# 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 of the Swiss Code of Obligations (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 (art. 5) and independence (art. 6). To counterbalance the independence of the SNB, the NBA specifies a duty of accountability and information towards the Federal Council, Parliament and the public (art. 7). 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

**Management and oversight**

The Swiss National Bank's (SNB) management and executive body is the Governing Board. It consists of three members. The Governing Board 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 consists of the three members of the Governing Board and their three deputies, and is responsible for the operational management of the SNB. The Board of Deputies directs daily operations. The Bank Council oversees the SNB's business activities. The Internal Auditors unit reports to the Bank Council's Audit Committee.

**Structure**

The SNB has two head offices, one in Berne and one in Zurich. It is divided into three departments. For the most part, the organisational units of Departments I and III are in Zurich, while those of Department II are in Berne. Each of the three departments is headed by a member of the Governing Board, who is assisted in this task by a deputy.

The SNB also has a branch office in Geneva. The representative offices, which are located in Basel, Lausanne, Lugano, Lucerne and St Gallen, are responsible (as are the head offices and the branch office) for monitoring economic developments and explaining the SNB's policy in the regions. They are supported by the regional economic councils, which analyse the economic situation and the effect of monetary policy in their region and report the results to the SNB's management. In addition, the regional economic councils maintain an exchange of information with the delegates for regional economic relations.

The SNB also maintains 13 agencies for the receipt and distribution of banknotes and coins. These agencies are run by cantonal banks.

**Monetary policy**

The SNB's principal task is to pursue a monetary policy serving the interests of the country as a whole. The Economic Affairs unit of Department I is responsible for drawing up monetary policy strategy and providing the analyses upon which the monetary policy decisions are based. It evaluates the economic situation in Switzerland and abroad, and produces the inflation forecast. In its analysis of economic developments in Switzerland, it is supported by the delegates for regional economic relations. The Financial Markets unit of Department III is responsible for the implementation of monetary policy, which includes, in particular, supplying the money market with liquidity.

**Cash transactions**

Tasks relating to cash transactions fall within the domain of the Cash unit of Department II. The SNB 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 Stability 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 Financial Markets unit of Department III. Risk control and the formulation of the basic principles of investment policy are dealt with by the Risk Management unit of Department II. The management of risk is overseen by the Bank Council's Risk Committee.

**Financial system stability**

The Financial Stability unit of Department II prepares the documentation and performs the analyses required by the SNB to fulfil its mandate and contribute to the stability of the financial system. It also oversees the systemically important payment and securities settlement systems. The StabFund unit of Department II is responsible for 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 Monetary Cooperation unit of Department I deals with international monetary relations, international trade and capital flow, and technical assistance.

**Banker to the Confederation**

The SNB's function of banker to the Confederation is performed by the Banking Operations unit and the Financial Markets unit 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, the report on direct investment, the report on Switzerland's international investment position, and the Swiss financial accounts.

**Central services**

Central services are divided between the departments. Department I includes the Secretariat General, Communications, Legal Services, Human Resources, and Premises and Technical Services. Department II includes Finance and Risk, and Security. Department III is responsible for Information Technology.

# 3 Corporate governance

Background

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) as part of a 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 in chapter 6.7 (pp. 80–83) and in 'Financial information on the stabilisation fund' (pp. 163–172) of this report. The companies included in the consolidated financial statements are listed under 'Reporting entities' (p. 182).

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 elected by the Federal Council, including the President and Vice President. The other five members are elected by the General Meeting of Shareholders. The Bank Council has 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 directs daily operations. The deputies, like the members of the Governing Board, are appointed for a six-year term by the Federal Council on the recommendation of the Bank Council.

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. To this end, it is entitled to inspect the SNB's business activities at any time. It is appointed by the General Meeting of Shareholders for a term of one year. 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**

Shareholder rights are governed by the National Bank Act, with the provisions of company law being subsidiary to those of the NBA. As the SNB 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 sector may be registered for a maximum of 100 votes. At the General Meeting of Shareholders, shareholders may only be represented by other shareholders. 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. Of the remaining distributable profit, one-third 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 on the General Meeting of Shareholders that deviate from company law concern its convocation, 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 and in good time, before invitations are sent out (cf. 'Shareholder rights', p. 107).

**Meetings and remuneration of bodies**

Important information on the structure and organisation of the SNB and on the remuneration and eligibility of its corporate bodies is to be found in different sections of the *Annual Report*. References to the relevant sections are contained in the tables at the end of this chapter.

In 2010, the Bank Council held six ordinary half-day meetings (in February, April, June, September, October and December), all of which were attended by the members of the Governing Board.

The business it dealt with included, in particular, the resolution on the level of the provisions for currency reserves and the closure of the SNB agencies in Basel, Bienne and Thun, the approval of the new reporting arrangements for the Internal Auditors, and the transfer of the Risk Management unit from Department III to Department II. It also dealt with the Audit Board's reports to the Bank Council and to the General Meeting of Shareholders, and took note of the progress achieved in implementing the real estate strategy and the associated medium and long-term investment.

Moreover, the Bank Council approved a set of principles relating to the selection of its members, for the attention of the Federal Department of Finance. It revised the guidelines pertaining to members of the Enlarged Governing Board and the acceptance of invitations and concessions, and it also amended the regulations on members of the Enlarged Governing Board entering into personal transactions involving financial instruments.

Finally, the Bank Council took note of the annual reports on the financial and operational risks, and of the status of the internal control system (ICS).

The Compensation Committee met once. The Nomination Committee did not meet. The Audit Committee held four half-day meetings, which were attended by representatives of the Audit Board. The Risk Committee held two half-day meetings.

The remuneration regulations on SNB supervisory and executive bodies specify that Bank Council members receive a fixed annual remuneration, as well as compensation for attending committee meetings that are not held on the same day as Bank Council meetings. The remuneration paid to members of the Enlarged Governing Board consists of salary plus lump-sum compensation for representation expenses. Guidance on the appropriate level of remuneration is 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, pp. 146–147).

The National Bank does not make severance payments to departing members of the Bank Council.

In accordance with SNB 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 (deputies), the period is three months. 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 remuneration within these periods (cf. tables on remuneration for the Bank Council and executive management, pp. 146–147).

On 31 December 2010, members of the Bank Council did not hold any SNB shares, and members of the Enlarged Governing Board held a total of six.

PricewaterhouseCoopers Ltd (PwC) holds the auditing mandate. PwC has been auditing the annual financial statements of the SNB (parent company) since 2004, and the consolidated financial statements since 2008. The lead auditor for the annual financial statements of the parent company and the consolidated financial statements was appointed in 2008. Fees paid in the 2010 financial year for this auditing mandate totalled CHF 365,840. PwC was also entrusted with the task of auditing the SNB stabilisation fund. Compensation for these audit services in the 2010 financial year amounted to CHF 1,536,660. Additional services by PwC cost a further CHF 8,608.

**Information for shareholders**

Notifications to shareholders are generally communicated by post to the address listed in the share register, and by publication 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 2010, a total of 52.7% of the shares were held by cantons and cantonal banks, with the remaining shares mostly held by private individuals. The major shareholders were the Canton of Berne with 6.6% (6,630 shares), Theo Siegert (Düsseldorf) with 5.6% (5,550 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.

**Cross reference tables**

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

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

Further information on corporate governance may be found in other sections of the *Annual Report*, on the SNB website, in the NBA, and in the Organisation Regulations.

| | |
|---|---|
| Corporate structure and shareholders | *Annual Report*, pp. 103, 141–142 |
| Head offices | Art. 3 para. 1 NBA |
| Breakdown of capital | *Annual Report*, p. 141 |
| Accounting principles | *Annual Report*, p. 126 (parent company) and pp. 179–180 (consolidated level) |
| Bank Council | www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council* |
| Members | *Annual Report*, p. 198 |
| Nationality | Art. 40 NBA |
| Affiliations | www.snb.ch, *The SNB, Supervisory and executive bodies* |
| Restrictions on election and term of office | Art. 39 NBA |
| Initial and current election | *Annual Report*, p. 198 |
| Internal organisation | Arts. 10 et seq. Organisation Regulations |
| Delimitation of powers | Art. 42 NBA; arts. 10 et seq. Organisation Regulations |
| Systems of control | *Annual Report*, pp. 154 et seq., accountability report, pp. 64–65; arts. 10 et seq. Organisation Regulations |
| Information tools | www.snb.ch, *The SNB, Legal basis, Guidelines and regulations* |
| Executive management | www.snb.ch, *The SNB, Supervisory and executive bodies, Governing Board* |
| Remuneration | *Annual Report*, pp. 146–147 |
| Shareholder rights | www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation* |
| Decision-making quorum | Art. 38 NBA |
| General Meeting of Shareholders | Arts. 34–38 NBA |
| Listing in share register | www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation* |
| Audit Board | |
| Election and requirements | Art. 47 NBA |
| Tasks | Art. 48 NBA |
| Information policy | *Annual Report*, pp. 106, 204–207 |

# 4 Resources

## 4.1 Organisational changes

**Organisation**

The new challenges following the financial crisis and the range of initiatives that have been adopted have led to shortfalls and a need for reform in some areas of the SNB. This was also an opportunity that could be used to further develop and optimise the SNB's organisational structure.

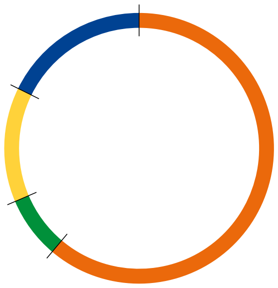
In Department I, the structure was simplified and the central services were reinforced. Department I has now been broken down into the following four areas: International Monetary Cooperation, Economic Affairs, Legal and Property Services, and Secretariat General.

The delegates for regional economic relations were integrated into Department I's Economic Analysis unit. Regional economic monitoring was systemised and more fully included in economic analyses.

In Department II, financial stability activities were reorganised and expanded as a result of the financial crisis and the new challenges in this area. In addition, management of the balance sheet, preparation of analyses for investment policy and provisions policy, and monitoring of financial and operational risks were brought together under Finance and Risk.

In organisational terms, the Risk Management and StabFund units were transferred from Department III to Department II. Risk Management was incorporated into the new Finance and Risk unit. Through this transfer, the organisational separation between operational risk-taking and risk control has become stronger, thereby making the independence of risk management from the implementation of monetary and investment policy visible.

Finally, in line with the requirements of corporate governance, the Internal Auditors now report to the Bank Council's Audit Committee.



**Human resources**
Number of employees

Full-time, men 428

Part-time, men 52

Full-time, women 96

Part-time, women 124

Total: 700
At year-end 2010

## 4.2 Human resources

**Number of employees and turnover**

At the end of 2010, the SNB employed 700 people (including 21 apprentices); an increase of 19, or 2.8%, compared to the previous year. In terms of full-time equivalents, the number of employees rose by 2.2% to 649.8, since there was an increase in the share of part-time employees, to 25.1%. Staff turnover rose to 6.1% from 4.8% a year earlier.

## 4.3 Premises

Premises

The SNB owns premises for its own use in Zurich, Berne and Geneva. They are managed and maintained for effective and efficient use according to a long-term strategy. In 2010, no real estate was sold or acquired.

At the Zurich location, renovation of the property located at Seehofstrasse 15, in particular, was expedited sufficiently for the premises to be ready for use according to plan at the beginning of 2011. For the Berne location, renovations are planned for 2011 and 2012 in connection with the overhaul of the staff restaurant.

## 4.4 Information technology

Information technology

The IT production environment was stable in 2010 and the infrastructure was available at all times. Extensions and improvements to systems and software ensured that business was handled without problems, despite a strong increase in volume. New application systems for processing, testing and archiving of both statistical survey data (finance industry and corporations) and the administration and analysis of time series went live following three years of development.

## 4.5 Environment

Environmental management

In its Charter, the SNB undertakes to be careful in its use of natural resources. Since 1996, it has been practising environmental management and publishing an annual environmental report. The redesigned report published in 2010 describes the foundations upon which the SNB's environmental management is based, explains its objectives in connection with environmental change, provides information on the use of resources and on greenhouse gas emissions and lists the measures aimed at improving its environmental performance.

From 2008 to 2009, per capita energy consumption (electricity and heating energy) remained almost unchanged, while greenhouse gas emissions rose by 14.3%. This increase was mainly due to increased air travel. The SNB compensates these emissions through investment in climate protection projects.

The environmental report can be viewed on the SNB website (www.snb.ch, *The SNB, Structure and organisation, Environmental management*; only available in German and French).

## 4.6 Assessments

In 2010, the SNB carried out two external assessments.

For the Oversight unit, which is responsible for overseeing systemically important payment and securities settlement systems, assessments were obtained from three experts at other central banks and the Bank for International Settlements (BIS). The external assessors confirmed that the legal basis, strategy and practical implementation of system oversight at the SNB are in line with generally accepted best practice for central banks.

For iconomix, the economics education programme launched in 2007, which was the SNB's centennial year, assessments were obtained from two business lecturers at the Universities of St. Gallen and Zurich. In their overall evaluation, the experts concluded that iconomix was a worthwhile addition to the existing teaching material on economics at upper secondary schools.

# 5 Changes in bank bodies and management

**Bank Council**

At the General Meeting of Shareholders held on 30 April 2010, the following new member was elected to the Bank Council:

Monika Bütler, Professor of Economics at the University of St. Gallen

The following resignations from the Bank Council have been announced and will take effect on 29 April 2011, the date of the next General Meeting of Shareholders:

Konrad Hummler, Managing Partner of Wegelin & Co., Private Bankers,

Armin Jans, Professor of Economics at the Zurich University of Applied Sciences.

The SNB thanks Messrs Hummler and Jans for their valuable services.

On 11 March 2011, the Federal Council appointed the following new member to the Bank Council with effect from 1 May 2011:

Alfredo Gysi, CEO of BSI (established as Banca della Svizzera Italiana).

**Audit Board**

On 30 April 2010, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2010–2011 term of office.

**Governing Board and Enlarged Governing Board**

In accordance with the Federal Council appointments in 2009, the following people have held office since 1 January 2010:

Philipp M. Hildebrand, as Chairman of the Governing Board and Head of Department I,

Thomas J. Jordan, as Vice Chairman of the Governing Board and Head of Department II,

Jean-Pierre Danthine, as Member of the Governing Board and Head of Department III,

Thomas Moser, as Alternate Member of the Governing Board.

**Bank management**

The Bank Council approved the following promotion to the position of Director with effect from 1 January 2011:

Attilio Pietro Zanetti, Head of Economic Analysis.

# 6 Business performance

## 6.1 Annual result

**Summary**

The Swiss National Bank (SNB) is reporting a consolidated loss of CHF 19,170.8 million for 2010, following a profit of CHF 9,955.0 million in 2009. Once again, it was currency movements that had by far the greatest effect on the annual result, particularly the substantial appreciation of the Swiss franc during the final days of 2010. At CHF –20,807.1 million, the size of the negative result for the parent company, upon which the profit distribution is based, is CHF 1,636.2 million greater than in the case of the consolidated result. The difference is due to the inclusion of the stabilisation fund companies.

The SNB has determined that CHF 724.2 million will be allocated to provisions for currency reserves for the financial year just ended (art. 30 para. 1 NBA). Following this allocation, there will be a shortfall of CHF 21,531.3 million in the distributable profit (art. 30 para. 2 NBA). The profit distribution established for 2010, in accordance with the profit distribution agreement between the Federal Department of Finance (FDF) and the SNB (art. 31 para. 2 NBA), amounts to CHF 2,500 million. In addition, shareholders will receive a dividend amounting to CHF 1.5 million (art. 31 para. 1 NBA). The distribution reserve declines by CHF 24,032.8 million to CHF –5,000.0 million.

**Some stabilisation measures phased out**

Some of the extraordinary measures introduced in previous years to stabilise financial markets were phased out.

For instance, foreign exchange swaps with central and commercial banks as a means of supplying the money market with Swiss francs were discontinued on 18 January 2010. The Swiss franc bonds issued by domestic private sector borrowers which had been acquired from March 2009 onwards were sold again during the course of 2010.

The provision of US dollars to the domestic money market via dollar auctions was discontinued at the beginning of 2010. Due to the tensions on US dollar money markets in Europe, the auctions were reintroduced in May, in co-ordination with other central banks, but not used during the reporting period.

**Further interventions in the foreign exchange market**

Foreign exchange purchases in the first half of 2010 led to a strong increase in investments in foreign currencies.

Based on risk considerations, reallocations were made within the foreign exchange investments in the second half of the year. As part of this diversification, holdings were built up in Australian and Singapore dollars as well as Swedish kronor and Danish kroner.

The expansionary monetary policy pursued since autumn 2008 led to substantial growth in the monetary base. In order to absorb excess liquidity, i.e. to reduce sight deposits, the SNB uses both SNB Bills and liquidity-absorbing repo transactions, whereby it accepts Swiss francs against collateral.

**Liquidity-absorbing measures**

By the end of 2010, the stock of SNB Bills in Swiss francs had increased from CHF 7.8 billion to CHF 107.9 billion, while liquidity-absorbing repo operations amounted to CHF 13.2 billion at year-end.

**Sharp increase in gold price**

The higher demand for gold resulted in a sharp increase in the US dollar gold price in 2010. In terms of Swiss francs, the increase was less substantial because of the fall in the rate of the US dollar against the Swiss franc. Nevertheless, the gold price was still significantly higher on the balance sheet date, at CHF 42,289 per kilogram (2009: CHF 36,687).

A valuation gain of CHF 5,827 million was recorded on the SNB holding of 1,040 tonnes of gold. The importance of secured gold lending declined further. Several contracts were dissolved prematurely; thus interest payments on the residual maturity of these contracts fell due immediately. Overall, gold lending business contributed just under CHF 10 million to the result (2009: CHF 9 million).

**Substantial exchange rate losses**

The increase in the value of the Swiss franc, particularly against the euro, US dollar and pound sterling, resulted in considerable exchange rate losses on foreign currency positions. These totalled CHF 32.7 billion at consolidated level.

In 2010, CHF 4.6 billion in earnings from interest income flowed to the group from foreign currency investments. Equity-type securities benefited from a favourable stock market environment, gaining CHF 1.5 billion in value. Together with the various other income statement components (including interest expenses), this meant that the final net result from foreign currency positions in 2010 amounted to CHF –27.0 billion (2009: profit of CHF 1.9 billion).

**Lower income on Swiss franc positions**

Income of CHF 71 million was derived from investments in Swiss francs (2009: CHF 281 million). Interest-bearing assets in Swiss francs declined significantly because the SNB had conducted hardly any liquidity-providing repo auctions since June 2010. By contrast, interest-bearing liabilities in Swiss francs increased.

Income on securities came to CHF 240 million (2009: CHF 272 million). In the first half of the year, the SNB discontinued liquidity-providing repo transactions, which had been used for steering interest rates up to that point. However, the repo transactions still contributed CHF 3 million to the result (2009: CHF 35 million).

Liabilities in Swiss francs rose significantly in connection with the liquidity-absorbing measures that had been introduced. The SNB Bills issued in Swiss francs gave rise to an expense of CHF 146 million (2009: CHF 12 million). The liquidity-absorbing repo transactions were responsible for an additional expense of CHF 14 million.

Due to the low interest rates and the low volume of liabilities towards the Swiss Confederation, the related interest expense decreased to CHF 5 million (2009: CHF 7 million).

**Recovery in stabilisation fund investments**

From a consolidated perspective, although exchange rate losses also had a negative impact on stabilisation fund investments, as higher-risk securities they benefited from higher interest payments. Moreover, the statement of assets at amortised cost gave rise to successive increases in value for many securities. Since impairment tests in 2010 resulted in no more than comparatively minor value adjustments, a positive result of CHF 3,168 million was recorded at consolidated level (2009: loss of CHF 2,102 million).

**Operating expenses**

Operating expenses comprise banknote and personnel expenses, general overheads, depreciation on the SNB's tangible assets and operating expenses incurred by the stabilisation fund.

These expenses decreased by CHF 40 million (11.6%) to CHF 302 million (2009: CHF 342 million). The postponement of the issue of a new series of banknotes, announced on 17 February 2010, resulted in a substantial reduction in banknote expenses.

**Reduction in loan to stabilisation fund**

The liquidation strategy was maintained for the stabilisation fund set up by the SNB in autumn 2008. The SNB loan decreased from almost CHF 21 billion to less than CHF 12 billion. In the same period, additional contingent liabilities declined from CHF 3.9 billion to CHF 2.0 billion. Should financing needs arise, the contingent liabilities would trigger lines of credit with the SNB if the financing needs cannot be covered by the funds available in the stabilisation fund.

To mid-2010, the SNB mainly used SNB USD Bills to refinance its loan to the stabilisation fund. Subsequently, these bills were replaced by funds from the SNB's foreign currency investments. The last SNB USD Bills expired at the end of 2010.

The loan to the stabilisation fund is primarily covered by the fund's investments. 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.

**Outlook**

The SNB's financial result is strongly influenced by changes in the price of gold and the exchange rate. Consequently, further substantial fluctuations in the quarterly and annual results are likely.

Future distributable profits that remain after allocation to the provisions for currency reserves will first be offset against the negative distribution reserve in accordance with the current profit distribution agreement. The SNB does not exclude the possibility that the profit distributions will have to be suspended completely for a certain period, or that it will only be possible to carry them out on a reduced scale.

Implementation of the stabilisation fund liquidation strategy depends on further developments in the relevant markets. The recoverable value of the transferred assets will only become clear in a few years' time. If the loan were no longer fully 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.

## 6.2 Provisions for currency reserves

**Purpose**

In accordance with art. 30 para. 1 NBA, the SNB sets up provisions from its annual result to maintain the currency reserves at the level necessary for monetary policy. Independent of this financing function, the provisions for currency reserves have a general reserve function and thus serve as equity capital. They serve as a buffer against all the different forms of loss risk at the SNB.

Currency reserves make Switzerland's economy less vulnerable to international crises and thereby engender confidence in the Swiss franc. The need for currency reserves grows in step with the size and international integration of the Swiss economy. Adequate provisions enable the SNB to carry the risks associated with holding currency reserves. In an extreme situation, currency reserves would allow the SNB to intervene in the market in the event of a weakness in the Swiss franc.

**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). The calculation of the provisions is based on the average growth of GDP over the previous five years. The Bank Council is free to deviate from this yardstick.

In its annual review in December 2009, the Bank Council decided to increase the growth rate of provisions to double the average GDP growth rate for the 2009–2013 financial years.

**Allocation from 2010 annual result**

Due to the exceptional movements in exchange rates over the final days of 2010, the Bank Council decided not to carry out the annual allocation for 2010 for the amount that was originally planned, but to reduce it to CHF 0.7 billion.

**Development in the last five years**

### 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[3] | 4.5 (2004–2008) | 724.2 | 45 061.3 |

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 resolution of 4 December 2009.

3 Reduction in annual allocation in accordance with the Bank Council resolution of 14 January 2011.

**Distributable annual profit**

The earnings remaining after the allocation to the currency reserves correspond to the distributable annual profit. Distributable profits exceeding the sum of amounts payable to the Confederation and the cantons as well as 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 2010, a loss of CHF 21,531 million was obtained, which flows into the calculation of the distributable profit in accordance with art. 30 para. 2 NBA.

## 6.3 Profit distribution

**Profit distribution to Confederation and cantons**

In accordance with art. 31 para. 2 NBA, one-third of the SNB's net profit – to the extent that it exceeds the dividends – is distributed to the Confederation and two-thirds to the cantons.

**Distribution agreement**

The amount of the annual profit distribution is laid down in an agreement between the Federal Department of Finance (FDF) and the SNB. Given the considerable fluctuations in the SNB's earnings, the NBA stipulates that profit distribution be maintained at a steady level. The agreement therefore provides for a constant flow of payments over several years.

With the annual result, the value of the distribution reserve has become negative. Consequently, the SNB and the FDF will review their agreement concerning the profit distribution during the course of 2011.

**Distribution for 2011**

For 2010, following the reduced allocation of CHF 0.7 billion to the provisions for currency reserves, the SNB is distributing CHF 2,500 million to the Confederation and the cantons in accordance with the agreement.

**Dividends**

In addition to the agreed distribution of CHF 2,500 million to the Confederation and the 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 offset in the distribution reserve. Since the distributable annual profit calculated as per art. 30 para. 2 NBA is negative for the 2010 financial year, the distribution reserve foreseen for this purpose will be debited with an amount of CHF 24,032.8 million. As a result, it stands at CHF –5,000 million.

### Profit distribution and distribution reserve

| In CHF millions | Distribution reserve prior to distribution[1] | Distributable annual profit | Profit distribution | Distribution reserve after distribution |
|---|---|---|---|---|
| 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 | 14 634.2 | 6 900.1 | 2 501.5 | 19 032.8 |
| 2010[2] | 19 032.8 | –21 531.3 | 2 501.5 | –5 000.0 |

1 Total at year-end as per balance sheet (p. 123).
2 In accordance with proposed appropriation of profit.

## 6.4 Composition of the SNB's 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. The reserve position in the International Monetary Fund (IMF) and international payment instruments are also allocated to currency reserves. Additional items are the positive and negative replacement values of derivative financial instruments in foreign currencies applicable as at the balance sheet date.

### Composition of the SNB's currency reserves

| In CHF millions | 31.12.2010 | 31.12.2009 | Change |
|---|---|---|---|
| Gold | 43 349.0 | 34 757.9 | +8 591.1 |
| Claims from gold transactions | 638.9 | 3 427.7 | –2 788.8 |
| Total gold reserves | 43 987.9 | 38 185.6 | +5 802.3 |
| | | | |
| Foreign currency investments | 203 809.6 | 94 680.2 | +109 129.4 |
| Less: associated liabilities | –1 067.4 | – | –1 067.4 |
| Derivatives (replacement values, net) | –23.4 | 14.6 | –38.0 |
| Total foreign exchange reserves[1] | 202 718.8 | 94 694.8 | +108 024.0 |
| | | | |
| Reserve position in the IMF | 1 067.7 | 1 230.8 | –163.1 |
| International payment instruments | 4 670.3 | 5 555.9 | –885.6 |
| | | | |
| **Total currency reserves** | **252 444.7** | **139 667.1** | **+112 777.6** |

1 Holdings of and investments in convertible foreign currencies, including use of derivatives.

## 6.5 Multi-year comparison of assets and liabilities

The major activity in 2007 and 2008 was securing liquidity on the relevant money markets. Additional monetary policy measures followed from March 2009. In 2010, the balance sheet total increased again significantly for this reason.

On the assets side of the balance sheet, the effect of these measures is particularly apparent in the foreign currency investments. The Swiss franc bonds issued by domestic private sector borrowers, which the SNB had acquired from March 2009 onwards for monetary policy reasons, were sold again. Liquidity-providing repo operations, which are traditionally used for the implementation of monetary policy, were discontinued in 2010.

On the liabilities side of the balance sheet, domestic banks' sight deposits rose from the end of 2008 along with the increase in the provision of liquidity. In 2010, they declined again. This was mainly attributable to liquidity-absorbing measures via the issue of SNB Bills and liquidity-absorbing repo transactions. The growth in foreign currency liabilities in 2009 was due to the refinancing requirement for the loan to the stabilisation fund, which has been fully financed from the foreign exchange reserves since the end of 2010.

### Year-end values of balance sheet assets (aggregated)

| In CHF millions | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Gold holdings and claims from gold transactions | 43 988 | 38 186 | 30 862 | 34 776 | 32 221 |
| Foreign currency investments[1] | 209 848 | 101 816 | 48 724 | 51 547 | 46 717 |
| 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 |
| Swiss franc securities | 3 497 | 6 543 | 3 597 | 4 131 | 4 908 |
| Loan to stabilisation fund | 11 786 | 20 994 | 15 248 | – | – |
| Other assets[2] | 836 | 846 | 3 479 | 931 | 842 |
| **Total assets** | **269 955** | **207 264** | **214 323** | **126 927** | **111 813** |

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

2 Claims against domestic correspondents, banknote stocks, tangible assets, participations, other assets.

## Year-end values of balance sheet liabilities (aggregated)

| In CHF millions | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Banknotes in circulation | 51 498 | 49 966 | 49 161 | 44 259 | 43 182 |
| Sight deposits of domestic banks | 37 951 | 44 993 | 37 186 | 8 673 | 6 716 |
| Liabilities towards the Confederation | 5 347 | 6 183 | 8 804 | 1 077 | 1 056 |
| SNB debt certificates in Swiss francs | 107 870 | 7 788 | 24 425 | – | – |
| Other liabilities in Swiss francs[1] | 18 801 | 5 927 | 34 598 | 6 036 | 585 |
| Foreign currency liabilities[2] | 5 805 | 26 447 | 420 | 1 128 | 2 |
| Other liabilities[3] | 96 | 64 | 1 286 | 81 | 93 |
| | | | | | |
| Provisions for currency reserves | 44 337 | 41 282 | 40 275 | 39 524 | 38 636 |
| Share capital | 25 | 25 | 25 | 25 | 25 |
| Distribution reserve (before appropriation of profit) | 19 033 | 14 634 | 22 872 | 18 129 | 16 473 |
| Annual result | –20 807 | 9 955 | –4 729 | 7 995 | 5 045 |
| | | | | | |
| **Total liabilities** | **269 955** | **207 264** | **214 323** | **126 927** | **111 813** |

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

2 SNB USD Bills, foreign currency liabilities, balancing item for SDRs allocated by the IMF.

3 Other liabilities, operating provisions.