

## Preface

Ladies and Gentlemen

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 as defined in art. 5 NBA. Furthermore, pursuant to art. 7 para. 1 NBA, the SNB submits its business and financial report to the Federal Council for approval, before presenting 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 SNB's *101<sup>st</sup> Annual Report* – comprises the accountability report for the Federal Assembly (from p. 6). This is submitted to the General Meeting of Shareholders for information purposes only and does not require their approval. It describes the economic and monetary developments in 2008 and explains in detail how the National Bank has fulfilled its statutory mandate – in particular the conduct of monetary policy and the SNB's contribution to the stability of the financial system. A summary of the accountability report is provided on pp. 7 et seq.

In 2008, economic policymakers and especially the central banks were confronted with major challenges. In the first half of the year, the focus was on rising rates of inflation, which were mainly attributable to surging commodity and energy prices. At the same time, the turmoil that had been initiated the previous year in the US mortgage market continued on international financial markets. In the second half of the year, the worldwide financial crisis worsened following the collapse of one of the major US investment banks. As a result of the ensuing loss of confidence among banks, the interbank money markets almost completely froze up. Consequently, in many countries, central banks had to take exceptional measures – sometimes as part of internationally concerted efforts – in order to sustain the supply of liquidity to the financial system. In addition, many governments were faced with the need to take state action to support the financial system. This was also the case in Switzerland. In mid-October 2008, the Federal Council, the Swiss Federal Banking Commission and the SNB adopted a package of measures to strengthen the Swiss financial system.

The sizeable effects of the financial market crisis were also felt quickly in other sectors. New orders and consumer confidence declined sharply. By the end of the year, advanced industrialised countries had moved into recession. At present, the magnitude of this recession is almost impossible to assess. Even the emerging markets began to see a dip in their high rates of growth. The sudden downturn in the economy led to a major correction in commodity and energy prices, which – for many products – had reached record levels towards the middle of 2008. The resulting rapid drop in inflation and improvement in the inflation outlook made it easier for central banks to relax their monetary policies substantially and focus their attention on fighting the emerging recession.

The second part of the *Annual Report* includes the business report for the attention of the Federal Council and the General Meeting of Shareholders (from p. 98). As in previous years, this deals with organisational and operational developments at the National Bank, as well as the SNB's business activities in the narrower sense. It also includes the financial report, which contains the income statement, balance sheet and notes.

In addition, the most important financial information on the SNB StabFund Limited Partnership for Collective Investment (stabilisation fund) can be found on pp. 158–164 and the legally prescribed consolidated financial statements on pp. 166–178. The stabilisation fund was established by the National Bank in November 2008 to take over illiquid assets from UBS. This made up a major part of the government's package of measures announced in October.

The range of measures and operations undertaken as a response to the financial crisis led to a substantial lengthening of the SNB's balance sheet. The 2008 annual result amounted to CHF –4.7 billion (2007: CHF 8.0 billion). This loss was mainly attributable to the depreciation of major investment currencies against the Swiss franc as well as the decline in the gold price. In accordance with the current profit distribution agreement, the amount to be paid out to the Confederation and the cantons for 2008 again totals CHF 2.5 billion. As a result, the surplus for future distributions will decrease by CHF 8.2 billion to CHF 14.6 billion. The loss posted by the stabilisation fund for the year ended 31 December 2008, after taking UBS's equity contribution into account, came to USD 50.1 million. It is covered by the SNB's option for 100 million UBS shares. Thus, the consolidated annual results corresponded to the SNB's financial result of CHF –4.7 billion.

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

Berne and Zurich, 27 February 2009

**Hansueli Raggenbass**  
President of the Bank Council

**Jean-Pierre Roth**  
Chairman of the Governing Board