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. In spring 2011, the Organisation Regulations were subject to a partial revision, which was approved on 29 June by the Federal Council (cf. chapter 4.1, p. 112).

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 strategic guidelines for business operations, including resource strategies and staff planning. The Board of Deputies is responsible for implementing these guidelines and ensures coordination in all operational matters that are of cross-departmental significance. The Bank Council oversees and monitors the business activity of the SNB. 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 mainly 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.

Until 31 January 2012, the SNB also had a branch office in Geneva. The representative offices, which are located in Basel, Geneva (as of 1 February 2012), Lausanne, Lugano, Lucerne and St Gallen, are responsible (as are the head offices) 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 14 agencies (including Geneva, from 1 February 2012) 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 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 latter unit also operates the Swiss Interbank Clearing (SIC) system.

Asset management

The foreign currency investment strategy as well as the management and investment of gold, foreign currency investments 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 flows, and technical assistance to other countries.

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 provided by various 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 of the accountability report (pp. 81–84) and in 'Financial information on the stabilisation fund' (pp. 167–176) of this report. The companies included in the consolidated financial statements are listed under 'Reporting entities' (p. 186).

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 General Meeting of Shareholders elects five members to the Bank Council and appoints the Audit Board. It approves the business report and the annual financial statements. It decides on the allocation of the net profit (determination of the dividend) and grants discharge to the Bank Council.

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 Enlarged Governing Board is responsible for the strategic guidelines for the SNB's business operations. It is made up of the three Governing Board members and their deputies. The Board of Deputies is responsible for the planning and implementation of the strategic guidelines for business 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. Dividends are limited to a maximum of 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. 111).

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 2011, the Bank Council held six ordinary half-day meetings (in February, April, June, September, October and December), and two extraordinary meetings (in January and December), all of which were attended by the members of the Governing Board. The extraordinary meeting in January was to address the appropriation of the 2010 annual result, and that of December was in connection with questions surrounding private financial transactions by the Hildebrand family.

The business it dealt with included, in particular, the approval of a new profit distribution agreement between the Federal Department of Finance and the SNB, as well as the resolution on the level of the provisions for currency reserves. Furthermore, the Bank Council approved the revision of the Organisation Regulations, for the attention of the Federal Council. It revised the Nomination Committee regulations, the salary regulations, and the regulations on informing and consulting with SNB staff. It also approved a Memorandum of Understanding between the Federal Department of Finance and the SNB on the principles governing the membership of the Bank Council, and issued a memorandum on Bank Council communication.

The Bank Council voted to close the branch office in Geneva on 31 January 2012, and to open an SNB agency in Geneva with effect from 1 February 2012. It authorised the sale of the SNB's premises in Geneva, and it also approved the design of the CHF 20 note of the ninth banknote series.

Finally, the Bank Council dealt with the Audit Board's reports to the Bank Council and to the General Meeting of Shareholders, and 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, each of which was 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. It is based on the level of remuneration in other financial sector companies of a similar size and complexity, and in large federally run companies (cf. tables on remuneration for the Bank Council and executive management, pp. 150–151).

The SNB 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. In addition, members of the Governing Board may not undertake any paid or unpaid activities for the Swiss big banks for a period of twelve months following the termination of their contract of employment. 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 (six and three months, respectively). Given the regulatory restrictions, the members of the Governing Board and their deputies are entitled to remuneration within these periods.

On 31 December 2011, 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 2011 financial year for this auditing mandate totalled CHF 358,257 (2010: CHF 365,840). PwC was also entrusted with the task of auditing the SNB stabilisation fund. Compensation for these audit services in the 2011 financial year amounted to CHF 1,111,185 (2010: CHF 1,536,660). Additional audit-related services by PwC cost a further CHF 112,560 (2010: CHF 8,608), including CHF 53,449 for audit activity in connection with private financial transactions by the Hildebrand family.

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 Swiss stock exchange (SIX Swiss Exchange). The SNB share listing was moved from the Main Standard to the Domestic Standard (formerly Local Caps segment), with effect from 1 January 2012. At the end of 2011, a total of 53.2% 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 5.9% (5,950 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, 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. 107, 145–146
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	*Annual Report*, p. 145
Accounting principles	*Annual Report*, p. 130 (parent company) and pp. 183–184 (consolidated level)
Bank Council	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Members	*Annual Report*, p. 202
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. 202
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. 157 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*
Regulations on private financial investments and financial transactions by members of SNB management	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Remuneration	*Annual Report*, pp. 150–151
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. 110, 208–211

4 Resources

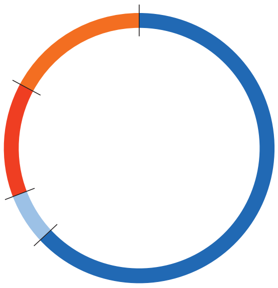
4.1 Organisational changes

Organisation

In early 2011, the Swiss National Bank's (SNB) Organisation Regulations were partially revised to further strengthen operational management. The Enlarged Governing Board refocused its attention on the strategic guidelines for business operations, including resource strategies and staff planning. The Board of Deputies is responsible for implementing these guidelines and ensures coordination of all operational matters that are of importance to more than one department. It also issues the necessary instructions and guidelines. In addition, it administers a planning reserve approved by the Bank Council to cover unforeseen tasks. A new provision was included in the Organisation Regulations to allow the SNB to maintain branch offices abroad for the purpose of fulfilling its mandate.

In 2011, cash distribution activities were reorganised. Cash transactions will now be handled by Cash Circulation West (Berne head office) and Cash Circulation East (Zurich head office) in Department II. Procurement and central logistics functions for banknotes, coins and gold will be combined in Procurement and Central Logistics.

In 2011, the Bank Council's Audit Committee initiated a review of the organisational setup of compliance, which was made up of a compliance committee and a number of specialised compliance units. This evaluation led, in November 2011, to a decision to increase staff numbers in dealing with compliance questions. In addition, the Chairman of the Compliance Committee will now inform the Chairman of the Governing Board as well as the Chairman of the Audit Committee directly of any serious infringement by a member of the Enlarged Governing Board. In connection with the resignation of Philipp M. Hildebrand, investigations will be made into the question of whether additional measures are required to ensure appropriate monitoring of compliance risks.



Human resources
Number of employees

Full-time, men 456

Part-time, men 44

Full-time, women 99

Part-time, women 124

Total: 723
At year-end 2011

4.2 Human resources

Number of employees and turnover

At the end of 2011, the SNB employed 723 people (including 17 apprentices); an increase of 23, or 3.3%, compared to 2010. The increase was mainly attributable to additional expenditure in the area of financial stability and in connection with the implementation of exceptional monetary policy measures. In terms of full-time equivalents, the number of employees rose by 3.4% to 672.0. Staff turnover rose to 6.5% from 6.1% a year earlier.

4.3 Premises

Premises

The SNB owns premises for its own use in Zurich and Berne; it also owned premises for the same purpose in Geneva until the end of 2011. These premises are managed and maintained according to a long-term strategy.

Following the decision to close the Geneva branch with effect from 31 January 2012, the Geneva buildings were sold in 2011 to Banque Privée Edmond de Rothschild SA and the Royal Bank of Canada. A rental agreement was concluded with Banque Privée Edmond de Rothschild SA for the use of the rooms required by the SNB to continue operations until the branch finally closed.

At the Zurich head office, the first phase of renovations of the property located at Seefeldstrasse/Seehofstrasse was completed. Renovation work in connection with the overhaul of the staff restaurant in the Berne head office also progressed according to schedule. In July 2011, strategic planning for the total restoration of the main building located at the Bundesplatz began.

4.4 Information technology

Information technology

The IT production systems and applications were stable in 2011, and a brief disruption to payment transactions in August was quickly rectified. The new statistical data warehouse for administering, processing, analysing and presenting statistical information became operational in 2011, in the form of a revised EASY-R (economic analysis system). The information stored in the data warehouse provides support in areas such as the preparation of monetary policy decisions; it also serves as the foundation for important publications and for data exchange with other institutions such as the Swiss Federal Statistical Office, Eurostat and the Bank for International Settlements.

A new mobile workplace designed to meet increasing mobility requirements and permit external access to the IT infrastructure was developed and introduced. Access to the internet was also upgraded, with particularly wide-ranging security measures being implemented.

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. This report 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 emission and lists the measures aimed at improving its environmental performance.

In 2010, pro capita energy consumption (electricity and heating energy) was 3% higher than in 2009. As a contribution to climate protection, the SNB heats and cools one of its buildings with the aid of lake water instead of gas, and has joined the *Seewasserverbund* (lake water network) in Zurich as part of this endeavour. The SNB aim is to achieve zero net greenhouse gas emissions. In 2011, it compensated all of its unavoidable greenhouse gas emissions through investment in climate protection projects.

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

5 Changes in bank bodies and management

Bank Council

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

Alfredo Gysi, at the time CEO of BSI Ltd, Lugano

At the General Meeting of Shareholders held on 29 April 2011, the following new member was elected to the Bank Council:

Cédric Tille, Professor at the Graduate Institute of International and Development Studies, Geneva

The following members of the Bank Council are not standing for re-election at the 2012 General Meeting of Shareholders, to the end of the 2008–2012 term of office:

Hansueli Raggenbass, Attorney-at-law, President

Fritz Studer, former Chairman of the Board at Luzerner Kantonalbank

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

Special thanks are extended to Hansueli Raggenbass, who has held the position of President of the Bank Council for many years.

Hansueli Raggenbass was appointed to the Bank Council by the Federal Council in 2001, and one year later he was nominated as its President. During his period in office, in 2004, the new National Bank Act entered into force, reducing the number of Bank Council members from 40 to 11, and assigning it new supervisory and monitoring powers. The Bank Council established four committees from within its own ranks in order to adequately fulfil these responsibilities. From the beginning, Hansueli Raggenbass chaired the Nomination Committee and, until June 2011, the Compensation Committee. He carried out his duties as President prudently and with great commitment, thus rendering valuable services to the Swiss National Bank.

We also thank Fritz Studer, whose services as member and as chair of the Audit Committee in the areas of compliance, accounting and auditing have been particularly appreciated.

Both of these vacancies are to be filled by the Federal Council.

The existing members of the Bank Council (of that part of the membership elected by the General Meeting of Shareholders) are standing for re-election at the General Meeting of Shareholders on 27 April 2012 for the 2012–2016 term of office.

Audit Board

On 29 April 2011, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2011–2012 term of office.

Governing Board and Enlarged Governing Board

The composition of the Governing Board and the Enlarged Governing Board remained unchanged in 2011.

On 9 January 2012, Philipp M. Hildebrand resigned from his office as Chairman of the Governing Board due to questions arising from private financial transactions. Since mid-2003, he had been a member of the Governing Board and, since 2010, its Chairman. One of his first tasks as Head of Department III was to modernise the SNB's investment policy, which had become possible after the new National Bank Act came into force. As Head of Department II, he was confronted with the dramatic effects of the worldwide financial crisis and the inescapable need to stabilise UBS. Subsequently, he pushed for higher capital requirements at the big banks and an alleviation of the 'too big to fail' issue. In the international arena, as Governor at the International Monetary Fund, as Member of the Board of the Bank for International Settlements, and as Member of the Financial Stability Board, he advanced Switzerland's concerns thanks to his skills in argumentation. In 2010 and 2011, the SNB faced major challenges in connection with the Swiss franc exchange rate, and Philipp Hildebrand, as Head of Department I, tackled these with determination.

The SNB thanks Philipp Hildebrand for his dedicated service in the SNB Governing Board.

Bank management

The Bank Council approved the following promotions to the position of Director, with effect from 1 January 2012:

Werner Abegg, Head of Communications
Marcel Zimmermann, Head of StabFund

6 Business performance

6.1 Consolidated and parent company annual result

Summary

The Swiss National Bank (SNB) is reporting a consolidated profit of CHF 13.5 billion for 2011, following a loss of CHF 19.2 billion in the previous year. Consolidated foreign currency positions contributed CHF 7.7 billion to this profit figure, of which interest income (CHF 5.5 billion) and the price gain on interest-bearing paper and instruments (CHF 3.7 billion) were the main components. Exchange rate effects were minimal, amounting to a loss of CHF 123.9 million. The net result from gold amounted to CHF 5.4 billion.

At CHF 13.0 billion, the result for the parent company, upon which the profit distribution is based, is CHF 440.2 million less than that of the consolidated result. The difference is due to the inclusion of the stabilisation fund companies in the consolidated result.

For the financial year just ended, the SNB has set the allocation to the provisions for currency reserves at CHF 3.2 billion. The distributable profit remaining after this allocation is CHF 9.9 billion. It will be offset against the negative distribution reserve, leaving CHF 4.9 billion for distribution. According to the proposal to the General Meeting of Shareholders, the shareholders will receive CHF 1.5 million in the form of dividends, while CHF 1 billion will be distributed to the Confederation and the cantons in accordance with the agreement between the Confederation and the SNB. The remaining profit will be allocated to the distribution reserve.

Significant increase in price of gold

In 2011, the price of gold rose further. At CHF 47,473 per kilogram on 31 December 2011, it was once again considerably higher than a year earlier (2010: CHF 42,289).

A valuation gain of CHF 5.4 billion was recorded on the SNB holding of 1,040 tonnes of gold. The secured gold lending business more or less came to a standstill. It contributed CHF 1 million to the result (2010: CHF 10 million).

Contribution of foreign currency positions to profit

In 2011, CHF 5.5 billion in interest income from foreign currency investments was recorded at consolidated level. In addition, lower interest rates in many places resulted in price gains of CHF 3.7 billion on interest-bearing paper and instruments. In the case of equity securities and instruments, price losses of CHF 1.9 billion exceeded dividend income of CHF 562.3 million. In 2011, exchange rate effects were minimal, amounting to a loss of CHF 123.9 million. In conjunction with all the other elements, consolidated foreign currency positions gave rise to a profit of CHF 7.7 billion (2010: loss of CHF 27.0 billion).

Net loss on Swiss franc positions

Swiss franc positions show a total net loss of CHF 162.7 million (2010: net gain of CHF 70.9 million).

At the end of August 2011, liquidity-providing repo transactions, which had been discontinued in June 2010, were resumed. Expenses of CHF 16.5 million resulted from these transactions due to the exceptional interest rate situation.

With the measures to counter the strength of the Swiss franc, liquidity-absorbing operations were no longer renewed or, in some cases, were terminated prematurely through repurchases of debt certificates. Liquidity absorption resulted in expenses of CHF 313.1 million on debt certificates (2010: CHF 146.3 million) and CHF 11.9 million on repo transactions of this kind (2010: CHF 14.1 million).

Income on securities came to CHF 188.0 million (2010: CHF 239.7 million). Due to the low interest rates and the low volume of liabilities towards the Swiss Confederation, the related interest expense decreased to CHF 2.7 million (2010: CHF 5.3 million).

Positive result achieved by stabilisation fund

As higher-risk securities, the stabilisation fund investments benefited from higher interest rates. Moreover, the valuation at amortised cost gave rise to successive increases in value for many securities. Due to the worsening outlook in the second half of the year, the regular impairment tests led to value adjustments. A profit of CHF 1.2 billion was reported at consolidated level (2010: CHF 3.2 billion) on the stabilisation fund investments.

Taking into account the other elements in the income statement, as well as the loss protection arrangements, the stabilisation fund contributed CHF 440 million to the consolidated result (2010: CHF 1,636 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 10.8 million (3.5%) to CHF 291.9 million (2010: CHF 302.7 million).

Reduction in loan to stabilisation fund

The liquidation strategy was maintained for the stabilisation fund set up by the SNB in autumn 2008. During the 2011 financial year, the SNB loan decreased from almost CHF 12 billion to less than CHF 8 billion. In the same period, additional contingent liabilities declined from CHF 2.0 billion to CHF 0.8 billion. Should financing needs arise, the contingent liabilities would trigger lines of credit with the SNB if the financing needs were not covered by the funds available in the stabilisation fund.

Changes in the loan to the stabilisation fund trigger flows to or from foreign currency investments.

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

The SNB's financial result is strongly influenced by changes in the price of gold, the exchange rate and interest rates. Consequently, further substantial fluctuations in the quarterly and annual results are to be expected and a forecast of future results cannot be made.

Outlook

In view of the considerable volatility in its results, 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. Dividend payments and distributions will be made when the net profit, i.e. the net distributable profit and the retained earnings, are sufficient.

Implementation of the stabilisation fund liquidation strategy depends on further developments in the relevant markets. The market environment worsened in the second half of 2011. Forecasting the outlook for these markets remains difficult.

6.2 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 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 depends on monetary policy requirements and 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 nominal GDP over the previous five years. The Bank Council is responsible for the level of provisions and is free to deviate from this yardstick.

Allocation from 2011 annual result

In its annual review, the Bank Council resolved in December 2011 to base the calculation of the allocation for the year under review on twice the average nominal GDP growth rate. Consequently, the allocation amounts to CHF 3.2 billion.

Provisions

Development in last five years

	Growth in nominal GDP In percent (average period)[1]	Annual allocation In CHF millions	Provisions after allocation In CHF millions
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
2011[2]	3.5 (2005–2009)	3 154.3	48 215.6

1 GDP figures are revised on a regular basis. This means that the latest available growth rates may deviate from reported figures. This does not affect the allocation.

2 Doubling of allocation in accordance with Bank Council resolutions of 4 December 2009 and 16 December 2011.

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

Distributable annual profit and net profit

The earnings remaining after the allocation to the currency reserves correspond to the distributable profit as per art. 30 para. 2 NBA.

For 2011, this distributable profit amounts to CHF 9.9 billion. Together with the distribution reserve, this makes up the net profit (as per art. 31 NBA) or net loss. If there is a net profit, this is used for distributions.

6.3 Dividend and profit distribution

Dividends

Art. 31 para. 1 NBA specifies that a dividend not exceeding 6% of the share capital shall be paid from the net profit, with the decision on this matter being taken by the General Meeting of Shareholders on the basis of a Bank Council proposal.

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 to the Confederation and the cantons 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. Consequently, a constant flow of payments over several years is provided for in the agreement and a distribution reserve carried on the balance sheet.

As the value of the distribution reserve was negative subsequent to the 2010 annual result, the FDF and the SNB reviewed their agreement concerning the profit distribution during the course of 2011. The new agreement was announced on 21 November. The annual distribution now amounts to CHF 1 billion, and will be made only if the distribution reserve is not negative. In the event that the distribution reserve amounts to more than CHF 10 billion after this annual distribution, the FDF and the SNB will enter into negotiations with regard to an additional distribution.

Distribution for 2011

For 2011, following the allocation to the provisions for currency reserves, the SNB is distributing CHF 1 billion to the Confederation and the cantons in accordance with the agreement.

Distribution reserve

Since the distribution reserve showed a value of CHF –5 billion following last year's profit appropriation, a net profit of CHF 4.9 billion remains after offsetting the 2011 distributable profit against the distribution reserve. Following the distribution of CHF 1 billion to the Confederation and the cantons and payment of CHF 1.5 million in dividends, the distribution reserve will amount to CHF 3.9 billion.

Profit distribution and distribution reserve

In CHF millions	Distribution reserve prior to distribution[1]	Distributable annual profit	Net profit	Profit distribution	Distribution reserve after distribution
2007	18 128.7	7 244.5	25 373.2	2 501.5	22 871.7
2008	22 871.7	–5 736.0	17 135.7	2 501.5	14 634.2
2009	14 634.2	6 900.1	22 534.3	2 501.5	19 032.8
2010	19 032.8	–21 531.3	–2 498.5	2 501.5[2]	–5 000.0
2011[3]	–5 000.0	9 874.7	4 874.7	1 001.5	3 873.2

1 Total at year-end as per balance sheet (p. 127).

2 According to the distribution agreement of 14 March 2008, a distribution could be made as long as it did not cause the distribution reserve to fall below CHF –5 billion.

3 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. 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 derivatives in foreign currencies applicable as at the balance sheet date.

Composition of the SNB's currency reserves

In CHF millions	31.12.2011	31.12.2010	Change
Gold	48 662.5	43 349.0	+5 313.5
Claims from gold transactions	717.5	638.9	+78.6
Total gold reserves	49 379.9	43 987.9	+5 392.0
Foreign currency investments[1]	257 504.2	203 809.6	+53 694.6
Less: associated liabilities	–546.2	–1 067.4	+521.2
Derivatives (replacement values, net)	92.1	–23.4	+115.5
Total foreign exchange reserves[2]	257 050.1	202 718.8	+54 331.3
Reserve position in the IMF	3 134.5	1 067.7	+2 066.8
International payment instruments	4 621.2	4 670.3	–49.1
Total currency reserves	**314 185.7**	**252 444.7**	**+61 741.0**

1 Including approx. CHF 26.1 billion from foreign exchange swaps, valued at the year-end rate. The replacement values contain the analogous year-end valuation for the forward leg.

2 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, leading to a substantial increase in the balance sheet total by June 2010. In the second half of 2011, measures were taken to counter the strength of the Swiss franc, and this resulted in further growth in the balance sheet total.

On the assets side of the balance sheet, the effects of the various measures are particularly apparent in foreign currency investments, which increased as a result of both foreign exchange purchases and foreign exchange swaps. In the second half of 2011, liquidity-providing repo transactions were resumed, after having been discontinued during the course of 2010. Gold sales have not taken place since September 2008.

On the liabilities side, sight deposits of domestic banks rose in 2008 and 2009 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. Due to the measures to counter the strength of the Swiss franc, sight deposits of domestic banks and other sight deposits rose substantially from August 2011. From the beginning of August, liquidity-absorbing repo transactions which matured were no longer renewed, the issuance of SNB Bills was suspended, and outstanding SNB Bills were repurchased on the market.

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	2011	2010	2009	2008	2007	2006
Gold holdings and claims from gold transactions	49 380	43 988	38 186	30 862	34 776	32 221
Foreign currency investments	257 504	203 810	94 680	47 429	50 586	45 592
Various foreign currency assets[1]	8 057	6 038	7 136	1 296	961	1 125
Claims from US dollar repo transactions	371	–	–	11 671	4 517	–
Credit balances from swap transactions	–	–	2 672	50 421	–	–
Claims from Swiss franc repo transactions	18 468	–	36 208	50 321	31 025	27 127
Swiss franc securities	3 675	3 497	6 543	3 597	4 131	4 908
Loan to stabilisation fund	7 645	11 786	20 994	15 248	–	–
Other assets[2]	980	836	846	3 479	931	842
Total assets	**346 079**	**269 955**	**207 264**	**214 323**	**126 927**	**111 813**

1 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	2011	2010	2009	2008	2007	2006
Banknotes in circulation	55 729	51 498	49 966	49 161	44 259	43 182
Sight deposits of domestic banks	180 721	37 951	44 993	37 186	8 673	6 716
Other sight deposits[1]	30 332	5 619	5 927	5 184	813	585
Liabilities towards the Confederation	5 648	5 347	6 183	8 804	1 077	1 056
SNB debt certificates in Swiss francs	14 719	107 870	7 788	24 425	–	–
Liabilities from Swiss franc repo transactions	–	13 182	–	–	615	–
Other term liabilities	366	–	–	29 415	4 608	–
Foreign currency liabilities[2]	5 286	5 805	26 447	420	1 128	2
Other liabilities[3]	162	96	64	1 286	81	93
Provisions for currency reserves	45 061	44 337	41 282	40 275	39 524	38 636
Share capital	25	25	25	25	25	25
Distribution reserve (before appropriation of profit)	–5 000	19 033	14 634	22 872	18 129	16 473
Annual result	13 029	–20 807	9 955	–4 729	7 995	5 045
Total liabilities	**346 079**	**269 955**	**207 264**	**214 323**	**126 927**	**111 813**

1 Sight deposits of foreign banks and institutions, other sight liabilities.
2 SNB USD Bills, foreign currency liabilities, balancing item for SDRs allocated by the IMF.
3 Other liabilities, operating provisions.