

Ladies and Gentlemen

The Swiss National Bank (SNB) conducts the country's monetary policy as an independent central bank, on the basis of the Federal Constitution and the National Bank Act (NBA). The first part of this *106th Annual Report* comprises the SNB's accountability report to the Federal Assembly, and provides information about how the SNB has fulfilled its mandate – in particular its conduct of monetary policy and contribution to the stability of the financial system.

The second part of the *Annual Report* comprises the financial report, which is submitted for approval, first to the Federal Council and then to the General Meeting of Shareholders. The financial report provides information on organisational and operational developments as well as the financial result of the SNB. The financial report includes the business report and the annual financial statements of the SNB, which contain the balance sheet, income statement, changes in equity, cash flow statement and notes.

In 2013, the after-effects of the financial and economic crisis continued to dominate. In a difficult environment, it was necessary for the SNB to ensure monetary conditions that were appropriate for the Swiss economy. In an environment of negative inflation and extremely low interest rates, the minimum exchange rate of CHF 1.20 continued to be the focus of monetary policy implementation. Buoyed by favourable financing conditions and a gradual economic recovery in Europe, the Swiss economy progressed favourably. Growth accelerated and unemployment did not increase further in the second half of the year. Nevertheless, increasing imbalances in the mortgage and real estate markets gave cause for concern. In an effort to strengthen the resilience of the financial system and counter the build-up of systemic risk, the SNB submitted a proposal to the Federal Council requesting that the countercyclical capital buffer (CCB) be activated. On 13 February 2013, the Federal Council agreed to this proposal and, on 22 January 2014, increased the CCB, at the proposal of the SNB.

In November 2013, the SNB sold to UBS the stabilisation fund which it had set up to take over illiquid assets from UBS. An exceptional and challenging undertaking was thus brought to a successful conclusion. The stabilisation fund was part of the package of measures adopted by the authorities in autumn 2008 to strengthen the Swiss financial system and it fulfilled its objective in that it shored up confidence in Switzerland's financial system considerably during a critical phase.

At operational level, the opening of a branch office in Singapore represented a new development. The branch allows for a more efficient management of foreign currency investments in Asia and facilitates round-the-clock monitoring of foreign exchange markets. In addition, the modernisation of the SNB pension fund was expedited. In this context, the changeover from a defined benefit to a defined contribution system was implemented with effect from 1 January 2014.

Following the sale of the stabilisation fund, the SNB no longer constitutes a group and will therefore not be presenting consolidated financial statements.

In 2013, the annual financial statements of the SNB closed with a loss of CHF 9.1 billion, following a profit of CHF 6.0 billion in the previous year. The negative annual result was mainly attributable to valuation losses of CHF 15.2 billion on gold holdings. These losses were not offset by the profit of CHF 3.1 billion on foreign currency positions and the net result of CHF 3.4 billion from the sale of the stabilisation fund.

After allocation of CHF 3.0 billion to the provisions for currency reserves, an annual result of CHF –12.1 billion remained. This loss is considerably higher than the distribution reserve of CHF 5.3 billion. As stipulated in the NBA and the profit distribution agreement between the Federal Department of Finance and the SNB of 21 November 2011, the SNB can neither pay a dividend to the shareholders nor make a profit distribution to the Confederation and the cantons for the year 2013.

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

Berne and Zurich, 28 February 2014



JEAN STUDER
President of the Bank Council



THOMAS J. JORDAN
Chairman of the Governing Board