102nd Annual Report

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

2009

Goals and responsibilities of the Swiss National Bank

Mandate

The Swiss National Bank conducts the country's monetary policy as an independent central bank. It is obliged by Constitution and statute to act in accordance with the interests of the country as a whole. Its primary goal is to ensure price stability, while taking due account of economic developments. In so doing, it creates an appropriate environment for economic growth.

Price stability

Price stability is an important condition for growth and prosperity. Inflation and deflation, by contrast, impair economic activity. They are inhibiting factors for the decisions of consumers and producers, lead to misallocations of labour and capital, result in income and asset redistributions, and put the economically weak at a disadvantage.

The National Bank equates price stability with a rise in the national consumer price index of less than 2% per annum. Deflation, i.e. a protracted decline in price levels, is considered to be equally detrimental to price stability. The SNB takes its monetary policy decisions on the basis of an inflation forecast and implements them by steering the three-month Libor for Swiss franc investments.

Supplying the money market with liquidity

The National Bank provides the Swiss franc money market with liquidity by influencing the interest rate level in the money market.

Cash supply and distribution

The National Bank is entrusted with the note-issuing privilege. It supplies the economy with banknotes that meet high standards with respect to quality and security. It is also charged by the Swiss Confederation with the task of coin distribution.

Cashless payment transactions

In the field of cashless payment transactions, the National Bank provides services for payments between banks. These are settled in the Swiss Interbank Clearing (SIC) system via sight deposit accounts held with the National Bank.

Investment of currency reserves

The National Bank manages the currency reserves. These engender confidence in the Swiss franc, help to prevent and overcome crises and may be utilised for interventions in the foreign exchange market.

Financial system stability

The National Bank contributes to the stability of the financial system. Within the context of this task, it analyses sources of risk to the financial system, oversees systemically important payment and securities settlement systems and helps to promote an operational environment for the financial sector.

International monetary cooperation

Together with the federal authorities, the National Bank participates in international monetary cooperation and provides technical assistance.

Banker to the Confederation

The National Bank acts as banker to the Confederation. It processes payments on behalf of the Confederation, issues money market debt register claims and bonds, handles the safekeeping of securities and carries out money market and foreign exchange transactions.

Statistics

The National Bank compiles statistical data on banks and financial markets, the balance of payments, the international investment position and the Swiss financial accounts.

Swiss National Bank
102nd Annual Report 2009

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 report, to the General Meeting of Shareholders for approval and attention, respectively.

The first part of the SNB's *102nd Annual Report* comprises the accountability report to the Federal Assembly (cf. pp. 6 et seq.). This is submitted to the General Meeting of Shareholders for information purposes only, and does not require their approval. It describes the economic and monetary developments in 2009 and explains in detail how the National Bank 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. 8 et seq.

In 2009, governments and central banks were again confronted with substantial challenges. Following shocks to the financial system in autumn 2008, the global economy was threatened by severe crisis. Authorities responded by implementing extensive measures aimed at stabilising the financial markets and the economy. This decisive intervention played a significant role in ensuring the economic downturn was less pronounced than initially anticipated. From the first quarter onwards, confidence began to return to financial markets, which was reflected in rising share prices and falling risk premia. Bolstered by a vigorous increase in government demand and an exceptionally expansionary monetary policy, from mid-year onwards the economic situation also began to improve, initially in the emerging economies of Asia and in Europe, and slightly later in the US.

By the end of 2009, the global economy was on the road to recovery. The level of uncertainty, however, remained high, and estimates for the economic outlook in 2010, while optimistic, were cautious. Governments and central banks foresee new challenges ahead. On the one hand, it is important that monetary and fiscal support measures be scaled back without jeopardising economic recovery. On the other, the courses of action envisaged in 2009 to improve stability in global financial systems must be coordinated and implemented.

The second part of the *Annual Report* comprises the financial report for the attention of the Federal Council and the General Meeting of Shareholders (cf. pp. 100 et seq.). It includes the business report, which deals with organisational and operational developments at the National Bank as well as the bank's financial results. The financial report also includes the annual financial statements of the SNB (parent company), containing the balance sheet, income statement and notes, the financial information on the stabilisation fund (pp. 163–172), and the legally prescribed consolidated financial statements (pp. 173–186).

In 2009, the annual financial statements of the SNB (parent company) closed with a profit of CHF 10.0 billion, following a loss in the previous year of CHF 4.7 billion. The year-on-year improvement was mainly due to substantial valuation gains on gold.

Since 2007, the monetary measures associated with combating the financial and economic crisis have resulted in a strong expansion in the SNB balance sheet. As a consequence, risks have also risen. The Swiss National Bank is required by the Federal Constitution to put aside sufficient monetary reserves from its profits. To this end, under terms stipulated by the NBA, the SNB sets up provisions (i. e. equity capital). In 2009, the SNB doubled its allocation to provisions for currency reserves. By doing so, the National Bank aims to further strengthen its equity capital and thereby ensure its capacity to act, even in difficult times.

Despite these provisions, the SNB is able to meet its commitment under the profit distribution agreement and pay out CHF 2.5 billion to the Confederation and cantons and increase the distribution reserve by CHF 4.4 billion to CHF 19 billion.

At 31 December 2009, taking into account the UBS equity contribution, the stabilisation fund showed a loss of approximately CHF 400 million. This is covered by the SNB's option for 100 million UBS shares at nominal value. The consolidated annual profit thus corresponded to that of the SNB (parent company).

We wish to thank the bank authorities as well as our employees for their substantial efforts and valuable support over the past year.

Berne and Zurich, 26 February 2010

Hansueli Raggenbass
President of the Bank Council

Philipp M. Hildebrand
Chairman of the Governing Board

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Accountability report

Accountability report

On 10 March 2010, the Governing Board of the Swiss National Bank submitted its accountability report for 2009 to the Federal Assembly in accordance with art. 7 para. 2 of the National Bank Act. The following accountability report is submitted to the Federal Council and the General Meeting of Shareholders for information purposes only and does not require their approval.

Summary

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. This report on the year 2009 is structured in line with art. 5 NBA, with a separate section devoted to each of the eight tasks listed there.

Monetary policy

(1) The National Bank pursues a monetary policy serving the interests of the country as a whole. It must ensure price stability, while taking due account of economic developments. Monetary policy affects production and prices with a considerable time lag. Consequently, monetary policy is based on inflation forecasts rather than current inflation. The monetary policy strategy consists of three elements: the definition of price stability, a medium-term inflation forecast and an operational target range for the targeted money market rate.

At the end of 2008, the world economy entered a deep recession, brought on by the severe crisis that had shaken the global financial system in the autumn. This led to an abrupt loss of confidence on financial markets, a reduction in lending and heavy asset losses. As a result, economic activity declined markedly, both in the advanced industrial economies – above all the US and Europe – and in the emerging economies. Faced with a rapid deterioration of economic conditions and a high degree of uncertainty over the further repercussions of the financial crisis, a number of governments and central banks introduced extensive measures to stabilise the financial system and support the economy. After the first quarter of 2009, the situation on the financial markets eased, and the economic downturn came to a halt. Around mid-year, a strong recovery began in emerging Asia. The economic situation in the US and Europe also started to improve, albeit to a lesser extent. Despite this improvement, average annual global GDP for 2009 fell by an estimated 0.8%, the first decline since the Second World War.

In Switzerland, the recession lasted until mid-2009. The export industry was hardest hit, bearing the full brunt of the slump in global trade. By contrast, the economy was supported by private consumption and residential construction, with the latter benefiting from both the low level of interest rates and the economic stimulus measures implemented by the authorities. In the second half of the year, the nascent recovery in the world economy led to a slight improvement. Real GDP rose once again, but could not offset the fall in output experienced at the start of the year. In addition, unemployment increased markedly up to the end of the year.

The SNB continued to face major challenges in 2009. As a result of the slump in exports and the upward pressure on the Swiss franc, there was a risk that deflationary trends might be amplified. For the SNB, the primary objective was to contain this risk and support the economy. At its quarterly assessment in March, the SNB decided on another major relaxation of monetary conditions. It lowered the target range for the three-month Libor by 0.25 percentage points to 0.0–0.75%, aiming to bring the Libor down into the lower end of the range, at around 0.25%. At the same time, it announced that it would engage in foreign currency purchases to prevent any further appreciation of the Swiss franc and thereby counter the growing risk of deflation. In addition, it would purchase Swiss franc bonds issued by domestic borrowers, in order to improve funding conditions on the Swiss capital markets. The decisive intervention had the desired effect: buoyed by the easing of tension on financial markets across the globe, risk premia on the capital market declined over the months that followed, and the Swiss franc exchange rate stabilised. At its quarterly assessments in June and September, the National Bank decided to leave its target range for the three-month Libor unchanged at 0.0–0.75% and the desired level for the Libor at 0.25%. On each occasion, it stressed its intention to continue supplying generous amounts of liquidity, and to act decisively to prevent any further appreciation of the Swiss franc. At its December quarterly assessment, the SNB kept to its expansionary monetary policy, and to its policy of preventing any excessive Swiss franc appreciation by means of foreign currency purchases. Against the background of an incipient economic recovery and an improvement in funding conditions, however, it announced that it was discontinuing its bond purchases.

Liquidity supply

(2) The SNB provides the money market with liquidity. In this way, it implements monetary policy and, when necessary, acts as lender of last resort. Since autumn 2008, the SNB had been conducting money market transactions on an unprecedented scale. In so doing, it was reacting flexibly to the ongoing tensions on the money market and providing the banking system with liquidity by means of a variety of monetary policy operations. To reabsorb liquidity from the market, the National Bank regularly issued its own interest-bearing debt certificates (SNB Bills). The one-week repo rate was close to zero throughout the year. For a few weeks after the March quarterly assessment, the SNB engaged in repo operations with terms of up to one year, in order to lower the three-month Libor further. By May, this, combined with the foreign currency purchases and the EUR/CHF swaps, had led to a substantial expansion of the liquidity in the banking system. The level of liquidity could be reabsorbed over the months that followed, but demand during monetary policy operations continued to be high for the rest of the year.

At the end of 2009, the SNB announced that, in 2010, it would open the repo market to financial market participants in Switzerland (including Liechtenstein) that do not have bank or securities dealer status. The aim is both to further strengthen the secured money market, which proved to be exceptionally robust during the crisis, and to increase the resilience of the financial system.

Cash supply and distribution

(3) The National Bank is entrusted with the note-issuing privilege. Through the banks and the postal service, it supplies the economy with banknotes and coins, the latter on behalf of the Swiss Confederation. At around CHF 45 billion, the number of banknotes in circulation was substantially higher than the previous year's figure. This is mainly due to the fact that the majority of the banknotes issued to cover increased demand in autumn 2008 in response to the financial crisis (predominantly CHF 1,000 notes) are still in circulation.

In connection with the production of the new banknote series, the project activities revealed that additional development work would bring improvements as regards those technological security features which are being used for the first time. The SNB therefore decided to postpone the issue date of the new banknote series. It expects that the first denomination of the new series can be issued in 2012.

Payment systems

(4) The SNB facilitates and secures the functioning of cashless payment systems. It maintains sight deposit accounts for banks, manages the SIC interbank payment system, participates in the relevant payment system bodies and oversees payment and securities settlement systems. In 2009, the payment and securities settlement systems once again proved themselves capable of dealing with the high level of activity. The SNB assessed the system operators' compliance with the regulatory requirements and found it to be high. It argued for improvements to the financial sector's operational crisis prevention measures and supported the international efforts to strengthen the global market infrastructure for over-the-counter derivatives.

Asset management

(5) The National Bank manages Switzerland's currency reserves. Asset management is governed by the primacy of monetary policy and is carried out according to the criteria of security, liquidity and return. The balance sheet total showed little change compared to the previous year, but the share of currency reserves increased, mainly driven by the foreign currency purchases undertaken to alleviate the upward pressure on the Swiss franc. The additional euros and US dollars acquired during the course of the year were invested in US and European short to medium-term government bonds. This also led to an increase in the shares of government bonds and the main investment currencies. The recovery on financial markets had a positive effect on all investment categories, resulting in a substantially improved investment performance compared to the previous year.

Financial system stability

(6) The SNB is charged with helping to secure the stability of the financial system. It endeavours to identify risks to the system at an early stage and works to create an environment conducive to stability. In 2009, the SNB's activities in the area of financial stability were once again shaped by the financial crisis. Together with the Swiss Financial Market Supervisory Authority (FINMA), the SNB continued to closely monitor developments in the banking system and the financial markets, and maintained its intensified oversight of the big banks. A major focus of attention was the implementation of measures to foster financial stability. This involved, in particular, work on new liquidity regulations for the big banks. The SNB also devoted itself to a closer examination of the 'too big to fail' issue – the fact that large, internationally interconnected banks cannot be allowed to fail for systemic reasons. Finally, it was actively involved in a number of international bodies that are looking at ways to improve financial system oversight.

In March and April 2009, the SNB StabFund Limited Partnership for Collective Investment (stabilisation fund), set up in October 2008 and managed by the SNB, took over the last tranches of UBS illiquid assets scheduled for transfer. The active liquidation of assets began around the middle of the year. As a result of these sales, and the substantial interest payments and repayments, the risk carried by the SNB was considerably reduced.

Monetary cooperation

(7) The SNB participates in international monetary cooperation activities. Important bodies are the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD). The global financial and economic crisis led to a sharp increase in lending by the IMF in 2009, and in turn to a deterioration of its liquidity position. In order to secure the IMF's funding capability, a number of Fund member countries either provided bilateral financing contributions or, in the case of Switzerland, offered to do so. The BIS committees in which the SNB participated focused mainly on how to improve global financial system resilience. SNB technical assistance was once again primarily granted to the countries belonging to its IMF constituency.

Banker to the Confederation

(8) The SNB provides the Swiss Confederation with banking services in the areas of payment transactions as well as liquidity and securities management. In 2009, the SNB issued money market debt register claims and bonds for a total value of CHF 36.3 billion and CHF 2.9 billion respectively, and carried out roughly 184,000 payment transactions on behalf of the Confederation.

1 Monetary policy

Overview

In 2009, economic activity in both Switzerland and the rest of the world presented a very gloomy picture. The economic crisis and the concomitant risk of deflation led the Swiss National Bank (SNB) to maintain its very expansionary monetary policy throughout the year.

In March 2009, the SNB lowered the target range for the three-month Swiss franc Libor to 0.0–0.75%, and held it at this low level for the rest of the year. In addition, it took a series of exceptional measures to counter deflationary trends and support the Swiss economy. These included interventions on the foreign exchange market and purchases of Swiss franc bonds issued by domestic private sector borrowers.

1.1 Monetary policy strategy

Constitutional and legal mandate

Article 99 of the Federal Constitution entrusts the SNB, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The mandate is explained in detail in the National Bank Act (art. 5 para. 1 NBA), which requires the SNB to ensure price stability and, in so doing, to take due account of economic developments.

The SNB is thus charged with resolving in the best general interests any conflicts arising between the objective of price stability and business cycle considerations, giving priority to price stability. The requirement to act in the interests of the country as a whole also means that the National Bank must gear its policy to the needs of the entire Swiss economy rather than the interests of individual regions or industries.

Significance of price stability

Price stability is an important condition for growth and prosperity. Inflation and deflation, by contrast, hamper economic development. They complicate decision-making by consumers and producers, lead to misallocations of labour and capital, result in income and asset redistributions, and put the economically weak at a disadvantage.

By seeking to keep prices stable, the National Bank creates an environment in which the economy can fully exploit its production potential. The aim of the SNB's monetary policy is to ensure price stability in the medium and long term. Short-term price fluctuations, however, cannot be counteracted by monetary policy.

Appropriate monetary conditions

To secure price stability, the SNB must provide appropriate monetary conditions. If interest rates remain too low for a lengthy period, the supply of money and credit to the economy will be too high, triggering an inordinate demand for goods and services. There is also the risk of excesses on the asset markets. Although such excesses boost production initially, bottlenecks occur over time and production capacity is stretched, causing a rise in the level of prices. Conversely, if interest rates are too high for a lengthy period, the supply of money and credit to the economy will be reduced, leading to a shortage of aggregate demand. This will have a dampening effect on the prices of goods and services.

Taking economic activity into account

The economy is subject to numerous domestic and foreign shocks. These cause fluctuations in the business cycle which generate pressures on prices that are more or less pronounced. Such fluctuations are inevitable. Although monetary policy is medium and long-term in nature, it can nevertheless help to limit these fluctuations.

The SNB faces highly diverse situations. The most common cause of inflationary or deflationary phases is when aggregate demand for goods and services does not move in line with the economy's production capacity. Such situations can arise, for example, as a result of unforeseen developments in the international economy, major fluctuations in exchange rates, serious government budget problems or inappropriate money supply levels in the past. Inflationary pressures increase in phases of economic overheating and decrease when production capacity is not fully utilised. Thus, the National Bank must gradually restore price stability by tightening monetary policy in the first case and easing it in the latter. Consequently, monetary policy that is geared to price stability has a smoothing effect on aggregate demand and thus encourages steady economic development.

The situation is more complex when prices rise owing to shocks that increase firms' costs and cause them to curb production. A continuous rise in the oil price is an example of such a shock. In these circumstances, monetary policy must, on the one hand, make sure that the higher production costs do not give rise to an inflationary spiral, while, on the other, ensuring that the companies affected by the shocks are not overburdened. An overhasty restoration of price stability might have adverse effects on the business cycle and employment.

Even though the SNB considers economic developments when taking monetary policy decisions, it cannot be expected to fine-tune the economy. There are too many uncertainties with respect to the cause and duration of the shocks that impair economic performance, as well as with respect to the transmission mechanisms, the time lag that elapses before monetary policy measures impact on the business cycle and prices, and the extent of their impact.

Numerous uncertainties

The monetary policy strategy in force at the National Bank since 2000 consists of the following three elements: a definition of price stability, a medium-term inflation forecast and – at operational level – a target range for a reference interest rate, the three-month Swiss franc Libor (London Interbank Offered Rate).

Monetary policy strategy

The SNB equates price stability with a rise in the national consumer price index (CPI) of less than 2% per annum. In so doing, it takes into consideration the fact that not every price increase is necessarily inflationary, and that inflation cannot be measured accurately. Measurement problems arise, for example, when the quality of goods and services improves. Such changes are not fully taken into account in the CPI calculation; as a result, measured inflation tends to be slightly overstated.

Definition of price stability

The inflation forecast performs a dual function in the SNB's monetary policy strategy. While, on the one hand, it serves as the main indicator for the interest rate decision, on the other, it is also an important communication tool for the National Bank.

Purpose of inflation forecast

The SNB reviews its monetary policy on a regular basis to ensure that it is appropriate for the maintenance of price stability. With this in mind, it publishes a quarterly forecast on the development of inflation over the next three years. The period of three years corresponds more or less to the time required for the transmission of monetary policy stimuli to the economy. Forecasts over such a long horizon involve considerable uncertainties. However, by publishing a long-term forecast, the National Bank emphasises the need to adopt a forward-looking stance and to react at an early stage to any inflationary or deflationary threats.

Quarterly publication of inflation forecast

The National Bank's inflation forecast is based on a scenario for global economic developments and on the assumption that the reference rate published at the same time as the forecast will remain constant over the entire three-year forecasting period. The forecast issued by the SNB thus maps the future development of prices based on a specific world economic scenario and an unchanged monetary policy in Switzerland. For this reason, it is not directly comparable with forecasts which incorporate expected monetary policy decisions.

Indicators upon which inflation forecast is based

In the medium and long term, the price trend depends essentially on the supply of money. For this reason, the monetary aggregates and loans are important elements in a number of quantitative models used for forecasting inflation. As regards the path of inflation in the short term, indicators relating to economic developments, as well as exchange rates and commodities prices (crude oil), are generally of greater significance.

The SNB regularly issues statements on the development of the principal indicators factored into its inflation forecast. It provides details of the models it uses in a number of its publications.

Communicating through inflation forecast

Since the inflation forecast published by the SNB takes the Governing Board's last interest rate decision into account, the probable course of future monetary policy can be deduced from the shape of the inflation curve. The inflation forecast is thus an important communication tool.

Review of monetary policy based on inflation forecast

If the inflation forecast indicates a deviation from the range of price stability, an adjustment of monetary policy could prove necessary. Should inflation threaten to exceed 2% on a longer-term basis, the SNB would thus consider tightening its monetary policy. Conversely, it would tend towards relaxation if there were a threat of deflation.

The SNB does not react mechanically to its inflation forecast. It also takes account of the general economic situation in its monetary policy decisions. If inflation temporarily exceeds the 2% ceiling as a result of one-off factors, such as a sudden surge in oil prices or strong exchange rate fluctuations, monetary policy does not necessarily need to be adjusted. The same applies to short-lived deflationary pressures.

Libor target range

The National Bank implements its monetary policy by fixing a target range for the three-month Swiss franc Libor. The Libor is a reference interest rate in the interbank market for unsecured loans. It is a trimmed mean of the rates charged by 12 leading banks and is published daily by the British Bankers' Association. The National Bank publishes its target range regularly. As a rule, this range extends over 1 percentage point, and the SNB generally aims to keep the Libor in the middle of the range.

The SNB undertakes quarterly economic and monetary assessments at which it reviews its monetary policy. If circumstances so require, it will also adjust the Libor target range in between these quarterly assessments. It sets out the reasons for its decisions in press releases.

Repo transactions (repo = repurchase agreement) are the main instrument used by the SNB to manage the money supply and the Libor. To increase liquidity and lower the Libor, the SNB buys securities from a commercial bank and credits the latter's sight deposit account with the countervalue. At the same time, the commercial bank undertakes to repurchase the securities at a later point in time. For the duration of the transaction, the commercial bank receives a secured Swiss franc loan, on which it pays interest (repo interest rate).

Monetary policy instruments

In addition to repos, the SNB can also make use of a number of supplementary monetary policy instruments for the purposes of managing the Libor, supplying the money market with liquidity and influencing risk premia on the money and capital markets. They include currency swaps, purchases of foreign exchange and purchases of Swiss franc bonds issued by domestic private sector borrowers. These instruments are generally only used in exceptional circumstances, for example if short-term interest rates are close to zero but there is a need for further monetary policy relaxation.

The National Bank regularly issues its own interest-bearing debt certificates. In this way, it can absorb large amounts of liquidity as necessary, thereby increasing its room for manoeuvre in liquidity management.

1.2 International economic developments

At the end of 2008, the global economy fell into deep recession after having grown by 3% in the previous year. According to estimates by the International Monetary Fund (IMF), global gross domestic product (GDP) declined by 0.8% in 2009, the first drop since the second world war. The recession affected developed economies to the same extent as it did the emerging, strongly export-geared economies.

Global recession

The main cause of the economic crisis was the severe disruption of the global financial system following the collapse of the US investment bank Lehman Brothers in September 2008. This led to a drastic reduction in inventories and cutbacks in private consumption, particularly in the field of consumer durables. Manufacturing and world trade were particularly heavily affected by the decline in demand, with the latter additionally hampered by the difficulties in export financing.

Decisive action by governments

In view of the difficult situation on financial markets and the rapid deterioration in the economic environment, central banks reduced their reference interest rates to extremely low levels. At the same time, they made generous amounts of liquidity available to interbank markets and took measures to support credit markets. For their part, governments provided considerable resources for stabilising systemically important institutions and supporting demand.

Situation eases on financial markets

The decisive intervention by central banks and governments made a substantial contribution to halting the downward spiral. As confidence gradually returned, conditions improved on the financial markets. From the first quarter, markets for riskier instruments recovered. From March to December, share prices rose by almost 70% and volatility halved. On money and capital markets, risk premia fell to half their previous levels while the number of new issues increased sharply.

The improvement in financial conditions was a major prerequisite for a recovery in the economy. At the end of the first quarter, several leading economic indicators, such as business activity and consumer confidence, suggested a turn for the better. In the months that followed, manufacturing output and exports began to pick up again. The recovery was strongest in the emerging economies of Asia. In Europe, Germany and France were already posting positive GDP growth figures in the second quarter.

Gradual emergence from recession in the US

In the US, the substantial drop in economic activity at the beginning of 2009 gave way in the second half of the year to moderate growth. Over the year as a whole, GDP fell by 2.4%. Apart from public expenditure, all components of demand fell substantially. Residential and corporate investment, including inventories, were particularly strongly affected. Exports – which were hit by the drop in global demand – also tumbled.

As a result of the relaxation on the credit markets and government measures to support the economy, in particular the automobile industry and residential construction, GDP increased again in the third quarter. For the first time in almost four years, residential investment showed positive growth. However, the recovery did not check the rise in unemployment, which climbed by 2.6 percentage points during the year to reach 10.0% in December, the highest level since 1983.

Recovery in euro area, too

In the euro area, the decline in GDP in 2009 (–3.9%) was greater than in the US. This was chiefly due to the immense drop in exports in the first quarter (–32%, seasonally adjusted and annualised). This led to a major reduction in investment and weakened private consumption. The countercyclical government expenditure measures constituted the sole contribution to growth.

One of the countries most seriously affected by the crisis was Germany. On the one hand, it has a large export sector and therefore felt the effects of the global decline in demand more strongly than other countries. On the other, major industrial sectors such as the automobile industry are largely financed through bank lending. Consequently, the deterioration in lending conditions hit them with full force.

In the second half of the year, there was an upturn in economic activity in the euro area. Exports rose, particularly those destined for Asia, and the inventory liquidation process came to an end. At the same time, vehicle scrappage schemes aimed at stimulating automobile purchases also helped to support private consumption.

With unemployment up by 1.8 percentage points to 10% in December, the economic crisis had a noticeable impact on the labour market. However, in terms of the decline in GDP, the rise in unemployment was not nearly as acute as in the US. This is probably due, first and foremost, to the widespread introduction of short-time working, which allowed companies to avoid some lay-offs.

Sharp recession and strong recovery in Asia

The drop in global demand thrust the emerging economies of Asia – apart from China – into sharp recession. In January 2009, industrial production was almost 30% below the year-back figure. By contrast, the Chinese economy retained positive growth figures thanks to comprehensive government measures to stimulate domestic demand.

The second quarter saw a recovery in the Asian electronics and automobile industry which spread to the other sectors in the second half of the year. By the end of 2009, the emerging Asian economies had regained their pre-crisis levels of economic activity.

In addition to the expansionary monetary and fiscal policies and the conclusion of inventory liquidation, the strength of the recovery in Asia was due in particular to the normalisation of international export financing. In Japan, however, the recovery was comparatively moderate because of the persistently low level of residential construction and equipment investment. Over the year as a whole, Japanese GDP fell by 5.2%.

Clear drop in inflation – moderate core inflation

Following average global inflation in excess of 3% in 2008, the advanced economies experienced stable prices in 2009. In the euro area, the consumer price index (CPI) increased by 0.3%, while in the US it fell back by 0.3%. In Japan, the CPI declined by 1.4%. The difference between the rates of inflation in 2008 and in 2009 is mainly due to the plunging energy prices in the second half of 2008, which resulted in strongly negative base effects in the first three quarters of 2009.

On the whole, rising commodity prices and the disappearance of these base effects resulted in a return to positive inflation rates at the end of the year.

The decline in global demand also resulted in a gradual fall in core inflation (excluding food and energy), which in most regions was well below 2% at the end of 2009.

Expansionary economic policies

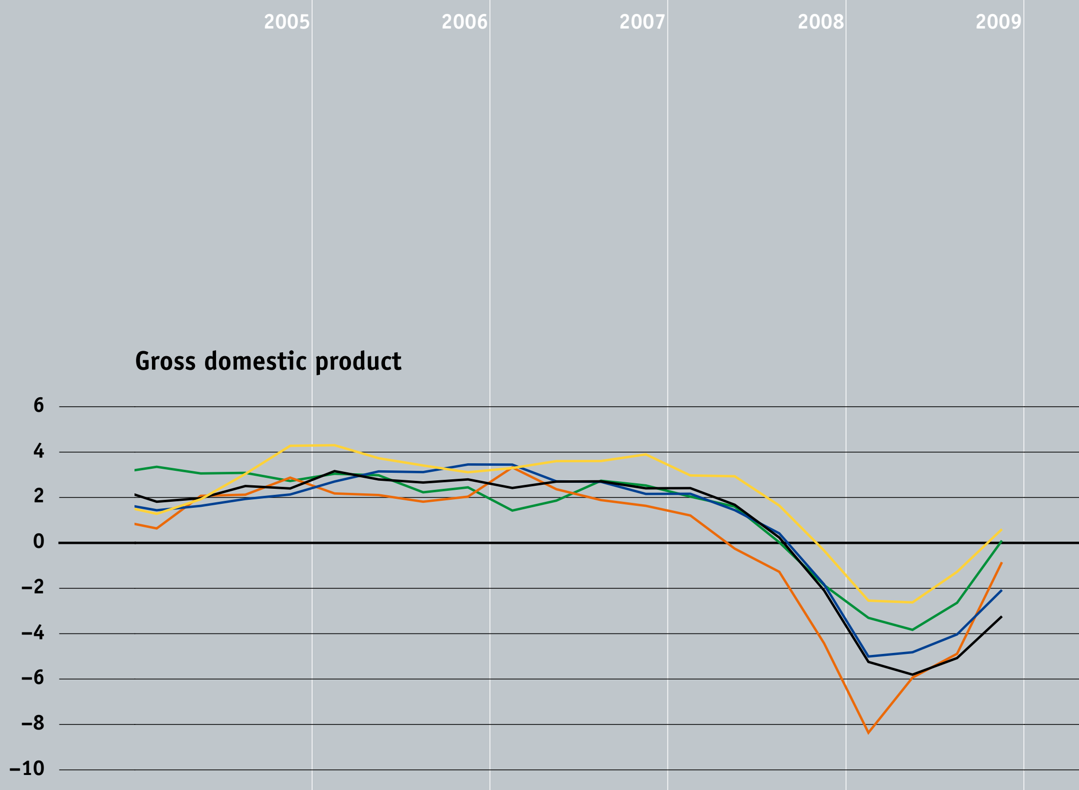
Most countries introduced very expansionary economic policies. Governments launched numerous stimulus programmes which consisted mainly of expenditure on infrastructure and transfer payments to households. A number of countries, including the US, Japan, Germany, France, Italy and South Korea, introduced measures designed to support their automobile industries, in particular. The IMF estimates that total stimulus measures taken by G20 countries in 2009 came to 2% of GDP and that they increased GDP growth by about 1 percentage point. However, government deficits and public debt increased considerably in many countries as a result of expansionary fiscal policies.

In the first months of the year, central banks adopted exceptionally expansionary monetary policies. By May, the European Central Bank (ECB) had reduced its reference rate by 150 basis points to 1%. In addition, it offered unlimited liquidity through its refinancing operations and extended the terms of its monetary policy operations to 12 months. The Fed and the Bank of Japan maintained their reference rates close to zero. In addition, many central banks carried out large-scale purchases of privately issued securities with the objective of lowering borrowing costs, which resulted in a significant expansion in central bank balance sheets. During the course of the year, the situation on the financial markets calmed down and a number of the support measures for the credit markets were withdrawn.

Moderate recovery in the global economy in 2010

At the end of 2009, the international economic outlook brightened, and the world economy is likely to grow again in 2010. The recovery will be driven by increasing confidence, the improvement of the situation on the financial markets and favourable monetary conditions. However, it is likely to be moderate by comparison with former recovery phases and its impact on labour markets will be very slow. One reason for this is the fact that government stimulus measures will gradually come to an end. In addition, lending conditions in some countries, especially the US, will remain restrictive, in particular for individuals and small companies. Finally, households are likely to maintain their high propensity to save, due to the loss of wealth in the form of capital and real estate, and this will affect private consumption.

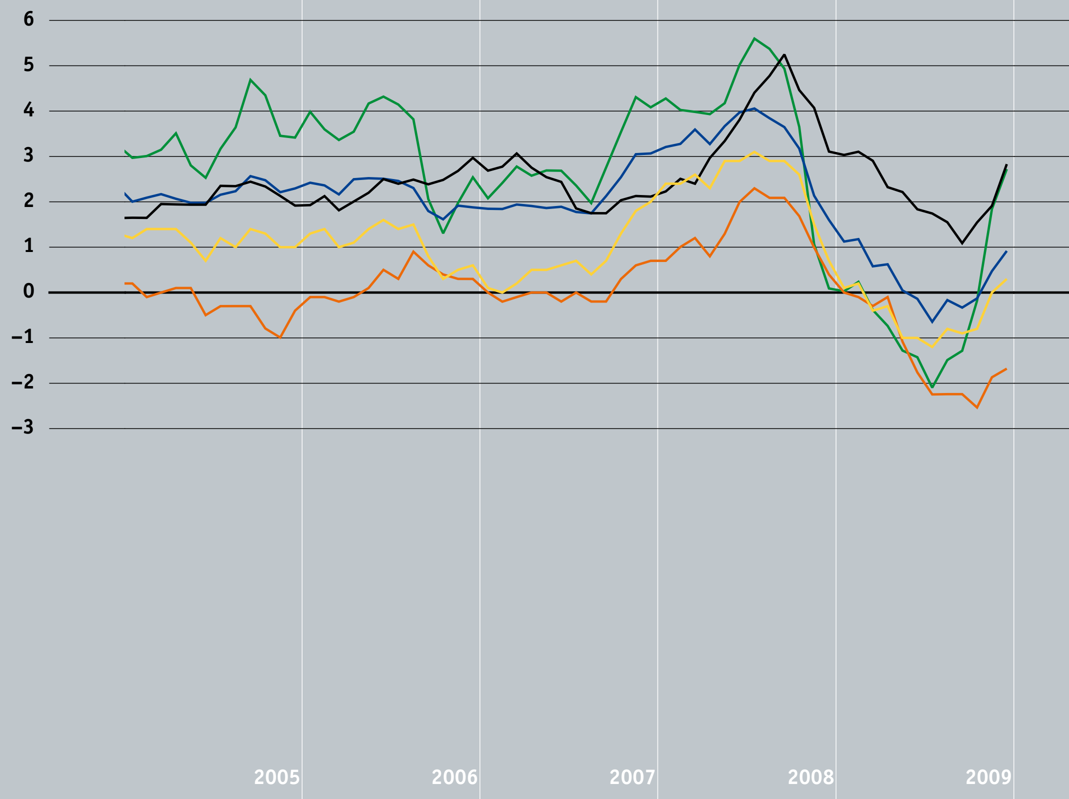
Gross domestic product



United States
Japan
Euro area
United Kingdom
Switzerland

Year-on-year change in percent, in real terms
Sources: SECO, Thomson Financial Datastream

Inflation



United States
Japan
Euro area
United Kingdom
Switzerland

In percent
Sources: SFSO, Thomson Financial Datastream

Considerable uncertainties attached to economic outlook

With the normalisation of the situation on the financial markets, the danger of the global economy collapsing has been averted. However, uncertainty about the future outlook for the economy remains considerable. For example, the withdrawal of government support measures and the increase in household saving rates could prove to be a greater constraint on the recovery than expected. Conversely, if economic agents in the US and the emerging economies, in particular, quickly regain confidence, the recovery could be stronger than expected.

1.3 Economic developments in Switzerland

2009, a year of recession

The Swiss economy experienced a difficult year. The sharp fall in economic activity, which had begun in the second half of 2008, continued in the first half of 2009. In the third quarter, GDP began to rise again. Over the year as a whole, GDP dropped by 1.5%, the sharpest decline since 1975.

Real gross domestic product
Year-on-year change in percent

	2005	2006	2007	2008	2009
Private consumption	1.7	1.6	2.4	1.7	1.2
Consumption by government and social security schemes	1.2	0.3	0.5	–0.1	2.5
Investment	3.8	4.7	5.2	0.4	–3.7
Construction	3.5	–1.4	–2.3	0.9	1.3
Equipment	4.0	10.1	11.1	0.1	–7.5
Domestic demand	**1.8**	**1.4**	**1.3**	**0.4**	**1.7**
Exports of goods and services	7.8	10.3	9.5	2.9	–10.0
Aggregate demand	**3.8**	**4.5**	**4.3**	**1.4**	**–2.9**
Imports of goods and services	6.6	6.5	6.0	0.4	–5.9
Gross domestic product	**2.6**	**3.6**	**3.6**	**1.8**	**–1.5**

Sources: SECO, SFSO

Swiss goods exports plummeted from the third quarter of 2008 as a result of the contraction in world trade and the appreciation of the Swiss franc. In the second quarter of 2009, they were 18% below the level in the corresponding period one year earlier. In a year-on-year comparison, this is the steepest decline ever recorded. Exports of services also fell sharply, in particular due to the fall in receipts from commodity trading and banking services.

Sharp fall in exports in first six months

In the second half of the year, the revival of global demand led to a recovery in Swiss exports. Fiscal stimulus programmes introduced by other countries, in particular, aided exports of goods. As regards exports of services, income from bank commissions increased for the first time since early 2007 due to rising asset prices. Nevertheless, at the end of 2009, export volumes were still below those of autumn 2008, just before the financial crisis intensified.

Recovery in second half of year

The decline in economic activity also resulted in lower imports of goods and services. However, due to relatively robust domestic demand and a strong Swiss franc, imports fell less markedly than exports. During the latter half of the year, imports picked up momentum again with the improvement in the economic outlook and the upturn in new orders in manufacturing.

Moderate fall in imports

As a result of the slump in exports, the rapid drop in capacity utilisation and the high level of uncertainty, investment in equipment plunged in the first half of 2009. In the second half of the year, capacity utilisation was at the lowest level since 1975. In the third quarter, equipment investment rose considerably as a result of the revival in investment in the area of transportation and communications. However, the levelling-off observed in the fourth quarter suggests that the willingness to invest is not yet firmly anchored.

Steep decline in equipment investment

According to SNB estimates, the output gap widened considerably in 2009. This reflects the increasing under-utilisation of production capacity and the deterioration of the labour market situation. If the decline in equipment investment continues, it could have a negative impact on the growth potential of the Swiss economy in the medium term.

Wider output gap

Unlike equipment investment, construction investment increased in 2009. The fiscal stimulus programmes put in place by the Swiss federal government and the cantons, the low interest rate and a reduction in construction costs were all particularly effective in supporting the economy. Residential and public sector construction were the main beneficiaries. Investment in commercial construction, by contrast, declined.

Construction activity robust

Labour market

	2004	2005	2006	2007	2008	2009
Employment in terms of full-time equivalents[1]	0.0	0.2	1.4	2.8	2.8	–0.1
Unemployment rate in percent	3.9	3.8	3.3	2.8	2.6	3.7
Number of job seekers in percent	5.6	5.5	5.0	4.2	3.9	5.2
Swiss nominal wage index[1, 2]	0.9	1.0	1.2	1.6	2.0	2.1
Compensation of employees, nominal[1, 2]	0.1	3.7	4.2	5.3	5.3	4.1

1 Year-on-year change in percent
2 2009: SNB forecast.

Sources: SFSO, SECO.

Stagnating employment

The recession had a noticeable impact on the labour market. After two exceptionally good years, new job creation weakened substantially in 2009. Expressed in terms of full-time positions, employment dropped by 0.1%. However, since the number of part-time jobs increased at the expense of full-time positions, the number of employees rose slightly.

The level of employment varied from one sector to another. In manufacturing, which was particularly hard hit by the crisis, it fell sharply to around the level recorded at the end of 2006. The hotel and restaurant industry and trade also experienced substantial lay-offs. By contrast, new jobs were created in public administration, education and health. At the end of the year, a series of important employment indicators were pointing upwards, suggesting a gradual stabilisation of the labour market situation.

Rising unemployment

Amid stagnating employment levels and the growth of the working population, the increase in the rate of unemployment had been gathering pace since autumn 2008. In seasonally adjusted terms, the rate of unemployment rose from 2.8% at the beginning of 2009 to 4.2% at the end of the year. The number of unemployed people was up by about 50,000 to 165,000.

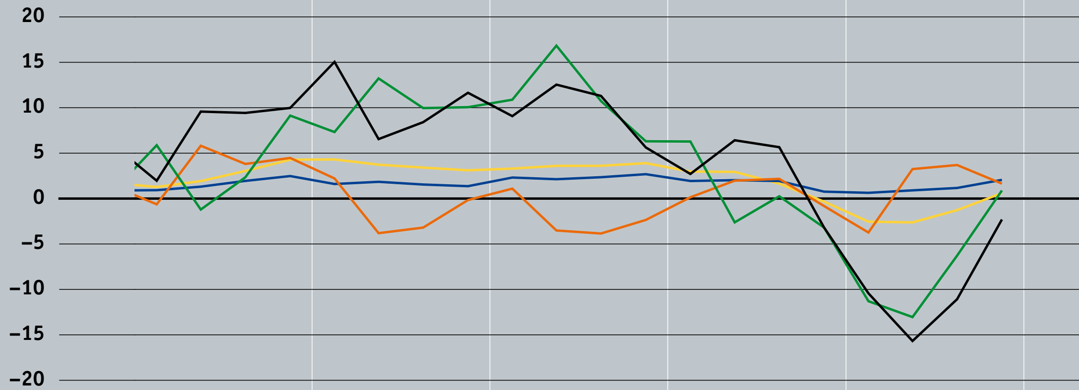
In 2009, many companies, particularly in manufacturing, introduced short-time working. From January to May, the number of people affected by short-time working rose from 5,800 to 60,000. Thereafter the number declined as the economic situation improved; however, 49,000 people were still affected in November. By resorting to short-time working, many companies were able to maintain staff numbers, and this provides some explanation for the relatively robust employment figures.

Strong increase in wages

In 2009, wages rose sharply despite the difficult economic situation. According to SNB estimates, nominal wages as measured by the Swiss wage index showed a 2.1% increase. The compensation of employees in the national accounts (which factor in the change in the structure of employment as well as mobility between sector and bonus payments) rose by approximately 4.1%.

2005 2006 2007 2008 2009

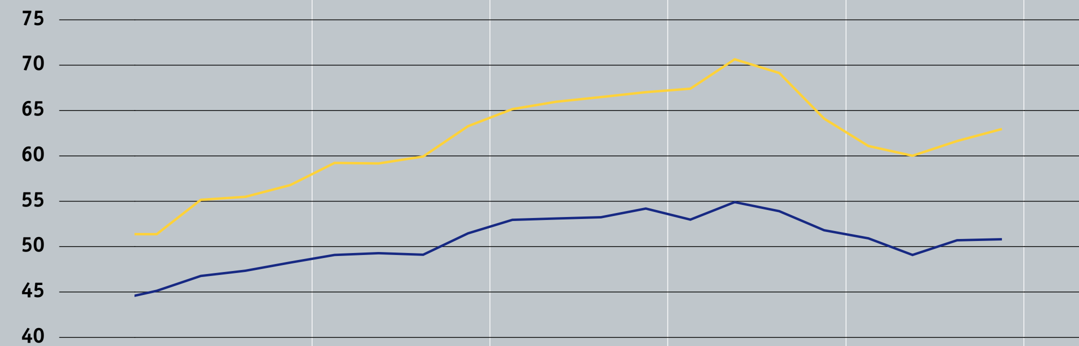
Gross domestic product and components



GDP
Private consumption
Investment in construction
Investment in equipment
Exports

Year-on-year change
in percent, in real terms
Source: SECO

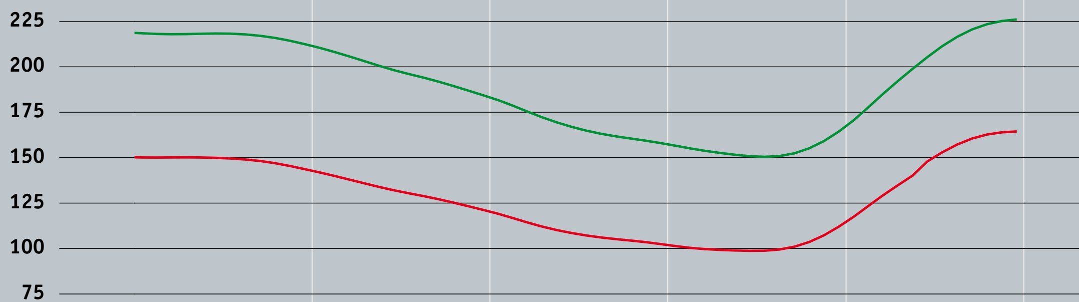
Foreign trade



Imports of goods and services
Exports of goods and services

In CHF billions,
in real terms,
seasonally adjusted
Source: SECO

Labour market



Unemployed persons
Job seekers

In thousands,
seasonally adjusted
and smoothed
Source: SECO

2005 2006 2007 2008 2009

To some extent, this strong growth is explained by the favourable environment in which salary negotiations were conducted at the end of 2008. At that time, the labour market had not yet suffered any significant deterioration, and this had a positive impact on salary agreements. Moreover, because the CPI had increased by slightly over 2% in 2008, many employees received a substantial inflation adjustment in 2009.

Because of the fall in the CPI by 0.5%, real wages also increased strongly in 2009. The Swiss wage index showed a 2.6% rise in real wages, while according to the national accounts they were up by 4.6%.

Slight slowing in consumption growth

Due to the favourable movements in real wages, private consumption continued to grow despite rising unemployment, even if the rate of increase was lower than in the previous year. Areas registering the strongest growth in consumption were housing, energy and health. Consumption of goods in retail trade also developed favourably. By contrast, the demand for new cars declined, particularly at the beginning of the year.

Public consumption showed strong growth after having stagnated in the previous three years. This reflected the economic support measures adopted by the Swiss federal government and the cantons.

Sectors differently affected by crisis

The crisis affected different sectors of the economy in different ways. Financial intermediaries, which had experienced a massive decline in 2008, already emerged from the crisis in the third quarter of 2009. In manufacturing, which suffered heavily from the slump in exports, the decline in added value came to a halt in the fourth quarter. Although the fall in output was moderate by international standards, the recovery was longer in coming. The hotel and restaurant industry also had a difficult year. However, the crisis only had a slight impact on trade, which continued growing slowly. The construction industry, public administration and health were totally unaffected.

Despite some signs of overheating in individual regions, the Swiss real estate market as a whole has not experienced any speculative bubble over the past few years. Consequently it is relatively resilient by comparison with foreign markets. Thus, no significant price reductions in residential real estate were recorded in 2009. Moreover, the number of vacant housing units remained very low, despite an increase in supply. However, the waning demand for industrial real estate was very noticeable.

Economic activity to recover gradually in 2010

In 2010, a further recovery in economic activity can be expected. The SNB anticipates GDP growth of around 1.0%. The main stimulus will probably be derived from exports and from equipment investment. By contrast, construction is likely to lose momentum, since the positive effects of low interest rates and fiscal support measures will gradually fade. Private consumption is likely to continue driving growth. Although the levelling-off in real wages and rising unemployment rates will have a dampening effect, this will probably be more than offset by positive movements in consumer confidence and household financial assets. However, government savings measures will probably have a noticeable impact on public consumption.

Supply prices affected by base effects

In 2009, aggregate supply prices were strongly influenced by a base effect related to oil prices. Having reached a maximum of USD 134 per barrel in July 2008, the crude oil price plummeted to an average of USD 41 by December 2008. In 2009, it increased again. However, as an average for the year (USD 62 per barrel), it was considerably below the 2008 level of USD 97, so that the inflation impulse exerted by oil was strongly negative.

The base effect resulted in significant fluctuations in the aggregate supply price index, which comprises import and producer prices. In a year-on-year comparison, the rate of decline in import prices increased further from –4.7% in January to –10.4% in July. In the same time period, producer prices moved from a 1.0% rate of increase to a 3.8% rate of decrease. From August, the gradual disappearance of the base effect and the rising prices for energy and intermediate goods checked the decline in prices, which amounted to –3.4% for import goods and –2.0% for producer prices by the end of the year.

Slight decline in consumer prices

Annual inflation, as measured by the CPI, fell from 0.1% in January to –1.2% in July. It then began growing again, reaching 0.3% in December. Over the year as a whole, the CPI fell by 0.5%; compared to 2008 this represented a 2.9% decrease, of which 2.1 percentage points were directly attributable to the movements in oil prices.

The rate of inflation, excluding oil, fell from 1.5% in January to 0.1% in December. This was due, first, to lower import prices resulting from the appreciation of the Swiss franc against major currencies such as the US dollar, the pound sterling and the yen. Second, it was also because the slowdown in economic activity helped to curb inflation.

Positive core inflation

Numerous short-term fluctuations can have a significant impact on inflation, as measured by the CPI. The use of a core inflation rate makes it possible to carry out an analysis of inflation trends.

The SNB calculates core inflation using a trimmed mean which, each month, excludes goods whose prices have recorded the strongest fluctuations. The core inflation rate declined steadily from 1.6% in January to 0.7% at the end of the year, thereby remaining in positive territory throughout the year.

Dynamic factor inflation (DFI) – a measure of core inflation that takes account of inflation contained in the real, monetary and financial variables as well as price developments – also fell, dropping from 0.8% in January to 0.2% at the end of the year. At the end of 2008, the DFI had factored in the downward pressures associated with the economic slowdown and the falling import and producer prices on the CPI. Accordingly, the record low level for the DFI attained in October 2009 (0.1%) now signalled a reduction in the risk of deflation.

National consumer price index and components
Year-on-year change in percent

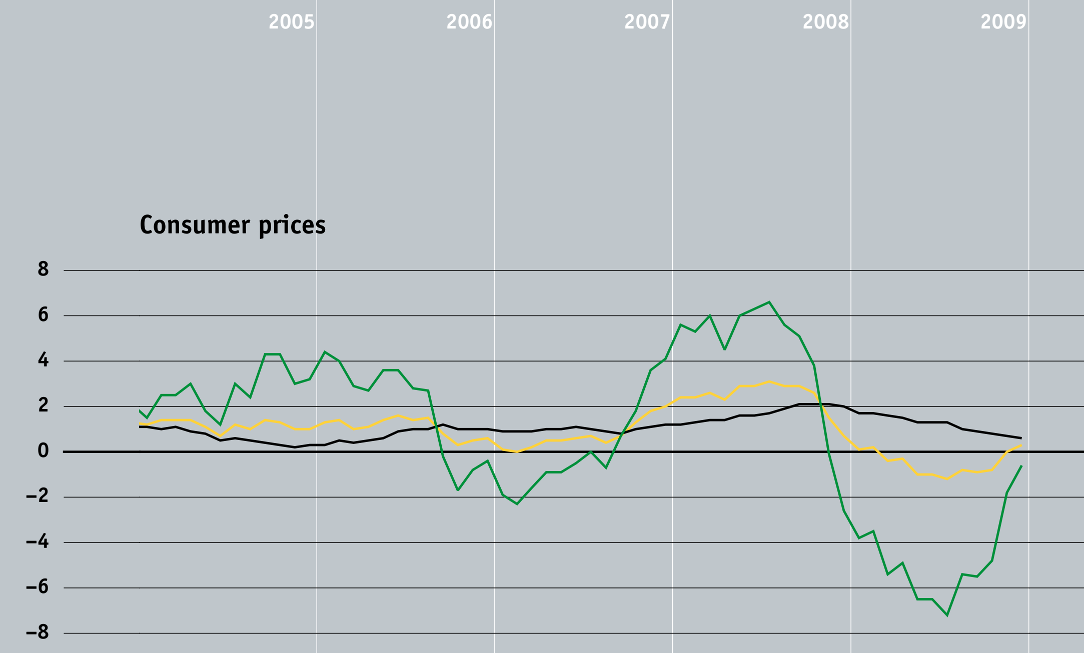
	2008	2009	2009			
			Q1	Q2	Q3	Q4
Overall CPI	**2.4**	**–0.5**	**0.0**	**–0.7**	**–1.0**	**–0.2**
Domestic goods and services	1.7	1.2	1.7	1.4	1.1	0.7
Goods	1.7	1.0	1.2	1.3	1.3	0.0
Services	1.7	1.3	1.8	1.4	1.0	0.9
Private services (excluding rents)	1.4	0.8	1.3	0.8	0.5	0.5
Rents	2.4	2.5	3.3	2.9	2.2	1.6
Public services	0.9	0.8	0.6	0.8	0.9	0.8
Imported goods and services	4.3	–4.7	–4.2	–6.0	–6.0	–2.4
Excluding oil products	1.7	0.3	1.3	0.6	0.1	–0.7
Oil products	17.8	–25.9	–27.2	–32.1	–30.5	–10.9
Core inflation						
Trimmed mean	1.8	1.1	1.6	1.3	1.1	0.8
Dynamic factor inflation	1.2	0.4	0.7	0.5	0.2	0.2

Sources: SFSO, SNB

Consumer prices
Domestic goods
Imported goods

Year-on-year change in percent
Source: SFSO

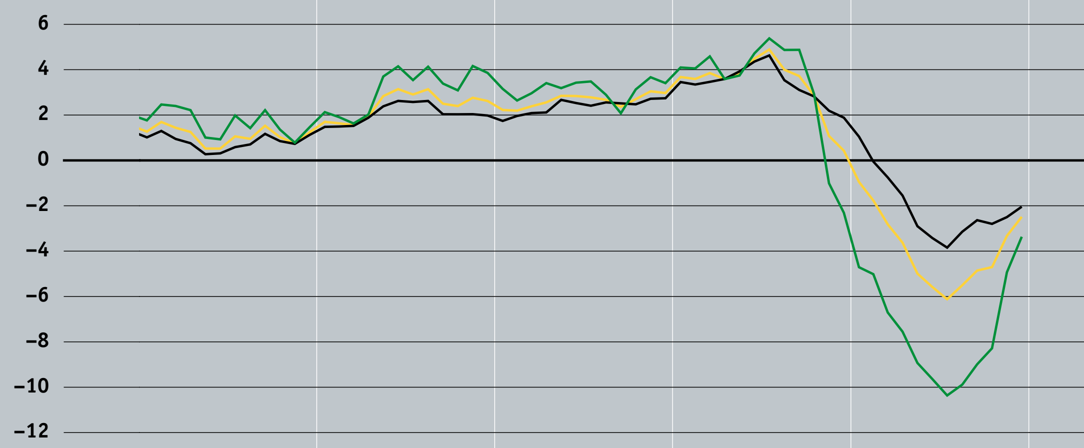
Consumer prices



Producer and import prices
Producer prices
Import prices

Year-on-year change in percent
Source: SFSO

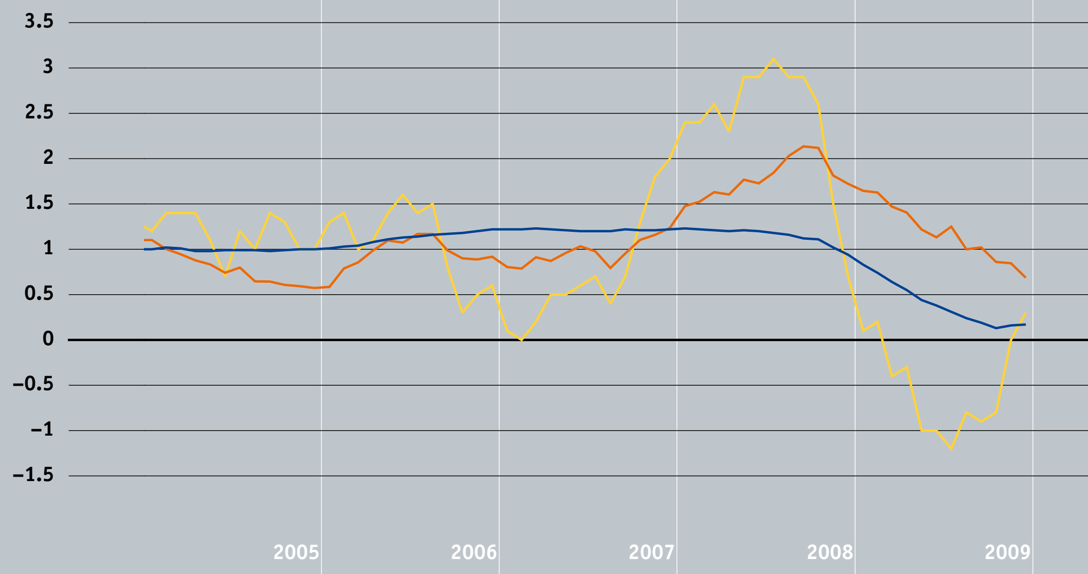
Producer and import prices



Consumer prices
Trimmed mean
Dynamic factor inflation

Year-on-year change in percent
Sources: SFSO, SNB

Core inflation



In addition to information on the real economy and prices in Switzerland, developments on the money, capital and foreign exchange markets are just as important for the SNB.

Libor declining throughout the year

At the beginning of the year, the three-month Libor stood at 0.6%. It moved gradually down until November, when it reached 0.25%, the level which the SNB had been targeting since March 2009. The average level for the year came to 0.4%.

Stable yield on government bonds

The yield on ten-year Confederation bonds stood at 2.2% for most of the year. In the first quarter it edged down temporarily to 2%, due to widespread portfolio reallocations in favour of high-quality borrowers, and in the middle of the year it rose to 2.6%. Uncertainties related to the funding of the growing government deficits in the rest of the world led to increasing risk premia on international capital markets, and this also affected yields in Switzerland. By December, yields on ten-year Confederation bonds had again edged back to 2%.

Swiss franc steady against euro

The appreciation of the Swiss franc in early 2009 came to an abrupt halt following the SNB announcement in mid-March that it would prevent further appreciation by intervening in the foreign exchange market. Within a very short period of time, the Swiss franc had depreciated by 7 centimes to CHF 1.54 against the euro. Until the end of the year, the average rate stood at CHF 1.52. The volatility of the exchange rate also declined, with the CHF/EUR rate varying between 1.48 and 1.54 from April to December. The average rate during the month of December was 1.50 CHF/EUR.

Swiss franc strengthens against US dollar

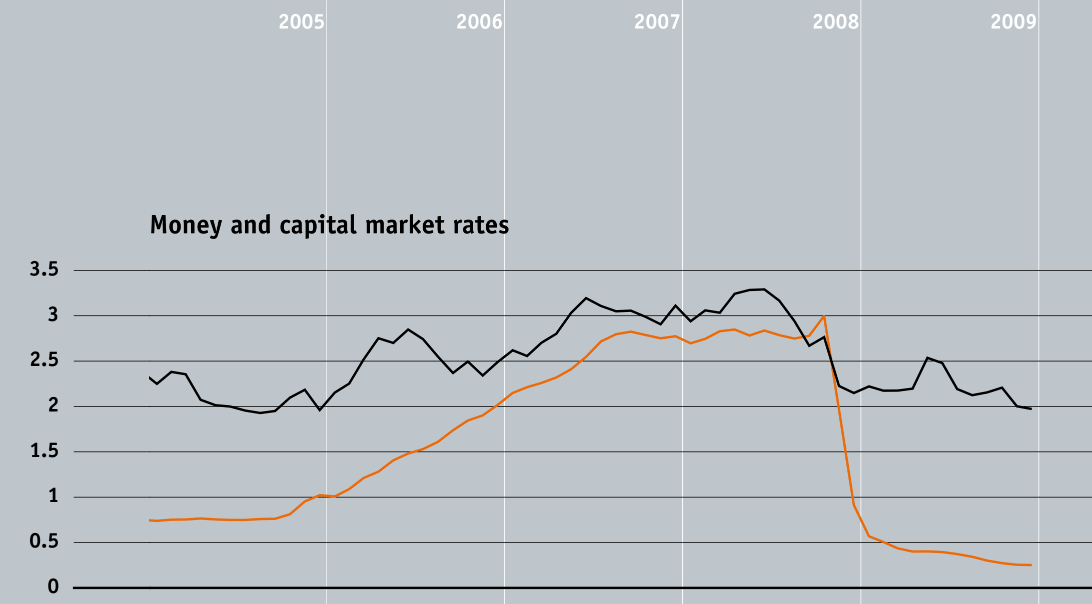
After having depreciated against the US dollar in the early months of 2009, the Swiss franc then gradually appreciated against the US currency. In December the US dollar traded at an average CHF 1.03.

Export-weighted Swiss franc rises

Throughout 2009, the export-weighted external value of the Swiss franc continued to increase, marked at times by considerable fluctuations. By the end of the year, its nominal level was 3.5% above the year-back level, while in real terms it was 3.2% higher than a year previously.

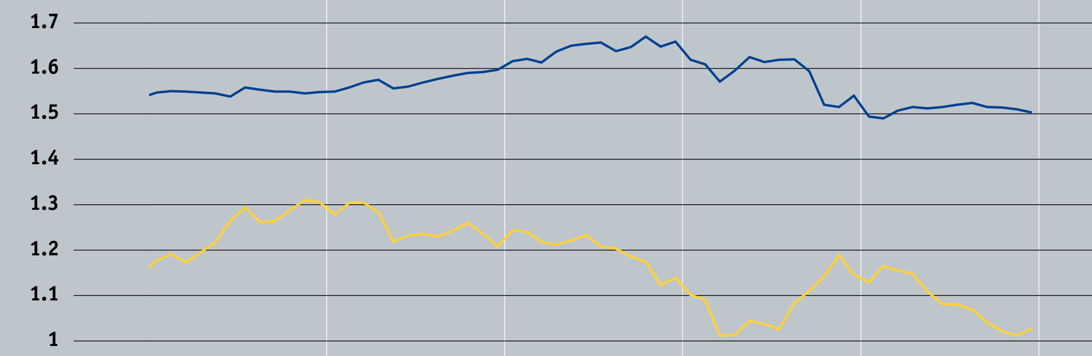
Money and capital market rates

Three-month Libor
Yield on ten-year Swiss Confederation bonds (spot interest rate)
In percent



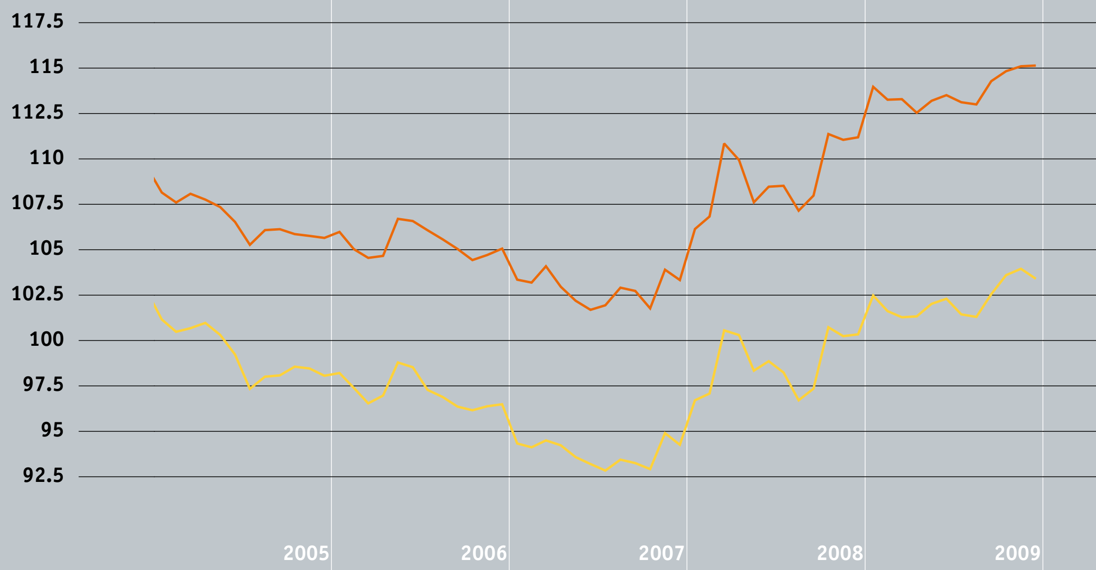
Exchange rates

CHF/USD
CHF/EUR
Nominal



Export-weighted Swiss franc exchange rates

Real
Nominal
24 trading partners
Index: January 1999 = 100



Continued generous supply of liquidity

The SNB's provision of liquidity to the economy was extremely generous and flexible in 2009. This could be seen in the development of the monetary base, which expanded strongly until April. Thereafter it shrank steadily until, at the end of the year, it had reached approximately the same level as at the beginning of the year. Compared with the year-back figure, the increase came to about 15%, after having reached a record level of 160% in April 2009.

The powerful growth in the M1 and M2 monetary aggregates, which had begun in autumn 2008, continued throughout 2009. The pace slowed somewhat in the second half of the year, but nevertheless remained strong. To a large extent, the substantial increase in the two aggregates reflects a preference on the part of the general public for liquid assets, at the expense of time deposits. This preference, in its turn, resulted from the fall in interest rates and the uncertain situation on financial markets. In 2009, the M3 aggregate increased at a slightly higher rate than in 2008. This shows that, to a large extent, the generous supply of liquidity was hoarded by the banks and only a modest amount was passed on to the rest of the economy.

1.4 Monetary policy decisions

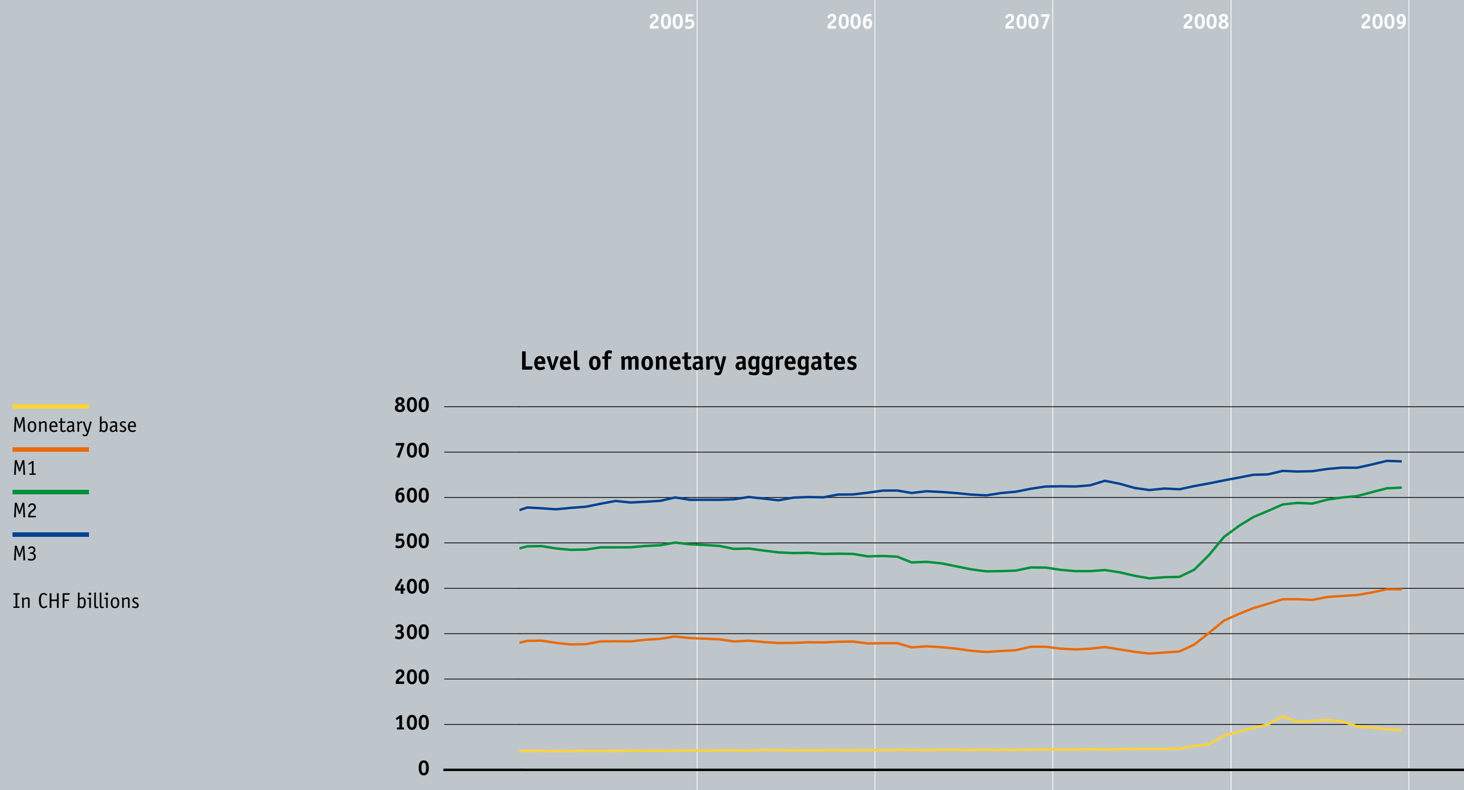
Schedule

The SNB's Governing Board conducts an in-depth assessment of the monetary policy situation in March, June, September and December. Each of these assessments results in an interest rate decision. If circumstances so require, the Governing Board may adjust the target range for the three-month Swiss franc Libor between regular assessment dates. In 2009, however, this was not the case.

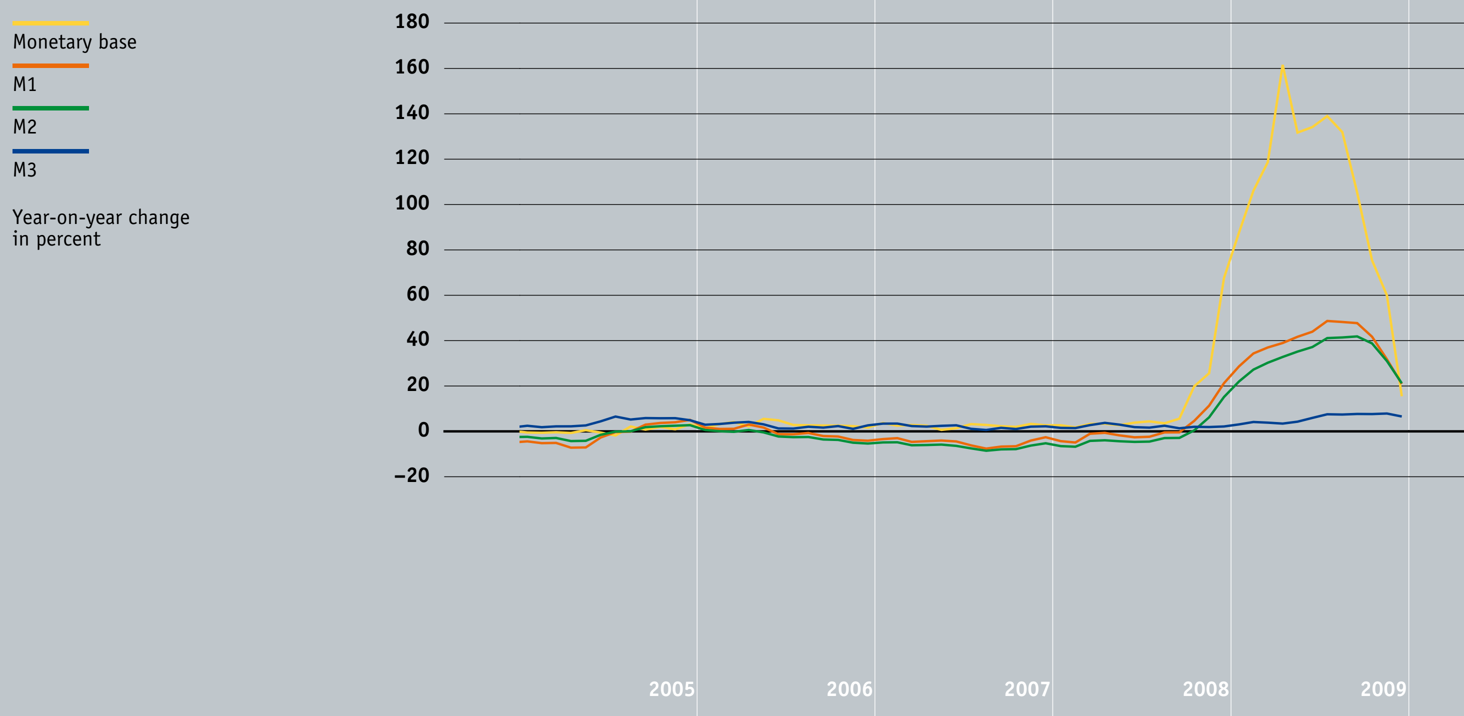
Monetary policy challenges in 2009

As in the previous year, monetary policy was rendered more complicated by the high level of uncertainty about how the main macroeconomic and financial variables would develop. The SNB faced major challenges concerning both its immediate goals and the implementation of its monetary policy. It was mainly motivated by the desire to dampen the effects of the economic and financial crisis on the Swiss economy and to limit deflation risks, without losing sight of the objective of maintaining price stability in the medium and long term.

Level of monetary aggregates



Growth in monetary aggregates



Supporting the economy

In an effort to support the economy and lessen the impact of the economic and financial crisis, the SNB successively lowered the Libor target range to 0.0–1.0% during the last quarter of 2008. In March 2009, it reduced the range by 25 basis points, and retained this new target range of 0.0–0.75% for the rest of the year. The National Bank's intention was to bring the Libor down into the lower end of the target range, at around 0.25%. The one-week repo rate, which is used to manage the Libor, had already been at 0.05% since the end of 2008.

Countering the risk of deflation

In addition to the difficult economic climate and the substantial degree of uncertainty on financial markets, the high risk of deflation was a further area of concern for the SNB. In spring, the economic crisis and the appreciation of the Swiss franc began to pose a serious threat to medium-term price stability. Any further appreciation would have amplified the deflation risk by, on the one hand, creating unfavourable conditions for exports and thereby exacerbating the recession, and, on the other, leading to a decline in import prices.

For this reason, the SNB decided in March to relax monetary conditions even further by substantially increasing the supply of liquidity. In addition to reducing the target range for the three-month Libor, it introduced exceptional instruments for this purpose, including currency swaps, repos with longer terms, purchases of Swiss franc bonds issued by domestic private sector borrowers and foreign exchange market interventions. It maintained this expansionary monetary policy course practically unchanged throughout the rest of 2009.

Guaranteeing price stability

With the risk of deflation receding somewhat as the economy recovered, monetary policy at year-end faced the challenge of how to reconcile short and long-term requirements. The long-term inflation outlook called for a gradual tightening of monetary policy, whereas the uncertainty over the way in which the economy and prices would develop in the short term suggested that tightening could be postponed.

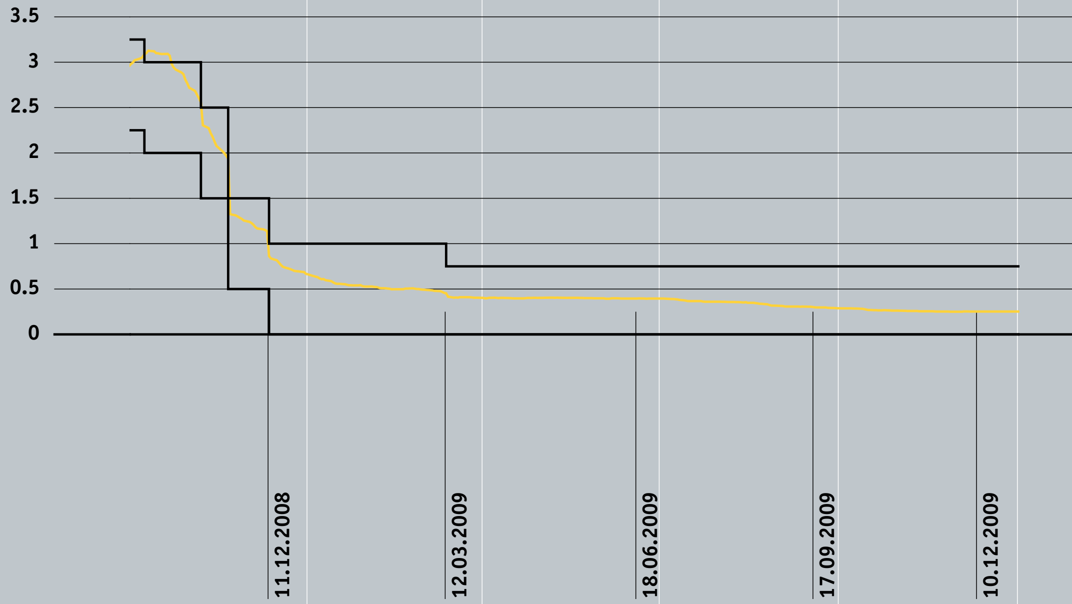
The inflation forecast published in December 2009 gave the SNB sufficient leeway to maintain its expansionary monetary policy. The SNB also announced that it would take firm action to prevent any excessive appreciation of the Swiss franc against the euro. It noted, however, that it would not be possible to maintain such a policy indefinitely without compromising medium and long-term price stability.

Q4 2008 Q1 2009 Q2 Q3 Q4

Three-month Libor

Daily values in percent

Three-month Libor



Three-month Libor

Target range

Q4 2008 Q1 2009 Q2 Q3 Q4

Quarterly assessment of 12 March

In the months preceding the first assessment of 2009, economic activity declined sharply in the US and Europe. The crisis, which had started in the financial markets, had spilled over to the non-financial economy, and its effects were being felt throughout the global economy. Against this background, the SNB made a substantial downward revision to its growth forecasts for the major economies, in particular for the US (2009: –1.8%; 2010: 1.9%) and Europe (2009: –1.1%; 2010: 0.5%).

In Switzerland, annualised GDP had fallen by 1.2% in the fourth quarter of 2008. By the time of the assessment in March, the economy was being severely affected by the crisis, with Swiss exports particularly hard hit by the collapse in global demand. Moreover, unemployment was rising steadily, bringing the risk of a levelling-off in private consumption. Consequently, the National Bank revised its forecast downwards and projected that GDP for 2009 would be between –2.5% and –3%.

At the time of the assessment, the growth rates for the M1 and M2 monetary aggregates were relatively high, while M3 growth remained moderate. The volume of base money had doubled within the space of a year, reflecting a huge increase in the demand for liquidity from the banking sector.

The rate of growth in lending volumes had been slowing since the beginning of the year. Yet mortgage loans remained unaffected – growth in this segment had gathered pace since autumn 2008, reaching 3.8% in January 2009. Overall, therefore, the situation on the Swiss lending market was better than that in the rest of the world.

The Swiss franc had gained markedly in value since the onset of the international financial crisis in August 2007. This trend had accelerated after the December 2008 assessment, and, by the time of the March 2009 assessment, had given rise to an unwelcome tightening of monetary conditions.

Inflation, having peaked at 3.1% in July 2008, had fallen back to 0.2% by February. This was largely attributable to the slump in oil prices and the appreciation of the Swiss franc. The SNB expected that inflation would turn negative over the course of 2009.

In response, the National Bank decided to bring interest rates down further, and narrowed the target range for the three-month Libor to 0.0–0.75%. Its aim was to bring the Libor down into the lower end of the target range, at around 0.25%. It also decided to substantially increase the supply of liquidity by entering into long-term repos, purchasing Swiss franc bonds issued by domestic private sector borrowers and buying foreign currency on the foreign exchange market, in order to prevent the Swiss franc from appreciating further against the euro, as well as to improve financing conditions.

In addition, from autumn 2008, the SNB negotiated EUR/CHF swap agreements with a number of countries to facilitate refinancing for banks that had granted loans in Swiss francs in those countries. This allowed the SNB to counter the rise in the Libor generated by additional demand for Swiss francs from abroad.

The inflation forecast published together with the interest rate decision was based on a three-month Libor of 0.25%, and showed negative inflation for 2009, partly as a result of a base effect from falling oil prices. For 2010 and 2011, inflation was expected to remain low due to the weak state of the economy, despite the low interest rate environment. At the end of the forecast horizon, inflation increased slightly, reflecting the fact that a Libor of 0.25% would not guarantee price stability in the medium and long term.

Quarterly assessment of 18 June

During the first quarter of 2009, economic activity had declined more sharply than the SNB had expected, especially in Europe and Japan. By contrast, at the time of the June assessment, the financial markets, business activity and consumer confidence were all sending out positive signals. The SNB thus judged the economic risks to be slightly lower, but left its scenario for the global economy essentially unchanged. It now projected that growth rates would already turn positive in the second half of the year in the US and at the beginning of 2010 in Europe.

At the start of 2009, the Swiss economy had deteriorated further, with annualised GDP declining by 3.2% in the first quarter. Exports plummeted around the time of the assessment, and the level of capacity utilisation in manufacturing fell substantially. Against a background of rising unemployment, domestic demand stagnated. The SNB projected that this situation would persist for the next few months, and continued to forecast GDP growth of between –2.5% and –3% for 2009 as a whole.

M1 and M2, which are highly sensitive to changes in interest rates, were showing very strong growth at the time of the assessment. As hitherto, this was attributable to the public's preference for the most liquid assets possible, which was also reflected in a decrease in time deposits. M3 was still growing at a moderate pace, suggesting that banks were hoarding liquidity, and only passing limited amounts on to other segments of the economy.

The total volume of lending was increasing at an annual rate of more than 3%, with mortgage lending growing particularly strongly as a result of the interest rate cuts. There was thus no sign of a credit crunch in Switzerland.

As regards the exchange rate, the measures introduced at the March assessment had borne fruit. Between March and June, the Swiss franc did not appreciate further against the euro and the volatility of the exchange rate was much reduced.

Inflation was close to zero in the first quarter. The SNB therefore projected that inflation would remain negative for the rest of the year, largely because of falling import prices. For domestic goods and services, however, inflation was expected to weaken over the course of the year, but to remain above 1%.

Given the ongoing risk of deflation, the SNB decided to keep the Libor target range at 0.0–0.75%, and the desired rate at 0.25%. It also announced that it would continue with the exceptional measures introduced in March.

The inflation forecast published together with the interest rate decision was thus still based on a three-month Libor of 0.25%. The forecast once again showed negative inflation for 2009 as a whole but had been revised upwards slightly as a result of the increase in the prices of commodities and energy. For the next two years, inflation was expected to be slightly positive, accelerating marginally at the end of the forecast period. This implied that the Libor could not remain at 0.25% indefinitely.

Quarterly assessment of 17 September

At its September assessment, the SNB projected that economic growth outside Switzerland would be higher than had been expected in June, and that the US and European economies would return to positive rates of growth before the end of the year. The SNB therefore made a substantial upward revision to its growth forecasts for the major economies in 2010, in particular for the US (2.4%) and Europe (2.2%).

The economic situation in Switzerland continued to be difficult. The rate of capacity utilisation was falling and unemployment was rising sharply. Nevertheless, the SNB revised its 2009 GDP forecast upwards, to between –1.5% and –2%. This was due to the fact that the global economy had returned to growth more quickly than expected, which also benefited Swiss exports. Moreover, the contraction in GDP in the second quarter had been less pronounced than anticipated.

Having grown strongly as a result of the generous supply of liquidity, base money decreased markedly in the months preceding the assessment. However, the amount of liquidity was still high at the time of the assessment, not just in the banking industry but also in the household and corporate sectors. The faster pace of M1 and M2 growth since the beginning of the year, as well as the more recent acceleration in M3 growth, were attributable to this.

The developments in lending and the monetary aggregates were a reflection of the very expansionary monetary policy. Mortgage lending, which accounts for around 80% of total lending, increased by 4.6% in July. At the time of the assessment, there was still no evidence of a credit crunch for either households or companies.

The export-weighted external value of the Swiss franc was stable just prior to the assessment, as was the exchange rate against the euro. This confirmed the effectiveness of the monetary policy measures implemented since March.

At the time of the assessment, inflation was still negative, and core inflation was trending downwards. Although the GDP forecasts had been revised upwards, inflation was still expected to be close to zero for 2010 and 2011. The risk of deflation thus persisted, despite having lessened since the June assessment.

In these circumstances, the SNB decided to leave its expansionary monetary policy unchanged. It held the Libor target range at 0.0–0.75% and continued to aim for a Libor of 0.25%. It also announced that it would continue to supply the economy with generous amounts of liquidity, and take firm action to prevent any appreciation of the Swiss franc against the euro.

The September inflation forecast was based on a three-month Libor of 0.25%. Both the negative inflation in 2009 and the acceleration of inflation projected for the beginning of 2010 were attributable to a base effect from energy prices. It was expected that, over the rest of 2010, inflation would remain persistently low, but that the output gap would close more rapidly than had previously been anticipated. Accordingly, the inflation forecast for 2011 rose, while that for 2012 exceeded 2%.

Quarterly assessment of 10 December

Since the September assessment, signs of a recovery in global economic activity had been gathering strength. The normalisation of conditions on the financial markets, as well as the monetary and fiscal stimuli, had prompted a recovery in manufacturing output. However, in a number of countries capacity utilisation was still low and access to credit remained difficult. Moreover, it was likely that the subdued labour market situation would weigh further on consumption. The SNB therefore kept its 2010 growth forecast for the US unchanged, but revised it slightly downwards for Europe (1.1%).

The Swiss economy, too, was on the road to recovery at the time of the assessment, with GDP having risen in the third quarter. Exports benefited from the recovery in global demand, making an improvement in the situation of the manufacturing industry probable. In view of the under-utilisation of production capacity, by contrast, there was unlikely to be any revival of equipment investment for the time being. In addition, consumption growth was expected to be held back by weakly growing income. For 2010, the SNB projected GDP growth of between 0.5% and 1%, following a figure of approximately –1.5% for 2009.

Having risen strongly until April 2009, base money declined again, while M1 and M2 showed substantial growth up to the time of the assessment. M3 growth, which had been modest for a long time, accelerated. This was a reflection of the public's increased preference for liquid assets and was thus no cause for concern.

Growth in mortgage lending rose to 5.1% in the months prior to the assessment. Although growth in other lending was slightly lower, there was nevertheless no credit crunch in Switzerland.

The export-weighted external value of the Swiss franc had increased slightly since the previous assessment, mainly as a result of the weaker US dollar. Against the euro, by contrast, the Swiss franc remained stable.

At the time of the assessment, inflation was still negative, largely as a result of fluctuating oil prices and the associated base effect. The economic outlook suggested, however, that inflation would turn positive from the beginning of 2010.

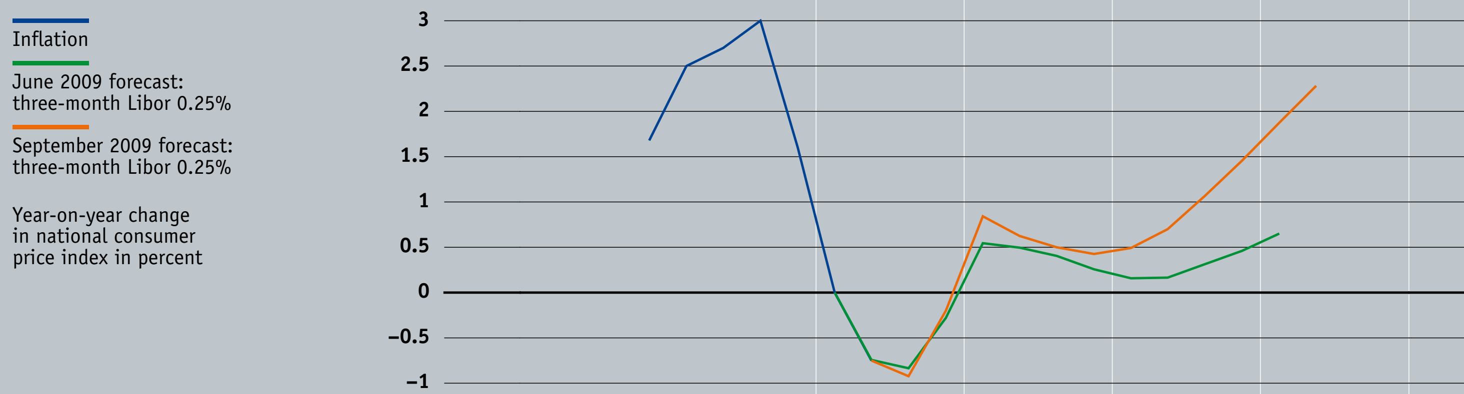
Against this background, the National Bank decided to leave the Libor target range unchanged at 0.0–0.75% and the Libor at 0.25%. It announced that it would still provide the economy with a generous supply of liquidity, but would discontinue its purchases of Swiss franc bonds issued by domestic private sector borrowers. It would also continue to act decisively to prevent any excessive appreciation of the Swiss franc against the euro. In addition, the SNB pointed out, both to banks and to firms and households, the risks inherent in a relaxation of discipline in real estate financing.

The inflation forecast published together with the interest rate decision was based on a three-month Libor of 0.25%. Inflation rose in the short term, as a result of the base effect linked to the trough in oil prices reached one year earlier. The forecast suggested that inflation would fall back again over the course of 2010, despite the fact that economic growth was expected to pick up. From the beginning of 2011, the forecast showed a clear upward trend, with inflation projected to breach the 2% mark in the first half of 2012. This indicated that the Libor would have to be raised sooner or later.

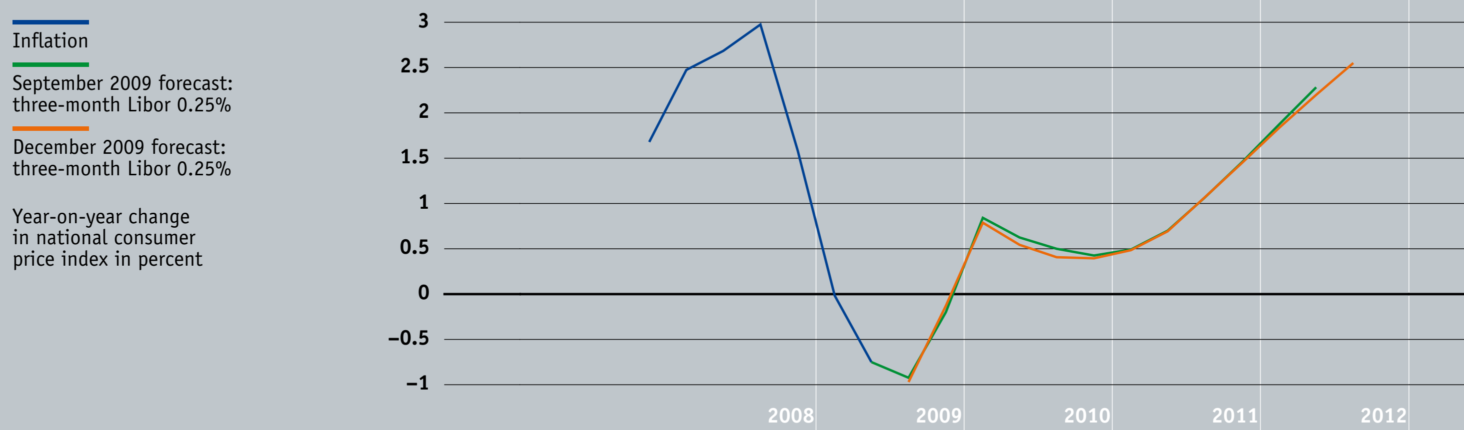
Inflation forecast of 12 March 2009

Inflation forecast of 18 June 2009

Inflation forecast of 17 September 2009



Inflation forecast of 10 December 2009



1.5 Statistics

Purpose of activities in the field of statistics

The SNB collects the statistical data it requires to fulfil its statutory tasks on the basis of art. 14 NBA. It collects data for the conduct of monetary policy and the oversight of payment and securities settlement systems, for safeguarding the stability of the financial system and preparing both the balance of payments and the statistics on the international investment position. Statistical data compiled for purposes relating to international monetary cooperation are transmitted to international organisations.

Institutions required to provide data

Banks, stock exchanges, securities dealers, managers of Swiss investment funds and agents of foreign investment funds are required to provide the SNB with statistical data on their activities (art. 15 para. 1 NBA). Where necessary to analyse trends in the financial markets, obtain an overview of payment transactions or prepare the balance of payments or the statistics on Switzerland's international investment position, the SNB may also collect statistical data on the business activities of other private individuals or legal entities. This applies in particular to insurance companies, occupational pension schemes, investment and holding companies, and operators of payment and securities settlement systems as well as Swiss Post (art. 15 para. 2 NBA).

Survey activity kept to a minimum

The SNB limits the number and type of surveys to what is strictly necessary (art. 4 National Bank Ordinance (NBO)). It seeks in particular to minimise the demands placed on those required to provide information.

Confidentiality and exchange of data

The National Bank is required to ensure the confidentiality of the data it collects and may only publish them in aggregated form. However, the data collected may be supplied to the relevant Swiss financial market supervisory authorities (art. 16 para. 4 NBA).

Surveys and statistics

The SNB manages a database containing 4.7 million time series and publishes the results of its surveys in the form of statistics. An overview of the SNB's statistical surveys is contained in the appendix to the revised NBO, which came into force on 1 January 2010.

Statistical publications

Statistics are published in the *Monthly Statistical Bulletin*, the *Monthly Bulletin of Banking Statistics* and *Banks in Switzerland*, which appears annually. These publications are supplemented by reports on the balance of payments, the international investment position, direct investment and on the financial accounts and household wealth in Switzerland. In addition, at irregular intervals, the SNB publishes booklets of historical statistics relating to topics of importance for the formulation and implementation of past and/or present monetary policy. In 2009, a booklet of data on Swiss banking since 1906 was published with the title *Banks in Switzerland*. All SNB statistical publications appear in German, French and English and can be accessed on the SNB website, www.snb.ch, *Publications*. Data are also available online as Excel or text files, generally with longer time series than in the printed publications.

Supplementary survey on bank lending

If, in order to fulfil a statutory task, the SNB urgently requires additional data, it may conduct supplementary surveys, which must be limited to what is strictly necessary in terms of content and time (art. 6 NBO). On this legal basis, the National Bank has collected qualitative data on the lending policies of about 20 banks since the first quarter of 2008. Information on the effects of the financial crisis on domestic lending can be obtained by means of this supplementary quarterly survey. The results of the survey complement the quantitative data obtained from existing statistics. They are published together with the quarterly monetary policy assessments.

Revised surveys

The SNB has revised the credit volume statistics with effect from the reference date of 31 March 2009. Credits are now broken down according to the financial reporting guidelines of the Swiss Financial Market Supervisory Authority (FINMA). In addition, the breakdown of borrowers by industry has been updated, with the services sector, in particular, listed in greater detail.

Collaboration ...

In compiling statistical data, the SNB collaborates with the relevant federal government bodies, notably the Swiss Federal Statistical Office (SFSO) and FINMA, as well as the relevant authorities of other countries and international organisations (art. 14 para. 2 NBA). With regard to organisational and procedural issues, and when new surveys are introduced or existing ones modified, the reporting institutions – together with their associations – are given the opportunity to comment (art. 7 NBO).

... with the SFSO

The SNB has a close working relationship with the Swiss Federal Statistical Office (SFSO). Reciprocal data access is governed by a data exchange agreement; this agreement also covers the collaboration between the two institutions in drawing up the Swiss financial accounts. In addition, the SNB belongs to a number of different bodies that work with Swiss federal statistics. These include the federal statistics commission (*Bundesstatistikkommission/Commission de la statistique fédérale*) and the group of experts for economic statistics (*Expertengruppe für Wirtschaftsstatistik/Groupe d'experts de statistique économique*).

... with the FOH

Since June 2008, the SNB, on behalf of the Federal Office for Housing (FOH), has collected quarterly data on mortgage rates from about 80 banks. Based on these data, the FOH calculates the reference interest rate for tenancies. The sole responsibility for the contents of this survey lies with the FOH, which also publishes the reference interest rate.

... with FINMA

Under the agreement with FINMA on the reciprocal exchange of data in the financial sector, the SNB collects a variety of information, including data on the capital base of banks and securities dealers. 2009 saw the changeover to new capital reporting based on the revised Basel capital adequacy framework (Basel II) of the Basel Committee on Banking Supervision.

... in the banking statistics committee

The National Bank is advised on the content of its banking surveys by the banking statistics committee (art. 7 NBO). This committee is made up of representatives of the Swiss commercial banks, the Swiss Bankers Association and FINMA.

... in the group of experts on the balance of payments

A group of experts under the direction of the SNB provides assistance in the compilation of the balance of payments. It comprises representatives from industry, banking, insurance, various federal agencies and the KOF Swiss Economic Institute at ETH Zurich.

... with the Principality of Liechtenstein

Since 2007, the SNB has conducted surveys of Liechtenstein-based companies when preparing its balance of payments figures and statistics on Switzerland's international investment position. It works with the relevant authorities in Liechtenstein (the Office of Economic Affairs and the financial market supervision authority).

... with foreign agencies

In the area of statistics, the National Bank works closely with the Bank for International Settlements (BIS), the Organisation for Economic Co-operation and Development (OECD), the Statistical Office of the European Communities (Eurostat), and the International Monetary Fund (IMF). This collaboration is aimed at harmonising statistical survey methods and analyses.

2 Supplying the money market with liquidity

Mandate

It is the task of the Swiss National Bank (SNB) to provide the Swiss franc money market with liquidity (art. 5 para. 2 (a) National Bank Act (NBA)). The framework within which the National Bank may conduct transactions in the financial market is defined in art. 9 NBA. As lender of last resort, the National Bank also provides emergency liquidity assistance (art. 9 para. 1 (e) NBA). By supplying the money market with liquidity, the SNB implements its monetary policy. To this end, it influences the interest rate level in the money market. The three-month Swiss franc Libor serves as its reference interest rate. The Libor (London Interbank Offered Rate) is an interest rate for unsecured interbank loans. The SNB influences the three-month Libor indirectly via secured money market transactions.

Significance of liquidity for banks

In order for a bank to maintain its solvency, it must have sufficient liquidity at all times. The most liquid assets are sight deposits held at the SNB, since they can be used immediately for payment transactions and are deemed to be legal tender. In addition, banks hold sight deposits at the National Bank to satisfy minimum reserve requirements and as liquidity reserves.

Significance of the money market

The SNB supplies the financial system with liquidity by concluding transactions with its counterparties as part of its monetary policy operations. Liquidity is only provided against collateral. The individual financial market participants exchange liquidity on the money market. Banks with a short-term investment demand use loans to provide liquidity to other banks with a short-term refinancing demand. These loans can be granted on a secured or unsecured basis. A disruption in the money markets impairs the liquidity adjustment process between the market participants and threatens the solvency of the banks.

Situation eases gradually on international money markets ...

At the beginning of 2009, international money markets were still in the grip of the financial crisis. Risk premia, which had shot up in September 2008 after the bankruptcy of the US investment bank Lehman Brothers, were still high, indicating that banks remained cautious about lending to one another. In order to restore the smooth functioning of the money markets, central banks substantially expanded their liquidity-provision measures and reduced reference interest rates to historically low levels. In the US, UK, Japan and Switzerland, these rates were barely above zero in early 2009. In view of the serious recession that was looming, many central banks took further measures to improve funding conditions generally and on the capital market, in particular. During the course of the year, central banks' extremely expansionary monetary policies resulted in an easing on international money and capital markets. Risk premia and their volatilities declined markedly, and by the end of 2009 were below the levels recorded prior to the escalation of the money market crisis in September 2008.

... and on the Swiss franc money market

In 2009, the SNB maintained the generous provision of liquidity to the money market which had been initiated in autumn 2008. In mid-March it lowered the target range for the three-month Libor to 0.0–0.75%, continued to provide unlimited liquidity through repo transactions and extended the terms of these transactions. Simultaneously, it acted to prevent excessive appreciation of the Swiss franc against the euro by purchasing foreign currency, and began acquiring Swiss franc bonds issued by private sector borrowers in order to lower risk premia on the capital market. It also continued the concerted euro/Swiss franc swap operations with other central banks which had been introduced in 2008, in order to ease the international Swiss franc money market. Overall, these measures resulted in a substantial increase in liquidity and low opportunity costs of holding liquidity, which was reflected in a correspondingly high level of sight deposits. Although the situation on the Swiss money market eased substantially during the course of the year, the demand for liquidity during monetary policy operations remained high until the end of 2009, due to continued uncertainty.

2.1 Monetary policy instruments

Open market operations and standing facilities

Within its set of monetary policy instruments, the SNB differentiates between open market operations and standing facilities. In the case of open market operations, the SNB takes the initiative in the transaction. Where standing facilities are concerned, it merely sets the conditions under which counterparties can obtain liquidity. Repo transactions are usually the main instrument used for open market operations. An additional instrument is the issuance of SNB debt certificates (SNB Bills) as a liquidity-absorbing instrument. In 2009, as part of the substantial expansion of liquidity, further instruments such as foreign currency swaps, foreign exchange purchases and acquisitions of Swiss franc bonds issued by private sector borrowers were also used. Standing facilities include the liquidity-shortage financing facility and the intraday facility.

Guidelines on monetary policy instruments

The *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* contain explicit information with regard to the SNB's scope of business as set out in art. 9 NBA and describe the instruments and procedures used by the SNB for the implementation of its monetary policy. They also define the conditions under which these transactions are concluded and which securities can be used as collateral for monetary policy operations. In principle, all Swiss banks and securities dealers (including banks and securities dealers in the Principality of Liechtenstein) are admitted as counterparties in monetary policy operations.

Expanding the list of participants in the repo market

Since 1999, the SNB has also admitted banks from outside Switzerland as counterparties in monetary policy operations, in particular in the repo market. It has decided to extend participation to domestic financial market participants (including Liechtenstein) without the status of a bank or securities dealer from 2010. The requirements attached to such admission include provisions that the new counterparties contribute to the liquidity of the secured Swiss franc money market and that they are supervised by FINMA (or the Liechtenstein supervisory body). The new counterparties are likely to be mainly insurance companies and managers of funds that are highly active in the money market. During the financial crisis, the repo market proved to be exceptionally robust. The SNB hopes that in expanding the list of participants, the further development of the secured money market can be encouraged, and thereby the stability and resilience of the financial system increased.

Open market operations

Repo operations

The purpose of SNB open market operations is to provide the money market with liquidity. The National Bank is able to create liquidity and reabsorb it. In a repo transaction, the principal monetary policy instrument in this area, the cash taker sells securities spot to the cash provider. At the same time, the cash taker enters into an agreement to repurchase securities of the same type and amount from the cash provider at a later point in time. The cash taker pays interest (repo interest rate) for the term of the repo agreement. From an economic perspective, a repo is a secured loan. For repo transactions within the context of open market operations, collateral eligible for SNB repos must cover at least 100% of the funds obtained at all times. The repo rate, the allocation of liquidity and the terms depend on monetary policy requirements. The terms of repo transactions vary from one day (overnight) to several months. The SNB generally sets the maturity of repo transactions in such a way that the commercial banks must request liquidity on an almost daily basis to be able to meet minimum reserve requirements.

The SNB can conduct repo transactions either in the form of auctions or by placing or accepting offers on Eurex Zurich Ltd's electronic trading platform. Auctions are generally conducted in the form of a volume tender. In this type of auction, each counterparty submits to the SNB an offer for the amount of liquidity it is willing to obtain for a given repo rate. If the total amount of all the offers exceeds the SNB's predetermined allotment volume, the SNB will reduce the amount allocated as a proportion of each counterparty offer.

Auctions can also be conducted in the form of a variable rate tender. In this case, the SNB counterparty submits an offer for the amount of liquidity it is willing to obtain and the price it is willing to pay for this amount. Each counterparty may submit as many offers as it wishes, and may also vary the interest rate from one offer to another. In a variable rate tender according to the Dutch allocation system, liquidity is uniformly allotted at the lowest interest rate accepted by the SNB to the participants which have offered that or a higher interest rate. In the American allotment system, liquidity is allotted – at the interest rate stated in the individual offer – to the participants that have offered at least the lowest interest rate accepted by the SNB.

By placing or accepting offers on the electronic trading platform for repo transactions, the SNB is able to influence interest rates in the money market at all times, and not just at the time of the auctions. Such fine-tuning transactions can be used for both providing and withdrawing liquidity.

Issuance of SNB Bills

The SNB may also issue its own interest-bearing debt certificates in Swiss francs (SNB Bills). In this way, large amounts of liquidity can be absorbed if the money market is oversupplied, thereby increasing flexibility in liquidity management. SNB Bills may be issued by auction or through private placement. They are included in the list of securities eligible for SNB repo transactions and can therefore be used as collateral in such transactions. The first SNB Bills auction was held in October 2008.

Standing facilities

Liquidity-shortage financing facility

To bridge unexpected liquidity bottlenecks, the SNB offers a liquidity-shortage financing facility. In order for a bank to obtain liquidity through this facility, the National Bank must grant a limit to be covered by 110% collateral eligible for SNB repos at all times. Each counterparty has the right to obtain liquidity up to the limit granted until the following bank working day. This limit is drawn down in the form of a special-rate repo transaction.

In 2009, banks requested that their limits under the liquidity-shortage financing facility be increased by a total amount of CHF 1.4 billion to CHF 35.9 billion. At the end of the year, 79 banks had been granted a limit (2008: 74). The special rate for obtaining liquidity provided through this facility was based on the Repo Overnight Index (SNB) – superseded on 25 August 2009 by SARON (Swiss Average Rate Overnight) – plus a surcharge of 50 basis points (on SARON, cf. chapter 2.6).

During the day, the SNB provides its counterparties with interest-free liquidity (intraday liquidity) through repo transactions so as to facilitate the settlement of payment transactions via Swiss Interbank Clearing (SIC system) and the settlement of foreign exchange transactions via Continuous Linked Settlement (CLS), the multilateral payment system. The cash amounts must be repaid by the end of the same bank working day at the latest. Intraday liquidity cannot be used to comply with minimum reserve requirements or liquidity requirements under banking law.

Intraday facility

Other monetary policy instruments

Under art. 9 para. 1 NBA, the SNB has other monetary policy instruments, such as spot and forward foreign exchange transactions and currency swaps, at its disposal; it can also purchase or sell securities in Swiss francs.

Foreign exchange swaps

In a foreign exchange swap, the purchase (sale) of foreign exchange at the current spot rate and the sale (purchase) of the foreign exchange at a later date are simultaneously agreed. Before the introduction of repo transactions in 1998, foreign exchange swaps were the most important monetary policy instrument for supplying the money market with liquidity. In October 2008, the SNB reapplied this instrument in order to supply banks abroad, which had no access to SNB repo auctions, with the Swiss franc liquidity they required. The foreign exchange swaps were conducted as auctions at a fixed price (volume tender).

Swap agreement with central banks

A large proportion of the foreign exchange swap transactions were conducted as part of the temporary swap agreement concluded with the European Central Bank and the Polish National Bank in autumn 2008, as well as the Hungarian central bank (from January 2009). The SNB made Swiss franc liquidity available to these three central banks through a foreign exchange swap facility, and they were then able to use auctions for allocating the funds to banks in their spheres of influence.

In April, the SNB also offered the US Federal Reserve a temporary foreign exchange swap facility until October 2009, so that US financial institutions could be supplied with Swiss franc liquidity. The facility was not used.

The swap agreement concluded with the Fed in December 2007, which enabled the SNB to obtain US dollars for Swiss francs, was extended to February 2010. It provided the basis for SNB repo auctions in US dollars (cf. chapter 2.7).

Purchase of foreign exchange and Swiss franc bonds

In 2009, as part of its additional measures aimed at easing monetary policy, the SNB purchased foreign exchange and Swiss franc bonds issued by private sector borrowers (cf. chapter 2.2).

2.2 Liquidity supply

High volume of money market transactions

Since autumn 2008, the SNB has been conducting money market transactions on an unprecedented scale to secure the supply of liquidity to banks. In doing so, it reacted flexibly to the continuing tensions on the money market and made use of a broad range of monetary policy instruments for supplying this market. Throughout the year, it also issued a moderate volume of SNB Bills in order to absorb liquidity.

Sight deposits of domestic banks at new record high

In 2009, sight deposits of domestic banks reached an all-time high due to the large-scale operations to provide liquidity and the SNB's simultaneous restraint in operations to absorb it. Sight deposits rose from CHF 39 billion at the beginning of the year to a record level of CHF 81 billion in May 2009 (weekly average). Over the rest of the year, they declined steadily to reach CHF 41 billion.

Steering the three-month Libor

At its quarterly assessment in mid-December 2008, the SNB lowered the target range for the three-month Libor by 50 basis points to 0.0–1.0%. In order to reach the desired Libor of 0.5%, it reduced the one-week repo rate to 0.05% – the lowest rate for repo transactions since this instrument was introduced in 1998 – and offered unlimited liquidity at this level. Together with the falling risk premia for unsecured money market transactions, this led to a decline in the three-month Libor from 0.86% to 0.45% by mid-March.

Longer-term repo transactions

At its quarterly assessment in March, the SNB decided to carry out another major easing in monetary policy. To this end, interest rates were to be reduced further and the continual appreciation of the Swiss franc against the euro halted. The SNB narrowed the target range for the three-month Libor to 0.0–0.75%, and now aimed for a three-month Libor of 0.25%. Since the one-week repo rate was already practically zero, the SNB supplemented the daily one-week repos with longer-term repo transactions at 0.05%, also without any volume limitation. From mid-March to the end of April it offered counterparties daily repo transactions with alternating terms of up to one year. Every two weeks from June to November, it offered three-month repos. As a result, the three-month Libor gradually declined, reaching the desired level of 0.25% in mid-November.

Further monetary policy measures

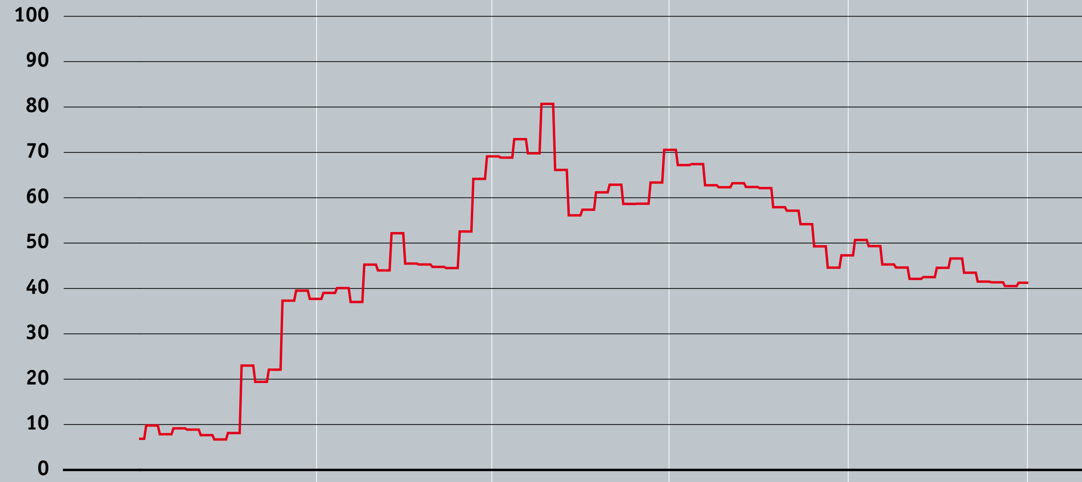
In addition to the longer-term repo transactions, the SNB purchased foreign exchange and Swiss franc bonds from mid-March. By intervening in the money, foreign exchange and capital markets as needed, it exerted strong and broadly based monetary policy stimuli.

Q4 2008 Q1 2009 Q2 Q3 Q4

Sight deposits

Sight deposits of domestic banks

Weekly averages, in CHF billions



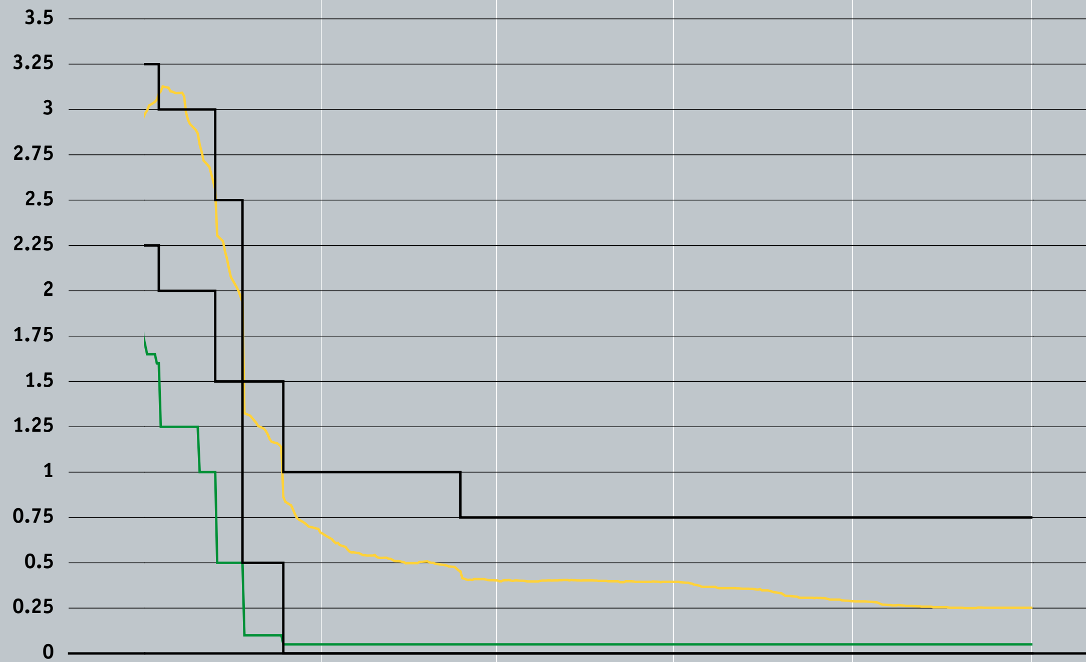
Three-month Libor and one-week repo rate

Three-month Libor

One-week repo rate

Target range

Daily values in percent



Q4 2008 Q1 2009 Q2 Q3 Q4

The purchase of Swiss franc bonds issued by private sector borrowers served to lower risk premia in the capital market, thereby easing private borrowers' access to capital. Initially, the SNB purchased only mortgage bonds; from April, it also bought corporate bonds. The situation on the Swiss franc bond market improved during the months that followed, partly because of falling risk premia worldwide. The SNB did not buy any more bonds after mid-September and at the quarterly assessment in December it announced that it had discontinued its acquisitions of bonds.

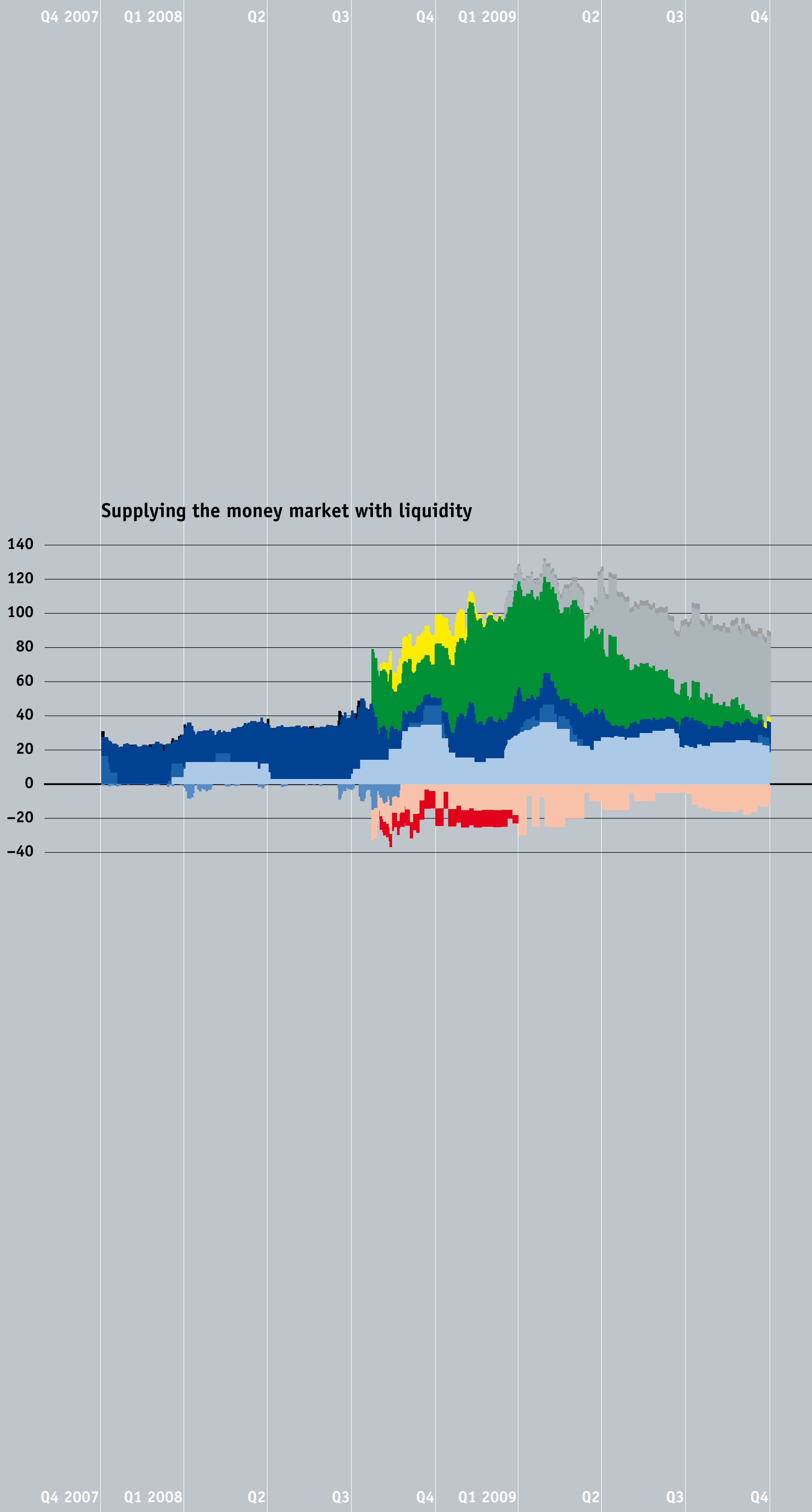
By purchasing foreign exchange from mid-March, the SNB prevented a further rise in the Swiss franc against the euro. It bought both euros and US dollars. For the first time, the interventions in the foreign exchange market were also conducted through electronic trading platforms.

Supplying the money market with liquidity in CHF billions

Monetary policy operations	2008 Outstanding Average[1]	Turnover	2009 Outstanding Average[1]	Turnover
Liquidity-providing operations	41.04	1 621.83	110.98	2 761.91
Repo transactions	33.30	1 300.90	40.05	799.84
Up to 3 days	0.26	69.27	0	0
4 to 11 days	21.74	1 139.85	13.52	709.96
12 to 35 days	1.50	40.81	1.50	27.92
36 days to 1 year	9.81	50.97	25.03	61.95
Euro/Swiss franc swaps	7.74	320.93	39.43	1 911.60
Up to 8 days	5.41	303.77	37.54	1 908.91
9 to 91 days	2.33	17.16	1.89	2.68
Foreign exchange purchases	0	0	28.78	47.34
Swiss franc bond purchases	0	0	2.72	3.13
Liquidity-absorbing operations	5.45	545.28	16.06	736.80
Repo transactions				
Up to 3 days	1.48	383.68	0	0
SNB Bills	3.97	161.60	16.06	736.80
Up to 8 days	2.33	134.03	13.78	711.78
9 to 28 days	1.64	27.57	2.28	25.03
Standing facilities				
Intraday facility	9.55	2 407.02	6.56	1 660.67
Liquidity-shortage financing facility	0.00	0.81	0.00	0.01

1 Average level of monetary policy operations outstanding at end of day (with the exception of the intraday facility).

Supplying the money market with liquidity



Repos up to 3 days (+)
Repos 4 to 11 days
Repos 12 to 35 days
Repos 36 days to one year
FX swaps up to 8 days
FX swaps 9 to 91 days
Foreign exchange purchases
Purchases of Swiss franc bonds
Repos up to 3 days (–)
SNB Bills up to 8 days
SNB Bills 9 to 28 days

Money market operations outstanding at the end of the day, in CHF billions

Positive figures: Liquidity provision
Negative figures: Liquidity absorption

Liquidity-providing operations

Liquidity-providing operations reached their highest level in April, at an outstanding volume of about CHF 132 billion. The average for the year as a whole amounted to CHF 110.98 billion, which was over twice as much as in 2008. Turnover, i.e. the sum of all liquidity-providing operations, reached CHF 2,761.9 billion, compared to CHF 1,621.8 billion in 2008.

In the case of repo transactions, the average level for the year was CHF 40.0 billion, while the turnover was CHF 799.8 billion. Roughly 89% of repo turnover was achieved with one-week transactions. For euro/Swiss franc swap transactions, the average level for the year was CHF 39.4 billion, while the turnover was CHF 1,911.6 billion. In both cases, the largest proportion was accounted for by transactions with central banks (average: CHF 25.7 billion; turnover: CHF 1,271.2 billion). Euro/Swiss franc swaps with commercial banks came to CHF 13.7 billion (average) and CHF 640.35 billion (turnover).

Banks' daily bids at the SNB's monetary policy repo auctions fluctuated between CHF 24 million and CHF 9 billion, with an average figure of CHF 2.7 billion. Of this amount, 8% was attributable to domestic banks, the remainder to international banks abroad. The SNB allotted 100% of banks' bids at all times. Banks' bids for euro/Swiss franc swaps with the SNB and other central banks climbed to CHF 107.7 billion. In most cases, these bids were fully satisfied.

In 2009, the SNB purchased foreign exchange for CHF 47 billion. A good two-thirds of this amount was accounted for by euros, and the rest by US dollars.

In addition, the SNB acquired Swiss franc bonds issued by private sector borrowers amounting to CHF 3.13 billion in the primary and secondary markets. The major part of these purchases was accounted for by mortgage bonds (CHF 2.8 billion), while the rest were bonds issued by Swiss industrial companies.

Liquidity-absorbing operations

The average level of liquidity-absorbing operations using SNB Bills amounted to CHF 16.1 billion while the turnover was CHF 736.8 billion. At SNB Bills auctions, the demand for SNB Bills ranged from CHF 5.4 billion to CHF 34.6 billion. An average of 66.6% of SNB Bills requested was allotted. The average rate of interest paid was 0.02%. In 2009, no liquidity-absorbing operations were conducted through repo transactions.

Standing facilities

Average use of the intraday facility by banks declined from CHF 9.6 billion to CHF 6.6 billion year-on-year due to the fact that provision of liquidity was generally ample compared to the previous year. Banks made use of the liquidity-shortage financing facility for only modest amounts and only in individual cases, and the average level for the year came to less than CHF 19,000.

2.3 Emergency liquidity assistance

Liquidity assistance conditions

Within the context of the emergency liquidity facility, the SNB can provide liquidity assistance to domestic banks if they are no longer able to refinance themselves on the market ('lender of last resort' function). The institutions requesting credit must be systemically important and solvent. In addition, the liquidity assistance must be fully covered by sufficient collateral at all times.

Systemic importance of a bank

A bank or group of banks is considered to be of systemic importance if its inability to pay would seriously impair the functioning of the Swiss financial system or major parts thereof, and have a negative impact on the economy. To assess the solvency of a bank or group of banks, the SNB obtains an opinion from the Swiss Financial Market Supervisory Authority (FINMA). The SNB determines what securities it will accept as collateral for liquidity assistance.

In 2009, the SNB did not provide any emergency liquidity assistance in the traditional sense. In autumn 2008, the SNB participated in a package of measures designed to strengthen the Swiss financial system. Assets were actually transferred to the SNB stabilisation fund from December 2008 to April 2009 (cf. chapter 6.5).

2.4 Minimum reserves

Main features of the regulation

The duty to hold minimum reserves (arts. 17, 18, 22 NBA) ensures that banks have a minimum demand for base money; it thus fulfils a monetary policy objective. Eligible assets in Swiss francs comprise coins in circulation, banknotes and sight deposits held at the SNB. The minimum reserve requirement is 2.5% of the sum of short-term liabilities in Swiss francs (up to 90 days) and 20% of all liabilities towards customers in the form of savings and investments.

If a bank fails to fulfil the minimum reserve requirement, it is required to pay interest to the SNB for the number of days of the reporting period for which there was a shortfall. The interest rate is 4 percentage points higher than the average call money rate over the reporting period in question. At the end of August 2009, the Repo Overnight Index was replaced by SARON (Swiss Average Rate Overnight), which has taken its place as the basis for calculation (cf. chapter 2.6).

Minimum reserves in CHF millions

	2008 Outstanding Average	2009 Outstanding Average
Sight deposits at the SNB	7 214	53 698
Banknotes	5 801	6 000
Coins in circulation	104	103
Eligible assets	13 119	59 801
Requirement	9 148	8 947
Compliance in excess of requirement	3 972	50 854
Compliance	143%	669%

In 2009 (from 20 December 2008 to 19 December 2009), statutory average minimum reserves amounted to CHF 8.9 billion. This was a 2% decline compared to the previous year. Eligible assets amounted to an average of CHF 59.8 billion, which was about four times as high as in the previous year. This huge increase reflects the substantial rise in sight deposits at the SNB and meant that banks exceeded the requirement by an annual average of about CHF 50.9 billion (2008: CHF 4.0 billion). Consequently, the average liquidity ratio, at 669%, was several times higher than in 2008 (143%).

In 2009, most of the 296 banks fulfilled the statutory minimum reserve requirements. Three banks breached the requirements for one reporting period. The amounts involved were negligible. The total amount in interest that the contravening banks were required to pay came to CHF 1,500.

2.5 Collateral eligible for SNB repos

Stringent requirements relating to collateral

To carry out its monetary policy operations, the SNB only accepts collateral that meets certain conditions. In so doing, the SNB protects itself against losses and ensures equal treatment of counterparties. Individual securities are subject to stringent requirements with regard to liquidity and credit rating.

To secure the liquidity of the internationally oriented Swiss banking system, a wide range of collateral eligible for SNB repos is of key importance. Banks with sufficient securities that qualify as eligible at the central bank may obtain liquidity, even in difficult conditions, since these securities can be transformed into liquid assets at central banks or in the interbank market through repo transactions.

The amount of collateral eligible for SNB repos rose from approximately CHF 9,000 billion at the end of 2008 to roughly CHF 10,000 billion a year later. Securities denominated in foreign currency accounted for 96% of this total.

2.6 Introduction of new Swiss franc reference rates

Swiss reference rates

In August 2009, the SNB and SIX Swiss Exchange Ltd (the Swiss stock exchange) jointly launched new Swiss franc reference interest rates for the financial markets. The Swiss reference rates are calculated for terms ranging from one day (overnight) to twelve months. They are based exclusively on data from the secured money market. This creates a risk-neutral Swiss franc interest rate curve and completes the range of reference rates for the Swiss franc money market. Consequently, market participants now have clear benchmarks for their liquidity management, and this enhances the attractiveness of the Swiss franc repo market.

SARON

On 25 August 2009, this reference rate group's call money rate – SARON (Swiss Average Rate Overnight) – replaced the Repo Overnight Index (SNB). It is used to calculate the minimum reserve penalty rate and the special rate for obtaining liquidity under the liquidity-shortage financing facility. Unlike the Repo Overnight Index, SARON is calculated on the basis of concluded repo transactions as well as trade quotes posted on the Eurex Zurich trading platform. Within the group of reference rates, the SNB attaches the greatest importance to SARON since this is an important indicator of changes in short-term interest rates and is the basis for calculating the Swiss franc interest rate curve.

2.7 Repo auctions in US dollars

Easing access to dollar liquidity

The SNB started conducting US dollar repo auctions in December 2007. The operations were carried out in coordination with a number of other central banks. The US Federal Reserve supplied the SNB with US dollars on the basis of a swap agreement. The SNB's repo transactions in US dollars were covered by collateral eligible for SNB repos. While these measures have no effect on the supply of money in Swiss francs, they enable the SNB's counterparties to gain easier access to US dollar liquidity.

Fall in demand for dollar liquidity

The average amount outstanding from US dollar repo transactions fell sharply due to the global easing of tensions on the money markets. In March 2009, it came to USD 5.4 billion, after an average level of USD 11.5 billion in 2008. By June 2009 it had fallen further to USD 3.1 billion. After July, there was no more demand for US dollars at repo auctions, and the SNB discontinued its auctions for 28-day and 84-day terms. The offer of one-week transactions remained in place.

2.8 SNB USD Bills

Under art. 9 para. 1 NBA, the SNB is authorised to issue its own debt certificates. Since 16 February 2009, the SNB has issued its own debt certificates in US dollars (SNB USD Bills) in addition to SNB Bills in Swiss francs. For the time being, they will be used to finance the SNB loan to the stabilisation fund (cf. chapter 6.5). SNB USD Bills may be issued through private placement or by auction. The SNB conducts auctions in the form of a variable rate tender according to the Dutch system (uniform allocation price). SNB USD Bills are offered every 14 days with terms of 28, 84 and 168 days. All parties admitted by the SNB as counterparties to monetary policy operations may take part in the auctions. SNB USD Bills have been included in the list of collateral eligible for SNB repos. Consequently, they can also be used in repo transactions with the SNB and can be counted as liquid assets in accordance with art. 16 of the Banking Ordinance. Issuing SNB USD Bills is neutral in monetary policy terms due to the fact that the volume of Swiss franc liquidity is not affected.

In 2009, there were 69 issues of SNB USD Bills. At the end of 2009, some USD 19 billion of SNB USD Bills were outstanding. The majority were issued with a term of 168 days.

3 Ensuring the supply of cash

3.1 Organisation of cash distribution

Mandate

Pursuant to art. 5 para. 2 (b) of the National Bank Act, the Swiss National Bank (SNB) is responsible for ensuring the supply and distribution of cash (notes and coins) in Switzerland. In conjunction with the commercial banks and their jointly operated organisations, as well as Swiss Post and SBB, it works to ensure an efficient and secure cash payment system.

Role of the SNB

The SNB offsets seasonal fluctuations in the demand for cash and replaces notes and coins that are unfit for circulation. The role of retailer, which includes the distribution and redemption of banknotes and coins, is assumed by commercial banks, Swiss Post and cash processing operators.

Turnover at offices

In 2009, the Swiss National Bank's offices registered currency turnover amounting to CHF 133.1 billion, as compared with CHF 126.7 billion a year earlier. They received a total of 482.1 million banknotes (2008: 436.8 million) and 1,729 tonnes of coins (2008: 1,761 tonnes). The SNB examined the quantity, quality and authenticity of the notes and coins. The incoming banknotes and coins were offset by an outflow of 483.7 million banknotes (2008: 456.0 million) and 2,289 tonnes of coins (2008: 2,305 tonnes).

Turnover at agencies

The agencies' turnover (incoming and outgoing) amounted to CHF 14.2 billion (2008: CHF 14.3 billion). Agencies are cash distribution services operated by cantonal banks on behalf of the SNB. They are responsible for the distribution and redemption of cash in the regions. In order to do this, the agencies have access to cash belonging to the SNB.

Deliveries by domestic correspondents

The SNB can grant banks the authority to act as correspondents in regions where it does not have its own operations. Together with the post offices, these banks perform part of the local cash redistribution transactions. The domestic correspondents delivered 1.9 million banknotes (2008: 1.8 million) with a total value of CHF 260.8 million (2008: 296.0 million) to the National Bank.

In August 2009, the SNB decided that, as of the end of May 2010, it would no longer support local cash redistribution between banks and post offices through its system of domestic correspondents. Over the past few years, this redistribution has steadily become less significant and has, most recently, contributed only very little to the supply and distribution of cash.

3.2 Banknotes

Mandate

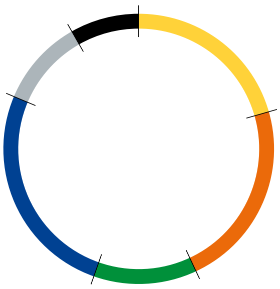
Pursuant to art. 7 of the Federal Act on Currency and Payment Instruments (CPIA), the SNB issues banknotes commensurate with demand for payment purposes and takes back any banknotes which are worn, damaged or surplus to requirements due to seasonal fluctuations. It also determines the denomination and design of the notes. Particular attention is paid to the security of the banknotes. Given the speed at which counterfeiting technology advances, the effectiveness of the security features on the banknotes must be continuously checked and, if necessary, adapted. In cooperation with third parties, the SNB develops new security features that make it possible to update the existing features on current banknotes and to better protect new banknotes.

Banknote circulation

In 2009, banknote circulation averaged CHF 45.3 billion, well above the previous year's average of CHF 41.3 billion. This is because only a small part of the banknotes that were additionally in demand owing to the financial crisis – predominantly CHF 1,000 banknotes – have returned to the SNB. In 2009, the total number of notes in circulation amounted to 315.6 million on average (2008: 303.4 million).

Issuance and disposal

In 2009, the SNB put 136.7 million (2008: 107.8 million) freshly printed banknotes with a face value of CHF 13.6 billion (2008: CHF 10.3 billion) into circulation, and destroyed 79.9 million (2008: 78.8 million) damaged or recalled notes with a nominal value of CHF 5.5 billion (2008: 4.9 billion).



Number of banknotes in circulation
In millions

CHF 10s: 65

CHF 20s: 71

CHF 50s: 39

CHF 100s: 82

CHF 200s: 33

CHF 1,000s: 26

Annual average for 2009

Roughly 4,900 counterfeit banknotes were confiscated in Switzerland in 2009 as compared with 3,100 a year earlier. The National Bank's offices discovered 84 counterfeit notes (2008: 70). By international standards, 16 seized counterfeit notes per million Swiss franc notes in circulation (2008: 10) is a relatively low figure.

Counterfeits

In connection with the production of the new banknote series, the project activities revealed that additional development work would bring improvements as regards those technological security features which are being used for the first time. The SNB therefore decided to postpone the issue date of the new banknote series. It expects that the first denomination of the new series can be issued in 2012. Given the consistently high security standard of the banknote series currently in circulation, a supply of high-quality banknotes to the economy remains guaranteed.

Development of new banknote series

3.3 Coins

The SNB is entrusted by the Confederation with the task of coin circulation. Its role is defined in art. 5 CPIA. It takes over the coins minted by Swissmint and puts into circulation the number required for payment purposes. Coins that are surplus to requirements are taken back against reimbursement of their nominal value. The National Bank's coinage services are not remunerated, as they constitute part of the mandate to supply the country with cash.

Mandate

In 2009, the average value of coins in circulation was CHF 2.7 billion (2008: CHF 2.6 billion), which corresponds to 4,661 million coins (2008: 4,535 million). Demand for coins remained high, in keeping with persistently robust consumer demand.

Coin circulation

4 Facilitating and securing cashless payment transactions

Mandate

In accordance with art. 5 para. 2 (c) of the National Bank Act (NBA), the Swiss National Bank (SNB) facilitates and secures the operation of cashless payment systems. Art. 9 NBA empowers the SNB to keep accounts (SNB sight deposit accounts) for banks and other financial market participants.

4.1 Facilitating cashless payment transactions

Banks and other selected financial market participants conduct a large proportion of their reciprocal payment transactions through the Swiss Interbank Clearing (SIC) system, which is steered by the SNB. Having an SNB sight deposit account is a prerequisite for participating in the SIC system.

SIC: a real-time gross settlement system

SIC is a real-time gross settlement system. Such systems settle payments individually – and only if there is sufficient cover for the transaction – on the accounts of the system participants. Once executed, transactions are irrevocable and final; they are comparable to cash payments. The SIC system is operated by SIX Interbank Clearing Ltd, a subsidiary of SIX Group Ltd, on behalf of the SNB.

SNB steers SIC

The SNB steers the SIC system. It transfers liquidity from the sight deposit accounts at the SNB to the settlement accounts in the SIC system at the start of each clearing day and transfers the balances from the settlement accounts back to the sight deposit accounts at the end of the clearing day. Legally, the two accounts form a unit. The clearing day in the SIC system starts at 5.00 pm and ends at 4.15 pm the following day. The SNB monitors operations and ensures that there is sufficient liquidity by granting, when necessary, intraday loans to banks against collateral. In addition, the National Bank is responsible for crisis management.

SIC agreements

The SIC agreement concluded between the SNB and SIX Interbank Clearing Ltd entrusts the latter with providing data processing services for the SIC system. The relationship between the SNB and the holders of sight deposit accounts is governed by the SIC giro agreement.

Based on the SIC agreement, the SNB requests and approves modifications and upgrades of the SIC system. It also has a seat on the Board of Directors of SIX Interbank Clearing Ltd and participates in various working groups on payments, through which it exerts its influence.

Participating in the SIC system

At the request of the SNB, SIX Group Ltd established a third data processing centre located outside the Zurich region. This new data centre, which can be swiftly put into operation should the two main data centres fail at the same time, became operational in October 2009.

Additional data processing centre

At the end of 2009, 376 participants were connected to the SIC system, as compared with 356 the previous year. Participants conducted approximately 1.5 million transactions each day amounting to CHF 225 billion. This is a year-on-year increase of 2.7% and decrease of 1.7%, respectively. On peak days, up to 4.8 million transactions were settled and transaction values of up to CHF 411 billion achieved.

Key figures on SIC system

Key figures on SIC system

	2005	2006	2007	2008	2009
Transactions (in thousands)					
Daily average	1 009	1 264	1 421	1 468	1 508
Peak daily value for the year	2 690	3 844	4 167	4 350	4 788
Value (in CHF billions)					
Daily average	161	179	208	229	225
Peak daily value for the year	247	318	337	343	411
Average amount per transaction (in CHF thousands)					
	160	141	146	156	149
Average liquidity (in CHF millions)					
Sight deposits, end of day	4 856	5 217	5 470	8 522	57 886
Intraday liquidity	6 340	7 070	8 828	9 515	6 362

Other bodies responsible for cashless payments

In addition to the banks, non-banks and other financial market participants also take part in the SIC system. Other financial market participants comprise companies that operate commercially on the financial markets. They include PostFinance, securities dealers and institutions that are of importance either for the implementation of monetary policy or for settling payment transactions (at present, five cash-processing institutions). All participants in the SIC system must have a sight deposit account with the SNB. By contrast, not all sight deposit account holders participate in the SIC system. SNB figures show a total of 485 sight deposit account holders as at 31 December 2009 (2008: 466), 376 (356) of which participated in the SIC system. The majority of SIC participants – 239 (238) – are domiciled in Switzerland, 15 (13) of which are non-banks and other financial market participants.

SIX Group as operator of the financial market infrastructure

The giro and SIC system steered by the SNB is a key element of the Swiss financial market infrastructure, which is operated by SIX Group Ltd, a financial holding company comprising SIX Interbank Clearing Ltd, the Swiss stock exchange (SIX Swiss Exchange Ltd), SIX SIS Ltd as the company operating the securities settlement system SECOM, and SIX x-clear Ltd as the central counterparty. It is through SIX Interbank Clearing Ltd and SIX SIS Ltd that the SNB settles the money market transactions with which it supplies the money market with liquidity. It is thus not just in the area of payments that SIX Group Ltd operates infrastructures that are important for the fulfilment of the SNB's mandate.

4.2 Oversight of payment and securities settlement systems

Mandate

The NBA (art. 5 para. 2 (c) and arts. 19–21 NBA) requires the SNB to oversee systems for the clearing and settlement of payments (payment systems) and transactions involving financial instruments, especially securities (securities settlement systems). It empowers the SNB to impose minimum requirements on the operation of systems that might be a source of risk to the stability of the financial system. The National Bank Ordinance (NBO) lays down the details of system oversight (arts. 18–39 NBO).

Focus on systemically important systems

At present, the systems that could harbour risks for the stability of the financial system include the SIC system, the SECOM securities settlement system and the central counterparty x-clear. The operators of these systems, SIX Interbank Clearing Ltd, SIX SIS Ltd and SIX x-clear Ltd, must meet the minimum requirements set out in arts. 22–34 NBO. The SNB has provided further details on these minimum requirements in its system-specific control objectives.

Liquidity in SIC

Intraday drawdowns by banks

Sight deposits

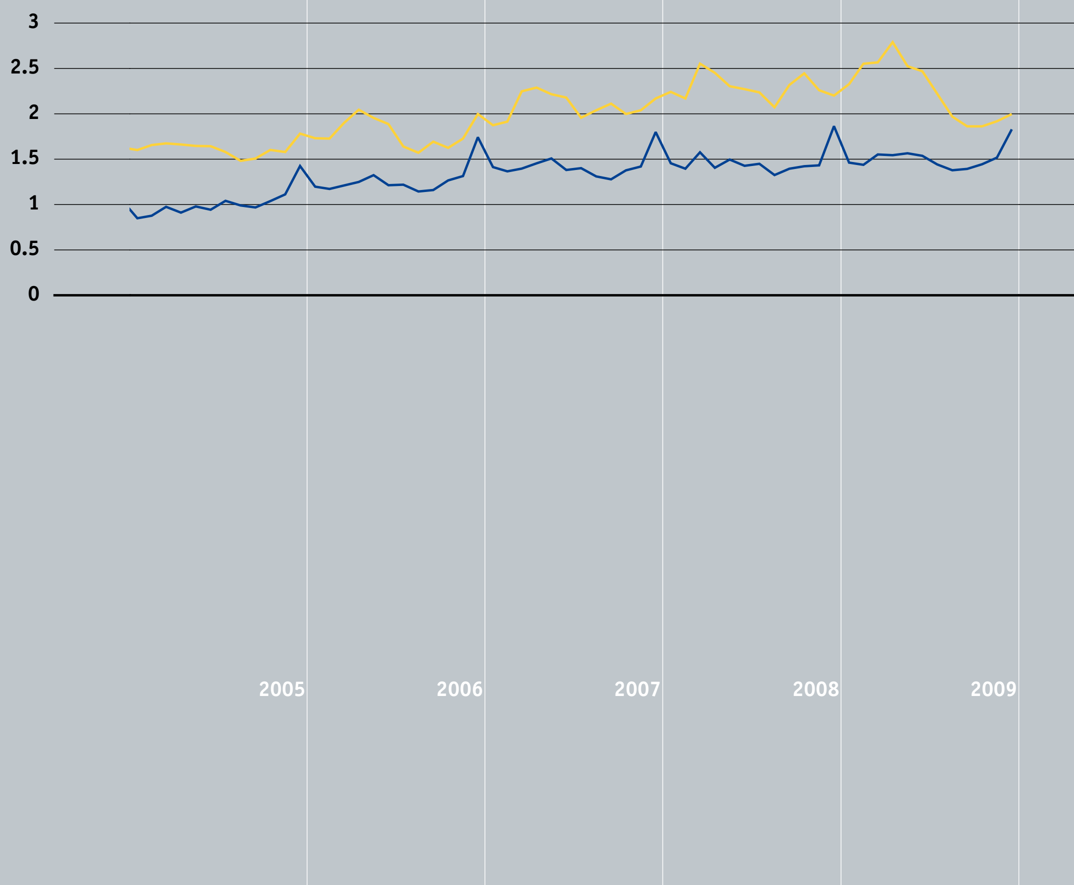
Monthly averages of daily figures, in CHF billions

Transactions and turnover in SIC

Number of transactions (in millions)

Turnover (in CHF 100 billions)

Monthly averages of daily figures



Other systems that are important for the stability of the Swiss financial system are the Continuous Linked Settlement (CLS) foreign exchange settlement system, whose operator is based in the US, and the central counterparty LCH.Clearnet Ltd (LCH) domiciled in the UK. CLS and LCH are exempted from the obligation to meet the minimum requirements because they are already subject to adequate oversight by their local regulators and there is a smooth exchange of information with the SNB.

Eurex Clearing as a systemically relevant system

In 2009, the SNB classified Eurex Clearing, which is domiciled in Germany, as relevant to the stability of the Swiss financial system. Eurex Clearing is the central counterparty for the Eurex exchanges, on which, among other securities, derivatives based on Swiss underlying assets and denominated in Swiss francs are traded. The key factors for this classification were the high clearing volume and the comparatively large number of Swiss participants, as well as the absence of alternatives for the clearing of derivatives based on Swiss underlying assets, and Eurex Clearing's links to systemically relevant Swiss financial market infrastructures.

Cooperation with FINMA

SIX SIS Ltd and SIX x-clear Ltd, which operate the SECOM and x-clear systems respectively, both hold banking licences and are subject to prudential supervision by the Swiss Financial Market Supervisory Authority (FINMA) as well as to system oversight by the SNB. While prudential supervision aims primarily at protecting individual creditors, system oversight focuses on the functioning of the financial system and the risks to which it is exposed. Although FINMA and the SNB exercise their supervisory and oversight powers separately, they coordinate their activities (art. 21 para 1 NBA and 23bis para 4 Banking Act). This applies in particular to the collection of information required for the supervision of institutions and the oversight of systems. When assessing whether a system operator complies with the minimum requirements, the SNB relies on the information already gathered by FINMA.

Cooperation with authorities abroad

The SNB cooperates with authorities abroad in the oversight of cross-border payment and securities settlement systems. In the case of CLS, the Federal Reserve Bank of New York – which is the authority with primary responsibility for its oversight – works with all central banks whose currencies are settled through this system. As regards the central counterparties LCH and x-clear (the latter qualifies as a recognised overseas clearing house (ROCH) in the UK), the SNB and FINMA cooperate with the Financial Services Authority (FSA) and the Bank of England.

In connection with the efforts of x-clear, the central counterparty, to extend its services to further exchanges and multilateral trading facilities in Europe, the SNB worked together with the Nederlandsche Bank (Dutch central bank) and with Nordic central banks as well as various supervisory authorities for the first time in 2009.

Finally, the SNB participates – together with the other central banks in the Group of Ten (G10) and under the leadership of the Belgian central bank – in the oversight of the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT), which operates a global network for the transmission of financial information. Oversight focuses on those activities of SWIFT that are of significance for financial stability in general and for the functioning of financial market infrastructures in particular.

Compliance with regulatory requirements high

In 2009, the SNB assessed compliance with regulatory requirements by the system operators SIX Interbank Clearing Ltd, SIX SIS Ltd und SIX x-clear Ltd. The assessment covered the operators' corporate governance, the management and monitoring of settlement risk, and the systems' IT and information security. The SNB concluded that compliance with the requirements was high in all areas assessed.

Corporate governance

The assessment with regard to corporate governance showed that the system operators are appropriately structured and well managed, and have adequate internal systems of control.

Risk management

The SIC, SECOM and x-clear systems have rules and procedures in place which contribute to the reduction of settlement risk. The instruments they are using for the ongoing recording, limiting and monitoring of the credit and liquidity risks are adequate.

IT and information security

To assess the systems' IT and information security, the SNB relies mainly on external auditors. In 2009, the audits, whose scope and degree of detail are determined by the SNB, focused on electronic data exchange, access control and business continuity management. The external auditor's report concluded that the regulatory requirements were largely complied with and contains a series of recommendations.

Other principal areas of systems oversight

The SNB supported the establishment of a third national data processing centre by the system operators. It also worked towards further improving the financial sector's provisions for a possible operational crisis. This project is being coordinated by the steering committee on business continuity planning in the Swiss financial centre, which includes representatives from the system operators, the larger banks, FINMA and the SNB. At the beginning of September, the steering committee published a report informing on key milestones achieved in the past few years and on the tasks remaining to be done. At the end of November, the SNB organised, on behalf of the steering committee, a scenario-based, financial-sector-wide crisis exercise in order to test the existing alarm and crisis organisation. The insights gained in this exercise will be integrated in the further work of the steering committee.

Strengthening the global market infrastructure for derivatives

At the initiative of the Federal Reserve Bank of New York, the Over-the-Counter (OTC) Derivatives Regulators' Forum was set up by central banks and financial market regulators in the spring of 2009. As a member of this forum, which now comprises around 40 central banks and financial market supervisory authorities, the SNB supports its efforts to strengthen the global market infrastructure for clearing and settling over-the-counter derivatives transactions. These efforts are, on the one hand, aimed at centrally recording the most important derivatives transactions and thus enhancing market transparency. On the other, the intention is to have derivatives transactions increasingly cleared through central counterparties. Central counterparties facilitate the market participants' risk management and reduce the complexity of the financial system. A market infrastructure that reduces the interconnections between the individual financial institutions could, in the case of crisis, contribute to facilitating an orderly liquidation of financial institutions which, owing to their size and interconnectedness, cannot be allowed to go bankrupt ('too big to fail' and/or 'too interconnected to fail').

4.3 TARGET2-Securities

T2S in the euro area

In 2008, the European Central Bank (ECB) decided to launch the TARGET2-Securities (T2S) project, a new securities settlement system. T2S aims to replace the various national securities settlement systems currently in operation, either totally or partially, and to drastically reduce the cost of settling cross-border securities transactions within the euro area. The service is due to be operational in 2013.

Participation of SIX SIS Ltd

In July 2009, SIX SIS Ltd and other central securities depositories signed a memorandum of understanding with the ECB, in which the contracting parties expressed their intention of creating a joint framework agreement. This agreement, due to be signed in 2010, is to regulate the development and operation of T2S. Participation by SIX SIS Ltd in T2S with euro-denominated securities would enable Swiss financial market participants to settle cross-border securities transactions in a more cost-effective way. The SNB backs the participation on the condition that SIX SIS Ltd can continue to provide it with services of the same quality standards as at present.

5 Asset management

5.1 Basic principles

Mandate

Under art. 5 para. 2 of the National Bank Act (NBA), the Swiss National Bank (SNB) is responsible for managing the currency reserves. Asset management is governed by the primacy of monetary policy and is carried out in accordance with the criteria of security, liquidity and return. The SNB's own *Investment Policy Guidelines* define the scope for its investment activity and for the investment and risk control process. Within this framework, investments are made in line with the principles of modern asset management. Investment diversification aims at achieving an appropriate risk/return profile.

Function of assets

The SNB's assets consist, on the one hand, of currency reserves (foreign exchange and gold) and, on the other, of financial assets in Swiss francs (securities and claims from repo transactions). Both fulfil important monetary policy functions. Their composition is determined mainly by the established monetary order and the requirements of monetary policy. Some of the assets are used directly for the implementation of monetary policy – in particular, claims from repo transactions. Using repo transactions, the SNB supplies commercial banks with liquidity in the form of base money by purchasing securities from them. The SNB holds currency reserves in the form of foreign exchange and gold in order to ensure it has room for manoeuvre in monetary policy at all times. These reserves also serve to build confidence and to prevent and overcome potential crises.

Loan to stabilisation fund

The US dollar loan granted to the stabilisation fund in autumn 2008 is not part of the currency reserves. Its purpose is to finance the acquisition of illiquid assets from UBS. The stabilisation fund managed by the SNB plans to successively liquidate the assets that have been acquired. Income from the stabilisation fund portfolio (interest, sales and redemptions) is used to repay the loan. Since the SNB was able to fully refinance the loan in the market by issuing its own debt certificates in US dollars, no foreign exchange reserves had to be used for this purpose. Further information on the stabilisation fund may be found in chapter 6.5 of the accountability report and in the financial report, pp. 163 et seq.

5.2 Investment and risk control process

Responsibilities of Bank Council and Risk Committee

The NBA defines the SNB's responsibilities and describes in detail its mandate with regard to asset management. The Bank Council is charged with the integral oversight of the investment and risk control process. Its role is to assess the underlying principles and monitor compliance with them. The Risk Committee – which is composed of three members of the Bank Council – supports the Bank Council in this task. In particular, it monitors risk management. Internal risk management reporting is addressed directly to the Governing Board and the Risk Committee.

Responsibilities of Governing Board

The Governing Board defines the requirements with regard to the security, liquidity and return of investments, as well as the eligible currencies, investment categories, instruments and debtors. It decides on the level and composition of the currency reserves and other assets, and defines the investment strategy once a year. The investment strategy encompasses the allocation of total assets to the different portfolios and the guidelines for their management, in particular the allocation to different currencies and investment categories, and the scope for active management at the operational level.

Responsibilities of Investment Committee and Portfolio Management

An internal committee, the Investment Committee, determines the tactical allocation of the foreign exchange reserves at operational level. Within the strategically prescribed range, it adjusts currency weightings, terms and allocation to the different investment categories, to take account of changed market conditions. The management of the portfolios is the responsibility of Portfolio Management. The majority of investments are managed by internal portfolio managers. External asset managers are used to obtain efficient access to special investment categories and to conduct performance comparisons with internal portfolio management. To avoid conflicts of interest, operational responsibilities for monetary policy and investment policy operations are largely kept separate.

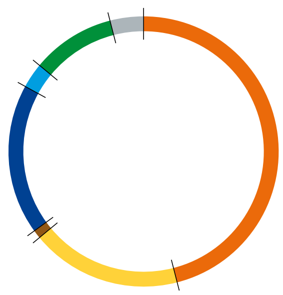
The investment strategy is based on requirements specific to central banks as well as comprehensive risk/return analyses. Risk is managed by means of a system of reference portfolios, guidelines and limits. All relevant financial risks on investments are identified, assessed and monitored continuously. Risk measurement is based on standard risk indicators and procedures. In addition to these procedures, sensitivity analyses and stress tests are carried out on a regular basis. The SNB's comparatively long-term investment horizon is taken into account in all of these risk analyses. To manage and assess credit risk, information from major rating agencies, market indicators and in-house analyses are used. Credit limits are set, based on this information, and adjusted whenever the assessment of counterparty risk changes. Concentration and reputation are also factored in when determining risk limits. Risk indicators are aggregated across all investments. Compliance with the guidelines and limits is monitored daily. Quarterly risk reports to the Governing Board and the Bank Council's Risk Committee document the results of risk management activities.

Responsibilities of Risk Management

5.3 Breakdown of assets

At CHF 207 billion, total assets remained relatively stable year-on-year (CHF 214 billion). However, the composition has changed. While *balances from swap transactions against Swiss francs* and *claims from repo transactions* declined substantially, the level of currency reserves rose. At the end of 2009, currency reserves amounted to CHF 140 billion or CHF 61 billion higher than a year previously. This increase was mainly due to foreign exchange purchases (some CHF 45 billion); about CHF 7 billion was attributable to the rise in the price of gold and CHF 5 billion to the additional allocation of special drawing rights (SDR) by the International Monetary Fund (IMF). At the end of the year, balances from EUR/CHF swap transactions amounted to almost CHF 3 billion. In addition, at the end of 2009, the SNB held Swiss franc assets in the form of *claims from repo transactions* amounting to CHF 36 billion and *claims from bonds* for almost CHF 7 billion. At end-2009, the *loan to the stabilisation fund* came to CHF 21 billion. It is denominated in different currencies, with interest being paid at the one-month Libor for the currency in question plus 250 basis points.

Breakdown of assets



Breakdown of SNB assets
In percent

Foreign exchange reserves 46

Gold reserves 18

EUR/CHF swaps 1

Claims from Swiss franc repo transactions 18

Securities in Swiss francs 3

Loan to stabilisation fund 10

Monetary institutions 4

Total: CHF 207 billion
At year-end 2009

Debtor categories and instruments

At the end of 2009, the bond portfolios in the foreign exchange reserves and the Swiss franc bond portfolio contained government and quasi-government bonds as well as bonds issued by international organisations, local authorities, financial institutions (essentially covered bonds) and other companies. In the case of foreign exchange reserves, a limited number of secured and unsecured short-term placements were also made at banks. The equity portfolios were managed on a purely passive basis, with broad market indices in euros, US dollars, yen, pounds sterling and Canadian dollars being replicated. A small portion of gold holdings was used in the form of secured gold lending transactions at year-end.

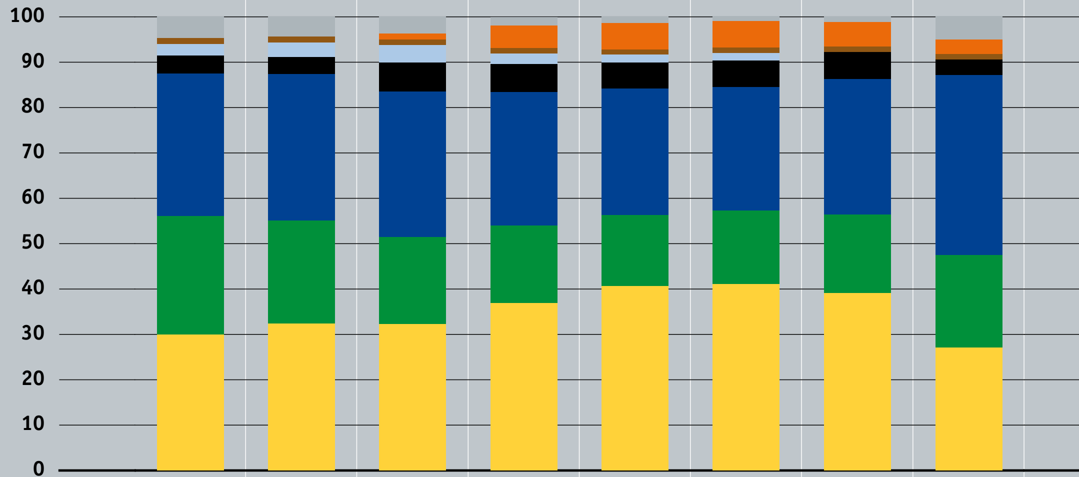
In the case of foreign exchange reserves, exchange rate and interest rate risks were managed using derivative instruments, such as interest rate swaps, interest rate futures, forward foreign exchange transactions and foreign exchange options. In addition, futures on equity indices were used to manage the equity investments.

Breakdown of foreign exchange reserves and Swiss franc bond investments

	2008		2009	
	Foreign exchange reserves	CHF bonds	Foreign exchange reserves	CHF bonds
Currency allocation, incl. derivatives positions				
CHF	–	100%	–	100%
USD	29%	–	30%	–
EUR	50%	–	58%	–
JPY	9%	–	5%	–
GBP	10%	–	5%	–
CAD	2%	–	2%	–
Investment categories				
Money market investments	3%	–	0%	–
Government bonds[1]	66%	40%	84%	19%
Other bonds[2]	19%	60%	9%	81%
Equities	12%	–	7%	–
Risk indicators				
Duration of bonds (years)	4.1	4.9	3.3	5.3

1 Government bonds in their own currencies; in the case of CHF investments, also bonds issued by Swiss cantons and municipalities.
2 Government bonds in foreign currencies as well as bonds issued by foreign local authorities and supranational organisations, covered bonds, corporate bonds, etc.

Breakdown of currency reserves



Gold
USD
EUR
GBP
DKK
CAD
JPY
SDR

In percent

2002 2003 2004 2005 2006 2007 2008 2009

Changes in investment allocation

The additional euros and US dollars acquired during the course of the year were invested in short to medium-term government bonds. Consequently, the share of government bonds increased at the expense of other investment categories. The average duration fell and the share of the main investment currencies rose. At the end of 2009, the share of gold in the currency reserves was lower than a year previously because the level of foreign exchange reserves rose faster than the value of the unchanged gold holdings. Holdings of Swiss franc securities rose as a result of the purchases of bonds issued by private sector borrowers aimed at reducing risk premia in the capital market. Consequently, the share of government bonds in the Swiss franc portfolio declined. Most of the purchases related to Swiss mortgage bonds while the rest were for bonds issued by Swiss industrial companies.

5.4 Risk profile

Risk profile …

The main risk to the assets is market risk, i.e. gold price, exchange rate, share price and interest rate risks. Market risk is managed primarily through diversification. The SNB counters liquidity risks by holding a considerable part of its investments in the world's most liquid currencies and bond markets. To a limited extent, it also takes credit risk. The risk incurred in connection with the loan to the stabilisation fund is discussed in chapter 6.5 of the accountability report and in the financial report, in the section Financial information on the stabilisation fund.

… of currency reserves

The allocation of currency reserves between gold and the different currencies and diversification into various investment segments has contributed to an even risk/return profile for the currency reserves. Nevertheless, the absolute risk increased substantially due to the increase in the overall level of currency reserves. The duration of fixed income investments at the end of 2009 was somewhat over three years. The SNB only took credit risk to a limited extent. The price of gold and exchange rates continued to be the most important risk factors, with exchange rate risk making an increased contribution to total risk due to the larger share of foreign exchange reserves. Exchange rate risk on foreign exchange reserves is not hedged against Swiss francs as a matter of principle, because such hedging would restrict the SNB's capacity to act. Changes in the value of the Swiss franc, therefore, have a direct impact on the value of the foreign exchange reserves.

The SNB considerably extended both the terms and the volumes of its monetary policy transactions during the first half of the year in order to combat the financial crisis. Alongside short-term repo transactions, it also concluded transactions with terms of up to one year. However, the credit risk on these transactions was minimal, since the claims were secured by first-class collateral. Collateral was valued twice a day and any shortfall had to be covered immediately. In the case of swap transactions against euros for the provision of Swiss franc liquidity, the SNB incurred no exchange rate or interest rate risk, and practically no credit risk. Credit risk was limited by deducting a percentage haircut from the reference exchange rate. Moreover, the SNB retained the right to request additional collateral, if the cover posted in euros were to fall below the Swiss franc amount outstanding.

… of monetary policy transactions

The Swiss franc bond portfolio contained first and foremost Swiss mortgage bonds. In addition there were bonds issued by the Confederation, the cantons and foreign borrowers as well as a small number of Swiss industrial bonds held as a result of the measures carried out in support of the Swiss franc capital market. The duration of the portfolio amounted to a good five years.

… of Swiss franc bonds

The SNB was exposed to credit risk through bond investments relating to various borrowers and borrower categories. These included bonds issued by public and supranational issuers as well as covered bonds and similar instruments. In addition, corporate bonds totalling CHF 2.6 billion were held in the foreign exchange reserves. Credit risk arising from non-tradable instruments with respect to banks existed in the form of short-term deposits (CHF 0.0 billion) and replacement values of derivatives (CHF 0.1 billion). Gold lending (CHF 3.4 billion) did not entail any significant credit risk, as these operations were secured by bonds with above-average credit ratings.

Credit risk

Overall, credit risk was relatively low, since most of the investments were held in the form of top-quality government bonds. An overwhelming proportion of the investments (84%) bore the highest rating (AAA). As in 2008, the lowest rating category still eligible for investment (BBB) accounted for approximately 1% of total investments at year-end.

The SNB has high standards with regard to the liquidity of its investments. At the end of 2009, almost 90% of foreign exchange reserves were denominated in the major two currencies, euros and US dollars, with highly liquid government bonds accounting for a large proportion of these.

Liquidity risk

Higher balance sheet risk

The rise in the number of risky assets was not matched by a comparable increase in equity capital. Consequently, the ratio of equity capital to risky assets deteriorated substantially. In addition, at the end of 2009, about one-third of equity capital was accounted for by the distribution reserve. Unlike the higher level of currency reserves, however, the distribution reserve will only remain on the SNB balance sheet for a limited period. Once it has been transferred, the SNB's financial resilience will no longer be guaranteed to the same extent as before the crisis.

Setting aside additional provisions

Consequently, the SNB decided to take measures to strengthen its equity capital and balance sheet in the long-term. This can only be achieved if the SNB steps up its provisioning above the current level. In the past, it has increased its provisions annually at a rate equivalent to average nominal GDP growth for the preceding five years. This allocation will now be doubled each year from 2009 to 2013 (cf. financial report, pp. 118 et seq.).

5.5 Investment performance

Investment performance is calculated for currency reserves (foreign exchange and gold reserves) and for Swiss franc bonds, while earnings on monetary policy operations are excluded from the calculation of return.

In 2009, financial markets recovered from the crisis. Risk premia on bonds declined and share prices rose. As a result, positive returns were achieved on all investments. On currency reserves, the return was 11%. The Swiss franc value of the gold reserves rose by 24% due to the surge in the price of gold. This gives a yield of 4.8% on the foreign exchange reserves, measured in terms of Swiss francs. The Swiss franc appreciated against the US dollar and the yen and lost value against the pound sterling and the Canadian dollar. It remained more or less steady against the euro. The return on Swiss franc bonds was 4.3%.

Return on investments[1]

	Currency reserves					CHF bonds
	Total	Gold	Foreign exchange reserves			Total
			Total	Currency return	Return in local currency	
1999			9.7%	9.2%	0.4%	0.7%
2000	3.3%	–3.1%	5.8%	–2.0%	8.0%	3.3%
2001	5.2%	5.3%	5.2%	–1.2%	6.4%	4.3%
2002	1.4%	3.4%	0.5%	–9.1%	10.5%	10.0%
2003	5.0%	9.1%	3.0%	–0.4%	3.4%	1.4%
2004	0.5%	–3.1%	2.3%	–3.2%	5.7%	3.8%
2005	18.9%	35.0%	10.8%	5.2%	5.5%	3.1%
2006	6.9%	15.0%	1.9%	–1.1%	3.0%	0.0%
2007	10.1%	21.6%	3.0%	–1.3%	4.4%	–0.1%
2008	–6.0%	–2.2%	–8.7%	–8.9%	0.3%	5.4%
2009	11.0%	23.8%	4.8%	0.4%[2]	4.4%	4.3%

1 Cumulated returns, time-weighted daily returns.

2 In the 'Currency return' column, a slightly positive return is stated for 2009. However, in absolute terms, an exchange rate loss was realised on the exchange rate reserves (cf. financial report, p. 145). The difference can be explained by the way in which the percentage return is calculated (cumulated daily returns). The limitations of this method become evident when the volume of assets changes substantially within the space of one year, as was the case in 2009 for the foreign exchange reserves. When calculating the percentage return, exchange rate profits on the smaller holdings in the first half of the year and exchange rate losses on the larger holdings in the second half of the year were given the same weighting. However, with respect to the absolute amounts, the exchange rate losses in the second half of the year exceeded the profits in the first half of the year.

6 Contribution to financial system stability

Mandate

Pursuant to art. 5 para. 2 (e) of the National Bank Act (NBA), the Swiss National Bank (SNB) is obliged to contribute to the stability of the financial system. The SNB makes every effort to identify any potential risks to the stability of the financial system at an early stage. It also plays an active role in creating a regulatory environment that promotes stability. In so doing, it works in conjunction with the Swiss Financial Market Supervisory Authority (FINMA). The SNB focuses on macroprudential oversight.

Lessons from the financial crisis and implementation of measures

In 2009, the SNB's activities in the area of financial stability were shaped extensively by the financial crisis. Together with FINMA, the SNB continued to closely monitor developments in the banking system and the financial markets. A major focus of attention was the implementation of measures to improve financial stability at national and international level. The new liquidity regulations for the big banks began to take shape in 2009. In addition, last year saw the start of efforts, together with FINMA, to tackle the 'too big to fail' issue. This describes the constraint imposed by the fact that, for systemic reasons, banks which are very large or highly interconnected at national and international level cannot be allowed to fail, and thus enjoy a de facto state guarantee. The SNB was also actively involved in a number of international bodies discussing how to improve regulation and resolve the 'too big to fail' issue (Basel Committee on Banking Supervision and Financial Stability Board).

6.1 Monitoring the financial system

Financial Stability Report

In June 2009, the SNB published its annual *Financial Stability Report*. The report's main focus was the rapid deterioration in the global economic and financial situation, and the consequences for Swiss banks. The different bank categories were affected to varying degrees. The big banks continued to face considerable risks. In addition to market risk, credit risk became more significant as a result of the global recession. The SNB assessed the big banks' total risk exposure as material, not just in absolute terms, but also relative to their ability to absorb future losses.

Compared to the big banks, banks with a domestic business focus – cantonal banks, regional banks and Raiffeisen banks – presented a more favourable picture. The average profitability of these banks in 2008 was still above the long-term average. Their capital base was high and they were able to build up their liquidity reserves. The report pointed out, however, that they would also feel the effects of the economic downturn in 2009.

Signs of stabilisation

In the second quarter of 2009, there were first signs that the global economy was stabilising. Financial markets began to rally and GDP forecasts were revised upwards for a number of countries. The recovery on financial markets had a favourable effect on international big banks' results in particular. In Switzerland, Credit Suisse announced a return to profit in 2009. UBS, which had been harder hit by the crisis, recovered more slowly.

Intensified oversight of big banks

In view of the fact that economic conditions remained difficult and leverage was still high, the SNB, in collaboration with FINMA, continued its intensified oversight of the two big banks in 2009. This oversight was based, first, on an assessment of bank-internal and publicly available information, as well as face-to-face discussions with the institutions. Second, it used FINMA's Loss Potential Analysis, which is in turn based on a scenario developed by the SNB. This analysis estimates the big banks' potential for loss in the event of a further severe deterioration in macroeconomic conditions. The results were published in October 2009. In addition, work continued on the development of new monitoring tools. For example, the SNB and FINMA jointly drew up a framework for standardised stress tests. This standardisation is aimed at improving the comparability of results, both over time and between the two big banks.

6.2 Measures to strengthen financial stability

Efforts in 2009 centred around the new liquidity regulations for the big banks, as well as the 'too big to fail' issue.

Higher capital requirements

Supported by the SNB, the Swiss Federal Banking Commission (FINMA's predecessor) had already decided in 2008 to raise the capital requirements for the big banks with effect from 2013. In order not to hamper the economic recovery, these requirements will be implemented gradually, starting in 2010. As of 2013 both the big banks will have to hold, in good times (i.e. in principle, whenever they are in profit), at least 100% more surplus capital than stipulated in the Banking Ordinance. As a complementary measure, a maximum leverage ratio was introduced for the big banks. From 2013 they must hold capital amounting to at least 3% of their consolidated balance sheet total at all times. In good times, the capital ratio must be 5%.

Liquidity regulations geared towards crisis scenarios

The new liquidity regulations for the big banks take into account all balance sheet and off-balance-sheet items of relevance in liquidity considerations, and are based – as far as possible – on the banks' own liquidity management principles. The qualitative requirements are aligned with the Basel Committee's *Principles for Sound Liquidity Risk Management and Supervision*. The quantitative liquidity requirements are based on stress scenarios defined by FINMA and the SNB. The big banks each estimate the impact of these scenarios on their liquidity. If the banks' resilience to the given scenarios proves insufficient, the authorities will require them to adjust their liquidity.

In the third quarter of 2009, the testing and calibration phase began, in which the big banks reported their liquidity according to the new principles and on a consolidated basis. The new liquidity regulations are due to come into force in 2010. In view of the ongoing tensions in the economic environment, they will be introduced gradually.

The 'too big to fail' issue

FINMA and the SNB examined the 'too big to fail' issue in great detail. A joint project was launched, in which the current state of affairs was assessed and potential solutions were formulated. They also considered measures relating to organisational structure, crisis management, size limitation and prudential requirements. The Swiss Confederation set up a group of experts to address the 'too big to fail' issue; FINMA and the SNB are represented in this group.

6.3 International cooperation on financial market regulation

Basel Committee on Banking Supervision

In 2009, the Basel Committee on Banking Supervision focused on further improvements to the Basel II capital adequacy framework, and approved a package of measures aimed at improving the identification of risks as part of capital adequacy regulation and at correcting false risk incentives. It also discussed five measures intended to further strengthen banking sector oversight.

First, as regards equity, the predominant form of Tier 1 capital must now be common equity and retained earnings, in order to increase the quality, consistency and transparency of the capital base.

Second, as a complement to the risk-weighted measures under Basel II, it is planned to introduce a leverage ratio. This should be internationally harmonised and should take account of divergences in accounting standards.

Third, in addition to the minimum capital requirements, a system of countercyclical capital buffers should be introduced. Capital should be built up in good times, so that it can be drawn upon in periods of stress. A variety of indicators are being examined for their potential use in steering the build-up and reduction of capital buffers. Also under discussion is the possibility of limiting dividends in order to conserve the capital base in the event of the buffer having to be drawn upon. Since these measures counteract excessive credit growth in boom periods, they help to prevent systemic risk in the banking system.

Fourth, to increase the resilience of international banks, the Basel Committee drew up a global minimum liquidity standard. The aim is to ensure that financial institutions build up a liquidity buffer which allows them to remain liquid under short and medium-term stress scenarios.

Finally, the Basel Committee plans to examine the need for additional capital requirements for systemically important banks.

Financial Stability Board

In April 2009, the Financial Stability Forum (FSF) was re-established as the Financial Stability Board (FSB), and was given a broadened mandate by the G20 to promote financial stability. Switzerland is represented on the Steering Committee of the FSB by the Chairman of the SNB's Governing Board. It is represented on the Standing Committee on Supervisory and Regulatory Cooperation by the Chairman of FINMA's Board of Directors, and on the Standing Committee on Standards Implementation by the Director of the Federal Finance Administration.

The reforms proposed by the FSB are aimed at increasing the resilience of the financial system and, in particular, ensuring that leverage levels no longer become excessive. Another objective is to prevent the financial system from taking on excessive risk at the expense of society as a whole. Important elements are higher capital requirements, improved liquidity regulation, a resolution of the 'too big to fail' issue and the introduction of sound compensation practices.

The SNB was actively involved in drawing up the associated package of measures. In addition, it headed a working group to draw up principles for sound compensation practices.

6.4 Survey on bank lending

No signs of a credit crunch

According to the quarterly survey of banks' lending operations, launched in early 2008, there was a further tightening of banks' lending policies in the first two quarters of 2009. However, the third quarter saw the first signs of a stabilisation, and this was confirmed in the fourth quarter. Credit volume growth continued to slow, but remained positive. Both the survey results and the SNB's lending statistics show that there was no credit crunch in Switzerland.

6.5 Stabilisation fund

Overview

In autumn 2008, the Federal Council, the Swiss Federal Banking Commission (SFBC; now FINMA) and the SNB adopted a package of measures to strengthen the Swiss financial system. This primarily involved the acquisition of mandatory convertible notes by the Confederation so as to strengthen UBS's capital base and the purchase of illiquid assets by the SNB from UBS in order to provide the big bank with liquidity and restore the confidence that was lost as a result of the crisis. Based on arts. 5 and 9 NBA, the Governing Board of the SNB approved the purchase of UBS assets on 15 October 2008.

Establishment of stabilisation fund

A special purpose vehicle was set up to carry out the transaction. The SNB StabFund Limited Partnership for Collective Investment (stabilisation fund) was licensed by the SFBC on 25 November 2008 and entered in the commercial register of the Canton of Berne on 27 November 2008. The stabilisation fund is managed by the SNB, which also holds the majority of seats on the five-member Board of Directors.

Assessment

The fact that the portfolio suffered a major loss in market value in the months following the assumption of the asset risk confirmed that the package of measures had indeed been necessary. Without the burden of the illiquid assets and strengthened by the Confederation's mandatory convertible notes, the situation at UBS stabilised to a large extent in 2009. This in turn made the stabilisation of the Swiss financial system possible.

Organisation and legal structure

Legal structure

Liability and tax law considerations were the main reasons for structuring the stabilisation fund as a limited partnership for collective investment. Owing to the diversity of the assets, an expansion of the fund's legal structure became necessary in the course of 2009. This involved setting up additional sub-companies so that certain assets could be purchased and managed in accordance with legal provisions. Such assets include non-securitised loans to borrowers domiciled abroad and real estate which was taken over from borrowers as a result of foreclosures.

Furthermore, both the foreclosures and the deterioration in the credit standing of borrowers called for constant monitoring and, where necessary, the transfer of assets within the fund.

Organisation

The stabilisation fund comprises two partners: StabFund (GP) AG, a general partner bearing unlimited liability, and LiPro (LP) AG, a limited partner bearing limited liability. The general partner is responsible for the management of the fund.

The Board of Directors of StabFund (GP) AG, which comprises three representatives from the SNB and two representatives from UBS, is in charge of the overall management, supervision and control of the fund.

The operational management is entrusted to the general manager, who is supported by a team responsible for the following functions: Risk Control, Market Intelligence/Portfolio Management, Legal and Compliance and the Corporate Secretariat. The team is made up of SNB members of staff. The SNB is also responsible for the financial and fund accounting, taxation and other infrastructure services, and is recompensed by the stabilisation fund.

The operational management of the portfolio was outsourced to UBS, which provides a team of specialists; largely located in New York and London. UBS receives a portfolio management fee for its services, which will only be paid out once the loan has been repaid in full.

Northern Trust was designated as the fund's custodian and is responsible for the custody and settlement of the assets. It also fulfils functions in the areas of accounting and reporting.

The stabilisation fund also receives specialist support from external advisors in connection with legal, organisational and asset management issues.

Purchase of assets

The asset risk was assumed by the stabilisation fund on 30 September 2008. Although it was originally announced that the fund would purchase a maximum of USD 60 billion, it ultimately took over assets totalling USD 38.7 billion. The actual transfer was divided into three tranches and was carried out between December 2008 and April 2009.

Assets acquired

Each transfer was preceded by a valuation process, whereby the UBS book value as at 30 September 2008 was compared with the average valuations carried out by one or more independent valuation agents on the same reference date. The lower of the two valuations determined the purchase price. The difference between the purchase price and the UBS valuation was USD 1 billion – or 2.5% of the portfolio – at the expense of UBS.

Valuation

In January 2009, it was agreed that assets totalling USD 16.4 billion would be excluded from the transfer. Among the assets to be excluded were securities backed by student loans as well as assets that had been wrapped by monoline insurers. The decision to exclude these assets was taken after an in-depth assessment of the situation and having previously briefed FINMA.

Assets not acquired

The asset transfer was financed by an SNB loan accounting for 90% of the transfer; the remaining 10% – which also serves as primary loss protection for the SNB – was financed by UBS. The National Bank received further loss protection in the form of a warrant for 100 million UBS shares at nominal value should it incur a loss on its loan upon liquidation of the assets. In return, UBS was granted the option to repurchase the stabilisation fund in the event of full repayment of the SNB loan.

Capitalisation and loss protection

Portfolio as at 30 September 2008

The following table shows the composition of the portfolio – broken down by region and investment category – that was actually acquired.

Stabilisation fund portfolio as at 30 September 2008
In USD billions, at transfer price

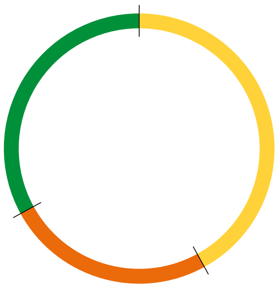
Total for United States	**25.5**
Assets linked to residential real estate	10.2
Assets linked to commercial real estate	6.8
Assets backed by student loans	0.9
Other asset-backed instruments	3.9
Collateralised debt obligations (CDO) and others	3.2
Corporate bonds	0.5
Total for Europe	**12.9**
Assets linked to residential real estate	6.0
Assets linked to commercial real estate	2.7
Other asset-backed instruments	1.3
Collateralised debt obligations (CDO) and others	2.9
Total for Japan	**0.3**
Assets linked to commercial real estate	0.3
Total	**38.7**

Overall, approximately 4,800 positions in five different currencies (US dollars, euros, pounds sterling, yen, Swedish kronor) were transferred, with those denominated in US dollars accounting for 67%.

Securities, loans and derivatives

The assets can be divided into the following three categories: securities, loans, derivatives.

The bulk of the securities acquired consists of debt obligations in a structured finance process (securitisation) and backed by US residential and commercial mortgages. Such securitised assets can include any number of loans, ranging from just a few to several thousand loans. Investors in securitised asset portfolios are entitled to a portion of the cash flow generated by the underlying asset pool.



Portfolio by category
In percent

Residential real estate 42

Commercial real estate 25

Other 33

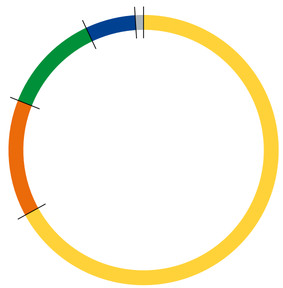
As at 30 September 2008

The loan portfolio of the stabilisation fund mainly consists of commercial mortgages and – to a lesser extent – residential mortgages and student loans.

The derivatives held by the stabilisation fund are primarily credit default swaps (CDS), with which the buyer hedges against the default of a specific security or loan. The stabilisation fund acts as the protection seller in respect of the CDS, i.e. it grants protection against a premium.

The assets transferred were funded by the UBS contribution and the loan advanced by the SNB. Of the total of USD 38.7 billion in assumed portfolio risk, USD 8.8 billion consisted of contingent liabilities that the SNB did not need to fund at the time. The amount the SNB contributed to the funding – calculated with regard to the assumption of portfolio risk as at 30 September 2008 – came to USD 25.8 billion; that of UBS, USD 3.9 billion. When the loan was disbursed, the changes that had occurred between the assumption of the portfolio risk and the actual transfer were taken into account in calculating the required funding.

SNB loan



Portfolio by currency
In percent

USD 67

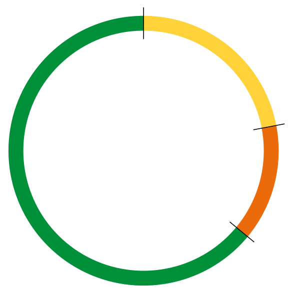
EUR 14

GBP 12

SEK 6

JPY 1

As at 30 September 2008



Portfolio by instrument
In percent

Derivatives 22

Loans 14

Securities 64

As at 30 September 2008

Portfolio management

Investment guidelines

Once the asset transfer was concluded, the stabilisation fund's Board of Directors adopted a liquidation strategy for the portfolio. The main objective of this strategy and the associated investment guidelines is full repayment of the SNB's loan, while at the same time maximising the proceeds from the portfolio. Whenever reasonable, assets are to be held for as long as their intrinsic value can be realised. Earlier sales are possible if there are any grounds for liquidating the assets prematurely. The right to restructure and to make modifications to certain loan agreements should be exercised actively. The investment guidelines are assessed by the fund's Board of Directors on a quarterly basis.

Cash flow models

Since the intrinsic value represents a key element in managing the portfolio and in the accounting valuation, major efforts were made to generate meaningful cash flow models. Based on different macroeconomic scenarios, these models forecast the cash flows to be expected for the individual portfolio positions, making it possible to evaluate the intrinsic values in various scenarios. On the basis of this information, decisions can be made on the management of the different assets. Independent valuation agents provide assessments of the intrinsic values for comparison purposes.

Market developments

The first few months after the assumption of asset risk by the stabilisation fund (October 2008 to February 2009) saw a significant worsening of the market environment for the fund's investment categories. As a result of the difficult situation in the real estate markets, the decline in economic activity and the uncertainties in the financial markets, prices of securitised assets in the US and Europe continued to fall. Several governments and central banks took measures to support the real estate and securitisation markets. Measures taken in the US included the Term Asset-Backed Securities Loan Facility (TALF), a programme created for investors in securitisations, purchases of mortgage-backed securities and measures to cut down on foreclosures. As a result, financial and securitisation markets in the US and Europe gradually recovered. Real estate markets also stabilised, but remained fragile.

Cash flows

The improvement in the market environment allowed the stabilisation fund to actively begin liquidating assets in June. In 2009, a net total of USD 1.5 billion worth of assets were sold, USD 0.3 billion of this in the euro area and the UK. Furthermore, the portfolio benefited from considerable interest payments and repayments, which also contributed to greatly diminishing the risk borne by the stabilisation fund.

Reduction of synthetic risk

The non-funded assets decreased primarily as a result of maturing CDS and credit events for CDS (e.g. default of creditors). In addition – in agreement with the protection buyer – a large CDS contract denominated in Swedish kronor was closed out in May (the only position in this currency).

The table below provides an overview of the development of the funded and unfunded loan and the resultant overall risk for the SNB.

Loan and overall risk

Development of loan to the stabilisation fund

In USD billions	Funded	Non-funded	Overall risk
Assets	29.8	8.8	38.7
UBS equity capital	–3.9	–	–3.9
Total as at 30 September 2008	**25.8**	**8.8**	**34.7**
Interest on SNB loan	0.6	–	0.6
Sales	–1.5	–	–1.5
Repayments	–5.0	–0.2	–5.2
Interest and premia received	–2.2	–	–2.2
Other[1]	1.9	–4.8	–2.9
Total as at 31 December 2009	**19.7**[2]	**3.8**	**23.5**

The loan outstanding fell from the original level of USD 25.8 billion to USD 19.7 billion at the end of 2009. During the same period, the overall risk for the SNB was reduced by USD 11.2 billion to USD 23.5 billion.

Risks

Risks for the stabilisation fund

On the level of the stabilisation fund, credit and market risk on investments are the main concern.

For derivatives, whose risk the stabilisation fund assumed by concluding back-to-back swaps with UBS, there is a counterparty risk vis-à-vis UBS. This risk is collateralised by a cash contribution. In addition, the liquid funds that are accumulated in the portfolio within the course of a month constitute part of the stabilisation fund's assets. These funds are intended to earn interest on the SNB's loan – if there is a surplus – to repay it. During the time period from one payment date to the next, the funds are transferred to securities and money market funds, which are administered by the custodian and are invested in top-rated investments.

The stabilisation fund's interest and currency risk is largely eliminated by interest and currency-congruent financing.

The fund also incurs operational risk, which is addressed by an internal control system.

Risks borne by the SNB

The National Bank incurs risks on two fronts. First, the loan to the stabilisation fund entails the risk that – in line with the assets' performance – value adjustments have to be made. Second, the SNB bears currency and interest risks in connection with the refinancing of the loan. While currency-congruent financing deals with the currency risk, the interest risk remains marginal due to the short-term refinancing via SNB USD Bills. Although the short-term borrowing exposes the SNB to a certain refinancing risk, it is limited owing to existing alternative refinancing channels. Risks arising from foreign exchange swaps also concluded for refinancing purposes are confined to counterparty risk, which is monitored as part of the SNB's risk control.

Preparation of accounts

IFRS

The Federal Act on Collective Capital Investment Schemes (CISA) stipulates that the valuation of investments organised in the form of a limited partnership such as the stabilisation fund be guided by international standards. Financial statements for the stabilisation fund are drawn up in accordance with the International Financial Reporting Standards (IFRS). There has been no active market for the securitised and non-securitised loans contained on the books of the stabilisation fund for some time now. According to the IFRS, such positions may be classified as loans and receivables. When the positions are acquired, they are recorded at amortised cost. All future valuations are made based on regular impairment tests conducted on positions' performance. If a position's book value is overstated, a value adjustment (impairment) has to be recorded. In addition, the premium or discount repayment will be amortised over the life of the investment.

Positions which – in accordance with the IFRS – may not be classified as loans and receivables (mainly derivatives), are valued at market value (IFRS category 'fair value through profit and loss').

Annual result

The loss posted by the stabilisation fund in 2009 is covered by the equity contribution from UBS and the SNB's purchase option (warrant) for 100 million UBS shares at nominal value (cf. pp. 163 et seq., Financial information on the stabilisation fund).

7 Involvement in international monetary cooperation

7.1 International Monetary Fund

Swiss interests

The International Monetary Fund (IMF) works to promote stable monetary conditions worldwide and support free trade and international payment flows. As an open economy with an internationally important financial sector, Switzerland is particularly committed to these aims.

Responsibilities

The Chairman of the Governing Board of the Swiss National Bank (SNB) sits on the Board of Governors of the IMF, the Fund's highest policy-making body. The Head of the Federal Department of Finance (FDF) represents Switzerland on the International Monetary and Financial Committee (IMFC). Switzerland is part of a voting constituency whose other members are Azerbaijan, the Kyrgyz Republic, Poland, Serbia, Tajikistan, Turkmenistan and Uzbekistan. As the constituency member with the most votes, Switzerland appoints an executive director, who holds one of the 24 seats on the Executive Board, the IMF's most important operational body, thereby actively participating in the formulation of IMF policy. The Swiss seat on the Executive Board is held alternately by a representative of the SNB and of the FDF. The SNB and the FDF determine Switzerland's policy in the IMF and support the Swiss executive director in his or her activities.

Slow recovery of international economy

In 2009, the IMF's activities were largely shaped by the global financial and economic crisis. Although the situation of the global economy and the financial markets improved somewhat towards the end of the year, the recovery of the international economy is likely to remain sluggish. The IMF emphasised the need to create a resilient financial system, rebalance demand from the public to the private sector and, in some systemically important countries, reach a better balance between domestic and export demand. According to the IMF, another key challenge will be to cut back the state support measures in good time. According to the IMF, credible exit strategies need to be drawn up for this purpose.

New regulations on lending practices

In order to improve the efficiency and flexibility of its lending practices and to be better prepared for financial crises, the IMF established new regulations in the course of the year. The reform includes a doubling of the former access limits for all credit facilities and the introduction of a new facility, the Flexible Credit Line (FCL). The aim of the FCL is to provide substantial pre-financing for member countries with strong macroeconomic fundamentals. Due to strict qualification criteria, FCL drawings are, unlike traditional IMF drawings, not bound to pre-set economic policy goals agreed with the country in question. For countries which do not meet the criteria for an FCL, there is now the option to conclude a precautionary standby credit agreement with extraordinary access limits.

In addition, the IMF modified the conditions for financial support to low-income countries. For instance, a new Poverty Reduction and Growth Trust (PRGT) was created. The PRGT comprises the following three lending instruments: an extended credit facility, which replaces the Poverty Reduction and Growth Facility (PRGF), a standby credit facility modelled on that for middle-income countries, and a rapid credit facility, which provides limited and fast financial support with few restrictions.

Expanded lending

The global financial and economic crisis has led to a significant expansion of IMF lending. Between September 2008 and December 2009, the IMF concluded 19 standby arrangements in the total amount of 55.8 billion Special Drawing Rights (SDRs), most of them with extraordinary access restrictions. As part of its FCL, the IMF provided three countries with precautionary funds in the amount of SDR 52 billion. In addition, 23 countries drew on financial support through the PRGF, and 6 countries through the Exogenous Shocks Facility.

IMF financial resources

As a result of the expansion of IMF lending, the liquidity position of the Fund has considerably worsened. By the end of June 2009, the IMF's one-year forward commitment capacity (FCC) only totalled just under SDR 33 billion. The FCC indicates the amount which the Fund is able to provide for new (non-concessional) lending in the following 12 months. Owing to bilateral financing contributions by the IMF member countries, the FCC has risen again to SDR 149 billion. At a later date, it is planned that the bilateral financing contributions will be integrated in the revised New Arrangements to Borrow (NAB). As part of the NAB, a group of countries is willing to make additional funds available to the IMF if necessary. In 2009, the participants in the NAB agreed to an increase in the NAB credit lines to USD 600 billion.

In autumn 2009, the SNB – based on the Federal Act on International Monetary Assistance – concluded a credit agreement in the maximum amount of USD 10 billion with the IMF to fill the gap until the NAB are revised. The loan, which is financed by the SNB and guaranteed by the Confederation, will only enter into force as soon as the Federal Assembly has approved a temporary increase in the maximum loan amount specified by the Monetary Assistance Act from currently CHF 2.5 billion to CHF 12.5 billion. In addition, the SNB announced that it would increase its credit undertaking from USD 2.5 billion to USD 17.5 billion as part of the New Arrangements to Borrow.

Credit agreement with Switzerland

The IMF allocated SDRs to its member countries, in order for them to be able to increase their reserve holdings. As part of a general allocation of SDRs in the amount of USD 250 billion, all IMF member countries received SDRs in proportion to their quotas. In addition, the Fourth Amendment to the IMF Articles of Agreement entered into force with a special allocation of SDRs in the amount of USD 21.5 billion, after the US had given its approval. As a result of these two allocations, Switzerland is receiving a net allocation of SDRs in the total amount of SDR 3.3 billion.

SDR allocations

A member country may exchange its SDRs for reserve currencies. Through Two-Way Arrangements with various member countries, including Switzerland, the IMF ensures that this exchange takes place smoothly. Following the SDR allocation, the SNB adapted the Two-Way Arrangement with the IMF. It declared its willingness to buy or sell SDRs in exchange for US dollars or euros, for as long as its SDR holdings were between 50% and 150% of its cumulative net allocation.

The IMF's equity consists of the quotas of its member states. In terms of Special Drawing Rights, total quotas in the IMF amount to SDR 217.4 billion (CHF 351 billion), with Switzerland's quota coming to SDR 3,458.5 million (CHF 5.6 billion). The Swiss quota is financed by the Swiss National Bank. The portion of this quota that is used by the Fund is Switzerland's reserve position in the IMF. For the SNB, this represents a currency reserve that it can draw down at any time. With one SDR being equivalent to CHF 1.62 at the end of 2009, Switzerland's reserve position amounted to SDR 761.8 million at that time, compared with SDR 442.3 million at the end of 2008. The value of an SDR is calculated on the basis of weighted exchange rates for the US dollar, euro, yen and pound sterling.

Switzerland's reserve position

Article IV consultation

The annual Article IV consultation with Switzerland was held in spring 2009 and approved by the Executive Board. Within the framework of the Article IV consultation, the IMF regularly reviews the economic policy of its member countries and issues recommendations. The IMF welcomed the fact that Switzerland took early and extensive measures to address the financial crisis. In particular, the Fund approved of the support measures to promote the banking system, including the purchase of illiquid assets from UBS. At the same time, the IMF emphasised the need to reduce the risks emanating from the financial sector and to strengthen financial market supervision. Moreover, the Fund supports the easing of monetary policy and the adoption of unconventional monetary policy measures to counter the risk of deflation.

7.2 Bank for International Settlements

BIS as forum for central banks

The Bank for International Settlements (BIS) is an organisation which has its head office in Basel. It fosters monetary and financial cooperation, and acts as the central bankers' bank. In addition to the annual general meeting, the presidents of central banks which belong to the BIS meet every two months for an exchange of information on developments in the global economy and the international financial system. The SNB participates in four standing committees of the BIS: the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Markets Committee.

In the course of the past 15 years, the BIS has strongly expanded its member base. In 2009, it comprised 56 central banks and monetary authorities. Due to the increasing importance of the G20, the number of members of the BIS committees increased as well in 2009. The countries which joined one or more committees in 2009 include Argentina, Australia, Brazil, China, Hong Kong, India, Indonesia, Mexico, Russia, Saudi Arabia, Singapore, Spain, South Africa, South Korea and Turkey.

Basel Committee

The Basel Committee on Banking Supervision serves as a platform for regular cooperation in matters of banking supervision. Its activities are described in more detail in chapter 6.3, which looks at international cooperation with regard to financial market regulation.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) is concerned with the developments in national and international payment and securities settlement systems. In 2009, the CPSS undertook various activities aimed at strengthening the global financial market infrastructure.

The Committee on the Global Financial System (CGFS) monitors developments in the international financial markets and analyses their impact on financial stability. In 2009, the CGFS published three reports. The first one dealt with the vulnerability of the emerging economies to large and rapid capital movements. It contained a provisional assessment of the impact of the financial market crisis on this group of countries. The second report analysed to what extent market price based accounting procedures result in procyclical fluctuations in capital ratios. It lists measures that would reduce the identified procyclical effects. The third report addresses the BIS derivatives statistics and discusses what changes need to be made to the credit default swap statistics to enhance the traceability of credit risk distribution in global markets.

Committee on the Global Financial System

The Markets Committee serves as a platform for central bank officials responsible for financial market operations. It examines current developments in money, currency, capital and commodity markets, as well as the functioning of these markets. In 2009, the financial crisis and its consequences were once again the main topic of discussion. In particular, the committee looked at the unconventional monetary policy measures which central banks had taken as part of their crisis management, and at the signs of recovery in the markets.

Markets Committee

7.3 OECD

Switzerland is a founding member of the Organisation for Economic Co-operation and Development (OECD). On the organisation's intergovernmental committees, it works to promote the development of relations among the 30 member states with regard to economic, social and development policies. Together with the federal government, the SNB represents Switzerland on the Economic Policy Committee (EPC), the Committee on Financial Markets (CFM) and the Statistics Committee (CSTAT). The EPC and its working parties deal with current developments in the global economy on a political and academic level, as well as with structural policy. The CFM analyses ongoing developments in the international financial markets and looks at regulatory issues. The CSTAT drafts standards for the national accounts in association with other supranational organisations. In addition, through a project on Measuring the Progress of Societies, it searched for ways to improve the measurement of GDP and for alternatives to it.

OECD membership

Dealing with the financial crisis

In 2009, the OECD closely monitored the financial crisis and its impact on economic development. It drew up proposals for a reorganisation of the financial market architecture, and strategies for sustainable government finances and long-term economic growth. The main elements were recommendations on how and when the unconventional monetary and fiscal measures taken by central banks and governments could be discontinued, without jeopardising the economic recovery.

Economic Survey of Switzerland

In October 2009, the experts of the Economic and Development Review Committee (EDRC) discussed the OECD's *Economic Survey of Switzerland*. They welcomed the fast reaction of the SNB to the global financial crisis, but stressed the risks involved in terminating the unconventional monetary policy measures.

7.4 Technical assistance

Principles

Upon request, the SNB provides technical assistance to the central banks of developing countries and emerging markets. Technical assistance includes the transfer of knowledge specific to central banks and is part of the good relations maintained by central banks worldwide. The SNB primarily provides technical assistance to the central banks of the countries with which it cooperates in the IMF (cf. chapter 7.1). With their support, Switzerland is able to head a constituency in the IMF and claim one of the 24 seats on the Executive Board.

Technical assistance to countries in the Swiss constituency

In 2009, the bulk of the SNB's technical assistance for its constituency group was again provided to the National Bank of the Kyrgyz Republic (NBKR). It advised the NBKR in the areas of monetary policy, IT security, financial market operations, risk management, banking operations and accounting. To promote transparency, the NBKR for the first time published a press release on its quarterly monetary policy assessment. The SNB also continued to assist the central banks of Azerbaijan (in matters relating to cash, internal auditing and IT), Serbia (investment of currency reserves) and Tajikistan (monetary policy). In addition, it successfully completed its support to the central bank of Turkmenistan in connection with a currency changeover. On 1 January 2009, the change of currency became effective and the new coin and banknote series was introduced.

International events

For the sixth time, the SNB – together with the National Bank of Poland – organised a seminar for central banks in the Swiss constituency at the IMF as well as other countries of the former Soviet Union and south-eastern Europe. The seminar on central bank challenges in the global financial crisis was held in Zurich in June 2009.

In 2009, the SNB – in cooperation with the State Secretariat for Economic Affairs (SECO) and the Emerging Markets Forum (EMF) – set up a regional forum focused on the Caucasus and Central Asia (Eurasia EMF). The forum is open to political and business leaders as well as international experts and provides a centre for discussion and the development of strategies to meet regional challenges. Thematic priority was given to the implications of the global crisis, the business climate and the economic integration of the region.

Technical assistance to other countries

Outside its IMF constituency, the SNB provided support on payment systems to the central banks of India and Peru. In addition, as part of the South Asia Payments Settlement Initiative (SAPI) launched by the World Bank, it assisted the central banks of Bhutan and Nepal in their efforts in the area of payment transactions and securities settlement.

Study Center Gerzensee

In 2009, the Study Center Gerzensee, a Swiss National Bank foundation for the training of central bankers, bankers and business specialists from Switzerland and abroad, organised several courses for employees of foreign central banks. They offered training in the fields of monetary policy and financial markets and were attended by a total of 152 participants from 86 countries.

8 Banking services for the Confederation

Mandate

Based on art. 5 para. 4 and art. 11 of the National Bank Act (NBA), the Swiss National Bank (SNB) provides banking services to the Swiss Confederation.

Remuneration for banking services

These services are provided in return for adequate compensation. However, they are provided free of charge if they facilitate the implementation of monetary policy. Services subject to remuneration comprise: payment transactions, liquidity management, the custody of securities and the issue of money market debt register claims (MMDRCs) and Confederation bonds. The details of the services to be provided and the remuneration are laid down in an agreement concluded between the Swiss Confederation and the National Bank.

Issuing activities

In 2009, the SNB issued both MMDRCs and Confederation bonds on behalf of and for the account of the Confederation. MMDRCs amounting to CHF 36.3 billion were subscribed, of which CHF 94.1 billion was allocated. The corresponding figures for Confederation bonds were CHF 6.4 billion and CHF 2.9 billion respectively. The auction procedure was used for these issues. The auction yield the of MMDRCs was almost always 0%.

Payments

In the area of payment transactions, the SNB carried out roughly 170,000 payments in Swiss francs on behalf of the Swiss Confederation and approximately 14,000 payments in foreign currencies.

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Financial report

Financial report

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 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 and independence. To counterbalance the independence of the SNB, the NBA specifies a duty of accountability and information towards the Federal Council, Parliament and the public (arts. 5–7 NBA). 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.

2 Organisation and tasks

Management and oversight

The Swiss National Bank's management and executive body is the Governing Board. It 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, which consists of the three members of the Governing Board and their three deputies, is responsible for the operational management of the Swiss National Bank (SNB). The Board of Deputies is responsible for running daily operations. The Bank Council, meanwhile, oversees the SNB's business activities. The internal auditors report directly to it.

Organisation

The SNB has two head offices, one in Berne and one in Zurich. It is divided into three departments. The organisational units of Departments I and III are, for the most part, located in Zurich; those of Department II, primarily in Berne. Each of the three departments is headed by a member of the Governing Board, who is assisted by a deputy.

In order to ensure the supply and distribution of cash, the National Bank also has a branch office in Geneva. Located in Basel, Lausanne, Lugano, Lucerne and St Gallen and managed by the delegates for regional economic relations, the representative offices – like the head offices and the branch office – are responsible for monitoring economic developments and explaining the SNB's policy in the regions. They are supported by the regional economic councils, which analyse the impact of monetary policy on their region and maintain an exchange of information with the delegates for regional economic relations.

The SNB also has 16 agencies – run by cantonal banks – for the receipt and distribution of banknotes and coins.

Monetary policy

The SNB's principal task is to pursue a monetary policy serving the interests of the country as a whole. The monetary policy strategy is formulated by Department I for consideration by the Governing Board. The Economic Affairs unit provides the analyses upon which the monetary policy decisions are based. It evaluates the economic situation in Switzerland and abroad, and produces the inflation forecast. The delegates for regional economic relations support Economic Affairs in its analysis of economic developments in Switzerland. The Financial Markets unit in Department III is responsible for the implementation of monetary policy, in particular for steering the three-month Libor and providing the financial system with liquidity.

Cash transactions

The tasks relating to cash transactions fall within the domain of the Cash unit in Department II. The National Bank issues banknotes and puts the coins minted by the Confederation into circulation via its head offices, branches 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 Systems unit of Department II and by the Banking Operations unit of Department III. The Banking Operations unit also runs the Swiss Interbank Clearing (SIC) system.

Asset management

The management and investment of gold, foreign exchange reserves and Swiss franc assets is the responsibility of the Asset Management unit and the Money Market and Foreign Exchange unit, both of which belong to Department III. Investment strategy and risk control are dealt with by the Risk Management unit, which is also part of Department III. The Bank Council's Risk Committee oversees risk management.

Financial system stability

In order that the SNB may fulfil its mandate to contribute to the stability of the financial system, the Financial Systems unit of Department II draws up basic principles and analyses. It also oversees the systemically important payment and securities settlement systems. The StabFund unit of Department II (part of Department III until 31 December 2009) performs 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 Affairs unit of Department I deals with international monetary cooperation and technical assistance.

Banker to the Confederation

The function of banker to the Confederation is performed by the Banking Operations and Financial Markets units 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, Switzerland's international investment position and the Swiss financial accounts.

Central services

The SNB's central services are divided between its three Departments. The Secretariat General, Legal Services, Human Resources, Communications and Premises come under the aegis of Department I, while Department II encompasses Finance (Central Accounting and Controlling units) and Security, and Department III is responsible for Information Technology.

3 Corporate governance

Basic principles

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) to take over illiquid assets from UBS as part of the 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 on pp. 83–90 of the accountability report and in the chapter providing financial information on the stabilisation fund on pp. 163–172 of the financial report. The companies included in the consolidated financial statements are listed under Reporting entities (p. 181).

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 Bank Council oversees the conduct of business at the National Bank. Six of its members are appointed by the Federal Council, while the five others are elected by the General Meeting of Shareholders. The Bank Council has established 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 operational management of the SNB is in the hands of the Enlarged Governing Board, which is made up of the three Governing Board members and their deputies. The Board of Deputies is responsible for running daily operations.

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. For this purpose, it is entitled to inspect the SNB's business activities at any time. It is appointed for a term of one year by the General Meeting of Shareholders. 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 also governed by the National Bank Act, with the provisions of company law being subsidiary to those of the NBA. As the National Bank 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 law sector may be registered for a maximum of 100 votes. Shareholders may be represented at the General Meeting of Shareholders by other shareholders only. Only five of the eleven members of the Bank Council are elected by the General Meeting of Shareholders. Dividends are limited to 6% of the share capital, while one-third of the remaining distributable profit 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 deviating from company law concern the convocation of the General Meeting of Shareholders, its 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 in due time before invitations are sent out.

Meetings and remuneration of bodies

Important information on the structure and organisation of the SNB, as well as the remuneration and eligibility of its corporate bodies, may be found in various parts of this report. References to the relevant sections are contained in the tables at the end of this chapter.

In 2009, the Bank Council held six ordinary half-day meetings (in February, April, June, August, October and December) and one extraordinary half-day meeting in April, all of which were also attended by the members of the Governing Board. The business it dealt with included, in particular, reviewing the SNB's provisioning policy, monitoring the stabilisation fund's activities, revising the regulations on the recognition and representation of the SNB's shareholders as well as the SNB's General Terms of Employment, approving the renovation of a building in Zurich owned by the SNB and an investment project at the SNB's Hasliberg vacation centre, and taking note of the SNB's annual reports on financial and operational risk as well as its building and human resources strategies. In addition, the Bank Council presented a proposal for the election of a new Governing Board member and a new alternate member of the Governing Board to the Federal Council.

The Compensation Committee met once. The Nomination Committee met five times. The Audit Committee held five half-day meetings, which were regularly attended by representatives of the Audit Board. The Risk Committee held three half-day meetings.

The remuneration of SNB supervisory and executive bodies as set out in the remuneration regulations specifies that Bank Council members shall receive a fixed annual remuneration plus attendance compensation for committee meetings that are not held on the same day as meetings of the Bank Council. The National Bank does not make severance payments to members of the Bank Council.

Remuneration paid to members of the Enlarged Governing Board is made up of their salary plus lump-sum compensation for representation expenses, with guidance on applicable levels of remuneration being obtained from other companies of a similar size and complexity in the financial sector and from large federally run companies (cf. tables on remuneration for the Bank Council and executive management, p. 147).

In accordance with the SNB's 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, the period is three months. The 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. Given the regulatory restrictions, the members of the Governing Board and their deputies are entitled to payment within these periods. Jean-Pierre Roth, former Chairman of the Governing Board, is entitled to payment amounting to six monthly wages, less pension benefits paid out to him by the SNB pension fund and any earnings from activities that require the approval of the Bank Council carried out within this period for companies outside the banking sector. Ulrich Kohli, former Alternate Member of the Governing Board, is entitled to payment amounting to three monthly wages, less the above-mentioned benefits and earnings.

In addition, Jean-Pierre Roth received a farewell gift amounting to CHF 71,000 in accordance with the relevant SNB regulations. Ulrich Kohli received a farewell gift amounting to CHF 12,598.

On 31 December 2009, members of the Bank Council did not hold any SNB shares, while members of the Enlarged Governing Board held six.

PricewaterhouseCoopers Ltd (PwC) holds the auditing mandate. It has been auditing the annual financial statements of the SNB (parent company) since 2004 and, in 2008, audited the consolidated financial statements for the first time. The lead auditor for the annual financial statements of the parent company and the consolidated financial statements was appointed in 2008. Fees for the statutory auditing mandate totalled CHF 326,734. PwC was also entrusted with the task of auditing the SNB's stabilisation fund. For the audit as of 31 December 2009, fees of CHF 944,728 were paid. Furthermore, PwC provided additional services amounting to CHF 34,432.

Information for shareholders

Notifications to shareholders are, in principle, communicated by post to the address listed in the share register and published 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 stock market. At the end of 2009, a total of 53.5% of the shares were held by cantons and cantonal banks. The remaining shares are mostly held by private individuals. The major shareholders were the Canton of Berne with 6.6% (6,630 shares), the Canton of Zurich with 5.2% (5,200 shares), Theo Siegert (Düsseldorf) with 5.0% (4,995 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 National Bank Act (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, and Risk Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*

Information on corporate governance additional to that presented above may be found in other parts of this report, on the SNB website, in the NBA and in the Organisation Regulations.

Corporate structure and shareholders	*Annual Report*, pp. 107, 143
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	*Annual Report*, p. 142
Accounting principles	*Annual Report*, Notes to the consolidated financial statements, pp. 179 et seq.
Bank Council	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Members	*Annual Report*, p. 196
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. 196
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. 152 et seq., accountability report, chapter 5.2; 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*
Remuneration	*Annual Report*, p. 147
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, 202

4 Resources, bank bodies and management

4.1 Human resources

Number of employees and turnover

At the end of 2009, the Swiss National Bank (SNB) employed 681 persons (including 21 apprentices). This was 19 more than a year previously. In terms of full-time equivalent jobs, the number of employees rose from 622.4 to 635.6, corresponding to an increase of 2.1%. The number of part-time employees increased by 15 to 160 persons. The part-time rate thus reached 23.5%. The growth in the number of employees was largely due to an increase in tasks in connection with the stabilisation fund and increased requirements in the IT area.

Staff turnover was 4.8% (2008: 8.4%).

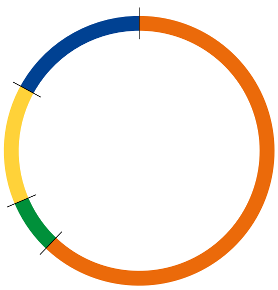
4.2 Other resources

Premises

In 2009, the Bank Council approved a loan for the renovation of a property owned by the SNB at Seefeldstrasse 8/Seehofstrasse 15 in Zurich. Construction work started and is proceeding as planned. In addition, planning work began on the following projects in Berne: the renovation of the staff restaurant, the replacement of the building installations in the restaurant area and the refurbishment of the building shell in the interests of energy efficiency. A new location for the Lausanne representative office was found and made ready for use as of July 2009.

Information technology

The IT production environment was stable in 2009 and the infrastructure was available at all times. Modifications to systems and software made it possible to provide efficient and timely support for an increasing number of monetary policy instruments, with applications handling a strong increase in business volumes. A new information tool was implemented for the support of economic monitoring and reporting.



Human Resources
Number of employees

Full-time, men 423

Part-time, men 44

Full-time, women 98

Part-time, women 116

Total: 681
At year-end 2009

The SNB's environmental performance evaluation published in 2009 provides information on the achievement of the goals set for the 2003–2008 period. Greenhouse gas emissions were reduced by almost 40%, which is significantly more than the targeted 10%. A major part of this drop was due to a complete changeover to ecologically produced electricity generated from renewable energy sources and a reduction in the use of fossil fuels for heating purposes. The performance evaluation can be viewed on the SNB website (www.snb.ch, *The SNB, Structure and organisation*).

Environmental management

The SNB carried out two external assessments in 2009. For the assessment of the delegates for regional economic relations, it hired external experts from the world of central banking, finance and economic analysis. The experts emphasised the importance of the delegates as the SNB's representatives in the different regions of Switzerland.

Assessments

The SNB entrusted a large accounting firm with the assessment of the Internal Auditors. This firm checked whether the procedures of the Internal Auditors met the standards defined by the Institute of Internal Auditors (IIA) and compared the way the Internal Auditors were organised with a benchmark and with best practice. The assessor gained a positive overall impression and confirmed that professional standards were observed.

4.3 Bank bodies and management

At the General Meeting of Shareholders held on 17 April 2009, the following new member was elected to the Bank Council:

Bank Council

Olivier Steimer, Chairman of the Board of Directors of Banque Cantonale Vaudoise.

The following resignations from the Bank Council have been announced with effect from 30 April 2010, the date of the next General Meeting of Shareholders:

Rita Fuhrer, Member of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich,

Franz Marty, Chairman of the Board of Raiffeisen Switzerland.

The National Bank thanks Rita Fuhrer and Franz Marty for their valuable service.

On 24 February 2010, the Federal Council appointed the following new member to the Bank Council as of 1 May 2010:

Ernst Stocker, designated Member of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich, as of 1 May 2010.

On 17 April 2009, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2009–2010 term of office.

Audit Board

Jean-Pierre Roth retired at the end of 2009 following 30 years of service. He had been a member of the Governing Board since May 1996 and its chairman since 2001. During his time as the Chairman of the Governing Board, he was faced with a wide range of monetary policy challenges which he tackled with great dedication. After a phase of rapid monetary relaxation in autumn 2001, monetary policy had to be gradually returned to a course in keeping with price stability. From August 2007, it was influenced by the international financial and economic crisis. This called for fast and flexible intervention by the Governing Board, which also had to be ready to take extraordinary measures. As part of the revision of the National Bank Act, Jean-Pierre Roth worked particularly hard to maintain the SNB's independence and achieve a more detailed formulation of its monetary policy mandate. As a result, the SNB received a new mandate to contribute to the stability of the financial system. Expanding and fostering international relations was another area that was always of great importance to Jean-Pierre Roth.

The SNB thanks Jean-Pierre Roth for his many years of service, his exemplary dedication and his outstanding work.

Ulrich Kohli retired at the end of 2009 following a total of 11 years of service. He had entered the service of the SNB for the first time in 1983 as a Research Advisor. In 1985, he left the National Bank to take up a position as Professor at the University of Geneva. In 2001, he returned to the SNB as Alternate Member of the Governing Board and Chief Economist. In particular, Ulrich Kohli was responsible for the SNB's international affairs. As Chief Economist, he made a significant contribution to the quarterly monetary policy assessments conducted by the Governing Board und represented the National Bank in various international expert groups.

The SNB thanks Ulrich Kohli for his great dedication and his valuable service.

On 8 April 2009, the Federal Council appointed:

Philipp M. Hildebrand, previously Vice Chairman of the Governing Board, as new Chairman of the Governing Board,

Thomas J. Jordan, previously Member of the Governing Board, as Vice Chairman of the Governing Board.

On the proposal of the Bank Council, the Federal Council appointed on 8 April 2009:

Jean-Pierre Danthine, previously Professor of Macroeconomics and Finance at the University of Lausanne, as Member of the Governing Board.

On the proposal of the Bank Council, the Federal Council appointed on 4 November 2009:

Thomas Moser, previously Swiss Executive Director at the International Monetary Fund, as Alternate Member of the Governing Board.

The new positions were taken up on 1 January 2010. Philipp M. Hildebrand is now Head of Department I, Thomas J. Jordan Head of Department II and Jean-Pierre Danthine Head of Department III. Thomas Moser is Deputy Head of Department I.

Bank management

The Bank Council approved the following promotions to the position of Director with effect from 1 January 2010:

Erich Gmür, Head of Risk Management,

Sandro Streit, Head of Asset Management,

Andy Sturm, Head of Oversight.

Urs Birchler, Director, retired at the end of July 2009 following 29 years of service. In his various functions, he mainly dealt with banking regulation issues and established important principles regarding the positioning of the SNB in this significant area.

The SNB thanks Urs Birchler for his long-standing and valuable service.

5 Business performance

5.1 Annual result

Summary

In 2009, the Swiss National Bank (SNB) posted a profit amounting to CHF 10 billion following a loss of CHF 4.7 billion in 2008. This improvement in the result is primarily due to the rise in the gold price and the related valuation gains. Foreign currency positions also made a substantial contribution to the profit.

The distributable profit remaining after the allocation of CHF 3,055 million to the provisions for currency reserves amounted to CHF 6,900 million, CHF 2,500 million of which was remitted to the Confederation and the cantons in accordance with the profit distribution agreement. In addition, the annual dividend of CHF 1.5 million was paid to the shareholders. The remaining CHF 4,399 million was used to strengthen the distribution reserve.

Sharp increase in gold price

In the course of the year, the price of gold rose to CHF 38,958 per kilogram and closed at CHF 36,687 (2008: CHF 29,640) on the balance sheet date. Only in 1980, when the price for a kilogram briefly exceeded the CHF 40,000 mark, was this precious metal priced more dearly.

A valuation gain of CHF 7,329 million was therefore recorded on the SNB holdings of 1,040 tonnes of gold. The SNB earned a further CHF 9 million through its secured gold lending business.

High interest income on foreign currency positions

Foreign currency positions contributed CHF 2,573 million to the SNB's good result. Exchange rate-related losses were again recorded, but at CHF –1,808 million they were markedly less pronounced than the year before (CHF –4,665 million). The interest income amounted to CHF 3,263 million (2008: CHF 2,270 million) and the price gains on equity-type securities came to CHF 1,163 million (2008: CHF –2,929 million).

Lower net result from Swiss franc positions

The net result from Swiss franc investments amounted to CHF 281 million (2008: CHF 551 million). Due to low interest rates, repo transactions contributed only CHF 35 million to the result as against CHF 575 million the year before. Income from securities came to CHF 272 million (2008: 195 million).

The associated interest charge decreased to CHF 7 million (2008: CHF 193 million) owing to low interest rates and the low volume of liabilities towards the Swiss Confederation.

Operating expenses

Operating expenses comprise banknote and personnel expenses, general overheads and depreciation on tangible assets. They increased by CHF 32 million (13.8%) to CHF 261 million (2008: CHF 229 million).

Additional resources required in connection with the various measures taken to cope with crisis-related tasks, several operational projects and the higher number of banknotes in circulation all contributed to the rise in operating expenses.

The measures taken in the previous years to stabilise the financial system were continued and expanded.

Continuation of stabilisation measures

Thus the SNB carried on supplying the domestic money market with US dollars. However, demand for the American currency continuously receded and by the last quarter of 2009, there was no longer any call for US dollar auctions.

Foreign exchange swaps with central banks and commercial banks introduced in autumn 2008 as a means of supplying money markets with Swiss francs were also continued. The amount of euros received reached high-water marks of around CHF 67 billion in the first half of the year and declined towards the end of the year to a countervalue of less than CHF 3 billion.

Interventions in the foreign exchange market

Beginning in March, the SNB intervened in the foreign exchange market to prevent any further appreciation of the Swiss franc against the euro. Purchases of euros and US dollars led to an increase in foreign currency investments.

Further monetary easing measures

Also beginning in March, the SNB supplied the market with additional liquidity via long-term repo transactions and purchased Swiss franc bonds issued by domestic private sector borrowers to improve financing conditions on the capital market. The purchase of bonds was discontinued in December after the financial market situation had eased.

Strong expansion of monetary base as a consequence

The various measures employed by the SNB since autumn 2008 to pursue its expansionary monetary policy were reflected by the strong expansion of the monetary base, which is made up of banknotes in circulation and sight deposits of domestic banks. At the end of April, these sight deposits had reached a record level of over CHF 90 billion; at the end of the year they stood at around CHF 45 billion. Before the financial crisis escalated in the autumn of 2008, they had ranged between CHF 5 billion and CHF 10 billion. The value of banknotes in circulation stabilised at around CHF 45 billion after the beginning of 2009, i.e. at a level of roughly CHF 5 billion more than before the financial crisis. The SNB has various monetary policy instruments at its disposal to absorb liquidity whenever necessary.

Reduction in loan to stabilisation fund

The stabilisation fund, set up by the SNB in autumn 2008 to take over illiquid assets from UBS, acquired the second tranche of assets in March and the third and final tranche in early April 2009. By the end of the year, an amount of just under CHF 21 billion was still outstanding. In addition, there were still contingent liabilities of CHF 3.9 billion remaining in the stabilisation fund, which could cause the fund to take out a line of credit with the SNB in the case of a need for financing.

To refinance the loan to the stabilisation fund, the SNB initially resorted to a swap agreement with the Federal Reserve. In February, the SNB began to tap alternative sources of financing and obtained the required funds mainly through the issue of debt certificates in US dollars (SNB USD Bills).

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

Events after balance sheet date

Up until the date on which the annual financial statements were drawn up (26 February 2010), no other events occurred that could have had a significant influence on the financial position, the results of operations or the cash flows of the SNB.

Outlook

The SNB's financial result is decisively influenced by gold price and exchange rate trends. Therefore, further big fluctuations in the quarterly and annual results are to be expected.

The implementation of the stabilisation fund's liquidation strategy is influenced by future developments on the relevant markets, which remain uncertain. The recoverable value of the transferred assets will only become clear in a few years' time. If the loan were no longer covered by the stabilisation fund's investments and the loss protection (100 million UBS shares at nominal value), a valuation adjustment would have to be made.

5.2 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 the SNB's financing responsibility, the provisions for currency reserves have a general reserve function and thus serve as equity capital. They cover all of the SNB's risks of loss.

Currency reserves allow the National Bank to intervene on the market in the event of a weakness in the Swiss franc. They also make Switzerland's economy less vulnerable to international crises and thereby engender confidence in the Swiss franc. The need for currency reserves grows in tandem with the size and international integration of the Swiss economy.

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). Previously, the allocation to provisions was determined in a way that let provisions grow in line with the average GDP growth of the previous five years.

At its annual review in December 2009, the Bank Council decided to adjust the method of calculation. For the financial years 2009 to 2013, the growth rate of provisions must be double the average nominal GDP growth over the preceding five-year period. With this measure, the SNB aims to further strengthen its equity capital and thus its balance sheet in order to ensure its long-term capacity to act in any given situation.

Provisions

Development in the last 5 years

	Growth in nominal GDP In percent (average period)[1]	Annual allocation In CHF millions	Provisions after allocation In CHF millions
2005	2.1 (1999–2003)	794.7	38 635.7
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	4.4 (2004–2008)	3 901.7[3]	48 238.8[3]

1 Growth rates are revised on a regular basis. The figures shown in the table may thus differ slightly from the latest available data.
2 Doubling of allocation in accordance with the Bank Council's resolution of 4 December 2009.
3 Provisional figure.

Allocation from the 2009 annual result

Average growth in GDP during the 2003–2007 period came to 3.7% in nominal terms. For 2009, this results in an allocation to the provisions for currency reserves of CHF 3,055 million, following the doubling of the amount. The allocation is to be made as part of the appropriation of the 2009 annual result.

Distributable annual profit

The earnings remaining after the allocation correspond to the distributable annual profit. Distributable profits exceeding the sum of amounts payable to the Confederation and the cantons and the dividends to the shareholders are allocated to the distribution reserve as part of the profit appropriation. If the distributable profit is insufficient for the payment of the agreed distribution, the shortfall is taken from the distribution reserve. The distribution reserve can be negative.

For 2009, the distributable annual profit calculated in the aforementioned manner amounted to CHF 6,900 million.

5.3 Profit distribution

Profit distribution to Confederation and cantons

In accordance with art. 31 NBA, one-third of the SNB's distributable annual 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 is laid down in an agreement between the Federal Department of Finance and the SNB. Given the considerable fluctuations in the SNB's earnings, the National Bank Act stipulates that profit distribution be maintained at a steady level. The agreement therefore provides for a constant flow of payments over several years.

Under the profit distribution agreement, CHF 2,500 million are to be distributed annually for the financial years 2008 to 2017. The agreement will be reviewed at the latest with regard to the distribution for the 2013 financial year. The review takes account of the size of the distribution reserve, the requirements of the policy on provisions, and the potential returns on the SNB's assets.

Distribution for 2009

As envisaged by the agreement, the SNB distributed CHF 2,500 million to the Confederation and the cantons for the 2009 financial year.

Dividends

In addition to the agreed distribution of CHF 2,500 million to the Confederation and cantons, a total of CHF 1.5 million is to be paid in the form of dividends. Dividend payments are governed by art. 31 NBA and are limited to a maximum of 6% of the share capital.

Distribution reserve

The difference between the distributable profit for the financial year and the actual profit distributed to the Confederation and cantons (pursuant to the agreement) and to the shareholders (in the form of dividends pursuant to the NBA) is entered in the distribution reserve. The distributable profit for the 2009 financial year exceeds the distribution by CHF 4,399 million. The distribution reserve thus increased from CHF 14,634 million to CHF 19,033 million.

Profit distribution and distribution reserve

In CHF millions	Distribution reserve prior to distribution[1]	Distributable annual profit	Profit distribution	Distribution reserve after distribution
2005	6 948.4	12 026.5	–2 501.5	16 473.4
2006	16 473.4	4 156.7	–2 501.5	18 128.7
2007	18 128.7	7 244.5	–2 501.5	22 871.7
2008	22 871.7	–5 736.0	–2 501.5	14 634.2
2009[2]	14 634.2	6 900.1	–2 501.5	19 032.8

1 Total at year-end as per balance sheet (cf. pp. 124–125).
2 In accordance with proposed appropriation of profit.

5.4 Composition of 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 that are not hedged against exchange rate fluctuations. International payment instruments and the reserve position in the International Monetary Fund (IMF) are also allocated to currency reserves. The positive and negative replacement values applicable as of the balance sheet date are offset against these asset items, as are any liabilities in foreign currencies not arising from liquidity and stabilisation measures.

Composition of currency reserves

In CHF millions	31.12.2009	31.12.2008	Change
Gold	34 757.9	27 521.2	+7 236.7
Claims from gold transactions	3 427.7	3 340.4	+87.3
Foreign currency investments	94 680.2	47 428.8	+47 251.5
Reserve position in the IMF	1 230.8	724.7	+506.0
International payment instruments	5 555.9	244.5	+5 311.4
Derivative financial instruments	14.6	12.2	+2.4
Less: foreign currency liabilities[1]	–5 314.7	–420.1	–4 894.6
Total	134 352.4	78 851.7	+55 500.7

1 Including *counterpart of special drawing rights allocated by the IMF*.

Target level

In the short term, the currency reserves fluctuate as a result of inflows and outflows of funds as well as valuation changes. The level of currency reserves targeted in the long term reflects the monetary policy requirements.

Gold

In connection with the third Central Bank Gold Agreement, the SNB confirmed in August that it was not planning to purchase any gold in the foreseeable future.

5.5 Multi-year comparison of assets and liabilities

The following table provides an overview of the development of key balance sheet items over the past five years.

In 2009, the SNB's balance sheet total decreased slightly against the previous year, but is still around 60% higher than at the end of 2007. This reflects the expansionary monetary policy that the SNB has been pursuing to mitigate the effects of the economic crisis.

On the asset side, these measures are evidenced particularly in *foreign currency investments*, which rose sharply due to the SNB's interventions in the foreign exchange market to prevent a further appreciation of the Swiss franc. On the liabilities side, *sight deposits of domestic banks* recorded especially strong growth owing to the generous supply of liquidity. *Foreign currency liabilities* also increased considerably as a result of the refinancing requirements in connection with the National Bank's loan to the stabilisation fund.

Year-end values of balance sheet assets (aggregated)

In CHF millions	2009	2008	2007	2006	2005
Gold holdings and claims from gold transactions	38 186	30 862	34 776	32 221	28 050
Foreign currency investments[1]	101 816	48 724	51 547	46 717	48 014
Claims from US dollar repo transactions	–	11 671	4 517	–	–
Credit balances from swap transactions	2 672	50 421	–	–	–
Claims from Swiss franc repo transactions	36 208	50 321	31 025	27 127	26 199
Securities in Swiss francs	6 543	3 597	4 131	4 908	5 729
Loan to stabilisation fund	20 994	15 248	–	–	–
Other assets[2]	846	3 479	931	842	996
Total assets	207 264	214 323	126 927	111 813	108 988

1 Foreign exchange investments, reserve position in the IMF, international payment instruments, monetary assistance loans.
2 Lombard advances, claims against domestic correspondents, banknote stocks, tangible assets, participations, other assets.

Year-end values of balance sheet liabilities (aggregated)

In CHF millions	2009	2008	2007	2006	2005
Banknotes in circulation	49 966	49 161	44 259	43 182	41 367
Sight deposits of domestic banks	44 993	37 186	8 673	6 716	5 853
Liabilities towards the Confederation	6 183	8 804	1 077	1 056	3 126
SNB debt certificates in Swiss francs	7 788	24 425	–	–	–
Other liabilities in Swiss francs[1]	5 927	34 598	6 036	585	674
Foreign currency liabilities[2]	26 447	420	1 128	2	231
Other liabilities[3]	64	1 286	81	93	102
Provisions for currency reserves	41 282	40 275	39 524	38 636	37 841
Share capital	25	25	25	25	25
Distribution reserve (before appropriation of profit)	14 634	22 872	18 129	16 473	6 948
Annual result	9 955	–4 729	7 995	5 045	12 821
Total liabilities	207 264	214 323	126 927	111 813	108 988

1 Sight deposits of foreign banks and institutions, other sight liabilities, liabilities from repo transactions in Swiss francs, other term liabilities.
2 SNB debt certificates in US dollars, foreign currency liabilities, balancing item for SDRs allocated by the IMF.
3 Other liabilities, provisions for operating risk.

Annual financial statements of the Swiss National Bank (parent company)

The annual financial statements of the Swiss National Bank (SNB) comprise the balance sheet, income statement and notes (art. 662 para. 2 of the Swiss Code of Obligations (CO)) and meet the requirements under Swiss company law (art. 29 NBA, art. 663 et seq. CO).

The annual financial statements refer to the parent company, i. e. the SNB as a separate entity. Detailed information on the stabilisation fund is disclosed separately, as is information on the consolidated finances.

1 Parent company balance sheet as at 31 December 2009

In CHF millions

Assets	Item no. in Notes	31.12.2009	31.12.2008	Change
Gold holdings	01	34 757.9	27 521.2	+7 236.7
Claims from gold transactions	02	3 427.7	3 340.4	+87.3
Foreign currency investments	03, 31	94 680.2	47 428.8	+47 251.5
Reserve position in the IMF	04	1 230.8	724.7	+506.0
International payment instruments	29	5 555.9	244.5	+5 311.4
Monetary assistance loans	05, 29	348.9	326.3	+22.6
Claims from US dollar repo transactions		–	11 670.9	–11 670.9
Balances from swap transactions against Swiss francs	06	2 671.6	50 421.4	–47 749.8
Claims from Swiss franc repo transactions	28	36 207.9	50 320.6	–14 112.7
Claims against domestic correspondents		9.8	11.1	–1.3
Swiss franc securities	07	6 542.7	3 596.7	+2 946.0
Loan to stabilisation fund	08, 30	20 994.1	15 248.0	+5 746.0
Banknote stocks	09	107.2	136.5	–29.3
Tangible assets	10	365.2	382.8	–17.5
Participations	11, 30	147.8	148.0	–0.3
Other assets	12, 32	216.1	2 800.6	–2 584.5
Total assets		**207 263.8**	**214 322.6**	**–7 058.8**

Liabilities

	Item no. in Notes	31.12.2009	31.12.2008	Change
Banknotes in circulation	13	49 966.2	49 160.8	+805.4
Sight deposits of domestic banks		44 992.9	37 186.2	+7 806.8
Liabilities towards the Confederation	14	6 182.7	8 803.7	–2 621.0
Sight deposits of foreign banks and institutions		2 640.6	3 799.8	–1 159.2
Other sight liabilities	15	3 286.0	1 383.8	+1 902.2
SNB debt certificates	16	27 473.1	24 424.9	+3 048.2
Other term liabilities		–	29 414.5	–29 414.5
Foreign currency liabilities	17	1 450.1	420.1	+1 030.0
Counterpart of special drawing rights allocated by the IMF		5 311.8	–	+5 311.8
Other liabilities	18, 32	58.5	1 279.8	–1 221.3
Provisions for operating risks	19	5.5	6.2	–0.7
Provisions for currency reserves		41 282.2	40 275.3	+1 006.9
Share capital	20	25.0	25.0	–
Distribution reserve[1]		14 634.2	22 871.7	–8 237.5
Annual result[2]		9 955.0	–4 729.1	+14 684.1
Total liabilities		**207 263.8**	**214 322.6**	**–7 058.8**

1 Prior to resolution of General Meeting of Shareholders on the distribution of profit.
2 Before allocation to provisions for currency reserves.

2 Parent company income statement and appropriation of profit for 2009

In CHF millions

	Item no. in Notes	2009	2008	Change
Net result from gold	21	7 338.1	–698.8	+8 036.9
Net result from foreign currency positions	22	2 573.1	–4 375.2	+6 948.3
Net result from Swiss franc positions	23	281.3	550.8	–269.5
Net result, other	24	23.3	23.2	+0.1
Gross income		**10 215.8**	**–4 500.0**	**+14 715.8**
Banknote expenses		–40.7	–33.6	–7.1
Personnel expenses	25, 26	–117.0	–107.9	–9.1
General overheads	27	–67.3	–53.8	–13.5
Depreciation on tangible assets	10	–35.8	–33.7	–2.0
Annual result		**9 955.0**	**–4 729.1**	**+14 684.1**
Allocation to provisions for currency reserves		–3 054.9	–1 006.9	–2 048.0
Distributable annual profit		**6 900.1**	**–5 736.0**	**+12 636.1**
Released from (+)/allocated to (–) distribution reserve		–4 398.6	+8 237.5	–12 636.1
Total profit distribution		**2 501.5**	**2 501.5**	**–**
of which				
Payment of a dividend of 6%		1.5	1.5	–
Profit distribution to the Confederation and the cantons (in accordance with agreement of 14 March 2008)		2 500.0	2 500.0	–

3 Changes in equity capital (parent company)

In CHF millions

	Share capital	Provisions for currency reserves	Distribution reserve	Annual result	Total
Equity capital as at 1 January 2008	**25.0**	**39 524.3**	**18 128.7**	**7 995.5**	**65 673.5**
Endowment of provisions for currency reserves pursuant to NBA		751.0		–751.0	
Allocation to distribution reserve			4 743.0	–4 743.0	
Distribution of dividends to shareholders				–1.5	–1.5
Profit distribution to Confederation and cantons				–2 500.0	–2 500.0
Annual result of year under review				–4 729.1	–4 729.1
Equity capital as at 31 December 2008 (before appropriation of profit)	**25.0**	**40 275.3**	**22 871.7**	**–4 729.1**	**58 442.9**
Equity capital as at 1 January 2009	**25.0**	**40 275.3**	**22 871.7**	**–4 729.1**	**58 442.9**
Endowment of provisions for currency reserves pursuant to NBA		1 006.9		–1 006.9	
Release from distribution reserve			–8 237.5	8 237.5	
Distribution of dividends to shareholders				–1.5	–1.5
Profit distribution to Confederation and cantons				–2 500.0	–2 500.0
Annual result of year under review				9 955.0	9 955.0
Equity capital as at 31 December 2009 (before appropriation of profit)	**25.0**	**41 282.2**	**14 634.2**	**9 955.0**	**65 896.4**
Proposed appropriation of profit					
Endowment of provisions for currency reserves pursuant to NBA		3 054.9		–3 054.9	
Allocation to distribution reserve			4 398.6	–4 398.6	
Distribution of dividends to shareholders				–1.5	–1.5
Profit distribution to Confederation and cantons				–2 500.0	–2 500.0
Equity capital after appropriation of profit	**25.0**	**44 337.1**	**19 032.8**	**–**	**63 394.9**

4 Notes to the accounts (parent company) as at 31 December 2009

4.1 Accounting and valuation principles

General

Basic principles

This year's financial report has been drawn up in accordance with the provisions of the National Bank Act (NBA) and the Swiss Code of Obligations. For the existing items, the accounting and valuation principles remained unchanged from the previous year.

Changes from previous year

The *counterpart of special drawing rights allocated by the IMF* is a new item on the liability side. This liability is the counterpart item for the allocation of SDRs that the IMF conducted in the late summer of 2009.

The names of the *net result from foreign currency positions* (previously foreign currency investments) and *net result from Swiss franc positions* (previously Swiss franc investments) items have been changed to reflect the fact that these items now contain not only investments, but also substantial net results from liability items.

Recording of transactions

The Swiss National Bank's business transactions are recorded and valued on the day the transaction is concluded (trade date accounting). However, they are only posted on the value date. Transactions concluded by the balance sheet date with a value date in the future are stated under off-balance-sheet transactions.

Accrual reporting

Expenses are recognised in the financial year in which they are incurred, and income in the financial year in which it is earned.

Profit tax

Under art. 8 NBA, the Swiss National Bank (SNB) is exempt from taxation on profits. Tax exemption applies to both direct federal taxes and cantonal and municipal taxes.

Transactions with related parties

The rights of the SNB's shareholders are restricted by law. The Shareholders cannot exert any influence on financial or operational decisions. Banking services provided to members of the executive management are carried out at normal banking industry conditions. No banking services are provided for the members of the Bank Council.

Balance sheet and income statement

Valuation principles

Gold and negotiable financial instruments are stated in the balance sheet at market value or fair value. Fair value reflects the price at which an asset could be exchanged or a liability settled between professional and independent parties. In a price-efficient and liquid market, fair value can be assessed on the basis of the relevant market price. If no such market exists, fair value will be determined on the basis of a valuation model.

Tangible assets are stated at their acquisition cost less required depreciation. Other items are stated at their nominal value inclusive of accrued interest. Foreign currency items are translated at year-end rates. Income and expenses in foreign currency are translated at the exchange rates applicable at the time when such income and expenses were posted to the accounts. All valuation changes are reported in the income statement.

Gold holdings

Physical gold holdings consist of gold ingots and gold coins. The gold is stored at various locations in Switzerland and abroad. These holdings are stated at market value. Valuation gains and losses and sales proceeds are reported in *net result from gold*.

Claims from gold transactions

In managing its investment portfolio, the National Bank lends a part of its gold holdings to first-class domestic and foreign financial institutions. It receives interest in return. Gold lending transactions are effected on a secured basis. The gold price risk remains with the SNB. Gold loans are entered in the balance sheet under *claims from gold transactions* and stated at market value inclusive of accrued interest. The valuation result and interest are stated in *net result from gold*.

Foreign currency investments

In *foreign currency investments*, negotiable securities (money market paper, bonds and equity securities) as well as credit balances (sight deposit accounts, call money, time deposits and repos) are recorded. Securities, which make up the bulk of the foreign exchange investments, are stated at market value inclusive of accrued interest, while credit balances are stated at their nominal value inclusive of accrued interest. Gains and losses from revaluation at market value, interest earnings, dividends and exchange rate gains and losses are stated in *net result from foreign currency positions*.

The management of foreign currency investments also includes securities lending transactions. Securities lent by the SNB from its own portfolio are secured by appropriate collateral. The SNB receives interest on the securities loaned. Loaned securities remain in the *foreign currency investments* item and are disclosed in the notes to the accounts. Interest income from securities lending is stated in *net result from foreign currency positions*.

Repos in foreign currency concluded for investment purposes are also reported under this balance sheet item.

Reserve position in the IMF

The reserve position in the International Monetary Fund (IMF) consists of the Swiss quota less the IMF's sight balances at the National Bank. The quota is Switzerland's portion of the IMF capital, which is financed by the National Bank. It is denominated in Special Drawing Rights (SDRs), which are the IMF's currency. A part of the quota has not been transferred to the IMF, but remains in a sight deposit account. The IMF can make use of these Swiss franc assets at any time. The income from interest on the reserve position as well as the exchange rate gains and losses from revaluation of the SDRs are stated in *net result from foreign currency positions*.

International payment instruments

International payment instruments comprise the SDRs with the IMF. They include SDRs allocated to Switzerland as a member country as well as claims from the amended two-way arrangements with the IMF. These sight deposits attract interest at market conditions. Interest and exchange rate gains and losses are stated in *net result from foreign currency positions*.

The liability entered into through the allocation is stated in *counterpart of special drawing rights allocated by the IMF* on the liability side of the balance sheet.

Monetary assistance loans

Within the framework of its international cooperation activities, Switzerland may participate in the IMF's internationally coordinated, medium-term balance of payments assistance. This may take the form of a credit tranche or bilateral monetary assistance loans granted to countries with balance of payments problems. Currently outstanding claims include those granted under the Poverty Reduction and Growth Facility (PRGF; including the interim PRGF). This is a fiduciary fund administered by the IMF which finances long-term loans at reduced interest rates to poor developing countries. The Confederation guarantees the interest and principal repayments both on the bilateral loans and on Switzerland's participation in the PRGF credit account (including the interim PRGF). These loans are stated at their nominal value inclusive of accrued interest. Interest and exchange rate gains and losses are stated in *net result from foreign currency positions*. General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB), which are intended for special circumstances and are not guaranteed by the Confederation, have not been used. Therefore, they are only listed under irrevocable undertakings.

Claims from repo transactions in US dollars

The repo transactions in US dollars included in this balance sheet item were concluded in collaboration with other central banks. They are fully backed by collateral eligible for SNB repos and are stated at their year-end nominal value inclusive of accrued interest. There were no outstanding transactions at the end of 2009.

Balances from swap transactions

The SNB provides central banks and domestic and foreign commercial banks with Swiss francs in exchange for euros. The credit balances in euros are stated at their nominal value inclusive of accrued interest. The accrued interest and exchange rate gains and losses are recorded in *net result from foreign currency positions*.

Claims and liabilities from repo transactions in Swiss francs

The SNB uses repo transactions in Swiss francs to provide the banking system with liquidity or to withdraw liquidity from it. Claims from repo transactions are fully backed by securities eligible for SNB repos. Claims and liabilities from repo transactions are stated at their nominal value inclusive of accrued interest. Interest earnings and expenses are stated in *net result from Swiss positions*.

Claims against domestic correspondents

On behalf of the National Bank, domestic correspondents perform local cash redistribution transactions and cover the cash requirements of federal agencies and enterprises associated with the federal government (Swiss Post and Swiss Federal Railways). This results in short-term SNB claims, which attract interest at the call money rate. These claims are stated at their nominal value inclusive of accrued interest. Interest earnings are stated in *net result from Swiss franc positions*.

Swiss franc securities

Swiss franc securities are made up exclusively of negotiable bonds. They are stated at their market value inclusive of accrued interest. Valuation gains and losses and interest earnings are stated in *net result from Swiss franc positions*.

Loan to stabilisation fund

As part of the measures aimed at strengthening the Swiss financial system adopted in autumn 2008, the SNB granted the stabilisation fund a secured loan. The loan is being reduced through partial repayments. Its total life can be extended in two stages from eight to twelve years. The loan is stated at its nominal value including accrued interest less any value adjustments. The value adjustment is based on the difference between the loan's carrying amount (book value) and the estimated recoverable amount, with due account being taken of counterparty risk and the net proceeds from the realisation of any securities. Earnings components (interest income and currency translation effects) are stated in *net result from foreign currency positions*.

The loan is secured by stabilisation fund investments. In particular, these comprise assets backed by US residential and commercial mortgages. The portfolio also includes other financial instruments from the US, Europe and Japan backed by different types of assets. In addition, the SNB has an option (warrant) to purchase 100 million shares at nominal value (CHF 0.10 per share) which it can exercise should the loan not be repaid in full.

Banknote stocks

Freshly printed banknotes which have not yet been put into circulation are capitalised at their acquisition cost and stated in *banknote stocks*. Development costs that can be capitalised also fall under this balance sheet item. At the time a banknote first enters into circulation, its capitalised cost is proportionally charged to *banknote expenses*.

Tangible assets

Tangible assets comprise land and buildings, fixed assets under construction, and sundry tangible assets. Day-to-day maintenance expenses are stated in *general overheads*. Investments in buildings resulting in an increase in value are capitalised from an amount of CHF 100,000. Software purchases and developments are assessed on an individual basis and, if necessary, entered in the balance sheet. For sundry tangible assets, the minimum value for capitalisation is CHF 20,000. Acquisitions below this amount are charged directly to *general overheads*. Tangible assets are stated at their acquisition cost less required depreciation.

Period of depreciation

Land and buildings	
Land	No depreciation
Buildings (building structure)	50 years
Conversions (technical equipment and interior finishing work)	10 years
Fixed assets under construction	No depreciation
Software	3 years
Sundry tangible assets	3–12 years

The recoverable value is checked periodically. If this results in a decrease in value, an impairment loss is recorded. Scheduled and unscheduled depreciations are reported in the income statement under *depreciation on tangible assets*.

Profits and losses from the sale of tangible assets are stated in *net result, other*.

Participations

In principle, participations are valued at acquisition cost less required value adjustments. However, Orell Füssli Holding Ltd Zurich is treated as an associated company and the participation in this company valued according to the equity method. Income from participations is stated in *net result, other*.

Derivative financial instruments

The National Bank uses forward foreign exchange transactions, foreign exchange options, futures and interest rate swaps to manage its currency reserves. These are used to manage market positioning with regard to shares, interest rates and currencies (cf. also Risks posed by financial instruments, pp. 156–157).

Derivative financial instruments also include the liability arising from the option granted to UBS to purchase an equity interest in StabFund (GP) AG (GP purchase option), and the SNB's right to purchase 100 million UBS shares (warrant). Also included is the right to request the repurchase of the stabilisation fund in the case of a change of control at UBS (repurchase option).

Derivative financial instruments are stated at market value, whenever possible. If no market value is available, a fair value is established in accordance with generally recognised mathematical finance methods. Valuation changes are recorded in the income statement and stated in *net result from foreign currency positions*. Positive and/or negative replacement values are stated in *other assets* or *other liabilities*. The GP purchase option, the repurchase option and the warrant are stated at the lower of cost or market (LCM).

Accrued expenses and deferred income

The SNB does not state accrued expenses and deferred income as separate positions in its balance sheet. For materiality reasons, they are reported in *other assets* or *other liabilities* and disclosed in the notes to the accounts.

Banknotes in circulation

The *banknotes in circulation* item shows the nominal value of all the banknotes issued from the current series as well as from recalled, still exchangeable series.

Sight deposits of domestic banks

Sight deposits of domestic banks in Swiss francs form the basis on which the SNB steers monetary policy. They also facilitate the settlement of cashless payments in Switzerland. These sight deposits are non-interest-bearing accounts which are stated at their nominal value.

Liabilities towards the Confederation

The National Bank holds an interest-bearing sight deposit account for the Confederation. Interest is payable for amounts up to a maximum of CHF 200 million. In addition, the Confederation may place time deposits with the SNB at market rates. The liabilities towards the Confederation are stated at their nominal value inclusive of accrued interest. Interest expenses are recorded in *net result from Swiss franc positions*.

Sight deposits of foreign banks and institutions

The SNB holds sight deposit accounts for foreign banks and institutions which facilitate payment transactions in Swiss francs. These sight deposits do not bear interest and are stated at their nominal value.

Other sight liabilities

The main components in the *other sight liabilities* item are sight deposits of non-banks, accounts of active and retired staff members and of the SNB's pension funds. They are stated at their nominal value inclusive of accrued interest. Interest expenses are stated in *net result from Swiss franc positions*.

SNB debt certificates

To absorb liquidity from the market, the National Bank issues its own, interest-bearing debt certificates (SNB Bills) in Swiss francs. Money market management requirements dictate the frequency, term and amount of these issues. In addition, the SNB issues its own debt securities in US dollars (SNB USD Bills), which currently refinance the loan to the stabilisation fund. The SNB debt certificates are valued at their issue price plus cumulative discount accretion (i.e. the discount is amortised over the term of the issue). Interest expenses are stated in *net result from Swiss franc positions* or in *net result from foreign currency positions*.

Other term liabilities

This balance sheet item contains additional term liabilities in Swiss francs. They are stated at their nominal value inclusive of accrued interest. Interest expenses are stated in *net result from Swiss franc positions*.

Foreign currency liabilities

Foreign currency liabilities are comprised of different sight liabilities and short-term term liabilities as well as repo transactions related to the management of foreign currency investments. They are stated at their nominal value inclusive of accrued interest. Interest expenses and exchange rate gains and losses are stated in *net result from foreign currency positions*.

Counterpart of special drawing rights allocated by the IMF

This item comprises the liability vis-à-vis the IMF for the allocated Special Drawing Rights (SDRs). The counterpart item attracts interest at the same rate as the SDRs. Interest expenses and exchange rate gains and losses are stated in *net result from foreign currency positions*.

Provisions for operating risks

For all identifiable obligations resulting from past events, provisions are recognised in accordance with the principle of prudent evaluation. *Provisions for operating risks* comprise reorganisation provisions and other provisions. The reorganisation provisions consist mainly of financial undertakings to staff members in relation to early retirement.

Provisions for currency reserves

Art. 30 para. 1 NBA stipulates that the National Bank set up provisions permitting it to maintain the currency reserves at the level necessary for monetary policy. In so doing, it must take into account economic developments in Switzerland. These special-law provisions are equity-like in nature and are incorporated in the *Changes in equity capital* table (cf. p. 127). The allocation is made as part of the profit appropriation. The Bank Council decides on the level of these provisions once a year.

With the exception of the dividend which – pursuant to the NBA – may not exceed 6% of the share capital, the Confederation and the cantons are entitled to the National Bank's total remaining profit after adequate provisions for currency reserves have been set aside. To achieve a steady flow of payments in the medium term, the annual profit distributions are fixed in advance for a certain period in an agreement concluded between the Federal Department of Finance and the SNB. The distribution reserve contains profits that have not yet been distributed.

Distribution reserve

The SNB's pension plans comprise two staff pension fund schemes under the defined benefit system. Contributions are made by the National Bank and the employees. Ordinary employee contributions are 7% or 7.5% of the insured salary and those of the SNB are 14% or 15% (depending on the employee's age). In accordance with Swiss GAAP FER 16, any share of actuarial surplus or deficit is shown on the asset side or reported as a liability.

Pension fund

Valuation rates

Valuation rates

	31.12.2009 CHF	**31.12.2008** CHF	**Change** In percent
1 US dollar (USD)	1.0336	1.0658	–3.0
1 euro (EUR)	1.4853	1.4895	–0.3
1 pound sterling (GBP)	1.6723	1.5595	+7.2
100 Danish kroner (DKK)	19.9600	19.9600	–
1 Canadian dollar (CAD)	0.9855	0.8733	+12.8
100 Japanese yen (JPY)	1.1142	1.1734	–5.0
1 Special Drawing Right (SDR)	1.6155	1.6384	–1.4
1 kilogram of gold	36 687.03	29 640.32	+23.8

4.2 Notes to the balance sheet and income statement

Gold

Item no. 01

Breakdown by type	**31.12.2009** In tonnes	In CHF millions	**31.12.2008** In tonnes	In CHF millions
Gold ingots	908.4	33 325.9	889.5	26 364.2
Gold coins	39.0	1 432.1	39.0	1 157.0
Total[1]	947.4	34 757.9	928.5	27 521.2

1 Total gold holdings also include lent gold shown under item no. 02.

Item no. 02

Claims from gold transactions

	31.12.2009 In tonnes	In CHF millions	31.12.2008 In tonnes	In CHF millions
Claims from secured gold lending[1]	92.6	3 423.0	111.5	3 336.7
Claims on metal accounts	0.1	4.7	0.1	3.7
Total	92.7	3 427.7	111.6	3 340.4

1 Secured by collateral eligible for repo transactions with a market value of CHF 3,565.0 million (2008: 3,473.0. million).

Item no. 03

Foreign currency investments

Breakdown by investment type In CHF millions	31.12.2009	31.12.2008	Change
Sight deposits and call money	409.9	286.9	+123.0
Time deposits	33.5	1 169.5	–1 136.0
Reverse repos	–	365.8	–365.8
Money market instruments	815.7	458.8	+356.9
Bonds[1]	86 477.7	39 586.7	+46 891.0
Equities	6 943.4	5 561.1	+1 382.3
Total	94 680.2	47 428.8	+47 251.4

1 Of which CHF 183.6 million (2008: CHF 52.0 million) lent under securities lending operations.

Breakdown by borrower category In CHF millions	31.12.2009	31.12.2008	Change
Governments	80 980.4	33 827.2	+47 153.2
Monetary institutions[1]	872.6	1 676.7	–804.1
Corporations	12 827.2	11 924.9	+902.3
Total	94 680.2	47 428.8	+47 251.4

1 BIS, central banks and multilateral development banks.

Breakdown by currency[1] In CHF millions	31.12.2009	31.12.2008	Change
USD	28 523.6	13 853.9	+14 669.7
EUR	55 021.7	23 422.0	+31 599.7
GBP	4 877.9	4 524.5	+353.4
DKK	0.2	0.2	–
CAD	1 205.6	1 069.3	+136.3
JPY	5 050.2	4 558.3	+491.9
Other	1.1	0.4	+0.7
Total	94 680.2	47 428.8	+47 251.4

1 Excluding foreign exchange derivatives. For a breakdown by currency including foreign exchange derivatives, cf. Risks posed by financial instruments, pp. 156–157.

Reserve position in the IMF

Item no. 04

In CHF millions	31.12.2009	31.12.2008	Change
Swiss quota in the IMF[1]	5 587.6	5 666.4	–78.8
Less: IMF's Swiss franc sight balances at the SNB	–4 356.9	–4 941.6	+584.7
Total	1 230.8	724.7	+506.0

1 SDR 3,458.5 million; change due entirely to exchange rates.

Monetary assistance loans

Item no. 05

In CHF millions	31.12.2009	31.12.2008	Change
PRGF loan facility	11.6	27.8	–16.2
Interim PRGF loan facility[1]	337.3	298.4	+38.9
Total	348.9	326.3	+22.6

1 For undrawn loan commitments, cf. item no. 29, p. 149.

Balances from swap transactions against Swiss francs

Item no. 06

Breakdown by counterparty category In millions	31.12.2009		31.12.2008	Change
	EUR	CHF	CHF	
Central banks	1 798.6	2 671.5	28 028.7	–25 357.2
Commercial banks	–	–	22 321.6	–22 321.6
Accrued interest	0.1	0.2	71.1	–70.9
Total	1 798.7	2 671.6	50 421.4	–47 749.7

Swiss franc securities

Item no. 07

Breakdown by borrower category In CHF millions	31.12.2009	31.12.2008	Change
Governments	1 512.3	1 636.3	–124.0
Corporations	5 030.4	1 960.5	+3 069.9
Total	6 542.7	3 596.7	+2 946.0

Breakdown of Governments borrower category In CHF millions	31.12.2009	31.12.2008	Change
Swiss Confederation	963.8	1 085.4	–121.6
Cantons and municipalities	303.8	365.0	–61.2
Foreign states	244.7	185.9	+58.8
Total	1 512.3	1 636.3	–124.0

Breakdown of Corporations borrower category In CHF millions	31.12.2009	31.12.2008	Change
Domestic mortgage bond institutions	3 219.1	407.7	+2 811.4
Other domestic corporations[1]	430.9	51.4	+379.5
Foreign corporations[2]	1 380.3	1 501.4	–121.1
Total	5 030.4	1 960.5	+3 069.9

1 International organisations with their head office in Switzerland and domestic corporations.
2 Banks, international organisations and other corporations.

Item no. 08

Loan to stabilisation fund

In CHF millions	31.12.2009	31.12.2008	Change
Short-term receivables	3.2	1.1	+2.1
Loan in USD[1]	16 508.8	12 828.4	+3 680.3
Loan in EUR[1]	1 392.5	918.2	+474.3
Loan in GBP[1]	2 755.4	1 500.3	+1 255.1
Loan in JPY[1]	334.2	–	+334.2
Total[2]	20 994.1	15 248.0	+5 746.0

1 Interest charged at one-month Libor plus 250 basis points.
2 With subordination agreement on the loan in the amount of USD 1.9 billion (2008: USD 100 million).

Item no. 09

Banknote stocks

In CHF millions	Banknote stocks
Position as at 1 January 2008	126.9
Additions	40.8
Disposals	–31.2
Position as at 31 December 2008	136.5
Position as at 1 January 2009	136.5
Additions	10.6
Disposals	–39.9
Position as at 31 December 2009[1]	107.2

1 Of which CHF 17 million in advance payments.

Tangible assets

Item no. 10

In CHF millions	Land and buildings[1]	Fixed assets under construction	Software	Sundry tangible assets[2]	Total
Historical cost					
1 January 2009	498.2		25.3	61.6	585.1
Additions	2.2	1.0	12.4	2.6	18.2
Disposals			–7.0	–3.3	–10.3
Reclassified					
31 December 2009	500.4	1.0	30.7	60.9	593.0
Cumulative value adjustments					
1 January 2009	147.7		9.9	44.7	202.3
Scheduled depreciation	19.3		9.9	6.6	35.8
Disposals			–7.0	–3.3	–10.3
Reclassified					
31 December 2009	167.0		12.8	48.0	227.8
Net book values					
1 January 2009	350.5		15.4	16.9	382.8
31 December 2009	333.5	1.0	17.9	12.8	365.2

1 Insured value: CHF 409.0 million (2008: CHF 407.2 million).
2 Insured value: CHF 56.5 million (2008: CHF 54.5 million).

Participations

Item no. 11

In CHF millions	Orell Füssli[1]	BIS[2]	Other	Total
Equity participation	33%	3%		
Book value as at 1 January 2008	46.0	90.2	0.6	136.8
Investments	–	–	0.8	0.8
Divestments	–	–	–	–
Valuation changes	11.0	–	–0.6	10.4
Book value as at 31 December 2008	57.0	90.2	0.8	148.0
Book value as at 1 January 2009	57.0	90.2	0.8	148.0
Investments[3]	–	–	0.8	0.8
Divestments	–	–	–	–
Valuation changes	–0.2	–	–0.8	–1.0
Book value as at 31 December 2009	56.7	90.2	0.8	147.8

1 Orell Füssli Holding Ltd Zurich, whose subsidiary Orell Füssli Security Printing Ltd produces Switzerland's banknotes.
2 The interest in the Bank for International Settlements (BIS) is held for reasons of monetary policy collaboration.
3 Interests in StabFund (GP) AG and LiPro (LP) AG, each with a share capital of CHF 0.1 million. StabFund (GP) AG received UBS's option premium from the SNB as an equity contribution. This contribution has been exhausted.

Item no. 12

Other assets

In CHF millions	31.12.2009	31.12.2008	Change
Coins[1]	115.3	112.3	+3.0
Foreign banknotes	1.1	1.0	+0.1
Other accounts receivable	29.1	11.5	+17.6
Prepayments and accrued income	4.8	4.5	+0.3
Cheques and bills of exchange (collection business)	0.1	0.0	+0.1
Positive replacement values[2]	65.7	2 671.2	–2 605.5
Total	216.1	2 800.6	–2 584.5

1 Coins acquired from Swissmint destined for circulation.
2 Unrealised gains on financial instruments and on outstanding spot transactions (cf. item no. 32, p. 151).

Item no. 13

Banknotes in circulation

Breakdown by issue In CHF millions	31.12.2009	31.12.2008	Change
8th issue	48 596.3	47 731.6	+864.7
6th issue[1]	1 369.9	1 429.2	–59.3
Total	49 966.2	49 160.8	+805.4

1 Exchangeable at the SNB until 30 April 2020; the 7th banknote series, which was created as a reserve series, was never put into circulation.

Item no. 14

Liabilities towards the Confederation

In CHF millions	31.12.2009	31.12.2008	Change
Sight liabilities	2 582.6	1 484.7	+1 097.9
Term liabilities	3 600.1	7 319.0	–3 718.9
Total	6 182.7	8 803.7	–2 621.0

Item no. 15

Other sight liabilities

In CHF millions	31.12.2009	31.12.2008	Change
Sight deposits of non-banks	3 064.9	1 186.8	+1 878.1
Deposit accounts[1]	221.1	196.9	+24.2
Cheque liabilities[2]	0.0	0.1	–0.1
Total	3 286.0	1 383.8	+1 902.2

1 These mainly comprise accounts of active and retired employees, plus liabilities towards SNB pension schemes. Current account liabilities towards the latter amounted to CHF 57.8 million as at 31 December 2009 (2008: CHF 43.7 million).
2 Bank cheques drawn on the SNB but not yet cashed.

SNB debt certificates

Item no. 16

In CHF millions	31.12.2009 USD	CHF	31.12.2008 CHF	Change
In Swiss francs (SNB Bills)		7 788.0	24 424.9	–16 636.9
In US dollars (SNB USD bills)	19 045.2	19 685.1	–	+19 685.1
Total		27 473.1	24 424.9	+3 048.2

Foreign currency liabilities

Item no. 17

In CHF millions	31.12.2009	31.12.2008	Change
Sight liabilities	2.9	1.7	+1.1
Liabilities from repo transactions[1]	–	365.7	–365.7
Other foreign currency liabilities	1 447.3	52.6	+1 394.6
Total	1 450.1	420.1	+1 030.0

1 Relating to the management of foreign currency investments.

Other liabilities

Item no. 18

In CHF millions	31.12.2009	31.12.2008	Change
Other liabilities	15.6	8.1	+7.5
Accrued liabilities and deferred income	6.8	8.4	–1.6
Negative replacement values[1]	36.1	1 263.2	–1 227.1
Total	58.5	1 279.8	–1 221.3

1 Unrealised losses on financial instruments and on outstanding spot transactions (cf. item no. 32, p. 151).

Item no. 19

Provisions for operating risks

In CHF millions	Provisions due to reorganisation	Other provisions	Total
Book value as at 1 January 2008	7.6	1.0	8.6
Formation	–	–	–
Release	–2.4	–	–2.4
Write-back	–0.1	–	–0.1
Book value as at 31 December 2008	5.2	1.0	6.2
Book value as at 1 January 2009	5.2	1.0	6.2
Formation	1.1	0.1	1.2
Release	–1.7	–	–1.7
Write-back	–0.2	–	–0.2
Book value as at 31 December 2009	4.4	1.1	5.5

Item no. 20

Share capital

Shares

	2009	2008
Share capital in CHF	25 000 000	25 000 000
Nominal value in CHF	250	250
Number of shares	100 000	100 000
Symbol/ISIN[1]	SNBN/CH0001319265	
Closing price on 31 December in CHF	994	1 025
Market capitalisation in CHF	99 400 000	102 500 000
Annual high in CHF	1 075	1 425
Annual low in CHF	810	941
Average daily trading volume in number of shares	21	20

1 Listed in the main segment of SIX Swiss Exchange.

Breakdown of share ownership as at 31 December 2009

	Number of shares	In percentage of shares registered
2,225 private shareholders with a total of	**34 923**	**39.0**[1]
of which 1,899 shareholders with 1–10 shares each		
of which 295 shareholders with 11–100 shares each		
of which 11 shareholders with 101–200 shares each[2]		
of which 20 shareholders with over 200 shares each[2]		
78 public sector shareholders with a total of	**54 518**	**61.0**
of which 26 cantons with a total of	38 981	
of which 24 cantonal banks with a total of	14 473	
of which 28 other public authorities and institutions with a total of	1 064	
Total: 2,303 registered shareholders with a total of[3]	**89 441**[4]	**100**
Registration applications pending or outstanding for	10 559	
Total shares	**100 000**	

1 14.3% are legal entities and 24.7% private individuals. Private shareholders account for 24.5% of voting rights.
2 Voting rights are limited to 100 shares.
3 In 2009, the number of shareholders rose by 36, and the number of registered shares rose by 892.
4 A total of 11,014 shares are in foreign ownership (accounting for 1.5% of voting rights).

Principal shareholders

	31.12.2009		31.12.2008	
	Number of shares	Equity participation	Number of shares	Equity participation
Canton of Berne	6 630	6.63%	6 630	6.63%
Canton of Zurich	5 200	5.20%	5 200	5.20%
Theo Siegert, Düsseldorf[1]	4 995	4.99%	4 850	4.85%
Canton of Vaud	3 401	3.40%	3 401	3.40%
Canton of St Gallen	3 002	3.00%	3 002	3.00%

1 Subject to legal restrictions as a shareholder outside the public-law sector (art. 26 NBA).

Item no. 21

Net result from gold

Breakdown by type In CHF millions	**2009**	**2008**	**Change**
Net result from changes in market value[1]	7 329.4	–711.4	+8 040.8
Interest income from gold lending transactions	8.8	12.6	–3.9
Total	7 338.1	–698.8	+8 036.9

1 Including valuation gains/losses from the sale of gold.

Item no. 22

Net result from foreign currency positions

Breakdown by origin In CHF millions	**2009**	**2008**	**Change**
Foreign currency investments	2 332.9	–4 124.9	+6 457.8
Reserve position in the IMF	–29.1	–36.6	+7.5
International payment instruments	–0.7	–6.2	+5.5
Monetary assistance loans	–0.5	–14.5	+14.0
SNB debt certificates[1]	1 969.5	–	+1 969.5
Foreign currency liabilities	107.5[2]	–357.5	+465.0
Other foreign currency investments[1]	–1 806.5	164.4	–1 970.9
Total	2 573.1	–4 375.2	+6 948.3

1 The positive result for SNB debt certificates (in US dollars) is due to exchange rate gains in excess of CHF 2 billion. This is offset by exchange rate losses on the loan to the stabilisation fund, which is recorded under other foreign currency investments.
2 Exchange rate gains exceed interest expenses by the amount shown.

Breakdown by type In CHF millions	**2009**	**2008**	**Change**
Interest income	3 262.9	2 269.8	+993.1
Price gain/loss on interest-bearing paper and instruments	–96.5	1 163.4	–1 259.9
Interest expenses	–122.3	–359.2	+236.9
Dividend income	189.4	151.0	+38.4
Price gain/loss on equity securities and instruments	1 163.1	–2 928.5	+4 091.6
Exchange rate gain/loss	–1 807.7	–4 664.9	+2 857.2
Asset management, safe custody and other fees	–15.9	–6.8	–9.1
Total	2 573.1	–4 375.2	+6 948.3

Breakdown of overall net result by currency In CHF millions	**2009**	**2008**	**Change**
USD	–59.4	–168.0	+108.6
EUR	1 588.8	–2 141.0	+3 729.8
GBP	907.0	–1 630.2	+2 537.2
DKK	–	–109.9	+109.9
CAD	242.6	–337.2	+579.8
JPY	–71.0	75.3	–146.3
SDR	–30.3	–57.3	+27.0
Other	–4.7	–6.9	+2.2
Total	2 573.1	–4 375.2	+6 948.3

Breakdown of exchange rate gain/loss by currency In CHF millions	**2009**	**2008**	**Change**
USD	–1 124.8	–406.0	–718.8
EUR	–1 106.0	–2 596.5	+1 490.5
GBP	550.4	–1 937.6	+2 488.0
DKK	–	–117.3	+117.3
CAD	155.5	–290.7	+446.2
JPY	–244.7	773.6	–1 018.3
SDR	–38.4	–90.4	+52.0
Other	0.1	–0.1	+0.2
Total	–1 807.7	–4 664.9	+2 857.2

Net result from Swiss franc positions

Item no. 23

Breakdown by origin In CHF millions	**2009**	**2008**	**Change**
Swiss franc securities	272.2	195.3	+76.9
Swiss franc repo transactions	35.2	574.7	–539.5
Other assets	0.3	0.1	+0.2
Liabilities towards the Confederation	–7.0	–193.0	+186.0
SNB debt certificates	–12.2	–17.8	+5.6
Other sight liabilities	–7.3	–8.5	+1.2
Total	281.3	550.8	–269.5

Breakdown by type In CHF millions	2009	2008	Change
Interest income	194.0	708.2	–514.2
Price gain/loss on interest-bearing paper and instruments	119.8	82.4	+37.4
Interest expenses	–17.0	–234.3	+217.3
Trading, safe custody and other fees	–15.5	–5.4	–10.1
Total	281.3	550.8	–269.5

Item no. 24

Net result, other

In CHF millions	2009	2008	Change
Commission income	15.4	13.9	+1.4
Commission expenses	–13.9	–16.0	+2.0
Income from participations	11.9	21.3	–9.4
Income from real estate	4.1	4.5	–0.4
Other income	5.9	–0.6	+6.5
Total	23.3	23.2	+0.1

Item no. 25

Personnel expenses

Breakdown by type In CHF millions	2009	2008	Change
Wages, salaries and allowances	89.2	83.6	+5.7
Social security expenses	19.4	18.1	+1.2
Other personnel expenses	8.4	6.2	+2.2
Total	117.0	107.9	+9.1

Remuneration for the Bank Council[1] In CHF thousands	**2009**	**2008**	**Change**
Hansueli Raggenbass, President[2,3]	150.6	130.0	+20.6
Jean Studer, Vice President (as of 25 April 2008)[2,3]	75.6	57.2	+18.4
Gerold Bührer (as of 25 April 2008)[2]	45.0	26.7	+18.3
Ueli Forster (until 25 April 2008)	–	13.3	–13.3
Rita Fuhrer (as of 25 April 2008)	45.0	26.7	+18.3
Konrad Hummler[5]	53.4	47.5	+5.9
Armin Jans[3,4]	59.0	47.5	+11.5
Daniel Lampart[5]	53.4	47.5	+5.9
Franz Marty[4]	59.0	47.5	+11.5
Laura Sadis	45.0	40.0	+5.0
Olivier Steimer (as of 17 April 2009)[5]	32.8	–	+32.8
Fritz Studer[4]	59.0	47.5	+11.5
Alexandre Swoboda (until 17 April 2009)[3,5]	23.4	45.0	–21.6
Total	701.2	576.4	+124.8

1 In accordance with SNB regulations; participation in committee meetings not held on the same day as Bank Council meetings is compensated at a rate of CHF 2,800 per day. Special assignments are also compensated at a rate of CHF 2,800 per day or CHF 1,400 per half-day.
2 Member of the Compensation Committee.
3 Member of the Nomination Committee.
4 Member of the Audit Committee.
5 Member of the Risk Committee.

Executive Management remuneration[1] In CHF thousands	**2009** Salaries	Miscellaneous[2]	**Total remuneration**	Employer contributions to pension plans and Old Age and Survivors' Insurance Fund	Total	**2008** Total[4]	Change
Three members of the Governing Board	2 499.3	194.3	**2 693.6**	579.5	3 273.1	3 043.1	+230.0
Jean-Pierre Roth, Chairman[3]	833.1	138.9	**972.0**	250.5	1 222.5	1 064.6	+157.9
Philipp M. Hildebrand	833.1	27.7	**860.8**	164.5	1 025.3	989.4	+35.9
Thomas Jordan	833.1	27.7	**860.8**	164.5	1 025.3	989.4	+35.9
Three alternate members of the Governing Board	1 260.0	119.6	**1 379.6**	487.3	1 866.9	1 484.2	+382.7
Total	3 759.3	313.9	**4 073.2**	1 066.8	5 140.0	4 527.2	+612.8

1 All remuneration is specified in SNB regulations; cf. also Corporate governance, pp. 107 et seq.
2 Lump-sum compensation for representation expenses, General Abonnement travel card and further compensation in accordance with regulations.
3 In addition, remuneration in the amount of CHF 66,648 for serving as Chairman of the Board of Directors at the BIS.
4 Including one-off pension plan buy-out.

Like all employees, members of executive management are entitled to mortgage loans granted by the pension fund schemes and preferential interest rates (up to a limited amount) on SNB staff account credit balances. No additional remuneration as defined in art 663bbis para. 1 CO was paid.
Of the members of the Bank Council and the Enlarged Governing Board, Philipp M. Hildebrand, Vice Chairman of the Governing Board, held five SNB shares and Dewet Moser, Member of the Enlarged Governing Board, held one SNB share, both as of 31 December 2009.

Item no. 26

Employee benefit obligations[1]

1 Pension funds do not have any employer contribution reserves.
2 Overfunding is used in favour of the insured. The stated overfunding was unaudited at the time of reporting.

Share of actuarial surplus of pension plans[2] In CHF millions	**31.12.2009**	**31.12.2008**	**Change**
Overfunding in accordance with Swiss GAAP FER 26[2]	73.5	64.3	+9.2
SNB's share of actuarial surplus	–	–	–

Employee benefit expenses In CHF millions	**2009**	**2008**	**Change**
Employer contributions	13.1	12.1	+1.0
Change in share of actuarial surplus	–	–	–
Employee benefit expenses as part of personnel expenses	13.1	12.1	+1.0

Item no. 27

General overheads

In CHF millions	**2009**	**2008**	**Change**
Premises	9.5	8.2	+1.3
Maintenance of mobile tangible assets and software	14.1	10.1	+3.9
Consulting and other third-party support	17.5	11.4	+6.1
Administrative expenses	14.2	13.2	+1.0
Operating contributions[1]	6.2	5.3	+0.9
Other general overheads	5.7	5.4	+0.3
Total	67.3	53.8	+13.5

1 Mainly contributions towards the Study Center Gerzensee (SNB foundation).

4.3 Notes regarding off-balance-sheet business

Liquidity-shortage financing facility

Item no. 28

The liquidity-shortage financing facility is a credit line for banks to bridge unexpected short-term liquidity bottlenecks. Liquidity can be drawn by way of special-rate repo transactions. The maximum amounts that can be drawn are stated.

In CHF millions	31.12.2009	31.12.2008	Change
Credit undertaking[1]	35 946.5	34 486.5	+1 460.0
of which drawn down	0.0	0.0	–
of which not drawn down	35 946.5	34 486.5	+1 460.0

1 Increase due to extension of credit lines.

Irrevocable undertakings

Item no. 29

Irrevocable undertakings include credit arrangements that the Swiss National Bank has granted to the International Monetary Fund (IMF) in the context of international cooperation. The maximum liabilities arising from these are stated.

Overview: Undrawn credit lines provided to the IMF In CHF millions	31.12.2009	31.12.2008	Change
International payment instruments (two-way arrangement)	2 411.9	411.4	+2 000.5
Interim PRGF	27.1	112.1	–85.0
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)	2 487.9	2 523.1	–35.2
Total	4 926.9	3 046.6	+1 880.3

Details: International payment instruments (two-way arrangement[1]) In CHF millions	31.12.2009	31.12.2008	Change
Credit undertaking	2 655.9	655.3	+2 000.6
of which drawn down	244.0	244.0	–0.0
of which not drawn down	2 411.9	411.4	+2 000.5

1 Undertaking to purchase SDRs against currency up to SDR 1,644 million (2008: SDR 400 million) or to return the SDRs in exchange for foreign currency. Without a federal guarantee.

Details: Interim PRGF[1] In CHF millions	31.12.2009	31.12.2008	Change
Credit undertaking	403.9	409.6	–5.7[2]
of which drawn down	376.8	297.5	+79.3
of which not yet drawn down	27.1	112.1	–85.0

1 Limited-term credit undertaking to the IMF's trust fund amounting to SDR 250 million (cf. item no. 05, p. 137). With federally guaranteed repayment of principal and payment of interest.
2 Change due entirely to exchange rates.

Details: General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[1] In CHF millions	31.12.2009	31.12.2008	Change
Credit undertaking	2 487.9	2 523.1	–35.2[2]
of which drawn down	–	–	–
of which not drawn down	2 487.9	2 523.1	–35.2

1 Credit lines totalling SDR 1,540 million (of which a maximum of SDR 1,020 million in the context of the GAB) in favour of the IMF for special cases. Without a federal guarantee (cf. accountability report, chapter 7.1).
2 Change due entirely to exchange rates.

Item no. 30

Other obligations not carried on the balance sheet

In CHF millions	31.12.2009	31.12.2008	Change
Additional funding for BIS[1]	104.3	105.8	–1.5
Liabilities from long-term rental, maintenance and leasing contracts	8.3	9.4	–1.1
Contingent liabilities from procurement of banknotes	80.8	–	+80.8
Loan commitment to stabilisation fund[2]	3 934.6	42 279.9	–38 345.3
Total	4 128.0	42 395.1	–38 267.1

1 The BIS shares are 25% paid up. The additional funding obligation is stated in SDRs.
2 As at the end of 2008: funding commitment for the acquisition of the portfolio that had not yet been transferred. As at the end of 2009: funding commitment for contingent liabilities of the stabilisation fund.

Item no. 31

Assets pledged or assigned as collateral for SNB liabilities

In CHF millions	31.12.2009 Book value	31.12.2009 Liabilities or amount drawn down	31.12.2008 Book value	31.12.2008 Liabilities or amount drawn down
Foreign currency investments in USD	19.0	–	388.3	365.7
Foreign currency investments in EUR	179.1	–	301.5	–
Securities in CHF	94.3	–	161.7	–
Total[1]	292.4	–	851.4	365.7

1 Collateral lodged in connection with repo and futures transactions.

Outstanding financial instruments[1]

Item no. 32

In CHF millions	31.12.2009 Contract value	Replacement value Positive	Replacement value Negative	31.12.2008 Contract value	Replacement value Positive	Replacement value Negative
Interest rate instruments	**92 940.4**	**8.8**	**4.4**	**17 467.6**	**43.7**	**26.1**
Repo transactions in CHF[2]	8 727.0	–	–	8 349.0	–	–
Repo transactions in USD[2]	–	–	–	2 142.3	23.5	–
Forward contracts[1]	290.9	0.0	0.3	10.3	0.0	0.1
Interest rate swaps	1 680.6	8.5	4.1	385.1	19.8	25.9
Futures	82 241.9	0.2	0.0	6 580.9	0.3	0.1
Foreign exchange	**9 348.6**	**56.3**	**30.3**	**83 654.0**	**2 627.0**	**1 236.5**
Forward contracts[1]	9 120.9	56.3	29.7	83 218.0	2 627.0	1 231.2
Options	227.7	–	0.6	436.0	–	5.3
Equities/indices	**1 054.8**	**0.7**	**0.0**	**226.2**	**0.5**	**0.0**
Forward contracts[1]	6.0	0.0	0.0	2.3	0.1	0.0
Futures	1 048.8	0.7	–	223.9	0.5	0.0
Stabilisation fund options	**21 005.8**	**–**	**1.4**	**15 258.9**	**–**	**0.6**
Warrant[3]	10.0	–	–	10.0	–	–
GP purchase option[4]	1.5	–	1.4	0.7	–	0.6
Repurchase option[5]	20 994.3	–	–	15 248.2	–	–
Total[6]	**124 349.6**	**65.7**	**36.1**	**116 606.7**	**2 671.2**	**1 263.2**

1 Including spot transactions with value date in the new year and forward contracts to finance the loan to the stabilisation fund.
2 Only repo transactions with value date in the new year.
3 The warrant represents the right to purchase 100 million UBS shares at a nominal value of CHF 0.10 should the loan not be repaid in full.
4 The SNB granted UBS the option to take over the share capital of StabFund (GP) AG, i. e. to purchase two shares in SNB StabFund Limited Partnership for Collective Investment.
5 The SNB has the right to request the repurchase of the stabilisation fund in the case of a change of control at UBS. The contract value represents the portion of the loan that was paid to the fund as at 31 December 2009 plus the equity of both partner companies, StabFund (GP) AG and LiPro (LP) AG.
6 For the outstanding contracts, the counterpart item to the replacement values is stated directly in the income statement.

Item no. 33

Fiduciary investments

Fiduciary business covers investments which the SNB makes in its own name but on the basis of a written contract exclusively for the account of and at the risk of the counterparty (mainly the Confederation). The transactions are stated at their nominal value inclusive of accrued interest.

In CHF millions	31.12.2009	31.12.2008	Change
Fiduciary investments for the Confederation	250.4	262.3	–11.9
Other fiduciary investments	1.8	–	+1.8

4.4 Internal control system

General

Aim and purpose

The internal control system (ICS) covers all the structures and processes which contribute to fulfilling the Swiss National Bank's (SNB) statutory mandate pursuant to art. 5 of the National Bank Act, as well as the objectives derived from them, and which ensure the orderly conduct of operations.

Control environment

The SNB's structure and organisation are defined by law and internal regulations (cf. pp. 110–111, Corporate governance, cross-reference tables).

Strategic planning is oriented to the SNB's statutory mandate and the tasks arising from it. The strategy is approved by the Governing Board.

As part of the annual strategy process, changes in the environment and their effects on the National Bank's operations and regulations are analysed. The planning and budgeting processes conducted after the analysis phase assist in the operational management and combine the various elements of strategy, planning and budgeting. On this basis, project and staffing plans are prepared, along with the budgets for operating costs and investment. These planning results are approved by the Enlarged Governing Board, while the budget is authorised by the Bank Council.

The Enlarged Governing Board issues internal directives, the Charter and the Code of Conduct and decides on organisational matters that are of significance across the different departments. The Board of Deputies steers daily operations.

The departments and organisational units define their structures and procedures so as to ensure that the targets set are reached and their tasks are carried out in an orderly and efficient manner. With the help of appropriate control and governance processes, they monitor the achievement of objectives and the operational risk.

Control activities

The departments and organisational units ensure that reporting is both appropriate and timely. To this end, communication channels are defined which are generally supported by IT tools.

Information and communication

All regulations can be viewed on the SNB intranet and are thus available to all employees.

The department heads ensure proper implementation of the ICS and regularly determine its status at the organisational units reporting to them.

Supervision

The Bank Council's Audit Committee supports the Council in supervising financial accounting and financial reporting. It assesses the appropriateness and effectiveness of the ICS and the procedures for monitoring compliance with laws and regulations, and supervises the activities of the external and internal auditors.

The Internal Auditors unit is responsible for auditing the National Bank's business activities. The unit is accountable to the President of the Bank Council and the Bank Council's Audit Committee. It reports regularly on its results pertaining to the accounting system, financial reporting, the ICS and compliance.

ICS pursuant to art. 728a para. 1 (3) of the Swiss Code of Obligations (CO)

Structure

In addition to the general ICS measures, the SNB also has a broad range of control mechanisms at its disposal for the prevention or early identification of errors in financial reporting (accounting procedures, bookkeeping). This ensures that the SNB's financial position is correctly reported. The various controls performed for this purpose together make up the 'ICS for processes of relevance to the financial statements', which is managed by Central Accounting.

The components of this ICS are documented in accordance with a uniform template. All of the key monitoring steps are set out in the documentation. The control process managers at the SNB's various organisational units confirm in writing that the measures set out in the documentation are effective and operational. They must state reasons for any defects or deviations. The documentation is used by Central Accounting as a control instrument when the unit is preparing financial statements.

The Internal Auditors unit takes the ICS documentation into account when conducting its regular audits. It makes checks on a sample basis to ascertain whether the key controls have been performed. The confirmations issued by the control process managers and the remarks of the Internal Auditors unit are communicated to the Enlarged Governing Board and the Audit Committee of the Bank Council once a year, and, among other things, are used by the external auditors as a basis for their confirmation in accordance with art. 728a para 1 (3) CO.

4.5 Risk management

General

Risks

In fulfilling its statutory mandate, the SNB incurs various financial risks. It makes a distinction between market, credit, liquidity and country risks. In addition, it is exposed to operational risk. The National Bank considers the following to be an operational risk: the risk of damage to employees, financial damage or reputational damage as a result of inadequate internal processes, incorrect reporting, disregard of regulations, misconduct by staff members, technical failures or the impact of external events.

Risk management and control pursuant to art. 663b (12) CO

Oversight

The Bank Council oversees and monitors the conduct of business by the National Bank. It is responsible for assessing risk management and for approving the related processes. The business agenda is prepared by two committees of the Bank Council: The Risk Committee and the Audit Committee oversee the management of financial and operational risks.

The 2008 business reports on financial risk and the current situation with regard to the internal control system and operational risk were approved by the Bank Council at its meeting of 27 February 2009. In addition, at their meetings, the Bank Council and the Audit and Risk Committees regularly gave detailed attention to the risks and the financial situation related to stabilisation fund developments. For further information about the Bank Council and its committees, cf. Business report, chapter 3, Corporate governance (pp. 107–111).

The Governing Board approves the strategic guidelines for the investment of the assets. In doing so, it determines the framework for financial risks.

Risk strategy

The Enlarged Governing Board has strategic responsibility for the management of operational risk. It defines risk policies and organisation, verifying both on a yearly basis. Furthermore, it determines risk tolerances and strategic measures for identifying, managing and monitoring risk.

The investment strategy is reviewed each year by the Governing Board. Department III is responsible for its implementation.

Organisation with regard to financial risk

The financial risks are continuously monitored by the Risk Management organisational unit. Each quarter, the Governing Board is informed about investment activities and risk control. The detailed risk reports are discussed by the Risk Committee of the Bank Council. Details of the investment and risk control process can be found in chapter 5 of the accountability report.

Organisation with regard to operational risk

The OpRisk Committee, which is made up of the Board of Deputies, is responsible for management and control of operational risk. It prepares the strategic guidelines and reports to the Enlarged Governing Board and ensures that the guidelines are applied throughout the bank.

An OpRisk Specialist Committee made up of the managers of various line sections assists the Enlarged Governing Board and the OpRisk Committee in defining the strategy and implementing the measures related to operational risk. The Audit Committee discusses the detailed annual report on the management of operational risk.

The department heads ensure implementation of the guidelines on operational risk in their organisational units and monitor compliance with them. As a general principle, the organisational units evaluate and control the risks in their own operational area themselves.

Overview of risk management

The table below provides an overview of the risk management organisation.

Organisation of risk management

	Oversight	Strategy	Implementation	
Financial risk	Risk Committee of Bank Council, Bank Council	Governing Board	Management of Department III	Risk Management unit
Operational risk	Audit Committee of Bank Council, Bank Council	Enlarged Governing Board	Board of Deputies	Line sections OpRisk Specialist Committee

Legal matters

Legal Services advises the executive management and the line managers in all legal matters arising from the SNB's operations. It also assesses the legal admissibility of central bank transactions on behalf of the Governing Board, monitors the regulatory and legal environment affecting the National Bank's operations and acts as advisory service for matters pertaining to money laundering.

Risks posed by financial instruments

Risks incurred by the National Bank

According to the SNB's statutory mandate, asset management is governed by the primacy of monetary policy and is carried out according to the criteria of security, liquidity and return. When implementing its monetary and investment policies, the SNB enters into a variety of financial risks. Owing to the financial crisis, the range and volume of the National Bank's portfolio of investments has been expanded. Significant factors from the point of view of risk were the illiquid UBS assets taken over into the stabilisation fund (for information on the risk of these assets, cf. p. 172) and the strong increase in foreign exchange holdings in 2009.

Market risk

The main risk to investments is market risk, i.e. risks related to the gold price, exchange rates, share prices and interest rates. These risks are managed primarily through diversification.

Gold and foreign currency risk

The National Bank holds its currency reserves in the form of foreign currency investments and gold, thereby ensuring that it has room for manoeuvre in its monetary policy at all times. Exchange rate risk on foreign exchange reserves is not hedged against Swiss francs as a matter of principle, because such hedging would restrict the SNB's freedom of action. Forward foreign exchange transactions and foreign exchange options are not used to hedge the currency risk against Swiss francs, but to achieve strategic or tactical positioning in the investment currencies. Owing to their marked fluctuations, the gold price and exchange rates are the principal risk factors for the investments.

Interest rate risk

Interest rate risk is of less significance to the SNB's investments than gold and foreign currency risk. Movements in market interest rates affect the market value of fixed income financial investments. The longer the maturity of a fixed income investment, the higher its interest rate risk. Interest rate risk is limited through the specification of benchmarks and management guidelines. Various means, including the use of derivative instruments such as interest rate swaps and futures, are used to manage these risks. The effect of interest rate fluctuations is calculated with a measure referred to as the 'price value of a basis point' (PVBP), which shows the impact on valuation of a simultaneous rise of 1 basis point (0.01 percentage points) in the yield curves for all investment currencies. If PVBP is positive, a loss is recorded. Duration is a measure of the average capital utilisation time, and thus is another indicator of interest rate risk. Duration increases in step with the residual maturity of the investments, and falls in step with rising coupon rates. The longer the duration, the greater the price losses when interest rates rise.

Balance sheet by currency

In CHF millions	CHF	Gold	USD	EUR	Other	Total
Gold holdings		34 758				34 758
Claims from gold transactions		3 401	27			3 428
Foreign currency investments			28 524	55 022	11 135	94 680
Reserve position in the IMF					1 231	1 231
International payment instruments					5 556	5 556
Monetary assistance loans					349	349
Claims from US dollar repo transactions			–			–
Credit balances from swap transactions against Swiss francs				2 672		2 672
Claims from Swiss franc repo transactions	36 208					36 208
Securities in Swiss francs	6 543					6 543
Loan to stabilisation fund	3		16 509	1 393	3 090	20 994
Other	786		13	23	24	846
Total assets as per balance sheet	43 539	38 158	45 073	59 109	21 384	207 264
Total liabilities as per balance sheet	–180 787		–21 156	–5	–5 317	–207 264
Foreign exchange derivatives (net)[1]	276		5 261	–2 241	–3 268	26
Net exposure on 31 December 2009	–136 972	38 158	29 178	56 863	12 799	26
Net exposure on 31 December 2008	–77 209	30 829	13 949	22 295	11 485	1 348

1 Delivery claims and delivery obligations from spot and forward foreign exchange transactions. The derivatives positions in euros mainly reflect EUR/CHF swaps with the European Central Bank.

Interest-bearing investments

Position as at 31 December	2009 Duration In years	Market value In CHF millions	PVBP[1] In CHF millions	2008 Duration In years	Market value In CHF millions	PVBP[1] In CHF millions
Gold lending		3 428			3 340	
Investments in CHF[2]	5.3	6 543	3	4.9	3 597	2
Investments in USD	3.4	26 297	9	4.2	12 303	5
Investments in EUR	3.1	52 878	16	4.0	21 448	9
Investments in other currencies	4.0	8 562	3	4	8 117	3

1 Change in market value per basis point of parallel shift in the yield curve.
2 Excluding repos.

Share price risk

Investments in shares are made in order to optimise the risk/return profile. A passive equity investment strategy is used, with replication of broad-based indices.

Total market risk

Risk is managed and limited by a system of reference portfolios, guidelines and limits. All relevant financial risks on investments are identified, assessed and monitored continuously. Risk measurement is based on standard risk indicators and procedures. In addition to these procedures, sensitivity analyses and stress tests are carried out on a regular basis. The SNB's comparatively long-term investment horizon is taken into account in all of these risk analyses.

Default risks: credit risk relating to regular financial instruments

Credit risk results from the possibility that counterparties or other issuers of securities will fail to meet their obligations. The National Bank incurs credit risk through its investments in securities and through over-the-counter (OTC) business with banks. This risk originates primarily from the replacement values of derivatives contracts. Additional credit risk is due to commitments to the IMF that are not guaranteed by the Confederation.

The SNB manages its credit risk with respect to counterparties through a system of limits that restricts the aggregated exposure for all types of business. An above-average rating is required for OTC transactions with banks. The vast majority of these counterparties are rated AA or similar. Also, certain transactions are secured by collateral. At the end of 2009, the National Bank's total unsecured exposure with respect to the international banking sector amounted to some CHF 1.7 billion (2008: CHF 2.9 billion). For borrowers in the bond market, a minimum rating of 'investment grade' is required. The rating allocation for investments is shown in chapter 5 of the accountability report. Credit risk is an insignificant part of total risk.

Default risks: credit risk from stabilisation fund

Furthermore, a credit risk is inherent in the loan to the stabilisation fund. This risk here is that the fund's assets serving as collateral could depreciate to such an extent that the full amount of the SNB loan is no longer covered.

Additional information on the stabilisation fund may be found in the accountability report (pp. 83–90).

Country risk

Country risk arises from the possibility that a country may hinder payments by borrowers domiciled in its sovereign territory or block the right to dispose of assets held there. In order to avoid entering into any unbalanced country risks, the SNB endeavours to distribute assets among a number of different depositories and countries.

Liquidity risk

The SNB's liquidity risk relates to the danger that, should investments in foreign currencies need to be sold, such sales could be effected only partially or after considerable price concessions. The restricted marketability of the investments may be due to technical or market disruptions, or to regulatory changes. By holding a large number of liquid government bonds in the major currencies – EUR and USD – the SNB ensures a high level of liquidity for its foreign currency reserves. Liquidity risk is reassessed periodically.

5 Report of the Audit Board for the General Meeting of Shareholders

As statutory auditor, we have audited the financial statements of the Swiss National Bank, which comprise the balance sheet, income statement and notes (pp. 123–160) for the year ended 31 December 2009.

Bank Council's responsibility

The Bank Council is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bank Council is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2009 comply with the provisions of the Federal Act on the Swiss National Bank and with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and on independence (art. 728 CO, art. 47 NBA and art. 11 AOA), and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Bank Council.

We further confirm that the proposed appropriation of available earnings complies with the provisions of the Federal Act on the Swiss National Bank and with Swiss law. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Thomas Romer	**Christian Massetti**
Audit expert	Audit expert
Auditor in charge	

Zurich, 26 February 2010

Financial information on the stabilisation fund

The SNB StabFund Limited Partnership for Collective Investment (stabilisation fund), with its sub-companies, forms a closed-end capital investment scheme within the meaning of art. 98 of the Swiss Federal Act on Collective Investment Schemes (CISA).

The subsidiaries are consolidated according to recognised accounting principles, in order to permit an economic assessment of the stabilisation fund.

The stabilisation fund's first financial year extended over 15 months. Figures for the first three months (October to December 2008) were published in the *101st Annual Report* of the Swiss National Bank. To facilitate comparability with the other disclosures in the financial report, the following information relates to the 2009 calendar year, and not the extended first financial year of the stabilisation fund.

The reporting currency of the stabilisation fund is the US dollar. The information below is therefore reported in US dollars.

1 Introduction

Structure

The fund announced in October 2008 to take over illiquid and problem assets from UBS was established as the StabFund Limited Partnership for Collective Investment (stabilisation fund). Participation units in the stabilisation fund are held by the limited partner, LiPro (LP) AG, and the general partner, StabFund (GP) AG. The shares of both the latter companies are owned by the Swiss National Bank (SNB).

In 2009, in order to take local legal specificities into consideration, sub-companies were incorporated to hold different types of assets.

The financial information on the stabilisation fund refers to data which have been consolidated at limited partnership level. All values are in US dollars.

Organisation

The SNB steers the activities of the stabilisation fund through its control of the general partner, StabFund (GP) AG, for which it provides three of the five members of the Board. The general partner is responsible for the management of the stabilisation fund. The fund has no staff of its own. Operational management tasks are performed by the SNB's StabFund unit. Although UBS acts as investment manager, the investment strategy is defined by the general partner. The assets are held in custody at an independent custodian bank.

Portfolio transfer and development

The transaction between UBS and the SNB announced in October 2008 originally involved the transfer of financial instruments totalling a maximum of USD 60 billion. In February 2009, UBS and the SNB decided to reduce the volume of the transfer, so that ultimately assets and liabilities amounting to USD 38.7 billion were transferred. The last tranche of assets was transferred from UBS to the stabilisation fund in April 2009. The amount refers to the value of the portfolio as at 30 September 2008, the date from which the SNB had committed to take over the risky assets from UBS.

The portfolio transfer took place in three tranches. In December 2008, the assets transferred were largely made up of securities; in March 2009, mainly credit derivatives and some more securities; and in April 2009 all other assets, including non-securitised loans.

From the second quarter of 2009, the market situation improved for the investment categories in which the stabilisation fund had invested. This meant that, following the substantial revaluations at the end of 2008 and in the first quarter of 2009, only certain sub-portfolios needed further value adjustments.

Some of the assets transferred have already been sold. This, together with income from repayments and interest, made it possible to repay part of the SNB loan, reducing it to USD 20.3 billion at the end of the year. In some instances, defaults on positions resulted in the SNB taking ownership of the associated collateral or, in the case of derivatives, the underlying assets. These took the form of securities, loans or real estate.

Additional information

Further information on the stabilisation fund can be found in chapter 6.5 of the accountability report.

2 Stabilisation fund balance sheet and income statement

Balance sheet as at 31 December 2009
In USD millions

	Item no. in Notes	31.12.2009	31.12.2008	Change
Assets				
Bank deposits		**660.6**	**584.7**	**+75.9**
Securities (securitised loans)	01	15 769.7	14 640.3	+1 129.4
Non-securitised loans	01	3 322.5	–	+3 322.5
Real estate	02	15.5	–	+15.5
Subtotal investments		**19 107.7**	**14 640.3**	**+4 467.4**
Interest rate derivatives	03	26.2	–	+26.2
Credit derivatives	04	105.2	–	+105.2
Subtotal derivatives		**131.4**	**–**	**+131.4**
Prepayments and accrued income		49.3	0.1	+49.2
Other assets	04	31.8	–	+31.8
Total assets		**19 980.9**	**15 225.2**	**+4 755.7**
Liabilities and equity				
Interest rate derivatives	03	43.5	–	+43.5
Contractual agreements		–	889.6	–889.6
Accrued expenses and deferred income		43.0	129.9	–86.9
Other liabilities		11.2	–	+11.2
SNB loan	05	20 281.9	14 255.1	+6 026.8
Deferred management fee	06	19.3	0.8	+18.5
Subtotal liabilities		**20 398.9**	**15 275.4**	**+5 123.5**
Equity capital				
Paid-in equity	07	3 896.3	1 640.5	+2 255.8
Result, carried forward		–1 690.6	–	–1 690.6
Result, current period		–2 623.8	–1 690.6	–933.2
Subtotal equity		**–418.0**	**–50.1**	**–367.8**
Total liabilities and equity		**19 980.9**	**15 225.2**	**+4 775.7**

Income statement for 2009
In USD millions

	Item no. in Notes	2009	2008 As of 1 October	Change
Net result from securities and non-securitised loans	08	3 052.6	316.8	+2 735.8
Net result from derivatives transactions	03, 04	110.6	–	+110.6
Net result from assets not yet transferred		–	–889.6	+889.6
Financing costs		–586.4	–141.6	–444.8
Gross income		2 576.8	–714.4	+3 291.2
Foreign tax expenses (–) and tax credits (+)		–0.3	–	–0.3
Operating expenses		–80.2	–10.4	–69.8
Operating income		2 496.3	–724.8	+3 221.1
Valuation gains/losses	09	–5 641.3	–965.8	–4 675.5
Realised gains/losses		521.2	–	+521.2
Net income		**–2 623.8**	**–1 690.6**	**–933.2**

3 Notes to the financial information on the stabilisation fund as at 31 December 2009

General

Stabilisation fund accounting principles

The SNB StabFund group's accounting principles conform to the requirements of the Swiss Federal Act on Collective Investment Schemes (CISA). The accounting and valuation principles for financial instruments (securities, loans and derivatives) comply with the International Financial Reporting Standards (IFRS). The figures reported here are an extract of the stabilisation fund's annual report as submitted to the Board of Directors of StabFund (GP) AG.

Reporting and comparison period

As the stabilisation fund started operations on 1 October 2008, it was decided that its first financial year would extend over 15 months. To ensure comparability with the other financial statements presented in the financial report, the figures reported here cover the 2009 calendar year, with comparison data for 2008, when the fund was incorporated. The latter data are more detailed than those disclosed in the 2008 SNB *Annual Report*; they have not, however, materially changed.

Audit

PricewaterhouseCoopers Ltd (PwC) was selected as auditor for the stabilisation fund. The disclosures of the stabilisation fund were audited for the consolidated financial statements.

Recording of transactions

The reporting of the stabilisation fund's transactions follows the principle of trade date accounting.

Transfer price of assets versus …

The assets were transferred in three tranches (December 2008, March 2009 and April 2009). However, the risks were already fully borne by the stabilisation fund as at 1 October 2008. The transfer prices (fair values) at the valuation date of 30 September 2008 were calculated on the basis of values disclosed in UBS's balance sheet and valuations provided by specialist companies.

… book values

The transferred assets were recorded at fair value at the date of the actual transfer. Differences between the fair value at the date of transfer and the transfer price determined for 30 September 2008 were recorded as valuation gains/losses.

Subsequent valuations …

A long investment horizon was applied to the acquisition of the UBS portfolio. The market values of the transferred securities and non-securitised loans are of limited use, as these instruments are thinly traded in the market. For this reason, these assets were valued at amortised cost, as prescribed by the IFRS provisions on loans and receivables.

... using the effective interest method ...

The difference between the purchase value of a financial instrument and its expected repayment value is amortised by applying the effective interest rate method, which is used to calculate amortised cost. The effective interest rate discounts all future expected cash flows for a financial instrument over its lifetime to equal the instrument's purchase value.

... based on economic models

Since the stabilisation fund's portfolio consists of complex securitisation structures and claims, assumptions must be made as to the expected cash flows. These projections are based on macroeconomic scenarios and the specific features of the assets concerned.

Assets recorded at fair value

Assets which, under the IFRS provisions, cannot be assigned to loans and receivables are recorded at fair value. These assets mainly comprise derivatives and securities (securitised loans) containing embedded derivatives.

Value adjustments

Assets carried at amortised cost are subject to periodic impairment tests. The value of these financial instruments is reviewed using cash flow forecasts. If the evaluation reveals a material difference compared to current book values, values are adjusted accordingly.

Reporting currency

The reporting currency of the stabilisation fund is the US dollar. All values presented here are in that currency.

Valuation prices

Foreign currency valuation prices

	31.12.2009 In USD	31.12.2008 In USD	Change In percent
1 euro (EUR)	1.4370	1.3975	+2.8
1 pound sterling (GBP)	1.6179	1.4378	+12.5
100 Japanese yen (JPY)	1.0780	1.1010	–2.1

Notes to the balance sheet and income statement

Item no. 01

The table below compares book values (carrying values) and fair values for the securities and loans recorded in the balance sheet. These assets are generally carried at amortised cost in accordance with the IFRS. However, if the financial instrument contains embedded derivatives, it is valued and disclosed at fair value.

In USD millions	31.12.2009 Balance sheet (carrying) value	31.12.2009 Fair value	31.12.2008 Balance sheet (carrying) value	31.12.2008 Fair value
Securities (securitised loans)	15 769.7	15 647.4	14 640.3	11 828.8
at amortised cost	15 279.7	15 157.3	14 640.3	11 828.8
at fair value	490.1	490.1	–	–
Non-securitised loans	3 322.5	3 615.0	–	–
at amortised cost	3 322.5	3 615.0	–	–
at fair value	–	–	–	–

Item no. 02

The stabilisation fund owns real estate taken over in the course of foreclosure processes. Such properties are recorded at market value. For subsequent valuations, either the current book value or the current market value is used, whichever is lower.

The current market value at the balance sheet date is USD 5.1 million higher than the book value.

Item no. 03

Swaps are used to hedge interest rate risk. Depending on the term and currency (US dollar and pound sterling), the value of these instruments can vary. The positive replacement value is USD 26.2 million, and the negative replacement value is USD 43.5 million. These positions are not offset against each other. The contract volume is USD 2.8 billion.

Item no. 04

The stabilisation fund has acquired credit derivatives both as protection buyer and as protection seller. They mainly comprise credit default swaps (CDS). Holders of CDS use them to protect themselves against default by a borrower. The stabilisation fund took over the risks of the protection seller from UBS. The income from credit derivatives includes the premium for providing this protection.

The amount to be paid in the event of default (using cash held ready in bank deposits) is regularly recalculated, based on the continuous valuation of outstanding CDS contracts. If the value deteriorates, the stabilisation fund pays into this collateral pool, whereas it receives a repayment in the event of a value gain. A credit event triggers an outpayment to the holder (from the pool), as well as a reduction in the liability. Should the stabilisation fund not have sufficient liquid funds to service the outstanding payments, it could apply for an additional loan drawdown from the SNB.

At the balance sheet date, potential liabilities from credit derivatives amounted to USD 7,034.5 million, and the deposited collateral to USD 7,041.2 million. As the collateral is held by the counterparty entitled to exercise claims based on the respective derivatives transaction, these amounts were offset against each other. Collateral not used to cover the liabilities as protection seller (USD 6.8 million) is stated under *other assets*, and claims as protection buyer (positive replacement values) are stated as credit derivatives in the assets.

In USD millions	31.12.2009	31.12.2008	Change
Positive replacement value	105.2	–	+105.2
Negative replacement value	7 034.5	–	+7 034.5
Net contract volume	10 655.2	–	+10 655.2
Cash collateral posted	7 041.2	–	+7 041.2

Item no. 05

SNB loan to stabilisation fund

In USD millions	31.12.2009	31.12.2008	Change
USD	15 951.5	12 020.0	+3 931.5
EUR	1 345.3	854.9	+490.4
GBP	2 662.1	1 380.2	+1 281.9
JPY	322.9	–	+322.9
Total	20 281.9	14 255.1	+6 026.8

Item no. 06

The agreement on the UBS transaction stipulates that the remuneration payable to UBS for asset management activities is subordinate to the servicing of the SNB loan. UBS will be recompensed for such activities once the loan from the SNB has been repaid in full, and once all other obligations of the stabilisation fund have been met.

Paid-in equity corresponds to UBS's contribution of 10% of the transfer price of the assets. This contribution was also paid in respect of derivatives positions, based on the associated potential losses (exposure). **Item no. 07**

Income from securities and non-securitised loans

Item no. 08

in USD millions	2009	2008 As of 1 October	Change
Interest payments	1 431.5	286.6	+1 144.9
Effective interest	1 621.1	30.2	+1 590.9
Total	3 052.6	316.8	+2 735.8

The effective interest is the amount allocated periodically to the book value of a position acquired at discount in such a way that the book amount of the financial asset corresponds to the repayment value at maturity.

Stabilisation fund income that is not required to cover operating costs is used to repay the SNB loan. In connection with the loan, a subordination agreement has been concluded by the SNB with the stabilisation fund and StabFund (GB) AG in the amount of USD 1.9 billion.

The *net valuation result* represents the result of the revaluations for assets stated at fair value, and the impairments for assets stated at amortised cost. **Item no. 09**

The majority of the valuation loss is attributable to the change in the fair value of the assets between 30 September 2008 – when the risk was transferred from UBS to the stabilisation fund – and the actual asset transfer date (cf. p. 164).

Risk management

The stabilisation fund's liquidation strategy sets out the principles for liquidating the portfolio. It was agreed by the Board of Directors of StabFund (GP) AG on 23 July 2009. As a rule, an asset should be sold if its sale price exceeds the discounted expected cash flow, or if such a sale will mitigate reputational, legal or other risks. **Strategy**

The strategy and the requirements for the investment manager are set out in detail in the investment guidelines. The Board of Directors reviews the asset management strategy on a quarterly basis. It also defines limits for the activities of the various decision-makers reporting to it, i.e. the investment manager and the general manager. The limits define the sales volume, but also the potential losses from sales. In addition, the investment guidelines contain requirements on the disclosure of conflicts of interest for UBS in its roles as bank and investment manager, as well as reporting requirements.

Compliance with the strategy and the investment guidelines is monitored on a continuous basis by the Risk Control section of the SNB's StabFund unit.

The system of internal controls of the stabilisation fund covers all the main responsibilities, working procedures and competences relating to the fund's management and reporting.

Types of risk

The stabilisation fund's assets mainly comprise securitised assets in the form of mortgage-backed and other asset-backed securities (MBS and ABS). These are backed with various kinds of claims (mortgages and other loans). Risks therefore derive primarily from changes in the value of this collateral. The main risk factors are the future development of the economy and movements in real estate prices in the US and some EU countries.

Interest rate risk plays a minor role. Around 65% of the stabilisation fund's securities are variable rate instruments. Most of these assets are congruently financed through the Libor-based loan from the SNB. The remaining interest rate risk is managed by the stabilisation fund using various hedging operations.

Contingent liabilities

Contingent liabilities are liabilities which may be incurred as a result of past events, and whose existence has yet to be confirmed by the occurrence of one or more uncertain future events. Such liabilities mainly stem from CDS credit events (cf. item no. 04) and outstanding irrevocable loan commitments.

In USD millions	31.12.2009
Exposure from credit derivatives	3 732.4
Irrevocable loan commitments	74.3
Total	3 806.7

Consolidated financial statements

In autumn 2008, the Swiss National Bank (SNB) established the SNB StabFund Limited Partnership for Collective Investment (stabilisation fund) to take over illiquid assets from UBS as part of the 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.

These statements contain additional information which is not contained in the annual financial statements of the parent company. In addition to meeting the requirements governing consolidated financial statements under Swiss company law (art. 663g CO), they cover above all business matters that only arise from a broader group view, i.e. through the participation in the stabilisation fund companies.

Information that is equally applicable to both the annual financial statements of the parent company and the consolidated financial statements is not repeated. The consolidated financial statements are reported in Swiss francs and should be read together with the annual financial statements of the parent company.

1 Consolidated balance sheet as at 31 December 2009

In CHF millions

Assets	Item no. in Notes	31.12.2009	31.12.2008	Change
Gold holdings		34 757.9	27 521.2	+7 236.7
Claims from gold transactions		3 427.7	3 340.4	+87.3
Foreign currency investments		94 680.2	47 428.8	+47 251.5
Reserve position in the IMF		1 230.8	724.7	+506.0
International payment instruments		5 555.9	244.5	+5 311.4
Monetary assistance loans		348.9	326.3	+22.6
Claims from US dollar repo transactions		–	11 670.9	–11 670.9
Balances from swap transactions against Swiss francs		2 671.6	50 421.4	–47 749.8
Claims from Swiss franc repo transactions		36 207.9	50 320.6	–14 112.7
Claims against domestic correspondents		9.8	11.1	–1.3
Swiss franc securities		6 542.7	3 596.7	+2 946.0
Stabilisation fund investments	01	20 652.0	16 227.1	+4 425.0
Banknote stocks		107.2	136.5	–29.3
Tangible assets		365.2	382.8	–17.5
Participations	02	147.6	147.8	–0.3
Other assets		1 432.6	3 407.7	–1 975.1
Total assets		**208 138.1**	**215 908.5**	**–7 770.4**
Total subordinated claims		–	–	–
Total claims against non-consolidated affiliated companies and qualified participations		–	–	–

Liabilities	Item no. in Notes	31.12.2009	31.12.2008	Change
Banknotes in circulation		49 966.2	49 160.8	+805.4
Sight deposits of domestic banks		44 992.9	37 186.2	+7 806.8
Liabilities towards the Confederation		6 182.7	8 803.7	−2 621.0
Sight deposits of foreign banks and institutions		2 640.6	3 799.8	−1 159.2
Other sight liabilities		3 285.6	1 383.7	+1 901.9
SNB debt certificates		27 473.1	24 424.9	+3 048.2
Other term liabilities		–	29 414.5	−29 414.5
Foreign currency liabilities		1 450.1	420.1	+1 030.0
Contractual agreements[1]		–	948.1	−948.1
Counterpart of special drawing rights allocated by IMF		5 311.8	–	+5 311.8
Other liabilities		882.9	1 934.4	−1 051.5
Provisions for operating risks and other provisions		5.5	6.2	−0.7
Provisions for currency reserves		41 282.2	40 275.3	+1 006.9
Capital		25.0	25.0	–
Distribution reserve		14 634.2	22 871.7	−8 237.5
Consolidated result	04	9 955.0	−4 729.1	+14 684.1
Foreign currency translation differences		50.3	−16.8	+67.1
Total liabilities		**208 138.1**	**215 908.5**	**−7 770.4**
Total subordinated liabilities		–	–	–
Total liabilities towards non-consolidated affiliated companies and qualified participations		2.8	–	+2.8

1 Refers to the stabilisation fund portfolio not yet transferred as at the end of 2008. This liability item was closed once acquisition of the UBS positions had been completed.

Off-balance-sheet business
In CHF millions

	Item no. in Notes	31.12.2009	31.12.2008	Change
Liquidity-shortage financing facility		35 946.5	34 486.5	+1 460.0
Irrevocable undertakings		4 926.9	3 046.6	+1 880.3
Obligations to pay or make additional payments		104.3	105.8	–1.5
Liabilities from long-term rental, maintenance and leasing contracts		8.3	9.4	–1.1
Contingent liabilities from procurement of banknotes		80.8	–	+80.8
Other obligations not carried on the balance sheet[1]		3 934.6	42 279.9	–38 345.3
Fiduciary investments		252.2	262.3	–10.1
Derivative financial instruments	03			
Contract volumes		142 582.5	118 469.2	+24 113.3
Positive replacement values		1 418.0	3 278.2	–1 860.2
Negative replacement values		7 351.9	1 263.2	+6 088.7

1 Refers to contingent liabilities of the stabilisation fund, cf. p. 172.

2 Consolidated income statement for 2009

In CHF millions

	Item no. in Notes	2009	2008	Change
Net result from gold		7 338.1	−698.8	+8 036.9
Net result from foreign currency positions		1 912.3	−4 363.8	+6 276.1
Net result from Swiss franc positions		281.3	550.8	−269.5
Net result from stabilisation fund investments	04	−2 101.8	−1 953.5	−148.3
Net result from loss protection arrangements	04	2 848.8	1 953.5	+895.3
Income from participations	02	12.7	21.9	−9.2
Net result, other		6.0	1.7	+4.3
Gross income		**10 297.5**	**−4 488.2**	**+14 785.6**
Banknote expenses		−40.7	−33.6	−7.1
Personnel expenses		−117.0	−107.9	−9.1
General overheads		−149.0	−65.6	−83.4
Depreciation on tangible assets		−35.8	−33.7	−2.0
Consolidated result		**9 955.0**	**−4 729.1**	**+14 684.1**

3 Changes in equity capital (consolidated level)

In CHF millions

	Capital	Provisions for currency reserves	Distribution reserve	Foreign currency translation differences	Consolidated result	Total
Equity capital as at 1 January 2008	**25.0**	**39 524.3**	**18 128.7**	**–**	**7 995.5**	**65 673.5**
Endowment of provisions for currency reserves pursuant to NBA		751.0			–751.0	
Allocation to distribution reserve			4 743.0		–4 743.0	
Distribution of dividends to shareholders					–1.5	–1.5
Profit distribution to Confederation and cantons					–2 500.0	–2 500.0
Change in foreign currency translation differences				–16.8	–	–16.8
Consolidated result of year under review					–4 729.1	–4 729.1
Equity capital as at 31 December 2008	**25.0**	**40 275.3**	**22 871.7**	**–16.8**	**–4 729.1**	**58 426.1**
Equity capital as at 1 January 2009	**25.0**	**40 275.3**	**22 871.7**	**–16.8**	**–4 729.1**	**58 426.1**
Endowment of provisions for currency reserves pursuant to NBA		1 006.9			–1 006.9	
Release from distribution reserve			–8 237.5		8 237.5	
Distribution of dividends to shareholders					–1.5	–1.5
Profit distribution to Confederation and cantons					–2 500.0	–2 500.0
Change in foreign currency translation differences				+67.0	–	+67.0
Consolidated result of year under review					9 955.0	+9 955.0
Equity capital as at 31 December 2009	**25.0**	**41 282.2**	**14 634.2**	**50.2**	**9 955.0**	**65 946.6**

4 Notes to the consolidated financial statements as at 31 December 2009

4.1 Explanatory notes on business activities

Business activity and purpose

The Swiss National Bank, as an independent central bank, conducts the country's monetary policy. In autumn 2008, the SNB StabFund Limited Partnership for Collective Investment (stabilisation fund) was established as part of the SNB mandate to strengthen the Swiss financial system. It then incorporated its own subsidiaries. The purpose of the stabilisation fund is the management and realisation of the illiquid assets acquired from UBS.

Number of staff

Information on the SNB's staff numbers may be found on p. 112. The stabilisation fund companies do not employ any staff of their own.

Outsourced business areas

The stabilisation fund has mandated UBS to handle the operational management of its assets. Northern Trust, Chicago, serves as custodian. These outsourcing arrangements are governed by contracts.

4.2 Accounting and valuation principles

General

Basic principles

The consolidated financial statements have been prepared in accordance with the provisions of the National Bank Act (NBA), the Swiss Code of Obligations (CO), the Listing Rules of SIX Swiss Exchange, and the Bank Accounting Guidelines (BAG). The consolidated financial statements give a true and fair view of the financial position, the results of operations and the statement of changes in equity, taking into account the facts and circumstances stated below.

Since the SNB – as the central bank – is in a position to create money autonomously, no consolidated cash flow statement was prepared.

The structure and designation of the items in the annual financial statements take into consideration the special character of the business conducted at a central bank.

Owing to its activities as a central bank, the SNB does not present its assets and liabilities or its income and expenses broken down by country or by country group, nor does it make any distinction between domestic or foreign. In addition, it does not present the term structure of its current assets and borrowed capital. Further information on these matters may be found in other SNB publications (cf. in particular the detailed statements with regard to currency reserves and foreign currency investments in the *Monthly Statistical Bulletin*).

Reference to the SNB's annual financial statements

The consolidated financial statements must be read together with the SNB's individual financial statements (cf. pp. 123–160). Detailed explanations on the accounting and valuation principles and on the consolidated balance sheet and income statement are not reiterated if they have already been provided in the notes to the accounts of the Swiss National Bank.

Changes from previous year

In 2009, the stabilisation fund incorporated subsidiaries which were included in the consolidated accounts at stabilisation fund level.

Recording of transactions

The SNB's business transactions are recorded and valued on the day the transaction is concluded (trade date accounting). However, they are only posted on the value date. Transactions concluded by the balance sheet date with a value date in the future are stated under off-balance-sheet transactions.

Stabilisation fund business transactions are posted on the day they are concluded.

Accrual reporting

Expenses are recognised in the financial year in which they are incurred, and income in the financial year in which it is earned.

Tax liability

Under art. 8 NBA, the SNB is exempt from taxation on profits. Tax exemption applies to both direct federal taxes and cantonal and municipal taxes. The exemption also applies to the stabilisation fund companies incorporated in Switzerland. Those incorporated outside Switzerland are subject to their local taxation legislation.

Transactions with related parties

The rights of the SNB's shareholders are restricted by law; they cannot exert any influence on financial or operational decisions. Banking services provided to members of the executive management are carried out at normal banking industry conditions. No banking services are provided to members of the Bank Council.

Balance sheet and income statement

Stabilisation fund investments

The majority of stabilisation fund investments are securities (securitised loans) entered on the balance sheet at amortised cost. During the entire term of these investments until maturity, the premium and discount are treated as an accrued or deferred item on the balance sheet. Since these securities are held long-term, and are not traded in an active market, they are assigned to *loans and receivables*. The effective interest method is applied.

In addition, the stabilisation fund holds non-securitised company loans which, like the securities, are classed as *loans and receivables* and are entered at amortised cost.

The remainder of the stabilisation fund's investments include derivative financial instruments as well as a small proportion in real estate and securities whose contractual design prevents them being assigned to *loans and receivables*. These securities, plus the derivative instruments, are – in principle – valued and entered in the balance sheet at 'fair value'. The fair value is the price obtained on a liquid market with efficient price movements, or the price ascertained on the basis of a valuation model. Real estate is entered in the balance sheet at the lower of cost or market (LCM).

All valuation changes are entered in *net result from stabilisation fund investments*.

Impairment tests are conducted periodically to determine the recoverable value of the assets. Individual value adjustments are made to cover all identifiable losses. They are debited to the income statement and deducted directly from the relevant asset item.

Value adjustments

In addition to the components mentioned in the notes to the accounts of the SNB's annual financial statements (parent company), the SNB's warrant for 100 million UBS shares is stated as a positive replacement value in *other assets* and recorded against a compensation account in *other liabilities* so that the SNB's net income is unaffected. It serves as secondary loss protection.

Other assets and other liabilities

In addition to the SNB, as the parent company, the consolidated financial statements also encompass the companies established in connection with the stabilisation fund in which the SNB has a 100% stake, either directly or indirectly. The SNB Stabfund Limited Partnership for Collective Investment constitutes the core of the stabilisation fund together with its two partners, Stabfund (GP) AG, the managing partner (general partner) with unlimited liability, and LiPro (LP) AG, a partner with limited liability. In 2009, subsidiaries were added to the group of reporting entities. These companies were established in order to conform to the legal conditions prevailing in specific locations.

Reporting entities

Significant majority interests

Company name, head office	Business activity	Capital stock	Equity interest	
		In CHF millions	31.12.2009	31.12.2008
StabFund (GP) AG, Berne	Holding of limited partnership shares in SNB StabFund	0.1	100%	100%
LiPro (LP) AG, Berne	Distribution of limited partnership shares in SNB StabFund	0.1	100%	100%
SNB StabFund Limited Partnership for Collective Investment, Berne	Collective investments	0.1 (6,000 shares)	100%	100%

The following options exist in connection with the above-mentioned majority interests:

GP purchase option: the SNB granted UBS the option to take over the share capital of StabFund (GP) AG and, with it, two shares in the SNB StabFund Limited Partnership for Collective Investment.

LP purchase option: LiPro granted UBS the option to take over 5,998 shares in the SNB StabFund Limited Partnership for Collective Investment.

Repurchase option: UBS granted the SNB the right to request the repurchase of the stabilisation fund in the case of a change of control at UBS.

Significant minority interests

Company name, head office	Business activity	Capital	Equity interest	
		In CHF millions	31.12.2009	31.12.2008
Orell Füssli Holding Ltd, Zurich	Bookshop, publishing house and banknote and security printing	1.96	33%	33%

Consolidation principles

The consolidated financial statements are based on the annual accounts of the SNB and the stabilisation fund companies. Entries arising from intra-group transactions as well as interim profits are eliminated in preparing the consolidated financial statements. In line with the method of full consolidation, significant majority interests are included in the consolidated financial statements. Capital consolidation is carried out according to the purchase method. Newly established subsidiaries are consolidated once control is transferred to the group.

The participating interest in Orell Füssli Holding Ltd is recognised according to the equity method.

Other participating interests are not considered significant economic interests and are stated at acquisition cost less any value adjustments.

Consolidation period

In principle, the calendar year is deemed to be the financial year and the period of consolidation. The first full financial statements for the stabilisation fund companies were prepared for the year ending 31 December 2009. The financial year for the companies established in 2008 lasted more than one year. Consequently, in order to be able to prepare consolidated financial statements as at 31 December 2008, it was necessary to draw up an interim statement for these companies.

The financial year for the companies incorporated in 2009 is also extended, in some cases. They therefore drew up an interim statement as at 31 December 2009 for the purpose of the consolidated financial statements.

Individual valuation

Different sub-items summarised in one balance sheet item are, in principle, valued individually.

Foreign currency translation

The consolidated financial statements are presented in Swiss francs. Foreign currency transactions are reported at the applicable daily rate. Foreign currency items are converted on the balance sheet date at the year-end rate, and the difference is recognised in the income statement. Foreign currency changes that occurred between conclusion of the transaction and its settlement are recorded in the income statement.

Assets and liabilities of group companies are converted at the rate prevailing on the balance sheet date; items in the income statement are converted at the average rate for the entire period. The difference resulting from the discrepancy between these two conversion rates is directly recognised under equity capital in the *foreign currency translation differences* item.

Foreign exchange valuation prices

In CHF	2009 Balance sheet date	2008 Balance sheet date	Change In percent
1 US dollar (USD)	1.0336	1.0658	–3.0
1 euro (EUR)	1.4853	1.4895	–0.3
1 pound sterling (GBP)	1.6723	1.5595	+7.2
100 Danish kroner (DKK)	19.9600	19.9600	–
1 Canadian dollar (CAD)	0.9855	0.8733	+12.8
100 Japanese yen (JPY)	1.1142	1.1734	–5.0

The average exchange rate for the US dollar for 2009 was 1.0858 Swiss francs. For 2008 (October–December), an average exchange rate of 1.1567 Swiss francs was applied.

Events after balance sheet date

No events that significantly affected the group's financial position, the results of operations and the statement of changes in equity occurred up to the date when the consolidated financial statements were approved by the Bank Council.

Assessment of risk

The SNB's business risk and that of the consolidated subsidiaries is assessed by the National Bank. For this purpose, it uses the monitoring and control processes described in the chapter on risk management at the SNB (cf. pp. 154–160). The particular risks faced by the stabilisation fund (cf. pp. 171–172) are summarised in the subsequent section.

The investment portfolio of the stabilisation fund consists mainly of financial instruments backed by different types of claims (mortgages, loans, etc.). Risks are therefore primarily determined by the uncertainty as to how the value of these claims will develop. Future general economic trends constitute an important risk factor. Since a large part of the securities are backed by US residential and commercial mortgages, developments in US real estate prices also play a crucial role.

Internal control system

Information on the SNB's internal control system can be found in the annual financial statements of the parent company, on pp. 152–154. Comments on such control systems for the stabilisation fund companies are available on p. 172. In addition to the internal control systems for the individual companies, there is also such a control system for processes that are of relevance for drawing up the consolidated financial statements.

4.3 Notes on the consolidated income statement and balance sheet

Item no. 01

Stabilisation fund investments

In CHF millions	31.12.2009	31.12.2008	Change
Sight deposits in different currencies	682.8	623.5	+59.3
Securities (securitised loans)	16 299.6[1]	15 603.6	+696.0
Non-securitised loans[2]	3 434.1	–	+3 434.1
Real estate[3]	16.0	–	+16.0
Derivative transactions	135.8	–	+135.8
Other assets	83.7	0.1	+83.6
Total stabilisation fund investments	20 652.0	16 227.1	+4 424.9

1 Of which, CHF 15,793.1 million entered at amortised cost, with a fair value of CHF 15,666.6 million.
2 Fair value 3,736.5 million.
3 Fair value 21.3 million.

Item no. 02

Participations and income from participations

In CHF millions	Valued according to equity method[1]	Other participations	Total
Book value as at 1 January 2008	46.0	90.8	136.8
Investments	–	–	–
Divestments	–	–	–
Valuation changes	11.0	0.0	11.0
Book value as at 31 December 2008	57.0	90.8	147.8
Book value as at 1 January 2009	57.0	90.8	147.8
Investments	–	–	–
Divestments	–	–0.0	–0.0
Valuation changes	–0.2	–	–0.2
Book value as at 31 December 2009	56.7	90.8	147.6

1 Orell Füssli Holding Ltd.

Income from participations valued according to the equity method amounts to CHF 5.0 million (2008: CHF 14.3 million). Income from other participations amounts to CHF 7.8 million (2008: CHF 7.6 million).

Outstanding financial instruments

Item no. 03

Outstanding derivative financial instruments are reported in item no. 32 of the SNB's individual financial statements. Under interest rate instruments, the stabilisation fund holds interest rate swaps, and under credit instruments, it holds credit default swaps. In addition, from the viewpoint of the group, an agreement exists between LiPro (LP) AG and UBS in the form of a purchase option. This allows UBS to buy LiPro (LP) AG's shares in the SNB StabFund Limited Partnership for Collective Investment (LP purchase option). The premium received for this option was invested in the SNB StabFund Limited Partnership for Collective Investment, and LiPro (LP) AG received shares in exchange. Since the SNB StabFund Limited Partnership for Collective Investment did not report a positive fixed asset value at the end of the year, the LP purchase option was not assigned any value. The contract volume amounts to CHF 4,318.6 million (2008: CHF 1,862.4 million).

A valuation was performed for the warrant for 100 million UBS shares. If the SNB's loan to the stabilisation fund is not repaid in full, the warrant can be exercised as secondary loss protection. It was entered in the consolidated balance sheet at a value of CHF 1,216.4 million (2008: CHF 607.0 million). Of this amount, CHF 391.8 million has been recognised in the income statement (2008: CHF 90.5 million).

	31.12.2009			31.12.2008		
	Contract value	Replacement value		Contract value	Replacement value	
In CHF millions		Positive	Negative		Positive	Negative
SNB parent company[1]	124 339.6	65.7	36.1	116 596.7	2 671.2	1 263.2
Interest rate swaps	2 901.0	27.1[2]	44.9	–	–	–
Credit default swaps	11 013.3	108.7[2]	7 270.8[3]	–	–	–
LP purchase option	4 318.6	–	–	1 862.4	–	–
Warrant	10.0	1 216.4	–	10.0	607.0	–
Total for group	142 582.5	1 418.0	7 351.9	118 469.2	3 278.2	1 263.2

1 Cf. item no. 32, SNB parent company financial statements, p. 151, contract value of warrant stated separately in this table.
2 Already listed under stabilisation fund investments.
3 Negative replacement value of credit default swaps offset against deposited cash collateral to give a net item, cf. pp. 169–170.

Item no. 04

Impact of the stabilisation fund on the consolidated result

The effect of the stabilisation fund on the consolidated result remains neutral through considering the primary loss protection and the warrant.

In CHF millions	2009	2008[1]	Change
Net result from stabilisation fund investments	–2 101.8	–1 953.5	–148.3
Interest expenses on SNB loan[2]	–660.8	–22.9	–637.9
Additional income and expense components[3]	–86.2	22.9	–109.1
Stabilisation fund result	**–2 848.8**	**–1 953.5**	**–895.3**
Primary loss protection (stabilisation fund equity capital)	2 457.0	1 863.1	+593.9
Secondary loss protection through warrant	391.8	90.5	+301.3
Net result from loss protection arrangements	**2 848.8**	**1 953.5**	**+895.2**
Impact of stabilisation fund on consolidated result	**–**	**–**	**–**

1 The presentation of the stabilisation fund quarterly results for 2008 has been adjusted.
2 In the consolidated financial statements, interest income from the point of view of the National Bank and interest expenses from the point of view of the stabilisation fund offset one another.
3 Operating expenses (general overheads); income from participations; net result, other.

5 Report of the Audit Board for the General Meeting of Shareholders

As statutory auditor, we have audited the consolidated financial statements of the Swiss National Bank, which comprise the balance sheet, income statement, statement of changes in equity and notes (pp. 173–186) for the year ended 31 December 2009.

Bank Council's responsibility

The Bank Council is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting rules for banks and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Bank Council is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the financial position, the results of operations and the statement of changes in equity in accordance with accounting rules for banks and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and on independence (art. 728 CO, art. 47 NBA and art. 11 AOA), and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Bank Council.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Thomas Romer	**Christian Massetti**
Audit expert	Audit expert
Auditor in charge	

Zurich, 26 February 2010

Proposals of the Bank Council

Proposals of the Bank Council to the General Meeting of Shareholders

At its meeting of 26 February 2010, the Bank Council accepted the financial report for 2009, contained in the 102nd Annual Report, for submission to the Federal Council and to the General Meeting of Shareholders.

On 26 February 2010, the Audit Board signed its reports on the annual financial statements of the Swiss National Bank (parent company) and the consolidated financial statements. On 12 March 2010, the Federal Council approved the financial report.

The Bank Council presents the following proposals to the General Meeting of Shareholders:

1. that the financial report for 2009 be approved;
2. that the annual result (net profit) of CHF 9,955,002,810 be appropriated as follows:

Appropriation of profit In CHF millions	**2009**
Annual result (net profit pursuant to art. 36 NBA)	9 955.0
Allocation to provisions for currency reserves (art. 30 para. 1 NBA)	–3 054.9
Distributable annual profit	**6 900.1**
Allocation to distribution reserve	–4 398.6
Total profit distribution	**2 501.5**
Payment of a dividend of 6%	–1.5
Ordinary distribution of profit to the Confederation and the cantons[1]	–2 500.0
Balance after appropriation of profit	**–**

3. that the Bank Council be granted discharge;
4. that Monika Bütler, Professor of Economics at the University of St. Gallen, be elected to the Bank Council for the remainder of the 2008–2012 term of office;
5. that PricewaterhouseCoopers Ltd, Zurich, be appointed as the Audit Board for the 2010–2011 term of office.

1 Profit distribution agreement of 14 March 2008 between the Federal Department of Finance and the Swiss National Bank.

Contents

Selected information

Selected information

1 Chronicle of monetary events in 2009

January

On 15 January, the Swiss National Bank (SNB), the European Central Bank (ECB) and the National Bank of Poland announce the continuation of the seven-day EUR/CHF currency swaps first introduced on 15 October 2008, to encourage further improvements on the short-term Swiss franc money market (cf. p. 49).

On 28 January, the SNB concludes a temporary EUR/CHF swap agreement with the Hungarian central bank, offering it access to Swiss franc liquidity (cf. p. 49).

February

On 2 February, the SNB announces that it will issue its own debt certificates (SNB Bills) in US dollars (cf. p. 58).

On 3 February, the SNB announces that the currency swap agreements concluded between the US Federal Reserve and various other central banks, including the SNB, will be extended until 30 October 2009. Under these swap agreements, the central banks concerned intend to continue conducting US dollar operations at terms of 7, 28 and 84 days for as long as necessary (cf. p. 58).

March

At its quarterly assessment of 12 March, the SNB decides on a substantial relaxation of monetary conditions. It lowers the target range for the three-month Libor by 25 basis points to 0.0–0.75% and announces its intention to bring the Libor down to around 0.25%. Other measures include: increasing liquidity considerably through additional repo transactions; buying Swiss franc bonds issued by private sector borrowers; and purchasing foreign currency in order to prevent a further appreciation of the Swiss franc against the euro (cf. p. 36).

April

On 3 April, the stabilisation fund announces that the transfer of UBS assets has been completed. Including the assets already transferred in December 2008, the stabilisation fund takes over assets totalling USD 38.7 billion (cf. p. 85).

On 6 April, the SNB concludes a temporary currency swap agreement with the US Federal Reserve, to run until 30 October 2009. This allows the Fed to obtain up to CHF 40 billion against US dollars, in order to supply US financial institutions with Swiss franc liquidity (cf. p. 49).

June

On 18 June, at its quarterly assessment, the SNB leaves the target range for the three-month Libor unchanged at 0.0–0.75%. It continues to pursue the objective of bringing the Libor down to around 0.25%, and keeps in place the monetary relaxation measures implemented in March (cf. p. 37).

On 7 August, as part of a joint central bank statement on gold holdings, the SNB announces that it has no plans for any further gold sales in the foreseeable future (cf. p. 121).

August

On 25 August, the SNB and SIX Swiss Exchange Ltd (the Swiss stock exchange) jointly launch new Swiss franc reference interest rates (cf. p. 57).

At its quarterly assessment of 17 September, the SNB decides to maintain its expansionary monetary policy. It leaves the target range for the three-month Libor unchanged at 0.0–0.75%, and continues to aim for a Libor around 0.25% (cf. p. 38).

September

On 24 September, the SNB, the ECB, the National Bank of Poland and the Hungarian central bank announce the continuation of the seven-day EUR/CHF currency swaps until end-January 2010 (cf. p. 49).

Also on 24 September, the SNB announces, in coordination with the ECB and the Bank of England, that it will continue to offer US dollar liquidity via seven-day repo transactions until the end of January 2010. At the same time, it announces that it is discontinuing its 84-day repo transactions (cf. p. 58).

At its quarterly assessment of 10 December, the SNB decides to hold the target range for the three-month Libor at 0.0–0.75% and to keep the Libor in the lower end of the range, at around 0.25%. It will also continue to supply generous amounts of liquidity. Furthermore, it still intends to counter any excessive appreciation of the Swiss franc, but is discontinuing its purchases of Swiss franc bonds issued by domestic private sector borrowers (cf. p. 39).

December

In addition, from the beginning of 2010, it is extending the eligibility for repo market participation to domestic (including Liechtenstein) financial market participants without the status of a bank or securities dealer. The SNB hopes that, by broadening the participant base, the secured money market can be further advanced and the stability and resilience of the financial system increased (cf. p. 47).

2 Bank supervisory and management bodies, Regional Economic Councils

(as at 1 January 2010)

Bank Council
(2008–2012 term of office)

Hansueli Raggenbass, Kesswil, Attorney-at-law, President of the Bank Council and Head of the Compensation Committee and the Nomination Committee, 2001/2008[1]

Jean Studer, Neuchâtel, President of the Cantonal Government and Head of the Department of Justice, Security and Finance of the Canton of Neuchâtel, Vice President of the Bank Council, Member of the Compensation and the Nomination Committee, 2007/2008[1]

* Gerold Bührer, Thayngen, President of economiesuisse (Swiss Business Federation), Member of the Compensation Committee, 2008[1]

Rita Fuhrer, Auslikon, Member of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich, 2008[1]

Konrad Hummler, Teufen, Managing Partner of Wegelin & Co., Private Bankers, Chairman of the Risk Committee, 2004/2008[1]

* Armin Jans, Zug, Professor of Economics at the Zurich University of Applied Sciences, Member of the Nomination and the Audit Committee, 1999/2008[1]

* Daniel Lampart, Zurich, Chief Economist and Deputy Executive Secretary of the Swiss Federation of Trade Unions, Member of the Risk Committee, 2007/2008[1]

* Franz Marty, Goldau, Chairman of the Board of the Swiss Union of Raiffeisen Banks, Member of the Audit Committee, 1998/2008[1]

Laura Sadis, Lugano, Member of the Cantonal Government and Head of the Department of Finance and Economic Affairs of the Canton of Ticino, 2007/2008[1]

* Olivier Steimer, Epalinges, Chairman of the Board of Directors at Banque Cantonale Vaudoise, Member of the Risk Committee, 2009[1]

Fritz Studer, Meggen, Chairman of the Board of Directors at Luzerner Kantonalbank, Chairman of the Audit Committee, 2004/2008[1]

* Elected by the General Meeting of Shareholders.

1 Initial and current election to the Bank Council.

Relevant affiliations of Bank Council members

Relevant affiliations of the Bank Council members are listed on the SNB website, www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*.

Audit Board
(2009–2010 term of office)

PricewaterhouseCoopers Ltd, Zurich

Governing Board
(2009–2015 term of office)

Philipp M. Hildebrand, Chairman, Head of Department I, Zurich
Thomas J. Jordan, Vice Chairman, Head of Department II, Berne
Jean-Pierre Danthine, Member, Head of Department III, Zurich

Enlarged Governing Board
(2009–2015 term of office)

Philipp M. Hildebrand, Chairman of the Governing Board
Thomas J. Jordan, Vice Chairman of the Governing Board
Jean-Pierre Danthine, Member of the Governing Board
Thomas Moser, Alternate Member of the Governing Board
Thomas Wiedmer, Alternate Member of the Governing Board
Dewet Moser, Alternate Member of the Governing Board

Bank management

Comprehensive list:
www.snb.ch, *The SNB, Supervisory and executive bodies, Bank management*

Regional Economic Councils
(2008–2012 term of office)

Central Switzerland	Werner Steinegger, Schwyz, CEO of Celfa AG, Chairman
	David Dean, Volketswil, CEO of Bossard Group
	Xaver Sigrist, Lucerne, President and CEO of Anliker AG
	André Zimmermann, Horw, CEO and Director of Pilatus-Bahnen
Eastern Switzerland	Christoph Leemann, St Gallen, Chairman of the Board of Directors and Director of Union AG, Chairman
	Bernhard Merki, Tuggen, CEO of Netstal-Maschinen AG
	Eliano Ramelli, Trogen, Partner and Member of the Board of Management at Abacus Research AG
	Christoph Schlosser, Flims, CEO and Member of the Board of Directors at Waldhaus Flims Mountain Resort AG
Geneva	Robert Deillon, Coppet, Director General of Geneva International Airport, Chairman
	Nicolas Brunschwig, Vandœuvres, joint owner of Brunschwig & Cie SA
	Patrick Pillet, Geneva, Director of Pillet SA
Mittelland	Oscar A. Kambly, Trubschachen, President of the Board of Directors at Kambly SA, Spécialités de Biscuits Suisses, Chairman
	André Haemmerli, La Chaux-de-Fonds, General Manager of Johnson & Johnson SA in the Canton of Neuchâtel
	Jean-Marc Jacot, Auvernier, Delegate of the Sandoz Family Foundation, CEO of Parmigiani Fleurier SA
	Kurt Loosli, Stüsslingen, CEO of EAO Group
Northwestern Switzerland	Hans Büttiker, Dornach, CEO of EBM, Chairman
	Matthys Dolder, Bienne-Benken, CEO of Dolder AG
	Gabriele Gabrielli, Möriken, Head of Global Account Management EPC at ABB Ltd
	René Kamm, Basel, Group CEO of MCH Group Ltd

Giancarlo Bordoni, Viganello, Chairman of the Board at Oleificio SABO, Chairman	**Ticino**
Lorenzo Emma, Vezia, Managing Director of Migros Ticino	
José Luis Moral, Gudo, Member of the Board and Managing Director of Regazzi SA	

Jean-Jacques Miauton, Epalinges, CEO of Swiss Madeness Solutions Group SA, Chairman	**Vaud-Valais**
Paul Michellod, Leytron, Director of FMV SA	
Andreas S. Wetter, Feldmeilen, Chairman of the Board of Directors at Orange Communications SA	

Reto H. Müller, Dietikon, Chairman of the Board of Directors and CEO of Helbling Holding SA, Chairman	**Zurich**
Milan Prenosil, Kilchberg, Chairman of the Board of Directors at Confiserie Sprüngli AG	
Hans R. Rüegg, Rüti, Chairman of the Board of Directors and CEO of Baumann Springs Ltd	

3 Organisational chart

(as at 1 January 2010)

- **General Meeting of Shareholders**
  - **Audit Board**
- **Bank Council**
  - **Internal Auditors**
- **Governing Board**
  - **Secretariat General**
- **Enlarged Governing Board**

Department I Zurich

- **Human Resources**
- **Communications**
- **Regional Economic Relations**
- **International Affairs**
  - International Research and Technical Assistance
  - International Monetary Relations
- **Economic Affairs**
  - Research
  - Economic Analysis
  - Statistics
- **Legal and Property Services**
  - Legal Services
  - Pension Fund
  - Premises and Technical Services

Department II Berne

- **Security**
- **Finance**
  - Central Accounting
  - Controlling
- **Cash**
  - Administration and Cashier's Offices
  - Technical Support and Storage

Department III Zurich

Financial Systems

- Financial Stability
- Oversight

StabFund

Financial Markets

- Money Market and Foreign Exchange
- Asset Management
- Risk Management
- Financial Market Analysis

Banking Operations

- Banking Operations Analysis
- Payments
- Back Office
- Master Data

Information Technology

- Banking Applications
- Banking Operations
- Infrastructure

4 Publications

The publications are available on the SNB website, www.snb.ch, *Publications*.

Annual Report

The *Annual Report* is published at the beginning of April in German, French, Italian and English.

Free of charge

Quarterly Bulletin

The *Quarterly Bulletin* contains the Monetary policy report used for the Governing Board's quarterly monetary policy assessment and the report titled 'The economic situation from the vantage point of the delegates for regional economic relations'. It includes articles on topical central bank policy issues and abstracts of the SNB's *Economic Studies and Working Papers*. The *Quarterly Bulletin* also contains the Chronicle of monetary events as well as, in the June edition, the speeches delivered at the General Meeting of Shareholders. It is published at the end of March, June, September and December in German, French and English (the latter version available only on the SNB website). The report titled 'The economic situation from the vantage point of the delegates for regional economic relations' is also published in Italian (available on the SNB website only).

Subscription: CHF 25* per year (outside Switzerland: CHF 30); for subscribers to the *Monthly Statistical Bulletin*: CHF 15* per year (outside Switzerland: CHF 20)

Financial Stability Report

The *Financial Stability Report* assesses the stability of Switzerland's banking sector. It is published in June in German, French and English.

Free of charge

SNB Economic Studies, SNB Working Papers

Swiss National Bank Economic Studies and *Swiss National Bank Working Papers* are two series of articles on economics. The issues are published at irregular intervals, and both series are published in English.

Free of charge

Monthly Statistical Bulletin, Monthly Bulletin of Banking Statistics

The *Monthly Statistical Bulletin* contains graphs and tables of key Swiss and international economic data. In addition to the German-French publication, a German-English version is available free of charge on the SNB website.

Subscription: CHF 40* per year (outside Switzerland: CHF 80)

The *Monthly Bulletin of Banking Statistics* contains detailed banking statistics. The issues and the time series are available in German-French and German-English on the SNB website, www.snb.ch, *Publications, Statistical publications*. A printed version in German-French is published every quarter free of charge as a supplement to the *Monthly Statistical Bulletin*.

Banks in Switzerland

Banks in Switzerland is a commentated collection of statistical source material on the development and structure of the Swiss banking sector. It is compiled mainly from SNB year-end statistics. *Banks in Switzerland* is published mid-year in German, French and English.

Price: CHF 20*

Swiss Financial Accounts

The report titled *Swiss Financial Accounts* reflects the volume and structure of financial assets and liabilities held by the different sectors of the domestic economy, as well as those held with respect to the rest of the world, and those held by the rest of the world with respect to Switzerland. The report is published as a supplement to the *Monthly Statistical Bulletin* in autumn in German, French and English.

Free of charge

Swiss Balance of Payments, Switzerland's International Investment Position, Direct Investment

The *Swiss Balance of Payments* reviews developments in the balance of payments. It is published once a year as a supplement to the September edition of the *Monthly Statistical Bulletin*.
Switzerland's International Investment Position comments on developments in foreign assets, foreign liabilities and Switzerland's net investment position. It is published once a year as a supplement to the December issue of the *Monthly Statistical Bulletin*.
Direct Investment examines the developments in Switzerland's direct investments abroad as well as the changes in foreign direct investment in Switzerland. It is published once a year as a supplement to the December issue of the *Monthly Statistical Bulletin*.
The reports are available in German, French and English.

Free of charge

Historical Time Series

The *Historical Time Series* is a set of statistical publications, with each issue focusing on a topic important or previously important to the formulation and implementation of monetary policy. Wherever possible, the time series spans the period from the establishment of the National Bank in 1907 to the present. It also includes background information on the time series and a description of calculation methods. The *Historical Time Series* is published at irregular intervals in German, French and English.

Free of charge

The Swiss National Bank 1907–2007

The *Swiss National Bank 1907–2007* looks back on the history of the Swiss central bank and examines current monetary policy topics. The first part covers the first 75 years of the SNB, while the second part looks at the transition to flexible exchange rates in the 1970s. The third part (which appears in all three language versions in English) is an assessment of more recent Swiss monetary policy and a discussion of topical central bank policy issues from an academic standpoint.

The commemorative publication is available in bookshops in French, Italian and English; the German version is out of print. All four language versions are available on the SNB website, www.snb.ch, *The SNB, History, Publications.*

The Swiss National Bank in Brief	*The Swiss National Bank in Brief* gives an overview of the SNB's tasks, its organisation and the legal basis of its activities. It is published in German, French, Italian and English.
	Free of charge

iconomix	To mark its centenary in 2007, the SNB launched *iconomix*, an educational programme introducing users to the world of economics. The modular teaching and training programme presents the basic principles and concepts of economics in a fun way. Although primarily aimed at teachers and students in upper secondary schools, it is also accessible to anyone interested in finding out more about economics. The complete *iconomix* programme is available in both French and German, while an abbreviated version is available in Italian and English.
	Available free of charge at www.iconomix.ch

Further resources	*What is money really about?* is a brochure describing the activities of the National Bank in simple, easy-to-understand terms. It is an ideal teaching aid for both older primary students and secondary school students.
	The Swiss National Bank and that vital commodity: money is a brochure explaining the SNB and its tasks. It is suitable as a teaching aid for older secondary school students and for vocational training students as well as for anybody generally interested in the National Bank.
	An "A to Z" of the Swiss National Bank is an SNB glossary of important central banking terms.
	The information in these publications as well as the publications themselves are available via the SNB website, www.snb.ch, *Publications, Publications about the SNB, The world of the National Bank*.
	The *National Bank and money* is a short film (available on DVD) illustrating the characteristics of money.
	The *National Bank and its monetary policy* is a short film (available on DVD) describing how the SNB conducts its monetary policy on a daily basis and explaining the principles behind that monetary policy.
	The *National Bank* is a brochure published by the *Jugend und Wirtschaft* association in its *Input* series, issue 5/2005. The brochure outlines the importance of the Swiss National Bank for the economy and encourages readers to develop their own ideas about the Swiss economy. The brochure is supplemented by an e-lesson (www.jugend-wirtschaft.ch). *The National Bank* is available in German, French and Italian.
	Unless stated otherwise, the material in this section (Further resources) is available in German, French, Italian and English.
	Free of charge

Obtainable from	Swiss National Bank, Library, Bundesplatz 1, CH-3003 Berne Telephone +41 31 327 02 11, e-mail: library@snb.ch
	Swiss National Bank, Library, Fraumünsterstrasse 8, P.O. Box, CH-8022 Zurich Telephone +41 44 631 32 84, e-mail: library@snb.ch

*All prices include 2.4% VAT.

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Agencies

The Swiss National Bank maintains agencies operated by cantonal banks in Altdorf, Appenzell, Basel, Bienne, Chur, Fribourg, Glarus, Liestal, Lucerne, Sarnen, Schaffhausen, Schwyz, Sion, Stans, Thun and Zug.

SNB website www.snb.ch
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6 Rounding conventions and abbreviations

Rounding conventions	The figures in the income statement, balance sheet and tables are rounded; totals may therefore deviate from the sum of individual items.
	The figures 0 and 0.0 are rounded values representing less than half of the unit used, yet more than zero (rounded zero).
	A dash (–) in place of a number stands for zero (absolute zero).

Abbreviations

AOA	Auditor Oversight Act
ARR	Swiss Accounting and Reporting Recommendations (Swiss GAAP FER)
art.	Article
BAG	Banking Accounting Guidelines
BIS	Bank for International Settlements
CAD	Canadian dollar
CHF	Swiss franc
CISA	Swiss Federal Act on Collective Investment Schemes
CO	Swiss Code of Obligations
CPI	Consumer price index
CPIA	Federal Act on Currency and Payment Instruments
DKK	Danish krone
ECB	European Central Bank
EUR	Euro
FC	Federal Constitution
FDF	Federal Department of Finance
FINMA	Swiss Financial Market Supervisory Authority
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GBP	Pound sterling
GP	General partner
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
JPY	Japanese yen
Libor	London Interbank Offered Rate
LP	Limited partner
NBA	National Bank Act
NBO	National Bank Ordinance
OECD	Organisation for Economic Co-operation and Development
para.	Paragraph
PRGF	IMF Poverty Reduction and Growth Facility
Repo	Repurchase agreement
SDR	Special Drawing Right
SECO	State Secretariat for Economic Affairs
SFBC	Swiss Federal Banking Commission
SFSO	Swiss Federal Statistical Office
SIC	Swiss Interbank Clearing
SNB	Swiss National Bank
SR	Official Compilation of Federal Laws and Decrees
USD	US dollar

Published by
Swiss National Bank
CH-8022 Zurich
Telephone +41 44 631 31 11

Languages
German, French, Italian and English

Design
Weiersmüller Bosshard Grüninger WBG, Zurich

Typeset and printed by
Neidhart + Schön AG, Zurich

Publication date
April 2010

ISSN 1421-6477 (printed version)
ISSN 1662-176X (online version)