

## Communications

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## Interim results and balance sheet of the Swiss National Bank as at 31 March 2006

**The financial result of the Swiss National Bank in the first quarter of 2006 was characterised by the increase in the gold price. Rising interest rates, meanwhile, led to capital losses on fixed-income investments.**

The National Bank's financial result for the first quarter came to CHF 3.57 billion compared with CHF 2.36 billion a year earlier – an outcome that can be largely attributed to valuation gains. Gold price movements eclipsed the other positive developments, which partially had an adverse effect.

### **Soaring gold price...**

At CHF 24,424 per kilogram, the price of gold at the end of the first quarter closed 12.6% higher than at the end of 2005, resulting in significantly higher valuation gains of CHF 3.53 billion (2005: 661 million).

### **... and rising interest rates**

The net result from foreign currency investments amounted to CHF 142 million (CHF 1.66 billion). These largely comprise fixed-income investments, which posted considerable capital losses as a result of rising interest rates. Interest and investment income was negative at CHF –327 million (CHF 569 million). Owing to favourable developments in the equity market, income from equity securities amounted to CHF 308 million (CHF -8 million). Exchange rate gains of CHF 165 million (CHF 1.1 billion) reflected the slight appreciation of the euro and the somewhat weaker dollar. The loss in Swiss franc investments, meanwhile, can be attributed to the rise in interest rates.

### **Interim results and distributable profit**

Together with other income and expenses, the interim result came to CHF 3.57 billion (CHF 2.36 billion) – before the legally prescribed increase in provisions. In accordance with art. 30 para. 1 of the National Bank Act (NBA), the National Bank is required to set up provisions permitting it to maintain the currency reserves at a level necessary for monetary policy. These provisions are increased in step with the growth of nominal gross domestic product. Based on this assessment method, the allocation to provisions totals CHF 889 million for the year as a whole, or CHF 222 million for the first three months.

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After this allocation, the amount of the contribution to the distributable profit is CHF 3.35 billion (CHF 2.16 billion). Had the valuation gain from gold not been included, however, this figure would have been negative.

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## Income statement from 1 January–31 March 2006 (unaudited)

In CHF millions	Item no. in Notes	Q1 2006	Q1 2005	Change
Net result from gold	1	3 530.1	653.0	+2 877.1
Net result from foreign currency investments	2	141.8	1 654.7	-1 512.9
Net result from Swiss franc investments	3	- 50.8	107.7	- 158.5
Net result from other assets		1.7	1.2	+ 0.5
<b>Gross income</b>		<b>3 622.8</b>	<b>2 416.4</b>	<b>+1 206.4</b>
Banknote expenses		7.6	11.3	- 3.7
Personnel expenses		25.9	24.4	+ 1.5
General overheads		13.8	11.9	+ 1.9
Depreciation on tangible assets		7.6	6.4	+ 1.2
<b>Quarterly result</b>		<b>3 567.9</b>	<b>2 362.5</b>	<b>+1 205.4</b>
Contribution to planned allocation to provisions for currency reserves <sup>1</sup>		- 222.2	- 198.7	- 23.5
<b>Contribution to distributable profit<sup>2</sup></b>		<b>3 345.8</b>	<b>2 163.8</b>	<b>+1 182.0</b>

1 One-quarter of the fixed annual allocation of CHF 888.6 million (cf. 98<sup>th</sup> Annual Report 2005, p. 79).

2 Since the amount of the contribution to the distributable profit is dependent on fluctuations in the gold price, exchange rates and interest rates, it is liable to vary from one quarter to the next. For the National Bank, negative market movements reduce profits, while positive developments increase them. Given that market movements cannot be forecast, only provisional conclusions as to the end-of-year distributable profit may be drawn.

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## Balance sheet as at 31 March 2006 (unaudited)

	31.03.2006	31.12.2005	Change
In CHF millions			
Gold holdings	28 733.9	25 066.0	+3 667.9
Claims from gold transactions	2 827.6	2 984.2	- 156.6
Foreign currency investments	45 552.7	46 585.5	-1 032.8
Reserve position in the IMF	725.6	1 079.8	- 354.2
International payment instruments	10.6	78.9	- 68.3
Monetary assistance loans	192.8	270.2	- 77.4
Claims from Swiss franc repo transactions	24 585.2	26 198.6	-1 613.4
Claims against domestic correspondents	0.3	5.3	- 5.0
Swiss franc securities	5 336.5	5 729.1	- 392.6
Banknote stocks	130.7	137.6	- 6.9
Tangible assets	355.9	355.5	+ 0.4
Participations	122.3	122.3	-
Other assets	324.3	375.2	- 50.9
<b>Total assets</b>	<b>108 898.5</b>	<b>108 988.2</b>	<b>- 89.7</b>
Banknotes in circulation	38 715.5	41 366.5	-2 651.0
Sight deposits of domestic banks	5 851.4	5 852.7	- 1.3
Liabilities towards the Confederation	2 473.2	3 126.3	- 653.1
Sight deposits of foreign banks and institutions	341.6	483.9	- 142.3
Other sight liabilities	203.2	189.9	+ 13.3
Liabilities from Swiss franc repo transactions	-	-	-
Foreign currency liabilities	0.3	230.8	- 230.5
Other liabilities	98.5	90.7	+ 7.8
Provisions for operating risks	11.1	11.7	- 0.6
Provisions for currency reserves	37 841.0	37 841.0	-
Share capital	25.0	25.0	-
Distribution reserve	6 948.4	6 948.4	-
Annual result for 2005 <sup>1</sup>	12 821.2	12 821.2	-
Quarterly result	3 567.9		+3 567.9
<b>Total liabilities</b>	<b>108 898.5</b>	<b>108 988.2</b>	<b>- 89.7</b>

<sup>1</sup> The appropriation of the 2005 annual result was determined at the General Meeting of Shareholders on 28 April 2006.

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## Accounting and valuation principles

These unaudited interim results cover the period from 1 January to 31 March 2006. The principles applied to the books of account, asset valuation, balance sheet and disclosure are governed by the NBA and the Swiss Code of Obligations and are in compliance with the Swiss GAAP FER 12 accounting provisions, with due account being taken of circumstances specific to the National Bank. The accounting and valuation principles remain otherwise unchanged from the 2005 annual result.

## Valuation rates

	Year under review			Previous year		
	31.03.2006	31.12.2005	Change	31.03.2005	31.12.2004	Change
	CHF	CHF	In percent	CHF	CHF	In percent
1 USD	1.31	1.32	- 0.8	1.20	1.13	+ 6.2
1 EUR	1.58	1.56	+ 1.3	1.55	1.54	+ 0.6
1 GBP	2.27	2.27	-	2.25	2.18	+ 3.2
1 kilogram of gold	24 424	21 692	+ 12.6	16 438	15 939	+ 3.1

## Notes to the interim results

### Item no. 1: Net result from gold

Breakdown by type	Q1 2006	Q1 2005	Change
In CHF millions			
Net result from changes in market value	3 525.1	660.8	+2 864.3
Interest income from gold lending transactions	5.0	8.9	- 3.9
Net result from hedging transactions	-	- 16.7	+ 16.7
<b>Total</b>	<b>3 530.1</b>	<b>653.0</b>	<b>+2 877.1</b>

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## Item no. 2: Net result from foreign currency investments

Breakdown by origin	Q1 2006	Q1 2005	Change
In CHF millions			
Foreign currency investments	138.8	1 574.6	-1 435.8
Reserve position in the IMF	3.2	69.0	- 65.8
International payment instruments	0.0	1.8	- 1.8
Monetary assistance loans	0.3	9.5	- 9.2
Foreign currency liabilities	- 0.5	- 0.3	- 0.2
<b>Total</b>	<b>141.8</b>	<b>1 654.7</b>	<b>-1 512.9</b>

Breakdown by type	Q1 2006	Q1 2005	Change
In CHF millions			
Interest and capital gain/loss	- 326.9	568.9	- 895.8
Interest expenses	- 0.5	- 0.3	- 0.2
Dividend income and price gain/loss	307.7	- 8.4	+ 316.1
Exchange rate gain/loss	164.5	1 097.1	- 932.6
Asset management and safe custody account fees	- 3.0	- 2.7	- 0.3
<b>Total</b>	<b>141.8</b>	<b>1 654.7</b>	<b>-1 512.9</b>

The loss recorded in the interest and capital gain/loss item can be attributed to the rise in the interest rate level, which had led to significant capital losses. These losses were less marked in the year-back period, where they had been surpassed by interest income.

Dividend income and price gains were generated by equity investments, which the National Bank has been making since February 2005 as part of its passive investment strategy. At the end of March 2006, equity exposure accounted for roughly 10% of foreign currency investments, or 12.3% upon inclusion of share index futures.

The slight depreciation of the US dollar narrowed the exchange rate gain compared with the year-back level, when the appreciation of the greenback was one of the major factors determining last year's financial result.

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### Item no. 3: Net result from Swiss franc investments

<b>Breakdown by origin</b>	<b>Q1 2006</b>	<b>Q1 2005</b>	<b>Change</b>
In CHF millions			
Swiss franc securities	- 90.8	80.7	- 171.5
Swiss franc repo transactions	45.3	30.4	+ 14.9
Other assets	0.0	0.1	- 0.1
Liabilities towards the Confederation	- 3.9	- 2.0	- 1.9
Other sight liabilities	- 1.5	- 1.5	-
<b>Total</b>	<b>- 50.8</b>	<b>107.7</b>	<b>- 158.5</b>

<b>Breakdown by type</b>	<b>Q1 2006</b>	<b>Q1 2005</b>	<b>Change</b>
In CHF millions			
Interest and capital gain/loss	- 44.7	111.9	- 156.6
Interest expenses	- 5.4	- 3.6	- 1.8
Trading and safe custody account fees	- 0.8	- 0.7	- 0.1
<b>Total</b>	<b>- 50.8</b>	<b>107.7</b>	<b>- 158.5</b>

Capital losses on securities were the main outcome of the rise in interest rates in the capital market. The simultaneous interest rate rise in the money market, meanwhile, led to a somewhat higher income from repo transactions.