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



103rd Annual Report

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 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.

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

Cash supply and distribution

The SNB 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 SNB provides services for payments between banks. These are settled in the Swiss Interbank Clearing (SIC) system via sight deposit accounts held with the SNB.

Investment of currency reserves

The SNB 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 SNB 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 SNB participates in international monetary cooperation and provides technical assistance.

Banker to the Confederation

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

Swiss National Bank
103rd Annual Report 2010

Preface

Ladies and Gentlemen

In accordance with art. 7 para. 2 of the National Bank Act (NBA), the Swiss National Bank (SNB) submits an annual accountability report to the Federal Assembly in which it outlines how it has fulfilled its mandate as defined in art. 5 NBA. Furthermore, pursuant to art. 7 para. 1 NBA, the SNB submits its financial report to the Federal Council for approval, before presenting it, together with the Audit Board's reports, to the General Meeting of Shareholders for approval and attention.

The first part of the SNB's *103rd Annual Report* comprises the accountability report to the Federal Assembly (pp. 9–94). This is submitted to the General Meeting of Shareholders for information purposes only and does not require approval. It describes the economic and monetary developments in 2010 and explains in detail how the SNB has fulfilled its statutory mandate – in particular the conduct of monetary policy and the SNB's contribution to the stability of the financial system. A summary of the accountability report is provided on pp. 10–13.

The global economy recovered in 2010 after the sharp downturn in 2008 and 2009. In Switzerland, GDP was, in fact, back to pre-crisis levels by the second half of the year. However, considerable uncertainty about the sustainability of the upturn remained throughout the year and downside risks were prevalent. The financial market recovery, in particular, suffered a setback in spring 2010 due to the escalating sovereign debt crisis in Europe. The European authorities managed to stabilise the situation temporarily by means of new exceptional measures without, however, bringing about a sustained solution. The high level of public debt in numerous advanced economies as a result of the crisis remains one of the major economic challenges of the coming years.

Under these circumstances, the SNB maintained its expansionary monetary policy in 2010. At the end of 2009, the threat of deflation had receded to the extent that a certain appreciation of the Swiss franc could be allowed without price stability being compromised. Accordingly, in the first half of 2010, the SNB refrained from taking decisive action against every appreciation in the Swiss franc, only doing so in the event of an excessive appreciation. This policy required large-scale purchases of foreign exchange in spring 2010 when the Swiss franc came under considerable upward pressure in connection with the escalating European sovereign debt crisis. The SNB considered that a rapid and excessive appreciation of the Swiss franc against the euro at that time would have placed the Swiss economy under such a strain that the threat of a deflationary trend would again have come to the fore. The SNB did not want to run this risk. In the second half of 2010, the economic recovery in Switzerland and abroad consolidated to such an extent that the threat of deflation in Switzerland largely disappeared and the SNB was able to refrain from carrying out any further interventions on the foreign exchange market.

Swiss franc liquidity in the banking system rose sharply in 2010 due to the SNB's extensive foreign exchange purchases. As a result, the banking system was in a position of excess liquidity vis-à-vis the SNB. The SNB therefore adapted its procedure for implementing monetary policy and steering the three-month Libor. Under the new procedure, liquidity-absorbing repo transactions and SNB Bill issues replaced liquidity-providing money market operations in mid-2010. This has enabled the SNB to absorb a large part of the excess liquidity.

The second part of the *Annual Report* comprises the financial report for the attention of the Federal Council and the General Meeting of Shareholders (pp. 97–193). It includes the business report, which deals with organisational and operational developments at the SNB as well as its financial results. The financial report also includes the annual financial statements of the SNB (parent company), containing the balance sheet, income statement and notes (pp. 121–162), the financial information on the stabilisation fund (pp. 163–172), and the consolidated financial statements (pp. 173–190), as required under Swiss law.

In 2010, the annual financial statements of the SNB (parent company) closed with a loss of CHF 20.8 billion, following a profit of CHF 10.0 billion in the previous year. Distribution of funds by the SNB is based on the result of the parent company.

Monetary policy, whose primary objective is price stability, must be conducted independently of balance sheet considerations. The foreign exchange purchases effected in the first half of 2010 in pursuit of this objective led to a strong increase in foreign currency investments. The appreciation of the Swiss franc, which was particularly pronounced in the last weeks and days of the 2010 financial year, resulted in a loss of around CHF 26.5 billion on foreign currency positions.

Bearing in mind these exceptional circumstances, the SNB has decided to set the allocation to the provisions for currency reserves for the past financial year at CHF 0.7 billion instead of CHF 4 billion. This will enable the distribution of CHF 2.5 billion for the 2010 financial year to the Confederation and the cantons, and the payment of CHF 1.5 billion in dividends, to be carried out as planned. Despite the reduced allocation to provisions for currency reserves, the SNB's capital base remains strong.

This procedure provides the Confederation and the cantons with time to adjust to the new situation of a negative distribution reserve. For the SNB cannot exclude the possibility that profit distribution may have to be suspended for a certain period, and that future distribution amounts may need to be smaller. The SNB's result has always been largely dependent on developments in the gold, foreign exchange and capital markets, and this will remain so in the foreseeable future.

The stabilisation fund shows a profit of CHF 2.6 billion for the 2010 financial year. Within one year, the SNB's loan to the stabilisation fund has been paid down from just under CHF 21 billion to around CHF 12 billion.

As a result of the good performance of the stabilisation fund, the consolidated annual loss amounted to CHF 19.2 billion.

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

Berne and Zurich, 25 February 2011

Hansueli Raggenbass
President of the Bank Council

Philipp M. Hildebrand
Chairman of the Governing Board

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Accountability report

On 10 March 2011, the Governing Board of the Swiss National Bank (SNB) submitted its accountability report for 2010 to the Federal Assembly in accordance with art. 7 para. 2 of the National Bank Act (NBA). The report is submitted to the Federal Council and the General Meeting of Shareholders for information purposes only and does not require their approval.

Summary

Monetary policy

(1) The SNB 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, it is based on inflation forecasts rather than current inflation. The SNB's monetary policy strategy consists of three elements: a definition of price stability, a medium-term conditional inflation forecast, and, at operational level, a target range for a reference interest rate, which is the Libor for three-month investments in Swiss francs.

In 2010, the SNB maintained its expansionary monetary policy. It left the target range for the three-month Libor unchanged at 0.0–0.75% with the intention of keeping the Libor within the lower part of the range, at around 0.25%.

Given the severe downturn in the global economy, a serious threat of a deflationary trend had emerged in Switzerland at the beginning of 2009. In order to prevent this threat from materialising via appreciation of the Swiss franc, the SNB acted against any appreciation in the Swiss franc with respect to the euro from March 2009 on, intervening in the foreign exchange market to achieve this goal.

By the end of 2009, the SNB considered that, given the continuing recovery in the economy, the threat of deflation had receded. Consequently, a certain appreciation in the Swiss franc could be allowed without price stability being compromised. In December, the SNB therefore announced that it would act decisively only in the event of an excessive appreciation of the Swiss franc. This policy was maintained throughout the first half of 2010.

In spring 2010, with the escalation of the sovereign debt crisis in Europe, major tensions arose on financial markets. This environment resulted in a renewed flight to safe investments, and there was substantial upward pressure on the Swiss franc. The SNB considered that, at that time, a rapid and excessive appreciation of the Swiss franc against the euro would have placed the Swiss economy under such a strain that the threat of a deflationary trend would have come to the fore. It was not prepared to take this risk and therefore decided to acquire large quantities of foreign currency.

Towards the middle of the year, the recovery of the Swiss and global economy had consolidated to such an extent that the threat of deflation in Switzerland had largely disappeared. In June, the SNB therefore considered that an appreciation of the Swiss franc was no longer such a threat to price stability and the economy as it had been previously. Thus it refrained from carrying out any further interventions on the foreign exchange market in the second half of the year.

With its prudent policy, the SNB contributed to the recovery of the Swiss economy. By the third quarter, GDP had reached the same level as before the crisis. Overall, GDP rose by 2.6% in 2010, after having fallen by 1.9% in 2009.

In 2010, price stability was assured. The medium-term conditional inflation forecast published as part of the quarterly monetary policy assessments indicated a low level of inflation initially, although this picked up at the end of the three-year forecast horizon. In its monetary policy decisions, the SNB therefore drew attention to the fact that it would not be able to maintain its expansionary monetary policy indefinitely. Given the low rates of interest and rising real estate prices, it also warned banks, households and companies not to take excessive risks in the financing of real estate.

(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. In 2010, Swiss franc liquidity in the banking system rose sharply due to the extensive purchases of foreign exchange, and the three-month Libor fell below the targeted level of 0.25%. In the process, the banking system moved into a position of excess liquidity with respect to the SNB. Consequently, the former procedure for implementing monetary policy and managing the three-month Libor had to be adapted. The new procedure, which has been in place since mid-2010, is based on repeated absorption of excess liquidity by means of liquidity-absorbing repos and the issuance of SNB Bills. Thanks to this new management regime, it has been possible to neutralise the excess liquidity to a large extent, without causing an undesirable tightening in monetary policy in the process.

Liquidity supply

(3) The SNB 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. Some local cash redistribution is carried out through the cantonal banks, which act as agencies on behalf of the SNB. In 2010, the SNB and the Berner Kantonalbank agreed to close the agencies run by the latter in Bienne and Thun, since the demand for cash services had declined at the agencies in question. In October, the SNB and the Basler Kantonalbank agreed to close the agency in Basel with effect from the end of January 2011.

Cash supply and distribution

In the course of the project on developing the new banknote series, it became clear at the end of 2009 that the new security features could be enhanced by further development. The SNB expects that the first denomination in the new series will be issued towards the end of 2012.

Cashless payments

(4) The SNB facilitates and secures the functioning of cashless payment systems. It maintains sight deposit accounts for the banks, steers the SIC interbank payment system and participates in the relevant payment system bodies. It has also begun to hold sight deposit accounts for insurance companies, as long as these are active in the repo market.

Asset management

(5) The SNB's assets fulfil important monetary policy functions. They consist mainly of foreign currency assets and, to a lesser extent, financial assets in Swiss francs. Their size and composition is determined by the established monetary order and the requirements of monetary policy. Currency reserves increased sharply in 2010 due to foreign exchange purchases. The foreign currency acquired during the course of the year was mainly invested in government bonds. In doing so, the principles of currency and asset class diversification were observed as far as possible. A good investment return was achieved in local currencies due to the declining yields and risk premia on a substantial proportion of bonds, and to rising share prices. However, in Swiss franc terms, returns were very negative because of substantial exchange rate losses.

Financial system stability

(6) The NBA confers on the SNB the mandate of contributing to the stability of the financial system. It fulfils this mandate by analysing sources of risk to the financial system, overseeing systemically important payment and securities settlement systems, and being actively involved in creating the operating framework for the financial sector. In doing so, it works in close cooperation with the Swiss Financial Market Supervisory Authority (FINMA), the Federal Department of Finance (FDF) and foreign authorities. In 2010, a major focus of the SNB's activities in the area of financial stability was its involvement in the commission of experts appointed by the Swiss Federal Council to examine ways of limiting the economic risks posed by large companies. The commission investigated how to alleviate the 'too big to fail' problem. At international level, the SNB participated in efforts to reform banking regulation. In addition, monitoring of the Swiss banking system was intensified, with particular attention being paid to the mortgage market. The SNB also reviewed its mandate and its set of instruments in the area of financial stability. It concluded that its set of preventive instruments needed to be strengthened in three areas, these being access to information, the right to participate in drawing up regulations and the implementation of regulations.

The overall risk of the stabilisation fund – set up by the SNB in October 2008 to purchase illiquid UBS assets, and managed by the SNB – was significantly reduced in 2010. This was due to interest payments and repayments on stabilisation fund investments as well as the sale of assets.

(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). In 2010, a major focus of work in these bodies was again the effort to strengthen global financial stability. At the IMF, the main focus was on quota and governance reform. The objective is to strengthen the IMF's capital base, in conjunction with a reallocation of quota shares in favour of the emerging economies. A result of this will be a reduction in Switzerland's quota share. In November, Kazakhstan joined the Swiss constituency. At the same time, Uzbekistan left it.

International monetary cooperation

(8) The SNB provides the Swiss Confederation with banking services in the areas of payment transactions as well as liquidity and securities management. In 2010, it issued money market debt register claims and bonds for the Confederation and carried out payment transactions on its behalf.

Banking services for the Confederation

(9) The SNB compiles statistical data on banks and financial markets, the balance of payments, direct investment, the international investment position and the Swiss financial accounts. In doing so, it works with the appropriate offices of the Confederation, FINMA, authorities from other countries and international organisations. In 2010, the main focus of its work included the revision of the bilateral agreement on statistics between Switzerland and the European Union.

Statistics

1 Monetary policy

1.1 Background

Constitutional and legal mandate

Art. 99 of the Federal Constitution entrusts the Swiss National Bank (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 (a sustained increase in the price level) and deflation (a sustained decrease in the price level), 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 ensure price stability, the SNB must provide appropriate monetary conditions. If interest rates are 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 this boosts 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 will be reduced, leading to an insufficient level of aggregate demand. This will have a dampening effect on the prices of goods and services.

Overall economic development is continually subject to influences and disruptions. These include changes in demand from abroad, movements in exchange rates, alterations to financial policies, and – in the past – an inappropriate supply of money. Inflationary pressures increase in phases of economic overheating, and decrease when the utilisation of production capacity slows. In each case the SNB must ensure price stability. In the first case it will therefore tend to tighten monetary policy, and in the second to ease it. A monetary policy aimed at fostering price stability thus smoothes fluctuations in aggregate demand and thereby secures economic growth.

Taking economic activity into account

Disruptions to the economy can also emanate from the supply side, for example a sustained rise in the price of oil or other commodities. This may present the SNB with a challenge. On the one hand, it must ensure that the higher production costs do not give rise to an inflationary spiral. On the other, it must take into account that rising costs can, under certain circumstances, heavily burden the economy. An overhasty restoration of price stability might therefore have serious repercussions for the business cycle and employment.

Under normal circumstances, the SNB influences economic and price developments by steering the interest rate, i.e. the Libor (London Interbank Offered Rate) for three-month investments in Swiss francs. If monetary policy needs to be tightened, the three-month Libor will be raised; if it needs to be relaxed, the Libor will be lowered. However, should there be a decline in aggregate demand at a time when the three-month Libor is already close to zero, this could give rise to a dangerous situation. If, under these circumstances, deflation expectations arise, real interest rates (i.e. adjusted for the deflation expectations) remain at a higher level than is desirable for the economic situation. If monetary policy is not relaxed, in the worst case a deflationary spiral can develop, in which the expectation of falling prices and a decline in demand reinforce one another. To prevent a deflationary trend from developing, and with its interest rate measures already fully employed, the SNB has little choice but to fall back on unconventional methods, like the direct purchase of bonds or foreign currency.

Special challenges

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. These apply to the cause and duration of disruptions, as well as the transmission mechanisms, the time lag that elapses before monetary policy measures impact on the business cycle and prices, and the extent of that impact.

Numerous uncertainties

1.2 Monetary policy strategy

Monetary policy strategy

The SNB monetary policy strategy sets out the way in which the National Bank intends to fulfil its mandate. It consists of the following three elements: a definition of price stability, a medium-term conditional inflation forecast and – at operational level – a target range for a reference interest rate, the three-month Swiss franc Libor.

Definition of price stability

The SNB defines price stability as an annual rise of less than 2% in the consumer price index (CPI). Deflation is also regarded as a failure to attain the objective of price stability. By aiming for a slightly positive rate of inflation, the SNB 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, the path of measured inflation trends slightly above that of actual inflation.

Purpose of inflation forecast

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

Preparing the 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 prepares 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 output and prices. Forecasts over such a long horizon involve considerable uncertainties. In preparing a medium-term forecast, the SNB takes account of the fact that the effects of monetary policy are lagged and it therefore has to adopt a forward-looking stance in its monetary policy decisions.

For a country like Switzerland with its strong international integration, cyclical developments in the global economy play an important role. Consequently, the inflation forecasts are based on assumptions with regard to the future path of the global economy.

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 commodity prices (oil), are generally of greater significance.

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

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 sustained basis, the SNB would thus consider tightening its monetary policy. Conversely, it would schedule a monetary relaxation if deflationary trends were identified.

Review of monetary policy based on inflation forecast

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

Communicating through conditional inflation forecast

The SNB publishes an inflation forecast every quarter. This forecast is conditional, i.e. it is based on the assumption that the reference interest rate announced at the time of publication will remain constant for the next three years. Thus it shows how consumer prices would move assuming a given global economic scenario and an unchanged Swiss monetary policy stance. The direction that monetary policy is likely to take in the future can be derived from the path of the conditional inflation forecast over the next three years. For this reason, the inflation forecast is an important communication tool. However, it cannot be directly compared with forecasts by other institutions, which generally include anticipated SNB interest rate decisions in their forecasts.

The SNB implements its monetary policy by fixing a target range for the three-month Swiss franc Libor. The target range usually extends over one percentage point. As a rule, the SNB holds the Libor in the middle of the range.

Target range for the three-month Libor

The Libor corresponds to a trimmed mean of the current rates charged by 12 leading banks for unsecured interbank loans and is published daily by the British Bankers' Association in London. Even though the number of unsecured interbank loans upon which the Libor is based has declined significantly over the past few years, the Libor retains its economic importance. For instance, the Libor and the swap rate derived from it are the most important benchmarks for determining the interest rates of loans and bonds in the Swiss franc market. Thus the Libor continues to play a key role in the monetary policy transmission mechanism.

The SNB conducts an in-depth monetary policy assessment in March, June, September and December. Each of these assessments results in an interest rate decision and the publication of a medium-term conditional inflation forecast. The SNB sets out the reasons for its decisions in a press release and in a quarterly monetary policy report published in the *Quarterly Bulletin*. In June and December, it provides more information on the monetary policy decision at a news conference.

Quarterly policy assessments

1.3 International economic developments

Recovery of the global economy

During the course of 2009, the international economy had overcome the deep recession that followed the financial crisis of autumn 2008. The recovery continued in 2010, but considerable uncertainty persisted with regard to its sustainability, both in Europe and in the US. Moreover, the differing pace of growth from one region to another was striking. For instance, manufacturing output in the large advanced economies at the end of 2010 was still below the pre-crisis level, while the corresponding level in the emerging economies was clearly exceeded.

Regional differences

The solid recovery in the emerging economies was largely attributable to the fact that these countries were not very strongly affected by the financial crisis. Moreover, their public finances were comparatively sound, giving them scope for expansionary fiscal policies. By contrast, the effects of the financial crisis continued to weigh on many advanced economies. Unemployment remained high and this, together with the subdued financial position, held back household consumer spending. Due to more restrictive lending conditions, investment activity was cautious as well.

Additional strains due to sovereign debt crisis

The European Economic and Monetary Union (the euro area) was faced with additional strains as a result of the sovereign debt crisis. Doubts arose about the long-term solvency of certain countries in view of the rising levels of budget deficits and sovereign debt. As a result, financial market premia on government bonds for the countries in question rose, jeopardising the refinancing of government debt. In addition, the crisis of confidence threatened to spill over to other euro economies. In mid-May, the European authorities, jointly with the International Monetary Fund (IMF), created a stabilisation mechanism in order to stabilise the financial situation in Europe. This mechanism includes a rescue fund of up to EUR 500 billion, expiring after three years, which is to be used to provide euro area countries with financial support in cases of need.

Euro under pressure

In the course of the sovereign debt crisis, the euro came under pressure. It lost considerable value against most currencies, with losses against the Swiss franc proving particularly substantial.

Moderate upturn in the US

GDP in the US rose by 2.8% in 2010. This growth was not sufficient to close the output gap. Significant support was provided to the economy by equipment investment and private consumer spending, which both increased despite continued reduction in debt. Moreover, higher profits and low interest rates stimulated corporate investment activity. Residential construction remained a weak area. The large supply of vacant real estate weighed on house prices and, as a result, investment in residential construction decreased slightly, despite the granting of tax credits to home buyers. In addition, the sluggish recovery of the labour market was a cause for concern. In December, the unemployment rate was 9.4%, which was only a little below the peak of 10.1% measured in October 2009.

In the euro area, GDP rose by 1.7% in 2010, which was significantly less than in the US. Moreover, the pace of the recovery varied considerably from one country to another.

**Mixed economic developments
in the euro area**

Germany experienced the strongest upturn. Its export industry benefited from the weaker euro and the strong demand from the emerging economies. This led to an improvement in the labour market situation, which also lent momentum to the domestic economy. In many other euro countries, such as, for example, France, investment also began to revive, yet unemployment remained high. Greece and Ireland were in a difficult position, since both of them were faced with government budget problems. Rescue packages were put together for both countries in 2010. While the recession in Greece deepened, the Irish economy stagnated.

Asia saw a continuation of the strong recovery. In 2010, the Chinese economy expanded somewhat faster than in 2009, at about 10.3%. Government transfer payments and a robust labour market stimulated private consumption. However, the government cut back investment in infrastructure, which had been increased previously, resulting in a transfer of domestic demand from the public sector to the private sector.

Strong upturn in Asia

The export-oriented economies of South Korea, Taiwan, Hong Kong and Singapore benefited from the vigorous demand from China. Domestic demand in most of these economies was also healthy.

In Japan, GDP also grew strongly, at 3.9%. However, this did no more than restore nearly two-thirds of the GDP lost during the recession. The growth driver was the export industry, which benefited from the strong demand emanating from the emerging economies. Private consumption, supported by government stimulus programmes, also revived.

Inflation rates, as measured by the increase in consumer prices, increased slightly worldwide, largely reflecting rising prices for energy and commodities. In a number of emerging economies, inflation also increased as a result of strong economic growth and the increasing rate of capacity utilisation. By contrast, in the advanced economies core inflation – a measure of inflation that excludes food and energy prices – remained low. This reflected the considerable excess capacity still persisting in many places.

**Inflation rates creep
up slightly**

Consolidation of fiscal policy begins

In 2010, most countries retained their expansionary fiscal policies, although the pressure to consolidate government budgets increased in view of high deficits and growing sovereign debt. In the US, federal investment in infrastructure projects, which had been resolved in 2009, came into effect, while tax cuts passed in the same year remained in force. At the same time, however, the federal states and local governments reduced expenditure in order to lower their budget deficits. In the second half of the year, the Japanese government passed further measures aimed at supporting the economy. This was a reaction to the imminent slowdown in growth, due partly to the appreciation of the yen against the euro and the US dollar. In Europe, the sovereign debt crisis forced a number of countries to push ahead with radical austerity measures aimed at consolidating their government finances.

Expansionary monetary policy in advanced economies

The central banks of most advanced economies maintained their expansionary monetary policies. In an environment of low inflation and high unemployment, the US Federal Reserve maintained the target range for its reference interest rate unchanged at 0.0–0.25%. At the beginning of November, it announced a second large-scale purchase programme for long-term treasury bonds as part of its quantitative easing policy. Under the programme, USD 600 billion of treasury bonds are to be acquired by June 2011.

The European Central Bank's (ECB) main refinancing rate, which had been reduced to 1.0% in mid-2009, was held at this level throughout 2010, and the ECB continued to offer unlimited liquidity to banks. From May, the ECB also purchased government bonds from member states in difficulties in order to stabilise financial markets. The one-year covered bond purchase programme expired at the end of June and was not extended.

The Bank of Japan maintained its zero interest rate policy. It also intervened in the foreign exchange market in September in order to counteract the appreciation of the yen. In October, the Japanese central bank announced that it would maintain interest rates at zero until the fall in the price level had been brought to a halt. At the same time, it decided to acquire assets amounting to JPY 5,000 billion (including private sector assets) in order to lower market interest rates.

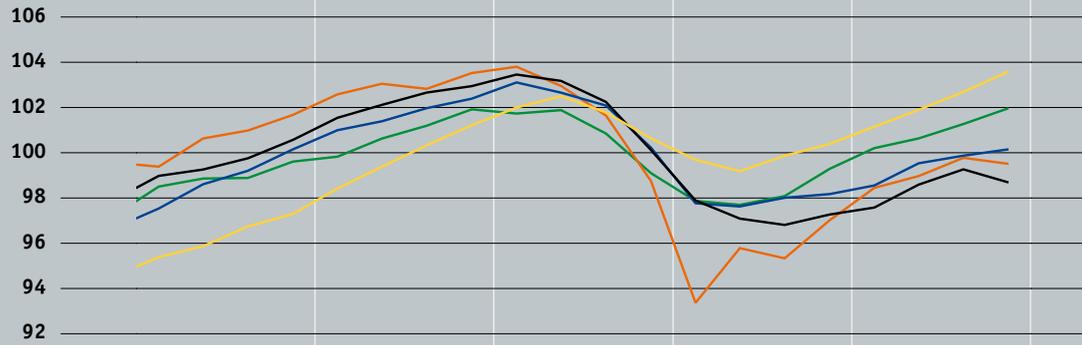
Monetary policy tightening in the emerging economies

Central banks in the emerging economies, faced with strong economic growth and an increasing threat of inflation, began tightening their monetary policy stance. The Chinese central bank raised its reserve requirement ratio for banks as well as its reference interest rates and took a number of further administrative measures aimed at curbing the strong growth in lending. In addition, it allowed a slight appreciation of the yuan to take place. By the end of the year, the Chinese currency had gained some 3.5% against the US dollar.

Level of gross domestic product

- United States
- Japan
- Euro area
- United Kingdom
- Switzerland

In real terms,
index: 100 = period average
(Q1/2006 – Q4/2010)
Sources: SECO, Thomson
Financial Datastream



Growth of gross domestic product

- United States
- Japan
- Euro area
- United Kingdom
- Switzerland

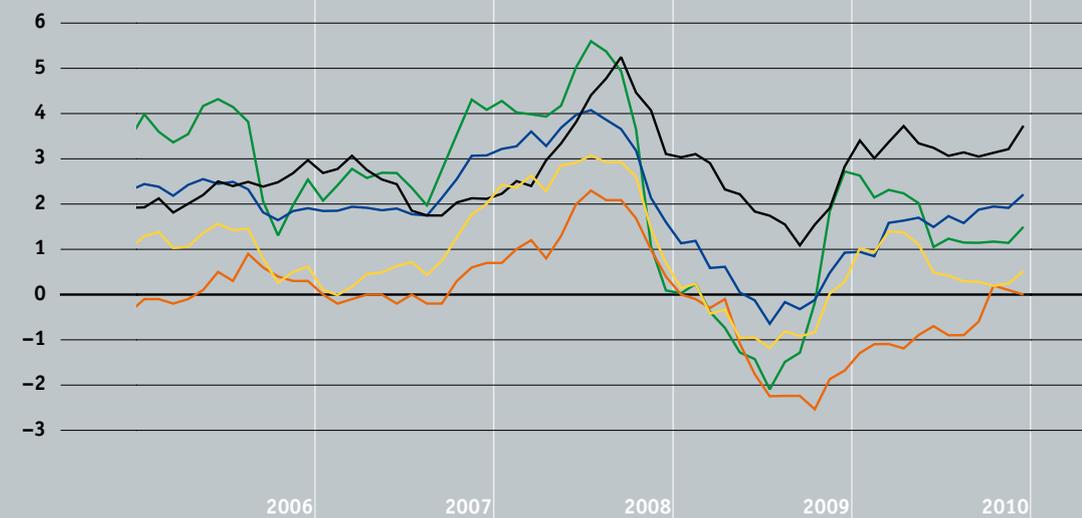
Year-on-year change
in percent, in real terms
Sources: SECO, Thomson
Financial Datastream



Inflation

- United States
- Japan
- Euro area
- United Kingdom
- Switzerland

In percent
Sources: SFSO, Thomson
Financial Datastream



1.4 Economic developments in Switzerland

Recovery in 2010

The year 2010 was one of recovery for the Swiss economy. GDP rose by 2.6% after having fallen by 1.9% in 2009. Significant momentum was provided by the domestic economy, but the export industry also contributed to growth.

Real gross domestic product

Year-on-year change in percent

	2006	2007	2008	2009	2010
Private consumption	1.6	2.3	1.3	1.0	1.7
Government consumption	0.3	0.3	1.7	1.6	-1.6
Investment	4.7	5.1	0.5	-4.9	4.6
Construction	-1.4	-2.3	0.0	3.0	3.3
Equipment	10.1	11.1	0.8	-10.8	5.7
Domestic demand	1.4	1.4	0.2	0.6	0.5
Exports of goods and services	10.3	9.6	3.3	-8.7	9.3
Aggregate demand	4.5	4.4	1.4	-3.0	3.7
Imports of goods and services	6.5	6.1	0.3	-5.4	6.7
Gross domestic product	3.6	3.6	1.9	-1.9	2.6

Sources: SECO, SFSO

Expanding foreign trade

Supported by the solid demand from abroad, exports of goods and services rose again in 2010, thereby recovering a large part of the losses suffered in 2009. However, around the middle of the year, the revival lost considerable momentum, partly as a result of the appreciation in the Swiss franc. The expansion in goods exports was broad based. In the case of services, growth was mainly attributable to higher net earnings from merchandising, while international banking operations derived little benefit from the recovery in global financial markets.

Imports increased substantially due to robust domestic demand and the strength of the Swiss franc. In the second half of the year, however, they also lost momentum.

A return to rising production and higher capacity utilisation supported the recovery in equipment investment, which had suffered an extremely sharp downturn in the crisis. However, at the end of the year, it was still at a lower level than before the crisis.

Investment recovers

Construction investment continued to expand in 2010 and provided an additional support to the economy. Favourable financing conditions and continuing immigration had a positive effect on residential construction investment. In addition, government subsidies for energy conservation measures stimulated renovation and refurbishment activities. Civil engineering was robust, benefiting from public sector infrastructure projects. However, commercial construction declined.

As a result of the increasing rate of capacity utilisation and the improvement in the labour market situation, the negative output gap narrowed markedly in 2010.

Negative output gap narrower

Job losses were moderate during the crisis, partly due to the use of short-time work, and thus the demand for labour during the recovery was modest. Therefore, employment (measured in terms of full-time equivalents) rose only slightly in 2010 (0.7%). New jobs were created in the areas of construction, trade, public administration and health, in particular. Manufacturing had been particularly hard hit by the crisis; in the second quarter of 2010 the job cuts came to a halt.

Slightly higher level of employment

Labour market

	2006	2007	2008	2009	2010
Employment in terms of full-time equivalents ¹	2.0	3.3	2.7	-0.1	0.7
Unemployment rate in percent	3.3	2.8	2.6	3.7	3.9
Number of job seekers in percent	5.0	4.3	3.9	5.2	5.5
Swiss nominal wage index ^{1,2}	1.2	1.6	2.0	2.1	0.9
Compensation of employees, nominal ^{1,2}	4.2	5.3	5.5	3.0	1.6

1 Year-on-year change in percent.

2 2010: SNB forecast.

Sources: SECO, SFSO

Unemployment falling over the course of the year

The rate of unemployment, which had soared from 2.5% to 4.2% during the crisis, decreased slightly again in 2010. By the end of the year, it had fallen to 3.5% (seasonally adjusted), which corresponded to a reduction of about 24,000 to 139,000 people.

During the crisis, many companies had introduced short-time work, particularly in manufacturing. According to a study carried out by the State Secretariat for Economic Affairs (SECO), the number of employees on short-time work in May 2009 peaked at some 92,000 people (not seasonally adjusted), falling rapidly thereafter. In November 2010, only 7,300 people were still affected by short-time work. Contrary to expectations, the decline in short-time work was not associated with a corresponding increase in unemployment. This suggests that a majority of the employees engaged in short-time work have been fully reintegrated in the production process.

Slight increase in wages

Nominal wages increased only marginally in 2010. According to SNB estimates, nominal wages as measured by the Swiss wage index were up by 0.9%, following 2.1% in 2009. The total wage bill (compensation of employees) as measured by the national accounts rose by an estimated 1.6%. Given an increase in full-time equivalent employment of 0.7%, this resulted in a 0.9% increase in nominal wages for 2010, following 3.1% in 2009. Unlike the wage index, which relates to existing employment contracts, the data in the national accounts on compensation of employees also include changes in employment structure and bonus payments.

The fact that nominal wages rose only slightly reflects the situation following the economic crisis. First, the subdued economic environment had a negative impact on salary agreements at the end of 2009. Second, the strong increase in unemployment during the course of 2009 put a damper on salary agreements for people entering the labour market or changing jobs. In addition, no inflation adjustments were required because the consumer price index had fallen by 0.5% in 2009.

Since the consumer price index rose by 0.7% in 2010, real wages hardly increased at all. Both the Swiss wage index and the national accounts showed a 0.2% rise. In 2009, they had risen by 2.6%, according to the wage index, or 3.6%, according to the national accounts.

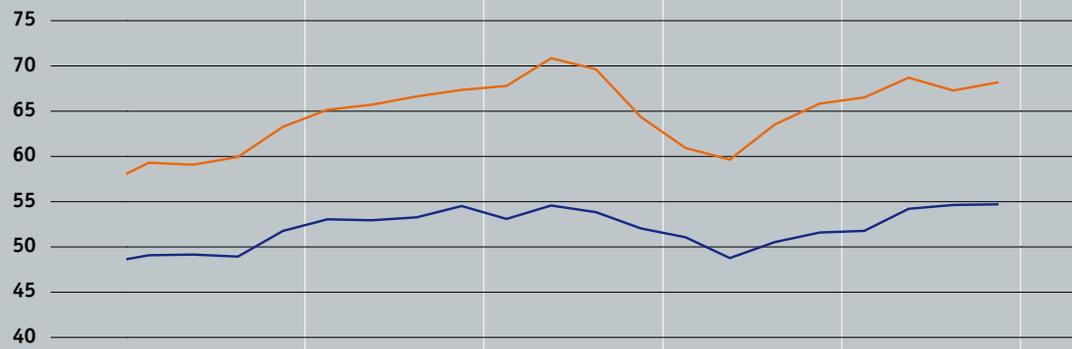
Gross domestic product and components

— 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



Robust growth in consumption

Growth in private consumption gathered pace in 2010. Since incomes increased only marginally, households mainly financed additional consumption by reducing their saving rate. The decline in unemployment also had a positive impact, which showed itself in the form of an improvement in consumer confidence. The demand for new cars recovered particularly strongly and a major part of the sales losses suffered during the crisis were compensated. However, consumption of goods and services that are less sensitive to cyclical movements, including expenditure on food and accommodation, also rose further.

Following a phase of strong growth during the crisis, government consumption declined significantly in 2010. This was mainly because the stabilisation measures designed to support the domestic economy came to an end.

Broad-based GDP growth in terms of individual industries

GDP growth was broad based in 2010 in terms of individual industries. Those industries that had suffered the biggest losses during the crisis grew most strongly. They included manufacturing, trade and finance. But even the areas that had been spared by the crisis, such as the construction industry, public administration and healthcare, also supported the economy.

Slightly higher producer and import prices

The recovery of the global economy led to increasing prices for commodities and energy. As a result, Swiss producer and import prices also rose. Under the impact of the strong Swiss franc, however, inflationary pressure remained low. Overall, Swiss producer prices were down slightly from the previous year's level (-0.1%), while import prices were up by 0.8%. Excluding commodities and energy, import prices were 1.6% below the level of the previous year.

Consumer prices

— Consumer prices
— Domestic goods
— Imported goods
 Year-on-year change in percent
 Source: SFSO



Producer and import prices

— Producer and import prices
— Producer prices
— Import prices
 Year-on-year change in percent
 Source: SFSO



Core inflation

— Consumer prices
— Trimmed mean
— Dynamic factor inflation
 Year-on-year change in percent
 Sources: SFSO, SNB



National consumer price index and components

Year-on-year change in percent

	2009	2010	2010			
			Q1	Q2	Q3	Q4
Consumer price index, overall	-0.5	0.7	1.1	1.0	0.3	0.3
Domestic goods and services	1.2	0.6	0.8	0.6	0.4	0.5
Goods	1.0	-0.1	0.4	0.0	-0.4	-0.5
Services	1.3	0.8	0.9	0.9	0.7	0.8
Private services (excluding rents)	0.6	0.6	0.8	0.7	0.5	0.4
Rents	2.5	1.1	1.3	1.1	0.9	1.2
Public services	0.8	0.9	0.7	0.8	0.7	1.2
Imported goods and services	-4.7	0.9	1.8	1.9	-0.1	-0.1
Excluding oil products	-0.3	-1.3	-0.9	-1.2	-1.4	-1.5
Oil products	-25.9	13.9	18.3	21.0	8.6	8.5
Core inflation						
Trimmed mean	1.1	0.6	0.7	0.6	0.4	0.6
Dynamic factor inflation	0.4	0.7	0.3	0.6	0.8	1.0

Sources: SFSO, SNB

Decline in inflation over the year

The strong Swiss franc also exerted pressure on inflation as measured by the CPI, which fell from 1.0% in January to 0.5% in December. Thus the cost of imported goods (excluding oil products) decreased, on average, by 1.3%. At the same time, prices of domestic goods and services also rose more slowly. The rate at which rents increased fell from 2.5% in 2009 to 1.1% in 2010, which was probably attributable to the drop in the reference interest rate for tenancies.

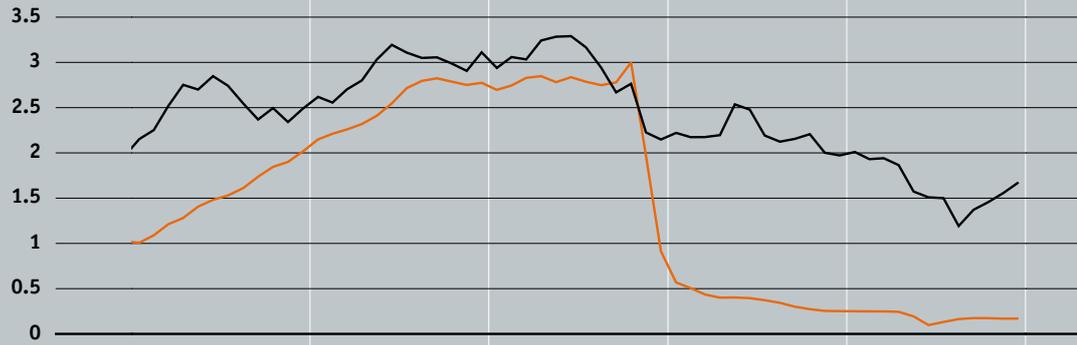
Core inflation remains low

Numerous short-term fluctuations can have an impact on inflation, as measured by the CPI. The SNB calculates two core inflation rates, the trimmed mean and dynamic factor inflation, in order to analyse the inflation trend. The trimmed mean method excludes, each month, the goods with the highest price variation. In the case of dynamic factor inflation, core inflation is derived from a large number of prices, data from the real economy, financial indicators and monetary variables.

In 2010, the trimmed mean fell from 0.9% in January to 0.6% in December, although it remained in positive territory throughout the year. Dynamic factor inflation moved away from zero, and reached 1.1% by the end of the year.

Money and capital market rates

— Three-month Libor
— Yield on ten-year Swiss Confederation bonds
 In percent



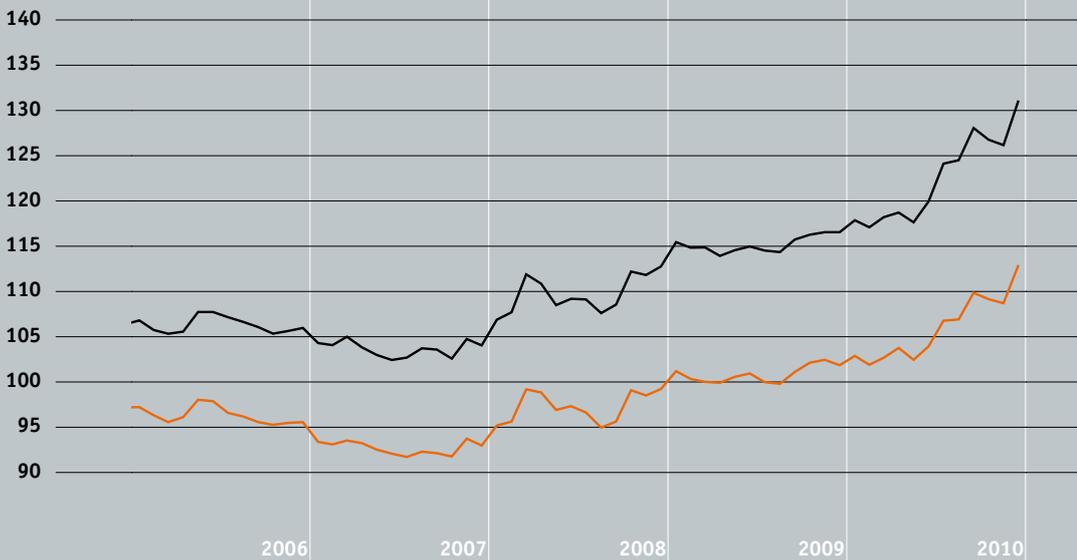
Exchange rates

— CHF/USD
— CHF/EUR
 Nominal



Export-weighted Swiss franc exchange rates

— Real
— Nominal
 40 trading partners
 Index: January 1999 = 100



Appreciation of Swiss franc

In 2010, the Swiss franc gained considerably in value. The increase against the euro was particularly marked. In December, the Swiss franc was trading at CHF 1.28 on average against the euro, which meant that it had appreciated by some 17% from the average level of December 2009. The year-end rate for the Swiss franc was even higher (CHF 1.25 against the euro). After initially weakening against the US dollar, the Swiss franc also strengthened against the US currency in the second half of the year. In December, a dollar cost CHF 0.97 on average, an appreciation in the Swiss franc of some 6% against the US dollar compared to the year before. At the end of the year, the US dollar was trading at CHF 0.93.

In December, the export-weighted external value of the Swiss franc was 12.5% higher than a year before, in nominal terms. Adjusted for trading partners' price developments, the real appreciation in the Swiss currency amounted to 10.9%.

Yield on government bonds declining

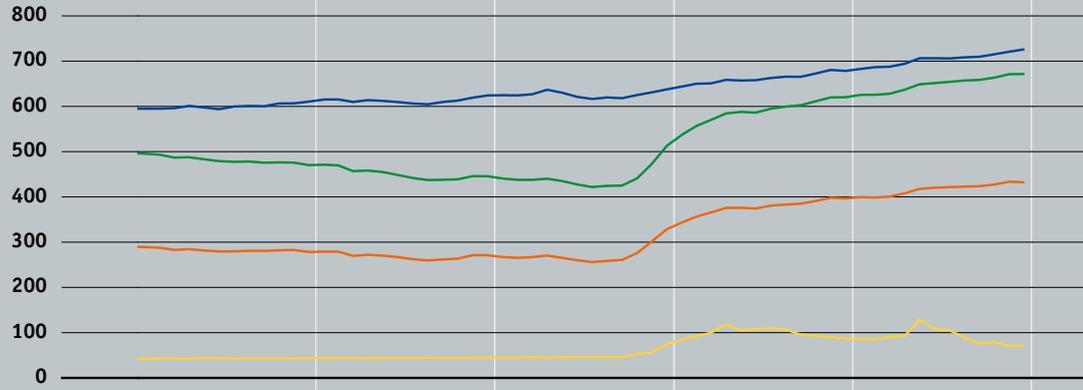
The yield on ten-year Confederation bonds stood at around 2.0% in the first quarter. In May, the worsening of the European sovereign debt crisis gave rise to a flight to safe investments, including those in Swiss francs. Subsequently, the yield on ten-year Confederation bonds fell considerably, reaching a historic low of 1.1% in August. By December, it had risen again to 1.7%. Averaged out over the year, it came to 1.6%.

Strong growth in monetary aggregates

In 2010, money stocks held by domestic residents at banks rose further. The M3 aggregate exceeded the level of the previous year by an average of 6.6%. In view of the low interest rates and uncertain situation on the financial markets, the demand for liquid assets, such as those contained in the M1 and M2 aggregates, remained particularly strong. M1 and M2 continued increasing, but at a slower pace. For the year as a whole, M1 was on average 10.6% higher than in 2009, following a 38.1% increase in 2009; M2 was 10.2% up, following a 33.0% rise in the previous year.

Level of monetary aggregates

— Monetary base
— M1
— M2
— M3
 In CHF billions



Growth of monetary aggregates

— Monetary base
— M1
— M2
— M3
 Year-on-year change in percent



1.5 Monetary policy decisions

Monetary policy in 2010

In 2010, the SNB maintained its expansionary monetary policy. It left the target range for the three-month Libor unchanged at 0.0–0.75%, with the intention of keeping the Libor within the lower part of the range, at around 0.25%. Moreover, in the first half of the year, it counteracted an excessive appreciation in the Swiss franc by intervening in the foreign exchange market.

Combating the threat of deflation in 2009

Given the severe downturn in the global economy, a serious threat of a deflationary trend had emerged in Switzerland at the beginning of 2009. In order to prevent this threat from materialising via appreciation of the Swiss franc – and given that the interest rate was at a de facto level of zero – the SNB acted against any appreciation in the Swiss franc with respect to the euro from March 2009 on, intervening in the foreign exchange market to achieve this goal.

Threat of deflation reduced as economy recovers

By the end of 2009, the SNB considered that, with the progress in the recovery of the economy, the threat of deflation had receded. Consequently, a certain appreciation in the Swiss franc could be allowed without price stability being compromised. In December 2009, the SNB therefore announced that it would act decisively only in the event of an excessive appreciation of the Swiss franc. This policy was maintained throughout the first half of 2010.

Strong upward pressure in spring

In spring 2010, with the escalation of the sovereign debt crisis in Europe, major tensions arose on financial markets. This led to a renewed flight to safe investments, with substantial upward pressure on the Swiss franc. The SNB considered that, at that time, a rapid and excessive appreciation of the Swiss franc against the euro would have placed the Swiss economy under such a strain that the threat of a deflationary trend would have again come to the fore. The SNB was not prepared to take this risk and therefore decided to acquire large quantities of foreign exchange.

Economic recovery consolidates in second half of year

Towards the middle of the year, the recovery of the Swiss and global economy had consolidated to such an extent that the threat of deflation in Switzerland had largely disappeared. In June, the SNB therefore considered that an appreciation of the Swiss franc was no longer such a threat to price stability and the economy as it had been previously. Thus it refrained from carrying out any further interventions on the foreign exchange market in the second half of the year.

With its prudent policy, the SNB contributed to the recovery of the Swiss economy. By the third quarter, GDP had reached the same level as before the crisis. Overall, GDP rose by 2.6% in 2010, after having fallen by 1.9% in 2009.

Q4 2009

Q1 2010

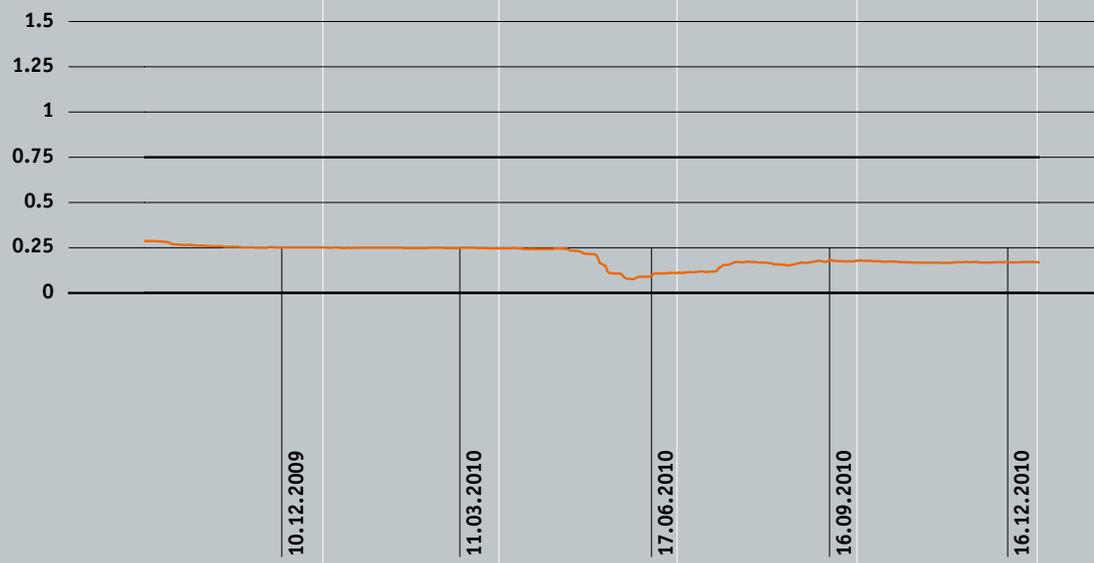
Q2

Q3

Q4

Three-month Libor

— Three-month Libor
— Target range
Daily values in percent



Q4 2009

Q1 2010

Q2

Q3

Q4

Price stability assured

In 2010, price stability was assured. The medium-term conditional inflation forecast published as part of the quarterly monetary policy assessments indicated a low level of inflation initially, although this picked up at the end of the three-year forecast horizon. In its monetary policy decisions, the SNB therefore drew attention to the fact that it would not be able to maintain its expansionary monetary policy indefinitely. Given the low rates of interest and rising real estate prices, it also warned banks, households and companies not to take excessive risks in the financing of real estate.

The four monetary policy decisions of March, June, September and December are summarised below in the form in which they were made – on the basis of the information available at the time – and elucidated in press releases and news conferences.

Monetary policy assessment of 11 March

At the time of the quarterly assessment of March 2010, the signs of an economic recovery were becoming more tangible. In the emerging economies, particularly in Asia, growth momentum was strong, and in the US and Europe the recovery continued. While growth in the US was surprisingly positive, it was disappointing in Europe. Consequently, the SNB expected a moderate recovery in the US (2010: 2.9%; 2011: 2.6%) and modest growth in Europe (2010: 1.0%; 2011: 2.2%). At the same time, it drew attention to the fact that risks for the global economy remained significant.

In Switzerland too, the economic recovery was under way at the time of the quarterly assessment. According to estimates by SECO, real GDP had risen by an annualised 0.7% due to support from domestic demand and exports between the third and fourth quarters of 2009. Wholesale and retail trade, as well as finance and construction had recorded strong advances. Manufacturing, which had suffered most heavily in the recession, was also showing increasing signs of recovery. Moreover, the recovery began to be felt in terms of the demand for labour, and the increase in unemployment had come to a halt. At this time, the SNB expected GDP to increase by approximately 1.5%, although it noted that the recovery remained fragile and associated with uncertainties.

Monetary conditions reflected the SNB's expansionary monetary policy. The three-month Libor stood at the desired level of 0.25%. Although growth in the monetary aggregates had slowed in the months prior to the assessment, it was still substantial, at 16% compared to the year-back period for M2 and 6% for M3. Liquidity held by households and corporations was correspondingly high. Looking at mortgage loans, they had recorded growth of some 5% in the months preceding the quarterly assessment.

The export-weighted external value of the Swiss franc had increased further, mainly due to the weakening of the euro. From mid-December to mid-March, the Swiss franc appreciated by 3.3% against the euro, but lost 4.7% in value against the US dollar.

In view of the continued fragility of the recovery and the high downside risks, the SNB decided to maintain its expansionary monetary policy. It left the target range for the three-month Libor unchanged at 0.0–0.75% and continued to aim for a Libor within the lower part of the target range at around 0.25%. The SNB also announced that it would continue to act decisively to prevent an excessive appreciation of the Swiss franc against the euro. Furthermore, it warned the banks as well as corporations and households of the risks they would run if they did not remain disciplined with respect to real estate financing.

The conditional inflation forecast published at the time of the monetary policy decision was based on a three-month Libor of 0.25% and was almost unchanged from that of the assessment in December 2009. In the first quarter of 2010, inflation rose briefly due to a base effect resulting from the historically low level of the oil price a year previously. The conditional inflation forecast for 2010 lay slightly above that of December because economic activity was more robust than had been expected in December. However, prices were subdued by the fact that GDP remained below potential and by the appreciation of the Swiss franc. From 2011, the new inflation forecast was therefore slightly below that of December. However, the forecast also showed that inflation would increase significantly in 2011, and that it would exceed the 2% level in 2012.

Despite the setback in the second quarter resulting from the financial market turmoil, the recovery in the global economy was continuing at the time of the quarterly assessment in June. In the US, there was a further recovery in domestic demand and the labour market. In Europe, however, restrained expenditure on the part of households and companies meant that economic activity remained subdued. Overall, the SNB revised its forecast for global growth in 2010 and 2011 upwards while simultaneously drawing attention to the high downside risks.

**Monetary policy assessment
of 17 June**

In Switzerland, economic momentum was positive at the time of the assessment. For the first quarter of 2010, SECO estimated that GDP had risen by 1.6%, on an annualised basis. Economic activity was mainly driven by household demand and exports. As the recovery strengthened, the demand for labour increased and short-time work fell significantly. Although the weakening of the euro against the Swiss franc dampened export activity, exports were supported by the growth in foreign demand. As a consequence, the SNB adjusted its forecasts upwards, projecting that GDP would rise by approximately 2% in 2010. In view of this development, the SNB, at this stage, considered that the threat of deflation had largely disappeared.

In the two months before the June assessment, however, the escalation of the European sovereign debt crisis and the associated renewal of financial market tension had led to substantial upward pressure on the Swiss franc. The SNB had considered that a rapid and excessive appreciation of the Swiss franc against the euro would have placed the Swiss economy under such a strain that the threat of a deflationary trend would have again come to the fore. The SNB was not prepared to take this risk and therefore decided to acquire large quantities of foreign exchange.

The expansion of liquidity in April and May, which had come about as a result of foreign exchange purchases, had an impact on monetary conditions. In mid-June, the three-month Libor stood at 0.09%. In May, the monetary base had attained the record level of CHF 128.6 billion. Monetary aggregate growth rates remained high, reaching some 10% for M2 compared to the year-back figure and 7% for M3. Mortgage loans again recorded a growth rate of some 5% compared to the year-back figure.

From mid-March to mid-June, the US dollar had gained some 10% in value against the euro, while the appreciation of the Swiss franc against the euro during the same period had amounted to 4%. This more modest rise in the Swiss franc against the euro was a consequence of the SNB's policy to counteract excessive appreciation. Since the Swiss franc lost value against the US dollar, the export-weighted external value of the Swiss franc increased only slightly in the second quarter.

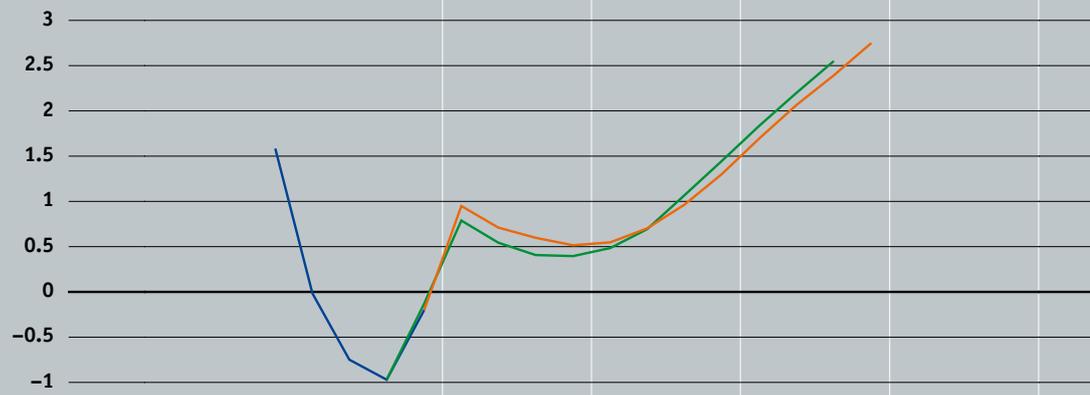
Inflation forecast of 11 March 2010

Inflation

December 2009 forecast:
three-month Libor 0.25%

March 2010 forecast:
three-month Libor 0.25%

Year-on-year change
in national consumer
price index in percent



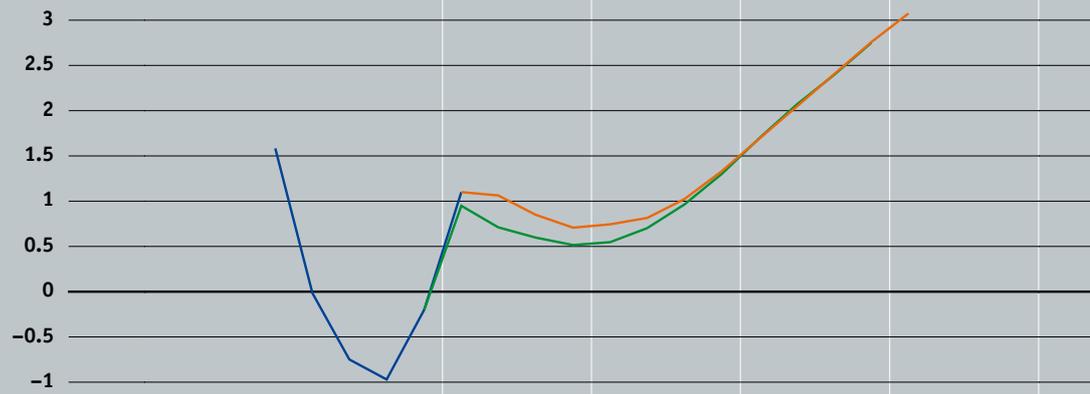
Inflation forecast of 17 June 2010

Inflation

March 2010 forecast:
three-month Libor 0.25%

June 2010 forecast:
three-month Libor 0.25%

Year-on-year change
in national consumer
price index in percent



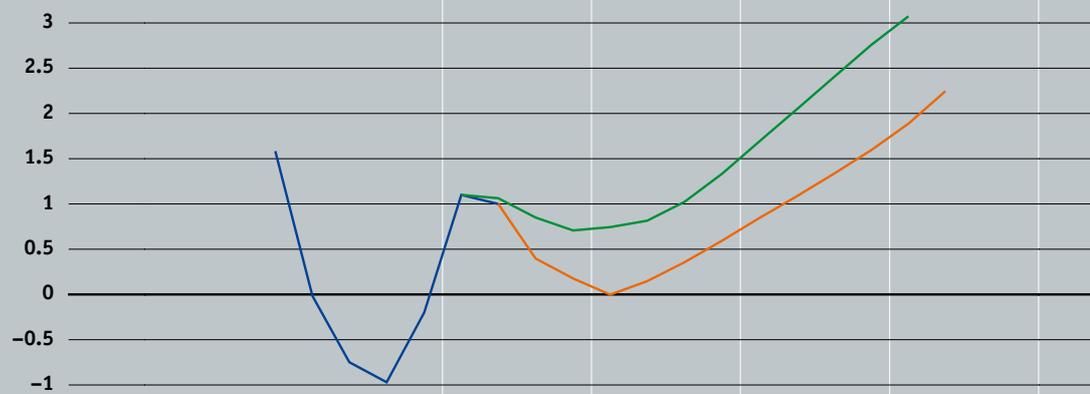
Inflation forecast of 16 September 2010

Inflation

June 2010 forecast:
three-month Libor 0.25%

September 2010 forecast:
three-month Libor 0.25%

Year-on-year change
in national consumer
price index in percent



Inflation forecast of 16 December 2010

Inflation

September 2010 forecast:
three-month Libor 0.25%

December 2010 forecast:
three-month Libor 0.25%

Year-on-year change
in national consumer
price index in percent



The SNB decided to maintain its expansionary monetary policy and leave the target range for the three-month Libor unchanged at 0.0–0.75%, holding the Libor in the lower part of the range at around 0.25%. It also stated that it considered that the deflationary risk in Switzerland had largely disappeared. At the same time, uncertainty had increased since the last assessment. The latest tensions on the financial markets related to the public finances of some individual countries had increased the downside risks. Consequently, the SNB drew attention to the fact that, should these downside risks materialise and, via an appreciation of the Swiss franc, lead to a renewed threat of deflation, it would take all the measures necessary to ensure price stability.

The conditional inflation forecast for 2010 and 2011 had increased slightly since March, although the inflation outlook was unchanged overall. It was based on a three-month Libor of 0.25%. To mid-2011, the conditional inflation forecast remained below the 1% level, because the base effect attributable to the oil price was petering out and GDP remained below potential. From the third quarter of 2011, inflation was expected to increase, reaching 2.2% in 2012. Consequently, the forecast showed that the expansionary monetary policy could not be maintained over the entire forecast horizon.

At the time of the quarterly assessment of September, the recovery of the global economy was proceeding at a somewhat slower pace than had been assumed in June. In the US and Asia, growth appeared to have faltered a little in the second quarter. In the euro area, by contrast, the economic situation had improved significantly due to strong foreign demand and a favourable exchange rate. As a consequence, the SNB slightly revised its growth forecasts for the US downwards, to 2.7% for 2010 and 2.5% for 2011. For the euro area, it expected somewhat stronger growth for 2010 (1.7%), but left the forecast for 2011 unchanged (2.2%).

In Switzerland, the revision of national accounts data published in September suggested that the recession of 2009 had been deeper than previously assumed. However, the rise in Swiss real GDP between the third quarter of 2009 and the second quarter of 2010 had been significantly stronger than potential output. In addition, manufacturing – which had been most seriously affected by the recession – had been clearly on the road to recovery during this period. Furthermore, unemployment and short-time work had declined further in the months prior to the September assessment. Consequently, the SNB forecast GDP growth of approximately 2.5% for 2010. This higher growth forecast, compared to the previous assessment, did not result from a reassessment of the economic outlook, but was due to the revision of the previous GDP figures. However, it was expected that, in the quarters ahead, GDP growth would slow as a result of the strong Swiss franc and the declining momentum of the global economy.

Compared to the June assessment, monetary conditions were somewhat less expansionary. The three-month Libor had again risen slightly and the Swiss franc had appreciated substantially against both the euro and the US dollar. However, liquidity in the banking sector remained substantial, and household and corporate money holdings were still rising at the time of the assessment. In the months prior to the assessment, M2 had risen by 10% year-on-year and M3 was up 6%. Lending remained brisk. However, the pace of growth in mortgage loans and real estate prices had flattened out slightly as compared with the end of 2009.

The SNB therefore decided to maintain its expansionary monetary policy and leave the target range for the three-month Libor unchanged at 0.0–0.75%, keeping the Libor within the lower part of the target range at around 0.25%. Uncertainty about the future outlook for the global economy remained high. The economic recovery was not yet sustainable and downside risks predominated. The SNB drew attention to the fact that, should downside risks materialise and result in a renewed threat of deflation, it would take the measures necessary to ensure price stability.

The inflation forecast published at the time of the assessment was based on a three-month Libor of 0.25% and was substantially below that of June. It assumed that inflation would be almost zero at the beginning of 2011. The main reason for this low figure was the disappearance of the base effect attributable to the increase in oil prices and the reduction in the price of imports due to the strength of the Swiss franc. The lower inflation outlook for 2011 and 2012 compared to the June forecast resulted from the strong Swiss franc and the anticipated slowdown in the international economy. Consequently, an expansionary monetary policy was appropriate in the short term, although it posed long-term risks to price stability.

At the time of the December assessment, the global economic recovery was continuing, supported by expansionary economic policies. In the third quarter, growth in the euro area had slowed and concerns about stability in this area had led to renewed tensions on financial markets. In this situation, the SNB revised its growth forecasts for Europe slightly downwards, to 1.8% for 2011 and 2.4% for 2012. No significant changes were made for the US.

**Monetary policy assessment
of 16 December**

In Switzerland, the economic trend continued positive at the time of the assessment. Capacity utilisation had returned to a normal level in manufacturing, while in construction it was above the long-term average. Employment also increased moderately and unemployment declined further. However, the weakening of exports, in particular, suggested a significant slowdown in growth in the quarters ahead. Consequently, the SNB expected GDP to grow by some 1.5% in 2011, following growth of approximately 2.5% in 2010.

Since the September assessment, liquidity-absorbing operations had continued. This had led to a decline in the monetary base. However, the broader monetary aggregates continued to expand strongly. In the months preceding the quarterly assessment, growth in M2 had been substantial, at approximately 9% compared to the year-back period, as had that in M3, at some 6%. In view of the expansionary monetary conditions, lending business had remained brisk. Banks had maintained their lending standards for companies and households in the third quarter of 2010 and this was reflected in a continuation of the high growth for mortgage volume in the months prior to the assessment.

Since the September assessment, the Swiss franc had gained in value against the US dollar while changing little with respect to the euro. The real export-weighted external value of the Swiss currency had decreased slightly in October and November, but remained at a high level.

The SNB therefore decided to maintain its expansionary monetary policy and leave the target range for the three-month Libor unchanged at 0.0–0.75%, keeping the Libor within the lower part of the target range at around 0.25%. Nevertheless, it drew attention to the high level of uncertainty and the downside risks in connection with the concerns about stability in the euro area. Should these tensions be exacerbated and put a strain on economic developments in the euro area, this would also have a detrimental effect on the Swiss economy. If a threat of deflation were to emerge as a result of such a situation, the SNB would take the measures necessary to ensure price stability.

The conditional inflation forecast published at the time of the assessment was based on the assumption of a three-month Libor of 0.25%, and for 2012 and 2013 was slightly under the September forecast. However, for the beginning of 2011, it showed inflation slightly above the figure published in September, because the oil price had increased. The increase in inflation in the third quarter of 2011 was attributable to a base effect, because inflation a year earlier had been comparatively low. The lower inflation outlook for 2012 and 2013, compared to the September forecast, resulted from the slowdown in the international economy. However, the rising path of inflation in 2012 and 2013 showed that the expansionary monetary policy could not be maintained over the entire forecast horizon without compromising long-term price stability.

2 Supplying the money market with liquidity

2.1 Background

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. This article also entitles the SNB to issue debt certificates of its own (art. 9 para. 1 (d) NBA). As lender of last resort, the SNB also provides emergency liquidity assistance (art. 9 para. 1 (e) NBA).

Mandate

By steering liquidity on the money market, the SNB implements its monetary policy. To this end, it influences money market rates. The three-month Swiss franc Libor serves as its reference interest rate. The SNB influences the three-month Libor indirectly via its money market operations (cf. also chapter 1.2).

The SNB steers the three-month Libor by means of liquidity-providing and liquidity-absorbing secured money market operations. The choice of liquidity management regime depends on the liquidity structure in the banking system. If the banking system shows signs of being undersupplied with liquidity, the SNB provides liquidity through short-term money market operations. If, however, the banking system is oversupplied with liquidity, the SNB absorbs liquidity via short-term money market operations. The SNB can influence the three-month Libor every day by means of the interest rates charged for these daily money market operations.

Liquidity management

Since the middle of 2010, the focus has been on liquidity-absorbing money market operations after the SNB had supplied the banking system with liquidity for an unlimited period to the amount of CHF 191 billion via foreign exchange purchases from March 2009. The structural liquidity deficit of the banking system vis-à-vis the SNB thus turned into considerable excess liquidity. As a result, demand for liquidity-providing money market operations came to a standstill in May 2010. The SNB subsequently discontinued these operations. Instead, it replaced them with liquidity-absorbing repo transactions and a greater number of SNB Bill issues.

In order for a bank to maintain its solvency, it must have sufficient liquidity at all times. A bank's 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. Sight deposits at the SNB bear no interest.

The individual financial market participants adjust their liquidity positions on the money market. Banks wanting to place funds on a short-term basis provide liquidity in the form of a loan to other banks that require short-term refinancing. 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 can threaten the solvency of the banks.

2.2 Monetary policy instruments

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. Regular open market operations include repo transactions and the issuance of SNB Bills. Further instruments, such as foreign exchange purchases, are available if necessary. Standing facilities include the liquidity-shortage financing facility and the intraday facility.

In principle, all banks and securities dealers domiciled in Switzerland or the Principality of Liechtenstein are admitted as counterparties in monetary policy operations. Other domestic financial market participants such as insurance companies, as well as banks and other financial market participants domiciled abroad, may be admitted to monetary policy operations provided this is in the SNB's monetary policy interest and the said institutions contribute to the liquidity on the secured Swiss franc money market. In 2010, five domestic insurance companies were admitted as eligible counterparties.

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 what securities can be used as collateral for monetary policy operations.

Open market operations

The two regular types of open market operations conducted by the SNB, repo transactions and the issuance of SNB Bills, serve to manage liquidity on the money market.

In the case of liquidity-providing repo transactions, the SNB purchases securities from a bank (or another market participant admitted as counterparty in repo operations) and credits the associated sum in Swiss francs to the counterparty's sight deposit account with the SNB. At the same time, it is agreed that the bank in question will repurchase securities of the same type and quantity at a later date. The bank pays interest (repo interest rate) to the SNB for the term of the repo agreement. In the case of liquidity-absorbing repo transactions, the SNB sells securities to a bank and debits the associated sum to the latter's sight deposit account. At the same time, it is agreed that the SNB will repurchase the securities from the bank at a later date. The SNB pays interest (repo interest rate) to the bank for the term of the repo agreement.

From an economic perspective, a repo is a secured loan, with the SNB acting as cash provider in the case of a liquidity-providing operation and the commercial bank acting as cash provider in a liquidity-absorbing transaction. The repo rate, the volume and the term of the individual transactions depend on monetary policy requirements. The terms of repo transactions vary from one day (overnight) to several months.

The SNB may also issue its own debt certificates in Swiss francs (SNB Bills). This enables it to absorb liquidity on a large scale. SNB Bills are included in the list of securities eligible for SNB repo transactions and can therefore be used as collateral in such transactions. The SNB can also purchase or sell SNB Bills via the secondary market. Buyers of SNB Bills can sell the bills to other financial market participants – whether banks or non-banks – just like other securities. The issuance of SNB Bills reduces the banks' sight deposits at the SNB and therefore the monetary base (M0), which comprises sight deposits and banknotes in circulation.

SNB Bills do not represent legal tender and cannot therefore be used by banks to satisfy minimum reserve requirements.

Liquidity-providing and liquidity-absorbing repo transactions

Issuance of SNB Bills

Auction procedures

The SNB conducts regular open market operations by means of auctions. Transactions are concluded via the Eurex Zurich Ltd electronic trading platform.

As a rule, repo auctions are conducted in the form of a volume tender. In this type of auction, each counterparty submits to the SNB offers for the amount of liquidity it is willing to provide or request for a given repo rate. If the total amount of all the offers exceeds the SNB's predetermined allotment volume, the SNB reduces the amounts offered proportionately.

SNB Bill auctions are, as a rule, conducted in the form of a variable rate tender with allotment according to the American system. The SNB's counterparties submit their offers comprising the amount of liquidity they are willing to provide and price at which they will do so. Each counterparty may submit as many offers as it wishes, and may also vary the interest rate from one offer to another. The SNB obtains liquidity from the participants that have offered at or below the highest interest rate accepted by the SNB, paying the participants the interest rate stated in their offers.

Bilateral operations

By placing or accepting offers for repo transactions on the electronic trading platform, 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 absorbing liquidity.

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. The special rate applicable for obtaining liquidity through the liquidity-shortage financing facility is based on the SARON (Swiss Average Rate Overnight) plus a surcharge of 50 basis points.

In 2010, the limits under the liquidity-shortage financing facility were increased by a total amount of CHF 1.5 billion to CHF 37.5 billion at the request of financial market participants. By the end of the year, 85 financial market participants had been granted a limit (2009: 79).

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 drawn 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

In accordance with art. 9 para. 1 NBA, the SNB has further monetary policy instruments at its disposal. These include, in particular, spot and forward foreign exchange transactions, currency swaps, the purchase and sale of securities denominated in Swiss francs and derivatives on receivables.

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.

Foreign exchange swaps

From October 2008 to January 2010, the SNB provided banks in Switzerland and abroad with additional liquidity via EUR/CHF foreign exchange swaps. The focus was especially on banks outside Switzerland, which had no access to the SNB's repo auctions. The foreign exchange swaps were conducted as auctions at a fixed price (volume tender). Due to declining demand and improved conditions on the Swiss franc money market, foreign exchange swap operations were discontinued in January 2010.

EUR/CHF foreign exchange swaps

A large proportion of the EUR/CHF foreign exchange swaps were conducted as part of the temporary swap agreements concluded in autumn 2008 with the European Central Bank, the National Bank of Poland and the Hungarian central bank. The SNB provided these three central banks with Swiss franc liquidity against euros 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 January 2010, the parties involved agreed not to renew these agreements.

Swap agreements with the ECB, Poland and Hungary

Swap agreement with the US Federal Reserve

The swap agreement concluded with the US Federal Reserve in December 2007, which enabled the SNB to obtain US dollars for Swiss francs, was no longer renewed in February 2010 for the time being. It had provided the basis for SNB repo auctions in US dollars (cf. chapter 2.7). In view of the tensions on the financial markets in May, the SNB and the other central banks participating in the agreement decided to reintroduce the temporary swap facilities for US dollar liquidity. In December 2010, these were extended to 1 August 2011.

Foreign exchange purchases

The SNB acquired substantial amounts of foreign exchange in 2010. The purchases were concluded almost exclusively via electronic trading platforms and involved a wide range of counterparties in Switzerland and abroad. The SNB also made use of short-term foreign exchange options to a limited extent in support of its foreign exchange purchases. The SNB sold marketable EUR/CHF options to its counterparties and received option premia in exchange. The options provided the counterparties with the right to sell euros against francs to the SNB at a predefined price. At the same time, the options caused counterparties to sell Swiss francs themselves when the euro was declining against the Swiss franc and thus to bolster the euro.

Sale of Swiss franc bonds

The Swiss franc bonds issued by domestic private sector borrowers, which the SNB had acquired in 2009, were either fully sold or redeemed upon maturity in 2010.

New liquidity management regime

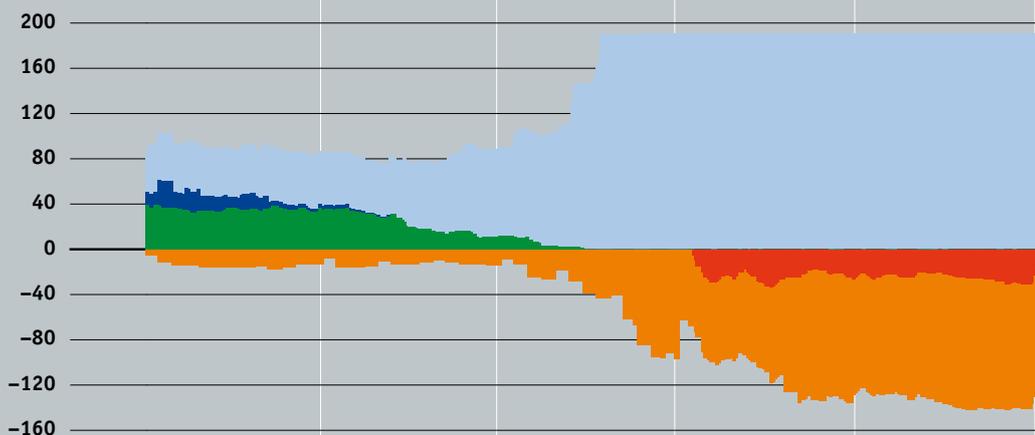
The large amounts of foreign exchange purchased by the SNB led to excess liquidity in the banking system. Consequently, the existing procedure for implementing monetary policy had to be adapted. The new implementation procedure is based on a repeated absorption of excess liquidity. This means that, as a rule, the SNB now provides refinancing only within the framework of the liquidity-shortage financing and intraday facilities.

In 2010, liquidity-absorbing repos and SNB Bills were used to absorb surplus liquidity. Whereas repo transactions are focused on steering interest rates, the main purpose of SNB Bill issues is to absorb liquidity.

2.3 Liquidity management in 2010

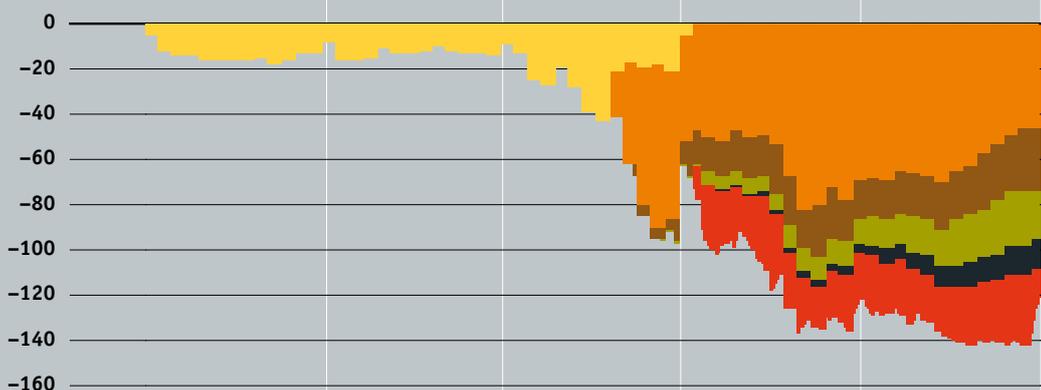
Liquidity management on the money market

- Liquidity-providing repo transactions
 - Foreign exchange swaps
 - Foreign exchange purchases
 - Liquidity-absorbing repo transactions
 - SNB Bills
- Monetary policy operations outstanding at end of day, in CHF billions



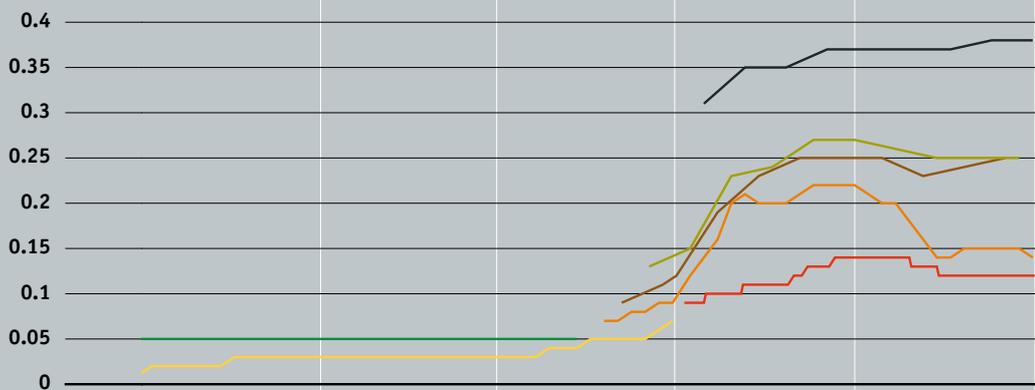
Liquidity-absorbing open market operations

- SNB Bills, 7 days
 - SNB Bills, 28 days
 - SNB Bills, 84 days
 - SNB Bills, 168 days
 - SNB Bills, 336 days
 - Repos, 4 to 11 days
- Monetary policy operations outstanding at end of day, in CHF billions



Interest rates for open market operations

- SNB repo rate (liquidity provision)
 - SNB repo rate (liquidity absorption)
 - SNB Bills, 7 days
 - SNB Bills, 28 days
 - SNB Bills, 84 days
 - SNB Bills, 168 days
 - SNB Bills, 336 days
- In percent



Repo transactions to steer the three-month Libor

Repo transactions serve to steer the three-month Libor. They are conducted daily in the form of an auction at the repo rate determined by the SNB (volume tender). As a rule, repos have a term of one week.

Liquidity-providing repo transactions were carried out up to 12 May 2010. Their average volume in 2010 amounted to CHF 6.2 billion, 57% of which was accounted for by transactions with a one-week term. Banks' daily bids at liquidity-providing repo auctions fluctuated between zero and CHF 5.12 billion, with the SNB allotting 100% at all times. The SNB discontinued its liquidity-providing repo auctions in May after market participants' demand for liquidity had come to a standstill owing to the strong expansion of liquidity through the SNB's foreign exchange purchases.

Liquidity-absorbing repo transactions have been conducted since 5 July 2010 in order to steer the three-month Libor. The average volume of these transactions amounted to CHF 11.6 billion, with the repo rate ranging between 0.09% and 0.14%. In the liquidity-absorbing repo auctions, the daily bids by banks reached an average of CHF 13.8 billion and were thus at times well in excess of the allotted amount. On average, 89.1% of the bids came from domestic banks, the remainder from international banks abroad. Allotment by the SNB averaged 34.8%.

If necessary, the SNB also used fine-tuning operations to influence call money rates. Such operations were used in special cases and to a limited extent only for the provision of liquidity to the market.

Issuing SNB Bills serves to absorb a large part of liquidity. The associated SNB Bill auctions are carried out in the form of a variable rate tender according to the American allotment system. This form of auction reflects the market participants' willingness to pay and therefore enables the SNB to absorb liquidity at market prices.

Since 25 May 2010, SNB Bills have, as a rule, been auctioned on a weekly basis with a term of 28 days. Auctions with longer terms of 84, 168 and 336 days are also conducted. The outstanding volume of SNB Bills rose from CHF 41.1 billion in May to CHF 107.9 billion in December. Bids submitted during this period ranged from CHF 1.7 billion to CHF 37.7 billion. An average of 73% of SNB Bills that were bid for was allotted. Overall, 83 banks participated at least once in an SNB Bill auction.

SNB Bills to absorb liquidity at market prices

Sight deposits of domestic banks

Sight deposits

Weekly averages, in CHF billions



Three-month Libor and one-week repo rate

Three-month Libor

SNB repo rate (liquidity provision)

SNB repo rate (liquidity absorption)

Target range

Daily values in percent



Swiss franc reference rates (Swiss Average Rates, SAR)

SAR overnight (SARON)

SAR 1 week

SAR 1 month

SAR 3 months

Monthly averages of daily figures, in percent



Since the end of May, the average residual maturity of SNB Bills has increased by 52 days to 69 days. The marginal interest rate of issues with a 28-day term advanced from 7.1 to 22.0 basis points up to September and dropped back to 14.9 basis points by the end of the year. The marginal yields on issues with longer terms developed in a similar fashion, although the decrease was less marked towards the end of the year.

The weekly auctions of seven-day SNB Bills which the SNB conducted up to 29 June were replaced by liquidity-absorbing repo operations at the beginning of July.

Other monetary policy instruments

In 2010, the SNB purchased foreign exchange to the value of CHF 144 billion. The amount of outstanding foreign exchange options used as a supportive measure reached a nominal value of EUR 2.4 billion at most. Moreover, the SNB sold Swiss franc bonds issued by private sector borrowers for a total of CHF 3.2 billion. The turnover in the case of EUR/CHF swap transactions amounted to CHF 7.1 billion.

Reduction in sight deposits

Sight deposits of domestic banks were gradually reduced by means of the new liquidity management measures. They amounted to CHF 28 billion on a weekly average at the end of the year, after having reached a peak level of CHF 104 billion in May 2010.

Money market rates remain low

The target range for the three-month Libor remained unchanged at 0.0–0.75% in 2010. As a result of the strong increase in liquidity, the three-month Libor dropped to 0.08% at the beginning of June. With the reduction in sight deposits, the rate picked up slightly in the second half of the year. At the end of 2010, the three-month Libor stood at 0.17%.

Due to the excess liquidity and the low money market rates, activities on the Swiss franc money market almost came to a standstill. The secured Swiss franc money market revived slightly in the second half of the year following the introduction of the new procedure for implementing monetary policy.

Standing facilities

Average use of the intraday facility by banks rose from CHF 6.6 billion to CHF 7.4 billion year-on-year. Banks made use of the liquidity-shortage financing facility only in individual cases and for modest amounts. On an annual average, the associated volume amounted to just under CHF 1.0 million.

Supplying the money market with liquidity in CHF billions

Monetary policy operations Terms	2009		2010	
	Outstanding Average ¹	Turnover	Outstanding Average ¹	Turnover
Liquidity-providing operations	79.48	2 761.91	6.36	334.05
Repo transactions	40.05	799.84	6.19	183.24
Up to 3 days	0	0	0.03	4.97
4 to 11 days	13.52	709.96	3.51	175.30
12 to 35 days	1.50	27.92	0.20	2.98
36 days to 1 year	25.03	61.95	2.45	0
EUR/CHF swaps	39.43	1 911.60	0.17	7.10
Up to 8 days	37.54	1 908.91	0.14	7.10
9 to 91 days	1.89	2.68	0.04	0
Foreign exchange purchases	–	47.34	–	143.71
Swiss franc bond purchases	–	3.13	–	0
Liquidity-absorbing operations	16.06	736.80	76.12	1 657.75
Repo transactions	0	0	11.64	614.06
4 to 11 days	0	0	11.64	614.06
SNB Bills	16.06	736.80	64.48	1 040.45
7 days	13.78	711.78	8.99	463.19
28 days	2.28	25.03	35.70	477.35
84 days	0	0	10.39	59.69
168 days	0	0	6.55	27.23
336 days	0	0	2.86	12.98
Swiss franc bond sales	–	0	–	3.24
Standing facilities				
Intraday facility	6.56	1 660.67	7.35	1 882.10
Liquidity-shortage financing facility	0.00	0.01	0.00	0.36

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

2.4 Emergency liquidity assistance

Conditions for liquidity assistance

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 2010, the SNB did not provide any emergency liquidity assistance.

2.5 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 (SARON) over the reporting period in question.

Minimum reserves in CHF millions

	2009 Outstanding Average	2010 Outstanding Average
Sight deposits at the SNB	53 698	43 961
Banknotes	6 000	5 727
Coins in circulation	103	98
Eligible assets	59 801	49 785
Requirement	8 947	9 488
Compliance in excess of requirement	50 854	40 297
Compliance in percent	669%	525%

In 2010 (from 20 December 2009 to 19 December 2010), statutory minimum reserves amounted to an average of CHF 9.5 billion. This represents a 6% increase year-on-year. Eligible assets amounted to an average of CHF 49.8 billion, which was slightly less than in the previous year. Banks exceeded the requirement by an annual average of around CHF 40.3 billion (2009: CHF 50.9 billion). The average degree of compliance, at 525%, was slightly below the previous year's level (669%).

In 2010, the statutory minimum reserve requirements were met by virtually all the banks (total number of banks: 296). Three banks breached requirements during one reporting period each. The sums involved were negligible. The total amount in interest that the contravening banks were required to pay came to CHF 38,105.

2.6 Collateral eligible for SNB repos

In accordance with art. 9 NBA, the SNB may enter into credit transactions with banks and other financial market participants, on condition that sufficient collateral is provided for the loans. In so doing, the SNB protects itself against losses and ensures equal treatment of its counterparties. Art. 3 of the *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* specifies the securities that are eligible as collateral in SNB transactions. *The Instruction Sheet on Collateral Eligible for SNB Repos* lists the criteria that have to be met for securities to be eligible for SNB repos. Only those securities included in the list of eligible collateral may be pledged as collateral for repo transactions.

Legal basis

Collateral in foreign currencies

The SNB pursues an open access policy and allows banks domiciled abroad to participate in its monetary policy operations, too. Securities denominated in foreign currencies are therefore also accepted as collateral besides Swiss franc securities. One condition is that the issuer of securities is domiciled in Switzerland or a member state of the European Union or the European Economic Area. The minimum requirements with regard to collateral in foreign currencies are higher than for those denominated in Swiss francs. In 2010, 95% of the securities eligible as collateral for SNB repos were denominated in foreign currencies.

Stringent requirements relating to collateral

By international standards, the SNB has a tradition of setting high minimum requirements with regard to the market liquidity and credit rating of collateral. In accordance with applicable regulations, securities in Swiss francs or in selected foreign currencies are eligible if they fulfil certain minimum requirements regarding rating, issue volume, delivery and settlement. As a result of the stringent requirements with regard to collateral eligible for SNB repos, banks are required to hold recoverable and liquid assets on their balance sheets. This is crucial if banks are to be able to refinance their operations on the money market even under difficult conditions. Eligibility as collateral for SNB repo transactions is also very important with regard to these securities' eligibility as liquid assets in accordance with art. 16 of the Banking Ordinance.

Standard for the interbank repo market

Collateral eligible for SNB repos is very important for the secured money market. Over 99% of all transactions between financial market participants that were concluded and settled via the repo system were covered by collateral eligible for SNB repos. The high requirements placed on the collateral serve especially to protect cash providers, and enable a wide range of market participants to take part in the repo system. During the financial crisis, the high quality of collateral delivered and the efficiency of the repo system proved crucial to the functioning of the money market.

Volume of collateral eligible for SNB repos

Translated into Swiss francs, the potential volume of collateral eligible for SNB repos receded from around CHF 10,000 billion to CHF 9,000 billion in 2010. The decrease resulted partly from a lower net total of newly accepted securities and from redemptions due to maturity. Exchange rate movements also reduced the total volume in Swiss francs. Furthermore, collateral in foreign currencies to a value of about CHF 275 billion was removed from the list of collateral eligible for SNB repos, since it no longer met the minimum requirements. The SNB did not modify its policy with regard to eligible collateral in 2010.

2.7 Repo auctions in US dollars

The SNB started conducting US dollar repo auctions in December 2007 as part of a coordinated action involving several 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.

No more demand for dollar liquidity

At the end of January 2010, the SNB discontinued its US dollar repo transactions after the swap agreement with the Federal Reserve had – in concert with the other central banks involved – no longer been renewed. Following the reactivation of the swap agreement in May, the SNB resumed the associated auctions and offered weekly repo transactions in US dollars with a term of seven days until December. There was still no demand for this financing instrument.

2.8 SNB USD Bills

On 16 February 2009, in accordance with art. 9 NBA, the SNB began to issue debt certificates in US dollars (SNB USD Bills) in addition to its own debt certificates in Swiss francs (SNB Bills). These US dollar debt certificates were used for the financing of the SNB's loan to the stabilisation fund (cf. chapter 6.7).

Issuance discontinued in June

The outstanding volume of SNB USD Bills reached a peak value of USD 20 billion in October 2009. A large proportion was issued with a term of 168 days. In 2010, there were 39 issues of SNB USD Bills with terms of 28, 84 or 168 days. As a result of reduced refinancing needs on the part of the stabilisation fund, the issuance of SNB USD Bills was discontinued in June. The last issue was carried out on 21 June, and the last SNB USD Bills were redeemed on 8 December 2010.

3 Ensuring the supply and distribution of cash

3.1 Background

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 (coins and notes) in Switzerland. It works with commercial banks, as well as Swiss Post and the SBB, 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.

3.2 Offices and agencies

Turnover at offices

In 2010, the SNB's offices registered currency turnover (incoming and outgoing) amounting to CHF 133.1 billion (as in the previous year). They received a total of 482.9 million banknotes (2009: 482.1 million) and 1,780 tonnes of coins (2009: 1,729 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 492.2 million banknotes (2009: 483.7 million) and 2,307 tonnes of coins (2009: 2,289 tonnes).

Turnover at agencies

The agencies' turnover (incoming and outgoing) amounted to CHF 13.9 billion (2009: CHF 14.2 billion). Agencies are cash distribution services operated by cantonal banks on behalf of the SNB. They assist the SNB offices by distributing and redeeming cash in their respective regions. In order to do this, the agencies have access to cash belonging to the SNB.

In July, the SNB and the Berner Kantonalbank agreed to close the agencies run by the latter in Bienne and Thun with effect from the end of September. In October, the SNB and the Basler Kantonalbank agreed to close the agency in Basel with effect from the end of January 2011. The agencies were no longer needed because the demand for cash services had declined in recent years as a result of structural changes with regard to the supply and distribution of cash. Following the closures in Bienne, Thun and Basel, the SNB still has 13 agencies in operation.

Domestic correspondents

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. In recent years, the redistribution had become less and less important, and had latterly contributed only very little to the supply and distribution of cash.

3.3 Banknotes

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 their security. 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.

In 2010, banknote circulation averaged CHF 47.1 billion, which is slightly above the previous year's average of CHF 45.3 billion. Of the banknotes (mainly the CHF 1,000 note) for which there was additional demand in autumn 2008 as a result of the financial crisis, only a small portion have thus far returned to the SNB. In the year under review, the total number of notes in circulation averaged 325.1 million (2009: 315.6 million).

In 2010, the SNB put 75.2 million freshly printed banknotes (2009: 136.7 million) with a nominal value of CHF 5.1 billion (2009: CHF 13.6 billion) into circulation, and destroyed 77.3 million damaged or recalled notes (2009: 79.9 million) with a nominal value of CHF 4.8 billion (2009: CHF 5.5 billion).

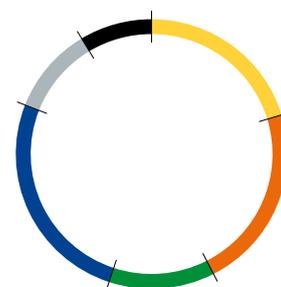
Approximately 4,400 counterfeit banknotes (2009: 4,900) were confiscated in Switzerland in 2010. The SNB's offices discovered 61 counterfeit notes (2009: 84). By international standards, 14 seized counterfeit notes per million Swiss franc notes in circulation (2009: 16) is a modest figure.

Mandate

Banknotes in circulation

Issue and disposal

Counterfeits



Number of banknotes in circulation
In millions

CHF 10s:	66
CHF 20s:	72
CHF 50s:	41
CHF 100s:	84
CHF 200s:	34
CHF 1,000s:	28

Annual average for 2010

Development of new banknote series

In the course of the project on developing a new banknote series, it has become clear that the new security features being built into the banknotes for the first time could be enhanced by further development. The SNB therefore decided to postpone the issue date of the new banknote series, with the first denomination of the new series expected to be issued towards the end of 2012. Given that the high standard of security of the banknote series currently in circulation is unchanged, the supply of high-quality banknotes to the economy remains guaranteed.

3.4 Coins

Mandate

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 SNB's coinage services are not remunerated, as they constitute part of its mandate to supply the country with cash.

Coin circulation

In 2010, the value of coins in circulation averaged CHF 2,719 million (2009: CHF 2,664 million), which corresponds to 4,766 million coins (2009: 4,661 million).

4 Facilitating and securing cashless payments

4.1 Background

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.

Mandate

A large proportion of payment transactions between banks and selected financial market participants are settled through the Swiss Interbank Clearing (SIC) system, which is steered by the SNB. The prerequisite for participating in SIC is the opening of an SNB sight deposit account.

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

SIC: a real-time gross settlement system

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

SNB steers SIC

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

SIC agreements

Based on the SIC agreement, the SNB requests and approves modifications and upgrades to the SIC system. Furthermore, it has a seat on the Board of Directors of SIX Interbank Clearing Ltd and also exerts its influence by participating in working groups on payments.

Involvement in the SIC system

The system encompassing sight deposits and SIC, which is steered by the SNB, is a key element in the Swiss financial market infrastructure. This infrastructure is run by SIX Group Ltd. Aside from SIX Interbank Clearing Ltd, the financial holding company also includes the Swiss stock exchange (SIX Swiss Exchange Ltd), SIX SIS Ltd (which operates the securities settlement system SECOM) and SIX x-clear Ltd (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 Cashless payments in 2010

Key figures on the SIC system

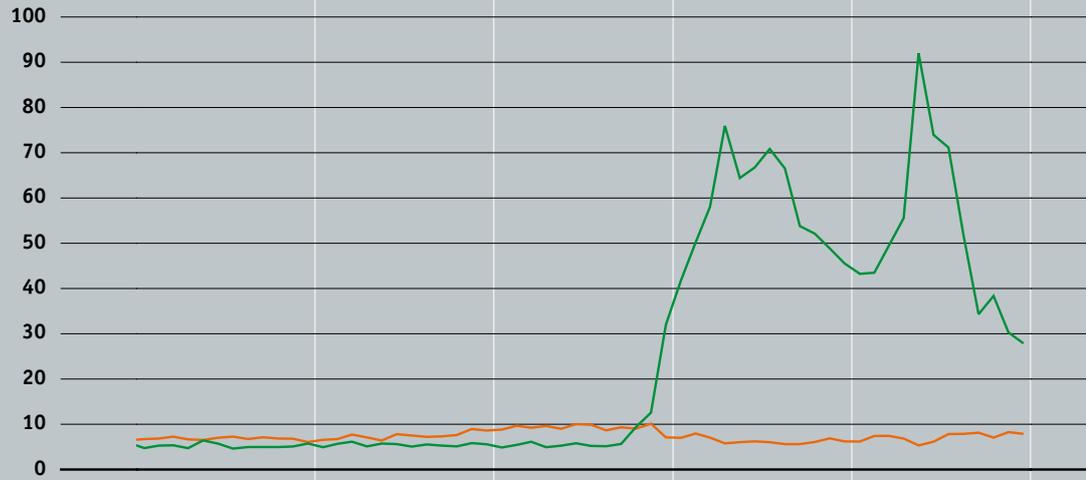
At the end of 2010, there were 377 participants in SIC (2009: 376). Every day, approximately 1.5 million transactions at a value of CHF 202 billion were settled. Compared to the previous year, this represents a 2.2% increase in the number of transactions and a 9.9% decrease in the value of transactions. Peak days saw up to 5.1 million transactions being settled, with values as high as CHF 425 billion.

Key figures on the SIC system

	2006	2007	2008	2009	2010
Transactions (in thousands)					
Daily average	1 264	1 421	1 468	1 508	1 542
Peak daily value for year	3 844	4 167	4 350	4 788	5 056
Values (in CHF billions)					
Daily average	179	208	229	225	202
Peak daily value for year	318	337	343	411	425
Average value per transaction (in CHF thousands)					
	141	146	156	149	131
Average liquidity (in CHF millions)					
Sight deposits at end of day	5 217	5 470	8 522	57 886	50 489
Intraday liquidity	7 070	8 828	9 515	6 362	7 211

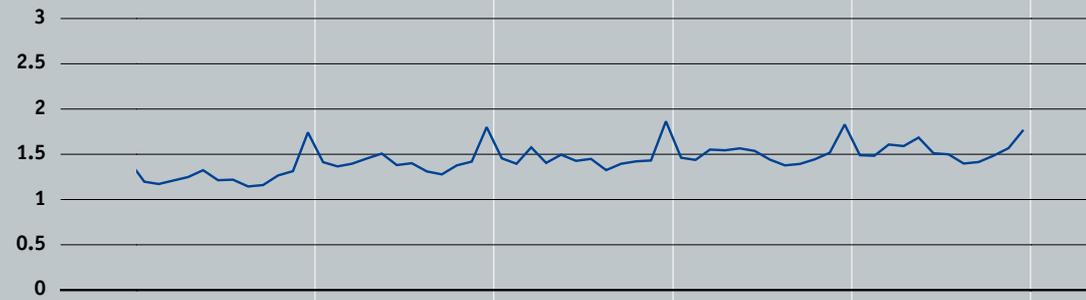
Liquidity in the SIC system

— Intraday drawdowns by banks
— Sight deposits
 Monthly averages of daily figures, in CHF billions



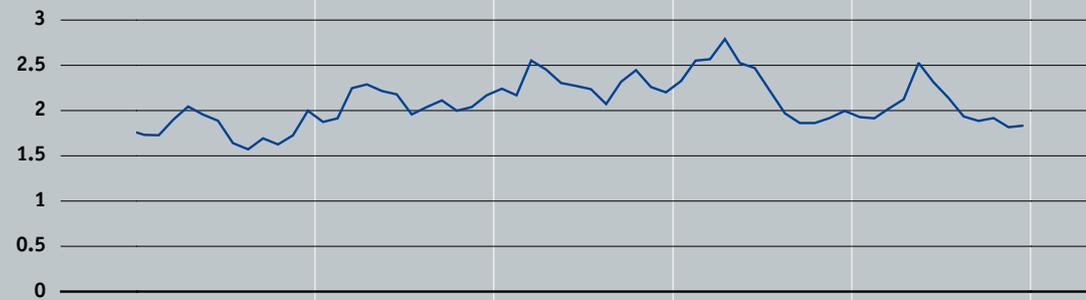
Transactions in the SIC system

— Number of transactions
 Monthly averages of daily figures, transactions in millions



Turnover in the SIC system

— Turnover
 Monthly averages of daily figures, in CHF 100 billions



Apart from banks, participants falling in the category 'other financial market participants' also use SIC, including companies that operate commercially on the financial markets. They include PostFinance, securities dealers and institutions that play a significant part either in payment transactions (at present, five cash processing institutions) or in the implementation of monetary policy. All participants in SIC must hold an SNB sight deposit account. Conversely, not all holders of an SNB sight deposit account are connected to SIC. The number of holders of an SNB sight deposit account as at 31 December 2010 was 491 (2009: 485), and of these, 377 participated in SIC (2009: 376). The majority of SIC participants are domiciled in Switzerland (259, as in the previous year), and of these, 19 (2009: 15) belong to the category 'other financial market participants'. Since the list of participants eligible for monetary policy operations was increased at the beginning of 2010, five insurance companies have joined SIC, and have mostly settled repo transactions through the system.

4.3 TARGET2-Securities

In 2008, the European Central Bank (ECB) committed to building TARGET2-Securities (T2S), a securities settlement system. T2S is intended to either totally or partially replace the existing domestic settlement systems of central securities depositories and to substantially reduce the cost of cross-border securities settlement in Europe. T2S is scheduled to go live in 2014.

The new European securities settlement system will also be important for the Swiss financial centre. In 2009, SIX SIS Ltd – in agreement with the SNB – signed a memorandum of intent with regards to its participation in T2S. This would reduce the cost to financial market participants in Switzerland of settling securities transactions in euros.

T2S is capable of handling multiple currencies, and the ECB is interested in increasing the number of currencies used in its system. The SNB is currently clarifying – together with the SIX Group and the banks – whether T2S would be advantageous for settling securities transactions in Swiss francs. A decision on the inclusion of the Swiss franc in T2S is expected by mid-2011.

5 Asset management

5.1 Background

The assets of the Swiss National Bank (SNB) fulfil important monetary policy functions. They consist mainly of gold and foreign currency assets and, to a lesser extent, of financial assets in Swiss francs. The composition of assets is determined by the established monetary order and the requirements of monetary policy. Under art. 5 para. 2 of the National Bank Act (NBA), the SNB is responsible for managing the currency reserves, part of which must be held in the form of gold (art. 99 para. 3 Federal Constitution).

The SNB's currency reserves are held primarily in the form of foreign currency investments and gold. The currency reserves also include international payment instruments and the reserve position in the International Monetary Fund (IMF). The National Bank requires currency reserves to ensure that it has room for manoeuvre in its monetary policy at all times. These reserves also serve to build confidence, and to prevent and overcome potential crises. The loan to the stabilisation fund does not form part of the currency reserves, as it represents a special asset of the SNB.

At the end of 2010, the SNB's financial assets in Swiss francs were made up exclusively of Swiss franc bonds. Depending on the way in which the money market is managed, this category can also contain claims from repo transactions.

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. Diversification of investment aims at achieving an appropriate risk/return profile.

The purpose of the loan to the stabilisation fund was to finance the acquisition of illiquid assets from UBS. The objective of the stabilisation fund managed by the SNB is to successively liquidate the assets acquired. Income from the stabilisation fund portfolio (interest, sales and repayments of principal) is used primarily to repay the loan.

From February 2009, the loan was mainly financed through the issuance of SNB Bills denominated in US dollars (cf. chapter 2.8). During 2010, a sharp increase in foreign currency investments made it possible to replace this type of external financing with funding through these investments. Further information on the stabilisation fund may be found in chapter 6.7 (pp. 80–83) and in 'Financial information on the stabilisation fund' (pp. 163–172) of this report.

Mandate

Currency reserves

Financial assets in Swiss francs

Primacy of monetary policy

Loan to stabilisation fund

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 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 the investments, as well as the eligible currencies, investment categories, instruments and categories of debtor. 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 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.

Responsibilities of Risk Management

The investment strategy is based on requirements specific to central banks as well as comprehensive risk/return analyses. Risk is managed and mitigated 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 on the basis of this information, and adjusted whenever the assessment of counterparty risk changes. Concentration and reputational risks 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 for the attention of the Governing Board and the Bank Council's Risk Committee document the results of risk management activities.

5.3 Changes in and breakdown of assets

At the end of 2010, the SNB's balance sheet total was just under CHF 270 billion, or CHF 63 billion higher than one year earlier (CHF 207 billion). The increase is due to the growth in currency reserves, which rose from CHF 112 billion to CHF 252 billion in the space of a year. This was mainly attributable to foreign exchange purchases. In addition, there were valuation gains on gold in the order of CHF 6 billion. Holdings of Swiss franc-denominated assets, by contrast, decreased. Claims from repo transactions, which at end-2009 had stood at CHF 36 billion, declined to zero, while Swiss franc bond holdings fell from CHF 7 billion to CHF 4 billion. Finally, the loan to the stabilisation fund also decreased. At the end of 2010, it amounted to CHF 12 billion, as compared to CHF 21 billion one year previously. The loan is denominated in various currencies, with interest being paid at 250 basis points above the one-month Libor for the currency concerned.

At the end of 2010, 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 supranational organisations, local authorities, financial institutions (mainly 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 derivatives 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.

Changes in assets

Debtor categories and instruments

Breakdown of foreign exchange reserves and Swiss franc bond investments at year-end

	2009		2010	
	Foreign exchange reserves	CHF bonds	Foreign exchange reserves	CHF bonds
Currency allocation, incl. derivatives positions				
CHF	–	100%		100%
USD	30%		25%	
EUR	58%		55%	
JPY	5%		10%	
GBP	5%		3%	
CAD	2%		4%	
Other (DKK, AUD, SEK, SGD)	–		3%	

Investment categories

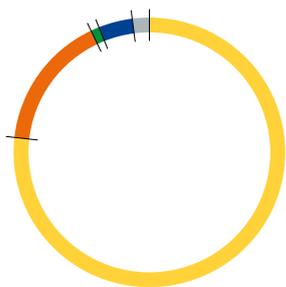
Investments with banks	0%	–	0%	–
Government bonds ¹	84%	19%	83%	35%
Other bonds ²	9%	81%	6%	65%
Equities	7%	–	11%	

Breakdown of bonds

AAA-rated	84%	82%	82%	78%
AA-rated	13%	11%	14%	21%
A-rated	2%	3%	3%	1%
Other	1%	4%	1%	–
Bond duration (years)	3.3	5.3	4.0	5.6

1 Government bonds in own currency; in the case of CHF investments, also bonds issued by Swiss cantons and municipalities.

2 Government bonds in foreign currency as well as bonds issued by foreign local authorities and supranational organisations, covered bonds, corporate bonds, etc.



Breakdown of SNB assets In percent

Foreign exchange reserves 76

Gold reserves 16

Securities in Swiss francs 1

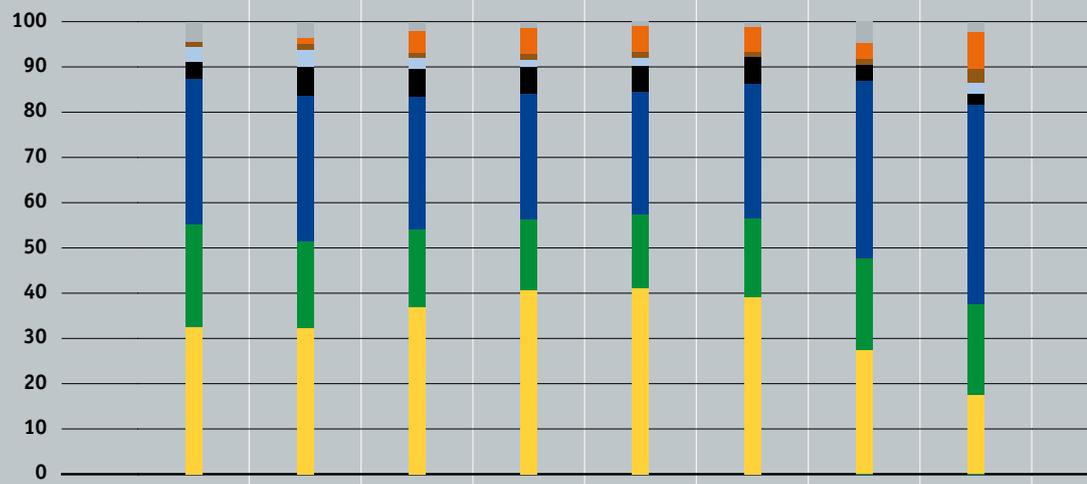
Loan to stabilisation fund 5

Monetary institutions 2

Total: CHF 270 billion
At year-end 2010

Breakdown of currency reserves

- Gold
 - USD
 - EUR
 - GBP
 - Other
 - CAD
 - JPY
 - SDR
- In percent



The additional foreign currency purchased in 2010 was invested in government bonds in various currencies and with different terms, as well as in equities. The principles of currency and asset class diversification continued to be observed. The share of the main investment currencies, the US dollar and the euro, fell slightly to 25% and 55% respectively, while the shares of the Canadian dollar and Japanese yen rose. For the first time, funds were also invested in Australian dollars, Danish kroner, Swedish kronor and Singapore dollars. At the end of 2010, 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 decreased, following the sale or redemption of the Swiss Pfandbriefe and Swiss corporate bonds purchased during the financial crisis.

5.4 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 risk 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 on credit risk. The risk incurred in connection with the loan to the stabilisation fund is discussed in chapter 6.7 (pp. 80–83) and in 'Financial information on the stabilisation fund' (pp. 163–172) of this report.

The gold price and exchange rates continued to be the most important risk factors for the currency reserves, with the share of exchange rate risk in total risk rising markedly owing to the increase in foreign currency investments. Exchange rate risk on foreign currency investments is not hedged against Swiss francs as a matter of principle. First, such hedging could reduce the effectiveness of foreign exchange operations undertaken for monetary policy purposes and, second, it could restrict the SNB's overall freedom of action. Changes in the value of the Swiss franc, therefore, have a direct impact on the value of foreign currency investments. Given an average duration of four years for fixed rate investments and a share quota of 11%, interest rate risk and share price risk, by contrast, contributed very little to total risk. The absolute risk increased substantially due to the increase in the overall level of currency reserves.

The Swiss franc bond portfolio contained first and foremost bonds issued by the Confederation, the cantons and foreign borrowers, as well as Swiss Pfandbriefe. The additional Swiss Pfandbriefe and Swiss corporate bonds purchased as part of the measures to support the Swiss franc capital market were sold off over the course of the year. The duration of the portfolio was just under six years.

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 borrowers as well as covered bonds and similar instruments. In addition, corporate bonds totalling some CHF 4 billion were held in the foreign exchange reserves. Credit risk arising from non-negotiable instruments with respect to banks took the form of short-term deposits and replacement values of derivatives totalling around CHF 500 million. Gold lending 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 (82%) bore the highest rating (AAA). In all, 99% of bonds were rated A or higher.

The SNB has high standards with regard to the liquidity of its investments. At the end of 2010, around 80% of foreign exchange reserves were denominated in the two major currencies, the euro and the US dollar, with highly liquid government bonds accounting for a large proportion of these.

Liquidity risk

The appreciation of the Swiss franc in 2010 led to corresponding losses on the currency reserves. As a result, the distribution reserve turned negative. At end-2010, it amounted to CHF –5 billion. CHF 0.7 billion was allocated to the provisions for currency reserves in 2010. Due to the decrease in equity capital compared to the previous year, as well as the significantly expanded balance sheet, the share of equity capital in the balance sheet total declined. The resilience of the National Bank's balance sheet is thus no longer assured to the same extent as hitherto. Nevertheless, the SNB's capital base continues to be robust, also by comparison with other central banks (cf. also the financial report).

Balance sheet risk

5.5 Investment performance

Investment performance is calculated for foreign currency investments (including derivatives), gold and Swiss franc bonds. Earnings and expenses arising from monetary policy operations are excluded from the calculation of returns.

The recovery on financial markets continued in 2010. Yields on a substantial portion of bonds declined, and share prices rose. Consequently, all investment categories posted positive returns in the relevant local currency. However, in Swiss franc terms, returns were negative as a result of the strong appreciation of the Swiss franc. Thus, the return on foreign currency investments, measured in terms of Swiss francs, was –10.1%. The Swiss franc value of the gold reserves rose by 15.3% due to the surge in the price of gold. The return on Swiss franc bonds was 3.7%.

Return on investments¹

	Currency reserves		Foreign currency investments			CHF bonds
	Total	Gold	Total	Currency return	Return in local currency	Total
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%	4.4%	4.3%
2010	–5.4%	15.3%	–10.1%	–13.4%	3.8%	3.7%

¹ Cumulated, time-weighted daily returns.

6 Contribution to financial system stability

6.1 Background

Art. 5 para. 2 (e) of the National Bank Act (NBA) confers upon the Swiss National Bank (SNB) the mandate of contributing to the stability of the financial system. Financial stability means that financial system participants, i.e. financial intermediaries (banks) and infrastructures (payment and securities settlement systems) can perform their functions and are able to withstand potential disturbances. It is an important prerequisite for economic development and effective monetary policy implementation. As its contribution to financial stability, the SNB analyses sources of risk to the financial system, oversees systemically important payment and securities settlement systems, and participates in creating the operating framework for the Swiss financial centre.

Mandate

The SNB works together with the Swiss Financial Market Supervisory Authority (FINMA) and the Federal Department of Finance (FDF) to create a regulatory environment that promotes stability. The SNB addresses the issue mainly from a systemic perspective, and its focus is therefore on the macroeconomic and macroprudential aspects of regulation. For its part, FINMA is responsible, among other things, for monitoring of specific institutions, i.e. microprudential oversight. In the oversight of cross-border payment and securities settlement systems, the SNB liaises closely with foreign authorities.

**Cooperation with
FINMA and FDF**

6.2 Main activities in 2010

In 2010, a major focus of the SNB's activities in the area of financial stability was its involvement in the commission of experts appointed by the Swiss Federal Council to examine ways of limiting the economic risks posed by large companies. The commission investigated how to alleviate the 'too big to fail' problem. 'Too big to fail' describes the constraint imposed by the fact that, for systemic reasons, very large, or nationally and internationally interconnected banks cannot be allowed to fail, and thus enjoy a de facto state guarantee.

**Attention focused on
'too big to fail' problem**

At international level, within the framework of the Basel Committee on Banking Supervision and the Financial Stability Board (FSB), the SNB participated in efforts to reform banking regulation. In addition, the intensified monitoring of the Swiss banking system introduced during the financial crisis was further expanded, with particular attention being paid to the mortgage market.

In 2010, the business audit commissions of the National Council and the Council of States published their report on the conduct of the authorities during the financial crisis. The business audit commissions then invited the SNB to comment on the recommendations. In a response dated December 2010, the SNB reviewed its mandate and its set of instruments in the area of financial stability. It judged that the mandate set down in art. 5 para. 2 (e) NBA was appropriate and sufficiently precise. In contrast, it concluded that its own set of preventive instruments needed to be strengthened in three areas: first, it should be ensured that the SNB has timely access to all relevant information required for an assessment of financial stability. Second, its right to participate in drawing up regulations that are relevant for financial stability should be clarified and strengthened. Third, the SNB should be given powers as regards the implementation of regulations with a direct bearing on monetary policy or emergency liquidity assistance. This relates, in particular, to the definition of the level and type of banks' countercyclical capital buffers, and to the definition of systemically important banks and functions in the context of the implementation of 'too big to fail' regulations.

As part of the oversight of systemically important payment and securities settlement systems, the SNB, together with FINMA, monitored a number of projects undertaken by the central counterparty x-clear. It also supported international efforts to increase the resilience of the global financial market infrastructure for the clearing and settlement of over-the-counter (OTC) derivatives.

6.3 Monitoring the financial system

In June 2010, the SNB published its annual *Financial Stability Report*, in which it assessed the developments and risks in the economic environment as a whole and in the Swiss banking sector. The report noted that both the economic environment and the situation on financial markets had improved. The SNB still considered that uncertainty was high as regards the future path of the economy. A source of uncertainty was how the consolidation of state finances, which had become necessary in a number of countries, would affect economic development. The report also highlighted the risk of worsening sovereign debt problems in a number of euro area countries.

With regard to the two Swiss big banks, the report noted that the situation had improved. Results for 2009 were significantly better than those one year earlier, and the risk-weighted capital ratios were good by international standards. Owing to their very high leverage, however, both institutions had only a small capital buffer. Both banks were still far from reaching the target leverage ratio that will apply in Switzerland from 2013. The potential consequences of a misjudgement of risks were thus considered to be serious.

With regard to banks with a domestic business focus – cantonal banks, regional banks and Raiffeisen banks – the SNB warned of an increase in credit and interest rate risks. In this connection, it referred to the special survey it conducted in early 2010 among the most important banks in the mortgage market, which revealed a lack of conservatism in the lending practices of some institutions.

As part of its monitoring effort, the SNB conducted regular surveys on lending in the banking sector. The quarterly lending surveys revealed that the situation on the lending market eased markedly over the course of 2010, and that the feared credit crunch following the 2008 financial crisis did not materialise. Lending volumes continued to grow, and the tighter lending conditions reported in previous surveys were partly relaxed again during the first two quarters of 2010. From the second quarter of 2011, the survey, which was originally intended as a temporary exercise, will become a regular SNB survey as provided for by art. 5 of the National Bank Ordinance (NBO).

Against a background of surging domestic mortgage volumes and rising real estate prices, mortgage lending business became an increasing focus of attention for the SNB. In addition to the special survey on mortgage lending activity conducted in early 2010, the National Bank held discussions with selected banks in the third quarter of the year. It also began examining, jointly with FINMA, areas for possible action, including improvements to data reporting. Thus, in the future, a special survey on mortgage lending will include questions on relevant risk factors such as loan-to-value ratios and affordability criteria.

The SNB further expanded its monitoring of systemically important banks. The intensified monitoring of the big banks prompted by the financial crisis thus became a permanent feature of the National Bank's activities. In collaboration with FINMA, standardised risk assessment tools are being created and stress tests will be performed.

Signs of a relaxation of lending standards

Heightened monitoring of mortgage market

Monitoring of systemically important banks expanded

The cooperation with FINMA was intensified further in 2010 with the revision of the Memorandum of Understanding (MoU). The MoU sets out the areas of common interest on financial stability and defines the framework for cooperation while at the same time preserving the different statutory responsibilities and powers of both parties. The revised MoU contains two innovations. First, a steering committee was set up to govern the cooperation between the two authorities at a strategic level. Second, the MoU specifies that, where there are common areas of interest, one authority may request the other to take measures, or to provide information.

6.4 Measures to strengthen financial stability

At the end of June 2010, the new liquidity regime for both Swiss big banks entered into force. It is based on an agreement between FINMA and the big banks and was drawn up with the collaboration of the SNB. The new liquidity regime imposes quantitative and qualitative minimum requirements, as well as disclosure requirements. The quantitative requirements are based on a stress scenario defined by FINMA and the SNB. This scenario depicts two stress events: first, a loss of confidence leading to the bank's solvency and liquidity being called into question; second, tension on the financial markets which reduces financial market liquidity. In this scenario, the bank suffers a damaging withdrawal of deposits and is no longer able to refinance itself in the market, even against collateral. The new liquidity regime is designed to ensure that the big banks have sufficient liquidity at their disposal to meet their payment obligations in such unusual stress situations.

An important lesson from the crisis has been the need to reduce interconnectedness within the banking sector and thereby increase banking system resilience. The risk diversification requirements set down in the Capital Ordinance to the Banking Act, which are aimed at limiting a bank's exposure to a single counterparty, represent a starting point in this regard. In 2010, a national working group, led by FINMA and involving the SNB, drew up corresponding requirements for those banks that are either using the Basel standardised approach or the internal ratings-based approach for calculating required capital. These requirements entered into force at the beginning of 2011, and will lead to a further reduction of counterparty risk. The requirements should also be expanded during the course of 2011 to cover banks that are using the Swiss approach for calculating required capital.

In 2010, the SNB was actively involved in the commission of experts appointed by the Federal Council to examine ways of limiting the economic risks posed by large companies; the SNB held the joint vice-chairmanship with FINMA. The commission's report was submitted to the Federal Council at the end of September 2010. The proposed measures cover capital, liquidity, risk diversification and the organisation of systemically important banks, and will result in a clear alleviation of the 'too big to fail' problem.

Measures to alleviate the 'too big to fail' problem

In October, the Federal Council welcomed the commission's recommendations, and in December it launched the consultation procedure for the requisite change in the law. The SNB was involved in the implementation of the recommendations. Parliament is due to debate the proposed legislation during the course of 2011.

In the area of capital adequacy, the measures introduce three capital components: the minimum requirement, the buffer and the progressive component. The minimum requirement covers the equity capital that is necessary for normal business activity to be maintained. The buffer allows banks to absorb losses without falling short of the minimum requirement. Finally, the level of the progressive component rises with the increasing systemic risk posed by the bank concerned. It is intended to create the necessary financial room for manoeuvre to combat crises, and to provide incentives for banks to limit their systemic importance. Assuming that institution size and risks remain unchanged, the recommended measures will mean that both big banks will have to hold total capital of CHF 74 billion each. This is roughly double the levels required under the existing regulations.

Capital adequacy

The commission's proposals on liquidity for systemically important banks largely correspond to the new liquidity regime introduced for the big banks in June 2010. It will be written into law as part of the 'too big to fail' measures.

Liquidity requirements

The commission's recommended measures on risk diversification regulations impose specific requirements as regards exposures to systemically important banks. They are aimed at reducing individual banks' counterparty risk exposure and limiting the operational dependence of small and medium-sized banks on systemically important banks. The measures complement the revisions to the risk diversification regulations which are currently under way.

Risk diversification regulations

Organisation

The organisational measures recommended by the commission are aimed at ensuring an orderly resolution of systemically important banks if there is a danger of insolvency. A key aspect of this is that systemically important bank functions (such as deposit and lending business) can be separated out from the other bank services, thus allowing them to be maintained. If a bank were unable to demonstrate that such functions can be maintained independently in the event of insolvency, FINMA would order organisational measures to be taken.

6.5 Oversight of payment and securities settlement systems

Mandate

The NBA (art. 5 para. 2 (c) and (e), and arts. 19–21) 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 pose a risk to the stability of the financial system. The NBO (arts. 18–39) lays down the details of system oversight.

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.

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 counterparties LCH.Clearnet Ltd (LCH), domiciled in the UK, and Eurex Clearing, domiciled in Germany. 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. An agreement governing the exchange of information with Germany's Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank, which are responsible for the supervision and oversight of Eurex Clearing, is due to be signed in 2011.

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 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 art. 23bis para. 4 Banking Act). This applies in particular to the collection of information required for prudential supervision and system oversight. When assessing whether a system operator complies with the minimum requirements, the SNB relies as far as possible on information already gathered by FINMA.

The SNB cooperates with authorities abroad in the oversight of cross-border payment and securities settlement systems. In the case of CLS, the US 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 x-clear's efforts to offer its services to additional markets in Denmark, Finland and Sweden, the SNB signed a memorandum of understanding in 2010 with these countries' central banks and supervisory authorities. As x-clear also plans to set up a clearing link with the European Multilateral Clearing Facility N.V. (EMCF), a central counterparty domiciled in the Netherlands, the SNB also signed a memorandum of understanding with the central bank and supervisory authority of the Netherlands in 2010. Looking ahead to the launch of TARGET2-Securities (T2S), the National Bank is also involved in arrangements for the cooperative supervision and oversight of T2S (cf. chapter 4.3).

Finally, the SNB participates – together with the other central banks in the former 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 and the functioning of financial market infrastructures.

Compliance with regulatory requirements high

In 2010, the SNB assessed compliance with regulatory requirements by the system operators SIX Interbank Clearing Ltd, SIX SIS Ltd and SIX x-clear Ltd. The assessment covered the operators' corporate governance, the management and monitoring of settlement risk, and the systems' information and IT 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 control systems.

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 identification, mitigation and monitoring of credit and liquidity risks are appropriate.

IT and information security

To assess the systems' information and IT security, the SNB relies mainly on external auditors. In 2010, the audits, whose scope and degree of detail are determined by the SNB, focused on the progress made in implementing the recommendations arising out of the 2007–2009 audits. The audit report notes that the majority of these recommendations have been implemented. However, action is still needed as regards directives on information security and the consistent application of classification requirements for sensitive information.

Operational crisis prevention measures

The SNB also took steps to encourage further improvements to the financial sector's operational crisis prevention measures. Work in this area 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. A financial sector-wide crisis exercise was carried out in November 2009 in order to test the existing alarm and crisis organisation, giving rise to a number of conclusions as regards the future work of the steering committee. The role and responsibilities of the alarm and crisis organisation now need to be clarified further, and appropriate resources need to be directed to maintaining it. The steering committee plans to carry out further crisis exercises over the next few years.

As a member of the OTC Derivatives Regulators' Forum, the SNB supports efforts to strengthen the global market infrastructure for clearing and settling OTC derivatives. 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 market participants' risk management and reduce the complexity of the financial system. A market infrastructure that reduces the interconnections between individual financial institutions should contribute to facilitating the orderly resolution of systemically important institutions in the event of a crisis.

6.6 International cooperation on financial market regulation

The Financial Stability Board (FSB) brings together the national authorities responsible for financial stability, international financial institutions, international groups representing regulatory and oversight authorities, and the central banks' committees of experts. In April 2009, the G20 gave the FSB a mandate to promote financial stability and formulate appropriate regulatory and oversight measures. Since then, as part of this mandate, the FSB has drawn up a number of reform proposals, in whose formulation the SNB was actively involved. The proposed reforms are largely aimed at alleviating the 'too big to fail' problem. The main objective is to increase systemically important banks' loss absorption capacity, and to ensure their orderly resolution ('resolvability'). It is planned to mitigate the problem even further by strengthening the financial market infrastructure. The FSB expects that national authorities will intensify their oversight of systemically important banks, and that they will draw up and implement guidelines in that regard.

Financial Stability Board

The measures put forward in Switzerland by the Federal Council's commission of experts are consistent with the FSB's reform proposals and with the regulations being advocated. For example, the FSB calls for a capital surcharge for systemically important financial institutions. Moreover, the commission's proposals take account of Switzerland's special situation and, as regards capital and liquidity requirements, go beyond the minimum standards laid down by the FSB and the Basel Committee on Banking Supervision.

In 2009, the Basel Committee on Banking Supervision launched a reform of banking regulation to reflect the lessons drawn from the 2008 financial crisis. The revised standards, known as 'Basel III', were released in December 2010. They are aimed at ensuring that, in the future, banks maintain larger and better-quality capital and liquidity buffers. This should enable banks to withstand shocks, even severe ones, on their own, thus increasing the resilience of the global banking system.

The regulatory minimum for risk-weighted capital has been raised, and a capital buffer introduced, which can be built up in good times and used to absorb losses in the event of a crisis. The stricter requirements are also based on a narrower definition of capital. For example, part of the capital base must now consist of common equity. Moreover, in 2018, an upper limit for the leverage ratio is due to be introduced.

In addition, the Basel Committee proposed a global minimum liquidity standard. The aim is to ensure that banks build up a liquidity buffer which allows them to remain liquid under short and medium-term stress situations. The Basel Committee's minimum standard is compatible with the new liquidity regime for both Swiss big banks.

6.7 Stabilisation fund

The SNB stabilisation fund was established in autumn 2008 as part of the package of measures adopted by the Federal Council, the Swiss Federal Banking Commission (now FINMA) and the SNB to strengthen the Swiss financial system. It was set up to take over illiquid assets from UBS in order to provide the big bank with liquidity and restore the confidence that had been lost as a result of the crisis.

Structured as a limited partnership for collective investment, the stabilisation fund took over assets totalling USD 38.7 billion between December 2008 and April 2009. The asset transfer was financed by an SNB loan accounting for 90% of the transfer; the remaining 10% was financed by UBS. This 10% was transferred as equity capital for the stabilisation fund and also serves as the SNB's primary loss protection. The SNB 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 complete liquidation of the assets. With its financing contribution, UBS was granted the option to repurchase the stabilisation fund in the event of full repayment of the SNB loan. Detailed explanations of the provisions governing the operation of the fund, its organisation and its legal structure can be found in the 2008 and 2009 editions of the SNB's *Annual Report*.

Business activity and results

In 2010, the stabilisation fund's overall risk was reduced from USD 24.1 billion at the end of 2009 to USD 14.7 billion. This was due to interest payments and repayments on stabilisation fund investments as well as to asset sales, which were possible because of the improved market conditions. The reduction in the overall risk was also due in large part to derivatives positions being actively closed out or reaching maturity.

Substantial reduction in overall risk

For 2010, the stabilisation fund recorded an annual profit of USD 2.5 billion. Its equity capital as at 31 December 2010 amounted to USD 2.1 billion. Detailed information on the financial situation of the fund can be found in 'Financial information on the stabilisation fund' (pp. 163–172) of this report.

The possibility of UBS repurchasing the stabilisation fund ahead of schedule was raised on a number of occasions in 2010. The SNB and UBS felt that no action was needed in this regard, however.

No early repurchase by UBS

Portfolio management

The liquidation strategy established by the stabilisation fund's Board of Directors determines the portfolio's management. 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 values can be realised. Earlier sales are possible if there are 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 on a quarterly basis by the fund's Board of Directors, and, if necessary, adjusted. The guidelines provide the framework for the operational management of the assets and also regulate the division of responsibilities between the general manager, who is in charge of the fund's operational management, and the portfolio's investment manager, a function that has been outsourced to UBS.

Liquidation strategy

Given that the intrinsic values of the fund's assets play a key role in the management of the portfolio and in the accounting valuation, major efforts went into creating comprehensive 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. The cash flow models are reviewed and refined continually, and the forecasts are recalculated every three months.

Cash flow models

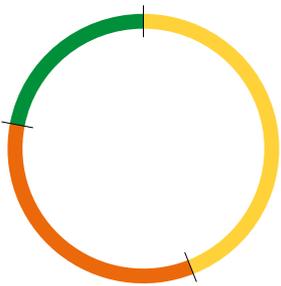
Changes in risk situation

Substantial reduction in risk

In 2010, significant sales were made in secondary markets. This was attributable to the generally favourable market environment for the various sectors of the portfolio (including residential and commercial real estate, in particular) and the trading conditions in the US and European securitisation markets. In the process, attention was paid to selling not only assets with higher liquidity and credit ratings, but also to liquidating assets of a lower quality, provided they were close to their intrinsic values. As a result, larger portfolios of commercial mortgages in the US and Japan, for instance, were successfully sold. Consequently, the risks in all areas were reduced substantially.

Significant sales of assets

Overall, assets worth USD 2.5 billion net were sold, of which USD 0.7 billion was accounted for by the euro area, the UK and Japan. Most of the sales were conducted in the first quarter, and to a lesser extent, in the fourth quarter. This was attributable to the fact that market liquidity and the valuations for the sales were most favourable during these periods. Furthermore, the portfolio benefited from considerable interest and principal repayments amounting to USD 3.6 billion, which also contributed to greatly diminishing the risk borne by the stabilisation fund. The non-funded risks, which largely comprise CDS contracts (credit default swaps), decreased as a result of maturing positions, on the one hand, and the unwinding of such transactions, on the other.

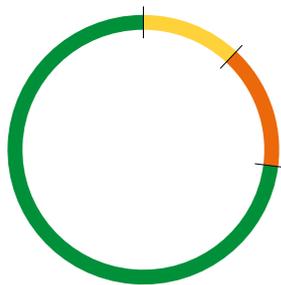


Portfolio by category

In percent

Residential real estate	44
Commercial real estate	34
Other	22

As at 31 December 2010



Portfolio by instrument

In percent

Derivatives	12
Loans	15
Securities	73

As at 31 December 2010

The table below provides an overview of how various factors contributed to the reduction in risk, the development of the loan and the associated overall risk for the SNB. The loan outstanding fell from USD 20.3 billion at the end of 2009 to USD 12.6 billion at the end of 2010. During the same period, the overall risk for the SNB was reduced by USD 9.4 billion to USD 14.7 billion.

SNB loan and overall risk

Loan to stabilisation fund

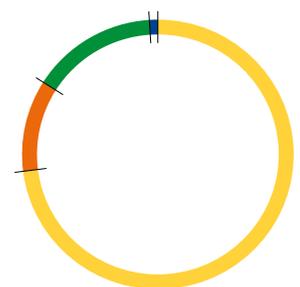
In USD billions	Financed	Non-financed	Overall risk
Total as at 31 December 2009	20.3¹	3.8	24.1¹
Interest on SNB loan	0.5	–	0.5
Sales ²	–2.5	–1.3	–3.8
Repayments	–2.8	–0.1	–2.9
Interest received	–0.8	–	–0.8
Other	–2.1	–0.3	–2.4
Total as at 31 December 2010	12.6	2.1	14.7

¹ Including the liquid funds available in the stabilisation fund as at 31 December 2009, the outstanding loan would amount to USD 19.7 billion and the overall risk to USD 23.5 billion (cf. *Annual Report, 2009*, p. 89).

² Sales, including active liquidation of CDS (net).

The funds that flowed to the SNB from the stabilisation fund's interest payments and principal repayments were initially used to reduce refinancing via SNB USD Bills. After the sharp rise in the SNB's foreign exchange reserves following the purchases of foreign exchange, the SNB discontinued its issues of SNB USD Bills. From that point on, the payment of interest and principal repayment flowed directly back into the foreign exchange reserves from which the funds had been taken in order to repay the SNB USD Bills that were due to mature during the remainder of the year. At the end of the year, there were no outstanding SNB USD Bills.

Financing the loan



Portfolio by currency In percent

USD 73

EUR 11

GBP 15

JPY 1

As at 31 December 2010

7 Involvement in international monetary cooperation

7.1 Background

Mandate

Art. 5 para. 3 of the National Bank Act (NBA) stipulates that the Swiss National Bank (SNB) shall participate in international monetary cooperation. The objective of this cooperation is to promote the functioning and stability of the international monetary system and help overcome crises. As a globally integrated economy, Switzerland derives particular benefit from these aims.

Participation in different institutions

The SNB makes a contribution to international monetary cooperation through its active participation in various international institutions. Together with the Federal Department of Finance (FDF), it represents Switzerland in the International Monetary Fund (IMF) and the Financial Stability Board (FSB). It also participates in the IMF's General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB). Furthermore, it is a member of the Bank for International Settlements (BIS) and, together with the Swiss Confederation, represents Switzerland in the Organisation for Economic Co-operation and Development (OECD).

7.2 International Monetary Fund

The IMF's mandate

The IMF is the central institution for international monetary cooperation. It works to promote stable monetary conditions worldwide and facilitate both free trade and free international payment flows.

The accounting unit used by the IMF is the Special Drawing Right (SDR). It is calculated on the basis of weighted exchange rates for the US dollar, euro, yen and pound sterling. At the end of 2010, one SDR was equivalent to CHF 1.4405.

Switzerland's representation in the IMF

The Chairman of the Governing Board of the Swiss National Bank sits on the Board of Governors of the IMF, the Fund's highest decision-making body. The Head of the FDF represents Switzerland and the countries of the Swiss-led constituency on the International Monetary and Financial Committee (IMFC). Switzerland is part of a constituency whose other members include Azerbaijan, the Kyrgyz Republic, Poland, Serbia, Tajikistan and Turkmenistan. These were joined in November 2010 by Kazakhstan. At the same time, Uzbekistan left the constituency.

As the constituency member with the most votes, Switzerland appoints the group's executive director. The executive director 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 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.

The global financial and economic crisis continued to affect the IMF's activities in 2010. Despite the economic recovery, the IMF saw considerable risks remaining. These include uneven growth between industrialised countries and emerging economies as well as internal imbalances between public and private demand. Furthermore, high unemployment levels, rising sovereign debts and fragile banking systems continued to give cause for serious concern. The IMF therefore urged countries to push ahead with the consolidation of their government finances and the reforms to the financial sector in 2011.

The global economic crisis prompted the IMF to reform its lending regulations. The aim of the reform was to ease access to IMF instruments, so that they may be employed as a precautionary measure, before a crisis hits. One such reform strengthened the precautionary Flexible Credit Line (FCL), introduced in 2009, by extending the lending term from one to two years and removing the informal cap. An additional credit line for crisis prevention was also introduced – the Precautionary Credit Line (PCL). This new instrument aims to grant access to IMF facilities to countries that have sound economic fundamentals, but do not meet the FCL qualification standards. As is the case with the FCL, the PCL is also subject to qualification criteria. In contrast to the FCL, however, countries that qualify for the PCL are permitted to have some moderate vulnerabilities. The PCL thus has focused ex-post conditionality aimed at addressing the vulnerabilities identified during the qualification process.

IMF lending reached an all-time high as a result of the crisis. At the end of 2010, regular lending amounted to SDR 137.4 billion. Over the course of the year, the IMF Executive Board approved 14 non-concessional loan agreements totalling SDR 107.7 billion. Particularly noteworthy are the lending arrangements approved for the two euro area countries of Greece and Ireland, amounting to SDR 26.4 billion and SDR 19.5 billion respectively, as well as the precautionary arrangements under the FCL with Colombia, Mexico and Poland, for a total of SDR 47.5 billion. Credit arrangements under the concessional (i.e. subsidised) lending facilities to poor countries – which are financed by a separate trust fund – came to a total of SDR 3.0 billion at the end of 2010. Close to half of the 30-odd arrangements were approved in 2010.

Residual risks affecting global economic recovery

New regulations on lending practices

High number of loan commitments

IMF financial resources

Owing to the high level of lending, the IMF increased its quota-funded resources by signing a number of bilateral loan agreements. Overall, 21 countries or central banks pledged resources amounting to SDR 158.9 billion in the form of bilateral loan agreements and bilateral note purchase agreements. These do not include the loan agreement in the maximum amount of USD 10 billion promised by Switzerland in spring 2009 and concluded by the SNB with the IMF in autumn 2009, as based on the Federal Act on International Monetary Assistance. Before this loan agreement – which is financed by the SNB and guaranteed by the Confederation – can enter into force, the Federal Assembly first has to approve an additional temporary credit facility amounting to CHF 12.5 billion (referred to as ‘IMF exceptional assistance’). The Council of States approved the temporary increase in May 2009 and the National Council voted in its favour in March 2011.

Expansion of New Arrangements to Borrow

By temporarily supplementing its resources through bilateral loan agreements, the IMF can bridge the gap until the agreed measures for increasing lending resources enter into effect on a permanent basis. These permanent measures include the expansion of the NAB, which was agreed by NAB participants in November 2009 and formally approved by the IMF Executive Board in April 2010. In place since 1998, the NAB is a standing multilateral borrowing arrangement under the terms of which member countries and central banks provide the IMF with temporary resources in exceptional crisis situations or in the event of a shortage of funds. The proposed expansion involves increasing the number of participants from 26 to 39 member countries and extending the maximum amount of resources available for lending from SDR 34 billion to SDR 367.5 billion. For the SNB this would mean an increase in its maximum loan commitment from SDR 1.54 billion to SDR 10.9 billion in monetary terms; proportionally, however, its share would in fact fall from 4.5% to 3.0%. In March 2011, the National Council was the second of the two parliamentary chambers to approve Switzerland’s participation in the amended NAB.

Quota and governance reform

A further measure to augment the lending resources permanently is to increase the quotas to SDR 476.8 billion. This move is part of a comprehensive package of quota and governance reforms and will involve a major realignment of quota shares in favour of emerging markets and developing countries. The reform package also calls for a reduction of the number of executive directors representing advanced European countries by two. In return, all members made an informal commitment to maintaining the size of the Executive Board at 24 members. The agreed amendments were pushed ahead by the efforts of the G20 and were approved by the Board of Governors in December 2010 after extensive negotiations. Since the reforms still need to be ratified by the relevant authorities in a number of member countries, they will probably not enter into effect before the end of 2012.

For Switzerland, the proposed augmentation of the quota resources will mean an increase in its quota from approximately SDR 3.5 billion to SDR 5.8 billion, and a decrease in its quota share from 1.59% to 1.21%. However, owing to the fact that Poland and Kazakhstan's quota shares will increase, the overall quota of the Swiss-led constituency will hardly change.

Consequences of reform for Switzerland

In June 2009, the IMF Executive Board also decided to augment the arrangements under the Poverty Reduction and Growth Trust (PRGT) by SDR 10.8 billion. By the end of 2010, 13 countries had committed to provide loan resources to the PRGT totalling SDR 9.3 billion for this purpose. Switzerland announced it would provide a loan of SDR 500 million. The loan will be granted by the SNB and guaranteed by the Confederation. In March 2011, the National Council was the second of the two parliamentary chambers to approve the federal guarantee for the loan from the SNB.

Augmentations under PRGT

The IMF's equity consists of the quotas of its member countries. Total quotas in the IMF currently amount to SDR 217.4 billion (CHF 313.2 billion), with Switzerland's quota coming to SDR 3,458.5 million (CHF 5.0 billion). The Swiss quota is financed by the SNB. The portion of the quota that is used by the IMF is Switzerland's reserve position in the Fund. For the SNB, this represents a liquid asset vis-à-vis the IMF and thus forms part of the currency reserves. At the end of 2010, Switzerland's reserve position amounted to SDR 740.7 million, compared with SDR 761.8 million a year earlier.

Switzerland's reserve position

In May 2010, the SNB and the IMF jointly organised a conference on the reform of the international monetary system. Central banks from 19 countries participated in this high-level conference, which was held in Zurich.

Conference on international monetary system

On 14 May 2010, the IMF Executive Board concluded the annual Article IV consultation with Switzerland. Within the framework of the Article IV consultations, the IMF regularly reviews the economic policy of its member countries and issues recommendations. The IMF commended Switzerland on its well-structured financial stabilisation measures and stated that the country's sound economic policy before the crisis was one of the reasons it had weathered the recession so well. The IMF considered Switzerland's expansionary monetary policy to be appropriate and supported the SNB's intention to normalise the situation as soon as possible. It endorsed Switzerland's prudent fiscal policy and recognised the benefits of the debt brake rule for Switzerland. Furthermore, it welcomed the proposed reforms to strengthen the supervision of financial institutions. At the same time, however, it also encouraged Swiss authorities to preserve the momentum for reform and to continue their efforts in the area of systemic risk and the 'too big to fail' issue.

Article IV consultation

7.3 Bank for International Settlements

BIS as forum for central banks

The Bank for International Settlements (BIS) is an international organisation which has its head office in Basel. It fosters international monetary and financial cooperation and serves as the bank for central banks. The governors of member central banks meet every two months to discuss developments in the global economy and the international financial system. The SNB also 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.

Basel Committee on Banking Supervision

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 6.6, 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 developments in national and international payment and securities settlement systems. In 2010, the CPSS published two reports. The first one – compiled under the direction of the SNB – examines the market infrastructure for the clearing and settlement of repo transactions in various markets, and identifies ways in which the market infrastructure could be strengthened further. The second report investigates developments in the market structure of central counterparties and the implications for financial stability. The CPSS – in collaboration with the International Organization of Securities Commissions (IOSCO) – also initiated a revision of the current standards and recommendations for systemically important payment systems, central counterparties and securities settlement systems.

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) monitors developments in the international financial markets and analyses their impact on financial stability. In 2010, the CGFS published six reports. Four of them deal with the lessons learned from the financial crisis, the fifth one focuses on the long-term determinants of cross-border financial intermediation, and the sixth one looks at ways in which BIS international financial statistics can be used to better understand global financial stability issues.

Markets Committee

The Markets Committee serves as a platform for central bank officials responsible for monetary policy operations. It examines current developments in money, currency, capital and commodity markets, as well as the functioning of these markets. In 2010, the financial crisis and its implications were once again the main topic of discussion. The committee looked, among other things, at the unconventional monetary policy measures taken by central banks as well as the rise in central banks' balance sheets.

7.4 OECD

Participation in the 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 34 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). On a political and academic level, the EPC and its working groups deal with current developments in the global economy as well as with structural policy. The CFM analyses ongoing developments in the international financial markets and examines regulatory issues. The CSTAT drafts standards for the national accounts in association with other supranational organisations. Furthermore, within the framework of the global project 'Measuring the Progress of Societies' and in collaboration with international and regional organisations, it is considering ways to improve the measurement of GDP and looking for alternatives to it.

In 2010, the OECD accepted four new members, namely Chile, Estonia, Israel and Slovenia. It also offered enhanced engagement to major emerging economies and broadened its relations with the G20 states. Furthermore, it devoted considerable attention to the financial crisis and its impact on economic development, government finances and social security systems. It drew up proposals for a reorganisation of the financial market architecture as well as strategies for sustainable government finances and long-term economic growth. The emphasis was on structural reforms and recommendations as to how and when the expansionary monetary policy and fiscal measures taken by central banks and governments could be discontinued without jeopardising economic recovery.

7.5 Technical assistance

Principles

The SNB provides technical assistance upon request to the central banks of developing countries and emerging markets. Technical assistance includes the transfer of knowledge specific to central banks and contributes to maintaining the good relations between central banks worldwide. The SNB primarily provides technical assistance to the group of the countries with which it cooperates in the IMF.

Assisting countries in the Swiss-led IMF constituency

The main recipients of SNB technical assistance in the period under review were the central banks of the Kyrgyz Republic (NBKR) and Tajikistan (NBT). The NBKR received advice in the areas of monetary policy, financial market operations, risk management, banking operations and security. Cooperation with the NBT was expanded, so that assistance now covers monetary policy, currency reserve management and security. The SNB also continued to assist the central banks of Azerbaijan (in matters relating to research, human resources, central accounting and controlling) and Serbia (currency reserve investment, controlling, money market and foreign exchange).

International seminars

In May, the SNB and the National Bank of Poland jointly organised their seventh annual seminar – held alternately in Switzerland and Poland – for the central banks of the countries in the Swiss-led IMF constituency as well as other countries of the former Soviet Union and Southeast Europe. This year's seminar was held in Warsaw and focused on monetary policy and financial stability within the context of the financial market turmoil.

Assisting other countries

Outside the Swiss-led constituency, the SNB provided support on payment systems to the central banks of India, Peru and Russia. In addition, as part of the South Asia Payments and Securities Settlement Initiative (SAPI) launched by the World Bank, it assisted the central bank of Bangladesh in its reform efforts in the area of payment transactions and securities settlement. Within the context of the World Bank's Reserves Advisory and Management Program (RAMP), the SNB provided assistance to the central banks of Namibia and Swaziland in connection with the management of foreign exchange reserves.

Study Center Gerzensee

In 2010, 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 central banks. The courses offered training in the fields of monetary policy and financial markets and were attended by a total of 145 participants from 79 countries.

8 Banking services for the Confederation

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.

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. Details of the services to be provided and the remuneration are laid down in an agreement concluded between the Confederation and the SNB.

In 2010, the SNB issued both MMDRCs and Confederation bonds on behalf of and for the account of the Confederation. MMDRCs amounting to CHF 76.7 billion were subscribed and allocated for a total of CHF 33.7 billion. The corresponding figures for Confederation bonds were CHF 6.8 billion and CHF 4.1 billion respectively. The auction procedure was used for these issues. MMDRCs with terms of six and twelve months recorded auction yields of a maximum of 0.125% and 0.158% respectively, while three-month MMDRCs recorded rising auction yields of up to 0.158% in the second half of the year.

In the area of payment transactions, the SNB carried out roughly 181,000 payments in Swiss francs on behalf of the Confederation and approximately 24,000 payments in foreign currencies.

Mandate

Remuneration for banking services

Issuing activities

Payments

9 Statistics

Purpose of activities in the field of statistics

The Swiss National Bank (SNB) collects the statistical data it requires to fulfil its statutory tasks on the basis of art. 14 of the National Bank Act (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. The National Bank Ordinance (NBO) lays down the details of the SNB's activities in the field of statistics (arts. 3–11 NBO).

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). The SNB may also collect statistical data on the business activities of other private individuals or legal entities where this is 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. 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 NBO). It seeks to minimise the demands placed on those required to provide information.

Confidentiality and exchange of data

The SNB 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 data bank containing 4.9 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 NBO.

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. 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.

Since mid-2010, the SNB publishes data on its website which are in line with the IMF's Special Data Dissemination Standard (SDDS). By subscribing to the SDDS, Switzerland has committed to publishing certain data in the format prescribed by the standard. This includes the SNB's monetary aggregates and currency reserves.

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. The supplementary survey yielded important results during the financial crisis, and is also valuable under normal circumstances. Consequently, as of the second quarter of 2011, it will be employed as a regular SNB survey, as provided for by art. 5 NBO.

In compiling statistical data, the SNB collaborates with the relevant federal government bodies, particularly the Swiss Federal Statistical Office (SFSO) and the Swiss Financial Market Supervisory Authority (FINMA), as well as with the 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).

The SNB has a close working relationship with the 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. Moreover, the SNB belongs to a number of 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*).

The SNB collects quarterly data on mortgage rates from about 80 banks on behalf of the Federal Office for Housing (FOH). 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.

Under the agreement with FINMA on the reciprocal exchange of data in the financial sector, the SNB collects information, including data on the capital base, liquidity and interest rate risk of banks and securities dealers.

Survey on bank lending

Collaboration ...

... with the SFSO

... with the FOH

... with FINMA

... in the banking statistics committee

The SNB 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. In 2010, the group of experts gave special attention to the serviceBOP project. This project aims to expand the SNB's survey on foreign trade in services (data that form part of the balance of payments (BOP)), and to adapt it to the requirements of the bilateral agreement on statistics between Switzerland and the European Union (EU).

... with the Principality of Liechtenstein

The SNB also surveys Liechtenstein-based companies when preparing its balance of payments figures and its 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 the EU

The bilateral agreement on statistics between Switzerland and the EU was revised in 2010. The agreement, which dates back to 1 January 2007, sets out how the two parties cooperate in the area of statistics. Where previously it applied to the financial accounts and parts of the banking statistics, it now also includes the balance of payments. This means that as of 2014, the SNB will have to adhere to the requirements of the Statistical Office of the European Communities (Eurostat) when compiling the balance of payments. The National Bank actively participates in various Eurostat bodies.

... with other foreign agencies

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

In 2010, the SNB participated in several international working groups concerned with filling data gaps in financial market statistics. Improving the statistical basis will help identify undesirable trends (such as those that developed prior to the financial crisis in 2008) at an early stage.

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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 of the Swiss Code of Obligations (CO)).

The business report is written from a group point of view. This means that its statements also apply to the stabilisation fund companies. The SNB's activities in the area of monetary policy and its contribution to the stability of the financial system are explained in the accountability report and will not be described in greater detail in this part of the *Annual Report*.

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 (art. 5) and independence (art. 6). To counterbalance the independence of the SNB, the NBA specifies a duty of accountability and information towards the Federal Council, Parliament and the public (art. 7). The SNB's scope of business is outlined in arts. 9–13 NBA. The instruments used by the 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

The Swiss National Bank's (SNB) management and executive body is the Governing Board. It consists of three members. The Governing Board is responsible in particular for monetary policy, asset management strategy, contributing to the stability of the financial system and international monetary cooperation. The Governing Board fulfils its monetary policy mandate independently.

Management and oversight

The Enlarged Governing Board consists of the three members of the Governing Board and their three deputies, and is responsible for the operational management of the SNB. The Board of Deputies directs daily operations. The Bank Council oversees the SNB's business activities. The Internal Auditors unit reports to the Bank Council's Audit Committee.

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

Structure

The SNB also has a branch office in Geneva. The representative offices, which are located in Basel, Lausanne, Lugano, Lucerne and St Gallen, are responsible (as are the head offices and the branch office) for monitoring economic developments and explaining the SNB's policy in the regions. They are supported by the regional economic councils, which analyse the economic situation and the effect of monetary policy in their region and report the results to the SNB's management. In addition, the regional economic councils maintain an exchange of information with the delegates for regional economic relations.

The SNB also maintains 13 agencies for the receipt and distribution of banknotes and coins. These agencies are run by cantonal banks.

The SNB's principal task is to pursue a monetary policy serving the interests of the country as a whole. The Economic Affairs unit of Department I is responsible for drawing up monetary policy strategy and providing the analyses upon which the monetary policy decisions are based. It evaluates the economic situation in Switzerland and abroad, and produces the inflation forecast. In its analysis of economic developments in Switzerland, it is supported by the delegates for regional economic relations. The Financial Markets unit of Department III is responsible for the implementation of monetary policy, which includes, in particular, supplying the money market with liquidity.

Monetary policy

Cash transactions	<p>Tasks relating to cash transactions fall within the domain of the Cash unit of Department II. The SNB 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.</p>
Cashless payment transactions	<p>Conceptual and technical issues arising with regard to cashless payment transactions are dealt with by the Financial Stability 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.</p>
Asset management	<p>The management and investment of gold, foreign exchange reserves and Swiss franc assets is the responsibility of the Financial Markets unit of Department III. Risk control and the formulation of the basic principles of investment policy are dealt with by the Risk Management unit of Department II. The management of risk is overseen by the Bank Council's Risk Committee.</p>
Financial system stability	<p>The Financial Stability unit of Department II prepares the documentation and performs the analyses required by the SNB to fulfil its mandate and contribute to the stability of the financial system. It also oversees the systemically important payment and securities settlement systems. The Stab-Fund unit of Department II is responsible for the operational management of the stabilisation fund and supports the stabilisation fund's Board of Directors in fulfilling its tasks.</p>
International monetary cooperation	<p>The International Monetary Cooperation unit of Department I deals with international monetary relations, international trade and capital flow, and technical assistance.</p>
Banker to the Confederation	<p>The SNB's function of banker to the Confederation is performed by the Banking Operations unit and the Financial Markets unit 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.</p>
Statistics	<p>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, the report on direct investment, the report on Switzerland's international investment position, and the Swiss financial accounts.</p>
Central services	<p>Central services are divided between the departments. Department I includes the Secretariat General, Communications, Legal Services, Human Resources, and Premises and Technical Services. Department II includes Finance and Risk, and Security. Department III is responsible for Information Technology.</p>

3 Corporate governance

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) as part of a package of measures aimed at strengthening the Swiss financial system. It thereby constitutes a group as defined in art. 663e of the Swiss Code of Obligations (CO) and is required to draw up consolidated financial statements. Details on the stabilisation fund may be found in chapter 6.7 (pp. 80–83) and in 'Financial information on the stabilisation fund' (pp. 163–172) of this report. The companies included in the consolidated financial statements are listed under 'Reporting entities' (p. 182).

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 elected by the Federal Council, including the President and Vice President. The other five members are elected by the General Meeting of Shareholders. The Bank Council has 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 directs daily operations. The deputies, like the members of the Governing Board, are appointed for a six-year term by the Federal Council on the recommendation of the Bank Council.

Background

Corporate bodies and responsibilities

The Audit Board examines whether the accounting records, the annual financial statements, the consolidated financial statements and the proposal for the allocation of the net profit are in accordance with the statutory requirements. To this end, it is entitled to inspect the SNB's business activities at any time. It is appointed by the General Meeting of Shareholders for a term of one year. The auditors must meet special professional qualifications pursuant to art. 727b CO, and they must be independent of the Bank Council, the Governing Board and the controlling shareholders.

Shareholder rights

Shareholder rights are governed by the National Bank Act, with the provisions of company law being subsidiary to those of the NBA. As the SNB fulfils a public mandate and is administered with the cooperation and under the supervision of the Confederation, shareholder rights are restricted as compared with a joint-stock company under private law. Shareholders from outside the public sector may be registered for a maximum of 100 votes. At the General Meeting of Shareholders, shareholders may only be represented by other shareholders. 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. Of the remaining distributable profit, one-third 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 on the General Meeting of Shareholders that deviate from company law concern its convocation, agenda, and adoption of resolutions. Agenda items with motions from shareholders must be signed by at least 20 shareholders and submitted to the President of the Bank Council in writing and in good time, before invitations are sent out (cf. 'Shareholder rights', p. 107).

Meetings and remuneration of bodies

Important information on the structure and organisation of the SNB and on the remuneration and eligibility of its corporate bodies is to be found in different sections of the *Annual Report*. References to the relevant sections are contained in the tables at the end of this chapter.

In 2010, the Bank Council held six ordinary half-day meetings (in February, April, June, September, October and December), all of which were attended by the members of the Governing Board.

The business it dealt with included, in particular, the resolution on the level of the provisions for currency reserves and the closure of the SNB agencies in Basel, Bienne and Thun, the approval of the new reporting arrangements for the Internal Auditors, and the transfer of the Risk Management unit from Department III to Department II. It also dealt with the Audit Board's reports to the Bank Council and to the General Meeting of Shareholders, and took note of the progress achieved in implementing the real estate strategy and the associated medium and long-term investment.

Moreover, the Bank Council approved a set of principles relating to the selection of its members, for the attention of the Federal Department of Finance. It revised the guidelines pertaining to members of the Enlarged Governing Board and the acceptance of invitations and concessions, and it also amended the regulations on members of the Enlarged Governing Board entering into personal transactions involving financial instruments.

Finally, the Bank Council took note of the annual reports on the financial and operational risks, and of the status of the internal control system (ICS).

The Compensation Committee met once. The Nomination Committee did not meet. The Audit Committee held four half-day meetings, which were attended by representatives of the Audit Board. The Risk Committee held two half-day meetings.

The remuneration regulations on SNB supervisory and executive bodies specify that Bank Council members receive a fixed annual remuneration, as well as compensation for attending committee meetings that are not held on the same day as Bank Council meetings. The remuneration paid to members of the Enlarged Governing Board consists of salary plus lump-sum compensation for representation expenses. Guidance on the appropriate level of remuneration is 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, pp. 146–147).

The National Bank does not make severance payments to departing members of the Bank Council.

In accordance with SNB 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 (deputies), the period is three months. 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 remuneration within these periods (cf. tables on remuneration for the Bank Council and executive management, pp. 146–147).

On 31 December 2010, members of the Bank Council did not hold any SNB shares, and members of the Enlarged Governing Board held a total of six.

PricewaterhouseCoopers Ltd (PwC) holds the auditing mandate. PwC has been auditing the annual financial statements of the SNB (parent company) since 2004, and the consolidated financial statements since 2008. The lead auditor for the annual financial statements of the parent company and the consolidated financial statements was appointed in 2008. Fees paid in the 2010 financial year for this auditing mandate totalled CHF 365,840. PwC was also entrusted with the task of auditing the SNB stabilisation fund. Compensation for these audit services in the 2010 financial year amounted to CHF 1,536,660. Additional services by PwC cost a further CHF 8,608.

Notifications to shareholders are generally communicated by post to the address listed in the share register, and by publication in the *Swiss Official Gazette of Commerce*. Shareholders do not receive any information which is not also made available to the public.

SNB registered shares are traded on the stock market. At the end of 2010, a total of 52.7% of the shares were held by cantons and cantonal banks, with the remaining shares mostly held by private individuals. The major shareholders were the Canton of Berne with 6.6% (6,630 shares), Theo Siegert (Düsseldorf) with 5.6% (5,550 shares), the Canton of Zurich with 5.2% (5,200 shares), the Canton of Vaud with 3.4% (3,401 shares) and the Canton of St Gallen with 3.0% (3,002 shares). The Confederation is not a shareholder of the SNB.

The basic features of the SNB's structure and organisation are defined by the NBA, the Organisation Regulations, and the regulations relating to the Bank Council committees.

Information for shareholders

Listed registered shares

Cross reference tables

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

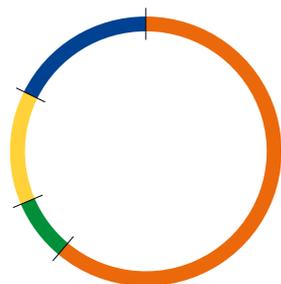
Further information on corporate governance may be found in other sections of the *Annual Report*, on the SNB website, in the NBA, and in the Organisation Regulations.

Corporate structure and shareholders	<i>Annual Report</i> , pp. 103, 141–142
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	<i>Annual Report</i> , p. 141
Accounting principles	<i>Annual Report</i> , p. 126 (parent company) and pp. 179–180 (consolidated level)
Bank Council	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Members	<i>Annual Report</i> , p. 198
Nationality	Art. 40 NBA
Affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies</i>
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report</i> , p. 198
Internal organisation	Arts. 10 et seq. Organisation Regulations
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation Regulations
Systems of control	<i>Annual Report</i> , pp. 154 et seq., accountability report, pp. 64–65; arts. 10 et seq. Organisation Regulations
Information tools	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Executive management	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Governing Board</i>
Remuneration	<i>Annual Report</i> , pp. 146–147
Shareholder rights	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation</i>
Decision-making quorum	Art. 38 NBA
General Meeting of Shareholders	Arts. 34–38 NBA
Listing in share register	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation</i>
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	<i>Annual Report</i> , pp. 106, 204–207

4 Resources

4.1 Organisational changes

Organisation



Human resources Number of employees

Full-time, men	428
Part-time, men	52
Full-time, women	96
Part-time, women	124
Total:	700
At year-end 2010	

Number of employees and turnover

The new challenges following the financial crisis and the range of initiatives that have been adopted have led to shortfalls and a need for reform in some areas of the SNB. This was also an opportunity that could be used to further develop and optimise the SNB's organisational structure.

In Department I, the structure was simplified and the central services were reinforced. Department I has now been broken down into the following four areas: International Monetary Cooperation, Economic Affairs, Legal and Property Services, and Secretariat General.

The delegates for regional economic relations were integrated into Department I's Economic Analysis unit. Regional economic monitoring was systemised and more fully included in economic analyses.

In Department II, financial stability activities were reorganised and expanded as a result of the financial crisis and the new challenges in this area. In addition, management of the balance sheet, preparation of analyses for investment policy and provisions policy, and monitoring of financial and operational risks were brought together under Finance and Risk.

In organisational terms, the Risk Management and StabFund units were transferred from Department III to Department II. Risk Management was incorporated into the new Finance and Risk unit. Through this transfer, the organisational separation between operational risk-taking and risk control has become stronger, thereby making the independence of risk management from the implementation of monetary and investment policy visible.

Finally, in line with the requirements of corporate governance, the Internal Auditors now report to the Bank Council's Audit Committee.

4.2 Human resources

At the end of 2010, the SNB employed 700 people (including 21 apprentices); an increase of 19, or 2.8%, compared to the previous year. In terms of full-time equivalents, the number of employees rose by 2.2% to 649.8, since there was an increase in the share of part-time employees, to 25.1%. Staff turnover rose to 6.1% from 4.8% a year earlier.

4.3 Premises

The SNB owns premises for its own use in Zurich, Berne and Geneva. They are managed and maintained for effective and efficient use according to a long-term strategy. In 2010, no real estate was sold or acquired.

At the Zurich location, renovation of the property located at Seehofstrasse 15, in particular, was expedited sufficiently for the premises to be ready for use according to plan at the beginning of 2011. For the Berne location, renovations are planned for 2011 and 2012 in connection with the overhaul of the staff restaurant.

Premises

4.4 Information technology

The IT production environment was stable in 2010 and the infrastructure was available at all times. Extensions and improvements to systems and software ensured that business was handled without problems, despite a strong increase in volume. New application systems for processing, testing and archiving of both statistical survey data (finance industry and corporations) and the administration and analysis of time series went live following three years of development.

Information technology

4.5 Environment

In its Charter, the SNB undertakes to be careful in its use of natural resources. Since 1996, it has been practising environmental management and publishing an annual environmental report. The redesigned report published in 2010 describes the foundations upon which the SNB's environmental management is based, explains its objectives in connection with environmental change, provides information on the use of resources and on greenhouse gas emissions and lists the measures aimed at improving its environmental performance.

From 2008 to 2009, per capita energy consumption (electricity and heating energy) remained almost unchanged, while greenhouse gas emissions rose by 14.3%. This increase was mainly due to increased air travel. The SNB compensates these emissions through investment in climate protection projects.

The environmental report can be viewed on the SNB website (www.snb.ch, *The SNB, Structure and organisation, Environmental management*; only available in German and French).

Environmental management

4.6 Assessments

In 2010, the SNB carried out two external assessments.

For the Oversight unit, which is responsible for overseeing systemically important payment and securities settlement systems, assessments were obtained from three experts at other central banks and the Bank for International Settlements (BIS). The external assessors confirmed that the legal basis, strategy and practical implementation of system oversight at the SNB are in line with generally accepted best practice for central banks.

For iconomix, the economics education programme launched in 2007, which was the SNB's centennial year, assessments were obtained from two business lecturers at the Universities of St. Gallen and Zurich. In their overall evaluation, the experts concluded that iconomix was a worthwhile addition to the existing teaching material on economics at upper secondary schools.

5 Changes in bank bodies and management

At the General Meeting of Shareholders held on 30 April 2010, the following new member was elected to the Bank Council:

Monika Bütler, Professor of Economics at the University of St. Gallen

The following resignations from the Bank Council have been announced and will take effect on 29 April 2011, the date of the next General Meeting of Shareholders:

Konrad Hummler, Managing Partner of Wegelin & Co., Private Bankers,

Armin Jans, Professor of Economics at the Zurich University of Applied Sciences.

The SNB thanks Messrs Hummler and Jans for their valuable services.

On 11 March 2011, the Federal Council appointed the following new member to the Bank Council with effect from 1 May 2011:

Alfredo Gysi, CEO of BSI (established as Banca della Svizzera Italiana).

On 30 April 2010, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2010–2011 term of office.

In accordance with the Federal Council appointments in 2009, the following people have held office since 1 January 2010:

Philipp M. Hildebrand, as Chairman of the Governing Board and Head of Department I,

Thomas J. Jordan, as Vice Chairman of the Governing Board and Head of Department II,

Jean-Pierre Danthine, as Member of the Governing Board and Head of Department III,

Thomas Moser, as Alternate Member of the Governing Board.

The Bank Council approved the following promotion to the position of Director with effect from 1 January 2011:

Attilio Pietro Zanetti, Head of Economic Analysis.

Bank Council

Audit Board

**Governing Board and
Enlarged Governing Board**

Bank management

6 Business performance

6.1 Annual result

Summary

The Swiss National Bank (SNB) is reporting a consolidated loss of CHF 19,170.8 million for 2010, following a profit of CHF 9,955.0 million in 2009. Once again, it was currency movements that had by far the greatest effect on the annual result, particularly the substantial appreciation of the Swiss franc during the final days of 2010. At CHF –20,807.1 million, the size of the negative result for the parent company, upon which the profit distribution is based, is CHF 1,636.2 million greater than in the case of the consolidated result. The difference is due to the inclusion of the stabilisation fund companies.

The SNB has determined that CHF 724.2 million will be allocated to provisions for currency reserves for the financial year just ended (art. 30 para. 1 NBA). Following this allocation, there will be a shortfall of CHF 21,531.3 million in the distributable profit (art. 30 para. 2 NBA). The profit distribution established for 2010, in accordance with the profit distribution agreement between the Federal Department of Finance (FDF) and the SNB (art. 31 para. 2 NBA), amounts to CHF 2,500 million. In addition, shareholders will receive a dividend amounting to CHF 1.5 million (art. 31 para. 1 NBA). The distribution reserve declines by CHF 24,032.8 million to CHF –5,000.0 million.

Some stabilisation measures phased out

Some of the extraordinary measures introduced in previous years to stabilise financial markets were phased out.

For instance, foreign exchange swaps with central and commercial banks as a means of supplying the money market with Swiss francs were discontinued on 18 January 2010. The Swiss franc bonds issued by domestic private sector borrowers which had been acquired from March 2009 onwards were sold again during the course of 2010.

The provision of US dollars to the domestic money market via dollar auctions was discontinued at the beginning of 2010. Due to the tensions on US dollar money markets in Europe, the auctions were reintroduced in May, in coordination with other central banks, but not used during the reporting period.

Further interventions in the foreign exchange market

Foreign exchange purchases in the first half of 2010 led to a strong increase in investments in foreign currencies.

Based on risk considerations, reallocations were made within the foreign exchange investments in the second half of the year. As part of this diversification, holdings were built up in Australian and Singapore dollars as well as Swedish kronor and Danish kroner.

The expansionary monetary policy pursued since autumn 2008 led to substantial growth in the monetary base. In order to absorb excess liquidity, i.e. to reduce sight deposits, the SNB uses both SNB Bills and liquidity-absorbing repo transactions, whereby it accepts Swiss francs against collateral.

Liquidity-absorbing measures

By the end of 2010, the stock of SNB Bills in Swiss francs had increased from CHF 7.8 billion to CHF 107.9 billion, while liquidity-absorbing repo operations amounted to CHF 13.2 billion at year-end.

The higher demand for gold resulted in a sharp increase in the US dollar gold price in 2010. In terms of Swiss francs, the increase was less substantial because of the fall in the rate of the US dollar against the Swiss franc. Nevertheless, the gold price was still significantly higher on the balance sheet date, at CHF 42,289 per kilogram (2009: CHF 36,687).

Sharp increase in gold price

A valuation gain of CHF 5,827 million was recorded on the SNB holding of 1,040 tonnes of gold. The importance of secured gold lending declined further. Several contracts were dissolved prematurely; thus interest payments on the residual maturity of these contracts fell due immediately. Overall, gold lending business contributed just under CHF 10 million to the result (2009: CHF 9 million).

The increase in the value of the Swiss franc, particularly against the euro, US dollar and pound sterling, resulted in considerable exchange rate losses on foreign currency positions. These totalled CHF 32.7 billion at consolidated level.

Substantial exchange rate losses

In 2010, CHF 4.6 billion in earnings from interest income flowed to the group from foreign currency investments. Equity-type securities benefited from a favourable stock market environment, gaining CHF 1.5 billion in value. Together with the various other income statement components (including interest expenses), this meant that the final net result from foreign currency positions in 2010 amounted to CHF -27.0 billion (2009: profit of CHF 1.9 billion).

Income of CHF 71 million was derived from investments in Swiss francs (2009: CHF 281 million). Interest-bearing assets in Swiss francs declined significantly because the SNB had conducted hardly any liquidity-providing repo auctions since June 2010. By contrast, interest-bearing liabilities in Swiss francs increased.

Lower income on Swiss franc positions

Income on securities came to CHF 240 million (2009: CHF 272 million). In the first half of the year, the SNB discontinued liquidity-providing repo transactions, which had been used for steering interest rates up to that point. However, the repo transactions still contributed CHF 3 million to the result (2009: CHF 35 million).

Liabilities in Swiss francs rose significantly in connection with the liquidity-absorbing measures that had been introduced. The SNB Bills issued in Swiss francs gave rise to an expense of CHF 146 million (2009: CHF 12 million). The liquidity-absorbing repo transactions were responsible for an additional expense of CHF 14 million.

Due to the low interest rates and the low volume of liabilities towards the Swiss Confederation, the related interest expense decreased to CHF 5 million (2009: CHF 7 million).

Recovery in stabilisation fund investments

From a consolidated perspective, although exchange rate losses also had a negative impact on stabilisation fund investments, as higher-risk securities they benefited from higher interest payments. Moreover, the statement of assets at amortised cost gave rise to successive increases in value for many securities. Since impairment tests in 2010 resulted in no more than comparatively minor value adjustments, a positive result of CHF 3,168 million was recorded at consolidated level (2009: loss of CHF 2,102 million).

Operating expenses

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

These expenses decreased by CHF 40 million (11.6%) to CHF 302 million (2009: CHF 342 million). The postponement of the issue of a new series of banknotes, announced on 17 February 2010, resulted in a substantial reduction in banknote expenses.

Reduction in loan to stabilisation fund

The liquidation strategy was maintained for the stabilisation fund set up by the SNB in autumn 2008. The SNB loan decreased from almost CHF 21 billion to less than CHF 12 billion. In the same period, additional contingent liabilities declined from CHF 3.9 billion to CHF 2.0 billion. Should financing needs arise, the contingent liabilities would trigger lines of credit with the SNB if the financing needs cannot be covered by the funds available in the stabilisation fund.

To mid-2010, the SNB mainly used SNB USD Bills to refinance its loan to the stabilisation fund. Subsequently, these bills were replaced by funds from the SNB's foreign currency investments. The last SNB USD Bills expired at the end of 2010.

The loan to the stabilisation fund is primarily covered by the fund's investments. 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.

The SNB's financial result is strongly influenced by changes in the price of gold and the exchange rate. Consequently, further substantial fluctuations in the quarterly and annual results are likely.

Future distributable profits that remain after allocation to the provisions for currency reserves will first be offset against the negative distribution reserve in accordance with the current profit distribution agreement. The SNB does not exclude the possibility that the profit distributions will have to be suspended completely for a certain period, or that it will only be possible to carry them out on a reduced scale.

Implementation of the stabilisation fund liquidation strategy depends on further developments in the relevant markets. The recoverable value of the transferred assets will only become clear in a few years' time. If the loan were no longer fully 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.

Outlook

6.2 Provisions for currency reserves

In accordance with art. 30 para. 1 NBA, the SNB sets up provisions from its annual result to maintain the currency reserves at the level necessary for monetary policy. Independent of this financing function, the provisions for currency reserves have a general reserve function and thus serve as equity capital. They serve as a buffer against all the different forms of loss risk at the SNB.

Currency reserves make Switzerland's economy less vulnerable to international crises and thereby engender confidence in the Swiss franc. The need for currency reserves grows in step with the size and international integration of the Swiss economy. Adequate provisions enable the SNB to carry the risks associated with holding currency reserves. In an extreme situation, currency reserves would allow the SNB to intervene in the market in the event of a weakness in the Swiss franc.

Purpose

Level of provisions

When setting aside provisions for currency reserves, the SNB must take into account the development of the Swiss economy (art. 30 para. 1 NBA). The calculation of the provisions is based on the average growth of GDP over the previous five years. The Bank Council is free to deviate from this yardstick.

In its annual review in December 2009, the Bank Council decided to increase the growth rate of provisions to double the average GDP growth rate for the 2009–2013 financial years.

Allocation from 2010 annual result

Due to the exceptional movements in exchange rates over the final days of 2010, the Bank Council decided not to carry out the annual allocation for 2010 for the amount that was originally planned, but to reduce it to CHF 0.7 billion.

Development in the last five years**Provisions**

	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 ³	4.5 (2004–2008)	724.2	45 061.3

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 resolution of 4 December 2009.

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

Distributable annual profit

The earnings remaining after the allocation to the currency reserves correspond to the distributable annual profit. Distributable profits exceeding the sum of amounts payable to the Confederation and the cantons as well as 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 2010, a loss of CHF 21,531 million was obtained, which flows into the calculation of the distributable profit in accordance with art. 30 para. 2 NBA.

6.3 Profit distribution

In accordance with art. 31 para. 2 NBA, one-third of the SNB's net profit – to the extent that it exceeds the dividends – is distributed to the Confederation and two-thirds to the cantons.

The amount of the annual profit distribution is laid down in an agreement between the Federal Department of Finance (FDF) and the SNB. Given the considerable fluctuations in the SNB's earnings, the NBA stipulates that profit distribution be maintained at a steady level. The agreement therefore provides for a constant flow of payments over several years.

With the annual result, the value of the distribution reserve has become negative. Consequently, the SNB and the FDF will review their agreement concerning the profit distribution during the course of 2011.

For 2010, following the reduced allocation of CHF 0.7 billion to the provisions for currency reserves, the SNB is distributing CHF 2,500 million to the Confederation and the cantons in accordance with the agreement.

In addition to the agreed distribution of CHF 2,500 million to the Confederation and the 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.

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 offset in the distribution reserve. Since the distributable annual profit calculated as per art. 30 para. 2 NBA is negative for the 2010 financial year, the distribution reserve foreseen for this purpose will be debited with an amount of CHF 24,032.8 million. As a result, it stands at CHF –5,000 million.

Profit distribution to Confederation and cantons

Distribution agreement

Distribution for 2011

Dividends

Distribution reserve

Profit distribution and distribution reserve

In CHF millions	Distribution reserve prior to distribution ¹	Distributable annual profit	Profit distribution	Distribution reserve after distribution
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	14 634.2	6 900.1	2 501.5	19 032.8
2010 ²	19 032.8	–21 531.3	2 501.5	–5 000.0

1 Total at year-end as per balance sheet (p. 123).

2 In accordance with proposed appropriation of profit.

6.4 Composition of the SNB's 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. The reserve position in the International Monetary Fund (IMF) and international payment instruments are also allocated to currency reserves. Additional items are the positive and negative replacement values of derivative financial instruments in foreign currencies applicable as at the balance sheet date.

Composition of the SNB's currency reserves

In CHF millions	31.12.2010	31.12.2009	Change
Gold	43 349.0	34 757.9	+8 591.1
Claims from gold transactions	638.9	3 427.7	-2 788.8
Total gold reserves	43 987.9	38 185.6	+5 802.3
Foreign currency investments	203 809.6	94 680.2	+109 129.4
Less: associated liabilities	-1 067.4	-	-1 067.4
Derivatives (replacement values, net)	-23.4	14.6	-38.0
Total foreign exchange reserves¹	202 718.8	94 694.8	+108 024.0
Reserve position in the IMF	1 067.7	1 230.8	-163.1
International payment instruments	4 670.3	5 555.9	-885.6
Total currency reserves	252 444.7	139 667.1	+112 777.6

¹ Holdings of and investments in convertible foreign currencies, including use of derivatives.

6.5 Multi-year comparison of assets and liabilities

The major activity in 2007 and 2008 was securing liquidity on the relevant money markets. Additional monetary policy measures followed from March 2009. In 2010, the balance sheet total increased again significantly for this reason.

On the assets side of the balance sheet, the effect of these measures is particularly apparent in the foreign currency investments. The Swiss franc bonds issued by domestic private sector borrowers, which the SNB had acquired from March 2009 onwards for monetary policy reasons, were sold again. Liquidity-providing repo operations, which are traditionally used for the implementation of monetary policy, were discontinued in 2010.

On the liabilities side of the balance sheet, domestic banks' sight deposits rose from the end of 2008 along with the increase in the provision of liquidity. In 2010, they declined again. This was mainly attributable to liquidity-absorbing measures via the issue of SNB Bills and liquidity-absorbing repo transactions. The growth in foreign currency liabilities in 2009 was due to the refinancing requirement for the loan to the stabilisation fund, which has been fully financed from the foreign exchange reserves since the end of 2010.

Year-end values of balance sheet assets (aggregated)

In CHF millions	2010	2009	2008	2007	2006
Gold holdings and claims from gold transactions	43 988	38 186	30 862	34 776	32 221
Foreign currency investments ¹	209 848	101 816	48 724	51 547	46 717
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
Swiss franc securities	3 497	6 543	3 597	4 131	4 908
Loan to stabilisation fund	11 786	20 994	15 248	–	–
Other assets ²	836	846	3 479	931	842
Total assets	269 955	207 264	214 323	126 927	111 813

1 Foreign exchange investments, reserve position in the IMF, international payment instruments, monetary assistance loans.

2 Claims against domestic correspondents, banknote stocks, tangible assets, participations, other assets.

Year-end values of balance sheet liabilities (aggregated)

In CHF millions	2010	2009	2008	2007	2006
Banknotes in circulation	51 498	49 966	49 161	44 259	43 182
Sight deposits of domestic banks	37 951	44 993	37 186	8 673	6 716
Liabilities towards the Confederation	5 347	6 183	8 804	1 077	1 056
SNB debt certificates in Swiss francs	107 870	7 788	24 425	–	–
Other liabilities in Swiss francs ¹	18 801	5 927	34 598	6 036	585
Foreign currency liabilities ²	5 805	26 447	420	1 128	2
Other liabilities ³	96	64	1 286	81	93
Provisions for currency reserves	44 337	41 282	40 275	39 524	38 636
Share capital	25	25	25	25	25
Distribution reserve (before appropriation of profit)	19 033	14 634	22 872	18 129	16 473
Annual result	–20 807	9 955	–4 729	7 995	5 045
Total liabilities	269 955	207 264	214 323	126 927	111 813

1 Sight deposits of foreign banks and institutions, other sight liabilities, liabilities from repo transactions in Swiss francs, other term liabilities.

2 SNB USD Bills, foreign currency liabilities, balancing item for SDRs allocated by the IMF.

3 Other liabilities, operating provisions.

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 of the National Bank Act (NBA), arts. 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.

The annual financial statements of the parent company determine the appropriation of profit.

1 Parent company balance sheet as at 31 December 2010

In CHF millions

		31.12.2010	31.12.2009	Change
Assets	Item no. in Notes			
Gold holdings	01	43 349.0	34 757.9	+8 591.1
Claims from gold transactions	02	638.9	3 427.7	-2 788.8
Foreign currency investments	03, 31	203 809.6	94 680.2	+109 129.4
Reserve position in the IMF	04	1 067.7	1 230.8	-163.1
International payment instruments	29	4 670.3	5 555.9	-885.6
Monetary assistance loans	05, 29	300.4	348.9	-48.5
Balances from swap transactions against Swiss francs	06	-	2 671.6	-2 671.6
Claims from Swiss franc repo transactions	28	-	36 207.9	-36 207.9
Claims against domestic correspondents		-	9.8	-9.8
Swiss franc securities	07	3 497.4	6 542.7	-3 045.3
Loan to stabilisation fund	08, 30	11 786.1	20 994.1	-9 208.0
Banknote stocks	09	110.9	107.2	+3.7
Tangible assets	10	356.3	365.2	-8.9
Participations	11, 30	146.3	147.8	-1.5
Other assets	12, 32	222.0	216.1	+5.9
Total assets		269 954.9	207 263.8	+62 691.1

Liabilities	Item no. in Notes	31.12.2010	31.12.2009	Change
Banknotes in circulation	13	51 498.0	49 966.2	+1 531.8
Sight deposits of domestic banks		37 950.7	44 992.9	-7 042.2
Liabilities towards the Confederation	14	5 347.2	6 182.7	-835.5
Sight deposits of foreign banks and institutions		3 779.4	2 640.6	+1 138.8
Other sight liabilities	15	1 839.2	3 286.0	-1 446.8
Liabilities from Swiss franc repo transactions		13 182.1	-	+13 182.1
SNB debt certificates	16	107 869.6	27 473.1	+80 396.5
Foreign currency liabilities	17	1 068.7	1 450.1	-381.4
Counterpart of SDRs allocated by the IMF		4 736.5	5 311.8	-575.3
Other liabilities	18, 32	92.0	58.5	+33.5
Operating provisions	19	3.5	5.5	-2.0
Provisions for currency reserves ¹		44 337.1	41 282.2	+3 054.9
Share capital	20	25.0	25.0	-
Distribution reserve ²		19 032.8	14 634.2	+4 398.6
Annual result ¹		-20 807.1	9 955.0	-30 762.1
Total liabilities		269 954.9	207 263.8	+62 691.1

1 Before allocation to provisions for currency reserves.

2 Prior to the resolution of the General Meeting of Shareholders on the distribution of profit.

2 Parent company income statement and appropriation of profit for 2010

In CHF millions

	Item no. in Notes	2010	2009	Change
Net result from gold	21	5 836.3	7 338.1	-1 501.8
Net result from foreign currency positions	22	-26 492.5	2 573.1	-29 065.6
Net result from Swiss franc positions	23	70.9	281.3	-210.4
Net result, other	24	28.2	23.3	+4.9
Gross income		-20 557.1	10 215.8	-30 772.9
Banknote expenses		-21.4	-40.7	+19.3
Personnel expenses	25, 26	-116.4	-117.0	+0.6
General overheads	27	-73.6	-67.3	-6.3
Depreciation on tangible assets	10	-38.7	-35.8	-2.9
Annual result		-20 807.1	9 955.0	-30 762.1
Allocation to provisions for currency reserves		-724.2	-3 054.9	+2 330.7
Distributable annual profit		-21 531.3	6 900.1	-28 431.4
Released from (+) / allocated to (-) distribution reserve		+24 032.8	-4 398.6	+28 431.4
Total profit distribution		2 501.5	2 501.5	-
Of which				
Payment of a dividend of 6%		1.5	1.5	-
Profit distribution to Confederation and cantons (in accordance with agreement of 14 March 2008)		2 500.0	2 500.0	-

3 Changes in equity (parent company)

In CHF millions

	Share capital	Provisions for currency reserves	Distribution reserve	Annual result	Total
Equity 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 as at 31 December 2009 (before appropriation of profit)	25.0	41 282.2	14 634.2	9 955.0	65 896.4
Equity as at 1 January 2010	25.0	41 282.2	14 634.2	9 955.0	65 896.4
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
Annual result of year under review				-20 807.1	-20 807.1
Equity as at 31 December 2010 (before appropriation of profit)	25.0	44 337.1	19 032.8	-20 807.1	42 587.8
Proposed appropriation of profit					
Endowment of provisions for currency reserves pursuant to NBA		724.2		-724.2	
Release from distribution reserve			-24 032.8	24 032.8	
Distribution of dividends to shareholders				-1.5	-1.5
Profit distribution to Confederation and cantons				-2 500.0	-2 500.0
Equity after appropriation of profit	25.0	45 061.3	-5 000.0	-	40 086.3

4 Notes to the annual financial statements of the parent company as at 31 December 2010

4.1 Accounting and valuation principles

General

Basic principles

This year's financial statement has been drawn up in accordance with the provisions of the National Bank Act (NBA) and the Swiss Code of Obligations (CO).

Changes from previous year

Compared with the previous year, there was no change to the accounting and valuation principles, and no new balance sheet items were introduced. Balance sheet items registering no balance or movement during the reporting period and the previous year are not shown.

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.

Accrual accounting

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 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 to members of the Bank Council.

Balance sheet and income statement

Valuation principles

Gold holdings and negotiable financial instruments are stated in the balance sheet at 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 acquisition cost less required depreciation. Other items are stated at nominal value inclusive of accrued interest.

Foreign currency positions 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 as well as sales proceeds are reported in *net result from gold*.

In managing its investment portfolio, the National Bank lends 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*.

Claims from gold transactions

In *foreign currency investments*, negotiable securities (money market instruments, bonds and equity instruments) 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 currency investments, are stated at market value inclusive of accrued interest, while credit balances are stated at 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*.

Foreign currency investments

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 annual financial statements. 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.

The reserve position in the International Monetary Fund (IMF) consists of the Swiss quota less the IMF's sight balances at the SNB. 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), the IMF's currency. Part of the quota has not been transferred to the IMF, but remains in a sight deposit account. The IMF can dispose 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 a revaluation of the SDRs are stated in *net result from foreign currency positions*.

Reserve position in the IMF

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 arrangement with the IMF. These sight deposits attract interest at market conditions. Interest expenses and exchange rate gains and losses are stated in *net result from foreign currency positions*.

International payment instruments

The liability entered into by the allocation is stated in *counterpart of SDRs allocated by the IMF* on the liabilities 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 Extended Credit Facility of the Poverty Reduction and Growth Trust (PRGT). 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 PRGT credit account. These loans are stated at nominal value inclusive of accrued interest. Interest earnings and exchange rate gains and losses are stated in *net result from foreign currency positions*. The General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB), which are intended for special circumstances and are not guaranteed by the Confederation, were not used. Therefore, they are only listed under irrevocable undertakings.

Balances from swap transactions

In October 2008, the SNB started providing central banks and domestic and foreign commercial banks with Swiss francs in exchange for euros. The credit balances in euros are stated at nominal value inclusive of accrued interest. The accrued interest and exchange rate gains and losses are recorded in *net result from foreign currency positions*. These swap transactions were discontinued at the beginning of 2010.

Claims from Swiss franc repo transactions

The SNB uses repo transactions in Swiss francs to provide the Swiss franc money market with liquidity or to withdraw liquidity from it. Claims from repo transactions are fully backed by securities eligible for SNB repos. They are stated at nominal value inclusive of accrued interest. Interest earnings are stated in *net result from Swiss franc positions*. At the end of 2010, there were no claims from repo transactions.

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. They are stated at nominal value inclusive of accrued interest. Interest earnings are stated in *net result from Swiss franc positions*. At the end of May 2010, cash redistribution between banks and post offices via the system of domestic correspondents was suspended.

Swiss franc securities

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

As part of the package of measures aimed at strengthening the Swiss financial system introduced in autumn 2008, the SNB granted the stabilisation fund a secured loan. The loan is being paid down through partial payments. Its total life can be extended in two stages from eight to twelve years. The loan is stated at nominal value inclusive of 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 National Bank has an option (warrant) to purchase 100 million UBS shares at nominal value (CHF 0.10 per share) which it can exercise should the loan not be repaid in full.

Freshly printed banknotes which have not yet been put into circulation are capitalised at 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 charged to *banknote expenses*.

Banknote stocks

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 considered on a case-by-case 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 acquisition cost less required depreciation.

Tangible assets

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 ¹	No depreciation
Software	3 years
Sundry tangible assets	3–12 years

¹ Finished fixed assets are reclassified under the corresponding tangible assets category once they are in operational use.

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 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, credit derivatives, futures and interest rate swaps to manage its currency reserves. These are used to manage market positioning with regard to shares, interest rates, credit risk and currencies (cf. also 'Risks posed by financial instruments', pp. 157–160).

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).

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

Accrued expenses and deferred income

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

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 National Bank 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 nominal value.

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 nominal value inclusive of accrued interest. Interest expenses are recorded in *net result from Swiss franc positions*.

Liabilities towards the Confederation

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 nominal value.

Sight deposits of foreign banks and institutions

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

Other sight liabilities

The SNB uses repo transactions in Swiss francs to provide the Swiss franc money market with liquidity or to withdraw liquidity from it.

Liabilities from Swiss franc repo transactions

The SNB uses liquidity-absorbing repo transactions to withdraw liquidity from the Swiss franc money market. The resultant liabilities from repo transactions are stated at nominal value inclusive of accrued interest. Interest expenses are stated in *net result from Swiss franc positions*.

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, to refinance its loan to the stabilisation fund, the SNB issued its own debt securities in US dollars (SNB USD Bills). At the end of the year, there were no outstanding debt securities in US dollars. The SNB Bills are valued at 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*.

SNB debt certificates

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 nominal value inclusive of accrued interest. Interest expenses and exchange rate gains and losses are stated in *net result from foreign currency positions*.

Foreign currency liabilities

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*.

Counterpart of SDRs allocated by the IMF

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

Operating provisions

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' table (p. 125). The allocation is made as part of the profit appropriation. The Bank Council decides on the level of these provisions once a year.

Distribution reserve

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. It can also be negative.

Pension fund

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 (depending on the employee's age) and those of the SNB are 14% or 15%. In accordance with Swiss GAAP FER 16, any share of actuarial surplus or deficit is shown on the assets side or reported as a liability.

Valuation rates**Valuation rates**

	31.12.2010 CHF	31.12.2009 CHF	Change In percent
1 euro (EUR)	1.2494	1.4853	-15.9
1 US dollar (USD)	0.9327	1.0336	-9.8
100 Japanese yen (JPY)	1.1479	1.1142	+3.0
1 Canadian dollar (CAD)	0.9348	0.9855	-5.1
1 pound sterling (GBP)	1.4529	1.6723	-13.1
1 Australian dollar (AUD)	0.9495	0.9276	+2.4
100 Danish kroner (DKK)	16.7600	19.9600	-16.0
100 Swedish kronor (SEK)	13.9100	14.5000	-4.1
1 Singapore dollar (SGD)	0.7283	0.7371	-1.2
1 Special Drawing Right (SDR)	1.4405	1.6155	-10.8
1 kilogram of gold	42 289.16	36 687.03	+15.3

4.2 Notes to the balance sheet and income statement

Gold holdings

Item no. 01

Breakdown by type	31.12.2010		31.12.2009	
	In tonnes	In CHF millions	In tonnes	In CHF millions
Gold ingots	986.0	41 698.3	908.4	33 325.9
Gold coins	39.0	1 650.7	39.0	1 432.1
Total ¹	1 025.1	43 349.0	947.4	34 757.9

¹ Also includes lent gold shown under item no. 02.

Claims from gold transactions

Item no. 02

	31.12.2010		31.12.2009	
	In tonnes	In CHF millions	In tonnes	In CHF millions
Claims from secured gold lending ¹	14.9	634.9	92.6	3 423.0
Claims on metal accounts	0.1	3.9	0.1	4.7
Total	15.0	638.9	92.7	3 427.7

¹ Secured by collateral eligible for repo transactions with a market value of CHF 657.2 million (2009: CHF 3,565.0 million).

Foreign currency investments

Item no. 03

Breakdown by investment type	31.12.2010	31.12.2009	Change
In CHF millions			
Sight deposits and call money	452.7	409.9	+42.8
Time deposits	404.5	33.5	+371.0
Reverse repos	1 067.5	–	+1 067.5
Money market instruments	1 249.3	815.7	+433.6
Bonds ¹	179 209.2	86 477.7	+92 731.5
Equities	21 426.5	6 943.4	+14 483.1
Total	203 809.6	94 680.2	+109 129.4

¹ Of which CHF 275.4 million (2009: CHF 183.6 million) lent under securities lending operations.

Breakdown by borrower category	31.12.2010	31.12.2009	Change
In CHF millions			
Governments	173 179.9	80 980.4	+92 199.5
Monetary institutions ¹	963.3	872.6	+90.7
Corporations	29 666.5	12 827.2	+16 839.3
Total	203 809.6	94 680.2	+109 129.4

1 BIS, central banks and multilateral development banks.

Breakdown by currency¹	31.12.2010	31.12.2009	Change
In CHF millions			
EUR	111 956.3	55 021.7	+56 934.6
USD	50 632.0	28 523.6	+22 108.4
JPY	20 708.2	5 050.2	+15 658.0
CAD	8 439.0	1 205.6	+7 233.4
GBP	6 334.7	4 877.9	+1 456.8
AUD	2 673.8	0.8	+2 673.0
DKK	1 002.9	0.2	+1 002.7
SEK	1 032.6	0.1	+1 032.5
SGD	1 029.8	–	+1 029.8
Other	0.3	0.1	+0.2
Total	203 809.6	94 680.2	+109 129.4

1 Excluding foreign exchange derivatives. For a breakdown by currency including foreign exchange derivatives, cf. 'Risks posed by financial instruments' (pp. 157–160).

Item no. 04

Reserve position in the IMF

	31.12.2010	31.12.2009	Change
In CHF millions			
Swiss quota in the IMF ¹	4 982.6	5 587.6	–605.0
Less: IMF's Swiss franc sight balances at the SNB	–3 915.0	–4 356.9	+441.9
Total	1 067.7	1 230.8	–163.1

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

Monetary assistance loans

Item no. 05

In CHF millions	31.12.2010		31.12.2009		Change
PRGT loan facility ¹	-		11.6		-11.6
Interim PRGT loan facility ^{1,2}	300.4		337.3		-36.9
Total	300.4		348.9		-48.5

1 2009: Poverty Reduction and Growth Facility (PRGF).

2 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	31.12.2010		31.12.2009		Change
	EUR	CHF	CHF		
Central banks	-	-	2 671.5		-2 671.5
Commercial banks	-	-	-		-
Accrued interest	-	-	0.2		-0.2
Total	-	-	2 671.6		-2 671.6

Swiss franc securities

Item no. 07

Breakdown by borrower category In CHF millions	31.12.2010		31.12.2009		Change
Governments	1 509.1		1 512.3		-3.2
Corporations	1 988.3		5 030.4		-3 042.1
Total	3 497.4		6 542.7		-3 045.3

Breakdown of <i>governments</i> borrower category In CHF millions	31.12.2010		31.12.2009		Change
Swiss Confederation	867.0		963.8		-96.8
Cantons and municipalities	355.7		303.8		+51.9
Foreign states	286.4		244.7		+41.7
Total	1 509.1		1 512.3		-3.2

Breakdown of corporations borrower category	31.12.2010	31.12.2009	Change
In CHF millions			
Domestic mortgage bond institutions	546.6	3 219.1	-2 672.5
Other domestic corporations ¹	79.4	430.9	-351.5
Foreign corporations ²	1 362.2	1 380.3	-18.1
Total	1 988.3	5 030.4	-3 042.1

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	31.12.2010	31.12.2009	Change
Short-term receivables	0.7	3.2	-2.5
Loan in USD ¹	8 983.1	16 508.8	-7 525.7
Loan in EUR ¹	706.5	1 392.5	-686.0
Loan in GBP ¹	1 890.3	2 755.4	-865.1
Loan in JPY ¹	205.5	334.2	-128.7
Total²	11 786.1	20 994.1	-9 208.0

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 (2009: USD 1.9 billion).

Item no. 09

Banknote stocks

In CHF millions	Banknote stocks
As at 1 January 2009	136.5
Additions	10.6
Disposals	-39.9
As at 31 December 2009	107.2
As at 1 January 2010	107.2
Additions	24.8
Disposals	-21.0
As at 31 December 2010 ¹	110.9

1 Of which CHF 14 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 2010	500.4	1.0	30.7	60.9	593.0
Additions	2.6	9.1	12.8	5.3	29.7
Disposals	-0.0	-	-1.6	-2.8	-4.4
Reclassified	0.6	-0.6	-	-	
31 December 2010	503.6	9.5	41.9	63.3	618.3
Cumulative value adjustments					
1 January 2010	167.0		12.8	48.0	227.8
Scheduled depreciation	19.5		12.9	6.3	38.7
Disposals			-1.6	-2.8	-4.4
Reclassified					
31 December 2010	186.5		24.1	51.5	262.0
Net book values					
1 January 2010	333.5	1.0	17.9	12.8	365.2
31 December 2010	317.1	9.5	17.8	11.8	356.3

1 Insured value: CHF 429.2 million (2009: CHF 409.0 million).

2 Insured value: CHF 56.5 million (2009: CHF 56.5 million).

Item no. 11

Participations

In CHF millions	Orell Füssli ¹	BIS ²	Other	Total
Equity interest	33%	3%		
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
Book value as at 1 January 2010	56.7	90.2	0.8	147.8
Investments	-	-	-	-
Divestments	-	-	-	-
Valuation changes	-1.5	-	-	-1.5
Book value as at 31 December 2010	55.2	90.2	0.8	146.3

1 Orell Füssli Holding Ltd, 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.

Item no. 12

Other assets

In CHF millions	31.12.2010	31.12.2009	Change
Coins ¹	135.1	115.3	+19.8
Foreign banknotes	1.0	1.1	-0.1
Other accounts receivable	0.3	29.1	-28.8
Prepayments and accrued income	2.5	4.8	-2.3
Cheques and bills of exchange (collection business)	0.1	0.1	+0.0
Positive replacement values ²	83.0	65.7	+17.3
Total	222.0	216.1	+5.9

1 Coins acquired from Swissmint destined for circulation.

2 Unrealised gains on financial instruments and on outstanding spot transactions (item no. 32, p. 152).

Banknotes in circulation

Item no. 13

Breakdown by issue In CHF millions	31.12.2010	31.12.2009	Change
8th issue	50 178.0	48 596.3	+1 581.7
6th issue ¹	1 320.0	1 369.9	-49.9
Total	51 498.0	49 966.2	+1 531.8

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.

Liabilities towards the Confederation

Item no. 14

In CHF millions	31.12.2010	31.12.2009	Change
Sight liabilities	847.1	2 582.6	-1 735.5
Term liabilities	4 500.1	3 600.1	+900.0
Total	5 347.2	6 182.7	-835.5

Other sight liabilities

Item no. 15

In CHF millions	31.12.2010	31.12.2009	Change
Sight deposits of non-banks	1 588.2	3 064.9	-1 476.7
Deposit accounts ¹	251.0	221.1	+29.9
Cheque liabilities ²	0.0	0.0	+0.0
Total	1 839.2	3 286.0	-1 446.8

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 54.6 million as at 31 December 2010 (2009: CHF 57.8 million).

² Bank cheques drawn on the SNB but not yet cashed.

SNB debt certificates

Item no. 16

In millions	31.12.2010		31.12.2009		Change
	USD	CHF	CHF	CHF	
In CHF (SNB Bills)		107 869.6	7 788.0		+100 081.6
In USD (SNB USD Bills)	-	-	19 685.1		-19 685.1
Total	-	107 869.6	27 473.1		+80 396.5

Item no. 17

Foreign currency liabilities

In CHF millions	31.12.2010	31.12.2009	Change
Sight liabilities	1.3	2.9	-1.6
Liabilities from repo transactions ¹	1 067.4	-	+1 067.4
Other foreign currency liabilities	-	1 447.3	-1 447.3
Total	1 068.7	1 450.1	-381.4

1 Relating to the management of foreign currency investments.

Item no. 18

Other liabilities

In CHF millions	31.12.2010	31.12.2009	Change
Other liabilities	15.6	15.6	+0.0
Accrued liabilities and deferred income	11.7	6.8	+4.9
Negative replacement values ¹	64.7	36.1	+28.6
Total	92.0	58.5	+33.5

1 Unrealised losses on financial instruments and on outstanding spot transactions (item no. 32, p. 152).

Item no. 19

Operating provisions

In CHF millions	Provisions due to reorganisation	Other provisions	Total
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
Book value as at 1 January 2010	4.4	1.1	5.5
Formation	0.2	0.1	0.3
Release	-2.2	-0.1	-2.3
Write-back	-0.0	-	-0.0
Book value as at 31 December 2010	2.4	1.1	3.5

Shares

	2010	2009
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	990	994
Market capitalisation in CHF	99 000 000	99 400 000
Annual high in CHF	1 075	1 075
Annual low in CHF	956	810
Average daily trading volume in number of shares	21	21

1 Listed in the main segment of SIX Swiss Exchange.

Breakdown of share ownership as at 31 December 2010

	Number of shares	In percentage of shares registered
2,236 private shareholders with a total of	32 764	38.11¹
of which 1,901 shareholders with 1–10 shares each		
of which 302 shareholders with 11–100 shares each		
of which 13 shareholders with 101–200 shares each ²		
of which 20 shareholders with over 200 shares each ²		
77 public sector shareholders with a total of	53 212	61.89
of which 26 cantons with a total of	38 981	
of which 24 cantonal banks with a total of	13 673	
of which 27 other public authorities and institutions with a total of	558	
Total 2,313 registered shareholders with a total of³	85 976⁴	100
Registration applications pending or outstanding for	14 024	
Total shares	100 000	

1 11.14% are legal entities and 26.97% private individuals. Private shareholders account for 21.13% of voting rights.

2 Voting rights are limited to 100 shares.

3 In 2010, the number of shareholders rose by 10 and the number of registered shares fell by 3,465.

4 A total of 9,659 shares are in foreign ownership (accounting for 1.42% of voting rights).

Principal shareholders: public law sector

	31.12.2010		31.12.2009	
	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%
Canton of Vaud	3 401	3.40%	3 401	3.40%
Canton of St Gallen	3 002	3.00%	3 002	3.00%

Principal shareholders: private individuals¹

	31.12.2010		31.12.2009	
	Number of shares	Equity participation	Number of shares	Equity participation
Theo Siegert, Düsseldorf	5 550	5.55%	4 995	4.99%

¹ Subject to legal restrictions as a shareholder outside the public law sector (art. 26 NBA), i.e. registration is limited to a maximum of 100 shares.

Item no. 21

Net result from gold

Breakdown by type In CHF millions	2010	2009	Change
Net result from changes in market value	5 826.8	7 329.4	-1 502.6
Interest income from gold lending transactions	9.5	8.8	+0.7
Total	5 836.3	7 338.1	-1 501.8

Item no. 22

Net result from foreign currency positions

Breakdown by origin In CHF millions	2010	2009	Change
Foreign currency investments	-24 927.1	2 332.9	-27 260.0
Reserve position in the IMF	-126.4	-29.1	-97.3
International payment instruments	-1.1	-0.7	-0.4
Monetary assistance loans	-36.0	-0.5	-35.5
SNB debt certificates	-502.2	1 969.5	-2 471.7
Foreign currency liabilities	-52.1	107.5	-159.6
Other foreign currency positions ¹	-847.5	-1 806.5	+959.0
Total	-26 492.5	2 573.1	-29 065.6

¹ Including interest income from the loan to the stabilisation fund.

Breakdown by type In CHF millions	2010	2009	Change
Interest income ¹	5 107.4	3 262.9	+1 844.5
Price gain/loss on interest-bearing paper and instruments	-692.1	-96.5	-595.6
Interest expenses	-60.6	-122.3	+61.7
Dividend income	320.6	189.4	+131.2
Price gain/loss on equity securities and instruments	1 542.1	1 163.1	+379.0
Exchange rate gain/loss	-32 699.6	-1 807.7	-30 891.9
Asset management, safe custody and other fees	-10.3	-15.9	+5.6
Total	-26 492.5	2 573.1	-29 065.6

1 Including interest income from the loan to the stabilisation fund.

Breakdown of overall net result by currency In CHF millions	2010	2009	Change
EUR ¹	-18 665.6	1 588.8	-20 254.4
USD ¹	-6 219.3	-59.4	-6 159.9
JPY ¹	-466.4	-71.0	-395.4
CAD	-335.7	242.6	-578.3
GBP ¹	-480.7	907.0	-1 387.7
AUD	37.1	0.1	+37.0
DKK	-91.2	-0.0	-91.2
SEK	-57.4	0.0	-57.4
SGD	-43.5	-	-43.5
SZR	-163.5	-30.3	-133.2
Other	-6.2	-4.8	-1.4
Total	-26 492.5	2 573.1	-29 065.6

1 Including interest income from the loan to the stabilisation fund.

Breakdown of exchange rate gain/loss by currency In CHF millions	2010	2009	Change
EUR ¹	-21 202.4	-1 106.0	-20 096.4
USD ¹	-8 931.9	-1 124.8	-7 807.1
JPY ¹	-670.9	-244.7	-426.2
CAD	-619.7	155.5	-775.2
GBP ¹	-1 020.2	550.4	-1 570.6
AUD	61.7	0.0	+61.7
DKK	-91.6	-0.0	-91.6
SEK	-24.6	0.0	-24.6
SGD	-31.4	-	-31.4
SZR	-168.6	-38.4	-130.2
Other	0.0	0.0	-0.0
Total	-32 699.6	-1 807.7	-30 891.9

1 Including exchange rate gains and losses from the loan to the stabilisation fund.

Item no. 23

Net result from Swiss franc positions

Breakdown by origin In CHF millions	2010	2009	Change
Swiss franc securities	239.7	272.2	-32.5
Liquidity-providing Swiss franc repo transactions	3.4	35.2	-31.8
Liquidity-absorbing Swiss franc repo transactions	-14.1	-	-14.1
Other assets	0.0	0.3	-0.3
Liabilities towards the Confederation	-5.3	-7.0	+1.7
SNB debt certificates	-146.3	-12.2	-134.1
Other sight liabilities	-6.5	-7.3	+0.8
Total	70.9	281.3	-210.4

Breakdown by type In CHF millions	2010	2009	Change
Interest income	139.9	194.0	-54.1
Price gain/loss on interest-bearing paper and instruments	110.3	119.8	-9.5
Interest expenses	-120.9	-17.0	-103.9
Trading, safe custody and other fees	-58.4	-15.5	-42.9
Total	70.9	281.3	-210.4

Net result, other

Item no. 24

In CHF millions	2010	2009	Change
Commission income	14.2	15.4	-1.2
Commission expenses	-12.7	-13.9	+1.2
Income from participations	18.9	11.9	+7.0
Income from real estate	3.8	4.1	-0.3
Other income	4.0 ¹	5.9	-1.9
Total	28.2	23.3	+4.9

1 Of which CHF 0.8 million from the sale of tangible assets.

Personnel expenses

Breakdown by type In CHF millions	2010	2009	Change
Wages, salaries and allowances	90.4	89.2	+1.2
Social security expenses	17.7	19.4	-1.7
Other personnel expenses ¹	8.2	8.4	-0.2
Total	116.4	117.0	-0.6

1 Other social benefits, staff development expenses, training, recruitment, events, etc.

Remuneration for the Bank Council ¹ In CHF thousands	2010	2009	Change
Hansueli Raggenbass, President ^{2,3}	145.0	150.6	-5.6
Jean Studer, Vice President ^{2,3}	70.0	75.6	-5.6
Gerold Bühler ²	45.0	45.0	-
Monika Bütler (as of 30 April 2010)	30.0	-	+30.0
Rita Fuhrer (until 30 April 2010)	15.0	45.0	-30.0
Konrad Hummler ⁵	50.6	53.4	-2.8
Armin Jans ^{3,4}	56.2	59.0	-2.8
Daniel Lampart ⁵	50.6	53.4	-2.8
Franz Marty (until 30 April 2010) ⁴	17.8	59.0	-41.2
Laura Sadis	45.0	45.0	-
Olivier Steimer (as of 17 April 2009) ⁵	50.6	32.8	+17.8
Ernst Stocker (as of 1 May 2010) ⁴	32.8	-	+32.8
Fritz Studer ⁴	56.2	59.0	-2.8
Alexander Swoboda (until 17 April 2009) ^{3,5}	-	23.4	-23.4
Total	664.8	701.2	-36.4

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.

Remuneration for executive management ¹ (excluding employer social security contributions) In CHF thousands	2010			2009	
	Salaries	Miscellaneous ²	Total remuneration	Total remuneration	Change
Three members of the Governing Board	2 499.3	84.1	2 583.4	2 693.6	-110.2
Philipp M. Hildebrand, Chairman (as of 1 January 2010)	833.1 ³	28.8	861.9	860.8	+1.1
Thomas J. Jordan	833.1	27.6	860.8	860.8	-
Jean-Pierre Danthine	833.1	27.6	860.8	n/a	n/a
Jean-Pierre Roth (Chairman until 31 December 2009)	-	-	-	972.0 ³	n/a
Three alternate members of the Governing Board	1 242.5	68.3	1 310.8	1 379.6	-68.8
Total	3 741.8	152.4	3 894.2	4 073.2	-179.0

Remuneration for executive management ¹ (including employer social security contributions) In CHF thousands	2010			2009	
	Total remuneration	Employer contributions to pension plans and Old Age and Survivors' Insurance Fund	Total	Total	Change
Three members of the Governing Board	2 583.4	778.6	3 362.0	3 273.1	+88.9
Philipp M. Hildebrand, Chairman (as of 1 January 2010)	861.9	132.9	994.8	1 025.3	-30.5
Thomas J. Jordan	860.8	132.9	993.7	1 025.3	-31.6
Jean-Pierre Danthine	860.8	512.8 ⁴	1 373.6	n/a	n/a
Jean-Pierre Roth (Chairman until 31 December 2009)	-	-	-	1 222.5	n/a
Three alternate members of the Governing Board	1 310.8	492.6	1 803.6	1 866.9	-63.3
Total	3 894.2	1 271.2	5 165.6	5 140.0	+25.6

1 All remuneration is specified in SNB regulations (cf. also 'Corporate governance', pp. 103-107).

2 Representation expenses, General Abonnement travel card and further compensation in accordance with regulations.

3 Including remuneration in the amount of CHF 66,648 for serving as member of the Board of Directors at the BIS.

4 Including one-off pension plan buy-in.

In addition, in 2010, compensation (p. 106) paid to former members of executive management amounted to CHF 175,400 (including employer contributions).

Like all employees, members of executive management are entitled to mortgage loans granted by the pension fund schemes and to preferential interest rates (up to a limited amount) on the credit balances on SNB staff accounts. No additional remuneration as defined by art. 663b^{bis}, para. 1 CO was paid.

Of the members of the Bank Council and executive management, Philipp M. Hildebrand, Chairman of the Governing Board, held five SNB shares and Dewet Moser, Alternate Member of the Governing Board, held one SNB share, both as at 31 December 2010.

Employee benefit obligations¹

Share of actuarial surplus of pension plans ² In CHF millions	31.12.2010	31.12.2009	Change
Overfunding in accordance with Swiss GAAP FER 26 ²	74.9	73.5	1.4
SNB's share of actuarial surplus	-	-	-

1 Pension funds do not have any employer contribution reserves.

2 Overfunding is used in favour of the insured. The stated overfunding unaudited at the time of reporting.

Employee benefit expenses In CHF millions	2010	2009	Change
Employer contributions	11.4	13.1	-1.7
Change in share of actuarial surplus	-	-	-
Employee benefit expenses as part of personnel expenses	11.4	13.1	-1.7

General overheads

In CHF millions	2010	2009	Change
Premises	15.2	9.5	+5.7
Maintenance of mobile tangible assets and software	14.1	14.1	-0.0
Consulting and other third-party support	15.6	17.5	-1.9
Administrative expenses	15.1	14.2	+0.9
Operating contributions ¹	7.8	6.2	+1.6
Other general overheads	5.8	5.7	+0.1
Total	73.6	67.3	+6.3

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 limit for eligible counterparties 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	31.12.2010	31.12.2009	Change
Credit undertaking ¹	37 486.5	35 946.5	+1 540.0
Of which drawn down	–	–	–
Of which not drawn down	37 486.5	35 946.5	+1 540.0

1 Increase due to extension of credit lines.

Irrevocable undertakings

Item no. 29

Irrevocable undertakings include credit arrangements that the SNB 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	31.12.2010	31.12.2009	Change
International payment instruments (two-way arrangement)	2 368.3	2 411.9	–43.6
Extended Credit Facility of the PRGT ¹	4.9	27.1	–22.2
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)	2 218.4	2 487.9	–269.5
Total	4 591.6	4 926.9	–335.3

1 2009: Poverty Reduction and Growth Facility (PRGF).

Details: International payment instruments (two-way arrangement ¹) In CHF millions	31.12.2010	31.12.2009	Change
Credit undertaking	2 368.3	2 655.9	–287.6
Of which drawn down	–	244.0	–244.0
Of which not drawn down	2 368.3	2 411.9	–43.6

1 Undertaking to purchase SDRs against currency up to SDR 1,644 million or to return the SDRs in exchange for foreign currency; without a federal guarantee.

Details: Extended Credit Facility of the PRGT¹ In CHF millions	31.12.2010	31.12.2009	Change
Credit undertaking	360.1	403.9	-43.8 ²
Of which drawn down	355.3	376.8	-21.5
Of which not yet drawn down	4.9	27.1	-22.2

1 Limited-term credit undertaking to the IMF's trust fund amounting to SDR 250 million (item no. 05, p. 135); 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	31.12.2010	31.12.2009	Change
Credit undertaking	2 218.4	2 487.9	-269.5 ²
Of which drawn down	-	-	-
Of which not drawn down	2 218.4	2 487.9	-269.5

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	31.12.2010	31.12.2009	Change
Additional funding for the BIS ¹	93.0	104.3	-11.3
Liabilities from long-term rental, maintenance and leasing contracts	16.0	8.3	+7.7
Contingent liabilities from procurement of banknotes	72.7	80.8	-8.1
Loan commitment to stabilisation fund ²	1 968.7	3 934.6	-1 965.9
Total	2 150.4	4 128.0	-1 977.6

1 The BIS shares are 25% paid up. The additional funding obligation is stated in SDRs.

2 Funding commitment for contingent liabilities of the stabilisation fund.

Assets pledged or assigned as collateral for SNB liabilities

Item no. 31

In CHF millions	31.12.2010		31.12.2009	
	Book value	Liabilities or amount drawn down	Book value	Liabilities or amount drawn down
Foreign currency investments in USD	16.8	–	19.0	–
Foreign currency investments in EUR	14 338.5	14 249.5	179.1	–
Securities in CHF	59.0	–	94.3	–
Total¹	14 414.3	14 249.5	292.4	–

1 Collateral lodged primarily in connection with repo and futures transactions.

Outstanding financial instruments¹

In CHF millions	31.12.2010			31.12.2009		
	Contract value	Replacement value		Contract value	Replacement value	
		Positive	Negative		Positive	Negative
Interest rate instruments	24 149.6	30.4	36.3	92 940.4	8.8	4.4
Repo transactions in CHF ²	13 550.0	–	–	8 727.0	–	–
Repo transactions in foreign currency ²	170.9	–	–	–	–	–
SNB debt certificates ²	6 944.5	–	–	–	–	–
Forward contracts ¹	40.4	0.0	0.0	290.9	0.0	0.3
Interest rate swaps	2 777.5	30.2	35.9	1 680.6	8.5	4.1
Futures	666.3	0.2	0.4	82 241.9	0.2	0.0
Foreign exchange	3 943.8	51.8	26.6	9 348.6	56.3	30.3
Forward contracts ¹	3 367.7	51.8	24.9	9 120.9	56.3	29.7
Options	576.0	0.0	1.7	227.7	–	0.6
Equities/indices	1 014.3	0.7	0.3	1 054.8	0.7	0.0
Forward contracts ¹	5.7	0.3	0.1	6.0	0.0	0.0
Futures	1 008.6	0.5	0.2	1 048.8	0.7	–
Credit instruments	2.2	0.0	0.0	–	–	–
Credit default swaps	2.2	0.0	0.0	–	–	–
Stabilisation fund options	12 781.8	–	1.4	21 005.8	–	1.4
Warrant ³	10.0	–	–	10.0	–	–
GP purchase option ⁴	1.5	–	1.4	1.5	–	1.4
Repurchase option ⁵	12 770.3	–	–	20 994.2	–	–
Total⁶	41 891.6	83.0	64.7	124 349.6	65.7	36.1

1 Including spot transactions with the value date in the new year and forward contracts to finance the loan to the stabilisation fund.

2 Only transactions with the 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, and with it 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 outstanding loan plus half of the stabilisation fund's net asset value and the equity of StabFund (GP) AG.

6 For the outstanding contracts, the counterpart item to the replacement values is stated directly in the income statement.

Fiduciary investments

Item no. 33

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 nominal value inclusive of accrued interest.

In CHF millions	31.12.2010	31.12.2009	Change
Fiduciary investments for the Confederation	214.1	250.4	-36.3
Other fiduciary investments	2.9	1.8	+1.1
Total	217.0	252.2	-35.2

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 SNB's 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. 'Corporate governance', cross reference tables, pp. 106–107).

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. On this basis, project and staffing plans are prepared, along with the budgets for operating costs and investments. 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.

Control activities

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.

Information and communication

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

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

Supervision

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

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 Bank Council's Audit Committee. It reports regularly on its results pertaining to the accounting records, financial reporting, the ICS and compliance.

ICS for processes of relevance to the financial statements (art. 728a para. 1 (3) CO)

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 'Internal control system 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 for processes of relevance to the financial statements 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 Audit Board as a basis for its confirmation in accordance with art. 728a para. 1 (3) CO.

4.5 Risk management

General

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.

Risks

Risk management and control (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. These monitor the management of the financial and operational risks.

The 2009 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 26 February 2010. 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. Further information about the Bank Council and its committees can be found in 'Corporate governance' (pp. 103 et seq.).

Risk strategy

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

The Enlarged Governing Board has strategic responsibility for the management of operational risk. It defines risk policies and the guidelines for risk management.

Organisation with regard to financial risk

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

The financial risks are continuously monitored by the Risk Management unit in Department II. 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; the annual report on financial risk is discussed by 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 the 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.

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.

The following table 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	Risk Management unit
Operational risk	Audit Committee of Bank Council, Bank Council	Enlarged Governing Board	Board of Deputies, all line managers

Legal Services advises executive management and 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, in particular, as the advisory service for matters pertaining to money laundering.

Legal matters

Risks posed by financial instruments

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 was expanded. A significant factor from the point of view of risk was the very sharp rise in foreign exchange holdings in 2010.

Risks incurred by the SNB

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

Market 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. Forward foreign exchange transactions and foreign exchange options are used to manage currency weightings in foreign currency investments. Owing to their marked fluctuations, exchange rates and the gold price are the principal risk factors for the investments.

Exchange rate and gold price risk

Interest rate risk

Interest rate risk is of less significance to the SNB's investments than foreign exchange and gold price 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 one basis point (0.01 percentage points) in the yield curves for all investment currencies. If the 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		43 349				43 349
Claims from gold transactions		635	4			639
Foreign currency investments			50 632	111 956	41 221	203 810
Reserve position in the IMF					1 068	1 068
International payment instruments					4 670	4 670
Monetary assistance loans					300	300
Claims from Swiss franc repo transactions	-					-
Swiss franc securities	3 497					3 497
Loan to stabilisation fund	0		8 984	707	2 096	11 786
Other	781		3	7	44	836
Total assets as per balance sheet	4 279	43 984	59 623	112 670	49 399	269 955
Total liabilities as per balance sheet	-264 122		-14	-1 071	-4 748	-269 955
Foreign exchange derivatives (net) ¹	-0		1 304	490	-1 767	26
Net exposure on 31 December 2010	-259 843	43 984	60 912	112 089	42 884	26
Net exposure on 31 December 2009	-136 972	38 158	29 178	56 863	12 799	26

1 Delivery claims and delivery obligations from spot and forward foreign exchange transactions.

Interest-bearing investments

As at 31 December	2010			2009		
	Duration In years	Market value In CHF millions	PVBP ¹ In CHF millions	Duration In years	Market value In CHF millions	PVBP ¹ In CHF millions
Gold lending		639			3 428	
Investments in CHF ²	5.6	3 497	2	5.3	6 543	3
Investments in USD	4.0	43 480	17	3.4	26 297	9
Investments in EUR	4.0	105 392	41	3.1	52 878	16
Investments in other currencies	3.9	33 511	13	4.0	8 562	3

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

2 Excluding repos.

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.

Risk is managed and mitigated 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 the risk analyses.

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. Further potential credit risk is caused by commitments to the IMF that are not guaranteed by the Confederation.

Share price risk

Total market risk

Default risk: credit risk relating to regular financial instruments

The SNB manages its credit risk with respect to counterparties through a system of limits that restricts the aggregated exposure for all OTC business. An above-average rating is required for OTC transactions with banks. Furthermore, the replacement values of derivatives are generally secured by collateral. At around CHF 2.5 billion, the SNB's total unsecured exposure – which is largely composed of bonds – to the international banking sector at the end of 2010 was only marginally higher than the previous year (CHF 1.7 billion) and less than 2% of the foreign exchange reserves. For issuers of bonds, a minimum rating of 'investment grade' is required. Exposure to individual issuers is limited by means of concentration limits. The rating allocation for investments can be found in chapter 5 of the accountability report. Credit risk is only a small part of the total risk.

**Default risk: credit risk
from the stabilisation fund**

A credit risk is inherent in the loan to the stabilisation fund. It is the risk 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 fully covered.

Additional information on the stabilisation fund can be found in chapter 6.7 of the accountability report.

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 – euros and US dollars – the SNB ensures a high level of liquidity for its foreign exchange 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. 121–160) for the year ended 31 December 2010.

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.

Bank Council'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.

Auditor's responsibility

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.

In our opinion, the financial statements for the year ended 31 December 2010 comply with the provisions of the Federal Act on the Swiss National Bank and with Swiss law.

Opinion

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 the 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
Audit experte
Auditor in charge

Christian Massetti
Audit expert

Zurich, 25 February 2011

Financial information on the stabilisation fund

The SNB StabFund Limited Partnership for Collective Investment (stabilisation fund), with its subsidiaries, forms a closed-end capital investment scheme within the meaning of art. 98 of the 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 reporting currency of the stabilisation fund is the US dollar. The figures reported here are therefore stated in this currency.

1 Introduction

Structure

The SNB StabFund Limited Partnership for Collective Investment (stabilisation fund) manages the illiquid assets taken over from UBS as at 1 October 2008.

The 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 companies are owned by the Swiss National Bank (SNB). To hold different types of assets, the stabilisation fund also has subsidiaries which take account of the local legal specificities.

The financial information on the stabilisation fund is consolidated at limited partnership level. All financial values are stated in US dollars.

Organisation

The SNB manages the activities of the stabilisation fund by controlling 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.

Activities

The financial instruments taken over mainly comprise loans and securities (securitised loans) in the area of real estate as well as corresponding derivatives positions. 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 are in the form of additional securities, loans or real estate.

The National Bank financed the purchase of investments with a loan to the stabilisation fund. Sales as well as current income from repayments and interest made it possible to pay down part of this loan. Since reaching a high in April 2009, the debt to the National Bank had been reduced by half, to USD 12.6 billion, by the cut-off date.

The recovery in the securitisation markets had a positive impact on the result. Owing to a profit of USD 2.5 billion, the stabilisation fund's equity turned positive again (USD 2.1 billion), after it had been depleted shortly after the fund was incorporated and had reported over-indebtedness of USD 418 million as at the end of 2009.

Additional information

Further information on the stabilisation fund can be found in chapter 6.7 (pp. 80–83) of this report.

2 Stabilisation fund balance sheet and income statement

Balance sheet as at 31 December 2010

In USD millions

	Item no. in Notes	31.12.2010	31.12.2009	Change
Assets				
Bank deposits		514.1	660.6	-146.5
Securities (securitised loans)	01	11 661.6	15 769.7	-4 108.1
Non-securitised loans	01	2 479.2	3 322.5	-843.3
Real estate	02	39.7	15.5	+24.2
Subtotal investments		14 180.5	19 107.7	-4 927.2
Interest rate derivatives	03	45.0	26.2	+18.8
Credit derivatives	04	45.4	105.2	-59.8
Subtotal derivatives		90.4	131.4	-41.0
Prepayments and accrued income		54.3	49.3	+5.0
Other assets	04	129.4	31.8	+97.6
Total assets		14 968.7	19 980.9	-5 012.2
Liabilities and equity				
Interest rate derivatives	03	176.0	43.5	+132.5
Accrued expenses and deferred income		22.3	43.0	-20.7
Other liabilities		0.7	11.2	-10.5
SNB loan	05	12 618.9	20 281.9	-7 663.0
Deferred management fee	06	40.5	19.3	+21.2
Subtotal liabilities		12 858.5	20 398.9	-7 540.4
Equity				
Paid-in equity	07	3 896.3	3 896.3	-
Result, carried forward		-4 314.5	-1 690.6	-2 623.9
Result, current period		2 528.5	-2 623.8	+5 152.3
Subtotal equity		2 110.3	-418.0	+2 528.3
Total liabilities and equity		14 968.7	19 980.9	-5 012.2

Income statement for 2010

In USD millions

	Item no. in Notes	2010	2009	Change
Net interest income from securities and non-securitised loans		866.6	1 431.5	-564.9
Effective interest (less impairments)	08	1 080.5	-1 595.8	+2 676.3
Net result from derivatives	03, 04	-141.3	110.6	-251.9
Unrealised valuation gains/losses	09	1 123.8	-2 424.4	+3 548.2
Realised valuation gains/losses		110.3	521.2	-410.9
Financing costs		-457.6	-586.4	+128.8
Gross income		2 582.3	-2 543.3	+5 125.6
Foreign tax expenses (-) and tax credits (+)		-0.1	-0.3	+0.2
Operating expenses		-53.8	-80.2	+26.4
Net income		2 528.5	-2 623.8	+5 152.3

3 Notes to the financial information on the stabilisation fund as at 31 December 2010

General

The SNB StabFund group's accounting principles conform to the requirements of the 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 from the stabilisation fund's annual report as submitted to the Board of Directors of StabFund (GP) AG.

PricewaterhouseCoopers Ltd (PwC) act as auditors for the stabilisation fund. These disclosures on the stabilisation fund were audited as part of the overall audit of the SNB group.

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

The transferred assets were recorded at fair value at the date of the actual transfer. For assets classified as loans and receivables, this was the starting value for amortised cost accounting in conformity with IFRS provisions.

The market values of the transferred securities and non-securitised loans are of limited use, as these instruments continue to be thinly traded in the market. For this reason, in compliance with IFRS provisions for the loans and receivables category, these assets are valued at amortised cost.

The difference between the purchase value of a financial instrument and its expected repayment value is amortised by applying the effective interest 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.

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

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.

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

**Stabilisation fund
accounting principles**

Audit

Recording of transactions

Initial valuation

Subsequent valuations ...

**... using the effective
interest method**

**... based on economic
models**

Assets recorded at fair value

Value adjustments

Reporting currency

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

Foreign exchange valuation rates**Valuation rates**

	31.12.2010	31.12.2009	Change
	In USD	In USD	In percent
1 euro (EUR)	1.3396	1.4370	-6.8
1 pound sterling (GBP)	1.5577	1.6179	-3.7
100 Japanese yen (JPY)	1.2307	1.0780	+14.2

Item no. 01**Notes to the balance sheet and income statement**

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

In USD millions	31.12.2010		31.12.2009	
	Balance sheet (carrying) value	Fair value	Balance sheet (carrying) value	Fair value
Securities (securitised loans)	11 661.6	12 974.2	15 769.7	15 647.4
At amortised cost	11 143.5	12 456.0	15 279.6	15 157.3
At fair value	518.1	518.1	490.1	490.1
Non-securitised loans	2 479.2	2 649.9	3 322.5	3 615.0
At amortised cost	2 479.2	2 649.9	3 322.5	3 615.0
At fair value	-	-	-	-

The stabilisation fund owns real estate taken over in the course of foreclosure proceedings. 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.

Item no. 02

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.

Item no. 03

At the end of 2010, the positive replacement value was USD 45 million, and the negative replacement value was USD 176 million. These positions are not offset against each other. The contract volume was USD 4.7 billion.

The stabilisation fund has acquired credit derivatives both as protection buyer and protection seller. The credit derivatives 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 *net result from derivatives* includes the income from premiums (or expenses) for providing this protection.

Item no. 04

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. The difference between the payment and any underlying asset received in return is stated as *realised valuation gains/losses*. Should the stabilisation fund not have sufficient liquid funds to service the outstanding payments, it could apply for an additional loan draw-down from the SNB.

At the balance sheet date, potential liabilities from credit derivatives amounted to USD 3.3 billion, and the deposited collateral to USD 3.4 billion. 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 in excess of the liabilities as protection seller (USD 81.7 million) is stated under *other assets*.

Claims as protection buyer (positive replacement values) are stated under *credit derivatives* on the assets side of the balance sheet.

	31.12.2010	31.12.2009	Change
In USD millions			
Net contract volume	5 308.6	10 655.2	-5 346.6
Positive replacement value	45.4	105.2	-59.8
Negative replacement value	-3 299.3	-7 034.5	+3 735.2
Cash collateral posted	3 381.0	7 041.2	-3 660.2

Item no. 05

Loan commitment to stabilisation fund¹

	31.12.2010	31.12.2009	Change
In USD millions			
USD	9 618.8	15 951.5	-6 332.7
EUR	756.3	1 345.3	-589.0
GBP	2 023.7	2 662.1	-638.4
JPY	220.1	322.9	-102.8
Total	12 618.9	20 281.9	-7 663.0

¹ Without accrued interest.

In connection with the loan, a subordination agreement has been concluded by the SNB with the stabilisation fund and StabFund (GP) AG in the amount of USD 1.9 billion. Further information on the SNB loan to the stabilisation fund can be found in chapter 6.7 (pp. 80–83) of this report.

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 only 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.

Item no. 07

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).

Assets entered in the balance sheet at amortised cost report income from effective interest. The latter results in an increase in value of positions classified as loans and receivables that were initially valued low. The impairment tests conducted regularly for such positions can lead to an increase or decrease of the book values, which are adjusted accordingly. These value adjustments are recorded as a correction or accretion under *effective interest (less impairments)*.

In the 2009 *Annual Report* these impairments were stated under *unrealised valuation gains/losses*. To achieve consistent reporting, the figures for the compared year were reallocated to *effective interest (less impairments)* in the income statement.

Valuation gains/losses consist of profit and loss not yet realised (book profits or book losses). They arise from the revaluation of assets at fair value.

Risk management

The stabilisation fund's liquidation strategy sets out the principles for reducing the portfolio. 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.

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.

Risks

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 by 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 two-thirds 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.

Since the stabilisation fund is congruently financed, currency risk is modest. The National Bank's loan was granted in the stabilisation fund's main investment currencies.

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.

	31.12.2010	31.12.2009	Change
In USD millions			
Exposure from credit derivatives	2 073.8	3 732.4	-1 658.6
Irrevocable loan commitments	36.9	74.3	-37.4
Total	2 110.7	3 806.7	-1 696.0

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. The SNB and the stabilisation fund thereby constitute a group as defined in art. 663e of the Swiss Code of Obligations (CO), and consolidated financial statements are drawn up accordingly.

These statements present supplementary 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 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 generally 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 2010

In CHF millions

		31.12.2010	31.12.2009	Change
Assets	Item no. in Notes			
Gold holdings		43 349.0	34 757.9	+8 591.1
Claims from gold transactions		638.9	3 427.7	-2 788.8
Foreign currency investments		203 809.6	94 680.2	+109 129.4
Reserve position in the IMF		1 067.7	1 230.8	-163.1
International payment instruments		4 670.3	5 555.9	-885.6
Monetary assistance loans		300.4	348.9	-48.5
Balances from swap transactions against Swiss francs		-	2 671.6	-2 671.6
Claims from Swiss franc repo transactions		-	36 207.9	-36 207.9
Claims against domestic correspondents		-	9.8	-9.8
Swiss franc securities		3 497.4	6 542.7	-3 045.3
Stabilisation fund investments	01	13 961.1	20 652.0	-6 690.9
Banknote stocks		110.9	107.2	+3.7
Tangible assets		356.3	365.2	-8.9
Participations	02	146.1	147.6	-1.5
Other assets		1 666.9	1 432.6	+234.3
Total assets		273 574.6	208 138.1	+65 436.6
Total subordinated claims		-	-	-
Total claims against non-consolidated participations and qualified participations		-	-	-

Liabilities	Item no. in Notes	31.12.2010	31.12.2009	Change
Banknotes in circulation		51 498.0	49 966.2	+1 531.8
Sight deposits of domestic banks		37 950.7	44 992.9	-7 042.2
Liabilities towards the Confederation		5 347.2	6 182.7	-835.5
Sight deposits of foreign banks and institutions		3 779.4	2 640.6	+1 138.8
Other sight liabilities		1 838.8	3 285.6	-1 446.8
Liabilities from Swiss franc repo transactions		13 182.1	-	+13 182.1
SNB debt certificates		107 869.6	27 473.1	+80 396.5
Foreign currency liabilities		1 068.7	1 450.1	-381.4
Counterpart of SDRs allocated by the IMF		4 736.5	5 311.8	-575.3
Other liabilities		2 260.2	882.9	+1 377.3
Operating provisions and other provisions		3.5	5.5	-2.0
Provisions for currency reserves		44 337.1	41 282.2	+3 054.9
Capital		25.0	25.0	-
Distribution reserve		19 032.8	14 634.2	+4 398.6
Consolidated result	04	-19 170.8	9 955.0	-29 125.8
Foreign currency translation differences		-184.2	50.3	-234.5
Total liabilities		273 574.6	208 138.1	+65 436.6
Total subordinated liabilities		-	-	-
Total liabilities towards non-consolidated participations and qualified participations		6.0	2.8	+3.2

Off-balance-sheet business
In CHF millions

	31.12.2010	31.12.2009	Change
	Item no. in Notes		
Liquidity-shortage financing facility	37 486.5	35 946.5	+1 540.0
Irrevocable undertakings	4 591.6	4 926.9	-335.3
Obligations to pay or make additional payments	93.0	104.3	-11.3
Liabilities from long-term rental, maintenance and leasing contracts	16.0	8.3	+7.7
Contingent liabilities from procurement of banknotes	72.7	80.8	-8.1
Other obligations not carried on the balance sheet ¹	1 968.7	3 934.6	-1 965.9
Fiduciary investments	217.0	252.2	-35.2
Derivative financial instruments	03		
Contract volumes	54 520.4	142 582.5	-88 062.1
Positive replacement values	1 612.3	1 418.0	+194.3
Negative replacement values	3 822.5	7 351.9	-3 529.4

1 Refers to contingent liabilities of the stabilisation fund (p. 172).

2 Consolidated income statement for 2010

In CHF millions

		2010	2009	Change
	Item no. in Notes			
Net result from gold		5 836.3	7 338.1	-1 501.8
Net result from foreign currency positions		-26 969.3	1 912.3	-28 881.6
Net result from Swiss franc positions		70.9	281.3	-210.4
Net result from stabilisation fund investments	04	3 167.8	-2 101.8	+5 269.6
Net result from stabilisation fund loss protection arrangements	04	-998.6	2 848.8	-3 847.4
Income from participations	02	18.9	12.7	+6.2
Net result, other		5.9	6.0	-0.1
Gross income		-18 868.2	10 297.5	-29 165.7
Banknote expenses		-21.4	-40.7	+19.3
Personnel expenses		-116.4	-117.0	+0.6
General overheads		-126.2	-149.0	+22.8
Depreciation on tangible assets		-38.7	-35.8	-2.9
Consolidated result		-19 170.8	9 955.0	-29 125.8

3 Changes in equity (consolidated level)

In CHF millions

	Capital	Provisions for currency reserves	Distribution reserve	Foreign currency translation differences	Consolidated result	Total
Equity 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				+67.1	-	+67.1
Consolidated result of year under review					9 955.0	+9 955.0
Equity as at 31 December 2009	25.0	41 282.2	14 634.2	50.3	9 955.0	65 946.7
Equity as at 1 January 2010	25.0	41 282.2	14 634.2	50.3	9 955.0	65 946.7
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
Change in foreign currency translation differences				-234.5	-	-234.5
Consolidated result of year under review					-19 170.8	-19 170.8
Equity as at 31 December 2010 (before appropriation of parent company profit)	25.0	44 337.1	19 032.8	-184.2	-19 170.8	44 039.9

4 Notes to the consolidated financial statements as at 31 December 2010

4.1 Explanatory notes on business activities

The Swiss National Bank, as an independent central bank, conducts the country's monetary policy. In autumn 2008, as part of its mandate to contribute to financial stability, the SNB set up the SNB StabFund Limited Partnership for Collective Investment (stabilisation fund). The fund then incorporated its own subsidiaries. The purpose of the stabilisation fund is the management and realisation of the illiquid assets acquired from UBS. Information on business activities can be found in the business report (pp. 112–120).

Information on the SNB's staff numbers may be found on p. 108. The stabilisation fund companies do not employ any staff of their own.

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.

Business activity and purpose

Number of staff

Outsourced business areas

4.2 Accounting and valuation principles

General

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 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*).

Background

**Reference to the SNB's
annual financial statements**

The consolidated financial statements must be read together with the SNB's individual financial statements (pp. 121–160). 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 annual financial statements of the parent company.

Changes from previous year

The accounting and valuation principles remain unchanged from the previous year.

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 accounting

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; 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 to members of the Bank Council.

Balance sheet and income statement

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. The effective interest method is applied.

In addition, the stabilisation fund holds non-securitised corporate loans, which are also entered at amortised cost.

The remainder of the stabilisation fund's investments are in derivative financial instruments as well as a small proportion in real estate and other securities. 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 and efficient market, 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.

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.

The stabilisation fund options comprise the purchase options granted by the SNB and LiPro (LP) AG to UBS, the warrant issued by UBS and the SNB repurchase option. Positive and/or negative replacement values are stated in *other assets* or *other liabilities*. Changes in valuations or in the recognition of the warrant that are reported in the income statement are entered under *net result from loss protection arrangements*.

The LP purchase option grants UBS the option to buy the shares (equity interest) of LiPro (LP) AG in the SNB StabFund Limited Partnership for Collective Investment. Under the GP purchase option, UBS has the option to buy from the SNB its shares (equity interest) in StabFund (GP) AG. The premia received on these options were invested in the SNB StabFund Limited Partnership for Collective Investment, and LiPro (LP) AG and StabFund (GP) AG received shares in exchange. The options are valued using the stabilisation fund's current book values. They represent the share of the stabilisation fund's equity due to UBS if the options are exercised on the balance sheet date. If the stabilisation fund reports a negative net asset value, no value is assigned to the purchase options.

Stabilisation fund investments

Value adjustments

Stabilisation fund options

The warrant, which serves as secondary loss protection, gives the SNB the right to purchase up to 100 million UBS shares at their nominal value of CHF 0.10. It can be exercised if the loan to the stabilisation fund cannot be fully repaid at maturity. A fair value for the warrant is established using generally recognised mathematical finance methods. The warrant is reported under *other assets* and via a compensation account in *other liabilities* so that the SNB's net income is unaffected. If the SNB's loan to the stabilisation fund is not fully covered, the warrant can be exercised via the compensation account, and recognised in the income statement. As soon as the coverage of the outstanding SNB loan is restored, the recognition of the warrant will be reversed in the income statement.

The repurchase option represents the SNB's right to request the repurchase of the stabilisation fund in the case of a change of control at UBS. No replacement value is assigned to the repurchase option. The contract value represents the amount of the loan outstanding on the balance sheet date plus the share capital of StabFund (GP) AG and half of the stabilisation fund equity.

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. The group of reporting entities remains unchanged from the previous year.

Reporting entities

Significant majority interests

Company name, head office	Business activity	Share capital or capital commitment In CHF millions	Equity interest	
			31.12.2010	31.12.2009
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	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 In CHF millions	Equity interest	
			31.12.2010	31.12.2009
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 intercompany 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 financial year for the companies established in 2009 lasted more than one year. 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 positions are converted on the balance sheet date at the year-end rate, and the difference is recognised in the income statement. Exchange rate movements that occurred between conclusion of the transaction and its settlement are reflected in the income statement.

Foreign currency 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 in the *foreign currency translation differences* item.

Foreign exchange valuation rates

In CHF	31.12.2010	31.12.2009	Change In percent
1 euro (EUR)	1.2494	1.4853	-15.9
1 US dollar (USD)	0.9327	1.0336	-9.8
100 Japanese yen (JPY)	1.1479	1.1142	+3.0
1 Canadian dollar (CAD)	0.9348	0.9855	-5.1
1 pound sterling (GBP)	1.4529	1.6723	-13.1
1 Australian dollar (AUD)	0.9495	0.9276	+2.4
100 Danish kroner (DKK)	16.7600	19.9600	-16.0
100 Swedish kronor (SEK)	13.9100	14.5000	-4.1
1 Singapore dollar (SGD)	0.7283	0.7371	-1.2

The average exchange rate for the US dollar for 2010 was CHF 1.0421 (2009: CHF 1.0858).

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 (pp. 155–160). The particular risks faced by the stabilisation fund (p. 172) are summarised in the next paragraph.

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 proportion of the securities are backed by US residential and commercial mortgages, developments in US real estate prices also play a crucial role.

Information on the SNB's internal control system can be found in the annual financial statements of the parent company (pp. 154–155). Comments on such control systems for the stabilisation fund are on p. 171. 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.

Assessment of risk

Internal control system

4.3 Notes on the consolidated income statement and balance sheet

Item no. 01

Stabilisation fund investments

In CHF millions	31.12.2010	31.12.2009	Change
Sight deposits in various currencies	479.3	682.8	-203.5
Securities (securitised loans) ¹	10 876.8	16 299.6	-5 422.8
Non-securitised loans ²	2 312.4	3 434.1	-1 121.7
Real estate	37.0	16.0	+21.0
Derivatives transactions	84.3	135.8	-51.5
Other assets	171.3	83.7	+87.6
Total	13 961.1	20 652.0	-6 690.9

1 Of which, CHF 10,393.5 million entered at amortised cost (2009: CHF 15,793.1 million), with a fair value of CHF 11,617.7 million (2009: CHF 15,666.6 million).

2 Fair value CHF 2,471.6 million (2009: CHF 3,736.5 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 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
Book value as at 1 January 2010	56.7	90.8	147.6
Investments	-	-	-
Divestments	-	-	-
Valuation changes	-1.5	-	-1.5
Book value as at 31 December 2010	55.2	90.8	146.1

1 Orell Füssli Holding Ltd.

Income from participations valued according to the equity method amounts to CHF 0.1 million (2009: CHF 5.0 million). Income from other participations amounts to CHF 18.8 million (2009: CHF 7.8 million).

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 group perspective, there is the agreement between LiPro (LP) AG and UBS in the form of the LP purchase option, as well as the SNB's warrant for 100 million UBS shares.

In CHF millions	31.12.2010			31.12.2009		
	Contract value	Replacement value		Contract value	Replacement value	
		Positive	Negative		Positive	Negative
SNB parent company ¹	29 109.8	83.0	63.3	103 343.8	65.7	34.7
Interest rate swaps	4 342.7	42.0 ²	164.2	2 901.0	27.1 ²	44.9
Credit default swaps	4 951.3	42.3 ²	3 077.3 ^{2,3}	11 013.3	108.7 ²	7 270.8 ^{2,3}
LP purchase option	4 318.7	–	517.6	4 318.6	–	–
GP purchase option	1.5	–	0.2	1.5	–	1.4
Warrant	10.0	1 445.0	–	10.0	1 216.4	–
Repurchase option	12 770.3	–	–	20 994.2	–	–
Total for group	55 504.4	1 612.3	3 822.5	142 582.5	1 418.0	7 351.9

1 Cf. item no. 32, SNB parent company financial statements, p. 152, where the GP purchase option, the contract value of the warrant and the repurchase option are stated separately.

2 Already listed under stabilisation fund investments.

3 Offset against deposited cash collateral (pp. 169–170).

Impact of the stabilisation fund on the consolidated result

In CHF millions	2010	2009	Change
Net result from stabilisation fund investments	3 167.8	-2 101.8	+5 269.6
Interest expenses on SNB loan ¹	-476.9	-660.8	+183.9
Additional income and expense components ²	-56.0	-86.2	+30.2
Stabilisation fund result	2 634.9	-2 848.8	+5 483.7
Option premia received from UBS (primary loss protection) ³	-	2 457.0	-2 457.0
Changes in UBS's rights to stabilisation fund equity ⁴	-516.3	-	-516.3
Net result from GP and LP purchase options	-516.3	2 457.0	-2 973.3
Net result from warrant (secondary loss protection) ⁵	-482.3	391.8	-874.1
Net result from loss protection arrangements	-998.6	2 848.8	-3 847.4
Impact of stabilisation fund on consolidated result	1 636.2	-	+1 636.2

1 In the consolidated financial statements, interest income from the point of view of the SNB and interest expenses from the point of view of the stabilisation fund offset one another.

2 Operating expenses (general overheads); income from participations; net result, other.

3 As a result of the stabilisation fund's negative net asset value, the whole of the premium received on the LP purchase option was reported as income. The option premia received in 2008 and 2009 serve as primary loss protection. They were paid in to the stabilisation fund as equity.

4 If UBS exercises its right to repurchase the stabilisation fund once the SNB loan has been fully repaid.

5 The recognition of the warrant in the income statement was reversed in 2010.

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. 173–188) for the year ended 31 December 2010.

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.

Bank Council'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.

Auditor's responsibility

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 2010 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 the 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
Audit expert
Auditor in charge

Christian Massetti
Audit expert

Zurich, 25 February 2011

Proposals of the Bank Council

Proposals of the Bank Council to the General Meeting of Shareholders

At its meeting of 25 February 2011, the Bank Council accepted the financial report for 2010, contained in the *103rd Annual Report*, for submission to the Federal Council and to the General Meeting of Shareholders.

The Audit Board signed its reports on 25 February 2011. On 11 March 2011, 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 2010 be approved;
2. that a dividend totalling CHF 1.5 million be paid to shareholders as part of the profit appropriation:

In CHF millions	2010
Annual result	-20 807.1
Allocation to provisions for currency reserves	-724.2
Distributable annual result	-21 531.3
Release from distribution reserve	24 032.8
Total profit distribution	2 501.5
Payment of a dividend of 6%	-1.5
Profit distribution to Confederation and cantons ¹	-2 500.0
Balance after appropriation of profit	-

¹ Profit distribution agreement of 14 March 2008 between the Federal Department of Finance and the Swiss National Bank.

3. that the Bank Council be granted discharge;
4. that Cédric Tille, Professor of Economics at the Graduate Institute for International and Development Studies, Geneva, 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 2011–2012 term of office.

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Selected information

1 Chronicle of monetary events in 2010

January

On 18 January, the SNB, the European Central Bank, the National Bank of Poland and the Hungarian central bank announce that they will discontinue EUR/CHF foreign exchange swaps. This move is in reaction to the fact that demand for Swiss francs has declined and that conditions in the financial markets have improved (p. 45).

On 27 January, the SNB, the US Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan jointly announce that the temporary swap agreement to provide the money market with US dollar liquidity will not be renewed. As a result, the SNB discontinues its US dollar repo operations with effect from the end of January (p. 46).

March

At its quarterly assessment of 11 March, 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 also emphasises that it will continue to act decisively to prevent an excessive appreciation of the Swiss franc against the euro (pp. 34–35).

On 12 March, the SNB publishes the revised Memorandum of Understanding with FINMA, the Swiss Financial Market Supervisory Authority (p. 74).

By means of interventions in the foreign exchange market, the SNB purchased around CHF 31 billion of foreign exchange in the first quarter of 2010.

April

In a joint press release on 21 April, the SNB and FINMA announce the new liquidity regime for big banks. It enters into force at the end of June 2010 (p. 74).

May

On 10 May, the SNB, the US Federal Reserve, the Bank of Canada, the Bank of England and the European Central Bank reactivate the swap agreement designed to provide the markets with US dollar liquidity. In so doing, the central banks are reacting to the renewed tensions in the US dollar money markets (p. 46).

At its quarterly assessment of 17 June, 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 in the lower end of the range, at around 0.25% (pp. 35–38). It also notes that the threat of deflation has largely disappeared. In view of the high downside risks, however, it stresses that it would take all measures necessary to ensure price stability should these risks materialise and, via an appreciation of the Swiss franc, lead to a renewed threat of deflation.

June

The SNB announces its new procedure for implementing monetary policy, which is based on the periodic absorption of excess liquidity by means of repo operations and the issuance of SNB Bills.

By means of interventions in the foreign exchange market, the SNB purchased around CHF 113 billion of foreign exchange against Swiss francs in the second quarter of 2010.

On 16 September, at its quarterly assessment, the SNB leaves the target range for the three-month Libor unchanged at 0.0–0.75% and still intends to keep the Libor in the lower end of the range, at around 0.25% (pp. 38–39). It also points out that it would take the measures necessary to ensure price stability should downside risks materialise and lead to a renewed threat of deflation.

September

On 4 October, the SNB and FINMA publish the recommendations of the commission of experts appointed to examine ways of limiting the economic risks posed by large companies (p. 75).

October

At its quarterly assessment of 16 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% (pp. 39–40). It also stresses that it would take the measures necessary to ensure price stability should the tensions in the financial markets be exacerbated and a deflation threat emerge.

December

On 21 December, the SNB announces that – in coordination with the Bank of Canada, the Bank of England and the European Central Bank – the swap agreement with the US Federal Reserve will be extended until August 2011 (p. 46).

2 Bank supervisory and management bodies, Regional Economic Councils

(as at 1 January 2011)

Bank Council (2008–2012 term of office)

Hansueli Raggenbass, Kesswil, Attorney-at-law, President of the Bank Council, Head of the Compensation and the Nomination Committee, 2001/2008 ¹
Jean Studer, Neuchâtel, Member 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 Bühler, Muri, President of <i>economiesuisse</i> (Swiss Business Federation), Member of the Compensation Committee, 2008 ¹
* Monika Bütler, Zurich, Professor of Economics at the University of St Gallen, 2010 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 Executive Secretary of the Swiss Federation of Trade Unions, Member of the Risk Committee, 2007/2008 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
Ernst Stocker, Wädenswil, Member of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich, Member of the Audit Committee, 2010 ¹
Fritz Studer, Lucerne, 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 (2010–2011 term of office)

PricewaterhouseCoopers Ltd, Zurich

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

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

Enlarged Governing Board
(2009–2015 term of office)

Comprehensive list:

www.snb.ch, *The SNB, Supervisory and executive bodies, Bank management*

Bank management

Regional Economic Councils
(2008–2012 term of office)

Central Switzerland

Xaver Sigrist, Lucerne, President and CEO of Anliker AG, Chairman
David Dean, Volketswil, CEO of Bossard Group
Hans Marfurt, Rothenburg, CEO of TRUMPF Maschinen AG
André Zimmermann, Horw, CEO of Pilatus-Bahnen AG

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
Andreas Ernst Züllig, Lenzerheide, Manager and joint owner of Hotel Schweizerhof

Geneva

Robert Deillon, Coppet, Director General of Geneva International Airport, Chairman
Nicolas Brunschwig, Vandœuvre, 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, Auvornier, 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, Biel-Benken, CEO of Dolder AG
Gabriele Gabrielli, Möriken, Group Vice President, Global Account Executive at ABB Ltd
René Kamm, Basel, CEO of MCH Group Ltd

<p>José Luis Moral, Gudo, Member of the Board and Managing Director of Regazzi SA, Chairman</p>	Ticino
<p>Alessandra Alberti Zucconi, Sementina, Managing Director of Chocolat Stella SA</p>	
<p>Lorenzo Emma, Vezia, Managing Director of Migros Ticino</p>	
<p>Jean-Jacques Miauton, Epalinges, CEO of Swiss Madeness Solutions Group SA, Chairman</p>	Vaud-Valais
<p>Paul Michellod, Leytron, Director of FMV SA</p>	
<p>Andreas S. Wetter, Feldmeilen, Chairman of the Board of Directors at Orange Communications SA</p>	
<p>Hans Rudolf Rüegg, Rüti, Chairman of the Board of Directors and CEO of Baumann Springs Ltd, Chairman</p>	Zurich
<p>Milan Prenosil, Kilchberg, Chairman of the Board of Directors at Confiserie Sprüngli AG</p>	
<p>Isabelle Welton-Lalive d'Épinay, Uster, CEO of IBM Switzerland Ltd</p>	

3 Organisational chart

(as at 1 January 2011)

General Meeting of Shareholders				Audit Board	
Bank Council				Internal Auditors	
Governing Board					
Enlarged Governing Board					
Department I Zurich				Department II Berne	
International Monetary Cooperation	Economic Affairs	Legal and Property Services	Secretariat General	Finance and Risk	Financial Stability
International Monetary Relations	Monetary Policy Analysis	Legal Services	Communications	Central Accounting	Banking System
International Trade and Capital Flows	Inflation Forecasting	Human Resources	Documentation	Controlling	Systemically Important Banks
Technical Assistance	Economic Analysis	Pension Fund	Research Coordination and Education	Risk Management	Oversight
	Statistics	Premises and Technical Services	Secretariat General Berne	Security	

Department III Zurich

Cash	StabFund	Financial Markets	Banking Operations	Information Technology
Administration and Cashier's Offices		Money Market and Foreign Exchange	Banking Operations Analysis	Banking Applications
Technical Support and Storage		Asset Management	Payment Operations	Business Support Processes
		Investment Strategy and Financial Market Analysis	Back Office	Infrastructure
			Master Data	

4 Publications

The publications are available on the SNB website, www.snb.ch, *Publications*.

Annual Report	<p>The <i>Annual Report</i> is published at the beginning of April in German, French, Italian and English. Free of charge</p>
Quarterly Bulletin	<p>The <i>Quarterly Bulletin</i> 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 also includes articles on topical central bank policy issues. The <i>Quarterly Bulletin</i> 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. Subscription: CHF 25* per year (outside Switzerland: CHF 30); for subscribers to the <i>Monthly Statistical Bulletin</i>: CHF 15* per year (outside Switzerland: CHF 20)</p>
Financial Stability Report	<p>The <i>Financial Stability Report</i> assesses the stability of Switzerland's banking sector. It is published in June in German, French and English. Free of charge</p>
Monthly Statistical Bulletin, Monthly Bulletin of Banking Statistics	<p>The <i>Monthly Statistical Bulletin</i> contains charts 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)</p> <hr/> <p>The <i>Monthly Bulletin of Banking Statistics</i> 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, <i>Publications</i>, <i>Statistical Publications</i>. A printed German-French version is published every quarter free of charge as a supplement to the <i>Monthly Statistical Bulletin</i>.</p>

Banks in Switzerland is a commented 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*

Banks in Switzerland

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 Financial Accounts

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

**Swiss Balance of Payments,
Switzerland's International
Investment Position, Direct
Investment**

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

Historical Time Series

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 English in all three language versions) 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
1907–2007**

<p>The Swiss National Bank in Brief</p>	<p><i>The Swiss National Bank in Brief</i> 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.</p> <p>Free of charge</p>
<p>iconomix</p>	<p>To mark its centenary in 2007, the SNB launched <i>iconomix</i>, 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. <i>iconomix</i> is published primarily in German and French.</p> <p>Available free of charge at www.iconomix.ch</p>
<p>Further resources</p>	<p><i>What is money really about?</i> 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.</p> <p><i>The Swiss National Bank and that vital commodity: money</i> 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.</p> <p><i>An "A to Z" of the Swiss National Bank</i> 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, <i>Publications</i>, <i>Publications about the SNB</i>, <i>The world of the National Bank</i>.</p> <p><i>The National Bank and money</i> is a short film (available on DVD) illustrating the characteristics of money.</p> <p><i>The National Bank and its monetary policy</i> 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.</p> <p>All the material in this section (Further resources) is available in German, French, Italian and English.</p> <p>Free of charge</p>
<p>Obtainable from</p>	<p>Swiss National Bank, Library, Bundesplatz 1, CH-3003 Berne Telephone +41 31 327 02 11, e-mail: library@snb.ch</p> <p>Swiss National Bank, Library, Fraumünsterstrasse 8, P.O. Box, CH-8022 Zurich Telephone +41 44 631 32 84, e-mail: library@snb.ch</p> <p>*All prices include 2.5% VAT.</p>

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The Swiss National Bank maintains agencies operated by cantonal banks in Altdorf, Appenzell, Chur, Fribourg, Glarus, Liestal, Lucerne, Sarnen, Schaffhausen, Schwyz, Sion, Stans and Zug.

Agencies

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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
ABS	Asset-backed securities	
AOA	Auditor Oversight Act	
AUD	Australian dollar	
BAG	Bank Accounting Guidelines	
BIS	Bank for International Settlements	
CAD	Canadian dollar	
CDS	Credit default swap	
CHF	Swiss franc	
CISA	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	
FDf	Federal Department of Finance	
FER	Swiss accounting and reporting guidelines (Swiss GAAP FER)	
FINMA	Swiss Financial Market Supervisory Authority	
FSB	Financial Stability Board	
GAAP	Generally Accepted Accounting Principles	
GAB	General Arrangements to Borrow	
GBP	Pound sterling	
GDP	Gross domestic product	
GP	General partner	
IFRS	International Financial Reporting Standards	
IMF	International Monetary Fund	
JPY	Japanese yen	
Libor	London Interbank Offered Rate	
LP	Limited partner	
MBS	Mortgage-backed securities	
NAB	New Arrangements to Borrow	
NBA	National Bank Act	
NBO	National Bank Ordinance	
OECD	Organisation for Economic Co-operation and Development	
OTC	Over-the-counter	
PRGT	IMF Poverty Reduction and Growth Trust	
SARON	Swiss Average Rate Overnight	
SDR	Special Drawing Right	
SECO	State Secretariat for Economic Affairs	
SEK	Swedish krona	
SFSO	Swiss Federal Statistical Office	
SGD	Singapore dollar	
SIC	Swiss Interbank Clearing	
SNB	Swiss National Bank	
SR	Official Compilation of Federal Laws and Decrees	
USD	US dollar	

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