



**Speech**

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## **Spotlight on SNB profits and shares**

110th Ordinary General Meeting of Shareholders  
of the Swiss National Bank

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Swiss National Bank

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Dear Shareholders  
Ladies and Gentlemen  
Dear Guests

I am sure you will remember the headlines from the beginning of the year. Titles like “SNB in the money”, “double manna from the SNB” and “SNB makes the cantons happy”. They were of course alluding to our record profit for the 2017 financial year. However, in forming an opinion about this result, it should be borne in mind that the SNB’s mandate requires it to act in the interests of the country as a whole, rather than focusing on returns. In the first part of my speech I will therefore discuss our annual result, explain how it came about and how the profit is used. In the second part, I will take a closer look at the ownership of our shares and the characteristics of our institution as a special-statute joint-stock company. My motivation in doing so is the soaring price of the SNB share over the past few months, a development that has surely not escaped your attention. In this connection, I would like to remind you, as shareholders, of the features of the SNB share.

### **How profits arise and how they are used**

First, let me address the question of why the SNB has been able to post record high profits of CHF 54 billion for 2017. As you know, our foreign exchange reserves have grown substantially in recent years in the wake of monetary policy measures taken to combat the strong Swiss franc, specifically as a result of foreign currency purchases. At the end of 2017, these foreign exchange reserves stood at approximately CHF 744 billion. The SNB invests its foreign currency in broadly diversified asset classes and currencies. In the past year, the Swiss franc weakened markedly, particularly against the euro, and global stock markets boomed. We benefited from these favourable developments, with exchange rate and share price gains contributing CHF 43 billion to our result. In addition, interest and dividend income totalled CHF 13 billion. Taking into account price movements in bonds, which produced a loss of CHF 6 billion on the back of rising interest rates, foreign currency positions posted a profit of almost CHF 50 billion. A CHF 3 billion valuation gain on gold holdings and CHF 2 billion income from negative interest on sight deposits held at the SNB also contributed to the result. This shows that the reported profit is largely a valuation gain on investments at the end of the financial year.

Let me once again stress that the SNB’s overarching goal is not to generate maximum profits. Rather, management of our currency reserves serves the requirements of monetary policy. This means that the SNB must ensure that it is able to expand or reduce the balance sheet at any time, if monetary policy so requires. At the same time, however, management of our assets should also preserve the value of our currency reserves.

Our annual result depends heavily on movements in exchange rates, the capital markets and the gold price. This also means that the result can fluctuate widely. Not only is a very high profit possible, as in 2017, but also a heavy loss. Given the vast expansion in the foreign exchange reserves in recent years, even small exchange rate variations lead to substantial

fluctuations in earnings. The expansion of the balance sheet has therefore also increased the risks, a fact that is taken into account in profit distribution.

This leads me to the question of how the profit for 2017 will be distributed. There has been no shortage of suggestions as to how it could be deployed. Since January's announcement of an unusually high profit, a range of proposals have been put forward from various parties. It is completely understandable that such a large sum of money should capture the imagination and be eyed with eager anticipation. However, as I mentioned earlier, the SNB has no room for manoeuvre in this area. The National Bank Act (NBA) specifies clearly and conclusively how the profits are to be allocated. The purpose of these provisions is to preserve the SNB's capacity to act in the long term. The current environment shows just how important this is. The fulfilment of its monetary policy mandate has led, as I mentioned earlier, to a huge expansion in the balance sheet, which increases risk exposure. The SNB must be able to bear these risks, now and in the future.

This is why the annual result is used, first, to top up the provisions for currency reserves. The provisions are the most important component of the SNB's equity capital and must be maintained at the level required by monetary policy considerations. The allocation to the provisions is based on the performance of the Swiss economy, with the level being determined by the nominal GDP growth rate. However, the allocation must correspond to a minimum of 8% of total provisions at the end of the previous year, in order to ensure that the balance sheet is strengthened even in periods of low nominal GDP growth. Just such a minimum allocation was applied in 2017, boosting the provisions by CHF 5 billion.

The portion of the annual result remaining after allocation to the provisions for currency reserves represents the distributable profit. Together with the distribution reserve (that is the earnings or losses of the previous year brought forward), it constitutes the net profit/net loss. If a net profit has been achieved, a dividend not exceeding 6% of the share capital is paid out in accordance with the NBA. For the 2017 financial year, the maximum dividend of CHF 15 per share will be paid out.

One-third of any net profit remaining after the distribution accrues to the Confederation, and two-thirds to the cantons. On the basis of the current agreement between the Federal Department of Finance and the SNB, the Confederation and the cantons receive a total of CHF 2 billion for 2017. The remainder of the profit is allocated to the distribution reserve. The distribution reserve, which now stands at CHF 68 billion, serves as a buffer to help smooth the SNB's profit distributions to the Confederation and the cantons from year to year.

The rules for the profit distribution and the associated policy on provisions have proved their worth. They are aimed at ensuring a solid capital base and thus help the SNB to retain its room for manoeuvre in fulfilling its monetary policy mandate over the long term. Equally, the rules permit surplus capital to be paid out to the Confederation and the cantons over time.

## **SNB shares and share ownership**

Let me now turn to my second topic, one that is likely to be of particular interest to you as shareholders, the SNB share. Before addressing recent share price movements, let me first look at the breakdown of our shareholdings from a slightly longer-term perspective, as this too reflects the special nature of our institution.

Our shareholder base has remained remarkably stable over succeeding decades. Since the SNB was founded in 1907, the cantons have held almost 40% of share capital. The cantonal banks (formerly issuing banks) hold nearly 12%. Altogether, public sector shareholders held over half of the SNB shares at the end of 2017. The other half was in the hands of private shareholders, although because of the restriction on voting rights, which I will address later, their voting power was just under 24%. The voting rights of the cantons and cantonal banks, as well as other public authorities, specifically municipalities, thus came to over 76%. Since the beginning of the 1990s, private shareholders have also included foreign shareholders. At the end of 2017, they held 10% of the share capital and their share of voting rights was 3.1%.

Where there has been a change, though, is in the proportion of shares that has not been entered in the share register. This rose again in 2017, reaching almost 22% at the end of the year; ten years ago it was just 14%. We do not know who the owners of these shares are, and they are also unable to attend our general meeting, which of course is regrettable. It would be preferable if these shareholders registered their holdings and the number of unregistered shares did not rise further.

The Confederation is not a shareholder. Since the SNB serves the general public, both the Constitution and Swiss legislation grant the Confederation participation and supervision rights, without the need for it to hold shares. They include the right of the Federal Council to appoint the majority of Bank Council members (six of eleven), among them the president and vice president. It is also the Federal Council's responsibility to appoint the three members of the SNB Governing Board, including the chairperson and vice chairperson, and the three deputy members (all based on the Bank Council's recommendation). Moreover, the SNB is obliged to submit its financial report to the Federal Council for approval before it can be adopted by the General Meeting of Shareholders.

Now let me shift perspective and turn to the increase in the SNB share price observed since mid-2017, in particular. Whereas share prices have occasionally fluctuated quite considerably in the past, this latest rise has been so sharp that it has attracted a good deal of attention and triggered some speculation as to the potential causes. Even though the SNB refrains, in principle, from commenting on its share price performance, I am fully aware that this current movement may raise questions.

I am therefore taking the rise in the share price as an opportunity to remind you of some particular and generally known features of both the SNB share and shareholders' rights at the SNB. Since the foundation of the SNB, its legal form has been that of a special-statute joint-stock company. This combines elements from private and public law. While the public-law

component expresses the SNB's mandate to act in the interests of the country as a whole, the private element helps to ensure its independence. As far as the provisions of company law are concerned, they only apply unless otherwise specified in the NBA.

Compared to shareholders in other joint-stock companies, the participatory and property rights of SNB shareholders are heavily restricted. Participatory rights are limited in that the general meeting of shareholders can only elect five of the eleven members of the Bank Council. Furthermore, shareholders' voting rights are limited to a maximum of 100 shares, with the exception of Swiss public-law corporations and cantonal banks.

The property rights restrictions include the NBA's explicit provisions on the appropriation of profit as discussed earlier. The level of the dividend is also defined in the NBA; it may not exceed 6% of the share capital. As we have seen, even a high profit in the preceding year does not change this. The reason for this limitation in the dividend is that SNB profits are not generated from the deployment of share capital but from the fact that the SNB has the note-issuing privilege (in other words, the exclusive right to issue banknotes), and fulfils a public mandate. Profits, therefore, do not accrue primarily to the shareholders but to the public sector.

The same applies to the assets. In accordance with art. 32 of the NBA, even in the event of the SNB's liquidation shareholders would have no right to its assets. The wording of the dispatch on the NBA amendment of June 2002 clearly indicated that this explicit regulation in the article on liquidation is also important with respect to stock market trading: "It helps to reduce the likelihood of speculative overvaluation of SNB shares as occasionally occurs on the basis of misunderstandings regarding the rights of SNB shareholders."

Finally, it is worth mentioning in this context that the question of buying out private shareholders came up during the consultation phase for the new NBA. After thorough examination, the idea was rejected and no amendment was made. To date, there has been no change in this position.

As I said before, the elements I have just outlined will all be very familiar to you. However, I thought it appropriate, in the light of our share performance, to bring them to your attention once again.

## **Concluding remarks**

A central bank should be judged by its success in fulfilling its mandate, which is to conduct a monetary policy serving the interests of the country as a whole. In just a minute, the Chairman of the Governing Board, Thomas Jordan, will explain how the SNB fulfilled this mandate in 2017.

From my perspective, I would once again like to emphasise that the SNB's specific public mandate makes it a distinctive institution. Unlike other companies, the level of its profits is no indicator of how successfully it has fulfilled its mandate. In fact, in the interests of the country as a whole, it may be necessary to make loss-making monetary policy decisions. Thus, the

annual result can fluctuate widely. It is therefore essential that the SNB is appropriately equipped and adheres to its prudent policy on provisions. Last year's exceptionally high profit is no reason to waver from this approach, quite the contrary. Given the size of our balance sheet, it is particularly important to preserve the SNB's capacity to act in the long term.

The special-statute joint-stock company legal form means that SNB shares are unlike other shares. They are subject to certain restrictions on shareholder rights imposed by law. This bespoke legal form offers our institution an appropriate framework so that it can fulfil its mandate as effectively as possible with the necessary independence. However, the special character of SNB shares means that they are less a conventional investment than a means for shareholders to express their solidarity with our institution.

On behalf of the entire Bank Council, I would like to take this opportunity to thank you for your support, your loyalty and especially for your participation in today's general meeting. Let me also thank the Governing Board for an excellent working relationship, which has always been productive and rewarding. Lastly, I would like to pay tribute to the SNB's staff who work tirelessly in the service of our institution.