

## Communications

P.O. Box, CH-8022 Zurich  
Telephone +41 1 631 31 11  
Fax +41 1 631 39 10

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# Interim results and balance sheet of the Swiss National Bank as at 30 June 2006

**Rising interest rates and a weaker US dollar had a negative impact on the half-yearly results of the Swiss National Bank. Due to a rise in the gold price, however, they are still positive overall.**

At CHF 1.96 billion, the National Bank's interim results represented a marked decline compared with the previous year's figures when a profit of CHF 7.09 billion was recorded. A weaker dollar and changes in the capital market are the main reasons for this development.

### Gold price on the rise

In the first half of 2006, movements in the gold price had a major impact on the National Bank's results. After an initial steady rise, the price per ounce reached USD 730 on 12 May, its highest level in 26 years. This was followed by a major correction. Overall, since the beginning of the year, the gold price per kilo went up by 11.6% to CHF 24,214, leading to substantial valuation gains on gold holdings of CHF 3.25 billion (compared with CHF 2.70 billion in the year-back period).

### Weaker dollar and higher interest rates

On the back of declining exchange rates and capital losses, foreign currency investments posted a loss of CHF 1.15 billion (profit of CHF 4.24 billion). Exchange rate losses reached CHF 945 million (profit of CHF 2.25 million). This was largely the result of the dollar losing ground, dropping by 6.8% since the beginning of the year and causing a valuation loss of CHF 963 million. Moreover, rising interest rates affected fixed-income investments: at CHF 1.07 billion, capital losses exceeded interest earnings, leading to a loss of CHF 285 million (profit of CHF 1.87 billion) before exchange rate influences. Equity investments – before exchange rate influences – accounted for a profit of CHF 91 million (CHF 124 million).

Investments in Swiss francs showed a loss of CHF 51 million (profit of CHF 248 million) as a result of the rise in interest rates.

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

Together with other income and expenses, the interim result came to CHF 1.96 billion (CHF 7.09 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 444 million for the first six months. After this allocation, the amount of the contribution to the distributable profit is CHF 1.51 billion (CHF 6.70 billion).

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## Income statement from 1 January–30 June 2006 (unaudited)

In CHF millions	Item no. in Notes	Q1-Q2 2006	Q1-Q2 2005	Change
Net result from gold	1	3 260.2	2 705.3	+ 554.9
Net result from foreign currency investments	2	-1 145.2	4 239.0	-5 384.2
Net result from Swiss franc investments	3	- 50.9	247.9	- 298.8
Net result from other assets		5.6	4.9	+ 0.7
<b>Gross income</b>		<b>2 069.7</b>	<b>7 197.1</b>	<b>-5 127.4</b>
Banknote expenses		17.2	19.4	- 2.2
Personnel expenses		52.1	50.0	+ 2.1
General overheads		26.3	22.3	+ 4.0
Depreciation on tangible assets		15.3	12.9	+ 2.4
<b>Quarterly result</b>		<b>1 958.8</b>	<b>7 092.5</b>	<b>-5 133.7</b>
Contribution to planned allocation to provisions for currency reserves <sup>1</sup>		- 444.3	- 397.4	- 46.9
<b>Contribution to distributable profit<sup>2</sup></b>		<b>1 514.5</b>	<b>6 695.2</b>	<b>-5 180.7</b>

1 Half 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. 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 30 June 2006 (unaudited)

	30.06.2006	31.12.2005	Change
In CHF millions			
Gold holdings	28 246.1	25 066.0	+3 180.1
Claims from gold transactions	3 033.0	2 984.2	+ 48.8
Foreign currency investments	43 785.4	46 585.5	-2 800.1
Reserve position in the IMF	720.2	1 079.8	- 359.6
International payment instruments	37.5	78.9	- 41.4
Monetary assistance loans	196.7	270.2	- 73.5
Claims from Swiss franc repo transactions	21 503.5	26 198.6	-4 695.1
Claims against domestic correspondents	0.3	5.3	- 5.0
Swiss franc securities	5 304.0	5 729.1	- 425.1
Banknote stocks	132.3	137.6	- 5.3
Tangible assets	356.4	355.5	+ 0.9
Participations	122.3	122.3	-
Other assets	316.4	375.2	- 58.8
<b>Total assets</b>	<b>103 753.9</b>	<b>108 988.2</b>	<b>-5 234.3</b>
Banknotes in circulation	38 293.1	41 366.5	-3 073.4
Sight deposits of domestic banks	6 209.8	5 852.7	+ 357.1
Liabilities towards the Confederation	1 477.7	3 126.3	-1 648.6
Sight deposits of foreign banks and institutions	358.4	483.9	- 125.5
Other sight liabilities	208.2	189.9	+ 18.3
Liabilities from Swiss franc repo transactions	-	-	-
Foreign currency liabilities	6.9	230.8	- 223.9
Other liabilities	96.5	90.7	+ 5.8
Provisions for operating risks	10.4	11.7	- 1.3
Provisions for currency reserves	38 635.7	37 841.0	+ 794.7 <sup>1</sup>
Share capital	25.0	25.0	-
Distribution reserve	16 473.4	6 948.4	+9 525.0
Annual result for 2005		12 821.2	-12 821.2
Quarterly result	1 958.8		+1 958.8
<b>Total liabilities</b>	<b>103 753.9</b>	<b>108 988.2</b>	<b>-5 234.3</b>

<sup>1</sup> Allocation from the 2005 annual result.

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## Accounting and valuation principles

These unaudited interim results cover the period from 1 January to 30 June 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		
	30.06.2006	31.12.2005	Change	30.06.2005	31.12.2004	Change
	CHF	CHF	In percent	CHF	CHF	In percent
1 USD	1.23	1.32	- 6.8	1.28	1.13	+ 13.3
1 EUR	1.57	1.56	+ 0.6	1.55	1.54	+ 0.6
1 GBP	2.27	2.27	-	2.31	2.18	+ 6.0
1 kilogram of gold	24 213.77	21 692.03	+ 11.6	18 020.55	15 939.44	+ 13.1

## Notes to the interim results

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

Breakdown by type	Q1-Q2 2006	Q1-Q2 2005	Change
In CHF millions			
Net result from changes in market value	3 253.4	2 702.0	+ 551.4
Interest income from gold lending transactions	6.8	20.0	- 13.2
Net result from hedging transactions	-	- 16.7	+ 16.7
<b>Total</b>	<b>3 260.2</b>	<b>2 705.3</b>	<b>+ 554.9</b>

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

<b>Breakdown by origin</b>	<b>Q1-Q2 2006</b>	<b>Q1-Q2 2005</b>	<b>Change</b>
In CHF millions			
Foreign currency investments	-1 126.6	4 076.3	-5 202.9
Reserve position in the IMF	- 14.7	140.2	- 154.9
International payment instruments	0.0	2.6	- 2.6
Monetary assistance loans	- 3.3	20.2	- 23.5
Foreign currency liabilities	- 0.6	- 0.3	- 0.3
<b>Total</b>	<b>-1 145.2</b>	<b>4 239.0</b>	<b>-5 384.2</b>

<b>Breakdown by type</b>	<b>Q1-Q2 2006</b>	<b>Q1-Q2 2005</b>	<b>Change</b>
In CHF millions			
Interest and capital gain/loss	- 285.3	1 874.4	-2 159.7
Interest expenses	- 0.6	- 0.3	- 0.3
Dividend income and price gain/loss	91.2	124.4	- 33.2
Exchange rate gain/loss	- 944.7	2 246.3	-3 191.0
Asset management and safe custody account fees	- 5.8	- 5.8	-
<b>Total</b>	<b>-1 145.2</b>	<b>4 239.0</b>	<b>-5 384.2</b>

The net result from foreign currency investments deteriorated significantly year-on-year.

This is partly attributable to exchange rate developments: investments in euro and Danish kroner were the sole currencies to register exchange rate gains. All other relevant currencies saw a loss, with the dollar being the culprit for the negative result. The stronger dollar in the first half of 2005 was responsible for the positive result in the corresponding year-back period.

In addition, rising interest rates led to capital losses on fixed-income investments. In 2005, the interest rate level was still in decline, thus leading to profits.

Equity exposure, which accounts for roughly 10% of the National Bank's foreign currency investments, resulted in a profit of CHF 91 million. The year-on-year decline is due to the negative performance in the equity markets in May and June this year.

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

<b>Breakdown by origin</b>	<b>Q1-Q2 2006</b>	<b>Q1-Q2 2005</b>	<b>Change</b>
In CHF millions			
Swiss franc securities	- 145.9	192.8	- 338.7
Swiss franc repo transactions	106.2	66.7	+ 39.5
Other assets	0.0	0.1	- 0.1
Liabilities towards the Confederation	- 8.2	- 8.6	+ 0.4
Other sight liabilities	- 3.1	- 3.1	-
<b>Total</b>	<b>- 50.9</b>	<b>247.9</b>	<b>- 298.8</b>

<b>Breakdown by type</b>	<b>Q1-Q2 2006</b>	<b>Q1-Q2 2005</b>	<b>Change</b>
In CHF millions			
Interest and capital gain/loss	- 38.1	261.1	- 299.2
Interest expenses	- 11.3	- 11.7	+ 0.4
Trading and safe custody account fees	- 1.6	- 1.4	- 0.2
<b>Total</b>	<b>- 50.9</b>	<b>247.9</b>	<b>- 298.8</b>

Rising interest rates in the capital market generated losses on fixed-income investments. The simultaneous interest rate rise in the money market, meanwhile, led to higher income from repo transactions.