

Business report

The business report provides information on organisational and operational developments as well as the financial result of the Swiss National Bank (SNB). In addition, the SNB, as a company quoted on the stock exchange, publishes information on corporate governance (SIX Swiss Exchange Ltd regulations on corporate governance) in its business report.

The business report, together with the annual financial statements of the Swiss National Bank (parent company), the financial information on the stabilisation fund and the consolidated financial statements, constitutes the financial report of the SNB, as stipulated under Swiss company law (arts. 662 and 663d CO).

The business report is written from a group point of view. This means that its statements also apply to the stabilisation fund companies. The SNB's activities in the area of monetary policy and its contribution to the stability of the financial system are explained in the accountability report and will not be described in greater detail in this part of the *Annual Report*.

1 Legal framework

Federal Constitution

The Swiss National Bank (SNB) carries out its tasks in line with art. 99 (monetary policy) of the Federal Constitution and 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.

NBA and implementation decrees

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 counterbalance 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*.

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). The details of the SNB's organisational structure are governed by the Organisation Regulations issued by the Bank Council and approved by the Federal Council.

2 Organisation and tasks

The Swiss National Bank's management and executive body is the Governing Board. It is responsible in particular for monetary policy, asset management strategy, contributing to the stability of the financial system 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 Swiss National Bank (SNB). The Board of Deputies is responsible for running daily operations. The Bank Council, meanwhile, oversees the SNB's business activities. The internal auditors report directly to it.

Management and oversight

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, who is assisted by a deputy.

Organisation

In order to ensure the supply and distribution of cash, the National Bank also has a branch office in Geneva. Located in Basel, Lausanne, Lugano, Lucerne and St Gallen and managed by the delegates for regional economic relations, the representative offices – like the head offices and the branch office – are responsible for monitoring economic developments and explaining the SNB's policy in the regions. They are supported by the regional economic councils, which analyse the impact of monetary policy on their region and maintain an exchange of information with the delegates for regional economic relations.

The SNB also has 16 agencies – run by cantonal banks – for the receipt and distribution of banknotes and coins.

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 for consideration by the Governing Board. The Economic Affairs unit provides the analyses upon which the monetary policy decisions are based. It evaluates the economic situation 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 is responsible for the implementation of monetary policy, in particular for steering the three-month Libor and providing the financial system with liquidity.

Monetary policy

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 official 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 the Swiss Interbank Clearing (SIC) system.

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.

Financial system stability

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. The StabFund unit of Department II (part of Department III until 31 December 2009) performs the operational management of the stabilisation fund and supports the stabilisation fund's Board of Directors in fulfilling its tasks.

International monetary cooperation

The International Affairs unit of Department I deals with international monetary cooperation and technical assistance.

Banker to the Confederation

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 manage securities custody accounts for the Confederation. They also effect money market and foreign exchange transactions on behalf of the Confederation.

Statistics

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, Switzerland's international investment position and the Swiss financial accounts.

Central services

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.

3 Corporate governance

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

In autumn 2008, the National Bank established the SNB StabFund Limited Partnership for Collective Investment (stabilisation fund) to take over illiquid assets from UBS as part of the package of measures aimed at strengthening the Swiss financial system. It thereby constitutes a group as defined in art. 663e of the Swiss Code of Obligations (CO) and is required to draw up consolidated financial statements. Details on the stabilisation fund may be found on pp. 83–90 of the accountability report and in the chapter providing financial information on the stabilisation fund on pp. 163–172 of the financial report. The companies included in the consolidated financial statements are listed under Reporting entities (p. 181).

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 annual financial statements, the consolidated financial statements and the proposal for the allocation of the net profit are in accordance with the statutory requirements. For this purpose, it 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.

Basic principles

Corporate bodies and responsibilities

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 one-third of the remaining distributable profit is paid out to the Confederation and two-thirds to the cantons.

The business report and the annual financial statements 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 2009, the Bank Council held six ordinary half-day meetings (in February, April, June, August, October and December) and one extraordinary half-day meeting in April, all of which were also attended by the members of the Governing Board. The business it dealt with included, in particular, reviewing the SNB's provisioning policy, monitoring the stabilisation fund's activities, revising the regulations on the recognition and representation of the SNB's shareholders as well as the SNB's General Terms of Employment, approving the renovation of a building in Zurich owned by the SNB and an investment project at the SNB's Hasliberg vacation centre, and taking note of the SNB's annual reports on financial and operational risk as well as its building and human resources strategies. In addition, the Bank Council presented a proposal for the election of a new Governing Board member and a new alternate member of the Governing Board to the Federal Council.

The Compensation Committee met once. The Nomination Committee met five times. The Audit Committee held five half-day meetings, which were regularly attended by representatives of the Audit Board. The Risk Committee held three half-day meetings.

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. The National Bank does not make severance payments to members 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 from large federally run companies (cf. tables on remuneration for the Bank Council and executive management, p. 147).

In accordance with the SNB's Regulations, the members of the Governing Board are not allowed to carry out any paid or unpaid activity for a bank in Switzerland or abroad for a period of six months following the termination of their contract of employment. For alternate members of the Governing Board, the period is three months. The members of the Governing Board and their deputies are free to take up activities for companies outside the banking sector. However, they need the approval of the Bank Council if they join such a company within the above-mentioned periods. Given the regulatory restrictions, the members of the Governing Board and their deputies are entitled to payment within these periods. Jean-Pierre Roth, former Chairman of the Governing Board, is entitled to payment amounting to six monthly wages, less pension benefits paid out to him by the SNB pension fund and any earnings from activities that require the approval of the Bank Council carried out within this period for companies outside the banking sector. Ulrich Kohli, former Alternate Member of the Governing Board, is entitled to payment amounting to three monthly wages, less the above-mentioned benefits and earnings.

In addition, Jean-Pierre Roth received a farewell gift amounting to CHF 71,000 in accordance with the relevant SNB regulations. Ulrich Kohli received a farewell gift amounting to CHF 12,598.

On 31 December 2009, members of the Bank Council did not hold any SNB shares, while members of the Enlarged Governing Board held six.

PricewaterhouseCoopers Ltd (PwC) holds the auditing mandate. It has been auditing the annual financial statements of the SNB (parent company) since 2004 and, in 2008, audited the consolidated financial statements for the first time. The lead auditor for the annual financial statements of the parent company and the consolidated financial statements was appointed in 2008. Fees for the statutory auditing mandate totalled CHF 326,734. PwC was also entrusted with the task of auditing the SNB's stabilisation fund. For the audit as of 31 December 2009, fees of CHF 944,728 were paid. Furthermore, PwC provided additional services amounting to CHF 34,432.

Information for shareholders

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.

Listed registered shares

SNB registered shares are traded on the stock market. At the end of 2009, a total of 53.5% of the shares were held by cantons and cantonal banks. The remaining shares are mostly held by private individuals. The major shareholders 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 5.0% (4,995 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.

Cross reference tables

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, 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 this report, on the SNB website, in the NBA and in the Organisation Regulations.

Corporate structure and shareholders	<i>Annual Report</i> , pp. 107, 143
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	<i>Annual Report</i> , p. 142
Accounting principles	<i>Annual Report</i> , Notes to the consolidated financial statements, pp. 179 et seq.
Bank Council	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Members	<i>Annual Report</i> , p. 196
Nationality	Art. 40 NBA
Affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies</i>
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report</i> , p. 196
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. 152 et seq., accountability report, chapter 5.2; 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. 147
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> , pp. 110, 202

4 Resources, bank bodies and management

4.1 Human resources

At the end of 2009, the Swiss National Bank (SNB) employed 681 persons (including 21 apprentices). This was 19 more than a year previously. In terms of full-time equivalent jobs, the number of employees rose from 622.4 to 635.6, corresponding to an increase of 2.1%. The number of part-time employees increased by 15 to 160 persons. The part-time rate thus reached 23.5%. The growth in the number of employees was largely due to an increase in tasks in connection with the stabilisation fund and increased requirements in the IT area.

Staff turnover was 4.8% (2008: 8.4%).

4.2 Other resources

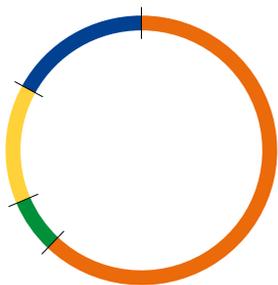
In 2009, the Bank Council approved a loan for the renovation of a property owned by the SNB at Seefeldstrasse 8/Seehofstrasse 15 in Zurich. Construction work started and is proceeding as planned. In addition, planning work began on the following projects in Berne: the renovation of the staff restaurant, the replacement of the building installations in the restaurant area and the refurbishment of the building shell in the interests of energy efficiency. A new location for the Lausanne representative office was found and made ready for use as of July 2009.

The IT production environment was stable in 2009 and the infrastructure was available at all times. Modifications to systems and software made it possible to provide efficient and timely support for an increasing number of monetary policy instruments, with applications handling a strong increase in business volumes. A new information tool was implemented for the support of economic monitoring and reporting.

Number of employees and turnover

Premises

Information technology



Human Resources Number of employees

Full-time, men 423

Part-time, men 44

Full-time, women 98

Part-time, women 116

Total: 681
At year-end 2009

The SNB's environmental performance evaluation published in 2009 provides information on the achievement of the goals set for the 2003–2008 period. Greenhouse gas emissions were reduced by almost 40%, which is significantly more than the targeted 10%. A major part of this drop was due to a complete changeover to ecologically produced electricity generated from renewable energy sources and a reduction in the use of fossil fuels for heating purposes. The performance evaluation can be viewed on the SNB website (www.snb.ch, *The SNB, Structure and organisation*).

Environmental management

The SNB carried out two external assessments in 2009. For the assessment of the delegates for regional economic relations, it hired external experts from the world of central banking, finance and economic analysis. The experts emphasised the importance of the delegates as the SNB's representatives in the different regions of Switzerland.

Assessments

The SNB entrusted a large accounting firm with the assessment of the Internal Auditors. This firm checked whether the procedures of the Internal Auditors met the standards defined by the Institute of Internal Auditors (IIA) and compared the way the Internal Auditors were organised with a benchmark and with best practice. The assessor gained a positive overall impression and confirmed that professional standards were observed.

4.3 Bank bodies and management

At the General Meeting of Shareholders held on 17 April 2009, the following new member was elected to the Bank Council:

Bank Council

Olivier Steimer, Chairman of the Board of Directors of Banque Cantonale Vaudoise.

The following resignations from the Bank Council have been announced with effect from 30 April 2010, the date of the next General Meeting of Shareholders:

Rita Fuhrer, Member of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich,

Franz Marty, Chairman of the Board of Raiffeisen Switzerland.

The National Bank thanks Rita Fuhrer and Franz Marty for their valuable service.

On 24 February 2010, the Federal Council appointed the following new member to the Bank Council as of 1 May 2010:

Ernst Stocker, designated Member of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich, as of 1 May 2010.

On 17 April 2009, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2009–2010 term of office.

Audit Board

Jean-Pierre Roth retired at the end of 2009 following 30 years of service. He had been a member of the Governing Board since May 1996 and its chairman since 2001. During his time as the Chairman of the Governing Board, he was faced with a wide range of monetary policy challenges which he tackled with great dedication. After a phase of rapid monetary relaxation in autumn 2001, monetary policy had to be gradually returned to a course in keeping with price stability. From August 2007, it was influenced by the international financial and economic crisis. This called for fast and flexible intervention by the Governing Board, which also had to be ready to take extraordinary measures. As part of the revision of the National Bank Act, Jean-Pierre Roth worked particularly hard to maintain the SNB's independence and achieve a more detailed formulation of its monetary policy mandate. As a result, the SNB received a new mandate to contribute to the stability of the financial system. Expanding and fostering international relations was another area that was always of great importance to Jean-Pierre Roth.

The SNB thanks Jean-Pierre Roth for his many years of service, his exemplary dedication and his outstanding work.

Ulrich Kohli retired at the end of 2009 following a total of 11 years of service. He had entered the service of the SNB for the first time in 1983 as a Research Advisor. In 1985, he left the National Bank to take up a position as Professor at the University of Geneva. In 2001, he returned to the SNB as Alternate Member of the Governing Board and Chief Economist. In particular, Ulrich Kohli was responsible for the SNB's international affairs. As Chief Economist, he made a significant contribution to the quarterly monetary policy assessments conducted by the Governing Board and represented the National Bank in various international expert groups.

The SNB thanks Ulrich Kohli for his great dedication and his valuable service.

On 8 April 2009, the Federal Council appointed:

Philipp M. Hildebrand, previously Vice Chairman of the Governing Board, as new Chairman of the Governing Board,

Thomas J. Jordan, previously Member of the Governing Board, as Vice Chairman of the Governing Board.

On the proposal of the Bank Council, the Federal Council appointed on 8 April 2009:

Jean-Pierre Danthine, previously Professor of Macroeconomics and Finance at the University of Lausanne, as Member of the Governing Board.

On the proposal of the Bank Council, the Federal Council appointed on 4 November 2009:

Thomas Moser, previously Swiss Executive Director at the International Monetary Fund, as Alternate Member of the Governing Board.

The new positions were taken up on 1 January 2010. Philipp M. Hildebrand is now Head of Department I, Thomas J. Jordan Head of Department II and Jean-Pierre Danthine Head of Department III. Thomas Moser is Deputy Head of Department I.

The Bank Council approved the following promotions to the position of Director with effect from 1 January 2010:

Erich Gmür, Head of Risk Management,

Sandro Streit, Head of Asset Management,

Andy Sturm, Head of Oversight.

Urs Birchler, Director, retired at the end of July 2009 following 29 years of service. In his various functions, he mainly dealt with banking regulation issues and established important principles regarding the positioning of the SNB in this significant area.

The SNB thanks Urs Birchler for his long-standing and valuable service.

Bank management

5 Business performance

5.1 Annual result

Summary

In 2009, the Swiss National Bank (SNB) posted a profit amounting to CHF 10 billion following a loss of CHF 4.7 billion in 2008. This improvement in the result is primarily due to the rise in the gold price and the related valuation gains. Foreign currency positions also made a substantial contribution to the profit.

The distributable profit remaining after the allocation of CHF 3,055 million to the provisions for currency reserves amounted to CHF 6,900 million, CHF 2,500 million of which was remitted to the Confederation and the cantons in accordance with the profit distribution agreement. In addition, the annual dividend of CHF 1.5 million was paid to the shareholders. The remaining CHF 4,399 million was used to strengthen the distribution reserve.

Sharp increase in gold price

In the course of the year, the price of gold rose to CHF 38,958 per kilogram and closed at CHF 36,687 (2008: CHF 29,640) on the balance sheet date. Only in 1980, when the price for a kilogram briefly exceeded the CHF 40,000 mark, was this precious metal priced more dearly.

A valuation gain of CHF 7,329 million was therefore recorded on the SNB holdings of 1,040 tonnes of gold. The SNB earned a further CHF 9 million through its secured gold lending business.

High interest income on foreign currency positions

Foreign currency positions contributed CHF 2,573 million to the SNB's good result. Exchange rate-related losses were again recorded, but at CHF -1,808 million they were markedly less pronounced than the year before (CHF -4,665 million). The interest income amounted to CHF 3,263 million (2008: CHF 2,270 million) and the price gains on equity-type securities came to CHF 1,163 million (2008: CHF -2,929 million).

Lower net result from Swiss franc positions

The net result from Swiss franc investments amounted to CHF 281 million (2008: CHF 551 million). Due to low interest rates, repo transactions contributed only CHF 35 million to the result as against CHF 575 million the year before. Income from securities came to CHF 272 million (2008: 195 million).

The associated interest charge decreased to CHF 7 million (2008: CHF 193 million) owing to low interest rates and the low volume of liabilities towards the Swiss Confederation.

Operating expenses

Operating expenses comprise banknote and personnel expenses, general overheads and depreciation on tangible assets. They increased by CHF 32 million (13.8%) to CHF 261 million (2008: CHF 229 million).

Additional resources required in connection with the various measures taken to cope with crisis-related tasks, several operational projects and the higher number of banknotes in circulation all contributed to the rise in operating expenses.

The measures taken in the previous years to stabilise the financial system were continued and expanded.

Thus the SNB carried on supplying the domestic money market with US dollars. However, demand for the American currency continuously receded and by the last quarter of 2009, there was no longer any call for US dollar auctions.

Foreign exchange swaps with central banks and commercial banks introduced in autumn 2008 as a means of supplying money markets with Swiss francs were also continued. The amount of euros received reached high-water marks of around CHF 67 billion in the first half of the year and declined towards the end of the year to a countervalue of less than CHF 3 billion.

Beginning in March, the SNB intervened in the foreign exchange market to prevent any further appreciation of the Swiss franc against the euro. Purchases of euros and US dollars led to an increase in foreign currency investments.

Also beginning in March, the SNB supplied the market with additional liquidity via long-term repo transactions and purchased Swiss franc bonds issued by domestic private sector borrowers to improve financing conditions on the capital market. The purchase of bonds was discontinued in December after the financial market situation had eased.

The various measures employed by the SNB since autumn 2008 to pursue its expansionary monetary policy were reflected by the strong expansion of the monetary base, which is made up of banknotes in circulation and sight deposits of domestic banks. At the end of April, these sight deposits had reached a record level of over CHF 90 billion; at the end of the year they stood at around CHF 45 billion. Before the financial crisis escalated in the autumn of 2008, they had ranged between CHF 5 billion and CHF 10 billion. The value of banknotes in circulation stabilised at around CHF 45 billion after the beginning of 2009, i.e. at a level of roughly CHF 5 billion more than before the financial crisis. The SNB has various monetary policy instruments at its disposal to absorb liquidity whenever necessary.

The stabilisation fund, set up by the SNB in autumn 2008 to take over illiquid assets from UBS, acquired the second tranche of assets in March and the third and final tranche in early April 2009. By the end of the year, an amount of just under CHF 21 billion was still outstanding. In addition, there were still contingent liabilities of CHF 3.9 billion remaining in the stabilisation fund, which could cause the fund to take out a line of credit with the SNB in the case of a need for financing.

To refinance the loan to the stabilisation fund, the SNB initially resorted to a swap agreement with the Federal Reserve. In February, the SNB began to tap alternative sources of financing and obtained the required funds mainly through the issue of debt certificates in US dollars (SNB USD Bills).

The loan to the stabilisation fund is primarily covered by the investments of the stabilisation fund. The SNB also received an option (warrant) to purchase 100 million UBS shares at nominal value, which can be exercised should the loan not be repaid in full.

Continuation of stabilisation measures

Interventions in the foreign exchange market

Further monetary easing measures

Strong expansion of monetary base as a consequence

Reduction in loan to stabilisation fund

Events after balance sheet date

Up until the date on which the annual financial statements were drawn up (26 February 2010), no other events occurred that could have had a significant influence on the financial position, the results of operations or the cash flows of the SNB.

Outlook

The SNB's financial result is decisively influenced by gold price and exchange rate trends. Therefore, further big fluctuations in the quarterly and annual results are to be expected.

The implementation of the stabilisation fund's liquidation strategy is influenced by future developments on the relevant markets, which remain uncertain. The recoverable value of the transferred assets will only become clear in a few years' time. If the loan were no longer covered by the stabilisation fund's investments and the loss protection (100 million UBS shares at nominal value), a valuation adjustment would have to be made.

5.2 Provisions for currency reserves

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. Independent of the SNB's financing responsibility, the provisions for currency reserves have a general reserve function and thus serve as equity capital. They cover all of the SNB's risks of loss.

Currency reserves allow the National Bank to intervene on the market in the event of a weakness in the Swiss franc. They 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.

Level of provisions

When setting aside provisions for currency reserves, the SNB must take into account the development of the Swiss economy (art. 30 para. 1 NBA). Previously, the allocation to provisions was determined in a way that let provisions grow in line with the average GDP growth of the previous five years.

At its annual review in December 2009, the Bank Council decided to adjust the method of calculation. For the financial years 2009 to 2013, the growth rate of provisions must be double the average nominal GDP growth over the preceding five-year period. With this measure, the SNB aims to further strengthen its equity capital and thus its balance sheet in order to ensure its long-term capacity to act in any given situation.

Provisions

	Growth in nominal GDP In percent (average period) ¹	Annual allocation In CHF millions	Provisions after allocation In CHF millions
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 ²	3.7 (2003–2007)	3 054.9	44 337.1
2010	4.4 (2004–2008)	3 901.7 ³	48 238.8 ³

Average growth in GDP during the 2003–2007 period came to 3.7% in nominal terms. For 2009, this results in an allocation to the provisions for currency reserves of CHF 3,055 million, following the doubling of the amount. The allocation is to be made as part of the appropriation of the 2009 annual result.

The earnings remaining after the allocation correspond to the distributable annual profit. Distributable profits exceeding the sum of amounts payable to the Confederation and the cantons and the dividends to the shareholders 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 shortfall is taken from the distribution reserve. The distribution reserve can be negative.

For 2009, the distributable annual profit calculated in the aforementioned manner amounted to CHF 6,900 million.

5.3 Profit distribution

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 Federal Department of Finance 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.

Under the profit distribution agreement, CHF 2,500 million are to be distributed annually for the financial years 2008 to 2017. The agreement will be reviewed at the latest with regard to the distribution 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.

Development in the last 5 years

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

2 Doubling of allocation in accordance with the Bank Council's resolution of 4 December 2009.

3 Provisional figure.

Allocation from the 2009 annual result

Distributable annual profit

Profit distribution to Confederation and cantons

Distribution agreement

Distribution for 2009

As envisaged by the agreement, the SNB distributed CHF 2,500 million to the Confederation and the cantons for the 2009 financial year.

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 share capital.

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 the 2009 financial year exceeds the distribution by CHF 4,399 million. The distribution reserve thus increased from CHF 14,634 million to CHF 19,033 million.

Profit distribution and distribution reserve

In CHF millions	Distribution reserve prior to distribution ¹	Distributable annual profit	Profit distribution	Distribution reserve after distribution
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
2009 ²	14 634.2	6 900.1	-2 501.5	19 032.8

1 Total at year-end as per balance sheet (cf. pp. 124–125).

2 In accordance with proposed appropriation of profit.

5.4 Composition of 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.

Composition of currency reserves

In CHF millions	31.12.2009	31.12.2008	Change
Gold	34 757.9	27 521.2	+7 236.7
Claims from gold transactions	3 427.7	3 340.4	+87.3
Foreign currency investments	94 680.2	47 428.8	+47 251.5
Reserve position in the IMF	1 230.8	724.7	+506.0
International payment instruments	5 555.9	244.5	+5 311.4
Derivative financial instruments	14.6	12.2	+2.4
Less: foreign currency liabilities ¹	-5 314.7	-420.1	-4 894.6
Total	134 352.4	78 851.7	+55 500.7

¹ Including counterpart of special drawing rights allocated by the IMF.

In the short term, the currency reserves fluctuate as a result of inflows and outflows of funds as well as valuation changes. The level of currency reserves targeted in the long term reflects the monetary policy requirements.

In connection with the third Central Bank Gold Agreement, the SNB confirmed in August that it was not planning to purchase any gold in the foreseeable future.

Target level

Gold

5.5 Multi-year comparison of assets and liabilities

The following table provides an overview of the development of key balance sheet items over the past five years.

In 2009, the SNB's balance sheet total decreased slightly against the previous year, but is still around 60% higher than at the end of 2007. This reflects the expansionary monetary policy that the SNB has been pursuing to mitigate the effects of the economic crisis.

On the asset side, these measures are evidenced particularly in *foreign currency investments*, which rose sharply due to the SNB's interventions in the foreign exchange market to prevent a further appreciation of the Swiss franc. On the liabilities side, *sight deposits of domestic banks* recorded especially strong growth owing to the generous supply of liquidity. *Foreign currency liabilities* also increased considerably as a result of the refinancing requirements in connection with the National Bank's loan to the stabilisation fund.

Year-end values of balance sheet assets (aggregated)

In CHF millions	2009	2008	2007	2006	2005
Gold holdings and claims from gold transactions	38 186	30 862	34 776	32 221	28 050
Foreign currency investments ¹	101 816	48 724	51 547	46 717	48 014
Claims from US dollar repo transactions	-	11 671	4 517	-	-
Credit balances from swap transactions	2 672	50 421	-	-	-
Claims from Swiss franc repo transactions	36 208	50 321	31 025	27 127	26 199
Securities in Swiss francs	6 543	3 597	4 131	4 908	5 729
Loan to stabilisation fund	20 994	15 248	-	-	-
Other assets ²	846	3 479	931	842	996
Total assets	207 264	214 323	126 927	111 813	108 988

1 Foreign exchange investments, reserve position in the IMF, international payment instruments, monetary assistance loans.

2 Lombard advances, claims against domestic correspondents, banknote stocks, tangible assets, participations, other assets.

Year-end values of balance sheet liabilities (aggregated)

In CHF millions	2009	2008	2007	2006	2005
Banknotes in circulation	49 966	49 161	44 259	43 182	41 367
Sight deposits of domestic banks	44 993	37 186	8 673	6 716	5 853
Liabilities towards the Confederation	6 183	8 804	1 077	1 056	3 126
SNB debt certificates in Swiss francs	7 788	24 425	-	-	-
Other liabilities in Swiss francs ¹	5 927	34 598	6 036	585	674
Foreign currency liabilities ²	26 447	420	1 128	2	231
Other liabilities ³	64	1 286	81	93	102
Provisions for currency reserves	41 282	40 275	39 524	38 636	37 841
Share capital	25	25	25	25	25
Distribution reserve (before appropriation of profit)	14 634	22 872	18 129	16 473	6 948
Annual result	9 955	-4 729	7 995	5 045	12 821
Total liabilities	207 264	214 323	126 927	111 813	108 988

1 Sight deposits of foreign banks and institutions, other sight liabilities, liabilities from repo transactions in Swiss francs, other term liabilities.

2 SNB debt certificates in US dollars, foreign currency liabilities, balancing item for SDRs allocated by the IMF.

3 Other liabilities, provisions for operating risk.