Consolidated financial statements

1 Consolidated income statement for 2008

In CHF millions

	Item no. in Notes	2008
Net result from gold		–698.8
Net result from foreign currency investments		–4 363.8
Net result from Swiss franc investments		550.8
Net result from stabilisation fund investments	01	0.0
Income from participations	02	21.9
Net result from other assets		1.7
Gross income		**–4 488.2**
Banknote expenses		–33.6
Personnel expenses		–107.9
General overheads		–65.6
Depreciation on tangible assets		–33.7
Annual result		**–4 729.1**

2 Consolidated balance sheet as at 31 December 2008

In CHF millions

Assets	Item no. in Notes	31.12.2008
Gold holdings		27 521.2
Claims from gold transactions		3 340.4
Foreign currency investments		47 428.8
Reserve position in the IMF		724.7
International payment instruments		244.5
Monetary assistance loans		326.3
Claims from US dollar repo transactions		11 670.9
Balances from swap transactions against Swiss francs		50 421.4
Claims from Swiss franc repo transactions		50 320.6
Claims against domestic correspondents		11.1
Swiss franc securities		3 596.7
Stabilisation fund investments	03	16 227.1
Banknote stocks		136.5
Tangible assets		382.8
Participations	02	147.8
Other assets		3 407.7
Total assets		**215 908.5**
Total subordinated claims		0.0
Total claims against non-consolidated affiliated companies and qualified participations		0.0

Liabilities	Item no. in Notes	31.12.2008
Banknotes in circulation		49 160.8
Sight deposits of domestic banks		37 186.2
Liabilities towards the Confederation		8 803.7
Sight deposits of foreign banks and institutions		3 799.8
Other sight liabilities		1 383.7
Liabilities from Swiss franc repo transactions		–
SNB debt certificates		24 424.9
Other term liabilities		29 414.5
Foreign currency liabilities		420.1
Contractual agreements[1]		948.1
Other liabilities		1 934.4
Provisions for operating risks and other provisions		6.2
Provisions for currency reserves		40 275.3
Capital		25.0
Distribution reserve		22 871.7
Annual result		–4 729.1
Foreign currency translation differences		–16.8
Total liabilities		**215 908.5**
Total subordinated liabilities		0.0
Total liabilities against non-consolidated affiliated companies and qualified participations		0.0

1 Refers to the reduced portfolio (cf. also footnote 1, p. 170).

Off-balance-sheet business
In CHF millions

	Item no. in Notes	31.12.2008
Liquidity-shortage financing facility		34 486.5
Irrevocable undertakings		3 046.6
Obligations to pay or make additional payments		105.8
Other obligations not carried on the balance sheet[1]		42 386.5
Fiduciary investments		262.3
Liabilities from long-term rental, maintenance and leasing contracts		9.4
Derivative financial instruments	04	
Contract volumes		116 616.7
Positive replacement values		3 278.2
Negative replacement values		1 263.2

1 When the transaction was announced in mid-October 2008, the SNB committed to take over illiquid and other troubled assets not exceeding USD 60 billion, with the SNB funding 90%. On 10 February 2009, it was announced that the amount of the stabilisation fund's assets will be reduced to approximately USD 39.1 billion. Of this amount, securities totalling USD 16.4 billion had already been transferred in December 2008. The next tranche will therefore amount to a maximum of USD 22.7 billion. In addition, a subordination agreement in favour of the stabilisation fund and StabFund (GB) AG in the amount of USD 100 million (CHF 106.6 million) was entered into.

3 Changes in equity capital
In CHF millions

	Capital	Provisions for currency reserves
Equity capital as at 1 January 2008	**25.0**	**39 524.3**
Endowment of provisions for currency reserves pursuant to the NBA		751.0
Allocation to distribution reserve		
Distribution of dividends to shareholders		
Profit distribution to the Confederation and the cantons		
Change in foreign currency translation differences		
Annual result of year under review		
Equity capital as at 31 December 2008 (before appropriation of profit)	**25.0**	**40 275.3**

Distribution reserve	Foreign currency translation differences	Annual result	Total
18 128.7	**0.0**	**7 995.5**	**65 673.5**
		–751.0	–
4 743.0		–4 743.0	–
		–1.5	–1.5
		–2 500.0	–2 500.0
	–16.8	–	–16.8
		–4 729.1	–4 729.1
22 871.7	**–16.8**	**–4 729.1**	**58 426.1**

4 Notes to the consolidated financial statements

4.1 Accounting and valuation principles

General

Basic principles

In November 2008, the Swiss National Bank (SNB) founded a special purpose vehicle (SPV) to take over illiquid assets from UBS. The economic background which led to the establishment of the SPV and how this is anchored in central bank law is outlined in chapter 6.2 of the accountability report (from p. 77). Consequently, the National Bank is now obliged to prepare consolidated financial statements. Since the consolidated financial statements for the year ended 31 December 2008 represent the first of their kind to be issued by the National Bank, they do not contain any prior-year figures. Although the obligation to prepare consolidated financial statements has only been incurred since mid-October 2008, an accounting period of twelve months is applied for the National Bank, while the period applied for the subsidiaries that are subject to consolidation started with the commencement of operations.

The consolidated financial statements have been prepared in accordance with the provisions of the National Bank Act (NBA), the Swiss Code of Obligations (CO), the Listing Rules of SIX Swiss Exchange, and the Bank Accounting Guidelines (BAG). The consolidated financial statements give a true and fair view of the financial position, the results of operations and the statement of changes in equity, taking into account the facts and circumstances stated below.

Since the SNB – as the central bank – is in a position to create money autonomously, no consolidated cash flow statement was prepared.

The structure and designation of the financial report items take into consideration the accounting particularities specific to a central bank.

Owing to its activities as a central bank, the National Bank does not present its assets and liabilities or its income and expenses broken down by country or by country group, nor does it make the distinction between domestic or foreign. In addition, it does not state the maturity structure of the current assets and the borrowed capital. Further information on this topic can be found in other SNB publications (cf. in particular the detailed statements with regard to currency reserves and foreign currency investments in the *Monthly Statistical Bulletin*).

Recording of transactions

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

Business transactions of the stabilisation fund are posted on the day they are concluded.

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

Accrual reporting

Pursuant to art. 8 NBA, the National Bank is exempt from profit taxes. Tax exemption applies both to direct federal taxes and to cantonal and municipal taxes. This tax exemption also applies to the stabilisation fund and the two partner companies, StabFund (GP) AG and LiPro (LP) AG.

Profit tax

The rights of the National Bank's shareholders are restricted by law; for this reason, they cannot exert any influence on financial and operational decisions. Transactions with members of the executive management and the Bank Council are conducted at conditions that are customary in the banking sector.

Transactions with related parties

Balance sheet and income statement

The accounting and valuation principles that are contained in the National Bank's notes to the accounts (from p. 122) will not be repeated here.

Reference to the SNB's financial statements

Stabilisation fund investments are debt securities which – due to their long investment horizon – are stated in the balance sheet at amortised cost. During the entire term of the investment up until maturity, the premium and discount are treated as an accrued or deferred item in the balance sheet. Since these securities are not traded in an active market, they are assigned to *loans and receivables*. The effective interest method is applied.

Stabilisation fund investments

Impairment tests are conducted prior to each reporting reference date. Decreases in value for credit rating reasons are charged to the income statement.

In addition to the components mentioned in the notes to the accounts, the SNB's warrant for 100 million UBS shares was stated as positive replacement value in *other assets*. It serves as secondary loss protection.

Other assets and other liabilities

Losses incurred from the stabilisation fund are offset against the settlement account in *other liabilities* and credited to the income statement to the extent the warrant's value covers the loss.

UBS assets not yet transferred to the stabilisation fund were, for the most part, valued at current fair values. This led to significant valuation losses which are fully reflected in the interim results of the stabilisation fund. The total return swap stated in the balance sheet item *contractual agreements* corresponds to the valuation losses, taking into account the equity contribution to be provided by UBS for the purpose of primary loss protection.

Contractual agreements

The calculation is based on the reduced portfolio (cf. also *Events after balance sheet date*, p. 176).

Reporting entities

The consolidated financial statements cover the National Bank, as the parent company, and the stabilisation fund, which was set up as a limited partnership for collective investment based on the Federal Act on Collective Investment Schemes (CISA). The SNB StabFund Limited Partnership for Collective Investment is structured as a two-party limited partnership. It comprises a managing partner (general partner) with unlimited liability, StabFund (GP) AG, and a partner with limited liability, LiPro (LP) AG. Both partners are wholly owned by the National Bank and hold all the shares of the limited partnership.

Significant majority interests

Company name, domicile	Business activity	Capital stock in CHF millions	Equity participation 31.12.2008	Equity participation 31.12.2007
StabFund (GP) AG, Berne	Holding limited partnership shares of SNB StabFund	0.1	100%	–
LiPro (LP) AG, Berne	Distribution of limited partnership shares of SNB StabFund	0.1	100%	–
SNB StabFund Limited Partnership for Collective Investment, Berne	Collective investments	0.1 (6,000 shares)	100%	–

The following options were granted in connection with the above-mentioned majority interests:

GP purchase option: the SNB granted UBS the option to take over the share capital of StabFund (GP) AG, thereby purchasing two shares in the SNB StabFund Limited Partnership for Collective Investment.

LP purchase option: LiPro granted UBS the option to take over 5,998 shares in the SNB StabFund Limited Partnership for Collective Investment.

Repurchase option: UBS granted the SNB the right to request the repurchase of the stabilisation fund in the case of a change of control at UBS.

Significant minority interests

Company name, domicile	Business activity		Equity participation	
		Capital in CHF millions	31.12.2008	31.12.2007
Orell Füssli Holding Ltd, Zurich	Bookshop, publishing house and banknote and security printing	1.96	33%	33%

Consolidation principles

The consolidated financial statements are based on the National Bank's annual accounts and the companies of the special purpose vehicle founded in November 2008, i.e. StabFund (GP) AG, LiPro (LP) AG and the stabilisation fund. The effects of intragroup transactions as well as interim profits are eliminated in preparing the consolidated financial statements. In line with the method of full consolidation, the significant majority interests are included in the consolidated financial statements. Capital consolidation is carried out according to the purchase method. Newly acquired subsidiaries will be consolidated once control is transferred to the group.

As in previous years, the participating interest in Orell Füssli Holding Ltd is recognised according to the equity method.

Other participating interests are not considered significant economic interests and are stated at acquisition cost less any value adjustments.

Consolidation period

For the National Bank and the not fully consolidated subsidiaries, the calendar year is considered the financial year.

The stabilisation fund was established at the end of November 2008. An interim statement prepared for the year ended 31 December 2008 was audited for the consolidated financial statements. The first financial statements for the stabilisation fund companies will be prepared for the year ending 31 December 2009.

Individual valuation

The principle of individual valuation instead of global valuation within individual balance sheet positions applies.

Foreign currency translation

The consolidated financial statements are presented in Swiss francs. Foreign currency transactions are reported at their respective daily rates. Monetary assets are translated at their respective daily rates, with the difference being recorded in the income statement. Foreign currency fluctuations that occurred between conclusion of the transaction and its settlement are recorded in the income statement.

Assets and liabilities of affiliated companies are translated at the rates of their balance dates, whereas positions in the income statement are translated at their average rate of the period. The difference resulting from these exchange rates is directly recognised under equity capital as foreign currency translation differences.

Foreign exchange valuation prices

	31.12.2008 In CHF
1 US dollar (USD)	1.0658
1 euro (EUR)	1.4895
1 pound sterling (GBP)	1.5595
100 Danish kroner (DKK)	19.9600
1 Canadian dollar (CAD)	0.8733
100 Japanese yen (JPY)	1.1734

Taxes

Investigations conducted in connection with the establishment of the stabilisation fund confirmed that it is exempt from taxes in accordance with art. 8 NBA.

Events after balance sheet date

On 10 February 2009, it was announced that the SNB's stabilisation fund will acquire UBS assets for a lower maximum amount than originally planned. It will acquire investments from UBS in the maximum amount of USD 39.1 billion. In accordance with the agreement announced on 16 October 2008, UBS is to finance 10% of the amount to be transferred.

Up until the date on which the financial statements were drawn up, no other events occurred that had a significant influence on the financial position, the results of operations or the cash flows of the SNB

Assessment of risk

The National Bank's business risk and that of the consolidated subsidiaries is assessed by the SNB. In so doing, it employs monitoring and control processes described in the chapter on risk management (pp. 149–154). The special risks inherent in the stabilisation fund are explained below.

The investment portfolio of the stabilisation fund consists mainly of financial instruments backed by different types of claims (mortgages, loans, etc.). Risks are therefore primarily determined by the uncertainty as to how the value of these claims will develop. Future general economic trends constitute an important risk factor. Since a large part of the securities are backed by US residential and commercial mortgages, developments in real estate prices in the US also play a crucial role.

The Board of Directors of StabFund (GP) AG establishes investment guidelines and monitors their compliance. It is also responsible for the stabilisation fund's management. The valuation of assets is carried out in consultation with independent valuation agents.

Internal control system

Information on the internal control system can be found in the individual financial statements.

4.2 Notes to the consolidated income statement and balance sheet

Net result from stabilisation fund investments

Item no. 01

	31.12.2008 In USD millions	31.12.2008 In CHF millions
Quarterly result for stabilisation fund	–1 690.6	–1 918.7
Primary loss protection provided by UBS (equity contribution)	1 640.5	1 862.4
Subtotal	**–50.1**	**–56.3**
Secondary loss protection through warrant[1]		90.5
Foreign exchange effects on group level		–34.2
Net result from stabilisation fund investments		**0.0**

1 Cf. also item no. 04

Participations and income from participations

Item no. 02

In CHF millions	Valued according to equity method[1]	Other participations	Total
Book value on 1 January 2008	46.0	90.8	136.8
Investments	–	–	–
Divestments	–	–	–
Valuation changes	11.0	0.0	11.0
Book value on 31 December 2008	57.0	90.8	147.8

1 Orell Füssli Holding Ltd

Income from participations valued according to the equity method amounts to CHF 14.3 million. Income from other participations amounts to CHF 7.6 million.

Item no. 03

Stabilisation fund investments

In CHF millions	31.12.2008	1.10.2008	Change[2]
Sight deposits in different currencies	623.5	–	–
Book value of securities[1]	15 603.6	18 202.5	–2 598.9
Total stabilisation fund investments	16 227.1	–	–

1 The book value as at 1 October 2008 corresponds to the purchase price of the assets agreed upon by the parties and is based on fair value calculations. Impairment tests were conducted for the 2008 annual results and, where necessary, value adjustments were made. The fair value equivalents amounted to CHF 18,202.5 million as at 1 October 2008 and CHF 12,607.1 million as at 31 December 2008. As a result of the illiquid markets, fair value may be considerably higher or lower than the values that can be realised in the market.

2 Including sales and repayments and exchange rate gains/losses from investments in US dollars, euros and pounds sterling.

Derivative financial instruments

Item no. 04

Outstanding derivative financial instruments are reported in item no. 31 of the individual financial statements. In addition, from the viewpoint of the group, an agreement exists between LiPro (LP) AG and UBS in the form of a purchase option. By exercising this option, UBS may buy the shares held by LiPro (LP) AG in the SNB StabFund Limited Partnership for Collective Investment (LP purchase option). The premium received for this option was invested in the SNB StabFund Limited Partnership for Collective Investment, with LiPro (LP) AG having received corresponding shares. Given the fact that the SNB StabFund Limited Partnership for Collective Investment did not report a positive fixed asset value, the LP purchase option was not assigned any value. The contract volume is CHF 1,862.4 million.

A valuation was carried out for the warrant for 100 million UBS shares. If the SNB's loan to the stabilisation fund is not repaid in full, the warrant can be exercised as secondary loss protection. It was stated in the consolidated balance sheet at CHF 607 million. Of that amount, CHF 90.5 million was subsequently recognised in the income statement.

5 Report of the Audit Board for the General Meeting of Shareholders

Report of statutory auditor on consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of the Swiss National Bank, which comprise the balance sheet, income statement, statement of changes in equity and notes (pp. 166–178), for the year ended 31 December 2008.

Bank Council's responsibility

The Bank Council is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting rules for banks and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Bank Council is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2008 give a true and fair view of the financial position, the results of operations and the statement of changes in equity in accordance with accounting rules for banks and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO, article 47 NBA and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Bank Council.

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

PricewaterhouseCoopers Ltd

Thomas Romer	**Christian Massetti**
Audit expert	Audit expert
Auditor in charge	

Zurich, 27 February 2009