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 *104th Annual Report* comprises the accountability report to the Federal Assembly (pp. 9–96). 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 2011 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.

Like the years before it, 2011 was shaped by the repercussions of the financial crisis which shook the world economy in 2008/2009. The pace of global economic recovery slowed. In addition, the European sovereign debt crisis and fiscal problems in other advanced economies undermined confidence on international financial markets. Against this backdrop, the Swiss franc appreciated further in the first half of the year. In the second half, the appreciation gathered pace. This resulted in a massive overvaluation of the Swiss franc, posing an acute threat to the development of the real economy in Switzerland and carrying the risk of deflation.

The SNB maintained its expansionary monetary policy in 2011. In August, it began taking measures to counter the strength of the Swiss franc by lowering the rate of interest between its regular quarterly monetary policy assessments and significantly increasing liquidity on the Swiss franc money market. As a result, total sight deposits at the SNB reached a historical peak, and money market interest rates declined to around zero – at times even dipping into negative territory. Given the high degree of uncertainty on the financial markets, however, the upward pressure on the Swiss franc intensified once again at the beginning of September. Thus, on 6 September, the SNB set a minimum exchange rate of CHF 1.20 per euro. It made it clear that it would enforce this minimum rate with the utmost determination and was prepared to purchase foreign currency in unlimited quantities for this purpose. It considered that, even at that rate, the Swiss franc was still high, and announced that it would take further measures if the economic outlook and the risk of deflation so required.

Owing to the deterioration in the international economic environment and the Swiss franc appreciation, economic growth in Switzerland lost considerable momentum over the course of 2011. In industries strongly focused on exports, value added decreased, and towards the end of the year, unemployment rose again slightly for the first time in two years. The downward pressure on consumer prices was reflected in the fact that, from October onwards, annual inflation turned slightly negative.

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. 99–197). 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. 125–166), financial information on the stabilisation fund (pp. 167–176), and the consolidated financial statements (pp. 177–194), as required under Swiss law.

In 2011, the annual financial statements of the SNB (parent company) closed with a profit of CHF 13.0 billion, following a loss of CHF 20.8 billion in the previous year. The positive annual result was driven mainly by valuation gains on gold holdings and a net profit on foreign currency positions.

The distribution of profit by the SNB is contingent on the result of the parent company. With the annual result for 2010, the value of the distribution reserve turned negative. Consequently, a review of the agreement on the distribution of the SNB's profit was carried out by the SNB and the Federal Department of Finance. The new agreement of 21 November 2011 covers the profit distributions for the financial years 2011–2015. The annual distribution now amounts to CHF 1 billion, and will be made only if the distribution reserve is not negative.

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.

The stabilisation fund shows a profit of USD 1.1 billion for the 2011 financial year. The loan granted by the SNB decreased from almost CHF 12 billion to CHF 7.6 billion.

The stabilisation fund contributed CHF 0.4 billion to the consolidated result, bringing the annual consolidated profit to CHF 13.5 billion.

On 9 January 2012, Philipp M. Hildebrand resigned from his office as Chairman of the Governing Board. From that date, Thomas J. Jordan, Vice Chairman of the Governing Board, took over as acting Chairman.

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

Berne and Zurich, 2 March 2012

Hansueli Raggenbass
President of the Bank Council

Thomas J. Jordan
Vice Chairman of the
Governing Board