Preface

Ladies and Gentlemen

In accordance with art. 7 para. 2 of the National Bank Act (NBA), the Swiss National Bank (SNB) submits an annual accountability report to the Federal Assembly in which it outlines how it has fulfilled its mandate as defined in art. 5 NBA. Furthermore, pursuant to art. 7 para. 1 NBA, the SNB submits its financial report to the Federal Council for approval, before presenting it, together with the Audit Board's reports, to the General Meeting of Shareholders for approval and attention.

The first part of the SNB's *103rd Annual Report* comprises the accountability report to the Federal Assembly (pp. 9–94). This is submitted to the General Meeting of Shareholders for information purposes only and does not require approval. It describes the economic and monetary developments in 2010 and explains in detail how the SNB has fulfilled its statutory mandate – in particular the conduct of monetary policy and the SNB's contribution to the stability of the financial system. A summary of the accountability report is provided on pp. 10–13.

The global economy recovered in 2010 after the sharp downturn in 2008 and 2009. In Switzerland, GDP was, in fact, back to pre-crisis levels by the second half of the year. However, considerable uncertainty about the sustainability of the upturn remained throughout the year and downside risks were prevalent. The financial market recovery, in particular, suffered a setback in spring 2010 due to the escalating sovereign debt crisis in Europe. The European authorities managed to stabilise the situation temporarily by means of new exceptional measures without, however, bringing about a sustained solution. The high level of public debt in numerous advanced economies as a result of the crisis remains one of the major economic challenges of the coming years.

Under these circumstances, the SNB maintained its expansionary monetary policy in 2010. At the end of 2009, the threat of deflation had receded to the extent that a certain appreciation of the Swiss franc could be allowed without price stability being compromised. Accordingly, in the first half of 2010, the SNB refrained from taking decisive action against every appreciation in the Swiss franc, only doing so in the event of an excessive appreciation. This policy required large-scale purchases of foreign exchange in spring 2010 when the Swiss franc came under considerable upward pressure in connection with the escalating European sovereign debt crisis. The SNB considered that a rapid and excessive appreciation of the Swiss franc against the euro at that time would have placed the Swiss economy under such a strain that the threat of a deflationary trend would again have come to the fore. The SNB did not want to run this risk. In the second half of 2010, the economic recovery in Switzerland and abroad consolidated to such an extent that the threat of deflation in Switzerland largely disappeared and the SNB was able to refrain from carrying out any further interventions on the foreign exchange market.

Swiss franc liquidity in the banking system rose sharply in 2010 due to the SNB's extensive foreign exchange purchases. As a result, the banking system was in a position of excess liquidity vis-à-vis the SNB. The SNB therefore adapted its procedure for implementing monetary policy and steering the three-month Libor. Under the new procedure, liquidity-absorbing repo transactions and SNB Bill issues replaced liquidity-providing money market operations in mid-2010. This has enabled the SNB to absorb a large part of the excess liquidity.

The second part of the *Annual Report* comprises the financial report for the attention of the Federal Council and the General Meeting of Shareholders (pp. 97–193). It includes the business report, which deals with organisational and operational developments at the SNB as well as its financial results. The financial report also includes the annual financial statements of the SNB (parent company), containing the balance sheet, income statement and notes (pp. 121–162), the financial information on the stabilisation fund (pp. 163–172), and the consolidated financial statements (pp. 173–190), as required under Swiss law.

In 2010, the annual financial statements of the SNB (parent company) closed with a loss of CHF 20.8 billion, following a profit of CHF 10.0 billion in the previous year. Distribution of funds by the SNB is based on the result of the parent company.

Monetary policy, whose primary objective is price stability, must be conducted independently of balance sheet considerations. The foreign exchange purchases effected in the first half of 2010 in pursuit of this objective led to a strong increase in foreign currency investments. The appreciation of the Swiss franc, which was particularly pronounced in the last weeks and days of the 2010 financial year, resulted in a loss of around CHF 26.5 billion on foreign currency positions.

Bearing in mind these exceptional circumstances, the SNB has decided to set the allocation to the provisions for currency reserves for the past financial year at CHF 0.7 billion instead of CHF 4 billion. This will enable the distribution of CHF 2.5 billion for the 2010 financial year to the Confederation and the cantons, and the payment of CHF 1.5 million in dividends, to be carried out as planned. Despite the reduced allocation to provisions for currency reserves, the SNB's capital base remains strong.

This procedure provides the Confederation and the cantons with time to adjust to the new situation of a negative distribution reserve. For the SNB cannot exclude the possibility that profit distribution may have to be suspended for a certain period, and that future distribution amounts may need to be smaller. The SNB's result has always been largely dependent on developments in the gold, foreign exchange and capital markets, and this will remain so in the foreseeable future.

The stabilisation fund shows a profit of CHF 2.6 billion for the 2010 financial year. Within one year, the SNB's loan to the stabilisation fund has been paid down from just under CHF 21 billion to around CHF 12 billion.

As a result of the good performance of the stabilisation fund, the consolidated annual loss amounted to CHF 19.2 billion.

We wish to thank the bank authorities and our employees for their hard work and valuable support over the past year.

Berne and Zurich, 25 February 2011

Hansueli Raggenbass
President of the Bank Council

Philipp M. Hildebrand
Chairman of the Governing Board