

100th Annual Report

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



1907
2007

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
100th Annual Report 2007

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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 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 *100th Annual Report* of the SNB – comprises the Accountability Report for the Federal Assembly (from page 7). 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 page 7 et seq.

The Business Report, for the attention of the Federal Council and General Meeting of Shareholders, deals with organisational and operational developments at the SNB, as well as its business activities in the narrower sense, and includes the Financial Report, which contains the income statement, balance sheet and notes.

In 2007, the SNB celebrated its centenary. It marked the occasion by organising several events, publishing a commemorative publication and a number of periodicals containing historical time series, and launching an economics training programme. The official ceremony, with many guests from Switzerland and abroad, took place in Zurich in June.

A review of the 2007 economic year gives a somewhat mixed picture. On the one hand, economic developments in Switzerland were extremely favourable, as they were in the rest of Europe, with pleasing growth figures and a rise in employment. On the other hand, turbulence in the US mortgage market spread to most major international financial markets unexpectedly fast and vigorously in the second half of the year. This resulted in large write-downs at many banks and financial institutions that are active in the US mortgage market. The uncertainty as to which institutions were affected, and to what extent, resulted in a loss of confidence and disruptions on the international money markets. This clouded the economic outlook, above all in the US. It is not yet possible to arrive at a reliable assessment of the extent to which the international economy – and thus Switzerland – will be affected.

The turmoil on the financial markets prompted a number of central banks, including the Swiss National Bank, to take special measures to secure the supply of liquidity on money markets.

The Swiss National Bank's 2007 annual result for the Swiss National Bank amounted to CHF 8.0 billion (2006: CHF 5.0 billion). In accordance with the current profit distribution agreement, the amount to be paid out to the Confederation and the cantons for 2007 again totals CHF 2.5 billion.

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

Berne and Zurich, 29 February 2008

Hansueli Raggenbass

President of the Bank Council

Jean-Pierre Roth

Chairman of the Governing Board

Accountability Report for the Federal Assembly

On 18 February, 2008, the Governing Board of the Swiss National Bank submitted its 2007 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 2007 is structured in line with art. 5 NBA, with a separate section devoted to each of the eight tasks listed there.

(1) Monetary policy must serve the interests of the country as a whole. It must ensure price stability, while taking due account of economic development. Monetary policy affects 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 the year under review, the world economy continued to grow strongly, driven in particular by the European and Asian economies. Long-term interest rates remained low, and inflation was moderate overall. In the second half of the year, the mortgage crisis in the United States prompted a reassessment of financial market risks, which gave rise to an abrupt liquidity squeeze on money markets.

The economic upswing continued in Switzerland, too. Capacity utilisation was at a high level and the economy was close to full employment. Household consumption rose substantially due to rising incomes. Exports were driven by the vitality of the international economy and the exchange rate of the Swiss franc, and this stimulated equipment investment. The level of construction investment was slightly below that recorded in 2006.

Monetary policy

SNB monetary policy was faced with an environment whose main features included the economic boom, a slowdown in growth in the US, rising oil prices, a falling Swiss franc and financial markets that were initially favourable but subsequently became unsettled. In view of the upswing in Switzerland, the National Bank initially continued its normalisation of monetary policy, raising the target range for the three-month Libor by a quarter of a percentage point in both March and June. In the second half of the year, the financial market crisis created a new situation. While, on the one hand, the upswing persisted and it was important not to jeopardise price stability, on the other hand, financial market developments created uncertainty as well as money market shortages accompanied by higher interest rates. In September, the SNB decided to calm the money market by bringing the three-month Libor back down from 2.90% to 2.75%, while simultaneously lifting the target range by 25 basis points to 2.25 – 3.25%. No further adjustment was required in December, with the inflationary indications demanding as much monetary policy attention as did those pointing to a slowdown in the global economy.

Liquidity supply

(2) The SNB provides the money market with liquidity. In this way, it implements monetary policy and acts as lender of last resort when necessary. In the second half of 2007, disruptions on the international money markets led to liquidity bottlenecks and a sharp rise in risk premiums. Initially, the SNB responded to the new situation with generous injections of liquidity, as and when needed. In September, it countered the increase in the three-month Libor caused by higher risk premiums by offering liquidity with a maturity of three months and charging lower repo rates. Fine-tuning operations were used frequently to stabilise short-term money market rates. From the beginning of December, the SNB provided funds to ensure that banks would be able to cover any financing requirements over the year-end period without strains. In addition, it took part in concerted liquidity measures organised by leading central banks (including US dollar auctions). In June, the Governing Board decided in favour of a substantial expansion in the list of collateral eligible for SNB repos while retaining strict requirements with respect to liquidity and credit rating.

Cash supply and distribution

(3) The 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 Confederation. In 2007, 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 bank authorities commissioned Manuela Pfrunder, a graphic artist from Zurich, to carry out further development work on her designs.

(4) In the area of cashless payments, the SNB 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 the year under review, the SNB thoroughly evaluated the SIC, SECOM and SIS x-clear system operators for the first time and came to the conclusion that, fundamentally, they fulfil the requirements.

Payment systems

(5) The National Bank manages Switzerland's currency reserves. Asset management is governed by the primacy of monetary policy and is carried out according to the criteria of security, liquidity and performance. In 2007, 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. There was little change in the investment universe and portfolio breakdown. A large part of the 250 tonnes of the gold sales announced in 2007 have already been carried out. Again, earnings from currency reserves exceeded long-term return expectations, with earnings from gold being particularly outstanding. The return on foreign exchange reserves was reduced by exchange rate and share price losses. The price of gold and the dollar exchange rate remained the dominant risk factors.

Currency reserves

(6) The SNB is charged with helping to secure the stability of the financial system. It endeavours to identify risks to the system at an early stage and works to create an environment conducive to stability. In its financial stability report, the SNB judged the banking system and financial market infrastructure to be stable but drew attention to vulnerabilities. The disruptions on the financial markets emanating from the US mortgage market in the second half of the year had the potential to threaten the Swiss financial system, and caused the SNB and the Swiss Federal Banking Commission (SFBC) to monitor the big banks closely. Together with the SFBC, the SNB addressed the reform of liquidity controls at the big banks as well as the implementation of the new Basel Capital Accord (Basel II). In addition, a Memorandum of Understanding was signed with the SFBC relating to cooperation in the field of financial stability.

Financial system stability

Monetary cooperation

(7) The 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), the Financial Stability Forum (FSF) and the Organisation for Economic Cooperation and Development (OECD). The main activities of the IMF were the preventive surveillance of member states, the reform of the surveillance process, the reform of quotas and voting rights as well as its income. It conducted multilateral consultations on a coordinated strategy to reduce global imbalances. As part of the Financial Sector Assessment Program (FSAP), the IMF judged the Swiss banking sector to be shock-resistant. The BIS committees in which the SNB participated 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 SNB provides the Swiss Confederation with banking services in the areas of payment transactions as well as liquidity and securities management. In 2007, the SNB issued money market debt register claims and bonds for a total value of CHF 37.2 billion and carried out 122 000 payment transactions on behalf of the Confederation.

1 Monetary policy

Despite the turbulence experienced on financial markets during the second part of the year, conditions were favourable in the domestic and international economies in 2007. In order to manage monetary conditions, by ensuring that the buoyant economy did not jeopardise price stability, the Swiss National Bank (SNB) increased the three-month Swiss franc Libor target band on three occasions. Price stability was assured.

Summary

1.1 Monetary policy strategy

Article 99 of 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. The mandate is explained in detail in the National Bank Act (art. 5 para. 1) which requires the National Bank to ensure price stability and, in so doing, to take due account of economic developments.

Constitutional and legal mandate

The SNB is thus charged with resolving in the best general interests any conflicts arising between the objective of price stability and consideration of the development of the economy, giving priority to price stability. The requirement to act in the “interests of the country as a whole” means that the SNB must gear its policy to the needs of the Swiss economy as a whole rather than the interests of individual regions or industries.

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 costs.

Significance of price stability

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, by contrast, cannot be counteracted by monetary policy. By keeping prices stable, the National Bank creates an environment in which the economy can fully exploit its production potential.

To secure price stability, the SNB must provide appropriate monetary conditions. If interest rates remain 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 overall 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.

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 developments in the international economy, major fluctuations in exchange rates, serious government budget problems or inappropriate money supply levels in the past. Inflationary pressures increase in phases of economic overheating and decrease when production capacity is not fully utilised. Thus, the National Bank must gradually restore price stability by tightening monetary policy in the first case and easing 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 situation is more complex when prices rise owing to shocks that increase corporate costs and cause companies to curb production. A continuous rise in the oil price is an example of such a shock. Under such circumstances, monetary policy must, on the one hand, make sure that the higher production costs do not result in an inflationary spiral, while, on the other hand, ensuring that the companies affected by the shocks are not excessively disadvantaged. An over-hasty restoration of price stability might have adverse effects on the business cycle and employment.

... despite numerous uncertainties

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 with respect to the cause and duration of the shocks that impair economic performance, as well as 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 strategy in force since 2000 consists of the following three elements: a definition of price stability, a medium-term inflation forecast and – at the operational level – a target range for a reference interest rate, the three-month Libor (London Interbank Offered Rate) for Swiss francs.

Definition of price stability

The SNB 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 increase is necessarily inflationary. Furthermore, it takes account of the fact 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, measured inflation tends to be slightly overstated.

The inflation forecast performs a dual function in the SNB's monetary policy strategy. While, on the one hand, it serves as the main indicator for the interest rate decision, on the other, it is also an important element in the National Bank's communication policy..

Functions of the 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 on 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 policy to the economy. Forecasts over such a long time horizon, however, involve considerable uncertainties. By publishing a medium to long-term forecast, the SNB emphasises the need to adopt a forward-looking approach and to react at an early stage to any inflationary or deflationary threats.

Quarterly publication of inflation forecast

The SNB's published inflation forecast is based on a scenario for global economic developments and on the assumption that the Libor determined at the time of publication of the forecast will remain constant over the entire forecasting period. The forecast published by the SNB 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 by other institutes which incorporate anticipated monetary policy decisions.

In the medium and long term, the price trend depends, essentially, upon the supply of money. The monetary aggregates and credit thus hold a relatively important position in the various quantitative models used for forecasting inflation. For shorter-term inflation forecasts, other indicators relating, for instance, to economic activity, exchange rates or oil prices, are generally of greater importance.

Indicators upon which the inflation forecast is based

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

In view of the fact that the inflation forecast published by the SNB takes account of the interest rate decision taken by the Governing Board, the shape of the curve makes it possible for economic agents to deduce the probable future path of the Libor.

Communicating through the inflation forecast

If the inflation forecast indicates a deviation from the range of price stability, an adjustment of monetary policy could prove necessary. Should inflation threaten to exceed 2% on a longer-term basis, the SNB would thus consider tightening its monetary policy. Conversely, it would tend towards relaxation if there were a threat of deflation.

Review of monetary policy based on the inflation forecast

The SNB does not, however, respond mechanically to its inflation forecast; it takes account of the general economic situation when determining the nature and extent of its reaction. 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.

Libor target range

The SNB implements its monetary policy by fixing a target range for the three-month Swiss franc Libor, which it publishes 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. If circumstances so require, it will also adjust the Libor target range between these quarterly assessments. It sets out the reasons for its decisions in press releases.

1.2 International economic developments

Robust global growth despite slowdown in US

In 2007, global economic growth settled at around 5% for the third year in succession. The main reasons for this excellent performance were the continued economic momentum in emerging countries, particularly in Asia, as well as the favourable international financial conditions. Despite a progressive tightening in monetary policy, long-term real interest rates remained low, thereby supporting financial assets and the expansion in credit markets.

There was greater divergence between economic developments in different regions than there had been in 2006. While high growth levels persisted in emerging economies and the European economy continued growing at a rate higher than its long-term trend, the US economy slowed considerably.

Considerable increase in energy prices

In 2007, oil prices rose substantially. The average price of a barrel reached USD 90 in the fourth quarter of 2007, which was the highest level ever attained, representing an increase of 50% over the same period in the previous year. A rise of this magnitude had not been observed since 2004. The main reasons were essentially the strong rise in demand from emerging economies and the lack of surplus capacities, in particular on the part of OPEC member states.

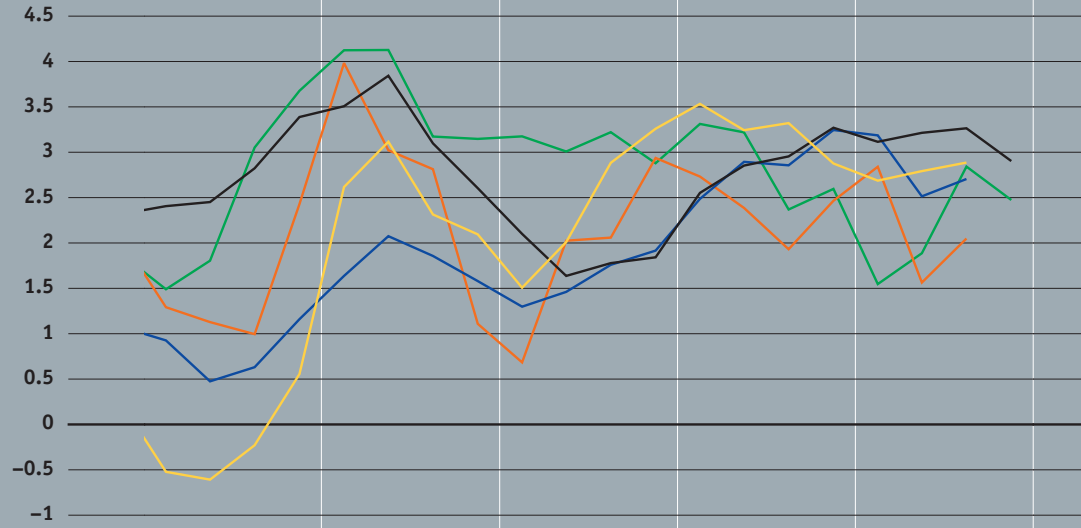
Turbulence on financial markets

Another dominant feature of the year was undoubtedly the strong increase in volatility on financial markets. The rise in the number of foreclosures and defaults in the US sub-prime mortgage market led, over the course of the summer, to a sharp revaluation of these assets and their derivative products. The uncertainty regarding the extent and distribution of losses dried up certain segments of the credit market and greatly increased the cost of interbank lending. The main stock market indices also declined in the wake of this credit market turmoil – dragged down by substantial corrections in the shares of financial institutions. Furthermore, the volatility of the stock market approached the levels reached when the technology bubble burst in 2000. Finally, investors' risk-aversion was reflected in a decline in yields on government bonds and an increase in risk premiums on corporate bonds. These developments resulted in a substantial tightening of financial conditions in developed economies in the second part of the year.

Gross domestic product

- United States
- Japan
- Euro area
- United Kingdom
- Switzerland

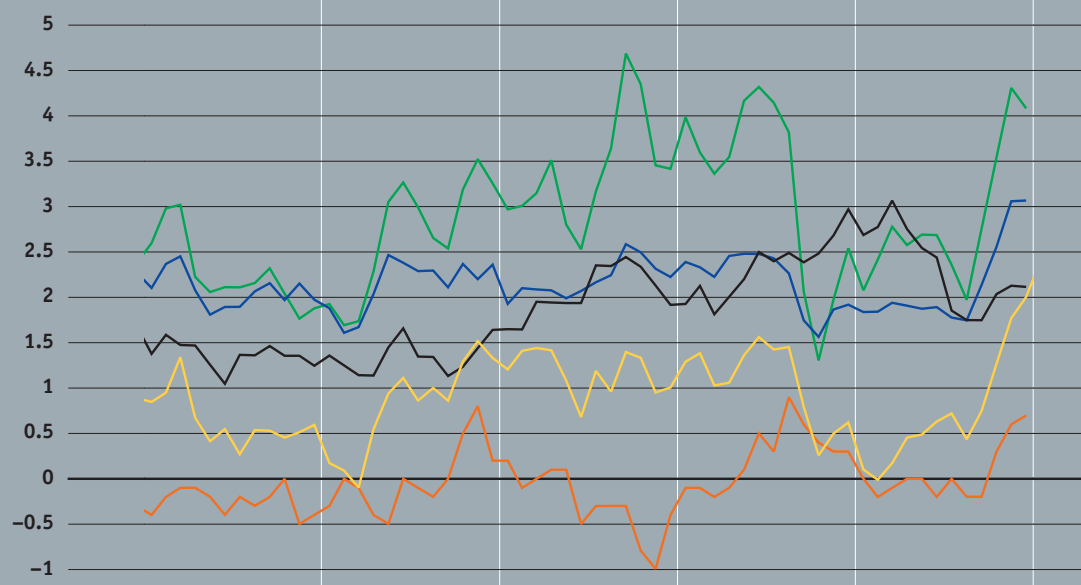
Year-on-year change
in percent, in real terms
Sources: Thomson Datastream, SECO



Inflation

- United States
- Japan
- Euro area
- United Kingdom
- Switzerland

In percent
Sources: Thomson Datastream, SFSO



**US growth impaired by
decline in real estate market**

The US economy continued slowing in 2007. At 2.2% (2.9% in 2006), annual GDP growth was distinctly below the long-term trend. This downturn reflected the substantial adjustment in residential investment. Between January and December 2007, house sales and new housing under construction declined by about 30%. The effect on house prices was striking, with certain indices recording a drop of almost 10% over the same period for the country as a whole.

The other components of domestic demand, however, increased strongly. Household consumption was robust in the services and consumer durables sector, thereby compensating the loss of momentum in the current consumption goods segment, which was particularly affected by the increase in petrol prices. Corporate investment maintained its upward trend on the back of commercial and industrial construction. In part, this reflects the increase in production capacity needed to respond to a major increase in external demand. As opposed to previous years, the net contribution of foreign trade was positive in 2007 (0.6 percentage points). This was due to strong demand from Asia and Europe, the continued weakness in the dollar and the moderating effect which the increase in oil prices had on US demand for energy.

Conditions on the US labour market remained favourable. Employment slowed somewhat, leading to a slight growth in the rate of unemployment. However, at 4.8% in the fourth quarter of 2007 (4.5% in the fourth quarter of 2006), unemployment is still below the long-term average.

Apart from the real estate sector, the US economy performed well in 2007. This, however, should not obscure the deterioration in the macroeconomic indicators at the end of the year. The rapid increase in petrol prices and the financial market turbulence shook the confidence of households and businesses. In the fourth quarter, most confidence indices were at their lowest level for two years, and there was only a very small advance in the indices of activity for the manufacturing sector. Following the strong growth in the second and third quarters, there was a distinct slowdown in momentum in the three final months of the year.

Although it varied from one country to another, the growth of economic activity in the euro area was again robust in 2007, attaining 2.7% (2.9% in 2006). The business cycle in the euro area followed a traditional pattern, with an upsurge in exports stimulating corporate investments and employment. Expenditure on equipment investment rose strongly in response to the high rate of capacity utilisation and corporate profits, both of which were at historically high levels. Growth in private consumption, however, remained moderate despite the continued decline in unemployment. This was due particularly to the increase in VAT in Germany and the rise in the price of petrol.

**European economic growth
supported by investment**

Conditions in the labour market continued improving. The rate of unemployment declined throughout the year, reaching 7.2% in December 2007, its lowest level since the official starting date for the series calculated by Eurostat (January 1993). This resulted from the strong demand for qualified workers, the moderate level of salary increases and the structural reforms in the labour market that have occurred in recent years, particularly in Germany.

As in the US, macroeconomic conditions in the euro area deteriorated at the end of the year. Most of the indices of business activity, in both manufacturing and services, declined in autumn, although they were still above their long-term average levels. In addition to the tightening of financial conditions related to the turmoil on credit markets, the strengthening in the euro also contributed to a deterioration in the outlook for exports.

Driven by the regional trade boom and the demand for investment, the emerging economies of Asia (China, Hong Kong, Singapore, South Korea and Taiwan) again recorded very strong growth in 2007. In China, GDP growth exceeded 10% for the fifth year in succession. The strong growth in investment was supported by increased corporate profits and favourable financial conditions. Strong exports gave rise to a substantial increase in the trade surplus.

The other emerging economies in the region also recorded growth rates above the average for the past ten years. They benefited from the upswing in global demand for information technology and from a revival in domestic demand following the improvement in labour market conditions.

In Japan, the vitality of neighbouring economies and the weakness of the yen supported a growth rate of 1.9% in 2007 (2.4% in 2006). Investment in equipment continued to rise, due to the favourable financial position of businesses, whereas growth in private consumption remained weak as a result of limited increases in salaries.

In 2007, inflationary pressures in the developed countries increased. In terms of the overall consumer price index, inflation in December approached 4% in the US and 3% in Europe following the substantial increase in commodity prices, and in particular the rise in oil and food product prices in the second half of the year.

In the US, the rate of growth in the consumer price index, excluding food and energy products, slackened slightly during the course of the year to reach 2.4% in December 2007 (2.6% in December 2006). This was due, in particular, to a slowing in accommodation costs. In the euro area, the increase in the corresponding core index only slightly exceeded 2% at the end of the year, while in Japan the same index remained practically unchanged.

Emerging Asian economies remain dynamic

Continued expansion in Japan

Upward inflationary trend at end of year

**Monetary policies
compromised**

With sound economic advances recorded in the first half of the year, many central banks lifted their reference interest rates as part of medium-term inflation-combating measures. In the middle of the year, these policies were compromised by the turbulence experienced on financial markets and the uncertainties that ensued.

Consequently, the European Central Bank suspended the policy of gradually increasing its reference interest rate, after having lifted it by 50 basis points to 4% in the first part of the year. The Bank of Japan had not changed its reference interest rate from 0.5% since February. In order to address the problems caused by the severe correction on the US real estate market and the increase in the US refinancing rate, the Fed dropped its target for the federal funds rate by 100 basis points, taking it to 4.25% at the end of the year.

In addition, most central banks temporarily injected large amounts of liquidity in order to ensure that interbank refinancing markets did not run dry.

Uncertain outlook for 2008

Even though the global economy has moved into a phase of turbulence that adds considerable uncertainties to forecasts, the growth outlook for 2008 remains generally favourable. In the US, the large number of unsold homes suggests that residential investment will continue to contract in the next few quarters. Private consumption is also likely to slow, given the fall in the price of homes and the major increase in the price of petrol and food. The expected positive but modest increase in GDP in the US is likely to dampen exports and investment in Europe and Japan. Moreover, the increase in the value of the euro is likely to slow activity in the euro area. Nevertheless, in view of the continued improvement in employment, the European economy should continue growing. The vitality of emerging economies is likely to be a solid support for the developed economies.

**Downside risks burdening
global growth**

However, there are several downside risks burdening the global growth outlook. First, the turmoil on financial markets could tighten credit conditions for households and businesses and cause them to cut back their expenditure. This applies particularly to the US and Europe. Second, the real estate crisis could spill over to other sectors of the US economy in a more serious manner than has happened to date. Third, current account imbalances continue to represent a major risk due to the fact that an abrupt correction could destabilise the global economy. Finally, the tensions on commodity markets could lead to new price increases that would impact on growth in developed economies and constitute a risk of inflation.

1.3 Economic developments in Switzerland

In 2007, the Swiss economy was in good shape and GDP growth remained at a high level, exceeding the forecasts made in 2006.

Following the lively developments in the previous year, 2007 saw a year of broad-based growth. Capacity utilisation was above the long-term average and the improvement in the labour market was substantial.

The main growth drivers included the strong global economy and the weakness of the Swiss franc with respect to the euro, which promoted net exports, although the contribution of exports to growth gradually declined during the course of the year. In addition, domestic demand was supported by advantageous financing conditions, as well as favourable developments in employment and income. For the first three quarters of 2007, GDP growth amounted to 2.8%. The turmoil on the financial markets barely affected the Swiss economy, which remained robust in the fourth quarter of 2007.

Healthy Swiss economy...

Real gross domestic product Year-on-year change in percent

	2003	2004	2005	2006	2007 ¹
Private consumption	0.9	1.6	1.8	1.5	2.0
Consumption by government and social security schemes	1.9	0.8	0.5	-1.4	-0.9
Investment	-1.2	4.5	3.8	4.1	3.4
Construction	1.8	3.9	3.5	-1.4	-2.6
Equipment	-3.6	5.0	4.0	8.9	8.3
Domestic demand	0.5	1.9	1.8	1.4	0.2
Exports of goods and services	-0.5	7.9	7.3	9.9	10.3
Aggregate demand	0.2	3.8	3.6	4.3	3.8
Imports of goods and services	1.3	7.3	6.7	6.9	6.0
Gross domestic product	-0.2	2.5	2.4	3.2	2.8

Sources: SFSO and SECO

¹ Average of first three quarters.

Exports of goods and services recorded brisk growth during the first half of 2007 and exceeded the high volumes observed in 2006. Due to an increasing demand for investment goods and consumer goods originating mainly in Europe, south-east Asia and the oil-producing countries, exports to these countries remained particularly strong. Those to the United States, however, declined throughout the year.

In the second half of the year, the pace of growth in exports diminished. The downturn affected services somewhat more strongly than the goods sector, particularly with respect to financial services for clients abroad.

... robust level of exports in first half of year...

... and good results in second half

Gradual growth in imports throughout year

At the beginning of the year, the growth in imports of goods and services was below the long-term average. The second quarter of 2007 saw a slight acceleration, particularly in equipment goods, stimulated largely by corporate investment. However, it was not until the second half of the year that imports of goods and services began to grow more noticeably. Although the demand for imported equipment goods fell back slightly, the demand for durables acted as an import growth driver in the second half of 2007.

Strong growth in equipment investment

Given that capacity utilisation was above the long-term average, equipment investment continued rising. This advance was encouraged by advantageous conditions such as low interest rates, the good economic outlook and rising corporate profits. This growth in equipment investment meant that capital stock became better adjusted to production and this, in turn, was reflected in a decline in the rate of capacity utilisation in the second half of 2007.

Slowdown in construction

As opposed to equipment investment, construction investment showed a downward trend. This slowdown can be attributed, first and foremost, to a downturn in residential construction, which had already been at a high level following the strong developments of the preceding years. In the non-residential sector, growth in the construction of commercial premises advanced favourably in line with the general economic trend, while public works stagnated.

Employment increasing

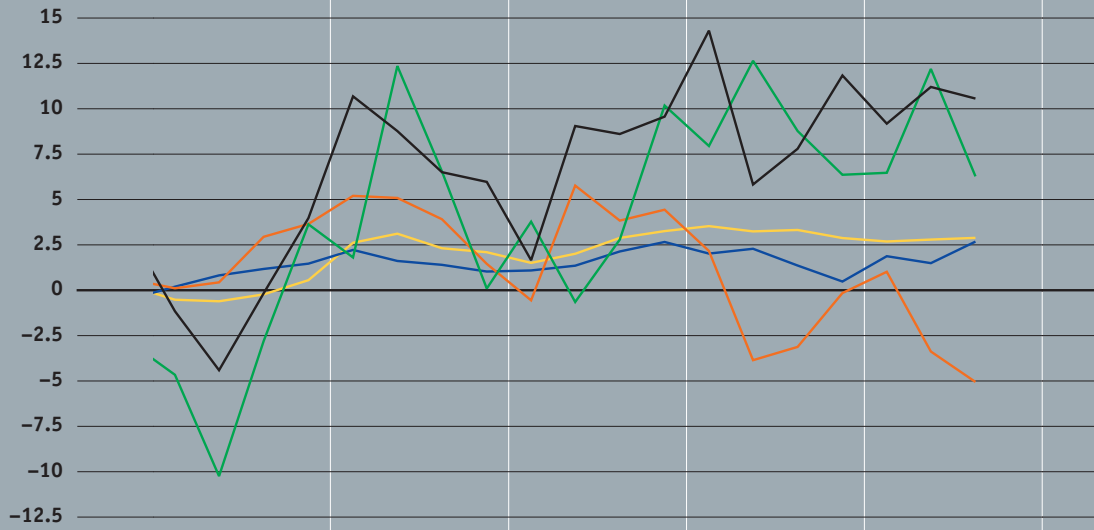
Benefiting from the strong economy, the labour market continued improving. In the first three quarters of 2007, some 82,000 new jobs were created. At the beginning of 2007, it was the manufacturing sector that served as the driver of employment growth. However, from mid-2007, employment growth in the services sector also picked up momentum. Despite a situation of near full-employment in 2007, excess demand for labour, measured in terms of job vacancies, never attained the levels achieved in 2000–2001. The opening up of the Swiss labour market to European Union nationals on the basis of the agreement on the free movement of persons has enabled employers to compensate part of the shortage of labour. The fact that approximately 40% of jobs created were taken up by non-Swiss employees is a partial reflection of this phenomenon.

Unemployment decreasing

Alongside the vitality of employment, the rate of unemployment declined throughout the year, dropping from 3% in January to 2.6% in December in seasonally-adjusted terms. The rate of job seekers also continued falling, dropping from 4.6% in January to 4% in December. In addition to unemployed persons, this indicator includes people looking for jobs who are either temporarily engaged in employment or training programmes, or who receive temporary earnings.

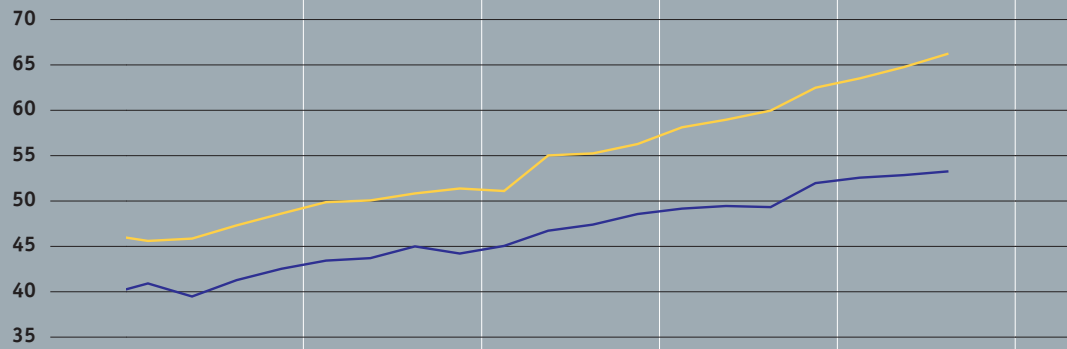
Gross domestic product and components

— GDP
— Private consumption
— Investment in construction
— Investment in equipment
— Exports
 Year-on-year change in percent, in real terms
 Source: SECO



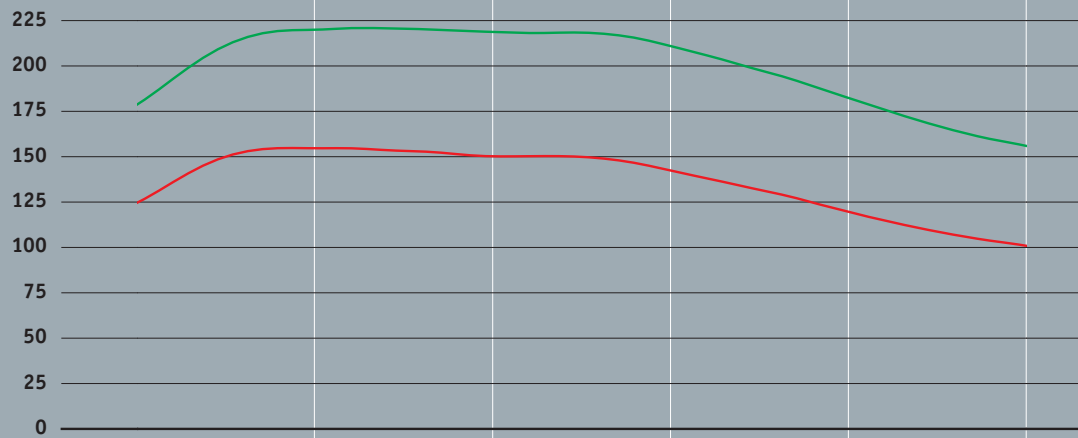
Foreign trade

— Imports of goods and services
— Exports of goods and services
 In CHF billions, in real terms, seasonally adjusted
 Source: SECO



Labour market

— Unemployed persons
— Job seekers
 In thousands, seasonally adjusted and smoothed
 Source: SECO



Labour market

	2002	2003	2004	2005	2006	2007
Employment in terms of full-time equivalents ^{1, 2}	0.1	-0.9	0.0	0.2	1.4	2.6
Unemployment rate in percent	2.5	3.7	3.9	3.8	3.3	2.8
Number of job seekers in percent	3.8	5.2	5.6	5.5	5.0	4.3
Swiss nominal wage index ^{1, 2}	1.8	1.4	0.9	1.0	1.2	1.4
Total wage bill index ^{1, 2, 3}	5.4	1.5	0.7	2.6	3.9	5.5

1 Year-on-year change in percent.

2 Average of first three quarters of 2007.

3 Wage contributions to AHV/AVS.

Sources: AHV/AVS, SFSO, SECO

Expansion in real salaries and bonuses

In a labour market close to full-employment, real salaries certainly rose – but the increases were moderate. The Swiss wage index indicates an average increase in real salaries of about 1% in the first three quarters of 2007. However, this figure may be regarded as a minimum, since it does not take account of structural modifications in employment or bonuses. Using salary-based contributions to the Old Age and Survivors' Insurance (AHV/AVS), the increase in real average salaries amounted to around 2.5% in the first three quarters of 2007.

Healthy consumption figures

The healthy state of the labour market, with its favourable impact on employment, salaries and the climate of household consumption, provided strong support for private consumption, which, in 2007, attained the highest growth rate since 2001. All segments of private consumption benefited, with the demand for durable goods, such as sales of new cars, holding the pole position. By contrast, growth in the number of overnight stays, which is an important indicator for consumption of services, was relatively weak.

For the second year in succession, the rate of growth in real spending by the government sector was negative. This slackening in government spending slowed GDP growth.

Uncertainty on 2008 outlook

Although 2007 closed on a good note with respect to the economic situation, the turbulence on the financial markets in the second half of the year raised the level of uncertainty with respect to the economic forecast for 2008. Despite these risks, the economic outlook for Switzerland remains good. As compared to the strong growth experienced in the year under review, the increase in GDP is likely to slow a little in 2008, settling at around 2%.

A slackening in the pace of equipment investment and exports, together with the persistence of a relatively high level of imports, will probably have a negative impact on GDP. However, the vitality of the labour market and higher incomes in 2008 should result in a consolidation of private consumption and therefore support the economy.

2003




2004

2005

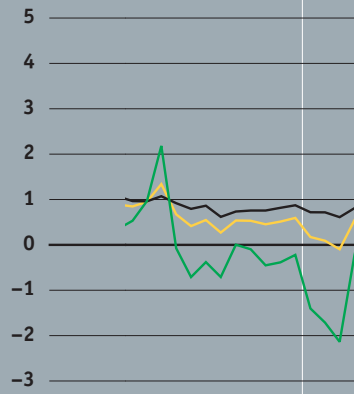
2006

2007




Consumer prices

 Consumer prices
 Domestic goods
 Imported goods

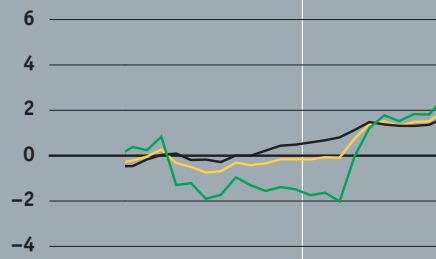
Year-on-year change
 in percent
 Source: SFSO






Producer and import prices

 Producer and import prices
 Producer prices
 Import prices

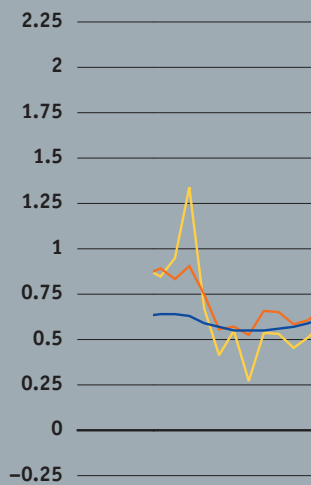
Year-on-year change
 in percent
 Source: SFSO



Core inflation

 Consumer prices
 Trimmed mean
 Dynamic factor inflation

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



2003

2004

2005

2006

2007

**Price indices affected
by energy prices**

As in 2006, developments in import prices and production prices in 2007 were strongly affected by changes in energy prices, and particularly by movements in oil prices. The annual growth in import prices climbed from 3.2% to 3.5% between January and July, while the rate of increase in production prices crept up from 1.7% to 2.7% between January and May. Following a brief decline in September, the flare-up in oil prices led to a resurgence in import prices and production prices. While import prices advanced by 3.4% in the period from October to December, production prices increased by 2.6% in the same period. Apart from energy, prices of intermediate goods also grew strongly in the first half of the year, although this development was curbed in the second half. The terms of trade – in other words, the relationship between export and import prices – deteriorated over the course of the year as a result of the considerable increases in energy and commodity prices.

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

	2006	2007	2007 Q1	Q2	Q3	Q4
Overall CPI	1.1	0.7	0.1	0.5	0.6	1.7
Domestic goods and services	0.8	1.0	0.9	1.0	0.9	1.1
Goods	-0.2	0.0	-0.5	-0.2	0.0	0.9
Services	1.1	1.2	1.3	1.4	1.1	1.2
Private services (excluding rents)	0.4	0.5	0.6	0.6	0.4	0.5
Rents	2.0	2.3	2.2	2.4	2.2	2.1
Public services	1.2	1.3	1.4	1.5	1.1	1.1
Imported goods and services	1.9	0.1	-1.9	-0.8	-0.0	3.2
Excluding oil products	0.4	-0.4	-1.3	-0.8	0.1	0.3
Oil products	9.3	2.4	-4.9	-1.0	-0.8	17.1
Core inflation						
Trimmed mean inflation	1.0	1.0	0.8	1.0	0.9	1.2
Dynamic factor inflation	1.2	1.3	1.3	1.3	1.3	1.2

Sources: SFSO and SNB

Inflation gradually rising ...

Inflation in 2007, measured in terms of the CPI, was moderate at the beginning of the year (0.1% in January), but increased over the year to reach 2% in December. The main reasons included the rise in the price of petrol and heating oil and the weakness of the Swiss franc against the euro, which pushed up the price of imports. The prices of services rose steadily throughout the year. Although the rate of growth in the price of goods rose over the course of the year, total average inflation amounted to 0.7%, which was 0.4 percentage points lower than in 2006.

2003



2004

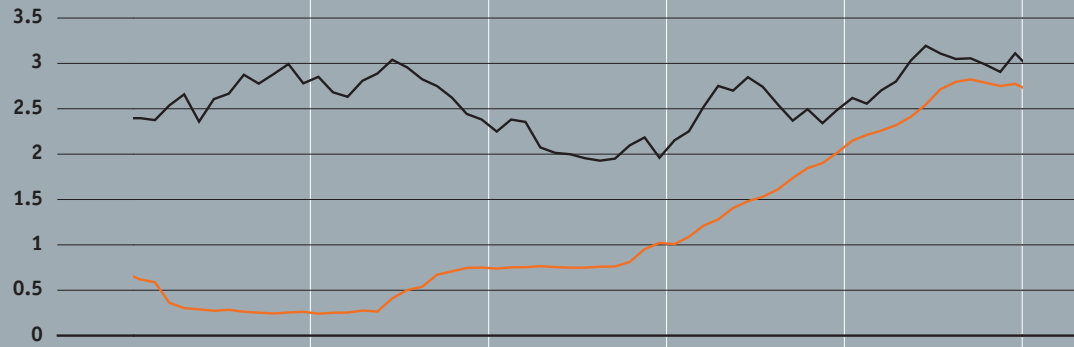
2005

2006

2007

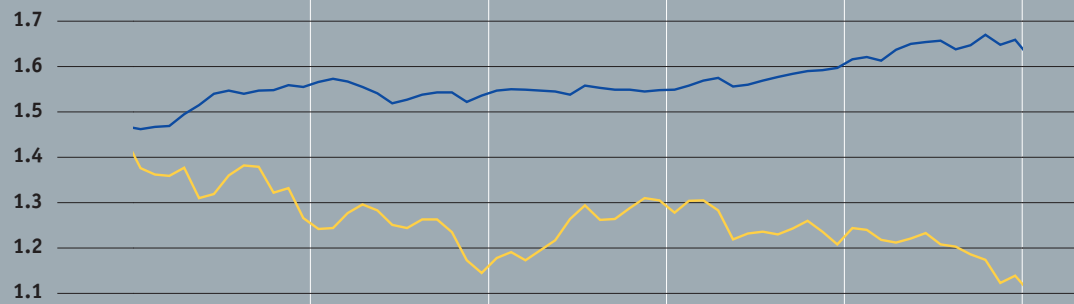
Money and capital market rates

 Three-month Libor
 Yield on ten-year Swiss Confederation bonds (spot interest rate)
 In percent





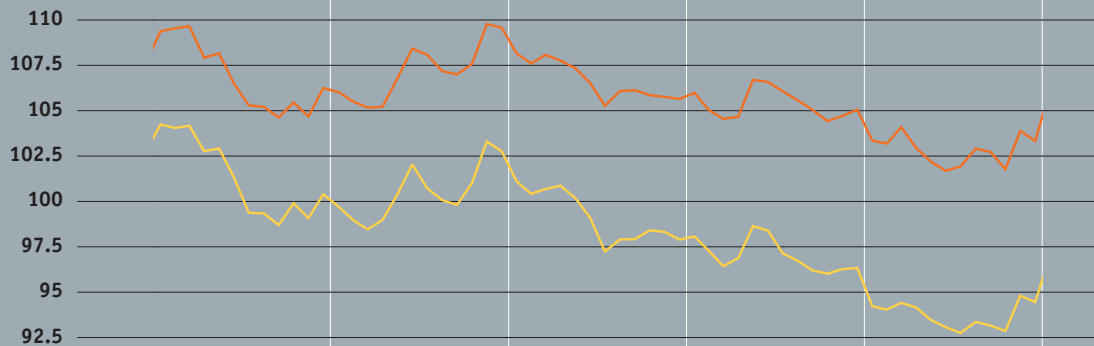
Exchange rates

 CHF/USD
 CHF/EUR
 Nominal



Export-weighted Swiss franc exchange rates

 Real
 Nominal
 24 trading partners
 Index: January 1999 = 100



2003

2004

2005

2006

2007

... but always under control

Numerous short-term fluctuations may have a significant impact on inflation, as measured by the CPI. The use of core inflation rates makes it possible to analyse inflationary trends. Between January and December, core inflation, as measured by the SNB using an average that excludes, for each month, all goods whose prices have recorded the greatest fluctuations (trimmed mean), rose gradually from 0.8% to 1.2%. In the same period, dynamic factor inflation – a form of core inflation that takes account of information contained in real and monetary variables and financial indicators in addition to price developments – remained relatively stable.

Libor rises in 2007

In the course of 2007, the Libor rose from 2.15% in January (average) to 2.77% in December (average). As a result of the normalisation of monetary policy, the Libor increased steadily during the first half of the year, reaching 2.5% in mid-2007. Although this advance continued in the second half of the year, it no longer followed the linear path of the first half. Increasing risk premiums caused the volatility of the Libor to rise, and just before the monetary policy assessment in September the rate reached around 2.9%. At the September assessment, the SNB therefore brought the Libor back to 2.75% with a view to calming the money market, and this level was maintained to the end of the year.

Increase in long-term yields and rise in volatility

In the first half of the year, ten-year Confederation bond yields – like other long-term interest rates – climbed 80 basis points to reach a level of 3.4% in June. However, from June onwards, in the wake of the turmoil on the financial markets, a major series of portfolio reallocations pushed down long-term interest rates. Consequently, ten-year Confederation bond yields slid to 2.8% in September. They then fluctuated around the 3% level for the remaining months of the year.

Swiss franc weak against euro

As in 2006, the Swiss franc was weak with respect to the euro. In 2007, the exchange rate fluctuated between CHF/EUR 1.60 and 1.68, reaching CHF/EUR 1.66 at the end of the year, as compared with CHF/EUR 1.60 at the end of 2006 (December average).

Swiss franc continues to strengthen against dollar

The picture was different as regards the US dollar exchange rate. The US currency remained relatively stable for the first six months of the year. Thereafter it plunged, in particular following the turmoil on the financial markets, reaching CHF/USD 1.14 at the end of the year, as compared to CHF/USD 1.21 at the end of 2006 (December average). Not since the mid-1990s has the level been so low.

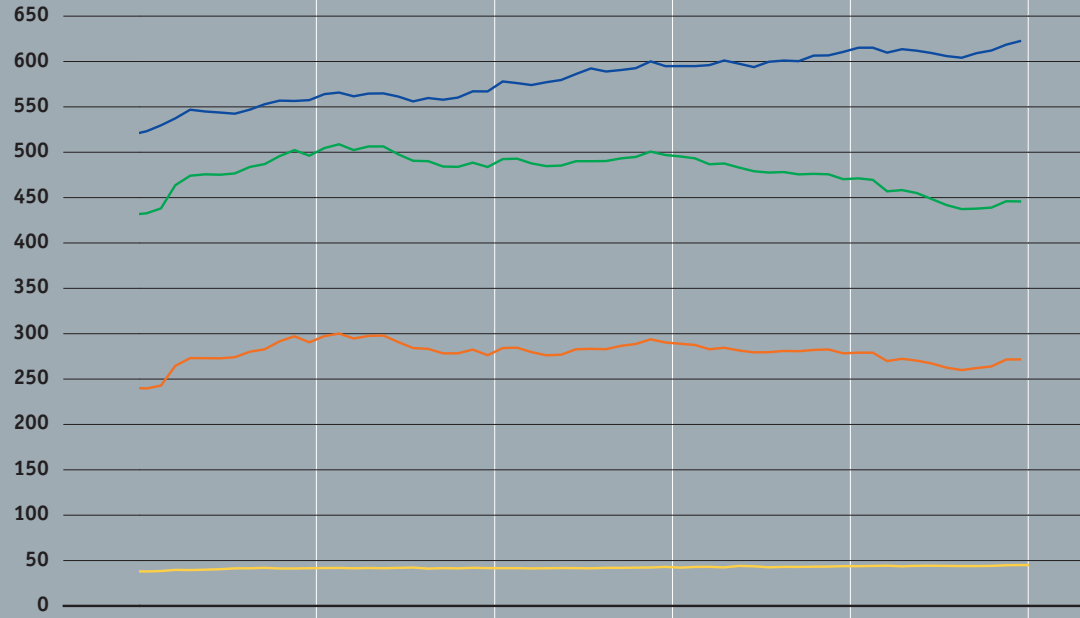
Both the nominal and the export-weighted real external value of the Swiss franc declined in the first half of the year but recovered in the second. In addition, these movements featured several periods of increased volatility.

Monetary overhang absorbed

Since September 2004, when the process of normalising monetary policy was resumed, a substantial slowdown in the rate of growth of the monetary aggregates had been recorded as a result of the subsequent series of increases in the Libor. As in 2006, the rate at which M1 and M2 were falling picked up gradually over the course of 2007. Meanwhile, M3 continued growing, but at a relatively weak pace. The money overhang that had appeared in 2003 was absorbed in 2007.

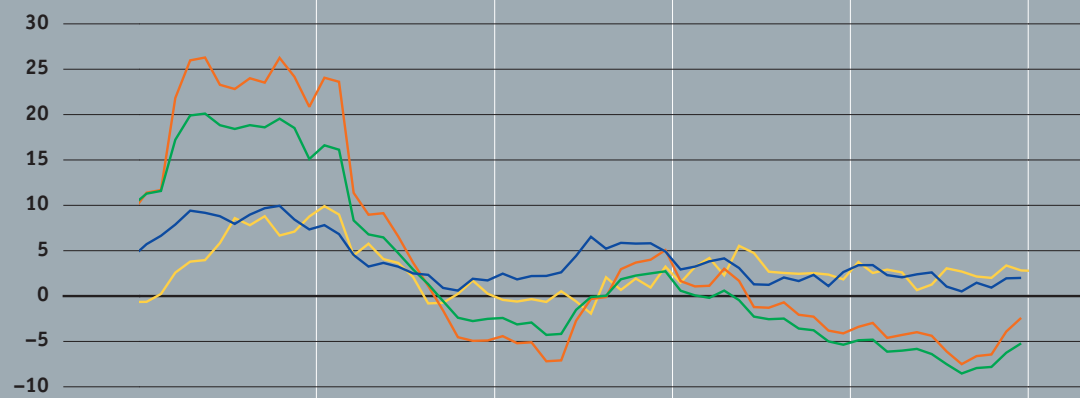
Level of monetary aggregates

— Monetary base
— M1
— M2
— M3
 In CHF billions



Growth in monetary aggregates

— Monetary base
— M1
— M2
— M3
 Year-on-year change in percent



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 in-depth assessments results in an interest rate decision. In addition, if circumstances so require, the Governing Board also adjusts the target range for the three-month Libor in Swiss francs between regular assessment dates. In 2007, however, this was not the case.

Monetary policy challenges in 2007

In the first half of 2007, the SNB continued the policy of normalising the level of interest rates which it has been pursuing for the past three years. Consequently, it lifted the Libor target range in two steps to bring the interest rate to a level that was in line with the strength of the economy and that would ensure price stability in the medium term.

In the second half of the year, the SNB was operating in a new environment. Management of monetary conditions consisted of ensuring, on the one hand, that the healthy state of the economy did not jeopardise price stability in the medium term, and, on the other hand, that the turbulence on the financial markets did not result in a liquidity shortage. Consequently, the aim of monetary policy was to relax monetary conditions sufficiently to ensure that interbank market nervousness did not jeopardise the growth and stability of the Swiss economy, but to do so without any relaxation of vigilance in the matter of price stability.

Monetary policy in 2007 facing numerous risks ...

As in previous years, monetary policy in 2007 was exposed to numerous risks in the short, medium and long term. The SNB regularly evaluates the probability of such risks, their consequences for the economy and their implications for monetary policy.

... in the short term ...

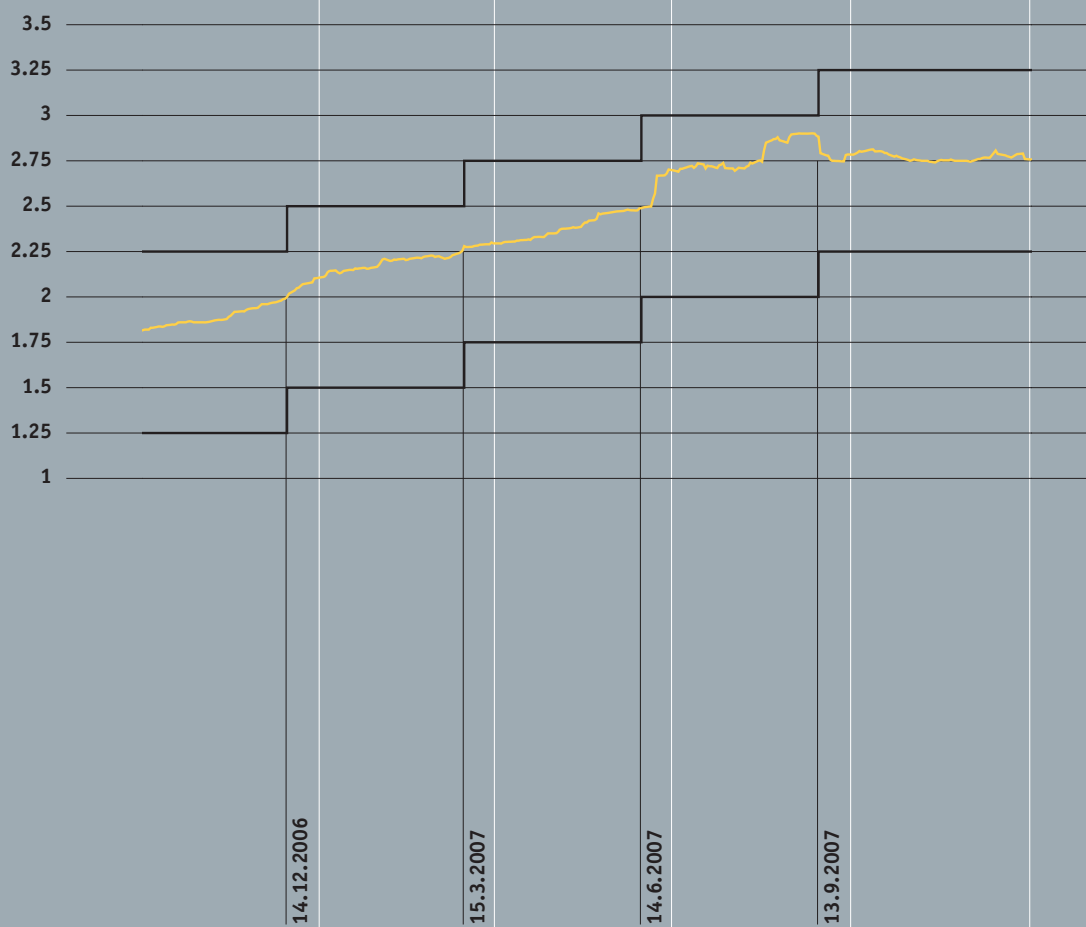
Although the vagaries of oil prices represented a major risk to the economy and to price stability throughout 2007, the principal risk capable of dampening economic activity in the second part of the year was the crisis on the credit market, which deeply shook the financial markets and rocked the banking world. Although the volatility in energy prices did not cause the SNB to adopt any particular measures, the fear that money markets might dry up, however, encouraged it to relax monetary conditions in the second half of 2007.

... in the medium term ...

Uncertainties with respect to the outlook for the global and Swiss economies remain the principal risks in the medium term. Although the European and Swiss economies grew in line with expectations in 2007, in the second half of the year there were an increasing number of indications of a considerable slowdown in the United States as a result of the substantial corrections on the real estate and financial markets. In addition, the weakness of the Swiss franc against the euro constituted an additional risk to price stability throughout the year.

Three-month Libor

— Three-month Libor
 Target range
 Daily values in percent



The outlook for inflation in the long term would have deteriorated if the SNB had not maintained the normalisation of its monetary policy. Thus, raising interest rates in 2007 was necessary if favourable perspectives for price stability were to be maintained.

As at each monetary policy assessment, the SNB bases its inflation forecast on the global economic scenario it regards as most likely. The economic trends that had emerged in the course of 2006 – a slowdown in the US and sustained growth in Europe – were confirmed at the first quarterly assessment of 2007. Consequently, the SNB predicted growth for 2007 of 2.8% in the US and 2.3% in Europe, and for 2008 of 3.1% in the US and 2.2% in Europe. It also expected that the decline in oil prices would continue to dampen inflation in the months following the assessment.

At the time of the assessment, the business cycle in Switzerland was solidly established. During the course of the following quarters, most components of domestic demand as well as exports would further consolidate growth. Moreover, the healthy economy would stimulate the labour market and promote a further decline in unemployment. Consequently, the National Bank continued to forecast GDP growth of approximately 2% for 2007.

At the time of the quarterly assessment, the Swiss franc had strengthened a little against the euro, following a period of weakness whose effect on inflation had not been significant.

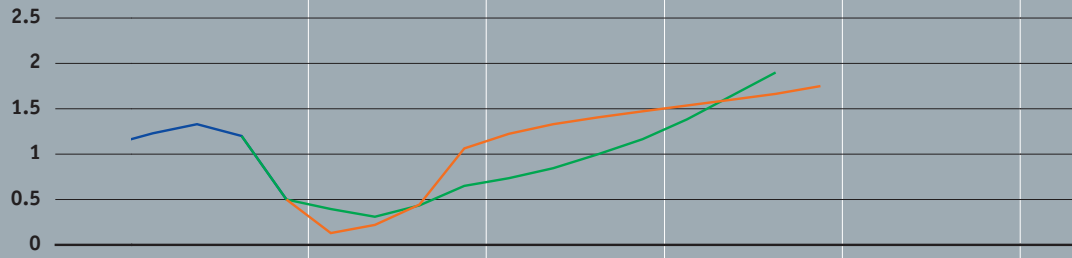
In this context, the evaluation of the inflation outlook at the time of the assessment involved a greater level of uncertainty. Although foreign competition and the opening up of the labour market continued moderating price increases, there was a risk that, to an increasing extent, the rise in production costs would be passed on to prices due to the high level of capacity utilisation. Consequently, the Governing Board decided to lift the Libor target range by 25 basis points, with the new range being set at 1.75 – 2.75%.

According to the graph shown at the end of the assessment, the path of the inflation forecast based on an unchanged Libor of 2.25% was below that of December 2006 for a large part of 2007, due in particular to the drop in oil prices. The acceleration that followed, in which the new forecast overtook that of December, was more marked than previously, due to the weakening in the Swiss franc, which neutralised the impact of the increase in the interest rate. For 2009, the path of the forecast again fell below the December forecast, as the effects of the higher interest rate once again predominated. Expected inflation amounted to 0.5% for 2007, 1.4% for 2008 and 1.6% for 2009. Even though inflationary forces were muted overall, they picked up slightly at the end of the forecast period.

At the time of the June assessment, the US economy, although satisfactory, was a little less strong than expected. Consequently, the SNB reduced its growth forecasts for the US, setting them at 2.2% for 2007 and 3% for 2008. By contrast, the European economy was better than previously expected. The forecast for 2007 was lifted to 2.6% while that for 2008 remained unchanged at 2.2%.

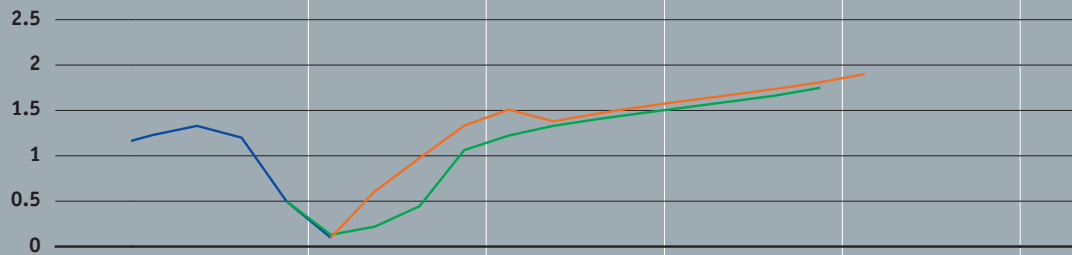
Inflation forecast of 15 March 2007

Inflation
 December 2006 forecast:
 three-month Libor 2.00%
 March 2007 forecast:
 three-month Libor 2.25%
 Year-on-year change
 in national consumer
 price index in percent



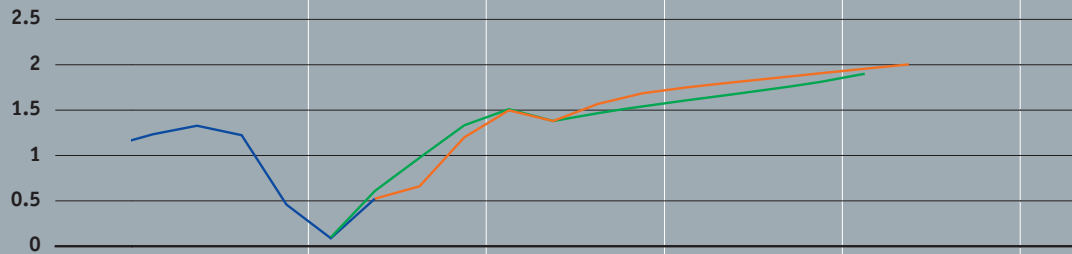
Inflation forecast of 14 June 2007

Inflation
 March 2007 forecast:
 three-month Libor 2.25%
 June 2007 forecast:
 three-month Libor 2.50%
 Year-on-year change
 in national consumer
 price index in percent



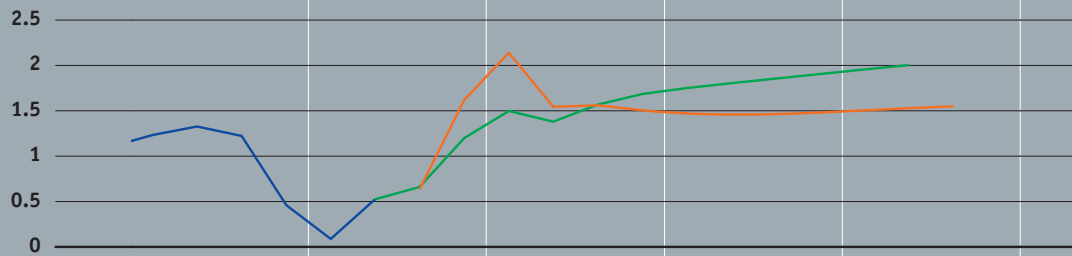
Inflation forecast of 13 September 2007

Inflation
 June 2007 forecast:
 three-month Libor 2.50%
 September 2007 forecast:
 three-month Libor 2.75%
 Year-on-year change
 in national consumer
 price index in percent



Inflation forecast of 13 December 2007

Inflation
 September 2007 forecast:
 three-month Libor 2.75%
 December 2007 forecast:
 three-month Libor 2.75%
 Year-on-year change
 in national consumer
 price index in percent



The Swiss economy was in good shape at the time of the assessment, due in particular to demand from neighbouring countries and exchange rate developments. In addition, since the March assessment, the strength of the economy had continued to support improvements in the labour market. Consequently, unemployment numbers had declined further, with the rate slipping below 3%. As a result, the SNB forecast GDP growth close to 2.5% for 2007.

In the foreign exchange market, the Swiss franc had continued giving ground to the euro and appreciating against the US dollar. In export-weighted terms, it had depreciated by 1.7%. This relaxation in monetary conditions continued to work against the effects of Libor increases and threatened to stimulate inflationary pressures in an economy operating at a high level of capacity utilisation.

In this situation, price stability was exposed to several risks, the first of which was the high price of oil. The second risk was that global demand was growing at too rapid a pace in relation to the development in production capacity. The third risk was related to the decline in the value of the Swiss franc against the euro. To ensure that medium-term price stability was not jeopardised by the strong economy, the Governing Board decided to raise the Libor target range once again by 25 basis points, thereby taking it to 2.00–3.00%.

On the assumption of an unchanged Libor of 2.50%, the published forecast put average annual inflation at 0.8% for 2007, 1.5% for 2008 and 1.7% for 2009. The combined effect of high oil prices, strong economic developments and a weakening Swiss franc resulted in a deterioration in the inflation outlook during the course of the months following the assessment. However, from mid-2008, inflation moved up to a level slightly above that forecast three months previously, approaching 2% at the end of the forecast period.

The international environment at the time of the September assessment was dominated by the mortgage loans crisis in the US, a major correction on the stock market and the liquidity shortfalls on the money market. For the time being, the global economy did not appear to have been affected. Growth in the US economy was only very slightly weaker than expected, but the risks of a slowdown at the end of 2007 had risen. Moreover, after having fallen back between mid-July and mid-August, oil prices were heading upwards again.

In Switzerland, GDP had grown strongly in the first half of the year and employment was still improving. Consequently, capacity utilisation would remain high. The SNB, therefore, retained its GDP growth estimate for 2007 close to 2.5%, subject to any unexpected moderating effect arising from the uncertainties related to the financial markets.

As against the previous assessment, however, the inflation outlook had worsened somewhat. Oil price developments constituted the main risk. In addition, capacity utilisation remained high and the Swiss franc was still relatively weak. Nevertheless, it was possible that certain factors, such as a possible economic slowdown attributable to the turmoil on the financial markets, might limit the inflationary risks. In the meantime, since the turmoil on the money market had lifted the Libor from 2.5% to 2.9%, the tightening in monetary conditions was considered excessive with respect to the outlook for inflation. In this situation, the Governing Board decided in favour of relaxing money market conditions by bringing the Libor back to 2.75% while simultaneously lifting the target range by 25 basis points to 2.25–3.25%. From this assessment onwards, the SNB aimed for a Libor of around 2.75%.

Despite the higher level of the Libor, the inflation forecast published in September was almost identical to that of June. On the assumption of an unchanged Libor of 2.75%, the SNB forecast average annual inflation of 0.6% for 2007, 1.5% for 2008 and 1.8% for 2009. Inflation rose to the first quarter of 2008 and then flattened slightly from the second quarter onwards. In essence, this forecast was based on recent oil price developments. From mid-2008, a slight increase in inflation was expected, with figures even reaching 2% at the end of the forecast period.

For the final assessment of the year, the SNB assumed that US economic growth – affected simultaneously by the unfavourable developments on the real estate and credit markets and by the rise in oil prices – could weaken in 2008 (forecast: 2.4%). At the time of the assessment, Europe did not appear much affected by the rise in the euro and the turmoil on the financial markets, and its growth outlook was likely to remain good, even though the SNB adjusted it slightly downwards for 2008 (forecast: 2%).

Swiss growth was strong in the third quarter, with GDP growing at an annualised rate of 3.3%. Simultaneously, in the months preceding the assessment, employment had continued increasing in practically all sectors. As a result of these developments, the growth outlook remained good for the quarters ahead, and therefore the SNB was forecasting GDP growth of some 2% in 2008, a lower figure than that recorded in 2007. This relaxation in the pace of economic activity should allow for some reduction in the level of capacity utilisation.

**Quarterly assessment
of 13 December**

The inflation outlook remained good, even though it encompassed even more uncertainties than the previous assessment. Although price stability would be supported by the expected slowdown in the growth of the Swiss economy and the reduction in the rate of increase of the monetary aggregates, there were other elements capable of disturbing this stability. Examples of such inflationary factors were the rise in oil prices, should it persist, as well as the continued weakening in the Swiss franc. In this uncertain situation, the Governing Board decided to retain the Libor target range at 2.25 – 3.25%, aiming for a Libor of 2.75%.

On the assumption of an unchanged Libor of 2.75%, the inflation forecast indicated a surge in inflation in the first half of 2008. This advance, in which expected inflation temporarily rose above 2%, was mainly due to the increase in the price of oil. From mid-2008 to the end of the forecast period, however, inflation settled at around 1.5%. The sudden correction to the forecast in the middle of the year was due to a baseline effect, and the downturn of the path at the end of the forecasting period was to be seen within the context of the expected slowdown in the international economy.

1.5 Statistics

The SNB collects the statistical data it requires to fulfil its statutory tasks on the basis of art. 14 NBA. It 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 transmitted to international organisations.

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 the statistics on Switzerland's international investment position, the National Bank may also collect statistical data on the business activities of other private individuals or legal entities. 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.

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 the relevant Swiss financial market supervisory authorities (art. 16 para. 4 NBA).

The SNB manages a database containing 3.7 million time series and publishes the results of its surveys. Statistical information is made available primarily in the *Monthly Statistical Bulletin* and the *Monthly Bulletin of Banking Statistics*, as well as *Banks in Switzerland*, which is published annually. These publications are supplemented by reports on the balance of payments, the international investment position, direct investment and the financial accounts. The SNB's publications are available in German, French and English and are accessible on the SNB website, www.snb.ch, along with other data series.

In connection with its centenary celebrations, the National Bank began a new series of publications with historical time series in 2007. They cover topics of importance for the formulation and implementation of past and present monetary policy. In the course of the year, brochures were published on the following topics: *The monetary base and the M1, M2 and M3 monetary aggregates*, *Capital and stock markets*, *Swiss National Bank – Balance sheets and income statements* and *Interest rates and yields*.

**Purpose of activities
in the field of statistics**

**Institutions required
to provide data**

**Survey activity kept
to a minimum**

**Confidentiality and
exchange of data**

Publications and database

New publication series

New surveys

At the end of 2007, the SNB introduced a new monthly survey on the interest rates for various banking products published by the banks. This rounded out its information on the level of Swiss interest rates. A complete and up-to-date overview of the SNB's statistical surveys is contained in the appendix to the revised NBO, which came into force on 1 July.

Collaboration

In compiling statistical data, the National Bank cooperates with the relevant federal government bodies, notably the Swiss Federal Statistical Office (SFSO) and the Swiss Federal Banking Commission (SFBC), as well as the relevant 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 with the SFBC on the reciprocal exchange of data in the financial sector, the SNB has, since 2007, been collecting the new capital adequacy statement data in accordance with Basel II, for the SFBC.

... in the banking statistics committee

The National Bank 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 and the SFBC.

... in 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

Since 2007, the SNB has conducted surveys of Liechtenstein-based companies when preparing its balance of payments figures and statistics on its international investment position. It has worked together with the relevant authorities in Liechtenstein – the Office of Economic Affairs and the financial market supervision authority.

... with foreign agencies

The SNB works closely with the Bank for International Settlements (BIS), the OECD, the EU statistical office (Eurostat) and the IMF in the field of statistics. This collaboration is aimed at harmonising statistical survey methods and analyses. In 2007, the SNB participated for the seventh time in the global survey on foreign exchange and derivative markets coordinated by the BIS. This survey is conducted every three years in over 50 countries. On 1 January 2007, the bilateral statistics agreement between Switzerland and the EU came into force. Among other things, this covers Switzerland's financial accounts, which are drawn up by the SNB in cooperation with the Swiss Federal Statistical Office.

2 Supplying the money market with liquidity

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)). Art. 9 NBA defines the framework within which the SNB may conduct transactions in the financial market. Based on art. 9 para. 1 (e) NBA, the National Bank also acts as lender of last resort (LoLR).

The Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments 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 principle, all banks domiciled in Switzerland as well as international banks abroad that meet the conditions stipulated by the National Bank are accepted as counterparties. The guidelines are supplemented by instruction sheets.

Well-functioning money markets are of fundamental importance in ensuring that financial market participants can adjust their positions according to their liquidity needs. In order for a bank to maintain its solvency, it must have sufficient liquidity at all times. The most liquid assets are sight deposits held at the SNB, since they can be used for payment transactions immediately and are deemed to be legal tender. In addition, banks hold sight deposits at the National Bank to satisfy minimum reserve requirements and as liquidity reserves.

At the beginning of August, the problems in the US mortgage market diffused like a shock wave into the money markets of the most important currencies. Rumours and reports of losses and write-offs at international financial institutions led to a sudden loss of mutual confidence among banks and to uncertainty with regard to their own level of liquidity. As a result, banks began hoarding liquidity and became very cautious about granting credit to one another. The crisis of confidence led to a significant rise in risk premiums in the international money markets. The market for unsecured interbank loans shrank considerably and at times the market for foreign exchange swaps dried up. Banks were unable to obtain unsecured funds for terms of more than a few days or weeks – or able to do so only by paying substantial interest premiums. Initially, the liquidity bottleneck became apparent in the US dollar money market and subsequently spread to money markets of other currencies. On the Swiss franc money market, the disruptions were modest by international standards as was the concomitant rise in risk premiums and their volatility.

Mandate

Guidelines on monetary policy instruments

Liquidity

Disruptions on international money markets

2.1 Regular instruments for steering the money market

The SNB's regular monetary policy instruments are based on repo transactions. In a repo transaction, the cash taker sells securities spot to the cash provider. At the same time, the cash taker enters 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.

Open market operations include main financing, liquidity-absorbing and fine-tuning operations. In the case of open market operations, the SNB takes the initiative in the transaction. The standing facilities comprise intraday and liquidity-shortage financing facilities. For these facilities, the SNB merely sets the conditions under which commercial banks can obtain short-term liquidity to meet their requirements.

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 request liquidity on an almost daily basis to be able to meet minimum reserve requirements.

Fine-tuning operations

Fine-tuning operations are used to smooth the impact of exogenous factors on both liquidity supply and liquidity demand and thus to stabilise short-term money market rates. By setting prices for repo transactions on the electronic market place, the National Bank can influence price formation in the banks' call money trading at any time. As a rule, a transaction has an immediate impact on liquidity after it has been concluded. Fine-tuning transactions can be used both for providing and withdrawing liquidity.

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 amounts obtained must be repaid by the end of the same bank working day at the latest. Intraday liquidity does not qualify when evaluating compliance with minimum reserve requirements or liquidity requirements under banking law.

The National Bank provides a liquidity-shortage financing facility to bridge unexpected liquidity bottlenecks. In order for the SNB's counterparties to obtain liquidity through this facility, the National Bank must grant a limit to be covered by collateral eligible for SNB repos at all times. Each counterparty has the right to obtain liquidity up to the limit granted until the following bank business day. This limit is utilised in the form of a special-rate repo transaction. The Special rate for obtaining liquidity provided through this facility is two percentage points above the Repo Overnight Index (SNB) of the previous bank business day. The interest premium is intended to prevent commercial banks from using the facility as a permanent source of refinancing. At the end of 2007, 72 banks had been granted a limit under the liquidity shortage financing facility. During the period under review, banks requested that their limits be increased from a total amount of CHF 12.1 billion to CHF 33.7 billion. This put them in a considerably better position to hedge their liquidity risk.

2.2 Liquidity supply

The SNB reacted swiftly to the tensions in the money market and, on 9 August 2007, was the first central bank to inject additional liquidity by means of fine-tuning measures. During the subsequent months, the National Bank provided the banking system with generous funds, as and when needed. Excess liquidity was absorbed consistently in each case so that the banks' sight deposits held at the National Bank remained largely unchanged on average. As a result of the measures taken to calm the money market, the SNB was able to maintain the restrictiveness of monetary policy at the targeted level.

By mid-September 2007, higher risk premiums for unsecured money market transactions had led to an increase in the three-month Libor for Swiss francs to approximately 2.90%. It was thus clearly above the middle of the target range, which was at 2–3% at the time. While, with its monetary policy decision of 13 September 2007, the National Bank raised the target range to 2.25–3.25%, it stated its intention of calming the money market. To this end, on the day of the monetary policy assessment, banks were offered repo transactions for three-month maturities. At the same time, the interest rate for one-week repos was slashed, from 2.29% to 2.08%. The higher risk premiums on the three-month Libor were therefore offset by a lower repo rate. The desired reaction ensued within a few days and the three-month Libor dropped from approximately 2.90% to 2.75% – the middle of the new target range.

After the monetary policy assessment of September 2007, the three-month Libor was held in the middle of the target range. The National Bank supplied the money market mainly with liquidity via regular weekly transactions at a rate of 2.05%. Fine-tuning operations were used increasingly to stabilise short-term money market rates. To counter any year-end tension on the money market, the SNB supplied the banks with liquidity over the year-end period as early as the beginning of December 2007.

Regular monetary policy instruments in CHF billions

	2006 Holding Average	Turnover	2007 Holding Average	Turnover
Repo transactions				
Liquidity-supplying transactions	20.82	1 069.47	21.73	1 071.99
Maturities				
ON/TN/SN	0.13	40.66	0.13	23.64
1 week	18.91	980.19	18.41	969.41
2 weeks	1.50	39.11	0.71	28.50
3 weeks	0.00	0.00	0.22	5.80
Other ²	0.27	9.50	2.26	44.63
Intraday facility	7.07²	1 773.94	7.76²	1 955.90
Liquidity-shortage financing facility	0.01	1.72	0.01	1.82
Liquidity-absorbing transactions	0.00	0.16	0.13	38.58

1 Comprises 1-month, 3-month and short-term transactions with non-standardised maturities.

2 Amount drawn down per bank business day.

Repo transactions in detail

The daily presence of the SNB in the money market allows flexible and effective steering of the three-month Libor. This steering was mainly carried out by means of one-week repo transactions at variable interest rates. 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. Between January and mid-August 2007, the one-week repo rate was lifted from 1.90% to 2.43% and subsequently gradually lowered to 2.05%. The average difference between the three-month Libor rate and the one-week repo rate was 26 basis points between January and July and 64 basis points between August and December. The rise is primarily a reflection of the higher risk premiums on unsecured money market transactions compared with secured ones.

In 2007, the average volume of the National Bank's repo transactions from main financing and fine-tuning operations outstanding at the end of the day grew slightly by approximately CHF 900 million to CHF 21.7 billion. The turnover – in other words, the sum of all of these repo transactions – reached CHF 1,072 billion. Roughly 90% of total turnover was achieved with transactions with one-week maturities.

Banks' daily bids at National Bank repo auctions fluctuated between CHF 0.6 billion and CHF 178.6 billion, with the average being CHF 31.4 billion. The amount of liquidity allocated see-sawed between CHF 0.6 billion and CHF 9.0 billion and the annual average amounted to CHF 3.9 billion. Of this amount, 58.95% was allotted to domestic banks, the remainder to international banks abroad. The allocation rate fluctuated between 2.80% and 100%, with the average rate amounting to 12.52%.

Average use of the intraday facility by banks rose from CHF 7.1 billion in 2006 to CHF 7.8 billion in the year under review.

In 2007, banks again made use of the liquidity-shortage financing facility only in individual cases and to a limited extent. The annual average use of this facility was less than CHF 10 million.

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. Moreover, it can create, purchase or sell derivatives on receivables, securities, precious metals and currency pairs. In 2007, such instruments were not used in the context of monetary policy.

2.4 Emergency liquidity assistance

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 (Lending of Last Resort). The institutions requesting credit must be systemically important and solvent. In addition, the liquidity assistance must be fully covered by sufficient collateral at all times.

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 real 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 2007, no emergency assistance of this kind was required.

Liquidity assistance conditions

Systemic importance of a financial institution

2.5 Minimum reserves

The duty to hold minimum reserves (arts. 17, 18, 22 NBA) ensures that a bank's demand for base money reaches a minimum level. It thus fulfils a monetary policy objective. Eligible assets in Swiss francs comprise coins in circulation, banknotes and sight deposits held at the National Bank. The minimum reserve requirement is 2.5% of the short-term liabilities in Swiss francs (up to 90 days) and 20% of the liabilities vis-à-vis customers in the form of savings and investments.

If a bank fails to fulfil the minimum reserve requirement, it is obliged to pay interest to the National Bank for the number of days of the reporting period for which there was a shortfall. The interest rate is four percentage points higher than the average Repo Overnight Index (SNB) over the reporting period in question. In connection with the partial revision of the National Bank Ordinance (NBO) which entered into effect on 1 July 2007, the provision on the application of sanctions, in particular the calculation of interest, was spelled out in more detailed terms, and a minimum charge of CHF 500 was fixed.

Minimum reserves (20 December 2006 to 12 December 2007) in CHF millions

	2006 Holding Average	2007 Holding Average
Sight deposits at the SNB	5 003	5 261
Banknotes	4 715	4 850
Coins in circulation	93	97
Eligible assets	9 811	10 208
Requirement	8 158	8 650
Amount in excess of requirement	1 653	1 558
Requirement in percent	120%	118%

In 2007 (from 20 December 2006 to 19 December 2007), the average minimum reserves required by law amounted to CHF 8.7 billion. This is a 6% increase year-on-year. Eligible assets amounted to an average of CHF 10.2 billion. As a result, banks surpassed the requirement by an annual average of CHF 1.6 billion and the liquidity ratio was 118% on average over the year. In the previous year, the three corresponding values were CHF 9.8 billion, CHF 1.7 billion and 120%.

In 2007, the statutory minimum reserve requirements were met by the approximately 300 banks, with a few exceptions. Nine banks infringed the requirements for one reporting period, two banks for two reporting periods. The amount of the shortfalls was insignificant, amounting to 0.01% of total required assets. The total amount in interest that the contravening banks were required to pay amounted to CHF 24,600.

2.6 Collateral eligible for SNB repos

To carry out its monetary policy operations, the SNB only accepts collateral that meets certain requirements. In so doing, the SNB protects itself against losses and ensures equal treatment of counterparties. In 2007, the National Bank redefined the criteria for collateral eligible for SNB repos. When these criteria entered into effect on 1 October 2007, the list of collateral eligible for SNB repos was expanded considerably. The inclusion of bonds by issuers domiciled in a member state of the European Union (EU) or the European Economic Area (EEA) was the main feature of the expansion. The SNB accepts securities denominated in Swiss francs and euros and for the first time also in US dollars, pounds sterling, Danish kroner, Swedish krona and Norwegian krone. Individual securities are subject to stringent requirements with regard to liquidity and to credit rating. The potential of securities qualifying as eligible collateral at the National Bank rose from approximately CHF 6,000 billion to nearly CHF 11,000 billion. Securities denominated in foreign currency accounted for 96% of this total. The SNB is one of the few central banks that accepts securities in foreign currency for its monetary policy operations.

To secure the liquidity of the internationally oriented Swiss banking system, a wide range of collateral eligible for SNB repos is paramount. Banks with sufficient securities that qualify as eligible at the central bank may obtain liquidity, even in difficult conditions, since these securities can be transformed into liquid assets at central banks or in the interbank market through repo transactions.

2.7 Concerted liquidity measures by the central banks

In the fourth quarter 2007, the Bank of Canada (BoC), the Bank of England (BoE), the European Central Bank (ECB), the US Federal Reserve Bank (Fed) and the Swiss National Bank acted in unison to restore calm in the international money markets. Together with the Fed, the ECB and the SNB provided liquidity in US dollars over the year-end period via auctions. On 17 December 2007, the Swiss National Bank allotted US dollar liquidity amounting to USD 4 billion to the banks (for the period from 20 December 2007 to 17 January 2008). This measure enabled the SNB's counterparties to gain easier access to US dollar liquidity. The auction was held in the form of a variable rate tender with a minimum bid rate. Collateralisation took the form of securities eligible for SNB repo transactions. The Fed supplied the SNB with US dollars on the basis of a swap agreement.

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, 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 and SBB, it works to ensure an efficient and secure cash payment system.

Role of the SNB

The National Bank 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.

Turnover at offices

In 2007, the National Bank's offices registered currency turnover amounting to CHF 127.4 billion, as compared with CHF 126.9 billion a year earlier. They received 426.1 million banknotes (2006: 405.0 million). The value of incoming coins stood at CHF 317.5 million (previous year: CHF 360.3 million), their weight at 1,600 tonnes (previous year: 1,802 tonnes). The SNB examined the quality, quantity and authenticity of the notes and coins.

... agencies

The agencies' turnover (incoming and outgoing) reached a level of CHF 14.5 billion in the year under review, compared with CHF 14.9 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 the regions. 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 1.9 million banknotes (previous year: 2.2 million) with a total value of CHF 314.9 million (previous year: CHF 340.0 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 have been returned owing to seasonal fluctuations. 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 effectiveness of the security features on the banknotes be continuously checked and, if necessary, adapted. New security features are developed in cooperation with third parties. This makes it possible to update the security features on current banknotes and to protect new ones.

In 2007, banknote circulation averaged CHF 38.9 billion (previous year: CHF 38.2 billion). This increase is primarily attributable to a rise in the number of 1,000-franc notes, which are often held as a store of value. The number of banknotes in circulation amounted to 292.0 million (previous year: 283.4 million). The increase is principally attributable to GDP growth and the greater use of the 20-franc notes in ATMs.

In 2007, the SNB put 93.5 million (previous year: 111.5 million) freshly printed banknotes with a face value of CHF 7.7 billion into circulation (previous year: 7.8 billion), and destroyed 85.9 million (previous year, 97.0 million) damaged or recalled notes with a nominal value of CHF 5.5 billion (previous year, CHF 6.4 billion).

Roughly 2,800 counterfeit banknotes were confiscated in Switzerland in 2007 (previous year: 2,600). The National Bank's offices alone discovered 83 counterfeit notes (previous year: 108). By international standards, 10 seized counterfeit notes per million Swiss franc notes in circulation is a relatively low figure.

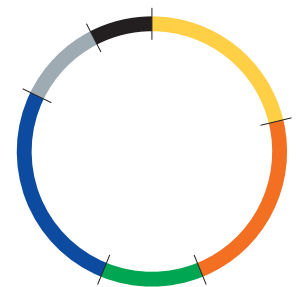
In 2007, the bank authorities commissioned Manuela Pfrunder, a Zurich graphic artist, to take forward the preliminary work already done on a new series of banknotes. Manuela Pfrunder was one of the prizewinners in the artistic design competition in 2005. In the subsequent design work and technical refinements, she submitted drafts that were particularly well tuned to the requirements for banknotes that are to be put into circulation.

Banknote circulation

Issue and disposal

Counterfeits

Development of a new banknote series



Number of banknotes in circulation
In millions

- CHF 10s: 62
- CHF 20s: 66
- CHF 50s: 36
- CHF 100s: 76
- CHF 200s: 30
- CHF 1,000s: 22

Annual average

3.3 Coins

Mandate

The SNB is entrusted by the Confederation with the task of coin circulation. Its role is defined in art. 5 CPIA. It takes over the coins minted by swissmint and puts into circulation the number required for payment purposes. Coins that are surplus to requirements are taken back – without restriction – against 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.

Coin circulation

The average value of coins in circulation was CHF 2.5 billion (previous year: CHF 2.5 billion) or 4,407 million coins (previous year: 4,295 million). This increase reflects the steep increase in the demand for small coins observed since the spring of 2006. There are a multitude of reasons for this, but the most important factors are the healthy economic situation and – especially – the lively tourist industry.

4 Facilitating and securing cashless payment transactions

In accordance with art. 5, para. 2 (c) of the National Bank Act (NCA), the National Bank facilitates and secures the operation of cashless payment systems. Art. 9 NBA empowers the SNB to keep accounts (SNB sight deposit accounts) for banks and other financial market participants.

Mandate

4.1 Facilitating cashless payment transactions

The banks and other selected financial market participants conduct a high proportion of their mutual payment transactions through the Swiss Interbank Clearing (SIC) system, which is steered by the SNB. Having an SNB sight deposit account is a prerequisite for participating in the SIC 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 irrevocable and final; they have the character of cash payments. SIC is operated by Swiss Interbank Clearing AG, a subsidiary of Telekurs Group, on behalf of the SNB.

SIC: a real-time gross settlement system

The National Bank 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. 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.

SNB steers SIC

An agreement concluded between the SNB and SIC AG 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.

SIC agreements

The SNB influences the development of the SIC system also on a conceptual level. Based on the SIC master agreement, the National Bank authorises changes and additions to the system. It made use of this authority in connection with the project – initiated in 2006 – to merge the IT infrastructure of the two service providers, SIS Systems AG and Telekurs Services AG, in a joint organisation. The amalgamation of the data processing centres of the two institutions had a major impact on the operation of the SIC system, both in technical and organisational terms. In 2007, therefore, the SNB commissioned external auditors to establish whether the new structure complied with its requirements for the operation of the SIC system. Overall, the results of the examination were positive, although the question of a backup computer centre outside the Zurich region remains to be investigated. The SNB also exerted an influence on the Board of Directors of SIC AG (on which it has a seat) and in a number of technical working groups.

At the end of 2007, 347 participants were connected to SIC, as compared with 330 the previous year. The Swiss Interbank Clearing AG processing centre settled approximately 1.4 million transactions amounting to CHF 208 billion each day. On peak days, up to 4.2 million transactions and volumes of up to CHF 337 billion were processed. The total number of transactions handled by the SIC system increased by around 12.5% and turnover was up roughly 16.6%.

SIC – key figures

	2003	2004	2005	2006	2007
Transactions (in CHF thousands)					
Daily average	768	816	1 009	1 264	1 421
Peak daily value for the year	2 145	2 215	2 690	3 844	4 167
Volume (in CHF billions)					
Daily average	178	163	161	179	208
Peak daily value for the year	284	273	247	318	337
Amount per transaction (in CHF thousands)					
Average liquidity (in CHF millions)					
Sight deposits, end of day	4 811	5 339	4 831	5 217	4 872
Intraday liquidity	5 972	6 188	6 340	7 070	8 828

2003

2004

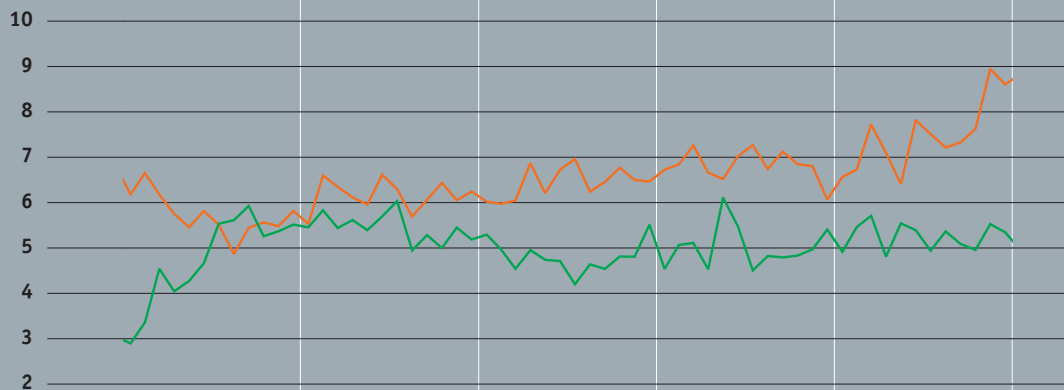
2005

2006

2007

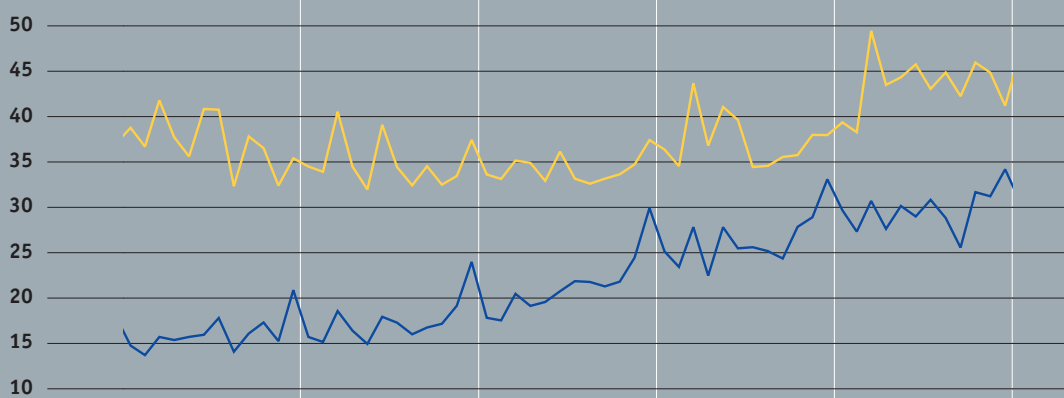
Liquidity in SIC

— Intraday drawdowns by banks
— Sight deposits
 In CHF billions



Transactions and turnover in SIC

— Number of transactions (in millions)
— Turnover (in CHF 100 billions)



2003

2004

2005

2006

2007

Other bodies responsible for the cashless payment system

In addition to the banks, non-banks, i.e. “other financial market participants” have SNB sight deposit accounts and are thus able to participate in the SIC system. “Other financial market participants” are companies that operate commercially on the financial markets. Sight deposit account holders in this category currently include PostFinance, securities dealers and institutions that are of importance either for the implementation of National Bank policies or for handling payment transactions (at present there are five cash-processing institutions). Not all sight deposit account holders participate in the SIC system. SNB figures show a total of 457 sight deposit account holders as at 31 December 2007 (previous year: 459). Of these, 306 were domiciled within Switzerland (previous year: 302). Of the account holders, ten were non-banks (previous year: ten).

Establishment of Swiss Financial Market Services (SFMS)

In May 2007, the SWX Swiss Exchange Association, the SWX Group, the SIS Swiss Financial Services Group AG and the Telekurs Holding AG announced their intention of forming a joint financial centre holding called Swiss Financial Market Services (SFMS) at the beginning of 2008. The SNB fulfills important tasks for most areas of SFMS business. For instance, payment streams in the SIC interbank clearing system – a key element in the Swiss Value Chain – pass through SNB sight deposit accounts. Moreover, the National Bank provides the liquidity required for the smooth functioning of the Swiss financial market infrastructure. In addition, the SNB makes major contributions with respect to the design and planning of installations and processes.

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) and 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).

At present, the systems that could harbour risks for the stability of the financial system include the Swiss Interbank Clearing (SIC) system, the SECOM securities settlement system and the central counterparty, x-clear. The operators of these systems must meet the minimum requirements set out in arts. 22–34 NBO. The SNB has provided further details on these minimum requirements in its system-specific control objectives. Other systems of importance 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 Group 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.

SIS SegInterSettle AG and SIS x-clear AG, which operate the securities settlement system SECOM and the central counterparty x-clear respectively, hold banking licences and are subject to prudential supervision by the Swiss Federal Banking Commission (SFBC) as well as to system oversight by the SNB. While prudential supervision primarily aims at protecting individual creditors, system oversight focuses on the risks to which the financial system is exposed as well as the system's functioning. 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 collection 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.

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 counterparties LCH and x-clear – the latter holds the status of Recognised Overseas Clearing House (ROCH) in the UK – the SNB and the SFBC cooperate with Britain's Financial Services Authority (FSA) and the Bank of England. The details of this cooperation between the British and Swiss authorities are set out in a Memorandum of Understanding.

Finally, the SNB participates – together with the other central banks in the Group of Ten (G10), and under the leadership of the Belgian central bank – in the oversight of the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT), which operates a global network for the transmission of financial information. Oversight focuses on those activities of SWIFT that are of significance for financial stability in general and for the functioning of financial market infrastructure in particular. It does not extend to compliance-related issues at SWIFT.

2007 was the first year in which the SNB awarded ratings for compliance with its system-specific requirements by the bodies operating the SIC, SECOM and x-clear systems. These ratings, based on the SNB's control objectives, focused on corporate governance, on the systems' contractual basis and on the analysis, management and control of systemic credit and liquidity risks by the operators. Overall, the system operators received good marks from the SNB; with one exception, the National Bank found that all the control objectives investigated had been met either for the most part or in full. The SNB judges the system operators to have an appropriate corporate governance system overall. The instruments they are using for the ongoing capture, limitation and monitoring of their credit and liquidity risks are adequate. The rules and methods applied by the individual systems, as well as the interfaces between these systems, contribute significantly to minimising settlement risks. In the statements it sent to the system operators, however, the SNB referred to certain areas that may require attention. This applies in particular to the management of x-clear's risk positions vis-à-vis LCH. The SNB thus requested SIS x-clear to seek and implement improvements together with LCH as soon as possible. They were able to find a solution by the end of the year under review. In addition, the SNB asked all system operators to include a number of minor clarifications or additions in their contractual documents. One system operator was requested to check that its internal audit unit had appropriate resources.

To assess compliance with control objectives that relate to the systems' IT and information security, the National Bank relies mainly on the results of audits conducted by external auditors. The SNB closely monitors their work, from the definition of the audit's scope through to acceptance of the concluding reports. The totality of IT-related control objectives is assessed as part of a three-year cycle. One such cycle was initiated in the year under review. The audit work was aimed on the one hand at protecting the information-processing infrastructure against physical threats and, on the other hand, on ensuring secure and continuous operation of the individual systems. The report completed by the external auditors towards the end of 2007 stated that compliance with the defined control objectives is very good and thus contains only a small number of (medium to low-priority) recommendations. Based on the report's findings, the SNB will issue a statement to the system operators at the beginning of 2008.

Owing to the experience gained from these audits, the amendments to the National Bank Ordinance were extended to include the provisions regarding minimum requirements, their verification and implementation. Operators of systemically important institutions are now no longer required to have their procedures and technical concepts audited at least once a year by an external body, but only periodically. In addition, the provision stipulating that a system operator must have the effectiveness and enforceability of its basic contractual documents assessed regularly by an expert, in the case of foreign law being applicable, was relaxed. Finally, system operators are no longer required to have the SNB approve amendments to the basic contractual documents where these changes concern systemically relevant aspects; they now only need to inform the National Bank.

The merger of the infrastructure operators SWX Swiss Exchange, SIS Swiss Financial Services Group and Telekurs Holding at the beginning of 2008 to form Swiss Financial Market Services (cf. p. 50) – a merger that also affected the SIC, SECOM and x-clear systems – does not have any immediate implications for the conduct of system oversight. Nevertheless, the SNB will pay particular attention to its effects on the system operators' corporate governance.

During the year under review, the SNB continued to exert pressure on the system operators to quickly set up an additional national data processing centre which could be brought into service in an emergency. The project was initiated in the second half of 2007 and the data processing centre is scheduled to become operational by the end of 2008.

The central counterparty x-clear had to undertake a number of changes to its risk management arrangements owing to its plan to extend its business activities to the clearing of securities traded on the London Stock Exchange (LSE) as of the first quarter of 2008. The likely future participants of x-clear will access the system not simultaneously but over a period of several months. The SNB examined the proposals drafted by SIS x-clear and formulated a response in conjunction with the SFBC.

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.

Function of assets

The SNB's assets essentially consist of foreign exchange, gold and financial assets in Swiss francs (securities and claims from repo transactions). They fulfil important monetary policy functions. 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. These reserves also serve to build confidence and 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 risk management reporting is addressed directly to the Governing Board and the Risk Committee. To avoid conflicts of interest, operational responsibilities for monetary policy and investment policy operations are largely kept separate.

The Governing Board defines the requirements with regard to the security and liquidity of – and income from – the investments, as well as 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.

... Governing Board, ...

An internal Investment Committee determines the tactical allocation of the assets at the operational level. Within the strategically prescribed range, it adjusts the following parameters to changing market conditions: currency weightings, maturities and allocations to the different investment categories. 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 special investment categories and for conducting performance comparisons with internal portfolio management.

... Investment Committee
and Portfolio 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, market indicators and in-house analyses. Credit limits are based on these indicators and are adjusted whenever the assessment of counterparty risks changes. Risk indicators are aggregated over all investments. Compliance with the guidelines and limits is monitored systematically. Quarterly risk reports for the attention of the Governing Board and the Bank Council's Risk Committee document the results of risk management activities.

... and Risk Management

5.3 Breakdown of assets

The SNB's currency reserves totalled CHF 85 billion at year-end 2007. Gold accounted for CHF 35 billion of this amount and foreign exchange reserves for CHF 50 billion. In addition, the SNB held assets of approx. CHF 35 billion in the form of claims from repo transactions and bond investments on the capital market. Due to seasonal factors, claims from repo transactions at the end of the year were – as usual – several billion Swiss francs higher than the average for the year. At the end of 2007, claims from monetary-policy-related repo transactions in US dollars were outstanding for the first time.

Composition of assets

Gold holdings

On 14 June 2007, the SNB announced its intention to sell 250 tonnes of gold by the end of September 2009. The proceeds are being used to increase the foreign exchange reserves. By rearranging its assets in this way, the SNB is seeking to attain a more balanced allocation of its currency reserves. Such reallocation has become necessary because the sharp rise in gold prices in recent years had steadily increased gold's weighting in relation to foreign exchange reserves. The gold sales are being conducted within the framework of the second Central Bank Gold Agreement of 8 March 2004. Between 15 June 2007 and the end of the year, a total of 145 tonnes of gold were sold. Even so, the value of the gold holdings rose year-on-year, as the soaring price of the metal more than offset the disposals.

Investments

The bulk of the assets consisted of fixed-income investments. Of these, claims from repo transactions in Swiss francs accounted for CHF 31 billion, claims from repo transactions in US dollars for CHF 5 billion, Swiss franc bonds for CHF 4 billion, claims from gold lending operations for CHF 4 billion and foreign exchange reserves for CHF 44 billion. The remaining foreign exchange reserves consisted of equities.

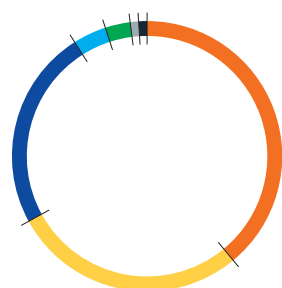
Breakdown of foreign exchange reserves and Swiss franc bond investments

	2006 Foreign exchange reserves	CHF bonds	2007 Foreign exchange reserves	CHF bonds
Currency allocation, incl. derivative positions				
CHF	–	100%	–	100%
USD	27%	–	28%	–
EUR	48%	–	47%	–
JPY	10%	–	10%	–
GBP	10%	–	10%	–
Other (CAD, DKK)	5%	–	5%	–
Investment categories				
Money market investments	3%	–	2%	–
Government bonds ¹	58%	48%	61%	44%
Other bonds ²	29%	52%	25%	56%
Equities	11% ³	–	12%	–
Risk indicators				
Duration of bonds (years)	4.2	5.4	4.1	5.0
Value-at-Risk (1 year, 95%) in CHF billions	2.5	0.1	3.7	0.0

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 39

Gold reserves 28

Claims from repo transactions in Swiss francs 24

Claims from repo transactions in US dollars 4

Securities in Swiss francs 3

Monetary institutions 1

Other assets 1

Total: CHF 127 billion
At year-end

At the end of 2007, the foreign exchange reserve bond portfolios and the Swiss franc bond portfolio comprised government and quasi-government bonds as well as bonds issued by international organisations, local authorities, financial institutions and other companies. In the case of foreign exchange reserves, secured and unsecured money market investments were also made at banks, to a limited extent. The equities were managed on a purely passive basis, with broad market indices in euros, US dollars, yen, pounds sterling and Canadian dollars being replicated. To avoid any conflicts of interest with monetary policy, only corporate bonds and equities issued by foreign companies were held. Slightly more than one-quarter of the gold holdings were kept available for lending transactions.

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

The currency allocation of the foreign exchange reserves changed only marginally compared with the previous year. Taking share futures into consideration, the proportion of equities was unchanged. Owing to the higher level of reserves held and increased volatility, the Value-at-Risk of the foreign exchange reserves rose by roughly CHF 1 billion to CHF 3.7 billion.

Debtor categories and instruments

Changes in investment allocation

5.4 Investment risk profile

The main risk to investments is market risk, i.e. risks relating to the gold price, exchange rates, share prices and interest rates. Market risks are managed primarily through diversification. The SNB counters liquidity risks by holding a considerable part of its investments in the world's most liquid currencies and investment markets. To a limited extent, it also enters into credit risks.

The adjustments made in recent years, especially the more even distribution of currencies within the foreign exchange reserves and the inclusion of equities, have improved the risk-return profile of the currency reserves. The average duration of fixed-income investments in 2007 was approximately 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 higher level of foreign exchange reserves and greater volatility increased the overall risk on currency reserves.

Risk profile ...

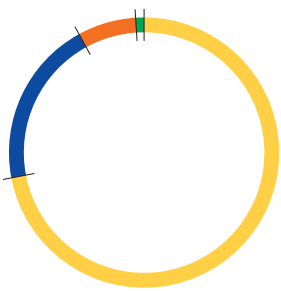
... of currency reserves

... and of Swiss franc investments

The Swiss franc bonds were managed passively. Their structure in terms of maturities and credit ratings was generally in line with the Swiss Bond Index for rating categories AAA and AA across the entire maturity spectrum. Duration at year-end was approximately five years. Monetary policy repo transactions were almost free of risk; owing to their very short maturities, there was no interest rate risk. Moreover, they posed virtually no credit risk since the claims were secured by first-class collateral. The collateral was re-valued twice daily and any shortfall was covered immediately. As of 1 October 2007, the range of instruments accepted as collateral by the SNB was supplemented by additional currencies and borrower categories.

Credit risks

The SNB was exposed to credit risk by purchasing bonds of various debtors and debtor categories. These included bonds of public and supranational issuers as well as mortgage bonds and similar instruments. Portfolios of corporate bonds (totalling CHF 2.3 billion) and US mortgage-backed securities (CHF 1.3 billion) were also held. These MBS consisted entirely of securities issued and guaranteed by the agencies Ginnie Mae, Fannie Mae and Freddie Mac. Such Agency MBS were only marginally affected by the crisis on the American mortgage market. Although the risk premiums for MBS (as for corporate bonds) rose versus government bonds, the MBS still generated a positive yield of about 7% in USD in 2007. Moreover, credit risk vis-à-vis banks existed in the form of time deposits (CHF 0.9 billion) and replacement values of derivatives (CHF 0.0 billion). Gold lending (CHF 4.2 billion) did not entail any significant credit risk, as these operations were secured by bonds with above-average credit ratings. Although credit risk tolerance has increased in recent years, the average rating of the SNB's investments was high. 72% of its investments had the top AAA rating. As in 2006, the lowest rating category still eligible for investment – BBB – accounted for approximately 1% of total investments at year-end.



Rating allocation of investments¹
In percent

- AAA 72
- AA 20
- A 7
- BBB 1

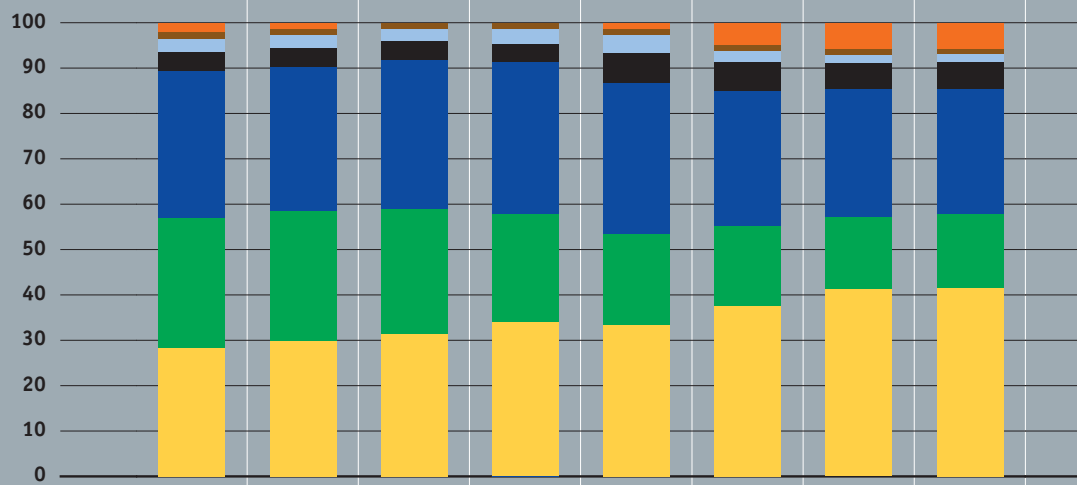
At year-end
¹ Excluding shares and repo transactions

Breakdown of foreign exchange reserves

- Gold
- USD
- EUR
- GBP
- DKK
- CAD
- JPY

In percent

Excluding surplus gold and interim investment of the corresponding sales proceeds (formerly 'free assets')



Liquidity risk

The SNB's requirements for the liquidity of its investments are high. More than 70% of the foreign exchange reserves were denominated in the two major currencies, euro and US dollar, with highly liquid government bonds accounting for a large proportion of these.

Overall risk

The overall risk of investments can be estimated – among other methods – by a VaR analysis. This indicator is applied both to the total assets and to various sub-portfolios. The VaR shows the loss that – based on a prescribed probability level – will not be exceeded within a specific period of time. Given the SNB's long investment horizon, the VaR is calculated for a one-year period. Consequently, a figure for the expected return is factored into the calculation. 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 8.4 billion for gold and CHF 3.7 billion for foreign exchange reserves. Owing to diversification effects, the VaR for total assets was – at CHF 9.4 billion – significantly lower than the sum of the VaRs for the sub-portfolios.

Due to the limited explanatory power of the VaR – for example, it provides no information on possible extreme losses and tends to underestimate the risk of major losses – further risk analyses are required. Therefore, the SNB also used stress and scenario analyses. The National Bank's comparatively long-term investment horizon was taken into account in all of these calculations.

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 2007, it amounted to 8.0%, which was above the long-term return expectations. The above-average performance was the result of an unusually sharp increase in the price of gold (21.6%). By contrast, foreign exchange reserves (3%) and CHF bonds (-0.1%) produced below-average returns. The return on the foreign exchange reserves was reduced by exchange rate and share price losses on dollar investments.

Return on investments in Swiss francs¹

	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%
2007	3.0%	21.6%	-0.1%	2.2%	8.0%

¹ Sum of direct income and realised and unrealised price changes on holdings.

² Figures for 2000–2005 include the return on free assets.

6 Contribution to financial system stability

6.1 Monitoring of the financial system

In June 2007, the SNB published its fifth *Financial Stability Report*, a publication that looks at developments in the banking sector and in the financial market infrastructure. Individual banks are only mentioned if this is relevant for the overall assessment.

According to the report, the banking sector was in good shape in a generally favourable macroeconomic and financial environment. Owing to their high profits, the banks were able to improve their capital adequacy and thus their resilience to shocks. The market also found the level of banks' robustness to be high.

The Financial Stability Report also revealed a number of vulnerabilities: first, an increased risk appetite – mainly by the two big banks – in lending and securities trading; second, a relatively high leverage of the two big banks – particularly by international standards; third, a lack of transparency by the banks with regard to risks and resilience in stress situations. Relating to the macroeconomic and financial environment, the Swiss National Bank mentioned the unusually low risk premiums and very high real estate prices in countries like the US. The report emphasised that these two factors posed a large risk to the macroeconomic and financial environment and could cause the situation to deteriorate. Moreover, the report pointed out that the problems that emerged in the US in connection with the sub-prime mortgage credits could be a first sign of such deterioration.

The vulnerability of the financial system became obvious in the second half of 2007 and caused turmoil. From July onwards, the situation of the sub-prime borrowers took a clear turn for the worse, mainly due to falling demand in the US real estate market. The rating agencies considerably downgraded some mortgage-backed securities. Consequently, their prices dropped and liquidity in the related markets dried up. Liquidity problems also affected other segments, such as the leveraged finance business. These developments prompted investors to make higher risk assessments. As a result, risk premiums increased in most segments of the financial market.

Analysis of banking sector and financial market infrastructure

Banking sector as a whole in good shape

Weakness of the banking sector

Vulnerability and serious turmoil in the second half of the year

Liquidity shortage in the interbank market

The situation in the financial markets became more serious and uncertainties increased, leading to significantly higher demand for liquidity by banks. In addition, banks were more cautious in lending to other banks, mainly regarding unsecured loans and loans with maturities of more than one month. A subsequent liquidity shortage in the interbank market caused central banks to react with substantial and concerted injections of liquidity.

Considerable impact on the big banks

The turmoil in the second half of 2007 had a considerable negative impact on the Swiss big banks, largely because of their exposure to the market for mortgage-backed securities (MBS) and leveraged finance commitments. As regards UBS, the annual loss was substantial and drastic measures had to be taken to strengthen the capital base. The reduced robustness of the Swiss big banks was also reflected in a number of market indicators.

Stronger monitoring

In view of the turmoil and its impact on the Swiss big banks, the Swiss National Bank stepped up its monitoring of the financial system, working closely with the Swiss Federal Banking Commission (SFBC) as well as major central banks and foreign supervisory authorities.

Market monitoring

The Swiss National Bank continually monitored the changes in market indicators, which were most affected by the turmoil. In addition to traditional indicators, such as those of the equity and bond markets, the SNB also monitored MBS prices, risk premiums of international big banks as well as reports on their quarterly results and their provisioning requirements directly related to the turmoil. The Swiss National Bank regularly submitted the results of this monitoring to the SFBC and other federal offices.

Monitoring of big banks, together with the SFBC

Under the auspices of and in close cooperation with the SFBC, the Swiss National Bank also intensified its monitoring of the two big banks, focusing on the following three aspects: first, projections on profits, capital adequacy and liquidity trends; second, compilation of exposures in those financial instruments that played a central role in the crisis; third, description of internal valuation methods for positions without representative market prices. Such information helps the Swiss National Bank to be optimally prepared in case it needs to provide emergency liquidity assistance. The conditions for the provision of emergency liquidity assistance by the SNB are outlined in section 2.4.

In many areas, the developments in the second half of the year resulted in corrections of imbalances and excesses that had accumulated in previous years. Thus, increased risk premiums in the major markets largely reflected a normalisation of the compensation for such risks. At the same time, the turmoil that resulted from this correction revealed and confirmed vulnerabilities requiring reactions by banks and authorities. First of all, it became apparent that a problem which only seemed to affect a small part of the US mortgage market triggered a serious crisis of confidence in the international banking sector. The very high leverage of international big banks and their lack of transparency had probably accelerated the spread of the turmoil. Moreover, risk measurement and management systems of the international big banks seemed to have partially failed. In particular, liquidity and credit risks had been underestimated.

From the SNB's point of view, adjustments are necessary mainly regarding legal requirements for capital and liquidity as well as for the banks' risk measurement and management systems. The SNB, together with the SFBC, intends to support the implementation of such adjustments at a national and international level. The coordination at an international level will primarily take place in the Financial Stability Forum (FSF).

6.2 Revision of liquidity regulation for big banks

In spring 2007, the SFBC and the SNB initiated a reform project aimed at regulating the big banks' liquidity. The current liquidity requirements do not take sufficient account of the complexity of risk profiles and the way in which banks manage risks. Considering the systemic consequences that illiquidity of a big bank would have, these weak points must be eliminated. The reform project mainly aims at the following: First, the authorities define stress scenarios regarding liquidity; second, the banks implement these scenarios in accordance with their risk profiles; third, they prove that they are able to cope with them. The SFBC and the SNB are managing this reform project in close collaboration with the two big banks.

6.3 Capital adequacy requirements

At an international level, the SNB, as a member of the Basel Committee on Banking Supervision, was involved in implementing the new Basel Capital Accord (Basel II). The implementation of Basel II was the main focus of the Basel Committee in 2007.

Credit risks in the trading book

In addition, the Basel Committee worked intensively on the introduction of an incremental default risk charge for complex credit exposures listed in the trading book. Banks which use internal value-at-risk models to calculate capital adequacy requirements for market risks and also apply them to model specific risks would be required to measure default risks exceeding those included in the value-at-risk models and back them with equity capital. With this measure, the Basel Committee wants to take due account of exposures in credit-related and often illiquid products which have increasingly become trading book items. Their actual risk is not sufficiently reflected in the value-at-risk approach which is based on a holding period of only ten days and a confidence interval of 99%. In December, the Basel Committee carried out an impact analysis with the banks concerned. The definitive guidelines are scheduled to be issued in spring 2008.

First conclusions from the crisis in the credit markets

The Basel Committee also dealt with the conclusions from the crisis in the credit markets. Basel II resulted in several improvements in the areas of equity capital regulation, risk management and oversight as well as valuation and transparency. In addition, the Basel Committee has drawn first provisional conclusions with regard to its future thrust. First, the Accord should be selectively checked for any need for improvement. In this context, higher capital requirements for securitisation and – related to this – an analysis of the actual risk transfer have been discussed. Under Basel II, short-term liquidity facilities must be backed by equity capital; however, capital adequacy requirements for securitisation tranches that have recently been downgraded by the rating agencies have been reduced markedly. Second, a clearer delineation should be made between the trading and the banking book, and instruments that cannot be sold in the market should not be included in the trading book, in which capital adequacy requirements are lower. Third, an exchange of information regarding the appropriate organisation of stress tests should take place between the supervisory authorities and the banking sector.

In Switzerland, the new capital adequacy requirements based on Basel II entered into effect – in January 2007 for those banks (mostly small and medium-sized institutes) that use the standardised approach and in January 2008 for those banks that use a more complex approach. In 2007, the Swiss National Bank continued to participate in the implementation of the new capital adequacy requirements, namely those in connection with the second pillar of Basel II. The regulations of this pillar require the supervisory authority, together with the bank in question, to thoroughly analyse the bank's risk profile, the quality of its risk management and its capital adequacy. Subsequently, the supervisory authority may – if necessary – demand corrective measures and impose additional capital requirements. The results of the stress test – as well as other factors – will play an important role in deciding whether equity capital should be increased. The SNB supported the SFBC in drawing up a concept for a stress test that ensures sufficient transparency and is suitable for making comparisons between different banks.

6.4 Memorandum of Understanding with the Swiss Federal Banking Commission

In autumn 2006, the SNB launched the idea of a Memorandum of Understanding (MoU) between the Swiss National Bank and the Swiss Federal Banking Commission (SFBC) in the area of financial stability. In view of the increasing significance of the Swiss big banks and the responsibility of the SNB as lender of last resort, it became apparent that cooperation with the SFBC needed to be intensified. In May 2007, the MoU, which had been drawn up by the two authorities together, was signed and published.

The MoU mainly defines the tasks of the two authorities and specifies the terms of their cooperation. In particular, it contains details on information exchange and opinion sharing as well as cooperation in regulation projects. In addition, the MoU deals with cooperation in the area of crisis prevention and management.

The MoU reflects the increasing importance authorities attach to financial stability. It strengthens the relationship between the SFBC and the SNB, and defines the framework for increased cooperation. For the first time, this cooperation has proven its worth during the turmoil in the second half of 2007.

**Need for increased
cooperation**

**Content of the Memorandum
of Understanding**

Role and first assessment

7 Involvement 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 is particularly committed to these aims.

Responsibilities

The Chairman of the Swiss 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 attained its independence from Serbia on 3 June 2006, became an IMF member in its own right on 18 January 2007 and is no longer part of the Swiss constituency. The Swiss seat on the Executive Board is held alternately by a representative of the SNB and of the FDF. The National Bank and the FDF determine Switzerland's policy in the IMF and support the Swiss executive director in his activities.

Principal activities in 2007

In 2007, the Executive Board was concerned mainly with monitoring the member states' economic situation, the reform of the surveillance process, the reform of the system of quotas and voting rights, and the IMF's income situation. The volume of loans granted by the IMF continued to decline. Furthermore, discussions were held on the suggestions brought by an external commission on improvements to the division of work between the IMF and the World Bank.

Surveillance

In addition to the IMF's regular surveillance work, the year 2007 saw the so-called multilateral consultations take place for the first time. The aim of these consultations was to work together with systemically important countries to develop a coordinated economic policy strategy for reducing global imbalances. In June 2007, the regulations for surveillance of individual countries were revised. The new rules establish principles for bilateral surveillance, thus facilitating a more focused and effective economic policy dialogue between the IMF and its member states. According to the new rules, surveillance is focused mainly on external stability. What is new, in particular, is the principle of avoiding exchange rate policies that might give rise to external instability.

The purpose of the quota and voice (voting rights) reforms, which are due for completion by autumn 2008, is to ensure that representation of the member countries reflects the emerging countries' growing economic importance. As a first step, the quotas for four countries (China, Mexico, South Korea and Turkey) were increased. As a result, Switzerland's quota dropped from 1.62% to 1.59%. In a second step, a new quota formula will be negotiated, an across-the-board increase in quotas implemented and the member states' basic votes raised in favour of the smaller and lower-income countries.

Quota and voice reforms

With the volume of loans decreasing, the IMF is confronted with a decline in income. To ensure that it can continue its activities, the Fund thus needs new sources of income. In January 2007, an external committee presented a number of recommendations aimed mainly at expanding the IMF's investment activities. In the committee's view, this means that additional resources should be made available. It saw two ways of achieving this goal: using portions of the quotas for financial market investments, and sales of gold. Many member states insisted that to improve the IMF's budget situation costs should also be cut.

IMF's income situation

In 2006, within the framework of the IMF's bilateral economic-policy surveillance activities, Switzerland participated not only in the annual Article IV Consultation process but also in the Financial Sector Assessment Programme (FSAP). Participation in the FSAP is voluntary, but is recommended for financial centres as it entails a detailed examination of the financial sector's health and stability. In Switzerland's case it meant updating the first evaluation, which was carried out in 2001. The results were published in spring 2007. Despite certain risks, the IMF confirmed the resilience of Switzerland's banking sector to various macroeconomic shocks. It also gave a positive verdict on the improvements to financial market oversight and regulation that have been made in recent years.

Participation in the FSAP

The IMF's equity consists of the quotas of its member states. Total quotas in the IMF amount to 217 billion Special Drawing Rights (SDRs) (CHF 387 billion), with Switzerland's quota coming to 3,458 million SDRs (CHF 6,163 million). The Swiss quota is financed by the National Bank. The portion of this quota that is paid out corresponds to Switzerland's reserve position in the IMF. For the SNB, this represents a currency reserve that it can draw down at any time. At the end of 2007, Switzerland's reserve position amounted to 227.8 million SDRs, compared with 303.4 million SDRs a year earlier. At the end of 2007, one SDR was equivalent to CHF 1.78. This figure is calculated from the weighted exchange rates of the US dollar, euro, yen and pound sterling.

Switzerland's reserve position

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 151.7 million SDRs, 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 250 million SDRs towards the capital of the interim PRGF. This amount is provided by the National Bank. The Swiss Confederation guarantees the National Bank the timely repayment of both the PRGF and interim PRGF loans, including interest payments.

In November 2007, the Federal Council voted in favour of renewing Switzerland's participation in the IMF's General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB). Renewal of the GAB requires the approval of parliament. These two types of borrowing arrangements enable the IMF – at times of crisis or in the event of its own resources being in short supply – to draw on credit lines totalling a maximum of 34 billion SDRs. Switzerland's contribution – a maximum of 1,540 million SDRs – would have to be provided by the SNB as a participant in the Arrangements.

7.2 Group of Ten

On 20 October, the finance ministers and central bank governors of the Group of Ten met in Washington. The topic of the meeting was "Highly Leveraged Institutions." In addition, delegates voted in favour of renewing the IMF's General Arrangements to Borrow (GAB). The GAB have been renewed nine times in their 45-year history; the last time they were activated was in 1998, when the IMF had granted a loan to Russia.

7.3 Bank for International Settlements

Since spring 2006, the SNB has held the chairmanship of the BIS's Board of Directors. 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.

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.

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 2007. The first addressed the clearing and settlement of over-the-counter (OTC) derivatives, the volume of which has risen sharply in recent years. The second was a consultative report on the progress achieved in reducing settlement risks in foreign exchange transactions.

Committee on Payment and Settlement Systems

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 2007, the CGFS published two reports. The first investigated the factors influencing institutional investors when determining portfolio structures, and the implications for the global financial system. The second examined the extent to which the development and growth of local-currency bond markets in many emerging countries over the last few years has reduced these countries' vulnerability to financial crises.

Committee on the Global Financial System

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. In 2007, talks focused on the financial market crisis triggered in the summer by developments on the US mortgage market.

Markets Committee

7.4 Financial Stability Forum

At the beginning of the year, Switzerland became a member of the Financial Stability Forum (FSF). The Federal Department of Finance has delegated the task of representing Switzerland on the FSF to the Chairman of the SNB Governing Board.

The forum, which combines in one single body the national authorities responsible for financial stability, international financial institutions, international groups representing regulatory and supervisory authorities, and the central banks' committees of experts, enables Switzerland to strengthen cooperation and coordination in the oversight of the international financial system and to contribute to the reduction of systemic risks. Membership in the FSF gives Switzerland the opportunity to actively participate in international dialogue on the early identification of issues relevant to stability, in particular in the areas of financial market regulation and supervision, and international financial systems.

In the year under review, the turbulence on the international financial markets was the main topic of discussion for the FSF.

7.5 OECD

Switzerland is a member of the OECD. On the Organisation's intergovernmental 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), its Working Parties, WP1, WP3 and STEP, deal with structural policies and the global economic outlook on a political and scientific level. The Committee on Financial Markets (CMF) analyses current developments and structural problems in international financial markets. The Statistics Committee (CSTAT) drafts standards for the National Accounts in association with other supranational organisations.

In September 2007, Switzerland's economic policies were assessed by the Economic and Development Review Committee (EDRC). In its report, the OECD confirmed that Switzerland had emerged from its period of low growth. It praised the SNB's monetary policy: in its view, this policy provides a prudent monetary framework for Switzerland's growing production potential. However, it considered that without further domestic market reforms, Switzerland would not be capable of transforming the current healthy economy into a sustained upswing.

7.6 Monetary assistance loans

No new monetary assistance loans were extended in 2007. In October 2007, Bulgaria repaid the balance-of-payments loan of EUR 14.3 million that had been extended to it. By the end of 2007, no claims under the Monetary Assistance Act were outstanding.

7.7 Technical assistance

The National Bank maintains good relations with the central banks of those countries Switzerland works with in the International Monetary Fund (IMF). With their support, Switzerland is able to head a constituency in the IMF and claim one of the 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.

In 2007, the SNB continued providing assistance to the National Bank of Azerbaijan in matters relating to cash and internal auditing. A new feature of this support was the SNB's assistance in setting up a monetary policy research department and a central statistics database for the central bank. In Serbia, the SNB continued providing the central bank with assistance in investing currency reserves. The National Bank of the Kyrgyz Republic again received advice on security issues and in matters concerning cash, controlling and financial market operations. Support was given in the area of risk management and monetary policy research for the first time. Cooperation with the National Bank of Tajikistan in monetary policy matters was also continued.

For the fourth time, the SNB – together with the Polish central bank – organised a seminar for central banks in the Swiss IMF constituency as well as other countries on the territory of the former Soviet Union or in southeast Europe. This seminar, on “Financial Systems and Monetary Policy,” was held at Gerzensee in May 2007.

Outside of the Swiss constituency within the Bretton Woods institutions, the SNB provided support for the central banks of Mauretania and Peru. Furthermore, the National Bank received delegations from the Chinese and Taiwanese central banks.

8 Banking services for the Confederation

Mandate

Based on art. 5, para. 4 and art. 11 NBA, the 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. Services subject to remuneration comprise: payment transactions, liquidity management, the custody of securities and the issue of money market debt register claims (MMDRC) and Confederation bonds. The details of the services to be provided and the remuneration are laid down in an agreement concluded between the Swiss Confederation and the National Bank.

Issuing activities

In 2007, the SNB issued both MMDRCs and bonds on behalf of and for the account of the Confederation. MMDRCs amounting to CHF 53.1 billion were subscribed, of which CHF 33.5 billion was allocated. The corresponding figures for Confederation bonds were CHF 5.5 billion and CHF 3.7 billion respectively. The auction procedure was used for these issues.

Payments

In the area of payment transactions, the SNB carried out roughly 82,000 payments in Swiss francs on behalf of the Swiss Confederation and approximately 40,000 payments in foreign currencies.

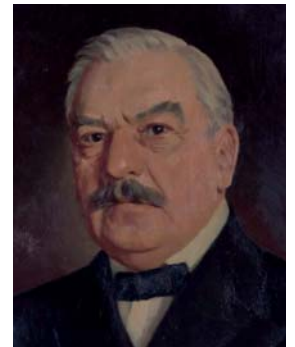
Centenary celebrations

Centenary celebrations

On 23 August 1906, Federal Councillor Robert Comtesse opened the constituent General Meeting of Shareholders of the Swiss National Bank with the following words:

“It is imperative that this bank serve first and foremost the interests of the public of the country. It must never lose sight of the fact that the purpose of the privilege bestowed upon it is not to achieve high profits, but rather – and most importantly – to offer the public the advantages of good banknote circulation and indeed everything that promotes the development of the payment system. May it always make judicious use of the powerful resources it has at its disposal.”

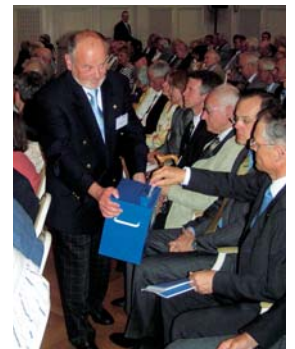
In June 1907, the Swiss National Bank opened its doors for the first time, so 2007 marked its first centenary. The SNB celebrated the occasion by organising various events, by publishing a commemorative publication plus a number of periodicals containing historical time series, and by launching an economics training programme. The Federal Mint, Swissmint, brought out a set of special commemorative coins to mark the centenary, and Swiss Post issued special postage stamps.



Heinrich Kundert,
the first Chairman of the
Governing Board

99th General Meeting of Shareholders

On 27 April 2007, the SNB held its 99th General Meeting of Shareholders at the Casino Berne, attended by 320 shareholders. The meeting was accompanied by a festive programme including performances by the Knabenmusik der Stadt Bern (City of Berne youth band). Bank management thanked shareholders for their loyalty. At the subsequent luncheon, participants were able to engage in extended discussions.

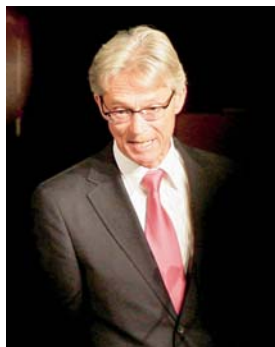


Official celebrations



The official celebrations of the SNB's centenary were held in Zurich on 21 and 22 June 2007. On 21 June, the National Bank entertained central bank governors from all over the world at its Zurich head office. The official ceremony took place the next day at the Zurich Kongresshaus, attended by the President of the Swiss Confederation, Micheline Calmy-Rey, the President of the European Central Bank, Jean-Claude Trichet, and many notable personalities from Switzerland and around the world. This was followed by a banquet. The Zurich Tonhalle Orchestra, conducted by Heinz Holliger, and the Schweizer Oktett provided musical interludes throughout the event. That evening, the celebrations closed with a gala opera performance at the Zurich Opera House, to which the foreign guests, in particular, were invited.

Federal President Calmy-Rey drew attention to the social and political role that money has always performed. She spoke of the Swiss franc as a symbol of national unity and stressed the social importance of the SNB. By guaranteeing monetary stability, the National Bank ensures that the money earned by people in Switzerland retains its purchasing power. The President of the ECB, Jean-Claude Trichet, then described the SNB as a central bank with one of the world's best anti-inflationary track records.



Celebration for SNB staff and pensioners

In summer 2007, the SNB celebrated its centenary with staff, retired members of staff and their partners, for whom it organised a variety of activities and a gala evening in Berne. More than 1,200 people took part in these events.



The Swiss National Bank 1907–2007, a commemorative publication

In June 2007, the SNB launched its commemorative publication, to which many staff had contributed as well as a number of internationally renowned economists and experts. The book follows on from the commemorative publications of 1932, 1957 and 1982, covering the central bank's eventful history and discussing current monetary policy topics. It is intended for all those interested in economic history and policy in Switzerland. The first part of the book deals with the initial 75 years of the SNB's history. For many decades its policies were focused on the defence of gold parity; later it turned to the fight against inflation. The second part covers the period following the adoption of flexible exchange rates in the 1970s. The SNB was then able to pursue a more autonomous policy. The third part contains an assessment of more recent Swiss monetary policy and a discussion of current central bank policy issues from an academic standpoint.



Commemorative coins and postage stamps



To mark the SNB centenary, Swissmint (the Federal Mint) brought out two commemorative coins and Swiss Post issued two special postage stamps. The designs used for the coins and stamps relate to National Bank topics.

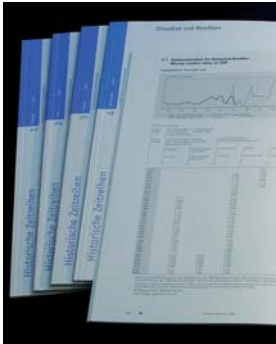
The CHF 50 gold coin shows the 'Woodcutter' by Ferdinand Hodler, which was the subject on the reverse of the 1911 CHF 50 banknote. The CHF 20 silver coin depicts an extract from the current CHF 20 banknote, with a portrait of the composer Arthur Honegger. It was designed by Roger Pfund, a painter and graphic artist.

The CHF 1 and CHF 0.85 postage stamps were designed by Jörg Zintzmeyer, who also designed the current series of banknotes. The CHF 1 stamp is a miniaturised version of the CHF 100 banknote. To create the CHF 0.85 stamp, design elements from banknotes have been reworked.



Historical time series

In 2007, also to mark its centenary, the SNB initiated a new publication series based on historical statistics. It focuses on topics that are (or have been) important when formulating and implementing monetary policy. The printed publications contain annual figures, while additional data series and series featuring shorter intervals are available on the SNB website (www.snb.ch).



iconomix – discovering economics

In autumn 2007, the SNB launched the new, web-based training programme called iconomix. The objective of the programme is to help improve the basic economic literacy of the population at large. The modular teaching and training programme presents the basic principles and concepts of economics in a fun way. It provides material on key topics such as competitive markets, division of labour and free trade, risk diversification and monetary policy. iconomix is primarily intended for use by teachers and students at secondary schools. It is free of charge and freely accessible to the general public (www.iconomix.ch).



Meeting of central bank governors from French-speaking countries

On the invitation of the SNB, the central bank governors of the French-speaking countries held their 14th meeting in Berne on 29–31 May 2007. The group meets once a year in one of its 50 or so member states to discuss matters of common interest and to exchange experiences and analyses. In 2007, the meeting was devoted to various aspects of the operational and business management of central banks. Altogether, 35 central bank representatives took part in the meeting.



Meeting of the Swiss IMF and World Bank constituency

Also at the SNB's invitation, the ministers of finance and central bank governors of the Swiss International Monetary Fund constituency attended a meeting in Berne on 17–18 October 2007 to prepare for the Annual Meeting of the Bretton Woods Institutions. The objective of the meeting was to draw up joint constituency positions on current IMF and World Bank business. The Swiss constituency comprises Azerbaijan, the Kyrgyz Republic, Poland, Serbia, Tajikistan, Turkmenistan and Uzbekistan.



Business Report

1 Legal framework – revision of the National Bank Ordinance

The National Bank Ordinance of 18 March 2004 contains implementing provisions on the SNB's sovereign instruments – namely, its authority to compile statistics, the minimum reserve requirements, and its responsibility for overseeing the payment and securities settlement systems. These provisions have proved effective overall. In the three years since the Ordinance was issued, the need for adjustments and updates has nevertheless become apparent.

In the chapter on statistics, the appendix listing the individual statistical surveys has been brought up to date. In the chapter on minimum reserves, the application of the sanction provisions was made more stringent, notably through the imposition of a higher interest penalty. In the chapter on system oversight, provisions on minimum requirements as well as their assessment and enforcement have been revised. Operators of systemically important infrastructure systems are now no longer required to have their procedures and technical concepts audited by an external body at least once a year, but only periodically. In addition, the provision stipulating that – where foreign law is applicable – a system operator must demonstrate the effectiveness and enforceability of its contractual foundations in an expert opinion, was relaxed. Finally, system operators are no longer required to have the SNB approve amendments to the contractual foundations where such changes concern systemically relevant aspects; they now only need to inform the SNB.

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 management strategy and international monetary cooperation. The Governing Board fulfils its monetary policy mandate independently. The Enlarged Governing Board, which consists of the three members of the Governing Board and their three deputies, is responsible for the operational management of the National Bank. The Bank Council, meanwhile, oversees the SNB'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 and 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 formulated by 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 Financial Markets unit in Department III implements monetary policy by carrying out transactions in the financial markets. It also 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 of which belong to Department III. Investment strategy and risk control are dealt with by the Risk Management unit, which is also part of Department III. The Bank Council's Risk Committee oversees risk management.

Cash transactions

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

Conceptual and technical issues arising with regard to cashless payment transactions are dealt with by the Financial Systems unit of 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 Systems unit of Department II helps to ensure the stability of the financial system and oversees the systemically important payment and securities settlement systems.

Financial system stability

The function of banker to the Confederation is performed by the Banking Operations and Financial Markets units of Department III. These units settle domestic and foreign payments, participate in issuing money market debt register claims and bonds, and assist the Confederation in the safekeeping of its securities. They also effect money market and foreign exchange transactions on behalf of the Confederation.

Banker to the Confederation

The International Affairs unit of Department I deals both with the international aspects of monetary policy and with technical assistance.

International monetary cooperation

The Statistics unit of 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 SNB's central services are divided between its three Departments. The Secretariat General, Legal Services, Human Resources, Communications, and Premises come under the aegis of Department I, while Department II encompasses Finance (Central Accounting and Controlling units) and Security and 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, the NBA and the Organisation Regulations fulfil the function of articles of association. The National Bank has share capital totalling CHF 25 million which consists of 100,000 fully paid-up shares with a nominal value of CHF 250 each.

The SNB does not have a group structure: 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 Swiss Federal Council while the five others 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 at least two – or, as the case may be, 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 examines 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 appointed for a term of one year by the General Meeting of Shareholders. The auditors must meet special professional qualifications 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.

Shareholder 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 National Bank fulfils a public mandate and is administered with the cooperation and under the supervision of the Confederation, the shareholders' rights are restricted as compared with a joint-stock company under private law. Shareholders from outside the public-law sector may be registered for a maximum of 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 appointed by the General Meeting of Shareholders. Dividends are limited to 6% of the share 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 Swiss Federal Council before being submitted to the General Meeting of Shareholders. Other provisions deviating from company law concern the convocation 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 in due time 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.

In 2007, the Bank Council held six ordinary half-day meetings (in February, March, June, August, October and December) and one two-hour extraordinary meeting (in April), all of which were also attended by the members of the Governing Board. The Audit Committee held three half-day meetings, all of which were also attended by representatives of the external Audit Board. The Risk Committee held two half-day meetings and the Compensation Committee met once following a Bank Council meeting. The Nomination Committee did not meet.

The remuneration of the Bank Council and the Enlarged Governing Board is laid down in regulations issued by the Bank Council. The SNB does not pay any performance-linked remuneration, nor does it grant loans to members of its bodies. In particular, there are no share or option programmes for members of the Bank Council or the Enlarged Governing Board.

Members of the Bank Council receive a fixed annual remuneration plus attendance compensation for committee meetings (cf. p. 111). In the review period, no severance payments were made to members of the Bank Council.

The regular remuneration paid to members of the Enlarged Governing Board comprises salaries, lump-sum compensation for representation expenses, employer contributions to pension plans and other social welfare schemes, compensation for General Abonnement travel cards as well as leaving, long-service and anniversary gifts. In addition, one-off pension plan buyouts were paid in connection with staff changes on the Governing Board (early retirement and new appointment). Details on remuneration are stated under item no. 05, p. 111.

PricewaterhouseCoopers Ltd. has held the SNB's statutory auditing mandate since 2004. The lead auditor appointed at the time is still in office. In the 2007 financial year, fees for the statutory auditing mandate totalled CHF 268,000. Two further mandates totalling CHF 48,400 were awarded to PricewaterhouseCoopers Ltd. in the course of the 2007 financial year.

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

The registered shares of the Swiss National Bank are traded on the stock market. A total of 53.24% 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 2007 were the Canton of Berne with 6.6% (6,630 shares), the Canton of Zurich with 5.2% (5,200 shares), the Canton of Vaud with 3.4% (3,401 shares) and the Canton of St. Gallen with 3.0% (3,002 shares). The Confederation is not a shareholder of the SNB.

Information for shareholders**Listed registered shares**

The basic features of the SNB's structure and organisation are defined by the National Bank Act (NBA), the Organisation Regulations and the regulations relating to the Bank Council committees.

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

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	<i>Annual Report</i> , pp. 84, 119
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	<i>Annual Report</i> , p. 119
Bank Council	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Members	<i>Annual Report</i> , p. 132
Nationality	Art. 40 NBA
Affiliations	<i>Annual Report</i> , p. 133
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report</i> , p. 132
Internal organisation	Art. 10 et seq. Organisation Regulations
Delimitation of powers	Art. 42 NBA; art. 10 et seq. Organisation Regulations
Systems of control	<i>Annual Report</i> , pp. 54, 123; art. 10 et seq. Organisation Regulations
Information instruments	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Executive management	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Governing Board</i>
Remuneration	<i>Annual Report</i> , p. 111
Shareholder rights	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation requirements</i>
Decision-making quorum	Art. 38 NBA
General Meeting of Shareholders	Art. 35 NBA
Listing in the share register	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation requirements</i>
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	<i>Annual Report</i> , pp. 85, 140 et seq.

4 Personnel, resources and bank management

4.1 Human resources

At the end of 2007, the Swiss National Bank employed 656 persons (including 26 apprentices). This was 8 fewer than a year previously. In terms of full-time equivalents, this corresponded to 617.9 positions (2006: 623.8). The percentage of part-time staff was 21.3% (21.4% in 2006). Staff turnover rose to 9.8% from 5.9% a year earlier.

In the year under review, the SNB issued two documents which set out fundamental guidelines for the employees: a fully revised version of the bank's Charter, and the first-ever edition of a Code of Conduct. The Charter, which conveys the SNB's values and corporate culture, determines the fundamental approach towards both external parties and staff, while the Code of Conduct establishes a number of ground rules to be adopted by the employees.

In 2007, the SNB introduced a feedback system as part of its management and organisation development programme. This involves comparing managers' self-assessments against their team members' appraisals. Management feedback promotes a culture of confidence-building and communication, cultivates a joint understanding of management issues and assists in the implementation of management principles.

4.2 Resources

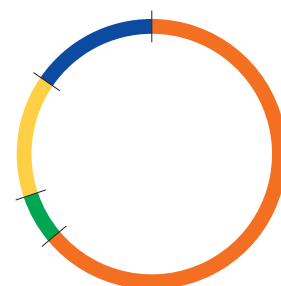
In 2006/2007, the SNB submitted its Research, Economic Analysis and Financial Stability units to an assessment by an international group of experts from central banks and universities. The experts' remit was to critically assess organisation and performance of these units. The reports issued during the year under review awarded good marks to all three specialist units, not only for the way they address and implement the tasks assigned to them but also for the employees' motivation and performance.

Number of employees and turnover

Charter and Code of Conduct

Management feedback

Assessments



Human Resources
Number of employees

Full-time, men 419

Part-time, men 39

Full-time, women 97

Part-time, women 101

Total: 656
At year-end

Information technology

The production environment was stable again in 2007. Systems were available at all times and there were no system breakdowns. In April, the SNB launched its new website. The partial insourcing of management activities for equity investments as of July was supported by IT from the outset. The expansion of repo operations in the autumn as a result of the financial market turbulence also required adjustments to IT systems. For the complete renewal of the IT infrastructure for statistics and for the systems used in the analysis of monetary policy, extensive preparatory work took place and, in October, a project was launched. The backup capabilities of the two congruent data processing centres in Zurich and Berne were tested in a large-scale trial.

Premises

In 2007, the SNB completed the sale of its bank premises in Lugano to Wegelin & Co, Private Bankers, St Gallen, after the cash office in Lugano had been closed at the end of 2006. The notice advertising the property had attracted both public and private-sector bids. When the issue was discussed on the Bank Council, two members – Konrad Hummler and Marina Masoni – abstained on the grounds of a possible conflict of interests.

In 1991, the SNB took a lease on the property at Seefeldstrasse 8 in Zurich, the owner of which granted it rights of pre-emption both for this and the neighbouring property. These rights were exercised in 2007. Thus, all organisational units of the Berne and Zurich head offices are housed in buildings owned by the SNB.

Internal control system and operational risks

In 2007, the SNB issued specifications on the documentation of its internal control system. These relate to the use of the numerous documents already existing and the consistent representation of the control system into significant accounting and financial reporting processes. The processes for identifying operational risks also underwent further development. A risk map was drawn up for selected risks. As part of the business continuity management programme, detailed analyses were conducted to secure banking operations in exceptional situations (pandemics, etc.) and appropriate contingency measures were introduced.

Environmental management

The environmental performance evaluation for 2006, which was completed in mid-2007, showed an increase in resource utilisation. Energy consumption rose by 4% and the total distance travelled for business purposes increased by 14%. Electricity and heating consumption per employee each decreased by 7%. The percentage of electricity consumed by the SNB bearing the 'naturemade star' quality mark (i.e. generated by hydroelectric and solar plants) rose from 14% to 50% in the year under review. The complete results of the environmental performance evaluation can be viewed at www.snb.ch. The evaluation is published annually at the end of June for the previous year.

4.3 Bank bodies and management

On 9 March 2007, the Federal Council appointed

Eveline Widmer-Schlumpf, Felsberg, Member of the Cantonal Government and Head of the Finance and Municipalities Department of the Canton of Graubünden, and Member of the Bank Council, as Vice-President of the Bank Council, to take effect following the General Meeting of Shareholders on 27 April 2007.

Bank Council

On 9 March 2007 and 16 May 2007 respectively, the Federal Council appointed the following new members to the Bank Council:

Jean Studer, Neuchâtel, Member of the Cantonal Government and Head of the Justice, Security and Finance Department of the Canton of Neuchâtel,

Laura Sadis, Lugano, Member of the Cantonal Government and Head of the Department of Finance and Economic Affairs of the Canton of Ticino.

At the General Meeting of Shareholders held on 27 April 2007, the following new member was elected to the Bank Council:

Daniel Lampart, Zurich, Chief Economist of the Swiss Federation of Trade Unions.

The following members resigned from the Bank Council:

Marina Masoni resigned with effect from the end of June 2007.

Eveline Widmer-Schlumpf left office at the end of 2007 owing to her election to the Federal Council.

Ueli Forster announced his retirement as of the end of his four-year term of office, i. e. as of 25 April 2008.

The National Bank thanks the departing members for their valuable services.

All other members of the Bank Council are standing for re-election for a further term of office.

On 20 February 2008, the Federal Council appointed

Jean Studer, Member of the Cantonal Government and Head of the Justice, Security and Finance Department of the Canton of Neuchâtel, as Vice-President of the Bank Council.

The other, current members of the Bank Council (cf. p. 132) were re-elected by the Federal Council for the 2008–2012 term of office. The by-election will take place on a later date.

On 27 April 2007, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd., Zurich, as the Audit Board for the 2007/2008 term of office.

Audit Board

In 2006, the Federal Council appointed
Philipp M. Hildebrand, as Vice-Chairman of the Governing Board and
Head of Department II,

Thomas J. Jordan, as Member of the Governing Board and Head of
Department III,

Dewet Moser, as Alternate Member of the Governing Board and Deputy
Head of Department III.

They took up their new positions on 1 May 2007.

Bank management

At the end of June, Peter Klausner retired after 33 years of service. He
was appointed as Deputy Head of Department I in 1982. In this position, he
played a key role in handling numerous important assignments for the bank
management. His last position was that of Head of Legal and Administrative
Affairs. His role as co-chairman of the FDF's group of experts on the drafting
of a new National Bank Act merits special mention.

François Ganière retired at the end of 2007 following 20 years of
service. Initially in charge of the Lausanne office, he became the delegate for
regional economic relations in the Cantons of Vaud and Valais.

Hans-Christoph Kesselring retired at the end of August following
25 years of service. After a management career on the operational side of
the banking business, he played a key role in the editing and production of
the commemorative publication marking the SNB's centenary.

At the end of May 2007, Christoph Menzel retired after 32 years with
the bank. He was the Head of the Statistics unit during a time of expansion
and professionalisation of the SNB's statistical activities.

The SNB wishes to thank these gentlemen for their many years of
service, their great dedication and their invaluable contributions.

5 Business performance

5.1 Annual result

The Swiss National Bank's 2007 annual result comes to CHF 7,996 million, compared with CHF 5,045 million in 2006. As was the case last year, valuation gains on gold holdings are the largest contributory factor.

The distributable profit remaining after the allocation of CHF 751 million to the provisions for currency reserves, as prescribed by law, amounts to CHF 7,245 million. The profit distribution for the 2007 financial year totals CHF 2,502 million. The remaining CHF 4,743 million will be channelled into the distribution reserve.

The price of gold rose by 22% last year, attaining CHF 30,328 per kilogram on the balance sheet date. The resulting valuation gain on gold holdings amounts to CHF 6,433 million (2006: CHF 4,188 million). In addition, CHF 13 million interest income was earned from gold lending transactions (2006: CHF 16 million).

In June, the SNB announced the sale of 250 tonnes of gold by September 2009, of which 145 tonnes had been sold by the end of 2007. At year-end, the SNB's gold holdings amounted to 1,145 tonnes in the form of gold bars and coins plus gold lending.

At CHF 51 billion, the SNB's foreign currency investments still account for a significant proportion of assets (40%). Although they include investments such as shares and money market instruments, for the most part foreign currency investments comprise fixed-interest rate instruments. These also made the largest contribution to earnings of CHF 1,338 million (2006: CHF 820 million). As opposed to 2006, interest income was not cut into by capital losses. Capital gains were recorded on dollar investments, in particular, where significant interest rate declines on the capital markets caused the prices of the securities held to rise. For shares, net income from dividends and net price gains amounted to CHF 89 million (2006: CHF 621 million).

An exchange rate-related valuation loss of CHF 723 million was recorded on foreign currency investments (2006: CHF 546 million). Despite the fact that investments in euros and Canadian dollars recorded exchange rate gains, the impact of lower prices for the US, UK and Japanese currencies at the end of the year was greater.

The net result from Swiss franc investments came to CHF 427 million (2006: CHF 229 million), consisting mainly of income from repo transactions.

Operating expenses comprise banknote and personnel expenses, general overheads and depreciation on tangible assets. They amounted to CHF 243 million (2006: CHF 233 million). The activities organised by the SNB to mark its centenary contributed to the increase.

Summary

Continuing rise in the gold price

Substantial interest income ...

... and exchange rate losses

Net result from Swiss franc investments

Operating expenses

Breakdown of operating expenses by cost unit

Cash transactions – including the costs of banknote production – remained responsible for the greatest proportion of operating costs (35%). Monetary policy (including statistics) accounted for 23% of operating costs, while the management of currency reserves took about 19%. The other cost units, including 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

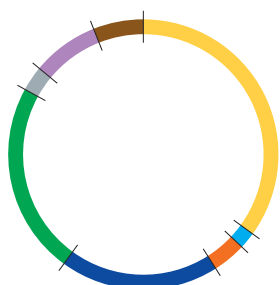
The SNB's financial result is decisively influenced by price developments in the financial markets (gold price, exchange rates, shares prices, interest) and can therefore fluctuate considerably from one reporting period to the next. From an operational perspective, there are currently no projects that might have a major bearing on financial results in the future.

5.2 National Bank Act requirements on setting aside provisions

Purpose

Under the National Bank Act (NBA), the SNB is required to set aside provisions from its earnings surplus to build up currency reserves. These reserves allow it to intervene on the market in the event of a weakness in the Swiss franc. The currency reserves also make Switzerland's economy less vulnerable to international crises and thereby engender confidence in the Swiss franc. The need for currency reserves grows 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.



Cost units In percent

Cash transactions	35
Cashless payment transactions	2
Liquidity supply	4
Currency reserves	19
Monetary policy	23
Services on behalf of the Confederation	3
Services on behalf of third parties	8
Financial system stability	6

In accordance with art. 30 para. 1 NBA and the profit distribution agreement of 5 April 2002 between the Federal Department of Finance (FDF) and the SNB, 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 the economy. The targeted percentage rise is based on the average GDP growth of the most recent five years.

Targeted level

Development of targeted level

	Growth in nominal GDP In percent (average period) ¹	Annual allocation CHF millions	New targeted level ² CHF millions
2003	2.3 (1997–2001)	829.3	36 886.7 ²
2004	2.4 (1998–2002)	885.3	37 841.0 ³
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
2008	2.5 (2002–2006)	1 006.9	41 282.2

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 Including CHF 7817.5 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).

3 Including CHF 69.0 million from the transfer of the reserve fund on 1 May 2004 pursuant to art. 57 para. 2 NBA.

In the reporting year, the required provisions for currency reserves amount to CHF 751 million, in accordance with the average growth in GDP during the 2001–2005 period, which was 1.9% in nominal terms. The allocation is to be made as part of the appropriation of the 2007 annual result.

Allocation from the 2007 annual result

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 2007 financial year, the distributable annual profit amounted to CHF 7,245 million.

Distributable annual profit

5.3 Profit distribution

Profit distribution to the Confederation and the cantons

In accordance with art. 31 NBA, one-third of profits – to the extent that they exceed the dividends – are distributed to the Confederation and two-thirds to the cantons. The amount of the profit distribution is laid down in an agreement between the SNB and the FDF. In the year under review, CHF 2,500 million will be distributed, as in previous years.

In 2007, the profit distribution agreement of 5 April 2002 was reviewed, as planned. In view of the need for adjustments, the FDF and the SNB decided to draw up a new agreement. Under this agreement, CHF 2,500 million will continue to be distributed annually from 2008 to 2017.

Dividends

In addition to the agreed distribution of CHF 2,500 million to the Confederation and cantons, a total of CHF 1.5 million is to be paid in the form of dividends. Dividend payments are governed by art. 31 NBA, and are limited to a maximum of 6% of the nominal value.

Distribution reserve

The difference between the distributable profit for the financial year and the actual profit distributed to the Confederation and cantons (pursuant to the agreement) and to the shareholders (in the form of dividends pursuant to the NBA) is entered in the distribution reserve. The distributable profit for 2007 exceeds the distribution by CHF 4,743 million. Consequently, the distribution reserve will rise to CHF 22,872 million.

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
2003	13 047.0	2 800.0	10 247.0 ²

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. 99).

	Distribution reserve prior to distribution ³ In CHF millions	Distributable annual profit In CHF millions	Profit distribution In CHF millions	Distribution reserve after distribution In CHF millions
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
2007	18 128.7	7 244.5	2 501.5	22 871.7

5.4 Currency reserves

The major part of the currency reserves held by the SNB 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 the economy. In order to achieve this aim, the National Bank does not distribute its entire profit, withholding part of the annual result in the form of provisions for currency reserves entered on the liabilities side of the balance sheet (cf. 5.2).

Definition

Amount

Composition of currency reserves

Composition

In CHF millions	31.12.2007	31.12.2006	Change
Gold	30 531.8	29 190.2	+1 341.6
Claims from gold transactions	4 243.7	3 030.3	+1 213.4
Foreign currency investments	50 586.3	45 591.9	+4 994.4
Reserve position in the IMF	406.0	557.3	-151.3
International payment instruments	281.7	330.8	-49.1
Derivative financial instruments	-7.0	-36.0	+29.0
Less: foreign currency liabilities	-1 127.6	-1.8	-1 125.8
Total	84 914.9	78 662.7	+6 252.2

Financial Report

1 Income statement and appropriation of profit for 2007

In CHF millions

		2007	2006	Change
	Item no. in Notes			
Net result from gold	01	6 446.8	4 204.0	+2 242.8
Net result from foreign currency investments	02	1 338.2	820.0	+518.2
Net result from Swiss franc investments	03	427.1	229.3	+197.8
Net result from other assets	04	26.3	24.6	+1.7
Gross income		8 238.4	5 277.9	+2 960.4
Banknote expenses		-34.3	-38.3	+4.0
Personnel expenses	05, 06	-110.7	-105.6	-5.1
General overheads	07	-65.8	-57.6	-8.2
Depreciation on tangible assets	16	-32.0	-31.1	-0.9
Annual result		7 995.5	5 045.3	+2 950.2
Allocation to provisions for currency reserves		-751.0	-888.6	+137.6
Distributable annual profit		7 244.5	4 156.7	+3 087.8
Allocated to distribution reserve		-4 743.0	-1 655.2	-3 087.8
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 (in accordance with the agreement of 5 April 2002)		2 500.0	2 500.0	-

2 Balance sheet as at 31 December 2007

In CHF millions

		31.12.2007	31.12.2006	Change
Assets	Item no. in Notes			
Gold holdings	08	30 531.8	29 190.2	+1 341.6
Claims from gold transactions	09	4 243.7	3 030.3	+1 213.4
Foreign currency investments	10	50 586.3	45 591.9	+4 994.4
Reserve position in the IMF	11	406.0	557.3	-151.3
International payment instruments	27	281.7	330.8	-49.1
Monetary assistance loans	12, 27	273.1	236.6	+36.5
Claims from repo transactions in US dollars	13	4 517.4	–	+4 517.4
Claims from repo transactions in Swiss francs	26	31 025.4	27 126.9	+3 898.5
Claims against domestic correspondents		11.0	5.1	+5.9
Swiss franc securities	14	4 130.7	4 907.6	-776.9
Banknote stocks	15	126.9	125.0	+1.9
Tangible assets	16	344.8	358.5	-13.7
Participations	17, 28	136.8	129.6	+7.2
Other assets	18, 30	311.3	223.6	+87.7
Total assets		126 926.9	111 813.5	+15 113.4

		31.12.2007	31.12.2006	Change
Liabilities	Item no. in Notes			
Banknotes in circulation	19	44 258.6	43 182.2	+1 076.4
Sight deposits of domestic banks		8 672.9	6 716.0	+1 956.9
Liabilities towards the Confederation	20	1 077.0	1 056.2	+20.8
Sight deposits of foreign banks and institutions		644.1	421.7	+222.4
Other sight liabilities	21	169.1	163.2	+5.9
Liabilities from Swiss franc repo transactions		615.0	–	+615.0
Other term liabilities	13	4 608.0	–	+4 608.0
Foreign currency liabilities	22	1 127.6	1.8	+1 125.8
Other liabilities	23, 30	72.5	81.9	–9.4
Provisions for operating risks	24	8.6	11.1	–2.5
Provisions for currency reserves		39 524.3	38 635.7	+888.6
Share capital	25	25.0	25.0	–
Distribution reserve		18 128.7	16 473.4	+1 655.3
Annual result ¹		7 995.5	5 045.3	+2 950.2
Total liabilities		126 926.9	111 813.5	+15 113.4

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 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
Equity capital as at 1 January 2007	25.0	38 635.7
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		
Annual result of the year under review		
Equity capital as at 31 December 2007 (before appropriation of profit)	25.0	39 524.3
Proposed appropriation of profit		
Endowment of provisions for currency reserves pursuant to the NBA		751.0
Allocation to distribution reserve		
Distribution of dividends to the shareholders		
Profit distribution to the Confederation and the cantons		
Equity capital after appropriation of profit	25.0	40 275.3

Distribution reserve	Annual result (net profit)	Total
6 948.4	12 821.2	57 635.6
	-794.7	
9 525.0	-9 525.0	
	-1.5	-1.5
	-2 900.0	-2 900.0
	5 045.3	5 045.3
16 473.4	5 045.3	60 179.5
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
	7 995.5	7 995.5
18 128.7	7 995.5	65 673.5
	-751.0	
4 743.0	-4 743.0	
	-1.5	-1.5
	-2 500.0	-2 500.0
22 871.7	-	63 172.0

4 Notes to the accounts as at 31 December 2007

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 were no substantial changes to the accounting and valuation principles compared with the previous year, except for the addition of the new transactions (repos in US dollars and foreign exchange options). The asset capitalisation threshold for tangible assets and investments in buildings which result in an increase in value was adjusted.

Cash flow statement

As a central bank, the National Bank can autonomously create money at any time. It therefore does not prepare a cash flow statement.

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 30. 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. Transactions with members of the SNB's executive management and the Bank Council are concluded at market conditions.

Balance sheet and income statement

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.

Physical gold holdings consist of gold ingots and gold coins. Gold holdings are stored at various locations in Switzerland and abroad. These holdings are stated at market value. Valuation gains and losses and sales proceeds are reported in *net result from gold*.

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 may be effected both on a secured and unsecured basis. The gold price risk remains with the National Bank. Gold loans are 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*.

In *foreign currency investments*, negotiable securities (money market instruments, bonds and equity securities) as well as credit balances (sight deposit accounts, call money, time deposits and repos) 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, dividends and exchange rate gains and losses are stated in *net result from foreign currency investments*.

The management of foreign currency investments also includes securities lending transactions. Securities lent by the SNB from its own portfolio are secured by collateral in the form of securities. The SNB 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*.

Repos in foreign currency concluded for investment purposes are also reported in this balance sheet item.

Summary

Gold holdings

Claims from gold transactions

Foreign currency investments

Reserve position in the IMF

The reserve position in the International Monetary Fund (IMF) consists of 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 400 million SDRs 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. After repayment of the monetary assistance loan to Bulgaria, claims currently still outstanding include loans under the Poverty Reduction and Growth Facility (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. *Off-balance-sheet transactions*).

Claims from repo transactions in US dollars

The repo transactions in US dollars reported in this balance sheet item were concluded in concert with other central banks. They are fully backed by collateral eligible for SNB repos and are stated at their year-end nominal value inclusive of accrued interest.

Claims and liabilities from repo transactions in Swiss francs

Repo transactions in Swiss francs, the National Bank's major monetary policy instrument, are used to provide the banking system with liquidity or to withdraw liquidity from it. Claims from repo transactions are fully backed by securities eligible for SNB repos. Claims and liabilities from repo transactions are stated at their nominal value inclusive of accrued interest. Interest earnings and expenses are recorded in *net result from Swiss franc investments*.

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 recorded in *net result from Swiss franc investments*.

Claims against domestic correspondents

Swiss franc securities are made up exclusively of negotiable bonds. They are stated at their market value inclusive of accrued interest. Valuation gains/losses and interest earnings are recorded in *net result from Swiss franc investments*.

Swiss franc securities

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*.

Banknote stocks

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, software and sundry tangible assets are stated in *general overheads*. Investment in buildings resulting in an increase in value are capitalised from an amount of CHF 100,000. For sundry tangible assets, the capitalisation threshold is CHF 20,000. 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.

Tangible assets

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	
IT 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

The National Bank does not hold any material participating interests which are subject to either proportionate consolidation or consolidation according to Swiss GAAP FER 30. 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, foreign exchange options, futures and interest rate swaps to manage its currency reserves. They are used to steer market positioning with regard to shares, interest rates and currencies (cf. also *Risks posed by financial instruments*, p. 123 et seq.). Derivative financial instruments are stated at market value, whenever possible. If no market value is available, a 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*. 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 from the current series as well as from 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*.

The National Bank holds sight deposit accounts for foreign banks and institutions. These sight deposits facilitate payment transactions in Swiss francs. They do not bear interest and are stated at their nominal value.

Sight deposits of foreign banks and institutions

Sight deposits of non-banks, accounts of active and retired staff members and of the SNB's pension plans as well as liabilities in the form of bank cheques drawn on the National Bank but not yet cashed are recorded in *other sight liabilities*. They are stated at their nominal value inclusive of accrued interest. Interest expenses are shown under *net result from Swiss franc investments*.

Other sight liabilities

This balance sheet item contains additional term liabilities in Swiss francs. They are stated at their nominal value inclusive of accrued interest. Interest expenses are recorded in *net result from Swiss franc investments*.

Other term liabilities

Foreign currency liabilities comprise sight liabilities 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 reported in *net result from foreign currency investments*.

Foreign currency liabilities

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 operating risks

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 economic growth. 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.

Provisions for currency reserves

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 National Bank's 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 annual profit distributions are fixed in advance for a certain period in an agreement concluded between the Confederation and the National Bank. The distribution reserve contains profits that have not yet been distributed (cf. p. 94).

Distribution reserve

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% of the insured salary (depending on the employee's age) 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.

Pension fund

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 shown in the notes under *off-balance-sheet transactions* and are stated at nominal value inclusive of accrued interest.

Liquidity-shortage financing facility

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

	31.12.2007 CHF	31.12.2006 CHF	Change In percent
1 US dollar (USD)	1.1277	1.2202	-7.6
1 euro (EUR)	1.6557	1.6086	+2.9
1 British pound (GBP)	2.2586	2.3911	-5.5
100 Danish kroner (DKK)	22.2000	21.5800	+2.9
1 Canadian dollar (CAD)	1.1445	1.0502	+9.0
100 Japanese yen (JPY)	1.0109	1.0251	-1.4
1 Special Drawing Right (SDR)	1.7820	1.8369	-3.0
1 kilogram of gold	30 328.47	24 938.72	+21.6

4.2 Notes to the income statement and balance sheet

Item no. 01

Net result from gold

In CHF millions	2007	2006	Change
Net result from changes in market value ¹	6 433.3	4 188.4	+2 244.9
Interest income from gold lending transactions	13.5	15.6	-2.1
Total	6 446.8	4 204.0	+2 242.8

¹ Including valuation gains/losses from the sale of gold.

Net result from foreign currency investments

Item no. 02

Breakdown of net result by type	2007	2006	Change
In CHF millions			
Interest income and capital gain/loss	2 013.7	757.7	+1 256.0
Dividend income and price gain/loss	89.5	620.7	-531.2
Interest expenses	-31.4	-0.8	-30.6
Exchange rate gain/loss	-723.0	-546.1	-176.9
Asset management and safe custody account fees	-10.6	-11.5	+0.9
Total	1 338.2	820.0	+518.2

Breakdown of net result by origin	2007	2006	Change
In CHF millions			
Foreign currency investments	1 367.4	812.0	+555.4
Reserve position in the IMF	-3.7	-1.0	-2.7
International payment instruments	1.0	7.7	-6.7
Monetary assistance loans	4.9	2.1	+2.8
Foreign currency liabilities	-31.4	-0.8	-30.6
Total	1 338.2	820.0	+518.2

Breakdown of net result by currency	2007	2006	Change
In CHF millions			
USD	-21.4	-501.3	+479.9
EUR	1 380.4	1 161.0	+219.4
GBP	11.2	360.9	-349.7
DKK	51.9	53.2	-1.3
CAD	152.7	-13.1	+165.8
JPY	-226.4	-236.6	+10.2
SDR	0.4	7.4	-7.0
Other	-10.5	-11.5	+1.0
Total	1 338.2	820.0	+518.2

Breakdown of exchange rate gain/loss by currency	2007	2006	Change
In CHF millions			
USD	-1 074.1	-1 137.7	+63.6
EUR	609.9	711.4	-101.5
GBP	-269.0	231.3	-500.3
DKK	35.1	41.7	-6.6
CAD	91.4	-76.4	+167.8
JPY	-83.3	-299.8	+216.5
SDR	-33.1	-16.5	-16.6
Other	0.0	-0.0	+0.0
Total	-723.0	-546.1	-176.9

Item no. 03

Net result from Swiss franc investments

Breakdown by type	2007	2006	Change
In CHF millions			
Interest income and capital gain/loss	466.2	256.1	+210.1
Interest expenses	-36.1	-23.7	-12.4
Trading and safe custody account fees	-3.0	-3.0	+0.0
Total	427.1	229.3	+197.8

Breakdown by origin	2007	2006	Change
In CHF millions			
Swiss franc securities	-8.7	-10.3	+1.6
Swiss franc repo transactions	469.5	263.3	+206.2
Other assets	0.1	0.1	+0.0
Liabilities towards the Confederation	-26.8	-17.4	-9.4
Other sight liabilities	-6.9	-6.3	-0.6
Total	427.1	229.3	+197.8

Item no. 04

Net result from other assets

	2007	2006	Change
In CHF millions			
Commission income	14.4	19.4	-5.0
Commission expenses	-14.0	-16.8	+2.8
Income from participations	18.4	17.0	+1.4
Income from real estate	4.2	4.3	-0.1
Other income ¹	3.3	0.7	+2.6
Total	26.3	24.6	+1.7

¹ Includes, inter alia, book profit from the sale of the bank premises in Lugano. Cf. p. 116, item 16.

Item no. 05

Personnel expenses

	2007	2006	Change
In CHF millions			
Wages, salaries and allowances	85.8	81.5	+4.3
Social insurance	17.7	17.2	+0.5
Other personnel expenses ¹	7.2	6.9	+0.3
Total	110.7	105.6	+5.1

¹ Including reorganisation costs of CHF 0.9 million (2006: CHF 1.6 million). Cf. p. 118, item 24.

Remuneration for the Bank Council In CHF thousands	2007		
	Fixed annual remuneration	Remuneration for meetings ¹	Total remuneration ¹
Hansueli Raggenbass, President ^{2, 3}	130.0	2.5	132.5
Ruth Lüthi, Vice-President (until 30 April 2007) ^{2, 3}	20.0	2.5	22.5
Eveline Widmer-Schlumpf, Vice-President from 1 May 2007 ^{2, 3}	53.3	–	53.3
Ueli Forster ²	40.0	–	40.0
Serge Gaillard (until 31 January 2007) ⁵	3.3	–	3.3
Konrad Hummler ⁵	40.0	5.0	45.0
Armin Jans ⁴	40.0	7.5	47.5
Franz Marty ⁴	40.0	7.5	47.5
Marina Masoni (until 30 June 2007)	20.0	–	20.0
Fritz Studer ⁴	40.0	7.5	47.5
Alexandre Swoboda ^{3, 5}	40.0	5.0	45.0
Daniel Lampart (from 1 May 2007) ⁵	26.7	2.5	29.2
Jean Studer (from 1 May 2007)	26.7	–	26.7
Laura Sadis (from 1 July 2007)	20.0	–	20.0
Total	540.0	40.0	580.0

1 In accordance with SNB regulations; for Committee meetings that are not held on the same day as meetings of the Bank Council. Participation in the Bank Council committees is compensated at a rate of CHF 2,500 per meeting. Special assignments are compensated at a rate of CHF 2,500 per day or CHF 1,250 per half-day.

2 Member of the Compensation Committee.
3 Member of the Nomination Committee.
4 Member of the Audit Committee.
5 Member of the Risk Committee.

Remuneration for Executive Management ¹ In CHF thousands	2007						
	Salaries	Lump-sum allowance for official duties	Employer contributions to pension plans and Old Age and Survivors' Insurance Fund ²	Miscellaneous ³	Regular remuneration	One-off pension plan buy-ins/buy-outs ⁵	Total remuneration
Three members of the Governing Board	1 799.0	69.6	579.0	73.3	2 520.9	844.2	3 365.0
Jean-Pierre Roth, Chairman ⁴	599.7	24.0	211.7	9.7	845.0	–	845.0
Philipp M. Hildebrand	599.7	22.8	134.5	9.7	766.6	–	766.6
Thomas Jordan (as of 1 May 2007)	399.8	15.2	74.3	22.2	511.5	394.3	905.8
Niklaus Blattner (until 30 April 2007)	199.9	7.6	158.6	31.7	397.7	449.9	847.6
Three alternate members of the Governing Board	1 046.6	43.2	304.6	15.0	1 409.4	–	1 409.4
Total	2 845.6	112.8	883.6	88.3	3 930.2	844.2	4 774.4

1 All remuneration is specified in SNB regulations.

2 Staff pension fund schemes under the defined benefit system.

3 General Abonnement travel card, leaving, long-service and anniversary gifts.

4 In addition, remuneration in the amount of CHF 48,000 for serving on the BIS Board of Directors.

5 Buy-ins (new hires) and buy-outs (in the case of early retirement) by the SNB.

Like all employees, members of executive management are entitled to preferential interest rates (up to a limited amount) on any

a) balance on their SNB staff account. The interest advantage may not exceed CHF 6,000.

b) mortgage loan granted by pension fund schemes. The interest advantage may not exceed CHF 5,000.

No additional remuneration as defined in art. 663b^{bis} para. 1 Swiss Code of Obligations was paid.

Of the members of the Bank Council and the Enlarged Governing Board, Philipp M. Hildebrand, Vice-Chairman of the Governing Board, held five SNB shares and Dewet Moser, Member of the Enlarged Governing Board, held one SNB share, both as of 31 December 2007.

Item no. 06**Employee benefit obligations¹**

Share of actuarial surplus of pension plans ²	31.12.2007	31.12.2006	Change
In CHF millions			
Overfunding in accordance with Swiss GAAP FER 26	140.8	150.4	-9.6
SNB's share of actuarial surplus	-	-	-

1 Pension funds do not have any employer contribution reserves.

2 Any overfunding is used in favour of the insured.

Employee benefit expenses	2007	2006	Change
In CHF millions			
Employer contributions	11.8	11.5	+0.3
Change in share of actuarial surplus	-	-	-
Employee benefit expenses as part of personnel expenses	11.8	11.5	+0.3

Item no. 07**General overheads**

	2007	2006	Change
In CHF millions			
Premises	10.3	14.0	-3.7
Maintenance of mobile tangible assets and software	10.8	8.8	+2.0
Consulting and other third-party support	14.8	7.8	+7.0
Administrative expenses	16.3	12.9	+3.4
Operating contributions ¹	7.7	8.1	-0.4
Other general overheads	5.9	6.0	-0.1
Total	65.8	57.6	+8.2

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

Item no. 08**Gold holdings**

Breakdown by type	31.12.2007		31.12.2006	
	Tonnes	CHF millions	Tonnes	CHF millions
Gold ingots	915.1	27 753.0	1 010.5	25 201.0
Gold coins ¹	91.6	2 778.8	160.0	3 989.2
Total ²	1 006.7	30 531.8	1 170.5	29 190.2

1 Decline due to remelting of non-standard formats into ingots.

2 Total gold holdings also include lent gold shown under item no. 09.

Claims from gold transactions

Item no. 09

	31.12.2007		31.12.2006	
	Tonnes	CHF millions	Tonnes	CHF millions
Claims from secured gold lending ¹	138.4	4 240.7	119.5	3 027.6
Claims on metal accounts	0.1	3.0	0.1	2.8
Total	138.5	4 243.7	119.6	3 030.3

¹ Secured by collateral eligible for repo transactions with a market value of CHF 4,222.2 million (2006: 3,127.7 million).

Foreign currency investments

Item no. 10

Breakdown by investment type	31.12.2007	31.12.2006	Change
In CHF millions			
Sight deposits and call money	628.2	826.1	-197.9
Time deposits	926.5	1 209.2	-282.7
Reverse repos	1 117.8	-	+1 117.8
Money market instruments	712.9	1 103.3	-390.4
Bonds ¹	41 547.9	37 698.1	+3 849.8
Equities	5 652.9	4 755.2	+897.7
Total	50 586.3	45 591.9	+4 994.4

¹ Of which CHF 83.3 million (2006: CHF 123.1 million) lent under securities lending operations.

Breakdown by borrower category	31.12.2007	31.12.2006	Change
In CHF millions			
Governments	33 672.7	28 632.3	+5 040.4
Monetary institutions ¹	987.9	1 377.4	-389.5
Corporations	15 925.7	15 582.2	+343.5
Total	50 586.3	45 591.9	+4 994.4

¹ BIS, central banks and multilateral development banks.

Breakdown by currency ¹	31.12.2007	31.12.2006	Change
In CHF millions			
USD	15 608.6	14 959.4	+649.2
EUR	23 047.6	21 435.7	+1 611.9
GBP	5 989.9	4 588.3	+1 401.6
DKK	1 276.1	1 303.8	-27.7
CAD	1 166.4	1 003.6	+162.8
JPY	3 497.0	2 300.6	+1 196.4
Other	0.7	0.6	+0.1
Total	50 586.3	45 591.9	+4 994.4

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. 123 et seq.

Item no. 11**Reserve position in the IMF**

	31.12.2007	31.12.2006	Change
In CHF millions			
Swiss quota in the IMF ¹	6 162.9	6 352.8	-189.9
less: IMF's Swiss franc sight balances at the National Bank	-5 756.9	-5 795.5	+38.6
Total	406.0	557.3	-151.3

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

Item no. 12**Monetary assistance loans**

	31.12.2007	31.12.2006	Change
In CHF millions			
Bilateral loan to Bulgaria	-	23.2	-23.2
PRGF credit facility	45.4	62.4	-17.0
Interim PRGF credit facility ¹	227.7	151.1	+76.6
Total	273.1	236.6	+36.5

¹ For undrawn loan
commitments, cf. p. 120,
item no. 27.

Item no. 13**Claims from repo transactions in US dollars**

	31.12.2007 Assets	31.12.2007 Liabilities
In CHF millions		
Claims from repo transactions in US dollars ¹	4 517.4	
Positive replacement value ²	97.2	
Other term liabilities ³		4 608.0
Foreign currency liabilities ⁴		6.6
Total	4 614.6	4 614.6

¹ US dollar repo transaction (maximum of USD 4 billion) offered by the Swiss National Bank to enable its counterparties to gain easier access to US dollar liquidity.
² Resulting from the swap agreement with the US Federal Reserve Bank.
³ Swap agreement with the US Federal Reserve Bank.
⁴ Accrued interest on behalf of the US Federal Reserve Bank. This transaction does not affect the SNB's net result.

Swiss franc securities

Item no. 14

Breakdown by borrower category	31.12.2007	31.12.2006	Change
In CHF millions			
Governments	2 016.1	2 583.6	-567.5
Corporations	2 114.5	2 324.0	-209.5
Total	4 130.7	4 907.6	-776.9

Breakdown of the <i>Governments</i> borrower category	31.12.2007	31.12.2006	Change
In CHF millions			
Swiss Confederation	1 220.4	1 630.9	-410.5
Cantons and municipalities	608.6	748.8	-140.2
Foreign states	187.1	203.9	-16.8
Total	2 016.1	2 583.6	-567.5

Breakdown of the <i>Corporations</i> borrower category	31.12.2007	31.12.2006	Change
In CHF millions			
Domestic mortgage bond institutions	491.1	699.5	-208.4
Other domestic corporations ¹	68.4	121.5	-53.1
Foreign corporations ²	1 555.1	1 503.1	52.0
Total	2 114.5	2 324.0	-209.5

1 International organisations headquartered in Switzerland.
2 Banks, international organisations and other corporations.

Banknote stocks

Item no. 15

In CHF million	Banknote stocks
Position as at 1 January 2006	137.6
Additions	23.2
Disposals	-35.9
Position as at 31 December 2006	125.0
Position as at 1 January 2007	125.0
Additions	31.8
Disposals	-29.9
Position as at 31 December 2007 ¹	126.9

1 Of which CHF 24.7 million in advance payments.

Item no. 16

Tangible assets

	Land and buildings ¹	Fixed assets under construction	Software	Sundry tangible assets ²	Total
In CHF millions					
Historical cost					
1 January 2007	435.9	2.6	21.4	73.5	533.4
Additions	8.8	0.0	7.8	7.0	23.6
Disposals ³	-6.2		-6.2	-19.1	-31.6
Reclassified	2.6	-2.6			
31 December 2007	441.0	0.0	23.0	61.5	525.4
Cumulative value adjustments					
1 January 2006	112.6		9.3	53.0	174.9
Scheduled depreciation	17.3		7.4	7.3	32.0
Disposals	-1.1		-6.2	-19.0	-26.3
Reclassified					
31 December 2007	128.8		10.5	41.3	180.6
Net book values					
1 January 2007	323.3	2.6	12.1	20.5	358.5
31 December 2007	312.2	0.0	12.5	20.1	344.8

1 Insured value: CHF 358.2 million (2006: CHF 374.5 million).

2 Insured value: CHF 83.3 million

(2006: CHF 83.3 million).

3 Land and buildings: property in Lugano; sundry tangible assets: hardware and cash machines.

The sale of the property in Lugano (cf. Premises, p. 88 and p. 110, item no. 04) attracted bids which were well

above the base price of CHF 6.4 million. The winning bid came from Wegelin & Co., Private Bankers, St Gallen,

whose Managing Partner, Konrad Hummler, is a member of the SNB Bank Council.

Item no. 17

Participations (not consolidated)

	Orell Füssli ¹	BIS ²	Other	Total
In CHF millions				
Equity participation	33%	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
Book value as at 1 January 2007	38.7	90.2	0.6	129.6
Investments	-	-	-	-
Divestments	-	-	-	-
Valuation changes	7.2	-	-	7.2
Book value as at 31 December 2007	46.0	90.2	0.6	136.8

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.

Other assets

Item no. 18

	31.12.2007	31.12.2006	Change
In CHF millions			
Coins ¹	144.3	169.1	-24.8
Foreign banknotes	1.0	0.6	+0.4
Other accounts receivable	12.1	14.1	-2.0
Prepayments and accrued income	3.3	5.2	-1.9
Cheques and bills of exchange (collection business)	0.8	0.3	+0.5
Positive replacement values ²	149.8	34.4	+115.4
Total	311.3	223.6	+87.7

1 Commemorative coins acquired from Swissmint destined for circulation.
2 Unrealised gains on financial instruments and on outstanding spot transactions (cf. p. 122, item no. 30).

Banknotes in circulation

Item no. 19

Breakdown by issue	31.12.2007	31.12.2006	Change
In CHF millions			
8 th issue	42 751.5	41 586.2	+1 165.3
6 th issue ¹	1 507.1	1 596.0	-88.9
Total	44 258.6	43 182.2	+1 076.4

1 Exchangeable at the SNB until 30 April 2020.

Liabilities towards the Confederation

Item no. 20

	31.12.2007	31.12.2006	Change
In CHF millions			
Sight liabilities	74.9	53.3	+21.6
Term liabilities	1 002.1	1 002.8	-0.7
Total	1 077.0	1 056.2	+20.8

Other sight liabilities

Item no. 21

	31.12.2007	31.12.2006	Change
In CHF millions			
Sight deposits of non-banks	11.4	8.0	+3.4
Deposit accounts ¹	157.7	154.7	+3.0
Cheque liabilities ²	0.1	0.5	-0.4
Total	169.1	163.2	+5.9

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 15.5 million on 31 December 2007 (2006: CHF 17.1 million).

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

Item no. 22**Foreign currency liabilities**

	31.12.2007	31.12.2006	Change
In CHF millions			
Sight liabilities	3.2	1.8	+1.4
Liabilities from repo transactions ¹	1 117.7	–	+1 117.7
Other foreign currency liabilities	6.6	–	+6.6
Total	1 127.6	1.8	+1 125.8

¹ Relating to the management of foreign currency investments.

Item no. 23**Other liabilities**

	31.12.2007	31.12.2006	Change
In CHF millions			
Other liabilities	6.3	5.7	+0.6
Accrued liabilities and deferred income	6.6	5.8	+0.8
Negative replacement values ¹	59.6	70.4	–10.8
Total	72.5	81.9	–9.4

¹ Unrealised losses on financial instruments and on outstanding spot transactions (cf. p. 122, item no. 30).

Item no. 24**Provisions for operating risks**

	Provisions due to reorganisation	Other provisions	Total
In CHF millions			
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
Book value as at 1 January 2007	10.2	0.9	11.1
Formation	0.8	0.2	1.0
Release	–3.5	–	–3.5
Write-back	0.0	–	0.0
Book value as at 31 December 2007	7.6	1.0	8.6

Shares

	2007	2006
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	1 400	1 280
Market capitalisation in CHF	140 000 000	128 000 000
Annual high in CHF	1 520	1 430
Annual low in CHF	1 260	1 037
Average daily trading volume in number of shares	33	44

¹ Listed in the main segment of the Swiss stock exchange (SWX).

Breakdown of share ownership

	Number of shares	In percentage of shares registered
2,180 private shareholders with a total of	31 658	36.8¹
of which 1,883 shareholders with 1–10 shares each		
of which 269 shareholders with 11–100 shares each		
of which 8 shareholders with 101–200 shares each ²		
of which 20 shareholders with over 200 shares each ²		
79 public-sector shareholders with a total of	54 269	63.2
of which 26 cantons with a total of	38 981	
of which 24 cantonal banks with a total of	14 257	
of which 29 other public authorities and institutions with a total of	1 031	
Total 2,259 registered shareholders with a total of³	85 927⁴	100
Registration applications pending or outstanding for	14 073	
Total shares	100 000	

¹ 13.8% are legal entities and 23.0% private individuals.

² Voting rights are limited to 100 shares.

³ In 2007, 5,930 shares were transferred to new holders (2006: 8,038). The number of shareholders decreased by 34.

⁴ 6,791 shares are in foreign ownership.

Principal shareholders

	31.12.2007		31.12.2006	
	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%
Canton of Vaud	3 401	5.40%	3 401	3.40%
Canton of St Gallen	3 002	3.00%	3 002	3.00%

4.3 Notes regarding off-balance-sheet business

Liquidity-shortage financing facility

Item no. 26

Details on the liquidity-shortage financing facility	31.12.2007	31.12.2006	Change
In CHF millions			
Credit undertaking ¹	33 696.5	12 101.5	+21 595.0
of which drawn down	0.0	13.0	-13.0
of which not drawn down	33 696.5	12 088.5	+21 608.0

¹ Increase due to extension of credit lines.

Item no. 27

Irrevocable undertakings

Overview: undrawn credit lines provided to the IMF	31.12.2007	31.12.2006	Change
In CHF millions			
International payment instruments (two-way arrangement)	433.2	404.9	+28.3
Interim PRGF	217.8	308.2	-90.4
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)	2 744.2	2 828.8	-84.6
Total	3 395.1	3 541.8	-146.7

¹ Undertaking to purchase Special Drawing Rights against currency up to 400 million SDRs or to return the Special Drawing Rights in exchange for currency, without federal guarantee (cf. p. 104).
² Change due entirely to exchange rates.

Overview in detail: international payment instruments (two-way arrangement ¹)	31.12.2007	31.12.2006	Change
In CHF millions			
Credit undertaking	712.8	734.7	-21.9 ²
of which drawn down	279.6	329.9	-50.3
of which not drawn down	433.2	404.9	+28.3

¹ Limited-term credit undertaking to the IMF's trust fund amounting to 250 million SDRs (cf. p. 114, item no. 12) with federally guaranteed repayment of principal and payment of interest.
² Change due entirely to exchange rates.

Overview in detail: interim PRGF ¹	31.12.2007	31.12.2006	Change
In CHF millions			
Credit undertaking	445.5	459.2	-13.7 ²
of which drawn down	227.7	151.1	+76.6
of which not yet drawn down	217.8	308.2	-90.4

¹ Credit lines totalling 1,540 million SDRs (of which a maximum of 1,020 million SDRs in the context of the GAB) in favour of the IMF for special cases, without a federal guarantee (cf. Accountability Report for the Federal Assembly).
² Change due entirely to exchange rates.

Overview in detail: General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) ¹	31.12.2007	31.12.2006	Change
In CHF millions			
Credit undertaking	2 744.2	2 828.8	-84.6 ²
of which drawn down	-	-	-
of which not drawn down	2 744.2	2 828.8	-84.6

Other obligations not carried on the balance sheet

Item no. 28

In CHF millions	31.12.2007	31.12.2006	Change
Additional funding BIS ¹	115.1	118.6	-3.5
Liabilities from long-term rental, maintenance and leasing contracts	10.0	17.3	-7.3
Total	125.0	135.9	-10.9

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

Assets pledged or assigned as collateral for SNB liabilities

Item no. 29

In CHF millions	31.12.2007	31.12.2006	Change
Foreign currency investments in USD	22.6	32.5	-10.0
Foreign currency investments in EUR	155.5	89.7	+65.8
Foreign currency investments in GBP	1 119.5	-	+1 109.7
Securities in CHF	657.6	-	+657.6
Total ¹	1 955.1	122.2	+1 681.1

¹ Collateral lodged in connection with repo and futures transactions.

Item no. 30

Outstanding derivative financial instruments¹

In CHF millions	31.12.2007		31.12.2006			
	Contract value	Replacement value	Contract value	Replacement value	Positive	Negative
		Positive	Negative		Positive	Negative
Interest rate instruments	21 749.7	41.1	38.5	29 588.1	22.3	22.0
Repo transactions in CHF ²	15 802.0	–	–	18 592.0	–	–
Forward contracts ¹	1 122.5	4.2	2.8	1 771.5	2.6	7.7
Interest rate swaps	2 251.8	36.5	34.9	2 856.1	18.7	13.4
Futures	2 573.4	0.5	0.8	6 368.6	1.1	0.9
Foreign exchange	2 905.7	108.3	21.0	5 144.3	11.7	48.4
Forward contracts ¹	2 885.7	108.3	20.9	5 144.3	11.7	48.4
Options	19.9	–	0.1	–	–	–
Precious metals	31.7	0.0	0.0	74.5	–	–
Forward contracts ³	31.7	0.0	0.0	74.5	–	–
Equities/indices	353.7	0.3	0.1	753.2	0.4	0.0
Forward contracts ¹	3.1	0.1	0.0	0.0	0.0	0.0
Futures	350.6	0.3	0.1	753.2	0.4	0.0
Total	25 040.8	149.8	59.6	35 560.1	34.4	70.4

1 Including spot transactions with value date in the new year.

2 Only repo transactions with value date in the new year.

3 From spot sales with value date in the new year.

Item no. 31

Fiduciary investments

In CHF millions	31.12.2007	31.12.2006	Change
Fiduciary investments of the Confederation	521.7	386.9	+134.8

4.4 Risks posed by financial instruments

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.

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's Risk Committee, i. e. 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 in the Accountability Report for the Federal Assembly.

**Risks faced by
the National Bank**

Risk control process

Balance sheet by currency

In CHF millions	CHF	Gold	USD	EUR	Other	Total
Gold holdings		30 532				30 532
Claims from gold transactions		4 201	43			4 244
Foreign currency investments			15 609	23 048	11 930	50 586
Reserve position in the IMF					406	406
International payment instruments					282	282
Monetary assistance loans					273	273
Claims from repo transactions in US dollars			4 517			4 517
Claims from repo transactions in Swiss francs	31 025					31 025
Swiss franc securities	4 131					4 131
Other	729		109	2	90	931
Total assets as per balance sheet	35 885	34 733	20 278	23 050	12 981	126 927
Total liabilities as per balance sheet	-125 777		-27	-3	-1 119	-126 927
Foreign exchange derivatives (net) ¹	4 609		-6 109	1	1 583	86
Net exposure as at 31.12.2007	-85 283	34 733	14 142	23 048	13 446	86
Net exposure as at 31.12.2006	-78 901	32 174	12 200	21 906	12 577	-45

¹ Delivery claims and delivery obligations from foreign exchange spot and forward transactions.

Market risk

The main risk to investments is 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. The risk of exchange rate fluctuations against the Swiss franc is not hedged. Accordingly, forward foreign exchange transactions and foreign exchange options are not used to hedge the exchange rate risk, but to achieve strategic or tactical positioning in investment currencies. Gold and the US dollar represent the most important risk factors with respect to investments as they account for a large proportion of total reserves and are very prone to fluctuations.

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 the 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 longer the duration. The longer the duration, the higher the exchange rate losses in the event of a rise in interest rates.

Interest-bearing investments Position as at 31 December	2007			2006		
	Duration In years	Market value CHF millions	PVBP ¹ CHF millions	Duration In years	Market value CHF millions	PVBP ¹ CHF millions
Gold lending		4 241			3 028	
Investments in CHF ²	5.0	4 131	2	5.4	4 908	3
Investments in USD	4.1	13 583	6	4.1	12 768	6
Investments in EUR	3.9	20 895	8	4.2	19 300	8
Investments in other currencies	4.3	7 783	4	4.2	6 733	3

¹ Change in market value per basis point in the event of a parallel shift in the yield curve.

² Excluding repos.

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 2007, CHF 5,653 million (2006: CHF 4,755 million) were invested in shares. In addition, the SNB held a contract volume of CHF 351 million (2006: CHF 753 million) in equity index futures for the purpose of tactical fine-tuning.

One way of estimating the total market risk of assets is by calculating the Value-at-Risk (VaR, cf. explanations in the Accountability Report). The VaR calculated with respect to the composition of assets at the end of 2007 amounted to CHF 9.4 billion (2006: CHF 7.1 billion), or about 7.9% of assets. This means that from a statistical point of view only one year in twenty, at the most, would see a loss of more than CHF 9.4 billion. The major part of the risk 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.

Total market risk

Credit risk results from the possibility that counterparties or 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 business (OTC) with banks. Credit risk in OTC business originates from short-term investments, 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.

Default risk: credit risk

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 2.6 billion (2006: CHF 3.1 billion). For borrowers in the bond market, a minimum rating of "investment grade" is required. The rating allocation for investments is shown in the Accountability Report for the Federal Assembly. In total, credit risks were an insignificant part of the total 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.

... and country 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, i.e. in euros and US dollars. Liquidity risk is reassessed periodically.

Liquidity risk

Proposals of the Bank Council

Proposals of the Bank Council to the General Meeting of Shareholders

At its meeting of 29 February 2008, the Bank Council accepted the Business and Financial Report for 2007, contained in the 100th Annual Report presented by the Enlarged Governing Board, for submission to the Federal Council and to the General Meeting of Shareholders.

On 14 March 2008, 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 29 February 2008.

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 7,995,517,099.42 be appropriated as follows:

Appropriation of profit	2007
In CHF millions	
Annual result (net profit pursuant to art. 36 NBA)	7 995.5
Allocation to provisions for currency reserves (art. 30 para. 1 NBA)	-751.0
Distributable annual profit (art. 30 para. 2 NBA)	7 244.5
Allocation to distribution reserve	-4 743.0
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 the Bank Council be granted discharge,
4. that the following persons be elected to the Bank Council for the period 2008–2012: Armin Jans, Daniel Lampart, Franz Marty and Alexandre Swoboda, all of them current members (cf. p. 132), Gerold Bühner, Thayngen, President of economiesuisse, as a new member,
5. that PricewaterhouseCoopers Ltd., Zurich, be appointed as the Audit Board for the 2008/2009 term of office.

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 96 to 125) of the Swiss National Bank for the year ended 31 December 2007.

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, 29 February 2008

Selected information

1 Chronicle of monetary events in 2007

On 15 March, at its quarterly assessment, the Governing Board raises the target range for the three-month Libor to 1.75–2.75%. For the time being, the three-month Libor is to be kept in the middle of the target range (cf. p. 30).

March

On 14 June, at its quarterly assessment, the Governing Board raises the target range for the three-month Libor to 2.00–3.00%. For the time being, the three-month Libor is to be kept in the middle of the target range (cf. pp. 30–31).

June

On 1 July 2007, the revised Implementing Ordinance on the National Bank Act (National Bank Ordinance, NBO) enters into force. The NBO was issued by the Governing Board in March 2004 and entered into effect together with the National Bank Act (NBA) on 1 May 2004. It includes implementation provisions on three areas of the NBA, namely on the SNB's authority to compile statistics, on the minimum reserve requirements, and on the oversight of payment and securities settlement systems. Although the National Bank Ordinance had stood the test of time, adjustments were required in all three areas (cf. p. 81).

July

On 13 September, at its quarterly assessment, the Governing Board decides to reduce the three-month Libor (which had previously risen to 2.90%) to 2.75%, and to increase the target range for the three-month Libor to 2.25–3.25% (cf. pp. 32–33).

September

On 12 December, at its quarterly assessment, the Governing Board leaves the target range for the three-month Libor at 2.25–3.25%. For the time being, the three-month Libor is to be kept in the middle of the target range (cf. pp. 33–34).

December

On 17 December, the SNB takes part in a concerted US dollar liquidity measure conducted by a number of central banks (cf. p. 43).

2 Bank supervisory and management bodies, Regional Economic Councils

(as at 1 January 2008)

Bank Council	Hansueli Raggenbass, Kesswil, Attorney-at-law, President ^{1, 2, 5} 2001/2004
(2004–2008 term of office)	* Ueli Forster, St. Gallen, Chairman of the Board of Directors at Forster Rohner Ltd ^{1, 5} 2002/2004
	Konrad Hummler, Teufen, Managing Partner of Wegelin & Co., Private Bankers ^{4, 5} 2004
	* Armin Jans, Zug, Professor of Economics at the Zurich University of Applied Sciences ^{3, 5} 1999/2004
* Elected by the General Meeting of Shareholders	* Daniel Lampart, Zurich, Chief Economist of the Swiss Federation of Trade Unions ^{4, 5} 2007
1 Member of the Compensation Committee.	* Franz Marty, Goldau ^{3, 5} 1998/2004
2 Member of the Nomination Committee.	Laura Sadis, Lugano, Member of the Cantonal Government and Head of the Department of Finance and Economic Affairs of the Canton of Ticino ⁵ 2007
3 Member of the Audit Committee.	Fritz Studer, Meggen ^{3, 5} 2004
4 Member of the Risk Committee.	Jean Studer, Neuchâtel, Member of the Cantonal Government and Head of the Department of Justice, Security and Finance of the Canton of Neuchâtel ⁵ 2007
5 Initial and current election to the Bank Council.	* Alexandre Swoboda, Geneva, Professor at the Graduate Institute of International and Development Studies ^{2, 4, 5} 1997/2004

Hansueli Raggenbass	Further relevant affiliations of the Bank Council members
– Chairman of the Boards of Directors at the SWICA Health Care Organisation, Winterthur, and associated companies	
– Deputy Chairman of the Boards of Directors at Internationale Treuhand AG and Remaco Merger AG, Basel	
– Member of the Boards of Directors at BFW Group AG and BFW Liegenschaften AG, Frauenfeld	
– Member of the Board of Directors of Oerlikon Contraves AG, Zurich	
Ueli Forster	
– Chairman of the Board of Directors at Inter-Spitzen AG, Oberbüren	
– Deputy Chairman of the Board of Directors at Helvetia Holding AG, St. Gallen	
Konrad Hummler	
– Chairman of the Board of Directors at BrainsToVentures AG, St. Gallen	
– Chairman of the Board of Directors at Telsonic AG, Bronschhofen	
– Member of the Boards of Directors at Christian Fischbacher Co. AG and Christian Fischbacher Holding AG, both in St. Gallen	
– Member of the Board of Directors at Credit Europe Bank (Suisse) SA, Geneva	
– Member of the Supervisory Board at Deutsche Börse AG, Frankfurt am Main	
– Member of the Board of Directors at Habib Bank AG, Zurich	
– Member of the Board of Directors at Neue Zürcher Zeitung AG, Zurich	
– Member of the Board of Directors at Private Client Bank, Zurich	
Armin Jans	
– Vice-President of Schweizerischer Mieterinnen- und Mieterverband Deutschland (Association of Tenants in German-speaking Switzerland), Zurich	
– Member of the Bank Board at Zuger Kantonalbank, Zug	
Daniel Lampart	
– none	
Franz Marty	
– Chairman of the Board of Directors at the Raiffeisen Group Switzerland, St. Gallen	
– Chairman of the Board of Trustees at Swiss Mountain Aid, Adliswil	
Laura Sadis	
– Deputy Chair of the board of the pension fund for the employees of the Canton of Ticino, Bellinzona	
– Member of the Board of Directors at the United Swiss Salt Works, Pratteln	
Fritz Studer	
– Chairman of the Board of Directors at Luzerner Kantonalbank, Lucerne	
– Member of the Board of Directors at Sika AG, Baar	
Jean Studer	
– Chairman of the pension fund of the Canton of Neuchâtel, Neuchâtel	
– Member of the Board of Directors at the United Swiss Salt Works, Pratteln	
Alexandre Swoboda	
– Member of the Board of Directors at ABD Capital SA, Geneva	
– Member of the Board of Directors at LB InterFinanz AG, Zurich	
PricewaterhouseCoopers Ltd., Zurich	Audit Board (2006/2007 term of office)

Regional Economic Councils
(2004–2008 term of office)

Geneva	Raymond Léchaire, Bussigny, Director and Head of Coop Romandie Sales Area, Chairman Robert Deillon, Coppet, Director General of Geneva International Airport Patrick Pillet, Geneva, Director of Pillet SA
Mittelland	Edgar Geiser, Brügg (Canton of Berne), 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 of Directors 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 Gabriele Gabrielli, Möriken, Head of Sales Switzerland, ABB Switzerland Ltd. René Kamm, Basel, CEO of MCH Swiss Exhibition (Holding) Ltd
Eastern Switzerland	Urs Kienberger, Sils-Maria, Director and Chairman of the Board at Waldhaus Sils Hotel, Chairman Christoph Leemann, St. Gallen, Chairman of the Board of Directors at 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	Giancarlo Bordonni, Viganello, Chairman of the Board of Directors at Oleificio Sabo SA, Chairman José Luis Moral, Gudo, Member of Group Management, Head of the EDM Technology Unit at Agie Charmilles Management Ltd Lorenzo Emma, Vezia, Managing Director of Migros Ticino
Vaud-Valais	Bernard Rüeger, Féchy, General Manager of Rüeger SA, Chairman Jean-Jacques Miauton, Epalinges, Chairman of the Board of Directors and CEO of Gétaz Romang Holding SA Jean-Yves Bonvin, Granois, General Manager of Rhône Média SA

Werner Steinegger, Schwyz, CEO of Celfa AG, Chairman
Xaver Sigrist, Lucerne, President and CEO of Anliker AG Bauunternehmung
David Dean, Volketswil, CEO of Bossard Group
André Zimmermann, Horw, Director of Pilatus-Bahnen

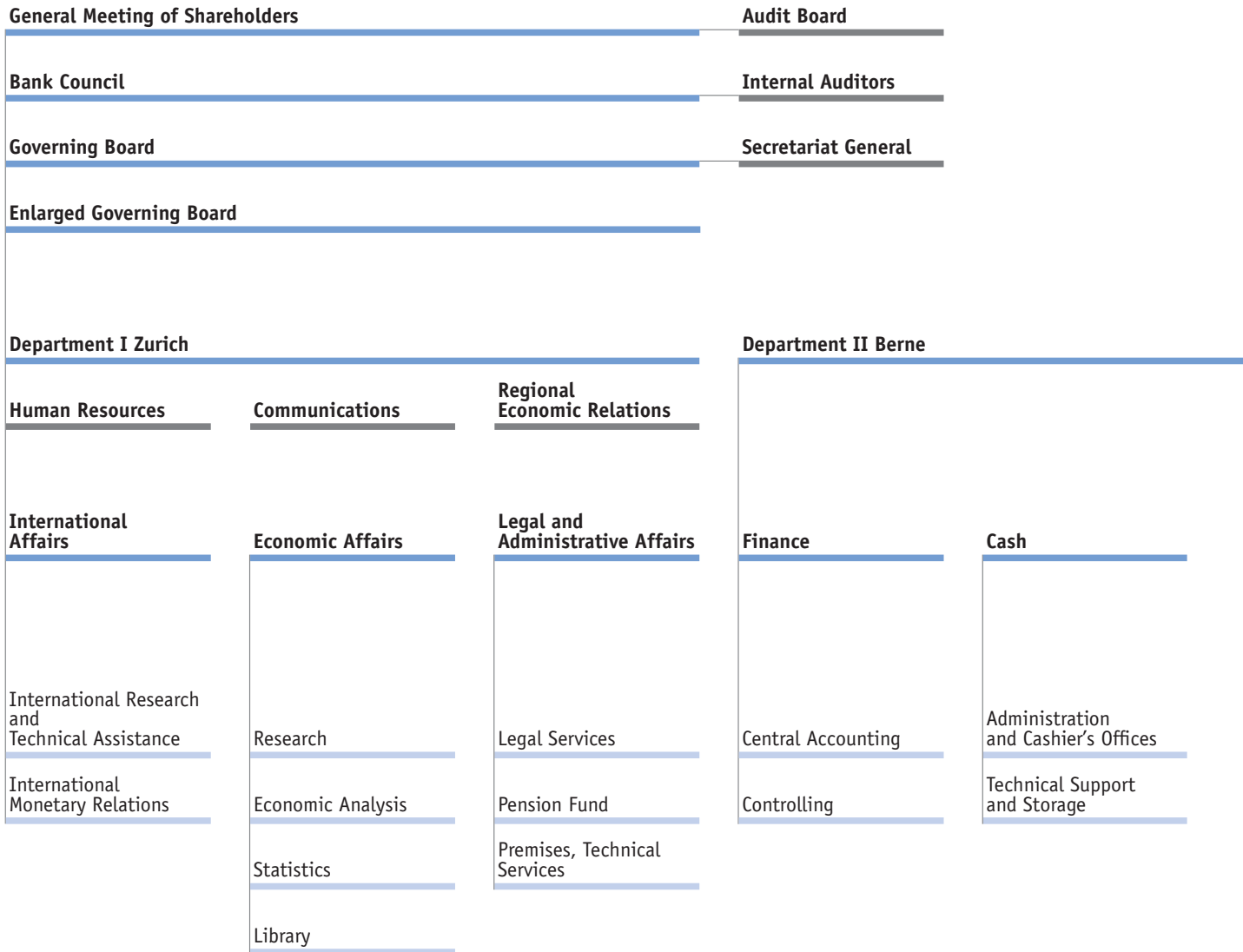
Central Switzerland

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

Zurich

Governing Board (2003–2009 term of office)	Jean-Pierre Roth, Chairman, Head of Department I, Zurich
	Philipp M. Hildebrand, Vice-Chairman, Head of Department II, Berne
	Thomas J. Jordan, Member, Head of Department III, Zurich
Enlarged Governing Board (2003–2009 term of office)	Jean-Pierre Roth, Chairman of the Governing Board
	Philipp M. Hildebrand, Vice-Chairman of the Governing Board
	Thomas J. Jordan, 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
	Dewet Moser, Alternate Member of the Governing Board, Chief Investment Officer
Bank management	Comprehensive list: <i>www.snb.ch, The SNB, Supervisory and executive bodies, Bank management</i>

3 Organisational chart



Department III Zurich

Financial Systems

Financial Stability

Oversight

Security

Analysis and Prevention

Security Services

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

The printed publications are available on the SNB website, www.snb.ch, *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 <i>Swiss Balance of Payments</i> provides a commentary on developments in the balance of payments and is published once a year as a supplement to the <i>Monthly Statistical Bulletin</i> . The report on Switzerland's international investment position comments on developments in 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 <i>Monthly Statistical Bulletin</i> . The report on direct investment provides a commentary on developments in Switzerland's direct investment abroad as well as foreign direct investment in Switzerland. It is published once a year as a supplement to the December issue of the <i>Monthly Statistical Bulletin</i> . The reports are available in German, French and English. (English version on the SNB website only). Free of charge
Swiss Financial Accounts	The <i>Swiss Financial Accounts</i> 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. The report is published once a year (in autumn) in German, French and English, as a supplement to the <i>Monthly Statistical Bulletin</i> . Free of charge
Financial Stability Report	The <i>Financial Stability Report</i> provides an assessment of the stability of Switzerland's banking sector. It is published annually in June, in English, French and German. Free of charge
Quarterly Bulletin	The <i>Quarterly Bulletin</i> contains the monetary policy report used for the Governing Board's quarterly monetary policy assessment. In addition, it includes articles on topical central bank policy issues and abstracts of the SNB's <i>Economic Studies</i> and <i>Working Papers</i> . The <i>Quarterly Bulletin</i> also contains the speeches delivered at the General Meeting of Shareholders and the chronicle of monetary events. It 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 <i>Monthly Statistical Bulletin</i> : CHF 15* per year (outside Switzerland CHF 20)

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

**Swiss National Bank
Economic Studies /
Swiss National Bank
Working Papers**

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)

**Monthly Statistical
Bulletin / Monthly
Bulletin of Banking
Statistics**

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

Price: CHF 20*

Banks in Switzerland

In 2007, the SNB marked its centenary by initiating a new series of publications containing historical time series. Topics were chosen that are (or have been) important when formulating and implementing monetary policy – both now and in the past. Wherever possible, the time series extend back over the past hundred years. The publications also include commentaries on the time series, describing the calculation methods as well as, for some topics, the historical and regulatory background. The series encompasses a number of publications which are to appear at irregular intervals.

They are available in German, French and English.

Free of charge

Historical time series

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 National Bank

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

Free of charge

**The Swiss National
Bank in brief**

iconomix iconomix is a new SNB training programme launched by the SNB on the occasion of its centenary in 2007. The modular teaching and training programme presents the basic principles and concepts of economics in a fun way. Although it is primarily aimed at teachers and students in upper secondary schools, it is accessible to anyone interested in finding out more about the subject.

Freely accessible at www.iconomix.ch

Additional general information tools *What is money really about?*, a brochure, describes the activity of the National Bank in simple terms. It is an ideal teaching aid for older primary and secondary school students.

The Swiss National Bank and that vital commodity: money, a brochure, provides information on the SNB and its tasks. It is suitable as a teaching aid for secondary school students 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 SNB and money.

The contents of the above-mentioned brochures are briefly outlined on the SNB website, [www.snb.ch /Publications/Publications about the SNB/The world of the National Bank](http://www.snb.ch/Publications/Publications%20about%20the%20SNB/The%20world%20of%20the%20National%20Bank)

The National Bank and money, a short film available on DVD and VHS, illustrates the characteristics of money.

The National Bank and its monetary policy, a short film available on DVD and VHS, illustrates how the SNB conducts monetary policy on a daily basis and explains the principles behind it.

All these information tools are available in German, French, Italian and English.

Free of charge

The Swiss National Bank 1907–2007 *The Swiss National Bank 1907–2007* contains contributions by leading international experts as well as in-house authors, and handles both the history of the Swiss central bank and current monetary policy topics. The first part covers the first 75 years of the SNB, while the second part examines the transition to flexible exchange rates in the 1970s. The third part contains an assessment of more recent Swiss monetary policy and a discussion of current central bank policy issues from an academic standpoint.

The commemorative publication is available in bookshops in German, French, English and Italian.

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

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Agencies

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snb@snb.ch

SNB website/e-mail

6 Rounding conventions and abbreviations

Rounding conventions

The figures in the income statement, balance sheet and tables are rounded; totals 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
CPIA	Federal Act on Currency and Payment Instruments
DKK	Danish kroner
EUR	Euro
FC	Federal Constitution
FDF	Federal Department of Finance
Fed	US Federal Reserve
G7	Group of the seven leading industrialised countries
GAAP	Generally Accepted Accounting Principles
GBP	Pound sterling
G10	Group of Ten
IMF	International Monetary Fund
JPY	Japanese yen
Libor	London Interbank Offered Rate
NBA	National Bank Act
NBO	National Bank Ordinance
OECD	Organisation for Economic Cooperation and Development
para.	Paragraph
PRGF	IMF Poverty Reduction and Growth Facility
SDR	Special Drawing Right
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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1st series
1907–1925



2nd series
1911–1958 (1980)



3rd series
1918–1956



4th series
never issued



5th series
1956–1980



6th series
1976–2000



7th series
never issued



8th series
from 1995

