

Business report

1 Legal framework

The Swiss National Bank (SNB) carries out its tasks in line with art. 99 of the Federal Constitution on monetary policy as well as with the National Bank Act (NBA). Under the terms of art. 99 of the Constitution, the SNB is required to pursue a monetary policy that serves the general interests of the country. In addition, the article enshrines the SNB's independence and requires it to set aside sufficient currency reserves from its earnings, also specifying that a part of these reserves be held in gold. The objective of both of these elements is to help maintain public confidence in the value of money. Finally, the Federal Constitution also stipulates that the SNB distribute at least two-thirds of its net profits to the cantons.

Federal Constitution

The main legislation governing the activities of the SNB is the National Bank Act of 3 October 2003. The NBA sets out in detail the various elements of the SNB's constitutional mandate and independence. To counter-balance the independence of the SNB, the NBA specifies a duty of accountability and information towards the Federal Council, Parliament and the public (arts. 5–7 NBA). The SNB's scope of business is outlined in arts. 9–13 NBA. The instruments used by the National Bank to implement its monetary policy and for investing its currency reserves are set out in the *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* and the *Investment Policy Guidelines*.

**NBA and
implementation decrees**

The NBA also sets out the legal basis for the collection of statistical data on financial markets, the imposition of minimum reserve requirements on banks and the oversight of payment and securities settlement systems. Provisions governing the implementation of these statutory powers may be found in the National Bank Ordinance issued by the SNB Governing Board.

Finally, the NBA also lays down the foundations of the SNB's organisational structure (arts. 2, 33–48 NBA).

More information on the organisational structure of the SNB may be found in the Organisation Regulations issued by the Bank Council and approved by the Federal Council. In view of the fact that the end of the current Bank Council term of office (2004–2008) was approaching, the regulations were thoroughly reviewed. It became clear that, some clarification was needed on the demarcation between Bank Council and Governing Board responsibilities. Moreover, a formal structure was established for the Board of Deputies.

**Revision of the
Organisation Regulations**

The new version of art. 10 of the Organisation Regulations covering Bank Council responsibilities is guided by art. 716a of the Swiss Code of Obligations, which sets out the non-transferable obligations of members of Boards of Directors. These responsibilities are now listed in full (including the tasks mentioned in art. 42 NBA) and in a systematic manner. Consequently, art. 10 of the Organisation Regulations constitutes a comprehensive list of duties.

The Board of Deputies comprises the three deputies to the members of the Governing Board and was created when the revised NBA was implemented in 2004. Since then, it has established its role in the bank-wide management of daily operations. For this reason, it was appropriate that a formal basis be laid down for the Board of Deputies in the Organisation Regulations.

2 Organisation and tasks

Management and oversight

The Swiss National Bank's (SNB) 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; 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 sixteen 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 strategy 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 steers the three-month Libor and is responsible for providing the financial system with liquidity.

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.

Cashless payment transactions

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 unit of Department III. The Banking Operations unit also runs Swiss Interbank Clearing (SIC system).

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.

Asset management

In order that the SNB may fulfil its mandate to contribute to the stability of the financial system, the Financial Systems unit of Department II draws up basic principles and analyses. It also oversees the systemically important payment and securities settlement systems.

Financial system stability

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

International monetary cooperation

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 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 (SNB) 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 Organisation Regulations of the Swiss National Bank of 14 May 2004. At the SNB, statutes and regulations fulfil the function of articles of association. The National Bank has share capital totalling CHF 25 million which is fully paid up.

In autumn 2008, the National Bank established a special purpose vehicle to take over illiquid assets from UBS as part of the package of measures aimed at strengthening the Swiss financial system. In so doing, it fulfils the description of a group as defined in art. 663e of the Swiss Code of Obligations (CO) and shall accordingly compile consolidated financial statements. Further information on the special purpose vehicle may be found in chapter 6.2 of the accountability report (pp. 77 et seq.). The companies included in the consolidated financial statements are listed under *Reporting entities* (p. 174).

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 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 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 Board of Deputies is responsible for running daily operations.

The Audit Board examines whether the accounting records, the financial statements, the consolidated financial statements and 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 CO, and they must be independent of the Bank Council, the Governing Board and the controlling shareholders.

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, shareholder 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 elected 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 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 corporate 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 2008, the Bank Council held six ordinary half-day meetings (in February, April, June, August, October and December), all of which were also attended by the members of the Governing Board. The business it dealt with included, in particular, the conclusion of a new agreement with the Federal Department of Finance on SNB profit distribution, the confirmation of the SNB's provisioning policy and the approval of the design of the CHF 50 banknote for the future banknote series. In addition, it reviewed the Organisation Regulations, the regulation on the remuneration of SNB supervisory and executive bodies and the regulation on the terms of employment of the members of the Governing Board and their deputies. This review generally takes place at the beginning of a new four-year term of office and, in 2008, resulted in a revision of the regulations in question.

The Compensation Committee met twice. The Nomination Committee did not meet. The Audit Committee held three half-day meetings, all of which were attended by representatives of the Audit Board. The Risk Committee held two half-day meetings. In addition, an extraordinary joint meeting of the Audit Committee and the Risk Committee was held.

The remuneration of SNB supervisory and executive bodies as set out in the remuneration regulations specifies that Bank Council members shall receive a fixed annual remuneration plus attendance compensation for committee meetings that are not held on the same day as meetings of the Bank Council. Remuneration paid to members of the Enlarged Governing Board is made up of their salary plus lump-sum compensation for representation expenses, with guidance on applicable levels of remuneration being obtained from other companies of a similar size and complexity in the financial sector and the federal government. On the basis of this comparison, in particular relating to the remuneration of the management of medium-sized cantonal banks and large federally-run companies, the Bank Council fundamentally readjusted the remuneration of the members of the Governing Board and their deputies for the first time in several years (cf. tables on remuneration for the Bank Council and executive management, p. 133).

In 2008, the SNB did not make any severance payments to members of the Bank Council or the Enlarged Governing Board. The National Bank does not pay any performance-linked remuneration. In particular, there are no share or option programmes for members of the Bank Council or the Enlarged Governing Board. The SNB does not grant any loans to members of its bodies.

On 31 December 2008, members of the Bank Council did not hold any SNB shares, while members of the Enlarged Governing Board held six.

For the 2008/2009 term of office, fees for the statutory auditing mandate totalled CHF 298,355. PricewaterhouseCoopers Ltd (PwC) has held the mandate since 2004. The lead auditor was appointed in 2008. In November 2008, PwC was also entrusted with the task of auditing the SNB's stabilisation fund as well as the consolidated financial statement. For these audits, a budget of CHF 500,000 was approved on 31 December 2008.

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

The registered shares of the SNB are traded on the stock market. A total of 53.5% 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 2008 were the Canton of Berne with 6.6% (6,630 shares), the Canton of Zurich with 5.2% (5,200 shares), Theo Siegert, Düsseldorf with 4.8% (4,850 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.

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

Corporate structure and shareholders	<i>Annual Report</i> , pp. 102 et seq., pp. 141–142
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	<i>Annual Report</i> , p. 141
Accounting principles	<i>Annual Report</i> , Notes to the consolidated financial statements, p. 172
Bank Council	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Members	<i>Annual Report</i> , p. 187
Nationality	Art. 40 NBA
Affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report</i> , p. 187
Internal organisation	Arts. 10 et seq. Organisation Regulations
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation Regulations
Systems of control	<i>Annual Report</i> , pp. 66 et seq., pp. 147 et seq.; arts. 10 et seq. Organisation Regulations
Information tools	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. 133
Shareholder rights	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation</i>
Decision-making quorum	Art. 38 NBA
General Meeting of Shareholders	Arts. 34–38 NBA
Listing in share register	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation</i>
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	<i>Annual Report</i> , p. 104, pp. 192 et seq.

4 Personnel, resources and bank management

4.1 Human resources

At the end of 2008, the Swiss National Bank employed 662 persons (including 23 apprentices). This was 6 more than a year previously. In terms of full-time equivalent jobs, the number of employees rose from 617.9 to 622.4 persons. The number of part-time employees was up by 5 to 145 persons, corresponding to a part-time rate of 21.9%. Staff turnover was 8.4% (2007: 9.8%).

Number of employees and turnover

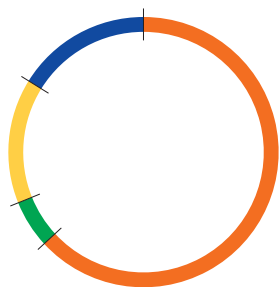
4.2 Other resources

Following the purchase of the property at Seefeldstrasse 8/Seehofstrasse 15 in Zurich at the end of January 2008, preparatory and project planning work was commenced with the aim of renovating and integrating the two parts of the building. At the Berne head office, the refurbishment and expansion of the computer centre was completed and the updated facilities became operational. Extensive work was also carried out at the Bundesplatz and Amtshausgasse premises in Berne, as a result of the reorganisation of the Financial Systems unit, in order to ensure that the necessary number of workstations could be made available.

Premises

The information technology production environment remained stable in 2008. The infrastructure was available at all times – even during particularly busy periods – and there were no system failures. The amendments made to the monetary policy instruments by the Governing Board necessitated numerous adjustments and additions to the software systems; these were implemented efficiently and on schedule. The projects for the complete renewal of the IT infrastructure for statistics and for the systems used in the analysis of monetary policy are currently being implemented. In addition, all of the SNB's workplace computers – which had been in operation for four to five years – were replaced by new machines, and software tools that are used throughout the bank were upgraded to the latest versions.

Information technology



Human Resources Number of employees

Full-time, men 418

Part-time, men 38

Full-time, women 99

Part-time, women 107

Total: 662
At year-end 2008

The results of the 2007 environmental performance evaluation completed in mid-2008 showed that energy consumption had fallen by 12%. The renovation work carried out at the Zurich head office, together with the mild winter, resulted in a 26% drop in heating requirements. Greater use of ecological electricity generated by hydroelectric and solar plants, along with the reduced heating requirements, allowed greenhouse gas emissions to be cut by 32%. On the other hand, business travel increased further, as in previous years. The environmental performance evaluation is carried out annually at the end of June for the previous year. The complete results can be viewed on the SNB website (www.snb.ch, *The SNB, Structure and organisation*).

In 2007/2008, four specialists from universities and the banking world carried out an assessment of the Swiss National Bank's investment activities. Their remit was to critically assess the entire investment and risk control process. The activities of the Asset Management and Risk Management units, and of the Foreign Exchange and Gold units, were examined, as were those of the Investment Committee. The reports issued in 2008 awarded good marks to all four areas, commending the quality of the resources available and the professional, competent manner in which tasks are executed. A similar rating was given to the arrangement of work processes and the methods, procedures and systems used.

4.3 Bank bodies and management

On 20 February 2008, the Federal Council appointed:

Jean Studer, Neuchâtel, Member of the Cantonal Government and Head of the Justice, Security and Finance Department of the Canton of Neuchâtel, Member of the Bank Council, as Vice President of the Bank Council with effect from 20 February 2008.

On 16 April 2008, the Federal Council appointed the following new member to the Bank Council to replace Eveline Widmer-Schlumpf, who left office at the end of 2007 owing to her election to the Federal Council:

Rita Fuhrer, Auslikon, President of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich.

The other, existing members of the Bank Council elected by the Federal Council were re-elected for the 2008–2012 term of office.

At the General Meeting of Shareholders held on 25 April 2008, the following new member was elected to the Bank Council:

Gerold Bühler, Thayngen, President of *economiesuisse* (Swiss Business Federation).

The other, existing members of the Bank Council elected by the General Meeting of Shareholders re-elected for the 2008–2012 term of office.

The following resignation from the Bank Council has been announced with effect from 17 April 2009, the date of the next General Meeting of Shareholders:

Alexander Swoboda, Geneva, Professor emeritus at the Graduate Institute of International and Development Studies, is stepping down because he will have completed the maximum permitted term of office.

The National Bank wishes to thank Professor Swoboda for his valuable services.

Audit Board

On 25 April 2008, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2008/2009 term of office.

**Governing Board and
Enlarged Governing Board**

The composition of the Governing Board and the Enlarged Governing Board remained unchanged in 2008.

Bank management

The Bank Council approved the following promotions with effect from 1 January 2009:

Peter Bechtiger, Head of Cash, to the post of Director.

Guido Boller, Head of Statistics, to the post of Director.

Theodor Scherer, Director, retired at the end of July following 34 years of service. In 1987, he was appointed Head of Banking Operations in Department II, where he was responsible for securities, central accounting, portfolio holdings and the cashier's office. In 2001, he transferred to management support, where he was in charge of a number of projects, including the Money and Value exhibition at Expo.02.

Roland Tornare, Director, retired at the end of June following 40 years of service. He was appointed Head of Cash in 1992 and made a significant contribution in this area, particularly as regards the design and processing of banknotes. At international level, he represented Switzerland in matters relating to banknotes and advised the countries belonging to Switzerland's constituency in the International Monetary Fund (IMF).

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

5 Business performance

5.1 Annual result

In 2008, the Swiss National Bank (SNB) posted a loss for the first time since 1995. It came to CHF –4,729.1 million, compared with a profit of CHF 7,996 million in the previous year. Two factors in particular had a negative impact: major investment currencies depreciated against the Swiss franc and the gold price declined.

After the allocation of CHF 1,006.9 million to the provisions for currency reserves, there was a shortfall in the distributable profit amounting to CHF –5,736.0 million. The profit distribution for the 2008 financial year as laid down in the profit distribution agreement between the Federal Department of Finance (FDF) and the National Bank totalled CHF 2,500 million. In addition, a dividend in the amount of CHF 1.5 million was paid to the shareholders. Overall, the distribution reserve therefore declined by CHF 8,237.5 million.

The price of gold fell in comparison with the previous year. Gold was priced at CHF 29,640 (2007: CHF 30,328) per kilogram on the balance sheet date. A valuation loss on gold holdings was therefore recorded for the first time since the price of gold started to rise in mid-2005. It amounted to CHF –711 million (2007: CHF 6,433 million).

In June 2007, the SNB announced the sale of 250 tonnes of gold within the framework of the second Central Bank Gold Agreement of 8 March 2004. Following the conclusion of these sales on 26 September 2008, the SNB's gold holdings amounted to 1,040 tonnes.

At CHF –4,375 million in total, foreign currency investments accounted for most of the annual loss. Exchange rate-related losses of CHF –4,665 million (2007: CHF –723 million) had a particularly marked effect. With the exception of the Japanese yen, all investment currencies depreciated against the Swiss franc. At –31%, the pound sterling registered the steepest decline.

In the wake of the financial crisis, government bonds, in particular, gained in value. Overall, interest-bearing bonds and instruments generated income of CHF 2,270 million (2007: CHF 1,774 million) and price gains of CHF 1,163 million (2007: CHF 240 million). This was offset by price falls of CHF –2,929 million (2007: CHF –22 million) on equity-type paper and instruments.

The net result from Swiss franc investments came to CHF 551 million (2007: CHF 427 million), which was higher than in the previous year. However, a significant rise in liabilities towards the Swiss Confederation also led to higher interest spending of CHF 193 million (2007: CHF 27 million).

Summary

Lower gold price

Loss on foreign currency investments

Higher net result from Swiss franc investments

Operating expenses

Operating expenses comprise banknote and personnel expenses, general overheads and depreciation on tangible assets. They amounted to CHF 229 million, which was slightly lower than in 2007 (CHF 243 million). In the previous year, one-off expenditure was incurred in connection with activities to mark the SNB's centenary. The fall in operating expenses is partly attributable to the absence of this expenditure.

Breakdown of operating expenses by cost unit

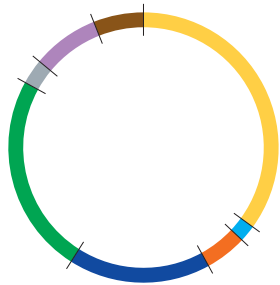
Cash transactions remained responsible for the greater proportion of operating costs (35%). This included the costs of banknote production. Monetary policy (including statistics) accounted for 24% of operating expenses, while the management of currency reserves took 17%. Services for third parties (international cooperation, Study Center Gerzensee), financial system stability, liquidity supply, services for the Confederation and cashless payment transactions accounted for the remaining 24% of costs.

Liquidity measures

From 20 December 2007, the SNB injected US dollars into the domestic money market through repo auctions, as part of a concerted action between several central banks. After an initial phase that lasted until mid-February 2008, the auctions were resumed at the end of March. The volume rose steadily to CHF 35 billion by the end of October before falling to CHF 11.7 billion.

From 15 October 2008 onwards, the National Bank took steps to counter tensions in the international Swiss franc money market. It granted foreign exchange swap facilities to the European Central Bank (ECB) and the Polish central bank and concluded EUR/CHF swaps directly with domestic and foreign banks. The volumes involved varied from CHF 34 billion to CHF 51 billion at the end of the year.

On 22 October, as an additional monetary policy instrument, the National Bank started issuing its own debt certificates (SNB Bills), which allow large amounts of liquidity to be absorbed. The issue of SNB Bills removed nearly CHF 32 billion from the money market at times, thus partially neutralising the measures taken to enhance liquidity.



Cost units In percent

Cash transactions	35
Cashless payment transactions	2
Liquidity supply	5
Currency reserves	17
Monetary policy	24
Services on behalf of the Confederation	3
Services on behalf of third parties	8
Financial system stability	6

At year-end 2008

In mid-October, the National Bank announced the establishment of a special purpose vehicle to take over illiquid assets from UBS as part of a package of measures aimed at strengthening the Swiss financial system. With retroactive effect from 1 October, the special purpose vehicle bore all risks resulting from these illiquid assets.

The special purpose vehicle, which was set up in November 2008, comprises the SNB StabFund Limited Partnership for Collective Investments (stabilisation fund) and the two partner companies, StabFund (GP) AG and LiPro (LP) AG. The National Bank granted the stabilisation fund a loan to the value of 90% of the assets purchased, corresponding to a maximum amount of USD 54 billion given the asset size initially considered. UBS's equity contribution to the stabilisation fund amounting to 10% of the assets purchased or a maximum value of USD 6 billion serves as primary loss protection. In the case of a loss on the SNB loan, the National Bank's warrant for 100 million UBS shares serves as secondary loss protection.

In mid-December, the stabilisation fund acquired the first tranche of illiquid assets from UBS. For this purpose, the SNB granted the stabilisation fund a loan to the value of CHF 15.2 billion in US dollars, euros and pounds sterling, corresponding to 90% of the amount paid for the first tranche.

In autumn 2008, demand for central bank money rose steeply as a consequence of the escalating international financial crisis. At CHF 49.2 billion, banknote circulation at the end of 2008 exceeded the year-earlier level by 11.1%. Sight deposits of domestic banks amounted to CHF 37.2 billion, compared with CHF 8.7 billion a year earlier.

Monetary base

On 10 February 2009, it was announced that the stabilisation fund would acquire UBS assets for a lower maximum amount than originally planned (approximately USD 40 billion). This resulted in a reduction in the size of the SNB's loan to the stabilisation fund to a maximum of roughly USD 35 billion.

**Events after balance
sheet date**

Up until the date on which the financial statements were drawn up (27 February 2009), no other events occurred that had a significant influence on the financial position, the results of operations or the cash flows of the SNB.

The SNB's financial result is decisively influenced by exchange rate trends and the gold price. Therefore, further big fluctuations in the quarterly and annual results are to be expected. The SNB's loan to the stabilisation fund will increase as further UBS assets are acquired. This, and the associated refinancing measures, will have an impact on the balance sheet and – in the case of value adjustment on the loan – the income statement.

Outlook

The preparatory work on the new series of banknotes will incur additional operational expenditure.

5.2 Provisions for currency reserves and profit distribution

Purpose

In accordance with art. 30 para. 1 of the National Bank Act (NBA), the SNB sets up provisions from its annual result to maintain the currency reserves at the level necessary for monetary policy. Currency reserves allow the National Bank 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, provisions have a general reserve function and thus serve as equity capital. They cover all of the SNB's risks of loss.

Level of provisions

When setting aside provisions, the SNB must take into account the development of the Swiss economy (art. 30 para. 1 NBA). The allocation to provisions is determined in a way that lets provisions grow in line with the average GDP growth of the previous five years. This rule is reviewed annually.

Provisions

	Growth in nominal GDP In percent (average period) ¹	Annual allocation In CHF millions	Provisions after allocation In CHF millions
2004	2.4 (1998–2002)	885.3	37 841.0
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
2009	3.4 (2003–2007)	1 403.6 ²	42 685.8 ²

¹ Growth rates are revised on a continuous basis. The figures shown in the table thus differ slightly from the latest available data.

² Provisional figure.

Average growth in GDP during the 2002–2006 period came to 2.5% in nominal terms. For 2008, this results in an allocation to the provisions for currency reserves in the amount of CHF 1,006.9 million. The allocation is to be made as part of the appropriation of the 2008 annual result.

Allocation from 2008 annual result

The earnings remaining after the allocation correspond to the distributable annual profit. Distributable profits exceeding the amount payable to the Confederation and the cantons are allocated to the distribution reserve as part of the profit appropriation. If the distributable profit is insufficient for the payment of the agreed distribution, the difference is withdrawn from the distribution reserve. The distribution reserve can be negative.

Distributable annual profit

For 2008, the distributable annual profit calculated in the aforementioned manner yielded a negative amount of CHF –5,736.0 million.

In accordance with art. 31 NBA, one-third of the SNB's distributable annual profit – to the extent that it exceeds the dividends – is distributed to the Confederation and two-thirds to the cantons. The amount of the annual profit distribution is laid down in an agreement between the FDF and the SNB. Given the considerable fluctuations in the SNB's earnings, the National Bank Act stipulates that profit distribution be maintained at a steady level. The agreement therefore provides for a constant flow of payments over several years. For the year under review, CHF 2,500 million will be distributed.

Profit distribution to the Confederation and the cantons

On 14 March 2008, the new profit distribution agreement came into force, following the planned review of the agreement dated 5 April 2002. Under this agreement, CHF 2,500 million will continue to be distributed annually from 2008 to 2017. The agreement is reviewed if the distribution reserve in a particular financial year is negative after the appropriation of earnings, and at the latest for the 2013 financial year. The review takes account of the size of the distribution reserve, the requirements of the policy on provisions, and the potential returns on the SNB's assets.

New profit distribution agreement

The profit distribution agreement also sets out what happens if the distribution reserve is negative. The distribution remains unchanged at CHF 2,500 million if the distribution reserve after the appropriation of earnings does not fall below CHF –5 billion and is reduced if the reserve should fall below CHF –5 billion. The distribution is withdrawn completely if the distribution reserve is below CHF –5 billion, even before a distribution is made.

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. Since the distributable annual profit was negative for the 2008 financial year, the distribution reserve set aside for this purpose was reduced to CHF 14,634.2 million.

Profit distribution and distribution reserve

	Distribution reserve prior to distribution ¹ 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	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
2008	22 871.7	–5 736.0	2 501.5	14 634.2

¹ Total at year-end as per balance sheet (cf. p. 119).

5.3 Currency reserves

The major part of the currency reserves held by the SNB consists of gold (including claims from gold transactions) and foreign currency investments that are not hedged against exchange rate fluctuations. International payment instruments and the reserve position in the International Monetary Fund (IMF) are also allocated to currency reserves. The positive and negative replacement values applicable as of the balance sheet date are offset against these asset items, as are any liabilities in foreign currencies not arising from liquidity and stabilisation measures.

Currency reserves serve monetary policy purposes. In the short term, 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.

Definition

Amount

Composition of currency reserves

Composition

In CHF millions	31.12.2008	31.12.2007	Change
Gold	27 521.2	30 531.8	-3 010.6
Claims from gold transactions	3 340.4	4 243.7	-903.3
Foreign currency investments	47 428.8	50 586.3	-3 157.5
Reserve position in the IMF	724.7	406.0	+318.8
International payment instruments	244.5	281.7	-37.2
Derivative financial instruments	12.2	-7.0	+19.2
Less: foreign currency liabilities	-420.1	-1 127.6	+707.5
Total	78 851.7	84 914.9	-6 063.2