

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

The business report, together with the annual financial statements of the SNB (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*.

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Corporate governance

1.1 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 Swiss 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; revised on 15 July 2011). At the SNB, statutes and regulations fulfil the function of articles of association.

Mandate

The SNB’s mandate is derived directly from the Federal Constitution. 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 NBA, which sets out in detail the various elements of the National Bank’s constitutional mandate (art. 5) and independence (art. 6). To counterbalance the SNB’s independence, the NBA specifies a duty of accountability and a duty to provide 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 SNB 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.

1.2 SHAREHOLDERS

The majority of the SNB's shareholders are the cantons and the cantonal banks; the Confederation, however, is not a shareholder. At the end of 2012, a total of 52.3% of the shares were held by cantons and cantonal banks, while the remaining shares were mostly held by private individuals. The major shareholders were the Canton of Berne with 6.6% (6,630 shares), Theo Siegert (Düsseldorf) with 6.0% (5,995 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).

At 31 December 2012, the members of the Bank Council did not hold any SNB shares. According to the new 'Code of Conduct' for members of the Bank Council, which has been in effect since 1 January 2013, Bank Council members may not hold any such shares in the SNB. At 31 December 2012, a member of the Enlarged Governing Board held one SNB share.

Shareholder rights are governed by the NBA, 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.

Shareholder rights

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 participation rights', p. 116).

The share capital of the SNB amounts to CHF 25 million, which is fully paid up. It is divided into 100,000 registered shares with a nominal value of CHF 250 each. SNB registered shares are traded on the Swiss stock exchange (SIX Swiss Exchange), since 1 January 2012 in the Domestic Standard (formerly Local Caps segment).

Listed registered shares

Information for shareholders Notifications to shareholders are generally communicated in writing to the address listed in the share register, and by publication in the *Swiss Official Gazette of Commerce*. Shareholders only receive information which is also available to the public.

1.3 ORGANISATIONAL STRUCTURE

Departments 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.

Branch offices The branch office in Geneva was closed on 31 January 2012, which means that the SNB no longer operates any branch offices in Switzerland. However, it is planning to open a branch office in Singapore during the course of 2013.

Representative offices The representative offices, which are located in Basel, Geneva (since 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 Governing Board. In addition, the Regional Economic Councils maintain an exchange of information with the delegates for regional economic relations.

Agencies The SNB also maintains 14 agencies for the receipt and distribution of banknotes and coins. These agencies are run by cantonal banks.

Group In 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 and in the section 'Financial information on the stabilisation fund' of the financial report (pp. 177–186). The companies included in the consolidated financial statements are listed under 'Reporting entities' (p. 196).

1.4 CORPORATE BODIES AND RESPONSIBILITIES

The corporate bodies of the National Bank are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. The composition of these bodies is described on pp. 111 – 114.

The General Meeting of Shareholders elects five of the eleven members to the Bank Council and appoints the Audit Board. It approves the business report and the annual financial statements, and grants discharge to the Bank Council. Within the context of the profit appropriation, the General Meeting of Shareholders determines the dividend, which may not exceed 6% of share capital.

General Meeting of Shareholders

The Bank Council is the SNB's supervisory body. 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 oversees and controls the conduct of business by the SNB. Monetary policy does not form part of its remit; this falls to the Governing Board. The Bank Council's responsibilities cover, in particular, the determination of the basic principles according to which the SNB should be organised (including the structure of its financial accounting and financial control systems), the approval of the budget, and the approval of the level of the provisions for currency reserves (art. 30 NBA). The Bank Council also assesses risk management and the basic principles underlying the investment process, and is kept informed of the SNB's resource strategies. The Bank Council submits proposals to the Federal Council for the appointment of Governing Board members and their deputies. It determines, in a set of regulations, the remuneration of its own members, and the remuneration of Governing Board members and deputies. Finally, the Bank Council approves the agreement with the Federal Department of Finance on profit distribution, decides on the design of banknotes and appoints the members of the Regional Economic Councils. The individual tasks of the Bank Council are described in art. 42 NBA and art. 10 of the 'Organisation regulations'.

Bank Council

In 2012, the Bank Council held six ordinary half-day meetings (in March, April, June, August, October and December) and two extraordinary meetings (in January and February), all of which were attended by the Governing Board. The extraordinary meeting in January was held in connection with the private financial transactions by the Hildebrand family. The meeting in February was devoted to questions on Bank Council membership, the revision of the regulations on own-account transactions involving financial instruments, and the review of financial transactions by members of the Enlarged Governing Board.

Bank Council activities

In the context of the Hildebrand family's financial transactions, the Bank Council entrusted auditors KPMG Switzerland with the review of the financial transactions by members of the Enlarged Governing Board and their families during the period from 1 January 2009 to 31 December 2011 and to assess their compliance with the relevant regulations. Costs associated with the review activities amounted to CHF 0.8 million.

The Bank Council approved new regulations on private financial investments and financial transactions by members of SNB management, and new regulations on the acceptance of gifts and invitations by members of the Enlarged Governing Board. It also revised the regulations on the employment relationship of members of the Governing Board and their deputies and, for the first time, issued a 'Code of Conduct' for members of the Bank Council.

In addition, the Bank Council focused on strengthening the SNB's internal control system (ICS). Consequently, an independent Compliance unit was created, which also functions as a contact point to which staff can report irregularities and infringements of regulations. In this context, the Bank Council also worked on the revised SNB 'Code of Conduct', the new internal directives on compliance and on staff reporting of irregularities and infringements of regulations, as well as the revised directive on private financial investments and financial transactions by SNB staff. Other activities in the area of operational risk were centralised, namely information security, operational security and business continuity management.

The Bank Council presented the Federal Council with its proposal for the appointment of a new member of the Governing Board, with effect from 1 August 2012.

The Bank Council approved the renovation of the SNB premises in Berne (Bundesplatz 1), the acquisition of the Metropol building in Zurich (Börsenstrasse 10), and the opening of a branch office in Singapore as of mid-2013.

Other Bank Council activities included passing a resolution on the level of the provisions for currency reserves, discussing reports submitted by the Audit Board to the Bank Council and the General Meeting of Shareholders, and taking note of the annual reports on financial and operational risks.

The Bank Council has a Compensation Committee, Nomination Committee, Audit Committee and Risk Committee, each of which has three members. The Audit Committee supports the Bank Council by supervising financial accounting and financial reporting, assessing the effectiveness of the ICS and supervising the activities of the internal and external auditors. The Risk Committee assists the Bank Council by assessing and monitoring risk management and the investment process. The Compensation Committee determines the principles of the SNB's compensation and salary policies and submits proposals to the Bank Council regarding the salaries of Governing Board members and their deputies. The Nomination Committee submits proposals for the election of those Bank Council members who are appointed by the General Meeting of Shareholders, and for the election of Governing Board members and their deputies.

Committees

The Compensation Committee met once; the Nomination Committee, six times. The Audit Committee held six half-day meetings (four ordinary, two extraordinary), five of which were attended by representatives of the Audit Board. The Risk Committee convened for two half-day meetings.

Meetings

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 Governing Board is responsible in particular for monetary policy, asset management strategy, contributing to the stability of the financial system, and international monetary cooperation.

Executive management

The Enlarged Governing Board is made up of the three Governing Board members and their deputies, and is responsible for issuing the strategic guidelines for the SNB's business operations.

The Board of Deputies is responsible for the planning and implementation of these strategic guidelines. It ensures coordination in all operational matters of interdepartmental importance. 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 must be independent of the Bank Council, the Enlarged Governing Board and the controlling shareholders.

Audit Board

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. The annual fee for this auditing mandate amounts to CHF 0.3 million. PwC was also entrusted with the task of auditing the stabilisation fund. In 2012, compensation for these audit services totalled CHF 1.1 million, as in the previous year. No additional services were provided by PwC in the year under review (2011: CHF 0.1 million).

Internal Auditors

The Internal Auditors unit is an independent instrument for overseeing and monitoring the SNB's business activities. It reports to the Audit Committee of the Bank Council.

1.5 REMUNERATION REPORT

Remuneration

The principles governing the remuneration of members of the Bank Council and the Enlarged Governing Board are laid down in the regulations on the compensation of SNB supervisory and executive bodies of 14 May 2004. These regulations were issued by the Bank Council, and are based on the Federal Council's principles governing the remuneration and other contractual conditions for senior staff and management officers of federal enterprises and institutions, as outlined in art. 6a of the Federal Personnel Act. Remuneration and compensation remitted in the year under review are listed in the tables on pp. 159–160.

Bank Council

The compensation for members of the Bank Council is made up of a fixed annual remuneration plus per diem payments for special assignments and committee meetings. No compensation is due for committee meetings that are held on the same day as a Bank Council meeting.

Executive management

The remuneration paid to members of the Enlarged Governing Board comprises a salary and a lump sum for representation expenses. It is based on the level of remuneration in other financial sector companies of similar size and complexity, and in large federally run companies.

The SNB does not make severance payments to departing members of the Bank Council. In accordance with the SNB's regulations on the employment relationship of members of the Governing Board of the SNB and their deputies (Regulations on the Governing Board), Governing Board members and their deputies are entitled to compensation for the restrictions on their right to carry out professional activities following termination of their employment relationship with the SNB (cf. tables on Bank Council and executive management remuneration, pp. 159–160). These restrictions were tightened in the partial revision of the 'Regulations on the Governing Board' effective as of 1 January 2013. They now comprise a ban on all forms of financial intermediary work for a period of six months. Consequently, compensation amounting to six monthly salaries is paid. If members of the Enlarged Governing Board are not reappointed or are removed from office, the Bank Council may grant a severance payment amounting to a maximum of one year's salary.

Severance payment

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

Cross reference tables

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

Corporate structure and shareholders	<i>Annual Report</i> , pp. 108–109, 154–155
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	<i>Annual Report</i> , pp. 153–154
Accounting principles	<i>Annual Report</i> , p. 136 (parent company) and pp. 193–194 (consolidated level)
Bank Council	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Members	<i>Annual Report</i> , p. 216
Nationality	Art. 40 NBA
Affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies</i>
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report</i> , p. 216
Internal organisation	Arts. 10 et seq. Organisation regulations
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation regulations
Systems of control	<i>Annual Report</i> , pp. 166–168; accountability report, pp. 62–63; arts. 10 et seq. Organisation regulations
Information tools	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Code of Conduct	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Executive management	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Governing Board</i>
Regulations on private financial investments and financial transactions by members of SNB management	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on the acceptance of gifts and invitations by members of the Enlarged Governing Board	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on the employment relationship of members of the Governing Board of the Swiss National Bank and their deputies	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Remuneration	<i>Annual Report</i> , pp. 159–160
Shareholder participation rights	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation</i>
Decision-making quorum	Art. 38 NBA
General Meeting of Shareholders	Arts. 34–38 NBA
Listing in share register	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation</i>
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	<i>Annual Report</i> , pp. 110, 222–224

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Resources

2.1 ORGANISATIONAL CHANGES

In 2012, compliance at the SNB was further strengthened in the areas of regulation, organisation and staff. An independent Compliance unit was created, which reports to the Chairman of the Governing Board, and which can, if necessary, report directly to the Chairman of the Audit Committee of the Bank Council, or where required, the President of the Bank Council. The SNB also set up a contact point to which staff can report irregularities and infringements of regulations.

Organisation

The year also saw a review of the organisation of operational risk management culminate in the creation of a new unit – Operational Risk Management – which also encompasses information security and business continuity management, and which belongs to the Operational Risk and Security unit in Department II.

In order to enforce the minimum exchange rate, the number of staff working on a shift basis in the operational area was increased. Greater requirements in terms of system availability were reflected in a strengthening of IT support staff, too. The Bank Council approved the opening of a branch office in Singapore to ensure a more efficient management of the SNB's foreign currency investments in the Asian region.

Number and turnover of employees

2.2 HUMAN RESOURCES

At the end of 2012, the SNB employed 755 people (including 17 apprentices), which was 32 (or 4.4%) more than in 2011. The increase was mainly in connection with the implementation of exceptional monetary policy measures. In terms of full-time equivalents, the number of employees rose by 3.6% to 679.4. Staff turnover increased to 7.9%, from 6.5% a year earlier.

2.3 PREMISES

The SNB owns premises in Zurich and Berne for its own use. These are managed according to a long-term strategy.

The Berne premises are to undergo an extensive renovation, which is due to be completed by 2019. The strategic planning phase and the preliminary phase were concluded in the year under review.

In Zurich, at the end of September, the National Bank acquired the Metropol building (Börsenstrasse 10) from Credit Suisse and took over the residual 74-year leasehold with the city of Zurich. The purchase presented an ideal opportunity for the SNB to optimise its real estate portfolio in Zurich. Also in Zurich, the end of November saw the Seefeldstrasse 8 premises become fully operational, following the completion of the second stage of construction and the joining of the building to its neighbour at Seehofstrasse 15.

HUMAN RESOURCES

Number of employees



- Full-time, men 469
- Part-time, men 44
- Full-time, women 107
- Part-time, women 135

Total: 755
At year-end 2012

2.4 INFORMATION TECHNOLOGY

The IT production systems and applications were stable in 2012. Based on long-term security and cost/benefit considerations, the SNB decided to move its production data centre to the city of Zurich's IT facility in 2016. The facility, which is in Albis, opened in 2012.

New IT tools were introduced to aid the enforcement of the minimum exchange rate, and a new software package was implemented to strengthen measures against money laundering in the area of cashless payments.

A new data warehouse for conducting, processing and evaluating the SNB's statistical surveys was put into operation. The web-based platform, eSurvey, enables companies participating in SNB statistical surveys to submit their data online.

2.5 ENVIRONMENT

In its Charter, the National Bank undertakes to be careful in its use of natural resources. The annual environmental 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.

While energy consumption per capita (electricity and heating energy) remained at roughly the same level year-on-year, the first-time inclusion of the Zurich data centre resulted in an overall increase of 13%.

As a contribution to climate protection, two of the SNB's buildings are now exclusively heated via lake water instead of natural gas. In addition, more than half the natural gas supplied to its other buildings is biogas. The SNB offsets all of its unavoidable greenhouse gas emissions through investment in climate protection projects, and has been carbon neutral since 2011.

Environmental management

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Changes in bank bodies and management

Bank Council

On 18 April 2012, the Federal Council appointed:

Jean Studer, Neuchâtel, Member of the Cantonal Government and Head of the Justice, Security and Finance Department of the Canton of Neuchâtel, and Vice President of the Bank Council, to President of the Bank Council, with effect from 1 May 2012;

Olivier Steimer, Epalinges, Chairman of the Board of Directors at Banque Cantonale Vaudoise, and Member of the Bank Council, to Vice President of the Bank Council, with effect from 1 May 2012, subject to his re-election by the General Meeting of Shareholders;

Shelby Robert du Pasquier, Geneva, Attorney-at-law and Partner at Lenz & Staehelin, to Member of the Bank Council, with effect from 1 May 2012;

Christoph Lengwiler, Kriens, Professor and Head of the Institute of Financial Services Zug IFZ at Lucerne University of Applied Sciences and Arts, to Member of the Bank Council, with effect from 1 May 2012.

On 18 April 2012, the Federal Council confirmed the other, existing members of the Bank Council (of that part of the membership appointed by the Federal Council) for the 2012–2016 term of office.

On 27 April 2012, the General Meeting of Shareholders confirmed the other, existing members of the Bank Council (of that part of the membership appointed by the General Meeting of Shareholders) for the 2012–2016 term of office.

Audit Board

On 27 April 2012, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2012–2013 term of office.

Governing Board and Enlarged Governing Board

On 18 April 2012, the Federal Council appointed:

Thomas J. Jordan, Vice Chairman of the Governing Board, to Chairman of the Governing Board, with immediate effect;

Jean-Pierre Danthine, Member of the Governing Board, to Vice Chairman of the Governing Board, with immediate effect.

On 18 April 2012, the Federal Council appointed:

Fritz Zurbrügg, Director of the Federal Finance Administration, to Member of the Governing Board, with effect from 1 August 2012.

Bank management

The Bank Council approved the following promotion to the position of Director, with effect from 1 January 2013:

Zsolt Madarász, Head of Operational Risk and Security.

4.1 CONSOLIDATED AND PARENT COMPANY ANNUAL RESULT

The Swiss National Bank (SNB) is reporting a consolidated profit of CHF 6.9 billion for 2012 (2011: CHF 13.1 billion, after the fair value restatement of the stabilisation fund). Consolidated foreign currency positions contributed CHF 4.5 billion to this profit figure. Interest income and price gains on interest-bearing paper and instruments reached CHF 8.4 billion, and dividend income and price gains on equity securities and instruments CHF 6.7 billion. Taken together, these figures were considerably higher than the exchange rate-related losses of CHF 10.6 billion. The net result from gold amounted to CHF 1.4 billion.

Summary

At CHF 6.0 billion, the result for the parent company, on which the profit distribution is based, is CHF 938.7 million less than the consolidated result. The difference is due to the inclusion of the stabilisation fund companies in the consolidated result. The stabilisation fund's accounting principles were changed in 2012. This has also affected the 2011 comparative figures (fair value restatement).

For the 2012 financial year, the SNB has set the allocation to the provisions for currency reserves at CHF 3.6 billion. The distributable profit remaining after this allocation is CHF 2.4 billion. 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.

At CHF 48,815 per kilogram, the price of gold was CHF 1,342 higher than at the end of 2011 (CHF 47,473). A valuation gain of CHF 1.4 billion was recorded on the unchanged holdings of 1,040 tonnes of gold (2011: CHF 5.4 billion).

Increase in price of gold

**Contribution of foreign
currency positions to profit**

In 2012, CHF 6.0 billion in interest income and CHF 1 billion in dividend income from foreign currency investments were recorded at consolidated level. The generally lower interest rate level resulted in price gains of CHF 2.4 billion on interest-bearing paper and instruments. Equity securities and instruments benefited from the favourable stock market environment and contributed CHF 5.7 billion to income. By contrast, an exchange rate loss of CHF 10.6 billion was recorded. This was mainly attributable to the appreciation of the Swiss franc against the Japanese yen (–12.9%), resulting in an exchange rate loss of CHF 4.7 billion, and the appreciation against the US dollar (–2.7%), resulting in an exchange rate loss of CHF 4.8 billion. Taking into account the various other elements of the income statement, consolidated foreign currency positions resulted in a profit of CHF 4.5 billion (2011: CHF 7.7 billion).

**Profit on Swiss franc
positions**

Swiss franc positions showed a profit of CHF 101.1 million overall (2011: net loss of CHF 162.7 million). The net result from securities amounted to CHF 131.6 million.

As a result of the foreign currency purchases carried out to enforce the minimum exchange rate, Swiss franc liquidity expanded very significantly. This led to a drop in the already low level of trading activity on the repo market. Expenses of CHF 14.4 million resulted from liquidity-providing repo transactions due to the exceptional interest rate situation.

Given the measures to counter the strength of the Swiss franc, liquidity-absorbing operations were terminated as early as 2011. The last of the SNB's own debt certificates (SNB Bills) fell due in July 2012. Interest paid on these SNB Bills resulted in expenses of CHF 10.5 million in the year under review.

**Positive result achieved
by stabilisation fund**

The changeover to fair value for the stabilisation fund's accounting principles as of 1 October 2012 reflects the improvement in market conditions for the assets held by the stabilisation fund. The adjustments in the accounting principles do not impact the liquidation and asset management strategy of the stabilisation fund.

A profit of CHF 2.0 billion was reported at consolidated level (2011: CHF 0.4 billion, after fair value restatement) on the stabilisation fund investments. These benefited from favourable developments on securitisation markets and recorded valuation gains.

Taking into account the other elements in the income statement, as well as the loss protection arrangements, the stabilisation fund contributed CHF 939 million to the consolidated result (2011: CHF 23 million, after fair value restatement).

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

Operating expenses

These expenses increased by CHF 10.4 million (3.6%) to CHF 302.2 million (2011: CHF 291.9 million).

The successful continuation of the stabilisation fund's liquidation strategy resulted in further principal repayments on the SNB loan. It decreased from CHF 7.6 billion to under CHF 4.4 billion. In the same period, additional contingent liabilities declined by CHF 60.6 million to CHF 750.0 million.

Reduction in loan to stabilisation fund

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, 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 of suspending the profit distributions completely for a certain period, or carrying 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.

The reduction of the stabilisation fund will continue. This will be achieved, on the one hand, by regular cash flows from principal repayments and interest payments from the portfolio and, on the other hand, by selling if the opportunity arises. The speed with which assets are reduced and the SNB loan is repaid, as well as the stabilisation fund's business result, depend on future developments in the relevant markets.

4.2 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.

The SNB requires currency reserves to ensure it has room for manoeuvre in its monetary policy at all times. Moreover, these reserves serve to engender confidence, and to prevent and overcome potential crises. At present, the level of the currency reserves is dictated directly by the implementation of monetary policy, or by the enforcement of the minimum exchange rate.

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 determining the level of provisions and is free to deviate from this yardstick.

Allocation from 2012 annual result

In its annual review, the Bank Council resolved in December 2012 to continue basing the calculation of the allocation for the year under review on twice the average nominal GDP growth rate. Consequently, the allocation amounts to CHF 3.6 billion.

Development in last five years

PROVISIONS

	Growth in nominal GDP In percent (average period) ¹	Annual allocation In CHF millions	Provisions after allocation In CHF millions
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
2012 ²	3.7 (2006–2010)	3 568.0	51 783.6

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 resolution.

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

The portion of the annual result remaining after the allocation to the currency reserves corresponds to the distributable profit as per art. 30 para. 2 NBA. Together with the distribution reserve, this makes up the net profit/net loss, as per art. 31 NBA. If there is a net profit, this is used for distributions.

Distributable annual profit and net profit

For 2012, the distributable profit amounted to CHF 2.4 billion.

4.3 DIVIDEND AND PROFIT DISTRIBUTION

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.

Dividends

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.

Profit distribution to Confederation and cantons

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.

Distribution agreement

The FDF and the SNB revised their agreement on the profit distribution in 2011. The revised agreement covers the profit distributions for the financial years 2011–2015. The annual distribution amounts to CHF 1 billion and will only be made if it does not render the distribution reserve negative. If the distribution reserve after appropriation of profit exceeds CHF 10 billion, the distribution for the business year in question is increased. The amount to be distributed is agreed between the SNB and the FDF, and the cantons are informed.

For 2012, 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 for 2012

Distribution reserve

Since the distribution reserve showed a value of CHF 3.9 billion following last year's profit appropriation, a net profit of CHF 6.3 billion remains after allocating the 2012 distributable profit. 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 5.3 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
2008	22 871.7	-5 736.0	17 135.7	2 501.5	14 634.2
2009	14 634.2	6 900.1	21 534.3	2 501.5	19 032.8
2010	19 032.8	-21 531.3	-2 498.5	2 501.5 ²	-5 000.0
2011	-5 000.0	9 874.7	4 874.7	1 001.5	3 873.2
2012 ³	3 873.2	2 388.1	6 261.3	1 001.5	5 259.8

1 Total at year-end as per balance sheet (p. 133).

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.

4.4 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 CURRENCY RESERVES

In CHF millions

	31.12.2012	31.12.2011	Change
Gold holdings	50 767.5	48 662.5	+2 105.0
Claims from gold transactions	4.0	717.5	-713.5
Total gold reserves	50 771.5	49 379.9	+1 391.6
Foreign currency investments ¹	432 208.9	257 504.2	+174 704.7
Less: associated liabilities	-5 012.4	-546.2	-4 466.2
Derivatives (replacement values, net)	-38.5	92.1	-130.6
Total foreign exchange reserves ²	427 158.0	257 050.1	+170 107.9
Reserve position in the IMF	2 804.2	3 134.5	-330.3
International payment instruments	4 249.2	4 621.2	-372.0
Total currency reserves	484 982.8	314 185.7	+170 797.1

1 At the end of 2011, 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.

4.5 MULTI-YEAR COMPARISON OF ASSETS AND LIABILITIES

The major activity in 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. In 2012, extensive foreign currency purchases were necessary to enforce the minimum exchange rate, which led to an additional expansion of the balance sheet total.

On the assets side of the balance sheet, the effects of the various measures were particularly apparent in the volume of foreign currency investments, which increased as a result of both foreign currency purchases and foreign exchange swaps. Foreign currency investments more than doubled between the end of 2010 and 2012. In the second half of 2011, liquidity-providing repo transactions were resumed, after having been discontinued during 2010. As a result of the foreign currency purchases carried out to enforce the minimum exchange rate, Swiss franc liquidity expanded very significantly in 2012. No further liquidity-providing repo transactions were performed. 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 issuance of SNB Bills and liquidity-absorbing repo transactions. Due to measures to counter the strength of the Swiss franc, sight deposits of domestic banks and other sight deposits rose substantially in the second half of 2011 and 2012. From the beginning of August 2011, 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 last SNB Bills fell due in 2012.

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 investments since the end of 2010.

YEAR-END VALUES OF BALANCE SHEET ASSETS (AGGREGATED)

In CHF millions

	2012	2011	2010	2009	2008
Gold holdings and claims from gold transactions	50 772	49 380	43 988	38 186	30 862
Foreign currency investments	432 209	257 504	203 810	94 680	47 429
Various foreign currency assets ¹	7 332	8 057	6 038	7 136	1 296
Claims from US dollar repo transactions	–	371	–	–	11 671
Credit balances from swap transactions	–	–	–	2 672	50 421
Claims from Swiss franc repo transactions	–	18 468	–	36 208	50 321
Swiss franc securities	3 757	3 675	3 497	6 543	3 597
Loan to stabilisation fund	4 378	7 645	11 786	20 994	15 248
Sundry ²	986	980	836	846	3 479
Total assets	499 434	346 079	269 955	207 264	214 323

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

	2012	2011	2010	2009	2008
Banknotes in circulation	61 801	55 729	51 498	49 966	49 161
Sight deposits of domestic banks	281 814	180 721	37 951	44 993	37 186
Other sight deposits ¹	78 910	30 332	5 619	5 927	5 184
Liabilities towards the Confederation	9 008	5 648	5 347	6 183	8 804
SNB debt certificates in Swiss francs	–	14 719	107 870	7 788	24 425
Liabilities from Swiss franc repo transactions	–	–	13 182	–	–
Other term liabilities	–	366	–	–	29 415
Foreign currency liabilities ²	9 632	5 286	5 805	26 447	420
Sundry ³	199	162	96	64	1 286
Provisions for currency reserves	48 216	45 061	44 337	41 282	40 275
Share capital	25	25	25	25	25
Distribution reserve (before appropriation of profit)	3 873	–5 000	19 033	14 634	22 872
Annual result	5 956	13 029	–20 807	9 955	–4 729
Total liabilities	499 434	346 079	269 955	207 264	214 323

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.