104th Annual Report

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

2011

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.

Implementation of monetary policy

The SNB implements its monetary policy by steering liquidity on the money market and thereby influencing the interest rate level. The three-month Swiss franc Libor serves as its reference interest rate. In addition, since 6 September 2011, a minimum exchange rate for the euro against the Swiss franc has also applied.

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 interbank payment system (SIC system) via sight deposit accounts held with the SNB.

Asset management

The SNB manages the currency reserves, the most important component of its assets. Currency reserves 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
104th Annual Report 2011

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 *104th Annual Report* comprises the accountability report to the Federal Assembly (pp. 9–96). 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 2011 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.

Like the years before it, 2011 was shaped by the repercussions of the financial crisis which shook the world economy in 2008/2009. The pace of global economic recovery slowed. In addition, the European sovereign debt crisis and fiscal problems in other advanced economies undermined confidence on international financial markets. Against this backdrop, the Swiss franc appreciated further in the first half of the year. In the second half, the appreciation gathered pace. This resulted in a massive overvaluation of the Swiss franc, posing an acute threat to the development of the real economy in Switzerland and carrying the risk of deflation.

The SNB maintained its expansionary monetary policy in 2011. In August, it began taking measures to counter the strength of the Swiss franc by lowering the rate of interest between its regular quarterly monetary policy assessments and significantly increasing liquidity on the Swiss franc money market. As a result, total sight deposits at the SNB reached a historical peak, and money market interest rates declined to around zero – at times even dipping into negative territory. Given the high degree of uncertainty on the financial markets, however, the upward pressure on the Swiss franc intensified once again at the beginning of September. Thus, on 6 September, the SNB set a minimum exchange rate of CHF 1.20 per euro. It made it clear that it would enforce this minimum rate with the utmost determination and was prepared to purchase foreign currency in unlimited quantities for this purpose. It considered that, even at that rate, the Swiss franc was still high, and announced that it would take further measures if the economic outlook and the risk of deflation so required.

Owing to the deterioration in the international economic environment and the Swiss franc appreciation, economic growth in Switzerland lost considerable momentum over the course of 2011. In industries strongly focused on exports, value added decreased, and towards the end of the year, unemployment rose again slightly for the first time in two years. The downward pressure on consumer prices was reflected in the fact that, from October onwards, annual inflation turned slightly negative.

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. 99–197). 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. 125–166), financial information on the stabilisation fund (pp. 167–176), and the consolidated financial statements (pp. 177–194), as required under Swiss law.

In 2011, the annual financial statements of the SNB (parent company) closed with a profit of CHF 13.0 billion, following a loss of CHF 20.8 billion in the previous year. The positive annual result was driven mainly by valuation gains on gold holdings and a net profit on foreign currency positions.

The distribution of profit by the SNB is contingent on the result of the parent company. With the annual result for 2010, the value of the distribution reserve turned negative. Consequently, a review of the agreement on the distribution of the SNB's profit was carried out by the SNB and the Federal Department of Finance. The new agreement of 21 November 2011 covers the profit distributions for the financial years 2011–2015. The annual distribution now amounts to CHF 1 billion, and will be made only if the distribution reserve is not negative.

For 2011, following the allocation to the provisions for currency reserves, the SNB is distributing CHF 1 billion to the Confederation and the cantons in accordance with the agreement.

The stabilisation fund shows a profit of USD 1.1 billion for the 2011 financial year. The loan granted by the SNB decreased from almost CHF 12 billion to CHF 7.6 billion.

The stabilisation fund contributed CHF 0.4 billion to the consolidated result, bringing the annual consolidated profit to CHF 13.5 billion.

On 9 January 2012, Philipp M. Hildebrand resigned from his office as Chairman of the Governing Board. From that date, Thomas J. Jordan, Vice Chairman of the Governing Board, took over as acting Chairman.

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

Berne and Zurich, 2 March 2012

Hansueli Raggenbass President of the Bank Council	**Thomas J. Jordan** Vice Chairman of the Governing Board

Contents

Preface

Contents

Accountability report

On 8 March 2012, the Governing Board of the Swiss National Bank (SNB) submitted its accountability report for 2011 to the Federal Assembly in accordance with art. 7 para. 2 of the National Bank Act (NBA). The report, which is reproduced below, 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 National Bank pursues a monetary policy serving the interests of the country as a whole. It must ensure price stability, while taking due account of economic developments. 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 (London Interbank Offered Rate) for three-month investments in Swiss francs. On 6 September 2011, the SNB also set a minimum exchange rate for the euro against the Swiss franc.

Like the years before it, 2011 was shaped by the repercussions of the financial crisis which shook the world economy in 2008/2009. The pace of global economic recovery slowed. In addition, the European sovereign debt crisis and fiscal problems in other advanced economies undermined confidence on financial markets. Given this situation, the Swiss franc continued to appreciate in the first half of the year. In July this appreciation accelerated further, to the extent that the substantial overvaluation became an acute threat to price stability and real economic development in Switzerland.

The increasing deterioration in the international environment weighed heavily on the Swiss economy. Average annual GDP increased by 1.9%, after a rise of 2.7% in the previous year. While the first six months of 2011 saw dynamic economic development, growth slackened in the second half of the year. A consequence of this was a slight rise in the rate of unemployment in the last few months of the year.

The Swiss franc appreciation and the slowing of the real economy led to declining prices in the second half of the year. In 2011, the consumer price index rose by 0.2% on average, as against 0.7% the year before. The downward pressure on consumer prices was reflected in the fact that, from October onwards, annual inflation dipped into negative territory.

The SNB pursued an expansionary monetary policy over the entire course of 2011. In the first half of the year, it kept the target range for the three-month Libor at 0.0–0.75%, and aimed for a Libor in the lower part of the range. As part of measures taken against the strength of the Swiss franc in August, the SNB narrowed the target range to 0.0–0.25%, and aimed to keep the three-month Libor as close to zero as possible. At the same time, the National Bank significantly increased the supply of liquidity to the money market. Since, however, the Swiss franc continued to appreciate, on 6 September the SNB set a minimum exchange rate at CHF 1.20 per euro. These measures were taken in response to the acute threat to the Swiss economy and the risk of deflationary developments originating from the massive overvaluation of the Swiss franc. The SNB emphasised that it would enforce this minimum rate with the utmost determination and was prepared to buy foreign currency in unlimited quantities. At its monetary policy assessments of 15 September and 15 December, the SNB reaffirmed its commitment to the minimum exchange rate.

Implementation of monetary policy

(2) The SNB implements its monetary policy by managing liquidity on the money market and thereby influencing the interest rate level. Its reference interest rate is the three-month Swiss franc Libor. Since 6 September 2011, the SNB has been prepared to buy foreign currency in unlimited quantities, if necessary, to enforce the minimum exchange rate. In the first half of the year, excess liquidity was slightly reduced by means of liquidity-absorbing repo transactions and the issuance of SNB Bills. In August, the banks' sight deposits at the SNB were significantly expanded in three steps, as part of the measures aimed at countering the strong Swiss franc. To this end, with immediate effect repo transactions which fell due were no longer renewed, the issuance of SNB Bills was suspended, and outstanding SNB Bills were repurchased. In addition, foreign exchange swaps and liquidity-providing repo transactions were also carried out. Consequently, the level of the sight deposits reached a historical high. The very significant increase in the supply of liquidity pushed interest rates on the money market close to zero. At times, rates even dipped into negative territory.

Cash supply and distribution

(3) Through the banks and Swiss Post, the SNB 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, acting as agencies on behalf of the SNB. At the end of January 2011, the Basel agency was closed. In February, the SNB also decided to close the Geneva branch office – the last of the eight original regional branches – effective from the end of January 2012. These measures were in response to the ongoing trend towards centralising cash distribution services. To best facilitate cash supply and distribution in the Geneva area, the SNB decided to open an agency at the Geneva cantonal bank with effect from 1 February 2012.

Unexpected technical problems were encountered in an early production stage of the new banknote series, which have delayed the issue of the new series by at least one year.

Cashless payment transactions

(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 committees. In 2011, a topic of particular relevance was whether in the future the Swiss franc should be included in TARGET2-Securities, the securities settlement system developed by the European Central Bank (ECB). Following negotiations with the ECB and discussions with the banks, as well as with SIX Group Ltd, as operator of the Swiss financial market infrastructure, the SNB decided against making the Swiss franc available as a settlement currency.

Asset management

(5) The SNB's assets fulfil important monetary policy functions. They consist mainly of gold and foreign currency assets (currency reserves) and, to a lesser extent, of assets in Swiss francs. Their size and composition are determined by the established monetary order and the requirements of monetary policy. At the end of 2011, the SNB's balance sheet total was CHF 346 billion, which was CHF 76 billion higher than one year earlier (CHF 270 billion). The increase is mainly due to the foreign currency reserves, which increased by CHF 62 billion as a result of investments in connection with foreign exchange swaps against Swiss francs, valuation gains, and foreign currency purchases.

The most important risk factors for the currency reserves are exchange rates and the gold price. Owing to the increased level of these reserves and higher volatility, their risk exposure has risen considerably. As a result of valuation gains on gold and on foreign currency investments, as well as current earnings on these assets, returns on the currency reserves were positive.

Financial system stability

(6) The NBA confers on the SNB the mandate of contributing to the stability of the financial system. In doing so, it works in close cooperation with the Swiss Financial Market Supervisory Authority (FINMA), the Federal Department of Finance (FDF), as well as foreign authorities and international organisations. In 2011, the SNB was actively involved in implementing the 'too big to fail' recommendations of the commission of experts set up to examine ways of limiting economic risks posed by large companies. A legislative proposal to this effect was passed by parliament in 2011. On macroprudential oversight, the SNB was in favour of the rapid introduction of a countercyclical capital buffer. As part of the oversight of systemically important payment and securities settlement systems, the SNB assessed compliance with the regulatory requirements and monitored a number of projects undertaken by the system operators.

The SNB loan granted in autumn 2008 to the stabilisation fund to take over illiquid assets from UBS was further amortised in 2011, and the fund's overall risk further reduced.

International monetary cooperation

(7) The SNB participates in international monetary cooperation activities. Important bodies are the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD). IMF lending to member countries in economic difficulties reached a record high in 2011. With regard to Switzerland's participation in the upcoming increase in IMF quotas, the FDF drafted a federal decree which will be voted on in parliament in 2012. Due to strong demand for loans, the IMF also decided to expand the New Arrangements to Borrow (NAB). This expansion became effective in March 2011. For the SNB, the expansion of the NAB meant an increase in its maximum loan commitment from CHF 2.2 billion (1.5 billion Special Drawing Rights, or SDRs) to CHF 15.7 billion (SDR 10.9 billion). Switzerland also pledged CHF 720 million (SDR 500 million) to augment the IMF's Poverty Reduction and Growth Trust. The loan to this fund is granted by the SNB and guaranteed by the Confederation.

Banking services for the Confederation

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

Statistics

(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 2011, four new surveys were introduced, namely the survey on bank lending, which was initially of a temporary nature, the survey on loan quality, the additional survey on the mortgage market, and the survey on customer payment transactions.

1 Monetary policy

1.1 Mandate and monetary policy strategy

Constitutional and legal mandate

Article 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.

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) both 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 SNB creates an environment in which the economy can 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

The SNB maintains price stability by ensuring appropriate monetary conditions. This means keeping interest rates and the supply of money and credit aligned to the prevailing economic situation. Low interest rates promote the supply of money and credit to the economy, thereby increasing the demand for goods and services. Over time, this leads to excessive use of production capacity, resulting in a rise in the price level. At the same time, there is also a risk that excesses may occur, particularly on the financial and real estate markets. Conversely, increasing interest rates lead to a reduction in the supply of money and credit, thereby holding back aggregate demand. The utilisation of production capacity falls and the price level declines.

Monetary policy strategy

The SNB money policy strategy sets out the manner in which the National Bank intends to fulfil its statutory mandate. It consists of the following three elements: a definition of price stability, a conditional inflation forecast over the subsequent twelve quarters, and a target range for a reference interest rate – the three-month Swiss franc Libor (London Interbank Offered Rate). Since 6 September 2011, a minimum exchange rate for the euro against the Swiss franc has also applied.

The SNB equates price stability with an annual rise in the national consumer price index of less than 2%. Deflation – in other words, a protracted decline in the price level – is also regarded as a breach of the objective of price stability. With its definition of price stability, the SNB takes into account, in particular, the fact that the consumer price index tends to slightly overstate inflation and that inflation cannot be measured precisely.

Definition of price stability

The inflation forecast published quarterly by the SNB performs a dual function. First, it serves as the main indicator for the monetary policy decision. Second, it provides an important reference point for the general public and is a key element in communication.

Conditional inflation forecast

The SNB's inflation forecast is based on the assumption that the reference interest rate communicated at the time of publishing will remain unchanged over the next three years. It is therefore a conditional forecast and shows how the SNB expects consumer prices to move in the event that monetary policy does not change. It cannot be compared with forecasts by commercial banks or research institutions, as these institutions generally factor anticipated interest rate movements into their forecasts.

Inflation forecasts are made quarterly, and cover a period of three years. This corresponds roughly to the time required for the transmission of monetary policy impulses to output and prices. With its three-year 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, developments in the global economy play an important role. Consequently, the inflation forecast is based on assumptions with regard to the future path of the global economy. Indicators related to the business cycle, as well as exchange rates and commodity prices (crude oil), are also of relevance for short-term changes in the price level. In addition, changes in the monetary aggregates and in lending are taken into account in the inflation forecast, since medium and long-term price movements depend, to a large extent, on money supply.

Preparing the conditional inflation forecast

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.

Review of monetary policy based on inflation forecast

If the inflation forecast shows values that lie outside the price stability range, an adjustment of monetary policy may be necessary. Thus, should inflation threaten to exceed 2% on a sustained basis, the SNB would consider tightening its monetary policy. Conversely, it would schedule a monetary easing if deflationary tendencies were identified. However, the SNB does not react mechanically to the inflation forecast. In its monetary policy decisions, it also considers potential risks that are not factored into the forecast models.

Target range for the three-month Libor

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. Since August 2011, a narrow target range of 0.0–0.25% has applied, with the SNB maintaining a Libor of close to zero. Since 6 September 2011, a minimum exchange rate for the euro against the Swiss franc has also applied.

The Libor corresponds to a trimmed mean of the current interest rates charged by 12 leading banks for unsecured interbank loans and is published daily by the British Bankers' Association in London. Although few unsecured loans are currently being concluded on the interbank market, the Libor remains an important benchmark for many credit transactions in the economy and therefore plays a key role in the monetary policy transmission mechanism.

Quarterly policy assessments

The SNB conducts an in-depth monetary policy assessment in March, June, September and December. Each of these assessments results in a monetary policy decision and the publication of the conditional inflation forecast. The SNB sets out the reasons for its decision in a press release. In June and December, it provides additional information on the monetary policy decision at a news conference. If necessary, the SNB may take monetary policy measures at any time between regular assessment dates. Economic developments and the background to the monetary policy decision are presented in the quarterly monetary policy report, which is published in the *Quarterly Bulletin*.

1.2 Challenges for monetary policy

Escalation of debt crisis

The repercussions of the financial crisis which shook the global economy in 2008/2009 were felt again in 2011, as in previous years. With fiscal stimuli coming to an end, the recovery of the global economy lost strength. In addition, the European sovereign debt crisis and the fiscal problems in other advanced economies undermined confidence in financial markets.

Appreciation of Swiss franc poses threat

The appreciation of the Swiss franc continued in the first half of 2011. In July, this appreciation accelerated further. The substantial overvaluation of the Swiss franc became an acute threat to economic activity in Switzerland and increased the downside risks to price stability. In August, the SNB took measures to counter the strength of the Swiss franc by lowering the rate of interest at an unscheduled meeting, and significantly increasing liquidity. However, in view of the high level of uncertainty on the financial markets, the Swiss franc appreciated further and almost reached parity with the euro. On 6 September, the SNB set a minimum exchange rate of CHF 1.20 per euro.

Risk to financial stability

In 2011, interest rates persisted at a very low level. At the same time, prices on the real estate market continued to rise, leading to strong growth in lending and promoting adverse developments in the financial sector, with corresponding risks for financial stability. The SNB stressed how important it was that instruments aimed at making a precautionary contribution in the area of financial stability be introduced soon.

Very low inflation

During the course of the year, the rate of inflation varied between 1.0% and –0.7%. In the first half of the year, the SNB stressed that monetary policy would need to be tightened in due course, owing to the fact that, in the long term, the risk of rising prices would have increased with the expansionary monetary policy. With the massive appreciation of the Swiss franc and the downturn in the international economy, the situation changed fundamentally. The risk of inflation declined and, from the middle of the year, short and medium-term deflation risks became the focus of attention.

1.3 International economic developments

Slowdown in global economic recovery

In 2011, the pace of global economic recovery slowed, as did world trade. One year earlier, global industrial output had risen by around 10%, but in 2011 it grew by only half as much. The phasing out of fiscal stimuli contributed to this result. In the first half of the year, moreover, the global economy was affected by the earthquake and tsunami catastrophe in Japan, which caused major disruptions of global supply chains and production losses. Later in the year, the European sovereign debt crisis emerged as a threat to the global economy. The associated rise in uncertainty regarding growth prospects had a general dampening effect on business and consumer confidence, as well as on that of financial markets.

Escalation of European sovereign debt crisis

Although the debt problem initially affected only a few euro area countries, in the second half of the year the loss of confidence increasingly spilled over into larger euro area economies. As a result, yields on Spanish, Italian and French government bonds widened markedly over those on German government bonds. In the political arena, the crisis led to unrest and a change of government in a number of countries. In the face of enormous pressure from the financial markets, Europe adopted a course of fiscal consolidation. Spain, Italy, France, Portugal, Ireland and Greece all announced drastic cuts in a bid to reduce budget deficits. Yet, despite the extension of the European Financial Stability Facility (EFSF), and a number of other measures aimed at containing the sovereign debt crisis, a lasting solution has so far proved elusive.

Widespread pressure to reduce debt burden

As the crisis developed, the stability of those European banks with large holdings of European sovereign bonds was increasingly called into question. To bolster confidence in the banking industry, governments adopted stricter capital regulations. A number of banks were obliged to consolidate their balance sheets. This reduced their ability to lend. Private households endeavoured to reduce their debt burden, and reined in their spending accordingly. In addition, in some countries, including the US, the UK and Spain, falling house prices made it more difficult to refinance mortgages at more favourable conditions. This constrained households' spending ability even further.

Markedly higher oil prices at beginning of year

Political tension in the Arab states led to a marked increase in oil prices during the first four months of the year, reducing the purchasing power of private households in oil-importing countries. Over the rest of the year, oil prices fell slightly, but were subject to fairly sharp fluctuations.

Increasing pressure on euro

The euro began the year by appreciating substantially against most other currencies, only to come under increasing pressure in the second half of the year against the backdrop of the growing sovereign debt crisis. At the end of the year, the euro was worth USD 1.29. Against the yen and the Swiss franc, which were regarded as safe haven currencies, the euro depreciated sharply over the summer. After the SNB imposed a minimum exchange rate of CHF 1.20 to the euro on 6 September, the euro fluctuated between CHF 1.20 and CHF 1.24 up to the end of the year.

Weak start to year for US economy

In the US, GDP rose by 1.7% in 2011, compared to 3.0% in 2010. Economic growth, which had weakened steadily throughout the second half of 2010, almost came to a halt in the first quarter of 2011. High energy prices, together with weak income and employment growth, weighed on demand. In addition, conditions on the real estate market remained difficult, owing to the persistent overhang of empty housing, which meant that, once again, the construction industry provided virtually no demand stimulus. Starting in the second quarter, economic growth picked up slightly, supported by a persistently expansionary monetary policy, as well as a catch-up effect in the automobile industry. Consumer spending by private households recovered, and unemployment fell slightly. Towards the end of the year, there was a strengthening in business and consumer confidence, boosted by a decision in August by the US Congress to raise the statutory debt ceiling and thereby avert the country's looming sovereign default. At the same time, the government made a commitment to significantly reduce the national deficit over the next ten years.

Uneven economic growth in euro area

At 1.4%, euro area GDP rose at roughly the same pace as in the previous year. However, economic performance varied from country to country. In heavily indebted member states like Greece and Portugal, economic activity contracted sharply as a result of wide-ranging government austerity programmes and increased funding costs. In the core countries of the euro area, GDP continued to expand until the third quarter. However, the growing nervousness on financial markets and mounting concerns over the European banking sector also weighed on these countries' economic performance at the end of the year. Given the unfavourable financial situation, many countries found themselves unable to replace expiring economic stimulus programmes with new fiscal measures.

Difficult year for Japan

The catastrophic earthquake and tsunami along the east coast of Japan tipped the Japanese economy into recession in the first half of the year. Although it was possible to recoup half of production losses during the third quarter, the economic situation continued to be challenging, as the strong appreciation of the yen against the euro and the US dollar hampered export competitiveness. A further downside factor in autumn was the floods in Thailand, which brought important production plants for the Japanese electronics and automobile industries to a standstill. Average GDP declined by 0.7% year-on-year. The Japanese government released substantial state funds – JPY 18,000 billion or 3.8% of GDP – for reconstruction activities in the east of the country. In addition, as a measure to combat the strength of the currency, it set up a credit facility totalling USD 100 billion, aimed at facilitating the funding of Japanese firms' purchases of companies abroad.

Robust performance in emerging economies

The emerging economies performed robustly in 2011, helping to offset the dampening effect on the global economy stemming from the slowdown in growth among the advanced economies. However, at 9.2%, China's economy grew slightly more slowly than the average recorded over the past ten years. At 7.1%, the Indian economy also expanded somewhat less rapidly than in the previous year. In South Korea, Taiwan, Hong Kong and Singapore, business activity in the electronics industry, a major industry in the region, slowed as a result of weaker demand from the large advanced economies. In Latin America, growth was generally robust, although here, too, the pace of economic growth slowed towards the end of the year.

Higher inflation rates worldwide

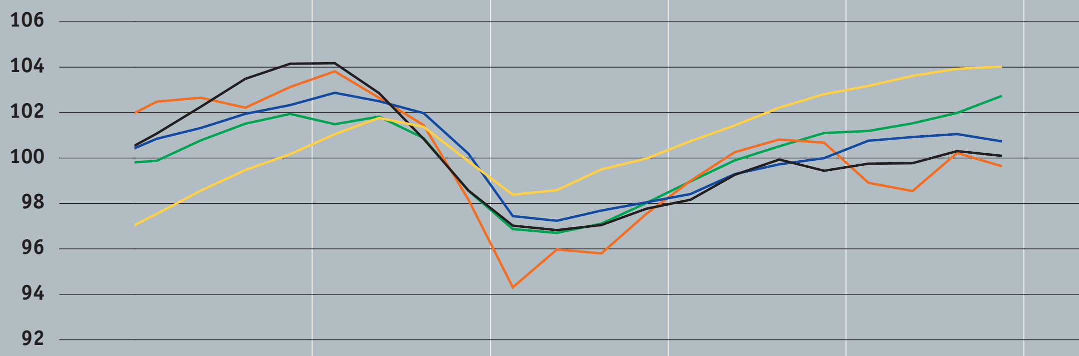
Initially, consumer price inflation continued to increase in 2011, driven mainly by rising energy and raw materials prices. Moreover, core inflation – a measure of inflation that excludes food and energy prices – also rose slightly; in some euro area countries, this was partly due to increases in indirect taxes and administered prices. In a number of emerging economies, robust economic growth and the associated rise in production capacity utilisation rates were the main factors behind the increase in core inflation. Towards the end of the year, there was a general easing of inflationary pressure as a result of the slowing economy.

2007 2008 2009 2010 2011

Level of gross domestic product

United States
Japan
Euro area
United Kingdom
Switzerland

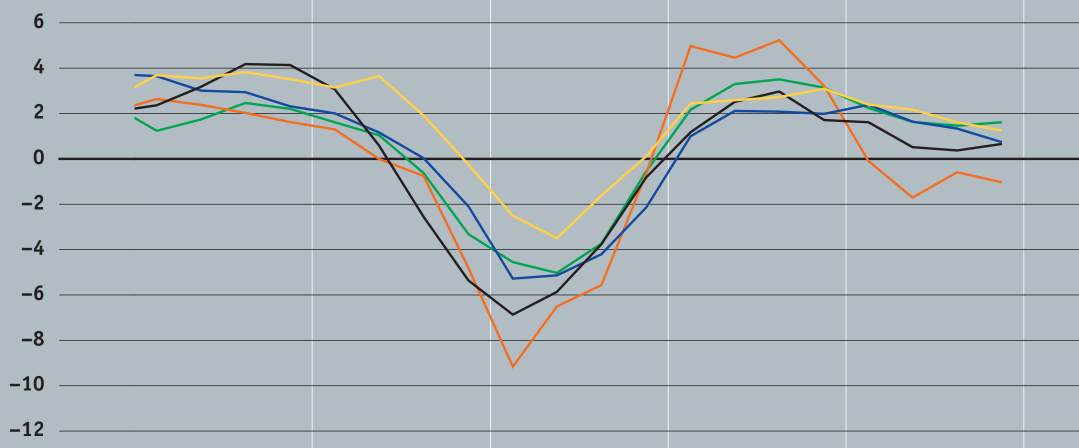
In real terms,
index: 100 = period average
(Q1/2007-Q4/2011)
Sources: SECO, Thomson
Financial Datastream



Growth of gross domestic product

United States
Japan
Euro area
United Kingdom
Switzerland

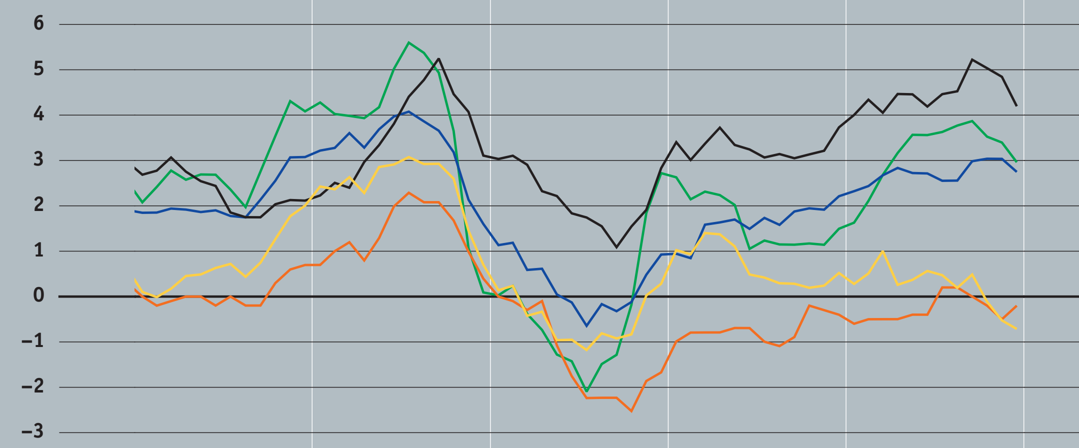
Year-on-year change
in percent, in real terms
Sources: SECO, Thomson
Financial Datastream



Inflation

United States
Japan
Euro area
United Kingdom
Switzerland

Consumer prices, year-on-year change
in percent
Sources: SFSO, Thomson
Financial Datastream



2007 2008 2009 2010 2011

Coordinated liquidity measures by central banks

Against the background of re-emerging tensions on the financial markets, at the end of November, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank (ECB), the US Federal Reserve and the Swiss National Bank announced joint measures to expand their capacity for providing liquidity to the global financial system. The measures were aimed at mitigating the impact of financial market tension on the supply of credit to households and companies, and thereby supporting economic growth. For this purpose, temporary bilateral liquidity swap arrangements were agreed by the central banks concerned, in order that sufficient liquidity could be provided in all currency zones, should market conditions render it necessary. They also agreed to lower the pricing on existing temporary liquidity swap agreements in US dollars by 0.5 percentage points, to 0.5%.

Expansionary monetary policy in the US ...

The central banks of most advanced economies maintained their expansionary monetary policy course. In an environment of high unemployment and subdued growth prospects, the Federal Reserve held the target range for its reference interest rate unchanged at 0.0–0.25%. Moreover, in August, it announced that it did not intend to raise the reference rate before mid-2013, and reiterated this stance over the next few months. In June, as expected, the Federal Reserve wound up its second large securities purchase programme, which amounted to USD 600 billion and was aimed at bringing about a quantitative easing of monetary policy. However, in order to bring long-term interest rates down further, from September onwards, the Federal Reserve extended the average maturity of its securities portfolio. In addition, to support the mortgage market it began to roll over maturing mortgage-backed securities into similar instruments, instead of into government bonds as hitherto.

... in Europe

In the light of growing inflationary pressure, the ECB raised its main refinancing rate in April and July, from 1.0% to 1.5%. Subsequently, the spread of the sovereign debt crisis led to a change of course. When tension on government bond markets increased in August, the ECB used its financial market stabilisation programme, launched in May 2010, to purchase a substantial amount of government bonds issued by financially exposed euro area member states. To support bank lending, it also launched a second covered bond purchase programme; the first such programme had been completed in mid-2010. In November and December 2011, it reduced its main refinancing rate, to finish at 1.0%. Also in December, it decided to carry out three-year refinancing operations, to lower the minimum reserve ratio for banks, and to expand the list of eligible collateral for transactions with Eurosystem central banks.

The Bank of Japan maintained its zero interest rate policy. In addition, it expanded the securities purchase programme introduced in October 2010 by JPY 20,000 billion to JPY 55,000 billion, and engaged in foreign exchange market interventions for a total amount of over JPY 14,000 billion in order to counter the yen's appreciation.

... and in Japan

To counter the threat of inflation, central banks in a number of emerging economies initially tightened their monetary policy. China's central bank once again raised its reserve requirement ratio for banks as well as its reference interest rates. In addition, it allowed the renminbi to appreciate further. By the end of the year, the Chinese currency had gained some 5% against the US dollar, although on a trade-weighted basis the appreciation is slightly smaller. The Reserve Bank of India tightened interest rates in a series of steps up to October.

Emerging economies first tighten ...

Towards the end of the year, the focus shifted to risks to the real economy. In October, Singapore's monetary authority began to loosen monetary policy. At the end of November, the People's Bank of China lowered its reserve requirement ratio for banks. A change of policy also took place in Brazil during the second half of the year.

... then loosen monetary policy

1.4 Economic developments in Switzerland

Lower growth

The increasing deterioration in the international environment in 2011 weighed heavily on the Swiss economy. Overall, GDP rose by 1.9%, following an increase of 2.7% in 2010.

This fairly impressive growth was mainly due to the favourable growth momentum in the first half of the year. In the summer, the strong appreciation of the Swiss franc severely impaired the ability of Swiss companies to compete on pricing. At the same time, the appreciable slowdown in the global industrial cycle made it increasingly difficult for exporters to offset exchange rate-related margin losses through higher sales. The uncertainty over the economic outlook increased, particularly among export-oriented companies. The introduction of the minimum exchange rate against the euro on 6 September eased the situation and gave many companies greater planning security.

As the economy slowed, capacity utilisation also began to decline. In the final months of the year, unemployment rose again slightly, for the first time in almost two years.

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

	2007	2008	2009	2010	2011
Private consumption	2.3	1.4	1.4	1.7	1.0
Government consumption	0.3	2.7	3.3	0.8	1.7
Investment	5.1	0.5	–4.9	7.5	3.9
Construction	–2.3	0.0	3.0	3.5	2.5
Equipment	11.1	0.8	–10.8	10.9	5.1
Domestic demand	**1.4**	**0.5**	**0.6**	**1.5**	**0.9**
Exports of goods and services	9.6	3.1	–8.6	8.1	3.7
Aggregate demand	**4.4**	**1.5**	**–3.0**	**4.0**	**1.9**
Imports of goods and services	6.1	0.3	–5.5	8.0	2.5
Gross domestic product	**3.6**	**2.1**	**–1.9**	**2.7**	**1.9**

Sources: SECO, SFSO, SNB

The pace of goods and services exports slackened considerably in 2011 as a result of the strong Swiss franc and the global economic slowdown. In the third quarter, they declined for the first time since the end of the 2008/2009 recession. Although they recovered substantially in the fourth quarter, their average annual growth was modest at best. As regards goods exports, the impact of the downturn in manufacturing was primarily reflected in lower exports of machinery and metal products. By contrast, for exports of pharmaceuticals and watches, the upward trend continued. In the services sector, cross-border banking business and tourism declined significantly.

Slowdown in foreign trade

Imports rose only marginally, despite the strong Swiss franc. The softening outlook and the growing uncertainty weighed on the demand for capital goods and intermediate goods. By contrast, the increased foreign purchasing power of domestic households led to a rise in imports of consumer goods – in particular automobiles – as well as in expenditure on tourism services abroad.

Declining equipment investment

Equipment investment lost considerable momentum over the course of the year; having increased slightly in the first quarter, it then declined over the next two quarters. This mainly reflected the difficult conditions facing the export industry, whose sales outlook and profitability deteriorated as a result of the strong Swiss franc and the slowdown in the global economy. There were signs of a recovery in the fourth quarter.

Support from construction investment

Construction investment continued to support the economy. Favourable financing conditions and continuing immigration had a positive effect on residential construction investment. Civil engineering was robust, benefiting mainly from public sector infrastructure projects. However, commercial construction declined.

Weaker growth in consumption

At 1.0%, the growth in private consumption in 2011 was considerably weaker than in the previous year. This was partly attributable to the growing uncertainty among households about future economic developments, which contrasted with the positive growth in household income. However, the decline in consumption growth may be slightly overstated, as the strength of the Swiss franc led consumers to make more purchases abroad, and the coverage of such purchases in the consumer spending statistics is incomplete. Cross-border shopping primarily affected consumption of food, clothing and shoes – domestic sales in these areas actually fell. By contrast, consumer expenditure on housing and healthcare benefited from the continuing strong population growth, and experienced a further substantial increase in 2011.

Public sector spending rose by 1.7%, and also contributed to economic growth.

Impact varied from one industry to another

For some industries, the impact of the economic slowdown was considerable. Manufacturing and tourism were hit by the strong Swiss franc and waning foreign demand. In addition, banks felt the impact of the exceptionally high level of uncertainty on the financial markets, as well as the structural changes emerging in the global banking industry. In areas with a domestic focus, such as construction, and in most industries in the services sector, value added increased further.

Output gap opens again

After an only slightly negative output gap was recorded at the beginning of the year, GDP growth fell below potential in the second half of the year. As a result, production capacity utilisation decreased, and the output gap widened again.

Robust labour market

In 2011, employment rose in both manufacturing and the services sector, in some cases quite strongly. At the same time, the seasonally adjusted rate of unemployment declined from 3.4% in January to 3.0% in September; although the decline was overstated to a certain extent due to one-off statistical effects associated with changes in the law on unemployment insurance. Up until December, the rate of unemployment increased to 3.1%. The number of employees on short-time working also rose slightly, having fallen almost to zero in the third quarter.

Labour market

	2007	2008	2009	2010	2011
Employment in terms of full-time equivalents[1]	3.2	2.7	–0.3	0.6	1.1
Unemployment rate in percent	2.8	2.6	3.7	3.9	3.1
Number of job seekers in percent	4.2	3.9	5.2	5.5	4.6
Swiss nominal wage index[1,2]	1.6	2.0	2.1	0.8	1.2
Compensation of employees, nominal[1]	5.3	5.1	2.5	0.7	3.7

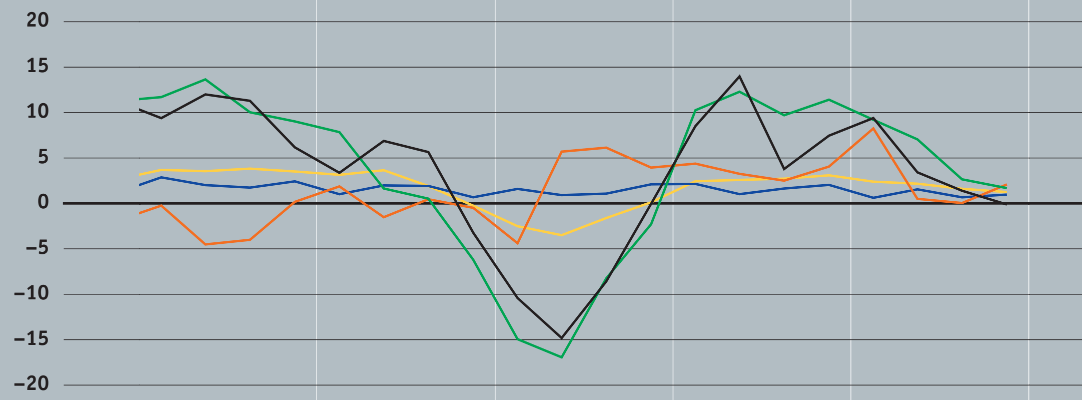
1 Year-on-year change in percent.
2 2011: SNB forecast.
Sources: SECO, SFSO

2007 2008 2009 2010 2011

Gross domestic product and components

GDP
Private consumption
Investment in construction
Investment in equipment
Exports

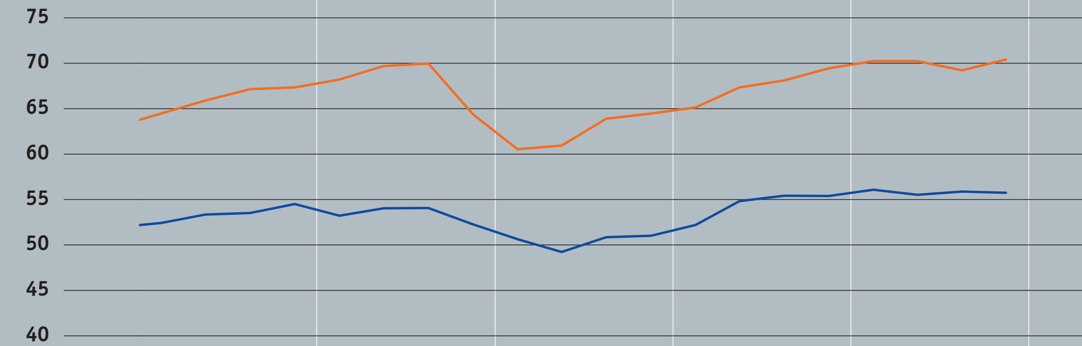
Year-on-year change
in percent, in real terms
Source: SECO



Foreign trade

Imports of goods and services
Exports of goods and services

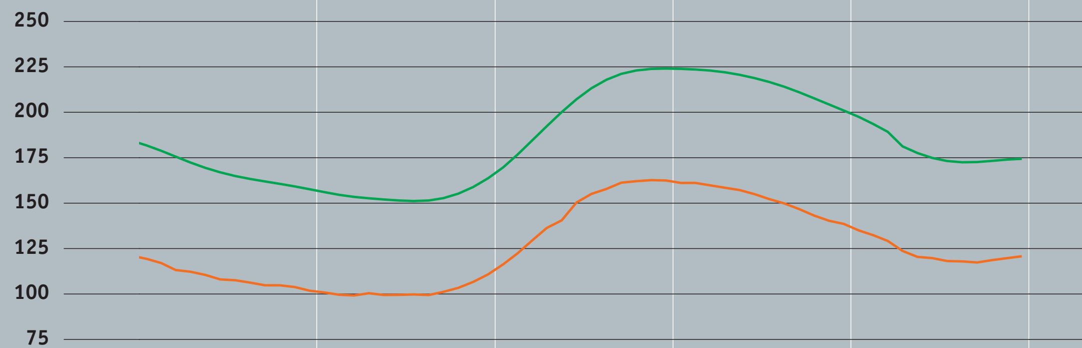
In CHF billions,
in real terms,
seasonally adjusted
Source: SECO



Labour market

Unemployed persons
Job seekers

In thousands,
seasonally adjusted
and smoothed
Source: SECO



2007 2008 2009 2010 2011

Strong rise in real wages

After weak growth in 2010, wages rose somewhat more strongly in 2011. According to SNB estimates, nominal wages as measured by the Swiss wage index were up by 1.2%, following 0.8% in 2010. The total wage bill (compensation of employees) as measured by the national accounts rose by 3.7%. After deduction of 1.1% employment growth calculated in terms of full-time equivalents, this resulted in a rise in nominal wages of 2.6%, following a slight increase of 0.1% the previous year.

Since consumer price inflation in 2011 amounted to only 0.2%, real wages therefore rose markedly. They increased by 1.0% according to the Swiss wage index, and by 2.4% according to the national accounts; in 2010 they had fallen slightly.

Declining producer and import prices

The Swiss franc appreciation and the economic slowdown led to a pronounced decline in producer and import prices (prices of total supply) in the second half of the year. The prices of both goods earmarked for export and those produced for the domestic market came under pressure. Broken down according to category of goods, prices for both consumer goods and capital goods trended downwards. Only energy prices rose appreciably throughout the year.

Decline in consumer prices at year-end

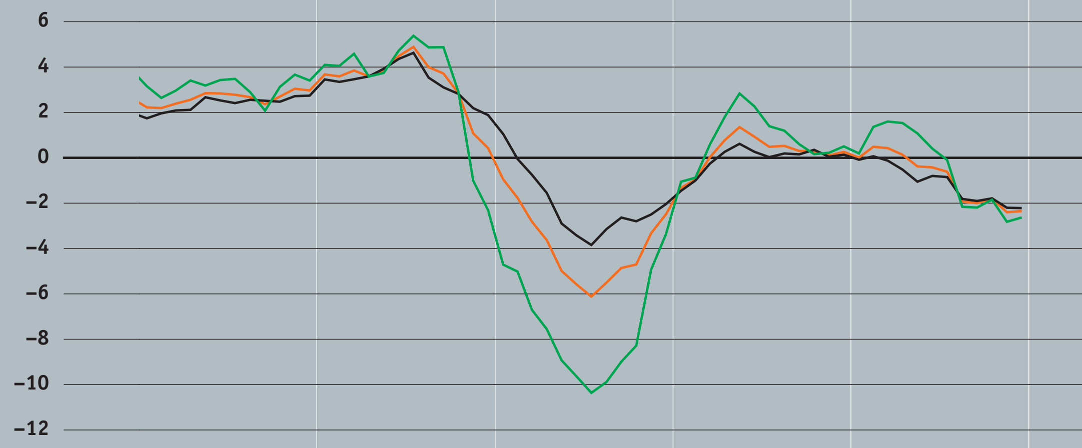
In 2011, the consumer price index (CPI) rose by 0.2% on average, after an increase of 0.7% the year before. The appreciation of the Swiss franc in the first half of the year acted with a certain lag on consumer prices. In October, annual inflation turned negative; in December, it was –0.7%. At year-end, prices for imported goods and services (excluding oil products) were 5.7% lower than one year earlier – the steepest decline since flexible exchange rates were adopted in 1973. But the prices of domestically produced goods also came under pressure, as consumers increasingly sought cheaper products just across the border. Annual inflation in domestic services, by contrast, remained around 1.0% throughout the year.

2007 2008 2009 2010 2011

Producer and import prices

Producer and import prices
Producer prices
Import prices

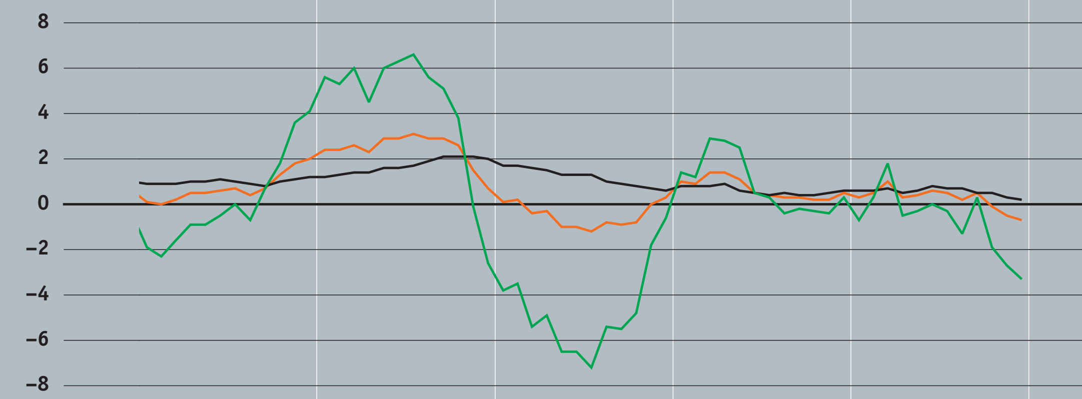
Year-on-year change
in percent
Source: SFSO



Consumer prices

Consumer prices
Domestic goods and services
Imported goods and services

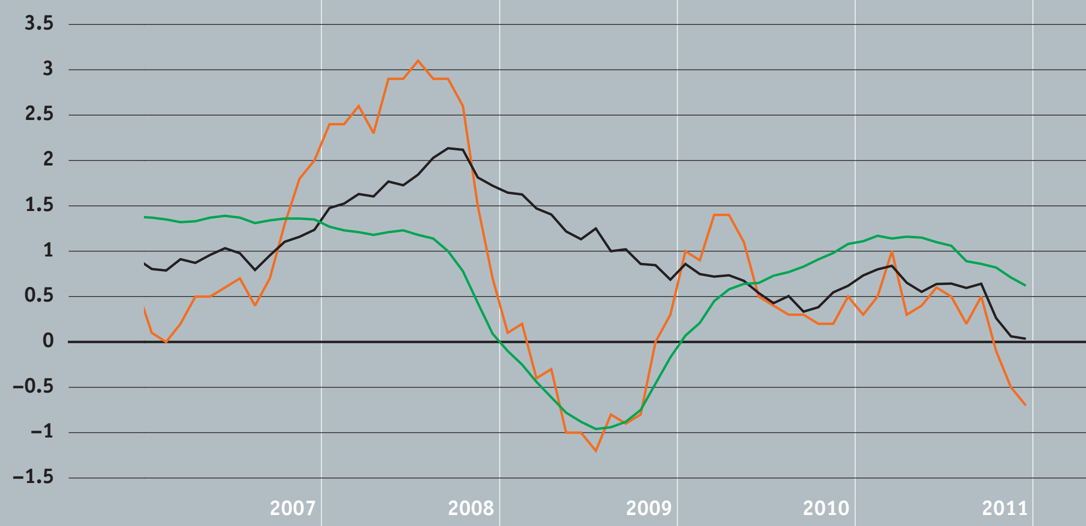
Year-on-year change
in percent
Source: SFSO



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

	2010	2011	2011 Q1	Q2	Q3	Q4
Consumer price index, overall	**0.7**	**0.2**	**0.6**	**0.4**	**0.4**	**–0.5**
Domestic goods and services	0.6	0.6	0.6	0.6	0.7	0.3
Goods	–0.1	–1.3	–1.0	–1.0	–1.1	–2.1
Services	0.8	1.1	1.1	1.1	1.2	1.1
Private services (excluding rents)	0.6	0.8	0.6	0.8	0.9	0.9
Rents	1.1	1.3	1.5	1.3	1.3	1.2
Public services	0.9	1.8	2.0	1.8	1.8	1.4
Imported goods and services	0.9	–0.7	0.5	–0.3	–0.4	–2.6
Excluding oil products	–1.3	–2.5	–1.3	–1.9	–1.8	–5.0
Oil products	13.9	9.3	10.5	8.9	7.5	10.5
Core inflation						
Trimmed mean	0.6	0.5	0.8	0.6	0.6	0.1
Dynamic factor inflation	0.7	1.0	1.2	1.2	0.9	0.7

Sources: SFSO, SNB

Low core inflation

Numerous short-term fluctuations can have an impact on inflation as measured by the CPI. For this reason, the SNB calculates two core inflation rates, the trimmed mean and dynamic factor inflation (DFI), in order to analyse the inflation trend. With the trimmed means method, those goods prices recording the greatest month-on-month change are excluded from the CPI basket each month (15% at either end of the distribution). DFI is a measure of the inflation trend that takes account of a large number of variables covering the goods markets, the financial markets and the labour market.

Inflation as measured by core inflation rates decreased substantially. This confirms a broad-based decline in inflationary pressure. DFI fell from 1.1% to 0.6% between January and December. The trimmed mean even declined from 0.7% to 0.0% over the same period.

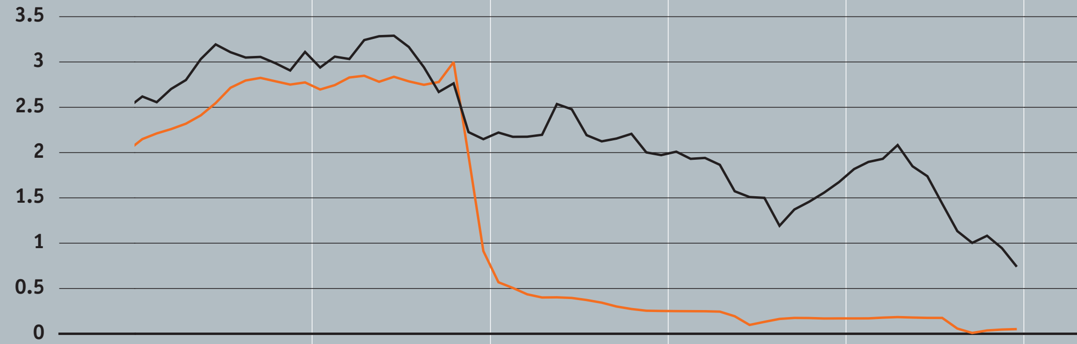
2007 2008 2009 2010 2011

Money and capital market rates

Three-month Libor

Yield on ten-year
Swiss Confederation bonds

In percent

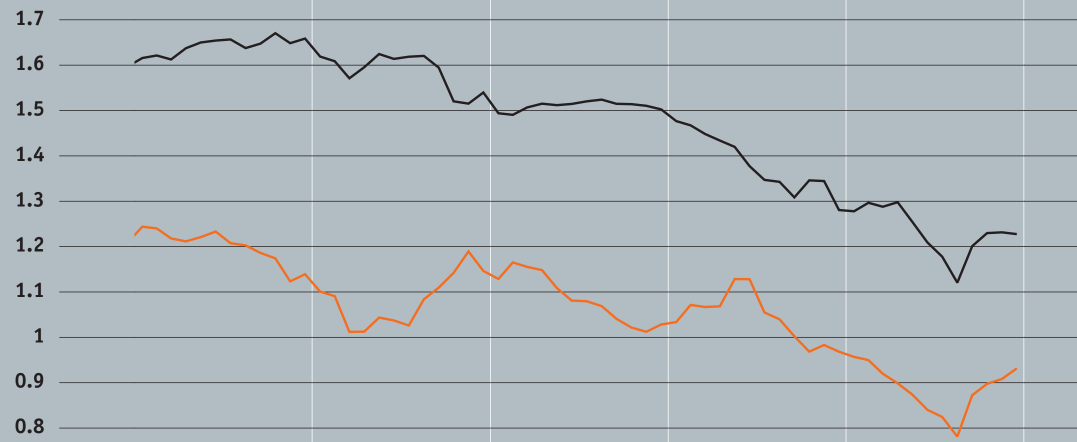


Exchange rates

CHF/USD

CHF/EUR

Nominal

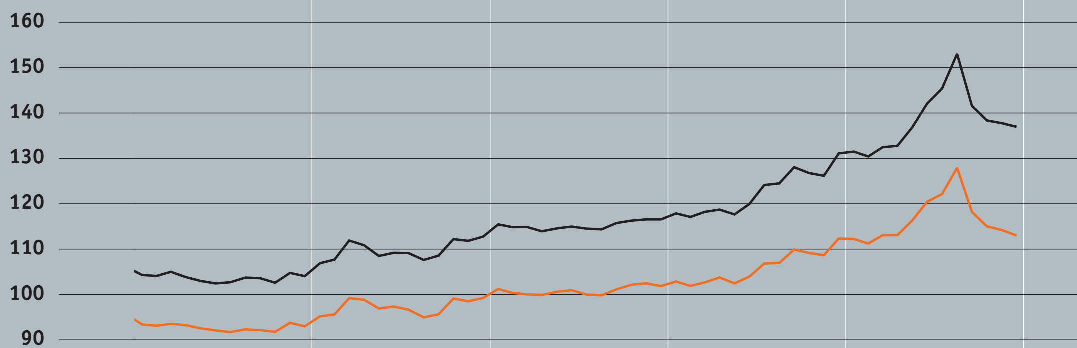


Export-weighted Swiss franc exchange rates

Real

Nominal

40 trading partners
Index: January 1999 = 100



2007 2008 2009 2010 2011

Extremely low Confederation bond yields

Driven by positive growth prospects, the yield on ten-year Confederation bonds rose from 1.7% at the beginning of January to an annual high of 2.1% in April. The further escalation of the European sovereign debt crisis and the worsening outlook for global economic growth resulted in a flight to safe investments, including those in Swiss francs. Subsequently, the yield on ten-year Confederation bonds fell considerably, reaching a historical low of 0.7% in December. Averaged out over the year, it came to 1.5%. For three and six-month money market debt register claims of the Confederation, yields had even been negative since August.

Strong growth in money supply

The low interest rates led to a substantial increase in money held by the domestic private non-bank sector in 2011. The annual average for the M1, M2 and M3 monetary aggregates was 8.7%, 7.9% and 7.0% higher, respectively, than in the previous year. The monetary base, which is composed of banknotes in circulation plus sight deposits of domestic banks with the SNB, declined by around 30% year-on-year in the first half of 2011. In the second half, it expanded sharply in the wake of the SNB's measures to combat the strength of the Swiss franc. Averaged out over the year, it was 52.7% higher than one year previously.

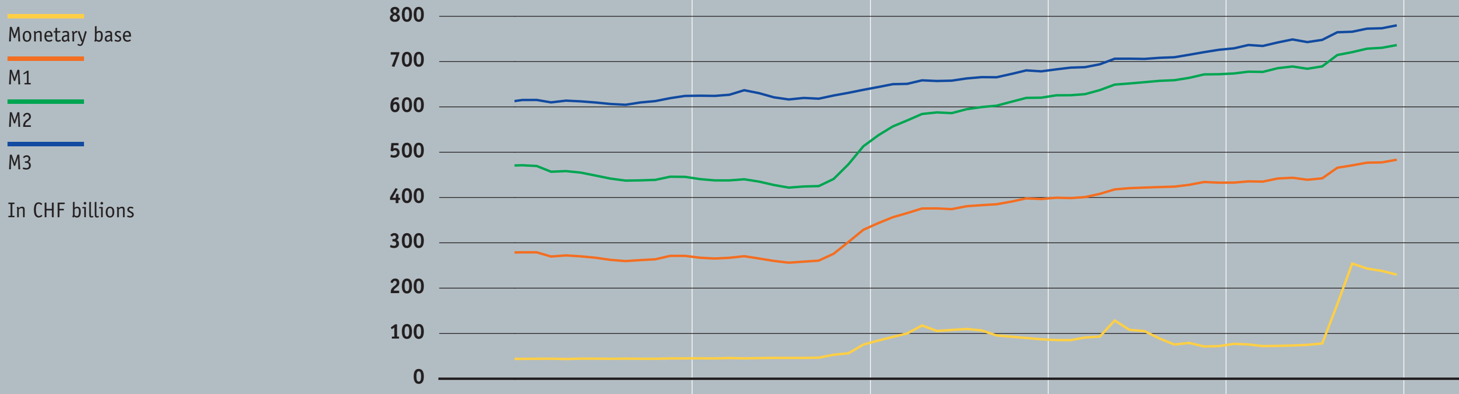
High external value of Swiss franc

In 2010, the Swiss franc had already gained around 9% against the euro and about 4% against the US dollar on average for the year as a whole, and it continued to strengthen over the first half of 2011. After the appreciation gathered pace in July, on 9 August the Swiss franc peaked at CHF 1.01 to the euro and CHF 0.71 to the dollar. Compared to the average for December 2010, this represented an appreciation of 19% against the euro and 25% against the dollar. On 6 September, the SNB set a minimum exchange rate of CHF 1.20 per euro. Subsequently, the euro stayed above the minimum rate. In December 2011, the average rate for one euro was CHF 1.23, while for the dollar it was CHF 0.93.

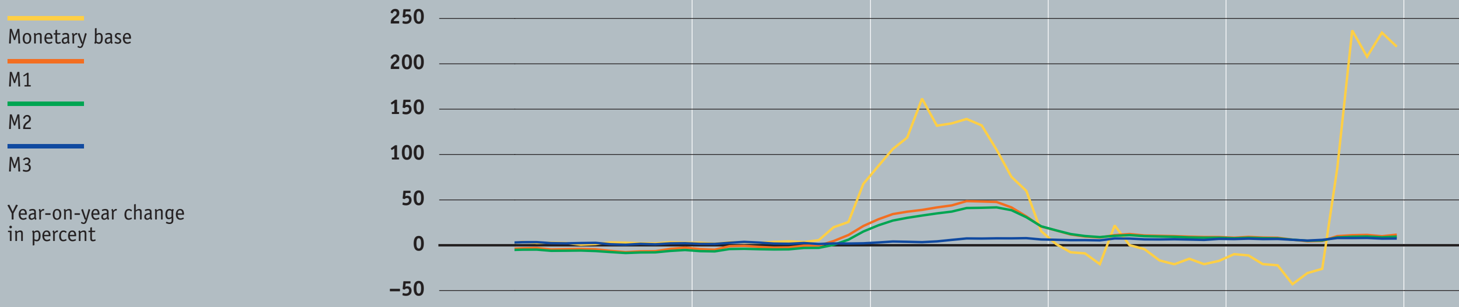
The real export-weighted external value of the Swiss franc for 2011 averaged 10% higher than for the previous year. Despite the imposition of the minimum exchange rate against the euro, in December the external value of the Swiss franc was still 17% higher than the average for the last 20 years.

2007 2008 2009 2010 2011

Level of monetary aggregates



Growth of monetary aggregates



2007 2008 2009 2010 2011

1.5 Monetary policy in 2011

Monetary policy decisions

The SNB's monetary policy decisions are summarised below in the form in which they were presented following its quarterly monetary policy assessments. Information is also provided on the measures taken by the SNB in August and September to combat the strength of the Swiss franc.

Monetary policy assessment of 17 March

At the monetary policy assessment in March, the SNB decided to maintain its expansionary monetary policy in view of the high level of uncertainty and the tension in foreign exchange markets. It left the target range for the three-month Libor unchanged at 0.0–0.75% and continued to aim for an interest rate around 0.25%.

In the first quarter, the global recovery was somewhat stronger than the SNB had expected in December 2010. However, the uncertainty over future economic developments remained high due to the unrest in North Africa and the Middle East. Moreover, at the time, the global economic consequences of the earthquake and tsunami catastrophe in Japan were difficult to assess.

Despite the significant appreciation of the Swiss franc, the Swiss economy grew faster than anticipated at the beginning of the year. Technical capacity utilisation had risen further. At the same time, unemployment and short-time working had fallen. Business expectations also suggested that the favourable economic trend would continue. However, delayed effects from the appreciation of the Swiss franc were to be expected. Consequently, in March, the SNB projected that GDP growth in 2011 would slow to about 2.0%.

At this time, monetary conditions reflected the SNB's expansionary monetary policy. The three-month Libor had not moved out of the lower part of the target range since December 2010, remaining almost unchanged at 0.17%. Long-term interest rates had risen since their trough in August 2010, but were still at a low level.

The real export-weighted external value of the Swiss franc persisted at a historically high level. At the same time, the exchange rate was very volatile. Since mortgage lending was still increasing at a fast pace, the SNB expressed its continued concern about the situation on the mortgage and real estate markets.

The conditional inflation forecast published on 17 March was based on a three-month Libor of 0.25%. Due to a renewed sharp increase in oil prices, stronger domestic growth and positive assumptions for the global economy, the forecast for 2011 showed a slight rise in inflation, with a peak in the third quarter attributable to a base effect. Since the assessment of the inflation outlook had not changed significantly compared to December 2010, the path of the new forecast matched that of the old forecast from mid-2012. Towards the end of the forecast horizon, inflation rose briskly and moved outside the range which the SNB equates with price stability. At the monetary policy assessment in March, the SNB drew attention to the fact that the expansionary monetary policy could not be maintained over the entire forecast horizon without compromising price stability in the longer term.

Monetary policy assessment of 16 June

At its quarterly assessment of 16 June, the SNB maintained its expansionary monetary policy. The target range for the three-month Libor remained unchanged at 0.0–0.75%, and the SNB announced that it intended to keep the Libor within the lower part of the target range at around 0.25%.

Even if the outlook had dampened somewhat in spring, the global economic recovery was continuing. The level of capacity utilisation in the Swiss economy was rising. Despite the strong appreciation of the Swiss franc, the economy continued to benefit from robust international demand. For 2011, the SNB maintained its GDP growth forecast of around 2.0%.

At its monetary policy assessment in June, the SNB stressed the risks including, in particular, the unresolved debt problems in a number of euro area countries; a further risk arose from the fiscal consolidation measures that several countries were forced to undertake despite their economic fragility. The increase in commodity prices was also weighing on global economic growth and posed a risk for global inflation. In Switzerland, the main risks were still, on the one hand, the effects of the strong Swiss franc on the export industry and, on the other, the danger of overheating in the real estate sector.

The path of the SNB's conditional inflation forecast of June was slightly above that of March until the beginning of 2012. This was due to the assumption of higher oil prices and somewhat higher import prices. The path of the new forecast fell below that of March over the course of 2012 because of the earlier appreciation of the Swiss franc and the slight weakening in international growth. Towards the end of the forecast period, inflation rose briskly, moving outside the price stability range. The SNB warned that, given these assumptions, the expansionary monetary policy could not be maintained over the entire forecast horizon without compromising price stability in the longer term. However, it drew attention to the fact that a high level of uncertainty was associated with the conditional inflation forecast, due to the risks already mentioned.

Measures taken in August to counter strength of Swiss franc

After the monetary policy assessment in June, the appreciation of the Swiss franc accelerated in an environment of increased risk aversion on international financial markets, driven by discussions about fiscal measures in Greece and Italy. In July alone, the Swiss currency appreciated by 7.2% against the euro and 5.5% against the US dollar. Accordingly, the real export-weighted Swiss franc exchange rate was 22% above its long-term average in July.

On 3 August, the SNB began taking measures to counter what had now become a strong overvaluation of the Swiss franc. It stated that the strength of the Swiss franc was threatening the development of the economy and increasing the downside risks to price stability in Switzerland. To combat the strength of the Swiss franc, the SNB initially attempted to achieve a further easing of monetary policy with its customary instruments. For this reason, it narrowed the target range for the Libor from 0.0–0.75% to 0.0–0.25% with immediate effect, aiming for a three-month Libor as close to zero as possible. At the same time, it announced that it would significantly increase the supply of liquidity to the Swiss franc money market by expanding banks' sight deposits at the SNB from CHF 30 billion to CHF 80 billion within a few days. Despite this, the Swiss franc continued to appreciate and, on 9 August, almost reached parity with the euro.

On 10 August, the SNB expanded its measures against the strong Swiss franc. The rise in risk aversion on the international financial markets had further intensified the overvaluation of the Swiss franc in the previous days. The SNB increased the target for banks' sight deposits at the SNB from CHF 80 billion to CHF 120 billion.

On 17 August, the SNB again intensified its measures against the strong Swiss franc. Although the measures already taken were having an impact, the Swiss franc remained massively overvalued. Consequently, the SNB decided to again increase banks' sight deposits at the SNB significantly, from CHF 120 billion to CHF 200 billion. In so doing, it increased the downward pressure on money market interest rates in order to further weaken the Swiss franc exchange rate.

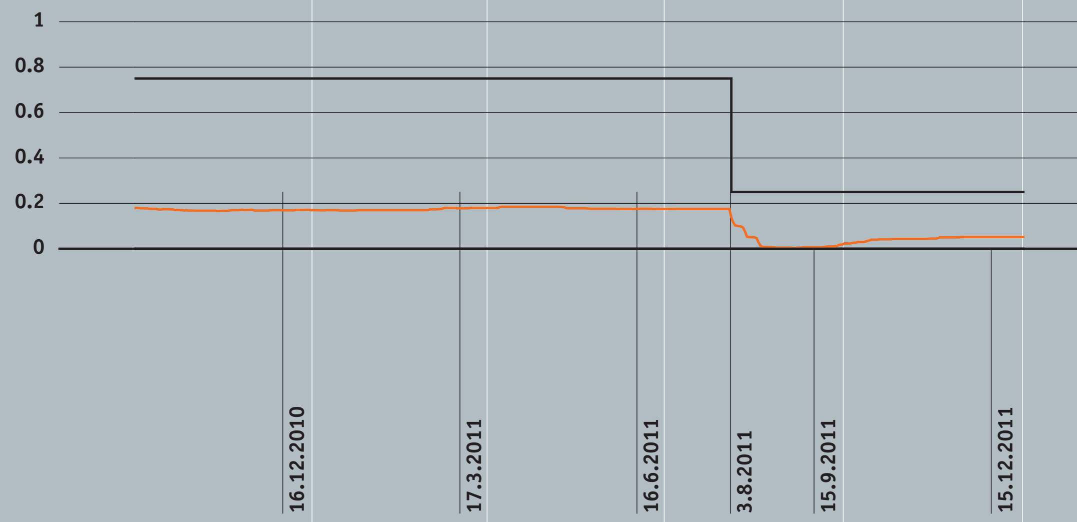
Q4 2010 Q1 2011 Q2 Q3 Q4

Three-month Libor

Three-month Libor

Target range

Daily values in percent



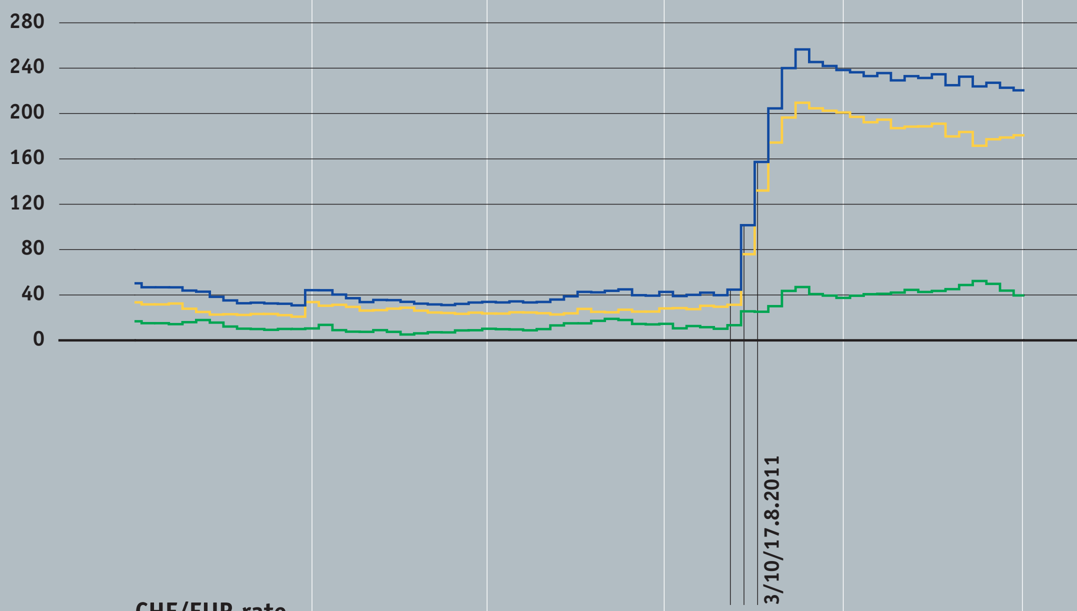
Sight deposits at the SNB

Sight deposits of domestic banks

Other sight deposits

Total sight deposits

Weekly averages, in CHF billions

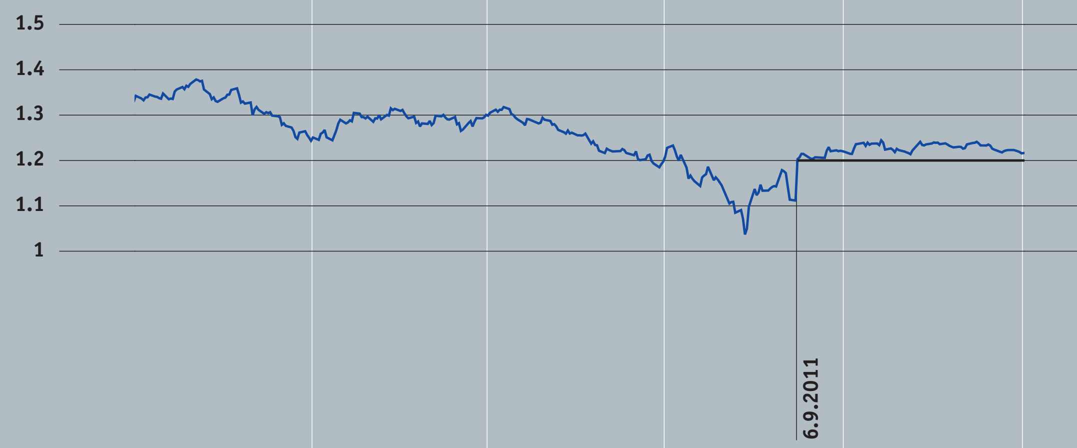


CHF/EUR rate

CHF/EUR rate

Minimum exhange rate
of CHF 1.20 per euro

Daily rates



Q4 2010 Q1 2011 Q2 Q3 Q4

The SNB's liquidity measures achieved a certain amount of success. However, because of continuing uncertainty on the financial markets and further negative reports about the euro area, upward pressure on the Swiss franc persisted and intensified again at the beginning of September. The SNB therefore decided in favour of direct intervention on the foreign exchange market. On 6 September, it announced that it would no longer tolerate a EUR/CHF exchange rate below a minimum rate of CHF 1.20. With this measure, the SNB was taking a stand against the acute threat to the Swiss economy and the risk of deflationary developments originating from the massive overvaluation of the Swiss franc. The SNB emphasised that it would enforce this minimum rate with the utmost determination and was prepared to purchase foreign currency in unlimited quantities for this purpose. It considered that, even at a rate of CHF 1.20 per euro, the Swiss franc was still high and, consequently, expected it to weaken over time. If the economic outlook and deflation risks so required, the SNB would take further measures.

Introduction of minimum exchange rate against euro on 6 September

Despite the introduction of the minimum exchange rate, the SNB's monetary policy framework, with its focus on price stability, remained valid. The minimum exchange rate provided the monetary policy framework with an additional operational target, as the target range for the three-month Libor could not be lowered any further.

Monetary policy assessment of 15 September

At its quarterly assessment of 15 September, the SNB reaffirmed its commitment to the minimum exchange rate of CHF 1.20 per euro set on 6 September. It continued to aim for a three-month Libor at zero and announced that it would maintain total sight deposits at the SNB at significantly above CHF 200 billion. The SNB considered that, even at a rate of CHF 1.20, the Swiss franc was still high and expected that it would weaken further.

The growth of the global economy had slowed substantially in the course of the second quarter. The outlook for the advanced economies, in particular, had worsened considerably. Consequently, economic activity in Switzerland was suffering simultaneously from the strong Swiss franc and the softening in international demand. The SNB expected that growth would come to a halt in the second half of the year. For 2011 as a whole, economic growth of 1.5–2.0% could be expected, but only because of the favourable economic development in the first half of the year. Without the stabilising effect of the minimum exchange rate, there would have been a substantial risk of deflation and recession.

Uncertainty about the future outlook for the global economy remained exceptionally high and the risks for the global financial system had increased considerably. The deterioration in the outlook for growth and fiscal problems in the advanced economies were having a negative impact on confidence in financial markets worldwide.

The SNB's conditional inflation forecast had shifted substantially downwards as a result of the appreciation of the Swiss franc and the deterioration in the outlook for the global economy. Although the forecast was based on a three-month Libor of 0.0% and a further weakening in the Swiss franc, a period of negative inflation was projected. Thereafter, inflation would rise slowly towards the end of the forecast period, to 1.0%. Thus, there was no risk of inflation in Switzerland in the foreseeable future. There were, however, downside risks for price stability.

Monetary policy assessment of 15 December

At its quarterly assessment of 15 December, the SNB reaffirmed its commitment to the minimum exchange rate of CHF 1.20 per euro. It stressed that it was prepared to buy foreign currency in unlimited quantities and to continue enforcing the minimum exchange rate with the utmost determination. It held the target range for the three-month Libor at 0.0–0.25%, continuing to aim for a Libor close to zero. The SNB still considered the Swiss franc to be high, and expected a further weakening. It stood ready to take further measures at any time if the economic outlook and the risk of deflation so required. In addition, it would continue to maintain liquidity at exceptionally high levels, but would not set a specific target level for sight deposits.

Although the global economy had picked up slightly overall in the third quarter, growth in Europe remained weak. In Switzerland, the high level of the Swiss franc since the summer was weighing heavily on the economy. For 2011, the SNB continued to expect GDP growth of 1.5–2.0%. This was because of the favourable economic development in the first half of the year. For 2012, it was expecting economic growth in the order of 0.5%.

The international environment continued to be highly uncertain. Given Switzerland's close interconnection with the euro area, the country would be seriously affected by a further escalation in the European sovereign debt crisis and the consequences this would have on the international financial system.

In December, the SNB's conditional inflation forecast was adjusted downwards once again. In the short term, inflation dipped into negative territory faster than in the September forecast, owing to the effects of the earlier currency appreciation, which had been stronger than expected. In the longer term, the worsening of the growth outlook for the euro area was dampening inflation. Although the forecast was based on a three-month Libor of 0.0% and a weakening in the Swiss franc, expected inflation at the end of the forecast period only increased to 0.8%. Consequently, the inflation forecast showed no risk of inflation in Switzerland in the foreseeable future despite the strong growth in the monetary and credit aggregates. This forecast path matched results obtained in the surveys on inflation expectations, which showed mildly negative inflation for 2012 and a slight rise in the level of prices in 2013, which was consistent with the SNB's definition of price stability. The SNB warned that if foreign demand were to fall off more sharply than expected, downside risks to price stability would emerge.

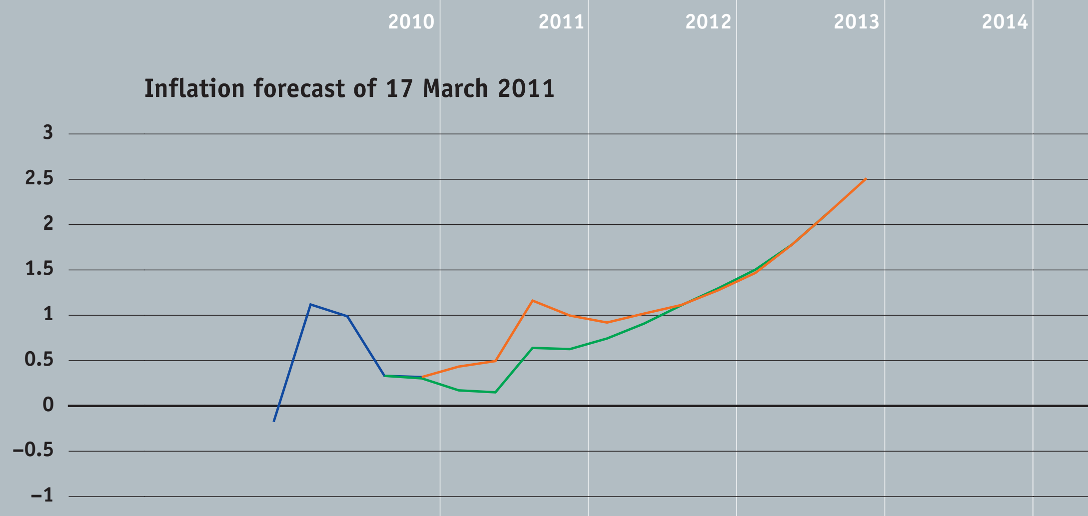
Inflation forecast of 17 March 2011

Inflation

December 2010 forecast:
three-month Libor 0.25%

March 2011 forecast:
three-month Libor 0.25%

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



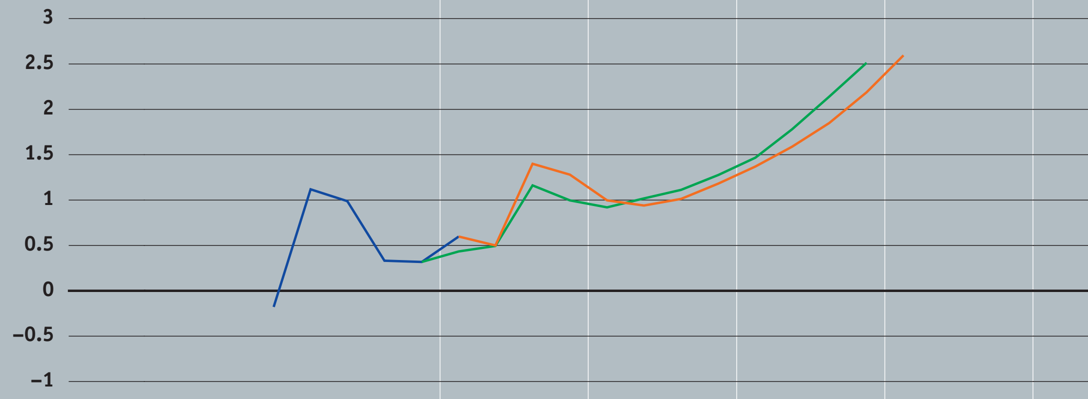
Inflation forecast of 16 June 2011

Inflation

March 2011 forecast:
three-month Libor 0.25%

June 2011 forecast:
three-month Libor 0.25%

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



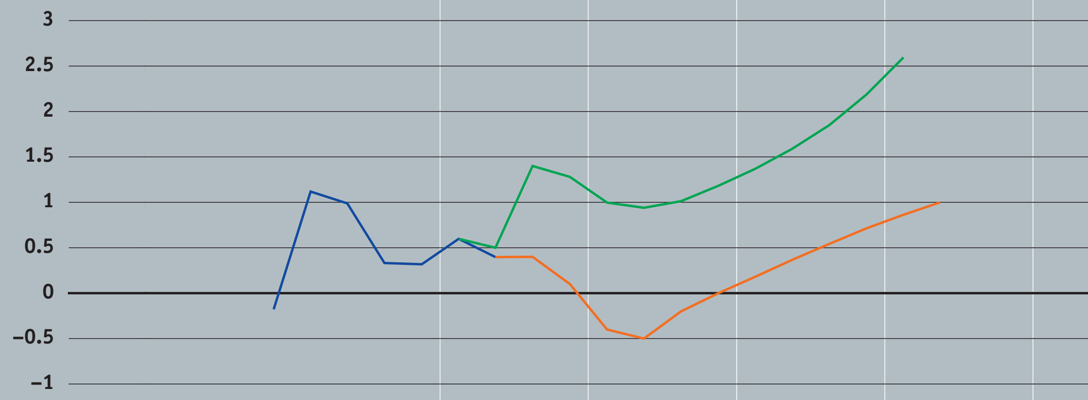
Inflation forecast of 15 September 2011

Inflation

June 2011 forecast:
three-month Libor 0.25%

September 2011 forecast:
three-month Libor 0.0%

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



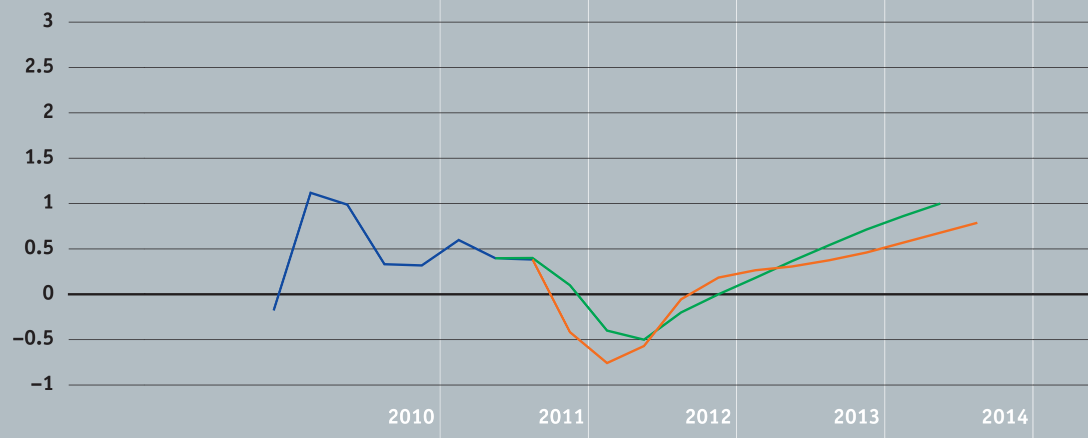
Inflation forecast of 15 December 2011

Inflation

September 2011 forecast:
three-month Libor 0.0%

December 2011 forecast:
three-month Libor 0.0%

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



2 Implementation of monetary policy

2.1 Background and overview

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 SNB implements its monetary policy by managing liquidity on the money market and thereby influencing the interest rate level. The three-month Swiss franc Libor serves as its reference interest rate. Since 6 September 2011, an additional operational target in the form of a minimum exchange rate of CHF 1.20 per euro has also applied.

The framework within which the SNB may conduct transactions in the financial market is defined in art. 9 NBA. As lender of last resort, the National Bank also provides emergency liquidity assistance (art. 9 para. 1 (e) NBA).

Basics of money market steering

The SNB manages the three-month Libor by means of liquidity-providing and liquidity-absorbing secured money market operations. Through the volume and conditions of these operations, the SNB can influence the three-month Libor. The choice of liquidity management regime depends on monetary policy requirements and 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.

Significance of sight deposits and money market

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 SNB to satisfy minimum reserve requirements and as liquidity reserves. Sight deposits at the National Bank 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.

Introduction of minimum exchange rate

After measures taken to counter the massive upward pressure on the Swiss franc did not have the desired effect, on 6 September the SNB set a minimum exchange rate of CHF 1.20 per euro. In doing so, the National Bank made it clear that it would enforce this minimum rate with the utmost determination and was prepared, if necessary, to buy foreign currency in unlimited quantities.

2.2 Monetary policy instruments

Open market operations and standing facilities

Within its set of monetary policy instruments, the SNB distinguishes 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, which include the liquidity-shortage financing facility and the intraday facility, 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 monetary policy instruments, such as foreign exchange swaps and foreign exchange transactions, are available if necessary.

Execution of monetary policy operations

The SNB conducts its open market operations in the form of auctions or bilateral transactions. Transactions on the money market are usually concluded via the electronic trading platform of Eurex Zurich Ltd.

Repo auctions are conducted by volume tender. In this type of auction, each counterparty submits to the SNB an offer 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.

As a rule, SNB Bills are issued in the form of a variable rate tender auction with allotment according to the American method. In this type of auction, the SNB's counterparties submit their offers comprising the amount of liquidity they are willing to provide and the 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 auction participants that have bid below or at the highest interest rate accepted by the SNB at the interest rate stated in the individual offer.

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 bilateral repo transactions can be used for both providing and absorbing liquidity.

Eligible counterparties

In principle, all banks domiciled in Switzerland and 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 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 2011, 160 domestic and foreign banks as well as six domestic insurance companies were active as SNB counterparties.

Guidelines on monetary policy instruments

The *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* (cf. www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*) contain explicit information with regard to the SNB's scope of business as set out in art. 9 NBA and describe the instruments and procedures used by the SNB for the implementation of its monetary policy. They also define the conditions under which these transactions are concluded and which securities can be used as collateral for monetary policy operations.

Open market operations

Liquidity-providing and liquidity-absorbing repo transactions

In the case of liquidity-providing repo transactions, the SNB purchases securities from a bank (or other market participant admitted as a counterparty) 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 SNB will resell 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 National Bank 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 operations depend on monetary policy requirements. The terms of repo transactions vary from one day (overnight) to several months.

Issuance and repurchase of SNB Bills

The issuance of its own debt certificates in Swiss francs (SNB Bills) allows the National Bank to quickly absorb large amounts of liquidity. The SNB can also repurchase SNB Bills via the secondary market, in order to increase the supply of liquidity to the market where necessary. SNB Bills are eligible as collateral and can therefore be used in SNB repo transactions. Buyers of SNB Bills can sell the bills to other financial market participants – whether banks or non-banks – just like other securities. SNB Bills do not represent legal tender and cannot therefore be used by banks to satisfy minimum reserve requirements.

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. The liquidity-shortage financing facility is utilised in the form of a special-rate repo transaction. The special rate lies 0.5 percentage points above the call money rate. The basis is the SARON (Swiss Average Rate Overnight) of the current bank working day. The special rate is valid until 12.00 noon of the following bank working day and is at least 0.5 percentage points.

At the request of financial market participants, in 2011 the limits for the liquidity-shortage financing facility were reduced by a total of CHF 4.6 billion to CHF 32.9 billion. By the end of the year, 91 financial market participants had been granted a limit (previous year: 85).

Intraday facility

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 and the settlement of foreign exchange transactions via Continuous Linked Settlement, 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.

Other monetary policy instruments

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

Foreign exchange swaps

In a foreign exchange swap, the purchase (sale) of foreign currency at the current spot rate and the sale (purchase) of the foreign currency at a later date are simultaneously agreed. Foreign exchange swap transactions can be conducted via auction (volume tender) or on a bilateral basis with a wide range of counterparties.

Before the introduction of repo transactions in 1998, foreign exchange swaps were the SNB's most important monetary policy instrument for supplying the money market with liquidity. To accelerate the increase in Swiss franc liquidity in August 2011, the SNB decided on 10 August to also conduct foreign exchange swap transactions.

Purchase and sale of foreign currency

In order to fulfil its monetary policy mandate, the National Bank may purchase and sell foreign currency against Swiss francs on the financial markets.

2.3 Collateral eligible for SNB repos

Legal basis

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* outlines the types of securities eligible as collateral for SNB transactions. Only securities which meet the criteria listed in the *Instruction Sheet on Collateral Eligible for SNB Repos* (cf. www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*), and which appear in the list of collateral eligible for SNB repos, are admitted for repo transactions.

The SNB pursues an open access policy and allows banks domiciled abroad to participate in its monetary policy operations, too. It therefore accepts as collateral not just Swiss franc securities, but also securities denominated in foreign currencies. 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 2011, 95% of the securities eligible as collateral for SNB operations were denominated in foreign currencies.

Collateral in foreign currencies

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. Securities eligible as collateral for SNB repos are also eligible as liquid assets in terms of art. 16 of the Banking Ordinance.

Stringent requirements relating to collateral

Collateral eligible for SNB repos plays a central role in the secured money market. In 2011, approximately 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 financial crises, the high quality of collateral delivered and the efficiency of the repo system are crucial to the functioning of the money market.

Standard for interbank repo market

Translated into Swiss francs, the volume of collateral eligible for SNB repos at the end of 2011 amounted to CHF 9,700 billion. The SNB did not make any changes in 2011 to its policy on eligible collateral. In the course of the year, rating adjustments to important borrowers meant that collateral with a value of some CHF 170 billion had to be removed from the list of collateral eligible for SNB repos, since it no longer met the minimum requirements.

Volume of collateral eligible for SNB repos

2.4 Liquidity management and implementation of minimum rate in 2011

Liquidity management under difficult conditions

The large-scale purchases of foreign currency by the SNB in 2009 and 2010 led to a substantial liquidity surplus in the banking system. For this reason, the National Bank continued with liquidity management measures begun in July 2010 through until the end of July 2011. The measures were based on the repeated absorption of excess liquidity using repo transactions and the regular issuance of SNB Bills.

In summer 2011, the situation changed fundamentally. The overvaluation of the Swiss franc, which again appreciated strongly, threatened economic activity in Switzerland and increased downside risks to price stability. In August, the SNB therefore took measures to increase the supply of Swiss franc liquidity on an unprecedented scale. The aim was to increase downward pressure on money market interest rates and to weaken the Swiss franc exchange rate. The exceptional liquidity measures pushed interest rates on the money market close to zero. On the interbank market, interest rates at times even fell markedly into negative territory, and there was speculation about the possible introduction of negative rates. Under these conditions, the Swiss franc temporarily weakened. However, upward pressure on the currency remained high.

On 6 September, the SNB set a minimum exchange rate of CHF 1.20 per euro. The National Bank left liquidity at an exceptionally high level, while deciding, as of its quarterly monetary policy assessment of 15 December, not to set a specific target level for sight deposits. The minimum exchange rate is an additional operational target supplementing the monetary policy strategy, due to the fact that the target range for the three-month Libor could not be lowered any further.

Very significant increase in sight deposits

With the absorption of surplus liquidity in the banking system, sight deposits held by domestic banks decreased from CHF 38 billion at the end of 2010 to CHF 29 billion at the beginning of August 2011. As a result of the measures taken in August to counter the strong Swiss franc, however, sight deposits increased very significantly. On 3 August, the SNB announced its decision to expand banks' sight deposits at the National Bank within a few days to CHF 80 billion. To this end, with immediate effect, liquidity-absorbing repo transactions which fell due were no longer renewed, the issuance of SNB Bills was suspended, and outstanding SNB Bills were repurchased on the market. The target level was raised on 10 August to CHF 120 billion, and again on 17 August to CHF 200 billion. To accelerate the increase in the supply of liquidity, the SNB began conducting foreign exchange swaps and liquidity-providing repo transactions.

SNB monetary policy operations

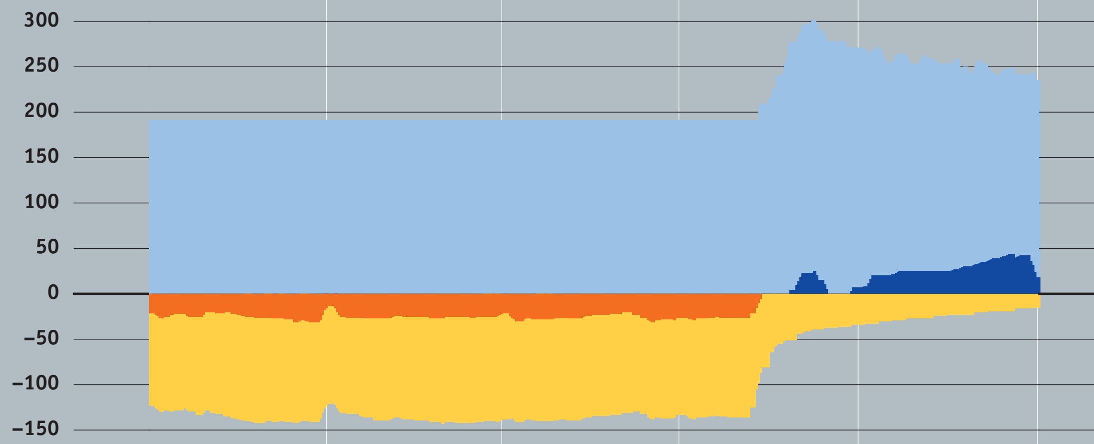
Purchase of foreign currency and foreign exchange swaps

Liquidity-providing repo transactions

Liquidity-absorbing repo transactions

SNB Bills

Monetary policy operations outstanding at end of day, 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

Q4 2010 Q1 2011 Q2 Q3 Q4

Since August, the SNB has increased its scope to take in total sight deposits, which include – along with sight deposits held by domestic banks – sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities. At the beginning of September, at just over CHF 250 billion, these had reached a historical high. From 5 September, the weekly publication of data relevant to monetary policy also includes – along with sight deposits of domestic banks – total sight deposits.

Repo transactions for absorbing and providing liquidity

Until 2 August, liquidity-absorbing repo transactions used for steering the three-month Libor mainly had a term of one week. On average, these transactions amounted to CHF 15.3 billion, with the repo rate ranging between 0.04% and 0.12%. In the liquidity-absorbing repo auctions, the daily bids by banks came to an average of CHF 44.5 billion and were thus at times well in excess of the allocated amount. An average of 76.1% of the bids came from domestic banks, with the remainder coming from international banks abroad. On average, 14.7% of bids were allocated.

From 24 August, the SNB began carrying out liquidity-providing repo transactions. These generally have a term of one week and are concluded on a bilateral basis. Their average volume in 2011 amounted to CHF 8 billion, with the repo rate ranging between –0.55% and –0.15%. To ensure the supply of liquidity to the markets, in December the SNB carried out additional repo transactions with one-month maturities.

Issuance and repurchase of SNB Bills

While repo transactions were used to steer interest rates, the issuance of SNB Bills was employed primarily to absorb liquidity. Until the end of July, the National Bank generally conducted weekly auctions of SNB Bills with a term of 28 days. Auctions with longer terms of 84, 168 and 336 days were also carried out. From the beginning of the year until 2 August, the volume of outstanding SNB Bills was continually over CHF 100 billion, and averaged CHF 111.2 billion over this period. The strong interest by financial market participants in SNB Bills led to a demand of between CHF 2.2 billion and CHF 22.2 billion per auction. On average, 63% of the SNB Bills that were bid for were allotted. Overall, 85 banks participated at least once in an SNB Bill auction.

The last issue of SNB Bills took place on 28 July. As of 3 August, SNB Bills that fell due were no longer renewed and outstanding SNB Bills were repurchased, in order to significantly increase liquidity on the money market. The announced repurchases were carried on a bilateral basis in the secondary market. Overall, CHF 40.4 billion worth of SNB Bills were repurchased. Due to terms falling due and to repurchases, the level of outstanding SNB Bills decreased to CHF 15 billion by the end of the year.

Foreign exchange swaps

From 10 August onwards, the SNB also conducted foreign exchange swaps, in order to accelerate the increase of Swiss franc liquidity. The last time this instrument was used to create Swiss franc liquidity was in autumn 2008. The foreign exchange swaps were carried out by way of auctions at a fixed price, or on a bilateral basis via electronic trading platforms with a wide range of domestic and foreign counterparties. Turnover amounted to CHF 253.9 billion, with the term ranging between 1 and 94 days. Swiss francs were provided against US dollars, euros, pounds sterling and Canadian dollars.

Foreign currency purchases

In 2011, to combat the massive overvaluation of the Swiss franc and to enforce the minimum exchange rate, the SNB purchased foreign currency to a value of approximately CHF 17.8 billion. The purchases were made with a wide range of counterparties in Switzerland and abroad.

Exceptionally low money market rates

As a result of the strong increase in liquidity, the three-month Libor declined to 0% in September. At year-end it was at 0.05%. Despite the low – at times even negative – interest rates on the secured interbank market, trading activity continued, albeit on a modest scale.

Standing facilities

Due to the very substantial increase in the supply of liquidity to the Swiss franc money market, demand for the intraday financing facility fell, with the average usage of the facility decreasing year-on-year from CHF 7.4 billion to CHF 5.4 billion. The liquidity-shortage financing facility was used only in individual cases and for modest amounts. On an annual average, the associated volume amounted to just under CHF 1 million.

Supplying the money market with liquidity in CHF billions

Monetary policy operations Terms	**2011** **Outstanding** Average[1]	**Turnover**	**2010** **Outstanding** Average[1]	**Turnover**
Liquidity-providing operations	**26.43**	**709.71**	**6.36**	**334.05**
Repo transactions	**8.00**	**397.54**	**6.19**	**183.24**
Up to 3 days	0.00	0.00	0.03	4.97
4 to 11 days	7.29	381.49	3.51	175.30
12 to 35 days	0.72	16.05	0.20	2.98
36 days to 1 year	0.00	0.00	2.45	0.00
Foreign exchange swaps	**18.43**	**253.95**	**0.17**	**7.10**
Up to 7 days	1.85	102.54	0.14	7.10
8 to 28 days	1.93	51.76	0.00	0.00
29 to 94 days	14.64	99.64	0.04	0.00
Foreign currency purchases	**–**	**17.82**	**–**	**143.71**
SNB Bills repurchases[2]		**40.37**		
Up to 28 days		12.98		
29 to 84 days		14.06		
85 to 168 days		7.40		
169 to 336 days		5.94		
Liquidity-absorbing operations	**95.03**	**1 140.03**	**76.12**	**1 657.75**
Repo transactions	15.29	761.95	11.64	614.06
4 to 11 days	14.21	733.95	11.64	614.06
12 to 35 days	1.07	28.00	0.00	0.00
SNB Bills	**79.74**	**378.08**	**64.48**	**1 040.45**
7 days	–	–	8.99	463.19
28 days	20.13	244.43	35.70	477.35
84 days	19.96	79.77	10.39	59.69
168 days	18.25	31.68	6.55	27.23
336 days	21.40	22.21	2.86	12.98
Swiss franc bond sales	**–**	**–**	**–**	**3.24**
Standing facilities				
Intraday facility	5.36	1 361.66	7.35	1 882.10
Liquidity-shortage financing facility	0.00	0.23	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 SNB Bills repurchases according to residual term of debt certificates.

2.5 Emergency liquidity assistance

Conditions for liquidity assistance

Within the context of the emergency liquidity supply 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 2011, the SNB did not provide any emergency liquidity assistance.

2.6 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 requirements currently amount to 2.5% of the relevant short-term liabilities, which are the sum of short-term (up to 90 days) liabilities in Swiss francs plus 20% of liabilities towards customers in the form of savings and investments.

If a bank fails to fulfil the minimum reserve requirements, 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

	2011 **Outstanding** Average	2010 **Outstanding** Average
Sight deposits at the SNB	83 166	43 961
Banknotes	5 651	5 727
Coins in circulation	97	98
Eligible assets	88 915	49 785
Requirement	10 254	9 488
Compliance in excess of requirement	78 661	40 297
Compliance in percent	867	525

In 2011 (from 20 December 2010 to 19 December 2011), statutory minimum reserves amounted to an average of CHF 10.3 billion. This is a 7% increase year-on-year. Eligible assets amounted to an average of CHF 88.9 billion, which was significantly higher than in the previous year. Banks exceeded the requirement by an annual average of around CHF 78.7 billion (2010: CHF 40.3 billion). Due to the exceptional monetary policy measures, the average degree of compliance, at 867%, was again significantly higher than in the previous year (525%). The long-term average compliance level before the financial crisis was 120%.

The statutory minimum reserve requirements were met by almost all of the 298 banks. Four banks breached the requirements, in each case for just one reporting period. The sums involved were negligible. The total amount in interest that the contravening banks were required to pay came to some CHF 3,600.

2.7 Liquidity in foreign currencies

Swap agreement with US Federal Reserve

In June 2011, the SNB decided, in coordination with the Bank of Canada, the Bank of England and the European Central Bank, to extend its temporary swap facilities in US dollars with the US Federal Reserve to 1 August 2012. In November, in coordination with these central banks and the Bank of Japan, the agreement was again extended by 14 months, to February 2013. At the same time, the central banks decided to lower the pricing on the US dollar liquidity by 0.5 percentage points so that the new rate was the US dollar overnight index swap (OIS) rate plus 0.5 percentage points. The purpose of these actions was to ease strains in financial markets and thereby mitigate the effects of such strains on the supply of credit to households and businesses and so help foster economic activity.

The swap agreements with the Federal Reserve, which were concluded for the first time in December 2007 in connection with the financial crisis, provide the basis for SNB repo auctions in US dollars. The repo transactions 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.

The SNB offered weekly repo transactions in US dollars with a term of one week. In September, in coordination with the other central banks, the National Bank decided also to offer US dollar liquidity with a longer term, to cover year-end requirements. Thus in the fourth quarter, repo transactions for US dollar liquidity with a three-month maturity were also offered. Demand for both of these terms was limited, and the sums involved modest.

Temporary bilateral swap agreements

The SNB decided, as part of actions taken with other central banks in November, to establish a network of temporary reciprocal swap lines. These measures allow the National Bank to provide other central banks with Swiss francs if required. Conversely, it would also be in a position to provide liquidity not just in US dollars, but also in Canadian dollars, pounds sterling, yen and euros. Until the end of 2011, there was no requirement for liquidity in foreign currencies other than US dollars.

3 Ensuring the supply and distribution of cash

3.1 Background

Mandate

The SNB is entrusted with the note-issuing privilege. Pursuant to art. 5 para. 2 (b) of the National Bank Act, it 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 2011, the turnover (incoming and outgoing) of the offices in Berne, Zurich and Geneva amounted to CHF 123.6 billion (2010: CHF 133.1 billion). They received a total of 451.8 million banknotes (2010: 482.9 million) and 1,693 tonnes of coins (2010: 1,780 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 469.9 million banknotes (2010: 492.2 million) and 2,364 tonnes of coins (2010: 2,307 tonnes).

Office in Geneva closed

The past few years have seen an increasing trend towards centralisation in the area of cash transactions, with a growing trend for the SNB's main partners – commercial banks, Swiss Post and cash processing operators – to site their cash handling activities at fewer, centralised locations. As a result, the operation of a branch with cash distribution services in Geneva was no longer cost-effective. Consequently, in February, the SNB decided to close the Geneva branch – the last of its eight original regional branches – with effect from 31 January 2012, and to concentrate SNB cash distribution services at its two head offices in Berne and Zurich. In order to continue ensuring the optimal coverage of supply and distribution of cash in the Geneva area, the SNB granted the Geneva cantonal bank's request to open an SNB agency with effect from 1 February 2012.

Changes at agencies

Agencies are offices operated by cantonal banks on behalf of the SNB. They assist the SNB offices by distributing and redeeming cash in their regions. In order to do this, the agencies have access to cash belonging to the SNB. The SNB agency network was affected by the trend towards centralising cash distribution services. At the request of the Basler Kantonalbank, the Basel agency closed with effect from the end of January 2011. The Bienne and Thun agencies had already terminated business in 2010. The closures followed a decline in demand for cash services at these agencies. After the opening of the Geneva agency in February 2012, the SNB now has 14 agencies.

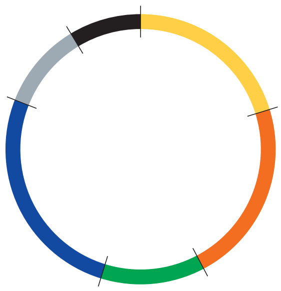
Turnover at agencies

The agencies' turnover (incoming and outgoing) amounted to CHF 11.5 billion (2010: CHF 13.9 billion). In recent years, the share of agency turnover in the SNB's overall turnover has declined slightly.

3.3 Banknotes

Mandate

Pursuant to art. 7 of the Federal Act on Currency and Payment Instruments (CPIA), the SNB issues banknotes commensurate with demand for payment purposes and takes back any banknotes which are worn, damaged or surplus to requirements due to seasonal fluctuations. It also determines the denomination and design of the notes. Particular attention is paid to 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.



Number of banknotes in circulation
In millions

CHF 10s: 68

CHF 20s: 74

CHF 50s: 42

CHF 100s: 88

CHF 200s: 35

CHF 1000s: 29

Annual average for 2011

Banknotes in circulation

The persistence of the uncertain situation on the financial markets and the low level of interest rates contributed to the continued high demand for banknotes. In 2011, banknote circulation averaged CHF 49.3 billion, which was perceptibly higher than the CHF 47.1 billion recorded in the previous year. In the fourth quarter of 2011, in particular, banknote circulation rose significantly, with demand for CHF 1000 notes growing at an above-average rate. The total number of notes in circulation averaged 336.3 million (2010: 325.1 million).

Issue and disposal

In 2011, the SNB put 63.7 million freshly printed banknotes (2010: 75.2 million) with a face value of CHF 4.2 billion into circulation (2010: CHF 5.1 billion), and destroyed 67.4 million damaged or recalled notes (2010: 77.3 million) with a face value of CHF 4.1 billion (2010: CHF 4.8 billion).

Counterfeits

Approximately 3,700 counterfeit banknotes (2010: 4,400) were confiscated in Switzerland in 2011. The SNB's offices discovered 42 counterfeit notes (2010: 61). By international standards, 11 seized counterfeit notes per million Swiss franc notes in circulation (2010: 14) is a modest figure.

Issue date for new banknote series postponed

Unexpected technical problems were encountered in an early production stage of the new series of banknotes, which has delayed the issue of the new series by at least a year. The SNB will announce the issue date as soon as the first banknote denomination is ready for distribution. Since the current banknotes still offer a high standard of security and can be produced in sufficient quantities, the supply of high-quality banknotes to the economy remains guaranteed. Until recently, the SNB had proceeded on the basis that the first denomination of the new series could be issued towards the end of 2012.

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 face 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 2011, the value of coins in circulation averaged CHF 2,784 million (2010: CHF 2,719 million), which corresponds to 4,886 million coins (2010: 4,766 million).

4 Facilitating and securing cashless payments

4.1 Background

Mandate

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

SIC: a real-time gross settlement system

A large part of the cashless payment transactions of banks and other eligible financial market participants are settled via the Swiss Interbank Clearing (SIC) system. SIC is a real-time gross settlement system. This means payment orders are executed irrevocably and individually in real time through the participants' settlement accounts, and are therefore equivalent to cash payments. The prerequisite for participating in SIC is the opening of an SNB sight deposit account.

SNB steers SIC

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

Operation by SIX Interbank Clearing Ltd

The SNB has transferred the operation of the SIC system to SIX Interbank Clearing Ltd. The SIC agreement, concluded between the SNB and SIX Interbank Clearing Ltd, governs the provision of data processing services for the SIC system by the latter. The relationship between the SNB and the holders of sight deposit accounts is governed by the SIC giro agreement.

Involvement in SIC

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

Eligibility for SIC

The SNB grants access to the SIC system to banks, but also to other financial market participants. These include PostFinance, securities dealers, insurance companies and institutions which play a significant part either in the processing of payments (such as cash processing operators) or in the implementation of monetary policy. Subject to certain conditions, banks domiciled abroad can also gain admittance to the SIC system. While all SIC system participants must hold a sight deposit account at the SNB, some SNB sight deposit account holders are not connected to the SIC system.

Swiss financial market infrastructure

The SIC system, which is steered by the SNB, is a key element in the Swiss financial market infrastructure. It is operated by SIX Interbank Clearing Ltd, a subsidiary of SIX Group Ltd, which also includes the Swiss stock exchange (SIX Swiss Exchange Ltd), the securities settlement system SECOM (run by SIX SIS Ltd) as well as the central counterparty SIX x-clear Ltd. The SIC system is linked to SECOM, which ensures that securities transactions can be settled according to the delivery-versus-payment principle, thus eliminating principal risk.

4.2 The SIC system in 2011

Key figures on SIC

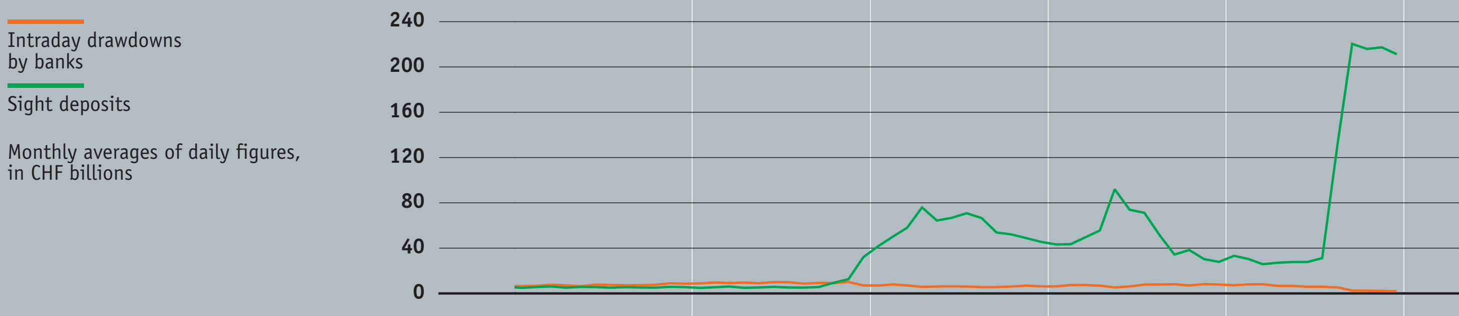
In 2011, SIC settled a daily average of 1.6 million transactions amounting to CHF 247 billion. This is a year-on-year increase of 2.8% in the number of transactions and 22.3% in the value of transactions. Peak days saw up to 5.5 million transactions being settled, with values as high as CHF 403 billion.

Key figures on SIC

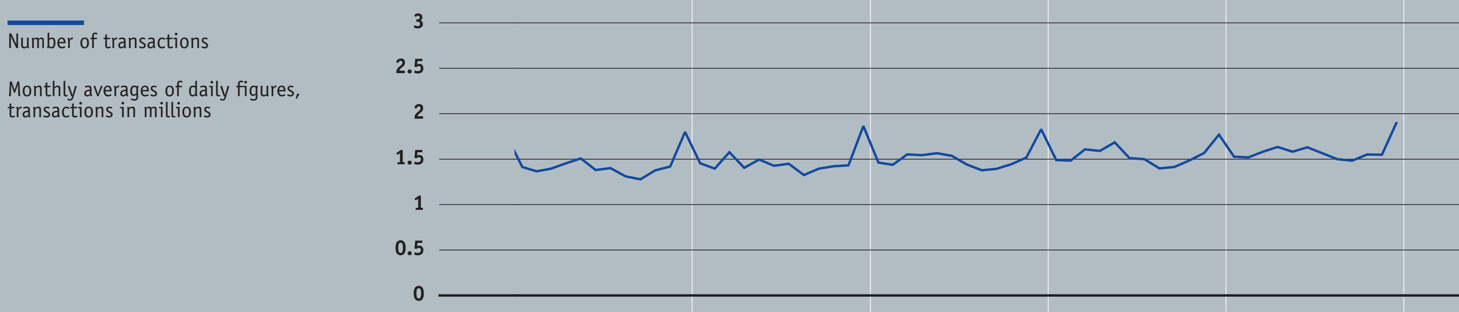
	2007	2008	2009	2010	2011
Transactions (in thousands)					
Daily average	1 421	1 468	1 508	1 542	1 585
Peak daily value for year	4 167	4 350	4 788	5 056	5 477
Values (in CHF billions)					
Daily average	208	229	225	202	247
Peak daily value for year	337	343	411	425	403
Average value per transaction (in CHF thousands)					
	146	156	149	131	156
Average liquidity (in CHF millions)					
Sight deposits at end of day	5 470	8 522	57 886	50 489	101 189
Intraday liquidity	8 828	9 515	6 362	7 211	5 237

2007 2008 2009 2010 2011

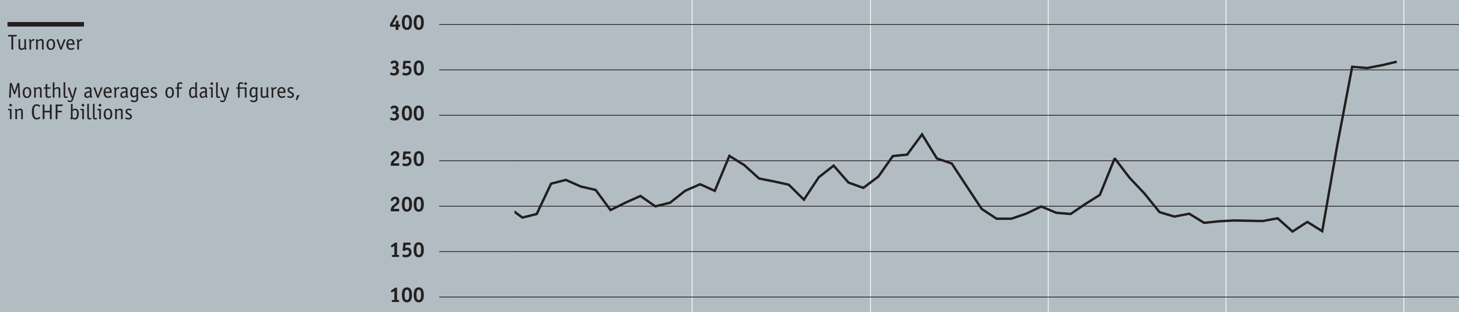
Liquidity in SIC



Transactions in SIC



Turnover in SIC



2007 2008 2009 2010 2011

Participants in SIC

The SNB had 494 holders of sight deposit accounts as at 31 December 2011 (2010: 491). Of these, 380 participated in the SIC system (2010: 377). The majority of SIC participants are domiciled in Switzerland (260, compared with 259 in 2010), and of these, 21 belong to the category 'other financial market participants' (2010: 19). Since the list of participants eligible for monetary policy operations was expanded at the beginning of 2010, six domestic insurance companies have joined SIC, mostly for the purpose of settling repo transactions.

New SIC Architecture and Single Interface

The SIC system, which began operations 25 years ago, is being redeveloped to keep pace with technological advances. The 'New SIC Architecture' project has the main goal of redesigning the system's technical architecture. The project is being managed by SIX Interbank Clearing Ltd, with the involvement of the SNB and the banks. At the same time, the 'Single Interface' project is reviewing ways of improving the interface between the banks and the SIC system, as well as other SIX Group systems.

4.3 TARGET2-Securities

T2S in euro area

The European Central Bank (ECB) is currently developing TARGET2-Securities (T2S), a securities settlement system. T2S is intended to either totally or partially replace the existing national settlement systems of central securities depositories and to substantially reduce the cost of cross-border securities settlement in Europe. The system is scheduled to go live in 2015.

Participation of SIX SIS Ltd in euro transactions

T2S is also of relevance for the Swiss financial centre. In 2009, SIX SIS Ltd – in agreement with the SNB – signed a memorandum of intent on taking part in T2S with regard to euro transactions. This would reduce the cost to Swiss financial market participants of settling securities transactions in euros.

No Swiss franc participation

The ECB is interested in increasing the number of currencies used in T2S. To identify whether there was a need in the Swiss financial centre for the Swiss franc to be included, the SNB and SIX Group Ltd held discussions with market participants. These discussions concluded that the market participants saw no urgent requirement for the Swiss franc to be included in T2S. Since the contractual conditions for participation were also, in the view of the SNB, not ideal, the National Bank notified the ECB in September that for the time being, the Swiss franc would not be available as a settlement currency in T2S.

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. Their size and composition are 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).

Mandate

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 serve to build confidence, and to prevent and overcome potential crises.

Currency reserves

From August 2011, the SNB supplied the market with liquidity through foreign exchange swaps. The investments made with these foreign currencies form part of the currency reserves. The loan to the stabilisation fund, however, is not part of the currency reserves.

At the end of 2011, the SNB's financial assets in Swiss francs were made up of Swiss franc bonds and claims from repo transactions. Using repo transactions, the SNB supplies financial market participants with liquidity against securities collateral.

Financial assets in Swiss francs

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* (cf. www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*) define the scope for its investment activity and for the investment and risk control process. Within this framework, investments are made in line with generally accepted principles of asset management. Investment diversification aims at achieving an appropriate risk/return profile.

Primacy of monetary policy

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.

Loan to stabilisation fund

From mid-2010, the loan has been mainly financed by funds from foreign currency investments. Prior to that, the loan was financed through the issuance of SNB Bills denominated in US dollars.

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 principles of the investment policy. In particular, it sets out the requirements with regard to the security, liquidity and return of the investments, as well as the eligible currencies, investment categories, instruments and debtor categories. In addition, it decides on the level and composition of the currency reserves and other assets, and defines the foreign currency investment strategy. The investment strategy encompasses the allocation to the different portfolios and the guidelines for their management, in particular the allocation to different currencies and investment categories, and the determination of 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 currency investments 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 for benchmarking 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 policy 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. With a few exceptions, the replacement values of derivatives are collateralised by securities. 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

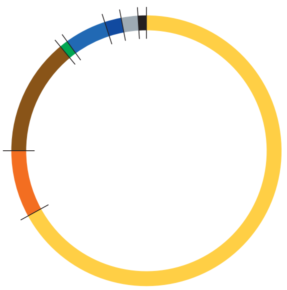
Changes in assets

At the end of 2011, the SNB's balance sheet total was CHF 346 billion, or CHF 76 billion higher than one year earlier (CHF 270 billion). This is mainly due to the growth in currency reserves, which rose from CHF 62 billion to CHF 314 billion in the space of a year. The increase was attributable to investments in connection with foreign exchange swaps against Swiss francs and the increase in value of the currency reserves and foreign currency purchases. The foreign exchange held temporarily by means of swaps is invested in short-term government bonds, repo transactions and sight deposits with central banks until the swaps are unwound. There was also an increase in holdings of Swiss franc-denominated assets. While Swiss franc bond holdings remained at CHF 4 billion, claims from repo transactions of CHF 18 billion were added. The loan to the stabilisation fund continued to decrease due to repayments, coupons and asset sales. At the end of 2011, the loan was down to CHF 8 billion, compared to CHF 12 billion one year before. The loan is denominated in various currencies, with interest being paid at the one-month Libor for the respective currency plus 2.5 percentage points.

Debtor categories and instruments

At the end of 2011, the bond portfolios in the foreign currency investments 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. Foreign currency investments also included investments with banks on a secured basis and – to a limited extent – on an unsecured basis. 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.

The management of foreign currency investments also included derivatives. These included forward foreign exchange transactions and foreign exchange options used to manage the currency composition of foreign currency investments. Interest rate risks were managed using derivative instruments such as interest rate swaps and interest rate futures; for steering the proportion of investments held in shares, futures in equity indices were also used. A small number of credit default swaps were concluded to manage corporate bonds.



Breakdown of SNB assets
In percent

Foreign currency investments, excluding investments from foreign exchange swaps 67

Foreign currency investments from foreign exchange swaps 8

Gold reserves 14

Swiss franc securities 1

Claims from Swiss franc repo transactions 5

Loan to stabilisation fund 2

Monetary institutions 2

Other assets 1

Total: CHF 346 billion
At year-end 2011

Breakdown of foreign currency investments and Swiss franc bond investments at year-end (excluding investments and liabilities from foreign exchange swaps against Swiss francs)

	2011		2010	
	Foreign currency investments	CHF bonds	Foreign currency investments	CHF bonds
Currency allocation, in percent, incl. derivatives positions				
CHF		100		100
EUR	52		55	
USD	26		25	
JPY	9		10	
GBP	5		3	
CAD	4		4	
Other[1]	4		3	
Investment categories, in percent				
Investments with banks	0	–	0	–
Government bonds[2]	83	34	83	35
Other bonds[3]	8	66	6	65
Equities	9	–	11	–
Breakdown of bonds, in percent				
AAA-rated[4]	83	78	82	78
AA-rated[4]	12	21	14	21
A-rated[4]	3	1	3	1
Other	2	–	1	–
Bond duration (years)	4.0	6.1	4.0	5.6

1 AUD, DKK, SEK, SGD.

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

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

4 Average rating, calculated from the ratings of the three major credit rating agencies.

Changes in asset structure

There was little year-on-year change in the investment structure of the foreign currency investments (excluding investments and liabilities from foreign exchange swaps against Swiss francs, which are not exposed to any direct currency risk) and Swiss franc bonds. The principles of currency and asset class diversification continued to be observed. At the end of 2011, the share of the main investment currencies, the euro and the US dollar, amounted to 52% and 26% respectively.

5.4 Risk profile

Risk profile ...

The main risk to the assets is market risk, i.e. gold price, exchange rate, share price and interest rate risks. Market risk is managed primarily through diversification. The SNB counters liquidity risk by holding a considerable part of its investments in the world's most liquid currencies and bond markets. In addition, investments are exposed to a small credit risk. The risk incurred in connection with the loan to the stabilisation fund is discussed in chapter 6.7 (pp. 81–84) and also in 'Financial information on the stabilisation fund' (pp. 167–176) of this report.

... of currency reserves

The gold price and exchange rates were the most important risk factors for the currency reserves. Owing to the higher level of these reserves and increased volatility, their risk exposure has risen considerably. Foreign currency investments resulting from foreign exchange swaps do not incur any direct exchange rate risk or interest rate risk. The maturities of these investments correspond to those of the swap transactions, which generally do not exceed three months. With the exception of foreign exchange swap investments, exchange rate risk on foreign currency investments is not, as a matter of principle, hedged against Swiss francs. 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 exchange rate 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 an equity quota of 9%, interest rate risk and share price risk, by contrast, contributed very little to total risk.

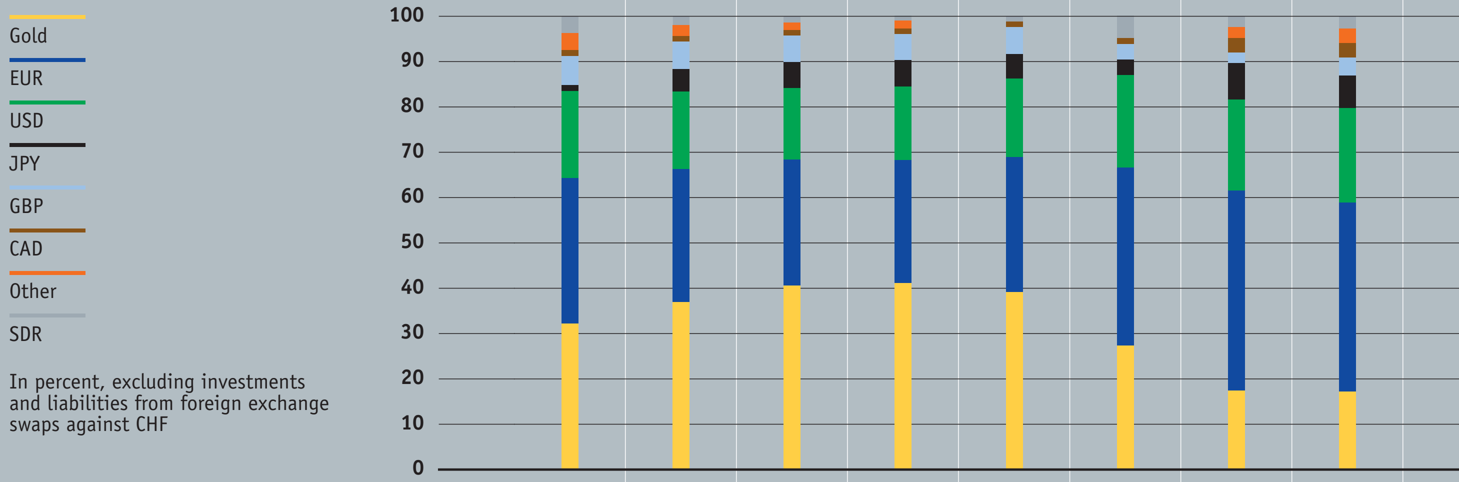
... of Swiss franc bonds

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 duration of the portfolio was just over six years.

Credit risk

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 7 billion were held in the foreign currency investments. Credit risk arising from non-tradable instruments with respect to banks took the form of short-term deposits and replacement values of derivatives totalling around CHF 270 million. Gold lending did not entail any significant credit risk, as these operations were secured by bonds with above-average credit ratings.

Breakdown of currency reserves



In percent, excluding investments and liabilities from foreign exchange swaps against CHF

Most of the investments are held in the form of government bonds, with government bonds from European core countries and the US accounting for more than half of the investments. The predominant part of the investments (83%) bore the highest rating (AAA). In all, 95% of bonds were rated AA or higher.

Liquidity risk

The SNB has high standards with regard to the liquidity of its investments. At the end of 2011, 78% of foreign currency investments were denominated in the two major currencies, the euro and the US dollar, with liquid government bonds accounting for a large proportion of these.

5.5 Investment performance

Positive yield on currency reserves

Investment performance is calculated for foreign currency investments, gold and Swiss franc bonds. Costs arising from and yields on foreign exchange swaps and repo transactions carried out for monetary policy purposes as well as SNB debt certificates (SNB Bills) are not considered in the return calculation.

In 2011, the overall return on currency reserves was 4.9%. The Swiss franc value of the gold reserves rose by 12.3% due to the rise in the price of gold. The return on foreign currency investments, measured in terms of Swiss francs, was 3.1%. This was due in part to the positive performance of bonds, which – owing to the decline in interest on the major investment currencies – posted price gains. By contrast, price losses on the equity portfolios exceeded dividend income. The exchange rate return on foreign currency investments was slightly negative as a result of the stronger franc. The return on Swiss franc bonds amounted to 5.6%.

Return on investments[1]

	Currency reserves[2]					CHF bonds
	Total	Gold	Foreign currency investments			Total
			Total	Exchange rate return	Return in local currency	
1999			9.7	9.2	0.4	0.7
2000	3.3	–3.1	5.8	–2.0	8.0	3.3
2001	5.2	5.3	5.2	–1.2	6.4	4.3
2002	1.4	3.4	0.5	–9.1	10.5	10.0
2003	5.0	9.1	3.0	–0.4	3.4	1.4
2004	0.5	–3.1	2.3	–3.2	5.7	3.8
2005	18.9	35.0	10.8	5.2	5.5	3.1
2006	6.9	15.0	1.9	–1.1	3.0	0.0
2007	10.1	21.6	3.0	–1.3	4.4	–0.1
2008	–6.0	–2.2	–8.7	–8.9	0.3	5.4
2009	11.0	23.8	4.8	0.4	4.4	4.3
2010	–5.4	15.3	–10.1	–13.4	3.8	3.7
2011	4.9	12.3	3.1	–0.8	4.0	5.6

1 Cumulated, time-weighted daily returns in percent.

2 In this table, they correspond to gold and foreign currency investments, excluding IMF Special Drawing Rights.

6 Contribution to financial system stability

6.1 Background

Mandate

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 (particularly 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. The SNB contributes to financial stability by taking preventive measures. These involve analysing sources of risk to the financial system, participating in the creation of the operating framework for the Swiss financial centre, and overseeing systemically important payment and securities settlement systems.

Collaboration with FINMA, FDF and foreign authorities

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 macroprudential aspects of regulation. For its part, FINMA is responsible, among other things, for the monitoring of individual institutions, i.e. microprudential supervision. In the oversight of cross-border payment and securities settlement systems, the SNB liaises closely with foreign authorities.

6.2 Main activities in 2011

Activities in 2011 were focused on the implementation of national and international regulations, which were issued in the wake of the 2008/2009 financial crisis.

Implementation of 'too big to fail' recommendations

The SNB was involved in the drafting of the proposed 'too big to fail' legislation and in its implementation at ordinance level. It also laid the groundwork for determining which institutions and functions are systemically important.

Structuring macroprudential oversight

Within the context of a working group led by the Head of the FDF, the SNB, together with FINMA and the FDF, examined what instruments were needed in the area of macroprudential oversight and discussed how the responsibilities should be divided between the authorities. The SNB spoke out clearly in favour of a rapid introduction of the countercyclical capital buffer envisaged in the future Basel capital adequacy framework (Basel III). A proposal for a corresponding change to the Capital Adequacy Ordinance was submitted for consultation in November 2011.

At international level, within the context of the Basel Committee on Banking Supervision and the Financial Stability Board (FSB), the SNB participated in efforts to reform banking regulation. The focus was on measures concerning global systemically important banks.

Basel Committee and FSB

As part of the oversight of systemically important payment and securities settlement systems, the SNB assessed compliance with the regulatory requirements and monitored a number of projects undertaken by the system operators. It also supported efforts to strengthen international standards for financial market infrastructures, and to increase the resilience of the global financial market infrastructure for the clearing and settlement of over-the-counter (OTC) derivatives.

Strengthening the financial market infrastructure

6.3 Monitoring the financial system

In its annual *Financial Stability Report*, published in June 2011 (www.snb.ch, *Publications*, *Economic publications*), the SNB assessed the developments and risks in the economic environment as a whole and in the Swiss banking sector. It noted an overall improvement in the economic environment and in the situation on the financial markets. At the same time, it drew attention to the high level of risk associated with the current environment, particularly the high sovereign debt in certain countries, the continued fragility of the international banking system, and the threat of a global economic downturn.

Financial Stability Report

The SNB noted that the situation at Swiss big banks as regards their profitability and regulatory capital had improved. It pointed out, however, that only a small proportion of this regulatory capital is loss-absorbing (e.g. paid-up share capital), and can be used to help stabilise a bank in the event of a crisis. Thus, from an economic perspective, the capital situation of both big banks is less comfortable than their risk-weighted capital ratios under Basel II might suggest. The new Basel capital framework, Basel III, addresses this problem and has defined a minimum requirement for loss-absorbing capital. In addition to the low level of loss-absorbing capital, the SNB also highlighted the big banks' continued high leverage. It emphasised how crucial it was that a base of high-quality loss-absorbing capital be laid down as soon as possible.

As regards domestically focused banks – cantonal banks, regional banks, Raiffeisen banks – the SNB warned of the continued elevated level of interest rate risk and the increased credit risk exposure in connection with the threat of imbalances developing in real estate and mortgage markets. At the same time, it drew attention to the high uncertainty over banks' true risk exposure.

Greater risks in second half of year

The risks identified in the *Financial Stability Report* were borne out in the second half of 2011. The European sovereign debt crisis escalated and fears of a recession mounted. This caused turmoil in the financial markets and threatened Europe's fragile banking system. Like other international big banks, UBS and Credit Suisse felt the impact of the general state of uncertainty. In view of the high level of risk, the SNB reaffirmed the need for big banks to push quickly ahead with the expansion of their loss-absorbing capital base. It communicated its views in this regard to FINMA. Banks with a domestic focus were faced with a further rise in credit risk. On the one hand, the economic outlook in Switzerland deteriorated. On the other, the persistently low interest rates encouraged a further increase in the mortgage lending volume and in real estate prices, which in turn is associated with corresponding risks.

Heightened monitoring of mortgage market

Given the relatively strong growth in mortgages, rising real estate prices and historically low mortgage rates, the SNB stepped up its monitoring of the mortgage markets. In early 2011, it launched an additional quarterly survey on mortgage lending. In the survey, the 25 largest banks in the domestic market, representing a total market share of over 80%, are asked about key risk indicators such as loan-to-value ratios and affordability criteria for new mortgages. Initial results indicated that the risk appetite on the part of some banks was persistently high in the area of mortgage lending.

MoU with FDF and FINMA

In early 2011, the FDF, FINMA and the SNB signed a Memorandum of Understanding (MoU; cf. www.snb.ch, *Financial Stability*). The aim of this agreement is to further improve cooperation between the three authorities, each of which deal with financial market issues. The MoU governs both the exchange of information in the areas of financial stability and financial market regulation, as well as cooperation in the event of a crisis that could threaten the stability of the financial system.

6.4 Measures to strengthen financial stability

Implementation of Basel III

An important lesson from the 2008/2009 financial crisis is that banks must hold more and better-quality liquidity and capital. The Basel Committee on Banking Supervision therefore drew up new global standards on capital adequacy and on liquidity (Basel III), which were published at the end of 2010. For the implementation of Basel III, a working group led by FINMA and in which the SNB participated, revised the Capital Adequacy Ordinance. It was submitted for consultation at the end of October 2011 and is due to enter into force from 2013. The leverage ratio and liquidity standards have not yet been enacted into Swiss law. In an effort to improve international comparability, it was decided that, for the implementation of Basel III, Switzerland would not introduce specific Swiss solutions (particularly as regards risk weightings), as has generally been the case in the past. Nevertheless, Swiss capital requirements will again go beyond the international minimum standards. For systemically important banks, additional requirements will apply in accordance with the revised Banking Act ('too big to fail' regulation), while for other banks, higher capital requirements will apply pursuant to the FINMA circular *Capital buffer and capital planning – banks*.

Implementation of 'too big to fail' regulation

In December 2010, the Federal Council launched the consultation on the 'too big to fail' legislative proposal, a package of measures aimed at strengthening the stability of the financial sector. The proposed changes to the Banking Act are based on the recommendations of the commission of experts set up to examine ways of limiting economic risks posed by large companies, a commission in which the SNB was also represented. The proposal was approved by both chambers of parliament in 2011. Together with FINMA, the SNB assisted the FDF within the context of the parliamentary procedure and in connection with the revision of the Capital Adequacy Ordinance and the Banking Ordinance. On the whole, the new regulation for systemically important banks has kept quite closely in line with the recommendations of the commission of experts. It includes provisions in the areas of capital, organisation, liquidity and risk diversification.

Determining systemically important institutions and functions

The revised Banking Act – which was amended in connection with the 'too big to fail' legislative proposal – gives the SNB the authority to determine which banks and bank functions are systemically important, after it has consulted with FINMA. In order to be able to perform this mandate, the SNB carried out preparatory work in 2011.

Risk diversification for small and medium-sized banks

In the area of risk diversification, the upper limit for permissible risk concentrations vis-à-vis systemically important banks was lowered. As a result, the counterparty risk exposure of small and medium-sized banks to systemically important institutions will be reduced and, consequently, so too will the contagion risk within the banking sector.

Contribution to structuring macroprudential oversight

Within the context of a working group led by the Head of the FDF, the SNB, together with FINMA and the FDF, examined ways to develop macroprudential oversight in Switzerland. In its statement of December 2010 in response to the parliament's Control Committees' report on the conduct of the authorities during the financial crisis, the SNB drew attention to the absence of an adequate set of instruments in the area of macroprudential policy. It specifically identified three areas in which it felt the scope of its responsibilities needed to be broadened. Firstly, with regard to regulations related to financial stability; secondly, as regards regulations that bear direct relation either to monetary policy (e.g. level and structure of the countercyclical capital buffer envisaged within the Basel III framework) or to emergency liquidity assistance; and thirdly, with regard to access to information required for assessing financial stability.

In connection with the implementation of regulations that are related to monetary policy, the SNB was closely involved in the preparatory work on the countercyclical capital buffer, which is due to be introduced as early as spring 2012. The reason for the early introduction of this Basel III component is the risk of potential imbalances in Swiss real estate and mortgage markets. In the proposed structure of the capital buffer, the decision regarding the activation and level of the buffer is made by the Federal Council following a proposal by the SNB. At the same time, the risk weights for mortgage loans are also to be adjusted. In November 2011, the FDF submitted for consultation the amendments to the Capital Adequacy Ordinance that are required for the introduction of the countercyclical capital buffer and the adjustment of the risk weights.

Where access to information from banks is concerned, the Federal Council plans to look into ways in which the SNB can gain such access in cases where FINMA does not have the requisite data available. Should the existing legal basis not provide adequately for this, the Federal Council intends to submit a proposal to parliament.

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 National Bank Ordinance (NBO) lays down the details of system oversight (arts. 18–39).

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 SIX 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. In 2011, the SNB signed an agreement with Germany's Federal Financial Supervisory Authority and the Deutsche Bundesbank – which are responsible for the supervision and oversight of Eurex Clearing – governing the exchange of information. This agreement provides the basis for the exemption of Eurex Clearing from compliance with the minimum requirements.

Cooperation with FINMA

SIX SIS Ltd and SIX x-clear Ltd 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.

Cooperation with authorities abroad

The SNB cooperates with authorities abroad in the oversight of cross-border payment and securities settlement systems. In the case of CLS, the 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 SIX 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 and the Bank of England.

Owing to the fact that SIX x-clear offers its services to various European markets and has clearing links with other central counterparties, the SNB also cooperates with the central banks and supervisory bodies in Denmark, Finland, the Netherlands and Sweden. Looking ahead to the participation of SIX SIS Ltd in TARGET2-Securities (T2S) envisaged for 2015, the SNB is also involved in the cooperative oversight and supervision 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.

High degree of compliance with regulatory requirements

In 2011, 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 SIX 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. In 2011, improvements were made in particular with regard to the risk management arrangements for clearing links between SIX x-clear and foreign central counterparties.

To assess the systems' information and IT security, the SNB relies mainly on external auditors. In 2011, the audits – whose scope and degree of detail are determined by the SNB – focused on IT incident management processes. The corresponding audit report notes that the implemented processes are, on the whole, adequately structured, so that vulnerabilities and security incidents can be identified and dealt with swiftly.

Information and IT security

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.

Strengthening the global market infrastructure

The SNB is also involved in the revision of the current standards and recommendations for systemically important payment systems, central counterparties and securities settlement systems; this initiative is being led by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO). The revision aims to strengthen and harmonise the existing standards and recommendations.

6.6 International cooperation on financial market regulation

Much of the international cooperation in the area of financial market regulation is coordinated by the Basel Committee on Banking Supervision and the Financial Stability Board (FSB).

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision brings together high-ranking representatives of banking supervisory authorities and central banks from 27 countries, including Switzerland. It develops recommendations and sets standards in the area of banking supervision, most notably the Basel Capital Accord (Basel I) and its successors, the Basel II and Basel III capital adequacy frameworks.

Additional capital requirements for global systemically important banks

In December 2010, the Basel Committee published the revised capital adequacy framework, known as Basel III, applicable for the entire banking sector. In Switzerland, it will be phased in between 2013 and 2018. In 2011, the Basel Committee focused on global systemically important banks. A working group, on which the SNB was also represented, developed a methodology for identifying global systemically important banks and drew up additional capital requirements, which these banks must meet. As well as the minimum standards under Basel III, these banks will be subject to an additional capital requirement of between 1 and 3.5 percentage points. These new regulations were approved by the Basel Committee, the FSB and the G20.

New international liquidity standards

In December 2010, under Basel III, the Basel Committee also issued minimum liquidity standards for the first time. Work on the detailed formulation of these standards continued – with Switzerland's involvement – in 2011. The aim of these requirements is to ensure that banks build up a liquidity buffer which allows them to remain liquid under short and medium-term stress situations. The international liquidity standards will apply alongside the specific liquidity requirements for big banks, and they will replace the currently applicable general liquidity requirements under the Banking Ordinance.

Financial Stability Board

The Financial Stability Board (FSB) brings together the national authorities responsible for financial stability (central banks, oversight authorities, ministries of finance), international organisations and standard-setting bodies. In April 2009, the G20 gave the FSB a mandate to promote financial stability and formulate appropriate regulatory and oversight measures. As part of this mandate, the FSB has since drawn up a number of reform proposals, in whose formulation the SNB was actively involved.

Alleviation of 'too big to fail' issue

The proposed reforms are largely aimed at alleviating the 'too big to fail' problem. In October 2011, as a complement to the Basel Committee's capital adequacy requirements for global systemically important banks, the FSB published key attributes of national resolution regimes as well as of recovery and resolution plans for global systemically important banks. In order to further alleviate the 'too big to fail' issue, the FSB called upon national authorities to strengthen their monitoring of global systemically important financial institutions and to draw up and implement appropriate guidelines.

Swiss measures in line with international reform proposals

The measures adopted in Switzerland are in line with the international proposals for reform. However, the Swiss regulations also take Switzerland's special situation into account and go beyond the international minimum standards, particularly with regard to capital adequacy requirements.

6.7 Stabilisation fund

Background

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.

Purchase of assets

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 earlier editions of the SNB's *Annual Report*.

Business activity and results

Reduction in overall risk

The stabilisation fund's overall risk for the SNB was reduced from USD 14.7 billion at the end of 2010 to USD 9.0 billion at the end of 2011. This was largely due to interest payments and repayments on stabilisation fund investments as well as to asset sales. Contingent liabilities were reduced as a result of derivatives positions reaching maturity or being actively closed out.

For 2011, the stabilisation fund recorded an annual profit of USD 1.1 billion. Its equity capital as at 31 December 2011 amounted to USD 3.2 billion. Detailed information on the financial situation of the fund can be found in 'Financial information on the stabilisation fund' (pp. 167–176) of this report.

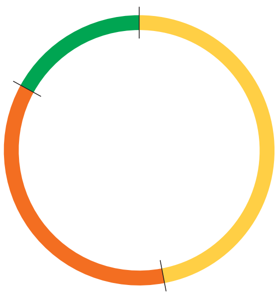
Portfolio management

Liquidation strategy

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. As a rule, assets are to be held for as long as their intrinsic values can be realised. Earlier sales are possible if there is good reason for liquidating the assets prematurely. The right to restructure and to make modifications to certain loan agreements is actively exercised. 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.

Cash flow models

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 work 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 assets. The cash flow models are reviewed and refined continually, and the forecasts are recalculated every three months.



Stabilisation fund portfolio by category
In percent

Residential real estate 47

Commercial real estate 36

Other 17

As at 31 December 2011

Market developments

Financial market developments

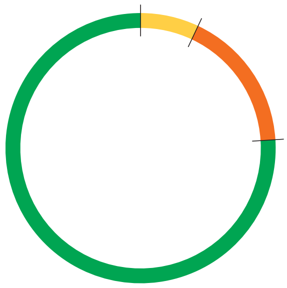
The global recovery of financial markets continued through the beginning of 2011. The situation then deteriorated in the second quarter when the sovereign debt crisis in Europe escalated. The resulting uncertainty led to price declines on risk markets, as well as to a flight to safe investments and a reduction in assets that are sensitive to cyclical fluctuations.

Real estate weakness persists

The difficult situation in the real estate markets of the stabilisation fund's investment countries (particularly the US and the UK) persisted in 2011. House prices decreased slightly both in the US and the UK. The decline was due to the weak labour market, problems with the supply of credit and overindebted households. Commercial real estate markets in the US and Europe, by contrast, recovered slightly. However, this was largely attributable to price increases in central locations; premises in peripheral locations, meanwhile, continued to be less sought after.

Optimism on securitisation market short-lived

At the beginning of 2011, the US and European securitisation markets recovered further in the wake of the positive mood in the financial markets, and risk premia for securitised assets declined overall. The momentum did not continue into the second quarter, however. The majority of securitisation products trended downwards and activity on securitisation markets fell sharply. Risk premia began to rise once again towards year-end, but did not reach the levels observed when the stabilisation fund was established.



Stabilisation fund portfolio by instrument
In percent

Derivatives 7

Loans 17

Securities 76

As at 31 December 2011

Changes in risk situation

Further reduction in risks

In the first two quarters, the financial market situation made it possible for significant loan repayments to be made through the sale of assets. In the process, attention was paid not only to selling assets with higher liquidity and credit ratings, but also to liquidating assets of a lower quality, provided they were close to their intrinsic values. Owing to market conditions, sales were considerably lower in the second half of the year. Nevertheless, risks were reduced further in this phase too, thanks to repayments and interest payments.

Significant sales and stable cash flows from investments

Overall, assets worth USD 1.6 billion net were sold, of which USD 0.4 billion was accounted for by the euro area and the UK. Furthermore, the portfolio benefited from considerable interest and principal repayments amounting to USD 3.3 billion, which also contributed greatly to diminishing the risk carried 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.

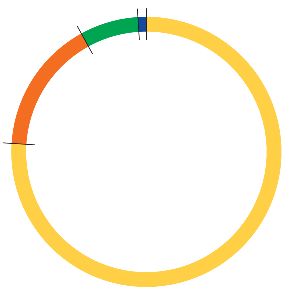
SNB loan and overall risk

The table below shows the contribution made by various factors to the reduction of risk. The overall risk for the SNB is divided between the loan and contingent liabilities. The loan outstanding fell from USD 12.6 billion at the end of 2010 to USD 8.1 billion at the end of 2011. During the same period, the overall risk for the SNB was reduced by USD 5.7 billion to USD 9.0 billion.

Loan to stabilisation fund

In USD billions	Funded	Contingent liabilities	Overall risk
Total as at 31 December 2010	**12.6**	**2.1**	**14.7**
Interest on SNB loan	0.3	–	0.3
Sales[1]	–1.6	–0.3	–1.9
Repayments	–2.7	0.0	–2.7
Interest received	–0.6	–	–0.6
Other factors	0.1	–0.9	–0.8
Total as at 31 December 2011	**8.1**	**0.9**	**9.0**

1 Including active liquidation of CDS (net).



Stabilisation fund portfolio by currency
In percent

USD 76

GBP 16

EUR 7

JPY 1

As at 31 December 2011

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 though its participation in various international institutions. Together with the Federal Department of Finance (FDF), it represents Switzerland in the International Monetary Fund (IMF) and on the Financial Stability Board (FSB). 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 the stability of the international monetary system as well as macroeconomic and financial stability in its member countries. Its main fields of activity are surveillance, granting loans to countries faced with balance of payments difficulties, and technical assistance.

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 2011, one SDR was equivalent to CHF 1.44.

Switzerland's representation in the IMF

Switzerland's membership in the IMF is shared by the SNB and the FDF. The Chairman of the SNB's Governing Board represents Switzerland on the IMF's highest decision-making body, the Board of Governors, which consists of a representative from each member country. The Head of the FDF is one of the 24 members of the International Monetary and Financial Committee, the IMF's most important advisory body.

Switzerland is part of a voting group (constituency) whose other members are Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Tajikistan and Turkmenistan. 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, and participates 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.

Escalation of European sovereign debt crisis

In 2011, the IMF's activities were shaped by the escalation of the European sovereign debt crisis. Together with the European Commission and the European Central Bank, the IMF intensified its activities with regard to the critically affected European countries. To prevent the debt crisis from spreading, it called for a strengthening of the financial system through the recapitalisation and restructuring of weak banks. The IMF also recommended a consolidation of state budgets which should not, however, jeopardise economic growth.

Lending facilities again adjusted

In the course of the year, the IMF again adjusted its lending facilities due to the escalation of the financial and debt crisis. The reforms undertaken confirm the IMF's policy of increasing flexibility and making precautionary instruments available. They underscore the move away from the traditional approach of granting loans only if performance targets arranged in advance are met. In 2011, the IMF's Flexible Credit Line (FCL), used to provide substantial up-front funding for countries with excellent macroeconomic fundamentals, was supplemented by the Precautionary and Liquidity Line (PLL). The PLL now makes it possible for countries with moderate vulnerabilities and balance of payments difficulties to arrange a precautionary credit line.

High amount of loan commitments

With the escalation of the crisis, the IMF's lending to members in economic difficulties rose to a new all-time high. At the end of 2011, regular loan commitments amounted to SDR 163.4 billion. Over the course of the year, the IMF Executive Board approved eight non-concessional (i.e. non-subsidised) loan agreements totalling SDR 98.6 billion. Credit arrangements under the concessional (i.e. subsidised) lending facilities to low-income countries – which are financed by a separate trust – came to a total of SDR 3.3 billion at the end of 2011.

IMF financial resources

The IMF finances its lending primarily through the quotas assigned to each member country and through the New Arrangements to Borrow (NAB). However, the IMF can only draw on quotas from or credit arrangements with countries that are not beneficiaries of an IMF facility and that are not confronted with balance of payments difficulties. From total quotas amounting to SDR 238.0 billion in 2011, the IMF therefore has only SDR 196.5 billion available for lending. As a result of the strong rise in demand for loans, it was decided in 2009 to provide the IMF with more funds via a quota increase. Since the implementation of the quota increase requires a certain time, an expansion of the NAB was also agreed on. Overall, the IMF's usable resources amounted to SDR 396.9 billion at the end of 2011. Furthermore, the members of the European Monetary Union announced that they would make additional funds available to the IMF in the form of bilateral loan agreements. Members of the G20 and other affluent IMF member countries are also expected to contribute to the strengthening of the IMF's resources.

Quota and governance reform

The doubling of the quotas to a total of SDR 476.8 billion is expected to become effective only at the end of 2012, since the measure requires ratification by the relevant national authorities of the individual member countries. The planned quota increase is part of a comprehensive package of quota and governance reforms and will involve a major realignment of quota shares in favour of emerging economies and developing countries. The reform package also aims to reduce the number of executive directors representing advanced European economies by two. In Switzerland, participation in the IMF's quota increase requires the approval of the Federal Assembly. For this purpose, the FDF has drafted a federal decree with the associated message, which will be submitted to parliament for voting in the course of 2012.

Consequences of reform for Switzerland

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 1.45% 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. Furthermore, Switzerland has also been asked to play a part in connection with the IMF's aim to reduce the number of executive directors representing advanced European economies.

Expansion of NAB

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. Due to strong demand for loans, the IMF resolved to expand the NAB. This expansion became effective in March 2011. It involved an increase in the number of lenders from 26 to 40 member countries and an extension of the maximum amount of resources available for lending from SDR 34 billion to SDR 370 billion. The intention is to reduce the NAB to SDR 180 billion once the quota increase has been implemented. For the SNB, the expansion of the NAB meant an increase in its maximum loan commitment from SDR 1.54 billion to SDR 10.9 billion in monetary terms. Proportionally, however, its share fell from around 4.5% to 2.9%. After the quota increase has been implemented, the SNB's maximum loan commitment will decrease to SDR 5.5 billion, a share of 3.0%.

Augmentation of PRGT loan resources

To finance its concessional lending facilities, the IMF can avail itself of the Poverty Reduction and Growth Trust (PRGT). In June 2009, the IMF Executive Board also decided to augment the PRGT's loan resources by SDR 10.8 billion. By the end of 2011, 13 countries had committed to provide loans to the PRGT totalling SDR 9.5 billion for this purpose, SDR 500 million of which was pledged by Switzerland. The loan to the Trust is granted by the SNB and guaranteed by the Confederation.

Switzerland's reserve position

Both Switzerland's IMF quota and the NAB are funded by the SNB. The portion of the quota remitted to the IMF and the NAB funds drawn on together equal Switzerland's reserve position in the IMF. This reserve position represents a liquid asset of the SNB vis-à-vis the IMF and thus forms part of the currency reserves. At the end of 2011, Switzerland's reserve position amounted to SDR 2,176.6 million, compared with SDR 740.7 million a year earlier.

Conference on international monetary system

In May 2011, the SNB and the IMF jointly hosted a second conference on the reform of the international monetary system. The event brought together high-level central bank representatives, senior policymakers, as well as leading academics and commentators.

Article IV consultation

Within the framework of the Article IV consultations, the IMF regularly reviews the economic policy of its member countries and issues recommendations. On 18 May 2011, the IMF Executive Board concluded the annual Article IV consultation with Switzerland. The IMF commented that economic growth in Switzerland remained broadly based and advised the SNB to tighten its monetary policy in the foreseeable future, provided no further disruptions occurred. Since the SNB's capital has decreased in connection with the financial crisis, the IMF also recommended that the National Bank give medium-term priority to the strengthening of its capital base. According to the IMF, future profit distribution to the Confederation and the cantons should be linked to the SNB's ability to strengthen its capital base. The IMF welcomed the Federal Council's 'too big to fail' legislative proposal and the supplementary capital requirements it contained to limit the risks posed by systemically important banks. It also recommended strengthening the framework for the macroprudential oversight of the financial sector.

7.3 Bank for International Settlements

BIS as bank and forum for central banks

The Bank for International Settlements (BIS) is an international organisation that has its head office in Basel. It fosters international monetary and financial cooperation and serves as bank and forum for central banks. The SNB traditionally occupies one of the 19 seats on the BIS Board of Directors.

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 2011, the focus was primarily on two issues. First, the CPSS – in collaboration with the International Organization of Securities Commissions – continued to drive a revision of the standards and recommendations for systemically important payment systems, central counterparties and securities settlement systems. Second, the CPSS supported various efforts in connection with the implementation of the over-the-counter (OTC) derivatives market reform.

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 2011, the CGFS published five reports. Four dealt with various aspects of the strong global increase in the supply of liquidity as a result of actions by central banks, the fifth analysed the impact of central clearing of OTC derivatives. The CGFS also decided to expand the BIS's international banking statistics.

Markets Committee

The Markets Committee examines current developments and the functioning of the financial markets, as well as the central banks' monetary policy instruments and operations. The emphasis of discussions at the beginning of the year was on strategies for ending expansionary monetary policy. In the following months, the focus shifted to the European sovereign debt crisis and its impact on the financial markets, as well as the unconventional monetary policy measures aimed at easing the situation. In connection with various reform projects, the Markets Committee considered the efforts made to increasingly use central counterparties. It also conducted a fact-finding study on high-frequency trading in the foreign exchange market.

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 international organisations. 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.

The OECD, which celebrated its 50th anniversary in 2011, devoted considerable attention to the current debt crisis. The main focus was on structural reforms and recommendations on how individual countries and regions should react to the various challenges involved.

In October 2011, the Economic and Development Review Committee (EDRC) examined the OECD's Economic Survey of Switzerland. In view of the strength and rapidity of the Swiss franc's appreciation, it considered the setting of a minimum exchange rate against the euro to be appropriate, but also emphasised the associated risks. Moreover, the EDRC welcomed the measures taken in connection with banking regulation.

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 countries with which it cooperates in the IMF and the World Bank (cf. chapter 7.2). With the support of these countries, Switzerland is in a position to lead a constituency.

Bilateral support

Support for the central banks of this constituency was provided through various projects in the areas of monetary policy, asset and risk management, cash, payment systems and accounting. As in the year before, the main recipient of technical assistance from the SNB was the National Bank of the Kyrgyz Republic. In addition, various projects with the central banks of Serbia and Tajikistan were continued, and relations with the National Bank of Kazakhstan were strengthened. Kazakhstan joined the Swiss constituency in November 2010.

Outside the constituency, the SNB provided support in particular in connection with the creation of the central bank of the newly founded state of South Sudan. At the request of the Federal Department of Foreign Affairs, the SNB advised the Bank of South Sudan on the drafting of the central bank law as well as in the areas of cash and monetary system matters. Further exchanges took place with representatives of the central banks of Armenia, Brazil and Indonesia.

International events

In collaboration with the National Bank of Poland, the SNB again conducted a seminar for central banks from the former Soviet Union and south-eastern European countries. The seminar – held for the eighth time – was dedicated to the topic of monetary policy and financial stability after the crisis. In September, the SNB, together with a company specialising in the printing of banknotes, conducted a seminar for cash experts from central banks in Central Asia, with the emphasis on production, design, quality testing and security features of banknotes.

Study Center Gerzensee

The Study Center Gerzensee, a Swiss National Bank foundation for the training of central bankers, bankers and business specialists from Switzerland and abroad, celebrated its 25th anniversary. In 2011, it again organised various courses on monetary policy and financial market topics for employees of foreign central banks. The courses were attended by a total of 149 participants from 81 countries.

8 Banking services for the Confederation

Mandate

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

Remuneration for banking services

The SNB provides these banking services 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 (cf. www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*).

Issuing activities

In 2011, the SNB issued both MMDRCs and Confederation bonds on behalf of and for the account of the Confederation. MMDRCs amounting to CHF 108.8 billion were subscribed, of which CHF 33.4 billion was allocated. The corresponding figures for Confederation bonds were CHF 8.9 billion and CHF 5.3 billion respectively. As on previous occasions, the issues were effected by auction via the electronic trading platform of Eurex Zurich Ltd. In July 2011, the Federal Finance Administration (FFA), in agreement with the SNB, announced a shortening of the auction window for Confederation bonds.

Negative MMDRC yields

In connection with the SNB's measures to counter the strength of the Swiss franc, money market rates on the Swiss franc money market fell into negative territory. As of 18 August, the FFA also accepted offers with prices over 100%, thus making negative auction yields possible. On 23 August, the yield for six-month MMDRCs amounted to –1%; on 30 August, the auction for three-month MMDRCs resulted in a yield of –0.75%. Taken over the whole year, MMDRC yields ranged from 0.158% to –1.0%.

Payments

In the area of payment transactions, the SNB carried out roughly 169,000 payments in Swiss francs and approximately 23,000 payments in foreign currencies on behalf of the Confederation.

9 Statistics

Purpose of activities in field of statistics

The Swiss National Bank (SNB) collects the statistical data it requires to fulfil its statutory mandate 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 institutions, 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 may be supplied to the relevant Swiss financial market supervisory authorities (art. 16 para. 4 NBA).

Surveys and statistics

The SNB publishes the results of its data collections in the form of statistics. An overview of the SNB's statistical surveys is contained in the appendix to the NBO and on the SNB website (www.snb.ch, *Statistics*). The SNB also manages a data bank with 5.1 million time series in the fields of banking, financial markets and economics.

Statistical publications

A large proportion of the statistics are published in the *Monthly Statistical Bulletin* and the *Monthly Bulletin of Banking Statistics*, and in *Banks in Switzerland*, which appears annually. The SNB also publishes data in its publications on the balance of payments, the international investment position and direct investment, and on the financial accounts and household wealth in Switzerland. The SNB's statistical publications appear in German, French and English and can also be accessed on the SNB website. In some cases, more extensive versions are provided online (www.snb.ch, *Publications, Statistical publications*). Data are also available online as Excel or text files, generally with longer time series than in the printed publications.

Special data dissemination standards

The SNB publishes monthly data on its website in line with the International Monetary Fund (IMF) Special Data Dissemination Standard (SDDS). The data include information on the monetary aggregates and the reserve assets. Key balance sheet positions are also posted on the website on a monthly basis (www.snb.ch, *Publications*, *Statistical publications*).

Survey on cross-border trade in services

The SNB continued its work on the serviceBOP project aimed at improving the survey on cross-border trade in services in the balance of payments (BOP) and aligning it to the requirements of the bilateral agreement on statistics between Switzerland and the European Union (EU). In 2010, the SNB had conducted a preliminary survey of some 9,000 companies to select the companies that would, in future, be required to report data. In 2011, these companies were informed of their reporting obligation. In addition, a preliminary survey was conducted in Liechtenstein, together with the appropriate authorities, for the same purpose. From 2012, all service categories of relevance for Switzerland and Liechtenstein are to be surveyed. The collection of data will be broken down geographically.

Survey on bank lending

Since the second quarter of 2011, the bank lending survey has been carried out as a regular survey under the terms of art. 5 NBO. It was introduced in 2008 as a temporary additional survey under art. 6 NBO in order to obtain qualitative information about the effects of the financial crisis on bank lending policies.

In 2010, the SNB began collecting data on the quality of bank lending portfolios. Since the beginning of 2011, the 12 most important banks have been submitting this information quarterly. Lending quality is surveyed on the basis of weighted averages of the probability of default and expected loss. The SNB collects these data as part of its statutory mandate to contribute to the stability of the financial system.

Survey on loan quality

Since the first quarter of 2011, the SNB has been collecting quarterly data on customer payment transactions from 25 banks and PostFinance. It uses these statistics as part of its mandate to facilitate, secure and oversee the functioning of cashless payment systems. The data also provide valuable information for economic analysis and forecasting. In addition, in conducting this survey, the SNB is meeting a commitment to the Bank for International Settlements (BIS).

Survey on customer payment transactions

In 2011, in connection with its mandate in the area of financial stability, the SNB also initiated an additional quarterly survey on mortgage lending. In the survey, the 25 largest banks in the domestic market, representing a total market share of over 80%, were asked about key risk indicators such as loan-to-value ratios and affordability criteria for new mortgages.

Additional survey on mortgage market

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).

Collaboration …

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 authorities 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*).

… with the SFSO

... with the FOH

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.

... with FINMA

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.

... 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 manufacturing, banking, insurance, various federal agencies and the KOF Swiss Economic Institute at ETH Zurich. In 2011, the group of experts gave special attention to the serviceBOP project.

... 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). In 2011, collaborative efforts focused on the serviceBOP project.

... with the EU

SNB collaboration with the EU in the area of statistics is based on the bilateral statistical agreement that came into effect in 2007. It covers the financial accounts, parts of the banking statistics as well as, since 2010, the balance of payments. The SNB plays a role in various bodies of the EU statistical office (Eurostat).

... with other foreign agencies

In the area of statistics, the SNB works closely with the 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 2011, 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.

Contents

Financial report

Key financial figures for the 2011 business year

Selected balance sheet figures for the parent company (quarterly)

In CHF billions	**31.12.2011**	30.9.2011	30.6.2011	31.3.2011	**31.12.2010**
Banknotes in circulation	**55.7**	49.5	48.9	49.0	**51.5**
Sight deposits of domestic banks	**180.7**	202.1	29.6	23.1	**38.0**
Other sight deposits[1]	**30.3**	28.2	3.8	4.6	**5.6**
Claims from Swiss franc repo transactions	**18.5**	7.0	–	–	**–**
Liabilities from Swiss franc repo transactions	**–**	–	24.9	21.0	**13.2**
SNB debt certificates in Swiss francs	**14.7**	34.4	106.5	117.0	**107.9**
Gold holdings and claims from gold transactions	**49.4**	49.0	42.4	44.0	**44.0**
Foreign currency investments	**257.5**	305.3	196.8	211.9	**203.8**
Of which, in EUR	**146.7**	154.9	108.9	119.3	**112.0**
Of which, in USD	**59.0**	103.0	48.9	51.9	**50.6**
Of which, acquired through foreign exchange swaps[2]	**26.1**	79.4	–	–	**–**
Provisions for currency reserves[3]	**45.1**	45.1	45.1	44.3	**44.3**
Distribution reserve[3]	**–5.0**	–5.0	–5.0	19.0	**19.0**

1 Sight deposits of foreign banks and institutions, other sight liabilities (including sight deposits of domestic non-banks).

2 Euros, US dollars and other currencies were purchased via foreign exchange swaps in order to supply the market with Swiss francs. They are valued at the exchange rate on the balance sheet date.

3 Year-end figures, before appropriation in each case.

Selected balance sheet figures for the stabilisation fund (quarterly)

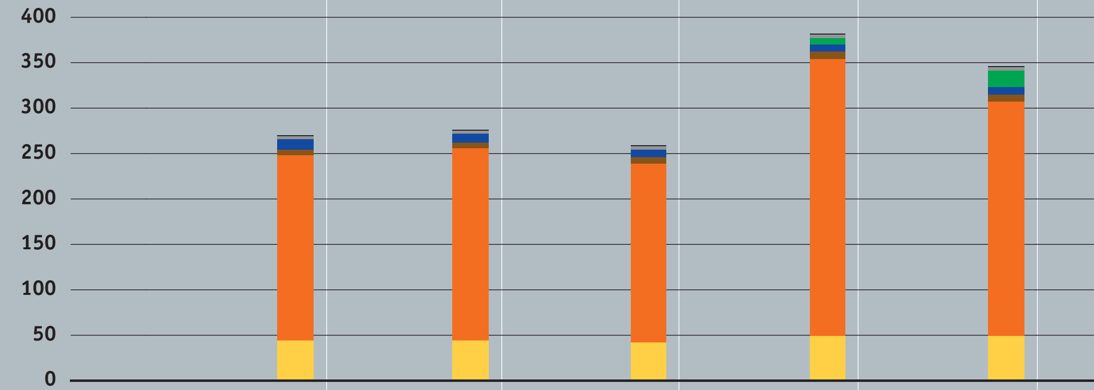
In USD billions	**31.12.2011**	30.9.2011	30.6.2011	31.3.2011	**31.12.2010**
SNB loan (without accrued interest)	**8.1**	8.7	9.4	10.8	**12.6**
Contingent liabilities	**0.8**	0.9	1.2	2.1	**2.1**
Equity	**3.2**	3.4	3.4	2.8	**2.1**

Selected figures from income statements (quarterly and annual results)

In currency unit billions	**Year 2011**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**
Parent company result for period (in CHF)	**13.0**	7.8	16.8	–13.0	1.5
Allocation to provisions for currency reserves	**3.2**				
Change in distribution reserve	**8.9**				
Distributions as per profit appropriation proposal	**1.0**				
Stabilisation fund result for period (in USD)	**1.1**	–0.2	–0.0	0.7	0.7
Of which, impact on consolidated result (in CHF)	**0.4**	–0.1	–0.1	0.4	0.3
Consolidated result for period (in CHF)	**13.5**	7.7	16.6	–12.7	1.9

Q4 2010 Q1 2011 Q2 Q3 Q4

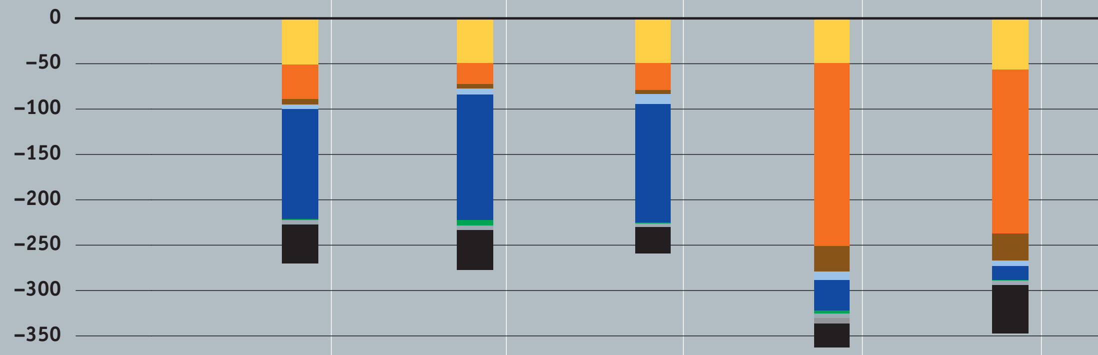
Assets at end of quarter



Gold holdings and claims from gold transactions
Foreign currency investments
Other foreign currency assets
Claims from US dollar repo transactions
Loan to stabilisation fund
Claims from Swiss franc repo transactions
Swiss franc securities
Sundry assets

In CHF billions

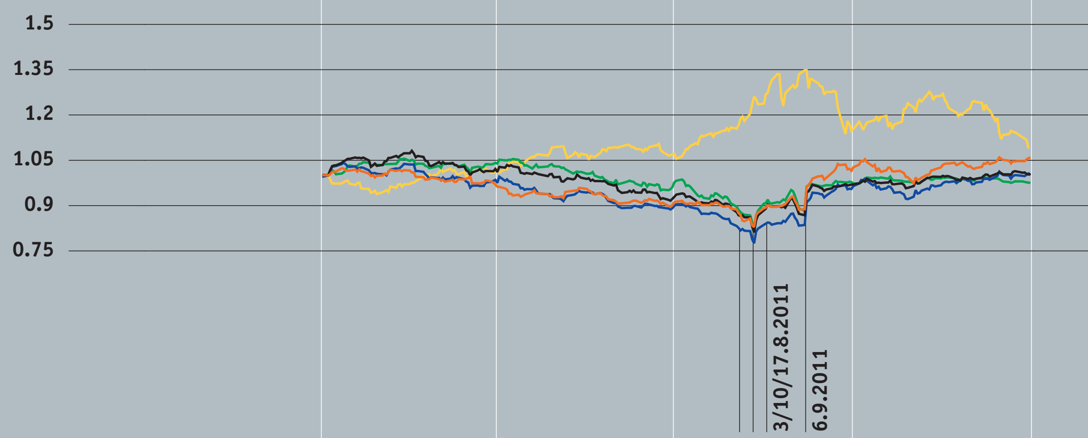
Liabilities at end of quarter



Banknotes in circulation
Sight deposits of domestic banks
Other sight liabilities
Liabilities towards the Confederation
SNB debt certificates and liabilities from Swiss franc repo transactions
Other term liabilities
Foreign currency liabilities
Counterpart SDRs allocated by IMF
Sundry liabilities
Equity

In CHF billions

Exchange rates and gold price



Gold
USD
EUR
JPY
GBP

Index 1 January 2011 = 1

Q4 2010 Q1 2011 Q2 Q3 Q4

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. In spring 2011, the Organisation Regulations were subject to a partial revision, which was approved on 29 June by the Federal Council (cf. chapter 4.1, p. 112).

2 Organisation and tasks

Management and oversight

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.

The Enlarged Governing Board consists of the three members of the Governing Board and their three deputies, and is responsible for the strategic guidelines for business operations, including resource strategies and staff planning. The Board of Deputies is responsible for implementing these guidelines and ensures coordination in all operational matters that are of cross-departmental significance. The Bank Council oversees and monitors the business activity of the SNB. The Internal Auditors unit reports to the Bank Council's Audit Committee.

Structure

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

Until 31 January 2012, the SNB also had a branch office in Geneva. The representative offices, which are located in Basel, Geneva (as of 1 February 2012), Lausanne, Lugano, Lucerne and St Gallen, are responsible (as are the head offices) for monitoring economic developments and explaining the SNB's policy in the regions. They are supported by the Regional Economic Councils, which analyse the economic situation and the effect of monetary policy in their region and report the results to the 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 14 agencies (including Geneva, from 1 February 2012) for the receipt and distribution of banknotes and coins. These agencies are run by cantonal banks.

Monetary policy

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.

Cash transactions

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 and agencies. It checks the cash returned to it and replaces banknotes and coins that no longer meet official requirements.

Cashless payment transactions

Conceptual and technical issues arising with regard to cashless payment transactions are dealt with by the Financial Stability unit of Department II and by the Banking Operations unit of Department III. The latter unit also operates the Swiss Interbank Clearing (SIC) system.

Asset management

The foreign currency investment strategy as well as the management and investment of gold, foreign currency investments 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.

Financial system stability

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 StabFund 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.

International monetary cooperation

The International Monetary Cooperation unit of Department I deals with international monetary relations, international trade and capital flows, and technical assistance to other countries.

Banker to the Confederation

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.

Statistics

The Statistics unit of Department I is responsible for compiling statistical data on banks and financial markets, and for drawing up the balance of payments, the report on direct investment, the report on Switzerland's international investment position, and the Swiss financial accounts.

Central services

Central services are provided by various 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.

3 Corporate governance

Background

The Swiss National Bank (SNB) is a special-statute joint-stock company that is administered with the cooperation and under the supervision of the 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 of the accountability report (pp. 81–84) and in 'Financial information on the stabilisation fund' (pp. 167–176) of this report. The companies included in the consolidated financial statements are listed under 'Reporting entities' (p. 186).

Corporate bodies and responsibilities

The corporate bodies of the SNB are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board.

The General Meeting of Shareholders elects five members to the Bank Council and appoints the Audit Board. It approves the business report and the annual financial statements. It decides on the allocation of the net profit (determination of the dividend) and grants discharge to the Bank Council.

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

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. Dividends are limited to a maximum of 6% of the share capital. Of the remaining distributable profit, one-third is paid out to the Confederation, and two-thirds to the cantons.

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. 111).

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 2011, the Bank Council held six ordinary half-day meetings (in February, April, June, September, October and December), and two extraordinary meetings (in January and December), all of which were attended by the members of the Governing Board. The extraordinary meeting in January was to address the appropriation of the 2010 annual result, and that of December was in connection with questions surrounding private financial transactions by the Hildebrand family.

The business it dealt with included, in particular, the approval of a new profit distribution agreement between the Federal Department of Finance and the SNB, as well as the resolution on the level of the provisions for currency reserves. Furthermore, the Bank Council approved the revision of the Organisation Regulations, for the attention of the Federal Council. It revised the Nomination Committee regulations, the salary regulations, and the regulations on informing and consulting with SNB staff. It also approved a Memorandum of Understanding between the Federal Department of Finance and the SNB on the principles governing the membership of the Bank Council, and issued a memorandum on Bank Council communication.

The Bank Council voted to close the branch office in Geneva on 31 January 2012, and to open an SNB agency in Geneva with effect from 1 February 2012. It authorised the sale of the SNB's premises in Geneva, and it also approved the design of the CHF 20 note of the ninth banknote series.

Finally, the Bank Council dealt with the Audit Board's reports to the Bank Council and to the General Meeting of Shareholders, and 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, each of which was 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. It is based on the level of remuneration in other financial sector companies of a similar size and complexity, and in large federally run companies (cf. tables on remuneration for the Bank Council and executive management, pp. 150–151).

The SNB 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. In addition, members of the Governing Board may not undertake any paid or unpaid activities for the Swiss big banks for a period of twelve months following the termination of their contract of employment. 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 (six and three months, respectively). Given the regulatory restrictions, the members of the Governing Board and their deputies are entitled to remuneration within these periods.

On 31 December 2011, 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 2011 financial year for this auditing mandate totalled CHF 358,257 (2010: CHF 365,840). PwC was also entrusted with the task of auditing the SNB stabilisation fund. Compensation for these audit services in the 2011 financial year amounted to CHF 1,111,185 (2010: CHF 1,536,660). Additional audit-related services by PwC cost a further CHF 112,560 (2010: CHF 8,608), including CHF 53,449 for audit activity in connection with private financial transactions by the Hildebrand family.

Information for shareholders

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.

Listed registered shares

SNB registered shares are traded on the Swiss stock exchange (SIX Swiss Exchange). The SNB share listing was moved from the Main Standard to the Domestic Standard (formerly Local Caps segment), with effect from 1 January 2012. At the end of 2011, a total of 53.2% 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 5.9% (5,950 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.

Cross reference tables

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.

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

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	*Annual Report*, pp. 107, 145–146
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	*Annual Report*, p. 145
Accounting principles	*Annual Report*, p. 130 (parent company) and pp. 183–184 (consolidated level)
Bank Council	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Members	*Annual Report*, p. 202
Nationality	Art. 40 NBA
Affiliations	www.snb.ch, *The SNB, Supervisory and executive bodies*
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	*Annual Report*, p. 202
Internal organisation	Arts. 10 et seq. Organisation Regulations
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation Regulations
Systems of control	*Annual Report*, pp. 157 et seq.; accountability report, pp. 64–65; arts. 10 et seq. Organisation Regulations
Information tools	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Executive management	www.snb.ch, *The SNB, Supervisory and executive bodies, Governing Board*
Regulations on private financial investments and financial transactions by members of SNB management	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Remuneration	*Annual Report*, pp. 150–151
Shareholder rights	www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation*
Decision-making quorum	Art. 38 NBA
General Meeting of Shareholders	Arts. 34–38 NBA
Listing in share register	www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation*
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	*Annual Report*, pp. 110, 208–211

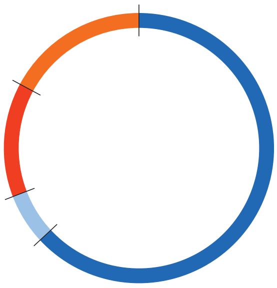
4 Resources

4.1 Organisational changes

Organisation

In early 2011, the Swiss National Bank's (SNB) Organisation Regulations were partially revised to further strengthen operational management. The Enlarged Governing Board refocused its attention on the strategic guidelines for business operations, including resource strategies and staff planning. The Board of Deputies is responsible for implementing these guidelines and ensures coordination of all operational matters that are of importance to more than one department. It also issues the necessary instructions and guidelines. In addition, it administers a planning reserve approved by the Bank Council to cover unforeseen tasks. A new provision was included in the Organisation Regulations to allow the SNB to maintain branch offices abroad for the purpose of fulfilling its mandate.

In 2011, cash distribution activities were reorganised. Cash transactions will now be handled by Cash Circulation West (Berne head office) and Cash Circulation East (Zurich head office) in Department II. Procurement and central logistics functions for banknotes, coins and gold will be combined in Procurement and Central Logistics.



Human resources
Number of employees

Full-time, men 456

Part-time, men 44

Full-time, women 99

Part-time, women 124

Total: 723
At year-end 2011

In 2011, the Bank Council's Audit Committee initiated a review of the organisational setup of compliance, which was made up of a compliance committee and a number of specialised compliance units. This evaluation led, in November 2011, to a decision to increase staff numbers in dealing with compliance questions. In addition, the Chairman of the Compliance Committee will now inform the Chairman of the Governing Board as well as the Chairman of the Audit Committee directly of any serious infringement by a member of the Enlarged Governing Board. In connection with the resignation of Philipp M. Hildebrand, investigations will be made into the question of whether additional measures are required to ensure appropriate monitoring of compliance risks.

4.2 Human resources

Number of employees and turnover

At the end of 2011, the SNB employed 723 people (including 17 apprentices); an increase of 23, or 3.3%, compared to 2010. The increase was mainly attributable to additional expenditure in the area of financial stability and in connection with the implementation of exceptional monetary policy measures. In terms of full-time equivalents, the number of employees rose by 3.4% to 672.0. Staff turnover rose to 6.5% from 6.1% a year earlier.

4.3 Premises

Premises

The SNB owns premises for its own use in Zurich and Berne; it also owned premises for the same purpose in Geneva until the end of 2011. These premises are managed and maintained according to a long-term strategy.

Following the decision to close the Geneva branch with effect from 31 January 2012, the Geneva buildings were sold in 2011 to Banque Privée Edmond de Rothschild SA and the Royal Bank of Canada. A rental agreement was concluded with Banque Privée Edmond de Rothschild SA for the use of the rooms required by the SNB to continue operations until the branch finally closed.

At the Zurich head office, the first phase of renovations of the property located at Seefeldstrasse/Seehofstrasse was completed. Renovation work in connection with the overhaul of the staff restaurant in the Berne head office also progressed according to schedule. In July 2011, strategic planning for the total restoration of the main building located at the Bundesplatz began.

4.4 Information technology

Information technology

The IT production systems and applications were stable in 2011, and a brief disruption to payment transactions in August was quickly rectified. The new statistical data warehouse for administering, processing, analysing and presenting statistical information became operational in 2011, in the form of a revised EASY-R (economic analysis system). The information stored in the data warehouse provides support in areas such as the preparation of monetary policy decisions; it also serves as the foundation for important publications and for data exchange with other institutions such as the Swiss Federal Statistical Office, Eurostat and the Bank for International Settlements.

A new mobile workplace designed to meet increasing mobility requirements and permit external access to the IT infrastructure was developed and introduced. Access to the internet was also upgraded, with particularly wide-ranging security measures being implemented.

4.5 Environment

Environmental management

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. This report describes the foundations upon which the SNB's environmental management is based, explains its objectives in connection with environmental change, provides information on the use of resources and on greenhouse gas emission and lists the measures aimed at improving its environmental performance.

In 2010, pro capita energy consumption (electricity and heating energy) was 3% higher than in 2009. As a contribution to climate protection, the SNB heats and cools one of its buildings with the aid of lake water instead of gas, and has joined the *Seewasserverbund* (lake water network) in Zurich as part of this endeavour. The SNB aim is to achieve zero net greenhouse gas emissions. In 2011, it compensated all of its unavoidable greenhouse gas emissions through investment in climate protection projects.

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

5 Changes in bank bodies and management

Bank Council

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

Alfredo Gysi, at the time CEO of BSI Ltd, Lugano

At the General Meeting of Shareholders held on 29 April 2011, the following new member was elected to the Bank Council:

Cédric Tille, Professor at the Graduate Institute of International and Development Studies, Geneva

The following members of the Bank Council are not standing for re-election at the 2012 General Meeting of Shareholders, to the end of the 2008–2012 term of office:

Hansueli Raggenbass, Attorney-at-law, President

Fritz Studer, former Chairman of the Board at Luzerner Kantonalbank

The Swiss National Bank thanks the departing members of the Bank Council for their valuable services.

Special thanks are extended to Hansueli Raggenbass, who has held the position of President of the Bank Council for many years.

Hansueli Raggenbass was appointed to the Bank Council by the Federal Council in 2001, and one year later he was nominated as its President. During his period in office, in 2004, the new National Bank Act entered into force, reducing the number of Bank Council members from 40 to 11, and assigning it new supervisory and monitoring powers. The Bank Council established four committees from within its own ranks in order to adequately fulfil these responsibilities. From the beginning, Hansueli Raggenbass chaired the Nomination Committee and, until June 2011, the Compensation Committee. He carried out his duties as President prudently and with great commitment, thus rendering valuable services to the Swiss National Bank.

We also thank Fritz Studer, whose services as member and as chair of the Audit Committee in the areas of compliance, accounting and auditing have been particularly appreciated.

Both of these vacancies are to be filled by the Federal Council.

The existing members of the Bank Council (of that part of the membership elected by the General Meeting of Shareholders) are standing for re-election at the General Meeting of Shareholders on 27 April 2012 for the 2012–2016 term of office.

Audit Board

On 29 April 2011, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2011–2012 term of office.

Governing Board and Enlarged Governing Board

The composition of the Governing Board and the Enlarged Governing Board remained unchanged in 2011.

On 9 January 2012, Philipp M. Hildebrand resigned from his office as Chairman of the Governing Board due to questions arising from private financial transactions. Since mid-2003, he had been a member of the Governing Board and, since 2010, its Chairman. One of his first tasks as Head of Department III was to modernise the SNB's investment policy, which had become possible after the new National Bank Act came into force. As Head of Department II, he was confronted with the dramatic effects of the worldwide financial crisis and the inescapable need to stabilise UBS. Subsequently, he pushed for higher capital requirements at the big banks and an alleviation of the 'too big to fail' issue. In the international arena, as Governor at the International Monetary Fund, as Member of the Board of the Bank for International Settlements, and as Member of the Financial Stability Board, he advanced Switzerland's concerns thanks to his skills in argumentation. In 2010 and 2011, the SNB faced major challenges in connection with the Swiss franc exchange rate, and Philipp Hildebrand, as Head of Department I, tackled these with determination.

The SNB thanks Philipp Hildebrand for his dedicated service in the SNB Governing Board.

Bank management

The Bank Council approved the following promotions to the position of Director, with effect from 1 January 2012:

Werner Abegg, Head of Communications
Marcel Zimmermann, Head of StabFund

6 Business performance

6.1 Consolidated and parent company annual result

Summary

The Swiss National Bank (SNB) is reporting a consolidated profit of CHF 13.5 billion for 2011, following a loss of CHF 19.2 billion in the previous year. Consolidated foreign currency positions contributed CHF 7.7 billion to this profit figure, of which interest income (CHF 5.5 billion) and the price gain on interest-bearing paper and instruments (CHF 3.7 billion) were the main components. Exchange rate effects were minimal, amounting to a loss of CHF 123.9 million. The net result from gold amounted to CHF 5.4 billion.

At CHF 13.0 billion, the result for the parent company, upon which the profit distribution is based, is CHF 440.2 million less than that of the consolidated result. The difference is due to the inclusion of the stabilisation fund companies in the consolidated result.

For the financial year just ended, the SNB has set the allocation to the provisions for currency reserves at CHF 3.2 billion. The distributable profit remaining after this allocation is CHF 9.9 billion. It will be offset against the negative distribution reserve, leaving CHF 4.9 billion for distribution. According to the proposal to the General Meeting of Shareholders, the shareholders will receive CHF 1.5 million in the form of dividends, while CHF 1 billion will be distributed to the Confederation and the cantons in accordance with the agreement between the Confederation and the SNB. The remaining profit will be allocated to the distribution reserve.

Significant increase in price of gold

In 2011, the price of gold rose further. At CHF 47,473 per kilogram on 31 December 2011, it was once again considerably higher than a year earlier (2010: CHF 42,289).

A valuation gain of CHF 5.4 billion was recorded on the SNB holding of 1,040 tonnes of gold. The secured gold lending business more or less came to a standstill. It contributed CHF 1 million to the result (2010: CHF 10 million).

Contribution of foreign currency positions to profit

In 2011, CHF 5.5 billion in interest income from foreign currency investments was recorded at consolidated level. In addition, lower interest rates in many places resulted in price gains of CHF 3.7 billion on interest-bearing paper and instruments. In the case of equity securities and instruments, price losses of CHF 1.9 billion exceeded dividend income of CHF 562.3 million. In 2011, exchange rate effects were minimal, amounting to a loss of CHF 123.9 million. In conjunction with all the other elements, consolidated foreign currency positions gave rise to a profit of CHF 7.7 billion (2010: loss of CHF 27.0 billion).

Swiss franc positions show a total net loss of CHF 162.7 million (2010: net gain of CHF 70.9 million).

Net loss on Swiss franc positions

At the end of August 2011, liquidity-providing repo transactions, which had been discontinued in June 2010, were resumed. Expenses of CHF 16.5 million resulted from these transactions due to the exceptional interest rate situation.

With the measures to counter the strength of the Swiss franc, liquidity-absorbing operations were no longer renewed or, in some cases, were terminated prematurely through repurchases of debt certificates. Liquidity absorption resulted in expenses of CHF 313.1 million on debt certificates (2010: CHF 146.3 million) and CHF 11.9 million on repo transactions of this kind (2010: CHF 14.1 million).

Income on securities came to CHF 188.0 million (2010: CHF 239.7 million). Due to the low interest rates and the low volume of liabilities towards the Swiss Confederation, the related interest expense decreased to CHF 2.7 million (2010: CHF 5.3 million).

Positive result achieved by stabilisation fund

As higher-risk securities, the stabilisation fund investments benefited from higher interest rates. Moreover, the valuation at amortised cost gave rise to successive increases in value for many securities. Due to the worsening outlook in the second half of the year, the regular impairment tests led to value adjustments. A profit of CHF 1.2 billion was reported at consolidated level (2010: CHF 3.2 billion) on the stabilisation fund investments.

Taking into account the other elements in the income statement, as well as the loss protection arrangements, the stabilisation fund contributed CHF 440 million to the consolidated result (2010: CHF 1,636 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 10.8 million (3.5%) to CHF 291.9 million (2010: CHF 302.7 million).

Reduction in loan to stabilisation fund

The liquidation strategy was maintained for the stabilisation fund set up by the SNB in autumn 2008. During the 2011 financial year, the SNB loan decreased from almost CHF 12 billion to less than CHF 8 billion. In the same period, additional contingent liabilities declined from CHF 2.0 billion to CHF 0.8 billion. Should financing needs arise, the contingent liabilities would trigger lines of credit with the SNB if the financing needs were not covered by the funds available in the stabilisation fund.

Changes in the loan to the stabilisation fund trigger flows to or from foreign currency investments.

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

Outlook

The SNB's financial result is strongly influenced by changes in the price of gold, the exchange rate and interest rates. Consequently, further substantial fluctuations in the quarterly and annual results are to be expected and a forecast of future results cannot be made.

In view of the considerable volatility in its results, 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. Dividend payments and distributions will be made when the net profit, i.e. the net distributable profit and the retained earnings, are sufficient.

Implementation of the stabilisation fund liquidation strategy depends on further developments in the relevant markets. The market environment worsened in the second half of 2011. Forecasting the outlook for these markets remains difficult.

6.2 Provisions for currency reserves

Purpose

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

Currency reserves make Switzerland's economy less vulnerable to international crises and thereby engender confidence in the Swiss franc. The need for currency reserves depends on monetary policy requirements and 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.

Level of provisions

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

Allocation from 2011 annual result

In its annual review, the Bank Council resolved in December 2011 to base the calculation of the allocation for the year under review on twice the average nominal GDP growth rate. Consequently, the allocation amounts to CHF 3.2 billion.

Provisions

Development in last five years

	Growth in nominal GDP In percent (average period)[1]	Annual allocation In CHF millions	Provisions after allocation In CHF millions
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
2011[2]	3.5 (2005–2009)	3 154.3	48 215.6

1 GDP figures are revised on a regular basis. This means that the latest available growth rates may deviate from reported figures. This does not affect the allocation.

2 Doubling of allocation in accordance with Bank Council resolutions of 4 December 2009 and 16 December 2011.

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

Distributable annual profit and net profit

The earnings remaining after the allocation to the currency reserves correspond to the distributable profit as per art. 30 para. 2 NBA.

For 2011, this distributable profit amounts to CHF 9.9 billion. Together with the distribution reserve, this makes up the net profit (as per art. 31 NBA) or net loss. If there is a net profit, this is used for distributions.

6.3 Dividend and profit distribution

Dividends

Art. 31 para. 1 NBA specifies that a dividend not exceeding 6% of the share capital shall be paid from the net profit, with the decision on this matter being taken by the General Meeting of Shareholders on the basis of a Bank Council proposal.

Profit distribution to Confederation and cantons

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.

Distribution agreement

The amount of the annual profit distribution to the Confederation and the cantons is laid down in an agreement between the Federal Department of Finance (FDF) and the SNB. Given the considerable fluctuations in the SNB's earnings, the NBA stipulates that profit distribution be maintained at a steady level. Consequently, a constant flow of payments over several years is provided for in the agreement and a distribution reserve carried on the balance sheet.

As the value of the distribution reserve was negative subsequent to the 2010 annual result, the FDF and the SNB reviewed their agreement concerning the profit distribution during the course of 2011. The new agreement was announced on 21 November. The annual distribution now amounts to CHF 1 billion, and will be made only if the distribution reserve is not negative. In the event that the distribution reserve amounts to more than CHF 10 billion after this annual distribution, the FDF and the SNB will enter into negotiations with regard to an additional distribution.

Distribution for 2011

For 2011, following the allocation to the provisions for currency reserves, the SNB is distributing CHF 1 billion to the Confederation and the cantons in accordance with the agreement.

Distribution reserve

Since the distribution reserve showed a value of CHF –5 billion following last year's profit appropriation, a net profit of CHF 4.9 billion remains after offsetting the 2011 distributable profit against the distribution reserve. Following the distribution of CHF 1 billion to the Confederation and the cantons and payment of CHF 1.5 million in dividends, the distribution reserve will amount to CHF 3.9 billion.

Profit distribution and distribution reserve

In CHF millions	Distribution reserve prior to distribution[1]	Distributable annual profit	Net profit	Profit distribution	Distribution reserve after distribution
2007	18 128.7	7 244.5	25 373.2	2 501.5	22 871.7
2008	22 871.7	–5 736.0	17 135.7	2 501.5	14 634.2
2009	14 634.2	6 900.1	22 534.3	2 501.5	19 032.8
2010	19 032.8	–21 531.3	–2 498.5	2 501.5[2]	–5 000.0
2011[3]	–5 000.0	9 874.7	4 874.7	1 001.5	3 873.2

1 Total at year-end as per balance sheet (p. 127).

2 According to the distribution agreement of 14 March 2008, a distribution could be made as long as it did not cause the distribution reserve to fall below CHF –5 billion.

3 In accordance with proposed appropriation of profit.

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

Composition of the SNB's currency reserves

In CHF millions	31.12.2011	31.12.2010	Change
Gold	48 662.5	43 349.0	+5 313.5
Claims from gold transactions	717.5	638.9	+78.6
Total gold reserves	49 379.9	43 987.9	+5 392.0
Foreign currency investments[1]	257 504.2	203 809.6	+53 694.6
Less: associated liabilities	–546.2	–1 067.4	+521.2
Derivatives (replacement values, net)	92.1	–23.4	+115.5
Total foreign exchange reserves[2]	257 050.1	202 718.8	+54 331.3
Reserve position in the IMF	3 134.5	1 067.7	+2 066.8
International payment instruments	4 621.2	4 670.3	–49.1
Total currency reserves	**314 185.7**	**252 444.7**	**+61 741.0**

1 Including approx. CHF 26.1 billion from foreign exchange swaps, valued at the year-end rate. The replacement values contain the analogous year-end valuation for the forward leg.

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

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, leading to a substantial increase in the balance sheet total by June 2010. In the second half of 2011, measures were taken to counter the strength of the Swiss franc, and this resulted in further growth in the balance sheet total.

On the assets side of the balance sheet, the effects of the various measures are particularly apparent in foreign currency investments, which increased as a result of both foreign exchange purchases and foreign exchange swaps. In the second half of 2011, liquidity-providing repo transactions were resumed, after having been discontinued during the course of 2010. Gold sales have not taken place since September 2008.

On the liabilities side, sight deposits of domestic banks rose in 2008 and 2009 with the increase in the provision of liquidity. In 2010, they declined again. This was mainly attributable to liquidity-absorbing measures via the issue of SNB Bills and liquidity-absorbing repo transactions. Due to the measures to counter the strength of the Swiss franc, sight deposits of domestic banks and other sight deposits rose substantially from August 2011. From the beginning of August, liquidity-absorbing repo transactions which matured were no longer renewed, the issuance of SNB Bills was suspended, and outstanding SNB Bills were repurchased on the market.

The 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	2011	2010	2009	2008	2007	2006
Gold holdings and claims from gold transactions	49 380	43 988	38 186	30 862	34 776	32 221
Foreign currency investments	257 504	203 810	94 680	47 429	50 586	45 592
Various foreign currency assets[1]	8 057	6 038	7 136	1 296	961	1 125
Claims from US dollar repo transactions	371	–	–	11 671	4 517	–
Credit balances from swap transactions	–	–	2 672	50 421	–	–
Claims from Swiss franc repo transactions	18 468	–	36 208	50 321	31 025	27 127
Swiss franc securities	3 675	3 497	6 543	3 597	4 131	4 908
Loan to stabilisation fund	7 645	11 786	20 994	15 248	–	–
Other assets[2]	980	836	846	3 479	931	842
Total assets	**346 079**	**269 955**	**207 264**	**214 323**	**126 927**	**111 813**

1 Reserve position in the IMF, international payment instruments, monetary assistance loans.
2 Claims against domestic correspondents, banknote stocks, tangible assets, participations, other assets.

Year-end values of balance sheet liabilities (aggregated)

In CHF millions	2011	2010	2009	2008	2007	2006
Banknotes in circulation	55 729	51 498	49 966	49 161	44 259	43 182
Sight deposits of domestic banks	180 721	37 951	44 993	37 186	8 673	6 716
Other sight deposits[1]	30 332	5 619	5 927	5 184	813	585
Liabilities towards the Confederation	5 648	5 347	6 183	8 804	1 077	1 056
SNB debt certificates in Swiss francs	14 719	107 870	7 788	24 425	–	–
Liabilities from Swiss franc repo transactions	–	13 182	–	–	615	–
Other term liabilities	366	–	–	29 415	4 608	–
Foreign currency liabilities[2]	5 286	5 805	26 447	420	1 128	2
Other liabilities[3]	162	96	64	1 286	81	93
Provisions for currency reserves	45 061	44 337	41 282	40 275	39 524	38 636
Share capital	25	25	25	25	25	25
Distribution reserve (before appropriation of profit)	–5 000	19 033	14 634	22 872	18 129	16 473
Annual result	13 029	–20 807	9 955	–4 729	7 995	5 045
Total liabilities	**346 079**	**269 955**	**207 264**	**214 323**	**126 927**	**111 813**

1 Sight deposits of foreign banks and institutions, other sight liabilities.
2 SNB USD Bills, foreign currency liabilities, balancing item for SDRs allocated by the IMF.
3 Other liabilities, operating provisions.

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 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 2011

In CHF millions

Assets	Item no. in Notes	31.12.2011	31.12.2010	Change
Gold holdings	01	48 662.5	43 349.0	+5 313.5
Claims from gold transactions	02	717.5	638.9	+78.6
Foreign currency investments	03, 30	257 504.2	203 809.6	+53 694.6
Reserve position in the IMF	04	3 134.5	1 067.7	+2 066.8
International payment instruments	28	4 621.2	4 670.3	–49.1
Monetary assistance loans	05, 28	301.4	300.4	+1.0
Claims from US dollar repo transactions		370.5	–	+370.5
Claims from Swiss franc repo transactions	27	18 468.0	–	+18 468.0
Swiss franc securities	06	3 675.1	3 497.4	+177.7
Loan to stabilisation fund	07, 29	7 644.9	11 786.1	–4 141.2
Banknote stocks	08	129.8	110.9	+18.9
Tangible assets	09	325.4	356.3	–30.9
Participations	10, 29	147.2	146.3	+0.9
Other assets	11, 31	377.2	222.0	+155.2
Total assets		**346 079.3**	**269 954.9**	**+76 124.4**

Liabilities

	Item no. in Notes	31.12.2011	31.12.2010	Change
Banknotes in circulation	12	55 728.9	51 498.0	+4 230.9
Sight deposits of domestic banks		180 720.7	37 950.7	+142 770.0
Liabilities towards the Confederation	13	5 647.5	5 347.2	+300.3
Sight deposits of foreign banks and institutions		1 884.5	3 779.4	–1 894.9
Other sight liabilities	14	28 447.9	1 839.2	+26 608.7
Liabilities from Swiss franc repo transactions		–	13 182.1	–13 182.1
SNB debt certificates	15	14 719.5	107 869.6	–93 150.1
Other term liabilities		366.4	–	+366.4
Foreign currency liabilities	16	551.6	1 068.7	–517.1
Counterpart of SDRs allocated by the IMF		4 734.6	4 736.5	–1.9
Other liabilities	17, 31	155.1	92.0	+63.1
Operating provisions	18	7.3	3.5	+3.8
Provisions for currency reserves[1]		45 061.3	44 337.1	+724.2
Share capital	19	25.0	25.0	–
Distribution reserve[2]		–5 000.0	19 032.8	–24 032.8
Annual result[1]		13 028.9	–20 807.1	+33 836.0
Total liabilities		**346 079.3**	**269 954.9**	**+76 124.4**

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 2011

In CHF millions

	Item no. in Notes	2011	2010	Change
Net result from gold	20	5 392.3	5 836.3	–444.0
Net result from foreign currency positions	21	7 963.1	–26 492.5	+34 455.6
Net result from Swiss franc positions	22	–162.7	70.9	–233.6
Net result, other	23	94.8	28.2	+66.6
Gross income		**13 287.6**	**–20 557.1**	**+33 844.7**
Banknote expenses		–20.4	–21.4	+1.0
Personnel expenses	24, 25	–128.8	–116.4	–12.4
General overheads	26	–73.1	–73.6	+0.5
Depreciation on tangible assets	09	–36.2	–38.7	+2.5
Annual result		**13 028.9**	**–20 807.1**	**+33 836.0**
Allocation to provisions for currency reserves		–3 154.3	–724.2	–2 430.1
Distributable annual profit		**9 874.7**	**–21 531.3**	**31 406.0**
Released from (+)/allocated to (–) distribution reserve		–8 873.2	+24 032.8	–32 906.0
Total profit distribution		**1 001.5**	**2 501.5**	**–1 500.0**
Of which				
Payment of a dividend of 6%		1.5	1.5	–
Profit distribution to Confederation and cantons (in accordance with agreement of 21 November 2011)		1 000.0	2 500.0	–1 500.0

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 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				–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**
Equity as at 1 January 2011	**25.0**	**44 337.1**	**19 032.8**	**–20 807.1**	**42 587.8**
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
Annual result				13 028.9	13 028.9
Equity as at 31 December 2011 (before appropriation of profit)	**25.0**	**45 061.3**	**–5 000.0**	**13 028.9**	**53 115.3**
Proposed appropriation of profit					
Endowment of provisions for currency reserves pursuant to NBA		3 154.3		–3 154.3	
Allocation to distribution reserve			8 873.2	–8 873.2	
Distribution of dividends to shareholders				–1.5	–1.5
Profit distribution to Confederation and cantons				–1 000.0	–1 000.0
Equity after appropriation of profit	**25.0**	**48 215.6**	**3 873.2**	**–**	**52 113.8**

4 Notes to the annual financial statements of the parent company as at 31 December 2011

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

The SNB participates in the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB) of the International Monetary Fund (IMF). The last expansion of the NAB was in 2010; the loans drawn down in 2011 were based on the expanded arrangements. The SNB's resulting claim against the IMF is recorded in the balance sheet under the reserve position in the IMF. The undrawn credit lines will continue to be recorded under irrevocable undertakings as off-balance-sheet business.

Compared with the previous year, there were no further changes 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.

Claims from US dollar repo transactions and the corresponding other term liabilities were introduced in December 2007. Discontinued in September 2009, US dollar repo transactions were resumed in August 2011 and from December 2011 onwards. Their accounting and valuation principles remained unchanged.

The practice employed for the recognition of tangible assets was standardised without any material impact.

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 business.

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 under net result from gold.

Claims from gold transactions

In managing its investment portfolio, the SNB 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 under net result from gold.

Foreign currency investments

In foreign currency investments, negotiable securities (money market instruments, bonds and equity instruments) as well as credit balances (sight deposits and call money, time deposits) and claims from foreign currency repo transactions 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 under net result from foreign currency positions.

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

Foreign currency purchased through foreign exchange swaps as well as foreign currency repos concluded for investment purposes are also reported under this balance sheet item.

Reserve position in the IMF

The reserve position in the International Monetary Fund (IMF) consists of the Swiss quota less the IMF's sight balances at the SNB as well as of claims based on the GAB and NAB.

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.

With the GAB and NAB, the IMF can – in the event of a crisis or if its own resources are in short supply – draw on credit lines from participants in these arrangements. The SNB's undrawn credit lines are recorded as irrevocable undertakings under off-balance-sheet business.

The reserve position is stated at nominal value inclusive of accrued interest. 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 under net result from foreign currency positions.

International payment instruments

International payment instruments comprise the SDRs with the IMF. They include SDRs allocated to Switzerland as a member country as well as claims from the amended two-way arrangement with the IMF. Sight deposits in SDRs are stated at nominal value inclusive of accrued interest. They attract interest at market conditions. Interest expenses and exchange rate gains and losses are stated under net result from foreign currency positions.

The liability entered into by the allocation is stated under 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 under net result from foreign currency positions.

Claims from US dollar repo transactions

The repo transactions in US dollars included in this balance sheet item were concluded in collaboration with other central banks. The claims are fully backed by collateral eligible for SNB repos and are stated at year-end at nominal value inclusive of accrued interest.

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 arising from liquidity-providing 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 under net result from Swiss franc positions.

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 under net result from Swiss franc positions.

Loan to stabilisation fund

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 under net result from foreign currency positions.

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

Banknote stocks

Freshly printed banknotes which have not yet been put into circulation are recognised as assets at acquisition cost and stated under banknote stocks. Development costs that qualify for recognition as an asset also fall under this balance sheet item. At the time a banknote first enters into circulation, its cost is recognised as banknote expenses.

Tangible assets

Tangible assets comprise land and buildings, fixed assets under construction and sundry tangible assets. For sundry tangible assets, the minimum value for recognition as an asset is CHF 20,000. Other investment (projects) resulting in an increase in value is recognised as an asset from an amount of CHF 100,000. Tangible assets are valued at acquisition cost less required depreciation.

Period of depreciation

Land and buildings	
Land	No depreciation
Buildings (building structure)	50 years
Conversions (technical equipment and interior finishing work)	10 years
Fixed assets under construction[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 under 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 under net result, other.

Derivative financial instruments

The SNB uses forward foreign exchange transactions (including foreign exchange swaps), 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. 161 et seq.).

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 under 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 under 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 under 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 SNB steers monetary policy. They also facilitate the settlement of cashless payments in Switzerland. These sight deposits are non-interest-bearing accounts which are stated at nominal value.

Liabilities towards the Confederation

The SNB 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 under net result from Swiss franc positions.

Sight deposits of foreign banks and institutions

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

Other sight liabilities

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 under net result from Swiss franc positions.

Liabilities 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.

Liabilities arising from liquidity-absorbing repo transactions are stated at nominal value inclusive of accrued interest. Interest expenses are stated under net result from Swiss franc positions.

SNB debt certificates

To absorb liquidity from the market, the National Bank issues its own, interest-bearing debt certificates (SNB Bills) in Swiss francs. Money market management requirements dictate the frequency, term and amount of these issues. In addition, to refinance its loan to the stabilisation fund, the SNB issued its own debt securities in US dollars (SNB USD Bills). 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 under net result from Swiss franc positions or under net result from foreign currency positions.

At the end of 2010, there were no outstanding debt certificates in US dollars, and in 2011, no debt certificates in US dollars were issued.

Other term liabilities

This balance sheet item contains additional term liabilities in Swiss francs which arose from swap transactions with the US Federal Reserve. They are stated at nominal value inclusive of accrued interest. Interest expenses are stated under net result from Swiss franc positions.

Foreign currency liabilities

Foreign currency liabilities are comprised of different sight liabilities and short-term term liabilities as well as repo transactions related to the management of foreign currency investments. These repo transactions (temporary transfer of securities against sight deposits, with reverse settlement on maturity) result in an increase in the balance sheet total. On the one hand, the securities remain on the SNB's books, while on the other, the cash received as well as the obligation to repay it on maturity are stated in the balance sheet. Foreign currency liabilities of this kind are stated at nominal value inclusive of accrued interest. Interest expenses and exchange rate gains and losses are stated under net result from foreign currency positions.

Counterpart of SDRs allocated by the IMF

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

Operating provisions

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.

Provisions for currency reserves

Art. 30 para. 1 NBA stipulates that the SNB 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 (cf. p. 129). 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 SNB's 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 is offset against losses and can therefore 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

	31.12.2011 CHF	31.12.2010 CHF	Change In percent
1 euro (EUR)	1.2172	1.2494	–2.6
1 US dollar (USD)	0.9378	0.9327	+0.5
100 Japanese yen (JPY)	1.2149	1.1479	+5.8
1 Canadian dollar (CAD)	0.9198	0.9348	–1.6
1 pound sterling (GBP)	1.4581	1.4529	+0.4
1 Australian dollar (AUD)	0.9558	0.9495	+0.7
100 Danish kroner (DKK)	16.3768	16.7600	–2.3
100 Swedish kronor (SEK)	13.6694	13.9100	–1.7
1 Singapore dollar (SGD)	0.7232	0.7283	–0.7
1 Special Drawing Right (SDR)	1.4400	1.4405	–0.0
1 kilogram of gold	47 472.70	42 289.16	+12.3

4.2 Notes to the balance sheet and income statement

Gold holdings

Item no. 01

Breakdown by type	31.12.2011 In tonnes	In CHF millions	31.12.2010 In tonnes	In CHF millions
Gold ingots	986.0	46 809.4	986.0	41 698.3
Gold coins	39.0	1 853.1	39.0	1 650.7
Total[1]	1 025.1	48 662.5	1 025.1	43 349.0

1 Total also includes lent gold shown under item no. 02.

Claims from gold transactions

Item no. 02

	31.12.2011 In tonnes	In CHF millions	31.12.2010 In tonnes	In CHF millions
Claims from secured gold lending[1]	14.9	713.3	14.9	634.9
Claims on metal accounts	0.1	4.2	0.1	3.9
Total	15.0	717.5	15.0	638.9

1 Secured by collateral eligible for repo transactions with a market value of CHF 787.4 million (2010: CHF 657.2 million).

Item no. 03

Foreign currency investments

Breakdown by investment type In CHF millions	**31.12.2011**	**31.12.2010**	**Change**
Sight deposits and call money	29 782.3	452.7	+29 329.6
Time deposits	–	404.5	–404.5
Claims from repo transactions	3 249.8	1 067.5	+2 182.3
Money market instruments	1 086.6	1 249.3	–162.7
Bonds[1]	202 814.2	179 209.2	+23 605.0
Equities	20 571.2	21 426.5	–855.3
Total[2]	257 504.2	203 809.6	+53 694.6

1 Of which CHF 608.1 million (2010: CHF 275.4 million) lent under securities lending operations.
2 As at end of 2011, including investments in connection with foreign exchange swaps.

Breakdown by borrower category In CHF millions	**31.12.2011**	**31.12.2010**	**Change**
Governments	195 533.5	173 179.9	+22 353.6
Monetary institutions[1]	8 781.5	963.3	+7 818.2
Corporations	53 189.2	29 666.5	+23 522.7
Total	257 504.2	203 809.6	+53 694.6

1 BIS, central banks and multilateral development banks.

Breakdown by currency[1] In CHF millions	**31.12.2011**	**31.12.2010**	**Change**
EUR	146 654.8	111 956.3	+34 698.5
USD	59 029.8	50 632.0	+8 397.8
JPY	21 546.6	20 708.2	+838.4
CAD	11 054.3	8 439.0	+2 615.3
GBP	10 941.5	6 334.7	+4 606.8
AUD	3 203.1	2 673.8	+529.3
DKK	1 990.3	1 002.9	+987.4
SEK	2 022.1	1 032.6	+989.5
SGD	1 061.1	1 029.8	+31.3
Other	0.5	0.3	+0.2
Total	257 504.2	203 809.6	+53 694.6

1 Excluding foreign exchange derivatives. For a breakdown by currency including foreign exchange derivatives, cf. 'Risks posed by financial instruments', pp. 161 et seq.

Reserve position in the IMF

Item no. 04

In CHF millions	31.12.2011	31.12.2010	Change
Swiss quota in the IMF[1]	4 980.6	4 982.6	–2.0
Less: IMF's Swiss franc sight balances at the SNB	–2 926.5	–3 915.0	+988.5
Loan based on New Arrangements to Borrow (NAB)[2]	1 080.4	–	+1 080.4
Total	3 134.5	1 067.7	+2 066.8

1 Change in quota: SDR 3,458.5 million; due entirely to exchange rates.

2 For undrawn loan commitments, cf. item no. 28, p. 153.

Monetary assistance loans

Item no. 05

In CHF millions	31.12.2011	31.12.2010	Change
PRGT loan facility[1]	–	–	–
Interim PRGT loan facility[2]	301.4	300.4	+1.0
Total	301.4	300.4	+1.0

1 Poverty Reduction and Growth Trust of the International Monetary Fund.

2 For undrawn loan commitments, cf. item no. 28, p. 153.

Swiss franc securities

Item no. 06

Breakdown by borrower category In CHF millions	31.12.2011	31.12.2010	Change
Governments	1 557.7	1 509.1	+48.6
Corporations	2 117.4	1 988.3	+129.1
Total	3 675.1	3 497.4	+177.7

Breakdown of *governments* borrower category In CHF millions	31.12.2011	31.12.2010	Change
Swiss Confederation	868.8	867.0	+1.8
Cantons and municipalities	387.3	355.7	+31.6
Foreign states	301.6	286.4	+15.2
Total	1 557.7	1 509.1	+48.6

Breakdown of *corporations* borrower category In CHF millions	**31.12.2011**	**31.12.2010**	**Change**
Domestic mortgage bond institutions	743.1	546.6	+196.5
Other domestic corporations[1]	74.9	79.4	–4.5
Foreign corporations[2]	1 299.5	1 362.2	–62.7
Total	2 117.4	1 988.3	+129.1

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

Item no. 07

Loan to stabilisation fund

In CHF millions	**31.12.2011**	**31.12.2010**	**Change**
Short-term receivables	0.4	0.7	–0.3
Loan in USD[1]	5 755.4	8 983.1	–3 227.7
Loan in EUR[1]	339.1	706.5	–367.4
Loan in GBP[1]	1 332.6	1 890.3	–557.7
Loan in JPY[1]	217.5	205.5	+12.0
Total[2]	7 644.9	11 786.1	–4 141.2

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 (2010: USD 1.9 billion).

Item no. 08

Banknote stocks

In CHF millions	**Banknote stocks**
As at 1 January 2010	107.2
Additions	24.8
Disposals	–21.0
As at 31 December 2010	110.9
As at 1 January 2011	110.9
Additions	38.7
Disposals	–19.8
As at 31 December 2011[1]	129.8

1 Of which CHF 28.8 million in advance payments.

Tangible assets

Item no. 09

In CHF millions	Land and buildings[1]	Fixed assets under construction	Software	Sundry tangible assets[2]	Total
Historical cost					
1 January 2011	503.6	9.5	41.9	63.3	618.3
Additions	3.5	8.1	7.5	6.3	25.4
Disposals	–27.3	–	–10.8	–8.4	–46.5
Reclassified	9.5	–9.5	–	0.0	–
31 December 2011	489.4	8.1	38.5	61.2	597.2
Cumulative value adjustments					
1 January 2011	186.5		24.1	51.5	262.0
Scheduled depreciation	18.9		11.6	5.8	36.2
Disposals	–7.4		–10.8	–8.3	–26.5
Reclassified	0.0		–	0.0	–
31 December 2011	198.0		24.8	49.0	271.8
Net book values					
1 January 2011	317.1	9.5	17.8	11.8	356.3
31 December 2011	291.4	8.1	13.7	12.2	325.4

1 Insured value: CHF 397.5 million (2010: CHF 429.2 million); disposals from sale of premises in Geneva.
2 Insured value: CHF 56.8 million (2010: CHF 56.5 million).

Item no. 10

Participations

In CHF millions	Orell Füssli[1]	BIS[2]	Other[3]	Total
Equity interest	33%	3%		
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
Book value as at 1 January 2011	55.2	90.2	0.8	146.3
Investments	–	–	–	–
Divestments	–	–	–	–
Valuation changes	+0.9	–	–	+0.9
Book value as at 31 December 2011	56.1	90.2	0.8	147.2

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 Including interests in StabFund (GP) AG and LiPro (LP) AG, each with a share capital of CHF 0.1 million.

Item no. 11

Other assets

In CHF millions	31.12.2011	31.12.2010	Change
Coins[1]	118.9	135.1	–16.2
Foreign banknotes	1.1	1.0	+0.1
Other accounts receivable	16.3	0.3	+16.0
Prepayments and accrued income	2.9	2.5	+0.4
Cheques and bills of exchange (collection business)	0.0	0.1	–0.1
Positive replacement values[2]	238.1	83.0	+155.1
Total	377.2	222.0	+155.2

1 Coins acquired from Swissmint destined for circulation.

2 Unrealised gains on financial instruments and on outstanding spot transactions (item no. 31, p. 156).

Banknotes in circulation

Item no. 12

Breakdown by issue In CHF millions	31.12.2011	31.12.2010	Change
8th issue	54 450.6	50 178.0	+4 272.6
6th issue[1]	1 278.3	1 320.0	–41.7
Total	55 728.9	51 498.0	+4 230.9

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. 13

In CHF millions	31.12.2011	31.12.2010	Change
Sight liabilities	4 647.5	847.1	+3 800.4
Term liabilities	1 000.0	4 500.1	–3 500.1
Total	5 647.5	5 347.2	+300.3

Other sight liabilities

Item no. 14

In CHF millions	31.12.2011	31.12.2010	Change
Sight deposits of non-banks	28 199.2	1 588.2	+26 611.0
Deposit accounts[1]	248.8	251.0	–2.2
Cheque liabilities[2]	0.0	0.0	–0.0
Total	28 447.9	1 839.2	+26 608.7

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 36.2 million as at 31 December 2011 (2010: CHF 54.6 million).

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

SNB debt certificates

Item no. 15

In millions	31.12.2011 USD	 CHF	31.12.2010 CHF	Change
In CHF (SNB Bills)		14 719.5	107 869.6	–93 150.1
In USD (SNB USD Bills)[1]	–	–	–	–
Total	–	14 719.5	107 869.6	–93 150.1

1 Final redemptions in December 2010.

Item no. 16

Foreign currency liabilities

In CHF millions	31.12.2011	31.12.2010	Change
Sight liabilities	5.4	1.3	+4.1
Liabilities from repo transactions[1]	546.2	1 067.4	–521.2
Other foreign currency liabilities	0.1	–	+0.1
Total	551.6	1 068.7	–517.1

1 Relating to the management of foreign currency investments.

Item no. 17

Other liabilities

In CHF millions	31.12.2011	31.12.2010	Change
Other liabilities	12.2	15.6	–3.4
Accrued liabilities and deferred income	8.1	11.7	–3.6
Negative replacement values[1]	134.8	64.7	+70.1
Total	155.1	92.0	+63.1

1 Unrealised losses on financial instruments and on outstanding spot transactions (item no. 31, p. 156).

Item no. 18

Operating provisions

In CHF millions	Provisions due to reorganisation	Other provisions	Total
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
Book value as at 1 January 2011	2.4	1.1	3.5
Formation	4.7[1]	0.1	4.8
Release	–1.0	–0.1	–1.1
Write-back	–	–	–
Book value as at 31 December 2011	6.2	1.1	7.3

1 Relating to the closure of the branch office in Geneva.

Share capital

Item no. 19

Shares

	2011	2010
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	947	990
Market capitalisation in CHF	94 700 000	99 000 000
Annual high in CHF	1 290	1 075
Annual low in CHF	915	956
Average daily trading volume in number of shares	44	21

1 Listed under the Main Standard (formerly Main Market segment) on SIX Swiss Exchange; moved as of 1 January 2012 to the Domestic Standard (formerly Local Caps segment).

Breakdown of share ownership as at 31 December 2011

	Number of shares	In percentage of shares registered
2,185 private shareholders with a total of	**31 298**	**37.03**[1]
Of which 1,866 shareholders with 1–10 shares each		
Of which 285 shareholders with 11–100 shares each		
Of which 17 shareholders with 101–200 shares each[2]		
Of which 17 shareholders with over 200 shares each[2]		
76 public sector shareholders with a total of	**53 214**	**62.97**
Of which 26 cantons with a total of	38 981	
Of which 24 cantonal banks with a total of	13 673	
Of which 26 other public authorities and institutions with a total of	560	
Total 2,261 registered shareholders with a total of[3]	**84 512**[4]	**100**
Registration applications pending or outstanding for	15 488	
Total shares	**100 000**	

1 Legal entities: 8,548 shares (10.11%); private individuals: 22,750 shares (26.92%). Private shareholders account for 21.24% of voting rights.

2 Voting rights are limited to 100 shares.

3 In 2011, the number of shareholders decreased by 52 and the number of registered shares fell by 1,464.

4 Of which 8,733 shares are in foreign ownership (accounting for 1.40% of voting rights).

Principal shareholders

	31.12.2011		31.12.2010	
	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 individuals[1]

	31.12.2011		31.12.2010	
	Number of shares	Equity participation	Number of shares	Equity participation
Theo Siegert, Düsseldorf	5 950	5.95%	5 550	5.55%

1 Subject to legal restrictions as a shareholder outside the public law sector (art. 26 NBA), i.e. voting rights are limited to 100 shares.

Item no. 20

Net result from gold

Breakdown by type In CHF millions	**2011**	**2010**	**Change**
Net result from changes in market value	5 391.3	5 826.8	–435.5
Interest income from gold lending transactions	1.0	9.5	–8.5
Total	5 392.3	5 836.3	–444.0

Item no. 21

Net result from foreign currency positions

Breakdown by origin In CHF millions	**2011**	**2010**	**Change**
Foreign currency investments	7 749.3	–24 927.1	+32 676.4
Reserve position in the IMF	67.3	–126.4	+193.7
International payment instruments	–2.7	–1.1	–1.6
Monetary assistance loans	2.2	–36.0	+38.2
SNB debt certificates	–	–502.2	+502.2
Foreign currency liabilities	–20.8	–52.1	+31.3
Other foreign currency positions[1]	167.9	–847.5	+1 015.4
Total	7 963.1	–26 492.5	+34 455.6

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

Breakdown by type In CHF millions	**2011**	**2010**	**Change**
Interest income[1]	5 763.3	5 107.4	+655.9
Price gain/loss on interest-bearing paper and instruments	3 722.7	–692.1	+4 414.8
Interest expenses	–38.8	–60.6	+21.8
Dividend income	562.3	320.6	+241.7
Price gain/loss on equity securities and instruments	–1 915.5	1 542.1	–3 457.6
Exchange rate gain/loss	–123.9	–32 699.6	+32 575.7
Asset management, safe custody and other fees	–6.9	–10.3	+3.4
Total	7 963.1	–26 492.5	+34 455.6

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

Breakdown of overall net result by currency In CHF millions	**2011**	**2010**	**Change**
EUR[1]	1 835.8	–18 665.6	+20 501.4
USD[1]	3 855.0	–6 219.3	+10 074.3
JPY[1]	632.0	–466.4	+1 098.4
CAD	256.0	–335.7	+591.7
GBP[1]	688.4	–480.7	+1 169.1
AUD	374.2	37.1	+337.1
DKK	84.8	–91.2	+176.0
SEK	145.8	–57.4	+203.2
SGD	31.3	–43.5	+74.8
SZR	66.8	–163.5	+230.3
Other	–6.9	–6.2	–0.7
Total	7 963.1	–26 492.5	+34 455.6

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

Breakdown of exchange rate gain/loss by currency In CHF millions	2011	2010	Change
EUR[1]	–2 098.2	–21 202.4	+19 104.2
USD[1]	424.0	–8 931.9	+9 355.9
JPY[1]	1 217.7	–670.9	+1 888.6
CAD	–97.9	–619.7	+521.8
GBP[1]	343.9	–1 020.2	+1 364.1
AUD	41.0	61.7	–20.7
DKK	–15.2	–91.6	+76.4
SEK	8.3	–24.6	+32.9
SGD	–5.7	–31.4	+25.7
SZR	58.2	–168.6	+226.8
Other	0.0	0.0	–0.0
Total	–123.9	–32 699.6	–32 575.7

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

Item no. 22

Net result from Swiss franc positions

Breakdown by origin In CHF millions	2011	2010	Change
Swiss franc securities	188.0	239.7	–51.7
Liquidity-providing Swiss franc repo transactions	–16.5	3.4	–19.9
Liquidity-absorbing Swiss franc repo transactions	–11.9	–14.1	+2.2
Other assets	0.0	0.0	+0.0
Liabilities towards the Confederation	–2.7	–5.3	+2.6
SNB debt certificates	–313.1	–146.3	–166.8
Other sight liabilities	–6.5	–6.5	+0.0
Total	–162.7	70.9	–233.6

Breakdown by type In CHF millions	2011	2010	Change
Interest income	89.8	139.9	–50.1
Price gain/loss on interest-bearing paper and instruments	105.0	110.3	–5.3
Interest expenses	–306.8	–120.9	–185.9
Trading, safe custody and other fees	–50.6	–58.4	+7.8
Total	–162.7	70.9	–233.6

Net result, other

Item no. 23

In CHF millions	2011	2010	Change
Commission income	11.1	14.2	–3.1
Commission expenses	–10.3	–12.7	+2.4
Income from participations	9.3	18.9	–9.6
Income from real estate	3.6	3.8	–0.2
Other income[1]	81.2	4.0	+77.2
Total	94.8	28.2	+66.6

1 Of which CHF 77.6 million (2010: CHF 0.8 million) from sale of tangible assets (primarily from sale of premises in Geneva).

Item no. 24

Personnel expenses

Breakdown by type In CHF millions	**2011**	**2010**	**Change**
Wages, salaries and allowances	96.1	90.4	+5.7
Social security expenses	20.6	17.7	+2.9
Other personnel expenses[1]	12.2	8.2	+4.0
Total	128.8	116.4	+12.4

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

Remuneration for the Bank Council[1] In CHF thousands	**2011**	**2010**	**Change**
Hansueli Raggenbass, President[2,3]	147.8	145.0	+2.8
Jean Studer, Vice President[2,3]	72.8	70.0	+2.8
Gerold Bührer[2,4]	53.4	45.0	+8.4
Monika Bütler (as of 30 April 2010)	45.0	30.0	+15.0
Rita Fuhrer (until 30 April 2010)	–	15.0	–15.0
Alfredo Gysi (as of 1 May 2011)[5]	32.8	–	+32.8
Konrad Hummler (until 29 April 2011)[5]	17.8	50.6	–32.8
Armin Jans (until 29 April 2011)[3,4]	17.8	56.2	–38.4
Daniel Lampart[5]	47.8	50.6	–2.8
Franz Marty (until 30 April 2010)[4]	–	17.8	–17.8
Laura Sadis	45.0	45.0	–
Olivier Steimer[5]	50.6	50.6	–
Ernst Stocker (as of 1 May 2010)[4]	56.2	32.8	+23.4
Fritz Studer[4]	67.4	56.2	+11.2
Cédric Tille (as of 29 April 2011)[3]	30.0	–	+30.0
Total	684.4	664.8	+19.6

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 Compensation Committee.

3 Member of Nomination Committee.

4 Member of Audit Committee.

5 Member of Risk Committee.

Remuneration for executive management[1] (excluding employer social security contributions) In CHF thousands	2011 Salaries	Miscellaneous[2]	**Total remuneration**	2010 Total remuneration	Change
Three members of the Governing Board	2 546.7	85.1	**2 631.8**	2 583.4	+48.4
Philipp M. Hildebrand, Chairman[3]	848.9	29.2	**878.1**	861.9	+16.2
Thomas Jordan	848.9	28.0	**876.9**	860.8	+16.1
Jean-Pierre Danthine	848.9	28.0	**876.9**	860.8	+16.1
Three alternate members of the Governing Board	1 327.4	60.5	**1 387.8**	1 310.8	+77.0
Total	3 874.2	145.5	**4 019.7**	3 894.2	+125.5

Remuneration for executive management[1] (including employer social security contributions) In CHF thousands	2011 Total remuneration	Employer contributions to pension plans and Old Age and Survivors' Insurance Fund	Total	2010 Total	Change
Three members of the Governing Board	2 631.8	571.7	3 203.5	3 362.0	–158.5
Philipp M. Hildebrand, Chairman[3]	878.1	170.8	1 048.9	994.8	+54.1
Thomas Jordan	876.9	170.8	1 047.7	993.7	+54.0
Jean-Pierre Danthine	876.9	230.0	1 106.9	1 373.6[4]	–266.7
Three alternate members of the Governing Board	1 387.8	291.2	1 679.1	1 803.6	–124.5
Total	4 019.7	862.9	4 882.6	5 165.6	–283.0

1 All remuneration is specified in SNB regulations (cf. also 'Corporate governance', pp. 107–111).

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

3 Including remuneration in the amount of CHF 67,914 for serving as member of the Board of Directors at the BIS.

4 Including one-off pension plan buy-in.

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 2011.

Item no. 25

Employee benefit obligations[1]

Share of actuarial surplus of pension plans[2] In CHF millions	**31.12.2011**	**31.12.2010**	**Change**
Overfunding in accordance with Swiss GAAP FER 26[2]	62.0	74.9	–12.9
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	**2011**	**2010**	**Change**
Employer contributions	13.6	11.4	+2.2
Change in share of actuarial surplus	–	–	–
Employee benefit expenses as part of personnel expenses	13.6	11.4	+2.2

Item no. 26

General overheads

In CHF millions	**2011**	**2010**	**Change**
Premises	13.5	15.2	–1.7
Maintenance of mobile tangible assets and software	13.4	14.1	–0.7
Consulting and other third-party support	17.8	15.6	+2.2
Administrative expenses	15.6	15.1	+0.5
Contributions[1]	7.2	7.8	–0.6
Other general overheads	5.7	5.8	–0.1
Total	73.1	73.6	–0.5

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

4.3 Notes regarding off-balance-sheet business

Liquidity-shortage financing facility

Item no. 27

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	31.12.2011	31.12.2010	Change
Credit undertaking	32 889.5	37 486.5	–4 597.0
Of which drawn down	–	–	–
Of which not drawn down	32 889.5	37 486.5	–4 597.0

Irrevocable undertakings

Item no. 28

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	31.12.2011	31.12.2010	Change
International payment instruments (two-way arrangement)	2 367.3	2 368.3	–1.0
Extended Credit Facility of the PRGT	720.0	4.9	+715.1
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)	16 091.6	2 218.4	+13 873.2
Total	19 178.9	4 591.6	+14 587.3

Details: International payment instruments (two-way arrangement[1]) In CHF millions	31.12.2011	31.12.2010	Change[2]
Credit undertaking	2 367.3	2 368.3	–1.0
Of which drawn down	–	–	–
Of which not yet drawn down	2 367.3	2 368.3	–1.0

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.

2 Change due entirely to exchange rates.

Details: Extended Credit Facility of the PRGT In CHF millions	**31.12.2011**[1]	**31.12.2010**[2]	**Change**
Credit undertaking	720.0	360.1	+359.9
Of which drawn down	–	355.3	–355.3
Of which not yet drawn down	720.0	4.9	+715.1

1 New limited-term credit undertaking to the IMF's trust fund amounting to SDR 500 million (item no. 05, p. 139); with federally guaranteed repayment of principal and payment of interest.

2 The portion of the credit undertaking not drawn down as at the end of 2010 – CHF 4.9 million (SDR 3.4 million) – was drawn down in 2011. The now fully drawn-down credit undertaking amounting to SDR 250 million is no longer recorded here.

Details: General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[1] In CHF millions	**31.12.2011**	**31.12.2010**	**Change**
Credit undertaking	17 172.0	2 218.4	+14 953.6
Of which drawn down	1 080.4	–	+1 080.4
Of which not drawn down	16 091.6	2 218.4	+13 873.2

1 Credit lines totalling SDR 11,925 million (2010: 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).

Item no. 29

Other obligations not carried on the balance sheet

In CHF millions	**31.12.2011**	**31.12.2010**	**Change**
Additional funding for the BIS[1]	93.0	93.0	–0.0
Liabilities from long-term rental, maintenance and leasing contracts	13.4	16.0	–2.6
Contingent liabilities from procurement of banknotes	66.9	72.7	–5.8
Loan commitment to stabilisation fund[2]	810.6	1 968.7	–1 158.1
Total	983.9	2 150.4	–1 166.5

1 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. 30

In CHF millions	**31.12.2011** Book value	Liabilities or amount drawn down	**31.12.2010** Book value	Liabilities or amount drawn down
Foreign currency investments in USD	47.7	–	16.8	–
Foreign currency investments in EUR	789.8	546.2	14 338.5	14 249.5
Securities in CHF	20.2	–	59.0	–
Total[1]	857.7	546.2	14 414.3	14 249.5

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

Item no. 31

Outstanding financial instruments[1]

In CHF millions	31.12.2011 Contract value	Replacement value Positive	Replacement value Negative	31.12.2010 Contract value	Replacement value Positive	Replacement value Negative
Interest rate instruments	**13 621.9**	**59.9**	**54.7**	**24 149.6**	**30.4**	**36.3**
Repo transactions in CHF[2]	10 000.0	–	–	13 550.0	–	–
Repo transactions in foreign currency[2]	–	–	–	170.9	–	–
SNB debt certificates[2]	–	–	–	6 944.5	–	–
Forward contracts[1]	207.0	0.0	0.1	40.4	0.0	0.0
Interest rate swaps	1 087.1	59.5	54.3	2 777.5	30.2	35.9
Futures	2 327.8	0.4	0.4	666.3	0.2	0.4
Foreign exchange	**31 278.0**	**173.4**	**78.3**	**3 943.8**	**51.8**	**26.6**
Forward contracts[1,3]	31 086.8	173.4	77.9	3 367.7	51.8	24.9
Options	191.2	–	0.4	576.0	0.0	1.7
Equities/indices	**1 184.0**	**0.3**	**0.1**	**1 014.3**	**0.7**	**0.3**
Forward contracts[1]	–	–	–	5.7	0.3	0.1
Futures	1 184.0	0.3	0.1	1 008.6	0.5	0.2
Credit instruments	**41.2**	**4.5**	**0.2**	**2.2**	**0.0**	**0.0**
Credit default swaps	41.2	4.5	0.2	2.2	0.0	0.0
Stabilisation fund options	**9 224.3**	**–**	**1.4**	**12 781.8**	**–**	**1.4**
Warrant[4]	10.0	–	–	10.0	–	–
GP purchase option[5]	1.5	–	1.4	1.5	–	1.4
Repurchase option[6]	9 212.8	–	–	12 770.3	–	–
Total[7]	**55 349.3**	**238.1**	**134.8**	**41 891.6**	**83.0**	**64.7**

1 Including spot transactions with the value date in the new year.

2 Only transactions with the settlement date in the new year.

3 Including forward contracts to finance the loan to the stabilisation fund.

4 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.

5 The SNB granted UBS the option to take over the share capital of StabFund (GP) AG, and with it two shares (out of a total of 6,000 shares) in SNB StabFund Limited Partnership for Collective Investment.

6 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.

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

Fiduciary investments

Item no. 32

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	31.12.2011	31.12.2010	Change
Fiduciary investments for the Confederation	335.7	214.1	+121.6
Other fiduciary investments	1.3	2.9	–1.6
Total	337.0	217.0	+120.0

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', pp. 107 et seq.).

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 SNB'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 is responsible, among other things, for issuing the strategic guidelines for the SNB's business operations, as well as the Charter and the Code of Conduct.

The Board of Deputies is responsible both for planning and implementing the strategic guidelines and for the SNB's business operations, and, to this end, issues internal directives. It ensures coordination in all operational matters that are of inter-departmental importance.

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 SNB'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

Risks

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

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

Oversight

The Bank Council oversees and monitors the conduct of business by the SNB. 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 2010 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 25 February 2011. 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. 107 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 the financial risks associated with investments.

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

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

Organisation with regard to financial risk

The financial risks are continuously monitored by the Risk Management 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 Board of Deputies – the three deputy members of the Governing Board – is responsible for the management and control of operational risk. It prepares the strategic guidelines, is responsible for their implementation throughout the bank and ensures appropriate reporting to the Enlarged Governing Board. The Audit Committee discusses the business report on the management of operational risk before the Bank Council has taken note of it.

The department heads ensure implementation of the guidelines on operational risk in their organisational units and monitor compliance with them. The line managers are responsible for the management of operational risk.

Compliance plays an important role in the management of operational risk. Compliance at the SNB comprises several advisory services throughout the bank that provide advice and support to line managers and members of staff in matters of compliance. The activities of the advisory services were coordinated by the Compliance Committee. An evaluation of the organisational setup of compliance led to a decision to increase its staff numbers as of the beginning of 2012. In addition, the Chairman of the Compliance Committee will now inform the Chairman of the Governing Board as well as the Chairman of the Audit Committee directly of any serious infringement by a member of the Enlarged Governing Board.

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

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 matters

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.

Risks posed by financial instruments

Risks incurred by the SNB

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 risk factor has been the very sharp rise in foreign exchange holdings since 2009.

Market risk

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.

Exchange rate and gold price risk

The SNB 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.

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		48 662				48 662
Claims from gold transactions		713	5			717
Foreign currency investments			59 030	146 655	51 820	257 504
Reserve position in the IMF					3 135	3 135
International payment instruments					4 621	4 621
Monetary assistance loans					301	301
Claims from US dollar repo transactions			371			371
Claims from Swiss franc repo transactions	18 468					18 468
Swiss franc securities	3 675					3 675
Loan to stabilisation fund	0		5 755	339	1 550	7 645
Other	734		9	219	18	980
Total assets as per balance sheet	22 877	49 375	65 169	147 213	61 444	346 079
Total liabilities as per balance sheet	–340 658		–26	–596	–4 799	–346 078
Foreign exchange derivatives (net)[1]	1 687		2 650	–3 157	–1 139	42
Net exposure on 31 December 2011	–316 094	49 375	67 794	143 460	55 506	42
Net exposure on 31 December 2010	–259 843	43 984	60 912	112 089	42 884	26

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

Interest-bearing investments

As at 31 December	2011 Duration In years	Market value In CHF millions	PVBP[1] In CHF millions	2010 Duration In years	Market value In CHF millions	PVBP[1] In CHF millions
Gold lending		717			639	
Investments in CHF[2]	6.1	3 675	2	5.6	3 497	2
Investments in USD[3]	4.3	51 809	22	4.0	43 480	17
Investments in EUR[3]	3.2	140 740	45	4.0	105 392	41
Investments in other currencies[3]	3.9	44 385	16	3.9	33 511	13

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

2 Excluding repos.

3 Including investments in connection with foreign exchange swaps.

Share price risk

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

Total market risk

Risk is managed and 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.

Default risk: credit risk relating to regular financial instruments

Credit risk results from the possibility that counterparties or other issuers of securities will fail to meet their obligations. The SNB 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.

The SNB manages its credit risk with respect to counterparties through a system of limits that restricts the aggregated exposure for all OTC business. OTC business is carried out with counterparties that have a minimum average rating of A from the leading rating agencies. Furthermore, the replacement values of derivatives are generally secured by collateral. At around CHF 2.0 billion, the SNB's total unsecured exposure – which is largely composed of bonds – to the international banking sector at the end of 2011 was slightly lower than the previous year (CHF 2.5 billion) and came to just under 1% 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. 125–164) for the year ended 31 December 2011.

Bank Council's responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with the provisions of the Federal Act on the Swiss National Bank and with Swiss law.

Report on other legal requirements

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

In accordance with art. 728a para. 1 item 3 CO and 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	**Christian Massetti**
Audit expert	Audit expert
Auditor in charge	

Zurich, 2 March 2012

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 address local legal requirements.

The financial information on the stabilisation fund is consolidated at the 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 of Directors. 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 financial instruments are held in custody at an independent custodian bank.

Activities

The financial instruments taken over mainly include loans and securities (securitised loans) in the area of real estate as well as corresponding derivative 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 proceeds from principal repayments and interest income make it possible to repay this loan. As at 31 December 2011, the debt to the SNB amounted to USD 8.1 billion.

In the current year, a positive result of USD 1.1 billion was recorded, taking the stabilisation fund's equity to USD 3.2 billion.

Additional information

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

2 Stabilisation fund balance sheet and income statement

Balance sheet as at 31 December 2011
In USD millions

	Item no. in Notes	31.12.2011	31.12.2010	Change
Assets				
Bank deposits		**396.6**	**514.1**	**–117.5**
Securities (securitised loans)	01	8 824.7	11 661.6	–2 836.9
Non-securitised loans	01	2 055.1	2 479.2	–424.1
Real estate	02	69.7	39.7	+30.0
Subtotal investments		**10 949.5**	**14 180.5**	**–3 231.0**
Interest rate derivatives	03	138.3	45.0	+93.3
Credit derivatives	04	25.5	45.4	–19.9
Subtotal derivatives		**163.8**	**90.4**	**+73.4**
Accrued income		41.3	54.3	–13.0
Other assets	04	232.8	129.4	+103.4
Total assets		**11 784.0**	**14 968.7**	**–3 184.7**

Liabilities and equity

	Item no. in Notes	31.12.2011	31.12.2010	Change
Interest rate derivatives	03	403.6	176.0	+227.6
Accrued interest and expenses		16.4	22.3	–5.9
Other liabilities		1.4	0.7	+0.7
SNB loan	05	8 140.4	12 618.9	–4 478.5
Deferred management fee	06	56.6	40.5	+16.1
Subtotal liabilities		**8 618.4**	**12 858.5**	**–4 240.1**
Paid-in equity	07	3 896.7	3 896.7	–
Foreign currency translation differences		–2.4	–0.4	–2.0
Result, carried forward		–1 786.0	–4 314.5	+2 528.5
Result, current period		1 057.3	2 528.5	–1 471.2
Subtotal equity		**3 165.6**	**2 110.3**	**+1 055.3**
Total liabilities and equity		**11 784.0**	**14 968.7**	**–3 184.7**

Income statement for 2011

In USD millions

	Item no. in Notes	2011	2010	Change
Net interest income from securities and non-securitised loans		623.2	866.6	–243.4
Effective interest (less impairments)	08	644.0	1 080.5	–436.5
Net result from derivatives	03, 04	–47.6	–141.3	+93.7
Unrealised valuation gains/losses	09	15.8	1 123.8	–1 108.0
Realised valuation gains/losses		150.1	110.3	+39.8
Financing costs		–286.9	–457.6	+170.7
Gross income		**1 098.5**	**2 582.3**	**–1 483.8**
Foreign tax expenses (–) and tax credits (+)		0.0	–0.1	+0.1
Operating expenses		–41.1	–53.8	+12.7
Net income		**1 057.3**	**2 528.5**	**–1 471.2**

3 Notes to the financial information on the stabilisation fund as at 31 December 2011

General

Stabilisation fund accounting principles

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.

Audit

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

Recording of transactions

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

Initial valuation

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.

Subsequent valuations …

At inception of the fund, management performed an assessment and determined that there was no indication of an active market for the transferred securities and non-securitised loans. For this reason these assets were allocated to the IFRS loans and receivables category and are valued at amortised cost.

… using the effective interest method

The difference between the purchase price (acquisition cost) of a financial instrument and its expected redemption 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.

… based on economic models

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

Assets recorded at fair value

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

Value adjustments

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

Reporting currency

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

Foreign exchange rates

Foreign exchange rates

	31.12.2011 In USD	31.12.2010 In USD	Change In percent
1 euro (EUR)	1.2979	1.3396	–3.1
1 pound sterling (GBP)	1.5548	1.5577	–0.2
100 Japanese yen (JPY)	1.2955	1.2307	+5.3

Notes to the balance sheet and income statement

Item no. 01

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 a financial instrument contains embedded derivatives, it is measured and recorded at fair value.

	31.12.2011		31.12.2010	
In USD millions	Balance sheet (carrying) value	Fair value	Balance sheet (carrying) value	Fair value
Securities (securitised loans)	8 824.7	9 348.0	11 661.6	12 974.2
At amortised cost	8 377.3	8 900.5	11 143.5	12 456.0
At fair value	447.4	447.4	518.1	518.1
Non-securitised loans	2 055.1	2 027.3	2 479.2	2 649.9
At amortised cost	2 055.1	2 027.3	2 479.2	2 649.9
At fair value	–	–	–	–

The stabilisation fund owns real estate taken over in the course of foreclosure processes. Such properties are initially recognised at market value. **Item no. 02** For subsequent valuations, either the current book value or the current market value is used, whichever is lower.

Swaps are used to hedge interest rate risk. On the balance sheet date, there were outstanding interest rate swaps in US dollars and pounds sterling. **Item no. 03**

At the end of 2011, the positive replacement value was USD 138.3 million, and the negative replacement value was USD 403.6 million. These positions are not offset against each other. The contract volume was USD 5.1 billion.

The stabilisation fund entered into credit derivative contracts both as protection buyer and protection seller. The credit derivatives mainly comprise **Item no. 04** 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 (or receiving) this protection.

The amount to be paid in the event of default (using cash held ready in bank deposits) is regularly recalculated, based on the continuous valuation of outstanding CDS contracts. If the value deteriorates, the stabilisation fund pays into this collateral pool, whereas it receives a repayment in the event of a value gain. A credit event triggers an outpayment to the holder (from the pool), as well as a reduction in the liability. The difference between the payment and any underlying asset received in return is stated under 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 drawdown from the SNB.

At the balance sheet date, potential liabilities from credit derivatives amounted to USD 2.0 billion, and the deposited collateral to USD 2.2 billion. As the collateral is held by the counterparty entitled to exercise claims based on the respective derivatives transaction (and amounts will be settled on a net basis), these amounts were offset against each other. Collateral in excess of the liabilities as protection seller (USD 188.6 million) is stated under other assets.

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

In USD millions	31.12.2011	31.12.2010	Change
Net contract volume	2 823.9	5 308.6	–2 484.7
Positive replacement value	25.5	45.4	–19.9
Negative replacement value	2 021.3	3 299.3	–1 278.0
Cash collateral posted	2 209.9	3 381.0	–1 171.1

Loan commitment to stabilisation fund[1]

Item no. 05

In USD millions	31.12.2011	31.12.2010	Change
USD	6 129.1	9 618.8	–3 489.7
EUR	360.9	756.3	–395.4
GBP	1 418.8	2 023.7	–604.9
JPY	231.6	220.1	+11.5
Total	8 140.4	12 618.9	–4 478.5

1 Without accrued interest.

In connection with the loan, a subordination agreement has been entered into by the SNB with the stabilisation fund and StabFund (GP) AG in the amount of USD 1.9 billion. Further information on the stabilisation fund can be found in chapter 6.7 of the accountability 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 compensated 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 represents UBS's contribution of 10% of the transfer price of the assets. This contribution was also paid with respect to derivative positions, based on the associated potential losses (exposure).

Financial instruments which are measured at amortised cost recognise income from effective interest. The latter results in an increase in book value of positions classified as loans and receivables that were initially recognised at a discount. The impairment tests conducted regularly for such positions can lead to an increase or decrease of the book values. A decrease is recorded as an impairment and an increase as accretion income. These are reported on a net basis within effective interest (less impairments) in the income statement. **Item no. 08**

Unrealised valuations gains/losses consist of book profits or book losses from the revaluation of assets carried at fair value, including unrealised exchange rate gains from balance sheet date valuation of financial instruments in currencies other than the reporting currency. **Item no. 09**

Risk management

Strategy

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 responsibilities relating to the fund's management and reporting.

Risks

The stabilisation fund's assets mainly include securitised assets in the form of mortgage-backed and other asset-backed securities (MBS and ABS). These are backed by various types of claims (mortgages and other loans). Risks therefore arise 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 the UK.

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 strategies.

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

Contingent liabilities

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

In USD millions	31.12.2011	31.12.2010	Change
Exposure from credit derivatives	843.0	2 073.8	–1 230.8
Irrevocable loan commitments	21.3	36.9	–15.6
Total	864.4	2 110.7	–1 246.3

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 2011

In CHF millions

Assets	Item no. in Notes	31.12.2011	31.12.2010	Change
Gold holdings		48 662.5	43 349.0	+5 313.5
Claims from gold transactions		717.5	638.9	+78.6
Foreign currency investments		257 504.2	203 809.6	+53 694.6
Reserve position in the IMF		3 134.5	1 067.7	+2 066.8
International payment instruments		4 621.2	4 670.3	–49.1
Monetary assistance loans		301.4	300.4	+1.0
Claims from US dollar repo transactions		370.5	–	+370.5
Claims from Swiss franc repo transactions		18 468.0	–	+18 468.0
Swiss franc securities		3 675.1	3 497.4	+177.7
Stabilisation fund investments	01	11 051.1	13 961.1	–2 910.0
Banknote stocks		129.8	110.9	+18.9
Tangible assets		325.4	356.3	–30.9
Participations	02	147.0	146.1	+0.9
Other assets		1 236.2	1 666.9	–430.7
Total assets		**350 344.3**	**273 574.6**	**+76 769.7**
Total subordinated claims		–	–	–
Total claims against non-consolidated participations and qualified participations		–	–	–

Liabilities	Item no. in Notes	31.12.2011	31.12.2010	Change
Banknotes in circulation		55 728.9	51 498.0	+4 230.9
Sight deposits of domestic banks		180 720.7	37 950.7	+142 770.0
Liabilities towards the Confederation		5 647.5	5 347.2	+300.3
Sight deposits of foreign banks and institutions		1 884.5	3 779.4	–1 894.9
Other sight liabilities		28 447.7	1 838.8	+26 608.9
Liabilities from Swiss franc repo transactions		–	13 182.1	–13 182.1
SNB debt certificates		14 719.5	107 869.6	–93 150.1
Other term liabilities		366.4	–	+366.4
Foreign currency liabilities		551.6	1 068.7	–517.1
Counterpart of SDRs allocated by the IMF		4 734.6	4 736.5	–1.9
Other liabilities		2 465.6	2 260.2	+205.4
Operating provisions and other provisions		7.3	3.5	+3.8
Provisions for currency reserves		45 061.3	44 337.1	+724.2
Capital		25.0	25.0	–
Distribution reserve		–5 000.0	19 032.8	–24 032.8
Profit reserve from stabilisation fund		1 636.1	–	+1 636.1
Consolidated result		13 469.1	–19 170.8	+32 639.9
Foreign currency translation differences		–121.6	–184.2	+62.6
Total liabilities		**350 344.3**	**273 574.6**	**+76 769.7**
Total subordinated liabilities		–	–	–
Total liabilities towards non-consolidated participations and qualified participations		0.8	6.0	–5.2

Off-balance-sheet business

In CHF millions

	Item no. in Notes	31.12.2011	31.12.2010	Change
Liquidity-shortage financing facility		32 889.5	37 486.5	–4 597.0
Irrevocable undertakings		19 178.9	4 591.6	+14 587.3
Obligations to pay or make additional payments		93.0	93.0	–0.0
Liabilities from long-term rental, maintenance and leasing contracts		13.4	16.0	–2.6
Contingent liabilities from procurement of banknotes		66.9	72.7	–5.8
Other obligations not carried on the balance sheet[1]		810.6	1 968.7	–1 158.1
Fiduciary investments		337.0	217.0	+120.0
Derivative financial instruments	03			
Contract volumes		67 060.3	55 504.4	+11 555.9
Positive replacement values		1 250.7	1 612.3	–361.6
Negative replacement values		3 422.9	3 822.5	–399.6

1 Refers to contingent liabilities of the stabilisation fund (p. 176).

2 Consolidated income statement for 2011

In CHF millions

	Item no. in Notes	2011	2010	Change
Net result from gold		5 392.3	5 836.3	–444.0
Net result from foreign currency positions		7 708.7	–26 969.3	+34 678.0
Net result from Swiss franc positions		–162.7	70.9	–233.6
Net result from stabilisation fund investments	04	1 228.8	3 167.8	–1 939.0
Net result from stabilisation fund loss protection arrangements	04	–497.7	–998.6	+500.9
Income from participations	02	9.3	18.9	–9.6
Net result, other		82.3	5.9	+76.4
Gross income		**13 761.0**	**–18 868.2**	**+32 629.2**
Banknote expenses		–20.4	–21.4	+1.0
Personnel expenses		–128.8	–116.4	–12.4
General overheads		–106.4	–126.2	+19.8
Depreciation on tangible assets		–36.2	–38.7	+2.5
Consolidated result		**13 469.1**	**–19 170.8**	**+32 639.9**

3 Changes in equity (consolidated level)

In CHF millions

	Capital	Provisions for currency reserves	Distribution reserve	Profit reserve from stabilisation fund	Foreign currency translation differences	Consolidated result	Total
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						–19 170.8	–19 170.8
Equity as at 31 December 2010	**25.0**	**44 337.1**	**19 032.8**	**–**	**–184.2**	**–19 170.8**	**44 039.9**
Equity as at 1 January 2011	**25.0**	**44 337.1**	**19 032.8**	**–**	**–184.2**	**–19 170.8**	**44 039.9**
Endowment of provisions for currency reserves pursuant to NBA		724.2				–724.2	
Release from distribution reserve			–24 032.8			24 032.8	
Allocation to profit reserve from stabilisation fund				1 636.1		–1 636.1	
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					+62.6	–	+62.6
Consolidated result						13 469.1	+13 469.1
Equity as at 31 December 2011 (before appropriation of parent company profit)	**25.0**	**45 061.3**	**–5 000.0**	**1 636.1**	**–121.6**	**13 469.1**	**55 070.0**

4 Notes to the consolidated financial statements as at 31 December 2011

4.1 Explanatory notes on business activities

Business activity and purpose

The Swiss National Bank, as an independent central bank, conducts the country's monetary policy. In autumn 2008, 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. 117–124).

Number of staff

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

Outsourced business areas

The stabilisation fund has mandated UBS to handle the operational management of its assets. Northern Trust, Chicago, serves as custodian. These outsourcing arrangements are governed by contracts. The SIC agreement between the SNB and SIX Interbank Clearing Ltd entrusts the latter with providing data processing services for the SIC system (Swiss Interbank Clearing).

4.2 Accounting and valuation principles

General

Background

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. 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, a cash flow statement is not prepared.

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

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

Reference to the SNB's annual financial statements

The consolidated financial statements must be read together with the SNB's individual financial statements (pp. 125–164). 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. The profit reserve from the stabilisation fund was added for the 2011 financial 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

Stabilisation fund investments

The majority of stabilisation fund investments are securities (securitised loans) entered on the balance sheet at amortised cost. During the entire term of these investments until maturity, the premium and discount are treated as an accrued or deferred item on the balance sheet. 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 recorded under net result from stabilisation fund investments.

Value adjustments

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.

Stabilisation fund options

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 under other assets or other liabilities. Changes in valuations or in the recognition of the warrant that are reported in the income statement are stated 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.

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 under 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.

Profit reserve from stabilisation fund

The SNB's share in the stabilisation fund's previous years' profits is recorded under profit reserve from stabilisation fund. This share will only be distributed once the fund has been fully wound up, or if the fund is sold.

Reporting entities

The consolidated financial statements encompass the SNB, as the parent company, and the stabilisation fund companies in which the SNB has a 100% stake, either directly or indirectly. These include – in addition to the SNB StabFund Limited Partnership for Collective Investment – the fund's two partner companies, StabFund (GP) AG, the managing partner (general partner) with unlimited liability, and LiPro (LP) AG, a partner with limited liability. Together, these two companies hold all the shares of the limited partnership. In the year under review, the structure of the stabilisation fund was modified; this involved liquidating two intermediate companies after their assets and liabilities had been transferred to the remaining companies.

Significant majority interests

Company name, head office	Business activity	Share capital or capital commitment	Equity interest	
		In CHF millions	31.12.2011	31.12.2010
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	Equity interest	
		In CHF millions	31.12.2011	31.12.2010
Orell Füssli Holding Ltd, Zurich	Bookshop, publishing house, and banknote and security printing	1.96	33%	33%

The consolidated financial statements are based on the annual accounts of the SNB and the stabilisation fund companies. Entries arising from intragroup 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. Companies in liquidation remain consolidated until the transaction has been completed.

Consolidation principles

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. In cases where newly established companies have a financial year lasting more than one year, a year-end interim statement is drawn up for the purpose of the consolidated financial statements. The income statement of companies liquidated during the financial year is fully consolidated, even in cases where the financial year was less than twelve months.

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

	31.12.2011 In CHF	31.12.2010 In CHF	Change In percent
1 euro (EUR)	1.2172	1.2494	–2.6
1 US dollar (USD)	0.9378	0.9327	+0.5
100 Japanese yen (JPY)	1.2149	1.1479	+5.8
1 Canadian dollar (CAD)	0.9198	0.9348	–1.6
1 pound sterling (GBP)	1.4581	1.4529	+0.4
1 Australian dollar (AUD)	0.9558	0.9495	+0.7
100 Danish kroner (DKK)	16.3768	16.7600	–2.3
100 Swedish kronor (SEK)	13.6694	13.9100	–1.7
1 Singapore dollar (SGD)	0.7232	0.7283	–0.7

The average exchange rate for the US dollar for 2011 was CHF 0.8870 (2010: CHF 1.0421).

Assessment of risk

The SNB's business risk and that of the consolidated subsidiaries is assessed by the National Bank. For this purpose, it uses the monitoring and control processes described in the chapter on risk management at the SNB (pp. 159–164). The particular risks faced by the stabilisation fund (p. 176) 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 residential and commercial mortgages in the US and the UK, developments of the relevant real estate prices also play a crucial role.

Internal control system

Information on the SNB's internal control system can be found in the annual financial statements of the parent company (pp. 157–159). Comments on such control systems for the stabilisation fund are on p. 175. In addition to the internal control systems for the individual companies, there is also such a control system for processes that are of relevance for drawing up the consolidated financial statements.

4.3 Notes on the consolidated income statement and balance sheet

Item no. 01

Stabilisation fund investments

In CHF millions	31.12.2011	31.12.2010	Change
Sight deposits in various currencies	371.9	479.3	–107.4
Securities (securitised loans)[1]	8 275.8	10 876.8	–2 601.0
Non-securitised loans[2]	1 927.3	2 312.4	–385.1
Real estate	65.4	37.0	+28.4
Derivatives transactions	153.6	84.3	+69.3
Other assets	257.1	171.3	+85.8
Total	11 051.1	13 961.1	–2 910.0

1 Of which, CHF 7,856.2 million entered at amortised cost (2010: CHF 10,393.5 million), with a fair value of CHF 8,346.9 million (2010: CHF 11,617.7 million).

2 Fair value of CHF 1,901.2 million (2010: CHF 2,471.6 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 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
Book value as at 1 January 2011	55.2	90.8	146.1
Investments	–	–	–
Divestments	–	–	–
Valuation changes	0.9	–	0.9
Book value as at 31 December 2011	56.1	90.8	147.0

1 Orell Füssli Holding Ltd.

Income from participations valued according to the equity method amounts to CHF 2.5 million (2010: CHF 0.1 million). Income from other participations amounts to CHF 6.8 million (2010: CHF 18.8 million).

Derivative financial instruments

Item no. 03

Outstanding derivative financial instruments are reported in item no. 31 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.

	31.12.2011			31.12.2010		
	Contract value	Replacement value		Contract value	Replacement value	
In CHF millions		Positive	Negative		Positive	Negative
SNB parent company[1]	46 125.0	238.1	133.4	29 109.8	83.0	63.3
Interest rate swaps	4 744.0	129.7[2]	378.5	4 342.7	42.0[2]	164.2
Credit default swaps	2 648.3	23.9[2]	1 895.6[2,3]	4 951.3	42.3[2]	3 077.3[2,3]
LP purchase option	4 318.7	–	1 015.1	4 318.7	–	517.6
GP purchase option	1.5	–	0.3	1.5	–	0.2
Warrant	10.0	859.0	–	10.0	1 445.0	–
Repurchase option	9 212.8	–	–	12 770.3	–	–
Total for group	67 060.3	1 250.7	3 422.9	55 504.4	1 612.3	3 822.5

1 Cf. item no. 31, SNB parent company financial statements, p. 156, 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. 173–174).

Item no. 04

Impact of the stabilisation fund on the consolidated result

In CHF millions	2011	2010	Change
Net result from stabilisation fund investments	1 228.8	3 167.8	–1 939.0
Interest expenses on SNB loan[1]	–254.5	–476.9	+222.4
Additional income and expense components[2]	–36.5	–56.0	+19.5
Stabilisation fund result	**937.8**	**2 634.9**	**–1 697.1**
Net result from GP and LP purchase options[3]	–497.7	–516.3	+18.6
Net result from warrant	–	–482.3	+482.3
Net result from loss protection arrangements	**–497.7**	**–998.6**	**+500.9**
Impact of stabilisation fund on consolidated result	**440.2**	**1 636.2**	**–1 196.0**

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 From UBS's right to stabilisation fund equity. This right can only be exercised by UBS once the SNB loan has been fully repaid.

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. 177–192) for the year ended 31 December 2011.

Bank Council's responsibility

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making these 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 2011 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	**Christian Massetti**
Audit expert	Audit expert
Auditor in charge	

Zurich, 2 March 2012

Proposals of the Bank Council

Proposals of the Bank Council to the General Meeting of Shareholders

At its meeting of 2 March 2012, the Bank Council accepted the financial report for 2011, contained in the *104th Annual Report*, for submission to the Federal Council and to the General Meeting of Shareholders.

The Audit Board signed its reports on 2 March 2012. On 21 March 2012, 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 2011 be approved;
2. that a dividend totalling CHF 1.5 million be paid to shareholders as part of the profit appropriation:

Appropriation of profit In CHF millions	**2011**
Annual result (art. 29 NBA)	13 028.9
– Allocation to provisions for currency reserves (art. 30 para. 1 NBA)	–3 154.3
= Distributable annual result (art. 30 para. 2 NBA)	**9 874.7**
+ Profit/loss carried forward (distribution reserve before appropriation of profit)	–5 000.0
= Net profit (art. 31 NBA) or net loss	**4 874.7**
– Payment of a dividend of 6% (art. 31 para. 1 NBA)	–1.5
– Profit distribution to Confederation and cantons[1] (art. 31 para. 2 NBA)	–1 000.0
– Amount carried forward to 2012 financial statements (distribution reserve after appropriation of profit)	–3 873.2
Balance after appropriation of profit	**–**

1 Profit distribution agreement of 21 November 2011 between the Federal Department of Finance and the Swiss National Bank.

3. that the Bank Council be granted discharge;
4. that Gerold Bührer, Monika Bütler, Daniel Lampart, Olivier Steimer and Cédric Tille, all current members, be elected to the Bank Council for the 2012–2016 term of office;
5. that PricewaterhouseCoopers Ltd, Zurich, be appointed as the Audit Board for the 2012–2013 term of office.

Contents

Selected information

Selected information

1 Chronicle of monetary events in 2011

January

On 17 January, the Federal Department of Finance, the Swiss Financial Market Supervisory Authority and the SNB sign a Memorandum of Understanding. The agreement governs collaboration between the three authorities with regard to the exchange of information on financial stability and financial market regulation issues, as well as collaboration in the event of a crisis that could threaten the stability of the financial system (p. 74).

March

On 1 March, the SNB announces the closure of its branch and cash distribution service in Geneva with effect from the end of January 2012. This move is a response to the ongoing process of concentration in cash distribution services (p. 56).

At its quarterly assessment of 17 March, the SNB decides to maintain its expansionary monetary policy. It leaves the target range for the three-month Libor at 0.0–0.75%, and intends to keep the Libor within the lower part of the target range at around 0.25%. With the strengthening of the global economic recovery, the prospects for Switzerland's economy have improved since the end of 2010. However, unresolved debt problems in Europe and the possible dampening effects of high oil prices on economic activity pose considerable downside risks (p. 34).

June

At its quarterly assessment of 16 June, the SNB maintains its expansionary monetary policy. The target range for the three-month Libor remains at 0.0–0.75%, and the SNB intends to keep the Libor within the lower part of the target range at around 0.25%. Despite the strong appreciation of the Swiss franc, the economy continues to benefit from robust international demand. Overall, however, downside risks predominate (p. 35).

On 29 June, the SNB decides, in coordination with the Bank of Canada, the Bank of England, the European Central Bank and the US Federal Reserve, to extend its temporary swap facilities in US dollars with the Federal Reserve to 1 August 2012 (p. 55).

On 29 June, the Federal Council approves the SNB's revised Organisation Regulations, effective 15 July (p. 112).

August

On 3 August, the SNB takes measures against the strong Swiss franc. It narrows the target range for the three-month Libor by 0.5 percentage points to 0.0–0.25%, and, effective immediately, aims for a three-month Libor as close to zero as possible. At the same time, it announces that it will very significantly increase the supply of liquidity to the Swiss franc money market over the next few days, and intends to expand banks' sight deposits at the SNB from around CHF 30 billion to CHF 80 billion (p. 36).

On 10 August, the SNB expands its measures against the strong Swiss franc after the substantial rise in risk aversion on the international financial markets had further intensified the overvaluation of the Swiss franc in the previous days. It announces that it will rapidly increase banks' sight deposits at the SNB from CHF 80 billion to CHF 120 billion (p. 36).

On 17 August, the SNB intensifies its measures against the strong Swiss franc and announces that it will again significantly increase the supply of liquidity to the Swiss franc money market. With immediate effect, it aims to expand banks' sight deposits at the SNB further, from CHF 120 billion to CHF 200 billion. Furthermore, it reiterates that it will, if necessary, take further measures against the strength of the Swiss franc (p. 36).

September

On 6 September, the SNB sets a minimum exchange rate of CHF 1.20 per euro. It states that it will enforce this minimum rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities. With these measures, the SNB is acting in response to the acute threat to the Swiss economy and the risk of deflationary developments springing from the massive overvaluation of the Swiss franc. It also emphasises that it will take further measures if the economic outlook and deflationary risks so require (p. 38).

On 15 September, at its quarterly assessment, the SNB reaffirms that it will enforce the minimum exchange rate of CHF 1.20 per euro with the utmost determination. It continues to aim for a three-month Libor at zero and maintains total sight deposits at the SNB at significantly above CHF 200 billion (pp. 38–39).

November

On 21 November, the Federal Department of Finance and the SNB sign a new agreement on the distribution of the SNB's profit. It will cover the financial years 2011 to 2015 (pp. 120–121).

On 30 November, the SNB, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the US Federal Reserve take coordinated action to address pressures in the global money markets. The pricing on existing temporary US dollar liquidity swap arrangements will be lowered by 0.5 percentage points with effect from 5 December, and the authorisation of the swap arrangements will be extended to 1 February 2013. The central banks also agree to establish temporary bilateral liquidity swap arrangements, so that liquidity can be provided in each jurisdiction, in any of their currencies should market conditions so warrant. To this end, the SNB decides, in cooperation with other central banks, to establish a temporary network of reciprocal swap lines (p. 55).

December

At its quarterly assessment of 15 December, the SNB reaffirms its commitment to the minimum exchange rate of CHF 1.20 per euro. It leaves the target range for the three-month Libor at 0.0–0.25%, and continues to aim for a Libor close to zero. The SNB notes that the substantial appreciation of the Swiss franc over the summer is weighing heavily on the Swiss economy and a further escalation of the European sovereign debt crisis cannot be ruled out (pp. 39–40).

2 Bank supervisory and management bodies, Regional Economic Councils

(as at 1 January 2012)

Bank Council
(2008–2012 term of office)

Hansueli Raggenbass, Kesswil, Attorney-at-law, President of the Bank Council, Chairman of the Nomination Committee, Member of the Compensation 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, Chairman of the Compensation Committee, Member of the Nomination Committee, 2007/2008[1]

* Gerold Bührer, Muri, President of economiesuisse (Swiss Business Federation), Member of the Audit and the Compensation Committee, 2008[1]

* Monika Bütler, Zurich, Professor of Economics at the University of St Gallen, 2010[1]

Alfredo Gysi, Comano, Chairman of the Board of Directors at BSI Ltd, Member of the Risk Committee, 2011[1]

* Daniel Lampart, Zurich, Chief Economist and Executive Secretary of the Swiss Federation of Trade Unions, Chairman of the Risk Committee, 2007/2008[1]

Laura Sadis, Lugano, Head 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, former Chairman of the Board of Directors at Luzerner Kantonalbank, Chairman of the Audit Committee, 2004/2008[1]

* Cédric Tille, Châtel-St-Denis, Professor at the Graduate Institute of International and Development Studies, Geneva, Member of the Nomination Committee, 2011[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
(2011–2012 term of office)

PricewaterhouseCoopers Ltd, Zurich

Governing Board
(2009–2015 term of office)

Philipp M. Hildebrand, Chairman of the Governing Board, Head of Department I, Zurich (until 9 January 2012)
Thomas J. Jordan, Vice Chairman of the Governing Board, Head of Department II, Berne
Jean-Pierre Danthine, Member of the Governing Board, Head of Department III, Zurich

Enlarged Governing Board
(2009–2015 term of office)

Philipp M. Hildebrand, Chairman of the Governing Board, Head of Department I, Zurich (until 9 January 2012)
Thomas J. Jordan, Vice Chairman of the Governing Board, Head of Department II, Berne
Jean-Pierre Danthine, Member of the Governing Board, Head of Department III, Zurich
Thomas Moser, Alternate Member of the Governing Board
Thomas Wiedmer, Alternate Member of the Governing Board
Dewet Moser, Alternate Member of the Governing Board

Bank management

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

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, Teufen, Member of the Board 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, Vandœuvres, joint owner of Brunschwig & Cie SA
	Patrick Pillet, Geneva, Director of Pillet SA
Italian-speaking Switzerland	José Luis Moral, Gudo, Delegate of the Board and Managing Director of Regazzi SA, Chairman
	Alessandra Alberti Zucconi, Sementina, Managing Director of Chocolat Stella SA
	Lorenzo Emma, Vezia, Managing Director of Migros Ticino
Mittelland	Oscar A. Kambly, Trubschachen, President of the Board of Directors at Kambly SA, Spécialités de Biscuits Suisses, Chairman
	André Haemmerli, La Chaux-de-Fonds, General Manager of Johnson & Johnson SA in the Canton of Neuchâtel
	Jean-Marc Jacot, Auvernier, Delegate of the Sandoz Family Foundation, CEO of Parmigiani Fleurier SA
	Kurt Loosli, Stüsslingen, CEO of EAO Group

Northwestern Switzerland

Hans Büttiker, Dornach, CEO of EBM, Chairman
Matthys Dolder, Biel-Benken, CEO of Dolder AG
Gabriele Gabrielli, Möriken, Group Vice President and Global Account Executive at ABB Ltd
René Kamm, Basel, CEO of MCH Group Ltd

Vaud-Valais

Jean-Jacques Miauton, Epalinges, CEO of SMSG Management Sàrl, Chairman
Paul Michellod, Leytron, Director of FMV SA
Andreas S. Wetter, Feldmeilen, Chairman of the Board of Directors at Orange Communications SA

Zurich

Milan Prenosil, Kilchberg, Chairman of the Board of Directors at Confiserie Sprüngli AG, Chairman
Valentin Vogt, Dielsdorf, Chairman of the Board of Directors at Burckhardt Compression Holding AG
Isabelle Welton-Lalive d'Epinay, Baar, CEO of IBM Switzerland Ltd

3 Organisational chart

(as at 1 January 2012)

General Meeting of Shareholders

Audit Board

Bank Council

Internal Auditors

Governing Board

Enlarged Governing Board

Department I Zurich

- **International Monetary Cooperation**
  - International Monetary Relations
  - International Trade and Capital Flows
  - Technical Assistance
- **Economic Affairs**
  - Monetary Policy Analysis
  - Inflation Forecasting
  - Economic Analysis
  - Statistics
- **Legal and Property Services**
  - Legal Services
  - Human Resources
  - Pension Fund
  - Premises and Technical Services
- **Secretariat General**
  - Communications
  - Documentation
  - Research Coordination and Education
  - Secretariat General Berne

Department II Berne

- **Finance and Risk**
  - Central Accounting
  - Controlling
  - Risk Management
  - Security
- **Financial Stability**
  - Banking System
  - Systemically Important Banks
  - Oversight

Department III Zurich

Cash	StabFund	Financial Markets	Banking Operations	Information Technology
Procurement and Central Logistics		Money Market and Foreign Exchange	Banking Operations Analysis	Banking Applications
Cash Circulation, East		Asset Management	Payment Operations	Business Support Processes
Cash Circulation, West		Financial Market Analysis	Back Office	Infrastructure
Specialist Support, Operations			Master Data	

4 Publications

Publications and other sources of information are also available at www.snb.ch, *Publications*.

Annual Report

The *Annual Report* is published at the beginning of April in German, French, Italian and English.

Quarterly Bulletin

The *Quarterly Bulletin* contains the 'Monetary policy report' used for the Governing Board's quarterly monetary policy assessment and the report on business cycle trends from the vantage point of the delegates for regional economic relations. It also includes articles on topical central bank policy issues. The *Quarterly Bulletin* 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 at www.snb.ch, *Publications*, *Economic publications*). The report on business cycle trends is also published in Italian.

Financial Stability Report

The *Financial Stability Report* assesses the stability of Switzerland's banking sector. It is published annually in June in German, French and English.

Monthly Statistical Bulletin, Monthly Bulletin of Banking Statistics

The *Monthly Statistical Bulletin* contains charts and tables of key Swiss and international economic data. In addition to the German/French publication, a German/English version is available on the SNB website at www.snb.ch, *Publications*, *Statistical publications*.

The *Monthly Bulletin of Banking Statistics* contains detailed banking statistics. The issues and the time series are available in German/French and German/English on the SNB website. A printed German/French version is published every quarter.

SNB Economic Studies, SNB Working Papers

Swiss National Bank Economic Studies and *Swiss National Bank Working Papers* present articles on economic issues and research results at irregular intervals. They appear in one language only, as a rule in English.

Banks in Switzerland

Banks in Switzerland is a commentated collection of statistical source material on the development and structure of the Swiss banking sector. It is compiled mainly from SNB year-end statistics. *Banks in Switzerland* is published mid-year in German, French and English.

Swiss Financial Accounts

The report titled *Swiss Financial Accounts* reflects the volume and structure of financial assets and liabilities held by the different sectors of the domestic economy, as well as those held with respect to the rest of the world, and those held by the rest of the world with respect to Switzerland. The report is published as a supplement to the *Monthly Statistical Bulletin* in autumn in German, French and English.

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

The *Swiss Balance of Payments reviews* developments in the balance of payments. It is published once a year as a supplement to the September edition of the *Monthly Statistical Bulletin*.

Switzerland's International Investment Position comments on developments in foreign assets, foreign liabilities and Switzerland's net investment position. It is published once a year as a supplement to the December issue of the *Monthly Statistical Bulletin*.

Direct Investment examines the developments in Switzerland's direct investments abroad as well as the changes in foreign direct investment in Switzerland. It is published once a year as a supplement to the December issue of the *Monthly Statistical Bulletin*.

The reports are available in German, French and English.

Historical Time Series

The *Historical Time Series* examines various monetary policy themes from a long-term perspective and provides the associated data sets. It is published at irregular intervals in German, French and English.

The Swiss National Bank 1907–2007

The commemorative publication marking the 100th anniversary of the Swiss National Bank deals with the SNB's history and various monetary policy topics. It 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 at www.snb.ch, *The SNB, History, Publications*.

The Swiss National Bank in Berne – an illustrated chronicle

A chronicle of the Swiss National Bank in Berne titled *Die Schweizerische Nationalbank in Bern – eine illustrierte Chronik* was published in collaboration with the Society for Art History in Switzerland to mark the 100th anniversary of the inauguration of the SNB's head office in Berne at Bundesplatz 1. The bilingual (German and French), illustrated book is available in bookshops or at www.snb.ch, *The SNB, History, Publications*.

The Swiss National Bank in Brief

The Swiss National Bank in Brief gives an overview of the SNB's tasks, its organisation and the legal basis of its activities. It is published in German, French, Italian and English.

iconomix

iconomix is an educational programme offered by the Swiss National Bank. 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. iconomix is published primarily in German and French, and is available at www.iconomix.ch.

Environmental report

The SNB's environmental report contains data and indicators on the use of resources and on greenhouse gas emissions. The report describes the foundations on which the SNB's environmental management is based, explains the SNB's strategy in connection with climate change, and lists measures and projects aimed at improving its environmental performance. The report – published in German and French only – is available on the SNB website at www.snb.ch, *The SNB, Structure and organisation, Environmental management*.

Further resources

What is money really about? is a brochure describing the activities of the National Bank in simple, easy-to-understand terms. It is an ideal teaching aid for both older primary school students and secondary school students.

The Swiss National Bank and that vital commodity: money is a brochure explaining the SNB and its tasks. It is suitable as a teaching aid for older secondary school students and for vocational training students as well as for anybody generally interested in the National Bank.

An "A to Z" of the Swiss National Bank is an SNB glossary of important central banking terms.

The information in these publications as well as the publications themselves are available via the SNB website at www.snb.ch, *Publications, Publications about the SNB, The world of the National Bank*.

The National Bank and money is a short film (available on DVD) illustrating the characteristics of money.

The National Bank and its monetary policy is a short film (available on DVD) describing how the SNB conducts its monetary policy on a daily basis and explaining the principles behind that monetary policy.

All the material in this section (Further resources) is available in German, French, Italian and English.

Obtainable from

Swiss National Bank, Library, Bundesplatz 1, CH-3003 Berne
Telephone: +41 31 327 02 11, e-mail: library@snb.ch

Swiss National Bank, Library, Fraumünsterstrasse 8, P.O. Box, CH-8022 Zurich
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5 Addresses

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Agencies

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

SNB website

www.snb.ch

6 Rounding conventions and abbreviations

Rounding conventions

The figures in the income statement, balance sheet and tables are rounded; totals may therefore deviate from the sum of individual items.

The figures 0 and 0.0 are rounded values representing less than half of the unit used, yet more than zero (rounded zero).

A dash (–) in place of a number stands for zero (absolute zero).

Abbreviations

AOA	Auditor Oversight Act
AUD	Australian dollar
BIS	Bank for International Settlements
CAD	Canadian dollar
CDS	Credit default swap
CFM	Committee on Financial Markets
CGFS	Committee on the Global Financial System
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
CPSS	Committee on Payment and Settlement Systems
CSTAT	Committee on Statistics
DKK	Danish krone
ECB	European Central Bank
EFSF	European Financial Stability Facility
EPC	Economic Policy Committee
EU	European Union
EUR	Euro
Eurostat	Statistical office of the European Union
FDF	Federal Department of Finance
FER	Swiss accounting and reporting guidelines (Swiss GAAP FER)
FFA	Federal Finance Administration
FINMA	Swiss Financial Market Supervisory Authority
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GBP	Pound sterling
GDP	Gross domestic product
GP	General partner
ICS	Internal control system
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
JPY	Japanese yen
Libor	London Interbank Offered Rate
LP	Limited partner
MMDRC	Money market debt register claims
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	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

Published by
Swiss National Bank
CH-8022 Zurich
Telephone +41 44 631 31 11

Languages
German, French, Italian and English

Design
Weiersmüller Bosshard Grüninger WBG, Zurich

Typeset and printed by
Neidhart + Schön AG, Zurich

Publication date
April 2012

ISSN 1421–6477 (print version)
ISSN 1662–176X (online version)