stability were to be preserved.

Starting point: the final quarterly assessment of 2005

At its quarterly assessment of 15 December 2005, the National Bank had been confident about the outlook for the global economy. With the US economy continuing to show signs of vitality as it moved into the new year, the SNB had forecast growth of approximately 3.5% for both 2006 and 2007. It had also been optimistic for the euro area, predicting growth of 2% for 2006 and 2.4% for 2007. It had expected the price of oil to be high in the upcoming quarters.

Based on the state of the Swiss economy at the end of 2005, the SNB had been confident about developments in 2006 and forecast growth of just over 2%. Consumption and equipment investment had been relatively robust in the third quarter of 2005, and positive developments could be expected over the next few quarters.

As compared to the September assessment, the inflation outlook had been adjusted upwards. In these circumstances, the Governing Board had decided to lift the three-month Libor target range by 25 basis points in December 2005. The new range had been set at 0.5–1.5%. At the beginning of 2005, the SNB had initiated a break in the process of normalising its target interest rate. In view of the economic upswing expected for 2006, it had then resumed normalisation of this interest rate at the end of 2005.

Under the new assumption, which saw the Libor at a constant 1% for the three following years, inflation – according to the graph published at the time of the assessment (cf. *98th Annual Report 2005,* p.36) – had been forecast to rise to 0.8% in 2006 and to 1.2% in 2007. By the end of the forecast period, inflation had been expected to rise to 2.7%, thereby exceeding the upper limit of the range which the SNB equates with price stability.

2005 2006 2007 2008 2009

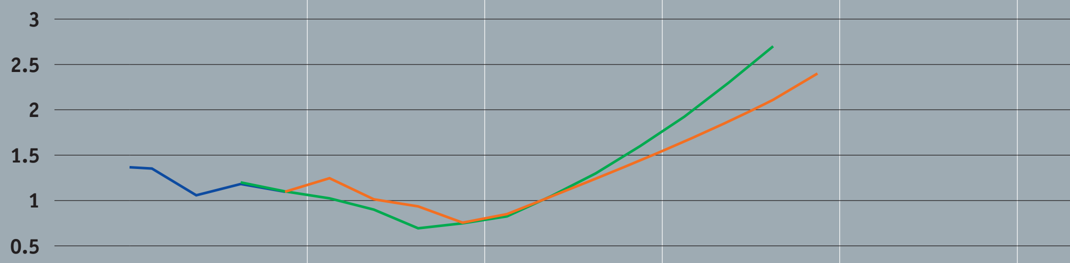
Inflation forecast of 16 March 2006

Inflation

December 2005 forecast: three-month Libor 1.00%

March 2006 forecast: three-month Libor 1.25%

Year-on-year change in national consumer price index in percent



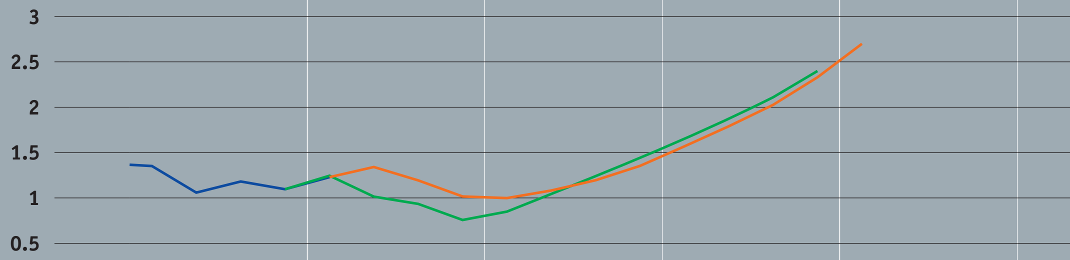
Inflation forecast of 15 June 2006

Inflation

March 2006 forecast: three-month Libor 1.25%

June 2006 forecast: three-month Libor 1.50%

Year-on-year change in national consumer price index in percent



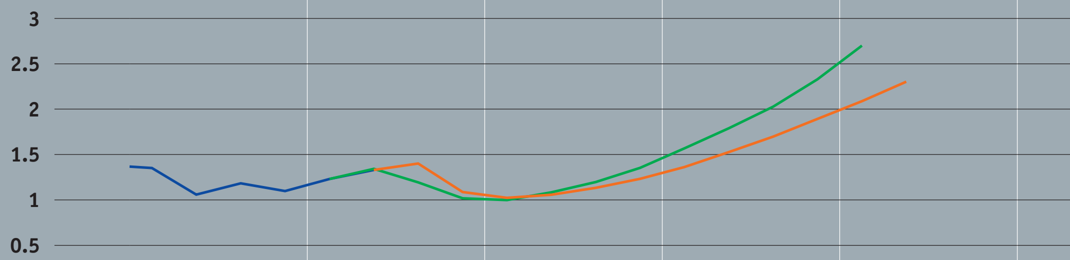
Inflation forecast of 14 September 2006

Inflation

June 2006 forecast: three-month Libor 1.50%

September 2006 forecast: three-month Libor 1.75%

Year-on-year change in national consumer price index in percent



Inflation forecast of 14 December 2006

Inflation

September 2006 forecast: three-month Libor 1.75%

December 2006 forecast: three-month Libor 2.00%

Year-on-year change in national consumer price index in percent

2005 2006 2007 2008 2009

Quarterly assessment of 16 March 2006

At each monetary policy assessment, the SNB bases its inflation forecast on the global economic scenario it regards as most likely.

In general, the hypotheses for the global economy at the first assessment in 2006 were similar to those of December 2005. Once again, the SNB forecast a robust global economy. Although-fourth quarter GDP growth in the US in 2005 had failed to meet the expectations of the previous assessment, the SNB still forecast strong growth for 2006, predicting a rise of over 3%. In the euro area, economic growth was shaping up more favourably than had been expected in the previous forecast. Consequently, the SNB forecast growth of approximately 2.5% for 2006. With regard to oil, it continued to work on the basis of high prices for the quarters ahead.

Since, at the time of the March assessment, the Swiss economy was progressing as expected, the SNB continued to forecast GDP growth of a little above 2%, as it had done in December 2005. The economy was likely to gain a little more strength and become even more broad-based. Thanks to the favourable development in sales in the main export countries, exports were likely to continue growing, albeit at a less buoyant pace. The higher level of capacity utilisation in manufacturing would probably again stimulate investment and increase demand for equipment. Only construction was expected to weaken a little, given its high level. An upturn in consumption and an improvement in the labour market were also likely.

Monetary aggregates react rapidly and clearly to interest rate decisions. Consequently, growth in the aggregates slackened following the rate increases in 2004 and December 2005. The money overhang generated during the period of extremely expansionary monetary policy stopped advancing after the interest rate hikes, while the growth in the volume of loans stabilised at a relatively high level. Furthermore, the SNB continued monitoring movements in the real estate market, in particular mortgage loans, which were still climbing at a rate of over 5%.

At the time of the March assessment, the increase in prices was mainly attributable to the price of oil. At that time, the SNB was forecasting an average annual rate of inflation of 1% for 2006. As compared to the December assessment, the inflation outlook was adjusted upwards. In these circumstances, the Governing Board decided to lift the Libor target range by 25 basis points to 0.75–1.75%.

Assuming that the new Libor was maintained unchanged at 1.25% for the following three years, the SNB forecast inflation to be higher than that predicted at the previous assessment until the end of 2006, as can be seen from the graph published at the time of the March assessment. The assumption of a high price for oil and the slight increase which was shaping up for the prices of imported goods contributed to this inflationary pressure in the early part of the forecast period. For the period 2007–2008, however, the new forecast showed a lower path than the previous forecast. At the end of the forecast period, expected inflation again exceeded the upper limit which the SNB equates with price stability.

Quarterly assessment of 15 June 2006

At the time of the June assessment, the international environment was little changed from the situation at the previous assessment. For the US, the SNB expected that GDP growth could once again exceed potential in 2006, although it would then weaken gradually. Similarly, the recovery observed in Europe over the past few quarters would lead to growth above potential in 2006, flattening off gradually thereafter. With respect to oil prices, the National Bank assumed a higher price than that envisaged in March.

After having weakened in the fourth quarter of 2005, Swiss growth regained a certain amount of momentum in the first half of 2006. According to the State Secretariat for Economic Affairs (SECO), GDP was up 3.8% year-on-year in the first quarter of 2006. The SNB then revised its forecast for 2006 upwards to a little over 2.5%. Most components of demand were likely to bolster growth in the quarters following the assessment, particularly exports, which would probably continue to expand at a healthy pace. Due to the improvement in the labour market and a better income outlook, additional stimuli would probably feed into consumption. Since the recovery was broad-based, demand in the labour market was also likely to increase. For the first time in over a year, the number of employed persons in the services sector was up. At the time of the assessment, the rate of unemployment had fallen to 3.4%, and the SNB was expecting a continued decrease over the course of the year.

The M1 and M2 monetary aggregates were stabilising at the time of the monetary assessment, while M3 was only rising slightly. In the wake of economic developments the monetary overhang was likely to recede further. The effect of the higher interest rate had been negligible as far as loans were concerned. This was particularly noticeable in the case of mortgages, which continued to grow at a rate of about 5%.

As in March, inflation at the time of the June assessment was largely attributable to the high oil prices. The SNB forecast an average rate of inflation of 1.2% for 2006. As compared to the March assessment, the inflation outlook was adjusted upwards. In these circumstances, the SNB decided to lift the Libor target range by 25 basis points to 1–2%.

Assuming an unchanged three-month Libor of 1.5% for the subsequent three years, the SNB forecast inflation of 1.2% in 2007 and 1.9% in 2008. As compared to March, the inflation forecast for these two years remained largely unchanged, despite the moderating influence of the increased Libor. The main reason for this was the higher level of capacity utilisation in manufacturing. The inflation forecast also showed that there was no risk of inflation in the short term. However, the increase in the rate of inflation expected for the end of the forecast period indicated that monetary policy was still expansionary.

Quarterly assessment of 14 September 2006

The situation in September was different to that in June in two respects. First, growth in the US economy was slowing more markedly than had been anticipated previously. However, the SNB still expected growth to reach 3% in 2007 and 3.2% in 2008. Second, recovery in the European economy was better than expected. Consequently, the outlook for 2007 and 2008 was likely to remain favourable with growth at around 2%.

Once again, economic developments in Switzerland were regarded as pleasing. The upswing was broad-based and was expected to have a positive impact on the labour market. Exports were likely to continue expanding, although they would probably lose a certain amount of their momentum. In addition, equipment investment was expected to continue rising, while the level of capacity utilisation in manufacturing was likely to remain high. In these circumstances, the SNB increased its growth forecast for 2006 to almost 3%, which was above the long-term average. In 2007, growth was likely to slow a little, although it would remain above potential.

Because of the gradual adjustment in interest rates, expansion in the monetary aggregates remained moderate. M3 was still increasing slightly, but M1 and M2 had exhibited negative growth rates in the months leading up to the assessment. In the real estate market, the SNB expected that the growth rate for mortgage loans would drop below the 5% level recorded at the time of the assessment. Despite the fact that the National Bank was anticipating a calmer period in the real estate market – signs of market weakening were already perceptible – it continued to keep a close watch on developments in this field.

The SNB forecast an average annual rate of inflation of 1.3% for 2006. However, it did not expect a rise in inflation in the quarters that followed. A number of factors combined to hold back price increases. These included competition from transition and emerging economies in Asia, the opening up of the Swiss employment market to foreign labour and the drop in the oil price at the time of the assessment. Nevertheless, on the assumption of an unchanged Libor of 1.5% for the next three years, the inflation outlook towards the end of the forecast horizon was likely to remain worrying. In these circumstances, the SNB decided to continue pursuing its policy course of gradually normalising the target rate of interest, and lifted the Libor target range by 25 basis points to 1.25–2.25%.

On the assumption of an unchanged new interest rate of 1.75% over the next three years, the path of the new inflation forecast lay above that for the previous assessment in June until the second quarter of 2007, despite the fact that the previous forecast was based on a lower interest rate. This new forecast was based, in particular, on the assumption that productive resources would be better utilised. For the remainder of the period, however, the inflation forecast was lower than the previous forecast, due to the moderating influence of the Libor. Taking this to be 1.75%, average annual inflation was likely to amount to 1.1% in 2007 and 1.6% in 2008. Thus, the inflation forecast showed that there was no inflationary risk in the short term. Nonetheless, the slight acceleration in inflation at the end of the forecast period indicated that monetary policy was still expansionary.

Quarterly assessment of 14 December 2006

At the December assessment, the most important international development was the substantial decline in the price of oil. This drop halted an upward trend that had been almost unbroken since 2004. As a result, the National Bank forecast downward pressure on inflation in most economies over the next few quarters. The SNB did not believe that the impact on the global economy would be particularly great since oil prices were still high, in historical terms. Otherwise, the international economic trends observed in the previous assessment – a slowdown in the US and strong growth in Europe – were unchanged at the time of the December assessment. Consequently, the SNB forecast growth of 2.9% in the US and 2.3% in Europe in the year 2007, and 3.3% in the US and 2.2% in Europe in the year 2008.

As at the previous assessment, economic activity in Switzerland was assessed favourably. The effects of the economic upswing, which was broad-based, spilled over into the labour market, and the SNB expected the rate of unemployment to drop below 3% as early as the beginning of 2007. Again in 2007, all the components of demand would probably continue rising, although the rate of increase would be a little more restrained than had been expected in September. Consumption was likely to join exports and equipment investment (spurred by the high level of capacity utilisation in manufacturing) as one of the most important growth drivers in 2007. In these circumstances, the SNB confirmed its forecast of about 3% growth in 2006 and 2% in 2007.

Of the monetary aggregates, M3 expanded to about 2% at the time of the assessment, while M1 and M2 continued their downward trend. Clearly, movements in these aggregates were again being influenced by the interest rate increases. Growth in mortgage loans was below 5% at the end of the year, confirming expectations of a slowdown in their growth momentum. Therefore, the SNB was still anticipating a return to a period of greater calm in the real estate market. Based on movements in the monetary aggregates, the National Bank was also expecting a slowdown in other types of loan for the upcoming quarters, despite their liveliness at the time of the assessment.

The inflation outlook was good for the time being. Both oil price developments and the interest rate hikes were holding back price increases. Consequently, the National Bank lowered its average annual inflation forecast for 2006 slightly, to an average of 1.1%. Nevertheless, the SNB decided to continue its gradual normalisation of the target rate of interest, and lifted the Libor target range by 25 basis points to 1.50–2.50%. In doing so, its aim was to avoid excessive use of resources in the years 2007 and 2008, thereby exercising a moderating influence on inflation in the medium term.

The curve for the new inflation forecast, drawn up on the assumption of an unchanged Libor of 2% over the next three years, was well below that published in September. This change was attributable mainly to the new, higher level of the Libor, but also to the drop in oil prices. Average inflation was expected to amount to 0.4% in 2007 and just under 1% in 2008. Thus, the inflation forecast showed that there was no inflationary risk in the short term. However, towards the end of the forecast period the inflation curve showed a clear upward trend. This reflected the fact that monetary policy was still expansionary in view of the expected development of the Swiss economy.

1.5 Statistics

Purpose of activities in the field of statistics

A uniform legal basis (art. 14 NBA) governs the collection of statistical data that the Swiss National Bank requires in order to fulfil its statutory tasks. The SNB collects data for the conduct of monetary policy and the oversight of payments and securities settlement systems, for safeguarding the stability of the financial system and preparing both the balance of payments and the statistics on the international investment position. Statistical data compiled for purposes relating to international monetary cooperation are made available to international organisations.

Institutions required to provide data

Banks, stock exchanges, securities dealers, fund managers of Swiss investment funds and agents of foreign investment funds are required to provide the SNB with statistical data on their activities (art. 15 para. 1 NBA). Where necessary to analyse trends in the financial markets, obtain an overview of payment transactions or prepare the balance of payments or statistics on Switzerland's international investment position, the National Bank may also collect statistical data on the business activities of other legal entities or private individuals. This applies in particular to insurance companies, occupational pension schemes, investment and holding companies, and operators of payment and securities settlement systems such as Swiss Post (art. 15 para. 2 NBA).

The SNB limits the number and type of surveys to what is strictly necessary (art. 4 National Bank Ordinance (NBO)). It seeks in particular to minimise the demands placed on those required to provide information.

Confidentiality and exchange of data

The National Bank is required to ensure the confidentiality of the data it collects and may only publish them in aggregated form. However, the data collected may be supplied to other Swiss authorities which are responsible for supervising the financial market (art. 16 para. 4 NBA).

Publications and database

The SNB manages a database containing 3.5 million time series and publishes the results of its surveys. Statistical information is made available primarily in the *Monthly Statistical Bulletin,* the *Monthly Bulletin of Banking Statistics* and *Banks in Switzerland,* which is published annually. These publications are supplemented by reports on Switzerland's balance of payments, the international investment position, direct investment and the financial accounts. The SNB's publications are also available in English. *Banks in Switzerland* was published in English for the first time in 2006. All publications are also accessible on the SNB website, www.snb.ch, along with other data series.

New surveys

Following a lengthy test phase, the SNB introduced lending rate statistics (data on the terms of new loans to companies) in mid-2006. The rapid growth in credit cards has prompted it to include additional card issuers in the group of companies that are required to provide information for statistics on the use of credit cards in payment transactions.

Broad collaboration

In compiling statistical data, the SNB collaborates with the competent federal government bodies, notably the Swiss Federal Statistical Office (SFSO) and the Swiss Federal Banking Commission (SFBC), the competent authorities of other countries and international organisations (art. 14 para. 2 NBA). With regard to organisational and procedural issues, and when introducing new surveys or modifying existing ones, the reporting institutions – together with their associations – are given the opportunity to comment (art. 7 NBO).

... with the SFBC

Under the agreement on the reciprocal exchange of data on the financial sector, the SNB assisted the SFBC secretariat in implementing the statistical requirements of the new capital adequacy regulations based on Basel II. This new survey, too, is carried out by the SNB. In mid-2006, the National Bank was for the first time commissioned by the SFBC to conduct a survey as part of the SFBC's half-yearly Supervisory Reporting. This survey enables the SFBC to set up an early warning system for risk-oriented supervision.

... with the banking statistics committee

The SNB is advised on the content of its banking surveys by the banking statistics committee (art. 7 NBO). This committee comprises representatives of the Swiss commercial banks, the Swiss Bankers Association, the SFBC and the Liechtenstein banks.

... with the group of experts on the balance of payments

A group of experts under the direction of the SNB participates in the drawing up of the balance of payments. It comprises representatives from industry, banking, insurance, various federal agencies and the Swiss Institute for Business Cycle Research at ETH Zurich.

... with the Principality of Liechtenstein

The SNB has stepped up its collaboration with the Liechtenstein authorities. Industrial companies and the service sector in Liechtenstein were included in the relevant surveys at year-end 2006 for the first time to complete the statistics on the balance of payments and international investment position.

... with foreign agencies

The SNB works closely with the Bank for International Settlements (BIS), the OECD, the EU statistical office (Eurostat) and the IMF. This collaboration is aimed at harmonising statistical survey methods and analyses.

2 Supplying the money market with liquidity

Mandate

It is the task of the Swiss National Bank (SNB) to provide the Swiss franc money market with liquidity (art. 5 para. 2 (a) National Bank Act (NBA)). The transactions that the National Bank may conduct with financial market participants are listed in art. 9 NBA. Based on art. 9 para. 1 (e) NBA, the National Bank also acts as lender of last resort.

Guidelines on monetary policy instruments

The "Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments" dated 25 March 2004 contain more explicit information with regard to art. 9 NBA and describe the instruments and procedures used by the National Bank for the implementation of its monetary policy. They also define the conditions under which these transactions are concluded and what securities can be used as collateral for monetary policy operations. In its transactions, the National Bank only accepts securities that fulfil its currency, liquidity and credit-rating criteria. Basically, all banks domiciled in Switzerland as well as internationally active banks abroad that meet the conditions stipulated by the National Bank are accepted as counterparties. The guidelines are supplemented by five instruction sheets which are primarily intended to be used by the counterparties. Since May 2004, the National Bank has been publishing a weekly report containing important monetary policy data.

2.1 Regular instruments for steering the money market

All of the SNB's regular monetary policy instruments are based on repo transactions. In this kind of transaction, the cash taker sells securities spot to the cash provider, while entering into an agreement to repurchase securities of the same type and amount from the cash provider at a later point in time. The cash taker pays interest (the repo rate) for the duration of the transaction. From an economic perspective, a repo is a secured loan.

Main financing and liquidity-absorbing operations

The purpose of the National Bank's main financing operations is to provide the banking system with liquidity, while the purpose of liquidity-absorbing operations is to withdraw surplus liquidity from the system.

Where main financing operations are concerned, transactions are concluded by way of auction. The auctions in turn are conducted by volume tender – in other words, the National Bank's counterparties request a certain amount of liquidity at a fixed price (repo rate). The repo rate, the size of the individual operations and their maturities depend on monetary policy requirements. The maturity of repo transactions varies from a day (overnight) to several weeks. In exceptional circumstances, contracts may even run for several months. The SNB sets the maturity of repo transactions in such a way that the commercial banks have to request liquidity on an almost daily basis to ensure they have the sight deposits required to meet minimum reserve requirements.

Fine-tuning operations

Fine-tuning operations are used to smooth the undesired impact of exogenous factors on liquidity supply as well as sharp fluctuations in short-term money market rates. Fine-tuning is carried out through auctions, by acting as the counterparty in the interbank market or through bilateral repo transactions. Fine-tuning operations are carried out when necessary. The conditions that apply in fine-tuning operations may differ from those applying in main financing operations.

Intraday facility

During the day, the National Bank provides its counterparties with interest-free liquidity (intraday liquidity) through repo transactions so as to facilitate the settlement of payment transactions via Swiss Interbank Clearing (SIC) and foreign exchange transactions via Continuous Linked Settlement (CLS), the multilateral payment system. The cash amounts must be repaid by the end of the same bank working day at the latest. These funds do not qualify when evaluating compliance with minimum reserve requirements or liquidity requirements under banking law.

Liquidity-shortage financing facility

The National Bank provides a liquidity-shortage financing facility to bridge unexpected liquidity bottlenecks. The interest rate for liquidity provided through this facility is two percentage points above the call money rate. The basis upon which the rate is calculated is the Overnight Repo Index (SNB) for the previous bank working day. The interest premium is intended to prevent commercial banks from using the facility as a permanent source of refinancing.

The liquidity-shortage financing facility is accessed via "special-rate repo transactions". The prerequisite for concluding such transactions is that a limit be granted by the National Bank and that this limit be covered by collateral eligible for SNB repos. The limit determines the maximum amount of liquidity that a counterparty may obtain, and it is utilised in the form of an overnight repo transaction.

At the end of 2006, 75 banks had been granted a limit for the liquidity-shortage financing facility, with total limits for these banks amounting to CHF 12.1 billion. Before the end of each day, banks are invited to report their liquidity requirements through the repo trading platform.

2.2 Liquidity supply with regular instruments

Monetary policy instruments in CHF billions

	2005 Holding Average	Turnover	2006 Holding Average	Turnover
Repo transactions				
Main financing and fine-tuning operations	**21.08**	**1 066.53**	**20.82**	**1 069.47**
Maturities of				
less than 1 week	0.10	18.38	0.13	40.66
1 week	19.16	993.15	18.91	980.19
2 weeks	1.63	42.90	1.50	39.11
3 weeks	0.00	0.00	0.00	0.00
Other	0.19	12.10	0.27	9.50
Liquidity-absorbing operations	**0.03**	**7.50**	**0.00**	**0.16**
Intraday facility	**6.34**[1]	**1 610.62**	**7.07**[1]	**1 773.94**
Liquidity-shortage financing facility	**0.01**	**1.02**	**0.01**	**1.72**

1 Amount utilised per bank business day

Repo transactions in detail

During the course of the year, the SNB allocated liquidity to banks at differing prices, depending on monetary policy criteria and the situation in the money market. Along with the increases in the target range for the three-month Libor, the repo rates were adjusted to take account of the latest monetary policy developments. In the course of 2006, they rose from 0.73% to 1.90%. The average difference between the repo rate and the three-month Libor was 24 basis points.

In 2006, the average volume of the National Bank's repo transactions from main financing and fine-tuning operations still outstanding at the end of the day fell by CHF 0.26 billion to CHF 20.82 billion. The turnover – in other words the sum of all of these repo transactions – reached CHF 1,069.47 billion. Almost all of this turnover was achieved with a maturity of one week. Liquidity-absorbing operations were only used in one exceptional case.

In the year under review, banks' daily bids at National Bank repo auctions fluctuated between CHF 1.5 billion and CHF 107.0 billion, averaging CHF 16.4 billion. The amount of liquidity allocated varied from CHF 1.0 billion to CHF 7.6 billion, averaging CHF 4.0 billion over the year. Of this amount, 68% was allotted to domestic banks, the remainder to internationally operating banks abroad. The allocation rate fluctuated between 3% and 100%, with the average rate amounting to 24%.

In 2006, the average use of the intraday facility by banks rose from CHF 6.3 billion to CHF 7.1 billion.

In 2006, banks again made only occasional use of the liquidity-shortage financing facility for bridging unexpected liquidity bottlenecks.

2.3 Further monetary policy instruments

In addition to the regular monetary policy instruments, the National Bank has a number of other instruments at its disposal, as provided for in art. 9 para. 1 NBA. These are foreign exchange spot and forward transactions, foreign exchange swaps and the SNB's own interest-bearing debt certificates; it can also purchase or sell securities in Swiss francs. In addition, it can create, purchase or sell derivatives on receivables, securities, precious metals and currency pairs. Such instruments were not used in the context of monetary policy in 2006.

2.4 Emergency liquidity assistance

Liquidity assistance conditions

Within the context of the emergency liquidity supply facility, the National Bank may provide liquidity assistance to domestic banks if they are no longer able to refinance their operations in the market (lender of last resort). However, the bank requiring credit must be systemically relevant and solvent, and the liquidity assistance must be fully covered by collateral at all times.

Systemic importance of a financial institution

A bank or group of banks is of systemic importance if its inability to pay would seriously impair the functioning of the Swiss financial system or major parts thereof, and have a negative impact on the economy. To assess the solvency of a bank or group of banks, the National Bank obtains an opinion from the Swiss Federal Banking Commission (SFBC). The National Bank determines what securities it will accept as collateral for liquidity assistance.

In 2006, no emergency assistance of this kind was required.

2.5 Minimum reserves

Main features of the regulation

The purpose of the minimum reserves (arts. 17, 18, 22 NBA) is to ensure that bank demand for base money reaches a minimum level. They thus fulfil a monetary policy objective. Eligible assets in Swiss francs comprise coins in circulation, banknotes and sight deposits held at the National Bank. Short-term liabilities comprise sight liabilities or liabilities with a residual maturity not exceeding three months as well as 20% of the liabilities vis-à-vis customers in the form of savings or investments. If a bank fails to fulfil the minimum reserve requirement, it is required to pay interest to the National Bank with respect to the 30-day period for which there was a shortfall. The interest rate is three percentage points higher than the one-month Libor for Swiss franc investments averaged over the reporting period in question.

Minimum reserve volumes in 2006

In 2006 (from 20 December 2005 to 19 December 2006), the average minimum reserves required by law amounted to CHF 8.2 billion. This is a 7% increase year-on-year. Existing eligible assets amounted to an average CHF 9.8 billion. Surplus liquidity averaged CHF 1.7 billion over the year and the liquidity ratio was 120%. In the previous year, the corresponding values amounted to CHF 9.3 billion, CHF 1.7 billion and 123%.

In 2006, all of the 300 or so banks fulfilled the statutory minimum reserve requirements, with very few exceptions. Seven banks infringed the requirements, in each case for one reporting period. The amount involved was insignificant, amounting to 0.1% of total required assets. The penalty rate that the contravening banks were required to pay totalled about CHF 25,000.

2.6 Collateral eligible for SNB repos

To protect the SNB against losses and to ensure equal treatment of business partners, collateral eligible for SNB repos must meet certain requirements, if it is to be suitable for monetary policy operations. For repo transactions, the SNB accepts securities in selected currencies that fulfil certain liquidity and credit rating criteria. The SNB groups securities that are eligible for repo transactions in baskets. The baskets are tailored to the SNB's requirements and general market trends. In order to guarantee the supply of liquidity to the banks and promote the stability of the financial system, the range of securities eligible for SNB repos should be as large as possible.

Of the securities which were used as collateral in monetary policy operations in 2006, an average of 51% was denominated in Swiss francs and 49% in foreign currencies.

3 Ensuring the supply of cash

3.1 Organisation of cash distribution

Mandate

Pursuant to art. 5 para. 2 (b) of the National Bank Act (NBA), the Swiss National Bank is responsible for ensuring the supply and distribution of cash (coins and notes) in Switzerland. In conjunction with the commercial banks and their jointly operated organisations, as well as Swiss Post, it works to ensure an efficient and secure payment system.

Role of the SNB

The SNB works with the head and regional offices of the commercial banks, Swiss Post, Swiss Federal Railways (SBB/CFF) and the cash processing operators. It offsets seasonal fluctuations in the demand for cash and replaces notes and coins that are unfit for circulation. The role of retailer, which includes the distribution and redemption of coins and banknotes, is assumed by commercial banks, Swiss Post and cash processing operators.

Closure of the Cashier's Office in Lugano

At the end of 2006, the cash office at the SNB branch in Lugano was closed. Customers were informed of the implications of this closure in good time. In future, they will be able to execute cash transactions either through the cash office in Zurich or through a cash processing operator in Ticino. Cash processing operators may apply for cash deposit facilities, which comprise stocks of notes and coins. The SNB retains ownership of these third-party facilities.

Turnover at offices

In 2006, the National Bank's offices registered currency turnover amounting to CHF 126.9 billion, as compared with CHF 121.4 billion a year earlier. They received 405.0 million banknotes (previous year: 391.4 million). The value of incoming coins stood at CHF 360.3 million (previous year: CHF 257.3 million), their weight at 1,802 tonnes (previous year: 1,373 tonnes). The SNB examined the quality, quantity and authenticity of the notes and some of the coins.

... agencies

The agencies' turnover (incoming and outgoing) stabilised at CHF 14.9 billion in the year under review, compared with CHF 15.2 billion a year earlier. Agencies are cash distribution services operated by cantonal banks on behalf of the SNB. They are responsible for the distribution and redemption of cash in their region. In order to do this, the agencies have access to cash belonging to the National Bank.

... domestic correspondents

The SNB can grant banks the authority to act as correspondents in areas where it does not have its own operations. Together with the post offices, these banks perform local cash redistribution transactions. The domestic correspondents supplied 2.2 million banknotes (previous year: 2.3 million) with a total value of CHF 340.0 million in 2006 (previous year: CHF 353.6 million).

3.2 Banknotes

Mandate

Pursuant to art. 7 of the Federal Act on Currency and Payment Instruments (CPIA), the SNB issues banknotes commensurate with demand for payment purposes and takes back any banknotes which are worn, damaged or no longer needed. It also determines the denomination and design of the notes. Particular attention is paid to their security. Given the speed at which counterfeiting technology is advancing, it has become absolutely essential that the security features on the banknotes be continuously checked and, if necessary, adjusted, as was the case for example with the perforated number (known as Microperf) on the small notes. New security features are developed in cooperation with third parties.

Banknote circulation

In 2006, banknote circulation averaged CHF 38.2 billion (previous year: CHF 37.1 billion). This increase is primarily attributable to a corresponding development in the 1,000-franc notes, which are often held as a store of value. The number of notes in circulation amounted to 283.4 million on average (previous year: 276.2 million). The rise is principally attributable to GDP growth and the increased use of the 20-franc note in ATMs.

Issue and disposal

In 2006, the National Bank put 111.5 million (previous year: 107.8 million) freshly printed banknotes with a face value of CHF 7.8 billion into circulation (previous year: 7.7 billion), and destroyed 97.0 million (previous year: 99.9 million) damaged or recalled notes with a nominal value of CHF 6.4 billion (previous year: 7.0 billion).

Counterfeits

Roughly 2,600 counterfeit banknotes were confiscated in Switzerland in 2006 (previous year: 4,000). The National Bank's offices alone discovered 108 counterfeit notes (previous year: 142). By international standards, 9 seized counterfeit notes per million Swiss franc notes in circulation is fairly negligible (14 in the previous year).

Number of banknotes in circulation
In millions

CHF 10s: 60

CHF 20s: 64

CHF 50s: 35

CHF 100s: 74

CHF 200s: 29

CHF 1,000s: 21

Annual average

Development of new banknote series

In 2006, the previous year's award-winning designers were given an opportunity to refine the content, design and printability of their submissions on the theme "Switzerland open to the world". The SNB will make its final decision on a graphic designer for the new series of banknotes in spring 2007. This decision will take into account the further refinements as well as prints of the 50-franc notes and the designs for the other notes.

3.3 Coins

Mandate

The SNB is entrusted by the Swiss Confederation with the task of coin circulation. Its role is defined in art. 5 CPIA. It is required to put into circulation the number of coins required for payment purposes and to take back those coins that are surplus to requirements – without restriction – in return for reimbursement of their nominal value. The National Bank's coinage services are not remunerated, as they constitute part of the mandate to supply the country with cash.

Withdrawal of the one-centime coin

During the year under review, the Swiss Federal Council decided to withdraw the one-centime coin as of 1 January 2007. Pursuant to the guidelines on withdrawn coins of 7 April 2006, the SNB will accept these coins at nominal value for 20 years after their withdrawal, i.e. until 31 December 2026. Swiss Post and Swiss Federal Railways (SBB/CFF) will accept the coins until 31 December 2008. It was decided not to withdraw the five-centime coin, although this was also discussed in the year under review.

Coin circulation and minting

The average value of coins in circulation was CHF 2.5 billion (previous year: CHF 2.4 billion), while the number of coins amounted to 4.3 billion (previous year: 4.2 billion). The number and denomination of coins in circulation depend greatly on the prices of items sold in vending machines.

In 2006, swissmint minted 30.5 million coins (previous year: 32 million) with a nominal value of around CHF 21.3 million (previous year: CHF 10.6 million). A large proportion of these coins replace those taken out of the country by tourists.

4 Facilitating and securing cashless payment transactions

Mandate

In accordance with art. 5 para. 2 (c) of the National Bank Act (NBA), the National Bank facilitates and secures the operation of cashless payment systems.

4.1 Facilitating cashless payment transactions

Bodies responsible for the cashless payment system

Art. 9 NBA empowers the SNB to keep interest-bearing and non-interest-bearing accounts (SNB sight deposit accounts) for banks and other financial market participants. These accounts enable them to participate in the Swiss Interbank Clearing (SIC) system, through which they conduct payment transactions with each other. 'Other financial market participants' are companies that operate commercially on the financial markets. They are currently defined as securities traders and institutions that are of significance either for implementation of the National Bank's policy or for clearing payments transactions. Every financial market participant with a sight deposit at the SNB is eligible to use the SIC system. However, not all of them do. At the end of 2006, the SNB had 459 account-holders (previous year: 469), 302 of whom were domiciled in Switzerland (previous year: 305). 330 of these account-holders used the SIC system. Of these, 239 (previous year: 236) were domiciled in Switzerland. Ten domestic participants in the SIC system are non-banks and five of these are cash processing operators.

SIC: a real-time gross settlement system

SIC is a real-time gross settlement system. Such systems settle payments individually – and only if there is sufficient cover for the transaction – through the accounts of the system participants. Once executed, transactions are final and irrevocable. Balances on sight accounts are legal tender like cash. SIC is operated by Swiss Interbank Clearing AG, a subsidiary of Telekurs Group, on behalf of the SNB.

SNB steers SIC

The SNB steers the system. It transfers liquidity from the sight deposit accounts at the SNB to clearing accounts in the SIC system at the start of each clearing day and transfers the balances from the clearing accounts back to the sight accounts at the end of the clearing day. Legally, the two accounts form a unit. The clearing day in the SIC system starts at 5.00 pm and ends at 4.15 pm the following day. During this time, the SNB monitors operations and ensures that there is sufficient liquidity by granting, when necessary, intraday loans to banks against collateral. In addition, the National Bank is responsible for crisis management.

SIC agreements

An agreement concluded between the SNB and SIC AG (SIC master agreement) entrusts the latter with providing data processing services for the SIC system, while the relationship between the SNB and the holders of sight deposit accounts is governed by the SIC giro agreement.

Participation in payment system bodies

The SNB influences the development of the SIC system on a conceptual level. Based on the SIC master agreement, the SNB is the final approval body for upgrades and enhancements to SIC. It also exerts influence through the Board of Directors of SIC AG, in which it is represented, as well as through various technical working groups.

Participation in SEPA

In March 2006, the European Payments Council (EPC) adopted the so-called Swiss Resolution, making Switzerland an official member of the Single Euro Payments Area (SEPA). The aim of the SEPA project is to create a single Europe-wide market for euro payments, allowing the adoption of uniform standards for the processing of cashless payments (bank transfers, direct debits and payments by card) in euros by 2008. Moreover, national borders will no longer play a role in such payments. Since payments within SEPA will be regarded as domestic payments, the relevant domestic charges will be applicable.

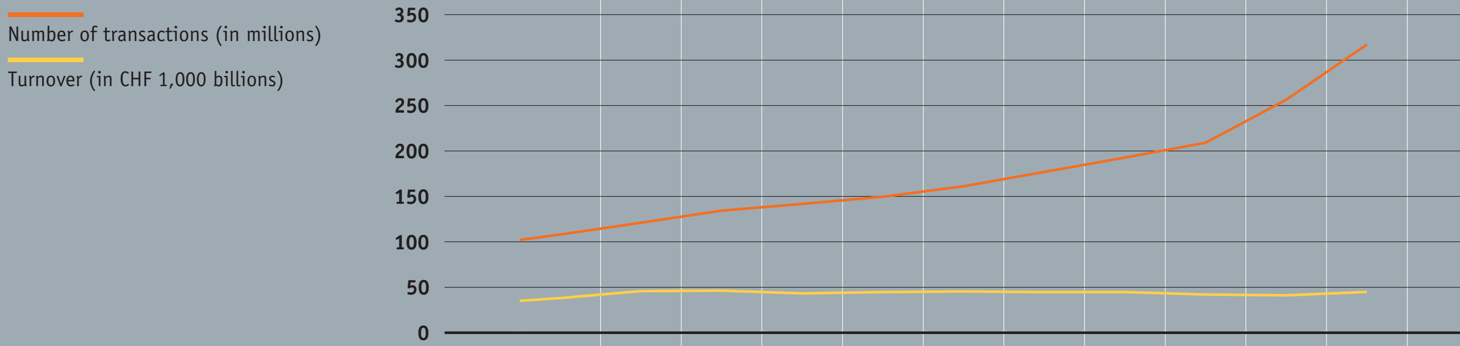
Key figures on SIC

The SIC AG data processing centre settled approximately 1.3 million transactions amounting to CHF 178.6 billion each day. On peak days, up to 3.8 million transactions and a total volume of CHF 318 billion were processed. The number of transactions handled by the SIC system increased by around 25%, and turnover was up roughly 10%.

Key figures on SIC

	2002	2003	2004	2005	2006
Transactions (in CHF thousands)					
Daily average	705	768	816	1 009	1 264
Highest daily value of the year	1 874	2 145	2 215	2 690	3 844
Volume (in CHF billions)					
Daily average	180	178	163	161	179
Highest daily value of the year	270	284	273	247	318
Amount per transaction (in CHF thousands)	253	232	200	160	141
Average liquidity (in CHF millions)					
Sight deposits at the end of the day	3 327	4 811	5 339	4 831	5 217
Intraday liquidity	3 897	5 972	6 188	6 340	7 070

Transactions and turnover in Swiss Interbank Clearing per year



4.2 Oversight of payment and securities settlement systems

Mandate

The NBA (art. 5 para. 2(c) and arts. 19–21) requires the SNB to oversee systems for the clearing and settlement of payments (payment systems) or transactions involving financial instruments, especially securities (securities settlement services). It empowers the National Bank to impose minimum requirements on the operation of systems that might be a source of risk to the stability of the financial system. The National Bank Ordinance (NBO) lays down the details of system oversight (arts. 18–39 NBO).

Focus on systemically important systems

Oversight focuses on those systems from which risks for the stability of the Swiss financial system may emanate. These include the payment system, Swiss Interbank Clearing (SIC), the securities clearing system (SECOM), and the central counterparty (x-clear). Pursuant to art. 22–34 NBO, the operators of these systems must meet minimum requirements. These are outlined in greater detail in system-specific Control Objectives issued in 2006. The SNB also introduced self-assessments in 2006. The systems operators use these to provide detailed evidence of compliance with the Control Objectives. The self-assessments are an important source of information for the SNB's own assessments. Other systems of systemic significance for the stability of the Swiss financial system are the Continuous Linked Settlement (CLS) system for foreign exchange transactions, whose operator is based in the US, and the central counterparty, LCH.Clearnet Limited (LCH), domiciled in the UK. CLS and LCH are exempted from the obligation to meet the minimum requirements because they are already subject to adequate oversight by their local regulators and there is a smooth exchange of information with the SNB.

Classification of LCH as systemically important

In 2006, the SNB defined the central counterparty, LCH.Clearnet Limited (LCH), as systemically important. LCH is a joint stock company registered in the UK, and is a wholly owned subsidiary of LCH.Clearnet Group Limited. The main shareholders of its parent company are the stock market operator Euronext, the LCH members, and the international central securities depositary Euroclear. LCH provides clearing services for a variety of spot and futures markets in the UK, the rest of Europe and the US. Of particular relevance for the Swiss financial system are the clearing services it provides for the virt-x trading platform and will shortly be providing for SWX Swiss Exchange. virt-x trading is mainly used for trading in blue chips included in the Swiss Market Index, while shares in Swiss companies with lower market capitalisation are traded on the SWX. LCH provides these services in competition with x-clear. For all transactions in which one trading partner is a participant in LCH and one in x-clear, there is a link between x-clear and LCH, which can be used for settling such transactions.

Cooperation with the SFBC

SIS SegaInterSettle AG and SIS x-clear AG, which operate the securities settlement system SECOM and the central counterparty x-clear respectively, both hold a banking licence and are supervised by the SFBC (institutional supervision) as well as the SNB (system oversight). While institutional supervision primarily aims at protecting individual creditors, system oversight deals with systemic risks and the functioning of the financial system. Although the SFBC and the SNB exercise their supervisory and oversight powers separately, they coordinate their activities as stipulated by law so as to avoid duplication (cf. art. 21 para. 1 NBA and art. 23bis para. 4 Banking Act). This applies in particular to the collecting of information required for the supervision of institutions and the oversight of systems. When assessing whether a system operator complies with the minimum requirements the SNB relies – as far as possible – on the information already gathered by the SFBC.

Cooperation with authorities abroad

The SNB cooperates with authorities abroad in the oversight of cross-border payment and securities settlement systems. In the case of CLS, the Federal Reserve Bank of New York, which is the authority with primary responsibility for its oversight, involves all central banks whose currencies are settled via this system. As regards the central counterparty x-clear, which holds the status of Recognised Overseas Clearing House (ROCH) in the UK, the SNB and the SFBC cooperate with the British Financial Services Authority (FSA). In 2006, the SNB and the SFBC drew up a Memorandum of Understanding with the FSA on cooperation and the exchange of information for the oversight of LCH, which (in Switzerland) has been newly defined as being systemically important.

Together with the other central banks in the Group of Ten (G10), and under the leadership of the Belgian central bank, the Swiss National Bank participates in the oversight of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), which operates a global network for the transmission of financial information. Oversight is confined to those of SWIFT's operations that are of significance for financial stability and the smooth functioning of its infrastructure. It does not include compliance issues.

Current focus of systems oversight

In systems oversight, the SNB devotes special attention to developments that will have a lasting influence on the security and efficiency of financial market infrastructure. Two developments received special attention in the year under review. The first was that the IT infrastructure services of the Telekurs Group and SIS Swiss Financial Services Group were integrated. It makes economic sense to amalgamate data processing in two joint centres and it also helps system operators implement contingency plans to offset the possible loss of specialists in a crisis. However, this development also resulted in a certain concentration of risk. The SNB therefore strongly encouraged the system operators to set up a third, supraregional data processing centre in the medium term which could be brought into service in an emergency. This recommendation is scheduled for implementation in 2007.

The second development relates to SIS x-clear AG, which previously operated exclusively as the central counterparty for the virt-x trading platform. SIS x-clear AG intends to offer its clearing services also to SWX Swiss Exchange and the London Stock Exchange (LSE) in the course of 2007. The expected sharp rise in business volume requires a number of adjustments to risk management at x-clear. The National Bank has given its approval in principal for their implementation. The SNB also advocated appropriate control of the risks arising from the clearing of transactions between x-clear and LCH.

5 Asset management

5.1 Basic principles

Mandate

Under art. 5 para. 2 of the National Bank Act (NBA), the Swiss National Bank is responsible for managing the currency reserves. Asset management is governed by the primacy of monetary policy and is carried out in accordance with the criteria of security, liquidity and performance. The SNB's own Investment Policy Guidelines define the scope for its investments and for the investment and risk management process. Within this framework, investments are made in line with the principles of modern asset management. Diversification of investment aims at achieving an appropriate risk/return profile.

Asset classes

The SNB's assets essentially consist of foreign exchange, gold and financial assets in Swiss francs (securities and claims from repo transactions). They fulfil an important monetary policy function. Their composition is determined mainly by the established monetary order and the requirements of monetary policy. Some of the assets, including claims from repo transactions, are used directly for the implementation of monetary policy. Using repo transactions, the SNB supplies commercial banks with liquidity in the form of base money by purchasing securities from them. The SNB holds currency reserves – in the form of foreign exchange and gold – in order to ensure it has room for manoeuvre in monetary policy at all times. Currency reserves serve to prevent and overcome potential crises.

5.2 Investment and risk control process

Responsibilities of Bank Council and Risk Committee

The NBA defines the SNB's responsibilities and describes in detail its mandate with regard to asset management. The Bank Council is charged with the integral oversight of the investment and risk control process. Its role is to assess the underlying principles and monitor compliance with them. The Risk Committee – which is composed of three members of the Bank Council – supports the Bank Council in this task. In particular, it monitors risk management. All internal reporting is addressed directly to the Governing Board and Risk Committee. To avoid conflicts of interest, operational responsibilities for monetary policy and investment policy operations are largely separated.

... Governing Board

The Governing Board defines the requirements with regard to the security and liquidity of investments and the eligible currencies, investment categories, instruments and debtors. It decides on the composition of the currency reserves and other assets, and normally sets the investment strategy once a year. The investment strategy encompasses the allocation of total assets to the different portfolios and the guidelines for their management, in particular the allocation to different currencies and investment categories, and the leeway for active management at the operational level.

... Investment Committee and Portfolio Management

An internal Investment Committee determines the tactical allocation at the operational level. Within the strategically prescribed range, it adjusts the currency allocations, duration or allocation to the different investment categories to changing market conditions. The management of the individual portfolios is the responsibility of Portfolio Management. The majority of investments are managed by internal portfolio managers. External asset managers are used to obtain efficient access to investment categories, such as US mortgage-backed securities or indexed equity portfolios. Other mandates are outsourced in order to conduct performance comparisons with internal portfolio management.

... Risk Management

The investment strategy is based on quantitative specifications relating to risk tolerance and liquidity of the investments, and on comprehensive risk/return analyses. Risk Management and limitation is carried out by means of a system of reference portfolios, guidelines and limits. All relevant financial risks on investments are identified, assessed and monitored continuously. Risk measurement is based on standard risk indicators and procedures. While market risk is mainly assessed by means of sensitivity and Value-at-Risk (VaR) analyses, credit risk is appraised using information from major rating agencies. Risk indicators are aggregated over all investments. Compliance with the guidelines and limits is monitored systematically. A quarterly risk report for the attention of the Governing Board and the Bank Council's Risk Committee documents the results of risk management activities.

5.3 Breakdown of assets

Composition of assets

The SNB's currency reserves totalled CHF 78 billion at year-end 2006. Gold accounted for CHF 32 billion of this amount and foreign exchange reserves for CHF 46 billion. In addition, the SNB held assets of approx. CHF 32 billion in the form of claims from repo transactions and bond investments in the Swiss franc capital market. Due to seasonal factors, claims from repo transactions at the end of the year were – as usual – several billions Swiss francs higher than the average for the year.

Investments

The vast majority of the investments were fixed-income investments. They comprised CHF 27 billion in claims from repo transactions, CHF 5 billion in CHF bonds, CHF 3 billion in claims from gold lending operations and most of the foreign exchange reserves. The remaining foreign exchange reserves consisted of equities.

Debtor categories and instruments

At the end of 2006, the bond portfolios consisted of government and quasi-government bonds as well as bonds issued by international organisations, local authorities, financial institutions and other companies. To a limited extent, secured and unsecured money market investments were also made at banks. The equities are managed on a purely passive basis, whereby broad market indices in euros, US dollars, yen, pounds sterling and Canadian dollars are replicated. In order to avoid any conflict of interest with monetary policy, only corporate bonds and equities issued by foreign companies are held.

Exchange rate and interest rate risks were managed using derivative instruments, such as interest rate swaps, interest rate futures and forward foreign exchange transactions. In addition, futures on equity indices were used to manage the equity investments.

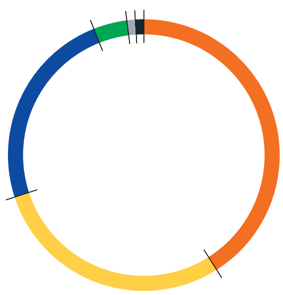
Breakdown of investments

	2005		2006	
	Foreign exchange reserves	CHF bonds	Foreign exchange reserves	CHF bonds
Currency allocation, incl. derivative positions				
CHF		100%		100%
USD	28%		27%	
EUR	47%		48%	
GBP	10%		10%	
JPY	8%		10%	
Other (CAD, DKK)	7%		5%	
Investment categories				
Money market investments	3%		3%	
Government bonds[1]	63%	48%	58%	48%
Other bonds[2]	25%	52%	29%	52%
Equities	9%	–	11%[3]	
Risk indicators				
Duration of bonds (years)	3.8	5.1	4.2	5.4
Value-at-Risk (1 year, 95%) in CHF billions	2.1	0.1	2.5	0.1

1 Government bonds in their own currencies, and – in the case of CHF investments – bonds issued by Swiss cantons and municipalities.

2 Government bonds in foreign currencies, bonds issued by foreign local authorities and supranational organisations, mortgage bonds, US mortgage-backed securities (MBS), corporate bonds, etc.

3 Including share index futures: 12%



Breakdown of National Bank assets
In percent

Foreign exchange reserves 41

Gold reserves 29

Claims from repo transactions 24

Securities in Swiss francs 4

Monetary institutions 1

Other assets 1

Total: CHF 112 billion
At year-end

Changes made in 2006

The currency allocation of the foreign exchange reserves was altered marginally compared with the previous year. The proportion invested in Japanese yen increased slightly at the expense of Danish kroner and US dollars. The proportion invested in equities also increased slightly.

5.4 Investment risk profile

Risk profile

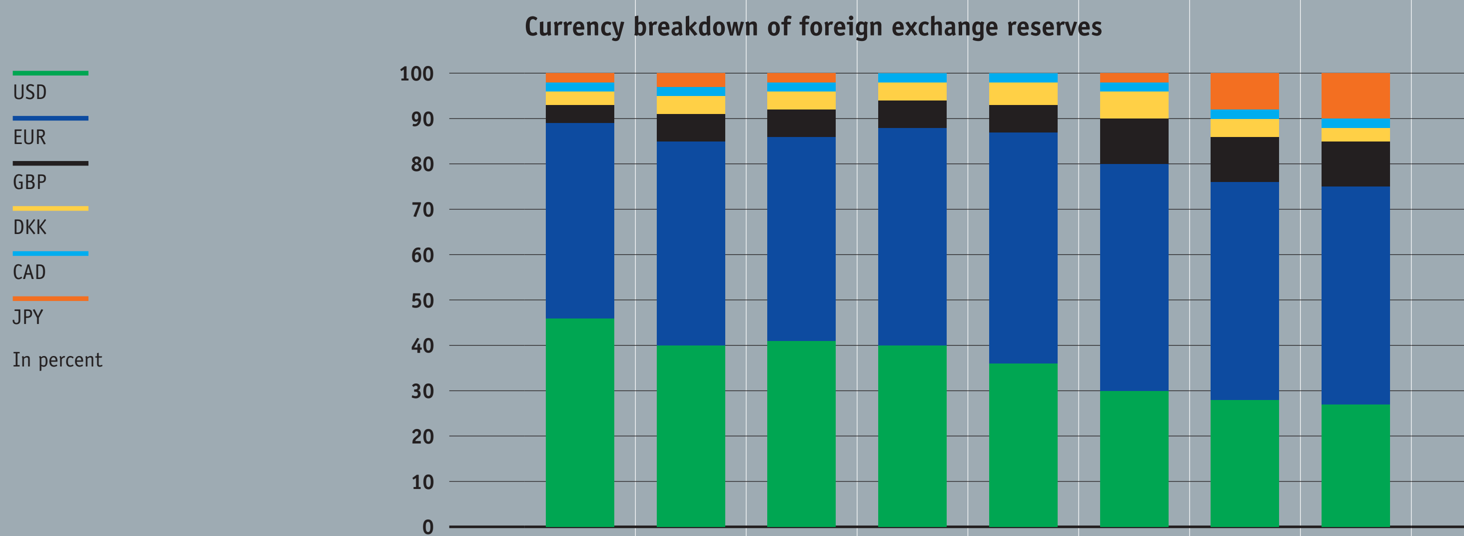
The main risk to investments is market risk, i.e. gold price, exchange rate, share price and interest rate risks. These risks are managed primarily through diversification. The SNB counters liquidity risks by holding the majority of its investments in the world's most liquid currencies and investment markets. In addition, it takes some credit risk. Compared with the market risk, this is insignificant, however.

… of currency reserves

The adjustments made in recent years, especially the more balanced allocation of foreign exchange reserves and diversification into equities, have improved the risk/return profile of the currency reserves. The average duration of fixed-income investments was around four years. The price of gold and the US dollar exchange rate were still the dominant risk factors. By contrast, equity, interest rate and credit risks contributed only marginally to the overall risk. The rise in the price of gold during the year increased the proportion of the currency reserves held as gold and, with it, the overall risk. With the exception of gold lending, gold was not actively managed. Slightly more than one-quarter of the gold holdings are available for lending transactions. At the end of 2006, about 123 tonnes (previous year: 134 tonnes) had been lent to various financial institutions. Most of these gold lending operations were secured by bonds with above-average ratings.

… and of Swiss franc investments

Swiss franc bonds are managed passively. Their maturity and credit structure generally correspond to that of the Swiss Bond Index. Duration at year-end was 5.4 years. Monetary policy repo transactions pose virtually no risk. Given the very short maturity of these transactions, they do not involve any interest rate risk. Moreover, they pose virtually no credit risk since the claims are secured by first-class collateral. Collateral is re-valued twice daily and any shortfall is covered immediately.



1999 2000 2001 2002 2003 2004 2005 2006

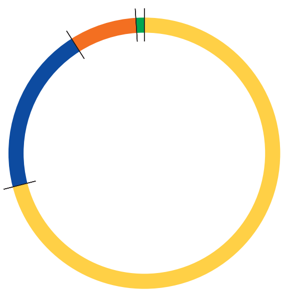
Credit risks

The SNB was exposed to credit risk by purchasing bonds from various debtors and debtor categories. Moreover, credit risk vis-à-vis banks existed in the form of time deposits, replacement values of derivatives, and gold lending. Although credit risk tolerance has increased in recent years, the average rating of the SNB's investments was high. 71% of the investments were graded AAA, the highest possible rating. As in 2005, the lowest rating category still eligible for investment – BBB – accounted for approximately 1% of these investments at the end of the year.

Overall risk

The overall risk of investments can be estimated, among other methods, by a VaR analysis. This indicator illustrates the SNB's risk tolerance and is applied both to total assets and to all sub-portfolios. The VaR shows the loss that – based on a prescribed probability level – will not be exceeded within a specific period of time. In view of the long investment horizon, the VaR for the SNB is calculated for a period of 12 months. Probability is set at 95%. Based on this calculation method, the VaR indicates the loss threshold which should only be exceeded once in every twenty years. Taken separately, the VaR came to roughly CHF 7.5 billion for gold and approximately CHF 2.5 billion for foreign exchange reserves. Owing to diversification effects, the VaR for total assets was – at roughly CHF 7 billion – significantly lower than the sum of the VaRs for the sub-portfolios.

In view of the limitations of the VaR method, such as the fact that it provides no information on possible extreme losses and tends to underestimate the risk of major losses, further risk analyses are required. The SNB, therefore, uses a range of other stress and scenario analyses. The National Bank's comparatively long-term investment horizon is taken into account in all of these calculations.



Rating allocation of investments[1]
In percent

AAA 71

AA 20

A 8

BBB 1

At year-end
1 Excluding shares and CHF repo transactions

5.5 Investment performance

The SNB's investment performance is calculated across all asset categories (foreign currency assets, gold and Swiss franc assets, including repo transactions). In 2006, it amounted to 5,2%, which was above the long-term return expectations. As in the previous year, by far the best performance – 15% – came from gold. By contrast, foreign exchange reserves (2%) and CHF bonds (0%) yielded below average returns. The return on the foreign exchange reserves was reduced by exchange rate losses. Exchange rate gains on euro and sterling investments were insufficient to offset the substantial exchange rate losses on dollar and yen investments. The good return on equities made a positive contribution, while rising interest rates reduced returns on fixed interest-rate investments.

Return on investments in Swiss francs[1]

	Foreign exchange reserves	Gold	CHF bonds	CHF repos	Total return[2]
1999	9.7%	–	0.7%	0.9%	–
2000	5.8%	–3.1%	3.3%	2.7%	2.2%
2001	5.2%	5.3%	4.3%	2.9%	4.0%
2002	0.4%	3.4%	10.0%	1.0%	3.0%
2003	3.0%	9.1%	1.4%	0.2%	4.2%
2004	2.3%	–3.1%	3.8%	0.3%	0.9%
2005	10.8%	35.0%	3.1%	0.6%	12.8%
2006	1.9%	15.0%	0.0%	1.3%	5.2%

1 Sum of direct income and realised and unrealised price changes on holdings.
2 From 2000–2005, including the return on free assets.

6 Contribution to financial system stability

Mandate

Pursuant to art. 5 para. 2 (e) of the National Bank Act (NBA), the Swiss National Bank is obliged to contribute to the stability of the financial system.

Stability as important condition

A stable financial system inspires confidence in a balanced economic development and helps consumers, savers and investors to make long-term decisions. It is also a prerequisite for properly functioning financial markets and is thus indispensable for a successful implementation of monetary policy. The Swiss National Bank makes every effort to identify any potential risks to the stability of the financial system at an early stage. It also plays an active role in creating an operational environment that promotes stability. To this end, the SNB continued its close collaboration with the Swiss Federal Banking Commission (SFBC) and other federal offices in 2006.

6.1 Financial Stability Report

Analysis of banking sector and financial market infrastructure

In June 2006, the SNB published its fourth *Financial Stability Report*. The report looked at developments in the banking sector and in the financial market infrastructure with regard to stability. Individual banks are only considered if this is relevant for the overall assessment.

Stable banking sector

According to the report, the banking sector raised its profits substantially in a generally favourable macroeconomic and financial environment. This increase led to an overall rise in capital, thus improving the banking sector's capability to absorb shocks. No major imbalances which might trigger a crisis were identified. The SNB pointed out that there is little potential for further improvement in the present environment. It also warned against an excessive increase in the appetite for risk-taking in the banking sector.

Secure and efficient financial market infrastructure

With regard to the settlement and processing of payments, securities transactions and transactions using other financial instruments, the report stated that the Swiss financial sector has a smoothly functioning financial market infrastructure. By international standards, Switzerland's financial market infrastructure displays a high level of security and efficiency. Thanks to the rules and procedures that form part of the integrated architecture of the payment and securities settlement systems, settlement risks are significantly reduced. However, the SNB pointed out that unremitting efforts are required in order to reduce operational risks and strengthen the financial system's resilience to crises.

6.2 New Basel Capital Accord

On an international level, the SNB, as a member of the Basel Committee on Banking Supervision, took part in work on the new Basel Capital Accord (Basel II). The Committee did not make any further changes to the Accord in 2006. However, it did take initial steps towards the Accord's implementation, e.g. it conducted a study which quantified the impact of the Accord on the level of capital adequacy requirements. In so doing, the Committee chose not to recalibrate these requirements. The National Bank supports the objectives of Basel II. Capital buffers at a level that is appropriate to risk strengthen the stability of the banking system. They protect banks from solvency problems and thus also from crises of confidence that may lead to liquidity shortages. Furthermore, only well-capitalised banks can effectively fulfil their macroeconomic function as credit intermediaries, also in difficult economic times.

SNB supports new accord

In autumn 2003, a working group lead-managed by the SFBC began to implement the new Capital Accord in the Swiss banking regulatory framework. The SNB, together with the commercial banks and auditing companies, participated in this task, concentrating on areas related to the stability of the banking system and the smooth functioning of the credit market. In the second half of 2006, the Swiss Federal Council and the SFBC passed the definitive ordinances and circulars on the new capital adequacy requirements. The standard approaches for the calculation of capital adequacy requirements entered into effect at the beginning of 2007; the more complex approaches will follow at the beginning of 2008.

SNB's role in implementation

The SNB supports the direction in which the implementation of Basel II is headed in Switzerland. From the National Bank's point of view, three aspects are particularly important. The first relates to the reliability of the complex approaches adopted by the larger banks in Switzerland to calculate capital adequacy requirements. It is important that the risk parameters which form the basis of the calculation of capital adequacy requirements are correctly estimated. The second is restricting the procyclical potential of the capital adequacy requirements. The SNB attaches particular importance to careful execution of stress tests by the banks. Lead-managed by the SFBC, it actively participated in the process of quality assessment in 2006. The third aspect concerns the need to reduce the potential for contagion in the event of a bank failure. In this context, the SNB successfully called for a stricter regulation of large exposures in interbank transactions.

SNB supports direction of implementation

6.3 Legislation relevant to the financial market

As previously, the SNB contributed to the reform of securities legislation in 2006. It participated in the revision of the preliminary draft of an Uncertificated Securities Act, which had been drawn up by a working group headed by the National Bank in 2004 (cf. *98th Annual Report 2005,* p. 60). The Federal Council submitted the revised draft to the Federal Parliament on 15 November 2006. The Uncertificated Securities Act will modernise the legal basis for the custody of securities by financial intermediaries. In addition, the SNB chaired a committee of government experts at the International Institute for the Unification of Private Law (Unidroit), which is preparing an agreement on the world-wide harmonisation of the law on securities held with intermediaries. This project should be concluded in 2008.

7 Involvement in international monetary cooperation

Mandate

Art. 5 para. 3 of the National Bank Act (NBA) stipulates that the Swiss National Bank shall participate in international monetary cooperation.

7.1 International Monetary Fund

Swiss interests

The IMF works to promote stable monetary conditions worldwide and support free trade and international payment flows. As an open economy with a globally important financial sector, Switzerland shares these aims.

Responsibilities

The Chairman of the National Bank sits on the Board of Governors of the IMF, the Fund's highest decision-making body, while the Head of the Federal Department of Finance (FDF) leads the Swiss delegation that takes part in the IMF meetings. Switzerland holds one of the 24 seats on the Executive Board, the IMF's most important operational body. In this function, it represents one constituency, which also includes Azerbaijan, the Kyrgyz Republic, Poland, Serbia, Tajikistan, Turkmenistan and Uzbekistan, and actively participates in formulating IMF policy. Montenegro, which has been independent of Serbia since 3 June 2006, joined the IMF on 18 January 2007 as an independent member and no longer belongs to the Swiss constituency. The Swiss seat on the Executive Board is held alternately by a representative of the National Bank and the FDF. The National Bank and the FDF determine Switzerland's policy in the IMF and support the Swiss executive director in his activities.

Important activities in 2006

The most important activities undertaken by the Executive Board in 2006 were surveillance of the economic situation in member countries (crisis prevention) and the reform of quotas and voting rights. Significant progress has been made in the area of surveillance in recent years and some countries have repaid IMF loans ahead of schedule. To improve the response to global problems, multilateral consultation has been set up for systemically import countries and economic blocs. In addition, there are plans to introduce a new liquidity instrument for crisis prevention. These credit lines are for emerging markets that are pursuing a sound economic policy but are still vulnerable with regard to foreign trade and capital flows.

Reform of quotas and voice

The purpose of the reform on quotas and voice (voting rights), which should be completed within two years, is to ensure that representation of the member countries reflects recent global economic trends. As a first step, it was decided to increase the quotas for four countries (China, Mexico, South Korea and Turkey). As a result, Switzerland's quota dropped from 1.62% to 1.60%. The second step will comprise negotiating a new quota formula, realigning the quotas and raising the basic voting rights of member countries.

Financial Sector Assessment Program; FSAP

Within the framework of bilateral economic policy surveillance, Switzerland – in addition to the annual Article IV Consultation – participated in the IMF's Financial Sector Assessment Programme. FSAP is voluntary, but is recommended for financial centres as it entails a detailed examination of the health and stability of the financial sector. In Switzerland's case it comprised updating the first evaluation, which was carried out in 2001. The results are expected to be available in early summer 2007.

Financing of the reserve position

The IMF finances its activities with the member countries' quotas, i.e. capital subscriptions. Total quotas in the IMF amount to 217 billion in Special Drawing Rights (SDR) (approx. CHF 400 billion), with Switzerland's quota coming to SDR 3458.5 million (roughly CHF 6350 million). The portion of the Swiss quota used by the IMF – the reserve position – is financed by the National Bank. This is essentially a currency reserve that the SNB may use at any time. At the end of 2006, Switzerland's reserve position amounted to SDR 303.4 million, compared with SDR 571.2 million at the end of 2005. At the end of 2006, one SDR was equivalent to CHF 1.8358. This figure is calculated from the weighted exchange rates of the US dollar, euro, yen and pound sterling.

Contributions to PRGF and interim PRGF

The National Bank also finances the Swiss contribution to the loan account of the IMF's Poverty Reduction and Growth Facility (PRGF). The PRGF funds, in which Switzerland participates with a loan commitment of SDR 151.7 million, were fully drawn down by the end of 2001. Since the PRGF could not be maintained as a self-supporting facility, interim financing (interim PRGF) was necessary. Switzerland contributes SDR 250 million towards the capital of the interim PRGF. This amount is provided by the National Bank. The Swiss Confederation guarantees the SNB the timely repayment of both the PRGF and interim PRGF loans, including interest payments.

7.2 Group of Ten

At the start of 2006, the SNB took over the Chairmanship of the Deputies of the Group of Ten for the interim period to March 2007. At the request of the Group of Ten, the role and mode of operation of the G10 were examined and the ministers subsequently decided to retain the annual meetings of the G10 ministers and central bank governors but to abolish the regular meetings of their Deputies. For Switzerland, its proposed membership in the Financial Stability Forum (FSF) would fully compensate the abolition of this body. The potential influence of financial market regulation on the global markets was also discussed at this meeting.

7.3 Bank for International Settlements

BIS bodies

At the start of 2006 the SNB assumed the chairmanship of the Board of Directors of the BIS. The central bank governors of industrialised countries and emerging economies meet every two months at the BIS for an exchange of information. In addition, the National Bank participates in four standing committees of the BIS: the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Markets Committee.

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision serves as a platform for regular cooperation in matters of banking supervision. Its tasks are described in more detail in the chapter on the National Bank's contribution to the stability of the financial system.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) monitors and analyses the developments in national and international payment and securities settlement systems. It issued two reports in 2006. The first provides an overview of the challenges facing international banks in the field of liquidity management for payments systems. In this context, the report analyses the processes available to banks to deposit foreign collateral in order to gain access to central bank liquidity. The second report looks at remittances, i.e. low-value cross-border payments transferred principally by foreign workers to relatives in their home countries. The report outlines various principles that should be observed to promote secure and efficient handling of such remittances.

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) monitors and assesses developments on the international financial markets and draws up recommendations which support central banks in their responsibilities with regard to the stability of the financial system. In 2006, the CGFS conducted two investigations. The first examined the reasons why the volatility of financial markets has declined in recent years. The second analysed the global shift in the financing of residential housing construction and its impact on consumer spending.

Markets Committee

The Markets Committee serves as a discussion forum for the G10 central bank staff members responsible for financial market operations. The discussions dealt with the developments on the foreign exchange and other financial markets and the impact of individual events on the overall functioning of these markets.

7.4 OECD

Committee work

Switzerland is a member of the OECD. On the Organisation's committees, it works to promote the development of economic relations, particularly among industrialised countries and major emerging economies. The National Bank, together with the Federal Administration, represents Switzerland in several OECD bodies. The Economic Policy Committee (EPC) and its three Working Parties examine economic structures, current account imbalances and the global economic outlook from the political and academic angles. The Committee on Financial Markets (CMF) discusses current developments and structural problems in international financial markets. The CMF's two Working Parties draw up rules to ensure optimum management of public debt and principles for compiling financial statistics. The Statistics Committee (CSTAT) drafts standards for the National Accounts in association with other international organisations. The Economic and Development Review Committee (EDRC) reviews the sustainability of the economic policies of OECD countries. In March 2006, Switzerland evaluated the OECD's country report on Germany as an EDRC examiner.

7.5 Monetary assistance loans

No new monetary assistance loans were extended in 2006. There was one outstanding balance-of-payments loan at the end of the year – EUR 14.3 million to Bulgaria, expiring in 2007.

7.6 Technical assistance

Focus on the countries in Switzerland's constituency

The National Bank fosters good relations with the central banks of those countries that Switzerland represents in the International Monetary Fund (IMF). With the support of those countries' voting power, Switzerland is able to head a constituency in the IMF and claim one of 24 seats on the Executive Board. The National Bank primarily provides the central banks of these countries with technical assistance, with a particular focus on the transfer of knowledge specific to central banks. The SNB provides no financial support.

Transfer of central bank-specific expertise

In 2006, the SNB continued to assist the central bank of Azerbaijan with the introduction of its new series of banknotes and the investment of its currency reserves. The programme for providing advice on human resources management was completed and the National Bank has now started to advise the Azerbaijani central bank on internal auditing. The central banks of both Serbia and Montenegro received further assistance with the investment of international reserves. For the central bank of the Kyrgyz Republic, the SNB provided advice on the introduction of new coins, the investment of international reserves, financial market operations and security issues. A joint survey of parts of the Republic's financial sector was also undertaken. In addition to established assistance with monetary policy analyses, the SNB provided support for the central bank of Tajikistan on cash and financial market operations.

Special events

In 2006, the SNB again organised meetings on specific topics for central banks from the countries in its constituency and other countries in the former Soviet Union and south-eastern Europe. In May, it organised a conference on "Inflation Targeting" in Warsaw in conjunction with the Polish central bank and in September it ran a cash management course in Berne.

Technical assistance to countries outside the Swiss constituency at the IMF

Outside of the Swiss constituency within the Bretton Woods institutions, noteworthy support provided by the SNB benefited the central banks of China, Kazakhstan and Tanzania. It also received visits from representatives of several Asian central banks on fact-finding missions.

8 Banking services for the Confederation

Mandate

Based on art. 5, para. 4 and art. 11 NBA, the Swiss National Bank provides banking services to the Swiss Confederation.

Remuneration for banking services

These services are provided in return for adequate compensation. However, they are provided free of charge if they facilitate the implementation of monetary policy. Remunerable services include payment transactions, liquidity management, the issue of money market debt register claims and the custody of securities. The details of the services to be provided and the remuneration payable are set out in an agreement concluded between the Federal Finance Administration and the National Bank dated 1 January 2006.

Issuing activities

In 2006, the SNB issued money market debt register claims (MMDRC) and bonds on behalf of and for the account of the Confederation by auction. MMDRCs totalling CHF 86.8 billion were subscribed, of which CHF 47.0 billion worth was allocated. The corresponding figures for Confederation bonds were CHF 7.3 billion and CHF 4.7 billion respectively.

Payments

In the area of payment transactions, the SNB carried out roughly 45,000 payments in Swiss francs on behalf of the Swiss Confederation (including ETH) and around 36,000 payments in various foreign currencies. Roughly 69,000 incoming payments (mainly in CHF) were recorded in the accounts held on behalf of the Swiss Confederation.

Business Report

1 Legal framework

1.1 Rejection of the Cosa initiative

National vote on 24 September 2006

The people's initiative, "National Bank profits for the Old Age and Survivors' Insurance Fund (AHV/AVS)", better known as the Cosa initiative, was submitted in October 2002. It called for the Swiss National Bank's net profit to be allocated to the AHV/AVS (minus an annual amount of CHF 1 billion that was to be distributed to the cantons). On 24 September 2006, the country voted on this initiative as well as an indirect counter-proposal put forward by the Federal Assembly, that the Swiss Confederation's share in the proceeds from the sale of the SNB's gold reserves that were no longer required (about CHF 7 billion, cf. *98th Annual Report 2005,* p. 68) be paid into the AHV/AVS. This counter-proposal was only to enter into force should the people's initiative fail to be approved.

Clear result

In a hard-fought campaign, the SNB spoke out decisively against the initiative, putting forward both its independence and its credibility as arguments. The Cosa initiative was finally defeated with 41.7% votes in favour and 58.3% – as well as a clear majority of the cantons – against. Voter turnout was unusually high. The SNB was pleased with the outcome of the vote, since it can now maintain its stability-oriented policy without any change in the conditions under which it operates.

1.2 Revision of the Organisation Regulations

Initial experiences

The Organisation Regulations of 14 May 2004 constitute the SNB's basic internal rules. They lay down the basic features of the National Bank's organisational structure, stipulate the procedure to be followed at the General Meeting of Shareholders, define the tasks and powers of the Bank Council, Governing Board and Enlarged Governing Board, and contain various procedural regulations. Since they came into force on 1 July 2004, most practical experiences with the new regulations have been positive, but there have been a few individual areas where it was felt that improvements could be made. In addition, on 21 October 2005, the Bank Council decided to close the cash office in Lugano with effect from the end of 2006, and to replace it with a representative office (cf. *98th Annual Report 2005,* p. 44), and this also necessitated an adjustment to the regulations.

Partial revision

The Bank Council therefore adopted – on 31 March 2006 – a partially revised version of the Organisation Regulations. This was approved by the Federal Council on 16 June 2006. The new version includes more precise definitions of the responsibilities of the Bank Council, the Bank Council's Risk Committee, the Governing Board and the Enlarged Governing Board. It also contains changes in the provisions relating to the organisational structure, arising out of the closure of the cash office in Lugano.

2 Organisation and tasks

Management and oversight

The Swiss National Bank's management and executive body is the Governing Board. It is responsible, in particular, for monetary policy, asset investment strategy and international monetary cooperation. The Governing Board fulfils its monetary policy mandate independently. The Enlarged Governing Board consists of the three members of the Governing Board and their three deputies, and is responsible for the operational management of the SNB. The Bank Council, meanwhile, oversees the National Bank's business activities. The Internal Auditors report directly to it.

Organisation

The SNB has two head offices, one in Berne and one in Zurich. It is divided into three departments. The organisational units of Departments I and III are, for the most part, located in Zurich; those of Department II, primarily in Berne. Each of the three departments is headed by a member of the Governing Board. In order to ensure the supply and distribution of cash, the National Bank also has a branch office in Geneva. As with the head offices and the branch office, the representative offices – located in Basel, Lausanne, Lugano, Lucerne and St Gallen – are responsible for monitoring economic developments and explaining the SNB's policy in the regions. The SNB also has 16 agencies – operated by cantonal banks – for the receipt and distribution of banknotes and coins.

Monetary policy

The SNB's principal task is to pursue a monetary policy serving the interests of the country as a whole. The monetary policy approach is drawn up in Department I. The Economic Affairs unit provides the analyses upon which the monetary policy decisions are based. It evaluates the economy in Switzerland and abroad, and produces the inflation forecast. The delegates for regional economic relations support Economic Affairs in its analysis of economic developments in Switzerland. The Money Market and Foreign Exchange unit in Department III implements monetary policy by carrying out transactions in the financial markets. It steers the three-month Libor.

Asset management

The management and investment of gold, foreign exchange reserves and Swiss franc assets is the responsibility of the Asset Management unit and the Money Market and Foreign Exchange unit, both in Department III. Investment strategy and risk control are dealt with by the Risk Management unit, also in Department III. The Bank Council's Risk Committee oversees risk control.

Cash transactions

The tasks relating to cash transactions fall within the domain of the Cash unit in Department II. The SNB issues banknotes and puts the coins minted by the Confederation into circulation via its network of bank offices. It checks the cash returned to it and replaces banknotes and coins that no longer meet requirements.

Conceptual and technical issues related to cashless payment transactions are dealt with by the Financial Stability and Oversight unit in Department II and by the Banking Operations and Information Technology units of Department III. The Banking Operations unit also steers the SIC payment system.

Cashless payment transactions

The Financial Stability and Oversight unit in Department II helps to ensure the stability of the financial system and oversees the systemically important payment and securities settlement systems.

Financial system stability

Acting as the bank of the Confederation is a function performed by the Banking Operations unit and the Money Market and Foreign Exchange unit, both of which belong to Department III. These units settle domestic and foreign payments, are involved in the issue of money market debt register claims and bonds, and assist the Confederation in safekeeping its securities. They also conduct money market and foreign exchange transactions on behalf of the Confederation.

Banker to the Confederation

The International Affairs unit in Department I handles the international aspects of monetary policy as well as technical assistance.

International monetary cooperation

The Statistics unit in Department I is responsible for compiling statistical data on banks and financial markets, and for drawing up the balance of payments, the international investment position and the Swiss financial accounts.

Statistics

The central services are divided between the three departments. The Secretariat General, Legal Services, Human Resources, Communications, and Premises belong to Department I. Department II includes Central Accounting, Controlling, and Security. Department III is responsible for Information Technology.

Central services

3 Corporate Governance

Basic principles

The Swiss National Bank is a special statute joint-stock company that is administered with the cooperation and under the supervision of the Confederation. Its organisational structure and responsibilities are governed by the National Bank Act of 3 October 2003 (NBA) and the Regulations on the Organisation of the Swiss National Bank of 14 May 2004 (Organisation Regulations). At the SNB, statutes and regulations fulfil the function of articles of association. The National Bank has a share capital totalling CHF 25 million and consisting of 100,000 registered shares at a nominal value of CHF 250 each. It is paid up in full.

The SNB is not organised in the form of a group; all of its business is conducted by a single company.

Corporate bodies and responsibilities

The corporate bodies of the SNB are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. The Bank Council oversees the conduct of business at the National Bank. Six of its members are appointed by the Federal Council while the remaining five are elected by the General Meeting of Shareholders. The Bank Council has established a Compensation Committee, a Nomination Committee, an Audit Committee and a Risk Committee. Each of these committees has three members. The Governing Board is the SNB's management and executive body. Its three members are appointed for a six-year term by the Federal Council on the recommendation of the Bank Council. The operational management of the SNB is in the hands of the Enlarged Governing Board, which is made up of the three Governing Board members and their deputies. The Audit Board reports on whether the accounting records and the Financial Report, as well as the proposal for the allocation of the net profit, are in accordance with the statutory requirements. In addition, the Audit Board is entitled to inspect the SNB's business activities at any time. It is elected for a term of one year by the General Meeting of Shareholders. The auditors must meet special professional requirements pursuant to art. 727b of the Swiss Code of Obligations, and they must be independent of the Bank Council, the Governing Board and the controlling shareholders.

Shareholders' rights

Shareholder rights are also governed by the National Bank Act, with the provisions of company law being subsidiary to those of the NBA. As the SNB fulfils a public mandate and is administered with the cooperation and under the supervision of the Confederation, shareholder rights are less extensive than in the case of joint-stock companies registered under private law. Shareholders from outside the public-law sector may not be registered for more than 100 votes. Shareholders may be represented at the General Meeting of Shareholders by other shareholders only. Only five of the eleven members of the Bank Council are elected by the General Meeting of Shareholders. Dividends are limited to 6% of the paid-up capital, while the remaining distributable profit is paid out to the Confederation and the cantons. The Business and Financial Report must be approved by the Federal Council before being submitted to the General Meeting of Shareholders. Other provisions deviating from company law concern the convention of the General Meeting of Shareholders, its agenda and adoption of resolutions. Agenda items with motions from shareholders must be signed by at least 20 shareholders and submitted to the President of the Bank Council in writing by the date indicated, before invitations are sent out.

Important information on the structure and organisation of the SNB, as well as the remuneration and eligibility of its bodies may be found in various parts of this report. References to the relevant sections are contained in the tables at the end of this chapter.

Meetings and remuneration of bodies

In 2006, the Bank Council held six ordinary meetings (February, March, June, August, October and December) and one extraordinary meeting (November), all of which were also attended by the members of the Governing Board. Its Compensation Committee met once and its Nomination Committee met five times. The Audit Committee met three times, all but once with representatives of the Audit Board. The Risk Committee held two meetings. All of these meetings lasted half a day.

Remuneration of the SNB's bodies is laid down in regulations issued by the Bank Council. Members of the Bank Council receive an annual compensation payment plus attendance allowances for committee meetings. Remuneration paid to members of the Enlarged Governing Board is made up of their salary plus lump-sum compensation for representation expenses.

In the period under review, the SNB did not make any severance payments to former members of the Bank Council or the Governing Board. The SNB does not pay any performance-linked remuneration. In particular, there are no share or option programmes for members of the Bank Council or Enlarged Governing Board. The National Bank does not grant any loans to governing bodies.

No SNB shares were held by members of the Bank Council or Enlarged Governing Board as at 31 December 2006.

In the 2006 financial year, fees for the statutory auditing mandate totalled CHF 268,000. PricewaterhouseCoopers Ltd. has been entrusted with the mandate since 2004, and the chief auditor has been in office since then. The Audit Board was not granted any other mandates.

Information for shareholders

Notifications to shareholders are, in principle, communicated by post to the address listed in the share register and published in the Swiss Official Gazette of Commerce. Shareholders do not receive any information which is not also made available to the public.

Listed registered shares

The registered shares of the Swiss National Bank are traded on the stock market. A total of 53.45% of the shares are held by cantons and cantonal banks. The remaining shares are mostly held by private individuals. The major shareholders at the end of 2006 were the Canton of Berne with 6.6% (6,630 shares) and the Canton of Zurich with 5.2% (5,200 shares). The Confederation is not a shareholder.

Cross-reference tables

The basic features of the SNB's structure and organisation are contained in the National Bank Act (NBA), its Organisation Regulations and in the regulations on the Bank Council committees.

NBA (SR 951.11)	www.snb.ch, *The SNB, Legal basis, Constitution and laws*
Organisation Regulations (SR 951.153)	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the Compensation Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the Nomination Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the Audit Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the Risk Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*

Information on corporate governance additional to that presented above may be found in other parts of the *Annual Report,* on the SNB website, in the National Bank Act and in the Organisation Regulations.

Corporate structure and shareholders	*Annual Report,* pp. 74, 109
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	*Annual Report,* pp. 74, 109
Bank Council	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Members	*Annual Report,* p. 122
Nationality	Art. 40 NBA
Affiliations	*Annual Report,* p. 123
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	*Annual Report,* p. 122
Internal organisation	Arts. 10 et seq. Organisation Regulations
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation Regulations
Systems of control	*Annual Report,* pp. 53–54; arts. 10 et seq. Organisation Regulations
Executive management	www.snb.ch, *The SNB, Supervisory and executive bodies, Governing Board*
Remuneration	*Annual Report,* p. 101
Shareholders' rights	www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation requirements*
Decision-making quorum	Art. 38 NBA
General Meeting of Shareholders	Art. 35 NBA
Listing in the share register	www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation requirements*
Audit Board	
Information instruments	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	*Annual Report,* pp. 75, 130 et seq.

4 Personnel, resources and bank management

4.1 Human Resources

Number of employees and turnover

At the end of 2006, the Swiss National Bank employed 664 persons (including 24 apprentices). This was 7 fewer than the previous year. In terms of full-time equivalents, it corresponded to 623.8 positions (625 in 2005). The ratio of part-timers was 21.4% (24.0% in 2005). Staff turnover rose to 5.9% from 4.7% a year earlier.

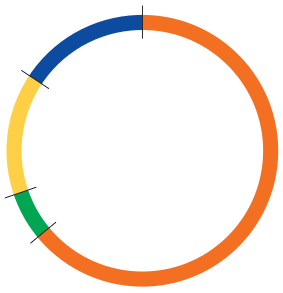
Human resources policy

In the year under review, an initial follow-up questionnaire to the 2005 staff survey on job satisfaction was carried out. A total of 76% of respondents felt that the 2005 survey had identified the correct problems. Respondents' general level of satisfaction with their personal work situation was a little higher than it had been in 2005.

In 2006, staff showed considerable interest in the SNB's range of training and further education opportunities and made active use of these. A total of 536 employees attended internal training events. The events that attracted the greatest numbers were professional training events (106), basic management training (97), safety training events (85), and development events specifically organised for individual organisational units (53), such as team development. In addition, 122 people attended external courses and seminars, while 64 people were enrolled in a course of further education.

Concentration of cash processing operations

For some years, structural changes in the area of cash transactions have triggered a gradual process of concentration in the SNB's cash processing operations. With the reorganisation of its cash distribution services in Zurich, Berne and Geneva, and the closure of the cash distribution service in Lugano, 15 positions were abolished in 2006. However, thanks to early retirements, internal relocations and one external placement, it was possible to avoid layoffs.



Human Resources
Number of employees

Full-time, men 425

Part-time, men 38

Full-time, women 97

Part-time, women 104

Total: 664
At year-end

4.2 Resources

Information technology

In 2006, a new IT strategy was introduced and the IT management structure was adjusted accordingly. IT functions were combined in three organisational units: (1) functions required to fulfil the SNB's statutory mandate, (2) support for internal operations and (3) functions relating to technical infrastructure. In order to cater for the growing complexity in the field of security, a new Information Security unit was created. An IT system to support high-quality control of financial risks was introduced as part of a long-term project. In 2006, IT invested substantial resources in the secure operation of systems. Processing in the data processing centres was stable and the availability of the systems was high. Business continuity measures were reinforced.

Premises

The renovation of the main building at Börsenstrasse 15 in Zurich was completed on 20 November 2006, when the staff restaurant reopened as scheduled. This marked the end of a seven-year renovation period which took in the main building as well as the premises at Fraumünsterstrasse 8 and Nüschelerstrasse 22. All buildings are now in first-class operational, technical and architectural condition.

Internal control system and operational risks

In 2006, the SNB gave serious consideration to the question of operational risks and implemented a bank-wide process for an Internal Control System (ICS) and the management of operational risks. This included the implementation of Control Self Assessments to identify potential deficits in the management of operational risks. Efforts in this area focused mainly on business continuity management and pandemic preparations.

Environmental management: Compensating air traffic emissions

The SNB's tenth environmental performance evaluation revealed that the burden placed on the environment by the National Bank had risen in 2005. To some extent, this was due to the renovation of the main building in Zurich. Although consumption of paper and office waste decreased, energy consumption was up by 3% from the previous year and business travel (in terms of kilometres) again rose, this time by 9%. This increased greenhouse gas emissions by 5%. The SNB decided to compensate greenhouse gas emissions from business air travel from 2007 onwards by supporting climate protection projects that promote renewable energies or energy efficiency.

The complete environmental performance evaluation can be accessed on the SNB website at www.snb.ch, *The SNB, Structure and organisation, Organisation*. A new evaluation is published each year, at the end of June.

4.3 Bank bodies and management

The composition of the Bank Council remained unchanged in 2006.

Bank Council

Following her retirement from the cantonal government of Fribourg, Ruth Lüthi, Vice-President of the Bank Council, tendered her resignation after eight years of service on the Bank Council. Her resignation takes effect on the day of the General Meeting of Shareholders on 27 April 2007.

Serge Gaillard, a member of the Bank Council since 1998, is resigning from the Bank Council following his appointment as head of the Labour Directorate at SECO. His resignation takes effect on 1 February 2007.

The Bank Council and the Governing Board thank Ruth Lüthi and Serge Gaillard for their valuable services to the Swiss National Bank.

Audit Board

On 28 April 2006, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd., Zurich, as the Audit Board for the 2006/2007 term of office.

Bank management

Niklaus Blattner, Vice-Chairman of the Governing Board and head of Department II, has announced his retirement with effect from the date of the General Meeting of Shareholders on 27 April 2007. On 1 January 2001, the Federal Council appointed him to the Governing Board and he took over responsibility for Department II. He was appointed Vice-Chairman with effect from 1 July 2003. Niklaus Blattner headed Department II during a period of renewal. In addition to his commitment to monetary policy, he developed SNB structures, expertise and reporting in the area of financial stability as well as in the oversight of financial market infrastructure. The Bank Council and the Governing Board thank him for his outstanding services.

On the proposal of the Bank Council, the Federal Council made the following appointments on 8 November and 8 December 2006:

Philipp M. Hildebrand, previously Member of the Governing Board, was appointed the new Vice-Chairman of the Governing Board.

Thomas J. Jordan, previously Alternate Member of the Governing Board and head of Financial Markets in Department III, was appointed Member of the Governing Board.

Dewet Moser, previously head of the Risk Management unit in Department III, was appointed Alternate Member of the Governing Board.

The three new appointments will be taken up on 1 May 2007. Philipp Hildebrand will take over responsibility for Department II and Thomas Jordan for Department III. Dewet Moser will become deputy head of Department III.

5 Business performance

5.1 Financial result

Summary

As in 2005, the increase in the gold price again had a major impact on the National Bank's annual result in 2006, which comes to CHF 5,045 million (2005: CHF 12,821 million). The distributable profit remaining after the allocation of CHF 889 million to the provisions for currency reserves, as prescribed by law, amounted to CHF 4,157 million. The profit distribution for the 2006 financial year totals CHF 2,502 million. The remaining CHF 1,655 million will be channelled into the distribution reserve.

Sharp rise in the gold price

Almost one-third of the SNB's assets are held in gold. In 2006, the gold price per kilogram again rose sharply. At the end of 2006, a one-kilogram gold bullion bar cost CHF 24,939, 15% more than a year earlier. A valuation gain of CHF 4,188 million (2005: CHF 7,439 million) was recorded on the SNB's total holdings of 1,290 tonnes of gold.

Lower net result from foreign currency investments

Foreign currency investments make up approximately 40% of the National Bank's total assets. They largely consist of bonds and also comprise equities and money market investments. Foreign currency investments earned a total of CHF 820 million, which is significantly less than a year earlier (CHF 5,327 million).

... due to capital losses on fixed-interest securities

Fixed-interest securities had to contend with rising interest rates in all markets, and the resulting capital losses lowered the interest income significantly. While the stock markets recorded gains, these were lower than a year earlier.

... and exchange rate losses on the US dollar and the yen

Exchange rate developments led to valuation losses. Although all European investment currencies appreciated from the previous year, these gains were more than offset by the valuation losses brought about by the weaker exchange rates for the US dollar and the yen.

Lower net result from Swiss franc investments

The net result from Swiss franc investments came to CHF 229 million, a year-on-year decline of CHF 67 million. Owing to the rising level of interest rates, Swiss franc securities incurred capital losses that were not completely offset by interest earnings. The rise in money market interest rates, by contrast, doubled the income from repo transactions.

Higher operating expenses

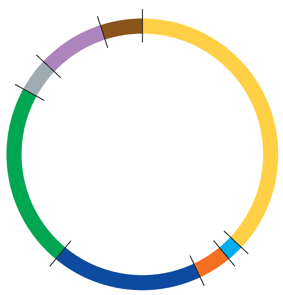
Operating expenses, which total CHF 233 million, comprise banknote and personnel expenses, general overheads and depreciation on tangible assets. If the special expenses incurred in 2005 (unscheduled depreciation on the real estate portfolio; provisions for the reorganisation of cash distribution services) are excluded, operating expenses rose by around CHF 15 million. Most of the increase was accounted for by general overheads.

Breakdown of operating expenses by cost unit

Cash transactions (including banknote production) again incurred the largest share of operating costs, accounting for 37%. Monetary policy (including statistics) followed with a share of 22%, and the management of *currency reserves* with around 18%. The other cost units, namely *services for third parties* (international cooperation, Study Center Gerzensee), *financial system stability, liquidity supply, services for the Confederation* and *cashless payment transactions* accounted for the remaining 23% of costs.

Outlook

The SNB's financial result is decisively influenced by price developments in the financial markets and can thus fluctuate strongly from one reporting period to the next. From an operational perspective, there are currently no projects that might have a major bearing on financial results in the future.



Cost units
In percent

Cash transactions 37

Cashless payment transactions 2

Liquidity supply 4

Currency reserves 18

Monetary policy 22

Services
for the Confederation 4

Services
for third parties 8

Financial system stability 5

5.2 Provisions stipulated in the National Bank Act

Purpose

The National Bank does not distribute its entire annual result, as it is obliged by the National Bank Act (NBA) to set aside provisions from its earnings surplus to build up currency reserves. These reserves allow the National Bank to intervene in the market should the Swiss franc become excessively weak. The currency reserves also make Switzerland's economy less vulnerable to international crises and thereby engender confidence in the Swiss franc. The need for foreign currency reserves is growing in tandem with the size and international integration of the Swiss economy.

Moreover, the provisions for currency reserves have a general reserve function; they cover the market, credit and liquidity risks of the National Bank's investments.

Targeted level

In accordance with art. 30 para. 1 NBA and the profit distribution agreement of 5 April 2002 between the Federal Department of Finance and the National Bank, the provisions formed on the liabilities side of the balance sheet for the purpose of building up currency reserves are increased in step with the growth of nominal gross domestic product (GDP). The targeted percentage rise is based on the average GDP growth over the past five years, in order to ensure that the currency reserves expand in line with the economy.

Development of targeted level

	Growth in nominal GDP In percent (average period)[1]	**Annual allocation** CHF millions	**New targeted level**[2] CHF millions
2002	3.3[3] (1996–2000)	902.1	28 239.9
2003	2.3 (1997–2001)	829.3	36 886.7[4]
2004	2.4 (1998–2002)	885.3	37 841.0[5]
2005	2.1 (1999–2003)	794.7	38 635.7
2006	2.3 (2000–2004)	888.6	39 524.3
2007	1.9 (2001-2005)	751.0	40 275.3

1 The data is revised on a continuous basis. The growth rates shown in the table thus differ slightly from the latest available data.
2 After the allocation in the reporting year.
3 Nominal gross national product.
4 Including CHF 7,817.5 million from the integration of the provisions for market and liquidity risks on gold on 1 January 2003 (cf. 96th Annual Report 2003, pp. 105–106).
5 Including CHF 69.0 million from the transfer of the reserve fund on 1 May 2004 pursuant to art. 57 para. 2 NBA.

Allocation from the 2006 annual result

The increase in the targeted level of provisions for 2006 amounts to CHF 889 million, in accordance with the average growth in GDP during the 2000–2004 period, which was 2.3% in nominal terms. The allocation is to be made as part of the appropriation of the 2006 annual result.

Distributable annual profit

Pursuant to art. 30 para. 2 NBA, the distributable annual profit corresponds to the earnings remaining after the provisions for currency reserves are set aside. For the 2006 financial year, the distributable annual profit amounted to CHF 4,157 million.

5.3 Profit distribution

Profit distribution agreement

In accordance with art. 31 NBA, one-third of profits are distributed to the Confederation and two-thirds to the cantons. The amount of the annual profit distribution is laid down in an agreement between the National Bank and the Federal Department of Finance.

According to the current agreement, concluded on 5 April 2002, the amounts distributed to the Confederation and the cantons are fixed in advance, with the aim of achieving a steady flow of payments in the medium term. The figure of CHF 2,500 million each year for the ten financial years 2003–2012 is based on an earnings forecast. The agreement covers year-to-year National Bank profits and the reduction of the distribution reserve.

2006 profit distribution

In accordance with the relevant agreement, the profit distributed to the Confederation and the cantons for the 2006 financial year will total CHF 2,500 million. Dividend payments will amount to CHF 1.5 million.

Distribution reserve

The difference between the distributable profit for the financial year and the actual profit distributed pursuant to the agreement will be recorded in the distribution reserve. The distributable profit for 2006 exceeds the distribution by CHF 1,655 million. Consequently, the distribution reserve will rise to CHF 18,129 million.

Development of profit distribution and distribution reserve

	Residual surplus prior to distribution In CHF millions	Profit distribution[1] In CHF millions	Residual surplus for future distributions In CHF millions
2002	13 240.4	2 500.0	10 740.4
2003	13 047.0	2 800.0	10 247.0[2]

	Distribution reserve prior to distribution[3] In CHF million	Distributable annual profit In CHF million	Profit distribution In CHF million	Distribution reserve after distribution In CHF million
2004	10 235,5[2]	20 727.6	24 014.7	6 948.4
2005	6 948,4	12 026.5	2 501.5	16 473.4
2006	16 473,4	4 156.7	2 501.5	18 128.7

1 Excluding per capita distribution to the cantons; excluding dividends.
2 Cf. 97th Annual Report 2004, p. 126, on transfer of the residual surplus for future distributions to the distribution reserve.
3 Total at year-end as per balance sheet (cf. p. 89).

5.4 Currency reserves

Definition

The major part of the currency reserves held by the National Bank consist of gold (including claims from gold transactions) and foreign currency investments. The reserve position in the International Monetary Fund (IMF), international payment instruments, and the positive and negative replacement values of derivative financial instruments are also allocated to currency reserves. Liabilities in foreign currencies reduce the level of currency reserves.

In the short term, the currency reserves fluctuate as a result of inflows and outflows of funds as well as valuation changes. In the medium and long term, the aim is to ensure that currency reserves grow in step with GDP. In order to achieve this aim, the National Bank does not distribute its entire profit, withholding part of the earnings surplus in the form of provisions for currency reserves entered on the liabilities side of the balance sheet (cf. 5.2, p. 83).

Composition

Composition

In CHF millions	31.12.2006	31.12.2005	Change
Gold	29 190.2	25 066.0	+4 124.2
Claims from gold transactions	3 030.3	2 984.2	+46.1
Foreign currency investments	45 591.9	46 585.5	–993.6
Reserve position in the IMF	557.3	1 079.8	–522.5
International payment instruments	330.8	78.9	+251.9
Derivative financial instruments	–36.0	34.1	–70.1
less: foreign currency liabilities	–1.8	–230.8	+229.0
Total	78 662.7	75 597.7	+3 065.0

Developments in the last five years

Developments

In CHF millions	Holdings at year-end	Year-on-year change
2002	65 492.4	–645.0
2003	65 749.9	+257.5
2004	64 152.0	–1 597.9
2005	75 597.7	+11 445.7
2006	78 662.7	+3 065.0

Financial Report

1 Income statement and appropriation of profit for 2006

In CHF millions

	Item no. in Notes	2006	2005	Change
Net result from gold	01	4 204.0	7 456.9	–3 252.9
Net result from foreign currency investments	02	820.0	5 327.3	–4 507.3
Net result from Swiss franc investments	03	229.3	296.1	–66.8
Net result from other assets	04	24.6	13.2	+11.4
Gross income		**5 277.9**	**13 093.5**	**–7 815.6**
Banknote expenses		–38.3	–39.7	+1.4
Personnel expenses	05, 06	–105.6	–106.2	+0.6
General overheads	07	-57.6	–49.1	–8.5
Depreciation on tangible assets	15	–31.1	–77.3	+46.2
Annual result		**5 045.3**	**12 821.2**	**–7 775.9**
Allocation to provisions for currency reserves		–888.6	–794.7	–93.9
Distributable annual profit		**4 156.7**	**12 026.5**	**–7 869.8**
Allocated to (-) distribution reserve		–1 655.2	–9 525.0	+7 869.8
Total distribution of profit		**2 501.5**	**2 501.5**	**–**
of which				
Payment of a dividend of 6%		1.5	1.5	–
Distribution of profit to the Confederation and the cantons (Agreement of 5 April 2002)		2 500.0	2 500.0	–

2 Balance sheet as at 31 December 2006

In CHF millions

Assets	Item no. in Notes	31.12.2006	31.12.2005	Change
Gold holdings	08	29 190.2	25 066.0	+4 124.2
Claims from gold transactions	09	3 030.3	2 984.2	+46.1
Foreign currency investments	10	45 591.9	46 585.5	−993.6
Reserve position in the IMF	11	557.3	1 079.8	−522.5
International payment instruments	27	330.8	78.9	+251.9
Monetary assistance loans	12, 27	236.6	270.2	−33.6
Claims from Swiss franc repo transactions	26	27 126.9	26 198.6	+928.3
Claims against domestic correspondents		5.1	5.3	−0.2
Swiss franc securities	13	4 907.6	5 729.1	−821.5
Banknote stocks	14	125.0	137.6	−12.6
Tangible assets	15	358.5	355.5	+3.0
Participations	16, 28	129.6	122.3	+7.3
Other assets	17, 30	223.6	375.2	−151.6
Total assets		**111 813.5**	**108 988.2**	**+2 825.3**

Liabilities

Liabilities	Item no. in Notes	31.12.2006	31.12.2005	Change
Banknotes in circulation	18	43 182.2	41 366.5	+1 815.7
Sight deposits of domestic banks		6 716.0	5 852.7	+863.3
Liabilities towards the Confederation	19	1 056.2	3 126.3	–2 070.1
Sight deposits of foreign banks and institutions		421.7	483.9	–62.2
Other sight liabilities	20	163.2	189.9	–26.7
Liabilities from Swiss franc repo transactions		–	–	–
Foreign currency liabilities	21	1.8	230.8	–229.0
Other liabilities	22, 30	81.9	90.7	–8.8
Provisions for operating risks	23	11.1	11.7	–0.6
Provisions for currency reserves		38 635.7	37 841.0	+794.7
Share capital	24	25.0	25.0	–
Distribution reserve		16 473.4	6 948.4	+9 525.0
Annual result[1]		5 045.3	12 821.2	–7 775.9
Total liabilities		**111 813.5**	**108 988.2**	**+2 825.3**

1 Before allocation to provisions for currency reserves.

3 Changes in equity capital

In CHF millions

	Share capital	Provisions for currency reserves
Equity capital as at 1 January 2005	**25.0**	**36 955.7**
Endowment of provisions for currency reserves pursuant to the NBA		885.3
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		
Equity capital as at 31 December 2005 (before appropriation of profit)	**25.0**	**37 841.0**
Equity capital as at 1 January 2006	**25.0**	**37 841.0**
Endowment of provisions for currency reserves pursuant to the NBA		794.7
Allocation to distribution reserve		
Distribution of dividends to the shareholders		
Profit distribution to the Confederation and the cantons		
Annual result of the year under review		
Equity capital as at 31 December 2006 (before appropriation of profit)	**25.0**	**38 635.7**
Proposed appropriation of profits		
Endowment of provisions for currency reserves pursuant to the NBA		888.6
Allocation to distribution reserve		
Distribution of dividends to the shareholders		
Profit distribution to the Confederation and the cantons		
Equity capital after appropriation of profits	**25.0**	**39 524.3**

Distribution reserve	Annual result (net profit)	Total
10 235.5	**21 612.9**	**68 829.1**
	–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
6 948.4	**12 821.2**	**57 635.6**
6 948.4	**12 821.2**	**57 635.6**
	–794.7	
9 525.0	–9 525.0	
	–1.5	–1.5
	–2 500.0	–2 500.0
	5 045.3	5 045.3
16 473.4	**5 045.3**	**60 179.5**
	–888.6	
1 655.2	–1 655.2	
	–1.5	–1.5
	–2 500.0	–2 500.0
18 128.7	**–**	**57 678.0**

4 Notes to the accounts as at 31 December 2006

4.1 Accounting and valuation principles

General

Basic 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

There was no change to the accounting and valuation principles compared with the previous year.

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

The National Bank publishes 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. Therefore, it does not draw up a consolidated financial report.

Recording of transactions

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

The rights of the National Bank's shareholders are restricted by law; 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

Summary

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.

Gold holdings

Physical gold holdings consist of gold ingots and gold coins. The latter are mainly smelted down and cast as bars. Gold holdings 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*.

Claims from gold transactions

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 both 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*.

Foreign currency investments

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

Securities lending transactions are concluded as part of the management of foreign currency investments. Securities lent by the SNB from its own portfolio are secured by collateral. 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.

Reserve position in the IMF

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 denominated in 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*.

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 in the form of a credit tranche. Alternatively, it may grant bilateral monetary assistance loans to countries with balance of payments problems. In addition to a bilateral monetary assistance loan, currently outstanding claims include loans under the Poverty Reduction and Growth Facility (PRGF, including the interim 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 (including the interim PRGF). 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*. General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB), which are intended for special circumstances and are not guaranteed by the Confederation, have not been used. Therefore, they are only listed under irrevocable undertakings (cf. section "off-balance-sheet transactions").

Claims and liabilities from Swiss franc repo transactions

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*.

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. These claims 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 not yet 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

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, software is not shown separately under intangible assets 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.

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	no depreciation
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 under *depreciation on tangible assets*.

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

Participations

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 positions in its balance sheet. For materiality reasons, they are reported in *other assets* or *other liabilities* and disclosed in the notes to the accounts.

Banknotes in circulation

The *banknotes in circulation* item shows the nominal value of all the banknotes issued in the current series as well as in recalled, still exchangeable 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. Interest is payable for amounts up to a maximum of 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.

Provisions for currency reserves

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.

Distribution reserve

With the exception of the dividend which – pursuant to the NBA – shall not exceed 6% of the share capital, 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 (cf. p. 84).

Pension fund

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 7% or 7.5% (depending on the employee's age) of the insured salary and those of the SNB 14% or 15%. 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.

Off-balance-sheet transactions

Contingent liabilities

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.

Fiduciary transactions

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

Liquidity-shortage financing facility – credit lines

The liquidity-shortage financing facility is a credit line for banks to bridge unexpected liquidity bottlenecks. Liquidity can be drawn by way of special-rate repo transactions. The maximum credit lines available are stated in the notes under off-balance-sheet transactions.

Irrevocable undertakings

Irrevocable undertakings include credit arrangements the National Bank has granted to the International Monetary Fund in the context of international cooperation. The maximum of resulting liabilities are stated in the notes under off-balance-sheet transactions.

Foreign currency exchange rates and gold price

Valuation rates

	31.12.2006 CHF	31.12.2005 CHF	Change In percent
1 US dollar (USD)	1.2202	1.3152	–7.2
1 euro (EUR)	1.6086	1.5561	+3.4
1 British pound (GBP)	2.3911	2.2687	+5.4
100 Danish kroner (DKK)	21.5800	20.8600	+3.5
1 Canadian dollar (CAD)	1.0502	1.1324	–7.3
100 Japanese yen (JPY)	1.0251	1.1195	–8.4
1 Special Drawing Right (SDR)	1.8369	1.8810	–2.3
1 kilogram of gold	24 938.72	21 692.03	+15.0

4.2 Notes to the income statement and balance sheet

Item no. 01

Net result from gold

In CHF millions	2006	2005	Change
Net result from changes in market value	4 188.4	7 438.7	–3 250.3
Interest income from gold lending transactions	15.6	34.9	–19.3
Net result from hedging transactions[1]	–	–16.7	+ 16.7
Total	4 204.0	7 456.9	–3 252.9

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

Item no. 02

Net result from foreign currency investments

Breakdown of net result by type In CHF millions	2006	2005	Change
Interest and capital gain/loss	757.7	2 090.9	–1 333.2
Dividend income and price gain/loss	620.7	741.7	–121.0
Interest expenses	–0.8	–1.0	+0.2
Exchange rate gain/loss	–546.1	2 507.3	–3 053.4
Asset management and safe custody account fees	–11.5	–11.6	+0.1
Total	820.0	5 327.3	–4 507.3

Breakdown of net result by origin In CHF millions	**2006**	**2005**	**Change**
Foreign currency investment	812.0	5 138.1	–4 326.1
Reserve position in the IMF	–1.0	160.6	–161.6
International payment instruments	7.7	4.0	+3.7
Monetary assistance loans	2.1	25.7	–23.6
Foreign currency liabilities	–0.8	–1.0	+0.2
Total	820.0	5 327.3	–4 507.3

Breakdown of net result by currency In CHF millions	**2006**	**2005**	**Change**
USD	–501.3	2 574.4	–3 075.7
EUR	1 161.0	1 413.3	–252.3
GBP	360.9	530.9	–170.0
DKK	53.2	127.6	–74.4
CAD	–13.1	281.3	–294.4
JPY	–236.6	221.6	–458.2
SDR	7.4	189.6	–182.2
Other	–11.5	–11.4	–0.1
Total	820.0	5 327,3	–4 507.3

Breakdown of exchange rate gain/loss by currency In CHF millions	**2006**	**2005**	**Change**
USD	–1 137.7	1 916.8	–3 054.5
EUR	711.4	143.5	+567.9
GBP	231.3	192.1	+39.2
DKK	41.7	11.8	+29.9
CAD	–76.4	205.6	–282.0
JPY	–299.8	–107.0	–192.8
SDR	–16.5	144.5	–161.0
Other	–0.0	0.0	–0.0
Total	–546.1	2 507.3	–3 053.4

Item no. 03

Net result from Swiss franc investments

Breakdown by type In CHF millions	**2006**	**2005**	**Change**
Interest and capital gain/loss	256.1	324.3	–68.2
Interest expenses	–23.7	–25.3	+1.6
Trading and safe custody account fees	–3.0	–2.9	–0.1
Total	229.3	296.1	–66.8

Breakdown by origin In CHF millions	**2006**	**2005**	**Change**
Swiss franc securities	–10.3	184.0	–194.3
Swiss franc repo transactions	263.3	137.3	+126.0
Other assets	0.1	0.2	–0.1
Liabilities towards the Confederation	–17.4	–19.3	+1.9
Other sight liabilities	–6.3	–5.9	–0.4
Total	229.3	296.1	–66.8

Item no. 04

Net result from other assets

In CHF millions	**2006**	**2005**	**Change**
Commission income	19.4	14.5	+4.9
Commission expenses	–16.8	–11.6	–5.2
Income from participations	17.0	6.0	+11.0
Income from real estate	4.3	3.7	+0.6
Other ordinary income	0.7	0.6	+0.1
Total	24.6	13.2	+11.4

Personnel expenses

Item no. 05

In CHF millions	2006	2005	Change
Wages, salaries and allowances	81.5	77.9	+3.6
Social insurance	17.2	16.9	+0.3
Other personnel expenses[1]	6.9	11.4	–4.5
Total	105.6	106.2	–0.6

1 Including reorganisation costs of CHF 1.6 million (2005: CHF 5.6 million, cf. p. 108, item no. 23).

Compensation of SNB bodies In CHF thousands	2006	2005	Change
Members of the Bank Council[1]	604	584	+20
of which for the President of the Bank Council	138	130	+8
of which for the Vice-President of the Bank Council	65	60	+5
Three members of the Governing Board[2]	1 816	1 774	+42
of which for the Chairman of the Governing Board[3]	606	592	+14
of which for the Vice-Chairman of the Governing Board	605	591	+14
Three alternate members of the Governing Board[2]	1 093	1 050	+43

1 Fixed annual compensation payment plus attendance allowances. The figures reported in the *2005 Annual Report* (2005: CHF 722,000; 2004: 659,000) also included expenses for the different Regional Economic Councils.
2 Salaries and lump-sum compensation for representation expenses.
3 In addition, remuneration in the amount of CHF 47,000 (2006) and CHF 45,000 (2005) for serving on the BIS Board of Directors

Employee benefit obligations[1]

Item no. 06

Share of actuarial surplus of pension plans[2] In CHF millions	31.12.2006	31.12.2005	Change
Overfunding in accordance with Swiss GAAP FER 26	150.4	127.5	+22.9
SNB's share of actuarial surplus	–	–	–

Employee benefit expenses In CHF millions	2006	2005	Change
Employer contributions	11.5	11.3	+0.2
Change in share of actuarial surplus	–	–	–
Employee benefit expenses as part of personnel expenses	11.5	11.3	+0.2

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

Item no. 07

General overheads

In CHF millions	2006	2005	Change
Premises	14.0	11.5	+2.5
Maintenance of mobile tangible assets and software	8.8	7.5	+1.3
Consulting and other third-party support	7.8	5.1	+2.7
Administrative expenses	12.9	12.5	+0.4
Operating contributions[1]	8.1	7.0	+1.1
Other general overheads	6.0	5.5	+0.5
Total	57.6	49.1	+8.5

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

Item no. 08

Gold holdings

Breakdown by type	31.12.2006		31.12.2005	
	Tonnes	CHF millions	Tonnes	CHF millions
Gold ingots	1 010.5	25 201.0	980.3	21 265.7
Gold coins	160.0	3 989.2	175.2	3 800.3
Total	1 170.5	29 190.2	1 155.5	25 066.0

Item no. 09

Claims from gold transactions

	31.12.2006		31.12.2005	
	Tonnes	CHF millions	Tonnes	CHF millions
Claims from unsecured gold lending	–	–	10.9	237.8
Claims from secured gold lending[1]	119.5	3 027.6	123.5	2 743.9
Claims on metal accounts	0.1	2.8	0.1	2.4
Total	119.6	3 030.3	134.6	2 984.2

1 Secured by collateral eligible for repo transactions with a market value of CHF 3,127.7 million (2005: 2,857.8 million).

Foreign currency investments

Item no. 10

Breakdown by investment type In CHF millions	31.12.2006	31.12.2005	Change
Sight deposits and call money	826.1	1 265.8	–439.7
Time deposits	1 209.2	595.2	+614.0
Money market instruments	1 103.3	2 648.8	–1 545.5
Bonds[1]	37 698.1	38 408.6	–710.5
Equities	4 755.2	3 667.0	+1 088.2
Total	45 591.9	46 585.5	–993.6

1 Of which CHF 123.1 million (2005: CHF 71.7 million) lent under securities lending operations.

Breakdown by borrower category In CHF millions	31.12.2006	31.12.2005	Change
Governments	28 632.3	31 988.7	–3 356.4
Monetary institutions[1]	1 377.4	1 675.5	–298.1
Corporations	15 582.2	12 921.2	+2 661.0
Total	45 591.9	46 585.5	–993.6

1 BIS, central banks and multilateral development banks.

Breakdown by currency[1] In CHF millions	31.12.2006	31.12.2005	Change
USD	14 959.4	16 281.8	–1 322.4
EUR	21 435.7	21 570.2	–134.5
GBP	4 588.3	4 816.9	–228.6
DKK	1 303.8	2 002.6	–698.8
CAD	1 003.6	1 045.7	–42.1
JPY	2 300.6	867.5	+1 433.1
Other	0.6	0.7	–0.1
Total	45 591.9	46 585.5	–993.6

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

Reserve position in the IMF

Item no. 11

In CHF millions	31.12.2006	31.12.2005	Change
Swiss quota in the IMF[1]	6 352.8	6 505.4	–152.6
less: IMF's Swiss franc sight balances at the National Bank	–5 795.5	–5 425.6	–369.9
Total	557.3	1 079.8	–522.5

1 SDR 3,458.5 million; change due entirely to exchange rates.

Item no. 12

Monetary assistance loans

1 For undrawn loan commitments, cf. p. 111, item no. 27.

In CHF millions	31.12.2005	31.12.2004	Change
Bilateral loan to Bulgaria	23.2	22.4	+0.8
PRGF credit facility	62.4	166.7	–104.3
Interim PRGF credit facility[1]	151.1	81.2	+69.9
Total	236.6	270.2	–33.6

Item no. 13

Swiss franc securities

Breakdown by borrower category In CHF millions	31.12.2006	31.12.2005	Change
Governments	2 583.6	3 261.3	–677.7
Corporations	2 324.0	2 467.8	–143.8
Total	4 907.6	5 729.1	–821.5

Breakdown of the *Governments* borrower category In CHF millions	31.12.2006	31.12.2005	Change
Swiss Confederation	1 630.9	1 876.4	–245.5
Cantons and municipalities	748.8	916.8	–168.0
Foreign states	203.9	468.1	–264.2
Total	2 583.6	3 261.3	–677.7

Breakdown of the *Corporations* borrower category In CHF millions	31.12.2006	31.12.2005	Change
Domestic banks	–	19.1	–19.1
Domestic mortgage bond institutions	699.5	787.6	–88.1
Other domestic corporations[1]	121.5	135.8	–14.3
Foreign corporations[2]	1 503.1	1 525.2	–22.1
Total	2 324.0	2 467.8	–143.8

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 2005	144.0
Additions	31.3
Disposals	–37.6
Position as at 31 December 2005	137.6
Position as at 1 January 2006	137.6
Additions	23.2
Disposals	–35.9
Position as at 31 December 2006[1]	125.0

1 Of which CHF 23.4 million in advance payments.

Tangible assets

Item no. 15

In CHF millions	Land and buildings[1]	Fixed assets under construction[2]	Software	Sundry tangible assets[3]	Total
Historical cost					
1 January 2006	410.7	15.0	22.6	66.3	514.7
Additions	14.1	2.6	7.0	10.5	34.2
Disposals	–0.8	–	–8.2	–6.4	–15.4
Reclassified	11.9	–15.0	–	3.1	
31 December 2006	435.9	2.6	21.4	73.5	533.4
Cumulative value adjustments					
1 January 2006	97.9		10.1	51.2	159.2
Scheduled depreciation	16.2		7.4	7.5	31.1
Disposals	–0.8		–8.2	–6.4	–15.4
Reclassified	–0.7		–	0.7	
31 December 2006	112.6		9.3	53.0	174.9
Net book values					
1 January 2006	312.8	15.0	12.5	15.1	355.5
31 December 2006	323.3	2.6	12.1	20.5	358.5

1 Insured value:
CHF 374.5 million
(2005: CHF 374.5 million).
2 Renovation projects at the Zurich head office.
3 Insured value:
CHF 83.3 million
(2005: CHF 83.3 million).

Item no. 16

Participations (not consolidated)

In CHF millions	Orell Füssli[1]	BIS[2]	Other	Total
Equity participation	33%	3%		
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
Book value as at 1 January 2006	31.4	90.2	0.6	122.3
Investments	–	–	–	–
Divestments	–	–	–	–
Valuation changes	7.3	–	–	7.3
Book value as at 31 December 2006	38.7	90.2	0.6	129.6

1 Orell Füssli Holding Ltd, whose subsidiary Orell Füssli Security Documents Ltd produces Switzerland's banknotes.

2 The interest in the Bank for International Settlements (BIS) is held for reasons of monetary policy collaboration. The securities purchased in 2005 stem from newly issued shares the BIS had repurchased from private investors in 2001.

Item no. 17

Other assets

In CHF millions	31.12.2006	31.12.2005	Change
Coins[1]	169.1	211.1	–42.0
Foreign notes	0.6	0.7	–0.1
Other accounts receivable	14.1	42.9	–28.8
Prepayments and accrued income	5.2	7.1	–1.9
Cheques and bills of exchange (collection business)	0.3	1.2	–0.9
Positive replacement values[2]	34.4	112.3	–77.9
Total	223.6	375.2	–151.6

1 Commemorative coins acquired from Swissmint destined for circulation.
2 Unrealised gains on derivative financial instruments and on outstanding spot transactions (cf. p. 112, item no. 30).

Banknotes in circulation

Item no. 18

Breakdown by issue In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
8th issue	41 586.2	39 654.8	+1 931.4
6th issue[1]	1 596.0	1 711.8	–115.8
Total	43 182.2	41 366.5	+1 815.7

1 Exchangeable at the National Bank until 30 April 2020.

Liabilities towards the Confederation

Item no. 19

In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
Sight liabilities	53.3	67.2	–13.9
Term liabilities	1 002.8	3 059.0	–2 056.2
Total	1 056.2	3 126.3	–2 070.1

Other sight liabilities

Item no. 20

In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
Sight deposits of non-banks	8.0	19.6	–11.6
Deposit accounts[1]	154.7	169.8	–15.1
Cheque liabilities[2]	0.5	0.5	–
Total	163.2	189.9	–26.7

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 17.1 million on 31 December 2006 (2005: CHF 16.8 million).

2 Bank cheques drawn on the National Bank but not yet cashed.

Foreign currency liabilities

Item no. 21

In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
Sight liabilities towards the Confederation	1.8	0.3	+1.5
Liabilities from repo transactions[1]	–	230.6	–230.6
Total	1.8	230.8	–229.0

1 Relating to the management of foreign currency investments.

Item no. 22

Other liabilities

In CHF millions	31.12.2006	31.12.2005	Change
Other liabilities	5.7	6.4	–0.7
Accrued liabilities and deferred income	5.8	6.2	–0.4
Negative replacement values[1]	70.4	78.2	–7.8
Total	81.9	90.7	–8.8

1 Unrealised losses on derivative financial instruments and on outstanding spot transactions (cf. p. 112, item no. 30).

Item no. 23

Provisions for operating risks

In CHF millions	Provisions due to reorganisation	Other provisions	Total
Book value 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
Book value as at 1 January 2006	10.9	0.8	11.7
Formation	1.6	0.1	1.7
Release	–2.3	–	–2.3
Write-back	–	–	–
Book value as at 31 December 2006	10.2	0.9	11.1

Share capital

Item no. 24

Shares

	2006	2005
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[1]	SNBN / CH0001319265	
Closing price on 31 December in CHF	1280	1130
Market capitalisation in CHF	128 000 000	113 000 000
Annual high in CHF	1430	1205
Annual low in CHF	1037	914
Average daily trading volume in number of shares	44	83

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

Breakdown of share ownership

	Number of shares	In percentage of shares registered
2,213 private shareholders with a total of	**31 625**	**36.7**[1]
of whom 1,908 shareholders with 1–10 shares each		
of whom 277 shareholders with 11–100 shares each		
of whom 11 shareholders with 101–200 shares each[2]		
of whom 17 shareholders with over 200 shares each[2]		
80 public-sector shareholders with a total of	**54 515**	**63.3**
of which 26 cantons with a total of	38 981	
of which 24 cantonal banks with a total of	14 473	
of which 30 other public authorities and institutions with a total of	1 061	
Total 2,293 shareholders with a total of[3]	**86 140**[4]	**100**
Registration applications pending or outstanding for	13 860	
Total shares	**100 000**	

1 12.3% are legal entities and 24.4% private individuals.
2 Voting rights are limited to 100 shares.
3 In 2006, 8,038 shares were transferred to new holders (2005: 24,481). The number of shareholders decreased by 96.
4 5912 shares are in foreign ownership.

Principal shareholders

	31.12.2006		31.12.2005	
	Number of shares	Equity participation	Number of shares	Equity participation
Canton of Berne	6 630	6.63%	6 630	6.63%
Canton of Zurich	5 200	5.20%	5 200	5.20%

4.3 Notes regarding off-balance-sheet business

Item no. 25

Contingent liabilities

In CHF millions	31.12.2006	31.12.2005	Change
Other contingent liabilities	–	0.3	–0.3

Item no. 26

Liquidity-shortage financing facility – credit lines

Overview: undrawn credit lines under the liquidity-shortage financing facility In CHF millions	31.12.2006	31.12.2005	Change
Lombard advances[1]	–	699.3	–699.3
Liquidity-shortage financing facility	12 088.5	10 229.5	+1 859.0
Total	12 088.5	10 928.8	+1 159.7

1 Since 1 January 2006, the Lombard facility has no longer been available and has been completely replaced by the liquidity-shortage financing facility.

Overview in detail: liquidity-shortage financing facility In CHF millions	31.12.2006	31.12.2005	Change
Credit undertaking	12 101.5	10 229.5	+1 872.0
of which drawn down	13.0	–	+13.0
of which not drawn down	12 088.5	10 229.5	+1 859.0

Irrevocable undertakings

Item no. 27

Overview: undrawn credit lines provided to the IMF In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
International payment instruments (two-way arrangement)	404.9	673.7	–268.8
Interim PRGF	308.2	390.3	–82.1
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)	2 828.8	2 896.7	–67.9
Total	3 541.8	3 960.7	–418.9

Overview in detail: international payment instruments (two-way arrangement[1]) In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
Credit undertaking	734.7	752.4	–17.7[2]
of which drawn down	329.9	78.7	+251.2
of which not drawn down	404.9	673.7	–268.8

1 Undertaking to purchase Special Drawing Rights against currency up to SDR 400 million without a federal guarantee (cf. p. 94).
2 Change due entirely to exchange rates.

Overview in detail: interim PRGF[1] In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
Credit undertaking	459.2	470.2	–11.0[2]
of which drawn down	151.1	79.9	+71.2
of which not drawn down	308.2	390.3	–82.1

1 Limited-term credit undertaking to the IMF's trust fund amounting to SDR 250 million (cf. p. 104, item no. 12) with federal guarantee.
2 Change due entirely to exchange rates.

Overview in detail: General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[1] In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
Credit undertaking	2 828.8	2 896.7	–67.9[2]
of which drawn down	–	–	–
of which not drawn down	2 828.8	2 896.7	–67.9

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. 94).
2 Change due entirely to exchange rates.

Other obligations not carried on the balance sheet

Item no. 28

In CHF millions	**31.12.2006**	**31.12.2005**	**Change**
Additional funding BIS[1]	118.6	121.5	–2.9
Liabilities from long-term rental, maintenance and leasing contracts	17.3	25.9	–8.6
Total	135.9	147.4	11.5

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

Item no. 29

Assets pledged or assigned as collateral for SNB liabilities

In CHF millions	31.12.2006	31.12.2005	Change
Foreign currency investments in USD	32.5	35.7	–3.2
Foreign currency investments in EUR	89.7	66.9	+22.8
Foreign currency investments in GBP	–	231.0	–231.0
Securities in CHF	–	11.3	–11.3
Total[1]	122.2	345.0	–222.8

1 Collateral lodged in connection with repo and futures transactions.

Item no. 30

Outstanding derivative financial instruments[1]

In CHF millions	31.12.2006 Contract value	31.12.2006 Replacement value Positive	31.12.2006 Replacement value Negative	31.12.2005 Contract value	31.12.2005 Replacement value Positive	31.12.2005 Replacement value Negative
Interest rate instruments	**29 588.1**	**22.3**	**22.0**	**29 866.9**	**70.6**	**37.9**
Repo transactions in CHF[2]	18 592.0	–	–	13 727.0	–	–
Forward contracts[1]	1 771.5	2.6	7.7	2 053.5	5.7	2.8
Interest rate swaps	2 856.1	18.7	13.4	7 130.1	64.9	35.1
Futures	6 368.6	1.1	0.9	6 956.3	0.1	0.1
Foreign exchange	**5 144.3**	**11.7**	**48.4**	**5 289.9**	**40.9**	**40.1**
Forward contracts[1]	5 144.3	11.7	48.4	5 289.9	40.9	40.1
Precious metals	**74.5**	**–**	**–**	**237.5**	**–**	**–**
Forward contracts[3]	74.5	–	–	237.5	–	–
Equities/indices	**753.2**	**0.4**	**0.0**	**836.1**	**0.7**	**0.2**
Forward contracts[1]	0.0	0.0	0.0	1.8	0.0	0.0
Futures	753.2	0.4	0.0	834.2	0.7	0.2
Total	**35 560.1**	**34.4**	**70.4**	**36 230.4**	**112.3**	**78.2**

1 Including spot transactions with value date in the new year.
2 Only repo transactions with value date in the new year.
3 From gold lending transactions with value date in the new year.

Item no. 31

Fiduciary investments

In CHF millions	31.12.2006	31.12.2005	Change
Fiduciary investments of the Confederation	386.9	621.6	–234.7

4.4 Risks posed by financial instruments

Risks faced by the National Bank

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 in accordance with 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.

Risk control process

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 53–54 of the Accountability Report for the Federal Assembly.

Market risk

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

... gold and foreign currency risk

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.

Balance sheet by currency

In CHF millions	CHF	Gold	USD	EUR	Other	Total
Gold holdings		29 190				29 190
Claims from gold transactions		2 984	47			3 030
Foreign currency investments			14 959	21 436	9 197	45 592
Reserve position in the IMF					557	557
International payment instruments					331	331
Monetary assistance loans				23	213	237
Claims from Swiss franc repo transactions	27 127					27 127
Swiss franc securities	4 908					4 908
Other	827		4	11		842
Total assets as per balance sheet	32 862	32 174	15 010	21 470	10 299	111 813
Total liabilities as per balance sheet	–111 762		–48	–3		–111 813
Foreign exchange derivatives (net)[1]	–1		–2 762	439	2 278	–45
Net exposure as at 31.12.2006	–78 901	32 174	12 200	21 906	12 577	–45
Net exposure as at 31.12.2005	–75 805	27 985	13 137	22 047	12 687	51

1 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 income 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 "price 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 capital utilisation time, 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	**2006**			**2005**		
	Duration	**Market value**	**PVBP**[1]	**Duration**	**Market value**	**PVBP**[1]
Position as at 31 December	In years	CHF millions	CHF millions	In years	CHF millions	CHF millions
Gold lending		3 028			2 982	
Investments in CHF[2]	5.4	4 908	3	5.1	5 729	3
Investments in USD	4.1	12 768	6	3.6	14 393	5
Investments in EUR	4.2	19 300	8	4.0	20 016	8
Investments in other currencies	4.2	6 733	3	4.1	6 577	3

1 Change in market value per basis point of parallel shift in the yield curve.
2 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 2006, CHF 4,755 million (2005: CHF 3,667 million) were invested in shares. In addition, the SNB held a contract volume of CHF 753 million (2005: CHF 836 million, including open forward contracts) 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 58 of the Accountability Report). The VaR calculated with respect to the composition of assets at the end of 2006 amounted to CHF 7.1 billion (2005: CHF 6.1 billion), or about 6.5% of assets. In other words, only one year in twenty, at the most, would see a loss of more than CHF 7.1 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 (OTC) business 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.

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 the year, the National Bank's total unsecured exposure with respect to the international banking sector amounted to some CHF 3.1 billion (2005: 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 58 of the Accountability Report. In total, credit risks were an insignificant part of the total risk.

... and country 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 endeavours to distribute assets among a number of different depositories and countries.

Liquidity risk

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 marketability 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.

Proposals of the Bank Council

Proposals of the Bank Council to the General Meeting of Shareholders

At its meeting of 23 February 2007, the Bank Council accepted the Business and Financial Report for 2006, contained in the *99th Annual Report* presented by the Governing Board, for submission to the Federal Council and to the General Meeting of Shareholders.

On 16 March 2007, the Federal Council approved the Business and Financial Report pursuant to art. 7 para. 1 National Bank Act (NBA). The Audit Board signed its report on 23 February 2007.

The Bank Council presents the following proposals to the General Meeting of Shareholders:

1. that the Business and Financial Report be approved;
2. that the annual result (net profit) of CHF 5,045,320,927.00 be appropriated as follows:

Appropriation of profit In CHF millions	**2006**
Annual result (net profit pursuant to art. 36 NBA)	5 045.3
Allocation to provisions for currency reserves (Art. 30 para. 1 NBA)	–888.6
Distributable annual profit (art. 30 para. 2 NBA)	**4 156.7**
Allocation to distribution reserve	–1 655.2
Total distribution of profit (art. 31 NBA)	**2 501.5**
Payment of a dividend of 6%	–1.5
Ordinary distribution of profit to the Confederation and the cantons[1]	–2 500.0
Balance after appropriation of profit	**–**

1 Agreement of 5 April 2002 between the FDF and the SNB on the distribution of profit.

3. that Daniel Lampart, Chief Economist of the Swiss Federation of Trade Unions, be elected as a new member of the Bank Council;
4. that PricewaterhouseCoopers Ltd., Zurich, be appointed as the Audit Board for the 2007/2008 term of office;
5. that the Bank Council be granted discharge.

Report of the Audit Board

Report of the Audit Board to the General Meeting of Shareholders

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes / pages 86 to 115) of the Swiss National Bank for the year ended 31 December 2006.

These financial statements are the responsibility of the Bank Council. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with the Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss GAAP FER. We should, however, point out the particular features (explained in the notes to the accounts) of the accounting methods used by the Swiss National Bank as Switzerland's central bank and note-issuing institution.

We further confirm that the books of account and the annual financial statements as well as the proposals for the appropriation of the annual profit comply with the provisions of the National Bank Act and the Swiss Code of Obligations.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd.

Peter Ochsner Auditor in charge

Yvonne Staub

Zurich, 23 February 2007

Selected information

1 Chronicle of monetary events in 2006

On 16 March, at its quarterly assessment, the Governing Board raises the target range for the three-month Libor to 0.75–1.75% (cf. p. 32). **March**

On 12 April, the Federal Council decides to take the 1-centime coin out of circulation with effect from 1 January 2007. **April**

On 15 June, at its quarterly assessment, the Governing Board raises the target range for the three-month Libor to 1.0–2.0% (cf. p. 33). **June**

On 16 June, the Federal Council approves the partial revision of the Organisation Regulations adopted by the Bank Council in connection with the closing of the cash office in Lugano (cf. p. 71).

On 14 September, at its quarterly assessment, the Governing Board raises the target range for the three-month Libor to 1.25–2.25% (cf. p. 34). **September**

In the national vote on 24 September, the people's initiative, "National Bank profits for the Old Age and Survivors' Insurance Fund (AHV/AVS)" is rejected, with 58.3% against and 41.7% in favour (cf. p. 71).

On 13 December, at its quarterly assessment, the Governing Board raises the target range for the three-month Libor to 1.50–2.50% (cf. p. 35). **December**

2 Bank supervisory and management bodies, Regional Economic Councils

(as at 1 January 2007)

Bank Council

(2004–2008 term of office)

	Hansueli Raggenbass, Kesswil, Attorney-at-law, President[1, 2] (2001, 2004[5])
	Ruth Lüthi, Fribourg, Vice-President[1, 2] (1999, 2004[5])
	*Ueli Forster, St Gallen, Chairman of the Board of Directors at Forster Rohner Ltd[1] (2002, 2004[5])
	*Serge Gaillard, Bolligen, Executive Secretary of the Swiss Federation of Trade Unions[4] (1998, 2004[5])
	Konrad Hummler, Teufen, Managing Partner of Wegelin & Co., Private Bankers[4] (2004[5])
	*Armin Jans, Zug, Professor of Economics at the Zurich University of Applied Sciences, Winterthur[3] (1999, 2004[5])
	*Franz Marty, Goldau[3] (1998, 2004[5])
	Marina Masoni, Lugano, Member of the Cantonal Government and Head of the Department of Finance and Economic Affairs of the Canton of Ticino (2004[5])
	Fritz Studer, Meggen[3] (2004[5])
	*Alexandre Swoboda, Geneva, Professor at the Graduate Institute of International Studies[2, 4] (1997, 2004[5])
	Eveline Widmer-Schlumpf, Felsberg, Member of the Cantonal Government and Head of the Finance and Municipalities Department of the Canton of Graubünden (2004[5])

* Elected by the General Meeting of Shareholders

1 Member of the Compensation Committee

2 Member of the Nomination Committee

3 Member of the Audit Committee

4 Member of the Risk Committee

5 Initial and current election to the Bank Council

Further relevant affiliations of the Bank Council members

Hansueli Raggenbass
- Chairman of the Board at the Health Care Organisation SWICA, Winterthur, and associated companies
- Deputy Chairman of the Board at International Trust Ltd, Basel
- Member of the Board of Oerlikon Contraves, Zurich
- Member of the Board at BFW Group AG, Frauenfeld

Ruth Lüthi
- None

Ueli Forster
- Deputy Chairman and Lead Director of the Board at Helvetia Holding AG, St Gallen
- Chairman of the Board at Inter-Spitzen AG, Oberbüren

Serge Gaillard
- None

Konrad Hummler
- Chairman of the Board at Telsonic Holding AG, Bronschhofen
- Member of the Board at Christian Fischbacher Co. AG and Christian Fischbacher Holding AG, both in St Gallen
- Member of the Board at Credit Europe Bank (Suisse) SA, Geneva
- Member of the Board at Habib Bank AG, Zurich
- Member of the Board at Neue Zürcher Zeitung AG, Zurich
- Member of the Board at Private Client Bank, Zurich

Armin Jans
- Vice-President of Schweizerischer Mieterinnen- und Mieterverband Deutschschweiz (Association of Tenants in German-speaking Switzerland), Zurich
- Member of the Bank Board at Zuger Kantonalbank, Zug

Franz Marty
- Chairman of the Board at Raiffeisen Switzerland, St Gallen

Marina Masoni
- Member of the Board at the Compensation Fund for the Old Age and Survivors' Insurance scheme (AHV/AVS), Geneva

Fritz Studer
- Chairman of the Board at Luzerner Kantonalbank, Lucerne
- Member of the Board at Sika AG, Baar

Alexandre Swoboda
- Member of the Board at LB InterFinanz AG, Zurich
- Member of the Board at ABD Capital SA, Geneva

Eveline Widmer-Schlumpf
- None

Internal Auditor

Ulrich W. Gilgen, Director, Zurich

Audit Board
(2006/2007 term of office)

PricewaterhouseCoopers Ltd., Zurich

Regional Economic Councils
(2004–2008 term of office)

Geneva	Charles Seydoux, Choulex, Director of DMB SA, Chairman
	Raymond Léchaire, Bussigny, Director and Head of Sales Area Coop Romandie
	Robert Deillon, Coppet, Director General of Geneva International Airport
Mittelland	Edgar Geiser, Brügg/BE, Senior Vice-President and Chief Financial Officer, Member of the Executive Board at Swatch Group Ltd, Chairman
	Oscar A. Kambly, Trubschachen, President of the Board at Kambly SA, Spécialités de Biscuits Suisses
	André Haemmerli, La Chaux-de-Fonds, General Manager of Johnson & Johnson in the Canton of Neuchâtel
	Kurt Loosli, Stüsslingen, CEO of EAO AG
Northwestern Switzerland	Hans Büttiker, Dornach, CEO of EBM, Chairman
	Matthys Dolder, Bienne-Benken, CEO of Dolder AG
	Dr. Gabriele Gabrielli, Möriken, Head of Sales Switzerland, ABB Switzerland
	René Kamm, Basel, CEO of MCH Swiss Exhibition (Holding) Ltd
Eastern Switzerland	Urs Kienberger, Sils-Maria, Director and Chairman of the Board at Hotel Waldhaus Sils, Chairman
	Christoph Leemann, St. Gallen, Chairman of the Board and CEO of Union AG
	Eliano Ramelli, Trogen, Partner and Member of the Board of Management at Abacus Research AG
	Bernhard Merki, Tuggen, CEO of Netstal-Maschinen AG
Ticino	Olimpio Pini, Sorengo, Director of Pini & Associati, Ingegneri Consulenti SA, Chairman
	Giancarlo Bordoni, Viganello, Chairman of the Board at Oleificio Sabo SA
	José Luis Moral, Gudo, Member of Group Management, Head of the EDM Technology Unit at Agie Charmilles Management Ltd
Vaud-Valais	Bernard Rüeger, Féchy, General Manager of Rüeger SA, Chairman
	Jean-Jacques Miauton, Epalinges, CEO of Gétaz Romang Holding SA
	Jean-Yves Bonvin, Granois, General Manager of Rhône Média SA

Ruth Pedrazzetti-Weibel, Lucerne, Hotel Manager, Hotel Continental-Park, Chairwoman	Central Switzerland
Werner Steinegger, Schwyz, Chairman of the Board at Celfa AG	
Xaver Sigrist, Lucerne, President and CEO of Anliker AG Bauunternehmung	
David Dean, Volketswil, CEO of Bossard Group	

Reto H. Müller, Dietikon, Chairman of the Board and CEO of Helbling Holding SA, Chairman	Zurich
Hans R. Rüegg, Rüti/ZH, Chairman of the Board and CEO of Baumann Springs Ltd	
Milan Prenosil, Kilchberg, Chairman of the Board at Confiserie Sprüngli AG	

Governing Board	Jean-Pierre Roth, Chairman, Head of Department I, Zurich	
	Niklaus Blattner, Vice-Chairman, Head of Department II, Berne	
	Philipp M. Hildebrand, Member, Head of Department III, Zurich	

Enlarged Governing Board	Jean-Pierre Roth, Chairman of the Governing Board
	Niklaus Blattner, Vice-Chairman of the Governing Board
	Philipp M. Hildebrand, Member of the Governing Board
	Ulrich Kohli, Alternate Member of the Governing Board, Chief Economist
	Thomas Wiedmer, Alternate Member of the Governing Board, Chief Financial Officer
	Thomas J. Jordan, Alternate Member of the Governing Board, Chief Investment Officer

Secretariat General	Peter Schöpf, Secretary General, Director, Zurich

Bank management	Comprehensive list	www.snb.ch, *The SNB, Organisation and bodies, Bank management*

3 Organisational chart

General Meeting of Shareholders

Audit Board

Bank Council

Internal Auditors

Governing Board

Secretariat General

Enlarged Governing Board

Department I Zurich

- **Human Resources**
- **Communications**
- **Regional Economic Relations**
- **International Affairs**
  - International Research and Technical Assistance
  - International Monetary Relations
- **Economic Affairs**
  - Research
  - Economic Analysis
  - Statistics
  - Library
- **Legal and Administrative Affairs**
  - Legal Services
  - Pension Fund
  - Premises, Technical Services

Department II Berne

- **Finance and Controlling**
  - Central Accounting
  - Controlling
  - Premises,Technical Services
  - Security
- **Cash**
  - Administration and Cashier's Offices
  - Technical Support and Storage

Department III Zurich

Financial Stability and Oversight
- Financial Stability
- Financial Market Infrastructure

Financial Markets
- Money Market and Foreign Exchange
- Asset Management
- Risk Management
- Financial Market Analysis

Banking Operations
- Payments
- Back Office
- Support

Information Technology
- Banking Applications
- Banking Operations
- Infrastructure

4 Publications

Annual Report

The *Annual Report* is published in April in German, French, Italian and English.

Free of charge

Reports on the balance of payments, the international investment position and direct investment

The *Swiss Balance of Payments* provides comments on the development of the balance of payments and is published once a year as a supplement to the *Monthly Statistical Bulletin*.
The report on Switzerland's international investment position provides comments on the development of foreign assets, foreign liabilities and Switzerland's net investment position. It is published once a year as a supplement to the December issue of the *Monthly Statistical Bulletin*.
The report on direct investment provides comments on the development of Switzerland's direct investment abroad and foreign direct investment in Switzerland. It is published once a year as a supplement to the December issue of the *Monthly Statistical Bulletin*.
The reports are available in German, French and English. (English version on the SNB website only.)

Free of charge

Swiss Financial Accounts

The *Swiss Financial Accounts* show the volume and structure of financial assets and liabilities held by the different sectors of the domestic economy, as well as those held with respect to the rest of the world, and those held by the rest of the world with respect to Switzerland. It is published once a year (in autumn) in German, French and English, as a supplement to the *Monthly Statistical Bulletin*.

Free of charge

Financial Stability Report

The *Financial Stability Report* provides an assessment of the stability of Switzerland's banking sector. It is published once a year in June. The publication is in English and contains summaries in German and French.

Free of charge

Quarterly Bulletin

The *Quarterly Bulletin* includes the monetary policy report used for the Governing Board's quarterly monetary policy assessment. Furthermore, articles on topical central bank policy issues and abstracts of the SNB's Economic Studies and Working Papers are published. The *Quarterly Bulletin* also contains the speeches delivered at the General Meeting of Shareholders and the chronicle of monetary events. The *Quarterly Bulletin* is available in German, French and English. (English version on the SNB website only.)

Subscription: CHF 25* per year (outside Switzerland CHF 30), for subscribers to the *Monthly Statistical Bulletin:* CHF 15* per year (outside Switzerland CHF 20)

Swiss National Bank Economic Studies/ Swiss National Bank Working Papers

Economic articles are published at irregular intervals in the two series *Swiss National Bank Economic Studies* and *Swiss National Bank Working Papers*. They are available in one language only (German, French or English).

Free of charge

Monthly Statistical Bulletin/Monthly Bulletin of Banking Statistics

The *Monthly Statistical Bulletin* contains graphs and tables on key Swiss and international economic data (available in German and French; English version on the SNB website only).
The *Monthly Bulletin of Banking Statistics* contains detailed banking statistics. The latest issue together with machine-readable data is available on the SNB website in German, French and English (under Publications, *Monthly Bulletin of Banking Statistics*). The printed version is published every quarter (German and French only; free of charge as a supplement to the *Monthly Statistical Bulletin*).

Subscription: CHF 40* per year (outside Switzerland CHF 80)

Banks in Switzerland

Banks in Switzerland, the statistical yearbook of the Swiss banks, provides commented source material on the development and structure of the Swiss banking sector. It is compiled mainly from data contained in the National Bank's year-end statistics. *Banks in Switzerland* is published in the middle of the year in German, French and English.

Price: CHF 20*

Money and monetary policy

The publication *Money and monetary policy* provides an introduction to the financial world and monetary policy for teaching purposes. It has been published as part of the "Bildung und Wirtschaft" teaching aid series (no. 2000/1) by the "Jugend und Wirtschaft" association (available in German, French, Italian and English).

Free of charge

The National Bank	*The National Bank* is a brochure that outlines the importance of the Swiss National Bank for the economy and encourages readers to develop their own ideas about the Swiss economy. Published in German, French and Italian by the "Jugend und Wirtschaft" association (in the "Input" series, issue 5/2005), the brochure is accompanied by an e-lesson (www.jugend-wirtschaft.info).
	Free of charge

The Swiss National Bank in brief	*The Swiss National Bank in brief,* a brochure, describes in concise form (approximately 30 pages) the monetary policy concept, major tasks, and the organisation and legal basis of the National Bank's activities. The brochure is available in German, French, Italian and English.
	Free of charge

Information tools for schools and the interested public	*What is money really about?,* a brochure, describes the activity of the National Bank in simple terms. It is an ideal teaching aid for intermediate and higher grades.
	The Swiss National Bank and that vital commodity: money, a brochure, provides information on the National Bank and its tasks. It is suitable as a teaching aid for the higher grades and for vocational training and generally appeals to people interested in the National Bank.
	An ‚A to Z' of the Swiss National Bank, a glossary, explains important terms from the world of the National Bank and money.
	The contents of the above-mentioned brochures are briefly outlined on the SNB website: www.snb.ch, *The world of the National Bank*
	The *National Bank and money,* a short film available on DVD or VHS, illustrates the characteristics of money.
	The *National Bank and its monetary policy,* a short film available on DVD or VHS, illustrates how the National Bank conducts monetary policy on a daily basis and explains the principles of monetary policy.
	All these information tools are available in German, French, Italian and English.
	Free of charge

Obtainable from:	Swiss National Bank, Documentation, Bundesplatz 1, CH-3003 Berne
	Telephone +41 31 327 02 11, e-mail: library@snb.ch
	Swiss National Bank, Library, Fraumünsterstrasse 8, P.O. Box, CH-8022 Zurich,
	Telephone +41 44 631 32 84, e-mail: library@snb.ch

* All prices include 2.4% VAT.

The printed publications are available on the SNB website: www.snb.ch, *Publications*

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Agencies

The Swiss National Bank maintains agencies operated by cantonal banks in Altdorf, Appenzell, Basel, Bienne, Chur, Fribourg, Glarus, Liestal, Lucerne, Sarnen, Schaffhausen, Schwyz, Sion, Stans, Thun and Zug.

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6 Rounding conventions and abbreviations

Roundings

The figures in the income statement, balance sheet and tables are rounded; the total may therefore deviate from the sum of individual items.

The figures 0 and 0.0 are rounded values representing less than half of the unit used, yet greater than zero (rounded zero).

A dash (–) in place of a number stands for zero (absolute zero).

Abbreviations

ARR	Swiss Accounting and Reporting Recommendations (Swiss GAAP FER)
art.	Article
AS	Official Compilation of Federal Laws and Decrees
BIS	Bank for International Settlements
CAD	Canadian dollar
CHF	Swiss franc
CPI	Consumer price index
DKK	Danish kroner
EUR	Euro
FC	Federal Constitution
FDF	Federal Department of Finance
Fed	US Federal Reserve
G10	Group of Ten
GAAP	Generally Accepted Accounting Principles
GBP	Pound sterling
IMF	International Monetary Fund
Libor	London Interbank Offered Rate
NBA	National Bank Act
NBO	National Bank Ordinance
OECD	Organisation for Economic Cooperation and Development
para.	Paragraph
SDR	Special Drawing Rights
SECO	State Secretariat for Economic Affairs
SFBC	Swiss Federal Banking Commission
SFSO	Swiss Federal Statistical Office
SIC	Swiss Interbank Clearing
SNB	Swiss National Bank
SR	Classified Compilation of the Federal Law
USD	US dollar

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