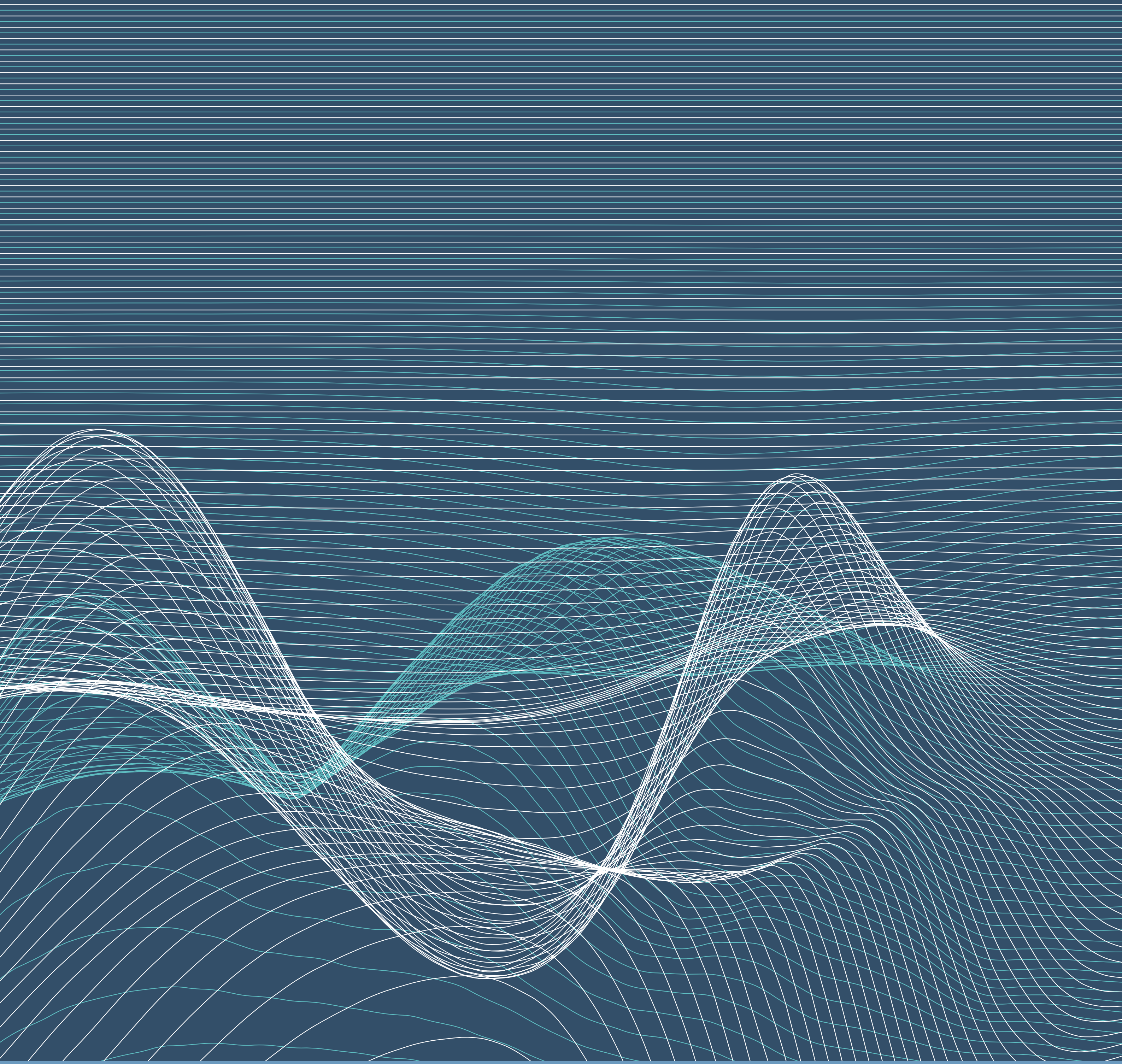


105th Annual Report
Swiss National Bank
2012

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

105th Annual Report
Swiss National Bank
2012

Contents

Preface

Ladies and Gentlemen

The Swiss National Bank (SNB) conducts the country's monetary policy as an independent central bank, on the basis of the National Bank Act (NBA). The first part of this *105th Annual Report* comprises the SNB's accountability report to the Federal Assembly, and provides information about how the SNB has fulfilled its mandate – in particular its conduct of monetary policy and contribution to the stability of the financial system.

The second part of the *Annual Report* comprises the financial report, which is submitted for approval, first to the Federal Council and then to the General Meeting of Shareholders. The financial report provides information on organisational and operational developments as well as the financial result of the SNB. It contains the annual financial statements of the SNB (parent company), with the balance sheet, income statement and notes, as well as the financial information on the stabilisation fund and the consolidated financial statements, as required under Swiss law. Selected information on the bank supervisory and management bodies may be found at the end of the *Annual Report*.

The SNB again faced major monetary policy challenges in 2012. In a difficult environment with substantial uncertainty, it was necessary to ensure monetary conditions that were appropriate for the Swiss economy. In 2012, the minimum exchange rate of CHF 1.20 per euro, which the SNB had set on 6 September 2011, continued to serve the SNB as an important instrument for fulfilling its mandate. It curbed the threat of deflation, which appeared on the verge of becoming more widespread, thereby preventing destabilising economic and price developments. However, given the weakening of the global economy and the continuing high level of the Swiss franc, the momentum of economic growth waned in Switzerland, too, and unemployment rose.

At the operating level, the SNB focused on enhancing a flawless reputation, in particular in the area of private financial transactions. It revised the relevant regulations governing SNB bank bodies, management and staff, and strengthened the structures and procedures for the supervision of these regulations.

In 2012, the annual financial statements of the SNB (parent company) closed with a profit of CHF 6.0 billion, following CHF 13.0 billion in the previous year. The positive annual result was attributable, first, to income and price gains on interest-bearing paper and equity securities under foreign currency positions and, second, to valuation gains on gold holdings. This more than outweighed the substantial exchange rate losses, recorded mainly in US dollars and yen.

The level of profit distribution to the Confederation and the cantons is based on the result of the parent company. For 2012, in accordance with the profit distribution agreement between the Federal Department of Finance and the SNB, the National Bank is distributing CHF 1 billion to the Confederation and the cantons following the allocation to the provisions for currency reserves. A dividend amounting to CHF 1.5 million is to be paid out to shareholders.

The stabilisation fund showed a profit of USD 1.9 billion for the 2012 financial year. The SNB loan decreased from CHF 7.6 billion to CHF 4.4 billion.

The stabilisation fund contributed CHF 0.9 billion to the consolidated result. The consolidated profit thus amounted to CHF 6.9 billion.

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

Berne and Zurich, 1 March 2013

JEAN STUDER
President of the Bank Council

THOMAS J. JORDAN
Chairman of the Governing Board

Goals and responsibilities of the Swiss National Bank

Mandate

The Swiss National Bank (SNB) 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 consumer prices of less than 2% per annum. Deflation – i.e. a protracted decline in price levels – is also regarded as a breach of the objective of price stability. A medium-term inflation forecast serves as the main indicator for monetary policy decisions.

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 applied. In an environment in which interest rates are close to zero, this measure helps to ensure appropriate monetary conditions.

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 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. The National Bank requires currency reserves to ensure that it has room for manoeuvre in its monetary policy at all times. At present, the level of the currency reserves is dictated directly by the implementation of monetary policy, or by the enforcement of the minimum exchange rate.

Financial system stability

The SNB contributes to the stability of the financial system. It fulfils this mandate by analysing sources of risk to the financial system and identifying areas where action is needed. In addition, it helps to create and implement a regulatory framework for the financial sector, and oversees systemically important payment and securities settlement systems.

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, on the balance of payments, direct investment, the international investment position and the Swiss financial accounts.

Accountability report

On 7 March 2013, the Governing Board of the Swiss National Bank (SNB) submitted its accountability report for 2012 to the Federal Assembly in accordance with art. 7 para. 2 of the National Bank Act (NBA). The report, which is reproduced below, provides information about how the SNB has fulfilled its mandate pursuant to art. 5 NBA – in particular as regards its conduct of monetary policy and its contribution to the stability of the financial system. It is submitted to the Federal Council and the General Meeting of Shareholders for information purposes.

SUMMARY

Monetary policy

The SNB pursues a monetary policy serving the interests of the country as a whole. It must ensure price stability, while taking due account of economic developments. The SNB's monetary policy strategy consists of three elements: a definition of price stability, a medium-term conditional inflation forecast, and a target range for a reference interest rate, which is the three-month Libor (London Interbank Offered Rate). Since 6 September 2011, a minimum exchange rate for the euro against the Swiss franc has also applied. In an environment in which short-term interest rates are close to zero, this allows the SNB to ensure monetary conditions that are appropriate for the Swiss economy.

In 2012, global economic growth weakened substantially, having already lost momentum in 2011. This was mainly attributable to the disappointing performance in the euro area and in Asia's emerging economies, particularly in China. The European financial and sovereign debt crisis escalated in spring and summer 2012. Despite drastic austerity measures, government debt in the euro area rose further, and financing conditions for the strongly affected countries deteriorated. Some euro area member countries were forced to apply for financial assistance to the Eurogroup and the International Monetary Fund (IMF) in order to avert the threat of state insolvency. Against the background of the financial and sovereign debt crisis, various measures were taken at European level to reinforce state budget discipline and the resilience of the financial industry. Although these helped to ease the situation, the crisis was not yet resolved. At the end of the year, the rate of unemployment in the euro area was the highest since the introduction of the single currency.

The weakening in the global economy and the continuing high level of the Swiss franc presented the Swiss economy with major challenges in 2012. Momentum slowed and profit margins remained under pressure in several industries. This was also felt in the labour market. Employment declined considerably in some industries, and unemployment rose over the course of the year. Average annual GDP was up by 1.0%, after an increase of 1.9% in the previous year. While momentum in investment and foreign trade declined significantly, consumer demand continued to buoy up economic activity.

Due to the introduction of the minimum exchange rate, pressure on producer and import prices as well as on consumer prices eased markedly in 2012. Nevertheless, consumer prices decreased by 0.7% on average over the year, after having increased slightly in 2011.

In an environment of slightly negative inflation rates and weakening growth in the global economy, the SNB's task in 2012 was to keep monetary policy sufficiently expansionary. In this situation, with short-term interest rates at zero, the minimum exchange rate was an important instrument for fulfilling the National Bank's mandate, since it substantially reduced the threat of deflation and recession. However, the long period of low interest rates contributed to a further strong increase in prices and mortgage lending volumes for residential property. The SNB thus issued repeated warnings about the build-up of risks for financial stability.

Implementation of monetary policy

The SNB fully aligned its monetary policy instruments to securing the minimum exchange rate of CHF 1.20 per euro. It consistently enforced this minimum rate throughout the entire year. For this purpose, it carried out comprehensive foreign currency purchases in the second and third quarters. Overall, the SNB purchased foreign currency for CHF 188 billion in 2012, which resulted in a substantial increase in sight deposits held at the National Bank. The target range for the three-month Libor remained unchanged at 0.0–0.25%. Throughout 2012, interest rates on the Swiss franc money market were close to zero and indeed, at times, below zero. The level of trading activity on the repo market, which had been very low for some time, dropped further.

Cash supply and distribution

The SNB supplies the economy with banknotes via its two cash distribution services at the Berne and Zurich head offices, and with coins on behalf of the Confederation. Some local cash redistribution is carried out through the cantonal banks, acting as agencies on behalf of the SNB. The National Bank closed its Geneva branch office and cash distribution service at the end of January 2012. It was the last of the eight original regional branches. In order to continue ensuring the best possible supply and distribution of cash in the Geneva area, the SNB opened an agency at the Banque Cantonale de Genève on 1 February 2012.

In 2012, the SNB conducted an extensive reassessment of its new banknote series project. In doing so, it was reacting to the technical difficulties that had emerged in autumn 2011, in an early phase of serial production. Due to the high standards with regard to security and quality as well as the production implementation aspects which apply to the new banknote series, further comprehensive tests will be needed. In conjunction with the subsequent production of the entire issue of the first banknote denomination and the logistical preparations for the issue, this means that the first banknote denomination, the CHF 50 note, cannot be issued before 2015.

Cashless payment transactions

The SNB facilitates and secures the operation of cashless payment systems. It maintains sight deposit accounts for the banks, steers the SIC interbank payment system and participates in the relevant payment system bodies. The financial market infrastructure providers have been subject to increased international competition and regulatory transformation for some time now. In view of these challenges and the importance of the financial market infrastructures, the SNB held comprehensive dialogues with SIX and the Swiss banks during 2012, covering the scope, organisation and operation of the Swiss financial market infrastructures.

Asset management

The SNB's assets fulfil important monetary policy functions. They consist mainly of gold and foreign currency investments (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. In 2012, the currency reserves rose by CHF 171 billion to CHF 485 billion. The major part of this increase was attributable to the SNB's foreign currency purchases, with which it ensured the enforcement of the minimum exchange rate of the euro against the Swiss franc. The growth in volume was accompanied by greater demands on currency reserve management and heightened financial risk. The SNB decided to add the South Korean won as an investment currency. In addition, the share of equities in the foreign exchange reserves also grew. The SNB took care to avoid its investments having any impact on the markets and currency developments of other countries.

Financial system stability

The National Bank Act 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 2012, the SNB was involved in various activities relating to the implementation of the 'too big to fail' legislation. The main focus was on work surrounding the determination of systemically important banks and their systemically important functions. The SNB designated Credit Suisse Group and UBS as systemically important banks under the terms of the Banking Act, and in its annual *Financial Stability Report*, recommended that the big banks further strengthen their resilience. As part of a package of measures aimed at reducing risk on the mortgage market, the Federal Council created the legal basis for a countercyclical capital buffer to enter into effect on 1 July 2012. The SNB played an active role in the design of this instrument. Activation of the capital buffer is decided upon by the Federal Council following a proposal by the SNB.

International monetary cooperation

The SNB participates in international monetary cooperation activities. Important bodies are the IMF, the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD). With the continuing financial and sovereign debt crisis, IMF lending to member states in economic difficulty remained at a high level, and the IMF's fund requirements continued to be high. In summer, parliament approved the IMF's quota and governance reform, which includes a doubling of the quotas. At the 2012 Spring Meeting, Switzerland pledged a USD 10 billion participation towards the exceptional increase of the IMF's resources, subject to approval by the two chambers of Swiss parliament.

Banking services for the Confederation

The SNB provides the Swiss Confederation with banking services in the areas of payment transactions, liquidity management and the custody of securities. It also issues money market debt register claims and bonds for the Confederation.

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. In doing so, it works with the appropriate offices of the Confederation, FINMA, authorities from other countries and international organisations. In 2012, a revised version of the survey on cross-border trade in services was introduced.

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 National Bank'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 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. The resulting shortage of production capacity leads to an increase in the price level. Conversely, increasing interest rates lead to a shortage in the supply of money and credit, thereby holding back aggregate demand. The utilisation of production capacity falls, and the upward pressure on prices weakens.

Monetary conditions are shaped not just by interest rates, but also by the exchange rate. Given Switzerland's strong integration in the global economy, the exchange rate has a substantial influence on the utilisation of production capacity and the price level. A tightening of monetary conditions as a result of a strong currency appreciation cannot be countered by lowering nominal interest rates when these are already close to zero.

Conventional monetary policy, which is based on adjustments to a reference interest rate, is thus limited when short-term interest rates are close to zero. Under such exceptional circumstances, various instruments – described as unconventional monetary policy measures – can still be used. These enable central banks to continue maintaining or to further ease their expansionary monetary policies, even when interest rates are virtually zero.

Unconventional monetary policy at near-zero interest rates

The unconventional measures primarily take three forms, with each having similar effects on interest rates and the exchange rate. First, a central bank can provide forward guidance on the expected path of short-term interest rates, with the main goal being the reduction of long-term rates. Second, a central bank can purchase domestic securities to exert downward pressure on interest rates and yields. Third, it can acquire foreign currency, and thereby directly influence the exchange rate.

Monetary policy strategy

The SNB's monetary policy strategy sets out the manner in which it 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 Libor (London Interbank Offered Rate). Since mid-2010, this rate has been effectively zero. Since 6 September 2011, a minimum exchange rate for the euro against the Swiss franc has also applied, which allows the SNB to maintain the desired expansionary monetary policy stance, even when interest rates are at zero, and thereby ensure price stability. Sufficiently easing monetary policy through the purchase of domestic securities is not feasible, since the long-term interest rates are already very low, and the supply of such securities in Switzerland is limited. By contrast, if the SNB sets a minimum exchange rate for the Swiss franc, this has a strong impact, given Switzerland's strong integration in the global economy.

Definition of price stability

The SNB equates price stability with a rise in the national consumer price index of less than 2% per annum. 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 especially takes into account the fact that the consumer price index tends to slightly overstate inflation and that actual inflation cannot be measured precisely.

Conditional inflation forecast

The inflation forecast published quarterly by the SNB serves as the main indicator for the monetary policy decision. It is also a key element in communication. By focusing its monetary policy on an inflation forecast, the National Bank adopts a forward-looking stance. When preparing the forecasts, the SNB takes international risks into account by simulating various scenarios.

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 the interest rate does not change. It cannot be compared with forecasts by commercial banks or research institutions, as these generally factor anticipated interest rate movements into their forecasts.

The inflation forecast takes into account the predictions of various empirical models, and is based on assumptions about the future path of the global economy. With regard to short-term changes in price levels, it is mainly indicators related to the economy, as well as exchange rates and commodity prices (crude oil), that are of relevance. Changes in the monetary aggregates and in lending are also included in the inflation forecast, since medium and long-term price movements also depend on money supply.

Target range for three-month Libor

The SNB implements its monetary policy by fixing a target range for the three-month Libor. The target range usually extends over one percentage point. As a rule, the SNB holds the Libor in the middle of the range. With interest rates reduced to almost zero in the wake of the financial crisis, the Libor target range was also gradually narrowed. Since August 2011, a target range of 0.0–0.25% has applied. The British Bankers' Association Libors are published daily in London. The Swiss franc Libors correspond to the trimmed mean of the current interest rates conditions for – at present – 11 banks.

Libor manipulation

In summer 2012, it emerged that some Libors were not being truthfully reported by certain banks. The Financial Services Authority in the UK subsequently implemented various measures to prevent future attempts at manipulation, and to restore trust in the Libors.

As regards the disclosed attempts to manipulate Swiss franc Libors, there is no indication of any fundamental tampering or significant monetary policy-relevant distortions of the interest rate. The Libors continue to be a key reference rate for numerous credit relationships in the economy, internationally and especially in Switzerland. An SNB survey carried out in 2012 showed that 80% of banks questioned use the Swiss franc Libors as a benchmark for pricing loans. They therefore play an important role in the monetary transmission mechanism.

Minimum exchange rate for euro

The minimum exchange rate for the euro against the Swiss franc, which has applied since 6 September 2011, was introduced under exceptional conditions. Switzerland's economy was seriously threatened by an extreme appreciation of the Swiss franc, which carried with it the risk of a deflationary development, at a time when short-term interest rates could not be lowered any further. The SNB did not implement the minimum exchange rate to fine-tune the economy. On the contrary: The market was to be provided with a floor during a phase of great uncertainty. The minimum exchange rate was set at a level where the value of the Swiss franc remains high.

1.2 INTERNATIONAL ECONOMIC DEVELOPMENTS

Weak growth in global economy

In 2012, growth in the global economy was weaker than expected. This was reflected in the fact that world trade recorded its lowest rate of expansion in a decade – apart from 2009, during the crisis. The sluggish economic growth was mainly due to the disappointing performance in the euro area and the Asian emerging economies, notably China. The European financial and sovereign debt crisis worsened, and activity in the euro area declined. The emerging economies felt not only the impact of waning export demand from Europe, but also the consequences of their restrictive economic policies of preceding years.

Euro area in grip of crisis

The European financial and sovereign debt crisis was especially reflected in the risk premia on government bonds of heavily indebted countries compared to those of Germany, with some premia reaching all-time highs. The euro lost value against most currencies up to the middle of the year. Thanks to measures taken to counter the crisis, the situation then gradually eased. Risk premia dropped until the end of the year, in some cases sharply, and the euro gained in value again. The euro's performance was inversely mirrored by that of the US dollar; on a trade-weighted basis, the dollar benefited when the euro was weak, and declined as soon as the euro recovered.

Volatile commodity prices

Commodity prices fluctuated sharply in 2012, which was reflected in global inflation rates. Following a marked rise at the beginning of the year, the price of crude oil declined considerably until mid-June, although it rose again slightly in the second half of the year. At year-end, Brent crude was priced at USD 110 per barrel, marginally higher than a year earlier. Prices for agricultural commodities such as cereals and soybeans soared at times, as a result of a serious drought in the US.

Slowdown in inflation

The decline in annual inflation (as measured by consumer prices), which began at the end of 2011, continued worldwide into the first half of 2012. This was followed by an increase in food and energy prices, due to weather-related crop failures and to price movements in crude oil, which resulted in a slight rise in inflation rates. Core inflation – which excludes food and energy prices – declined in 2012 on the back of the weak economic conditions in most countries. It remained stable in the euro area, despite an increase in indirect taxes and administered prices.

Moderate economic growth in US

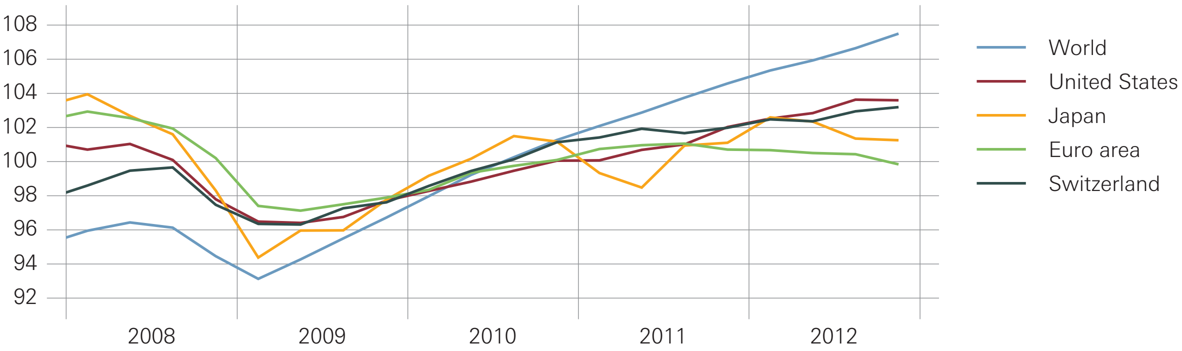
In the US, GDP increased by 2.2% in 2012, which was slightly higher than in the previous year. The gradual recovery in the labour market and, from mid-year onwards, the slow rebound in house prices bolstered private consumption, which had suffered badly in recent years from the effects of lower real estate prices. For the first time since 2005, construction activity picked up. By contrast, corporate investment slackened, and government demand decreased. In the second half of the year, fiscal policy became the focus of public attention, since at the beginning of 2013, tax relief measures were due to expire and automatic expenditure cuts go into effect. In January 2013, the US Congress agreed to extend most of the tax relief measures, and to postpone the expenditure cuts.

Continuing expansionary US monetary policy

The US Federal Reserve continued with its expansionary monetary policy, and held the target range for its reference interest rate at 0.0 – 0.25%. In December, it announced that it would proceed with its expansionary monetary policy for at least as long as the unemployment rate exceeded 6.5% and the mid-term inflation forecast did not rise above 2.5%. The Federal Reserve also increased the volume of its long-term securities purchases to USD 85 billion per month.

LEVEL OF GROSS DOMESTIC PRODUCT

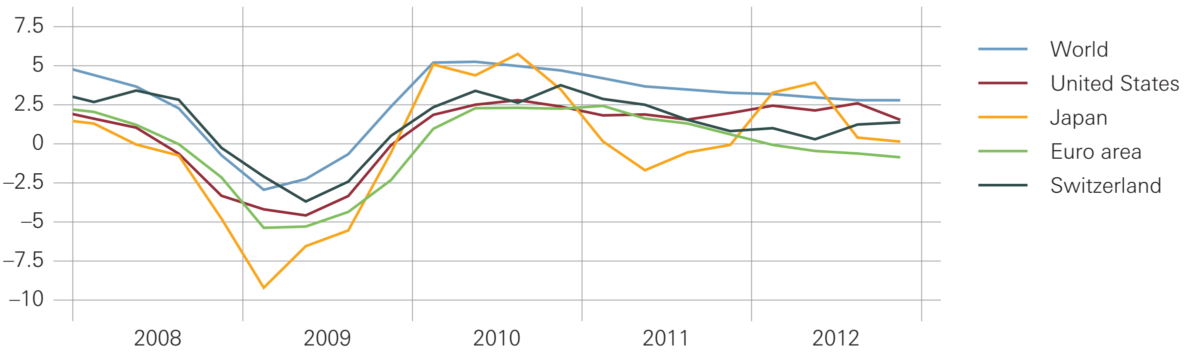
In real terms; index: 100 = period average (Q1/2008–Q4/2012)



Sources: SECO, SNB, Thomson Financial Datastream

GROWTH OF GROSS DOMESTIC PRODUCT

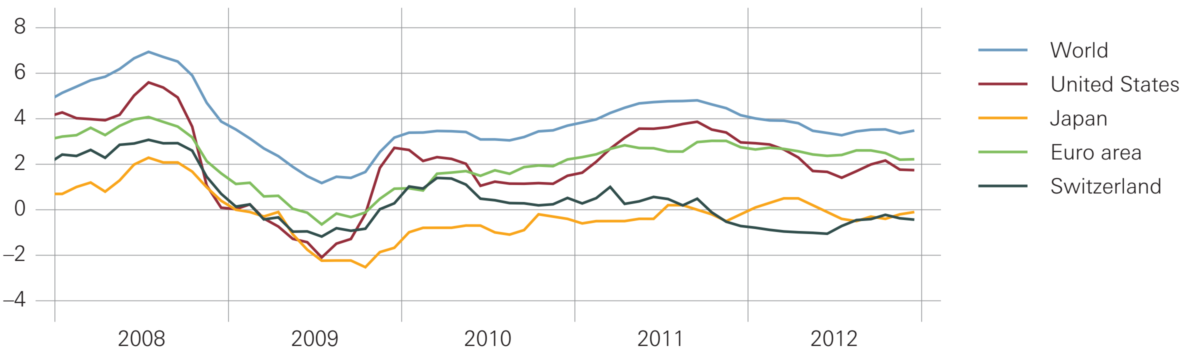
Year-on-year change in percent, in real terms



Sources: SECO, SNB, Thomson Financial Datastream

INFLATION

Consumer prices, year-on-year change in percent



Sources: IMF, SFSO, SNB, Thomson Financial Datastream

Recession in euro area

Economic developments in the euro area were strongly impacted by the financial and sovereign debt crisis. The euro area slipped into recession at the end of 2011, and this continued in 2012, which resulted in a 0.5% contraction in average annual GDP. Many countries experienced lower domestic demand. The southern euro area members remained mired in deep recession, due, among other reasons, to fiscal consolidation. The widespread loss of confidence among companies and declining demand from southern countries held back investment activity in Germany and France. The rate of unemployment in the euro area rose to 11.7% by year-end, the highest level since the inception of the currency union. Consumer price inflation remained steady at just above the European Central Bank's (ECB) price stability objective of "below, but close to, 2%".

ECB eases monetary policy

The sluggish economic performance prompted the ECB in July to lower the main refinancing rate by 0.25 percentage points to 0.75%. In addition, at the beginning of September, it launched a new purchase programme for government bonds. Under the terms of the Outright Monetary Transactions (OMT) programme, the ECB pledged to acquire short-term government bonds from member countries which applied for financial assistance to the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM) and which were prepared to carry out a reform programme agreed with the European Commission, the ECB and the International Monetary Fund (IMF). Bond purchases may also be considered for member countries which are already pursuing reform programmes, once they have regained access to the bond market. The aim of this measure is to improve the transmission of monetary policy to the real economy, which has been obstructed by high risk premia on bond markets. No upper limit has been set on the size of the purchases, which will be conducted only on secondary markets. By year-end, the ECB had not acquired any bonds under the OMT programme.

European financial and sovereign debt crisis

The European financial and sovereign debt crisis escalated in 2012. Despite drastic austerity measures, government debt in the euro area rose to over 90% of GDP, and the financing costs of some heavily indebted countries increased. To deflect the threat of Greek insolvency, the Eurogroup and the IMF provided Greece with a second assistance programme in February. Under the terms of the programme, Greece received further financial support and its private sector creditors agreed to forego a substantial portion of their claims. Following renewed concerns about its debt sustainability, in November, it was given more time to reduce its level of indebtedness. At the same time, it repurchased some of its outstanding debt. Spain received funds from euro area countries in order to recapitalise its banking system, which was plunged into crisis after the real estate bubble burst. Cyprus also applied for assistance, mainly to provide its banking sector with new financial resources. In Portugal and Ireland, measures implemented in previous years to restructure and reform their economies were continued.

At European level, various measures were taken to bolster fiscal discipline and financial sector resilience. To this end, the euro area countries signed a fiscal agreement at the EU summit at the beginning of March on stricter budgetary rules and national debt brakes. At the EU summit at the end of June, the decision was taken to create a banking union foreseeing, inter alia, a single supervisory mechanism under the auspices of the ECB. In September, the ECB announced a programme to acquire short-term government bonds of member countries which applied for financial assistance to the EFSF or the ESM, and which were prepared to carry out a reform programme. The ESM came into effect in October, and is to gradually replace the EFSF as the permanent financing mechanism for member countries in difficulty. Overall, these measures contributed towards easing the situation.

Japanese economy weakens

At first, the economic upswing in Japan following the earthquake catastrophe of March 2011 continued into 2012, on the back of extensive government funding to support reconstruction. As the year wore on, however, the economy weakened due to subdued export demand and the expiry of a subsidy for energy-efficient cars. Taken over the whole of 2012, GDP growth averaged 1.9%. The slight decline in consumer prices continued. The Bank of Japan therefore adhered to its zero interest rate policy. It also increased the volume of its securities purchase programme introduced in October 2010, and launched a new credit facility. The Bank of Japan and the government also confirmed their determination to combat the persistent deflation.

Slowdown in emerging economies

Subdued demand from advanced economies and uncertainty surrounding the outcome of the European financial and sovereign debt crisis also adversely affected the emerging economies. In some countries, tighter fiscal policy measures implemented previously also continued to have an effect. This was particularly true for China, which saw growth slow significantly in the first half of the year. Private consumer demand, in most cases, continued to underpin growth, but 2012 saw GDP expand at significantly less than its potential in most of the countries. The relaxation of monetary policy in a number of countries and a more accommodative policy stance by some governments contributed to a modest economic revival towards the end of the year.

1.3 ECONOMIC DEVELOPMENTS IN SWITZERLAND

Moderate economic growth

The weakening of the global economy and the continuing high level of the Swiss franc presented the Swiss economy with major challenges in 2012. The economic momentum slowed, and profit margins in many industries remained under pressure. The impact of the slowdown was also felt in the labour market. However, the Swiss economy held up well compared with the situation in Europe.

Over the course of the year, the path of GDP showed some variation, with a robust first quarter followed by a slight decline in the second. Thereafter, GDP rose again. According to the first estimate by the State Secretariat for Economic Affairs (SECO), GDP increased by 1.0% in 2012, after a 1.9% advance in 2011. Consumer demand was strong, providing major support to the economy, while investment and foreign trade lost considerable momentum.

REAL GROSS DOMESTIC PRODUCT

Year-on-year change in percent

	2008	2009	2010	2011	2012
Private consumption	1.2	1.8	1.6	1.2	2.5
Government consumption	–2.5	3.3	0.7	2.0	0.7
Investment	0.7	–8.0	4.8	4.0	0.1
Construction	0.0	3.0	3.5	2.4	–3.2
Equipment	1.1	–15.5	5.8	5.2	2.8
Domestic demand	**0.5**	**0.0**	**2.3**	**1.9**	**1.5**
Exports of goods and services	2.9	–7.7	7.8	3.8	1.1
Aggregate demand	**1.4**	**–2.9**	**4.3**	**2.6**	**1.3**
Imports of goods and services	–0.3	–5.2	7.4	4.2	2.3
Gross domestic product	**2.2**	**–1.9**	**3.0**	**1.9**	**1.0**

Sources: SECO, SFSO, SNB

Foreign trade subdued

Due to the weak global economy and strong Swiss franc, growth in exports of goods and services slowed substantially. Exports of machinery and metal products continued to trend downwards, while exports of chemicals and pharmaceutical products as well as watches increased further. In the area of services, tourism receipts from foreign guests contracted further.

Imports of capital goods were subdued, despite the more favourable prices for import products as a result of the strong Swiss franc. By contrast, imports of consumer goods continued increasing due to robust consumer demand.

Lacklustre equipment investment

Following strong growth in the first quarter, the momentum in equipment investment dropped off considerably. This reflected sluggish business activity in the export industry and the high level of uncertainty about the path of the global economy. While investment in machinery increased only modestly, it expanded robustly in the area of electronic data processing.

Recovery in construction investment over course of year

In the first few months of 2012, construction investment was severely affected by the low temperatures. However, as the year progressed, it gradually recovered. Residential construction continued to benefit from the favourable financing conditions and ongoing immigration. In addition, business construction advanced slightly. By contrast, civil engineering, where public sector infrastructure projects had previously given stimulus, lost traction.

Strong growth in consumption

Private consumption rose particularly strongly, at 2.5%. Contributory factors were lower prices for consumer goods and the robust income growth, partly linked to immigration. The minimum exchange rate for the euro against the Swiss franc is also likely to have boosted domestic retail sales. Public sector consumption rose by 0.7%, thus also contributing to the growth of GDP.

Subdued growth in many industries

Many industries were significantly affected by the weaker global economy and the strong Swiss franc. The effect on the hospitality industry and some areas of manufacturing was particularly pronounced, but the momentum of industries with a domestic focus also slackened. For instance, trade recorded no more than modest growth in value added, and a decline was registered in transport. The banking industry, which has been operating in an environment that continues to undergo structural change, recorded an increase in value added, although the level is still some 15% lower than before the financial crisis. The construction, insurance and health industries also registered positive developments in value added.

Underutilised capacity

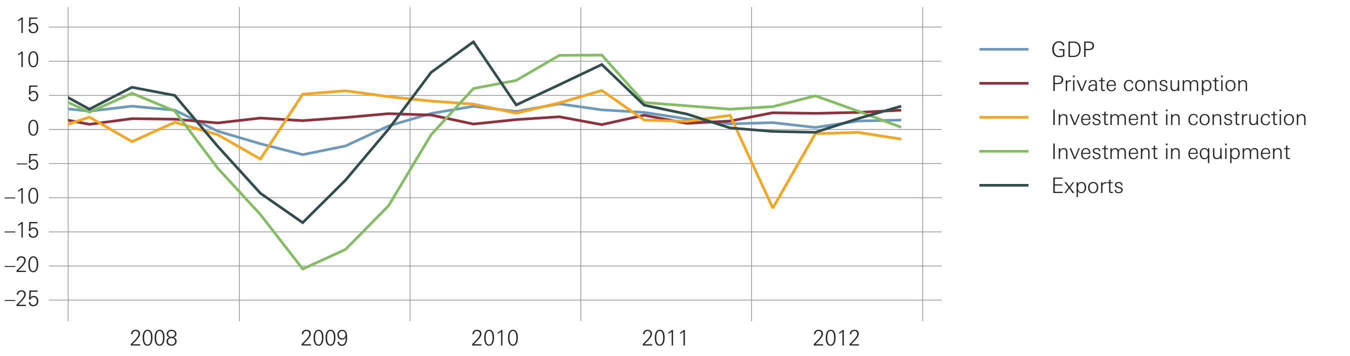
The output gap, which is defined as the percentage deviation of observed GDP from estimated aggregate potential output, shows how well the production factors in an economy are being utilised. The gap was already significantly negative at the beginning of 2012 and widened further due to the low level of growth. This reflected the decreasing utilisation of technical capacity in manufacturing and the increase in unemployment.

Labour market cools

Employment again increased in 2012. However, the situation varied very substantially from one industry to another. A significant decrease in employment was recorded, for example, in hospitality and in financial services. The rate of unemployment, which had amounted to 2.7% at the beginning of the year, rose slowly but continually thereafter. At the end of the year, it amounted to 3.1%.

GROSS DOMESTIC PRODUCT AND COMPONENTS

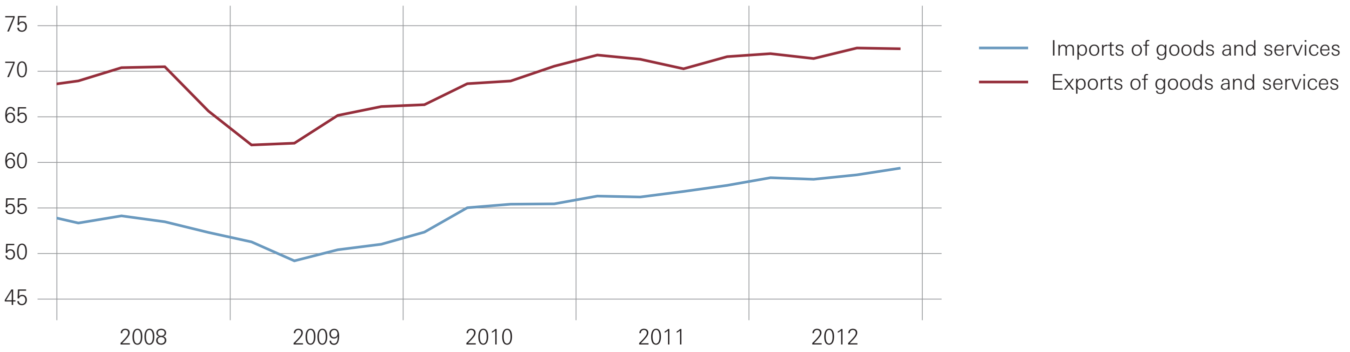
Year-on-year change in percent, in real terms



Sources: SECO, SNB

FOREIGN TRADE

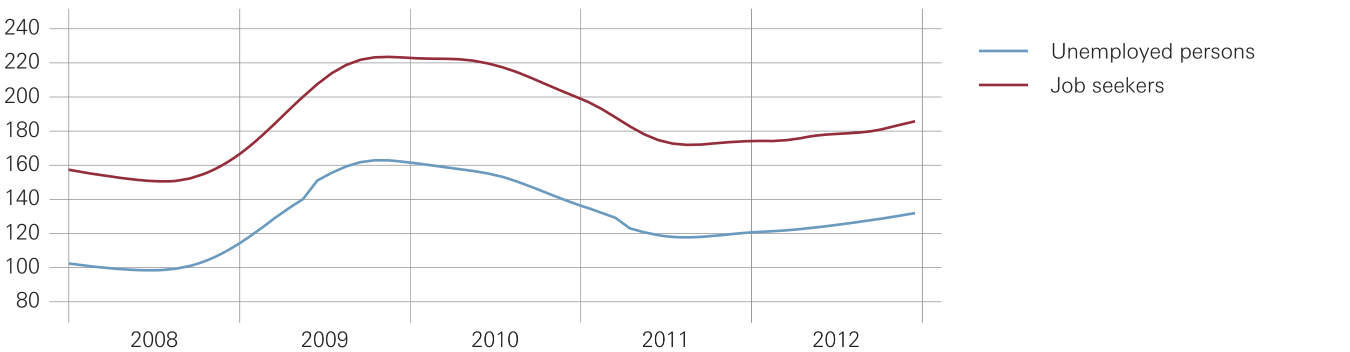
In CHF billions, in real terms, seasonally adjusted



Source: SNB

LABOUR MARKET

In thousands, seasonally adjusted and smoothed



Source: SNB

LABOUR MARKET

	2008	2009	2010	2011	2012
Employment in terms of full-time equivalents [1,2]	2.7	–0.3	0.6	1.1	1.6
Unemployment rate in percent	2.6	3.7	3.5	2.8	2.9
Number of job seekers in percent	3.9	5.2	5.0	4.2	4.1
Swiss nominal wage index [1,2]	2.0	2.1	0.8	1.0	1.1
Compensation of employees, nominal [1,2]	5.1	2.5	–0.1	3.8	3.5

1 Year-on-year change in percent.
2 2012: SNB forecast.
Sources: SECO, SFSO

Substantial increase in real wages

In 2012, real wages increased noticeably. Although, according to SNB estimates, the nominal wage increase as measured by the Swiss wage index was moderate, at 1.1%, real wages rose significantly, due to the fact that consumer prices decreased. Real wages grew by 1.8% according to the wage index and by 2.2% according to the national accounts. Together with the increase in employment, this resulted in significant growth in the compensation of employees (total labour income).

Producer and import prices stabilise

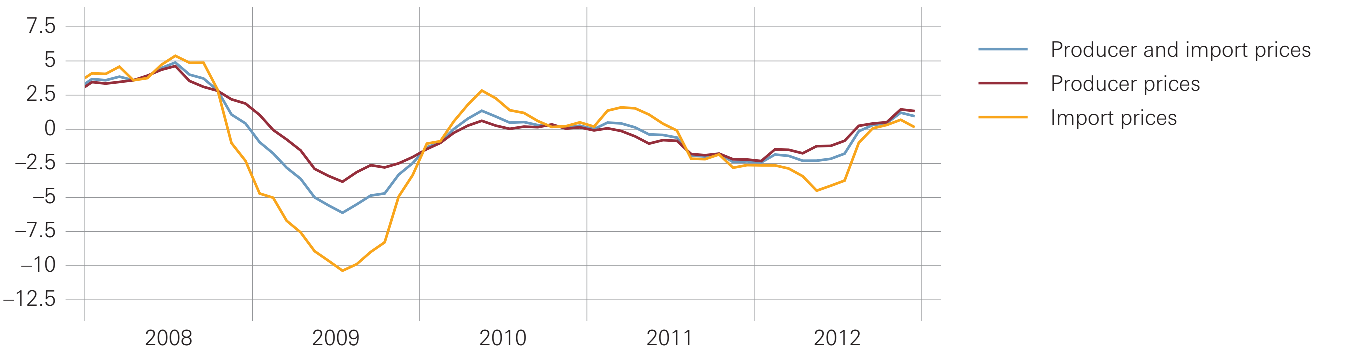
Due to the introduction of the minimum exchange rate, the substantial decline in producer and import prices came to a halt, albeit with a certain delay. Since early 2012, producer and import prices have increased slightly, and from September they were again above the corresponding level for the previous year. This increase was due mainly to higher prices for energy and export products.

Decline in consumer prices

In 2012, prices as measured by the national consumer price index (CPI) declined by an average of –0.7%, after having risen slightly in 2011 (by 0.2%). However, consumer prices also stabilised as a result of the minimum exchange rate, with year-on-year inflation increasing to –0.3% in the fourth quarter, following negative inflation rates of around –1.0% at the beginning of the year.

PRODUCER AND IMPORT PRICES

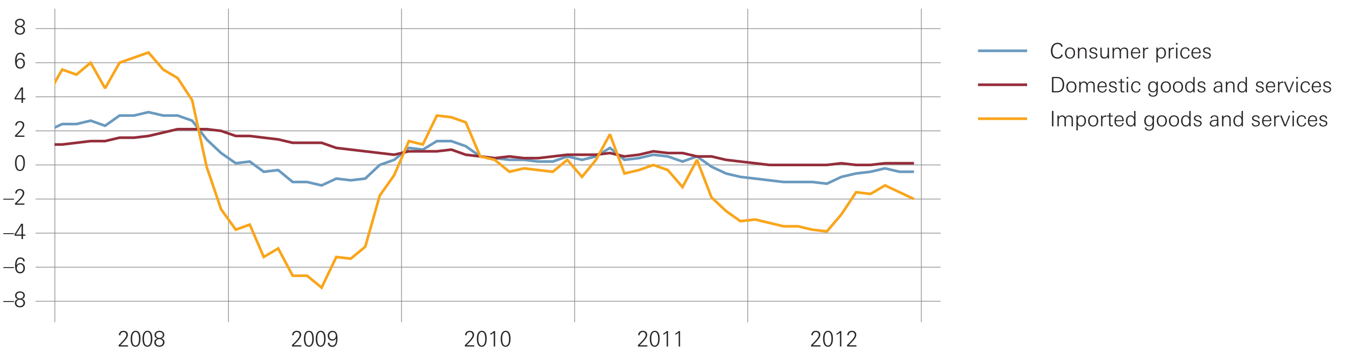
Year-on-year change in percent



Sources: SFSO, SNB

CONSUMER PRICES

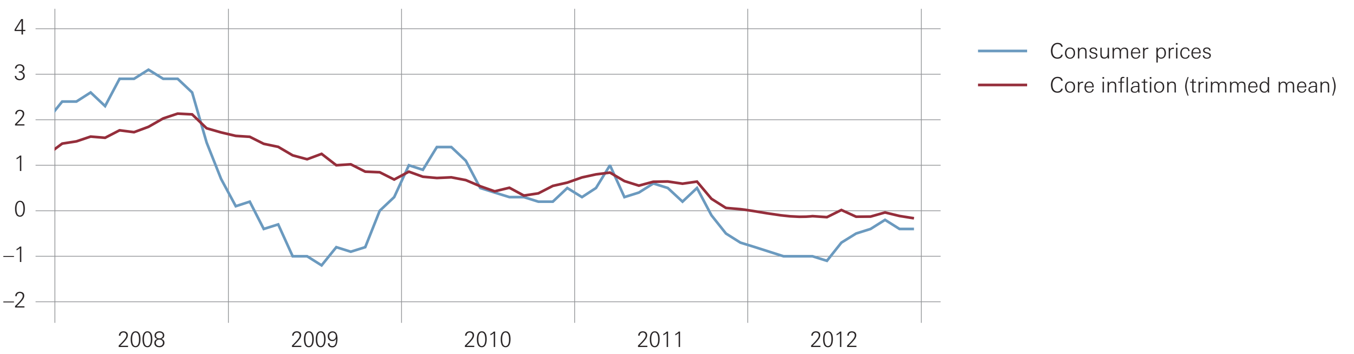
Year-on-year change in percent



Sources: SFSO, SNB

CORE INFLATION

Year-on-year change in percent



Sources: SFSO, SNB

The impact of the minimum exchange rate was most clearly manifested in the fact that the fall in prices for foreign goods was less pronounced than in 2011. Domestic services became slightly more expensive. During the year, however, the increase in rental prices slowed down considerably. This was mainly attributable to the decrease in the mortgage reference rate calculated by the Federal Office for Housing.

NATIONAL CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2011	2012	2012 Q 1	Q 2	Q 3	Q 4
Consumer price index, overall	**0.2**	**–0.7**	**–0.9**	**–1.0**	**–0.5**	**–0.3**
Domestic goods and services	0.6	0.0	0.0	0.0	0.0	0.1
Goods	–1.3	–1.8	–2.3	–2.1	–1.8	–1.0
Services	1.1	0.6	0.7	0.6	0.6	0.4
Private services (excluding rents)	0.8	0.6	0.7	0.6	0.6	0.5
Rents	1.3	0.6	0.8	0.7	0.6	0.2
Public services	1.8	0.4	0.6	0.3	0.3	0.6
Imported goods and services	–0.7	–2.7	–3.4	–3.8	–2.1	–1.6
Excluding oil products	–2.5	–4.2	–5.2	–4.9	–4.1	–2.5
Oil products	9.3	5.0	6.2	2.2	8.7	3.0
Core inflation						
Trimmed mean	0.5	–0.1	–0.1	–0.1	–0.1	0.0

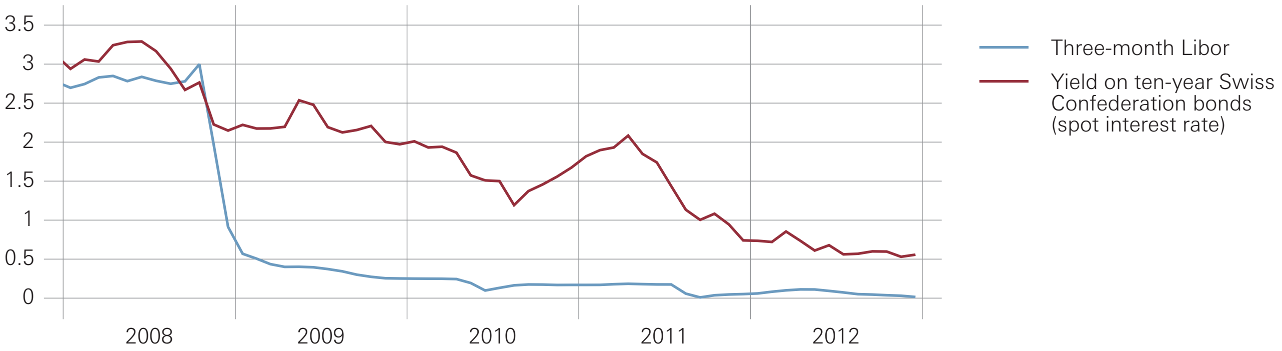
Sources: SFSO, SNB

Low and stable core inflation

Inflation, as measured by the CPI may be subject to various short-term fluctuations. In order to analyse the inflation trend, core inflation rates, such as the trimmed mean calculated by the SNB, can be used. With the trimmed mean estimator, 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). On average for the year, core inflation calculated on the basis of the trimmed means method amounted to –0.1%, following 0.5% in 2011.

MONEY AND CAPITAL MARKET RATES

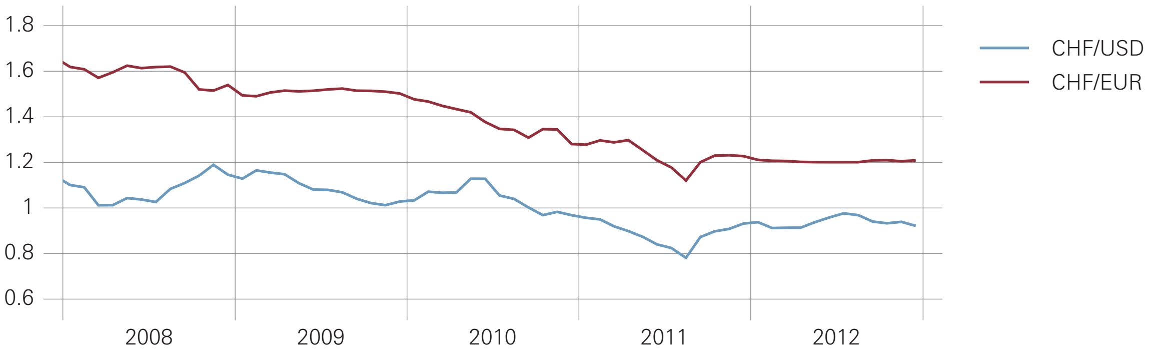
In percent



Source: SNB

EXCHANGE RATES

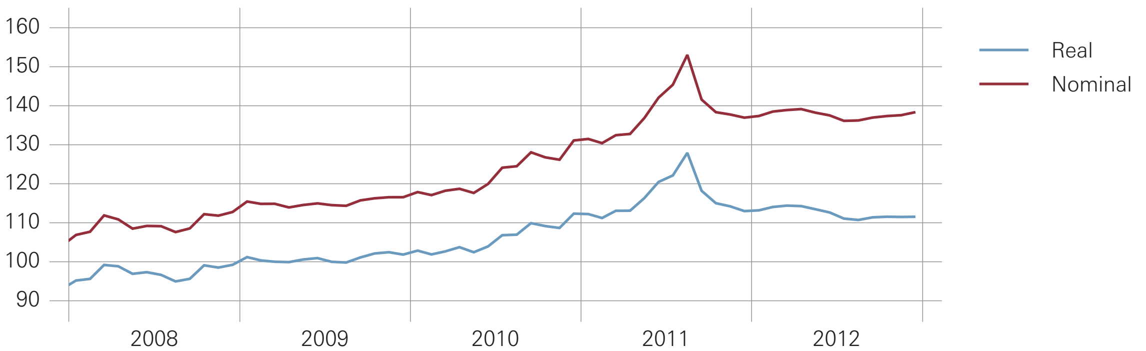
Nominal



Source: SNB

EXPORT-WEIGHTED SWISS FRANC EXCHANGE RATES

40 trading partners; index: January 1999 = 100



Source: SNB

1.4 MONETARY POLICY IN 2012

Ensuring appropriate monetary conditions

In an environment of slightly negative inflation rates and weakening growth in the global economy, the SNB's challenge in 2012 was to keep monetary policy sufficiently expansionary to counter deflationary and recessionary threats. Monetary conditions in Switzerland were dominated by a three-month Libor close to zero and the minimum exchange rate for the euro against the Swiss franc. The minimum exchange rate was an important instrument for the SNB in fulfilling its mandate, since it prevented an economic and price development that could have been destabilising.

No alternative to minimum exchange rate

In summer 2011, the extent and pace of the Swiss franc's appreciation had reached a level where the SNB saw no alternative to intervening in the foreign exchange market and, on 6 September 2011, setting a minimum exchange rate of CHF 1.20 per euro. With this measure, the SNB countered an undue tightening of monetary conditions as a result of the strength of the Swiss franc – a strength whose origin was to be found in international developments. The Swiss franc was very substantially overvalued, according to any measure, and the volatility of the exchange rate had reached an alarming level. At the same time, the international economic environment had deteriorated significantly. This situation presented an acute risk to the Swiss economy, as well as carrying the threat of a deflationary development.

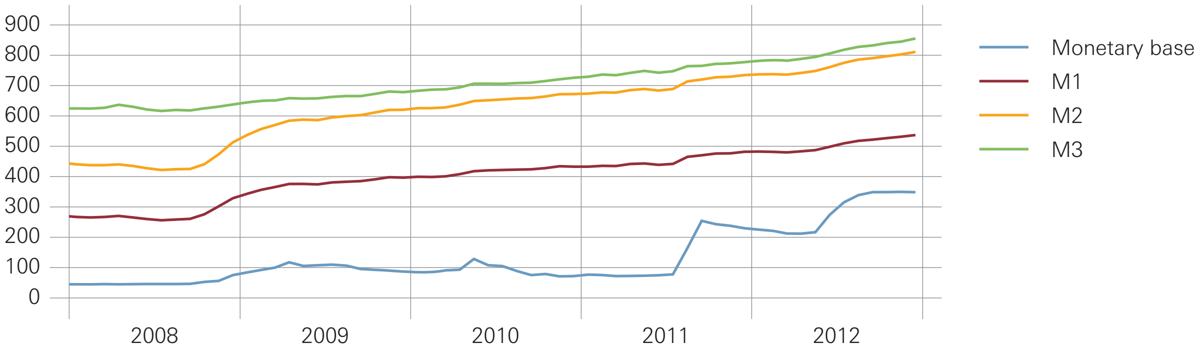
Through the minimum exchange rate, companies obtained certainty for their planning activities and the export industry was able to gain a foothold again. The deflationary risks that were threatening to become more widespread were curbed. However, the value of the Swiss franc remained high throughout the year. Consequently, an appreciation would have continued to have serious consequences for Switzerland. In view of the flagging global economy and the ongoing uncertainty as to whether turmoil would return to the international financial markets, a continuation of the minimum exchange rate policy was indispensable.

Enforcement of minimum exchange rate

The SNB consistently enforced the minimum exchange rate in 2012. At each of the quarterly monetary policy assessments, it confirmed its determination to purchase foreign currency in unlimited quantities for this purpose. The SNB would stand ready to take further measures at any time, should deflationary and economic risks make this necessary.

LEVEL OF MONETARY AGGREGATES

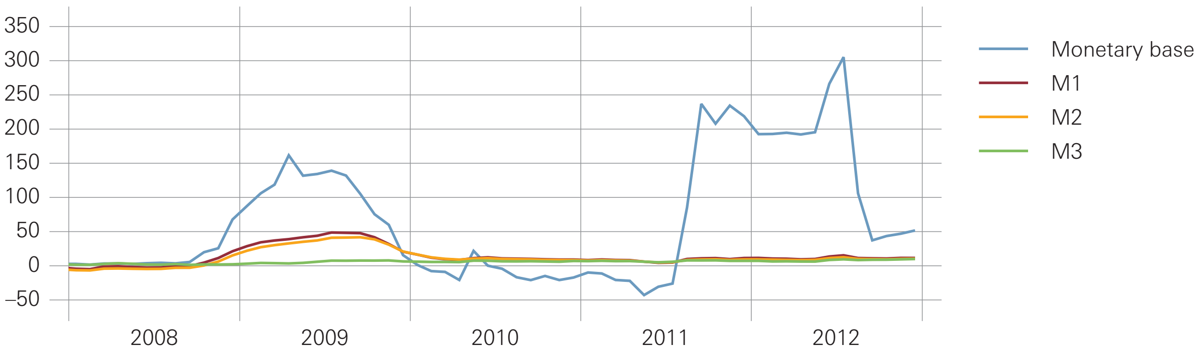
In CHF billions



Source: SNB

GROWTH OF MONETARY AGGREGATES

Year-on-year change in percent



Source: SNB

Euro above minimum exchange rate

In 2012, the euro persisted at a level just above the minimum exchange rate of CHF 1.20. Movements in the exchange rate against the Swiss franc mainly reflected changes in market participants' risk assessments. The EUR/CHF exchange rate had been fluctuating around CHF 1.23 in the fourth quarter of 2011; in spring 2012, with an escalation in the crisis and given the doubts about the survival of the monetary union, it moved closer to the minimum exchange rate. From May to August, the SNB had to purchase large amounts of foreign currency in order to enforce the minimum exchange rate. Consequently, foreign currency investments increased substantially. The upward pressure on the Swiss franc eased following the ECB's announcement in early September that it would purchase unlimited quantities of bonds of crisis-hit euro area countries under certain conditions. The euro rose to CHF 1.21, and fluctuated between CHF 1.20 and CHF 1.22 until the end of the year.

Swiss franc still high

Against the US dollar, the Swiss franc weakened somewhat during the course of the summer. In September, it gained value again, so that by the end of 2012 it was slightly stronger than at the beginning of the year. This meant that the CHF/USD rate largely followed the path of the EUR/USD rate. The real export-weighted external value of the Swiss franc, which also takes price movements in relation to those of Switzerland's trading partners into account, decreased slightly over the course of the year. However, the Swiss franc remained high in historical terms.

Target range for three-month Libor unchanged

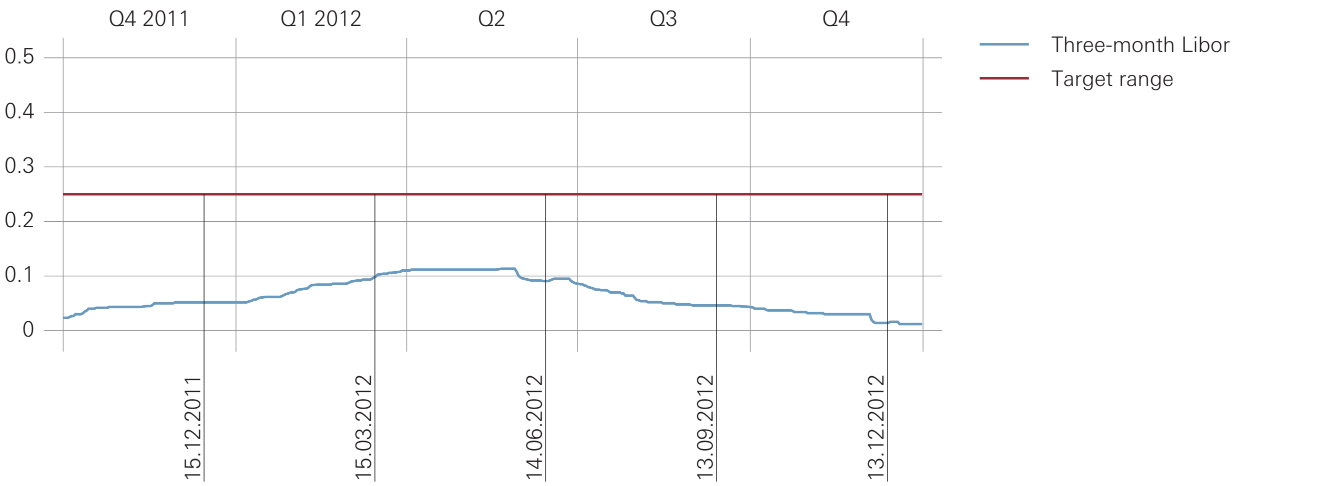
Throughout the year, the target range for the three-month Libor remained at 0.0–0.25%. Although liquidity continued to be high in the money market, the three-month Libor increased slightly to March, from 5 to 11 basis points, and persisted at this level until May. In March, the SNB confirmed its intention to continue holding the Libor as close to zero as possible. In view of the narrow target range, the SNB did not specify any target level for the three-month Libor after June. As a result of the foreign exchange market interventions, liquidity rose further, and the three-month Libor subsequently fell below 5 basis points in the summer. At the end of the year, it stood at 1 basis point.

High level of liquidity

By expanding liquidity in August 2011, the SNB was aiming to create expansionary monetary conditions in the money market, thereby exerting downward pressure on interest rates and the Swiss franc. The SNB stressed that it intended to maintain liquidity in the money market at an exceptionally high level. For this purpose, it concluded repo transactions and foreign exchange swaps between January and May. Since the SNB purchased foreign currency during the summer half of the year in order to enforce the minimum exchange rate, liquidity again increased significantly. In December, bank sight deposits were CHF 113 billion higher than a year previously.

THREE-MONTH LIBOR

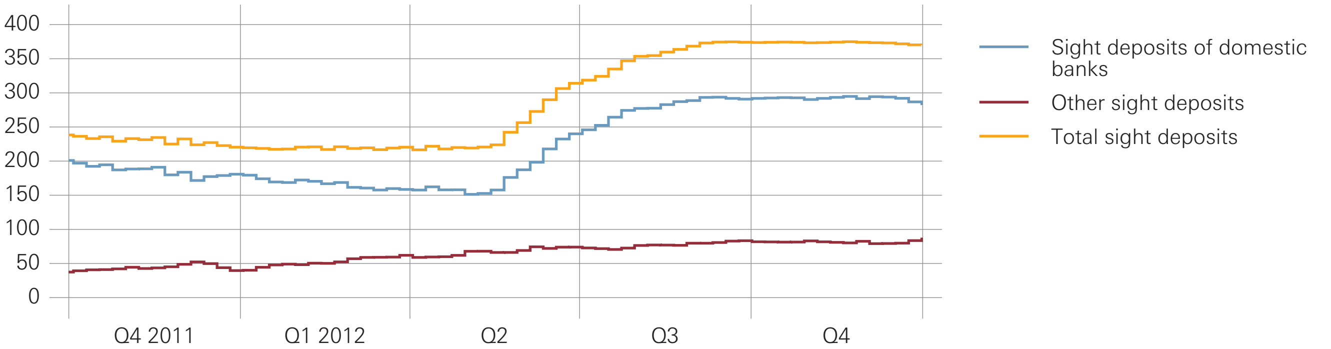
Daily values in percent



Source: SNB

SIGHT DEPOSITS AT THE SNB

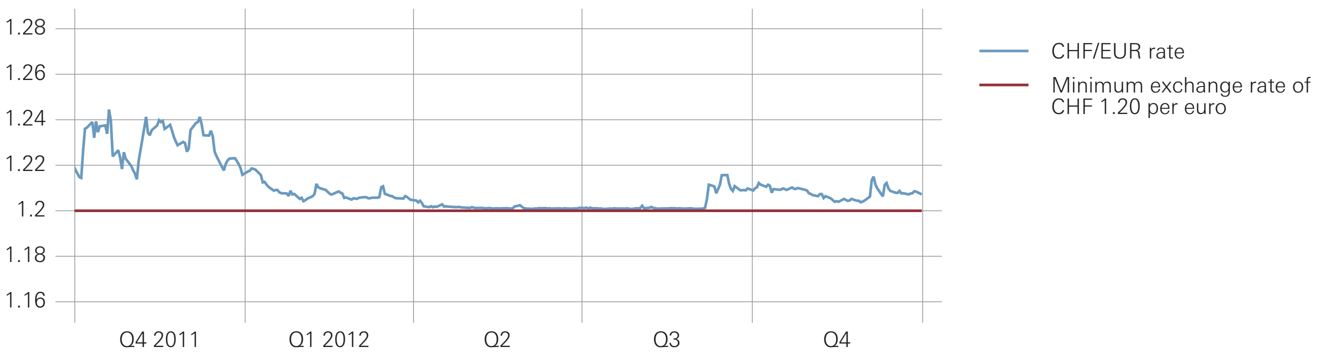
Weekly averages, in CHF billions



Source: SNB

EXCHANGE RATE

Daily rates



Source: SNB

Benefiting from the low rates of interest, the broad monetary aggregates, M2 and M3, recorded significant advances, as in previous years. On average for the year, M2 rose by 9.8% and M3 by 8.0%. Bank lending increased by 4.0% overall, thereby supporting the economy.

Outlook for global economy adjusted downwards

The scenario for the path of the global economy affects both the inflation forecast and the assessment of the domestic economy. As a result of the weak global economic growth, the SNB adjusted its international scenarios downwards during the course of the year, and this had a dampening effect on the inflation and growth forecasts for Switzerland.

Economy also weakening in Switzerland

The weakness of the global economy also affected Switzerland. Nonetheless, following a significant slowdown in GDP growth during the course of 2011, it became evident at the beginning of 2012 that the minimum exchange rate was making a significant contribution to stabilising the economic situation. Consequently, in June, the SNB increased its growth forecast for 2012 to 1.5%, compared to 1.0% in March and 0.5% in December 2011. However, a revision in the national accounts in July showed that economic growth was lower and the SNB reduced its growth forecast for 2012 to 1.0%. In December, it confirmed this figure, and forecast growth of 1.0–1.5% for 2013. Overall, the economy weakened as expected in 2012 and GDP growth was substantially lower than in 2011 (1.9%).

Low inflation expectations and long-term interest rates

Inflation expectations remained low. Results of surveys conducted among households and companies showed that medium-term inflation expectations were within a band consistent with the SNB's definition of price stability. Long-term interest rates also remained low. Following a temporary increase by some 20 basis points in March, to 0.9%, yields on 10-year Confederation bonds declined to just under 0.5% by June. Until November, they moved within a range of 0.5–0.7%; by mid-December, they had decreased to a new historical low of just under 0.4%. At the end of the year they stood at 0.6%.

Conditional inflation forecasts in 2012

Throughout the year, no risk of inflation could be identified on the basis of the SNB's conditional inflation forecasts. The low point for inflation was forecast for the second quarter of 2012, and for the year as a whole, inflation forecasts indicated negative inflation rates. The slowdown in the domestic economy and the subdued outlook for the global economy also gave rise to low medium-term inflation forecasts. The forecasts assumed a three-month Libor of zero and a weakening Swiss franc. Nevertheless, forecast inflation at the end of the 12-quarter forecast horizon did not exceed 1.0%.

Inflation forecast in March

Over the course of the year, the inflation forecasts presented at the quarterly monetary policy assessments were adjusted slightly downwards. The main reasons for this were the continuing strength of the Swiss franc and the deteriorating outlook for the global economy. At the March assessment, the inflation outlook was below that presented in December 2011. The appreciation of the Swiss franc in summer 2011 had subdued price movements more significantly than expected. In the longer term, inflation would be brought down by the worsening growth outlook for the euro area and the continuing high valuation of the Swiss franc.

Inflation forecast in June

At the monetary policy assessment in June, the inflation forecast remained largely unchanged. From 2013, the path of the inflation forecast was again more moderate than in March, since the Swiss franc had not weakened as forecast by the SNB.

Inflation forecast in September

At the September monetary policy assessment, the inflation forecast was lowered again. The further decline in the inflation outlook stemmed partly from the less favourable prospects for the global economy and a more pronounced underutilisation of production capacity in Switzerland, and partly from the fact that the forecast weakening in the Swiss franc had still failed to materialise.

Inflation forecast in December

At the December monetary policy assessment, the inflation forecast for the medium term was largely unchanged from September. The short-term inflation forecast was again lower due to a somewhat weaker economic outlook in the euro area. In addition, the impact of the appreciation in the Swiss franc was again a little stronger than had been expected.

High level of uncertainty

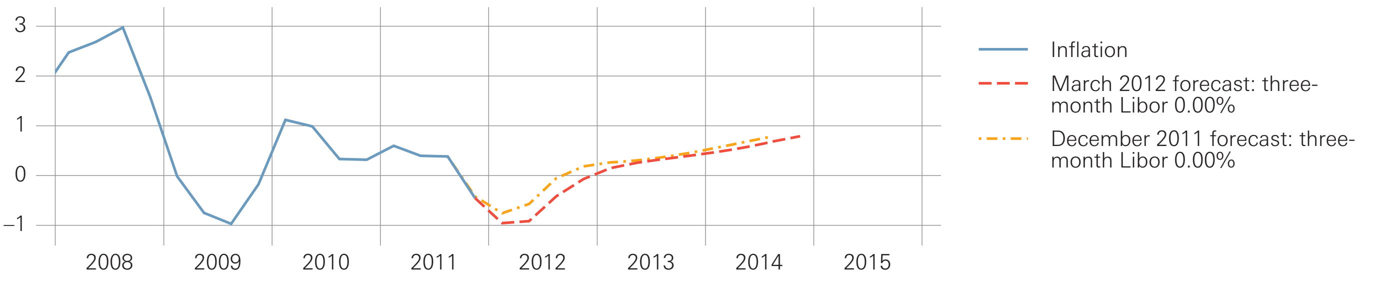
Throughout the year, the level of uncertainty about developments in the global economy and the financial markets remained high. After new governments had taken office in Greece and Italy and the European Fiscal Compact entered into force in the first quarter, the turmoil in the financial markets abated briefly. The second package of measures for Greece and the debt haircut that took place also contributed to an easing of tension. In the second quarter, the political developments in Greece, the problems in the Spanish banking industry and the weak economic data resulted in a resurgence of market turmoil. Until the ECB announced its OMT programme in September, the fragility of the situation on the financial markets was reflected in strong upward pressure on the Swiss franc. Although the situation on the financial markets calmed in the months that followed, the sovereign debt problem remained unresolved and, accordingly, the level of uncertainty was high.

Increasing imbalances in mortgage and real estate markets

As a result of low interest rates, prices on the Swiss real estate market continued to rise. The ratio of bank loans to GDP attained a new peak, thereby increasing the imbalances in the residential mortgage and real estate market (cf. chapters 6.3 and 6.4 on risks for financial stability and measures for reducing the risks in the mortgage market).

CONDITIONAL INFLATION FORECAST OF 15 MARCH 2012

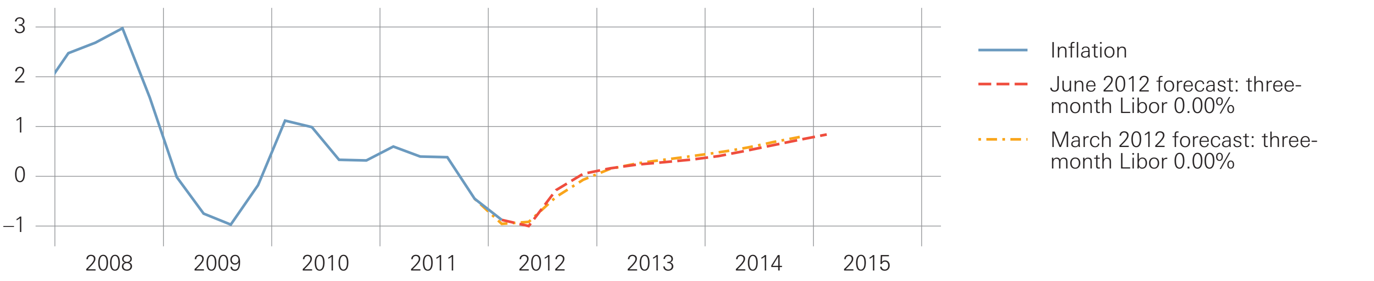
Year-on-year change in national consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 14 JUNE 2012

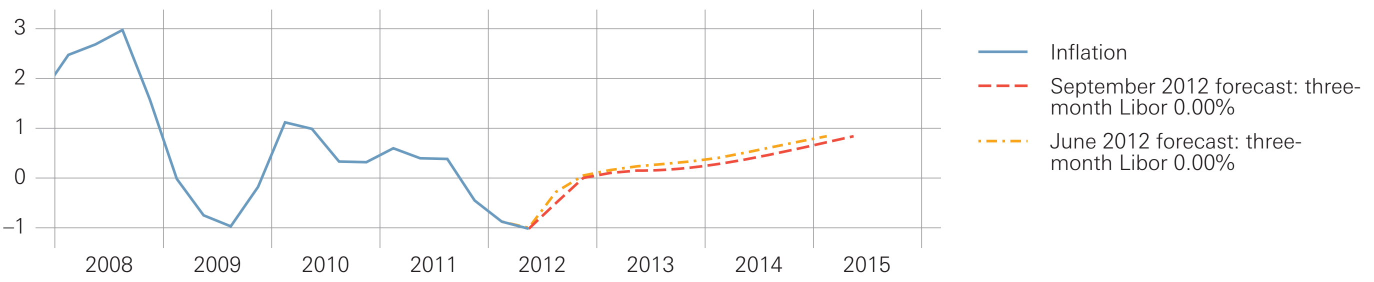
Year-on-year change in national consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 13 SEPTEMBER 2012

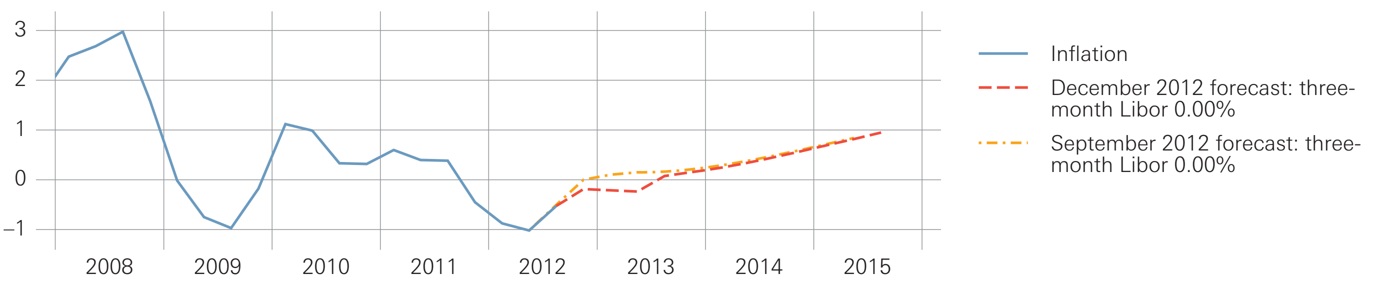
Year-on-year change in national consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 13 DECEMBER 2012

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



Source: SNB

2
Implementation of monetary policy

2.1 BACKGROUND AND OVERVIEW

Mandate

It is the task of the Swiss National Bank (SNB) to provide the Swiss franc money market with liquidity (art. 5 para. 2 (a) National Bank Act (NBA)). The 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.

Scope of business and set of instruments

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 SNB also provides emergency liquidity assistance.

The 'Guidelines of the Swiss National Bank (SNB) on monetary policy instruments' set out in detail the SNB's scope of business 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 repo operations.

Minimum exchange rate

The National Bank continues to enforce the minimum exchange rate, set on 6 September 2011, with the utmost determination and is prepared to buy foreign currency in unlimited quantities for this purpose. Since September 2011, all monetary policy instruments have thus been geared towards the enforcement of the minimum exchange rate. In 2012, the SNB conducted extensive foreign currency purchases, which resulted in a substantial increase in sight deposits held at the National Bank. The target range for the three-month Libor remained unchanged at 0.0–0.25%.

Sight deposits

A bank's most liquid assets are sight deposits held at the SNB, since they can be used immediately to effect payments and are deemed to be legal tender. Domestic banks hold sight deposits to satisfy minimum reserve requirements. Banks also need them for payment transactions and as liquidity reserves. The SNB influences sight deposits by utilising its monetary policy instruments. Sight deposits at the National Bank bear no interest. In addition to sight deposits held by domestic banks, total sight deposits include sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities.

The level of sight deposits determines the extent of activity on the money market. If the supply of liquidity to the banking system is kept low, the individual financial market participants adjust their liquidity positions on the money market. Banks seeking 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. If there is ample liquidity in the banking system, the need for banks to adjust their liquidity positions declines and so too does trading activity on the money market.

2.2 IMPACT OF MINIMUM EXCHANGE RATE ON MONEY MARKET

Considerable increase in sight deposits

In order to keep Swiss franc liquidity at a high level, the SNB conducted liquidity-providing foreign exchange swaps and repo transactions between January and May 2012. During this time, total sight deposits at the SNB averaged CHF 219 billion per week. In spring, demand for Swiss francs on the foreign exchange market increased once again, forcing the SNB to step up its purchases of foreign currency against Swiss francs. Consequently, the liquidity-providing operations offered up to that point were discontinued as of the end of May 2012. Following the extensive purchases of foreign currency, total sight deposits at the SNB rose by September to over CHF 370 billion, and remained at this level until the end of the year.

Exceptionally low money market rates

In 2012, interest rates on the Swiss franc money market were close to zero. By May, the three-month Libor had risen to 0.11%. It declined significantly in the following months as a result of the strong increase in liquidity. At the end of the year, it stood at 0.01%. Interest rate expectations – derived from three-month Libor futures contracts – remained exceptionally low and were, at times, substantially below zero.

Low activity on repo market

As a result of the foreign currency purchases made to enforce the minimum exchange rate, Swiss franc liquidity expanded very significantly. This meant that the level of trading activity on the repo market, which had already been very low for some time, dropped further.

High level of compliance with minimum reserve requirements

Following the strong expansion of sight deposits at the SNB, the eligible assets which banks hold to satisfy statutory minimum reserve requirements increased to an average of CHF 232 billion. The average level of compliance for the year amounted to 1929%, as compared with 867% a year earlier (cf. also chapter 2.4).

2.3 USE OF MONETARY POLICY INSTRUMENTS

Foreign exchange transactions

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

In 2012, in order to enforce the minimum exchange rate, the SNB conducted extensive foreign exchange transactions and purchased foreign currency to a value of CHF 188 billion. Foreign exchange transactions are conducted with a wide range of domestic and foreign counterparties. The SNB accepts well over 100 banks from around the world as counterparties. With this network of contacts, it covers the relevant interbank foreign exchange market. Via electronic trading systems, banks have access at all times to the SNB's offers.

Since the introduction of the minimum exchange rate, the National Bank has continuously monitored the foreign exchange market from market opening on Sunday evening to market closing on Friday evening. The opening of the SNB's branch in Singapore in mid-2013 will facilitate round-the-clock monitoring of foreign exchange markets.

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 by way of auction or on a bilateral basis.

Until 8 May 2012, the SNB concluded foreign exchange swaps in order to provide temporary liquidity in Swiss francs. The swaps were concluded with domestic and foreign banks on a bilateral basis via electronic trading platforms or by telephone. Turnover amounted to CHF 91 billion, with terms ranging between 7 and 62 days. Swiss francs were provided against US dollars, euros, pounds sterling and Canadian dollars.

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 National Bank will resell securities of the same type and quantity at a later date. The bank generally pays interest (repo interest rate) to the SNB for the term of the repo agreement. Repo transactions can also be used to absorb liquidity. In this instance, the bank purchases securities from the SNB, and the SNB debits the associated sum in Swiss francs to the counterparty's sight deposit account. From an economic perspective, a repo transaction is a secured loan. Like foreign exchange swap transactions, repo transactions can be conducted by way of auction or on a bilateral basis with a wide range of counterparties.

Until 24 May 2012, the SNB conducted liquidity-providing repo transactions in order to keep liquidity in Swiss francs at a high level. These transactions generally had a term of one week and were concluded on a bilateral basis. By the end of May, their average volume amounted to CHF 20 billion, while the annual average volume came to CHF 9.4 billion. The repo rate for these transactions was –0.15%. The negative rate reflected the cost of high-quality collateral eligible for SNB repos, which is required to cover repo transactions with the SNB.

Collateral eligible for SNB repos

The NBA (art. 9) requires that credit transactions with banks and other financial market participants be covered by sufficient collateral. The 'Guidelines of the Swiss National Bank (SNB) on monetary policy instruments' outline 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', and which appear in the list of collateral eligible for SNB repos, are admitted for repo transactions.

The SNB has high requirements regarding the quality of the securities eligible as collateral. It accepts securities denominated in both Swiss francs and foreign currencies. The SNB's minimum requirements with regard to the market liquidity and credit rating of collateral – which have always been high by international standards – oblige banks to hold liquid assets of value on their balance sheets. This is essential if banks are to be able to refinance their operations on the money market even under difficult conditions.

The National Bank did not make any changes in 2012 to its collateral policy. Translated into Swiss francs, the volume of collateral eligible for SNB repos at the end of 2012 amounted to CHF 9,400 billion.

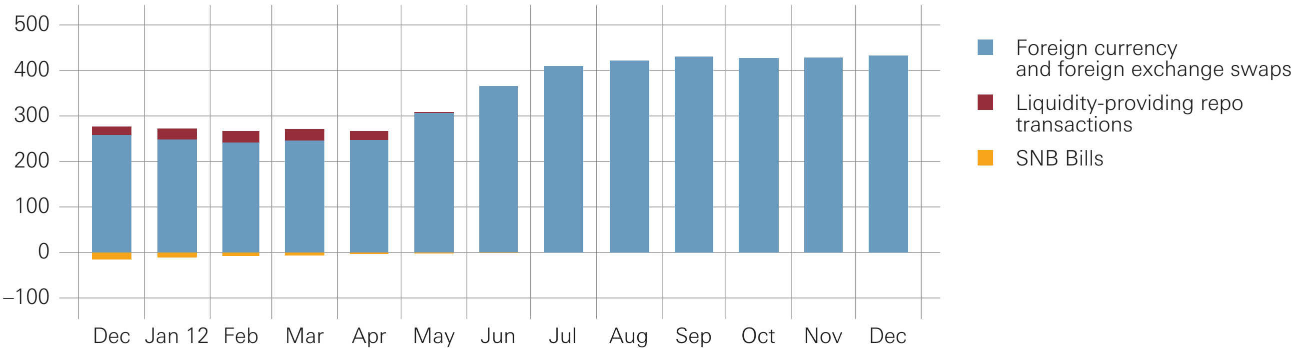
Own debt certificates

The issuance of its own debt certificates in Swiss francs (SNB Bills) allows the National Bank to absorb liquidity. The SNB can also repurchase SNB Bills via the secondary market, in order to increase the supply of liquidity to the financial system where necessary.

In 2012, no SNB Bills were issued or repurchased. The last SNB Bills fell due in July, and at the end of the year, there were no longer any outstanding.

SNB MONETARY POLICY OPERATIONS

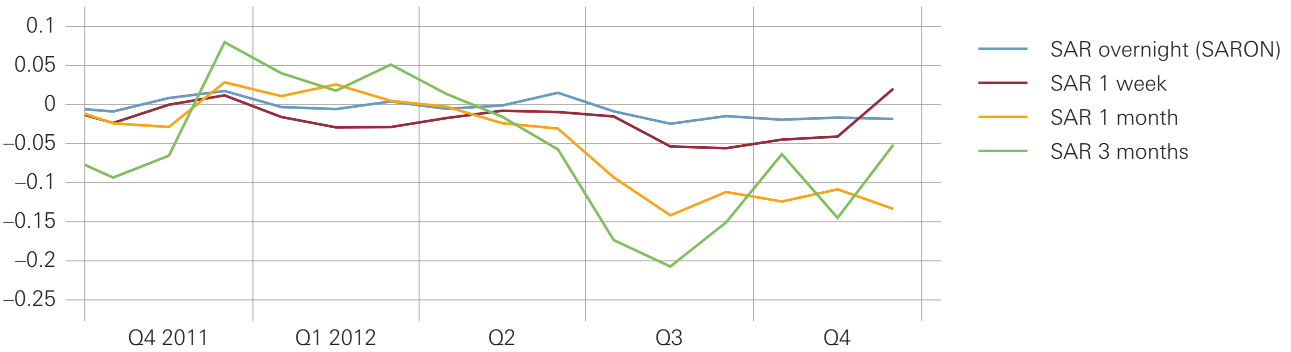
Balance sheet items relevant to monetary policy; stocks at month-end in CHF billions



Source: SNB

SWISS FRANC REFERENCE RATES (SWISS AVERAGE RATES, SAR)

Monthly averages of daily figures, in percent



Source: SNB

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 the Swiss Interbank Clearing (SIC) system 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.

Owing to the exceptionally high level of liquidity on the Swiss franc money market, average utilisation of the intraday facility declined to CHF 2.3 billion, compared with CHF 5.4 billion a year earlier.

Liquidity-shortage financing facility

To bridge unexpected liquidity bottlenecks, the SNB offers a liquidity-shortage financing facility. For this purpose, the National Bank grants its counterparties a limit which must be covered at all times by at least 110% collateral eligible for SNB repos. Counterparties have the right to obtain liquidity up to the limit granted until the following bank working day. The liquidity-shortage financing facility is granted in the form of a special-rate repo transaction. The special rate lies 0.5 percentage points above the call money rate and is no less than 0.5 percentage points. The basis for the rate 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.

In 2012, the liquidity-shortage financing facility was used only in individual cases and for modest amounts. Averaged over the year, the associated amount outstanding came to only a few thousand francs. At the request of financial market participants, the limits were increased by a total of CHF 0.8 billion to CHF 33.7 billion. As in 2011, a total of 91 financial market participants had been granted a limit by the end of the year.

SUPPLYING THE MONEY MARKET WITH LIQUIDITY

Monetary policy operations in CHF millions

Terms	2012 Outstanding Average [1]	2012 Turnover	2011 Outstanding Average [1]	2011 Turnover
Liquidity-providing operations	**13,666**	**721,835**	**26,437**	**709,669**
Repo transactions	9,423	443,060	8,007	397,535
Up to 3 days	–	–	0	1
4 to 11 days	8,175	426,000	7,291	381,485
12 to 35 days	1,248	17,060	716	16,049
36 days to 1 year	–	–	–	–
Foreign exchange swaps	4,244	91,190	18,430	253,950
Up to 7 days	1,064	52,040	1,853	102,543
8 to 28 days	1,024	17,016	1,933	51,762
29 to 94 days	2,155	22,133	14,643	99,645
Foreign currency purchases	–	187,585	–	17,815
SNB Bills repurchases [2]	–	–	–	40,369
Up to 28 days	–	–	–	12,975
29 to 84 days	–	–	–	14,056
85 to 168 days	–	–	–	7,403
169 to 336 days	–	–	–	5,935
Liquidity-absorbing operations	**3,011**	**–**	**95,029**	**1,140,030**
Repo transactions	–	–	15,287	761,947
4 to 11 days	–	–	14,213	733,947
12 to 35 days	–	–	1,074	28,000
SNB Bills	3,011	–	79,741	378,083
7 days	–	–	–	–
28 days	–	–	20,133	244,427
84 days	–	–	19,964	79,772
168 days	55	–	18,246	31,679
336 days	2,956	–	21,399	22,205
Standing facilities				
Intraday facility	2,251	567,177	5,361	1,361,659
Liquidity-shortage financing facility	0	5	1	234

1 Average level of monetary policy operations outstanding at the end of the day (with the exception of the intraday facility).
2 Repurchases of SNB Bills by residual term of debt certificates.

Monetary policy instruments

The SNB influences the interest rate level on the money market by means of secured liquidity-providing and liquidity-absorbing money market operations and through the applicable conditions, with the three-month Swiss franc Libor serving as its reference rate. 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.

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 – these 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 open market operation instruments, such as foreign exchange swaps and foreign exchange transactions, are available if necessary. The SNB conducts its open market operations in the form of auctions or bilateral transactions. Transactions on the money market are usually concluded via an electronic trading platform.

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 liquidity on the secured Swiss franc money market.

2.4 MINIMUM RESERVES

Main features of regulation

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

If a bank fails to fulfil the minimum reserve requirement, it is obliged to pay the SNB interest on the shortfall for the number of days of the reporting period during which the minimum reserve requirement was not observed. 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

	2012 Outstanding Average	2011 Outstanding Average
Sight deposits at the SNB	225,847	83,166
Banknotes	5,680	5,651
Coins in circulation	95	97
Eligible assets	231,623	88,915
Requirement	12,008	10,254
Compliance in excess of requirement	219,615	78,661
Compliance in percent	1,929	867

Owing to the expansion of the relevant liabilities in the banking system, the statutory requirement increased in 2012 (between 20 December 2011 and 19 December 2012) to an average of CHF 12 billion. This is a 17% increase year-on-year. Eligible assets rose to CHF 231.6 billion on average, compared with CHF 88.9 billion a year previously. Banks exceeded the requirement by an annual average of CHF 219.6 billion; the average degree of compliance amounted to 1929% (2011: 867%).

The statutory minimum reserve requirement was met by almost all of the 285 banks. As regards the shortfalls, the sums involved were negligible. The total interest resulting from non-compliance with the minimum reserve requirement amounted to just CHF 1,442.

2.5 LIQUIDITY IN FOREIGN CURRENCIES

Swap agreement with Federal Reserve

In December 2012, the SNB – in coordination with the Bank of Canada, the Bank of England, the Bank of Japan and the European Central Bank (ECB) – extended the US dollar liquidity swap arrangement with the US Federal Reserve until February 2014. On the basis of this swap arrangement, the Federal Reserve will provide participating central banks with US dollars against their currencies when required, with the aim of countering undesirable tensions on the financial markets.

The swap agreements with the Federal Reserve, which were concluded for the first time in December 2007 in connection with the financial crisis, allow the SNB to conduct repo auctions in US dollars. The repo transactions are 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. In 2012, the SNB offered weekly repo transactions in US dollars with a term of one week, and monthly repo transactions with a term of three months. Demand for both of these terms was limited, and the sums involved very modest.

Network of swap arrangements

In November 2011, as part of a coordinated action with the Bank of Canada, the Bank of England, the Bank of Japan, the ECB and the Federal Reserve, the SNB participated in the establishment of a network of bilateral liquidity swap arrangements. This measure allows the National Bank to provide Swiss francs to the participating central banks when required, as well as enabling the SNB to provide liquidity to its counterparties in any of the relevant currencies, should it be needed. In December 2012, in cooperation with the other central banks, the SNB extended the reciprocal swap lines until February 2014. By the end of 2012, it had not been necessary to provide liquidity in the relevant foreign currencies or in Swiss francs within the context of this agreement.

Swap agreement with NBP

In June 2012, the SNB and the National Bank of Poland (NBP) concluded a swap agreement. In the event of tensions on the Swiss franc interbank market, the facility enables the NBP to provide Swiss franc liquidity to banks in Poland. By the end of 2012, this facility had not been called upon.

2.6 EMERGENCY LIQUIDITY ASSISTANCE

SNB as lender of last resort

The National Bank can act as a lender of last resort. Within the context of this emergency liquidity assistance, the SNB can provide liquidity to one or more domestic banks if they are no longer able to obtain sufficient liquidity on the market.

Conditions

Certain conditions apply in order for emergency liquidity assistance to be granted. The bank or group of banks requesting credit must, for instance, be important for the stability of the financial system and be solvent. In addition, the liquidity assistance must be fully covered by sufficient collateral at all times. The SNB determines what securities it will accept as collateral for liquidity assistance. To assess the solvency of a bank or group of banks, the SNB obtains an opinion from the Swiss Financial Market Supervisory Authority (FINMA).

In 2012, the SNB did not provide any emergency liquidity assistance.

3
Ensuring the supply and distribution of cash

3.1 BACKGROUND

Mandate

The Swiss National Bank (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 to ensure an efficient and secure payment system. The SNB is also charged by the Confederation with the task of putting coins into circulation.

Role of the SNB

Banknotes and coins are supplied to the economy via the cash distribution services at the Berne and Zurich head offices, as well as 14 agencies operated by cantonal banks on behalf of the National Bank. The SNB issues banknotes and coins commensurate with demand for payment purposes, offsets seasonal fluctuations and withdraws banknotes and coins no longer fit 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, AGENCIES AND CASH DEPOSIT FACILITIES

Turnover at offices

In 2012, the turnover (incoming and outgoing) of the offices in Berne and Zurich amounted to CHF 113.8 billion (2011: CHF 123.6 billion). They received a total of 419.3 million banknotes (2011: 451.8 million) and 1,510 tonnes of coins (2011: 1,693 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 446.8 million banknotes (2011: 469.9 million) and 2,180 tonnes of coins (2011: 2,364 tonnes).

Geneva office closed

As announced in March 2011, the SNB closed the Geneva branch office and its cash distribution service at the end of January 2012. The Geneva office was the last of the eight original regional branches. In order to continue ensuring the supply and distribution of cash in the Geneva area as well as possible, the SNB opened an agency at the Banque Cantonale de Genève on 1 February 2012. Since then, the main focus of the SNB's cash distribution services have been at the head offices in Berne and Zurich.

The agencies 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. With the opening of the Geneva agency, the SNB now has 14 agencies.

Turnover at agencies

The agencies' turnover (incoming and outgoing) amounted to CHF 13.8 billion (2011: CHF 11.5 billion). The share of agency turnover in the SNB's overall turnover was 12.1% (2011: 9.3%).

Cash deposit facilities

Since 2003, cash processing operators may apply for cash deposit facilities with the SNB. These storage facilities contain stocks of notes and coins. The SNB sets up the facilities with third parties, while retaining their ownership. The facilities are managed by the cash processing operators, in that they exchange cash deposit holdings for their sight deposits at the National Bank. Cash deposit facilities reduce the number of incoming and outgoing banknotes at the SNB, as well as the number of transports made by the operators of cash deposit facilities, which makes for a more efficient supply and distribution of cash. In 2012, three cash deposit facilities were managed by cash processing operators.

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.

Banknote circulation

Persistent uncertainty on the financial markets and low interest rates contributed to ensuring that demand for banknotes remained high in 2012. Banknote circulation averaged CHF 54.7 billion, which was considerably above the CHF 49.3 billion recorded in the previous year. The demand for large-denomination notes increased at an above-average rate. The total number of notes in circulation averaged 357.9 million (2011: 336.3 million).

Issue and disposal

In 2012, the National Bank put 69.7 million freshly printed banknotes (2011: 63.7 million) with a face value of CHF 4.4 billion into circulation (2011: CHF 4.2 billion), and destroyed 56.8 million damaged or recalled notes (2011: 67.4 million) with a face value of CHF 3.4 billion (2011: CHF 4.1 billion).

Counterfeits

Approximately 4,300 counterfeit banknotes were confiscated in Switzerland in 2012 (2011: 3,700). This corresponds to 12 counterfeit notes per million Swiss franc notes in circulation (2011: 11). By international standards, this is a modest figure.

Status of new banknote series

The development of the new banknote series began in 2005 with a design competition. Integrating and combining security features involving new technologies that have not previously been used for banknotes presented a special challenge to all participants. It has been estimated that just the technical feasibility assessment of these security features will take several years.

In the planning phase for technical feasibility and during initial production tests in 2010, it became evident that the complexity of the new security features necessitated a postponement of the issue date to autumn 2012. During an early phase of the serial production, technical difficulties arose which had not been discernible in the testing phase, whose results were positive. In February 2012, the SNB therefore announced that the new banknote series would again have to be postponed.

In the wake of the announcement, the SNB, together with the industrial partners producing the new banknotes, conducted a comprehensive reassessment of the entire project, and defined and implemented an array of measures. These measures are to ensure that the high standards on security and quality and the production implementation aspects which apply to the new banknote series can be fulfilled, and that the series can go into long-term industrial production. The decision was therefore taken to produce a further test series. The time required for these measures is about one year. Afterwards, a complete issue of the first banknote denomination, the CHF 50 note, will be produced. Together with the necessary logistical preparations for the issue, this will amount to almost another two years. For these reasons, the issue of the first new banknote series may be expected in 2015 at the earliest. The issue date will be announced as soon as production of the first banknote denomination has been completed.

NUMBER OF BANKNOTES IN CIRCULATION

In millions

- CHF 10s: **70**
- CHF 20s: **77**
- CHF 50s: **45**
- CHF 100s: **95**
- CHF 200s: **38**
- CHF 1000s: **33**

Annual average for 2012

The SNB is committed to maintaining the highest standards of quality for its new banknote series, and therefore accepted the postponement of the new issue. This decision was rendered all the easier because the banknotes currently in circulation continue to offer a high standard of security.

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 2012, the value of coins in circulation averaged CHF 2,847 million (2011: CHF 2,784 million), which corresponds to 5,006 million coins (2011: 4,886 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 and ensures that there is sufficient liquidity by granting, when necessary, intraday loans to banks against collateral (cf. chapter 6.5 for more information on the oversight of 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 on the previous evening and ends at 4.15 pm on the corresponding calendar day.

Operation by SIX Interbank Clearing Ltd

The SNB has transferred the operation of the SIC system to SIX Interbank Clearing Ltd, a subsidiary of SIX. 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 system bodies.

The National Bank 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 access 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.

Eligibility for SIC

4.2 THE SIC SYSTEM IN 2012

In 2012, SIC settled a daily average of roughly 1.6 million transactions amounting to CHF 120 billion. Compared to the previous year, this represents a 2.7% increase in the number of transactions and a 19.5% decrease in the value of transactions. On peak days, up to 4.8 million transactions were settled and turnovers of up to CHF 228 billion achieved.

Transactions and turnover

KEY FIGURES ON SIC

	2008	2009	2010	2011	2012
Number of transactions					
Daily average (in thousands)	1,468	1,508	1,542	1,585	1,628
Peak daily value for year (in thousands)	4,350	4,788	5,056	5,477	4,755
Value of transactions [1]					
Average daily turnover (in CHF billions)	224	169	154	149	120
Peak daily turnover for year (in CHF billions)	337	360	357	255	228
Average value per transaction (in CHF thousands)	152	112	100	94	74
Average liquidity					
Sight deposits at end of day (in CHF millions)	8,522	57,886	50,489	101,189	272,952
Intraday liquidity (in CHF millions)	9,515	6,362	7,211	5,237	2,161

1 The transaction volumes are now calculated without beginning of day holdings and are thus not comparable with the figures previously reported.

Participants in SIC

The SNB had 490 holders of sight deposit accounts as at 31 December 2012 (2011: 494). Of these, 378 participated in the SIC system (2011: 380). The majority of SIC participants are domiciled in Switzerland (260, as in the previous year), and of these, 24 belong to the category 'other financial market participants' (2011: 21). This includes six domestic insurance companies.

4.3 DEVELOPMENTS IN FINANCIAL MARKET INFRASTRUCTURE

New SIC architecture

The SIC system, which began operations in 1986, is being redeveloped to keep pace with technological advances. The main goal of the SIC4 project is to redesign the technical architecture of the SIC system. The project is being managed by SIX Interbank Clearing Ltd, with the involvement of the SNB and the banks.

Swiss financial market infrastructure

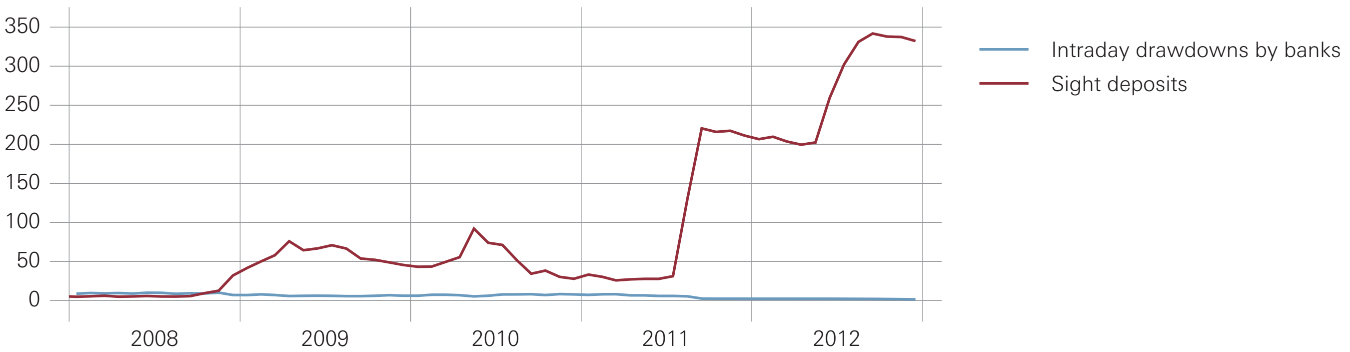
The SIC system is steered by the SNB and is a key element of the Swiss financial market infrastructure, which originated as a joint enterprise among Swiss banks. The Swiss financial market infrastructure is operated by SIX and covers the entire value chain, comprising securities trading (stock exchange), securities services (including securities settlement), payment services (including the SIC system) and financial information. A well-functioning, secure and efficient financial market infrastructure is of crucial importance to the SNB in fulfilling its statutory mandate, particularly in providing the money market with liquidity as well as facilitating and securing cashless payments.

Dialogue with SIX and banks

The financial market infrastructure providers have been subject to increased international competition and regulatory transformation for some time now. In view of these challenges and the importance of the financial market infrastructures, the SNB held comprehensive dialogues with SIX and the Swiss banks during 2012, covering the scope, organisation and operation of the Swiss financial market infrastructure.

LIQUIDITY IN SIC

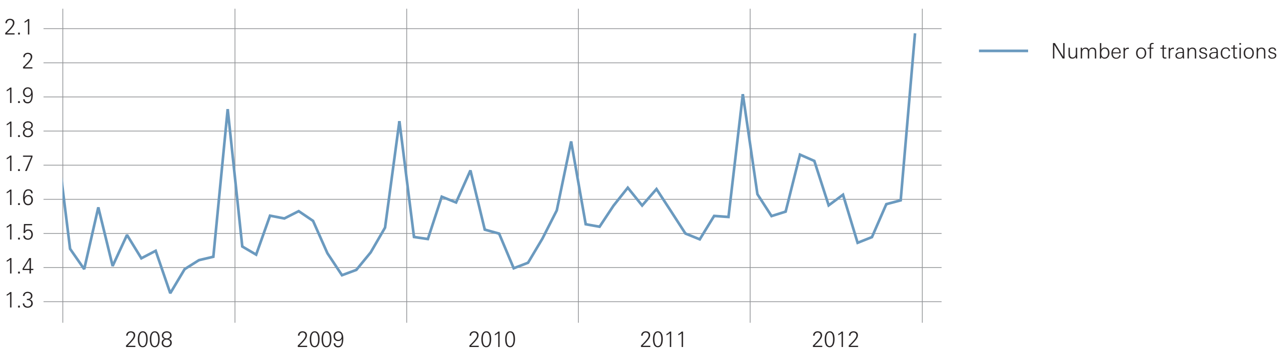
Monthly averages of daily figures, in CHF billions



Source: SNB

TRANSACTIONS IN SIC

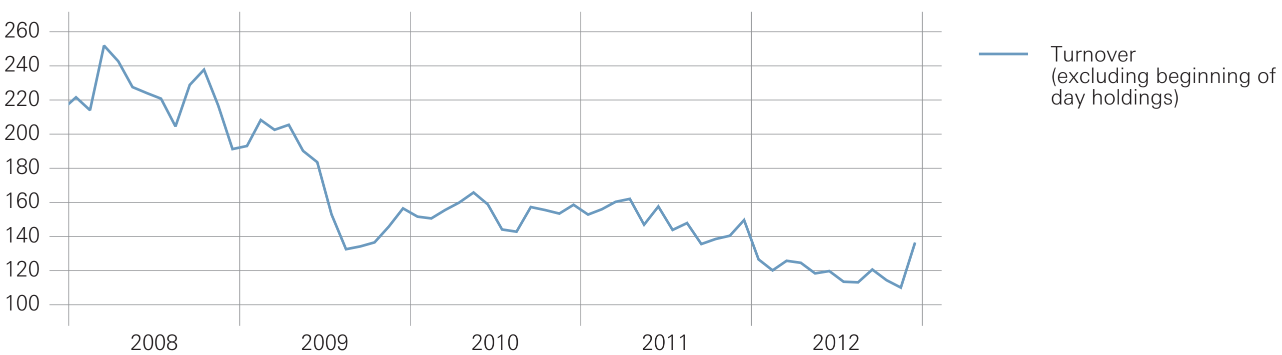
Monthly averages of daily figures, transactions in millions



Source: SNB

TURNOVER IN SIC

Monthly averages of daily figures, in CHF billions



Source: SNB

5
Asset management

5.1 BACKGROUND AND OVERVIEW

Mandate

The assets of the Swiss National Bank (SNB) fulfil important monetary policy functions. They consist of foreign currency assets, gold and, to a lesser extent, 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).

Currency reserves

The National Bank'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), but not the loan to the stabilisation fund.

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. At present, the level of the currency reserves is a direct result of the implementation of monetary policy, in other words the enforcement of the minimum exchange rate.

Financial assets in Swiss francs

The financial assets in Swiss francs are made up of Swiss franc bonds and sometimes also claims from repo transactions. At the end of 2012, there were no outstanding claims from repo transactions.

Loan to stabilisation fund

The purpose of the loan to the stabilisation fund was to finance the acquisition in 2008 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 (cf. chapter 6.7).

Primacy of monetary policy

Asset management is governed by the primacy of monetary policy and is carried out in accordance with the criteria of security, liquidity and return. Assets are selected and managed according to generally accepted asset management principles, while taking into account the specific requirements of the SNB. When selecting assets, care is taken to avoid potential conflicts with the conduct of monetary policy, which is the SNB's core mandate.

Investment criteria and restrictions

The investment policy is based on requirements specific to central banks as well as comprehensive risk/return analyses. The SNB has high standards with regard to the security and liquidity of its assets. It therefore invests a substantial portion of its currency reserves in highly liquid foreign government bonds denominated in the major currencies, as well as in gold. This ensures that it retains its freedom of action even in a crisis. In order for the currency reserves to continue performing their intended function over the longer term, they need to keep their value over time. Appropriate diversification, i.e. the inclusion of additional currencies and asset classes such as equities, corporate bonds and inflation-linked bonds, helps the SNB to achieve this goal.

Challenges for investment policy

The currency reserves grew in 2012 by CHF 171 billion to around CHF 485 billion. This growth in volume was accompanied by greater demands on currency reserve management and heightened financial risk. The expansion in its portfolio prompted the National Bank to explore ways to diversify its investments further. It decided to include the South Korean won as an investment currency. Compared to a year earlier, the share of the US dollar and the pound sterling in the foreign exchange reserves increased, while that of the euro declined. The share of equities in the foreign exchange reserves also grew. As a result of rapid and large inflows due to foreign currency purchases carried out to enforce the minimum exchange rate, the effective allocation across the various currencies and asset classes briefly diverged from the desired allocation. Because the volume of currency inflows was high at times, these divergences were only corrected gradually. The SNB took care to avoid its investments having any impact on the markets and currency developments in other countries. The capacity of individual markets to rapidly absorb high volumes is an important criterion for investing currency inflows. For this reason, the SNB placed part of these inflows with other central banks. The opening of a branch in Singapore in mid-2013 will ensure a more efficient management of the SNB's assets in the Asia-Pacific region through the local presence of an internal portfolio management team.

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 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 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, bond durations 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 internally. External asset managers are used mainly for benchmarking the 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

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. The results of risk management activities are submitted to the Governing Board and the Bank Council's Risk Committee in quarterly risk reports.

5.3 CHANGES IN AND BREAKDOWN OF ASSETS

Changes in assets

At the end of 2012, the SNB's balance sheet total was CHF 499 billion, which was CHF 153 billion higher than a year earlier (2011: CHF 346 billion). This is mainly due to the growth in the currency reserves, which rose by CHF 171 billion to CHF 485 billion in the space of a year. The bulk of this growth resulted from foreign currency purchases, although valuation gains on the currency reserves also contributed. By contrast, at the end of 2012, the SNB no longer held any foreign exchange from swaps. Holdings of Swiss franc assets declined, because at the end of 2012 there were no outstanding claims from repo transactions in Swiss francs. The loan to the stabilisation fund decreased further, as a result of repayments, coupons and asset sales. At the end of 2012, it was down to just over CHF 4 billion, compared to CHF 8 billion a year previously. 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.

Investment categories

At the end of 2012, 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 corporations. A portion of the foreign currency investments was placed on accounts at other central banks and with the Bank for International Settlements (BIS).

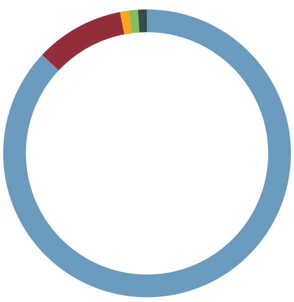
The equity portfolios are made up of shares from medium-sized and large corporations in advanced economies. The SNB takes care to ensure that its equity management, too, has no impact on the markets. Furthermore, it does not regard itself as a strategic investor. Thus, equities are managed passively and according to a set of rules, and on the basis of a strategic benchmark comprising a combination of equity indices in various currencies. This results in a globally well-diversified equity portfolio of around 1,600 individual stocks. The close replication of indices ensures that no active positions can be accumulated in individual sectors or companies. Equity holdings that are managed in this way improve both the potential return and the risk profile of the assets.

Asset management instruments

The management of foreign currency investments also made use of derivatives. These included foreign exchange forwards and foreign exchange options used to manage the currency breakdown of foreign currency investments. Interest rate risks were managed using derivative instruments such as interest rate swaps and interest rate futures. Stock index futures were used to manage the equity investments. A small number of credit default swaps were concluded to manage corporate bonds.

BREAKDOWN OF SNB ASSETS

In percent



Total: CHF 499 billion
At year-end 2012

BREAKDOWN OF FOREIGN CURRENCY INVESTMENTS AND SWISS FRANC BOND INVESTMENTS AT YEAR-END

	2012 Foreign currency investments	2012 CHF bonds	2011 Foreign currency investments	2011 CHF bonds
Currency allocation (in percent, incl. derivatives positions)				
CHF		100		100
EUR	49		52	
USD	28		26	
JPY	8		9	
GBP	7		5	
CAD	4		4	
Other [1]	4		4	
Investment categories (in percent)				
Investments with banks	0	–	0	–
Government bonds [2]	82	35	83	34
Other bonds [3]	6	65	8	66
Equities	12	–	9	–
Breakdown of bonds (in percent)				
AAA-rated [4]	78	79	83	78
AA-rated [4]	17	21	12	21
A-rated [4]	2	0	3	1
Other	3	–	2	–
Investment duration (years)	3.3	6.6	4.0	6.1

1 AUD, DKK, SEK, SGD, KRW.
2 Government bonds in own currency, deposits with central banks and the BIS; 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

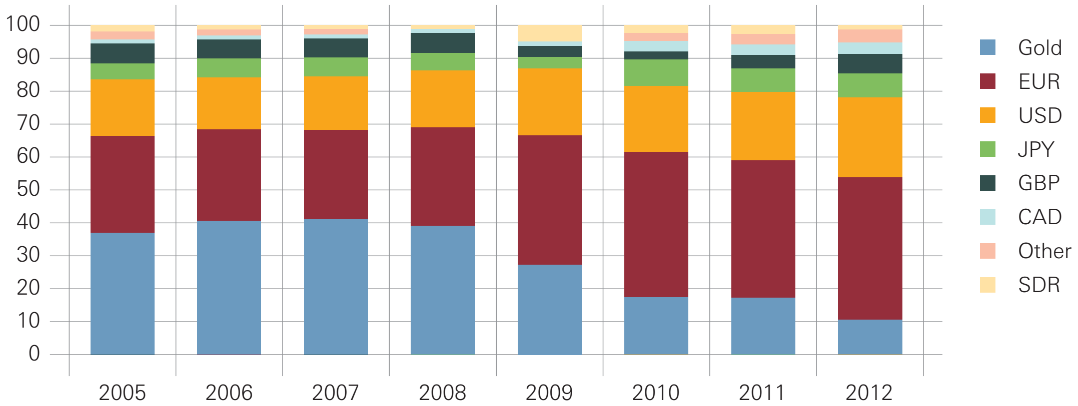
There were only very slight year-on-year changes in the investment structure of the foreign currency investments and Swiss franc bonds. The principles of currency and asset class diversification continued to be observed. At the end of 2012, the share of the main investment currencies, the euro and the US dollar, amounted to 49% and 28% respectively. Over 20% of fixed-income investments were held as sight deposits at other central banks. The share of equities was increased from 9% to 12%.

Sovereign wealth fund

Against the background of the strong rise in currency reserves, a public debate has arisen in which the possible creation of a sovereign wealth fund has been mooted. This could, it is argued, bring about an improved risk/return structure, reduce exchange rate risk and support Switzerland's strategic interests. This argument overlooks the fact that the SNB's investment needs are currently a direct consequence of the enforcement of the minimum exchange rate for monetary policy purposes, and of the associated foreign currency purchases. Therefore, when engaging in investment activities, the SNB must take account of monetary policy needs, and retain the flexibility to define the size and composition of its balance sheet. Moreover, a sovereign wealth fund would face the same exchange rate exposure as the SNB's currency reserves; even a much higher proportion of 'real' investments such as equities would offer no protection against value fluctuations. And if one were to go so far as to couple the investment of the SNB's currency reserves with Switzerland's strategic interests, this could create conflicts of interest and potentially threaten the SNB's independence. In extremis, this could hamper the SNB in the fulfilment of its core mandate. By investing part of the currency reserves in a well-diversified range of equities and corporate bonds, the SNB is able to exploit the positive contribution of these asset classes to the risk/return profile. At the same time, it retains the flexibility to adjust its monetary and investment policies to changing requirements.

BREAKDOWN OF CURRENCY RESERVES

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



Source: SNB

5.4 RISKS TO ASSETS

Risk profile ...

The main risk to the assets is market risk, in particular risks related to exchange rates, the gold price, share prices and interest rates. In addition, investments are exposed to liquidity risk and, to a lesser extent, credit risk. As a result of the substantial growth in currency reserves, risk increased markedly. The risk of loss on foreign currency investments resulting from a possible appreciation of the Swiss franc cannot be reduced using investment policy measures (such as hedging with foreign exchange forwards), as this would have a direct impact on monetary policy. Market risk is principally managed by diversifying across currencies and asset classes. The SNB counters liquidity risk by holding a considerable part of its investments in the world's most liquid currencies and markets. The risk associated with the loan to the stabilisation fund has fallen considerably as repayments have continued. This is discussed in greater detail in chapter 6.7 of the accountability report and in the section 'Financial information on the stabilisation fund' of the financial report.

... of currency reserves

The gold price and exchange rates were the most important risk factors for the currency reserves. The growth in foreign currency investments caused exchange rate risk to rise sharply. As a result, even minor changes in the Swiss franc exchange rate can lead to substantial fluctuations in investment income, and thus in the SNB's equity. By contrast, given a 12% proportion of shares and an average duration of over three years for fixed-interest investments, the contribution of share price risk and interest rate risk to total risk was small.

... 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 six-and-a-half years. The Swiss franc portfolio is managed passively.

Credit and liquidity risks

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 12 billion were held in the foreign currency investments. Credit risk arising from non-tradable instruments with respect to banks was very low. Replacement values of derivatives were hedged with counterparties, in accordance with the ISDA (International Swaps and Derivatives Association) agreements in force. Investments mainly take the form of government bonds or holdings at central banks; the bulk of these are in highly liquid bonds issued by euro area core countries and by the US. The large majority of fixed-income investments (78%) bore the highest rating (AAA). Investments with central banks are generally awarded the same rating as that of the country concerned. In all, over 95% of bonds were rated AA or higher.

Balance sheet growth and equity

Owing to the strong growth in currency reserves during 2012, the share of equity in the balance sheet total declined further, to just under 12% at the end of the year. This figure is low by historical standards, and it should be borne in mind that the value of currency reserves can fluctuate considerably. The SNB's loss-absorbing capital is composed mainly of the provisions for currency reserves and the distribution reserve, and rose by CHF 5 billion as a result of positive returns on assets. Of this amount, CHF 3.6 billion was allocated to the provisions for currency reserves; the remainder after the profit distribution to the Confederation and the cantons was allocated to the distribution reserve. At year-end, equity after appropriation of profit amounted to CHF 57 billion.

5.5 INVESTMENT PERFORMANCE

Positive return on investments

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 2012, the overall return on currency reserves was 2.3%. The Swiss franc value of the gold reserves rose by 2.8% due to the rise in the price of gold. The return on foreign currency investments, measured in terms of Swiss francs, was 2.2%. Favourable stock market developments and declining interest rates contributed to this result. The exchange rate return on foreign currency investments was negative, at –2.3%, as a result of the Swiss franc appreciation. The return on Swiss franc bonds amounted to 3.7%.

RETURN ON INVESTMENTS

Cumulated, time-weighted daily returns in percent

	Currency reserves [1]					CHF bonds
	Total	Gold	Foreign currency investments			Total
			Total	Exchange rate return	Return in local currency	
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
2012	2.3	2.8	2.2	–2.3	4.7	3.7

1 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.

In the area of financial stability, the SNB fulfils this mandate by analysing sources of risk to the financial system and identifying areas where action is needed. In addition, it helps to create and implement a regulatory framework for the financial sector, and oversees systemically important payment and securities settlement systems. In a crisis, the SNB fulfils its mandate by acting as lender of last resort to provide domestic banks with emergency liquidity assistance where necessary, in cases where such banks are no longer able to refinance themselves on the market and where their insolvency would have a severe impact on financial system stability (cf. chapter 2.6).

Collaboration with FINMA, FDF and foreign authorities

At national level, 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. At international level, the SNB participates in the design of the regulatory framework through its membership of the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS) and the Committee on Payment and Settlement Systems (CPSS). In the oversight of cross-border payment and securities settlement systems, the SNB liaises closely with foreign authorities.

6.2 MAIN ACTIVITIES IN 2012

Implementation of 'too big to fail' legislation

In 2012, the SNB was involved in various activities relating to the implementation of the 'too big to fail' legislation. The main focus was on work surrounding the determination of systemically important banks and bank functions, as well as the drafting of the associated decrees for both the big banks.

Countercyclical capital buffer

As part of a package of measures aimed at reducing risk on the mortgage market, the Federal Council announced that the legal provisions on the introduction of a countercyclical capital buffer would enter into force on 1 July 2012. The countercyclical capital buffer is a macroprudential instrument that temporarily raises capital requirements for banks in Switzerland, depending on the magnitude of the imbalances on the Swiss lending market. The SNB played an active role in the design of this instrument. The decisions on the activation, deactivation and level of the buffer will be made by the Federal Council, upon the proposal of the SNB. The SNB consults FINMA before submitting its proposal to the Federal Council.

Oversight of payment and securities settlement systems

As part of the oversight of systemically important payment and securities settlement systems, the SNB provided feedback on a number of projects set up by the system operators, in particular on the planned participation of SIX SIS Ltd in TARGET2-Securities (T2S) and on the clearing links between SIX x-clear and other central counterparties. In addition, the SNB launched the revision of the National Bank Ordinance's (NBO) minimum requirements for operators of payment and securities settlement systems.

6.3 MONITORING THE FINANCIAL SYSTEM

Financial Stability Report

In its annual *Financial Stability Report*, published in June 2012, the SNB assessed developments and risks in the economic environment as a whole and in the Swiss banking sector. It reported that, overall, economic and financial conditions for the Swiss banking sector had deteriorated. It attributed this to the escalation of the European debt crisis, the loss of momentum in global economic growth, the growing tensions in the international banking system and the build-up of imbalances on the Swiss mortgage and real estate markets.

With regard to the capitalisation of the Swiss big banks, the SNB noted that, despite the fact that progress had been achieved, their loss-absorbing capital was still below the level needed to ensure sufficient resilience given the high risks in the environment. It therefore concluded that the big banks' importance for the Swiss economy and for financial stability required that they further strengthen their resilience. Specifically, the SNB recommended that UBS continue with this process – which entailed, in particular, a policy of dividend restraint. It recommended that Credit Suisse expand its loss-absorbing capital base significantly during the course of 2012. Credit Suisse subsequently took appropriate measures.

As regards domestically focused commercial banks primarily engaged in lending activities, the SNB noted that average capitalisation relative to regulatory requirements was high. At the same time, it emphasised that the resilience of some of these banks – including some larger ones – should be further strengthened, in view of their risk profile.

In addition, the SNB pointed out that, given the growing risks in the Swiss mortgage and real estate markets, a temporary raising of system-wide capital requirements might have to be considered (cf. chapter 6.4.2).

In the second half of 2012, both big banks increased their resilience further. Progress was particularly marked at Credit Suisse. In addition to retaining profits, this was mainly attributable to the capital measures it announced in July, most of which were implemented in the months that followed. The SNB welcomed the big banks' efforts to increase their resilience, although it noted that capital levels still needed to be improved on an ongoing basis.

Monitoring of mortgage and real estate markets

The SNB continued to monitor developments on the domestic mortgage and real estate markets closely. It considered that the potential for a further build-up of imbalances and the associated risks to financial stability were still high. While there were isolated indications of a slowdown in market momentum during the year, overall the market continued to be extremely dynamic, against a background of historically low interest rates, and most real estate price indices rose sharply again. This led to growing signs of overvaluation for residential property in certain regions, and for the owner-occupied apartment segment throughout Switzerland. In addition, mortgage lending volumes, which – relative to GDP – were already high by historical standards, increased further. Finally, the quarterly mortgage lending survey conducted since the beginning of 2011 suggested that banks' risk appetite continued to be high.

6.4 MEASURES TO STRENGTHEN FINANCIAL STABILITY

6.4.1 IMPLEMENTATION OF BASEL III

Capital standards

Together with FINMA, the National Bank supported the FDF in finalising the comprehensive revision of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (Capital Adequacy Ordinance), which integrates the Basel III international standards into Swiss law. On 1 June 2012, the Federal Council adopted the revised Capital Adequacy Ordinance, which entered into force on 1 January 2013. The Ordinance requires all banks to hold better-quality capital and sets out additional capital requirements for systemically important banks (cf. chapter 6.4.3). The legislative provisions on the countercyclical capital buffer, which also forms part of the Basel III framework and is set down in the Capital Adequacy Ordinance, already entered into force on 1 July 2012 (cf. chapter 6.4.2).

In addition, the SNB took part in the FINMA-led working group charged with revising FINMA's circulars related to the Capital Adequacy Ordinance.

In order to integrate the Basel III international liquidity standards into Swiss legislation, a working group headed by FINMA was set up at the end of 2011. The SNB was also represented in the working group, which focused in particular on the new Ordinance on Liquidity for Banks (Liquidity Ordinance), which will be phased in from early 2013. The Liquidity Ordinance combines the existing liquidity provisions with new additional qualitative requirements for banks' liquidity management. It also authorises FINMA to introduce a comprehensive reporting requirement for the liquidity coverage ratio (LCR) from 2013 onwards. The LCR is one of the two main liquidity standards under Basel III, and is due to come into effect in Switzerland on 1 January 2015. A pilot reporting exercise was carried out with a sample of Swiss banks in 2012.

Liquidity standards

6.4.2 REDUCING RISK ON MORTGAGE MARKET

On 1 June 2012, the Federal Council announced three measures aimed at reducing risk on the mortgage market. The first related to the adjustment of the risk weights set down in the Capital Adequacy Ordinance for high loan-to-value mortgage loans. It entered into force on 1 January 2013. The second measure was a further revision of the self-regulation rules on mortgage lending by banks, which took effect in July 2012.

Risk weights and self-regulation rules

The third measure, introduced by the Federal Council with effect from 1 July 2012, is the countercyclical cyclical buffer, in whose design the SNB played a major role. This instrument allows capital requirements for banks to be temporarily raised, depending on the magnitude of the imbalances on the Swiss lending market. First, the aim is to protect the banking sector from the consequences of excessive lending growth, because the buffer increases banks' loss absorbency. Second, it leans against the build-up of such excesses by increasing the cost of lending. The countercyclical capital buffer is a macroprudential instrument, and as such constitutes a key component of the Basel III framework; most countries are planning to introduce it over the next few years. In view of the growing imbalances on the Swiss mortgage and real estate markets, the SNB advocated that this instrument be made available in Switzerland as soon as possible.

Countercyclical capital buffer

The countercyclical capital buffer is activated if there are growing signs of imbalances. The division of responsibilities is such that the Federal Council decides on the activation, deactivation and level of the buffer, upon the proposal of the SNB. The National Bank consults FINMA before submitting its proposal to the Federal Council. More detailed information on the design and implementation of the buffer can be found on the SNB's website.

Since 2010, the SNB had repeatedly warned of the build-up of risks on the Swiss mortgage and real estate markets, and the associated risks for financial stability. In the third quarter of 2012, it carried out its first assessment on whether to activate the countercyclical capital buffer. Although the momentum on domestic mortgage and real estate markets continued to be strong, the SNB decided not to propose that the buffer be activated. One reason for this was that there were some indications of a possible slowdown of this momentum (cf. chapter 6.3). Moreover, in June 2012, the Federal Council had announced further measures aimed at dampening mortgage and real estate price growth. The SNB emphasised that its decision should not be interpreted as an all-clear. The risk of a further build-up of imbalances remained high, and the SNB would regularly reassess the need to activate the buffer.

In December, during its six-monthly news conference, the SNB noted that the measures taken so far had not yet led to a significant trend reversal in mortgage and real estate markets. It stressed that, due to the exceptionally low interest rates, there was a considerable risk that imbalances would continue to build up.

6.4.3 IMPLEMENTATION OF 'TOO BIG TO FAIL' LEGISLATION

Revision of Banking Act

The 'too big to fail' legislation is aimed at strengthening the stability of the financial system by subjecting systemically important banks to additional regulatory requirements. Systemically important banks are those whose failure would have a severe impact on financial system stability. A bank is deemed to be systemically important if it is of a certain size, if it is closely interconnected with the financial system and the economy, and if the services it provides are hard to substitute at short notice. The SNB considers 'too big to fail' to be a key issue, and was closely involved in the drafting of the corresponding legislation. The associated revision of the Banking Act (the 'Too Big to Fail' Bill) was passed by parliament in September 2011, and took effect on 1 March 2012.

It was then necessary to amend the relevant ordinances and decrees implementing the Banking Act (including the Capital Adequacy Ordinance), and to determine systemically important banks and functions. The SNB played a major role in these efforts.

Determining systemically important banks and bank functions

The revised Banking Act gives the SNB the authority to determine which banks and bank functions are systemically important, following consultation with FINMA. The SNB carries out the requisite assessment as part of a formal process. This process culminates in the issuance of a decree. In November, the SNB issued decrees designating Credit Suisse Group and UBS as financial groups of systemic importance under the terms of the Banking Act.

Amendments to ordinances and FINMA circulars

In October 2012, parliament approved amendments to the implementing ordinances for the new Banking Act. The amendments to the Banking Ordinance and the Capital Adequacy Ordinance, as well as the associated FINMA circulars, include special provisions relating to the capital adequacy and organisation of systemically important banks, as well as changes to the requirements on risk diversification. These latter requirements, in particular, contain a reduction of the ceiling for maximum permissible concentrations of risk exposure to systemically important banks; this is aimed at reducing interconnectedness within the financial industry. As a result of efforts by the SNB, this ceiling also holds for very short positions.

In addition to the amendments to the Banking Ordinance and the Capital Adequacy Ordinance, the liquidity agreements concluded between FINMA and the big banks in March 2010 were also incorporated into the new Liquidity Ordinance. These special provisions for systemically important banks within the Liquidity Ordinance still need to be approved by parliament.

6.4.4 REGULATION OF OTC DERIVATIVES TRADING AND THE FINANCIAL MARKET INFRASTRUCTURE

At the request of a working group headed by the State Secretariat for International Financial Matters, in which the SNB participated, the Federal Council set the FDF the task of drawing up new legislation on over-the-counter (OTC) derivatives trading, and amending the regulations on the financial market infrastructure by spring 2013.

OTC derivatives trading

The new legislation on OTC derivatives trading is designed to implement the recommendations – agreed by the G20 and drafted by the FSB – on increasing the transparency, integrity and stability of the derivatives market in Switzerland. In particular, it is planned to oblige market participants, wherever possible, to trade all standardised derivatives via electronic platforms and clear them through central counterparties, and to report all derivatives transactions to a trade repository.

Financial market infrastructure

As regards financial market infrastructure, the legal framework for the authorisation of Swiss-domiciled central counterparties, central securities depositories and trade repositories is to be set up or enhanced. Furthermore, it is planned to establish a recognition regime for foreign financial market infrastructures wishing to provide services to a Swiss stock exchange or Swiss financial institutions. It is also planned to adjust the regulatory requirements for financial market infrastructure operators, in order to bring them into line with new international standards and the regulatory requirements of the EU. This last initiative is a prerequisite for Swiss financial market infrastructures to be able to continue providing services to EU markets and financial institutions.

6.5 OVERSIGHT OF PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

6.5.1 BACKGROUND

Mandate

The NBA (art. 5 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 for the stability of the financial system and to work in cooperation with FINMA and, if necessary, with foreign supervisory and oversight authorities. The NBO lays down the details of system oversight.

At present, the systems that could harbour risks for the stability of the financial system include the Swiss Interbank Clearing (SIC) payment 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 – all subsidiaries of SIX – must meet the minimum requirements set out in the NBO. The SNB has developed a set of system-specific control objectives which set out these minimum requirements in greater detail.

Focus on systemically important systems

Other systems that are important for the stability of the Swiss financial system are the Continuous Linked Settlement (CLS) foreign exchange settlement system and the central counterparties LCH.Clearnet Ltd (LCH) and Eurex Clearing. The operators of these systems are domiciled in the US, the UK and Germany. The systems are exempted from the obligation to meet the minimum requirements, as they are already subject to adequate oversight by the regulators in these countries and there is a smooth exchange of information with the SNB.

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.

Cooperation with foreign authorities

The SNB cooperates with foreign authorities in the oversight of cross-border payment and securities settlement systems. In the case of the central counterparty SIX x-clear, which offers its services to various European markets and has clearing links with other central counterparties, the SNB cooperates with the central banks and supervisory authorities in Denmark, Finland, the Netherlands, Sweden and the UK.

For the oversight of the systems domiciled abroad – CLS, Eurex Clearing and LCH – the SNB has concluded memoranda of understanding or similar agreements with the relevant authorities. As regards LCH SwapClear, a division of LCH responsible for the clearing of OTC interest rate derivatives, the British financial regulator drew up a specific multilateral oversight agreement in 2012, into which the SNB also entered. The purpose of agreements with foreign authorities is to ensure that the SNB receives relevant system-related information at all times, that it is informed of assessments by local regulators, and that it can, if necessary, influence oversight activities. Finally, the SNB participates – together with the other central banks in the Group of Ten (G10) and under the leadership of the Belgian central bank – in the oversight of the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT), which operates a global network for the transmission of financial information.

6.5.2 MAIN FOCUS OF OVERSIGHT

High degree of compliance with regulatory requirements

In 2012, the SNB assessed compliance with regulatory requirements by the system operators SIX Interbank Clearing Ltd, SIX SIS Ltd and SIX x-clear Ltd. The SNB concluded that compliance with the requirements was high in all areas assessed. The system operators are appropriately structured, well managed, and have adequate internal control systems. They have rules and procedures in place which limit settlement risk, and they satisfy the high requirements with respect to information and IT security. Some of the main focal points of oversight in 2012 are summarised below.

Information and IT security

To assess the systems' information and IT security, the SNB relies mainly on external auditors. In 2012, the audits – whose scope and degree of detail are determined by the SNB – focused on the physical security of the system operators and on the operation of the system. The audits revealed that the majority of the measures and controls adopted by the system operators are well suited to achieving the prescribed control objectives.

T2S framework agreement

SIX SIS Ltd intends to participate in the T2S securities settlement system, which is currently being developed by the European Central Bank and is set to go live in 2015. In response to a corresponding enquiry from SIX SIS Ltd, the SNB confirmed that, from a regulatory perspective, there is no reason why the T2S framework agreement should not be signed. It asked SIX SIS Ltd to resolve the pending issues before T2S goes into operation.

Provisions for possible exclusion of participants

The SNB conducted an in-depth evaluation with SIX SIS Ltd and SIX x-clear Ltd regarding the provisions they have in place should a participant no longer fulfil the conditions for participation. Using a fictitious scenario, the analysis showed that both system operators have appropriate procedures and instruments to exclude a participant quickly, if necessary, and to limit the financial risks to themselves.

Clearing links between central counterparties

Over the past few years, SIX x-clear Ltd has established clearing links with the central counterparties LCH, European Central Counterparty Limited (EuroCCP) and European Multilateral Clearing Facility N.V. (EMCF). This interoperability allows market participants to clear trades at different markets via the same central counterparty. The clearing links grew in importance following the expansion of SIX x-clear services to include other European trading platforms. Together with the relevant authorities from the UK and the Netherlands, the SNB concluded that the provisions currently in place to collateralise risk positions arising between central counterparties meet the regulatory requirements. This notwithstanding, the authorities advised the central counterparties to improve selected provisions and to periodically check their contractual agreements, and adapt them where necessary.

Central counterparty
A central counterparty is an institution which interposes itself between buyers and sellers on a market, acting as seller to every buyer and as buyer to every seller. Accordingly, this gives rise to two contractual relationships, namely between the central counterparty and each of the two market participants. The central counterparty is responsible for the management and performance of the contracts. Most notably, it assumes the counterparty risk, i.e. the risk that a contracting party cannot meet the obligations arising from the contract. Should one of the parties fail to meet its obligations, the central counterparty must have sufficient financial resources and liquidity to cover potential losses and meet its payment and delivery obligations on time. A central counterparty must therefore have an exceptionally robust risk management framework, particularly with regard to the management of credit and liquidity risks.

Implementing new international principles for financial market infrastructures

The National Bank intends to implement in Switzerland the new international principles for financial market infrastructures, which have been revised by the CPSS in collaboration with the International Organization of Securities Commissions (IOSCO). This will necessitate a revision of the minimum requirements stipulated in the NBO. In 2012, the SNB commenced work on this project, with the aim that the new minimum requirements enter into force in the second quarter of 2013.

6.6 INTERNATIONAL COOPERATION ON FINANCIAL MARKET REGULATION

At international level, the SNB participates in a number of different bodies in the area of financial market regulation. It is a member of the FSB, the BCBS and the CPSS (cf. chapter 7.3).

Financial Stability Board

The FSB brings together the national authorities responsible for financial stability (central banks, oversight authorities, ministries of finance), international organisations and standard-setting bodies. Switzerland is represented on the FSB by the National Bank and the FDF. In addition, the SNB is a member of the FSB Steering Committee. 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. Switzerland's position is developed in close collaboration between the FDF, FINMA and the SNB.

In 2012, the FSB addressed a broad range of topics. From a financial stability perspective, the most important areas of focus were, on the one hand, the work undertaken in connection with the methodology used to determine global and domestic systemically important banks; an initiative led by the BCBS (cf. section 'Principles for domestic systemically important banks' below). In November, on the basis of this assessment methodology, the FSB published a list of banks which it designated as being global systemically important financial institutions. On the other hand, the FSB concerned itself with recovery and resolution planning for global systemically important banks and formulated more detailed requirements with regard to these plans. Furthermore, in 2012, it monitored the implementation of the OTC derivatives market reforms and published two corresponding progress reports (cf. chapter 6.4.4).

Wide range of topics at FSB

The BCBS 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.

Basel Committee on Banking Supervision

In 2012, the BCBS focused, among other things, on the formulation of rules for domestic systemically important banks. More specifically, it developed a set of principles on the assessment methodology and higher loss absorbency (HLA) requirements for these banks, and issued the framework in conjunction with the FSB in October 2012. In contrast to the rules for global systemically important banks, which the BCBS published in November 2011, the principles for domestic institutions do not set any requirements as regards the level of HLA. The 'too big to fail' legislation introduced in Switzerland is in line with both the rules for global systemically important banks and the principles for domestic systemically important banks.

Principles for domestic systemically important banks

6.7 STABILISATION FUND

Purpose of stabilisation fund

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

The stabilisation fund is structured as a limited partnership for collective investment. Between December 2008 and April 2009, it took over assets from UBS totalling USD 38.7 billion. The asset transfer was financed by an SNB loan accounting for 90% of the transfer; the remaining 10% was financed by UBS. 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

The stabilisation fund's overall risk for the SNB was reduced from USD 9.0 billion at the end of 2011 to USD 5.6 billion at the end of 2012. This reduction was largely due to interest payments and repayments on stabilisation fund investments as well as to asset sales.

The 2012 business results are discussed in detail in the 'Financial information on the stabilisation fund' chapter of the financial report.

STABILISATION FUND PORTFOLIO BY CATEGORY

In percent

Residential real estate **51**
Commercial real estate **33**
Other **16**

As at 31 December 2012

Prices on securitisation markets picked up further in 2012. The higher-risk segments of these markets benefited in particular from the search for yield in an environment of exceptionally low interest rates. In addition, there were growing signs that the US housing market might have bottomed out. This buoyed the market for private US mortgage-backed securities. In the UK, prices for real estate in non-prime locations declined slightly. Prices for commercial real estate in London, meanwhile, almost returned to their 2007 level.

Market developments

The management of the portfolio continues to be essentially based on the liquidation strategy established in 2009 by the stabilisation fund's Board of Directors (cf. the SNB's 2009 *Annual Report*). Owing to the positive financial market situation in 2012, substantial asset sales were again possible. In this regard, care was taken to ensure that not only assets with higher liquidity and credit ratings were sold, but also that assets of a lower quality were liquidated, provided they were close to their intrinsic values. Given the favourable market conditions, sales increased over the course of the year. Furthermore, risks were gradually reduced further thanks to repayments and interest payments.

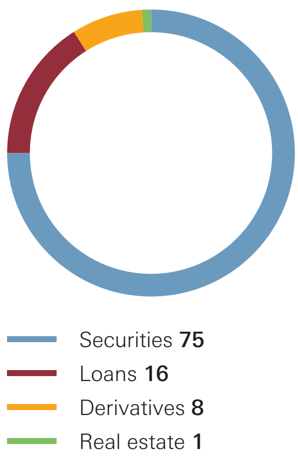
Further reduction in risk

Overall, assets worth USD 1.0 billion net were sold, of which USD 0.1 billion was accounted for by the euro area and the UK. Furthermore, the portfolio benefited from considerable interest and principal repayments amounting to USD 2.4 billion.

Significant sales and stable cash flows from investments

STABILISATION FUND PORTFOLIO BY INSTRUMENT

In percent



As at 31 December 2012

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 8.1 billion at the end of 2011 to USD 4.8 billion at the end of 2012. During the same period, the overall risk for the SNB was reduced by USD 3.4 billion to USD 5.6 billion.

LOAN TO STABILISATION FUND

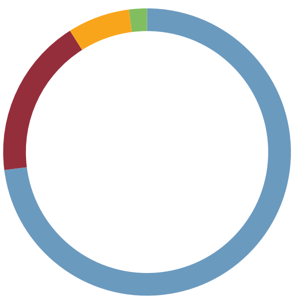
In USD billions

	Funded	Contingent liabilities	Overall risk
Total as at 31 December 2011	**8.1**	**0.9**	**9.0**
Interest on SNB loan	0.2	–	0.2
Sales [1]	–1.0	–0.3	–1.3
Repayments	–1.9	0.0	–1.9
Interest received	–0.5	–	–0.5
Other factors	–0.1	0.2	0.1
Total as at 31 December 2012	**4.8**	**0.8**	**5.6**

1 Including active liquidation of CDS (net).

STABILISATION FUND PORTFOLIO BY CURRENCY

In percent



USD **73**
GBP **18**
EUR **7**
JPY **2**

As at 31 December 2012

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

Together with the Confederation, the SNB is involved in international monetary cooperation through its participation in the International Monetary Fund (IMF), on the Financial Stability Board (FSB) and in the Organisation for Economic Co-operation and Development (OECD). Furthermore, it is a member of the Bank for International Settlements (BIS).

7.2 INTERNATIONAL MONETARY FUND

Participation in the IMF

The SNB works in collaboration with the Confederation on IMF projects and decisions. Switzerland exercises its influence through its representation on the Board of Governors, in the International Monetary and Financial Committee (IMFC) and on the Executive Board of the IMF.

European sovereign debt crisis a central point

The European financial and sovereign debt crisis was once again a focal point of the IMF's activities in 2012. Together with the European Commission and the European Central Bank, the IMF remained committed to its activities with regard to the critically affected European countries and made financial contributions to the economic adjustment programmes concerned. The aim of these programmes is to use structural adjustments to put state budgets on a more sustainable footing. The IMF also called for a strengthening of the financial system through the recapitalisation and restructuring of weak banks.

Persistently high lending

With the continuing financial and sovereign debt crisis, IMF lending to members in economic difficulties remained at a high level. Over the course of the year, the IMF Executive Board approved seven new regular (non-concessional) loan agreements totalling SDR 77.1 billion. At the end of 2012, the IMF had regular loan programmes in 21 countries amounting to a total of SDR 152.2 billion, SDR 74.4 billion of which were accounted for by insurance credit lines (mainly the Flexible Credit Line), which make it easier for countries, under certain conditions, to access IMF resources. A total of SDR 90.0 billion were outstanding on regular credit arrangements at the end of 2012.

Switzerland in the IMF

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.

Switzerland is jointly represented by the SNB and the Federal Department of Finance (FDF) in the IMF. The Chairman of the SNB's Governing Board is a member of 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 (IMFC), the IMF's most important advisory body.

The IMF has 188 member countries. Switzerland has been a member since 1992 and is part of a voting group (constituency) whose other members are Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Tajikistan and Turkmenistan. Switzerland currently occupies the post of the executive director, who holds one of the 24 seats on the Executive Board, the IMF's most important operational body. The post of executive director is held alternately by a representative of the FDF and the SNB. The FDF and the SNB determine Switzerland's policy in the IMF and support the Swiss executive director in his or her activities.

The unit of account 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 2012, one SDR was equivalent to CHF 1.40 or USD 1.54.

IMF financing

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 238.1 billion in 2012, the IMF therefore had only SDR 198.3 billion available for lending.

As a result of the strong rise in demand for loans, the Board of Governors decided in 2010 to provide the IMF with more funds and to double the quotas. Since the implementation of the quota increase requires a certain amount of time, a temporary expansion of the NAB was agreed in 2011. In addition, after the crisis in the euro area had grown more acute and the stability of the international currency and financial system came under threat, an exceptional, temporary increase of IMF resources through bilateral borrowing was approved at the Spring Meeting in April 2012. At the end of 2012, commitments to these exceptional funds, some of which have yet to be approved by the national authorities, amounted to USD 461 billion.

Exceptional increase of IMF resources

Switzerland has a strong interest in finding a solution for the European sovereign debt crisis. At the 2012 Spring Meeting, Switzerland pledged a USD 10 billion participation towards the exceptional increase of the IMF's resources, subject to approval by the two chambers of Swiss parliament. The SNB will then open a temporary credit line in this amount for the IMF. As the upper limit for monetary assistance is currently set at CHF 2.5 billion, in summer 2012, the Federal Council issued a dispatch concerning a credit facility of CHF 15 billion to be granted for a period of five years to continue the international monetary assistance. The new credit facility not only enables the Confederation to guarantee the SNB's credit line of USD 10 billion to the IMF, including any necessary adjustments for exchange rate fluctuations, but also allows it to create additional reserves for any future measures. The National Council dealt with the proposal as primary council in December and limited the credit facility to CHF 10 billion. The Council of States will address the proposal in the spring session of 2013.

Switzerland's participation

The decision to double the quotas to a total of SDR 476.8 billion is expected to become effective only in 2013, since the measure still requires ratification by some of the relevant national authorities of the individual member countries. It is part of a comprehensive package of quota and governance reforms and involves 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. Parliament approved the quota and governance reform in the 2012 summer session.

Quota and governance reform

Implications for Switzerland

For Switzerland, the proposed augmentation and realignment 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 in particular to the fact that Poland and Kazakhstan's quota shares will increase, the overall quota of the Swiss-led constituency will hardly change. In future, Switzerland will share its seat on the Executive Board with Poland as part of the IMF's aim to reduce the number of executive directors representing advanced European economies. Both countries will take it in turns to appoint an executive director every two years. This rotation will only be implemented if the governance reform actually enters into force. The earliest the rotation can be introduced is when the executive directors are elected in 2014. As the rotation will begin with Switzerland, Poland will not appoint an executive director until 2016. Switzerland will continue to represent the constituency in the IMFC.

Quota

When a country joins the IMF, it is assigned a quota based broadly on its relative position in the world economy. The quota is expressed in Special Drawing Rights, the unit of account used by the IMF. GDP, the degree of economic and financial openness, the degree to which trade and capital flows are prone to fluctuations, and reserve positions are all used in the formula to calculate the quota. The quota fulfils three important functions. Firstly, a member's quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. Secondly, the quota largely determines a member's voting power in IMF decisions. Thirdly, the amount of financing a member can obtain from the IMF is based on its quota. The quota is thus decisive for the financial and organisational relationship between a member country and the IMF. Quotas are reviewed at regular intervals and adjusted as necessary. At the end of 2010, it was decided to review the calculation of quotas once again so as to better reflect the increasing weight of the emerging markets in the global economy. This review is not yet concluded.

A temporary expansion of the NAB entered into effect in March 2011, increasing the number of lenders from 26 to 40 member countries and extending the maximum amount of resources available for lending from SDR 34 billion to SDR 370 billion. For the SNB, this meant an increase in its maximum lending commitment from SDR 1.54 billion to SDR 10.9 billion. Proportionally, however, its share fell from around 4.5% to 2.9%. The intention is to reduce the NAB to SDR 182 billion once the quota increase has been implemented. The SNB's maximum lending commitment will thus decrease to SDR 5.5 billion, a share of 3.0%.

Temporary expansion of NAB

GAB and NAB

The New Arrangements to Borrow (NAB) form a financial safety net for the IMF. Following the most recent increase, the IMF can currently be provided with up to SDR 370 billion in addition to its regular resources by means of the NAB. The NAB are activated for a specified period (six months at most) and a specified amount. The amount activated is based on an estimate by the IMF of the expected contingent liabilities. There are now 40 member countries participating in the NAB. The SNB is the institution representing Switzerland.

In an exceptional crisis and in the event of a shortage of funds, the General Arrangements to Borrow (GAB) permit the IMF to borrow funds in the amount of SDR 17 billion from the Group of Ten (G10) countries according to a distribution key agreed upon. The GAB can only be activated if agreement has not been reached under the NAB. The SNB is also the institution representing Switzerland in the GAB.

In November 2012, the IMF decided to extend the GAB by a further five years. In Switzerland, participation in the extension of the GAB is subject to approval by the Federal Assembly. The Federal Council proposed the relevant dispatch to parliament on 30 November 2012.

Renewal of GAB

Concessional lending facilities

The IMF supports concessional, i.e. subsidised, lending facilities in low-income countries. Pledges for these loans amounted to a total of SDR 3.1 billion at the end of 2012. 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 decided to augment the PRGT's loan resources by SDR 10.8 billion. By the end of 2012, 14 countries had committed to provide loans to the PRGT totalling SDR 9.8 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 is also involved in financing the interest subsidy for these loans. This participation is 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 1,998.4 million, compared with SDR 2,176.6 million a year earlier.

SNB'S FINANCIAL COMMITMENT TO THE IMF

In CHF millions

		End-2012
	Maximum	Drawn down
Quota	4,853	998
GAB and NAB	15,301	1,806
Concessional lending facilities [1] (PRGT)	980	279
SDR [2]	2,307	–364

1 With federal guarantee.
2 The SDR is not only a unit of account, but also a means of international payment. As part of the two-way arrangement with the IMF, the SNB has committed itself to purchase (+) or sell (–) SDRs against foreign currencies (USD, EUR) up to an agreed maximum.

Article IV consultation

Within the context of the Article IV consultations, the IMF regularly reviews the economic policy of its member countries and issues recommendations. On 2 May 2012, the IMF Executive Board concluded the annual Article IV consultation with Switzerland. The IMF commented that the Swiss economy is fundamentally strong, but that some challenges still lie ahead. The biggest risk for the Swiss economy, according to the IMF, is a worsening of the euro crisis. The IMF considers that the introduction of the minimum exchange rate for the euro against the Swiss franc was an appropriate policy response to the sharp economic contraction at the time and the threat of deflation caused by the franc's appreciation. It recommended the SNB to return to a free floating exchange rate regime as soon as economic conditions normalise. Given the environment of persistently low interest rates, the IMF sees a growing risk of a real estate bubble in parts of the real estate market. Against this backdrop, the IMF considers it advisable to immediately introduce the countercyclical capital buffer and the additional capital requirements for the mortgage lending business. Moreover, the big banks should raise high-quality capital as soon as possible.

Conference on international monetary system

In May 2012, the SNB and the IMF jointly hosted a conference on the reform of the international monetary system for the third time. The event brought together high-level central bank representatives, senior policymakers, as well as leading academics and commentators.

Constituency celebrates 20-year anniversary

To celebrate its 20th anniversary, a meeting of the Swiss constituency in the IMF and World Bank took place in Montreux in September 2012. The event brought together high-level representatives from central banks and governments of the member countries as well as management from the IMF and World Bank. The discussions focused primarily on the repercussions of the crisis on the member countries. Participants underlined the value and mutual benefit of the 20 years of cooperation, which made it possible for Switzerland, in particular, to gain a seat on the Executive Board of the IMF and the World Bank.

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 has occupied one of the seats (currently 19) on the BIS Board of Directors since its foundation.

The governors of member central banks convene for several meetings every two months to discuss developments in the global economy and the international financial system, and also to administer and oversee the work of the various committees. The SNB participates in four standing committees of the BIS: the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Markets Committee.

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 greater detail in chapter 6.6.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) is concerned with developments in national and international financial market infrastructures. In 2012, the CPSS – in collaboration with the International Organization of Securities Commissions (IOSCO) – published new standards for payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories. Other focal points of CPSS activities included the restructuring or wind-down of financial market infrastructures and continuing work towards implementing reform in the over-the-counter (OTC) derivatives market. The CPSS also published a report on innovations in retail payments.

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 2012, the Committee addressed questions of global liquidity, in particular, and the use of ratings by central banks. The CGFS published two reports. The first deals with the use of macroprudential instruments, which are not targeted at banks, but at the impact of their interconnection in the system. The second report describes improving the BIS international banking statistics.

The Markets Committee serves as a platform for central bank officials responsible for monetary policy operations. It examines current developments in money, currency, capital and commodity markets, as well as the functioning of these markets. In 2012, the impact of the European debt crisis and the increased use of unconventional monetary policy measures on the financial markets were discussed in particular. Consideration was also given to the importance of reference rates on international money markets (particularly Libor).

Markets Committee

7.4 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 countries with regard to economic, social and development policies.

Participation in the OECD

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.

Every two years, the OECD performs a detailed analysis of the economy of every member country. The Swiss economy will once again be subject to an in-depth evaluation, which, as always, will be done in close cooperation with the Confederation and the SNB. The OECD also publishes its *Economic Outlook* twice a year, a report which always includes a forecast summary of the growth outlook and economic policy for Switzerland. In its November report, the OECD recommended that, in view of weak underlying price pressures, interest rates should be kept close to the zero bound. It recognised that the appreciation of the Swiss franc continues to pose difficulties for companies. It was critical of the rise in real estate prices and the growth in mortgage loans, and suggested that macroprudential measures should be envisaged, especially for the cantonal banks, which are highly exposed to the housing sector. In the light of the continuing global financial market risks, the loss-absorbing capital of the two big banks should be increased.

7.5 TECHNICAL ASSISTANCE

Principles

The SNB provides technical assistance upon request to the central banks of developing countries and emerging economies. 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 assistance to the central banks from the group of countries with which it forms a constituency in the IMF and the World Bank (cf. chapter 7.2).

Main focus of technical assistance

As in recent years, the SNB again provided a large proportion of its technical assistance during 2012 to the National Bank of the Kyrgyz Republic (NBKR). It supported the NBKR in introducing a new trading platform and provided continued assistance to existing projects in the areas of monetary policy, risk management and banking operations. In-depth discussions took place with the National Bank of Kazakhstan, covering the subjects of banking operations, asset management, information technology and statistics, and internal auditing. The Central Bank of the Republic of Azerbaijan again received advice on the subject of monetary policy and also on banking operations. A sporadic exchange concerning asset management was held with the central banks of Serbia and Tajikistan. The SNB also continued to foster its relationship with the Central Bank of Turkmenistan.

Outside the constituency, the SNB provided support to the central banks of Armenia, Mozambique and Vietnam.

International events

In cooperation with the National Bank of Poland (NBP), the SNB held a seminar in May for central bankers from Eastern Europe, the Caucasus and Central Asia. The seminar – held for the ninth time – took place in the NBP's training centre close to Warsaw and dealt with the importance of global capital flows to monetary policy and financial stability.

Study Center Gerzensee

The Study Center Gerzensee, an SNB foundation for the training of central bankers, bankers and business specialists from Switzerland and abroad, organised seven courses on the subjects of monetary policy and financial markets for employees of foreign central banks in 2012. The courses were attended by a total of 170 participants from 87 countries (2011: 149 participants from 81 countries).

8 Banking services for the Confederation

Mandate

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

Remuneration for banking services

The SNB provides these banking services to the Swiss Confederation 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.

Issuing activities

In 2012, the National Bank issued both MMDRCs and Confederation bonds on behalf of and for the account of the Confederation. MMDRCs amounting to CHF 191.4 billion were subscribed (2011: CHF 108.8 billion), of which CHF 44.7 billion was allocated (2011: CHF 33.4 billion). The corresponding figures for Confederation bonds were CHF 11.6 billion and CHF 6.8 billion respectively. As on previous occasions, the issues were effected by auction via an electronic trading platform.

Negative MMDRC yields continue

In 2012, money market rates on the Swiss franc money market remained at exceptionally low levels, and, in some cases, at levels well into negative territory. On 26 June, the issue yield on three-month MMDRCs dropped to –0.85%, thereby reaching a new low point. In the second half of the year, MMDRC yields increased somewhat. Taken over the whole year, the yields ranged from 0.00% to –0.85%.

Payments

In mid-May, the Confederation changed over to a standardised transmission of payment data via the SWIFT global network, as part of its payments management project. The SNB carried out roughly 70,000 payments in Swiss francs and approximately 19,000 payments in foreign currencies on behalf of the Confederation.

9 Statistics

9.1 BACKGROUND

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.

Institutions required to provide data

Banks, stock exchanges, securities dealers and investment funds are required to provide the SNB with figures on their activities (art. 15 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.

Survey activity kept to minimum

The SNB limits the number and type of surveys to what is strictly necessary. 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.

9.2 PRODUCTS

Surveys and statistics

The SNB conducts statistical surveys in the areas of banking statistics, collective investment statistics, the balance of payment and payment transactions, as well as in connection with PostFinance. An overview is contained in the appendix to the NBO and on the SNB website. The SNB publishes the results of its surveys in the form of statistics. It also maintains a data bank with 5.7 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*, 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, 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. Data are also available online as Excel or text files, generally with longer time series than in the printed publications.

Special data dissemination standard

The SNB publishes monthly data on its website in line with the International Monetary Fund's 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.

9.3 PROJECTS

Balance of payments

In 2012, a revised version of the survey on cross-border trade in services (serviceBOP) was introduced. Since the first quarter, around 1,000 companies have been supplying detailed data each quarter on their services exports and imports. In addition, work continued on the revision of the surveys in connection with financial flows (investmentBOP). Both surveys aim, inter alia, to meet the requirements of the bilateral statistical agreement between Switzerland and the EU.

eSurvey platform

The survey on cross-border trade in services is the SNB's first statistical survey to be carried out via an internet platform (eSurvey). Other surveys are to follow suit in future. Working with the platform simplifies both the communication with the companies required to report data and the processing of the supplied data at the SNB.

9.4 COLLABORATION

Reporting institutions

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.

Group of experts

The SNB is advised on the content of its banking surveys by the banking statistics committee. This committee is made up of representatives of the Swiss commercial banks, the Swiss Bankers Association and the Swiss Financial Market Supervisory Authority (FINMA). A group of experts under the direction of the SNB participates 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 2012, the group of experts gave special attention to the investmentBOP project.

Public institutions

In compiling statistical data, the SNB collaborates with the relevant federal government bodies, particularly the Swiss Federal Statistical Office (SFSO) and FINMA, as well as with the authorities of other countries and international organisations.

Swiss Federal Statistical Office

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*).

Federal Office for Housing

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

Under the agreement with FINMA on the reciprocal exchange of data in the financial sector, the SNB collects information, including data on the capital base, liquidity and interest rate risk of banks and securities dealers. The year 2012 was marked by preparations for the start of Basel III and its modified capital adequacy requirements for banks.

FINMA

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).

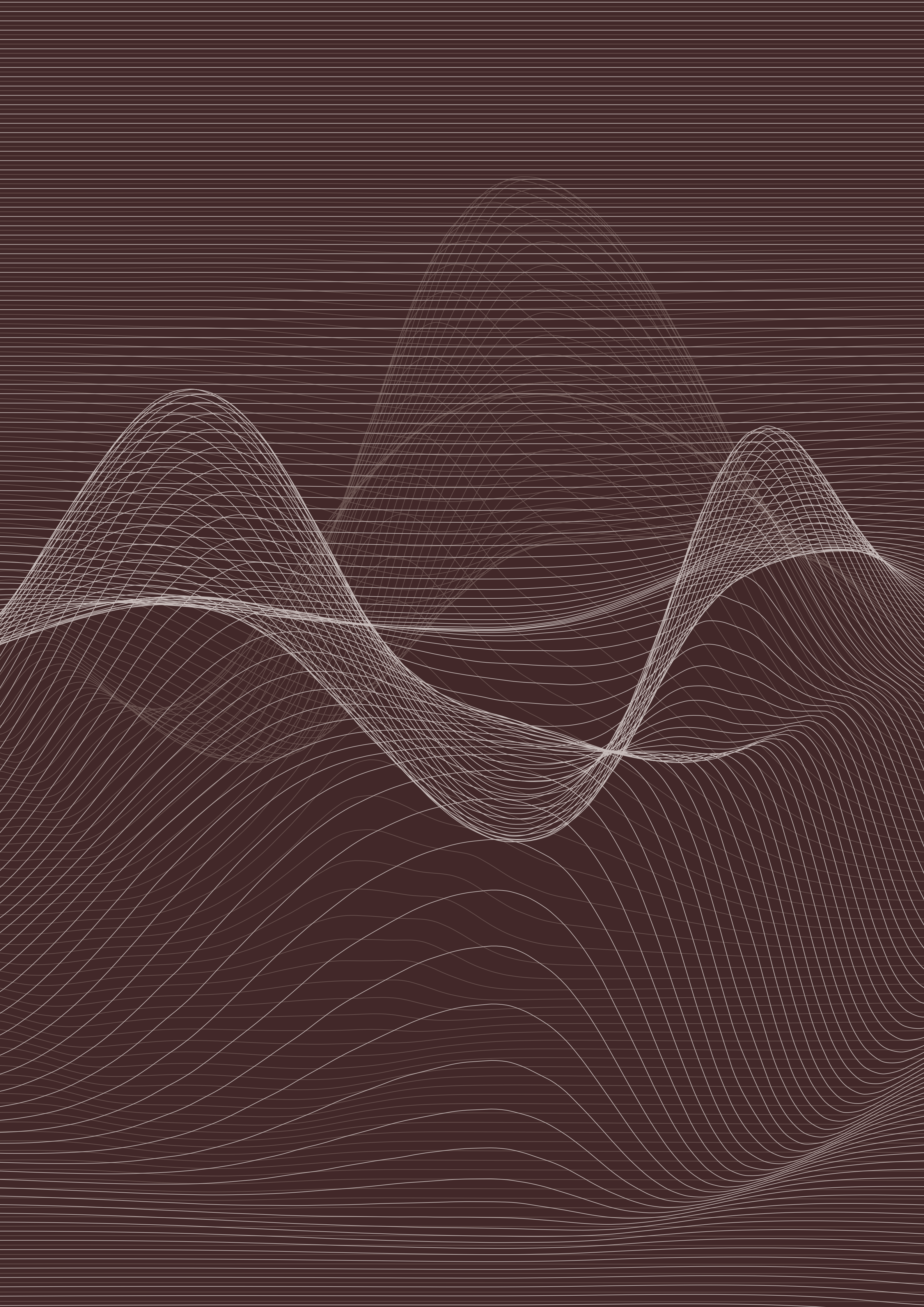
Principality of Liechtenstein

SNB collaboration with the EU 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).

EU

In the area of statistics, the National Bank works closely with the Bank for International Settlements (BIS), the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF). This collaboration is aimed at harmonising statistical survey methods and analyses. In 2012, 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.

Other international organisations



Financial report

Key financial figures for the 2012 business year

SELECTED BALANCE SHEET FIGURES FOR THE PARENT COMPANY (QUARTERLY)

In CHF billions

	31.12.2012	30.9.2012	30.6.2012	31.3.2012	**31.12.2011**
Banknotes in circulation	**61.8**	55.7	54.7	53.8	**55.7**
Sight deposits of domestic banks	**281.8**	290.2	242.6	157.3	**180.7**
Other sight deposits[1]	**78.9**	73.9	60.4	53.4	**30.3**
Claims from Swiss franc repo transactions	**–**	–	–	25.1	**18.5**
Liabilities from Swiss franc repo transactions	**–**	–	–	–	**–**
SNB debt certificates in Swiss francs	**–**	–	0.5	6.2	**14.7**
Gold holdings and claims from gold transactions	**50.8**	55.6	50.6	50.1	**49.4**
Foreign currency investments	**432.2**	429.9	365.1	245.5	**257.5**
Of which, in euros	**216.3**	210.6	219.5	124.1	**146.7**
Of which, in US dollars	**117.5**	118.5	79.4	63.9	**59.0**
Of which, acquired through foreign exchange swaps[2]	**–**	–	–	15.5	**26.1**
SNB loan to the stabilisation fund	**4.4**	5.4	6.4	6.8	**7.6**
Provisions for currency reserves[3]	**48.2**	48.2	48.2	45.1	**45.1**
Distribution reserve[3]	**3.9**	3.9	3.9	–5.0	**–5.0**

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 FIGURES FROM INCOME STATEMENTS (QUARTERLY AND ANNUAL RESULTS)

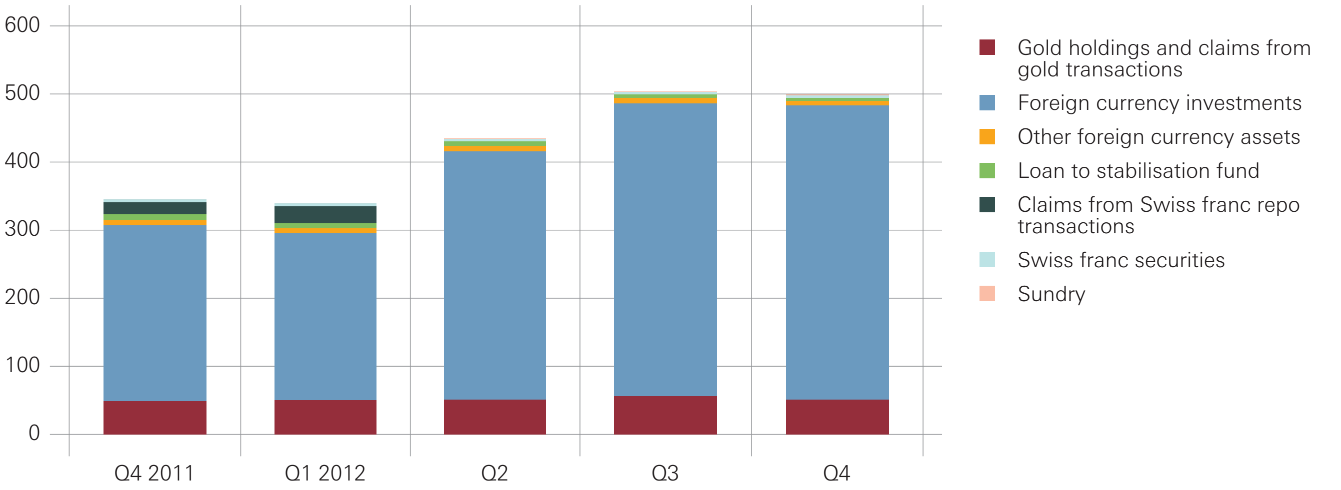
In currency unit billions

	Year 2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Parent company result for period (in Swiss francs)	**6.0**	–10.6	10.2	8.2	–1.8
Stabilisation fund result for period (in US dollars)[1]	**1.9**	0.4	0.7	0.2	0.5
Of which, impact on consolidated result (in Swiss francs)[1]	**0.9**	0.3	0.4	0.0	0.3
Consolidated result for period (in Swiss francs)[1]	**6.9**	–10.4	10.6	8.3	–1.6

1 Restated (Q1–Q3 2012).

ASSETS AT END OF QUARTER

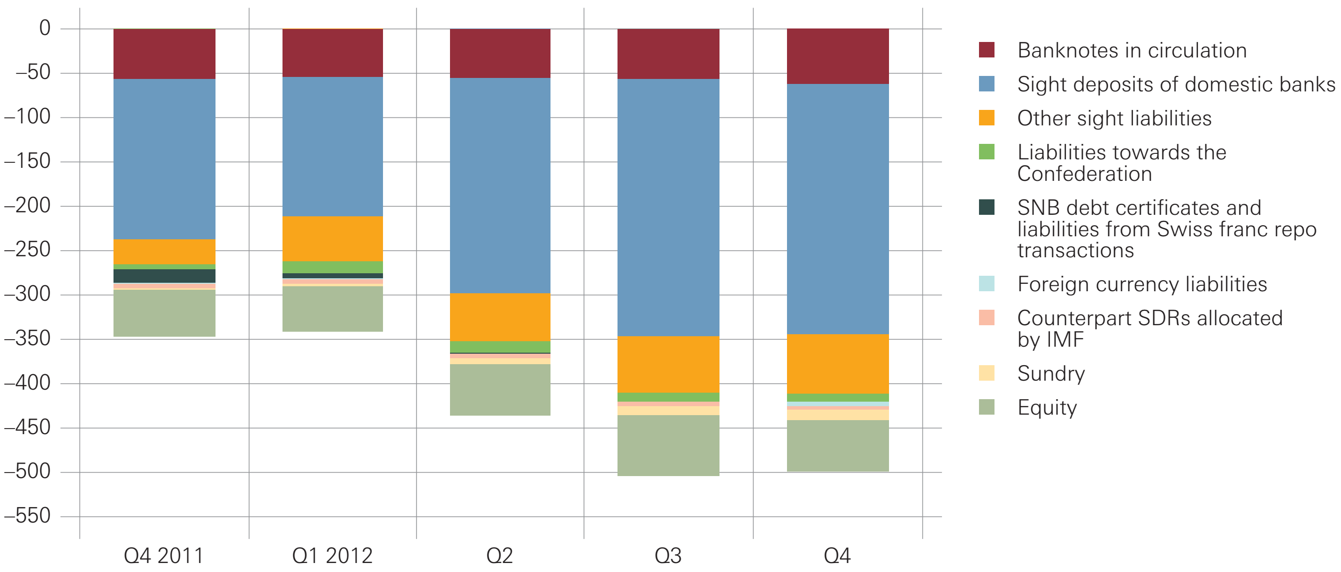
In CHF billions



Source: SNB

LIABILITIES AT END OF QUARTER

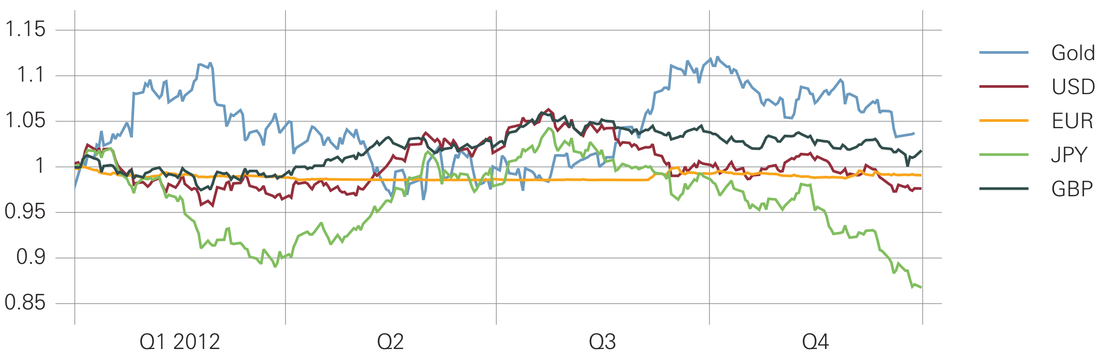
In CHF billions



Source: SNB

EXCHANGE RATES AND GOLD PRICE

Index: 1 January 2012 = 1



Source: SNB

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, as a company quoted on the stock exchange, the SNB publishes information on corporate governance (SIX Swiss Exchange Ltd corporate governance directive) in its business report.

The business report, together with the annual financial statements of the SNB (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
Corporate governance

1.1 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 Swiss 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; revised on 15 July 2011). At the SNB, statutes and regulations fulfil the function of articles of association.

Mandate

The SNB's mandate is derived directly from the Federal Constitution. 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 NBA, which sets out in detail the various elements of the National Bank's constitutional mandate (art. 5) and independence (art. 6). To counterbalance the SNB's independence, the NBA specifies a duty of accountability and a duty to provide 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 SNB 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.

1.2 SHAREHOLDERS

The majority of the SNB's shareholders are the cantons and the cantonal banks; the Confederation, however, is not a shareholder. At the end of 2012, a total of 52.3% of the shares were held by cantons and cantonal banks, while the remaining shares were mostly held by private individuals. The major shareholders were the Canton of Berne with 6.6% (6,630 shares), Theo Siegert (Düsseldorf) with 6.0% (5,995 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).

At 31 December 2012, the members of the Bank Council did not hold any SNB shares. According to the new 'Code of Conduct' for members of the Bank Council, which has been in effect since 1 January 2013, Bank Council members may not hold any such shares in the SNB. At 31 December 2012, a member of the Enlarged Governing Board held one SNB share.

Shareholder rights

Shareholder rights are governed by the NBA, 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 participation rights', p. 116).

Listed registered shares

The share capital of the SNB amounts to CHF 25 million, which is fully paid up. It is divided into 100,000 registered shares with a nominal value of CHF 250 each. SNB registered shares are traded on the Swiss stock exchange (SIX Swiss Exchange), since 1 January 2012 in the Domestic Standard (formerly Local Caps segment).

Information for shareholders

Notifications to shareholders are generally communicated in writing to the address listed in the share register, and by publication in the *Swiss Official Gazette of Commerce*. Shareholders only receive information which is also available to the public.

1.3 ORGANISATIONAL STRUCTURE

Departments

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.

Branch offices

The branch office in Geneva was closed on 31 January 2012, which means that the SNB no longer operates any branch offices in Switzerland. However, it is planning to open a branch office in Singapore during the course of 2013.

Representative offices

The representative offices, which are located in Basel, Geneva (since 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 Governing Board. In addition, the Regional Economic Councils maintain an exchange of information with the delegates for regional economic relations.

Agencies

The SNB also maintains 14 agencies for the receipt and distribution of banknotes and coins. These agencies are run by cantonal banks.

Group

In 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 and in the section 'Financial information on the stabilisation fund' of the financial report (pp. 177–186). The companies included in the consolidated financial statements are listed under 'Reporting entities' (p. 196).

1.4 CORPORATE BODIES AND RESPONSIBILITIES

The corporate bodies of the National Bank are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. The composition of these bodies is described on pp. 111 – 114.

General Meeting of Shareholders

The General Meeting of Shareholders elects five of the eleven members to the Bank Council and appoints the Audit Board. It approves the business report and the annual financial statements, and grants discharge to the Bank Council. Within the context of the profit appropriation, the General Meeting of Shareholders determines the dividend, which may not exceed 6% of share capital.

Bank Council

The Bank Council is the SNB's supervisory body. 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 oversees and controls the conduct of business by the SNB. Monetary policy does not form part of its remit; this falls to the Governing Board. The Bank Council's responsibilities cover, in particular, the determination of the basic principles according to which the SNB should be organised (including the structure of its financial accounting and financial control systems), the approval of the budget, and the approval of the level of the provisions for currency reserves (art. 30 NBA). The Bank Council also assesses risk management and the basic principles underlying the investment process, and is kept informed of the SNB's resource strategies. The Bank Council submits proposals to the Federal Council for the appointment of Governing Board members and their deputies. It determines, in a set of regulations, the remuneration of its own members, and the remuneration of Governing Board members and deputies. Finally, the Bank Council approves the agreement with the Federal Department of Finance on profit distribution, decides on the design of banknotes and appoints the members of the Regional Economic Councils. The individual tasks of the Bank Council are described in art. 42 NBA and art. 10 of the 'Organisation regulations'.

Bank Council activities

In 2012, the Bank Council held six ordinary half-day meetings (in March, April, June, August, October and December) and two extraordinary meetings (in January and February), all of which were attended by the Governing Board. The extraordinary meeting in January was held in connection with the private financial transactions by the Hildebrand family. The meeting in February was devoted to questions on Bank Council membership, the revision of the regulations on own-account transactions involving financial instruments, and the review of financial transactions by members of the Enlarged Governing Board.

In the context of the Hildebrand family's financial transactions, the Bank Council entrusted auditors KPMG Switzerland with the review of the financial transactions by members of the Enlarged Governing Board and their families during the period from 1 January 2009 to 31 December 2011 and to assess their compliance with the relevant regulations. Costs associated with the review activities amounted to CHF 0.8 million.

The Bank Council approved new regulations on private financial investments and financial transactions by members of SNB management, and new regulations on the acceptance of gifts and invitations by members of the Enlarged Governing Board. It also revised the regulations on the employment relationship of members of the Governing Board and their deputies and, for the first time, issued a 'Code of Conduct' for members of the Bank Council.

In addition, the Bank Council focused on strengthening the SNB's internal control system (ICS). Consequently, an independent Compliance unit was created, which also functions as a contact point to which staff can report irregularities and infringements of regulations. In this context, the Bank Council also worked on the revised SNB 'Code of Conduct', the new internal directives on compliance and on staff reporting of irregularities and infringements of regulations, as well as the revised directive on private financial investments and financial transactions by SNB staff. Other activities in the area of operational risk were centralised, namely information security, operational security and business continuity management.

The Bank Council presented the Federal Council with its proposal for the appointment of a new member of the Governing Board, with effect from 1 August 2012.

The Bank Council approved the renovation of the SNB premises in Berne (Bundesplatz 1), the acquisition of the Metropol building in Zurich (Börsenstrasse 10), and the opening of a branch office in Singapore as of mid-2013.

Other Bank Council activities included passing a resolution on the level of the provisions for currency reserves, discussing reports submitted by the Audit Board to the Bank Council and the General Meeting of Shareholders, and taking note of the annual reports on financial and operational risks.

Committees

The Bank Council has a Compensation Committee, Nomination Committee, Audit Committee and Risk Committee, each of which has three members. The Audit Committee supports the Bank Council by supervising financial accounting and financial reporting, assessing the effectiveness of the ICS and supervising the activities of the internal and external auditors. The Risk Committee assists the Bank Council by assessing and monitoring risk management and the investment process. The Compensation Committee determines the principles of the SNB's compensation and salary policies and submits proposals to the Bank Council regarding the salaries of Governing Board members and their deputies. The Nomination Committee submits proposals for the election of those Bank Council members who are appointed by the General Meeting of Shareholders, and for the election of Governing Board members and their deputies.

Meetings

The Compensation Committee met once; the Nomination Committee, six times. The Audit Committee held six half-day meetings (four ordinary, two extraordinary), five of which were attended by representatives of the Audit Board. The Risk Committee convened for two half-day meetings.

Executive management

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 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 Enlarged Governing Board is made up of the three Governing Board members and their deputies, and is responsible for issuing the strategic guidelines for the SNB's business operations.

The Board of Deputies is responsible for the planning and implementation of these strategic guidelines. It ensures coordination in all operational matters of interdepartmental importance. 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.

Audit Board

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 must be independent of the Bank Council, the Enlarged Governing Board and the controlling shareholders.

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. The annual fee for this auditing mandate amounts to CHF 0.3 million. PwC was also entrusted with the task of auditing the stabilisation fund. In 2012, compensation for these audit services totalled CHF 1.1 million, as in the previous year. No additional services were provided by PwC in the year under review (2011: CHF 0.1 million).

Internal Auditors

The Internal Auditors unit is an independent instrument for overseeing and monitoring the SNB's business activities. It reports to the Audit Committee of the Bank Council.

1.5 REMUNERATION REPORT

Remuneration

The principles governing the remuneration of members of the Bank Council and the Enlarged Governing Board are laid down in the regulations on the compensation of SNB supervisory and executive bodies of 14 May 2004. These regulations were issued by the Bank Council, and are based on the Federal Council's principles governing the remuneration and other contractual conditions for senior staff and management officers of federal enterprises and institutions, as outlined in art. 6a of the Federal Personnel Act. Remuneration and compensation remitted in the year under review are listed in the tables on pp. 159–160.

Bank Council

The compensation for members of the Bank Council is made up of a fixed annual remuneration plus per diem payments for special assignments and committee meetings. No compensation is due for committee meetings that are held on the same day as a Bank Council meeting.

Executive management

The remuneration paid to members of the Enlarged Governing Board comprises a salary and a lump sum for representation expenses. It is based on the level of remuneration in other financial sector companies of similar size and complexity, and in large federally run companies.

Severance payment

The SNB does not make severance payments to departing members of the Bank Council. In accordance with the SNB's regulations on the employment relationship of members of the Governing Board of the SNB and their deputies (Regulations on the Governing Board), Governing Board members and their deputies are entitled to compensation for the restrictions on their right to carry out professional activities following termination of their employment relationship with the SNB (cf. tables on Bank Council and executive management remuneration, pp. 159–160). These restrictions were tightened in the partial revision of the 'Regulations on the Governing Board' effective as of 1 January 2013. They now comprise a ban on all forms of financial intermediary work for a period of six months. Consequently, compensation amounting to six monthly salaries is paid. If members of the Enlarged Governing Board are not reappointed or are removed from office, the Bank Council may grant a severance payment amounting to a maximum of one year's salary.

Cross reference tables

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

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*

Corporate structure and shareholders	*Annual Report,* pp. 108–109, 154–155
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	*Annual Report,* pp. 153–154
Accounting principles	*Annual Report,* p. 136 (parent company) and pp. 193–194 (consolidated level)
Bank Council	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Members	*Annual Report,* p. 216
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. 216
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. 166–168; accountability report, pp. 62–63; arts. 10 et seq. Organisation regulations
Information tools	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Code of Conduct	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*
Regulations on the acceptance of gifts and invitations by members of the Enlarged Governing Board	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the employment relationship of members of the Governing Board of the Swiss National Bank and their deputies	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Remuneration	*Annual Report,* pp. 159–160
Shareholder participation 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, 222–224

2
Resources

2.1 ORGANISATIONAL CHANGES

Organisation

In 2012, compliance at the SNB was further strengthened in the areas of regulation, organisation and staff. An independent Compliance unit was created, which reports to the Chairman of the Governing Board, and which can, if necessary, report directly to the Chairman of the Audit Committee of the Bank Council, or where required, the President of the Bank Council. The SNB also set up a contact point to which staff can report irregularities and infringements of regulations.

The year also saw a review of the organisation of operational risk management culminate in the creation of a new unit – Operational Risk Management – which also encompasses information security and business continuity management, and which belongs to the Operational Risk and Security unit in Department II.

In order to enforce the minimum exchange rate, the number of staff working on a shift basis in the operational area was increased. Greater requirements in terms of system availability were reflected in a strengthening of IT support staff, too. The Bank Council approved the opening of a branch office in Singapore to ensure a more efficient management of the SNB's foreign currency investments in the Asian region.

2.2 HUMAN RESOURCES

Number and turnover of employees

At the end of 2012, the SNB employed 755 people (including 17 apprentices), which was 32 (or 4.4%) more than in 2011. The increase was mainly in connection with the implementation of exceptional monetary policy measures. In terms of full-time equivalents, the number of employees rose by 3.6% to 679.4. Staff turnover increased to 7.9%, from 6.5% a year earlier.

2.3 PREMISES

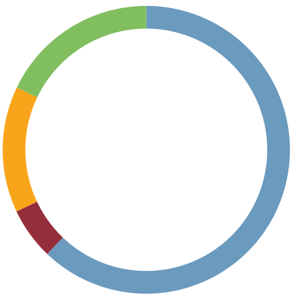
The SNB owns premises in Zurich and Berne for its own use. These are managed according to a long-term strategy.

The Berne premises are to undergo an extensive renovation, which is due to be completed by 2019. The strategic planning phase and the preliminary phase were concluded in the year under review.

In Zurich, at the end of September, the National Bank acquired the Metropol building (Börsenstrasse 10) from Credit Suisse and took over the residual 74-year leasehold with the city of Zurich. The purchase presented an ideal opportunity for the SNB to optimise its real estate portfolio in Zurich. Also in Zurich, the end of November saw the Seefeldstrasse 8 premises become fully operational, following the completion of the second stage of construction and the joining of the building to its neighbour at Seehofstrasse 15.

HUMAN RESOURCES

Number of employees



- Full-time, men **469**
- Part-time, men **44**
- Full-time, women **107**
- Part-time, women **135**

Total: 755
At year-end 2012

2.4 INFORMATION TECHNOLOGY

The IT production systems and applications were stable in 2012. Based on long-term security and cost/benefit considerations, the SNB decided to move its production data centre to the city of Zurich's IT facility in 2016. The facility, which is in Albis, opened in 2012.

New IT tools were introduced to aid the enforcement of the minimum exchange rate, and a new software package was implemented to strengthen measures against money laundering in the area of cashless payments.

A new data warehouse for conducting, processing and evaluating the SNB's statistical surveys was put into operation. The web-based platform, eSurvey, enables companies participating in SNB statistical surveys to submit their data online.

2.5 ENVIRONMENT

Environmental management

In its Charter, the National Bank undertakes to be careful in its use of natural resources. The annual environmental 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.

While energy consumption per capita (electricity and heating energy) remained at roughly the same level year-on-year, the first-time inclusion of the Zurich data centre resulted in an overall increase of 13%.

As a contribution to climate protection, two of the SNB's buildings are now exclusively heated via lake water instead of natural gas. In addition, more than half the natural gas supplied to its other buildings is biogas. The SNB offsets all of its unavoidable greenhouse gas emissions through investment in climate protection projects, and has been carbon neutral since 2011.

3
Changes in bank bodies and management

Bank Council

On 18 April 2012, the Federal Council appointed:

Jean Studer, Neuchâtel, Member of the Cantonal Government and Head of the Justice, Security and Finance Department of the Canton of Neuchâtel, and Vice President of the Bank Council, to President of the Bank Council, with effect from 1 May 2012;

Olivier Steimer, Epalinges, Chairman of the Board of Directors at Banque Cantonale Vaudoise, and Member of the Bank Council, to Vice President of the Bank Council, with effect from 1 May 2012, subject to his re-election by the General Meeting of Shareholders;

Shelby Robert du Pasquier, Geneva, Attorney-at-law and Partner at Lenz & Staehelin, to Member of the Bank Council, with effect from 1 May 2012;

Christoph Lengwiler, Kriens, Professor and Head of the Institute of Financial Services Zug IFZ at Lucerne University of Applied Sciences and Arts, to Member of the Bank Council, with effect from 1 May 2012.

On 18 April 2012, the Federal Council confirmed the other, existing members of the Bank Council (of that part of the membership appointed by the Federal Council) for the 2012 – 2016 term of office.

On 27 April 2012, the General Meeting of Shareholders confirmed the other, existing members of the Bank Council (of that part of the membership appointed by the General Meeting of Shareholders) for the 2012 – 2016 term of office.

Audit Board

On 27 April 2012, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2012 – 2013 term of office.

Governing Board and Enlarged Governing Board

On 18 April 2012, the Federal Council appointed:

Thomas J. Jordan, Vice Chairman of the Governing Board, to Chairman of the Governing Board, with immediate effect;

Jean-Pierre Danthine, Member of the Governing Board, to Vice Chairman of the Governing Board, with immediate effect.

On 18 April 2012, the Federal Council appointed:

Fritz Zurbrügg, Director of the Federal Finance Administration, to Member of the Governing Board, with effect from 1 August 2012.

Bank management

The Bank Council approved the following promotion to the position of Director, with effect from 1 January 2013:

Zsolt Madaràsz, Head of Operational Risk and Security.

4
Business performance

4.1 CONSOLIDATED AND PARENT COMPANY ANNUAL RESULT

Summary

The Swiss National Bank (SNB) is reporting a consolidated profit of CHF 6.9 billion for 2012 (2011: CHF 13.1 billion, after the fair value restatement of the stabilisation fund). Consolidated foreign currency positions contributed CHF 4.5 billion to this profit figure. Interest income and price gains on interest-bearing paper and instruments reached CHF 8.4 billion, and dividend income and price gains on equity securities and instruments CHF 6.7 billion. Taken together, these figures were considerably higher than the exchange rate-related losses of CHF 10.6 billion. The net result from gold amounted to CHF 1.4 billion.

At CHF 6.0 billion, the result for the parent company, on which the profit distribution is based, is CHF 938.7 million less than the consolidated result. The difference is due to the inclusion of the stabilisation fund companies in the consolidated result. The stabilisation fund's accounting principles were changed in 2012. This has also affected the 2011 comparative figures (fair value restatement).

For the 2012 financial year, the SNB has set the allocation to the provisions for currency reserves at CHF 3.6 billion. The distributable profit remaining after this allocation is CHF 2.4 billion. 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.

Increase in price of gold

At CHF 48,815 per kilogram, the price of gold was CHF 1,342 higher than at the end of 2011 (CHF 47,473). A valuation gain of CHF 1.4 billion was recorded on the unchanged holdings of 1,040 tonnes of gold (2011: CHF 5.4 billion).

Contribution of foreign currency positions to profit

In 2012, CHF 6.0 billion in interest income and CHF 1 billion in dividend income from foreign currency investments were recorded at consolidated level. The generally lower interest rate level resulted in price gains of CHF 2.4 billion on interest-bearing paper and instruments. Equity securities and instruments benefited from the favourable stock market environment and contributed CHF 5.7 billion to income. By contrast, an exchange rate loss of CHF 10.6 billion was recorded. This was mainly attributable to the appreciation of the Swiss franc against the Japanese yen (–12.9%), resulting in an exchange rate loss of CHF 4.7 billion, and the appreciation against the US dollar (–2.7%), resulting in an exchange rate loss of CHF 4.8 billion. Taking into account the various other elements of the income statement, consolidated foreign currency positions resulted in a profit of CHF 4.5 billion (2011: CHF 7.7 billion).

Profit on Swiss franc positions

Swiss franc positions showed a profit of CHF 101.1 million overall (2011: net loss of CHF 162.7 million). The net result from securities amounted to CHF 131.6 million.

As a result of the foreign currency purchases carried out to enforce the minimum exchange rate, Swiss franc liquidity expanded very significantly. This led to a drop in the already low level of trading activity on the repo market. Expenses of CHF 14.4 million resulted from liquidity-providing repo transactions due to the exceptional interest rate situation.

Given the measures to counter the strength of the Swiss franc, liquidity-absorbing operations were terminated as early as 2011. The last of the SNB's own debt certificates (SNB Bills) fell due in July 2012. Interest paid on these SNB Bills resulted in expenses of CHF 10.5 million in the year under review.

Positive result achieved by stabilisation fund

The changeover to fair value for the stabilisation fund's accounting principles as of 1 October 2012 reflects the improvement in market conditions for the assets held by the stabilisation fund. The adjustments in the accounting principles do not impact the liquidation and asset management strategy of the stabilisation fund.

A profit of CHF 2.0 billion was reported at consolidated level (2011: CHF 0.4 billion, after fair value restatement) on the stabilisation fund investments. These benefited from favourable developments on securitisation markets and recorded valuation gains.

Taking into account the other elements in the income statement, as well as the loss protection arrangements, the stabilisation fund contributed CHF 939 million to the consolidated result (2011: CHF 23 million, after fair value restatement).

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 increased by CHF 10.4 million (3.6%) to CHF 302.2 million (2011: CHF 291.9 million).

Reduction in loan to stabilisation fund

The successful continuation of the stabilisation fund's liquidation strategy resulted in further principal repayments on the SNB loan. It decreased from CHF 7.6 billion to under CHF 4.4 billion. In the same period, additional contingent liabilities declined by CHF 60.6 million to CHF 750.0 million.

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, 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 of suspending the profit distributions completely for a certain period, or carrying 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.

The reduction of the stabilisation fund will continue. This will be achieved, one the one hand, by regular cash flows from principal repayments and interest payments from the portfolio and, on the other hand, by selling if the opportunity arises. The speed with which assets are reduced and the SNB loan is repaid, as well as the stabilisation fund's business result, depend on future developments in the relevant markets.

4.2 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.

The SNB requires currency reserves to ensure it has room for manoeuvre in its monetary policy at all times. Moreover, these reserves serve to engender confidence, and to prevent and overcome potential crises. At present, the level of the currency reserves is dictated directly by the implementation of monetary policy, or by the enforcement of the minimum exchange rate.

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 determining the level of provisions and is free to deviate from this yardstick.

Allocation from 2012 annual result

In its annual review, the Bank Council resolved in December 2012 to continue basing the calculation of the allocation for the year under review on twice the average nominal GDP growth rate. Consequently, the allocation amounts to CHF 3.6 billion.

Development in last five years

PROVISIONS

	Growth in nominal GDP In percent (average period)[1]	Annual allocation In CHF millions	Provisions after allocation In CHF millions
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
2012[2]	3.7 (2006–2010)	3 568.0	51 783.6

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

The portion of the annual result remaining after the allocation to the currency reserves corresponds to the distributable profit as per art. 30 para. 2 NBA. Together with the distribution reserve, this makes up the net profit/net loss, as per art. 31 NBA. If there is a net profit, this is used for distributions.

Distributable annual profit and net profit

For 2012, the distributable profit amounted to CHF 2.4 billion.

4.3 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.

The FDF and the SNB revised their agreement on the profit distribution in 2011. The revised agreement covers the profit distributions for the financial years 2011–2015. The annual distribution amounts to CHF 1 billion and will only be made if it does not render the distribution reserve negative. If the distribution reserve after appropriation of profit exceeds CHF 10 billion, the distribution for the business year in question is increased. The amount to be distributed is agreed between the SNB and the FDF, and the cantons are informed.

Distribution for 2012

For 2012, 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 3.9 billion following last year's profit appropriation, a net profit of CHF 6.3 billion remains after allocating the 2012 distributable profit. 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 5.3 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
2008	22 871.7	–5 736.0	17 135.7	2 501.5	14 634.2
2009	14 634.2	6 900.1	21 534.3	2 501.5	19 032.8
2010	19 032.8	–21 531.3	–2 498.5	2 501.5[2]	–5 000.0
2011	–5 000.0	9 874.7	4 874.7	1 001.5	3 873.2
2012[3]	3 873.2	2 388.1	6 261.3	1 001.5	5 259.8

1 Total at year-end as per balance sheet (p. 133).
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.

4.4 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 CURRENCY RESERVES

In CHF millions

	31.12.2012	31.12.2011	Change
Gold holdings	50 767.5	48 662.5	+2 105.0
Claims from gold transactions	4.0	717.5	–713.5
Total gold reserves	50 771.5	49 379.9	+1 391.6
Foreign currency investments[1]	432 208.9	257 504.2	+174 704.7
Less: associated liabilities	–5 012.4	–546.2	–4 466.2
Derivatives (replacement values, net)	–38.5	92.1	–130.6
Total foreign exchange reserves[2]	427 158.0	257 050.1	+170 107.9
Reserve position in the IMF	2 804.2	3 134.5	–330.3
International payment instruments	4 249.2	4 621.2	–372.0
Total currency reserves	**484 982.8**	**314 185.7**	**+170 797.1**

1 At the end of 2011, 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.

4.5 MULTI-YEAR COMPARISON OF ASSETS AND LIABILITIES

The major activity in 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. In 2012, extensive foreign currency purchases were necessary to enforce the minimum exchange rate, which led to an additional expansion of the balance sheet total.

On the assets side of the balance sheet, the effects of the various measures were particularly apparent in the volume of foreign currency investments, which increased as a result of both foreign currency purchases and foreign exchange swaps. Foreign currency investments more than doubled between the end of 2010 and 2012. In the second half of 2011, liquidity-providing repo transactions were resumed, after having been discontinued during 2010. As a result of the foreign currency purchases carried out to enforce the minimum exchange rate, Swiss franc liquidity expanded very significantly in 2012. No further liquidity-providing repo transactions were performed. 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 issuance of SNB Bills and liquidity-absorbing repo transactions. Due to measures to counter the strength of the Swiss franc, sight deposits of domestic banks and other sight deposits rose substantially in the second half of 2011 and 2012. From the beginning of August 2011, 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 last SNB Bills fell due in 2012.

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 investments since the end of 2010.

YEAR-END VALUES OF BALANCE SHEET ASSETS (AGGREGATED)

In CHF millions

	2012	2011	2010	2009	2008
Gold holdings and claims from gold transactions	50 772	49 380	43 988	38 186	30 862
Foreign currency investments	432 209	257 504	203 810	94 680	47 429
Various foreign currency assets[1]	7 332	8 057	6 038	7 136	1 296
Claims from US dollar repo transactions	–	371	–	–	11 671
Credit balances from swap transactions	–	–	–	2 672	50 421
Claims from Swiss franc repo transactions	–	18 468	–	36 208	50 321
Swiss franc securities	3 757	3 675	3 497	6 543	3 597
Loan to stabilisation fund	4 378	7 645	11 786	20 994	15 248
Sundry[2]	986	980	836	846	3 479
Total assets	**499 434**	**346 079**	**269 955**	**207 264**	**214 323**

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

	2012	2011	2010	2009	2008
Banknotes in circulation	61 801	55 729	51 498	49 966	49 161
Sight deposits of domestic banks	281 814	180 721	37 951	44 993	37 186
Other sight deposits[1]	78 910	30 332	5 619	5 927	5 184
Liabilities towards the Confederation	9 008	5 648	5 347	6 183	8 804
SNB debt certificates in Swiss francs	–	14 719	107 870	7 788	24 425
Liabilities from Swiss franc repo transactions	–	–	13 182	–	–
Other term liabilities	–	366	–	–	29 415
Foreign currency liabilities[2]	9 632	5 286	5 805	26 447	420
Sundry[3]	199	162	96	64	1 286
Provisions for currency reserves	48 216	45 061	44 337	41 282	40 275
Share capital	25	25	25	25	25
Distribution reserve (before appropriation of profit)	3 873	–5 000	19 033	14 634	22 872
Annual result	5 956	13 029	–20 807	9 955	–4 729
Total liabilities	**499 434**	**346 079**	**269 955**	**207 264**	**214 323**

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 (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 2012

ASSETS

In CHF millions

	Item no. in Notes	31.12.2012	31.12.2011	Change
Gold holdings	01	50 767.5	48 662.5	+2 105.0
Claims from gold transactions	02	4.0	717.5	–713.5
Foreign currency investments	03, 29	432 208.9	257 504.2	+174 704.7
Reserve position in the IMF	04	2 804.2	3 134.5	–330.3
International payment instruments	27	4 249.2	4 621.2	–372.0
Monetary assistance loans	05, 27	279.1	301.4	–22.3
Claims from US dollar repo transactions		–	370.5	–370.5
Claims from Swiss franc repo transactions	26	–	18 468.0	–18 468.0
Swiss franc securities	06	3 757.1	3 675.1	+82.0
Loan to stabilisation fund	07, 28	4 378.0	7 644.9	–3 266.9
Banknote stocks	08	125.6	129.8	–4.2
Tangible assets	09	451.8	325.4	+126.4
Participations	10, 28	141.6	147.2	–5.6
Other assets	11, 30	266.7	377.2	–110.5
Total assets		**499 433.7**	**346 079.3**	**+153 354.4**

LIABILITIES

In CHF millions

	Item no. in Notes	31.12.2012	31.12.2011	Change
Banknotes in circulation	12	61 801.4	55 728.9	+6 072.5
Sight deposits of domestic banks		281 814.1	180 720.7	+101 093.4
Liabilities towards the Confederation	13	9 008.1	5 647.5	+3 360.6
Sight deposits of foreign banks and institutions		11 958.4	1 884.5	+10 073.9
Other sight liabilities	14	66 951.1	28 447.9	+38 503.2
Liabilities from Swiss franc repo transactions		–	–	–
SNB debt certificates		–	14 719.5	–14 719.5
Other term liabilities		–	366.4	–366.4
Foreign currency liabilities	15	5 018.7	551.6	+4 467.1
Counterpart of SDRs allocated by the IMF		4 613.4	4 734.6	–121.2
Other liabilities	16, 30	193.2	155.1	+38.1
Operating provisions	17	5.5	7.3	–1.8
Provisions for currency reserves[1]		48 215.6	45 061.3	+3 154.3
Share capital	18	25.0	25.0	–
Distribution reserve[2]		3 873.2	–5 000.0	+8 873.2
Annual result[1]		5 956.1	13 028.9	–7 072.8
Total liabilities		**499 433.7**	**346 079.3**	**+153 354.4**

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 2012

In CHF millions

	Item no. in Notes	2012	2011	Change
Net result from gold	19	1 396.3	5 392.3	–3 996.0
Net result from foreign currency positions	20	4 719.7	7 963.1	–3 243.4
Net result from Swiss franc positions	21	101.1	–162.7	+263.8
Net result, other	22	11.1	94.8	–83.7
Gross income		**6 228.2**	**13 287.6**	**–7 059.4**
Banknote expenses		–23.0	–20.4	–2.6
Personnel expenses	23, 24	–133.0	–128.8	–4.2
General overheads	25	–81.7	–73.1	–8.6
Depreciation on tangible assets	09	–34.4	–36.2	+1.8
Annual result		**5 956.1**	**13 028.9**	**–7 072.8**
Allocation to provisions for currency reserves		–3 568.0	–3 154.3	–413.7
Distributable annual profit		**2 388.1**	**9 874.7**	**–7 486.6**
Released from (+)/allocated to (–) distribution reserve		–1 386.6	–8 873.2	+7 486.6
Total profit distribution		**1 001.5**	**1 001.5**	**–**
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	1 000.0	–

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 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**
Equity as at 1 January 2012	**25.0**	**45 061.3**	**–5 000.0**	**13 028.9**	**53 115.3**
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
Annual result				5 956.1	5 956.1
Equity as at 31 December 2012 (before appropriation of profit)	**25.0**	**48 215.6**	**3 873.2**	**5 956.1**	**58 069.9**
Proposed appropriation of profit					
Endowment of provisions for currency reserves pursuant to NBA		3 568.0		–3 568.0	
Allocation to distribution reserve			1 386.6	–1 386.6	
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**	**51 783.6**	**5 259.8**	**–**	**57 068.4**

4 Notes to the annual financial statements of the parent company as at 31 December 2012

4.1 ACCOUNTING AND VALUATION PRINCIPLES

GENERAL

Basic principles

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

Changes from previous year

Compared with the previous year, there were no 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.

Recording of transactions

The business transactions of the Swiss National Bank (SNB) 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 and 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 this position 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 commitment of loan resources to the interim 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 loan 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 US dollar repo transactions stated in the balance sheet in 2011 were concluded in collaboration with other central banks. The claims are fully backed by collateral eligible for SNB repos and are stated 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 from repo transactions are fully backed by collateral 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 repayments. 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, software, and sundry tangible assets. For individual purchases, 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 is 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 positioning with regard to shares, interest rates, credit risk and currencies (cf. also ‘Risks posed by financial instruments’, pp. 170–173).

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 are disclosed in the notes to the accounts.

Banknotes in circulation

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

Sight deposits of domestic banks

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

Liabilities towards the Confederation

The National Bank holds an interest-bearing sight deposit account for the Confederation. Interest is payable for amounts up to a maximum of CHF 200 million. In addition, the Confederation may place time deposits with the SNB at market rates. The liabilities towards the Confederation are stated at 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 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 can issue its own, interest-bearing debt certificates (SNB Bills) in Swiss francs. Money market management requirements dictate the frequency, term and amount of these issues. 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.

Other term liabilities

In 2011, this balance sheet item contained 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 at 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 at 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 (p. 135). The allocation is made as part of the profit appropriation. The Bank Council decides annually on the level of these provisions.

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 overfunding or underfunding is shown on the assets side or reported as a liability.

Valuation rates

VALUATION RATES

	31.12.2012 CHF	31.12.2011 CHF	Change In percent
1 euro (EUR)	1.2074	1.2172	–0.8
1 US dollar (USD)	0.9129	0.9378	–2.7
100 yen (JPY)	1.0576	1.2149	–12.9
1 Canadian dollar (CAD)	0.9171	0.9198	–0.3
1 pound sterling (GBP)	1.4839	1.4581	+1.8
1 Australian dollar (AUD)	0.9476	0.9558	–0.9
100 Danish kroner (DKK)	16.1842	16.3768	–1.2
100 Swedish kronor (SEK)	14.0591	13.6694	+2.9
1 Singapore dollar (SGD)	0.7475	0.7232	+3.4
100 South Korean won (KRW)	0.0856	0.0813	+5.3
1 Special Drawing Right (SDR)	1.4031	1.4400	–2.6
1 kilogram of gold	48 815.02	47 472.70	+2.8

4.2 NOTES TO THE BALANCE SHEET AND INCOME STATEMENT

Item no. 01

GOLD HOLDINGS

Breakdown by type

	31.12.2012		31.12.2011	
	In tonnes	In CHF millions	In tonnes	In CHF millions
Gold ingots	1 001.0	48 862.1	986.0	46 809.4
Gold coins	39.0	1 905.5	39.0	1 853.1
Total[1]	**1 040.0**	**50 767.5**	**1 025.1**	**48 662.5**

1 For the overall total of gold, lent gold under item no. 02 must also be included.

CLAIMS FROM GOLD TRANSACTIONS

Item no. 02

	31.12.2012		31.12.2011	
	In tonnes	In CHF millions	In tonnes	In CHF millions
Claims from secured gold lending[1]	–	–	14.9	713.3
Claims on metal accounts	0.1	4.0	0.1	4.2
Total	**0.1**	**4.0**	**15.0**	**717.5**

1 At end-2011, claims are secured by collateral eligible for repo transactions with a market value of CHF 787.4 million.

FOREIGN CURRENCY INVESTMENTS

Item no. 03

Breakdown by investment type in CHF millions

	31.12.2012	31.12.2011	Change
Sight deposits and call money	85 309.7	29 782.3	+55 527.4
Time deposits	–	–	–
Claims from repo transactions	5 012.6	3 249.8	+1 762.8
Money market instruments	942.1	1 086.6	–144.5
Bonds[1]	288 823.6	202 814.2	+86 009.4
Equities	52 120.9	20 571.2	+31 549.7
Total[2]	**432 208.9**	**257 504.2**	**+174 704.7**

1 Of which CHF 641.0 million (2011: CHF 608.1 million) lent under securities lending operations.
2 At end-2011, total includes investments in connection with foreign exchange swaps.

Breakdown by issuer and borrower category in CHF millions

	31.12.2012	31.12.2011	Change
Governments	278 160.6	195 533.5	+82 627.1
Monetary institutions[1,2]	87 515.4	31 408.0	+56 107.4
Corporations[2]	66 532.9	30 562.6	+35 970.3
Total	**432 208.9**	**257 504.2**	**+174 704.7**

1 BIS, central banks and multilateral development banks.
2 Classification adjusted for 2011.

Breakdown by currency[1] in CHF millions

	31.12.2012	31.12.2011	Change
EUR	216 336.5	146 654.8	+69 681.7
USD	117 483.3	59 029.8	+58 453.5
JPY	34 494.9	21 546.6	+12 948.3
CAD	17 035.5	11 054.3	+5 981.2
GBP	28 798.4	10 941.5	+17 856.9
AUD	6 637.6	3 203.1	+3 434.5
DKK	4 335.7	1 990.3	+2 345.4
SEK	2 114.8	2 022.1	+92.7
SGD	2 298.5	1 061.1	+1 237.4
KRW	2 673.1	–	+2 673.1
Other	0.6	0.5	+0.1
Total	**432 208.9**	**257 504.2**	**+174 704.7**

1 Excluding foreign exchange derivatives. For a breakdown by currency including foreign exchange derivatives, cf. 'Risks posed by financial instruments', pp. 170–173.

Item no. 04

RESERVE POSITION IN THE IMF

In CHF millions

	31.12.2012	31.12.2011	Change
Swiss quota in the IMF[1]	4 852.7	4 980.6	–127.9
Less: IMF's Swiss franc sight balances at the SNB	–3 854.5	–2 926.5	–928.0
Loan based on New Arrangements to Borrow (NAB)[2]	1 806.0	1 080.4	+725.6
Total	**2 804.2**	**3 134.5**	**–330.3**

1 SDR 3,458.5 million; change due entirely to exchange rates.
2 For undrawn lending commitments, cf. item no. 27, p. 162.

MONETARY ASSISTANCE LOANS

Item no. 05

In CHF millions

	31.12.2012	31.12.2011	Change
PRGT loan facility[1,2]	–	–	–
Interim PRGT loan facility[1]	279.1	301.4	−22.3
Total	**279.1**	**301.4**	**−22.3**

1 Poverty Reduction and Growth Trust of the IMF.
2 For undrawn lending commitments, cf. item no. 27, p. 162.

SWISS FRANC SECURITIES

Item no. 06

Breakdown by borrower category in CHF millions

	31.12.2012	31.12.2011	Change
Governments	1 549.8	1 557.7	−7.9
Corporations	2 207.3	2 117.4	+89.9
Total	**3 757.1**	**3 675.1**	**+82.0**

Breakdown of *governments* borrower category in CHF millions

	31.12.2012	31.12.2011	Change
Swiss Confederation	893.5	868.8	+24.7
Cantons and municipalities	397.3	387.3	+10.0
Foreign states	259.0	301.6	−42.6
Total	**1 549.8**	**1 557.7**	**−7.9**

Breakdown of *corporations* borrower category in CHF millions

	31.12.2012	31.12.2011	Change
Domestic mortgage bond institutions	913.7	743.1	+170.6
Other domestic corporations[1]	73.3	74.9	−1.6
Foreign corporations[2]	1 220.3	1 299.5	−79.2
Total	**2 207.3**	**2 117.4**	**+89.9**

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

	31.12.2012	31.12.2011	Change
Short-term receivables	0.0	0.4	–0.4
Loan in USD[1]	2 849.8	5 755.4	–2 905.6
Loan in EUR[1]	136.8	339.1	–202.3
Loan in GBP[1]	1 219.5	1 332.6	–113.1
Loan in JPY[1]	171.8	217.5	–45.7
Total[2]	**4 378.0**	**7 644.9**	**–3 266.9**

1 Interest charged at one-month Libor plus 250 basis points.
2 Owing to the financial situation of the stabilisation fund, the subordination agreement in the amount of USD 1.9 billion as reported in 2011 was rescinded.

Item no. 08

BANKNOTE STOCKS

In CHF millions

	Banknote stocks
As at 1 January 2011	110.9
Additions	38.7
Disposals	–19.8
As at 31 December 2011	129.8
As at 1 January 2012	129.8
Additions	18.6
Disposals	–22.8
As at 31 December 2012[1]	125.6

1 Of which CHF 27.6 million in advance payments (2011: CHF 28.8 million).

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 2012	489.4	8.1	38.5	61.2	597.2
Additions	144.5	–	7.1	9.2	160.8
Disposals	–	–	–6.1	–4.9	–11.0
Reclassified	8.1	–8.1	–	0.0	
31 December 2012	642.0	–	39.5	65.5	747.0
Cumulative value adjustments					
1 January 2012	198.0		24.8	49.0	271.8
Scheduled depreciation	19.5		9.8	5.0	34.4
Disposals			–6.1	–4.9	–10.9
Reclassified				0.0	
31 December 2012	217.5		28.6	49.2	295.2
Net book values					
1 January 2012	291.4	8.1	13.7	12.2	325.4
31 December 2012	424.6	–	11.0	16.3	451.8

1 Insured value: CHF 467.5 million (2011: CHF 397.5 million); additions from investments and acquisition of Metropol building in Zurich.
2 Insured value: CHF 56.8 million (2011: CHF 56.8 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 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
Book value as at 1 January 2012	56.1	90.2	0.8	147.2
Investments	–	–	–	–
Divestments	–	–	–	–
Valuation changes	–5.5	–	–	–5.5
Book value as at 31 December 2012	50.6	90.2	0.8	141.6

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

	31.12.2012	31.12.2011	Change
Coins[1]	133.7	118.9	+14.8
Foreign banknotes	0.8	1.1	–0.3
Other accounts receivable	19.6	16.3	+3.3
Prepayments and accrued income	2.5	2.9	–0.4
Cheques and bills of exchange (collection business)	0.0	0.0	+0.0
Positive replacement values[2]	110.7	238.1	–127.4
Total	**266.7**	**377.2**	**–110.5**

1 Coins acquired from Swissmint destined for circulation.
2 Unrealised gains on financial instruments and on outstanding spot transactions (cf. item no. 30, p. 165).

BANKNOTES IN CIRCULATION

Item no. 12

Breakdown by issue in CHF millions

	31.12.2012	31.12.2011	Change
8th issue	60 562.4	54 450.6	+6 111.8
6th issue[1]	1 239.0	1 278.3	–39.3
Total	**61 801.4**	**55 728.9**	**+6 072.5**

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

	31.12.2012	31.12.2011	Change
Sight liabilities	8 008.1	4 647.5	+3 360.6
Term liabilities	1 000.0	1 000.0	–
Total	**9 008.1**	**5 647.5**	**+3 360.6**

OTHER SIGHT LIABILITIES

Item no. 14

In CHF millions

	31.12.2012	31.12.2011	Change
Sight deposits of non-banks[1]	66 656.8	28 199.2	+38 457.6
Deposit accounts[2]	294.3	248.8	+45.5
Cheque liabilities[3]	0.0	0.0	+0.0
Total	**66 951.1**	**28 447.9**	**+38 503.2**

1 PostFinance, clearing offices, insurance corporations, etc.
2 These mainly comprise accounts of active and retired employees, plus liabilities towards SNB pension schemes. Current account liabilities towards the latter amounted to CHF 59.4 million as at 31 December 2012 (2011: CHF 36.2 million).
3 Bank cheques drawn on the SNB but not yet cashed.

Item no. 15

FOREIGN CURRENCY LIABILITIES

In CHF millions

	31.12.2012	31.12.2011	Change
Sight liabilities	6.2	5.4	+0.8
Liabilities from repo transactions[1]	5 012.4	546.2	+4 466.2
Other foreign currency liabilities	–	0.1	–0.1
Total	**5 018.7**	**551.6**	**+4 467.1**

1 Relating to the management of foreign currency investments.

Item no. 16

OTHER LIABILITIES

In CHF millions

	31.12.2012	31.12.2011	Change
Other accounts payable	11.5	12.2	–0.7
Accrued liabilities and deferred income	15.8	8.1	+7.7
Negative replacement values[1]	166.0	134.8	+31.2
Total	**193.2**	**155.1**	**+38.1**

1 Unrealised losses on financial instruments and on outstanding spot transactions (cf. item no. 30, p. 165).

OPERATING PROVISIONS

Item no. 17

In CHF millions

	Provisions due to reorganisation	Other provisions	Total
Book value as at 1 January 2011	2.4	1.1	3.5
Formation	4.7	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
Book value as at 1 January 2012	6.2	1.1	7.3
Formation	–	–	–
Release	–1.7	–0.0	–1.7
Write-back	–	–0.1	–0.1
Book value as at 31 December 2012	4.5	1.0	5.5

SHARE CAPITAL

Item no. 18

Shares

	2012	2011
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	1 028	947
Market capitalisation in CHF	102 800 000	94 700 000
Annual high in CHF	1 179	1 290
Annual low in CHF	940	915
Average daily trading volume in number of shares	24	44

1 Listed in the Domestic Standard on SIX Swiss Exchange.

Breakdown of share ownership as at 31 December 2012

	Number of shares	In percentage of shares registered
2,170 private shareholders with a total of	**35 011**	**39.87**[1]
Of which 1,857 shareholders with 1 – 10 shares each		
Of which 277 shareholders with 11 – 100 shares each		
Of which 18 shareholders with 101 – 200 shares each[2]		
Of which 18 shareholders with over 200 shares each[2]		
74 public law sector shareholders with a total of	**52 799**	**60.13**
Of which 26 cantons with a total of	38 981	
Of which 23 cantonal banks with a total of	13 358	
Of which 25 other public authorities and institutions with a total of	460	
Total 2,244 registered shareholders with a total of[3]	**87 810**[4]	**100**
Registration applications pending or outstanding for	12 190	
Total shares	**100 000**	

1 Legal entities: 12,586 shares (12.59%); private individuals: 22,425 shares (22.43%). Private shareholders account for 20.33% of voting rights.
2 Voting rights are limited to 100 shares.
3 In 2012, the number of shareholders decreased by 15 and the number of registered shares increased by 3,298.
4 Of which 12,898 shares are in foreign ownership (accounting for 1.52% of voting rights).

Principal shareholders: Public law sector

	31.12.2012		31.12.2011	
	Number of shares	Participation	Number of shares	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]

	31.12.2012 Number of shares	Participation	31.12.2011 Number of shares	Participation
Theo Siegert, Düsseldorf	5 995	6.00%	5 950	5.95%

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.

NET RESULT FROM GOLD

Item no. 19

Breakdown by type in CHF millions

	2012	2011	Change
Net result from changes in market value	1 396.1	5 391.3	–3 995.2
Interest income from gold lending transactions	0.2	1.0	–0.8
Total	**1 396.3**	**5 392.3**	**–3 996.0**

NET RESULT FROM FOREIGN CURRENCY POSITIONS

Item no. 20

Breakdown by origin in CHF millions

	2012	2011	Change
Foreign currency investments	4 690.3	7 749.3	–3 059.0
Reserve position in the IMF	–50.3	67.3	–117.6
International payment instruments	4.4	–2.7	+7.1
Monetary assistance loans	–5.6	2.2	–7.8
Foreign currency liabilities	–2.1	–20.8	+18.7
Other foreign currency positions[1]	83.1	167.9	–84.8
Total	**4 719.7**	**7 963.1**	**–3 243.4**

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

Breakdown by type in CHF millions

	2012	2011	Change
Interest income[1]	6 159.5	5 763.3	+396.2
Price gain/loss on interest-bearing paper and instruments	2 422.9	3 722.7	–1 299.8
Interest expenses	–7.1	–38.8	+31.7
Dividend income	1 005.8	562.3	+443.5
Price gain/loss on equity securities and instruments	5 724.4	–1 915.5	+7 639.9
Exchange rate gain/loss	–10 577.9	–123.9	–10 454.0
Asset management, safe custody and other fees	–7.9	–6.9	–1.0
Total	**4 719.7**	**7 963.1**	**–3 243.4**

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

Breakdown by overall net result by currency in CHF millions

	2012	2011	Change
EUR[1]	8 451.0	1 835.8	+6 615.2
USD[1]	–1 585.6	3 855.0	–5 440.6
JPY[1]	–2 923.4	632.0	–3 555.4
CAD	10.4	256.0	–245.6
GBP[1]	456.4	688.4	–232.0
AUD	57.3	374.2	–316.9
DKK	39.5	84.8	–45.3
SEK	92.5	145.8	–53.3
SGD	42.2	31.3	+10.9
KRW	138.9	–	+138.9
SDR	–51.6	66.8	–118.4
Other	–7.8	–6.9	–0.9
Total	**4 719.7**	**7 963.1**	**–3 243.4**

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

Breakdown by exchange rate gain/loss by currency in CHF millions

	2012	2011	Change
EUR[1]	–448.2	–2 098.2	+1 650.0
USD[1]	–4 810.4	424.0	–5 234.4
JPY[1]	–4 710.7	1 217.7	–5 928.4
CAD	–335.0	–97.9	–237.1
GBP[1]	–204.9	343.9	–548.8
AUD	–137.0	41.0	–178.0
DKK	–17.7	–15.2	–2.5
SEK	57.0	8.3	+48.7
SGD	18.3	–5.7	+24.0
KRW	81.5	–	+81.5
SDR	–70.9	58.2	–129.1
Other	0.0	0.0	+0.0
Total	**–10 577.9**	**–123.9**	**–10 454.0**

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

NET RESULT FROM SWISS FRANC POSITIONS

Item no. 21

Breakdown by origin in CHF millions

	2012	2011	Change
Swiss franc securities	131.6	188.0	–56.4
Liquidity-providing Swiss franc repo transactions	–14.4	–16.5	+2.1
Liquidity-absorbing Swiss franc repo transactions	–	–11.9	+11.9
Other assets	0.0	0.0	–0.0
Liabilities towards the Confederation	–	–2.7	+2.7
SNB debt certificates	–10.5	–313.1	+302.6
Other sight liabilities	–5.5	–6.5	+1.0
Total	**101.1**	**–162.7**	**+263.8**

Breakdown by type in CHF millions

	2012	2011	Change
Interest income	84.3	89.8	–5.5
Price gain/loss on interest-bearing paper and instruments	51.9	105.0	–53.1
Interest expenses	–30.5	–306.8	+276.3
Trading, safe custody and other fees	–4.5	–50.6	+46.1
Total	**101.1**	**–162.7**	**+263.8**

Item no. 22

NET RESULT, OTHER

In CHF millions

	2012	2011	Change
Commission income	11.1	11.1	+0.0
Commission expenses	–10.9	–10.3	–0.6
Income from participations	3.5	9.3	–5.8
Income from real estate	4.1	3.6	+0.5
Other income	3.3	81.2[1]	–77.9
Total	**11.1**	**94.8**	**–83.7**

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

PERSONNEL EXPENSES

Item no. 23

Breakdown by type in CHF millions

	2012	2011	Change
Wages, salaries and allowances	103.2	96.1	+7.1
Social security expenses	21.8	20.6	+1.2
Other personnel expenses[1]	8.0	12.2	–4.2
Total	**133.0**	**128.8**	**+4.2**

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

Remuneration for members of the Bank Council[1] in CHF thousands

	2012	2011	Change
Jean Studer, President as of 1 May 2012[2,3]	131.2	72.8	+58.4
Hansueli Raggenbass, President (until 30 April 2012)[2,3]	59.5	147.8	–88.3
Olivier Steimer, Vice President as of 1 May 2012[2,3]	67.3	50.6	+16.7
Gerold Bührer[2,4]	61.8	53.4	+8.4
Monika Bütler	45.0	45.0	–
Alfredo Gysi (as of 1 May 2011)[5]	50.6	32.8	+17.8
Konrad Hummler (until 29 April 2011)[5]	–	17.8	–17.8
Armin Jans (until 29 April 2011)[3,4]	–	17.8	–17.8
Daniel Lampart[5]	50.6	47.8	+2.8
Christoph Lengwiler (as of 1 May 2012)[4]	35.6	–	+35.6
Shelby Robert du Pasquier (as of 1 May 2012)[5]	32.8	–	+32.8
Laura Sadis	45.0	45.0	–
Ernst Stocker[4]	59.0	56.2	+2.8
Fritz Studer (until 30 April 2012)[4]	34.6	67.4	–32.8
Cédric Pierre Tille (as of 29 April 2011)[3]	56.2	30.0	+26.2
Total	**729.2**	**684.4**	**+44.8**

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

Remuneration for members of executive management[1] **(excluding employer social security contributions)** in CHF thousands

	Salaries	Miscellaneous[2]	**2012 Total remuneration**	2011 Total remuneration	Change
Three members of the Governing Board	2 609.1	238.5	**2 847.6**	2 631.8	+215.8
Thomas J. Jordan, Chairman[3] as of 18 April 2012	858.6	83.8	**942.4**	876.9	+65.5
Jean-Pierre Danthine, Vice Chairman as of 18 April 2012	858.6	28.1	**886.7**	876.9	+9.8
Fritz Zurbrügg as of 1 August 2012	357.7	14.8	**372.5**	–	+372.5
Philipp M. Hildebrand, Chairman until 9 January 2012[6]	534.2	111.8	**646.0**	878.1	–232.1
Three alternate members of the Governing Board[4]	1 310.9	61.0	**1 371.9**	1 387.8	–15.9
Total	**3 920.0**	**299.5**	**4 219.5**	**4 019.7**	**+199.8**

Remuneration for members of executive management[1] **(including employer social security contributions)** in CHF thousands

	Total remuneration	Employer contributions to pension plans and Old Age and Survivors' Insurance Fund	2012 Total	2011 Total	Change
Three members of the Governing Board	2 847.6	922.2	3 769.8	3 203.5	+566.3
Thomas J. Jordan, Chairman[3] as of 18 April 2012	942.4	165.0	1 107.4	1 047.7	+59.7
Jean-Pierre Danthine, Vice Chairman as of 18 April 2012	886.7	202.2	1 088.9	1 106.9	–18.0
Fritz Zurbrügg as of 1 August 2012	372.5	453.0[5]	825.5	–	+825.5
Philipp M. Hildebrand, Chairman until 9 January 2012[6]	646.0	102.0	748.0	1 048.9	–300.9
Three alternate members of the Governing Board[4]	1 371.9	276.9	1 648.8	1 679.1	–30.3
Total	**4 219.5**	**1 199.1**	**5 418.6**	**4 882.6**	**+536.0**

1 All remuneration is specified in SNB regulations (cf. also 'Corporate governance', pp. 114–115).
2 Representation expenses, General Abonnement travel card, jubilee benefits and further compensation in accordance with regulations.
3 Excluding remuneration in the amount of CHF 57,118 for serving as member of the Board of Directors at the BIS.
4 Excluding remuneration in the amount of CHF 34,956 for alternate member of the Governing Board serving as member of the Board at the Old Age and Survivors' Insurance Fund and at Orell Füssli Holding Ltd.
5 Including one-off pension plan buy-in.
6 Salary entitlement and compensation for restrictions following termination of employment relationship in accordance with regulations.

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

Of the members of the Bank Council and executive management, Dewet Moser, Alternate Member of the Governing Board, held one SNB share as at 31 December 2012.

EMPLOYEE BENEFIT OBLIGATIONS[1]

Item no. 24

Share of overfunding of pension plans[2] in CHF millions

	31.12.2012	31.12.2011	Change
Overfunding in accordance with Swiss GAAP FER 26[2]	80.4	62.0	+18.4
SNB's share of overfunding	–	–	–

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

	2012	2011	Change
Employer contributions	14.5	13.6	+0.9
Change in share of overfunding	–	–	–
Employee benefit expenses as part of personnel expenses	14.5	13.6	+0.9

GENERAL OVERHEADS

Item no. 25

In CHF millions

	2012	2011	Change
Premises	12.7	13.5	−0.8
Maintenance of mobile tangible assets and software	14.7	13.4	+1.3
Consulting and other third-party support	22.7	17.8	+4.9
Administrative expenses	16.9	15.6	+1.3
Contributions[1]	8.6	7.2	+1.4
Other general overheads	6.1	5.7	+0.4
Total	**81.7**	**73.1**	**+8.6**

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

4.3 NOTES REGARDING OFF-BALANCE-SHEET BUSINESS

Item no. 26

LIQUIDITY-SHORTAGE FINANCING FACILITY

The liquidity-shortage financing facility is a credit line 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

	31.12.2012	31.12.2011	Change
Lending commitment	33 694.5	32 889.5	+805.0
Of which drawn down	–	–	–
Of which not drawn down	33 694.5	32 889.5	+805.0

Item no. 27

COMMITMENTS TO THE IMF

Commitments to the IMF include irrevocable lending commitments and other commitments which the SNB has granted to the IMF in the context of international cooperation. The maximum liabilities arising from these are stated.

Overview: Undrawn credit lines and commitments to the IMF in CHF millions

	31.12.2012	31.12.2011	Change
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)	13 495.4	14 622.9	–1 127.5
Loan facility to PRGT	701.6	720.0	–18.4
Total undrawn credit lines	**14 197.0**	**15 342.9**	**–1 145.9**
International payment instruments (two-way arrangement)	2 671.0	2 480.7	+190.3
Total	**16 867.9**	**17 823.5**	**–955.6**

Details: General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[1] in CHF millions

	31.12.2012	31.12.2011	Change
Lending commitment[2]	15 301.4	15 703.3	–401.9
Of which drawn down	1 806.0	1 080.4	+725.6
Of which not drawn down	13 495.4	14 622.9	–1 127.5

1 Maximum lending commitments totalling SDR 10,905 million, arising from liabilities from GAB and NAB, in favour of the IMF for special cases; without a federal guarantee (cf. accountability report, chapter 7.2). The GAB in the amount of SDR 1,020 million can only be activated if agreement has not been reached under the NAB. In 2011, the GAB and NAB were stated together; the year-earlier figures have been adjusted.
2 Change due entirely to exchange rates.

Details: Loan facility to PRGT[1] in CHF millions

	31.12.2012	31.12.2011	Change
Lending commitment[2]	701.6	720.0	–18.4
Of which drawn down	–	–	–
Of which not drawn down	701.6	720.0	–18.4

1 Poverty Reduction and Growth Trust; limited-term lending commitment to the IMF's trust fund amounting to SDR 500 million (cf. item no. 05, p. 147) with federally guaranteed repayment of principal and payment of interest.
2 Change due entirely to exchange rates.

Details: International payment instruments (two-way arrangement[1]**)** in CHF millions

	31.12.2012	31.12.2011	Change
Commitment[2]	2 306.7	2 367.3	–60.6
SDRs purchased	–	–	–
SDRs sold	364.3	113.4	+250.9
Total commitment[3]	2 671.0	2 480.7	+190.3

1 The SNB has committed to purchase or sell SDRs against foreign currencies (USD, EUR) up to an agreed maximum of SDR 1,644 million (p. 138).
2 Change due entirely to exchange rates.
3 The maximum purchase commitment arising from this is stated.

Item no. 28

OTHER OBLIGATIONS NOT CARRIED ON BALANCE SHEET

In CHF millions

	31.12.2012	31.12.2011	Change
Additional funding for the BIS[1]	90.6	93.0	–2.4
Liabilities from long-term rental, maintenance and leasing contracts	52.4[2]	13.4	+39.0
Contingent liabilities from procurement of banknotes	62.5	66.9	–4.4
Loan commitment to stabilisation fund[3]	750.0	810.6	–60.6
Total	**955.5**	**983.9**	**–28.4**

1 BIS shares are 25% paid up. The additional funding obligation is stated in SDRs.
2 Including leasehold interest on Metropol building in Zurich.
3 Funding commitment for contingent liabilities of the stabilisation fund.

Item no. 29

ASSETS PLEDGED OR ASSIGNED AS COLLATERAL FOR SNB LIABILITIES

In CHF millions

		31.12.2012		31.12.2011
	Book value	Liabilities or amount drawn down	Book value	Liabilities or amount drawn down
Foreign currency investments in USD	42.9	–	47.7	–
Foreign currency investments in EUR	5 364.8	5 012.4	789.8	546.2
Securities in CHF	–	–	20.2	–
Total[1]	**5 407.7**	**5 012.4**	**857.7**	**546.2**

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

OUTSTANDING FINANCIAL INSTRUMENTS[1]

Item no. 30

In CHF millions

	31.12.2012 Contract value	31.12.2012 Replacement value Positive	31.12.2012 Replacement value Negative	31.12.2011 Contract value	31.12.2011 Replacement value Positive	31.12.2011 Replacement value Negative
Interest rate instruments	**15 989.1**	**98.7**	**91.0**	**13 621.9**	**59.9**	**54.7**
Repo transactions in CHF[2]	200.0	–	–	10 000.0	–	–
Repo transactions in foreign currency[2]	295.0	–	–	–	–	–
Forward contracts[1]	688.9	0.3	0.6	207.0	0.0	0.1
Interest rate swaps	1 451.1	98.3	90.2	1 087.1	59.5	54.3
Futures	13 354.1	0.1	0.2	2 327.8	0.4	0.4
Foreign exchange	**5 630.6**	**6.5**	**71.4**	**31 278.0**	**173.4**	**78.3**
Forward contracts[1,3]	5 126.9	6.5	70.3	31 086.8	173.4	77.9
Options	503.7	–	1.1	191.2	–	0.4
Equities/indices	**1 771.6**	**0.4**	**0.1**	**1 184.0**	**0.3**	**0.1**
Forward contracts[1]	1.2	0.2	0.0	–	–	–
Futures	1 770.4	0.2	0.1	1 184.0	0.3	0.1
Credit instruments	**1 462.0**	**5.0**	**2.1**	**41.2**	**4.5**	**0.2**
Credit default swaps	1 462.0	5.0	2.1	41.2	4.5	0.2
Stabilisation fund options	**6 922.4**	**–**	**1.4**	**9 373.2**[8]	**–**	**1.4**
Warrant[4]	10.0	–	–	10.0	–	–
GP purchase option[5]	1.5	–	1.4	1.5	–	1.4
Repurchase option[6]	6 910.8	–	–	9 361.7[8]	–	–
Total[7]	**31 775.6**	**110.7**	**166.0**	**55 498.3**[8]	**238.1**	**134.8**

1 Including spot transactions with value date in the new year.
2 Only transactions with the value 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.
8 Restated.

Item no. 31

FIDUCIARY INVESTMENTS

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

In CHF millions

	31.12.2012	31.12.2011	Change
Fiduciary investments for the Confederation	514.8	335.7	+179.1
Other fiduciary investments	3.1	1.3	+1.8
Total	**517.9**	**337.0**	**+180.9**

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 NBA, 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. cross reference tables, pp. 115–116).

The Bank Council oversees the conduct of business by the Enlarged Governing Board, in particular with regard to compliance with laws, regulations and directives. It regulates the organisation of accounting, financial control and financial planning. It takes note of resource management strategies and initiates regular reviews of these. It supervises the activities of the internal and external auditors and assesses the effectiveness of the ICS. The Enlarged Governing Board approves the strategies for the SNB's business operations, including resource strategies. The Board of Deputies is responsible for the implementation of these strategies, and, to this end, issues internal directives. It ensures coordination in all operational matters of interdepartmental 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.

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.

Information and communication

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

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

Supervision

The Bank Council's Audit Committee supports the Council in supervising financial accounting and financial reporting. In addition, it assesses the effectiveness of the ICS 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 the financial statements.

For audits with financial control objectives, the Internal Auditors unit takes the ICS documentation for processes of relevance to the financial statements into account. It conducts spot checks 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, country and liquidity 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 organisational structure of financial and operational risk management.

The 2011 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 2 March 2012. 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. 111 – 113).

Risk strategy

The Governing Board approves the strategic guidelines for the investment of 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 operational risk guidelines for risk management.

Organisation with regard to financial risk

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

Financial risk is continuously monitored by the Risk Management unit in Department II. Each quarter, the Governing Board discusses the investment activities and the results of 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

Operational risk is monitored by the Operational Risk and Security unit in Department II. The Board of Deputies is responsible for the management and control of operational risk. It prepares the strategic guidelines, is responsible for their implementation throughout the SNB 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 takes note of it. The Risk Committee and the Audit Committee are jointly responsible for monitoring operational risk arising from the SNB's investment activities.

The department heads ensure implementation of the operational risk guidelines in their organisational units. The line managers are responsible for the assumption and management of operational risk.

Compliance

The organisation of compliance at the SNB ranges over several hierarchical levels, from executive and line management to staff units. The central office is a newly-created Compliance unit, which reports directly to the Chairman of the Governing Board. Compliance supports and advises executive management, line managers and staff in the identification and monitoring of compliance risks that arise due to the disregard of appropriate rules of conduct or lack of such rules. In addition, it makes sure that compliance reporting is both timely and appropriate to hierarchical levels. This reporting covers both the state of compliance and infringements against the rules of conduct. In the event of significant infringements on the part of members of the Enlarged Governing Board, Compliance reports directly to the President of the Bank Council.

The Bank Council approves the principles of the organisation of Compliance and assesses the state of compliance on a regular basis. The Audit Committee assesses the procedures for monitoring compliance with laws, regulations and directives. Compliance reports annually to the Audit Committee and the Bank Council on the most important compliance risks, the state of compliance and measures for further development. Finally, the Compliance unit may, if necessary, approach the Chairman of the Audit Committee of the Bank Council, or where required, the President of the Bank Council at any time.

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

ORGANISATION OF RISK MANAGEMENT

	Oversight	Strategy	Implementation and supervision
Financial risk	Risk Committee of Bank Council, Bank Council	Governing Board	Risk Management unit
Operational risk	Audit Committee and Risk Committee of Bank Council, Bank Council	Enlarged Governing Board	Board of Deputies, Operational Risk and Security unit
Compliance risk	Audit Committee of Bank Council, Bank Council	Bank Council, Enlarged Governing Board (Code of Conduct)	Compliance unit

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 currency investments 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.

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. Owing to their marked fluctuations, exchange rates and the gold price are the principal risk factors for the investments. Foreign exchange derivatives are also used to manage currency weightings within foreign currency investments.

Exchange rate and gold price 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.

Interest rate risk

BALANCE SHEET BY CURRENCY

In CHF millions

	CHF	Gold	USD	EUR	Other	Total
Gold holdings		50 768				50 768
Claims from gold transactions		4				4
Foreign currency investments			117 483	216 336	98 389	432 209
Reserve position in the IMF					2 804	2 804
International payment instruments					4 249	4 249
Monetary assistance loans					279	279
Claims from Swiss franc repo transactions	–					–
Swiss franc securities	3 757					3 757
Loan to stabilisation fund			2 850	137	1 391	4 378
Sundry	865		9	107	5	986
Total assets as per balance sheet	4 622	50 772	120 342	216 581	107 118	499 434
Total liabilities as per balance sheet	–489 637		–26	–5 128	–4 643	–499 434
Foreign exchange derivatives (net)[1]	–105		1 278	–1 241	7	–62
Net exposure on 31 December 2012	–485 120	50 772	121 594	210 212	102 482	–62
Net exposure on 31 December 2011	–316 094	49 375	67 794	143 460	55 506	42

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

INTEREST-BEARING INVESTMENTS

As at 31 December

	2012 Duration	2012 Market value	2012 PVBP[1]	2011 Duration	2011 Market value	2011 PVBP[1]
	In years	In CHF millions	In CHF millions	In years	In CHF millions	In CHF millions
Gold lending		–			717	
Investments in CHF[2]	6.6	3 757	2	6.1	3 675	2
Investments in USD[3]	4.3	101 145	43	4.3	51 809	22
Investments in EUR[3]	2.5	199 271	48	3.2	140 740	45
Investments in other currencies[3]	4.0	79 672	32	3.9	44 385	16

1 Price value of a basis point (PVBP); 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 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 2.3 billion, the SNB's total unsecured exposure – which is largely composed of bonds – to the international banking sector at the end of 2012 was slightly higher than the previous year (CHF 2.0 billion) and came to roughly 0.5% 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 is commented on 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. 131 – 173) for the year ended 31 December 2012.

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.

In our opinion, the financial statements for the year ended 31 December 2012 comply with the provisions of the Federal Act on the Swiss National Bank and with Swiss law.

Opinion

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

Report on other legal requirements

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, 1 March 2013

Financial information on the stabilisation fund

The SNB StabFund Limited Partnership for Collective Investment (stabilisation fund), with its subsidiaries, forms a closed-end collective 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 the local legal requirements.

The financial information on the stabilisation fund is consolidated at the limited partnership level. All amounts 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.

Activities

The financial instruments of the stabilisation fund mainly include loans and securities (securitised loans) in the area of real estate as well as related derivatives positions. In some instances, defaults on positions resulted in the SNB taking ownership of the associated collateral or, in the case of derivatives, the underlying assets. These are in the form of additional securities, loans or real estate.

The SNB financed the purchase of assets 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 2012, the remaining debt to the SNB amounted to USD 4.8 billion (2011: USD 8.1 billion).

In the current year, a positive result of USD 1.9 billion was recorded (2011: USD 69.5 million). For the first time since the fund's establishment, this result is measured at fair value (cf. 'Transition to fair value', p. 181). Equity now amounts to USD 5.5 billion (2011: USD 3.7 billion), which corresponds to 116% of the outstanding loan. As at 31 December 2012, this security cushion, which absorbs any unfavourable portfolio developments, reached the highest level since the establishment of the stabilisation fund.

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 for 2012

BALANCE SHEET AS AT 31 DECEMBER 2012

In USD millions

Assets

	Item no. in Notes	31.12.2012	31.12.2011 Restated	Change
Bank deposits		**486.4**	**396.6**	**+89.8**
Securities (securitised loans)		8 076.7	9 348.0	–1 271.3
Non-securitised loans		1 752.0	2 027.3	–275.3
Real estate	01	81.4	69.7	+11.7
Subtotal investments		**9 910.2**	**11 445.0**	**–1 534.8**
Interest rate derivatives	02	153.1	138.3	+14.8
Credit derivatives	03	11.3	25.5	–14.2
Subtotal derivatives		**164.5**	**163.8**	**+0.7**
Accrued income		40.7	41.3	–0.6
Other assets	03	224.2	232.8	–8.6
Total assets		**10 826.0**	**12 279.5**	**–1 453.5**

Liabilities and equity

	Item no. in Notes	31.12.2012	31.12.2011 Restated	Change
Interest rate derivatives	02	407.1	403.6	+3.5
Accrued interest and expenses		17.4	16.4	+1.0
Other liabilities		0.8	1.4	–0.6
SNB loan	04	4 790.1	8 140.4	–3 350.3
Deferred management fee	05	69.7	56.6	+13.1
Subtotal liabilities		**5 285.2**	**8 618.4**	**–3 333.2**
Paid-in equity	06	3 896.7	3 896.7	–
Foreign currency translation differences		–2.8	–2.4	–0.4
Result, carried forward		–233.3	–302.8	+69.5
Result, current period		1 880.1	69.5	+1 810.6
Subtotal equity		**5 540.8**	**3 661.1**	**+1 879.7**
Total liabilities and equity		**10 826.0**	**12 279.5**	**–1 453.5**

INCOME STATEMENT FOR 2012

In USD millions

	Item no. in Notes	2012	2011 Restated	Change
Net interest income from securities and non-securitised loans		516.5	623.2	–106.7
Net result from derivatives	02, 03	–52.3	–47.6	–4.7
Unrealised valuation gains/losses		1 180.8	–328.0	+1 508.8
Realised valuation gains/losses		459.7	150.1	+309.6
Financing costs		–189.3	–286.9	+97.6
Gross income		**1 915.3**	**110.7**	**+1 804.6**
Foreign tax expenses (–) and tax credits (+)		0.1	0.0	+0.1
Operating expenses		–35.4	–41.1	+5.7
Net income		**1 880.1**	**69.5**	**+1 810.6**

3
Notes to the financial information on the stabilisation fund as at 31 December 2012

GENERAL

Stabilisation fund accounting principles

The stabilisation fund's accounting principles conform to the requirements of the CISA. 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.

Transition to fair value

At the time of the stabilisation fund's establishment, no reliable market values were available on a regular basis for its assets. It was therefore decided to apply the amortised cost valuation method.

In the meantime, conditions in the lending and securitisation markets have eased considerably. A number of players strengthened their analytical capacity for assessing the underlying financial claims of securitised financial instruments. Investors and intermediaries have returned to these markets. Both of these factors have contributed to an improvement in the pricing processes. Demand for assets such as the ones the stabilisation fund has in its portfolio has since become quite robust. This is also evidenced by the success of the fund's liquidation strategy. This active sales strategy is better reflected by measuring the fund's assets according to market parameters. Assets are therefore now recorded at fair value in accordance with a decision taken by the Board of Directors of StabFund (GP) AG.

Restatement of prior-year figures

The restatement is presented as though the stabilisation fund's assets had always been recorded at fair value. Therefore, the comparative figures differ from those published in the 2011 financial report.

The value of the assets recorded on the balance sheet was adjusted to reflect their fair value, which was already published in the notes to the previous year's report. Accordingly, total equity for 2011 was corrected by the difference between fair value and amortised cost, i.e. an increase of USD 495.4 million.

The restatement of the income statement, by contrast, does not reflect the entire difference between fair value and amortised cost, but only its annual fluctuation. At the end of 2010, the fair value of the assets was USD 1,483.2 million higher than the value at amortised cost. The difference narrowed by USD 987.8 million to USD 495.4 million as at the end of 2011. The 2011 income statement has therefore been adjusted to reflect this narrowing. The restatement thus results in a drop in the 2011 net income from USD 1,057.3 million to USD 69.5 million.

Valuation difference between amortised cost and fair value

IMPACT OF RESTATEMENT ON BALANCE SHEET AND INCOME STATEMENT AS AT 31 DECEMBER 2011

In USD millions

	31.12.2011 Before restatement	Restatement, cumulative effect on prior-year figures	Effect of 2011 restatement	31.12.2011 After restatement
Assets				
Securities (securitised loans)	8 824.7	+ 1 312.6	–789.3	9 348.0
Non-securitised loans	2 055.1	+ 170.7	– 198.5	2 027.3
Subtotal investments	10 949.5	+ 1 483.2	–987.8	11 445.0
Liabilities and equity				
Result, carried forward	– 1 786.0	+ 1 483.2	–	–302.8
Result, current period	1 057.3	–	–987.8	69.5
Equity	3 165.6	+ 1 483.2	–987.8	3 661.1
Income statement				
Effective interest (less impairments)	644.0	–	–644.0	–
Unrealised valuation gains/losses	15.8	–	–343.8	–328.0
Net income	1 057.3	–	–987.8	69.5

Recording of transactions

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

The transferred assets were recorded at fair value at the date of the actual transfer.

Initial valuation

The assets are valued at fair value. In the case of most assets, these values are available market prices. For part of the portfolio, the fair value is determined based on cash flow projections and comparisons with similar assets. The values supplied by the investment manager are compared once a year with those delivered by an independent valuation agent.

Subsequent valuations

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

Reporting currency

FOREIGN EXCHANGE RATES

Foreign exchange rates

	31.12.2012 In USD	31.12.2011 In USD	Change In percent
1 euro (EUR)	1.3226	1.2979	+ 1.9%
1 pound sterling (GBP)	1.6255	1.5548	+ 4.5%
100 yen (JPY)	1.1585	1.2955	– 10.6%

NOTES TO THE BALANCE SHEET AND INCOME STATEMENT

Item no. 01

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

Item no. 02

Swaps are used to hedge interest rate risk. On the balance sheet date, there were outstanding interest rate swaps in US dollars and pounds sterling.

At the end of 2012, the positive replacement value was USD 153.1 million (2011: USD 138.3 million), and the negative replacement value was USD 407.1 million (2011: USD 403.6 million). These positions are not offset against each other. The contract volume was USD 5.2 billion (2011: USD 5.1 billion).

Item no. 03

The stabilisation fund entered into credit derivative contracts both as protection seller and protection buyer. The credit derivatives mainly comprise credit default swaps (CDS). Holders of CDS use them to protect themselves against default by a borrower. The net result from derivatives includes the income from premiums (or expenses) for these transactions.

The amount to be paid in the event of default (using cash held ready in bank deposits) is regularly recalculated, based on the 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 1.1 billion (2011: USD 2.0 billion), and the deposited collateral to USD 1.3 billion (2011: 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. The difference between the negative replacement value of credit derivatives and the cash collateral for all derivatives transactions is stated under other assets.

The positive replacement values are stated under credit derivatives on the assets side of the balance sheet.

In USD millions

	31.12.2012	31.12.2011	Change
Net contract volume	1 929.6	2 823.9	–894.3
Positive replacement value	11.3	25.5	–14.2
Negative replacement value	1 138.9	2 021.3	–882.4
Cash collateral posted	1 327.4	2 209.9	–882.5

LOAN COMMITMENT TO STABILISATION FUND[1]

Item no. 04

In USD millions

	31.12.2012	31.12.2011	Change
USD	3 118.2	6 129.1	–3 010.9
EUR	149.7	360.9	–211.2
GBP	1 334.2	1 418.8	–84.6
JPY	188.0	231.6	–43.6
Total	**4 790.1**	**8 140.4**	**–3 350.3**

1 Without accrued interest.

Item no. 05

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. 06

Paid-in equity represents UBS's contribution of 10% of the transfer price of the assets. This contribution was also paid in respect of derivatives positions, based on the associated potential losses (exposure).

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. Variable rate instruments 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.

Since the stabilisation fund is congruently financed in the currencies of the investment portfolio, currency risk is modest. The actual or forecast shifts in the composition of the balance sheet are assessed on a regular basis so as to be able to take action in the event of an increase in currency risk.

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. 03, p. 184) and outstanding irrevocable loan commitments.

In USD millions

	31.12.2012	31.12.2011	Change
Exposure from credit derivatives	806.8	843.0	–36.2
Irrevocable loan commitments	14.7	21.3	–6.6
Total	**821.5**	**864.4**	**–42.9**

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 2012

ASSETS

In CHF millions

	Item no. in Notes	31.12.2012	31.12.2011 Restated[1]	Change
Gold holdings		50 767.5	48 662.5	+2 105.0
Claims from gold transactions		4.0	717.5	–713.5
Foreign currency investments		432 208.9	257 504.2	+174 704.7
Reserve position in the IMF		2 804.2	3 134.5	–330.3
International payment instruments		4 249.2	4 621.2	–372.0
Monetary assistance loans		279.1	301.4	–22.3
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		3 757.1	3 675.1	+82.0
Stabilisation fund investments	01	9 883.0	11 515.7	–1 632.7
Banknote stocks		125.6	129.8	–4.2
Tangible assets		451.8	325.4	+126.4
Participations	02	141.4	147.0	–5.6
Other assets		1 487.7	1 236.2	+251.5
Total assets		**506 159.6**	**350 808.9**	**+155 350.7**
Total subordinated claims		–	–	–
Total claims against non-consolidated participations and qualified participations		–	–	–

1 Cf. restatement, pp. 200–202.

LIABILITIES

In CHF millions

	Item no. in Notes	31.12.2012	31.12.2011 Restated[1]	Change
Banknotes in circulation		61 801.4	55 728.9	+6 072.5
Sight deposits of domestic banks		281 814.1	180 720.7	+101 093.4
Liabilities towards the Confederation		9 008.1	5 647.5	+3 360.6
Sight deposits of foreign banks and institutions		11 958.4	1 884.5	+10 073.9
Other sight liabilities		66 950.9	28 447.7	+38 503.2
Liabilities from Swiss franc repo transactions		–	–	–
SNB debt certificates		–	14 719.5	–14 719.5
Other term liabilities		–	366.4	–366.4
Foreign currency liabilities		5 018.7	551.6	+4 467.1
Counterpart of SDRs allocated by the IMF		4 613.4	4 734.6	–121.2
Other liabilities		3 932.3	2 697.9	+1 234.4
Operating provisions		5.5	7.3	–1.8
Provisions for currency reserves		48 215.6	45 061.3	+3 154.3
Capital		25.0	25.0	–
Distribution reserve		3 873.2	–5 000.0	+8 873.2
Profit reserve from stabilisation fund		2 321.5	2 298.1	+23.4
Consolidated result	04	6 894.8	13 052.3	–6 157.5
Foreign currency translation differences		–273.3	–134.5	–138.7
Total liabilities		**506 159.6**	**350 808.9**	**+155 350.7**
Total subordinated liabilities		–	–	–
Total liabilities towards non-consolidated participations and qualified participations		–	0.8	–0.8

1 Cf. restatement, pp. 200–202.

OFF-BALANCE-SHEET BUSINESS

In CHF millions

	Item no. in Notes	31.12.2012	31.12.2011 Restated[1]	Change
Liquidity-shortage financing facility		33 694.5	32 889.5	+805.0
Commitments to the IMF		16 867.9	17 823.5	–955.6
Obligations to pay or make additional payments		90.6	93.0	–2.4
Liabilities from long-term rental, maintenance and leasing contracts		52.4	13.4	+39.0
Contingent liabilities from procurement of banknotes		62.5	66.9	–4.4
Other obligations not carried on the balance sheet[2]		750.0	810.6	–60.6
Fiduciary investments		517.9	337.0	+180.9
Derivative financial instruments	03			
Contract volumes		42 581.8	67 209.2	–24 627.4
Positive replacement values		1 481.8	1 250.7	+231.1
Negative replacement values		3 648.6	3 655.2	–6.6

1 Cf. restatement, pp. 200–202.
2 Corresponds to contingent liabilities of the stabilisation fund (p. 186).

2
Consolidated income statement for 2012

In CHF millions

	Item no. in Notes	2012	2011 Restated[1]	Change
Net result from gold		1 396.3	5 392.3	–3 996.0
Net result from foreign currency positions		4 542.1	7 708.7	–3 166.6
Net result from Swiss franc positions		101.1	–162.7	+263.8
Net result from stabilisation fund investments	04	1 974.3	352.7	+1 621.6
Net result from stabilisation fund loss protection arrangements	04	–824.9	–38.3	–786.6
Income from participations	02	3.5	9.3	–5.8
Net result, other		4.5	82.3	–77.8
Gross income		**7 197.0**	**13 344.2**	**–6 147.2**
Banknote expenses		–23.0	–20.4	–2.6
Personnel expenses		–133.0	–128.8	–4.2
General overheads		–111.8	–106.4	–5.4
Depreciation on tangible assets		–34.4	–36.2	+1.8
Consolidated result		**6 894.8**	**13 052.3**	**–6 157.5**

1 Cf. restatement, pp. 200–202.

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 2011 (before restatement)	**25.0**	**44 337.1**	**19 032.8**	**–**	**–184.2**	**–19 170.8**	**44 039.9**
Impact of changes on accounting principles[1]					29.6	662.0	691.6
Equity as at 1 January 2011 (after restatement)	**25.0**	**44 337.1**	**19 032.8**	**–**	**–154.6**	**–18 508.8**	**44 731.4**
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				2 298.1		–2 298.1	
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					20.1	–	20.1
Consolidated result						13 052.3	13 052.3
Equity as at 31 December 2011	**25.0**	**45 061.3**	**–5 000.0**	**2 298.1**	**–134.5**	**13 052.3**	**55 302.3**
Equity as at 1 January 2012	**25.0**	**45 061.3**	**–5 000.0**	**2 298.1**	**–134.5**	**13 052.3**	**55 302.3**
Endowment of provisions for currency reserves pursuant to NBA		3 154.3				–3 154.3	
Release from distribution reserve			8 873.2			–8 873.2	
Allocation to profit reserve from stabilisation fund				23.4		–23.4	
Distribution of dividends to shareholders						–1.5	–1.5
Profit distribution to Confederation and cantons						–1 000.0	–1 000.0
Change in foreign currency translation differences					–138.7	–	–138.7
Consolidated result						6 894.8	6 894.8
Equity as at 31 December 2012 (before appropriation of parent company profit)	**25.0**	**48 215.6**	**3 873.2**	**2 321.5**	**–273.3**	**6 894.8**	**61 056.9**

1 Cf. restatement, pp. 200–202.

4
Notes to the consolidated financial statements as at 31 December 2012

4.1 EXPLANATORY NOTES ON BUSINESS ACTIVITIES

Business activity and purpose

The Swiss National Bank (SNB), 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. 121 – 129).

Number of staff

Information on the SNB's staff numbers may be found on p. 118. 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

Basic principles

The consolidated financial statements have been prepared in accordance with the provisions of the National Bank Act (NBA), the Swiss Code of Obligations (CO), the Listing Rules of SIX Swiss Exchange, and the Bank Accounting Guidelines. 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. 131–173). 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 principles for the stabilisation fund were changed from amortised cost accounting to fair value accounting (pp. 181–183).

As a result, last year's figures were adjusted retroactively (i.e. restated) to appear as though this new accounting and valuation principle had always been applied. Notes on the restatement and the transition can be found in section 4.3 (pp. 200–202).

Compared with the previous year, there were no further changes to the accounting and valuation principles, and no new balance sheet items were introduced.

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 National Bank 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 comprise securities (securitised loans) and non-securitised loans to finance commercial and residential properties. Both categories are stated at fair value.

The remainder of the stabilisation fund's investments are in derivative financial instruments as well as a small portion in real estate and other securities. These securities, plus the derivative instruments, are – in principle – also 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.

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.

SIGNIFICANT MAJORITY INTERESTS

Company name, head office	Business activity	Share capital or capital commitment	Equity interest	
		In CHF millions	31.12.2012	31.12.2011
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	31.12.2012	31.12.2011
Orell Füssli Holding Ltd, Zurich	Bookshop, publishing house, banknote and security printing, and manufacture of machinery	1.96	33%	33%

Consolidation principles

The consolidated financial statements are based on the annual accounts of the SNB and the stabilisation fund companies. Entries arising from 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.

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

	31.12.2012 In CHF	31.12.2011 In CHF	Change In percent
1 euro (EUR)	1.2074	1.2172	−0.8
1 US dollar (USD)	0.9129	0.9378	−2.7
100 yen (JPY)	1.0576	1.2149	−12.9
1 pound sterling (GBP)	1.4839	1.4581	+1.8

The average exchange rate for the US dollar for 2012 was CHF 0. 9380 (2011: CHF 0.8870).

Assessment of risk

The National Bank's business risk and that of the consolidated subsidiaries is assessed by the SNB. For this purpose, it uses the monitoring and control processes described in the chapter on risk management at the SNB (pp. 168–173). The particular risks faced by the stabilisation fund (pp. 185–186) 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, developments in real estate prices in the US and the UK 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. 166–168). Comments on such control systems for the stabilisation fund are on p. 186. 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 IMPACT OF CHANGES IN ACCOUNTING PRINCIPLES (RESTATEMENT)

Stabilisation fund investments are now being stated at fair value. The reasons are provided in the notes to the financial information on the stabilisation fund (pp. 181 – 186). Previously, the securities and non-securitised loans were valued at amortised cost. During the entire term of these investments until maturity, the premium and discount were accrued or deferred on the balance sheet.

The transition to fair value in the accounting and valuation principles (i.e. restatement) is presented as though this method had always been applied. Last year's figures are therefore stated at fair value. The impact of the transition on previous years is recorded under equity.

VALUATION DIFFERENCE BETWEEN AMORTISED COST AND FAIR VALUE

In CHF millions

	31.12.2011	1.1.2011	Change
Stabilisation fund investments at amortised cost	11 051.1	13 961.1	–2 910.0
Stabilisation fund investments at fair value	11 515.7	15 344.5	–3 828.8
Valuation difference	**464.6**	**1 383.4**	**–918.8**

IMPACT OF RESTATEMENT ON OPENING BALANCE SHEET AND EQUITY AS AT 1 JANUARY 2011

In CHF millions

	1.1.2011 Before restatement	Restatement Cumulative effect of prior years	1.1.2011 After restatement
Assets			
Stabilisation fund investments	13 961.1	+1 383.4	15 344.5
Liabilities and equity			
GP and LP purchase options[1] (under other liabilities)	517.8	+691.7	1 209.5
Profit reserve from stabilisation fund[2]	1 636.1	+662.0	2 298.1
Foreign currency translation differences	–184.2	+29.6	–154.6

1 UBS's right to stabilisation fund equity.
2 After appropriation of profit in 2010.

IMPACT OF RESTATEMENT ON BALANCE SHEET AS AT 31 DECEMBER 2011

In CHF millions

	31.12.2011 Before restatement	Restatement Cumulative effect of prior years	Restatement 2011	31.12.2011 After restatement
Assets				
Stabilisation fund investments	11 051.1	+1 383.4	–918.8	11 515.7
Liabilities and equity				
GP and LP purchase options (under other liabilities)	1 015.5	+691.7	–459.4	1 247.8
Profit reserve from stabilisation fund[1]	1 636.1	+662.0		2 298.1
Foreign currency translation differences	–121.6	+29.6	–42.5	–134.5
Consolidated result for 2011	13 469.1		–416.8	13 052.3

1 Before appropriation of profit in 2011.

IMPACT OF RESTATEMENT ON INCOME STATEMENT FOR 2011

In CHF millions

	2011 Before restatement	Restatement 2011	2011 After restatement
Income statement			
Net result from stabilisation fund investments	1 228.8	–876.1	352.7
Net result from stabilisation fund loss protection arrangements	–497.7	+459.4	–38.3
Impact of restatement on 2011 consolidated result		**–416.8**	

4.4 NOTES TO THE CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

Item no. 01

STABILISATION FUND INVESTMENTS

In CHF millions

	31.12.2012	31.12.2011 Restated	Change
Sight deposits in various currencies	444.1	371.9	+72.2
Securities (securitised loans)	7 373.3	8 766.5	–1 393.2
Non-securitised loans	1 599.4	1 901.2	–301.8
Real estate	74.3	65.4	+8.9
Derivatives transactions	150.1	153.6	–3.5
Sundry assets	241.8	257.1	–15.3
Total	**9 883.0**	**11 515.7**	**–1 632.7**

PARTICIPATIONS AND INCOME FROM PARTICIPATIONS

Item no. 02

In CHF millions

	Valued according to equity method[1]	Other participations	Total
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
Book value as at 1 January 2012	56.1	90.8	147.0
Investments	–	–	–
Divestments	–	–	–
Valuation changes	–5.5	–	–5.5
Book value as at 31 December 2012	50.6	90.8	141.4

1 Orell Füssli Holding Ltd.

Income from participations valued according to the equity method amounts to CHF –4.2 million (2011: CHF 2.5 million). Income from other participations amounts to CHF 7.7 million (2011: CHF 6.8 million).

Item no. 03

DERIVATIVE FINANCIAL INSTRUMENTS

Outstanding derivative financial instruments are reported in item no. 30 of the SNB's individual financial statements. Under interest rate instruments, the stabilisation fund holds interest rate swaps, and under credit instruments, it holds credit default swaps. In addition, from the group perspective, there is the agreement between LiPro (LP) AG and UBS in the form of the LP purchase option, as well as the SNB's warrant for 100 million UBS shares.

In CHF millions

	31.12.2012			31.12.2011 Restated		
	Contract value	Replacement value		Contract value	Replacement value	
		Positive	Negative		Positive	Negative
SNB parent company [1]	24 853.2	110.7	164.5	46 125.0	238.1	133.4
Interest rate swaps	4 726.5	139.8 [2]	371.7	4 744.0	129.7 [2]	378.5
Credit default swaps	1 761.6	10.4 [2]	1 039.7 [2,3]	2 648.3	23.9 [2]	1 895.6 [2,3]
LP purchase option	4 318.7	–	2 072.0	4 318.7	–	1 247.4
GP purchase option	1.5	–	0.7	1.5	–	0.4
Warrant	10.0	1 221.0	–	10.0	859.0	–
Repurchase option	6 910.2	–	–	9 361.7	–	–
Total for group	**42 581.8**	**1 481.8**	**3 648.6**	**67 209.2**	**1 250.7**	**3 655.2**

1 Cf. item no. 30, SNB parent company financial statements, p. 165, 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 in the balance sheet against deposited cash collateral (p. 184).

IMPACT OF STABILISATION FUND ON CONSOLIDATED RESULT

Item no. 04

In CHF millions

	2012	2011 Restated	Change
Net result from stabilisation fund investments	1 974.3	352.7	+1 621.6
Interest expenses on SNB loan[1]	–177.6	–254.5	+76.9
Additional income and expense components[2]	–33.2	–36.5	+3.3
Stabilisation fund result	**1 763.5**	**61.7**	**+1 701.8**
Net result from GP and LP purchase options[3]	–824.9	–38.3	–786.6
Net result from loss protection arrangements	**–824.9**	**–38.3**	**–786.6**
Impact of stabilisation fund on consolidated result	**938.7**	**23.4**	**+915.3**

1 In the consolidated financial statements, interest income from the SNB perspective and interest expenses from the stabilisation fund perspective 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. 187–205) for the year ended 31 December 2012.

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 2012 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, 1 March 2013

Proposals of the Bank Council

Proposals of the Bank Council to the General Meeting of Shareholders

At its meeting of 1 March 2013, the Bank Council accepted the financial report for 2012 for submission to the Federal Council and to the General Meeting of Shareholders.

The Audit Board signed its reports on 1 March 2013. On 15 March 2013, 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 2012 be approved;
2. that a dividend totalling CHF 1.5 million be paid to shareholders as part of the profit appropriation;
3. that the Bank Council be granted discharge;
4. that PricewaterhouseCoopers Ltd, Zurich, be appointed as the Audit Board for the 2013 – 2014 term of office.

APPROPRIATION OF PROFIT

In CHF millions

	2012
Annual result (art. 29 NBA)	**5 956.1**
– Allocation to provisions for currency reserves (art. 30 para. 1 NBA)	–3 568.0
= Distributable annual result (art. 30 para. 2 NBA)	**2 388.1**
+ Profit/loss carried forward (distribution reserve before appropriation of profit)	+3 873.2
= Net profit (art. 31 NBA)	**6 261.3**
– 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
– Balance carried forward to 2013 financial statements (distribution reserve after appropriation of profit)	–5 259.8
Balance after appropriation of profit	**–**

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

Selected information

1 Chronicle of monetary events in 2012

January

In connection with the resignation of its Chairman, the SNB confirms on 9 January, that the current monetary policy with a minimum exchange rate of CHF 1.20 against the euro remains unchanged and will be pursued further with the utmost determination.

February

On 15 February, the Federal Council decides to bring the amendment to the Banking Act designed to resolve the 'too big to fail' issue into force on 1 March 2012. This amendment was passed by parliament on 30 September 2011. As a result, systemically important banks will have to meet more stringent capital, liquidity and organisational requirements in the future (p. 76).

March

At its quarterly assessment of 15 March, the SNB affirms that it will continue to enforce the minimum exchange rate of CHF 1.20 per euro with the utmost determination. It leaves the target range for the three-month Libor unchanged at 0.0 – 0.25%. The SNB continues to maintain liquidity on the money market at an exceptionally high level (p. 34).

June

On 1 June, the Federal Council adopts a package of measures designed to strengthen Switzerland's banking centre. The total revision of the Capital Adequacy Ordinance enters into force on 1 January 2013. It requires all banks to hold more and better-quality capital and implements higher capital requirements for systemically important banks (p. 74). The Federal Council announces that the legal provisions on the introduction of a countercyclical capital buffer, also laid out in the Capital Adequacy Ordinance, will enter into force on 1 July (p. 75).

At its quarterly assessment of 14 June, the SNB maintains the minimum exchange rate of CHF 1.20 per euro and reiterates that it will do so with the utmost determination. The target range for the three-month Libor remains at 0.0 – 0.25% (p. 34).

The SNB and National Bank of Poland (NBP) conclude a swap agreement on 25 June. In the event of tensions in the Swiss franc interbank market, the facility enables the NBP to provide Swiss franc liquidity to banks in Poland (p. 51).

At its quarterly assessment of 13 September, the SNB leaves the minimum exchange rate unchanged at CHF 1.20 per euro. It remains committed to buying foreign currency in unlimited quantities for this purpose. It leaves the target range for the three-month Libor unchanged at 0.0–0.25% (p. 34).

September

On 30 November, the Federal Council decides that the new Liquidity Ordinance for banks will gradually enter into force from 1 January 2013 (p. 75).

November

At its quarterly assessment of 13 December, the SNB announces that it will leave the minimum exchange rate of CHF 1.20 per euro unchanged and continue to enforce it with the utmost determination. It is prepared to buy foreign currency in unlimited quantities for this purpose. The SNB leaves the target range for the three-month Libor at 0.0–0.25% (p. 34).

December

On 13 December, the SNB, the Bank of Canada, the Bank of England, the European Central Bank and the Bank of Japan (20 December) extend the swap agreement with the US Federal Reserve until February 2014. The bilateral swap arrangements in the respective currencies are also extended by one year (p. 51).

On 18 December, the SNB the announces its decision to open a branch in Singapore to ensure a more efficient management of its assets in the Asia-Pacific region. The branch is scheduled to open in mid-2013 (pp. 42 and 61).

On 20 December, the SNB announces that on 16 November, it issued decrees designating Credit Suisse Group AG and UBS AG as financial groups of systemic importance (p. 77).

2
Bank supervisory and management bodies, Regional Economic Councils

as at 1 January 2013

BANK COUNCIL

(2012–2016 term of office)

Jean Studer	Attorney-at-law, President of the Bank Council, Head of the Nomination Committee, Member of the Compensation Committee, 2007/2012[1]
* Olivier Steimer	Chairman of the Board of Directors at Banque Cantonale Vaudoise, Vice President of the Bank Council, Head of the Compensation Committee, Member of the Nomination Committee, 2009/2012[1]
* Gerold Bührer	Chairman of the Audit Committee, Member of the Compensation Committee, 2008/2012[1]
* Monika Bütler	Professor of Economics at the University of St. Gallen, 2010/2012[1]
Alfredo Gysi	Chairman of the Board of Directors at BSI Ltd, Member of the Risk Committee, 2011/2012[1]
* Daniel Lampart	Chief Economist and Executive Secretary of the Swiss Federation of Trade Unions, Chairman of the Risk Committee, 2007/2012[1]
Christoph Lengwiler	Professor and Head of the Institute of Financial Services Zug IFZ at Lucerne University of Applied Sciences and Arts, Member of the Audit Committee, 2012[1]
Shelby Robert du Pasquier	Attorney-at-law and Partner at Lenz & Staehelin, Member of the Risk Committee, 2012[1]
Laura Sadis	Member of the Cantonal Government and Head of the Department of Finance and Economic Affairs of the Canton of Ticino, 2007/2012[1]
Ernst Stocker	Member of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich, Member of the Audit Committee, 2010/2012[1]
* Cédric Pierre Tille	Professor at the Graduate Institute of International and Development Studies, Geneva, Member of the Nomination Committee, 2011/2012[1]

In line with art. 40 para. 1 NBA, all members of the Bank Council hold Swiss citizenship.
* Elected by the General Meeting of Shareholders.
1 Initial and current election to the Bank Council.

RELEVANT AFFILIATIONS OF BANK COUNCIL MEMBERS

Further 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

(2012–2013 term of office)
PricewaterhouseCoopers Ltd, Zurich

GOVERNING BOARD

(2009 – 2015 term of office)	
Thomas J. Jordan	Chairman of the Governing Board, Head of Department I, Zurich
Jean-Pierre Danthine	Vice Chairman of the Governing Board, Head of Department II, Berne
Fritz Zurbrügg	Member of the Governing Board, Head of Department III, Zurich

In line with art. 44 para. 1 NBA, all members of the Governing Board hold Swiss citizenship and are resident in Switzerland.

ENLARGED GOVERNING BOARD

(2009–2015 term of office)	
Thomas J. Jordan	Chairman of the Governing Board, Head of Department I, Zurich
Jean-Pierre Danthine	Vice Chairman of the Governing Board, Head of Department II, Berne
Fritz Zurbrügg	Member of the Governing Board, Head of Department III, Zurich
Thomas Moser	Alternate Member of the Governing Board, Department I, Zurich
Thomas Wiedmer	Alternate Member of the Governing Board Department II, Berne
Dewet Moser	Alternate Member of the Governing Board, Department III, Zurich

In line with art. 44 paras. 1 and 3 NBA, all members and alternate members of the Governing Board hold Swiss citizenship and are resident in Switzerland.

BANK MANAGEMENT

For a comprehensive list, cf. www.snb.ch, *The SNB, Supervisory and executive bodies, Bank management.*

REGIONAL ECONOMIC COUNCILS

(2012–2016 term of office)

Central Switzerland	David Dean, Head of the Executive Committee and CEO of Bossard Group, Chairman
	Hans Marfurt, CEO of Trumpf Maschinen AG
	Sandro Alberto Vanoli, CEO of C. Vanoli Generalunternehmung AG
	André Zimmermann, CEO of Pilatus-Bahnen AG
Eastern Switzerland	Christoph Leemann, Chairman of the Board of Directors and Director of Union AG St. Gallen, Chairman
	Eliano Ramelli, Partner and Member of the Board of Management at Abacus Research AG
	Andreas Schmidheini, General Manager at Varioprint Ltd
	Andreas Ernst Züllig, Manager of the Hotel Schweizerhof, Lenzerheide
Geneva	Robert Deillon, Director General of Geneva International Airport, Chairman
	Nicolas Brunschwig, Joint owner of Brunschwig & Cie Ltd
	Patrick Pillet, Director of Pillet SA
Italian-speaking Switzerland	José Luis Moral, Delegate of the Board and Managing Director of Regazzi SA, Chairman
	Alessandra Alberti Zucconi, Managing Director of Chocolat Stella SA
	Lorenzo Emma, Managing Director of Migros Ticino
Mittelland	André Haemmerli, General Manager of Johnson & Johnson Ltd in the Canton of Neuchâtel, Chairman
	Jean-Marc Jacot, CEO of Parmigiani Fleurier SA
	Kurt Loosli, CEO of EAO Group
	Peter Schmid, Head of Berne Sales Region and member of the Retail Business Unit management at Coop
Northwestern Switzerland	Gabriele Gabrielli, Group Vice President and Global Account Executive at ABB Ltd
	René Kamm, CEO of MCH Group Ltd
	Beat Simon, Member of the Board at Agility Logistics Ltd

Vaud-Valais	Jean-Jacques Miauton, CEO of SMSG Management Sàrl, Chairman
	Hélène Béguin, Managing Partner of the Lausanne office, KPMG Ltd
	Paul Michellod, Director of FMV SA
Zurich	Milan Prenosil, Chairman of the Board of Directors at Confiserie Sprüngli AG, Chairman
	Valentin Vogt, Chairman of the Board of Directors at Burckhardt Compression Holding Ltd
	Isabelle Welton-Lalive d'Epinay, Chief Marketing Officer of Zurich Insurance Group Ltd

3
Organisational chart

as at 1 January 2013

GENERAL MEETING OF SHAREHOLDERS

AUDIT BOARD

BANK COUNCIL

INTERNAL AUDITORS

GOVERNING BOARD

ENLARGED GOVERNING BOARD

BOARD OF DEPUTIES

DEPARTMENT I ZURICH

Economic Affairs	International Monetary Cooperation	Legal and Property Services	Secretariat General	Compliance	StabFund
Monetary Policy Analysis	International Monetary Relations	Legal Services	Secretariat Supervisory and Management Bodies		
Inflation Forecasting	International Trade and Capital Flows	Human Resources	Communications		
Economic Analysis	Central Bank Cooperation	Pension Fund	Documentation		
Statistics		Premises and Technical Services	Research Coordination and Economic Education		

DEPARTMENT II BERNE

Finance and Risk
- Central Accounting
- Controlling
- Risk Management
- Operational Risk and Security

Financial Stability
- Banking System
- Systemically Important Banks
- Oversight

Cash
- Procurement and Central Logistics
- Cash Circulation, East
- Cash Circulation, West
- Specialist Support, Operations

DEPARTMENT III ZURICH

Financial Markets
- Money Market and Foreign Exchange
- Asset Management
- Financial Market Analysis

Banking Operations
- Banking Operations Analysis
- Payment Operations
- Back Office
- Master Data

Information Technology
- Banking Applications
- Business Support Processes
- Economic Information Systems
- Infrastructure

4
Publications and other resources

Publications and other resources are available on the SNB website, www.snb.ch, *Publications*.

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

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. 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 available as a separate online document in German, French, Italian and English.

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.

THE SWISS NATIONAL BANK IN BERNE – AN ILLUSTRATED CHRONICLE

A chronicle of the Swiss National Bank in Berne entitled *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.

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 available online in full in German and French, and partially also in Italian and English 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. It describes the foundations upon 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.

FURTHER RESOURCES
What is money really about? is a brochure describing the activities of the Swiss 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 SNB.
An "A to Z" of the Swiss National Bank is an SNB glossary of important central banking terms.
The information in these publications as well as the publications themselves are available via the SNB website, www.snb.ch, *Publications, Publications about the SNB, The world of the National Bank*.
The National Bank and money is a short film (available on DVD) illustrating the characteristics of money.
The National Bank and its monetary policy is a short film (available on DVD) describing how the SNB conducts its monetary policy on a daily basis and explaining the principles behind that monetary policy.
All the material in this section ('Further resources') is available in German, French, Italian and English.

OBTAINABLE FROM
Swiss National Bank, Library, e-mail: library@snb.ch
Bundesplatz 1, 3003 Berne, telephone: +41 31 327 02 11
Fraumünsterstrasse 8, P.O. Box, 8022 Zurich, telephone: +41 44 631 32 84

5
Addresses

HEAD OFFICES

Berne	Bundesplatz 1 3003 Berne	Telephone Fax	+41 31 327 02 11 +41 31 327 02 21 snb@snb.ch
Zurich	Börsenstrasse 15 8022 Zurich	Telephone Fax	+41 44 631 31 11 +41 44 631 39 11 snb@snb.ch

REPRESENTATIVE OFFICES

Basel	Aeschenvorstadt 55 P.O. Box 626 4010 Basel	Telephone	+41 61 270 80 80 basel@snb.ch
Geneva	Rue de la Croix-d'Or 19 P.O. Box 3020 1211 Geneva 3	Telephone	+41 22 818 57 11 geneve@snb.ch
Lausanne	Avenue de la Gare 18 P.O. Box 175 1001 Lausanne	Telephone	+41 21 213 05 11 lausanne@snb.ch
Lugano	Via Pioda 6 P.O. Box 5887 6901 Lugano	Telephone	+41 91 911 10 10 lugano@snb.ch
Lucerne	Münzgasse 6 P.O. Box 7864 6000 Lucerne 7	Telephone	+41 41 227 20 40 luzern@snb.ch
St Gallen	Neugasse 43 P.O. Box 645 9004 St Gallen	Telephone	+41 71 227 25 11 st.gallen@snb.ch

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.

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
BAG	Bank Accounting Guidelines
BCBS	Basel Committee on Banking Supervision
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
ESM	European Stability Mechanism
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)
FINMA	Swiss Financial Market Supervisory Authority
FSB	Financial Stability Board
GAAP	Generally Accepted Accounting Principles

GAB	General Arrangements to Borrow
GBP	Pound sterling
GDP	Gross domestic product
GP	General partner
HLA	High loss absorbency
ICS	Internal control system
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
JPY	Japanese yen
KRW	South Korean won
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
OMT	Outright Monetary Transactions
OTC	Over-the-counter
PRGT	Poverty Reduction and Growth Trust (IMF)
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
SWIFT	Society for Worldwide Interbank Financial Telecommunication
USD	US dollar

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

Languages
German, French, Italian and English

Design
Interbrand Ltd, Zurich

Typeset and printed by
Neidhart + Schön AG, Zurich

Publication date
April 2013

ISSN 1421-6477 (printed version)
ISSN 1662-176X (online version)

MIX
Paper
FSC® C016003

SNB BNS

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